

ORIGINAL RESEARCH ARTICLE

Open Access

IMPACT OF DEMONETIZATION ON THE INDIAN RETAIL INDUSTRY BEFORE AND AFTER 10TH DECEMBER, 2016

*¹Purvi Mathur and ²Dr. Ritu Arora

¹Research Scholar, Birla Institute of Technology, Mesra, (Jaipur Centre)

²Assistant Professor, Birla Institute of Technology, Mesra (Jaipur Centre)

ARTICLE INFO

Article History:

Received 05th April, 2017

Received in revised form

29th May, 2017

Accepted 26th June, 2017

Published online 31st July, 2017

Keywords:

Demonetization, Indian Retail Sector,
Organized and Unorganized sector.

*Corresponding author

Copyright ©2017, Purvi Mathur and Dr. Ritu Arora. This is an open access article distributed under the Creative Commons Attribution License, which permits unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited.

Citation: Purvi Mathur and Dr. Ritu Arora. 2017. "Impact of demonetization on the Indian retail industry before and after 10th December, 2016", *International Journal of Development Research*, 7, (07), 13993-13999.

ABSTRACT

The 8th November, 2016 is the important date in the history of the Indian economy, when our honorable Prime Minister Narendra Modi announced the decision to demonetize the 500 rupee note and 1000 rupee note. It was a surprise move that has affected the consumption activity in the Indian economy. This move has affected the Indian retail sector due to lack of liquidity in the economy. It has also resulted into the low footfall in shopping malls, more use of plastic money and electronic payment. The impact is felt more by the small traders and the unorganized retailing segment as their transaction is in cash. But it is estimated that Indian economy can grow considerably after curbing the counterfeit money and increase in the economic activity. This paper analyses the impact of demonetization on the Indian retail sector both organized and unorganized.

INTRODUCTION

The movement against the black money was initiated by former law minister Ram Jethmalani along with many other well-known citizens. They filed a Writ Petition (Civil) No. 176 of 2009 in the Supreme Court of India seeking the court's directions to help bring back black money squirreled in tax havens abroad and initiated efforts to strengthen the governance framework to prevent further creation of black money. The Supreme court on 4 July 2011, ordered the appointment of a Special Investigating Team (SIT) headed by former Supreme court judge BP Jeevan Reddy to act as a watch dog and monitor investigations dealing with the black money. On 12 May 2015, Ram Jethmalani attacked Modi Government for failing to bring back the Black money as was promised before Election. On 2 November 2015, HSBC whistleblower Herve Falciani said he is willing to "cooperate" with the Indian investigative agencies in black money probe but would need "protection". Prashant Bhushan and Yogendra Yadav furnished a letter written by Falciani on 21 August 2015, to Justice (ret'd) M B Shah, who is heading the SIT on

black money. Under the supervision of the SIT the I-T department has recovered just around Rs 3,500 cr from some of the account holders and expected to recover a total of 10000 crore till March 2015. When Narendra Modi came on the position of Prime Minister, he took several steps like Beti Bachao, Digital India and Sawach Bharat campaign. Demonetization move was taken after the expiry of 3 months' time given to the people to disclose their income on which tax had not been paid yet. This move is a part of his initiated campaign Sawach Bharat (cleanness of India) and Digital campaign (create transparency in the movement of money and information). 8th November, 2016, the day of demonetization of the bank notes rupees 500 and rupees 1000. The two highest currency denomination that was available in India was no more a legal tender after this date. The old denomination can be utilized for commercial transaction till 10th December, 2016. This decision was estimated will hit the economy hard for the short term. The consumption activity was grinded and the Indian economy came on the verge of a halt. As retail segment involves a lot of cash transactions. After this decision, the sales of this sector was estimated to be reduced over the

next one or two quarters. The impact is felt more on the unorganized and small traders than the organized retailers. However, use of plastic money and transactions through online payments will release the money into the retail segment. The domestic consumption was estimated that it will be stable due to India's strong economic base and demographics. Low footfalls in the shopping malls were there but this situation was estimated to be temporary and turnaround as and when more currency would be circulated in the market. The market eco system will become more transparent and structured after this decision.

Economic Shock to the Indian Economy- with the Demonetization Step

Economic shock has a long history that had an unexpected effect on the Indian economic system. Although some shocks have a positive impact, for instance, technological breakthroughs. Other types of economic shocks are fiscal profligacy, world trade shock, oil price shock, counterfeiting of notes and money earned on which taxes are not been paid. In India, funds earned in the black market on which taxes have not been paid or which is the outcome of criminal activities such as bribery, kickbacks and corruption have paralyzed the Indian economy. India's Central Bureau of Investigation said that Indians have US \$ 500 billion of illegal funds in foreign tax havens, more than any other country.

According to 3rd report published in May, 2012, Swiss National bank estimates total deposits as below:

Country	Money Deposited
India	US\$1, 456 billion
Russia	US\$ 470 billion
UK	US\$ 390 billion
Ukraine	US\$ 100 billion
China	US\$ 96 billion

India topped the position in the context of black money deposited in the swiss bank account. This report had created the economic shock in the country. On 8th November, 2016, the government has implemented a major change in the economic environment by demonetizing the high value currency notes of 500 and 1000 rupees denomination. The plan by the government involves the exclusion of these existing notes from circulation and a gradual replacement with a new set of notes. In the short term, it is intended that the cash in circulation would be substantially cuddled since there are limits placed on the amount that individuals can withdraw. The explanations offered for demonetization are to control counterfeit notes that could be contributing to terrorism, in other words a national security concern and to undermine or eliminate the "black economy". According to the table A, it has been interpreted that without any jugglery of numbers, this ratio could be simply higher at around 17 per million NIC if it is assumed that counterfeiting in lower denomination notes (less than 100 rupee) is negligible, which is more realistic, and it might be possible that the whole bunches of about two million counterfeit notes (19,52,160) detected over a period of five years had been there in the system to begin with, which got detected over a five-year period. Counterfeiting money has been prevalent throughout history and is sometimes called the world's "second oldest profession." In India, the circulation of fake Indian currency notes (FICN) has been on the rise, according to the Reserve Bank of India's (RBI) annual reports. The Financial Action Task Force (FATF) report of 2013 found

that the Indian rupee was the ninth most counterfeited currency in terms of its value and stood third in terms of the number of FICN detected around the world. As reported by various sources, most counterfeit Indian currency notes are printed in Pakistan. From Pakistan, FICN are either moved directly into India or make their way through a network of other countries. Major transit points include India's neighboring countries Nepal and Bangladesh. Dubai is another route that the traffickers use to smuggle the fake currency notes into India; other transit points include Thailand, Malaysia, and Sri Lanka. China is emerging as a new transit route (as indicated by reports about the seizure of fake Indian currency concealed in a shipping consignment en route from Pakistan to Nepal via Hong Kong).

Indian Retail Sector- Most affected by the Demonetization Step

Retail Sector in India has been emerging as the strongest pillars of its economy and accounts for about 14 to 15 percent of its GDP. The Indian retail market is estimated to be US\$ 450 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. India's retail and logistics industry employs about 40 million Indians (3.3% of Indian population). The unorganized retail sector mainly deals in cash transactions. When the Demonetization step was announced by Narendra Modi, The Prime Minister of India on 8th Nov, 2016, it had resulted into a cash crunch that affected day to day purchasing. This impact was estimated to be of short duration till the floating of the new currency in the market. Considering the fact that India is among the most cash-intensive economies in the world, with a cash-to-GDP ratio of 12 per cent. That is almost four times that of countries like Brazil, Mexico and South Africa. The recent decision has led to retail shops and malls wearing a deserted look, albeit even for a short period of time.

Attack of the Demonetization step on the Indian Un-Organized Retailing

The Indian retail sector mainly comprises of owner manned small shops. In 2010, larger format convenience stores and supermarkets accounted for about 4 percent of the retail sector, and these were present only in large urban centers. Un-organized retail sector comprises the major portion of the Indian retail sector. They are affected by the demonetization move as doing the cash based transactions. Due to the unavailability of cash in the market, their sales had been affected. To stay afloat and conquer the challenges that demonetization has posed, the offline retailers are now encouraging the consumers to move away from cash and are giving various payment alternatives to avoid purchase hindrances and to initiate the market ecology to become more transparent and structured. The long-standing growth story of the Indian retail sector continues to be characterizing with the attributes: pliability, adaptability and growth.

Scope of the study

Demonetization is an outstanding step in the Indian History to curtail the black money and counterfeiting of Indian currency. This step is also an outbreak for the promotion of organized retailing and the Digital India Campaign. This study will identify the impact of demonetization on the Indian Retail

Table 1. Counterfeit currency notes detected in the banking system

Items	(Number of pieces, y-o-y growth)					
	2007-08	2008-09	2009-10	2010-11	2011-12	Average
1. Notes in circulation (NIC) (million pieces)	44225	48963	56549	64577	69382	56739
	(11.0)	(10.7)	(15.5)	(14.2)	(7.4)	(11.9)
2. Notes in circulation of higher denomination (Rs.100 and above) (million pieces)	20131	21788	23509	25957	27844	23846
	(2.0)	(8.2)	(7.9)	(10.4)	(7.2)	(8.4)
3. Counterfeit notes detected (No. of pieces)	195811	398111	401476	435607	521155 (19.6)	390432
	(86.9)	(103.3)	(0.8)	(8.5)		(27.7)
4. Counterfeit notes per million NIC [(3)/(1)]	4.4	8.1	7.1	6.7	7.51	6.9
5. Counterfeit notes vis-à-vis per million of higher denomination notes(*) [(3)/(2)]	9.7	18.3	17.1	16.8	18.2	16.4

Note: (i) Figures in parentheses are year-on-year growth in percentage terms.

(ii) (*) Assumes negligible incidence in counterfeiting of lower denominations.

Source: RBI Annual Report, various years

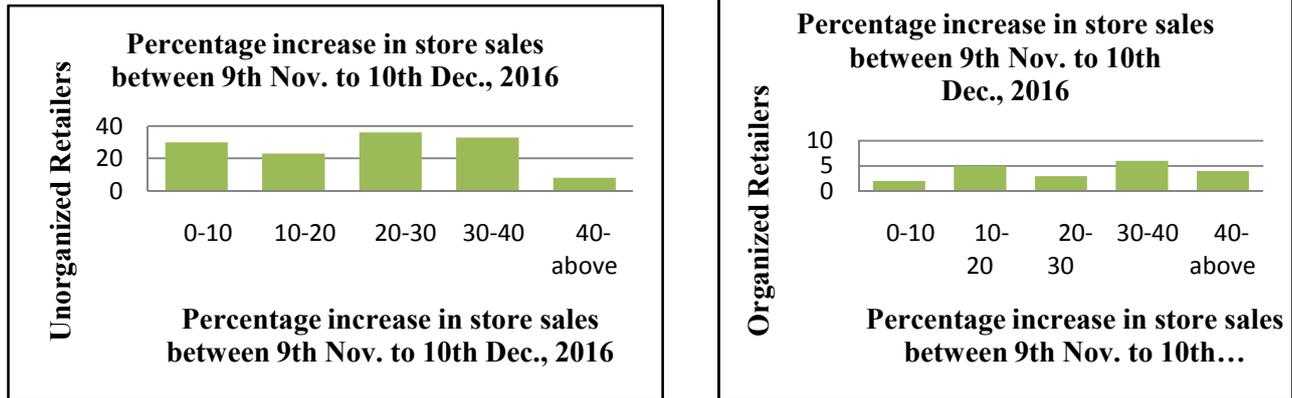


Figure 1: The graphs are identifying the percentage increase in store Sales between 9th Nov. to 10th Dec., 2016 in Organized and Unorganized Retail stores

Industry with specific to Indian unorganized retailing. The study is covering 150 retailers (130 from unorganized sector and 20 from organized sector) in the Jaipur (Capital city of the largest state of India that is Rajasthan).

Objectives of the study

- To analyze the impact of demonetization on the Indian retail sector,
- The aim is to identify the effect of demonetization on the organized and unorganized Indian Retail Sector.
- The future benefits that will accrue as a result of demonetization.

MATERIALS AND METHODS

The study is quantitative in nature. The secondary information is used for the analysis purpose. Sources for the secondary data are originated from the various sources like special investigation team report, newspaper and Reserve bank of India (RBI) websites. In order to analyze the impact of demonetization on the organized and unorganized retail sector, the data is collected from 150 retail stores (organized and unorganized) across the Jaipur Region. The paper also identifies the correlation between the variables that are identified – Sales and Customer buying behavior.

Data Analysis and Interpretation

Data collected through the method of questionnaire is analyzed and plotted on the graph.

The impact of demonetization on the percentage of sales increase in the Indian Retail Industry during 9th Nov. to 10th Dec, 2016

The retail industry of India is identified with the unorganized retailing till date. With the demonetization move the unorganized sector is being affected the most as they involve more in cash transaction. So, the percentage increase in sales during 9th Nov. to 10th Dec., 2016 was high in context to unorganized sector as they accepted the demonetized notes in exchange of goods than organized sector. The increase in sales in unorganized sector is 20 to 30 percent in comparison to 0 to 10 percent in unorganized sector.

The impact of demonetization on the sales of Indian Retail Industry after 10th Dec., 2016

After 10th Dec, 2016, When the Indian retail store had stopped the acceptance of demonetized notes of 500 and 1000 rupees notes and the supply of new currency was in scarcity. The sales had been affected due to the aforesaid reasons. The impact on sales decrease is more on unorganized sector that was 30 to 40 percent than the organized sector where the sales decrease was 0 to 10 percent as they provide alternative mode of payment that is payment through debit and credit cards.

Effect of demonetization move on the customer spend per visit and Customer footfall

The customer spend per visit has been decreased as they were in a fear of unavailability of liquid in the Indian Market. The customer spending and customer footfall was decreased by 40 percent in the unorganized retail sector as they provide cash as a mode of payment in comparison to 0 to 10 percent in the

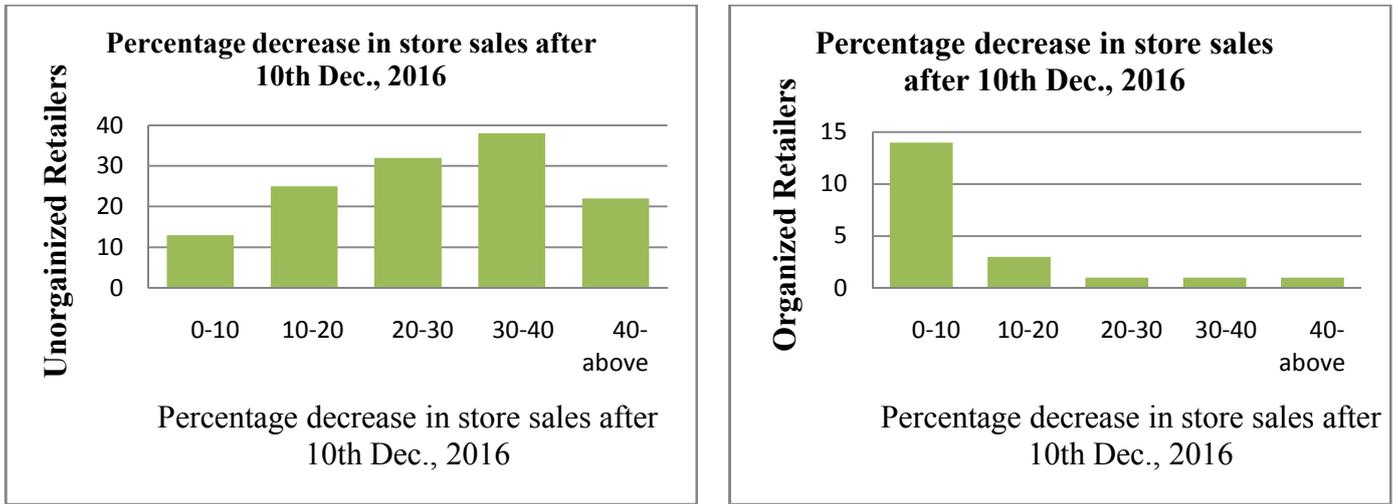


Figure 2: The graphs are stating the percentage decrease in store sales after 10th Dec., 2016 in Organized and Unorganized Retail Stores

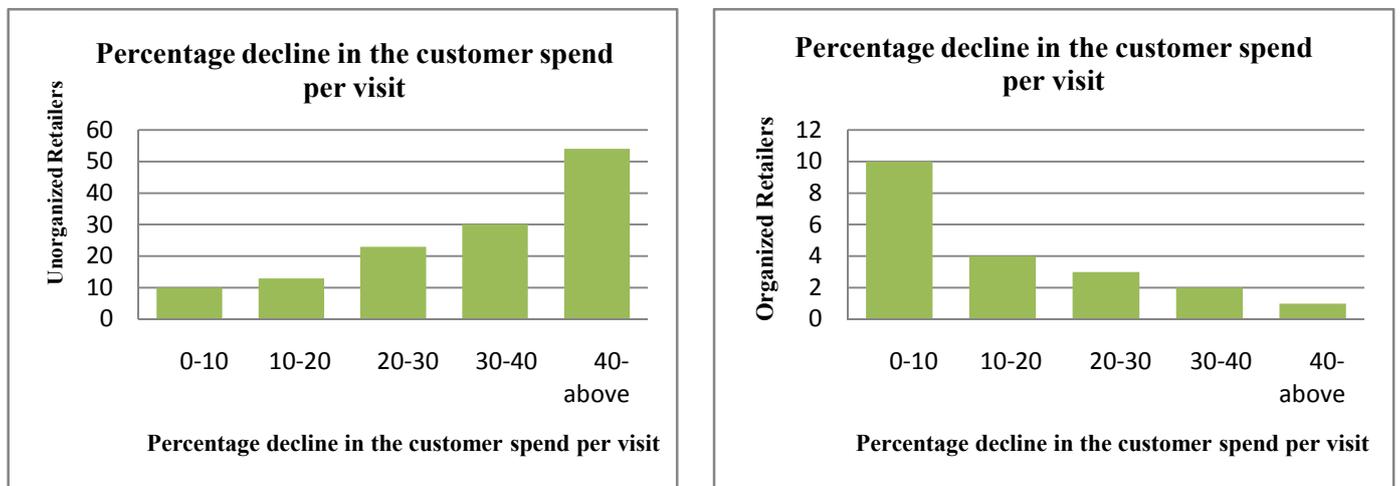


Figure 3. The graphs are identifying the change in the customer buying behavior after Demonetization reform in the Organized and Unorganized Retail stores

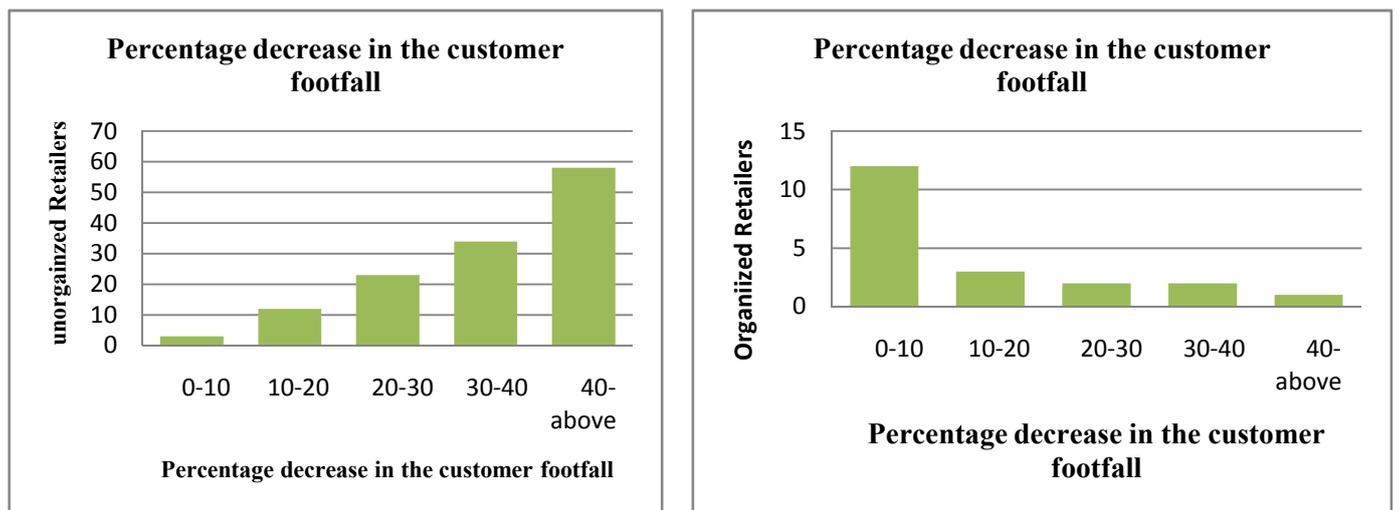


Figure 4. The graphs are identifying the percentage decrease in the customer footfall in the Organized and Unorganized Retail Format

organized sector as they also accept e- cash not only the liquid money for payment.

Impact of demonetization on inventory stock level and supply of inventory: The traditional retail format was the victim during the demonetization move as the customer buying behavior had changed that affected their inventory.

The supply of inventory gone down as the purchase from the unorganized retailers was reduced and the buying behavior was turned towards the organized retail format that provides one roof concept with competitive price and offer.

The mode of payment that were introduced during that move to gain competitive advantage: The mom and pop store that are unorganized were dealing only in cash before 8th

Nov., 2016. After that these stores identified the several problems regarding sales due to scarcity of currency in the Indian Economy. These retail stores also provide assistance in payment through Pay TM and extending credit facility to make the payment afterwards when flow of new currency will start. The organized sectors particularly supermarket were at an edge as they were providing variety of options to the customer in regard to payment.

Demand of the products that were affected the most

On 8th Nov., 2016, When 500 and 1000 rupees notes were announced as no legal tender that twisted the Indian Economy. After that announcement, the demand for the product by the customers was changed. The people who were having liquid money were settling their cash by demanding esteem goods.

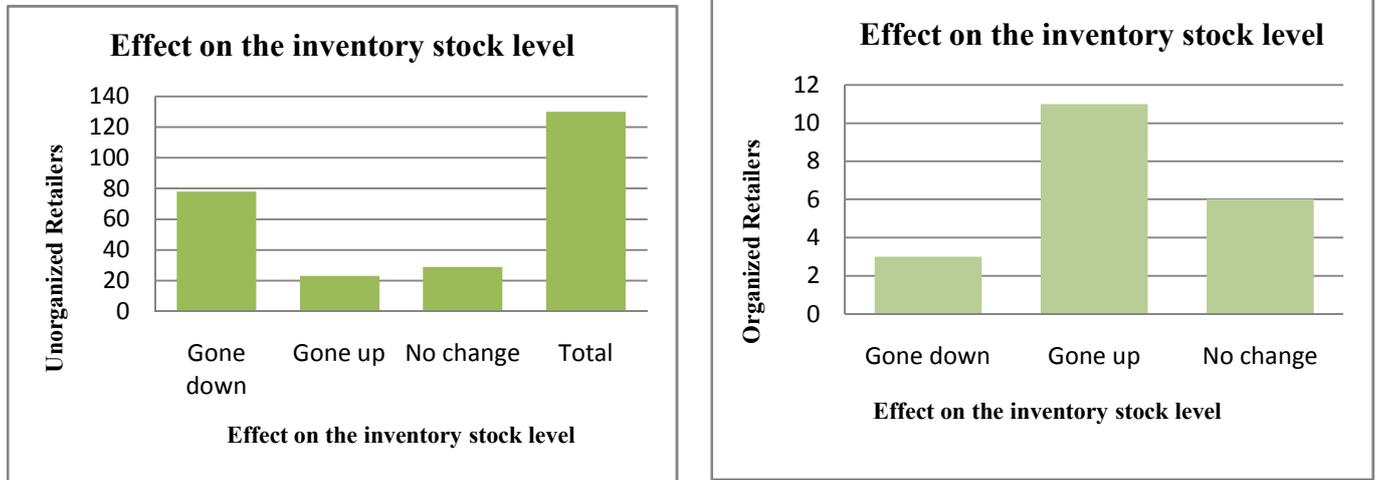


Figure 5. The data identifying the changes in the inventory stock level in the Organized and Unorganized retail format with the Demonetization reform.

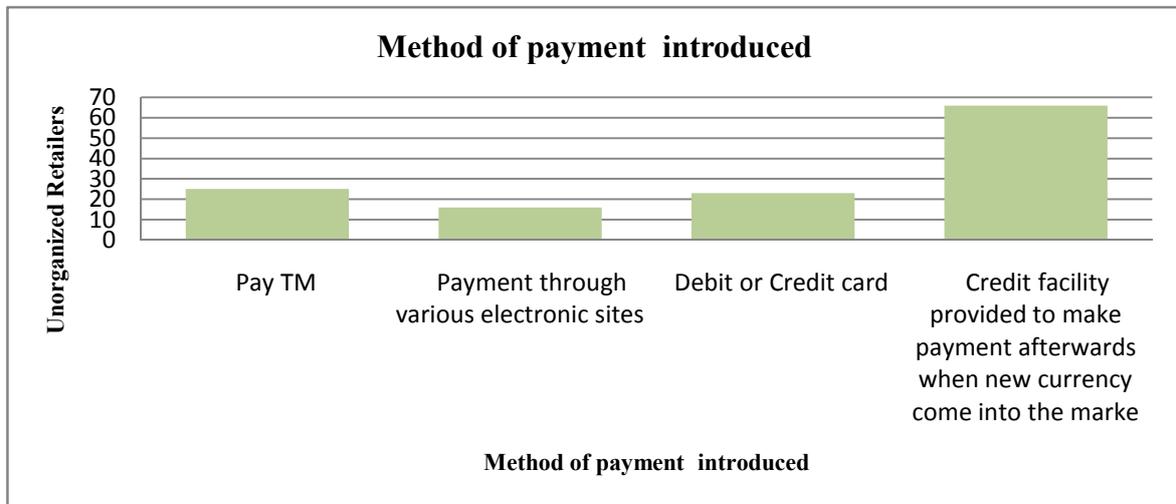


Figure 6. The various modes of payment introduced during the Demonetization phase

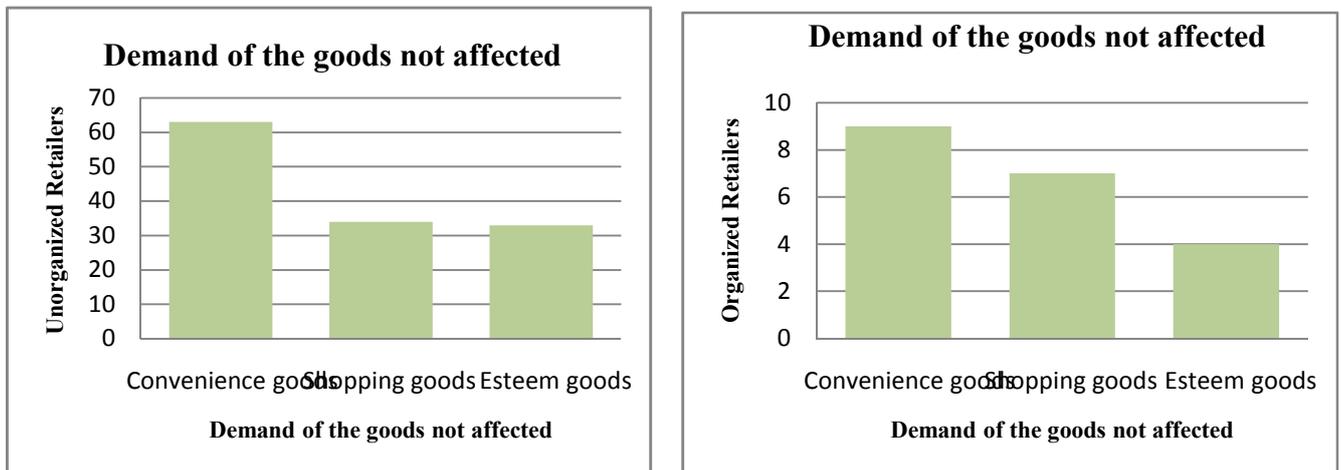


Figure 7. The demand of goods that are affected during Demonetization in the Organized and Unorganized retail format

Percentage(%) decrease in sales	Customer spend per visit reduced	Correlation value
5	20	0.889090209
15	17	
25	26	
35	32	
45	55	

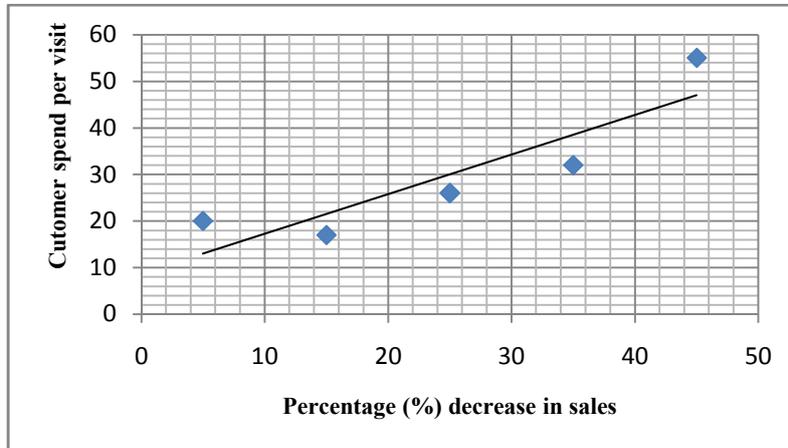


Figure 8. The graph is stating the correlation between the customer spend per visit and percentage decline in sales

Strategic Model in the Indian Retail Industry before and after demonetization move:

Core Concept	Before Demonetization	After the announcement of Demonetization
Need Want and Demand	Emphasize towards want and demand	Emphasize towards basic needs
Products (Goods / Services)	Shopping and Esteem goods. Services were the indispensable part of customer spend	Convenience goods
Value Cost and Satisfaction	Value and Satisfaction were more important	Cost becomes the important part of customer decision to buy the product or not.
Exchange / Transaction	Mostly Cash	Electronic mode of payment gain importance
Relationship / Network	Relationship Marketing	Network Marketing gain importance through organized retailing.

On the other hand demand for only convenience goods were there.

Correlation between the percentage (%) decrease in sales and customer spend per visit

During the demonetization the sales of the retail stores is decreased due to the reduction of customer spending per visit as the lack of availability of currency in the market.

Findings of the study

- The demonetization move has a major impact on the Indian Retail Industry.
- The Unorganized sector in the Indian Retail Industry which has a major shareholding in the industry is affected the most by this move.
- The Indian economy was cash driven economy before 9th Nov., 2016. After that the economy had adapted to change in the environment. The Unorganized retail Sector also started providing different mode of payment to the customer in respect of cash.
- The sales of the store were majorly affected when the banks stopped the currency to be changed with the legal tender notes.
- The demand of the shopping and esteem goods was affected. There was no major impact on the demand of convenience goods.

- As the sales were affected, the inventory supply level of the unorganized retail sector was also reduced. But at this point the organized sector had an edge as their inventory turnover increased due different mode payment other than cash and made various promotional offers during that time to increase the footfall in the store.

Conclusion and Recommendation

The Indian Economy is cash oriented economy. The customer’s preferential mode of payment is cash. The Indian customers are not much attracted towards virtual buying. On 8th Nov., 2016 the Honorable Prime Minister of India, Mr. Narendra Modi announced the demonetization of 500 and 1000 rupees notes from the Indian Market. Our Economy was shattered at the moment that decision was announced as the economy consist of major two section that is below poverty line and esteem group. Both Section of the society got affected as the esteem section had ample money in the denomination of 500 and 1000 rupees and below poverty line were having limited money to run their livelihood for particular period. This decision had affected the sales and purchasing behavior of the customers till date. This decision is an innovative promotional step towards the organized retailing in the Indian Retail Industry.

REFERENCES**Research Papers**

- Kumar Veera K., 2017. "A Study on People Impact on Demonetization", International Journal of Interdisciplinary Research in Arts and Humanities (IJIRAH), ISSN (Online): 2456-3145, Vol. 2, Issue 1.
- Mali Vedashree, 2016. "Demonetization: A Step towards modified India", International Journal of Commerce and Management Research, ISSN-2455-1627, Vol. 2, Issue 12
- Chaudhary Shalbha 2011. " Empirical study of Indian unorganized retail sector and the reality of FDI in organized retail", International Journal of Business Economics and Management Research, Vol. 2, Issue 6
- Gupta Himanshu, D. N. 2012. "Effect of Organized retail on Unorganized retail in Indian retail market", Research Journal of Management Sciences, Vol. 1, Issue 1

Reports

- Macro-economic Impact of Demonetization – A Preliminary Assessment- Reserve Bank of India on 10th Mar, 2017
- RBI Annual Report- From 2007-08 To 2011-12
- Demonetization: Impact on the Economy- National Institute of Public Finance and Policy - New Delhi on 14th Nov., 2016

Websites

- <http://jaipuria-jaipur.forumotion.org/t33p75-do-good-intentions-matter-if-they-lead-to-Bad-outcomes>
- <http://www.trendingnews.co.in/search/pradhan-mantri-garib-kalyan-yojan/2>
- <http://www.ndtv.com/topic/pradhan-mantri-garib-kalyan-yojana>
- <https://www.rbi.org.in/Scripts/FAQView.aspx?Id=119>
