

The Web regulations weave



Pic: Shaju John

PLANNING to buy an air-conditioner (AC) for your new home? There is a wide selection of brands and models for you to choose from, and quite a few vendors offering ACs, both from among the sales and service dealers and from the retail trade. Start visiting them and get to know the terms they offer, and suddenly you're amazed at the various types of offers that come your way.

Some offer the AC at a very low price, agree to deliver it to your doorstep in a few days, free of sales tax. Then they ask you to fill-up and sign an order directly on the manu-

facturer and make out a demand draft for full value directly in the name of the manufacturer, payable at Silvassa. Some offer to supply the same AC from Pondicherry at a slightly higher price, billing it directly to you on 'inter-State sale' basis. And yet some others offer to supply the AC off the shelf, but at a much higher price because they have to pay the local sales tax, which is quite high. Some dealers offer all three options and you can make your choice!

While you are confused by these distinctly different options before you for the same brand and model of AC,

you finally choose to go for the lowest cost option unless you have delayed your purchase and the summer has set in and you want the AC that very day. If this is the case, you have no option but to pay a price for the delayed decision by way of the stiff local sales tax. However, most consumers are getting wiser and gradually moving away from the last minute decision to buy ACs after the onset of summer, preferring instead to buy them just before summer taking advantage of the significantly lower prices. In this process, States imposing high rates of sales tax end up losing a potentially huge sales tax

revenue although a large number of ACs come into these States, bought by consumers on inter-State basis, either by getting sales tax exemption or paying low Central sales tax.

For traders though, the glaring difference in prices for the same product in the same location arising from the wide tax rate differential between States is indeed an issue which continues to be traumatic. They continue to face a dilemma in terms of what stocks to hold, as they may either lose business for want of stocks on hand, or land up with high inventory if more customers choose to take the inter-State purchase route. Either way, the traders are the losers with the already wafer-thin margins in AC sales being eaten up by the high cost of inventory.

This is just one of the issues haunting the fast growing retail sector in the country. In particular, retailers in certain States face this problem, and not on ACs alone, but on a wide range of consumer products, durable and non-durable. Despite the agreement between Chief Ministers of the various States almost two years ago to bring about uniform taxes and minimum floor rates, implementation is far too slow, and the woes of the retailers continue.

While this is the scenario with honest traders, the differential rates of sales tax also tend to promote the illegal inflow of goods from adjoining States with zero or low taxes. Such goods are brought in by some unscrupulous dealers and sold without charging local sales tax, and possibly even without bills, depriving the



Retailers have to face the problems raised by the absence of uniform rules for shops and establishments across different states.

local government of tax revenue despite the product changing hands from the trader to the consumer within the State. Strangely, such States end up as losers on both legal and illegal transactions, with the consumer seemingly the gainer, and the honest retailer getting caught in the web.

Western countries and other developed countries have for long benefited from the presence of medium and large retail chains with relatively uniform consumer prices and significant benefits from continued patronage of a store. Wal-Mart, Sears, Marks & Spencers are but a few of the renowned retail chains.

Organised retail chains in such countries focus their efforts on how they can provide more benefits and incentives to their loyal clientele rather than worry about countering regulatory measures. In sharp contrast, the organised retail sector in India has to devote most of its time and energy to deal with regulations which are not only not conducive to smooth trade activity, but also differ widely from State-to-State. The manufacturers in India are equally affected as they have to walk a tight rope to ensure that they can get a fair share of the market in all geographic locations; by no means an easy task as competing manufacturers enjoy or suffer from tax rate differences as well as widely differing incentives including sales tax holidays, which are given by governments to woo investments in their States.

While this is the scenario on the impact of taxation laws across various States, the retail sector is equally affected by the varying provisions of the Shops and Establishments Acts implemented in different areas of the country. There is no uniformity in shops and establishments regulations and retailers have to suffer the consequences until a uniform set of regulations are introduced. The following issues are relevant in this context:

1. Retail is a 365-day business like hotels and restaurants and has no holidays. But in most States in the country, retailers have to close for a day in the week. There are States that understand the uniqueness of the retail trade and grant permission



"First, there was the Big Bang, Sonny;
then everything went retail."

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employment.*

for seven-day working when approached, but on a case-to-case basis, and do not grant blanket permission. However, in several States, no such permission is given despite there being a strong case for permitting seven-day working.

2. It is common to see a retail store having a limited inflow of customers during the course of the day, with the inflow becoming heavy during the evening hours and often imposing a constraint on the retailer. While some retailers maintain higher manpower strength to cater to the evening hour rush (despite the employees having to remain relatively idle during the forenoon and afternoon hours), others employ fewer people to curtail costs, which affects their ability to effectively service customers in

the rush hours of the evening.

3. While the various State governments prescribe minimum wages, these differ from State-to-State. Moreover, there is no provision for hourly or part-time employment for employees in such establishments. Organised retailers not only suffer from the disadvantages arising from compliance (which is generally non-existent in the large unorganised segment of the retail trade), but also have to employ hands on a full-time basis despite the need being one of more people during the busy evening trading hours. If regulations provide for hourly employment or part-time employment, the retail sector would greatly benefit from such measures.

4. Yet another factor that bothers the retail sector is the draconian approach of some States, such as Tamil Nadu, on consumer prize schemes. While in the adjoining state of Karnataka, a retailer can offer mega prizes on 'prize draw schemes', the Tamil Nadu Government does not permit the same, nor does it allow schemes such as 'scratch card', claiming that these are tantamount to a lottery and are an exploitation of the consumer as they do not provide equal opportunities to all customers to win prizes.

While this is intended as a measure to protect the consumer, the Government itself runs public lotteries that involve draw of numbers. At least, in a 'prize' scheme run by a retailer, every consumer buys a product (which is at competitive prices with no price mark-up for participation in the draw) and gets a coupon. In the Government lottery scheme, the consumer pays for the lottery ticket and gets nothing in return, except a rare chance of winning a cash prize. Thus, what the retailer does is not at all a lottery in the real sense of the term.

This is the basis on which some States permit such consumer prize schemes. Retailers of one State are

thus at a significant disadvantage *vis-a-vis* their fraternity in another, not to mention the consumer who is disappointed at not getting the opportunities their brethren in an adjoining State enjoy.

While all the above are typically localised factors attributable to State Government regulations, the failure of the Government of India to grant industry status to the retail sector is a major impediment to the speedy growth of this business. True, more and more large retail chains are coming up in the country, but this is still predominantly confined to the metros and benefits of organised retail cannot reach the nooks and corners of the country until the business community is supported by regulatory measures that are conducive to growth.

Today, consumers in metros are finding it a boon to be able to browse through their local modern retail store that gives them the benefit of shopping in comfort and convenience, including facilities such as payments by credit card. They get special offers from the retailer who shares the benefits he gains from his large scale of operations (something the street-corner store cannot do), and derive benefits from customer loyalty programmes offered by some retailers. For the very large population of consumers living in smaller cities and towns, it would be a long wait before they can enjoy what their fellow consumers in the metros get.

The aspirations of these consumers can be fulfilled only when the retail movement gathers momentum and grows at a much faster pace, which can be made possible by the Governments at the Centre and the States through regulatory changes conducive to the spread of organised retail to the far-flung parts of the country.

India is the second largest consumer market in the world and consumers in this country are dreaming



of world class shopping opportunities within the country. It is indeed an opportunity and at the same time a challenge for the Governments at the Centre and the States to take determined steps to bring about favourable and uniform regulatory and taxation procedures that will lead to major investments in the retail sector, that can make the Indian consumer's dream a reality. ■

*(The author is Chairman and
Managing Director, Vivek Ltd.)*

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