



Proceedings of International Conference on Strategies in
Volatile and Uncertain Environment for Emerging Markets
July 14-15, 2017
Indian Institute of Technology Delhi, New Delhi
pp.580-588

Impact of Demonetization on Retail Store Operations: Study of Delhi and NCR

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Abstract

On the evening of 8th November, 2016 in a surprise decision, the Government and the RBI announced that from 9th November onwards Rs.500 and Rs. 1000 would cease to exist as legal tender. As per the GOI, demonetization was done to take care of the menace of fake currency, elimination of parallel economy and moving towards a cashless economy. This would also help in curbing funding for anti-social elements like smuggling, terrorism, espionage. Demonetization also resulted in giving the economy a digital push. The immediate aftermath of demonetization announcement has caused considerable inconvenience amongst retailers and customers. While the consumer's purchasing power was withdrawn, it also affected retailers who faced shortage of customers and had to cut their forecasts for next few months. Interestingly, research in India has not yet investigated impact of demonetization on business of Indian Retailers, particularly Organized Retail. The research study aims to analyze the impact of demonetization with reference to influence of digital payments, strategizing for efficient store operations in a situation of shortage of cash, segmentation and targeting and employee related on Retail Store Operations. The scope of the study would be the Retail industry in India with specific reference to Delhi and NCR.

Keywords: Demonetization, Digital Payments, Employee related strategies, Organized Retail

1. Introduction

Demonetization in its essence means depriving a currency of its status. On the evening of 8th November, 2016 in a surprise decision, the Government and the Reserve Bank of India (RBI) announced that from 9th November Rs.500 and Rs. 1000 currency denomination ceased to exist as legal tender. The demonetization of 2016 has been the one of the most intense and long topic of discussion in the history of independent India. Although the decision was sudden, it was planned well in advance. As per the Government of India, demonetization was done to take care of the menace of fake currency, elimination of the parallel economy and moving towards a cashless economy. This will also help in stalling the circulation of large volume of counterfeit currency and curb the funding for anti-social elements like smuggling, terrorism, espionage.

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Digging down into the history of demonetization in India, the first time it was done was on January 12, 1946 and second time on January 16, 1978. The first time, the measure was not successful as by end 1947, notes worth only Rs. 9.07 crores were 'demonetized' out of a sum of 143.97 crores. The results of the demonetization measure were summed up by Sir C.D. Deshmukh, the former RBI governor in his Dadabhai Naoroji Memorial Prize Fund Lectures, delivered at Bombay in February 1957 – "It was really not a revolutionary measure and even its purpose as a minatory and punitive gesture towards black-marketing was not effectively served. There was no fool-proof administrative method by which a particular note brought by an individual could be proved as the life-savings of the hard-working man who presented it or established as the sordid gains of a black-marketer. Another loophole of which considerable advantage was taken was the exemption of the princely States from scrutiny or questioning when such notes were presented by them". In the second instance, The Finance Minister H.M. Patel in his budget speech on 28 Feb 1978 remarked –"The demonetization of high denomination bank notes was a step primarily aimed at controlling illegal transactions. It is a part of a series of measures which Government has taken and is determined to take against anti-social elements." This time the drive did not seem to create much impact like in 1946.

Though the Government declared that all people with genuine money need not worry, there was a panic amongst the common citizen. People had the option to either exchange the money from banks or else they could deposit it in their bank accounts. The two withdrawn denomination consisted of 86% currency in circulation in the economy. When currencies with such large presence are suddenly withdrawn, it is bound to create panic among the citizen. Long queues of people were seen outside the banks and ATMs. The process was further complicated by the fact that the ATMs needed to be recalibrated for the new notes. Since there were about two lakhs ATM in India which needed to be recalibrated it took a lot of time.

Another aim of demonetization was to give the economy a digital push. Demonetization provided an opportunity to give a big push to electronic transactions to improve transparency and weed out black money from the system. India has one of the highest cash to gross domestic product ratios in the world, and lubricating economic activity with paper has costs. According to a 2014 study by Tufts University, cash operations cost the Reserve Bank of India (RBI) and commercial banks approx. Rs21,000 crore annually. Moving towards a cashless society does not mean removing the entire cash from the system but maintaining a balance between both paper and digital currency. A large section of the population is known not to have access to the banking system which would largely hamper the move of reduction of dependency on cash. According to a 2015 report by PricewaterhouseCoopers, India's unbanked population was at 233 million. Even for people with access to banking, the ability to use their debit or credit card is limited because there are only about 1.46 million points of sale which accept payments through cards, although this figure is rising daily. E-wallets also has a major role to play in this transformation, e-wallets like Paytm, Freecharge have been quick to capitalize on this and have been aggressively advertising to promote the usage of digital wallets as a way of moving towards a cashless economy. Taglines like "Ab ATM nahi, Paytm karo" and "cash is so yesterday" are doing the rounds. The recently launched unified payment interface (UPI), an interoperable system launched by the Reserve Bank of India (RBI) and the National Payments Corporation of India (NPCI), which will allow peer-to-peer and peer-to-entity payments. Some of the e-wallets company have seen a 150% rise in their merchant base. The BHIM application for seamless transfer of money is another step in this direction.

The immediate aftermath of **demonetization** announcement has caused considerable inconvenience among retailers and their customers. While the consumer's purchasing power

was withdrawn, this in turn affected the retailers who on one hand faced shortage of customers and on the other had to cut their forecasts for next few months. The trade in the markets across the Country has reduced to 25 per cent in comparison to normal days, Confederation of All India Traders (CAIT) said. It is estimated that Indian retail trade is of about 42 lakh crores of rupees annually resulting to approximately Rs 14 thousand crore per day out of which about 40 per cent trade is conducted through Business to Business (B2B) whereas rest of the 60 per cent trade is conducted through Business to Consumer (B2C) activities. Another roadblock is the transaction charge which the retailers have to pay. To encourage widespread usage of digital payments, CAIT has suggested to the Finance Minister that transaction cost being charged by the Banks on usage of debit and credit cards is a major deterrent in use of card payments. Small traders and vendors have been affected the most as they faced a huge slump in sale. Many of the small retailers are not equipped enough to make provisions of digital payments for their customers, and for this reason had to go through a lot of hardships. Online Retail sales had also taken a beating in the month of November, immediately after the demonetization announcement. According to some estimates, the monthly gross sales (November 2016) was expected to take a 50% hit in comparison to the month of October. This research paper attempts to analyze the impact of demonetization on the business of retailers in the long run with reference to Organized Retail.

2. Research Gap

Demonetization and its impact have not been researched in India and around the world. It existed in theory but there have been very few times around the world where it was actually implemented. Importantly, the impact of demonetization in India on retail store operations has not been studied yet. The discussions around the same are based on vague data and assumptions to the extent that the results obtained are inconclusive and contradictory. Consequently it is necessary that more research is needed in this area. In recent months there has been much discussion about the demonetization move of the Indian Government. It has been stated through various media publications about the different impacts that this had on the retail sector in India. Moreover the perception is that, this single stroke will have a huge contribution towards the incremental rise in the digital transaction in the country which in turn will impact retail outlets.

3. Literature Review

Demonetization is the act of shedding a currency unit of its status as legal tender. Demonetization is necessary whenever there is a change of national currency. The old unit of currency must be retired and replaced with a new currency unit (Sharif M, Nov 2016). It is referred to as the cessation of current currency and replacing it with new currency. Demonetization is not a new concept. In the past also it has been utilized by various countries as well as India.

However, India's demonetization move in 2016 was different from those as described above. The First post describes Prime Minister of India, Mr. Narendra Modi thanking people –"The events of 8 November told us how 1.25 crore Indians took the trouble and made the efforts to prove that honesty and virtuosity are most important. I know that to withdraw your own money, you had to bear pain. People shared their pain with me. But I realized that you considered me your own. You showed that you don't want to be left behind in this fight against corruption." This demonetization move was different not only due to the sheer volume of cash that had to be exchanged but also due to the information which needed to be collected.

Lahiri (2016) stated that the demonetization move in India was not for scrapping of high denomination notes. The demonetization move in India earlier in 1946 and 1978 resulted in 6.3 % and 11% not getting deposited into accounts or getting exchanged into valid notes. The post

demonetization effect has been complicated by the cash shortage situation which will have an effect on the Indian economy in the short term.

Banerjee 2016 in his study has debated on the effects of demonetization drive on the poor and underprivileged sections of society. Sherline T (2016) in their research have studied the impact of demonetization on the various sectors of India and expects that it would provide a boost to the Government's financial inclusion drive. Krishnan D and Siegel S (2017) surveyed 200 families in the slums of Mumbai and found that the policy led to a 10% drop in income levels which negatively impacted consumption patterns. However, majority of the respondents still viewed the policy as positive.

Jain M (2017) reported that with the demonetization drive, India is slated to move towards a cashless economy and help achieve the twin objective of economic growth and financial inclusion. Rao K *et.al* (2016) in their study have tried to study the impact of demonetization on credit availability, spending and government finances.

The Indian Express dated Nov 9, 2016 described it as – “A major step to check black money.” The Arc Magazine dated Dec 29, 2016 summed up the situation as – “In the United States, 40% of transactions involve cash. That's a larger share of economic activity than debit cards (25%) and credit cards (17%), yet hardly indispensable. Now imagine an economy, not quite as large but still massive, in which cash is used in 90% of transactions. Further, in this economy, 86% of the cash in circulation exists in the form of two banknotes, the 500 (roughly \$7.5 USD) and 1000 (roughly \$15 USD) bills. Now imagine the government abruptly announces these two notes will no longer be valid, will no longer be considered legal tender, moving forward. Welcome to India's demonetization.”

In his address the Prime Minister of India, Narendra Modi described this move as only part of many moves which have already been done or are going to be implemented in future as part of the plan to curb the black money menace. The finance minister of India, Arun Jaitely described demonetization and the upcoming Goods and Service tax as – “an attempt to change the spending habit and lifestyle.”

There are two important issues with respect to the present demonetization. First that the notes ceased to be legal tender from midnight of 8th November, just 4 hours after announcement. So in effect the only places where they will be accepted will be banks. Second, even the banks have been given time until when they can accept the notes – 30th December. Third, the cash swap carries restriction. Thus, in effect the announcement forces these notes into the bank's deposits within a short period of time. As per RBI estimates, 15 billion notes of 500 denomination (approx. Rs. 7853.75 billion) and 6 billion notes of 1000 denominations (approx. Rs. 6325.68 billion) exist. In addition, RBI estimates that fake 0.2 million notes of Rs. 500 and 0.15 million notes of Rs. 1000 were discovered. The actual number of fake notes in circulation will be higher. These will be worthless from 09 November 2016 but you can get the credit for the money held as these notes in the form of bank deposit. Naturally, those who can disclose deposits equal to the amount they hold in cash will have no problem.

The Economic Times dated Nov 9, 2016 gives the following primary reason for demonetization – 1) to tackle black money in the economy, 2) to lower the cash circulation in the country and 3) to eliminate fake currency and dodgy funds which have been used by terror groups to fund terrorism in India. After from these benefits, another linked benefit is that the government and the RBI would now have better numbers about the actual cash. It is also expected that the number of bank account holders will definitely rise giving a push to Jan Dhan, Aadhar and Mobile (JAM) trinity.

The website Indiaretailing.com dated Nov 22, 2016 says since the retail is mainly cash driven, it is anticipated that there might be slowdown of business for next two quarters. It also puts into perspective that - In the medium-to-long run, domestic consumption will be stable owing to India's strong economic base and favorable demographics. Also, as more retailers encourage alternative/digital payment solutions, the market ecosystem will become more transparent and structured going forward.

Demonetization has resulted in visibly reduced low footfalls in shopping malls, but this effect is temporary and will turn around in few weeks as more currency circulates in the system and improves the purchasing power and appetite of the consumers. The Economic times dated Nov 23, 2016 put forward the situation in retail sector as - 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 cash backs or discounts. This is trend will rise substantially in the long term as such payment methods become more mainstream. "The jewelry and luxury product makers were the business which was hardest hit."

The Live Mint dated Nov 10, 2016 states – "The impact of the government's move to eliminate current high-value currency notes on FMCG (fast moving consumer goods) companies can be seen in two parts. One is on the distribution channel as small retailers-who make up the bulk of sales-mostly deal in cash. While consumers will recover relatively quickly as the new currency notes become available, trade channels may take a few weeks as their transactions will be of higher value. If their purchases decline, that will affect sales growth reported by companies."

Retail industry would only see a short term effect. By the third quarter the retail industry would be back to the normal by which more and more retailers would have shifted to alternate mode of payments. A cashless society is where minimal transaction are done through cash. As the cashless modes develop, both retailers and the consumer would be empowered and make the marketplace more transparent and structured. Demonetization in a way could help in building a financially sound society. With the government giving the right push cashless society would be a boon to the retailers. With the advent of e-wallets and payment banks, this process would be further eased. Jain M (2017) in her paper - talks about the same thing.

4. Research Objectives and Focus Issues

Interestingly, research in India has not yet investigated impact of the demonetization move of the Government of India on the business of the retailers of India, particularly organized retail. The scope of the study would be the Retail industry in India with specific reference impact on retail store operation post demonetization in Delhi and NCR.

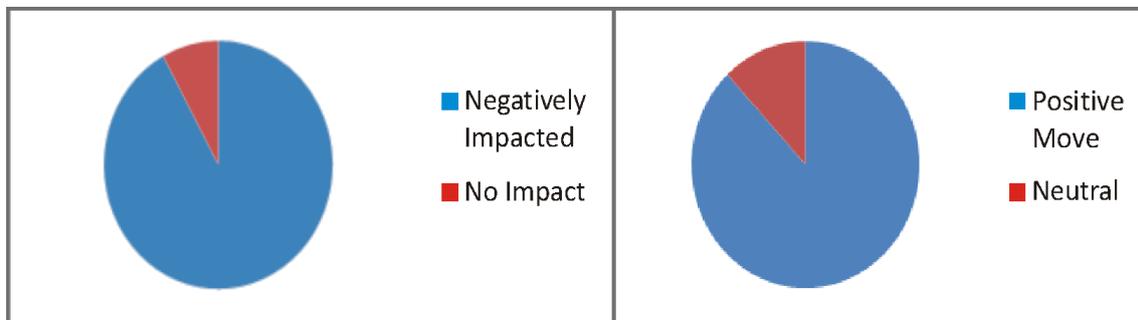
- To understand and analyse the impact of the demonetization move in November 2016 of the GOI on retail store operations in the long run, with specific reference to Organised Retail
- To investigate the influence of digital payments, strategizing for efficient store operations with reference to shortage of cash, segmentation and targeting and employee related issues on retail store operations.
- To develop the relationship if any, between the independent variables i.e. digital payments, store operations with reference to shortage of cash, segmentation and targeting and employee related and dependent variable i.e. business of the retailer in the long run i.e. an year approximately.

5. Research Methodology

Given the exploratory nature of the research it was Ex Post facto in nature. The design of the approach for investigation included self-completed questionnaires and possible secondary sources (statistical handbooks, books, reports, journals, internet information). Primary data was collected through administered questionnaires to assess the impact of digital payments, store operations with reference to shortage of cash, segmentation and targeting and employee related on business operations of the retail store in the long run i.e. approximately an year. The data was collected from 107 stores which comprised primarily of the organized retailers mainly from Delhi and NCR. The respondents were approached personally for their responses and interviews.

6. Analysis and Interpretation

The data collected from approx. 107 Retailers from Organized Retail showed that 92% felt that the demonetization move had negatively impacted their business in the short run but they were still very upbeat about it and 88% felt that it was a positive move on the part of the Government.



7. Reliability

The reliability or Cronbach Alpha for questions with reference to Digital payments was 0.55 which shows moderate consistency amongst the questions asked. Questions such as has the share of card as a mode of payment increased post demonetization, I had the option of e-wallet prior to the demonetization, I introduced to the customer the option of e-wallet post demonetization, come what I will not switch to e-wallets as a mode of payment option. The reliability or Cronbach Alpha for questions with reference to Employees was 0.65 which shows moderate to good internal consistency amongst the questions asked. Questions such as the salary of employees were held up due to demonetization, I had to let go of employees as they were not needed were asked. The reliability or Cronbach Alpha for questions with reference to strategizing for efficient store operations with reference to shortage was 0.57 which shows moderate consistency amongst the questions asked. Questions such as I had to cancel my order foresighting the negative impact on my store, the targets of my store have been kept lower than previous fiscal and I went for few cost cutting measures were asked. The last independent variable considered was the store changing its segmentation, targeting and positioning of the store due to less cash in the hands of the consumer. The dependent variable considered was the effect of demonetization in the longer run i.e. approx one year.

8. Regression

Regression analysis helps us understand how the typical value of the dependent variable changes when any one of the independent variables is varied, while the other independent variables are held fixed. Thus, the independent variables considered were digital payments, strategizing for

efficient store operations with reference to shortage of cash, segmentation and targeting and impact of issues related to employees on retail store operation and the dependent variable was effect of demonetization on business of retail store operations in the long run i.e. an year.

<i>Regression Statistics</i>	
Multiple R	0.414047349
R Square	0.171435208
Adjusted R Square	0.127245085
Standard Error	0.630205303
Observations	105

On running the regression, the observed value of R² was 0.171435 which shows that effect of demonetization on Sales Operations of Retail Stores in the longer run is 17.1435% which is an outcome.

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	4.0000	6.1631	1.5408	3.8795	0.0064
Residual	75.0000	29.7869	0.3972		
Total	79.0000	35.9500			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	2.3621	0.5737	4.1172	0.0001	1.2192	3.5049	1.2192	3.5049
Digital Payments Store Operation Employee Related	-0.0156	0.0310	-0.5039	0.6158	-0.0774	0.0461	-0.0774	0.0461
STP	0.0701	0.0481	1.4590	0.1487	-0.0256	0.1659	-0.0256	0.1659
	0.2004	0.0536	3.7372	0.0004	0.0936	0.3073	0.0936	0.3073
	-0.1273	0.1226	-1.0382	0.3025	-0.3715	0.1170	-0.3715	0.1170

The equation derived from the regression analysis is:

$$\text{Effect of demonetization on the longer run} = 2.3620 + 0.2004 \text{ Employee Related}$$

This shows that from the perspective of the retailer as far as business is considered in the longer run the independent variables such as digital payments, re-strategizing in the short run i.e. for 2-3 months for efficient store operations with reference to shortage of cash, and changing the segmentation and targeting for 2-3 months keeping demonetization in mind will not create any significant difference to business in the longer run. However, employee related measures such as not laying off people due to negative temporary impact on business and not delaying salaries due to shortage of cash because of demonetization will have a positive impact on business. The regression analysis shows that the impact on business of Retail Store Operations in the long run, i.e. approx. a year, is expected to increase by 0.2004 when positive employee related measures and employee sensitivity is adopted.

9. Discussion and Managerial Implications

The research establishes that the move towards digital payments/e-wallets did not matter to the retailers in the longer run. Thus a retailer believes that whether they are getting money through cash or through digital means like card or e wallets, it does not matter to them. Although the share of digital transaction as a result of demonetization has increased with 100% respondents agreeing to this fact, but the retailers believe that it would not have any positive impact on the business.

As per the analysis, positive employee related measures will help in increasing the business in the long run. The salaries of the employees at the retail store were not negatively impacted as a result of demonetization. This can be further supported by the fact that most of the retail stores surveyed were part of the organized retail where the salary to the employees are mostly transferred into their bank accounts. The retailers also were of the opinion that not laying off people due to negative temporary impact on business and not delaying salaries due to shortage of cash because of demonetization will have a positive impact on business. In addition, 88% of the retailers felt that demonetization is a good move for the economy. This led the owners to believe the fact that they are upbeat about the demonetization move and hence they did not lay off their employees. The setback to business and decrease in consumption was only temporary. About 92% of the retail owners also felt that although their business might have been affected due to demonetization but it was a step in the right direction. Hence they were also ready to take a beating and retain their employees. This is also corroborated by the GDP numbers for Quarter 3, 2016 which shows that GDP fell to 7% in Quarter 3 in comparison to 7.4% in Quarter 2, 2016. As per, Economic Affairs Secretary, Shaktikanta Das stated on February 28, 2016, "There was just a temporary impact of demonetization, which is over now. There was an overestimation about the effect of demonetization by some. It is satisfying to note that this was not true. We still remain a 7 per cent-plus GDP country".

The retail store owners also did not feel the need to change the segmentation, targeting, and the positioning of the store as a result of demonetization. The retailers felt that the demonetization would affect them only for small period and hence they stayed with their product line and customer segment. Similarly, the retailers also did not feel the need to cancel the orders or go for any cost cutting moves. They also had confidence on the part of the government which repeatedly said that repercussion of the demonetization would be extended for only about two months. This has been further supported by the GDP numbers of the third quarter released by the Central Statistical Office.

Demonetization was a big step by the government to reduce the menace of fake currency, elimination of the parallel economy and moving towards a cashless economy. Although about 92% respondent felt that their business was negatively impacted in the short run, they adopted the policy of wait and watch. This is further enhanced by the fact that every respondent strongly agreed to the fact that this situation would last only for two months.

The fact that the data was collected only from Retail Stores, with specific reference to Organized Retail in Delhi and NCR is a limitation of the study. Further research can be conducted for Unorganized Retail Store operations and across India i.e. Southern, Western and Eastern India to better understand the impact of the Nov 8, 2016 demonetization move of the Government of India.

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