



ROLE OF RETAIL SECTOR IN \$5 TRILLION ECONOMY

A REPORT BY CENTRE FOR ECONOMIC & POLICY RESEARCH



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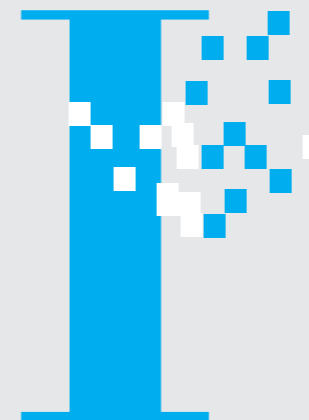
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OUR PANEL



India, a nation of 1.32 billion people and a story of gradually expanding economy; in last three decades the country has transformed itself into an arena where the aspirations of the consumers is pacing the xx of the retail sector. In last three decades the economy expanded at a CAGR of 7-8 percent to be \$2.77 trillion. If we piece together the aspiration of the Prime Minister Narendra Modi of doubling the size of the economy to \$5 trillion in next four years, it will not happen without the transformation going through the sector. Not only, it will add more consumers, or add more products to the shelves, but it will be a great source of providing an aspirational jobs to the youth. At present roughly 10 percent of India's gross domestic product (GDP) comes from the traditional retail, or as it is colloquially called Kiryana stores.

These roughly 12 million Kiryana stores dominate the domestic grocery retailing and have 90 percent of the market share. And these stores employ roughly 8 percent of the country's youth. After agriculture, these stores employ most. This continues to be one of the most favoured entrepreneurial venture for the youth. Over the period of time, these stores blended themselves to the sociology of the area and cemented the trust for generations to the consumers.



Despite the flood of supermarkets, modern retail and ecommerce ventures, these stores are competitive and are giving their new set of competitors a run for their money. At present, on an average these Kiryana stores serve to the catchment of 500 to 1000 families. The Kiryana stores would provide same day delivery, or in many cases within hours; along with the credit facilities to the regular and trustworthy consumers. The modern retailers, despite the Artificial Intelligence or AI or complex algorithms still are unable to crack the understanding of the consumer behaviour to the perfection of the Kiryana stores' owners. This shows in his stocking of the relevant goods.

10%
of our GDP and 8% of the country's total employment comes from traditional retailing i.e. by kiriyana stores.

To accelerate the growth in the changing eco-system the sector requires reforms, better access to capital, better access to technology, wider access to the market and consumers, along with more efficient ways of doing business. Over the years, the Kiryana stores proved themselves to

the extremely durable but digitally-resistant.

As a market India has a better pay parity vis a viz various developed countries. India's retail market is pegged at close to \$700 billion and is estimated to grow to \$1 trillion by fiscal 2024/25. As much as 90 per cent of this market is unorganized, thus made it more imminent to strengthen the stores to take on the new age challenge. There are series of events, which led to several cases of new-age players triggering predatory pricing, deep discounting, controlling inventory and giving preferential treatment to select sellers which is eventually hurting the Kiryana stores. Many of these new-age giants come with deep pockets, access to cheaper capital and can afford to remain in losses for a longer period of time. But Kiryana stores cashflow doesn't allow him to go in loss for even a month. Today, there is a lot of debate on the merits and demerits of e-commerce in India. The cost of customer acquisition for online retailers has been soaring leading to huge cash burn rate and mounting losses. The need of the hour is to safeguard the interest of small Kiryana stores and



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MSMEs against any regulatory violation and predatory pricing that is affecting their business and livelihood.

Kiryana stores today need assistance to transform. There are several technological solutions to empower Kiryana stores. The more sustainable solutions being digitization, modernization and remodelling of stores, point-of-sale (POS) billing, app based digital payment, back-end integration of Kiryana stores, competitive pricing with discounts for them to stay relevant in the retail landscape. The POS system enables Kiryana stores to track sales, revenue, inventory and customer preference like any modern retailer. Digitization is just one step; there is much more the industry can do for these stores to thrive and complement online businesses.

Kiryana stores are an integral part of Indian retail; they operate on lower operational costs making them more sustainable unlike the retail and online businesses which are sitting on a pile of debt and have unsustainable future. Their intimate knowledge of the local consumer community coupled with smart inventory handling helps them to better utilise the limited store space and turnover goods smartly. Despite of competitive landscape, these stores have proved to be extremely durable and have survived the emergence of the supermarket, big retail chains and e-commerce players. The future is not a question of offline versus online, but how online can complement offline; as both will continue to thrive in different ways.

KEY TAKEAWAYS

Kiryana stores continues to be a very efficient retailers with very low cost of operations. Despite the regulations to curb the predatory pricing and deep discounting the modern retail and e-Commerce players are disrupting the level playing field. The PM Modi's regime tried to plug the loopholes with correctios in the previous norms by issuing the clarification with December 2018's press note-2. But the complaints of predatory pricing continues to create fritters among Kiryana stores. More stringent rules are needed to curb the tendencies of deep discounts and predatory pricing.

Use technology to create constructive disruptions. From inventory management, stock piling, acquiring new customer to efficient billing the tech-



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nology can change the way entrepreneur run the Kiryana stores. Over the years, the Kiryana stores proved themselves to the extremely durable but digitally-resistant. Along with awareness, handholding is needed to make the transformation happen. With the succession of generation, the change is happening; still the speed could be accelerated with the handholding.

To make Kiryana store most, the skilling of the existing set of people to effectively and efficiently deliver goods and services to the target set of consumers, along with acceptance and adaption of the new technology by the workforce is needed. This will make the jobs at Kiryana stores more aspirational with better pay packets.

The Kiryana stores employs 8 percent of country's workforce and nearly 90 percent of them are in the unorganised sector. The PM Modi talked about providing the easier credit facility, insurance, pensions along with the health benefits. These are required social securities so that the Kiryana stores can explore expansion.

The Kiryana stores carry 3000 Stock Keeping Units (SKUs). Their inventory and sales data shows that 90% of their sales come from the 800 SKUs. They are carrying 2200 extra SKUs, which they may not need. They can easily manage with 2 weeks of inventory. The small retailers requires assistance and awareness to achieve the better management.

India has blocked the entry of the FDI in multi-brand retail. A large share of the online market space

is cornered by eCommerce retailers like Amazon, Flipkart. Country need create a just marketplace for small, medium and large traders, both offline and online. The benefits should not only go to the large corporations with deeper pockets but also to the ones with relatively smaller working capital.



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The centre-state relationship is also imperative for development and robust working of an effective retail trade policy.

Online and offline combination of modern trade is where the maximum conflict in retail trade lies. Deep discounting, price discrimination between the offline trade and the online trade. Online companies which have an offline presence are trying to create monopolies by steering the markets by hefty discounts, pushing

other distributors out of the market. They don't require to borrow anything because the entire money is mostly invested by the distributor's fraternity. This needs to be checked through policy intervention.

Online selling platforms play a vital role in the economy by giving creating digital possibilities by providing small vendors and manufacturers with

exposure and access to larger markets. Platforms like Flipkart and Amazon are incurring losses intentionally to gain attract maximum traffic, leaving the vendors unsecure. Security contracts to vendors should be provided and some norms regulating all the marketing platforms should be established.

Companies like Hindustan Unilever and VIVO have growing turnovers but leave very little scope for growth for distributors and retailers who are at the mercy of shrinking margins. The profitability of average kiryana retailer has also shrunk but they don't have either a choice or the knowledge to adapt through specialised profitability studies, leaving them vulnerable. Policies for protection and growth of distributors and retailers along with manufacturers should be developed. Models of feasible revenue sharing in the form of worthy margins between manufacturers distributors and retailers should be designed.

WAY FORWARD

Digitalization of the Kiryana stores.

Once empowered, trained, transformed digitally and their traditional methodologies upgraded, this army of Kiryana stores entrepreneurs will unlock value -- expand, modernize and contribute to India's overall economic cycle and a revitalized business environment. They will boost local entrepreneurship and give fresh impetus to the startup sector to invest and innovate. The Fintech sector, which

is one of the world's largest here, will do more to dish out digital payment modes. For example, companies like PhonePe, Google Pay, Paytm and PayU are already jostling to become the payments bridge between kirana stores and customers.

There are several solutions to mainstreaming the Kiryana stores, the fastest and most sustainable being technology deployment. Bringing in aspects like Mobile PoS billing, app-based digital payment, digital back-end integration of Kiryana stores, competitive pricing with discounts, closed-to-open format retailing and integrating futuristic marketing tools can help them stay relevant in the retail landscape and grow exponentially. A quiet, on-ground revolution has begun.

The benefit of transforming this \$700 billion unorganized retail sector is profound.

Digital Point of Sale (POS)

- Enables acceptance of card and digital payments – opens access to new customers and wider baskets
- Online ordering from B2B Wholesale Trade (Reduce inventory holding working capital)
- Organise store operations on the device
- Track inventory as well as sales and revenue
- Print GST compliant bills
- Maintain customer and payment records
- Communicate with customers through the device



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- Base analytics on what sells and doesn't sell to manage inventory
- Run promotions & generate advertising revenue through screen cast

Digital Shop App

Helps transform Kiryana stores into digital shop using an App on existing smartphones

- Kiryana stores can digitally track daily and monthly sales & manage inventory
- Order directly from B2B Wholesale

- Offers credit to Kirana's consumers through the APP – improves his working capital
- Universal QR code to accept digital payments from all digital modes at 'Zero transaction cost'

Access to Credit

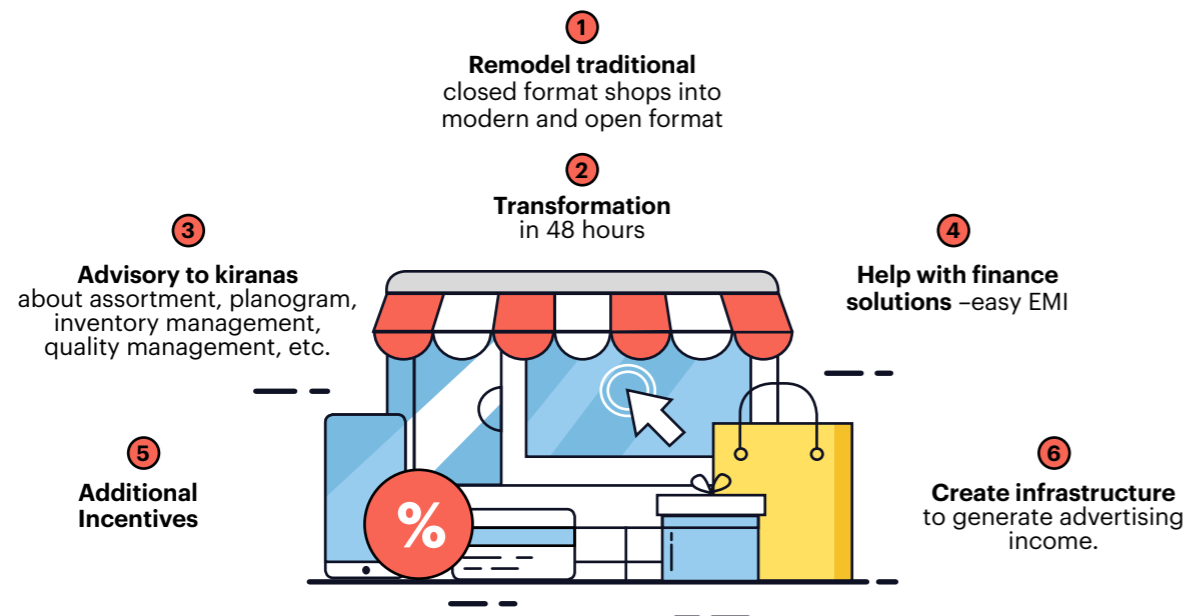
Access to credit especially to invest in assets to grow the business shall give a significant boost to Kiryana stores in India. We recommend the following:

- Include Kiryana stores as priority sector for lending and earmark allocation

- Reduce GST on Kirana remodeling and digital implements from 18% to 5%
- Incentivize with rebates to Kiryana stores to encourage modernization like housing loan rebates
- Easy and hassle-free accessibility of MUDRA loan- ease of documentation and quick turnaround.
- Lending norms for banks to include purchase or transaction history with organized channels, retailers or wholesalers as a criteria in loan sanctions
- Adoption of FinTechs in MUDRA as it is a refinancing institution and not a direct extender of loans to the target beneficiaries

MODERNIZATION – REMODELING

The Remodeling intervention has resulted in massive changes in customer footfall and revenues for retailers.



Modernization – Remodeling

The Remodeling intervention has resulted in massive changes in customer footfall and revenues for retailers.

- Remodel traditional closed format shops into modern and open format
- Transformation in 48 hours
- Advisory to Kiryana stores about assortment, planogram, inventory management, quality management, etc.
- Help with finance solutions –easy EMI
- Additional Incentives
- Create infrastructure to generate advertising income. ■

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