CHAPTER VII: ORGANIZED FOOD RETAIL IN INDIA

The issue of food security is pivotal to the sustenance and growth of any economy. India’s case in this respect has been particularly depressing. The Government of India’s new agricultural policy specially after 1990 broadens by declaring that "private sector participation will be promoted through contract farming and land leasing agreements to allow accelerated technology transfer, capital inflows and assured market for crop production, especially of oilseeds, cotton, all staple grains, mint oil and other horticultural crops". Following the above policy announcements a number of innovative agribusiness models have come up. Indian and foreign corporate houses have entered into collaborative partnership with rural India through vertical co-ordination in the form of forward and backward integration.

7.1 Unregulated Food SCM

The Indian supply chain for food products is characterized by varied wastages and poor care. The wastage occurs because of multiple points of manual handling, inadequate packaging, and lack of temperature control. The physical wastage is one component of the inefficiency in the supply chain. There are other inefficiencies as well in terms of the deterioration in quality and the cost of intermediation in the food chain. An efficient supply chain and distribution structure is an important means for raising the income levels of farmers on the one hand and increasing affordability of consumers on the other. The unorganised and unregulated food SCM of India and particularly in the rural areas is one of the biggest impediments for the growth of organised food retails.

Organized Retail in India refers to not only the modern retail formats like supermarkets and hypermarkets as prevalent in most developed countries but also the other legalization and registration process associated with it. Indian retail business values at around US$ 550 billion as of now and about four per cent of it accounts for the organized sector. A report by Boston Consulting Group (BCG) (2011) has revealed that the country's organized retail is estimated at US$ 28 billion with around 7 per cent penetration. It is projected to become a US$ 260 billion business over the
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next decade with around 21 per cent penetration. The BMI India Retail Report for the first quarter of 2012 released forecasts that the total retail sales will grow from US$ 422.09 billion in 2011 to US$ 825.46 billion by 2015. The report highlights strong underlying economic growth, population expansion, increasing disposable income and rapid emergence of organized retail infrastructure as major factors behind the forecast growth.

The report further predicts that sales through mass grocery retail (MGR) outlets will increase by 219 per cent to reach US$ 28.14 billion by 2015 while automotive sales would swell by almost 44.8 per cent from 3.6 million units in 2011 to 5.21 million units in 2015. Consumer electronic sales are estimated at US$ 29.44 billion in 2011, with over-the-counter (OTC) pharmaceutical sales at US$ 3.03 billion. On the similar lines, global consultancy firm Price Waterhouse Coopers expects Indian retail sector to be worth US$ 900 by 2014 in its report ‘Strong and Steady 2011’.

Organized retail remained a dormant sector largely due to the lack of infrastructure for large-scale retail, absence of product variety and a conservative Indian consumer. Today the flood of products in the market coupled with a wealthier, more informed Indian consumer have created the atmosphere for the entry of organized retail to tap into the $320 billion Indian retail industry. The retail sector in India is expanding and modernizing very rapidly. A substantial rise in household income has caused a growth in consumption expenditure leading to a proportionate growth in retail sales. Being a labour intensive sector, retailing engages a large size of workforce in the country of which a bigger size is in the urban areas. The growth in retail sector is also causing a growth in retail employment but the noteworthy feature is that the rise in retail employment in the rural sector is faster than that of urban sector. This clearly reflects a higher potential of retail growth in the rural areas.

The agro-food marketing system in India is undergoing a transformation with unfolding of market liberalization and globalization. Traditional marketing systems, dominated by ad hoc transactions and intermediaries, are gradually giving way to organized marketing systems, such as cooperatives, producers’ associations and contract farming. Further, the corporate sector is entering into food retailing in a big way, which is expected to aid this process of market transformation. (Birthal, 2007)
Organized marketing systems are claimed to reduce marketing and transaction costs, facilitate farmer's access to technology, inputs, credit and services, and mitigate production and market risks, and thus aid speeding up agricultural diversification and commercialization. Nonetheless, there is an apprehension that smallholders may not benefit much from new marketing arrangements because of their inability to supply large volumes and comply with food safety and quality standards being imposed by the firms.

Initial consumer response to these novelties in the retail sector has been very promising and as the middle-class continues to grow, organized retail in India is sure to see large returns. In fact, organized retail is growing at a staggering 35% per year. (Kearney, 2006)

Organized retail in India is currently dominated by players that have been in the market for almost two decades. Pantaloon Retail is the market leader with its Wal-Mart- multipurpose low cost stores as well as specialized clothing retail outlets. Shopper's Stop operates multi-storey malls in the major metros and is the equivalent of a Macy's in the U.S. A number of other individual brand retailers like Haldiram, Amul, Raymonds and Titan also represent organized retail in India. Today, a number of major business houses in India are launching massive organized retail ventures like Reliance, Bharti (in a Joint-Venture with Wal-Mart). Major domestic retailers like AV Birla, ITC, Godrej, Reliance and many others have already set up farm linkages.

The present study has made an analysis of the present state on the basis of the ongoing developments and trends in the area of organized retails. As the new national and international giants are willing to enter the Indian retail market they should be aware of the local prevalent infrastructure, legal frame work, and other socio-cultural aspects,

7.2 Retail Food Management

The study on organised retails has recognised a number of dimensions of innovation through the (international) food supply chain (Trienekens and Willems, 2002). The social and legal dimension (norms and values) is related to societal constraints to production, distribution and trade of food and to issues like human well-being, animal welfare and sustainable socio-economic development. Unequal power
relationships in the chain (e.g. increasing global power of retailers) and trade barriers impact not only the organization of the cross-border supply chain (moving value-adding activities to western countries) but also the division of costs and benefits. In particular small-scale producers in developing countries are in a disadvantageous position because they have little capital to invest, use traditional techniques, and depend on family labour and lack contact with (international) market players. As a result of increased competition, these small-scale producers may turn out as the losers.

Supply chain management approach is customer oriented and is aimed towards the integration of business planning and balancing supply and demand across the entire supply chain (Bowersox and Closs, 1996; Cooper et al., 1997). It tries to bring (J. Trienekens, J. Hagen, A. Beulens, O. 2000) suppliers and customers together in one concurrent business process. It spans the entire chain from initial source to the ultimate consumer (Lambert and Cooper, 2000; Stern et al., 1996). Advanced information and communication technology (e.g. E-commerce) systems are increasingly becoming the backbone of these integrated supply chains (Lancioni et al., 2000; Porter, 2001).

The rural sector of India is having very unique features. This sector constitutes India's 70 per cent population and has tremendous potential for economic growth and progress. "The slowdown experienced by India on account of the IT (information technology), real estate, financial services and automobile sectors were an urban phenomenon," says Ajay Gupta, founder and CEO of ruralnaukri.com, which focuses on jobs in the rural sector. "However, the negative impact of all this on urban India has been more than offset by encouraging performance in rural areas. The rural economy has provided a cushion. "Several factors have led to an increase in rural purchasing power," says Pankaj Gupta, Practice Head, Consumer & Retail, Tata Strategic Management Group. The increase in procurement prices (the government sets the minimum support price _MSP_ for many farm products) has contributed to a rise in rural demand. A series of good harvests on the back of several good monsoons boosted rural employment in agricultural and allied activities. Government schemes like NREGS (National Rural Employment Guarantee Scheme, which guarantees 100 days of employment to one member of every rural household) reduced rural underemployment and raised wages. Also, farmers benefited from loan waivers which were introduced in the last Union Budget. The increase in rural purchasing
power is reflected in rural growth across a number of categories. For example, in the financial year 2009-10 (April-March) FMCG (fast moving consumer goods) rural volume growth is estimated to be 5% to 12% higher than urban growth across a number of categories. (Published June 18, 2009 in India Knowledge Wharton)

If proper investments are made for the development of rural infrastructure it will pave the way for the fast growth of Indian economy. The rural India has been considered to be the parasite on the Indian economy although successive governments have given subsidies to this sector; however when some good program are implemented at the village level it has given good result.

Some academicians agree with these upbeat views of a rural resurgence. "Policy measures like the waiver of agricultural loans to the tune of US$13.9 billion and the NREGS have really put cheers into the rural economy," says Devi Singh, director of the Indian institute of Management Lucknow, India. "The Bharat Nirman program with an outlay of US$34.84 billion for improving rural infrastructure is another step that has helped the rural economy. To some extent, the growth of organized retail can also be held responsible for the rural economy's growth, as this has ensured that farmers get a better price for agricultural produce. The MSP set by the government has been rising further, fuelling rural growth by putting more money into the hands of the rural population."

Singh adds a caveat, however. "While the statement that the Indian economy has been saved from the slowdown due to rural growth is true to a certain extent, this is not the only factor," he says. "India's growth has been fuelled more by domestic demand than exports. Indians spending and saving habits differ from other parts of the world. By their very nature they always save for their future and this holds them in good steam during times of crisis. The Indian buyer is more finance conscious than his global peer.

The above statement will be truer when we refer it to the rural segments of Indian population. Across product categories, however, there seems to be a lot of action. Media particularly print and TV have been instrumental. Even in small villages, people who have seen the urban lifestyle on television seem to desire similar goods and services. Companies have realized this and are going all out to tap this latent demand. The market of rural and urban is not having deep isolation when it comes to lifestyle and consumption.
Following are some examples which demonstrate how the effective policy and a will to provide facilities to rural sectors works.

The State Bank of India (SBI) has started a zero-balance bank account program for the villagers. Called the SBI Tiny account, there are no physical branches or officials, just a paid volunteer who is equipped with a small box and cell phone. The box enables biometric measurements (fingerprints), at the time of opening the account to confirm the account holder's identity. The cellophane enables communication with the zonal office to check on available balance. Payments under programs such as the NREGS and pensions are made directly to these accounts. The advantage for the villagers is that they can withdraw money from their accounts at any time of the day or night (Withdrawals are never more than a few dollars). SBI hopes to cover 100,000 villages by 2012. The bank has tied up with India Post for some services.

The story to of Amul from the cooperative sector is also very glaring example that shows the importance of infrastructure for the rural area which ultimately led to development of entire western state of Gujarat into one of the most powerful states. The regulation and adequate provision of effective supply chain has played very crucial role in the success of Amul as a leading brand of dairy products in India.

Another example of related infrastructure development is Indian Post department, the public sector postal network, has its own plans. It has been hard hit in urban areas because of the more efficient (though more expensive) private sector courier services. Now it is looking at consolidating its hold on the rural areas. Project Arrow has been launched to IT-enabled post offices in the hinterland. A pilot project involving 500 post offices __ the country has more than 150,000 has been kicked off. It will focus on banking, money remittance, and transmission and delivery of information.

The importance of rural market has been aptly realized by the private players like Maruti Suzuki, although from different sectors of automobile manufacturer, today sells 5% of its vehicles in the rural markets. The company expects this number to rise to 15% in the next two years. "This is not just our wish, but reflects market demand," says Director (Marketing & Sales) ShujiOishi.

In telecom, service providers are making a beeline for the villages. That's where the growth in what is now the world's fastest growing mobile market lies.
According to industry estimates, 70% of all new subscribers will come from rural areas. Mobile device manufacturers are also tailoring their products to this market. Nokia had earlier launched a basic handset with a torch (large parts of rural India don't have electricity) and an alarm clock. In December 2008, it went one step further with the launch of Nokia Life Tools. "Nokia Life Tools is a range of agriculture, education and entertainment services designed especially for the consumers in small towns and rural areas of emerging markets," says the company. "Aimed at providing timely and relevant information customized to the user's location and personal preferences directly on their mobile devices, Nokia Life Tools are the first step towards bridging the digital divide."

The mobile phone is a new-age product; gold jewelry is as old as the hills. Here, too, there has been a rural move. According to World Gold Council figures, 60% of India's US$15 billion annual consumption of gold and gold jewelry is from rural and semi-urban areas. The Tata's have launched a mass-market jewelry brand known as Gold Plus. The Tata's train unemployed youth and send them to the villages as brand ambassadors. The problem with gold in India is that it is often adulterated. In rural areas, gold jewelry is not for ornamentation; it is a safety net for emergency situations. Thus, the Tata seal of good housekeeping is taking the brand places. "Gold Plus is an interesting example of the brand addressing the non-metro jewelry culture with its ethnic touch with regard to its designs and retailing," says Ramesh Kumar of IIMB. "There is substantial scope to create products that are oriented towards non-urban sectors," notes Kumar. "These can be in terms of functional appeal or cultural aspects or both. Chik shampoo created the jasmine variant in tune with the culture of women using jasmine flowers to style their hair in a few parts of the country. TVS mopeds created functional value in tune with the 'all purpose' vehicle culture existing in several parts of the non-metro areas. Philips is moving forward with the creation of gas stoves and lanterns that will be useful to such markets."

The sachet is as much a packaging (product) strategy as a price strategy. But, asks Garudachar of Voltas, "Have companies done enough about the core product"? The shampoo sachet is a case in point. "Villages in India have hard water," he says. "But the shampoo that you get in sachets sold in villages is the same that you get in towns. Manufacturers should have tailored the products to suit the environment."
It doesn't apply across the board, of course, particularly as manufacturers have moved away from the mindset that along with cutting price, you can cut quality. "Product re-engineering was an issue five years ago," says Harish Bijoor, CEO of brand and business strategy consultants. "I do not believe this is an issue at all today. The quality on offer needs to be the same all over". One company tried to pass off inferior quality tea leaves in rural markets and superior quality grades for urban markets under the same brand name.

Distribution and promotional channels also need to be different for rural markets. Some companies in the private sector have come up with innovations like ITC have set up the IT-enabled e-Choupal network, and Hindustan Unilever has project Shakti, under which women's Self-Help Groups act as the last link of the retail chain. As mentioned earlier, India Post wants to convert itself into a retail chain for a variety of products. Even fair-price shops, which form part of the government's rationing system, are trying to expand beyond supplying just basic foods like rice and wheat.

In the area of promotion, television has invaded rural India. TV reaches even very small villages through community sets. But advertising on national channels is wasteful if you are trying to target rural areas. Garudachar of Voltas says his company is trying to sell air conditioners to the rural rich. "Difficulties in penetration are due to the widespread and scattered nature of the territory," he says. "At one time, basic conservatism and diehard thrift would also have been factors, but exposure to TV has changed all that, and created aspirations where once there was resistance to change."

A serious marketer would need to tie up with other rural-focused producers or governmental/non-governmental agencies to create this infrastructure. Onida teaming up with Tata BP Solar to provide TV sets with solar generators would be able to capture the markets. Similarly, water purifier sellers can engage NGOs to develop water table recharge projects in rural areas. This would not only increase the consumption (as opposed to purchase) of their products, but also generate goodwill in the rural market.

The rural marketers would need to think rural for long-term success. If they can look beyond their products and induce private initiatives to replace government intervention for providing basic services, they would surely capture the first quantum growth in these areas.
The common thread among all these initiatives have been integrating and tightening the supply chain for agro products. The initiatives taken by Mahindra's Shubhlabh services, Tata Kisan Kendra, ITC e-Chaupal, Godrej Aadhar and DSCL Haryali to cite a few, have emerged as new agribusiness supply chain models.

This vertically coordinated supply chains are supposed to eliminate not only the inefficiencies in agricultural marketing which arises due to multilayer intermediaries sucking away a large chunk of the margins and leaving nothing for the farmer on the one hand and also due to the lack of basic infrastructure and technology availability.

These vertical coordinated supply chain models are common in agriculture worldwide. For the development of these models the role of organized retail is indispensible in India, besides reforms on land ceiling laws which limit such vertical coordination. Corporate farming, captive farming or contract farming were only allowed in plantations, degraded or waste lands and so on. With the government's change in policies regarding contract farming, a stage is set for such vertical coordination in Indian agriculture as well. This chapters has evaluated the policies and framework by the attempts made by corporate India i.e. PepsiCo's contract farming in Punjab, ITC's e-Chaupal and Mahindra's Shubhlabh services.

7.3 Retail Scenario in India

Retailing represents a significant part of Indian and World commerce. Retail sales and employment are major contributors to the economic development. Retail trends often mirror trends in a nation's overall economy (Berman, & Evans 2007). The retail sector in India is expanding and modernizing very rapidly. The Indian retail industry has over 12 million outlets which is the largest in the world (Levy, Weitz, & Pandit 2008). 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. (ICRIER 2008)

Vast majority of these are small unorganized retailers (known as 'mom and pop stores') fragmented unevenly in different geographical terrains with an average
size of 50 sq. ft. area. The retail space per capita stands at only 2 sq. ft. per person in
spite of the fact that the country has the highest number of retail outlets. Apart from
small and medium sized retailers, thousands of commission agents, stockists and
distributors also operate at local level. At the same time many small producers such as
artisans and farmers sell their products directly to end users.

Historically, Indian retailing was found prominent in rural areas in the form of
weekly Haats (periodic markets) and village Melas (fairs) catering the daily needs to
the villagers. With the emergence of towns and cities the neighbourhood (kirana)
stores got more popular which served to the convenience of the consumers. The next
phase was witnessed after the establishment of Khadi & Village Industries
Commission with a chain of more than 7000 stores. It was meant to offer equal
opportunities of employment and income generation to the rural craftsmen. Super
bazaars and shopping centres are of late origin and are still in the phase of
development leading to a revolution in retailing. A new format is evolving to provide
a complete destination experience to the consumers.

A substantial rise in household income has caused a growth in consumption
expenditure leading to a spectacular growth in retail sales. Retail is a labour-intensive
economic activity. According to NSSO's Employment and Unemployment 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. 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 growth in retail sector is also
causing a growth in retail employment. 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 high 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 (ICRIER 2008). This
clearly reflects a higher potential of retail growth in the rural areas.
7.4 Emergence of Organized Retailing

Retail is primarily classified into two sectors as organized and unorganized, depending on how it is done. In China organized retail segment accounts for about 20% of total whereas this proportion is around 40% in Thailand and 50% in Malaysia (Dogra & Ghuman 2008). Sam Walton, the founder of Wal-Mart, started as a store owner with a simple target to take this retail stores to rural areas of the US and sell the goods at the lowest prices around. Wal-Mart has continued its global expansion while maintaining the original core values of low overhead, the use of innovative distribution system and customer orientation. Today the annual turnover of Wal-Mart is higher than the size of entire retail industry of India.

Indian retailing is highly fragmented and the organized sector in the country is at a very nascent stage accounting to only around 4% of the total. But the retail sector is a very attractive potential frontier for the corporate India. 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 (ICRIER 2008). The rising demand would not effectively be 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 2006 it was 20% in China, 36% in Brazil, 15% in South Korea, 30% in Indonesia, 20% in Poland, 40% in Thailand, and 22% in Vietnam. (ICRIER 2008) High population density in metropolitan cities and surrounding towns is providing geographical penetration to modern retail. The firms are following acquisition, joint venture or a combination of the two routes for their market entry. Some firms are also expanding vertically by forming subsidiaries or holding firms important in the supply chain. Typically firms are positioning themselves in lifestyle (like fashion apparel, consumer durables, furniture and furnishing) and value retailing (discounts and value-for-money strategy).

The markets are offering great opportunities to the business giants, local, national and international alike that are looking to tap India’s vast and abundant demand. A. T. Kearney’s (2009) annual Global Retail Development Index (GRDI) has rated India No. 1 in position as the most attractive market for retail investment. And India has occupied this top position four times in the last five years in the survey.
Rural markets, having less density of retailing, with expanding income have also been tempting the business leaders to invest there in retailing. By rural retailing not only do the consumers benefit, it also supports the infrastructure, other industries, the government agenda and the entire economy. The organized and large sized retailers have a good scope to meet the rural needs and aspirations by offering them the choice in terms of range and brands and offer them everything they need under one roof and on bargain price. They are therefore poised to flourish and encourage a hyper marts' format in the country.

7.5 Impact of SCM on Unorganized Retailing

Indian Planning Commission (2006), giving the virtues of organized retailing, has noted that 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.

The important role of FDI in supplementing domestic resources and ensuring employment generation in the development of economy has been endorsed by a number of experts (Jain, Jain & Jain 2008). The professional and big retailers will offer better quality services and the produce. The competition among them will lead to better consumer choice and a more competitive price. Farmers and suppliers will also get a better deal by selling their produce directly to major retailers. Expansion in the organized retail sector and entry of foreign companies will also have the following additional benefits:

a) It will increase the purchasing power by generating income even at the bottom of pyramid.

b) FDI inflow will facilitate the economic development.

c) Infrastructural development especially in roads, transport, warehousing etc. will take place.

d) Other sectors in the supply chain like agriculture, entertainment, food processing etc. and the allied industries will be supported.
e) Number of tax payers and the VAT collections will increase.

But there are apprehensions on this account as well. Around 40 million people are engaged in retail trade in India, and even a small percentage loss of employment in this sector amounts to thousands of unemployed. An efficient and organized retailing may lead to bypassing many intermediaries causing a job displacement from the traditional supply chain. The estimated future loss of jobs as a result of FDI in the retail sector is between 4,32,000 and 6,20,000 (Guruswamy, Sharma, Mohanty & Korah 2005). But a more comprehensive study by ICRIER (2008) found that there was no evidence of a decline in overall employment in the unorganized sector as a result of the entry of organized retailers. The rate of closure of the traditional units on account of competition from organized retail is lower at 1.7% per annum. (ICRIER 2008)

The major retail chains like Wal-Mart and TESCO have already opened their procurement centres in India. The wide food variety and rich textile and handicrafts heritage make India a very attractive procurement hub for them. By opening their retail chains here a monopoly power may be exercised by these giants who may do more harm than benefit to our system (Dipankar Dey, 2006). Giving the examples of several studies, it is concluded that small farmers, unorganized workers and consumers are the main losers as global retailers consolidate their power through free movement of global capital.

The traditional retailers consisting mainly of *kirana* (grocery) stores will, however, continue to exist. Their volume of business and profitability is adversely affected in the vicinity of organized retailers but this effect weakens over time (ICRIER 2008). On the whole the organized and the unorganized sectors in retailing are complementing each other and are not growing at the cost of other as the two cater to different segments or the need categories in the market.

Firms and companies involved in global food and agribusiness chains and networks are facing fast changes in the business environment, to which they must respond through continuous innovation. New procedures and practices for organizing food supply networks, with direct ties between primary producers, processors and retailers should be evolved to cope with the food safety and health demands. Optimizing the individual stages in a chain usually results in sub-optimal overall
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chain performance. For this reason, agro-food companies try to enforce regulations to all actors in the chain that become part of the global market and institutional environment (Jongen 2000; Van der Laan et al. 1999).

7.6 Challenges before the Traditional Retailers

The traditional retailers will have enough scope to operate in length and width throughout the rural and urban areas which are not covered by the organized sector. But they will have to work seriously towards revamping their business to obtain strategic advantage at various levels market, cost, knowledge and customer.

There prevails a seller's market in most of the rural retailing. They do not properly display the goods, don't give choice in terms of range and brand, may even stock counterfeits and fakes and charge prices arbitrarily. In the backdrop of this scenario, corporate sector is planning to offer integrated solution to them by overcoming the above problems. ITC's ChoupalSagar, Tata's KisanSansar, Shriram'sKisanHariyali Bazaar, Godrej's Aadhar and Manthan and Mahindra's Shubhlabh are just a few examples of such attempts.

The traditional and rural retailers will have to adjust themselves to the changing market conditions like rising income level and aspirations, increasing demand for quality products, desire for urban like experience, changing tastes, frustration with low quality and sensitivity to counterfeits, etc.

They cannot have the edge in giving customers the value-for-money for national or standard brands but they can offer them more customized and personalized package for other kinds of products or services which are designed or tailored to the local needs. The shopping experience, the variety, the quality and advanced systems and technology that the shopping malls offer may be beyond their capacity but the convenience, accessibility, loyalty, value-added services, credit, home delivery etc. are the favourable factors that can redefine their role. On the urgent need of a local customer when the traditional retailer delivers the goods to him on credit, he actually builds an emotional obligation in his mind. This works as a long lasting loyalty to the retailer by his customer. There are still large clusters of the society that are not attracted by the shopping malls.
The unorganized retail sector is expected to grow at about 10% per annum with sales rising from US$ 309 billion in 2006-07 to US$ 496 billion in 2011-12 (ICRIER 2008). This is in spite of the fact that this sector is financially weak with serious physical space constraints with them. The conflict between the supermarkets and the unorganized retailers has prevailed in several countries (e.g. in Indonesia, Philippines and Thailand) due to inequality in power and use of that power by the supermarkets in business operations. This originates the need for monitoring and regulation in the matter.

The whole of the developing world wants a ‘pro-traditional’ or ‘pro-small’ retail and supply chain system. India stands out in this preference. In this endeavour, the effort will be to narrow down the inequality between the two and make weaker ones financially, strategically and operationally stronger. And these parameters are also interlinked with each other.

The government should give, on priority, a policy support, legal protection, financial, informational and organizational assistance to the small and traditional retailers as they are capable of greater employment generation and equitable income distribution. Large number of small retailers fragmenting across the regions of the country is always desirable over the mega-malls opening around the metropolitan cities. Region-wise and operation-wise integration between the malls and the small retailers is also desirable.

Keeping in mind the need to facilitate a hospitable environment and an even playing field both for organized and unorganized retailers the study proposes the following tasks be undertaken seriously:

a) Formulate a policy for regulating the organized retailers including the foreign companies.
b) Ensure the financial support to small and traditional retailers to facilitate the growth of the sector in decentralized and balanced way.
c) Invest in and strengthen the infrastructure for country wide supply chain.
d) Provide managerial and procedural assistance to modernize the traditional retail sector.
Reardon and Hopkins (2006) have indicated the use of four kinds of regulations around the world to properly regulate the retail growth. They are:

1. Competition policy that limits concentration and collusion.
2. Zoning and hours regulations to limit the diffusion, market penetration, and convenience.
3. Pricing regulations that prevent modern retail companies from pricing below cost and prompt-payment regulations to secure speedy payment to suppliers.
4. Policies to strengthen traditional retailers and suppliers through technology and practice upgrading, enhancing organizational capacity, and financial access.

After the early opening up of the retail sector in a few Southeast Asian countries, they imposed the restriction in the late 1990s through a combination of competition laws, FDI regulations, zoning and operating hours' laws. (Mutebi 2007)

The fast growth of Indian retail sector has attracted the foreign mass merchants and food retailers. Wal-Mart, Carrefour, TESCO, and some others are planning to have their presence here but they are waiting for the FDI norms to be relaxed further.

There had been no restrictions on the entry of foreign retailers into the Indian market till 1996. However in 1997 FDI in retailing was prohibited in the country. In January 2006, again a partial liberalization took place in the policy. Foreign Investment Promotion Board (FIPB) approved that the foreign companies can go up to 51 percent in single brand retail joint ventures. 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. Recently, UPA II had decided to pass a bill for allowing the FDI in retails faced opposition from all quarters of Indian society, even some of its allies also opposed to it on the issue of allowing FDI in retail. The policy change could have opened the floodgates of investment by foreign firms, has been on hold at least for some time. The government on the issue has been on defensive posture. It seems the issue is very critical and of foremost value to trading community who are not willing to forgo their interest.
On the other hand, countries such as China have witnessed tremendous growth by opening the retail sector to FDI. But the circumstances are somewhat different there. The support of infrastructural and rural development in India has not reached that level as yet. Thailand made a similar attempt in 1980 by opening up its retail sector for FDI. On the arrival of European retail giants, many traditional retailers had to close down. As a consequence, the share of traditional traders in the retail sector came down from 74% in 1997 to 60% in 2002, forcing the Thai government to reverse its decision to liberalize FDI. (Dey 2006)

Restriction in FDI for retail should continue. However, in case it is allowed, it should be opened gradually. Initially, the less sensitive sectors like lifestyle products, garments, houseware, entertainment, etc. should be opened. It must also be tied up with infrastructure building by them. A licensing system may be used to give approval on the merit of the case while guaranteeing the regional and sectoral balance in the economy. The licensees may be charged, the bidding fee for generating revenues to meet the development costs for the concerned localities. In any case, the basic objectives of balanced growth, equitable income distribution, and employment generation should not be forgone for inviting FDI. (Ahmad 2010)

7.7 Modernizing the Unorganized Retailers

In the process of helping out the unorganized retailers, the problem is more related to revamping them rather than saving them from the onslaught of organized retailers. The ultimate and the long-term solution for the traditional, unorganized, and small retailers will be to upgrade them to modern retailing to ensure value generation by professionally managing the SCM. The governments, the legal framework, the infrastructure, the facilitators, the corporate sector, and the whole system should encourage them in this endeavour. Banking, insurance, transport, warehousing, and telecommunication systems should offer support on preferential basis to the small and traditional retailers especially when they focus rural and remote areas.

In competition with organized retailers, the most crucial thing the traditional retailers are lacking in is the availability of credit from the commercial banks. This weakness badly affects the backward integration possibilities depriving the suppliers from getting any good deal from the retailers or directly from the banks. Proper
support from the financial and technological agencies if facilitated will surely strengthen the backward integration of the retailers. Credit at reasonable rate from banks and micro-credit institutions should be insured for growth and modernization of traditional retailers. The innovative kinds of rural and small retailer credit schemes will definitely help them to upgrade and consolidate.

The organized retailers have to their advantage the sources of finance and technology, but if the unorganized retailers are encouraged to form cooperatives they can substantially gain by raising finance, applying technology and do the procurement from the best sources more economically. The government agencies can assist the formation of cooperatives or associations of kirana stores as has been attempted for the farmers and the producers. The procurement agencies may be set up on local basis as small retailers’ cooperatives and those may also function as cash-and-carry outlets to procure jointly and supply to the members. This kind of arrangement is found in China.

The wet markets should be modernized in a time bound manner with emphasis on hygiene, convenience, approach roads, entry, exit etc. Such efforts have been made in many Southeast Asian countries. (ICRIER 2008)

For the development of infrastructure, the full responsibility cannot be shouldered by the government alone. Public-Private-Partnerships (PPPs) are just another route to it. The organized retailers may be forced by the regulatory agencies to contribute to this end in their area of operation. The corporate giants in retailing can do a lot for the small and traditional traders if they are properly monitored. ICRIER research (2008) also recommends the formation of “private codes of conduct” by organized retail for dealing with small suppliers. The same thing can be achieved for the small retailers. Such a code may then be incorporated into enforceable legislation.

To consolidate the recommendations made for helping out the unorganized retailers we need to ponder over the means of accomplishing the task. The kinds of interventions and the support desired for the small and independent traditional retailers demand for a long term arrangement and a permanent body in the country to look after their interests. The wave of liberalization may possibly leave the call of these traditional retailers unattended. It is therefore suggested that a national
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commission or a government agency (that may come directly under the Ministry of Commerce and Industry, Government of India) be set up. This will essentially prevent the big fish eating up the small ones. This commission may safeguard the interests of small, rural and traditional entrepreneurs in retail sector by helping them to modernize and be cost effective. Indigenous, traditional, labour intensive and environment and people friendly economic activity may get a focus by this commission. The commission may involve itself in the following tasks:

1. Formulate and recommend the retail policy to the government which may safeguard the interests of this segment.
2. Work as an apex body to integrate with Government and the developmental agencies to offer an infrastructural support to such retailers.
3. Coordinate with the financial sector to make available sufficient finances to such retailers.
4. Integrate the organized and unorganized sectors of retilling for supporting each other.
5. Provide a forum to such retailers to unite and take up the Supply Chain Management operations jointly for cost efficiency and high performance.
6. Provide managerial and procedural support individually to small, rural and traditional retailers to modernize and thus reduce the gap between organized and unorganized retail sectors in India.

7.10 Conclusions

The retail market in India is offering great opportunities to the business leaders. This sector is promising a spectacular growth to both organized and unorganized retailers in urban as well as rural parts of the country. Both will coexist and prosper without causing any threat to the other. The traditional retailers will however have to struggle for revamping their business. They need to redefine their role and professionalize themselves to obtain a strategic edge over the organized retailers. A policy intervention, legal protection, financial and managerial support and a cooperative joint operation for promotion of backward food integration and supply chain development will make them strong and competitive. FDI in retailing should be restricted or tied up with decentralization and protection of traditional retailing. The
organized sector should be forced to contribute to infrastructure development and help the small, traditional and rural players in modernization and upgradation. A national commission may be set up to coordinate the efforts of all public and private agencies to this end.

This implies that there is an enormous amount of scope for private and public agencies to participate in the regulations of food production and processing and also to exercise control on the maintenance of food safety rules and quality control. There is a need of cooperation among the different agencies at national and international level to develop synergy so that the interest of farming community and that of different stakeholders are properly guarded. In addition to international standards (FAO Codex Alimentarius, SPS agreement), the national agencies for grades and standards are also playing their role with responsibility.

Workings for the betterment of food quality and quantity, different players are coming across with different interests and often they clash on one or the other ground for the regulation of food production. For example sometimes practice of one public group competes with another private rule for Good Agricultural Practices (GAP). Public regulation may involve normative codes regarding health and safety, but also includes compliance with labour and environmental standards. The latter are strongly advocated by (inter)nationally operating non-governmental organizations, like Greenpeace, IUCN, Oxfam and others. The corporate social responsibilities of firms are further driving forces for following the rules of government and also to maintain harmony with environment and pollution norms.

The initiatives for pronouncing fair and ethical trade practices intend to make food SCM and its trading more transparent and try to mobilize consumers and other group for these issues related to food problems. Another aspect of the legal framework refers to ownership rights and the supply chain governance structure. The above studies have analysed that as long as the agro operations of Indian firms remain limited to production activities and having marginal or fractional role in value addition of food products, the India firms will not be able to exercise governance power and will receive a minor share of the food industry market.

Joint ventures and strategic alliances between local and international firms in the form of FDI or franchisee may enable producing firms to acquire business practice
and learn best international practices. Other options for reinforcing collective action are in the form of contract farming and allied activities and allowing the entry of organised retails market of international level. The entry of giant player like Wall Mart, Carrefour etc. will set new rule of competition for the Indian farmers and other actors who are involved in the marketing and production process.

Government intervention plays an important role in guaranteeing the availability and distribution of agro-food products to local and marginal consumers. It is therefore in the interest of local consumers that regular inspections take place, and that an acceptable degree of local competition is maintained to guarantee that the retail prices are established under competitive conditions. Given the increasing size of domestic Indian markets, the rapid rise of supermarkets in developing countries like China, Indonesia, and other east Asian countries shows that there is intense competition and finally the poor and middle-class consumers appear as the main winners. There is thus certainly a room for competitive policies which can be regulated by the government for the protection of marginal players.

Guaranteeing the participation of smallholders in agro-food supply chains requires level field for them. Presently the options for farming community to drive mileage collectively are limited in the form of cooperative and announcement of MSP by the government. The farmers are devoid of any concrete competition which gives them advantage of market factors. Market entry by farmers directly is very much dependent on both internal and external economies of scale and scope. In the absence of adequate provision of road infrastructure and storage facilities the farmers are forced to sell their products often at very minimal and sustenance marginal prices. The entry of 100% FDI in retail is the only option for the developing countries for protecting the interest of the poor farmers.

The phobia against entry of multinational retails is artificial and more of political in nature then a very thoughtful act on the part of traders who are opposing it. If the entry of MNCs can be permitted in telecommunications sector which has revolutionised the communication pattern in the form of cell phones in India, why not a chance be given to agro-food for the competitive and open market in the interest of Indian farmers. The retail experts spell a bright future for organized retailing in India at an annual growth rate of 9.5 per cent to double its presence to $30 billion by
According to the report, which was released by the Federation of Indian Chambers of Commerce and Industry (FICCI) and Ernst & Young, “the most significant challenge that impedes the development of an efficient and modern retail sector is an underdeveloped supply chain”. Commenting on traditional supply chain networks, it says that the chain, a partially informed push/pipeline model with a unidirectional flow, is expected to transform into a fully informed network model with bi-directional flow of information.

The report also points out to the huge shortage of experts in this area, coupled with the fact that only 64 per cent of organizations have a full fledged independent department to manage the supply chain. Commenting on the importance of supply chains, Bharti Enterprises managing director Rajan Bharti Mittal said, “If the front end has to grow, you need a completely stitched back-end. There is a loss of 3 per cent GDP growth if we do not invest in infrastructure.” Of the existing domestic retailers in the organized sector, the Future Group, promoters of Big Bazaar and Food Bazaar, has a separate branch Future Logistics to look into its supply chain logistics. Speaking to The Indian Express, Pantaloon Retail Chief Executive Officer (Food Business) Arvind Chaudhary (2007) said, “The cold infrastructure in the country is missing. Moreover, one can’t have cold infrastructure in parts; it has to be present for the entire logistics. Otherwise there will be a thermal shock.”

To bring a balance between the supply chain practices adopted so far and emerging futuristic technologies, the report suggests adoption of an “Intelligent Supply Chain”. It speaks of a paradigm shift from traditional supply chains towards adaptive and real-time supply networks. “To achieve profitable growth over the next few years, supply chains need to be realigned into efficient, agile and adaptable networks,” says the report. This, in turn would help manage costs, ensure product availability and be highly responsive.

Agrees Chaudhary (2010) as he points out that transporting perishables through cold infrastructure will increase the costs of basic commodities like tomato and potato by at least nine times. “Currently, barring fruits and vegetables, everything is transported under ambient (natural) conditions. We have to evaluate the wastage
versus cost of transporting through cold infrastructure. In effect, the real wastage is minimal as the lesser produce is sent for processing,” adds Chaudhary. He suggests alternatives suitable for Indian conditions, such as encouraging farmers to harvest perishables early in the morning, transporting then quickly to local markets and sourcing from them.

The report calls for informational and technological intervention to tackle the current bottlenecks by using supply chain technologies like Radio Frequency Identification, barcode scanners, Point-of-Sales terminals, handheld devices and software packages. It reveals that 85 per cent companies use IT to capture and analyse real-time information for effective decision making.

The marketing and promotion strategies which are adopted for the development of rural infrastructure should be different from the urban one. There is acute duplicity in the developmental process of rural areas. It’s not only lacking inclusive development but also vary as per the region and state wise. Thus rural developmental programs must take into consideration the cultural and social aspects. Besides the rural folk should be looked upon as customers and not as commodities. In the words of C. K. Prahlad they should be given the same treatment which is honoured to the customer (Prahlad 2009). Precaution should be taken to the development of infrastructure to enable further development of the retail projects in rural areas as well as urban areas.

References


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