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Organized Retailing of Horticultural Commodities

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Abstract

Owing to rapid urbanization and changing consumption patterns, more and more retailers are trying to put their best efforts to discover new avenues of success when it comes to the sales of horticultural commodities. There are several Indian companies as well as foreign companies who have been focusing all their energies to succeed in the organized retail sector of Indian horticulture commodities. The Indian retail industry is worth \$470 million and organized retail stands at \$26 million which is around 6% of the market. The overall organized retail market in India is projected to grow at a CAGR of 40%, touching US\$ 107 billion by 2013. Especially horticulture retail, which is mostly referred as the selling of fresh fruits and vegetables, is witnessing a slow but steady change. The main objective of this paper is to gain insight into organized retail of Horticulture commodities from the Indian perspective. This paper attempts to explore and evaluate the extent of the transformation and its impact brought by the organized retailing of Horticultural commodities in India. The first section of this paper discusses the nature of organized retailing in India alongside the progress and experience of organized retailing of Horticulture commodities. The second section of this paper enumerates the issues and concerns in the Horticulture sector of India and subsequently this paper examines the effects of FDI in Horticulture retail while quoting some evidences from other countries. This study has analyzed and evaluated the organized retailing sector in Horticulture commodities and put forward specific recommendations for the development and transformation of this sector.

Key Words: Organized retail, Horticulture, FDI

Organized Retailing of Horticultural Commodities

Introduction

The Indian retail industry is worth \$470 million and organized retail stands at \$26 million which is around 6% of the total market.ⁱ The organized retail market is projected to grow at a CAGR of 40%, touching US\$ 107 billion by 2013. India's retail sector appears quite lucrative with estimates to touch around US\$ 833 billion by 2013 and US\$ 1.3 trillion by 2018, with a 10% compound annual growth rate (CAGR).ⁱⁱ "The retail business in India is estimated to grow at 13% per annum from US\$ 322 billion in 2006-07 to US\$ 590 billion in 2011-12. While the unorganized sector is expected to grow at about 10% per annum, the organized retail is estimated to grow at 45-50% per annum during the same period" (ICRIER, 2008). The Indian food retail industry added total revenue of \$306.1 billion in 2009 sticking out a compound annual growth rate (CAGR) of 11.7% for the period spanning 2005- 2009. The Indian food retail industry is projected to have a value of \$443.7 billion by 2014, an increase of 45% since 2009. The compound annual growth rate of the industry in the period 2009–14 is projected to be 7.7%.ⁱⁱⁱ According to the McKinsey report, 'The rise of Indian Consumer Market', the Indian consumer market is likely to grow by four times by the year 2025. India continues to be one of the most attractive countries for global retailers. The organized retail sector, which currently accounts for around 5 per cent of the total Indian retail market, is all set to observe maximum number of large format malls and branded retail stores in the coming years. There is Tier II cities like Noida, Amritsar, Kochi and Gurgaon which are projected to emerge as the most favored destinations for the retail sector with their tremendous growth potential.^{iv}

Horticulture retail or Agri-retail in India, which is better referred as the selling of fresh fruits and vegetables, is witnessing a slow but steady change by its inflow into the arena of

organized retail. The old practice of selling fruits and vegetables from cart and small vendors is now giving way to organized fruit and vegetable retail stores as well as online stores. This transformation can be attributed to the emergence of the neighborhood grocery stores that have been opening up lately. In the past we saw customers flocking the local fruit and vegetable vendors but at present horticulture retail scenario is wooing the consumers towards the organized neighborhood stores, thereby taking Indians towards the progressive path. Although in the present scenario, India stands at 4% in organized horticulture trade but when compared globally it is almost 56% which depicts how organized retail in India still has a long destination to cover up.^v Moreover, with the Indian Government's decision to open FDI (Foreign Direct investment) in retail, the scenario has opened up the debate about the potential available in this sector to contribute towards the rapid growth of Indian economy.

Progress and Experience in India

According to Euromonitor International's research, around 90% of Indian consumers' retail food expenditure is spent on fresh food categories, with major sales share taken up by fruit and vegetables. According to Euromonitor International's Countries and Consumers database, in future the Indian consumers will continue to spend more per capita on fresh food and it is estimated that there will be 130 million new consumers in India by 2015. Moreover, there exist ample opportunities for fresh food players across the entire supply chain right from producers to retailers; perhaps understanding local consumption patterns is of prime importance in getting their fresh food offer right in this rapidly changing market. The food and grocery segment is the largest segment with 70% share in the total Indian retail market segment. The table below would show the different retail market segments:

Table 1: Retail Market Segments

Category	2011 Estimates (in US \$Bn)
Food and Grocery	325
Apparel	35
Jewelry and Watches	25.6
Consumer Electronics & IT	22.7
Pharmacy	13.9
Furnishings and Furniture	9.1
Restaurants & Food Joints	8.8
Footwear	4.5
Beauty Services	1.3
Health/Fitness Services	1
Others	23
Total (US \$ Bn)	470

Source: Technopak Analysis

Horticulture utilizes 20 million farmers in the country out of the total 140 million farmers in India.^{vi} The real potential of horticulture sector was harnessed only after the National Horticulture mission in 2005-06. The Horticulture production has come up to 30 per cent from the previous five years which has been a commendable achievement when compared to the 23 percent rise in the preceding five years. The Indian Horticulture production could be seen at a glance in the Table 2 below:

Table 2: Indian Horticulture production

INDIAN HORTICULTURE PRODUCTION AT A GLANCE (1991-92 and 2001-02 to 2010-11)									
YEAR	FRUITS		VEGETABLES		FLOWERS		NUTS		
	A	P	A	P	A	P (Loose)	A	P	
1991-92	2874	28632	5593	58532	NA	NA	NA	NA	
2001-02	4010	43001	6156	88622	106	535	117	114	
2002-03	3788	45203	6092	84815	70	735	117	114	
2003-04	4661	45942	6082	88334	101	580	106	121	
2004-05	5049	50867	6744	101246	118	659	106	121	
2005-06	5324	55356	7213	111399	129	654	130	149	
2006-07	5554	59563	7581	114993	144	880	132	150	
2007-08	5857	65587	7848	128449	166	868	132	177	
2008-09	6101	68466	7981	129077	167	987	136	173	
2009-10	6329	71516	7985	133738	183	1021	142	193	
2010-11	6383	74878	8495	146554	191	1031			including in fruit

YEAR	Aroma. & Medi. Crop		PLANTATION CROPS		SPICES		MUSHROOM	HONEY	GRAND TOTAL	
	A	P	A	P	A	P	P	P	A	P
1991-92	NA	NA	2298	7498	2005	1900	NA	NA	12770	96562
2001-02	NA	NA	2984	9697	3220	3765	40	10	16592	145785
2002-03	NA	NA	2984	9697	3220	3765	40	10	16270	144380
2003-04	NA	NA	3102	13161	5155	5113	40	10	19208	153302
2004-05	131	159	3147	9835	3150	4001	40	10	18445	166939
2005-06	262	202	3283	11263	2366	3705	35	52	18707	182816
2006-07	324	178	3207	12007	2448	3953	37	51	19389	191813
2007-08	397	396	3190	11300	2617	4357	37	65	20207	211235
2008-09	430	430	3217	11336	2629	4145	37	65	20662	214716
2009-10	509	573	3265	11928	2464	4016	41	65	20876	223089
2010-11	510	605	3306	12007	2940	5350	41	65	21825	240531

A = AREA (IN 000*HA)

P = PRODUCTION (IN 000*MT)

2010-11 : Honey and Mushroom figures repeated.

Note : Totals may slightly differ due to rounding of figures

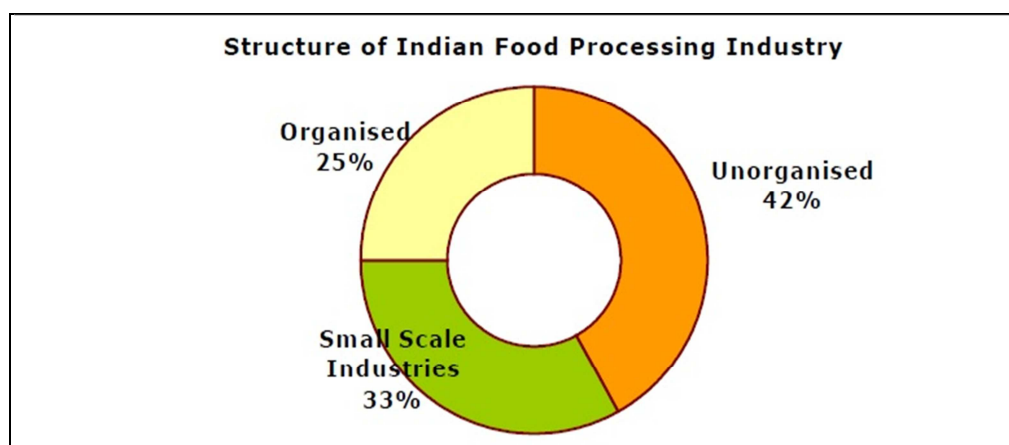
Source: Indian Horticulture Database 2011.

Issues and Concerns in Horticulture Sector

According to Euromonitor around 35-40% of India's vegetable production is lost due to post-harvest inefficiencies such as lack of storage, poor transport facilities and inappropriate packing. The Indian Horticulture sector is also affected by poor market intelligence, inefficient supply chain and low productivity. The major constraints in the production and

marketing of fresh fruits and vegetables are quality seeds, inadequate soil testing facilities, lack of irrigation and extension staff (Kumar and Pal, 2004). According to Euromonitor International's Fresh Food database India is a significant producer of cabbage, brinjal and cauliflower other than tomatoes. The reason for the rise in production of horticulture commodities especially fruits and vegetables are due to the changing production pattern of producers and shifting consumption patterns (Mittal, 2006). The consumption of many vegetables in India depends on their price and seasonality. For instance, vegetables like peas, cauliflower are bought more in winter when they are cheap and gourds are bought more in summer based on their cooling properties.

The emergence of organized retailing has seen selling of diced vegetables for the working women segment. However, still in Indian environment vegetables are on a majority bought whole and unprocessed since households consider cut vegetables to be premium and more than that cut vegetables are low on quality perceptions. The sales of colored capsicum, lettuce, mushrooms have increased considerably. The Indian food processing industry is majorly unorganized with 75% share in the unorganized category. The structure of Indian food processing industry is depicted in the figure below:



Source: FAIDA / Ministry of Food processing Industries

The demand for fruits have increased considerably despite of fruits being more expensive than vegetables and it is more due to the fact that urban areas have witnessed more of organized form of retailing. The India horticulture sector also witnesses many challenges in the consumption of meat products. It's quite challenging to sell meat products in organized retailing because majority of Hindu population in India would avoid visiting outlets which sell non-vegetarian products.

Under this sector, India exports vegetables and fruits in fresh and processed forms but despite of being the second largest horticultural producer in the world, it happens to be a failed exporter mainly due of the incapability to meet the food safety standards. The Ministry of food processing report "Vision 2015" has projected the size of processed food sector to increase by three times and the share in India's global food trade to increase from 1.5 % to 3%.^{vii} Nonetheless, to succeed in horticulture sector, the production has to increase by fourfold through excellent agricultural practices to generate marketable surplus.

There are studies conducted which have found that efficiency in supply chain would pass on benefits to the consumers around 20-25 percent and the inefficiencies lead to the farmers getting only 24 to 58 percentage share of the price paid by the consumer (Raghunath et.al.,2005). The existing system of supply chain has got quite a lot of deficiencies which needs to be rectified for the development of the sector. A drastic change would be required in the overall wholesale marketing system so that the middlemen who dominate in the supply chain would have limited power and small farmers would get benefit by gaining higher share in final consumer price. Generally, it would serve the farmers better if the retailers and farmers work towards a long term sustainable relationship. The farmers have high requirements for support from Government or retailers themselves in terms of procurement of raw materials, market information, technology, cold chains, packaging, grading, sorting and

better infrastructure and distribution centers to ensure better output for the organized form of retailing. A large number of Indian corporate players in retail have entered the arena of organized retail but the success has been limited. A solution to these problems could be possibly a single gateway to the regulated markets for saving time and striking efficiency by acquiring higher levels of transparency (BIRTHAL et.al., 2007). However, acceptance of this gateway by the farmers would be questionable as the faith the farmers have on the traditional system is quite high and to break the barrier on a larger scale would be a daunting task.

The success of the horticultural sector in India could be achieved if the farmers and organized players come together through the effective policies taken by the government which would enable vertical and horizontal integrations to create a mutually beneficial relationship among all the stakeholders in the group (Surabhi, 2007).

Organized retailing has got several advantages when it comes to the procurement side of the business. The farmers do not have to deal with the commission agents and brokerage charges which would enable them to procure better prices. It also provides farmers with wider choices to sell through the procurement outlets of organized retailers and get additional advantages like better usage of weighing scales. However, there are also shortcomings when it comes to organized retailing because prices at the organized procurement centers do vary because of which the trust factor from farmers go low. When discussed from Indian perspective, procurement is highly fragmented and suffers from several problems like seasonality, geographical spread, poor market information / linkages, poor handling of harvests, diverse transports, distress sales and storage / perishability and inadequate infrastructure issues. A mechanism has to set in between farmers and retailers which would define an ideal price offered which would reduce the conflicts and both are protected. The agricultural marketing in India is regulated by Agriculture Produce Marketing Committee (APMC) which has got different policies across different states. The implementation of APMC has not able to fully

integrate the whole market and there needs to be strong amendments adopted on a national level to create a mutually profitable relationship between the farmers and the organized sector. Moreover, there is a need of a system in place which would help each and every farmer gain knowledge about farming practices effectively although companies like ITC has been the front runners in this perspective through its ITC Choupal. Generally from the organized retailer's end it becomes very complex to consolidate the retail activities because of fragmented production and perishable nature of Horticultural commodities. The first organized retailing venture SAFAL which was established in 1988 by the National Dairy Development Board in Delhi.

Horticulture retail is currently restricted by sub-standard marketing arrangements. There is considerable gap between the price acquired by the farmer and the price finally paid by the end consumer which demonstrates policy paralysis. Hence, it becomes very crucial to see that the existing procedures are amended and public along with private retail markets have to concur to a model which would increase the effectiveness of the overall process.

Under the horticulture landscape the farmers are the biggest sufferers because price paid by the farmers for the inputs have been steadily increasing compared to the declining yield per hectare. The nonexistence of a proper system is a huge loss to the Indian economy both in terms of quantity and quality of horticulture produce for domestic as well as export markets.

Pros and cons related to FDI in retailing of Horticultural Commodities

The Government of India has initiated FDI around year 2005. During liberalization in 1990, many organized retailers entered the market. In 1991 the Government of India had allowed 100% investment in the cash and carry and single brand retailing. Currently it has allowed 51% investment in multi-brand retail but it is under debate whether FDI would result in development of warehouse facilities or better logistics and infrastructure although the

Government has kept the condition in its mandate that it would be compulsory for foreign retailers to invest in logistics and infrastructure if it wants to enter the country. The state governments would get the higher percentage of taxes with the organized players entering the country and the tax compliance would be higher in the case of organized retail (Pandey et. al., 2007).

In India the agriculture markets are at a distance less than 400 km and with the advent of organized retailing there is a probability that the marketing infrastructure would be built which would lead to better access to these markets. With increasing focus on horticulture sector, private player's participation has led to the major restructuring of cold storage industry.

The major argument against FDI in retail is that the traditional mom and pop stores would not survive and small shoppers would go bankrupt. Looking at the global scenario there are examples which proves that this belief is not always true. For instance, Brazil would be a country where mom and pop stores survive along the lines of modern retail once it opened the doors to organized retail (Venkatesh, 2008). Hence it becomes very important to realize that when we aim at protecting the small retailers from the wrath of so called organized retailing, we also need to actually act on behalf of the large number of producers in the market who would benefit when alternative marketing channels arise. Would these farmers be able to produce quality horticulture commodities in case of higher level of organized retailing is the question that need to asked since that would require the convergence of public and private sector efforts?

If channelized properly the advent of organized retailing in horticulture commodities would lead to fast markets for different crops as well as the better returns for the farmers. Also the logistics and infrastructure investments by these organized players as mandated by the

Government would help in improving the overall system and go way ahead in ensuring the quality, reinventing the supply chain and reduction of wastage in horticulture retail.

Evidences from other countries

In India, organized retail constitutes only around 6% of the total share of retail when compared to other countries like China at 20%, Thailand at 40%, Taiwan at 81% and Malaysia at 55%. India's horticulture production increased at a healthy rate of 30 per cent in the last five years which is a sharp rise, considering increase in the preceding five years was only around 23 per cent. This has put India among the front runner among other countries in horticulture production, just next to China. If we follow the examples from other countries then the consolidation and efficient sourcing by large producers are expected to reduce wastage during harvest, thus enhancing the supply of fresh vegetables on the market. It took China and Brazil almost 10-15 years to increase their share of organized retail to a sizeable proportion when compared to India's position today. Compared to those countries India's retail developments have taken place at a very rapid pace. When we observe the Asia-Pacific region we witness that most of the retail developments have taken place owing to the rapid urbanization, supply chain effectiveness, changing consumption patterns and liberalized FDI norms which has led to greater share of organized retail in countries like Mexico, Japan and South east Asia.

Compared on the international standards the level of food processing in India is very low and the wastage level is also quite high which needs major improvement. US, Japan and European Union have around 60% of the share of processed food sales in the world. Japan leads the race in the food processing market in the Asian region although when it comes to the most advanced food processing market Australia leads the race.^{viii} However, the Indian food processing industry has got a lot of potential and is growing at a rapid pace. The chart

below depicts how emerging markets have got great potential with untapped opportunities and that is the reason why India happens to be one of the top destinations for investment.



Source: FICCI, KPMG Report

While comparing the transportation costs to various international markets, we find that India's transportation costs are 20-30 percent higher. Since the transportation is higher it is again reflected in the final price arrived for exports. This makes the Indian products expensive by around 15% compared to foreign products. For instance, although the distance to Netherlands from Indian is less than when compared to Chile, still the transportation cost is 260% expensive than Chile. As a result our export potential remains weak despite experiencing low cost of production contributed by Indian farmers.^{ix}

Looking to the global scenario, small farmers many a times get affected due to the stringent procurement quality parameters set by organized retailers. Therefore, it becomes imperative

for the Government to intervene and support the small farmers by designing better models. However, Brazil as discussed earlier is similar to India on various parameters while considering the modern retailing developments. If we take the case of Brazil then after the advent of modern retailing the prices of commodities fell all over the country barring few places.

Conclusion

Organized retail does provides us some hope to ultimately see the farmers get their share of benefits but needless to say that it has to be a joint effort of public sector and private sector to witness the emergence of an efficient and effective horticulture retail venture. Organized retailing would lead mostly to the non-inclusion of small farmers which would warrant need for reforms that decrease the stratum of intermediation. Moreover, the contract arrangements made with farmers must be less complex and highly transparent so that the focus is towards maximizing the farmer's revenue rather than leading to heavy pockets for the middlemen.

The Indian environment has witnessed to a large extent that marketing arrangements in Horticulture retail is majorly based on trust which would require the corporate houses to come ahead with an innovative model and do something which is more than business. The contribution towards Agriculture innovation system (AIS) is one of the answers to this issue. AIS is network of organizations, enterprises, and individuals dedicated on transforming new products, new processes, and new forms of organization into economic use alongside institutions and policies that affect the way the parties share knowledge (World Bank, 2008).

The general notion is that the producers would get a wide choice with more retailers developing supply chains and marketing channels. If this same aspect is taken from an organized retailer's perspective, it is experienced that these retailers only deal with limited

number of farmers restricting others on quality parameters. While the retailers accept only quality produce owing to the consumer demands, the farmers receive very little support towards their capacity and ability to quality produce. The small farmers who are fragmented should be brought inside the purview of the policy framework. The Government would have to definitely intervene here by imposing a special code of conduct to be followed to avoid conflicts between the farmers and retailers along with extended help towards offering support services, quality check training and sorting post-harvest handling issues.

The Government has kept a mandate for foreign players to enter with considerable investment in logistics and infrastructure. However, it is imperative for the need of a committee which would look into the fact that the foreign players have actually invested in crucial areas like cold storage logistics, warehouse facilities and distribution centers. The investments by these players would lead to building supply chain efficiency through vertical integration leading the farmers to secure the fair share in the consumer rupee.

The post-harvest issues in horticulture commodities could only solve with joint participation from private and public sector to increase the horticulture productivity. The post-harvest efficiency could be achieved through more investment on agriculture research which will help to explore innovative techniques to reduce post-harvest efficiencies. The commercial outlook to research will allow more private participation. Moreover, there is also utmost need to focus on certain commodities on priority basis in the horticulture sector because it would help to fulfill the research requirements explicitly.

Furthermore, the Indian horticulture sector should definitely make its move towards becoming a “globally competitive industry” but before that, the Government should fine tune

its policies and set priorities to develop a sustainable and integrated model which becomes “locally efficient” for all stakeholders.

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End Notes

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