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Organized Retail of Ready Made Cloth Industry Changing Structure of Rural Economy of India Implications for Employment and Growth

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Abstract

The retail sector is expanding and modernizing rapidly in line with India's economic growth. It offers significant employment opportunities in all urban areas. This study, the second undertaken by ICRIER on the retail industry, attempts to rigorously analyse the impact of organized retailing on different segments of the economy. No distinction has been made between foreign and domestic players, in analyzing the impact of the increasing trend of large corporates entering the retail trade in the country. The findings of this study are based on the largest ever survey of unorganized retailers (the so-called "mom and pop stores"), consumers, farmers, intermediaries, manufacturers, and organized retailers. In addition, an extensive review of international experience, particularly of emerging countries of relevance to India, has also been carried out as part of the study. The study estimates that the total retail business in India will grow at 13 per cent annually from US$ 322 billion in 2006-07 to US$ 590 billion in 2011-12. The unorganized retail sector is expected to grow at approximately 10 per cent per annum with sales rising from US$ 309 billion in 2006-07 to US$ 496 billion. Organized retail, which constituted a low four per cent of total retail in 2006-07, is estimated to grow at 45-50 per cent per annum and attain a 16 per cent share of total retail by 2011-12. In short, both unorganized and organized retail are bound not only to coexist but also achieve rapid and sustained growth in the coming years. This is clearly not a case of a zero sum game as both organized and unorganized retail will see a massive scaling up of their activities. In fact, the retail sector, left entirely in the unorganized and informal segment of the economy, could well emerge as a major bottleneck to raising productivity in both agriculture and industry. One of the rather surprising findings of the study is that low-income consumers save more than others through shopping at organized retail outlets. This is a result of targeted discount shopping. It is also seen that farmers gain considerably from direct sales to organized retailers, with significant price and profit advantages as compared with selling either to intermediaries or to government regulated markets. Large manufacturers have also started feeling the competitive impact of organized retail through both price and payment pressures. Yet, they see the advantages from a more efficient supply chain and logistics that accompany the growth of organized retail Organized retail has the potential to lift the Indian economy to higher levels of productivity and growth. In the context of the United States, a McKinsey Global Institute study11 indicated a contribution by the retail sector of nearly one-fourth of the rise in productivity growth from 1987-95 to 1995-99. In India, organized retail will raise productivity and growth by pulling up the current lagging sectors, such as agriculture, food-processing industry, and textiles.

I. INTRODUCATION

In every clothing factory, the first stage is fashion forecasting and sketching ideas in the design development process. The next stage is the development of the sample garment, which involves collection planning, pattern making, grading and production of sample garment and costing of garment based on the working sketches. The line or the products are then appraised for production the patterns adopted for the production requirement. For handling these tasks there are specific departments in a clothing factory. Management, according to one of the most common definitions, is "the accomplishment of desired objectives establishing an environment favourable to performance by people operating in organised groups." Besides, in order to meet the rapidly growing demand for retail space, construction of real estate is taking place at a fast pace. It is interesting to note that construction has been one of the fastest-growing segments of India's GDP in recent years, recording an average annual real growth of about 13 per cent during 2003-07.12

With regard to agriculture, organized retailing will work with farmers to: (i) improve yields by enabling them to obtain quality input supplies; (ii) adopt superior farm technology and practices; and (iii) access timely credit at reasonable rates. Organized retailing will offer the farmer an alternative market which is more transparent, and less time consuming. It will provide prompt payment, avoid margins for unproductive intermediaries, and ensure remunerative prices. As regards manufacturing, SMIs particularly in food-processing, textiles and clothing will get a tremendous boost by producing for the big organized retail companies and will grow along with the organized retail business.

II. ORGANIZED RETAILING: ADVANTAGES TO THE INDIAN RURAL ECONOMY

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."

Indian agriculture is in the midst of a grave crisis with its growth rate steadily falling to just 2.5 per cent per annum during 2000-07, as against an annual growth rate of 4.2 per cent during the 1980s and 3.2 per cent during the 1990s. Among the reasons for the secular downtrend of this sector are: (a) low level of investment in the sector of just below 2 per cent of GDP (Economic Survey 2006-07, p. 176) for the past decade and a half; (b) inability to bring a larger share of land under irrigation in the past ; (c) lack of any significant breakthrough in yields for the last few decades; and (d) the dismal state of rural infrastructure, such as power, roads, transport, marketing, etc. While the industrial and services sectors are largely free from the controls of the license raj, agriculture remains constrained by a series of restrictions from input supply and production to marketing and distribution. The problem in agriculture is reflected to a certain extent in the operation of the APMC Acts in various states and union territories. The APMC Acts were originally intended to protect farmers from exploitation by intermediaries and traders by ensuring that they receive reasonable prices and timely payment. Over a period of time, the government regulated markets failed to function the way they were intended to and farmers felt exploited with a lack of transparency in the pricing, weighing, bagging and payments for their produce.

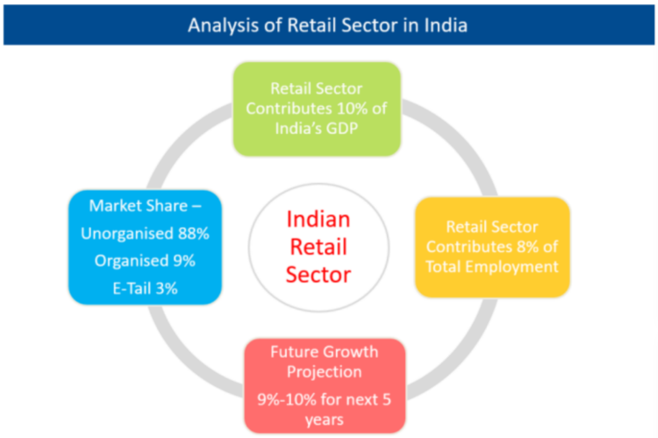

Fig.1. Analysis of Retail Sector in India

The various intermediaries in the system energy from the village trader, who acts as a consolidator, commission agent, wholesaler, sub-wholesaler, etc have been appropriating a large part of the final price in the form of margins and commissions. The transactions at various stages involved huge wastages estimated at 5-7 per cent for foodgrains and 25-30 per cent for fruit and vegetables (Annual Report 2006-07, Ministry of Agriculture, Department of Agriculture and Cooperation). These factors inflate the final price to the consumer by nearly three times what the farmer receives, and the farmer's realization of one-third of the final price compares poorly with two-thirds in most other countries. A number of states and union territories have taken steps to amend their respective APMC Acts based on the model law on agricultural marketing prepared by the Department of Agriculture and Co-operation under the central government. These amendments, among other things, provide for the setting up of private markets and yards, direct purchase centres, promotion of public-private partnership (PPP) in the management and development of agricultural markets in the country. Organized retail will result in a complete revamp of the agricultural supply chain in the country. A recent study by CRISIL has estimated a current annual total loss of about Rs. 1,000 billion in the agricultural supply chain, 57 per cent of which is due to avoidable wastage and the rest due to avoidable costs of storage and commissions (CRISIL Research, June 2007). Organized retailers have already started procuring fruit and vegetables from farmers directly bypassing the various intermediaries who add more costs than value to the food chain. They are investing heavily on logistics in the form of centralized warehousing and distribution centres, transport and cold storage, either directly or through engaging third party logistics companies. They are also employing a large number of unskilled workers for sorting, grading, packaging and labelling. All these will enhance farmer's realizations, improve quality of products at the shop and reduce the ultimate consumer price.

III. RESULT ANALYSIS

Employment in India is distributed in a skewed manner towards agriculture. Though the share of agriculture (including forestry and fishing) in GDP came down from 28.9 per cent in 1993-94 to 18.8 per cent in 2004-05, its share in employment remained huge, coming down gradually from 61 per cent to 52.1 per cent during the same period (Table 4.2). The strength of workforce engaged in agriculture had been about 201 million in 2004-05. This is, in fact, a reflection of the lack of employment opportunities in the non-agricultural sectors. The industry's share in employment went up from 15.9 per cent in 2003-04 to 19.4 per cent in 2004-05 which is somewhat better than the rise in its share in GDP from 25.9 to 27.5 per cent during the same period. The share of services in GDP rose sharply from 45.2 per cent in 1993-94 to

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53.7 per cent in 2004-05 but its share in employment grew somewhat slowly from
23.1 per cent to 28.5 per cent during the same period. Within the services sector, the share of trade (both retail and wholesale included) in GDP rose from 11.9 per cent in 1993-94 to 14.9 per cent in 2004-05, but its share in employment grew marginally from 7.7 per cent to 8.4 per cent during the same period. The trade sector, particularly retail, is predominantly the unorganized "mom-and-pop" shops.

	Share in GDP (%)			Share in Employment (%)		
	1993-94	1999-00	2004-05	1993-94	1999-00	2004-05
1. Agriculture, forestry, and fishing	28.9	25.0	18.8	61.0	56.6	52.1
2. Industry	25.9	25.3	27.5	15.9	17.6	19.4
Of which: Manufacturing	15.8	14.8	15.9	11.1	12.1	12.6
3. Services	45.2	49.7	53.7	23.1	25.8	28.5
Of which: Trade	11.9	13.0	14.9	7.7	8.2	8.4
Of which: Retail	n.a	n.a	n.a	n.a	7.4	7.3
Wholesale	n.a	n.a	n.a	n.a	0.8	1.1
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Table 1: Share in GDP and Employment of Selected Sectors, 1993-94 to 2004-05

The growth of organized retail will enhance the employment potential of the Indian economy. While providing direct employment in retail, it will drive the growth of a number of activities in the economy which in turn will open up employment opportunities to several people. This includes the small manufacturing sector especially food-processing, textiles and apparel, construction, packing, IT, transport, cold chain, and other infrastructure. It may adversely affect employment in unorganized retail and the trade intermediaries associated with the traditional supply channels but the additional jobs created will be much higher than those that are

India is at the crossroads with regard to the retail sector. Several emerging market economies have gone ahead and reaped the benefits of modern retail. India is however a latecomer to organized retail expansion and the picture still remains unclear as to its future direction. The study advocates a balanced approach to retail and suggests that the government plays a major role in shaping its future course. There is no doubt that traditional retail has been performing a vital function in the economy and is a significant source of employment. However, it suffers from huge inefficiencies result of which consumers do not get what they want, and farmers often get prices for their produce much below what is considered fair. In contrast, organized retail provides consumers with a wider choice of products, lower prices, and a pleasant shopping environment. It gives farmers a better alternative channel for selling their products at a better price. The competition from organized retail has affected the business of traditional retailers but they are making efforts to stay on. In their struggle to face this competition, they are handicapped by a lack of access to formal credit from commercial banks. As in other countries, government policy can and should play an important role in modernizing the unorganized sector and improve its competitiveness. On the other hand, a policy of protection of traditional retailers by restricting organized retail will harm the growth prospects of the country by foregoing the enormous benefits that are generated by organized retail.

Make available credit at reasonable rates from banks and micro-credit institutions for expansion and modernization of traditional retailers. While a liberal branch expansion for Indian and foreign banks would help, the study recommends the promotion of innovative banking solutions for unorganized retail like Syndicate Bank's lending for small business linked with the collection of daily or weekly pigmy deposits. Convert all uncovered wetmarkets to covered ones and modernize those markets in a time-bound manner with emphasis on hygiene, convenience to shoppers, proper approach roads, entry, exits, etc. In India, the route of public-private partnerships (PPPs) is advocated for this purpose. PPPs should be formed between the government and existing small shops on the pattern of the "Industrial Infrastructure Upgradation Scheme" being successfully undertaken to improve infrastructure in existing industrial clusters. Facilitate the formation of farmers' co-operatives to directly sell to organized retailers. In this case, while the government could provide tax incentives and capital subsidies, equity support should be avoided. These results are not indicative of the countrywide scenario, but only of mega-and mini-metro cities around a limited number of organized retail outlets. The results of the control-sample survey conducted for the study indicate that traditional retailers are not affected adversely even in these cities, away from organized outlets. For the country as a whole, unorganized retail is growing at a reasonable rate and will continue to do so for many years to come. Yet it is clear that the growth in demand for retail business is likely to substantially exceed any possible supply response coming exclusively from the unorganized retailers.

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