IMPACT OF CORPORATE RETAILING ON LOCAL SHOPKEEPERS AND CONSUMERS

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A sample survey of the impact of corporate retails on local shopkeepers and consumers in the vicinity of the newly opened corporate retail outlets in different parts of Ranchi district points to a decline in sales and profits of a majority of unorganized retailers, threatening 57 percent of them with closure or a major decline in business. Only 18 percent of the sample of unorganized shops has so far been able to respond to the competitive threat of the large corporate retails. Consumers, nevertheless, have benefited from large format retail stores .However, it is apprehended that the entry of corporate retailers in the retail sector would kill competition, lead to closure of neighborhood markets and make consumers solely dependent upon the organized retailers at a later stage.

INTRODUCTION

An important aspect of the current economic scenario in India is the emergence of corporate retail as one of the most dynamic and fast paced sectors .This sector is expanding and modernizing rapidly in the past few years in line with India's economic growth due to the demographic and psychographic changes relating to India's consumer class, international exposures, brand communication and availability of quality retail space. Modern retail formats like hypermarkets, supermarkets, discount stores are increasingly being set up in Tier I and Tier II cities by large industrial corporates besides the ongoing proliferation of malls in metros and large cities. The Global Retail Development Index developed by A.T. Kearney (www.atkearney.com) has rated India as No. 2 retail destination for the year 2008; whereas for the year 2005 to 2007, India maintained No. 1 position among the top 30 emerging markets in the world as the most attractive market for retail investment. Goldman Sachs **(**Goldman Sachs Asia Pulse. February 7, 2005**)** has estimated that the Indian economic growth could actually exceed that of China by 2015. It is believed that the country has the potential to deliver the fastest growth over the next 50 years. This growth combined with huge demand will undoubtedly alter the entire retail landscape in the country in the coming years.

The retail sector presently contributes around 14% of India's Gross Domestic Product (GDP) and 7% of the total work force in the country. With around 15 million outlets, the country is the

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seventh largest retail market with the highest retail density in the world. This market is projected to grow to about 590 billion US $ by 2011-12 and further to over 1 trillion US $ by 2016-17.This implies that the compound Annual Growth Rate of the retail sector will be 13% during 2007-12 and 11% during 2012-17 (ICRIER Estimates). The Indian retail market is dominated by unorganized players with 97% share, but the coming years will witness a phenomenal increase in the share of organized retailers from 4% at present to around 16% by 2011-12. The most disquieting feature of retail boom in the country is the pace at which corporate retail chains are entering and expanding in the retail market, with analysts quoted as saying that India is attempting to do in 10 years what took 25-30 years in other major global markets. It is not only the domestic industrial corporates expanding their operations aggressively, but the transnational corporates are also seeking to capture a share of the retail market in India. Wall Mart has opened its first store at Amritsar in a joint venture with Bharti Enterprises. In Feb. 2006, FDI was allowed to the extent of 51% in a single brand retail. Consequent to the relaxation of FDI up to 100% through the automatic route, some B2B operations like Metro Cash & Carry have been set up in India. According to FICCI over 30 billion US $ of investment is likely to be made in the next five to seven years, 92% of which is expected to be in urban areas. Of the urban investments, maximum investment is planned for the hypermarkets (38%) and supermarket (22%) formats. Speciality stores, cash and carry format and department stores are estimated to get a share of 22% 16% and 2%, respectively. Although the bigger cities are likely to corner 62% of the total investment expected to be made in urban retail, the smaller cities and rural areas are also likely to experience retail boom due to the spread of satellite televisions and visual media. The contribution of these cities in total organized retail sales is expected to grow to 20-25%.

CORPORATE RETAIL SCENARIO IN RANCHI

Ranchi-the capital of Jharkhand is witnessing a proliferation of modern retail formats in recent years. Reliance Retail, a wholly owned subsidiary of Mukesh Ambani-owned Reliance India Limited (RIL), started off with a bang in Ranchi by opening four Reliance Fresh stores in the state capital on March 18,2007. The company also started a hypermarket 'Reliance Mart' in a 40,000 sqft outlet on Kanke road to redefine one-stop-shopping. Another hypermarket in the city is Vishal Megamart in Harmu Road. A supermarket Big Bazaar in 80,000 sqft outlet on the Main Road is also functioning in the city. Besides, some new malls are also in the pipeline in Ranchi. 'Maple Plaza' in Ashok Nagar, 'Firayalal Veevo City' and "Hi-Street Mall" in the Main Road are upcoming large malls in Ranchi. These new shopping malls are being designed to meet international standards and will have supermarkets, departmental stores, electronic stores, children's amusement centre, food courts, restaurants, a Cineplex, 150-room four-star hotel, a private club and a ball-room under one roof where the entire family can have a shopping spree and enjoyment. The expansion of modern retail formats in the city will certainly impact the traditional unorganized retailers who may be dislocated or completely thrown out of the business due to competition from organized retailing. However, till date there is very little understanding of what the impact of corporate retail will be on the existing unorganized retailers and consumers in the economy. Opinions are divided on this issue. Advocates believe that the growth of organized retailing will yield efficienciy in the supply chain, enable producers to have better access to markets (including farmers and small producers) and enabling higher prices, on the one hand and, lower prices to consumers, on the other. Critics point out that the growth of organized retail can lead to dislocation of small and unorganized retail in the long run.

In view of these divergent views, actual assessment of the impact of organized retail is difficult. Against this backdrop and in recognition of the growing penetration of large conglomerates in the retail sector, it is imperative to examine the possible implications of corporate retail. The present study aims at finding the implications of the entry of organized corporate retailers on local unorganized shopkeepers and consumers in Ranchi.

Objectives

The main objectives of the study are:

(i)   To study the growth of organized retail in India during the past decade;

(ii)   To analyze the impact of corporate retail on the existing shopkeepers;

(iii)   To understand the implications of entry of large conglomerates in the retail sector on consumers;

(iv)   To make policy recommendations for future growth of corporate retails in the economy.

METHODOLOGY

Data has been collected from a randomly chosen sample of 120 small retail shops and establishments (defined in terms of size, inventory and employment) and 30 hawkers within one – kilometer radius of newly opened corporate retail outlets in different parts of Ranchi district. 50 of these small retail shops were in Main Road in the vicinity of Big Bazaar, 40 located in the vicinity of Reliance Mart, Kanke and remaining 30 near Vishal Megamart, Harmu . The hawkers were scattered over these areas: 17 in Main Road near Big Bazaar, 10 in Kanke Road near Reliance Mart and rest in the Vishal Megamart area. In all, 150 responses from unorganized retailers were obtained.

The original survey of the impact of organized retail outlets on unorganized retailers was conducted only in those areas where organized retailers have been established. As a follow up to this survey, a survey was planned in the locations which are similar in profile and character but do not have the presence of organized retailers (control clusters). This survey was undertaken to have a comparative assessment of the changes in employment, turnover and profit of small retailers and vendors in the unorganized sector in those areas where organized retailers have a presence (treatment clusters) and where they don't have a presence (control clusters). The differences observed between the two samples together help to establish the impact of organized retail on the unorganized segment.

The surveys were confined to two major categories of product groups namely: (a) food and grocery; and (b) textiles and clothing, which together cover nearly 70 per cent of retail. The unorganized segment in the survey included the grocery and general stores, textile and readymade garment shops, fixed fruit and vegetable sellers, and push-cart fruit and vegetable hawkers.

A questionnaire was administered to the sales persons of shops or operators in the absence of the owners. The first part sought basis information on the owner's profile. The second part of the questionnaire sought data on the type of outlet. The third part included information on employee and customer's profile. Section 4 of the questionnaire sought information on the impact on sales, turnover and profits, employment, working hours and high value customers lost, if any. The questionnaire sought information from the respondents with reference to the period after the mall started operations in their area. The next section asked the respondents about the technology or facilities used by them currently or planning to use them in future. The respondents were also asked to mention the ways of dealing with the competition from corporate retail. Finally, a special section for hawkers was marked out, asking if bribe payment, eviction drives and harassment by agents of malls had increased after the advent of corporate retail in the city.

A consumer survey was conducted through exit interviews of 150 consumers, exit interviews were preferred over household surveys as it is difficult to locate households who have made purchases from the sampled organized clusters (as the catchment area extends over a large area). Moreover, there could be a poor or inaccurate recall if the actual purchase occurred long before the date of the interview. In order to capture adequate information about the products purchased and savings made if any from purchasing at organized outlets, only consumers who have spent at least Rs. 200/- and above were included. Every fifth consumer exiting from the shop was interviewed provided he or she had made a purchase of Rs. 200/- and above. Wherever the selected respondent was found to be ineligible on this criterion, he or she was replaced with the next eligible respondent. In case of consumers at unorganized outlets, no minimum purchase value was stipulated for eligibility. As the number of consumers visiting unorganized outlets is not large, every alternate consumer visiting the shop for purchase was interviewed .In total 150 consumers were interviewed, of which 75 consumers were interviewed at the unorganized outlets, and 75 consumers were interviewed at the organized retail outlets.

SURVEY RESULTS

The survey results are presented in tables 1 to 3. It is evident from table 1 that 93% of the shops in sample had an inventory of less than Rs. 20 lakh (Fig.1). Majority of the sampled shops had no employees other than the family members. Moreover, 93% of the sample represents shops and establishments of less than 500 sq. ft. store area. If we exclude the hawkers who have no store area, then 73% of shops fall under less than 500 sq. ft. store area (Fig. 2).

The sampled unorganized retail outlets employ more family labour than hired labour; on an average they employ 1.5 persons per shop from the family, and hired employees of 1.2 persons (Table 11).

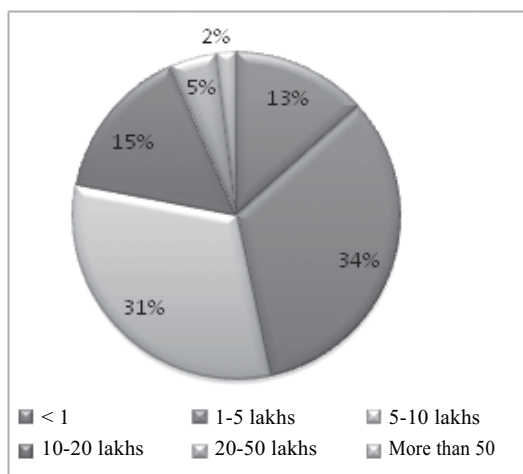*Fig. 1* : **Distribution of Sample Unorganized Retailers by Value of Inventory**

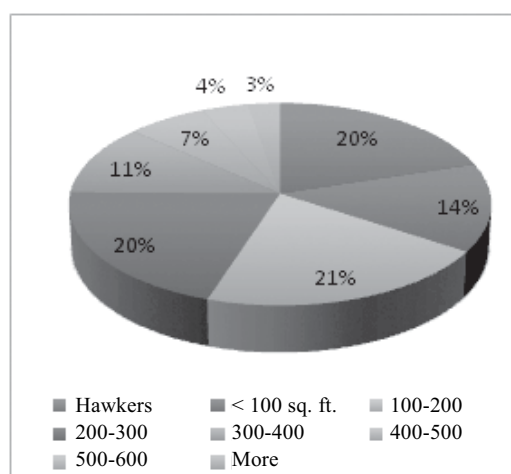*Fig. 2* : **Distribution of Sample Unorganized Retailers by Store Area**

Table 1, Employment Distribution in the Sample Unorganized Retail

Business Type	Shop/Hawker's Stalls	Family Members	Employees	Average Number of	
				Family Member Per establishment	Employees per establishment
Grocery & General Store Readymade	50	80	65	1.6	1.3
Textile & Garments	35	70	45	2	1.3
Vegetables Fruits	25	25	0	1	0
Footwear	12	14	12	1.2	0.5
Electronics	8	8	16	1	2
Electrical	14	14	25	1	1.8
Others	11	15	20	1.4	1.8
Total	150	226	183	1.5	1.2

The impact of the opening up of organized retail in Ranchi was huge and the brunt of it was faced maximum by the low income group retailers. 68 % of the respondents reported decline in sales (Table 2). In all, a very minuscule proportion of shops reported an increase in sales. These were shops offering products and services not available in the malls, e.g. photocopying facility, typing facility, courier services, mobile phone and computer accessories, furniture and furnishings, uniforms & fabrics, bridal collections, suiting and shirtings etc. Some food joints close to the malls reported an increase in sales due to patronage of the mall employees. The intensity of sales decline varied by type of product (Table 2) and distance from the organized retail. There was a huge decline in the business of most of the retailers in and around the organized outlets. There is apprehension that if organized retailers expand their operations in future, the condition of the existing retailers will be really appalling. The decline in sales is not only confined to grocery stores, but has spread to unbranded garment shops, footwear shops, small electronics and electrical shops. This shows that consumers prefer corporate outlets for purchase of different articles.

Table 2, Sales Decline by Business Type of Unorganized Retailers

Business Type	No. of Shops/ Hawkers registering Sales Decline	Total No. of Shops	Percent of Shops showing decline
Grocery & General Stores	38	50	76
Textile & Readymade Garments	22	35	62
Vegetable & Fruits	13	25	52
Footwear	8	12	67
Electronics	6	8	75
Electrical	8	14	57
Others	7	11	63
Total	102	150	68

There have been cases of decline in the number of hired employees in some shops and establishments. The decline may be attributed to the fall in sales and profits of some unorganized retailers. It may be possible that some employees have left the job due to petty salary in the existing small shops and joined the organized retail outlets. Although the percentage of retrenched staff is 5% of the original workforce, there is no significant decline in overall employment so far. This reflects that in some unorganized outlets, declining sales and profits have compelled shop owners to retrench hired staff and replace them by family members. If the downward trend in sales and profits continue to intensify, some more retrenchments may occur in the future.

A look at the trends in sales decline of sample shops by business inventory size and by shop size indicates some interesting outcomes. Sales decline differs by value of inventory for the range of 5 upto Rs. 20 lakh (Table 3). Shop owners with an inventory of more than Rs.50 lakh have shown resilience in the event of opening of corporate retail outlets. The decline in sales has most frequently impacted medium-size unorganized retailers in the size range of 300-400 sq.ft. and 200-300 sq. ft. . Unorganized retailers with less than 100 sq. ft. store area are least affected as they target customers in the low level income.

Table 3, Sales Decline of Sample Shops by Business Inventory Size

Inventory (I) in Rs. Lakh	No. of Shops showing Decline	Total No. of Shops	Percent of Shops showing decline
Less than 1	9	20	45
1 < I < 5	36	50	72
5 < I < 10	38	47	81
10 < I < 25	16	23	69
25 < I < 50	3	7	43
More than 50	0	3	0
Total	102	150	68

A comparative study with regard to sales and profit for unorganized retailers in treatment sample and control sample reveals a contradictory picture. In the treatment sample, both sales and profits have declined. Overall, 54% shops have registered a decline in shops; the extent of decline being 25% to 71% for different shops by their size of inventory. In the control sample, the unorganized retailers show a marginal increase in sales and profits in the past one year.

54% of the sample reported a sales decline, but only 12% reported some new sales promotion initiative in response to the competition from organized retail. These initiatives include adding new product lines and brands, better display, store renovation, tele orders, introduction of self service, enhanced home delivery, more credit sales, acceptance of credit cards etc. Majority of unorganized retailers not adopting new initiatives have low capital base, low profit margins and poor availability of skilled manpower. The shops particularly in the vicinity of Reliance Mart and Vishal Megamart, Harmu are suffering from a shortage of manpower and capital due to a narrow and deteriorating working capital base. The rising disposable income in the capital has led to a new class of people with new preferences and needs with which the traditional shopkeepers are unfamiliar.

Threat Perception

Majority of sample shops feel threatened due to the advent of organized retails in the city. The threats perceived ranged from minor decline in the business to closure of the shop. Out of the 150

respondents, 13% expected that their shops will get closed in future if the sales go down like this, while 37 % thought that they will have a major decline in sales in the future but will be able to save their shops. There were only 18% respondents who said that they will have minor decline in sales due to the advent of organized retailers. Thus, 50% of the sample was expecting serious trouble. 48% respondents said that their children would not continue with the business. Yet only a smaller proportion of the sample was involved in a campaign against the organized retailers.

The people who are feeling threatened are not novices in this business, a lot of them have been doing this since more than 30 years, and still recent openings of organized stores, makes them feel skeptic about their existence. This tells about the fact that a majority of their customers have moved into Reliance because of predatory pricing. History tells of the fact that it is never profitable to do predatory pricing, and any organization that has done it, has done it to destroy its competitors and at a later stage that organization has earned super profits of monopoly.
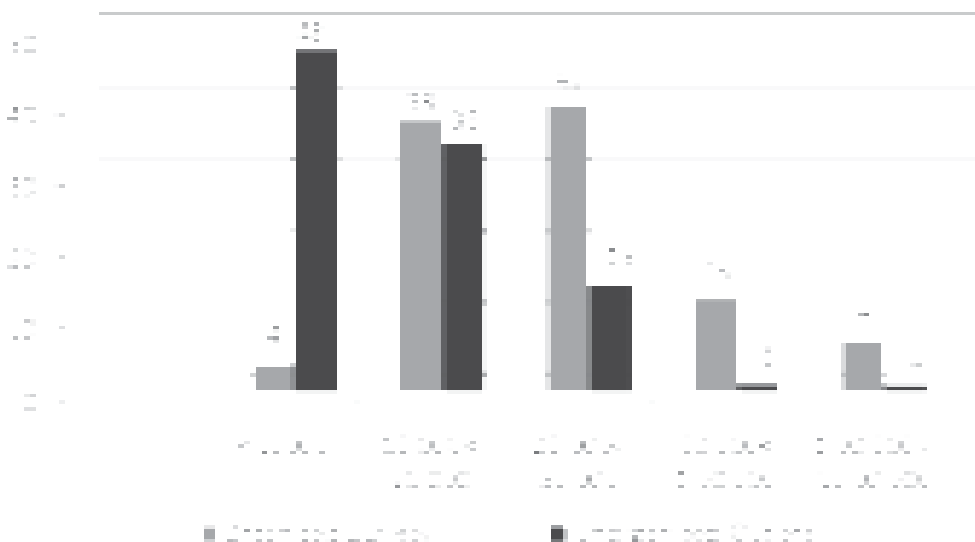
Hawkers being at the bottommost of the retail pyramid are predictably at the receiving end due to the opening of corporate retails in the city. They have been facing increasing eviction drives and harassments near the large retail outlets. 38% hawkers reported an increase in eviction drives, 27% in harassment by agents of the corporate retail chains, while 15% reported an increase in bribes and hafta to policemen. 32% of the hawkers in the vicinity of large corporate retails have reported falling profits, which implies reduced income for them.

IMPACT ON CONSUMERS

Distribution of Sample

The sample of 200 consumers collected through exit interview (100 at corporate retail and 100 at unorganized retail) show that consumers shopping at large corporate retail outlets have higher income levels than consumers shopping at unorganized outlets. However, the middle class and aspirers shop at both types of outlets.

Fig. 3: Average Monthly Household Income of Sample Consumers (% share)

The reasons behind preferring organized retailers by the sample shoppers included; wide variety of products at prices lower than MRP, better product quality, one-stop shopping, availability of variety of brands, family shopping and entertainment, fresh stock, attractive offers like discounts and promotional offers etc. The customers who shopped at unorganized outlets attributed their preference to proximity to residence, goodwill, credit availability, possibility of bargaining, choice of loose items, convenient timings, home delivery etc.

Regarding the overall spending on food and grocery, and textiles and clothing, the survey reported that 38% of the sampled consumers experienced an increase in spending, 19% indicated a decrease and the rearraning no change. The increase in spending was attributed mainly to the bulk purchase due to attractive discount and promotional offers. When asked about the savings made from purchase, many customers had a positive reply. The low income households have reported to save more by shopping at organized retail compared to the same combinations of products purchased at unorganized retail outlets.

Finally, consumers were asked about their opinion regarding the opening of more corporate retail outlets in the city. 68% of all customers shopping at different outlets (organized as well as unorganized) were in favour of opening of more organized outlets, 28% were in favour of traditional stores and remaining 4% had no opinion.

A Note of Caution

In the post-liberalization era, India has transformed from an agrarian economy directly to a service-oriented economy; missing the manufacturing transition. This lop-sided development of the economy has virtually forced millions of youth to join retail as a source of employment and livelihood. Since the agriculture sector is overcrowded and the manufacturing sector is stagnant, unorganized retail has become the refuge for millions. At the same time, the stupendous growth in the Indian economy and a large consumer base has also attracted a number of large corporate and multinationals to join retail. As a consequence, the competition for urban space between the informal retailers and the organized retailers is becoming more intense. Corporate retail is clearly growing at the cost of small retail. These large retailers predominantly cater to the growing middle and high income groups of the society, whose incomes as well as living standards are steadily going up. Besides, they sell everything from vegetables to the latest electronic gadgets at unbelievably low prices, which an ordinary retailer can never imagine selling. The small traders will never be able to stand the price war created by these big retailers. If competition between large retailers and small retailers intensifies, the earnings of small retailers will keep falling till all the micro accumulators become micro subsistence seekers.With incredibly deep pockets the corporate retailers will be able to sustain losses in its operation for many years till their immediate competitors are wiped out. This is a common predatory strategy used by large players to drive out small and dispersed competition.

Further, the dislodgement and unemployment effect of the proliferation of corporate retail formats can be far greater than employment effect. If we take the macro picture, about 20 million urban workers and 12 million rural workers dependent on small retailing can face economic deprivation and joblessness if organized retail expands at the present pace in the economy. Moreover, the majority of staff in organized retail have at least high school level qualifications, unlike their counterparts in the small shops, most of whom are barely literate and cannot be rehabilitated in organized retail.

Mass unemployment and loss of livelihoods can disrupt the balance of the economy and lead to more social tensions, violence and political unrest in the economy.

For the consumers, rather than enhancing their choice, especially the lower income groups, proliferation of large format retail stores would kill competition, lead to closure of neighborhood markets and make consumers solely dependent upon the organized retailers at a later stage. In due course of time if these retail outlets completely overtake the traditional system, there would be a series of change. First if the traditional system is gone, there will be one mega retail outlet in the vicinity, and the choices given by the outlet, has to become the choices of the consumer. In such a case there is the expectation of formation of cartel between the chain and the prices of the commodities will shoot up. But at that time consumers will have no other option but to procure goods from one of these outlets, at whatever prices they demand. This type of situation has occurred in UK, where the average spending on food and beverages as a percentage of the total income of an average household has shot up since these giant corporations have come into retailing. Moreover the choices the consumers are left with also decrease with the coming up of these stores; everything is standardized and the personal choices of the consumers are not taken care of. This is a system where the consumer adjusts himself to the product and not vice versa.

In view of the negative possible outcomes, it is imperative that the government should come out with a proper policy to rein in such unrestricted growth of corporate retail in the country and protect the local or traditional retailers. A National Policy on Retail Trade and Small Manufacturing Industries must be formulated. Laws should be enacted against predatory pricing and anti-competitive actions. The policy should address the needs of small retailers, especially in terms of access to institutional credit so that they can renovate or upgrade their businesses. Unorganised retailers may be provided space in government regulated marketing complexes. These complexes can be developed in semi-urban and non-urban areas with adequate infrastructure and modern amenities so that the lower class and lower-middle class can enjoy the benefits of one-stop shopping. This initiative will also promote the government's objective of inclusive growth through decentralization of economic growth. This will also curb the tendency of rural –urban influx. A regulatory framework for organized retail should also be framed. Since the operations of organized retailers impact various sectors of the economy, policy guidelines should be framed involving all the relevant departments, namely Commerce, Agriculture and Urban Development. Moreover, since regulation of the large format retailers would mainly be in the domain of the states and local bodies, state governments should be consulted and involved in the process of framing policies.

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