



**RETAIL RESURGENCE
IN INDIA**

LEADING IN THE NEW REALITY

FEBRUARY 2021



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Retailers Association of India (RAI) is the unified voice of retailers in India. A not-for-profit organization, RAI, works with various stakeholders to create the right environment for the growth of modern retail in India. It represents an entire gamut of retailers, from chain store retailers and department stores to independent emerging retailers. RAI

encourages, develops, facilitates and supports retailers to modernize and adopt best practices. It works with all levels of the government and stakeholders to drive employment opportunities, promote retail investments, drive thought leadership, enhance customer choice and build industry competitiveness.

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FOREWORD

India has seen steady consumption growth for many years driven by strong socio-demographic fundamentals. However, in 2020, the COVID-19 pandemic dealt a heavy blow to the economy and consumption patterns, changing several facets of everyday life of consumers. To understand the changes brought by the pandemic, BCG conducted proprietary research in 2020 across a wide range of consumer segments for India. The research delved into understanding the shifts in consumer purchase behavior across categories and the underlying reasons behind the same.

This report “Retail Resurgence in India: Leading in the new reality” jointly developed by BCG and RAI details these shifts in consumer

preferences in four large categories: staples, mobile phones, apparel and food ordering. Our insights suggest that while some of the preference shifts are short term, some of the others will have mid to long-term implications for the supply side. Overall, we are positive about a strong sectoral comeback.

The report also shares a path forward for retailers, both in essential and discretionary segments, to lead and win in the changing demand dynamics. We also lay out some interesting actions undertaken by international and domestic retailers to take advantage of the context. We hope you find this report informative and useful for your business.

A person's hand is shown holding several colorful shopping bags (brown, yellow, green, blue, red) in a store. The background is blurred, showing store lights and a display. A green vertical bar is on the left side of the image.

“

YOUR FUTURE HASN'T BEEN WRITTEN YET.
NO ONE'S HAS!
YOUR FUTURE IS WHATEVER YOU MAKE IT.
SO MAKE IT A GOOD ONE!

'BACK TO THE FUTURE'



01

INDIA CONSUMPTION BACK ON GROWTH TRAJECTORY...

Supported by uptick in economy, increased confidence and demographic fundamentals as pandemic recedes

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... SIGNIFICANT VARIATION ACROSS DIFFERENT CATEGORIES...

Driven by shifts in consumer preferences across socio-segments and confidence

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... LEADING TO CLEAR ACTION AGENDA FOR RETAILERS

From fighting the pandemic to leading in the new reality

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EXECUTIVE SUMMARY

India has been showing steady consumption growth for several years, and the expectation is that consumption will triple by 2030. Growth has been driven by strong fundamentals - increasing share of affluent and elite households, urbanization, nuclearization of households and increasing Gen-I population with higher appetite to spend. However, with covid-19 hitting the country in 2020, the factors driving consumption came under pressure putting hard brakes on the growth rates. The retail sector saw its first contraction in 2020 after showing double digit growth over the past several years.

Economic revival is on the anvil now. The signs of recovery are visible both on-ground (increasing GST collections, increasing e-way bills etc.) and in the sentiments of consumer and capital markets. We expect India's retail sector to bounce back to the pre-covid trajectory, with a delay of 1-2 years introduced by the pandemic.

The consumption spend of Indian households has been evolving over the last two decades with share of categories like health, clothing and footwear increasing from the basic categories like food. Additionally, many new categories and channels of spending also accelerated during this time. Now, covid-19 has brought changes in the spending patterns of consumers along with some long-term lifestyle changes. This mix change & more importantly, the underlying drivers of the same, clearly exhibit the direction retailers need to move towards as they accelerate business recovery.

In food staples, the major emerging trends are around reduced need to 'touch and feel' products at the time of purchase and increasing focus on brand led quality assurance. Online media is emerging both as a strong influencer as well as buying channel for the category which traditionally has least online penetration in India. In mobile phones, the behavior is different across consumer income segments. While functional needs are pronounced for lower-income consumers, upgrade requirements are more important for higher-income consumers and driving distinctive purchase behavior. Imported value brands are performing strong due to limited competitive options and compelling pricing.

In apparel, comfort wear categories like athleisure are witnessing clear acceleration owing to 'work from home' and fitness needs of consumers. Role of traditional media as an influencer has got diminished in this category post-covid with social media and other online channels emerging as dominant influencer. Though the share of online buying has increased, brick and mortar stores continue to be relevant for apparel. In food ordering, need-based ordering has increased instead of celebratory but impulse purchase remains very relevant. Word of mouth recommendations stay equally important a selection driver as pre-covid times. Aggregators & company direct servicing have seen increase in share, but phone ordering still remains relevant in the category especially for low-income consumers.

Some of these trends show characteristics of being more short-term in nature and will revert to the mean once the environment stabilizes. Other trends such as the accelerated digital shift are expected to play out for a

longer period. We believe the fundamental service-value equation has got shifted and critical barriers of usage in the past have got broken.

Analysis of key macro economic trends suggests that consumption will recover steadily, and retail sales are poised for a comeback over this year. While disruptions will be a way of life going forward, India's demand growth will grow be north of 10% over the long term. There is a huge opportunity for retailers to capture a share of the increasing demand in the years ahead. However, they need to cater to the changing demand dynamics and re-evaluate their value proposition basis their target segment anchoring on the evergreen levers of retail relevance.

The chosen value proposition and segment will require retailers to make key business model decisions centered around seven themes a) Adapting store network for omnichannel excellence, b) Providing the relevant merchandise offering c) Pricing and promotions across consumer cohorts, d) Innovating along the purchase journeys, e) Enhancing supply chain agility f) Optimizing customer acquisition cost and g) Creating digital capabilities. Internationally, several essentials and discretionary players have taken such decisions to ride over the pandemic. Lastly, in the long term, locally adapted operating model constructs decisions like low-cost ops, multi-channel, use of flexible labor, alliances and data driven play will be the key to market leadership in the new reality.

We hope the report will serve as an inspiration and a call to action for retailers who want to emerge victorious from this unprecedented crisis which our generation has seen.

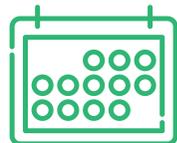


INDIA CONSUMPTION BACK ON GROWTH TRAJECTORY...

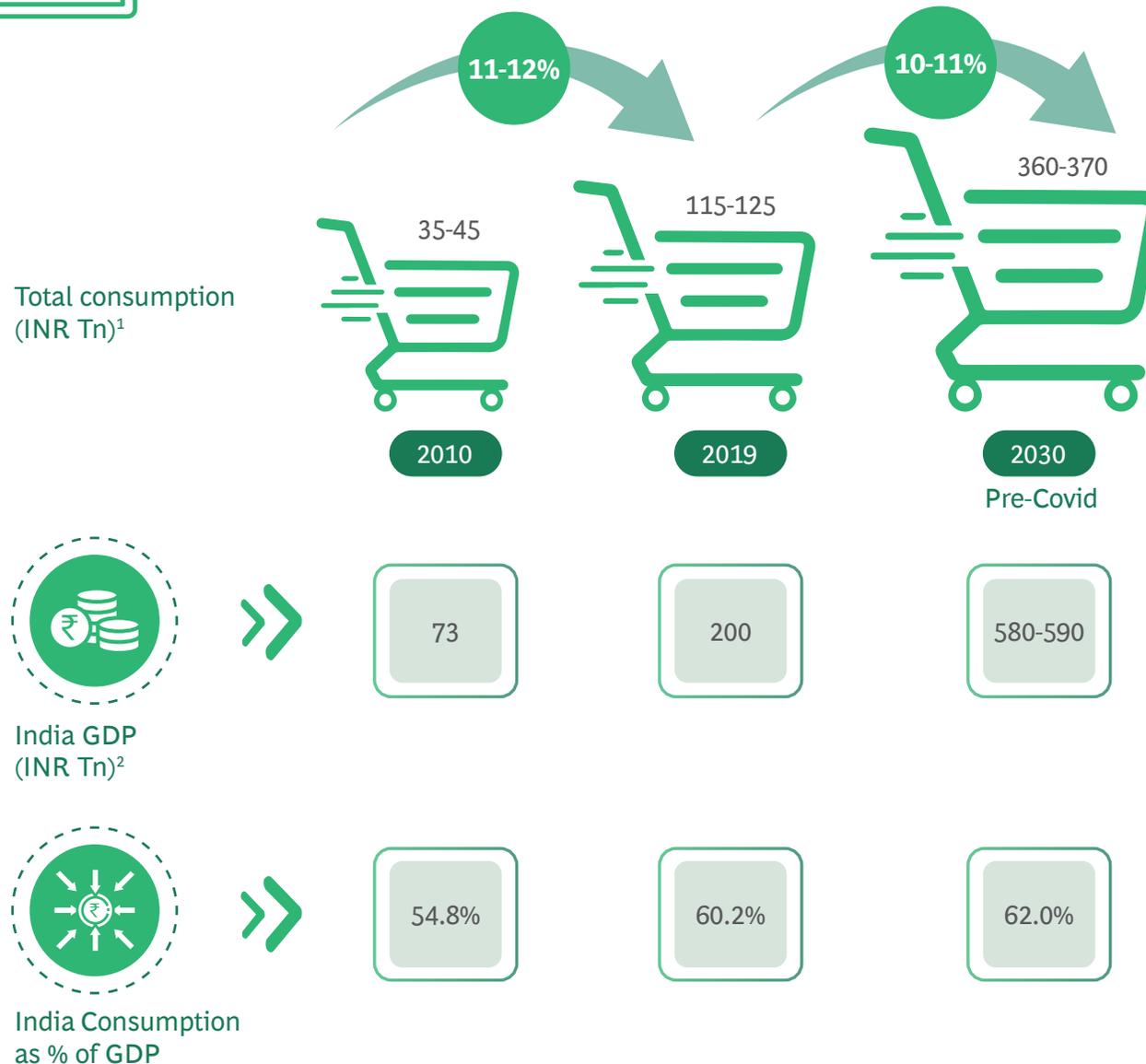
Supported by uptick in economy, increased confidence and demographic fundamentals as pandemic recedes



India displaying steady consumption growth pre-2020; size of consumption expected to triple by 2030



PRE-2020

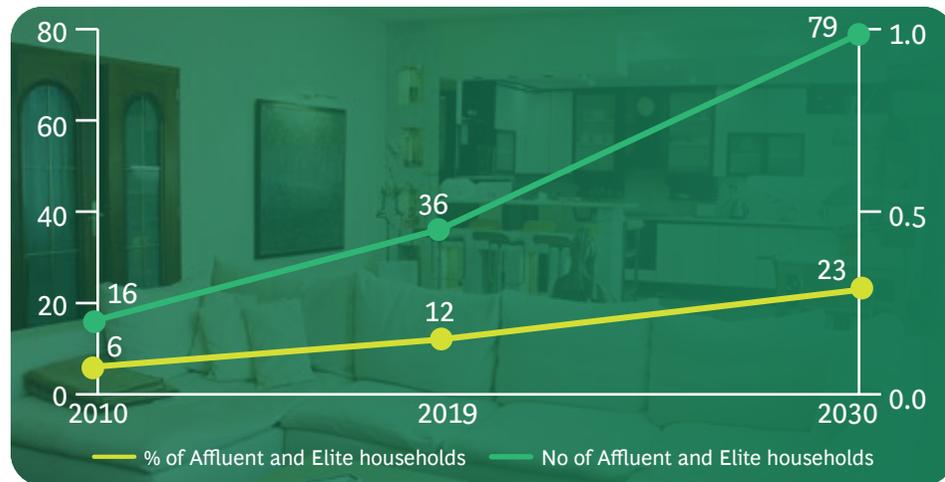


Note: 1. Total household consumption is in nominal value 2. GDP of India is in nominal value
Source: BCG projections and estimates

Affluence, Urbanization, Nuclearization, Gen-I population – key drivers of consumption growth

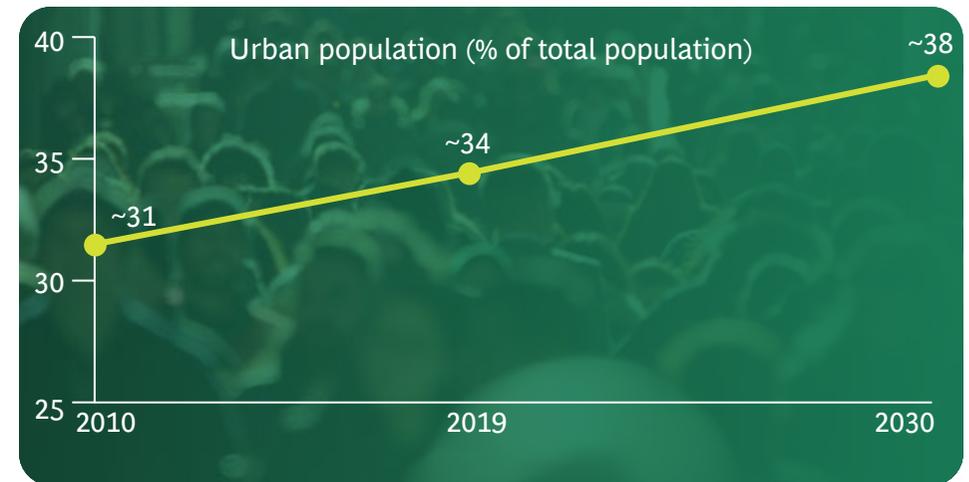
Expanding base of affluent and elite households

No of households, Mn % of households



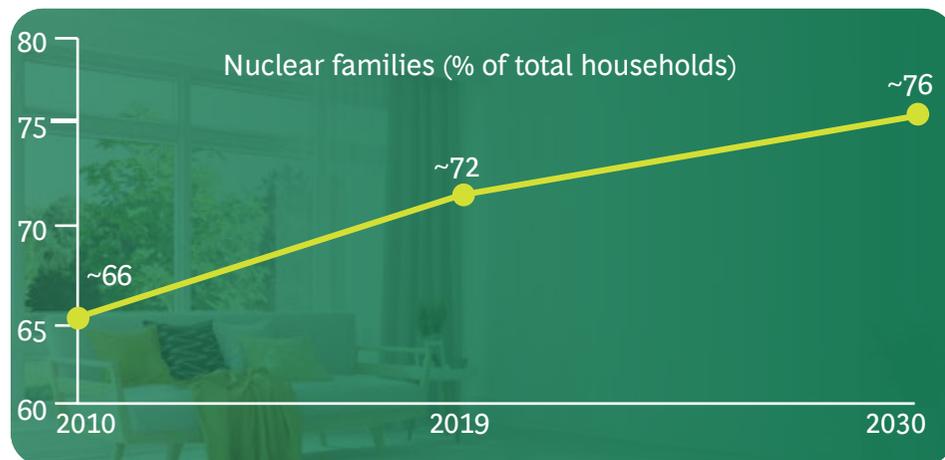
>1/3rd population getting urbanized

% of total population



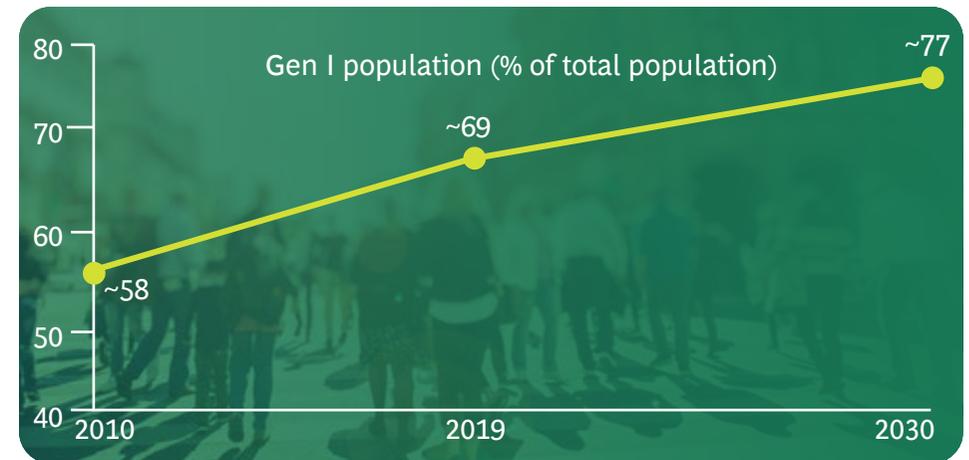
3/4th of total households being nuclear¹

% of total households



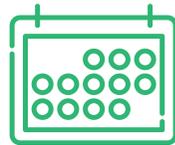
Increasing Gen-I population with higher appetite to spend²

% of total population

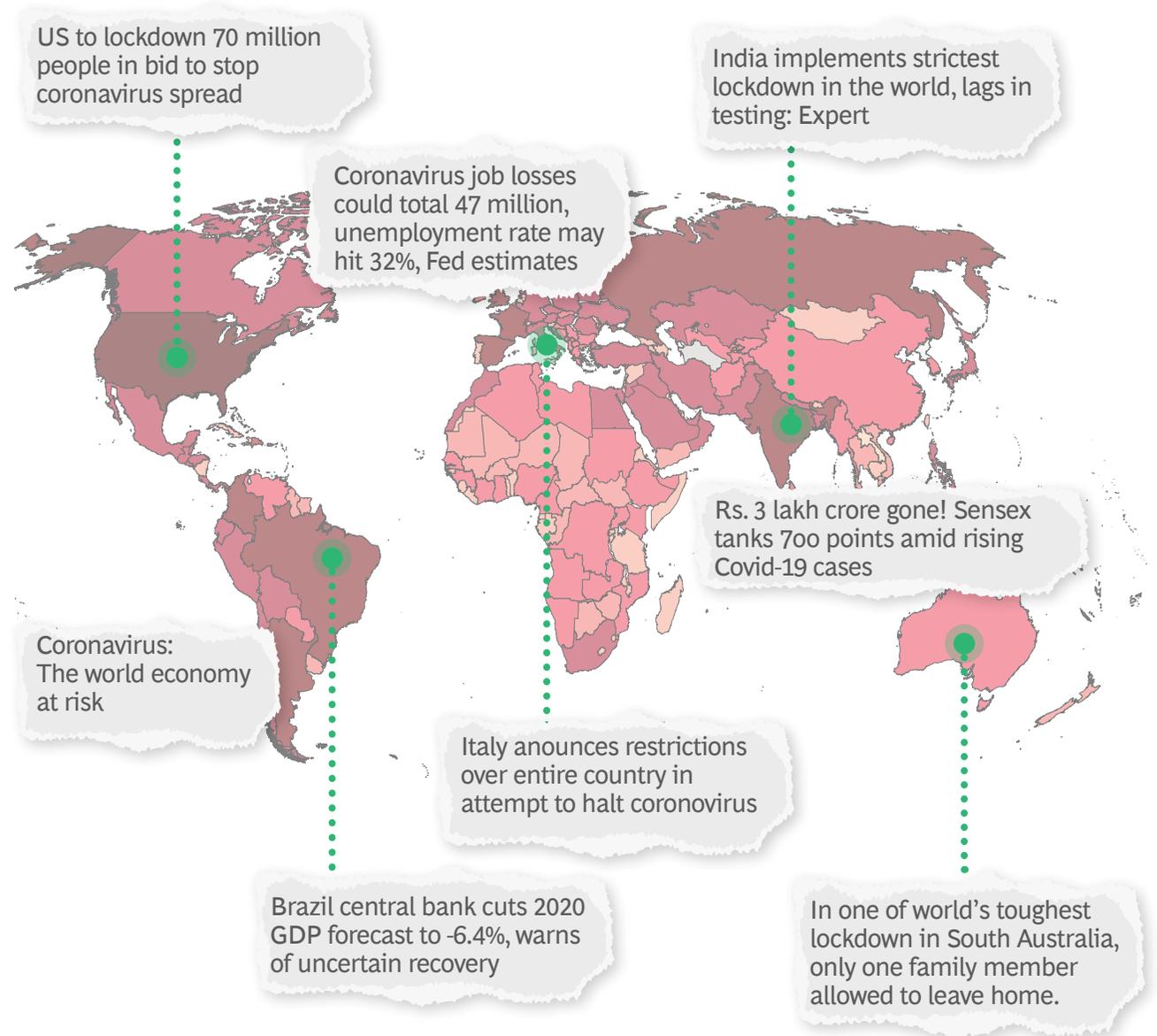


Source: CCI proprietary income database; BCG projections and estimates; 1. Nuclear households are households comprised of a married couple or a man or a woman living alone or with unmarried children (biological, adopted, or fostered) with or without unrelated individuals; 2. Gen I constitutes individuals who have grown up in the liberalized economy (<14 years of age when economy started opening), Population % with age 0-29 taken for 2010, age 0-39 taken for 2019, age 0-49 taken for 2030;

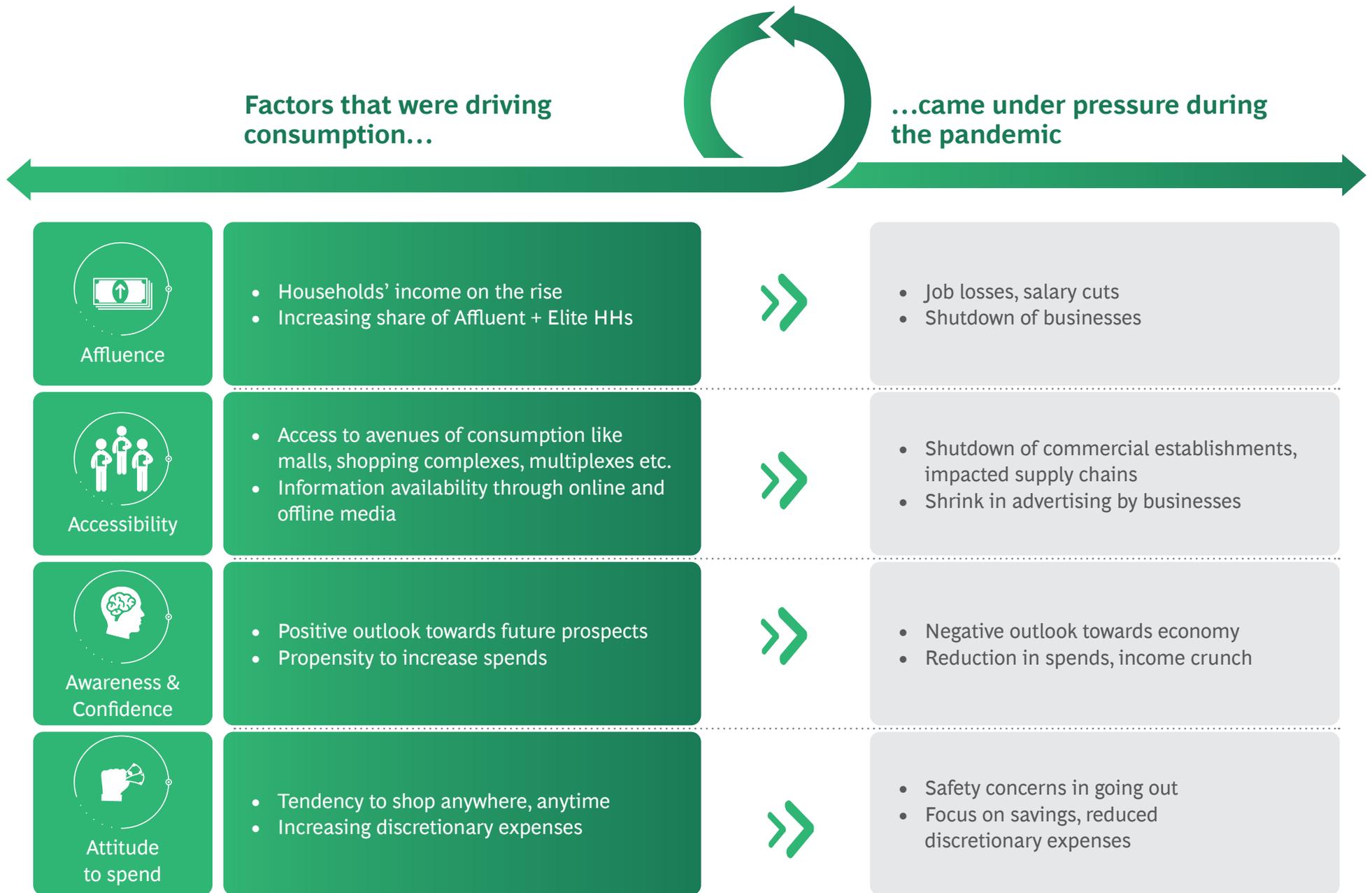
In 2020, India and the world were hit by the Covid-19 pandemic



2020



Source: World map source Bloomberg; Press Articles



Note: India-specific trends

Retail sector declined for the first time in India in decades

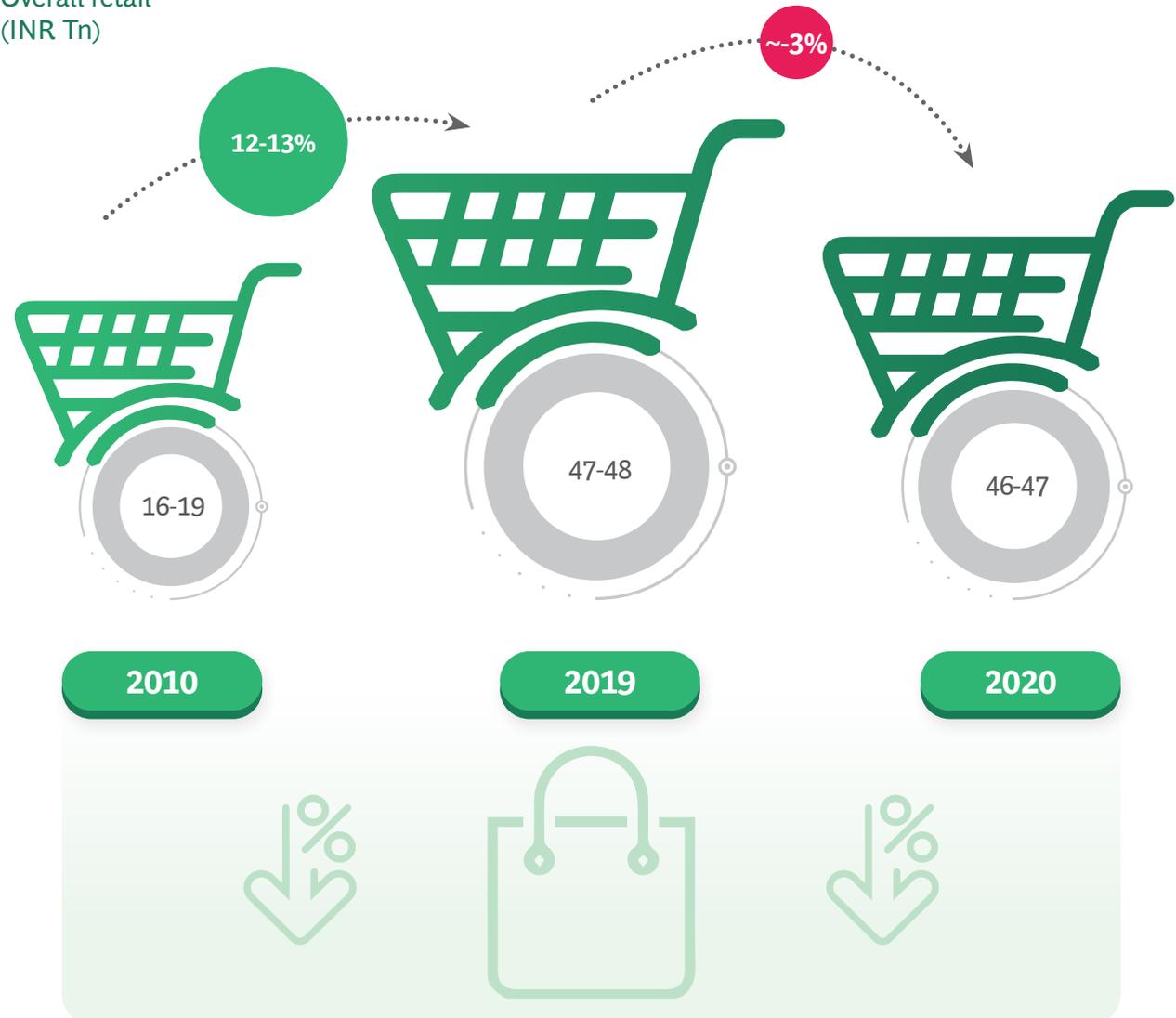


KEY CAUSES

- Supply chain and operational restrictions
- Lower footfall due to lockdown limitations and perceived health risk
- Lower discretionary spends due to income uncertainty

Overall retail sales decreased in 2020 post witnessing double digit growth over the past many years

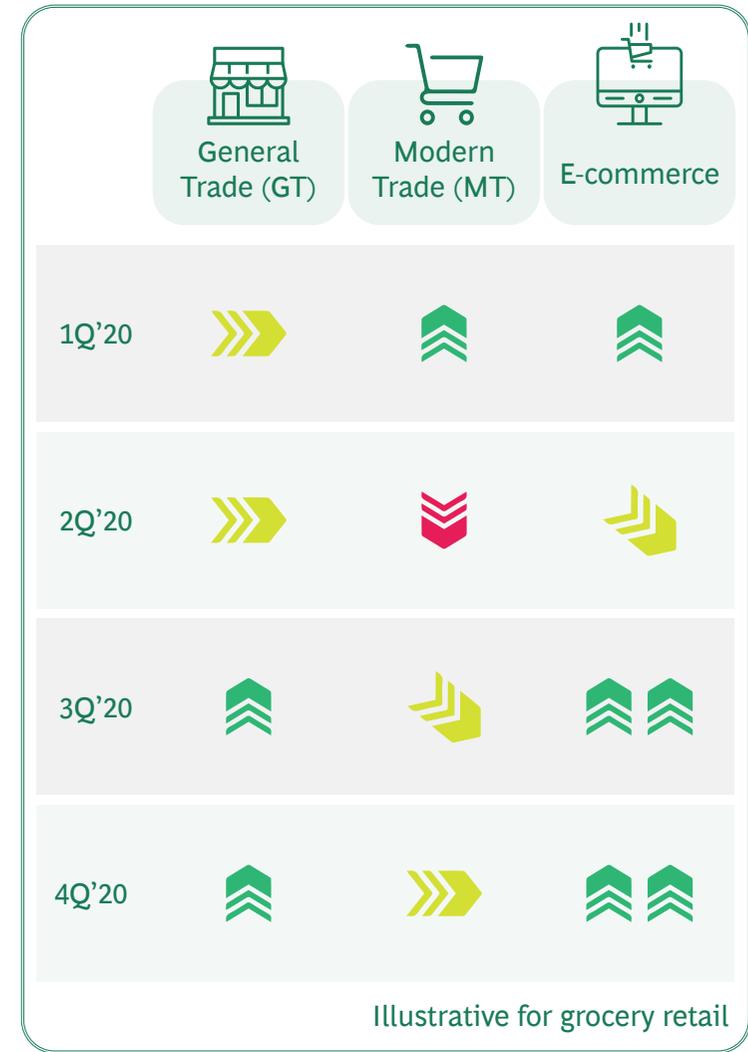
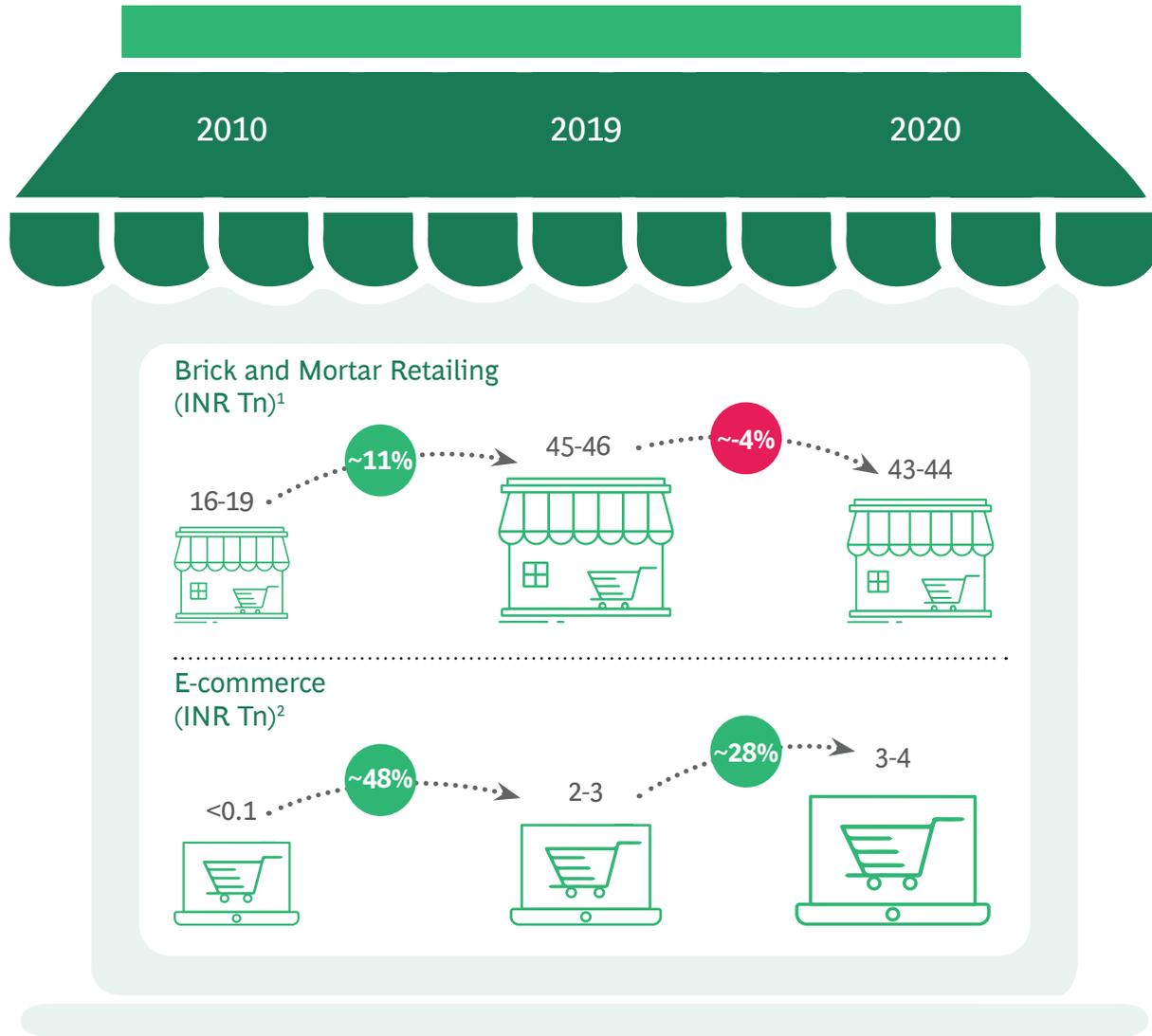
Overall retail (INR Tn)



Source: BCG projections and estimates

However different formats impacted by varying degree through the year

Brick-and-mortar retailing (especially modern trade) suffered the most, e-commerce got an acceleration



Source: RAI, BCG projections and estimates; 1. Includes overall traditional and modern retail in India across categories; 2. Includes overall e-commerce in India across categories

Globally, in-store spending was repressed over the year, clear shift in preference for online



In-store spending¹
vs. pre-Covid-19 levels



Online spending¹
vs. pre-Covid-19 levels



USA

-3%

~36%



FRANCE

-4%

~17%



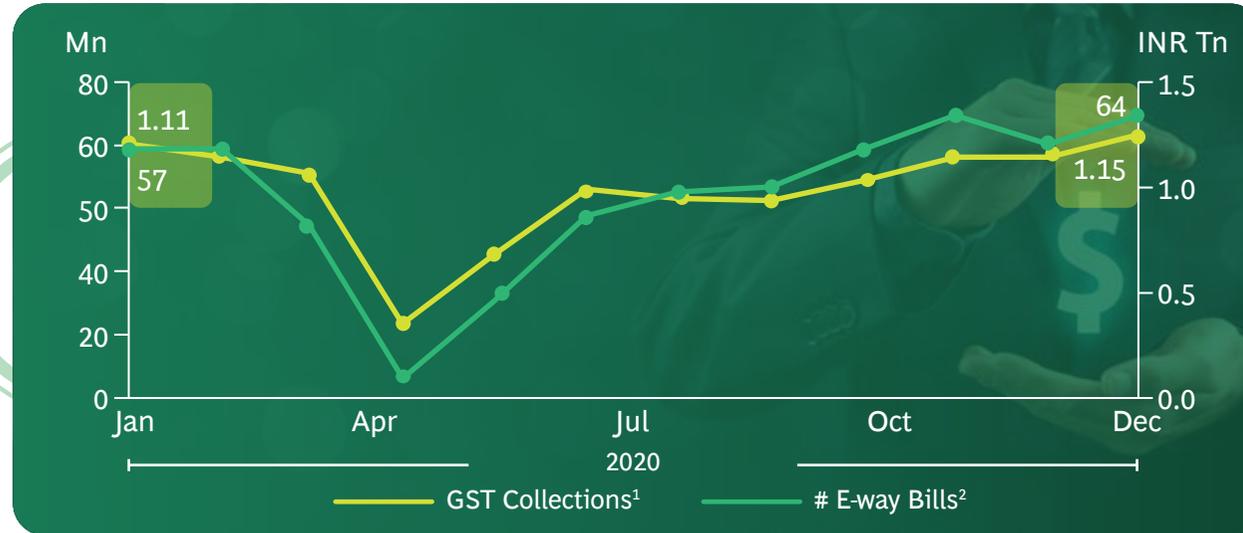
CHINA

-7%

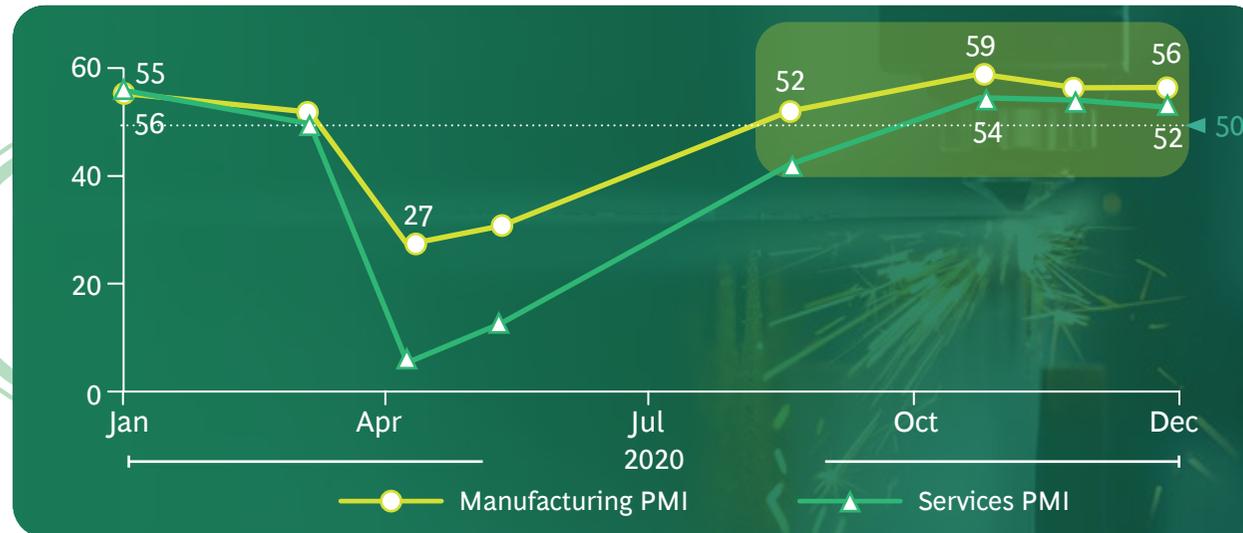
~20%

Source: BCG projections and estimates; 1. Total spending captures market size for overall retail, In-store spending captures market size for store-based retailing and online spending captures e-commerce market size changes in the respective countries; comparison of 2020 numbers with 2019

GST collection reaching pre-Covid level; uptick in logistics and transportation sector



Uptick in Manufacturing & Services PMI³ - signifying expansion in key sectors

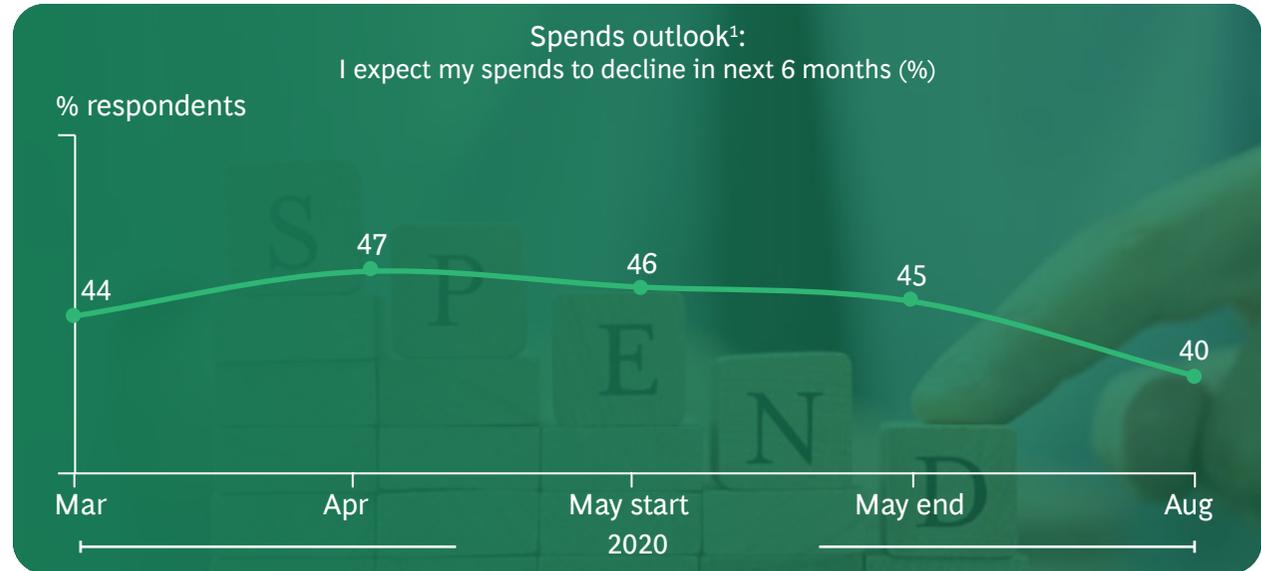


Source: 1. Includes all components: CGST, SGST, IGST, Cess; Based on data from GST Council; 2. Required to be generated when transporting goods worth >INR50,000, values taken from GST Network; 3. IHS Markit, CMIE

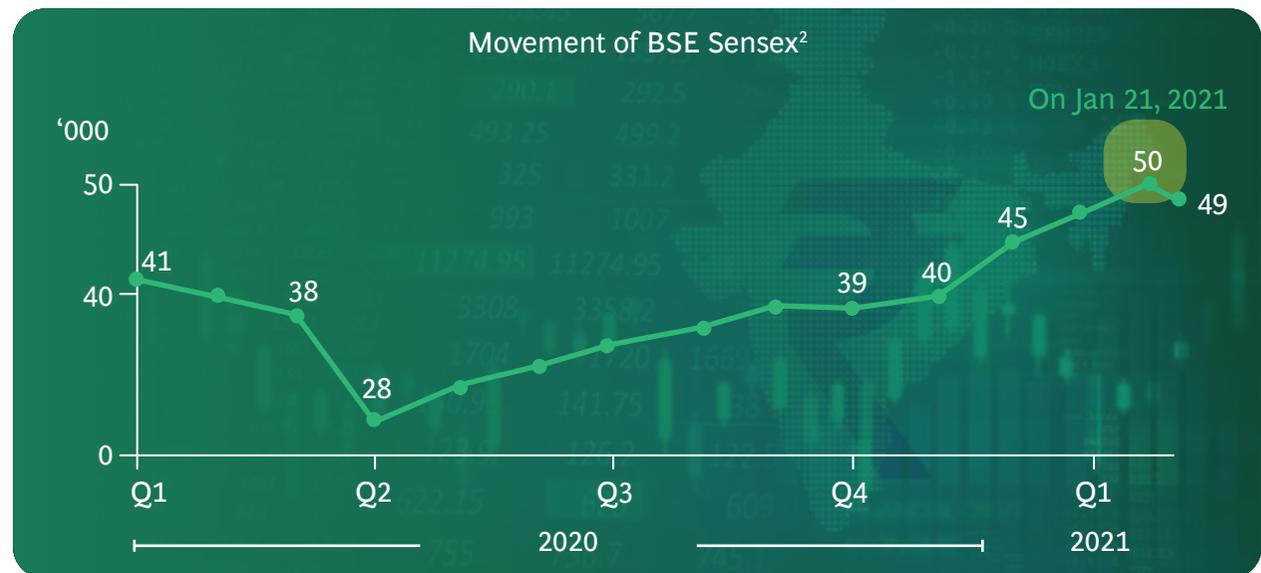
Economic revival is on the anvil now... recovery visible on-ground...

...as well as in sentiment of consumer and capital markets

Decrease in number of people planning to reduce spends

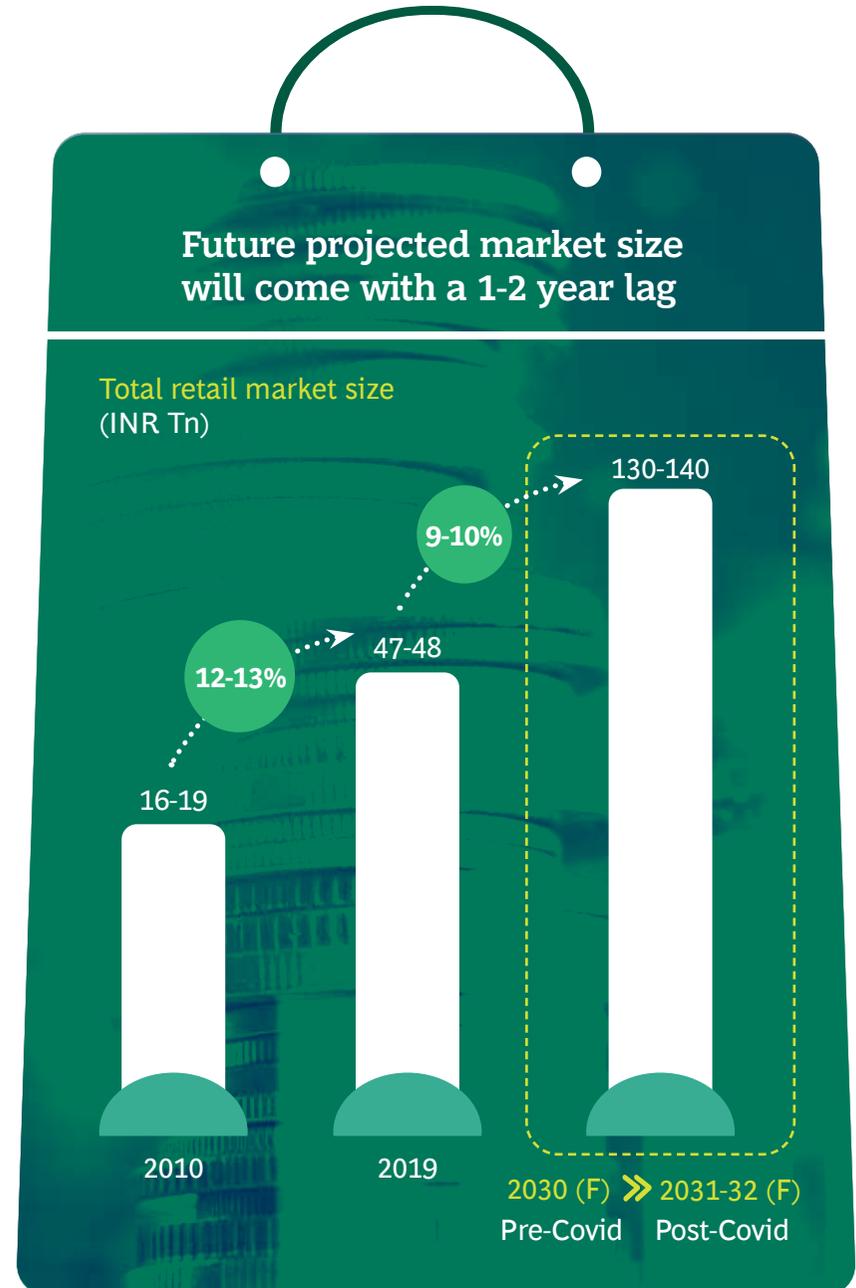
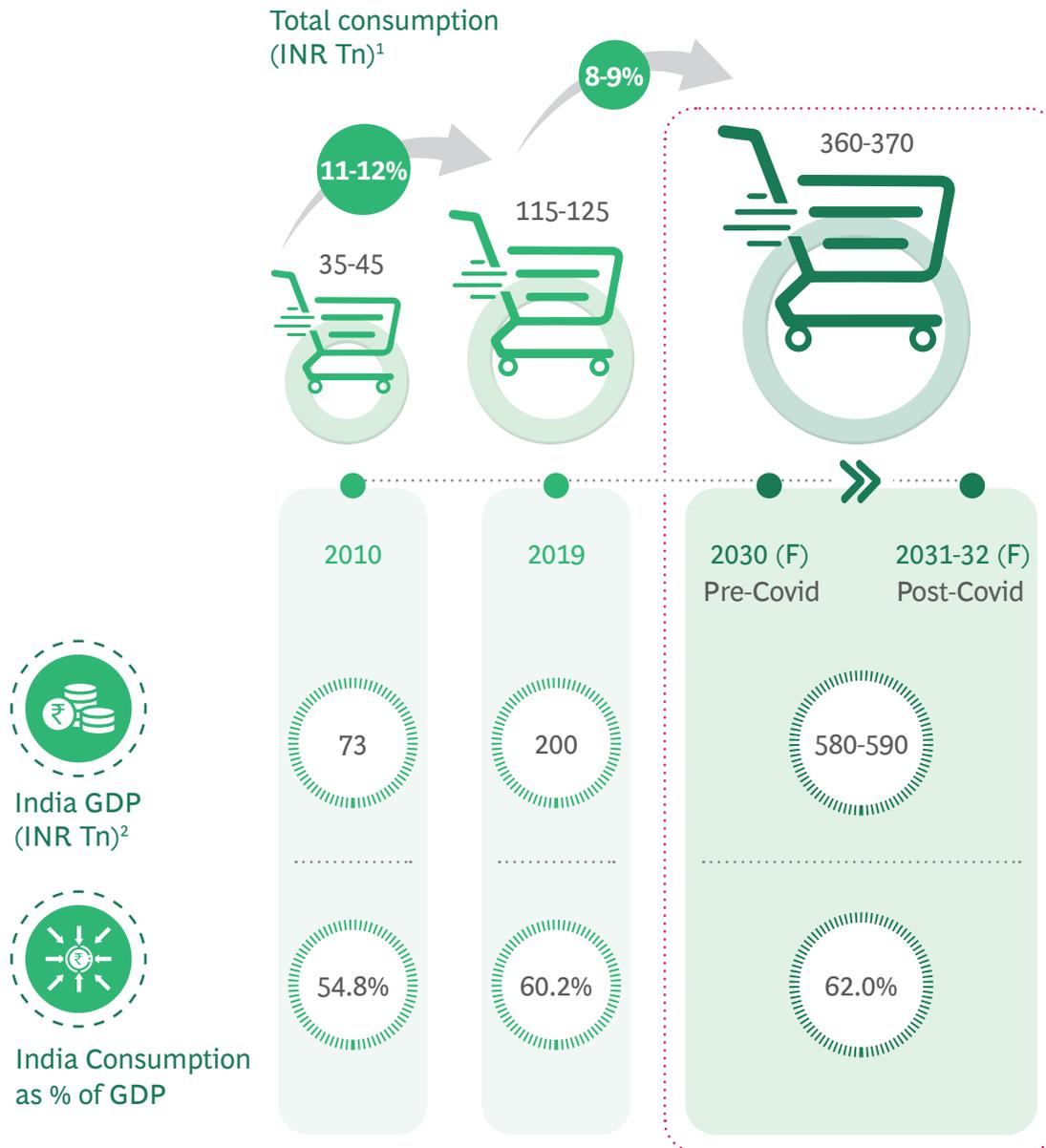


Sensex touched 50,000 level for the first time



Source: 1. BCG Covid-19 Consumer Sentiment Survey, 20th Jul – 02nd Aug'20 (N=3,000); 2. BSE India Website

We expect India's retail sector to bounce back to pre-covid trajectory



Note: 1. Total Household consumption are at nominal price 2. GDP of India is in nominal value;
Source: BCG projections and estimates

02

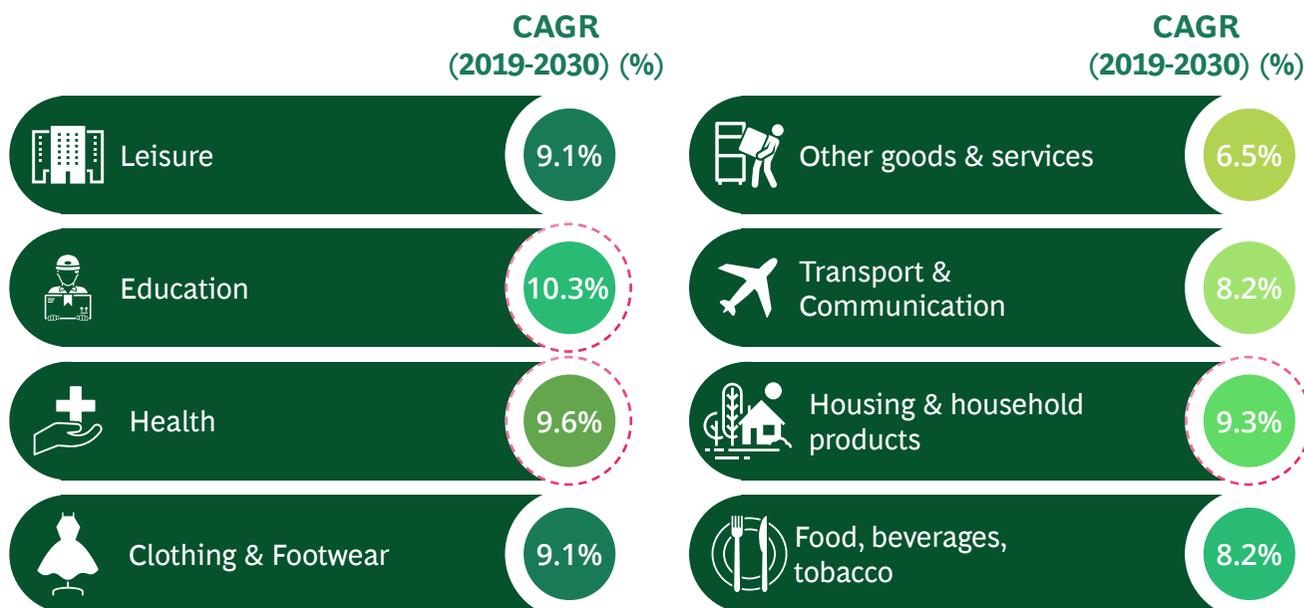
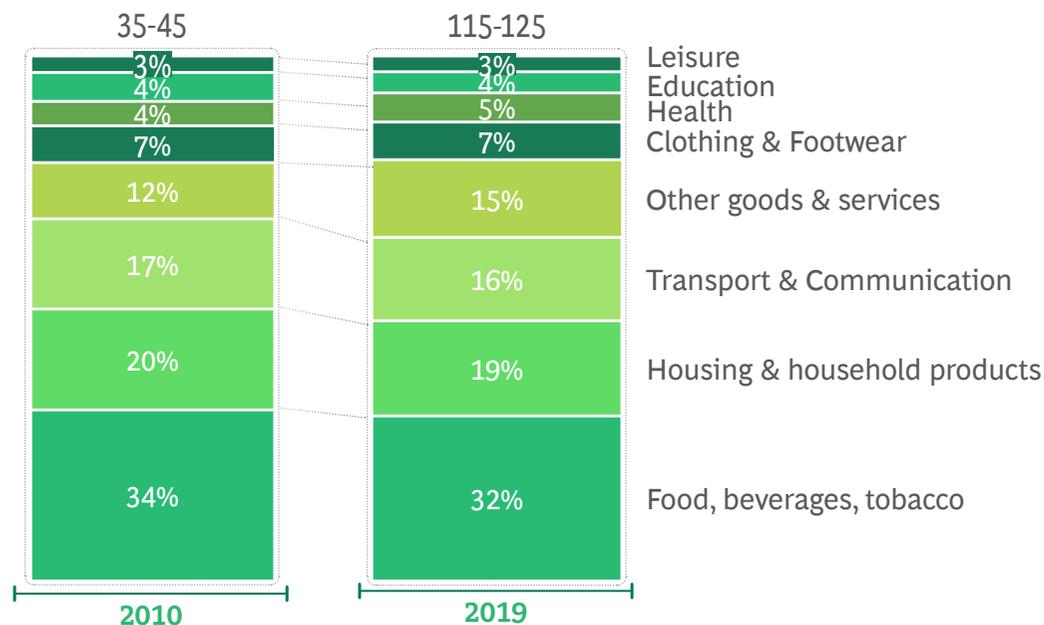
... SIGNIFICANT VARIATION ACROSS DIFFERENT CATEGORIES...

Driven by shifts in consumer preferences
across socio-segments and confidence



Consumption in India showing growth across all categories of household spending

HH Consumption (INR Tn)



Source: CCI proprietary consumption model, BCG analysis

Category	Emerged in	Size, 2019 (INR Bn)
 E-ticketing/ online travel	2000	3,300-3,400
 Passenger Air Travel	1932	2,600-2,700
 Ride Hailing	2010	2,200-2,300
 Mobile wallet payments	2004	1,900-2,000
 Smartphones	2009	1,800-1,900
 Holiday rentals	2013	100-150
 OTT ¹	2007	50-100
 Cloud Kitchens	2011	30-50
 Wearables	2013	20-30

Size, 2006 (INR Bn)
350-400

Many new categories and channels of spending have accelerated over the past 2 decades

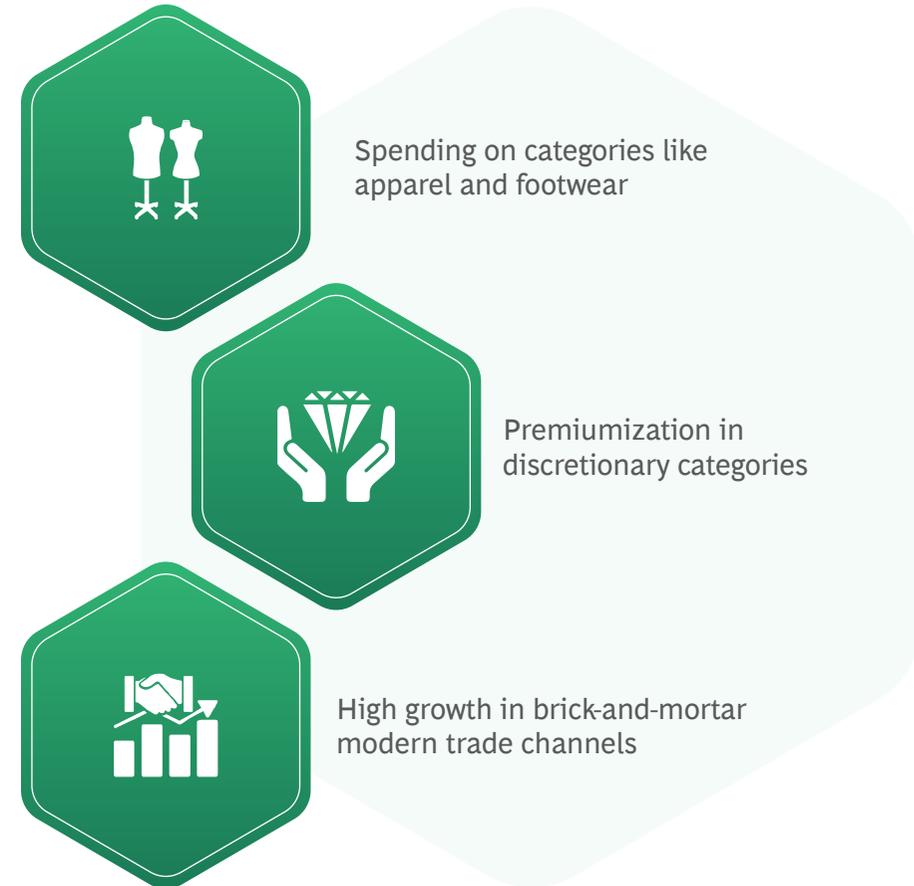
Note: 1. OTT refer to OTT video;
Source: Press search; Analyst reports; Euromonitor

The pandemic has brought multiple changes in spending patterns...

Trends which are seeing acceleration



Trends which are seeing reversal



Recovery from pandemic happening at varying speed across categories - essentials going strong, while discretionary recovering at a slower pace



Atmanirbhar Bharat: A confectioner in every household

... along with some lifestyle changes that are here to stay...



HI I'M
SUSHMA

Getting to know



Sushma lives with her husband and 2 children



A full-time homemaker for 10+ years

Life before the pandemic

No formal employment history, but strong grasp of household finances



Comfortable income from husband's mid-level employment at a reputed firm



Great cooking skills, "celebrity chef" status in the neighborhood

The shift in lifestyle



Depletion in savings, reduced expenditure, to make ends meet post a salary cut



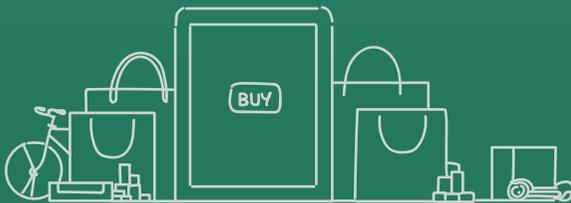
Plans to continue and expand the business, even though husband's salary is reinstated



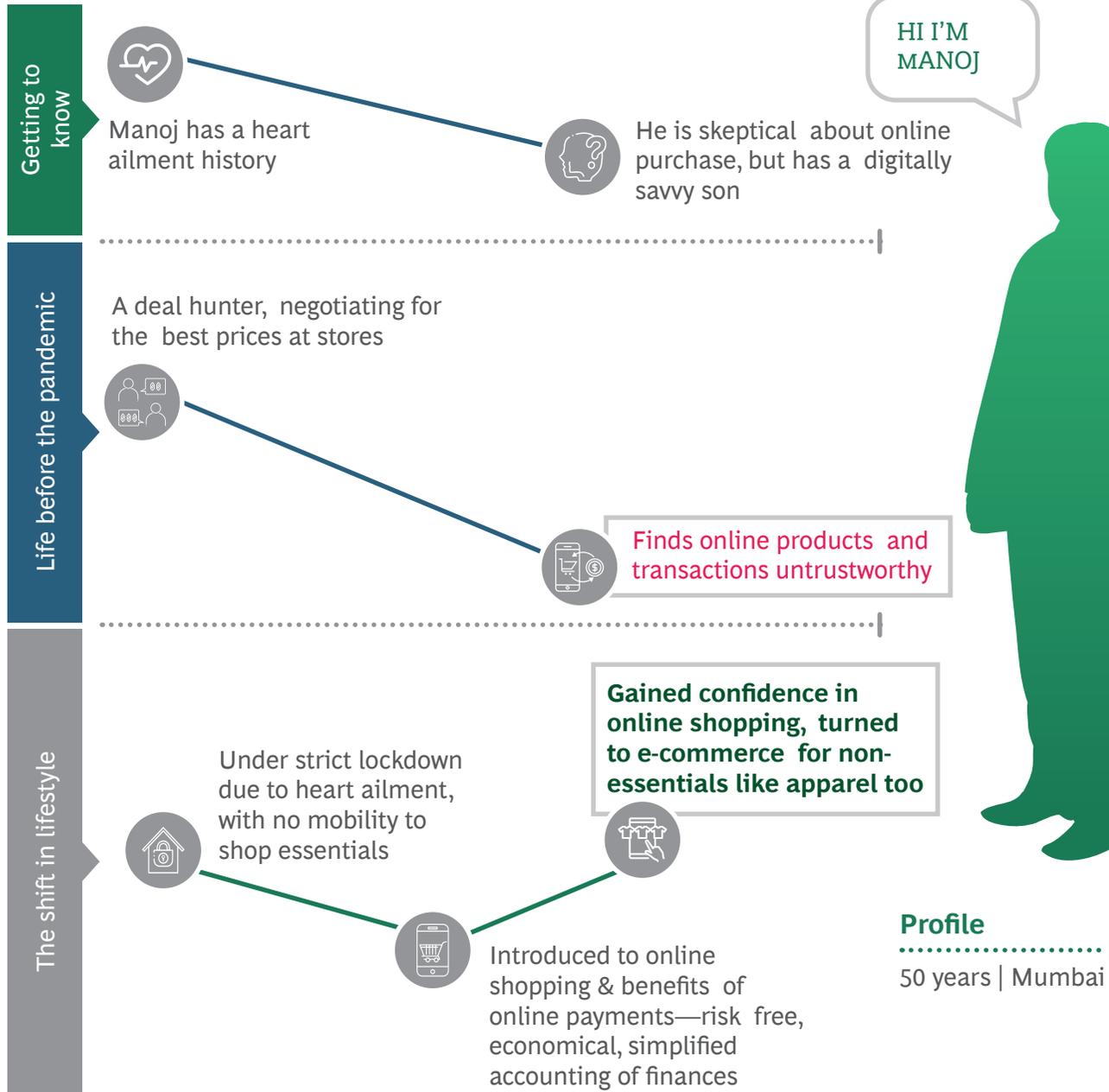
Initiated a homemade sweets venture to supplement the household income

Profile

35 years | Jaipur



Digitizing finances: Internet—India's newest banker



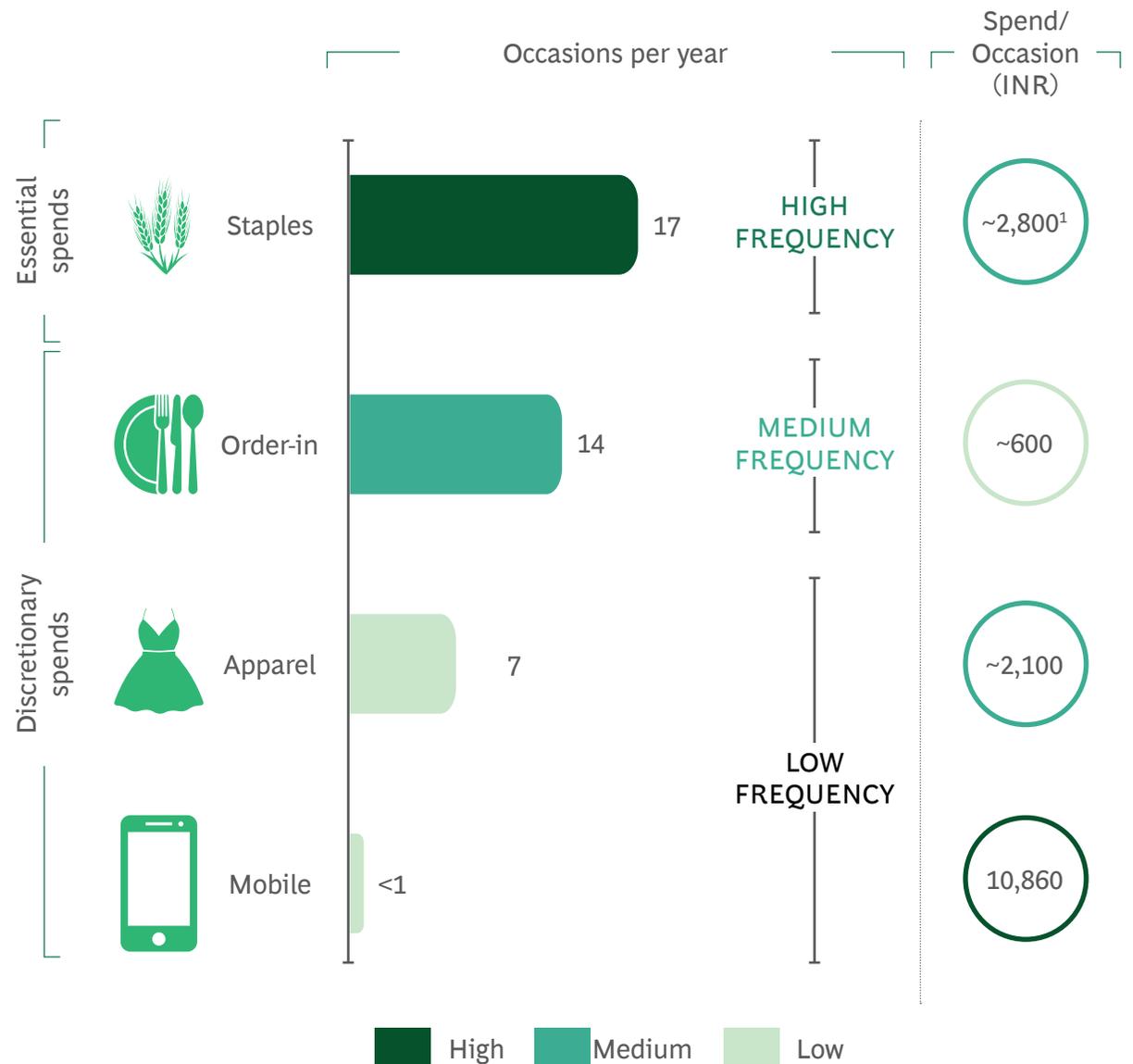
HI I'M MANOJ



... impacting purchase patterns distinctly



Category selection based on mix of high and low frequency, ticket size, products and services



What is the frequency of purchase in a yr? What is the average spend on the <category> in a yr?
 1. Spend/ month Data of only urban consumers
 Source: CCI Survey & BCG analysis

Deep dive into select essential and discretionary categories to analyze contemporary consumer behaviour

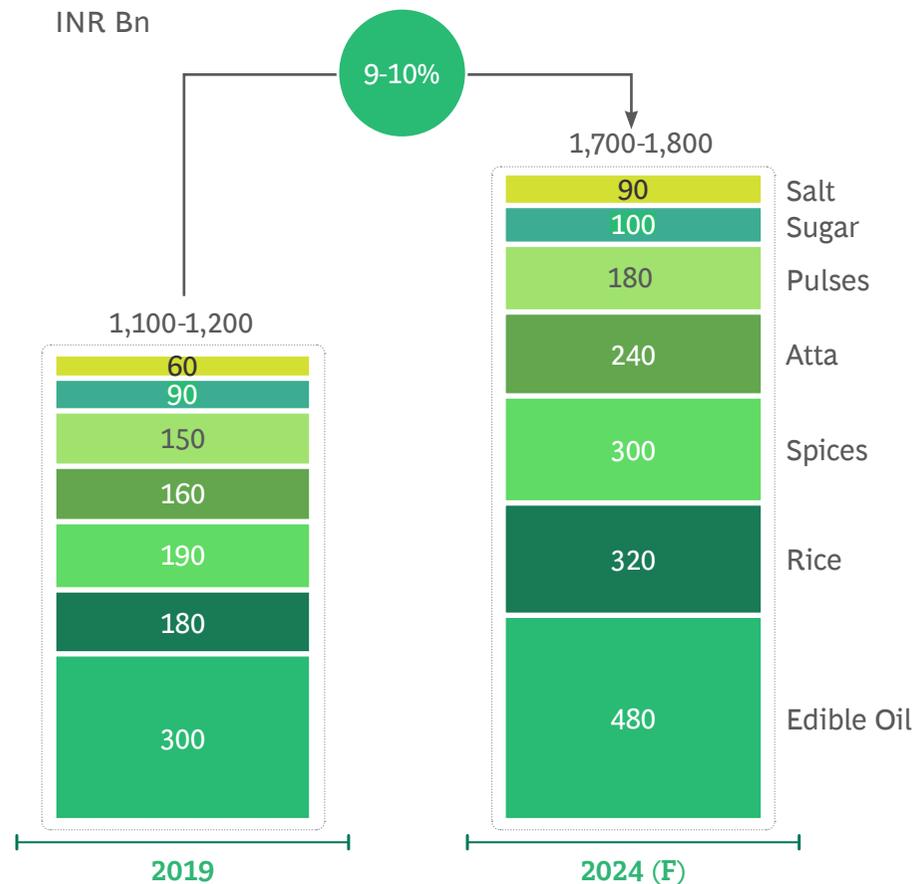


STAPLES

Indian packaged staples market to reach INR 1,700-1,800 Bn by 2024...

...driven by premiumization, branded products and private labels

Indian packaged staples market¹ growing at CAGR of 9-10%



Market growth driven by 3 key trends



Movement towards branded offerings, new players in the market



Premiumization



Push on private labels by retailers/ wholesalers

Source: 1. Expert discussions, BCG projections and analysis

3 key shifts in Staples post-Covid



Reduced need for 'touch and feel', increasing focus on brand



Preference to healthier, pure food



Increasing online share in influence & buying



Future Perspective



Will continue in long term



Expected to continue for high income segments



Will continue in long term

Clear shift from the past, consumers have somewhat got past the desire to 'touch & feel' staples; higher reliance on brand led quality assurance

Used to buy loose pulses & dal from supermarkets before. But have started to buy from 'leading fmcg companies' now. Others might have touched it in the supermarkets

- Tier 3 city consumer



Increasing share of online as a source of influence and channel of buying

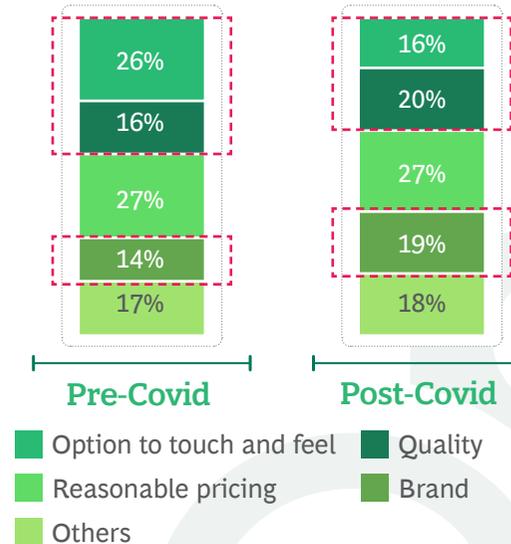
I prefer now online shopping because things are available there. In my grocery store either products are not available or have to stand outside for 30 minutes

- A Tier 2 city consumer



Focus shifted from 'touch and feel' to brand and quality, price still important

% respondents¹



~3x

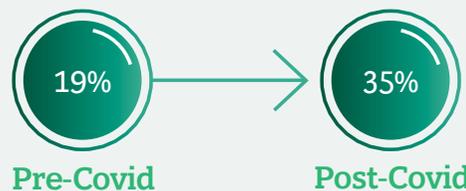
Shift in preference for 'touch and feel' in tier 2-3 cities compared to Metros - Tier 1

11x

Growth in packaged staples in rural vs metro²

Online emerging as significant source of influence; increase in e-commerce buyers

% respondents, getting influenced by online for purchase¹



Increase in online influence ~3x in tier 1 and 2 cities compared to metros¹

1.4x

Increase in # of ecommerce buyers³ (indexed to pre-Covid)

70-80%

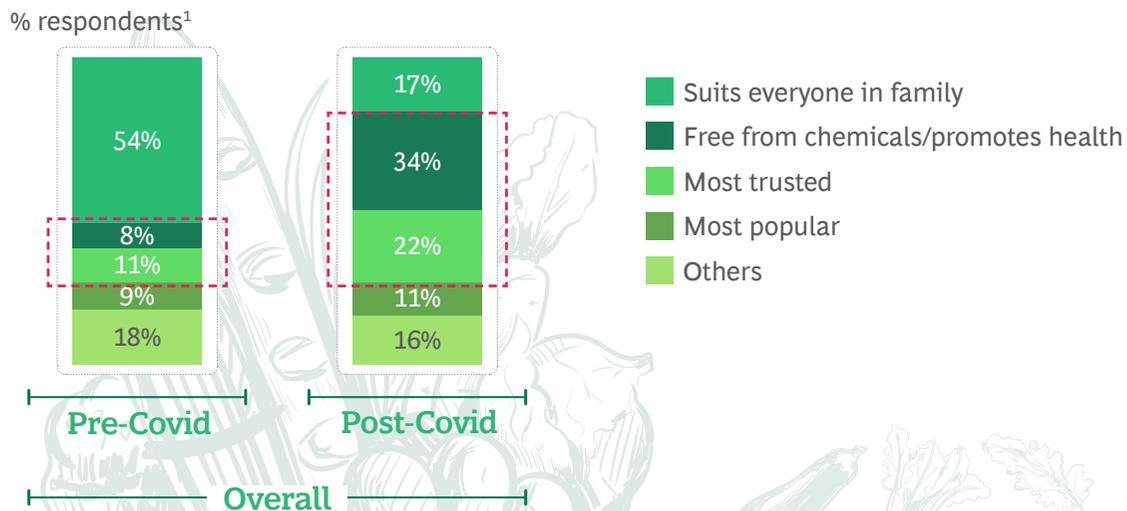
New users satisfied with experience³

50-60%

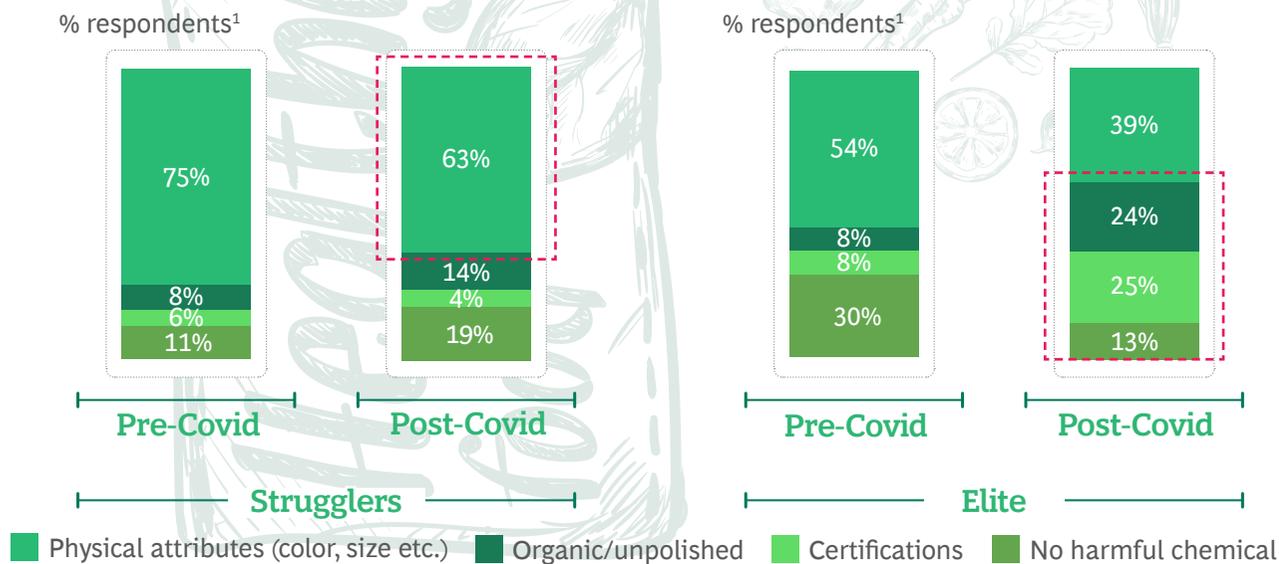
New users willing to continue in future³

Source: 1. CCI category consumption survey (Pre-Covid: Period – 2019, N=8,500; Post-Covid: Period – Sept'20, N:1,200); Data of only urban consumers. 2. Nielsen Q3 2020 Snapshot; 3. BCG Covid-19 Consumer Sentiment Survey Jul 20-02 Aug,2020 (N = 3,000), Among new users, scores for Very high willingness/ satisfaction

Shift from family suitability to chemical-free & health promoting products



Low-income groups continue to use physical attributes for quality, high income groups shifting to certified and organic products



Source: 1. CCI category consumption survey (Pre-Covid: Period – 2019, N=8,500; Post-Covid: Period – Sept'20, N:1,200); Data of only urban consumers. Strugglers: <1.5L, Elite: >20L (Annual average household income)

Increasing attention on healthier products

Preference shift from family suitability to health promoting products

Organic and chemical free products major quality drivers for high-income groups

Started having organic pulses, sprouts, vegetables. Organic food is vitamin rich and does not have any additives
- A metro city consumer

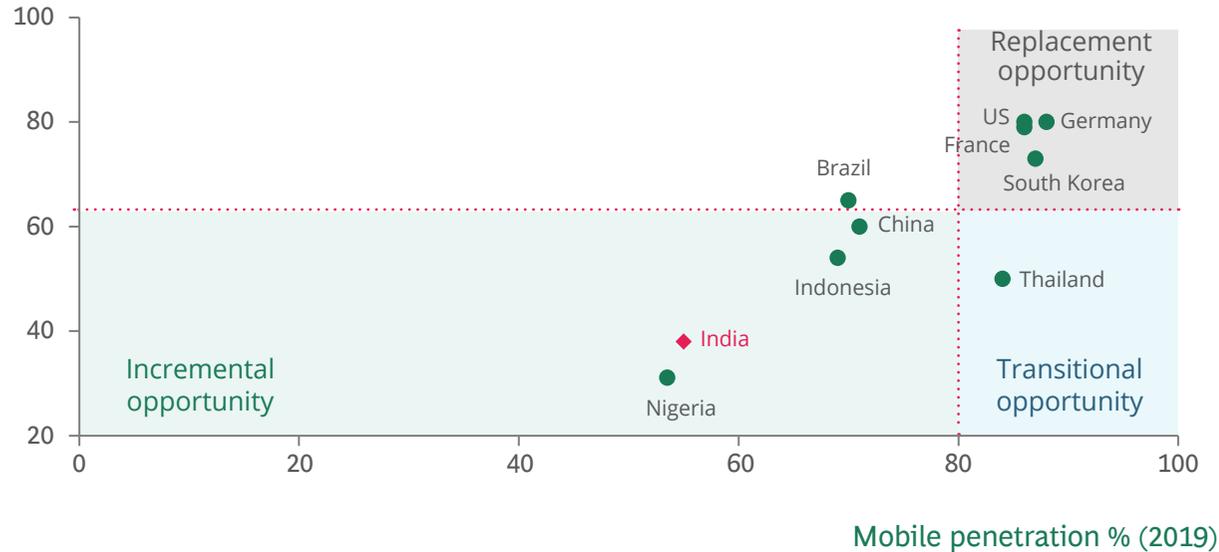


A hand is shown interacting with a smartphone that is placed on a white charging dock. The phone is connected to a white charging cable. The background is blurred, showing what appears to be a retail or service environment. The entire image has a green tint.

MOBILE PHONES

Incremental growth opportunity for India due to low saturation, as compared to countries with scope for only replacement/ transition

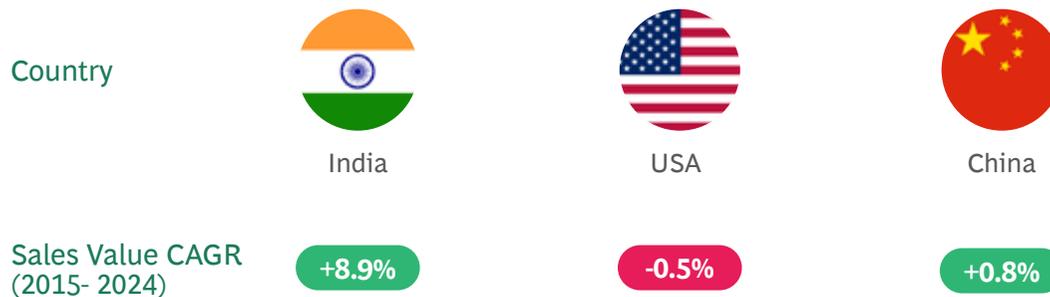
Smartphone penetration % (2019)



With 38% mobile penetration vs global average of 66%, India has high potential for further growth in the mobile handsets category

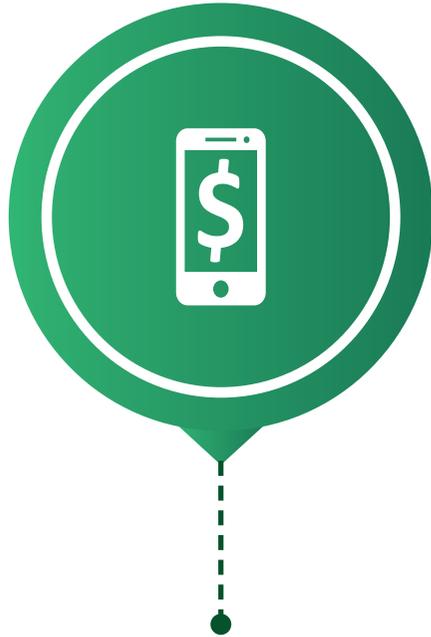
India expected to lead global handsets market growth

With ~9% value growth, India expected to achieve a faster growth rate than other countries



Source: Forrester Research (ForecastView Global Mobile, Smartphone, And Tablet Forecast, 2019 To 2024; Covid-19 Update)
IDC sales data by value (USD Mn)

3 key shifts in Mobiles post-Covid



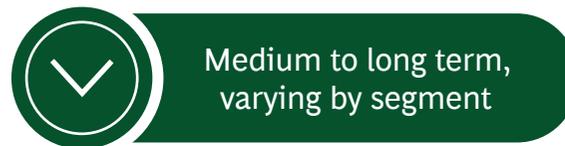
Functional and upgradation needs drivers of purchase



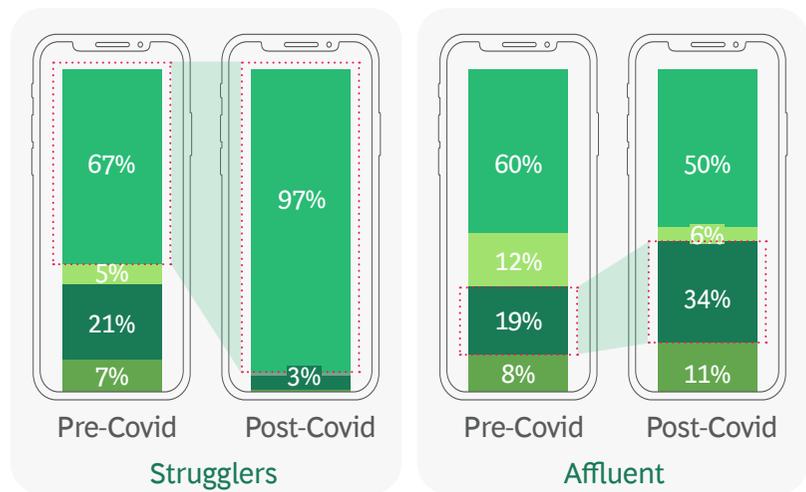
Polarization in purchase motivations – Price vs brand



Imported value brands continue to dominate



Purchase triggers see a concentration towards functional needs post-Covid



■ Functional
 ■ Spontaneous
 ■ Upgradation
 ■ Experimental



Dominance of functional needs (replacement, repair) due to income uncertainty in low income groups

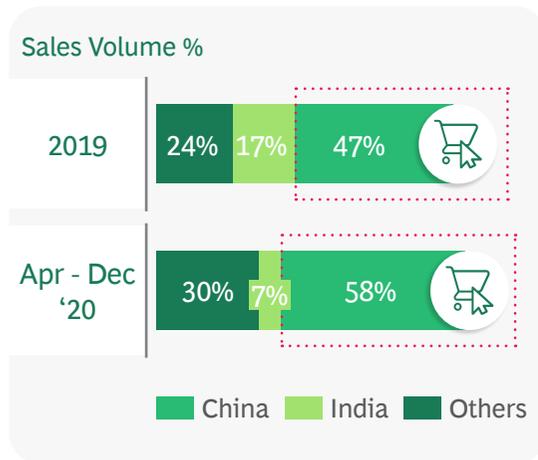


Upgradation requirement increased due to need for better features (video streaming² increased by 16% & conferencing by 485%), but functional needs remain highest

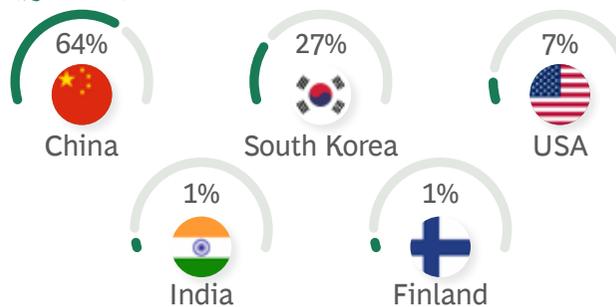
Functional needs have become important for low income consumers

High income consumers driven towards upgrading current device

Imported brand sales by volume continue to grow in 2020 by 17%



Leading countries in market by % share of value (Q3 2020):



Limited alternatives in the market for consumers looking for value for money products

Imported value brands performing strong despite recent pro-local sentiment – pricing & limited alternates being the key reasons

Everyone is using Chinese phones only; if there is a good feature phone at a good price from China – how can I say no that?

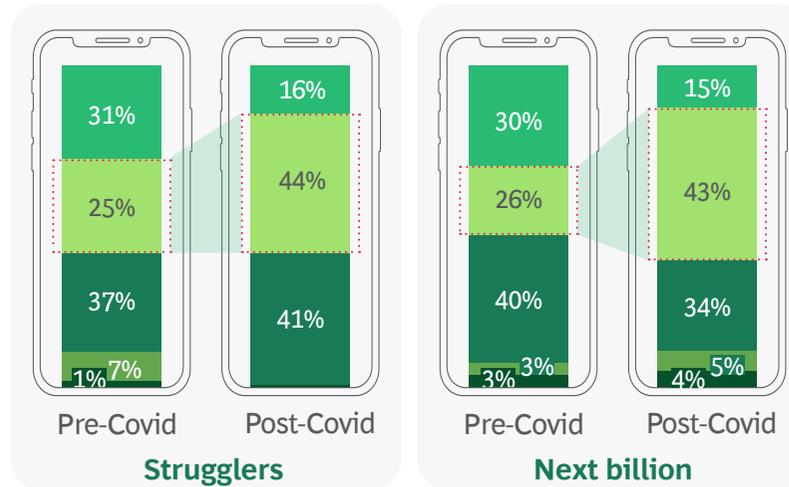
- Recent smartphone purchaser²

CCI Category Consumption Survey (Pre-Covid: Period-2019, N= 8500; Post-Covid: Period-Sept 20, N=1200). Data for urban consumers shown; 2. BCG CCI Survey Sep 2020. Strugglers: <1.5L, Next Billion: 1.5-5L, Aspirer: 5-10 L, Affluent: 10-20 L, Elite: >20L
 Source: CCI Survey and BCG analysis, Sep 2020 2. [BARC Nielsen –TV + Smartphone consumption report during crisis, 7th May 2020] 3. IDC sales volume and value by brand for 2019, 2020 Q1-3

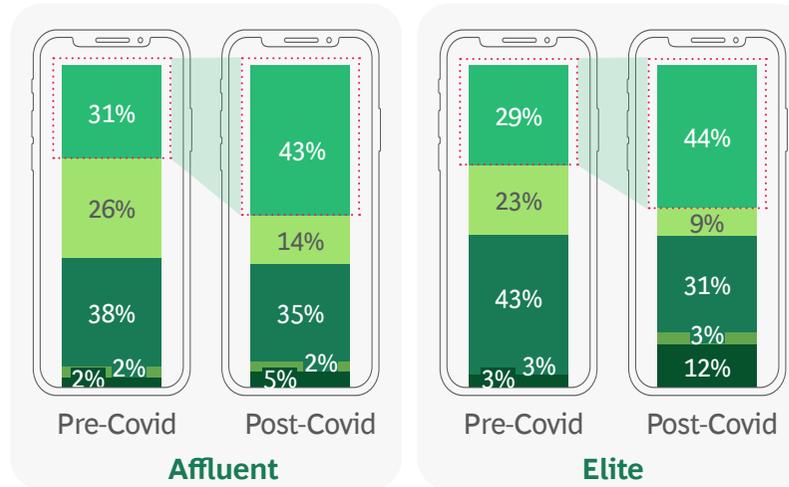
Purchase drivers polarizing towards economical pricing in low income, and brand trustworthiness in high income segments post-Covid

Lower income groups express higher price sensitivity..

...while brand trustworthiness gains importance for high income segments



Strugglers and Next Billion¹: Income uncertainty has driven the need strongly towards offers, discounts and lower prices



Affluent and Elite¹: Higher screen time and usage, coupled with less opportunity to go out for repairs, leads to increased preference of trustworthy brands for better and longer performance

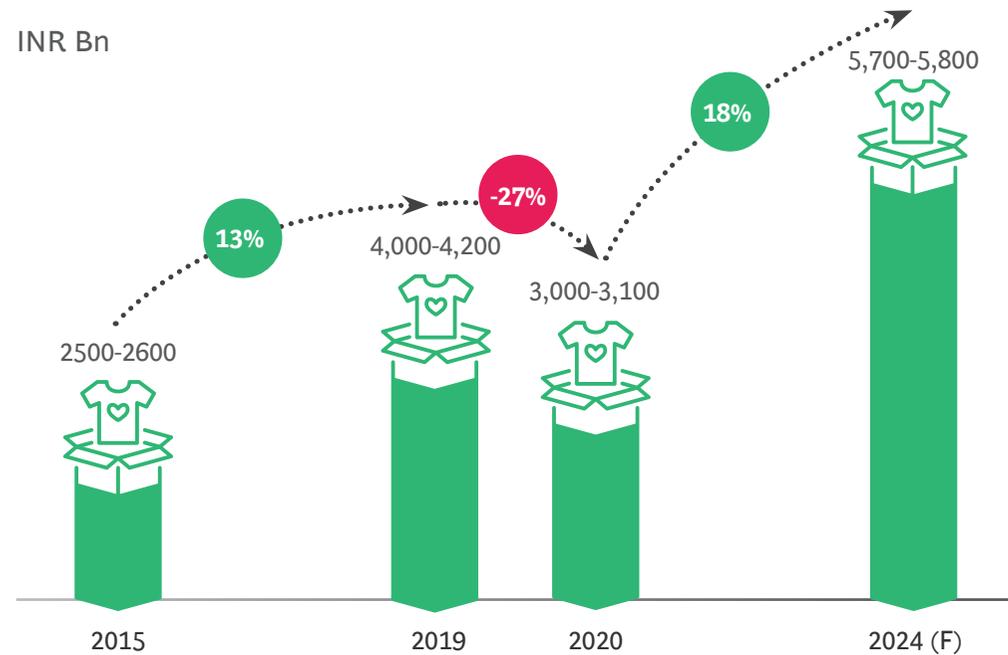
- Brand
- Attractive price/offers
- Features
- Reviews and recommendation
- After sales service

Source: 1. CCI Category Consumption Survey (Pre-Covid: Period-2019, N= 8500; Post-Covid: Period-Sept 20, N=1200). Data for urban consumers shown. Strugglers: <1.5L, Next Billion: 1.5-5L, Aspirer: 5-10 L, Affluent: 10-20 L, Elite: >20L



APPAREL

Indian apparel market projected to show strong growth after seeing downturn in 2020



Indian apparel market most hit by covid, making a gradual comeback in recent times

Despite a 25-30% drop in 2020, market expected to come back steadily in the current year driven by multiple consumer and supply side factors

Market growth driven by 4 key trends



Premiumization



E-commerce and Digital



Focus on private labels (entry level as well as retailer brands)



Entry of international brands

Source: Press Search, BCG estimates and projections

3 key shifts in Apparel post-Covid



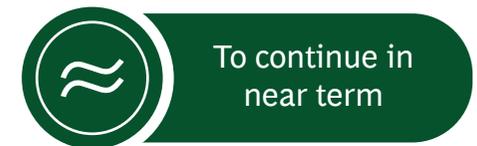
Social media/ websites
dominant source
of influence



Increasing e-commerce but
brick and mortar to stay
relevant



Casualization of wardrobe,
focus on athleisure



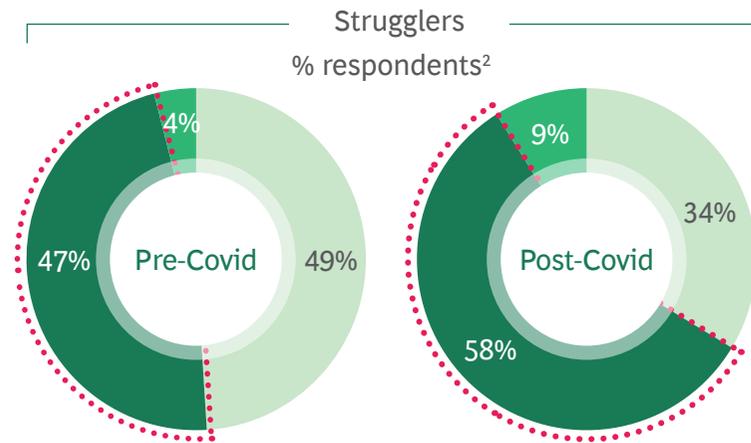
Increase in online buying, differences seen in income groups on priority of buying channel

1.2x Increase in # of ecommerce buyers (current users indexed to pre-Covid users)¹

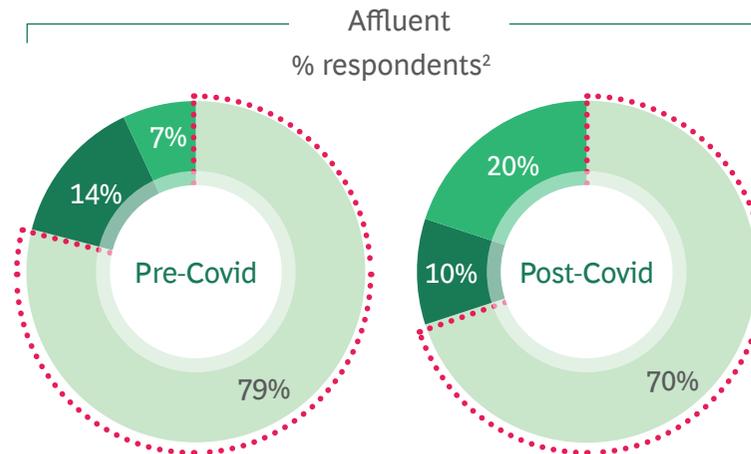
Large share of apparel commerce has shifted online, other channels relevant based on income groups

For high-income groups, modern retail still the biggest channel for purchase

Price conscious low-income groups have moved towards local shops/ boutiques post-Covid



Focus of low-income groups shifted towards local shops/ boutiques

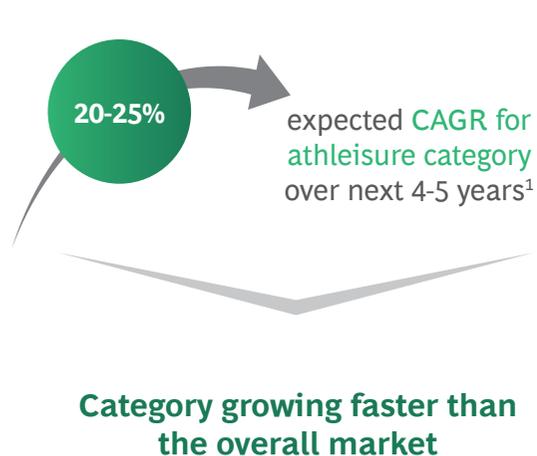


Higher shift in high income groups towards online buying, however modern trade outlets remain preferred channel of buying for them

Legend: Hyp/ MBO/EBO (Light Green), Local shops/ boutiques (Dark Green), Online (Medium Green)

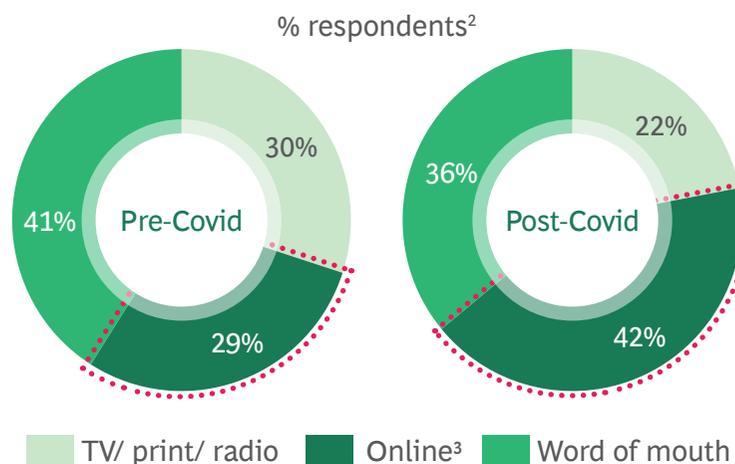
Source: 1. BCG Covid-19 Consumer Sentiment Survey Jul 20-02 Aug, 2020 (N = 3,000); 2. CCI category consumption survey (Pre-Covid: Period – 2019, N=8,500; Post-Covid: Period – Sept'20, N:1,200); Data of only urban consumers. Strugglers: <1.5L, Affluent: 10-20L (Annual average household income)

Growth of categories like athleisure fast-tracked during Covid



- Increased **work-from-home** (wfh)
 - Expectation of partial wfh continuing even after pandemic
- Rising **spends on health and wellness** percolating to apparel
 - Shifting focus towards **fitness needs**
- Consumers increasingly **dressing for comfort**

Influence of online channels increased significantly post-Covid, diminished role of traditional media



Across city tiers, online mediums acting as major source of influence

Wardrobe getting casualized, fast growth of categories like athleisure

Consumers preferring casual comfortable clothing over formal

“We have wardrobe full of clothes for going to office and hanging out with friends. But we didn't have enough for wearing at home. So, I bought myself Tracks and short pants and Night suits recently..

- A consumer working from home”



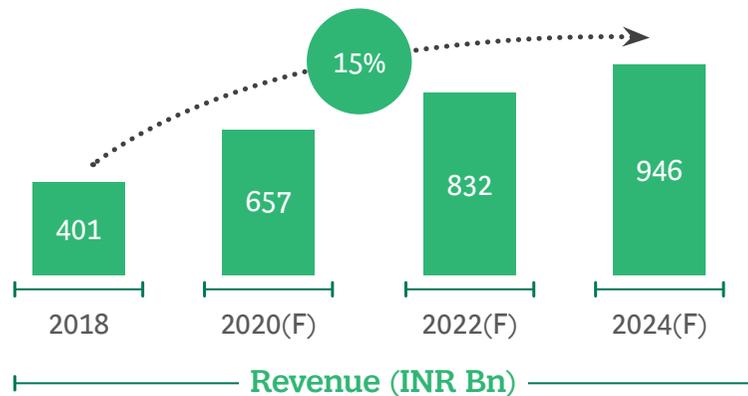
Social media/ websites/ apps emerging as a dominant source of influence

Source: 1. BCG estimates and projections; 2. CCI category consumption survey (Pre-Covid: Period – 2019, N=8,500; Post-Covid: Period – Sept'20, N:1,200); Data of only urban consumers. 3. Includes reviews/ ratings on shopping websites/ Apps (Flipkart, Amazon), Social Media (Facebook, WhatsApp, Instagram, etc.) and search websites like google

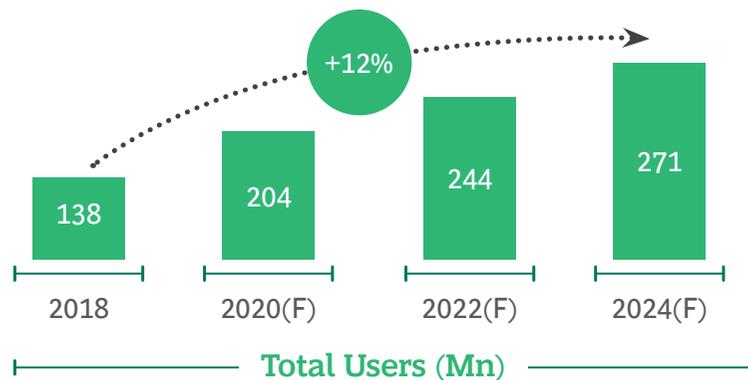
FOOD ORDERING



Food Ordering in India expected to grow at 15% to 945 Bn market by 2024, adjusted for Covid



15%
Revenue



+12%
Users

Food ordering on a strong growth trajectory at 15% CAGR, on a rapid recovery track

Strong growth trajectory driven by..

Urbanization and acceptance of online food delivery in Tier 1 and 2 cities

Smartphone and internet adoption, driving higher penetration (expected growth from 12% in 2019 to 19% in 2024)

Rapid recovery from Covid impact, as industry innovates to meet requirements

Case in Point- Leading QSR player

- 2020 Q3 for the company saw a +18.5% growth in delivery and +64.3% in takeaway year-on-year
- Highest ever App downloads at 7.4 mn
- Online ordering as a % of delivery sales increased from 87% in Q3 FY20 to 98% in Q3 FY21

Source: Statista (Forecast adjusted for expected impact of Covid-19), September 2020; Online Food Delivery Market in India 2020 - Part-I, Netscribes, Pg 19, 20; Q3 2020 Press release

3 key shifts in Food ordering post-Covid



Spontaneous buy still strong;
needs based order replaced
celebratory



Word of mouth still a
significant factor



Aggregators gaining traction;
tele calling still relevant



Future
Perspective



Short term, till
household help
starts returning

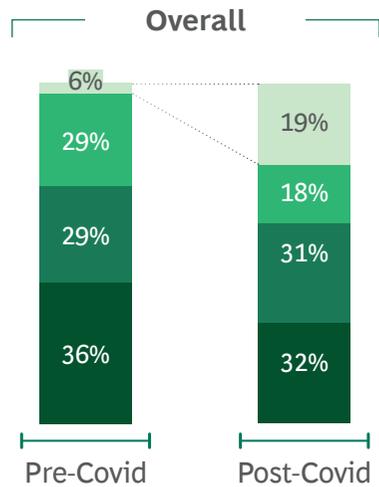


Medium term



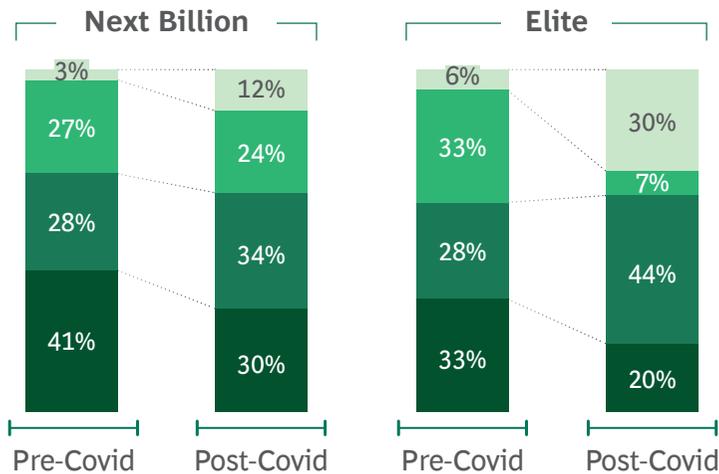
Medium term, till
internet penetration
increases

Spontaneous buying remains strong, but functional needs replace celebratory reasons to order



Functional needs increase across income groups due to lack of domestic support to cook, while celebratory occasions decreased post-Covid

Functional needs replace celebratory reasons to order across income segments



Spontaneous buying gains prominence in higher income groups as ordering becomes one of the few outlets to break monotony

Contrary to popular belief, spontaneous food ordering increased, particularly in high income groups

Functional
 Societal/ Celebratory
 Spontaneous
 Experimental

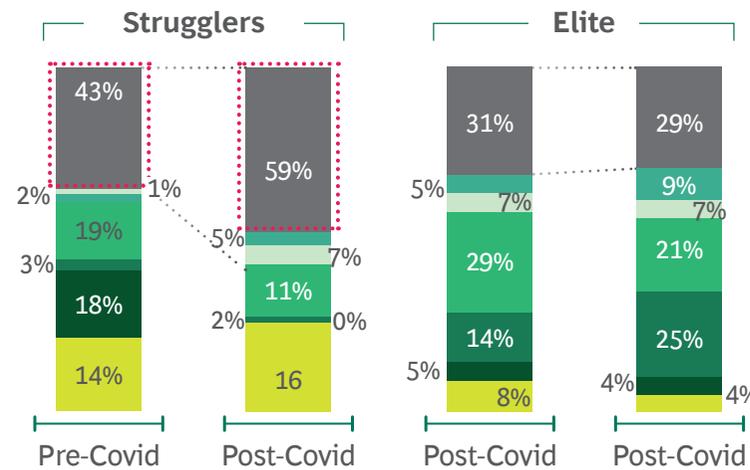
Source: 1. CCI Category Consumption Survey (Pre-Covid: Period-2019, N= 8500; Post-Covid: Period-Sept 20, N=1200. Data for urban consumers shown
 Strugglers: <1.5L, Next Billion: 1.5-5L, Aspirer: 5-10 L, Affluent: 10-20 L, Elite: >20L

Word of mouth continues to dominate as a selection driver

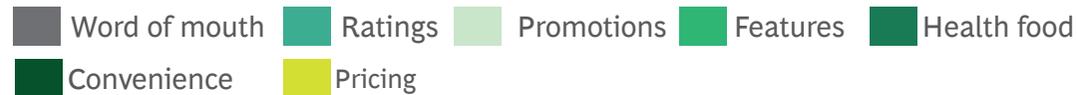
Restaurant ratings gaining marginally post-Covid

Promotions and discounts become important in lower income segments

Word of mouth remains significant across income segments, promotions gain importance for lower income segments



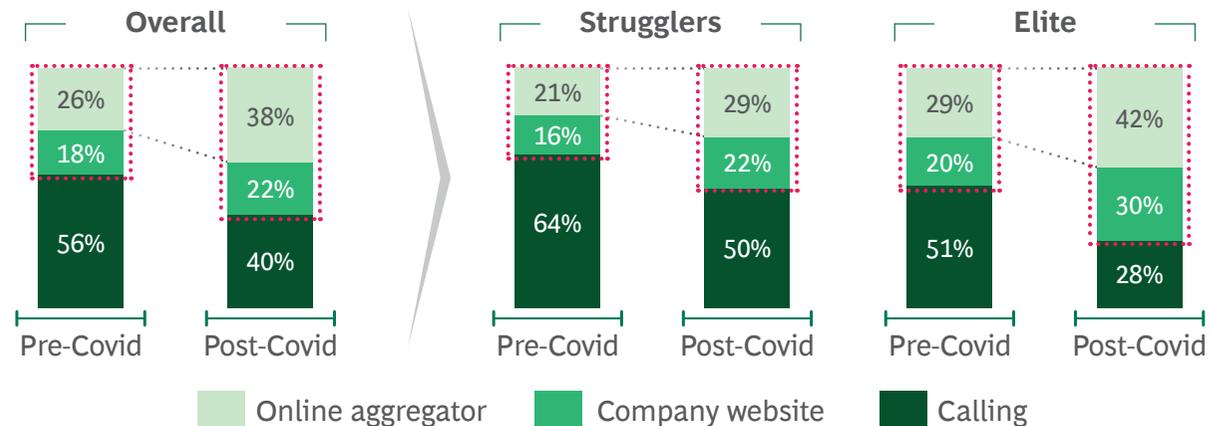
- Word of mouth gains significance due to higher trust factor, and lower internet penetration amongst lower income segments
- Pricing also gains importance for this segment due to income instability post-Covid



While online increases as preferred channel across segments...

... Lower income groups still rely heavily on calling to order"

Online sees a significant increase in share, but calling still significant for lower income groups



Source: 1. CCI Category Consumption Survey (Pre-Covid: Period-2019, N= 8500; Post-Covid: Period-Sept 20, N=1200). Data for urban consumers shown Strugglers: <1.5L, Next Billion: 1.5-5L, Aspirer: 5-10 L, Affluent: 10-20 L, Elite: >20L

To synthesize, key changes in consumer choice has some common tenets and many specific to category drivers

Common themes emerging across categories



Brand consciousness increased, particularly in health related categories



Online growth as a sales channel and source of influence accelerated



Higher value for money orientation as price sensitivity has increased



Need based buying increased across discretionary categories

Staples



- Preference to packaged, quality staples, from earlier need for 'touch and feel'
- Health food gains relevance

Mobile



- Polarization in purchase drivers – Price and brand
- Imported value brands continue to dominate

Apparel



- Casualization of wardrobe, focus on athleisure
- Increasing e-commerce sale, but brick & mortar still high

Food Ordering



- Promotional buying increased in lower income groups
- Tele-calling still important, but aggregators gaining

CEO Speaks



Vishak Kumar
CEO, Madura Fashion

Business is coming back for sure. While consumers today feel a lot more comfortable walking into stores now, there is still a clear skew in preference of high street stores. I expect two important usage occasions that will provide the next quantum of business recovery. The first is the return of weddings – which is expected to see a surge in April. The second is the “return to office”, we expect a large part of the work force to return to physical offices over the next few months- fueling the need for work wear.



Adarsh Menon
Senior Vice President and Head
Flipkart Wholesale and Walmart India

The pandemic has accelerated the use of online channels for shopping and we have witnessed a surge in e-commerce adoption across the country, especially in tier 2 and tier 3 cities, where even small kiranas in towns such as Meerut, Agra, Kota, Guntur, Karimanagar, Amravati etc, have taken to e-commerce as a preferred mode to do business. We expect consumption to shift towards e-commerce even further and will continue investing in technology and infrastructure to bring small businesses in Bharat online and enable prosperity and growth for the retail ecosystem.





Lalit Agarwal

Chairman and MD, V Mart

Our e-commerce operations which were negligible pre-Covid increased significantly during lockdown, stabilizing now but still higher than pre-Covid; role of stores still very important for us – 95% of our target segment in value apparel prefer offline channels for the experience of it; ROBO – Research online and buy offline is gaining traction among users; so we have increased presence on social media to influence customers; categories like athleisure, loungewear and value apparel seeing high growth along with our private labels; we are focusing on omni-channel, brand & product differentiation and digital & analytics for growth.



Neelendra Singh

Managing Director, Adidas

We see more preference towards items related to health, and believe this trend and shift will continue in the long term too. Consumers are now more aware of ‘value’ that products and services provide- Its not about lower prices, but the VALUE she/he is expecting at a particular price. Moreover, we believe the consumer will increasingly trust brands. Relationships and engagement with brands will matter more than before.



Devendra Chawla

CEO, Spencer's Retail

Post-Covid, people are moving towards buying more packaged products, than loose items. We have seen increase in the sale of packaged staples over last 2-3 quarters compared to last year. People have also started preferring healthier foods like organic products. We have increased the portfolio of such products in our stores. Our omni channel offering has also been very appreciated by consumers as our out of store (OOS) business has grown multiple times than pre Covid period. Times ahead are clearly exciting & challenging.

03

...LEADING TO CLEAR ACTION AGENDA FOR RETAILERS

From fighting the pandemic
to leading in the new reality



The pandemic has had a distinct impact on forces that shape the retail landscape



Consumer Shifts

Attitude and demographic changes



Supply side Innovations

Disruptions and irregular supplies



Data and technology driven disruptions

Data & tech to shape shopping preferences



New competitive forces

Blurring omnichannel boundaries seeing a new set of players

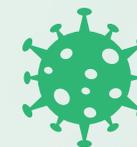


Regulations

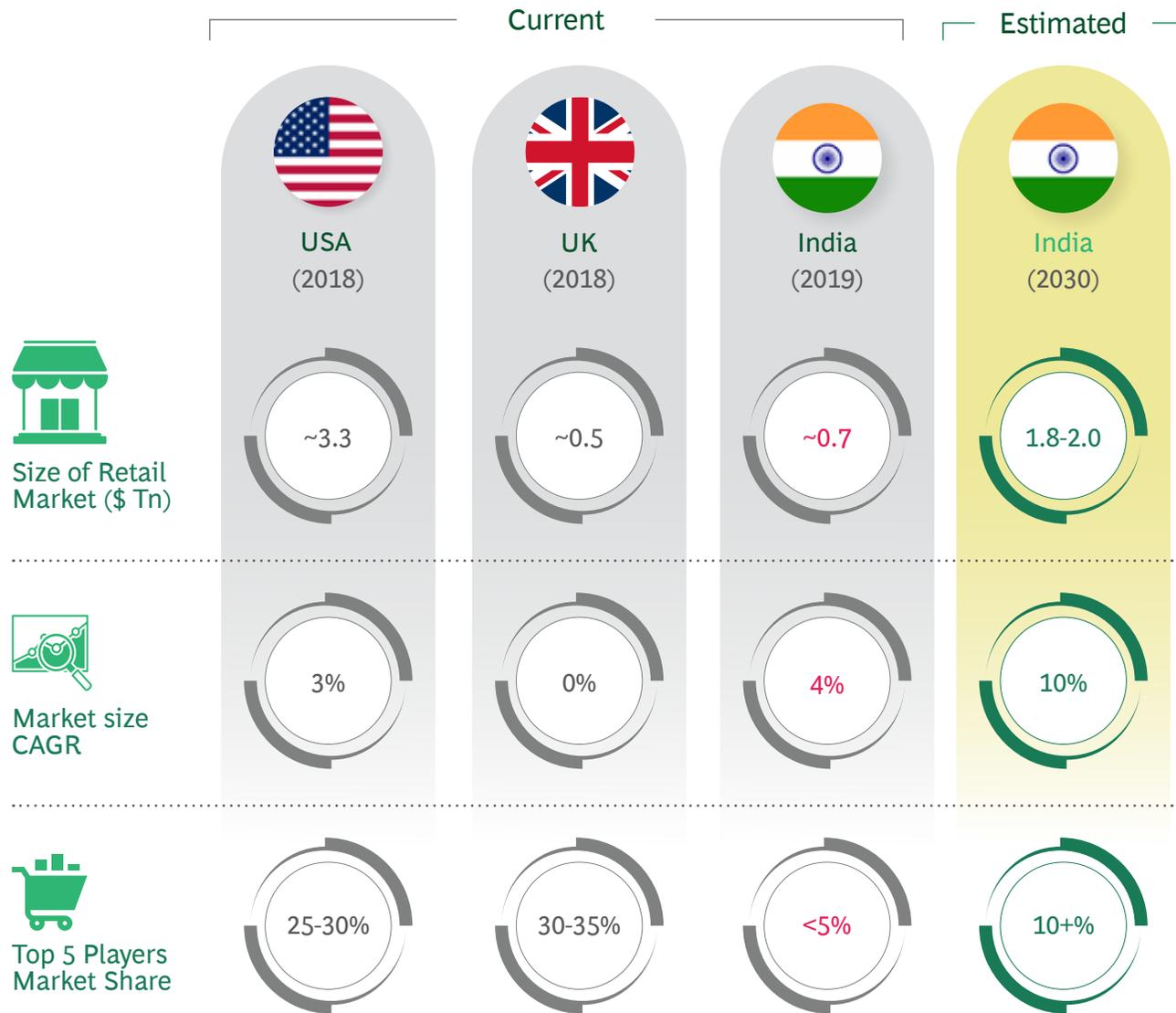
Local based sourcing, labour laws and store ops

Covid emerged as a Black Swan event, with impact across the board:

- Shifts in consumer behaviour driven by economic and access issues
- Supply chain disruptions
- Technology creating consumer awareness and commerce disruptions



Potential for dominant players to consolidate market share in fast growing sector

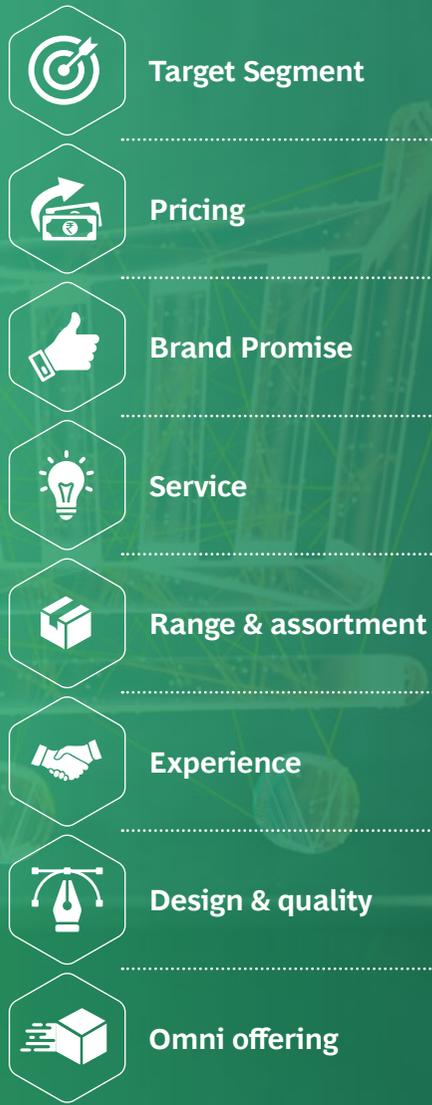


As consumption recovers steadily, retail sales poised for a comeback in 2021...
 ...presenting an opportunity to capture a healthy share of the pie

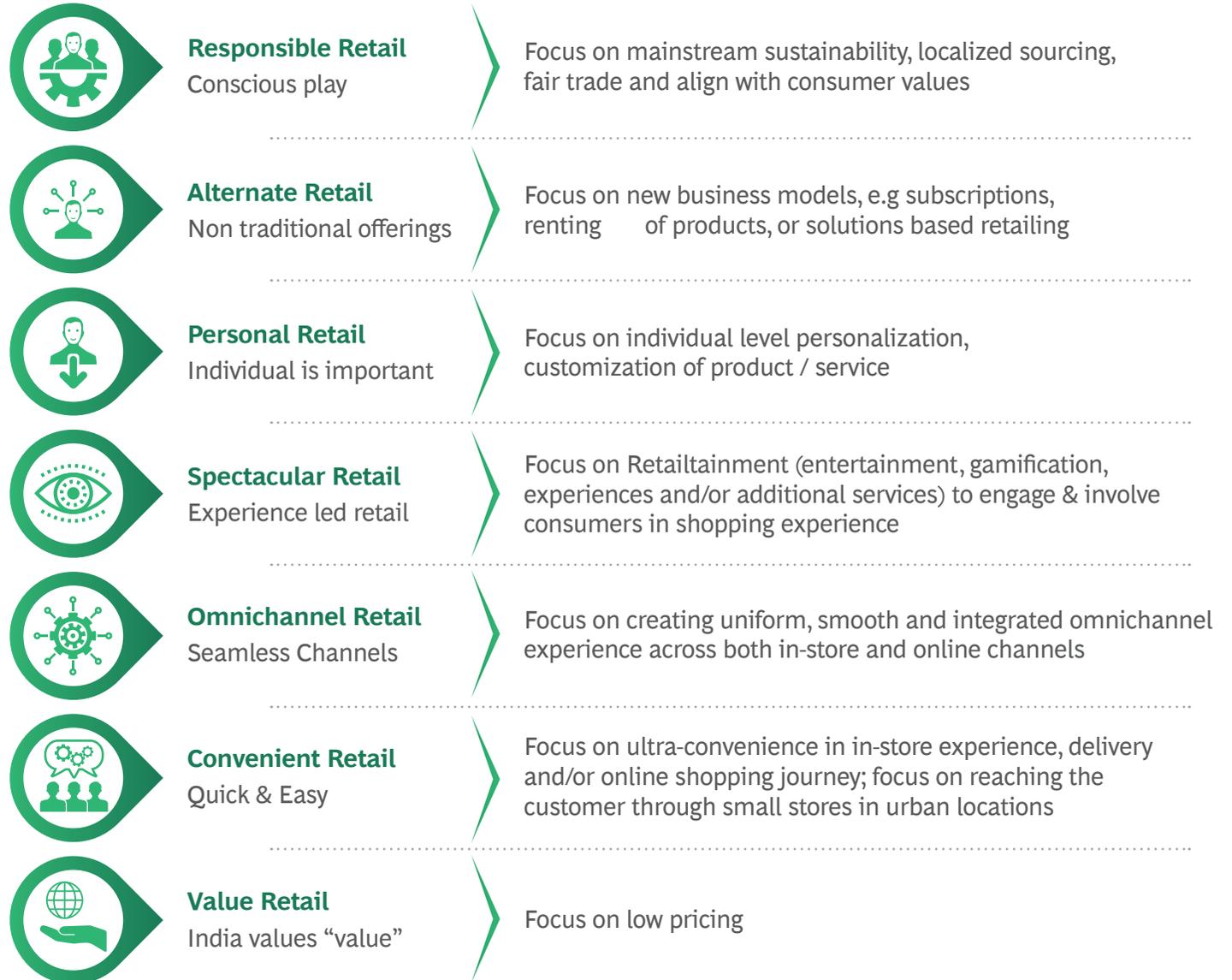
Source: Euromonitor, Company annual reports, BCG analysis

Retailers need to evaluate pivotal changes in their consumer value proposition and clearly link their positioning choices

Consumer value proposition



Positioning options



Equally important will be to design the operating model with chosen direction of proposition



Business model decisions

Priority impact on nature of retail

Essentials

Discretionary

		Essentials	Discretionary
1	Adapt store network for safety and omnichannel excellence	High Priority	High Priority
2	Align offer through merchandising, SKU optimization and investing in private labels	High Priority	High Priority
3	Adapt pricing and promotions to reflect new customer needs and expectations	High Priority	Low Priority
4	Innovating purchase journeys through click-&-collect, curbside pickup, store layout redesign	Low Priority	High Priority
5	Supply chain agility through planning analytics and strategic partnerships	High Priority	High Priority
6	Optimize customer acquisition cost by digital personalization, channel allocation & value communication	Low Priority	Low Priority
7	Develop the digital capabilities to execute all actions successfully	Low Priority	Low Priority

High Priority Low Priority

Internationally, many essentials based retailers have undertaken various actions across these operating model elements

1



Adapting network

UK supermarket chain explored fluid formats to improve access

- Initiated several formats in different geographies
- Click and collect, express delivery through app, dark stores with increased timings were some of the changes

2



Aligning offering

Leading US supermarket launched private labels for pivoting their consumer proposition

- Witnessed high revenue growth for its private label products in Q2, 2020
- Launched 50+ new private label products by end of 2020

4



Innovating purchase journeys

US food retailer offering safe journeys to grab market share

- Increased curbside pickup to 3X post Covid
- Offering it across 150 stores now, covering > 30% of total US stores

5



Ensuring supply chain agility

Italy supermarket chain leveraged partnerships to build delivery capabilities

- Reported a 10-fold increase in sales via its partnership with logistics start-up, Glovo

Similarly, discretionary led players developing new strategies to ace the new game

1



Adapting network

Leading US mobile brand transforming store layouts to offer seamless experience

- 20+ Express stores launched across the country
- Other stores designated to Curbside pickup option

3



Defining pricing & promotion

Korean mobile brand drove sales recovery by offering discounts through partnerships

- Partnered with an OTT provider, providing bundled offering of access to its digital media subscription

4



Innovating purchase journeys

Leading Indian QSR building omnichannel capabilities to stay consumer relevant

- Takeaway and Pick-n-Drive offered on app
- Increased online ordering as % of total delivery by 11% yoy

6



Optimizing customer acquisition cost

Chinese cosmetics company leveraged social platforms for customer acquisition

- Trained store employees to host livestreams
- Increased sales by 45% vs. the same period in 2019

In the long term, locally adapted operating model decisions will be key to market leadership



High Tech
Data driven play

Focus on automation; leverage AI, predictive tech, digital supply chain, Voice tech, digital payments



Many Indias
Regional play

Focus on customizing operating model based on needs, preferences of different regions across India to better penetrate regional markets



Alliances
Collaboration is key

Focus on creating partnerships/ alliances with other players, incl. unorganized retail to create own ecosystem and more economically penetrate the market



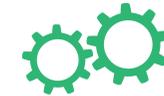
Gig
Flexible labour

Focus on leveraging Gig platforms – flexible labour (day of week, time of day, location)



Multichannel
Be present everywhere

Focus on presence in both physical stores and online channels to serve all types of customer bases

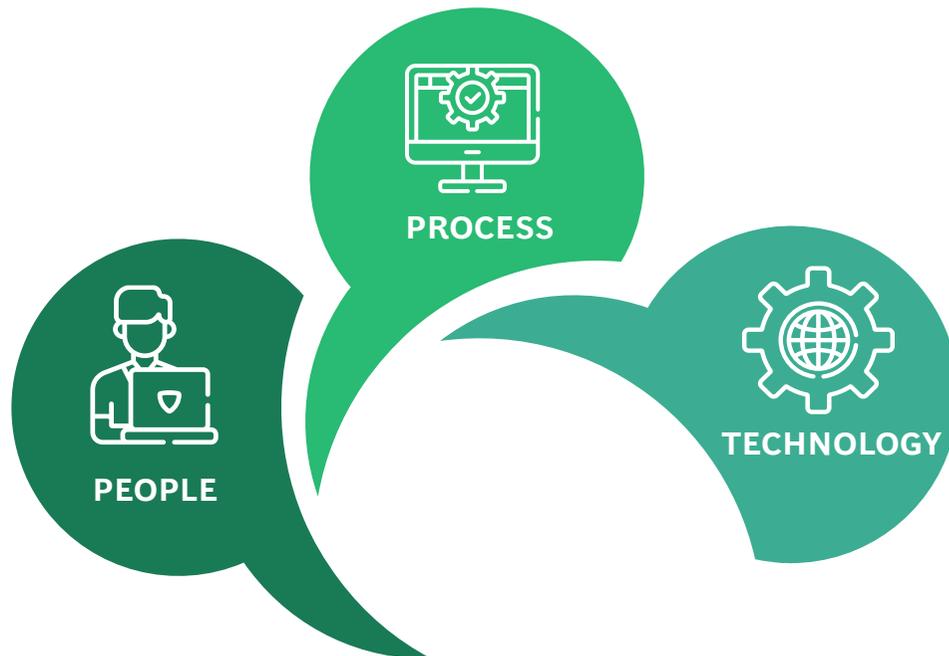


No frill
Low Cost Ops

Focus on providing bare minimum shopping experience & keeping costs at a minimum; can potentially leverage Gig economy

Recovery scenario planning

Due to the uncertainty post-Covid, only one definitive recovery plan may prove insufficient. A scenario-based recovery plan and the strategies for each of the scenarios is needed for any disruptions in the future



Agile & resilient organization

Build innovative organization and creative collaboration models with dedicated, cross-disciplinary teams to respond to problems in an agile way

Big bets in Technology

Technology is going to drive purchase journeys going ahead. Retailers need to focus on an end-to-end digital presence from product discovery to post-purchase

Resilience in adversity will be a core ability for retailers to succeed in a more unpredictable environment in the future



FOR FURTHER READING

Boston Consulting Group publishes reports on related topics that may be of interest to senior executives. Some examples include:

Retail 4.0: Winning the 20s

A report by Boston Consulting Group, February 2020

How India Spends, Shops and Saves in the New Reality?

A report by Boston Consulting Group, December 2020

Demystifying the online food consumer: An \$8 Bn opportunity

A report by Boston Consulting Group in association with Google, January 2020

Ten Trends That Are Altering Consumer Behavior in India

An article by Boston Consulting Group, October 2019

Going for gold by creating customers who create customers

A report by Boston Consulting Group, February 2019

Decoding value creation in retail

A report by Boston Consulting Group, February 2018

Digital Consumer Spending: A \$100 Bn Opportunity

A report by Boston Consulting Group, February 2018

Fashion Forward 2020

A report by Boston Consulting Group in association with Facebook March 2017

The New Indian: The Many Facets of a Changing Consumer

An article by Boston Consulting Group, March 2017

Decoding the digital opportunity in retail

A report by Boston Consulting Group, February 2017

NOTE TO THE READER

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