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## Retail Sector and Indian Economy: A study

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### Introduction:

The recent decision by the government to allow foreign direct investment in Multi-brand retail is understandably the talk of the town. There are various points of view regarding the impact it will have on the retail sector in particular and the Indian economy in general, but the decision is big step in the direction of strengthening retail sector in country. To get the complete picture, it is important to understand the situation which exist currently and how the new regulations are going to change the retail sector landscapewith the help of global environment of retail sector.

### Objectives:

1. To understand the concept of retailing.
2. To study the economic implications on the growth of retail sector in India.
3. To study the growth potential of retail sector in India.
4. To study the new trends in retailing.
5. To study the retail sector reforms in India.

### Research Methodology:

The research paper is an attempt of exploratory study; it is based on secondary data sources from reference books, magazines, journals, research paper and internet.

### Working Definition:

#### Retail:

The word 'retail' is derived from the French word 'retallier', meaning 'to cut a piece off' or 'to break bulk'. In simple terms, it implies a first-hand transaction with the customer. Retailing involves a direct interface with the customer and the coordination of business activities from end to end – right from the concept or design stage of a product or offering, to its delivery and post-delivery service to the customer.

Thus, retailing can be said to be the interface between the producer and the individual consumer buying for personal consumption. This excludes direct interface between the manufacturer and institutional buyers such as the government and other bulk customers retailing



is the last link that connects the individual consumer with the manufacturing and distribution chain. A retailer is involved in the act of selling goods to the individual consumer at a margin of profit.

### Division of Retail Industry – Organised and Unorganised Retailing

The retail industry is mainly divided into: - 1) Organised and 2) Unorganised Retailing. Organised retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses.

Unorganised retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local kirana shops, owner manned general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors, etc. The Indian retail sector is highly fragmented with 94 per cent of its business being run by the unorganized retailers. The organized retail however is at a very nascent stage. The sector is the largest source of employment after agriculture, and has deep penetration into rural India generating more than 10 per cent of India's GDP.

### The retail environment:

The retail environment can be used to offer benefits to customers. Bulk breaking is when retailers buy goods in large quantities and break them into smaller sizes for individual customers. As a result, purchases become convenient for customers- both in terms of quantity bought as well as expenses incurred.

Retail is a significant contributor to the overall economic activity the world over: the total retail share in the world GDP is 27% while in the USA it accounts for 22% of the GDP. Retailing is one of the largest industries in the world and in some countries it is the largest.

**Table 1: Percentage of Organised and unorganised retailing globally**

Country	Organised retail	unorganised retail
USA	80%	20%
W. Europe	70%	30%
Malaysia	50%	50%
Thailand	50%	50%
Brazil	40%	60%
China	20%	80%
India	6%	94%

(Source: CRISIL)

The retail scenario in India is unique. Much of it is in the unorganized sector, with over 12 million retail outlets of various sizes and formats. Almost 96% of these retail outlets are less than



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500 sq.ft. In size, the per capita retail space in India being 2 sq.ft. Compared to the US figure of 16 sq.ft. India's per capita retailing space is thus the lowest in the world. With more than 9 outlets per 1000 people, India has the largest number in the world. Most of them are independent and contribute as much as 94% to total retail sales.

### **Retail consolidation:**

The road that all products in India take, from the original producer to the customer, is long and tortuous. According to estimates, supply chain costs in India across product categories are between 12% and 50%. This is largely 'cost' and not 'value-added'. In the case of basic products, a significant portion of these costs is sheer wastage.

Retail consolidation or organised retailing will aggregate demand at the retail end, bypass the intermediary system, invest in the supply chain to ensure zero wastage, ensure lower prices to the end customer and higher prices to the farmer/original producer. Over time, savings in the Indian economy on this count alone could be a whopping Rs. 50,000 crore plus.

### **Market access:**

The hugely fragmented retail structure has given rise to a distribution network that is unique to India. The cost and complexity of such a structure acts as a huge barrier for new entrants or products. It also severely restricts the ability of India's small-scale manufactures to reach customers. Given the large number of small-scale industries in India, retailing will provide a fillip to their ability to access the market. Also, the choice and range available to the end customer will go up significantly.

Rural India has (according to a recent study by NCAER) around 720 million customers across 627,000 villages and 17% of these villages account for nearly 50% of the total rural population as well as 60% of rural wealth. As retailers would soon penetrate these markets with specific retail formats and products, they will be able to cater to the needs of this rural segment which is known for its consumption capabilities.

Retailing in food and grocery shoots up as with growing population it is thing which will get bounced up as it stands first out of all basic needs i.e. food, clothing, shelter and education. Retailing here that is why occupies the major share as it is the flowing and final point of distribution.

Food and Grocery get its momentum share in retailing as unorganised retailing specifically deals with it consumer durable gets second place followed by apparel and pharmaceuticals with others some FMCGs products like toothpaste, hair oil and other like shampoos have done much better in the rural areas than the urban and the semi urban areas.



## Contribution of retailing to the Indian economic scenario:

### Employment in Retailing:

A simple glance at the employment numbers is enough to paint a good picture of the relative sizes of these two forms of trade in India – organized trade employs roughly 5 lakh people, whereas the unorganized retail trade employs nearly 3.95 crores! According to a Government of India's study the number of workers in retail trade in 1998 was almost 175 lakhs. Given the recent numbers indicated by other studies, this is only indicative of the magnitude of expansion the retail trade is experiencing, both due to economic expansion as well as the 'jobless growth' that we have seen in the past decade. It must be noted that even within the organised sector, the number of individually-owned retail outlets far outnumber the corporate backed



institutions. Though these numbers translate to approximately 8% of the workforce in the country (half the normal share in developed countries)

there are far more retailers in India than other countries in absolute numbers, because of the demographic profile and the preponderance of youth, India's workforce is proportionately much larger. That about 4% of India's population is in the retail trade says a lot about how vital this business is to the socio-economic equilibrium in India.

**Table 3: Share of retailing in employment across different countries**

Country	Employment (%)
India	8
USA	16
Poland	12
Brazil	15
China	7

(Source: Presentation to FICCI by Alan Rosling (Chairman, Jardine Matheson Group) : "International Experience on Policy Issues.")

#### **Real estate:**

The retail industry's real-estate requirement will be millions of square feet. This will release for productive use large tracts of land lying with various government agencies such as the ports, railways, the armed forces, mill land so on. As we know already, 100% FDI is allowed in real estate development and this will make a large chunk of quality infrastructure available for modern retailing in India. The expansion plans of the existing retailers are expected to create a major demand for retail space through out this decade as well. Billions of dollars are being invested in infrastructure development which shall have the cascading development effect. In warehousing and distribution a large industry growth opportunity aligned with the current infrastructure development programme of the government exists where companies will invest in businesses related to supply chain thus optimising efficiencies which will reduce wastage considerably. Currently supply chain development is happening even in the secondary cities, outskirts, supporting the National Highway Programme (NHP) and the Golden Quadrilateral connecting the metros of India.

#### **Tourism/ outbound shopping:**

One of the best features of any city that attracts a large number of tourists every year London, Singapore, Dubai, New York and so on- is a well- developed shopping environment. Organised retailing will help significantly in developing our cities as tourist destinations. And, if well-marketed and managed, it can significantly enhance government revenues, apart from spreading the word about ethnic Indian brands across the world.

#### **Higher GDP:**



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Retailing in India forms a major part of the country's economy and accounts for 15% of its Gross Domestic Product (GDP). The value that retailing can add to the economy should not be underestimated. Organised retailing has huge potential, which could lead to higher GDP growth and result increased consumption. Organised retailing could also being about the transformation of the agriculture supply chain, remove inefficiencies in the distribution of consumer goods and improve productivity while providing consumers with a better range of products at better prices

ambience at the same time. Due to the rise currently seen in per capita income and due to augmented producer availability retailing is bound to contribute in a larger measure to the GDP growth of the country.

#### **Foreign Direct Investment (FDI) in Retail in India:**

The small trader lobby has been vocal in opposing FDI into retail, and has ensured that government policy on this front remained unchanged. The lobbying is based on the premise that modern retailing will impact the livelihood of millions of small family-run businesses. There are fears that the organised sector will put the small mom-and-pop shops out of business, as it did in the US. However, analysis say that is not likely to happen in India; in fact, small stores in Europe as well as other Asian countries have survived and are doing well in the modern retail environment. In Many Asian countries, even after 10-15 years of allowing FDI in retailing, unorganised retailers still control a sizeable chunk of the industry. The Indian scene is expected to be no different. Some feel that small retailers in India should from cooperatives to purchase stock as is done in France, Italy and Spain. In India a small beginning this has been made in Mumbai, Tamil Nadu and Delhi.

The government of India opened up 51% FDI in single brand retail outlets since 2006. And as the government is in a process to initiate a second phase of reforms, is has in January 2012 permitted 100% FDI in single brand and 51% in multi brand retailing.

Many economists have opened that the legal restrictions on foreign investment multi-brand retailing in India will hamper the growth of the economy of the country and they have recommended that such restriction be removed. Dr. JagdishBhagwati, Professor of Economics and Law at the Columbia University was invited to address the Indian Parliament in December 2010. He analysed the relationship between economic growth and poverty alleviation and recommended economic reforms that included the freeing up of the multi brand retail sector to Foreign Direct Investment and liberalisation of trade in many other sectors among other labour



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market reforms as well. Such reforms according to professor Bhagwati will accelerate economic growth and make a sustainable difference in the life of India's destitute population.

Indian Council for Research on International Economic Relations (ICRIER) in its report published recently has made recommendations to the government of India to open the retail trade to foreign direct investment with a few policy directions. It has recommended that the government may consider enacting legislation if that could ensure the implementation of a code of conduct by large retailers.

### **Trends in Retailing:**

- Modern retail grows but traditional retail will survive- there's place for both.
- Consumption will shift to lifestyle categories- consumers shifting evaluation from MRP to EMI
- New retail formats will emerge and grow- small format cash & carry; investment surge in forecourt retailing: growth of super- specialty format.
- Modern retail will witness enhanced private equity infusion.
  - There will be creation of large retailer brands (Private labels) – own label' branding trend on the rise, more in groceries, home care and clothing; provides profit margin advantage.
  
- There will be interplay between retailers & suppliers- branded firms will collaborate with top retailers.
- Modern retail will face a few key bottlenecks – talent, retail space and supplier base shortages; India will witness a shortfall of people in the retail sector and retail education and training will be a focus area.
- New investment will happen in the back-end- enhanced focus on improving the supply chain; process of storing and displaying food will be in focus.
- Modern retailing will benefit consumers and rural sector- rural retailing formats will ensure quality goods, easy accessibility and low rates: typical monthly shopping bill will reduce by at least 10%.
- Consolidation will increase in the retail sector – consolidation, through M&As, will increase and become the norm.



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### **Growth of Retail Sector after 2011:**

Before 2011, India had prevented innovation and organized competition in its consumer retail industry. Several studies claim that the lack of infrastructure and competitive retail industry is a key cause of India's persistently high inflation. Furthermore, because of unorganized retail, in a nation where malnutrition remains a serious problem, food waste is rife. Well over 30% of food staples and perishable goods produced in India spoil because poor infrastructure and small retail outlets prevent hygienic storage and movement of the goods from the farmer to the consumer.

One report estimates the 2011 Indian retail market as generating sales of about \$470 billion a year, of which a miniscule \$27 billion comes from organized retail such as supermarkets, chain stores with centralized operations and shops in malls. The opening of retail industry to free market competition, some claim will enable rapid growth in retail sector of Indian economy. Others believe the growth of Indian retail industry will take time, with organized retail possibly needing a decade to grow to a 25% share. A 25% market share, given the expected growth of Indian retail industry through 2021, is estimated to be over \$250 billion a year: revenue equal to the 2009 revenue share from Japan for the world's 250 largest retailers. These data correspond to retail prospects prior to November announcement of the retail reform. The Indian market offers endless possibilities for investors.

### **Retail Sector reforms in India:**

Until 2011, Indian central government denied foreign direct investment (FDI) in multi-brand Indian retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets, to sell multiple products from different brands directly to Indian consumers.

#### ❖ Government Policies for FDI in Retail Sector:

The government of India announced on 24 November 2011 the following allowing 100% FDI in single brand retailing and up to 51% in multi brand retailing (FDI approval in multi-brand retailing is kept currently on hold):

- India will allow foreign groups to own up to 51 per cent in "multi-brand retailers", as supermarkets are known in India, in the most radical pro-liberalisation reform passed by an Indian cabinet in years;
- Single brand retailers, such as Apple and Ikea, can own 100 percent of their Indian stores, up from the previous cap of 51 percent;
- both multi-brand and single brand stores in India will have to source nearly a third of their goods from small and medium-sized Indian suppliers;
- All multi-brand and single brand stores in India must confine their operations to 53-odd cities with a population over one million, out of some 7935 towns and cities in India. It is expected that these stores will now have full access to over 200 million urban consumers in India;





- Multi-brand retailers must have a minimum investment of US\$100 million with at least half of the amount invested in back end infrastructure, including cold chains, refrigeration, transportation, packing, sorting and processing to considerably reduce the post harvest losses and bring remunerative prices to farmers;



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- The opening of retail competition will be within India's federal structure of government. In other words, the policy is an enabling legal framework for India. The states of India have the prerogative to accept it and implement it, or they can decide to not implement it if they so choose. Actual implementation of policy will be within the parameters of state laws and regulations.

But opposition to the ruling government's announcements was so intense that the cabinet had to put its decisions on hold. On 10<sup>th</sup> January 2012 the government of India announced the approval of 100% FDI in single brand retailing with DIPP directives that include conditional norms such as 30% procurement from within India from its domestic manufactures. However a decision on allowing FDI in multi-brand retailing is still on hold.

### Conclusions:

- The retail environment offers a great deal of customer convenience insofar as it tries to provide for consumer needs precisely and on time throughout the country. It is a vital element in triggering consumer spends.
- The growth in retailing will generate employment opportunities at different levels. More opportunities will be available in frontline retailing where the maximum number of people with the barest minimum qualifications can be employed.
- One major benefit of the growth of retailing in India is the development of (hitherto unproductive) real estate.
- On the issue of FDI in retailing, we can learn a few lessons from the many south-east Asian countries where allowing FDI has not affected unorganised retailers but has in fact generated newer opportunities.

The retail sector has played a phenomenal role throughout the world in increasing productivity of consumer goods and services. It is also the second largest industry in US in terms of numbers of employees and establishments. There is no denying the fact that most of the developed economies are very much relying on their retail sector as a locomotive of growth. The India Retail Industry is the largest among all the industries, accounting for over 10 per cent of the country's GDP and around 8 per cent of the employment. The Retail Industry in India has come forth as one of the most dynamic and fast paced industries with several players entering the market. But all of them have not yet tasted success because of the heavy initial investments that are required to break even with other companies and compete with them. The India Retail Industry is gradually inching its way towards becoming the next boom industry.

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