

A STUDY OF SHOPPING MALLS AND ITS IMPACT ON SMALL RETAILERS IN INDIA

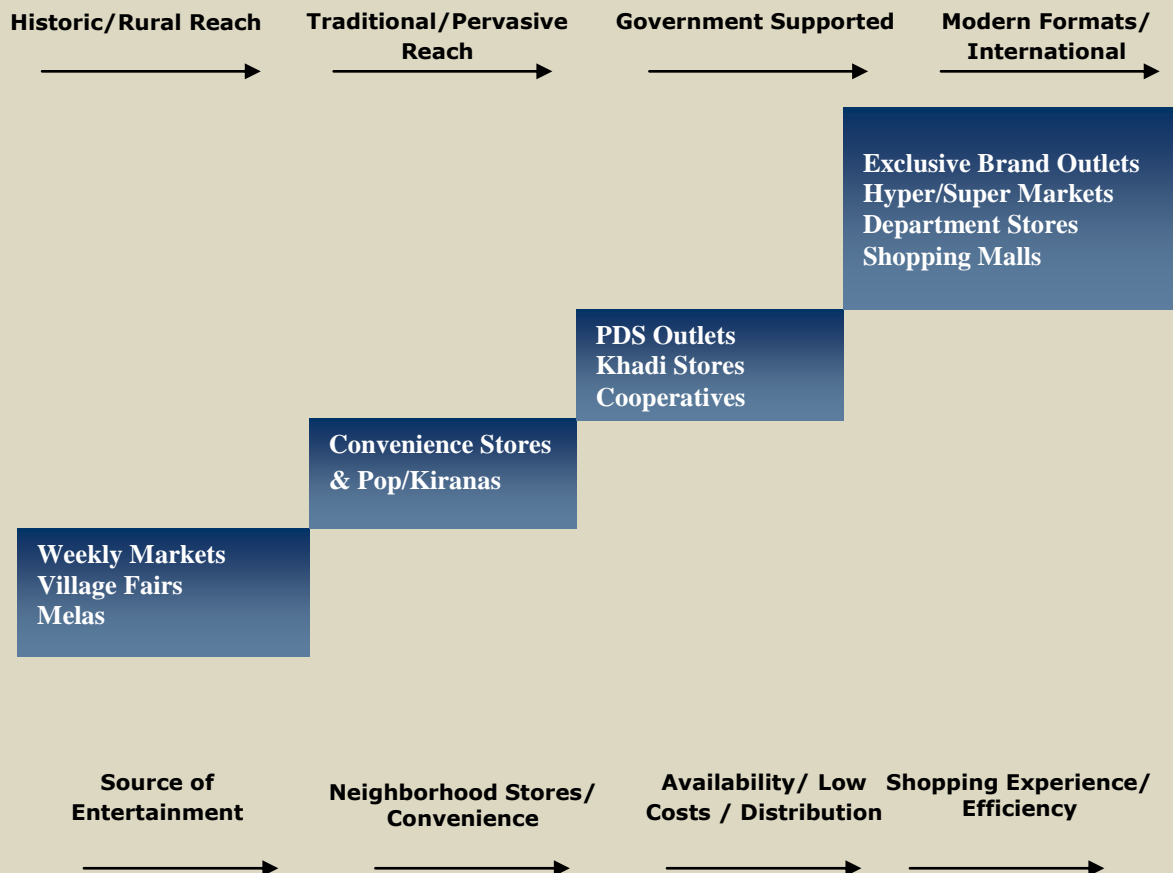
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INTRODUCTION:

The retail sector has played a phenomenal role throughout the world in increasing productivity of consumer goods and services. It is also the second largest industry in US in terms of numbers of employees and establishments. There is no denying the fact that most of the developed economies are very much relying on their retail sector as a locomotive of growth. The India Retail Industry is the largest among all the industries, accounting for over 10 per cent of the countries GDP and around 8 per cent of the employment. The Retail Industry in India has come forth as one of the most dynamic and fast paced industries with several players entering the market. But all of them have not yet tasted success because of the heavy initial investments that are required to break even with other companies and compete with them. The India Retail Industry is gradually inching its way towards becoming the next boom industry.

CHART NO. : 1.1

THE EVOLUTION OF RETAIL INDUSTRY IN INDIA



Retailing, which is one of the largest sectors in the global economy, is going through a transition phase in India. However the Indian retail sector is still in a nascent stage. Organized retailing still contributes to only about 2% of the total retailing in the country. What constitutes Organized Retailing? Mr. Raghu Pillai, the Managing Director of Food World, which is one of the leading organized food retailing chain in India says that, “Organized Retailing presupposes a retailers’ ability to manage or more importantly influence a set of supply chain variables in a commercially viable and sustainable way.”

Modern Retail Textiles & Food Market

Emergence of retail chains was at first witnessed in the textiles sector, with companies like Bombay Dyeing, Raymond, S. Kumar’s and Grasim, opening their own outlets. Titan then successfully created a retailing concept, by establishing its series of elegant showrooms. The latter half of the nineties has been a witness to a fresh wave of entrants in the retailing business. The new chains have not been restricted to textiles and garment sellers but there have been entrants from various fields of commerce.

OBJECTIVES OF THE STUDY

1. To analyze the changes in the tastes and preferences of the customers due to shopping malls and its impact on buying behaviour of the customers.
2. To study the strategies used by association of small traders in order to cope up with the challenges of the shopping malls.
3. To know the problems and prospects of shopping malls owners, retail shopkeepers and to suggest the suitable remedies to overcome the problems.

HYPOTHESES TESTED

1. Due to big shopping malls the retailers are slowly becoming monopolist.
2. Due to the shopping malls rate of the unemployment is increased.

Research Methodology:

To complete this study both the types of data were used i.e. Primary & Secondary data.

Collection of Data:

Primary Data: - In each city 10-15 selling centers was selected for the purpose of the study, Available information about the selected centers like: - location area, working, scope of commodities and other available facilities were taken. Personal interview of the customer were conducted with the help of the structured questionnaire and interview of the neighboring shops and other selling centers was conducted with the help of structured questionnaires.

Secondary Data: Secondary data was generated from various reference books on retail and shopping malls, Retail industry, consumer behavior, different journals, magazines, Govt. bulletins & web sites etc.

IMPACT OF SHOPPING MALLS ON SMALL RETAILERS-

The real GDP is expected to grow at 8-10 per cent per annum in the next five years. As a result, the consuming class with annual household incomes above Rs. 90,000 is expected to rise from about 370 million in 2006-07 to 620 million in 2011-12. Consequently, the retail business in India is estimated to grow at 13 per cent annually from US\$ 322 billion in 2006-07 to US\$ 590 billion in 2011-12.

- ❖ The unorganized retail sector is expected to grow at about 10 per cent per annum with sales rising from US\$ 309 billion in 2006-07 to US\$ 496 billion in 2011-12.
- ❖ Given the relatively weak financial state of unorganized retailers, and the physical space constraints on their expansion prospects, this sector alone will not be able to meet the growing demand for retail.
- ❖ Hence, organized retail which now constitutes a small four per cent of total retail sector is likely to grow at a much faster pace of 45-50 percent per annum and quadruple its share in total retail trade to 16 percent by 2011-12.
- ❖ This represents a positive sum game in which both unorganized and organized retail not only coexist but also grow substantially in size.
- ❖ The majority of unorganized retailers surveyed in this study, indicated their preference to continue in the business and compete rather than exit.

IMPACT ON UNORGANIZED RETAILERS

- ❖ Unorganized retailers in the vicinity of organized retailers experienced a decline in their volume of business and profit in the initial years after the entry of large organized retailers.
- ❖ The adverse impact on sales and profit weakens over time.
- ❖ There was no evidence of a decline in overall employment in the unorganized sector as a result of the entry of organized retailers.
- ❖ There is some decline in employment in the North and West regions which, however, also weakens over time.
- ❖ The rate of closure of unorganized retail shops in gross terms is found to be 4.2 percent per annum which is much lower than the international rate of closure of small businesses.
- ❖ The rate of closure on account of competition from organized retail is lower still at 1.7 percent per annum.
- ❖ There is competitive response from traditional retailers through improved business practices and technology upgradation.
- ❖ A majority of unorganized retailers is keen to stay in the business and compete, while also wanting the next generation to continue likewise.
- ❖ Small retailers have been extending more credit to attract and retain customers.
- ❖ However, only 12 percent of unorganized retailers have access to institutional credit and 37 percent felt the need for better access to commercial bank credit.
- ❖ Most unorganized retailers are committed to remaining independent and barely 10 percent preferred to become franchisees of organized retailers.

IMPACT ON CONSUMERS

- ❖ Consumers have definitely gained from organized retail on multiple counts.
- ❖ Overall consumer spending has increased with the entry of the organized retail.

- ❖ 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.
- ❖ Proximity is a major comparative advantage of unorganized outlets.
- ❖ Unorganized retailers have significant competitive strengths that include consumer goodwill, credit sales, amenability to bargaining, ability to sell loose items, convenient timings, and home delivery.

IMPACT ON INTERMEDIARIES

- ❖ The study did not find any evidence so far of adverse impact of organized retail on intermediaries.
- ❖ There is, however, some adverse impact on turnover and profit of intermediaries dealing in products such as, fruit, vegetables, and apparel.
- ❖ Over two-thirds of the intermediaries plan to expand their businesses in response to increased business opportunities opened by the expansion of retail.
- ❖ Only 22 percent do not want the next generation to enter the same business.

IMPACT ON FARMERS

- ❖ Farmers benefit significantly from the option of direct sales to organized retailers.
- ❖ Average price realization for cauliflower farmers selling directly to organized retail is about 25 percent higher than their proceeds from sale to regulated government mandi.
- ❖ Profit realization for farmers selling directly to organized retailers is about 60 percent higher than that received from selling in the mandi.
- ❖ The difference is even larger when the amount charged by the commission agent (usually 10 percent of sale price) in the mandi is taken into account.

IMPACT ON MANUFACTURERS

- ❖ Large manufacturers have started feeling the competitive impact of organized retail through price and payment pressures.
- ❖ Manufacturers have responded through building and reinforcing their brand strength, increasing their own retail presence, 'adopting' small retailers, and setting up dedicated teams to deal with modern retailers.
- ❖ Entry of organized retail is transforming the logistics industry. This will create significant positive externalities across the economy.
- ❖ Small manufacturers did not report any significant impact of organized retail.

POLICY RECOMMENDATIONS BY INDIAN COUNCIL FOR RESEARCH AND INTERNATIONAL ECONOMIC RELATIONS (ICRIER)

On the basis of the results of the surveys and the review of international retail experience, the study makes the following major recommendations:

1. Modernization of wetmarkets through public-private partnerships.
2. Facilitate cash-and-carry outlets, like Metro, for sale to unorganized retail and procurement from farmers, as in China.

3. Encourage co-operatives and associations of unorganized retailers for direct procurement from suppliers and farmers.
4. Ensure better credit availability to unorganized retailers from banks and micro-credit institutions through innovative banking solutions.
5. Facilitate the formation of farmers' co-operatives to directly sell to organized retailers.
6. Encourage formulation of "private codes of conduct" by organized retail for dealing with small suppliers. These may then be incorporated into enforceable legislation.
7. Simplification of the licensing and permit regime for organized retail and move towards a nationwide uniform licensing regime in the states to facilitate modern retail.
8. Strengthening the Competition Commission's role for enforcing rules against collusion and predatory pricing.
9. Modernization of APMC markets as modelled on the National Dairy Development Board (NDDB) Safal market in Bangalore.

CONCLUDING REMARKS

We can say that the 'kiranas' might have a layout and product threat, but not under any business threat. Where the prices are concerned, a consumer is motivated to buy more quantity of the goods and there is an immense scope for impulsive shopping in the organized retail shops. Eliminating the impulse shopping factor a consumer saves money in the supermarkets as they offer best prices, however that is not what happens. The consumers more or less end up doing an impulse purchase in the alluring set up of these stores. Competition amongst these two setups will in fact help expand the organized retail market. And of course the consumers will take the final call.

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