ONE PERSON COMPANY (OPC) - THE NEW BUSINESS FORMAT FOR SMALL RETAILERS IN INDIA

M. Bina Celine Dorathy[*]

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The retail sector in India is undergoing transformation due to the changing lifestyle of people. The sector is generally characterised by small retailers who conduct business in a traditional manner. But recently there has been a shift towards modern retailing, since education and exposure to contemporary trends have made the Indian consumer look for more professionalism in shopping. This has prompted many corporations (both Indian and foreign) to enter into this sector with the modern retail formats, such as supermarkets, department stores, shopping malls etc. This trend towards organized retailing can be a threat for small retailers. This article discusses One Person Company concept as a strategy to develop small retail businesses in terms of their corporate status.

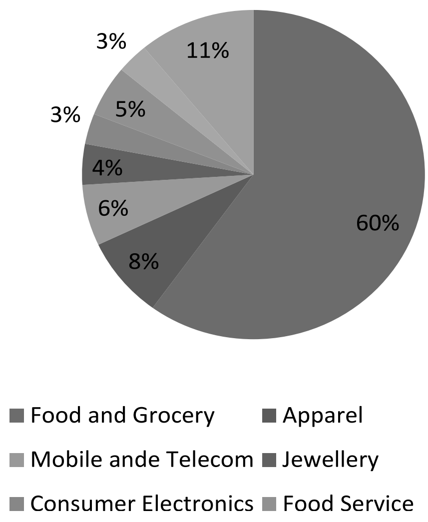
1. INTRODUCTION

The retail industry is one of the fastest growing sectors in India. It accounts for over 20% of the country's Gross Domestic Product (GDP) and contributes 8% to total employment (Thambala, 2013). It is currently estimated at around US$490 billion and is projected to grow at a Compound Annual Growth Rate (CAGR) of 6 % to reach US$865 billion by 2023 (India Brand Equity Foundation, 2014). India is the 5th largest retail market in the world and the country ranks fourth among the 30 surveyed countries in terms of global retail development (Retailing Sector Analysis Report, 2013). The retail industry comprises of different segments like food and grocery, clothing and textiles, consumer durables, footwear, furniture and furnishings, catering services, jewelry and watches, books, music and gifts, mobile handsets and others. Food and groceries is the largest category within the retail sector with 60 % share

[*] M. Bina Celine Dorathy, Ph.D., Associate Professor, AMET Business School, AMET University, 135 ECR, Chennai, Pin 603112, Fax 04427472804, Tamilnadu, India, Email: binachristina2003@gmail.com

followed by the apparel and mobile segments (Indian Retail Sector: Industry Profile, 2012).

Figure 1. Segments of the Indian retail industry



Source: Thambala (2013)

The retail industry in India is broadly classified into organized and unorganized segments. Organized retailing refers to modern retailing with multi-storied shopping malls, plazas and huge complexes that offer a large variety of products in terms of quality and price, while the unorganized retailing refers to traditional retailing through small shops. In India, the unorganized segment is very large (92%) and dominates the Indian retail market (Deloitte, 2013). It is expected to grow by 5% and reach US$650 billion by 2020 (Federation of Indian Chambers of Commerce). This segment is generally characterized by small retailers such as owner-operated general stores, convenience stores, kirana shops, street vendors, etc. The sole proprietorship is a common form of business in the unorganized segment. As of 2013, India's retailing industry was essentially owner-manned small shops. The larger format convenience stores and supermarkets are present only in large urban centers in India. In 2010, they accounted only for about 4 % of the industry (Accha, 2013). But in recent years there has been a shift towards organized retailing in India, largely due to increased purchasing power, exposure to western culture, brand awareness, growing middle class and the creation of nuclear families (Handa & Grover, 2012). The growing demand for organized retailing has attracted many corporations into this sector. Large business tycoons, such as the Tata group, the Aditya Birla Group, Reliance Communications etc. have entered into this sector. Indian retail sector has been attracting foreign retailers too. The Foreign Direct Investment (FDI) policy on retail has facilitated foreign retail companies to enter the country. This has created an upheaval among small retailers as they have had to face competition from two sides, one from large domestic firms and the other from foreign retailers (Joseph et al, 2008).

At this point, the concept of One Person Company (OPC) recently introduced by the Indian Companies Act 2013, discussed as a possible step to corporatize small retailers by integrating them into the organized segment. Secondary sources of data, i.e. published reports, articles and survey results are analyzed in the paper.

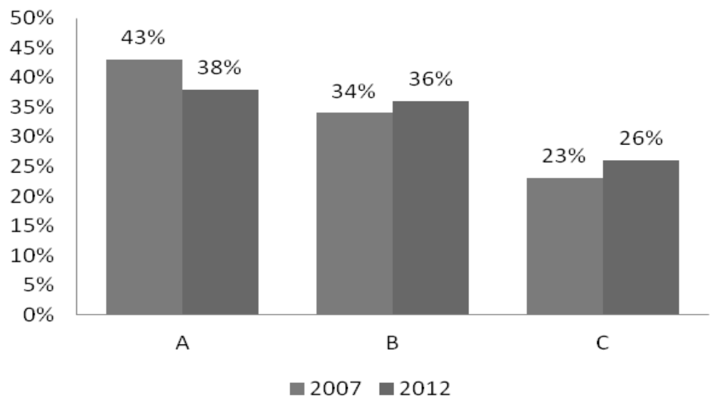
The *Deloitte* report on Indian retail market (Deloitte, 2013) gives an overview of the retail market in India. It provides information on FDI in multi-brand retail. The Government of India had been considering opening up the multi-brand retail trade (MBRT) to FDI for some time. Deloitte released a discussion paper in 2010 on the topic and has extensively been gathering public, academic and industry views on the issue ever since. *Nielsen Holdings* Report (Terron & Kulkarni, 2012) traces the shift in Indian shopping landscape. It compares modern trade stores per million consumers in India with other developed and emerging economies in Asia. The growth of modern retail trade in India is expressed by the growing number of visits made by people from different classes. The report also detects the emergence of the *Crossover Shoppers.*

The Enterprise Note on Retailing (Amin, 2010) highlights the key problems and challenges faced by retailers in India. Inadequate power supply, access to finance, corruption, tax rates, and land-related problems are identified as the main obstacles to growth. Competition in the sector also appears to be low, reducing labor productivity. Differences in the severity of these problems across regions and retail stores of different sizes are covered by the report. *The Sectoral Report on Retail* (India Brand Equity Foundation, 2014), presents the growing market size of the Indian Retail Sector. It highlights the notable investments and developments in the Indian retail sector in the recent past. It elaborates the initiatives taken by the Government to boost the Indian retail sector. The report presents the future road map for the Indian Retail Sector. The report *One Person Company (OPC)* (Institute of Company Secretaries of India, 2014) discusses the origin of the concept of OPCs in India. The impact of OPCs on Indian entrepreneurship, salient features of OPC, types of OPC and privileges available to OPCs are presented in this report. The report gives an insight into the applicability of this concept in India.

2. A SHIFT TOWARDS MODERN RETAILING

Organized retail is a recent phenomenon in India. The last 3-4 years have witnessed the entry of a number of organized retailers opening stores in metros and other big cities. Organized retailing has begun to establish its strong foothold in the retail market but at present its share is small. The organized retail, which constituted 7 % of total retail in 2011–12, is estimated to grow at a CAGR of 24 % and reach US$200 billion by 2020 (Research and Markets, 2012). The business formats generally prevalent in the Indian organized retail sector are largely in the form of companies or franchise models (Kusuma et al., 2013). Modern retailing tends to make shopping an experience characterized by comfort, style and speed. It gives value for the money spent and is therefore being increasingly preferred by consumers from all classes. In Figure 2, the upper, middle and lower classes of the society are represented by A, B and C respectively. A comparison between 2007 and 2012 shows that modern retailing has caught up well with both the middle and lower classes. The number of shoppers who visited modern trade outlets (MT) doubled between 2007 and 2012 (Terron & Kulkarni, 2012).

Figure 2. Different classes of consumers visiting modern trade outlets



Source: Terron & Kulkarni (2012)

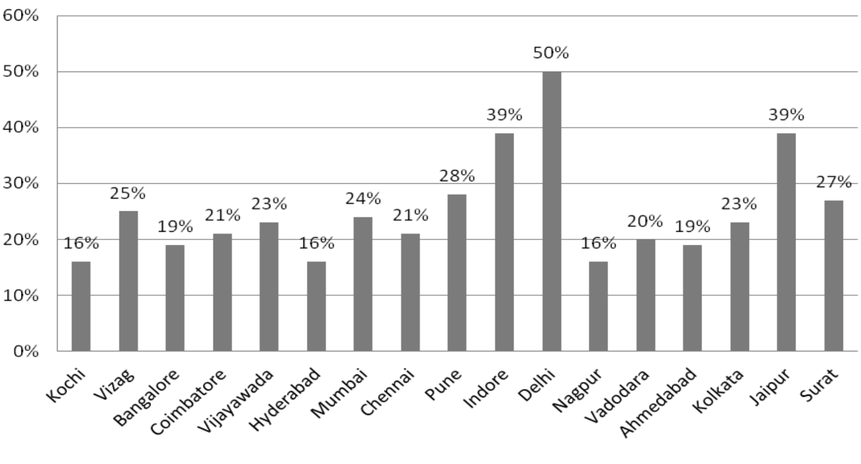
According to Terron & Kulkarni (2012), 18% of the urban shoppers regularly visited modern retail outlets. Figure 3 shows that the number of shoppers visiting modern stores increased from 18% in 2007 to 36% in 2012. It also shows that people spending more time at MTs has also increased - from 12% in 2007, to 21% in 2012.

Figure 3. Visiting frequency and spending patterns of shoppers at modern trade (MT) outlets

Source: Terron & Kulkarni (2012)

In the 17 key markets, accounting for three fourths of India's modern trade sales, the presence of modern trade witnessed high double-digit growth rates in 2011 compared to the previous year. Figure 4 presents the growth of modern trade in 17 major cities in India between 2010 and 2011. It is evident from these developments that organized retailing is poised for a huge growth in India.

Figure 4. Percentage growth of MTs between 2010 and 2011



Source: Terron & Kulkarni (2012)

2.1. Key issues for small retailers

The Enterprise Note on Retail (Amin, 2010), prepared on the basis of the World Bank's Enterprise Surveys on 1,948 retail stores in 41 major cities in India, revealed major problems faced by retailers. The sample consisted of 64% traditional or grocery stores, 26% consumer durable stores and 10% modern-format stores. Power shortage was identified as the first and most serious problem followed by poor access to finance, corruption, problems in land acquisition and taxes. According to this study, small retailers experienced more difficulty in raising finance compared to larger firms and that over 93% of the stores had single owner. In addition, 78% of the firms used retained earnings to finance their working capital requirements and 82% of the firms' investments in fixed assets was financed by retained earnings (Amin, 2010).

This study throws light on two issues that are relevant for this paper. First, a larger percentage of retail stores adopted sole proprietorship as a form of business. Second, they faced severe credit crunch. The strength of organized retail stems from greater resource availability, due to their corporatized form of business which can get converted to efficient supply chain management, leading to faster inventory turnaround and better access to markets. Small retailers are unable to use this leverage, because of their business model. Under such circumstances, the one-person company business format promised advantage by bringing about a change in their business structure. By adopting this model, the sole proprietorships can convert themselves into companies and enter the organized retail.

3. THE CONCEPT OF ONE PERSON COMPANY (OPC)

One Person Company (OPC) is a new form of business which was introduced in India to enable entrepreneurs doing business as sole proprietors to enter into a corporate framework. OPC is a hybrid of sole proprietorship and company as forms of business. The minimum number of persons required to form a company is two for a private company and seven for a public company. An OPC is formed as a private company with just one person as the member. OPCs nominate another person who will take over the business in case the owner of OPC dies. An OPC can be started with a minimum paid up capital of Rs 1,000,000 and may either be a company limited by share, a company limited by guarantee, or an unlimited company (Singh, 2013). This concept was first introduced in the United Kingdom. Later, it spread to other parts of the world. USA, Singapore, China, UAE are some of the countries, where one person companies can be registered.

The OPC business model has certain advantages, which are not available to the sole proprietorship business. The company status gives better credit worthiness to the business, thereby offering more possibilities to raise finance. It widens the financial base for the business. Loans are granted, based on the performance of the OPC and not on the owner's background. In India, loans are granted on priority basis to certain activities, determined by the Reserve Bank of India. Normally, it includes agriculture, micro- and small-scale industries. If the OPC falls under any of these categories, loan would be granted on priority basis to them, as well (The Institute of Company Secretaries of India, 2014). As a company, OPC is a separate legal entity, which means that the owner's liability is limited. This is certainly the most significant advantage for the proprietor. An OPC is also exempted from complying with many requirements, normally applicable to other private limited companies, i.e. it does not have to conduct annual or extraordinary general meetings. Only the resolution needs to be communicated by the member and entered in the minutes book.

The sole proprietorship retail business would have several benefits if it it changed its legal form and became an OPC. First of all, as it registers as a private company it widens its business prospects. As a company, it can enter into joint ventures with domestic, as well as foreign firms. The company form enhances its business status and it would be particularly helpful in getting loans from banks and financial institutions. Having a strong financial base would help it acquire franchises and enhance supply chain effectiveness.

4. CONCLUSION

The One Person Concept is yet to materialize in India, but once it does, it is expected to provide an impetus to corporatization in the country. In the retail segment, where modern retailing is intensifying, the OPC model would certainly provide the much needed thrust to small retailers.

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ONE PERSON COMPANY (OPC) – NOVI OBLIK POSLOVANJA U MALOPRODAJI U INDIJI

Sažetak

Maloprodajni sektor u Indiji prolazi kroz transformaciju zbog promjena u životnim stilovima. Ovaj se sektor, uglavnom, sastoji od sitnih prodavača na malo, koji posluju na tradicionalan način. No, odnedavno dolazi do pomaka prema razvoju suvremene trgovine na malo, s obzirom da su obrazovanje i izloženost suvremenim trendovima potaknule indijske potrošače na sklonost većem profesionalizmu u kupovini. Ovaj je trend djelovao na mnoge indijske, ali i strane korporacije, koje su u maloprodajni sektor ušle koristeći suvremene maloprodajne formate (supermarkete, robne kuće, shopping centre, itd.), a što može biti opasnost za sitne prodavače na malo. U ovom se radu raspravlja o (indijskom) pravnom obliku ustrojavanja poduzeća One Person Company, kao strategiji razvoja malih maloprodajnih poduzeća u smislu njihovog pravnog (korporacijskog) statusa.