The Impact of Economic Meltdown on Retail Business in India

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ABSTRACT

Today, retail business has to update technology in order to be successful and accurate, inefficient in communication can affect the sending and receiving of products/services of the business. So, it is very important that to have the latest technology such as computers and networks in retailing on local areas or global scale which can also affect how successful is the business carried on. Thus retail business in computer system can do tasks such as stock control and the price of the items produced. This is a period where painful adjustments are required and it is in the hands of the Government of India and RBI to manage the adjustments so that the people face a little pain initially but feel satisfied at last. Furthermore, the economic meltdown directly leads to social meltdown and that effect the overall health of our nation.

INTRODUCTION

Today, retailing businesses have to have up to date technology in order to be successful. Accurate, efficient communication sending and receiving can affect the business. So it is very important that to have the latest technology such as computers and networks. Retailing on a local and global scale can also affect how successful is the business. Locally, efficient networking that retailing businesses had allow customers purchase goods more faster such as the new bar-code scanners in supermarkets helps customers reduce time waiting in order to purchase goods.

OBJECTIVES OF THE STUDY

- To find the status of impact in the retail business in particular and other businesses in general
- To summarize the respondents information into a nutshell

GLOBAL ECONOMIC MELTDOWN SURVEY

Not only the Indian companies but also the other Asian companies has taken a cautious and prudent approach to the downturn, but the outlook is not completely negative for the current fiscal year which covers sector-wise analysis for the impact of Global Economic Meltdown on retail business, FMCG, entertainment and media, consumer durables, healthcare and some other service sectors. This Survey was conducted amongst 146 middle and upper business professionals across all sectors. It was found that across all the sectors taken into consideration, business ran on course albeit with tightened administrative policies. This was with reference to targets for the current economic year. Airlines and auto are the most severely affected sectors, while banking and economic services shows moderate impact and consultancy and insurance shows low impact.

The survey further found that the strategy being followed across industries included rationalization of marketing and communication budgets, a freeze on manpower hiring and deferring of capital expenditure. Customer acquisition however continued to be a focus area for most sectors. While mass media or ATL spending is beginning to show a decline, spends on direct marketing, BTL and online are expected to remain more or less the same for the coming months when compared to the corresponding period of the previous year. Business experts believe that direct one-to-one communication with the end customer is of prime importance in these months of uncertainty.

GLOBAL ECONOMIC MELTDOWN SURVEY (2010)		
PARTICULARS	FAVOURABLE	UNFAVOURABLE
General Respondents	75%	12%
Retail Respondents	62%	13%

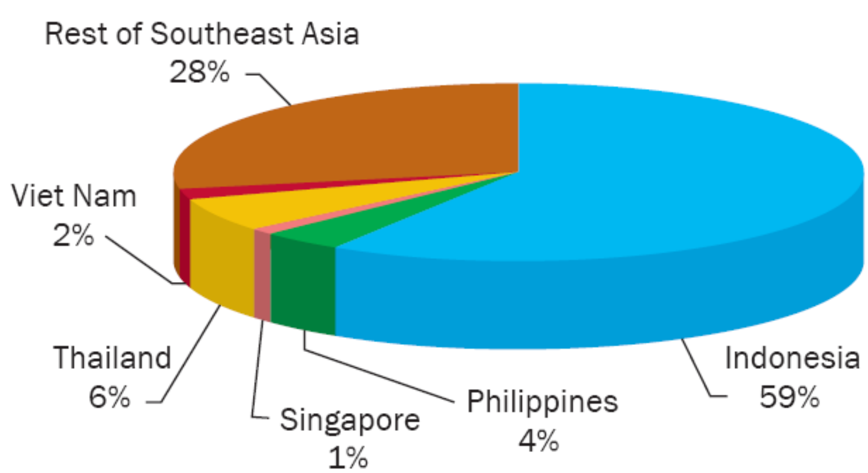
Of the total respondents in the survey, 75% of the general respondents spoke of business as usual with tighter controls while 12% claimed that they did not currently see much impact of the economic meltdown on their business. 62% of the retail respondents said their targets for the economic year remained the same, while 13% revealed that it will be scaled down next year.

In most of the cases, it had been found that the confidence level was shaken a bit. Consolidating operations, reviewing asset quality, review of avoidable and postponed expenditure, looking at fresh growth opportunities opportunistic acquisition and high quality delivery were some of the key areas the companies were found working with. Of the total who had spoken about advertising and advertisement budgets, 55% said that mass media spends have declined. But they said online and direct marketing spend was higher or remained the same.

In the FMCG segment, confidence levels were higher; no scaling down of operations was found and business targets remained the same. To tackle the situation of market meltdown, the business has undertaken multiple measures, 100% respondents of the sector stated that they had rationalized the marketing budgets, 50% indicated deferred capital expenditure but said freeze on hiring was not a key strategy being followed. With respect to marketing and communication spends, mass media spends remained same in 82% of the cases, online or web spends also remained the same in 87.5% of the cases.

In retail business, the sector overall displayed a cautious outlook as expected, but not unduly negative. Confidence levels were not low and uncertain. There was no scaling down in grocery retail, whereas other retail sectors saw a minimal down scale which was reflected in their business targets as well. The strategy being followed to tackle this meltdown were 100% rationalizing of marketing budgets, significant deferred capital expenditure for non-grocery retail and consolidation of operations. While the focus was entirely on customer retention for grocery retail, there was a balance between acquisition and retention for non-grocery retail segments. In terms of marketing spends, BTL had increased for grocery retail while it dropped down for other retail. Significant importance is placed on one-to-one communication with end customers across all.

Figure H12. GHG Emissions in Southeast Asia (2000)



Note: Total GHG emissions = 5,187 $MtCO_2$-eq.
Source: CAIT Database, WRI (2008).

The Asian Development Bank produces a remarkable amount of frequently high quality analysis. Here are two recent examples on climate change and the impact of the economic meltdown. On the meltdown, a recent ADB Economic Working Paper uses the latest national projections for growth and past poverty performance to refine the predicts that poverty across the whole of Asia will rise by 62m people in 2009 and 100m in 2010.

The ADB's 'The Economics of Climate Change in Southeast Asia: A Regional Review' (i.e. a regional Stern Review), finds that: 'Southeast Asia is one of the world's most vulnerable regions to climate change due to its long coastlines, high concentration of population and economic activity in coastal areas, and heavy reliance on agriculture, natural resources, and forestry. Climate change is already affecting the region, as shown by the increasing frequency and intensity of extreme weather events such as heat waves, droughts, floods and tropical cyclones in recent decades. It is exacerbating water shortages, constraining agricultural production and threatening food security, causing forest fires and coastal degradation, and increasing health risks. The worst is yet to come. Under a high emissions scenario, the annual mean temperature in the four countries - Indonesia, Philippines, Thailand, and Vietnam - is projected to rise 4.8°C by 2100 from the 1990 level on average; the global mean sea level is projected to rise by 70 centimeters during the same period, with dire consequences for the region; and Indonesia, Thailand, and Viet Nam are projected to see increasingly drier weather in the next 2–3 decades.

Southeast Asia is likely to suffer more from climate change than the global average. The mean cost of climate change for the four countries - if the world continues "business-as-usual" and if market and non-market impacts and catastrophic risks are all considered - could be equivalent to losing 6.7% of combined gross domestic product (GDP) each year by 2100, more than twice the global average loss.

Climate change could seriously hinder Southeast Asia's sustainable development and poverty reduction efforts. Combating climate change requires urgent action on both adaptation and mitigation—there is no time for delay. Many adaptation actions have been taken in Southeast Asia in climate-sensitive sectors such as water resources, agriculture, coastal and marine resources, forestry, and health. The priorities now are to scale up these actions by adopting a more proactive approach and integrating adaptation in development and poverty reduction strategies.

Southeast Asia contributed 12% of the world's total greenhouse gas (GHG) emissions in 2000. And given its rapid economic and population growth, they are expected to grow further. The region has an important role to play in future global GHG emission reductions. As the largest contributor to the region's GHG emissions (75% in 2000), the land use change and forestry sector holds the key to successful emissions reductions. This can be achieved by reducing emissions from deforestation and degradation, encouraging afforestation and reforestation, and better forest management.

International funding and technology transfer and cooperation are essential for the success of adaptation and mitigation in Southeast Asia. The region should enhance its capacities to make better use of the existing and potential funding sources. Regional cooperation offers an effective means to deal with many cross-boundary issues related to climate change, such as water resources management, forest fire prevention, disaster and risk management, and controlling the outbreak of diseases; and for learning and knowledge sharing. The economic crisis offers an opportunity to start a transition towards a climate-resilient and low-carbon economy in Southeast Asia. Green stimuli programs can simultaneously shore up the economies, create jobs, reduce poverty, lower carbon emissions, and make the region more prepared for the worst effects of climate change.'

IMPACT OF GLOBAL MELTDOWN ON RETAIL BUSINESS IN INDIA

Retailing is the interface between the producer and the individual consumer buying for personal consumption. This excludes direct interface between the manufacturer and institutional buyers such as the government and other bulk customers. A retailer is one who stocks the producer's goods and is involved in the act of selling it to the individual consumer, at a margin of profit. As such, retailing is the last link that connects the individual consumer with the manufacturing and distribution chain.

The retail business is divided into organized and unorganized sectors. Organized retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses. Unorganized retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local retail shops, owner manned general stores, convenience stores, hand cart and pavement vendors, etc. Unorganized retailing is by far the prevalent form of trade in India constituting 98% of total trade, while organized trade accounts only for the remaining 2%. Estimates vary widely about the true size of the retail business in India.

Food retail trade is a very large segment of the total economic activity of our country and due to its vast employment potential it deserves very special focused attention. Efficiency enhancements and increase in the food retail sales activity would have a cascading effect on employment and economic activity in the rural areas for the marginalized workers.

The global economic outlook has further deteriorated and the recent evidences show that demand has slumped, productions have gone down, there are more and more job cuts and the credit market has gone to a standstill. The effect is contagious- the meltdown is getting transmitted from the developed economies to the developing economies. The world trade is projected to contract by 2.8 % in 2009, which is an alarming indication.

There are evidences of capital flow reversals, huge corporate debts and currency depreciations which also reinforce that decoupling theory no longer stands true. This reiterates the global economic theory that in a global world the countries cannot function in isolation. There is a definite ripple effect and growth prospects of emerging economies have an impact from the economic crisis faced by the developed economies. Of course, the there would be variations across countries and the impact is not same for all of them.

We need to accept that India has been hit by the crisis and the impact is much more than what was estimated initially. The argument that stems out is – "How can India be caught up in this crisis when it has not played any direct role in the core crisis?" Our banking system does not have any direct exposure to the mortgage drama or to the sub-prime crisis or to the failed economic institutions. The major banks of India have very limited off-balance sheet activities or securitized assets, so they continue to be safe and healthy, and we come back to the question again that "why at all have we been hit by the crisis?".

The answer lies in the fact that we are now part of the Global Economy and the level of integration of any country with the world economy determines the extent of impact of the crisis on that country. Post liberalization, India's integration into the world economy has been very rapid and this implies that the involvement is more than just export. To give an idea, the involvement in the two way trade during the previous crisis of similar nature in 1997-99 was recoded 21.2% and now in 2007-08 it has been recoded as 34.7%.

India's economic integration into the global economy is deeper than what it seems to be on the surface, because the Indian corporate sector has largely borrowed from developed economies because they were at a lower cost than the funding available in the domestically. In the year 2007-08 India received a capital inflows amounting to over 9% of GDP's as against a current account deficit in the balance of payments of just 1.35% of GDP. These capital flows, in excess of the current account deficit, the importance of external financing and the depth of India's economic integration. Hence it established that the crisis has hit India because of its integration into global economy.

The crisis is contagious causing pressure to India's economic markets and the confidence level. We have seen that the Government and RBI have closely worked to reduce the impact on our country by keeping comfortable rupee liquidity position, augmenting foreign exchange, and maintaining a policy framework that would beep credit delivery on track so as to arrest the moderation in growth.

The world economic crisis continued to have toiled the Indian economy, damaging both its immediate and long-term prospects. The social meltdown is triggered by the job losses across most of the organizations, causing family break-ups, mental break-down of the sort.

The government concedes that half a million jobs have been eliminated in recent months in the "globalized sectors" of the economy, including the textile, gem and jewelry, and auto industries and also in the business processing units across the globe and in India it is the most important site of IT-enabled offshore operations for the US and British banks that have been at the center of the world economic meltdown. The impact of the crisis there is very evident on the job market here.

CONCLUSION

Thus for the last five years, India has recorded an unprecedented growth of 9% and this was driven by domestic consumption and investment. There has been a remarkable increase in the share of net exports but the cause of growth was definitely the consumption in the domestic market. India's integration in the global environment, easy liquidity and low interest rates helped in maintaining the steady growth, but the true reason for the growth lied in the entrepreneurial spirit of Indian corporate house, increased productivity and increase in savings.

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