

Retail in Trouble

FEW YEARS AGO THERE WAS huge hue and cry over the entry of organized retailers like Subhiksha, Reliance Retail and Wal-Mart. How things have changed. Subhiksha has downed its shutters for many months now and financial results of Reliance Retail are flat. The global recession cannot be blamed for this debacle, however, because organized retailer Wal-Mart is doing quite well in these times in the United States, which is the epicenter of the global recession. The sales of Wal-Mart are reported to have increased by 8 percent even although profits are a trifle down. If the troubles of organized retailers were due to global recession then Wal-Mart too should have shown signs of distress. Indian organized retail is in trouble because, unlike in the United States, it faces competition from low-cost *kirana* shops. Indian organized retailers cater mainly to the upper middle class while Wal-Mart caters to the lower end. The upper middle class in India moves away from high-cost organized retail towards low-cost *kirana* shops in times of economic distress. On the other hand, the middle class in America moves away from high-cost branded stores towards low-cost organized retail in the same times of economic distress.

Question arises why have organized retailers in India not been able to cater to the lower classes? The reason appears to be much greater spread of business capacity among the Indian people. The capacity required to run a *kirana* shop is available aplenty in India. Organized retail is not able to compete with these shops. According to a study undertaken by leading economic research organization ICRIER, *kirana* shops have many special abilities. They are located near the consumer who is provided with the required goods in his vicinity. He saves the cost of going to the air-conditioned shop of the organized retailer located far away. One can see the shopkeepers making a note of an item that is not in their stock. Then they locate the supplier and get that item. This ability to provide desired goods takes away the attraction of going to the organized retailer. Kirana shopkeepers provide goods on credit. They have the ability to keep a record of credit given, to remember the date when the borrower gets his salary and to make collection of the dues. Kirana shops are able to sell items in pieces. One can obtain one sheet of A4 paper from the street corner stationary shop. The shopkeeper has such low cost of service that he makes profit from selling one sheet of paper for 50 paise! The overhead costs of the organized retailer prohibit such small sales. One would have to buy a whole ream from the organized retailer. Kirana shops are open from 6 am to 10 pm. Often owner husband and wife take turns. Both have capacity to manage the shop. Kirana shops make home delivery. They have the ability to extract various types of work from one employee. He sweeps the shop, arranges goods in the window, undertakes home delivery, brings goods from the transporter and recovers outstanding loans. Organized players have to employ a number of persons for each of these functions. The combination of high-capacity *kirana* shops and high-capacity buyers has enabled the *kirana* shops to face competition from organized retailers. The underlying factor that operates behind all these is mental capacity. Small

shops in the United States seem to lack this ability. It is noteworthy that Gujaratis own a large number of small retail shops in the United States. They have the business capacity to manage these shops. But the American consumer appears to lack the ability to make these various calculations. Thus the same Gujarati is successful in India and not so in America. Mainstream economists think otherwise. The main reason being suggested for the failure of Subhiksha is rapid expansion at breakneck speed. This explanation is not acceptable. If this were the case then other organized retailers like Reliance, who have expanded at a slower pace, should have done well. That is not the case. All organized retailers in India are in trouble. Another explanation being offered is that organized retailers relied on special schemes to tempt the customer to buy goods that he may not truly need. This appears to be true. But why did they have to rely on such schemes? Because they were not able to sell the goods in routine conditions, it would seem.

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