Vol.04 issue-04, (April ,2017) ISSN: 2394-5702
International Journal in Commerce, IT & Social Sciences (Impact Factor- 4.218)

Impact of Demonetization on Indian Retail Industry

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Abstract:
The paper discusses about the move of demonetization taken by Central Government of India on 8th November, 2016 with respect to its reasons and effects on different sectors in India. The sectors cover Micro Businesses, E-Wallet businesses, online retail stores and so on. The paper is based on secondary data collected from different newspapers and online sources, mentioned in references. Demonetization is a tool of Government to eliminate the currency. It is used in very adverse situations. This paper tells about that what the post effects of demonetization on retailers are. This paper throws light on how much problems faced by shopkeepers, how their business effected and the effects on most popular brands sale. India has amongst the highest level of currencies in circulation at 12.1% of GDP. Cash on hand is an estimated at around 3.2% of household assets, higher than investment in equities, or roughly around $ 220 billion. Of this cash, 87% is in the form of Rs 500 and Rs 1,000 notes or roughly Rs 14 Lakh Crore ($190 billion).A significant portion of the household cash on hand is generated by economic transactions that are not reported to tax authorities or generated through corruption. Scrapping the higher denomination money would either result in these being brought into the system or the money just disappearing. The present paper highlights the probable consequences of this decision on various economic variables and entities. This paper is also going to try to give a better view of what is the Retailing, what are the types of retailing.

Keywords: Demonetization, Indian Retail Industry, Sectors.

INTRODUCTION

The Indian retail industry 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 kirana shops, owner manned general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors, etc. India's retail sector is wearing new clothes and with a three-year compounded annual growth rate of 46.64 per cent, retail is the fastest growing sector in the Indian economy. Traditional markets are making way for new formats such as departmental stores, hypermarkets, supermarkets and specialty stores. Western-style malls have begun appearing in metros and second-rung cities alike, introducing the Indian consumer to an unparalleled shopping experience.

Objectives of the Study:

1. To study the current scenario of Indian Retail Industry.
2. To study the effect of demonetization on Indian economy with special reference to Indian Retail Industry.
3. To discuss/study the challenges faced by Indian Retail Industry.

1.1 Various Segments of Indian Retail Industry:

The structure of Indian retail is developing rapidly with shopping malls becoming increasingly common in the large cities. However, the traditional formats like hawkers, grocers and tobacconist shops continue to co-exist with the modern formats of retailing. Modern retailing has helped the companies to increase the consumption of their products for example: Indian consumers would normally consume the rice sold at the nearby kiranas viz. Kolam for daily use. With the introduction of organized retail, it has been noticed that the sale of Basmati rice has gone up by four times than it was a few years back; as a superior quality rice (Basmati) is now available at almost the same price as the normal rice at a local kirana. Thus, the way a product is displayed and promoted influences its sales. If the consumption continues to grow this way it can be said that the local market would go through a metamorphoses of a change and the local stores would soon become the things of the past or restricted to last minute unplanned buying.

1.1.1 Food and grocery retail

The food business in India is largely unorganized adding up to barely Rs.400 billion, with other large players adding another 50 per cent to that. The All India food consumption is close to Rs.9,000 billion, with the total urban consumption being around Rs.3,300 billion. This means that aggregate revenues of large food players is currently only 5 per cent of the total Indian market, and around 15-20 per cent of total urban food consumption. Most food is sold in the local 'wet' market, vendors, roadside push cart sellers or tiny kirana stores. According to McKinsey report, the share of an Indian household's spending on food is one of the highest in the world, with 48 per cent of income being spent on food and beverages.

1.1.2 Apparel retail

The ready-mades and western outfits are growing at 40-45 per cent annually, as the market teems up with international brands and new entrants entering this segment creating an Rs.5 billion market for the premium grooming segment. The past few years has seen the sector aligning itself with global trends with retailing companies like Shoppers' stop and Crossroads entering the fray to entice the middle class. However, it is estimated that this segment would grow to Rs. 3 billion in the next three years.

1.1.3 Gems and Jewellery retail

The gems and jewellery market is the key emerging area, accounting for a high proportion of retail spends. India is the largest consumer of gold in the world with an estimated annual consumption of 1000 tonnes, considering actual imports and recycled gold. The market for jewellery is estimated as upwards of Rs. 650 billion.

1.1.4 Pharmaceutical retail

The pharma retailing is estimated at about Rs. 300 billion, with 15 per cent of the 51 lakh retail stores in India being chemists. Pharma retailing will follow the trend of becoming more organised and corporatised as is seen in other retailing formats (food, apparel etc). A few corporates who have already forayed into this segment include Dr Morepen (with Lifespring and soon to be launched Tango), Medicine Shoppe, Apollo pharmacies, 98.4 from Global Healthline Pvt Ltd, and the recently launched CRS Health from SAK Industries. In the south, RPG group's Health & Glow is already in this category, though it is not a pure play pharma retailer but more in the health and beauty care business.

1.1.5 Music Retail

The size of the Indian music industry, as per this Images-KSA Study, is estimated at Rs.11 billion of which about 36 percent is consumed by the pirated market and organized music retailing constitutes about 14 percent, equivalent to Rs.1.5 billion.

1.1.6 Book retail

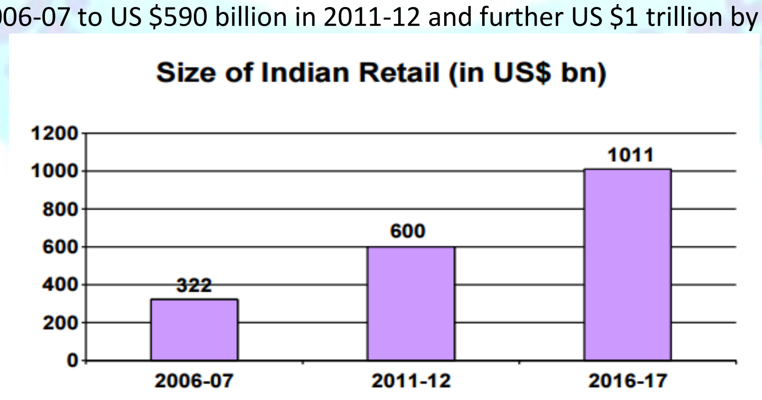
The book industry is estimated at over Rs. 30 billion out of which organized retail accounts for only 7 per cent (at Rs.2.10 billion). This segment is seen to be emerging with text and curriculum books accounting

to about 50 per cent of the total sales. The gifting habit in India is catching on fast with books enjoying a significant share, thus expecting this sector to grow by 15 per cent annually.
1.1.7 Consumer durables retail
The consumer durables market can be stratified into consumer electronics comprising of TV sets, audio systems, VCD players and others; and appliances like washing machines, microwave ovens, air conditioners (A/Cs). The existing size of this sector stands at an estimated US$ 4.5 Billion with organized retailing being at 5 per cent.

1.2 Retail formats in India:
Hyper marts/supermarkets: large self-servicing outlets offering products from a variety of categories. Mom-and-pop stores: they are family owned business catering to small sections; they are individually handled retail outlets and have a personal touch.
1.2.1 Departmental stores: These are general retail merchandisers offering quality products and services.
1.2.2 Convenience stores: These are located in residential areas with slightly higher prices goods due to the convenience offered.
1.2.3 Shopping malls: The biggest form of retail in India, malls offers customers a mix of all types of products and services including entertainment and food under a single roof.
1.2.4 E-trailers: These are retailers providing online buying and selling of products and services.
1.2.5 Discount stores: These are factory outlets that give discount on the MRP.
1.2.6 Vending: It is a relatively new entry, in the retail sector. Here beverages, snacks and other small items can be bought via vending machine.
1.2.7 Category killers: These are small specialty stores that offer a variety of categories. They are known as category killers as they focus on specific categories, such as electronics and sporting goods. This is also known as Multi Brand Outlets or MBO's.
1.2.8 Specialty stores: These are retail chains dealing in specific categories and provide deep assortment. Mumbai's Crossword Book Store and RPG's Music World is a couple of example.

2. CURRENT SCENARIO OF INDIAN RETAIL MARKET
The size of Indian retail industry is more than US $350 billion but it is highly unorganized. The organized sector has started developing in the past few years. Many International brands have entered the market. With the growth in organized retailing, unorganized retailers are fast changing their business models.

According to study conducted by ICRIER, total retail business in India will grow at 13% annually, from US $322 billion in 2006-07 to US $590 billion in 2011-12 and further US $1 trillion by 2016-17.



3. DEMONETIZATION: IMPACT ON THE ECONOMY

The demonetization, by removing 86 per cent of the currency in circulation, has resulted in a very severe contraction in money supply in the economy. This contraction, by wiping out cash balances in the economy, will eliminate a number of transactions for a while, since there is no or not enough of a medium of exchange available. Since income and consumption are intrinsically related to transactions in the economy, the above would mean a severe contraction in income and consumption in the economy. This effect would be more severe on individuals who earn incomes in cash and spend it in cash. To a lesser extent it would also affect individuals who earn incomes in non-cash forms but need to withdraw in cash for consumption purposes, since a number of sectors in the economy still work predominantly with cash.In terms of the sectors in the economy, the sectors to be adversely affected are all those sectors where demand is usually backed by cash, especially those not within the organized retailing. For instance, transport services, kirana, fruits and vegetables and all other perishables, would face compression in demand which is backed by purchasing power. This in turn can have two effects: while it is expected that supply exceeds demand, there would be a fall in prices, however, if supply too gets curtailed for want of a medium of exchange, prices might, in fact, rise. Thus, while generally people seem to expect prices to fall, it is quite possible that prices would instead rise.Alternatively, to keep the flows going, people might take recourse to credit - both the retailers and other agents in the economy might make supplies on credit in the hope that when the liquidity status is corrected, the payments can be realised. In these cases, the price of commodities might rise instead of falling. In other words, the impact of an incremental reduction in money supply where the demand and the supply chain remain unaffected would be different from a case where there is a drastic reduction in money supply and outputs might adjust rather than the adjustment being in prices. In other words, the expectation that inflation would decline might be belied.A further impact would be a compression of the demand for non-essentials by all the agents in the economy in the face of uncertainty in the availability of cash. The demand from segments which have access to digital medium of exchange would remain unaffected, but that from the rest of the economy would get compressed. This would transmit the effect to the rest of the sectors in the economy as well.As Amazon invests heavily across the globe, India is one of the key growth countries for the company, with e-commerce in the region at a nascent stage and a huge potential for growth. However, economic policies in the country can impact this growth for Amazon. In a sudden and unprecedented move, on November 8, 2016, the Indian government announced that high value currency notes (Rs. 500 and Rs. 1000) will no longer be legal tender, eliminating nearly 86% of the currency in circulation, creating a huge cash crunch in the economy. In a country where nearly 90% of transactions are carried out in cash, a bold move to transform the region into a “cashless” economy has created chaos. The move is intended both to reduce untaxed “black” money and rampant corruption in the country, and to bring more accountability in cash-based informal industries.

Experts believe that demonetization could impact the country’s economic growth significantly in the short term. Ambit Capital, a reputed research company in India, has revised its FY18 GDP growth estimate to 5.8% as opposed to the 7.3% figure earlier. The cash crunch has impacted business of several industries and can have a significant impact on the “Cash on Delivery” model of e-commerce companies in India. About 70% of online shoppers in India, including those on Amazon’s platform, opt for cash while buying a product. Cash payments are more frequent for high value products where the unaccounted “black” money is spent on luxuries. While online grocery companies have seen a surge in revenues with the demonetization move, as consumers look to buy essential commodities through digital payments, gross merchandize value of other high value commodities is likely to be impacted negatively. According to Forrester Research, the cash crunch will bring the cash on delivery share of e-commerce sales down significantly and increase the online payments.

3.1 Impact on Consumption Sectors

3.1.1 Agreement Cost of Real Estate May Rise:

We expect that the real estate demand from end users is unlikely to be impacted, since a majority of them are backed by funding from bank loans. Demand from investors for real estate however may come down since in some cases, investors prefer cash transactions. If the proportion of earlier transactions in the real estate sector, which were allegedly done through partial cash payment reduces, the registered prices for real estate will go up. We expect the supply of real estate in the secondary market, which is strongly rumored to have a large cash component involved, to suffer in the short term, which may in turn improve demand for residential real estate in the primary market. In the medium term, the prices in this sector could regain on many fronts as developers rebalance their prices (probably charging more on cheque payment).

3.1.2 Used car Sales May Fall:

Sales of vehicles in the second hand market for original equipment manufacturers will get impacted, which will cause a ripple effect on New Car sales, as buyers will not be able to dispose of their old vehicles easily.

3.1.3 Slowdown in Discretionary Spending to Hurt Consumer Durable Sales:

Sales of White Goods like TV, Refrigerator & Washing Machine could slump as much as 70% as a good portion of the market is driven by Cash. This may continue for next Six Months till the dust settles down and there is adequate circulation of the new currencies. Prices are expected to fall only marginally, due to moderation in demand, as use of cards and cheques could compensate for some purchases.

3.1.4 Demand for Gems and Jewellery to Decline:

We can expect the demand for gems and jewellery to decline in the next two to three quarters. This would result in a weakening in the credit profile of industry players due to the high working capital cycles and high operating leverage. The unorganised segment will be hit particularly hard, given the large proportion of unaccounted inventory and high proportion of cash sales. Over the medium-term the organised industry players will benefit at the cost of the unorganised players. Gold imports through the unofficial channels are likely to reduce. There will be no significant impact on jewellery exporters because it is mostly an organised market and sales are against invoices.

3.1.5 High End Retail Demand to fall:

We expect the impact on high end fashion retail and luxury goods to be more pronounced as discretionary demand in this segment will be curtailed. In case of Quick Service Restaurants, although 60%-70% of the transactions are currently in cash, the impact is likely to be moderate due to the low ticket size of purchases and high likelihood of patrons adapting to plastic money. We expect a limited impact to be caused on the food and grocery retail sub-segment, given the non-discretionary nature of purchases in this segment, since the buying cycle for the current month would have been largely influenced.

3.2 Impact on Indian Retail

The Modi government's demonetization move has had an impact on several sectors, especially real estate. How could retail be far behind? Given Indian's propensity to deal in cash, especially when shopping in luxury malls and high streets, retail will see short-term impact on sales. The media has already reported how retail sales have dwindled in the immediate aftermath of the government's announcement, and how millions of new users are registering on portals offering digital payment services.

There is no doubt that demonetization is a great move for a better future of India and its economy. It will definitely influence many more shoppers to start using plastic money in the long-term. Already, malls see usage of credit/ debit cards and eWallets go up during big sales, when banks and fin-tech start-ups offer cashbacks or discounts. This is trend will rise substantially in the long term as such payment methods become more mainstream For now, demonetization has impacted the retail industry due to a liquidity crunch. As the Indian retail industry generates a lot of cash transactions, a reduction in sales will continue in the short-term, i.e. one-two quarters. This impact is being felt largely by small traders and the unorganised retailing segment prevalent on many high streets across the country, as compared to the organised retailing and malls. Segments such as jewellery and luxury have seen a higher impact than others, and this situation is likely to continue for a while. These two segments will take much longer to revive, though plastic money and online payments will help them sustain for now. In the medium-to-long term, however, there is no threat to these sub-segments, as the domestic consumption recovers from the temporary cash crisis. Importantly, the fact that retailers will encourage alternate/ digital payment solutions will help the marketplace become more transparent and structured. The luxury segment, with its historically high incidence of black money acceptance, will see more transactions in white than ever before. This bodes well for this business. Lower footfalls in shopping malls is a passing phase and is expected to normalise in a few weeks as more of the newer currency denominations come into circulation, enhancing the purchasing power of consumers once again. The long-term growth scenario of Indian retail continues to be resilient and growth-oriented. The domestic consumption story remains intact thanks to a strong economic base, favourable demographics and FDI-friendly policies.
The Sector wise impact on Indian retail Industry is given below:-

3.2.1 Auto

In short term, Auto sector is likely to witness lower demand on account of shortage of currency and uncertainty associated with the funds. Longer term there may be a limited direct impact as most cash purchases will move to finance. However, outside the direct impact, there may be some impact of slower economic activity on demand. Overall the demand environment may slow down as small businesses get hit by the cash crunch and higher taxes. To evaluate the direct impact, the proportion of cash payments for vehicle purchases to be evaluated. High penetration of financing in passenger cars and utility vehicle segment (75%-80%) and commercial vehicle segment (90 %+), the impact is likely to be minimum in the long term. In India, out of total two wheeler sold, 40%-50% are funded by financial institutions. However, the overall sector impact may be back-ended with a negative bias depending on how much wealth destruction takes place because of demonetization. Given the unprecedented nature of the announcement, most consumer discretionary, especially high-ticket items are likely to witness moderation in demand. This market may face some impact on demand in the near term which might result in postponing the purchases for few months. Also tractor demand is likely to rebound meaningfully in the medium to long term as a) agriculture income in the rural areas is already a tax free income and thus demand for its products may not get influenced by unaccounted money and b) Higher percentage of its vehicles are being funded by financial institutions. Slowdown in economic activity, liquidity crunch and curtailment in cash purchase will impact automobile segment in the near term. Also, the festive demand has just got over and the period post festive season is usually a weak month for automobile sales. Generally automobile demand during November and December is weak and now the demonetization move by the government will further add to the demand slackness. Few company managements believe that demand will be weak in the near term (3QFY17) and will pick-up from 4QFY17. Two wheelers – finance penetration is around 40% to 50%, Hero has lowest penetration at ~40%. However, given the low ticket items, demand impact should not be signficant beyond a point.

Eicher Motor (Royal Enfield business) to have maximum impact due to high ticket item and ~50% of finance penetration Cars – finance penetration is ~75% Trucks - ~95% is the finance penetration

3.2.2 Capital Goods

The impact of de-monetisation plan on capital goods sector won't be big due to B2B nature of business and also driven by tender-based bidding. Cash crunch in the systems is going to impact construction and mining equipment companies as these are used by unorganized sector mainly by contractors of large companies. However, in case de-monetisation drive leads to further slowdown in the economy, then it can affect industrial demand and order inflow during this period. Moreover, payment to subvendors may face some liquidity issues. Also slowdown in real estate sector to impact demand for steel pipes, motors, pumps, white goods, electrical goods etc.

3.2.3 Consumption (Staples and Durables)

Consumer staples will partially be impacted in the short run as the distributor and retail level adjust to the new currency norms. But this is just a hiccup and is not a structural negative for the sector. Consumer staples companies might see some impact on volume growth in the near term but this does not pose a risk of structural decline in revenues. Long term this will not impact demand of goods. However demand for discretionary products will see a more acute impact as the trade works primarily on Cash. This too is short term in nature. The key long term positive of this lies in the fact that the organized sector will gain market share against unorganized sector over the years. Within brown goods, 30% of demand is generated from tier I/rural and semi urban areas. Sales from these areas is likely to be impacted more severely than the tier I counterpart in the near term. However, over the medium to long term, the impact on the sector will be neutral as penetration for most durables in India remains low and consumers would adjust to other forms of payments. Being low ticket items, the impact in the medium term for brown goods (like fans, mixers etc.) could be less severe. Major companies impacted - Voltas, Blue Star, Hitachi Home, Lloyd Electric, Bajaj Electricals and Havells among others.A significant hit on gold and jewellery sales, a traditional way to spend black money in India. While PAN disclosures have already curbed transactions over Rs 2 lacs, the latest demonetization will lead a further blow. Expect sustained weakness in most jewellery stocks. Rural and semi-urban markets which are largely cash driven can see a significant cut down on discretionary spend. Some demand postponement in the durables segment, affecting near term revenue growth for VGuard, Havells and Bajaj Electricals. Impact is possible on the mass segment, too, as it is largely driven by traditional and rural channels. However, this is not likely to be long lasting as product categories are mostly and enjoy sticky consumption franchise. HUL, Dabur, Jyothy Labs, Marico and Emami fall into this category. Food chains may be temporarily affected, as students mostly buy in cash. Jubilant FoodWorks is a prime example. Cigarettes are mostly sold for cash, too (ITC).

3.2.4 Consumer Electricals

Consumer electrical products like fans, lights, switches, are low ticket-size products (priced between Rs 100 to Rs 2,500) as well as products of basic necessity. Hence, we do not expect any severe impact on their demand because of the de-monetization drive. However, consumption of certain products like house-wiring cables and industrial cables could be impacted because two of their key user industries are housing construction and infrastructure projects which are likely to be affected by de-monetization. These measures are negative for Voltas, Havells India as a lot of demand comes from Tie II/III towns and is dealt in cash. While online transactions have substantially increased, the market for white/brown goods is still 80% on cash. For Havells India, cables and wires is the largest segment in revenue terms forming 40% of FY16 sales, but owing to low margin of 14% it accounts for 24% of contribution profit. For V-Guard Industries, house wiring cables forms 31% of FY16 sales. Bajaj Electricals does not have presence in cables and wires segment and could be better off compared to its peers.

3.2.5 White Goods

For white goods companies like Voltas and Whirlpool, demonetization drive is likely to have a negative impact in the near term. As home appliances like air-conditioners, washing machines, refrigerators, TV etc are products of considerable value (priced between Rs 20,000 to Rs50,000 on an average), there is a possibility of deferment in consumer discretionary spending. As per industry interaction, in total sales of home appliances, 15% is accounted for by the consumer finance route (0% EMI schemes etc), 40% by credit and debit cards while the remaining 45% is likely via cash purchases. Demand coming from these set of buyers who purchase through cash could be affected in the near term. Also, airconditioner players are least likely to be affected as the ongoing winter season (November to January) is nonseasonal time for AC sales.

3.2.6 Financial Institutions (Banks, MFIs, NBFCs, HFCs)

Banks will benefit from the move to demonetise. CASA accretion will shoot up in banks, esp PSU Banks. This is owing to the rush to deposit cash in the banned denominations (500/1,000 Rupees). The CASA growth has already seen a sharp improvement and the huge deposit inflow will result in a system wide moderation of the rate environment. However, this can be short lived. This is because a large part is likely to be utilised by depositors to pay for business/personal requirements, a relatively smaller part may be parked into higher yielding deposits while some may be simply withdrawn in the form of cash. Ten year yields have crashed to 6.4% (~down 40 bps in 2 weeks) and this is expected to aid treasury profits significantly. Overall, the banking system has already seen an influx of Rs 4.0 tn of CASA mix over past ten days and it is expected that the deposit base increases by Rs. 10 tn by Dec-end and even if 25-30% of these deposits finally stays in the banking system and that alone can boost the systemic CASA mix by up to 3%. Some pressure can be seen in form of asset quality for both Banks and NBFCs – particularly on Loan Against Property (LAP), developer financing (players like Indiabulls Housing Finance, PNB Housing ,etc) and impact in SME business (DCB Bank etc) . Further there might be some pressure on the cash collection which has been the forte of some of the NBFCs (Like MMFS – 60% is cash collection). Further all these NBFCS (like Repco, Chola Finance, Gruh) has the MOATs that was to look beyond the Tax Forms (only 3% of Indian files IT tax return) so this might hamper their operations. Some impact could be seen on demand for consumer durable, which could impact the players like Bajaj Finance, Capital First. This will also be negative for gold finance players (Muthoot Finance, Manappuram Finance) wherein lot of dealing happens in cash (similar impact was visible when PAN card was made mandatory for Rs. 2 lakhs). For MFIs these might not be much negative in near to longer term (near term - for 1 month or so - cash collection and delivery might get delayed due to issues in currency circulation), given the lower ticket size in which they operate.

3.2.7 Metals & Mining

For metals & mining, overall contraction of money supply will impact demand in the shorter term. Pricing should not be impacted due to the presence of trade measures. However adverse impact on property investment, automobile, and white goods demand in the near term, which will likely affect 2HFY17 earnings, especially for steel. Within metals, stocks with global exposure are relatively insulated from the withdrawal of high denomination notes. The earnings impact for non-ferrous should be moderate, as pricing is LME linked and exposure to these segments is low.

3.2.8 Pharmaceuticals

Demonetization is not expected to have any major impact on the Indian pharma market and demand is not expected to get impacted in a big way as most of their revenues & profits are derived from outside India. Unlike the tech stocks, this sector is far more robust to be impacted by currency fluctuations. But due to Demonetization trade channels will surely have an impact in the interim as cash has dried up. However, luxury hospitals may see some impact due to spending cuts

3.2.9 Telecoms

There is no meaningful impact seen on telecom due to demonetization plan. However, slowdown in smart phone sales could potentially slow adoption of mobile broadband subscriber penetration. Moreover any pressure on global liquidity could delay the plans of telcos who are looking to monetize tower assets. Further telecom companies will be under pressure due to relatively high valuations, negative earnings momentum and lack of positive catalysts.

4. CHALLENGES FACED BY THE RETAIL INDUSTRY:

4.1 International Standards:

Even though India has well over 5 million retail outlets of different sizes and styles, it still has a long way to go before it can truly have a retail industry at par with International standards. This is where Indian companies and International brands have a huge role to play.

4.2 Inefficient supply chain management:

Indian retailing is still dominated by the unorganized sector and there is still a lack of efficient supply chain management. India must concentrate on improving the supply chain management, which in turn would bring down inventory cost, which can then be passed on to the consumer in the form of low pricing.

4.3 Lack of Retail space:

Most of the retail outlets in India have outlets that are less than 500 square feet in area. This is very small by International Standards.

4.4 Cultural Diversity:

India's huge size and socio economic and cultural diversity means there is no established model or consumption pattern throughout the country. Manufacturers and retailers will have to devise strategies for different sectors and segments which by itself would be challenging.

4.5 Real estate issues:

The enormous growth of the retail industry has created a huge demand for real estate. Property developers are creating retail real estate at an aggressive pace. With over 1,000 hypermarkets and 3,000 supermarkets projected to come up by 2011, India will need additional retail space of 700,000,000 sq ft (65,000,000 m2) as compared to today

4.6 Human resource problems:

Trained manpower shortage is a challenge facing the organized retail sector in India. The Indian retailers have difficulty in finding trained person and also have to pay more in order to retain them. This again brings down the Indian retailers profit levels

4.7 Frauds in Retail:

It is one of the primary challenges the companies would have to face. Frauds, including vendor frauds, thefts, shoplifting and inaccuracy in supervision and administration are the challenges that are difficult to handle. This is so even after the use of security techniques, such as CCTVs and POS systems. As the size of the sector would increase, this would increase the number of thefts, frauds and discrepancies in the system.

4.8 Challenges with Infrastructure and Logistics:

The lack of proper infrastructure and distribution channels in the country results in inefficient processes. This is a major hindrance for retailers as a non-efficient distribution channel is very difficult to handle and can result in huge losses. Infrastructure does not have a strong base in India. Urbanization and globalization are compelling companies to develop infrastructure facilities. Transportation, including railway systems, has to be more efficient. Highways have to meet global standards. Airport capacities and power supply have to be enhanced. Warehouse facilities and timely distribution are other areas of challenge. To fully utilize India's potential in retail sector, these major obstacles have to be removed.

5. CONCLUSION

The demonetization undertaken by the government is a large shock to the economy. The impact of the shock in the medium term is a function of how much of the currency will be replaced at the end of the replacement process and the extent to which currency in circulation is extinguished. While it has been argued that the cash that would be extinguished would be “black money” and hence, should be rightfully extinguished to set right the perverse incentive structure in the economy, this argument is based on impressions rather than on facts. While the facts are not available to anybody, it would be foolhardy to argue that this is the only possibility.

Business houses are an integral constituent of the country’s economy. While medium and large scale business is unaffected to such ban, many small-size commercial establishments are deeply affected by such sudden move by the government. The economy of the country may experience recession in the coming few weeks but is expected to get back to its shape shortly after the influence of Modi government. Central government’s recent decision to demonetize the high value currency is one of the major step' towards the eradication of black money in India. The demonetization drive will affect some extent to the general public, but for larger interest of the country such decisions are inevitable. Also it may not curb black money fully, but definitely it has major impact in curbing black money to large extent.

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