

Analysis of Indian Retail Market- Before & After Recession of Indian Economy

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<<< Abstract

Retail became a buzz word in India before recession; in fact the word 'booming' was found only attached to this sector. The recent few years gone by were packed with several significant developments for the Indian retail industry, including the entry of many global players, growing acceptance of the modern formats, the success of many speciality retail formats, and the rising competition in the regional markets beyond the metros and Tier 1 cities. But as recession took its toll 99% of sectors went for a toss including retail. The current slowdown is expected to last 12–18 months conditional on government incentives in increasing spends on infrastructure, development initiatives and other activities to stimulate the economy. This study focuses on comparison of Indian retail before recession & after recession. In this research we have analysed the effect of recession over different commodities in retailing based on some key parameters. Along with the study of effect this research paper also provides certain strategies which could be beneficial for the retailers in the long run. This study lime lights the strategies that the key players are planning to implement in order to recover from the ill-effect of recession.

Key Terms: Recession, Retail Brands, Economy, Inflation, Consumer Behavior.

1. INTRODUCTION

India retail sector comprises of organized retail and unorganized retail sector, where unorganized retail sector is still dominating the organized. The retail market in India had witnessed slowdown with the ongoing financial crisis that took place across the world markets. Since the markets are internally linked to each other, the impact of the crisis is generally shared among all. The inflation or the economic slowdown had adversely affected the retail industry. With the suddenly disturbed economic status, consumers had gradually lost their interest on buying. And for those interested, the unbalanced income, followed by the economic slowdown had not met their buying requirements. This evolution soon disappointed the hopes of retail industry. Anyhow, it's all a short-term crisis for the retail industry until the things turn around.

a) Before Recession : The economy was witnessing the evolution & growth of hi-end malls & organized retailing all over & all along when recession knocks in. Changing consumer patterns, rising income levels and the emerging middle class, which constitutes more than half of the total population was set to drive growth in this sector. All retail brands onshore & offshore were heading towards India in order to tap the untapped consumer potential. Competition was rising high & economies of scale were being continuously enjoyed by the key players in retail industry. Apparel & consumer durables

were the most revenue generating sectors when a slowdown peeped inside the economy. The growth took a short term stand.

b) When Retail Witnessed Recession : The global economic slump has had its impact on the India retail sector. One of the earliest players in the Indian retail scenario, Subhiksha's operations came to a near standstill and required liquidity injection. Vishal Retail secured corporate debt restructuring (CDR) plan from its lenders while other players like the Reliance Retail run by Mukesh Ambani and Pantaloon led by

Kishore Biyani went slow on expansion plans and even scaled down operations. Many overseas retail giants like Walmart, Carrefour, Auatrlia's food retail group etc., who were planning to enter Indian retail in the form of Joint ventures and were looking towards India as potential market have slowed down their operations.

c) Indian Economy After Recession : When economy has started recovering, retail is emerging as one of the top attractive investment destinations. Currently, the share of retail to the country's GDP is about 12%, which is estimated to rise to 22% by 2011. Within this market, apparels form the second largest segment in terms of value, growing annually at the rate of 10%. As the consumer base in India grows exponentially from 300 million to an estimated 500 million in the next five years, the retail sector is expected to grow along with it. India's overall retail sector is estimated to rise to US\$ 833 billion by 2013 and US\$ 1.3 trillion by 2018. The aggregate consumption of India is expected to grow to Rs 34 trillion by 2015 and Rs 70 trillion by 2025, a four-fold increase from the current levels of Rs 17 trillion. The Indian market is expected to be the fifth largest market in the world by 2025, surpassing the market of Germany. Of this, organized retail, which constitutes just 5% of the total market, is estimated to grow at a CAGR of US\$ 107 billion by the year 2013 from US \$20 billion in 2007, signifying a huge potential. AT Kearney's 2009 global retail development index, said that India's largely un-modernised retail sector remained attractive to both domestic and international retailers, in spite of government regulations that prevent 100 per cent foreign ownership of retail stores.

d) Expectations From Government : Corporates are expecting the Congress-led United Progressive Alliance Government at the Centre to open up fully FDI in retail sector, a Parliamentary Committee has argued for a total ban on even the domestic heavyweight corporates from entering retail trade in grocery, fruits and vegetables. There is also talk that investments and flow of technical knowhow could be hampered if the sector is not opened up to overseas investors. As per Ram Chandra Agrawal, CMD, Vishal Retail Ltd, "I think that government should now open up the FDI norm for multi-brand retail also and give breather to Indian retailers especially at this juncture when there is credit crunch and banks are not giving any positive vibes to the retailers, though the sales have been better now as compared to the first quarter.

e) Consumer Behavior After Recession : According to Kishore Biyani, Chief Executive Officer, Future Group "Consumers are currently sitting on the fence and the challenge for retailers will be to offer the right baits to get them back to stores. Retailers have to focus on growing profits through sales growth and not mere cost-cutting strategies. There will be a sharp cut in overall sales growth this year, but a marked improvement in bottom lines with players focusing on efficiencies"- The consumers after recession have perceived the value of money over Lifestyle. The strategies for organized retailing are to tap new consumer segments, extend into new categories, enter into new geographies, enhance value proposition

2. SCOPE OF THE STUDY

Though, the study is limited in its scope as it has been conducted only at Delhi/NCR over a limited number of people. However, it is large enough to give an insight of the retail industry as qualitative & quantitative research used in this study provides a justified analysis of Indian retail after & before recession.

3. RESEARCH OBJECTIVES

1. To analyse the situation of Indian retail before & after recession.
2. To analyse the market share of different commodities in retail sector.
3. To identify the parameters that decides the fate of retailing.
4. To study the impact of Recession over those factors.
5. To identify the key players in Indian Retail.

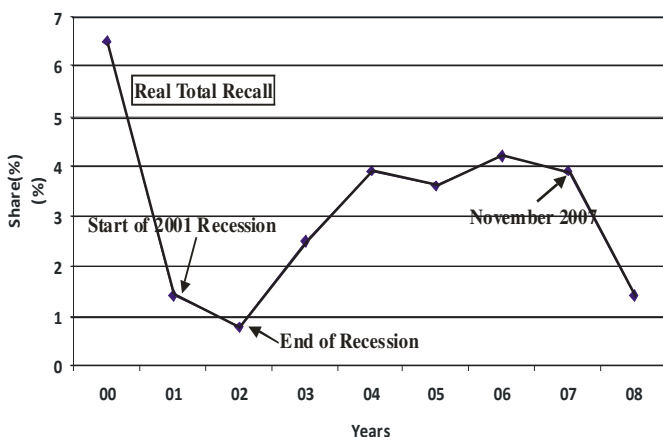
6. To study the consumer behavior regarding shopping after recession.
7. To identify the strategies taken by key players to revive from recession

4. RESEARCH METHODOLOGY

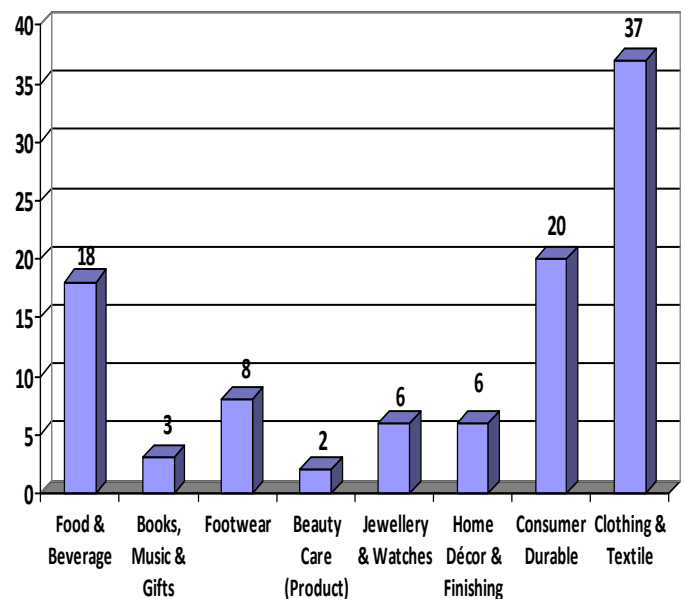
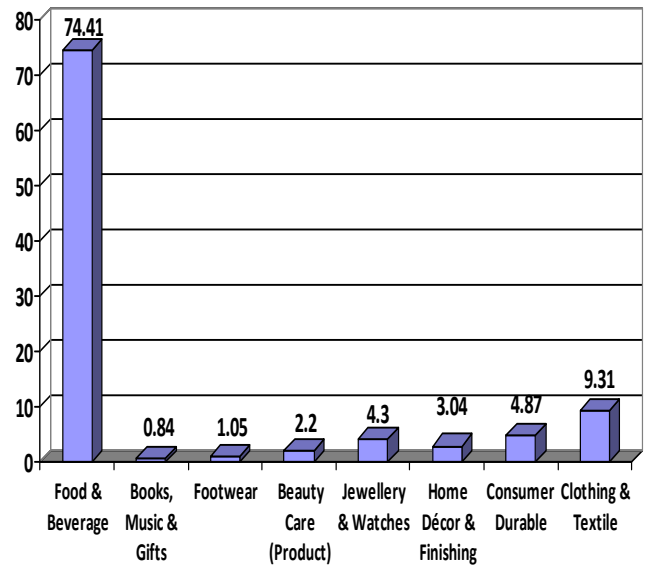
The study was conducted at Delhi, Ghaziabad, Gurgaon & Meerut on 470 respondents (60 customers from each location, 5 retailers (organised) from each location, 40 retailers (unorganised) from each location out of 470, 50 was the non-effective. So, effective sample size was 420. The study is based on both primary & secondary data. Both quantitative & qualitative research techniques have been used. A well-structured & pre-tested questionnaire is used for primary data collection. Five point Likert scale has also been used wherever necessary:

- Strongly dissatisfied (-2)
- Dissatisfied (-1)
- Indifferent (0)
- Satisfied (+1)
- Strongly satisfied (+2)

DATA ANALYSIS & INTERPRETATION Indian Retail Before & After Recession Real 12 Months Moving Average



After 2001 the retail sector once again witnessed the slowdown in 2008-2009 period, but still some of the commodities of retail market are not that much affected rather few are not affected at all. Recession has effected books, music, travel items, stationery, apparel & fashion wear while electronics, FMCG, home furnishings, groceries and beverages are not effected at all.

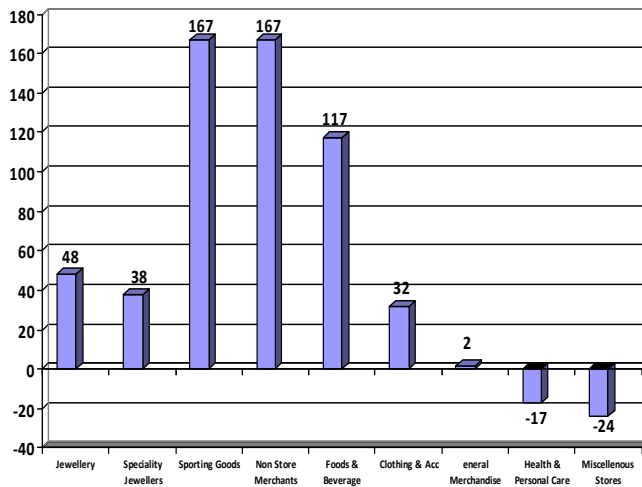


5. RETAIL MARKET AT A GLANCE

It was observed that Retail Market is divided into two parts i.e., organised & unorganised retail. The market share of different commodities under both the retail parts differs due to the difference in the profit margins earned by the retailers.

6. INDUSTRY WISE IMPACT OF RECESSION IN RETAIL

As per the survey the most effected items are Health & Personal care, while Food & beverages are



Consumer Buying Behaviour after Recession

least effected rather they are not effected at all. Sports goods has maintained their market share as it is without any effect rather there is growth in the sector.

7. IMPACT OF RECESSION OVER THE PARAMETERS THAT DECIDES THE FATE OF RETAILING

(a) Positive Impact

- Cost Competitiveness
- Real Estate Availability
- Tier II/III Expansion

(b) No Impact / Status Quo

- Top Line / Sales Turnover
- Attrition
- Investment in IT
- Intensity of Consumer

(c) Adverse Impact

- Stock Turns Rotations
- Store Expansion
- Bottom Line Profitability
- Working Capital Availability
- Cost of Finance
- Footfalls
- Advertising
- Headcount Recruitment

Sixteen key parameters were identified to analyse the situation of Retail based over the impact of recession over those factors & as per the answers of the respondents the impact is recorded over three point scale i.e., Positive impact, No impact & Adverse impact.

As per the survey it was found that after Recession the Consumers are more focused towards

Quality & then Price. The most exciting part of consumer's response was that the consumers are giving preference to environment friendly products.

8. FINDINGS

1. Retail was among top 5 industries before recession and after recession it has slipped to the seventh position.
2. Recession has effected books, music, travel items ,stationery, apparel & fashion wear while electronics, FMCG, home furnishings, groceries and beverages are not effected at all.
3. AV Birla Group, Trent, Landmark group, K Raheja Corp group, Reliance & Pantaloon are the key players in Indian retail sector before recession.
4. Consumer has showed an increased focus on value retail shift away from lifestyle goods.
5. Retailers have started focusing on cost reduction by closing the unprofitable stores and rationalization of capital expenditure. As Tier I cities become saturated retailers are likely to move to Tier II, Tier III cities where profits are higher due to lower rentals and operating costs.
6. Retailers had started focusing on cost reduction by closing the unprofitable stores and rationalization of capital expenditure.
7. There are going to be increased investments in shortening of supply chain. This is mainly due to the incentives offered by the government and the potential for higher profit margins.
8. The government had permitted 100% FDI in the cash-and-carry wholesale formats as a tool to fight

recession but it is again under consideration whether to continue with the same or not.

9. Though India allows FDI in cash and carry ventures and 51% in single-brand retail, FDI is barred in multi-brand retailing.
10. Increasing market share, improving brand image, insulating the export market by diversifying, tackling production-related issues, keeping a check on debt-funded expansion, penetrating the rural markets and Tier-I and Tier-II cities, offering products for the lower income bracket and much more, is on the retailers' minds to make the most of the next projected boom in the market cycle.
11. More investment will be on updation of areas like logistics, system and man power.
12. Indian organised retail will grow up to 25% by the year 2015.
13. It was found that today's customer prefers malls for shopping over the local vendor shop.
14. International big retail brands are planning to enter Indian market with Indian players in the form of Joint venture.
15. The biggest reason to enter Indian Retail market for the International players is large customer base with

high & middle income group & the cost of operations is less with less risk.

16. Retail industry which is now providing 7% employment will provide approx 30% employment by the year 2020.
17. Indian rural market will be the largest hub for all the retailers due to 50% potential middle & upper income untapped customer.

9. CONCLUSION

The past six months have been difficult for the retail industry. Retail has been one of the seven industries in the country that have been severely impacted by the downturn in economic conditions. The sector has entered into a mode of correction removing some of the flab that had accumulated over the past 5 years of rapid expansion. Almost all retailers that we met with were redrawing their expansion plans and seriously evaluating options to close out poor performing stores. These efforts are expected to intensify over the next few months. There could be some Merger and Acquisition (M&A) activity that has been missing of late with the long-term players likely to consolidate and move ahead strongly.

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