Food Retailing and Its Contribution Towards FDI, Economic Growth and Employment in Bangladesh

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Abstract
The food retail industry in Bangladesh is fragmented and underdeveloped compared to other South Asian countries. In fact, the food retail industry in Bangladesh is facing several major challenges. For instance, there is a shortage of experienced manpower, very high cost of capital, supply chain management problems, and so forth. Many organisations in Bangladesh folded their operations because they were burdened by losses. More interestingly, there is limited academic research that addresses these concerns. Therefore, this research will contribute to fulfil the existing gaps. The objective of this paper is twofold: first, to provide an overview of food retail sector in Bangladesh and key issues and problems it faces; second, to analyse the contribution food retail industry towards foreign direct investment (FDI), economic growth, and labour force in Bangladesh. This study is informed by secondary data sets which were already available in the public domain and were analysed using associative techniques. The findings of the study suggest that despite the industry is suffering uphill challenges but, there is a significant interconnection between the performance of the food retail industry in Bangladesh, FDI, GDP growth and total labour force of the country. Moreover, the industry has the opportunity to overcome these challenges and thereby contribute further towards FDI, economic growth, and labour force in Bangladesh. The results of the study and will make the policy makers aware regarding existing problems within the industry and will help managers to think more deeply about re-organising the food retail industry.

Keywords: Bangladesh, FDI, Food retailing, Economic growth, Labour force.

1. Introduction and Background
Food trading is a traditional business in Bangladesh and its growth is keeping pace with the population growth of the country and changes in consumer demand. The food retail industry is the 7th biggest source of FDI in Bangladesh. Other major sources of FDI for Bangladesh include Telecommunication, Textiles and Apparel, Power, Banking, Gas and Petroleum and Trading. In fact, FDI in the food retail sector was valued at $103.09 million net FDI in 2017 (Bangladesh Bank, 2017). Further, food industry contributing significantly to the GDP in Bangladesh. In fact, in 2016 food industry contributed $780.23 million to the GDP in Bangladesh (Bangladesh Bureau of Statistics, 2017). Regardless, of the fact the food sector is a major attraction for FDI; the food retail industry is facing several major challenges. For instance, there is a shortage of experienced manpower to operate the business (Hussain and Leishman, 2013; Kamruzzaman, Manos, Psychoudakis, and Martika, 2006). Other major challenges include short-term supply inflexibility and limited product differentiation (Ahmed, & Lorica, 2002). More interestingly, there is limited academic literature that addresses these concerns. Therefore, the researcher would like to provide an overview of the food retail sector in Bangladesh and key issues and problems it faces.

Further, several researchers (Menkhaus, Yakunina, and Herz, 2005; Koc, Boluk and Kovaci, 2010; Kahkonen, 2012; Rudaw ska and Bilinska-Reformat, 2018; Stanton, 2018) have been conducted their research on food retailing based on the context of European countries and USA. Similarly, food retail industry has been explored by (Nandonde and Kuada, 2017) in the context of Africa. However, the food retail industry in Bangladesh has not been explored by current literature. Therefore, the researcher would like to contribute by conducting research on the food retail industry in Bangladesh which will fill the existing gaps.

Furthermore, studies conducted to analyse the food retailing and supply chain linkages by (Menkhaus et al., 2005), concentration of food retailing and anti-competitive practices by (Koc, 2010) and recent developments in the competitiveness of the food retail sector (Hollingsworth, 2004). Further, Kahkonen (2012) identified how food companies can obtain remarkable benefits by utilizing value nets and an overview of the evolution of modern food retailing provided by Nandonde and Kuada (2017). Further, Stanton (2018) provided a historical perspective on the food retailing based on the USA and Europe and Rudawska and Bilinska-Reformat (2018) provided interesting insights into the development of food retailing formats and the influence of changes in the business environment in that process. However, none of the studies conducted to provide a snapshot of the current situation of the food retail industry and its contribution towards FDI, economic growth and employment. Therefore, the researcher would contribute by providing a snapshot of the current situation of the food retail industry in Bangladesh and its contribution towards FDI, economic growth and employment creation in the country. Thus, this study seeks to understand how these interconnections can be of strategic importance to managers in the food retail industry.

2. Food Retailing
The retail format is defined as a combined and standardized “product” of a retail trade institute that the retailer
presents to the consumer. The characters that determine a format include, predominantly, the collection, the level of prices, the size and approachability of the store, the manner and level of customer service, the production factors and the manner of their management, as well as the scope of the services provided (Rudawska and Bilinska-Reformat, 2018). The evolution of retail formats is associated with changes taking place in the business environment and the application of innovation in the retail trade. Stanton (2018) classified the evolution of food retail formats into different eras which are the corner store era, chain stores initial era, self-service chain store era, the contentment era, non-traditional supermarket era, the consolidation era, non-food store era, prepared food era, targeting era and online era. This classification clearly demonstrates that the current form of food retailing has not emerged in a short time rather it has evolved over centuries.

3. Foreign Direct Investment

Foreign Direct Investment is the category of international investment that reflects the objective of a resident entity in one economy obtaining a lasting interest in an enterprise resident in another economy (Bangladesh Bank, 2017). The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence by the investor on the management of the enterprise. Due to insufficient human and physical capital and technological know-how, developing countries like Bangladesh are generally incapable to exploit the benefits from their abundant natural resources. Many of these countries are also typically constrained by the weak protection of property rights, corruption, and severe civil, political and economic instability (Iamsiraroj and Ulubasoglu, 2015). Consequently, international sources of growth such as development aid assistance and foreign direct investment (FDI) become highly pursued items on their economic agenda. Compared to other sources of international capital, FDI provides substantial benefits, principally because it provides the host country with a relatively more stable flow of funds, helps augment productive capacity, and increases employment, generates positive knowledge through labour training and skill acquisition (Iamsiraroj and Ulubasoglu, 2015). Further, FDI is a significant vehicle for the transfer of technology, contributing relatively more to growth than domestic investment (Borenstein, De Gregorio and Lee, 1998). Iamsiraroj (2016) suggested some fundamental reasons for supporting the attractiveness of FDI, such as advanced technology, skills, research and development (R&D) and know-how to host countries. These intangible assets would be beneficial for host countries to stimulate productivity and economic growth. Hence, FDI appears to offer good characteristics ranging from a high degree of stability, financial resource augmentation, positive productivity effects.

4. Economic Growth and Employment

Creating jobs and incomes is crucial for development. Most developing countries like Bangladesh, struggle with high unemployment or underemployment. Many people can barely live from what they earn. This is why creating new jobs, but also improving incomes and working conditions for existing jobs, is hugely important. The relevance of economic growth is measured by its effect on the quality of life through the creation of sufficient and quality jobs. One key measure of the health of an economy is the availability of productive and decent jobs for the labour force (Baah-Boateng, 2016). This research suggests that food retail industry contributes significantly towards economic growth and employment generation in Bangladesh.

5. Methodology

This study is informed by secondary data sets which were already available in the public domain. These datasets were re-analysed with the aim and purpose of the current paper in mind. Data gathered covered an 18-year period, and included, Economic growth statistics; industry growth statistics of the food retail industry in Bangladesh; FDI statistics for Bangladesh; and Total labour force statistics form the World Bank. This information covered a period, all of these ranging from the year 2000 to 2017. A non-systematic review of the literature was conducted and included the Bangladesh government databases, Bangladesh statistical information. The literature search was conducted on a few databases, predominantly Google Scholar, Taylor & Francis and Emerald Insight. The quantitative data sets collected were analysed using associative analysis techniques in using SPSS (Statistical Package for Social Sciences). The researcher has used SPSS to conduct a bivariate statistical analysis, with the intention of determining the relationship between variables. There are different analytical techniques that can be applied to bivariate statistics, such as contingency tables, correlation and regression (Rowley, 2014). This study has applied correlation technique as this has examined whether there is a relationship (Rowley, 2014) between variables in this study. What’s more, the researcher has conducted “Pearson’s r” which is a measure of the linear correlation because this is the most commonly used test to investigate correlation and such a test helps to answer the research question.

6. Food Retailing In Bangladesh

Food trading is a traditional business in Bangladesh. The rising population has increased pressures on the demand for food. Regardless, the food industry is also on the rise to keep pace with the rising population. In fact, in terms
of attracting FDI, the food sector in ranked 7th was following from Telecommunication, Textiles and Apparel, Power, Banking, Gas and Petroleum and Trading.

Although the food products sector is a significant source of FDI, the growth of the food retail industry in Bangladesh has not been structurally organised. This implies that there are a lot of missed opportunities that could have been exploited to further contribute to the growth of the industry. In other words, taking activities in the food retail industry seriously presents opportunities for creating jobs, and contributing to the growth of the economy. And yet, the traditional perspective in Bangladesh is that the food retail industry is confined to small family business. In fact, food retailing in Bangladesh acquired industry status recently. The dominant perspective has always been that of an individual or family business (Hussain and Leishman, 2013). Industry status was acquired following the launch of Rahimafrooz Superstore Limited (RSL) in 2001 (Hussain and Leishman, 2013; Khan, Tabassum and Jahan, 2014). Thus, it was not until then that the economic activities of food retailers were taken seriously, and their activities accounted for when calculating economic growth figures. In terms of economic growth, Bangladesh scored its highest ever economic growth of 7.24% fiscal year 2016-2017. The industrial growth recorded was 10.5% in fiscal 2016-17 (The Daily Star, 2017). This growth is attributed to proper accounting systems that now recognise activities of the food retail industry.

6.1 Types of Food Retail Shops
Food retailing in Bangladesh is characterised by well-equipped modern supermarkets to open-air temporary shops. In fact, Hussain and Leishman, (2013) classified food retailing into five categories and these are open-air temporary shops; roadside shops; municipal corporation markets; convenience stores and supermarkets.

The first category of food retailing is supermarkets. In fact, supermarkets are the latest additions to the food retail industry in Bangladesh, where they began appearing less than a decade. With the accomplishment of the pioneer supermarkets, this kind of retail store has drawn the attention of shareholders. This category continues to rise and contribute about 2% of food retailing (Hussain and Leishman, 2013). According to Bangladesh Supermarket Owners Association (BSOA), currently, there are 121 supermarkets in Bangladesh. However, the industry is largely dominated by three major players- Shwapno with 59 outlets, Agora with 13 outlets and Meena Bazar with 18 outlets. Once a key competitor, Nandan, now just two stores (LightCastle Partners, 2018). In terms of market share, the industry is largely dominated by Shwapno with 30% market share, Agora with 22% market share and Meena Bazar with 18% market share. All other competitors hold only 30% of market share. This result demonstrated in figure 1. Therefore, in terms of the number of outlets and percentage of the market share, the industry is mainly dominated by three major players.

Figure 1: Market Share of Supermarket in Bangladesh

Another category of food retail outlet is convenience stores. It should be noted that convenience stores are usually situated in more affluent urban areas. Consumers of these shops are generally foreigners and upper-middle
to upper-class locals. High-quality local products and imported food items are available within convenience stores and they constitute around 6% of the retail sector.

The third category of food retailing is municipal corporation markets. Food outlets in municipal corporation markets are organised in line with the type of food product they convey. For instance, the organisation focuses on the specific food type such as vegetables, meat, fish, fruits and groceries. These shops are most apparent within the semi-urban and urban areas. Processed food and imported foods products are available within municipal corporation markets but limited to those procured by the middle-class customers. This category constitutes around 22% of the food retail sector in Bangladesh (Hussain and Leishman, 2013). Again, there is a need to ensure that there are consistent and transparent reporting practices of the actual sales turnover in this industry.

The final category of food retailing is open-air temporary shops that are the most traditional sort of food retail shops in Bangladesh, and they are evident both within urban and rural areas throughout the country. Primary commodities like fruits, fresh vegetables, semi-processed homemade foods and fish are retailed within these shops. Conversely, roadside shops are small grocery shops that are visible throughout the country. A large number of the village markets fall under this group. Roadside shops along with the open-air temporary shops comprise about 70% of the food retail sector business (Hussain and Leishman, 2013). This understanding is particularly important because some revenues generated by these smaller shops are often not accounted for when computing the economic growth figures. This implies that with proper accounting practices, and transparent data gathering practices, there is an increased likelihood that the growth figures of the food retail industry would even be much higher than reported.

Figure 2: Percentage of Representation of Food Retailing by Each Types of Shop

![Figure 2: Percentage of Representation of Food Retailing by Each Types of Shop](source: Hussain and Leishman (2013))

This figure demonstrates that the food retail industry is dominated by the unorganised roadside and open-air temporary shops. Given this understanding, it is imperative that one explores the accounting reporting practices in this sector for the purposes of having an accurate perspective of the contributions of the food retail industry to the economy in Bangladesh. Those organised sections of the food retail industry include convenience stores and supermarkets, and together constitute only 8% of food retailing. Thus, in actual fact, the growth statistics captured for GDP purposes could thus be only about just 8% of the industry’s economic activity, thereby missing out on 92% of potential economic activity which often takes place but is unrecorded. All this unrecorded economic activity within the traditional or family business is important to give a true picture of the economic outlook for Bangladesh.

6.2 Key Issues and Problems

Even though food retailing has existed as an industry for more than a decade, but the industry has uphill challenges. Some of the challenges include political unrest, import barriers, government legislation and lack of skilled labour (Saleheen, Miraz, Habib and Hanafi, 2014). Furthermore, weakness in establishing sufficient and appropriate supply chain management, narrow customer base, and the shortage of experienced manpower, high tariffs of...
imported products are major challenges for the industry (Hussain and Leishman, 2013). Therefore, there is an opportunity to renegotiate some of these variables with a view to attracting foreign direct investment and encouraging the growth of organised food retail outlets.

What’s more, Saleheen et al. (2014) suggest that warehouse management system Enterprise Resource Planning (ERP), implementation of modern IT infrastructure are also major obstructions for the industry. Moreover, the sustainability of food retaining needs considerably more investment in efficient transportation, cold chain capacity, food preservation and packing with the intention of minimising food wastage and losses. Approximately 20 to 35 percent of fish, vegetables, fresh fruits and short-self life processed food are lost or wasted in Bangladesh (Hussain and Leishman, 2013). Thus, by adopting practices of organised food retailing, there is a chance of reducing such product wastage.

In a similar vein, Altenburg, Kulke, Hampel-Milagrosa, Peterskovsky, and Reeg (2016) suggest that significant infrastructural deficits of the country, the low purchasing power of the population and political instability are obstacles for the food retail sector in Bangladesh. What’s more, many organisations within the industry are facing the problem of food products directly from the source (Ahsan, 2014). This is because of the consistent fragmentation in this industry. Fragmentation creates weaknesses in negotiating with suppliers and reduces the bargaining power of the retailers. It is of concern that many organisations have folded their operations because they are overburdened by losses. There is also an increased likelihood that many organisations will be forced to close their business very soon if sufficient actions are not taken to improve their performance (Ahsan, 2014).

6.3 Performance of the Food Retail Industry

The role played by industry in economic recovery and employment generation is a key question for policymakers. Several researchers (Ayyagari, Demirguc-Kunt and Maksimovic, 2011; Haltiwanger, Jarmin and Kulick, 2016) emphasised their research on performance measures of the industry. For instance, Ayyagari et al., (2011) measured industry performance based on employment, job creation and growth of the country. Further, Haltiwanger et al., (2016) measured industry performance based on contribution to growth, output and productivity growth. As such, the researcher measured the performance based on contribution to FDI, economic growth and employment creation.

Despite the uphill challenges such as a lack of skilled labour, dominance by unorganised retailing, supply chain management problems, and an IT infrastructure that needs further development, food retail industry contributes significantly towards FDI inflow, economic growth, and labour force in Bangladesh. The analysis of the data suggests that there is a significant interconnection between the performance of the food retail industry in Bangladesh, FDI inflow, economic growth, and labour force in Bangladesh.

Results indicated a positive relationship between FDI and the total labour force. Thus, the null hypothesis was rejected, and the alternative hypothesis accepted. In other words, correlational results were found to be statistically significant: $r (16) = +.752, p<.01$, two tailed. This suggests that the more the FDI that is injected into the food industry, the higher the labour force and vice versa. This finding is important to understand in that organised food retailing can help to attract more FDI and hence, create more jobs. Thus, managers in the food retail sector ought to think seriously about adopting organised food retailing practices and structures as a strategic resource for the development of the food industry.

Table 1: Correlation between FDI in the food retailing sector and total labour force

<table>
<thead>
<tr>
<th>FOOD RETAILING FOREIGN DIRECT INVESTMENT</th>
<th>TOTAL LABOUR FORCE OF BANGLADESH</th>
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<tbody>
<tr>
<td>Pearson Correlation</td>
<td>.752**</td>
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<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
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<td>N</td>
<td>18</td>
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As reflected in the table the significant level is 0.000 < 0.05. The null hypothesis is rejected. In fact, table 2 indicates that the correlation between food retailing FDI and labour force of Bangladesh is .752 that is moderate positive correlation. Therefore, if food retailing FDI increase labour force of Bangladesh increase as well.
Table 2: Correlation between FDI in the food retailing sector and total FDI of Bangladesh

<table>
<thead>
<tr>
<th>FOOD RETAILING FOREIGN DIRECT INVESTMENT</th>
<th>TOTAL FOREIGN DIRECT INVESTMENT</th>
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<tbody>
<tr>
<td>PEARSON CORRELATION</td>
<td>SIG. (2-TAILED)</td>
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<td>TOTAL FOREIGN DIRECT INVESTMENT</td>
<td>PEARSON CORRELATION</td>
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**. Correlation is significant at the 0.01 level (2-tailed).

Results indicated a positive relationship between FDI and the total FDI in Bangladesh. In other words, correlational results were found to be statistically significant: \( r (16) = +.903, p<.01, \) two tailed. This suggests that the more the FDI that is injected into the food industry, the higher the total FDI for Bangladesh.

Table 3: Correlation between total FDI and total GDP of Bangladesh

<table>
<thead>
<tr>
<th>TOTAL FOREIGN DIRECT INVESTMENT</th>
<th>TOTAL GDP OF BANGLADESH</th>
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<tr>
<td>PEARSON CORRELATION</td>
<td>SIG. (2-TAILED)</td>
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<tr>
<td>N</td>
<td>18</td>
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<tr>
<td>TOTAL GDP OF BANGLADESH</td>
<td>PEARSON CORRELATION</td>
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<td>SIG. (2-TAILED)</td>
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**. Correlation is significant at the 0.01 level (2-tailed).

Results indicated a positive relationship between total FDI and the total GDP in Bangladesh. In other words, correlational results were found to be statistically significant: \( r (16) = +.975, p<.01, \) two tailed. This suggests that the more the FDI that is injected from food retail industry, the higher the total GDP for Bangladesh.

Table 4: Correlation between food retailing GDP contribution and total GDP

<table>
<thead>
<tr>
<th>FOOD RETAILING GDP CONTRIBUTION</th>
<th>TOTAL GDP OF BANGLADESH</th>
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<tbody>
<tr>
<td>GDPP PEARSON CORRELATION</td>
<td>SIG. (2-TAILED)</td>
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<tr>
<td>N</td>
<td>8</td>
</tr>
<tr>
<td>TOTAL GDP OF BANGLADESH</td>
<td>GDPP PEARSON CORRELATION</td>
</tr>
<tr>
<td>SIG. (2-TAILED)</td>
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**. Correlation is significant at the 0.01 level (2-tailed).

Results indicated a positive relationship between the contribution made by the food retail sector to the total GDP and total GDP in Bangladesh. In other words, correlational results were found to be statistically significant: \( r (6) = +.931, p<.01, \) two tailed. This suggests that the more the FDI the relative contribution to GDP of the food retail sector, the better the economic outlook as measured by GDP. Therefore, there is a relationship between food retailing GDP contribution and total GDP growth of Bangladesh. In fact, table 4 indicates that the correlation between food retailing GDP contribution and total GDP growth of Bangladesh is .931 that is strong positive correlation. Hence, an increase in food retailing GDP contribution can be the result of increase in total GDP of Bangladesh.

7. Conclusion and Recommendations

The finding suggest that suggest that food retail industry in Bangladesh contributes significantly towards FDI inflow, economic growth and employment generation in Bangladesh as the study has found significant positive correlation among them. However, the findings reveal an overall dominance of unorganised roadside and open-air temporary shops in the food retail sector, whose economic activity is unrecorded in most statistical computations of economic output. The findings suggest that there is an opportunity to adopt organised food retailing as a vehicle to improve the performance and promote transparent accounting practices. It is argued that organised food retailing has the potential of helping to boost the GDP figures further through improved transparent accounting reporting practices, and thereby attracting more FDI. Fragmentation has meant that most of the economic activity remains unaccounted for in the GDP figures, and as such, it is necessary to embrace a transformational agenda. All this unrecorded economic activity within the traditional or family business is important to give a true picture of the
economic outlook for Bangladesh. Therefore, organised food retailing can be adopted as a vehicle to improve the performance and managers can consider strategic alliances as a vehicle to organise food retail industry in Bangladesh. Further, improved transparent accounting and reporting practices need to be introduced to record these unrecorded economic activities.

8. Implications and Scope for Future Research

As shown in this study, there is a significant interconnection between the contribution of the food retail industry, FDI, economic growth and employment generation in Bangladesh. The results of the study and will make the policy makers aware regarding existing problems within the industry and will help managers to think more deeply about re-organising the food retail industry. The researcher concentrated on providing an overview of the food retail sector in Bangladesh and key issues and problems it faces. However, the future researcher has so much to scrutinise on solving these problems through the implementation of the different strategies. Further, future research should focus on developing mechanisms that can be used to develop and implement transparent accounting reporting practices in the food retail sector.

Selected References


