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Mr Bhatias Dilemma - What Next?

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MR. BHATIA'S DILEMMA – WHAT NEXT?

Sanjay Mishra¹, Abhishek Sharma²

ABSTRACT

Indian retail is dominated by a large number of small retailers consisting of the local kirana shops, owner-manned general stores, chemists, footwear shops, apparel shops, paan and beedi shops, hand-cart hawkers, pavement vendors, etc. which together make up the so-called “unorganized retail” or traditional retail. The last 3-4 years have witnessed the entry of a number of organized retailers opening stores in various modern formats in metros and other important cities. Still, the overall share of organized retailing in total retail business has remained low. While total retail sales have grown from Rs. 10,591 billion (US\$ 230 billion) in 2003-04 to Rs. 14,574 billion (US\$ 322 billion) in 2006-07 and subsequently to US\$ 411.28 billion in 2011 and expected to reach, US\$ 804.06 billion by 2015 which is at an annual compound growth rate of about 11 per cent, the organized retail sales grew much more at about 20 per cent per annum from Rs. 350 billion (US\$ 7.6 billion) in 2003-04 to Rs. 598 billion (US\$ 13.2 billion) in 2006-07. As a result, the share of organized retail in total retail grew, although slowly, from 3.3 per cent in 2003-04 to 4.1 per cent in 2006-07 and currently is fairing at almost 6%.

This although augurs well for the big box retail but has caused concerns for the unorganized retailers as the small scale retailing provides livelihood security to around 20 million urban workers and 13 million rural workers. India being a labour intensive economy with poor literacy rates finds small scale retailing to be an effective mode of not only providing gainful employment but also a substantial contribution to the GDP, according to a research report named 'Retail sector in India' by Research and Markets, Indian retail sector currently accounts for 12 to 14 percent of the country's Gross Domestic Product.

The given case of Mr. Bhatia a small scale retailer operating in a tier 2 town of India namely Bareilly in the state of Uttar Pradesh puts forward the problems, challenges, and strategies of unorganized retailers while competing with the big box retail in India.

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Key Words: *FDI in Retail, Unorganised Retail, Organised retail, Big Box Retail, Shopertainment, Malls, Mom and Pop Stores.*

Introduction

The retail sector in India has had an enviable track record in the past few years - committed investments of over \$30 billion over the next four years; the biggest corporate houses in India (Tatas, Birlas, Reliance, Bharti to name a few) honing their retail plans; the world's biggest retailers (Wal-Mart, Tesco, Carrefour) evaluating the Indian market; politicians of all hues having a vocal opinion on the sector; real estate mandarins licking their lips at the prospects of the retail trade... the list goes on. Perhaps no other sector in India's recent economic history has managed to stir such a buzz as the retail trade.

Size

The BMI India Retail Report for the fourth quarter of 2011 forecasts that total retail sales will grow from US\$ 411.28 billion in 2011 to US\$ 804.06 billion by 2015. The organized retail segment in India is projected to be 9 per cent of total retail market by 2015 and 20 per cent by 2020. Hypermarkets would be the largest retail segment, accounting for 21 per cent of the total retail space by 2013–14.

Reasons

The economic reforms of nineties, big population size, increasing wealth of individuals and the speedy construction of organized retail infrastructure in the last twenty years or so are the key factors behind the exponential growth that is being experienced by the retail sector in India.

Today India has one of the largest numbers of retail outlets in the world.²³ With an expanding middle and upper class consumer base, greater availability of personal credit, increase in disposable incomes across all classes and change in lifestyle; the retail development is not just confined to major cities, but is also taking place in Tier-II and Tier-III cities.

Tourism is also a major contributor to the Indian retail sector. Tourist arrivals rose by 8% in 2010 to 5.40mn from 4.99mn in 2009. Foreign exchange earnings from tourism during 2010 were US\$13.24bn up 9.55% from US\$12.08bn the year before.²⁵

The increasing urbanization of India's growing population along with economic prosperity

and transformation in consumption pattern provides a huge market for organised retail. The retail industry in India gathered a new momentum with the establishment of different international brand outlets, hyper or super markets, shopping malls and departmental stores in the recent past

Yet there are strong protests against the Government announcement in September 2012 that 51% FDI will be allowed in multibrand retail. Though different Industry bodies welcomed the move but the protesters demanded a rollback in decisions that favour the growth of organized retail, particularly foreign, in India.

What is the hullabaloo all about? Why is it that a sector which has been in existence ever since commerce of any kind existed managed to create such fervor in the country in so short a time? Are the macro-economic implications of corporate investment into this sector detrimental to India's long-term socio-economic interests? What is the right model for development of the retail sector in the country? Is FDI in the retail trade the end of the world for the mom-and-pop retailers? Similar queries and issues have been posed and deliberated at length over the past few years.

Mr. Bhatia's Problem

Amongst this entire turn of events Mr. Bhatia, a Mom and Pop store owner in one of the posh colonies of Bareilly, finds himself caught in the situation where his lifelong efforts and hard work are at the verge of being proven futile.

Mr. Bhatia, first name Jagdish, an original resident of district Lahore, now in Pakistan, shifted to Bareilly via Punjab after the partition of the nation. Mr. Bhatia was just coming out of infancy when his fore fathers, who were big land holders at a village near Lahore, were forced to move out. After crossing the border they tried to settle in Punjab, but uprooted from their place of birth and treated as refugees they could not find a footing in Punjab. Those were different times and people cared for each other. One of the companions in the refugee camp became friend of the family and insisted Mr. Bhatia's Grandfather, head of the family, to move along with him to Uttar Pradesh where his relatives were residing in a small and upcoming town of Bareilly. Thus mustering whatever was left of the remaining will and courage Mr. Bhatia along with his family came to the unknown lands of Uttar Pradesh. One of the many misfortunes that hit the family within the early days of its arrival in Uttar Pradesh was the passing away of the head of the family (Mr. Bhatia's Grand Father) who could not bear the pain and agony of being uprooted and as a result succumbed to the exhaustion of the journey, physical as well as mental.

At that period of time Bareilly was a small town with meager population. The Bhatia

started living in a small torn down house, which became empty after its owners migrated to the other side of border, in a locality named Rampur Bagh (Rampur Garden) that was left mostly empty and desolate but which went on to become one of the most posh colonies of Bareilly in times to come. His father took up a labourer's job in the near by fields in order to feed his family and his mother started working as a house maid in order to support her husband. All these misfortunes left an indelible mark on Mr. Bhatia and made him a hardworking person with a lot of family values. In times to come he went on to develop into a devoted son, a doting father, a responsible husband and above all an ambitious person who wanted to provide his family whatever he was always denied. With a weak educational background and limited finances available during the time of his upbringing he was not left with a lot of career options. As Mr. Bhatia was always an enterprising individual he started a small mom and pop store in the open space outside his almost torn down home with nothing but a tin shade to cover the merchandise and used his home as the stock keeping store house. Despite the lack of formal education he always possessed keen business acumen. He quickly developed cordial relations with his customers and started understanding the demographics of the people residing in the posh colony of Rampur Garden and customized his stock according to their needs.

Slowly yet steadily things started improving and the customer base expanded. The merchandise base also shifted from just basic requirements items to a more comprehensive need solving stock. With the passage of time Mr. Bhatia bought his own shop which was much bigger than the previous makeshift version of a shop. The customers from the surrounding localities also started visiting his shop as it developed a reputation of a Mom and Pop Store that is never out of stock and almost all the day to day required items are found in it - be they be staples, stationery, food items, or general items such as socks, undergarments, utensils, electrical items, FMCG, etc. His business flourished as time passed by, which provided him the opportunity to send his children to one of the best schools in the city, to marry his children, as they grew up, to quite wealthy families of Kashipur and Haldwani, and to lead a well to do life.

Entry of Easy Day

Then one fine day Walmart decided to enter the booming markets of India. The government that had protected the unorganized retailers of India, against the onslaught of foreign and domestic organized retailers for long, opened retail business for them with certain conditionalities. Thus Mr Bhatia and other small time upcoming unorganized retailers who were operating and flourishing in the retail market came face to face with their strongest adversary till now, the Easy Day

Store (Joint Venture of Walmart and Bharti) that opened just across the street. Easy Day not only offers all the products that Mr. Bhatia offers (plus many...) it also offers a swank showroom, smart boys and girls manning the store, Customer-product direct interface, value for money schemes and a lot more.

As a result initially due to craze and curiosity towards the showroom and later due to the sheer depth of merchandise mix, discounts, and the one stop shopping convenience, the footfalls at the Easy Day showroom are increasing and consequently decreasing at the Bhatia's store. The once loyal customers are now finding it difficult to contain their wants as they are directly exposed to the products rather than over the counter purchases they make at Bhatia's store, as the products lying within the arms length induce a more prompt action on the side of the customer rather than viewing products from a distance and searching for products that they might need in the shelves that are on the other side of the counter. The merchandise mix that he is keeping is still emphatic but yet the customers no longer find his store to be appealing. The loss of customers resulting in the fall in sales has not only forced Mr. Bhatia to put on hold his expansion plans but has also made him wonder about the future of his present store. Within a very short span of a year or so an entrepreneur who had plans to expand is suddenly not so sure about his future.

While pondering over his future he thought of his friend Mr. Achyut's son Madhusudan (lovingly called Manu), who after taking his management degree from a premier Institute in India is running a management consultancy in Mumbai with top notch industrialists in his client list; but is currently in Bareilly on vacations to see his father. He called over Manu and narrated his concerns and anxiety to him. Manu who always held Mr Bhatia in high esteem and respected him for what he had achieved in his life despite the various handicaps, which could have easily broken anyone, thought of carrying out a proper market research instead of giving Mr Bhatia simple advices or consoling him.

Madhusudan's Research

In order to understand Mr. Bhatia's problem, its gravity, the future implications and to find a way out Manu collected information from customers visiting organized retail outlets like Easy Day, Phoenix Mall and Vishal Megamart; and customers visiting unorganized retailers. His questionnaire included questions pertaining to the what, why and how customers make purchases at organized retail outlets and unorganized retailers apart from general demographic questions. Some of the important facts which emerged from the analysis of the survey data were:

- In order to gauge the customers' reactions to the coming up of organized

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retail formats in Bareilly Manu started the enquiry with a very simple and innocent looking question yet one of the most pertinent one. His idea was to get a feel of customers' sentiments towards organized retail outlets and from that what is in store for Mr Bhatia as far as as competition from organized retail outlets is concerned. When Manu enquired the customers at Easy Day and other organized outlets such as Phoenix Mall and Vishal Megamart as to whether they would like more organized outlets to come up in the city majority answered in affirmation. (Exhibit 2).

The response from 76% of the respondents in affirmation where as 24% against the coming up of more organized outlets was rather heartening for the organized retailers but not so heartening for Mr. Bhatia.

This response also depicted the change taking place in the shopping behavior of the consumers of upcoming towns who are slowly beginning to acknowledge the presence of organized outlets for their shopping carts. This also depicts that they have started shifting from just shopping to shoppertainment.

- The reasons cited by the customers for their above response spread over a wide spectrum. The responses regarding the reasons that led them to wanting more organized outlets to come up were varied and dispersed all over the possibilities. Some of the responses were quite interesting such as mood, trial, etc but certain other were quite concrete such as availability of the product, value for money, spending time with family, time saving and convenience. (Exhibit 3).

But the most important response was Brand in relation with variety and quality. Coupled with time saving and convenience it becomes a very powerful reason to induce customers towards the organized retailers.

Most of the customers purchase goods from the organized retailers due to the wide range of goods which they do not usually find at mom and pop stores; and a purchase from organized retailer usually certifies quality as well.

Moreover when they move in to organised outlets they know that they would find almost everything from a soap to a LCD TV under a single roof hence they don't need to go from shop to shop to purchase their items.

- But the main cause of concern for Mr. Bhatia emerged when Manu enquired about the product category bought from organized retail outlets. Mr. Bhatia's store generally stocks the ration and groceries along with other

items.(Exhibit 4).

The most sought after purchases by the customers in organized retail outlets such as Easy Day, Big Bazaar or Vishal Megamart pertains to ration, groceries and other FMCG daily utility products.

Most of these purchases of ration are made during the first two weekends of the month at organized retail outlets and these purchases are usually made in bulk for the entire month. This makes sense because most of these purchases have some sort of schemes on them such as two plus one or complementary schemes; etc and generally such schemes are missing at the Bhatia Store. Although such schemes doesn't necessarily increase the savings of the customers but they do enhance for sure the real income which the customers normally end up in purchasing more in the same expenditure.

All these aspects although may seem challenging to Mr. Bhatia but Manu being a true man of business knew that it certainly did not mean the end of the world for Mr. Bhatia's business if he timely adapts himself and reinvents his business strategy.

In order to analyse the strengths on which Mr. Bhatia could build his offensive against the bigbox retailers Manu enquired from the customers who were still loyal to Mr. Bhatia's outlet and other unorganized outlets in the various localities of Bareilly city. He thought that the customers who are still making regular visits to unorganized retail outlets must be finding certain aspects of this business format to be more desirable, suiExhibit and better from their perspective.

- When Manu enquired from the customers at Mr. Bhatia's store and other unorganized retailers as for the reason of purchase from these stores the responses related mostly to the nearness of the store, credit facility and personal relations between the shopkeepers and customers. (Exhibit 5)

The most dominant reason for purchases made from unorganized outlets appeared to be its convenient distance from the customers residence. People do not want to travel kilometers in order to make regular purchases when they can get the merchandise required from a store which is just a few paces away. These people sometimes visit the same store more than a couple of times during a day.

They also know that there is no need to become panicky if anything in the daily ration or requirements is out of stock.

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On combining the convenience with credit Manu found that 90% of the business of unorganized retailers gets explained. Generally Mom and Pop stores do a lot of business on credit where an account of the customer is maintained and settled once at the beginning of every month. These stores have shifted the customers' mentality towards carrying the money for purchases as a cumbersome exercise and given the confidence to them that the particular store is their own as they say “*Apne Ghar Ki dukan Hai*”.

So analyzing all relevant aspects of the research Manu concluded that though Mr. Bhatia and the likes are coming across a tough competitive environment but this does not certainly mean the end of road for them if they wake up to the challenge in time and come out with suiExhibit strategy.

After going through all this, Manu thought of a number of steps and strategies that could help Mr. Bhatia to turn the tide in his favour. He discussed the same with Mr Bhatia in detail. As Mr Bhatia went through the suggestions given to him by Manu and thought about the recent changes that have made the business environment fiercely competitive in the city of Bareilly, having a population of around ten lakh, he got lost in memories of his early life struggles.

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EXHIBITS

Exhibit 1: Some Facts

- India ranks fourth among the 30 countries that were surveyed in Global Retail Development Index and ranked sixth in the 2011 Global Apparel Index.
- Foreign Direct Investment (FDI) up to 100 per cent is allowed under the automatic route in cash and carry (wholesale).
- Government is planning to remove the old tax systems to simplify the tax calculation and avoid double taxation in Indian retail. New Goods and Service Tax (GST) will simplify the tax structure.
- Foreign Direct investment (FDI) inflows in single-brand retail trading during April 2000 to December 2011 stood at US\$ 44.45 million, according to the Department of Industrial Policy and Promotion (DIPP).
- Italian luxury major Canali has entered into a 51:49 joint venture (JV) with Genesis Luxury Fashion, which currently has distribution rights of Canali-branded products in India. The company also plans to invest Rs 7.65 crore (US\$ 1.53 million) in India. The JV company will now sell Canali branded products in India exclusively.
- Germany-based Metro AG will invest an additional Rs 560 crore (US\$ 112.12 million) in 2012 to set up eight wholesale stores in India to take advantage of the growth in consumption in Asia's third-largest economy.
- Mukesh Ambani-controlled Reliance Brands will bring British shirt brand Thomas Pink to India, as it looks to rapidly increase its presence in the fast-growing domestic premium-to-luxury fashion retail market.
- Australian bakery cafe chain Muffin Break is planning to enter into India in next two or three months and plans to open up to 40 outlets in the next two years.

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Exhibit 2 : Do you want more organised outlets to come up?

Do you want more organised outlets to come up?	Yes	No
Percentage (%)	75.71	24.29

Exhibit 3: Reason for buying from organised outlets

Reason for buying from organised outlets	Mood	Trial	Brand (Variety and Quality)	Brand and Time saving	Time saving (quality and satisfaction)	Satisfaction	Value for money	Availability of product	Spend time with family
Percentage (%)	9.52	4.76	38.10	7.14	4.76	14.29	2.38	14.29	4.76

Exhibit 4: Product category bought from organized retailers

Product category bought from organized retailers	Ration and Grocery	Ration and Garments	Garments
Percentage (%)	18.31	69.01	12.68

Exhibit 5: Reason for purchase from unorganised outlets:

Reason for purchase from unorganised outlets	Near and Credit	Near and Relation
Percentage (%)	88.00	12.00

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