

## DEMONETIZATION - IMPACT ON THE INDIAN RETAIL INDUSTRY

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### Abstract

India is in the midst of a digital revolution. The India's Retail Industry Boom has acquired further momentum with international players experimenting in the Indian market and the country's existing giants taking bold innovative steps to woo the consumer. At the same time, the early entrants are redefining their strategies to stay competitive and suit the new market landscape. The next few years are likely to witness rapid growth in the organized retailing sector with several leading international players establishing their presence in India by adjusting their formats to suit local tastes and buying behaviour while regional players have stepped up their defences and are striving to gain edge over global players by using their knowledge of local markets. In this paper, a SWOT analysis is made of the retail industry and an attempt is made to know the extent of demonetization on the industry.

**Keywords:** Retail industry, Digitalization, Demonetization.

### Introduction

The Indian retail industry is one of the most dynamic and fast-paced industries due to the entry of several new players. India is the world's fifth-largest global destination in the retail space. It accounts for over 10 per cent of the country's Gross Domestic Product (GDP) and around 8 per cent of the employment. The retail industry is classified into organized and unorganized retailing. The organized retailing includes trading activities undertaken by licensed retailers, i.e. those who are registered for sales tax, income tax, etc. This includes hypermarkets, retail chains and large retail businesses. The unorganized retailing refers traditional formats of low cost retailing, for example, the local kirana shops, convenience stores, hand cart and pavement vendors etc.

The increase in usage of smartphone, expanding Internet access and rising digital media consumption will have a profound impact on the future of Indian retail. However, demonetization has created a financial crunch for the retailers<sup>1</sup>. The industry generates a lot of cash transactions, therefore, a reduction in sales will continue in the short-term. This impact is being felt largely by small traders and the unorganised retailing segment prevalent on many high streets across the country. The consumers were encouraged to use credit/debit cards and e-Wallets and banks are offering cashbacks or discounts. The objective of the paper is to understand the factor- digitalization or demonetization, that has the harmful effect on the retail industry. A SWOT analysis of the industry is done to understand the significance of the industry, followed an attempt to understand the impact of demonetization on the industry.

### SWOT Analysis of Indian Retail Industry

The retail industry in India is going through tremendous changes due to digitalization. In this section, a SWOT analysis of the industry is done.

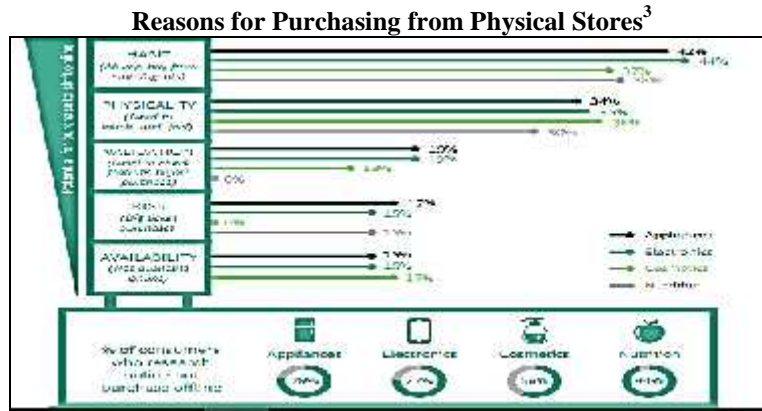
#### A. Strength

The Indian retail market is expected to nearly double to US\$ 1 trillion by 2020 from US\$ 600 billion in 2015, driven by income growth, urbanisation and attitudinal shifts. While the overall retail market is expected to grow at 12 per cent per annum, modern trade would expand twice as fast at 20 per cent per annum and traditional trade at 10 per cent. The ratio of the revenue from the Indian retail industry is among the highest in the world. The revenue from the industry for most of the developed countries is 15-20 percent of the overall GDP, whereas for India, it is around 25 percent.

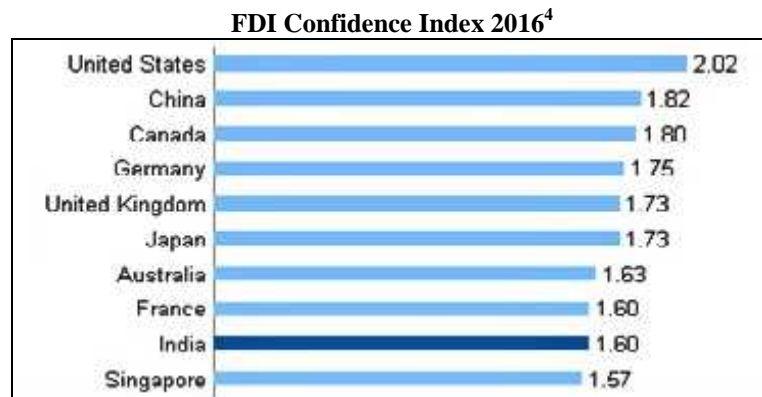


Source - media-publications.bcg.com

The growth of e-commerce in the country is tremendous. The Indian e-commerce industry has new entrants every day. The consumers are attracted with discounts and cash back offers. Retail chains are upgrading their sites for ecommerce, to make it more convenient for customers to place online purchase orders. The traditional retailers like Shoppers Stop, Westside and Pantaloons are looking at the online shopping space for growth. However, the consumers still prefer to buy from retailers due to the following reasons, as given in the figure given below.



The high growth potential of the retail industry is attracting investors. India has occupied a remarkable position in global retail rankings; the country has high market potential, low economic risk, and moderate political risk. India's net retail sales are quite significant among emerging and developed nations; the country is ranked third (after China and Brazil). Overall, given its high growth potential, India compares favourably with global peers among foreign investors. With investment of around US\$ 511.76 billion, the first half of 2016 witnessed the highest annual private equity (PE) in the retail sector, since 2008.



## B. Weakness

The weakness of the retail industry as observed by FICCI are<sup>5</sup>

- **Lack of Industry Status:** Due to the absence of 'industry status', organized retail in India faces difficulties in procurement of organized financing and fiscal incentives. The Government should grant the much needed 'industry status' to the sector so that the sops that come with it help promote both big and small retailers.
- **Policy Induced Barriers:** Organized retail in India is managed by both the Ministries of Commerce & Consumer Affairs. While the Ministry of Commerce takes care of the retail policy, the Ministry of Consumer Affairs regulates retailing in terms of licenses and legislations. There is a need to govern retail operations through a single apex body. A single agency can take care of retail operations more effectively, especially with regard to addressing the grievances of retailers. The development of the retail sector can take place at a faster pace if a comprehensive legislation is enacted.
- **Real Estate:** Lack of sophisticated retail planning is another major challenge the sector faces. Available space is easily interchangeable between commercial and retail use. In most cities, it is difficult to find suitable properties in

central locations for retail, primarily due to fragmented private holdings, infrequent auctioning of large government owned vacant lands and litigation disputes between owners.

- **Frauds in Retail:** It is one of the primary challenges the companies would have to face. Frauds, including vendor frauds, thefts, shoplifting and inaccuracy in supervision and administration are the challenges that are difficult to handle. This is so even after the use of security techniques, such as CCTVs and POS systems. As the size of the sector would increase, this would increase the number of thefts, frauds and discrepancies in the system.
- **Challenges with Infrastructure and Logistics:** The lack of proper infrastructure and distribution channels in the country results in inefficient processes. This is a major hindrance for retailers as a non-efficient distribution channel is very difficult to handle and can result in huge losses. Infrastructure does not have a strong base in India. Urbanization and globalization are compelling companies to develop infrastructure facilities. Transportation, including railway systems, has to be more efficient. Highways have to meet global standards. Airport capacities and power supply have to be enhanced. Warehouse facilities and timely distribution are other areas of challenge.

To fully utilize India's potential in retail sector, these major obstacles have to be removed.

### C. Opportunity

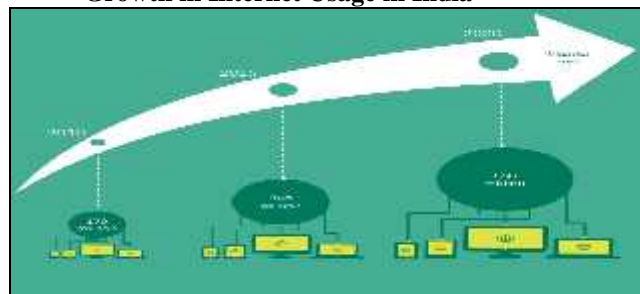
The Government of India has taken the following initiatives to improve the retail industry in India<sup>6</sup>

- Government of India has allowed 100 per cent Foreign Direct Investment (FDI) in online retail of goods and services through the automatic route, thereby providing clarity on the existing businesses of e-commerce companies operating in India.
- The Government of Andhra Pradesh signed pacts worth Rs 1,500 crore (US\$ 222.36 million) in a wide range of sectors including retail and steel and gas with Walmart India, Future Group, Arvind Lifestyle Brands Ltd and Spencer's Retail, during the Partnership Summit in Visakhapatnam, while also unveiling a retail policy aimed to attract retail businesses to invest in the state.
- The Ministry of Urban Development has come out with a Smart National Common Mobility Card (NCCM) model to enable seamless travel by metros and other transport systems across the country, as well as retail purchases.
- IKEA, the world's largest furniture retailer, bought its first piece of land in India in Hyderabad, the joint capital of Telangana and Andhra Pradesh, for building a retail store. IKEA's retail outlets have a standard design and each location entails an investment of around Rs 500–600 crore (US\$ 74–89 million).
- The Government of India has accepted the changes proposed by Rajya Sabha select committee to the bill introducing Goods and Services Tax (GST). Implementation of GST is expected to enable easier movement of goods across the country, thereby improving retail operations for pan-India retailers.
- The Government has approved a proposal to scrap the distinctions among different types of overseas investments by shifting to a single composite limit, which means portfolio investment up to 49 per cent will not require government approval nor will it have to comply with sectoral conditions as long as it does not result in a transfer of ownership and/or control of Indian entities to foreigners. As a result, foreign investments are expected to be increase, especially in the attractive retail sector.

The Indian middle class is projected to grow to over 60 Crore and thereby, making India one of the largest consumer markets of the world. The country will have over 55 Crore people under the age of 20 - reflecting the enormous opportunities possible in the kids and teens retailing segment. A new report by the Boston Consulting Group (BCG) and The Retailers Association of India suggests that more people with Internet access and those who purchase goods online will shift dramatically over 2015 to 2020. BCG also predicts a shift in the location of Internet users, with a significant increase in the number of users coming from Tier 4 towns and rural areas.

There is an increase in Internet users, especially with participation of women online increasing from 29 percent in 2015 to 40 percent in 2020. The number of internet users is expected to grow to 650 million by 2020.

Growth in Internet Usage in India<sup>7</sup>



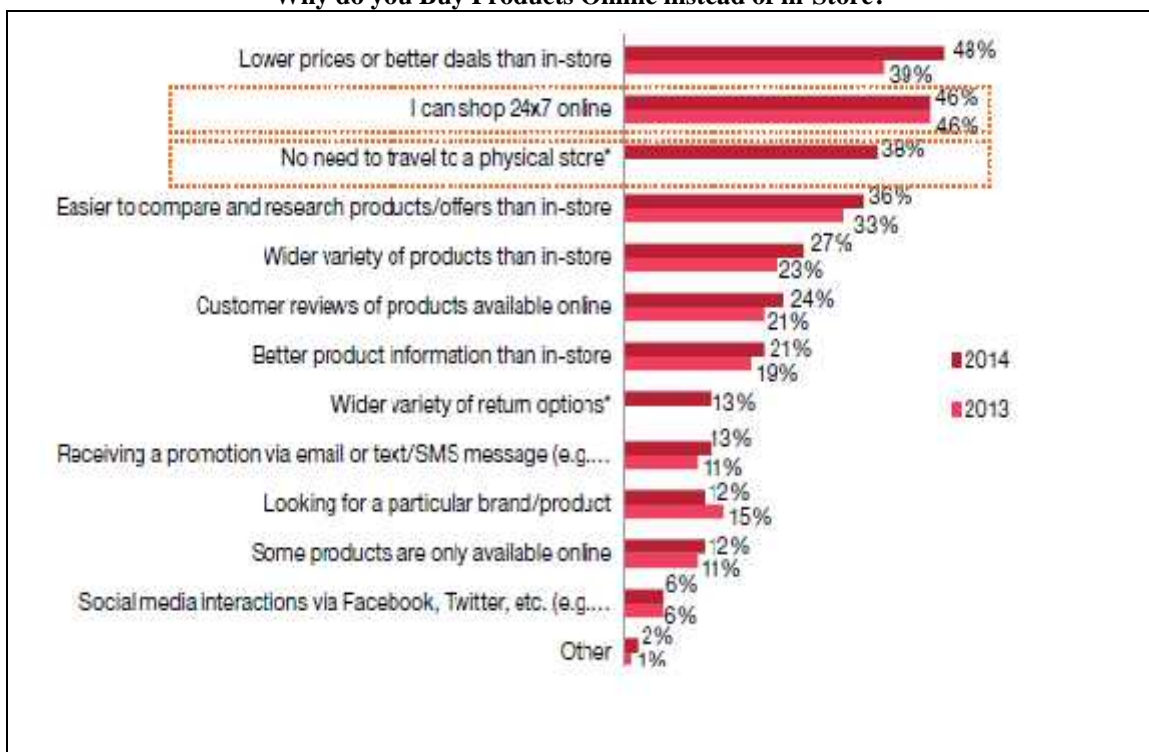
In India, the top six cities contribute for 66 percent of total organized retailing. While the metros have already been exploited, the focus has now been shifted towards the tier-II cities. The 'retail boom', 85 percent of which has so far been concentrated in the metros is beginning to percolate down to these smaller cities and towns. The contribution of these tier-II cities to total organized retailing sales is expected to grow to 20-25 percent.

India's huge rural population has caught the eye of the retailers looking for new areas of growth. ITC launched India's first rural mall "Chaupal Saga" offering a diverse range of products from FMCG to electronic goods to automobiles, attempting to provide farmers a one-stop destination for all their needs." Hariyali Bazar" is started by DCM SriramGroup which provides farm related inputs & services. The Godrej group has launched the concept of 'agri-stores' named "Adhaar" which offers agricultural products such as fertilizers & animal feed along with the required knowledge for effective use of the same to the farmers.

**D. Threat**

Offline retail sales have taken a severe hit because many smart buyers prefer shopping online where prices are lower and deliveries dependable. Consumers today have become wiser and ensure that they have researched all their options before shopping.

**Why do you Buy Products Online instead of in-Store?<sup>8</sup>**

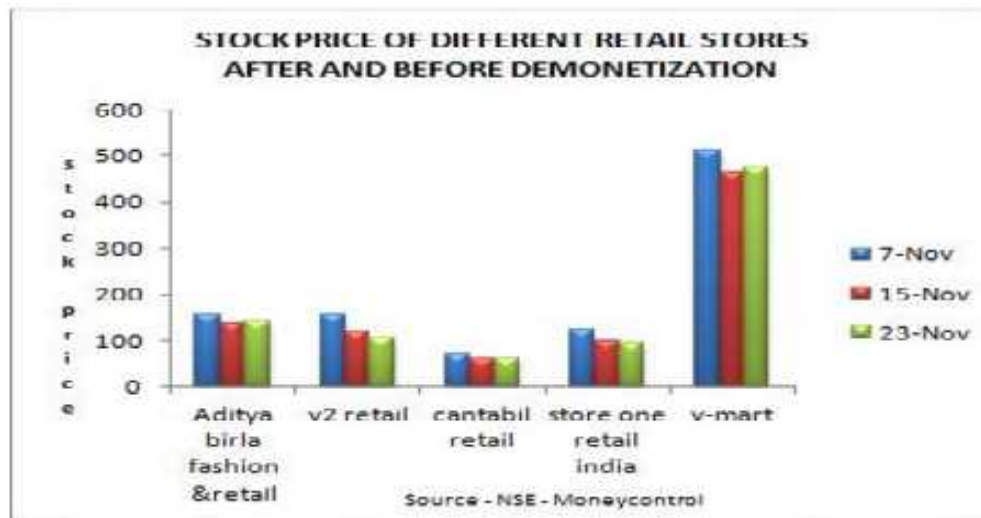


The SWOT analysis of retail industry shows that the industry has outshone despite of its various hurdles. The status of the retail industry depends mostly on external factors like Government regulations and policies and real estate prices, besides the activities of retailers and demands of the customers. As changes happen in the retail market place, competition increases and the potential for improving retail productivity and cutting costs is likely to decrease. Therefore, it is important for retailers to secure a distinctive position in the market place based on values relationships or experience. The following section deals with an attempt to understand the impact of demonetization.

**Demonetization - Impact on Retail Industry**

Demonetization is the biggest reform of the Government. The Government of India decided on 8<sup>th</sup> November, 2016, to cancel the legal tender character of the bank notes of Rs.500 and Rs.1000 denominations, issued by RBI with a view to curb financing of terrorism through the proceeds of Fake Indian Currency Notes (FICN) and use of such funds for subversive activities such as espionage, smuggling of arms, drugs and other contrabands into India, and for eliminating Black Money<sup>9</sup>. This led to a financial crunch in the economy. There was anxiety among people. The banks were also unable to meet the demand.

### Stock Price of different Retail Stores after and before Demonetization<sup>10</sup>



The high-end fashion retail and luxury goods were effected as the demand in this segment was curtailed. The food and grocery retail sub-segment were found to be uninfluenced, given the non-discretionary nature of purchases in this segment. Therefore, it was observed that initially there were slump in sales. The retailers as well as the consumers have adopted cashless means such as Paytm, debit card use, internet banking to buy goods. However, the impact should normalize in the long term and this move would be beneficial for the organized retail sector. This in turn will help the economy to flourish.

#### Conclusion

India's retail market is expected to grow US\$ 1 trillion by 2020 from US\$ 600 billion in 2015, driven by income growth, urbanisation and attitudinal shifts. While the overall retail market is expected to grow at 12 per cent per annum, modern trade would expand twice as fast at 20 per cent per annum and traditional trade at 10 per cent. Demonetization has resulted in visibly reduced low footfalls in shopping malls, but this effect is temporarily and will turn around in few weeks as more currency circulates in the system and improves the purchasing power and appetite of the consumers. The long-term growth story of the Indian retail sector continues to be one of resilience and growth. India's Business to Business (B2B) e-commerce market is expected to reach US\$ 700 billion by 2020. Online retail is expected to be at par with the physical stores in the next five years.

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