

Impact of Covid-19 on the Financial Performance of Unorganised Retail Business in India-A Study in West Bengal

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Abstract

Retail business plays a significant role in India in terms of economic value addition and employment generation. Although, the importance of organised retail is increasing day by day but the importance of unorganised retail remained significant in India. Unorganised retail sector contributes near about ten percent of GSP in India. Covid-19 has impacted all parts of society. For controlling the spreading of the virus, prolonged unplanned lockdown negatively impacted the Indian economy. The unorganised retail business was impacted significantly during this lockdown period. Unplanned shutdown for lockdown, breakdown of the transport system, and increasing debt collection significantly impacted the profitability of the Indian unorganised retail sector. Government support in terms of finance, technology, and health care can protect the retail sectors and the Indian economy. At the cost of society, the government should think about the problems of the retailers for balanced growth. The policymakers should seriously consider the genuine problem of the retailers.

Keywords: Lockdown, Retail Business, Profitability

Introduction

Covid-19 has impacted every part of our life. To control the spreading of the virus, precautionary measures like social distancing, wearing of masks, and lockdown in different phases have been implemented. Lockdown has impacted society and business significantly. Major business activities like production, distribution, and sales have been disrupted for a long period.

Retail business is an important part of India. India is also known as the nation of shops. Fifteen million retail businesses are operating in nearly 5000 towns and 6,00,000 villages in India (Khare 2014). In terms of economic value, the Indian retail market is one of the top-five retail markets in the world. Indian retail contributes about 10 percent of GDP in the Country (Mogale, Dalvi, 2019). All essential goods and services produced in the economy reach the final consumers through retail business. A large number of the population of India are directly and indirectly employed in retail sectors. Retailers are the enterprises owned by individuals and households engaged in the production and sales of goods and services operated on a proprietary and partnership basis with less than ten employees (NCEUS¹). Due to prolong lock-down the retail business and people engaged with these sectors have been influenced significantly. The retail sector can be classified into two categories-organized retail and unorganized retail.

In this paper, an attempt has been made to assess the impact of Covid-19 on retail business in India.

1 National Commission for Enterprises in the Unorganised Sector

Review of Literature

Several studies have been conducted for assessing the impact of Covid on Society and Business. Prosenjit Nath (Sept 2020) has conducted a study titled 'Covid-19 and its impact: A Socio-Cultural Study Based on the Current Situation'. He has analyzed the impact of covid on different parts of society.

Jung K-J and Jeon B H(2021) analyzed the negative impact of the Covid-19 Pandemic on the Acceleration of Startup Innovation in the Retail Supply Chain. Researchers examined the negative impact of the pandemic on the acceleration of startup innovation in retail. They concluded how innovation and adaptation are crucial to adjust to the crisis.

Kumar S et.al.(2021) have conducted a study on the performance of unorganized retail in India under pandemic and normative periods. They have found a significant drop in the profit of the unorganized retail during the pandemic.

Sharma Yoges(2020) conducted a study on the impact of Covid on the Indian Economy. He discussed different opportunities and threats of Covid on the Indian Economy.

Nithya and Chirputkar Abhijit (2020) analyzed the impact of Covid-19 on retail customer behaviors and business models. They concluded that the retailers should update the distribution model and product for survival in the business.

Mogale U S and C SDalvi(2019) have discussed the challenges and opportunities of the Indian retail market. Although a large number of retailers are entered the market, only those are successful who can convert challenges to opportunities.

Research Gap

Several research studies have been conducted to assess the impact of Covid on the Indian Economy but few studies have been conducted to assess the impact of Covid on the financial performance of the retail business in India. But no single study has been conducted to assess the impact of Covid on the financial performance of unorganized retail in India.

Statement of the Problem

Covid 19 and unprecedented lockdown to control the situation has broken the production and distribution system of the goods and services during the same period. The retail business is significant in India in terms of value addition and employment generation. The economic loss in the retail sector has impacted the overall economy of India. Assessing the impact of the pandemic on unorganized retail is significant for making strategies for sustainable growth in the future.

Objectives of the Study

The objectives of the study are

- (a) To assess the impact of Covid on unorganized retail business in India
- (b) To assess the impact on the sale of the retail business unorganized retail business in India
- (c) To assess the impact of Net Profit of the retail business, unorganized retail business in India

The Hypotheses of the Study

H(1)₀: There is no impact on the sale of the retail business during the covid period as compared to the pre-covid period

H(1)₁: There is an impact on the sale of the retail business during the covid period as compared to the pre-covid period

H(2)₀: There is no impact on the profit of the retail business during the covid period as compared to the pre-covid period

H(2)₁: There is no impact on the profit of the retail business during the covid period as compared to the pre-covid period

Research Methodology

Data Collection: Data have been collected from 200 unorganized small businessmen who have filed ITR-4 for the assessment year 2020-2021 and 2021-22. The purposive sampling technique has been used for data collection. Data from ITR-4 have been collected and the perception of the retailers have been collected using a structured questionnaire.

Data Collection Period: The data have been collected from 1 November 2021 to 30th November 2021.

For assessing the financial performance growth in sales, growth in net profit, I-Tax, Bad Debt, and Liquidity ratio have been considered.

Growth in Sale

$$S_g = 100 \times (S_t - S_{t-1}) / S_{t-1} \text{-----(1)}$$

S_g = Growth in Sales, t = Year,

Growth in Net Profit

$$NP_g = 100 \times (NP_t - NP_{t-1}) / NP_{t-1} \text{-----(2)}$$

NP_g = Growth in Net Profit

Bad Debt Ratio

$$US / TCS \text{-----(3)}$$

US = Uncollected sales

TCS = Total Credit Sales

Binary Logistics Regression Equation

$$\text{Logit}(P) = a + b_1x_1 + b_2x_2 + b_3x_3 \text{-----(4)}$$

$$P = \frac{\exp(a + b_1x_1 + b_2x_2 + b_3x_3)}{1 + \exp(a + b_1x_1 + b_2x_2 + b_3x_3)} \text{-----(5)}$$

Descriptive Statistics: For data analysis statistical tools like mean, percentage, ratio, and graph charts have been used.

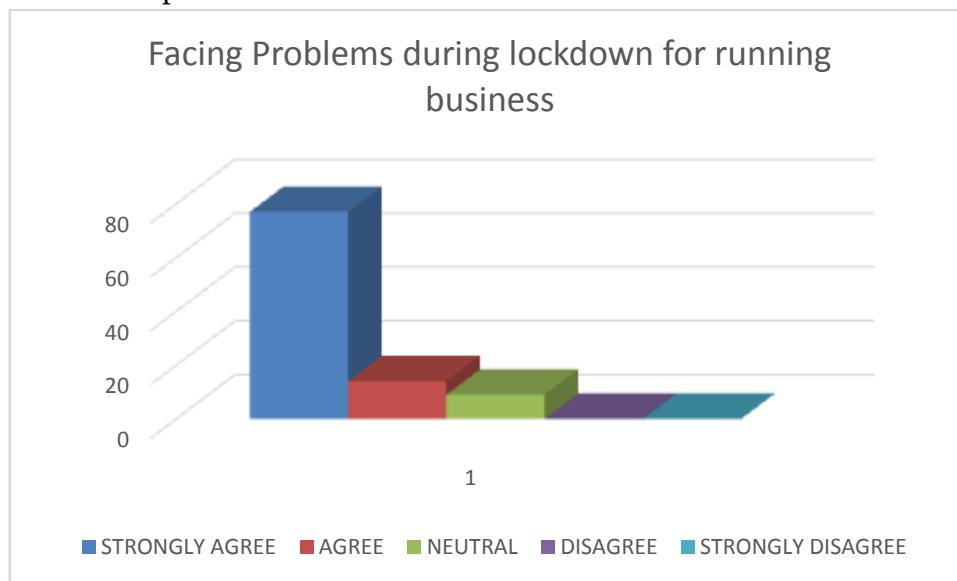
Inferential Statistics: For testing the hypotheses of the study pair t-test has been used. Binary Logistic Regression has been used to calculate the relationship among the profitability and nature of business, problems relating to input material collection, and debt collection percentage.

Result and Discussion

Covid has impacted every part of society across the countries. The unorganized retail sector in India has been impacted significantly. A number of people depend upon the retail sector for their livelihood. The problems of the retail sector are different from one retailer to another. Basic problems relating to unplanned prolonged lockdown, collection of input

material, insufficient transportation system, the problem of the adequate storage facility, and financial problems. Technological threat and competition from organised retailers and direct selling by different online sellers are the major challenges to the Indian traditional retailers.

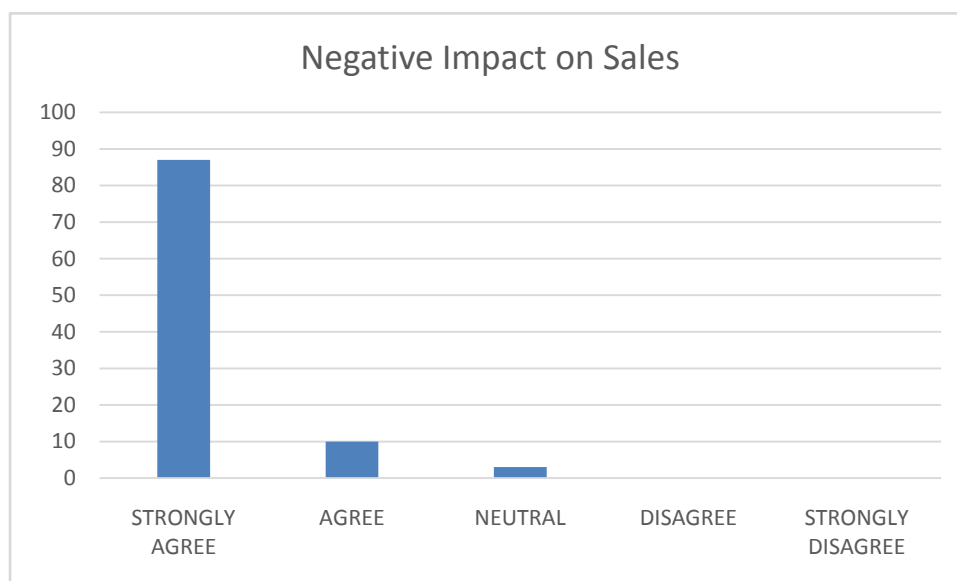
Problems during the lockdown: All we have impacted during the lockdown. Seventy-seven percent of respondents strongly agreed that they have faced problems during the lockdown. Fourteen percent of respondents agreed that they have problems during the pandemic and balance nine percent of respondents were neutral regarding their problem during the lockdown period.



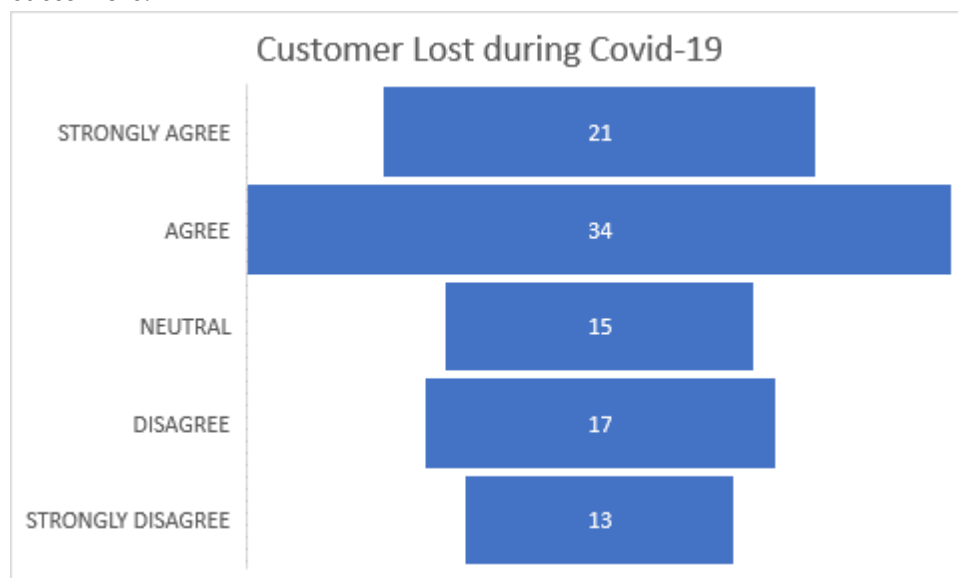
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Impact on Revenue: For controlling the spreading of the virus lockdown has been implemented across the countries. In some cases, like medicine shops, grocery, vegetable shops., the partial lockdown has been implemented. In all the cases, the negative impact has been noticed in sales. Eighty-seven percent of respondents strongly agree that revenue has

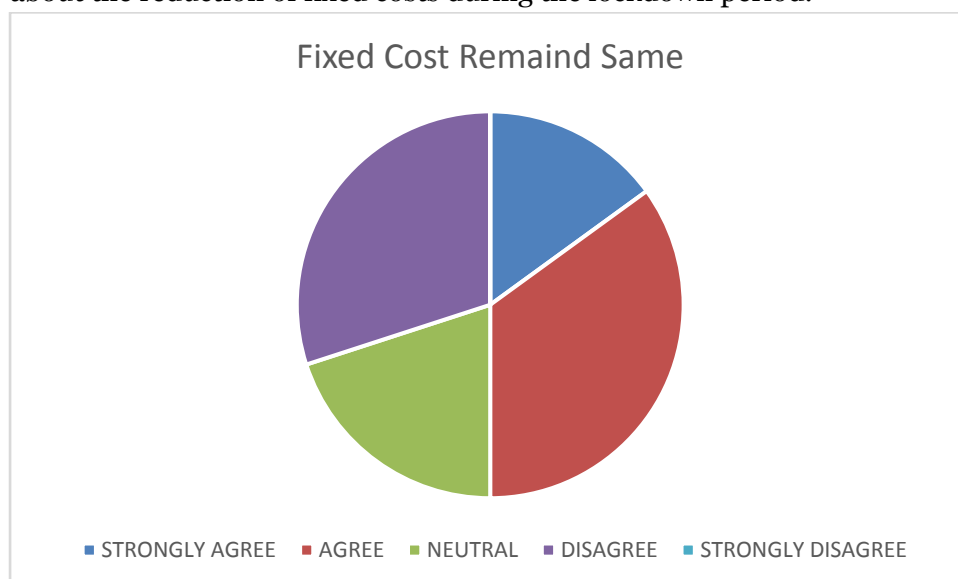
been decreased during the lockdown period.



Customer Lost:During the lockdown period, the customer of some business has been shifted to a local seller and to an online seller. In a few cases, customer loss has been noticed. Fifty-five percent of respondents agree that they have lost their customers during the lockdown period and thirty percent of the respondent have disagreed that they have lost the customers.



Impact on Fixed Cost:Fixed costs are those costs that remained fixed irrespective of the level of activities or sales.During the lockdown period, some of the fixed of a few retail businesses may have been cut down. Forty percent of the respondents agreed that fixed costs have been reduced during the lockdown period. Twenty percent of the respondents argue no change in fixed cost during the lockdown period. Thirty percent of the respondents disagree about the reduction of fixed costs during the lockdown period.



Impact on Debt Collection

Debt collection represents the collection from debtors and bills. Normally, debt collection may be affected by the irregularity of opening the business and the income of debtors. During the lockdown period, a negative impact on debt collection has been noticed. Ninety percent of

the respondents agreed that the debt collection ratio has been reduced during the lockdown period.

Purchasing Goods/Input Collection:

During the lockdown period, the distribution system has been affected. The transport system was not properly functioning during a part of the lockdown system which disrupted the purchases of goods and fixed assets. Eighty-five percent of the respondents strongly agree that they faced problems for collecting inputs and stock of the business.

Government Support

For helping the retailers' government support is required in different forms. Ninety-nine percent of respondents agreed that government support is required for running the business in the lockdown period. But during the lockdown period, no such support has been provided to the retailers. Ninety percent of the respondents agreed that they have not received any government support during the lockdown period. Five percent of the respondents agreed that they have received government support as an interest subsidy for Business loans.

Transport System

The transport system is the key element of the business. For purchasing raw materials, finished goods, capital assets, and reaching goods to customers developed transport system is necessary. Ninety-nine percent of the respondents agreed that they have faced transport problems during the lockdown period for collecting input material and supplying the goods.

Health Support

Health support is necessary for the covid period. Retailers acted as frontline workers during the covid period. Eighty percent of the respondents agreed that health support is required for the retailers.

Result of Binary Logistic Regression

Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	82.053 ^a	.499	.748

Classification Table^a

	Observed	Predicted		
		Profitability		Percentage Correct
		0	1	
Step 1	Profitability 0	139	13	91.4
	y 1	5	43	89.6
	Overall Percentage			91.0

Variables in the Equation

	B	S.E.	Wald	df	Sig.	Exp(B)
EN	3.196	.828	14.916	1	.000	24.440
Step 1 ^a NP	-3.742	.807	21.489	1	.000	.024
BD	-4.015	.945	18.056	1	.000	.018

Constant	1.173	.661	3.150	1	.076	3.231
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a. Variable(s) entered on step 1: EN, NP, BD.

Summary:

Coefficients of regression of P on EN, NP and BD

Variables	EN	NP	BD	Constant
P	3.196 ^a (0.828)	-3.742 ^a (0.807)	-4.015 ^a (0.945)	1.173 ^c (0.661)

Nagelkerke R Square = 0.748

Note: a, b, and c represent the level of significance at 1%, 5% and 10% respectively.

A positive impact has been found between EN(Essential Retail Shop on which no lockdown restriction was implemented, like medicine shop, grocery) on P (Profit) and a negative impression has been found of both NP(Collection problems of Inputs) and BD(Bad Debt) on P(Profit). All the results were statistically significant even at 1%, 5% and 10% levels of significance.

Testing of the Hypothesis:

H(1)₀: There is no impact on the sale of the retail business during the covid period as compared to the pre-covid period

t-Test: Two-Sample Assuming Equal Variances

	Variable 1	Variable 2
Mean	17.26	-1.23
Variance	31.08	71.49
Observations	100.00	100.00
Pooled Variance	51.29	
Hypothesized Mean Difference	0.00	
df	198.00	
t Stat	18.26	
P(T<=t) one-tail	0.00	
t Critical one-tail	1.65	
P(T<=t) two-tail	0.00	
t Critical two-tail	1.97	

From calculated the p-value we can reject the null hypothesis and we can conclude that there is a significant difference of sale between the sale of the pre-covid period and the covid period. Therefore significant impacts on sales have been noticed during the lockdown period in the retail business.

H(2)₀: There is no impact on the profit of the retail business during the covid period as compared to the pre-covid period

t-Test: Two-Sample Assuming Equal Variances

	Variable	Variable
	1	2
Mean	12.22	-1.12
Variance	40.46	38.73
Observations	100.00	100.00
Pooled Variance	39.59	
Hypothesized Mean Difference	0.00	
df	198.00	
t Stat	14.99	
P(T<=t) one-tail	0.00	
t Critical one-tail	1.65	
P(T<=t) two-tail	0.00	
t Critical two-tail	1.97	

From the calculated p-value we reject the null hypothesis and conclude that there is an impact on the profit of the firm during the covid period as compared to the pre-covid period.

Summary and Conclusion

Covid-19 has impacted the performance of unorganised retail business in India. Profitability of the unorganised retail business those were not exempted categories have significantly influenced. The unorganised retailers were impacted significantly for shut down for lockdown, collection of input materials, and poor debt collection. The unorganised retailers required government support in terms of finance, technology, and healthcare for survival in the new normal environment. The policymakers should think about the real problems of the unorganised retailers of India. They are contributing significantly to the economic value addition of the country and provide significant employment in the rural and urban space. For sustainable development, all the basic problems of the retailers must address in strategic manner.

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