

Retailing a Revolution

India is one of the most attractive retail markets in the world, estimated at US\$ 350 billion with a sizzling growth potential of 40 per cent per annum. With such an explosive trajectory, it is hardly surprising that many global and national players have announced ambitious investment plans of US\$ 22 billion over the next five years to set up shop, as it were, throughout the country. The US\$ 315 billion global major Wal-Mart has a joint venture with Bharti Enterprises and has plans to rollout its stores by mid-2008, reaching 75 cities over the next 5-7 years, according to Raj Jain, Wal-Mart's president for emerging markets.

India's Fortune 500 private sector giant, Reliance Industries Ltd, has, in fact, been first off the blocks by launching its first Reliance Fresh outlets in Hyderabad, the cyber-savvy capital of the state of Andhra Pradesh in November 2006 and has since fanned out to 18 states. By end-2007, it plans to extend its retail footprint to 70 cities. To match the likes of Wal-Mart, Reliance has on the anvil plans to spend US\$ 5.6 billion to set up its outlets in 784 cities and towns all over the country by 2010. India's much-awaited retail revolution has, therefore, already been set in motion.

The revolution that is being retailled doesn't, however, conjure this sector into existence out of nothing. Like England, India, too, has long been described as a nation of shopkeepers having an estimated 15 million small retail outlets, mostly single-store, family-owned fronts all over the country. This works out to 14 shops per 1,000 people, which is one of the highest densities of shops per population. The unorganized sector -- comprising small and medium retailers who employ over 40 million people -- is indeed the current face of retail that is in the throes of a transformation to a more organised form.

Only 2-3 per cent of retailers are large-scale who have the ambition of bringing organised retailing to the whole of India. This segment comprises the likes of the Future Group headed by Kishore Biyani, the country's largest retailer having 3.2 million square feet of retail space across 36 cities. He intends to spend US\$ 1 billion to increase that to 10 million sq ft by 2010. For a sense of perspective, only 4% of the 15 million retail outlets have floor space in excess of 500 sq ft. But considering the vast potential, this sector naturally has attracted majors like Reliance, Tatas, AV Birla Group, Godrej, Mahindras and ITC.

While the current policy regime bars foreign retailers from selling multiple brands directly to consumers, they are allowed to operate in the cash and carry or wholesale format that has brought in Wal-Mart and the Metro Group. The winds of reform are not freely blowing through India's retail sector, as there are political sensitivities involved. Simply put, the entry of Wal-Mart and other global retailing giants is feared to threaten the livelihood of millions of retail stores. It bears mention that Wal-Mart employs only 1.4 million workers but its turnover is similar to that of India's retail trade as a whole!

For starters, the revolution in retail entails tapping the huge opportunity at the bottom of the pyramid. This necessarily implies moving down from the top, comprising major metros like New Delhi (or nearby Gurgaon), Mumbai, Kolkata, Bangalore, Chennai and Hyderabad to smaller cities like Agra and Kanpur in the state of Uttar Pradesh or Indore and Ranchi in central India or Vijayawada and Visakhapatnam in the southern state of Andhra Pradesh, to name a few such examples. Then, moving on to the smaller towns and villages, where the real opportunities indeed lie at the base of the pyramid.

To be sure, major players like Reliance have all begun with the big metros like Hyderabad and Chennai in their foray into retailing. The reasons include higher disposable incomes and a large working and earning population in these agglomerations. But how many players can find this business viable if they concentrate only on this urban segment? A typical sight in most metros is the shopping mall where organised players retail their wares alongside each other. Mukesh Ambani, chairman and MD of Reliance, for his part, believes that “there is enough room for six-to-eight players” in this business

The action perforce has to shift to smaller cities and towns. To some extent, this is already happening in cities like Vadodara and Surat in the state of Gujarat. According to IBEF reports, there are 200 malls spread all over India and 700 new malls are coming up, 40% of which are concentrated in the smaller cities and towns. The reasons are not far to seek. The contribution of smaller cities to organised retail sales was 15% in 2005 and has risen to an estimated 25 per cent in 2006. With growth of 50-60 per cent every year when compared to 35-40 per cent in the larger cities, the smaller cities are the torchbearers of the retail revolution.

A factor that is fanning the move out of the metros is booming real estate costs. Players like Biyani of the Future Group have been stating that the smaller cities have a 15-30 per cent cost advantage over the larger cities in this regard and, accordingly, has plans to set up 400,000 sq ft of retail space in Ahmedabad, Vadodara and Surat. Average rentals are in the range of Rs 50-60 per sq ft per month in the smaller cities when compared to Rs 100-120 per sq ft per month in the bigger cities. As lease rentals are an important aspect of the economics of organised retailing, the move to smaller cities will only accelerate further.

Ballooning employee costs in larger cities are another reason why organised retailers are also setting up training facilities in smaller cities. Although retailing is the second largest employer after agriculture, there is a requirement upwards of two million personnel. Existing players thus are scrambling to set up training facilities to bridge the gap between demand and supply. Bharti Enterprises has, for instance, set up the Global Retail School in Chandigarh to train the large numbers required by its parent's retail venture and plans to open 30 more centres in smaller cities like Jammu and Ludhiana by end-2007.

More importantly, the revolution in retail forges farm to fork linkages with thousands of farmers to procure fresh produce for the outlets. This necessarily entails huge investments in supply chain logistics, cold chain, warehousing and so on all over India's rural hinterland. To be sure, some corporates like the agribusiness giant ITC have a headstart as they have cut out intermediaries and purchase agri-produce from farmers at e-choupals. A logical step forward has been to set up Choupal Fresh grocery stores selling fruits and vegetables in Hyderabad, Pune and Chandigarh.

Reliance, too, has begun procuring farm produce directly from farmers. To stock its Chennai outlets, its supply chain bypasses the Koyambedu wholesale market and sources greens and vegetables from farmers in nearby places like Tiruvallur. In Ranchi, despite the recent opposition to its outlets, around 300 vegetable and farmers entered into a deal to supply directly to Reliance's purchase centres at Brambay and Pithori. Dealing with farmers and paying much higher prices for their produce within a few hours of plucking from the field enhances purchasing power at the bottom of the pyramid.

To be sure, there is a lot of opposition from vested interests like wholesale traders to the farm to fork revolution. Companies like Reliance face a tremendous amount of opposition in bypassing established intermediaries in states like Tamil Nadu and even West Bengal. But states like Haryana, Andhra Pradesh and some parts of Uttar Pradesh have allowed direct procurement. More states will follow suit. Like ITC's e-choupal scheme, the US Agency for International Development also has a programme in India to bring together farmers and organised retailers to help source fresh agricultural produce.

Ultimately, the prospect is for this revolution in the countryside to go global as corporates get into contract farming and source farm produce also for export. "The concept of farm to fork means that it will integrate the Indian user with the global chain. When US President George Bush came (to India), the mango market was opened up. Wal-Mart coming in helped us open the US market," stated Ambani at the India Economic Summit 2006. The retail revolution that is underway has all these potentialities, including delivering health, micro-credit, education and entertainment to the bottom of the pyramid.

While India thus is becoming one of the largest retail markets in the world, the transition to a more organised form, however, is not easy and will remain politically contentious. For all the fears of the demise of the so-called mom and pop retail stores, the point to remember is that "nowhere in the world has small retailing disappeared. But, nowhere in the world has modern retailing not come in. So, I don't see why we should be any different," felt Montek Singh Ahluwalia, deputy chairman of the Planning Commission.

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