



Social and Economic Impact of Organized Retailing in Kerala

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ABSTRACT

Retailing is a consume interfacing activity and acts as a last link in the supply chain. India was ranked fifth in 2012 on the Global Retail Development Index. Going forward , the over all retail sector growth is likely to witness a Compound Annual Growth Rate of 12-13 percent. which would be worth INR55 trillion in 2018-19. The attitudinal shift of the Indian consumer and the emergence of organized retail formats have transformed the face of Retailing in India.

Retailing in Kerala is subject too subtle and relevant ;as Kerala is know more as a consumer state than a producer state. The present study is undertaken to gain an insight about the present scenario of retail sector in kerala. The analysis also covers the opportunities and emerging challenges before Kerala retail sector in view recent policy changes by Government of India .Over all socio-economic development and retail boom in India have altogether changed the customers expectation from retail outlets

KEYWORDS

Organized retailing, corporate retailing, traditional retail formats, malls, etc.

Introduction

An important aspect of the present economic scenario in India is the emergence of organized retail. There has been considerable growth in organized retailing business in recent years and it is poised for much faster growth in the future. Major industrial concerns have entered this area and opened their outlet. The situation in Kerala is not a different one. Kerala is a consumer state rather than a producer state. The introduction of supply cooperative stores, Maveli stores, margin free markets etc. have turned out to be pioneers in largest retail marketing in Kerala.

Retail Trade in India – An overview

India's retail sector is wearing new clothes and with a three year compounded annual growth rate of 46.64 percent. Retail is the fastest growing sector in the Indian economy. The Indian retail sector is highly fragmented with 92 percent of its business being run by the unorganized retailers like the traditional family run stores and corner stores. The organized retail however is at a very nascent stage though attempts are being made to increase its proportion to 10 percent by the year 2017 bringing in a huge opportunity for perspective new players. This sector is the largest source of employment after agriculture and has deep penetration into rural India generating more than 10 percent of India's GDP. Over the past few years, the retail sales in India are hovering around 33-35 percent of GDP as compared to around 20 percent in the US. The table given below shows picture of India's retails trade as compared to the US and China.

	Trade (US \$billion)	Employment (%)	Shops (million)	Organized Sector Share (%)
India	180-394	7	12	2.3
China	360	12	2.7	20
US	3800	12.6-16	15.3	80

Source: The Economist

Unorganized (Traditional) Retail Scene in India

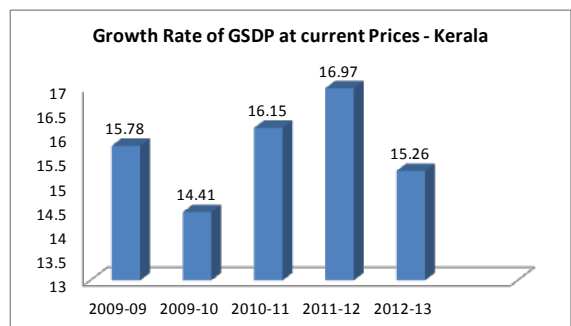
Comparing with other countries in our part of the continent reveals India as the country with the most unorganized retail market.

Country	Organized Retailing	Unorganized (Traditional) Retailing
Malaysia	55%	45%

Thailand	40%	60%
Philippines	35%	65%
Indonesia	25%	75%
South Korea	15%	85%
China	20%	80%
India	8%	92%

Retail Trade in Kerala – an Overview

The growth of the retail trade in Kerala is associated with the growth in Kerala economy. Gross domestic product grew by an annual rate of 15.26 during 2012-2013. Sectoral share of gross state domestic product contributed by Trade, hotel and Restaurants by 21.14 percent and business, Real estate ownership and legal by 11.86%.



Source: Department of Economics and Statistics

At the beginning stage of organized retailing the government of Kerala as well as traders in the unorganized sector were against their entry into the Kerala market. The Kerala Government has introduced a bill namely 'The Kerala State Essential Commodities Act 2007' in the legislature assembly and the Act came into effect. This was the first attempt of this kind in the country. The intention of Government was to introduce about 35000 Public Distribution System shops and 17,000 large outlets of State Civil Supplies Corporation so as to stop the corporate from tapping the states huge rural markets. The local self government has also taken steps to prevent the entry of organized retailers by refusing license for running the outlets in the initial stage. The State government has decided to slap a 10% surcharge on the profits of retail giants to discourage them from opening more outlets.

Now the mind set of Kerala changed to accept organized retailers. Reliance fresh already opened more than 100 outlets in the state. Big bazaar, more, Spencer, etc. giant retailers have also opened their outlets in the cities as well as urban areas in Kerala.

Organized Retail

After 50 years of unorganized retailing and fragmented small store, Kerala retail industry has finally begun to move towards modernization, systematization and consolidation. Organized retail has enjoyed a constant growth in the last 5 years and the trend appears to continue together. This trend of growth and the strengthening of organized retail activity in Kerala are due to several reasons.

- Steady growth of the disposable incomes
- Global exposure to customers
- Greater awareness and discern in customers
- Better management of supply chain

Challenges of organized Retailing in Kerala

Retailing as an industry in Kerala has still a long way to go. To become a truly flourishing industry, retailing needs to cross the following hurdles.

- Automatic approval is not allowed for foreign investment in retail.
- Taxation which favours small retail business.
- Absence of developed supply chain and integrate IT management.
- Lack of trained work force.
- Low skill level for retailing management.
- Rapid price changes, constant threat product obsolescence and low margin etc.

Organized Retailing: Impact to the Kerala Economy

India's Planning Commission in its approach paper for the eleventh Five Year Plan (2006, pp.27-8) has noted, "Organized retailing brings many advantages to producers and also to urban consumers, while also providing employment of a higher quality. Organized retailing in agricultural produce can set up supply chains, give better prices to farmers for their produce and facilitate agro processing industries. Modern retailing can bring in new technology and reduce consumer price. Thus stimulating demand and thereby providing more employment in production." Organized retailing and its impact on Kerala economy listed below.

Link with Agriculture: The problem in agriculture is reflected to a certain extent in the operation of the APMC (Agricultural Produce Marketing Committee) Acts in various states and union territories. The APMC Acts were originally intended to protect farmers from exploitation by intermediaries and traders by ensuring that they receive reasonable prices and timely payment. Over a period of time, the government regulated markets failed to function the way they were intended to and farmers felt exploited with a lack of transparency in the pricing, weighing, bagging and payments for their produce. The various intermediaries in the system from the village trader, who acts as a consolidator, commission agent, wholesaler, sub-wholesaler, etc have been appropriating a large part of the final price in the form of margins and commissions. The transactions at various stages involved huge wastages estimated at 5-7 per cent for food grains and 25-30 per cent for fruit and vegetables (Annual Report 2006-07, Ministry of Agriculture, Department of Agriculture and Cooperation). Organized retailers have already started procuring fruit and vegetables from farmers directly bypassing the various intermediaries who add more costs than value to the food chain. They are investing heavily on logistics in the form of centralized warehousing and distribution centres, transport and cold storage, either directly or through engaging third party logistics companies. They are also employing a large number of unskilled workers for sorting, grading, packaging and labeling. All these will enhance farmer's realizations, improve quality of products at the shop and reduce the ultimate consumer price.

Link with Manufacturing: The Planning Commission has identified four sectors as the major employment generating sectors for the Eleventh Plan period, 2007-12. They are: (i) food processing industry; (ii) textiles and clothing; (iii) tourism; and (iv) construction. Of these sectors, all except tourism are getting a fillip with the growth of organized retail. Modern retail will catalyze the development of the Small and Medium Industry (SMI) sector in the country.

Impact on Growth and Productivity: As regards manufacturing, SMEs particularly in food processing, textiles, and clothing will get a tremendous boost by producing for the big organized retail companies and will grow with the organized retail business. Organized retailing will remove various inefficiencies that characterize the present Kerala distribution system, which in turn will provide better price. For the producers and suppliers on the one hand and lower prices for the consumers on the other.

Impact on Employment: The growth of organized retail will enhance the employment potential of the Indian economy. While providing direct employment in retail, it will drive the growth of a number of activities in the economy which in turn will open up employment opportunities to several people. This includes the small manufacturing sector especially food-processing, textiles and apparel, construction, packing, IT, transport, cold chain, and other infrastructure. It may adversely affect employment in unorganized retail and the trade intermediaries associated with the traditional supply channels but the additional jobs created will be much higher than those that are lost. An important point to be noted is that while the jobs that organized retail displaces are the low-end, low-quality, under productive ones, the new jobs created are the high quality, productive ones. It also generates a number of jobs for unskilled labour for the tasks of sorting, grading, labeling, etc.

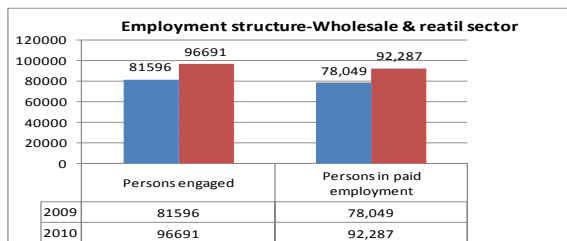
Improvement of Government Revenues: Another significant advantage of organized retailing is its contribution to government revenues. Unorganized retailers normally do not pay taxes and most of them are not even registered for sales tax, VAT, or income tax. Organized retailers, by contrast, are corporate entities and hence file tax returns regularly. The growth of organized retail business will be associated with a steady rise in tax receipts for the central, state, and local governments.

Social Impact of Organized Retail in Kerala

Indian consumers spent about 51 per cent of their total expenditure on food; in rural areas, that figure was about 55 per cent and in urban areas it was 42 per cent according to the National Sample Survey (Planning Commission 2004). Although India has a large rising middle class, its income levels are much lower than those in developed countries. The situation of Kerala is not different one Social impact of organized retail trade in Kerala listed below.

Enhanced Welfare of Consumers: Organized retail will offer consumers several benefits such as wider product choice, more in line with consumer needs, lower prices, better shopping experience etc.

Employment Generation: Organized retail will create employment at several levels. The survey of wholesale and retail trade covers establishments engaged in bulk and retail trade activities such as stores and supermarkets. In 2010, average wage stood at just over N19,798.06 per month for the 92,287 workers in paid employment in the sector, whereas in 2009, a total of 78,049 workers in paid employment earned a monthly wage of N18,693 on average. This represented a 5.9% increase between 2009 and 2010. The total expenditure on emoluments for the sector reached N17.5 billion in 2009, but rose to N21.9 billion by end of 2010, a 25.2% increase. Approximately 15,095 persons were employed in the sector during the year.



Source: National Bureau of Statistics 2011

It Propagates the Habit of Consumerism among Keralites:

The population survey of Kerala is witnessing as significant change its demographics. A large young working population with an average age of 30 years the emergence of nuclear families in urban areas along with increasing working woman population and emerging opportunities in the service sector are going to be the key growth drivers. Emergence of the organized retail sector is greatly influencing the life style and the buying behaviour of the Kerala. Their mentality is to "save and buy" the opposite of "buy and repay", which exist in the west. In fact as stated at a conference of Indian industries, corporate retailers will have to spend crores of rupees on advertising in order to "create" demand and consumer spending.

Environmental and Health Impact: For refrigeration of the vegetables and fruits and for air-conditioning the retail outlets at least 20,000 megawatt of additional electricity will be needed. Excessive Pesticides The giant retail chains have their own standards of buying farm produce, without using excessive pesticides it's very difficult for a farmer to produce fruits and vegetable which fits into the standards, so they are forced to use excessive insecticides and pesticides.

Packaging: Of food creates a huge amount of waste in the already polluted cities. At a time when every city in the country is struggling to solve the problem of solid waste, increase in the packaging waste due to the mall culture will add to their woes'

Conclusion

It is a proven fact that Kerala retail sector is witnessing a boom and this is an outcome of many factors is. A few of them include rising affluent middle class society, changing consumption patterns, life style, rise in the number of dual income, the emergence of nuclear families and many more. Retailers are using all the available media like print and visual, to their utmost extent and are able to penetrate a variety of consumer goods, electronic items and other products deep inside the villages and other interior parts of Kerala. It has been found that the gap between the living standards of the consumers of urban and rural area is narrowing down day by day. One of the prime concerns of the organized retailers is the availability of the space for retailing in Kerala. Organized retail will offer Keralites better living conditions, number of new jobs, high salaries, world quality products and services, a unique shopping experience and more social activities. It gives contribution to the local economies also. However both organized and traditional retailers will co-exist in Kerala.

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