

A case for retail consolidation



RETAIL is India's largest industry, accounting for over 10 per cent of the country's GDP and around eight per cent of the employment. Various estimates put the market size, across sectors, at between Rs 'eight lakh crore' and '1 million crore', with grocery accounting for the largest chunk at around 40 per cent or Rs 400,000 crore. And yet, despite its size, it is easily the least evolved of all Indian industries, if it can be called an industry at all. So what are the characteristics of the current retail structure and its consequent effects on the economy, which make retail consolidation an economic imperative for India?

In India, retail in general and grocery retail in particular, is highly fragmented and characterised by the several factors listed below.

Extremely high intermediation

The road all products in India take, from the original producer to the end customer, is indeed long and tortuous. Various estimates put the supply chain costs in India, across product categories, at between 12 per cent and 50 per cent. This is largely 'cost' and not 'value added'. In the case of basic products, a significant portion of these costs is sheer wastage.

A pioneering study done by McKinsey for its 'FAIDA' report on food and grocery retailing estimated 'wastage' loss in the Indian food chain at over Rs 50,000 crore annually, almost all of it attributable to the archaic intermediary chain food has to go through to reach the end customer. It's a double whammy, so that while the customer ends up pay-



Retail consolidation promises to be a powerful catalyst in the overall development of the Indian economy.

ing more, the original producer, in many cases the Indian farmer, gets paid much less than what he would have got in a modern retail environment.

Retail consolidation 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

Low \negligible government revenue

Among the developed and developing nations in the world, India is one of the few countries where the 'last'

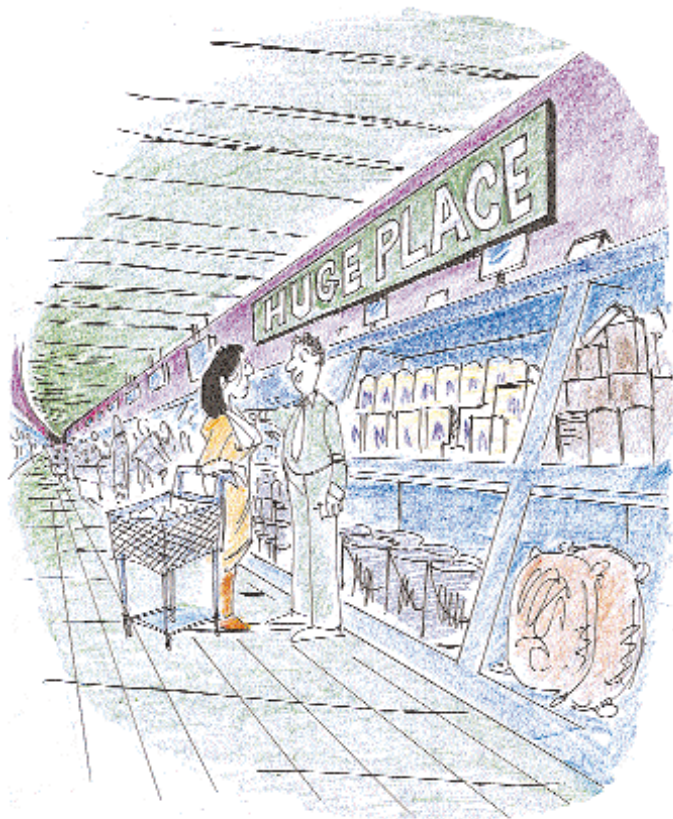
level of 'value added' is not taxed. It's not that the Government does not want to; it simply cannot. Given the hugely fragmented structure and the current retail environment, it is clearly administratively a hopeless and indeed an uneconomic task, to introduce and administer a 'modern' VAT (value added tax) system in this country. Admittedly even the current system of flat annual rates and so on are at best initiatives more aligned towards 'administrative' convenience rather than maximising much needed Government revenue.

A modern retail environment will not only significantly enhance the 'implementability' of VAT, it will also, in the long term, enable the basic rates to drop to more reasonable levels apart from significantly reducing administration costs.

Strong inhibitor \disenabler for the food industry

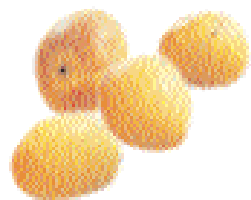
Food is vital to India's prosperity. There is probably no country in the world that has more to lose than India if we do not succeed in food. India can and should become a world leader in food production. The opportunity in 'value added' food alone is estimated at upwards of Rs 3,00,000 crore. This growth will bring immense benefits to the economy, raising the general economic well-being of a significantly large cross-section of people in the country.

Apart from progressive and proactive Government policy, what will be key is the extent of modernisation the retail channel in India undergoes in the first decade of the new millennium. Empirical data suggests that for



"This is our Chennai branch. And if you keep going that way, at the other end is the Mumbai outlet."

Employment generation, both direct and indirect, will be an immediate fallout of retail consolidation in India.



a rupee invested in retail, Rs 3 is invested in the food-processing sector.

Employment

A direct fallout of retail consolidation in India would be employment generation, both direct and indirect. Retail is hugely labour-intensive and various studies have indicated that given the level of investment envisaged, retail consolidation has the potential to generate an additional eight million jobs, both direct and indirect. More important, the bulk of jobs will be of a profile most suited to India, i.e., for young men and women who currently do not have

the wherewithal to go to college.

A good indicator of that is the employment profile of our own FoodWorld operations, where 70 per cent of the employees are high school graduates and largely the children of daily wage earners.

Today, they are on the threshold of a viable career opportunity, and indeed many of the earlier recruits will be income-tax payers in a couple of years. The effects on the economy if hundreds and even thousands of the virtually unemployed today are made productive corporate citizens of tomorrow, can only be imagined. Retail consolidation will do just that.

Market access

The hugely fragmented retail structure has given rise to a distribution network that is quite unique to India. Indeed, the cost and complexity of such a structure makes it a huge competitive barrier for new entrants or products. It also severely restricts the ability of India's small-scale manufacturers to reach customers. Given the huge small-scale industry in India, retail consolidation will act as a fillip to its ability to access the market. Also, the choice and range available to the end customer will go up significantly.

Impact on benefits/economy

In many other not-so-related areas, the benefits of retail consolidation will be immense:

- **Real estate:** The requirement of real-estate will be in millions of square feet and the demand from 'retail' players will release for productive use large tracts of land lying with various Government agencies such as the Ports, Railways, Defence and so on. It has happened all over the world, there is no reason why it will not happen here.

- **Tourism / Outbound shopping:** If one were to think of any city which attracts a large number of tourists every year – London, Singapore,

Dubai, New York and so on – one of their attractions is the well-developed shopping environment. Retail consolidation will act as a significant enabler to developing many of our cities as tourist destinations, and if well-marketed and managed, can significantly enhance Government revenues, apart from carrying ethnic Indian brands across the world. The impact on benefits would be difficult to quantify, but clearly they would be huge.

And finally, one only has to look at the countries where retail consolidation and modernisation has occurred to conclude that it has almost always radically and favourably affected the value-capturing capacity and modernisation of the farming industry,

restructured the supply chain for all FMCG products, driven end customer prices down on a sustained basis, created significant employment opportunities, been a source of considerable revenue for Governments, both local and national and in general been a catalyst in creating considerable national wealth. There is no reason why it will not do the same for the Indian economy and her people. ■

(The author is President & CEO, Retail Sector, RPG Enterprises.)

Retail consolidation will give the small-scale sector in India better access to the market.

