

### **Premature Obituaries of Modern Retail**

Nothing seems to be going right for modern (or organized) retail these days. The financial media is full of pessimism regarding the fate of most of the prominent players, and the ranks of naysayers on the viability of organized retail businesses are growing by the day. A recent cover story in one of the business fortnightlies squarely questions the rationale and the ability of large, diversified Indian business groups' entry into the retail sector. Unfortunately, it is a reality that there is a growing list of failures and strugglers in this sector, while the examples of unqualified successes are rare. It is also a very realistic possibility that the worst may yet to come for many of the current leading icons of modern retail, with stagnant revenue growth and steadily widening losses showing up on the balance sheets.

So, is the story already over for modern retail in less than 20 years of frenzied entrepreneurial activity in this space? Indeed, was the retail opportunity nothing more than a mirage created and propagated by ignorant, theoreticians, or self-interest serving consultants and gurus? Does India already have its own traditional retail ecosystem that is already efficient, functional, and customer-friendly and therefore needs no tinkering with? While the current financial performance of most of the major players including some of the most illustrious and successful business groups may support these thoughts, it would be important to reflect a bit deeper on the possible reasons for this lack of success so far, and then offer a few solutions that could deliver better results for current and future entrants in this domain.

To start with, it would be useful to keep in mind that the success (or failure) story is writ large across many "new" sectors and not just retail. Textiles, one of India's oldest industrial sector and one of its most successful ones in most of the last century has only seen a terminal decline over the last 30 years, and at this time, with over Rs 150,000 Crores in outstanding loans, probably the sickest of all major industrial sectors in India. The story is not too different for majority of the companies who have ventured into major infrastructure projects (power, roads, airports etc.) in the last 2 decades, for companies in the aviation sector, in the real estate sector, in the healthcare sector, and even in the telecom sector. Indeed, with so much stress across so many industrial and services sector, one can be incredulous about the spectacular growth of the Indian economy in the last 20 years.

Coming back to the retail sector, one factor that is common to all other sectors which saw many illustrious entrants start with a lot of enthusiasm and adequate financial and managerial resources but who are still chasing the elusive success, is a near absence of a pragmatic government policy support system. In the case of retail, it was widely assumed that over time, the central and the state governments would see the importance and the merit of promoting a more efficient, a more modern retail distribution system and work towards simplifying, updating, or eliminating archaic policies and systems such as the APMC, the MRP regime which forces retailers to sell the goods at the same price at the ultra high cost Warden Road at Mumbai or Connaught Place at Delhi as it would in a tier IV town of Maharashtra or UP, the absence of a unified sales tax regime and elimination of the antediluvian octroi and other such pernicious, supply-chain distorting levies, a

shops and establishment act that has its origins in the 19<sup>th</sup> century and updated sparingly in the early decades of the 20<sup>th</sup> century, the absence of a pragmatic policy for retail supporting real estate, and finally, restricting retail businesses in India from accessing international capital either through FDI or through FII.

The other factor which is also common (with many other sectors) to the retail sector entrepreneurs' woes is the inexplicable desire of many to become billion or multi-hundred million dollar revenue businesses almost overnight, and the unstated greed of some to become paper multi-millionaires or even billionaires by slipping into the valuations game rather than focussing energies (and resources) on building a rock solid business first.

The next set of mistakes made by most of the entrants (and as someone having seen the sector from inside and being a part of the evolutionary process myself) include reckless expansion without a focus on supply chain development, mindless geographic expansion while disregarding the complexity of India and Indian consumers across different states, needless expansion into multiple formats and multiple product categories even when there was (and continues to be) enough opportunity to achieve significant scale and size even through a single format and just a single or few product categories, and lastly, in some cases, getting their vanity take the better of them as Indian and international media and industry associations prematurely showered awards after awards upon them which could have led to avoidable hubris.

However, India's consumption story remains very strong even at real GDP growth rates in the 6% range and Indian consumers are still looking for a more delightful and efficient solution. With all the learning from the last 2 decades, there is no reason as to why a second, and far more exciting, chapter in the story on modern Indian retail cannot and should not be written in the coming years, rather than penning down of some premature obituaries.

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