

Thoughts

Reflexion and Analysis for the Indian Market

March 2019

Millennials in the Indian Retail Market



Foreword

Driven by technology and modernisation, the retail sector in India is at the cusp of evolution. Disruptions throughout the value chain – sourcing, manufacturing, transportation, procurement, warehousing and inventory, distribution, marketing and advertising, selling, logistics, delivery, after sales servicing, etc. – are driving this evolution, not just in retail but throughout the broader consumer business practices. While the consumer businesses majorly include consumer product focused sub-sectors such as food & beverages; apparel & footwear; consumer durables & electronics; jewellery & accessories; agri-business; automotive; fast moving consumer goods including personal care and beauty products; hotels & restaurants; household goods and small appliances, etc. Retail can majorly be considered to be a channel for the end-consumers to access and buy these consumer products. Therefore, consumer markets broadly constitute consumer product businesses as well as retail. In light of this interlinkage between consumer products and retail, the evolutions impacting either one of the sectors will have an effect on the other as well.

Driven by strong macro-economic factors, India is one of the fastest growing major economies globally. Coupled with its robust demographics, it provide a highly positive outlook to the consumer businesses in India. These factors, will fuel the retail market growth in the country, making India Asia's third largest and the world's fourth largest retail market. The retail market is expected to grow from USD795 billion in 2017 to USD1.2 trillion by 2021. Further, as the internet penetration in the country increases and more international retailers start operating in India, the share of organized retail market is expected to increase from ~12 percent in 2017 to 22-25 percent by 2021. This will also be driven by the growth of e-commerce market from USD24 billion in 2017 to USD84 billion in 2021.

Given the strong retail and consumer outlook, India is expected to witness redefining trends in the consumer markets which will shape the future of the retail industry in India. Consumer experience will be the key focus of the companies and technology will facilitate the enhancement of consumers' experience throughout their shopping journey.

India market overview and trends

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.

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.

Trends shaping the retail industry in India

The case of the 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 percent⁴¹. 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.

Value delivered by the brand – Millennials view brands through a holistic lens and place greater reliance ethos and the value system of the brand. Brands that clearly define the source of their materials or establish work done for a specific cause/movement tend to strike a chord with current and prospective customers.

Need for personalisation – Millennials aim at differentiating themselves from the rest of the crowd and in lieu of the same, prefer personalised product and service categories. They attach more importance to aesthetic aspects than to core functional aspect. Thus,

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