

Impact of Demonetization on Retail and E-Commerce Industry

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Abstract—This research paper illustrates the impact of demonetization on Indian retail and e-commerce industry. Post demonetization, most of the consumers were dependent upon digital transactions, however there were around 590 million debit/credit card using consumers at the time of demonetization that created significant changes in purchasing pattern as well as use of payment mode by consumer.

The use of retail stores and e-commerce platform also increased to fulfill basic needs of consumers. Indian consumer's preference to buy basic food items and convenience products has increased to 64% during post demonetization (i.e. after 8th Nov 2016) which was 42% during pre-demonetization (i.e. before 8th Nov 2016) which is evident by a sharp rise in stock prices of the ~80% Future Retail holding company stock performance during the period 8th Nov 2016 to 17th Feb 2017.

The stock prices of top five Indian listed retail and e-commerce companies in India is studied in the paper. Stock prices of these six companies have grown on an average 36% post demonetization i.e., 8th Nov 2016 to 17th Feb 2017, which was declining on an average 3% during pre-demonetization period 24th Aug 2016 to 7th Nov 2016.

Availability of digital payment methods in the retail stores has supported the consumers considerably, which was also reflected in the increase in retail sales. Increase in cash crunch encouraged consumers to buy consumer staples and other products through retail stores or by online. Among the various product segments, daily basis needs like consumer staples including groceries, home and living products gained popularity both in the retail and e-commerce segments than compared to the traditionally bought items in e-commerce including mobiles and electronics. The paper elucidates the impact of demonetization on the stocks of the Indian retail and e-commerce companies, and consumer behavior analysis, both pre and post demonetization.

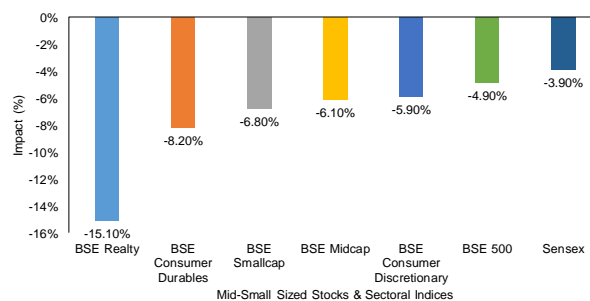
Introduction

Demonetization is the act of discontinuing a currency unit of its status as legal tender. Old forms of 500 and 1000 denominated currency notes were pulled from circulation and retired, which were replaced later with new denomination of 2000 and 500 new form currency notes.

Demonetization was declared on 8th Nov 2016 by present Indian government, which brought about major changes in the Indian economy. Many industries were negatively affected but

there were two industries which were performing better post demonetization period.

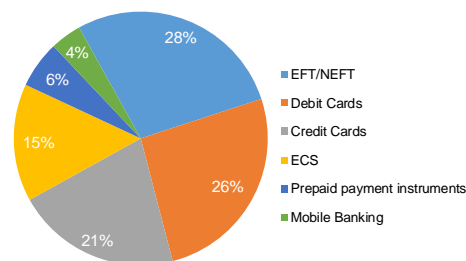
Impact of the demonetization on mid-small sized stocks and some sectoral indices



Source: bseindia.com

The above figure indicates that there has been fall in the BSE Realty index by 15%. As most of the purchases take place in the unorganized sector and villages where there are huge cash payments through there has been fall in the consumer durables and discretionary, in the range of 5.9% to 8.2%.

Retail Electronic Payments in India



Source: cashlessindia.wordpress.com

Retail electronic payment India has a major share followed by inter-bank money transfer modes such as NEFT (National Electronic Fund transfer), Electronic clearing system, and credit and debit cards. Innovative modes of payment like

prepaid wallets along with mobile banking have become the recent trend.

According to Reserve Bank of India, there are around 570 million debit card users in India, which hiked the use of debit cards in retail shops during demonetization.

Surprisingly, the use of e-wallet increased to 24% post demonetization as it was more convenient means to purchase goods from retail and e-commerce platforms. As the use of e-wallet rose, there was fall in cash payments by 72-80% during demonetization.

Security concerns versus the ease of net-banking will be the major challenge faced by the Central Bank when it frees up retail payment space and allows the introduction of new payment instruments.

Increase in the number of internet users and popularity of e-wallets has led to a shift in the consumer's behavior, thereby encouraging consumers to purchase products using e-payments, post demonetization. The use of e-wallets in day to day purchases including the purchase of groceries and other food products rose in both urban and rural areas as more people had switched to online payment method.

The e-wallet payment option has emerged as one of the most promising and convenient payment method and is being popular mainly among the young aged groups.

Many transportation companies such as Uber and Ola had huge benefits from e-payment option post demonetization period. Uber has tied up with Paytm for e-payments and Ola has its own e-wallet system named Ola Money.

E-commerce and transportation companies came up with new payment options to tackle cashless situations with the help of micro-ATM use at the point of service delivery.

E-Money Gains Currency

	Transactions per day	Nov 8	Dec 7	% Growth (Dec 7/Nov 8)
RuPay Cards	Number (Lakhs)	3.85	16	316
	Value (Cr)	39.17	236	503
e-wallets	Number (Lakhs)	17	63	271
	Value (Cr)	52	191	267
UPI	Number (Lakhs)	3,721	48,238	1,196
	Value (Cr)	1.93	15	677
USSD	Number (Lakhs)	97	1,263	1,202
	Value (Cr)	1	14	1,300
		Oct Avg	Nov Avg	
PoS	Number (Lakhs)	50.2	98.1	95
	Value (Cr)	1,221	1,751	43

Source: Ministry of Electronics and Information Technology,

Note: RuPay: Rupee and Payment, UPI-Unified Payments Interface, USSD-Unstructured Supplementary Service Data

PoS-Point of Sale

According to the Indian government data, the number of daily transactions through e-wallet services such as Oxigen, Paytm and MobiKwik rose to 63 lakh (December 7, 2016) from 17 lakh (November 8 2016) marking a growth of 271%. In terms of value, the surge has been 267%, from daily, Rs 52 crore to Rs 191 crore now.

Increase in the number of internet users and the popularity of e-wallets have led to the significant change in consumers' behavior to purchase particular goods by using alternate method during demonetization.

Indian Retail Market Share 2014

Company Name	Market Cap (INR. CR)	Market Share	
Aditya Birla F	11,956.41	28%	78%
Future Retail	11,047.34	26%	
Trent	8,204.90	19%	
Future Life	3,462.86		
Shoppers Stop	2,638.75	6%	
Kewal Kiran	2,144.56		
Future Ent	1,313.71		
V-Mart Retail	1,258.54		
Prozone Intu	538.69		
Mandhana Retail	411.62		
Cantabil Retail	109.39		
Provogue	101.99		
REI Six Ten	10.74		
	43,199.50		

Source: moneycontrol.com

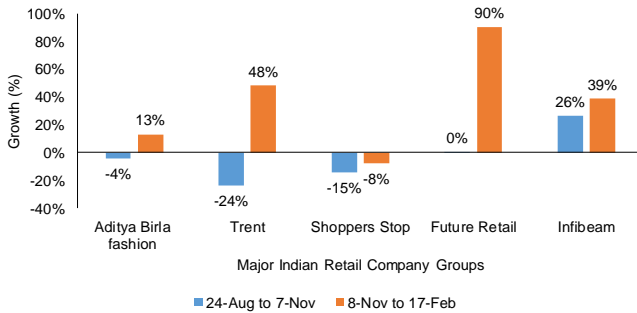
In this research paper we have analyzed the performance of top five listed Indian retail companies which cover more than 78% market share in terms of market capitalization.

According to the India Brand Equity Foundation, India has evolved as one of the potential markets of the retail industry attracting private investments, backed by reasons such as the rise in income levels, advancements in communication technology mainly in mobiles and shifts in consumer demands.

There had been investment around USD 11.76 billion in the Indian retail industry during the first half of 2016. This has been the most promising and the highest annual private equity (PE) in the retail sector in the last eight years.

Emergence of online retail has been a new revolution in India. Retailers are also venturing into new distribution channels in the e-retailing with the increased adoption of internet and android mobile phones. According to secondary literature, online retail in India is likely to boom by 23 times from the market size of USD 3 billion to USD 70 billion by 2020 due to increase in the number internet users.

Retail Industry performance



Source: moneycontrol.com

Stock prices of all retail companies except Shoppers Stop, have grown at a significant rate after demonetization. Future retail and Trent have grown at the rate of 90% and 48% respectively during 8th Nov 2016 to 14th Feb 2017, backed by their strong distribution network and availability of digital payment method.

The impact on high end fashion retail and luxury goods is projected to be higher as not demand for not so frequently bought products in this segment will be lowered. In case of fast food chain services, although more than 50% of the transactions are in terms of cash payments, the impact is likely to be not high due to the low purchase volumes and values. This in turn will drive customers to trend towards electronic transactions.

India holds a minor share in organized retail, whereas the major share is that of unorganized retail which more than 90% is. Overall, there are expectations of more consolidation of the industry towards the organized retail with retail growth being at 5%, annually.

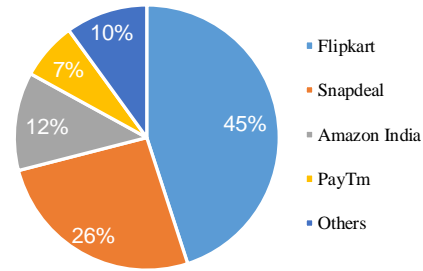
Organized retail had adopted cashless system of payments at an earlier stage than the unorganized retail formats. Hence, the influence of demonetization was more on the unorganized retailing segment and small traders.

Experts from the bank industry and government of India reveal that the impact of demonetization will diminish in the short-term, which might be another six months, for improved cash availability.

According to ASSOCHAM, Indian e-commerce industry will reach USD 120 billion at the end of 2020 with growth rate of 51% which is the highest in the world. Following India, the e-commerce industry is growing at 18% in China and at 11% in Japan.

Around 75% of the online users in India are in the age group 15-35 Years, which is supporting the growth of e-commerce industry in India. In 2015, at USD 13.8 billion, the GMV of top three e-commerce companies exceeded that of the top ten retail companies which was USD 12.6 billion.

Indian E-Commerce Market Share-2015



Source: Morgan Stanley

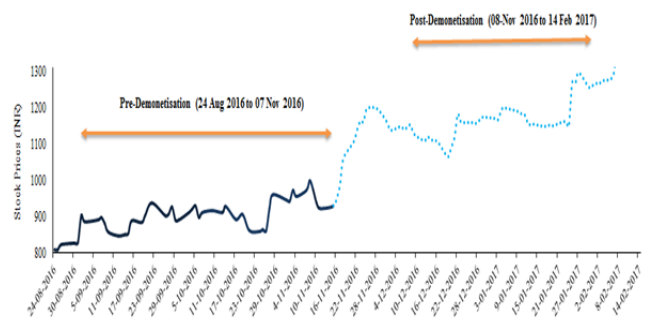
The above figure represents the market share of top e-commerce companies in 2015. Flipkart has highest market share followed by Snapdeal and Amazon India.

Before demonetization, all the top e-commerce companies were dependent upon the CoD (Cash on Delivery) payment method which was almost 75-80% compared to other payment methods which after demonetization has reduced to 25-30%.

Along with e-commerce companies few e-grocery companies also gained due to the cash crunch caused by demonetization, BigBasket revenue has grown by 300% during the period 2015-2016 and the major growth has been post Nov-8, 2016. Even after three months of demonetization, e-commerce companies are promoting cashless transaction as it is easy to execute, track and reduces the risk of fake currencies.

We have considered the stock price performance of only the listed Indian e-commerce company named Infibeam. Introduction of e-wallet and payment through debit/credit card at the time of delivery supported Infibeam sales which was reflected on the hike of its stock prices, which was 39% post demonetization (08-Nov, 2016 to 14-Feb, 2017).

Trend in Infibeam Stock Prices (INR)



Source: moneycontrol.com

Post demonetization retail and e-commerce industry stocks have been growing at an average growth rate of 36% while pre demonetization the stock prices of these industries declined at an average growth rate 3%.

This clearly reflects that retail and e-commerce industries witnessed increase in sales due to improved consumer buying

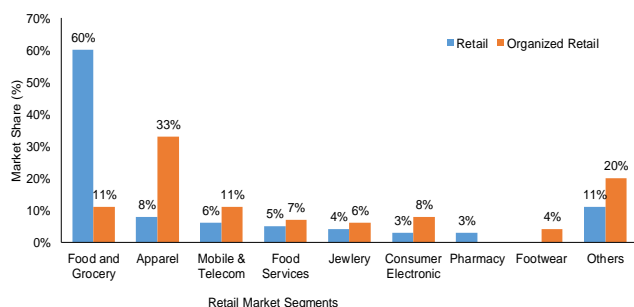
owing to the availability of e-payments during the cash crunch period caused by demonetization.

The food and grocery segment dominates the overall retail industry in India followed by apparel. However, in organized retail industry, it has a minor share in India which is about 11%. Due to poor retail margins in the food and grocery segment, the expansion of this segment has been limited in organized retail. Volume-wise, overall retail transactions including both the un-organized and organized will increase for this segment specifically daily based items in use like milk, bread, shampoos, soaps, tooth brushes etc.

The un-organized retail which includes the local kirana shops, owner- manned general stores, paan/beedi shops, convenience stores etc. will adopt e-payments, which has already started at a greater level, post demonetization.

Post demonetization, the unorganized market took a major hit due to the cash crunch and lack of e-payment facilities. This in turn has encouraged organized retail sales and e-grocery industry, nearly for all segments but the major growth has been witnessed in consumer staples, as part of basic needs.

Retail Segments Share in India



Source: India Briefing

The growth in the food and grocery segment will be fastest in organized retail format. However, volume wise, transactions will remain high under the unorganized retail.

The FMCG segment which used to have 60% of transactions in cash before demonetization, reduced to 10%-15% post demonetization. In rural areas, there have been significant slowdown in demand of FMCG products as most of the bulk purchasing was done in the form of cash. Here, cashless payment options have still not replaced the cash crunch, completely.

Some organized and non-organized retailers have adopted the digital payment options such as use of micro-ATM and e-wallet to purchase goods. Most of the consumer group has shifted from non-organized retail sector to organized retail sector, especially to purchase food and grocery products. Post demonetization, the competition between organized retail stores and e-grocery platform has increased.

Conclusion

The major objective of Indian government for implementing demonetization was to make India a cashless economy that will ease the flow of money and limit black economy.

Indian retail industry is projected to grow by 20% by 2020 backed by rise in the number of internet users, limited cash availability and higher adoption of cashless systems both in the organized and unorganized retail markets.

Lack of time for shopping, rise in fuel prices, higher discounts on branded items is catching attention of consumers towards e-commerce. Strategies adopted by e-commerce to retain consumers like cash back also supported the growth of the e-wallet companies and the process is expected to continue even in the future. Hence, backed by all the above reasons e-commerce industry in India is projected to grow more than 40% by 2020.

Among the various retail and e-commerce segments, fast moving consumer goods including food and groceries will continue to grow faster in the future. Backward integration of retailers with farmers, co-operatives and suppliers across various parts of India will assure sustained supply throughout the year.

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Expert Details

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