An analysis of impact of organized retail on Indian consumers

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ABSTRACT

The Indian retail sector is going through a transformation and this emerging market is witnessing a significant change in its growth and investment pattern. Both existing and new players are experimenting with new retail formats. The growth and potential of the sector is being widely acknowledged both in the domestic as well as international forums. India topped AT Kearney's Global Retail Development Index 2009 for the third consecutive year, retaining its position in the global market as the most preferred retail destination amongst emerging markets. Consumer dynamics in India is changing and the retailers need to take note of this and formulate their strategies and tactics to deliver value to the consumer. This paper investigates impact of emergence of modern retail formats on Indian consumers in organized and unorganized sector.

Introduction

Driven by strong fundamentals, the Indian retail sector is all set to narrate a very fascinating story in the next few years. The story will be characterized by radical changes, shattering of paradigms, large investments and few failures as well. This is notwithstanding the enormous set of challenges, complexities and high degree of dispersion of the Indian retail opportunity, all of which of course, seem surmountable. The entire world would be a keen witness and perhaps a part of this story. At this point in time, we anticipate investments of more then US$ 35 billion in the next five years time frame. This has not happened in any of the emerging markets before. These investments are expected to change the face of retail in India with organized retail growing from current levels of US$12 billion, around 4% of total retail, to around US$ 100 billion in the next five years to capture a share of around 16% of total retail. The Indian Retail Sector will offer many interesting trends and opportunities in the coming years. We have tried to capture the changing face of Indian consumers in lighrt of emergence of organized retailing and have presented them in this document. The trends are a mirror of shape of things to come and the overall picture looks is definitely one of the best so far.

Objectives of the study

In recent years, there have been several studies which analyze in detail the growth of organized retailing in India. Most of these studies address the issue of retailing in India. None of them, however, specifically address the issue of emergence of organized in retailing and its likely impact across different retail segments especially on unorganized sector, employment, inflow of technical know how, pricing etc.

The present paper is an attempt to understand the current retail scenario in India .Specifically, the main objectives of the paper is to identify the main impact of retail boom on Consumers.

The findings of this study are based on a survey of Consumers in both organized and Unorganized Sector .This paper analyses the methodology, sample design, and Consumer survey.

Methodology

The study is based on a survey of   318 respondents [Consumers unorganized (200) and consumer Unorganized (118)] .The details regarding product category, choice of cities and sample size is as follows:

Product category coverage

The present study covered the following categories of organized /unorganized outlets*:*

✓ Food and grocery
✓ Textiles and Apparels
✓ FMCG (fast moving consumer goods): durable and nondurable

The, choice of the above categories was guided by the consideration of their propensity to impact unorganized (small) retail outlets, which was the core purpose of the study.

Choice of cities

Since the retail universe is very vast, widespread and diverse, obtaining a nationally representative sample (covering urban and rural areas) would involve a very large budget and time. Moreover, organized retailing is more of an urban and metropolitan phenomenon and therefore, it was also decided that the study should only cover metropolitan cities namely Delhi, Mumbai, Kolkata, Chennai.

Selection of organized outlets

Only where an organized retail outlet is located, could it impact the small, unorganized retail outlets. Thus, the second stage of selection in the study involved sampling of organized retail outlets .The following process was adopted for the sampling of organized retail outlets, which served as study clusters:

1. The number of organized retailers by outlet type (food and groceries, textiles and apparels, FMCG) and format category (discount stores/ supermarkets/hypermarkets and departmental stores) was obtained from Technopak Advisers Pvt. Ltd. separately for each city.
2. Using information in step 1 above, an exhaustive list of all the organized retail outlets in the selected 4 cities from secondary sources.

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3. The sample size for each format was allocated to the 4 cities covered in the study through the proportional allocation method.

4. The outlets belonging to each type and format were selected following the stratified random sampling method. These organized retail outlets served as study clusters.

d) Sampling design: consumers at organized and unorganized outlets

As consumers are a major stakeholder category in the expansion of organized retail, a consumer survey was planned as an integral part of the present impact assessment study.

To assess the impact of organized retail network on consumers, exit interviews were conducted with the consumers at the sampled organized outlets and unorganized consumer at the selected 4 cities.

Exit interviews were preferred over household surveys as it is difficult to locate house holds who have made purchases from the sampled organized clusters (as the catchment's area extends over a large area).

Moreover, there could be a poor or inaccurate recall if the actual incidence of purchase occurred long before the date of the interview.

Exit interviews are reliable, easy to implement, and are widely used in surveys of this nature. In total 318 consumers were interviewed, of which 200 consumers were interviewed at the unorganized outlets, and 118 consumers were interviewed at the organized retail outlets.

Survey results

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 318 consumers who shopped at 40 organized outlets in the selected 4 cities and an equal number of consumers who shopped at 37 unorganized outlets in the same cities. After dropping the outliers, the sample has 200 customers at organized outlets and 118 at unorganized outlets. The main survey Results were as Follows:

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.

Fig 1 shows average monthly income of shoppers at Organized and Unorganized outlets

**Fig:1: Average monthly household income of shoppers (% share)[organized & unorganized)**
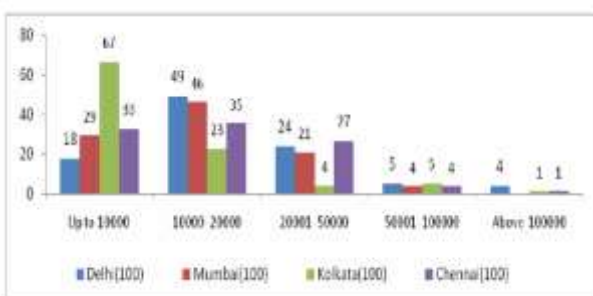
a) Location Advantage for the Unorganized Retailers

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 As expected, a majority of consumers walk

to traditional retailers, while most of the consumers use own vehicle to reach organized outlets

Fig: 2: Mode of transport
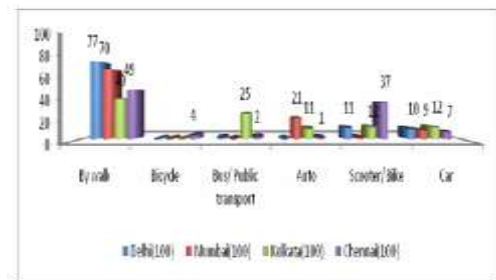
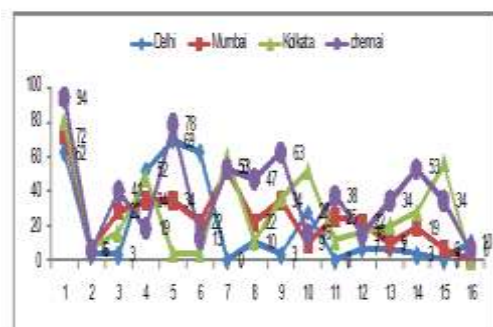

Preference for Organized vs. Unorganized Retailers

Those who shopped at particular organized outlets reported the main reasons as, convenience in shopping, availability of product , discount/ Lesser price, better service, 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. Those who shopped at particular organized outlets reported the main reasons as closer to my house, discount/lesser price, home delivery, quality of product, better service, were some of the main reasons given by consumers. The consumers of particular unorganized outlet reported closer to my house, bargain, saves time, convenient timing as the reasons for choosing particular Unorganized Outlet

Fig: 3: Reasons for choosing this organized outlet
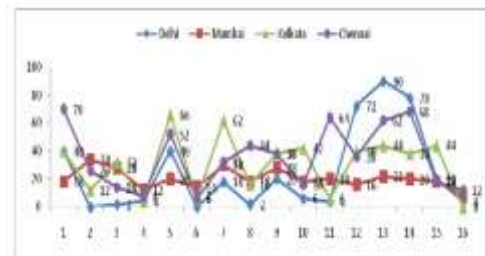
Note: 1- Closer to my house,2- Proximity to my place of work,3- Easy to access, 4- Bargain is possible,5- Discount/ Lesser price,6- Credit availability,7- Better service,8- Convenient timings,9- Saves time,10- Goodwill (knows shopkeeper), 11- Home delivery,12- Convenience in shopping,13- Availability of Product, 14- Quality of products,15- Better Sales Services,16- Comparability of product prices & Features

**Fig: 4: Reasons for choosing this unorganized outlet**

Note: 1- Closer to my house,2- Proximity to my place of work,3- Easy to access, 4- Bargain is possible,5- Discount/ Lesser price,6- Credit availability,7- Better service,8- Convenient timings,9- Saves time,10- Goodwill (knows shopkeeper), 11- Home delivery,12- Convenience in shopping,13- Availability of

Product, 14- Quality of products,15- Better Sales Services,16- comparability of product prices & Features

Those who shopped at organized outlets reported the main reasons as, Convenience in shopping, availability of product , discount/ Lesser price, better service, 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

Fig: 5: Reason for choosing the present product from organized outlet
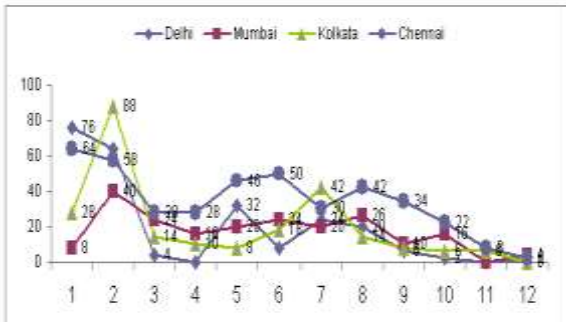
Note: 1. Availability, 2.Fresh / New Stock, 3.Choice of preferred pack sizes, 4.Choice of preferred variant, 5. Availability of specific product 6. Freedom to choose/ sort 7. Better product quality 8. Comparable / Discounted Price 9. Freedom to choice 10 .Choice of taking loose product 11. Bargain is possible 12. Credit availability

Fig: 6: Reason for choosing the present product from unorganized outlet
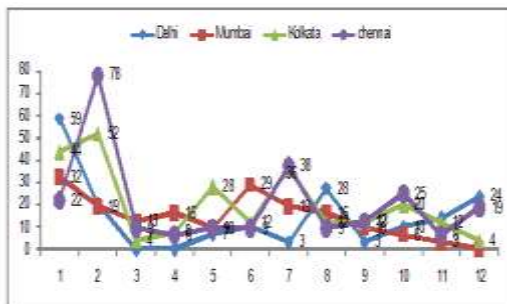
Note: 1. Availability, 2.Fresh / New Stock, 3.Choice of preferred pack sizes, 4.Choice of preferred variant, 5. Availability of specific product 6. Freedom to choose/ sort 7. Better product quality 8. Comparable / Discounted Price 9. Freedom to choice 10 .Choice of taking loose product 11. Bargain is possible 12. Credit availability

The survey also throws light on 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.

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.

Majority of consumers at both unorganized and unorganized outlets agreed that their shopping behavior was influenced by increased organized sector (Fig7).

Fig: 7: Shopping pattern influenced by the increase organized sector organized sector
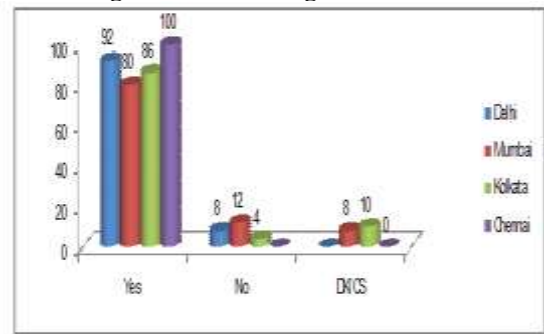
With the onset of a globalized economy in India, the Indian consumer's psyche has been changed. People have become aware of the value of money. Nowadays the Indian consumers are well versed with the concepts about quality of products & services.

These demands are the visible impacts of the Indian organized retail sector. Since the liberalization policy of 1990, the Indian economy, and its consumers are getting whiff of the latest national & international products, with help of print & electronic media.

The social change with the rapid economic growth due to trained personnels, fast modernization, and enhanced availableness of retail space is the positive effects of liberalization.

The survey result revealed that majority of consumers at both unorganized and unorganized felt that their shopping behavior was influenced by increased organized sector (Fig4.7).The non-food sector, segments comprising apparel, accessories, fashion, lifestyle felt the significant change with the emergence of new stores formats like convenience stores, mini marts, mini supermarkets, large supermarkets, and hyper marts. Even food retailing has became an important retail business in the national arena, with large format retail stores, establishing stores all over India.

With the entry of packaged foods like MTR, ITC Ashirvad, fast foods chains like McDonald's, KFC, beverage parlors like Nescafe, Tata Tea, Café Coffee and Barista, the Indian food habits has been altered. These stores have earned the reputation of being 'supersaver locations'.

Finally, consumers were asked about their opinion about opening of more organized outlets. Among the shoppers at organized outlets, above 80 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. The question which arises whether organized retail is affecting unorganized retail.

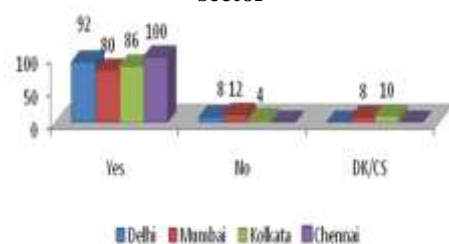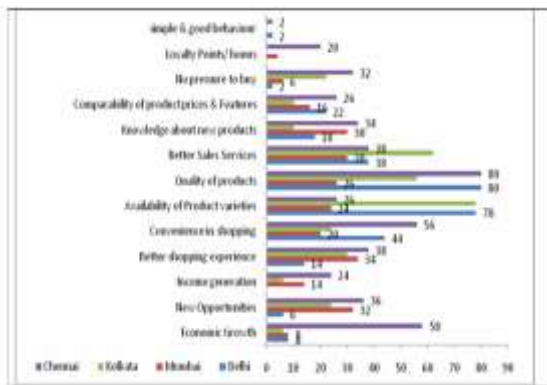**Fig: 8: Organized sector better than the unorganized sector**

Fig: 9: Reasons for preference for organised outlet

Fig: 10: Disadvantages of retail boom

As a matter of fact organized retail has not penetrated and will not penetrate rural India for obvious reasons – it is just unviable. It is only the urban areas that organized retail is slowly but not steadily growing in.

Who patronizes the outlets of organized retail in urban India? Definitely not the lower stratum of society; this stratum represents people who are either daily-wagers or who work for the unorganized trade and industry; their employment is seasonal which means they may remain jobless during the off-season. At sunset, they receive their wages with which they buy their rice or atta for the austere supper ahead. Their purchases are meager and only the mom-and-pop stores will entertain them. Organized retail will not vend 50 ml of edible oil or 250 gm of rice or atta to such humble consumers.

Those belonging to the lower end of the middle – income group are generally employees of State / Central governments and the organized private sector. Not generally upwardly mobile (remember, if you are a government employee, the only incremental income you get to receive all your career is the dearness allowance which is promptly revised mostly upwards although the allowance itself is released at a mulish pace) this group of employees has over a period of time perfected the art of living within their means and what is more, they end up saving a bit too. To these people too, organized retail makes little sense since they cannot afford to pay cash down for their purchases. They buy from the mom-and-pop stores on credit during the month and settle the bill when they receive their salaries in the first week of the succeeding month. At best, the lower end of the middle-income group may patronize organized retail for purchase of vegetables because the vegetable vendor does not provide credit anyway.

Those belonging to the upper middle income group and higher income group and living in cities have been increasingly patronizing organized trade thanks to the latter's proliferation. That way speaking, they have traditionally stayed away from the mom-and-pop stores as far as possible. The truth therefore is that unorganized trade has not been affected to the extent it is made out. The survey result indicates that quality of products and availability of product verities and Economic growth were some of the reasons given by respondents for the growth of organized sector.

Those who considered organized outlets as having adverse effect(Fig:4.10) reported the main reasons as, Disappearance of whole sale commodity, catering to only special class of people, social dissatisfaction among lower side of population, threat for local kirana/Local shopping areas, employment opportunities only for semi skilled only as some of the disadvantages of retail boom.
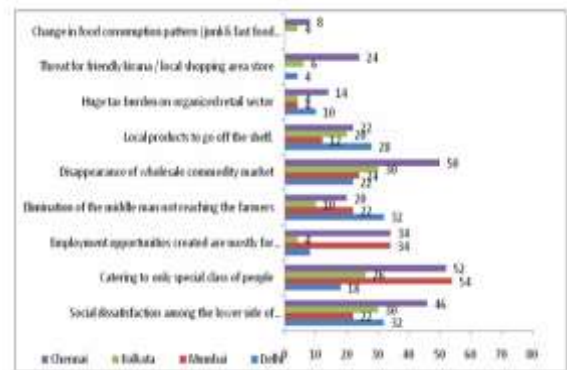
Entry of Multi nationals

The retail landscape of the country is changing at a rapid pace with malls and multiplexes mushrooming in 1 all major cities. In fact, having reached a substantial capacity at Tier-I locations, the organized retail led by entry of multinationals revolution is now percolating to Tier II and III cities. Retail has clearly been witnessing a transformation from neighborhood-shopping to the concept of malls and family entertainment centers. Entertainment and experience are becoming integral parts of shopping. The survey result show that most of respondents across four cities (Fig:4.11) considered multinationals entry into India as good. Global industry analysts have often confirmed the country's potential as one of the most attractive emerging retail destinations in the world. The respondents to consumer survey considered increased purchasing power of the consumers, young population as Indian Consumers, Shift in Consumption pattern, More Tier II Cities and better infrastructural facilities and logistics as the prime attraction for MNCs(Fig:11)

Fig: 11: Opinion on the entry of multinationals & foreign players in the indian retail sector
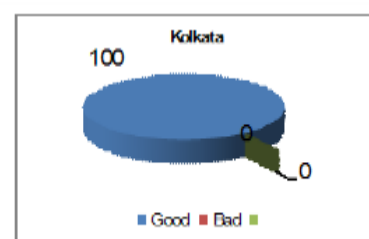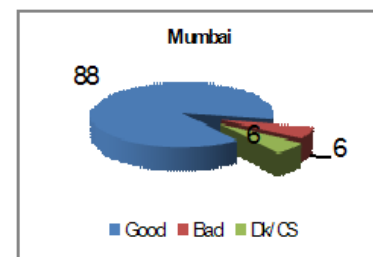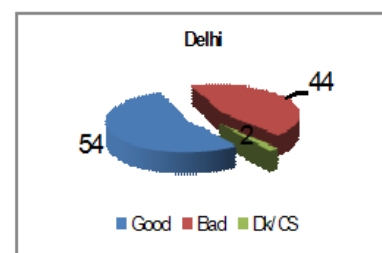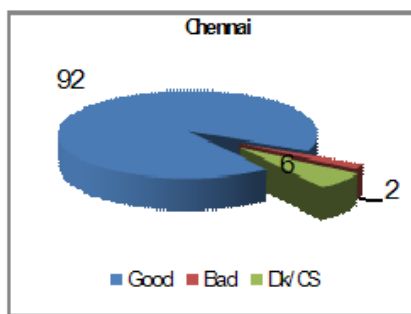
Fig: 12: The opportunities and supporting factors for mncs & foreign players in indian market
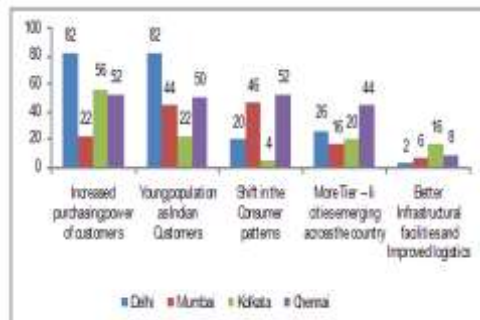
e) Global recession and its impact on retail consumers;

The recession in the US market and the global meltdown termed as Global recession have engulfed complete world economy with a varying degree of recessional impact. World over the impact has diversified and its impact can be observed from the very fact of falling Stock market, recession in jobs availability and companies following downsizing in the existing available staff and cutting down of the perks and salary corrections.

The retail market in India is facing slowdown with the ongoing financial crisis happening across the world markets. Since the markets always have internally linked with each other, the impact of the crisis is generally shared among all. The inflation or the economic slowdown is adversely affecting the retail industry.

With the suddenly disturbed economical status, consumers are gradually losing interest on buying. And for the interested, the unbalanced income, followed by the economic slowdown, is not meeting their buying requirements.

This evolution had soon disappointed the hopes of retail industry. Most of the respondents in the survey were aware of global recession and considered it bad for the market (Fig: 13). The resultant effect were Slow down in the purchases, Slow down in entry of firms and other players and Slow down in Job opportunities(Table: 2)

Main Findings

1) Majority of consumers in four metros agreed that organized sector is better then unorganized sector. Availability of product verities, quality and better sales service were the reason for it.

2) 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.

3) Overall consumer spending has increased with the entry of the organized retail.

4) While all income groups saved through organized retail purchases, the survey revealed that lower income consumers saved more. Thus, organized retail is relatively more beneficial to the less well-off consumers.

5) Majority of consumers felt that entry of multinationals is good for Indian market best quality and best service were assigned as reason for it.

6) The opportunities and supporting factors for MNCs & Foreign Players in Indian Market are increased purchasing power of consumers, young population as Indian consumers; better infrastructural facilities were some of the reasons for it.

7) Majority of consumers felt the impact of recession in terms of slow down of purchases and slow down of job opportunities.

To Conclude the landscape of retail industry in India has been transformed from a fragmented, family run industry to an organized and professionally managed business in recent years. We as professionals and participants on the Indian stage, have witnessed this sunrise industry evolve and grow out of the shadows. From a rather uncertain beginning in late 1990s (paradoxically coinciding with the dotcom boom, which since deceased in an inauspicious manner) the retail industry has gained in stature and momentum. What assumes critical importance, therefore, is the way the initial organic burst is channelized into a well coordinated growth..

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Table 1: Monthly Household Income Of Shoppers

Income Group (Rupees)	Shoppers at Organized Outlets					Shoppers atUnorganized Outlets				
	Delhi	Mumbai	Kolkata	Chennai	Total	Delhi	Mumbai	Kolkata	Chennai	Total
Up to 10,000	7	17	32	8	64	6	7	15	14	42
10,001 – 20,000	25	21	10	21	77	14	17	7	8	46
20,001 – 50,000	12	11	3	18	44	7	6	0	4	17
50,001 – 1,00,000	3	1	4	2	10	1	2	0	1	4
Above100000	3	0	1	1	5	0	0		0	0
Total	50	50	50	50	200	28	32	22	27	109

Table: 2 Effects Of Global Recession

	Delhi	Mumbai	Kolkata	Chennai
Slow down in the purchases	90	66	42	58
Slow down in entry of firms and other players	--	39	24	---
Slow down in Job opportunities	94	5	38	73
No answer	---	2	----	----