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Impact of Organized Retailing on the Unorganized Sector

Mathew Joseph
Nirupama Soundararajan
Manisha Gupta
Sanghamitra Sahu

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Foreword

The retail sector is expanding and modernizing rapidly in line with India's economic growth. It offers significant employment opportunities in all urban areas. This study, the second undertaken by ICRIER on the retail industry, attempts to rigorously analyse the impact of organized retailing on different segments of the economy. No distinction has been made between foreign and domestic players, in analyzing the impact of the increasing trend of large corporates entering the retail trade in the country. The findings of this study are based on the largest ever survey of unorganized retailers (the so-called "mom and pop stores"), consumers, farmers, intermediaries, manufacturers, and organized retailers. In addition, an extensive review of international experience, particularly of emerging countries of relevance to India, has also been carried out as part of the study.

The study estimates that the total retail business in India will grow at 13 per cent annually from US$ 322 billion in 2006-07 to US$ 590 billion in 2011-12. The unorganized retail sector is expected to grow at approximately 10 per cent per annum with sales rising from US$ 309 billion in 2006-07 to US$ 496 billion. Organized retail, which constituted a low four per cent of total retail in 2006-07, is estimated to grow at 45-50 per cent per annum and attain a 16 per cent share of total retail by 2011-12. In short, both unorganized and organized retail are bound not only to coexist but also achieve rapid and sustained growth in the coming years. This is clearly not a case of a zero sum game as both organized and unorganized retail will see a massive scaling up of their activities. In fact, the retail sector, left entirely in the unorganized and informal segment of the economy, could well emerge as a major bottleneck to raising productivity in both agriculture and industry.

One of the rather surprising findings of the study is that low-income consumers save more than others through shopping at organized retail outlets. This is a result of targeted discount shopping. It is also seen that farmers gain considerably from direct sales to organized retailers, with significant price and profit advantages as compared with selling either to intermediaries or to government regulated markets. Large manufacturers have also started feeling the competitive impact of organized retail through both price and payment pressures. Yet, they see the advantages from a more efficient supply chain and logistics that accompany the growth of organized retail.

The extensive empirical evidence marshalled and analysed by ICRIER researchers will hopefully provide a solid basis for policy in this sector. Based on the empirical evidence and analysis that have been extensively peer reviewed, the study makes a number of policy recommendations that have a bearing on both the unorganized and organized segments of the retail sector. The two most important recommendations in my view are: first, for the government to facilitate the emergence of a "private code of conduct" for organized retailers in their transaction with small suppliers; and, second, a simplification of the licensing and permit regime to promote the expansion of organized retail.

I would like to express my appreciation to the Department of Industrial Promotion and Policy (DIPP), Ministry of Commerce & Industry, Government of India, for

giving ICRIER the opportunity to undertake this important study. I trust the effort of the research team led by Mathew Joseph and comprising of Nirupama Soundararajan, Manisha Gupta and Sanghamitra Sahu will receive due recognition. I would also like to thank our collaborators, Dr. Thomas Reardon, Dr. Ashok Gulati of IFPRI, Technopak Advisors Pvt. Ltd. and Development & Research Services for their significant contribution to this effort. Finally, I hope that the study's findings will help policymakers in their task of promoting modernization of the retail sector while maximizing its employment potential.

(Rajiv Kumar)
Director & Chief Executive

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Abstract

The retail business, in India, is estimated to grow at 13 per cent per annum from US$ 322 billion in 2006-07 to US$ 590 billion in 2011-12. The unorganized retail sector is expected to grow at about 10 per cent per annum from US$ 309 billion 2006-07 to US$ 496 billion in 2011-12. Organized retail which now constitutes a small four per cent of retail sector in 2006-07 is likely to grow at 45-50 per cent per annum and quadruple its share of total retail trade to 16 per cent by 2011-12. The study, which was based on the largest ever survey of all segments of the economy that could be affected by the entry of large corporates in the retail business, has found that unorganized retailers in the vicinity of organized retailers experienced a decline in sales and profit in the initial years of the entry of organized retailers. The adverse impact, however, weakens over time. The study has indicated how consumers and farmers benefit from organized retailers. The study has also examined the impact on intermediaries and manufacturers. The results are indicative of the mega-and-mini-metro cities around a limited number of organized retail outlets. Based on the results of the surveys, the study has made a number of specific policy recommendations for regulating the interaction of large retailers with small suppliers and for strengthening the competitive response of the unorganized retailers.

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Besides the partners of the study, we would like to thank the different organized retail companies, Metro Cash & Carry India, PricewaterhouseCoopers Private Limited, New Delhi, and Retailers Association of India.

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Abbreviations

Rs.	Indian rupees. The conversion to US dollars is roughly Rs 40.00 to US US$1.00
US$	Unless otherwise designated, this symbol refers to US Dollar
APMC	Agricultural Produce Marketing Committee
APPSI	The Association of Traditional Traders
B2B	business-to-business
C&C	cash-and-carry
C&F Agent	carrying and forwarding agent
CA	commission agent
CDIT	consumer durables and information technology
CII	Confederation of Indian Industry
CRISIL	Credit Rating Information Services of India Limited
CSO	Central Statistical Organization
CST	central sales tax
CWS	Co-operative Wholesale Society (UK)
DC	distribution centre
DFI	Dairy Farm International
DRS	Development & Research Services Private Limited
EBO	exclusive brand outlet
EMI	equated monthly installment
EMS	Environment Management System
ERP	enterprise resource planning
ESIC	Employees State Insurance Corporation
FICCI	Federation of Indian Chamber of Commerce and Industry
F&V	fruit and vegetables
FAMA	Federal Agricultural Marketing Authority (Malaysia)
FDI	foreign direct investment
FIPB	Foreign Investment Promotion Board
FMCG	fast moving consumer goods
GDP	gross domestic product
GOI	Government of India
GRDI	Global Retail Development Index
HACCP	Hazard Analysis Critical Control Points
HSBC	Hongkong and Shanghai Banking Corporation
HUL	Hindustan Unilever Limited
ICRIER	Indian Council for Research on International Economic Relations

ICT	information and communication technology
IFPRI	International Food Policy Research Institute
IGA	Independent Grocers Alliance
IPO	initial public offering
ISO	International Organization For Standardization
IT	information technology
ITC	Indian Tobacco Company
JV	joint venture
LILPL	Littlewoods International Private Limited, UK
MBO	multi-brand outlet
MDFPL	Mother Dairy Foods Processing Limited
MDFVL	Mother Dairy Fruit and Vegetable Limited
MDIL	Mother Dairy India Limited
MERCOSUR	Mercado Comun del Sur
MISH	Market Information Survey Of Households
MNC	multinational corporation
NABL	National Accreditation Board for Testing and Calibration Laboratory
NAFTA	North American Free Trade Agreement
NCAER	National Council Of Applied Economic Research
NCR	national capital region
NDDB	National Dairy Development Board
NOC	no objection certificate
NSSO	National Sample Survey Organization
PACA	Perishable Agricultural Commodities Act (US)
PFA	Prevention of Food Adulteration Act
PPP	Public-Private Partnership
PRIL	Pantaloon India Retail Limited
RFID	radio frequency identification device
SABRAE	Brazilian Department of Support for Small Enterprises
SKU	stock keeping unit
SMI	small and medium industry
SPRING	Standards, Productivity, and Innovation Board (Singapore)
TOMCO	Tata Mills Oils Company Limited
VAT	value added tax
VSAT	very small aperture terminals
WM	weights and measures
WTO	World Trade Organization

Executive Summary

The real GDP is expected to grow at 8-10 per cent per annum in the next five years. As a result, the consuming class with annual household incomes above Rs. 90,000 is expected to rise from about 370 million in 2006-07 to 620 million in 2011-12. Consequently, the retail business in India is estimated to grow at 13 per cent annually from US$ 322 billion in 2006-07 to US$ 590 billion in 2011-12. The study shows:

- The unorganized retail sector is expected to grow at about 10 per cent per annum with sales rising from US$ 309 billion in 2006-07 to US$ 496 billion in 2011-12.
- Given the relatively weak financial state of unorganized retailers, and the physical space constraints on their expansion prospects, this sector alone will not be able to meet the growing demand for retail.
- Hence, organized retail which now constitutes a small four per cent of total retail sector is likely to grow at a much faster pace of 45-50 per cent per annum and quadruple its share in total retail trade to 16 per cent by 2011-12.
- This represents a positive sum game in which both unorganized and organized retail not only coexist but also grow substantially in size.
- The majority of unorganized retailers surveyed in this study, indicated their preference to continue in the business and compete rather than exit.

The Empirical Basis

The study comprises the largest ever survey of all segments of the economy that could be affected by the entry of large corporates in the retail business. The findings are based on a survey of 2020 unorganized small retailers across 10 major cities; 1318 consumers shopping at both organized and unorganized retail outlets; 100 intermediaries; and 197 farmers. In addition, a "control sample" survey was done of 805 unorganized retailers who are not in the vicinity of organized retail outlets in four metro cities.

Detailed interviews were also carried out for 12 large manufacturers, 20 small manufacturers and six established modern retailers.

The study contains an extensive review of international retail experience, particularly from the major emerging market economies.

Main Findings

Impact on Unorganized Retailers

- Unorganized retailers in the vicinity of organized retailers experienced a decline in their volume of business and profit in the initial years after the entry of large organized retailers.
- The adverse impact on sales and profit weakens over time.
- There was no evidence of a decline in overall employment in the unorganized sector as a result of the entry of organized retailers.

- There is some decline in employment in the North and West regions which, however, also weakens over time.
- The rate of closure of unorganized retail shops in gross terms is found to be 4.2 per cent per annum which is much lower than the international rate of closure of small businesses.
- The rate of closure on account of competition from organized retail is lower still at 1.7 per cent per annum.
- There is competitive response from traditional retailers through improved business practices and technology upgradation.
- A majority of unorganized retailers is keen to stay in the business and compete, while also wanting the next generation to continue likewise.
- Small retailers have been extending more credit to attract and retain customers.
- However, only 12 per cent of unorganized retailers have access to institutional credit and 37 per cent felt the need for better access to commercial bank credit.
- Most unorganized retailers are committed to remaining independent and barely 10 per cent preferred to become franchisees of organized retailers.

Impact on Consumers

- Consumers have definitely gained from organized retail on multiple counts.
- Overall consumer spending has increased with the entry of the organized retail.
- While all income groups saved through organized retail purchases, the survey revealed that lower income consumers saved more. Thus, organized retail is relatively more beneficial to the less well-off consumers.
- Proximity is a major comparative advantage of unorganized outlets.
- Unorganized retailers have significant competitive strengths that include consumer goodwill, credit sales, amenability to bargaining, ability to sell loose items, convenient timings, and home delivery.

Impact on Intermediaries

- The study did not find any evidence so far of adverse impact of organized retail on intermediaries.
- There is, however, some adverse impact on turnover and profit of intermediaries dealing in products such as, fruit, vegetables, and apparel.
- Over two-thirds of the intermediaries plan to expand their businesses in response to increased business opportunities opened by the expansion of retail.
- Only 22 per cent do not want the next generation to enter the same business.

Impact on Farmers

- Farmers benefit significantly from the option of direct sales to organized retailers.
- Average price realization for cauliflower farmers selling directly to organized retail is about 25 per cent higher than their proceeds from sale to regulated government *mandi*.
- Profit realization for farmers selling directly to organized retailers is about 60 per cent higher than that received from selling in the *mandi*

- The difference is even larger when the amount charged by the commission agent (usually 10 per cent of sale price) in the *mandi* is taken into account.

Impact on Manufacturers

- Large manufacturers have started feeling the competitive impact of organized retail through price and payment pressures.
- Manufacturers have responded through building and reinforcing their brand strength, increasing their own retail presence, 'adopting' small retailers, and setting up dedicated teams to deal with modern retailers.
- Entry of organized retail is transforming the logistics industry. This will create significant positive externalities across the economy.
- Small manufacturers did not report any significant impact of organized retail.

Policy Recommendations

On the basis of the results of the surveys and the review of international retail experience, the study makes the following major recommendations:

1. Modernization of wetmarkets through public-private partnerships.
2. Facilitate *cash-and-carry* outlets, like Metro, for sale to unorganized retail and procurement from farmers, as in China.
3. Encourage co-operatives and associations of unorganized retailers for direct procurement from suppliers and farmers.
4. Ensure better credit availability to unorganized retailers from banks and micro-credit institutions through innovative banking solutions.
5. Facilitate the formation of farmers' co-operatives to directly sell to organized retailers.
6. Encourage formulation of "private codes of conduct" by organized retail for dealing with small suppliers. These may then be incorporated into enforceable legislation.
7. Simplification of the licensing and permit regime for organized retail and move towards a nationwide uniform licensing regime in the states to facilitate modern retail.
8. Strengthening the Competition Commission's role for enforcing rules against collusion and predatory pricing.
9. Modernization of APMC markets as modelled on the National Dairy Development Board (NDDB) Safal market in Bangalore.

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1. Introduction

1.1 Context

An important aspect of the current economic scenario in India is the emergence of organized retail. There has been considerable growth in organized retailing business in recent years and it is poised for much faster growth in the future. Major industrial houses have entered this area and have announced very ambitious future expansion plans. Transnational corporations are also seeking to come to India and set up retail chains in collabouration with big Indian companies. However, opinions are divided on the impact of the growth of organized retail in the country. Concerns have been raised that the growth of organized retailing may have an adverse impact on retailers in the unorganized sector. It has also been argued that growth of organized retailing will yield efficiencies in the supply chain, enabling better access to markets to producers (including farmers and small producers) and enabling higher prices, on the one hand and, lower prices to consumers, on the other. In the context of divergent views on the impact of organized retail, it is essential that an in-depth analytical study on the possible effects of organized retailing in India is conducted.

In order to assess the impact of growing organized retail on different aspects of the economy, the Indian Council for Research on International Economic Relations (ICRIER) was appointed by the Ministry of Commerce and Industry, Government of India to carry out a study on organized retail focusing on the following issues:

- Effect on small retailers and vendors in the unorganized sector keeping in mind the likely growth in the overall market.
- Effect on employment.
- Impact on consumers.
- Impact on farmers and manufacturers.
- Impact on prices.
- Overall impact on economic growth.

ICRIER has been asked by the Ministry to analyze the above issues in the context of a growth scenario of 7-10 per cent per annum in the next five years and in the light of practice in other fast- growing emerging market economies.

1.2 Partners in the Study

In this study, ICRIER sought and received assistance from three important groups: (a) Development & Research Services Private Limited (DRS) for conducting all-India surveys; (b) Technopak Advisers Pvt. Ltd., a leading management consultancy firm on retailing; and (c) Dr. Thomas Reardon and Dr. Ashok Gulati as Co-Directors of the International Food Policy Research Institute (IFPRI)-Michigan State University (MSU) Joint Programme of Markets in Asia. After a study framework was prepared, it was discussed in a brainstorming session organized by ICRIER on April 9, 2007 in which industry representatives, government officials, and senior academics participated.

1.3 Methodology

The following methods were used in the study:

- A survey of international experience particularly the recent developments in emerging market economies;
- Interviews of major players in organized retailing, large manufacturers, and small manufacturers;
- Questionnaire-based survey of unorganized retailers including fixed fruit and vegetable vendors and push-cart hawkers;
- Questionnaire-based exit survey of consumers' shopping at organized retail outlets and also consumers' shopping at unorganized outlets; and
- Questionnaire-based survey of farmers who are selling their produce directly to organized retailers and also farmers who are selling through the traditional *mandi* route.

1.4 Organization of the Report

The report has been organized into eight chapters as follows:

1. Introduction

2. Current Retail Scene: An Overview
    - ➢ International Retail
    - ➢ Indian Retail

3. Indian Organized Retailers: Case Studies
    - ➢ Subhiksha
    - ➢ Trent Limited
    - ➢ Pantaloon Retail
    - ➢ ITC Choupal Sagar and Choupal Fresh
    - ➢ RPG Spencer's
    - ➢ Mother Dairy

4. Impact of Organized Retailing
    - ➢ Advantages to the Indian Economy
    - ➢ Unorganized Retail Sector: Survey Results
    - ➢ Consumers: Survey Results
    - ➢ Intermediaries: Survey Results

5. Impact of Organized Retailing on Producers
    - ➢ Farmers : Value Chain and Survey Results
    - ➢ Manufacturers : Interview Report

6. Future Scenario in Retailing
    - ➢ Growth of Retail: Organized vs. Unorganized
    - ➢ Investment and Employment Projections

7. Policy Recommendations

2. Current Retail Scene: An Overview

2.1 International Retail

Global retail sales are estimated to cross US$12 trillion in 2007.[1] Almost reflecting the growth in the world economy, global retail sales grew strongly in the last five years (2001-06) at an average nominal growth of about 8 per cent per annum in dollar terms (Table 2.1). This is in contrast to near stagnant global retail sales during the previous five years, 1996-01. Grocery dominates retail sales with a share of approximately 40 per cent which varies from about 30 per cent in rich Japan to an average of 60 per cent in poor Africa. Retail sales through modern formats have been rising faster than total retail sales; the share of modern retail has risen from about 45 per cent in 1996 to over 52 per cent in 2006.

Table 2.1: World Retail

	1996	2001	2002	2003	2004	2005	2006	CAGR[3] (1996-01)	CAGR[3] (2001-06)
1. Total Retail Sales[1] (US$ Billion)	7682	7833	7987	8827	9833	10657	11375	0.4	7.7
2. Total Grocery Sales[1] (US$ Billion)	3284	3161	3213	3571	3970	4308	4611	-0.8	7.8
3. Modern Retail Sales[2] (US$ Billion)	3478	3916	4149	4672	5246	5633	5969	2.4	8.8
4. Modern Grocery Sales[2] (US$ Billion)	2577	2816	2979	3378	3800	4074	4325	1.8	9.0
2 as % of 1	42.7	40.4	40.2	40.5	40.4	40.4	40.5	-1.1	0.1
3 as % of 1	45.3	50.0	51.9	52.9	53.4	52.9	52.5	2.0	1.0
4 as % of 3	74.1	71.9	71.8	72.3	72.4	72.3	72.5	-0.6	0.2
5. Nominal GDP (US$ Billion)	30055	31889	32888	36904	41470	44713	48141	1.2	8.6

[1] Excluding VAT or sales tax; [2] Including VAT or sales tax; [3] Compound annual growth rate.
Source: Planet Retail Database.

2.1.1 Organized vs Unorganized Retail

In the developed economies, organized retail is in the range of 75-80 per cent of total retail, whereas in developing economies, the unorganized sector dominates the retail business. The share of organized retail varies widely from just one per cent in Pakistan and 4 per cent in India to 36 per cent in Brazil and 55 per cent in Malaysia (Table 2.2). Modern retail formats, such as hypermarkets, superstores, supermarkets, discount and convenience stores are widely present in the developed world, whereas such forms of retail outlets have only just begun to spread to developing countries in recent years. In developing countries, the retailing business continues to be dominated by family-run neighbourhood shops and open markets. As a consequence, wholesalers

[1] Planet Retail estimates.

and distributors who carry products from industrial suppliers and agricultural producers to the independent family-owned shops and open markets remain a critical part of the supply chain in these countries.

Table 2.2: Share of Organized Retail in Selected Countries, 2006

Country	Total Retail Sales (US$ bn)	Share of Organized Retail (%)
USA	2,983	85
Japan	1,182	66
China	785	20
United Kingdom	475	80
France	436	80
Germany	421	80
India	**322**	**4**
Brazil	284	36
Russia	276	33
Korea, South	201	15
Indonesia	150	30
Poland	120	20
Thailand	68	40
Pakistan	67	1
Argentina	53	40
Philippines	51	35
Malaysia	34	55
Czech Republic	34	30
Vietnam	26	22
Hungary	24	30

Source: Planet Retail and Technopak Advisers Pvt. Ltd.

2.1.2 Spread of Modern Retail in Developing Countries

The arrival of modern retail in developing countries occurred in three successive waves (Reardon and Hopkins, 2006; Reardon and Berdegue, 2007). The first wave took place in the early to mid-1990s in South America (e.g., Argentina, Brazil, and Chile), East Asia outside China (South Korea, Malaysia, Philippines, Thailand, and Taiwan), North-Central Europe (e.g., Poland, Hungary, and Czech Republic) and South Africa. The second wave happened during the mid to late 1990s in Mexico, Central America (e.g., Ecuador, Colombia, and Guatemala), Southeast Asian countries (e.g., Indonesia), Southern-Central Europe (e.g., Bulgaria). The third wave has just begun in the late 1990s and early 2000s in parts of Africa (e.g., Kenya), some countries in Central and South America (e.g., Nicaragua, Peru, and Bolivia), Southeast Asia (e.g., Vietnam), China, India, and Russia.

Thus, the third wave countries which include China, India and Russia are late comers in the diffusion of modern retail. According to the authors, the main reason why they lagged behind was the severe restrictions on foreign direct investment (FDI) in retailing in these countries. The demand side features of these countries, such as income, size of the middle class, urbanization, and the share of women in workforce, etc., have been similar to countries in the second wave. In China and Russia these restrictions were progressively relaxed in the 1990s and in India partially in the 2000s. In January 2006, India allowed foreign companies to own up to 51 per cent in single-brand retail joint ventures (JVs), but multiple-brand foreign firms are still barred in retail although they can set up wholesale operations.

2.1.3 Globalization of Retail

There has been a creeping internationalization of retailing over the recent period. As home markets have become crowded and with opportunities in emerging markets rising, modern retailers from developed countries have been turning to new markets. On an average each of the top 250 retailers in the world have operated on an average in 5.9 countries in 2005-06 (July-June) against five countries in 2000-01 (Deloitte-Stores Report, 2007). Foreign business accounted for 14.4 per cent of retail sales of these companies in 2005-06 up from 12.6 per cent in 2000-01. The retail sales growth of companies which have ventured into foreign markets has been faster than those that have confined themselves to home markets.

As far as the international expansion is concerned, West European and South African retail companies are the most outward looking. The West European firms, among the top 250 retailers, expanded into an average of 9.9 countries in 2005-06 and generated 28.1 per cent of their sales from foreign operations, largely in Central and Eastern Europe. The five South African retailers in the top 250 list conducted business in an average of 8.8 countries particularly in the African continent in 2005-06, generating on an average 13 per cent of these companies' sales. The US retailers are mostly home-market based operating just in an average of 3.7 countries outside US in 2005-06 up from three countries in 2000-01 and two countries in 1996-97. The US retailer Wal-Mart, the world's biggest retailer, is a notable exception operating in 14 countries in 2007. Most of the Japanese retailers are insular operating only domestically.

2.1.4 Regulatory Framework

It is interesting to note that regulatory restrictions on the growth in modern retail is more stringent in developed rather than in developing countries. For example, in most West European countries, setting up of hypermarkets has become very difficult since the late 1990s and early 2000s as governments became alive to the demands of traditional small retailers and non-mobile consumers in these countries. Merger and acquisition plans are now looked at more critically by the national and European competition authorities. While in most countries opening hours are liberalized including holiday trading, the very small number of countries where opening on Sundays are prohibited include developed countries such as Germany and Austria (Planet Retail).

As noted by Reardon and Hopkins (2006), there are four types of policy regulations that can be seen in countries which have experienced advanced retail expansion. They are:

- Competition policy that limits concentration and collusion.

- Zoning and hours regulations to limit the diffusion, market penetration, and convenience of organized retail.
- Pricing regulations that prevent modern retail companies from pricing below cost and prompt-payment regulations to secure speedy payment to suppliers.
- Policies to strengthen traditional retailers and suppliers through technology and practice upgrading, enhancing organizational capacity, and financial access.

The above regulations were put in place in different countries basically with a view to balance the conflicts of interests between modern retail, on the one hand and the traditional retailers and suppliers to the modern retail, on the other. Recently, countries in Southeast Asia (Malaysia, Indonesia, and Thailand) imposed a number of restrictions on the growth of large retail companies particularly the transnational companies in contrast to a fairly liberal approach to the retail sector followed until the late 1990s. These restrictions involve the use of a combination of competition laws, FDI regulation, land use restrictions (zoning laws), and limits on operating hours (Mutebi, 2007).

2.1.5 Future Trends

The Deloitte-Stores (2007) study held that the retail business would slow down definitely over the next decade in developed countries, while it would grow strongly in developing countries. This is based on a projection of three significant changes that will occur. First, the population in the age-group 50-70 years and above in the developed world will explode, shifting the share of consumer spending further away from goods towards services, such as travel, healthcare and maintenance of the elderly. Second, the population growth in the age-group 20-35 years in these countries will be relatively modest making the hiring of entry-level workers difficult, while the population in the age-group 35-50 years will decline leading to acute shortage of middle and upper management positions. Third, in developing countries, there will be plentiful supply of workforce and consumers in the younger age groups. Besides, this demographic shift will make the developing countries more dynamic and risk-taking enabling them to grow much faster than the developed world. Driven by these trends, it is expected that retailers in developed countries will increasingly move to the markets of developing countries for growth.

2.2 Indian Retail[2]

The growth of the retail trade in India is associated with the growth in the Indian economy. Gross domestic product (GDP) grew by an annual rate of 6.6 per cent during 1994-00 but the growth slackened to 4.7 per cent per annum during the next three years before the growth remarkably rose to 8.7 per cent per annum in the last four years (Table 2.3). This meant a substantial rise in disposable income of Indian households since the mid-1990s. Based on the *Market Information Survey of*

[2] The data on Indian retail is sketchy. There is no official machinery which regularly releases retail statistics. There have been a few private sources which give information on various aspects of Indian retailing. In this report, the authors have relied on the data generated by Technopak Advisers Pvt. Ltd. which in turn has used the data from official sources, such as the Central Statistical Organization (CSO) and the National Sample Survey Organization (NSSO) for the purpose.

Households (MISH) of the National Council of Applied Economic Research (NCAER), the number of people in the income groups of "aspirers" and the middle class with annual income ranging from Rs. 90,000 to one million, more than doubled from 157 million to 327 million during the last decade 1995-96 to 2005-06.[3] The data from the Central Statistical Organization (CSO) indicate that the growth of real private final consumption expenditure, which dipped from an average of 5.7 per cent per annum during 1994-00 to 4 per cent per annum during 2000-03, shot up to 6.7 per cent per annum during 2003-07. Retail sales (in nominal terms) in the country also followed a similar pattern: a high annual growth of 13.6 per cent during 1994-00, a low growth of 4.8 per cent during 2000-03 and a smart pick up in the last four years, 2003-07 at around 11 per cent.

Table 2.3: GDP, Private Final Consumption Expenditure and Retail Sales Growth, 1994-07 (Compound Annual Growth Rate)

	1994-95 to 1999-00	2000-01 to 2002-03	2003-04 to 2006-07
Real GDP	6.6	4.7	8.7
Real private final consumption expenditure	5.7	4.0	6.7
Retail sales	13.6	4.8	10.9

Source: CSO, NSSO, and Technopak Advisers Pvt. Ltd.

The international consulting firm, A.T. Kearney, annually ranks emerging market economies based on more than 25 macroeconomic and retail-specific variables through their Global Retail Development Index (GRDI). For the last three years (2005, 2006, and 2007) India has been ranked as number one indicating that the country is the most attractive market for global retailers to enter. The high economic growth during the last few years raising disposable incomes rapidly, favourable demographics placing incomes on younger population with less dependency, and urbanization are some of the major factors fueling the Indian retail market.

2.2.1 Employment and Output in the Retail Sector

Retail is a labour-intensive economic activity. According to the *Economic Census* carried out by the CSO in 1998, the country had a total of 10.69 million enterprises engaged in retail trade, of which 5.23 million were in the rural areas and 5.46 million in the urban areas. The total employment in these enterprises in 1998 was 18.54 million of which 7.88 million was in the rural sector and 10.65 million in the urban sector. Economic Census has been carried out for 2005 but its detailed results are yet to be released. However, according to NSSO's *Employment and Unemployment*

[3] The NCAER gives data in terms of the number of households and they have been converted into number of people by using the average household size of 4.7 persons derived from the NSSO surveys.

Survey for 2004-05, employment in the retail trade has been 35.06 million, divided between rural (16.08 million) and urban (18.98 million) sectors.[4] This constituted about 7.3 per cent of the workforce in the country (459 million). Wholesale trade, on the other hand, contributed to an employment of 5.48 million, of which only 1.71 million was in the rural sector and 3.77 million in the urban sector.

The NSSO data also indicated that retail employment was about 30.62 million in 1999-00 with 12.15 million in rural areas and much higher at 18.47 million in the urban areas. This means that an additional employment of 4.44 million was added in this sector during the five-year period, 2000-05, showing an annual employment growth of 2.7 per cent per annum. However, it is interesting to note that the retail employment growth has been quite large in the rural sector – there has been a massive rise in employment in rural retailing of 3.93 million during 2000-05 – and the urban sector has also shown an employment growth, but only of 0.51 million during this period.

According to CSO estimates, total domestic trade, both wholesale and retail included, constituted about 15.1 per cent of India's GDP in 2006-07, a successive increase in share from 13 per cent of GDP in 1999-00. Taking into account the fact that retail trade is more labour intensive than wholesale trade, the contribution of retail trade alone to GDP can be estimated to be around 11-12 per cent in 2006-07.

2.2.2 Organized vs Unorganized Retail

Indian retail is dominated by a large number of small retailers consisting of the local *kirana* shops, owner-manned general stores, chemists, footwear shops, apparel shops, *paan and beedi* shops, hand-cart hawkers, pavement vendors, etc. which together make up the so-called "unorganized retail" or traditional retail.[5] The last 3-4 years have witnessed the entry of a number of organized retailers[6] opening stores in various modern formats in metros and other important cities. Still, the overall share of organized retailing in total retail business has remained low.

Table 2.4 gives the category-wise growth of Indian retail, total as well as the organized sector, in recent years. While total retail sales have grown from Rs. 10,591 billion (US$ 230 billion) in 2003-04 to Rs. 14,574 billion (US$ 322 billion) in 2006-07, which is at an annual compound growth rate of about 11 per cent, the organized retail sales grew much more at about 20 per cent per annum from Rs. 350 billion

[4] This is based on the "usual status" definition. Employment based on the "current daily status" is not available for retail trade from the NSSO data.

[5] See Annex 1for a classification of the unorganized retail universe.

[6] Organized retail or modern retail is usually chain stores, all owned or franchised by a central entity, or a single store that is larger than some cut-off point. The relative uniformity and standardization of retailing is the key attribute of modern retail. The size of each unit can be small so that a chain of convenience stores is modern retail. A single large department store is also modern retail.

Table 2.4: Growth India Retail - Total vs Organized

	2003-04	2004-05	2005-06	2006-07	CAGR 2004-07 (%)
India Retail (Rs. bn)					
1. Food & grocery	7,028	7,064	7,418	8,680	7.3
2. Beverages	212	309	373	518	34.7
3. Clothing & footwear	777	993	1,036	1,356	20.4
4. Furniture, furnishing, appliances and services	512	656	746	986	24.4
5. Non-institutional healthcare	950	972	1,022	1,159	6.9
6. Sports goods, entertainment, equipment & books	212	272	308	395	23.0
7. Personal care	371	433	465	617	18.5
8. Jewellery, watches, etc.	530	610	655	863	17.7
Total Retail	**10,591**	**11,308**	**12,023**	**14,574**	**11.2**
Organized Retail (Rs. bn)					
1. Food & grocery	39	44	50	61	16.5
2. Beverages	11	12	13	16	14.7
3. Clothing & footwear	168	189	212	251	14.3
4. Furniture, furnishing, appliances & services	67	75	85	101	14.8
5. Non-institutional healthcare	14	16	19	24	20.0
6. Sports goods, entertainment, equipment & books	25	33	44	63	37.0
7. Personal care	11	15	22	33	46.9
8. Jewellery, watches, etc.	18	24	33	49	40.5
Total Organized Retail	**350**	**408**	**479**	**598**	**19.5**
Share of Organized Retail in Total Retail (%)	**3.3**	**3.6**	**4.0**	**4.1**	

Source: CSO, NSSO, and Technopak Advisers Pvt. Ltd.

(US$ 7.6 billion) in 2003-04 to Rs. 598 billion (US$ 13.2 billion) in 2006-07. As a result, the share of organized retail in total retail grew, although slowly, from 3.3 per cent in 2003-04 to 4.1 per cent in 2006-07.

Food and grocery constitutes the bulk of Indian retailing and its share was about two-thirds in 2003-04 gradually falling to about 60 per cent in 2006-07 (Table 2.5). The next in importance is clothing and footwear, the share of which has been about 7 per cent in 2003-04 and rose to 9 per cent in 2006-07. The third biggest category is non-institutional healthcare whose share has slowly reduced from 9 per cent in 2003-04 to 8 per cent in 2006-07. The next is furniture, furnishing, appliances and services, whose share rose from about 5 per cent in 2003-04 to 7 per cent in 2006-07. The category of jewellery, watches, etc. constituted about 6 per cent of total Indian retailing in 2006-07, rising from 5 per cent in 2003-04.

Table 2.5: India Retail - Share of Categories (per cent)

	2003-04	2004-05	2005-06	2006-07
1. Food & grocery	66.4	62.5	61.7	59.6
2. Beverages	2.0	2.7	3.1	3.6
3. Clothing & footwear	7.3	8.8	8.6	9.3
4. Furniture, furnishing, appliances & services	4.8	5.8	6.2	6.8
5. Non-institutional healthcare	9.0	8.6	8.5	8.0
6. Sports goods, entertainment, equipment & books	2.0	2.4	2.6	2.7
7. Personal care	3.5	3.8	3.9	4.2
8. Jewellery, watches, etc.	5.0	5.4	5.4	5.9
Total Retail	**100.0**	**100.0**	**100.0**	**100.0**

Source: Computed from Technopak Advisers Pvt. Ltd. data.

While the overall share of organized retailing remains low, its share in certain categories is relatively high and in certain other categories quite low. Thus, for clothing and footwear, the share is already in the range of 19-22 per cent, for the category of sports goods, entertainment, equipment and books the share is 12-16 per cent, and for furniture, furnishing, appliances and services, the share is 10-13 per cent (Table 2.6). In contrast, the share of organized sector in the largest category of food and grocery retailing, although growing, remains just below one per cent.

Table 2.6: Share of Organized Sector in Total Retail by Category (%)

	2003-04	2004-05	2005-06	2006-07
1. Food & grocery	0.5	0.6	0.7	0.7
2. Beverages	5.0	3.8	3.6	3.1
3. Clothing & footwear	21.6	19.0	20.4	18.5
4. Furniture, furnishing, appliances & services	13.0	11.4	11.3	10.2
5. Non-institutional healthcare	1.5	1.7	1.9	2.1
6. Sports goods, entertainment, equipment & books	11.6	12.1	14.4	16.0
7. Personal care	2.8	3.5	4.7	5.4
8. Jewellery, watches, etc.	3.3	4.0	5.1	5.6
Total Retail	**3.3**	**3.6**	**4.0**	**4.1**

Source: Computed from Technopak Advisers Pvt. Ltd. data.

The growth in organized retailing in recent years can also be gauged by the rise of shopping malls as well as the rising number of modern retail formats. In 1999, India had just three shopping malls measuring less than one million sq. ft. By the end of 2006, the country had 137 shopping malls equivalent to 28 million sq. ft. The pace of construction of shopping malls is progressing rapidly and the number of malls is expected to be about 479 by the end of 2008 with a capacity of 126 million sq. ft. (ICICI Property Services-Technopak Advisers Pvt. Ltd., 2007).

2.2.3 Expansion of Organized Retail by Format

Table 2.7 provides an analysis of the expansion of organized retail in terms of the different modern retail formats (see Annex 2 for definitions of Indian modern retail formats). The total number of organized retail outlets rose from 3,125 covering an area of 3.3 million sq. ft. in 2001 to 27,076 with an area of 31 million sq. ft. in 2006. Small-sized single-category speciality stores dominated the organized retail in the beginning with almost two-thirds of total space in 2001. Departmental stores came next with nearly a quarter of total space and supermarkets accounting for the balance of about 12 per cent of organized retail space. There were no hypermarkets in India in 2001. Speciality stores are still the most common modern retail format with over a half of total modern retail space in 2006. Supermarkets and department stores occupied nearly an equal space of 15-16 per cent each in 2006. In 2006, India had about 75 large-sized hypermarkets carrying a tenth of the total modern retail space in the country. This format is expected to gain more prominence in the future.

Table 2.7: Organized Retail Expansion by Format

Format	Average Size (sq. ft.)	2001			2006		
		No. of Stores	Area ('000 sq. ft.)	Share in Total Space (%)	No. of Stores	Area ('000 sq. ft.)	Share in Total Space (%)
Supermarkets / convenience stores	1,000	400	400	11.9	4,751	4,751	15.5
Hypermarkets	40,000	0	0	0.0	75	3,000	9.8
Discount stores	1,000	48	48	1.4	1,472	1,472	4.8
Speciality stores	800	2,651	2,121	63.3	20,612	16,490	53.7
Department stores	30,000	26	780	23.3	166	4,980	16.2
Total		**3,125**	**3,349**	**100.0**	**27,076**	**30,693**	**100.0**

Source: Technopak Advisers Pvt. Ltd.

2.2.4 Regulatory Framework

There had been no specific restrictions on the entry of foreign retailers into the Indian market till 1996. A few foreign players were granted permission for retailing under this earlier regime. However, in 1997 it was decided to prohibit FDI in retailing into the country. In January 2006, however, a partial liberalization took place in policy in which foreign companies are allowed to own up to 51 per cent in single-brand retail JVs as approved by the Foreign Investment Promotion Board (FIPB). Besides this, foreign companies are allowed in wholesale cash-and-carry business and export trading with 100 per cent equity through the automatic route. Foreign companies with 100 per cent equity can also carry out trading of items sourced from the small-scale sector and do test marketing of products for which the company has a manufacturing approval under the FIPB route.

With regard to domestic regulation, the organized retailer has to secure a number of licenses and clearances from various central, state, and local authorities before it starts its operations. They are related to operations, infrastructure, labour, taxation and other general matters. The number of licenses varies from state to state and it also depends on the type of store format. First, a retailer has to obtain a trade license from the local authority (municipal corporation, municipality, or panchayat) which grants permission to carry on the retail business. It has also to obtain licenses from the Agricultural Produce Marketing Committees (APMCs) of each state for procurement and sale of fruit, vegetables, and staples within the respective market areas (*mandi*s) of each APMC. A detailed general list of required clearances is given in Annex 3.

In addition, in case a new building or mall is to be constructed for use in retailing, the organized retailer has to obtain "no objection certificates" (NOCs) from the different state authorities in charge of traffic, electricity, water, fire and pollution control. Zoning restrictions are also applicable to the organized retail outlets which can be set up only on land earmarked for the local authority for commercial establishments.

3. Domestic Organized Retailers: Case Studies

3.1 Introduction

The Indian retail sector is highly fragmented, consisting predominantly of small, independent, owner-managed shops. The domestic organized retail industry is at a nascent stage. At the macro level factors such as rising disposable income, dominance of the younger population in spending, urbanization, shift of the traditional family structure towards the nuclear family are buttressing the organized retail growth in India. Being considered as a sunrise sector of the economy, several large business houses are entering the retail industry under multiple modern retail formats. On the one hand, the advancement of information technology is improving end-to-end business processing by integrating the entire value chain, backward and forward, for operational efficiencies. On the other hand, rising real estate prices, infrastructure constraints, and expensive technology are making the retail industry capital intensive.

The current regulatory environment is not very conducive to the growth of modern retail in India. The Government of India (GOI) prohibits FDI in retail except for single-brand JVs with up to 51 per cent equity share. The recent growth of the retail industry is already impacting the commercial real estate sector. As a result of shortage of land and rising property prices, finding property in commercial markets is becoming difficult. Further, the land conversion process is complex. The licensing process for organized retail is cumbersome requiring as many as 33 licensing protocols. Taxes differ from state to state on the movement of goods: for instance, some states levy entry tax; a few levy exit taxes; in some states, the local municipal government also levies octroi. Presently, there is the central sales tax (CST) of 3 per cent on inter-state sales and value added tax (VAT) of 4-12.5 per cent on different products. Besides, the lobby against modern retail is mounting in recent months from traditional retailers.

Nevertheless, the macroeconomic landscape indicates that the domestic retail industry has immense scope for the modern as well as traditional retailers to co-exist. Through a balanced regulatory framework and competition policy, both the traditional format and the modern format can continue to grow, eventually closing the gap between the organized and unorganized sectors. Organized retailing will: (i) promote quality employment; (ii) improve business process practices; (iii) spur investments in support industries; and (iv) enable the modernization of the fragmented traditional retail industry.

Modern retail business focuses on maximizing customer footfalls and capturing rising volume and share of the customer wallet. While the competition strategy is largely price focused, the model works by: (i) improving sourcing efficiencies; (ii) expanding product assortment; (iii) differentiating service; and (iv) enhancing the store ambience. Thus, there are four drivers of modern retail’s “one-stop shopping model”: price, product, service, and ambience.

This chapter attempts to summarize the business models of key six established organized retail players in the country. These are: (a) Subhiksha; (b) Trent Limited; (c) Future Group: Pantaloon India Retail Limited (PRIL); (d) Spencer’s Retail; (e) ITC: Choupal Sagar and Choupal Fresh; and (f) Mother Dairy. The sixth case study is the first co-operative retail model in India. The main objective of these case studies is to understand how these firms are: (i) penetrating markets; (ii) introducing formats and product categories; (iii) operating the end-to-end value chain; (iv) pricing different products; and (v) capturing customer footfalls.

3.2 Organized Retail Models

High population density in the metropolitan cities and surrounding tier-1 towns is driving the geographic penetration of modern retail. Nationwide, the retail penetration has been the highest in the South in Tamil Nadu, Kerala, Karnataka, and Andhra Pradesh, moving towards the West along Maharashtra and Gujarat and now penetrating the North, in Delhi's National Capital Region (NCR), Punjab, and Western Uttar Pradesh. The fresh crop of modern retail in the late 1990s started in the southern region as South India has clusters of metro cities and tier-1 towns. In addition, less complicated licensing regulations by the state and local authorities have played an important role in the spatial penetration along the regions. In Andhra Pradesh, the licensing process is now online, thereby reducing the time lag.

Broadly, retail firms are following three routes for their market entry: (a) the acquisition route which gives a jump-start to take advantage of the already experienced manpower, infrastructure, front-end property of the acquired firm; (b) the JV partnerships, a preferred route for firms seeking foreign collabouration for technical know-how and assistance in the back-end operations as well as future export opportunities; and (c) the green-field investment route for market entry. A few firms are also following a mixture of acquisition and JV routes for quick market access. Additionally, firms are strategically expanding verticals by forming subsidiaries or holding firms that act as catalysts to their retail business.

Typically, firms are positioning themselves in one or both of the segments: lifestyle[7] and value retailing[8] under multiple retail formats. Retail firms are adopting a combination of formats including, mega (hyper and/or super), medium (department and/or speciality), and small size (convenience and/or discount) for expansion. This strategy benefits firms in several ways. It helps to: (i) attain critical mass; (ii) economies of scope in sourcing by accruing costs across stores; and (iii) reach out to consumers in the local neighbourhood locations.

Regardless of the route followed, the domestic retail industry is witnessing an increase in domestic investment, technical know-how expertise, improvements in supply chain and logistics, and demand for store brand private labels.

Table 3.1 summarizes the business models of the key organized retailers.

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[7] Lifestyle retailing is category-specific retail of lifestyle-oriented products, such as fashion apparel, high-end consumer durables, home décor, etc. In the Indian scenario, lifestyle retailing is more focused on apparel brands, but changing lifestyle aspirations of Indians have also seen a sizeable increase in demand for branded furniture and furnishings.

[8] Value retail is related to the pricing strategy, i.e. discount and value-for-money formats and hence it can be present across all product categories. Discount stores, a form of value retail, deal in a variety of goods ranging from food articles, household durables, electrical appliances, to apparel.

Table 3.1: Organized Retail Models

Retailer	Segment	Business Strategy
Subhiksha	Value	Low-price high-volume strategy: by keeping no fancy frills front-end and by becoming an intermediary at the back end, Subhiksha leverages on discounted prices on bulk purchases and cash payments.
Trent Limited	Lifestyle & Value	Single- brand strategy: leverages on high margins in private labels, and targets consumers in socio-economic class B and C.
Future Group: PRIL	Lifestyle & Value	Strategic JVs and subsidiaries around retail has enabled PRIL to develop retailing across age-groups, all product categories, the entire customer segments under multiple retail formats.
ITC Choupal Sagar & Choupal Fresh	Value	Backward integration through IT-based business model: leverages by building direct relationship with the supply source, the farmers, to sell as well as purchase products and services.
Spencer's Retail	Value	The "duck and the duckling" model: by having two- or three- value segment stores, backed by a cluster of small-sized Fresh, Daily, and Express stores, to leverage on economies of scale at back-end value chain.
NDDB: Mother Dairy	Value	Operates on a co-operative model with the objective of increasing farmers' welfare. Has a strong presence in Delhi's NCR region. Strategically located in residential areas and follows a low-price strategy for fruit and vegetables.

In the organized retail one-stop shopping model, Subhiksha distinguishes itself as the "no fancy frills" store working on mass consumers' daily needs. The company's business model focuses on high volume and low margin by: (i) keeping small-sized functional stores within the range of 1,000-1,500 sq. ft. area; (ii) clustering in close proximity to each other; and (iii) locating in high population density residential area. The company concentrates on daily-need essentials and repeat buying nature of its product categories in fruit and vegetables, fast moving consumer goods (FMCG), and medicines. In a typical store in Delhi, the average footfall is around 600- 700 walk-ins of which approximately 78 per cent turn into bills.

Trent differentiates itself by building its own-label route. This strategy allows Trent a better control over the product range, design (value-added portion of the supply chain), and merchandize pricing. The company's business proposition in building customer relationship through membership programmes and liberal exchange policy has helped Trent in strengthening the Westside brand. The Star India Bazaar caters to the mass-market segments in meeting their regular needs. Although, the footfalls differ from store to store, the average customer footfalls range between 800 and 3,000 a day at a given store. However, Trent claims that their conversion rates are higher by 10-15 per cent per day than other stores.

Pantaloon India Retail Limited is the pioneer of India’s modern retail in the hypermarket format and is recognized as an organized multi-format retailer across value and lifestyle segments. The firm’s business strategy is to capture a greater share of the consumer wallet by covering all customer segments in all age-groups, in all product categories through multiple retail formats nationwide. The company’s Big Bazaar (hypermarket chain) cuts across entire customer segments. In a lifestyle store, the average customer footfalls are around 1,000 of which 350 convert into sales transactions. In the value segment, the company attracts an average of approximately 3,000 customer footfalls, of which the sales conversion is between 220 and 250.

India Tobacco Company (ITC), leveraged on information-technology, enabled a unique business platform to directly integrate backwards with the source of supply, the farmers. The company not only optimized efficiencies in the procurement chain for export markets but also created a market place for rural retailing in the domestic market. Choupal Fresh is a fresh produce wholesale C&C format catering to organized retailers, push-cart vendors, and traditional retailers. These are in operation now only in three cities, namely Hyderabad, Pune, and Chandigarh. They have parallel retail outlets for regular customers. ITC leverages in backward linkages through its expertise in agricultural extension services and strategic partnerships for handling temperature-control technologies and logistics support. By extending agricultural services at the farm level, ITC is managing the quality of the produce and building an ITC brand in fresh fruit and vegetables.

Spencer’s differentiates itself on product quality, assortment of imported food products, and shopping experience. Leveraging on the perception of high-quality imported goods that was attached to the old Spencer’s & Co. brand name, Spencer’s business strategy focuses on an array of food-related products and activities spanning across intercontinental and domestic culinary, and chef demonstrations. Spencer’s follows the “duck and duckling” (pyramidal) strategy for its retail expansion and cost-benefits in back-end procurement; it has a small set of destination stores (Spencer’s hyper), followed by the supermarket format (Spencer’s Daily), and a larger set of convenient store format (Spencer’s Express and Fresh) located close to the local neighbourhood.

Mother Dairy in Delhi was set up by the National Dairy Development Board (NDDB) under the first phase of Operation Flood Programme in 1974 with the objective of making available liquid milk to city consumers. Following the success of its dairy industry, NDDB established the Mother Dairy Fruit and Vegetable Project in Delhi in 1988. In addition, Mother Dairy also markets dairy products, such as ice creams, flavoured milk, *dahi*, *lassi*, *mishti doi*, ghee, butter, cheese, dairy whitener, Dhara range of edible oils and the Safal range of fresh fruit and vegetables, frozen vegetables and fruit juices at a national level. Mother Dairy sources its entire requirement of liquid milk from dairy co-operatives and sources almost 75-80 per cent of fruit and vegetables from farmers and growers’ associations at the village level. For distributing milk, and fruit and vegetables, Mother Dairy has opened its booths and shops mainly near residential areas of the Delhi NCR region.

In 2006-07, the retail firms mentioned above generated a total sales' turnover of Rs. 64.72 billion with an average sales per sq. ft. at Rs. 8,298. In addition, these firms' array of private labels across several product categories has supported sourcing tie-ups with more than 4,124 large and small manufacturers and concessionaires.

Table 3.2: Organized Retailers Sales' Turnover in 2006-07

	Subhiksha	**Trent**	**PRIL**	**ITC**	**Spencer's**	**Mother Dairy**	**Total**
Sales turnover (Rs million)	8,000	4,979	19,336	NA	5,400	27,000	64,715
Sales per sq. ft. (Rs)	13,333	6,036	6,108	NA	7,714	NA	8,298
Total sq. ft. area	600,000	825,000	3,165,000	NA	700,000	NA	5,290,000

In 2006, the firms covered in the case studies (excluding Mother Dairy) consisted of a total of 1,070 stores encompassing nearly 5.3 million sq. ft. area across formats. These firms have projected a cumulative increase to over 6,600 stores by 2010.

3.3 Market Penetration Strategy

The modern retailers follow either a spiral[9] or a cluster[10] approach for retail expansion, and in India typically the cluster approach is more popular. In the cluster approach, the firm initially launches in an urban city and then expands towards surrounding tier-1 towns belonging to the same cluster catchment area. Each cluster covers its own region for direct sourcing, distribution, and logistics like a separate business unit. This approach is favourable for retailers because they can build a more efficient logistics network and take advantage of cultural similarities among consumers in the same region in order to develop their product offerings.

The real estate constraint however is restricting the retailers' expansion plans in large formats. The new crop of retailers across the country are acquiring or leasing mega sized store spaces in newly constructed malls in an approved market space. Paradoxically, modern retail is diverting the shoppers' traffic and noise congestion away from residential localities and minimizing the possibility of land encroachment beyond the store area as it is currently being done in the case of traditional retail outlets. However, in recent years, large retailers are heading for a pyramidal approach by launching several small-sized neighbourhood convenience stores in tandem with a few large hypermarket or department store formats. This strategy is beneficial to large retail firms because they can absorb supply-chain costs across formats. Further, bulk purchases enable them to squeeze profit margin from suppliers. However, the local traditional retailers in the nearby locations feel more intense competition.

[9] In the spiral approach, a firm starts in a large city and expands further and further, but maintains synergies in buying, logistics, and relationships.

[10] In the cluster approach, a firm expands around the major urban centres like a separate business unit, each covering its own region. Subsequent expansions in other regions tend to follow the stepwise cluster pattern.

The hypermarket format is predominantly the backbone and primary driver of the modern retailers' market access strategy. The product mix in the hypermarket format is typically 60 per cent food and 40 per cent non-food. The format incorporates a larger share of apparel, grocery products in staples, and FMCG goods, of which the share of apparel merchandize is 30 per cent. Fruit and vegetables, mobile phones, alcohol-based beverages and pharmaceutical electronics and household durable product categories encompass a much smaller share. Although, the supermarket format has been in India for a while, the new crop of modern retailers expanded the product mix incorporating FMCG goods, packaged food products, and private labels in staples and general merchandize. Another dominant format used by modern retailers includes the department and speciality stores focusing primarily in clothing, cosmetics, artificial jewelry and watches, and household durables. The discount and convenience formats largely concentrate on fruit and vegetables and grocery products.

3.4 Product Margin of Retailers

Clearly, the share of product category in modern retail formats is driven by the level of profit margin retailers make and the consumer adoption rate. Modern retail penetration and consumer adoption in the apparel and clothing category is the highest. The firms' competition strategy is differentiated in the lifestyle segment and cost focused in the value segment. An organized retailer gets an average of 30 per cent gross margin or above on MRP across women's wear, gents' wear, and kids' wear on branded labels. In the case of private labels of store brands, clothing margins are higher than 60 per cent typically.

In the food and grocery section across hypermarket, supermarket, and discount store formats, grocery covers around 45 per cent of store space in FMCG and staple food products. The profit margin in FMCG products is tight because large suppliers control the brand power and store shelf space at local neighbourhood stores. In staples and lesser- known FMCG products, however, retailers gain 13 per cent profit margin on the cost price (Table 3.3). In the absence of national brands in staple food products, store branded private labels are becoming popular and fetch up to 12 per cent average margin. As regards fresh fruit and vegetables, however the store level penetration is low compared to other categories for various reasons: (i) high wastage; (ii) lack of temperature-controlled isles; and (iii) low profit margins in bulk produce (potatoes, tomatoes, and onions). In addition, the customer adoption rate is also low in fresh fruit and vegetables because of its daily need-based requirement and the distance factor. Nevertheless, fruit and seasonal vegetables are higher profit-margin produce: fruit sell at 40 per cent margin on the cost price, and seasonal and exotic vegetables around 30 per cent above the cost price. Across the fruit and vegetable section, the net profit gain is between 8 per cent and 10 per cent on an average. As a result, organized retail firms are strategizing convenience format stores up to 2,000 sq. ft. area in order to penetrate the local neighbourhood markets.

Table 3.3 : Organized Retailers' Gross Margin (per cent)

Product Category	General Margin	Margin for Private Labels
Clothing	30	60
FMCG	1-2	13
Staples		12
Fruit & vegetables	10	Fruit 40 Seasonal & exotic vegetables 30

3.5 Product Procurement by Retailers

The cluster focused "hub and spoke" model has been widely used across retailers for integrating backward and forward linkages. The centralized distribution centre is typically located in one central location surrounded with several collection centres and/or re-packaging centres spread across the region near the supply source. The hub distribution centre is the key stock-holding point. Collection centres are warehouses for temporary holding of fruit and vegetable stocks up to 48 hours or so. The re-packaging centres are usually used for packaging the private label goods.

In countries where organized retail is at an advanced level, the common practice is to have one central distribution hub supplying to several spokes across the country. However, due to the inadequate infrastructure and CST regulations in India, the "hub and spoke" model for supply chain distribution is restricted to its respective catchment area. The abolition of CST may streamline the nationwide distribution of warehouses and allow linear logistics and flow of supply.

Firms are increasingly disintermediating the traditional supply chain of procurement for operational efficiency gains. They are attempting to reconstruct their own supply chain by forging direct ties with the original source of supply or using a service provider between them and suppliers. At present, the supply chain is a combination of: (i) direct procurement from farmers, small-scale suppliers, and large FMCG suppliers; (ii) APMC markets; and (iii) consolidators or distributors as a single intermediary point. The distributor channel is used only if the volume scale is low. Gradually, the organized retail value chain would prefer to lean towards the direct procurement approach in order to reduce the cost of the middleman. The direct procurement model benefits modern retailers for the following reasons: (i) maximizing its gains on large volume transactions; (ii) implementing store brand promotional schemes; and (iii) minimizing the operational cost.

In the case of FMCG and staple products, the firms procure primarily from large suppliers for branded products and small suppliers for store brand private labels. As regards apparel, a mix of large and small suppliers supply directly for private labels. As for fresh fruit and vegetables, to a large extent, firms procure from APMC markets. At the same time, for bulk purchases firms contact farmers and fruit growers directly. A large share of household durables and furniture goods are being imported from Southeast Asian countries and procured through a consolidator. In the case of household durables and electronic goods, firms directly forge ties with foreign manufacturers and subsidiaries of multinational firms in India.

With regard to the relations between organized retailers and suppliers, the following trends are emerging: (a) organized retailers have direct contract terms with large suppliers, millers, and clothing manufacturers; (b) in the case of small-scale farmers in fruit and vegetables, and clothing manufacturers, the organized retailers use a consolidator (clothing and imported products) or an aggregator (fruit and vegetables) as a single intermediary point. The latter trend is particularly used for procuring private labels for the retailers.

Additionally, the modern retailers have created a market channel for small-scale industries. There has been an upward surge of private labels in staples, consumer durables, household and plastic goods, and clothing categories. The private label model works well for small-scale manufacturers or suppliers because they get stability in receiving payments and business orders. Most importantly, the business process of small-scale suppliers is improving by receiving direct market feedback and technical know-how. As a result, the quality standards of products are improving. Many small-scale manufacturers doing private label business have expanded from one manufacturing unit to two or three units. On the other hand, the private label business proposition offers the modern retailer better profit margin and control over price and shelf space.

At the same time, however, the branded suppliers are losing their bargaining power with the influx of store brand private labels. Currently, the modern retailers work on a commission-based margin with branded suppliers as opposed to the slotting-fee position where a manufacturer or supplier gets shelf space by paying a certain fee structure. By having commission-based direct contract terms with branded suppliers, retailers are able to arrange various promotional schemes in order to attract customer footfalls to their stores and secure discounted price on bulk purchase. This business tactic is particularly disadvantageous to the traditional retailers because their volume demand is very small and is primarily on credit payments.

The new intermediary, in the role of a “consolidator” or a “collector”, is evolving as a value-added service provider between all small suppliers and organized retailers. The consolidator consolidates goods from small suppliers, undertakes bar coding, labelling, documentation, packaging, and accounting requirements and then brings goods to the consolidation or collection centre. A collector in fruit and vegetables category sorts, grades, and arranges them in crates before supplying to the collection centre. A typical consolidator or an aggregator owns warehouses and vehicles, keeps inventories, and stock based on projections provided by the retail firm’s sourcing division. He understands the company’s business requirements and enables small and fragmented manufacturers or farmers to scale up to meet the organized retailer’s volume needs.

In the case of fruit and vegetables, meat, and poultry, the direct procurement at the farm level is benefiting farmers in receiving market feedback, getting technical know-how, and reducing wastage. Farmers supplying directly to large retailers are receiving timely agricultural extension services: international level benchmark practices in sorting, grading, and efficient packaging at the source level to improve the produce quality and yields. Certainly, direct procurement is improving the business processing in fruit and vegetables. As a result, there is less wastage and increase in farm income. Yet, the horticultural field in India requires a great deal of learning and experimentation on post-harvest processing. There are no hard and fast rules on meeting the quality and hygiene standards, and modern retail firms are bringing in standard international practices.

As regards consumer durables, household, and plastic goods, the domestic suppliers are facing tough competition from goods being imported from Southeast Asia. In electronics, there already exist multinational and domestic collabourations. However, new brands may roll in through JVs and store brand private labels.

Modern retail firms are heavily investing in information technology software applications for streamlining the spokes (outlets) and the hub (distribution centres). "IT SAP" Retail implementation is widespread across all format retailing. Besides, point of sale, bar code based billing (automates the billing system), web-based vendor management system, such as Retail Pro software applications, and auto-replenishment have become necessary tools for better inventory control and competitive pricing. Further, the increase in private labels may trigger the need for streamlining the distribution of warehouses and manufacturing units to improve the logistics flow, strengthen the supply chain, and push the demand for IT hardware.

At present, modern retailers are making third-party contracts with logistics providers for managing the movement of goods between the warehouses, collection centres, and outlets across the nation. The distinctive trend here is to have a dedicated fleet of trucks through third-party logistic providers but managed by organized retailers themselves. So far, many firms do not have third-party contract with cold chain logistics primarily because organized retailing in fresh fruit and vegetables as well as consumer adoption rate under the modern formats is quite low at around one per cent. Nevertheless, as modern retail in India overcomes the learning curve in reducing wastage, know-how in temperature-controlled isles in the front-end store, and direct procurement from farmers, the requirement for cold chain infrastructure will increase. Already, ITC has partnered with Ingersoll Rand and Snowman; Ingersoll Rand offers material handling and temperature-control technologies and Snowman provides the logistics support in the form of warehouse and cold chain transport. The growth of the organized retail in India will attract cold chain investments in infrastructure and logistics infrastructure services from global supply chain companies.

3.6 Employment Generation

Finally, but most importantly, the employment generated by organized retail is building a quality labour class that is gaining vocational training in skilled and unskilled jobs at the graduate and tenth class level. To meet the growing demand of trained professionals in the retail industry, several management and training institutes conforming to the international standards of certification have been launched across the country. Foreseeing the demand for trained staff, leading organized retailers are creating their captive human resources pool through internal training and programmes and tie-ups with retail management schools.

The case studies represented here directly accounted for employment of nearly 28,320 people in 2006-07 (Table 3.4). The induced impact of the payroll spending of the organized retail employment is also hard to ignore.

Table 3.4: Organized Retail Employment, 2006-07

Retailer	Employment
Subhiksha	3,500
Trent Limited	2,600
PRIL	14,500
ITC	NA
Spencer's Retail	7,700
Mother Dairy	NA
Total	**28,300**

3.7 Conclusion

The growth of organized retail will have a positive multiplier effect on the Indian economy. Retail industry is attracting inward investment both at the domestic and global level in several support industries: IT industries, cold chain infrastructure, and logistics and warehouse distribution services in order to strengthen the supply chain. The surge of private labels have generated demand and sourcing tie-ups with manufacturers across product categories. In the case of fruit and vegetables, the direct procurement is bringing quantitative benefits from higher price realization and qualitative benefits in improvements of agro-processing services. Finally, organized retail is creating quality labour class that is gaining vocational training in skilled and unskilled jobs at graduate and tenth plus levels. Nevertheless, there is a timely need for a fresh regulatory framework and competition policy so that both traditional retail and modern retail can continue to grow in harmony eventually closing the gap between the organized and unorganized sector.

4. Impact of Organized Retailing

4.1 Introduction

There has been a huge growth in organized retail in India since 2002-03 and this is associated with the growth in the economy and the attendant rise in consumption spending. Organized retailing has begun to tap the enormous market but its share indeed is small. A number of large business houses have entered the retail business with very ambitious expansion plans. Big foreign retailers are also keen to invest in India but their entry depends on changes in the government's FDI policy regarding retailing. Organized retailing played a significant role in the present-day developed countries during their period of high growth. Since the early 1990s, it is also contributing substantially to the growth of developing countries. In India, organized retail is poised to make a mark in the near future. This chapter deals with some of the major implications of modern retailing for the country. It also presents the results of the all-India survey of unorganized retailers, consumers, and intermediaries on the impact of modern retailing.

4.2 Organized Retailing: Advantages to the Indian Economy

India's Planning Commission, in its *Approach Paper for the Eleventh Five Year Plan,* (2006, pp. 27-8) has noted:

"Organized retailing brings many advantages to producers and also to urban consumers, while also providing employment of a higher quality. Organized retailing in agricultural produce can set up supply chains, give better prices to farmers for their produce and facilitate agro-processing industries. Modern retailing can bring in new technology and reduce consumer prices, thus stimulating demand and thereby providing more employment in production."

4.2.1 Link with Agriculture

Indian agriculture is in the midst of a grave crisis with its growth rate steadily falling to just 2.5 per cent per annum during 2000-07, as against an annual growth rate of 4.2 per cent during the 1980s and 3.2 per cent during the 1990s. Among the reasons for the secular downtrend of this sector are: (a) low level of investment in the sector of just below 2 per cent of GDP (*Economic Survey 2006-07*, p. 176) for the past decade and a half; (b) inability to bring a larger share of land under irrigation in the past ; (c) lack of any significant breakthrough in yields for the last few decades; and (d) the dismal state of rural infrastructure, such as power, roads, transport, marketing, etc. While the industrial and services sectors are largely free from the controls of the license raj, agriculture remains constrained by a series of restrictions from input supply and production to marketing and distribution.

The problem in agriculture is reflected to a certain extent in the operation of the APMC Acts in various states and union territories. The APMC Acts were originally intended to protect farmers from exploitation by intermediaries and traders by ensuring that they receive reasonable prices and timely payment. Over a period of time, the government regulated markets failed to function the way they were intended to and farmers felt exploited with a lack of transparency in the pricing, weighing, bagging and payments for their produce. The various intermediaries in the system from the village trader, who acts as a consolidator, commission agent, wholesaler, sub-wholesaler, etc have been appropriating a large part of the final price in the form of margins and commissions. The transactions at various stages involved huge wastages estimated at 5-7 per cent for foodgrains and 25-30 per cent for fruit and vegetables (*Annual Report 2006-07*, Ministry of Agriculture, Department of Agriculture and Cooperation). These factors inflate the final price to the consumer by nearly three times what the farmer receives, and the farmer's realization of one-third of the final price compares poorly with two-thirds in most other countries.

A number of states and union territories have taken steps to amend their respective APMC Acts based on the model law on agricultural marketing prepared by the Department of Agriculture and Co-operation under the central government. These amendments, among other things, provide for the setting up of private markets and yards, direct purchase centres, promotion of public-private partnership (PPP) in the management and development of agricultural markets in the country.

Organized retail will result in a complete revamp of the agricultural supply chain in the country. A recent study by CRISIL has estimated a current annual total loss of about Rs. 1,000 billion in the agricultural supply chain, 57 per cent of which is due to avoidable wastage and the rest due to avoidable costs of storage and commissions (*CRISIL Research, June 2007*). Organized retailers have already started procuring fruit and vegetables from farmers directly bypassing the various intermediaries who add more costs than value to the food chain. They are investing heavily on logistics in the form of centralized warehousing and distribution centres, transport and cold storage, either directly or through engaging third party logistics companies. They are also employing a large number of unskilled workers for sorting, grading, packaging and labelling. All these will enhance farmer's realizations, improve quality of products at the shop and reduce the ultimate consumer price.

4.2.2 Link with Manufacturing

The Planning Commission has identified four sectors as the major employment generating sectors for the Eleventh Plan period, 2007-12. They are: (i) food-processing industry; (ii) textiles and clothing; (iii) tourism; and (iv) construction. Of these sectors, all except tourism are getting a fillip with the growth of organized retail. Currently, both the food-processing and textile industries are lagging behind (Table 4.1). It is particularly the small and medium industry (SMI) sector which will gain advantages with the emergence of organized retailers by becoming their suppliers. Modern retail will catalyze the development of the SMI sector in the country.

Table 4.1: Growth of Selected Industries (Compound Annual Growth Rate in %)

	1994-95 to 1999-00	2000-01 to 2006-07
General Index	7.6	6.9
Manufacturing	8.1	7.4
Food products	5.8	4.0
Cotton textiles	3.6	3.5
Wool, silk, and man-made fibre textiles	12.0	4.5
Textile products and apparel	7.7	9.0

Source: CSO

4.2.3 Boost to Exports

Organized retail's link with exports comes through foreign players. International retailers look for sources around the world and a country in which they operate becomes a source for their global sales. Some of the international retailers that have plans for India in the future have already developed suppliers in the country and have started exporting from India. For example, Wal-Mart exported an equivalent of US$ 600 million, and IKEA about 380 million euros from India in 2006-07.

4.2.4 Impact on Growth and Productivity

Organized retail has the potential to lift the Indian economy to higher levels of productivity and growth. In the context of the United States, a McKinsey Global Institute study[11] indicated a contribution by the retail sector of nearly one-fourth of the rise in productivity growth from 1987-95 to 1995-99. In India, organized retail will raise productivity and growth by pulling up the current lagging sectors, such as agriculture, food-processing industry, and textiles. Besides, in order to meet the rapidly growing demand for retail space, construction of real estate is taking place at a fast pace. It is interesting to note that construction has been one of the fastest-growing segments of India's GDP in recent years, recording an average annual real growth of about 13 per cent during 2003-07.[12]

With regard to agriculture, organized retailing will work with farmers to: (i) improve yields by enabling them to obtain quality input supplies; (ii) adopt superior farm technology and practices; and (iii) access timely credit at reasonable rates. Organized retailing will offer the farmer an alternative market which is more transparent, and less time consuming. It will provide prompt payment, avoid margins for unproductive intermediaries, and ensure remunerative prices.

As regards manufacturing, SMIs particularly in food-processing, textiles and clothing will get a tremendous boost by producing for the big organized retail companies and will grow along with the organized retail business. The tie-up with organized retail will drive these industries to become more efficient in order to meet the stringent delivery conditions of the retail market. Private labelling is the creation of brands in the name of modern retailers. It has already begun in India in the food and grocery, and apparel segments and is expected to expand rapidly. Small-scale manufacturers will be the major beneficiaries of private labels.

In short, organized retailing will remove various inefficiencies that characterize the present Indian distribution system, which in turn will provide better price for the farmers and suppliers on the one hand, and lower prices for consumers, on the other.

4.2.5 Impact on Employment and Prices

Employment in India is distributed in a skewed manner towards agriculture. Though the share of agriculture (including forestry and fishing) in GDP came down from 28.9 per cent in 1993-94 to 18.8 per cent in 2004-05, its share in employment remained

[11] Quoted in Morgan Stanley Research (2006).
[12] National Income Accounts, CSO.

huge, coming down gradually from 61 per cent to 52.1 per cent during the same period (Table 4.2). The strength of workforce engaged in agriculture had been about 201 million in 2004-05. This is, in fact, a reflection of the lack of employment opportunities in the non-agricultural sectors. The industry's share in employment went up from 15.9 per cent in 2003-04 to 19.4 per cent in 2004-05 which is somewhat better than the rise in its share in GDP from 25.9 to 27.5 per cent during the same period. The share of services in GDP rose sharply from 45.2 per cent in 1993-94 to 53.7 per cent in 2004-05 but its share in employment grew somewhat slowly from 23.1 per cent to 28.5 per cent during the same period. Within the services sector, the share of trade (both retail and wholesale included) in GDP rose from 11.9 per cent in 1993-94 to 14.9 per cent in 2004-05, but its share in employment grew marginally from 7.7 per cent to 8.4 per cent during the same period. The trade sector, particularly retail, is predominantly the unorganized "mom-and-pop" shops.

Table 4.2: Share in GDP and Employment of Selected Sectors, 1993-94 to 2004-05

	Share in GDP (%)			**Share in Employment (%)**		
	1993-94	**1999-00**	**2004-05**	**1993-94**	**1999-00**	**2004-05**
1. Agriculture, forestry, and fishing	28.9	25.0	18.8	61.0	56.6	52.1
2. Industry	25.9	25.3	27.5	15.9	17.6	19.4
Of which: Manufacturing	15.8	14.8	15.9	11.1	12.1	12.6
3. Services	45.2	49.7	53.7	23.1	25.8	28.5
Of which: Trade	11.9	13.0	14.9	7.7	8.2	8.4
Of which: Retail	n.a	n.a	n.a	n.a	7.4	7.3
Wholesale	n.a	n.a	n.a	n.a	0.8	1.1
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

n.a = not available.
Note: Employment is based on "current daily status" except for trade (retail and wholesale) where only "usual status" data is available.
Source: CSO and NSSO and Planning Commission.

The growth of organized retail will enhance the employment potential of the Indian economy. While providing direct employment in retail, it will drive the growth of a number of activities in the economy which in turn will open up employment opportunities to several people. This includes the small manufacturing sector especially food-processing, textiles and apparel, construction, packing, IT, transport, cold chain, and other infrastructure. It may adversely affect employment in unorganized retail and the trade intermediaries associated with the traditional supply channels but the additional jobs created will be much higher than those that are lost. An important point to be noted is that while the jobs that organized retail displaces are the low-end, low-quality, underproductive ones, the new jobs created are the high-quality, productive ones. It also generates a number of jobs for unskilled labour for the tasks of sorting, grading, labelling, etc.

Organized retail's direct purchase from farmers and other suppliers compresses the supply chain and eliminates a large number of intermediaries and hence can offer consumers a lower price than the traditional channels. This has a subduing effect on inflation in the economy. Besides inflation, high volatility of prices of certain essential commodities, such as onions, sugar, tomatoes is an essential feature of the Indian economy. The spread of retail can mitigate price volatility of essential commodities by making them available throughout the year.

4.2.6 Improvement of Government Revenues

Another significant advantage of organized retailing is its contribution to government revenues. Unorganized retailers normally do not pay taxes and most of them are not even registered for sales tax, VAT, or income tax. Organized retailers, by contrast, are corporate entities and hence file tax returns regularly. The growth of organized retail business will be associated with a steady rise in tax receipts for the central, state, and local governments.

4.3 Sample Surveys

In order to understand the actual impact of the growing organized retail, the study carried out all-India surveys of following five entities:

- Unorganized retailers
- Consumers
- Intermediaries
- Farmers
- Manufacturers

Annex 4 gives the coverage and sampling design for these surveys. These surveys were carried out during the four months, May-August 2007.

These surveys are confined to two major categories of product groups namely: (a) food and grocery; and (b) textiles and clothing. These two categories cover nearly 70 per cent of retail in the country in recent years. In order to conduct an impact study for this Report, it was felt appropriate to focus attention on these two categories. The unorganized retailers in the survey included the grocery and general stores, textile and readymade garment shops, fixed fruit and vegetable sellers, and push-cart fruit and vegetable hawkers.

For the survey of traditional retailers, consumers and intermediaries, the study covered all seven mega-metro cities of population above 40 lakhs as per 2001 Census (Delhi, Mumbai, Kolkata, Chennai, Bangalore, Hyderabad, and Ahmedabad) and in addition, one mini-metro (of population between 10 lakhs and 40 lakhs) with strong organized retail presence from the North (Jaipur), West (Indore), and South (Kochi).

For the survey of traditional retailers, the study interviewed 2,020 shops, of which 55 per cent belonged to grocery and general stores, 20 per cent textiles and clothing, 7 per cent fixed fruit and vegetable sellers and 8 per cent fruit and vegetable hawkers. They were selected, 20 each in the vicinity of each of the 101 chosen organized outlets of four different formats (hypermarket, supermarket, discount store, and department store). In analyzing the survey results, the retailers are classified into four regions: (a) North (consisting of surveyed retailers from Delhi and Jaipur); (b) West (surveyed retailers from Mumbai, Ahmedabad and Indore); (c) East (retailers from Kolkata); and (d) South (Chennai, Hyderabad, Bangalore and Kochi). After eliminating the outliers, there are 1,999 traditional retailers in the final sample.

A consumer survey was conducted through exit interviews of 1,010 consumers, equally divided between 505 persons each who shopped at 101 organized outlets and another 505 persons who shopped at the same number of traditional retail outlets. The same 10 cities for the retailer survey were also covered in the consumer survey. After eliminating the outliers, there are 470 consumers shopping at organized outlets and 462 consumers shopping at unorganized outlets.

One hundred intermediaries of various categories dealing in different commodities were interviewed from the 10 cities. Ninety seven intermediaries have remained in the sample after discarding outlier cases. Given the very diverse categories of intermediaries and the variety of products they deal in, a sample of 97 intermediaries may not represent this heterogeneous group and hence the results from this survey may be treated as more indicative than conclusive.

For the farmers' survey, 197 cauliflower cultivators belonging to Hoskote taluka near Bangalore have been chosen where many organized retailers have set up their collection centres. These farmers were interviewed for their transactions with one or other of organized retailers, local *mandi*,[13] Bangalore *mandi*, and *mandi*s of other states.

Finally, in the case of manufacturers, executives for 12 large manufacturers and 20 small manufacturers were interviewed on their experience with organized retailing.

4.4 Survey Results: Unorganized Retailers

4.4.1 Size of Unorganized Outlets

The sampled traditional retail outlets had an average size of 217 sq. ft. including the storage area, with textiles and clothing shops having a higher average size of 256 sq. ft. and fixed fruit and vegetable shops an average size of 129 sq. ft. The grocery and general stores have an average size of 216 sq. ft. including the storage area (Table 4.3).

Table 4.3: Store Area of Unorganized Retail

Category	Sample Size	Average Store Size (sq. ft.)	Storage/ Godown (sq. ft.)	Total Average Store Area
Grocery and general store	1,299	200	16	216
Textiles and clothing shop	394	231	25	256
Fixed fruit and vegetable seller	151	119	10	129
Total	**1844***	**200**	**17**	**217**

** Excludes 155 push-cart hawkers from the total sample of 1,999 cases.*
Source: DRS-ICRIER Retail Survey 2007.

[13] *Mandi* means market in Hindi.

4.4.2 Employment Impact

The sampled unorganized retail outlets employ more family labour than hired labour; on an average they employ 1.5 persons per shop from the family, and hired employees of 1.1 persons. The survey finds a marginal increase in overall employment for these outlets over the period of existence of the sampled organized retail outlets which averaged 21 months. However, there has been a general increase in employment in the South and East but a decline in the West and virtually no employment change in the North (Chart 4.1a and Chart 4.1b).

Chart 4.1a: Family Labour (Per 100 Retailers)

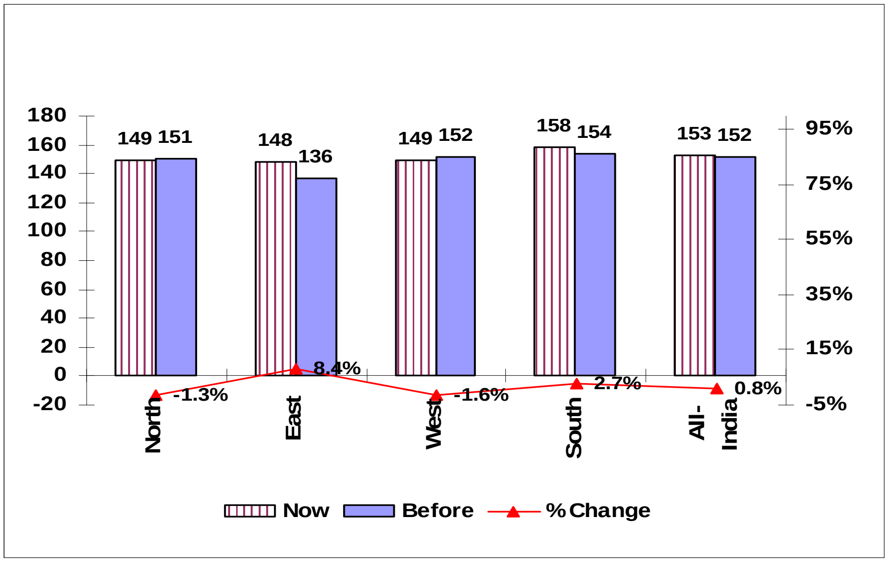
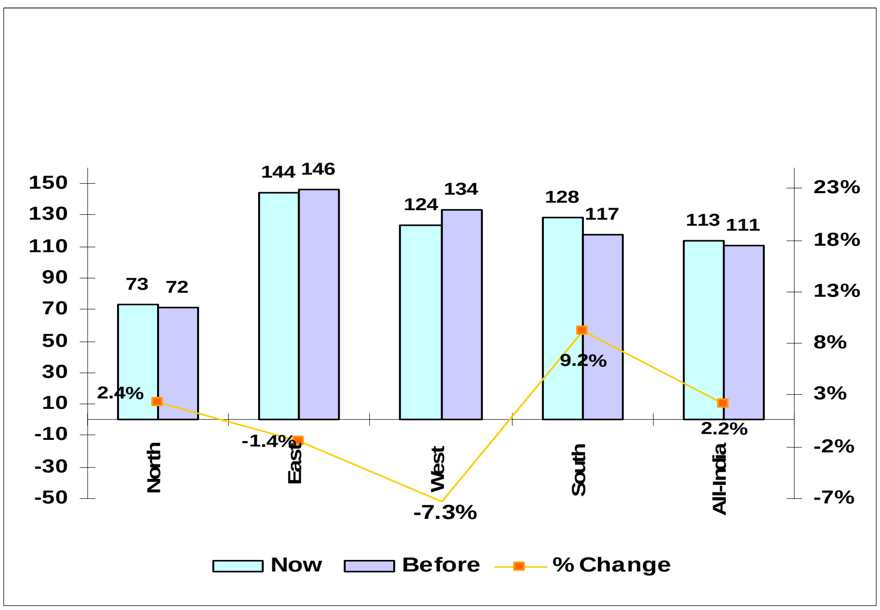


Chart 4.1b: Hired Labour (Per 100 Retailers)



Source: DRS-ICRIER Retail Survey 2007.

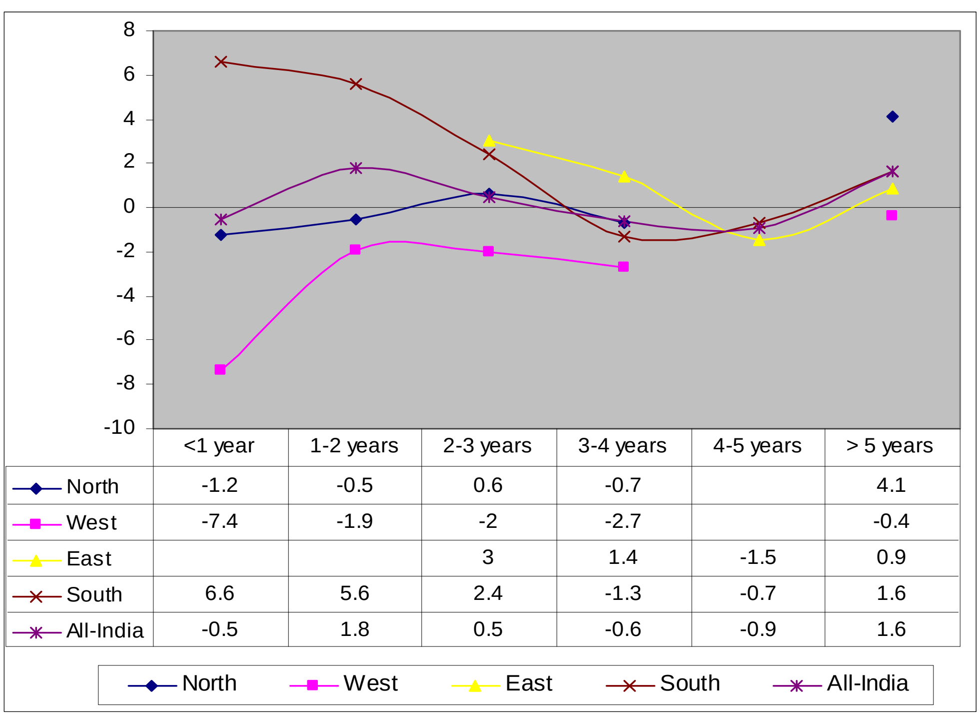
There appears to be a relation between the employment effect on unorganized retail and the period of existence of organized outlets; the adverse effect, if at all there is any, wears off with time. Interestingly, in the South and East, where the sampled organized retailers have been in operation for some time, there has been an increase in employment (Table 4.4 and Chart 4.1c).

Table 4.4: Employment Impact on Unorganized Retail by Age of Organized Retail (Compound Annual Growth)

Age of Organized Outlets	North (Average age=19 mos.)		West (Average age=15 mos.)		East (Average Age=41 mos.)		South (Average Age=24 mos.)		All-India (Average age=21 mos.)	
	Sample size (Nos.)	Employ-ment growth (%)	Sample size (Nos.)	Employ-ment growth (%)	Sample size (Nos.)	Employ-ment growth (%)	Sample size (Nos.)	Employ-ment growth (%)	Sample size (Nos.)	Employ-ment growth (%)
Up to 1 year	235	-1.2	290	-7.4	0	n.a	388	6.6	913	-0.5
Above 1 year up to 2 years	171	-0.5	148	-1.9	0	n.a	232	5.6	551	1.8
Above 2 years up to 3 years	70	0.6	59	-2.0	27	3.0	40	2.4	196	0.5
Above 3 years up to 4 years	40	-0.7	20	-2.7	50	1.4	20	-1.3	130	-0.6
Above 4 years up to 5 years	0	n.a	0	n.a	10	-1.5	29	-0.7	39	-0.9
Above 5 years	10	4.1	8	-0.4	9	0.9	143	1.6	170	1.6
Total	**526**	**-0.1**	**525**	**-3.4**	**96**	**1.0**	**852**	**2.7**	**1999**	**0.8**

n.a = not applicable; mos. = months; Nos. = Numbers.
Source: DRS-ICRIER Retail Survey 2007.

Chart 4.1c: Temporal Impact on Unorganized Retail Employment (Annualized Growth in %)



4.4.3 *Impact on Turnover and Profit*

The survey has brought out that there has been an adverse impact on turnover and profit of the unorganized retail sector after the opening of organized outlets. The overall impact has been a decline in turnover of about 14 per cent and in profit of about 15 per cent over the period, which is an average of 21 months. Therefore, the annual decline in turnover and profit is in the range of 8-9 per cent. The negative impact has been felt most in the West with an annual fall in turnover and profit of 19 per cent followed by the North and East in the range of 10-16 per cent whereas the effect has been virtually insignificant in South (Table 4.5).

Table 4.5: Annual Growth in Turnover and Profit of Unorganized Retail Outlets

	Sample Size	Turnover Growth (%)	Average Age of Organized Outlets (Months)	Annual Growth in Turnover (%)
North	526	-15.9	19	-10.2
West	525	-23.7	15	-19.0
East	96	-33.0	41	-11.1
South	852	2.4	24	1.2
All-India	**1999**	**-13.7**	**21**	**-8.0**
	Sample Size	**Profit Growth (%)**	**Average Age of Organized Outlets (Months)**	**Annual Growth in Profit (%)**
North	526	-17.1	19	-11.1
West	525	-24.1	15	-19.4
East	96	-44.8	41	-16.1
South	852	-1.0	24	-0.5
All-India	**1999**	**-15.3**	**21**	**-8.9**

Source: DRS-ICRIER Retail Survey 2007.

Here again, it is interesting to see that the adverse impact has been in the first 4-5 years of opening of organized outlets after which the negative effects peter out (Table 4.6).

Table 4.6: Annual Growth in Monthly Turnover and Profit of Unorganized Retail by Age of Organized Retail

Age of Organized Outlets	North (Avr. age=19 mos.)		West (Avr. age=15 mos.)		East (Avr. Age=41 mos.)		South (Avr. Age=24 mos.)		All-India (Avr.age=21 mos.)	
	Sample size (Nos.)	Turnover growth (%)	Sample size (Nos.)	Turnover growth (%)	Sample size (Nos.)	Turnover growth (%)	Sample size (Nos.)	Turnover growth (%)	Sample size (Nos.)	Turnover growth (%)
Up to 1 year	235	-23.3	290	-36.4	0	n.a	388	1.0	913	-22.8
Above 1 year up to 2 years	171	-7.9	148	-16.6	0	n.a	232	2.2	551	-7.5
Above 2 years up to 3 years	70	-8.2	59	-9.4	27	-7.7	40	-0.7	196	-7.4
Above 3 years up to 4 years	40	-5.2	20	-7.8	50	-14.0	20	-1.2	130	-8.3
Above 4 years up to 5 years	0	n.a	0	n.a	10	-19.6	29	0.9	39	-1.9
Above 5 years	10	-2.5	8	-6.1	9	-2.6	143	1.2	170	-0.3
Total	**526**	**-10.2**	**525**	**-19.0**	**96**	**-11.1**	**852**	**1.2**	**1999**	**-8.0**
	Sample size (Nos.)	Profit growth (%)	Sample size (Nos.)	Profit growth (%)	Sample size (Nos.)	Profit growth (%)	Sample size (Nos.)	Profit growth (%)	Sample size (Nos.)	Profit growth (%)
Up to 1 year	235	-20.2	290	-37.1	0	n.a	388	-4.4	913	-23.5
Above 1 year up to 2 years	171	-9.5	148	-15.6	0	n.a	232	6.1	551	-6.3
Above 2 years up to 3 years	70	-10.5	59	-12.8	27	-13.2	40	0.8	196	-9.9
Above 3 years up to 4 years	40	-6.0	20	-7.3	50	-13.6	20	-1.3	130	-8.1
Above 4 years up to 5 years	0	n.a	0	n.a	10	-26.8	29	-10.7	39	-12.6
Above 5 years	10	-4.9	8	-6.1	9	-13.0	143	1.6	170	-0.8
Total	**526**	**-11.1**	**525**	**-19.4**	**96**	**-16.1**	**852**	**-0.5**	**1999**	**-8.9**

n.a = not applicable: Nos. = Numbers.
Source: DRS-ICRIER Retail Survey 2007

The weakening of the adverse impact on the small retailers over time is also depicted in Chart 4.2a and 4.2b.

Chart 4.2a: Temporal Impact on Unorganized Retail Turnover (Annualized Growth in %)

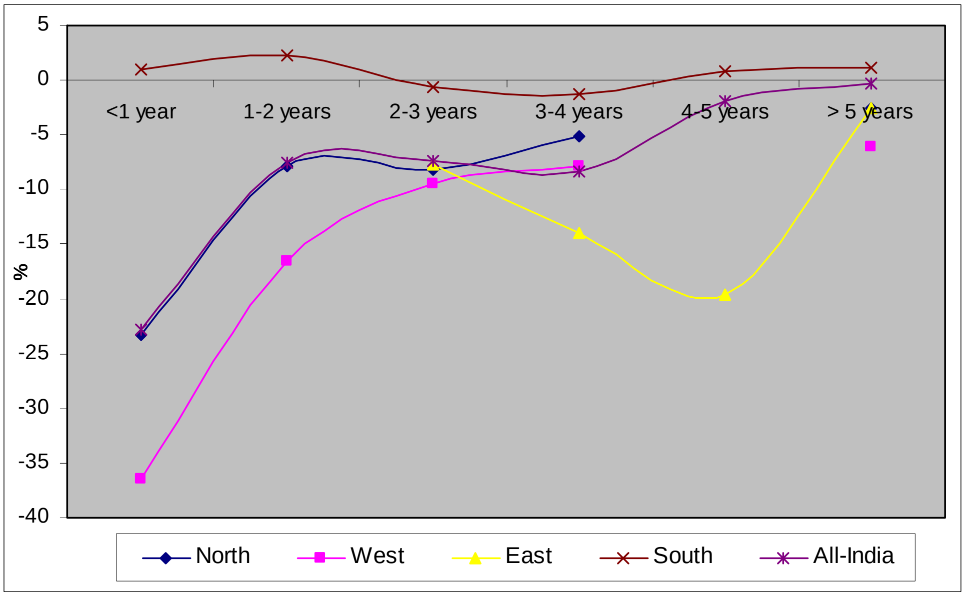
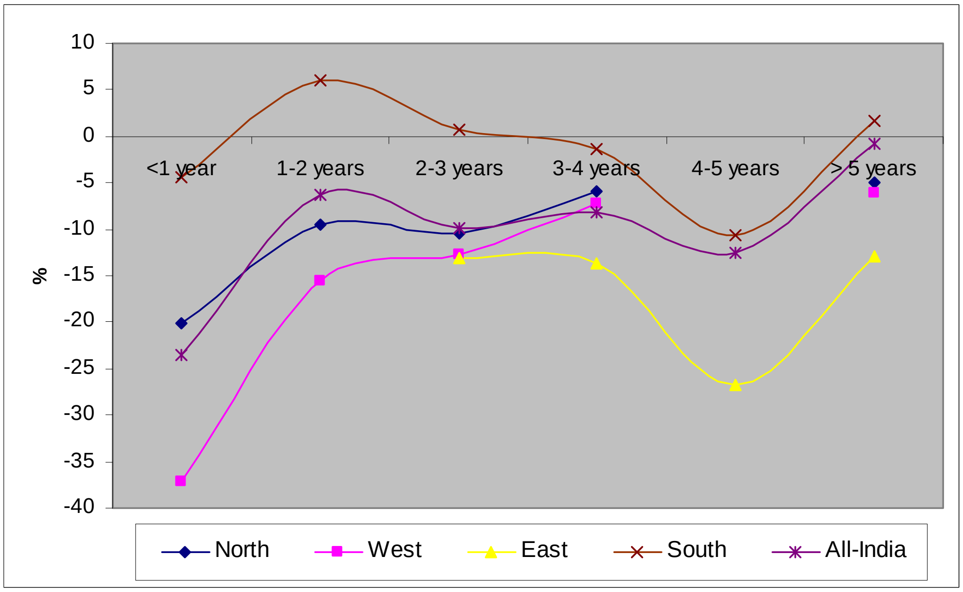


Chart 4.2b: Temporal Impact on Unorganized Retail Profit (Annualized Growth in %)



About 49 per cent of the sampled small retailers reported decrease in turnover while the rest reported either an increase (27 per cent) or no change (24 per cent). The proportion of unorganized retailers who experienced decline in turnover was highest in the East (71 per cent) followed by the West (66 per cent) and the North (57 per cent) and the South reported only a smaller proportion (30 per cent) with a decline in turnover (Table 4.7). Retailers, who reported a decline in turnover as a result of competition from organized retail, were about 59 per cent. This was highest in the East (83 per cent), followed by West (62 per cent), and South (59 per cent) and least in the North (49 per cent).

Table 4.7: Retailers Showing Fall in Turnover (% of Sampled Retailers)

	North	West	East	South	All-India
Decrease in Turnover	57	66	71	30	49
Reasons:					
• Competition from organized retail	49	62	83	59	59
• Competition from unorganized retail	13	6	4	9	9
• All other factors	38	32	13	32	32

Source: DRS-ICRIER Retail Survey 2007.

The aforementioned data provides the information collected without indicating the influence of the organized retail outlets. When the unorganized retailers were directly asked about the impact of the opening of organized outlets in their vicinity, only 40 per cent respondents admitted that there was a negative impact. Region-wise, the adverse impact of organized retail was admitted by as much as 59 per cent in the West, followed by 48 per cent both in the North and East, and in the South only 23 per cent mentioned the adverse effect (Chart 4.3a). Category-wise, the impact has been perceived more by textiles and clothing shops at 46 per cent and least by fruit and vegetable hawkers at 34 per cent (Chart 4.3b).

Chart 4.3a : Adverse Impact on Unorganized Retailers by Region (% of Sampled Retailers)

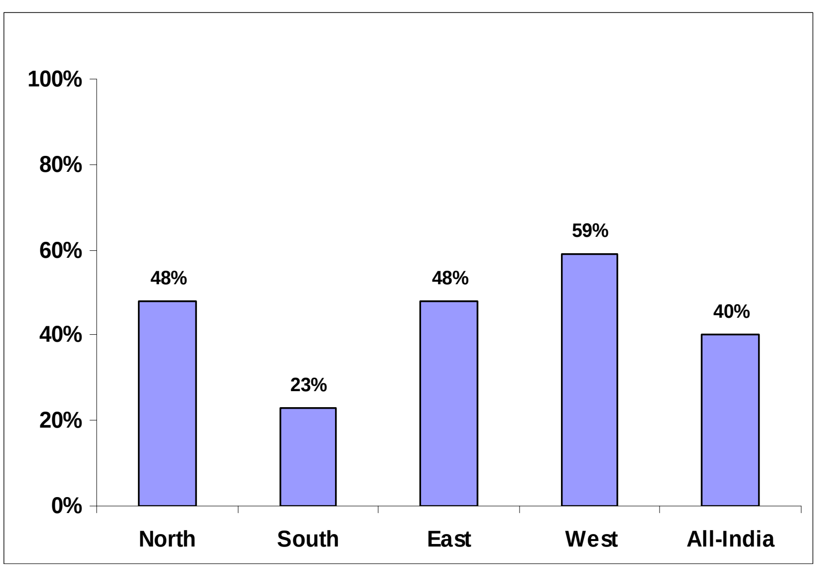
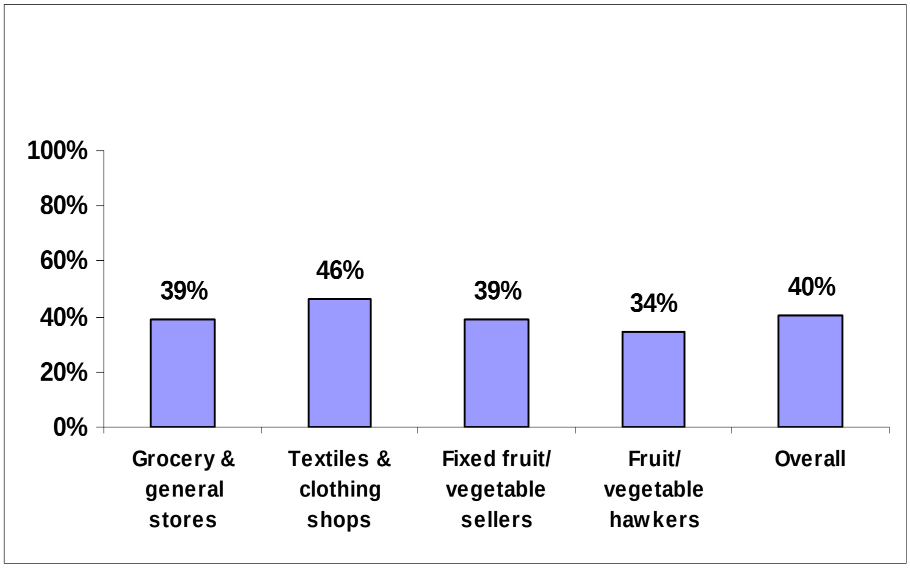


Chart 4.3b: Adverse Impact on Unorganized Retailers by Category (% of Sampled Retailers)



Source: DRS-ICRIER Retail Survey 2007.

4.4.4 Closure of Unorganized Outlets

It is interesting to know whether the presence of organized retail has led to the closure of traditional outlets. The survey asked the respondent retailers whether they are aware of any closing down of small shops in their neighbourhood after the opening of organized outlets. A total of 151 such outlets were reported to have been closed down over an average period of 21 months, which constituted about 4.2 per cent annualized closure of retailers. This ratio is somewhat higher in the West at 6.8 per cent, about 4.5 per cent in the North, 3.5 per cent in the South and least at 2.1 per cent in the East. These rates of closure are very low by international standards. The US data show a 50 per cent closure of small businesses within four years of operation (Headd, 2003).

However, only 41 per cent of the retailers attributed these closures directly to competition from organized retail. This means that the closure of unorganized retail outlets has been about 1.7 per cent a year on account of competition from organized outlets. This varied between a high of 3.2 per cent in the West to a low of 0.4 per cent in the East and 1.5 per cent in the South and 1.6 per cent in the North.

4.4.5 Response to Competition

According to the survey, unorganized retailers have indicated a number of steps taken in response to competition from organized retail, such as adding new product lines and brands, better display, renovation of the store, introduction of self service, enhanced home delivery, more credit sales, acceptance of credit cards, etc. (Table 4.8).

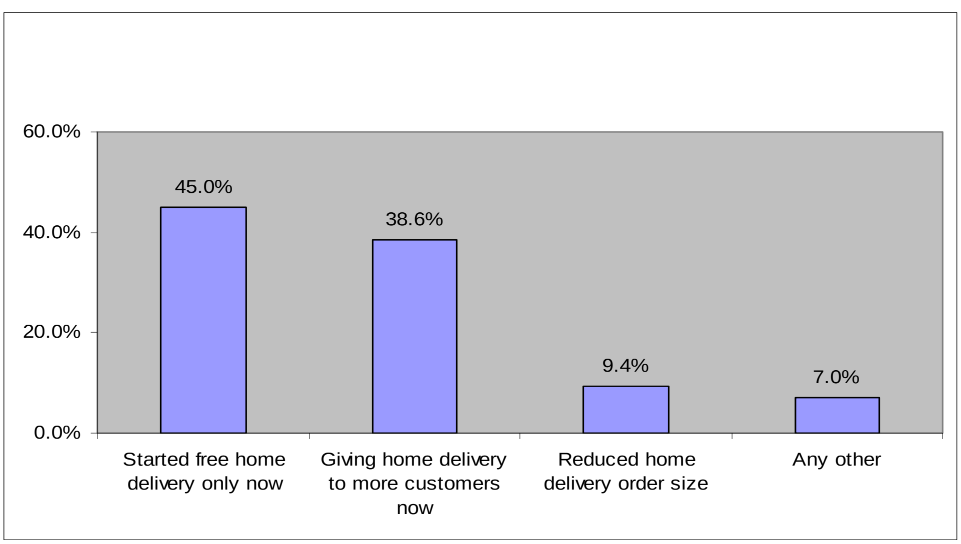
Table 4.8: Response to Competition from Organized Retail Outlets (% of Sampled Retailers)

	North	East	West	South	All-India
Reduced prices	43	31	24	33	**33**
Reduced expenses	33	38	31	36	**34**
Reduced staff	11	22	20	19	**17**
Added new product lines	47	52	56	55	**53**
Discontinued some product lines	20	22	26	34	**28**
Increased number of brands	45	57	60	60	**56**
Better display	55	56	65	60	**60**
Introduced self-service	38	7	52	24	**34**
Done up my store	32	35	58	30	**38**
Improved home delivery	22	15	32	25	**25**
Increased store space	24	10	31	20	**24**
Increased price for some consumers	4	4	3	16	**9**

Source: DRS-ICRIER Retail Survey 2007.

Home delivery is at present provided by about 32 per cent of these retailers, and this proportion is highest in the West at 39 per cent, followed by the South at 34 per cent and then the North at 24 per cent and least in the East at 17 per cent. The survey indicated increased home delivery sales after the advent of organized retail (Chart 4.4a).

Chart 4.4a : Increased Home Delivery Sales (% of Retailers reporting Home Delivery)



The results of the survey suggest that over a third of the retailers (35 per cent) currently provide cash credit to their customers and the proportion is highest at 44 per cent in the East and least in the South at 32 per cent and in between at 36-37 per cent in the West and North. The average share of credit sales to total sales has been 21 per cent, up from 13 per cent before the opening of organized outlets (Table 4.9).

Table 4.9: Cash Credit Sales

	North	East	West	South	All-India
% of Retailers giving Cash Credit	37	44	36	32	**35**
Change in cash credit sales:					
Started giving cash credit only now	24	29	49	26	**32**
Giving cash credit to more customers now	43	63	26	38	**38**
Giving cash credit for more amount	8	5	14	17	**13**
Giving cash credit for longer periods	1	-	9	13	**8**
Charging higher prices/interest on credit sales	5	-	2	3	**3**
No change	20	3	-	4	**7**
Mean per cent of cash credit sales (now)	20	23	23	19	**21**
Mean per cent of cash credit sales (before)	15	11	17	14	**13**

Source: DRS-ICRIER Retail Survey 2007.

Another interesting finding is that a section of traditional retailers are currently using a number of modern technological facilities and this section is going to widen in the future (Table 4.10). For example, acceptance of credit cards by small retailers is a new phenomenon resulting from the presence of organized retailers. Currently 7 per cent of the sampled unorganized retailers have installed credit card machines and the survey showed that a huge additional 24 per cent plan to use a credit card machine in the future. Computerized billing is done by 10 per cent of these retailers and an additional 27 per cent is planning to use it in the future. Scanning and bar coding is done currently by 4 per cent and an additional 17 per cent plan to use it in the future. Computerized accounting and inventory control is practised by 5 per cent now and 19 per cent more want to do it in the future. Refrigerant, freezer, and hot case facilities are already being used by 36 per cent and in addition 14 per cent wish to utilize it in the future. About 10 per cent of the traditional outlets are air-conditioned and another 21 per cent will opt for it in the future. Surprisingly, about 45 per cent of these retailers have an electronic weighing machine, and an additional 15 per cent want to set up this machine in the future.

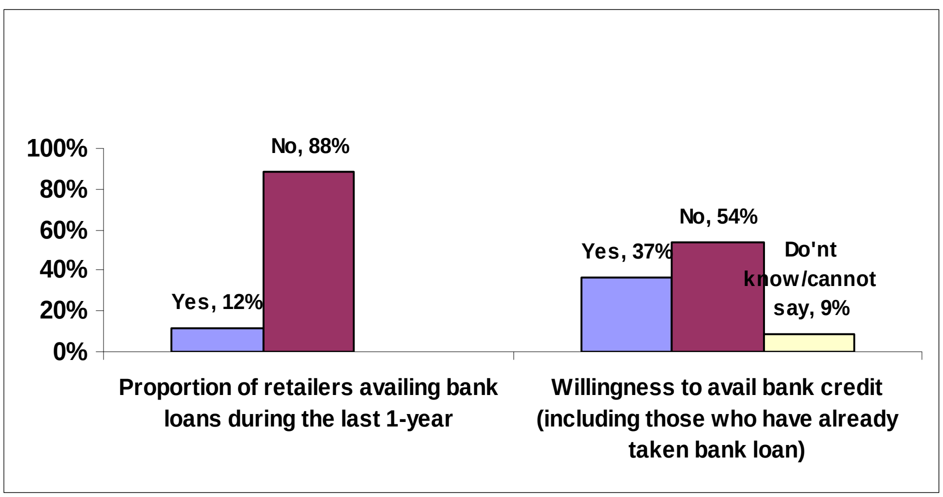
Table 4.10: Technological Facilities in Use by Unorganized Retailers (As % of Sampled Unorganized Retailers)

	Currently Available	Plan to Use in Future (Additional)
Computerized billing	10	27
Credit card machine	6	24
Scanning / bar coding	4	17
Computerized accounting / inventory control	5	19
Refrigerant/ freezer / hot case	36	14
Air-conditioning	10	21
Electronic weighing machine	45	15

Source: DRS-ICRIER Retail Survey 2007

Access to bank credit is low among the surveyed unorganized retailers; only 12 per cent of the respondents had availed themselves of bank credit during the last year. This is much below the proportion of those who wish to secure bank credit at about 37 per cent (Chart 4.5a).

Chart 4.5a : Bank Finance Situation (% of Sampled Unorganized Retailers)



Source: DRS-ICRIER Retail Survey 2007.

A majority of those who are willing to receive bank finance want it for expanding and adding additional services to the same business (Table 4.11).

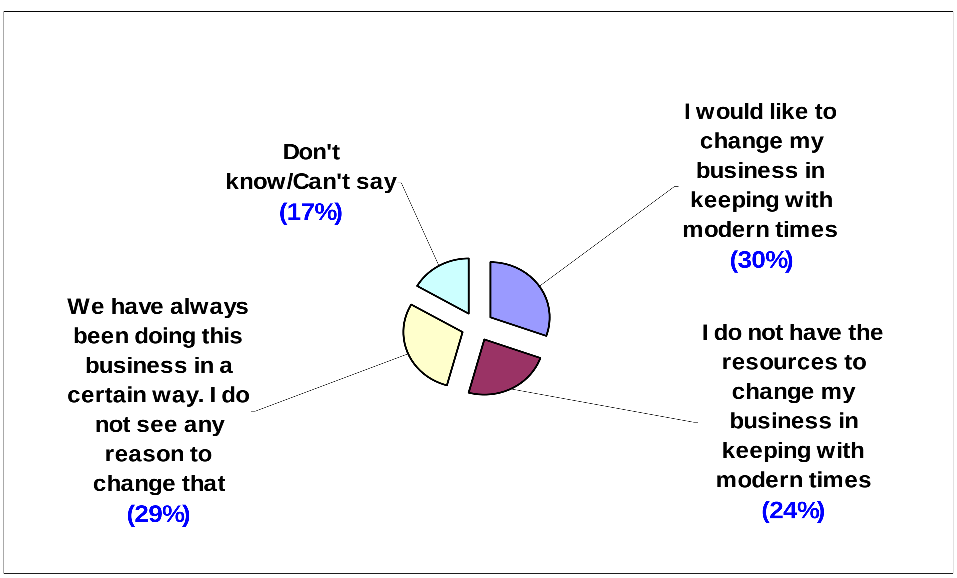
Table 4.11: Bank Finance Situation for Unorganized Retailers (As % of Sampled Unorganized Retailers)

	North	East	West	South	All-India
Proportion of Retailers availing bank finance during last year (%)	11	4	8	15	**12**
Willingness to avail of bank credit:					
Yes	33	48	25	45	**37**
No	61	41	72	40	**54**
Don't know/ can't say	5	11	2	15	**9**
If willing, what would you do with bank credit?					
Will start another business along with current business.	12	21	29	18	**19**
Will expand and add more services to the same business.	69	54	59	53	**58**
Will get out of this business and start something new.	4	4	6	6	**5**
Never thought about expanding my business even, if I had sufficient finance.	2	2	1	6	**4**
Don't know/ can't say.	13	17	5	17	**14**

Source: DRS-ICRIER Retail Survey 2007.

Despite the adverse impact so far, a large majority of unorganized retailers showed their determination to continue in business. This is indicated by their response to the need for making changes to keep up with the changing times (Chart 4.6a).

Chart 4.6a : Dealing with Competition – All-India



The region-wise attitude of the sampled small retailers in dealing with competition is shown in Table 4.11.

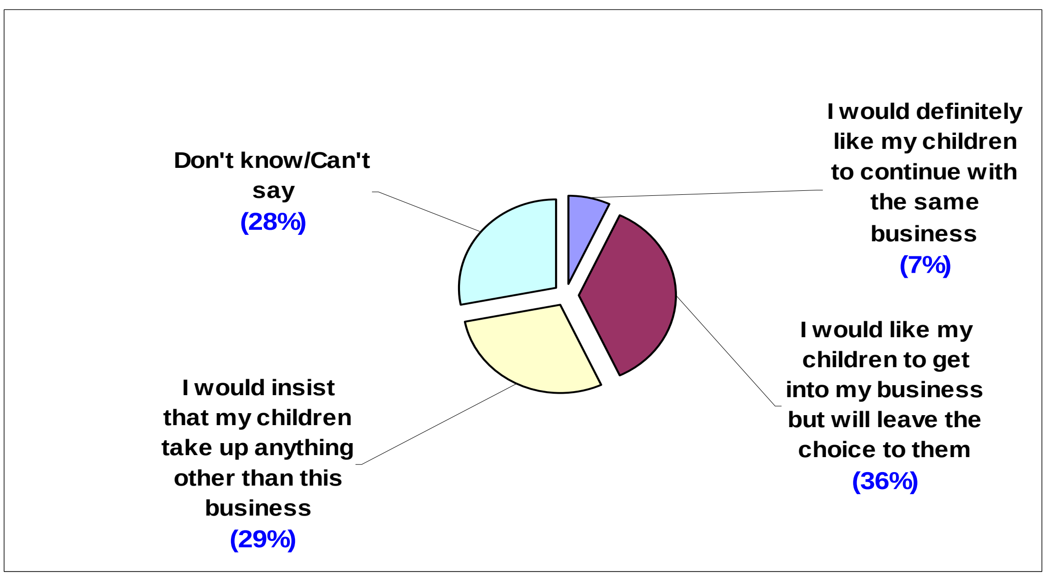
Table 4.12: Dealing with Competition by Unorganized Retailers
(In % of Sampled Unorganized Retailers)

	North	East	West	South	All-India
Would like to change business in keeping with modern times.	23	50	39	28	**30**
Do not have resources to change my business.	25	6	22	25	**24**
Doing this business in a certain way; I do not see any reason to change.	32	17	36	23	**29**
Don't know /can't say.	20	27	2	24	**17**

Source: DRS-ICRIER Retail Survey 2007

Even for the next generation, unorganized retailers want to continue the same business. Only 29 per cent of the respondents want their children to do something other than retail (Chart 4.7a).

Chart 4.7a : Attitude Towards Children Taking up Your Business – All-India



This ratio is higher in the North at 38 per cent and least in the East at 16 per cent (Table 4.13).

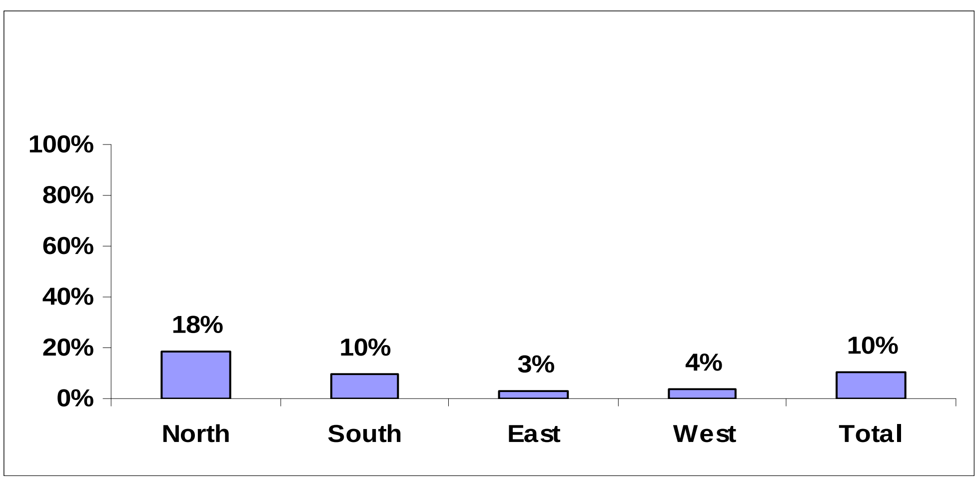
Table 4.13: Attitude towards Children taking up Your Business (As % of Sampled Retailers)

	North	East	West	South	All-India
I would definitely like my children to continue with the same business.	8	8	6	7	**7**
I would like my children to get into my business but will leave the choice to them.	39	55	32	35	**36**
I would insist that my children take up anything other than this business.	38	16	29	25	**29**
Don't know /can't say.	16	21	33	33	**28**

Source: DRS-ICRIER Retail Survey 2007.

There has been talk of organized retailers extending franchisee relationship to small retailers as a way of helping them to cope with the adverse impact. Surprisingly, unorganized retailers expressed their lack of interest to become a franchisee of organized retailers. On an average only 10 per cent are willing to take up franchisees and this proportion is hardly 3-4 per cent in the East and West but higher in the North at 18 per cent (Chart 4.8a).

Chart 4.8a : Willingness to Become Franchisee of Organized Retailers (% of Sampled Retailers)



Source: DRS-ICRIER Retail Survey 2007.

4.5 Control Sample Survey of Retailers

The above analysis has shown that unorganized retailers over the past few years have been adversely affected in terms of their turnover and profit. Is this adverse effect confined only to traditional retailers in the vicinity of organized retailers? To test this, the authors have undertaken a survey of a sample of 805 unorganized grocery outlets, fixed fruit and vegetable sellers and push cart fruit and vegetable vendors ("control sample") who are located away from the organized retailers. This was done in four cities, one each in the four regions (Delhi in the North, Kolkata in the East, Hyderabad in the South and Ahmedabad in the West). The methodology of this survey can be seen in Annex 4. The results of this survey in comparison with those done in the same cities for traditional retailers in the vicinity of organized retailers ("treatment sample") are examined below.

4.5.1 Size and Age of Outlets

As can be seen in Table 4.14, the average size and average age of outlets in both samples are similar. Although some variations exist in each city, the overall average of the store size is about 166-167 sq. ft. excluding the godown. Similarly, the average age of outlets in both samples work out to about nine years.

Table 4.14: Average Size and Age of Outlets - Control Sample vs Treatment Sample

	Sample Size		Average Size of Store* (sq. ft.)		Average Age of Outlet (years)	
	Treatment sample	Control sample	Treatment sample	Control sample	Treatment sample	Control sample
Delhi	357	363	144	142	10	9
Kolkata	58	60	130	116	14	12
Hyderabad	259	261	171	205	9	9
Ahmedabad	119	121	241	215	6	9
Overall	**793**	**805**	**167**	**166**	**9**	**9**

** Excluding godowns, if any, and push-cart vendors.*
Source: DRS-ICRIER Retail Survey 2007

4.5.2 Employment Situation

The overall employment situation showed no change in the treatment sample which is in tune with the authors' earlier analysis (Table 4.15). The treatment sample shows some decline in employment in Delhi and Ahmedabad, while Kolkata and Hyderabad have some increase in employment. In the control sample, Kolkata and Ahmedabad record strong growth in employment in the unorganized retail sector. Surprisingly, Delhi indicates a large decline in unorganized retail employment in the control sample and Hyderabad, no change.

Table 4.15: Employment Impact - Control vs Treatment Sample

	Treatment Sample			Control Sample
	Average age of organized outlets (Yrs)	**% Change in employment**	**Annualized % change in employment**	**Annual % change in employment**
Delhi	1.37	-0.91	-0.67	-3.37
Kolkata	3.02	6.19	2.01	4.58
Hyderabad	1.97	1.16	0.59	0
Ahmedabad	1.10	-3.06	-2.79	4.47
Overall	**1.65**	**0**	**0**	**-0.53**

Source: DRS-ICRIER Retail Survey 2007

4.5.3 Impact on Turnover and Profit

Table 4.16 brings out the comparative position with regard to turnover and profit for unorganized retail in both treatment and control samples. The control sample records an overall growth in turnover of about 2 per cent and profit of about 5 per cent in the past one year; in the treatment sample, both turnover and profit declined by about 10 per cent per annum. This diverse impact as between the treatment and control samples is evident in all the four cities.

Table 4.16: Impact on Turnover and Profit: Control vs Treatment Sample

	Treatment Sample			Control Sample
	Average age of organized outlets (years)	**% Change**	**Annualized % change**	**% Change over the past year**
A. Turnover				
Delhi	1.37	-18.57	-13.92	2.93
Kolkata	3.02	-36.00	-13.74	0.80
Hyderabad	1.97	-2.54	-1.30	4.91
Ahmedabad	1.10	-21.97	-20.19	-5.05
Overall	**1.65**	**-16.26**	**-10.20**	**2.11**
B. Profit				
Delhi	1.37	-16.29	-12.17	3.54
Kolkata	3.02	-34.77	-13.19	12.10
Hyderabad	1.97	-1.76	-0.90	7.41
Ahmedabad	1.10	-28.46	-26.25	1.5
Overall	**1.65**	**-16.42**	**-10.30**	**5.26**

Source: DRS-ICRIER Retail Survey 2007

The dissimilar impact as between the treatment and control samples is also seen in the proportion of retailers who experienced a decline in turnover or profit. In the treatment sample, overall 50-51 per cent of unorganized retailers indicated a decline in turnover and profit, while that proportion was only 28-29 per cent in the control sample (Table 4.17).

Table 4.17: Proportion of Retailers Showing Fall in Turnover/ Profit: Treatment Sample vs Control Sample (in per cent)

	Treatment Sample	Control Sample
A. Turnover		
Delhi	57	29
Kolkata	67	32
Hyderabad	31	25
Ahmedabad	64	35
Overall	**50**	**29**
B. Profit		
Delhi	57	29
Kolkata	74	28
Hyderabad	32	24
Ahmedabad	64	33
Overall	**51**	**28**

Source: DRS-ICRIER Retail Survey 2007

The unorganized retailers who were subject to a decline in turnover and profit were asked the major reason for that decline. In the treatment sample, 50-58 per cent of retailers who were subject to decline in turnover and profit attributed it to competition from organized retail, whereas only 24-25 per cent in the control sample attributed it to organized retail (Table 4.18). Similarly, while only 12-13 per cent quoted competition from the unorganized retailers as the main reason for decline in the treatment sample, a larger 26-32 per cent considered that as the main reason for the decline in the control sample.

Table 4.18: Reasons for Decline in Turnover/ Profit: Treatment Sample vs Control Sample (% of Sampled Retailers Subject to Decline)

	Treatment Sample	Control Sample
A. Turnover		
1. Competition from organized retail	58	25
2. Competition from unorganized retail	12	32
3. All other factors	30	43
B. Profit		
1. Competition from organized retail	50	24
2. Competition from unorganized retail	13	26
3. All other factors	37	50

Source: DRS-ICRIER Retail Survey 2007

4.6 Consumer Survey Results

The purpose of the survey of consumers is to understand the behaviour of and benefits to consumers in shopping at organized vs. unorganized retail outlets. Exit interviews were conducted with 505 consumers who shopped at 101 organized outlets in the selected 10 cities and an equal number of consumers who shopped at 101 unorganized outlets in the same cities. After dropping the outliers, the sample has 470 customers at organized outlets and 462 at unorganized outlets.

4.6.1 Income Levels of Shoppers

As expected, consumers shopping at organized outlets have higher income levels than consumers shopping at unorganized outlets. However, the middle class including the aspirers (covering monthly household income between Rs.10,000 to Rs. 1,00,000) which is the mainstay for retail, shop at both organized and unorganized outlets (Table 5.19).

Table 4.19: Average Monthly Household Income of Shoppers (% Share)

Income Group (Rupees)	Shoppers at Organized Outlets	Shoppers at Unorganized Outlets
Up to 10,000	6	27
10,001 – 20,000	36	54
20,001 – 50,000	45	16
50,001 – 1,00,000	11	2
1,00,000 -10,00,000	2	1

Source: DRS-ICRIER Retail Survey 2007

4.6.2 Location Advantage for the Unorganized Retailers

Location is a comparative advantage for unorganized retailers as the mean distance to the residence for consumers at unorganized outlets is 1.1 km compared to 2.6 km for consumers at organized outlets (Chart 4.9a). As expected, a majority of consumers walk to traditional retailers, while most of the consumers use own vehicle to reach organized outlets (Chart 4.9b).

Chart 4.9a: Distance of Retail Outlets

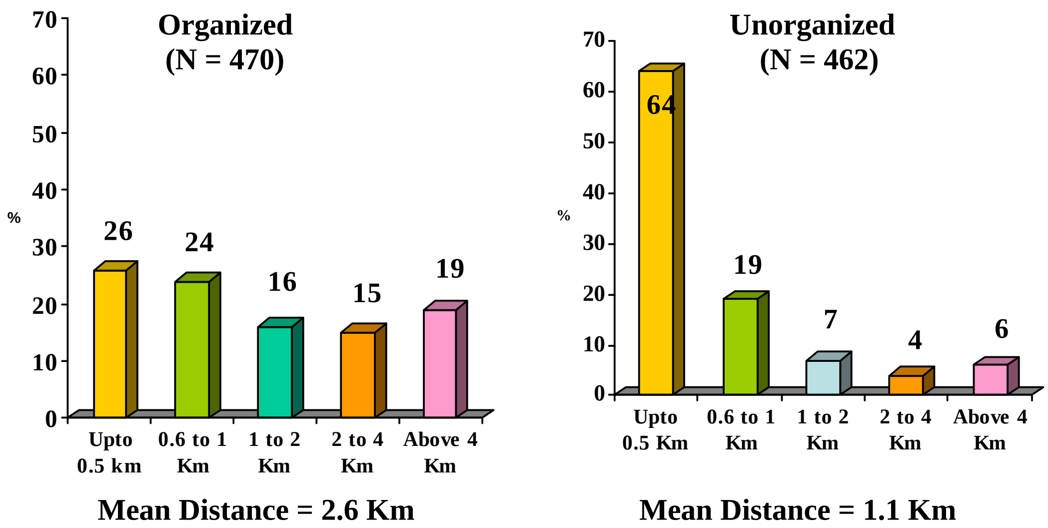
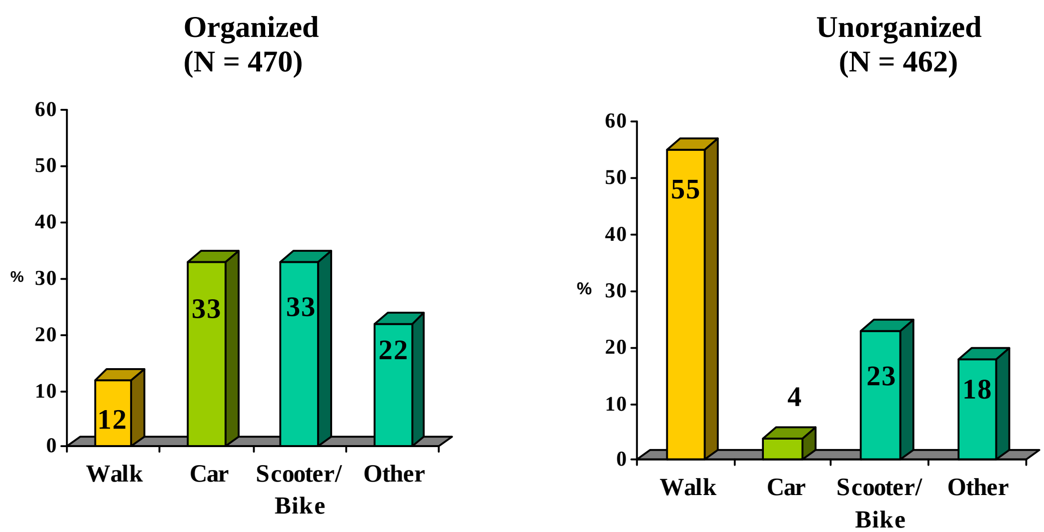


Chart 4.9b: Mode of Transport



Source: DRS-ICRIER Retail Survey 2007.

4.6.3 Preference for Organized vs Unorganized Retailers

Those who shopped at organized outlets reported the main reasons as better product quality, lower price, one-stop shopping, choice of more brands and products, family shopping, fresh stocks, etc. Those who shopped at unorganized outlets attributed it to proximity to residence, goodwill, credit availability, possibility of bargaining, choice of loose items, convenient timings, home delivery, etc.

The survey also throws light on the fact that shoppers do not shop exclusively at the organized or the unorganized outlets. They shop at both outlets and the share of spending varies from product to product. Even those who were interviewed at organized outlets, declared that 43-46 per cent of their spending on vegetables, fruit, non-staple food items, cooking oil and other packaged food items was from unorganized outlets (Table 4.20). On the whole, the sample shoppers at organized outlets make a 30 per cent of their spending on food and grocery, and textiles and clothing at unorganized outlets.

Similarly, consumers interviewed at unorganized outlets also spend at organized outlets; on an average, 39 per cent of their monthly shopping is done at organized outlets. This is relatively higher for toiletries (59 per cent), household cleaning products (45 per cent), readymade garments (45 per cent), and cooking oil (41 per cent).

Table 4.20: Share of Average Monthly Spending by Product Category of Consumers at Organized/ Unorganized Outlets (% Share)

	Consumers at Organized Outlets		Consumers at Unorganized Outlets	
	Spending at organized outlets	Spending at unorganized outlets	Spending at organized outlets	Spending at unorganized outlets
Staples	66	34	31	69
Other food items	59	41	34	66
Cooking oil	54	46	41	59
Other packaged foods	55	45	38	62
Toiletries	63	37	59	41
Household cleaning products	54	46	45	55
Fruit	56	44	36	64
Vegetables	57	43	35	65
Readymade garments	62	38	45	55
Total	**70**	**30**	**39**	**61**

Source: DRS-ICRIER Retail Survey 2007

The consumers at organized outlets were asked whether their overall spending on food and grocery, and textiles and clothing has increased, decreased, or remained the same after they started shopping from organized outlets. While 32 per cent of sampled consumers declared an increase in spending, 21 per cent indicated a decrease and the balance no change. Thus the arrival of organized retail has enhanced spending in general. The reasons indicated for higher spending have been mainly the purchase of larger quantities due to wider range of products, availability of attractive offers like discounts and promotional schemes, and access to better quality products with higher prices.

4.6.4 Savings from Organized Outlets

Do the shoppers who buy at organized outlets save money? Yes, they save but the degree of saving depends upon the type of modern formats. The sampled consumers at organized outlets reported an overall saving of 4 per cent, and the saving is higher at 8 per cent at discount stores and supermarkets, and a low of 2 per cent at hypermarkets and hardly one per cent at departmental stores (textiles and clothing outlets). Interestingly, the survey has shown that small spenders save more from shopping at organized outlets (Table 4.21).

Table 4.21: Savings from Buying at Organized Outlets by Format (as % of Spending)

Spending at Sampled Visit (Rupees)	Discount Store	Super-market	Hyper-market	Depart-mental Store	Overall
Up to 250	12	10	6	0	10
251 - 500	9	6	6	2	6
501 - 1000	7	9	6	4	7
1001 – 2000	7	10	3	2	6
2001 – 5000	5	4	0	1	1
Above 5000	0	0	2	0	0.4
Overall	**8**	**8**	**2**	**1**	**4**

Source: DRS-ICRIER Retail Survey 2007

Is it that the small spenders who save more at organized outlets are into cherry picking on discounted items irrespective of income levels or are they from the low-income brackets?

Table 4.22 shows that it is really the low-income households who save more at organized outlets.

Table 4.22: Savings from Buying at Organized Outlets by Format (as % of Spending)

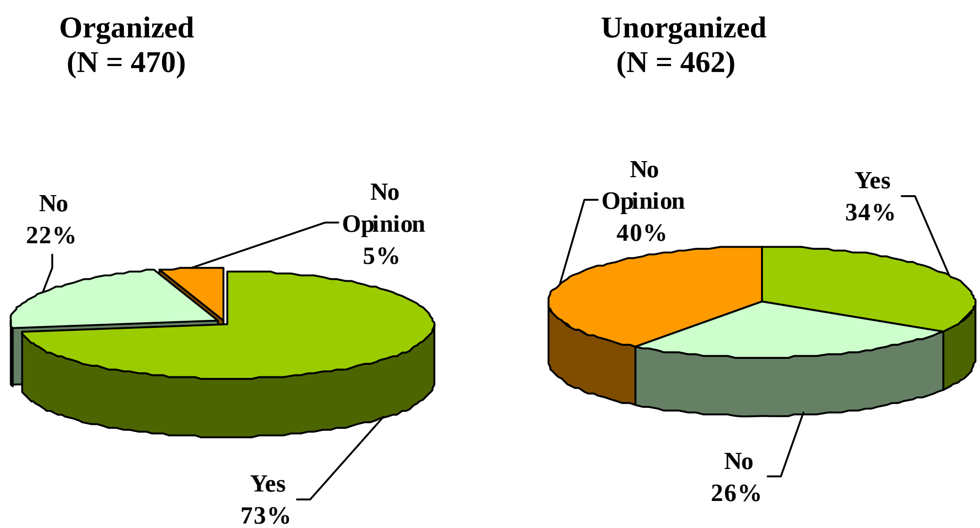
Monthly Household Income (Rupees)	Discount Store	Super-market	Hyper-market	Depart-mental Store	Overall
Up to 10,000	17	10	6	0	10
10,001 – 20,000	7	10	4	4	7
20,001 – 50,000	7	6	2	1	3
50,001 – 1,00,000	7	3	1	1	2
1,00,000 -10,00,000	0	7	0	0	1
Overall	**8**	**8**	**2**	**1**	**4**

Source: DRS-ICRIER Retail Survey 2007

4.6.5 Consumers' View on Opening of More Organized Outlets

Finally, consumers were asked about their opinion about opening of more organized outlets. Among the shoppers at organized outlets, 73 per cent wanted more organized outlets whereas only 34 per cent of shoppers at unorganized outlets preferred to have more organized outlets. Among both shoppers, a quarter did not want any more organized outlets (Chart 4.10a).

Chart 4.10a : Attitude towards Opening of More Organized Outlets



Source: DRS-ICRIER Retail Survey 2007

4.7 Consumer Survey at Unorganized Fruit and Vegetable Outlets

The above consumer survey did not include consumers who are shopping at pure fruit and vegetable shops located in fixed market areas or the push-cart hawkers selling fruit and vegetables. Separate exit interviews were conducted of a total of 308 consumers shopping at these outlets in nine major cities (all ten cities included earlier minus Kochi). The findings of this survey are given below.

4.7.1 Income Levels of Consumers

About 52 per cent of the sampled shoppers at fixed and push-cart fruit and vegetable vendors are the low-income households (monthly income up to Rs. 10,000). Within the sample, it is observed that about 37 per cent (114 numbers) of consumers shop also from organized retail outlets and the majority (63 per cent) shop exclusively from unorganized outlets. If we consider the part of shoppers who exclusively shop from these outlets, 66 per cent of them belong to the low-income group (Table 4.23). Among those who also shop from organized outlets for fruit and vegetables, the majority (71 per cent) belongs to the middle-income category (monthly household income from Rs. 10,000 to Rs. 1,00,000).

Table 4.23: Average Monthly Household Income of Consumers at Unorganized Fruit & Vegetable Outlets (% Share)

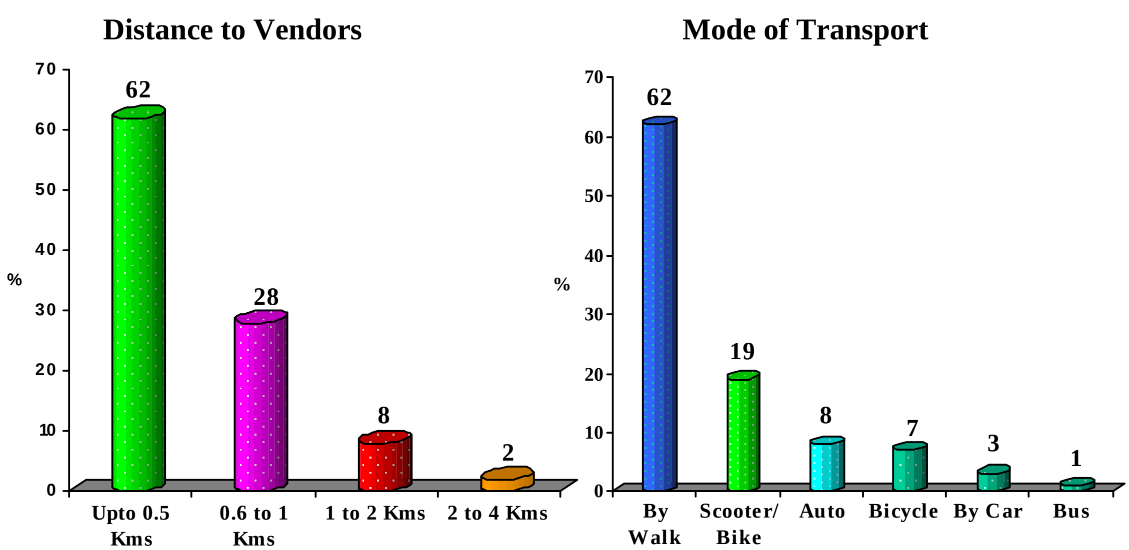
Income Group (Rupees)	Total (N = 308)	Consumers Buying also from Organized Outlets (N = 114)	Consumers Buying only from Unorganized Outlets (N = 194)
Up to 10,000	52	28	66
10,001 – 20,000	**32**	**43**	**25**
20,001 – 50,000	**14**	**24**	**8**
50,001 – 1,00,000	**1**	**4**	**1**
1,00,000 -10,00,000	1	1	0

Source: DRS-ICRIER Retail Survey 2007

4.7.2 Attractiveness of Shopping from Fruit and Vegetable Vendors

Proximity comes out clearly as the major advantage of the traditional fruit and vegetable shops and hawkers with their mean distance for consumers at just one km (Chart 4.11a). A majority of consumers walk to these outlets (62 per cent), some travel by scooter or motor cycle (19 per cent). These results are similar to what was evident in the case of consumers shopping at neighbourhood *kirana* shops.

Chart 4.11a : Distance and Mode of Transport to Unorganized Retail Vendors



Mean Distance = 1.04 km

Besides closeness to residence, the survey has highlighted the other attractive features of shopping from these retail outlets as: possibility of bargaining, freshness of products, better quality, lower price, choice of varieties, credit availability, convenient timings, etc.

4.7.3 Share of Purchases, Organized vs Unorganized Outlets

As indicated earlier, some of the consumers who shop at unorganized fruit and vegetable outlets also shop from organized outlets. On an average, these shoppers make 11 purchases in a month of which two are made from organized outlets. In the case of the shoppers who also shop from organized outlets (which constitute 37 per cent of the sample); they make 13 purchases a month of which four are from organized outlets. If we consider all those who shop exclusively from unorganized outlets, they shop 10 times a month (Table 4.24).

As regards the level of spending in these outlets, the consumers on an average spend approximately Rs. 1,085 in a month on fruit and vegetables of which nearly one-fifth is spent at organized outlets. If one takes into account only those who shop also from organized outlets, they make over two-fifths of their fruit and vegetable purchases from organized outlets.

Table 4.24: Share of Purchases of Consumers at Unorganized Fruit & Vegetable Outlets (% Share)

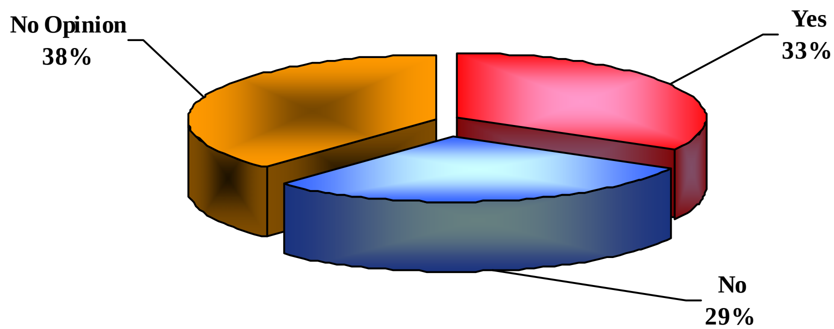
	Total (N = 308)	Consumers Buying also from Organized Outlets (N = 114)	Consumers Buying only from Unorganized Outlets (N = 194)
A. Frequency of monthly purchases			
1. Average number of purchases	11	13	10
2. Purchases from organized outlets	2	4	0
3. Purchases from unorganized outlets	9	9	10
B. Monthly expenditure			
1. Average monthly expenditure (Rs.)	1085	1307	955
2. % Spending at organized outlets	18.7	41.8	0
3. % Spending at unorganized outlets	81.3	58.2	100.0

Source: DRS-ICRIER Retail Survey 2007

4.7.4 Preference for Additional Organized Outlets

These consumers were also asked whether they would like the opening of additional organized outlets for fruit and vegetables, a third answered in the positive. About 29 per cent did not want any additional organized outlets and 38 per cent did not have any opinion (Chart 4.12a).

Chart 4.12a : Preference for Additional Organized Outlets for Fruit & Vegetables



Source: DRS-ICRIER Retail Survey 2007.

4.8 Intermediary Survey Results

The profile of the sampled 97 intermediaries by type and by commodity and product group is given in Table 4.25.

Table 4.25: Profile of Sampled Intermediaries by Type and Commodity/ Product Group (in numbers)

	Cooking Oil	Rice	Wheat	Pulses	Packaged Consumer Products	Fruit	Veget-ables	Apparel	Total*
Commission agent	0	1	0	1	0	3	3	0	**8**
Miller/trader	1	1	2	4	3	0	0	2	**9**
Regional wholesaler	0	1	1	0	2	0	1	1	**5**
C & F agent	0	0	0	0	0	0	0	1	**1**
Wholesaler	5	4	7	6	8	5	5	5	**41**
Local comm-ission agent	0	0	0	0	1	0	1	0	**2**
Company stockist	4	2	3	3	10	0	0	2	**19**
Distributor	1	2	2	2	1	1	0	0	**7**
Authorized dealer	0	2	0	2	1	0	0	0	**3**
Others	2	0	0	0	0	0	0	0	**2**

* *In some cases, the same intermediary is engaged in more than one product category and hence the row total may add more than the last column total.*
Source: DRS-ICRIER Retail Survey 2007

4.8.1 Business Profile and Employment

Intermediation is the core business for 96 per cent of the sampled intermediaries. A majority of them have been in business for a very long period: 36 per cent are in business for more than 20 years and only 29 per cent are for less than 10 years.

Thirty-two per cent of the intermediaries interviewed are company-appointed stockists or distributors. A bulk of the sampled intermediaries has good infrastructural backing: 71 per cent have warehouses and 80 per cent of them own those warehouses; 50 per cent of the intermediaries have their own transport and 77 per cent of them own them. 97 intermediaries employed 586 persons under them in 2006-07, almost the same number of 587 employees in 2005-06.

4.8.2 Business Turnover and Profit

The sampled intermediaries reported an increase of turnover by 7.5 per cent in 2006-07 over 2005-06 and an increase in profit by 15 per cent also over the same period. However, the sample indicated that there was: (i) some decline in turnover in fruit, vegetables and apparel; (ii) a decline in profit in vegetables and apparel; and (iii) stagnation in profit in pulses, packaged consumer products and fruit (Table 4.26).

Table 4.26: Turnover and Profit by Product Category

Product/ Commodity	**Average Turnover (Rs. million)**		**Average Profit (Rs. million)**	
	2005-06	**2006-07**	**2005-06**	**2006-07**
Cooking oil	21.3	22.0	1.4	1.5
Rice	15.0	16.6	2.7	3.4
Wheat	11.8	12.6	2.0	2.7
Pulses	11.6	12.7	1.0	1.0
Packaged consumer products	8.1	11.2	0.7	0.7
Fruit	8.1	7.9	0.5	0.5
Vegetables	4.1	3.6	0.3	0.2
Apparel	7.9	7.8	0.6	0.5
Total average	**10.6**	**11.4**	**1.0**	**1.15**

Source: DRS-ICRIER Retail Survey 2007

The sampled intermediaries were asked whether they have experienced an increase, decrease or constant turnover and profit in the past year compared to the previous year. In both turnover and profit, the number who reported increase had been 23-24 per cent which is lower than those who reported decrease (33 per cent for turnover and 38 per cent for profit). With both overall turnover and profit showing an increase, it implies that the smaller intermediaries have been affected. Interestingly, product-wise response indicated that a greater number of intermediaries had decreases than increases except in product categories of rice and wheat for both turnover and profit, and pulses for turnover (Table 4.27).

Table 4.27: Change in Turnover and Profit by Product Category

Product/ Commodity	Turnover in 2006-07 over 2005-06			Profit in 2006-07 over 2005-06		
	Increase	**Decrease**	**Same**	**Increase**	**Decrease**	**Same**
Edible Oil	23	54	23	23	54	23
Rice	31	23	46	38	31	31
Wheat	27	7	67	27	7	66
Pulses	28	17	56	28	28	44
Packaged consumer Products	31	31	38	31	34	35
Fruit	33	44	23	33	56	11
Vegetables	0	50	50	0	50	50
Apparel	9	27	64	0	27	73
Overall	**24**	**33**	**43**	**23**	**38**	**39**

Note: The figures are in terms of percentage of respondents who are 97 in number
Source: DRS-ICRIER Retail Survey 2007

Intermediaries were asked whether the emergence of organized retail had any adverse impact on them. Thirty seven per cent have admitted an adverse impact, while 59 per cent indicated no adverse impact. However a larger proportion of intermediaries dealing in commodities, such as rice (54 per cent), fruit (56 per cent), vegetables (50 per cent) and packaged consumer products (42 per cent) have indicated negative impact (Table 4.28).

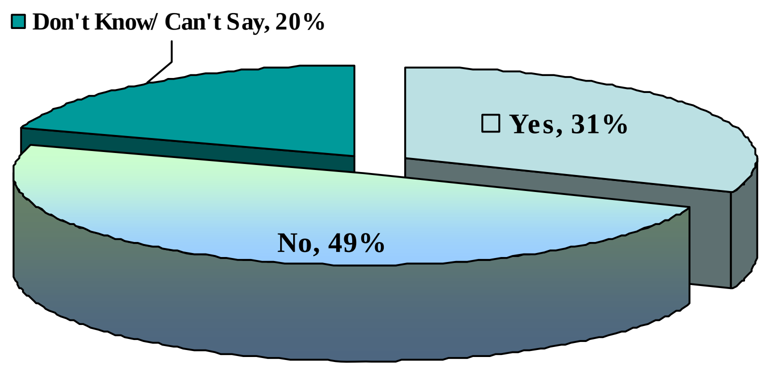
Table 4.28: Adverse Impact of Organized Retail on Intermediaries

Product/ Commodity	Yes	No	Don't Know/ Can't Say
Cooking oil	31	62	8
Rice	54	46	0
Wheat	20	80	0
Pulses	22	67	11
Packaged consumer products	42	58	0
Fruit	56	44	0
Vegetables	50	50	0
Apparel	18	73	9
Overall	**37**	**59**	**4**

Note: The figures are in terms of percentage of respondents who are 97 in number.
Source: DRS-ICRIER Retail Survey 2007

The intermediaries were also asked whether they adopted changes in their business strategy to meet the threat from organized retail. Only 19 per cent had admitted changes in business strategy during 2006-07. The measures included improved services to customers, reduction in margins, dealing in better quality products, reduction of expenditure, reduced staff, new product lines, and increased credit sales. While 37 per cent had indicated adverse impact of organized retail, a lower proportion of 31 per cent intermediaries reported possible adverse impact of organized retail in their future business (Chart 4.13a). Even this 31 per cent plan different strategies to remain competitive to cope with the adverse effect of organized retailing, such as offering discounts, reducing margins, putting pressure on the government, shifting to better quality and branded products, increasing the variety of products, enhancing credit facility, etc.

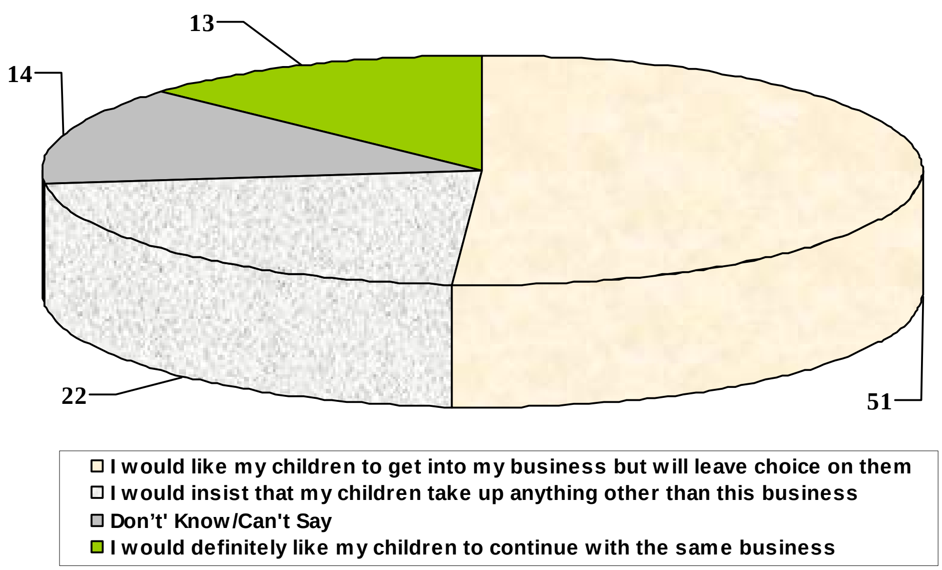
Chart 4.13a : Adverse Impact on Future Business



Source: DRS-ICRIER Retail Survey 2007.

With regard to future plans, 66 per cent are prepared to invest and expand business and remain competitive. About 89 per cent want to remain in the same business, while only 3 per cent are thinking of changing the business line. An overwhelming proportion – almost two-thirds want their children to get into intermediary business and only 22 per cent did not want their children to be in the same business (Chart 4.14a).

Chart 4.14a : Succession Plans



5. Impact of Organized Retailing on Producers

5.1 Introduction

This chapter analyses the impact of organized retail on farmers and manufacturers. The study of the impact of organized retail on farmers is undertaken in two parts. The first part explores the supply chain of agricultural produce. This has been done for cauliflower farmers in Hoskote, Bangalore.[14] The second part is an exhaustive survey of 197 cauliflower farmers in the same area. These farmers rely on multiple channels to sell their produce and the results of this survey have been analysed to find out the comparative advantages for the farmer.

The chapter also reports the findings from interviews of manufacturers. To understand the impact on manufacturers, interviews of the management were conducted for 12 important FMCG and apparel producers. In addition, 20 small producers were also interviewed separately to learn about how the small sector is impacted and is coping with the emergence of organized retail.

5.2 Plotting the Supply Chain

Subsequent to the investigation in and around Bangalore (Hoskote), where interviews were conducted with all market players in the supply chain, seven unique supply chains were mapped (Chart 5.1). These chains trace the various paths adopted by the farmer to sell his produce. The only logistic service providers are the transporters. Most of the services required, such as loading, unloading, grading, sorting and packing, are undertaken either by the farmer or the intermediary or the retailer. These services are value additions for either the farmer or the retailer. The selling price of the cauliflower is given in rupees in the arrow box below each player's name. All prices are applicable for one head of cauliflower. The cauliflower is graded by size and weight.[15] Not all players buy all the grades of cauliflower. Hence prices of only those grades that the respective player sells to the buyer are given.

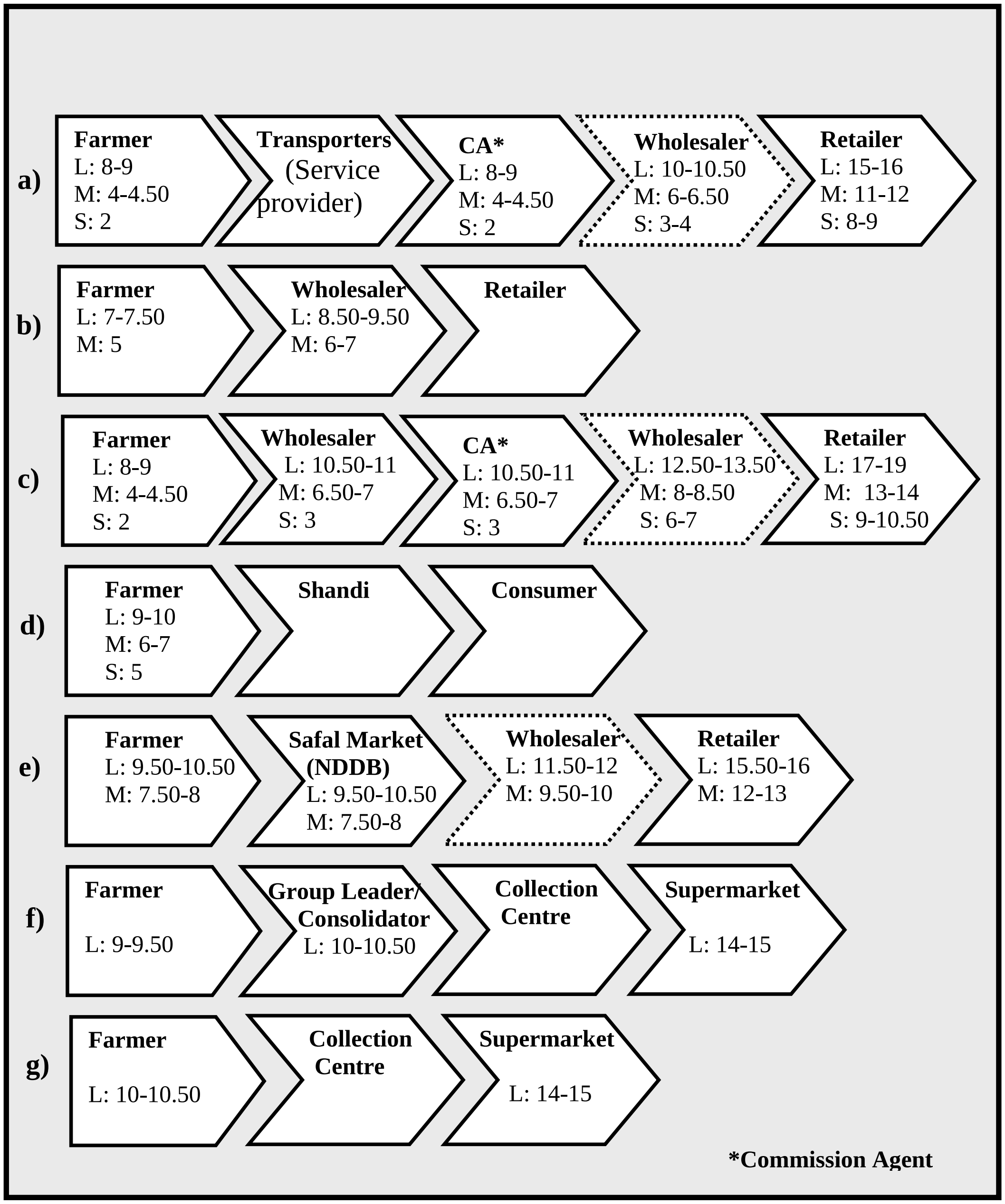
The presence of those intermediaries (wholesalers) within the dotted arrow boxes is optional. On most occasions, these wholesalers are absent from the chain. These wholesalers are typically responsible for the produce reaching the small retailers such as the small stationery vegetable shops and the many push-cart vendors and hawkers.

With the exception of the last two chains, (f) and (g)), which pertain only to organized retailers, in all the other chains, the retailer may be an organized or a traditional retailer. Most farmers utilize a mix of the chains listed above.

[14] The climate in Bangalore is suited to growing cauliflower throughout the year. The vegetable is transported from Bangalore to other states in India all through the year. Hoskote is one of the largest cauliflower producing areas in the country.

[15] A cauliflower weighing over 750g is considered as "large" (L), while a "medium" (M) weighs between 400-750g and a head that weighs less than 400g is "small" (S).

Chart 5.1: The Cauliflower Supply Chain



5.2.1 Cost of Cultivation

Investigation at the field level indicated that cultivation practices of farmers supplying to organized retailers and farmers not doing so were different. Therefore, interviews were held with both categories of farmers to understand farming practices and differences in the costs, if any, of cultivation.

Table 5.1 provides the number of cauliflowers planted and harvested by the farmer differentiated as between the various channels to which he sells his produce.

Table 5.1: Sowing Patterns of Farmers

Cauliflowers Planted and Harvested per Acre							
Number of Cauliflowers		**First Buyer or Market of the Farmer**					
		Mandi	**Wholesaler**	**Shandi**	**NDDB**	**Consolidator**	**Retailer**
I	Total planted	18000	18000	18000	18000	15000	12000
II	Numbers harvested						
(a)	Large	6000	6000	6000	6000	10000	7000
(b)	Medium	4000	4000	4000	4000	3000	2500
(c)	Small	2000	2000	2000	2000	1000	1500
	Total	12000	12000	12000	12000	14000	11000
III	Wastage[16]	6000	6000	6000	6000	1000	1000

Source: Compiled from interviews conducted by ICRIER

A farmer who does not supply to an organized retailer, directly or through a consolidator, seems to sow as many as 18,000 heads per acre of land. Farmers who do supply to organized retailers stated that sowing fewer heads ensures better quality produce. The farmers also stated that retailers too recommend the sowing of not more than 15,000 heads on an acre of land. Farmers who do not supply to organized retailers are aware that the crop yields bigger and better quality heads when fewer numbers are sown. However, they stated that greater numbers meant more flowers to sell. Interestingly, as per information collected and tabulated above, wastage is the highest among the farmers who are not associated with organized retailers. Farmers associated with organized retailers seem to not only have low wastage but also better quality yields.

Table 5.2 puts down the costs of cultivation per acre of different farmers categorized by the first buyer or market that they sell to. The costs of cultivation for farmers supplying to the *mandi*, wholesaler, shandi or the NDDB market are the same. The differences arise in commissions payable and charges payable for transport and loading and/or offloading. All costs, except commission, are expressed in rupees. Commission is expressed in terms of percentage of the selling price.

From Table 5.2 it is evident that the farmer, who supplies to the consolidator[17] (who in turn supplies to the organized retailer), incurs the highest cost for crop care. However, that farmer also has a fair number of “large” cauliflowers and low wastage. The same is true of a farmer supplying to an organized retailer directly. The farmers

[16] Wastage here refers to the number of cauliflower heads that are not fit to be sold or consumed. Some farmers however do choose to feed the same to cattle.

[17] The consolidator is sometimes also referred to as the group leader.

who are not associated with organized retailers spend only half of what their counterparts do on crop care. It is perhaps because of this that the quality of the yield varies substantially.

Table 5.2 Cost of Cultivation of Cauliflower per Acre

Stages of the Supply Chain	First Buyer or Market of the Farmer					
	Mandi	**Wholesaler**	**Shandi**	**NDDB**	**Consolidator**	**Retailer**
Cost of Cultivation						
Land preparation	10,600	10,600	10,600	10,600	10,100	13,400
Crop care	7,100	7,100	7,100	7,100	20,750	12,325
Labour	2,800	2,800	2,800	2,800	9,000	4,600
Total	**20,500**	**20,500**	**20,500**	**20,500**	**39,850**	**30,325**
Logistics						
Loading/ Offloading	300	0	0	0	0	0
Transport	1000	0	200	500	0	0
Total	**1,300**	**0**	**200**	**500**	**0**	**0**
Commission	10%	0	0	0	0	0
Total Cost (excluding commission)	**21,800**	**20,500**	**20,700**	**21,000**	**39,850**	**30,325**

Source: Compiled from interviews conducted by ICRIER

5.2.2 Farmer's Profit

Table 5.3 computes farmer's profit. Costs of production in column two of the table is inclusive of the 10 per cent commission that is payable by the farmer to the commission agent. A 10 per cent commission has been computed on the sale proceeds received by the farmer for a large, medium, and small head of cauliflower and the total of the three has been added to the cost of cultivation value given in Table 5.2. The costs of production of those farmers selling either directly or through the consolidator to the organized retailer in the value chain (f) and (g) also show an increase in the cost of production. These farmers typically sell their large heads to the organized retailer and use value chain (a) to sell the rest of their produce at the *mandi*. The cost of production of the farmers using value chains (f) and (g) is also inclusive of costs incurred for selling a part of their produce at the *mandi*.

Table 5.3: Farmer's Profit for Cauliflower

Value Chain	Cost of Production per Acre (in Rs.)	Prices Received (in Rs.)			Sales Proceed (in Rs.)			Total Sales Proceed (in Rs.)	Total Profit (in Rs.)	Profit Per Head (in Rs.)
		Large	Medium	Small	Large	Medium	Small			
(a)	29,400	9	4.5	2	54,000	18,000	4,000	76,000	46,600	3.88
(b)	20,500	9.5	7	1.5	57,000	28,000	3,000	88,000	67,500	5.62
(c)	20,500	11	7	3	66,000	28,000	6,000	1,00,000	79,500	6.62
(d)	20,700	10	7	5	60,000	28,000	10,000	98,000	77,300	6.44
(e)	21,000	10.5	8	1.5	63,000	32,000	3,000	98,000	77,000	6.41
(f)	40,350	9.5	8	1.5	95,000	24,000	1,500	1,20,500	80,150	5.72
(g)	30,825	10.5	8	1.5	73,500	20,000	2,250	95,750	64,925	5.90

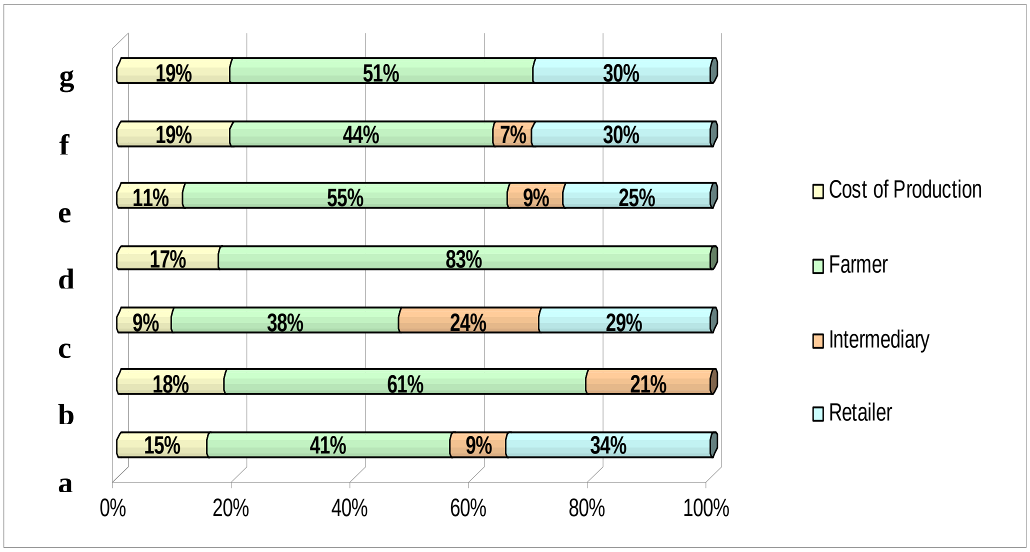
Note: See Chart 5.1 for Supply Chains (a) to (g).
Source: Compiled from interviews conducted by ICRIER

It is evident from the above table that the farmer using value chain (a) makes far less profit per flower than a farmer using any of the other chains. This is despite the fact that the costs of production of the farmer using the *mandi* is significantly lower than a farmer who produces cauliflower to supply to an organized retailer. The reason why a farmer using chain (c) is better off than all others is because the final price paid by the consumer in that chain is significantly higher than all other chains. The farmer is able to absorb some of this added margin. With the exception of this particular value chain, it is justified to infer from all other supply chains that the profit per flower decreases with the increase in the number of intermediaries in the supply chain.

5.2.3 Profit Margin for Each Player in the Supply Chain

Chart 5.2 depicts the share of margin of each player. Shares have been computed as a proportion of the selling price to the consumer in each respective chain, for one large cauliflower.

Chart 5.2: Share of Profit for Farmer, Intermediary and Retailer in the Consumer Price of Cauliflower



While here it is true that the farmer does receive a reasonable share of the selling price in all the chains, it is also true that he could receive more if there is less number of intermediaries. The value chains (b) and (e) are used scarcely, and value chain (d) has the farmer selling directly to the consumer. In value chain (f) and (g), where the farmer is linked to the organized retailer, he receives a relatively higher share of the selling price, compared to value chain (a) which is the traditional *mandi* channel.

5.3 Farmer Survey Results

The details of the methodology for the farmer survey are provided in Annex 4.

The analysis of the survey results has been organized as follows:

1. Farmer profiling
    a. Education
    b. Land ownership and irrigation facility
    c. Asset ownership
    d. Vehicle ownership
    e. Availing of credit

2. Quantitative advantages (profitability of the farmer)

3. Qualitative advantages

5.3.1 Farmer Grouping

A two-way grouping of farmers was adopted. Group one was used for profiling the farmers and computing the costs of cultivation. Group two was used to compute the costs of transaction.

Group one is a mutually exclusive grouping of farmers based on where the farmer sells the majority of his produce. Of the 197 farmers surveyed, 145 supply the majority of their produce to the *mandi*, 12 to the retailers' collection centre, 8 through the consolidator to organized retail, two to the Safal *mandi*, 26 to the wholesaler, and the remaining four to local villagers, and the shandi at Bangalore city.

Group two is a non-mutually exclusive grouping of farmers based on the choice of the marketing channels adopted by the farmer for the sale of their produce. Each group contained the number of farmers opting to sell their produce, irrespective of the share of the sale of produce, through the respective channel. Of the farmers that were surveyed 171 farmers sell some part of their produce to the commission agent at the *mandi*, 24 farmers sell some part to the organized retailer directly, 20 farmers sell a part of the share to the organized retailer through a consolidator, 65 farmers sell some share of their produce to the wholesaler, and 22 sell a part of their produce to local villagers and at the shandi. Interestingly, there were only two farmers amongst those surveyed that used the Safal *mandi* as a marketing channel to sell their produce.

Table 5.4: Farmer Grouping

	Commission Agent	**Collection Centre**	**Consolidator**	**Safal *Mandi***	**Wholesaler**	**Shandi & Local Villager**	**Total**
For Profiling/ Cultivation Cost calculation **(Group One)**	145	12	8	2	26	4	**197**
For Calculation of Costs of Sales transactions **(Group Two)**	171	24	20	2	65	22	**304**

Source: DRS-ICRIER Retailer Survey 2007

5.3.2 Farmer Profiling

Education Level

Table 5.5 shows the education level of the farmers opting for any marketing channel. The farmers selling to the collection centre directly or through a consolidator seem to have a relatively larger proportion with an education equivalent to the secondary or intermediate level.

Table 5.5: Level of Education of Head of Farmer Households (%)

Education level	**Overall**	**Commission Agent**	**Collection Centre**	**Consolidator**	**Safal *Mandi***	**Wholesaler**	**Shandi & Local Villager**
No. of Farmers	197	145	12	8	2	26	4
No. of Farmers (%)	100	100	100	100	100	100	100
Illiterate	12	15	0	0	0	4	0
Literate but no formal schooling	24	22	**42**	**38**	50	15	50
Primary/ up to 5th standard	29	29	**33**	**13**	50	31	25
Secondary/ up to 10th standard	28	30	**17**	**25**	0	31	25
Intermediate/ up to 12th standard	6	3	**8**	**25**	0	12	0
Diploma	1	1	0	0	0	4	0
Some college, but not graduate	1	0	0	0	0	4	0

Source: DRS-ICRIER Retailer Survey 2007

Land Ownership and Irrigation

It was found from the survey that farmers supplying to the organized outlets through a consolidator and farmers opting to sell to the Safal *mandi* own larger land holdings than those selling to other outlets (Table 5.6). Also, in the case of farmers supplying either directly or through the consolidator to the organized outlets, their land is well irrigated.

Table 5.6: Land Ownership (Owned and Leased)

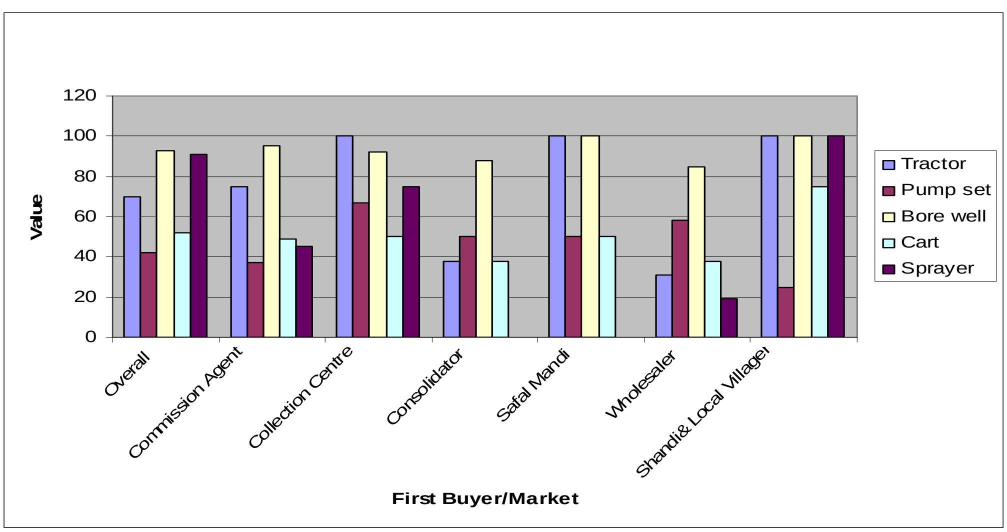
Land Ownership	Overall	Commission Agent	Collection Centre	Consolidator	Safal *Mandi*	Wholesaler	Shandi& Local Villager
No. of Farmers	197	145	12	8	2	26	4
Size of operated total land (in acres)	4.43	4.49	**4.42**	**9.38**	**9.5**	2.33	3.75
Operated Land leased-out (in acres)	0.07	0.1	0	0	0	0	0
Operated Owned Land (In acres)	4.36	4.39	4.42	9.38	9.5	2.31	3.75
Operated Lease-In Land	0.07	0.1	0	0	0	0.02	0
% Area under irrigation	51	60	**77**	**61**	42	**80**	60

Source: DRS-ICRIER Retailer Survey 2007

Asset Ownership and Vehicle Ownership

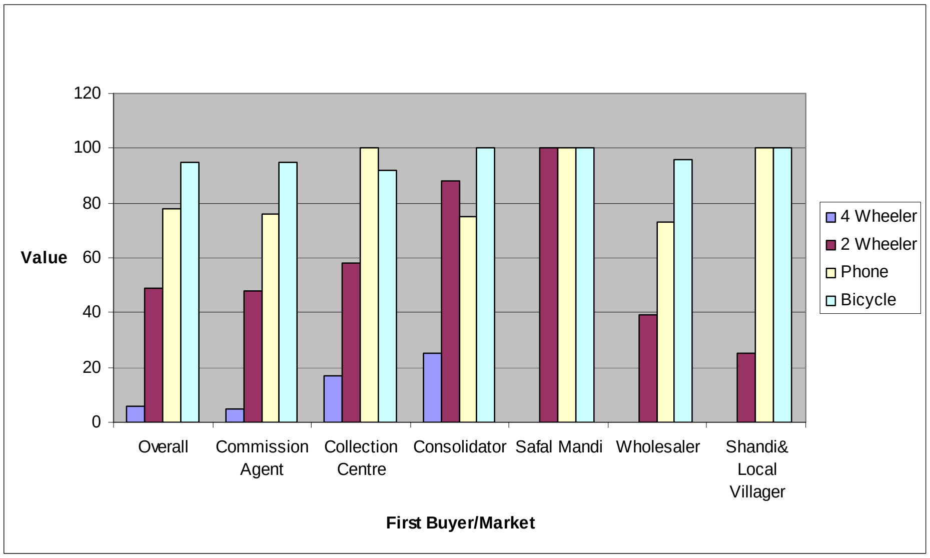
The farmers associated directly with organized retail also seem to be better endowed with assets. The most common form of irrigation in the area seems to be through borewell and a large part of the surveyed farmers own a tractor too (Chart 5.3).

Chart 5.3 : Asset Ownership (in %)



A major feature in ownership of assets is that farmers associated directly or indirectly with organized retail own four-wheelers. It is through these four-wheelers that farmers transport their produce, while other farmers incur costs for transport hiring (Chart 5.4).

Chart 5.4 : Vehicle Ownership (in %)



Credit Availability

Farmers avail of two kinds of credit for: (a) personal needs, and (b) cultivation. A common perception has been that most farmers prefer to go to the village money lender or to the commission agent for loans. While this seems to be true in the case of personal loans, most farmers seem to approach the banks for agricultural operations (Table 5.7).

Table 5.7: Sources of Finance for Cultivation

Agriculture Loan	**Overall**	**Commission Agent**	**Collection Centre**	**Consolidator**	**Safal *Mandi***	**Wholesaler**	**Shandi& Local Villager**
No. of farmers	**197**	**145**	**12**	**8**	**2**	**26**	**4**
% Availing of credit	**42**	**45**	**75**	**0**	**0**	**19**	**100**
Source of Loan (Yes, %)							
Bank	40	42	**75**	0	0	15	100
Village lender	**1**	2	0	0	0	0	0
Commission agent	**0.5**	1	0	0	0	0	0
Wholesaler	**0.5**	0	0	0	0	4	0
% Possessing Bank Account	**62**	**61**	**92**	**93**	**100**	**46**	**100**

Source: DRS-ICRIER Retailer Survey 2007

Farmers who deal with organized retail directly avail themselves of most number of loans in general and also the most number of loans from the bank. Most of them have bank accounts. However, for personal loans, they do not approach banks but surprisingly, wholesalers (Table 5.8).

Table 5.8: Sources of Finance for Personal Need

Personal Loan	Overall	Commission Agent	Collection Centre	Consolidator	Safal *Mandi*	Wholesaler	Shandi& Local Villager
No. of farmers	197	145	12	8	2	26	4
% Availing personal loans	**8**	**7**	**17**	**13**	**0**	**8**	**0**
Sources of loan (yes, %)							
Commission agent	3	**3.5**	0	0	0	0	0
Wholesaler	5	**3.5**	**17**	**13**	0	**8**	0

Source: DRS-ICRIER Retailer Survey 2007

5.3.3 Quantitative Advantages

While there are several factors that help the farmer in choosing a marketing channel, the primary driver is profitability. A farmer chooses a particular channel depending on the channel's profitability. Organized retailers too claim that they aid the farmer in increasing the latter's profitability by not only offering them a better price but also by saving on their transaction cost.

Price Advantage

Table 5.9 clearly indicates that the farmer associated with organized retail does get a better price for a large head of cauliflower. This is however not necessarily true in the case of medium and small heads. This is because the organized retailer usually buys only large heads.

Table 5.9: Average Price Received by Farmer per Head of Cauliflower

	Commission Agent	Collection Centre	Consolidator	Safal *Mandi*	Whole-saler	Shandi at Bangalore	Local Villagers
No. of farmers	171	24	20	2	65	7	15
Average price received per head							
Large	12.40	**12.68**	**13.44**	0	12.15	14.00	12.83
Medium	7.68	7.95	7.22	0	7.50	8.00	7.50
Small	3.45	3.37	3.33	0	3.25	3.00	3.00
Mixed	7.57	8.40	10.54	8.39	7.82	8.46	7.11

Source: DRS-ICRIER Retailer Survey 2007

Profitability of the Farmer

The survey attempted to capture the cost of production, cost of transaction, the realization, and thus the profitability of the farmer.

Cost of Cultivation	=	Cost of Fertilizer + Cost of Pesticide + Cost of Labour
Cost of Transaction	=	Cost of Loading + Cost of Transportation + Cost of Unloading
Total Cost of Production	=	Cost of Cultivation + Cost of Transaction

Table 5.10 provides the breakdown of average cost, price realization, and profit per head of cauliflower of a farmer supplying to each marketing channel. The data has been collated from the survey results.[18]

Table 5.10 : Profit per Head of Cauliflower (excluding commissions payable)

	Commission Agent	Collection Centre	Consolidator	Safal *Mandi*	Wholesaler	Shandi & Local Villagers
No. of farmers	171	24	20	2	65	18
Input cost	1.23	1.07	1.36	1.5	1.36	1.11
Labour cost	0.9	0.73	0.99	1.4	0.61	1.06
Cost of cultivation	**2.13**	**1.8**	**2.35**	**2.9**	**1.97**	**2.17**
Transaction cost	1.1	0.7	0.6	1	0.9	0.5
Total cost	**3.23**	**2.5**	**2.95**	**3.9**	**2.87**	**2.67**
Price realization	7.0	8.0	9.6	8.0	8.64	7.42
Profit	3.77	**5.5**	**6.65**	4.1	5.77	4.75

Source: DRS-ICRIER Retailer Survey 2007

The profitability is the lowest for the farmer selling to the commission agent at the *mandi* and the highest for the farmer selling to organized retail through the consolidator, despite his cost of production being the highest. The survey results seem to corroborate the value chain analysis. The farmers supplying to organized retail through the consolidator seem to invest a lot of money in crop care. However, as the value chain analysis also suggested, the quality of produce of these farmers is far better than their counterparts supplying to other channels. The transaction cost is the highest for the farmer selling to the *mandi* and one of the lowest for the farmers associated with organized retail.

[18] The survey questionnaire contained detailed questions on costs of cultivation, shares of sale to each marketing channel, prices received and number of heads sold. Average cost, price realization, and profit were calculated based on the number of farmers using each marketing channel.

Commissions Paid by the Farmers

The above computations do not include the commissions that are paid to commission agents by farmers. Table 5.11 below depicts the pattern of commission fees as revealed from the survey.

Table 5.11: Commission Paid by Farmer

	Commission Agent	**Collection Centre**	**Consolidator**	**Safal *Mandi***	**Whole-saler**	**Shandi at Bangalore**	**Local Villagers**
No. of farmers	171	24	20	2	65	7	15
No. of farmers (%)	100	100	100	100	100	100	100
Commission Fee in %	**% of Farmers paying Commission**						
25%	0.6	0	0	0	0	0	0
16%	0.6	0	0	0	0	0	0
10%	92.4	0	0	0	0	0	0
8%	0.6	0	0	0	0	0	0
6%	1.2	0	0	0	0	0	0
5%	4.7	0	0	0	0	0	0
Other	1.2	0	0	0	0	0	0

Source: DRS-ICRIER Retailer Survey 2007

Table 5.10 clearly indicates that it is only the farmer supplying to the commission agent in the *mandi* who pays the commission. Ironically, the APMC Act states quite clearly that all commissions that are paid to the commission agent are to be collected from the buyer and not the seller (farmer).[19] However, commission agents take their share from not the buyer but from the farmer, and the commission is fixed largely at 10 per cent. If one were to deduct commissions payable too from the realization of the farmer supplying to the *mandi*, his profit would drop even further making the *mandi* the most unprofitable channel. It was earlier seen that the price realization too is the highest for the farmers associated with organized retail. The above results clearly illustrate that the farmer associated with organized retail stands to gain considerably.

5.3.4 Qualitative Advantages

Share of Different Marketing Channels

Apart from the two farmers who sell their entire produce at the Safal *mandi*, it is the farmers selling to the commission agent who sells the majority of their produce through one channel (Table 5.12). The share that the farmer is unable to sell at the *mandi* is usually sold to local villagers. Since organized retailers buy only large heads of the cauliflower, farmers selling to those channels sell not more than 50 per cent of their produce. The rest is usually sent either to the *mandi* or sold to wholesalers or

[19] As told to the authors by an APMC official at the Kalashapalayam vegetable *mandi* at Bangalore city.

local villagers. One major advantage that a farmer who sells to the *mandi* has over the farmer who sells to the organized retailer appears to be that the former's entire produce, irrespective of the grade, can be sold in the *mandi*.

Table 5.12: Share of Produce Sold to Different Marketing Channels

	Commission Agent	**Collection Centre**	**Consolidator**	**Safal *Mandi***	**Whole-saler**	**Shandi at Bangalore**	**Local Villagers**
No. of farmers	171	24	20	2	65	7	15
Average % share of output sold to that channel	83	50	34	100	42	26	26

Source: DRS-ICRIER Retailer Survey 2007

Rejection

A related point that should be analysed is the rejection rate of produce. The percentage of farmers reporting rejection is lower for the *mandi* channel in comparison with the channel of the consolidator supplying to the organized retailer or the wholesaler (Table 5.13). Surprisingly, no farmer reported any rejection at the collection centre. In the case of farmers subject to rejection, the portion of rejection of the produce is insignificantly low for all channels.

Table 5.13: Share of Rejection

	Commission Agent	**Collection Centre**	**Consolidator**	**Safal *Mandi***	**Whole saler**	**Shandi at Bangalore**	**Local Villagers**
No. of farmers	171	24	20	2	65	7	15
% Reporting rejection	**2.3**	0	**5**	0	**8**	0	0
Rejection rate (%)	**0.09**	0	**0.04**	0	**0.02**	0	0
If yes, Reasons for Rejection?							
Too small	**25**	0	0	0	0	0	0
More than they required	**75**	0	0	0	0	0	0
Discolouration due to exposure to the sun	0	0	**100**	0	**20**	0	0
Insect damage	0	0	0	0	**80**	0	0

Source: DRS-ICRIER Retailer Survey 2007

The reason for rejection varies; while in other marketing channels, the rejection is due to low quality, the primary reason for rejection at the *mandi* is that the supply was greater than the demand.

Special Cultivation Practices

As stated already, cauliflower is very sensitive to climate. Excess exposure to sunlight causes discolouration in the cauliflower. In order to prevent discolouration, farmers either tie up leaves or cover the heads of the cauliflower with newspaper to prevent exposure to sunlight. Most farmers adopt this practice. Table 5.14 shows that farmers selling to the *mandi* follow this practice more than the farmers supplying to organized retailers.

Table 5.14: Special Cultivation Practices

	Overall	**Commission Agent**	**Collection Centre**	**Consolidator**	**Safal *Mandi***	**Wholesaler**	**Shandi & Local Villager**
No. of farmers	**197**	**145**	**12**	**8**	**2**	**26**	**4**
Cover head of Cauliflower (%)	53	55	42	38	100	46	50
At instruction from Whom? (Yes %)							
Commission Agent	40	48	20	0	0	17	50
Wholesaler	15	13	40	67	0	8	50
Supermarket Agent	4	5	0	0	0	0	0
Consolidator	2	2	0	0	0	0	0
Yourself	36	29	40	33	100	75	0
Other	3	4	0	0	0	0	0

Source: DRS-ICRIER Retailer Survey 2007

Interviews with farmers revealed that those associated with organized retail are not forced to adopt this practice as they are able to afford hybrid seeds which produce good quality heads. However, some of them do cover the cauliflower heads in order to protect the quality of those heads that are sold through alternate channels.

Grading

Contrary to popular belief, this survey reveals that commission agents at the *mandi* do offer a premium price for better quality produce. Most farmers supplying to the *mandi*, at their own initiative, grade their cauliflowers before sending them to the *mandi* (Table 5.15).

Table 5.15 : Grading of Cauliflower

	Commission Agent	Collection Centre	Consolidator	Safal *Mandi*	Whole saler	Shandi at Bangalore	Local Villagers
No. of farmers	171	24	20	2	65	7	15
No. of farmers (%)	100	100	100	100	100	100	100
% Grading cauliflower	63	79	30	0	48	43	60
If yes, whose decision was it? (in %)							
Buyer asked for it	46	68	83	0	52	0	0
It was farmers' initiative	54	32	17	0	48	100	100
% of farmers packing each grade separately	61	95	100	0	74	42	40

Source: DRS-ICRIER Retailer Survey 2007

Farmers selling to organized retail too grade their produce, but this is done at the request of the retailer or consolidator. The first level of sorting of cauliflowers occurs at the farm at the hands of the farmer.

5.3.5 Conclusion

Direct procurement of produce from the farmer by organized retail is a recent phenomenon. Organized retailers maintain that this helps in being able to procure quality produce and offer fresher produce to the consumer. They also state that by procuring directly from the farmer, they are able to bypass intermediaries, thereby decreasing transaction costs. This results in not only reducing prices for the consumer considerably but also increasing the farmers' profitability.

While whatever has been mentioned above does hold true for the farmer, the biggest advantage that the farmer has is the option of another marketing channel for his produce. For many years, the farmer's only choice of marketing channel has been the *mandi*, which lacks transparency. The farmer also does not have any bargaining power. Business is based only on trust and the farmer is under constant threat of being deceived by the commission agent. While the survey results showed that price and volume of sale is usually decided in advance through a verbal contract, it also showed that there are a number of farmers who receive a price lower than what was promised. Even though the APMC Act clearly states that commissions are not to be taken from the farmer, in actual fact this does not seem to be the case. The farmers cannot risk exposing the commission agents as he does not have an alternative channel through which he could sell his produce.

The Safal *mandi* was expected to be an alternative channel through which the farmer could sell his produce. Unfortunately the Safal *mandi* is boycotted by most farmers and wholesalers, which leaves the farmer with the city *mandi* once again as the only option. Hence the entry of organized retail provides the farmer the option to sell his produce through another channel. With many organized retailers beginning to procure produce directly, the farmer's selling options also increases. When the farmer has the option of selling through any of the channels, it increases his bargaining power.

While it is important for farmers to have multiple channels to choose from, it is equally important to have both private and government players. The survey results also indicated that there are some farmers, who sold to organized retail, also reported having received a price lower than what was promised. The mode of business with organized retailers is through verbal contracts and is again based on trust. The solution therefore does not lie in doing away with the *mandi* completely. It lies in making the *mandi* more efficient and in enforcing laws that are already in place to protect the farmer's interests. The NDDB Safal *mandi* facility in Bangalore has excellent infrastructure but is underutilized. The Safal *mandi* model can be adopted for all APMC *mandi*s. This Report recommends the modernization of the APMC *mandi*s by providing better infrastructure in terms of closed spaces for trading, better access roads and in also devising a suitable and effective waste disposal mechanism to improve the hygiene in and around the *mandi*. Allowing only private players to exist is at the risk of collusion between all organized retailers. Such a situation again leaves the farmer with no alternative choice or bargaining power. However, if private players and the *mandi* were to co-exist, the farmer stands no risk of deceit. This will ensure transparency and efficiency. And most importantly, the farmer will get an enhanced profit.

5.4 Manufacturers: Interview Report

One of the key stakeholders likely to be impacted by the growth in the size and strength of organized retail are manufacturers and brand owners in the sectors under study – FMCG and apparel. It is recognized that, while, organized retail will offer many opportunities to brand owners and manufacturers, it will also pose several challenges that these companies will need to gear up for. This study is an attempt to understand how these companies view the advent of organized retail and its likely impact on their businesses.

This section attempts to assess: (i) how large manufacturers or brand owners view the likely impact – either positive or negative - of modern retail on their business; (ii) how they are gearing up to leverage the opportunities that organized retail will throw up; and (iii) efforts they are making to retain countervailing power as organized retail becomes a more significant force in India.

5.4.1 Methodology

This survey was conducted by Technopak Advisers Pvt. Ltd. through one-to-one in-depth interviews of large manufacturers using a semi-structured open-ended questionnaire. A total of 12 companies operating in the FMCG and apparel categories participated (Table 5.16). The companies interviewed were selected deliberately to represent the leading companies with a significant presence in the FMCG and apparel categories in India.

Table 5.16 : Participating Companies for Interview

FMCG	Apparel (Textile & Clothing)
HUL	Raymond
ITC Foods	Madura Garments
Pepsi Foods	Levi's
Cargill India	United Colors of Benetton
Glaxo Smith Kline	FabIndia
United Spirits	
Henkel	

In each company, the interview was done with the CEO, the Category/Business Head or the Head of Modern Trade/Retail.

5.4.2 Key Findings

1. At a macro level, manufacturers felt that the impact of modern retail will be positive. According to them, the advent of organized retail in India was both welcome and inevitable for the Indian economy. In their opinion, the benefits that organized retail would bring by far outweigh the negative effects of inadequate retail services in a country like India.

Some of the reasons cited for this positive impact were:

- **Benefits for consumers:** Organized retail will offer consumers several benefits, such as wider product choice more in line with consumer needs, lower prices, better shopping experience because of improved store ambience and increased browseability, enhanced service, and quality levels.

- **Greater job creation:** Organized retail will create employment at several levels. The most significant increase will be in front-end jobs for retail staff, where the contribution of organized retail will be not only in the greater number of the people employed but also in making jobs that were otherwise considered "menial", more dignified, thereby, giving even those without higher educational qualifications a decent livelihood.

- **Efficient supply chain:** The robust sourcing and distribution network likely to be set in place by modern trade would result in a more efficient supply chain management -- reduced lead times, fewer stock outs, reduced wastage, and consistent product quality.

- **Survival of traditional retail:** Manufacturers believe that both small and large retailers would continue to co-exist in India. Small retailers account for the bulk of retail sales today and will remain a significant force in the future since growing consumption will itself warrant the growth of both organized and traditional retail. Traditional retailers will also innovate, upgrade their stores and enhance value-added services to retain and strengthen relationships with their customers.

2. The likely direct impact on the business of manufacturers, however, will not be entirely positive. The response of manufacturers interviewed to the likely impact of growth of organized retail on their own businesses was, on the whole, more guarded and less positive. The benefits that organized retail would bring in terms of creating higher demand for their brands and greater efficiency in the distribution system would need to be weighed against the pressures on prices, margins, and the threat of competition from private label brands.

3. Manufacturers anticipate several benefits.

- **Organized retail will fuel growth and build efficiencies.** Manufacturers felt that the advent of modern retail will stimulate their growth as well. Initially, this will be because of increased demand created by organized retailers in order to fill retail shelf space, and, subsequently, because of increased consumption created by the consumers' exposures to categories and brands at modern retail formats. They also felt that the need to service large buyers de*mandi*ng lower prices and greater efficiencies will force large manufacturers to invest in people, processes, and technology to streamline their own production and distribution operations.

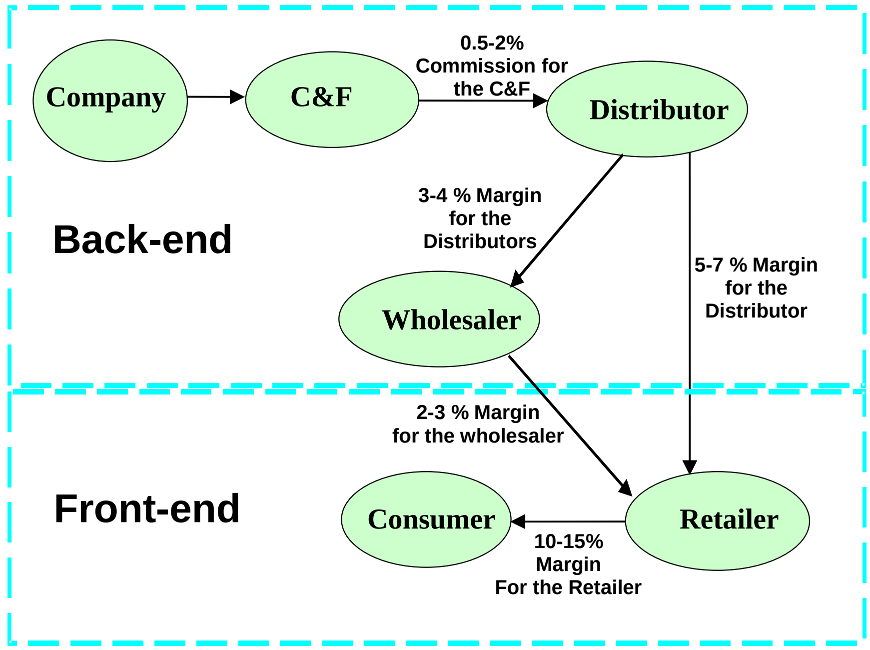
- **Organized retail will aid development of new FMCG categories.** Manufacturers anticipate that organized retail will help in the development of new product categories – particularly higher priced categories, categories that have a high degree of consumer involvement and those which benefit from consumer touch and feel – like personal care products and eatables. Further, since modern retail facilitates faster customer feedback, they will be able to effect improvements in products and brands and "go to market" faster.

- **Organized retail's sourcing and distribution network will benefit manufacturers.** Manufacturers felt that, currently, most of organized retail is operating through the traditional supply chain with its multiplicity of intermediaries. As organized retail grows and large retailers have their distribution centres (DC) and IT infrastructure in place, manufacturers will be able to supply directly to these retailers. This would help reduce transaction costs on logistics, packaging, credit, commissions, etc. Elimination of intermediaries would also bring in more transparency in the flow of operations.

  Chart 5.5 and Chart 5.6 illustrate the traditional (current) supply chain and the new supply chain that could emerge in the FMCG and apparel categories.

Chart 5.5 : Illustrative Supply Chain for Shampoos/Detergents

A. Current Supply Chain with more Intermediaries



B. Emerging Supply Chain

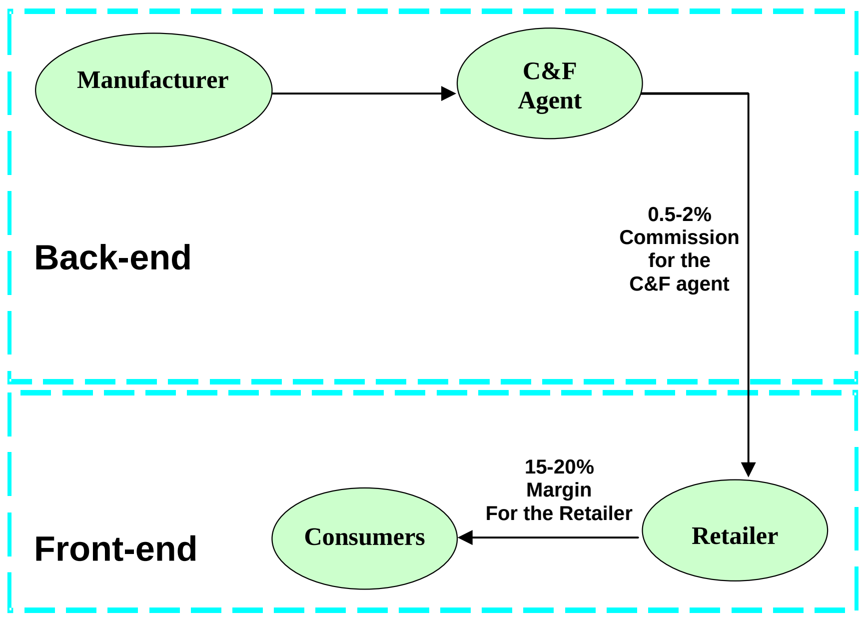
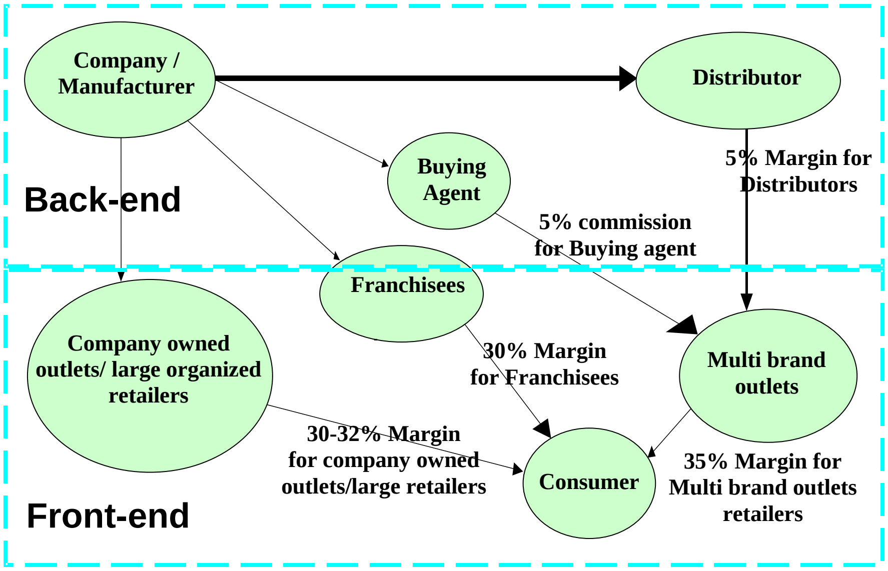
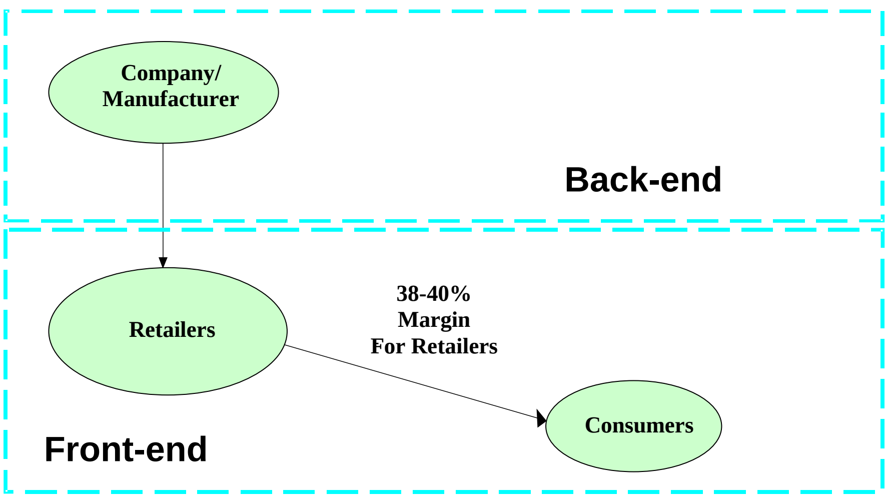


Chart 5.6 : Illustrative Supply Chain for Apparel

A. Current Supply Chain with more Intermediaries



B. Emerging Supply Chain



Manufacturers felt that, in the future, modern retailers might have to be given higher margins than traditional retailers but this would be compensated by the larger volumes, and the more efficient, shorter supply chain. However, they do not foresee that the traditional supply chain will ever die out or be completely replaced for a long time to come. Since traditional retail will co-exist with modern retail, so will traditional and modern supply chains.

4. But manufacturers anticipate several threats.

- **The price pressure threat.** Manufacturers anticipate that the growth of organized retail will put pressure on their prices as large retailers are already de*mand*ing lower prices in return for larger volumes. Manufacturers also face the additional issue of delayed payments vis-à-vis large retailers that impacts their profitability. Manufacturers felt that some of these price/payment pressures arise from the underlying cost structure of large retailers who are facing increase in costs in the entire value chain because of high real estate prices and increased employee cost.

- **The private label threat.** Manufacturers anticipate that large retailers will expend efforts on building their own store brands and will favour those brands in building in-store visibility and allocation of shelf space. This will become more of a threat as the point of consumer decision-making shifts from the home to the shop floor as consumers build a preference for self-service formats. The threat is somewhat mitigated in the short term by their belief that modern retailers will tend to launch private labels more in the staples category, where the presence of brands is currently low. Manufacturers also felt that they have constantly battled strong regional/local brands successfully and that private labels are another form of such competition. Also, modern retailers will first face the arduous task of building strong, differentiated store brands before developing and building their private label brands. The multiplicity of categories in which private labels will need to be built also makes this task harder for the retailers.

5. Manufacturers are gearing up to counter these threats in various ways.

- **Reinforcing/building brand strength to help maintain countervailing power.** Manufacturers recognize that their most powerful counter to price and private label threats is a strong brand. Therefore they felt that their brands have strong consumer preference which would help them counter competition from private label brands and give them more bargaining power since these brands also generate footfalls for modern retailers. They, therefore, will continue to focus on building strong brands (which they see as their area of competence), allowing them to negotiate terms that are mutually beneficial, collabourative, and lead to a "win-win" situation for both parties concerned.

- **Increasing manufacturer's own retail presence.** Manufacturers are also moving towards increasing their own retail presence in order to compete with modern retailers. Apparel manufacturers, for example, are opening exclusive showrooms to give their brands more visibility and to strengthen their position in this competitive scenario.

- **Helping small retailers.** Most of the FMCG companies interviewed stated that their companies were ready to assist small retailers by "adopting" them and helping them upgrade service levels, systems, and operations. They anticipate that, in the next few years, the number of such "adopted" stores would almost double.

  They believe that if small retailers also come forward and unite, they can more effectively counter the competition posed by modern retail. Manufacturers stated that they are encouraging *kiranas* to consolidate buying of products from manufacturing companies as it would help small retailers build economies and efficiencies in their scale of operations. Many retailers are already coming forward to form these associations.

They think that *kiranas* need to learn several aspects of retailing – like store promotions - from organized retailers and that they are ready to support *kiranas* by developing promotional offers customized to their set of customers.

- **Constituting dedicated teams internally to deal with modern retailers.** Manufacturers are creating dedicated teams of accounts and category managers to deal with modern retailers. At the central/regional level they are recruiting teams to manage relationships with modern retailers as well as plan for new accounts. At the front end, dedicated teams are being constituted to work on developing store promotions through modern retailers.

- **Challenging times ahead for modern retailers too.** Large manufacturers felt that high rentals arising out of a shortage of real estate will be a challenge for modern retailers and will affect their competitiveness vis-à-vis small retailers.

  Manufacturers were of the opinion that, while modern retail is an exciting phenomenon for small town consumers, in larger cities consumers want convenience and so being present in the right location are even more critical in these cities.

  Finally, manufacturers strongly believe that retailing is a local business and the large retailers will have to understand the local consumer's tastes and preferences and conduct extensive research to build their knowledge of local markets and consumers.

5.4.3 Conclusion

At a macro level, the overall picture that emerges from interviews with large manufacturers is largely positive regarding the likely impact of organized retail in India. Manufacturers believe that organized retail would benefit society at large, more so the end consumers -- in terms of better product choices and price – and farmers because of higher and more stable price realization for their produce. More employment opportunities will be generated. Present systems, IT and processes will improve because of investments in infrastructure that are likely to be made by organized retailers. The robust sourcing and distribution network of large retailers would certainly help make the supply chain more efficient.

Manufacturers, however, are more guarded in their assessment of the likely impact of organized retail on their own businesses. They anticipate that they will be subject to price and competitive pressures as organized retail grows in importance. They are gearing up to counter these pressures by strengthening their own brands, enhancing their retail presence and collabourating with traditional retailers.

They believe, however, that both modern and traditional retailers will co-exist in India for some time to come, as both of them have their own competitive advantages. The *kirana* has a low- cost structure, convenient location, and customer intimacy. Modern retail offers product width and depth and a better shopping experience.

With the Indian economy currently growing at 8-9 per cent annually, rising consumption and the low per capita availability of retail space in India, manufacturers believe that there is room for both modern and traditional retail in India for several generations to come.

5.5 Small Manufacturers: Interview Report

In order to understand the impact of large organized retail on small manufacturers, a survey was carried out among small-scale manufacturers in New Delhi. For this, small manufacturers of FMCG, (packaged food products, toiletries, cosmetics, etc.) and apparel were contacted and interviews held with the owners, directors, or senior managers of those companies. ICRIER engaged Development and Research Services (DRS) for carrying out these interviews. In total 20 manufacturers were interviewed of which 19 were FMCG producers and one apparel manufacturer.

The list of small manufacturers and the checklist of questions asked are given in Appendices 2 and 3, respectively.

5.5.1 Respondent Profile

Of the 20 respondents, 14 called themselves small-scale manufacturers, while six referred to themselves as medium-scale manufacturers. Only three of them have all-India coverage, while the remaining companies have regional operations. A few of them were exporting their products to some countries. While most of these manufacturers have been operating for 10 - 20 years, there was one who has been operating for as long as 36 years.

The annual turnover of these participants varied from Rs. one million to as high as Rs. 100 million. Of these, six participants have an annual turnover between Rs. 10 - 20 million who were involved in manufacturing food products (cereals, pulses, spices, flour, etc.), cosmetics, toothpaste, shampoo, etc. Three have an annual turnover of Rs.1 - 1.5 million, while two have between Rs. 4-6 million. There has been one participant who did not specify his turnover.

5.5.2 Interview Results

When asked about the size of the business that the manufacturers are planning to have in the next five years, 18 responded that they will surely expand and grow in the next five years. Most of them have plans to double their turnover. For this, they are planning to increase their production and supply by increasing manpower and machinery. In addition, they are willing to improve the product quality. Some of the participants are also considering export options for which they have already begun taking necessary action. Two participants, one dealing in food products and the other in health products (soya milk, soya food, soya meal, etc.) even had plans to supply their products to big organized outlets. One of them commented:

> "*My size of business will increase by two or three times, as I have planned to supply to big organized outlets. Our main focus is now on big organized outlets.*"

However, there were two respondents who felt that in the next five years their business would go down drastically. This would be due to the advent of more MNCs and organized retail outlets on one hand, and their lack of capability in advertising their products for increasing sale, on the other hand. A comment made by a participant has been:

> "*I cannot think of supplying my products to organized outlets and my product demand and my turnover is going down. My sale has reduced a lot, so I do not think that my business is going to survive after five years.*"

Participants were asked to give their opinion with respect to large players entering modern retail and whether they foresee any changes in their business with respect to large players entering modern retail. It was found that 12 participants were not in favour of large players entering into modern retail and said that the organized retailers are their competitors as they may carry products of large brands / manufacturers or their own private labels and this may affect their business prospects. The remaining eight respondents however felt that the advent of organized retail was good as this would help them increase their sales. These participants were ready to work with them. According to one:

> "*They are good players in the market and we are also planning to do business with them.*"

Eight out of the 20 participants did not foresee any changes in their business operations due to large players entering modern retail. But there were 12 participants who did foresee changes in their business. Out of these 12, two thought that there would be a huge reduction in their business and they may even have to shut down their operations very soon. Ten participants felt that though organized retailers are their competitors, their business would increase, as already they had started taking actions like providing better quality service to their clients. They are focusing on improving the brand name, quality, variety along with making products available at reasonable and affordable prices. A few were even thinking of new marketing strategies to advertise their products and get a better hold over the market.

On enquiring whether there was any change in their bargaining power, 17 participants said that till now they have not experienced any change. One participant commented:

> "*There has been no change in the bargaining power as we have good customers and suppliers and have a healthy relation with them.*"

When asked about the present payment terms and conditions, it was found that presently all except one participant had both cash and credit based transactions. But in case of credit-based transaction, the manufacturers provide the retailers with 30 days payment time, while some extended credit up to 60 days. Some even charged an interest of 2-3.5 per cent per month after the expiry of 10-20 days of grace period from their clients which mostly include small unorganized retailers. None of the participants reported any change in the payment terms in the last couple of years.

Ten participants had more of credit-based clients while only eight had cash-based clients. There were two who said that they had provided both cash and credit services but did not say which one was more. In the words of a respondent:

> "*The credit sale right now is 60 per cent where the time provided is 20-30 days and cash sale is 40 per cent. There has been no change in these terms and conditions.*"

Nine out of 20 participants said that there is a competition threat to them due to the private label brands of large organized retailers, but till so far, a very small effect of it has been noticed. One of the manufacturers commented:

> "*Competition threat is very much there, not just from organized retailers but also from large manufacturers and MNCs. Earlier my products were famous with children whereas now children ask for brands like Lays, Kurkure, etc. This is a threat and it's killing my business.*"

However 11 participants responded that they did not consider entry of private label brands of large organized retailers a threat as they had their own set of customers who are mostly unorganized retailers. Moreover, as a result of their focus on quality, people trusted their products. Quality was something they would never compromise with, and so they would never face any problem in the future. A respondent commented:

> "*Though there is competition, our prompt service and dealing enables us to maintain the trust of our customers.*"

Sixteen out of 20 respondents are thinking of future expansion of their business to meet the growing demands of large retailers. For doing this, they are planning to increase their production with new and improved machines, more manpower and spread their customer base beyond their region. They are also working upon improving their service and quality. Two participants are also planning to sell their products to big organized outlets in the near future. A participant commented:

> "*Right now our plan is to supply our products to all the big organized outlets. We have started in Delhi with Big Bazaar, and will surely increase this to all over India.*"

When asked if their company was facing any price pressure from large retailers, 13 out of 20 participants said that they did not face it while the remaining seven said that they faced some pressure.

Eighteen participants said that their company was facing no problems in terms of sourcing and distribution with the advent of large players in modern retail.

Among the surveyed participants, 13 had around 10-50 employees in their manufacturing units in back end and production. All except two were planning to increase the number of their employees and some even planned to double considering the increase in demand because of growth of organized retail.

There were two respondents who said that they would have to reduce their manpower employment to a large extent as the demands of their products were going down. In fact, they even said that they would have to shut down their business very soon.

6. Future Scenario in Retailing

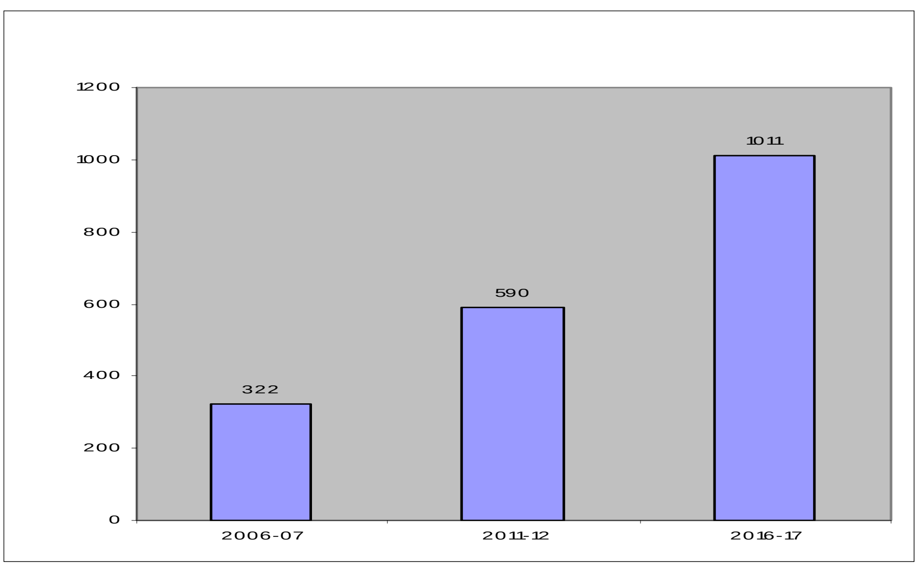
6.1 Introduction

The emergence of organized retail has been a recent phenomenon in the country, starting in the late 1990s. Its growth till 2006-07 was reasonably fast, at nearly 20 per cent per annum during the past three years. Unorganized retail also grew but at a slower pace of nearly 11 per cent per annum. There are signs that the growth of organized retail has accelerated in 2007-08 and is expected to gather further momentum during the coming years. This chapter highlights the following issues: (a) industrial estimate of future growth in total retail during the next five years; (b) relative share of organized vs. unorganized sectors; (c) the amount of additional investments that are envisaged in retail in the medium term; (d) estimates of employment generation; (e) geographical penetration of organized retail; (f) projection of real estate availability; and (h) the concentration in retail industry.

6.2 Growth of Retail and its Distribution

The NCAER, based on its *Market Information Survey of Households (MISH)*, has projected that the consuming class consisting of the "aspirers", the middle class and the rich with annual household income of above Rs. 90,000 will rise from about 336 million in 2005-06 to 505 million in 2009-10. This implies a huge growth potential of retail in the country. The sales of the Indian retail industry have been about US$ 322 billion (Rs. 14,574 billion) in 2006-07, amounting to about 35 per cent of India's GDP. It is the seventh largest retail market in the world. Indian retail industry is projected to grow to about US$ 590 billion by 2011-12 and further to over US$ 1 trillion by 2016-17 (Chart 6.1).

Chart 6.1 : Size of Indian Retail (in US$ bn)

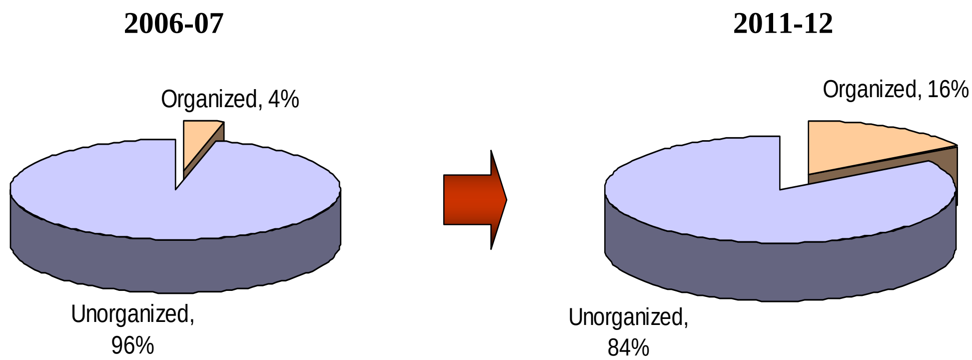


Source: Technopak Analysis, CSO and other sources.

This works out to an annual compound growth rate of about 13 per cent during 2007-12 and a slower 11 per cent during 2012-17.

In India, organized retail contributed roughly 4 per cent of the total Indian retail in 2006-07, which is very small even compared with most of the emerging market economies. However, during the coming years, it is projected to grow at a compound rate of about 45-50 per cent per annum and is estimated to contribute 16 per cent to the total Indian retail by 2011-12 (Chart 6.2).

Chart 6.2: Projection of the Share of Organized Retail



Total Retail: US$ 322 billion **Total Retail: US$ 590 billion**

Source: Technopak Analysis.

Interestingly, this huge growth in organized retail does not involve a decline in the business of unorganized retail; the sales of the unorganized sector is envisaged to grow by about 10 per cent per annum, from US$ 308.8 billion in 2006-07 to US$ 495.6 billion in 2011-12.

6.3 The Retail Real Estate Scenario

The real estate sector in India has historically been unorganized and dominated by opportunistic development rather than any planned creation of quality space. There were various factors that impeded organized development, such as: (i) absence of a centralized title registry providing title guarantee; (ii) lack of uniformity in local laws and their application; (ii) non-availability of bank financing; (iii) high interest rates and transfer taxes; and (iv) lack of transparency in transaction values. Also, there were very few takers of quality space, as retail was also dominated by unorganized players. The unorganized players prefer to operate from neighbourhood convenience stores.

Whilst the Indian real estate market still lacks transparency and liquidity compared to more mature real estate markets, there are various factors which could expedite the process of professionalism of the industry. Some of these factors are:

- Changing profile of the business consumers, like large multinational companies (MNCs) and professional Indian corporates, who would prefer to deal with companies with proper credentials;
- Listing of many developers on stock exchanges, both in India and abroad, and also raising funds through global institutions;

- Increasing transactions facilitated through professional banks, who would once again verify all the records before releasing any funds.

The nature of demand is also changing with the entry of large corporates into organized retailing. These large corporates cater to higher consumer aspirations resulting from larger disposable incomes, increased globalization, and greater awareness levels.

The organized retail real estate sector has grown from a miniscule 0.9 million sq. ft. in 1999 to 28 million sq. ft. in 2006. The growth till now has been at a scorching pace of over 60 per cent per annum for the last seven years (though on a smaller base) and is expected to grow at least at 50 per cent per annum in the next 4-5 years. The last financial year witnessed a number of retail centric projects.

6.4 Organized Retail Investment

Until a couple of years ago, the Indian organized retail market was either dominated by the apparel brands or regional retail chains. However, the scenario has changed dramatically. The sector has attracted not only the large Indian corporates but also received the attention of large global players.

As per Technopak Advisers Pvt. Ltd. estimates, investments amounting to approximately US$ 35 billion are being planned for the next five years or so (Table 6.1). Of this, about 70 per cent is expected to come from top seven players including Reliance Industries, Aditya Birla Group, Bharti-Wal-Mart, Future Group and others. Also, it is estimated that about 40 per cent of the total investments will be contributed by foreign players including Wal-Mart, Metro, Auchan, Tesco and many others, signifying the importance that the international community is attaching to the Indian retail opportunity.

In short, India is attempting to do in 10 years what took 25–30 years in other major markets in the world and shall bypass many stages of “evolution” of modern retail. India is likely to see the emergence of several “innovative” India-specific retail business models and retail formats during the coming years.

Table 6.1: Investment Plans of Major Retailers in the Next 5-7 Years

Retailer	Estimated Investment (US$ billion)
R1	6.0+
R2	4.0+
R3	2.5+
R4	2.0+
R5	2.0+
R6	2.0+
R7	2.0+
R8	1.5+
R9 – R50	13.0+
Total	**35+**

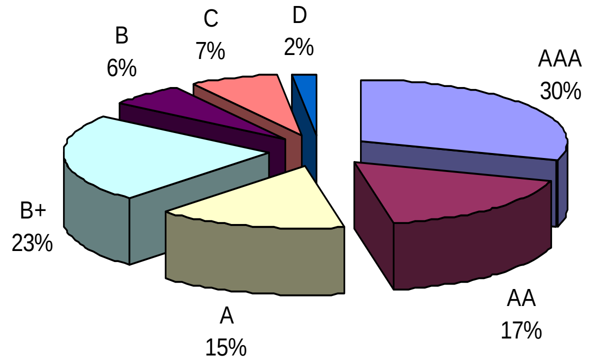
Note: Retailers’ identities are not revealed for maintaining anonymity.
Source: Technopak Analysis

6.5 Share of Investments by City

Of the US$ 35 billion investment being planned over next 5-7 years, almost all the investment (i.e. 93 per cent) is slated for the urban market. Though the investment is expected to be across the spectrum of all types of cities, a large proportion (more than 60 per cent) is slated for the top 25 cities falling in category A-type or above .

AAA cities will include the markets of NCR Delhi, Mumbai, and Kolkata, while AA cities will include the metros including Bangalore, Chennai, Hyderabad, Pune, and Ahmedabad. A typical A-class city will include cities like Surat, Nagpur, Indore, Vadodara, etc., while B+ cities will be represented by Nashik, Rajkot, Agra, Jallandhar, etc. Kota, Bhubaneswar, Bilaspur will be a B-class cities, while Sonepat, Alwar, Tumkur, etc will categorized as C-type and D- type cities.

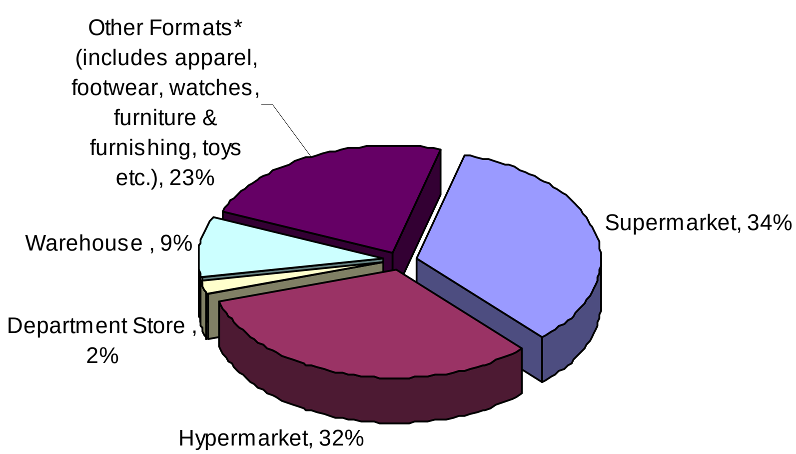
Chart 6.3: Investment Estimates by City Category (%)



Source: Technopak Analysis.

Urban investments are slated to be across all modern formats although the majority share will be taken by supermarkets and hypermarkets. The share of hypermarkets is expected to increase in the lower-tier cities, as a single hypermarket would be able to cater to a significant proportion of the demand in smaller cities.

Chart 6.4: Investment Estimates by Format (%)



Source: Technopak Analysis.

6.6 Expected Share of Top Players in Indian Retail

The top 50 players are geared to take about 39 per cent share of total retail in the top 150 cities. These top players will dominate the market in Indian retail. This high concentration in the retail market is in tune with international trends. For example, in the US, the top five retailers, such as Wal-Mart, Kroger, Albertsons, Safeway, and Ahold, account for about 40 per cent of the US grocery market.

Table 6.2: Retail Market for 150 Cities in 2011-12

	Market Share
Total market (Top 150 cities)	100%
Share of top 7 players	31%
Share of next 43	8%
Share of top 50 players	39%

Source: Technopak Analysis

6.7 Retail Space Break-up by Category

The total new retail space required to facilitate the proposed investment will be of around 487 million sq. ft. across all retail formats. Technopak Advisers Pvt. Ltd. estimate that 50 per cent of the space would need to be catered by the shopping malls and rest by stand-alone locations in formats like supermarkets. Technopak Advisers Pvt. Ltd. also estimate that with 143 million sq. ft. of mall space being planned over the next five years, it still leaves the retail industry with a shortage of more than 40 per cent in mall space. Most of the large format retailers will find it difficult in getting adequate real estate and it is expected that they may end up creating space for retail on their own. The required retail space for organized retail is expected to be around 7-8 times the current space available for organized retail. Hypermarkets and supermarkets will take approximately 62 per cent of the retail space (Chart 6.5a). About 51 per cent of new retail space is expected to come up in A-class and above type cities which are already crowded (Chart 6.5b).

Chart 6.5 a: Retail Space Estimates by Format (%)

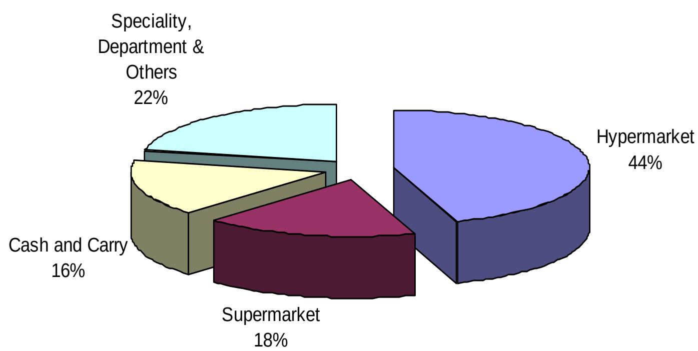
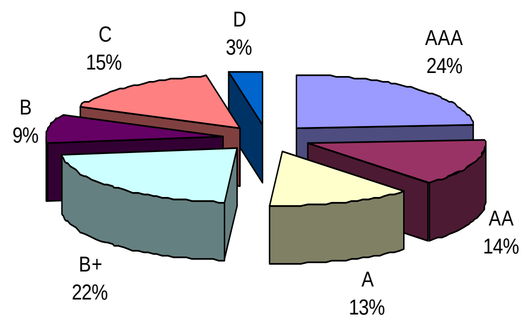


Chart 6.5 b: Retail Space Estimates by City Type (%)



Source: Technopak Analysis.

6.8 Employment Growth

As per the industry estimates of employment of one person per 350-400 sq. ft. of retail space, about 1.5 million jobs will be created in the front-end alone in the next five years. Assuming that 10 per cent extra people are required for the back-end, the direct employment generated by the organized retail sector in India over the coming five years will be close to 1.7 million jobs. This constitutes nearly 5 per cent of the existing employment of about 37 million in the retail industry. Indirect employment generated on the supply chain to feed this retail business will add further to this already high number. While a boon for the Indian economy in terms of the employment generation, at the same time it is a significant challenge for the organized retail industry to gain access to such a high number of trained manpower in such a short period of time.

Table 6.3: Employment Generation by Organized Retail during 2007-12

	Hypermarket	Supermarket	Cash & Carry	Speciality & Department Store	Total
New retail space (Million sq. ft.)	218	86	76	107	487
Retail space per floor staff (sq. ft.)	350	200	450	350	
No. of front-end staff (‘000)	623	430	169	306	1527
No. of back-end staff (‘000)	62	43	17	31	153
Total manpower (‘000)	685	473	186	336	1680

Source: Technopak Analysis and Industry Estimates

6.8.1 New Retail Stores

Given the expected investments and future projections of growth of retail area, there will be a huge increase in the number of stores in the next five years. It is estimated that around 44,500 new stores of different formats will open (Table 6.4).

Table 6.4: Number of New Organized Retail Stores during 2007-12

	Hypermarket	Supermarket	Cash & Carry	Department Store	Speciality Store
New retail space (million sq. ft.)	218	86	76	32	75
Average store size (sq. ft.)	80,000	4,000	1,50,000	40,000	4,000
No. of stores	2,725	21,500	507	803	18,725

Source: Technopak Analysis and Industry Estimates.

7. Policy Recommendations

7.1 Main Findings of the Study

The major findings of this study are:

- Retail trade is expected to grow at 13 per cent per annum during 2007-12. Its value will then be about US$ 590 billion in 2011-12. With this expected increase it is inconceivable that the rising demand would be effectively met by the unorganized sector. As in other countries, this provides the basis for the expansion of organized retail.
- The share of organized retail in total trade has risen in all developing countries in recent years. In China it was 20 per cent in 2006, Brazil 36 per cent, South Korea 15 per cent, Indonesia 30 per cent, Poland 20 per cent, Thailand 40 per cent, and Vietnam 22 per cent.
- The international experience shows that in nearly all emerging economies, governments have taken policy measures to improve the operating conditions for unorganized retail.
- Unorganized retailers in the vicinity of organized retailers have been adversely affected in terms of their volume of business and profit. Unorganized retail has maintained employment levels perhaps as a result of competitive response.
- The adverse impact on unorganized retailers tapers off over time.
- The major factors that attract unorganized retailers to consumers are proximity, goodwill, credit sales, bargaining, loose items, convenient timings, and home delivery.
- There is clear evidence of a competitive response from traditional retailers who are gearing up to meet the threat from organized retailers.
- While *kirana* stores are trying to increase credit sales to retain customers, their own reliance on institutional finance remains very low. This has a clear policy implication.
- Consumers have generally gained with the emergence of organized outlets through the availability of better quality products, lower prices, one-stop shopping, choice of additional brands and products, family shopping, and fresh stocks.
- Lower income consumers have saved more from purchases at organized outlets.
- Intermediaries do not appear to be adversely affected so far although there are signs of their losing business in products such as, fruit, vegetables, and apparel.
- Farmers have benefited through direct procurement by organized retailers as this provides an alternative channel for selling their produce with better revenue realization.
- Organized retailers are themselves investing heavily or through third-party logistics companies on temperature-controlled warehouses, cold-chain transport, etc., to modernize the distribution system.
- Large manufacturers have started feeling the impact of organized retail through price pressure and competition from private labels of organized retailers.

- Small manufacturers, in general, are yet to feel any major impact of organized retail as a large number of unorganized retailers continue to constitute their clientele. They are however, optimistic of future expansion of business with the spread of organized retail.

These results are not indicative of the countrywide scenario, but only of mega-and mini-metro cities around a limited number of organized retail outlets. The results of the control-sample survey conducted for the study indicate that traditional retailers are not affected adversely even in these cities, away from organized outlets. For the country as a whole, unorganized retail is growing at a reasonable rate and will continue to do so for many years to come. Yet it is clear that the growth in demand for retail business is likely to substantially exceed any possible supply response coming exclusively from the unorganized retailers.

7.2 A Balanced Approach to Retail

India is at the crossroads with regard to the retail sector. Several emerging market economies have gone ahead and reaped the benefits of modern retail. India is however a latecomer to organized retail expansion and the picture still remains unclear as to its future direction. The study advocates a balanced approach to retail and suggests that the government plays a major role in shaping its future course.

There is no doubt that traditional retail has been performing a vital function in the economy and is a significant source of employment. However, it suffers from huge inefficiencies as a result of which consumers do not get what they want, and farmers often get prices for their produce much below what is considered fair. In contrast, organized retail provides consumers with a wider choice of products, lower prices, and a pleasant shopping environment. It gives farmers a better alternative channel for selling their products at a better price. The competition from organized retail has affected the business of traditional retailers but they are making efforts to stay on. In their struggle to face this competition, they are handicapped by a lack of access to formal credit from commercial banks. As in other countries, government policy can and should play an important role in modernizing the unorganized sector and improve its competitiveness. On the other hand, a policy of protection of traditional retailers by restricting organized retail will harm the growth prospects of the country by foregoing the enormous benefits that are generated by organized retail.

7.3 Modernization of Unorganized Retail

The government should launch a time-bound "national *kirana* and wetmarket reform" programme. The key elements of this programme should be the following:

1. Assist the formation of co-operatives or associations of *kirana* stores, which in turn can undertake direct procurement of products from manufacturers and farmers. By eliminating intermediaries, *kirana* stores can obtain their supplies at lower prices, while farmers get better prices for their produce. The European and US experience of co-operative retailing needs to be studied in greater detail.
2. Encourage setting up of modern large cash-and-carry outlets, which could supply not only to *kirana* stores but also to licensed hawkers at wholesale

rates. The case in China where the central government is using Metro Cash & Carry to modernize the entire supply chain and source directly from farmers is a case in point.

3. Make available credit at reasonable rates from banks and micro-credit institutions for expansion and modernization of traditional retailers. While a liberal branch expansion for Indian and foreign banks would help, the study recommends the promotion of innovative banking solutions for unorganized retail like Syndicate Bank's lending for small business linked with the collection of daily or weekly pigmy deposits (Annex 5).
4. Convert all uncovered wetmarkets to covered ones and modernize those markets in a time-bound manner with emphasis on hygiene, convenience to shoppers, proper approach roads, entry, exits, etc. In India, the route of public-private partnerships (PPPs) is advocated for this purpose. PPPs should be formed between the government and existing small shops on the pattern of the "Industrial Infrastructure Upgradation Scheme" being successfully undertaken to improve infrastructure in existing industrial clusters.
5. Facilitate the formation of farmers' co-operatives to directly sell to organized retailers. In this case, while the government could provide tax incentives and capital subsidies, equity support should be avoided.

7.4 Regulation of Organized Retail

New restrictions on organized retailers are not advocated as this will dampen the modernization efforts of traditional retail. However, the study stress the need for organized retailers formulating certain "private codes of conduct" governing their relationships with suppliers including manufacturers, wholesalers, and farmers. The experience in Argentina, Mexico and Colombia could be studied in this regard. These steps could be complemented by the Competition Commission enforcing rules against collusion and predatory pricing as in the US, UK and France. The government may also consider enacting legislation if that ensures the implementation of a code of conduct by large organized retailers.

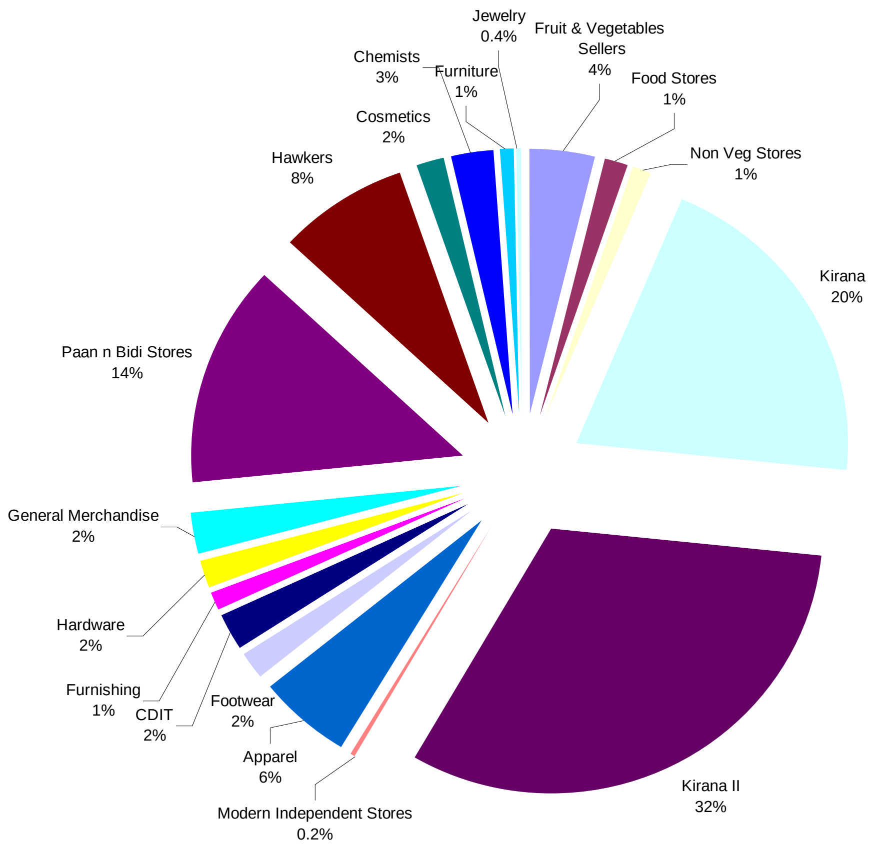
Organized retail is subject to a number of licensing requirements at the central, state, and local levels that are cumbersome. A fresh look at the gamut of regulations is called for with a view to simplifying and compressing the time taken for the issue of permits. A move towards a nationwide uniform licensing regime for organized retail in all states and union territories is suggested.

7.5 Modernization of APMC mandis

Modernization of government regulated markets in the states is suggested on the lines on the NDDB Safal *mandi* model in Bangalore. The infrastructure of these markets needs to be improved by providing closed places for trading, better access roads, and also better hygiene with an effective waste disposal system.

Annex 1: Unorganized Retail Universe 2006

The total number of traditional retailers is estimated to be 13 million by Technopak Advisers Pvt. Ltd. The classification of the unorganized retail universe by category is shown below.



Source: Technopak Analysis.

Categories of traditional retailers

- Fruit and Vegetable Sellers - Sells fruit and vegetables.
- Food Store - Reseller of bakery products. Also sells dairy and processed food and beverages.
- Non -Vegetable Store - Sells chicken and mutton (supplemented by fish), or predominantly fish.
- *Kirana* I - Sells bakery products, dairy and processed food, home and personal care, and beverages.
- *Kirana* II - Sells categories available at a *Kirana* I store plus cereals, pulses, spices, and edible oils.

- Modern Independent Stores - Sells categories available at a *Kirana* II store and has self- service. Operates single or several stores (but not an organized chain of stores).

- Apparel – Sells men's wear, women's wear, innerwear, kids' and infant wear.

- Footwear – Sells men's wear, women's wear, and kid's wear.

- CDIT (Consumer Durables & IT) – Sells electronics, small appliances, durables, telecom, and IT products.

- Furnishing – Sells home linen and upholstery.

- Hardware - Sells sanitary-ware, taps and faucets, door fittings, and tiles.

- General Merchandize – Includes lightning, stationery, toys, gifts, utensils, and crockery stores.

Annex 2: Modern Retail Formats in India

Hypermarket

Typically varying between 50,000 sq. ft. and 1, 00,000 sq. ft., hypermarkets offer a large basket of products, ranging from grocery, fresh and processed food, beauty and household products, clothing and appliances, etc. The key players in the segment are: the RPG Group's Giant (Spencer’s) hypermarkets, and Pantaloon Retail's Big Bazaars.

Cash-and-carry

These are large B2B focused retail formats, buying and selling in bulk for various commodities. At present, due to legal constraints, in most states they are not able to sell fresh produce or liquor. *Cash-and-carry* (C&C) stores are large (more than 75,000 sq. ft.), carry several thousand stock-keeping units (SKUs) and generally have bulk buying requirements. In India an example of this is Metro, the Germany-based C&C, which has outlets in Bangalore and Hyderabad.

Department Store

Department stores generally have a large layout with a wide range of merchandise mix, usually in cohesive categories, such as fashion accessories, gifts and home furnishings, but skewed towards garments. These stores are focused towards a wider consumer audience catchment, with in-store services as a primary differentiator. The department stores usually have 10,000 - 60,000 sq. ft. of retail space. Various examples include: (i) Shoppers' Stop, controlled by the K. Raheja Group, a pioneering chain in the country's organized retail; (ii) Pantaloons, a family chain store, which is another major player in the segment; (iii) Westside, the department store chain from Tata Group's Trent Ltd; (iv) Ebony, a department store chain from another real-estate developer, the DS Group; (v) Lifestyle, part of the Dubai-based retail chain, Landmark Group; and (vi) the Globus department and superstore chain.

Supermarket

Supermarkets, generally large in size and typical in layouts, offer not only household products but also food as an integral part of their services. The family is their target customer and typical examples of this retailing format in India are Apna Bazaar, Sabka Bazaar, Haiko, Nilgiri's, Spencer’s from the RPG Group, Food Bazaar from Pantaloon Retail, etc.

Shop-in-Shop

There is a proliferation of large shopping malls across major cities. Since they are becoming a major shopping destination for customers, more and more retail brands are devising strategies to scale their store size in order to gain presence within the large format, department or supermarket, within these malls. For example, Infinity, a retail brand selling international jewellery and crystal ware from Kolkata's Magma Group, has already established presence in over 36 department chains and exclusive brand stores in less than five years. Shop-in-shops have to rely heavily on a very efficiently managed supply chain system so as to ensure that stock replenishment is done fast, as there is limited space for buffer stocks.

Speciality Store

Speciality stores are single-category, focusing on individuals and group clusters of the same class, with high product loyalty. Typical examples of such retail format are: footwear stores, music stores, electronic and household stores, gift stores, food and beverages retailers, and even focused apparel chain or brand stores. Besides all these formats, the Indian market is flooded with formats labelled as multi-brand outlets (MBOs), exclusive brand outlets (EBOs), kiosks and corners, and shop-in-shops.

Category Killers – Large Speciality Retailers

Category killers focus on a particular segment and are able to provide a wide range of choice to the consumer, usually at affordable prices due to the scale they achieve. Examples of category killers in the West include Office Mart in the US. In the Indian context, the experiment in the sector has been led by “The Loft”, a footwear store in Powai, Mumbai measuring 18,000 sq. ft.

Discount Store

A discount store is a retail store offering a wide range of products, mostly branded, at discounted prices. The average size of such stores is 1,000 sq.ft. Typical examples of such stores in India are: food and grocery stores offering discounts, like Subhiksha, Margin Free, etc. and the factory outlets of apparel and footwear brands, namely, Levi’s factory outlet, Nike’s factory outlet, Koutons, etc.

Convenience Store

A convenience store is a relatively small retail store located near a residential area (closer to the consumer), open long hours, seven days a week, and carrying a limited range of staples and groceries. Some Indian examples of convenience stores include: In & Out, Safal, amongst others. The average size of a convenience store is around 800 sq.ft.

Source: Technopak Advisors Pvt. Ltd.

Annex 3: Typical Clearances Required for Retail Store

Operations – General List

A. General

1. Trade License.
2. NOC for Fire License from Municipal Corporation.
3. Health and Sanitary License.
4. Registration under Weights and Measures Act.
5. Forecourt License (for sale outside the shop area) (if required).
6. Signboard License (Within & Outside the Store).
7. Approval from the State Pollution Control Board (water disposal / solid waste disposal) (if required).

B. Operations Related

1. APMC Licenses (F&V and Staple - Procurement and Sale).
2. Eating House / Food License (Food & Beverages).
3. PFA License required for the different categories of products stored / sold in the distribution centres (DCs) under the Prevention of Food Adulteration Act (PFA).
4. Cold Storage License – under the Factories Act.
5. Sweets Shop (Shop-in-Shop) License (if required).
6. License under the Drugs and Cosmetics Act, 1940 and the Drugs and Cosmetics Rules, 1945.
7. Household Pesticides and Insecticides License (if required).
8. Registration of manufacturers, packers, and importers under Rule 35 of the Standards of Weights and Measures (WM) (Packaged Commodities) Rules, 1977.
9. Essential Commodities Act - Storage Control Order.
10. Manufacturer's Warranty to Consumer under the PFA Act.

C. Infrastructure Related

1. Power Connection.
2. DG Set Approval as required from the Local Electricity Board.
3. License if the Facade of the Store faces a Road (if required).
4. License for Ground Water Storage and Usage.

D. Labour Related

1. Shops and Establishment Act.
2. Employees PF Act- Apply for PF Code no.
3. Employees State Insurance Corporation (ESIC) Act regarding Medical Benefit/Sickness Benefit and Employment Injury.
4. The Contract Labour Act.
5. The Payment of Gratuity Act.
6. The Factories Act, 1948.

E. Taxation Related

1 Professional Tax (if applicable).
2 Octroi / Cess in lieu of Octroi (if applicable).
3 Entry Tax (if applicable).
4 Service Tax Registration.
5 Permanent Account Number (Income Tax).
6 Sales Tax Registration (State-wise) - VAT & CST.

Note: The list may vary from state to state and as per the store format.

Source: Industry Sources.

Annex 4: A Note on Sampling Design

This section briefly describes the methodology and sampling design used for collecting primary data through structured survey questionnaires from traditional retailers, intermediaries, consumers, and farmers.

Product Category Coverage

Following the deliberations in the brainstorming workshop, the present study covered the following categories of organized outlets:

- Food and grocery, which is present across three different formats, namely discount stores, super markets, and hypermarkets.
- Textiles and clothing which is usually departmental stores, and regular or large format stores.

Thus, the choice of the above categories was guided by the consideration of their propensity to impact unorganized (small) retail outlets, which was the core purpose of the present study.

Geographic Coverage

Since the retail universe is very vast, widespread and diverse, obtaining a nationally representative sample (covering urban and rural areas) would involve a very large budget and time. Moreover, organized retailing is more of an urban and metropolitan phenomenon and therefore, it was also decided that the study should only cover metropolitan cities and a few tier-2 towns in different regions of the country where organized retailing has a strong presence.

Selection of Cities

All mega-metro cities[20] namely Delhi, Mumbai, Kolkata, Chennai, Bangalore, Hyderabad and Ahmedabad were covered in the study. In addition, one mini-metro[21] each from three regions having a sizeable presence of organized retail namely Jaipur from the North, Indore from the West and Kochi from the South were also included. No mini-metro city was covered in the Eastern region as the presence of organized retail sector is limited.

Selection of Organized clusters

Only where an organized retail outlet is located, could it impact the small, unorganized retail outlets. Thus, the second stage of selection in the study involved sampling of organized retail outlets as clusters.

The following process was adopted for the sampling of organized retail outlets, which served as study clusters:

[20] Population of over 4 million as per the 2001 Census.
[21] Population between 1 million and 4 million as per the 2001 Census.

1. The number of organized retailers by outlet type (food and groceries or textiles and clothing) and format category (discount stores/ supermarkets/ hypermarkets and departmental stores) was obtained from Technopak Advisers Pvt. Ltd. separately for each city.

2. Using information in step 1 above, DRS has generated an exhaustive list of all the organized retail outlets in the selected 10 cities from secondary sources.

3. The sample size of 101 clusters was allocated to different formats covered in the study at the national level to ensure a minimum sample size of unorganized retailers for each format category. Through purposive sampling, 20 each of the discount stores, hypermarkets and departmental stores, and 40 supermarkets were covered.

4. The sample size for each format was allocated to the 10 cities covered in the study through the proportional allocation method.

5. In the case of cities wherever the sample size was large, the sample was proportionately allocated to different regions within a city, after stratifying them by region: North, East, West, Central and South using Eicher city maps.

6. The outlets belonging to each type and format were selected following the stratified random sampling method. These organized retail outlets served as study clusters.

A. Sampling Design: Small Unorganized Retail Outlets

Small, unorganized outlets are adversely affected by the expansion of organized retailers, if they fall in the catchment area of the organized outlets. A catchment area is defined as the area (radius of distance in km) from where the organized outlet is expected to draw its customers. In other words, small, unorganized retailers in the catchment area are likely to lose business as customers migrate (either in full or part) to organized outlets for making their food and grocery, and textiles and clothing purchases.

Using the standard industry norms, the catchment area for different types and formats of organized outlets was defined as follows:

	Catchment area (in km)
Discount stores	1
Supermarkets	1
Hypermarkets	10
Department stores	10

From the catchment area of each sampled organized retail outlet (hereafter referred to as a cluster), a fixed number of small, unorganized retail outlets was selected and interviewed. The number of organized outlet clusters selected and the number of unorganized retailers interviewed varied across different formats and is shown in Table 1.

Table 1: Sample Size and Distribution					
Format Type	No. of Sampled Organized Clusters	No. of Unorganized Retailers Sampled per Cluster			Total Sample
		Food & grocery[22]	Textiles & clothing	Total	
Discount stores	18	20	-	20	360
Supermarkets	43	20	-	20	860
Hypermarkets	20	20	10	30	600
Department stores	20	-	10	10	200
Total Sample	**101**				**2020**

In order to ensure that the sample of unorganized retailers drawn extends over the entire catchment area, a distance criterion (distance of the unorganized outlets from the organized retail outlet i.e. cluster) was used to select unorganized outlets which are both "*nearby*" and "*far away*" from the cluster. The distance criterion varied across different formats and is shown in Table 2.

Table 2: Distance* of Unorganized Outlets from Organized Outlets		
Format Type	***"Nearby"* Outlets**	***"Far- away"* Outlets**
Supermarkets/ discount stores	Within 0.5 km.	0.6-1.0 km.
Hypermarkets	Within 5 km.	6-10 km.
Department stores	Within 5 km.	6-10 km.

* *Distance in radius of organized outlets.*

For selecting the requisite number of unorganized retailers from each cluster, the field researchers were asked to generate a list of such outlets in the catchment area. This was done in consultation with key informants and knowledgeable retailers in the area and the requisite sample was drawn from the list following the systematic random sampling procedure. In the case of apparel outlets, wherever it was difficult to generate such a list, a snowball sampling technique was employed.

B. Control Sample Survey of Small Retailers

The original survey of the impact of organized retail outlets on unorganized retailers was conducted only in clusters where organized retailers have been established. As a follow up to this survey, a survey was planned in clusters which are similar in profile and character but do not have the presence of organized retailers (control clusters). This survey was undertaken to compare changes in employment, turnover and profit

[22] Grocery stores include grocery shops and general stores. Grocery shops deal mainly in grocery items, such as staple food items (rice, atta, wheat, etc.). Other food items, such as grains and flour, cooking oil, ghee, vanaspati, spices, etc. are available in loose. Grocery shops are also called *kirana* shops. General stores, as the name suggests, deals in variety of general use items used for daily needs. For example, in a general store one can find items, such as toiletries, biscuits and snacks, packaged foods, cosmetics, hosiery and stationary, etc.

of small retailers and vendors in the unorganized sector in clusters where organized retailers have a presence (treatment clusters) and where they do not have a presence (control clusters). The differences observed between the two samples together help establish the impact of organized retail.

The control sample survey was undertaken only in respect of food and grocery organized outlets of different formats covered in the main survey. Given the limitation of time and budget, the control sample survey was conducted in four out of the 10 cities covered in the main survey representing one city from each region.

The cities covered were: Delhi (North), Kolkata (East), Hyderabad (South) and Ahmedabad (West). While the two cities (Delhi and Kolkata) selected are the largest cities in their respective regions, the other two cities (Hyderabad and Ahmedabad) are large metro cities with a great deal of presence of organized retail, but are not the largest cities in their respective regions.

Secondary data pertaining to the location of organized retail in different cities was gathered and all the organized outlets were mapped. Through this mapping exercise, localities that fall in the catchment areas of organized outlets (one km radius in the case of supermarkets and discount stores, and 5 km in case of hypermarkets) were identified.

The same guideline was used in the main sample survey also to identify the catchment areas of organized clusters in respect of supermarkets and discount stores, but in the case of hypermarkets the guideline used was a radius of 10 km which was revised to 5 km in the control sample survey. This was done as a distance of 10 km was considered too large for food and grocery items, which was the only product category covered in the control sample survey.

In order to ensure that the retailers covered in the main survey and control sample survey are comparable (which was the main purpose of undertaking the control sample survey), care was taken to ensure that the localities selected for the control sample survey are similar in economic profile of its residents and are in the same geographical region of the respective cities.

The same semi-structured Retailer Interview Schedule that was canvassed in the main survey was used in the control sample survey.

The only difference between the two surveys was in respect of the reference period for all variables like sales turnover, profit, employment, etc. In the main survey, the reference period for all the historical data on these variables was the month and year of establishment of the organized retail outlet in that cluster. In the control sample survey, as the survey was conducted in clusters where the organized retailers do not exist, the reference period was the same for all the clusters which was “12 months before”.

C. Sampling Design: Intermediaries

Several layers of trade intermediaries are involved between the producers of goods and the retailers who sell these goods directly to the consumers. Intermediaries are a very diverse group in terms of their functions and scale of operations and as such, it is difficult for a small sample survey to statistically represent these heterogeneous groups.

Given this challenge, it was decided to represent different types of intermediaries dealing with different commodities or products in different geographical zones by adopting a quota sampling design. Accordingly, a quota of 10 intermediaries was interviewed from each commodity or product group and a total of 100 intermediaries were interviewed from 10 cities covered under the study. The break-up of this sample is as follows:

Table 3: Intermediary Sample by Product Group

Commodity/ Product Group	Targeted Sample Size
Cooking oil	10
Rice	10
Wheat	10
Pulses	10
Fruit	10
Vegetables	10
Package consumers products	30
Apparels	10
Total	**100**

However, the actual sample of 100 intermediaries comprises more than 10 respondents in respect of many categories as some of the intermediaries were engaged in trading of more than one commodity or product category. Broadly, the following categories of trade intermediaries were covered in the survey: (i) commission agents; (ii) miller/traders; (iii) regional wholesalers; (iv) C & F agents; (v) wholesalers; (vi) local commission agents; (vii) stockists; (viii) distributors; and (ix) authorized dealers.

The results based on the survey ought to be treated only as indicative and not as conclusive evidence, given the limitations cited above. It must be stated that the quota sampling is widely practised in survey research. The quota sampling method has been used, given the limitation of time, resources, and lack of adequate and reliable knowledge on the number of intermediaries.

D. Sampling Design: Consumers at Organized and Unorganized Outlets

As consumers are a major stakeholder category in the expansion of organized retail, a consumer survey was planned as an integral part of the present impact assessment study. To assess the impact of organized retail network on consumers, exit interviews were conducted with the consumers at the sampled 100 organized outlets across 10 study cities. A separate survey was also conducted at one or two of the sampled unorganized outlets in each cluster.

Exit interviews were preferred over household surveys as it is difficult to locate households who have made purchases from the sampled organized clusters (as the catchment's area extends over a large area). Moreover, there could be a poor or inaccurate recall if the actual incidence of purchase occurred long before the date of the interview. Exit interviews are reliable, easy to implement, and are widely used in surveys of this nature.

In order to capture adequate information about the products purchased and savings made if any from purchasing at organized outlets, only consumers who have spent at least Rs. 100/- at the organized outlet in the present visit were included in the sample. Five consumers were interviewed from each sampled organized outlet adopting the systematic random sampling procedure. Every fifth consumer exiting from the shop was interviewed provided he or she has made a purchase of Rs. 100/- and above. Wherever the selected respondent was found to be ineligible on this criterion, he or she was replaced with the next eligible respondent. Unlike in the case of consumers at organized outlets, no minimum purchase value was stipulated for eligibility in the case of consumers interviewed at the unorganized outlets. As the number of consumers visiting unorganized outlets is not large, every alternate consumer visiting the shop for making a purchase was interviewed (visitors who did not make any purchase, however, were not included in the sample).

In total 1,010 consumers were interviewed, of which 505 consumers were interviewed at the unorganized outlets, and 505 consumers were interviewed at the organized retail outlets.

Survey of Consumers at Fruit and Vegetable Vendors

The above consumer survey did not cover consumers shopping at unorganized fruit and vegetable outlets. An additional survey of consumers through exit interviews was done for 308 consumers shopping at food and vegetable shops and hawkers in nine cities (all 10 cities covered in the earlier surveys minus Kochi.)

E. Farmer Survey: Sampling Design

Improved crop value realization for farmers is often cited as the major benefit of direct procurement of produce from farmers by organized retailers. The present study seeks to examine this phenomenon. Subsequent to the value-chain assessment undertaken in Bangalore, Karnataka for cauliflower, it was decided that this would be studied in detail.

The universe of farmers in India is quite large and extensive. Identifying a statistically significant sample is almost impossible. Therefore it was thought appropriate to identify just one area and look at only one product and undertake a case study.

Cauliflower is a commonly consumed vegetable across all parts of India. An average cauliflower cultivation cycle, from land preparation before sowing to harvest, is 120 days. Cauliflower is not a seasonal vegetable, but is sensitive to climate. Cool weather is most suited for the cultivation of cauliflower. Good irrigation facilities are also required, since the vegetable requires moist soil. Owing to these precise specifications required for the cultivation of the vegetable, there are bound to be obvious quality differentiations. While cauliflower is grown in many parts of India, Bangalore's climatic conditions are conducive for the crop to be raised all through the year.

An extensive reconnaissance was conducted over two field trips[23] in Bangalore and Hoskote. Hoskote is situated 25 km from Bangalore and is one of the main vegetable, and specifically cauliflower, growing areas. A couple of years ago, Hoskote was considered to be the outskirts of the city. But, with the city growing as a result of the IT boom and escalating property prices, Hoskote is now part of the city.[24]

Many organized retailers, Spencer's, Reliance and Fabmall,[25] to name a few, have their collection centres at Hoskote, all within 2-3 km of each other. Even though the Hoskote Taluk[26] includes a little over 200 villages, the catchment area for the study was intentionally restricted to villages within a 20 km radius of the collection centres, in order to dispense with any geographical bias.

The study was implemented in two stages. Over the two field trips an attempt was made to collate information on the following fronts:

- Contact all organized retailers within our catchment area and collate information on their procurement practice.
- Put together a list of farmers from whom, or the list of villages from where cauliflower is procured.
- Find out the various marketing channels available for cauliflower.
- Interview each person in the respective marketing channels to understand their role and the value additions that they bring to the chain.
- Interview farmers selling to organized retailers either directly or through a consolidator and farmers selling through other channels to capture in detail their costs of cultivation and transaction.

Once this was completed, a value-chain analysis was carried out and a detailed questionnaire was prepared for the survey to be conducted, and thus ended the first stage of analysis.

The second stage of the study involved an extensive survey executed in the same area. The survey was to be conducted in Hoskote under similar conditions as that of those chosen for the value-chain analysis. The survey began by first interviewing those farmers who were selling to organized retailers either directly or through a consolidator. Subsequently, farmers using other channels were also identified in the same villages as where farmers selling to organized retailers lived, and were interviewed. A total of 197 farmers were interviewed within the 20 km stipulated radius to obtain a reasonable representation of all marketing channels.

While the emphasis of the value-chain analysis was to capture in detail the costs of production of the farmer and the value additions brought in by each player, the aim of the survey was to capture in detail the profile of the farmer, the cultivation practices and the costs of transaction incurred in each marketing channel. The survey also tried to capture any qualitative advantages that the farmer might benefit from.

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[23] May 23, 2007 to May 27, 2007 & June 12, 2007 to June 16, 2007.
[24] The new airport for Bangalore is constructed in the vicinity. As a result, property prices at Hoskote have multiplied over the last year or two.
[25] Soon to be renamed "More" post after its acquisition by the Aditya Birla Group.
[26] A sub-division of a district.

Annex 5: Syndicate Bank's Small Credit Scheme Linked to Pigmy Deposits ("SyndSmallCredit")

(A new scheme for providing financial assistance to entrepreneurs of small means contributing to the deposit scheme "PigmyPlus2007"- Doorstep Banking.)

Highlights of the Scheme:

- The scheme aims at entrepreneurs of small means, such as manufacturers, retail traders, professional and self-employed persons, artisans and those engaged in making handicrafts, village/ cottage industries, and other non-farm income-generating activities.
- The facility is available at all the branches where "PigmyPlus2007" scheme is in operation, in clusters of not less than 50 accounts in an area.
- Need based credit of above Rs. 25000/-, subject to a maximum of Rs. 1.50 lakh per borrower. A component up to 30 per cent of the total limit is included for necessities, such as consumption/ contingencies and repayment of high-cost private debt.
- No collateral security: only hypothecation of assets created out of a bank loan, lien on "PigmyPlus2007" account and a creditworthy third-party guarantee.
- Easy repayment at the convenience of the borrowers: the repayment is linked to day-to-day contributions towards "PigmyPlus2007" account, at the doorstep of the customer.
- Contributions towards Pigmy can be at the convenience of the customer. It is not fixed.
- Ballooning of equated monthly installments (EMIs) facilitating the customer to repay smaller installments in the beginning when the income level is low and gradually higher installments by the time the income level gets improved. Repayment period spread over 60 months. The first three months is the repayment holiday.
- Except for execution of documents at the branch level, the doorstep banking facility is extended to the customer through Pigmy agents.
- The rate of interest is at PLR-0.50 per cent i.e. presently 12.5 per cent per annum.
- 1.0 per cent rebate in interest for prompt repayment is provided at the closure of the account.
- The Bank collects nominal out-of-pocket expenses @ 3 per cent of the amount set for transferring from "PigmyPlus2007" to the loan account, which includes payment of 2 per cent commission to Pigmy agents.
- A step towards comprehensive and wholesome financial inclusion.

Source: Syndicate Bank.

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