IMPACT OF GLOBAL FINANCIAL CRISIS ON THE GROWTH OF ORGANIZED RETAIL DEVELOPMENT IN INDIA

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ABSTRACT

The largest financial shock started since great depression which makes countries engage in spiraled mortgage crisis. A loss in confidence by the investors in the United States has led to such a huge depression which had a crippling effect on its economy in turn which had a rippling effect on the other nations as well. The impact of crisis can be felt in developing nations as well which are suffering from one of their largest sell offs. Contrary to the 'decoupling effect' even the developing countries have been hit by the crisis. This crisis has hit one of the most thriving sectors 'The retail industry'. 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. The high level of inflation has been a wet blanket for the global markets. With the suddenly disturbed economical status, consumers are gradually losing interest on buying. The real boom in the Indian organized retail industry started in the second half of 1990s that saw a wave of big business houses joining the fray. At that time India's organized retail sector was at its infancy though there were some known players like Food World, Subhiksha and Nilgiris in food and FMCG; Planet M and Music World in music; Crossword in books. Then emerged the new trend,hyper & super markets offering three V's: Value, Variety and Volume. Apart from apparel brands, Consumer durables, FMCG products and Sports brands have also spurred the growth of retails outlets. In fact, so much is the promise of this sector that old economy major like Reliance, BPCL and others want to join the band *wagon to cash in on their reach and retail space availability. The country's retail tycoons are now paying for their irrational exuberance in the past. The correction will sober down the industry. The fabled 30 crore Indian middle class that fuelled the retail ambitions of many big business houses in India, is also probably one of the causes for its downfall today. Even as the rich and fashionables continue to throng the malls and retail outlets in cities, the belly of the market, the middle and upper middle class, has suddenly shrunk. The massive slowdown in Indian economy, result of a world-wide financial meltdown, is the main reason. This paper will throw light on different retailers and the impact of financial crisis on them along with strategies to cope the slowdown and achieve sales. This would help in understand the scenario and work towards controlling the spread of recession to Indian retail industry.*

Keywords:

Global financial Crisis, Organized retail sector, Retail sector

1. Need for the Study

The growth potential in the industry had favorable conditions for the growth of the retail sector. Fast growing economy, easy access to funds, large real-estate developments and of course, the increasing disposable income of the middle and upper middle class segment of the society, were the reasons behind the growth. But the boom faded due to global financial crisis, illicit practices of firms and global meltdown. This study will throw light on the strategies to achieve profitable and economically viable situation for the organized retail sector which will become win-win situation for the firm and its stake holders.

2. Objectives of the Study

1) To demonstrate the impact of recession on growing organized retail sector

2) To elucidate the practices of Indian retailing firms and the implications faced by them due to economic trends

3) To focus on the remedial strategies to cope up with adverse impact of post-recession implications

3. Introduction

 Recession is a contraction phase of business cycle, a general slowdown in economic activity over a period of time. A global recession is a period of global economic slowdown in prosperity.

 Retailing in India is one of the pillars of its economy and accounts for 14 to 15 percent of its GDP. The Indian retail market is estimated to be US$ 500 billion and one of the top five retail markets in the world by economic value. India is one of the fastest growing retail markets in the World, with 1.2 billion people. As of 2013, India's retailing industry was essentially owner manned small shops. In 2010, larger format convenience stores and supermarkets accounted for about 4 percent of the industry, and these were present only in large urban centers. India's retail and logistics industry employs about 40 million Indians (3.3% of Indian population)Retailing in more developed countries are big businesses and are better organized than what it is in India. The retail sector in India is highly fragmented and mostly owner-run. The entire sector is dominated by small retailers consisting of local Kirana shops, general stores, hand-cart hawkers and pavement vendors. These together form the "unorganized retail" or "traditional retail". According to the investment Commission of India (ICI) estimates, there are over 15million such traditional retail outlets in the country. In line with India's economic growth, the retail sector in this country was not only expanding but also modernizing. This new trend began during late 1990s and early 2000s. Some of the major industrial houses have entered into this sector and have announced ambitious future expansion plans. Transnational corporations have also joined hands with big Indian companies to set up retail chains. India's Bharti group joined hands with Wal-Mart, the world's largest retailer and Tata group tied up with the UK based Tesco, the world's third largest retail group. A perceptible structural change towards an organized format is foreseeable in the retail sector. These organized and modern retail formats generally consist of;

 Supermarkets/ Convenience stores,

 Hypermarkets,

 Discount stores,

 Specialty stores and

 Departmental stores.

These outlets are usually chain stores, all owned or franchised by a central entity or a single store large enough to form a part of the modern retail segment. The existence of these modern retail outlets are generally found in malls and prominent high streets across various cities. Report published by McKinsey & Co. in partnership with Confederation of Indian Industry (CII) states that the global retail business is worth a staggering US $ 7 trillion. The ratio of organized retailing to unorganized in US is around 80 to 20, in Europe it is 70 to 30, while in Asia it comes to around

20 to 80. Hence there lies a great scope in India. And all major sectors of retailing are registering a vowing growth especially, Food & Grocery accounting as a prominent sector. Organized retailing accounts for mere 5% of the total retail sector. Although there are more than 5 million retail stores In India, 90% of these have a floor space are of 500 sq.ft or less. Organized Retail outlets are crowded in the top 100 cities. The boom started in the late 90's in which big houses joined the fray. Although there were favorable conditions favoring the boom for the organized retail sector certain other factors pulled down the predicted growth rate. Reasons for these radical conditions are as follows:

 Meager Market Share:

The global meltdown has its impact on the buying power of the consumers. Both the tiny organizations and the big companies are at war for their share in the market by rolling

Out new stores. 'Future Group' which is well ahead of this race to grab share has not been able to earn predicted profits due to the recession globally.

 Higher Operation costs, Lower profits:

Since the buying capacity of the consumers changed, their visits to these high end stores became limited. While the high end stores paid sky-high realty prices and huge rentals for operation it ate into their margins which in turn lowered their profits. The KPMG study pointed out that the rentals,

Eating into the profit margin of retailers has consistently gone up. In 2008, for example, the rent was as much as 80 per cent of the operational cost against 52 per cent in 2003.Added to the above was the low conversion rates; it was hard for the retailers to convert even the visitors who walked into the stores. Thus there was a dip in the sales. The growth figures dropped by 15-20 % which was reported by the KPMG study. The break-even was not achieved by these stores and its growth barely reached half of the achieved rates of last year.

 Huge Debts:

Funding is the biggest issue for retailers. They are borrowing at 14-15 per cent and this is a high cost of borrowing, was quoted by the global research firm, KPMG in a recent study revealed that no retailer in India made huge money. "Herd Mentality" of Indian companies proved to be huge Blow during this recession. The strategy of the retailers to deck up their stores, mostly with borrowed money, still remains one of the biggest mistakes in the industry. Many invested heavily with an intention to cash-in by selling out had the retail sector opened up to foreign investment in a big way.

4. Poor Supply Chain Management

Dip in sales had the retailers concentrate more on sales rather than on investing in developing the supply chain. According to the report, which was released by the **Federation of Indian chambers of Commerce and Industry (FICCI) and Ernst & Young, —**the most significant challenge that impedes the development of an efficient and modern retail sector is an underdeveloped

Supply chain‖.Globally, the logistics cost component to the total retail price is about 5 per cent, but in India it is around 10 per cent. Retail players stay put mainly on the availability of liquid cash and hoping of growing demand. Thus, managing an efficient supply chain was not looked upon as

an important criterion. With a developed supply chain management there will be a reduction in Opportunity Costs, Transportation Costs and Inventory Holding Costs there by increasing the profits of the retailers.

5. Overpowering of Traditional Retailers

Since the organized retailers failed as an impact of the global meltdown the traditional retailers overpowered the big houses. The traditional retailers do not contribute to the GDP of the country which causes the economy to be trapped in the vicious cycle of recession. In spite of the recession the traditional sect of the retail industry experienced a 20% of growth which was the predicted value for the organized retail industry. Few other noteworthy impacts are as follows:

 Drop in footfall: A large number of retailers have experienced a dip in footfall, which has adversely affected the sales.

 Liquidity pressure: The slowing sales resulted in lower inventory turnover & increasing working capital requirements have resulted in liquidity pressure.

 ***Unattractive conditions for FDI:** FDI contributes to the growth of the economy. With slump in the market investors are wary of investing in our countries resources which would in turn affect our economy.

 ***Drop in employment opportunities**: With lower profits and high operating costs there is a fall in the employment opportunities across the sector. Limited numbers of employees are recruited to cut down on the costs of operations.

6. Conclusion

The financial year, 2016 - 2017, is expected to be a year of consolidation for Indian retail sector. As a result of adoption of best practices and restructuring of business models by the retailers, organized retail is expected to realign itself to the market conditions and create new areas of growth in 2016.Given the market malady being faced by developers and retailers alike, it is possible that partnership models of growth through mechanisms such as revenue sharing would Become more prominent.

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