

Retail Reforms – A catalyst for nation building

The Backdrop

Retail sector is an interface between demand and supply in any economy and best articulates the (im)balance between the two. The reforms of 1991 liberalized the demand pillar of the Indian Economy. Relaxation of taxes, opening up of sectors, eradication of licenses et al injected a new consuming behavior and spurred demand. It was no surprise that the retail sector started to gather pace post '91 reforms. We saw the emergence of organized retail in the form of swankier stores, smarter staff on the floor and better options to choose.

Last two decades of reforms did create a sizeable mass of Indian consumers, attractive enough for any retailer to look at India attractively. Many Indian players did enter this space. However, in spite of the reforms of last twenty years, the perseverance of organized retail (largely Indian) and the seemingly big market opportunity, the share of organized retail in the total Indian retail basket (of USD 500 bn) is just under 10%.

Demand reforms of 1991 created more options for consumers without the policy makers getting to change the status quo of controls on raw material of land, power, agriculture and labor. Demand centric reforms brought in investment, which allowed modern retailers to supply the same in a better environment. The system improvised till the time it could manage to meet demand within the existing constraints of the supply of raw material. It has now plateaued and cannot grow beyond the current levels without major policy reforms. Share of organized retail has to go up if it has to become a key pillar in nation building. This will be a distant dream without next set of retail reforms.

Organized retail can contribute to nation building in two ways. One, it has the ability to act as a "Demand Consolidator" that can have a profound impact on the way India consumes. Two, it can act as a catalyst for infrastructure and rural development. Unfortunately, it cannot play both these roles with its current size and penetration level.

Organized retail as demand consolidators

Few would not agree that FDI in retail will give consumers more choices, better prices, superior quality. This is much more powerful in action than it sounds in words. If we look into the history of modern retailing the world over, organized retail has played one very important role. It has acted as consolidators of consumer demands. The power of consolidation under one roof at the retailer's end incentivized suppliers to innovate on products that can best meet consumer needs. How will it play out in India? Mal-nutrition and under-nutrition among our kids have reached crisis levels. If an organization of the likes of Nestle or Amul was to work on a high nutrient milk bar for kids that can address this challenge, it is highly likely that it can make such a product in its lab. But, if the organization was to think about scaling up the product commercially and reaching out pan India, challenges of un-organized retail such as milk sourcing, cold storage, cold chain logistics, and limited refrigerated shelf space in unorganized retail will instantly kill the project. Organized retailers allow such opportunities to get tapped. More importantly, they provide viable platforms for manufacturers to create best use of raw material. In the above case, perhaps it is better for India that more Indian kids eat high nutrient milk bars rather than few Indian kids consume glass of whole milk.

Organized Retail for infrastructure and rural development

Many a times it is argued that the FDI in retail will not benefit the farmer. It will not help the expansion and development of infrastructure and the rural economy. It is a flawed argument because it is equivalent to saying that without creating the infrastructure and developing the rural economy we should not embark on the path of reforming retail. Billions have been spent on rural development at the expense of government running increasing budget deficits. Apart from the leakages in the system, such programs create a sizeable size of dependent population on state welfare. One main reason for such outcomes has been the lack of market demand for rural development. Reforming retail presents single biggest opportunity of market-induced demand for rural development.

Modeling a case for cold chain logistics will present a right proof of concept for this thought. Today, in India there are nearly 5000+ cold storages offering 2.3 million MT of storage capacities. 85% of these facilities are only used for potatoes storage. Even then we see potatoes being dumped by farmers along the roadside in bumper seasons. This just reflects the extent of under developed cold storage infrastructure. The minimum reforms in retail will do is that it will create a pressure for cold storage capacities to go up. This will happen because retail stores pan India will demand packaged food, processed food, round the year availability of seasonal food etc. This pressure will travel backwards and will start to reflect in sourcing.

Imagine this pressure build-up in a larger context of the entire supply chain that works for a retail sector. Reformed retail sector will ignite consolidation of consumers' demand. This will create pressure points in the supply chain to expand and improve so as to capture this demand profitably. The direction of this pressure will then start to travel from the consumer all the way to the farmer. At each step of the supply chain one would see creation of scale and efficiencies, adoption of best practices, capital investment, entrepreneurship and infrastructure development.

Conclusion

Reforming retail will initiate a journey of market-induced reforms that will start at the retail shelves and end at the doorsteps of farmers. This journey will manifest in the form of infrastructure development at every stage of the value chain. Eventually it will create rural infrastructure that is scale driven and leakage proof. More importantly, reforming retail will incentivize farmer to become self-reliant and will increase their self-worth.

One needs a strong catalyst to initiate this chain reaction from the consumer end. This catalyst has to be in the form of consolidated demand and large operating scale. A reformed retail sector is best suited to play this role.

The first step will be for political class & policy makers to make a huge leap of faith and start to view Retail as an industry. It is not a destination for the privileged to shop for indulgence but a nucleus to usher much desired change in the way India produces, distributes and consumes.

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