

**GOVERNMENT OF INDIA  
COMMERCE AND INDUSTRY  
LOK SABHA**

STARRED QUESTION NO:250

ANSWERED ON:07.12.2009

RETAIL MARKET

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**Will the Minister of COMMERCE AND INDUSTRY be pleased to state:**

(a) the share of the big industrial houses/traditional small retail traders in the retail market along with its growth rate for the last three years and the current year;

(b) whether there has been a decline in the retail market growth due to the recent slow down in the industry and entry of FDI in single brand; and

(c) if so, the details thereof and the steps taken by the Government to promote retail market in the country;

**Answer**

THE MINISTER OF COMMERCE & INDUSTRY (SHRI ANAND SHARMA)

(a) to (c): A statement is laid on the table of the House.

STATEMENT REFERRED TO IN REPLY TO PARTS (a) to (c) OF THE LOK SABHA STARRED QUESTION NO. 250 FOR ANSWER ON MONDAY THE 7th DECEMBER, 2009.

(a): Information in this regard is neither available in the Department of Industrial Policy and Promotion, nor in the Department of Consumer Affairs. Retail is a labour intensive sector and is the second largest employer after agriculture. Government is fully committed to securing the legitimate interests of all stakeholders engaged in the retail business. Government also fully recognises the need to ensure that small retailers are not adversely affected by the growing organised retail and that there is no adverse effect on employment. The Government had, accordingly, instituted a study on the subject "Impact of Organized Retailing on the Unorganized Sector", through the Indian Council for Research on International Economic Relations (ICRIER). Salient features of the study are at Annexure.

(b): As per extant policy, Foreign Direct Investment (FDI) is not permitted in retail trade, except in "Single Brand" product retailing, where FDI upto 51% is permitted, with prior Government approval and subject to the following conditions:-

(i). Products to be sold should be of 'Single' brand only;

(ii) Products should be sold under the same brand internationally; and

(iii) 'Single' brand product-retailing would cover only products which are branded during manufacturing.

Government has permitted only 52 approvals for Single Brand Retailing until date, since the Policy was approved in February, 2006.

Further, the State Governments are concerned with various clearances for establishment of retail traders, including corporates. The Agriculture Produce Marketing Committee (APMC) Acts and the Shops & Establishment Acts are administered by the State Governments.

(c): Government is supportive of the growth of retail industry in India to cater to the requirements of consumers. Thus, the Reserve Bank of India has issued revised guidelines on lending to priority sector, including retail trade, on April 30, 2007.

ANNEXURE

STATEMENT REFERRED TO IN REPLY TO THE LOK SABHA STARRED QUESTION NO. 250 FOR ANSWER ON MONDAY THE 7th DECEMBER, 2009.

FINDINGS AND RECOMMENDATIONS OF ICRIER

The real GDP is expected to grow at 8-10 per cent per annum in the next five years. As a result, the consuming class with annual household incomes above Rs. 90,000 is expected to rise from about 370 million in 2006-07 to 620 million in 2011-12. Consequently, the retail business in India is estimated to grow at 13 per cent annually from US\$ 322 billion in 2006-07 to US\$ 590 billion in 2011-12. The study shows:

# The unorganized retail sector is expected to grow at about 10 per cent per annum with sales rising from US\$ 309 billion in 2006-07 to US\$ 496 billion in 2011-12.

# Given the relatively weak financial state of unorganized retailers, and the physical space constraints on their expansion prospects, this sector alone will not be able to meet the growing demand for retail.

# Hence, organized retail which now constitutes a small four per cent of total retail sector is likely to grow at a much faster pace of 45-50 per cent per annum and quadruple its share in total retail trade to 16 per cent by 2011-12.

# This represents a positive sum game in which both unorganized and organized retail not only coexist but also grow substantially in size.

# The majority of unorganized retailers surveyed in this study, indicated their preference to continue in the business and compete rather than exit.

#### Main Findings

##### Impact on Unorganized Retailers

# Unorganized retailers in the vicinity of organized retailers experienced a decline in their volume of business and profit in the initial years after the entry of large organized retailers.

# The adverse impact on sales and profit weakens over time.

# There was no evidence of a decline in overall employment in the unorganized sector as a result of the entry of organized retailers.

# There is some decline in employment in the North and West regions which, however, also weakens over time.

# The rate of closure of unorganized retail shops in gross terms is found to be 4.2 per cent per annum which is much lower than the international rate of closure of small businesses.

# The rate of closure on account of competition from organized retail is lower still at 1.7 per cent per annum.

# There is competitive response from traditional retailers through improved business practices and technology upgradation.

# A majority of unorganized retailers is keen to stay in the business and compete, while also wanting the next generation to continue likewise.

# Small retailers have been extending more credit to attract and retain customers.

# However, only 12 per cent of unorganized retailers have access to institutional credit and 37 per cent felt the need for better access to commercial bank credit.

# Most unorganized retailers are committed to remaining independent and barely 10 per cent preferred to become franchisees of organized retailers.

##### Impact on Consumers

# Consumers have definitely gained from organized retail on multiple counts.

# Overall consumer spending has increased with the entry of the organized retail.

# While all income groups saved through organized retail purchases, the survey revealed that lower income consumers saved more. Thus, organized retail is relatively more beneficial to the less well-off consumers.

# Proximity is a major comparative advantage of unorganized outlets.

# Unorganized retailers have significant competitive strengths that include consumer goodwill, credit sales, amenability to bargaining, ability to sell loose items, convenient timings, and home delivery.

##### Impact on Intermediaries

# The study did not find any evidence so far of adverse impact of organized retail on intermediaries.

# There is, however, some adverse impact on turnover and profit of intermediaries dealing in products such as, fruit, vegetables, and apparel.

# Over two-thirds of the intermediaries plan to expand their businesses in response to increased business opportunities opened by the expansion of retail.

# Only 22 per cent do not want the next generation to enter the same business.

##### Impact on Farmers

# Farmers benefit significantly from the option of direct sales to organized retailers.

# Average price realization for cauliflower farmers selling directly to organized retail is about 25 per cent higher than their proceeds from sale to regulated government mandi.

# Profit realization for farmers selling directly to organized retailers is about 60 per cent higher than that received from selling in the mandi.

# The difference is even larger when the amount charged by the commission agent (usually 10 per cent of sale price) in the mandi is taken into account.

##### Impact on Manufacturers

# Large manufacturers have started feeling the competitive impact of organized retail through price and payment pressures.

# Manufacturers have responded through building and reinforcing their brand strength, increasing their own retail presence, 'adopting' small retailers, and setting up dedicated teams to deal with modern retailers.

# Entry of organized retail is transforming the logistics industry. This will create significant positive externalities across the economy.

# Small manufacturers did not report any significant impact of organized retail.

#### Policy Recommendations

On the basis of the results of the surveys and the review of international retail experience, the study makes the following major recommendations:

1. Modernization of wetmarkets through public-private partnerships.
2. Facilitate cash-and-carry outlets, like Metro, for sale to unorganized retail and procurement from farmers, as in China.
3. Encourage co-operatives and associations of unorganized retailers for direct procurement from suppliers and farmers.

4. Ensure better credit availability to unorganized retailers from banks and micro-credit institutions through innovative banking solutions.
5. Facilitate the formation of farmers' co-operatives to directly sell to organized retailers. 6. Encourage formulation of "private codes of conduct" by organized retail for dealing with small suppliers. These may then be incorporated into enforceable legislation.
- 7 Simplification of the licensing and permit regime for organized retail and move towards a nationwide uniform licensing regime in the states to facilitate modern retail.
8. Strengthening the Competition Commission's role for enforcing rules against collusion and predatory pricing.
9. Modernization of APMC markets as modelled on the National Dairy Development Board (NDDB) Safal market in Bangalore.