

### Retail - Can The Real Action Begin Now?

With the shrill debate relating to foreign direct investment in the retail sector now (hopefully) behind us, can the real action now begin on revamping of India's dilapidated and dysfunctional "farmer to consumer" and "manufacturer to consumer" distribution to become modernized, more efficient, and then suitably expanded to keep pace with the growing economy and therefore the growing consumption?

The real panacea to India's multiple challenges such as providing the farmer, and the small and medium scale (consumer goods) manufacturer with the correct price for their products, moderating of rampaging consumer price inflation, and creation of tens of millions of jobs for India's burgeoning unskilled workforce lies in putting aside political ideology and rhetoric, bypassing irrational glamorization and eulogizing of the unorganized retail sector of the country, and instead, focusing on creating a dynamic, inclusive vision for creating a vibrant retail ecosystem. With the right vision, and the right policies, there is no reason to believe that a progressive and healthy retail ecosystem would not support various forms of retailers including the street vendors, independent small grocers and other retailers, medium size modern independent retail outlets, and corporatized retail behemoths.

Let us, therefore, start by looking at the facts relating to retail consumption and retail business in India.

	1991	2001	2011	2021
GDP (US\$ billion)*		US\$ 450 bn	US\$ 1848 bn	US\$ 3310 bn
Estimated merchandise consumption (retail market opportunity) (US\$ billion)		US\$ 120 bn	US\$ 470 bn	US\$ 810 bn
Urban consumption (% and in absolute numbers)		40% (US\$ 48 bn)	48% (US\$ 226 bn)	56% (US\$ 455 bn)
Rural consumption (% and in absolute numbers)		60% (US\$ 72 bn)	52% (US\$ 244 bn)	44% (US\$ 355 bn)
Share of Food (%)		75%	69%	60%
Spending on Food (absolute US\$ billion)		US\$ 90 bn	US\$ 325 bn	US\$ 486 bn
Estimated size of medium and large (including chains and corporatized retail) (US\$ billion)	< 1	<5	~ 33	~ 150
Decadal increase (US\$ billion)		4	28	117
Estimated % share of the total retail market		~4%	~7%	~19%

Estimated size of traditional retail (in US\$ billion)		~115	~437	~660
Decadal increase (US\$ billion)			~322	~223
Guesstimates on number of micro & small, independent shopkeepers, hawkers, and road-side merchants (in millions)	9	12	15	21
Assumed employment per micro & small independent retail business	1.5	1.5	1.5	1.5
Total guesstimated employment in micro & small independent retail businesses	13.5	18.0	22.5	31.5
Of which, rural	5.4	7.2	9.0	12.6
Urban	8.1	10.8	13.5	18.9
Of which, in top-50 cities		1.6	4.1	5.2
Rest of urban India		9.1	9.4	13.7
Share of food (fresh and processed) in modern retail		<1	~11	~66
Share of food (US\$ billion) in traditional retail		~89	~314	~420

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1. Real GDP growth rate is assumed at 6%
2. US \$ 1 = Rs. 50 over the next 10 year period
3. All numbers are in 2011 dollars

The most important fact is that India's consumption is growing very steadily, and will continue to grow for the next many decades. Even at a real GDP growth rate of 6% per year for the next 10 years (the Government's projections are closer to 8%), India would consume an additional US\$ 340 Billion (in 2011 dollars) of retail merchandise. Medium and large retail (including corporatized one) is barely US\$ 33 Billion out of the current US\$ 470 billion, and may – at best – grow to about US\$ 150 billion by 2021 implying that traditional retailers (micro and small, independent retailers and hawkers) will have an additional US\$ 223 Billion or more of the market (in 2011 prices) to cater to. It is, therefore, no surprise that as per Technopak's projections, the number of such traditional retailers will steadily increase in the next 10 years to 21 million or more, and the direct employment in traditional retail increasing from about 22.5 million in 2011 to about 31.5 million by 2021. No estimates have been made for 2031 but it is safe to believe that the number of independent outlets and direct employment therein will further increase very substantially – simply because Indian retail is not a “zero-sum” game as long as the economy continues to grow steadily and with that, the growth in consumption remains robust.

It is extremely important that the larger issue that the nation has to address is to come up with suitable reforms in the entire value chain from the producer to the consumer. In the agriculture sector, it must start with facilitation of consolidation of land holdings through formation of farmers cooperatives, dismantling of APMC, and seamless movement of farm goods across India without imposition of Octroi and other levies which also add to wastages especially that of the perishable items.

The next more important reform relates to smoothening of the entire internal-trade within India and implementation of GST.

Town planning must take into account that rising consumption implies rising need for planned, authorized, and affordable space to conduct retail activity. If we really wish to create tens of millions of new micro-entrepreneurs through micro retail enterprises instead of making mere “sales boys and girls” as one political party claimed in the Parliament recently, it is very important that the planners must create tens of millions of new retail shops across India, change mixed use land development norms to also provide for some mandatory space for retailing, allow retail shops to be operated in residential areas including mixed use of residential property itself (subject to suitable norms), and finally, drastically increase the Floor Space Index (FSI) for new retail developments and exclude out the space provided for car-parking from the allowed FSI.

States and cities must come up with simplified licensing and permissions procedures which actually cause more trouble (and more extortion from the armies of corrupt inspector and other regulatory staff) for the small, independent retail shopkeeper and for the footpath vendor and street hawker.

NSDC (and select other ministries such as Ministry of Rural Development) should include training of retail workforce as one of the key skills development sector since many of the tens of millions of employment-seekers (especially women) in the rural areas can be more easily absorbed by the retail sector compared with more complex skills needed in sectors such as construction and manufacturing.

The banking sector should also be made to consider giving some priority lending to micro-enterprises engaged or wishing to be engaged in the retail trade so that their numbers can steadily grow.

And, finally, labor reforms are the need across all sectors. Retail has its own typical needs since consumers would like to shop on all the 365 days of the year, and shop at late hours of the day once they return from work. A pragmatic labor policy is needed in every State which safeguards the interests of the workers but at the same time, provide the flexibility to the employers to fine-tune their hiring pattern based on the seasonality relating to the shopping behavior of the consumers.

Let the Centre and the State Governments now put their heads together on streamlining, modernization, and expansion of the Indian retail sector.

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