

Thoughts

Reflexion and Analysis for the Indian Market

July 2019

Indian Consumer Market and Retail Industry



Foreword

Today's consumers, especially in the urban areas, have far evolved and expect their shopping experience to be seamless across every channel, whether it's a brick-and-mortar store, an e-commerce website, a mobile app, or even a phone call with the customer service. Internet of Thing (IoT) technology is already seen to be reshaping and revolutionising the retail industry, yielding advances and new opportunities in customer service, throughout the supply chain, and in brick-and-mortar stores and other channels — including new venues that show a lot of promise, such as home-based connected platforms. Globally, retailers looking to gain a competitive advantage are installing smart shelves that detect when inventory is low, RFID sensors that track goods throughout the supply chain, systems that send personalised digital coupons to shoppers when they enter the store, and sensors that monitor the quality of perishable items. The Indian retail sector operates through a host of business models which are rapidly evolving with the changing trends and increased use of internet and technology. Outlined below are some of the major retail models, along with their impact and opportunities they offer for Indian retail.

Retail models and opportunities they offer

Mechanism of Retail	Impact / Opportunities
Cash and Carry / Wholesale trading	In India, the consumer goods/FMCG products retailing is clearly divided between urban and rural markets. While the global businesses will focus on the urban markets, the impact of ease of FDI regulations on the existing businesses, both in urban and rural zones, is to be seen in the future. So far, this segment has had automatic investments to the tune of 100 percent as per the regulations set by the government.
Single Brand Retail Trading (SBRT)	The government has eased the sourcing norms in this segment and allowed single brand retail outlets by international brands. The government has now permitted 100 percent FDI under automatic route of SBRT. This immediately opens up opportunities for consumer durables especially the global technology product

	<p>companies for starting retail operations of their globally successful products in India. The single brand retail model will now be allowed to operate on the e-commerce front, which was not allowed previously as part of the government regulations. Entities engaged in SBRT would be allowed to set off their incremental sourcing of goods from India for global operations during the initial five years beginning from 1 April of the year of the opening of first store against the mandatory sourcing requirement of 30 percent of purchases from India. Sourcing norms will not be applicable up to three years from the commencement of business, that is opening of the first store for entities undertaking SBRT of products having ‘state-of-art’ and ‘cutting edge’ technology and where local sourcing is not possible. A committee under the Chairmanship of Secretary, DIPP, with representatives from NITI Aayog, concerned administrative ministry and independent technical expert(s) will examine proposals which would be eligible for the relaxation of the local sourcing criterion under the SBRT norms</p>
<p>Multi Brand Retail Trade (MBRT)</p>	<p>These are traditional styled shops or retail chains established across India, historically known as ‘Bazaars’ or “Mom and Pop” stores as known in most countries. The impact of the government-approved route in retailing by grocery chains or consumer goods retailing is perceived to be strong in various analyses done on this market. The global businesses in this segment tend to operate in the urban landscapes with fairly large investments on infrastructure and emphasis on generating high volumes of business. The competition in this segment is expected to be rising significantly in the urban markets. Nevertheless, there is expected to be enough room for growth in the organized retailing of multi-brand establishments. On the regulation front, this is the most debated area in terms of the investment portion allowed into the country. As per the revised FDI</p>

	<p>policy, the government has allowed 100 percent FDI under automatic route for selling, including by way of e-commerce, processed food as long as they are produced and/ or manufactured in India. This new development is expected to be seen as a significant challenge for many global retail giants altering their plans and usual operating methods</p>
<p>E-commerce (Marketplace model)</p>	<p>This segment is allowed to bring investments in the automatic mode to the tune of 100 percent. Some of the world's largest brands are operational in this segment and have had significant success in India. However, it is seen to be facing immense competition from several other domestic companies. The developments in this area included mergers and acquisitions in a short span of time. Over the last decade, growth in this space has been in triple digits and continues to grow. There is a tremendous level of innovation that this segment is driving with modern retail concepts and use of technology in almost every part of their retail sale process</p>

Foreign Direct Investments (FDI)

In January 2018, the Government of India (GoI) relaxed the rules for foreign direct investment (FDI) in single-brand retailing, permitting 100 percent investment under the automatic route (previously 49 percent under the automatic route). Further, companies can meet the 30 percent local-sourcing requirement through incremental sourcing by their global businesses for the initial five years. In 2016, the GoI permitted 100 percent FDI in food retailing (including e-commerce) and food processing for locally made or processed products. It has approved a proposal from a multinational technology company focusing on e-commerce to invest USD500 million in food retailing over five years (on the condition to keep its marketplace and food-retailing arms separate). The GoI has also amended the FDI policy on e-commerce vide Press Note No.3 dated 29 March 2016 and permitted 100 percent FDI in the marketplace model of e-commerce (e-commerce marketplace entities) under the automatic route. FDI is not allowed in the inventory-based model of e-commerce.

To provide clarity and strengthen the regulatory framework governing FDI in e-commerce marketplace entities in India and to provide a level playing field among online and offline traders, the GoI has further amended the consolidated policy in relation to FDI in e-commerce entities which has become applicable to all e-commerce marketplace entities having FDI with effect from 1 February 2019. There are conditions mentioned in the press note, which inter-alia includes prohibition on equity participation by e-commerce players in the vendor entity, restriction on ownership and control over the inventory of the vendor entity, and restriction on the exclusive sale of products on the e-commerce platform of the marketplace player. These amendments are expected to have a far reaching impact on the business carried on by big e-commerce players in India and are likely to require them to have a relook at their business models. Further, it is understood that the GoI is working on a new draft e-commerce policy which is likely to be released in sometime

Sectoral caps of investments on select relevant activities

Sector / Activity	% of Equity / FDI cap	Entry Route / Approval
Cash and carry wholesale trading/wholesale trading (including sourcing from MSEs)	100%	Automatic
Single brand product retail trading (subject to conditions)	100%	Automatic
Multi-brand product retail trading (subject to conditions)	51%	Government
Duty-free shops	100%	Automatic
E-commerce marketplace (subject to conditions)	100%	Automatic
Agriculture		
Floriculture, horticulture and cultivation of vegetables and mushrooms under controlled conditions	100%	Automatic
Development and production of seeds and planting material	100%	Automatic
Animal husbandry (including breeding of dogs), pisciculture, aquaculture, apiculture, and	100%	Automatic
Services related to agro and allied sectors	100%	Automatic
Plantation		

Tea sector including tea plantations	100%	Automatic
Coffee plantations	100%	Automatic
Rubber plantations	100%	Automatic
Cardamom plantations	100%	Automatic
Palm oil tree plantations	100%	Automatic
Olive oil tree plantations	100%	Automatic

FDI equity inflow in select sectors

Sector	April 2000 to March 2018	April 2000 to March 2017	Increase in 2017-18
Trading	18,558	14,210	4,348
Hotel and Tourism	11,275	10,143	1,131
Food Processing Industries	8,447	7,542	904
Hospital and Diagnostic Centres	5,047	4,339	708
Soaps, Cosmetics and Toilet Preparations	1,340	1,203	137
Vegetable Oils and Vanaspati	782	697	85
Retail Trading	1,212	988	223

Trends shaping the retail industry in India

- Increasing importance of millennials

India has the world's largest millennial population in absolute terms. Falling in the age group of 18-35 years, and having a population of over 440 million, millennials constitute nearly 34 percent of the country's total population. Further, millennials account for a major share in the workforce population. While millennials constitute more than one-fourth of the workforce in the Asia Pacific region, their contribution to the Indian workforce is significantly higher at nearly 48 percent. Millennials form the largest population group globally, thereby, driving advancements in the consumer industries. With nearly 2 billion millennials (over 27 percent) out of the total

population of 7.4 billion people globally, the cohort forms the largest demographic group in the world.

Millennials are the first global generation of digital natives, implying that the population group was the first to witness and leverage technology and internet for shopping. Being better connected to information and being the chief wage earners in the household, millennials have significant spending power and greater access to products and services. This trend is expected to drive the consumer market in the country, leading to disruptions, especially in discretionary segments where the millennial group, in general, has a greater tendency to spend more vis-à-vis their increasing disposable incomes. The key characteristics of the evolving customer needs of these millennials have been identified below:

- Greater emphasis on health care and wellness

Millennials are increasingly becoming health conscious and placing higher importance on physical and emotional wellbeing, and thus swiftly moving towards healthier and organic options. Research indicates that 36 percent of the Indian millennials have a fitness app installed on their phones and about 45 percent think leading a healthy life is essential. Therefore, even though 'eating out' as a concept has significantly increased, specifically amongst millennials, focus on healthy alternatives is also on the rise. Even under the personal care category, there is a growing reliance on nature-based/organic cures. Customers are looking for chemical free, ayurvedic products for their daily skincare regime, and hence, a large number of leading and upcoming brands are focusing on the same.

- Importance of convenience

Convenience is an important consideration for millennials on account of their hectic lifestyle. For the working younger generation, dearth of time is one of the key reasons for the growth in online shopping and online ordering from restaurants. It is for this reason that the 'ready to eat' product category has grown exponentially at the rate of over 28 percent per annum over the last five years

- Rise of multichannel retail

In the current multichannel age, consumer companies in India are aligning their business strategies, especially to cater to the demands of a young and technology-driven population. Leading consumer companies are facing stiff competition in their



omnichannel offerings, while aiming to provide seamless and integrated solutions to consumers' needs. The advent of technology has led to consumers leveraging multiple channels for making their purchases: browsing online and shopping in-store for product's look and feel; Shortlisting products in-store and making the purchase online for better prices and offers; Getting custom/exclusive products shipped from foreign countries through company websites; Tele-ordering products for ease of access; Ordering products after reading reviews/recommendations on social media; Picking products from store/delivery centre after ordering online to avoid last-mile delivery delays (click and collect model); Placing personalised product orders in-store to get them delivered later; Consumer-to-consumer (C2C) buying.

Internet and mobile apps have made the shopping journey of consumers convenient to the extent that the millennials and younger generations have now become habituated to instant gratification. Millennials are seen to be keen on socialising and collaboration, and thus, companies need to consider proactively streamlining their two-way communication with consumers. It is owing to this two-way communication that a new model of consumer-to-business (C2B) has emerged where companies get cues to new products and services through crowdsourcing. Consumers are conveying their specific needs to companies which are being used for creating brand value and providing unique experiences to consumers

- **Consumer experience taking front seat**

The evolving consumer markets are seen to have shifted stance from 'bricks versus clicks' to 'bricks-and-clicks'. While earlier it was a battle between the online and offline channels, now the industry seems to be moving towards a more immersive model in current times where collaboration is considered to be the key. The confluence of online and offline channels is expected to drive the markets, where consumer experience takes the limelight. The expectations from a modern brick-and-mortar store have transformed completely – consumers no longer walk-in to the stores just to buy the products. They are looking forward to an enhanced shopping experience where they get immersed into a whole new dimension and get to know about new products and features, engage with technology and devices, experience delectable global cuisines, get absorbed into virtual entertainment, special events and product launches, etc. Retail is thus evolving into a new dimension of 'retailtainment' or 'retail and entertainment', which is likely to dominate the consumer industry in the near future.

- **Technology stepping up the retail play**

Technology has been the front-runner in driving engagement and experience in consumers' shopping journey. Apart from understanding consumers' behavioural insights through advanced data analytics, emerging technologies such as IoT, AR and VR, Artificial Intelligence (AI), bots and drones, beacons, cloud-platforms, etc. have played a key role in enhancing consumers' engagement more than ever.

o Consumer alerts through beacons

Beacons are small, battery-operated wireless devices that transmit coded messages to nearby paired smartphones using Bluetooth Low Energy (BLE). Beacon technology has been slowly catching up in the consumer business since its introduction in 2013. While major consumer companies continue to explore its applications, the technology has been estimated to have driven retail sales worth over USD44 billion in the US in 2017. Since beacons deliver hyper-contextualised content to users based on their location, they provide an extremely personalised experience to consumers and enhance their engagement with the brand. The technology is also leveraged majorly for proximity marketing and personalised recommendations, where consumers receive brand advertisements and suggestions if they pass through a nearby brand store.

o Conversational commerce through voice-activated assistance

Voice-activated assistance devices are witnessing a growing demand driven by the consumers' increasing disposable income, rising social status consciousness, and greater preference for convenience. While the technology is at a nascent stage for 'Conversational Commerce', it is expected to be widely accepted by consumers around the world to complete their purchases. Currently, the tech-enabled devices are used majorly for playing music, setting alarms, searching for information, ordering cabs, etc. Voice-activated assistants can help consumers across various stages of their shopping journey.

o RFID for tracking inventory

Widely accepted and used across consumer businesses, RFID enables companies to keep a tab on their inventory positions by tagging products at the time of manufacturing and allowing them to be tracked until the distribution process. Similarly, few companies also allow consumers to check specific products online, a process enabled through RFID.

- Smart shopping carts and self-check-outs

Major global consumer giants are testing varied versions of smart shopping carts, some of them being self-driven as well. With smart shopping carts, consumer companies intend to enhance the shopping experience of consumers and set new benchmarks of convenience. These carts are expected to serve as a direct response to online shopping, as they would guide consumers to the products in their shopping list and enable self-check-outs. Similarly, companies are also testing the concept of smart shelves, which consist of multiple sensors, each sensing a unique aspect of the product – weight, dimension, form, packaging intact or open, etc. These individual information pieces together combine to a broader product picture, which enables the sensors to track the product purchase and automatically update the shopper’s bill, based on the product pickings. Coupled with deep machine learning algorithms, these information pieces can be stitched together to provide highly insightful shopping characteristics of consumers, which is expected to further open up multiple channels for companies to personalise their offerings for each set of consumers

- Automated product delivery at consumers’ doorstep

Major consumer brands across the globe are investing in innovative ways for making product delivery seamless, convenient, and cheaper. With brands exploring multiple ways of leveraging a host of channels to accomplish the last leg of consumers’ shopping journey, new delivery models are increasingly coming up. Consumer experience and instant gratification seem to be the main drivers behind these innovations. Brands are experimenting with automated delivery through self-driven and AI-enabled trucks, which drive to consumers’ pre-fed locations, deliver the products at consumers’ doorstep and alert respective consumers on their smartphone app. Similarly, pioneering brands in consumer markets and retail are also testing delivery by drones through aerial route. Innovations like these present a promising future to the delivery challenges, especially the last-mile delivery concern in India.

- **Social commerce for ‘We Shopping’**

Significance of ‘S-commerce’ or social commerce has significantly increased in today’s world of connected consumers. Pictures and videos of products/brands posted by consumers on social networking sites and blogs, user experiences and stories shared on the web, ratings, reviews and recommendations posted online, etc. act as user-generated advertorial content. This content either promotes or demotes a particular product, brand, or service amongst a specific set of people that have access to

view/read the content. Social commerce is not just restricted to social network driving sales, but consists of other forms such as peer-to-peer sales platforms (community-based marketplaces), group buying (products and services offered at reduced rates if enough buyers are willing to make the purchase), user-curated shopping (where users create and share list of products/services for others to shop from), participatory commerce (where consumers become decision makers across the product value chain through voting, funding, and collaboratively designing), etc. Since consumers can freely post information regarding their purchases or experiences on various social platforms and express their views, social media has become a great tool for companies to engage with consumers. Companies are leveraging various analytical tools and advance analytics are being used to analyse the social and behavioural traits of the consumers and tweak their strategies accordingly to suit the consumers' needs and convenience. Social sites are also used frequently to raise queries or post grievances which keeps the consumer companies on toes to respond promptly to such concerns and avoid any damage to their social rapport. Social media platforms and online product/service reviews form an important part of the millennials' shopping journey as it influences their purchase decisions.

- **Resonating core brand values**

The rapid use of technology in the consumer market space and the rising preference for convenience are seen to be constantly challenging consumers' brand loyalty. In the current fast-paced environment, attracting and retaining consumers to a particular brand requires significant time and effort investments. Further, consumers' shopping traits and preference nuances would need to be analysed in depth to offer customised products and services that match their requirements. Innovation in products and bespoke service offerings such as personalised loyalty programmes, convenient after sales services, etc. could assist in attracting consumers towards a particular brand. However, to have a sustainable long-lasting relation with consumers, it may be necessary to have such brand values that resonate with the target consumer group's core values. Imbibing such values would not only help companies build a strong brand image, but also lead to repeat consumers, implying more business. Consumers today are seen to have a new set of value drivers, which are more intrinsically linked to their core values and beliefs. Traditional drivers such as price, taste (for food products) and convenience remain critical to making buying decisions, but new drivers such as social impact, health and wellness, safety, and experience are emerging to the forefront. According to a Deloitte survey, more than half of the consumers weigh these evolving

value drivers more heavily than the traditional ones, and nearly 63 percent are willing to pay more for products where social impact values are demonstrated⁴⁹. Increasing disposable income, preference to unadulterated genuine products, increasing health and wellness consciousness, and awareness about implications of unsustainable social and environmental practices are a few major reasons driving these changes.

Emergence of new value drivers is evident from the fact that consumers are now showing a greater interest to know and understand the story of the product. They are more willing to know the source of the raw materials and the farms/factories they have been sourced from. Consumers are keen on understanding the complete value chain of the products they are consuming, including the means used to source the raw materials, contents or ingredients used in the manufacturing of the product, packaging and labelling norms – whether the product labels provide factual and transparent information, etc. Further, there is an increasing concern amongst consumers to understand the company's wastewater and other waste recycle/reuse processes. These queries together form a story behind the journey of a product and the practices followed by the company, which in turn portrays a brand image on consumers' minds. It is this brand image or the emotional impact that is seen forming one of the biggest reasons for consumers' loyalty towards a particular brand. For a brand to successfully engage and make its consumers loyal, it should be able to connect the dots and link its brand value with the emotional impact of consumers.

As the consumers find brands resonating same values as their own and echoing their self-expressions, they not only turn loyal with repeat visits and purchases, but also act as brand advertisers, marketing the brand through word of mouth.

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