

# **PROJECT REPORT**

## **EFFECT OF SUPERMARKETS ON LOCAL SHOPS AND ECONOMIES**

**FIRST DRAFT**

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# INDEX

1. INTRODUCTION

2. ABSTRACT

3. UNORGANISED INDIAN RETAIL

- a) STORY SO FAR
- b) PRESENT SCENARIO
- c) CHALLENGES AHEAD

4. ORGANISED INDIAN RETAIL

- a) STORY SO FAR
- b) PRESENT SCENARIO
- c) CHALLENGES AHEAD

5. EFFECTS OF RISE OF ORGANISED RETAIL ON ECONOMY

6. INDIAN CONSUMER

- a) RISE OF THE MIDDLE CLASS
- b) YOUTH vs ELDERS

7. BIBLIOGRAPHY

## INTRODUCTION

Retail is the second largest sector in the Indian Economy after agriculture. It accounts for nearly 10% of the GDP and provides employment to approximately 7% population of the country.

India is seen as one of the fastest growing economy in the world and has a huge potential of organised retail as currently about 3% of the Indian retail is organised. The remaining 97% share is taken by the local mom and pop shops, an unorganised retail which constitutes of India's Informal Economy.

The enormous growth and the rise of middle class has attracted big names in the retail industry. At the forefront of India's expanding economy is its the upper class.

Even the government is taking measures to help the organised retail sector in its expansion like relaxing restrictions such as franchising, licensing, wholesaling. But in a country like India which finds it tough to provide employment to its ever expanding workforce, a large scale liberalisation will adversely affect the large, unorganised retail sector.

Also, a retail model that relies on replacing low skilled labor with the technology inspires understandable skepticism. Its a challenge for the government to sustain the growth without affecting the employment structure. The policies and the rules set by the government in the coming years will determine the future of our country.

## ABSTRACT

A study of the retail industry in India is done by studying the organised as well as unorganised sectors in retail, their history in Indian market, the present condition and the possible challenges ahead.

The other aspect of this research is the changing trend of the buyers in the Indian economy, so for this purpose a case study of buyers in Delhi has been done to try figure out the scenario and the reasons for the rise in the buying potential of people.

# UNORGANISED INDIAN RETAIL

## **STORY SO FAR**

Retail in India has been unorganised for many decades now. The country even today has 97% of its retail unorganised comprising of mom and pop stores and corner stores. They are a deep part of our society and provide employment to a large proportion of our population. In the past, customers have enjoyed personal interaction and attention by these shopkeepers.

## **PRESENT SCENARIO**

But slowly there has been a change in the trend in society with the growth of the economy of our country. The vendors and local shops are losing out on their business to the big retail stores particularly in the clothing department while they enjoy majority share in the food sales.

The local shops scoring over big stores in the food department can be attributed to the following :

- Provision for the sales in smaller quantities
- Highly personalised relationships with their customers
- Provision for door to door service

It is seen that younger generation of our country in the quest for adapting the western culture are deviating from their choices of their elders, the proof of which can be seen from the fact that more number of people now prefer to shop from the retail stores and supermarkets thus affecting the business of these corner stores. The consolation to the corner and mom and pop shops being the elder section of the society remaining customer.

## **CHALLENGES AHEAD**

With government liberalising various rules and introducing reforms to allow easy entry of big retail houses and chain stores in the market, it remains to be seen how these shops compete with the big stores.

The following areas of concern must be addressed properly :

- The quality of products served in supermarkets
- The enormous potential of growth for organised retail would mean a large chunk of the population earning through unorganised retail is set to lose
- The funds that need to be pumped by the corner stores to attract customers

Shopping as an activity is now seen as a thing of leisure and it is this notion that is pulling more buyers towards the supermarkets which offer many services under one roof and that too with a good ambience.

All these factors in addition to the enhanced spending power of the customer are indeed an area of concern for vendors and local shopkeepers.

The coming years will test the mettle of these shopkeepers and how they sustain and grow their business.

# ORGANISED INDIAN RETAIL

## **STORY SO FAR**

The entry of organised retail in India started early 2000s and since then it has shown a significant growth particularly, in the late 2000s.

The economic boom has transformed the richer, younger and more aspirational and also started to value convenience and choice at par with getting value for hard earned money. The big retailers are also keen on tapping the enormous potential organised retail industry promises and have been seeking ways to expand.

## **PRESENT SCENARIO**

Post recession, the situation for the retailers has been difficult and there has been a shift in the priorities of these retailers. Some of them are:

- Increased focus on value retail
- Closure of unprofitable stores
- Increased investment in shortening the supply chain which will yield higher profit margins
- Shift to tier 2 and tier 3 cities, where profits are higher due to lower rental and operating costs

Not only the economic meltdown, but there are several other factors that have slowed the progress of the big stores :

- Poor Infrastructure
  - ✓ Underdeveloped supply chains
  - ✓ Bad roads
  - ✓ Poor warehousing facilities

The lack of proper infrastructure has resulted in increased logistics costs, where globally the logistics cost component to the total retail price is 5%, in India its as high as 10%.

- Fragmented Supply Base
  - ✓ Fragmented supply base has resulted into intermediaries squeezing margin, mishandling of goods and theft.
- Rise in Rentals and absence of mature third party logistics industry
  - ✓ Internal operations of retailers like warehouse processes and distribution are ad hoc and inefficient.
  - ✓ Rise in rentals has added to the squeezing of profit margins of the retailers.

## **CHALLENGES AHEAD**

There are various challenges that stand tall for the retailers, some of the major ones are:

- Unlike industrialised countries, the labor in India is not critical cost factor in establishing a business model based on replacing labor with technology vulnerable.
- Rise in the real estate prices which has adversely affected the margins of the retailers.
- Investment on infrastructure either by the government or by the the retailers themselves will play a key role in determining their progress.
- A more clear contrast will be visible between the urban and rural areas and the decision by the government to allow FDIs would be hard and emotional.



## EFFECTS OF RISE OF ORGANISED RETAIL ON ECONOMY

- Supporting retail growth could imply that huge investments by big retails in supply chain logistics, processing, cold-chains, and contract farming.
- The down side will be the losses made by the local vendors and the shopkeepers who will oppose such an expansion.
- It has been observed that big retails tend to wipe out the local competition to create a monopolistic market and then dictates prices to both consumers and small manufacturers from whom its sourcing products.
- There is a possibility that Indian agriculture will gain in terms of minimising the loss as all the 35-40% fruits, vegetables that earlier used to perish in transit because of poor transportation methods and lack of refrigeration.
- Another possibility is that the foreign retail firms will help in the improvement of infrastructure by funding.
- Recent agitations in the states of Uttar Pradesh and West Bengal against the rise of big retail stores in fresh food industry like Reliance Fresh has certainly probed very deep into the matter concerning the exploitation of poor farmers at the hands of big retailers.

# Indian Consumer

## **RISE OF THE MIDDLE CLASS**

Economic escalation has resulted in spending and purchasing power to be at an all time high, which not only has resulted into expansion of the middle class but also enhanced the standard of living of the individual.

## **YOUTH vs ELDERS**

Indian society is definitely on the verge of change, a change that is inevitable. The youth is ready to adapt to the west and nuclear families are on the rise. A natural consequence is that in a family where both the parents are working, the income is also high and so is their standard of living. Even their eating habits are changing in a way that more people are opting for packaged food served at supermarkets.

Given the variety of choices to the customers at these supermarkets, the urban population is finding them friendly, cheap to shop at these locations and opt for quality products.

All these recent practices are far too different from the ones followed by our elders who still consider convenience and personal attention more important than the price of commodities.

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