

DEMONETIZATION & INDIAN RETAIL :PRE-EMPT THE FUTURE

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ABSTRACT:

The recent surgical strike of Modi Government, to combat the ill-practices of corruption, black money and counterfeit notes by the strategy of demonetization has undeniably impacted the Indian retail industry due to lack of liquidity in the economy. This demonetization drive could give a spark to new digital economy in India.

PURPOSE:

Purpose of this paper is to analyse the current scenario of demonetization on the Indian retail sector. Purpose of this paper is to convey a path to policy formulator and researchers towards importance and effect of retail industry in today's challenging times.

KEYWORDS:

Retail Management, Indian Retail, Economy, Demonetization, Mobile wallets.

METHODOLOGY:

This research paper is prepared by reviewing related literature produced in the area of demonetization and also in the areas of retail. I have also incorporated views of experts, policy formulators and common man related to this issue. Research paper is based on secondary data and provides only descriptive information and no statistics are used.

MANUSCRIPT: INDIAN RETAIL

The Indian retail industry has surfaced as one of the most vibrant and swift industries due to the entry of several new players. It reports for over 10% of the India's Gross Domestic Product (GDP) and approx. 8% of the employment. India is the world's fifth-largest global destination in the retail space.

Due to rising income levels, urbanization, and changing consumer behaviour the Indian Retail has taken an incredible reformation which provides an optimistic outlook to the retail sector, as well as holds promising growth in the future. However the upcoming fever of digital medium has influenced retail with a powerful thump, restructuring customer behaviour and expectations.

The Indian retail sector is highly sectioned and the unorganised sector has approx. 13 million retail outlets that report for around 95-96% of the total Indian retail industry.

However, the organised sector's growth potential is expected to increase due to globalisation, high economic growth, and improved lifestyle.

Although the growth potential in the sector is immense, there are following few obstacles which could slow the pace of growth for new entrants.

- Rigid regulations,
- high personnel costs,
- real estate costs,
- lack of basic infrastructure, and
- highly competitive domestic retailer groups are some such challenges.

KEY DRIVERS OF THE INDIAN RETAIL INDUSTRY

We can identify few major drivers of the Indian Retail Industry as:

- Increase in nuclear families
- Upcoming trend of double-income households
- Large working population
- Rational Real estate prices
- Increase in disposable income and customer aspiration
- Demand as well as increase in expenditure for luxury items
- Growing preference for branded products and higher aspirations
- Growing liberalization of the FDI policy in the past decade
- Increasing urbanisation,
- Rising affluence amid consumers

HURDLES

Apart from the above mentioned key drivers to increase in Retail Sector there are few hurdles which are pulling back its growth, these are:

- Difficulty in meeting international standards
- Lack of efficient supply-chain management
- Lack of required retail space
- No fixed consumption pattern
- Shortage of trained manpower
- Lack of proper infrastructure and distribution channel

EVOLUTION OF RETAIL IN INDIA

There are varied formats in modern retail which have emerged over the last decades or so and have now become the standard the world over. They today rule and have confined the bulk of the market share around the globe. Let us discuss these briefly.

The following kinds of retail formats are found in India:

- **Mom-and-pop stores:** These are generally family-owned businesses catering to small sections of society. They are small, individually run and handled retail outlets.
- **Category killers:** Small specialty stores have expanded to offer a range of categories. They have widened their vision in terms of the number of categories. They are called category killers as they specialize in their fields, such as electronics (Best Buy) and sporting goods (Sport Authority).
- **Department stores:** These are the general merchandise retailers offering various kinds of quality products and services.

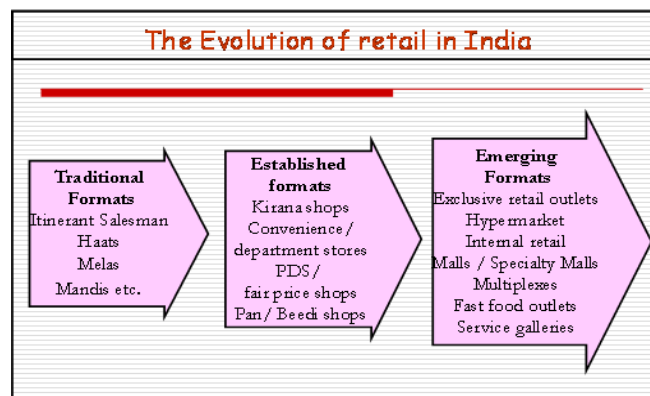


Diagram 1: From Traditional to Modern Retail

- These do not offer full service category products and some carry a selective product line. K Raheja's Shoppers Stop is a good example of department stores. Other examples are Lifestyle and Westside. These stores have further categories, such as home and décor, clothing, groceries, toys, etc.
- **Malls:** These are the largest form of retail formats. They provide an ideal shopping experience by providing a mix of all kinds of products and services, food and entertainment under one roof. Examples are Sahara Mall, TDI Mall in Delhi.
- **Specialty Stores:** The retail chains, which deal in specific categories and provide deep assortment in them are specialty stores. Examples are RPG's Music World, Mumbai's bookstore Crossword, etc.
- **Discount stores:** These are the stores or factory outlets that provide discount on the MRP items. They focus on mass selling and reaching economies of scale or selling the stock left after the season is over.
- **Hypermarkets/ Supermarkets:** These are generally large self-service outlets, offering a variety of categories with deep assortments. These stores contribute 30% of all food and grocery organized retail sales. Example: Big Bazaar.
- **Convenience stores:** They are comparatively smaller stores located near residential areas. They are open for an extended period of the day and have a limited variety of stock and convenience products. Prices are slightly higher due to the convenience given to the customers.
- **E-tailers:** These are retailers that provide online facility of buying and selling products and services via Internet. They provide a picture and description of the product. A lot of such retailers are booming in the industry, as this method provides convenience and a wide variety for customer. But it does not provide a feel of the product and is sometimes not authentic. Examples are Amazon.com, Ebay.com, etc.
- **Vending:** This kind of retailing is making incursions into the industry. Smaller products such as beverages, snacks are some the items that can be bought through vending machines. At present, it is not very common in India.

MEANING OF DEMONETIZATION:

Demonetization is the act of stripping a currency unit of its status as legal tender. Demonetization is necessary whenever there is a change of national currency. The old unit of currency must be retired and replaced with a new currency unit.

The opposite of demonetization is remonetization where a form of payment is restored as legal tender.

The French were the first to use the word Demonetize, in the years between 1850 -1855. Since then many countries have used the word for it upsets economics and population by large.

India has demonetized earlier too: First time on **12th Jan 1946**, second time on **16th Jan 1978**, and Third time on **8th November 2016**.

The first instance was in **1946** and the second in **1978** when an ordinance was promulgated to phase out notes with denomination of Rs 1,000, Rs 5,000 and Rs 10,000.

Then on **November 8, 2016** government announced the decision to discontinue the legal tender status of Rs 500 and Rs1000 notes. The objectives of demonetization are:

- Eliminating fake currency;
- Inflicting losses on those with black money; and
- Disrupting terror and criminal activities.

Later, few new objectives were pinned as:

- Enabling growth in bank credit,
- Turning India into a cashless economy.

DEMONETIZATION EFFECT ON INDIAN ECONOMY

Demonetization is a unforgettable experience and will be considered as a historic moment for the Indians as its impact is sensed by every citizen of India. Demonetization affects the economy through the liquidity side. The demonetization is a critical step as nearly 86% of currency value in circulation was withdrawn without replacing bulk of it. Due to the withdrawal of Rs 500 and Rs 1000 notes, there occurred huge gap in the currency composition as after Rs 100; Rs 2000 is the only denomination. Absence of intermediate denominations like Rs 500 and Rs 1000 will reduce the utility of Rs 2000. Effectively, this will make Rs 2000 less useful as a transaction currency though it can be a store value denomination.

It is considered as a liquidity shock; an unexpected stop in terms of currency availability. The lack of currencies has jammed consumption, investment, production, employment etc. In this context, the exercise may produce following short term/long term/, consumption/investment, welfare/growth impacts on Indian economy. Following are the main impacts.

1. **Liquidity Shock:** The global banking sector disaster of 2007 witnessed more impact than the demonetization, as it acts as a **liquidity shock** that has disturbed economic activities.
2. **Liquidity crunch** (short term effect): liquidity shock means people are not able to get sufficient volume of popular denomination especially Rs 500. This currency unit is the approving denomination in daily life. It constituted to nearly 49% of the previous currency supply in terms of value. Higher the time required to resupply Rs 500 notes, higher will be the duration of the liquidity crunch. Current reports indicate that all security printing presses can print only 2000 million units of RS 500 notes by the end of this year. Nearly 16000 mn Rs 500 notes were in circulation as on end March 2016. Some portion of this was filled by the new Rs 2000 notes. Towards end of March approximately 10000 mn units will be printed and replaced. All these indicate that currency crunch will be in our economy for the next four months.
3. **Welfare loss** for the currency using population: The daily wage earners, other labourers, small traders etc. who reside out of the formal economy uses cash frequently. These sections will lose income in the absence of liquid cash. There will be a trickle up effect of the liquidity chaos to the higher income people with time.
4. **Consumption will be thumped:** When liquidity shortage strikes, it is consumption that is going to be adversely affected first.

Consumption ↓ → Production ↓ → Employment ↓ → Growth ↓ → Tax revenue ↓

5. **Loss of Growth drive-** India risks its position of being the fastest growing largest economy- reduced consumption, income; investment etc. may reduce India's GDP growth as the liquidity impact itself may last three -four months.

6. **Impact on bank deposits and interest rate:** Deposit in the short term may rise, but in the long term, its effect will come down. The savings with the banks are actually liquid cash people stored. It is difficult to assume that such ready cash once stored in their hands will be put into savings for a long term. They saved this money into banks just to convert the old notes into new notes. These are not voluntary savings aimed to get interest. It will be converted into active liquidity by the savers when full-fledged new currency supply take place. This means that new savings with banks is only transitory or short-term deposit. It may be en-cashed by the savers at the appropriate time. It is not necessary that demonetization will produce big savings in the banking system in the medium term. Most of the savings are obtained by giant public sector banks like the SBI. They may reduce interest rate in the short/medium term.

7. **Impact on black money:** Only a small portion of black money is actually stored in the form of cash. Usually, black income is kept in the form of physical assets like gold, land, buildings etc. Hence the amount of black money countered by demonetization depends upon the amount of black money held in the form

of cash and it will be smaller than expected. People are now much convinced about the need to fight black income such a nationwide awareness and urge will encourage government to come out with even strong measures.

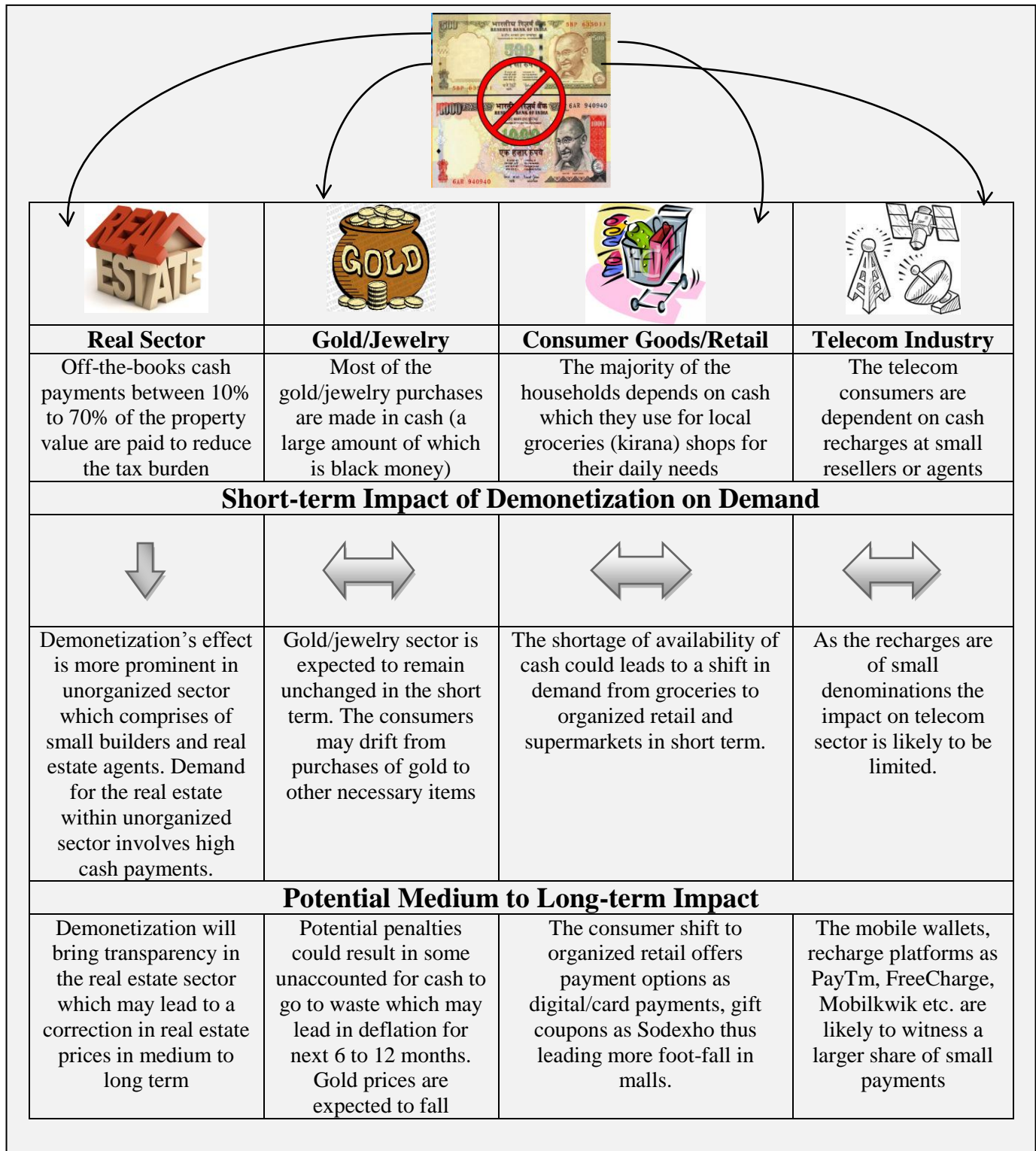


Diagram 2: Effect of Demonetization on Indian Economy

8. Impact on counterfeit currency: the real impact will be on counterfeit/fake currency as its circulation will be checked after this exercise.

Demonetization as a crackdown exercise may yield several good things in the economy. At the same time, it creates unavoidable income and welfare losses to the poor sections of the society who gets income based on their daily work and those who doesn't have the digital transaction culture.

THE IMPACT OF DEMONETIZATION ON INDIAN RETAIL

The recent move of the Narendra Modi Government's strategic progress to demonetize the currency notes of the value of 500 and 1000 was made with the intent of eradicating corruption and exposing the black money holders in the country. Although the move might signify a healthy establishment for the country in the future, one can't help but acknowledge the instant impact or the outcomes it has had on various sectors within the country. The Retail Sector is amongst them.

The Immediate effect on Retail & its' customers

This change has brought an effect in the retail Industry which can be analyzed as:

Marginal effect on Offline Retail: Given the high proclivity of Indians to deal in cash, the immediate repercussion of PM Modi's demonetization announcement has caused sizeable hassle among retailers and their customers. Small traders and vendors have been affected the most as they are facing a huge twist in sale. Many of these **small retailers** are not equipped enough to make provisions of digital payments for their customers, and for this reason they are facing major hardships.

Organized, large retailers and malls too are facing a **slump in sales** and **decreasing** amount of **store footfalls**, but in the long run can expect normalcy to be restored as the consumers learn to make payments through mobile wallet.

Decline in Online Retail Sale: Online Retail sales have also taken a pounding strike in the month of November, immediately after the announcement of demonetization. According to the statistics from ET Retail.com, the *monthly gross sales (November) is expected to take a 50% hit* in comparison to the month of October.

During the 8th to 13th November 2016, the cash on delivery (COD) volumes were slashed down to 60% than usual. Flipkart asserts that they experienced a dip in sales by 25-30% after the announcement. Generally, the leading e-commerce companies register returns of about 13-15%, but it has eventually doubled up ever since demonetization took effect, with most cancellations arising out of cash on delivery orders due to the growing unwillingness of customers to give out cash.

Offline Retailers focusing on maintaining 'Store Traffic': Whether it's **small traders or large retailers**, the immense hassle that retailers are having to face is the diminishing level of conversions due to the fall in **store traffic**. Small traders are being ignored by the customers as they don't have the provision of accepting debit/credit card or digital payments. For instance, according to ET Retail.com, most of the Metropolitan cities like in Mumbai, around 40% of retailers don't have the card-swipe machines and thereby are having a tough time in maintaining store traffic. Approximately more than 20,000 people have already applied for the machines in order to restore control over their customers.

Giant Retailer, Big Bazaar & FBB stores acting as Cash Generators: The big stores are now allowing its customers to withdraw upto Rs 2000 from their bank accounts by using debit cards. They have teamed up with *State Bank of India* and as a result are enabling this facility through the bank's cash at POS machines in 258 of their stores located across 115 cities and towns. In this attempt V-Mart is also enabling **Smart ATMs** in 136 stores across 116 cities, which will enable people to withdraw upto Rs 2000 with their Debit cards. Apart from trying to provide convenience for people by providing them with an alternative to

standing in long queues in banks and ATMs, it can be called a strategic move on the part of these retailers to maximise store traffic and score conversions.

Mobile Wallets & Digital Payment Services: There is no doubt about the fact that retailers have looked to adopt alternative provisions of payment methods for their customers ever since the demonetization announcement. Apart from ordering for card-swipe machines, retailers are exhibiting a huge tendency of resorting to *mobile wallets* and *digital payment services* for the purpose of receiving payments. Customers too are adopting these services to make payments due to the liquidity crunch. This has emerged as '**Stepping Stones to a Cashless Retail**'.

CONCLUSION:

The Retail Sector has taken an initial beating but is definitely hoping for a swift renaissance with the growing flexibility shown by their customers in making digital payments. The transition for big retailers to adopt the digital path is not going to take much. The problem lies with the small retailers. But, we also have been surprised at the keen *adoption of digital payment* by a handful of local fast-food vendors in almost every city in the country. Small Retailers can definitely take a leaf out of their book.

A lot has modified in the Retail Sector constantly since demonetization was announced. Despite cash adversities, the transition to digital options is overwhelming. Its only a matter of introspection and wait and watch game whether the Indian economy will ever lose its' proclivity to deal in cash or whether the digital sphere will take over and completely change the visage of Indian Retail Sector.

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