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Stillbirth of India's organized retail?

Does the recent sale of the Pantaloon branded business of Pantaloon Retail confirm that India's organized retail story will remain just a tantalizing trailer of a promising movie that is likely to be shelved before its completion? The financial results of most other large, modern format retailers are not much to write about. For every Titan, Fabindia, and Metro Shoes, there are dozens who are struggling to manage growth with profitability even as India's growth story (badly dented it may be looking today) has been steady.

India's private consumption will be within a whisker of US\$ 1000 billion in 2012. Of this, merchandise consumption (i.e. the size of retail business) is almost US\$ 475 billion. Yet, even with the entry of some of the strongest Indian business groups in the sector, the combined retail business revenue of the top-10 retailers is just about US\$ 8 billion (or less than 1.7% of the total retail market). Even the most optimistic estimates about the size of India's organized (with the most liberally definition) retail would peg it at no more than US\$ 20 billion i.e. about 4.2%. Further, while some recent research reports claim that modern retail has a third or more of the big city business, facts do not bear this out at all. The merchandise retail consumption of the top-15 cities is about US\$ 114 billion (Greater Mumbai and NCR clusters alone account for about US\$ 42 billion, followed by Kolkata and Chennai at about US\$ 26 billion, then Bangalore and Hyderabad at about US\$ 20 Billion, and then the next 9 cities accounting for another US\$ 26 billion or so). The entire all-India modern retail business is less than 18% of the retail consumption of just the top-15 cities of India.

While some of problems of India's retail entrepreneurs and conglomerates are self-inflicted (including wrong selection of formats, indiscriminate proliferation of formats, indiscriminate growth with little concern for profitability, and inadequate investment in both the supply-chain as well as in managing consumer expectation and satisfaction), the Government ideology and irrational policy is the prime culprit in stifling the much needed modernization of India's fundamentally inefficient producer – consumer supply chain (and the maximum price is being paid by the poor and the middle class by way of rampaging inflation especially in food products). The policy induced aberrations are many but the most pernicious of all include a complete lack of understanding about the economic and social importance of having a nationally and regionally efficient distribution system (and therefore, an urgent need to scrap antediluvian measures such as the APMC act, octroi, entry taxes, and other such hindrances in free sourcing and movement of food and non-food products within India), an acknowledgement that growing consumption (and growing population) needs access to legitimate market places and therefore providing for such space through a suitable real estate acquisition and development planning process, and dismantling of MRP regime which has long outlived its intended purpose. More intense competition and better educated and informed customers will actually put the requisite pressure on marketers and retailers to be price competitive rather than be price-gougers. It is completely illogical to expect that the retail price of an item in Connaught Place in Delhi or Bandra in Mumbai be the same as it would be at Mathura in UP or Jalna in Maharashtra when the operating costs (property rentals and store staff for instance) for retailers in different locations is so different.

Misplaced (protectionist) ideology and irrational policies have already decimated some of India's most promising economic sectors that include textiles (now faced with over US\$ 25 Billion of potentially non-performing assets), and civil aviation while causing immeasurable pain and cost to tens and hundreds of millions of ordinary Indians. The story of modernization of India's retail seems to be following the same trajectory.

Fortunately, from the consumers' point of view, a big change is in the making that would redefine what modern retail would be all about, and create new paradigms for India's retail business. Modern retail, in the very near future, and perhaps as early as 2015 would be the "brick & mortar less" retail i.e. direct-to-consumer and direct-to-businesses rendering many current brick & mortar retail businesses to be redefined as "traditional" retail. There is a fascinating and rapid convergence of many enabling technologies and transformational trends which could lead to a situation where in the size of e-enabled B2B and B2C merchandise retail businesses could easily exceed the size of India's "brick & mortar" organized retail businesses by 2016 or 2017. The impact of this e-commerce will be equally significant for the organized brick & mortar retailers and for the independent so-called "mom & pop"

stores including the Kirana merchants especially those who currently sell only dry, non-perishable food and grocery items.

The challenges in establishing an efficient, successful, and profitable (for the entrepreneurs and business groups) e-commerce business are many, and therefore as in the case of physical retail businesses, India will see many e-tailers flame out or sell-out very soon after starting up. However, it is quite clear that India's modern retail story - version 2.0 - will be built around e-enabled transaction and direct delivery to the customer platforms. It is critical for our political class, cutting across party lines, to understand and acknowledge the entire retail ecosystem, the emerging challenges and opportunities, and then work with the bureaucracy to create the appropriate policy (and capital formation) environment that is futuristic, pragmatic, and equitable for all stakeholders.

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