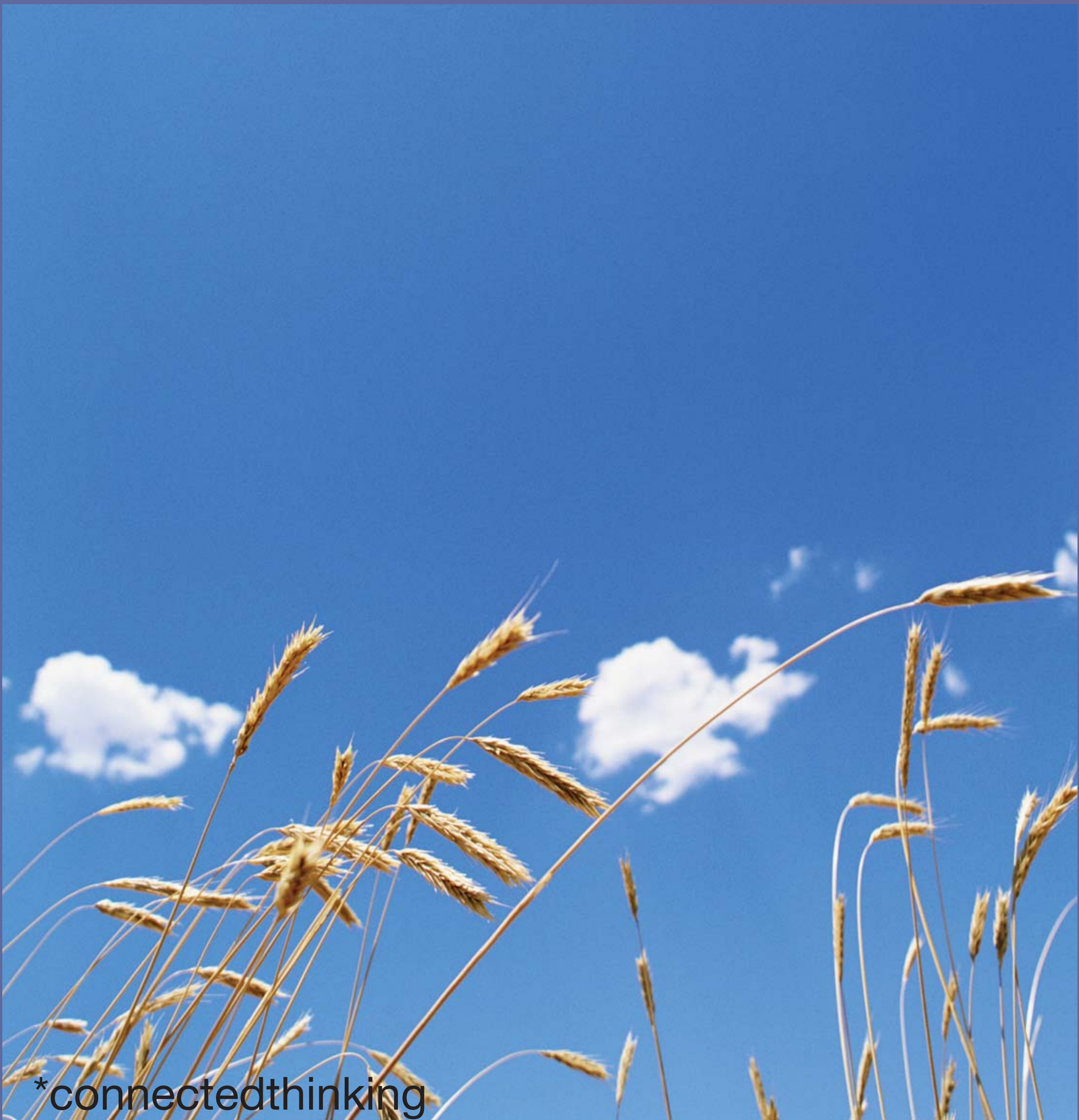
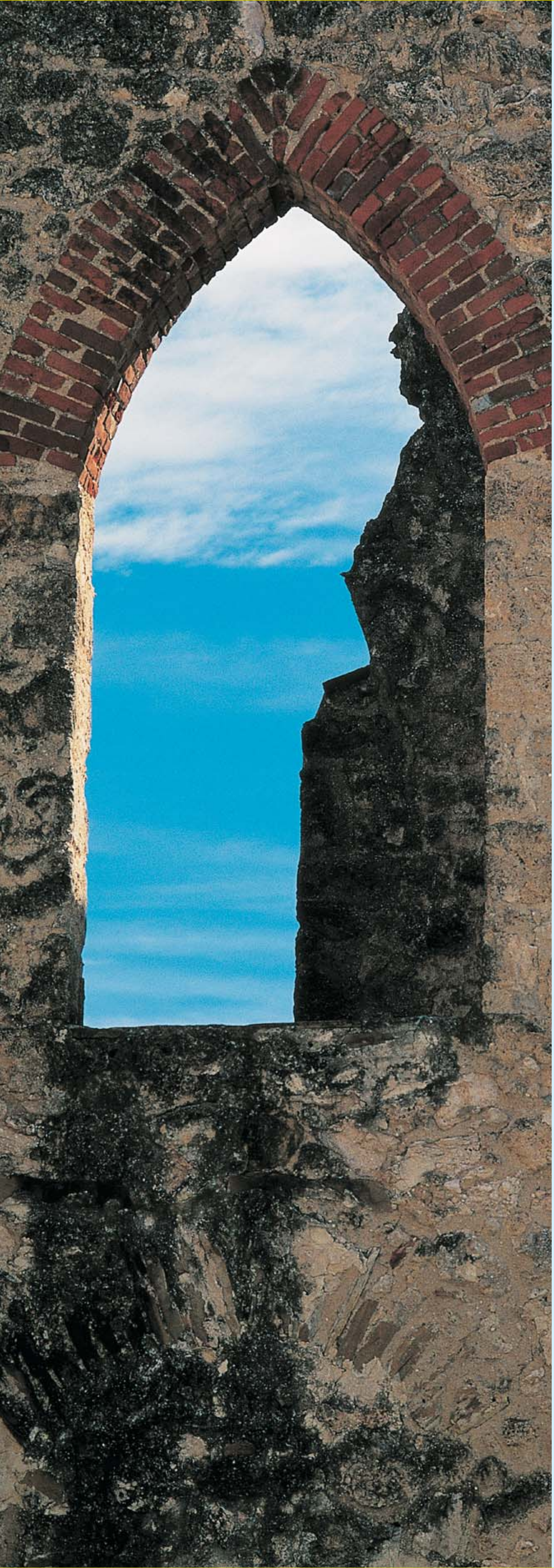
The Rising Elephant

Benefits of Modern Trade to Indian Economy*





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Foreword

I am happy to present this Thought Leadership Paper "The Rising Elephant: Benefit of Modern Trade to Indian Economy" from the Confederation of Indian Industry and PricewaterhouseCoopers. This is a key initiative to map the current state of affairs in the emerging modern trade industry in India and identify what the industry needs to catalyze growth.

Modern trade in India is at a historic juncture today. The rapid growth of this key element of the economy is of great interest to multiple stake-holders: consumers, manufacturers, employees, retailers and Government.

The expected takeaways from this study are:

- Establish that growth of modern trade in India will indeed bring significant benefits to the economy through evidence and testimonials of experience in other transitional economies
- Influence policy makers in India to create legislation that could catalyze the growth of modern trade
- Create awareness among global and domestic retailers of their economic responsibilities and local sensibilities as they prepare expansion plans

Our warm thanks to PricewaterhouseCoopers, our partner for this Survey, for their detailed work and for sharing their knowledge in conducting this survey.

N Srinivasan
Director General, CII

Preface

This PricewaterhouseCoopers Thought Leadership Study is an important initiative to demonstrate the key benefits arising out of the opening up of and growth in one of the largest marketplaces for modern trade in the world – India.

Objectives

In the past six months the Indian Government has given strong indications that it would allow Foreign Direct Investment (FDI) in the retail sector. Various models for opening up the sector are being considered. It is our understanding that many leading global retailers are planning an entry into the Indian market. At the same time, leading domestic modern trade players are going through rapid growth, format migration and consolidation.

PricewaterhouseCoopers initiated the Thought Leadership project in this backdrop. The key objective of this White Paper is to prepare an evidence-based empirical study on how other comparable economies have benefited from modern trade and the implications modern trade would have on the Indian economy. Among others, this paper will focus on the following three benefits of modern trade:

- Employment generation
- Increasing efficiency in Agriculture for the benefit of both producers and consumers
- Increased exports through sourcing from India

Methodology

This study covers Modern Trade, defined as any organised form of retail or wholesale activity (both food and non-food under multiple formats), which is typically a multi-outlet chain of stores or distribution centres run by professional management.

The PricewaterhouseCoopers team conducted a thorough secondary research of available published reports (an exhaustive list of all sources used is available in the Bibliography) and also interviewed CEO's and Country Managers of selected international, as well as domestic modern trade companies in India and other transitional economies. The output has been analysed and presented with an intention to provide an objective picture of what growth of modern trade means for the Indian economy.

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The key objective of this White Paper is to prepare an evidence-based empirical study on how other comparable economies have benefited from modern trade and the implications modern trade would have on the Indian economy.

Executive Summary

This PricewaterhouseCoopers Thought Leadership study is an important initiative to underscore the key outcomes of the opening up and growth of one of the largest marketplaces for modern trade in the world – India. The key objective of this White Paper is to prepare an evidence- based empirical study on the implications modern trade would have on the Indian economy.

Modern trade is defined as any organised form of retail or wholesale activity, which is typically a multi-outlet chain of stores or distribution centres run by professional management. Its feasibility in India is no longer a question, even though India is one of the last large Asian economies to liberalise its retail sector. This study will focus on the three most immediate areas which will be impacted through rapid development of modern trade: (i) employment, (ii) agriculture (iii) sourcing from India.

The following Executive Summary highlights the key findings of the study.

India – Poised for Rapid Growth

- Over the last decade, the Indian Gross Domestic Product (GDP) has registered an average growth of 6%. Per capita income has increased at about the same rate for the last five years. According to a World Bank survey, India ranks fourth in terms of Purchasing Power Parity (PPP), next only to the USA, China and Japan.
- Contributing to 10% of the GDP and with a market size of $210 billion, the Indian retail sector is growing at a healthy pace of 5% p.a.
- The share of the organised sector in retail trade is currently a mere 3% and is expected to reach 9% -10% by 2010, indicating a huge opportunity for prospective new players.
- India is home to the youngest population in the world - where half are under the age of 25. This growing working population in India leads to an increasing demand for lifestyle products and services.
- A rapid urbanisation has increased the population classified as middle-class to 300 million, which is receptive to new retail formats and demands more merchandise on the shelves.
- The Indian government has recently proposed various investment incentives. The liberalised economic regime and interest shown by global companies suggest that this strategy is succeeding and that no global player can afford to ignore India any more.
- Value Added Tax (VAT) was rolled out in April 2005. The VAT regime has brought all retailers into the tax loop and made seamless trade possible for organised retailers.

Impact of Modern Trade on Employment in India

- Today 21 million people are employed in the retail sector in India, which is 7% of the total national workforce. As retail is largely labour-intensive, various studies (based on the level of investment envisaged in the near future), have predicted generation of an additional 8 million jobs.

- By 2006, 35 million to 40 million square feet of retail space will have been created. Modern trade's effect will be most apparent at the bottom of the population pyramid, as it will unleash opportunities such as non-agricultural employment to rural youth and better quality of living for the existing agricultural society. At present 72% of the Indian population lives in the villages and is employed in agriculture.

- The traditional mom-and-pop stores in India cater for 97% of the total market and have developed indigenous processes and skills in retaining their customers, thanks to their unparalleled proximity, convenience and services offered. Taking a cue from their competitive advantage, modern trade companies in India will have to reach the existing service levels and match the Indian consumers' expectations. This will happen partly with the adoption of better processes and technologies, but also through creation of fresh employment.

- Global retailers like Carrefour and Kingfisher[1] have already invested significantly in the local economies they are present in. In the process, they have improved living standards of consumers, suppliers, farmers and employees and generated greater quantity and quality of employment.

- It can be expected, from the trends in China and Mexico that with flourishing modern trade and increasing global retailer presence, domestic competitors will still hold majority stake in the Indian market. In China, Carrefour and Wal-Mart[2] have more than 100 stores, despite which domestic competitors hold more than 90% of the market. Similarly in Mexico in spite of the presence of global retailers including Wal-Mart, the number of retail outlets, including mom-and-pop stores, increased by 2%.

Impact of Modern Trade on Agriculture in India

- Thanks to the presence of large local and multinational companies, India has a fairly organised and developed non-food manufacturing supply chain. However, India continues to lack in the last-mile distribution segment. The food supply chain in India remains fragmented and unorganised.

- The impact on the supply chain effectiveness will mainly be on the agricultural sector. The organised food retail business is among the least developed in India. If one looks at the Indian food chain, from farm to fridge, distribution of most food items involves multiple intermediaries and wastage during transportation and storage. The cumulative wastage across the supply chain can vary from 24% to 40%.

- Development and growth of modern trade in India will result in the disintermediation of the food supply chain as well as investments in upgrading the technology and practices in the entire value chain. This will reduce wastage and duplication of efforts resulting in farmers realising both higher productivity and better price. At the same time, consumers will get a wider variety and better quality products at relatively lower prices. The Government too needs to bring in appropriate legislative changes to catalyse this transition in the food supply chain.

- International modern trade players such as Metro[3] significantly invest in their operations in transitional economies. In the process of expanding operations, they make a huge difference to the lives of farmers and small-scale vendors by teaching them new techniques to improve productivity and providing them with new market access for their products.

[1] For more detail, please refer to the case study p. 36 & p.38.

[2] Please refer p.15 and case study on p.36 & p.40

[3] Case study p. 32.

Impact of Modern Trade on Sourcing from India

- Global retailers have already been sourcing from India and their retail presence in the Indian market will enhance exports from India, as they develop and leverage relationships with local suppliers.

- As China opens up to greater retailer demand following the end of the quota system of the Agreement on Textile and Clothing, it may face capacity constraints for certain product categories. Existing customers may then be forced to switch sourcing from China to other countries. India and other Asian countries will benefit from these developments.

- The extent of sourcing from India will grow manifold when global retailers are allowed to operate in the Indian market. Modern trade creates vital market access for small-scale suppliers and imparts necessary training and investments in improving their productivity and in adopting best practices.

- Wal-Mart[4] is keen on sourcing food and dairy products from India. To this effect, Wal-Mart is ready to bring in high-end technology, invest in cold chains and address issues such as contract farming. The most effective way for Wal-Mart to increase the volume and range of goods sourced from India, however, is to have retail stores in the country. Wal-Mart's impact on local business is based on the philosophy of operating globally and giving back locally. Nurturing local fresh producers have already had a very positive impact on modernising and enhancing the food value chain.

Government's Role in Leapfrogging the Retail Revolution in India

- The availability of an adequate infrastructure is necessary to keep pace with the current retail transformation and to meet the challenges of future growth. The major infrastructure required for moving goods efficiently from one place to another involves roads, the freight industry, railways, ports and shipping and pipelines, all of which are either managed or regulated by the Government. The connectivity and quality of and costs incurred in developing better infrastructure should be improved.

- Further legislative reforms, especially vis-à-vis property laws, labour laws, taxation, and fiscal incentives for domestic retailers are required to keep the momentum going. Granting industry status to Indian retailing will be the first step in this direction. It will help streamline the process for clearing applications, establish proper regulatory authorities to monitor the sector, improve quality standards, ease the implementation of VAT and ensure the availability of organised financing for this highly capital- intensive sector, to begin with.

- To reach its potential, the Indian retail sector requires significant capital, technology and best practices to bridge the existing productivity gap and achieve scale in operations, which are critical to the sector's success. One of the key steps towards facilitating the development of the retail sector and in accelerating its growth would be to allow foreign direct investment.

In conclusion, the benefits of modern trade are myriad. The most obvious benefits have been classified in the following table, to show what the modern retailers will cater for:

People	On the employment side	■ Training and jobs for the Indian population ■ Act as a school for social promotion in this country
	At the consumer end	■ Lower price inflation ■ Better product quality ■ Increased choice ■ Greater convenience
Purpose	■ Reach out to smaller towns ■ Encourage the growth, trust and effectiveness of local brands and their export to other countries ■ Help develop other areas of the economy (construction, security, facility management businesses, logistics and transportation, food processing etc.) ■ Boost entrepreneurship, cross fertilisation and business innovation	
Processes	■ India's infrastructure which will develop faster to match the sophisticated supply chains needed by bigger stores ■ By re-structuring and eliminating multiple layers of intermediaries, cost cutting can be achieved throughout the supply chain ■ Quicker assimilation and implementation of new technologies such as RFID (Radio Frequency Identification)	

4 Case study p.40.

India – Poised for Rapid Growth

The Indian economy is on a bull run. Over the last decade, India has registered an average Gross Domestic Product (GDP) growth of 6 %. Per capita income has increased at about the same rate during the last five years. In the fiscal year 2004-05, the economy recorded a growth of 6.9 %, based largely on the developments in the services sector and trade. The economy today is strong and vibrant owing to the progressive liberalisation of government policies, increase in foreign direct investment, increased global competitiveness, and investment in infrastructure and growth in domestic as well as international demand for Indian goods and services. A survey says India ranks fourth in terms of Purchasing Power Parity, after the USA, China and Japan.

A young, services-driven economy

India is home to the youngest population in the world, where 50% are under the age of 25, and 85 % below that of 50. The median age of the population is 24 years. This year, over 100 million Indians fall in the 17-21 age bracket. This growing working population in India is providing ‘fire-power’ to the demand for lifestyle products and services. Indians are consuming more than ever before, as incomes and purchasing power increase. Discretionary spending has increased by 16 % for the upper and middle class Indians.

According to the widely discussed Goldman Sachs BRIC report of October 2003, over the next 50 years. “India could emerge as the world’s third largest economy.”

The services sector continues to drive the economy, accounting for almost 50 % of the GDP. The Indian software and IT enabled industry is expected to contribute 20 % of incremental GDP growth between 2002 and 2008. India's major economic advantage over China is the skills of its white-collar workers, in a much more technologically driven home market. This difference begs a question: will India's economy overtake that of China in the services-driven world of tomorrow?

Strong and substainable growth

There is great confidence in India’s potential to sustain a period of high growth. India’s GDP growth is predicted at 7.3 % in the current year and in the range of 6.5 % to 8 % in the next five years. According to the widely discussed Goldman Sachs report of October 2003, over the next 50 years, Brazil, Russia, India and China - the BRIC economies - could become a much larger force in the world economy. “India could emerge as the world’s third largest economy", as India has the potential to show the fastest growth over the next 30 to 50 years. The report also states that “Rising incomes may also see these economies move through the ‘sweet spot’ of growth for different kinds of products, as local spending patterns change”.

To keep the momentum going, the Government has recently proposed various policy initiatives, including the promotion and enhancement of FDI in various sectors that were hitherto restricted. The rising levels of foreign direct investment and interest shown by global companies suggest that this strategy is succeeding and that no global player can afford to ignore India any more. Retail is identified as one such area that will soon be opened for Foreign Direct Investment.

Growth Factor

The retail opportunity in India is exemplified by a large and fast growing economy and rapid urbanisation leading to 300 million of its population classified as middle-class. This Indian middle class has displayed uninhibited acceptance of self-indulgence. A World Bank survey says India ranks fourth in terms of Purchasing Power Parity, after the USA, China and Japan; India presents an exciting and promising landscape for retailers.

Where the retail sector stands today

Bringing in 10 % of the GDP, with a market size of $210 billion, the Indian retail sector is growing at a comfortable 5 % in the face of various bottlenecks. The share of the organised sector, however, is a mere 3%, which is a huge opportunity for prospective new players.

Opportunities galore

The retailing sector is on the threshold of becoming a "star", and the stage is set for its grand entrance. Most of the pitfalls to growth are being sorted out. Retail space, for instance, is no longer a constraint for growth. It will grow from the current 35-40 operational malls occupying six million square feet of retail space, to 200 new malls by the end of 2006, thereby adding 35 – 40 million square feet of retail space.

The Indian consumer today is receptive to new retail formats and demands more merchandise on the shelves. The organised share of retailing, which is a mere 3 %, is expected to touch 9 % -10 % by 2010.

Nation wide retailers such as Pantaloon, Shopper's Stop, etc. have established businesses which can scale-up and investments into this sector are estimated to be around US $ 50 million in the next two to three years.

If Wal-Mart decides to set up an Indian retail operation, it would mark India's entry into a very select set. It only has an international presence in 10 countries, including three Asian countries - China, South Korea, and Japan. It has not entered any new market since 2002.

Changing regulatory environment

The Government has initiated the process of aligning policies to help escalate retail growth. Value Added Tax (VAT) was rolled out in April 2005. Earlier, most retailers were not liable to pay taxes, as the first seller was to pay the tax. The VAT regime has brought all retailers into the tax loop and made seamless trade possible for organised retailers. The peak customs duty on goods imported into India was reduced to 20 % from the previous 40 %.

The Government has asked the Ministry of Commerce to prepare a detailed note on organised retail. Various rules and regulations that have an influence on large format retailing will be studied, including the Agricultural Produce Marketing Committee (APMC) Act. All these measures are being taken to set the stage for the advent of FDI in retail trade.

These steps in the direction of economic growth have created conditions that invite participation in the retail sector.

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Area ('000 sq km): 3,300
(US 9,600 - EU25 3,981 - World 133,700)

Capital: New Delhi
(Number of inhabitants: 19 million)

Population (million): 1,080
(US 9,600 - EU25 3,981 - World 6,376)

GDP (USD billion): 658.2
(US 11,735 - EU25 12,723 - World 39,503.5)

GNI per capita (USD)1: 540
(US 37,870 - EU25 22,810 -
World 5,110)

Currency: India Rupee (INR)

Languages: Hindi, English and Other Regional languages

Main religions: Hindu, Muslim, Christian

Government type: Federal Republic

Map not to scale

Benefits of Modern Trade to the Indian Economy

Modern Trade is defined as any organised form of retail or wholesale activity, (food and non-food under multiple formats), which is typically a multi-outlet chain of stores or distribution centres run by professional management. The feasibility of modern trade in India is no longer a question, even though India is one of the last large Asian economies to liberalise its retail sector. In the last few years, India has witnessed a strong resurgence in organised retail, with several large domestic retailers such as Trent, Pantaloon and Shopper's Stop expanding into new cities and exploring new retail formats. Global retailers such as Marks & Spencer and Tommy Hilfiger have managed to enter India through various other options open to them and have made a mark on the Indian market. Thanks to the increasingly aware and assertive Indian consumers, the seeds of retail revolution have already been sown.

The following pages detail PricewaterhouseCoopers insights on each of these three topics:

- Employment Generation
- Increased Efficiency in Agriculture
- Sourcing/Exports by means of market access provided to small scale manufacturers and farmers

Impact of Modern Trade on Employment in India

In absolute numbers there are more retailers in India compared to other countries. The retail sector in India employs nearly 21 million, which is 7% of the total national workforce. Second only to agriculture, it is one of the sturdy pillars of the Indian economy. Organised trade employs nearly 5,00,000. The employment generated by retail has had a marvelous and positive impact on a section of society that has not benefited from the IT wave.

With the advent of modern trade in India, its impact on employment will depend on a whole range of variables. Some of those variables include the balance between greenfield modern trade and large-scale manufacturing compared to purchasing existing assets and merchandise; the labour intensity of new productive capacities or new organisational techniques; the extent to which modern trade-based service substitutes existing services and their relative labour intensities, and so on.

Increased job opportunities

A direct fallout of modern trade in India will be employment generation, both direct and indirect. Retail is largely labour-intensive and various studies, based on the level of investment envisaged, have indicated creation of an additional 8 million jobs.

Only about 3% of these 3.6 million urban outlets, ie about 1,00,000, fall in the category between the organised retail outlet and D category stores (which is not likely to be affected by modern trade in any case, because of extremely convenient locations). This indicates that only those employed in the mid-category 1,00, 000 stores will be potentially displaced in the medium term.

The experience of other developing countries indicates that the presence of foreign retail and consumer companies contributes to building a new middle class, which drives economic success, prosperity and social progress for all.

In China, Carrefour, the largest foreign retailer, has 60 hypermarkets and Wal-Mart has 45. Despite this, domestic competitors hold more than 90% of the market. Statistics point to the fact that although organised retailing has increased tremendously in the last decade in China, local shopkeepers have also flourished. Similarly in Mexico, in spite of the presence of global retailers including Wal-Mart, the number of retail outlets including mom-and-pop stores actually increased by 2%.

There are 12 million retailers in India. Based on the rural to urban ratio (70:30), roughly 3.6 million are located in urban areas, where modern trade will have a presence almost exclusively in the coming 10-15 years. Only about 3% of these 3.6 million urban outlets, ie about 1,00,000 fall in the category between the organised retail outlet and D category stores (which is not likely to be affected by modern trade in any case, because of extremely convenient locations).
This indicates that only those employed in the mid-category 1,00, 000 stores will be potentially displaced in the medium term. In the long run, the metamorphosis of this sector will lead to the redeployment of this workforce also.

Modern trade also brings added value to the workforce in a country. For instance, Carrefour has created over 7,200 jobs in Thailand and provides skill and know-how training at more than 50 training modules in the retail business.

Indirect employment

As indicated earlier, an additional 8 million jobs will be generated through direct and indirect employment. Indirect employment generation will be triggered as a chain reaction in the value chain i.e. at the manufacturer/ producer level, as well as other support activities such as grading, sorting, packaging, transportation, storage, various other service providers, such as security, training, IT, architects, store designers, facility management etc.

FoodWorld in India alone employs 2,500 people directly for its operations (including part-time employees) and has created substantial indirect employment from backward linkages to producers, as well as through other ancillary service providers. Most of them are first time employees. About 60% of its employees are children of daily wage earners like construction workers, maids, public transport drivers, etc. They are typically high school graduates and unskilled, and therefore, would have found it difficult to find other employment options.

Generation of indirect employment will be most evident at the manufacturer/ producer level. By the year 2006, 35-40 million square feet of fresh retail space will be created. Retailers require enough merchandise to fill their shelves, which will lead to increased investment in manufacturing. Similarly, improved efficiencies forced by modern trade will lead to enhanced quality of living for the farmers. Moreover, new non-agricultural employment (such as grading and packaging) will be generated in rural areas.

Modern trade vs traditional retail

Small retailers in India have inherent advantages. They are located next to the consumer, making it convenient for top-up purchase. They know them well, some even by name. They give credit too - which no large retailer does. Their fixed costs are so low that their break-even point is as low as 46% of sales.

Organised retailing of food and groceries is highest in the south of India. Here 10% –15% throughput of leading FMCG suppliers including MNC's such as Cadbury, Unilever etc., is sold through modern trade. Yet the number of distributors appointed by these companies has actually increased, indicating that the growth in market demand was healthy enough to sustain growth in the number of outlets of both modern trade and mom-and-pop stores for at least, another 20 years. It has, moreover, been pointed out that the level of threat, if any, to small retailers from an international retailer, will be the same as the one from a domestic retailer.

Rural benefits

Wiping out factors that breed inefficiencies is unavoidable and inevitable. The primary beneficiary in the metamorphosis of the retail sector will be those who fall into the bottom of the pyramid, which in India, are largely the people in the villages. As much as 72% of the Indian population lives in villages and is predominantly occupied in agriculture. Modern trade's effect will be most apparent on this 72% of Indians, as it will unleash opportunities such as non-agricultural employment to rural youth and better quality of living for the existing agricultural society.

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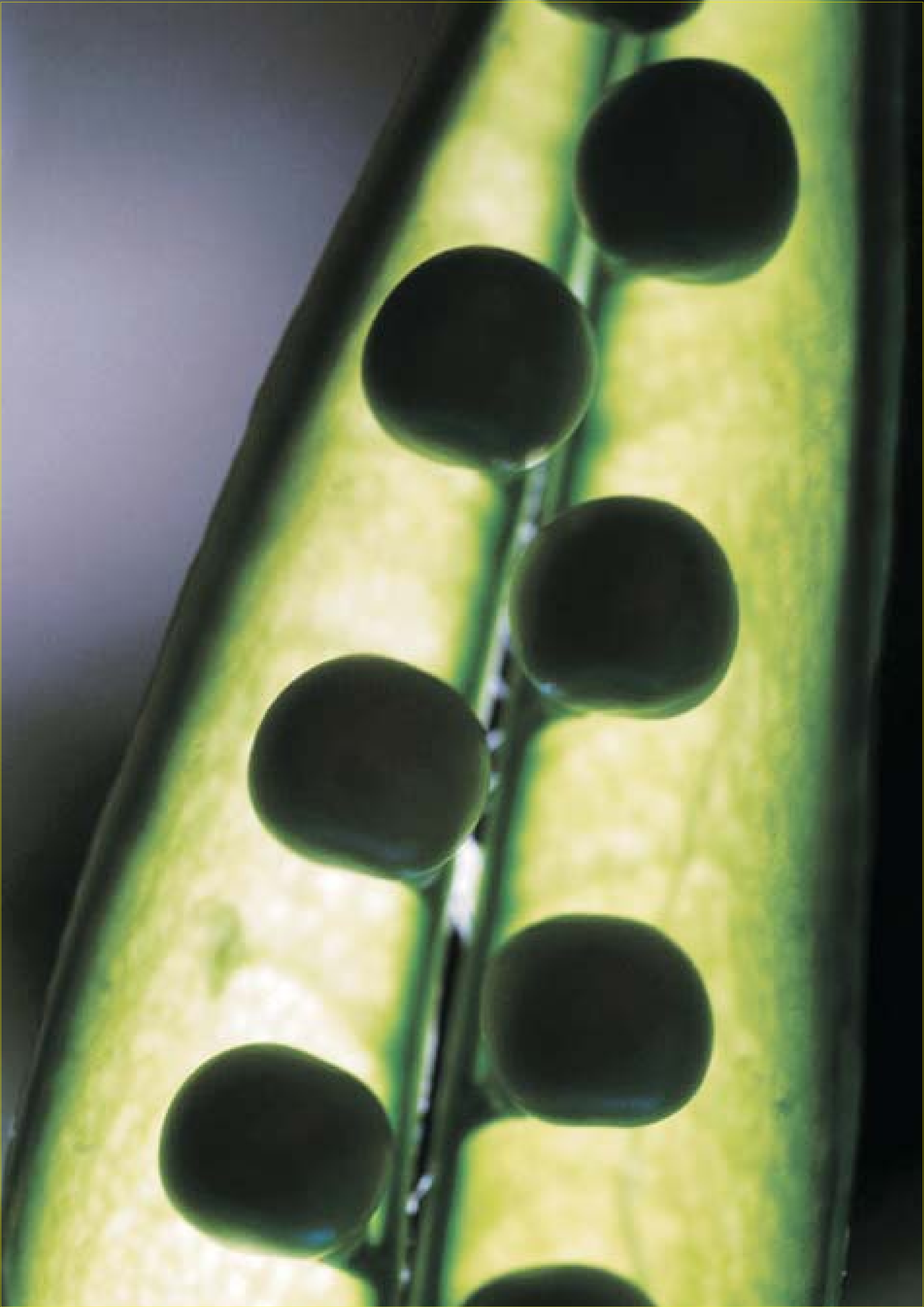
Summary

The traditional mom-and-pop stores in India cater for 97% of the total market and have developed indigenous processes and skills in retaining their customers, thanks to unparalleled proximity, convenience and services offered. Taking a cue from their competitive advantage, modern trade companies in India will have to match (and better) the existing service levels that the Indian consumer is used to. Although this will come partly from adoption of better processes and technologies, the human factor cannot be ruled out. This implies that modern trade in India will create extra employment.

(Please see case study “Carrefour’s Impact on Thai and Chinese economy” in Page 36 and “Kingfisher Plc’s Contribution in China and Poland” in Page 38)



Impact of Modern Trade on Agriculture in India

The success of any retail format largely depends on the efficiency of its supply chain. India has a fairly organised and developed non-food manufacturing supply chain, thanks to the presence of large local and multinational corporates that have built significant experience and scale by following best practices in their respective fields. Like most other developing economies, however, India continues to be lacking in the last mile distribution segment. The supply chain in India is fairly unidimensional. There is very little value-added activity as the distribution remains fragmented and unorganised.

This can be primarily attributed to the geographical and cultural diversity and complexity of the region and the lack of capital available for investing in technology and modern retail formats. Given the existing fragmented distribution system, organised suppliers are happy to retain the bargaining power they have over retailers, especially in the case of FMCG products.

Waste-generating supply-chain

Although India is predominantly an agricultural economy, the share of agriculture to India's GDP is only about 25%. India is among the top two producers of milk, fruits and vegetables in the world. Yet, the organised food retail business in the country is among the least developed in the world. If one looks at the Indian food chain, from the farm to the fridge, distribution of most food items involves multiple intermediaries, high cycle times and wastage during transportation and storage. A large chunk of fresh fruits and vegetables is lost because of inadequate post-harvest handling, cold storage, processing facilities and convenient marketing channels.

> If one looks at the Indian food chain, from the farm to the fridge, distribution of most food items involves multiple intermediaries, high cycle times and wastage during transportation and storage.

Huge quantities of grains too are wasted because of improper handling and storage, pest infestation and poor logistics management. Existing intermediaries cause delays and eat up a large portion of the earnings that essentially belong to the farmer. The result is a chain replete with inefficiencies.

Non-optimised market-access

The average holding of a typical Indian farmer is less than five acres. Lack of information on end-consumer requirements and pressure from consolidators force the Indian farmer to make inefficient decisions on crop selection and pricing. This results in huge wastage (20% - 40% in perishable commodities) and poor quality of produce.

The farmer is unable to realise better value as his produce varies in size, shape and quality. Smaller harvest lots do not bring economies of scale in transportation and lower net realisation. The overall realisation is also further reduced owing to pilferage.

Distribution activities in India, accounting for almost 10% of the GDP, are governed by regulations, such as Agricultural Produce and Marketing Committee and Contract Farming and Restriction to Free Movement of Goods. These well intended regulations have, however, created a new set of regulatory agents overseeing the movement and sale of produce.
As a result, a simple farmer has to deal with significant red tape, as he now has to deal with unionised labour and a regulated transportation system. The market yard, in practice therefore, does not seem to have benefited the prime intended beneficiaries - the farmer and the consumer.

The sale of produce in the market yard is through auctions. Prices are quoted by commission agents / traders in the presence of the overseeing officials, and are forced on the farmers. Retailers, who buy small quantities, pay the price quoted by the trader. Thus the trader at the market yard has a much greater bargaining power, both in the purchase from the farmers and sale to the next intermediary in the chain.

The wholesale vegetable markets in India are congested, lack adequate storage capacity and are unhygienic owing to the accumulation of waste and lack of drainage. This affects the quality of the produce and the lack of cold storage curtails the shelf- life of the vegetables.

The absence of multiple outlets for sale, lack of price transparency at the rural market yards and the necessity to sell the produce brought to the yard immediately, inevitably leads to poor price realisation for the Indian farmer. The variation between the price at which the produce is sold by the farmer and the price, at which it was bought by the ultimate consumer, varies widely from 24% to 58%.

Cumulative wastage across the supply chain varies from 24% to 40%, amounting to almost Rs. 500 billion (US$ 10 billion) in food wastage. This happens mainly because of the multiple handling of produce, poor packing, lack of temperature controlled storage facilities and transportation and overall poor quality of infrastructure.

Advantages of modern retail

With the growth of organised retailing, new supply chain structures using global technologies and best practices and offering customised product and services will be the order of the day. The distribution system will have to adapt itself to fulfilling demands for increased services at the consumer's convenience and be amenable to rapid consolidation across the supply chain.

Involvement of global players in retailing would lead to efficiency in supply chain that will help reduce costs and realise better prices benefiting both the supplier and the end consumer. The supply chain is made more efficient through economies of scale in procurement

Wal-Mart has been widely recognised as a leader in supply chain management and for passing its savings on to its customers.

and transportation, bulk storage, trend forecasting and analyses of sales patterns to minimise the inventory, better fund management and high service levels in terms of availability. Wal-Mart has been widely recognised as a leader in supply chain management and for passing its savings on to its customers. Wal-Mart is consequently credited with helping to keep inflation down in the United States.

In the short term, traders and intermediaries in direct competition with new entrants would suffer a loss in income and would have to find alternative employment. Over time, the productivity gains from an efficient supply chain are guaranteed to generate more income and employment opportunities by stimulating agricultural growth and consumer demand. Modern supply chain structures and systems are necessary for keeping pace with rapid economic growth.

As a result, there is tremendous scope for introducing best practices in modernising the agricultural produce distribution system in India by means of the following:

- Encouraging direct dealings with farmers via dis-intermediation.
- Educating farmers in methods to improve yield and crop selection to meet the end consumer's requirements.
- Aggregating demand at the village level and removing farmers' dependence on village level agents to market smaller lots.
- Carrying out the grading/packing activity with appropriate infrastructure to ensure global standards of hygiene and quality.
- Ensuring prices to the farmers / producers commensurate with their value add and risk undertaken.
- Designing and establishing the distribution system to handle large volumes.
- Minimising wastage at each stage of the supply chain through improvements in handling, packing, transportation and storage.
- Establishing freely accessible information platforms for a transparent brokerage of prices and qualities of agricultural products.

Summary

Development and growth of modern trade in India will result in disintermediation in the food supply chain, as well as investments in upgrading technology and practices in the entire value chain including production, packaging, grading, storage and logistics. This will reduce wastage and duplication of efforts and enable farmers to realise higher productivity and better prices. At the same time consumers will get a wider variety and better quality products at relatively lower prices. The Government needs to bring in appropriate legislative changes to catalyse this transition in the food supply chain.

(Please see case study "Carrefour's Impact on Thai and Chinese economy" in Page 36 and "Kingfisher Plc's Contribution in China and Poland" in Page 38)

Impact of Modern Trade on Sourcing from India

India is already an important sourcing base for global retailers, primarily in products like apparel, home textiles, leather goods, gems and jewellery, handicrafts, furniture and watches, in which the country has a competitive advantage.

A well-established sourcing market

Wal-Mart, Gap, J C Penny, Ikea and Tesco are some of the leading global retailers currently sourcing from India. Some of these retailers are stepping up their sourcing requirements from India and switching from third-party buying offices to establish wholly owned/wholly managed sourcing and buying offices. Buying volumes for many of these players are already in the range of Rs 10 billion – Rs 20 billion (US$ 0.2 billion - $ 0.4 billion) per year, with reported plans for further increases of up to Rs 100 billion – Rs 150 billion (US$ 2 billion - $3 billion) within the next 3-4 years. Wal-Mart has a 100% owned buying office in Bangalore. In 2004, the company purchased approximately US$1.2 billion worth of goods from India. This year, sourcing from India is expected to be worth about US$1.5 billion and continue increasing at a rate of approximately 30 per cent annually.

The Agreement on Textiles and Clothing, negotiated under the aegis of the World Trade Organisation (WTO), expired on 1st January, 2005. It signalled the end of the quota system, that had restricted the volume of textiles and clothing that could be exported to the European Union (EU), United States, Canada and Turkey from 55 other countries, for 40 years. A report recently published by the WTO predicts that China's share of the clothing market will grow from 16% to 50% in the US, and from 18% to 29% in the EU. China exported an estimated 20% of the world's clothing last year, even when trade restrictions were still in vogue.

As China opens up to more retailer demand, it may come up against some capacity constraints for certain product categories. This would force existing customers to switch sourcing from China to other countries, which are unlikely to be much cheaper. India among other Asian countries, will benefit from these developments. In India, business is still restricted by a series of minor cost disadvantages, such as higher import duties, indirect taxes and cost of capital. The Indian Government, therefore, needs to provide adequate legislation as well as infrastructure to enhance India's export competitiveness.

Untapped agricultural potential

India is the world's largest food producer and has the potential to be the world's number one supplier of fresh food. To be number one, India's yield levels need significant improvement to be on par with global averages. It is largely believed that as far as fruit and vegetables are concerned, India has the potential to feed the whole of Europe. On a recent visit to India, Wal-Mart's President and CEO, Mr. John B. Menzer said that the global retailer was keen on sourcing food and dairy products, ethnic Indian products like ghee, vegetarian cheese and Gulab Jamuns for its global operations. Wal-Mart intends to cater to the Non-Resident Indian community, as well as the wide range of consumer products that are being manufactured in India.

India is the world's largest food producer and has the potential to be the world's number one supplier of fresh food.

Mr Menzer explained that the most effective way for Wal-Mart to increase the volume and range of goods is to have retail stores in a country. Wal-Mart's retail operations have local buying teams responsible for developing suppliers across a wide range of industries. As suppliers establish a track record supplying local stores, they are introduced to the company's global buyers who source for the company's network of 5,000 stores in 10 countries. A recent supplier fair in Argentina, for example, resulted in a 50 per cent increase in exports from that country. Wal-Mart also needs the scale a retail presence provides for it to make investments in high-end technology, cold chains and contract farming, which are needed to expand agriculture exports.

Broader market access

The presence of global retailers in the Indian market will enhance sourcing and exports from India, as retailers develop and leverage relationships with local suppliers. Once the supplier relationship is established and proves to be viable, these retailers can source for their global operations from India. For example, Metro sources men's shirts for some of its stores overseas from the same local vendor that supplies to Metro India. Foreign players are better able to provide access to export markets through their global distribution networks, market position and brands. As seen in the case of FoodWorld, small-scale enterprises that supply to domestic organised retailers also benefit in terms of market access, product innovation and increased revenues.

Leading Indian modern trade players already source significantly from local Small Scale Industries (SSI) for their private label programme. Private label constitutes anywhere between 20% to 100% of modern trade sales. About 10% -50% of total merchandise is sourced through SSIs (depending on the retail format and type of merchandise):

- Supermarkets source on an average of 50% of their supplies from the SSI sector
- Department stores source around 30% of their supplies from SSIs
- DIY stores source upto 40% of their supplies from SSIs

Modern trade would provide instant market access and distribution network to SSIs, which would otherwise take three to five years to build. Modern trade would help grow SSIs by means of the following:

- Sourcing large volumes from SSIs
- Overcoming marketing weaknesses of SSIs
- Developing branding skill in SSIs through partnering
- Demanding product development skills from SSIs for private label exclusivity
- Enforcing quality production standards on SSIs, thus enabling them for exports (such as RFID compliance)

Increased exports

An in-country retail presence has been important for Wal-Mart's supplier development in China. Wal-Mart China merchants purchase products from some 20,000 local Chinese suppliers for its Chinese stores, which are expected to number 58 by the end of 2005. Wal-Mart China merchants purchase approximately 95 per cent of their merchandise from domestic suppliers and global suppliers manufacturing in China, providing the Wal-Mart buying team with in-depth intelligence about China's supplier base. At the same time, Wal-Mart has a China-based Global Procurement team buying for its 5,300 stores outside China. China accounts for the largest source of products for Wal-Mart outside of the U.S., with Global Procurement working with some 5,000 Chinese factories.

The presence of global retailers in the Indian market will enhance sourcing and exports from India, as retailers develop and leverage relationships with local suppliers.

Similarly, Metro AG of Germany used to source products worth US$ 40 million from China before FDI was allowed in retailing in China. It earned a revenue of 6.36 billion Yuan ($768.5 million) in 2004 from its 23 outlets in China and sources over US$ 1 billion worth of goods from the country. Metro is also in the process of investing $780 million on opening 40 outlets across China over the next five years, starting with 10 more this year.

India lags way behind China in terms of exports by global retailers. There are several structural and infrastructure issues that need to be jointly addressed by the Government and leading exporters to enhance India's export capability. An effective way of accelerating exports from India would be by opening the Indian retail sector to Foreign Direct Investment.

Summary

Exports from India will grow significantly with increased sourcing by global retailers from India. The extent of sourcing from India will grow manifold when these global retailers are allowed to operate in the Indian market. Modern trade creates vital market access for small-scale suppliers. It also imparts necessary training and investments in improving the productivity of SSIs and for adoption of best practices.

India lags way behind China in terms of exports by global retailers. An effective way of accelerating exports from India would be by opening the Indian retail sector to Foreign Direct Investment.

(Please see case study "RPG Retail Experience" in Page 30 and "Metro Cash & Carry Experience in India" in Page 32)

Government's Role in Leapfrogging the Retail Revolution in India

Modern trade accounts for about 3% of total retail sales in India, compared to 20% of the total retail sales in China. To grow competitively, the Indian government needs to focus on the following two core areas:

Infrastructure

Availability of adequate infrastructure is necessary to keep pace with the retail transformation taking place and to meet the challenges of future growth. The major infrastructure required for moving goods from one place to another in an efficient manner, involves roads, the freight industry, railways, ports and shipping and pipelines, all of which are either managed or regulated by the Government. Connectivity, quality of and costs incurred in developing infrastructure should be improved. Streamlining and improving logistic services will help improve productivity and cut costs, thus ultimately benefiting the Indian consumer. In addition, urban infrastructure including zoning, roads, flyovers, parking space etc. need to be attended to as well.

Regulations

Further legislative reforms, especially vis-à-vis property laws, labour laws, taxation, and fiscal incentives for domestic retailers are required to keep the momentum going. Granting industry status to Indian retailing will be the first step in this direction. It will help streamline the process for clearing applications, establishing proper regulatory authorities to monitor the sector and improve quality standards. It will also facilitate the implementation of VAT and ensure availability of organised financing for this highly capital intensive sector, to mention some advantages.

Foreign investment will increase food safety, increase government tax revenues from the sector, improve farm and food processing incomes and through improved efficiency of the supply chain, result in lower prices and better quality products for consumers.

To reach its potential, the Indian retail sector requires significant capital, technology and best practices to bridge the existing productivity gap and achieve scale in operations, which are critical to the sector's success. One of the key steps to facilitate the development of the sector and accelerate its growth is to allow foreign direct investment. Foreign investment will increase food safety, increase government tax revenues from the sector, improve farm and food processing incomes and through improved efficiency of the supply chain, result in lower prices and better quality products for consumers.

Conclusion

The most exciting phase for the Indian retail industry lies ahead. Facilitating this transformation will require sustained efforts from all the stakeholders. The prevailing view that FDI in retail or the growth of organised retail will hurt small businesses is no longer valid. In a growing market like India, as the retail pie continues to expand on the back of rising incomes and increasing consumer spending, there is room for everyone. Small businesses will continue to thrive as they adapt and re-model with the changing environment, to remain competitive. The small retailers can effectively differentiate themselves by providing customised product mix, superior customer service and focusing on convenience shopping.

The benefits of modern trade are several. The most obvious benefits can be classified under **People, Purpose and Processes** as elaborated below:

People	Purpose	Processes
The impact of a modern trade on peoples' lives in India is probably the most important of all: ■ It will provide training and jobs for the Indian population ■ It will act as a school for social promotion in this country ■ International teams in Indian retail companies can cross-fertilise know-how and culture. As for the consumer, new more efficient stores would change people's lives: ■ Lower price inflation ■ Better product quality ■ Increased choice ■ Greater convenience	A robust modern trade sector in India will drive the economy by: ■ Reaching out to smaller towns and the more under-developed parts of the country ■ Encouraging the growth, trust and effectiveness of local brands and their export to other countries through local sourcing hubs ■ Helping develop other areas of the economy, for example construction, security, facility management businesses, materials handling, logistics and transportation services, storage equipment, packaging, food processing etc., with a multiplier impact on the economy ■ Boosting entrepreneurship, cross fertilisation and business innovation	Modern trade sector will contribute to: ■ India's infrastructure which will develop faster to match the sophisticated supply chains needed by bigger stores ■ By re-structuring and eliminating multiple layers of intermediaries, cost cutting can be achieved throughout the supply chain ■ Retailing is a systems run business with huge amounts of data that needs processing. India's competency in IT will contribute to the quick assimilation and implementation of new technologies such as RFID (Radio Frequency Identification)

Thus, modern trade will significantly benefit the Indian economy, as it has already done in other emerging economies. Even in India, we can see the transformation taking shape, although in a nascent way. Foreign as well as domestic players should make the most of this opportunity and leapfrog the modern trade revolution in India by using their valuable learning from India and other emerging economies, and not re-invent the wheel India is a huge opportunity, not only in terms of sheer size, but more so in terms of potential growth as only 3% of this market is modernised. There is enough opportunity for different ideas/concepts/formats to be successful over a period of time.

Some of the critical success factors in India for global players would be: the ability to understand local consumer tastes/preferences, develop localised merchandise mix, managing price sensitivity, build and manage supply chain and identify suitable Indian partners.

The time to shift gears and accelerate the pace of retail development in India has arrived, and it is up to the government, retailers and potential investors to get the show going.

India is a huge opportunity, not only in terms of sheer size, but more so in terms of potential growth as only 3% of this market is modernised.

Case Study
RPG Retail Experience

RPG Retail in among the top five players in India's emerging modern trade business. RPG Retail clocked a turnover of about US$ 120 million, with about 0.6 million square feet of space across its various retail formats, which are Supermarket (FoodWorld), Health & Beauty (Health & Glow), Specialty music retail (Music World) and Hypermarket (Spencer).

FoodWorld began, as a 51:49 Joint Venture between RPG and Dairy Farm International, Hong Kong. In many ways FoodWorld is the pioneer and till date the largest player in the Indian organised food and grocery retail business, with 93 stores spread across 12 cities. It offers three broad categories of products: commodities (including fresh fruits and vegetables, grains, spices etc), consumer packaged foods and non-food items.

To manage the issue of the fragmented and multi-layered commodity supply chain in India, FoodWorld had set up a distribution centre at Hoskote, in Tamil Nadu, primarily with an objective to source directly from farm producers and thereby remove multiple intermediaries in the supply chain. Today FoodWorld sources directly from about 150 farmers. Many of them are the first generation free of debts, thanks to FoodWorld's guaranteed and predictable off-takes, fair price and cash purchase. A few other examples of how FoodWorld has made a difference to the farmers are as follows:

Improving productivity through adoption of better practices

- Carrot farmers typically used to cordon a ditch and wash the carrots in ditch water, by stamping on them. This obviously affects the quality of produce. FoodWorld introduced the practice of using washing trays to wash carrots, thereby reducing wastage and improving shelf-life and quality.

- A typical cauliflower farmer used to plant 12,000 cauliflowers per acre, resulting in 30% wastage of produce and poor quality as well. FoodWorld insisted that their suppliers plant 9,000 cauliflowers per acre, thereby reducing wastage and improving quality. The increased size of the cauliflowers and reduced wastage actually increased the net yield for the farmers. As a result, this practice is now being widely adopted even by farmers who do not supply to FoodWorld. Wholesalers are also insisting that the farmers follow these standards.

- FoodWorld has contracted millers for grains and spices. By adopting updated machinery, the millers have been able to save at least 15% on cost of spices.

While creating market access for small vendors, FoodWorld has actually increased consumption and market size of certain categories, rather than eating into the share of national brands. In jams, for instance, private labels account for about 45% of total category sales. This growth has not come at the expense of existing brands.

Creating market access for farmers

- FoodWorld markets tamarind paste in its stores. The best tamarind in India is grown in the Tumkur region of Karnataka. FoodWorld has been successful in branding the paste as "Tumkur" tamarind. This not only builds brand equity for the Tumkur tamarind growers, but also benefits customers, who get to use high quality tamarinds. Similarly, Latur is known for its toor dal and Tenali for urad dal. FoodWorld has thus, been able to build brand equity for regional farmers.

About 40% of FoodWorld's merchandise is sourced from about 500 local small-scale industries, which provide vital market access to these vendors, which would otherwise have been almost impossible in India's fragmented distribution system. A few examples of FoodWorld's impact on some of the vendors:

- Ready-to-cook idly batter manufacturer– A former employee of RPG who wanted to turn entrepreneur was assisted by RPG to set up a business supplying idly batter to FoodWorld. His annual turnover today is about Rs 9 million.
- Jam manufacturer – a small local vendor started supplying jam to FoodWorld, which was made in his aunt's kitchen. Today he has a factory that employs about 60 people and has now diversified into making mango pulp. His annual turnover today is Rs 25 million.

While creating market access for small vendors, FoodWorld has actually increased consumption and market size of certain categories, rather than eating into the share of national brands. In jams, for instance, private labels account for about 45% of total category sales. This growth has not come at the expense of existing brands. However, FoodWorld has managed to expand the category itself, by attracting first-time consumers with lower price points and providing greater choice for existing consumers.

Today FoodWorld sources directly from about 150 farmers. Many of them are the first generation free of debts, thanks to FoodWorld's guaranteed and predictable off-takes, fair price and cash purchase.

Key Takeaways

Domestic modern trade players like RPG Retail do create economic advantages by imparting training to small-scale producers (including farmers) in more efficient techniques and create vital market access for them. They also create new employment, including those for the economically backward class.

Case Study
Metro Cash & Carry Experience in India

The Metro Group, the 2004 sales turnover of which was over € 56 billion, is the third largest trading and retailing group in Europe and the fifth largest in the world. It runs 2,447 stores in 30 countries covering about 12 million square metres of retail space and employs around 2,50,000 people worldwide.

Metro entered India in 2003 and operates two cash and carry distribution centres in Bangalore at present. These "Junior" format distribution centres offer an array of over 18,000 food and non-food items to more than 90,000 registered business customers. Metro employs over 750 people in India. Metro has already invested Rs 2 billion (US$ 43 million) and is planning to expand into other locations in India soon.

Over 95% of Metro's merchandise for its Indian operations is sourced locally, both from large and small-scale industries. Metro has made significant investments and efforts in upgrading standards of productivity, as well as in providing vital market access to its vendors. One such example is the training and support provided to the fish and sheep farmers in India.

Metro has joined hands with various government agencies in India and the German Development Finance Institution, DEG, to invest about Rs 27 million in the training of more than 33,000 sheep and 800 fish farmers. By adopting the best practices and new methodologies introduced to them, the farmers would be able to increase their yield levels, reduce wastage and improve the quality levels of their produce.

Under Project Sheep, Metro along with the Karnataka Sheep and Wool Development Board will train 3,900 farmers in creating quality awareness and conducting health camps for de-worming and vaccination of cattle. Under Project Fish, 800 fish farmers in six Indian states are being trained in post-harvest management for minimising losses, modern techniques to catch fish and storage, packaging methods, etc. Metro plans to have buy-back arrangements with most of the farmers covered in the above projects, thereby additionally providing vital market access to these farmers. Similar projects will be taken up by Metro in the near future to train fruit and vegetable farmers, subject to regulatory approvals for trading in these products.

Serious efforts have been made by Metro to improve productivity and create market access for small local producers. Some successful examples are as follows:

- Metro has identified and worked with an Agra-based unbranded footwear supplier for a basic range of footwear, meant for blue-collared employees in small businesses. Metro assisted the vendor in designing shoes, keeping in mind the unique toe shape of the target user segment. Today 10,000 pairs of these shoes are sold every month by Metro in Bangalore, at an extremely competitive price of Rs 199 (US$ 4). The turnover of the small-scale vendor has risen from Rs 45 million (US$ 1 million) to Rs 60 million (US$ 1.3 million), an increase of 33% with Rs 11 million (US$ 0.25 million) coming from just Metro, even though the relationship is barely a year old. Additionally, the vendor's costs of production have reduced by 5% and profitability has increased from 8% to over 12%.

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- Another example of supplier development is a Bangalore-based bottled fruit juice manufacturer. Even though the product price was 28% lower than established national brands, the vendor initially had difficulty in setting up distribution channels, as it did not have the marketing capabilities required. Metro provided assistance in improving quality and packaging the fruit juices being offered. The wholesaler worked with the vendor to develop four litre sized juice packages for institutional customers, which was sold at a price that was 30% lower than established national brands. The consumer had more options for purchase in the fruit juice category at affordable prices. This resulted in an increased consumption of juice, as a new price point was introduced. For the vendor, it created vital market access for his bottled juices. The turnover of the vendor increased from Rs 0.6 million per month, to Rs 1.1 million per month, a whopping 83% increase. Encouraged by this, the vendor has now ventured into non-traditional juices and direct sourcing from fruit farmers. For the farmers, this conversion of fresh produce to packaged juices means guaranteed off-take and an increase in shelf-life of their produce.

- Metro sources high quality pork from local piggeries. The quality of the produce is of international standards, thanks to the rigorous training and investments made by Metro in upgrading feed, hygiene / veterinary care, slaughter, preservation, transport and storage methods used by the vendors. One specific example is adoption of a new inoculation method, which avoids needles getting stuck inside the pig while inoculating. As a result, a leading five-star group of hotels, centrally sources their all-India pork requirement from Metro, Bangalore. Earlier they were forced to import pork from Australia, as the quality standard of Indian pork was inadequate. In this case, Metro has been able to introduce international standards of hygiene and food safety.

Key Takeaways

International modern trade players such as Metro, significantly invest in their operations in transitional economies. In the process of expanding operations, they make a huge difference to the lives of farmers and small-scale vendors by teaching them new techniques to improve productivity and providing market access for their products. At the same time, it provides a wider choice of merchandise at cheaper prices to the consumers.

Case Study
ITC's Foray into India's Heartland

ITC (Indian subsidiary of British American Tobacco, BAT), one of India's largest diversified conglomerates, has its presence in cigarettes, hotels, paperboards & specialty papers, packaging, agri-business, branded apparel, packaged foods & confectionery, greeting cards and other FMCG products. With a turnover of US $ 2.6 billion, ITC has plans to transform India's rural landscape with its Chaupal Sagar (retail) and e-Choupal (online) initiatives.

ITC's International Business Division, one of India's largest exporters of agricultural commodities, has conceived e-Choupal as a more efficient supply chain aimed at significantly enhancing the competitiveness of Indian agriculture. E-Choupal empowers Indian farmers through the power of the Internet and so builds a huge rural distribution infrastructure for ITC.

The e-Choupal model, launched in the year 2000, aims to remove bottlenecks present in the Indian agriculture distribution chain, which is characterized by fragmented farms, weak infrastructure, poor agricultural practices, significant wastages, low quality produce and the involvement of numerous intermediaries. By virtually clustering all the value chain participants with the help of Information Technology, ITC has set up village Internet kiosks managed by a Choupal Sanchalak, himself a local farmer, who acts as an interface between the computer and the other villagers.

These kiosks provide the agricultural community with real time global information on weather, prevailing market prices, price trends, scientific farm practices and risk management, facilitate the sale of farm inputs and purchase farm produce from the farmers' doorsteps, all in the local language. Through access to crop-specific Websites, the smallest individual farmer gets the benefit of expertise on the cultivation of his crop.

E-Choupal services today reach out to more than 3.1 million farmers, growing crops ranging from soybean, coffee, wheat, rice, pulses, and shrimp - in over 31,000 villages through 5,050 kiosks across six Indian states.

The e-Choupal assists the farmer in the following ways:

- Provides farmers with real-time information and customised knowledge, enabling them to improve productivity, quality of produce and price realisation.
- Allows for aggregation of demand for farm inputs from individual farmers, thus giving them access to high quality inputs from reputed manufacturers at competitive prices.
- Eliminates middle-men, multiple handling, multiple transportation and wastages, thereby significantly reducing transaction costs.

The e-Choupal also provides valuable information for demand forecasting and real time communication to other marketing companies catering to the rural markets through this channel. This business model can boost the competitiveness of Indian agriculture through higher productivity, higher incomes for farmers, enlarged capacity for farmer risk management, larger investments and higher quality of produce. Having eliminated costs in the supply chain that do not add value, ITC benefits from the lower net cost of procurement (despite offering better prices to the farmer).

This business model can boost the competitiveness of Indian agriculture through higher productivity, higher incomes for farmers, enlarged capacity for farmer risk management, larger investments and higher quality of produce. Having eliminated costs in the supply chain that do not add value, ITC benefits from the lower net cost of procurement (despite offering better prices to the farmer).

This enthusiastic response from farmers has encouraged ITC to plan for the extension of the e-Choupal initiative to altogether 15 states across India, covering over 1,00,000 villages in the next few years. On the anvil are plans to channelise services related to micro-credit, insurance, entertainment, telemedicine, education and eGovernanace through the same e-Choupal infrastructure.

Choupal Sagar is the second-phase of ITC's noteworthy retail initiative to capture rural markets. It is one of the first organised retail forays by any retailer catering for rural India. The Choupal Sagar is a rural hypermarket (each store is about 7,000 square feet) which provides multiple services under one roof. Besides being able to buy quality products at fair prices for both farm and household consumption, farmers can also sell their produce in these hypermarkets. It aims to provide farmers with invaluable additional services like soil testing, banking, insurance, medical facilities, training and restaurant. The stores stock everything from toothpastes to tractors, hair oils to motorcycles, mixer-grinders to water pumps, shirts to fertilisers. The building also serves as a warehouse for ITC to store the farm produce that it buys through its e-Choupals. ITC plans to open 50 such hypermarkets over the next two years.

ITC has invested over Rs 800 million (US$ 18 million) over three years for its retail initiative. To keep its own investment to the minimum, ITC is encouraging the samyojak– a local broker or middleman co-opted by ITC – to pick up equity and manage these shops as part-owners. Assisted by four ITC salesmen, the local owners will assess demand, ensure just-in-time delivery, manage customer service and keep accounts.

With the e-Choupal and Choupal Sagar initiative, ITC has solved one of the biggest problems faced by Indian rural marketers. It has provided the last mile infrastructure to access rural markets. Philips, Eicher Motors, TVS and other Consumer Durable and FMCG companies that were previously unable to tap thousands of villages in the hinterland are now able to sell their products and services through this model. For example, Philips Lighting, through its own distribution network, could reach only Indian villages with a population of 20,000, but could not go any deeper. Now Philips has easy access to smaller villages, thanks to e-Choupal and the Choupal Sagars. Eicher Motors uses the hypermarket to showcase its entire range of tractors that are available on various lease options.

With the e-Choupal and Choupal Sagar initiative, ITC has solved one of the biggest problems faced by Indian rural marketers. It has provided the last mile infrastructure to access rural markets.

Key Takeaways

The Indian farmer is the biggest gainer in the end. He gets better price realisation for his produce, exposure to best practices, high quality farm inputs at competitive prices, market access for his produce, global crop real time information at his doorstep, and last but not the least, many options to spend his hard-earned money on. Clearly, ITC's retail foray is a great example proving the benefits of modern trade. It has helped increase employment, improve supply chain and enhance sourcing from India's heartland, the region that needs it the most.

Case Study

Carrefour's Impact on the Thai and the Chinese economy

After its merger with Promodès in 1999, France based Carrefour SA, has moved from a single-format hypermarket retailer to a multi-format retail group of hypermarkets, supermarkets, convenience stores, discount stores, and cash-and-carry stores. Today, the retail group has more than 11,000 stores in 31 countries and a turnover of Euro 90.6 billion, making it the second largest retailer in the world. Over 49% of Carrefour's revenues come from its operations overseas. It employs around 4,30,000 people around the world.

Impact of Carrefour's retail operations on Thailand's economy

- Carrefour started its Thailand operation in 1996 with a store in Bangkok and today has 19 stores and a turnover of Euro 406 million from the country. The retailer employs over 7,282 workers in Thailand.

- Carrefour is the first hypermarket in Thailand to deploy the American system known as the "Good Manufacturing Process" for its in-store bakeries to comply with new food safety regulations. The cost amounted to Euro 3,35,000.

- More than 95% of the products available in the Carrefour stores in Thailand are sourced locally. The company deals with over 1,200 local suppliers, most of whom are small and medium-scaled enterprises, to source food, grocery and textile products.

- Carrefour has developed "The Quality Line", a project designed to improve the quality of produce through organic farming. Carrefour provides knowledge, technology and skills to local suppliers to produce products without any chemical contamination.

- Through Carrefour Sourcing Asia, the retailer provided Thai producers an access to international markets by working with them to develop products that meet international standards. Thai Products, such as handicrafts, silk and home decoration products have been exported to Carrefour outlets in Europe, Asia and South America.

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Impact of Carrefour's retail operations on China's economy

- Carrefour first entered China in 1995 with its first store in Beijing. At present, besides hypermarkets, it operates two other retail brands in the Chinese market - Dia discount shops and Champion community chain stores. Since 1995, Carrefour has opened 59 Carrefour supermarkets, eight Champion hypermarkets, and over 150 DIA hard discount stores in 25 cities throughout China. The total investment for launching a new store in China varies from US$ 650 to US$ 1,040 million, depending on the city and locations.

- The French retailer has developed its own labelling to guarantee high quality products and hygiene. It has provided more than 400 commodities of its own brand covering four categories (food, grocery, daily necessities, and clothes), which account for 2% to 4% of its total goods and are 20% to 40% cheaper than market prices.

- Through its international purchasing representative offices in 10 cities, the company procured $3.2 billion worth of goods from China last year, growing 50% over 2003.

Key Takeaways

Global Retailers like Carrefour invest significantly in local economies in improving living standards of consumers, suppliers, farmers and employees. Local operations also have a very positive impact on increasing exports of goods from local economies.

Case Study
Kingfisher Plc's Contribution in China and Poland

Kingfisher is the leading home improvement retail group in Europe and the third largest in the world. It has obtained the market leader position in most markets it is present in. Revenues for the 12 months up to January 2005 were over £ 7 billion, of which 40% were generated outside the UK. Kingfisher employed over 81,000 people in 2004.

With over 600 stores in 10 countries, the company's retail chains consist of B&Q UK and B&Q Asia, Brico Depot and Castorama in France, Poland etc., among other countries. In addition, the company directly supplies building materials and other home improvement products through its Screwfix Direct subsidiary.

Kingfisher Plc in China

Kingfisher has been trading in China since 1999 through the B&Q retail chain. It has the market leader position here and has opened its 25th store in June 2005. With the intention of strengthening its leading position, Kingfisher recently also acquired OBI Asia Holdings, the second largest western home improvement retailer in China, which had 13 stores upto 2004, and five due to open in 2005. B&Q has invested £180 million in China since 1999 and plans to have 50 stores by the end of 2005. B&Q China paid £1million in sales tax in 2004. Kingfisher's presence had the following positive impacts on the Chinese economy:

- Employment: B&Q China has a direct employee base of 5,300, with only seven expatriates. In 2004 alone, it recruited 2,068 new people. It is estimated that an additional 9,000 employees will be recruited over the next five years. On an average, the Group invests in 36 hours of training per employee per annum. A significant proportion of employees are female, with female managers constituting over 32% of total managers. The Group developed a project to offer jobs to people aged between 40 and 50 years, who were laid off by State Owned Enterprise (SOE). Besides direct employment, B&Q China provides further employment opportunities by working with over 12,000 service providers, who are industry vendor representatives and tradesmen.
- Local Supplier Development: B&Q China sources 97% of its merchandise locally, which was worth £ 133 million in 2004-05. It has developed 1,200 local suppliers in China. As it grows rapidly, B&Q China will need to source six times more products in 2010 than it does today. The retailer is working with 10 of its top suppliers in China, to prepare them for exporting goods to the UK and France. Whenever B&Q China enters into a new region or a new city, about 100 to 200 new vendors are selected.
- Local Sourcing: Kingfisher's direct international sourcing amounted to US$ 550 million in 2004-05, of which US$ 445 million was from China. In the same period, the amount sourced from India doubled, compared to 2003, reaching $14 million.
- Standard of living and industry standards: B&Q improves living standards for consumers by lowering the costs of improving homes. Principles, such as price transparency, product quality, guaranteed service levels and introduction of new technology raise industry standards, and local retailers had to improve their customer proposition in order to be competitive.
- B&Q in China has had a minimal impact on local traders. The influence of modern retailing has helped the whole sector to grow: Local Home improvement malls (e.g. Homemart, Maccaline, Gome) have expanded their business at a very fast pace alongside big-box retailers like B&Q.

B&Q has invested £180 million in China since 1999 and plans to have 50 stores by the end of 2005. B&Q China paid £1million in sales tax in 2004.

Kingfisher in Poland

Since opening its first Castorama store in Poland in 1997, Kingfisher has opened 28 stores there. The Group's turnover for 2004 in Poland exceeded £ 300 million, and the company has invested over £ 200 million since entering the market. Kingfisher's presence had the following positive impacts on the Polish economy:

- Employment: The Company adapts itself by sourcing and recruiting locally, as local knowledge is considered vital at Kingfisher. The number of employees at Castorama Poland reached 5,000 in 2004, with only one expatriate. It actively develops and nurtures its employees through a social fund, for example, which provides financial help in the form of a repayable or a non-repayable loan; subsidisation of children's holidays; funding of participation in various forms of active recreation; insurance for accidents (without financial participation of employees), training, etc.
- Local Supplier Development: Castorama Poland works with over 750 local suppliers and will continue to work together with partner organisations and suppliers.

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B&Q in China has had a minimal impact on local traders. The influence of modern retailing has helped the whole sector to grow: Local Home improvement malls (e.g. Homemart, Maccaline, Gome) have expanded their business at a very fast pace alongside big-box retailers like B&Q.

Key Takeaways

Global retailers like Kingfisher significantly invest in overseas market expansion and in the process generate greater quantity and quality of employment. Their expansion also contributes to the local retail and manufacturing industry and helps develop their ability to reach international quality standards.

Case Study
Wal-Mart Experience in China and UK

Wal-Mart Stores, Inc. is the World's largest retailer, in fact the largest private enterprise in the World, with $285.2 billion in sales in the fiscal year ending January 31, 2005. The company employs 1.6 million associates worldwide. More than 138 million customers visit Wal-Mart stores worldwide per week.

In total, Wal-Mart has 5,311 stores, 3,600 facilities in the United States and more than 1,700 units in Mexico, Puerto Rico, Canada, Argentina, Brazil, China, Korea, Germany and the United Kingdom.

Wal-Mart in China

Wal-Mart opened its first stores in 1996 in the southern city of Shenzhen and now operates 47 stores (42 Super centres, three Sam's Clubs and two Neighbourhood Markets) in 22 cities around the country. Since inception, it has invested up to US$ 197 million in China and paid more than US$ 173 million in taxes. Wal-Mart's presence in China has had the following benefits to the Chinese economy:

- Employment: Wal-Mart employs more than 23,000 associates in China. Their hiring staff makes it a point to hire Senior Citizens for key positions within each store.
- Local Supplier Development: Wal-Mart procures over 95% of local products whenever a store is opened. It has developed about 20,000 local suppliers in China. It provides training and other assistance to Chinese suppliers to meet Wal-Mart's quality specifications and eventually makes them compliant with export specifications for the U.S. market, through Wal-Mart's procurement procedure. As a result, combined direct and indirect procurements from China have increased rapidly over the years, from US$ 10 billion in 2001 to US$ 18 billion in 2004.
- Development of the Food Supply Chain: Wal-Mart China has worked with local farmers to develop a cold supply chain linking farms directly to their stores. Its Quality Programme helps Chinese farmers and manufacturers adopt international quality and food safety norms. As much as two years before opening a store, Wal-Mart conducted seminars for local farmers and processors, with government assistance, to pro-actively discuss the store's standards. At these seminars, Wal-Mart discussed the steps involved for becoming a Wal-Mart food supplier and the benefits farmers can expect from working with Wal-Mart. Wal-Mart ensures its suppliers' financial stability by providing stable off-take as well as timely and regular payment. It also enhances farmers' cash flow, through payment terms for fresh agricultural products of just 15 days, compared with other retailers' terms of 30 days-60 days.

Wal-Mart shares its information technology system "Retail Link" with its agribusiness suppliers. Through the Internet, its suppliers can obtain real-time sales figures. One of its pork manufacturers, for example, checked sales data from Retail Link and observed sluggish sales in the first quarter. The processor then worked together with Wal-Mart merchandisers to conduct market analysis, resulting in modification of the breed of swine, and consequent increase in sales.

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Wal-Mart in UK

ASDA, Britain's best value retailer, became part of the Wal-Mart family in June 1999. ASDA was formed by a group of farmers from Yorkshire and now has 265 stores and 19 depots across the UK. ASDA employs 1,22,000 in the UK. Wal-Mart's presence in the UK had the following positive impacts on British economy:

- Local Sourcing: Most fresh produce sold through ASDA is sourced locally, such as 100% of its fresh chicken and turkey,and, 95% of its fresh lamb. As much as 90% of ASDA's fresh pork is British, and 80% of its fresh beef is British (the remainder is Irish). ASDA sells approximately 450 million litres of fresh milk each year with a retail value of £230 million - all of it is British. Its entire range of own label cream and eggs are also 100% British.

- Local Agricultural Advancement: ASDA is working towards reducing imports and extending UK growing seasons. Its eventual aim is to source all of its fresh vegetables and potatoes from within the UK. Last year ASDA became the first UK retailer to halt imported carrots by extending the British carrot season from 46 weeks to 52 weeks. By extending the Scottish baby potatoes season, it has reduced the reliance on imports from 10 weeks to six weeks of the year. It has extended the UK parsnip (root vegetable) season from 42 weeks to 48 weeks, equivalent to an additional 3,00,500 kilos of homegrown parsnips. It was also the only retailer to have 100% British cauliflowers on sale from November to April last season.

- Local Supplier Development: Cost Plus is an exclusive contract between ASDA, its suppliers, and a select group of dedicated British potato and carrot growers. It is designed to deliver sustainable year-on-year returns by taking growers away from the boom/bust cycle associated with the wholesale marketplace. Production costs are reviewed annually with the whole of the Cost Plus grower base. Cost Plus prices are set at the start of each season. They are not linked to external market prices, therefore when prices fall on the open market, farmers on the scheme do not suffer. Additionally farmers are rewarded with better returns through a number of bonus payments that are available for improving yields, increasing quality and variety. ASDA also nurtures small suppliers by providing special benefits such as shelf space commitment, training etc.

ASDA is working towards reducing imports and extending UK growing seasons. Its eventual aim is to source all of its fresh vegetables and potatoes from within the UK. Last year ASDA became the first UK retailer to halt imported carrots by extending the British carrot season from 46 weeks to 52 weeks.

Key Takeaways

Wal-Mart's impact on local business is based on the philosophy of operating globally and giving back locally. The emphasis on sourcing locally has led to effective and advanced utilisation of resources, especially for fresh and processed foods. Nurturing local fresh producers have had a very positive impact on modernising and enhancing the food value chain.

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