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Organized Retailing in India: Issues and Outlook

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Abstract

Domestic and multinational corporations have begun to enter retailing in India, raising concerns that they will destroy the millions of small stores and street vendors that presently dominate retailing in the country. Policy makers know that corporate retailers can improve the efficiency and productivity of retailing and distribution in India; but they are also concerned about the possible harm to small businesses, and the loss of jobs among those who might not have the skills and training to find alternative employment.

We examine the extent to which corporate retailing has already harmed small retail businesses in India, and the extent to which it can cause further harm in the future. We discuss if and how corporate retailing might benefit small retailers and consumers, and consider if and why small and large retailers might coexist in a country where, in the next twenty years, 40% of the population and 70% of the GDP may be concentrated in urban areas. We consider problems that may arise if organized retailing grows, and suggest ways in which these could be addressed by policymakers.
1. Introduction

Where India shops in the future is at the center of a vigorous and ongoing debate. On one side of the debate are millions of street- and pushcart vendors, and small retail stores, that have dominated Indian retailing for centuries. On the other side are large Indian and multinational corporations seeking new opportunities in retailing. Small retailers claim that big businesses, especially multinationals, will destroy entrepreneurship and rob them of their livelihoods. Large businesses say that they can provide better and cheaper products, and bring badly needed investment, efficiency, organization and know how to retailing. Policy makers in India are wary of making changes that can harm small businesses and erode employment, but at the same time seek to promote greater efficiency and productivity in a growing sector of the economy that presently accounts for 37% of the country’s Gross Domestic Product (GDP).

Retailing is presently one of the few sectors of the economy where the Indian government limits entry by foreign firms. Some retailers have entered the Indian market under a provision allowing them 51% equity ownership in their Indian operations, provided they only sell products under a single brand name. Examples of such firms are Louis Vuitton, Cartier, Armani, Reebok, Marks and Spencer, Debenhams, Next, Bodyshop, Oshkosh and Carter’s. International firms that want to sell multiple brands cannot open retail stores, but can own 100% equity in wholesale stores; their customers must be institutional buyers, who pay in cash, and carry the merchandise from the store shelves. Firms like Walmart
and Metro operate such cash-and-carry stores, selling to retailers, cooperatives, hotels, restaurants, caterers, and various food and non-food traders. They offer lower prices and wider assortments than traditional wholesalers, and are open for longer hours. However, most multinational firms see cash-and-carry wholesaling as a point of entry into India. Their aim is to obtain government approval for 100% foreign direct investment (FDI) in multi brand retailing.

This paper examines the recent performance, outlook, and issues concerning the development of corporate retailing (also called organized retailing) in India. Section 2 considers the recent performance of the retailing sector. It suggests that organized retailers have had limited success, and that small retailers, including those selling food, have prospered. Section 3 discusses the possible reasons. Section 4 examines the outlook for retailing, and suggests that it is likely to grow at a slower rate than GDP; it also suggests that food sales are likely to grow at a slower rate than the sales of durable goods, transportation, and communications goods. Section 5 considers the potential benefits that corporate retailing can bring to the distribution system in India. Section 6 considers the effects of rapid urbanization over the next twenty years, the roles small and large retailers can play in development, and the ways in which corporate retailers can help stimulate the rural economy. Section 7 examines problems that can arise with the growth of corporate retailing, and ways in which these may be addressed by policymakers. Section 8 concludes the paper.
2. Selected aspects of retailing in India

Types of retail businesses

One common distinction often made in India is between formal and informal businesses; another distinction is made between organized and unorganized businesses. We briefly discuss these distinctions below, and use these in the following sections.

According to the Ministry of Labor and Employment\(^1\), the informal sector consists of unincorporated businesses that are owned and run by individuals or households. These businesses are not legally distinct from their owners, who raise capital at their own risks, and have unlimited personal liabilities for debts and obligations. Informal businesses typically employ family members and casual labor without formal contracts. Formal businesses are corporations, limited companies, and businesses run by or on behalf of cooperative societies and trusts.

The organized sector comprises incorporated businesses, for which statistics are available from budgets and reports. Importantly, partnerships, private and limited companies, and businesses run by cooperative societies and trust, are not considered to be organized businesses in India. Instead, these are classified as part of the unorganized sector, which in addition contains all businesses in the informal sector. The organized sector is therefore a subset of the formal sector in

\(^1\) See “Informal sector in India: approaches for social security,” undated report by the Ministry of Labor and Employment, Government of India.
India; and the unorganized sector consists of all businesses in the informal sector, as well as those businesses in the formal sector that operate as partnerships, private and limited companies, cooperative societies and trusts.

As Figure 1 shows, organized retailing includes all chain stores, supermarkets, hypermarkets, departmental stores, store-in-stores, and some single, large incorporated stores. Unorganized retailing includes informal retailers — about 12 million kirana stores, and millions of paan shops, vegetable and fruit stalls, street hawkers, pushcarts and street vendors. It also includes those general merchants, chemists, appliance stores, and various specialty stores that are in the formal sector and operate as partnerships, private and limited companies, cooperatives, and trusts.

**Retail employment**

Retailing is the second largest employer in India, after agriculture. According to the National Survey Sample Organization (NSSO 64th Round), retailing employed 33.1 million people — an estimated 7.2% of all workers in the country — in 2007-08 (Department of Industrial Policy and Promotion 2010). According to Euromonitor (2010), the number of people employed in retailing was around 39 million in 2009. However, retail employment has not grown by 6 million in a year; it is more likely that these employment numbers differ because of differences in assumptions and estimation methods.
Informal retailing provides employment to the individuals and families than run the 12 million or so kirana stores, and to the causal workers they employ, such as shop- and delivery boys. It also provides employment to about 3.4 million street vendors, and to several million pushcart vendors who sell products door-to-door and on streets. In contrast, large stores, including the more recent supermarkets and hypermarkets, employ about 500,000 people, almost all in urban areas.

Retail employment grew at a slower rate than overall employment in India between 2005 and 2006. More recently, the two have grown at about the same rate, with retailing employment rates rising and overall employment rates falling. Between 1999-2000 and 2004-05, employment in retailing grew by more than 30% in rural areas, and by less than 3% in urban areas. Thus, the major growth in employment during this period was in rural areas.

**Retail Sales**

Table 1 shows Economist Intelligence Unit’s (2008) estimates for total retail sales in India between 2004 and 2009. It also shows Euromonitor’s (2010) estimates for formal-sector retail sales over the same period. We infer the informal sector sales, and the shares of formal and informal sector sales, using these two sets of data. Differences in data-collection and estimation methods for these two sources can introduce additional error in the estimates of informal-sector sales; with this caveat, we can draw several important conclusions about the status of, and trends in, retailing in India.
First, total retail sales increased by approximately 70% between 2004 and 2009, from $294 billion to $496 billion. Second, sales grew over this period by about 43% for retailers in the formal sector, and by about 97% for retailers in the informal sector. Equivalently, the annual average rate of sales growth was about 11% for all retailing, 7.5% for organized retailing, and 14.5% for informal retailing. Thus, from 2004 to 2009, retail sales grew almost twice as fast in the informal sector as in the formal sector, and at a substantially faster rate than India’s GDP. Third, in 2007, retail sales in the informal sector surpassed those in the formal sector. By 2009, the informal sector held about 56% share of retail sales, which was 8% higher than its 48% share of sales in 2004. These data suggest that informal retailing is more than surviving; it is flourishing. At the present growth rates, the gap between formal and informal retailing will continue to widen — family-owned stores and street vendors will take a larger share of retail sales.

Organized retailing has grown in the last decade, but at a substantially lower rate than predicted by industry analysts a few years ago, the more optimistic of whom were projecting organized retailing to garner 15-20% share of retail sales by 2011. Almost all organized retailers have focused on urban markets. Some of them have rapidly gained sales, although not all have been profitable. Pantaloon, for example, grew it’s sales nearly tenfold between 2004 and 2009, to about $1.3 billion; Reliance Retail increased sales by nearly a billion dollars between 2005 and 2009. Overall, the share of sales for organized retailing grew from 3.3% in 2003-04 to 4.1% in 2006-07, and is reported to be around 5% in 2009.
As all organized retailing is part of the formal sector, we estimate the retail sales for the organized sector to be approximately $5 billion (i.e., 3.3% of $153.63 billion) in 2003, and approximately $11 billion (i.e., 5% of $218.92 billion) in 2009. The remaining sales in the formal sector are from unorganized retailing, which we can infer grew from about $148 billion (i.e., 96.7% of $153.63 billion) in 2004 to about $208 billion (i.e., 95% of $218.92 billion) in 2009. Equivalently, unorganized but formal retailing grew at an average annual rate of about 6.3% from 2004 to 2009.

To summarize, the average rate of sales growth from 2004-09 was about 14.5% for informal retailing; 7.5% for organized retailing; and 6.3% for unorganized, formal retailing. The share of sales for the last group therefore declined.

There can be several reasons why sales in formal, unorganized, retailing grew more slowly than organized retailing and informal retailing. First, it is likely that large corporate retailers compete most directly with other retailers in the formal sector, than with retailers in the informal sector. For example, hypermarkets and departmental stores might take disproportionately more sales from mass-merchandise stores and specialty stores, than from kirana stores and street vendors. Second, to take advantage of growth opportunities, some formal, unorganized retailers might have incorporated and registered, so that these are reclassified as organized businesses. For example, a privately-owned appliance store might grow into a store selling a full range of durable goods, which have seen substantial demand in the last five years; and it might then be reclassified as
an organized retailer as it develops into a larger organization and registers as a corporation, allowing the owner to qualify for bank loans.

Food sales

Groceries are a large share of retail sales. Table 2 shows the share of in-store food retailing; the data on total sales include sales by street vendors and pushcarts.

From 2004-09, small grocery stores lost about 3% market share. However, because primary demand for food has been growing, small stores still increased sales by 22% from 2004 to 2009. The sales base for these stores is so large that this 22% amounted to Rs. 815 billion, or about 62% of the Rs. 1,324 billion in incremental store sales over the time period. Thus, while small stores might have gained even more sales if organized retailing had not entered, they have still grown in a growing market. The data in Table 2 do not suggest that small food retailers are being decimated, or that the entry of organized retailers has cost jobs and livelihood for small retailers and their workers.

Table 3 shows the sales and market shares of the key grocery retailers in the organized sector from 2005 to 2009. Individually, each of the firms shown has less than 1% market share. Among them, the top five accounted for 2.3% share of grocery store sales in 2009. The total share of sales for hypermarkets and supermarkets has grown from Rs. 27.5 billion (about ½% market share) in 2004 to Rs. 177.7 billion (nearly 3% market share) in 2009. But profitability has been difficult to achieve for organized retailers. Some, including Vishal Trading and
Subhiksa Trading Services, have closed; Subhiksa used to be the second-largest retail chain in India, with about 1600 discount food stores. Other organized retailers have incurred losses and have cut back on planned expansion after 2009.

Various reasons have been given for the limited success that organized retailing has so far achieved in India: inflated expectations of retailers, unsustainably fast growth, lack of acceptance by consumers with long-standing habits, lack of experience among organized retailers, lack of trained sales personnel, sharply higher store rentals, and aggressive reaction by unorganized retailers to retain customers. Almost every organized retailer now recognizes that it cannot compete with unorganized retailers in all product categories, even on prices. For example, food stores like Reliance Fresh offer lower prices on fresh produce; but their prices for packaged goods are typically higher than those for unorganized retailers, because the latter typically don’t charge taxes. Unorganized retailers have several other advantages, which we discuss next.

3. Advantages for informal retailers
Several factors favor informal retailing in India: population density, flexibility and responsiveness to consumer needs, efficient space utilization, low operating cost, and a business model that focuses on livelihood for owners rather than profits for an organization. We briefly discuss each of these factors below.
India has a population density of 933 people per square mile. By contrast, Japan, China and the United States have population densities of 670, 361 and 83 people per square mile, respectively.\(^2\) Urban areas, which are the focus of organized retailing, have much higher population densities: Delhi, for example, has 24,197 people per square mile, which is much greater than Singapore’s 18,189 people per square mile. Seemapuri, the most densely populated neighborhood in Delhi, has 76,342 people per square mile.\(^3\)

High population density makes it possible for closely located small and large stores to coexist. Market entry by a large store might change the mix of products a small store offers to differentiate its offerings, and the two types of stores may cater to different market segments, but both can survive if there are enough consumers in an area.

High population density offers other advantages to small stores. Consumers tend to make smaller, more frequent, purchases in denser areas, because they have smaller homes and cannot stock up on purchases. Large stores in urban areas in India can seldom attract large numbers of distant consumers, because only those


\(^3\) Population densities for Indian cities and states are from http://www.censusindia.gov.in/Census_Data_2001/India_at_glance/density.asp
with cars typically travel to a distant store; and these customers are likely to make infrequent trips because of the time and inconvenience of negotiating traffic and finding parking. In contrast, small retailers serve consumers within a small radius, and unlike closely located organized stores, take phone orders and can offer personalized services at low cost. For example, they can afford to make home deliveries because it is cheaper to send a delivery boy to ten homes when these are in closely located homes or apartment buildings.

Second, small retailers have the ability to respond in a flexible way to consumer needs. For example, a small food store might sell a single egg or a dozen, two slices of bread of a loaf, a quarter stick of butter or a kilogram, and a single-serve slice or a brick of ice cream. Paan shops are well known to sell single sticks or packets of cigarettes. This flexibility in meeting micro-demand is not available to organized retailers. Most small stores accept product returns, exchange damaged goods, and give credit to customers with whom they have long-standing relationships. They also know the likes and dislikes of individual customers, recommend new products to them, and adjust prices for different customers —

4 India’s poor infrastructure also favors small retailers. Homes with refrigerators cannot store large quantities of fresh and dairy foods because of frequent power cuts.

5 This is also the reason that small stores can afford to make home deliveries in New York, where unskilled labor is far more expensive than in Indian cities.
they are true practitioners of first-degree price discrimination. Such services are difficult to match for organized retailers, but can be important especially when one considers that people build routines around, and derive pleasure from, the many small aspects of shopping: the daily call of a vegetable seller, the haggling for prices at the weekly street bazaars, the nightly paan and cigarette, and the chai shop, are part of the rhythm of Indian life. They might change, but likely not very soon.

Third, small stores manage physical space far more efficiently than large stores; and space utilization is especially important because real-estate costs and rentals are high and will likely continue to rise, especially in urban areas. One disadvantage of large stores using self-serve layouts is that they need room to allow customers to walk through the store. But the self-serve layouts in Indian stores are especially poorly managed. In some stores, products are placed on three or four shelves in each aisle; in other stores, shelves go up to the ceiling, where customers cannot reach them. Fresh produce is often scattered on the floor; large boxes lie partially opened in the middle of aisles. In contrast, kirana stores and vegetable sellers typically have much better space utilization, with one or two people picking out and packing customer orders.

Fourth, the cost of operations is typically substantially higher for organized retailers. Many unorganized retailers rely on family members to buy and sell products. In many cases, stores are not physically separated from homes. They
use unskilled labor, hire no managers and sales clerks, and have long-term relations with many customers.

Finally — and crucially — the main reason small retailers are in business is to make a living. They convert their homes into shops, use them to store goods, and hire casual workers when needed. Household members typically don’t earn separate salaries, but are concerned about family income. In contrast, organized retailers rent or buy stores, pay salaries and benefits to employees, cannot easily fire worker, and incur substantial fixed and overhead costs. Overall profitability after expenses, rather than livelihood, is needed to keep an organized business going. These differences in means and objectives make it more likely that small retailers will survive.

4. Growth patterns in retailing

Both Economist Intelligence Unit and Euromonitor project retail sales to grow at about 15% per year, for at least the next five years. There projections appear to be overly optimistic for at least two reasons. First, retail purchases are not likely to grow as fast as household consumption, of which they are a part; and household consumption itself is not likely to grow as fast as GDP in India. Taken together, these two considerations suggest that overall growth in retail sales is likely to be below GDP growth for the next several years, although some retail categories — such as durable goods and personal transportation (including automobiles) — might grow at a faster rate. As noted above, food retailing will likely continue to grow at a much lower rate than GDP.
Analysis by the consulting firm Goldman Sachs (2009) suggests that household consumption declines as a share of GDP until per capita GDP rises to the $1,500-$2,000 range. Beyond that range, it increases; see the panel on the left-hand-side of Figure 2. Thus, for example, Figure 3 shows that the share of GDP due to household consumption has slowly increased over the last several decades in developed countries like France, Germany, UK, USA and Japan, but that it has steadily decreased in countries like India, Brazil and China. In particular, household consumption in India has steadily declined from about 80% of GDP in the early 1970’s to about 55% of GDP in 2009. We might expect it to further decline in the near future, and to begin increasing once GDP per capita passes the above noted range for per-capita income.

The share of household expenditure devoted to retail purchases also changes in an emerging economy, as does the allocation of retail expenditure to different product categories. As per capita GDP increases, households spend disproportionately more on communications, transportation, durable goods, education, health, and recreation; and spend disproportionately less on groceries and clothing (see the panel on the right hand side of Figure 2). The data for India are broadly consistent with these patterns. For example, Figure 4 shows that since 2005-06, expenditures on communications and transportation have grown rapidly, and expenditures on clothing and footwear, and furniture and appliances, are growing faster than expenditures on food (note that the effect of the economic slowdown on growth in these categories can be seen in Figure 4).
As noted above, and as shown in Figure 5, consumer expenditure on groceries has decreased as a fraction of retail sales, from 67.5% in 2005 to 61.5% in 2009. The annual rate of growth in grocery sales has also decreased from 6.3% in 2005 to 2.5% in 2009. These changes are likely to persist.

In summary, one might expect three broad trends in retail sales. First, overall sales will grow at a slower rate than GDP. Second, food sales are presently the largest across categories, but are likely to grow at a slower rate than overall sales. Food retailing is likely to become more competitive and more efficient; retailers in the informal sector may continue to enjoy the advantages noted above. Third, retailing for durable goods, automobiles, restaurants, hotels, and recreation will grow at a faster rate. These businesses can require large investments, and are likely to further increase the size of organized retailing in India. As the panel on the left-hand side of Figure 6 shows, durable goods have very low penetration, and can increase for a long time in India. How long is illustrated in the panel on the right-hand side of Figure 6, which shows that the share of durable-goods expenditures continued to grow for over 65 years in the United States.

5. **Beyond selling**

The discussion so far has considered retailing in the context of where consumers buy. But the ongoing debate on retailing is not just about types of retail stores; it is about the entire distribution system in India, of which retailing is the most visible end.
Small retailers have no choice but to take distribution channels as given. They do not have the resources or the power to make any changes in the supply chain. Organized retailers, in contrast, have knowledge, ability and resources, and their profitability depends greatly on the efficiency of the entire supplier-to-consumer distribution system. The reason firms like Walmart and Carrefour are successful around the world is that they are able to extract saving by improving the productivity and efficiency of the distribution system. Their knowledge and ability can be used to improve distribution in India. However, it is this same ability that paralyzes policy makers when they hear that Walmart destroys small businesses in USA. But the Indian situation is not the American situation; and India needs to find ways to learn from problems that have arisen in other countries, assess their relevance for India, and find methods, including incentives and regulations, to share system-wide improvements with small retailers. For one thing, India, as noted above, has a much greater population density, which favors small businesses, especially in urban areas. It is easy for someone living in rural America to travel 20 miles in a car, on a decent road, and go shopping at Walmart. In rural India, good roads are rare, cars rarer still, and a superstore could draw no more than the people living in the immediate vicinity. And among those who might visit such a store, few could afford to buy large quantities as are sold at superstores in America, because they cannot spend as much, or carry as much, or store as much, in their homes.

Some organized retailers have begun investing in distribution-system improvements, albeit at a slow pace. For example, Mukesh Ambani, Chairman of
Reliance Industries, envisions a system in which Reliance Retail works closely with farmers and other rural workers, buys directly from them, and handles all aspects of distribution, including processing, transportation, warehousing and storage, and retailing. Between 2000 and 2010, multinational companies invested about $1.8 billion in cash-and-carry wholesaling, in which they were allowed to make 100% foreign direct investments starting 1997 (Department of Industrial Policy and Promotion 2010). These firms bring not only financial investments, but also a great deal of experience in improving supply-chain productivity and efficiency, which can benefit small and large retailers in India. Some multinational firms, like Walmart, are going beyond retailing and distribution, and are helping farmers to improve growing and harvesting practices (Bajaj 2010).

But there are many important areas of distribution that are in need of serious improvement. Consider cold storage. With an annual yield of about 180 million tons, India is the second-largest producer of fruits and vegetables in the world. But it has only 23.6 million tons of cold storage, and 80% of this is used to store potatoes. About 25-30% of fruits and vegetables, and 5-7% of food grains, are spoilt. Estimated post-harvest losses are Rs. 1 trillion per year, 57% due to avoidable waste. Still, investments in cold chains has remained insignificant, despite the government allowing 100% FDI (Department of Industrial Policy and Promotion 2010).
A similar situation exists with respect to warehousing. Halarnkaran and Randhawa (2010) report that because of insufficient warehousing capacity, 17.8 million tons of wheat and rice were stored under tarpaulin in India in 2010, of which about 10 million tons was at risk of rotting. In Punjab, 49,000 tons of food grain was unfit for consumption after being left out for three monsoons, and was ready to be destroyed. Appalled by the situation, the Supreme Court of India ordered in August 2010 that the government distribute for free the food grain it could not store it (Sinha 2010). But even this seems difficult because transportation costs are too high to take the grain to people who need it. Meanwhile, the cost of food has risen sharply.\footnote{Basu (2010) discusses why poor foodgrain storage alone is not the reason for high price increases, and why lowering prices will need a redesign of the mechanics by which India acquires and releases food on the market.}

Logistics costs are around 14% of GDP in India. By comparison, these are 8% of GDP in USA. The Indian distribution system is both wasteful and inefficient. For example, the cost of moving a cargo container over 1km is 50% higher in India than in the USA (Manoj 2008). V. Shunmugam, chief economist at commodity exchange MCX India in Mumbai, offers an example: The government procures wheat at $23.50 per 100 kilograms in Madhya Pradesh; transporting it to Tamil Nadu adds between $11.50-13.50, depending on whether road or rail transport is used (Knowledge at Wharton 2010).
The percentage of goods transported by road is presently about 77%, and this is expected to rise to about 85% in the near future. However, the road transportation system is largely unorganized and fragmented. Operators who have 20 or more trucks run only 6% of the trucks on the road. The remaining are small businessmen with just a few trucks (Sriram, Venkatesh, Karne and Mohite 2006). There are few economies of scale or scope.

The most visible example of inefficiency and corruption is the public distribution system, which runs about 478,000 fair-price shops. It is the largest retail chain in the world, and is meant to provide subsidized food to the poor in India (Knowledge at Wharton 2010). But two-thirds of the grain is stolen or adulterated (Economist 2010). The government’s response is to increase food subsidies, which rose by 65% in 2009-10 to over $15.6 billion, or Rs. 72,000 crore (Financial Express 2010). In the longer run, such massive subsidies provide no lasting system-wide benefits that could lower costs for all retailers, and lower prices for all consumers. We are not suggesting that the poor should

7 Also see the report by the Wadhwa committee (2009).

8 The subsidy, given by the Centre to procurement agencies like the Food Corporation of India (FCI), covers the difference between buying and selling prices. To ensure that farmers get at least the minimum support price and that food is available below market price to the poor, government procurement agencies buy above market cost and sell below market prices.
not be given subsidized food, but that the long-term solution is to replace subsidies by an efficient and productive distribution system that can operate at much lowers costs, and allows the benefits to producers and consumers.

Again, the organized retailing sector can bring about improvements in each of the above noted areas because it has the means, knowledge and need to do so. And by working directly with producers, it can dramatically improve the incomes of the poor, including farmers, who typically earn $\frac{1}{3}$ of the final price of their products. In contrast, the international norm is that $\frac{2}{3}$ of the final price is earned by farmers. Why the difference? Partly, because of the higher distribution costs and waste noted above; and partly because wholesale markets, which are regulated by State Agricultural Produce and Market Committees (APMC), operate as monopolies. Farmers are often at the mercy of wholesalers, and even simple systems of grading and sorting produce are not commonly used in the country. Firms like Walmart and Reliance are keen to invest in farm-to-consumer delivery system, which is not automatically bad for Indian farmers or consumers. The business model for these firms is to squeeze out every penny by making the supply chain lean and efficient, and this can only be a good thing if in the process the country gets a modern distribution system, and if the benefits can be shared with farmers and small retailers.

6. Effect of urban growth on retailing
The preceding discussion about the benefits of improving the distribution system would be worthwhile even if India were not expected to change in any significant
way in the next 20 years. But the need for a more modern distribution system becomes more urgent if we consider the ways in which the country is expected to change. The most significant of these changes from the perspective of retailing is the rapid and ongoing urbanization of the country.

In his Independence Day address in 2005, Prime Minister Manmohan Singh observed that a third of India’s population lives in urban areas today, and that “… the day is not far off when over 50% of India’s population will be residing in urban areas” (Singh 2005). Urbanization and economic growth have historically been closely related; see Figure 7. As India’s economy grows, it is likely that it will become a more urban country, and more income and wealth will be concentrated in urban areas. This, in turn, will affect where and how retailing grows.

According to census reports, the number of people living in Indian cities grew from 290 million in 2001, to 340 million in 2008. India has the second-largest number of urban dwellers in the world. Only 20% of the population increase in cities is due to migration; the rest is due to the expansion of city boundaries or the reclassification of rural areas. From 2001-08, India’s urban population grew 58% faster than the population of the country as a whole.

A study by the McKinsey Global Institute (2010) predicts that by the year 2030, India will have a population of 1.47 billion, and that 40% of the population will live in urban areas. Thus, the urban population will grow to about 590 million, roughly 250 million more than recorded in the 2008 census. The number of cities
with over one million residents is projected to increase from 42 in 2010, to 68 in 2030. Six cities are expected to have populations of 10 million or more. Mumbai’s population is expected to exceed 33 million; Delhi’s population to exceed 25 million; and Kolkata’s population to exceed 22 million. The McKinsey study also projects that the urban share of GDP will rise to 69% by 2030, up from 58% in 2008; and that about 120 million new urban jobs will be created between 2008 and 2030. The number of urban households earning below Rs. 90,000 per year is expected to fall below 20%, and the number of people earning Rs. 200,000 per year and Rs. 1 million per year to increase fourfold, from 32 million to 147 million people. In contrast, seventy five percent of city populations today are in the lowest income segments, earning about Rs. 80 (about $1.80) per day.

These forecasts, if even approximately correct, have significant implications for retailing. First, they imply that retailing will not grow evenly, but at a higher rate in urban areas, which will not only be able to accommodate, but also require, both organized and unorganized retailers. Second, urban retailing is likely to remain the strategic focus of organized retailers, because there are increasingly more numerous and affluent consumers to serve in this market. Third, rural economic growth will require stimulus. Some of it can come from organized retailers investing in a variety of supply-chain activities in rural areas, such as

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9 The analysis assumes annual GDP growth of 7.4% per year between 2008 and 2030, with urban GDP growing at 8.3% per year, and rural GDP growing at 5.9% per year.
food processing, storage and warehousing, and location of transportation and shipment hubs. Some of these investments are likely to be made in rural areas close to towns and cities (e.g., warehousing), others close to farmers and suppliers (e.g., food processing, storage), and still others at locations that make sense from a logistics standpoint (e.g., trans-shipment points and distribution hubs).

7. Potential pitfalls

There are some inherent advantages of size that will benefit organized retailers. Some concerns have been voiced about the possibility that large retailers can create artificial shortages and price volatility; mechanisms to limit such power are desirable. Large retailers can also obtain favorable terms from manufacturers and other suppliers, which smaller retailers cannot. And large retailers alone can bypass conventional distribution channels, use information technology to organize ordering and order processing systems, and benefit from lower logistics and transactions costs, both because of economies of scale and better supply-chain practices. Efforts are being made by small retailers to form cooperatives, so that they can obtain similar benefits. Bhartiya Udyog Vyapar Mandal (BUVM), the biggest national-level association of kirana stores, is leading one such effort, focusing on negotiating better prices from manufacturers, bypassing middlemen, and obtaining financing at terms that are otherwise only available to large organizations (Dave 2008). More such efforts need to be developed and promoted.
There is need to limit the extent to which corporate retailers are able to obtain special privileges, such as access to desired locations to set up their stores. Corporate retailers are making some of the largest and most expensive deals in metropolitan centers. However, there is no ceiling on the size or number of commercial outlets that may be started in a given commercial zone, once some basic criteria of breadth of road is complied with. The central government has no control over this matter, and state governments have yet to device policies about these issues. Concerns have also arisen about the enforcement of existing regulations governing, for example, opening and closing hours; some large format stores remain open for 10-11 hours, including on Sundays.

It is necessary to anticipate the possibility of implicit collusion among different organized retailers, who might carve up and share parts of a larger market, and then use (say) predatory pricing to drive out small retailers. Similarly, organized retailers can obtain great power over channels of distribution. For example, it is possible that large retailers can lock out specific suppliers, or make onerous demands from small manufacturers who depend on them for their business. Such concerns have arisen in the USA about large-format retailers.

There are concerns that organized retailers in the food industry might initially offer farmers incentives for contract farming (know how, credit, higher prices and price guarantees), but eventually transfer substantial risk onto them, and force them to plant certain crop, use particular seeds, require over-fertilization, and
emphasize the selection of produce that meets storage and shipment requirements rather than the nutritional needs of consumers.

The use of greater mechanization, leading to layoffs and the possible exploitation of farm labor, is a concern. Contract farming is also expected to favor large farmers, and there are fears of subsistence farmers having no choice but to leave their farms and become laborers.

These are significant issues that policy makers need to address using a mix of incentives and regulations, and by ensuring that there is competition in the distribution system that prevents excesses and exploitation. For example, information systems are critical to the management of modern supply chains, affecting how suppliers are linked to retailers, orders are taken and processed, and inventories are managed. Requiring common, interoperable, standards, and allowing open access to buyers and supplier across retail chains and cooperatives, and foster competition among large organized retailers.

8. Conclusions

No one has a crystal ball that can perfectly predict how organized retailing will grow in India, but it is likely that it will have a useful and important place. It is not likely that small retailers will disappear from India. Both large and small retailers can, and should, coexist, serving different consumer needs and contributing in complementary ways to the economic development of the country. Small and large retailers provide benefits to consumers that the other
cannot provide. Large retailers can make improvements in the distribution systems, and contribute to economic development, in ways small retailers cannot.

It is only reasonable that owners of small stores view corporate retailers as a great threat. No one likes competition, especially from a stronger force. But as we have argued, growth in demand is likely to be large; and an increasingly higher population density, especially in urban areas, requires the coexistence of small and large retailers.

As always, policymaking needs to be based on a balanced assessment of the present and future needs of different groups in society. In the short run, small retailing, as a whole, is not only surviving; it is prospering. And large, corporate retailers are finding it difficult to become profitable. In the long run, large, corporate retailers can survive if they improve system wide efficiency and productivity in the distribution chain, which the country needs, and which also can benefit small retailers, provided the appropriate incentives and regulations are put in place. The economic growth of rural areas will become a bigger concern, and policy makers should examine ways in which investments by corporate retailers can be directed to benefit the rural economy and citizen.

There are several issues concerning the potential misuses of excessive power that need careful consideration by policy makers, in keeping both consumer markets and distribution systems competitive and open. Lessons learned from developed markets should be used in formulating domestic policy in India.
References


13. Knowledge at Wharton (2010), “Getting grain to the poor: India grapples with


http://pdscvc.nic.in/report%20on%20computersisation%20of%20PDS.htm
Table 1: Estimated retail sales and market shares for formal and informal retail sectors in India: 2004-2009

<table>
<thead>
<tr>
<th>Year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total sales</td>
<td>294</td>
<td>331</td>
<td>359</td>
<td>448</td>
<td>481</td>
<td>496</td>
</tr>
<tr>
<td>Formal sector sales</td>
<td>153.63</td>
<td>167.50</td>
<td>182.72</td>
<td>198.61</td>
<td>211.54</td>
<td>218.92</td>
</tr>
<tr>
<td>Informal sector sales</td>
<td>140.37</td>
<td>163.50</td>
<td>176.28</td>
<td>249.39</td>
<td>269.46</td>
<td>277.08</td>
</tr>
<tr>
<td>Formal sector share</td>
<td>52.25</td>
<td>50.60</td>
<td>50.90</td>
<td>44.33</td>
<td>43.98</td>
<td>44.14</td>
</tr>
<tr>
<td>Informal sector share</td>
<td>47.75</td>
<td>49.40</td>
<td>49.10</td>
<td>55.67</td>
<td>56.02</td>
<td>55.86</td>
</tr>
</tbody>
</table>

Sales are in billions of dollars
Note: Assumes $1=Rs 46

Source: Estimates of total sales are from Economist Intelligence Unit (2008); estimates of formal sector sales are from Euromonitor (2010).
Table 2: Sales and share of in-store grocery retailing from 2004-2009

Sales in Rupees billion

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hypermarkets</td>
<td>5.4</td>
<td>10.5</td>
<td>21.9</td>
<td>40.1</td>
<td>84.3</td>
<td>105.3</td>
</tr>
<tr>
<td>Supermarkets</td>
<td>22.1</td>
<td>28.3</td>
<td>39.6</td>
<td>75.3</td>
<td>97.9</td>
<td>72.4</td>
</tr>
<tr>
<td>Food/Drink/Tobacco Specialists</td>
<td>999.7</td>
<td>1,069.7</td>
<td>1,139.2</td>
<td>1,207.6</td>
<td>1,274.0</td>
<td>1,325.0</td>
</tr>
<tr>
<td>Small Grocery Retailers</td>
<td>3,661.30</td>
<td>3,882.20</td>
<td>4,097.00</td>
<td>4,264.80</td>
<td>4,375.40</td>
<td>4,476.10</td>
</tr>
<tr>
<td>Other Grocery Retailers</td>
<td>228.3</td>
<td>236.3</td>
<td>243.3</td>
<td>250.2</td>
<td>256.4</td>
<td>262</td>
</tr>
<tr>
<td>Total Grocery Retailers</td>
<td>4,916.80</td>
<td>5,227.00</td>
<td>5,541.10</td>
<td>5,837.90</td>
<td>6,088.00</td>
<td>6,240.80</td>
</tr>
</tbody>
</table>

Share of sales

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hypermarkets</td>
<td>0.11</td>
<td>0.20</td>
<td>0.40</td>
<td>0.69</td>
<td>1.38</td>
<td>1.69</td>
</tr>
<tr>
<td>Supermarkets</td>
<td>0.45</td>
<td>0.54</td>
<td>0.71</td>
<td>1.29</td>
<td>1.61</td>
<td>1.16</td>
</tr>
<tr>
<td>Food/Drink/Tobacco Specialists</td>
<td>20.33</td>
<td>20.46</td>
<td>20.56</td>
<td>20.69</td>
<td>20.93</td>
<td>21.23</td>
</tr>
<tr>
<td>Small Grocery Retailers</td>
<td>74.47</td>
<td>74.27</td>
<td>73.94</td>
<td>73.05</td>
<td>71.87</td>
<td>71.72</td>
</tr>
<tr>
<td>Other Grocery Retailers</td>
<td>4.64</td>
<td>4.52</td>
<td>4.39</td>
<td>4.29</td>
<td>4.21</td>
<td>4.20</td>
</tr>
<tr>
<td>Total Grocery Retailers</td>
<td>4916.80</td>
<td>5227.00</td>
<td>5541.10</td>
<td>5837.90</td>
<td>6088.00</td>
<td>6240.80</td>
</tr>
</tbody>
</table>

Source: Euromonitor (2010).
Table 3: Market shares of grocery retailers in the organized sector from 2005 to 2009

<table>
<thead>
<tr>
<th>Company</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pantaloon Retail India Ltd.</td>
<td>0.2</td>
<td>0.3</td>
<td>0.5</td>
<td>0.7</td>
<td>0.8</td>
</tr>
<tr>
<td>Reliance Retail Ltd.</td>
<td>-</td>
<td>0</td>
<td>0.3</td>
<td>0.5</td>
<td>0.6</td>
</tr>
<tr>
<td>Spencer's Retail Ltd.</td>
<td>-</td>
<td>0.1</td>
<td>0.2</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>Aditya Birla Retail Ltd.</td>
<td>-</td>
<td>-</td>
<td>0.1</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Mother Dairy Fruit &amp; Vegetable Ltd.</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.2</td>
</tr>
<tr>
<td>Subhiksha Trading Services Pvt Ltd.</td>
<td>0.1</td>
<td>0.1</td>
<td>0.3</td>
<td>0.5</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>0.4</strong></td>
<td><strong>0.6</strong></td>
<td><strong>1.5</strong></td>
<td><strong>2.5</strong></td>
<td><strong>2.3</strong></td>
</tr>
</tbody>
</table>

Source: Euromonitor (2010).
Figure 1: Classification of retailers in India

- **Formal sector**
  - Chain stores
  - Hypermarkets
  - Supermarkets
  - Shop-in-shop
  - Departmental stores

- **Informal sector**
  - General merchants
  - Appliance stores
  - Specialty stores
    - Chemists
    - Apparel
    - Footwear
    - Music
    ...
  - Kinara shops
  - Paan shops
  - Pushcarts
  - Street vendors
  - Street bazaars
Figure 2: Changing structure of consumption

Figure 3: Household consumption as share of GDP for India and other selected emerging and developed economies.
Figure 4: Share of private consumption and annual growth rates for selected product categories (at constant 1999-2000 prices)

Source: Foreign Direct Investment (FDI) in multi-brand retail trading, discussion paper, Department of Industrial Policy and Promotion, 2010
### Figure 5: Groceries are a decreasing share of formal-sector retail sales

<table>
<thead>
<tr>
<th>Year</th>
<th>Retail grocery sales</th>
<th>Annual growth rate</th>
<th>Grocery share in the formal sector</th>
<th>Non-grocery share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>4,916.80</td>
<td>6.31</td>
<td>68</td>
<td>61.5</td>
</tr>
<tr>
<td>2005</td>
<td>5,227.00</td>
<td>6.01</td>
<td>66</td>
<td>65.5</td>
</tr>
<tr>
<td>2006</td>
<td>5,541.10</td>
<td>5.36</td>
<td>64</td>
<td>63.5</td>
</tr>
<tr>
<td>2007</td>
<td>5,837.90</td>
<td>4.28</td>
<td>62</td>
<td>63.5</td>
</tr>
<tr>
<td>2008</td>
<td>6,088.00</td>
<td>2.51</td>
<td>58</td>
<td>36.5</td>
</tr>
<tr>
<td>2009</td>
<td>6,240.80</td>
<td></td>
<td></td>
<td>34.5</td>
</tr>
</tbody>
</table>

The chart illustrates the decrease in the share of groceries in retail sales over the years 2004 to 2009, with annual growth rates also provided.
Figure 6: Two patterns of durable goods sales

Penetration of durable goods in India

<table>
<thead>
<tr>
<th>Product</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Color TV Set</td>
<td>25.2</td>
<td>27.4</td>
<td>29.5</td>
<td>31.7</td>
</tr>
<tr>
<td>Cassette/Radio Player</td>
<td>30.9</td>
<td>29.6</td>
<td>28.4</td>
<td>27.1</td>
</tr>
<tr>
<td>Washing Machine</td>
<td>15.6</td>
<td>17</td>
<td>18.4</td>
<td>19.8</td>
</tr>
<tr>
<td>Mobile Telephone</td>
<td>6.8</td>
<td>10.2</td>
<td>13.1</td>
<td>15.6</td>
</tr>
<tr>
<td>Refrigerator</td>
<td>15.3</td>
<td>16</td>
<td>16.6</td>
<td>17.3</td>
</tr>
<tr>
<td>Microwave Oven</td>
<td>12</td>
<td>13.1</td>
<td>14.1</td>
<td>15</td>
</tr>
<tr>
<td>B&amp;W TV Set</td>
<td>21</td>
<td>18.3</td>
<td>16.2</td>
<td>14.6</td>
</tr>
<tr>
<td>Freezer</td>
<td>7.3</td>
<td>8.5</td>
<td>9.5</td>
<td>10.5</td>
</tr>
<tr>
<td>Hi-Fi Stereo</td>
<td>6.5</td>
<td>7.8</td>
<td>8.9</td>
<td>10</td>
</tr>
<tr>
<td>Personal Computer</td>
<td>3</td>
<td>3.5</td>
<td>4.2</td>
<td>5.1</td>
</tr>
<tr>
<td>Passenger Car</td>
<td>2.7</td>
<td>3</td>
<td>3.3</td>
<td>3.6</td>
</tr>
<tr>
<td>DVD Player/Recorder</td>
<td>0.9</td>
<td>1.1</td>
<td>1.4</td>
<td>1.8</td>
</tr>
<tr>
<td>Air Conditioner</td>
<td>1</td>
<td>1.2</td>
<td>1.4</td>
<td>1.6</td>
</tr>
<tr>
<td>Dishwasher</td>
<td>0.2</td>
<td>0.3</td>
<td>0.4</td>
<td>0.4</td>
</tr>
</tbody>
</table>

Source: Euromonitor 2010
Figure 7: Relationship between urbanization rate and per capita GDP.