

DIAGNOSING IMPACT OF MALLS ON SMALL SHOPS A STUDY OF DELHI AND NCR

Reetesh Kumar Singh*
Aditya Prakash Tripathi**

ORGANIZED retail sector has witnessed a CAGR of around 35 per cent over the past five years and currently contributing around 10 per cent to the country's GDP & eight percent of the employment. The Retail Sector is seeing investments of up to Rs. 6000 crore by the 20 prominent retail players. On the other hand (A report by Govt. of India in 2004 by the centre for policy alternatives entitled FDI in India's retail sector: 'More bad than good' stated that) retailing is "probably the primary form of disguised unemployment, underemployment in the country. India has 35 towns each with a population of over one million. If Wal-Mart were to open an average Wal-Mart store in each of these cities and they reached the average Wal-Mart performance per store, we are looking at a turnover of over Rs. 80, 330 million (\$1.82 billion) with only 10,195 employees. Extrapolating this with the average trend in India, it would mean displacing about 4,32,000 persons.

If large retailers were to obtain 20 per cent of the retail trade, 'this would mean a turnover of Rs. 800 billion (\$ 18 billion) at current market price. And of course, would mean an employment of just 43,540 persons displacing meanly eight million persons employed in the unorganized retail sector. Understanding the importance of the issue, the present study is aimed to investigate the impact of Malls on small shops and Impact of organized retailing upon sales performance, employment generation and loss of social interest with the emergence of organized retailing with special reference to Delhi and NCR.

Key Words: Retail Sector, Malls, Small Shops.

Introduction

The Indian retail industry, consisting of over 13 million outlets is estimated to provide employment to over 18 million people, the largest employment after agriculture. FICCI Retail Report, 2007 indicates that organized retail will grow at significant CAGR of around 50 per cent till 2011 mainly due to the investments of more than \$30 billion budgeted by big and small players in the organized retail sector over coming five to seven years. Organized retail sector has witnessed a CAGR of around 35 per cent over the past five years and contributing around 10 per cent to the country's GDP and eight percent of the employment. The retail sector is seeing investments of up to Rs. 6000 crore by the 20 prominent retail players.

Organized corporate retailing is poised to become the business of the decade in India. Retailing presently contributes about 10 per cent of India's Gross Domestic Product (GDP) and 6-7 per cent of employment.

* Senior Lecturer, Sri Ram College of Commerce (SRCC), University of Delhi, Delhi, India.

** Senior Lecturer in Management, Delhi School of Professional Studies & Research (DPSR), Approved by A.I.C.T.E., Ministry of H.R.D., Govt. of India, New Delhi, India.

With some 15 million retail outlets, India has the highest retail density in the world. But only 4 per cent of these outlets are more than 500 sq ft in size and almost all are family owned shops and establishments (Mukherjee and Patel 2005). The value of organized retail is expected to grow 2.8 times in the coming four years to a Rs 1,000 billion industry, attracting many global retail chains like Wal-Mart, Tesco, and Carrefour (Outlook, October 16, 2006). Foreign Direct Investment (FDI) up to 51 per cent in single brand retail was permitted last year and multi-brand retail is expected to open up to 51 per cent of FDI soon. Meanwhile, Indian retail chains like Reliance Retail, Croma, Aditya Birla group, S Kumars, Shoppers' Stop, Westside, Subhiksha, and Trinethra have all been consolidating their realty, brands, market shares and locations. Retail giants, the largest being Wal-Mart-Bharti, Reliance, AV Birla group and Future group (Pantaloon), plan to expand the share of organized retail from the current 3 per cent to approximately 15-20 per cent in four years by investing more than \$ 25 billion (excluding real estate investment). Of the proposed investment, 60-65 per cent will go towards setting up the supply chain for food and groceries (CII – Kearney 2006).

On the other hand, A report published in 2004 by the centre for policy alternatives entitled *FDI in India's Retail Sector: More Bad than Good* stated that retailing is "probably the primary form of disguised unemployment, underemployment in the country". As per the report, due to overcrowding in the agricultural sector and stagnation in the manufacturing sector, millions of Indians are forced into the service sector. Given the lack of opportunities, it is almost a natural decision for an individual to set up a small shop or store, depending on his or her means or capital, and thus a retailer is born, seemingly out of circumstances rather than choice (Trivedi et al. 2007).

The report further adds that India has 35 towns each with a population of over one million. If Wal-Mart were to open an average Wal-Mart store in each of these cities and they reached the average Wal-Mart performance per store, we are looking at a turnover of over Rs. 80,330 million. (\$ 1.82 billion) with only 10,195 employees. Extrapolating this with the average trend in India, it would mean displacing about 4,32,000 persons. As per report if large retailers were to obtain 20 per cent of the retail trade, 'this would mean a turnover of Rs. 800 billion (\$ 18 billion) on today's basis. This would mean an employment of just 43,540 persons displacing mainly *eight million* persons employed in the unorganized retail sector.

Review of Literature

Review of existing literature and different reports which are published from time to time are flashing that, to-date there is very little understanding of what the impact of corporate retail will be on the so-called unorganized retail sector and the agricultural sector (the country's two largest sources of employment).

The Macro Picture: The competition for urban space between the organized and the informal retailer is becoming more intense. With rural-urban migration and general unemployment in the cities, the organized sector is unable to absorb labour in sufficient quantities. In the post-liberalization period, the rate of growth of employment in the organized sector is barely 0.34 per cent lower than in the pre-liberalization phase, and 3.6 times lower than the growth rate of employment in the informal sector in the same period. The informal sector grows with passive proletarianisation¹; the direct producers do not get into salaried positions in the formal labor market¹.

As fresh migrants into the city join the reserve army of the urban unemployment, incomes within the sector tend to drop (Roberts 2004). There is growing inequality within the informal sector as it is between the formal and informal. The weakest and the smallest shoulders have to bear the heaviest burden of informalisation (Bremman 2003).

If the number of malls and retail chains multiply, the sales impact on small shops is likely to be intensified and earnings will keep falling till all these micro accumulators become micro-subsistence seekers.

1 (UN Human Settlements Programme 2003).

Informal sector employment can be classified into at least two sub-categories – an intermediate sector, which has a reservoir of micro-enterprises and the community of the poor, residual and underemployed labour (Davis 2006).

FDI in retail and the growth of large corporate retail trade will slowly erode the informal petty accumulators and increase the masses of the informal proletariat. The wage employment generated in unorganized retail is informal employment. Informal employment, by its very definition, implies the absence of formal contracts, rights and bargaining power.

Hence, deteriorating business conditions here will increase petty exploitation and worsen the lot of the wage earners. The informal proletariat (Lubell 1991) is also the most vulnerable; it is composed of unskilled, fresh immigrants from rural areas and is least mobile of the workforce. In a survey-based study (Mukherjee and Patel 2005) sponsored by Indian Council for Research on International Economic Relations (ICRIER), the researchers make a case for introduction of FDI in organized retail over a period of five to six years to boost the pace at which the sector is growing.

An organized retail sector, as the researchers suggest (Mukherjee et al. 2005), will ensure better quality, prices and service quality to the consumer. It will encourage investment in the supply chain, link local suppliers to large global markets and improve the quality of employment. Their sample of 391 respondents was spread out over 14 types of participants in the retail sector, from domestic organized retailers, real estate developers, foreign players and manufacturers to unorganized retailers spread over eight cities.

The sample however had only 64 domestic unorganized retailers, 50 workers in the unorganized retail, and no hawkers. Since this sector generates 6 to 7 per cent of total employment in the economy, there is a need to focus on the impact of organized retail and FDI in retail on this segment alone. *Will organized retail and related activity absorb the 40 million persons currently employed in the sector?*

An average mall generally employs not more than 500 personnel directly in its various retail outlets. This estimate excludes contract staff like housekeepers, loaders, security staff, etc. However, around 4 lakh people are employed in the unorganized retailing sector in Delhi and NCR and they would in all possibility be adversely affected. The dislodgement and unemployment effect could be far greater than the employment effect. Moreover, the shop floor staff in the malls have at least high school level qualifications (Matriculation), unlike their counterparts in the small shops, most of whom are barely literate and cannot be rehabilitated in organized retail. In the present study the focus has been entirely on this segment and the impact on them is quite clearly damaging as per the existing literature.

Only a few (approximately 20 per cent) were able to upgrade their services or respond to the changed circumstances. An escalation of competition from corporate retail and FDI will thus hasten their decline. There is a need to extend this research by using a larger sample across the country, with a control group of retailers as yet unaffected by organized retailing so as to fully grasp the income and employment impact and probably this is the limitation of the present study.

Also, as the supply chains which the organized retailers have developed, there is a need to study their impact on the welfare of the ultimate producers and consumers whom they are supposed to benefit. Whatever the international evidence we have at hand, indicates the dangers of monopoly capital in retailing for geographically distributed small producers who are not in a position to bargain for a fair price with these bulk buyers.

Understanding the Importance of the issue the present study is aimed to investigate:

- a) The Impact of Malls on small shops
- b) Impact of organized retailing upon employment generation and loss of social interest with the emergence of organized retailing.

In order to achieve the above-stated objectives the following two null hypotheses has been formulated and were put to test:

Ha: The modern malls are negatively affecting the functioning and sales performance of small shops.

Hb: Organized retailing is not able to create adequate employment opportunities as compared to unorganised retailing.

To test the validity of above two hypotheses, 300 respondents have been selected from the different areas of Delhi and NCR but only 245 respondents filled the questionnaire completely and were found interested in giving responses. A pre-structured questionnaire was designed to collect the responses. For this purpose mainly those shopkeepers have been considered who are not working at large scale.

Data Analysis and Findings

Table 1: Sample Description on the Basis of Area

Area	No. of Respondents	%
East Delhi	40	16.33
West Delhi	30	12.24
North Delhi	40	16.33
South Delhi	65	26.53
Central Delhi	45	18.37
Ghaziabad	25	10.20
Total	245	100.00

Source: Data Generated through Questionnaire.

Table 2: Distribution of Sample by Capital Employed

Capital involved (in Rs. Lakhs)	No. of Shops	%
Upto Rs. 2,00,000	70	28.57
Rs. 2-6	55	22.45
Rs. 6-11	55	22.45
Rs. 11-16	40	16.33
Rs. 17 and above	25	10.20
Total	245	100.00

Source: Data Generated through Questionnaire.

Table 3: Pattern of Employment in Small Shops

Particulars	No. of Shops	% in total
Run by family members	165	67.35
Run by family members and employees both	80	32.65
Total	245	100.00

Source: Data Generated through Questionnaire.

Table 4: Distribution of Sample by Type of Product

Type of Product	No. of Shops	%
Grocery Shops	68	27.76
Grocery and Vegetables both	42	17.14
Readymade Garments	40	16.33
Jewellery	35	14.29
Electronic and Electrical Goods	60	24.48
Total	245	100

Source: Data Generated through Questionnaire.

Classification of Statements into the Factors

The questions designed in the questionnaire were classified into three factors on the basis of general opinion after the interaction with the different players in the unorganized retail market. The factors which were considered while designing the questionnaire are:

- Area of operation
- Size of business (in terms of Capital employed)
- Type of product.

Table 5: Influence of Malls upon the Sales Performance (Area of Operation)

Change in Level of Sales	No. of Shopkeepers						Total
	E.D.	W.D.	N.D.	S.D.	C.D.	GZB	
No Change	10 (25 %)	7 (23.33%)	6 (15 %)	45 (69.23%)	30 (66.66%)	20 (80%)	104 (42.44%)
Increase	5 (12.5%)	0	3 (7.5%)	10 (15.38%)	5 (11.11%)	0	23 (9.39%)
Decrease	25 (62.5%)	23 (76.67%)	31 (77.5%)	10 (15.39%)	10 (22.23%)	5 (20%)	118 (48.16%)
Total	40	30	40	65	45	25	245

Source: Data Generated through Questionnaire.

Table 6: Influence of Malls upon the Sales Performance (Size of Business)

Change in Level of Sales	No. of Shopkeepers					Total
	Upto Rs. 2 (in lacs)	Rs.2-6 (in lacs)	Rs.7-11 (in lacs)	Rs.12-16 (in lacs)	Rs.17 above (in lacs)	
No Change	15 (21.4%)	0	35 (63.60%)	25 (62.50%)	25 (100%)	100 (40.82%)
Increase	0	5 (10%)	5 (9.09%)	12 (30.0%)	–	22 (8.98%)
Decrease	55 (78.57%)	50 (90%)	15 (27.2%)	03 (7.50%)	–	123 (50.20%)
	70	55	55	40	25	245

Source: Data Generated through Questionnaire.

Table 7: Influence of Malls upon Sales Performance (Type of Product)

Change in Level of Sales	No. of Shopkeepers					Total
	Grocery	Grocery & Vegetables	Readymade Garments	Jewellery	Electronic Goods	
No Change	18 (26.47%)	7 (16.66%)	45 (37.50%)	30 (85.70%)	42 (70.0 %)	112
Increase	–	2 (4.76%)	5 (12.50%)	2 (5.71%)	3 (5.0%)	12
Decrease	50 (73.52%)	33 (78.57%)	20 (50.0%)	3 (8.57%)	15 (25.0%)	121
	68	42	40	35	60	245

Source: Data Generated through Questionnaire.

Major Findings: The sample survey of 245 small retailers in Delhi and NCR points to a substantial decline in the sales performance of small shops and ultimately resulting into the closure of these unorganized outlets. Major findings of the present study can be understood as follows:

- Small shops in the posh areas and shops in the inner streets were comparatively less affected by the malls. For daily requirements and groceries customers were still relying on small shops only. Out of 245 respondents 118 (48.16 per cent) reported decline in sales whereas 23 (9.36 per cent) reported increase in sales. 104 (42.44 per cent) retailers reported no change in their sales performance.

Interestingly maximum retailers in South Delhi and Central Delhi reported no change in their sales performance.

- As far as second parameter was concerned 123 respondents (50.20 per cent) reported decline in the sales whereas 100 respondents (40.82 per cent) reported no change in their sales. Only 22 respondents (8.98 per cent) reported increase in their sales.

Research also revealed that retailers having small capital base i.e. up to Rs. 2 lakhs and 2-6 lakhs were highly affected by the malls.

Impact on Sales Performance of the Small Shops in Terms of their Capital-base

Out of 70 respondents 55 (78.57 per cent) reported decline in the sales and 15 (21.40 per cent) reported no change. In the capital range of Rs. 2-6 lakhs, out of 55 respondents 50 (90 per cent) reported decline in their turnover whereas in case of retailers having capital base of 7-11 lakhs, 63.60 per cent reported no change and 27.20 per cent reported decrease in the turnover. In case of retailers having capital base of Rs. 12-16 lakhs, 62.50 per cent reported no change. Interestingly retailers with the capital base of Rs. 17 lakhs reported no change (Table 6).

Product-wise Impact

In order to evaluate the product wise impact of malls, respondents dealing with different types of product were interviewed. Research revealed that retailers dealing in grocery and vegetables and grocery reported record decline in their sales. Out of 42 respondents 33 (78.57 per cent) reported decline in sales. Jewellery was found as a product, which was less affected with the emergence of malls. Out of 35 retailers dealing with jewellery, 30 respondents (85.70 per cent) reported no change in their sales

performance even they also disclosed that due to the nature of product, customer still go to that shop only with which they are personally acquainted.

- In case of readymade garments out of total 40 respondents (50 per cent) pointed decline in their sales with the emergence of malls whereas in case of electronic goods 70 per cent respondents reported no change in their sales.

Findings Regarding Hypothesis

The above stated analysis of the researchers find that since malls are operating at large scale and due to their internal and external economies they are able to sell the grocery and vegetables at substantially lower cost, so it has been causing decline in the sales performance of small retailers.

Hence, the first null hypothesis can partially be accepted because malls are not causing decline for every small retailer though they are creating a question for the survival of small retailers.

- For second hypothesis as per the data published by centre for policy alternatives, these malls are probably the primary form of disguised unemployment and underemployment in the country as the displacement rate of labour is higher than of its placement.

Hence, the second hypothesis is well accepted.

The issue is not Big Vs Small, but about getting organized. It is difficult to certify whether this is mall-culture or Maul culture. But in defence of large retailers, it is important to focus on what organized retail can do in terms of creating opportunity of employment, contributing to the country's GDP and providing satisfying experience to the customer.

Recommendations

We can not deny the fact that Malls are social fortresses which represent the unique practices of neoliberalism and bring the unaffordable products under the reach of middle and lower-middle class people. But still, if the emergence of organised retailing is to be justified in terms of their social acceptability, the following recommendations require serious consideration and implementation through policy initiatives:

1. There must be a proper enactment considering the loss of social interest consequent upon the emergence of organised retailing, to protect the interests of small retailers and hawkers.
2. As far as employment generation is concerned, figures both from primary and secondary sources, confirm that organised retailing is causing the primary form of disguised unemployment and underemployment in the country. Keeping the mind, this very fact, organized retailers must have a properly developed self-regulated framework to absorb the displaced people to justify their presence in terms of national perspective.

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