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Effect of Demonetisation on Food and Grocery Retail

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Abstract: The Food & Grocery purchasing behaviour in the Indian context is a unique confluence of availability of options, mindsets of consumers driven by demographics and habits, lack of priority for such mundane activities titled most often a ‘chore’, disinterest in changing the current practices, ghosts of past mistakes, societal influences, personal choices and conveniences, which is not universally defined. Adding to this confusion is the radical policy change heralded by the Prime Minister Shri Narendra Modi on 8th November 2016, banning the use of high value notes of ₹500 & ₹1000, which by some estimates accounts for almost 86% of the currency in circulation. The ‘remonetisation’ drive initially termed as ‘demonetisation’ has been instrumental in sucking out the liquidity of currency in the system. The cashless economy has forced many consumers to change their purchasing behaviour in favour of debit cards, credit cards, ewallets, paytm and other such avenues. Further due to the inconvenience of not having smaller denominations for cash transactions, a shift towards bulk transactions is evident. This paper attempts to draw inferences on the basis of secondary data on the effects on Food & Grocery retail, which is an essential purchase for every person. Although the high value durables, fashion & lifestyle products would see a drop in

consumption, the requirement of daily necessities like food & grocery can never see a drop. Rather they will most certainly see a shift in the consumption patterns and payment modes, **Exhibit 1: Paytm (cashless payment) even at a shoe repair shop** which is the subject of interest in this paper.

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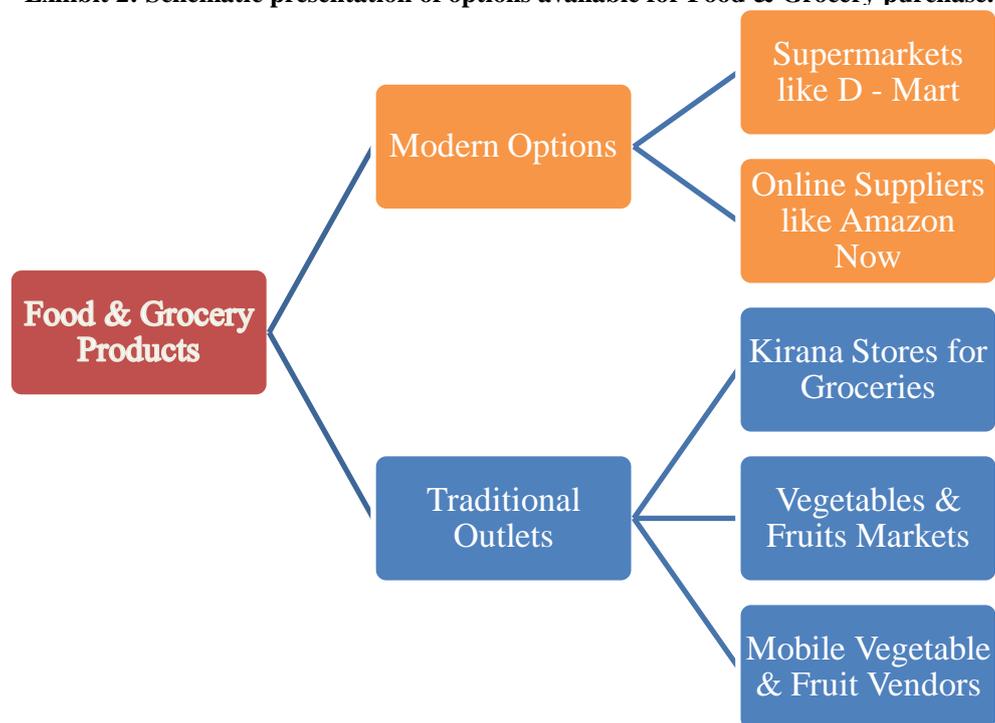


Keywords: Demonetisation, Food & Grocery Retail, Online payments, Customer Preferences.

I. THE INDIAN CONSUMER BUYING BEHAVIOUR

The focus of this paper is on the Food & Grocery, Vegetables & Fruits, Milk, and Meat produce and in general house hold consumption items that are procured on a periodic basis. There is no common time scale for the procurement of these items with the shelf life deciding the periodicity of purchases. The dry grocery are purchased infrequently (on a weekly or fortnightly or on a monthly basis) whereas short shelf-life produce like milk, vegetables and meat are more frequently procured. The choice of formats and options preferred by the consumer are most certainly the ones that are most convenient and easy to follow regularly. While the consumer is willing to experiment with different formats, his long term preference is for time tested options. The Indian markets are also unique in that there are many competing options available to the consumer, like the local Kirana stores (mom & pop outlets), modern organized retail stores, online grocery retail, mobile fruit & vegetable vendors, vegetables & fruit markets, fish, meat & poultry markets and multiple choices within each of these options. Occasionally we do have a unique wholesale aggregators like the Mumbai Grahak Panchayat (www.mumbaigrahakpanchayat.org) the largest voluntary consumer organisation in Asia. The backbone of all these formats was predominantly the cash economy and very few options like the modern retail stores or online app based retail would offer the benefit of cashless transactions. The push of the Government towards cashless economy has caused much disruptions in the way the transactions are carried out & strangely even the formats which were conducive for the cashless economy are not currying much favours with the consumers. In these trying times the existing non-cashless options are coming up with unique ways to overcome the shortage of cash in the system.

Exhibit 2: Schematic presentation of options available for Food & Grocery purchase.



II. UNIQUENESS OF INDIAN FOOD AND GROCERY BUYING HABITS

Penchant for fresh/home-made Food: The Indian consumer unlike the consumers in the developed countries prefers “Fresh” cooked food over the packaged foods. The Indian ethos dislikes anything that is stored or preserved and on the basis of Ayurveda the freshly cooked food is considered healthy. No amount of latest preservation or packaging techniques or ‘microwaved’ food will appeal to the popular palate and the same manifests in preferences for the fresh dairy products, fruits & vegetables and meat products. The primary role of the Indian housewife in the family structure



is that of feeding the family and thus the decisions on what is best for the family is invariably wrested with the housewife, the primary decision maker in these purchases.

Exhibit 3: Bargaining for the right price at a local Fresh Fish Market

- Value Conscious Indian Consumer:** The Indian consumer is most at ease when he can argue over a purchase and derive satisfaction at driving a hard bargain. At times it is the process of driving a bargain which is more satisfactory than purchasing the product itself and often the limited pleasure of buying the regular consumable is lost if the prices are “fixed”. Ability to drive a bargain is almost a birth right and the vendor fully aware about this trait invariably increases the selling price to offer a bargaining cushion. The organized retail and the online retail formats do not offer this facility and this is one of the reasons for the Indian consumer not preferring this option. A survey by Tata Strategic Management group has indicated that the packaged food should offer atleast 40% discount on the price to make the Indian consumer compromise on the freshness aspect.



Exhibit 4: A typical Indian traffic congestion scene in any metro city.

- **Unwillingness to Travel far:** The common Indian consumer unlike the consumers in developed countries have to rely on the public transport system for their commute and hence traveling long distances with groceries, fruits & vegetables, dairy products is cumbersome. Even consumers having their own vehicles will seldom prefer to drive to far off places due to traffic congestion and lack of parking space for vehicles. This results in making do with whatever is available at a nearby convenient place for purchasing their daily staples and consumables.

An occasion to meet community & residential societal contacts: The customary daily market trips and purchasing jaunts for the Indian housewife is also an occasion to meet & greet friends and neighbors and also to exchange the latest news, gossip, etc. The fun of the regular trips is in this process of updating oneself with the latest happenings. The Kirana stores use this fact as a USP (Unique selling proposition) and at times aid this process as well. Nowhere in the developed world would anyone be prone to these tendencies. Further, the Indian consumer is always in search of reinforcing one's ideas and opinions and these daily routines serves just this purpose. If this process is replaced by online food and grocery purchases with the home delivery model, the fun part is lost. One of the major negatives for the online grocery retail format is the lack of the human touch in the process of making a purchase.



Exhibit 5: Typical view(s) of shopping at Kirana stores.

- **Food and Grocery Purchase is a “Chore”:** In value terms the food and grocery items are considerably low when compared with the other monthly expenses. Moreover other than the Fruits, vegetables and meat purchasing where a certain amount of bargaining is possible, the branded grocery items or the dairy products are fixed expenses. Hence there is no UBER value attached to the buying process and is considered a chore relegated to the housewife. Further as the products purchased have to be processed before consumption the role of the housewife is key to these purchases and little role is played by the men in this process. This further complicates the mode of transaction as the cashless options like debit card or credit card or mobile apps like Paytm / ewallets are viewed with skepticism by the common women folk. The comfort levels in using the mobile phones is also absent for housewives and virtually unheard in non-metro or rural markets. A small amount of working women comfortable with the use of cashless modes of transactions are preferring to have these groceries home delivered by online retailers. This dichotomy is very evident in the purchase trends in food and grocery retail.
- **Cash as the preferred mode of transaction:** Traditionally across the counter purchases of the retail type or exchange of goods between buyer and seller has always been with cash. The mindset has been that the cash can be seen and the quantum used can also be physically verified. Only when the magnitude of purchases are large or there is purchase using the internet, would the cashless mode seem convenient. Having said that India may be the only country where “Cash on Delivery” option is available for the online purchases. The other reason for cash transactions is that there is

no trail left of the transaction and the parallel economy or the black money economy thrives on the cash transactions. The entire supply chain from the farm to the mills to the stores to the consumers is funded by cash. As per a report published by Google India and the Boston Consulting Group, in FY 2015 / 2016, 75% of transactions in India were cash-based while in developed countries like the US, Japan, France, Germany, it was around 20-25 per cent. The population in India is 1,310,630,000 v/s 324,379,000 in USA as on January 15th 2017 (Source: https://en.wikipedia.org/wiki/List_of_countries_and_dependencies_by_population) which tells us that the USA cash transactions is a mere 8% of the Indian cash transactions in absolute number terms if every citizen does one transaction per day. If more transactions happen per person per day then this ratio would be still lower. For such large volume low value transactions, it can be said that cash is convenient, cash is private and cash is intuitive (does not involve transaction cost).

III. BASIC PROBLEM WHILE GOING CASHLESS

The remonetisation is a push towards cashless economy by making less cash available, but it will be incorrect to say that because of remonetisation India will be a cashless society. Innovative ways like barter trade may make its presence felt if the effort of doing cashless transactions will be much. Theoretically, there are many advantages of going cashless or having a cashless economy. As every transaction gets recorded and scrutinized taxes get paid and tax compliances improves. The cashless or unrecorded transactions reduce the parallel unrecorded economy and thus increases the ambit of legalized transactions. The risk of carrying currency and losing it also reduces when we go cashless and it further enables the government to save on currency printing costs. In a cashless economy transactions will be done only by digital means without any physical cash exchange. The digital means can be in the form of net banking, debit and credit cards, PoS (point of sales) machines, digital wallets etc. In the context of this paper we are interested to see the negative effects of going cashless, a general concern expressed by housewives, with the same being highlighted in the next section.

- **Security** – Cyber Attack, Fraud and Power Outages - Cashless economy can be a nightmare when it comes to security of transactions and security of the person executing the transaction. As all transactions will be done digitally, the user will be prone to cyber-attacks like hacking. Hackers can easily hack your sensitive information like password, credit card number, pin, etc. and leave your account with no money. It is for this reason that most people prefer transactions in cash & have never been exposed to these options. A lack of awareness of these techniques coupled with unease of using these techniques further leaves the reluctant customer susceptible to security risks. Although it might be easier to save one from fraud, it will be difficult to stop a cyber-attack. In case of power outages or excess traffic in the system the generation of OTP (One time use password) takes a longer time, resulting in the transactions being declined. The limited internet connectivity that is backbone of mobile operations, shortage of abundant power to prevent power outages, also add to the difficulties in cashless transaction.
- **Have to Trust Government or Third party** – As all the money is in digital mode, it will be under the control of banks or government or any other third party. Charges levied by the third party will be payable for these transactions, which initially start as a free service. When the ATM (automated teller machines) were initially started, all the transactions were free. Subsequently there was a limit place on free transactions and additionally transactions attracted additional charges. Likewise when the amount in your Paytm account is transferred to your bank, Paytm would levy a convenience fee which could be in the range of 3.5% to 4%. This is an unnecessary expense. Further, one has to trust government or bank blindly because everything is under their possession. This can be scary because if tomorrow something untoward happens like a natural calamity or strikes, you will be left with no hard cash to tide over the immediate needs during such crisis.

- **Really Bad for Poor** - The whole debate about cashless economy revolves around rich versus poor. India is NOT Sweden or Denmark. We still have social benefit programs like MNREGA and midday meal schemes, which shows that there are still people in this country struggling to meet their basic needs like food, cloth and shelter. Over half of the population does not fall in any banking network. On the other hand people living in urban areas will benefit because the cashless economy is for them. Government has to be inclusive and include all sections of society before the cashless economy starts working.
- **Shortage of PoS Machines** - PoS machines (Point of sales) are must for most cashless transactions using debit cards, credit cards or aadhar linked payment systems. However in India there are only 1.46 million PoS machines which converts into 856 machines per million people. This is very low compared to China where it is 4000 machines per million people. Even if we consider every Paytm or mobile wallet customer as a POS machine the numbers just don't add up to be convenient for cashless economy. Recently RBI launched Unified Payments Interface (UPI) which makes digital transaction very simple but the penetration of such schemes for them to be successful is very huge considering the size of the Indian population and its geography.
- **Infrastructure Issues** - Number of citizens on mobile, Number of mobile users who are connected to the Internet, From amongst them how many people are online daily, Availability of reliable connectivity, Availability of user devices, Merchant acceptance, Payment and mobile network capacity, Time taken for a transaction, Language compatibility, Interoperability issues (between payment systems), are all factors to be considered while attempting "Cashless Transactions". Jaipur Literature Festival (JLF) being conducted in India from 19th January to 23rd January 2017, had chosen the cashless route this year, by implementing a free charge system, where you could top up your QR coded ID card with cash and then use it at different food and book stalls to make purchases. John Elliot, one of the attendees and a former Financial Time journalist was very vocal in his criticism about the non-working of this cashless system. In his words "The cashless payment system crashed because the internet could not cope. I couldn't do anything from the hotel or my phone. The system isn't there. So how quickly can you make the transition (to digital economy) when the infrastructure doesn't exist? Paytm (and other similar wallets) is a great invention, but how will you make it work?" wondered Elliot while moderating a JLF session titled 'Brave new world – The digital economy and beyond'
- **Lack of Privacy in Cashless Transactions** - Payment and wallet apps are primarily built to perform operations like transferring money between wallets/bank accounts, recharging phones, etc. However some of these apps get to access sensitive information, like subscriber contact list, subscriber WiFi networks, subscriber call record data, apps installed, among other things. When installing these payments application, most users accept permission requests without reading them or understanding their implications. Not that the user has a choice, though. India doesn't have a privacy and data protection law, and shamefully enough, the Indian government has gone to court arguing that there isn't a fundamental right to privacy in the country. To quote the Attorney General of India, representing the Union of India, in August 2016, "Violation of privacy doesn't mean anything because privacy is not a guaranteed right". To a large extent cash offers that relative privacy and anonymity, that the Government of India is trying to deny its citizens. The data could also be used by marketing firms for promoting their products resulting in unnecessary irritation to consumers. India does not have a workable privacy protection law in such cases.

IV. CASHLESS PAYMENT OPTIONS

Let us list down the various cashless payment options available to a consumer while purchasing food & grocery items.

- **Plastic Money, Credit Cards** – In India there are 4 debit cards for every 1 credit card issued. Further the Indian psyche is to not borrow to spend and the concept of credit card is that we are spending first and repaying later. Added to this is the finance charge of 3% per month levied by credit card companies. Most of the credit card transactions can

only happen if there is a point of sales (POS) reader and in most cases where mobile vendors or fresh produce vendors are involved maintaining a POS machine is not viable. The paying banks also levy merchant charges in the range of 1% to 2% of the transaction value, which when added to the cost of maintaining a POS machine is an unnecessary cost for the merchant. The customers are also not very receptive to the idea of sharing this levy or bearing this levy. It is often found that the levy for small transactions is considered objectionable whereas the levy for large transactions is acceptable. In addition the annual subscription fee for the credit card paid by the user is also an unnecessary expense, if the card is used only for the purchase of food and grocery items.

- **Plastic Money, Debit Cards** – The concept of spending what is available is more prevalent in India and hence an Indian is more comfortable with the concept of debit card. However, the operational problems associated with the credit card usage is also present for the debit card usage. The internet connectivity and a mobile phone is a must for receiving the OTP, which has now become almost mandatory for all these transactions. If the OTP is received late or wrongly punched the payment is declined and fresh efforts for a new transaction has to be initiated. Further the time taken to execute this transaction is almost 2 minutes which during the busy sales period is virtually impossible to be reserved to complete the transaction. The anxiety during the validation process of transaction is also perceptible for an Indian consumer. This depicts the lack of ease in such transactions and therefore a reliance on the cash payment system.
- **Mobile Wallets (Paytm, Mobikwik, Oxigen, Free charge, SBI buddy, HDFC PayZap, ICICI pockets, Phonepe, Lime)** – Benjamin Franklin's maxim "Time is Money" is what the mobile wallets aim to do. Mobile wallets are a system of making payments, not just online but also for physical purchase of goods and that too without using a POS machine. Instant payment in any denomination or value can be effected with mobile wallets directly to the seller by the buyer. It could be extremely useful for humongous unorganized sector where cash is considered as the most suitable medium. Exchange of money through mobile wallet at chaat stalls, street vendors, small shops, etc. would remove the need to carry cash/cards at such places. Mobile wallets are apps on SMART PHONES and hence the buyer and seller must invariably have a smartphone and proper connectivity to complete the transaction. This means that those consumers not having smart phones cannot use this cashless facility. A further issue is lack of organized dispute resolution mechanism, should there be a dispute between the buyer & the seller. There have been instances when the buyer has been debited but the seller has not been credited the amount. Again the absence of a single service provider and the proliferation of many service provider can give rise to situations where the buyer is having a Paytm mobile wallet and the seller is having an State Bank of India mobile wallet, SBI buddy and hence the transaction cannot take place. Charges levied by the mobile wallet app, when withdrawing the credits from respective wallets is also an unnecessary expense.
- **Unified Payment Interface (UPI)** – UPI has an advantage over the mobile wallet in that exchange of money between buyer and seller can happen between any two bank accounts. UPI allows a customer to pay directly from a bank account to different merchants, both online and offline, without the hassle of typing credit card details, IFSC code, or net banking/wallet passwords. However, like the mobile wallet a smartphone is a pre-requisite for operating the payments through UPI. Although in India the smartphone penetration is increasing with each passing day, increase in smartphones cannot be translated into increase in usage. Usage of a mobile personal identification number (MPIN) negates the requirement of OTP for completing the transactions and hence the process can be faster, figuratively speaking. However, reliance of the internet network availability is mandatory for completing the transaction.
- **Net-banking** – This facility can only be used for making online purchases of grocery food and other retail items offered by online providers like Amazon Now. It is generally impossible to be used for small food and grocery

purchases on a daily basis, unless the payment for daily purchased items is aggregated over one month and paid at regular time intervals.

- **Aadhar Enabled Payment System (AEPS)** – Aadhaar Enabled Payment System is a way to get money from the bank



Exhibit 6: AEPS scanner

account. This system of getting money neither requires consumer signature nor his Debit card details. As the system uses Aadhaar data like fingerprint or iris scan for the authentication it is much simpler. However, a POS machine operated with internet connectivity is a must for the system to work. Thus all the attendant POS related difficulties would be applicable for using AEPS.

Exhibit 7: Cashless Options v/s Food & Grocery purchase options

	Vegetables	Fruits	Dry Grocery	Milk & Dairy	Meat & Poultry	Online Grocery	Ready to Cook / Eat
Credit Cards	×	×	✓	×	×	✓	✓
Debit Cards	×	×	✓	×	×	✓	✓
Mobile Wallets	×	×	✓	✓	×	✓	✓
Unified Payment Interface	×	×	✓	✓	×	✓	✓
Net Banking	×	×	×	×	×	✓	✓
Aadhar Enabled Payment System	×	×	✓	×	×	×	×

The table in exhibit 7 shows the effect of available cashless options on each type of retail purchase. As is seen the low value irregular purchase of fresh fruits, vegetables, meat, dry and wet groceries are not convenient for cashless transactions. Moreover the purchases being conducted by the women of the house, their inconvenience at the handling of the cashless transactions is more unlikely. As a result the lack of cash in circulation will result in less purchases being affected rather than a drive towards cashless means of transaction. The only segment that can actually benefit from cashless transaction is the online food and grocery retail purchases, but the same is in miniscule proportions. Further a big shift towards online purchase is not seen even after demonetisation was initiated in India, giving credence to the view that consumers prefer to find innovative solutions to tide over the cash crunch but don't prefer cashless solutions. The transaction time and costs of cashless methods are a major disincentive for the cashless process.

We can therefor summarize the effect of demonetisation on food and grocery retail purchases as follows,

- Immediate drop in consumption of products, unless essential resulting in reduced demand and drop in product prices. Aspirational purchase would be avoided and basis consumables would be purchased. This will have a cascading effect on the supply chain demand and all stages will be adversely affected.

- Unless the transaction cost of cashless transaction is reduced significantly and the user is incentivized there will not be a perceptible difference in the way commerce is conducted in the food and grocery retail before and after demonetisation.
- A form of barter system can also be set in motion by some agencies with the limitations that the system will be workable only for the members within a small geographical area. The farmers' markets of Telangana began experimenting with their own electronic payment system where customers with Aadhar-linked bank accounts could buy vegetables using tokens which could be purchased via debit cards at specialized kiosks. Such innovative but short-sighted solutions would spring up in every nook & corner, just till such time that the money in circulation is less. Once the money in circulation is restored to pre-demonetisation levels, these solutions will die a slow death.
- Consumers view the objective of demonetisation and push towards cashless transaction as a means to widen the tax net, by tracking digital transactions in real time. This sudden and abrupt change from a cash economy will make the consumers and sellers clam up and reduce the product offtake resulting in losses for the farmer.
- As only 17% of the Indian population have access to smartphones, the gap between those able to take advantage of the digital economy and those being unable to benefit from the digital economy will only increase. As per Monishankar Prasad, a New Delhi-based author and editor, "The poor do not have the access to structural and cultural resources to adapt to shock doctrine economics. The tech class has poor exposure to critical social theory in order to understand the impact on the ground. There is an empathy deficit." In my opinion this is amply applicable to the food and grocery retail as even in this case it is a shock change to the structure of doing transaction at grassroots levels. The impact on the ground would be drastic if cashless transactions are thrust on the consumer or will see no change once the new currencies are amply available.

Interesting Facts: Jonbeel Mela is a three-day Tiwa community fair held the weekend of Magh Bihu at a historic place known as Dayang Belguri at Jonbeel, for the past five centuries where barter of goods is the only means of exchanging products. It is 5 km from Jagiroad in Morigaon district of Assam and 32 km from Guwahati. In this year this fair was held from 20th January to 22nd January. Exchange of goods takes place between the tribes residing in hills and people from plains of Assam and Meghalaya. No cash transactions, whatsoever are acceptable. Most hill people sold items like ginger, turmeric, black pepper, cinnamon and yam, while they purchased items like rice flour, fish and traditional sweets. Items are sold and purchased without the use of weighing scales but are measured with bowls, hands and as agreeable to both parties. Other than the trade the objective of Jonbeel mela is to promote harmony among tribes in the region.

Exhibit 8: Exchange of goods by barter system in Assam's Jonbeel Mela



V. CONCLUSION

Cashless transactions for food and grocery retail seems difficult if not impossible at this stage, given the infrastructure limitations and lack of availability of alternatives that are fast, reliable, convenient & private. The demonetisation will have a temporary setback for this sector but the sector will go back to its old ways once the normalcy in remonetized currency is achieved. Unless there is a concerted and incentivized approach to go cashless, atleast this sector would continue to be cash heavy. The payments at the toll booths all over India will further my argument. In the initial days of demonetisation the collection of toll was suspended, and later restarted after almost 1 month of being kept in abeyance. Presently the toll booths accept cashless transactions but the practical limitations of time consumed in validating a cashless transaction has forced a return to cash transactions. Almost 100% of toll booths are back to operating transactions in cash. The common element of low value transaction in toll collection and food and grocery retail will drive both businesses to transact in cash & there does not seem to be any early end to the cash transactions.

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