

# Impact of COVID-19 on Retail and e-Commerce in India

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**Abstract:** A significant majority of India's retail market is made up of the unorganized sector. With lack of a proper government bailout package for the unorganized sector, retail businesses in India were crushed post the advent of COVID-19.

However, unlike retail firms, e-commerce firms prospered, as more customers stayed at home and preferred to order online.

This paper explores the impact of the COVID-19 pandemic on retail and e-commerce in India.

## 1. METHODOLOGY

The research conducted is derived from secondary information and conversations with retail business owners

## 2. IMPACT OF COVID-19 ON THE RETAIL SECTOR IN INDIA

**Context** – As of 2020, India's retail market was sized at USD 883 billion and over 75% of this retail market is unorganized. Of the USD 883 billion in retail sales, USD 608 billion is only via sale of grocery. Unorganized businesses and workers, typically, are more susceptible to hardship as these individuals usually come from poor families and rely on day to day earnings to feed their families.

### **Impact of COVID-19 -**

When COVID initially reached India, the central government of India announced one of the harshest lockdowns globally. For months, citizens were asked to stay home, all non-necessary retail outlets were shut down and mass lay-offs occurred, especially in the unorganized sector. It is estimated that economic losses in the retail sector during the first 3 months of the lockdown crossed INR 15.5 lakh crore. In April, the losses stood at about Rs. 5 lakh crore whereas in May it was estimated to be about Rs. 4.5 lakh crore, followed by Rs. 4 lakh crore in June. Even 45 days after unlocking began in India, there was minimal improvement, as footfall only reached 10% of pre-pandemic levels.

Retail businesses, especially unorganized ones, were desperate. They needed a government bail-out, however rather than demand creation spending measures, the central government only offered liquidity measures via loan moratoriums and easy

access to credit. At that time, according to the Confederation of All India Traders (CAIT), which represents around seven crore traders and about 40,000 trade associations, at least 20 per cent or 1.4 crore more retailers are likely to shut their businesses in the months of the lockdown.

Below is a conversation with a retail trader who was affected by the lockdowns (Translated from Hindi to English) –

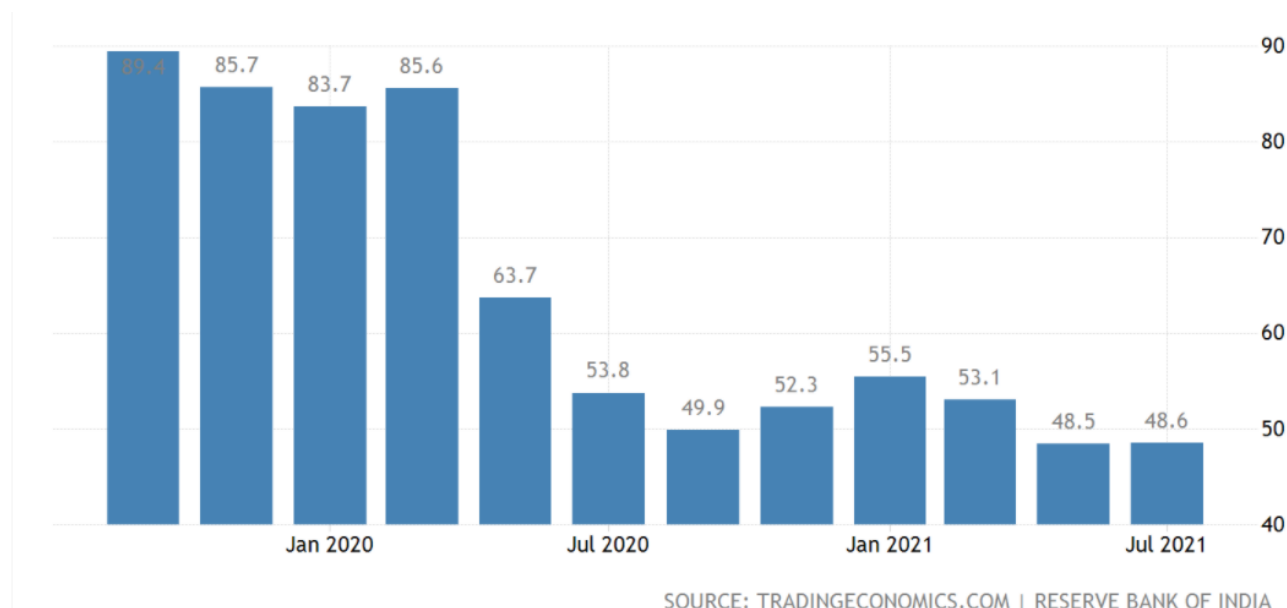
Q) What is your business? How did the lockdown impact your business and personal finances?

Ans) "I sell sarees (traditional Indian women's wear) at my shop in New Delhi. The lockdowns were devastating for us. Our shop was our only source of daily revenue and we had to shut it for 3 months. I had no way to provide for my family. I have a wife, son and daughter to provide for. During the initial 2 months, we survived by selling whatever jewelry my wife had, post that we had to rely on loans from local loan sharks to provide for our bare necessities.

The interest on these loans was very high and it became very difficult to pay the loan off. Initially we went to some banks to get loans, as the Prime Minister had said all businesses would get easy loans, however, they needed various sorts of documents, which none of us unorganized businesses have, hence we had to rely on the loan sharks. Even after the lockdown was lifted, no customers came to the markets, hence business was slow. At that time, we were desperate for any relief the government could've given us, sadly none came."

Once the initial lockdown was lifted and some time had passed, customer did start coming back to physical retail outlets. Business was not as good as it was before the lockdown, but any income to this unorganized sector meant food on the dinner table of the business owners.

The sector did eventually see improved conditions in the months after the lockdown was lifted in October. Retail sales inched up to 93% of pre-pandemic levels. Consumer confidence levels bottomed out around the same time and posted a slight recovery. See chart below –



Source – (RBI, 2021)

However, as soon as recovery was on the horizon, the second wave of the pandemic, driven by the Delta variant, decimated India. The second wave was far more severe than the first wave with the healthcare infrastructure getting overrun by it. Localized lockdowns began across the country which led to consumer confidence levels dropping again (see chart above) and a partial shutdown in retail operations across the country.

From March'21 to June'21 there was another drop in retail sales across the country, but as vaccinations gained pace and the second wave faltered, retail shops began to start operations again. As of August 2021, retail sales were inching back up. August 2021 retail sales in India were equivalent to 88% of the sales in August 2019, which shows some signs of recovery.

Despite the recovery from the lows of the pandemic, the retail sector is facing significant economic pain as –

- 1) Sales are still 12% lower than 2019 (See August number quoted above)
- 2) Businesses have seen years of lost growth
- 3) The sector has seen increased debt burden and loan defaults
- 4) Consumer confidence is significantly lower than pre-pandemic levels, making future growth more difficult

### 3. IMPACT OF COVID-19 ON THE E-COMMERCE SECTOR IN INDIA

*Context* – e-Commerce in India is still in its nascent stage.

Penetration rate of e-commerce among the Indian population was only at 4.7% in 2019. This is a far-cry compared to developed nations such as the UK with 87% penetration rate. However, the Indian e-commerce sector is growing at a very rapid rate, which is largely driven by increasing spends and increasing number of users shopping online. It is estimated that penetration rate will reach over 10.5% by 2025.

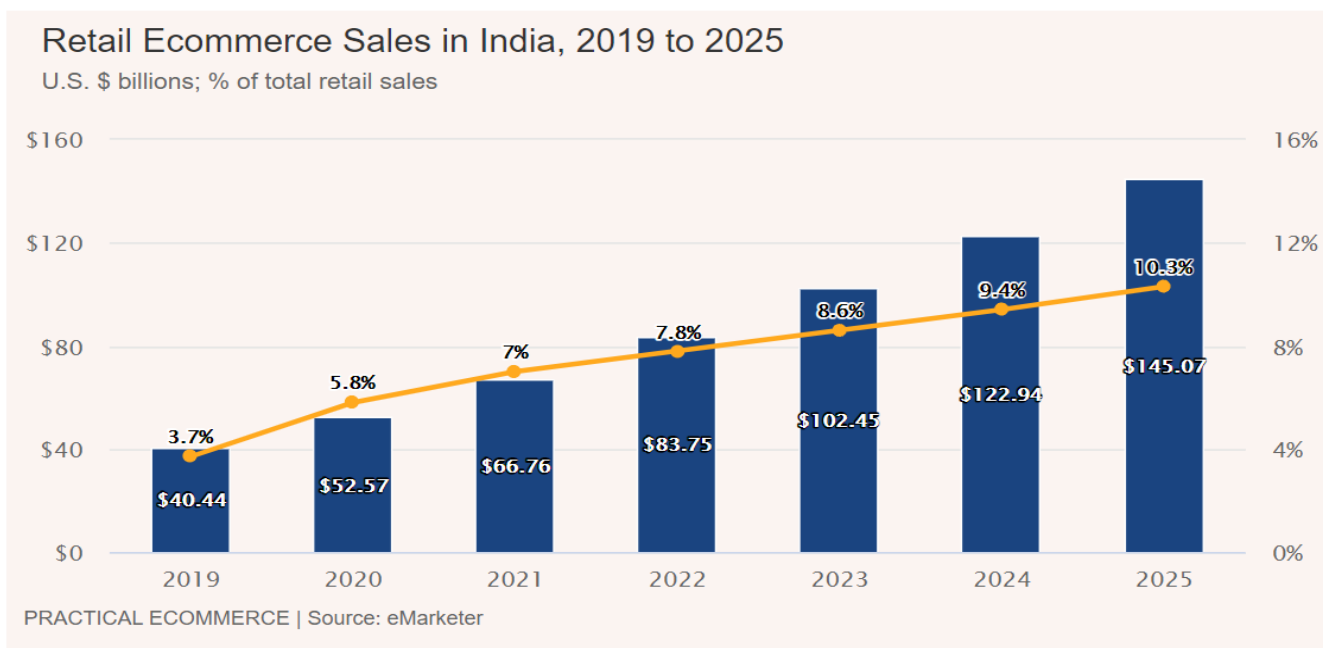
#### *Impact of COVID-19 –*

COVID-19 has acted as a catalyst for the Indian e-commerce market and has further increased the growth of the sector in the country. The following are the major impacts COVID has had on the sector –

1. Increase in online sales (driven by new customers)
2. Increased number of small merchants selling products online
3. Increased adoption of new product segments, such as grocery

#### *Increase in Online Sales –*

- Indian e-commerce sales have drastically increased since the start of the pandemic. In 2019, sales stood at USD 40.4 billion, in 2021, the same figure stands at USD 66.78 billion. The remarkable factor is that this growth has come during a pandemic that has severely damaged many industries globally. E-Commerce sales as a % of retail sales has also nearly doubled during the same time period, from 3.7% to 7%. See figure below for details –



Source – Practical e-commerce | eMarketer

#### Increased Number of Small Merchants Selling Products Online

- An increasing number of small businesses digitized during the pandemic. This has permitted them to expand their prospective customer base significantly as they can now sell across the country
- Shopify has reported a 120% increase in new SMEs joining in the first six months of 2020 as compared to

2019. Similarly, Instamojo, has serviced ~200,000 SMEs in their journey to go online, of which 70% had no historical online presence.

- Companies such as Amazon and Flipkart have been assisting businesses digitize by offering seller loans, launching a special sales day only for small merchants and assisting businesses in setting up their digital infrastructure.

Source – News18

#### Increased Adoption of New Product Segments (Grocery) –

- India's online grocery market has been expanding at a rapid rate. The online grocery market in 2020 was USD 2.9 billion and is growing at a rate of 37% per annum. Major players such as Amazon, Walmart backed Flipkart, Big Basket, Reliance and others have gotten into this segment to cater to new customers.
- A major catalyst for this product segment was the change in life-style patterns of consumers due to COVID, as safety was preferred over speed.
- Increase in number of new customers shopping for grocery online during the COVID lockdown was massive. Grofers, one of the established players in the industry reported a 102% increase in first-time online shoppers.

#### 4. CONCLUSION

COVID induced a tale of two stories on the Indian retail and e-commerce markets. While the traditional retail sector faced one of the severest downturns in history, e-commerce flourished and saw a boom in the country.

Changing customer mindset and priorities has also altered the future of both the industries. Customers are increasingly becoming used to online shopping as the penetration rate in the industry increases, which means that they are less likely to go to a physical store to buy goods.

COVID has had a significant impact on both these sectors and it is unlikely that consumer pattern and business conduct will ever return to the way it was before the pandemic.

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