

Doubling Retailers' Income in India *Unleashing a growth story through focus on FMCG*

Retailers and traders are the backbone of our growing economy

The Confederation of All India Traders (CAIT) is the apex body of the trading community of India, comprising of prominent trade bodies of different states, representing thousands of traders and retailers who keep the economy of India bustling at the ground level. We represent the interests of more than 8 crore traders and 40,000 Trade Federations/ Associations/ Chambers across the country.

In this paper we bring to your esteemed attention the opportunity of unlocking the potential of doubling retailers' income in India through a focus on the FMCG industry.

India's aspirations are national pride and self-esteem as evident from several vocalizations from our Honourable Prime Minister. Towards developing our own 'markers', the aim is to reach 'Amrit Kaal' in the next 25 years. In this journey, the government envisages doubling the contribution of India's micro, small and medium enterprises sector to the economy by realising its full potential. Retail sector plays a very important in this - while currently contributing 10% of India's gross domestic product (GDP), the sector employs nearly 8% of its workforce. This has the potential to rise to 20% over time¹. Boosting retail will allow India to leverage its large domestic market. It is also an area in which we have traditional skills. This is the time to harness them.

¹ <https://www.livemint.com/opinion/online-views/india-s-economy-needs-the-retail-sector-to-grow-11588785884086.html>

Retailers and traders are at the heart of India's transformative wave, the backbone of India's economy. In the dynamic landscape of India's retail industry, the traditional barriers faced by micro and small retailers and traders have long hindered their growth and expansion. These limitations include the costs associated with establishing and maintaining physical stores, low margins, access to capital make it challenging for small retailers and traders to compete with larger players.

Despite the challenges, ~30,000 regional-level small and medium enterprise (SME) brands in the country are catering to India's retail trade in comparison to around 3,000 corporate brands present particularly in the fast-moving consumer goods (FMCG)². While corporate brands meet the demand of almost 20% of India's population, the rest 80% is catered by small and medium-sized brands³. This is through the one-to-one contact between customers and shopkeepers apart from word of mouth among the middle, lower-middle, and economically weaker sections, which further strengthens the trusted relationship between the retailer and its consumer.



This reality of the Indian FMCG retail trade industry needs to be recognised, and the small retailers and traders need to be encouraged for their contribution to the economy.

In line with the vision of Atmanirbhar Bharat, the growing contribution of retailers and traders to our economy and rising per capita incomes –

CAIT will embark on a journey towards Doubling Retailers' income in India

Kirana Stores – Realising the power of traditional retail

The term “kirana” is used to describe the small mom & pop shops that still make up the majority of India's \$932 billion retail economy⁴. The retail landscape in India is largely self-organised and controls 88% of the overall retail market; it is a nation of shopkeepers. This unorganized segment, otherwise known as the informal segment, consists of ~1.3 Cr. kirana and neighborhood stores. Kirana stores have continued to win the Indian retail industry with its winning combination of frugality and agility - very low-cost supply chain and catering to local needs. However, they have been facing increasing competition from organized retailers like supermarkets and hypermarkets and as a result, many kirana stores are struggling to increase their income. While there have been many assumptions about the future of Indian retail being e-commerce or larger retail formats (think supermarkets or department stores), the kirana store continues to represent 75-78% of total consumer goods sales in India⁵. Of course, the kirana store share has declined over time with the rise of these other formats — a trend we've also observed in developed countries — but kiranas still hold a significant majority of India's retail market⁶:

² CAIT

³ CAIT Research & Trade Development Society (CRTDS) - <https://www.financialexpress.com/industry/sme/msme-eodb-over-30000-small-medium-brands-in-retail-catering-to-80-of-indias-population-cait/2494199/>

⁴ <https://www.cbinsights.com/research/kirana-store-india-retail/>

⁵ Ambit Capital

⁶ CB Insights - <https://www.cbinsights.com/research/kirana-store-india-retail/>

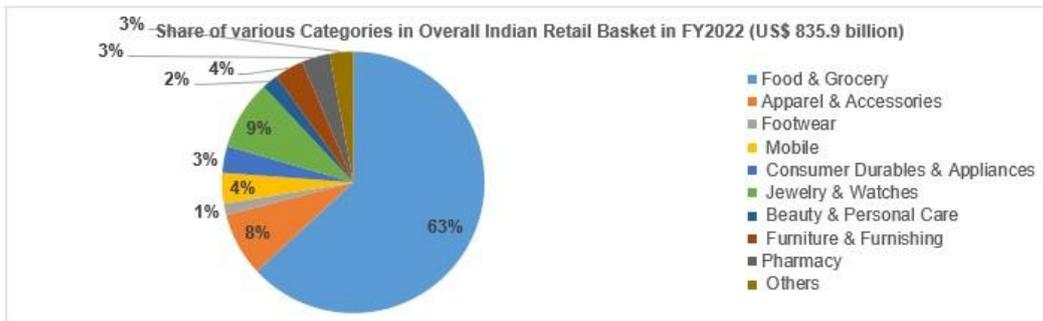
- Just over 90% of FMCG sales in India happen via kirana stores — a share that grew during the pandemic.
- Kirana stores contribute 10% of India's GDP and employ 8% of India's workforce
- 80% of kirana stores are in tier II cities

Retail industry has one of the highest multiplier effects on the economy, through direct, indirect and induced effects. It is estimated that every rupee of retail revenue generates additional revenue of between 50 paise to 1 rupee in the economy⁷. The transformation of just 10% of the traditional grocery retailers in India, could boost retail consumption by more than 5% and generate approximately 32 lakh new jobs in India⁸. There is still a huge untapped potential of growth for small retailers and traders in small towns and rural areas. In the back of the recent impact of covid pandemic, when jobs disappeared across sectors, organized retail presents opportunities for young men and women to make a living.

Enabling growth of small retailers and traders – with a focus on FMCG

Overall, fast-moving consumer goods (FMCG) is the fourth-largest sector in the Indian economy and accounts for the largest share, comprising ~65% in the Indian retail market. Despite the growth and future trajectory of retail trade in India, it is imperative to note that the overall contribution of organised retail remains only 10% of FMCG sales, with greater concentration only in urban areas. It continues to be dominated by small retailers and traders, mostly part of the unorganised or informal network.

FMCG products include things like prepared foods, soft beverages, cosmetics, and home cleaning supplies. According to the below pie chart, the FMCG category constituted more than 65% of the total retail basket in 2022-23, amounting to \$543.34 billion approximately, out of \$835.9 billion.

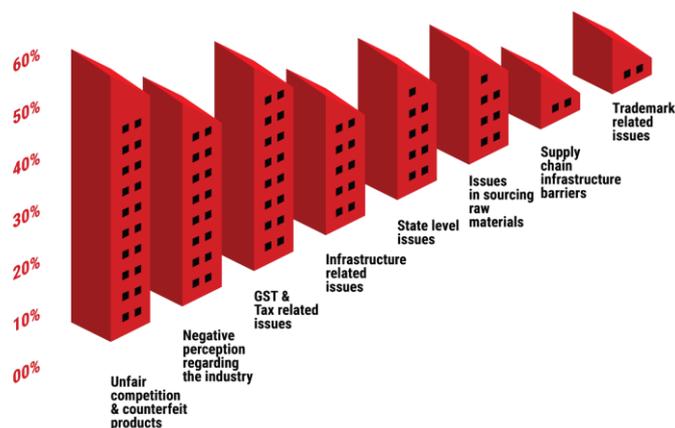


Source: IBEF (India Times)

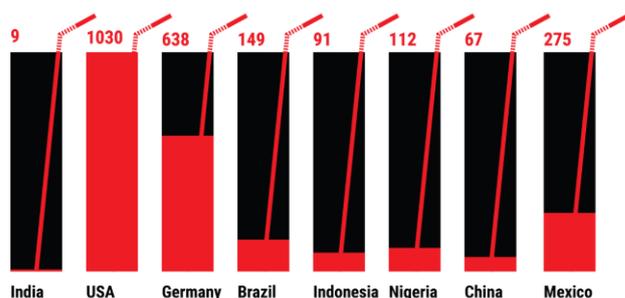
⁷ ET Retail - <https://retail.economictimes.indiatimes.com/news/industry/why-manufacturing-needs-retail-and-india-needs-both/75759246>

⁸ Accenture - <https://newsroom.accenture.sg/asia-pacific/news/transformation-kirana-stores-essential-to-indias-economic-growth-according-to-report-from-accenture-and-trrain.htm>

Key challenges faced by companies and supply chain partners



Revenue per person from beverages in 2019 (in USD)



There remains a vast scope of a symbiotic relationship between the growing retail and the FMCG industry, with a focus on aiding growth for small traders and retailers. Particularly, the food and beverage segment can lead the growth story of FMCG retail industry in India.

Promotion of priority FMCG categories

Food and beverages (F&B) is one of the three main segments in the FMCG retail sector⁹. Traditional neighbourhood stores or kirana stores serve as the offline vendors for the majority of food and beverage sales in the country¹⁰. The FMCG business in India is poised to grow by \$310.5 billion between 2022-2026, primarily due to rising consumption of ready-to-eat food products. In the F&B category, the beverage sector has much more room for growth given that there is reach of other FMCG products.

Currently, the beverage segment contributes to about 11% revenue of a retailer and less than 1% revenue of the Government basis our estimates. The sale of organized sector is only 20% in overall beverages segment and balance is counterfeit or unorganized sector. Currently, our estimates suggest that Government earns less

⁹ <https://www.ibef.org/blogs/fmcg-sector-prospects-in-the-indian-rural-market>

¹⁰ ICRIER

than 1% of its revenue from this sector. Even a 20% movement from unorganized to formal economy can have large multiplier effects and can boost Government revenue substantially¹¹.

If the beverage sector which currently taxed at 40% (28% GST + 12% compensation cess) is encouraged through GST rationalisation with lower rates, this will have a trickle-down effect on the entire supply chain. As India aims to move from 'food security' to 'nutrition security', there is also a need to look at global best practices on how taxes and subsidies can be used to increase the consumption of nutritious products. One tool of fiscal intervention for growth and innovation in the F&B segment can be 'nutrition based taxation'. A nutrition-based taxation regime could be on the basis of sugar content - 'Low taxes for low sugar' and 'Lowest taxes for no sugar' (which use Non-Nutritive sweeteners) will help several objectives of the GOI.

This will give the right impetus for growth and innovation for the growing food and beverage segment in the FMCG industry. Growth of an industry is directly impacted by the policies governing it – fiscal policies have an important role to play in this. Rationalisation of fiscal policies for industries with growth potential will help in –

- Providing impetus to otherwise stagnant sector
- Increase in reformulation and product options and sales
- Reduced cost pressures and attractive pricing for better margins
- Increase in investments and innovation
- Move from informal to formal economy
- Rise in retailer income and government revenues
- Job creation in Tier 2/3 locations

Keeping in view the growing segments of the FMCG sector, it is essential for conducive policies to be in place for this sector and thereby retail sector to grow.

Policy recommendations by CAIT

With retail and the FMCG industry on a high growth trajectory, the time is opportune for the business and policy environment to favour this symbiotic relation, thereby leading to increase in economic output and incomes of retailers and traders. Socio-economic and market factors like – increasing population, new product launches, increased consumer awareness of various FMCG products, rising middle-class disposable incomes, easier access to consumer goods, a noticeable shift in consumers' lifestyles, will lead to growth in retail trade business in India. However, a typical small retailer or entrepreneur continues to face challenges such as - access to working capital, no insurance against losses and stringent credit term from large suppliers, adapting to new technologies, others.

It is essential to ensure measures that enable and allow retailers and traders to operate efficiently and achieve higher income levels. These can be achieved through government and industry support. Following are the areas that need to be taken up for the desired outcomes to be achieved:

- **Conducive policy environment:** Policy interventions such as favourable tax policies can allow consumers as well as retailers, from increased affordability as well as increased incomes.
- **Ease of doing business:** Simplification of regulatory environment including labour laws, reduction in compliance burden can overall help small retailer and traders. This would enhance the ease of doing business and would help put more disposable income in the hands of consumers, and lead to increase in demand for goods.
- **Digital revolution of retail:** Technological developments in retail sales channels have increased online retail sales and helped growing categories like food and beverage to cater to a broader consumer

¹¹ Hansa Research

base¹². Modernisation of trade with the help of increased internet penetration and emerging technologies can help increase the reach and scale of retailers and traders. However, synergies between growing e-commerce and retail traders are crucial for overall retail sector growth.

- **Untapped opportunity in rural areas:** The rising awareness, ease of access, and altering preferences have been the primary factors promoting market expansion in rural areas. The primary driver for retailers and traders will be FMCG market growth in rural areas.
- **Formalisation and move towards organised retail:** Over the next few years, the demand gradient will also be propelled by rising consumer awareness and the growth of organised retailing. Increased formalisation of retail trade will help in improving access to capital, risk mitigation through insurance, and other benefits of the formal economy, thereby also increasing government revenue.
- **Skill Upgradation:** Perpetuity of kirana in the changing times calls for the need of upskilling, to stay adept with new and modern techniques of retail business. With the help government initiatives in PPP model with industry, as well as business specific programs of various large companies, retailers and traders can be trained to reap the benefits of trade modernization and improve their business accumen.
- **Affordability to consumers** – Through policy interventions like fiscal policies, and other measures that encourage retail businesses, the benefits are passed on to consumers. This allows for better access, affordability and choice to end consumers and also encourages business innovation.

India aspires to be a global leader in food processing and non-alcoholic beverages is a core component of the food processing industry. The top four challenges to the growth of this sector are (a) unfair competition from the unorganized sector and counterfeit products (b) negative perception regarding the industry (c) GST and “Sin tax” and (d) infrastructure related issues. The Food Safety Regulator is in the process of identifying HFSS foods (Foods high in Fat, Salt and Sugar) and it is recommended that fiscal policies should be aligned to this approach to ensure the growth of the food sector in India and also reduce the unfair incidence of tax burden on the poorest population.

The Food and Agriculture Organization (FAO) recognizes “sustainable food systems” as a system that delivers food security and nutrition for all in such a way that the economic, social and environmental biases to generate food security and nutrition for future generations are not compromised. This means that: – It is profitable throughout (economic sustainability); – It has broadbased benefits for society (social sustainability); and – It has a positive or neutral impact on the natural environment (environmental sustainability).

Organized sector growth helps industry and economy grow. Sin taxes are impacting the poorest in our country and have not been successful in impacting consumer behavior. A moderate tax rate will help shift the consumer to healthier products, increase retailer’s incomes and generate more revenue for the government through sale of healthier products at an attractive price point. This will help achieve the objective of ‘Doubling Retailers Income’.

With the above submissions and suggestions, CAIT would like to urgently request the Government to bring conducive policies for the upliftment of the self-organized retail sector and ensure that “Doubling Retailers Income” is taken up as a policy priority of the Government of India.

¹² Statista