ABSTRACT

This study investigates the key determinants of organised retail in BRIC countries. The study analyses the factors that have led to a growth in the organised retail in the context of China, Brazil and Russia. In the subsequent section, we retrospect on these factors in the Indian context and explore the economics of organised retail sector in India. Using simple econometric modeling, we try to identify the key determinants in the growth of the organised retail sector in the Indian for the time period 2000-10. We also provide some policy suggestions to expedite the growth of organised retail sector in India.

Keywords: Organised retail, BRIC countries, Simple linear regression, FDI, Urbanization

1.0 Introduction

The Indian retail sector seems to have been caught up in a vortex of rapid growth. It is currently estimated to be around $450 Billion and seems to be booming and expanding even further. In the light of such a growth, it is of paramount importance to analyze the different factors fueling this flight.

Retail industry in India is contributing over 20 per cent to the country’s GDP and eight per cent to the total employment being the second largest employer after agriculture sector (ICRIER, 2012). The number of retails outlets in India is more than anywhere in the world. This phenomenal growth is attributed to the growing economic prosperity and revolution in the consumption pattern which are the driving forces for the retail demand.
The retail sector in India is vastly fragmented into organised and unorganised sectors. The organised retail has a meager share of around 5 per cent compared to the 95 per cent share of unorganised sector (NABARD, 2012). Unorganised sector include traditionally family run, low cost retailers known as ‘kirana’ shops, corner shops or the convenience stores. Observing the consumption pattern of Indian population, the share of organised retail sector is expected to be nine per cent of the total retail market by 2015 and twenty per cent by 2020 (ICRIER, 2012).

The Q112BMI India Retail report forecasts that the total retail sales is expected to grow from $422.09 billion in 2011 to $825.46 billion by 2015. The magnificent forecasted rise in retail sales is the result of strong economic growth, population growth, enhanced income dynamics and swift construction of organised retail infrastructure.

According to McKinsey’s 2007 report, ‘The bird of gold: The rise of India's consumer market’, a sustainable growth in the next two decades can place India amongst the top five consumer markets of the world. With the rise in the middle and upper class consumer base, tier-2 and tier-3 cities seems to be lucrative destinations for the retail growth in India.

The fact that organised retail has petite 5% share in retail sector makes it evident that it is yet in its nascent stage, but with humongous growth prospects. The organised retailers are using various formats ranging from discount stores, super markets, hyper markets and specialty chains. Big investors like Future group, Birla, Reliance, Tata made huge investments in retail sectors during 2006-07, which heralded the beginning of new era.

2.0 Literature review

The focus of multinational corporations seems to be gradually moving from developed economies to developing and transitional economies. Balasubramanian and Lenartowicz (2009) suggest that MNC’s aspire to enter these developing economies with business perspectives to handle the predominant retail format i.e., the small retailers. For these MNC’s to perform well and capitalize on profit apart from the macro level understanding in crafting entry strategies certain micro level aspects for instance significant moderation of
store management sophistication, role of credit availability, heuristic approach, distribution format and enough localized knowledge is mandatory. According to Singh, et al. (2011) India’s retail sector is fuelled by strong economy, favorable demographics, rising wealth levels, ever growing middle class and changing lifestyles of the consumers. Indian cities are experiencing a paradigm shift from traditional form of retailing to modern organised retailing and the transformation is expected to hasten in the near future provided India plan to overcome certain bottlenecks in the speedy growth in retail like supply chain, real estate, infrastructure, human resource and policy snag.

Singh, et.al (2011) acknowledge India's robust macro and microeconomic fundamentals, such as robust GDP growth, higher incomes, increasing personal consumption, favorable demographics, and supportive government policies which are essential for the growth in the retail sector. India's retail sector being one of the most challenging, dynamic, and exciting markets is a preferred destination by many multinationals to shore up their revenues and to access new customers.

Kumud, et.al (2011) appreciates India’s retail growth over the past decade but asserts that it is slow compared to rest of the developing countries. Foreign direct investment (FDI) inflow in retail sector comes with possible challenges and threats to unorganised and organised domestic retailers due to the entry of foreign players.

Vedamini (2010) explores the feasibility of organised retail in class B cities in India and focuses on the needs of customers while addressing global issues in retailing. Investors in smaller class B cities in India can benefit themselves from the first mover’s advantage. Khare, A., et al. (2010) observed that retailers today are trying to focus on the needs of customers by exploring investment avenues in the smaller cities of India. They explore physiographic trends in class B cities of India that offer lucrative business opportunities and first mover’s advantage.

Mukherjee (2011) in his study analyzed that factor such as GDP, women’s participation rate, foreign investment freedom and urbanization rate of a country positively influence the growth of the relative share of organised retail sector. These results are helpful in understanding the future growth patterns of Indian organised retail sector in India.
Mukherjee (2011) proposes that increase in per capita income, growing urbanization and economic reforms are some of the key factors that have propelled the growth of organised retail sector. She argues that FDI in multiband retail should be permitted and concomitantly inflow of technical know-how and investment in the supply chain should be boosted to facilitate growth in organised retail sector. According to Ranjan, V., et al. (2011), amongst the potential determinants of FDI in BRIC countries market size, trade openness, labor cost and infrastructure facilities are the most significant variables compared to macroeconomic stability and growth prospects.

3.0 Global Retail Sector

Super market revolution in the developing economies set its foot loose in early 1990’s. It was primarily backed by income growth, urbanization and liberalized FDI norms. This revolution took place in three waves. The first wave was primarily in South America, northern Central Europe, and East Asia outside Japan and China. The second wave was primarily in Mexico, Central America, South Africa, much of Southeast Asia, and south-Central Europe. The third wave was spread across in India, China and Eastern Europe, during 1990s and early 2000s (Reardon et al, 2006).

The multinational corporations have well realized the potential of retail growth in the developing economies, like Brazil, Russia, India and China – the BRIC countries. According to A.T. Kearney report, ‘The BRIC Promise’ (2007), these nations contribute 42 per cent to the world population but only account 26 per cent to the world Gross domestic Growth (GDP). Retail segment reveal significant growth in these countries and with the rising disposable income and changing consumption patterns the future prospects appear brighter. These countries are promising because of the large unorganised sector accounting for over 80 per cent market share. Table 1 gives the rankings of some important emerging market economies in terms of their attractiveness as destinations for the retail sector.
3.1 Retail Sector in China

The Chinese economy has grown in leaps and bounds during the past three decades of the economic reforms. China’s retail sector has experienced incredible growth in the recent past owing to the changes in the Chinese socio-economic framework which reflects 16.3 per cent increase in the retail sales in 2011 Q1 and is anticipated to double in the subsequent three years (Thomas White, 2012). China has surfaced as an export juggernaut with unparalleled urbanization.

Its per capita gross national income (GNI) has increased 13 times over the previous two decades which has resulted in an increased spending capacity. According to the 2009 Annual Chinese Consumer study by Mc Kinsey, the per capita consumption in China is expected to increase from $1975 in 2008 to $2502 by 2015 making the country third biggest consumer market after US and Japan.

Table 1: A.T. Kearney Global Retail Development Index (2011)

<table>
<thead>
<tr>
<th>2011 Rank</th>
<th>Country</th>
<th>Market Attractiveness (25%)</th>
<th>Country Risk (25%)</th>
<th>Market Saturation (25%)</th>
<th>Time Pressure (25%)</th>
<th>GRDI Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Brazil</td>
<td>100</td>
<td>79.4</td>
<td>42.9</td>
<td>63.9</td>
<td>71.5</td>
</tr>
<tr>
<td>2</td>
<td>Uruguay</td>
<td>85.0</td>
<td>73.8</td>
<td>63.6</td>
<td>39.6</td>
<td>65.5</td>
</tr>
<tr>
<td>3</td>
<td>Chile</td>
<td>84.3</td>
<td>100</td>
<td>30.3</td>
<td>44.3</td>
<td>64.7</td>
</tr>
<tr>
<td>4</td>
<td>India</td>
<td>28.9</td>
<td>59.9</td>
<td>63.1</td>
<td>100</td>
<td>63.0</td>
</tr>
<tr>
<td>5</td>
<td>Kuwait</td>
<td>80.4</td>
<td>80.6</td>
<td>57.3</td>
<td>27.1</td>
<td>61.3</td>
</tr>
<tr>
<td>6</td>
<td>China</td>
<td>49.5</td>
<td>76.5</td>
<td>31.0</td>
<td>87.7</td>
<td>61.2</td>
</tr>
<tr>
<td>7</td>
<td>Saudi Arabia</td>
<td>70.9</td>
<td>80.7</td>
<td>50.6</td>
<td>35.7</td>
<td>59.5</td>
</tr>
<tr>
<td>8</td>
<td>Peru</td>
<td>39.8</td>
<td>61.5</td>
<td>72.0</td>
<td>59.5</td>
<td>58.2</td>
</tr>
<tr>
<td>9</td>
<td>UAE</td>
<td>87.6</td>
<td>88.9</td>
<td>12.6</td>
<td>42.9</td>
<td>58.0</td>
</tr>
<tr>
<td>10</td>
<td>Turkey</td>
<td>83.8</td>
<td>65.5</td>
<td>45.0</td>
<td>37.0</td>
<td>57.8</td>
</tr>
</tbody>
</table>

Source: A.T. Kearney – Retail Global Expansion: A Portfolio of Opportunities
According to McKinsey’s report (2009), by 2025 almost two third of the China’s population will be residing in urban areas contributing 90% to China’s GDP. Increased urbanization accompanied by growing middle class population has been an ideal situation for retail boom in China. Middle class urban household that accounted for 39 per cent in 2006 is expected to touch 60 per cent mark by 2016 (Song and Cui, 2009). Adding the icing to the cake is the strong 16 per cent growth of wealthy household in China which is expected to be four million by 2015 (McKinsey, 2009).

Disposable income is also an important determinant of increasing consumption in the market. Over the years per capita disposable income in China has experienced remarkable growth. According to National Statistics Bureau Report, per capita disposable income in China is annually growing at the rate of 13 per cent and is expected to be status quo for the next 5 to 10 years (Decker Capital, 2011).

China opened its economy for foreign direct investment in 1978 and ever since it has been one of the largest recipients of FDI among the developing countries (Davies, 2010). During 1970’s and 80’s China adopted liberal government policies to promote foreign joint ventures and to set up Special Economic Zones (SEZs). Till mid 1990’s, China followed the same liberal foreign investment policy but eventually started linking FDI to domestic industrial objectives.

Thriving organised retail and existence of prominent retailers in China is often attributed to FDI in the country. The rules and regulations governing the retail sector in China have changed over time. For the first time in July 1992, the State Council in China permitted foreign investment in retail sector on trial basis in six cities and five special economic zones. Till mid-1999, several foreign retailers established themselves by seeking approval from the municipal authorities which was later intervened by the central government by bringing local approval process to a standstill, though the tussle between local and central government kept lingering but this intervention was important to further accelerate the reform in retail industry and to rein the burgeoning foreign retailers (Fan, 2010).

In 2001 a new epoch of liberalized foreign investment in retail began with China accession to the WTO. According to the accession protocol, opening up of
retail sector in China was phased over five years ending December 2006 and progressively Chinese government delegated the authority to approve foreign investment in retail sector, barring few to the provincial commerce branches (Thomas White, 2011).

In 2004 the Administrative Measures for Foreign Investment in Commercial Sectors permitted foreign investors to establish retail enterprises in China without geographic limitations and were allowed to enter retail segment through joint ventures (JVs) or wholly foreign-owned enterprises (WFOEs). The 2009 Administrative Measures for Foreign Enterprises or Individuals Establishing Partnership Enterprises in China had the provision for foreign investors or individuals to establish partnership retail enterprises from March 2010 (Lu, 2010).

Chinese retail sector has incredible growth potential but it is highly fragmented, with more than 549,000 retail ventures (Thomas White, 2012). The intense competition between super markets and hyper markets necessitates the consolidation of its retail industry which will eventually result in benefiting the industry due to increased efficiency and economies of scale.

3.2 Retail Sector in Brazil

Brazil is fifth largest and also the fifth most populated nation of the world. The country had seen paradigm shifts in its demographics over the past two decades. The country’s middle class population has grown from 38 per cent in 2001 to a massive 55 per cent in 2011. The urban population accounts for whopping 80 per cent share of the total population which is estimated to be 190 million. About 60 per cent of the population comprises of youth under 29 years of age. Hence we can safely assert that growing middle class urban youth population is the key driver of retail sector growth in Brazil (A.T. Kearney, 2007).

During 1980s and 1990s high inflation and debt were the major roadblocks in the growth of Brazilian economy. In 1994, inflation numbers touched 5000 per cent, but the situation was tackled well by the then President of Brazil, Mr. Fernando Cordoso by introducing new Brazilian currency and trying to reach
inflation level of 4.5 per cent by 2005. The strategy worked and Brazilian economy was emancipated from the clutches of sky rocketing inflation.

Opening up of the credit market in 2005 and rolling of various social welfare schemes brought a sigh of relief to the Brazilian economic health. Over the last eight years, Brazil has recorded forty per cent growth in GDP per capita (Thomas White). The budding and prosperous middle class has amplified the consumption demand and hence the retail investment. Brazilian government fully favors the policy of foreign investment and hence it is a comparatively more stable market sought by investors amongst the developing nations. According to the World Bank’s 2011 Ease of doing business index, Brazil ranks 126 compared to China at 91, India at 132 and Russia at 120.

As per the A.T. Kearney 2012 FDI Confidence Index, Brazil ranks as the third hottest destination in the world for inbound foreign direct investment (FDI). The huge market size, along with the growing middle class segment, is the prime reason behind flooding foreign investment in the country. The fact that Brazil is hosting the 2014 FIFA World Cup and 2016 Olympics will offer excellent opportunities to investors and exporters over the next few years. The government is expected to profusely spend on infrastructure and security demands before the games commence (Hornberger, 2011).

Credit availability along with Brazilian shopping traits supported the growth of the retail sector. According to a 2011 McKinsey Quarterly Report, Brazilian consumers are more open to using credit than consumers in other emerging markets and the low-income groups in particular require consumer finance to purchase goods. The report reveals that 60% of people use credit in Brazil as compared to 30% in India, and 24% and 13% in Russia and China respectively (Thomas White, 2012).

### 3.3 Retail sector in Russia

Since 1998, high prices of oil and natural gas marked the beginning of new era of economic prosperity for the Russian economy. Russian economy has experienced an average annual growth rate of 6.7 per cent for over a decade (Thomas White, 2012). After the saturation of the western markets, Russia was one of the sought-after destinations for global retailers.
The growth of the affluent middle class urban population is the key driver of retail growth in Russia. Urban population accounts for 73 per cent share of the total population, which is second highest after Brazil with 86.50 per cent. Russia is the leading consumer market in Central and Eastern Europe with the population touching 142 million (World Bank). A study by Euro monitor international reveals that over the last ten years there has been incredible growth in the Russian middle class segment now accounting for over 50% of households. Economic prosperity together with low cost of housing and utility has increased the disposable income and revolutionized retail business in the nation. A study by Thomas White - Global Investing has found that 70% of income earned by Russians is disposable compared to 40% for Western consumers.

As per the 2011 Legatum Prosperity Index (The Guardian, 2010), Russia ranks 53rd compared to its 72nd position in 1998. Sustained economic growth in Russia lead to the hike in wages and hence increased disposable income by almost 26% per annum. By 2013 Russian economy is expected to be one of the largest European economies, second only to Germany (Thomas White, 2012). In 2011, Moscow already displaced London as being largest city in Europe with the population of 1.1 million (The Moscow Times, 2012). World Bank estimates that the middle class population will touch 1.2 billion marks by 2030.

During early 1990’s, Russian economy compared to the other emerging economies was under performing but after the 1998 financial crisis, Russia showcased affirmative and robust economic growth. Low level of foreign investment has been identified as a key weakness to the growth pattern in Russia; nevertheless Russia has of late improved its position per the FDI Confidence index (de Souza, 2008). FDI significantly improved in 2006-07 owing to the sustainable economic conditions.

Wal-Mart’s high profile exit from Russia, several infrastructural short comings, and procedural hassles involved in setting up a business have not stunted the country’s growth story. With a very large consumer base, it is amongst the top five most attractive destinations for retailers. According to McKinsey’s report Russia has made a good progress in adopting modern organised store formats which now accounts for 11% share in the jobs market and 35% share in retail sales.
3.4 Retail Sector in India

India is fourth most attractive nation for retail investment among 30 emerging markets as per the A.T. Kearney Global Retail Development Index (GRDI) 2011 (Table 1).

India’s large population and significantly growing affluent middle class are the major drivers of increased consumption demand and hence a booming destination for worldwide retailers. The shifting consumer preferences from the traditional retail formats to the modern retail formats has been a strong pillar to support strong retail growth in India over the past decade.

It is evident from the study of China, Brazil and Mexico that growing urbanization plays a very crucial role in the retail sector growth. Over a decade India has recorded a gradual rise in the urbanization rate. According to McKinsey’s forecast GDP is expected to grow five times, city population will record a rise of 590 million people which is twice the population of US today, the working population will witness rise of 270 million people, cities will generate 70 per cent more employment, the urban population will grow from 21 million today to 91 million in the next two decades. Hence in a nutshell econometric modeling team of McKinsey has predicted immense opportunities for India due to its growing urbanization by 2030 (McKinsey, 2010). Today there are 42 cities in India with the population over 1 million compared to 35 in US, which is expected to rise to 68 cities. Looking at this increase in population and urbanization the growth in commercial and residential space is inevitable. 700-900 million square meters of commercial and residential space is required to be built which is equivalent to build a new Chicago every year. These statistics are vital to authenticate that urbanization is a key driving force for the retail boom in India.

According to the McKinsey forecast the expansion of Indian cities and urbanization will facilitate substantial increase in the GDP contribution of urban sector from 50% in 1995 to 58% in 2008. It is also predicted that by 2030, urban India will contribute 70% to the nations GDP. There will be fourfold increase in the average national income and the number of middleclass household earning income ranging between two lacs to ten lacs will increase drastically from 32 million to 147 million.
All the BRIC nations have reported rise in their GNI per capita. As per the forecasts India’s growth is promising in the coming years. With the growth of urbanization and increase in individuals’ income, there is unrelenting scope of expansion in certain areas like infrastructure, education, medical, hospitality, telecom, entertainment and many more, hence growth in retail sector. Growing urban jobs will be the core to India’s future, productivity and economic growth and will be the driver behind accelerating urbanization.

India’s trade relations with other countries have radically improved over the last fifteen years. Liberalization in 1991 paved way for investor friendly trade policies and opened the route for foreign Direct Investment (FDI). FDI was initially limited urban manufacturing sector because of the better civic infrastructure, availability of labor and taxation mechanism (Majumdar, 2008). In 2006, the Indian government eased the FDI flow in retail sector to the extent of 51% in the single brand retail, since then there has been a significant increase in the FDI and India outshines on the global map as one of the most favored destinations for the retail investors. According to A.T. Kearney (2007), India ranks second in the World in terms of 2012 FDI confidence Index.

Since 2005, India has been steadily rated 3.5 on the scale of 1 to 6 on the CPIA business regulatory environment rating index. On the basis of the rating for the ease of doing business in a country in 2011, China takes a lead at 91, Russian Federation at 120, Brazil at 126 and India at 132 (World Bank). According to the structural policies cluster average of 2010 which includes trade, financial sector, and business regulatory environment India rating was 3.67 (World Bank). India has to improve its micro and macro fundamentals to attract the FDI inflow and to outshine as the most attractive destination for foreign investors.

Domestic credit is also one of the very crucial factors that influence the growth of organised retail sector. RBI’s projection of 16% year on year credit growth for the year 2011-12, by the Indian Banks falls into place (Reuters, 2012). The eased norms for availing credit have been a certain boon for the organised retail in India. It is always easy to buy on EMI compared to making onetime payment. Also credit does mean a period of free money before you have to make that payment, so you can plan finances better.
4.0 Data and Methodology

We will try to undertake a simple econometric analysis to try to identify the major factors underlying the boom in organised retail sector in the Indian context. The data that we have collected for our empirical analysis is the annual data for the sample period of 2000 to 2010.

The evidence from the other developing nations in our study has shed some light on the various determinants of organised retail. Among the different factors, Urbanization seemed to play a key role for all the economies. There has been a significant transition from rural to urban regions in the past decade. This has had a significant impact on the consumption patterns and hence the demand for organised retail.

Another major factor seems to be the growth in the GDP. In Brazil, GDP per capita grew by over 40 per cent. China emphasized on the export expansion and, over the past two decades, saw a massive increase in the per capita national income. The per capita disposable income has shown a marked rise even in the case of Russia.

With the developing economies opening up to foreign aid and investment, the increase in the FDI has also gone a long way in facilitating the growth in the organised retail sector. From the evidence of these economies, the increase in the domestic consumption, credit availability, and the ease of setting up business form other major determinants of growth of organised retail.

In setting up our model we have considered six important factors that might affect retail sales. An increase in the urbanization has played a predominant role in the other nations. We have used per capita disposable income as a proxy for the per capita GDP and per capita consumption. An increase in FDI has been asserted to have a direct impact on the volume of organised retail. We have included the FDI inflow as one of the factors. Domestic credit availability provides a boost to the expenditure capacity of the householders. The availability of credit will provide a boost to credit-based shopping as in the case of organised retail stores. Another important factor, from the producer viewpoint, is the cost of setting up business. A lower cost would expedite the expansion of organised retail. Lastly, we have also considered the Index of Economic freedom.
We have considered a semi-log model as below,
\[
\log(\text{Net sales}) = f(\log\text{URB}, \log\text{HCE}, \log\text{GNI}, \log\text{FDI}, \text{DCA}, \text{CB}, \text{EIF})
\]
where, \(\log\text{URB}\) is the logarithmic transformation of the value of total urban population, \(\log\text{HCE}\) is the log of household consumption expenditure, \(\log\text{GNI}\) the per capita gross national income, \(\log\text{FDI}\) the total FDI inflow, DCA domestic credit availability as a per centage of GDP, CB the cost of setting up business, and IEF the index of economic freedom.

The descriptive statistics and the correlation for the variables are given in Table 2. There is a high degree of correlation between some of the variables. The result is not surprising considering the fact that some of the factors are outcomes of the same process. The correlation is especially high between Urbanization and total disposable income, which seems intuitive. However, another very high correlation is between FDI and Domestic credit, which does not seem to be very apparent. Nevertheless there is a significant degree of association between some of the variables.

Table 2: Descriptive statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>log Sales</th>
<th>log Urban</th>
<th>log GNI</th>
<th>log Consump</th>
<th>DCA</th>
<th>log FDI</th>
<th>cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>log Sales</td>
<td>3.5</td>
<td>0.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>log Urban</td>
<td>8.5</td>
<td>0.0</td>
<td>0.994</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>log GNI</td>
<td>3.3</td>
<td>0.1</td>
<td>0.986</td>
<td>0.995</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>log Consump</td>
<td>2.5</td>
<td>0.1</td>
<td>0.976</td>
<td>0.988</td>
<td>0.994</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>DCA</td>
<td>38.9</td>
<td>8.4</td>
<td>0.968</td>
<td>0.982</td>
<td>0.987</td>
<td>0.976</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>log FDI</td>
<td>4.7</td>
<td>0.3</td>
<td>0.984</td>
<td>0.989</td>
<td>0.986</td>
<td>0.991</td>
<td>0.973</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost</td>
<td>61.3</td>
<td>10.1</td>
<td>0.063</td>
<td>0.075</td>
<td>0.101</td>
<td>0.025</td>
<td>0.193</td>
<td>-0.006</td>
<td>0.266</td>
</tr>
<tr>
<td>Index</td>
<td>53.1</td>
<td>1.2</td>
<td>0.456</td>
<td>0.473</td>
<td>0.531</td>
<td>0.559</td>
<td>0.514</td>
<td>0.507</td>
<td>0.266</td>
</tr>
</tbody>
</table>

The regression results for the aforementioned model (given in Table 3) indicate all the variables to be insignificant. However, the coefficient of determination is almost equal to 1. The result seems inevitable owing to the high...
degree of correlation between some of the variables. The VIF test results show a very high degree of multicollinearity. The output for the same is given in Table 3. The model does not promise a very practical interpretation in this form. Dropping some variables does not help either.

Primarily to overcome this problem of multicollinearity, and also to help in the interpretation of the variables, two separate models have been defined using the same variables. These variables have been categorized into two different groups on the basis of the points of incidence: the demand side factors and the supply side factors.

From the point of view of the consumers, Urbanization (total urban population), Per capita GNI, Consumption Expenditure, and domestic credit availability appear to be the driving force behind the demand pull. However, the first three factors are highly correlated within themselves. The problem of multicollinearity cannot be remedied in this respect. Thus we will use another variable in our model as a proxy for logGNI and logHCE. For the consumers, Disposable income is the actual income that is available for consumption; so we will use log of the disposable income as an instrumental variable. The model can thus be set up as follows,

$$\log(Net sales) = f(\logURB, \logDI, DCA)$$

The remaining factors, viz. FDI, cost of setting up business, and index of economic freedom all seem to be supply-side phenomenon. The cost of setting up business seems to have a low degree of correlation with the other variables. The correlation between FDI and IEF is also only moderately high. FDI is an exogenous factor, but Cost of business and Index both have a direct impact on the growth of organised retail. A third model, expressing the supply point of view, can be framed as below:

$$\log(Net sales) = f(logFDI, CB, IEF)$$

The regression results for the two models have been summarized in Table 3. When we look at the demand side model, only ‘urbanisation’ seems to exhibit a significant impact on the growth of organised retail. Through the decade in study, the urban population has shown an increase of almost 75 million people. Surprisingly, the Disposable income does not seem to be a significant factor. A peculiar result in this regard is that Domestic credit seems to have a negative impact on the sales. This may be explained by the trend that the growth rates of
the two variables (DC and Sales) exhibit. A period associated with high growth of DC shows a low growth for Sales and vice versa.

**Table 3: Regression results**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Aggregated Model</th>
<th>Demand Model</th>
<th>Supply Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>-57.45315</td>
<td>-254.0342**</td>
<td>-4.687637*</td>
</tr>
<tr>
<td>log Urban</td>
<td>6.936152</td>
<td>31.12113**</td>
<td></td>
</tr>
<tr>
<td>log GNI</td>
<td>12.30052</td>
<td></td>
<td></td>
</tr>
<tr>
<td>log Consump</td>
<td>-18.82109</td>
<td></td>
<td></td>
</tr>
<tr>
<td>log Disposable income</td>
<td>0.822335</td>
<td>0.020793</td>
<td></td>
</tr>
<tr>
<td>Domestic Credit Availability</td>
<td>-0.019147</td>
<td>-0.020793</td>
<td></td>
</tr>
<tr>
<td>log FDI</td>
<td>1.707851</td>
<td>2.271886**</td>
<td></td>
</tr>
<tr>
<td>Cost of setting up business</td>
<td>-0.006564</td>
<td>-0.006883</td>
<td></td>
</tr>
<tr>
<td>Index of Economic Freedom</td>
<td>0.034556</td>
<td>0.055591</td>
<td></td>
</tr>
<tr>
<td>R-squared</td>
<td>0.997193</td>
<td>0.990837</td>
<td>0.980493</td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td>0.990644</td>
<td>0.986910</td>
<td>0.972133</td>
</tr>
<tr>
<td>F-statistic</td>
<td>152.2567</td>
<td>252.3071</td>
<td>117.2834</td>
</tr>
<tr>
<td>Prob(F-statistic)</td>
<td>0.000804</td>
<td>0.000000</td>
<td>0.000002</td>
</tr>
</tbody>
</table>

Dependent variable: log (Net retail sales)

* and ** indicate significant at 5% level and 1% level respectively

On the supply side, we find that FDI seems to be the most important factor affecting the retail sales. As in the case of other developing nations, India has seen a substantial increase in the FDI inflow over the past decade. This comes as a result of the Indian Government’s decision to allow 51 per cent of FDI in multi-brand retail sector. The cost of setting up business and the Index of Economic Freedom do not seem to have a significant impact on the retail sales. The cost of setting up business does not exhibit a clear trend. It was rising initially till a peak in 2005 but has been on the decline ever since. The Index of Economic Freedom has not changed much in the short window of our analysis, and this is probably why the variable has come out as insignificant.
The above analysis exhibits a positive relationship between the growth of organised retail and urbanization. It is evident from various studies that there is disparity between the consumption patterns of rural and urban populations. Urban cities offer quality life for their citizens hence attract foreign investments. By 2025, the Indian consumer market will account for 62 per cent of consumption in urban compared to 42 per cent today (Thomas White, 2012). People today not only spend on food and apparel but demand for education, communication, health, insurance are also picking up.

Foreign direct investment and GNI per capita also exhibits positive relation with growth of organised retail in the country. Over the last 10 years India had average GDP growth of 7.36 per cent and average GNI growth of 8.56% (World Bank, 2012). The numbers are possibly good enough to generate more consumers spending which is the key catalyst for growth.

Index of economic freedom and the cost of setting up of the business in India are considered important from the growth aspect of retail sector and are crucial to attract investors. These indexes are also giving good signals to foreign investors to look upon India as a next best possible hub for foreign Investments.

According to A.T. Kearney 2012 FDI Confidence Index, India ranks second in the World in terms of attractiveness for FDI. A.T. Kearney 2012 Global Retail Development Index ranks India forth most attractive nation on the basis of 25 odd variables inclusive of economic and political risk, retail market attractiveness, retail saturation levels, and modern retailing sales area and sales growth.

5.0 Conclusion

On the supply chain front India requires substantial back end investments and it is really worthwhile to permit FDI in Retail as it brings with it international technologies to upgrade our supply chain to world class levels. There should be some imposed threshold limit on backend investments and also some provision of penalty in case of any non compliance of any policy. FDI in retail should be opened up in phases and slowly reach 100 per cent mark. Eventually with the development of back end supply chains, logistics and infrastructure it is likely that the small retailers will themselves benefit and will be able to be the part of
organised retail sector in the times to come. The tough competition from the
organised retailers will force small retailers to use new technologies, learn
advanced management concepts, sales and marketing techniques and make
progress, as the policy of survival of the fittest is no secret. For the initial few
years it is recommended that the government in order to protect the interest of
SME may impose a limit on the manufactured products that the foreign retailers
should sourced from them and hence is a huge possibility for SME to develop
and upgrade themselves to latest technologies and quality assurance mechanisms.

Today the world is concerned more about cities than nation. Good cities
proffer high quality of life to their citizens and are captivating proposition for
companies. Cities offer scale benefits which radically lowers the cost of services.
The emergent urban population in India is attracting more and more investors but
with large scale urbanization India is certain to face physical infrastructure snag
in near future. According to Mc Kinsey’s analysis, the delivery cost of basic
services are 30-40 per cent cheaper in concentrated population areas compared to
thinly populated areas. This is one of the main reasons of increased disposable
income in the hands of urban population which ultimately translates into
consumption. Government of India should invest heavily in urban infrastructure
because investment at the present rate would not be enough to sustain prosperous
cities in future. Over the next 20 years Indian cities need approximately $1.2
trillion capital expenditure of keep pace with the growing urban population and if
this is taken care of, the urban India is expected to drive nearly four times
increase in average national income.

The economic and financial crisis brought developing and transition
economies like BRIC nations into limelight primarily because of their lower
labor costs, market size and purchasing power of its growing middle class.
Number of investors seeks these markets because lowered cost of production
results in increased operating profits. Indian regulatory framework does not
permit many retailers to enter India territory while others look for some local
Indian partner for joint collaboration.

Our analysis makes a recommendation that it is prudent to allow 100 per
cent FDI in multi brand retail. It is recommended to initially allow certain per
cent of FDI in retail should be invited to tier-1, tier-2, and tier-3 cities so that
these cities are benefited by infrastructural facilities and the young people get
suitable job opportunity. As a rule certain per centage of retail sector jobs should be reserved for the youths. Gradually government may relax the permissible FDI limits once the society starts reaping benefits. India should learn from China’s liberal foreign investment policy of trying to link FDI to domestic industrial objectives. Government should induce fixed per centage of investment into back end infrastructure, supply chain logistics and agriculture processing so that Indian retail sector can integrate globally and benefit from the latest technological advancements hence should allow only genuine players who abide by the rule. Organised retail can improve the quality and yield of the crops as well as the supply chain mechanisms by working with the Indian farmers.

Thus organised retail can be the boom for the nation provided the government takes proper initiatives to foster urbanization and de-regularize FDI inflow in the phased fashion.

References


