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MarketMind

Missing the wood for the trees

The last 10 years have seen an extraordinary quantum of interest and debate on the benefits and dangers of modernization of India's retail sector, though never has this debate been shriller and more contentious than what has been seen in the last 3 weeks. Unfortunately, no discussion has taken place even once in these years on the importance of the retail sector to India (not only just the 15+ million independent retailers and street hawkers), the need to make the producer to the consumer distribution system more efficient and less wasteful, and how to make these millions of independent retailers not only relevant for tomorrow but actually increase their numbers and enhance the economic and social vibrancy of their vocation. Sadly, much more attention has been misguidedly focused on just one single dimension of modernization of the distribution and retail infrastructure namely "foreign direct investment".

Before we start thinking on how to modernize and strengthen India's retail infrastructure, irrespective of the size and scale of the front end operators, and irrespective of the country of origin of the financial ownership of this front end, it would be extremely important to keep a few hard facts in mind. Unfortunately, most of the rhetoric of recent years and in particular, of the last few weeks, has largely been on emotional and sometimes incorrect factual position.

Firstly, while Britain may have anointed as the nation of shopkeepers in centuries gone by, it is actually India that has a stronger claim to this title for perhaps thousands of years. Private consumption has long been the larger constituent of India's economy and even today, it accounts for almost 60% of India's GDP. Of this private consumption, more than 60% is what would constitute what we would typically route through retail channels. There is no feasible way to arrive at an accurate headcount of such retail establishments and the direct and indirect employment supported by this sector but it is no one's argument that tampering with or weakening of this very complex ecosystem would benefit India today or tomorrow.

Secondly, and most importantly, the fact is India's retail story is not a zero sum game i.e. growth of new, modern, and sometimes larger in scale retail businesses has to come at the expense of decimation of the traditional, independent retail business owners. Every political party, and almost every analyst and commentator on this subject has entirely missed this most critical fact about India's retail environment. Even at a real growth of 6% per year and inflation of about 5% for the next 15 years, India's nominal GDP will be about US$ 8,000 Billion in 2026. The size of India's retail market would have also moved up from about US$ 500 Billion in 2011 to about US$ 2500 Billion in 2026. Traditional retail currently accounts for as much as about US$ 475 Billion of this market. Even if modern retail attracts as much as US$ 150 Billion in fresh direct and indirect investment (from within India and overseas) over the next 15 years (i.e. US$ 10 Billion per year), the size of modern retail business in India is not likely to cross US$ 300 – 350 Billion by 2026, implying that traditional retail will account for as much as US$ 2,150 – US$ 2,200 Billion in revenues (or more than 4 times of their current size). Accounting for inflation and some increase in productivity of traditional retailers, it can be very confidently assumed that in the most optimistic of all scenarios as far as investment in modern retail is concerned, the numbers of independent retail outlets in India will more than double by 2026 rather than show any decline whatsoever. It is most unfortunate that this very simple but irrefutable fact has been totally lost in the din of parliamentary walk-outs, chest-beating and rabble rousing to espouse the cause of the traditional retailer.

If these facts are understood, then what should India be doing to facilitate this retail consumption taking place in a planned, organized manner rather than seeing millions of illegal retail establishments sprouting all over, occupying the limited pedestrian walkways and narrow roads, and moving from ground floors of residential premises to first and second floors?

Firstly, our politicians, our bureaucrats, and our urban planners must realize the need and relevance of providing for retail spaces through an integrated, holistic planned way. At the very least, about 10-12 square feet of retail space is needed for every urban inhabitant. Urban agglomerations such as NCR, Greater Mumbai, and Kolkata therefore require at least 200 million square feet each of legalized retail space. Town planning must provide for this, and mixed use developments integrating residences, offices, and retail shops have to be planned and encouraged rather than segregating them apart. Hundreds of new wet markets (including those for flowers too, besides fresh produce) have to be developed in all urban centres, including some which could pop-up once or twice a week in current public spaces, to make up for some of the deficit in legalized retail space (India would need another 15-20 million shops for independent retailers alone in the next 15 years)

Secondly, India needs efficiency in the distribution system (rather than focus only on the front end). To this extent, it needs to make some major policy reforms urgently including scrapping of APMC and making India a free market for internal movement of food and other consumer products (without policy or taxation barriers), and adoption of GST without any delay.

Finally, India needs to encourage the so-called “Cash & Carry” businesses proactively. These are just modern versions of a dilapidated, fragmented wholesale distribution system and have the potential to reduce or eliminate most of the wastages and value losses that are in the entire supply chain from the producer to the retailer. These businesses have to be located at the periphery of urban centres and state governments must enthusiastically support such entrepreneurs whether of Indian or international origin.

Now that the debate on FDI has been put on the backburner at least for some time, there is no reason that a pragmatic, progressive, and futuristic policy cannot be put in place to support a modern and more efficient ecosystem for India rather than worrying about the scale and financial ownership of some of the players in this ecosystem.

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