
Organized Retail Business in India: Its impacts on Economic Growth and Society

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Introduction:

Retailers are intermediaries between the producers/ suppliers and final consumers. They are physically closest to the final users of goods and services. At a stage when the exchange in the economy is simple and localized, retailing is not seen as major economic activity that adds value. Rather it is looked upon as the part of production through which the value of the commodity created through production is realized by the act of delivering it to the consumer. With economic growth and technological progress, scale of production turns large as well as dispersed in different locations. Production is no more carried out for local markets. Products move from the place of origin to distant market places and distance is created between location of production and the consumer. Consequently, trading activities (wholesale and retailing) gains importance for reaching out to the consumer. As Local fragmented markets get connected with distant places, retail business gets complex and transforms from simple act of vending to visible economic activities through transportation, warehousing, and merchandising. Gradually, urban city centers become the hub of trade - buying and selling of a range of commodities of daily necessities as well as luxury goods. Demand pulls for goods and services are created through these markets. Cities become retail centres due to density of population, connectivity, urban life style being more market dependent.

Before the development of large scale organized retailing, merchants and the wholesalers played an important connection between the producers and the retailers. Retailers' role was to sell goods

delivered to them by the whole sellers or producers. Most of these retailing were carried out in small scale by own account family labour. They were dependent on a large number of intermediaries to get supplies and were the weakest partners in the entire process of distributional system. Retailing activities were carried out mainly in the unorganized sector up to some stage. Even when exchange expanded from local and regional levels to city centres and distant places, operational pattern of retailing remained small and unorganized. This sector was broadly low income generating providing employment to those not having any other opportunities to earn. This sector needed less startup capital and low skills. The end of last century saw the growth of organized retail sector in size and scale. Retailing then no longer remained a mere act of intermediation between producers and consumers but turned into an important economic activity contributing to value addition, skilled employment generation and attractive business proposition. In 1999, developed nations witnessed organized retail expanding in size and making contribution to value addition. Organized retail trade in Europe generated sales of Euro 1518 billion, created value of Euro 292.5 trillion and employed, 12.4 million people during 1999(European commission 2003). In USA, 85 per cent of retailing is organized and their scale of operation have expanded considerably. Even

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newly industrialized countries such as Thailand, Malaysia have been experiencing high penetration of organized retail in their country. Table 1 shows penetration of organized retail business in developed and emerging countries.

Table-1
Comparative Penetration of Organized Retail in Different Countries (Percentage of total)

Country	Organized	Unorganized
U.S.	85	15
Western Europe	70	30
Brazil & Argentina	40	60
Taiwan	81	19
Malaysian	55	45
Thailand	40	60
China	20	80
India	3	97

Source: Retail News, Ernst and Young, 2006

Though Indian economy is experiencing high rate of growth (7 -8 per cent) that has expanded consumer base of all kinds of final goods and services, organized retail is still a small part (3 per cent in 2006) of the total retail sector. The retail industry in India is largely unorganized and predominantly small, independent and owner-managed shops. This pattern have dominated Indian retailing over decades. Every village and local community are served by street corner stores. Many earn their livelihood through street vending. There are about 12 million retail outlets in the country. In U.S.A. 0.9 million outlets only cater to more than 13 times of the total retail market size as compared to India. India has one of the highest density of retail outlets per capita in the world with a widely spread retail networks but with the lowest per capita retail space (2 sq.ft per person).

Unorganized Retail: its constraints and weaknesses:

Indian retail sector is the fifth largest globally and this amounted to \$ 270 billion in 2006(CSO national Accounts Statistics, 2006). This sector contributes 13 per cent of GDP in India and employs 8 per cent of working population (Mckinsey, 2007). This is second largest employment generating sector in India after agriculture. Yet this sector is plagued with poverty, illiteracy and low productivity. Retail activities can be started with very small or no capital as a part of family run business in the household premise itself. Street vending does not require any capital at all. For centuries this has been the support for the destitute families finding no other occupation. Studies show that next to agriculture, retailing is the source for livelihood for most of illiterate and semi literate workers.

Organized Retail and Its Potential for Growth:

Potential for organized retail has been identified as highly promising and termed as "The Bird of Gold" by Mckinsey Global Institute (2007) firstly because organized retail sector has as yet limited penetration (3 per cent in 2006 and 4 per cent in 2008 and amounted to \$6.4 billion of business) and secondly demand for retail service is growing fast due to economic transformation taking place here in India. The higher and middle income groups are expanding through generation of employment and incomes of higher level professionals. Their spending behavior is comparable to those groups in the developed countries. V. Sing, Head of MaRCom, Future Media, (Pitch column June 2007) finds an ambience of consumption mood in India, where consumers are ready to spend. Retail services require modernization in order to match the demand boost so that its linkage effects can be retained in the country. Demand growth in India has taken place due to following factors. Now, 30 per cent of Indian population lives in cities (2007) and it is expected to grow at the rate of 2.4 per cent from 2000 to 2015. Studies in the developing countries suggest that on an average urban household spend 2.5 per cent more than the rural households. In India top six cities have 6 per cent of population but contribute 14 per cent to GDP. Table 2 shows how expenditure pattern of average Indian households are changing over time.

Table-2
Composition of average household expenditure (1995 vs. 2005)
(Percentage)

Items	Expenditure in 1995	Expenditure in 2005
Food, beverage & tobacco	50	43
Household goods and services	8	10
Leisure and education	13	16
Housing & fuel	10	12
Health	7	8
Transport & Communication	3	3
Hotel & restaurant	1	1
Clothing & footwear	5	4
Other services	3	3

Source: Ernst & Young , 2007

With prosperity and higher standards of living, consumption levels are increasing in India. As per CSO National Accounts Statistics estimates(2006), private final consumption expenditure in India was Rs.1,890,619 crores (approx USD 425 billion) in 2004-05. Retail sales contribute almost 54.5 percent of total consumption expenditure in 2005. Discretionary spending for the upper and middle income group has increased 16 per cent. Nature of Indian consumer is also changing fast. Now there is a shift in quality and design consideration and feel good rather than price consideration. These are happening due to a number of changes in the profile of Indian population. India has one of the youngest populations in the world, 54 per cent being below the age of 25. Participation of women in the work force has increased for which average family income has gone up considerably. Long working hours for professionals have induced more efficient time budgeting from daily to weakly purchases and eating out. Use of cars and credit cards make the purchase from the organized retail more convenient.

A.C. Nilesen's Survey for Tax Free Association of India (2006) revealed that Indian tourists, on an average, spent more than \$900 annually. The data collected by the Agency, Visit London show that 212000 Indians visited London and spent £139 million as against £123 million spent by the Japanese. Similarly, Kiran Nambiar country manager of New Zealand Tourism Board highlighted the fact that Indians, on an average, spend \$ 60 million per year in New Zealand (Delhi Times, May 14, 2007), London,

Singapore, Honk Kong, Malaysia and Dubai have emerged as magnetic pole for high spending Indians. These indicate much of the purchasing power of Indian community is flowing out of the country. Once organized retail sector develops sufficiently, the multiplier effects of growth of income and expenditure will not flow out of country rather will be spent on domestic retail markets thus generating more income and employment.

Trends of Organized Retail in India:

Only an efficient and organized retail sector can ensure and sustain this type of growing demand and the evolved Indian consumer to satisfy their good shopping experience. This opens up a great possibility of growth of organized retail in India. A number of market survey companies and Investment Commission of India (2006) also predict big opportunities for organized retailing in India in five to ten years. The benefits of a larger organized retail sector are several. The most obvious benefit is to the consumer who gets a better product at a cheaper price. Retail can have expanded reach and increased volume. This will lead to increased demand for manufacturing and hence more jobs are created. There will be movements towards value chain through processing and packaging goods and merchandising. Thus, growth of organized retail will create backward and forward linkage effects in the economy, creating jobs, value addition (Investment Commission of India, 2006 and AT Kearney, 2007)

Tables below show penetration and composition of different segments of organized retail in India.

Table 3
Retail business in India

Item	Total in US \$ in bn	Per cent age
Food and Grocery	152.00	54%
Apparel(RMG)	19.15	7%
Consumer Durable	20.00	7%
Pharmaceutical	5.50	2%
Other	83.72	30%

Source: Ernst &Young, 2007

Table 4
Composition of Organized Retail Sector in India

Retail	% Organised in 2006	Retail	% Organised in 2006
Clothing, Textiles & Fashion Accessories Segments	18.9	Pharmaceuticals	2.6%
Jewellery	2.9	Consumer Durables, Home Appliances /equipments	10.4
Watches	45.6	Mobile handsets. Accessories & Services	8.0%
Footwear	37.8	Furnishings, Utensils, Furniture-Home & Office	9.1%
Health & Beauty Care Services	10.6%	Food & Grocery	0.8%
Books, Music & Gifts	2.8%	Catering Services (F & B)	6.9
Entertainment	12.6%	Total	4.6

Source: Ernst &Young, 2007

From above tables, though all segments of retail sector are growing rapidly, penetration of organized retail is still moderate. There are a number of growth linkages of organized retail sector. Its development induces processes that can facilitate quick, and efficient delivery system. Thus, efficient procurement, transportation, warehousing and distribution centre come up. As the connectivity or logistics between above mentioned segments and the market is established, the scale of operation of retail business expands. Opportunities for development of large scale retail business open up further through technological innovation in transportation, communication warehousing and inventory management. In the modern time, the scale, size and formats of the organized retail business are fast changing with expansion of markets as well as opportunities being opening up through technological know-how. IT has been creating communication linkage in various stages of producers and delivery system. The retail sector enabled by IT has been contributing to the growth of GDP for many developed economies. This sector has generated substantial employments to wide range of workers from highly skilled professional managers and technicians to shop floor workers. According to the prediction of market survey this sector in India should be able to generate 20 lacks jobs in next two years (Ernst & Young, 2007). In fact demand for skilled personnel and professionals have been growing so fast that many of the organized retailers are facing the problem of attrition and scarcity of human resources (Economic times April 27, 2008).

Investment in Retail Business:

The real challenge for this sector is to get resources for adequate investment. Some domestic retail majors have expansion plans spread over wide range of locations and formats. Rs 20,000 crores worth of investment is needed over next four years for 36 per cent growth of this sector (Images Retail India report 2007). This sector has a problem of financing such huge investment. Bank debt financing is not suitable for the small and medium ones because this business does not have tangible collateral assets required for debt financing. This is because many of the retail businesses operate from leased property. Some banks are providing transaction banking solutions to the retailer, which can solve day to day needs of liquidity. Some of big retailers are taking into

considerations two alternative ways of financing such as venture capital and public issues.

Social Impact of growth of retail:

In the context of Indian Economy where retail business at present is providing livelihood to a large number of population, growth of organized retail is not looked upon favorably by politicians and policy makers. According to the Govt sponsored Survey ICRIER, though growth of organized retail as yet did not have any conclusive negative effects on the small retailers, this will harm a large number of small and medium wholesalers. According to an unconfirmed estimate these wholesalers are at least 4 crores strong. In all developed countries, the process of transition from unorganized to organized retailing has displaced wholesales in thousands. In emerging economies such as Thailand this has been a matter of concern. In reponse to agitation of the wholesalers and traders, Mrs Sonia Gandhi, the President of Congress and UPA Chairperson, ruling Coalition, has intervened to stop FDI in multi product retail business (April 28th 2008, Hindu Business Line). The West Bengal left Govt is not in favor of allowing big and organized retailing in agri products. The UP Govt has gone against Reliance Fresh, a big retail venture by Reliance industry. According to recent ASSOCHAM survey report (2007), 20 per cent of sample group is of opinion that small retailers will not be able to cope up with competition brought about through FDI (Economic Times 29th April 2008) in the retail sector.

Critiques see the rush towards retail business in India occurring due to over optimism on the part of big domestic and foreign companies who are turning towards India in the situation of world recession and dwindling opportunities of investment in other parts of the world. India having large domestic demand and good economic growth is not affected by world recession that much. Yet projected growth of retail sector may not be realistic for a number of reasons. For example Indian infrastructure is a constraint for the development of supply chain which is the backbone of organized retail business. Since organized retail requires high level of technology and managerial skills, this sector already shows the signs of scarcity of skilled human resources. Some of the big retailers are starting their own training institutes to tackle the

problem of shortage of skills. Soaring property prices in the cities again is going to be another constraint for the faster development of this sector. Sales tax structure being different among states is yet another constraints for the development of supply chains.

Moreover, there is a need to understand that organized retail has a great risk of growing into monopoly or oligopoly. Lessons from developed countries show (Wal-Mart in USA) that monopolistic or oligopolistic control is neither beneficial for consumers nor for manufacturers nor other stakeholders of the entire distribution system. Therefore even to encourage organized retail for Indian economy, it is necessary to have a regulatory system to check the growth of monopoly concentration. Otherwise once monopoly nexus is developed politics and power gets mixed, future potential for growth could be hindered.

Conclusion and policy recommendations:

Though India's retail sector is large, it is mostly operational in unorganized sector providing employment to a large number of illiterate and semiliterate workers. India's fast economic growth and emergence of middleclass with evolved spending habits on the other hand, have been creating an ambiance for consumption. Reports find that Indian tourists have been spending a huge income abroad. This spending effect can be retained within India only if organized retail is developed to satisfy consumers with better shopping experience in terms of quality and price for value.

This sector is attracting investment by a number of retail majors on the basis of optimism created through various market surveys. Consequently jobs are created at all levels from semiskilled to highly professionals and technicians. Yet development of this sector is constrained by some economic and social factors. This sector needs to fast develop logistics and supply chains as well as IT solutions to integrate highly fragmented trade and wholesale segments, so as to benefit from the large scale operation. Yet allowing retail business to grow into very large scale can have real problem of emergence of monopoly concentration. Growth of this sector is likely to displace a large number of traders and wholesalers leading to social problems. This sector even right at the start is confronting a

number of problems: such as an acute shortage of high skilled manpower, high price of property, differential sale tax structure in states and inadequate infrastructure.

Suggested Polices:

1. The Govt needs to reform sales tax for efficient logistics and supply chain operations,
2. Investment in skill formation and infrastructure urgently need to be boosted .
3. The Govt also needs to find ways to provide the security of livelihood to people displaced by organized retail.
4. Lastly, a separate regulatory body is needed to check growth of monopoly in this sector.

This subject is fully explored as a part of research initiative of NDIM in the Research Report titled "**Organized Retail Business In India: It's impacts on Economic Growth and Society**" in following sections.

1. Introduction: A brief overview of Organized Retail sector evolving as important and potential for growth in value addition and employment
2. Retail business as existing in India: Fragmented and unorganized
3. Prospects of organized retail business in India
4. Employment potential in the organized retail sector
5. Constraints of the organized retail business:
6. FDI and organized retail
7. Impact of organized retail on small and marginal wholesalers and retailers
8. Conclusion and suggested policy implications

The report is prepared on the basis of following primary market surveys (full references are provided with the main paper):

Images India Report (2007) Images F & R Research, Images Multimedia Pvt. Ltd. New Delhi.
AT Kearney Annual Global Retail Development Index.
KPMG and IFCCI, Technopak Advisers Private ltd, Ernst and Young, Mekinsey and Company