3

ENVIRONMENT OF RETAIL TRADE

This chapter explores several dimensions of the environment of retail trade. The social responsibility environment including consumerism, economic, ethical, legal, technological and competitive elements of the environment have been discussed to understand the complex external environment in which retailers function. The discussion has been made with special reference to Indian conditions.

The conventional role of Indian business has been an economic one - that of providing goods and services to the ultimate consumer. It was expected to perform this role in a way that made profits for the firm so that the business could survive and continue to provide the goods and services that society wanted. In performing this task, business traditionally relied on its own devices and its own conscience. But now, the business is to consider the vast complex external environment. The complex external environment has a very vital role to play in managing today's business organisations.

The decades since independence have been a period of prosperity in India. But there have also been protests and strike against price hike, closure, higher rates of unemployment, recession and inflation. Whether the issue is the problems of Bandh, hartal or price rise, retail trade is the business segment with which people have the most intimate contact and it is retail trade that must often take burnt of arguments made against business.

3.1 The Social responsibility environment

The society's expectations from business has been changed. New and new attitudes are forming. It is no longer sufficient for business simply to provide goods and services. Business is expected to do in an ethical manner. Today, business is responsible for fulfilling social as well as economic needs. At the turn of the twentieth century, society began to evaluate business and to take action to ensure that it would act in society's best interest. Specifically, society employed the law to curb bad business practices. Legislation curtailed business's
freedom to some degree and the government assumed an active role in making sure the economic needs of society were being met. In the early fifties, people aggressively began to object to business practices. Some claimed that business was not meeting its obligation to society. Two indictments were associated with the statement. First, business was not performing well enough at those activities it was engaged in people planned of shoddy merchandise, misleading advertisement, the emphasis on materialistic values and the general inefficiency and ineffectiveness of business institutions. Second, business felt its responsibility was much more limited its scope when society thought it should be. Society believed business had a responsibility to help alleviate social ills. Business was given still less freedom in performing its economic role, but it now shared the responsibility for fulfilling some of society's non-economic needs.

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<th>Changing role of business</th>
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<td>Business</td>
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<td>Meets Economic needs</td>
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Retailers are forced to make decisions that do not necessarily call for simple business answers in this new environment. There are several non-business influences on every decision that retailers make. The three major non-business influences on the decision-making process include the legal matters, personal ethical matters and the matters relating to the professional code of conduct. Though another matter (i.e. economic utilitarianism) influence the decision making process of a business. Milton Friedman, a Nobel prize winning economist stated that "there is one and only one responsibility of business - to use its resources and engage in activities designed to increase its profit so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud". Another Hazel Henderson observed that "the spectacle of otherwise sophisticated people going on bended knees to companies and pleading with them to have the kind of conscience and moral responsibilities only rarely found in individuals is nothing less than laughable."
Levitt stated that business should not be socially responsible otherwise business values will dominate the social values. Levitt argued that “The danger is that all these things (social aspects of business functioning) will turn the corporation into twentieth century equivalent of the medieval church……….. ministering the whole man and moulding him and society in the image of corporation's narrow ambitions and its essentially unsocial needs.”

In this context, Heyne. T. Paul asserts that "taken seriously the doctrine of social responsibility fosters megalomania in its adherents. It places upon the businessman's conscience intolerable burden that tempt him continually to arrogance and pharisaism." But in a mature society the things have changed too much giving new thoughts and replacing the classical view of business objectives. Steiner stated " managers of the biggest companies know that as a business gets larger, the public takes more interest in it because it has greater impact on the community ..........They seek to maintain a proper image of their company in the public mind. This leads to the assumption of greater social responsibilities." Sometimes it is preferable to go for social responsibility programme in order to avoid government regulations. G.L Mehta has observed that "Business can not remain a small basis of influence in a vast desert of poverty. Increasingly those who are deprived of opportunity for lack neither of skill nor of willing to work, will look upon the existing social order with hostility".

Apart from these points discharge of social responsibilities is necessary in the long run self-interest of business. The Committee for Economic Development has observed as follows.

"It is in the enlightened self-interest of corporations to promote the public welfare in a positive way. Indeed, the corporate interest broadly defined by management can support involvement in helping to solve virtually any social problem, because people who have good environment, education and opportunity make better employees, customers and neighbours for business than those who are poor, ignorant and oppressed." From a pragmatic stand point business has a stake in initiating changes and working for progress, which benefits business and the total society. Business could not enjoy the progress society might achieve without contributing to that progress. So, in a mature society, business has an obligation to any or all of the following - the poor, the young, the elderly, minority groups, consumers, the environment, schools, cities, rural areas and the unemployed. Therefore business must manage its affairs so that it acknowledges its economic as well as social roles. Retailers have often been at the forefront in responding to community needs. As Indian retailers are mostly of small type, their contribution is all small in comparison with the
big industrial units. But small retailers also contribute toward the solutions of social problems in many areas.

They donate money for arranging any football or cricket match by the clubs. They pay money for making Puja Pandels. Sometimes they also arrange blood donation camp. They purchase shares for zatra or cinema festivals. They also contribute for arranging any festival or any kind of social function in the locality. They also subscribe newspaper or magazine for the members of the society. They also make payment for arranging marriage ceremony of the poor bride and groom. For the physically handicapped persons or for the poor students they also contribute money towards their development. They also help the local magazine or Patrika writers by providing their financial requirement.

3.2 Consumerism:
Consumerism is a term encompassing the activities of government, independent organisations and concerned shoppers designed to protect the right of consumers.\(^9\) Consumerism has been defined as a social movement seeking to increase the powers and rights of buyers in relation to sellers.\(^10\) It is a movement which strives to augment the rights and powers of consumers in relation to products, people have become frustrated as consumers because they feel they have little control over buying situation. Several factors have enhanced the expression of consumerism. Increased leisure time, income and education have tended to magnify and intensify the forces of consumerism as the buyer seeks products that fulfill the quest for individuality. Demand for product improvement have lead to increased product complexity, which causes increased service difficulties and introduces performance reliability problems.\(^11\) As technology solved many problems of the production and as lifestyles of consumers changed to meet a society characterised by abundance (in India, a section of the Total Population), retailers have adjusted by turning to a consumer orientation that embodied the idea that the proper way to run a business is to find out the consumers wants and needs, both felt and unfelt and then to offer a product that fills those needs and wants better than anything else in the market.\(^12\) Consumerism contents that rapid and abundant flow of new consumer product produces confusion, that the technical complexity of new products makes it impossible to evaluate their benefits or dangers and makes them difficult to repair; and that pressure on business firms to introduce new products and services breeds marketing practices of a dubious nature, particularly as promotion has centered on non price competition instead of price competition. Argument can be made that the consumer just does not have the information needed to make an informed choice.\(^13\)
The consumer movement started in the west as a consequence of post industrial development. In the USA the movement was initiated by Ralph Nadar and Rachel Carson in 1962 President John F. Kennedy in his first consumer message to congress, set forth the four basic consumer rights; the right to safety, the right to be informed, the right to choose and the right to be heard. In India, in the interest of most vulnerable sections of the society, the govt. of India has enacted a number of laws. But the provisions in these enactments were inactive against the well organised trade till 1966. The movement got its momentum in the year 1966 when nine housewives of Bombay give shape to a voluntary organisation AWARE (Association of women Against Rising Expenses). Later it was recognised as 'Consumer Guidance Society of India'. Some other voluntary organisations working in the field are Indian Federation of consumer organisations, consumer education and Research Centre, National Consumers Protection Council etc. A Fair trade practices Association was also formed in 1966 as a voluntary association of trade with the following aims : to charge fair and reasonable price, not to hold stocks not to adulterate and to maintain accuracy in weights. The government also enacted many laws (specifically consumer protection Act of 1986) to ensure the consumers get real value of money. Despite the plethora of legislations, unfortunately, because of poor quality merchandise or because of misleading advertisement, and high pressure sales tactics, consumers may still not get their money's worth, the position of consumes remain deplorable and unfair trade practices have become facts of Indian market. Consumerism in India is based on (a) shortage in supply - mostly a creation of manufacturers and traders (b) High Prices (c) Overcharging, Adulteration, Fake and duplicate products, underweight (d) illiteracy and lethargic attitudes of consumers. The thrust of consumerism has been on shortages, purity and spiralling prices of essential articles.

The consumer protection Act, 1986 provides the consumers right to :

1. Safety - which means right to be protected against marketing goods and services which are hazardous to life and property.
2. Be informed - which means right to be informed about the quality, quality, potency, purity, standard and price of goods and services to protect the consumer against unfair trade practices.
3. Choose - which means the right to be assured, when ever possible, of access to a variety of goods and services at competitive prices.
4. Be heard - which means that consumers interests will receive due consideration at appropriate fora.

5. Seek redressal - which means right to seek redressal against unfair trade practices or unscrupulous exploitation of consumers.

6. Consumer education - which means right to acquire the knowledge and skill to be an informed consumer.

A three tier consumer dispute redressal machinery (consumer courts) has been set up at the National, State and District level which provides in-expensive and speedy redressal of the consumer disputes. 17

Today, consumers interests have moved beyond the traditional concerns of only fair quality and quantity into areas such as package size, unit pricing, pollution, health care etc. So the retailers are to consider the views of the consumers while taking any decision for running their organisations.

3.3 Economic environment
Retailing innovative and adjustment ability dependent on the type of economic system that exists in a country. In the private economic system, individuals make decisions concerning business activity. Firms and individuals provide products and services demanded by consumers and seek to make a profit by balancing income against costs. In other words, suppliers of capital and land may use resources as they wish, workers may work where they please, and consumers are free to spend their income where, when and how they desire. The private enterprise system permits and in fact requires, retailing to respond to consumers' needs. If the demand for a product exists, manufacturers or retailers are free to try to meet the demand, with competition ensuring fair value to the consumer.

In India, both the public enterprise system and private enterprise system are running side by side. Both the system perform the functions of retailing. Public distribution system (PDS) a key component of supply management of essential commodities, ensures availability of food grains mainly, rice, wheat, sugar edible oils and kerosene through a net work of
outlets or fair price shops (FPS) numbering about 4.37 lakhs. About 3.48 lakhs FPSs were operating in rural areas and 0.89 lakh in urban areas. Each FPS is envisaged to serve a population of 2000. Besides a Revamped public distribution system (RPDS) which supplies additional items like tea, soup, pulses and iodized salt to households located in tribal, hill and arid areas having poor infrastructure was operating in 1775 blocks. Under RPDS. Food grains, rice and wheat are allocated to states/Uts for RPDS blocks at prices lower by Rs 50 per quintal than the issue per for normal PDS. The govt. decided to streamline the Public distribution system under the new economic policy.18 But this public distribution system under public economic system is not adequate enough to fulfill all the needs of the people of India. Most of the needs are fulfilled by the retail outlets run by the private entrepreneur. So, the retail entrepreneur operating in the private economic system cannot ignore the factors in the overall or macroeconomic environment that influence the local market. One measure of the overall economy is the long-run rate of real growth in gross domestic product.

Table 1
Gross Domestic Product of India
(Rs. , 000 crore)

<table>
<thead>
<tr>
<th>Year</th>
<th>At current prices</th>
<th>At 1993-94 prices</th>
<th>% change over Previous period</th>
</tr>
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<tbody>
<tr>
<td>1996-97</td>
<td>1237.3</td>
<td>964.4</td>
<td>15.9</td>
</tr>
<tr>
<td>1997-98</td>
<td>1384.4p</td>
<td>1012.8p</td>
<td>11.9p</td>
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<tr>
<td>1998-99</td>
<td>1612.4q</td>
<td>1081.8q</td>
<td>16.5q</td>
</tr>
<tr>
<td>1999-00</td>
<td>1766.6A</td>
<td>1145.4A</td>
<td>9.6A</td>
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</tbody>
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Source : Economic Survey 1999-00. p= Provisional. A=Advanced Estimate advance q= Quick estimate

The initial spurt of reforms from 1991-92 to 1993-94 was very successful by all accounts, resulting in a jump in economic growth to 7.2 per cent in 1994-95 (in terms of GDP at Factor cost). Since 1994-95 however there was a marked slow down in the pace of reforms. Nevertheless GDP grew by 7.1 per cent in 1995-96. Economic growth in 1996-97 was estimated by CSO to be around 6.8 Per cent (GDP at factor cost) The Ministry of Finance of India categorically stated in the economic survey 1999-2000 that the growth of Indian economy is expected to grow by 5.9 percent. More important for the future is the fact that the average growth during the latest three years is 7 per cent probably placing India among top ten performers in the world during this period.19 Generally, growth and inflation tend to go
hand in hand. However, there are periods when one exceeds the other. When the growth increases faster inflation thus allowing for real GDP growth are commonly referred to boom period and when the inflation increases faster than growth thus decreasing the real GDP growth are commonly referred to "slack period".

Real growth has a positive effect on most of the sectors of the economy and retailing is no exception. Because people have more income, they tend to spend more. This leads to higher sales and more profits for the retailer. The expansion of economy has a direct bearing on retailing, demand levels rise in expanding economy and people and firms tend to expand in response to higher demand level. But the rate of inflation should be taken into consideration because if the rate of inflation increases at a higher rate and as a result of that CPI (consumer price index) will also increase and ultimately leading to lesser goods consumption by the consumers. When CPI increases, consumers can purchase less with their money and in other words, retailers cost of goods increases and they will naturally pass their increased cost to the consumers. If the retailers can not pass the entire amount of increased cost, they are to curtail their profit for keeping the consumers in the grip for a short period. In India the movement in retail prices are monitored in

Table 2

<table>
<thead>
<tr>
<th>Annual rate of Inflation (1982-100)</th>
<th>Total GDP at factor price</th>
<th>CPI(IW) absolute value</th>
<th>%charge over previous year (1982=100)</th>
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<tbody>
<tr>
<td>1992-93</td>
<td>10.1</td>
<td>5.3</td>
<td>-</td>
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<tr>
<td>1993-94</td>
<td>8.4</td>
<td>6.0</td>
<td>267.0</td>
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<tr>
<td>1994-95</td>
<td>10.9</td>
<td>7.2</td>
<td>293.0</td>
</tr>
<tr>
<td>1995-96</td>
<td>7.6</td>
<td>7.1</td>
<td>319.0</td>
</tr>
<tr>
<td>1996-97</td>
<td>6.4</td>
<td>6.8</td>
<td>349.0</td>
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Respect of four different segments of the population based on their location and consumption behavior. There are four distinct series of CPI numbers: (1) CPI for Industrial workers with base 1982 (2) CPI for urban non-manual employees (base 1984-85) (3) CPI for Agricultural labourers with base 1986-87 and (4) CPI for rural labourers (1986-87). The CPI-RL was introduced November 1995. The basket of commodities for CPI-1W covers 260 commodities, CPI-UNME 180 commodities, CPI-AL and CPI-RL 180 commodities grouped as (1) Food (2) Pan, supari, tobacco and intoxicants (3) Housing (4) Fuel and light (5) Clothing, bedding and footwear and (6) a number of services grouped as miscellaneous. Inflation has caused serious imbalances in the Indian economy and it has led to recession in
many sectors of the economy. But sudden recessionary times are difficult for retailers. Often they caught with excess inventory can be reduced through attrition or sales but they can not drop the wages of the employees during recession. The retailers are to bear the same level of fixed costs and they can not increase the level of sales for meeting this charges.

Apart from these above issues, formalised consumer credit plans improve the market for consumer durable products. Many banking and non-banking financial institutions are providing loans for purchasing consumer goods and these loans made possible a consequential growth in the retail trade both in terms of turnover and also in terms of variety.

3.4 Ethical Environment

Each individual is guided by his or her belief and behaviours. Right beliefs and right behaviours are the simple explanations of 'Ethics'. Everyday a retailer faces the possibility of making an ethical decision. The issue ranges from selling shoddy goods to false advertisement labelling sale price and discount offered. Many retailers use law as the justification for guiding their decisions. In India, Many retailers and traders organisation play a reactive role in managing their trades. In developed countries retailers have taken a proactive role in delineating proper and improper behaviour for their employees by establishing a professional code of ethics. Many of these codes were developed in response to society's demands that a business act in a more ethical manner.

In India, small retailers in order to satisfy their customer and also to maintain consumer - vendor relationship amicable try to do their business consideration ethical issues. For example return of the goods if found unsuitable or broken or of bad standard. Decisions in any business are made by people. So personal self-ethic, situation ethic and the societal ethic play a very important role in decision making as all these have an impact on all the parties concerned with the business and this is also true to the case of retail trade.

3.5 Legal environment

In retail trade, almost every aspects of day-do-day operations is affected by government regulations. The legal elements which are considered by the retailers are characterised by numerous laws passed by central and state govt. and even by local administration. The constitution of India gives the state governments the power to regulate trade and commerce and to promote general welfare of the members of the country. Much of the governments regulations are expressed in laws designed to encourage and maintain competition and to
prevent deceptive, fraudulent and harmful practices. As business activities are governed and restricted by laws and are part of the social process, retailers must have some legal knowledge as they respond to social needs. The legal framework, as often seen and appears to be true is a political remedy to popular issues. Further, irrespective of political ideologies, intervention in the marketing process has almost become common in any country. Like The Sheraman Antitrust Act' 1890, equivalent act 'MRTP Act' was passed in India in the year 1969 (The Act has become inoperative in 1992). The government also passed laws for the protection of consumers and to same them from exploitation (Essential Commodities Act '1954, The standard weights and Measures Act'1956, prevention of Food Adulteration Act, 1963, Drugs and cosmetics control Act, 1976 etc.) The legislation relating to business activities has been characterised by three distinct legislative philosophies: (a) to prevent monopoly and protect competition (b) to protect individual consumers and (3) to protect society. The legal elements have varied impact on retailing strategies. The increasing complexity of legal elements makes the retailers to be on constant vigil of the situation. It may be necessary to alter retail policies in order to avoid constraints arising out of the legal elements. Apart from the specific legislation relating to business, retailers are also to keep themselves aware of the general laws of the country for managing their retail trade in a legal way. Therefore the retailers must understand what rights they have in pricing merchandise, what provisions they should make for customer relations, what rights and responsibilities they possess when making a sale, what rights their employees have, what liabilities they may face in selling products and customers and above all what rights the customers have while trying and consuming the merchandised offered and sold by them.

3.6 Technological Environment

Technological advancement is a major force in business because it enables manufacturers to produce large quantities of consumer goods and so, its consequences stresses on retail trade can not be ignored. The issues arising out of technological development are uncontrollable and unpredictable in nature. Adoption of new technology often is prevented by constraints imposed by internal and external resources. Technological progress creates new avenues of opportunity and also poses threat for individual organisation. Perhaps most dynamic changes in retailing have come as a result of changing technology. Computer management Information system, new machines for shop management have provided retailers with more, better and more timely information about their operations. Technology is not limited to
increasing information; it is also used to prevent theft, promote the store goods create a better shopping atmosphere, decorate and illuminate the shops and also to provide better service to the customers. Technology is used to add entertainment and excitement to the in-store shopping experience. It helps the retailers to provide complete and in-depth product information to the educated and selective customers. Stores themselves are likely to be smaller. Again technology will play an important role in linking directly to the consumers and thereby it becomes possible to have for less inventory on the selling floor. Retailers will benefit from making it possible for customers to purchase product choices not physically present in the stores. Retailing is becoming a high tech business. "When you buy something at a supermarket you trigger a sequence of electronic communications and decisions that determines what products will be delivered from the company's warehouse to the store tomorrow........ mail can be tailored to specific customers and sales people can make helpful suggestions when customers call in"24 In India the retailers have also entered into the age of satellite and internet business pages. Indian retailers are also spinning the internet web for fame. "When Shiv Narain Shankar a Delhi-based perfume trader wanted to reach out wider, he latched on to the web and it has carried him a long way"........ Shankar is among a new breed of web happy retailers to pitch his wares after corporates, movie-moghuls and political parties. More grocers and vegetable sellers have discovered the net as the gateway to recognition as internet commerce sweeps business into study rooms."25 Dr. N. Bhaskar Rao, Chairman Marketing and Development Research Association (MDRA) stated "you will be surprised to know that vegetable sellers, bontiques and even a pan shopwala has a page on world wide web. Now most want to buy a computer and get an internet connection."26 With the growth in size, retailing organisations are finding it possible to introduce labour saving mechnasation. Electronic computers performs many clerical operations, scales weigh merchandise, compute price and affix price tag automatically, materials handling equipments of considerable efficiency is in wide use. Technological elements must be given due importance in retail trade management for the survival, growth and development of the retail organisations.

3.7 Competitive environment and its effect on retail trade

One can easily enter to and exit from the retail trade. Because with a relatively small amount money, and place one can start the retailing. Suppliers will be willing to place goods in the store and that store may be competitive with others nearby. Retail stores vary based on size.
quality and quantity of merchandise, type of ownership, number of employees. But one thing is common i.e. competition. It is highly competitive trade. Because there are so many new types of retailing and so many types of retailers, there is always some one thinking of a way to do better job and to do it more efficiently. These retailers seek to provide a new way or a better way to give the consumer goods and services with the best possible price and service. With so many stores competing, retailing is also dynamic. There are constant changes in operations and in the goods and services offered. The wheel of retailing, the accordion theory, the dialectic theory and natural selection are alternative explanation of how retailers and retailing change over time as a result of changing environment and increasing competition. These theories have been discussed in the second chapter of this dissertation.

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