

AN INDIA CREDIT CRISIS IN RETAIL SECTOR: AN OPPORTUNITY FOR THE SMALL ENTREPRENEURS

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ABSTRACT

The Indian retail sector has witnessed an unprecedented growth over the last decade, driven by robust economic growth, rapid urbanization and changing lifestyles and aspirations of the Indian retail consumer. The paper discusses the global credit crisis on opportunity for the small entrepreneur, and implication only for organized retail industry in India. The global recession is not expected to slow the expansion of foreign retailers, but it may have a negative impact on local companies, particularly small-scale or single-store retailers that do not enjoy the economies of scale and deep pockets of their larger rivals. Larger chains are in a better position to add discount lines to their offerings, including private-label goods, and also have the buying power to negotiate cheaper supplier prices. The situation is not entirely stable for the largest retailers.

Key words:-Organized Retail Outlet, Small Retailers, Credit Crisis & Capital Investment.

1. INTRODUCTION

India is the fifth largest retail destination globally. 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. Current meltdown is shaking the global markets today, hooking every single country. Rising inflation rates are covering the economies of countries like a wet blanket. India obviously is not an exemption to the financial crisis. The slowdown and the resulting disturbance in the economic status are affecting the retail industry adversely. All this is leading to a temporary recess for the markets from a regular busy schedule. However, these fluctuations are not new for global market. For the decades long, markets, across the world, have been witnessing such ups and downs. But the ultimately fact is that the market growth rate is always constantly high when comparing to such downfalls.

The Financial crisis is adding to the pressure on global economies. The International Monetary Fund (IMF) now sees the world entering a major slowdown. The recovery would depend on three key factors: commodity prices stabilizing, the crisis in the US housing sector bottoming out, and emerging economies providing a source of resilience. But, if the current crisis were to last longer, the emerging economies are more likely to be affected.

2. OBJECTIVES

- 1.To understand the international credit crisis is an opportunity for Indian retail sector.
- 2.To analyze the closing of organized and unorganized retail outlets.
- 3.To know the strategies adopted by small retailers for their survival.

3. GROWTH OF ORGANISED RETAIL AT THE EXPENSE OF SMALL ENTREPRENEURS

Another view rests on the profound implications for the millions of small retailer who earn their livelihood from this sector. Available evidences suggest that the arrival of organized retail chains has displaced smaller retailers worldwide. A note from the Communist Party of India – Marxist (2007) to the Prime Minister reads, “Expansion of the Wal-Mart chains has caused massive closure of small stores and pauperization of poor communities even in the US.” Available studies confirm the impact of organised retail on small stores. For instance, Natawidjaja et al. (2006) Found that in Indonesia the sale of supermarkets is growing at the rate of 15 percent a year as against the decline in the sales of small retailers at 2 percent a year. It is further noted that in 1990 nearly all of Indonesia’s consumers



Shopped only at the small shops and wet markets, but by 2005, 30 percent of food was being purchased in supermarkets. Faiguenbaum et al. (2002) noted that in urban Chile 15,777 small shops disappeared between 1991 and 2005 due to the organised retail chains. Gutman (1997) estimated 8 Entry of Corporate Retail: Impacts on Hawkers & Small Retailers – A case study from Mumbai that in urban Argentina, 64,000 small food shops went of the business during the most intense period of the rise of supermarkets from 1984 to 1993 (cited in Reardon, Henson and Gulati 2007). In South Korea, there was a decline of around 11,400 family-run small shops from 107,365 in 2001 to 95,967 in 2005, while the number of big supermarkets and convenience stores rose from 78 to 707 during the same period (The Hankyorekh 2007)⁶. In India too, the impact of the arrival and rapid expansion of organized retail chains on small retailers in terms of declining sales and profit, closure of businesses and consequent unemployment cannot be denied. The NSSO indicated the decline of 12.5 lakh self-employed retailers in urban India during the period 1999-2000 to 2004-05⁷. Although the decline in the number of self-employed retailers cannot wholly be attributed to organised retail, the fact that there is a significant impact on unorganized retailers is a cause of concern for those engaged in small scale retail activities. While an ICRIER report suggested that the impact of organised retail on the unorganized sector is short-lived, and a majority of the unorganized retailers surveyed showed their preference to continue in the business, it also acknowledged the decline in the sales and profits of unorganized retailers and closure of their businesses at the rate of 1.7 percent a year on account of competition with the modern retail chains (ICRIER 2007). In a survey of 112 small shops and street hawkers of Mumbai to assessing the impact of malls and more precisely of organised retailing on such shops and vendors, it was found that 50 percent perceived the threat of either closure of their business or substantial decline in sales (Kalhan 2007). The belief that organised retailers adhere to better labour practices could well be contested. In fact, available evidence suggests that exploitation of labour is one of the cost reduction strategies of organised retailers. International retail giant Wal-Mart, the largest retailer in the world and the biggest private sector employment provider in the USA, is notorious for its anti-union policies. It has many times violated labour laws in several countries and has been fined hefty amounts. For instance, jury verdicts ordered it to pay USD 78 million in Pennsylvania in 2006 over rest breaks and unpaid work, and USD 172 million in California in 2005 over meal breaks. The most recent case against Wal-Mart is the violation of ‘State Wage and Hour Laws’, Hastings, Minnesota. Wal-Mart had reportedly denied the full rest and meal breaks to workers there, for which it could be fined as much as USD 2 billion (Economic Times 2008). Studies further indicate that the growth of organised retailing in the upcoming years will be at the expense of small retailers. In fact, the ICRIER report drawing from the experience of China and Indonesia noted that “modern and traditional retail can co-exist and grow, albeit at different rates, for many years, usually decades. While the kirana stores may be growing at about 2-5 percent per annum or so, organised retail may be growing at 20-40 percent plus per annum” (ICRIER 2008: 46). Guruswamy, Sharma and Jos (2007) argued that “organised retailing is already growing at 37 percent (while total domestic retail is growing at only 5.7 percent) and the overall figure is expected to cross Rs100,000 crores by 2008 from its current level of Rs 48,500 crores. From 4.7percent of the total retail market share now, it is expected to reach 9 percent by 2010. This current growth of organized retail at 37 percent while the total retail market is growing at just 5.7 percent is clearly at the expense of the small retailers.”

This indicates that although the impact of organized retail may or may not result in the closure of unorganized retail units, the former are certainly eating into the latter's pie in a big way. Hence, given the 'jobless growth' scenario in the country for almost a decade now, the arrival of the modern retail wave is considered ruinous for the small retailers.

4. OPPORTUNITY FOR THE SMALL ENTREPRENEURS OR RETAILERS

The credit crisis seems to have had the worst effect on the largest discount retailer (in terms of number of retail stores). Subhiksha Retail, which earlier closed down 90 of its approximately 1600 convenience stores between November and December 2008 due to underperformance by these outlets, has now accumulated a debt of Rs. 600 crores and it is currently undergoing a corporate debt restructuring exercise. It has temporarily shut all its 1600 retail outlets spread across 110 cities (Business World 2009). Nonetheless, the company remains optimistic about overcoming the crisis. Reliance Retail, that was aggressively expanding its outlets and planned to invest Rs. 25000 crores by the year 2010, has also scaled back its expansion plans. It is also currently undergoing a restructuring exercise, which involves closing and resizing 200 of its smaller outlets, most of which are part of its food and grocery retail chain, Reliance Fresh (Mint 2008). It is also withdrawing from cash-and-carry operations for the time being, for which it had earlier allocated USD 5 billion. The primary aims behind this decision are to conserve cash in difficult times and build an efficient and cost-effective supply chain by spending cash heavily on that front. Pantaloon Retail, one of the pioneers of organised retail in India, also seems to have felt the impact of the financial crisis. The firm has decided to go in for smaller retail stores instead of following the typical hypermarket format. A Mumbai-based retail chain, Foodland Fresh, will be closing down 39 of its 42 stores across the city. The Aditya Birla Group-owned food and grocery chain, More For You, has also reduced its pace of expansion and is going slow on opening new outlets (Financial Times 2009). Spencer Retail has also resorted to closing down some of its stores and has announced the closure of 56 outlets in different parts of the country.

5. CONCLUSION

From the above information it is clear that the international credit crisis has adversely affected the expansion of organised retail industry in the country. Small retailers are facing enough problems with crisis. This could be regarded as an opportunity for the small retailers, allowing them to formulate strategies for surviving amidst the intense competition that is likely, once the financial situation improves.

6. REFERENCES

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