

## **IMPACT OF COVID-19 ON RETAIL BUSINESS MODELS AND CONSUMER SENTIMENTS OF INDIA**

Sarvagya Malik

Amity International School Noida

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### **ABSTRACT**

Covid-19 has changed the perspective of human beings in many ways. It has led to difficult macroeconomic outcomes and a major change in consumer expectations and retail business operations. India declared complete lockdown of the nation and the shutting down of the economy led to non-availability of many goods and services. The country saw a sizeable impact on the retail industry and consumer sentiments due to the economic instability. This article looks at the impact of the pandemic on retail business models and consumer behaviour during the crisis.

### **Objective**

The main purpose of this research paper is to understand the impact of covid on retail consumers behaviour and business models through qualitative as well as quantitative analysis.

### **1. Literature review**

#### **1.1 Introduction**

The COVID-19 pandemic is disrupting the functioning of economies around the globe. The pandemic has slowed down the overall growth of sectors causing fluctuations in demand, supply and inventory management. The virus has forced the consumers to self-quarantine and rely entirely on E-commerce. It has been difficult for the retail industry in India to regain their customers due to the negative impact on the supply chain. Consumers are changing their buying habits due to an impact on their disposable income. The retail industry is rapidly investing in digitalization in order to cope up with changing business environment. In the initial days of the pandemic several retail businesses tried to satisfy their customer's needs by adapting direct to consumer model but they failed to cope up with the burst in demand. This led to delayed deliveries and tremendous decline in customer satisfaction. Health and safety concerns among the masses has compelled them to adapt contactless payment options. The pandemic has

instigated panic buying and reduced the willingness of the consumers to go out and shop. It is important for the retail industry to understand [1] the decline in the customer buying confidence [2] staff shortages and [3] supply chain restrictions. In India the retail industry is offering personalized experiences to customers at a high pace to increase personal experiences and loyalty. During the pandemic, people are spending less income on items perceived as luxury or non-essential (such as clothing, shoes, make-up, jewellery, games and electronics).

The traditional low cost retailing includes the local kirana shops, general stores, single owner manned medical stores and restaurants. These form the core of trade in the retail industry. These businesses are successful in managing their inventory and running a profitable venture without any external funding. They stores provide an excellent customer service through customizable and personalized service to their customers. Although these retailers lack man power they utilize their resources in the most convenient and profitable way and have discovered a way to survive economic downfalls and changing customer demands. Customers prefer small scale stores which are available in their neighbourhoods because they have developed a certain trust in them. This trust plays an important role in the buying behaviour of the customers. The unorganized retailers have offered a fast delivery system and a no questions asked return policy for several decades. They have also implemented all the economic and management principles in their businesses without any prior knowledge. Such factors have put them a step ahead of the large organizations which are entering the market. Being customer centric and to be able to earn profits has given these retailers a strong position in the market. Unorganized retailers also face many threats from E-commerce and D2C businesses. They have tried to adapt to the modern technologies to some extent, they now take home deliveries and provide special offers to their customers but a lot more has to be done to cater to the rising customer demands. They have realized the impact that technology brings to their business and looking for new and innovative ways to cope up with the large industry giants.

Domestic and multinational corporations have entered the retail industry in India. This has led to rising concerns that they will disrupt the traditional small scale businesses. These MNC's have a strong supply chain which reduces the number of middlemen when compared to the unorganized sector. Changing demographic profile and increasing disposable incomes are the key factors that are leading to the growth of organized retailing. In India the number of middle class consumers are rising which has provided a golden opportunity for modern retailers to grow their businesses. Technology is one of the strong factors responsible for the growth of organized retailing. Computerization and IoT have revolutionized the market. Bar code systems along with several innovations are contributing to optimum utilisation of the resources.

### 1.2 Post covid environment

The desire to break the chain of covid-19 transmission has led to an increase in online retail shopping. The new retail pricing strategies have taken a toll on customer experience. This has negatively impacted the market task scenarios which would permit customers to turn down on pricing. The shoppers now have an interest to understand the supply-chain of the product they purchase and to promote local stores. State wide lockdowns have pushed the employees from their company offices to their homes. Corporations have been compelled to spend money on telecom and e-commerce skills with a purpose to maintain the quality of their operations. Employees have created new ways to maximize their productivity at home. The pandemic has taught them that they don't have to be physically present in order to do certain tasks. Work from home has gone from a far-off possibility to a wonderful and productive experience. Market fluctuations and economic uncertainties have brought the attention of the general public towards long term goals of their families by putting aside discretionary desires. Most of the retail costs are fixed which is putting financial burden on retailers. The industry is facing liquidity challenges and large scale unemployment.

The Composition Of India's Merchandise Retail Sector (all figures in US\$ Billion)

Split of Merchandise Spending in India				
All values in US\$ Bn.	2020	2022	2025	CAGR (2020-2025)
Food and Grocery	545	660	850	10%
Apparel and accessories	64	78	104	10%
Jewellery & watches	65	81	111	11%
Consumer electronics	53	65	91	12%
Home & living	35	44	60	11%
Pharmacy & wellness	24	31	42	11%
Footwear	10	13	18	11%
Others	26	31	39	8%
<b>Total</b>	<b>822</b>	<b>1005</b>	<b>1315</b>	<b>10%</b>

Source: Technopak Analysis, 1 USD = INR 70

1

Fig. 1. The composition of India's merchandise retail sector

Size & Split Of India's Private Spending On Services (US\$ Billion)

Size & Split of Private Spending On Services				
All values in USD Bn.	2020	2022	2025	CAGR (2020-2025)
Education	131	148	214	13.1%
Healthcare services	94	106	156	13.8%
Comm. & Connectivity	86	97	143	14%
Personal Transportation	84	95	137	13%
Food services	64	71	95	10%
Travel & Leisure	52	56	75	10.1%
Entertainment	29	32	47	13.8%
Small Savings, Housing etc.	467	515	718	11.7%
<b>Total</b>	<b>1006</b>	<b>1120</b>	<b>1585</b>	<b>12%</b>

Source: Technopak Analysis, 1 USD = INR 70

Fig. 2. Size and Split of India's private spending on Services

India's Retail Channel Split

Split of Total Retail Market Across Different Channels (US\$ Billion)

	2020	2022	2025	CAGR (2020-2025)		
Brick led Modern Retail	58	27	85	65	150	21%
E-Commerce led	31	7	38	43	81	21%
<b>Total Modern Retail</b>	<b>89</b>	<b>123</b>	<b>230</b>	<b>21%</b>		
Traditional Retail	733	121	854	230	1084	8%
<b>Total</b>	<b>822</b>	<b>1005</b>	<b>1315</b>	<b>10%</b>		

Source: Technopak Analysis, 1 USD = INR 70  
 GDP Real Growth Rate = 8% from 2021 onwards  
 Inflation = 4%

Fig. 3. Split of Total Retail Market Across Different Channels

The above tables (source: Technopak Analysis) indicate that more than 65% of the e-commerce activity comprises of mobile phones and other digital products and then to a lower extent, consumer durables and discretionary. The largest consumer spending in India is in food and grocery which is nearly 66%. Covid-19 provoked lockdowns and gave a significant boost to online commerce.

### **1.3 Challenges faced by retail outlets:**

#### **I. Disrupted supply chain**

In India there is a lack of efficient supply chain management. A strong supply chain is needed to bring down the inventory costs. This will help the businesses and the communities to manage and tackle short term crisis in order to cope up with the changing customer demands.

#### **II. Lack of technology adoption:**

Retailers need to adjust to the shifting customer experiences in order to survive from competition. It is essential for the retailers to utilize the right technology in order to scale. New technology should be strategically used to transform shopping experiences. Billing, payments, supply chain management, stock tracking and staff management softwares are essential the day to day operations.

#### **III. Security and Risk management:**

Social distancing has compelled the retailers to change their sales strategies and models to ensure social distancing measures. Adapting to thermo scanners and cameras in order increase security and reduce the transmission risk. Retailers need to manage their staff more efficiently.

#### **IV. Fall in consumption:**

There is a decrease in the consumption pattern of consumers which tends to fall even more during the next six to nine months. The lockdowns, new covid-19 variants, reduction in disposable income and fear of job security have decreased the buying confidence of the consumers.

#### **V. Diminishing brand loyalty:**

Companies which have spent a massive amount of time to build their customer loyalty are facing major problems due to the covid-19 restrictions. People are focussing less on their discretionary desires and more on essential items. Customers tend to purchase items from their nearby stores to meet their daily needs. Small retailers are selling more of private labelled items which has paved a way for consumers to switch from nationalized brands.

VI. Economic recession: Due to the lockdowns the economy is facing a slow paced growth which is leading to shrinkage in business volumes. Overall financial condition of retailers is worsening.

#### **1.4 Adaptive actions for retailers to tackle the challenges:**

I. Reorganize the supply chain by partnering up with hyperlocal stores and vendors. Retailers need to manage the flow of essential items and re-plan their strategies regarding discretionary items.

II. Retailers need to re-evaluate their current product range and stock on hand. This will help them to evaluate demand patterns and forecasts.

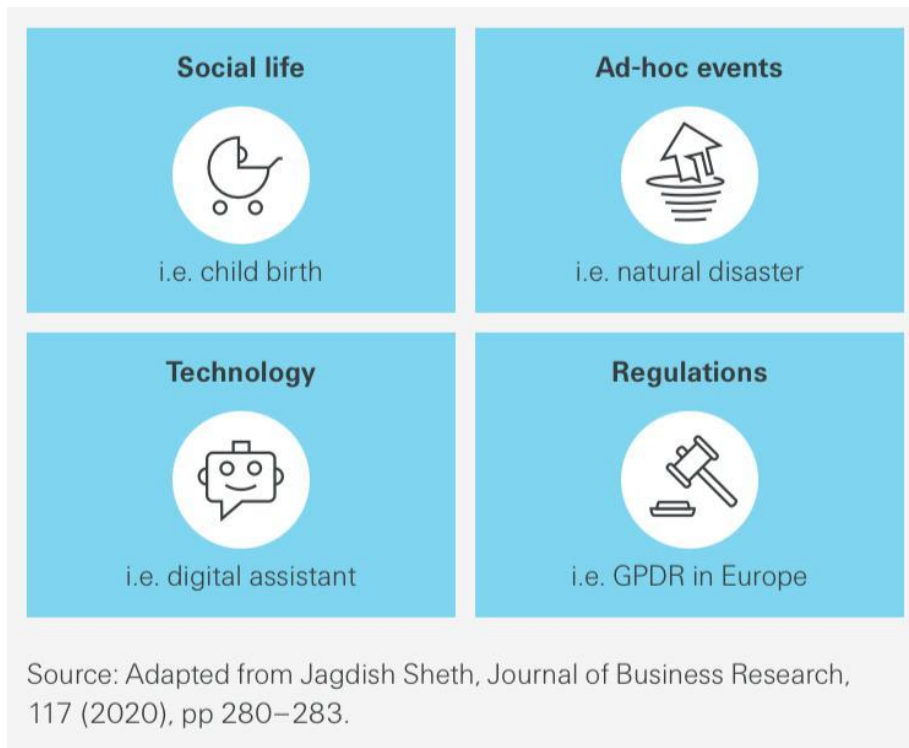
III. Adopt a competitive pricing strategy and cost structure to ensure sales recovery. Invest in marketing and carry out targeted campaigns.

IV. Construct their relations with new suppliers and negotiate for post covid-19 operations.

V. Adjust store policies in order to ensure social distancing.

#### **1.5 Consumer behaviour approaches in times of crisis:**

The pandemic brought a large impact on the economy which has led to change in market dynamics. While purchases are currently concentrated on 'basic' needs, people are shopping more carefully by shifting more towards hyperlocal stores and e-commerce. To maintain safety consumers are using contactless payments. Offices are seeing an increase in virtual workforce but are still looking to cut costs. Consumers are making sure to limit the food waste and are largely inclined towards sustainable product options. The e-commerce sector is rapidly creating a positive user experience for the consumers as well as the retailers. There are several factors that have disrupted the consumption habits during the pandemic.



**Fig. 4.** Drivers of major change in consumption

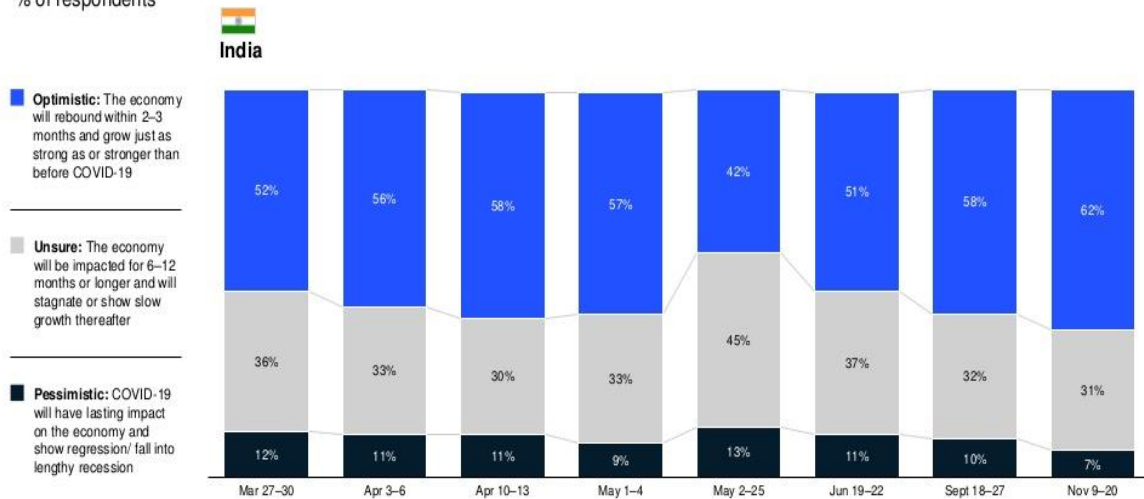
Fig. 4. Depicts the drivers that are changing the consumer behaviour which includes several social life events such as marriage, childbirth etc. Technology also plays an important as a change driver as many business models have changes and brought Artificial Intelligence to drive the customers. The third is the new rules and regulations introduced by the governments such as solar and wind power generation. This has empowered the customers to adapt sustainability. Unexpected events such as earthquakes and the most recent pandemic are major drivers as well.

Shift to value and essentials



## Consumer optimism has steadily increased since mid-May and has reached its highest levels since the start of the COVID-19 pandemic

**Confidence in own country's economic recovery after COVID-19<sup>1</sup>**  
% of respondents



<sup>1</sup> Q: How is your overall confidence level in economic conditions after the COVID-19 situation? Rated from 1 "very optimistic" to 6 "very pessimistic"; figures may not sum to 100% because of rounding.  
Source: McKinsey & Company COVID-19 India Consumer Pulse Survey 11/9-11/20/2020, n = 1,091; 9/18-9/27/2020, n = 1,051; 6/19-6/22/2020, n = 624; 5/22-5/25/2020, n = 614; 5/1-5/4/2020, n = 648; 4/10-4/13/2020, n = 631; 4/3-4/6/2020, n = 601; 3/27-3/30/2020, n = 582, sampled and weighted to match India's general population 18+ years. McKinsey & Company 3

**Fig. 5.** Consumer confidence level regarding post covid economic recovery

( source: [Consumer sentiment in India during the coronavirus crisis | McKinsey](#) )



Flight to digital and omnichannel



### ...with many consumers planning to shift almost completely online

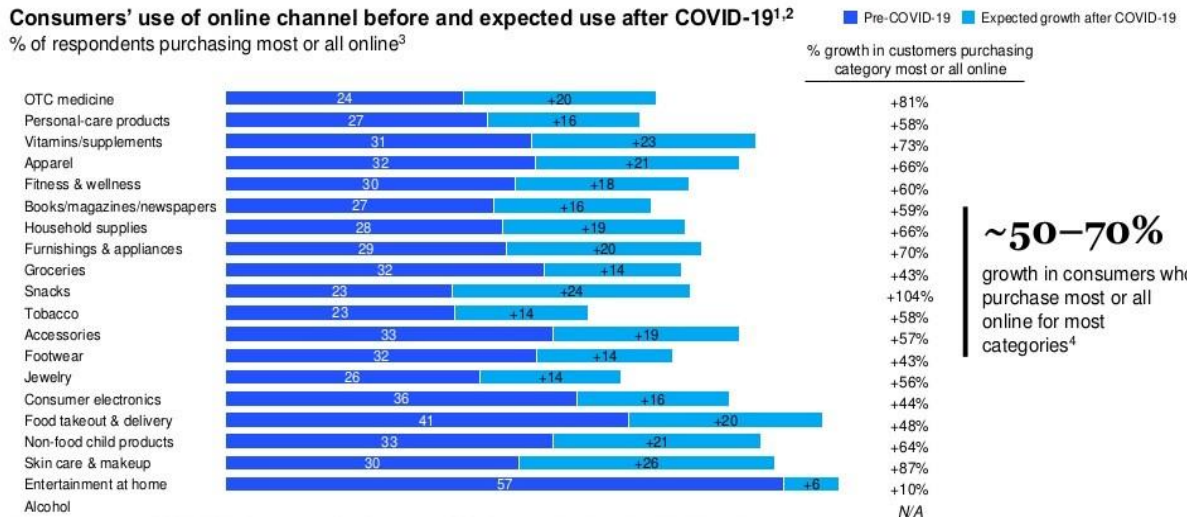


Fig. 6. Shift towards e-commerce pre and post covid

(source: [Consumer sentiment in India during the coronavirus crisis | McKinsey](#) )

Shock to loyalty



### The majority of Indian consumers have tried a new shopping behavior and most intend to continue with it beyond the pandemic

Have you used any of the following since COVID-19 started<sup>1</sup>

% of respondents

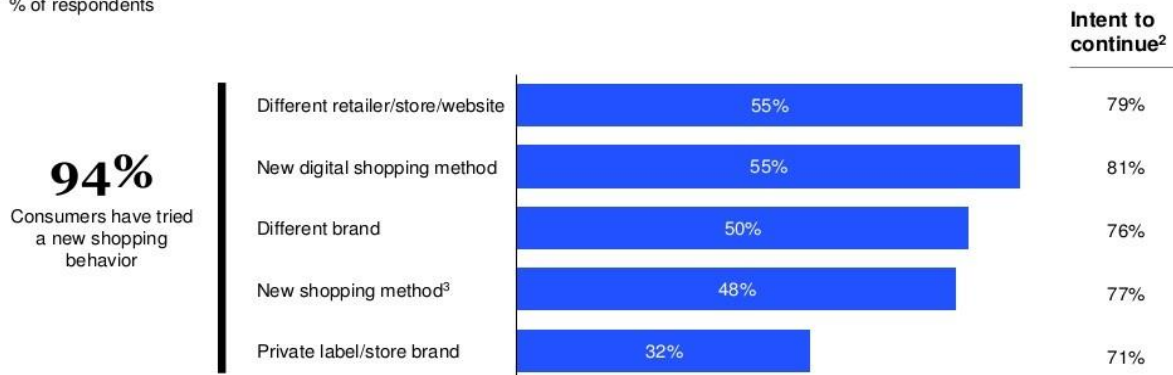


fig.7. Change in customer preferences and brand loyalty

(source: [Consumer sentiment in India during the coronavirus crisis | McKinsey](#) )

## **Conclusion**

The research shows that the consumers will focus more on health, hygiene and essential products in the near future. It is essential for the retail enterprises to switch from traditional methods to modern ones in order to survive the pandemic. It can be concluded that the consumer buying patterns will not be the same as before and the era of ‘the new normal’ has started. Retailers will need to manage the load of occupancy costs and rents in order to stand strong amid the pandemic. The pandemic has shifted many wealthy retailers from a positive to a negative cash flow and a depletion in working capital. The new consumer behaviour trends no longer align with their current business propositions and there is a constant search for alternatives. Innovative digital solutions will help the business owners to remain relevant and form a strong foundation for growth.

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