NABARD

Organised Agri-Food Retailing in India

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January - 2011

January 2011

Published By

National Bank for Agriculture and Rural Development
(NABARD)
Plot No. C-24, 'G' Block
Bandra Kurla Complex
Bandra (East), Mumbai-400 051

Preface

The organised retail business in its new 'avatar' began its growth story in the country only after the liberalisation of the economic policies. An USP of the new retail format, especially the malls, as a one-stop shop with the added advantage of entertainment and food courts, aim at making shopping an enjoyable experience for the discerning consumer-family. Initially, this industry showed a great promise, making rapid strides along its growth path but with the global recession of 2008 impacting the domestic retail scenario, a few major players have downed the shutters. However, the organised retail market appears to be poised on a phase of consolidation with mergers and acquisitions. The outcome of the policy debate on FDI in multi-brand retail could impact the growth trajectory of the industry.

Given the current scenario, NABARD deemed it appropriate to sponsor a detailed pan-Indian study on the "organised Agri-food Retailing and Supply Chain Management" with the objectives of assessing its current status as well the problems and prospects of the industry. Two factors triggered the sponsoring of such a study, one being to see if the validity of the findings of the ICRIER study of the sector that was conducted when the economy was in the growth phase of the economy, holds true even during the recession phase. The second was the need to understand how it impacts the farming community, including small/marginal farmers.

The study brings out several findings that have serious policy implications. The organised retail which accounts for 5 per cent of the total retail trade is poised to grow at an annual rate of around 11 per cent and is likely to touch business levels of 53,000 billion by 2020. Agri-food retailing accounts for 18 per cent of the organised retail today and is likely to have a lower share (12%) by 2020. The study has identified a few major impediments, especially structural, hampering the growth of organised retail. Direct sourcing by retailers from farmers is less prevalent though it is most desirable and in the interest of all stakeholders.

Credit has been an important facilitator for retail business and will be more so if the organised retail's growth potential is be fully harnessed. At present the credit flow to this segment is low. Bankers have been handicapped by non-availability of an established protocol for measuring and evaluating risks in modern retail.

Today, reliance is more on the information provided by the promoter and, as such they are exposed to higher levels of risks including credit risk. Policy makers and other stakeholders need to assiduously work on this aspect for developing customized credit products for plugging the asymmetric information related risks.

Modern retail industry has tremendous potential to generate direct and indirect employment. The study has forecast employment potential at 1.88 lakh persons directly in 2020, with huge indirect employment generation down the chain. The study report points out that of the employment potential, nearly half will be for skilled manpower but given the infrastructure in the country for education and vocational training, sourcing such skilled manpower for the industry should not be a problem.

The study is a timely one and I am confident that it will emerge as a handy reference for all the stakeholders in the industry, including the policy makers. I appreciate the efforts of the officers in the Department of Economic Analysis and Research (DEAR) under the leadership of Dr. A.K. Bandyopadhyay, Executive Director in taking the initiative for commissioning and guiding the study. Foretell Business Solutions Private Limited, (www.CommodityIndia.com), *deserves compliments for painstakingly gathering field level data and putting them together with the perspectives of the industry succinctly and producing an eminently readable report. The success of the agri-food retailing industry would result in the economic empowering of all farmers in the country.*

January 2011 — Dr. K.G. Karmakar

NABARD — Managing Director,

CONTENTS

PAGE NO

Executive summary

A. Background

National Bank for Agriculture and Rural Development (NABARD) is set up as an apex developmental bank in India with a mandate for promotion and development of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts.

The Indian economy is witnessing a rapid change since 1990s with the adoption of economic liberalization. The last 7 years have registered impressive growth (except 2008-09 and 2009-10) where real GDP has grown over 9%. The last decade has seen the advent and growth of organised retailers in various sectors including food.

With the interest of wholesome development of the rural producers, the impact of the growth of organised agri food retailing is a national concern. Though various studies have been done by reputed market research agencies in the field of organised retailing per se, an exclusive study focusing on the organised food retailing was needed to understand the growth prospects of the agri food retailing sector and its constraints, which are quite unique. Broadly the scope of the study consisted of investigating the current size and status of agri food retailing, its expected growth in next ten years, estimating the current and future infrastructure requirement, sourcing and supply chain details of organised food retailers, their risk profiles as well as their credit demand and supply.

Earlier studies conducted in the field of organised retailing had projected an annual growth of 30-40% in overall organised retailing. However, many of them had to revise the numbers after the economic slowdown witnessed in the last two years. In this context, the current study has taken a cautionary approach of devising the study methodology on empirical basis as well as mathematical treatment of past time series data for the last twenty years since economic liberalization. Also, organised retailing in food is constrained by underdevelopment of the supply chain, lack of infrastructure, Govt. concern with increasing food prices etc. So, it is expected to have a moderate growth compared to overall organised retailing.

To give strong empirical base to the study, appropriate sampling methodology was adopted to draw the sample. The primary data was grouped in to A1 & A class cities and B1, B and C class cities[1] and towns based on the classification of cities by population. A total of 1,160 consumers and 365 unorganised retailers were interviewed in the study along with about 300 farmers, 157 traders, 14 bankers and 19 organised food retailers (both national and regional players). The sample was also geographically spread across all major states to have a pan India coverage.

[1]As per Govt of India classification for the purpose of grant of CCA and HRA to Central Government employees

B. Findings

1. Indian retail[i] has grown nearly at the rate of India's nominal GDP since 1990-91

The sum of Private Final Consumption Expenditure at current prices (nominal)[2] on durable, semi-durable and non-durable goods is perhaps the closest estimation of aggregate size of Indian retail. On the basis of this, the size of retail in 2008-09 is estimated at Rs. 17,497 billion. Since 1990-91, the Indian retail industry and India's Nominal GDP has grown at a compounded annual rate of 11.06% and 13.85% respectively. Past data also indicate that period of accelerated per capita income results in accelerated growth in retail (2004 - 2008 period).

2. Food retailing[ii] forms about 61% of the total retail

The value of food retail was expressed as a sum of contribution of PFCE (classification by objects) towards food and beverages. Accordingly, the size of food retail in 2008-09 was estimated at about Rs.10700 billion, 61% of the total retail. Analysis of the past five year data reveal marginal decline in the share of expenditure towards food and beverage. It is in line with the international trend wherein with the increase in income level, the proportion of expenditure on non-food items (lifestyle goods and services) increases.

3. Organised agri food retailing[iii] is still urban centric, miniscule albeit growing at one and a half times as fast as food retailing

Based on estimates of value share of purchase of food in organised retail among the primary survey respondents (22% and 14% respectively for class A and class B cities) of over 1,160 consumers from across the country and based on the share of population of the surveyed regions in the total population, it is estimated that share of organised food retailing is about 1.44% of the size of food retailing, valued at Rs. 154 billion for 2008-09. Thus, the size of organised food retailing is very small compared to the size of food retailing. However, it is growing at nearly 150% as that of food retailing on the back of favourable drivers such as higher disposable income, growing proportion of youth in overall population, gradual increase in the share of population living in urban areas and increasing proportion of enrollment of women employees into the job market.

A regression model with the historic data indicates the relationship between retail growth and per capita GDP growth to an extent of 84%. It is also seen that per capita income growth had a variability of 25 % around the mean. Thus while the retail growth is expected to be high, it is also expected to be irregular and volatile in the future

[2]CSO data

4. Organised retailing[iv] is learning to do the right things to sustain, survive and grow

Multi-brand organised retail industry is less than 10 years old. As per our findings, the total organised retail market is estimated to be worth Rs.855 billion equivalent to 5% of total retail size of Rs. 17,497 billion.

Huge growth projections on the back of favourable demographic, attracted the attention of all major corporate houses into organised retail. The rush to capture market share and mind share lead most of the initial entrants into committing a series of strategic, and irreparable mistakes such as non sustainable cost structure, skewed sourcing decisions, focus on front-end without streamlining the supply chain, short term borrowing to fund fixed asset and so on. Absence of fresh equity, economic slowdown and inability to estimate demand correctly, quickly corrected the situation with almost every players scaling down operation and expansion plans and changing the business model for survival.

A general consensus is slowly emerging on a few growth-oriented and sustainable business models for food and multi-category organised retailing. Based on the discussions with the players, it appears that a store of about 3,000 sft (a sub-2,000 sft Subhiksha store model is ideal, if supply-chain can be managed) for food retailing and a hypermarket format with a floor space of 20,000 – 25,000 sft with multi-category merchandise is more likely to survive and grow in future. All-in-all 'irrational exuberance' is being replaced with 'cautious optimism'.

5. Food retailing essential but not very profitable for organised retailers

It is unfortunate that no multi-category organised retailer has had any prior experience in food. Most organised retailers in fact are from apparel business. Thus, the complexities of dealing with supply chain issues of food were under-estimated. Especially, issues of perishability, wastage and shrinkage, dealing with large number of small suppliers besides volatile and raising prices greatly increased costs and risks and reduced returns. However, quality and range in food retailing meant regular customer footfalls. Thus, although food as a category is painful and relatively low margin, it is an attractive proposition for organised retailers as it ensures regular footfalls into the store.

The long-term implication of this could be that food part of retailing could be entirely outsourced to a supply-chain specialist company under a profit sharing arrangement. In this case, the customer would be given the choice, the organised retailer would have transferred his risks to a third party in exchange for lower but predictable returns. In fruits and vegetable already some organised retailers are working out such arrangements.

6. Organised and unorganised retail would coexist

Multiple needs and utility functions among various socioeconomic classes would ensure that both organised as well as unorganised retail would coexist primarily in the food sector.

The consumer survey results indicate a clear segmentation of categories purchased at organised retail. Here, purchases are clearly skewed towards unorganised outlets in fresh fruits and vegetables and milk, meat, poultry and eggs, the organised retailing takes a significant share in grocery, F&V and processed food.

Cluster analysis of consumer groups in A1 and A class sample indicates that largest group of customers constituting about 60% of the sample have a low preference for organised retailer when it comes to food.

In our survey, about 60% of unorganised retailers in A class sample and 38% in B and C class sample reported increase in turnover in the last one to two years. There is clear indication that a part of the growth of overall food retail has been transmitted to unorganised retail.

7. Unorganised retailers choice of cost control over scale has endured them well during slow-down
As per the survey, the average monthly turnover of an unorganised retailer in A1 and A class and B1, B2 and C class cities is about Rs. 2.57 lakhs and Rs. 1.8 lakhs respectively. For organised food retail, a comparable matrix is revenue per sft per month, which is in the range of Rs.700 – 1,000 per sft per month.

The cost structure of unorganised retailer is in the range of 5 to 8% of the turnover, taking into consideration rent as well as imputed cost of own labour. About 25% of the total surveyed sample used their own premises for retailing.

In case of organised food retailer, the cost structure varies between 17% and 25% of the turnover depending on scale of operation, store format and merchandise mix. Higher cost structure is mainly on account of higher rental, higher employee costs, logistic costs, and costs due to shrinkage, wastage, theft and unsold inventory. Most of the costs of organised food retailers are outside the control of the firm. Although rentals have dropped and have been renegotiated in many cases after the economic slow down, the rules pertaining to tenancy are largely in favour of the owner and not the tenants

Low cost structure and control over costs have enabled unorganised retailers to survive.

8. Growth levers for organised food retailers are largely outside the industry
Organised food retailers have relatively less hold on investment, revenues and costs. This may affect the growth of the sector going forward.

Restrictions on foreign direct investment are likely to affect directly the expansion plans. This would also delay the knowledge transfer process, which is crucial for moving up the learning curve fast and with least costs.

Investments are also required at the supply chain end and logistics. Though FDI is allowed in this area (51% in single brand retailing and 100% in cash and carry wholesale), the incentive structures are not in place and the operational hassles are too many.

Key challenges in costs are managing rental costs, employee costs and sourcing costs. Changes have been noticed in the rental structure from fixed to fixed plus variable to variable structure .When it comes to employees, it is more of cost of quality (trained) and committed manpower. Sourcing and merchandising have undergone substantial change. It is more integrated now and new metrics such as contribution per sft, attempts to integrate sourcing, merchandising and inventory turnover are being attempted.

On the external cost front, reforms in agricultural marketing systems could greatly simplify procedures and compliance requirement and thereby costs. In the same fashion, introduction of GST at both state as well as central level and doing away with a plethora of other taxes would not only simplify but also lead to cost savings through set-off (estimated conservatively at 0.5% of the sales)

On revenue front, some retailers have opined that doing away with the Maximum Retail Price(MRP) restrictions could enable retailers to differentiate their products and services through correct pricing. Again, it is regulatory and outside the control of the industry.

9. Credit requirement, availability, affordability and risk perception

The lending decision of the banking institutions to organised food retailers has been based on the strength of the group (parent company) and not on the project. The bankers admit that the metric for performance evaluation for organised retail is still not in place. Thus, quantification of risk and pricing is still not practiced on a stand-alone basis.

Banks and institutions are however comfortable with lending against stocks, collaterals and other tangible assets whose value can be reasonably assessed.

In terms of risk perception, bankers are relatively more comfortable with unorganised retailers as their requirement on a single store basis can be objectively assessed. Besides, size of exposure is also small. However, cash dealing and lack of maintenance of books of accounts are major irritants that come in the way of lending.

Access to informal credit and own fund is the norm in unorganised retail, while sourcing equity through the parent company and debt from banks is the usual practice observed in the organised food retailers.

Debt is not the preferred source of fund given the thin operating margin and unpredictably in demand and sales. Despite this, some of the national level retailers are heavily leveraged.

10. Challenge to growth – supply chain

It is observed in the survey that direct procurement of fruits and vegetables by organised food retailers from farmers has not only resulted in farmer realizing better share of consumer spending but also has reduced cost to the consumers. However, certain pre-requisites are needed to make such models work. (1) Organizing farmers into clusters or groups to aggregate produce, bring in scale effect and increase bargaining power; (2) Basic infrastructure at the place of produce for grading, sorting and cleaning; (3) Organised retailer who has the required scale of operation to lift the quantities offered for sale.

This involves engagement of stakeholders, a sponsor (typically government agency) and creation of public infrastructure at rural level to be managed by the beneficiary.

11. Challenge- are organised food retailers responsible for high gap between wholesale and retail prices?

When it comes to groceries other than staples, local sourcing from the nearby wholesale market is adopted by every retailer. All such products suffer a mark-up of 25 - 30%, so as to absorb the cost structure. Thus, in many sub-categories, the price levels of organised retailers are much above unorganised retailers and more than the wholesale prices by as much as 25 – 30%. This could trigger an unsuspecting debate. Though organised retailers have a small share in the overall food retailing, price set by some organised retailers are taken as benchmark by not only other organised food retailers but also unorganised retailers.

12. Opportunities for NABARD

NABARD can play a lead role in cluster formation and organizing farmers into producer companies and marketing companies, helping them to deal with organised food retailers directly.

NABARD can also recommend relaxation of Rs. 20 lakh limit on priority lending wherever a farmer cluster has directly started working with an organised retailer under assured buyback arrangement for creation of infrastructure such as god own, refrigeration unit, cleaning, grading and sorting units and so on.

NABARD can sponsor or support institutional set-up in rural areas for recruiting and training employees for organised food retail.

NABARD already has schemes for cluster development (in handloom sector), creation of rural godowns, cold storages and development of agri marketing infrastructure and development of rural marts. The new proposed schemes can be well integrated with the existing ones.

Summary of forecasts in the study

Aspects	Current size (2008-09)	Expected size in 2020	Overall increase(%)
Retail	Rs. 17,497 billion	Rs. 53,517 billion	206
Food retail	Rs. 10,673 billion	Rs. 32,696 billion	206
Organised food retail	Rs. 150 billion	Rs. 620 billion	313
Organised retail space for F&B	22 million sft	52 million sft	136
Warehouse space for organised food retail	7.33 million sft	17 million sft	132
Manpower (direct) for organised retailing	0.85 lakh numbers	1.84 lakh numbers	116
Investment on IT infrastructure for F&B	Rs. 0.8 billion	Rs. 3.1 billion	288
Long term investment for organised retailers in F&B (Interiors, refrigeration, rental advance and IT)	Rs. 29 billion	Rs. 165 billion	469
Short term investment for organised retailers (inventory)	Rs. 5.7 billion	Rs. 23 billion	304
Long term credit demand by organised F&B retail	Rs. 20 billion	Rs. 78 billion	290
Short term credit demand by organised F&B retail	Rs. 4 billion	Rs. 15 billion	275
Total credit demand by organised F&B retail	Rs. 24 billion	Rs. 93 billion	288
Creation of retail space for F&B*	Rs. 22 billion	Rs. 80 billion	264
Creation of retail warehouse space for F&B*	Rs. 3.7 billion	Rs. 15 billion	305

*Excluding the investment in land

C. Limitation of the study

The study was constrained by a number of factors. However, adequate measures were adopted to accommodate them. This is represented below.

Constraints	Remarks
Non-availability of long time series data on organised retail (including food category) as the sector itself is new	The study utilized other variables with certain assumptions
A few major organised retailers did not participate in the survey	The data about such retailers was accessed through secondary sources (e.g. financials from ROC, news, interview with former employees etc.)
The study was conducted during a period of economic slowdown	Long-term data was considered instead of recent data.
Few retailers did not share critical information like turnover, size of borrowing etc.	The data was accessed through secondary sources (ROC, news etc.)
Primary data was based on responses and not on actual measurement	The primary data was cross-checked with secondary sources. Extreme values were excluded from analysis.
The retail sector depends on external factors (like Govt. policies, political climate etc.) to a large extent.	The results and projections of the study may need to be revised to accommodate any drastic changes in policy level (e.g. Govt. putting heavy restrictions on organised retail). However, probability of such events in the present context is low.

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i Retail is referred to any sale for final consumption in contrast to a sale for further sale or processing (i.e. wholesale)

ii Retailers who sell food products (food and beverage) to the consumers, which can be consumed, readily or after cooking are referred as food retailers

iii Organised agri food retailing refers to food and beverage retailing by licensed retailers (registered for sales tax, income tax, etc) with proper technical and accounting standardization.

iv Organised retailing refers to trading activities undertaken by licensed retailers as defined above

List of tables

List of Figures

Important abbreviations used

ABRL	Aditya Birla Retail Limited
APMC	Agricultural Produce Marketing Committee
APMR	Agricultural Produce Marketing Regulation Act
ASSOCHAM	The Associated Chambers of Commerce and Industries of India
BBA	Bachelor of Business Administration
BMI	Body Mass Index
BOT	Build, Operate and Transfer
CAGR	Compounded Annual Growth Rate
CGS	Credit Guarantee Scheme
CGTMSE	Credit Guarantee Trust for Micro and Small Enterprises
CIAE	Central Intelligence Agency Estimates
CII	Confederation of Indian Industry
CIOs	Chief Implementation Officers
CRM	Customer Relationship Management
CSO	Central Statistical Organization
CWC	Central Warehousing Corporation
DCR	Differential Credit Rate
DMI	Directorate of Marketing and Inspection
DNA	Daily News Analysis
DRI	Differential Rate Of Interest
DSCL	DCM Shriram Consolidated Limited
E & Y	Ernst and Young
EBIDA	Earnings Before Interest, Taxes, Depreciation and Amortization
ERP	Enterprise Resource Planning
Est	Estimates
F & B	Food and Beverage
F & V	Fruits and Vegetables
FCI	Food Corporation of India
FDI	Foreign Direct Investment
FGB	Food Grocery and Beverages
GAIN	Global Alliance for Improved Nutrition
GDP	Gross Domestic Product
GRDI	Global Retail Development Index
HDFC	Housing & Development Financial Corporation
HOPCOMs	Horticultural Produce Marketing Committees
IBEF	Indian Brand Equity Foundation
IBIF	Industrial Base Innovation Fund
ICICI	Industrial Credit Investment Corporation of India
ICRIER	Indian Council for Research on International Economic Research
ICT	Information and Communication Technology
IDBI	Industrial Development Bank of India
IGNOU	Indira Gandhi National Open University
IMF	International Monetary Fund
ISB & M	International School of Business Media
IT	Information Technology
ITC	Indian Tobacco Company
ITI	Industrial Training Institute
KHF	Karnataka State Cooperative Horticultural Produce Marketing Federation Limited

KVIC	Khadi and Village Industries Commission
KVKs	Krishi Vigyan Kendras
MBA	Master of Business Administration
MSE	Micro and Small Enterprises
MBOs	Multi Brand Outlets
MPBF	Maximum Permissible Bank Finance
MT	Million Tons
MT/ha	Metric ton per hectare
NABARD	National Bank for Agriculture and Rural Development
NDDB	National Dairy Development Board
NF	Namdhari's Fresh
NSS	National Sample Survey
NSSO	National Sample Survey Organization
OD	Over Draft
OR	Organised Retail
PDS	Public Distribution System
PFCE	Private Final Consumption Expenditure
PFP	Precision Farming Project
PGPRM	The Post Graduate Programme in Retail Management
POS	Point of Sales
PRIL	Pantaloon Retail India Limited
Qtl	Quintal
RAI	The Retailers' Association of India
ROI	Rate of Interest
RRBs	Regional Rural Banks
RTE	Ready to Eat
SAP	Standard Assessment Procedure
SCBs	Scheduled Commercial Banks
SCF	Structured Commodity Finance
SHG	Self Help Group
SIDBI	Small Industries Development Bank of India
SKUs	Stock Keeping Units
SME	Small and Medium Enterprises
Sft	Square feet
SSS	Same Store Sales
SWC	State Warehousing Corporation
SWOT	Strength, Weakness, Opportunities and Threats
TOR	Terms of Reference
TN	Tamil Nadu
TMC	Terminal Market Committees
TNAU	Tamil Nadu Agricultural University
UN	United Nations
USDA	United States Department of Agriculture
VAT	Value Added Tax
VPN	Virtual Private Network
WRPL	Wadhwan Retail Private Limited

CHAPTER 1

INTRODUCTION TO THE STUDY, METHODOLOGY AND SAMPLE CHARACTERISTICS

A. Introduction

1.1 The past few years have seen significant growth in the operations of organised retailers in India. With the changing demographic scenario, consumer habits and the income profiles, we have seen the advent of organised retailers from a niche segment limited to metros to a highly diversified industry today. According to projections carried out by reputed agencies, the organised retail industry constitutes 5-6% of the overall retail and is registering an annual growth of 30-40%.

1.2 A major portion of the retail activities of organised retailers is food category consisting of 11% Food and Grocery and 7% Food and Beverage (Marketing Whitebook 2009-2010). Still a large part (40% in urban India and 52% in rural India) of the consumer spending is towards food as per latest report of NSSO: Household Consumer Expenditure in India, 2007-08 (NSSO 64th Round)

1.3 Though the share of the organised retail in the total retailing is meager, it is growing rapidly and is likely to assume a significant proportion in the years to come. The organised retail trade in food category also has a significant impact on the supply chain related to the flow of material from the rural areas to the consumption centers and could directly affect the livelihoods of the farmers.

1.4 NABARD is set up as an apex development bank with a mandate for facilitating credit flow for promotion and development of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts. It also has the mandate to support all other allied economic activities in rural areas, promote integrated and sustainable rural development and secure prosperity of rural areas. In discharging its role as a facilitator for rural prosperity NABARD is entrusted with

- Providing refinance to lending institutions in rural areas
- Bringing about or promoting institutional development and
- Evaluating, monitoring and inspecting the client banks

Besides this pivotal role, NABARD also:

- Acts as a coordinator in the operations of rural credit institutions
- Extends assistance to the government, the Reserve Bank of India and other organizations in matters relating to rural development
- Offers training and research facilities for banks, co-operatives and organizations working in the field of rural development
- Helps the state governments in reaching their targets of providing assistance to eligible institutions in agriculture and rural development
- Acts as regulator for cooperative banks and RRBs

1.5 As evident, NABARD is interested in the wholesome development of the rural areas and the evolution and growth of organised food retailing is of immense concern to the organization. It is in this context that this study titled “Study on organised Agri-Food Retailing and Supply Chain Management” has been awarded to Foretell Business Solutions (P) Ltd., Bangalore.

1.6 The study outlines the following points as terms of Reference for the study.

- The status of organised Agri-Food Retailing in the country, the level of corporate investment and the scope for further expansion in the next 10 years.

- Assess the existing infrastructure and technology used as well project future infrastructure and technology requirement, both in the public and private sector.

- Study the mechanism for sourcing of supplies in the organised sector for various agricultural commodities, fruits and vegetables as well as the cost and margin therein. The study will also bring out the terms of contract between the supplier and the retailer under various formats of retailing and the safeguards available in case of reneging on the contracts.

- Estimate the current demand for credit in the organised retail, the sources of supply of credit and the gaps in the supply in respect of different sources. Delineate the various financial products in vogue and their share in the sector. Assess the emerging credit needs, problems faced by the sector in availing institutional credit and the scope for introducing/developing new financial products. Document the experiences of the credit institutions in financing the sector.

- Identify various risks (procurement, price, market, credit, etc) in the retail chain and the coping mechanism of the players.

- The study will also make an in depth economic analysis of impact of the modern retail chain, including distribution of gains and employment generation.

- The study will also make a SWOT analysis of the sector based on the findings of the survey.

1.7 As evident from the ToR, the study focuses on organised agri food retailing, which is a sub sector of the total organised retail. An exclusive study focusing on the organised food retailing was needed to understand the growth prospects of the agri food sector and its constraints, which are quite unique when compared to retailing in general.

B. Methodology

1.8 A combination of secondary and primary research methodology was followed for this research. The data collected through these sources was subject to analyses, followed by suitable interpretation of results and report preparation.

1. Secondary data sources

1.9 Immense research work has already been done on the retail sector in India. Our research has referred to these sources wherever found suitable. The major sources of secondary data referred during the study have been summarized in the following table.

Table 1.1: Secondary data sources

Secondary Data Group	Name
Research Reports	India Retail Report 2009, an images group publication
	India-The Retail Food Sector -USDA GAIN report
	Impact Of organised Retailing On The Unorganised Sector (ICRIER-May 2008)
	Indian Retail: Time To Change Lanes-KPMG (Mar-2009)
	Retail: Market & Opportunity-IBEF
	Global Retail Development Index (GRDI) 2008 and 2009- A. T. kearney
	Retail Sector-project report by westSIDE- (Apr-2009)
	Measuring Impact Of organised Retail On Food Processing Industry- A research report submitted to FDDI (2009)
	The Great Indian Bazaar –organised Retail Come of Ages in India (August 2008)
	Demand Forecasting In The Indian Retail Industry-applied economics course project report (Mar-2008)
	Asian Development Outlook-2010, Asian Development Bank
	Human Resource and Skill Requirements in the organised Retail Sector- National Skill Development Corporation
Student Thesis	Retail Sector In India –(2007-2009 report), ISB&M, Kolkata
	Retail Industry In Global Environment, Directorate of distance education, Annamalainagar
	Impact Of Shopper, Store And Situational Factors On Store Image, Satisfaction And Loyalty Of Customers-student report (2007-2009)
Retail Websites	http://www.retailangle.com
	http://retail-guru.com
	http://www.retailmantra.com
	http://www.indiaretailing.com
	http://retail.franchiseindia.com
News-Web based	Times of India
	Hindu Businessline
	The Business Standard
	The Mint
	http://in.reuters.com
	The Economic Times
	DNA
	The Indian Express
	Deccan Chronicle
	Deccan Herald
	http://www.hindustantimes.com
News-Print based	Times of India
	Hindu Businessline
	The Business Standard
	The Mint
Magazines and Journals on retailing	Retail biz, Bennett, Coleman & Co. ltd.
	The Marketing Whitebook 2010-2011- Businessworld
	The Marketing Whitebook 2009-2010- Businessworld
Conferences	CII Agri-Marketing Summit – December 15 – 16, 2009,Delhi
	National Retail Summit at Mumbai on 12 January 2010
Government Data	NSSO reports
	National accounts data
	Office of the economic advisor
	Ministry of consumer affairs data
	Registrar of companies data

2. Primary data

1.10 Primary data was incorporated to give a strong empirical base to the study. The following categories of respondents were covered under the study.

1. Farmers
2. Traders
3. Consumers
4. Unorganised retailers
5. Organised Retailers
6. Bankers

The data collection was done by following the personal interview method (one to one interaction).

3. Sampling

1.11 The sampling of various categories of respondents was done based on

- Relevance to the study
- Desired output from the category and
- Population size

Here we discuss in detail how the above parameters have shaped the final choice of various categories of the sample.

a. Farmers

1.12 Farmers form the starting link of the supply chain of food. As far as this study is concerned, the main focus was on sampling the farmers who actually supply directly to the organised retailers. However, our discussions with various organised retailers have shown that these backward linkages are feasible with the retailers only in case of fruits and vegetables, which are sold fresh (un-processed) to the final consumers. In case of most of the other food categories, there is a processor between the farmer and the retailer. In such cases, if a backward linkage relation exists; it is between the farmer and the processor (e.g. ITC e-choupal or Contract farming). Such relations are beyond the scope of the current study. The sample of farmers covered in the study has been represented in the table.

Table 1.2: Farmers sample distribution

Area	Commodities	Supply to	Number of farmers covered
Bangalore catchment area: Chikkaballapur,Ramnagara, Mandya,Kolar,Tumkur, Bangalore (rural),Bangalore(north), Bangalore(east),Bangalore(south), Channaptna,Hassan	Fruits and Vegetables	HOPCOM, SAFAL, Reliance, More, Smart	200
Jaipur	Cauliflower	Reliance fresh	30
Bhopal	Wheat, Tur, Mung	Choupal sagaar	20
Sultanpur (Punjab)	Bitter Gourd,Cabbage, Brinjal, Capsicum	Reliance fresh	30
Karnool catchment area	Onion, Chilly, Brinjal, Okra	More,Reliance fresh	20
Jalgaon catchment area	Brinjal,Banana	Reliance fresh, Jain Irrigation, processors	20

1.13 About 300 farmers were covered under the study with majority of farmers being covered near Bangalore. As discussed earlier, the focus of sampling was to include areas where there is a strong backward linkage between farmers and retailers. The Bangalore catchment area has many retailers buying directly from the farmers as seen in the above table. Hence, more number of farmers were selected in this area.

b. Traders

1.14 Traders are important intermediaries along the supply chain who procure from farmer or other traders and sell to the processor or wholesaler. The main purpose of meeting traders was to collect detailed information related to issues in the supply chain of various agricultural commodities. Another important area was information on nature of trade relation of these traders with the retailers. In the below table, we have provided the category-wise coverage of traders.

Table 1.3: Trader sample distribution

Commodity	Number of traders covered	Markets (Production centers)	Areas/Markets (Consumption centers)
Paddy/Rice	21	Indore, Jalgaon, Nagpur, Vijaywada,	Bangalore, Hyderabad, Delhi, Mumbai,
Wheat	23	Bhopal, Indore, Amritsar, Kota, Ludhiana	Hyderabad, Mumbai, Nagpur, Delhi,
Pulses	19	Bhopal, Indore, Vijaywada, Akola, Amravati, Kota,Latur, Gulbarga, Hubli, Bidar	Hyderabad, Mumbai, Delhi
Oil seeds	15	Nagpur, Amravati, Rajkot, Amreli, Kota	Mumbai, Delhi, Bangalore
Vegetables	37	Nashik, Jalgaon	Amritsar, Bangalore, Hyderabad, Jaipur, Jalandhar, Jodhpur, Mangalore, Mumbai, Nagpur, Vijaywada,
Fruits	35	Nashik, Nagpur, Jalgaon,	Hyderabad, Mumbai,
Others-sugar, jagery, spices etc	7	-	Hyderabad, Bangalore, Mangalore, Mumbai

1.15 In other commodity groups namely 'Milk and Milk products' and 'Poultry and Eggs', the nature of the supply chains are completely different and traders are not prominent as we would see later.

C. Consumers

1.16 Consumers are the terminal link of the agri-commodity supply chain. As the population of the consumers itself is quite large, we had to have an optimum number. As this study is about organised retailing, the focus was on the cities and towns, which are more relevant and have the presence of one or the other formats of organised retailing. The classification of towns and cities for the purpose of grant of Compensatory (City) Allowance and House Rent Allowance to Central Government employees classifies towns and cities into 6 groups based on population of the cities.

Table 1.4: Classification of cities and towns

Classification	Population
A-1	50 lakhs and above
A	20-50 lakhs
B-1	10-20 lakhs
B-2	5-10 lakhs
C	50,000-5 lakhs
Unclassified	Less than 50,000

1.17 The consumer sample for this study consists of a selection of all 6 A1 cities (100%), 3 out of a total of 7 A class cities (43%), 5 out of 20 B1 cities (25%) and 5 out of 38 B2 cities (13%). We have selected more cities from the category of A1 and A2 cities and few representative ones only from B1 and B2 as organised retailing has just been initiated in some of these B1 and B2 cities and it would take time for organised retailing to assume considerable proportion in the B1 and B2 cities. We have also included a small sample of C class cities to have a snapshot on the purchasing behavior of consumers in very small towns.

The sample numbers for consumers is presented in the following table.

Table 1.5: Consumer sample distribution (A and A1 class cities)

City category	Name of the cities	Number of consumers covered	Per cent to total sample
A1	Kolkata	100	-
A1	Mumbai	50	-
A1	New Delhi	80	-
A1	Chennai	100	-
A1	Bangalore	100	-
A1	Hyderabad	50	-
Total A1		**480**	**41**
A	Jaipur	50	-
A	Nagpur	50	-
A	Kanpur	50	-
Total A		**150**	**13**

Table 1.6: Consumer sample distribution (B and C class cities)

City category	Name of the cities	Number of consumers covered	Per cent to total sample
B1	Nashik	50	-
B1	Amritsar	50	-
B1	Indore	40	-
B1	Bhopal	40	-
B1	Vijayawada	40	-
Total B1		**220**	**19**
B2	Bhubneshwar	50	-
B2	Jodhpur	50	-
B2	Jalandhar	40	-
B2	Raipur	50	-
B2	Mangalore	50	-
Total B2		**240**	**21**
C	Jalgaon	40	-
C	Bilaspur	30	-
Total C		**70**	**6**

1.18 Thus the total number of consumers covered was 1,160.

I. Sample characteristics: consumer

i. Family size

Table 1.7: Family size and composition of the sample (A1 and A class)

Family size	% of families	Adult(%)	Children(%)
Up to 2	23	99	1
3 to 4	50	71	29
5 to 6	20	66	34
7 and above	7	67	33
Total	**100**	**72**	**28**

Table 1.8: Family size and composition of the sample (B and C class)

Family size	% of families	Adult (%)	Children (%)
Up to 2	21	98	2
3 to 4	42	68	32
5 to 6	27	65	35
7 and above	10	66	34
Total	**100**	**69**	**31**

1.19 The family size was found to be moderate among the sample consisting of 3 to 4 persons per family in both the groups in majority of the cases. The sampled families had fair representation of children in both the samples with about one third of the population being represented by children. This would give a realistic picture of the consumption in the analysis.

ii. Age of respondents

Table 1.9: Age-wise frequency distribution- consumer respondents

Age of respondent (years)	Per cent (A1 and A class)	Per cent(B and C class)
18 to 26	17	19
27 to 35	34	36
36 to 44	20	24
45 to 53	16	12
54 to 62	9	6
63 and above	5	3
Total	**100**	**100**

1.20 Majority of the young consumers were involved in the present study. About 51 per cent of the total respondents were between 18 to 35 years of age in the A class sample and about 55% of the respondents belonged to 18-35 age group in the B and C class sample. Very few sampled respondents were consumers whose age was above 54 years.

iii. Occupation of respondents

Table 1.10: Occupational distribution of consumer sample

Age of respondent (years)	Per cent (A1 and A class)	Per cent(B and C class)
18 to 26	17	19
27 to 35	34	36
36 to 44	20	24
45 to 53	16	12
54 to 62	9	6
63 and above	5	3
Total	**100**	**100**

1.21 The sampled respondents were classified mainly in to four groups based on the occupation of the respondents. There was a fair representation as can be observed from above table. However, salaried class representation was slightly higher (42%) than other groups in the A class sample. Nearly, one fourth of the total respondents represented either housewives or were engaged in some petty works for livelihood. Students (10-12%) were also interviewed to understand the youngsters' opinion and expectations from the retail sector.

iv. Income

- **Total family Income**

Table 1.11: Distribution of total family income among the consumers (Rs/month)

Range (Rs)	% A1 and A	% B1, B2 and C
5,000 and less	7	10
5,001 to 15,000	40	50
15,001 to 25,000	18	23
25,001 to 35,000	17	11
35,001 to 45,000	6	3
45,001 to 55,000	5	1
55,001 and above	**7**	**0**
Total	**100**	**100**

1.22 The average total income was Rs.26,485 per month in A1 and A class sample and Rs. 16,577 in the B and C class sample. Majority of the sampled families were earning less than or up to Rs.15,000 per month (47% in A class sample and 60% in B and C class sample) while 35% and 34% in the A class sample and B and C class sample respectively reported an income between Rs.15,000-35,000.

1.23 Thus, a balanced sample including different income group consumers was covered under the study. However, we have excluded the lowest socio economic urban group in our sample, which constitutes 25% of the total population (SEC-E as per Indian Urbanites 2009, Juxt consultants).

- **Per capita income**

Table 1.12: Classification of per capita income of consumers (Rs/month)

Per capita income range	% (A1 and A class)	% (B1, B2 and C class)
Less than 2,000	17	27
2,001 to 4,000	24	29
4,001 to 6,000	16	17
6,001 to 8,000	12	11
8,001 and above	31	16
Total	**100**	**100**

1.24 Above table depicts that majority (31%) consumers sample earned the highest per capita income ranges Rs 8,001 and above in the A1 and A2 cities whereas the incomes are lesser (Rs. 2,001 to 4,000) for the majority 29% of the consumers in the B and C class sample. This matches with the earlier data on total household income.

d. Unorganised retailers

1.25 The sample numbers for unorganised retailers is presented in the following table.

Table 1.13: Unorganised retailer sample distribution (A and A1 cities)

City category	Name of the cities	Number of unorganised retailers covered	Per cent to total sample
A1	Kolkata	30	-
A1	Mumbai	20	-
A1	New Delhi	20	-
A1	Chennai	20	-
A1	Bangalore	20	-
A1	Hyderabad	20	-
Total A1		**130**	**36**
A	Jaipur	25	-
A	Nagpur	15	-
A	Kanpur	20	-
Total A		**60**	**17**

Table 1.14: Unorganised retailer sample distribution (B and C cities)

City category	Name of the cities	Number of unorganised retailers covered	Per cent to total
B1	Amritsar	15	-
B1	Indore	15	-
B1	Bhopal	15	-
B1	Vijayawada	15	-
Total B1		**60**	**16**
B2	Bhubneshwar	15	-
B2	Jodhpur	25	-
B2	Jalandhar	15	-
B2	Raipur	15	-
B2	Mangalore	15	-
Total B2		**85**	**23**
C	Jalgaon	15	-
C	Bilaspur	15	-
Total C		**30**	**8**

1.26 A total of 365 unorganised retailers were covered under the study. The same cities were chosen for consumers as well as unorganised retailers to enable consistency while comparison of results.

1.27 With the presence of organised retailers mainly concentrated in A and B class cities, we have covered the cities, which represent about 60-65% of the total organised retailing activities.

I. Sample Characteristics: unorganised retailers

i. Distance from an organised retail outlet

1.28 The average distance of the sample from the nearest organised food retailer was found to be 1.91 Km in the A class sample with a standard error of 0.41 Km while it was 1.8 Km in case of B and C class sample with a standard error of 0.4 Km. This close distance gives us an idea of the high density and spread of the organised retailers. It can be noted that a few towns in the B and C class do not have presence of any organised retailers. Such unorganised retailers have been excluded from this analysis.

Figure 1.1: Distribution of sample of unorganised retailers by distance from nearest organised food retailer (A1 and A class)

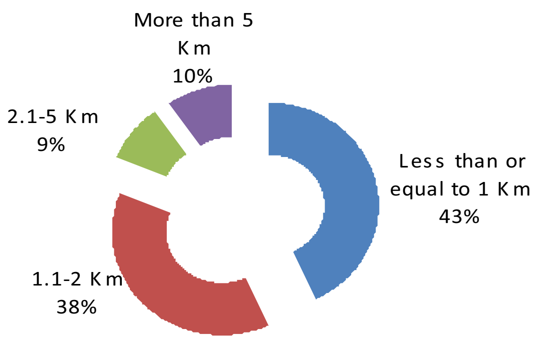
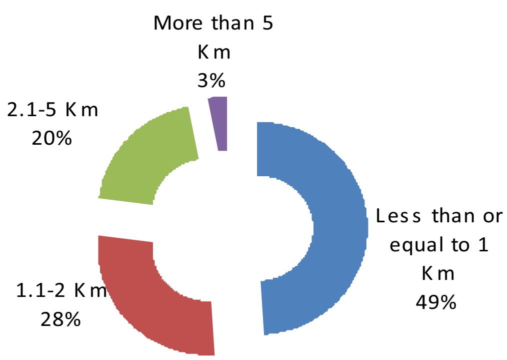


Figure 1.2: Distribution of sample of unorganised retailers by distance from nearest organised food retailer (B and C class)



1.29 The distribution of the unorganised retailers reveals that more retailers who were located closer to the organised retail outlets were covered in the study.

ii. Number of years in business

Figure 1.3: Number of years in business (A class)

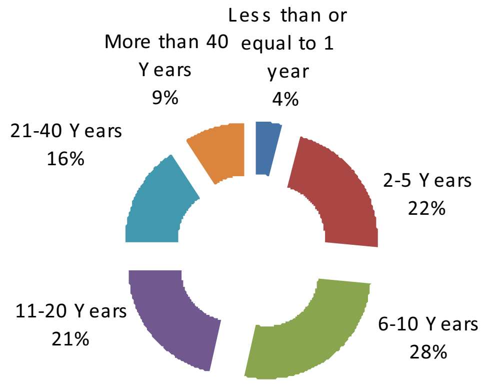
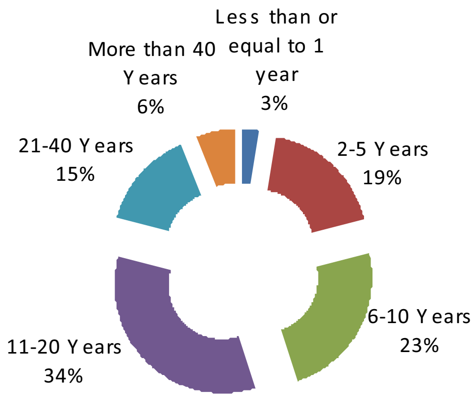


Figure 1.4: Number of years in business (B and C class)



1.30 Majority of the retailers covered in the study in both samples were all well established and have been in existence for more than two years.

iii. Type of store

1.31 Nearly 90% of the total visited stores in the both the samples were kirana stores without the provision of a walk through. The rest were so called supermarkets where there is a provision for walkthrough for the customers.

iv. Average daily footfalls

1.32 The average daily footfalls were 106 for the sample with a standard error of 11 in case of A class sample and were 112 with standard error of 11 in case of B and C class sample.

Figure 1.5: Distribution of sample by footfalls (A class)

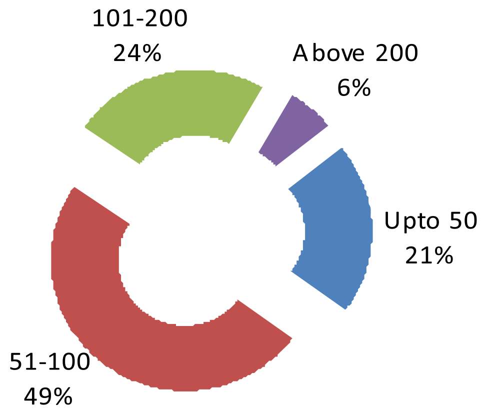
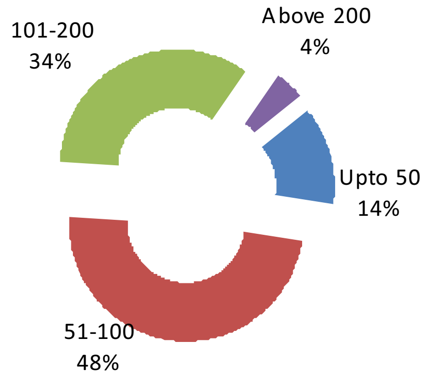


Figure 1.6: Distribution of sample by footfalls (B and C class)



1.33 A wide variation in the footfalls was observed with majority unorganised retailers reporting footfalls in the range of 51 to 100 per day in both the samples.

v. Sales details of sampled unorganised out lets

1.34 In the A1 and A class sample, the average sales per outlet were reported as Rs. 2.5 lakhs per month and in case of B and C class sample it was reported as Rs 1.7 lakhs per month.

Table 1.15: Distribution of various categories of products by sales

Aspects	A1 and A class		B1 and B2 class	
	% of total sales	% of food sales	% of total sales	% of food sales
Total food sales	74.4	-	62.8	-
Staples: Grains, pulses and oil	40.7	54.8	32.7	52
Fruits and Vegetables	5.5	7.4	3.4	5.5
Processed products	**19.6**	**26.3**	**21.4**	**34.1**
Milk and Milk products	**4.9**	**6.6**	**2.9**	**4.6**
Poultry and Eggs	**3.6**	**4.8**	**2.4**	**3.8**

1.35 As evident, the grocery and processed foods dominated the outlets surveyed within the food category. It can be noted that we have not included outlets which keep only a single type of merchandise in the sample e.g. vegetable/fish shops.

e. Organised retailers

1.36 The organised retailers who focus on agri food retailing were only included under the sample as they are the focus of the study.

I. List national players sampled

- RPG-Spencer's
- Future group-Pantaloon
- Wadhwan (Smart, Home retail)
- NDDB-Mother dairy

- Aditya Birla Retail Limited-More
- Godrej Aadhar
- Star Bazaar

1.37 We were not able to include players like Reliance, Vishal Megamart and Bharti, but could access enough information about them from secondary sources.

II. Organised regional retailers sample

Table 1.16: List regional players sampled

Name	State
C3 retail	West Bengal
Foodworld	Karnataka
Namdhari	Karnataka
Nilgiris	Karnataka
Varkeys	Kerala
Margin Free	Kerala
Triveni	Kerala
Apna bazaar co-operative departmental store	Mumbai, Maharashtra
Vijay krishna super market	Andhra Pradesh
Big apple fresh	Delhi
6ten	Delhi
Hariyali kisan bazaar	Delhi

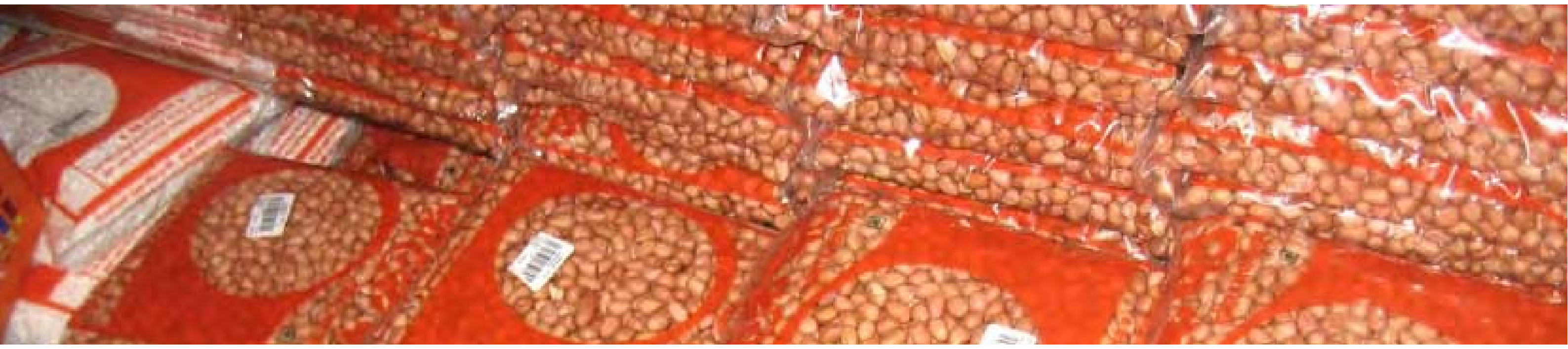
1.38 A large representation of the regional retailers was made across various states. However, some retailers like Heritage, Spar etc. were not part of the primary data sample.

f. Bankers

1.39 A mix of nationalized and other SCBs (Private Banks) was covered in the study. We have not covered any foreign banks as they do not have much of exposure in lending to organised/unorganised retail.

Table 1.17: List of bankers sampled

Nationalized Bank	Other scheduled commercial banks
State Bank of India	ING Vysya
Corporation Bank	Karnataka Bank
Canara Bank	Federal Bank
Indian Bank	HDFC Bank
Indian Overseas Bank	ICICI Bank
Union Bank	Axis Bank
Central Bank	-
IDBI	-



CHAPTER 2

CURRENT SCENARIO OF INDIAN FOOD RETAIL INDUSTRY AND FUTURE OUTLOOK OF DEVELOPMENT OF ORGANISED FOOD RETAIL

A. History and growth of Indian retailing

2.1 Retailing is defined as the sale of goods or commodities in small quantities directly to consumers. Legally retail is referred to any sale for final consumption in contrast to a sale for further sale or processing (i.e. wholesale).

2.2 Traditionally retailing in India has meant emergence of numerous Kirana shops, which are well distributed throughout the urban and rural landscapes. As the economy grew after independence, the number of such establishments grew and reached enormous numbers.

2.3 According to Economic census of 2005, the number of establishments in India under retail trade was around 15 million. While 52% of these were in rural areas, the rest 48% were in urban areas. During the earlier census of 1998, the total number of establishments engaged in retail trade was 10.6 million (with 49% in rural and 51% in urban areas). The period has seen an average growth of about 6% per year in the number of retail establishments.

2.4 The era of economic control and license in the years following independence did not see much change in the type and formats of outlets with small and distributed 'mom and pop shops' dominating the scene. Since 1956-57, the emergence of Khadi and Village Industries Commission (KVIC) showed an era of government support for an indigenous franchise model of store chains. This was first of its kind of so-called 'Organised Retail' format where an organization owned the retail chain and employed people to run the same.

2.5 As India started to open up the economy since 1980 onwards and liberalization came for the corporate, the apparel segment saw the emergence of companies like Bombay Dyeing, Raymond's, S Kumar's and Grasim establishing and expanding their organised retail chain across India. This was followed by Titan Industries, which established a series of showrooms for watches. Till 1990s however, the organised formats included company owned single branded retail outlets.

2.6 The second half of 1990s saw a transformation in the organised retail industry with the advent and spread of the multi brand and multi product organised retailing.

Figure 2.1: Phases in the evolution of retail sector

B. Classification of organised retail evolution in India

2.7 Initiation – Pre 1990s

Conceptualization – 1990 – 2005

Retail Expansion – 2005 through 2010

Consolidation and Growth – 2010 onwards

1. Retail Initiation – This phase was essentially dominated by manufacturers establishing their presence in retail. Bombay dyeing, the Raymond group, the S Kumars Group and Bata to name a few.

Government initiatives were - Mother Dairy, Kendriya Bhandar, Super Bazaar, etc. Foodworld, was the first national retail chain from the RPG Group in the super market segment.

2. Retail conceptualization – This time around it was not the manufacturer looking for an alternative sales channel, but pure-play retailers who entered the retail market, to expand pan-India, for instance Pantaloons, Shoppers' Stop and Lifestyle. The first generation of international brands to make an Indian entry during this phase included McDonald's, Benetton, Levi Strauss, VF Corporation, Adidas, Reebok and Nike, to name a few.

3. Retail expansion – This is perhaps the most active phase of the Indian retail industry in terms of growth, entry of new players and development of new formats. With virtually unlimited potential on desk, Reliance, Tata, Aditya Birla and Mahindras entered the bandwagon. Their success brought in global retailers such as Metro AG, Max Retail, Shoprite, Hypercity, etc and more recently Carrefour, Tesco and Zara that announced their India entry and are optimistic about their growth in this market. Bharti-Walmart is a noticeable JV that entered in this phase. During this phase, a new concept in Retail Real Estate emerged – Minimum guarantee and revenue sharing models. The rapid growth soon attracted the luxury product segment – with the FDI policy 2005-2006 allowing single-brand foreign retailers to take up to 51% stake in a joint venture with a local firm, the intervening years saw the entry of several premium brands (Giorgio Armani, Versace, Gucci, etc.) mostly through joint ventures.

4. Retail consolidation and growth – We are currently in this phase. Considering the challenges faced by the industry at present, retail chains are likely to focus on consolidations to cut costs and survive in the market, though this would be accompanied with significant growth as we have further analyzed in this report.

C. Current size of Indian retail

Table 2.1: Size of Indian retailing

Year	Retail industry size in Rs Billion	Growth year on year (nominal)	Growth year on year (real)	GDP growth rate (real)
2003-04	10,559	-	-	-
2004-05	11,295	7.0	0.5	7.5
2005-06	12,661	12.09	7.66	9.5
2006-07	14,096	11.34	5.92	9.7
2007-08	15,623	10.83	6.22	9.0
2008-09	17,497	12.0	10.93	6.7

Source: CSO

2.8 The CSO data on Private Final Consumption Expenditure (PFCE) at current prices (nominal) classified by type of goods was used to estimate the size of total retail. The value of total retail was expressed as a sum of contribution of PFCE towards durable, semi durable and non-durable goods. In other words the total PFCE less the PFCE contribution towards services was considered as the value of retail.

2.9 The real growth of the Indian retail has been ranging between 6-11% during 2003-09 (except 2004-05 when the real growth was just 0.5%). The growth corresponds with a period of high real GDP growth, which was consistent between 8-9% till 2007-08. The high growth in the overall retail in the recent years shows the buoyancy of the Indian economy as examined in the next section. The drivers of growth of retailing are also the drivers, which favour organised retailing.

D. Key drivers of growth of Indian retail sector

1. Higher disposable income

2.10 Many studies are highlighting the fact that increase in disposable income has helped in boosting retail growth in India. Entry of foreign firms here has increased the salary competitiveness, thus pressurizing Indian firms.

Table 2.2: Characteristics of income classes of Indian population

Income classes	Houshold income (Rs per annum at 2004-05 prices)	Estimated household in '000s			Distribution of household (%)		
		All India	Urban	Rural	All India	Urban	Rural
Deprived	< 1,20,000	1,14,394	18,049	96,345	**51.5**	26.1	63.1
Aspirers	1,20,000-2,50,000	75,304	29,249	46,055	**33.9**	42.3	30.2
Middle class	2,50,000-10,00,000	28,441	18,942	9,499	**12.8**	27.4	6.2
Rich	Over 10,00,000	3,806	2,963	846	**1.7**	4.3	0.6
Total		**2,21,946**	**69,202**	**1,52,745**	**100**	**100**	**100**

Source: NCAER MISH survey data

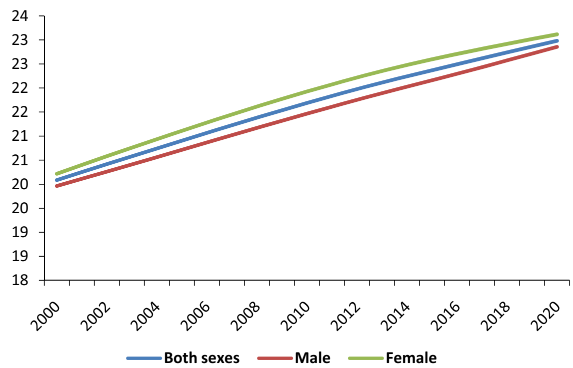
Figure 2.2: Income classification of Indian population over years (%)

*Forecast of income distribution for 2009-10

2. Demographic transition

2.11 The demographic change in India is much talked about subject. The median age for India is around 25 years in 2009 (Central Intelligence Agency estimates).

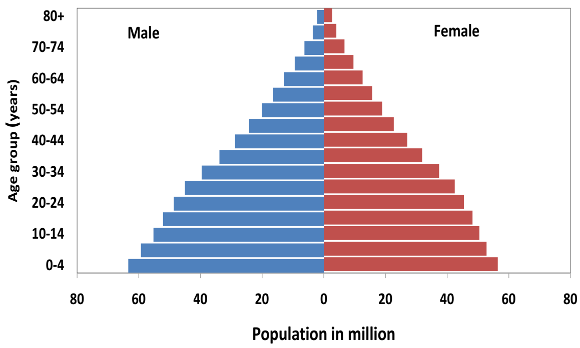
Figure 2.3: Share of population age group of 25-59 years in total population over years (%)



2.12 As seen in the above figure, the proportion of population in the age group of 25-59 years has been gradually increasing and is likely to increase further to 23% of the total population by 2010.

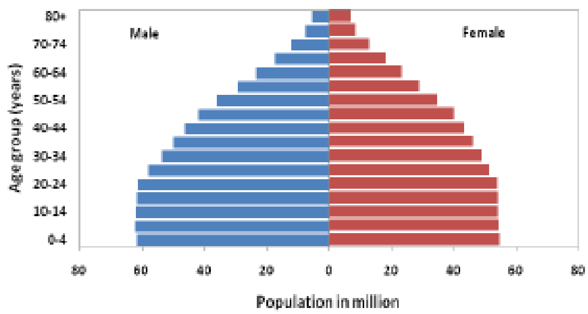
India population pyramid for 2000

Figure 2.4: Age and sex distribution for the year 2000



India Population pyramid for 2020

Figure 2.5: Predicted age and sex distribution for the year 2020



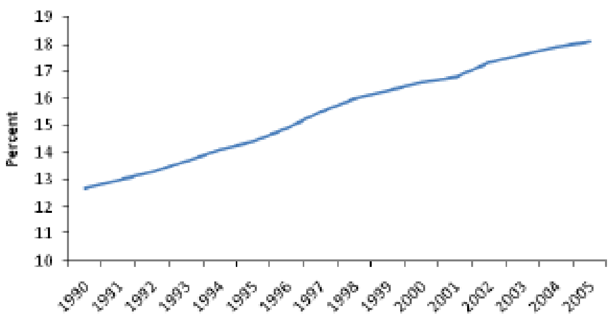
2.13 Young age and income earning capability is a potential attraction which very few countries offer. Young people with income earning capacity are more experimental (more likely to visit a mall), seek convenience (demand for process food) and less concerned about saving though are value conscious.

3. Growing working women population

2.14 The propensity to spend in the case of working women is higher by 1.3 times as compared by housewives. According to the census report, the population of working women increased to 18 per cent in 2005 as compared to 12 per cent in 1991. Increasing proportion of working women means kitchen getting redefined as well as increasing demand for more processed/semi-processed food, convenience seeking pre-mix, time saving recipes and so on. Also, working women value time, space and privacy.

2.15 In 2006, total of 12 million females were wage earners among 68 million wage earners.

Figure 2.6: Share of women in wage employment in non-agricultural sector



Source: UN database

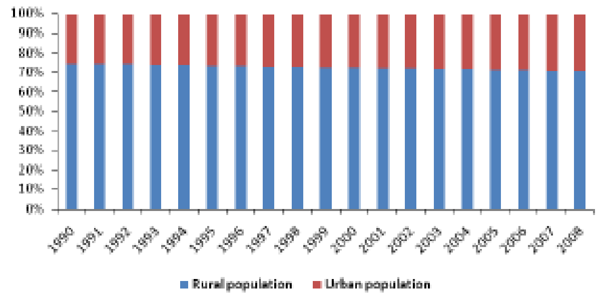
2.16 With both the husband and wife working they look for one-stop shopping, speed and efficiency of purchases that lacks in traditional system.

4. Growth in urban population

2.17 If we look at rural retailing the penetration of modern retail is very minute. The shopping pattern changes with urbanization.

2.18 Share of rural population in total population has decreased from 74 per cent in 1990 to 71 per cent in 2008.The migration toward cities for work and education is a growing phenomenon among rural areas.

Figure 2.7: Share of urban population in total population

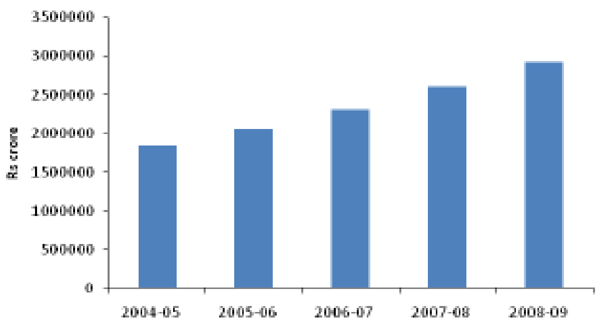


Source: UN database

2.19 By 2026, India's urban population is projected to become 38.2 % of total population.

5. Increasing private final consumption expenditure

Figure 2.8: Private final consumption expenditure over years



Source :CSO

Table 2.3: Real growth rate of PFCE and GDP over years

Year	Growth rate of PFCE (%)*	Growth rate of GDP (%)*
2004-05	8	7.5
2005-06	12	9.5
2006-07	12	9.7
2007-08	12	9.0
2008-09	12	7.0

*at 1999-2000 prices, Source: CSO

2.20 The growth in PFCE was in line with growth of GDP till 2007-08, interestingly though the GDP growth has come down; the PFCE growth rate is constant at 12%. The trend indicates increasing and resilient consumer spending which would favour consumption growth and retail.

Regression analysis : income effect on growth of retail

2.21 We formulated a hypothesis "value of retail increases in line with income" and to test the hypotheses we carried out a regression between the growths of retail value (dependent variable) with income growth (both nominal) between 1990-91 to 2008-09. 'Income' was defined as per capita nominal GDP, which was derived as a ratio of nominal GDP and population. The relevant data is presented in Annexure1.

2.22 The resultant equation

R=1.76 P-9.9

Where R= nominal growth of retail and P= growth of nominal GDP per capita was found significant and had a high coefficient of determination of 0.84.

2.23 The analysis indicates that growth in income explains to a high degree (84%), the growth of overall retail.

2.24 At the same time, it is difficult to establish a mathematical model to measure the effect of drivers such as income on growth of organised retail as organised retail is a recent phenomenon and is constrained by lack of long-term time series data as in the case of overall retail.

E. Share of agri-food retailing in the total retailing space in India

2.25 Retailers who sell food products to the consumers, which can be consumed, readily or after cooking are referred as food retailers. In the organised scenario, very few 'pure' food retailers exist in India and they are mostly combinations of variety of merchandise including food.

2.26 In this study we had proposed to cover the following formats under the organised-agri food retailing in the organised and unorganised set up.

Table 2.4: Formats of food retail covered under the study

Organised	Unorganised
Regional supermarket chains (e.g. Nilgiris, Bangalore)	Mom and Pop stores mixed and specialty (e.g. vegetables & fruits only store)
National supermarket chains (e.g. Reliance)	Departmental stores
Hypermarket chains (e.g. Big Bazaar)	Regional supermarkets
Regional co-operatives (e.g. HOPCOMS, Bangalore)	-
Other formats: Margin free shops, Specialty stores chain (Thom's , Namdharis fresh etc.)	-

2.27 Formats that serve readymade food (such as restaurants, fast food joints, etc) and also mobile unorganised retailers (hawkers) are not within the primary scope of the study, though they are an integral part of the food and bevarage retail and have been represented in all the major data results (within F&B retail sales) as well as the projections.

2.28 Secondary data show that the food and beverage category forms a large proportion of the total retailing.

Table 2.5: Size of total retail and food and beverage retail in India

Retail sales	Total retail sales	Food and Beverage retail sales	Share of F&B in total sales (%)	Growth in F&B retail sales (nominal)
2003-04	10,559	6,697	63.44	4.1
2004-05	11,295	6,954	61.57	3.8
2005-06	12,661	7,702	60.83	10.8
2006-07	14,096	8,563	60.75	11.2
2007-08	15,623	9,585	61.35	11.9
2008-09	17,497	10,673	61.00	11.4

Source: CSO

2.29 The CSO data on PFCE classified by object at current prices (nominal) was used to estimate the size of food retail. The value of food retail was expressed as a sum of contribution of PFCE towards food and beverages. This includes the expenditure towards following food categories.

- cereals & bread
- pulses
- sugar & gur
- oils & oilseeds
- fruits & vegetables
- potato & other tubers
- milk & milk products
- meat, egg & fish
- coffee, tea & cocoa
- spices
- other beverages including processed food

2.30 The data also shows that the share of F&B in the total retailing is slightly declining over the years signaling that the retail growth in the F&B segment is lower than the retail growth in other segments. This is supported by the data on declining share of food in consumption expenditure as represented below.

Figure 2.9: Share of different items in total expenditure of rural population

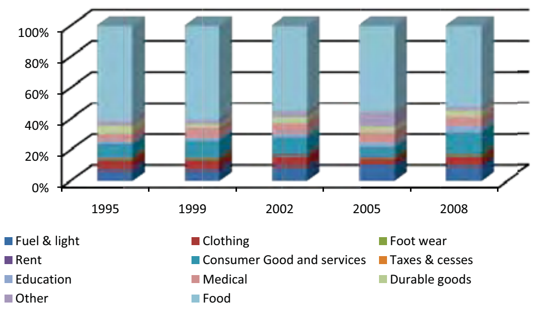
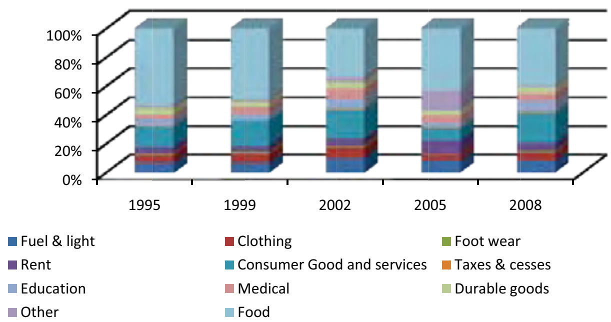


Figure 2.10: Share of different items in total expenditure of urban population



F. Primary insights from consumers

2.31 As explained in the first chapter of this report, we have covered a large sample of consumers under the study with representation of A class and B and C class cities and towns. The results support the fact that currently consumers are clearly segmented in their purchase behavior towards organised and unorganised retailers. The results support the fact that both types of retail will have customers for different reasons. We have presented these results in this section.

1. **Consumer shopping behavior**

Table 2.6: Shopping behavior in A and A1 class sample

Particulars	Unorganised outlets				Organised outlets			
	Distance from home (mts)	Amount spent per visit (Rs)	Items purchased/ visit	Time spent/ visit (min)	Distance from home (mts)	Amount spentPer visit (Rs)	Items purchased/ visit	Time spent/ visit (min)
Average	280	478	8	19	1,180	1,042	11	37
Minimum	10	25	1	5	15	100	2	15
Maximum	5,000	6,000	30	75	10,000	15,000	50	120
SE	54	108	63	0.18	1	93	1	3

Table 2.7: Shopping behavior in B and C class sample

Particulars	Unorganised outlets				Organised outlets			
	Distance from home(mts)	Amount spent Per visit(Rs)	Items purchased/ visit	Time spent/ visit (min)	Distance from home(mts)	Amount spent Per visit(Rs)	Items purchased/ visit	Time spent/visit (min)
Average	281	491	8	16	1,320	886	8	38
Minimum	5	7	1	5	50	50	1	10
Maximum	75	9,000	115	60	10,000	3,000	158	120
SE	47	49	1	1	105	83	2	4

Note: Casual purchases from unorganised outlets such as milk, cigarettes etc. have been excluded from the analysis, Also those B and C class centers which do not have any organised retailers have been excluded.

2.32 The organised retail outlets located quite far away, i.e more than 4 times the distance (average 1,180 mts) than unorganised outlets (average 280 mts) from the consumers' residence in the A class centers while it was further away (1,320 mts) in case of B and C class centers. This shows the high penetration of organised retail in A1 and A class cities. Average amount spent per visit is significantly higher in organised than unorganised outlets. However, this spending includes both food and non-food items. Also on an average, consumers spend almost double the time in the organised outlets compared to the time spent in kirana type of stores. In the same manner, the average amount spent per visit is significantly higher in case of organised retail.

2. Monthly budget and preferred outlets

Table 2.8: Purchase details of different food items (A1 & A class)

Particulars	Groceries	Fruits & Vegetables	Milk and milk products	Chicken	Other meat	Fish	Egg	Other food including processed food
Average monthly budget per household (Rs)	1,909	1,273	935	602	536	519	244	834
Per cent of monthly food budget	28	19	14	9	8	8	4	12
Preferred outlet (% of respondents)								
Organised	32	20	18	10	14	10	11	31
Unorganised	68	80	82	90	86	90	89	69
Average Purchase frequency (days)	8	4	1	8	10	7	1	8

Table 2.9: Purchase details of different food items (B1, B2 & C class)

Particulars	Groceries	Fruits & Vegetables	Milk and milk products	Chicken	Other meat	Fish	Egg	Other food including processed food
Average monthly budget per household (Rs)	1,652	1074	991	523	447	388	157	722
Per cent of monthly food budget	28	18	17	9	8	7	3	12
Preferred outlet (% of respondents)								
Organised	21	6	2	5	4	2	8	19
Unorganised	79	94	98	95	96	98	92	81
Average Purchase frequency (days)	11	3	1	8	9	8	1	7

2.33 As per our sample, grocery takes a lion share in the total amount spent among all food items. On an average fruits & vegetables are purchased once in four days, both milk and eggs in one day. Rest of the food items are purchased between 7 to 10 days.

2.34 It can be clearly observed that unorganised outlets continue to be preferred by consumers in both the samples for all categories of food. However, Unorganised retail outlets were relatively more preferred for food items like milk & milk products, fruits & vegetables; non-vegetarian food items and eggs. Thus, food items being purchased frequently are mostly purchased at unorganised outlets while items purchased less frequently (such as grocery and processed foods) have shown a better response from organised outlets.

It can also be seen that the preference for organised outlets even within grocery and processed foods is greater in the A class sample than the B and C class.

Table 2.10: Comparative spending-organised vs. unorganised outlets

Food items	A1 & A class cities		B1 B2 & C class cities	
	Amount spent in organised (%)	Amount spent in unorganised (%)	Amount spent in organised(%)	Amount spent in unorganised(%)
Grocery	33	66	20	80
Fruits & Vegetables	23	77	16	84
Milk & milk products	19	81	6	94
Chicken	15	85	9	91
Other meat	21	79	13	87
Fish	9	91	5	95
Egg	19	81	7	93
Other foods including processed food	23	77	23	77
Grand Total	**22**	**78**	**14**	**86**

2.35 In both the samples, the relative spending was higher for unorganised outlets than the organised outlets across all categories. Across categories, maximum amount was spent on 'Grocery' and 'Other food' in case of organised retailers. This is in tune with the data on preference of outlets.

3. Loyalty to outlets

Table 2.11: Per cent purchase by consumers who preferred organised retailers in organised retail outlets

Food items	Per cent
Grocery	84.90
Fruits & Vegetables	88.54
Milk & milk products	87.40
Chicken	91.27
Other meat	80.59
Fish	80.03
Egg	96.71
Other foods	80.56

Table 2.12: Per cent purchase by consumers who preferred unorganised retailers in unorganised retail outlets

Food items	Per cent
Grocery	91.35
Fruits & Vegetables	92.82
Milk & milk products	94.86
Chicken	96.70
Other meat	92.84
Fish	97.16
Egg	98.70
Other foods	86.49

2.36 The loyalty was analyzed only in case of A1 and A class sample, as there is a fair choice of outlets available for consumers in the sample. The above two tables indicate that loyalty by consumers who prefer unorganised retailers is higher than the loyalty of consumer who prefer organised retailers across all food categories. This is evident from the results that almost in all categories, the purchase from unorganised outlets is more than 90% (except other foods) by consumers preferring unorganised outlets whereas purchase is between 80%-90% in most of the food categories (except egg and chicken) in the organised outlets by consumers preferring organised outlets. This is a strong case in favour of the unorganised food retailers.

4. Quality parameters across categories

2.37 In order to understand the consumer preference for organised and unorganised retailers across categories, we first attempted to find out the drivers of quality across food categories.

Table 2.13: Consumer preference for quality parameters (All consumer sample)

Parameters	Grocery	Fruits & Vegetables	Milk & milk products	Chicken	Other meat	Fish	Egg	Other foods	Over all
	%	%	%	%	%	%	%	%	%
Cleanliness	**23**	**44**	**47**	**33**	**33**	**34**	**36**	**40**	**40**
Freshness	**37**	**39**	**40**	**45**	**46**	**42**	**37**	**41**	**43**
Product range	13	8	5	12	12	11	10	8	8
Presentation	19	7	5	3	2	5	5	7	5
Others	8	3	3	7	7	7	12	3	3
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

2.38 Cleanliness and freshness of products scored over other parameters for all food categories. Within this, freshness was found more important for grocery and non-vegetarian food item. Presentation of foodstuff was considered relatively important for grocery when compared to other food categories.

2.39 In the next stage, consumers were asked to compare perceived quality and price competitiveness between organised and unorganised retailers on a scale of 1-5 where 1 is least and 5 is the highest.

Table 2.14: Consumer rating difference on quality in organised and unorganised outlets for different food items (all consumers)

Retail outlets	Grocery	Fruits & Vegetables	Milk & milk products	Chicken	Other meat	Fish	Eggs	Other food items (including processed)
Organised	**4.25**	**3.98**	**3.94**	3.47	3.38	3.44	3.4	**3.96**
Unorganised	3.47	3.67	3.66	**3.9**	**3.58**	**4.14**	**3.72**	3.63

Table 2.15: Consumer rating difference on price competitiveness in organised and unorganised outlets for different food items (all consumers)

Retail outlets	Grocery	Fruits & Vegetables	Milk & milk products	Chicken	Other meat	Fish	Eggs	Other food items (Including processed)
Organised	3.46	3.22	3.2	2.78	3.94	3.94	3.51	**3.77**
Unorganised	**3.88**	**3.39**	**3.3**	**3.59**	**4.4**	**4.53**	**3.89**	**3.77**

2.40 According to consumers, quality at organised retail outlets was perceived to be better in case of all food items except non-vegetarian foods. Consumers opined that wet markets offered fresh meat products while they were available as frozen products in organised retail chains.

2.41 Price competitiveness was judged as better in case of all food products for unorganised retailers except processed products where they have rated it equal to the organised retailers. The results indicate strong preference for wet market in case of non-vegetarian items and reflect that an overall perception of scoring a better bargain exists in favour of unorganised retail.

5. Service by organised players: payment options

Table 2.16: Preferred payment options of consumers

Payments options	% (A1 & A class cities)	% (B1, B2 & C class cities)
Cash only	75	82
Credit card only	4	4
Debit card only	2	1
Food coupons only	2	1
Both cash and credit card	8	5
Both cash & Debit card	6	4
Cash, Credit & debit card	1	3
Cash & Food coupons	2	-
Total	**100**	**100**

2.42 Majority (75%-82%) of the consumer respondents preferred to pay at retail outlets by cash only. This was followed by consumers wanting to make payment in both cash and credit card mode. It can be inferred that in general alternative payment option like credit card and food coupons would have very less effect on attracting consumers towards organised retail as majority consumers prefer to pay by cash.

6. Complaint against organised retail

Table 2.17: Complaint areas in organised retailing

Complaint areas	Per cent of A1 & A class city consumer sample	Per cent of B1, B2 & C class city consumer sample
Long queues for Billing	81	21
Too much rush	72	37
No attendants	46	25
Frequent announcements	25	7
Others (Price, Distance, Extra transportation cost, change in labels etc)	11	9

2.43 The consumers who are actually purchasing food items from organised outlets were enquired about inconvenience issues faced in the organised retail outlets. It can be seen that majority of the complaints against are coming from the A1 and A class cities. Long queues for billing, too much rush and lack of attendants seem to be major problem areas with the organised retailers

7. Credit with unorganised retailers

Table 2.18: Credit dependency of consumers with unorganised retailers

Credit Availed	% consumers of A1 & A class cities	% consumers of B1, B2 & C class cities
Yes	22	36
No	78	64
Total	**100**	**100**

Table 2.19: Details of consumers credit dependence in unorganised outlets

Credit range (Rs)	% A1 & A class cities	% B1, B2 & C class cities
Less and equal to 500	38	3
501 to 1,000	23	19
1,001 to 1,500	5	19
1,501 to 2,000	12	19
2,001 to 2,500	5	13
2,501 to 3,000	10	17
3,001 and above	7	12
Total	**100**	**100**

2.44 Nearly 22% of the respondents in the A1 and A class sample and 36% of the respondents in the B and C class sample reported availing credit from unorganised/kirana outlets. Majority of the respondents were having cash and carry relationship with unorganised outlets. However, the incidence of availing credit is relatively higher in the B and C class sample.

2.45 In the A1 and A class sample, majority of the respondents had very small amount (less than Rs.500) outstanding while credit amounts are higher in the B and C class sample. In the sample, more than 50% had borrowed between Rs.500-2,000. It can be noted that our consumer sample does not include SEC-E consumers who are likely to have a higher exposure to credit from the unorganised retailers. Thus, credit will be one of the important drivers, more importantly in the B and C class centers, which will help to retain customers in the unorganised retail sector.

8. Perception of benefit from organised retail

Table 2.20: Consumers admitting benefit due to organised retailers

Particulars	% (A1 & A class cities consumers)	% (B1, B2 & C class cities consumers)
Yes	51	20
No	49	80
Total	**100**	**100**

2.46 Consumer's opinion was sought on benefits of organised outlets. Out of a total respondents for the same, the opinion was divided in the A class sample and response were almost equal in favour and against organised retailers. Majority of the respondents from B and C class centers have opined that organised retail are not of much benefit. This may be on account of their limited experience with organised retail.

9. Benefits from organised retail

Table 2.21: Benefits from organised retail outlets

Benefits	% consumers of A1 & A class cities	% consumers of B1 B2 & C class cities
Quality and fresh food items	39	73
All items under one roof, large assortment	27	15
Home delivery facility offered	13	-
Discounts and offers	3	-
Neatness & hygiene in the outlets	3	3
Knowledge on new branded items	3	-
Bulk purchase will lower price	3	-
Branded products with attractive packing	2	-
Facility to use credit/debit cards	2	-
Ready to eat items	2	2
Others (Time saving for working class, product reliability, computerized billing, good service etc)	4	6
Total	**100**	**100**

2.47 Majority of the respondents opined that the quality food items, availability of all items under one roof, and the recently introduced home delivery system are the most attractive benefits of the organised retail in the A class sample. The B and C class consumers also opined quality and large assortment as the most important benefits.

Table 2.22: Consumer expectations from retail sector

Expectations	% Consumers of A1 & A class cities	% Consumers of B1 B2 & C class cities
Home delivery system	18	23
Wide product range	25	19
Should be close and convenient	18	19
Low price	8	9
More discounts during seasons	6	7
Quality improvement	6	7
Credit facility	5	6
To improve customer oriented service	12	6
Others (Good parking facilities, direct procurement from farmers, clean & hygiene and consider average income group)	3	2
Total	**100**	**100**

2.48 From the above table it can be understood that, majority of the consumers expect home delivery and reasonable pricing of products. Consumers definitely look for more and more SKUs and product range to choose from as well as accessibility.

10. Cluster analysis for consumer's preference towards retail outlets

a. Objective of the cluster analysis:

2.49 The objective of the analysis is to segment objects (consumers) in to groups based on their qualitative and quantitative responses on retail segment. The cluster analysis pertains to the A1 and A class cities together as the penetration of organised retailers is very high in these centers. The six attributes used to form the clusters are adequate in scope and possess adequate predictive power to justify their use as the basis for segmentation.

Table 2.23: Distinct clusters with consumer profiles

Variables	Clusters				
	Cluster 1	Cluster 2	Cluster 3	Cluster 4	Cluster 5
Total family size (number)	3.40	2.69	2.41	4.20	2.29
Per capita income (Rs)	9,196	29,971	16,370	3,217	47,857
Per capita expenditure (Rs)	2,355	3,550	2,548	1,538	2,390
Distance of unorganised outlets (mts)	410.41	305.00	417.83	317.49	271.43
Distance of organised outlets (mts)	1,117	833.45	1,186	1,115	764.29
Preferred outlet (1=Organised, 0=Unorganised)	0.65	0.93	0.65	0.22	1.00

Table 2.24: Per cent of cases in each cluster

Cluster	% of total
1	**27**
2	5
3	8
4	**58**
5	1
Total	**100**

2.50 Six appropriate variables were considered namely family size, per capita income, per capita expenditure, distance from unorganised outlets, distance from organised outlets and consumer-preferred outlet. Entire sample was grouped into five clusters and their profile is different from the other cluster.

2.51 From the information on Per cent of cases in each cluster, it can be inferred that the Cluster 1 and Cluster 4 are significant in terms of their proportion in the total sample.

2.52 The cluster 4 is characterized by least per capita income (Rs. 3,217) and the least per capita expenditure (Rs. 1,538). The family size is highest with an average of four members per household. They have easy access to unorganised outlets than organised in terms of distance. The preference of this cluster towards organised outlets is very less (22 per cent).

2.53 Similarly the profile of the cluster 2 indicates consumers per capita income as the second highest among all clusters (Rs. 29,971). Who can easily access to organised outlets with an average distance of 833 mts. Thus about 93 per cent of the consumers preferred to visit organised outlets.

2.54 The profile of the consumers belonging to cluster 1 and 3 is quite similar in all respect except per capita income and family size. The preference for organised outlets for food is 65 per cent for each of these clusters.

G. Current size of organised agri-food retailing

2.55 The current size of organised agri-food retailing was estimated from the primary findings from the consumers. (refer table 2.10)

Table 2.25: Estimating size of organised agri food retailing

Class	Proportion in population*	% Share of organised food retail
A and A1	5.78	16.5**
B1 and B2	4.65	10.5**
Others	89.57	-
Total	**100**	**1.44**

Source: Census of India and World Gazetteer

*as per projected population for 2010

** The actual values have been corrected by 25% as the consumer sample does not represent the 'SEC-E' constituting the lowest strata of urban population, which has a share of 25% in the total urban population.

2.56 As per information available from various sources and our primary data collection, the organised food retailing can be seen only in A and B class cities (except a few rural initiatives which are not substantial). As per our primary findings consumers spent 22% and 14% of their total food budget respectively in A and B class samples in Organised retail. Thus the average share of organised food and beverage retailing in the total country is worked out as 1.44% based on the proportion of population in A and B class cities incorporating the correction factor for the sample as explained in the footnote against the table above.

Table 2.26: Estimates of organised food and beverage retail

Aspect	Value (Rs billion)
Total food and beverage retail	10,673
Organised food and beverage retail	154

2.57 As per our earlier estimates the total food and beverage retail is about Rs 10,673 billion and thus with 1.44 % the share, the organised food and beverage retail works out to be about Rs 150 billion.

2.58 Further as per secondary data by E&Y research, food and grocery and food and beverage together constitute 18 % of total organised retail sector. Thus the total organised retail market is estimated to be worth Rs.855 billion equivalent to 5% of total retail size of Rs 17,497 billion.

Figure 2.11: Evolution of major organised food retailers

Nilgiris - 1905

Trinethra Super Retail Limited -1986

Foodworld-9th May 1994

RPG Enterprises - 1994 Foodworld
(In 2005 Spencers)

Pantaloon Retail India Limited (PRIL) -1993,
Food Bazaar from 2001

Tata Trent Ltd. - 1998
Star Bazaar-2004

Wadhwan Group formed Retail Food & Grocery Business in 2005

Reliance industries ltd - 2006

Aditya birla, Group's foray into the retail sector began in 2006

Landmark group formed SPAR in Jaunary 2008

Bharti Retail Pvt Ltd launched Easy day in April 2008

H. Projections on growth of retail and organised agri food retail.

1. Projections on growth of retail

2.59 The future growth of retail is calculated by using the regression methodology.

2.60 In the first stage we formulated a hypothesis "value of retail increases in line with economic growth" and to test the hypotheses we carried out a regression between the growths of retail value (dependent variable) with GDP growth (both nominal) between 1990-91 to 2008-09.

2.61 The resultant equation

R=1.7 G-12.48

Where R= nominal growth of retail G= nominal growth of GDP was found significant and had a high coefficient of determination of 0.85.

2.62 The same is used to forecast the growth of retail in the next 10 years based on the estimates of GDP growth rate in the future years. The relevant data for this has been presented in the annexure.

2. Estimating GDP growth rate

2.63 The growth of real GDP during 2009-10 is made at 6.5% by ASSOCHAM. The long-term growth forecast of real GDP by agencies like IMF is made at 8.8% during 2010-2011. The same have been taken for further calculations with an assumption of 5% inflation in next two years. Thus, nominal GDP growth during 2009-10 is taken at 11.5% during 2009-10 and at 13.8% during 2010-2011.

2.64 If we look at the growth of the nominal GDP in the past 20 years, it has averaged around 13.9%. The least was 7.6% during 2002-03 and the best growth was 21% during 1997-98. Though, the recent years after 2003-04 have been seeing the best of growth, the most likely growth after 2010-2011 can be taken as a long term average of 13.9%. The following table presents our estimation of future growth of nominal GDP.

Table 2.27: Estimated GDP growth

Year	Estimated nominal GDP growth (% per year)
2009-2010	11.5
2010-2011	13.8
2011-2012 till 2020	13.9

2.65 The projections have been done under three scenarios where the nominal GDP growth rate is derived as

- Most probable= nominal GDP growth
- Pessimistic= 75% of nominal GDP growth
- Optimistic= 125% of nominal GDP growth

2.66 The reason for conducting the scenario analysis for a fluctuation of 25% is owing to the reason that the coefficient of variation of the nominal GDP from 1990-91 till 2009-10 is around 25% and this could be the reasonable limit in which the GDP growth could vary in the future.

2.67 Further, we have created three classes based on the standard deviation and mean values of nominal GDP growth represented in the table below.

Table 2.28: Scenarios and probabilities

Scenario	Defined by	GDP value	Number of instances since 1990-2010	Probability of occurrence (%)
Pessimistic	Less than (Mean-Standard deviation)	Less than 10.54	4	20
Most likely	(Mean-Standard deviation) to (Mean+ Standard deviation)	10.54 to 17.25	14	70
Optimistic	More than (Mean+ Standard deviation)	More than 17.25	2	10

2.68 The growth of retail estimated by using the regression equation R=1.7 G-12.48 under various scenarios yielded the following results on growth of retail.

Table 2.29: Projected growth of retail (%)

Year	Most probable	Pessimistic	Optimistic
2009-10	7.1	2.2	12.0
2010-11	11.1	5.2	16.9
2011-12 onwards	11.2	5.3	17.2

2.69 Applying the above growth rates to the value of retail during 2008-09 (17497 billion) yields the following as the forecasted value of retail.

Table 2.30: Projected value of retail (Rs billion)

Year	Most probable	Pessimistic	Optimistic	Expected Forecast
2009-10	18,746	17,888	19,604	18,660
2010-11	20,820	18,814	22,927	20,629
2011-12	23,158	19,811	26,862	22,859
2012-13	25,760	20,862	31,472	25,351
2013-14	28,653	21,968	36,873	28,138
2014-15	31,872	23,133	43,201	31,257
2015-16	35,451	24,360	50,615	34,750
2016-17	39,434	25,652	59,301	38,664
2017-18	43,863	27,012	69,478	43,054
2018-19	48,790	28,445	81,402	47,982
2019-20	54,270	29,953	95,372	53,517

2.70 The Expected forecast is derived as a weighted average on the basis of probabilities assigned to the three scenarios. As per our estimates, the value of total retail will swell about 3 times the current size and reach about Rs. 53,000 billion by 2020.

3. Projections on the growth of food retail

2.71 The share of food retail in total retail shows a declining trend over years.

The regression of growth in food retail (dependent variable) with growth in retail between 1990-91 to 2008-09 yielded the equation:

F=1.23 R-2.53

Where F= growth of food retail and R= growth of retail

2.72 The equation was found significant and had a high coefficient of determination of 0.89. The same is used to forecast the growth of food retail in the next 10 years under various scenarios based on the earlier estimates of growth of total retail in the future years.

Table 2.31: Projected growth of food retail (%)

Year	Most probable	Pessimistic	Optimistic
2009-10	6.2	2.1	12.2
2010-11	11.0	3.8	18.3
2011-12 onwards	11.2	4.0	18.5

2.73 Applying the above growth rates to the value of food retail during 2008-09 (Rs.10673 billion) yields the following as the forecasted value of food retail.

Table 2.32: Projected value of food retail (Rs billion)

Year	Most probable	Pessimistic	Optimistic	Expected Forecast	Share in total retail
2009-10	11,338	10,695	11,980	11,273	60.4
2010-11	12,589	11,103	14,168	12,450	60.4
2011-12	14,005	11,544	16,793	13,792	60.3
2012-13	15,581	12,002	19,905	15,297	60.3
2013-14	17,333	12,479	23,593	16,988	60.4
2014-15	19,283	12,974	27,964	18,890	60.4
2015-16	21,453	13,489	33,144	21,029	60.5
2016-17	23,866	14,025	39,285	23,440	60.6
2017-18	26,550	14,582	46,563	26,158	60.8
2018-19	29,537	15,161	55,190	29,227	60.9
2019-20	32,860	15,763	65,416	32,696	61.1

2.74 Thus, as per our estimates food retail will grow almost at the same pace as total retail and would become almost three times its current size by 2020.

4. Growth of organised food retail

2.75 The growth of organised food retail will happen as a result of overall retail growth as well as growth in the share of organised players in food retailing. As discussed earlier, within food only grocery and processed foods are being preferred at organised outlets within A and B class cities, where almost all the organised retailers are based. Consumers have a perception that freshness of non-vegetarian items is higher at unorganised outlets. As we would see later, organised retailers are realizing lesser profits (in many cases incurring losses) in case of food categories. There are also many bottlenecks in the current supply chain of food items, which favour the unorganised retailing of food. Thus, the growth of food retail is likely to be much slower than the growth of organised retailing itself. An introspection of the growth projections of organised players by reputed agencies (presented in the next section) tells us that organised retail is expected to grow anywhere between 18-40%.

a. Growth by major organised players in food retail

Table 2.33: Growth in turnover by major food retailers (Rs Lac)

Retailer	2004	2005	2006	2007	2008	2009	CAGR
Mother Dairy Fruits And Veg P Ltd	8,735	9,175	10,117	11,689	12,089	12,738	9
Namdhari Agro Fresh P Ltd	37	400	800	1,800	5,000	-	210
Pantaloon	-	10,852	19,619	33,927	52,959	66,614	59
Varkeys	650	760	930	1,830	1,560	-	30
Heritage Foods (India) Ltd	-	2,661	2,921	3,463	5,880	7,925	33
Aditya Birla Retail Ltd	-	-	-	-	9,964	4,931	-50

Table2.34: Growth in area by major food retailers (sft)

Retailer	2004	2005	2006	2007	2008	2009
Mother Dairy Fruits and Veg P Ltd	17,460	17,460	27,160	27,160	31,040	38,800
Home store India retail	80,000	80,000	90,000	96,000	96,000	1,00,000
Smart Retail Pvt ltd	-	-	-	-	-	2,50,000
Namdhari Agro Fresh P Ltd	1,700	7,500	22,000	32,000	88,000	60,000
Pantaloon retail	-	-	27,00,000	51,00,000	78,00,000	97,00,000

2.76 If we look at the growth by major players in food retail, we can see that most of them have grown in size as well as turnover. However, at the same time players like Subhiksha have been closed and few others like Vishal are scaling down their operations. We also have to keep in mind that for players such as Pantaloon, food is just another category with a small share in the total product portfolio.

2.77 Under the above considerations we have assumed that the growth of organised food retailing is most likely to be equal to GDP growth forecasts as done by us earlier.

Table 2.35: Forecasted nominal GDP growth and organised food retail (% per year)

Year	Organised food retail growth		
	Most likely	Optimistic	Pessimistic
2009-2010	11.5	14.4	8.63
2010-2011	13.8	17.3	10.4
2011-2012 till 2020	13.9	17.4	10.4

2.78 The projected growth of organised food retailing is more than the total growth of food retail indicating that some share of unorganised food retail will be taken over by organised food retail in the future. However, it is expected to be considerably lesser than the projections on total retail (18-40% per year).

Table 2.36: Projected size of organised food retail (Rs billion)

Year	Most probable	Pessimistic	Optimistic	Expected	Share in total food retail
2009-10	172	167	176	171	1.52
2010-11	195	185	207	194	1.56
2011-12	223	204	242	221	1.60
2012-13	254	225	285	251	1.64
2013-14	289	249	334	285	1.68
2014-15	329	274	392	324	1.72
2015-16	375	303	460	369	1.75
2016-17	427	335	540	420	1.79
2017-18	486	370	634	477	1.83
2018-19	554	408	744	543	1.86
2019-20	630	451	873	619	1.89

2.79 Organised retailing in food is poised to grow from our current estimate of about Rs.150 billion to about Rs. 620 billion by 2020. The share of organised players within total food retail is likely to grow from the current 1.5% to around 2% over these years.

b. Future growth of organised retailing in India

2.80 While this study is concentrated in the area of organised food retailing, the story cannot be completed without a mention of the growth of total organised retailing. Many reputed research agencies have projected the growth of organised retail. These are presented below.

Table 2.37: Projections of organised retailing by various agencies

Organization/ Research firm	Projections for the year	Projections (Share of organised retail to total retail sales)	Remarks
KPMG	2012	10.4	Revised from 16 per cent after economic slowdown
Technopak Advisors	2013	14	The Indian retail market is expected to be about US$ 535bn by 2013. With an anticipated US$ 30bn in fresh investments over next 5 years, modern retail will show impressive CAGR > 40%.
	2018	22	
IBIF	2010	22	-
Westside	2011	25	-
Business Monitor International	2013	10.7	BMI forecasts that organised retail sales will reach US$76.2bn by 2013
	2014	12.4	BMI forecasts that organised retail sales will reach US$99.09bn by 2013
Edelweiss research	2020	9.5	The organised retail will grow at a CAGR of 18% per year till 2020

i. "Indian retail: time to change lanes", KPMG (2009)

2.81 KPMG revised the organised retail penetration figure after 2009 global slowdown. organised retail penetration, which was expected to touch 16 per cent by 2012 from the current 5 per cent, is likely to trace 10.4 per cent.

ii. Technopak advisors

2.82 According to estimates of Technopak the share of organised retail will be approximately 14 per cent by the year 2013.

Table 2.38: Projected size of organised retail by Technopak

Year	Total retail (US$)	Organised retail (US$)	Share of organised retail in total retail (%)
2003	280	8	2.9
2008	372	17	4.5
2013	535	75	14
2018	755	170	22.5

Table 2.39: Projections on aspects related to organised retail by Technopak (2013)

Direct investment:	> US$ 30+ Billion (2009-13)
Revenues:	> US$ 100+ Billion
Space occupied:	~ 500 Million sft
Direct employment:	~ 2 Million
Reach:	600+ Towns, 50,000+ Villages

2.83 The Indian retail market is expected to be about US $ 535bn by 2013. With an anticipated US$ 30 billion as fresh investments over next 5 years, modern retail will show impressive CAGR over 40%. The share of food and grocery in the consumer's wallet continue to drop releasing money for discretionary expenditure. Food & grocery share expected to decline from 36% in 2008 to 32% in 2013

iii. "Emerging opportunities for global retailers, the Global Retail Development Index", AT kearney (2008)

2.84 According to AT Kearney, consumer spending in India has increased by an impressive 75% in the last four years and will quadruple in the next twenty years. The Indian retail market, which is currently valued at $511billion, is projected to grow to $833 billion in the next five years. Organised retail that currently accounts for less than 5% of the total retail markets is expected to grow with a CAGR of 40% to swell to $107 billion by 2013.

iv. IBIF (India Brand Equity Foundation) (2008)

2.85 The Indian retail market is estimated to grow from the US$ 330bn in 2007 to US$ 427 billion by 2010 and US$ 637bn by 2015. Retail contributes to 10 per cent of India's Gross Domestic Product and provides employment to 8 per cent of India's working population. Modern retail would increase its share in the total retail market to 22 per cent by 2010. Indian retail showed a growth rate of 49.73 per cent with a turnover of US$ 25.44 billion in 2007-2008 as against US$ 16.99 billion in 2006-2007.

2.86 Organised retail segment is expected to grow from 5 per cent to about 14 to 18 per cent by 2015. With a share of over 95 per cent of total retail revenues, traditional retailing continues to be the backbone of the Indian retail industry. Over 12 million small and medium retail outlets exist in India, the highest in any country.

CHAPTER 3

RETAILING INFRASTRUCTURE

3.1 Retailing is the final delivery of the produce to the consumer. However, there is a long chain of intermediaries between the producer and the retailer enabling the transfer of goods produced from the producer to the retailer. Also, most of the agricultural products require processing and value addition before they can be retailed. This gives rise to what is popularly known as the agri supply chain and the agri value chain respectively. Both require the presence of certain basic infrastructure to enable the transfer of produce (supply chain) and value addition (value chain). It becomes an impossible preposition for any kind of retailing to exist without this infrastructure.

3.2 Most of the infrastructure related to agri-supply chains has been created by the government and they also share the common infrastructure like roads, railways, ports etc. However, now a lot of private investment is flowing in creating agri supply infrastructures. The focus of this chapter is to take stock of the present infrastructure directly linked to agri supply chains both in the public and private domains in the context of the rise of modern agri food retailing and the infrastructure requirement in the future.

Before actually talking about agri supply chain infrastructure details, we have described these supply chains briefly for principal commodities.

A. Supply chain of commodities

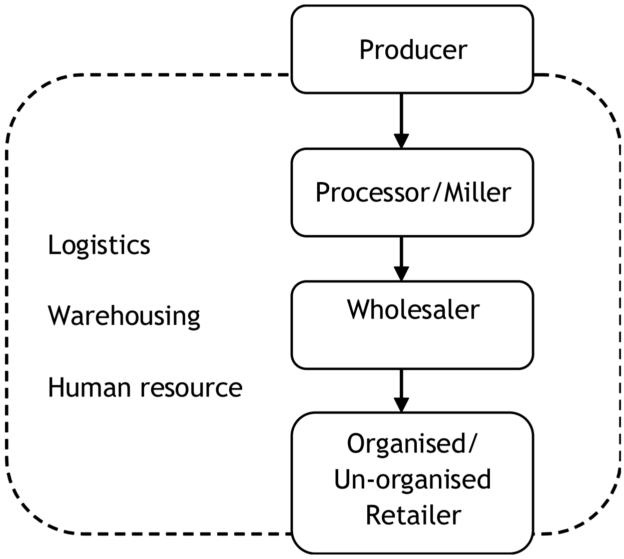
3.3 From a food retailer's point of view agri commodities can be classified broadly into two groups on the basis of the degree of value addition (which also decides the point of purchase for the retailers)

1. Agri commodities requiring processing

3.4 These include grains, oils and pulses as well as all processed and packaged foods (including packaged milk). They form the bulk of the merchandise of the retailers. Here the role of the processor is very important in terms of changing the form of the produce by processing to make it amenable for retailing.

3.5 Organised retailers depend on several channels for procurement of these agricultural commodities. Processors/millers are integral part of supply chain for this category, thus making the channel longer.

Figure 3.1: Typical supply chain of staples

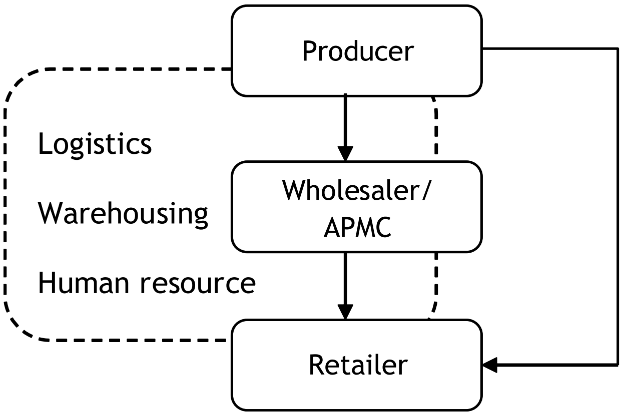


3.6 It is to be noted that commission agents who were major players in the supply chain have a limited role after the amendment in APMC act, which mentions, "no commission agent shall act on behalf of agriculturist seller and no deduction to be made towards commission"

2. Agri commodities requiring minimum or no processing

3.7 These include fresh fruits and vegetables, eggs etc., which can be retailed without any significant value addition. Here the minimum value addition (such as packaging) can be done by the retailer or by the supplier.

Figure 3.2: Typical supply chain of fruits and vegetables



3.8 Fruits and vegetables with their ability to be retailed fresh, provide ample opportunity for the retailer to come near to the farmers and associate with them. However as we would see later, majority of the purchases of the organised retailers and all purchases of the unorganised retailers are through the private sector wholesalers or through the APMCs.

3.9 The other commodities including chicken, meat and milk would come under 'processed food' category and are supplied directly through the company agents/distributors.

B. Agri Supply chain infrastructure

3.10 As explained in the introductory paragraph of this chapter, the agri supply chain incorporates a number of infrastructures for their operations. These are mostly in the public domain and are described in this section.

1. Rural primary markets

3.11 These are located in rural and interior areas and serve as focal points to a great majority of the farmers – mostly small and marginal for marketing their farm produce and for purchase of their consumption needs. These markets, which also function as collection centers for adjoining secondary markets, are devoid of most of the basic marketing facilities. The commodities collected in these markets find their way to the wholesale assembling markets in the process of movement to consumers. It is estimated that at an all India level, the number of such markets are more than 47,000 (Marketing and Research Team, 1995).

2. Wholesale markets

3.12 These are markets located at taluka headquarters or at important railway stations and perform the assembling and distribution functions. The business is conducted according to market practices established by age-old customs, or as per the regulations of APMC wherever regulated. As per Govt. estimates, there are about 6,300 such markets across India.

3. Regulated markets

3.13 Over the years, to achieve an efficient system of buying and selling of agricultural commodities, most of the State Governments and Union Territories enacted legislations (Agricultural Produce Marketing (Regulation) Act (APMR Act) to provide for regulation of agricultural produce markets. Most of the wholesale markets and some of the rural primary markets have been brought under regulation.

Table 3.1: Number of APMCs in major states (2008)

State	No. of regulated markets (market yards and sub-yards)
AP	889
Maharashtra	871
West Bengal	684
UP	584
Karnataka	492
MP	488
Punjab	437
Rajasthan	416
Gujarat	405
Orissa	314
Others	1,977
Total	**7,557**

Data source: DMI

3.14 These APMCs act as backbone of the primary trade in agricultural commodities. They provide a platform for transparent price discovery for the farmers. In many cases, they also have the infrastructure for the below mentioned functions:

- Maintenance and improvement of market
- Construction and repair of buildings (Auction

platform, grading platform)
- Provision and maintenance of standard weights and measures
- Godown
- Rural godown
- Transaction shed
- Drying yard
- Electric weighing balance
- Cold storage
- Farmers rest shed
- Sanitary facilities
- Drinking water facilities
- Mechanical grading
- Metallic storage bins
- Market complex
- Insurance service
- Standardization and quality certification services
- Communication
- Road and bank facilities

4. Grading infrastructure

3.15 There is a huge gap in the existing and required cleaning, grading and packaging infrastructure in the country. It is estimated that about 7% of food grains, 10% of spices and about 30% of the fruits and vegetables produced in the country are lost before reaching the markets.

At the level of regulated markets, there were only 1,093 grading units in 7,557 regulated market yards/sub-yards during 2008. There were only 1,968 grading units at the primary level, which include 587 units with co-operatives and 298 units with other organizations.

5. Storage infrastructure

3.16 Storage of the farm produce starts at the farm or village level itself. The storage at market and other levels of food distribution are dominated by the public corporations CWC and SWC.

Table 3.2: Capacity of different types of warehouses in India

Sl No	Type of Warehouse	Capacity in Million Metric Tons
1	CWC	8.5
2	SWC	20
3	FCI	16
4	Private Warehouses available for hire (Estimated)	12
5	Private Warehouses used for self use (Estimated)	20

3.17 The extent of warehouse facilities available is very less in India as argued by experts in commodity trading and there is a need to create further investment in the sector. The 11th plan says that a further capacity of 35 million tons should be created in the warehousing sector by 2012.

6. Cold storage infrastructure

3.18 The cold storage infrastructure is very important for commodities like fresh fruits and vegetables, milk and meat. Reports put the total losses on account of poor post harvest technology in fruits and vegetables to as high as 30% of the total production. As on December 2008, the status of various cold storages in the country is displayed as under.

Table 3.3: Status of cold storage in the country

Sector	Number of cold storages	Total capacity in tons	Share by numbers (%)	Share by capacity (%)
Private	4,875	2,25,71,475	90.5	95.4
Co-operative	377	9,90,595	7.0	4.2
Public sector	134	1,00,742	2.5	0.4
Total	**5,386**	**2,36,62,812**	**100.0**	**100.0**

Source: DMI

3.19 As obvious, the share of public sector in the cold storages is negligible and is dominated by the private sector. The organised retailers have described the lack of cold chain and cold storage infrastructure as a major constraint for their business and have emphasized the need for greater emphasis by the Government in this area. Even, the utilization of the cold storages in India is highly skewed towards a single commodity viz potato. This is evident in the table below.

Table 3.4: Commodity wise distribution of cold storages

Commodity	Numbers	Capacity in tons	Share by numbers (%)	Share by capacity (%)
Potato	3,023	1,82,03,712	56.1	76.9
Fruits and vegetables	158	1,12,327	2.9	0.5
Meat and fish	482	1,87,175	8.9	0.8
Milk and milk products	191	68,230	3.5	0.3
Others	87	26,524	1.6	0.1
Multipurpose	1,445	50,64,844	26.8	21.4
Total	**5,386**	**2,36,62,812**	**100**	**100**

Source: DMI

3.20 The Cold chain logistics infrastructure generally consists of:

- Pre-cooling facilities
- Cold storages
- Refrigerated carriers
- Packaging
- Warehousing
- Information management systems (tractability and tracking etc.)

C. Infrastructure details of organised retailers (private domain)

3.21 The organised retailers depend on the public infrastructure and they also have invested in creating their own infrastructure. Primary interaction with retailers reveals that they normally invest in the following areas of infrastructure

1. Owned infrastructure

a. Store infrastructure

- Interiors & Exteriors
- In store refrigeration
- Civil works
- Electrical works
- Painting
- Racks & Shelves
- Furniture & Fixtures
- Signage

b. IT infrastructure

3.22 IT infrastructure includes ERP solutions like SAP. Some of the qualities of ERP retail solutions are

- It supports product development, which includes ideation and trend analysis
- Collaboration with partners in the supply chain; Sourcing and procurement, which involves

working with manufacturers to fulfill orders according to strategic merchandising plans and optimize cost, quality, and speed-variables

- Buying plans and market demand patterns change; Managing the supply chain, which involves handling the logistics of moving finished goods from the source into stores and overseeing global trade and procurement requirements
- Selling goods across a variety of channels to customers, which requires marketing and brand management, managing markdowns and capturing customer reactions, analyzing data, and using it to optimize the next phase of the planning

Table 3.5: Details on IT implementation by different organised food retailers

Retailer	Line of business	Solutions used
Star India Bazaar	Apparel, food	SAP IS-Retail SAP Business Intelligence Warehouse SAP enterprise portals
Pantaloon	Apparel, food, etc.	POS: Home-grown solution SAP Retail BI and Data warehouse: Cognos (process of evaluation) Handheld scanners at Food Bazaar VPN: Company-wide network linking all the branches
RPG Group	Food, household items, etc.	Foodworld: POS: in-house Merchandise and Logistics: Custom-made by Zensar Technologies ERP: SAP or Retek (under evaluation) Hypermarket: POS: SeaCom Solutions
Reliance fresh	Food, household items, etc.	Retalix StoreLine is an open standards, fully integrated and cross functional Point of Sale (PoS) and store management software system The software not only tracks the available inventory in the store but also maintain daily outgoing of products from each category. (Other customer of Retalix StoreLine includes retail giants like Tesco, Spar, carrefour etc)

2. Hired infrastructure

3.23 Organised retailers including food retailers mostly depend on a third party for retail space, warehouse and logistics and pay rent for their services. However in some cases like PIRL subsidiary company may be assigned the logistics operations. In this section we have presented the details related to hired infrastructure by organised food retailers.

a. Retail space

3.24 Retail space or real estate needs of retailers depend on the type of formats they are operating into.

There are several formats existing in India which are described below

i. Malls

3.25 Malls are an upcoming trend in retail market. They form largest share of organised retailing today. They are located mainly in metro cities, in proximity to urban outskirts. Malls in India are of various sizes. A small sized mall may be around 60,000 square feet. while a mall may be larger than 9-10 lakh sft. Typically malls in India are of size 1-3 lakh sft. Malls lend an ideal shopping experience with an amalgamation of product, service and entertainment. All this is under a common roof. Examples include DLF City Center, The Metropolitan and Big Bazaar around Delhi, Crossroads and R-Mall in Mumbai and Spencer's in Chennai. These are revolutionizing the way middle class Indian consumers shop. These malls have very efficient and effective supply chains which ensure product availability and tracking of the product is feasible easily.

Table 3.6: Spread of malls across regions in India

Region	Total Malls	Total size (sft)
North India	61	1,64,80,000
West India	46	1,25,00,846
South India	21	41,27,000
East India	10	25,50,000
Total India	**138**	**3,56,57,846***

(*Includes Big bazaar, Food bazaar, Spencer's hyper)
Source: Images retail, 2009

ii. Specialty stores

3.26 A specialty store concentrates on a limited number of complementary merchandise categories and provides a high level of service in an area typically under 8,000 sft (Levy, Michael 2006); Chains such as the Bangalore based Kids Kemp, the Mumbai books retailer Crossword, RPG's Music World and the Times Group's music chain Planet M, are focusing on specific market segments and have established themselves strongly in their sectors. Since this format has less diverse product range, it is comparatively easy to manage supply chains.

iii. Discount stores

3.27 According to Levy and Weitz, a Discount Store is a retailer that offers a broad variety of merchandise, limited service and low prices. Discount stores offer both private labels and national brands, but these brands are typically less fashion-oriented than brands in department stores. The discount stores or factory outlets, offer discounts on the MRP through selling in bulk reaching economies of scale or excess stock left over at the season. The product category can range from a variety of perishable/ non-perishable goods. The coverage of products in this kind of format is quite extensive and the demand fluctuation is also high. Thus, it offers challenges in managing supply chains effectively.

iv. Department stores

3.28 Levy and Weitz defines Department stores as the retail formats that carry a broad variety and deep assortment, offer some customer services, and are organised into separate departments for displaying merchandise. These are the large stores ranging from 20,000 - 50,000 sft, catering to a variety of consumer needs.

3.29 They can be further classified into localized departments such as clothing, toys, home, groceries, etc. Departmental Stores are expected to take over the apparel business from exclusive brand showrooms. Among these, the biggest success is K Raheja's Shoppers Stop, which started in Mumbai and now has more than seven large stores (over 30,000 sft) across India. A department store is one of the most complicated retail formats catering to the most diversified set of consumer needs. It becomes very difficult to manage the inventory of so many products and brands.

v. Supermarkets

3.30 As defined by Food Marketing Institute "Supermarket is self-service food store with grocery, meat and produce department and minimum annual sales of $2 million". These stores are more relevant for organised food retailing. In India, there is growing number of such stores especially in metros and big cities. These are located in or near residential high streets.

3.31 Supermarkets can further be classified into mini supermarkets typically 1,000 sft to 2,000 sft and large supermarkets ranging from of 3,500 sft to 5,000 sft. having a strong focus on food and grocery and personal sales.

vi. Hyper market

3.32 Hyper markets are large formats ranging between 80,000-2,00,000 sft. Its product assortment goes beyond routinely purchased goods and includes furniture, large and small appliances, clothing and many items. The basic approach is bulk display and minimum handling by stores personnel, with discounts offered to customers who are willing to carry heavy appliances and furniture out of the stores. Pantaloon Retail India Ltd. (PRIL) is now emerging as India's first Hyper Market chain. Modeled along the lines of global Hyper Market Chains like Walmart, the Big Bazaar stocks several product categories.

vii. Convenience stores

3.33 These are relatively small stores 400-2,000 sft located near residential areas. They stock a limited range of high-turnover convenience products and are usually open for extended periods during the day, seven days a week. Prices are slightly higher due to the convenience premium.

Table 3.7: Total retail space for different organised food retailers

Name	Number of retail outlets			Retail space (In sft)		
	2006-07	2007-07	2008-09	2006-07	2007-08	2008-09
More-Super market	-	-	600	-	-	Est 12,00,000
More - Hyper market	-	-	2	-	-	Est 1,50,000
Hypercity	-	-	1	-	-	1,24,000
Spencer (all four formats)	-	-	400	-	-	12,00,000
LM 365	-	18	75	-	15,200	1,44,000
BIG Apple	-	-	65	-	-	Est 1,10,500
Food Bazaar	-	-	138	-	-	Est 31,05,000
KB Fair price	-	-	120	-	-	Est 1,56,000
Spinach	23	50	Est 100	55,000	1,20,000	Est 2,25,000
Sabka Bazaar	28	71	Est 241	21,000	1,22,000	Est 22,400 in malls
S-Mart	8	18	Est 105	10,000	32,500	Est 2,15,000
Reliance Fresh	-	-	634	-	-	Est 38,04,000
Reliance Super	-	-	15	-	-	-
Reliance Mart	-	-	9	-	-	Est 3,32,500
Vishal MegaMart	-	-	137	-	-	Est 24,40,000
Vishal Daily Mart	-	-	1	-	-	1,000-3,000
Nilgiris	32	-	-	-	-	-
Fresh	15	70	Est 75	42,760	1,49,230	1,58,570
Star Bazaar	-	-	4	-	-	3,00,000
Spar-Hyper Market	-	-	1	-	-	75,000
Spar-super Market	-	-	1	-	-	30,000
V Mart	15	22	46	1,42,000	2,12,000	4,94,250
Easy Day	-	-	7	-	-	Est 24,500
Food world super store	-	-	-	15,000	-	-
Food world super market	-	-	67	5,000	-	Est 2,68,000
Food world Gourmet store	-	-	-	2,800	-	-
Food world express store	-	-	-	1,500	-	-
Natures Basket	6	8	8	10,000	13,500	18,500

Est-Estimates, Source: India retail report, 2009, Primary survey

b. Logistics

i. Pantaloon retail-future logistics (As on July 2009)

3.34 The logistics vertical operates 30 distinct supply chains, servicing over 1,100 retail outlets across India. The facility manages more than 2.6 million stock keeping units (SKUs) from a warehousing network spread over 3 million sft in 30 major centers in India. It has a fleet of over 500 vehicles. The total retail space for Pantaloon retail is 9.7 million sft.

ii. Bharati retail (Bharati -Walmart)

3.35 Bharti Enterprises entered into B2B joint venture with world's largest retailer, Walmart, for wholesale cash-and-carry business and back-end supply chain management operations in India in 2007-08.

iii. Tata trent

3.36 Trent's arrangement with Tesco gives Trent's hypermarket chain, Star Bazaar, access to Tesco's supply chain, computer systems and inventory and infrastructure management. Trent pays fee to Tesco for using its services. Trent also sources merchandise for Star Bazaar from Tesco's wholesale outlets in India.

iv. Reliance fresh

3.37 Reliance has their own Reliance Logistics Ltd as a part of Reliance Industries Ltd, which currently handles Reliance Retail's logistics services.

3.38 To strengthen its links with farmers, the company has plan to set up integrated agri-retail business centers, which include three processing and distribution centers, 51 retail outlets for farmers and 75 rural business hubs. Many companies, looking at the retail boom in food and grocery, are setting up ventures to help retailers source these goods.

3.39 While in some places like Chennai, Madurai and Hyderabad, Reliance is outsourcing logistics from a third party supplier viz. Spear Logistics Services. Spear logistics offers the following services to Reliance:

- Warehouse space of 1,33,000 sft
- Average 3,500 cases inbound and 7,000 line items outbound to stores everyday
- Fresh, dry and chilled operations with more than 21,000 SKUs
- 95% RF based operation.

v. Spencer retail

3.40 Spencer retail depends on outsourced logistics. One of them is Spear Logistics' that offers services like:

- Warehouse space of 85,000 sft
- 26,000 transactions per month, with 11,000 SKUs
- Wall to Wall services for increased operational efficiency
- A customized snapshot of the Spear Warehouse Management Systems

D. Projections for agri supply chain infrastructure in the public sector

3.41 The government of India has given top priority to creation of infrastructure in agriculture sector aiming at 4 % growth. This incorporates the investment in creating rural infrastructure aimed at promoting production, processing and marketing of agricultural produce by farmer. Majority of these investments are aimed at creating marketing infrastructure for farmers and are in the interest of the organised and unorganised food retailers. The report on "Agricultural marketing infrastructure and policy required for internal and external trade for the XI five year plan 2007-12" outlines the following investment for the XI five year plan. These details are given in table below and areas important from point of view of food retailers, are described further.

Table 3.8: Projections for agri supply chain infrastructure in the public sector

Sl No	Infrastructure	Number	Unit cost (Rs lakh)	Total (Rs crores)	Appropriate PSP Option	Private Sector Outlay
1	**Development of wholesale markets**					
	(a) Principle markets	2,428	300	7,284	BOT	3,000
	(b) Sub markets	5,129	100	5,129	BOT	1,000
2	**Rural primary markets**	5,000	25	1,250	-	-
3	**Primary value addition centers and soil health management infrastructure**	50,000	30	15,000	Concession	5,625
4	**New wholesale markets**	75	1,000	750	-	750
5	**Live stock markets**	1,000	20	200	-	-
6	**Terminal markets**	35	5,000	1,750	Concession	1,300
7	**Apni mandis/Direct markets**	1,152	50	576	-	-
8	Markets for spices crops	50	50	25	-	-
9	**Storage capacity (Million tons)**	6.67	0.03	2,000	-	-
10	**Cold storage (Lac tons)**	45	0.045	15,708	Concession	11,500
11	**Specialized commodity markets (F&V)**	241	2,000	4,820	Concession	3,600
12	Flower markets	10	1,500	150	Concession	100
13	Medical and aromatic and forest produce markets	500	100	500	-	-
14	Modern abattoirs	50	1,000	500	BOT	500
15	**Retail market infrastructure for poultry**	1,000	500	5,000	BOT	2,500
16	Centre for perishable cargo	15	2,000	300	-	-
17	Farm road infrastructure/green corridors	100	500	500	-	-
18	Quality and food safety infrastructure	500	100	500	BOT	250
19	Specialized quality and safety Infrastructure	50	500	250	-	-
20	GAP and certification infrastructure	1,00,000	1	1,000	-	-
21	Model farms for India GAP certification	1,000	1	10	-	-
22	**Farmers organizations support infrastructure**	5,000	5	250	-	-
23	Production risk management infrastructure setting up of automatic weather stations	50,000	-	860	BOO	500
	Total	**-**	**-**	**64,312**	**-**	**30,625**

1. Rural primary markets

3.42 Rural primary markets include mainly the periodical markets known as haats, shandies, painths and fairs and are estimated to be more than 21,000 to a maximum of 47,000 in the country. It is estimated that 90 per cent of the total marketable surplus in the remote areas is sold through these markets.

2. Primary value addition centers and soil health management infrastructure

3.43 It is necessary to develop collection centers nearer to the farmer's field with proper infrastructure of grading, sorting, packing and transport. Moreover in the present system, the value addition is minimal at the farm gate level. This results in lower realization to the farmers. Further, lack of grading, cleaning, packing and transport of the produce, especially perishables, lead to loss of value and wastage.

3.44 It is proposed to create primary processing centers for a cluster of villages with minimum infrastructure of drying yards, small storage facility, cleaning and grading equipment, and if required cold storage, and basic food safety testing/soil health testing facilities. These centers must provide facilities for handling multi-commodities and also provide other value addition services such as soil testing for soil health management. Soil health management is acquiring importance for promoting precision farming and enhancing productivity, which will be critical for sustenance of agriculture. These centres will be inter-connected through ICT. Soil testing on a regular basis can create soil health map for various nutrients. This is also important in view of growing market demand for organic foods and also bringing in traceability mechanisms.

3. New wholesale markets

3.45 In view of Agricultural marketing reforms initiated by the Government of India/states, it is expected that new markets in private sector will be established and will become competitive markets for the existing regulated markets. The private competitive markets are expected to be established in important agri producing states. On a conservative estimate, about 75 private markets need to be promoted with necessary modern infrastructure with an investment of about Rs 10 crore for each market. The total investment required for this is Rs 750 crore. This investment is assumed to be in the private sector. The government has to only create an enabling environment.

3.46 For example Premium Farm Fresh has established first private sector wholesale market for horticulture produce at Nashik, Maharashtra during 2009. The market has been set up under the private markets scheme of the National Horticulture Mission (NHM). This market currently focuses on commodities that are grown in around Nashik, like onion, grapes, pomegranates and tomatoes. It registered a trade volume of 20,000 million tons, valued at Rs 20 crore in first eight months of its operations.

4. Terminal markets

3.47 Terminal markets which have become an important feature in developed countries, are expected to gain ground in India. The Safal complex of NDDB is one such format, located at Bangalore. They are expected to be located nearer to big cities and terminal points providing the final link in the market structure. The terminal market concept promoted in India is expected to link the farmers to these markets directly through collection centers. Government of India has announced to set up eight terminal market complexes for perishables at Nagpur, Nashik, Bhopal, Kolkatta, Patna, Rai, Chandigarh and Mumbai during 2006-07. The proposed terminal market complex will be in "hub and spoke" format, with terminal market as "hub" and collection centres near to the production areas as "spoke". The terminal markets provide multiple options to farmers for disposal of produce. Such markets are expected to reduce post harvest losses and increase farmers' realization.

5. Storage capacity

3.48 Three-tier system exists in storage viz. at the National/State, district and village level in the country. The Central Warehousing Corporation (CWC) has been providing warehousing facilities at the centers of all India importance and the State Warehousing Corporations (SWCs) and the State Governments at centers of States and district level importance. Co-operatives are providing storage facilities at the primary and marketing society's level, which are located at village/taluka.

3.49 As reported earlier, a further capacity of 35 million tons of warehouse space needs to be created in the public domain by 2012.

6. Specialized commodity markets (F&V)

3.50 The importance of horticulture in improving the productivity of land, generating employment, improving economic conditions of farmers and entrepreneurs, enhancing export and above all, providing nutritional security to the people is widely acknowledged. The National Horticulture Mission was launched in May 2005 as a major initiative to bring about diversification in agriculture and augment income of farmers through cultivation of high value crops. The mission seeks to double the horticultural production by 2011. The infrastructure facilities available in the markets at present are far from satisfactory. Keeping in view the specific needs of the perishable commodities, there is need for developing specialized markets for fruit and vegetables, flowers, medicinal and aromatic plants, spices, etc.

7. Markets for fruits and vegetables

3.51 It has been assessed by the Expert Committee on Strengthening and Developing of Agricultural Marketing that there are at least 241 such places in the country where fruits and vegetables markets should be developed. The investment requirement for fruits and vegetables markets in the country at the rate of Rs 20 crores is Rs 4,820 crores.

8. Grading infrastructure

3.52 Grading at primary market level is grossly inadequate. There are only 1,968 grading units at the primary level, which include 587 units with co-operatives and 298 units with other organizations. At the level of regulated markets, there are only 1,093 grading units in 7,557 regulated market yards/sub-yards. Only around 7 per cent of the total quantity sold by farmers is graded before sale. During 2004-05, 6.62 million tons of agricultural produce and 26.1 crore pieces valued at Rs 6,224 crore were graded at primary market level.

9. Farmer's organizations in marketing

3.53 While looking at the options of marketing by farmers, development of following three organizations will not only help farmer but retailers.

1. Farmers' cooperative organizations

2. Self-help groups (SHGs)

3. Krishi Vigyan Kendras (KVKs) and other or ganizations have formed commodity based farmers' clubs

E. Projections on the requirement of retail infrastructure

1. Retail Space

a. Estimation of the F&B retail space

3.54 The total estimated retail space for all major national and regional level organised retail formats having food and grocery is estimated at around 18 million square feet. (Refer Table 3.7).

3.55 The current average per square foot sales for typical retailers is around Rs. 5,000 to Rs.8,000 per square feet per year. Thus, for a sales value of Rs. 154 billion (value of F&B organised retail sales in 2008-09), the estimated organised retail space requirement is about 22 million square feet at average sales of Rs.7,000 per square feet per year.

3.56 The increase in demand for space would depend on the increase in the F & B retail sales and also the efficiency factor, which will reflect in sales per square feet. Assuming that the sales per square feet would increase only due to inflation effect (average 5% per year), the space requirement in retail is projected in the table below.

Table 3.9: Retail space requirement for organised agri food retail

Year	Sales per sft (Rs)	Space in million sft for F&B			
		Most probable	Pessimistic	Optimistic	Expected
2009-10	7,350	23	23	24	23
2010-11	7,718	25	24	27	25
2011-12	8,103	27	25	30	27
2012-13	8,509	30	26	33	29
2013-14	8,934	32	28	37	32
2014-15	9,381	35	29	42	35
2015-16	9,850	38	31	47	37
2016-17	10,342	41	32	52	41
2017-18	10,859	45	34	58	44
2018-19	11,402	49	36	65	48
2019-20	11,972	53	38	73	52

3.57 It is also reported that real estate would be the biggest challenge for the retail industry and many retail promoters have backward integration in real estate to have an edge in the business.

2. Warehousing

a. Estimation of the F&B retail warehouse space

3.58 If we look at the primary and secondary data, the warehouse requirement by various players varies from one half to one third of total retail space (Pantaloon). We have done the projections for the warehouse requirement for food retail on a conservative basis, assuming that the industry best practices are adopted and the warehouse space is restricted to one third of the retail space. As per our estimation the total F&B retail space stands at 22 million square feet. in 2008-09. Thus the warehouse space for supporting this much F&B retail space is around 7.33 million square feet. The year-wise requirement is presented in the table below.

Table 3.10: Warehouse space for organised food retail (million sft)

Year	Warehouse space in million sft for F&B			
	Most probable	Pessimistic	Optimistic	Expected
2009-10	8	8	8	8
2010-11	8	8	9	8
2011-12	9	8	10	9
2012-13	10	9	11	10
2013-14	11	9	12	11
2014-15	12	10	14	12
2015-16	13	10	16	12
2016-17	14	11	17	14
2017-18	15	11	19	15
2018-19	16	12	22	16
2019-20	18	13	24	17

3. Manpower requirement

a. Direct employment

3.59 It has been said that the organised retail sector is going to create huge employment opportunity. The direct employment in retail would be both in the front end as well as in the back end (procurement, accounts, administration etc.). In the table below we have presented the manpower directly employed by various agri food retailers.

Table 3.11: Manpower (direct) employed by major organised food retailers

Retailer	Area (Million sft)	Number of employee	Area per Employee (sft)
Spencer	1.20	10,000	120
Pantaloon	9.70	35,000	277
Aditya-more	1.20	11,000	109
Reliance fresh	3.80	20,000	190
Food world	0.20	2,000	100
S-Mart	0.06	390	154
C3	0.01	30	293
Average			**206**

Source: Primary Data

3.60 The regression on the number of employees (Dependent variable) with Area in million square feet (independent variable) yielded the equation

E=3,508 A+3,098

Where E=no. of employees and A= Area in million sft

3.61 The regression had an impressive coefficient of determination (R square) value of 0.94 and was found significant. Based on the same, the projection for manpower requirement in the agri food retail is attempted and has been represented in the table below.

Table 3.12: Manpower requirement for organised food retailing (lac no.s)

Year	Most probable	Pessimistic	Optimistic	Expected
2009-10	0.85	0.83	0.87	0.85
2010-11	0.92	0.87	0.97	0.91
2011-12	0.99	0.91	1.08	0.99
2012-13	1.08	0.96	1.20	1.07
2013-14	1.16	1.01	1.34	1.15
2014-15	1.26	1.06	1.50	1.24
2015-16	1.37	1.11	1.67	1.34
2016-17	1.48	1.17	1.86	1.45
2017-18	1.60	1.22	2.08	1.57
2018-19	1.73	1.29	2.32	1.70
2019-20	1.88	1.35	2.59	1.84

3.62 Thus, a total of about 1.8 lakh people would be employed in organised food retailing by 2020.

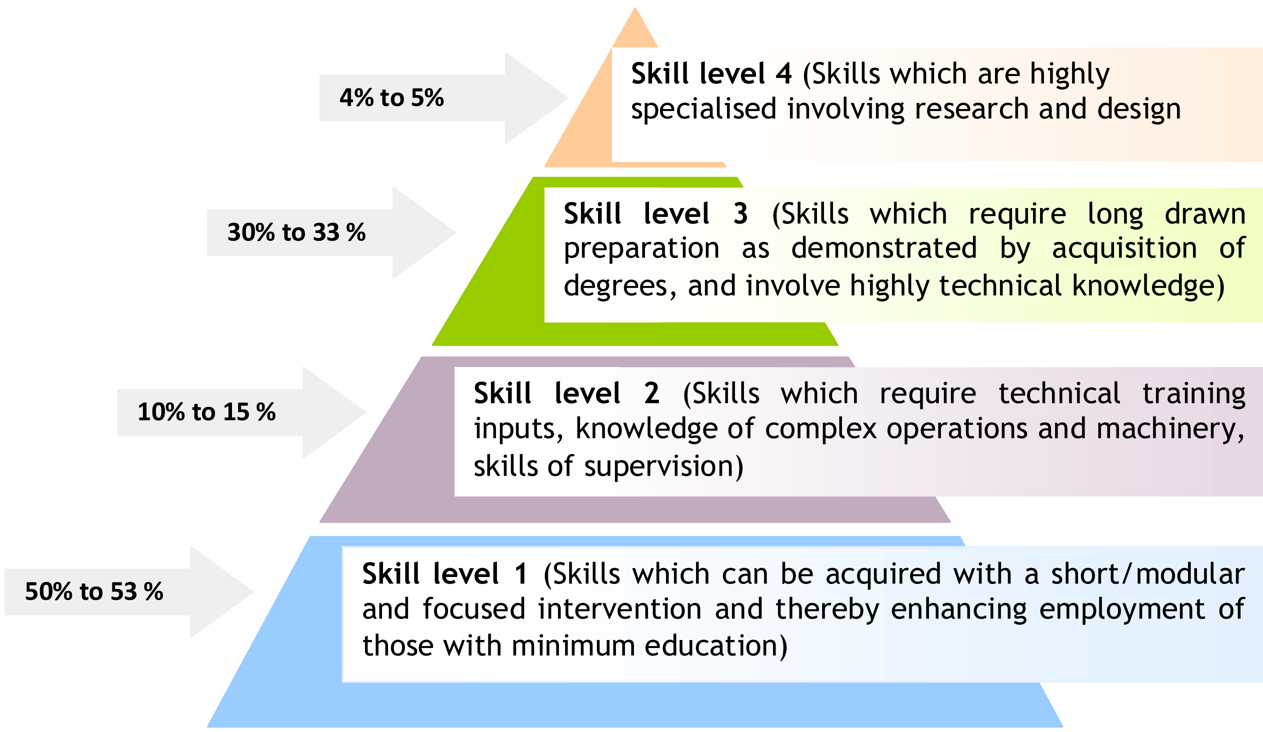
b. Indirect employment

3.63 Along with the creation of direct employment projected above, the organised retail has a potential to create indirect employment. The indirect employment is created at each level of the supply chain starting from the consolidation at the farmer level to the stock management at the warehouse level. For example about 2000 employees are hired on contractual basis by Pantaloon retail at its various warehouses for loading, unloading, sorting and packing of the merchandise. As per secondary sources, it is estimated that the total indirect employment creation at various levels of supply chain would be 4-5 times the direct employment.

3.64 In India about 2.2 million people graduate from colleges each year and about 5.5 million pass out from schools. Thus, finding the manpower should not be a problem. However, good training facilities are required for various categories of staff.

c. Skill requirement for organised retail

Figure 3.3: Skill pyramid for organised retail



Source: IMaCS analysis

3.65 The skill requirement for organised retail is categorized into five levels as represented in the above pyramid.

3.66 The base level represents the majority of the customer facing jobs and deployment in other areas of retail, which require basic skill in retail operations and minimum qualification (10-12 class pass). The examples are jobs like front-end executives and data entry operators.

3.67 The skill level 2 requires people with technical know-how and vocational training in specialized subjects. The qualification is expected to be diploma holders or ITI trained. Examples are billing executives, account assistants etc.

3.68 The employees of skill level 3 should be graduates and require specialized training in retail operations. They should be able to support the management in meeting the objectives and should be able to manage day-to-day operations. Examples are store mangers and procurement executives.

3.69 The top-level employees constitute 4-5% of the total work force and would comprise of MBAs and people with higher degrees. These would be the people who would formulate strategies and carry out firm and industry level research and development in retail.

d. Training in retail

3.70 Many institutes are offering programs aimed at training manpower to prepare for jobs in retail sector.

- The Retailers' Association of India (RAI) offers the Post Graduate Programme in Retail Management (PGPRM) in association with 16 institutes spread across main cities of India viz. Hyderabad, Bangalore, Belgaum, Ahmedabad, Jalandhar, Noida, Gurgaon, Bhubaneswar, Durgapur, Kolkata.
- IGNOU's 'BBA in Retailing' is a unique programme with university-industry collaboration. The programme has been developed by key retail industry experts and academicians. The duration of the structured course is three years and it includes on the job training (internship) in the first year.
- Professional Retailing Skills programme: This course conducted by RAI's PRS Training Centres all across India.
- Excellence in Store Operations: The 2 day workshop is a learning platform for retailers, practicing retail professionals, retail supervisors and store owners from all sectors in retailing
- Some of the large players in organised retail have initiated training initiatives. Bharti Retail and Vishal Retail have announced the launch of retail training academies in Ludhiana and Delhi respectively. The two facilities are expected to churn around 5,000 trained persons every year. The new schools are in addition to the existing academies including Spencer's Pragati, and Future Learning and Development Academies in Ahmedabad, Bangalore and Kolkata.
- Skill building programs for store-jobs 3.71 As per the recommendations of the report on 'Human Resource and Skill Requirements in the organised Retail sector' by National Skill Development Corporation-Training initiatives for the existing employees of retail firms are likely to more acceptable in the near future as the training programme can be customised for the particular companies. There is a strong demand for persons trained in organised retail specific courses. The training programmes could be of short (7 - 14 days) and/or medium (3 months - 6 months duration). The short term training programs will be aimed at existing employees whereas the medium term courses should target entry level X/XII pass/graduates. The programmes should focus on soft skill training as well as cover basic concepts of retailing and consumer behaviour. There is also a demand for customized, company-specific training and/or product specific training.

3.72 The training programmes targeted for store managers should target existing supervisors and senior executives (2-3 year experience in retail) and should impart cross-functional knowledge required to maintain a store.

4. IT infrastructure

3.73 The importance of establishment of an IT infrastructure is very important for the organised retailers as it performs the following functions.

- Merchandising
- Inventory tracking and management
- Account and finance
- Billing
- Gathering and analyzing consumer data
- Data warehouse and management

3.74 It is a common understanding among the industry players that technology will play a pivotal role in the growth of the Indian retail sector. Retailers have now realized the importance of IT for their business operations, especially during an economic slowdown, and are in the process of streamlining their operations with IT adoption. "The retail industry is at a nascent stage. People are trying and testing new initiatives. Retail players first need to freeze the processes within their organizations, and only then can the CIOs work toward deploying retail IT to support them," says Indranil Guha, the head of IT integration for Spencer's Retail. Most players are struggling in terms of justifying the huge retail IT spending they had made a few years back. Retail IT, unless it translates into business, will not see any major push. On the other hand it is also reported that there is an increase in the IT spending this year and the retailers who had postponed their IT initiatives during 2009 have taken them up during 2010.

3.75 Typically, the investment under IT is under software and hardware. As the hardware component is mainly accounted under 'Store infrastructure', the IT investment represented here refers mainly to the software component.

3.76 The amount of investment needed would depend on the complexity of the system and the scale of operations. Below we have presented the amount invested under creating the IT infrastructure.

Table 3.13: IT investment by major food retailers

Retailer	Turnover (Rs million)	Investment in IT (Rs million)	IT investment as per cent of total turnover
Spencer	5,000	120	2.4
Pantaloon	79,000	700	0.88
Smart	500	1	0.2
C3	60	3.5	5.8
Total	**84,905**	**824.5**	**0.97**

3.77 Roughly the IT investment in software by major players works out to be 1% of the total annual sales. Assuming on a conservative basis that 50% of the retail sales under organised retailing is IT integrated; the current investment requirement would be about Rs.0.8 billion in the F&B sector retailing for a retail size of Rs. 154 billion. Based on the earlier projections on the size of organised agri food retail, the projections for IT investment have been made hereunder.

Table 3.14: Projected investment in IT infrastructure under F&B retail

Year	Most probable	Pessimistic	Optimistic	Expected
2009-10	0.9	0.8	0.9	0.9
2010-11	1.0	0.9	1.0	1.0
2011-12	1.1	1.0	1.2	1.1
2012-13	1.3	1.1	1.4	1.3
2013-14	1.4	1.2	1.7	1.4
2014-15	1.6	1.4	2.0	1.6
2015-16	1.9	1.5	2.3	1.8
2016-17	2.1	1.7	2.7	2.1
2017-18	2.4	1.8	3.2	2.4
2018-19	2.8	2.0	3.7	2.7
2019-20	3.2	2.3	4.4	3.1

3.78 In the next ten years the IT investment requirement for F&B retailing could grow up to Rs. 3.1 billion on a conservative basis.

3.79 According to Orane consulting which consults various retailers on SAP solutions, the current investment in retail technology service solution in India is Rs. 20 billion. It is expected to cross Rs. 50 billion in another five years with a CAGR of 40%. However most of the IT investment is by lifestyle and fashion, apparel, cosmetic, footwear, furniture and jewelry retailers.

Chapter 4

Sourcing supplies by food retailers

4.1 The sourcing of commodities takes place through a network of distributors, transporters, storage facilities and suppliers, who participate in the sale, delivery and production of a particular product referred as the Supply chain.

A. The supply chain umbrella (by TNAU)

4.2 A large set of activities besides purchasing is part of supply chain management. Each of these seemingly diverse activities is part of a network that defines how efficiently and effectively goods and information flow across a supply chain. The activities include

1. **Purchasing:** Most organizations include purchasing as a major supply chain activity since purchasing is the central focus.
2. **Quality control:** Almost all organizations recognize the importance of supplier quality and the need to prevent rather than simply detect quality problems. Progressive organizations work directly with suppliers to develop proper quality control procedures and processes.
3. **Demand and supply planning:** Demand planning identifies forecasts of anticipated demand, inventory adjustments, orders taken but not filled and spare part and after-market requirements. Supply planning is the process of taking demand data and developing a supply, production, and logistics network capable of satisfying demand requirements.
4. **Material or inventory control:** The material group is often responsible for determining the inventory level of finished goods required to support customer requirements, which emphasizes the physical distribution (i.e., outbound or downstream) side of the supply chain. Further, order processing helps ensure that customer receives material when and where they require it. It represents a link between the producer and the external customer

B. Food supply chain

4.3 The food and beverage supply chain has been a linear relationship involving the primary producers or farmers, the manufacturers or processors who fabricate food for table and the retailers who gather a range of such products and sell them to consumer.

(*Source: Food Supply Chain Management By Jane F. Eastham, Liz Sharples, Stephen D. Ball*)

1. Terms of contract between the supplier and the retailer

4.4 We can classify the buying process of organised food retailers into 4 categories based on primary interactions with the organised food retailers.

- Buy locally from the traders in the retailing destination
- Buy in bulk from the traders in the production/ processing destination and distribute to the retailing destination
- Buy in bulk from the processors in the production/ processing destination and distribute to the retailing destination
- Buy raw materials from farmers or local traders in production destination; carry processing and packaging activities by self or by job work followed by distribution to the retailing destinations.

4.5 All the retailers use a combination of the above buying processes and normally route all their products through warehouses to the retail outlets (except bakery, greens, milk and highly perishable products), which are supplied directly to retail outlets.

4.6 In many cases the role of a consolidator becomes very important as he aggregates numerous vendors like trader, processors or even farmers to meet the requirements of the retailer.

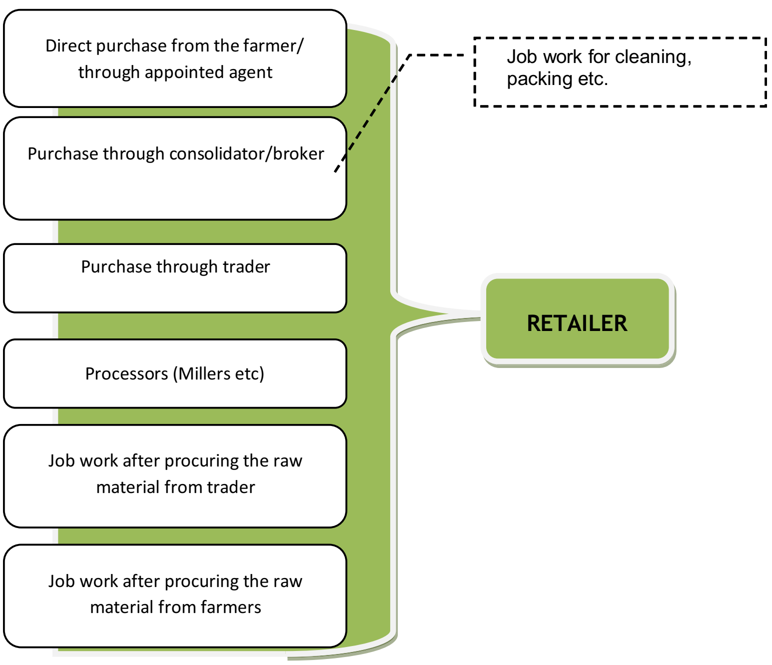
4.7 Procurement of various commodities through various intermediaries is presented in table below

Table 4.1: Channels of procurement by major food retailers

Retailer	Procurement through (% of total)							
	Grains	Pulses	Oil	Fresh Fruits	Vegetables	Processed products	Milk and Milk products	Poultry
Smart	Processor-90, Appointed agent-10	Processor-80, Appointed agent-20	Processor-90, Trader-10	Appointed agent-30, Trader-70,	Appointed agent-80, Trader-20,	Processor-80, Trader-20	Trader-100	Trader-100
Home store India retail	Consolidator-60, Trader-40	Consolidator-60 Trader-40	Processor-100	Consolidator-60, Trader-40	Consolidator-70, Trader-30		Processor-100	
Namdhari	Trader-100	Trader-100	Trader-100	Trader-70, Own farm-30	Own Farm-70, Contract Farmg-15, Trader-10-15	Trader-100	Trader-100	
Mother dairy	Trader-100	Processor-50, Trader-50	Processor-90, Trader-10	Appointed agent-60, Trader-40,	Appointed agent-60, Trader-40,	Processor-80, Local vendor-30		Local vendor-100
More retail	Trader-80 Processor-10, Job work after procuring the raw material from farmers-10	Trader-60 Processor-20 Job work after procuring the raw material from farmers-20		Appointed agent-35, Trader-65,	Appointed agent-35 Trader-65	Trader-100	Trader-100	Trader-100
Tesco-Star Bazaar	Trader-100	Trader-100	Trader-100	Trader-95, Appointed agent-5	Trader-95, Appointed agent-5	Trader-100	Trader-100	Appointed agent-35, Trader-65,
Spencers	Trader-50 Processor-50	Trader-100	Trader-100	Farmer-70%	Farmer-70%			

Source: Primary data

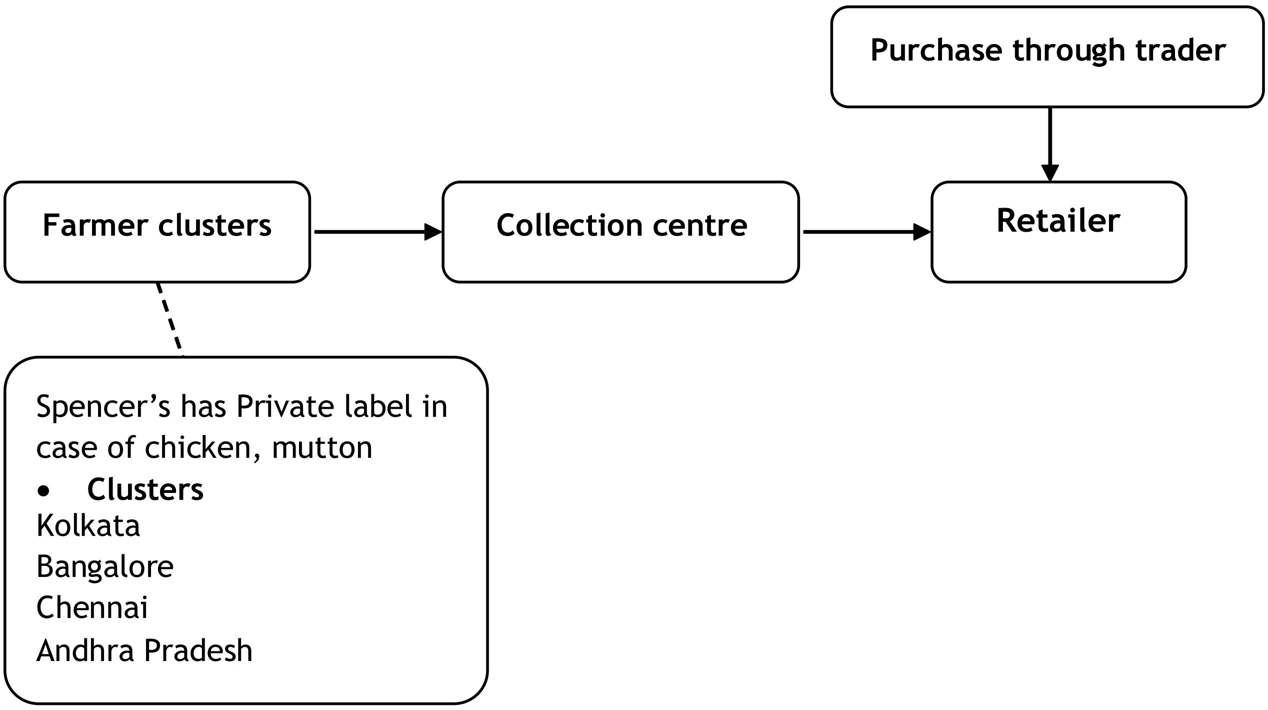
Grains/Pulses/Oils



Processed products

Milk and milk products

Poultry and eggs



4.8 Through primary survey it has been observed that though retailers claim to be sourcing directly from farmer, in reality this kind of procurement is minimal and limited to fresh fruits and vegetables. The retailers are also not following any sort of contract farming in any case.

4.9 Emerging retailers find it convenient to procure commodities like pulses, grains and oil from local traders when the volumes are not very high compared to national level retailers. National retailers negotiate directly with processors and buy in bulk while in many cases they may appoint consolidators to carry out the procurement functions. These retailers also normally have high share of private labels, which are packed, at the vendors (consolidators) or processors place depending on convenience. Very large food retailers like Reliance retail even carry out their own processing in their own grain processing factories located at strategic locations like Ahemadabad and Gurgaon. The decision to buy locally or to have a centralized sourcing depends on economics of procurement which again depends on volumes purchased. For example Reliance procures tea for its Ahemadabad market locally as the national brands are not accepted in Gujarat market and the volumes required here are not very high.

4.10 Organised retailer like Smart (WRPL) and More (ABRL) prefer to buy portion of their total procurement from processor directly. On the whole, the trader remains the key player in supply chain of grains, pulses and oil and the main point of contact with the organised retail. Some retailers opined that job work is not so appropriate due to quality inconsistency.

4.11 As clear from primary data the purchase of fresh fruits and vegetable except for few national level retailers is not directly from farmers but through agents or traders.

a. Credit period

4.12 The suppliers allow substantial credit period to the organised retailers across various categories of merchandise. This is represented in table below.

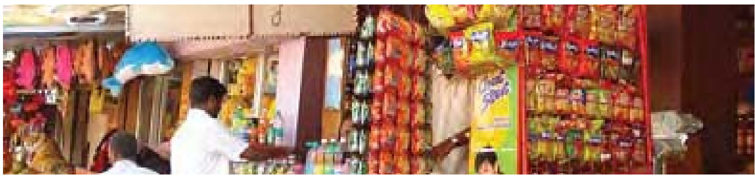


Table 4.2: Credit period among major organised food retailers

Category	Smart	Home store India retail	Namdhari	More retail	Spencer's	Godrej Aadhar
Grains	30	15	21	21	30	10
Pulses	30	45	21	21	30	10
Oil	Cash	15	15-21	21	30	10
Fresh Fruits	Cash	10-'12	7	Cash	Cash for farmer, 15 days credit for trader	-
Vegetables	Cash	12	7	Cash	Cash for farmer, 15 days credit for trader	-
Processed products	10	-	7'-15	21	30	25
Milk and Milk products	7	-	7	21	30	-
Poultry	10	-	-	21	30	-
Eggs	10	15	-	21	30	-
RTE	45	-	15-21	21	30	25-30

4.13 In majority of the cases credit allowed is for 15-45 days in case of staples and for 7-15 days in case of perishables. This is an important consideration from the point of view of retailer who can sell the stock and recover the amount to be paid within the credit period. This has a very important impact in terms of reducing the credit requirement of the retailer for short-term inventory credit.

b. Cash discount

A cash discount of 1-2% on immediate payment is applicable for most of the products having a 21-30 days payment cycle. However, organised retailers prefer to take the material on credit and do not want to block their capital in inventories.

c. Delivery details

4.14 Almost all retailers have mentioned that payment for delivering the commodities is done by supplier. The prices quoted by the suppliers are inclusive of the transportation charges for delivery at the retailer's warehouse.

C. Supply chain innovations under organised retail

4.15 Unlike grains the Fruits and vegetables, which are highly perishable in nature quality produce remains a challenge for retailers.

4.16 The organised food retailers to a limited scale, have attempted to deviate from the traditional supply chain of purchasing through traders and have tried to reduce the gap between the producer and the retailers by eliminating certain intermediaries. Such backward linkage initiatives have been more successful in case of fresh fruits and vegetables than other products as they require minimum processing and reduced handling would preserve their freshness.

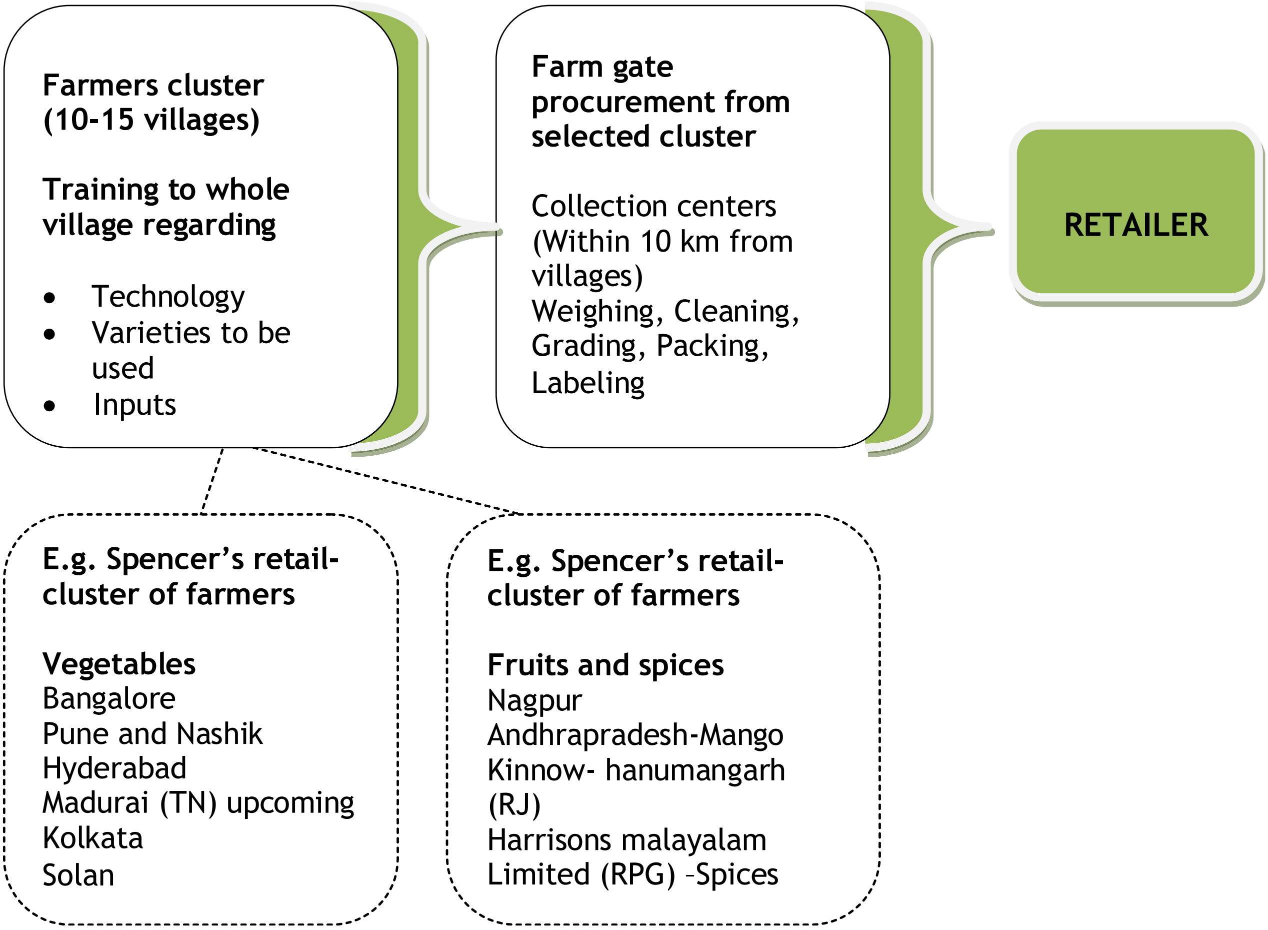
1. Backward integration/ dis-intermediated model

4.17 Spencer's retail, Smart (WRPL), More (ABRL) and Reliance Fresh follow a kind of model, in which they procure directly fresh produce from farmers either through own personnel or appointed agents. This kind of procurement (though forming a smaller portion of total procurement) is favoured by many retailers due to quality considerations.

4.18 Availably of fruits and vegetable is seasonal pertaining to seasonal production. Production clusters are fixed based on requirement and production scenario. Generally one cluster consists on 10-15 villages (may vary from retailer to retailer). Farmers from these villages are then provided by training related to technologies and inputs. Also awareness about varieties preferred by consumers is given to farmers.

4.19 The training is given to all farmers of the village regardless of the fact whether they supply to retailer or not. Produce is then collected in a collection center of retailers, which is generally locates within 10 km from farm or the nearest APMC. Produce is accepted based on quality parameters.

Figure 4.1: Direct procurement of fruits and vegetables by organised food retailers



Source: Primary

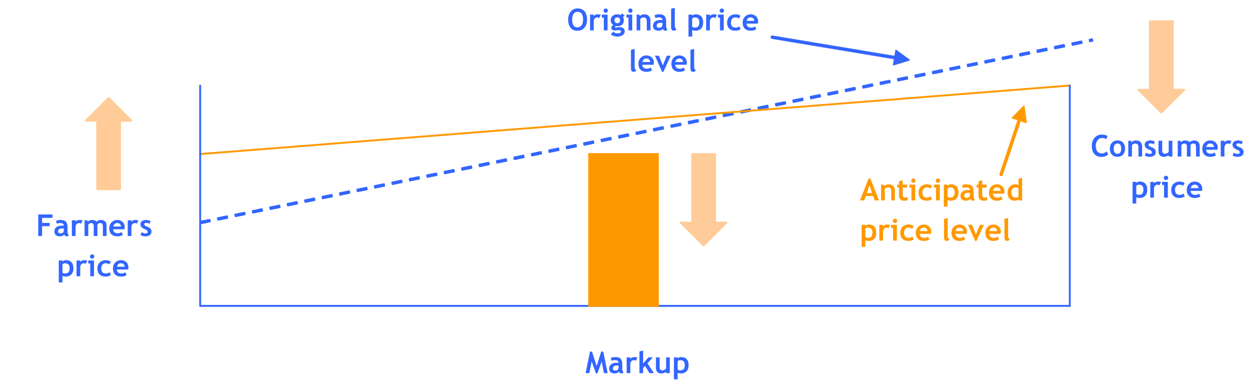
4.20 It is to be noted that in none of such initiatives, there were any formal contracts with the farmers.

Table 4.3: Supply chain efficiency in direct procurement

Traditional supply chain		Disinter mediated supply chain		Remarks
Channel partner	% Share	Organised sc	Organised SC	
Consumer pays	100%	Consumer pays	94%	Benefit customer @6%
Retailers wastage	5%	Retailer wastage	6%	Actual accountings
Retailer margin	22%	Store margin	25%	Retailer margin increased
Semi wholesale	5%	Semi wholesale	0%	Semi whole seller eliminated
Whole sale wastage	3%	Distributions	5%	Incurred cost on distribution (cold chain)
Whole seller commission	8%	Whole seller commission	0%	Whole seller eliminated
Transit wastage	5%	Transit wastage	2%	Reduced by 3%
Village consolidation	2%	Consolidation exp	2%	Net savings
Post harvest wastage	8%	Post harvest wastage	4%	Net savings 4%
Net to farmer	42%	Net to farmer	50%	Increased earnings By 8%
Total	**100%**		**94%**	

(Source: Spencer's Retail)

Figure 4.2: Effect on farmer and consumer prices due direct procurement



4.21 According to retailers who practice the above model, following are the clear advantages of the model

- Quality produce is assured
- Reduce handling results in getting fresh product and reduce wastage.
- Save Cost and time on vendor management
- Independent backend
- Product can be traced to origin

a. Farmer's primary data

4.22 Farmers are mainly supplying fresh fruits and vegetables to retailers.

1. **Benefit reported by farmers**

- **Realizing better price**

Table 4.4: Farmers benefit analysis by direct procurement: Chickballapur (Bangalore catchment area)

Commodity	Price details (Rs/Qtl)			Rejection by retailers (%)	Price of rejected produce (Rs/Qtl)	Effective price realized at OR	Benefit
	Organised retailer	APMC	Village level				
Beetroot	1,650	1,300	1,100	50	1,300	1,475	13
Bitter gourd	800	650	550	40	650	740	14
Brinjal	420	275	235	55	300	354	29
Capsicum	900	650	-	40	650	800	23
Carrot	1,900	1,675	1,300	50	1,650	1,775	6
Cauliflower	900	700	550	60	725	795	14
Chilly	850	750	700	60	750	790	5
Cucumber	350	325	300	50	350	350	8
Onion	925	775	700	45	1,100	1,012	31
Tomato	975	825	475	60	825	900	9
Mango	2,200	2,000	-	20	2,000	2,160	8

As on November 2009

*Rejected produce sold at APMC and/or village

Table 4.5: Farmers benefit analysis by direct procurement: Kurnool

Commodity	Price details (Rs/qtl)			Rejection by retailers (%)	Price obtained for the rejected produce (Rs/qtl)	Effective price realized at OR	Benefit
	Organised retailer	APMC	Village level				
Brinjal	650	450	350	50	400	525	17
Chilly	1,100	900	700	40	750	925	3
Okra	1,100	850	600	50	750	925	9
Onion	900	700	500	50	650	750	7
Tomato	1,350	1,100	900	60	1,000	1,140	4

As on September 2009

*Rejected produce sold at rythu bazar and at village

Table 4.6: Farmers benefit analysis by direct procurement: Jaipur

Commodity	Price details (Rs/qtl)			Rejection by retailers (%)	Price obtained for the rejected produce (Rs/qtl)	Effective price realized at OR	Benefit
	Organised retailer	APMC	Village level				
Cauliflower	1,600	1,450	-	10	1,200	1,560	8

As on september 2009

*Rejected produce sold at APMC

Table 4.7: Farmers benefit analysis by direct procurement: Sultanpur

Commodity	Price details (Rs/qtl)			Rejection by retailers (%)	Price obtained for the rejected produce (Rs/qtl)	Effective price realized at OR	Benefit
	Organised retailer	APMC	Village level				
Bitter gourd	1,200	1,180	-	15	1,170	1,195	1
Bottle gourd	320	300	-	15	300	317	6
Brinjal	500	450	400	15	430	493	10
Cabbage	480	460	-	20	460	476	3
Capsicum	1,500	1,480	-	20	1,460	1,492	1
Carrot	870	840	-	15	840	865.5	3
Cauliflower	810	790	-	15	790	807	2
Grapes	2,600	2,550	-	10	2,550	2,595	2

As on September 2009

*Rejected produce sold at village trader

- **Transparent weighment**

4.23 Farmers reported that they had greater faith in weighment done at organised retail collection centers as in many cases these were electronic. In case of APMCs, farmers fear of being cheated in weighing.

- **Prompt payment**

4.24 Most of the farmers who are supplying to retailers have reported that they get payment as soon as they deliver the produce.

4.25 From interaction with farmers, it has been cleared that the volume of produce sold to retailer varies from 50-100 per cent of total produce depending on the type of retailer they supplying. For the retailers like Reliance fresh, More, Smart etc this per cent is on lower side. There are reasons for the same as narrated by the farmers.

- **Intensive grading (quality)**

4.26 As mentioned in previous point the main reason retailers buy from farmers is quality of produce. Thus they follow grading system while procuring.

- **Indenting (quantity)**

4.27 As fresh fruits and vegetable are highly perishable in nature, retailers narrow down the demand supply gap to avoid losses. Thus they decide the required quantity based on store sales estimates. This ultimately puts pressure on farmers, as they can't sell whole produce at one place as they do in case of APMCs.

- **No farm gate purchasing (transportation)**

4.28 Farmers in some cases expect the retailers to purchase from the farm gate.

2. Outsourced model

4.29 Food bazaar (Pantaloon retail) and few other retailers are currently working on outsourced model for fruits and vegetables. Here, the space for this category in the store is given to vendors, who are allowed to use space in its shops in exchange for a share of their revenue.

4.30 For example in Mumbai they had tied up with largest wholesaler at Vashi APMC for vegetables and one of the largest wholesaler from Crawford Market for fruits. These people not only manage the entire backend but also manage the respective category in stores. (It happened in India, Kishore Biyani, 2007).

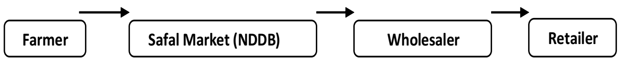
4.31 However, according to recent news, Pantaloon retail is also in process of forming a specialised entity that will set up and manage an efficient supply chain for fruits and vegetables (F&V), marking a shift away from the outsourced model towards direct purchase.

3. Direct Procurement models of few organised food retailers

a. SAFAL market

4.32 Initiated by NDDB, the Safal market came to existence in April 2003 with setting up of a trading platform for Fruit & Vegetables at Bangalore.

Figure: 4.3 Supply chain for Safal market



4.33 The objectives were

- To establish an alternative market set-up that operates parallel to mandis
- Stimulate production, raise quality standards, reduce losses etc

i. Structure and functioning

4.34 The SAFAL market is an establishment of an auction market through clock auction, backward linkage through farmer associations and a forward linkage in form of cash and carry semi-wholesale and retail stores. SAFAL market comprises of a terminal market capable of handling approximately 1,600 tons per day of fresh fruits and vegetables at full capacity. The market infrastructure also has the facility of cold storage, grading, sorting and distribution.

ii. Backward linkages

4.35 The market is supported by 250 Horticultural Farmers' Associations organised throughout India with more than 20,000 members. The farmers' associations are linked to 40 collection centres that are equipped to meet the specific or special requirements of buyers in terms of quality, packing and weighing. Individual growers are being trained in quality management aspects and are provided extension services for production enhancement, by introducing improved varieties, agronomic and plant protection practices, pre- and post-harvest management. Logistics support in terms of packing and transportation of produces is also arranged on behalf of the growers on a pre-fixed charge. More than 200 types and quality of fresh fruits and vegetables are sourced in SAFAL Market through standard quality, grade, weight and packing and is handled by the auction market.

4.36 Farmers or the wholesale purchasers have to register themselves with SAFAL Market on a very nominal charge and become its member, in order to involve themselves with the daily transactions. This is necessary to enable the SAFAL authorities to have consistent suppliers and takers and plan their future demand.

4.37 Farmers cost to market their produce through collection centres of SAFAL has almost reduced by half. A traditional commission agent was charging them 8-10 per cent while the handling charges at SAFAL Markets are only 4.25 per cent (Chengappa and Nagaraj, 2005). Farmers are being provided with payment for their produce on weekly basis in form of account payee cheque. Farmers selling their produce to SAFAL realize 10 to 15 per cent higher profit as compared with traditional channel (Chengappa and Nagaraj, 2005). They gain through proper weighing of produce, low transaction cost, less input cost, efficient transportation, less wastage, right price and extension services. Farmers are ready to supply more than the indent given by SAFAL. Farmers have appreciated the technical service rendered by the SAFAL. Farmers have felt that the SAFAL should make complete procurement of the produce at the farmers' field.

iii. Forward linkages

4.38 Wholesalers participate in auctions at Auction Market Complex or can even bid using Remote Electronic System. The auction takes place in two parallels set up of clock auction halls. Wholesalers find it an added advantage to come at SAFAL terminal market where all the produce is auctioned at the same place rather than fragmented four product specific wholesale markets in Bangalore. Although the SAFAL market is located very far from the city and auction takes place in early morning, yet the purchasers find themselves in advantage dealing through SAFAL terminal market.

4.39 Forward linkage is carried out through 10 to 12 cash and carry stores, owned by the auction market constructed at strategic locations in the city to cater to the requirements of the local retailers. Four distribution centers at the Auction Market Complex cater to the requirements of the large institutional buyers. Cold storage facility is also available for the wholesalers or other market users available on payment basis. Incentives to the wholesalers are assured in terms of availability of quantity and quality of fresh fruit and vegetables, graded and quality checked in wholesaler/retailer friendly packs for easy handling and transport. The state-of-the-art fruit ripening facility, assured quick and efficient dispatch of produce per auction, online wholesale price information of all items in major markets is also made available at SAFAL market to help buyers and suppliers in their decision making.

iv. Constraints

4.40 SAFAL market by and large has been operating successfully in overcoming the constraints that the fresh fruits and vegetables marketing are facing in India. It has been able to establish an efficient supply chain both in backward and forward linkages.

4.41 The up scaling of such models involving the private players and the government playing the role of a facilitator is crucial to make the farmers economically sustainable in the long run. But there are still certain constraints, which, if taken care of, will further strengthen SAFAL market model as a good example to be implemented in many other parts of the country. The backward integration at SAFAL has been able to bring together the farmers' lobby and they are still facing certain resistance and constrains from the wholesale traders. Farmers are satisfied with timely payment, transparency, good price and quality of produce procured through the SAFAL Market. However, SAFAL is currently under performing in terms of not being able to gather the required volumes.

v. Suggestions for improvement (as reported in Indian Council for Research on International Economic Relations working paper)

4.42 Overall some improvements and new interventions listed below, if designed into the system, will make the SAFAL market run more successfully. Since SAFAL procures only the produce, which complies with certain grade standards, the farmers are still forced to partly depend on the commission agents or village merchants to lift their remaining produce. Thus it is more desirable that the entire marketed surplus is collected by SAFAL, which will thus earn the farmers support in the long run. A direct procurement from the field would be an added incentive to farmers. Farmers have not been able to gain full faith in the working of SAFAL as of now as they believe that if they start transaction through SAFAL then they might lose the market through the traditional commission agents and will land them in trouble if this initiative fails.

4.43 Because of the better transportation and cold storage facilities, traders prefer to purchase highly perishable commodities from the SAFAL market while the less perishable commodities (such as onion, potato and garlic) are exclusively procured from the regulated market by the traders. But location disadvantage to traders, inconvenient auction timings and more grading procedures keep many of the traders away from the SAFAL market. The biggest challenge is to break the long prevailing and the very strong link of the commission agents. The introduction of this system impacts their incomes. It is even more difficult to remove them from the supply chain.

4.44 SAFAL market needs to mobilize large buyers like hostels of educational institutions, community hostels, hospitals, canteens of IT establishments in the same area, factories, other food retail chains, etc., in and around Bangalore to increase their traded volumes and run at full capacity. This might come through in next few years once more awareness is created among the farmers and wholesale buyers. A brand image will help them run the organization on higher volumes. More aggressive setting up of semi-wholesale outlets is needed in and around Bangalore to mobilize small buyers. Existing market outlets of Khadi and Village Industries Commission (KVIC), Horticultural Produce Cooperative Marketing Societies (HOPCOMS), Super Bazaars, should be used rigorously. SAFAL should try to meet the credit need of buyers as well as farmers, and play a role more than just being a wholesale market.

4.45 These are certain indicators for the SAFAL to take necessary steps in order to attract the traders and farmers and participate in this new initiative. SAFAL market initiative is an example of improving the supply chain and thus leading to the development of all the stakeholders, with special benefit to the farmers. If the above-prescribed suggestions are further included and improved upon the possibility of adoption of such a model market can be a key to the success of horticulture in India. In conclusion SAFAL market in a short time has been able to increase integration between growers, wholesalers and retailers into the market system in contrast to the present traditional wholesale markets. SAFAL market being a one-stop-shop for buyers and sellers of fruits and vegetables needs to create awareness in both buyers and sellers to congregate at a point.

b. Corporate farming model (Namadhari fresh)

4.46 The only organised retailer (regional) observed to be doing procurement through contract farming is Bangalore based Namdhari fresh

Namdhari's Fresh (NF), a unit of Namdhari Seeds started in 2000 at Bangalore.

They have diversified into

i. Production

4.47 Namdhari fresh has owned farms for production of fruits and vegetable around Bangalore. The company's production plans are based on requirement of three segments i.e. Retail, Institutional and Export. Out of total demand for vegetables in different segments, 70 % comes from Namdhari's own farm. While in case of fruits the share is 30 %.

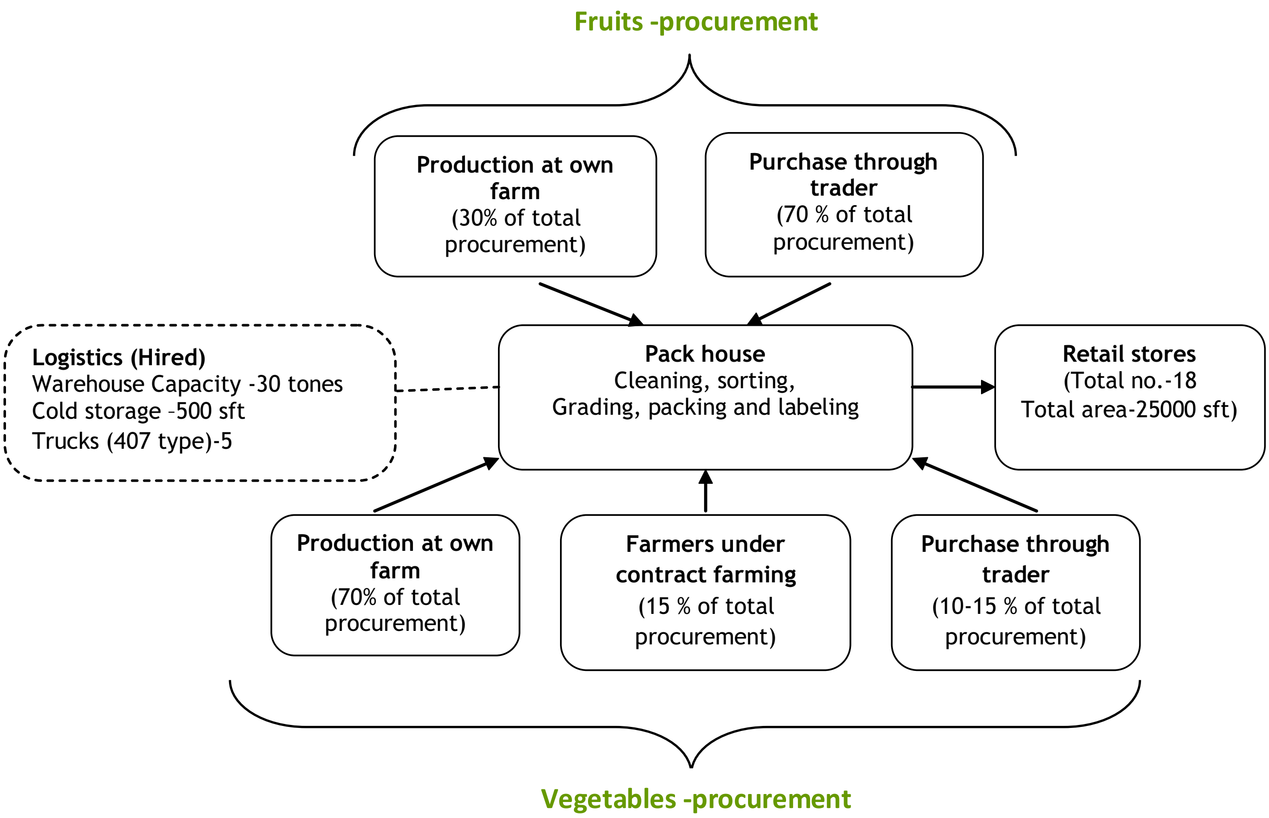
4.49 Presently, more than 40 different vegetables and fruits are being cultivated by Namdhari's Fresh at various productions centers across the country. Apart from own farms they are actively involved in contract farming which forms 10-15 % of total vegetable volumes.

ii. Retail

4.50 At present there are around 18 Namdhari Fresh stores with total of 25,250 sft floor space. Most of these stores are located in Bangalore. They are now spreading slowly in rest of country with one store in Ludhiana.

4.51 As mentioned above the sales volume comprises of produce from own farm. The detailed supply chain for retail is shown in figure below. Fruits and vegetables are aggregated at a common place i.e. pack house after having been procured from various sources. When the produce reaches the pack house it is checked for quality weighed and then stored in pre cooling chambers. After that sorted graded and packed under 200^{0}C temperature. Grading is done on the basis of size, appearance, firmness, color, damage etc. Packing is done on basis of SKU size and then bar coded accordingly.

Figure 4.4: Sources of procurement for Namdhari fresh



iii. Export

4.52 For export company receives order in advance (3-4 moths prior) with grading and packing specification from customer. Accordingly the procurement is done.

c. Precision farming project - a Tamil Nadu Agricultural University's (TNAU) initiative

4.53 The stated objectives of the PFP can be classed into two broad types:

- Promoting hi-tech horticulture through the use of precision technology that involved successfully transferring the latest cultivation and post-harvest technologies to the farmers

- Promoting market-led horticulture by encouraging farmer's forums and associations and increasing the overall value accruing to the farmers.

4.54 The Tamil Nadu Precision Farming Project was implemented over three years (2004-2007) in the districts of Dharmapuri and Krishnagiri in the northern part of Tamil Nadu.

4.55 The rationale for selection of these two districts was primarily the socioeconomic status of both districts, which were considered to be backward, impoverished and water-scarce areas dominated by traditional agricultural practices. Further, Dharmapuri district is considered to be Horticultural district of Tamil Nadu with the largest producer of tropical, sub-tropical and arid zone fruit crops like mangoes, banana, papaya, sapota, guava and grapes, and vegetables such as tomato, brinjal, chillies, cabbage, etc. About 10% of the floriculture industry in the state is concentrated in Hosur area of Krishnagiri district.

Table 4.8: Precision farming buy back tie ups with organised food retailers

Organization	Type of organization	Produce
M/S Aditya Birla	Retailer	Musk Melon
M/s Reliance Fresh	Retailer	Vegetables
M/S Safal Market	Wholesale market	Banana

d. Horticulture Producers Co-operative Marketing and Processing Society limited (HOPCOMS)

4.56 Horticultural Producers Co-operative Marketing and Processing Society Limited (HOPCOMS) were formed in 1959 with a view to provide a fair price to the producers of fruits and vegetables through direct procurement and make them available to consumers. These societies were proposed to be established in all districts. The District HOPCOMS get the produce from their farmer members and sell it to both the household and institutional customers. The societies have a large network of farmer members, decentralized procurement centers at district levels and retail network.

4.57 For getting required fruits and vegetables from farmers, HOPCOMS procurement personnel give an 'indent' to farmer members. Against the indent, the procurement centers receive the produce early morning every day and make payment to the farmers. The produce collected from farmers is supplied to the retail outlets. Retail outlets personnel come and collect the produce they require from the procurement centers on a daily basis.

i. District HOPCOMS are five decades old: HOPCOMS is one of the earliest co-operative initiatives of the state, established under the Karnataka State Co-operative Act in 1959. Most of district HOPCOMS are four to five decades old and are serving farming community since inception.

ii. Strong back-end integration: Till recently, over 37000 farmers across 19 districts have enrolled as member of HOPCOMS. Ever since its inception, district HOPCOMS have been helping the farmers by creating an avenue to procure directly from farmers thereby preventing exploitation by the middlemen.

iii. Huge consumers base: HOPCOMS collectively has over 600 retail outlets serving consumers (estimated at 60000) daily with fresh, directly procured F&V at a fair price. Large sections of urban consumers prefer HOPCOMS produces, which are fresh and not cold room based.

iv. Coordinated and directed by KHF: The Karnataka State Co-operative Horticultural Produce Marketing Federation Limited (KHF) is the state level federal apex co-operative institute established in 1998 with the aim of developing comprehensive horticultural marketing. With the current strengthening initiatives, the KHF promotes the state horticultural sector though proper co-ordination and integration of district HOPCOMS.

e. Franchisee model (Suguna poultry)

4.58 Suguna poultry has redefined the way poultry is being marketed in India by adopting the franchisee route towards retailing chicken.

4.59 It has come up with the concept of 'Suguna Daily Fresh', which is a chain of high-quality, modern air-conditioned futuristic retail stores. Operating on a dealership model, Suguna Daily Fresh retails, fresh, hygienic, nutritious and tender chicken in eight forms including whole dressed chicken, portioned plain and marinated items. The outlet also stocks Suguna value added eggs in four variants, frozen fish, sea food, sausages, salami and Suguna Home Bites, a range of ready to cook and ready to heat-and-eat items.

4.60 The storage unit efficiently maintains an optimum temperature helping to retain the freshness of the products. The pre-cleaned chicken is cut with a precision machines facilitating quick and effective service. The shop area contains a glass display chiller showcase unit to display the range of portions.

4.61 The stores require an investment of about Rs. 650000 from the promoter and a property of 200 sft in prime location with adequate parking space. With 30 stores across Tamil Nadu and Kerala, Suguna Daily Fresh is fast becoming a popular household name for hygienic chicken.

4.62 The company supports the franchisee by various promotional events and walk-ins with the objective of educating and attracting the upwardly mobile as well as middle class consumers. The company marketing team also adequately focuses in understanding consumer behaviour, perception and requirements through these retail outlets. Suguna's business model is designed to provide the franchisee with healthy incentives and assured monthly earnings.

f. Direct marketing - farmers markets

4.63 Direct marketing by farmers is being encouraged as an innovative channel. Some examples of these channels are Apni Mandi, Rythu Bazars, and Uzhavar Sandies. These channels are mostly adopted in sales transactions of agricultural commodities like fruits, vegetables and flowers, which are highly perishable. In this channel, the produce moves quickly from farmers to consumers due to lack of middlemen. If farmers directly sell their produce to the consumers, it not only saves losses but also increases farmers' share in the price paid by the consumer.

4.64 Farmers' markets were introduced with a view to eliminate the middlemen and arrange facilities for the farmers to sell their produce directly to the consumers at reasonable rates fixed every day. On account of the scheme, both the farmers and the consumers are benefited.

i. Apni mandies in Punjab and Haryana

4.65 Punjab's and Haryana's Apni Mandi (Our Market), established in the mid-1990s, were the first ones directly linking vegetable producers and consumers. Farmer producers bring the produce for sale directly to the buyers or consumers. The Agricultural Produce Market Committee of the area where Apni mandi is located provides all necessary facilities like space, water, shed, counters and weighing balances

ii. Rythu Bazars in Andhra pradesh

4.66 The Government of Andhra Pradesh initiated the Rythu Bazars on January 26, 1999. The number of Rythu Bazars has increased from 49 to 102 and now it covers nearly 40,000 farmers of 2,800 villages in all the district head-quarters and important cities in Andhra Pradesh. Rythu Bazars are located on government lands identified by the District Collectors. The locations are decided in such a way that they are convenient to both for the farmers and consumers. The criteria for opening of new Rythu Bazars are the availability of at least one acre of land in strategic location, and identification of 250 vegetable growing farmers including 10 farmer groups. The price fixation in Rythu Bazars is through a committee of farmers and the Estate Officer. Adequate care is taken to fix the prices realistically. If the prices in Rythu Bazars are higher than the local market rate, there is no incentive to consumers. And if the prices fixed are lower than the wholesale market rates, there are no incentives to farmers. The prices in Rythu Bazars are generally 25 per cent above the wholesale rates and 25 per cent less than the local retail price. The maintenance expenditure of Rythu Bazars is being met from the financial sources of Agricultural Produce Market Committees.

iii. Uzhavar santhai in Tamil nadu

4.67 Uzhavar Santhai was introduced as a new marketing strategy in 1999 in Tamil Nadu. The initiative was aimed at facilitating direct contact between the farmers and consumer. The Uzhavar Santhais are located in a consumer area, where the consumers can approach to the market easily. In fact, the main intention is to ensure the urban character of the location, so that adequate number of consumers will benefit from the market.

4.68 The first Uzhavar Santhai of the state was inaugurated in November 1999 at Madurai and 100th Uzhavar Santhai on November 2000 at Pallavaram. At Present 103 Uzhavar Santhais are functioning with full vigor.

4.69 All Uzhavar Santhai are maintained by Agricultural Marketing Department and manned by the staff of the Department of Agricultural Marketing, Agriculture, and Horticulture. The District Collector is the coordinator for running the Uzhavar Santhai successfully in the districts whereas in the state as a whole, the scheme is implemented by the Director of Agricultural Marketing and Agribusiness.

iv. Hadaspar vegetable market in pune

4.70 Hadaspar vegetable market is a model market for direct marketing of vegetables in Pune city. This sub-market yard situated 9 kms away from Pune city belongs to the Pune Municipal Corporation and the fee for using the space in the market is collected by the Municipal Corporation from the farmers. It is one of the ideal markets in the country for marketing of vegetables. In this market, there are no commission agents or middlemen. The market has modern weighing machines for weighing the products. Buyers (retailers) purchase vegetables in lots of 100 kg or 100 numbers. The produce is weighed in the presence of licensed weighment of the Market Committee and sale bill is prepared. The purchasers make payment of the value of produce directly to the farmer. The purchaser is allowed to leave the market place along with the produce after showing the sale bill at the gate of the market. Payment is made in cash. Disputes, if any, arising between buyers and sellers are settled by the supervisor of the Market Committee after calling the concerned parties. The Market Committee collects one per cent sale proceeds as market fee for the services and facilities provided by the committee to the farmer-sellers and buyers. A common problem faced by the direct market systems is the infiltration of the bazaars by middlemen in the guise of farmers. Though identity cards have been introduced and there are periodical checks, the problem still persists.

v. Raithara santhegalu in karnataka

4.71 Karnataka Agricultural Marketing Board has established farmers market or Raithara Santhe without any middlemen and provides a place where farmers and consumers directly interact. Raithara Santhe provides a platform for direct interface of farmers and consumers.

4.72 During the year 2004-05 under the Central Sector Scheme Rs.55 lacs has been released for the establishment of Raithara Santhes in Bagalkot and Basavanabagewadi and developmental works have been completed.

4.73 During the year 2005-06 developmental works have been completed in Ranebennur and Haveri. During the year 2006-07 in K.R Puram Taluk Varthur Raithra Santhe Project was sanctioned. Developmental works have been completed Jalanagar and Basavanabagewadi Taluk in Bijapur District.

CHAPTER 5

CREDIT IN FOOD RETAILING

5.1 Credit is recognized as the lifeblood of any business. The ease of credit flow determines the success of any sector. As we have seen in earlier chapters, the evolution from unorganised retailing to organised retailing requires investments in the front end store level customer service and technology as well as developing backend supply chain. In this chapter, primary level understanding of the credit requirements of the unorganised and organised food retail sectors have been presented along with an assessment of the credit needs of the organised sector in the future.

A. Credit requirement of the unorganised retailers

1. Long term

5.2 As per the primary data collected from the A1 and A class cities, the main long term investment of the unorganised retailers was for the furnishings and the store decoration (54% of respondents had invested substantially in store decoration and furnishings) followed by construction of the shop (16% of respondents had invested for land and buildings). The average investment for store decoration and furnishing was about Rs.45,000 per store while it was about Rs.3 lakhs for land and construction.

5.3 In case of B1, B2 and C class cities about 13% of the retailers had invested in land and building while 45% had substantial investment in store decoration and furnishings. Here the average investment for store decoration and furnishing was Rs.17,000 per store while it was about Rs.3.6 lacs for land and construction. It can be inferred that the investment for store decoration and furnishings was substantially higher in case of A and A1 class cities when compared to B1 and B2 class cities.

5.4 The funding of long-term investments was mainly through own/family capital with only 16% of the total investments in the A1 and A class sample and 13% in B1 and B2 cities being funded by borrowings. Also, within the funds borrowed about 76% was borrowed from nationalized banks and the rest 24% was borrowed from private moneylenders in case of A1 and A class cities. In case of B1, B2 and C class sample, it was 63% from nationalized banks, 6% from the private banks, 26% from relatives and 6% from the co-operatives.

5.5 In case of long-term borrowings in general, the repayment period was 4-5 years and the average rates of interest were 11-12% per annum in case of banks, and co-operatives and 18-24% per annum from moneylenders while in case of relatives it was free of any interest.

2. Short term

5.6 The short-term investments were reported by majority of the respondents. About 88% had invested their money in inventory, while 62% had blocked money in giving the products on credit to the customers in the A1 and A class sample, while 95% and 76% of the retailers had made investments in inventory and providing credit to customers respectively in the B and C class sample.

5.7 In case of short-term capital requirements borrowings also, the dependence was on own sources rather than credit. The total amount borrowed was reported as only 8.33% of the total amount invested in case of A and A1 sample while it was 9% in case of B and C class sample. However, in contrast to the long-term credit sources, here the dependence was more on informal sources of credit (84% of total amount borrowed in case of A1 and A and 91% in case of B1 and B2 sample) rather than nationalized banks (16% of total borrowed amount for short term credit in A1 and A and 8.4% in case of B1 and B2 sample). The major informal sources were private moneylenders and friends and relatives and chit funds in few cases.

B. Credit requirement of the organised retailers

5.8 Interestingly most of the organised retailers of India have diversified to retail from various other businesses. In majority of the cases, retail is just a small portion of the total business of these conglomerates.

Table 5.1: Diversification of major organised food retailers

Organised retailer	Parent Company	Main Business focus	Company started in the year	Retailing initiated in the year
Nilgiris	Nilgiris	Dairy and retail	1905	1971
Spencer's	RPG group	Automobiles, tyre, jute, cotton, textiles, electric cables, banking and also in to tea	1900	1996
Spar	Landmark Group	Food, hotels, electronics and health care	1973	2007
Smart retailer	Wadhwan	Project management & implementation & retail	1871	2005
Heritage	Heritage	Dairy, retail & agri	1992	1992
Reliance	Reliance	Textiles, fiber, plastics, petrochemicals, petroleum refining and exploring in to oil and gas & production.	1977	2006
Vishal Mega Mart	Vishal Mega Mart	Apparels & retailing	1986	1986
Aditya Birla More	Aditya Birla group	Healthcare, education, sustainable livelihood, infrastructure & espousing social causes.	1857	2007
Pantaloon Retail India Ltd.	Future group	Apparels and Retail	1987	1999
NDDB Mother dairy	NDDB	Dairy products, fresh fruits & vegetables and frozen vegetables.	1974	1988
Star Bazaar	TATA group	IT, engineering products & services, Energy, Chemicals & Retail	1868	2004
Godrej Adhaar	Godrej Agrovet Ltd	Animal feed, oil palm plantations & plant bio-tech, Agri inputs and Godrej Tyson foods & Retail	1971	2005
Bharati retail	Bharati Group	Telecommunication, Insurance, investment & retails	1986	2006

5.9 As revealed by majority respondents in this category, organised retailers avoid a large credit exposure (especially short term credit) as the interest creates financial burden in a thin margin operation like retailing. Most of the finance of the retailers is from the parent company in the form of equity. The parent company would borrow from the bank as a group.

5.10 Nevertheless, the major reasons for borrowing by the organised retailers are creating front-end infrastructure including store decoration and IT for the long term and for financing part of their inventory requirement for the short term. While most of the retailers accepted that they had to make an investment in inventory, many organised retailers accepted that it was a very costly item and their aim is to minimize it and depend on supplier's credit for the inventory.

5.11 It is clear that other reasons like acquisition & development of real estate, brand building and creating warehousing & logistic infrastructure were not very important areas for seeking finance by the majority of organised retailers as many of these activities work on an outsourced model and they are not the immediate needs of the organised retailers.

C. Current and projected credit demand for the organised food retailers

5.12 Based on the primary interactions with various organised retailers in the sample it was revealed that the major areas of long-term investment were rental advance, store interiors including refrigeration and IT infrastructure while it was inventory in the short term.

1. Investment demand

a. Long term

i. Rental advance

5.13 From the primary interaction with retailers it is clear that the rent per sft for stores is around Rs.30-40 per month. The rental advance generally depends on the monthly rent amount and equals to 2-3 months rent. It is also important for retailers to have an office space. This space also account for rent and rental advance when it comes to setting up a store.

5.14 In calculations we have assumed Rs.40 as the current rent per sft and added 15% for office and parking space, thus for a rent of Rs.46 per sft the rental advance is assumed to be Rs.138 per sft (3 months).

ii. Interiors

5.15 Interior forms an important part of initial investments. Following are main component of interior designing of a store

- Civil Works
- Electrical Works
- Painting
- Racks & Shelves
- Furniture & Fixtures
- Signage
- Freezers

5.16 Here also office space interiors are added to total interior costs. The cost of store interior is taken as Rs.1000 per sft on a conservative basis based on primary interactions with retailers with an addition of 15% for office and parking space.

iii. IT infrastructure

5.17 IT infrastructure of retail store includes following component

- Store Point of sales unit: POS -Includes Computers
- Software Retail Program
- Software Operating System
- Miscellaneous Expenses Cabling etc
- Broad Band

5.18 The projections for investment in IT have already been done in Table 3.14 in chapter on Retail Infrastructure.

Table 5.2: Estimation of cost of establishments (2008-09)

Components	Investment per sft (Rs)	Total Investment (Rs billion)
Rental advance	138	3
Interiors	1,150	25.3
IT	-	0.8
Total		**29.1**

5.19 As the per square feet cost of rental advance work out to Rs.138 and that for interiors Rs 1150, for the total space under food retail of 22 million sft it adds up to 3 billion and 25.3 billion respectively. Thus, an investment of about Rs. 29 billion is estimated to be employed in long -term under organised F&B retailing by various retailers, which includes IT infrastructure cost.

b. Projections for long-term investment requirement

5.20 The projections on space and the investment per square feet presented above are used to calculate the future investment requirement with the increase in food retail space with time. It is assumed that inflation would increase the rentals and the cost of interiors at 5% every year. In case of IT investment, the earlier projections have been used.

Table 5.3: Projections for long-term investment requirement by organised food retailers (Rs billion)

Year	Rental advance	Interiors	IT	Total investment requirement	Additional investment requirement
2009-10	3	28	1	32	3
2010-11	4	32	1	37	4
2011-12	4	36	1	42	5
2012-13	5	41	1	47	6
2013-14	6	47	1	54	6
2014-15	6	53	2	61	7
2015-16	7	61	2	70	8
2016-17	8	69	2	79	10
2017-18	9	78	2	90	11
2018-19	11	89	3	103	12
2019-20	12	102	3	117	14

5.21 The total investment requirement is poised to become four times from current 29 billion by the year 2020, while the additional space is expected to grow slightly more than double. The reason is inflation, which will increase the cost components over the years.

i. Scenario analysis

5.22 With affect of economic slowdown in year 2008-09, the projections for retail growth by many reputed agencies were revised.

The following table represents the investments under pessimistic and optimistic scenario of food retail space growth over years.

Table 5.4: Projections for long-term investment requirement by organised food retailers under different scenarios (Rs billion)

Year	Pessimistic		Optimistic		Most probable	
	Total investment requirement	Additional investment requirement	Total investment requirement	Additional investment requirement	Total investment requirement	Additional investment requirement
2009-10	32	3.3	33	5.0	32	4.1
2010-11	35	3.3	39	5.7	37	4.5
2011-12	39	3.6	46	6.8	42	5.1
2012-13	43	4.0	54	8.0	48	5.8
2013-14	47	4.4	63	9.3	55	6.7
2014-15	52	4.9	74	11.0	62	7.6
2015-16	57	5.4	87	12.9	71	8.6
2016-17	63	6.0	102	15.1	81	9.8
2017-18	70	6.6	120	17.7	92	11.2
2018-19	77	7.3	141	20.8	105	12.8
2019-20	85	8.0	165	24.4	119	14.5

5.23 The total investment is likely to grow from Rs. 32 billion to Rs. 85 billion even in pessimistic scenario. Under the optimistic scenario, almost 165 billion is expected to be invested under organised food retailing in the year 2019-20.

c. Short-term investment

5.24 The single major application of short-term credit is inventory. Though, most of the suppliers provide credit for various durations for the supplied products as seen in the earlier chapter on supply chain, about 30-50% of the inventory is typically owned by the retailers at any point of time as revealed by the primary survey of the organised food retailers. Retailers are working with their suppliers to reduce this burden but it becomes critical to hold inventory by the retailer in many cases.

5.25 Based on analysis of profit and loss statements of various food retailers, we find that the current average inventory per sft in case of food retailers can be safely assumed at Rs. 650 per sft. With a space of 22 million sft, the total inventory size would be Rs.14.3 billion. Thus, the current requirement of short-term investment in inventories would be Rs.5.7 billion for the F&B organised retail (40%).

Table 5.5: Projections for short-term investment requirement by organised food retailers (Rs billion)

Year	Total investment				Additional investment			
	Most probable	Optimistic	Pess imistic	Expected	Most probable	Optimistic	Pess imistic	Expected
2009-10	6.4	6.5	6.2	6.4	0.4	0.5	0.2	0.4
2010-11	7.3	7.7	6.9	7.2	0.9	1.1	0.6	0.9
2011-12	8.3	9.0	7.6	8.2	1.0	1.3	0.7	1.0
2012-13	9.4	10.6	8.4	9.3	1.1	1.6	0.8	1.1
2013-14	10.7	12.4	9.2	10.6	1.3	1.8	0.9	1.3
2014-15	12.2	14.6	10.2	12.0	1.5	2.2	1.0	1.5
2015-16	13.9	17.1	11.3	13.7	1.7	2.5	1.1	1.7
2016-17	15.8	20.1	12.4	15.6	1.9	3.0	1.2	1.9
2017-18	18.1	23.5	13.7	17.7	2.2	3.5	1.3	2.1
2018-19	20.6	27.6	15.2	20.2	2.5	4.1	1.4	2.5
2019-20	23.4	32.4	16.7	23.0	2.9	4.8	1.6	2.8

Corresponding with the increase in space, the projections have also taken into account a 5% annual increase in the price of goods.

d. Credit demand

5.26 The total credit demand is assumed to be 66.3% of the total investment requirement assuming a debt equity ratio of 2:1. In fact retailers like Pantaloon and Heritage are close to this figure.

Table 5.6: Projections for total credit demand by organised food retailers (Rs billion)

Year	Long term				Short term				Total			
	Most probable	Optimistic	Pessimistic	Expected	Most probable	Optimistic	Pessimistic	Expected	Most probable	Optimistic	Pessimistic	Expected
2009-10	21	22	21	21	4	4	4	4	26	26	25	26
2010-11	25	26	23	25	5	5	5	5	30	31	28	29
2011-12	28	31	26	28	6	6	5	5	34	37	31	33
2012-13	32	36	29	31	6	7	6	6	38	43	34	38
2013-14	37	42	31	36	7	8	6	7	44	50	37	43
2014-15	41	49	35	41	8	10	7	8	49	59	41	49
2015-16	47	58	38	47	9	11	8	9	57	69	46	56
2016-17	54	68	42	53	11	13	8	10	65	81	50	63
2017-18	61	80	47	60	12	16	9	12	73	96	56	72
2018-19	70	94	51	69	14	18	10	13	84	112	61	82
2019-20	79	110	57	78	16	22	11	15	95	132	68	93

Thus, as per projections, credit demand between Rs.37-50 billion would be created in the organised food-retailing sector by 2013-14, which could grow to Rs.68-132 billion by 2019-20.

e. Support investment demand for organised food retail

5.27 In the last section we have seen the direct investment and credit requirement of the organised retailers. However, as seen earlier they depend on various support infrastructures, which they generally hire. The growth in organised retail would lead to a corresponding growth in these sectors. In this section, we have presented the investment demand for important supporting industries on account of organised food retailing.

i. Space

5.28 Using the data on projections of retail space for organised F&B retail (Table 3.9), and assuming a cost of construction of Rs.1,000 per sft on a conservative basis, the current investment in retail space for F&B retail is estimated around Rs.22 billion. This is projected to increase to over 80 billion by 2019-2020 assuming a 5% yearly increase in the price of real estate construction.

Table 5.7: Investment demand for retail space for organised food retail

Year	Total investment				Additional investment			
	Most probable	Optimistic	Pessimistic	Expected	Most probable	Optimistic	Pessimistic	Expected
2009-10	25	25	24	24	3	3	2	2
2010-11	28	30	26	28	3	4	2	3
2011-12	32	35	29	32	4	5	3	4
2012-13	36	41	32	36	4	6	3	4
2013-14	41	48	36	41	5	7	3	5
2014-15	47	56	39	46	6	8	4	6
2015-16	54	66	43	53	7	10	4	6
2016-17	61	77	48	60	7	11	5	7
2017-18	69	91	53	68	8	13	5	8
2018-19	79	106	58	78	10	16	6	9
2019-20	90	125	64	88	11	18	6	11

ii. Warehouse

5.29 Using the data on projections of warehouse space for organised F&B retail (Table 3.10), and assuming a cost of construction of Rs.500 per sft, the current investment in warehouses used for organised food retailing could be around Rs.3.7 billion. This is projected to increase to over Rs.15 billion by 2019-2020 assuming a 5% yearly increase in the cost of construction.

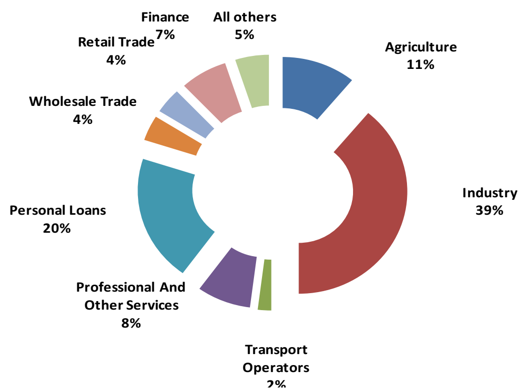
Table 5.8: Investment demand for warehouse space for organised food retail

Year	Total investment				Additional investment			
	Most probable	Pessi mistic	Optimistic	Expected	Most probable	Pessi mistic	Optimistic	Expected
2009-10	4.1	4.0	4.2	4.1	0.4	0.3	0.5	0.4
2010-11	4.7	4.4	4.9	4.6	0.6	0.4	0.7	0.5
2011-12	5.3	4.9	5.8	5.3	0.6	0.5	0.9	0.6
2012-13	6.0	5.4	6.8	6.0	0.7	0.5	1.0	0.7
2013-14	6.9	5.9	8.0	6.8	0.8	0.6	1.2	0.8
2014-15	7.8	6.5	9.3	7.7	1.0	0.6	1.4	0.9
2015-16	8.9	7.2	11.0	8.8	1.1	0.7	1.6	1.1
2016-17	10.2	8.0	12.9	10.0	1.2	0.8	1.9	1.2
2017-18	11.6	8.8	15.1	11.4	1.4	0.8	2.2	1.4
2018-19	13.2	9.7	17.7	12.9	1.6	0.9	2.6	1.6
2019-20	15.0	10.7	20.8	14.7	1.8	1.0	3.1	1.8

f. Credit supply to organised food retailers

5.30 The information on credit deployment for majority of organised food retailers is constrained by the fact that these organizations have been borrowing as a group and not only for their retail operations. Even for companies like PRIL, where majority of exposure is in retail, it is difficult to judge the investment required in food retail as food is just one of the categories.

Figure 5.1: Sector-wise lending of all scheduled commercial banks



(Loans outstanding as on 31 March, 2008, Source: RBI)

5.31 Total lending for all scheduled commercial bank is around Rs. 24,170 billion of which lending for retail trade accounts for 1070 billion (hardly 4%). Retail trade covers trade of all agri and non-agri commodities. Thus, retail trade includes all multi and single brand retail trade, each of which is further classified as organised and unorganised trade. Single brand trade corresponds to trade in exclusive brand store e.g. Titan watch stores or Himalaya retail stores.

g. Debt in organised retailing

5.32 In the graphs below we have presented the long term debt and capital employed by few retailers. Data for other majority of retailers would not be useful because data is available on a consolidated basis for all the business of the firm and retailing just a part of it.

Figure 5.2: Share of debt in total funds for Pantaloon retail

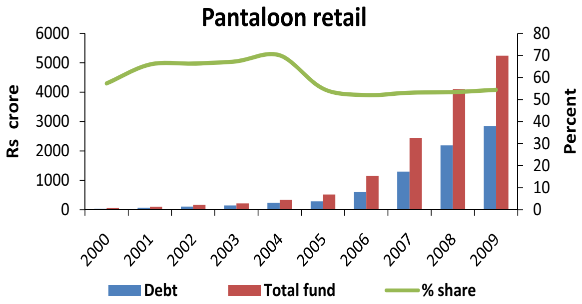


Figure 5.3: Share of debt in total funds for heritage retail

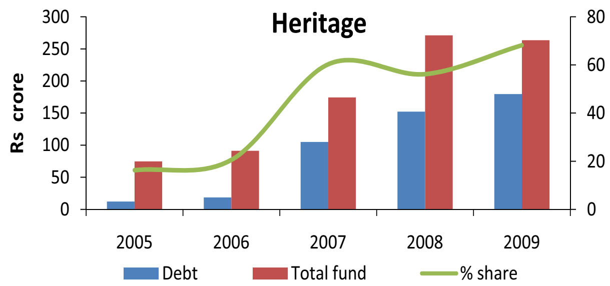
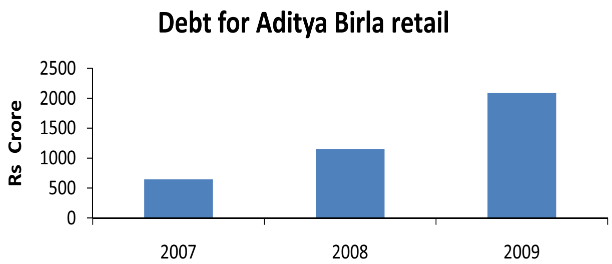


Figure 5.4: Debt size of ABRL



Note: Debt indicates only long-term interest bearing loans

From the data it can be observed that the reliance on debt is increasing among food retailers over years.

D. Existing credit products for unorganised retail

5.33 Almost all the bankers have flexible and need based credit schemes for unorganised retailers. All existing schemes are able to accommodate different credit need of the customers. If any areas are left or not financed by the banks it is because of lack of guidelines or instructions regarding this. The banks do not have any specific scheme to provide credit only to the food retailers; therefore all retailers (food and non food) are served under similar schemes. In case of unorganised retailers, banks generally provide credit under following schemes

- Loan against collateral- it is very general category of loan available for the entire credit requirement of the customer. Customers who want loan for longer periods opt for this loan. Infrastructure development (constructing/ buying/leasing shop), initial capital requirement (stocks/goods/furniture & fixture/bonds or security deposits) are the major need for which unorganised retailer seek credit under this.

- Overdrafts/cash credit- It is mainly a facility given to the specific customers who could comply with the bank's norm. This is another popular scheme under which unorganised retailers access credit for their short-term requirement. Only those customers who maintain account with a bank and have sound business transaction record can avail this facility. Customers also need to submit their business account summary like profit & loss account and balance sheets as proof of sound financial performance. Due to this it is not popular among small size retailers and those who do not maintain accounts.

- Self employment scheme (Swarojgar yojana)- Government had announced various schemes for people to promote self-employment. This scheme is available for all individuals who want to start any business in India. Banks transfers money directly to the supplier accounts against proof of supply of goods to the retailers. The maximum credit given under this scheme is Rs. 25,000, so it is mainly for the small-scale retailers.

1. Financed under priority (agribusiness lending)- under this schemes few specific retailers involved in agribusiness chain receive credits from banks. Again these retailers may necessarily not be dealing in food business. Retailers dealing with groceries and general goods are not covered in priority sector lending but fruits & vegetable traders could be covered.

2. DCR-differential credit scheme

5.34 The scheme provides for lending at a concessional rate of interest, i.e. @ 4% p.a. for productive / self-employment ventures.

a. Target group

- Scheduled Castes/Scheduled Tribes and others engaged on a very modest scale in Agriculture and / or allied agricultural activities.
- People who themselves collect or do elementary processing of forest products and people who themselves collect fodder in different areas and sell them to farmers and traders.
- People physically engaged on a modest scale in the fields of cottage and rural industries and vocations - e.g.: cutting cloth and sewing garments, making reasonably cheap eatables, home delivery service of articles and commodities of daily use, running wayside tea stalls, plying of manual rickshaws and cycle rickshaws, repairing of shoes sandals mainly by hand, basket making by hand etc.
- Physically handicapped persons pursuing gainful occupation.

b. Quantum of loan

- Maximum of Rs.15,000/- by way of terms loan and / or working capital

c. Repayment period

- Maximum of 5 years
- Installments to be fixed monthly or otherwise depending on income generation

d. Security

- Hypothecation of assets purchased out of loan.

3. Credit Guarantee Trust for Micro and Small Enterprises (CGTMSE)

5.35 Government of India launched Credit Guarantee Scheme (CGS) so as to strengthen credit delivery system and facilitate flow of credit to the MSE sector. To operationalise the scheme, Government of India and SIDBI (Small Industries Development Bank of India) set up a Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE).

5.36 The main objective of the scheme is that the lender should give importance to project viability and secure the credit facility purely on the primary security of the assets financed.

5.37 The other objective is that the lender availing guarantee facility should endeavor to give composite credit to the borrowers so that the borrowers obtain both term loan and working capital facilities from a single agency.

5.38 The Credit Guarantee scheme (CGS) seeks to reassure the lender that, in the event of a MSE unit, which availed collateral free credit facilities, fails to discharge its liabilities to the lender, the guarantee trust would make good the loss incurred by the lender up to 75- 85 per cent of the credit facility.

4. Examples of credit schemes

Table 5.9: Schemes for organised and unorganised retailers by Union Bank

Name of credit scheme	Cash Credit/Term Loan	Composite Loan (For very small proposals)
Credit Limit	Rs. 2.00 lakhs to Rs. 25 crore	Up to Rs. 2.00 lakhs
Duration of credit	For Term Loans –not to exceed 7 years including moratorium Period	3 to 5years
Eligibility	Companies /trading firms/Business Enterprises/ Service units requiring credit facilities above up to Rs 25.00cr	Small Business Entrepreneurs & Unemployed youths
Processing Time	6 working days (At branch level)14 working days (At higher level)	6 working days (At branch level)
Processing Fees	0.50% of the loan amount subject to a maximum of a Rs15,000/-plus service tax as applicable 0.25% of the loan amount at the time of application plus service tax as as applicable and 0.25% of loan amount on acceptance of sanction plus service tax as applicable.	-NIL-
Interest rate	For WC as per the internal credit Rating Maximum of (BPLR +1.25%) and minimum of (BPLR-0.50%). For TLas per credit Rating maximum (BPLR +1.75%)and minimum BPLR	BPLR

BPLR=11.75% during Feb-2010.

Table 5.10: Schemes for organised and unorganised retailers by Indian bank (other than Govt sponsored)

Name of credit scheme	SHGs	Retail Trade	Trade well	DRI
Credit limit	No Ceiling	Up to Rs.20 lacs	Up to Rs 5 Cr Up to Rs.1 Cr	15,000
Duration of credit	WC 1 yr TL 5 yr	WC 1 yr TL 5 yr	WC 1 yr TL 5 yr	5 yrs
Eligibility	Self help group in existence for 1 year & with satisfactory grading	Traders with license	Traders with license	Family income Rs.18,000 in rural & 24,000 in SU/U
Processing time	One week	15 days	15 days	One week
Interest rate	11.50% to 13% according to the quantum of finance	11.50% & 12%-12.50%	11.50% & 12%-12.50%	0.04

Table 5.11: Processing fees for working capital loans for Indian Bank

Upto Rs. 25,000	Priority-nil Non priority-Rs.300
Above Rs.25,000 up to Rs.5 lakhs	0.30% with min. of Rs.300
Above Rs. 5 lakhs up to Rs. 1 crores	0.28% with min. of Rs.1,500/-
Above Rs.1 crore up to Rs. 10 crores	0.23% with min. of Rs. 28,000/-
Above Rs. 10 crores	0.13% with a min. Of Rs. 2,30,000/- and max without ceiling

Table 5.12:Processing charges for term loan for Indian Bank

Processing charges for Term Loans	For Term loans processing charges @1.15% as upfront fee has to be recovered at the time of sanction inclusive of service tax.

5. Existing credit products for organised retail

5.39 Food retail is not covered under priority sector of direct agriculture lending by the bank therefore no specific schemes are available for food retailers. Thus, organised food retailers are given credit under general scheme/ corporate credit along with all kinds of retailers. In case of organised retailers, bankers do not have any classification of customers of organised food retailer and non-food retailer, they also have not developed any specific or customized credit schemes for organised food retailer. In general, bankers finance or give credit under following schemes.

a. Long term debt

i. Term loan

5.40 Banks lend money in this mode when the repayment is sought to be made in fixed, pre-determined installments. This type of loan is normally given to the borrowers for acquiring long term assets i.e. assets which will benefit the borrower over a long period (exceeding at least one year). Loans taken by organised retailers for developing interiors, building warehouses or buying vehicles for transport etc. fall in this category.

- **Security / third party guarantee:**

5.41 Bank will not insist for collateral security / Third Party Guarantee for total credit limits up to Rs.5 lakhs for SME borrowers. In respect of credit limits above Rs.5 lakhs and upto Rs.25 lakhs Collateral Security / Third Party Guarantee may be waived for deserving cases and those limits will be covered under Credit Guarantee Trust for Micro and Small Enterprises (CGTMSE).

ii. Short term debt

- **Bills discounting/ loan against receivable**

5.42 Bill discounting is a major activity with banks. Under this type of lending, bank takes the bill drawn by borrower on his (borrower's) customer and pay him immediately deducting some amount as discount/commission. The bank then presents the bill to the borrower's customer on the due date of the bill and collects the total amount. If the bill is delayed, the borrower or his customer pays the bank a pre-determined interest depending upon the terms of transaction.

- **Warehouse receipt finance**

5.43 Under WR finance the goods stored in warehouse are used as collateral against loan.
In the current context, warehouse finance is more appropriate for processors than the retailers as very few retailers carry out their own processing.

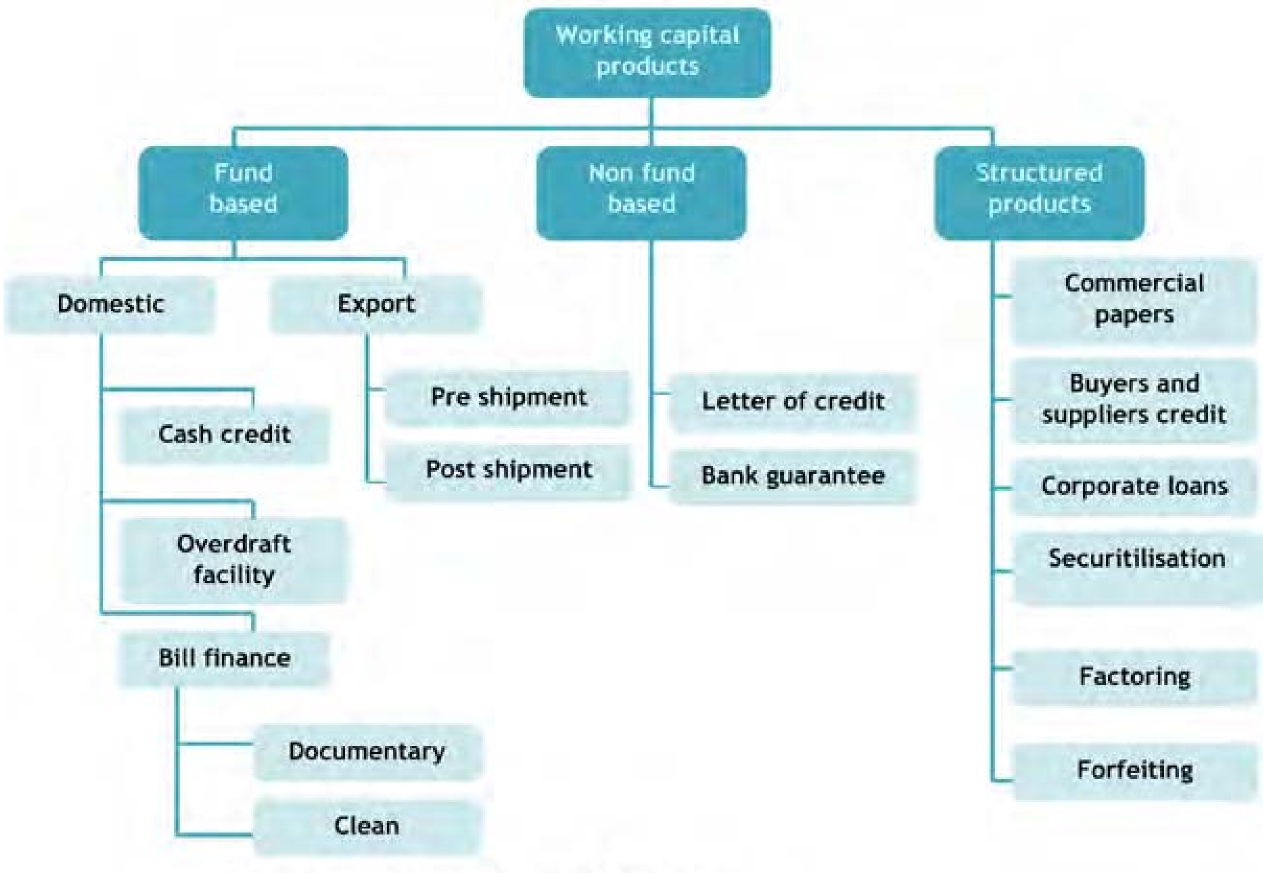
- **Working capital finance**

5.44 Working capital refers to that part of the firm's capital, which is required for financing short-term or current assets such as cash, marketable securities, debtors and inventories.

5.45 Working capital requirements of a unit is assessed by adopting various methods like Turnover Method, Maximum Permissible Bank Finance (MPBF) System, Cash Budget System and Net Owned Funds System, depending on the type of activity.

Rate of interest on working capital finance depends on quantum of loan, nature of activity, purpose of loan, risk rating, financials etc.

Figure 5.5: Working capital products



- **Collateral for working capital finance**

5.46 Stock is the primary security for working capital finance. The collateral securities for working capital facilities would be as per general lending norms of the bank and also depends on the risk perception of the individual account.

- **Commodity financing**

5.47 Structured Commodity Finance (SCF) is a sophisticated commodity-based financing technique, specifically designed for commodity producers and trading companies doing business in the developing markets. Introduced in the early 1990s, SCF continues to play an important role, providing liquidity management and risk mitigation for the production, purchase and sale of raw, semi-refined or semi processed materials.

5.48 In this case security is provided by an assignment of commodity stored in a warehouse.

This kind of financing in mainly availed by exporters but the retailers also have a scope to avail the same.

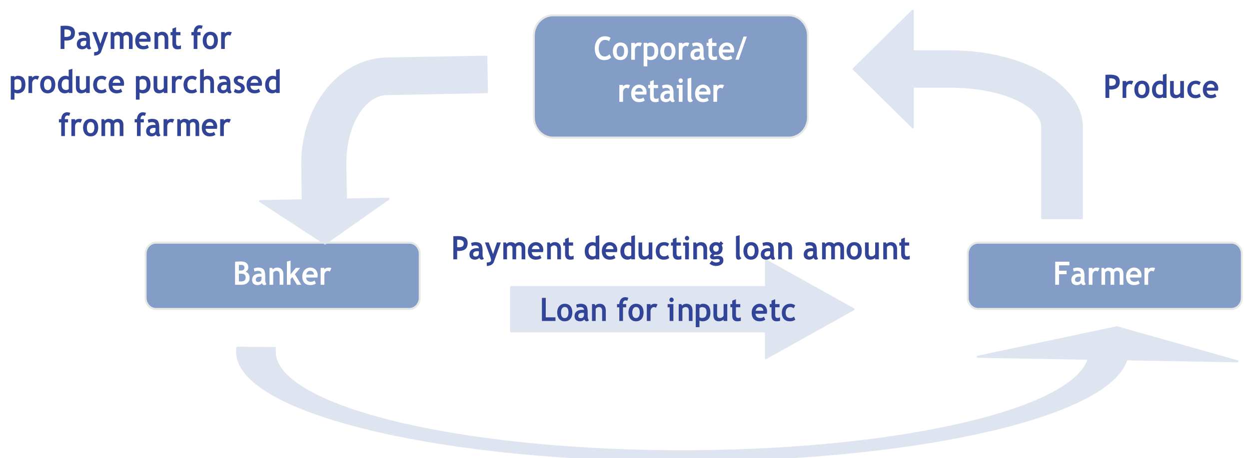
- **Cash credit/overdrafts -cash credit account**

5.49 This account is the primary method in which banks lend money against the security of commodities and debt. It runs like a current account except that the money that can be withdrawn from this account is not restricted to the amount deposited in the account. Instead, the account holder is permitted to withdraw a certain sum called "limit" or "credit facility" in excess of the amount deposited in the account.

6. Innovative products of financing

5.50 Channel financing is newly developed product of financing to retail and allied industries introduced by few banks. Under this scheme bank finance the supplier or producer against the assured buyback guarantee given by the buyer, though it is not specific for food retail. Sugarcane farming, horticulture seed farming, grapes farming and potato farming are the major initiatives taken by banks against the buy back guarantee provided by processors.

Figure 5.6: Channel financing



5.51 In this kind of arrangements the bankers generally provide loan to farmers before crop sowing so as to avail them with credit to buy inputs like seed, fertilizers etc. Once the crop is ready for harvesting corporate procures the pre agreed quantity from these framers. Here corporate does not pay farmers directly but through the bank, which primarily has given loan to these farmers. Here corporate pays the amount equal to the total produce procured from the farmers. After receiving money banks retain the amount equal to loan and pays remaining money to respective farmers.

Table 5.13: Channel financing schemes by Union Bank

Name of credit scheme	Credit Limit	Duration of credit	Eligibility	Processing Time	Processing Fees	Interest Rate
Union Supply	Minimum Rs 25 lac and maximum Rs 5 cr	On maturity of the bill	Selected authorized Dealers of identified large corporate borrowers of the bank	6 working days (At branch level) 14 working days (At higher level	0.50% of the loan amount subject to a maximum of Rs 15,000 plus service tax as applicable	BPLR + 0.50% (As applicable with reference to the latest interest rate circular)
Union Procure	Minimum Rs. 25 lac and maximum Rs. 5 cr	On maturity of the ball	Selected vendors supplying to identified large corporate borrowers of the bank	6 working days (At branch level) 14 working days (At higher level	0.25% of the loan amount at the time of application plus service tax as applicable	BPLR + 0.25% (As applicable with reference to the latest interest rate circular)

BPLR=11.75%

E. Experience of retailers and bankers with credit

5.52 The status of credit flow within the unorganised food retail sector seems to be very low. The picture is somewhat better in case of the organised food retail sector. In this section we have presented the primary findings related to credit from the major stakeholders viz. unorganised and organised food retailers and the bankers.

1. Unorganised retailers

Table 5.14: Rating on credit parameters by unorganised retailers

Credit parameter	A and A1 (%)	B1, B2 and C (%)
Availability	3.15	2.92
Adequacy	3.11	2.83
Access	2.95	2.77
Processing speed	2.80	2.63
Interest/charges	2.58	2.64
Special conditions	2.56	2.61

Note: Rating on 1-5 point scale, where 1=Poor, 5=Excellent

5.53 None of the parameters related to credit was rated as ‘very good’ or ‘very poor’ with most of the parameters being rated close to 3 (average). This might be on account of limited experience of the unorganised retailers with credit as seen in the earlier sections.

5.54 The results imply that majority of the unorganised retailers feel that there seems to be adequate availability of credit for the sector but there seems to be some issues related to the interest charges and the special conditions such as collaterals and submission of documents, which are major deterrents for credit access.

5.55 It can also be noted that credit availability, adequacy, access and processing speed are perceived to be somewhat better in case of A and A1 class cities by the unorganised food retailers.

Table 5.15:Need for special credit package

Need for special credit package	A1 and A (%)	B1, B2 and C (%)
Yes	60	47
No	40	53

5.56 About 60% of the respondents in A1 and A class sample and 47% of the respondents in the B1 and B2 class sample felt the need for special credit package for the sector. They expressed that unorganised retailers should be provided soft loans at 6-8% interest per annum for meeting their working capital requirements as well as long-term credit repayable in 3-4 years for furnishings and decorations. Also, there should be relaxation on the mandatory collateral requirements.

Table 5.16: Major reason for credit sought by unorganised retailers

Reason for borrowing	% of total respondents A1 and A	% of total respondents B1,B2 and C
Decoration/ Renovation/Display/ Furnishings	66	16
Building inventory or cash payment to supplier	35	36
Advertisement	6	-
Increase shop area/Construction	4	18
Crates	2	3
Credit to customers	1	-
Staff	-	1

5.57 The credit needs of A1 and A class cities sample and B1 and B2 sample have shown divergence. While interiors remains the main area of concern for the A1 and A class retailers, Inventory remains the main concern for the B1 and B2 retailers. Inventory is the second important reason for borrowing for the A and A1 class retailer sample.

a. Banking behavior of unorganised retailers

5.58 Though majority of the unorganised retailers have bank accounts (83% in A1 and A class and 72% in B1 and B2 cities), the current account holders were found to be very less. Within the current account holders also, the usage of overdraft facility is very minimal as evident from the table below. The major reason for not using OD despite having a current account were hassles associated with operating OD like submission of monthly stock statements and other accounts which become cumbersome, costly and time consuming process for the unorganised retailers.

Table 5.17: Banking behavior of unorganised retailers

Banking related aspects	A1 and A	B1, B2 and C
Account holders (% of overall sample)	83	72
Current account (% of account holders)	40	24
Activated OD (% of current account holders)	18	14
Average OD amount (Rs)	2,48,000	44,000
Average Limit	45-60 days	45 days
Average usage (Rs)	1,45,000	25,000

2. Organised retailers

5.59 The organised retailers on the other hand have substantial exposure to institutional credit.

Table 5.18: Perception of organised food retailers on credit sources

Source of credit	Availability	Adequacy	Access	Processing period	Interest charges	Special conditions
Nationalized Banks	3.60	3.40	3.20	4.00	4.00	3.75
Private Banks	3.25	3.50	3.25	4.00	3.50	3.50
Regional Co-operative Banks	4.00	5.00	5.00	5.00	4.00	5.00

Note: Average rating on 1-5 Point scale, where 1=Poor, 5=Excellent

5.60 The credit related attributes were rated on a 1 to 5 points scale from poor to excellent. Survey results revealed that sampled organised retailers have borrowed credit from mainly three financial institutions viz Nationalized, Private and Regional banks. The credit availability from Regional Co-operative Bank was rated as very good besides the adequacy and access to Regional Banks also seems better compared to Nationalized and Private Banks. It can be noted that the regional banks have lent to regional organised retailers like Margin Free in Kerala. In this case, the processing period and special conditions like Bank security and paper work is also comparatively perceived better. Nationalized and private banks are perceived not much different from each other in terms of credit related issues. Over all, the credit availability is found to be satisfactory by the organised retailers.

Table 5.19: Need of credit package and reasons for organised retailers

Credit package	%	Reasons
Credit package required	67	For creation of better infrastructure to meet expansion plan
Credit package not required	33	More credit dependency will create burden and increase liability
Total	**100**	

5.61 About two third of the organised retailer sample expressed about requirement of credit package for creation of better infrastructure. They narrated that consumers demand for quality products and better service and their business expansion plans were main drivers for the industry. Regular credit will only be sufficient to meet regular working capital but also aid quick expansion and creation of required infrastructure. Few retailers also expressed the need of finance in their backward linkage operations with farmers. The details have been discussed under innovative credit designs.

5.62 A few sampled retailers expressed about non-requirement of credit package. They opined that the associated interest would create an extra burden for their on going business.

3. Banker experience

a. Perception on financing to organised retail and unorganised retail

i. Organised food retail

On an average the bankers have rated the perceived risks with financing to organised food retailers at 3-4 on a scale of 1-5 (5 indicating highest risk) with following opinions to justify their perception of high risk with the sector.

- Organised retailing in India is in initial stage (3-4 year old) so the assessing of the performance is not substantial.
- As the sector is new, banks find difficulty in

assessing the risk parameters, as their current risk assessment format does not have a provision to include retail/ food retail. (banks have developed parameter for assessing food processing industry, steel industry, oil and gas industry, textiles industry etc.)

- The stock movement is very fast and valuation of stocks is difficult as price fluctuation is very high and uncertain. Issues like perishability and shorter life span of commodities makes the situation worse.
- Bankers felt that consumer perceived the product sold in organised retail to be costlier than the unorganised retail.
- Higher establishment cost (High rental and development): Most of the retailers have paid higher rentals during pre-recession period, which busted afterward. The payment of high rental was mainly on account of specific location requirement and the assessment of high turnover from the particular area.
- Organised retailers report higher overhead costs than unorganised retailers as they invest heavily in decorations, air conditioning etc.
- Margins in food products is thin compared to others.
- Organised retailers lack any major asset to back up the investment.
- Bankers have felt that the organised retailers have gone wrong in estimating consumer demands properly.
- Credit/finance given to organised retailers is given based on the proposals and figures provided by the organised retailers. There are no means available with the bankers to crosscheck the loopholes, as the sector is new. This is in contrast to the other sectors such as construction, manufacturing, power etc. where many banks have detailed procedures and research material available to assess the risks.
- In case of evaluating proposals by organised retailers, certain parameters like stakeholders contribution towards capital, managerial policies, corporate governance principles adopted, financial results of the unit, industrial scenario, risk factors etc. are considered and marks are allotted and rated accordingly. Pricing of the loan is arrived at based on the ratings and perceived risk.
- Almost all the organised retail are promoted by the big business groups of India leading in some or other sector so the evaluation criteria becomes lenient due to their presence.
- The success of organised retailer depends upon the Brand building by the unit. Investment of money and advertising is required for building up of brand building of the retail unit. Brand building yields results in a long time and in itself it is a risky affair.
- **Purchase Power:** Basically in organised retail chains, the consumers decide the purchases on intuition, appeal of goods, perceived usage of the goods and cost of the goods. However, these decisions are based on the purchase power of the consumers. In the present economic scenario, the purchasing power of the people has slightly come down or people have become cautious in their purchases. These will have impact on the sales of the organised sector. The success of the organised retail sector directly depends upon the purchasing power of the consumers.
- **Stocking patterns:** Basically organised retail sector sell grocery, food, apparels, furniture, electronic and all items required for a household. This compels them to stock all brands, varieties of goods, which will increase their inventory levels. The high inventory levels will lead to increase in the working capital, large selling space and warehousing with proper storage facilities. Indirectly it will increase the cost of capital and quantum of capital.
- There is high leakage, wastage and theft reported in the organised food retail.
- **Marketing:** Due to the above factors, it requires a dynamic and continuous innovative marketing approach by the organised sector wherein they need to bundle the offers in such a way offering either discounts or making the offers appealing to the consumer in order to tempt them to purchase the goods and also increase the consumption levels of the people.
- A few bankers opined that it is easier to finance organised retailers than unorganised retail sector as in the organised retail it becomes

easier for the banker to keep an eye on the finances as all the transactions are done properly through banks.

- A few bankers also said that organised retailers are able to bring down the commodity prices due to economy of scale. The sector also generates employment and helps farmers for better price realization.

ii. Unorganised retail

5.63 Unorganised retail has been rated at 2-3 on a scale of 1-5 (5 indicating highest risk) with following comments to justify their perception of moderate risk with the sector.

- The entire loan given to the unorganised retailers are against the collateral, mortgage, or security. If the security is not taken, it is against CGTMSE.
- Unorganised retailers have smaller portfolios so it is easy to track the business.
- Low overhead cost and establishment cost helps in lowering the price and capital investment.
- Unorganised retailers have definite and loyal consumer base.
- They are able to provide personalized service and lower price
- The transaction is mainly is in cash form so it is difficult to track the payment movements.
- Most of the borrowers use credit for other than business purpose.
- No proper documentation or accounts are available with unorganised retailers.
- High commodity price fluctuation and uncertainty in demand and production adds to the risk.

F. Support required from the government/ NABARD

- Lending to food retail could be covered under direct agriculture financing.
- Infrastructure creation/development pertaining to this sector could also be covered under direct agriculture lending. NABARD can develop an Infrastructure development fund especially for food retail sector and food processing.
- The cap of Rs.20 lakh could be extended/ abolished on the limit of priority lending for backward integration development with farmers and farmer friendly infrastructure development by organised retailers.
- Loans and advances to organised food retail chains both for creation of infrastructure and working capital should be made to qualify under priority sector lending
- Institutions like NABARD can facilitate better linkages between agriculture producing centers and organised retail sector so that bankers can directly finance such clusters.
- NABARD can encourage research and development work in better agriculture and allied practices for commodities directly purchased by organised retailers.
- **Developing R&D and food safety norms:** There is requirement of infrastructure towards value addition to the products with special emphasis on food safety and international quality. Dynamic R&D Institutions are essential for development and quick transfer of technologies from lab to field and development of packaging technologies of global standard.
- NABARD should develop bankable schemes that will lead to increased level of comfort for commercial banks to lend and increase the coverage.
- **Establishment of terminal markets:** Terminal markets would ensure availability of good quality raw materials of food items through out the year to the agri food retailers. Terminal markets would pave the way to farmers for retail trading opportunities with good return.
- **Establishment of food parks:** Food parks consist of food processing factories and retailers and aims at linking the farmers to the food processing industries and retailers of food items.
- **Ensuring proper price for the cultivators:** Govt. should develop mechanisms so that farmers get the adequate price for good quality of raw food items from the organised food retailers as direct buyers. This in turn will support the entire food retail chain and be a motivation for quality production.
- **Growth of ancillary units to develop the food retailing:** the ancillary units in support

of food processing and retailing of food items are essential to be established for all round development of the sector.

- NABARD should formulate structured scheme to take care of all segment in the retail food chain. There should be special schemes for those farmers who are retailers of their own produce.
- Some boost can be given to un-employed youths, encouraging them in food retail chain.
- Refinance facilities from NABARD to all financial institutions extending credit to food retailing will strengthen the sector.

CHAPTER 6

RISKS IN FOOD RETAILING

6.1 The food-retailing sector, like other businesses is prone to many risks. Risk is an important consideration of the bankers before financing any sector. In this chapter we have attempted to measure the various aspects related to risk in the business of organised and unorganised food retailing. We would also try to understand the typical coping mechanisms of the players to prevent these risks as well as the bankers concern for these risks while financing the sector.

A. Risks of the unorganised retailers

6.2 Response was sought from the unorganised retailers' sample on the various types of risk faced. The major risks have been highlighted in the table below.

Table 6.1: Risks of the unorganised retailers

Risk category	Risk	Per cent respondents	
		A1 and A	B1, B2 and C
Procurement	**Supply default**	**32**	**43**
	Late supply	**31**	**45**
	Poor quality of supply	12	21
Price	**High price volatility**	**28**	**47**
	High price	16	33
Inventory	**Unsold stock**	**32**	**46**
	Stock outs	**17**	**27**
	High cost of storage	15	10
	High losses	2	-
Human Resources	**Lack of manpower**	**31**	**13**
	High level of training required	1	1
	High attrition	2	-
Market risk	Low footfalls	11	8
	Low sales	4	6
	Seasonal/Periodic sales	**19**	**-**
	High competition from organised retail	**15**	**14**
	High competition from unorganised retail	**29**	**18**

6.3 As evident from the above table, the major risks are related to supply default and late supply by the suppliers in case of procurement related risks. The retailers opined that the traders usually commit the supply and are not able to sometimes honor the same. Delays in supply lead to temporary stock outs and losses in sales.

6.4 The increased volatility in price for various commodities is aired as the major price related risk than high price itself. The high volatility in prices creates problems for the retailers in terms of price fixation and may some times lead to financial losses.

6.5 Unsold stock is the major inventory related risk for unorganised retailers. Un-sold stock leads to lower inventory turnover and increases the working capital load. This coupled with the high spoilage in certain categories of products leads to severe losses.

6.6 Lack of manpower seems to be a more serious risk in the A1 and A class cities when compared to B and C cities. Interestingly, the competition from unorganised retailers is perceived to be a bigger risk than the competition from the organised retailers between both the samples and the impact of mushrooming unorganised retailers is felt more in the A1 and A class sample.

6.7 To elaborate further we take a look at the data on effect of turnover in the last two years for the sample.

Table 6.2: Effect on turnover of unorganised retailers (A1 and A class)

Effect	Per cent of respondents	Min	Max	Average	Reasons
Turnover increased	59	5	40	15	Inflation, population increase, increasing purchasing power
No change	33	-	-	-	-
Decreased	8	5	20	12	Increased competition from organised and unorganised retailers

Table 6.3: Effect on turnover of unorganised retailers (B and C class)

Effect	Per cent of respondents	Min	Max	Average	Reasons
Turnover increased	38	5	25	11	Inflation, population increase, increasing purchasing power
No change	52	-	-	-	-
Decreased	9	5	25	11	Increased competition from organised and unorganised retailers

6.8 Out of the total respondents only 8% in the A and A1 sample and 9% in the B1 and B2 sample reported that their turnover had decreased in the last two years. Surprisingly, about 60% in the A1 and A sample and 38% in the B1 and B2 sample reported increase in turnover by 15% and 11% on an average respectively. Also, within those who reported decrease in turnover, majority blamed the mushrooming of the unorganised retailers as the main reason for decrease in turnover. Thus, the growth of organised retailers seems to have minimal effect on the turnover of the existing unorganised retailers. This is also supported by consumer data, which indicates that both formats of retail work in different segments.

B. Risks of the organised retailers

6.9 The following important risks were highlighted in recent reports on retailing coinciding with the economic slowdown.

1. Disappointing footfalls

6.10 A large number of retailers have experienced a drop in footfalls, which is reflected in the slowing Same Store Sales (SSS) growth figures. This also adversely impacts the time taken to break-even for new stores. SSS at some of India's biggest retail groups have become negative for the first time in six years. According to recent KPMG survey in 2009, 70% of the respondents stated that the slowdown had adversely affected their footfalls.

On an average in the overall retail sector, year on year net sales growth have declined constantly from 62% in Dec-2005 to 11% in Dec-2008.

2. Liquidity under pressure

6.11 The slowing sales are resulting in lower inventory turnover and increasing working capital requirements for retailers. This in turn has resulted in liquidity pressures for many retailers.

6.12 The net working capital in the retail sector was on rise in 2005 from 15 USD million to USD 150 million in 2008. At the same time inventory turnover has shown a declining trend from 2005 at USD 4.5 to about 3.5 in 2008 (KPMG, 2009).

3. Issues related to real estate

6.13 The organised retail space was expected to receive investments to the tune of USD 25 billion over the next 4-5 years (KPMG, 2009). However, significant delays in retail real estate developments and opposition to organised retail has resulted in delay in investments. A large number of retailers have not been able to meet their stated expansion plans currently with higher cost of funds and a slowdown in demand, which is hindering the expansion plans of the retailers.

6.14 For example Pantaloon retail's expansion plans got affected. During 2008 about 2.2 million sft was achieved, this was increased to about 4.0 million sft in 2009. The achievement has suddenly declined to 2.0 Mn sft due to increased price of retail space.

4. Funding constraints

6.15 A large number of retailers are highly leveraged and relay on fresh equity funding for growth, which is difficult to come. Financial institutions are increasingly hesitant to finance retailers in the context of falling demand and low profitability.

5. Poor choice of location

6.16 The slow growth risk is due to poor choice of location. In India retail malls tend to appear wherever real estate is available rather that where actually they are needed.

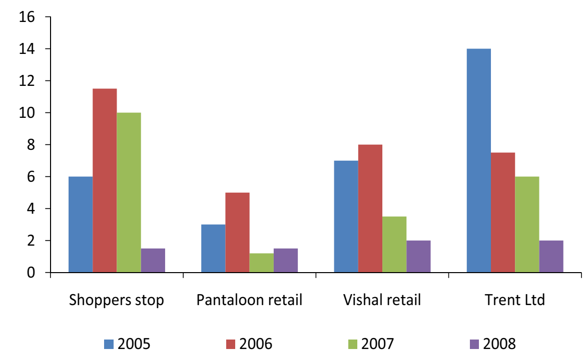
6. Competition with traditional retailers and vendors

6.17 Organised retailers have not been successful in providing the services that match those of Kirana stores. The true reason is that the business capacity of kirana shop owner and buyers in India is higher.

7. Over reliance on debt funding

6.18 The rapid expansion in the retail sector in the recent years was due to largely debt funded. The declaiming interest coverage resulted in large retailers high leverage and are battling high interest payments. The interest coverage has declined among different retail players from 2005 to 2008. For example Trent Ltd's interest coverage has declined from 13.5 in 2005 to 2.0 in 2008.

Figure 6.1: Interest coverage ratio of major organised retailers



Source: KPMG analysis, capital IQ

6.19 At the same time, debt is available at very high cost of 13-14%, which is very costly for an industry with thin margins.

8. Rental risks skyrocketing to all time high

6.20 Retail rentals in prime areas like Linking roads of Mumbai, South Extension in Delhi and Brigade road in Bangalore have risen about 50% in the past 3 years.

6.21 On all India basis the profit margin and rentals share for overall organised retail can be read as follows, during 2003 the rental profit margin ratio was 52:48, in 2005 it was 68:32 and in 2008 it was 80:20. Thus, over the years the rentals have eaten a major share in profit margins.

9. Human resource/skill set risk

Organised retailers face a huge problem of finding the right kind of people to man the stores. Also, the skill shortage is more among those manning the floors rather than at the managerial level.

10. High attrition risk

Attrition is another problem that the organised retailers are currently facing at a huge scale. Though it is experienced at all levels, the big retail brands are facing 40-60% overall attrition rate and 20-30% attrition rate at junior and middle levels. Frontline staff attrition in retail is around 20-30 %.

11. Risks in logistics

Logistics is a major hurdle for the organised retail sector. Logistics cost is an important component in the total cost. While it is 4-5% of the total retail price at the global level, in India it can be as high as 7-10%. Hiring private vehicles causes some inconvenience during peak seasons.

12. Poor infrastructure

Underdeveloped supply chains, lack of strong cold chains, poor warehousing facilities, bad roads have contributed in increase of logistics cost for retailers.

13. Inventory management

Important inventory may result in stock outs for some of the categories where as excess stock for others. Lower inventory turns are likely to have negative impact on ROI and more so far categories where gross margin is quite low like F & v, milk, staples, etc. In addition higher inventory may result in obsolete stock, margin leakages, damages and high carrying costs.

The results of primary data analysis for various risks faced by retailers are represented below:

Table 6.4: Risks faced by organised retailers

Risk category	Risks	% respondents
Procurement	**Supply default**	**55**
	Late supply	36
Price	**High price volatility**	**55**
Inventory	**Unsold stock**	**55**
	Stock outs	27
Human Resources	**Lack of manpower**	**45**
	High attrition	27
	High level of training required	18
Market risk	**Low footfalls**	**55**
	Low sales	**45**
	Seasonal/periodic sales	36
	High competition from organised retailers	18

6.22 Majority of the organised retailers responded that supply default, price volatility, lower than expected footfall and unsold stocks were major risks faced by them across various categories.

6.23 Supply default to organised retailers was more prominent in case of items that require cold chain supply such as milk and milk products, frozen chicken etc.

6.24 Like unorganised retailers, organised retailers are also disturbed with large fluctuation in prices as it creates hurdles in merchandise and inventory planning. As few retailers explained, there is a large chance of losing sales if there is a wide disparity in prices of two neighboring organised retailers. Manpower is a major constraint at both managerial levels as well as at the store level. As we have seen, attrition levels are very high in the retail industry, which creates problems in training, motivating and retaining quality employees.

6.25 As we have seen in the secondary observations, organised retailers are perturbed with the decrease in footfalls. This is more evident among the regional food retailers who have to compete hard with the unorganised sector. Low footfalls and lower conversions ultimately lead to decreased sales, leading to erosion of the operating profits.

C. Cost and margins comparisons with unorganised retail

6.26 The comparison of cost and margins structures of the organised and unorganised retail sectors reveals that unorganised retailers have a better protection against operational risks when compared to organised retailing.

Table 6.5: Operating cost structure (unorganised food retailers)

Cost component	Cost as a % of sales	
	A1 and A	B1, B2 and C
Rent	1.96	1.75
Store Maintenance including water and electricity	0.85	0.46
Salaries and wages*	4.49	3.61
Logistics	0.60	0.40
Others (credit cost to customers)	0.38	0.17
Total	**7.62**	**6.38**

*Includes imputed salary cost of owner/manager @3%

D. Operating cost structure (organised food retailers)

6.27 The average cost of unorganised retailing is much lower than the organised retailers.

In the table below, the economics of various types of store formats has been presented.

Table 6.6: Economics of store formats

Heads	Convenience	Departmental store	Hyper Market	Fashion & Lifestyle	Jewellery
Sales	100	100	100	100	100
Gross Margin	19.9	33	23.5	35	21
Dump	2.5	0	0	0	0
Shrink	3.3	1	1.5	0.75	0
Gross Margin after dump and shrink (%)	**14.10**	**32.00**	**22.00**	**34.25**	**21.00**
Staff Expenses	7.7	4	3.75	4	2.5
Rental	3.3	5	5	7	2.5
Electricity and Utilities	3.9	3	1.5	1.5	1
Consumables	1.8	1.25	1.25	1	0.4
Facility Management	0.5	1.5	2	2	0.2
Sales promotion and advertisement	0.5	5	1	5	4
Bank/Finance Charges	0.5	0.5	0.5	0.5	0.5
License Fees	0.1	0	0	0.1	0
Stationary, Conveyance & Others	0.3	0.5	0.5	1.1	0.6
Supply Chain Cost	2	2	2	1.75	1
Store EBITDA	-6.5	9.25	4.5	10.3	8.3

(Source: India retail report 2009)

6.28 The Convenience store, Departmental store and Hyper Market formats relate to agri food retailing. We can see that the dump and shrink are very high in case of convenience stores. Even our primary findings indicate that dump and shrink can together constitute 5-6% of the sales in case of fresh fruits and vegetables and it is 1% in case of Big Bazaar (Hypermarket).

6.29 Shrink can take many forms, but most common are employee theft, shoplifting, and vendor theft and paperwork errors whereas dump consists of losses associated with spoilage. Dump is very high in case of fresh fruits and vegetables.

Table 6.7: Costs of organised food retailers

Retail outlets	Rent/lease	Store maintenance including water & electricity	Salaries & wages	Logistics	Warehousing including cold storage	Operating IT infrastructure	Other costs (Administrative, procurement, shrink and dump etc.)	Total
Mother Dairy	2	5	4.5	3	5	5	7.5	32
Home store	10.5	4	11	2	-	2	5	34.5
Smart Retail	8	1.4	7	3	3.1	2.1	2.1	26.7
Namdhari Agro Fresh P Ltd	6.75	4.1	5.5	2.7	-	1	8.5	29
Margin free	5	3	4.5	10	0.5	0.5	2	25.5
Vijaya krishna super Bazaar	5.5	5.5	3	3	3	-	2	22
Triveni	2	7.5	0.5	0.5	1.25	1.5	2	15.25
Varkeys	3	2	4.5	1.5	5	0.5	1.5	18
C-3	8	3	3	1.2	1	0.25	2	18.45
Godrej Aadhar	2.5	0.75	3	1	1	0.5	2	10.75

6.30 It is clear from the above three tables that unorganised retailers are having a clear and distinct advantage over the organised players as their cost of operations is significantly lower than organised retailers.

E. Margins

1. Unorganised players

6.31 The data on gross margins was solicited from the retailers but the analysis of the data revealed errors in the data as margins were under reported and showed high level of variations. As an alternative, the average unorganised retailer margin was calculated by using the data on retail and wholesale prices from the Ministry of consumer affairs for the year 2009. The average gross margins for each of the product categories across various sampled cities is presented in the below table. Please note that the actual margins realized would be 10-20% lesser as a portion would go towards transportation costs.

Table 6.8: Category wise margins of unorganised food retailers

Commodity	Kolkata	Mumbai	New Delhi	Chennai	Bangalore	Jaipur	Nagpur	Amritsar	Vijayawada	Bhubneshwar	Average
Rice	16.5	13.7	25.9	8.9	4.6	16.3	15.2	9.1	9.7	6.0	**12.6**
Wheat	-	14.5	14.9	6.7	6.2	4.9	14.0	3.6	6.1	9.6	**8.9**
Gram dal	27.9	14.9	22.1	7.7	8.0	5.1	7.8	7.8	6.7	7.2	**11.5**
Tur dal	10.6	12.5	14.8	6.1	2.8	2.2	3.8	3.2	3.5	3.5	**6.3**
Sugar	6.1	11.0	6.7	4.2	4.9	2.7	7.5	4.3	4.0	5.1	**5.7**
Ground nut oil	17.5	10.6	8.3	10.0	7.7	0.8	2.9	5.1	6.3	-	**7.7**
Mustard oil	4.2	14.7	2.6	-	-	1.5	3.3	-	1.4	1.7	**4.2**
Potato	16.9	39.2	60.0	37.1	25.0	50.6	46.9	17.2	14.9	19.8	**32.8**

2. Organised players

Table 6.9: Category wise margins of organised food retailers (National players) (Per cent)

Category	Mother Dairy	Home store India retail	Smart Retail Pvt. ltd	Namdhari Agro Fresh P Ltd	Margin free	More	Star bazaar	Hariyali kisan bazaar	Food world	Average
Grains	25	20	13	18	18	10	12	12.5	15	**15.9**
Pulses	25	15	13	15	18	10	10	12.5	15	**14.8**
Oil	25	5	8	6	20	6	4	4	9	**9.7**
Fresh Fruits	20	12	15	25	30	12	15	-	18	**18.4**
Vegetables	20	12	15	25	25	10	15	-	18	**17.5**
Processed products	15	10	15	20	15	7	10	12.5	16	**13.4**
Milk & milk products	-	20	10	6	7	4	5	-	-	**8.7**
Poultry	-	-	-	9	-	-	10	-	-	**9.5**

(Source: Primary data)

Table 6.10: Category wise margins of organised food retailers (Regional retailers) (Per cent)

Retailer	Vijaya krishna super Bazaar	Apna Bazaar Co-operative Departmental store	Triveni	Varkeys	C-3	Average
Grains	10	10	5	10	20	**11.0**
Pulses	10	10	5	3	20	**9.6**
Oil	4	5	5	15	11	**8.0**
Fresh Fruits	-	10	10	15	20	**13.8**
Vegetables	-	10	12	20	20	**15.5**
Processed products	12	10	10	3	13	**9.6**
Milk & milk products	12	6	11	8	-	**9.3**
Poultry	-	10	-	2	12	**8.0**

(Source: Primary data)

6.32 It can be observed from the data that while the gross margins of organised retailers are not so high in the different food categories, the costs as a per cent of sales are comparatively very high.

6.33 However, organised retailers always have many categories other than food, which help to balance the margins. This is illustrated in the table below. The data is taken from a leading organised retail in Bangalore.

Table 6.11: Category wise share and margins

Division	Share of sales (%)	Average category margin
Food categories		
Staples	13.4	17.8
Fresh Fruits & Veg	8.0	24.5
Dairy & Frozen	2.2	22.1
Non Veg	4.3	39.1
Processed Foods	7.3	18.4

Division	Share of sales (%)	Average category margin
Bakers Factory (Bakery goods)	0.9	244.1
Beverages	4.3	15.1
Liquor	4.6	27.9
Overall food	**45.0**	**26.7**
Non food categories		
Apparel	13.4	59.4
Consumer Durables	10.5	9.4
Foot Wear	1.2	90.9
Fresh Kitchen	1.8	89.6
Home Needs	16.1	46.6
Other Non Food	12.1	13.6
Overall non food	**55.0**	**37.7**
Overall food and non-food	**100**	**32.0**

6.34 Though many categories within food yield lower margins to justify the costs, food is an important constituent of a typical supermarket or hypermarket as it has an effect in attracting higher footfalls.

F. Coping mechanisms of food retailers

6.35 The industry players have developed several coping mechanisms for reducing or eliminating the risks. These are discussed separately for unorganised and organised players.

1. Unorganised retailers

Table 6.12: Risk mitigation by unorganised food retailers

Risk category	Risk	Measures to mitigate
Procurement	Supply default	Advance booking, reminder by phone, maintaining second line of suppliers, own purchase, maintain long term relation with suppliers
	Late supply	Increase inventory, maintaining second line of suppliers, collect goods personally from supplier, remind by phone, own purchase, warning to change supplier, buy in nearby markets,
	Poor quality of supply	Reduction in payment, return goods, maintain strict grading, changing suppliers periodically
Price	High price volatility	Can not mitigate as it depends on Govt. policies, optimizing inventory by better planning against requirement, good information system for collection of wholesale prices
	High price	Can not mitigate as it depends on Govt. policies, better stock planning, large base of suppliers
Inventory	Unsold stock	Give discounts and clear stocks, proper merchandising, offers against bulk sales,
	Stock outs	Proper order management and reminding suppliers
	High cost of storage	Keeping optimum inventory
	High losses	Avoid keeping material in loose form, packaging
Human Resources	Lack of manpower	Contractual hiring, self monitoring, offer high salary, motivation, engage only family members
Market risk	Low footfalls	Attractive display and signage, discounts and offers, maintain quality of products
	Seasonal/Periodic sales	Keeping seasonal products at low level, quick disposal arrangement with offers
	High competition from unorganised retail	Discounts, service and credit

6.36 As evident, unorganised retailers hold the Government policies largely responsible for price related risks and are unable to do anything to curtail it. They are able to mange supply related risks by adopting close contact with the suppliers, which takes away a lot of their time from the primary activity of customer service. To manage other risks they either go for better planning or for incentives or discounts for their customers.

Table 6.13: Strategies to overcome competition from organised retailers

Strategies	Per cent respondents	
	A1 and A	B1 ,B2 and C
Service and relation building	32	46
Discounts	28	16
Free of cost home delivery	16	16
Display, packaging and increased assortment	11	14
Providing credit to customers	7	9
Sales Promotions	7	0

6.37 Though there is no significant change in turnover of unorganised retailers due to competition from organised retailers, about 70% of the unorganised retailers in the A and A1 sample and 38% respondents in the B1 and B2 sample have felt the competition and have adopted one or the other strategy to combat the same. The main strategies reported are increase in service (e.g. improving product quality, attractive packaging, taking returns, giving samples for testing etc) and discounts. These unorganised retailers have reported decrease in margins after the advent of organised retailers. This has resulted in benefit for the ultimate consumer as the overall competition has increased.

2. Organised

a. Procurement risk

6.38 To some extent direct purchase models help for mitigating this risk. However, these are restricted to fresh fruits and vegetables only. Some retailers like Safal have gone to the extent of implementation of annual crop plan with farmers to ensure adequacy of supply. HOPCOMS is in the process of implementing an elaborate IT plan to have a regular flow of communication with the farmers to enable crop planning according to the customer requirement.

b. Price risk

6.39 Organised food retailers like unorganised retailers said that the fluctuations in prices are beyond their control and it makes them loose sales many a times. However, most of the retailers have developed a good network of information sources so that they become aware of the latest wholesale prices as well as their competitor prices. In this way, they are able to fix their sale prices in the event of wide price fluctuations.

c. Human resources

6.40 Retailers are trying to improve work culture at the store level and incorporate training facilities of handling materials and customer service. Many leading retailers also have tie-ups with leading business schools to train their employees.

d. Inventory

6.41 Organised retailers take the following steps to mitigate inventory related risks:

- Distribution to other needy stores or distributors to avoid stock outs
- Rectifying communication gap
- Avoid bargain hunting
- Increase inventory turnover
- Control shrinkage
- Employment of suitable IT tools for inventory management
- Procure through local venders and effective management

e. Market risks

6.42 Organised retailers take the following steps to mitigate market risks:

- Constant promotional offers and deep discounts
- Retailers carry out survey analysis to bring clear idea about the concentrated residential locations and where the outlets should be strategically placed.
- The organised outlets looking for an alternative model that match with kirana services like convenience, credit and personalized service.
- Seasonal discounts offer and demand forecasting
- Reduction in margins to attract consumers

f. Financial and infrastructure related risks

i. **Tight liquidity:** To free the cash that has been locked, a large number of companies have been trying to reduce the inventory on their books and shorten working capital cycles.

ii. **Real estate:** Bringing down & renegotiating real estate costs: It is reported that the large retailers like Future group, Reliance retail, and Aditya Birla retailers have renegotiated rentals to bring down costs in the last 1-2 years. Some players have managed a 40% to 50% reduction in store rentals.

iii. **High rentals:** entering into revenue sharing model: Although previously developers and landlords were unwilling to enter into revenue sharing model, they are now ready to lease out their empty spaces. The model under which the retailers share a per centage of their sales with real estate companies is seen as a fair way of sharing risks between the two stakeholders revenue sharing model increases the responsibility of the developer to bring in footfalls in the malls by providing of the infrastructure. The model is sustainable during the downturn, as the retailer does not have to take the hit alone.

iv. **Logistics:** Retailers are now increasingly depending on third party logistics that can provide excellent service in handling and transporting commodities at competitive price.

g. Innovative methods of de-risking by the organised retailers

6.43 Majority of the organised retailers have their own in-house experts to analyze the business situation and project the future demand. All the analyses are done based on various economic scenarios. The organised retailers have become increasingly careful after the recent economic slowdown. E.g. If we observe the expansion plans of majority of retailers like Reliance, Spencer's and ABRL we see that they are increasingly focusing on Hypermarket formats as they are more profitable. Even location decisions for the stores are being done after careful study of the locality and stores in the unprofitable locations are being wound up.

6.44 However, we have not observed the incidence of linking the rental payments to the revenues or any suppliers in the case of food retailers. Forward contracts with the suppliers for a fixed price are also limited in case of agricultural commodities and only few large retailers like Pantaloon have 5-6 months long forward supply contracts with the suppliers in case of staples. Contract farming was also not observed in any case by the organised retailers.

6.45 The largest risk mitigation strategy being followed in the industry is that except a few, all organised agri-food retailers have diversified business with retail having synergy with some or the other main business venture of the group. The retail division of the conglomerates operates under the financial support and supervision of the parent company.

Chapter 7

Economic impact of organised agri food retailing

7.1 The earlier chapters in this report have presented the current and the future scenario of organised agri food retailing in India, the associated supply chain issues and the credit related matters concerning organised agri food retail. In this final chapter of the report we are presenting the summary related to economic impact of organised agri food retailing on various stakeholder groups, which have already found detailed discussions in earlier chapters and also SWOT analysis of the sector based on the findings of this study. While presenting the results we have always kept NABARD in the perspective. This chapter also incorporates suggestions for NABARD and a few policy level implications as a result of the study.

A. Impact of organised agri food retailing

7.2 The economic analysis of impact of agri food retailing has been done under the following headings

1. Coexistence of organised and unorganised retailers

7.3 The findings of the survey indicate that there seems to be minimal effect of organised agri-food retailing on the business of unorganised food retailers. The following survey results support the same.

- About 60% of unorganised retailers in A class sample and 38% in B and C class sample reported increase in turnover in the last one to two years. The reasons attributed were inflation, population increase and increase in disposable income. These factors have also supported the growth of overall retail and part of the growth has been transmitted to unorganised retail.
- A few retailers reported increase in their turnover as a result of opening up of an organised retailer in their area as it increased the influx of customers in their area.
- Majority of unorganised retailers reporting decrease in turnover blamed the mushrooming of the unorganised retailers as the main reason for the same. A greater percentage of respondents identified the risk from unorganised retail compared to the percentage of respondents identifying risk from growth of organised retail.
- The consumer survey results indicate a clear segmentation of categories purchased at organised retail. While the purchases are clearly skewed towards unorganised outlets in fresh fruits and vegetables and milk, meat, poultry and eggs, the organised retailing takes a significant share in grocery, F&B and processed food. This is supported by consumer perception of quality, which is defined as the product being 'fresh' and 'clean' by majority of the consumers. Consumers have also expressed that perishable products, especially meat, are available fresh in wet markets. At the same time as the distance of organised retail outlets from the place of living of the residence, in majority of cases, the preference shifts to unorganised retailers for items purchased more frequently (milk, eggs, fruits and vegetables). There are other reasons prompting consumers to buy from unorganised retailers such as scope of bargaining and ability to buy smaller portions. Consumers displayed higher loyalty towards unorganised retailers for all food categories when compared to loyalty towards organised retailing.
- Cluster analysis of consumer groups in A1 and A class sample indicates that largest group of customers constituting about 60% of the sample have a low preference for organised retailer when it comes to food.

2. Growth of institutional credit

7.4 Our projections for retail and food retail indicate that overall retail and food retail are expected to grow at around 11.2% year on year. The growth of organised food retail is expected to be higher around 14%.

7.5 On the other hand, the survey results indicate low penetration of credit among the unorganised agri food retailers. Hardly 16% of the total long term investments in the A1 and A class sample and 13% in B and C class sample of unorganised retailers were funded by borrowings. In case of short-term funds also, the dependence was on own sources rather than credit. The total amount borrowed was reported as only 8.33% of the total amount invested in case of A and A1 sample while it was 9% in case of B1 and B2 sample.

7.6 Along with low incidence of borrowing, as revealed by the survey the dependence on informal sources of credit such as relatives and moneylenders constrain the unorganised retailers' ability to increase his investment and expand.

7.7 While the primary reason for unorganised retailers being averse to bank credit is the mandatory paperwork related hassles and collateral, the bankers are averse to lending to unorganised retailers, as the unorganised retailers are found wanting when it comes to maintaining proper books of accounts and stock statements. Both are two sides of the same coin. Even credit guarantee schemes such as CGTMSE or easy working capital loans by few bankers have not been able to make any difference to these retailers in reality.

7.8 On the other hand, the players in the organised retail segment are generally highly diversified business groups and have high credit access and exposure. While there is a scope of increasing the credit flow among the unorganised retailers, as the share of organised retailing increases, there would be a replacement of own capital and informal credit with institutional credit in the retail sector. Credit opportunities will also be created in the support infrastructure like warehouses, collection centers, cold storages, logistics etc.

7.9 A fair assessment of the investment required and credit opportunities on account of the growth of organised agri food retailing has been presented in the report.

7.10 The enhanced credit flow to the sector is bound to have beneficial economic impact in terms of increased investment capacity of the players, increased employment opportunities. This is likely to encourage adoption of best industry practices by firms, adoption of risk mitigation strategies etc.

3. Economic Impact on farmers

7.11 Overall farmers are bound to gain from the advent of the organised food retailers under a proper regulatory environment promoting direct procurement on one hand and machinery to prevent the exploitation of farmers on the other hand.

a. Direct procurement: Direct procurement by retailers has been feasible in case of only fresh fruits and vegetables. Our empirical results show that farmers have benefited from the organised retailers on account of better price (factoring in the loss due to rejected low quality produce by the retailers) and cost savings in transportation.

7.12 Direct procurement also gives the farmers certain indirect benefits like knowledge of what needs to be produced when, technological inputs and access to credit on account of assured market etc.

7.13 However, of late, direct procurement has been reduced by many organised retailers and is being restricted to seasonal operations by major national level players due to non-feasibility of such operations. The major reasons for the same are high backend investment requirement, low volumes of purchase, increasing cost of operations, high transaction costs etc. Even regional retailers expressed their interest to procure directly from farmers but they are not able to do so as it is a very costly affair to deal with numerous individual farmers. There is a need to promote farmer clusters but smaller organised retailers do not have the financial capacity and volume requirement to justify the creation of such clusters.

b. Increased competition: The organised food retailers would increase the competition for procurement of agricultural commodities. This would result in fair price for the farmers. The organised retailers would maintain proper records of transactions with the farmers and reduce exploitation by middlemen.

c. Increased investment in supply chain: As the business of organised retailing of agri food matures, it would increase private investment in the area of supply chain infrastructure. This is also going to get a boost from the various schemes of the Government to boost rural infrastructure creation (Terminal Markets, Mega Food Parks, Rural Godowns etc.). This is going to benefit the farmers immensely by creating feasible and competitive marketing alternatives for their produce.

4. Impact on employment as a result of organised retailing

7.14 According to NSSO data about 35 million persons were engaged in various kinds of retail trade in 2004-05. This constituted 7.3% of the total labor force in India.

7.15 According to Technopak estimates, the number of persons engaged in unorganised retailing totals to about 13 million, which includes about 8.6 million engaged in selling food items (Kirana, Food stores, Non-veg stores and Hawkers).

7.16 A quick look at NSSO data shows that employment in retail has been on the rise from 30 million in 1999-2000 to 35 million in 2004-05. This explains the growth in the sector and the increasing requirement of work force.

7.17 Our estimates for employment in the organised food retail indicates that the direct employment in the organised agri food retail sector is about 0.85 lakhs, which is just 1% of the total work force in food retail (8.6 million). Even with the growth of organised agri food retailing, the employment share of organised agri food retailing is not expected to exceed 3-4% of the total employment in retail.

7.18 However, the impact of organised retailing would be in terms of quality of employment generation if not much significant in terms of number of people employed. As we have examined earlier, the organised retail operations require different levels of skills and education, which is not mandatory for the unorganised retailers. It would thus be relatively difficult for anyone to gain employment in the organised retail sector. On the other hand there are a host of benefits associated with jobs in organised sector retail such as Employee Provident Fund and medical benefits. Some companies also offer annual paid leaves. Salary scale is much higher in organised retail as compared to unorganised sector. As unorganised stores are developed without any market research about the location, they are likely to under-perform and lead to disguised un-employment. Organised retail on the other hand, employs just enough people to do a job and links the employee performance to ROI. The risks to the employees are also high in case of the unorganised retailers.

The issue of preparing the workforce has to be addressed by developing adequate training facilities for retail sector in both in the public and private domain along with improvement in the basic education.

5. Government policies

7.19 The advent of organised retailing in India has coincided with a series of steps taken by the Government in the agricultural sector to provide increased freedom to the farmers in selling their produce as well as enable infrastructure creation. These policy measures to a large extent have been prompted by the advent of organised retailing.

a. Amendment to APMC act

7.20 In order to provide dynamism and efficiency in the marketing system, large investments are required for the development of post harvest infrastructure and major portion of this investment is expected from private sector for which conducive regulatory and policy environment is required. Accordingly, Ministry of Agriculture suggested amendments to the state APMC Acts for deregulation of the marketing system to promote investment in marketing infrastructure, motivating the corporate sector to undertake direct marketing and to facilitate a national integrated market. For establishment of private markets/yards, promote direct marketing contract farming arrangements as alternative and development of agricultural markets in the country, the Ministry of agriculture also formulated a model law on agricultural markets in the country viz. The State Agricultural Produce Marketing (Development & Regulation) Act, 2003 in consultation with the States Government for guidance and adoption by state governments.

7.21 The Model Act is quite comprehensive and if adopted, will help in improving the efficiency of the marketing system and in encouraging private sector investment in the field of agricultural marketing. So far 16 states have adopted it. However, it has not been fully implemented in any state. Even to the extent, the rules of the model act which gives clarity to participants are not in place. The resistance to the adoption of the Model Act is from both state governments and traders/ commission agents. The states/APMCs have the fear of losing market fee if alternative markets are established. The traders/ commission agents have the fear of losing their business/incomes.

7.22 Reluctance of State Government to amend the existing APMC Act and open the markets for private sector is restraining initiatives of central government to permit the corporate bodies to enter into the agriculture sector and develop the value chain as backward integration to continue the supply of food grains, fruits and vegetables to the organised retail chain at a lower cost. In order to provide the maximum benefits of Model Act to the farming community and increase private sector participation in agriculture sector sincere efforts are required by state governments to adopt the model APMC act which intends to confiscate the restrictions on the movement, storage and marketing of agricultural commodities, setting up of commodity exchanges, direct marketing and procurement from farmers, contract farming arrangements, promotion of public-private partnership in the management and development of agricultural markets in the country.

i. Progress of reforms in agricultural markets (APMC Act)

Table 7.1: Progress of reforms in agricultural markets (APMC Act) as on 31.03.09

Sl. No.	Stage of Reforms	Name of States/ Union Territories
1.	States/ UTs where reforms to APMC Act has been done for Direct Marketing; Contract Farming and Marketing in private/Coop sectors	Andhra Pradesh, Arunachal Pradesh, Assam, Chhattisgarh, Goa, Gujarat, Himachal Pradesh, Jharkhand, Karnataka, Madhya Pradesh**, Maharashtra, Nagaland, Orissa, Rajasthan, Sikkim and Tripura.
2.	States/ UTs where reforms to APMC Act has been done partially	a) Direct Marketing: NCT of Delhi. b) Contract Farming: Haryana, Punjab and Chandigarh. c) Private Markets: Punjab and Chandigarh
3.	States/ UTs where there is no APMC Act and hence not requiring reforms	Bihar*, Kerala, Manipur, Andaman & Nicobar, Islands, Dadra & Nagar Haveli, Daman & Diu, and Lakshadweep.
4.	States/ UTs where APMC Act already provides for the reforms	Tamil Nadu
5.	States/ UTs where administrative action is initiated for the reforms	Mizoram, Meghalaya, Haryana, J&K, Uttarakand, West Bengal, Puduchery, NCT of Delhi and Uttar Pradesh.

* APMC Act is repealed w.e.f 1.9.2006

** as per DMI list appears in the list of the states, where act has been amended, whereas as per GAPL information amendment has not been enacted.

(Source: Agri marketing summit, Dec. 2009)

7.23 The agri marketing summit concluded during December 2009, has emphasized the need for a single agriculture market in India.

7.24 A single unified market for agriculture does not exist within India and there are significant inter-state barriers to trade. The barriers to single market can broadly be categorized into taxation related barriers and physical barriers as discussed below.

i. Taxation related barriers:

- Variation in rates across states (rationalized after VAT introduction, but not eliminated totally yet: leads to evasion through paper trades by unscrupulous players)
- High rates (most common rate of 4% appears low, but given the low margins in agri-business, this rate is also is an incentive for evasions)
- Multi point taxation (APMC cess is collected at multiple points resulting in cascading impact on taxation).

ii. Physical barriers:

- Through Essential Commodities Act (physical controls like stock limits at times of short term shortages lead to long term supply distortions and restrictions on movement of specific commodities create situation of uncertainty)
- Through check posts (more serious in case of perishable agri-produce)
- Through APMC regulations (restricts movement of agri-produce to attractive markets over long distance: restricts ability of farmers to manage price risk)

7.25 Fragmented Markets often lead to centralization and lack of competition, which leads to inefficiency. Due to fragmented market and existing regulations, intermediaries exist at every step of the value chain, which results into low share of consumer rupee reaching farmers.

7.26 There is a need to develop a national level single market for agricultural goods and commodities by removing all the existing barriers to trade, multiplicity of acts, fiscal policies and marketing arrangements across the country. A single market will result in inclusive growth, bring large share of consumer spend to producers and lead to demand driven economic growth. It will expand the market by reducing transaction costs and make goods and services more affordable.

7.27 The summit also discussed the constraints related to private sector investment for market infrastructure. Agricultural marketing requires fresh investment in wider spectrum of post harvest activities. Trends in the Public and Private investment in agricultural marketing infrastructure in the country depict positive signs in the form of increased private investment. Private sector has always played a key role in developing marketing infrastructure for agriculture, however, these infrastructure are limited the form of warehousing, cold storage and pack-houses to some extent in recent past.

Provided the adequate government support in term of conducive policy regime, minimum guarantee of returns (as the case with other infrastructure sector as power and road), fair competition (monopoly of APMC Markets), private sector can play much bigger role in the area of agricultural marketing and infrastructure development.

7.28 The Terminal Market Complex (TMC) scheme is a real time example. Although this scheme was announced in year 2006, yet not a single TMC has been able attract private sector on investment.

7.29 The scheme envisaged that the government will provide assistance to private sector in the form of equity, which was main reason for private sector reluctance in view of interference in the affairs of the company due to the share holding. The government had been trying to get private partners for TMCs at Chandigarh (advertised two times), Patna, Bihar (advertised second time), Sambhalpur, Orissa etc. but there was no response.

7.30 The Ministry of agriculture has come up with revised guidelines for establishing TMC after non-response from private sector for first round. In the revised guidelines also, local APMC has been given liberty to charge 2% market fee (though having no role in investment, operations & management) as well as the revenue from basic services of aggregation, auctioning etc. has been limited to maximum of 2% of total value of transaction in the market.

7.31 The summit advocated for an 'Infrastructure' status to agricultural marketing systems in India. It called for de-linking MSP from procurement price and initiate second generation reforms in agricultural marketing systems in all the states of India. The second level reforms call for high level of transformation in the system where there has to be a state-level regulator for agricultural marketing to whom all the roles and responsibilities have to be delegated. This has to be coupled with the removal of inter-state trade barriers and abolishment of all major existing licensing systems.

b. Foreign direct investment (FDI) in retail

7.32 The current FDI policy in retail allows 100% FDI in cash and-carry wholesale formats and 51% FDI in single brand retailing. FDI is not allowed in the multi-brand retail sector, which is dominated by the unorganised retailers.

7.34 Since 2006, when FDI was partially allowed in retail, the government has approved 54 FDI proposals in the sector and the country has received an inflow of Rs 822.70 crore.

7.35 The Government is soon placing a discussion paper on allowing FDI in multi brand retailing in the public domain. Till now the consultation paper remains in the proposal form of DIPP and reflects no government policy decision as regards to increased equity of overseas business in retail. The scenario is likely to be clear by September 2010 on FDI policy front, as the government would have completed its next sectoral review, involving sectors such as defense, retail, telecom, and agriculture.

7.36 The retail industry is giving a mixed reaction to the proposal. While a lobby of retailers has appreciated the platform that would be provided to the foreign entry in the Indian business arena, the other section of retailers, which remarkably is huge in width, feels that Indian retailers would be left as mere puppets with their strings controlled by foreign management. Besides, the already threatened existence of traditional retailers would be further challenged.

7.37 It is also apparent that it takes a lot of time and money for an organised retailer to show decent profits in Indian market conditions. This is probably the reason that some of the big names in the organised retail are comfortable with the idea of foreign money coming in India, felt Kumar Rajagopalan, CEO, Retailer's Association of India. The RAI, which has been demanding FDI in multi-brand retail since last two years feels that FDI would bring in players who understand the retail business and also the funds and technical know-how to the sector.

7.38 On the other hand the absence of a distinction between strategic and financial investors has sown seeds of doubts in the minds of PE investors. Global private equity powerhouses, baffled by recent FDI guidelines, have become extra careful about fresh investments in modern Indian retail.

7.39 Organised retailers have recently approached the government to seek clarification on strategic and financial investors in retail. They demand that rules should make a sharp differentiation between strategic investors who are retailers and financial investors who are merely seeking high-growth sectors to invest in. In this way, the industry has been suggesting remedies to enable PE investments.

7.40 FDI rules in sectors such as airlines and insurance have a clear demarcation between financial and strategic investors. While strategic investors in these sectors are barred, financial investors are allowed.

7.41 There are a few arguments, which support the entry of FDI in the retail sector. Firstly, the entry of FDI is looked upon as a positive factor to decrease the gap between farm gate prices and consumer prices. Presently, the price that a farmer gets in return for selling his produce and the price that a customer pays to buy the same good are at great disparity. This has been reflected in our research. This disparity is basically because of the role of middlemen who have been the bane on trade and commerce in agricultural products and services. Retail FDI will eliminate or greatly reduce the role of middlemen and ensure a sustainable and reasonable price for both the farmer and the consumer by shortening the supply chain through increase in direct purchase. The second argument in favour of retail FDI is the contribution it would make to streamline the agricultural supply chain mechanism. Agricultural products are mostly perishable and need to make it to the market place in good time. Inadequate market access and cold storage apparatus coupled with lack of food processing and transport bottlenecks have resulted in high rates of wastage and perishability of these goods. World classes supply chains in agricultural produce and services will alleviate the lot of farmer and contribute to rural prosperity.

7.42 The rationale for the detractors of FDI in retail is essentially in terms of the big versus the small. It is a fact that the retail industry is the second largest employer of manpower after agriculture in India. The sustenance of neighborhood traders and small retail outfits might be endangered. However, as analyzed in this report, only a fraction of people are employed in organised retailing and also as per the recent statement by the commerce ministry that nearly 70% of the retailers in India are outside the market economy and hence are not impacted by FDI in retail. Secondly, there is plenty of political inertia in allowing FDI in retail. Agriculture is a state subject and a central legislation might not find full expression in all the Indian states in equal measure. Disparities on account of economic attractiveness of different states may result in lopsided development of the Indian retail industry.

c. Goods and services tax (GST)

7.43 The government has proposed the replacement of indirect taxes levied on goods and services by the central and state with Goods and Services Tax (GST). GST is a value added tax, levied at all points in the supply chain with credit allowed for any tax paid on all inputs acquired for use in making supply. It would apply to both goods and services in a comprehensive manner with exemptions restricted to a minimum.

7.44 GST will replace many existing indirect central and state taxes such as central sales tax, stamp duty, excise duty, service tax and is also expected to replace other levies such as entry tax, entertainment tax, luxury tax and taxes on lottery, betting and gambling.

7.45 GST shall be a consumption based tax which shall have uniform tax rates, creditable throughout to neutralize the cascading effects of tax and simple in terms of procedural compliance.

i. Components of GST

- CGST Central Goods and Services Tax
- IGST Integrated Goods and Services Tax
- SGST State Goods and Services Tax
- Octroi: Is a local level tax imposed by local authorities in certain states of India on the entry of goods into the local area for sale, use or consumption.

ii. Benefits expected from the proposed GST regime

- Tax cascading eliminated: Businesses to be allowed a credit for all input taxes.
- Tax base broadened: Center gets powers to levy tax at all points in the supply chain for goods; States get powers to levy tax on services.
- Tax structure rationalized: Most indirect taxes (e.g., entry tax, entertainment tax, and luxury tax) to be replaced by GST, fully creditable to businesses registered for the tax.
- Compliance procedures for the GST to be simplified and rationalized.
- Tax administration improved: Harmonization of center and state tax administrations to minimize duplication and to reduce compliance costs.

iii. Impact of GST on retail sector

7.46 GST is a tax on goods and services with comprehensive and continuous chain of set-off benefits from the producer's point and service providers point up to the retailers level.

7.47 GST is a multi-stage tax levied on the value added at each stage of transaction from production to final sales to an end consumer. The tax paid on all purchases is called the output tax and the tax levied on all sales is called the Input tax.

7.48 GST mainly helps in streamlining the taxes for retail sector and it will simplify the supply chain for consumer goods and the elimination of CST will imply that manufacturers no longer need to set up distribution depots in individual states and make intra state sales through consignment agents, instead they can move to a system of centralized warehousing and distribution. Thus, the warehousing and procurement decisions will have greater liberty and they will not be constrained by tax costs.

7.49 The abolition of CST is likely to demand the re-evaluation of both procurement and distribution arrangements and removal of excise duty on manufacture may result in cash flow improvements, as GST would be paid on sale or supply rather than manufacture.

7.50 The elimination of tax cascading is likely to lower business input costs and improve profitability. GST mainly helps the retailers and distributors to adjust their profit margins while paying taxes at all points in supply chain so that they can improve their business. Most retailers find it difficult to determine the tax rate applicable to a given item without referring to the legislative schedules. Consumers are even less aware of the tax applicable to various items. The GST regime will let the consumer become aware of the total tax paid for various goods and will lead to increased satisfaction about the organised retailers.

7.51 The single-tax regime will benefit the retail sector and bring majority of transactions under the tax net. As a result, retail prices of items in various categories are likely to fall in the benefit of consumers.

7.52 Under GST, there will be no distinction among manufacturers, traders and service providers from the tax collection point of view. At present, traders don't credit for anything other than state VAT. World-over retailers get credit on the taxes they pay on creating infrastructure, in India they don't.

7.53 On the whole the introduction of GST is expected to create a single, unified Indian market to make the economy stronger and for the retailers it will create the ability to take the business decisions based on commercial considerations, rationalization of prices and reduction of state level compliances. Overall, the organised retail sector will be impacted positively on retailers to reap the benefits.

iv. Economic impact of GST on organised food retail

7.54 We have seen earlier that organised food retailers spend around 3-5 % of their total sales on logistics, which is mostly outsourced. Major national level retailers also spend substantial amount in advertisement and promotion through third parties. Retailers also avail minor services apart from these such as telephone, consultancy etc which are associated with service tax. Assuming on the conservative basis that 3% of total sales constitute expenditure on items covered under service tax, retailers are paying 0.3% of their total sales as service tax. Under the GST regime this can be offset against the GST collected from the consumers and would be a direct benefit to the retailers

7.55 We have also seen that the industry net margins are in the range of 2-3 % of sales. Thus the benefit is likely to push up net margins by 10-15 %, which is substantial. This is in addition to indirect benefits and reduced hassles in the procurement from different states.

v. GST: Implementation status and hurdles

7.56 Goods and Services Tax (GST) is likely to be introduced from the financial year 2011-2012 onwards as per the finance minister's announcement in budget 2010-2011.

7.57 With the center agreeing to fully compensate states for adopting the GST, the major hurdle on the path of switching over to the new tax regime seems to be thwarted. The 13th finance commission estimating the revenue-neutral rate to be five per cent for the centre and six per cent for states and the commission having already recommended allocation of Rs.50,000 crores for evolving compensation package for states, which are likely to incur revenue loss for shifting to GST. However, some states have been demanding Rs.1,00,000 crores for the GST rollout, some others want S-GST rate of over 18%.

7.58 The main hurdle is the lack of agreement among states on what taxes should be included in GST and what should be left out. Many states are strongly opposing the inclusion of some state-level taxes such as sales tax, purchase tax, entertainment tax, electricity tax, and octroi tax-in GST. Some constitutional amendments, which are needed to be made, like the center should have the power to levy beyond the manufacturing state and the states should be empowered to levy taxes on services. At this particular moment, the center cannot go beyond the manufacturing state and state cannot levy taxes on services.

6. Economic impact of organised agri food retailing on processors and middlemen

7.59 Supply chain is increasingly being linked with logistics in the context of organised retailing. This means that the task of supply will be shifted from the traders to the logistics suppliers. The procurement will be either from the farmers or from the processors and there would be only physical transfer of produce from the seller to the buyer at a cost or user fee without the transfer of material possession. This will lead to stabilization of prices as there will be fewer and traceable transactions and the information available in the market would grow. In other words, logistics along with few other variables (Tax reforms such as GST, SEZ, Terminal markets, Technology such as GPS and RFID) will lead to shortening of supply chains and reduce the chances of speculation.

7.60 The emergence of retailer control over the movement of suppliers' goods into retailer's distribution centers has made the supply chain more efficient. This has led to more complex relationships involving suppliers, third party distributors and retailers through supplier\retailer collaboration where major suppliers and retailers are involving the dynamics of consumer demand and putting into practice the most appropriate product flows.

a. Impact on waste reduction

7.61 We have seen earlier in the report that direct procurement in case of fresh fruits and vegetables can reduce wastage by about 7% and can improve the chain efficiency by as much as 17%.

7.62 Various studies indicate that efficient supply chain backed up with cold chain technology has the potential to result in immense savings.

7.63 Waste reduction can also assume different forms such as flow of information from the retailers to the farmers to produce right quantity at the right time. This is happening in case of co-operatives such as HOPCOMS and corporate such as Reliance and Spencers. In this manner farmers can avoid glut situations and waste of unwanted produce can be avoided.

7. Impact on consumers

7.64 The strongest impact of organised retailing would be seen on the consumers. Along with the increase in disposable income and increased discretionary expenditure, the consumers will get better choice in terms of formats where they can execute their purchases.

a. Cost pressure: It has been evaluated in this report that the organised retailers have higher operational costs when compared to unorganised retailers. Supply chain interventions such as dis-intermediated purchase do reduce the supply costs but it is not sufficient to accommodate the high store level costs. We have also seen that food as a category does not generate enough margins to cover the costs and retailers are depending on high margin categories (apparel, consumer goods etc) to break even or at best generate 2-3% of net profits. The recent expansion plans of major retailers are concentrated more on hypermarkets with provision for large variety of merchandise rather than small or medium sized supermarkets catering largely to the food category.

7.65 In times ahead when the cost pressure on the retail will intensify, they may choose to discontinue keeping the food items or keep only high value processed food items/private labels which generate better margins than traditional food categories. There is a steady increase in the share of private labels by almost all national level food retailers. Retailers like Spencers are increasing the share of specialty and imported food products.

7.66 The other strategy that the organised retailers could follow is to match the margins of food categories to their costs. In case this happens, it would push up the prices of food items at the organised retail outlets. Consumers would find it cheaper to purchase from unorganised retailers. Thus, in general consumers would buy only certain kinds of niche food products from the organised retailers or only a segment of very high profile consumers would visit the organised retail for food categories.

7.67 A few organised food retailers have expressed that MRP is a large hurdle for them to grow as it reduces a retailer's ability to offer a differentiation and puts him on the same level as other unorganised and organised retailers. Instead, they are advocating for a 'Minimum Recommended Price' where the retailer can charge any amount over the recommended price.

b. Increase in service levels and discounts: Our primary survey results indicate that unorganised retailers have become increasingly sensitive to customers after the advent of organised retailers. The unorganised retailers are having a unique advantage of being located close to the consumer. Thus, they are building on elements of personal level service in their offerings to the consumers. These steps include improving product quality, attractive packaging, taking returns, giving samples for testing etc. The second important measure is offering discounts on MRP to the customers. Few unorganised retailers have reported decrease in margins after the advent of organised retailers. This has resulted in benefit for the ultimate consumer as the overall competition has increased.

8. Organised agri food retailing: context of NABARD

7.68 Since NABARD is associated with rural and agricultural development, it has an important role to play in the area of organised agri food retail. As we have seen throughout this report, organised retailing has remained more of an urban phenomenon with very little penetration in the rural areas. However, a few retailers have ventured into the hinterlands and their performance shows that in the future, the scope of organised rural retail is poised to grow.

7.69 Indian rural market with its vast size and demand base offers great opportunities to marketers. Two-thirds of country's consumers live in rural areas and almost half of the national income is generated here. According to The Financial Express it is a little known fact that, while 25% of the rural population was not engaged in agriculture, they earned 50% of the rural income during 2006.

7.70 According to the National Council of Applied Economic Research (NCAER), rural households form 71.7% of the total households in the country. Spending in retail segment is growing rapidly and consumption pattern is also changing as like in urban areas. Rural market is very big part of the Indian consumer market.

7.71 The Indian rural retail opportunity is currently estimated to be in excess of Rs. 1400 billion (approximately US$34 billion). The figure is likely to touch Rs. 1,800 billion (approximately US$ 43 billion) in 2010 and go up to Rs. 2,400 billion (approximately US$ 58 billion) by 2015, according to CII - YES Bank study in 2007.

7.72 According to A. T. Kerneys', GRDI 2009 (Window of Hope for Global Retailers), rural India makes up to 40% of total Indian retail market and was highly resilient during recession. It is however, constrained by inadequate logistics networks and its widespread nature. It also reports that rural areas have surpassed urban centers in terms of households earning of US$ 2000 per year, a point where consumers start going for select branded products.

7.73 Corporates are increasingly eyeing rural areas as drivers of future growth mainly due to increasing incomes of rural people and also the changes in consumption pattern of rural consumers over a period of time.

Leading retail players in the industry are beginning to explore these markets and the rural consumers are slowly beginning to embrace the newer organised retail outlets.

7.74 Companies like DSCL and Godrej who have significant agri-business interests, set organised retail in rural areas to meet the needs of farmers in a catchments area. These stores are one-stop shops meant to meet the occupational needs of farmers by providing agri-inputs and fertilizers. These stores tend to target farmers with all sizes of holdings. While organised retail centered on these stores, unorganised retail revolves around the local village shop and the haat.

7.75 Rural India has a huge untapped market. It has more than 72 crore consumers (70 per cent of the total population) spread across 6.30 lakh villages in India (US Censes Bureau, 2009). They have a changing life style coupled with the recent benefits accrued by the farmers from the agricultural loan waiver and various development schemes - the National Rural Employment Act and the Bharat Nirman Programme, for improving rural infrastructure. These development schemes are likely to increase the rural population's income substantially and hence increase consumption levels.

7.76 The organised retail in rural provide spectrum of offerings including agronomist consultations, agri-inputs and financial services apart from the conventional retailing.

The various retailers who have ventured in rural retailing are discussed as under

1. Hariyali kissan bazaar (DSCL)

7.77 DSCL has started utility shopping centers called "Haryali Kissan Bazaars". These offer the rural household all farming and consumer products and related services along with financial services under one roof. These include wide choice and multi-brands of agri-inputs, FMCG, consumer durables, apparels, footwear, toys, general merchandise, insurance etc. The outlets also provide the farmer, the expert advice of agronomists and the technological support in shifting from subsistence farming to technology led commercial farming.

It is also offering credit services and providing loans for various purposes and has stepped up its bulk procurement and trading activity. DSCL has about 300 outlets under the Hariyali Kissan Bazaar band and these are located in Uttar Pradesh, Punjab, Rajasthan and Haryana. The total retail space of Haryali Kisan Bazaar outlets is 1.7 million sft out of which the selling area amounts to 9.5 lakh sft. It is having plans to increase the number of outlets to 500 in next two years.

7.78 Each Hariyali Kissan Bazaar center operates in a catchment of about 20 Kms. A typical center caters to agricultural land of about 50,000-70,000 acres and impacts the life of approximately 15,000 farmers.

2. Choupal saagar (ITC)

7.79 ITC launched the country's first rural mall 'Choupal Saagar'. This retails products and also acts as a procurement hub for ITC's e-choupals where farmers are offered better rates for their agriculture produce, compared with the prevalent market rates for the same.

7.80 A rural hypermarket or a rural mall, Choupal Saagar provides multiple services under one roof, like selling produces and buying quality products for farm and household consumption. Most of these choupal saagar stores are located in the rural areas of Madhya Pradesh, Uttar Pradesh and Maharashtra.

ITC is operating 24 large retail formats in rural areas. ITC is engaged in scaling up the rural retailing initiative to establish a chain of 100 Choupal Saagars in the near future. The total retail space of Choupal Saagars in 2008-09 was 2,00,000 sft.

7.81 The 'e- Choupal' services today reach out to over 4 million farmers growing a range of crops soyabean, coffee, wheat, rice, pulses, shrimp in over 40,000 villages through nearly 6,500 kiosks across ten states. The initiative is covering 43,500 hectares. It has a multiplier impact and reaches out to over 1 million farmers.

3. Aadhaar

7.82 Godrej Aadhaar is the agri services cum retail initiative of Godrej Agrovet Ltd. belonging to Godrej Group. It positions itself as a complete solution provider for the Indian farmers and provides professional guidance with an objective to improve productivity, higher returns and improved cost benefit ratio to them.

7.83 The services offered are crop advisory services, soil & water testing services, buy back of output, crop finance, supply of agri inputs and animal feeds, transfer of information (weather, price and demand supply), door delivery of products etc. While, the venture begun by offering agri solutions to the farmers, based on their feedback, it has over the last few months diversified into offering a number of other product categories like durables, FMCG, apparels, footwear etc, thus catering to the complete requirement of the rural household. A number of corporates are already in the process of partnering with Aadhaar for various projects for furthering the initiative.

The number of Godrej Aadhaar outlets in year 2006-07 was 32, which rose to 65 in year 2007-08 and presently amounts to a number of 109 outlets in 109 cities. The retail space of Aadhaar outlets has also increased from 1,44,000 sft in 2006-07 to 4,90,500 sft in 2008-09. The average sales reported by Aadhar in 2008-09 have amounted to Rs.123 crore. Agricultural commodities contribute a whole 54 per cent to total sales of Aadhaar, while grocery contributes 17.2 per cent, FMCG products contribute 13.6 per cent and consumer durables and apparels contribute 7.4 per cent and 4.9 per cent respectively.

The company plans to set up over 1,000 Godrej Aadhaars in the next 5 years across the country.

4. Project shakti

7.84 HUL launched Project Shakti in the year 2001, with the purpose of integrating business interests with national interests. The model was piloted in Nalgonda district of Andhra Pradesh in 50 villages in the year 2000. The Government of Andhra Pradesh took the pioneering step of supporting the initiative by enabling linkages with the network of Development for Women and Children in Rural Areas (DWACRA).

7.85 Under the project HUL offers range of mass-market products to the SHGs, which are relevant to rural customers. HUL is investing significantly in resources that work with the women on the field and provide them with on-the-job training and support. This is a key factor in ensuring the stabilization of their fledgling businesses.

7.86 The main theme of this model is to create a win-win partnership between HUL and the consumers, some of whom will depend on the organization for their livelihood, and build a self-sustaining cycle of growth for all.

'i-Shakti' an IT-based rural information service has been developed to provide information and services to meet rural needs in agriculture, education, vocational training, health and hygiene. i-Shakti kiosks have been set up in 8 villages in Andhra Pradesh and have been functional since August 2003. The program now covers 15 states in India and has over 45,000 women entrepreneurs in its fold, reaching out to 1,00,000 villages and directly reaching to over three million rural consumers. HUL envisions the creation of 1,00,000 Shakti Entrepreneurs covering 5 lac villages by the year 2010.

5. Kisan seva kendra

7.87 Kisan Seva Kendra is a low cost business model by Indian Oil Corporation of a retail outlet offering fuel and other non-fuel value added services with penetration in rural markets generating high returns.

KSK is a one-stop center of service for the farmers at his doorstep making available Diesel and Petrol along with seeds, pesticides, fertilizers and other agri needs, Nutan stove, hurricane lamps, daily needs such as grocery, personal care, stationery for children, tools, auto spares, location specific value additions etc. At present Indian oil corporation has 1300 KSKs in rural areas such as UP, Punjab and Madhya Pradesh. Nearly 4,000-5,000 people are employed in these KSKs.

7.88 Indian Oil Corporation is slated to open 103 more petrol pumps under the Kisan Seva Kendra project in rural areas of the state. It has got gold trophy for the 'Best Long-term Rural Retail Initiative' from Rural Marketing Association of India and also "Retailer of the Year" award in the category "Rural Impact" for 2008 at the Asia Retail Congress.

6. Tata kisan sansar

7.89 Tata Chemicals Limited had first started with the objective of providing agri inputs to the farmers through the Tata Kisan Kendras (exclusive franchised retail outlets of Tata) but realizing the need of the hour, they planned to move from 'one-stop agri input shop' to 'one-stop farmers solution shop' with a clear objective of empowering the farmers. The Tata Kisan Kendras were therefore re-launched as Tata Kisan Sansar (TKS-Tata Farmers' World)-a rural agri-retail outlet offering entire range of agri services including quality agri input products in the year 2004. Thereafter, the focus has been to de-link the business dependence for the franchisee as well as the organization from the traditional fertilizer business and provide value added products as well as innovative services to the farmers.

7.90 The Tata Kisan Sansar (TKS) is a network of nearly 600 farmer resource centers that cater to more than 3.5 million farmers in 22,000 villages in the northern part of India. Its turnover was Rs.493 crores in 2008-09.

7. Triveni khushali bazaar

7.91 Triveni Retail Ventures Limited is one of India's emerging retailers. The company operates retail formats in both rural and semi urban Indian, with stores mainly concentrated in UP and Uttarakhand. The company is headquartered in Noida (Uttar Pradesh). The mission of Triveni Khushali Bazaar is to provide a one stop solution with the blend of right products to customers in rural and semi urban India. Triveni had launched its retail venture 'Triveni Khushali Bazaar' in 2005 and has 42 stores across 25 rural and semi-urban locations of Uttar Pradesh and Uttarakhand.

8. Murugappa group

7.92 In 2008-09 Murugappa Group undertook a planned initiative to take retailing to rural India, where it would sell goods that are needed by farmers. Through its company, Coromandel Fertilizers, the group opened 430 rural retail outlets in the brand name of "Mana Gromor" in Andhra Pradesh. In these centers, the group sells agri inputs such as fertilizers, pesticides and seeds. About 70 of them also sell household appliances and garments. Company also has plans to introduce non-agricultural products in more outlets.

Presently, the company has 432 outlets, which fetch sales of about Rs 1,200 crores. The company also experimented on a 400-acre tract of land by making available agriculture-machines suitable for small farms, for hire. The farmers were able to save 15 per cent in costs. Now, Coromandel intends to extend the experiment on 2,000 acres. The company has about 1,300 people working on this operation. These include about 400 people who go to rural areas, collect soil samples, test the same and report on the soil quality for farming. In 2007-08, it set up 20 centres and garnered sales of Rs 56 crore. Each outlet is set up at a cost of Rs 25 lacs, and caters to the needs of 5,000 farmers from 50 villages in the vicinity.

C. Employment generation in rural India due to organised retail

7.93 With retail business being labor intensive, there is ample scope for creation of both direct and indirect employment in rural retail and ancillary services. The generation of indirect employment may be expected to result from direct fallout of the changes in the value chain at the manufacturers level, as well as other support activities like grading, sorting, packaging, storage, transportation and various other support services. Organised retail is also likely to promote the farming technologies, which will indirectly impact agricultural production both in quantity and quality, thereby helping better crop realization to the benefit of the farmers.

7.94 As we have seen in the last section, nearly 4,000-5,000 people are employed in the Kisan Seva Kendra (KSKs). Godrej Aadhaar employs more than 1600 employees and has over 40 manufacturing and processing facilities across India. Organised retailing in agricultural produce at the rural level has the potential to provide quality employment; it can also be instrumental in giving better prices to farmers for their produce and facilitating agro-processing industries. Modern retailing can bring in new technology and reduce consumer prices, thus stimulating demand and thereby providing more employment in production.

D. Role of NABARD

7.95 NABARD can play an important role in the context of the emergence and growth of organised agri food retailing. In fact, some of the initiatives and activities of NABARD (such as Rural Mart scheme) are already supporting the farmers and rural citizens in the context of growing organised retailing.

The various proposed roles have been discussed below.

1. Direct intervention

7.96 We have examined how the direct procurement by organised retailers is not gaining momentum in the absence of viable farmer clusters. NABARD can launch a scheme to promote clusters of farmers leading to the formation of a tripartite backward integration model consisting of farmer producers co-operative society, bulk buyer of the produce (organised retailers) and financial institutions (Banks), which would be in favour of both the farmers as well as the organised retailers. NABARD is already engaged in the creation of clusters in the handloom sector.

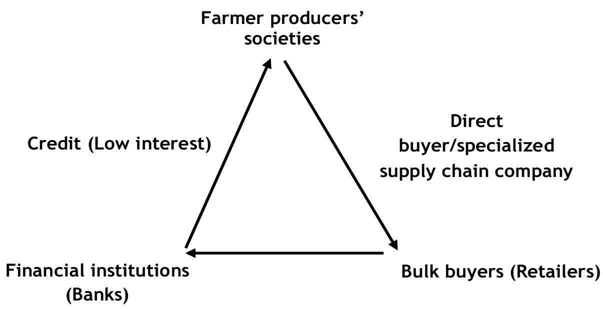
7.97 A rural warehouse structure can be built at the village level with Govt. support, so that small and marginal farmers could make use of the same to store their produce. A non-political farmers committee can be established to manage the warehouse. Farmers should be made free to sell at open markets or to the bulk buyer for better price which ever is higher. In this direction it is very important to train the farmers so that the bulk buyers' demand for quality and quantity is met. In the model, there has to an inclusion of a specialized company in supply chain who can co-ordinate with numerous organised retailers and supply to them according to their requirements.

7.98 We have also discussed about the Tamil Nadu precision farming project where the state agency (TNAU) has linked buyers such as retailers and exporters with the farmers by forming associations for producing and marketing.

- In order to create small and marginal farmers as the hub of supply centers, the financial institutions like NABARD can help to adopt a model on win-win approach with producers, buyers and the credit institutions by linking one with other. Presently majority of the farmers are dependent on moneylenders for credit on high rate of interest only because of easy access and adequacy of the credit amount any time. The first and foremost challenge in front of the credit institutions like banks is to streamline the existing farm credit system in terms of rate of interest, reduced procedural formalities, adequate finance and timely distribution. This could break the existing dependency on informal sources for credit. Institutions such as NABARD are already working in this direction. E.g. 'The Business Correspondent scheme' of RBI which calls for appointment of Business correspondents who can conduct banking business as agents of the banks at places other than the bank premises. In the context of organised agri food retailing, assured purchase by organised retailers would create a favourable climate for establishing credit linkages with the farmers.

7.99 It is a fact that the banks are worrisome about repayment of credit from individual borrowers. As an alternative, the credit could be linked to group of farmers by creating farmer producers societies in the rural areas. By avoiding intermediaries like village broker, traders or commission agents a retail link could be established with such societies or through a company specializing in supply chain representing numerous organised retail buyers. This link would be direct and involve 'bulk buying', which would be in the large interest of the organised food retailers. Institutions like NABARD can finance projects to identify such interested farmers to become members of such societies in association with NGOs or other interested organizations.

Figure 7.1: General model for supply chain backward integration



7.100 This model requires a commitment among all the three groups. The foremost challenge is to make farmers to avail credit from formal source rather informal sources. This could pave the way for further streamlining of the backward integration with farmers.

7.101 Some models of tripartite linkage between the company, bank and the farmers have already found success and have been discussed in earlier chapters (Safal, Precision farming etc.). Here we have presented few other models, which have found success with processors but have the similar elements of forming retailer-farmer-bank linkages.

I. Contract farming model- Frito-Lay India holdings:

7.102 Being a major potato-processing giant, Frito-Lay entered in to contract farming with growers in the year 2002. This arrangement was made to get specific quality potato for making chips on one hand and assured and mutually agreed price guarantee for the growers on the other hand.

7.103 Under this model, both the parties (grower and buyer) come to a mutual agreement between them stating that all the inputs like seeds, technical know how and buy back issues will be taken care by the buyer. The farmers need to concentrate on producing the required quality and quantity produce. Under the current structure in many cases farmers have to pay the cost of inputs to the company at the time of supply. Here they are able to get loans from local banks on the basis of their relation with Fritolay and buy back agreement. In case of Punjab and some other areas, there is an agreement with the banker where the banker advances the loan to the farmers, the farmer deposits the produce with the corporate (Fritolays) who pays for it directly to the bank and the banker pays to the farmers after deducting the principal of the loan and the accrued interest.

7.104 Spurious seeds, lack of technical knowledge on production and highly fluctuating market prices have discouraged farmers of potato growers in some parts of India e.g. Hassan, Karnataka. However, this model has come to the rescue of growers and is performing well. Over the years the number of farmers inclusion into contract farming has grown. The area under contract farming grew from 50 acres in 2002 to 2000 acres during 2008-09 in Karnataka alone. This is clearly indicating the success behind the model adoption.

II. Tripartite agreement model - ICRISAT:

7.105 ICRISAT being a premier international institute on crops research has executed a project to address the constraints of sorghum and pearl millet growers during 2006. The project was conducted in parts of Andhra Pradesh and Maharashtra. From the base line study it was found that small land holding, lack of credit and non-remunerative prices were the major constraints of farmers.

7.106 ICRISAT then came out with a model to form tripartite linkage among farmers, buyers and credit institutions. Under this model farmers were provided credit assistance to grow the crops. Storage facilities were provided by constructing rural godowns to store the produce to minimize the post harvest losses. Backward linkage was facilitated with the bulk buyers of millets like animal feed manufactures and breweries. A farmers' committee was formed to carry out these activities without interruption. After price negotiation, the buyer himself lifted the produce from the godown. Attempts were made to see that payment was made directly to the bank so that a portion of credit would be deducted and the balance amount paid to growers. 7.107 After three years from inception of the project, the impact assessment study revealed that a substantial increase in income level of the farmers was noticed on account of increased marketable surplus, higher price realization and savings on marketing and transaction costs.

7.108 Through this model financial institutions are happy to renew the seasonal credit to farmers, farmers have benefited due to group approach and the buyer was supplied adequate quantity and quality of produce.

2. Support role

a. Refinance of schemes

7.109 NABARD is currently providing re-finance to many schemes related to financing in the agri and rural development sector. In our survey, the bankers have called for higher involvement of institutions like NABARD in the context of growing popularity of organised agri food retail chains by providing re-finance to loans given to organised or unorganised retailers involved in directly procuring from the farmers.

b. Rural supply chain infrastructure creation

- **Gaps in retail supply chain**

7.110 As observed in previous chapters, the organised retailers currently are dependent on the traditional supply chain wherein they buy largely from traders. Direct procurement has been initiated in case of fresh fruits and vegetables. However, as per our primary survey, both farmers and retailers are facing constraints in direct procurement models.

- Constraints for organised retailers
- Small land holdings complication of dealing with multiple farmers
- Quality product
- Losses during transport
- APMC regulation
- Rural infrastructure
- Problems faced by farmers while supplying to organised retailers
- Strict quality norms and issues pertaining to dealing with rejects
- Transportation
- Limited quantity requirement

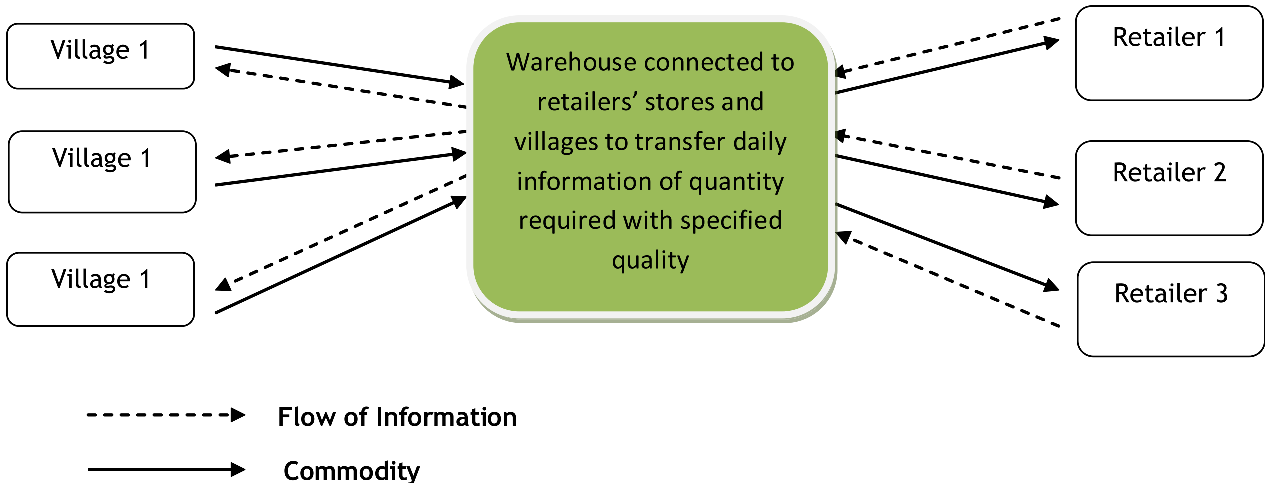
7.111 The constraints listed above are a consequence of complete transformation of the supply chain. In traditional supply chain there was only transfer of goods from producer to ultimate consumer through various means. In modern supply chain there is not only transfer of goods but also the communication from consumer reaching to producer transmitting the consumer demand up to the producer. With emergence of organised retailing, the demand for quality produce is increasing which is ultimately putting pressure on farmers.

- **Areas where rural infrastructure can help**

7.112 As seen earlier, infrastructure consists of a combination of national assets, which sustain the addition of place, time and form utilities to the products and services. These include apart from the Government institutions and organizations, roads, railways, warehouses, market yards, cold stores, processing units, research and training institutions, means of communication and transportation.

7.113 The basic rationale of any infrastructure is the sustenance it provides to production activity, income generation and social service supplies. It has also positive effect on income distribution because low per capita infrastructure limits the access of small and marginal farmers to the market. In the context of transformation of the supply chain into a demand driven chain through organised retailing, the role of infrastructure enabling flow of information to the farmers has become an utmost importance.

Figure 7.2: Role of infrastructure in reverse flow of information



HOPCOMS model

7.114 HOPCOMS is following a model by which daily requirement of fruit and vegetables is made available to the registered farmers on a daily basis so that they can bring the right quantity and type of fruits and vegetables as required to the collection centers.

7.115 NABARD can think in the direction of facilitating credit for information technology infrastructure creation, which will facilitate the reverse flow of information from the consumer to the farmer.

c. Cleaning, grading and packaging infrastructure

7.116 At present, the grading facility is available only in 1321 markets out of total number of 7,127 regulated markets. The quantity graded at producers level is almost negligible. There is a need to create facilities for cleaning, grading and packaging not only at primary level but also in the villages from where produce is brought to the market for sale. It is because of these reasons that farmers are not able to sell directly most of the produce except fruits and vegetables to the retail chains.

7.117 In the absence of such facility at the village level, the kind of pollution and congestion created at market yards during the peak arrivals period is well known. The APMCs should encourage private entrepreneurs to promote such units in or around the yard/sub-yards. There is need to promote proper packaging after grading so that further chances of adulteration or temptation may not be there. Besides this there is a strong need to educate the farmers for proper packaging and grading before they bring the produce to the market. Scientific packaging should be encouraged at the farm level through subsidy support.

7.118 Retailers can partner together with government in these initiatives to provide knowledge and training to the farmer associations for cleaning, grading and packaging of agri produce. Institutions such as NABARD can facilitate credit support to such initiatives.

Such kind of associations can not only cater to retailers but also processors and export markets with their quality produce.

7.119 It is the fact that majority of the profit is enjoyed by the middlemen due to primary processing activities being followed. According to the survey concluded in this study, except fruits and vegetables, other produce like grains, spices, jams, pickles are being purchased by organised retailers directly from traders/brokers/processors. However, many of these products can be processed at the village level if the required processing and marketing infrastructure is in place.

7.120 The producers' lack the opportunities for primary processing activities. The primary processing equipments such as grading machine, sorter, cleaner, dryers could be provided to farmer's processors societies. Where the fruits and vegetables are grown in large scale, the self-help group women members could be encouraged to take up preparation of pickle and jam, ketchups and squash items. This will increase the retailer's dependence on growers for quality-processed products rather traders and processors. Thus, producers will act as both producer and the primary processor. This could be the new avenue for better earnings and standards of living.

7.121 The example of Sri Mahila Griha Udyog (Lijjat Papad) can be quoted in this context. The group started with a modest capital of Rs.80 in the beginning and is currently active in Maharastra and Gujarat states with a reported turnover of over Rs.650 crores annually. The stupendous success behind this is the strong existence of the co-operative society and the organization of the workflow. Every morning the women members of the society go to their Lijjat branch to knead the dough, which is then collected by the other group of women who roll in to the papads. When these women come for the collection of dough they also give the previous day production of papad, which is tested for quality. Packed papads are sealed into boxes and transported to depots from all manufacturing centers from where they are transported further. Though the society is not directly involved in exporting, some recognized merchants are exporting these papads. The export alone accounts to the tune of Rs 10 crores annually. The profit accrued is equally distributed with the help of bank account at all branches.

7.122 In the agri food retail context, this concept could be made effective with proper financial assistance; training and also by identifying organised retailers as the real market for the same. NABARD can encourage associations/societies involved in primary processing of agri-produce and market development through finance with attractive rate of interest. NABARD can also encourage SHGs related to primary processing of products to supply to retailers as their own brands or as private labels for them.

7.123 Below are further few examples of such associations, which have enabled farmers to directly market/export their produce.

- **Mahagrapes**

7.124 Mahagrapes is a partnership firm of sixteen grape growers co-operatives and exports its members produce in international markets. It acts as facilitator, quality controller, input supplier as well as service provider to its member societies. Mahagrapes exports its member societies produce. It negotiates for better prices and arranges the logistics for its members. Mahagrapes does not buy or sell but just facilitates the export. It has an excellent traceability system, so that everyone gets paid as per the quality.

7.125 As a quality controller, it provides technical assistance, holds workshops and also provides various inputs such as its own brand of biofertilizers, specialized materials such as SO2 pads, plastic nets etc. to the farmers.

In its earlier years, Mahagrapes brought pre-cooling technology to farmers that enabled them to export.

- **Sufal mango growers association**

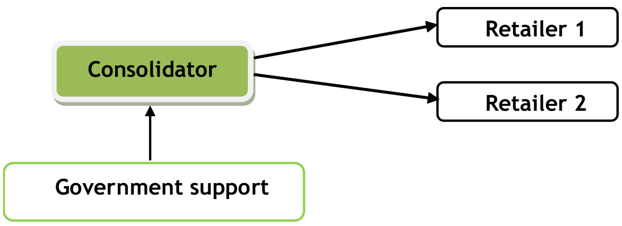
7.126 There were no alternative marketing practices available to take up the sale of mango for farmers of Dharwad district. In this regard a beginning was made by the UAS, Dharwad to sensitize mango growers in Dharwad districts. As a result of this the Sufal mango growers association was established and registered in April 2007. The model promotes the sale of mangoes directly to the consumers in corrugated boxes of two dozen. The sale is done through two exclusive outlets in Hubli-Dharward region and also through Agribusiness and Export knowledge centre, at UAS, Dharwad. The packaging material is manufactured by local small industrial units at reasonable prices resulting in viable forward market linkage in mango marketing.

7.127 Farmers generally lack knowledge about marketing, packaging and labeling. The association educates farmers and builds capacity among themselves for direct marketing to consumers.

3. Secondary role

a. Support to consolidator

Figure 7.3: Support to consolidator



7.128 We have seen the importance of consolidators in the procurement of agri commodities by the organised retailers. Many a times, these consolidators are in direct touch with various farmers. NABARD can help to develop credit products to finance such consolidators, which could result in direct benefit to the farmers. One example of such a financial product could be finance support for creation of storage and transport infrastructure, which would create additional benefits at the rural level by employing them in transport, storage and grading facilities.

7.129 Another area of finance could be short-term working capital loans to the consolidators who would utilize the finance to pay the farmers in cash and would get their payment at a later date from the organised retailer. Currently, the consolidators are qualifying for loans like other traders. However, since their needs are specialized and they deal directly with farmers in many cases, they can be provided credit at lower rates of interest and without collaterals.

b. Training

7.130 NABARD can initiate special schemes to prepare farmers and intermediaries in the agri-value chain in the context of growing organised agri retail. The training programs should be focused in such a way that the farmers and the intermediaries are able to integrate themselves with the final service delivery of the retailer and gain maximum in the process. E.g. training to the farmers on the demand of specific requirement of fruits and vegetables in terms of size and harvest time (days after sowing) by retailers or training to farmers on how they could make the best use of special credit schemes such as channel financing by associating with organised retailers.

E. SWOT analysis of organised agri food retailing

7.131 The research results represented in the text of the report till now have given ample information about the business performance, growth projections and the regulatory environment concerning organised agri food retailing. In this section, these relevant points are being summarized to present a SWOT analysis of the sector based on the research findings.

7.132 In any strategic planning process, two factors namely internal and external environmental factors play an important role. A scan of these factors is important for future planning. The environmental factors, which are internal to the retail sector, can be classified as strengths and weakness. The factors, which are external to the sector, can be opportunities and threats. The strategic analysis of environmental factors is referred as SWOT analysis.

7.133 This analysis provides the information that is helpful in understanding the retail sector resource mobilization and capabilities to the competitive environment in which it operates. Finally, this will be an instrumental in formulation of strategies for future growth and development of the sector.

1. Strengths

a. Most of the organised food retailers have diversified into retailing from other businesses. These highly diversified business groups are able to support the investment requirement of organised retailing business as well as absorb business losses through their own funds.

b. The parent groups normally have a robust balance sheet, which acts as a strength of the group giving them ability to negotiate funds with banks and institutions.

2. Weaknesses

a. The industry does not have an established business model. Most of the organised food retailers are not making sustainable profits. This has forced all the players to experiment to get an understanding of a viable model for survival and growth.

b. India has a huge diversity in the food habits, buying pattern, customer attitude, and the supply chain related issues. This creates hurdles for all organised food retailers to scale up and realize the much necessary economies of scale.

c. Food retail has retained its commodity nature without any clear brand differentiation among players operating in the market. Hence, customer loyalty to a particular type of organised retailer is very low.

d. Lack of trained and motivated manpower remains one of the main weaknesses of the organised food retailers. While initially there were some attempts to provide quality training to employees, at present, the players are not keen on such investments. As a result, customer expectation on the quality of staff has come down. Odd hour work, monotonous nature of the work and low salary levels among employees (relative to other comparable urban ventures such as BPO, IT) lead to high employee churn and attrition.

e. There are genuine problems in demand management and associated planning in case of food retail. Initially, it was thought that proper demand planning could be done with the help of IT. However, it was realized later that a larger issue is that of response time from the supply side, which has to do with suppliers as well as logistics and warehouse management.

f. The retail sector depends heavily on rented infrastructure. Inability to have a control on the rental cost element is a weakness that the industry has to encounter.

g. High level of wastage and losses including store level shrinkage remains an important area of concern.

3. Opportunities

a. As per our estimates, the overall retail sector including food retail is poised for an impressive growth in the next 10 years owing mainly to high income growth measured by per capita GDP.

b. In our analysis we have already seen how favourable demographics with increasing disposable income, working couples and experimental nature of people in urban India are the factors, which are favouring the rapid growth of organised retailing in all categories as well as food. Researchers have placed the growth of overall retail between 18-40% and our analysis indicates that organised agri food retailing would grow by around 14% year on year.

c. The progressive decline in customs duty and other non-tariff barriers under the WTO regime liberalization policy of the Government, would enable the organised food retailers to import premium foods and international brands. Global sourcing would create more choices for the consumers and improve the attractiveness of organised retailing.

d. The proportion of Indian residents who seek international food products is increasing. This is owing to increasing exposure of many Indians towards foreign products by their visits abroad and through the increasing NRI population.

e. The consumer attitude in India is changing. This change is marked by an attitude towards saving, debt and deferred payment (credit card etc.). This is in favour of organised food retailers as they can develop schemes to purchase on debt (credit card, payment in installments etc).

f. The idea of 'India as a consumer' has been accepted globally in the last 10 years. The result has been strong MNC product flows into India and our doors have just opened up.

g. The openness of the government to review some of its policies such as policy on FDI investment in multi-brand retail, policy on reforming agricultural marketing systems is an important opportunity in the present context which is going to favour huge capital investment in the sector. The FDI investments from the countries where the organised retail has attained steady phase can bring the experience, knowledge and also strategies for India.

h. Government also have initiated schemes like Terminal markets to create rural infrastructure. This could bring competitive marketing advantage for farmers produce.

i. Unexplored rural organised retailing is a great opportunity in front of the retail sector.

j. In the existing supply chain, a considerable portion of the produce is wastage due to handling and bruises damages caused. Particularly in case of perishable commodities like Fruits and Vegetables the direct procurement can reduce such losses to 7% by increasing efficiency up to 17% at the same time. Currently the prices of commodities are skyrocketing, tapping such wastage by investment in supply chain could be an opportunity.

4. Threats

a. Regulatory threats- Unfortunately, many growth levers for organised retail are outside the industry. Be it clarity on FDI in organised retail, implementation of agricultural reforms by the states facilitating direct procurement and so on. In a functional democracy such as India, decision-making on such vital issues is often long-drawn.

b. Policy threats- Government is deeply concerned with food inflation in the last 12 months. One of the areas that economists point out is the widening difference between wholesale prices and retail prices. The general perception in this regard is tilted against organised retailing and thus, it might slow down growth.

c. Competition from FMCG-backed unorganised retailing could reduce the appeal of organised retail. This is expected to have a more profound effect in case of the food-retailing category.

d. Our primary survey with organised retailers reveal that in the existing supply chain, the retailers are uncomfortable in handling perishable commodities. This is due to multiple handling and the lack of rural infrastructure facilities.

e. Decreasing turnover due to mushrooming of unorganised outlets is posing threat for the sector as a whole and is affecting both unorganised and organised food retail. The competition in the sector is increasing and could impact turnover and profits.

f. Lack of uniform tax system for retailers is a burden which constrains the establishment of an efficient pan India supply system. The goods and services tax is expected to stream line the tax structure. However, it is facing many hurdles in its final implementation.

g. Amendment to APMC act in inviting private partners to establish a direct marketing system in mooted. But there is an opposition from majority state governments fearing that they may lose market fee. The progress in the direction of implementing second-generation agricultural marketing reforms is very slow.

7.134 The organised agri food retail sector does not have much strength except the back up of the promoters. The sector should look for the upcoming opportunities to develop a competitive advantage between strengths and opportunities. At the same time the sector can overcome the weakness in order to prepare itself to take up the compelling opportunity. Thus, along with the strengths and opportunities the defensive mechanism for threats and weakness are to be countered through a balanced strategy. Institutions such as NABARD have an important role to play to support the business of organised agri food retailing in India and the farm level producers who are expected to align better with the supply chain in the given context. At the same time, the Govt. support is needed for the sector in a balanced way by taking steps such as opening up the FDI in multi-brand retail, initiating second-generation reforms in the agricultural marketing with adequate safeguards to ensure that the interests of the producers and the consumers are not harmed in the process.

Annexure 1

Data used in regression

Year	Absolute values (Rs. Crores)			Growth (% year on year)		
	Food retail	Total retail	GDP at factor cost at current prices	Food retail	Total retail	GDP at factor cost at current prices
1990-91	1,64,011	2,64,758	4,77,814	-	-	-
1991-92	1,95,405	3,06,013	5,52,768	19	16	15.7
1992-93	2,18,668	3,44,751	6,30,772	12	13	14.1
1993-94	2,50,213	3,96,710	7,32,874	14	15	16.2
1994-95	2,84,861	4,55,485	8,68,019	14	15	18.4
1995-96	3,08,979	5,11,419	10,06,286	8	12	15.9
1996-97	3,53,929	5,79,595	11,49,225	15	13	14.2
1997-98	4,68,927	7,38,683	13,90,148	32	27	21.0
1998-99	5,71,255	8,59,922	15,98,127	22	16	15.0
1999-00	5,93,263	8,67,937	17,61,838	4	1	10.2
2000-01	5,86,273	8,87,402	19,02,998	-1	2	8.0
2001-02	6,48,512	9,50,820	20,90,957	11	7	9.9
2002-03	6,43,577	9,68,478	22,49,493	-1	2	7.6
2003-04	6,69,796	10,55,927	25,38,170	4.1	9	12.8
2004-05	6,95,420	11,29,539	28,77,701	3.8	7	13.4
2005-06	7,70,179	12,66,073	32,82,385	10.8	12	14.1
2006-07	8,56,268	14,09,594	37,79,385	11.2	11	15.1
2007-08	9,58,473	15,62,260	43,20,892	11.9	11	14.3
2008-09 (E)	10,67,336	17,49,731	49,33,183	11.4	12	14.2

Source: National accounts data

*E=Estimates

Note:

1. The CSO data on Private Final Consumption Expenditure (PFCE) at current prices (nominal) classified by type of goods was used to estimate the size of total retail. The value of total retail was expressed as a sum of contribution of PFCE towards durable, semi durable and non-durable goods.

2. The CSO data on PFCE classified by object at current prices (nominal) was used to estimate the size of food retail. The value of food retail was expressed as a sum of contribution of PFCE towards food and beverages.

Year	Population (in millions)*	Per capita nominal GDP (Rs)	Growth in per capita GDP (% year on year)
1990-91	854	5,597	-
1991-92	870	6,353	14
1992-93	887	7,113	12
1993-94	904	8,111	14
1994-95	921	9,429	16
1995-96	938	10,731	14
1996-97	955	12,035	12
1997-98	972	14,300	19
1998-99	989	16,155	13
1999-00	1,006	17,508	8
2000-01	1,023	18,597	6
2001-02	1,040	20,100	8
2002-03	1,057	21,277	6
2003-04	1,074	23,629	11
2004-05	1,091	26,377	12
2005-06	1,108	29,634	12
2006-07	1,124	33,620	13
2007-08	1,141	37,884	13
2008-09 (E)	1,158	42,613	12

*Source: US census bureau

Annexure 2

Simple regression methodology

Simple regression analysis was employed in the study in many cases to find the influence of explanatory variables on the variable under investigation. The appropriate explanatory variable was regressed to arrive at Coefficient of determination (R^2). at 5 per cent level of significance.

Simple regression refers to any regression of a single Y variable (the forecast or dependent variable). The general situation will involve a set of n paired observations to be denoted.

The linear relationship between dependent (Y) and the explanatory (X) are given by,

$$Y=a+bX+e$$

Where,

a=Intercept
b=Slope of the line and
e=Error term (Deviation observation from the line)

The line of best fit is to be the one, which yields the smallest value for this sum of the squared errors through Ordinary Least Square (OLS) method. The idea of minimizing the sum of squared errors is by far the most widely used in statistical equations.

This was attained through the below equation

$$\sum_{i=1}^{n} ei^2 = \sum_{i=1}^{n} (Yi-\hat{Yi}) = \sum_{i=1}^{n}(Yi-a-bXi)^2$$

Further the slope was determined as, $b= \dfrac{\sum_{i=1}^{n} ei\,(Xi-\bar{X})\,(Y-\bar{Y})}{\sum_{i=1}^{n} ei\,(Xi-X)^2}$

The intercept 'a' is determined using formula $a = \bar{Y} - b\bar{X}$

Annexure 3

Government schemes related to organised retailers

A. Establishment of Marketing Infrastructure for Horticultural produce

Table: Cost norms and pattern of assistance under National Horticulture Mission during XI plan

Sl.No.	Item	Maximum permissible cost	Pattern of Assistance
1.	Terminal markets	Rs.150 crore/ project	25% to 40% (limited to Rs.50.00 crore) as Public-Private Partnership mode through competitive bidding, in accordance with operational guidelines issued separately.
2.	Wholesale markets	Rs.100 crore/ project	Credit linked back-ended subsidy @ 25% of the capital cost of project in general areas and 33.33% in case of Hilly & Scheduled areas for individual entrepreneurs.
3.	Rural Markets/ Apni mandies/Direct markets	Rs. 20 lakh/ unit	Credit linked back-ended subsidy @ 40% of the capital cost of project in general areas and 55% in case of Hilly & Scheduled areas for individual entrepreneurs.
4.	Retail Markets/ outlets (Environmentally controlled)	Rs. 10 lakh /unit	Credit linked back-ended subsidy @ 40% of the capital cost of project in general areas and 55% in case of Hilly & Scheduled areas for individual entrepreneurs.

B. Development of Commercial Horticulture through Production and Post-Harvest Management.

Name of the Scheme/ Project	Components	Pattern of Assistance
PHM/ Processing related	Retail Outlets	Back-ended capital subsidy not exceeding 20% of the project cost with a maximum limit of Rs 25 lakh per project. For the North-Eastern/ Tribal/Hilly Areas, maximum limit of subsidy would be Rs 30.00 lakh per project. The subsidy to be released to the leading participating leading Financial Institution on the completion of project as in the case of cold storage projects approved by the Government. For projects in the cooperative sector funded by NCDC, the subsidy would be through NCDC

Eligible organizations

The eligible promoters under the above schemes shall include NGO's, Association of Growers, Individuals, Partnership /Proprietary Firms Companies, Corporations, Co-operatives, Agricultural Produce Marketing Committees, Marketing Boards/ Committees, Municipal Corporations/ Committees, Agro-Industries Corporations, SAU's and other concerned R&D organizations.

3. Technology mission for the integrated development of horticulture in the NE region including SIKKIM

In order to have forward and backward linkages in marketing, which will enhance productivity and quality of produce and improve farmers income a pilot project of Alternate Marketing System is proposed under which marketing infrastructure will be developed in cooperative/private /joint sector with the participation of wholesales, retailers and farmers. It is proposed to provide assistance @ 25% of cost limited to Rs. 60 lac, for creating such infrastructure by way of credit linked back ended subsidy.

4. Gramin bhandaran yojana

The main objectives of the scheme include creation of scientific storage.eligible organizations

The project for construction of rural godowns can be taken up by individuals, farmers, Group of farmers/growers, Partnership/ Proprietary firms, Non-Government Organizations (NGO's), Self Help Groups (SHGs), Companies, Corporations, Co-operatives, Local Bodies other than Municipal Corporations, Federations, Agricultural Produce Marketing Committees, Marketing Boards and Agro Processing Corporations in the entire country. Assistance for renovation of rural godowns will, however, be restricted to godowns constructed by co-operatives only.

Credit linked assistance

1. Subsidy under the scheme is linked to institutional credit and will be available to only such projects as are financed by Commercial Banks, Regional Rural Banks, State Cooperative Banks (SCBs), State Co-operative Agricultural and Rural Development Bank (SCARDBs), Agricultural Development Finance Companies (ADFCs), North Eastern Development Finance Corporation (NEDFI), Urban Cooperative Banks etc. Loan to the entrepreneurs from banks for the construction of godowns would carry an adequate long-term repayment period.

2. Assistance under the scheme shall be available on capital cost of construction of godown including the cost of allied facilities like boundary wall, internal road, platform, internal drainage system, weighing, grading, packaging, quality certification, warehousing facilities which are functionally required to operate the godown.

Rate of subsidy

1. 33.33% of the capital cost of the project in case of projects located in North – Eastern States, hilly areas and those belonging to Women Farmers/ their self help groups / co operatives and SC/ST entrepreneurs & their self-help groups/ Co-operatives subject to a maximum ceiling on subsidy of Rs.62.50 lac. No maximum ceiling on subsidy in the case of co-operatives assisted by NCDC;
2. 25% of the capital cost of the project to all categories of farmers (Other than Women Farmers), agriculture graduates, co-operatives and State/ Central Warehousing Corporations subject to a maximum ceiling on subsidy of Rs.46.87 lac. No maximum ceiling on subsidy in the case of co-operatives assisted by NCDC;
3. 15% of the capital cost of the project to all other categories of individuals, companies & corporations etc., subject to a maximum ceiling on subsidy of Rs. 28.12 lac
4. 25% of the capital cost of the project for renovation of godowns of co-operatives with assistance from NCDC.
5. Scheme for development/strengthening of agricultural marketing infrastructure, grading and standardization

Salient features of the scheme

Marketing infrastructure for purpose of the scheme may comprise of any of the following:

1. Functional infrastructure for collection/ assembling, drying, cleaning, grading, standardization, SPS (Sanitary & Phytosanitary) measures and quality certification, labeling, packaging, ripening chambers, retailing and wholesaling, value addition facilities (without changing the product form) etc. Transportation facility will not be covered under the scheme;
2. Market user common facilities in the project area like shops/offices, platforms for loading/ unloading/ assembling and auctioning of the produce, parking sheds, internal roads, garbage disposal arrangements, boundary walls, drinking water, sanitation arrangements, weighing & mechanical handling equipments, etc.;
3. Infrastructure for Direct marketing of agricultural commodities from producers to consumers/processing units/ bulk buyers, etc.;
4. Infrastructure for supply of production inputs and need-based services to the farmers; (e) Infrastructure (equipment, hardware, gadgets, etc) for E-trading, market intelligence, extension and market oriented production planning; and
5. Mobile infrastructure for post-harvest operations (excluding transport equipment) will be eligible for assistance under the scheme.

Eligible persons

1. The assistance will be available to individuals, Group of farmers/growers/consumers, Partnership/Proprietary firms, Non-Government Organizations (NGOs), Self Help Groups (SHGs), Companies, Corporations, Co-operatives, Cooperative Marketing Federations, Local Bodies, Agricultural Produce Market Committees & Marketing Boards in the entire country.
2. Bank assisted projects of State agencies, including projects refinanced/co-financed by National Bank for Agriculture and Rural Development (NABARD) for strengthening / modernization of existing marketing infrastructure would also be eligible for assistance under the scheme.

Credit linked assistance

1. Assistance under the scheme would be credit linked and subject to sanction of the infrastructure project by Commercial/Cooperative/Regional Rural Banks based on economic viability and commercial considerations.
2. Assistance under the scheme shall be available on capital cost of the project only. Banks/ National Cooperative Development Corporation (NCDC) will, however, be free to finance other activities/working capital requirement to meet various requirements of the farmers/ entrepreneurs.

Subsidy

1. Rate of subsidy shall be 25% of the capital cost of the project. In case of North Eastern States, hilly and tribal areas and to entrepreneurs belonging to Scheduled Caste (SC)/Scheduled Tribe (ST) and their co-operatives, the rate of subsidy shall be 33.33% of the capital cost of the project.
2. Maximum amount of subsidy shall be restricted to Rs.50 lac for each project. In the case of North Eastern States, hilly and tribal areas and to entrepreneurs belonging to SC/ST and their co-operatives, maximum amount of subsidy shall be Rs.60 lac for each project.
3. In respect of infrastructure projects of State Agencies, there will be no upper ceiling on subsidy to be provided under the scheme.
4. The amount of Central Assistance/subsidy availed of for the project or any of its components from any other Central Scheme shall be deducted from the amount of subsidy admissible under this scheme.

6. Terminal market complex project

Salient features

1. Terminal Market Complex (TMC) can be set up in States, which undertake reforms in their laws relating to agricultural marketing, to provide direct marketing and permit the setting up of markets in private and cooperative sectors.
2. TMC will operate on a Hub-and-Spoke Format wherein Terminal Market Complex (hub) would

be linked to a minimum number of Collection Centres (CC) (spokes) which are essentially required to support the Terminal Market Complex project.

3. Spokes will be conveniently located at key production centres to allow easy farmer access and catchment area of each spoke will be based on meeting convenient needs of farmers, operational efficiency and effective capital utilisation of investment.
4. TMC will establish backward linkages with farmers through collection centres and forward linkages through wholesalers, distribution centres, retail cash and carry stores, processing units for exporters etc.
5. Collection Centres in production areas will integrate producers and retailers, processing units and exporters etc. into market system. The number of Collection Centres shall be determined in each case depending on the size of the market, distance from growing areas and other factors.
6. Electronic auction system will be established to ensure transparency in price fixation and competition.
7. Scheme would attract and facilitate private sector investment in agribusiness sector by assisting key stakeholders in sectors, such as entrepreneurs, processing industries, exporters, producer associations and farmers etc. through provision of subsidy under NHM.
8. Producers, farmers and their associations and other market functionaries from any part of the country may use infrastructure and facilities of TMC, directly or through collection centres.
9. TMC will provide one-stop solution in terms of providing logistics support including transport services and cool chain facility.
10. TMC Project will be implemented as a separate company/SPV to be registered under Companies Act, 1956 through suitable Private Enterprise (PE) to be selected as Promoter through process of competitive bidding. PE should offer to provide up to 26% share holding in equity for TMC Project to Producers' Association at inception of project and accordingly make reasonable efforts for ensuring the participation from Producers' Associations.
11. The area of operation of the TMC should be clearly defined and any other proposal in future for setting up of TMC within the whole or part of the defined area of operation of the designated TMC and its CCs will not be granted any subsidy under NHM for a period of 10 years.

Eligibility

Terminal Market Complex project would be built, owned and operated by the selected Private Enterprise (PE) through Competitive Bidding process. PE includes individual or consortium, Group of Farmers/Growers/Consumers/ Producer Organizations/Producer Company, Partnership/ Proprietary firms, Companies, Marketing Boards, Public Sector Undertaking, Co-operatives, registered NGOs empanelled with GOI/State Govt./ Planning Commission, recognized Self Help Groups under the schemes of GOI/State Govts. And other registered bodies engaged in production and trading of agricultural produce. The PE could also be a consortium of entrepreneurs from, inter-alia, agri-business, cold chain, logistics, warehousing, agri-infrastructure and related background.

7. Bharat nirman plan

The main purpose of the project is the development of the rural infrastructure.

This Plan has the objective of the all round development of the rural areas such as development of roads and systems of transportation under Pradhan Mantri Gram Sadak Yojana, development of irrigation facilities, development of telecommunication, development of the rural water supply, construction of rural housing under Indira Awaas Yojana, etc. This would help organised retailers to open their outlets in rural areas to do well their business.

ANNEXURE 4

Comparative statement on cost of cultivation of annual Horticultural crops under conventional and Precision Farming systems

Crops	Cost of cultivation		Yield (MT / ha)		% Yield increase over conventional system	Net income (Rs.) (at the lowest price)		Market price Range (Rs.)
	Conventional system	Precision Farming system	Conventional system	Precision Farming system		Conventional system	Precision Farming system	
Tomato	61,000	99,800	50	150	200	39,000 (@ Rs.2/Kg)	2,75,200 (@ Rs.2.5/Kg)	2 - 30 /Kg
Chilli	46,000	68,000	22	35	59.09	64,000 (@ Rs.5/Kg	1,42,000 (@Rs.6/Kg)	5 - 15/Kg
Paprika	49,000	72,000	37	60	62.16	1,36,000 (@ Rs.5/Kg)	2,88,000 (@Rs.6/kg)	5 - 20 / Kg
Capsicum	49,000	72,000	18	25	39	95,000 (@ Rs.8/Kg)	1,53,000 (@ Rs.9/Kg)	8- 25 / Kg
Brinjal	50,000	82,000	60	150	150	70,000 (@ Rs.2/Kg)	2,93,000 (@ Rs.2.5/Kg)	2 - 30/Kg
Ladys finger	40,600	62,000	10	16 (off season)	60	19,400 (@ Rs.6/Kg)	50,000 (@ Rs.7/Kg)	6 - 15 / Kg
Cabbage	51,500	78,000	75	110	46	1,73,500 (@ Rs.3/Kg)	2,52,000 (@ Rs.3/Kg)	3 - 10/Kg
Cauliflower	51,500	78,000	32,000 flowers	44,444 flowers	38.89	1,08,500 (@ Rs.5/flower)	1,44,220 (@ Rs.5/flower)	5 - 15 /flower
Tapioca	30,000	49,000	30	45	50	54,000 (@ Rs.2.8/Kg)	1,40,000 (@ Rs.4.2/Kg)	2.8 - 5 /Kg
Water	50,000	72,000	40	60	50	50,000 (@ Rs.2.5/Kg)	1,08,000 (@ Rs.3/Kg)	2.5 - 10/Kg

Source: TNAU

Organised Agri-Food Retailing in India

The value of retail in India is estimated to be over Rs.17,000 billion in 2008-09. Of this, food retailing constitutes over 60%. The retail trade in India is the second largest employer after agriculture, employing 7.2% of total workers (as on 2007-08) and is expected to play a significant role in employment creation in the years to come. The overall retail trade including the food retail is set to witness a tremendous growth in the near future and is expected to almost double by 2020 from its current levels. As we move into the new decade, we have seen a rapid growth of modern formats in food retailing with the emergence of the organised food retail sector.

The study presented in this book brings out several findings that seem to have serious policy implications. The organised retail currently accounts for just 5 per cent of the total retail trade. Agri-food retailing, which accounts for 18 per cent of the organised retail today is likely to reduce its share considerably by 2020 on account of a rather moderate growth within the organized agri-food retailing sector compared to overall organised retail. The study has identified major impediments, especially structural, hampering the growth of organised retailing in the agri food sector. Apart from this, the study touches upon critical issues related to agri-food-retailing namely credit, employment, infrastructure development, supply chain and risks associated with its development.

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