

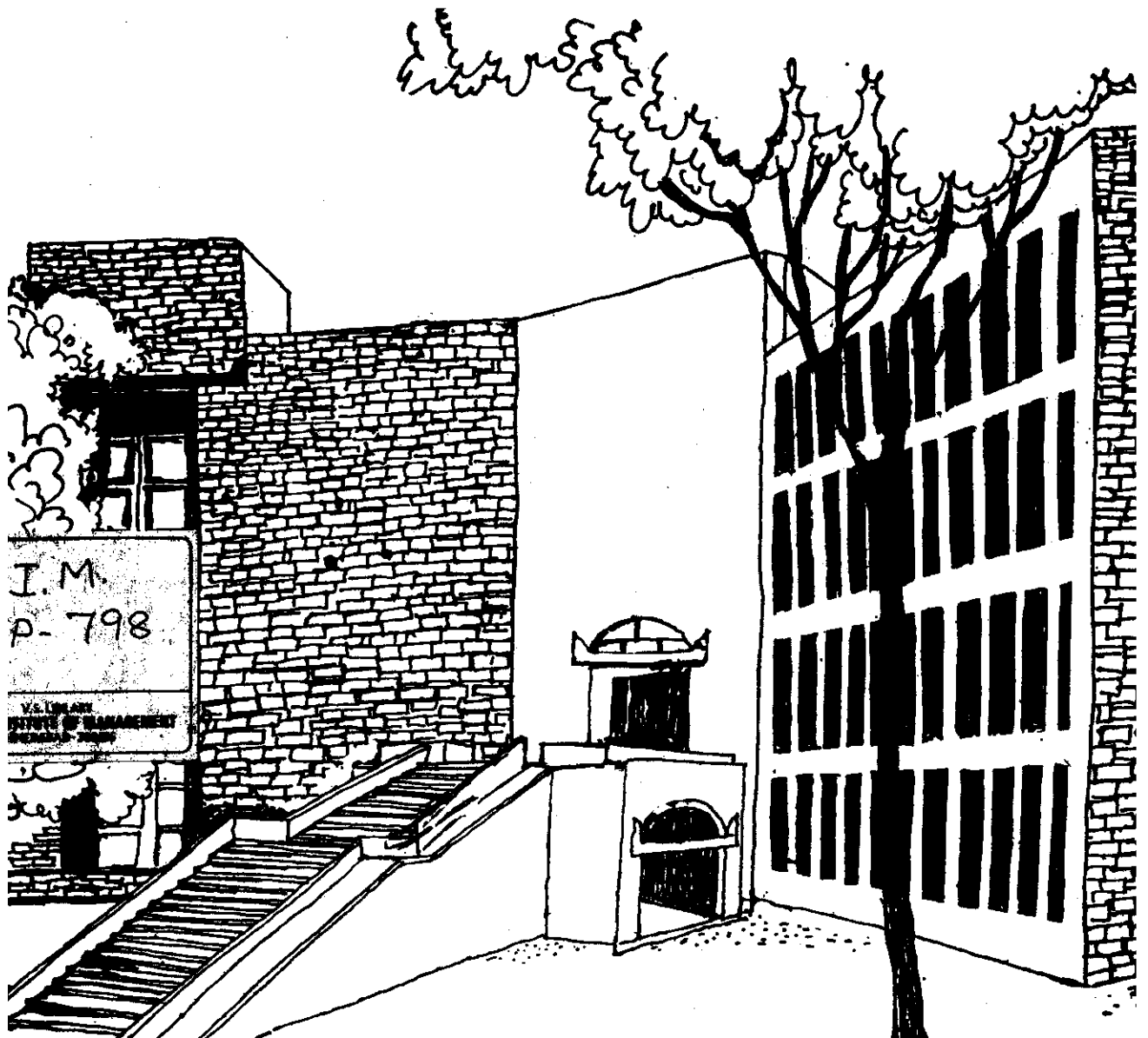


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IIM

AHMEDABAD

Working Paper



**STUDY OF URBAN INFORMAL SECTOR WITH
SPECIAL REFERENCE TO PAN SHOPS**

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1. Urban Informal Sector

Urban informal sector has been recognised of late as an important part of any economy. This is so especially in developing countries where rapid urbanisation of a few centres have attracted migrants from villages in large numbers.

Most of them along with the original inhabitants, constituting the informal sector are unskilled and find some wage labour. The more enterprising among them start their own small businesses.

Informal sector enterprises are started largely as a means of self-employment with some family involvement. They use indigenous resources, and have only limited use of technology which is generally adapted. They operate in unregulated and competitive markets.

Besides lacking skills, many of them were illiterate and had no capital of their own, and their borrowing capacities were severely limited. These probably might have influenced their choice of activity to be pursued.

2. Objectives of the Study

There are a few studies on different segments of the informal sector, but panshops have not been covered by them. Panshops are very popular all over India. They make and sell a chewable mix of different ingredients including lime, arecaunt with spices added depending on the variety and quality of the product and packed in a betal leaf. This is called 'pan'. It

is consumed regularly out of habit in most cases although there are also occasional pan eaters. Pan is sometimes a substitute to cigarettes, but several people use both.

Although their products are largely harmful to health, it has become unavoidable in the present social set up. The trade generates substantial self-employment, and in fact no reliable estimates could be made of their total number in either Anand or Ahmedabad.

The study has the following two objectives:

- (i) to analyse the status of this trade, its competitiveness and problems, and
- (ii) to understand the social, economic and entrepreneurial background of the businessmen.

3. Respondent Profile

The survey was conducted among 51 pan shopkeepers in Ahmedabad and 21 in Anand. The major findings and their implications are discussed in this chapter.

As shown in Table 1, pan shop location was categorised into shopping area, office area and residential area for the purpose of analyses. The attractiveness of the location was judged by the field investigator on a 5-point scale ranging from very bad to very good, and the results are reproduced in Table 1.

Table 1 about here

In general, pan shops are located in attractive places in both the towns surveyed, and only in a few cases they do not seem to be not so. This pattern might be explained by the inability of pan shops to survive for long disadvantages of poor location mainly because customers do not find differences in services offered by one pan shop and another and therefore customers do not travel from one place to another to visit a shop. Also, since entry barriers are low, pan shops have come up in every potential location. In terms of percentage, polarisation of units into good and bad locations is more pronounced in Anand than in Ahmedabad.

Age of the businessman is plotted against the age of the shop in Table 2. It appears that a large number of the respondents started when they were about twenty years old. Also, a majority of those in Ahmedabad entered business in the last ten years. In Anand, most of them belonged to the 10-15 years group. It could be speculated that this is a reflection of a higher rate of growth in number of panshops started in Ahmedabad compared to Anand.

Table 2 about here

4. Start up

Surprisingly, besides Gujaratis the respondents in both the places consisted of people who have migrated from the neighbouring states of Rajasthan, and Uttar Pradesh, and distant

Table 4 about here

Kerala which is over 2,000 kms away (See Table 3). In all likelihood this must have been a result of migration from villages into cities without any specific job to do and finally venturing into pan business. Another possibility is that they are second generation people who have already made Gujarat their home. People from Kerala are known for their adventurous nature of migrating to distant places where they presume that opportunities existed. It may be noted that Kerala is a populous state with high level of literacy. Respondents hailing from Kerala tend to prefer shops on rent, probably because they would not like to make it their permanent source of income. It is a different matter if they have no alternative but to carry on with that business for a long time.

As can be seen from Table 4, a majority of the respondents have started business on their own, and have not inherited their business. Still, the fact that 25 percent of Ahmedabad respondents and 40 percent of Anand respondents have inherited their business gives some idea about the permanent nature of ownership and activities of this trade.

Table 4 about here

The major reasons for starting panshops, according to the respondents, didnot vary significantly between the two towns.

As in the case of most of the informal sector businesspeople, it is the need to support their families that attracted them into pan business. Even if they had wanted they would not have been in a position to start anything better for shortage of funds. Interestingly, only a few of the respondents thought that they didnot have any other opportunities, but none entered the business "to be independent", in the classical entrepreneurship sense (See Table 5).

Table 5 about here

5. Investments

Initial investment required to commence pan business appears to be about Rs. 1,000/- now; but those who want to enter into diversified activities such as toileteries and confectionaries, and also to decorate the shop to make it better looking, have to spend much more (See Table 6). In Anand, there seems to be a pattern of investment where older people seem to have invested smaller amounts compared to younger people in business. This indicates that, because of the erosion in the value of rupee, more money is needed now to commence business. In other words, the size and activities of new shops in Anand appear to have remained the same over a period of time. In the bigger shops, a lot of money must have been spent in terms of paying for the premises, decorating the shop and to accommodate diversified business activities other than pan.

Table 6 about here

Most of the respondents have made additional investments in their businesses over a period of time in both the places (See Table 7). A majority of them have invested different amounts in the range of Rs. 500 - 10,000; 8 units in Ahmedabad have made further investments of more than Rs 20,000. It may be recalled that the respondents entered this business faced with shortage of funds but with the responsibility to support their families. The trend as shown in Table 7 indicates that most of the shops have generated enough capital for reinvestment. Also, faced with increasing competition they might have been forced to make reinvestments (see Table 8). It is also noticed that 80 per cent of the respondents in both the places have at least doubled their business since inception. While more than one-third of the respondents in Ahmedabad and one-fifth in Anand have tripled their turnover, there are six people in Ahmedabad who have not made any significant progress, most of them being of recent origin.

Tables 7 and 8 about here

Although initial investments and reinvestments of varying amounts of upto Rs. 60,000 have been made by the respondents, it is surprising that in most cases funds have come from their own personal sources. There are 8 respondents who have borrowed money (in 7 cases the entire initial investment)

from local money lenders who charge exorbitant rates of interest. Still, none of the 72 businessmen studied have resorted to bank loans mainly because they are apprehensive about the presumed long process of applying and the rare chances of receiving any positive help. They believe that they would not be able to get any loan without collateral security which in any case they do not have.

6. Products and Markets

As mentioned earlier, this is a trade where entry and exit barriers are few and therefore it is quite natural to expect market forces to determine competition and profitability. Also, there are very few skills that are difficult to acquire within a short period. Surprisingly, however, about half the respondents do not experience any real challenge (Table 9). This could be mainly because the growth in business may be more than adequately taking care of new competition. The extent of competition in fact is not very small as is shown in Table 10.

Tables 9 and 10 about here

In the face of competition most of the respondents would not react in any significant way (Table 11). This could be because of their feeling of helplessness and lack of confidence. Also, because of natural growth in business which assures them of a decent income, they may not be very much concerned with new shops coming up in the neighbourhood. They may react, probably, only when their own survival is in danger. Some additional

pieces of information as provided in table 12 indicate that some shopkeepers in fact retaliate at least in terms of price cutting (Table 12).

Tables 11 and 12 about here

An attempt was made to identify consumers for various items sold in panshops. In both the cities surveyed, the major categories are office goers and floating population. It is not, however, clear why business people and students do not form a significant group in Anand although they are important in Ahmedabad. These pieces of information are useful in planning location and product mix by new business people (Table 13).

Table 13 about here

Most of the people have diversified their activities as is clear from Table 14. Pan masala is a recently introduced product in the market and thus adds to the shop's product portfolio. The entry of pan shops into the area of selling sweets and toileteries is diversification of activities and in that sense significant. This not only adds to their revenue, but also evens out business risk in any particular product.

Table 14 about here

Diversification of pan shops often to unrelated areas is significant in another sense too. This is a reflection of the confidence pan shop keepers have acquired over a period of time in doing business. Taking this as a cue, as the next stage, one can speculate the possibilities of them entering more organised activities such as trading from permanent premises. It will be a good idea to train these shop keepers to equip them with the skills of doing business in a little more organised way, and to provide them with the necessary assistance; the success rate of such efforts is likely to be more than the conventional entrepreneurship development programmes.

Pan shops in Ahmedabad have good business even in the morning, although the peak hours are in the evening. Probably because Anand is a smaller place, morning business is still not significant (Table 15).

Table 15 about here

7. Turnover and Profit

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Obtaining reliable data regarding turnover and profits from small scale enterprises is found to be extremely difficult by researchers. This situation worsens in the informal sector where the enterprise is tiny in size. This is largely because they are suspicious about the motives of this type of surveys and the possibilities of the information being used to harass them by Government Officials. It is within these limitations that an

attempt has been made to estimate turnover and profitability in pan shops.

The turnover and profit have been estimated by putting together various pieces of information provided by the respondents. For instance, instead of asking for their daily turnover in rupees, data on the number and types of pan and masala sold, and the share of the other items sold in the total turnover were collected. Also, the approximate cost of each ingredient in a pan was found out. Based on the information on the input factors, the turnover and profitability were estimated. The profit figures shown is before deducting wages for the shopkeeper, rent, if any, taxes and bribes and also risks related to communal tension. [Although, the amount of working capital required per day was known, in several cases it was very much low a figure to believe].

There are generally four varieties of pans sold based on the quality of betal leaf used. Karpoori and Bangla varieties of pan are ordinary pans and are priced at 60 paise a piece. The cost of ingredients fluctuate heavily almost on a daily basis, but when the survey was made, the cost of the ingredients was estimated at 15 paise per betal leaf, 27 paise for the various ingredients such as arecanut, lime and the minor items, leaving a gross profit of 18 paise per pan. The other two varieties are Banarasi and Calcutta pans which are sold at 125 paise each. The leaf cost is 45 paise and the ingredient cost is 42 paise, leaving a better margin per pan. However, as can be seen from Table 16, only a small number of such expensive special pans are

sold per day. It should also be noted that while input costs fluctuate heavily, the price of a pan is fixed and therefore there is a tendency for pan profits to fluctuate. Still, discussions with shopkeepers tended to show that long term profitability was in the range assumed here.

Another major item they sell is 'masala' which is essentially tobacco, arecanut and a few drops of lime. It was estimated that the sale of this item is more than double the number of pans. Income from other items of toileteries and confectionaries has been estimated at a minimum of 10 percent of pan and masala businesses. It is to be noted that estimations of turnover and profit have been based on conservative assumptions.

Table 16 about here

It is clear from Table 16 that a third of the panshops sell about 100 pans a day while another third sell 200 pans, both in Ahmedabad and Anand. It is also noticed that better sales of ordinary and special pans are registered by the same shops.

Turnover and profitability in pan business was estimated based on broad indicators. Contrary to general belief that pan shopkeepers are self-employed and might be first making a living out of it, they make good profits (See Table 17). The profit margin appears to be around 20 percent, but the absolute amounts make the business very attractive to enter. With low

economic entry barriers (though social taboos still exist) and low overhead expenses pan business is a good source of income.

Table 17 about here

With low capital investments and high working capital turnover and high profits, the return on investment (ROI) in this business is very attractive. Two important observations can be made based on information provided in Table 21. First, the ROI is less than 100 percent only in one case, and in other cases it ranges from 100-200 per cent to over 1000 per cent. In fact, one-fourth of all respondents have a ROI of more than 1000 per cent. Second, ROI is at least to some extent inversely proportional to investments made. This is obviously because, incremental rise in revenue and profit seem to be more than proportionate to incremental rise in investments. It is to be remembered that productivity of such incremental investments is largely small. The appreciation in asset value, however, cannot be discounted.

Working capital is turned over almost on a daily basis, especially because betal leaf is a perishable item. Pan leaves are kept immersed in a bucket of water, but this cannot prolong its life by more than an extra day. Because of the possibilities of widespread distribution, confectioner's allow full credit to pan shops to sell their products.

To a specific question whether they face any difficulties in procuring items, the answer was a firm 'no' in

all but two cases. They added that in case of poor supplies of any item, they would not try to help each other. It appears that the shopkeepers would like to exploit such an eventuality as an opportunity to make some extra money. It is also possible that they had not started thinking in terms of belonging to one community.

Most of the respondents complained that government officials, especially from municipal corporation and occasionally from police department harass them to extort money. This is a common complaint in both the places.

Although pan shops make 'good' profits, they work for long hours. The shop keeper has to keep sitting in his small Kiosk for hours together, especially during peak hours. As shown in Table 18, two-thirds of the respondents work for more than half the day, and working for eight hours a day is almost non-existent in the trade. Still, in Ahmedabad 16 shops have either helpers employed or profit sharing arranged. The wages range from Rs. 300 to Rs. 1000 per month, and where profits are shared, it is equally divided.

Table 18 about here

8. Alternative Avenues

A hypothetical question was asked as to what alternative business/employment opportunities they had other than pan business. As shown in Table 19, a significant number would

go for other small business, indicating the entrepreneurial urge in them. This is especially so in the case of respondents from Anand. In Ahmedabad, a significant number of respondents do not have many options but to go as manual labourers. The respondents have large families to support as is evident from Table 20. More than half the number of respondents have to take care of six or more people. Whatever profits they make has to be spent on such large families. They live, in general, in small apartments. While they would be the main earning member, several of them have brothers or sisters or parents bringing supplementary income.

Table 19 and 20 about here

None of the respondents wish their children to be in pan business. This is surprising considering the high profitability in the business. Two sets of explanations which are complementary can be made. Since pan business is not considered high in the social rating, the respondents do not want their children also to have the same fate of theirs. It is also likely that since their financial status is satisfactory now, they want their children to move up in the social ladder. With this end in view they are sending their children to schools, and in fact, one of the children of a respondent is already a graduate.

9. Conclusion

This study has attempted to portray the present scenario as it exists in pan business now. Although informed people have felt that pan business makes attractive profits, nobody had even any rough idea about profitability of the business. Despite social taboos attached, fresh people are likely to enter this business so long as growth in urbanisation continues.

Despite the fact that pan and cigarette are injurious to health, purely from a commercial point of view, pan shops offer firm ground for practical business training. It is to be remembered that several pan shops have chosen to diversify their activities. To generalise, informal sector businesses of any kind might provide opportunities for entrepreneurship training. Efforts should be made to provide financial and training support for their long term growth. Commercial banks have to proact and offer necessary assistance to this sector; Officials of government departments increasing the protector's clothing have to stop extortion and become positive change agents.

Table 1
Pan Shop Location

	Ahmedabad			Anand			Total
	Shopping Area	Office Area	Residential area	Shopping Area	Office Area	Residential area	
Very poor	1	-	-	1	-	-	2
Poor	-	4	1	3	-	-	8
Average	2	4	3	1	1	-	11
Good	8	9	10	5	1	-	33
Very good	3	3	3	7	2	-	18
Total	14	20	17	17	4	-	72

Table 2
Age of Business Vs. Age

Business age	Ahmedabad					M. V. Anand					Total
	<5	5-10	10-15	15-25	>25	<5	5-10	10-15	15-25	>25	
Entrepreneur age											
<25	5	4	3	-	-	1	1	-	-	-	14
25-35	8	9	6	3	-	2	7	2	-	-	37
35-50	-	3	2	4	-	-	-	6	2	-	17
>50	-	2	1	1	-	-	-	-	-	-	4
Total	13	18	12	8	-	3	8	8	2	-	72

Table 3
State Came From

	Ahmedabad		Anand		Total
	Own	Rent	Own	Rent	
Gujarat	26	4	16	1	47
Rajasthan	12	1	-	1	14
Uttar Pradesh	2	-	2	-	4
Kerala	2	4	-	1	7
Total	42	9	18	3	72

Table 4
State of nature of ownership

	Ahmedabad		Anand	
	Hereditary	Not Hereditary	Hereditary	Not Hereditary
Gujarat	6	24	6	11
Rajasthan	4	9	-	1
Uttar Pradesh	2	-	2	-
Kerala	-	6	-	1
Total	12	39	8	13

Table 5
Reasons for starting business

	Ahmedabad	Anand
Need to support family	36	15
Good business scope	19	9
Knew the trade	26	12
Shortage of resources	29	11
No alternative	15	5
Wanted to be independent	-	-

Table 6
Age Vs Investaent

(Amounts Rs. '000s)

Age	Ahmedabad							Anand						
	<.50	.50-1	1-5	5-10	10-15	15-25	>25	<.50	.50-1	1-5	5-10	10-15	15-25	>25
<25	-	-	8	1	2	1	-	-	2	-	-	-	-	-
25-35	2	2	12	3	4	3	-	-	1	7	2	1	-	-
35-50	4	-	2	1	-	2	-	6	2	-	-	-	-	-
>50	3	-	-	1	-	-	-	-	1	-	-	-	-	-

Investment VS Reinvestment

Ahmedabad

Anand

(Amounts Rs. '000s)

Investment	REINVESTMENT													
	1	1-5	5-10	10-15	15-20	>20	1	1-5	5-10	10-15	15-20	>20		
<.50	-	-	4	3	1	-	1	-	2	1	-	1	1	1
0.50-1	-	2	-	-	-	-	-	-	1	5	5	1	-	-
1-5	3	2	7	2	2	1	4	-	1	-	1	-	-	-
5-10	-	-	2	2	-	1	2	-	-	-	-	1	-	-
10-15	-	-	2	3	-	-	1	-	-	-	-	-	-	-
15-25	1	-	2	2	-	1	-	-	-	-	-	-	-	-
>25	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	4	4	17	12	3	3	8	-	4	6	6	3	1	1

Table 8

Reason for Reinvestment

	Business scope	Competition
Ahmedabad	32	4
Anand	10	-

Table 9

Do you have competitors

	Yes	No
Ahmedabad	26	25
Anand	11	10

Table 10

Panwallas in vicinity

No. of competitors	Ahmedabad	Anand
1-5	22	12
5-10	19	7
10-15	5	1
>15	5	1

Table 11

Will you react if someone sets up a shop nearby

	Yes	No
Ahmedabad	2	49
Anand	1	20

Table 12

Do you resort to Price Under cutting?

	Ahmedabad	Anand
Yes	14	-
No	37	21

Table 13
Diversification

	A H M E D A B A D						A N A N D							
	Pan	Masala	Cige- rette	Beedi	Tobacco	Toile- teries	Sweet	Pan	Masala	Cige- rette	Beedi	Tobacco	Toile- teries	Sweet
Office goers	20	05	20	-	13	-	-	14	-	12	-	-	-	-
Business people	12	04	10	02	08	-	01	-	-	-	-	-	-	-
Stud- ents	01	04	09	01	02	-	01	07	07	03	-	02	-	-
Labour- ers	01	02	-	01	03	-	-	-	01	-	10	-	-	-
House- holds	18	02	08	03	11	-	-	01	-	01	-	01	-	-
Floating population	29	01	29	03	32	01	01	11	01	12	07	21	-	-

Table 14

Business Expansion/Diversification

Items	Ahmedabad		Anand	
	Earlier	Present	Earlier	Present
Fan	49	51	20	21
Fan Masala	05	47	05	14
Tobacco	45	51	20	20
Cigarette	44	51	19	20
Beedi	45	50	20	21
Sweets	04	40	01	11
Toileteries	02	40	01	03

Table 15

Peak Business Hours

	Morning	Afternoon	Evening	night
Ahmedabad	35	25	46	23
Anand	09	15	21	14

Table 16

Number of Fans Sold

Special Pan

	Ahmedabad							Anand						
	<10	20	25	30	40	50	>50	<10	20	25	30	40	50	>50
<75	-	-	-	-	-	-	-	-	-	-	-	-	-	-
75	1	1	-	-	-	-	-	3	-	-	-	-	-	-
100	14	2	-	-	1	1	1	5	-	3	-	-	-	-
125	-	-	1	-	-	-	-	-	-	1	-	-	-	-
150	2	3	-	-	1	1	1	2	-	-	-	-	-	-
200	1	4	1	-	1	7	1	-	-	3	-	1	3	-
250	1	-	-	-	-	-	-	-	-	-	-	-	-	-
300	-	-	-	-	-	1	2	-	-	-	-	-	-	-
>300	1	-	-	-	-	-	1	-	-	-	-	-	-	-

Table 18
Hours of Work

Hours worked	No. of shops	
	Ahmedabad	Anand
Less than 8	2	-
8 - 10	2	1
10 - 12	12	8
More than 12	35	12

Table 19
Alternative Choice

If not pan business other choices available	No. of shops	
	Ahmedabad	Anand
Manual labour	23	2
Other jobs	7	1
Agriculture	7	6
Other small business	14	12

Table 20
Number of Dependents

No. of dependents	Number	
	Ahmedabad	Anand
Upto 3	9	6
3 - 5	16	3
5 - 7	13	10
More than 7	13	2

Table 21

Return on Investment (ROI)

Investment Range	Ahmedabad					Anand				
	<100%	100-200	200-500	500-1000	>1000	<100%	100-200	200-500	500-1000	>1000
< 5000	-	-	-	2	5	-	-	-	-	-
5000 - 10000	-	-	3	6	5	-	-	1	4	-
10000 - 15000	-	-	3	2	-	-	-	2	4	-
> 15000	1	8	12	2	2	-	1	4	-	-

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