

## Modernizing & Reenergizing of India's Retail

It is a matter of deep disappointment that all discussions relating to retailing ecosystem in India end up converging on a single theme – whether India should allow FDI in the sector. Worse, in these last 15 years of cacophonous arguing, both the protagonists and antagonists have resorted to taking subterfuge behind myths, lies, half-truths, or plain ignorance about the actual impact of allowing big business (irrespective of the country of origin of its ownership) to enter the business of retailing. In the meantime, the business of retailing has been undergoing several fundamental changes that have started to make a presence in India too. At the same time, the Indian consumers' needs and shopping behavior has also been undergoing a very fundamental change. It is, therefore, high time that the various stakeholders in the discussions relating to retailing in India (and so far, the most important of all the stakeholders – the 900+ million Indians who are above 18 years of age and hence consumers and shoppers in their own right – have never been included in the discussion relating to what would be their expectation from the retail ecosystem today and then tomorrow) take a step back and start making a serious effort to first understand how efficient / inefficient India's retailing infrastructure is today and then how to make it more efficient for the consumers, the producers of consumer goods, those whose livelihood rests upon the retailing value-chain, and finally, the state and central Governments who have to expand their tax revenue base to meet their own revenue needs to provide better physical and social infrastructure to India's masses.

Let us first start by accepting a few facts. The most crucial of all is that the retail sector provides the largest employment in India, and offers the best hope for employment for tens of millions of more Indians in the years to come. Further, this is the only sector where relatively less skilled or even unskilled Indians, of all the three genders, and across the entire country can make some kind of a living. Hence, any threat to this employment creation potential of this sector, and especially when India already suffers such a major deficit in creating jobs or self-employment opportunities, has to be carefully studied keeping personal ideologies aside.

Secondly, it is also true that in its current form, India's retailing ecosystem is highly inefficient. There is an unacceptable value-loss (not value-added) between the manufacturer and consumer prices thereby depriving the manufacturer of a fair value for his effort while forcing hundreds of millions of inflation ravaged, low income Indians to pay much more at the retail till than what they should be paying. This ecosystem is also very inefficient for the state governments in particular when it comes to getting their fair share of local taxes, and inefficient for the central government when it comes to getting its share of indirect taxes since myriad small and medium scale manufacturers can successfully evade the taxation net by using the current distribution channels comprising of myriad middlemen. The current highly fragmented and highly unorganized retail ecosystem also allows entry of spurious and sub-standard consumer goods in the supply-chain, and any evidence is needed, one only has to visit retail outlets catering to relatively lower-income strata in major cities or those located in the tier 2 or small cities and then in rural India. Indeed, the frequently articulated fear of those against FDI in retail that international retailers will dump cheap consumer goods produced in China and elsewhere do not have any understanding about the ground reality that such cheap, very poor quality goods are indeed being imported (or smuggled) into India but for retailing through the unorganized sector thereby causing loss to the exchequer of customs duties while making the unsuspecting customers buy poor quality merchandise.

The third fact is e-commerce and e-tail is here to stay and will create a fundamental shift in consumers' shopping behavior and therefore transform in the entire retailing ecosystem of India. No amount of legislative protectionist measures can stop or even slow down this transformation.

So what should be the action areas of the political and administrative leadership in states and at the Center? The very first step that the new Government must take is to bring the focus of all discussions relating to the retail sector on the need to make the entire sector more efficient and give it the appropriate ideological and regulatory support to make it one of the strongest engines of job creation in the country. In this context, perhaps the single biggest enabler of growth of the entire retail sector in India is availability of legal, low-cost, rightly located space to establish new retail outlets. If India's GDP were to grow at about 6% per year over the next decade, it would need at least 3-4 billion square feet of additional retail space (even after accounting for e-tailing). To make this happen, suitable amendments must be urgently made in town planning (and overall urban planning) norms to provide for adequate quantum of retail space as close as possible to the residential

areas. The current markets are dilapidated and must be completely renovated / re-developed to create some of this additional space.

The next step that the Government must take is to come up with an equitable “zoning” policy that acknowledges both the need for large format stores as well as their potential to cause disruption for independent retail stores in select locations. Every developed country has an appropriate zoning policy relating to big-box and relatively large format chain stores that try to balance (sometime unsuccessfully) the co-existence of big with small, and organized with the independents.

The Government must also acknowledge the emergence of e-commerce as a very promising development that can provide millions of small producers and even small retailers to reach out to a much larger customer base through the so-called market-place and other e-tail models. It must actively support the growth of e-commerce in India while having clear (and fair) policies relating to taxation (and sharing of such taxes between the Center and the States) and relating to protection of consumer rights.

Finally, as far as FDI in retail is concerned, it would be best if the Government were to completely scrap the current policy that is riddled with inconsistencies and impracticalities, and also do away with the previous-government created nomenclature of “single-brand” and “multi-brand”. Instead, FDI in retail sector can be very effectively used to promote exports from India by linking the FDI approval to exports of manufactured goods rather than sourcing from MSMEs to sell within India. Large global retailers buy billions of dollars’ worth of merchandise from China and many other low-cost manufacturing countries in the world. There is no reason why they cannot be gently nudged to buy more from India for their global operations if they were to retail in India. Beyond putting export obligation on such international retailers, they should be allowed to operate under the same regulations as large-format / chain-store operators of Indian origin. This will actually spur more investment in the upstream segments of the retail value-chains as more competition among the Indian and international giants will force all players to make their own sourcing more reliable and more efficient.

One hopes that whichever is India’s new Government by end of May would put modernization and growth of India’s retail sector on a high priority, and move the discussion beyond the pros and cons of FDI in multi-brand retail.

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