



Retailer Mortality – Reasons and Remedial Measures

A Study with a Special Reference to Twin Cities of Hyderabad and Secunderabad

Dr.C.V.Ranjani*

© Institute of Management Studies, Noida
Online access at www.publishingindia.com

Abstract

The retailing scenario in India, the twin cities of Hyderabad and Secunderabad in particular, has undergone a complete transition over the last one and a half decade. The twin cities had witnessed influx of malls, hypermarkets, plethora of supermarkets, supermarket chains, and specialty stores during this period. The main reasons being availability of low real estate costs, increase in disposable income, increase in women employment, change in buying habits, more emphasis on instant items as a result of increase in employment of both the husband and the wife and high business prospects with low level risk on investment.

These changes in retail industry have brought in many benefits to the consumers by offering better quality products at competitive rates, wide range of products and pleasant shopping ambience etc. At the same time, these developments have made the survival of small retailers tough. It has hastened the mortality rate among retailers.

In an attempt to analyze the reasons for mortality in retail sector and to suggest the remedial steps to be taken to avoid quick mortality, this study, with a special reference to twin cities of Hyderabad and Secunderabad, has been taken up.

1. Introduction

Man is mortal and death is a natural phenomenon which no one can eschew. Death is unavoidable, but with a little bit of vision and planning, pre-mature death can be averted. Average life span of human beings during the medieval times was 25 years and now it has been extended to 64 years and it is likely to be extended further in the near future.

Death is common not only to human beings, but also to products and retail outlets. A product after enjoying heights during its growth and saturation stages starts to decline and perish gradually. In the same way, retail outlets also die their natural death after reigning for a reasonable time. Here also, the longevity of a product or a retail outlet can be extended by understanding the changing needs, adapting to the radical changes in styles, tastes and preferences of the target segment and also by penetrating into new horizons and avenues. The lifespan of a product can be extended by targeting a new segment or changing the USP of the product during its saturation stage.

In the same way, quick mortality in case of a retail outlet can be averted by understanding the nuances of the changing trends and catering to the demands of the target group. The average

*Assistant Professor, Department of Commerce, Osmania University, Hyderabad, India

lifespan of a retail outlet in India seems to very short and rarely do we find an outlet running for centuries.

In the past, retailing was easy as there was not much competition, choices and options were limited and it was largely a sellers' market. Today, the customer expectations both in terms of product and services have undergone a sea change and still undergoing major changes which has made the retail business quite complex. The competition is on the increase and the customer expectations are growing. Despite the emerging trends, growing competition and changing consumer buying behaviour, the retailers – small as well as big are surviving and are also able to sustain their own share of market by adopting the right marketing strategies and acclimatizing themselves to the changing times. And the only mantra for success is: sell the right item, at the right price, at the right place, a right time, in the right quantity with the right service.

2. Objectives of the Study

The objectives of the study are :

A survey on closed retail outlets, with a sample size of 87, in twin cities of Hyderabad and Secunderabad has been conducted with the following objectives :

- to find out and analyze reasons for retailer mortality – 6 C's
- to suggest remedial measures to be taken to avoid quick mortality – 6 P's

3. Methodology

- a) **Primary data** : A sample size of 87 closed retail outlets has been studied with the help of a structured questionnaire and personal interviews. The list of closed retail outlets was obtained from the Commercial Tax Departments situated all over the twin cities of Hyderabad and Secunderabad.
- b) **Secondary data** : Secondary data include reports such as KSA Technopak Annual Consumer Outlook, CII McKinsey report, ETIG knowledge series on retailing and information collected from several seminars conducted on retailing, articles, journals, books and articles from the internet.
- c) **Statistical tools** : Simple statistical tools were used in order to analyse the above data. The data obtained from the retailers was analysed using the data analysis tools of MS Excel. Statistical tools like cross tabulation, percentages, mean and graphs were used.

4. Sample Design

From the sample size of 87 closed retail outlets, 53 Sole Traders, 21 Partnership Firms, and 13 Hindu Undivided Families (HUFs) have been selected. Based on a list of closed retail outlets obtained from The Commercial Taxes Department, a convenience sample of 87 in the above fashion has been selected so as to cover all forms of organization. A look at the table 1 gives us a clear picture of the sample design of the retailers selected for the above study.

Table I : Sample design of the Retailers

Type of the organisation	Number
Sole Traders	53
Partnership firm	21
HUF	13
Total	87

Source : Questionnaire

5. Limitations of the Study

The study is confined to the cities of Hyderabad and Secunderabad. Extracting information and data from Commercial Tax Department was a Herculean task. Tracing out the owners of the closed retail outlets was almost next to impossible. Numerous enquiries had to be made and travel extensively to locate the new address/business location of these owners as the address of their closed outlet was only available with Commercial Tax Department. There was restriction in disclosure of information from the retailers in certain areas like investment, turnover, revenues etc. There was palpable apathy and disinterest on part of respondents in discussing the details of their failed business and closed units. Altogether, the response from these respondents was lukewarm and insipid.

6. Findings of the Study

6.1 Period of Existence

It can be observed for the given table 2 that out of the sample size of 87 retail outlets, 17 outlets survived for less than three years, 34 outlets between three to seven years and the rest for more than seven years. It indicates that majority of the outlets had perished after surviving for a reasonable period. It is interpreted that these outlets could not cope with the competition from new big entrants and they failed in predicting the changes in lifestyles and buying habits of consumers, and also failed to adapt their product range in line with changed tastes and demands.

Table II : Period of Existence

Years	Number
Less than 3 years	17
3 to 7 years	34
More than 7 years	36
Total	87

Source : Questionnaire

6.2 Initial investment

From the below tables, it can be noticed that majority, i.e., 35 of the outlets studied had started their business with a small capital of less than Rs.1.00 lakh. Average annual turnover between Rs.1.00 lakh to Rs.5.00 lakh was achieved by most of the respondents, which accounts for 40%. The reason for the low turnover may be due to very little or no business done by these shops during their declining stage. Most of the percent of

the respondents incurred losses before winding up their respective business units. It can be concluded that majority of the respondents started their respective business with a very small investments and went on to do overtrading by taking loans from external sources. Over the years, their interest burden on these borrowings had shrunked their profit margins and as a result, they ended up in losses and finally had to shut down their shops.

Table III : Initial investment

Investment	Number
Less than 1 lakh	35
1lakh – 2 lakh	20
2lakh- 5 lakh	15
5 lakh – 7.50 lakh	11
More than 7.50 lakh	6
Total	87

Source : Questionnaire

Table IV : Annual Average Turnover

Average turnover	Number
Less than 1 lakh	20
1 lakh – 5 lakh	35
5 lakh – 10 lakh	9
10 lakh – 20 lakh	15
More than 20 lakh	8
Total	87

Source : Questionnaire

6.3 Problems faced in Opening a shop

It can be inferred from the below table that majority of the respondents had not faced any problem while opening their shops. Among the rest, 23% felt that generation of funds was their problem, 13% finding a good location and the remaining faced problem in finding suitable partners and obtaining permissions and licenses from Government authorities.

Table V : Problems faced while opening a shop

Problems	Numbers
Generation of funds	23
Finding good location	13
Finding suitable partners	17
Obtaining licenses	17
None	17
Total	87

Source : Questionnaire

7. Problems Faced While Running A Shop

A detailed study of the above table reveals the following :

- **Competition** : 87% of the respondents reported that competition was their main problem in running the shop. They had to compete with mushroomed small kirana stores, supermarkets, market yards, shopping malls etc. After the introduction of liberalization policy, many big

groups and MNC's have made their foray into Indian retail trade which has so long been the domain of small retailers. With their huge investments and establishments, they could provide several benefits and amenities to the consumers which the small retailer could not. With several competitors enticing the customers with novel schemes, wide range of products, offers etc., the good old kirana store owners found going tough.

Table VI : Problems Faced While Running A Shop

Problems	Yes	No
Competition	76	11
Working capital shortages	54	33
Non availability of credit	15	72
Non recovery of debts	23	64
Other problems	11	76

Source : Questionnaire

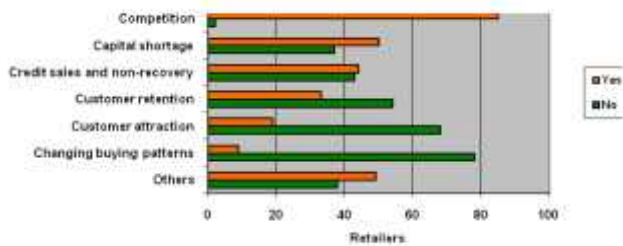
- **WC shortage** : Majority of the retail outlets are run and owned by family members with small investments. Due to unorganized nature of the establishment, getting finance from banks is not so easy. The respondents reported that they prefer not to avail loans from money lenders due to hefty interest charged by them and other related problems. As a result, 62% of the respondents informed that they had to face shortage of working funds while running the business. Due to this, they could not offer wide product range and maintain product diversity.
- **Non-availability of credit on purchases** : Generally no credit will be allowed by suppliers/manufacturers/distributors / agents to the small shops and the respondents did not considered this factor as a major problem while running their respective shops.
- **Non-realisation of credit sales** : With the hectic competition, the main tool with which the small kirana shop can survive is selling goods on credit basis. Majority of their customers remain loyal to these shops mainly because of this facility. 26% of the respondents clarified that non-recovery of credit sales was a major problem while running their business. The reason is they do not have any systematic recovery mechanism. At the same time, recovery of debts while concentrating on running the business is not that easy.
- **Other problems** : 13% of the respondents cited that problems like natural calamities, low margins on certain items, small size of the shop, employee turnover and absenteeism etc are the other problems faced by them while running their respective business units.

8. Reasons for Retailer Mortality

Table VII : Reasons for retailer mortality

S.No.	Reasons	Yes	No
1	Competition	85	2
2	Capital shortage	50	37
3	Credit sales and non-recovery	44	43
4	Customer retention	33	54
5	Customer attraction	19	68
6	Changing buying patterns - Inability to predict/adapt	9	78
7	Others	49	38

Source : Questionnaire



Now it is proposed to study the 6 C's which play a pivotal role in retailer mortality:

1) Competition :

After the implementation of LPG policy, i.e., Liberalisation, Privatisation and Globalisation, the retail map of our country has started to don new hues. Big business houses in India started to pump in their vast resources in retail business and a new chapter in the annals of retail industry has begun. New formats started to pop-up in every lanes and by-lanes of the urban centers. MNCs started to identify India as their retail destination.

The competition in the retail industry has become so intense that the coverage area of the shops, as agreed by majority of the respondents, has become less than one kilometer. The number of shops operating in the same area has doubled over the last one and a half decade indicating the intensity of competition prevailing as on date.

With this backdrop, 98% of the respondents informed that cut-throat competition in the retail business is the reason for the mortality and they had to shut their business as they could not cope up with the ever bulging competition.

2) Capital shortage :

In earlier days, the kirana shop used to cater to the needs of a small segment of customers and these customers used to patronage the shop loyally for their regular and irregular purchases. With so many changes taking places and several new concepts and retail formats emerging, the word – customer loyalty has started to vanish from the dictionary of retailing. The present day customer prefers better ambience and wide range of national and international products to make his choice of purchases. This has forced a small kirana shop owner to expand his range of products. This necessitates more funds. Generally, these retail shops are owned and run as a family business with an iota of investment. Getting bank finance for this unorganized sector is very difficult. If they borrow funds from local money lenders, the burden of interest eats away the major chunk of their profits.

57% of the respondents reported that lack of adequate working funds to stock wide variety of products to match the varying demands of the customers is another reason for closing their business.

3) Credit sales and non-recovery :

The small kirana shop survives mainly by extending credit to the customers on the purchases made. This is the main tool with which they compete with big players like supermarkets, hypermarkets, malls etc where no credit sales are allowed. Most of the customers belonging to middle-income and lower

middle income groups make their purchases throughout the month on credit and pay the dues once in a month, i.e., after getting their monthly salary. As such, the sales basket of a neighbourhood shop is dominated by credit sales than cash sales.

The respondents reported that they had to keep a track of the recoveries due to them, follow them in regular intervals and in some cases they had to take hard measures to recover their dues. In the absence of men, mechanism and methodology for following up and recovering the dues, 51% of the respondents agreed that non-recovery of debts had played a major role in getting their business closed.

4) Customer retention :

The concept of shopping has switched over from a sober activity to leisuretainment. Earlier, the shopping for monthly groceries used to be done by a senior male member of the family and was considered a boring ritual. Now, with the eateries, salons, music stores, speciality stores etc are juxtaposed in the same complex of a shopping mall, the shopping has emerged as a family outing. Also with the increase in the earnings and disposable income levels of the Indians of late, thanks to IT boom, the customer basket of groceries has started to witness a big change. The present day customer demands wide range of domestic and international products for making his choice of purchases which the local kirana store cannot provide.

38% of the respondents opined that the failure on part of the small kirana shops in offering the assortment of products in tune with the changing preferences of their customers has resulting in exodus of their loyal customers. This inability to sustain their customers has been stated to be a reason for winding up the business.

5) Customer attraction and Changing buying patterns :

With the local kirana shops has nothing to offer new or enticing, they could not only able to retain the existing clientele, but also failed to tap new customers. Also with paucity of funds and restricted sources for generating funds, they could not adapt themselves to the ever changing trends and customer tastes.

The respondents informed that these reasons also had played a vital role in their closing the business.

6) Others :

Among the other reasons for closure of their outlets cited by the respondents, the significant are – high labour turnover, shop lifting, trouble from external elements etc. One more major reason is the new generation's unwillingness to continue the family business. The new generation, with cornucopia of employment offers available in the domestic and overseas arena, has started to run after the greener pastures. The family business of running a kirana shop is looked down with disdain and considered to be a mean job. With the next generation not so keen in continuing the business, the family run kirana stores have started to shrink.

9. Conclusion

The study indicates that the retailing industry is undergoing a change. Competition is increasing and imparting of technology into the business is becoming imperative. Consumer behaviour is ever changing and brand and product awareness among the customers are increasing. Need for a higher investment is increasing and margins for the retailers are declining. As a result, the mortality rate in retail industry has become very quick. To survive from perishing, a retailer has to study about market, target customers – their tastes and preferences, location, assortment of products to be offered, size of the unit and arrangement of adequate working funds before setting up a unit. The retailers interviewed stated that the reasons for quick mortality in retail industry were intense competition prevailing followed by limited capital investments, failure to recover amount of credit sales and the fast-changing customer loyalty.

10. Suggestions

To expand the lifespan of a retail unit, the retailers have to adopt the product mix adeptly and adapt themselves to the evolving marketing mix. To survive from perishing, a retailer has to study about market, target customers – their tastes and preferences, location, assortment of products to be offered, size of the unit and arrangement of adequate working funds before setting up a unit. Now it is proposed to suggest 6 P's as remedial measures to cope retailer's mortality.

a) Product

Practically, it is very difficult for a small retailer to stock all the varieties of products available in the market to quench the varying shopping thirst of his customers. If he does not offer wide range of national and international products at his store, there is every possibility that his customers shift their loyalty towards a better and bigger shop. To sustain his customers and to cater to their needs, the retailer may prepare a list of brand wise products (with all details like quantity, price, name of the manufacturer, additional uses of the product etc) available in the market. Personally once in a month he may handover this list to his customer and collect list of products needed by the customer. Then he may purchase the products that are not available with him and deliver the products to his customers. This will help the retailer in retaining his customers and also saves from stocking all the products available. Further, this enhances the personal rapport with his customers.

b) Price

With the advent of discount stores and other hypermarkets offering below-MRP on products, the retailers may contemplate a reduction in price by cutting down their margins. In the absence of bulk purchases, the small shops enjoy very little margins and if they cut it further by selling the products below-MRP, they may end up incurring losses. Hence, they may offer competitive prices on cash sales and charge regular prices on credit sales.

c) Promotion

To ward off the competition and also to sustain the existing customers, the retailers have to deploy several promotional tools like providing credit sales, exchange facility, offering

door delivery, schemes, Point of purchase marketing etc. The retailers, unlike in the past, have to invest on visual merchandising and store design to display the range, attract children, highlight incentives offered and augment frontal view. To reduce the burden of bad debts, the retailers may insist for post-dated cheques for the credit sales to initiate legal action for recovering the over dues.

d) Place

The location of a shop decides its fortunes. The advantage the small kirana shop enjoys when compared to the big formats is he can set up his shop at any place, remote area or congested locales and survive. An upcoming residential area is an ideal location for setting up a retail outlet as he can associate himself with the growing colony; develop personal relations with the people and benefits from low rentals.

e) Personalised Service

All the small retailers survive only because they maintain excellent PR with their customers whereas the big retailers cannot maintain PR with their large number of customers was not possible. They should capitalize on their ability to offer personalized service and advice that large store cannot; customers seek them out because they trust their advice on special purchases. Further, a small retailer offers scope for his customers to bargain and demand for credit sales which a retailing chain cannot.

f) Product Niches

The small retailer has to focus on customer/product niches and services where he can add value that large retail chains cannot. Small retailers have become corner stores or convenience stores, where consumers pick up their immediate or unexpected day-to-day needs. They have to stock gift items and novelties, greeting cards, soft drinks, pre-paid cellular cards and chocolates besides regular products, which ensure impulse purchases and add to the margins.

Thus we can conclude that the retailers have to adopt certain marketing strategies like maintaining PR, investing in promotional activities, widen the product range, introduce new product lines, provide value additions, to adapt adeptly the product mix and marketing mix in tune with the changing tastes and demand of the customers and to offer exchange facility in order to stay buoyant in the business.

Competition is here to stay, and competition is ruthless. It is just the survival of the fittest. In the retail industry, the small retailers are the prey, and big retailers are the predators. The prey, to survive, needs to be faster than the fastest predator, and the predator, to survive, needs to be faster than the slowest prey.

11. References

1. Gupta and Tripat Kaur. "Exploring the Trends in the Retail Market in India – A Study of Shopping Malls" *Indian Journal of Marketing*. July, 2007.
2. Arpita Srivastava. "India Retail: New Face of India" *Marketing Mastermind*. September, 2007.
3. Vijayanand. "Decline of Traditional Retailing" *Advertising Express*. August, 2006.

4. Debasish Mohanty. "K-Mart: The Fall of a Retailing Gaint" *Global CEO*, April, 2006.
5. Gupta, Rahul. "Food Retailing: Emerging trends in India". *Effective Executive* February-March 2005, pp. 13-18.
6. Saxena, Rajan. *Marketing Management*. 2nd edition, Tata McGraw-Hill Publishing Co Ltd, New Delhi, 2003.
7. Muruganathan, G, and Kaliyamoorthy, S. "Retail Revolution". *Marketing Mastermind* June 2005, p. 18.
8. Meyer, G. Warren., Harris, G. Edward., Kohns, P. Donald., and Stone III, R. James. *Retail Marketing*. 8th edition, McGraw-Hill International, Singapore, 1988.
9. Newman, J. Andrew, and Cullen, Peter. *Retailing: Environment and Operations*. Thomson Learning, Singapore, 2002.
10. Levy, Michael, and Weitz, A.Barton. *Retailing Management*. 5th edition, Tata McGraw-Hill Publishing Co Ltd, New Delhi, 2003.
11. *Financial Express*. 17th August, 2002.
12. Culled from the website www.expressindia.com.
13. Culled from the website www.apcommercialtaxes.gov.in.com.
14. *Images India Retail Report* 2007.