



Foreword

Deloitte

The consumer industry is one of the most dynamic and amongst the fastest growing industries in India. Consumer retail forms an integral part of the industry with a current estimated size of more than INR 45 trillion. It is further expected to witness a Compound Annual Growth Rate (CAGR) of over 10% in the period 2016-21 to reach a size of INR 85 trillion by 2021. Thus, it plays a pivotal role in the growth story of Indian economy through noteworthy contribution towards the national GDP, attracting significant foreign investments and technologies, and generating vast employment opportunities.

Consumers have taken the front-stage in

the constantly evolving retail environment, thus making the industry amongst the first to be influenced by technological advancements and innovations. As industry players embrace technology to enhance the consumer experience, it has become imperative for them to remain connected to consumers throughout their retail journey.

The report 'KONNECTED to consumers', delves into such various aspects which are at the forefront of the consumer industry connectedness. It demonstrates the imminence of technologies and processes, which would integrate the entire retail journey and provide a seamless experience

to the consumers. While consumer data and insights form the backbone of these technological advancements, government support through national policies and regulations would drive them towards a steady growth path.

Towards the end of the report, key action items for industry stakeholders – majorly government and businesses – have been recommended. These recommendations, provided along with their priority levels, also highlight their engagement intensity with the consumers, thus presenting clear actionable steps to realize the industry's growth potential in a connected and comprehensive way.



Rajat Wahi

Partner

Deloitte Touche Tohmatsu India LLP

FICCI

The Indian economy has entered the second half of this decade with a renewed sense of optimism. India's GDP crossed the 2.264 trillion USD milestone in 2017, and is expected to continue on a strong growth path. Trends such as rising income levels, increasing urbanization and a greater penetration of technology are driving consumption and fueling the growth of FMCG, retail and e-commerce sectors in India.

The growing consumer demand also poses greater challenges with regard to the protection of consumer rights and the environment. Enforcement of regulations and legislations to protect the consumer, especially from the growing threat of counterfeit products, needs to be more effective than it is at present to help ensure this growth. Additionally, a greater responsibility towards the environment needs to be a key focus for FMCG and retail sectors, as increasing consumption may put more pressure on natural resources. The penetration of technology (smartphones, tablets, etc.) among consumers is providing

FMCG companies in these sectors an opportunity to reach out to consumers directly, and has given rise to the rapidly growing e-retail sector. Additionally, emerging fields in the technology sector ranging from precision farming to data analytics have the potential to increase the efficiency of businesses significantly, providing more opportunities for FMCG and retail sectors.

It is important for the government and industry stakeholders to collaboratively address the challenges being faced by the sectors, so as to enable them to enhance the opportunities, and at the same time ensure that consumers have access to good quality products that are affordable and are responsibly manufactured.

The FICCI - Deloitte report is an endeavor to study and capture changing consumer trends in India, adoption of analytics in the Retail and FMCG space, the growth strategies of home-grown companies and a shift in the consumer purchase behavior towards indigenous products. While the report will enlighten readers on

the latest trends and growth strategies in the Retail, FMCG and e-commerce sectors, in order to achieve the desired growth, it is very important to address the regulatory bottlenecks in the segment. The report deep dives into the policy reforms required to create an 'ease of doing business' ecosystem for these sectors. This report would also analyze various aspects that need policy streamlining to stimulate the growth of this sectors.

The launching platform for our report, has been named **'KONNECTED' Consumers'**, and will address all the critical issues pertaining to the Indian Retail, FMCG and e-commerce sector.

I am confident that the deliberations of the conference and the recommendations of the report would provide a roadmap for the Industry to grow and achieve its true potential. I am hopeful that the study would give us some critical insights along with pertinent answers and would establish itself as a work pioneered for the sector.



Dr Sanjaya Baru

Secretary General

Federation of Indian Chambers of Commerce and Industry (FICCI)

Executive Summary

In today's world of digital evolution, technological disruptions are increasingly becoming a norm in consumer industries. While these technologies make the consumers' retail journey more convenient, at the same time they also necessitate the brands to be abreast of the dynamic retail environment and keep evolving constantly to edge out intense competition. Through the Deloitte-FICCI report 'KONNECTED to consumers', we delve into various trends and processes which are shaping the consumer industries in India. A holistic view of the aspects influencing a consumer's journey – from gathering information about a product to purchase and product review – is provided.

Knowledge of consumer data and insights

Humungous data generated via digital means and technologies is used by brands in myriad forms and ways to make the consumer retail journey and experience better. Internet of Things (IoT) and predictive analytics, in particular, are expected to overhaul the entire retail journey, by leveraging consumer data and generating actionable insights. The knowledge of consumer data would help brands in customized targeting and personalized offerings.

Omnichannel approach unlocking the prospects

Rising internet penetration, increasing smartphone usage and favorable demographics make the Indian e-tail market as one of the fastest growing markets globally. The infusion of offline and online retail modes have led to the emergence of Omnichannel retail mode – giving way to consumers to browse and shop products through mobile, apps, web, kiosks, in-store, social media, home delivery, etc. The imminence of Omnichannel has led to the shifting of major brands in pure-play offline or pure-play online mode, towards modern retail modes.

National policies impelling business growth and benefitting consumers

Government policies and regulations have been a major driver of the industry's growth over the years. Opening up the retail sector for foreign investments in 2012, resulted in massive increase in the FDIs in 2013 and successive years. These investments not only help the country grow monetarily, but also assist in building infrastructure, bringing modern technologies, creating substantial social and environmental impact, etc. One of the recent major reforms influencing consumers and businesses equally has been the launch of unified taxation system through GST. By subsuming various taxes, it would simplify the Indian tax structure and bring

greater transparency, thus leading to lower costs for majority of the commodities. However, the need for a national level retail policy still lingers to cater to the needs of industry and consumers and realize the full potential of the retail sector.

Novelty attracting the new-age shoppers

While affordability and convenience remain the most crucial factors to influence a consumer's purchase decision, novelty or uniqueness in the offering is threatening to take over the brand loyalty. However, consumer loyalty programs by the retailers are perceived to be valuable by majority of the consumers – 74% of Indian consumers (with internet access) reported participation in one or more loyalty programs in 2016. A novel approach by the brands to offer monetary benefits – cash backs, product discounts, free shipping, etc. – through their loyalty programs via digital means could help brands in keeping their consumers loyal.

Environment and social practices driving sustainability and influencing consumer behaviour

In today's world of intensifying competition, sustainable practices can help brands in standing out and building brand trust. Today's modern consumer has all the means to scrutinize a brand's business processes and operations to judge its responsibility towards society and environment. Preference to sustainable practices such as sustainable sourcing, reduction in greenhouse gas emissions, waste management, eradicating social issues, clean packaging, natural and healthy food options, etc. is gaining traction especially in emerging economies like India.

Convenience abridging the gaps

The innovative delivery models have led online retailers to increase their market share against brick-and-mortars. The growing consumer needs are pushing companies to implement



various techniques improving their last mile delivery. This compelling need is giving rise to hyperlocal start-ups which connect local buyers and stores, commission-based models to leverage rural outlets, local partnerships to penetrate in remote areas, etc. While all the developments take place in online space, the brick-and-mortars are also likely to explore different set of technologies to connect with consumers and maintain their exclusivity.

Technology augmenting consumer experience

Use of modern technologies such as Augmented Reality (AR), Virtual Reality (VR), Artificial Intelligence (AI), etc. in retail enhances the consumer experience and provides a far better degree of engagement relative to traditional means. While the high-end applications of AI – e.g. drones and driverless vehicles – would still take 6-10 years to come into commercial existence globally, AR and VR are being tested by a few select stores and could be operational in full swing in the coming 2-5 years. Factors such as improved digital infrastructure, greater use of smartphones, and increasing number of start-ups in technology space would assist in wider acceptance and greater implementation of these technologies for commercial retail.

E-wallets scaling up the payment ecosystem and handiness

Greater degree of convenience, increasing internet penetration,

greater smartphone usage and government support have led to the exponential growth of Prepaid Payment Instruments (PPI), especially m-wallets. While cash-on-delivery currently enjoys the maximum market share in payment methods, digital transactions are expected to grow much faster relative to cash transactions. The government's demonetization move led to the mass adoption of e-wallets throughout the country. The field offers substantial opportunities in the form of one-tap payments, fin-tech collaborations and cross-border payments to ease the payment process for consumers and brands alike.

Digital marketing as growth engine

Advantages such as cost-effectiveness, consumer engagement and personalized offerings are expected to drive the rapid growth of digital marketing in India, from current 12% share in total advertising industry to 24% by 2020. Consumer industries – FMCG, e-commerce, retail and consumer durables – account for around half of the country's advertising spends. Digital advertising in the form of video, search-based, and social media are highly popular in the current consumer marketing techniques. Going forward, native marketing – a completely non-intrusive ad format – is expected to be explored and leveraged in India to make the ad experience of the consumers completely natural and in flow with their retail journey.

The above mentioned emerging trends and processes in the consumer sector present the 'KONNECTED' facet of the Indian consumers. Towards the end of the report, we have depicted the way forward to highlight priority areas which would witness change in India vis-à-vis their current engagement levels. The forward-looking section would help brands and retailers to embrace themselves for the upcoming evolutionary technologies and assist them in understanding and serving the needs of the consumers in a targeted way.

Contents

Knowledge of consumer data and insights	09
1.1 Data and insights to re-invent strategies	10
1.2 Evolving trends shaping the future	11
Omni-channel approach unlocking the prospects	13
2.1 Growth of e-tail fueling Omni-presence	14
2.2 Factors driving growth of Omni-channel retail	15
2.3 Brands exploring the Omni-channel way	16
National policies impelling growth and benefitting consumers	19
3.1 Policy changes for conducive business environment	20
3.2 Investments driving customer experience	21
3.3 GST: The game-changer for consumers and industry	23
3.4 New Consumer Protection Law to protect the interest of consumers	24
3.5 Need for a national retail policy going forward	24
Novelty attracting the new-age shoppers	25
4.1 What makes new-age consumers prefer specific brand or product?	26
4.2 Novelty threatening brand loyalty – A perspective on consumer loyalty programs	27
4.3 Creating novel-value for consumers to earn their loyalty	28
Environment and social practices driving sustainability and influencing consumer behavior	29
5.1 Sustainability underway – Changing perception of customers	30
5.2 What's changing? – Impact of sustainability on the consumer behavior	31
Convenience abridging the gaps	33
6.1 Need for innovative delivery models	34
6.2 Emerging techniques expanding the scope of last mile delivery and outlook	35
Technology augmenting customer experience	37
7.1 Technologies redefining consumer experience	38
7.2 Application of major technologies in global and Indian retail and CPG industries	39
E-wallets scaling up the payment ecosystem and handiness	41
8.1 Emergence of digital payment modes in India	42
8.2 Impact of digital wallets on the retail business and outlook	44
8.3 Potential business opportunities for m-wallets	45
Digital marketing as growth engine	46
9.1 Rapidly growing share of digital advertising industry in India	47
9.2 Major benefits of digital marketing	49
9.3 Upcoming trend	50
Way Forward	51

Knowledge of consumer data and insights



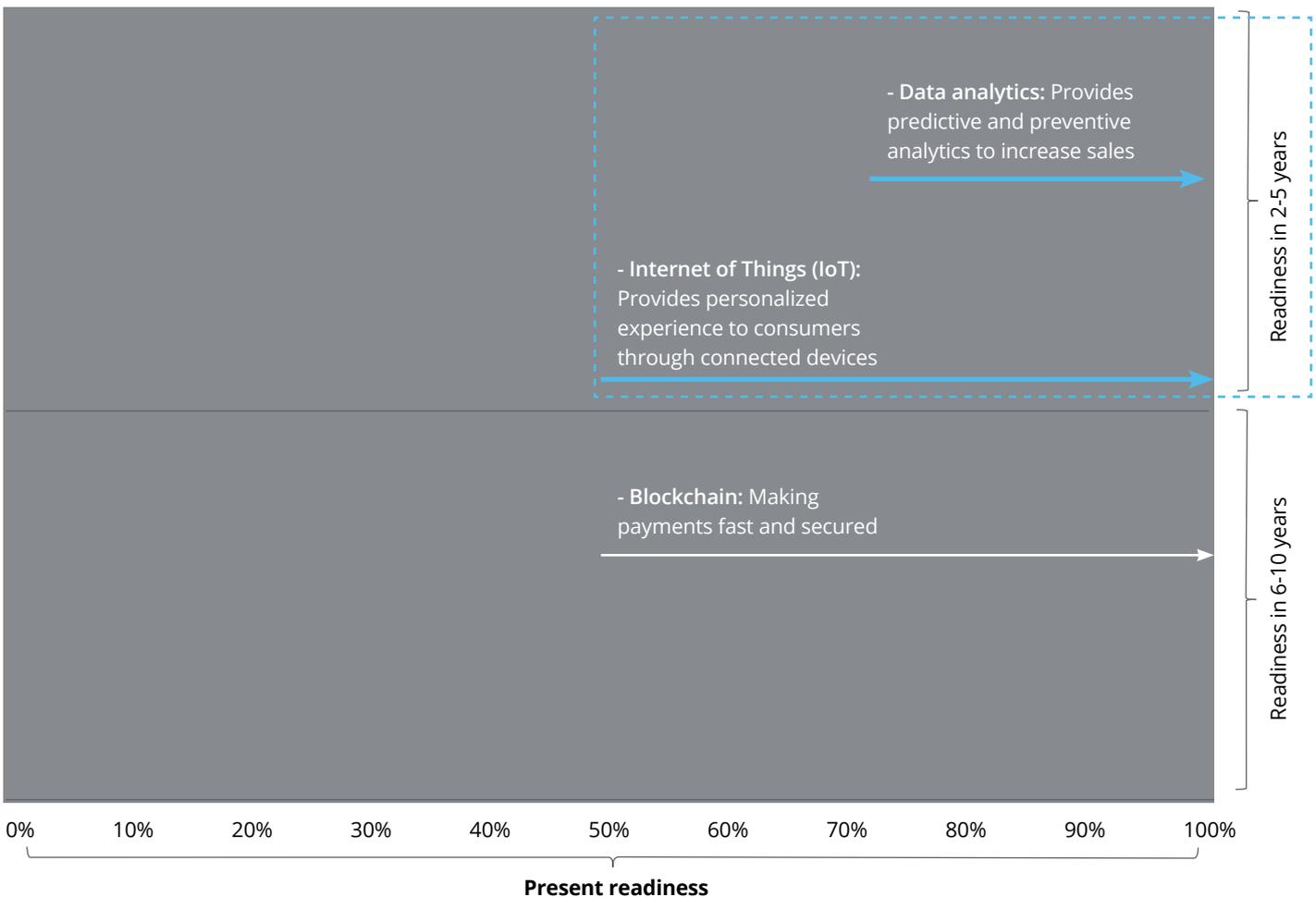
The retailers and consumer companies are using innovative ways to collect useful insights about the customers to formulate their strategies and upswing the business. It has become all the way more crucial to focus on techniques to understand the changing expectation of tech-savvy millennials. As a proven fact, millennials buying decisions are based on multiple factors and are different from traditional consumers. Data analytics and insights are already used by a number of global and Indian companies, and most of the innovations within consumer industry are expected to be linked to the use of IoT (Internet of Things) and Big Data, specifically Predictive analytics.

1.1 Data and insights to re-invent strategies

The customer data has gained a lot of importance in the recent time and a number of companies are seen investing in this space to gain a competitive advantage. The need is triggered by the changing shopping habits of millennials. According to a survey, about 80 per cent of the millennials are

interested in seeing personalized advertisements as compared to an overall average of 75 per cent¹. The major evolving technologies to collect data and running insights include Big Data, predictive analytics, IoT, etc., and are expected to play an important role in decoding the needs of a modern consumer.

Maturity of major emerging data technologies in retail and CPG (Global and consumer-focused)



Source: Shaping the Future of Retail for Consumer Industries, January 2017, World Economic Forum

With share of millennials in India expected to rise from 31 per cent in 2016 to 36 per cent in 2020², the companies are likely to be pushed to adopt insight-driven models to be competitive in the

market. However, the maturity of techniques to collect data is still in nascent stage in India, but is expected to pick up significantly with the increasing usage of smartphones and connected devices.

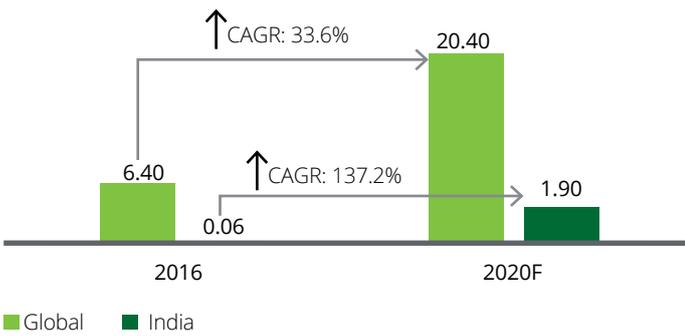
¹ India Advertising Report 2017, Adobe Digital Insights
² India's Millennials to Recast Economy in Own Tech Savvy Image, 17 March 2017, Morgan Stanley

1.2 Evolving trends shaping the future

1.2.1 Growing IoT acceptance is likely to generate more consumer data, helping retailers and consumer companies to deliver more personalized experience to the next-gen shoppers

IoT primarily helps the brands in location-based marketing to target the tech-savvy population. By using IoT, the retailers are enhancing their ability to collect crucial insights, which is helping them to provide an exclusive shopping experience. According to the market sources, the number of IoT connected devices globally are predicted to increase more than two-fold to reach 20.4 billion in 2020 as compared to 6.4 billion in 2016³. In India, the adoption of IoT came reasonably late as compared to developed economies, but the adoption rate is growing at pace and expanding the existing base faster than other countries.

Number of IoT connected devices - Global vs. India (in billion units)

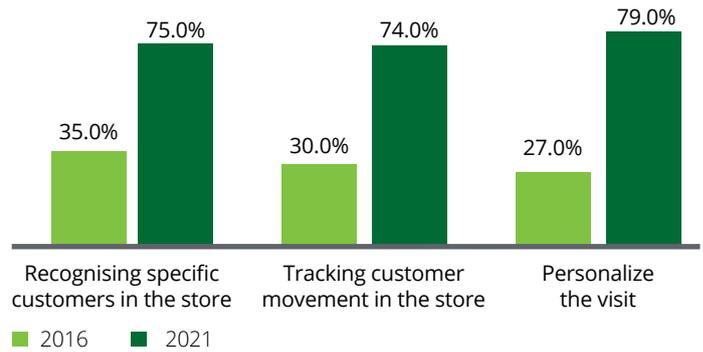


Source: Company database

Potential focus areas for Indian market

The global retailers are increasingly using IoT for customer recognition, tracking store movement, etc. to understand the purchase patterns. The Indian retailers could also explore IoT for generating these insights to take marketing decisions related to product display, placement, and personalization. The Beacons are one of the most popular tools to track customers and sending them personalized offers.

% of global retail stores use/plan to use IoT to enhance customer experience is likely to increase ~2,5X by 2021



Source: Reinventing Retail: 2017 Retail Vision Study, 2017, Zebra Technologies

Case: A French supermarket chain significantly increased the customer engagement through the installation of beacons in the store. The technology enabled customers to navigate in-store promotions through their smartphone or tablet. The retailer was able to increase its digital engagement by 400% and app users by 600%⁴.

³ Gartner Says 8.4 Billion Connected "Things" Will Be in Use in 2017, Up 31 Percent From 2016, 7 February 2017, Gartner
⁴ Carrefour Increases Mobile App Engagement 400% With Proximity & Beacons, 18 May 2015, Kontakt

1.2.2 Data driven approach is expected to be the real game changer to reach consumers, with predictive analytics to play a pivotal role in generating buying triggers

The Indian e-commerce and Retail & CPG companies are already leveraging analytics reasonably well and contribute about 1/4th of the user market⁵, with predictive analytics continues to be the preferred approach as compared to other techniques. The data approach helps retailers to predict demand, and increase their sales by offering personalized promotional offers to consumers. With the global predictive analytics market is likely to grow at a CAGR of 21.0 per cent to reach ~INR704 billion in 2022⁶, retailers are increasingly investing in forecasting techniques to take their complex business decisions more intelligently.

Potential focus areas for Indian market

1. Recommending similar or related products

Various online sellers are using comprehensive collaborative filtering engine (CFE), which helps them in analyzing previous purchases, products in cart and most searched items by the users. Based on the insights, the portal recommend the related products bought by other users along with the selected items.

This gives rise to impulse buying and encourages customers to spend more money.

Case: As per the market sources, the approach enables one of the major US-based online retailers to increase its annual sales by 30 per cent.⁷

2. Location-based triggers

Brands are leveraging GPS of customers to analyze their routine. They further predict locations of their customers and generate exclusive promotional offers to draw attention.

Case I: One of the very popular US-based coffee chain introduced a feature that uses the customer’s vicinity to receive orders and deliver at the most suitable store, saving a lot of time and improving service delivery. The restaurant reportedly receive around 8 per cent through this approach.⁸

Case II: A pizza maker uses this technique to send promotional messages or discount coupons based on bad weather or power cuts, where users find it difficult to cook. The provider reportedly converts every fifth targeted consumer.⁹

3. Customer targeting

Predicting likelihood of an event provide a vital insight to retailers for identifying the future needs of a particular customer. Based on the history of purchased items, demographic and personal details, life events are predicted to help companies target specific customers with products they might need and increase sales.

Case: One of the retail majors deployed a model analyzing the shopping pattern of customers and concluding their chances to of Parents-to-be in recent future. The retailer then was able to send promotional offers related to baby products according to the pregnancy scores.¹⁰



The data analytics market is witnessing momentous growth globally as well as in India. The significant rise in IoT devices in India will prompt companies to increasingly embed the technologies to understand their customer base and offer exactly what they require. While industries like manufacturing, utilities, automotive and logistics are the early adopters (majorly from the business side), retailers are expected to make significant progress in terms of usage, primarily to understand consumer sentiments. However, these opportunities are still untapped in India, and the early movers are likely to gain as the customers demand exclusivity. The major focus areas for Indian retailers could relate to the use of beacons in the stores and exploring Predictive analytics to recommend relevant products, send location triggers and target specific customers. With e-commerce sales are predicted to rise significantly, these techniques are expected to be the major tools for businesses to plan their Omni-channel presence and drive sales.

5 Analytics India Industry Study – 2016, Analytics India Mag
 6 Global Predictive Analytics Market expected to reach USD 10.95 Billion by 2022: Zion Market Research, 12 January 2017, Globe Newswire
 7 Ways Amazon Uses Big Data to Stalk You (AMZN), 7 September 2017, Investopedia
 8 Here's How Starbucks Is Taking Its "Mobile Order And Pay" To The Next Level, 14 December 2016, Forbes
 9 5 Retail Big Data Examples with Big Paybacks, CRM Search
 10 How Target Figured Out A Teen Girl Was Pregnant Before Her Father Did, 16 February 2012, Forbes

Omni-channel approach unlocking the prospects

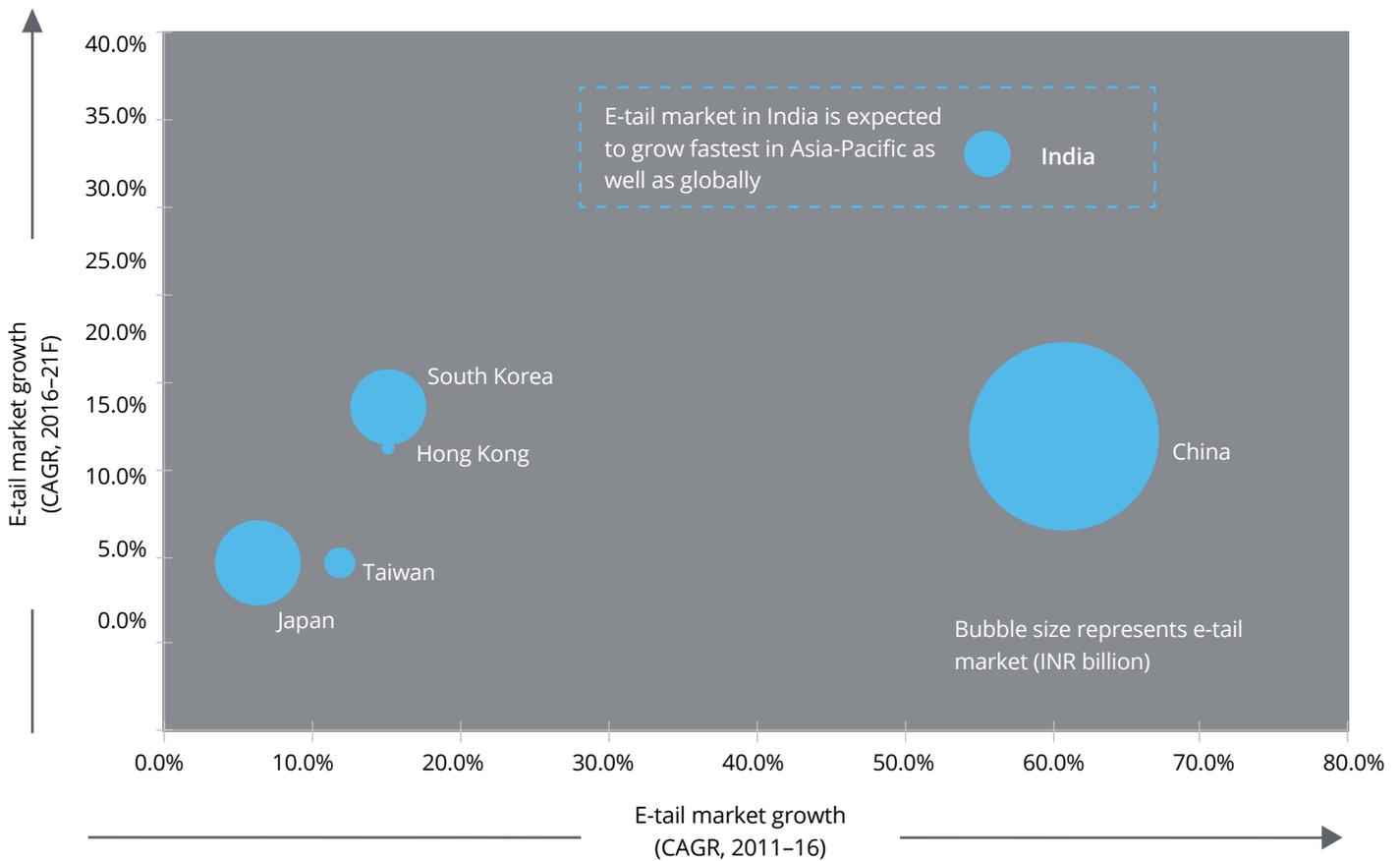


Technological advancements in the consumer segments have led to the emergence of a plethora of retail channels including brick-and-mortar, e-tail, direct selling, vending machines, cash and carry, click and collect, m-commerce, etc. The onset of these retail channels have made the consumers' retail journey more convenient and engaging. Leveraging multiple retail channels for a purchase has enabled the consumers to explore through a variety of similar options, check product prices at multiple platforms and make an informed decision based on other consumers' ratings and reviews. At the same time, Omni-channel retail also presents myriad opportunities for brands to upgrade their operations and processes and attract consumers as it helps in keeping the shoppers more engaged.

2.1 Growth of e-tail fueling Omni-presence

While the overall penetration of e-tail¹¹ in India is low, relative to the other developed economies globally and in the Asia-Pacific, its rate of growth is much faster.

E-tail market in Asia-Pacific (2016)

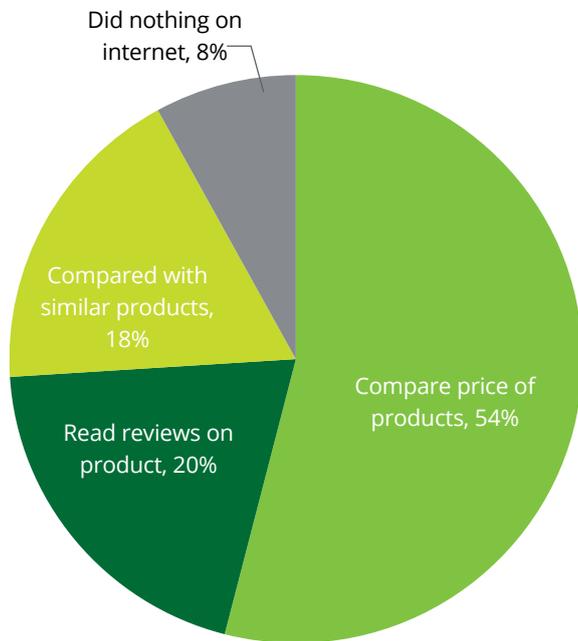


Source: Company database and analysis

The evolution of retail and the growing internet penetration in India have led to the amalgamation of different retail channels. With increasing personal disposable incomes, greater number of consumers are prioritizing convenience over affordability as the top reasons for purchase of a product or service. This has led to the emergence of Omni-channel retail in India, where different retail channels are leveraged to accomplish the retail journey – starting from gathering information regarding the product and ending at posting reviews and providing feedback after the purchase.

¹¹ E-tail refers to sale of products and services through electronic transactions via the internet from businesses to consumers (B2C). It excludes travel and event transactions.

Online activities conducted while shopping in-store



- Out of the total population of consumers having internet access in India, nearly 54% compare the prices of products on mobile internet while shopping in-store, representing a significant crisscross amongst retail modes
- Further, 30% of the online shoppers in India discovered new products through social media channels



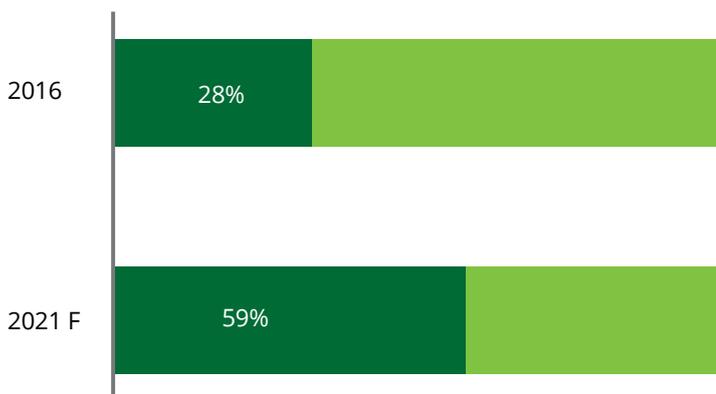
Source: Company database and analysis

2.2 Factors driving growth of Omni-channel retail

1. Rising number of internet users

- Growing internet penetration would lead to an increase in the number of internet users in India from 373 million in 2016 to 829 million in 2021

Internet penetration in India (2016-21F)

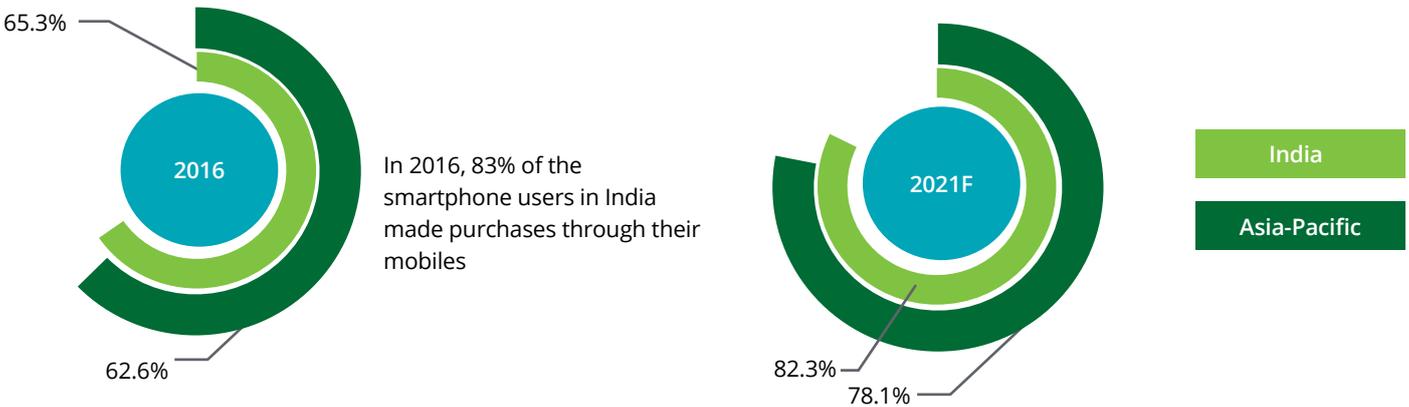


Approximately 75% of the new internet users in India are expected to come from rural regions.

Source: Internet users in India to double by 2021: Cisco report, 9 June 2017, Your Story; India's internet users to double to 730 million by 2020 leaving US far behind, 17 August 2016

2. Rising number of smartphone users and increasing m-commerce

- Smartphone users in India are expected to increase from 290 million in 2016 to around 470 million by 2021
- This is expected to drive the share of m-commerce in Indian e-tail industry



Source: Statista

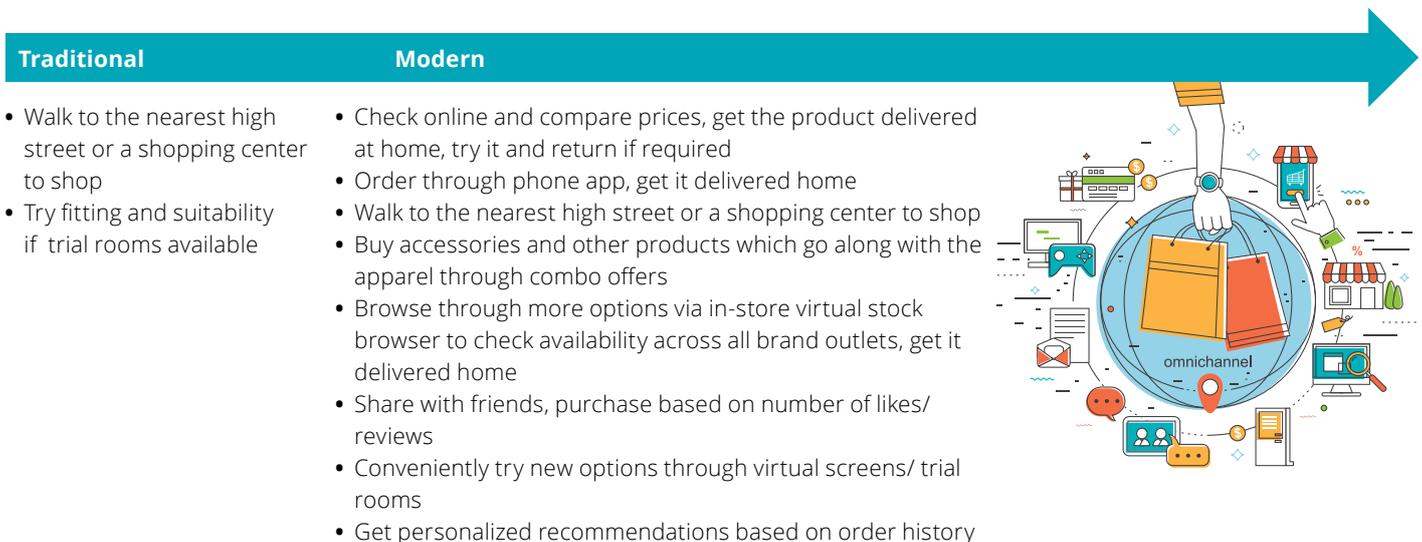
Additionally, following factors are also propelling the growth of Omni-channel:

- **Favorable demographics:** India has the world's largest population of millennials (aged 18-35 years) who are more tech-savvy and prefer digital means for communication and shopping
- **Digital infrastructure:** Rapid development of digital infrastructure and digital money transfer options would lead to an increasing presence of Omni-channel retailers
- **Convenience and efficiency:** Ease of using mobile apps for browsing products, comparing prices, reading reviews, etc. has led to faster adoptability of mobile as a shopping tool. Further, quicker revert to feedbacks and queries increases the satisfactory levels of consumers

2.3 Brands exploring the Omni-channel way

Given the imminence of Omni-channel retail, various consumer brands are exploring multiple retail channel strategies to offer seamless experience to their customers. From launching user-friendly web and application portals to digitizing and enhancing in-store experience through innovative use of technologies – brands are leaving no stone unturned to gain edge in a highly competitive consumer market.

Example: How Omni-channel has modernized the consumers' apparel retail journey, and made it more convenient...

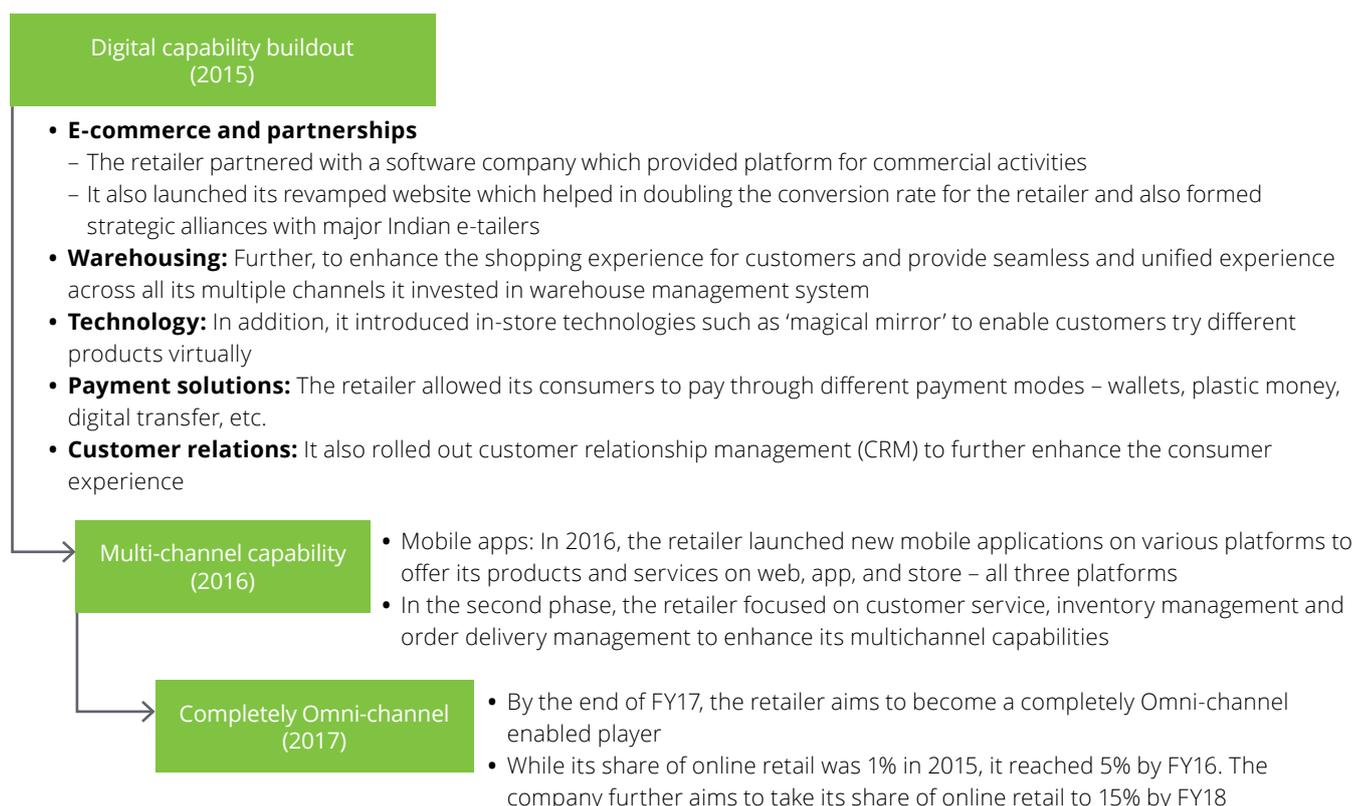


Various major brands in India have entered or expanded into retail mediums where they had limited or no presence. Major e-tailers have opened their brick-and-mortar stores to display their products and overcome the challenges of pure play online medium. Such stores offer the touch and feel of the products and services, provide value-added services, trials and instant customer care for the convenience of the consumers. Similarly, traditional brick-and-mortar stores have leveraged the technology assistance to venture into the digital world of e-tailing, either through their own websites or by offering their products and services through major e-tailers. Brands are revamping their in-store strategies to increase make the consumer journeys more convenient and engaging.

Case study 12: Major Indian multi-brand retailer

One of the major multi-brand retailers in India, which enjoys eminent presence through its 81 brick-and-mortar stores spread across 37 cities in India, planned to get an Omni-channel makeover in a period of three years. The objective was to increase the brand's online presence, keep customers engaged and happy, and take on the competition from online retailers.

The company adopted a three-pronged strategy to provide a seamless and unified shopping experience to its customers across its multiple retail channels. It laid down a phased 3-year approach with INR 60 crores budget dedicated towards the overhaul of technology, strengthening the digital supply chain and optimizing digital marketing operations.



Looking forward, Omni-channel retail would therefore be one of the biggest trends to impact not only the consumer journey, but also alter the strategies of the retailers completely. Technology, especially expanding internet penetration, has been the protagonist driving the trend deeper into the Indian markets. At the same time, government initiatives in the form of national policies and regulations would complement the growth of Omni-channel retailing and provide a big boost in encouraging multinational brands which bring along modern retail technologies successful in the developed retail markets globally.





National policies
impelling growth
and benefitting
consumers

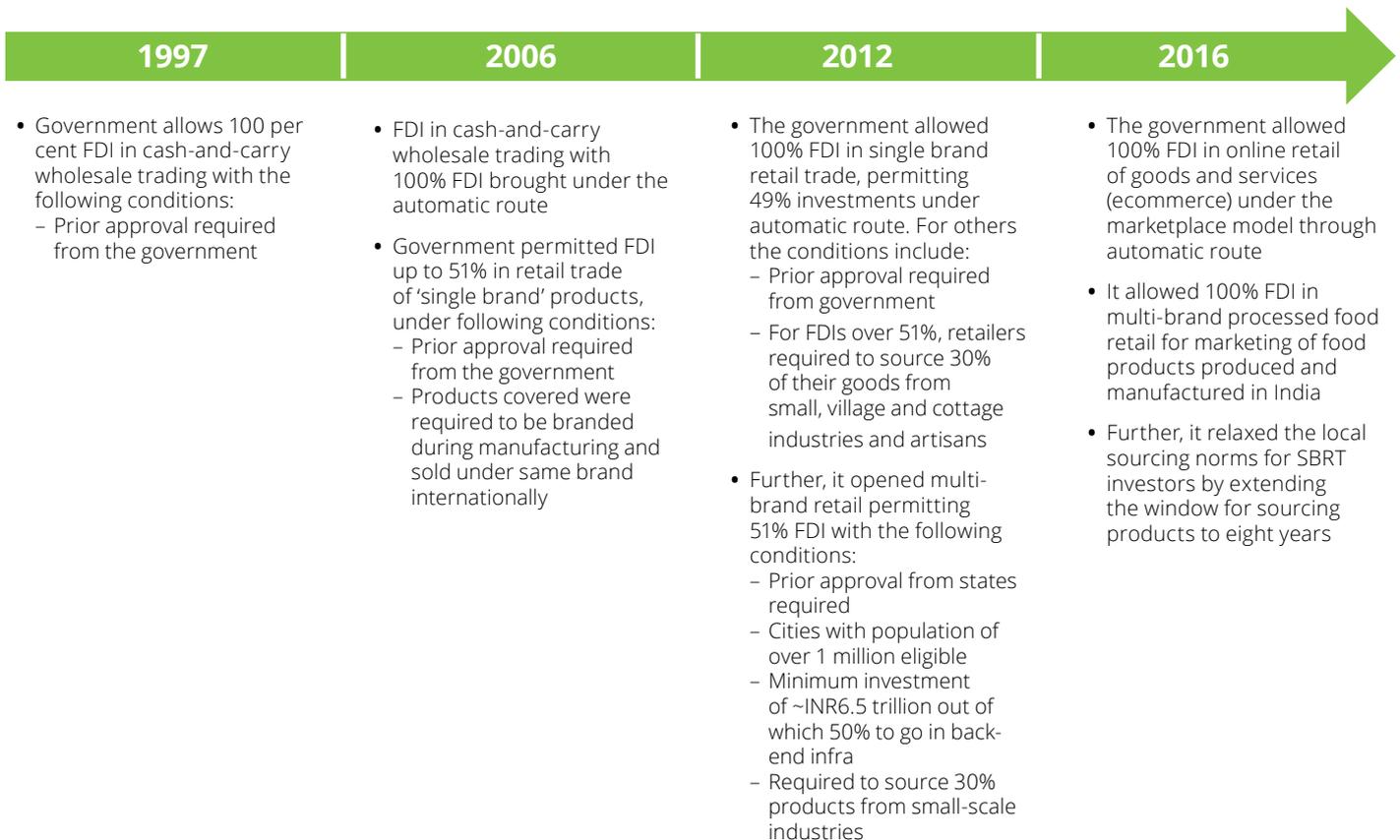
Government has played the role of an enabler to develop the Indian retail market. Its policies have not only helped multinational brands and retailers to invest and operate in India, but have also opened gates of modern retailing for the consumers. At the same time, the domestic players are also thriving to the extent that they are competing neck-to-neck with the well-established global brands operating in the country. It is the outcome of government's policies and regulations, that the consumer has become the king in today's consumer world and major business strategies are formed prioritizing the customers' needs.

3.1 Policy changes for conducive business environment

Retail has been one of the sectors where foreign direct investments (FDI) were restricted historically owing to apprehensions from local retailers and industry bodies and due to political resistance. However, following the government's decision to open up the sector for FDIs in Single Brand Retail Trade (SBRT) in 2006, the country has witnessed significant

advancements in the sector throughout its value chain. International retailers have helped in stimulating the Indian retail growth with regard to technology, supply chain, storage and warehousing, distribution, retail formats, aftersales services, etc. Further, they have helped in modernizing the retail industry and pushing it towards organized market.

A gradual opening of the retail sector for FDI led to the onset of increasing foreign investments and modern modes of retailing – benefitting the consumers and the industry alike^{13,14,15,16}:



With the abolishment of the Foreign Investment Promotion Board (FIPB) in 2017, FDI clearance process is expected to become convenient for the investors as it removes a layer of unnecessary procedures. The FDI proposals would now be transferred to concerned individual ministries which would decide on their clearance in consultation with the DIPP.

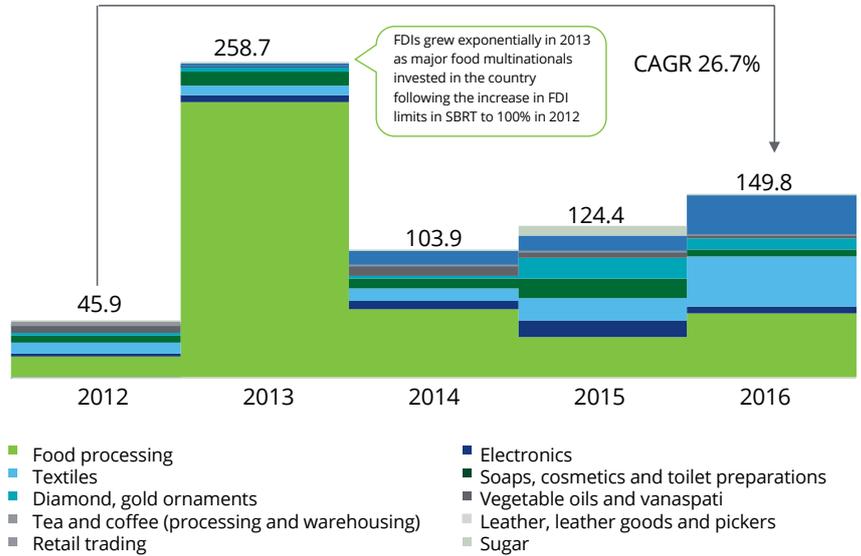
13 FDI in multi-brand retail: The gateway finally opens
 14 The big ticket FDI reform
 15 FDI in multi-brand retail with riders
 16 Consolidated FDI Policy

3.2 Investments driving customer experience

According to the UNCTAD's World Investment Report 2017, 20% of the global executives favored India as the host destination for investments during 2017-19, ranking the nation third after the US and China. Given the increasingly favorable macroeconomic environment in India and the government's consistent focus on making the business environment more conducive, the nation has witnessed a steady growth in FDIs and PE/VC investments in the consumer industry.



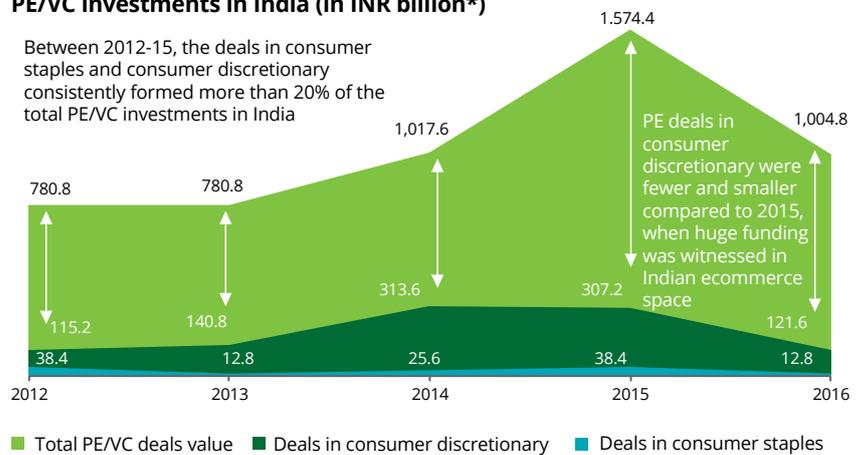
Annual FDI in India (Consumer industry)
Figures in INR billion



Source: Department of Industrial Policy & Promotion (DIPP)

PE/VC investments in India (in INR billion*)

Between 2012-15, the deals in consumer staples and consumer discretionary consistently formed more than 20% of the total PE/VC investments in India



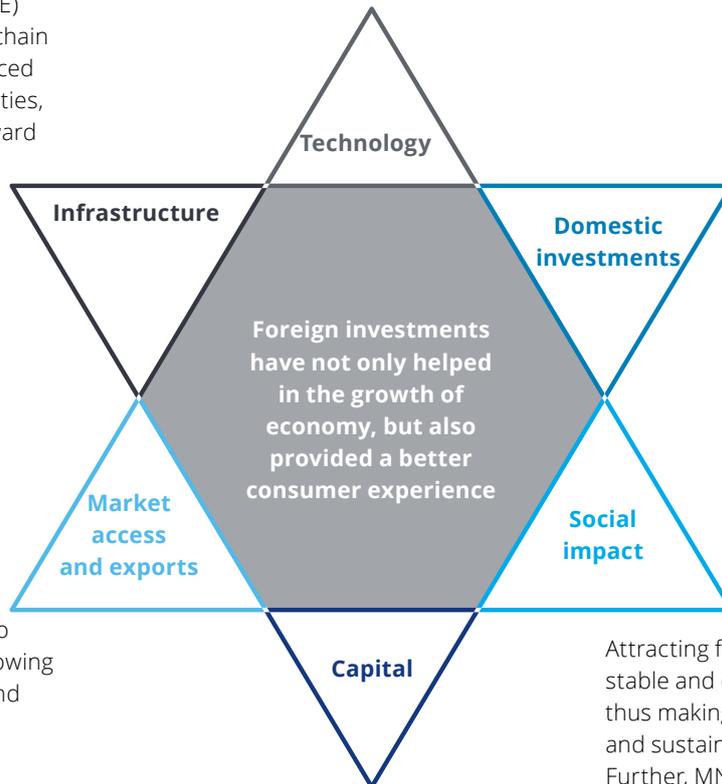
*Constant currency conversion rate of 1 USD = INR 64 taken

Source: Company database and analysis

Foreign companies bring along a host of technologically advanced processes, methods, products and services, which not only benefit the consumers but domestic players as well

- Artificial intelligence, predictive analytics, virtual and augmented reality, etc. originated from developed economies and later got infused in the Indian retail

Multinational enterprises (MNE) have well-established supply chain network, comprising of advanced warehousing/ storage capabilities, integrated forward and backward linkages, modern stores, etc.



Foreign investments boost the confidence of domestic investors as well, leading to greater investments and more options for consumers

- Gauging the huge opportunity in retail sector, various major Indian industrialists started their retail operations in India to compete with foreign retailers
- Further, various startups thrived in this space given the huge consumer base in India

MNEs help with easier access to domestic and export markets owing to their better infrastructure and well-established brand name

Attracting foreign investments requires a stable and conducive policy environment, thus making it more reliable, transparent and sustainable

Further, MNEs bring along their best practices in conducting responsible business

Companies invest in long-term projects and infuse huge capital while taking risks, benefitting the economy as well as providing better experience to consumers

- Indian consumer industry has received a total FDI worth INR 682.7 billion in the period 2012–16

Source: YBD Journal

Going forward, the government is considering to open up the MBRT FDI policy from all restrictions for retail trade of domestically manufactured goods, which would apply to both online and offline retail trade. Further, to enable 100% FDI in food retail chains, it is also considering to allow foreign food retailers to sell 25% non-food items out of the total items sold.^{18,19}

¹⁸ Modi government mulls allowing 100% FDI in retail, with caveats

¹⁹ Government mulls proposal to free up retail FDI policy but only for India-made goods

3.3 GST: The game-changer for consumers and industry

The much-awaited unified taxation system – Goods and Services Tax (GST) – came into effect in India from 1st July 2017. Touted to be as one of the biggest tax reforms of independent India, GST subsumes various center and state level taxes including sales tax, service tax, VAT, cess, surcharge, additional etc. Further, it would help in overcoming the issue of cascading of taxes (tax on tax) as it has the provisioning of input tax credit, whereby tax is levied only on the amount of value addition at each stage of the supply chain.²⁰

Major implications

Economic

- New tax regime would bring in more transparency, improve the ease of doing business – as state entry barriers would be removed, improve tax compliance and thus boost revenue receipts for both the state and center governments

Consumer

- Consumers are expected to reap the benefits of GST as the tax rates for goods have been kept such that the overall impact remains revenue neutral to the extent possible. The efficiencies and cost-savings from logistics and transportation perspective would eventually trickle-down to consumers, implying lower costs for majority of the commodities

Business

- For goods and services where tax rates have increased, the provision of input tax credit and cost-effective logistics would offset the increased prices²¹. To prevent a steep rally in prices of products and services, and to ensure that the reduced taxes are passed on to consumers, the government has introduced an anti-profiteering clause in the GST law. Under this clause, an anti-profiteering authority would be set up to act on complaints of profiteering. The profiteering business (supplier/ retailer), in such cases, would be directed to cut the prices or return the benefit of reduced tax to the buyer with 18% interest or recover the extra amount if buyer cannot be identified²² :

On the corporate front, in the immediate aftermath of GST rollout, major consumer goods companies witnessed a rally in their stock prices. The BSE Sensex rose approximately by 1% on the first day of trading (3rd July 2017) after the GST roll-out. Similarly, Sensex for consumer durables showed a steep hike of approximately 3%, Sensex for FMCG rose by a sharp 6% and Sensex for consumer discretionary goods and services increased by 0.5% on the first day of trading post GST implementation, implying appreciation from investors over the tax reform.

BSE Sensex movement
January 2017 - August 2017



Source: BSE India, NSE India

20 Will GST untangle India's tax regime? How the new system might impact consumers and businesses

21 EXCLUSIVE: GST's challenge for the govt. is to ensure consumers are not cheated, says CBEC Chief

22 Will GST untangle India's tax regime? How the new system might impact consumers and businesses

Historically, GST/VAT implementation in Southeast Asian countries have led to an initial inflationary impact, leading to increased CPI inflation rates post the implementation of GST/VAT. However, inflationary impact in India is not expected to be as profound relatively, as the tax rates are majorly kept revenue neutral. Further, for goods and services where tax rates have increased, the provision of input tax credit and cost-effective logistics would offset the increased prices²³. Moreover, to prevent a steep rally in prices of products and services, and to ensure that the reduced taxes are passed on to consumers the government has introduced an anti-profiteering clause in the GST law. Under this clause, an anti-profiteering authority would be set up to act on complaints of profiteering. The profiteering business (supplier/ retailer), in such cases, would be directed to²⁴:

- 1 Cut the price of product/ service
- 2 Return the benefit of reduced tax to the buyer with 18% interest or recover the extra amount if buyer cannot be identified

The profiteering business could also lose its GST registration under the anti-profiteering clause in the new tax regime.

3.4 New Consumer Protection Law to protect the interest of consumers

In the wake of emerging global supply chains, dilution of trade barriers, rising international trade and the rapid development of e-commerce, new challenges have evolved in the consumer markets. To protect the consumers from misleading advertisements, and the challenges of telemarketing, multi-level marketing, direct selling, etc. the government introduced the Consumer Protection Bill in the Parliament in August 2015, to repeal the 30-year old Consumer Protection Act. The Bill, currently being redrafted following the recommendations of the parliamentary standing committee, is expected to fast-track grievance redressal – similar to functioning of the authorities in the US and European countries²⁵. Further, it entails features providing simpler adjudication, mediation as an alternate mechanism for dispute resolution, and also has a mechanism for a Central Consumer Protection Authority (CCPA) to deal with product liability and unfair trade practices²⁶.

Currently, the Consumer Protection Act of 1986, amended thrice in 1991, 1993 and 2002, is in enactment to safeguard the interest of consumers.

3.5 Need for a national retail policy going forward

While the retail industry in India moves towards organized market with greater foreign investments and brand presence, the industry needs a uniform and comprehensive national policy to make it convenient for industry players to operate throughout any part of the country. While the rollout of GST is a significant step in the right direction towards making the taxation process more transparent, reliable and uniform throughout the country, there are a few steps still required to enthuse the confidence among investors to 'Make in India'.

There are various states which either have their own retail trade policy or are in the process of passing/ formulating one. While the states of Andhra Pradesh, Karnataka and Maharashtra already have a retail trade policy in place to encourage investors to operate in their respective states, other states such as Telangana and Uttar Pradesh have in place a draft retail policy and plan to implement it soon.^{27,28} States of Rajasthan, Delhi, Kerala and Madhya Pradesh are also working on having their own respective retail policies to attract investments²⁹. Instead of having state wise specific retail policies, it would be in the interest of the central government, industry as well as consumers to have a unified system in place to cater to the industry needs.

Government policies and regulations are thus the backbone of growth of the consumer industries. If executed well, these policies can bring about a developmental shift in the industry with the incoming foreign investments and technologies. Multi-national brands operate in India with their own set of expertise and thus being a novel factor to the consumer industries which helps in further development of the sector.

23 EXCLUSIVE: GST's challenge for the govt. is to ensure consumers are not cheated, says CBEC Chief
24 Will GST untangle India's tax regime? How the new system might impact consumers and businesses
25 Govt. to table fresh Consumer Protection Bill in Parliament
26 Government revamping consumer protection law: Minister
27 Uttar Pradesh Retail Trade Policy 2016 - 2021
28 National retail policy needed for FMCG, retail sectors: report
29 Retailers expect robust state-wise retail policies in 2016

Novelty attracting the new-age shoppers



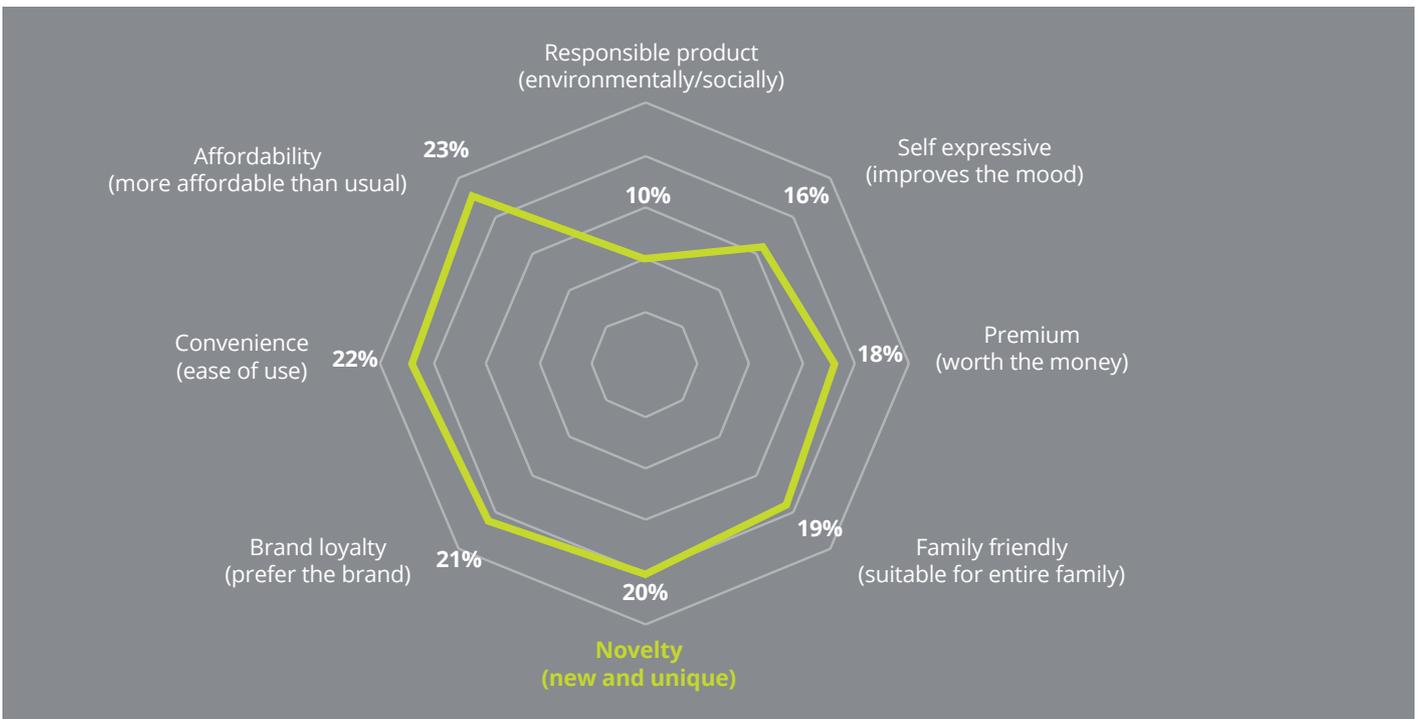
The constantly evolving retail environment across the world, and especially in the emerging markets like India, has necessitated brands to focalize on the consumers’ needs and address them in the best possible and the most rapid manner. Companies realize the value of gaining consumers’ trust in today’s world of dwindling consumer loyalty are implementing innovative strategies, convenient processes, valuable loyalty programs, apart from launching newer products and services and adopting out-of-the-box marketing techniques on a periodic basis to lure and sustain their consumers.

4.1 What makes new-age consumers prefer specific brand or product?

Although affordability and convenience are the foremost criteria globally for making a purchase; novelty, or uniqueness in the offering – product or service – is also a major factor which can influence the customer’s decision. According

to a global online survey from a research firm, conducted in 2015, novelty or newness is ranked as the fourth major reason by the average global consumer to make a purchase decision:

Reasons for new product purchase*



Source: Nielsen report, 2015

Note*: Sum of all categories would not amount to 100 owing to overlap of choices by consumers

Further, the survey finds that developing countries such as India are more inclined towards trying new products owing to the following reasons:

- Young demographic composition
- Rising middle class population
- Increasing personal disposable income
- Greater preference for affordable luxury

Thus, it becomes all the more important for retailers in India to periodically introduce new services, offers, features, products, etc. to attract and retain consumers.

4.2 Novelty threatening brand loyalty – A perspective on consumer loyalty programs

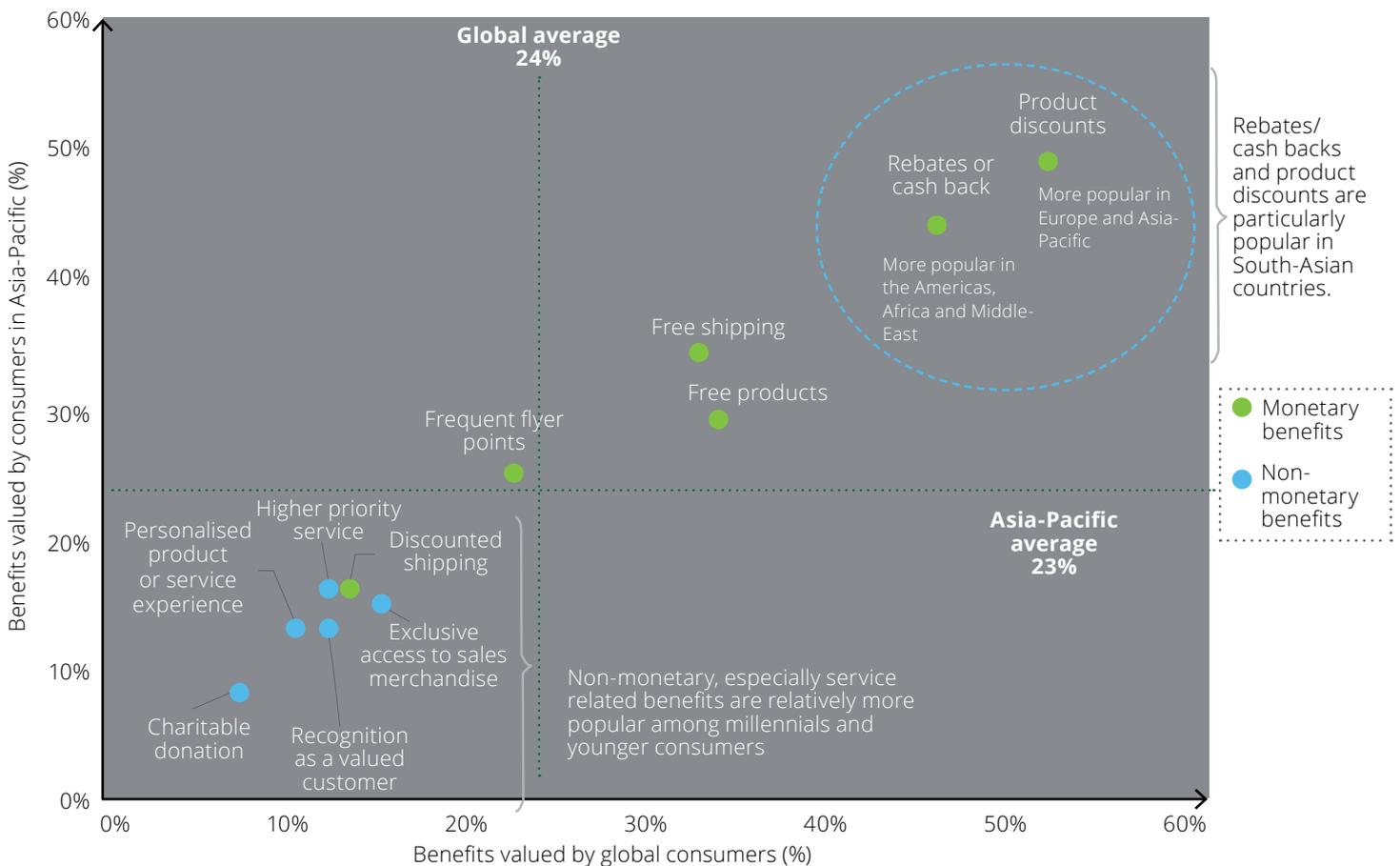
Preference for novelty to buy a product is thus amplified in emerging countries like India, therefore threatening the brand loyalty parameter. Various major retailers, especially modern retailers, are offering consumer loyalty cards/ programs to retain their regular consumers.

Loyalty programs help consumers in getting more value for their money. Coupons, redeemable reward points, cashbacks, discounts, etc. drive consumers to the retailers, as these offers are unique to the consumer based on their purchasing pattern

and gives them a sense of exclusiveness and reward. According to a global online survey, conducted by a research firm in 2016, approximately two-thirds of the online consumers globally admitted to have shopped more frequently and spent more at retailers with loyalty programs³⁰.

Financial incentives are the major factors driving consumers into loyalty program participation. Following is the list of most-valued benefits based on the global online survey of consumers:

Most valued benefits of loyalty programs (Global vs. Asia-Pacific)



Source: Nielsen report, 2016

Retail loyalty programs are also popular in India. More than seven in 10 consumers (with online access) in India claim to be participating in one or more retail loyalty programs – 74% in India, compared to 72% in Southeast Asia. However, relatively developed economies in Asia-Pacific region have greater self-reported rates of loyalty program participation – the only exception being China.

Indian consumers, along with the Asia-Pacific population overall, particularly prefer digital loyalty program attributes or features. Store specific loyalty mobile applications are very attractive for Indian consumers (80%) compared to Asia-

Pacific region (69%) and global (60%). Digital loyalty program attributes include:

- **Flexibility:** Points or rewards for purchases made through any retail mode – store, website or mobile
- **Personalization:** Personalized discounts or promotional offers
- **Bonuses:** Opportunities to earn bonuses based on activities such as referrals
- **Technology:** Integration with mobile payment system and points or rewards for sharing products and pages on social networks

30 Nielsen report, 2016

Case in example: American coffee company

One of the major American multinational coffee chains aggressively marketed its loyalty program in 2013 in the US by rewarding customers based on their number of visits to its outlets. The coffee chain witnessed a rapid increase in its revenues and profits on a quarter-on-quarter (QoQ) basis:

- 11% increase in 2QFY13
- 26% increase in 2QFY13

Overhaul in the chain’s loyalty program in 2016

The coffee chain, based on analysis from consumers’ data, made a strategic move to overhaul its loyalty program, rewarding consumers based on their retail spend instead of frequency of visits.

Although initially, it apparently witnessed a dramatic drop in consumers’ perception about the brand, it advertised its move as a fairer one to consumers spending more – segment which the brand intends to make highly loyal.

- The new program also encouraged consumers to spend more instead of just frequenting the outlets, thus assisting in the growth of chain’s revenue streams.
- Further, consumers frequenting more but spending less might also shift to high spending segment to avail similar loyalty benefits which they enjoyed earlier

Source: The Impact of Loyalty Programs is Even Bigger than You Think, Changing Your Loyalty Program? Be Prepared for a Potentially Brutal Impact on Your Brand, Starbucks New Loyalty Program Case Study

4.3 Creating novel-value for consumers to earn their loyalty

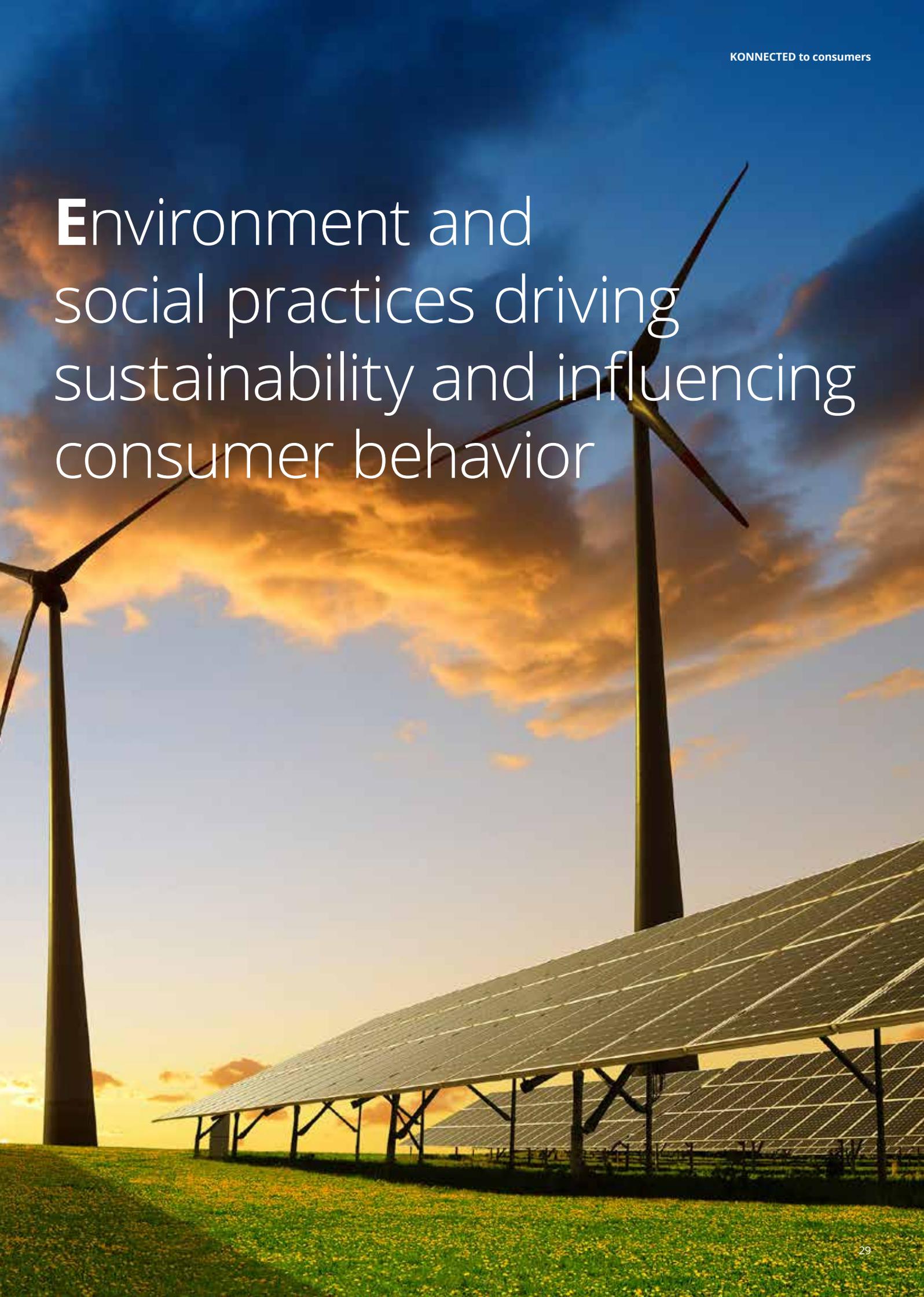
It has become a pre-requisite for the brands to create a seamless online and offline experience for their customers in order to edge out the competitors. They need to ensure that they are delivering the ‘what, when, where and how’ for the customers in a manner which benchmarks their experience. Leveraging digital tools including data mining, business

intelligence, customer analytics, social media activities, etc. can help brands in mapping the customer journey – before buying, during buying and after buying – to connect with them emotionally and create personalized values in an innovative yet convenient way.



While keeping the consumer first, the brands also need to ensure their businesses are responsible to the triple bottom line (3BL) parameters of environment, social and financial aspects. Although it may seem to require a significant initial capital and time investment to commit to responsible practices, these aspects leave a long-lasting impression on consumers’ perception and have the potential to sustain the business for an extra mileage.

Environment and social practices driving sustainability and influencing consumer behavior



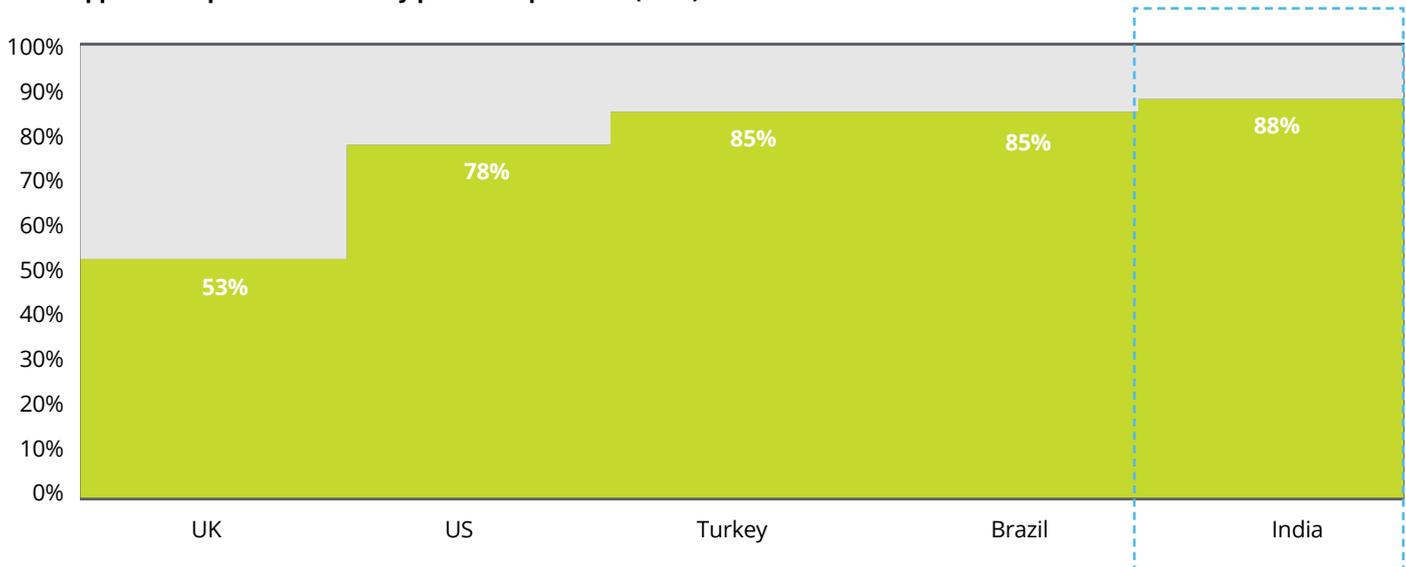
A modern consumer is much more responsible than before towards the environment, economic and social issues. To connect better with the new-age consumers, brands are proactively looking for sustainable options in their supply chains to be the first choice of customers. A greater degree of focus is dedicated towards eradicating activities affecting environment or social issues in a negative manner. Aligning green goals not only helps brands to realize their corporate social responsibility, but also assist them in gaining competitive advantages in the form of overall business growth, reduce costs and risks, building brand trust, etc.

5.1 Sustainability underway – Changing perception of customers

In the changing consumer landscape, the young consumers hold major purchasing share in the market. These consumers are relatively more responsible towards handling environment and social concerns. In order to support this, both international and domestic brands are progressively looking for sustainable

products to gain business advantage. According to a recent study conducted by a major consumer company, the shoppers in emerging economies (including India) are more interested in buying products that are produced using sustainable methods³¹.

% of shoppers who prefer sustainably produced products (2017)



Source: Report shows a third of consumers prefer sustainable brands, 1 May 2017, Unilever

Therefore businesses are required to inject more sustainable measures into their supply chains to be more competitive. Below table explains a few major sustainable practices in the industry:

Economic

- Investing in programs related to education, training, etc. to enhance economic opportunities
- Supporting local and small businesses

Environment

- Promoting sustainable sourcing by fixing supplier standards
- Reduction in Greenhouse Gases (GHG) emissions through the use of renewable energy
- Applying waste management techniques to reduce wastes through recycling, donation, animal feed, etc.

Social

- Provide healthier products through natural offerings or minimizing the use of chemicals, additives, artificial flavors, etc.
- Maintaining workforce diversity in terms of gender, nationalities, ethnicity, etc.
- Helping the communities by providing food to relieve hunger

³¹ Report shows a third of consumers prefer sustainable brands, 1 May 2017, Unilever

5.2 What's changing? – Impact of sustainability on the consumer behavior

The sustainable products are gaining a great degree of importance in influencing the purchase decisions. According to multiple surveys, the growing awareness about the economic, environment and social issues have led companies to focus on various sustainable methods.

Major evolving trends

A. Sustainable packaging gaining attention

Packaging works as a crucial marketing tool in influencing the purchase decision. With a lot of awareness about environmental issues, the shoppers, especially millennials, are increasingly preferring products with sustainable packing. Therefore, it's becoming extremely vital for brands to outline a strategy around packaging in order to be the preferred choice of consumers. As per a recent global study, almost three out of four shoppers prefer recyclable or sustainable packaging materials while buying a product.

With these trends shaping up, it's highly likely that the market for sustainable packaging will go up and will change the packaging approach of companies across verticals. The global sustainable packaging market is expected to grow at a CAGR of 7.7% from ~INR13.4 trillion in 2015 to ~INR28.2 trillion in 2025³². The growth of global sustainable packing market is expected to be driven by the demand in Asia, which is likely to account almost one-third of the market by 2018, with India and China to be the major demand forces³³.

As a sustainable practice, the consumer companies could focus more on using plastic packaging to directly or indirectly

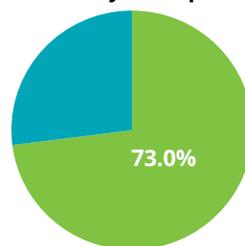
B. Natural and healthier variants to change perception

The growing awareness about a healthy lifestyle and changing needs have given rise to the consumer preferences for organic products. In order to fulfill these requirements, a more responsible approach towards the environment and society is required. Hence, the consumer companies and retailers are introducing sustainable methods into their supply chains to offer natural/organic variants. A modern consumers is increasingly getting interested in knowing the ingredients and nutritional value of the food products before actual consumption. To change the perception of consumers, the food companies are replacing the artificial additives and preservatives used in their products with natural ingredients.

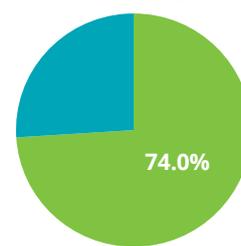
The shift in food habits led to a sales decline for various food companies. Hence, to change perception about the offerings, a number of global food companies announced to remove synthetic ingredients like artificial flavoring from their offerings.³⁵

In India, the demand for natural or healthier variants have seen a sharp increase in the recent past. The millennials

% of global millennials prefer products in recyclable packaging



% of global millennials prefer healthy packaging materials



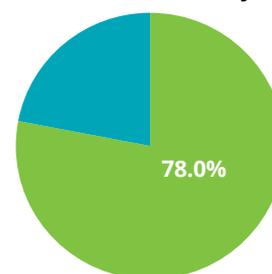
Source: Four Key Beverage Industry Trends for 2017 are Changing What Consumers Buy, 2 January 2017, PRNewswire

reducing the stress on environment. Major benefits of using plastics include³⁴:

- Light weight reduces the fuel consumption
- Easy to reuse or recycle
- ~25% less energy consumption in production vs. alternatives
- Lower CO2 gas emission

The businesses are expected to introduce a number of other methods to reduce the environmental impact. For India, the rising young and affluent population will accelerate the business efforts to provide more sustainable and environment-friendly packaging in future.

% of global millennials that link personal health with an eco-friendly lifestyle



Source: Four Key Beverage Industry Trends for 2017 are Changing What Consumers Buy, 2 January 2017, PRNewswire

are reportedly the major driving force for this trend, as they are well informed about the benefits of natural products. Therefore, it has become crucial for the established players to launch natural variants in the market.

Case: One of the biggest French cosmetic brands launched herbal variants of shampoos, conditioners and other related products in India to address the needs of consumers³⁶.

³² Global \$440.3 Billion Sustainable Packaging Market Analysis & Trends 2013-2016 & Industry Forecast to 2025 - Research and Markets, 9 March 2017, PRNewswire

³³ Sustainable Packaging Market to Reach \$244 Billion by 2018, 1 March 2014, Thomasnet website

³⁴ Plastic Packaging – The Sustainable Choice, January 2016, FICCI

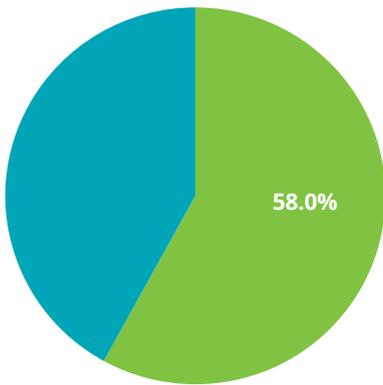
³⁵ Sustainability Makes its Way to Consumer Packaged Goods, 5 January 2016, TrendSource

³⁶ Indians prefer 'natural', 'organic' in personal care, 30 September 2016, The Economic Times

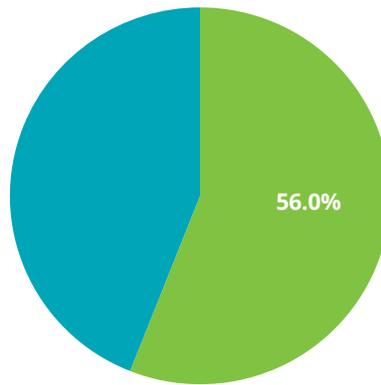
C. Premium pricing is not a major differentiator

Unlike traditional shoppers, the modern shoppers are willing to spend extra on products that support environment or social issues. According to a survey conducted in 2015, more than half of respondents believed that the price factor is ignored while buying the products that are helping any cause³⁷.

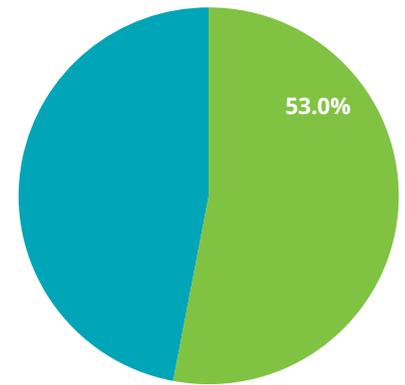
% of global millennials willing to pay more if the brand is environment-friendly



% of global millennials willing to pay more if the brand is adding social value



% of global millennials willing to pay more if the brand is contributing to any community



Source: Millennials Drive Sustainability, 17 January 2017, Credit Suisse

Like global majors, many Indian consumer companies are expected to invest more in creating sustainable brands, as the return on investment has been relatively faster than other categories.

Case: In 2016, the sales of sustainable brands for one of the major global consumer companies increased 50 per cent faster than the other products, accounting about 60 per cent of the overall growth³⁸.

The increase in responsible consumption is driving the demand for more sustainable products. The trend is seemingly more prevalent in India than other developed and developing countries due to various probable reasons including the current negative scenario and excessive social scrutiny. With the number of millennials are increasing in India, the country is likely to witness a strong demand for eco-friendly and healthy products. The responsible consumption will shove companies to further implement sustainable practices into their supply chains and focus on things like sustainable packaging, launching natural variants, etc. Hence, having more sustainable products in the portfolio would make brands to improve their connection with their consumers. To achieve a greater degree of impact, right expansion and distribution strategies would further propel the growth of such products.

³⁷ Millennials Drive Sustainability, 17 January 2017, Credit Suisse

³⁸ Unilever's sustainable brands grow 50% faster than the rest of the business, 18 May 2017, Marketing week



Convenience
abridging the gaps

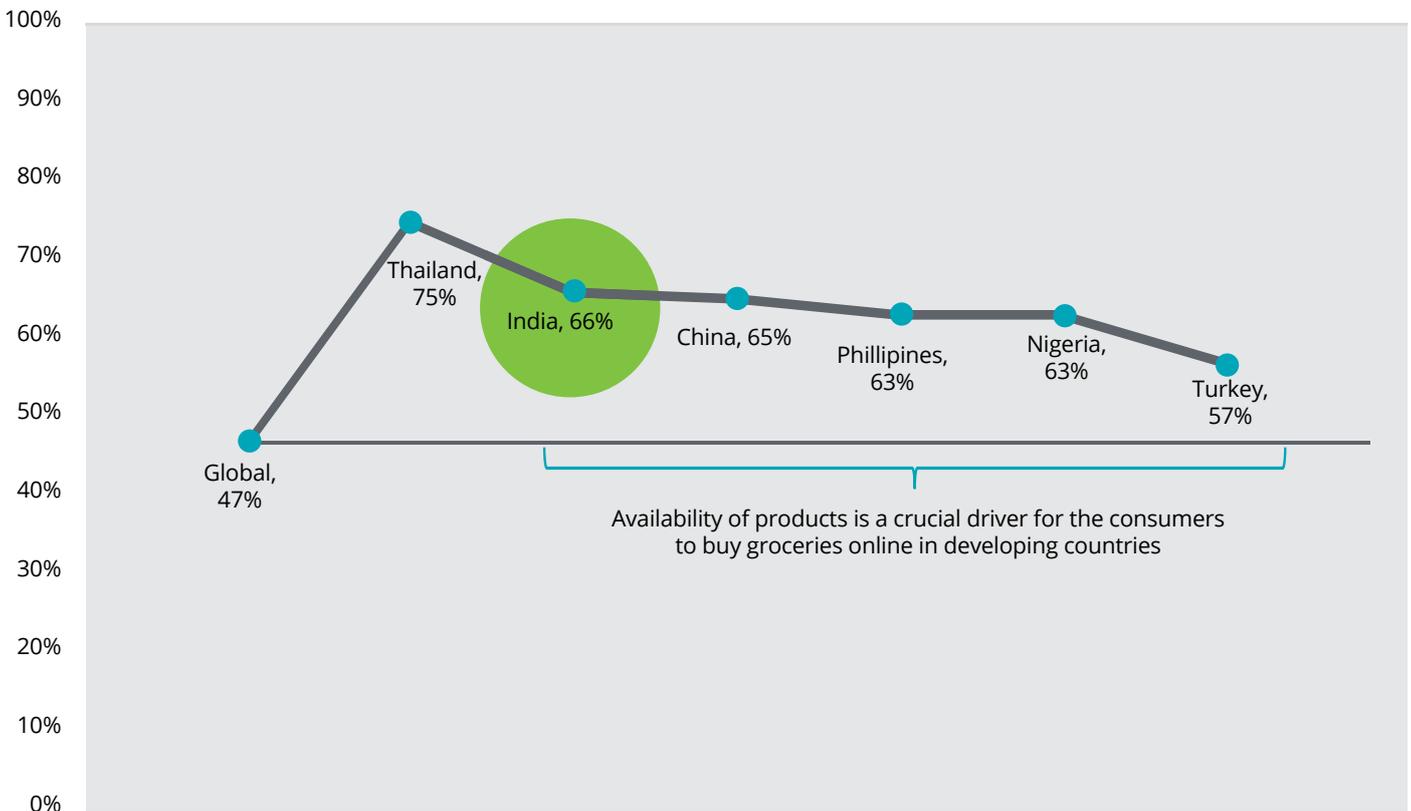
Convenience, along with affordability, has become one of the paramount factors for consumers to make a purchase decision. In a complex country like India, where consumer behaviour is rapidly evolving, brands need to customize their marketing and sales strategies to address the specific requirements of diverse set of consumers.

6.1 Need for innovative delivery models

While the growth of online retail has been dependent on various factors, the convenience has expanded its importance, primarily due to the rise of e-commerce. The online delivery mechanism adds an extra layer of convenience and certainly the factors such

as product assortment and availability become the major drivers for consumers to shop online, especially grocery items. The trend is more prevalent in developing economies like India, China, Philippines, etc. as compared to global countries.

% of shoppers buying grocery products online to access stores not in local areas
(Global vs. developing countries)



Source: Global Connected Commerce, January 2016, Nielsen

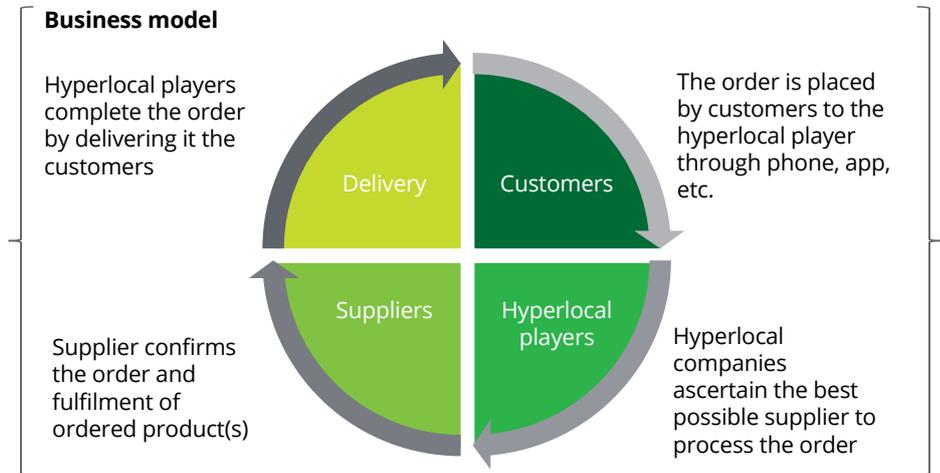
In India, the e-commerce players have witnessed a strong growth in recent years, which has pushed the retailers to adopt innovative delivery models. This approach mainly help companies to gain competitive advantages over physical retailers by delivering products at a specific place within a specified time. The innovation in delivery models have not only helped e-tailers

to increase their market share against offline retailers, but also proving a differentiator between the existing online sellers. The purchase decision of customers is increasingly getting driven by the level of coverage and swiftness of various providers. The need has convinced various major players in the country to invest in techniques helping time-sensitive and remote deliveries.

6.2 Emerging techniques expanding the scope of last mile delivery and outlook

A. Hyperlocal start-ups promoting comfort shopping:

The model is used by various e-commerce companies to cater the instant customer demands and immediate needs. The approach provides a medium to connect customers to the nearest local shops to fulfill the orders more efficiently, especially for the perishable goods. The companies operating in this space have attracted an impressive funding between 2015-16, indicating strong investment backing for them to expand and grow.

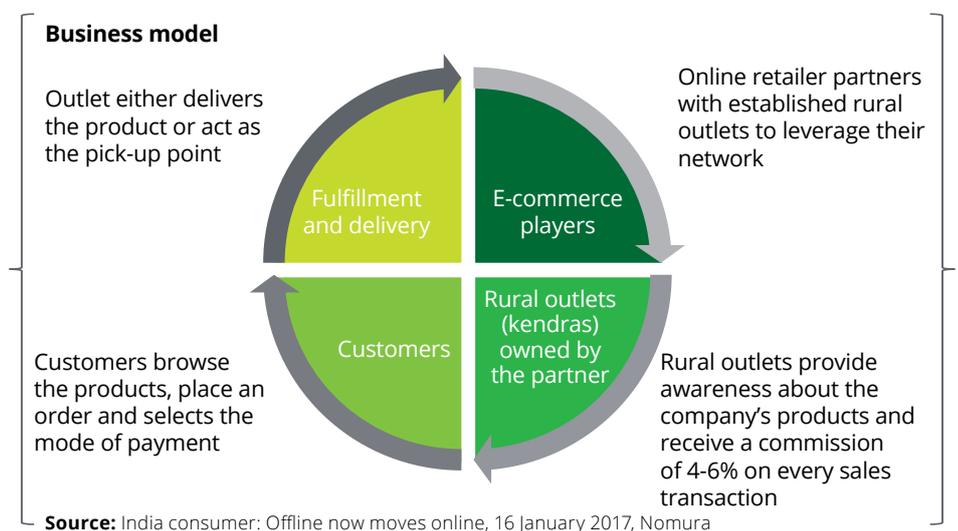


Case: One of the major Indian online retailers entered into a partnership with a rural organization to leverage its outlets for expanding its buyer base. The retailer provides a commission in the range of 4-6% of the transaction value to the organization. This service is present in more than 1,000 outlets, and some old outlets produce around 15-20 orders per day with an average ticket size of ~INR450-500³⁹.

For such businesses, the operating scenario is still challenging due to high customer retention and acquisition costs. Hence, companies could further consider expanding its service portfolio through financial services or coverage in tier 2 and 3 cities.

B. Targeting rural population through last mile delivery partners:

With a representation of approximately two-thirds of the Indian population, rural markets present a huge opportunity for consumer industries in India. While the overall internet penetration in the rural regions is lower (17%) relative to their urban counterparts (60%), shopping through internet is increasing at a much faster pace in rural regions⁴⁰. In 2016, Internet users base for rural regions increased by 22% as compared to 7% in urban regions. Therefore, the companies are increasingly adopting innovative techniques to target rural audience through a commission-based model.



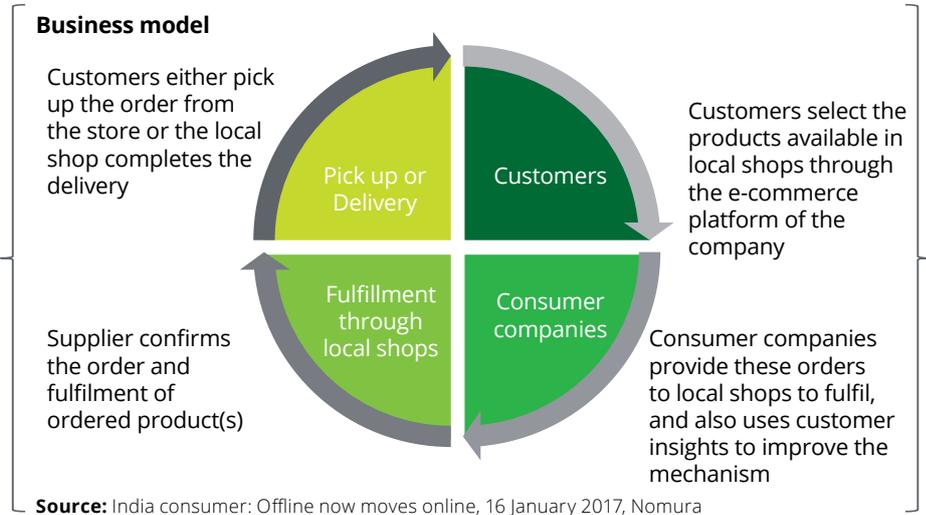
Case: One of the major Indian online retailers entered into a partnership with an organization to leverage its rural outlets for expanding its buyer base. The retailer provides a commission in the range of 4-6% of the transaction value to the organization. This service is present in more than 1,000 outlets, and some old outlets produce around 15-20 orders per day with an average ticket size of ~INR450-500⁴¹.

Collaborating with last mile delivery partners in rural locations provides retailers with not only access to penetrate in remote areas, but also generates some useful customer insights. The retailers are expected to be benefitted from this strategy, with major advantages being significant cost savings, better reach and increased sales.

³⁹ India consumer: Offline now moves online, 16 January 2017, Nomura
⁴⁰ Number of Internet users in India could cross 450 million by June: report
⁴¹ India consumer: Offline now moves online, 16 January 2017, Nomura

C. Direct distribution through local tie-ups:

The distribution network of general trade or local kirana stores is vast in the country like India. They generally stock daily need items and situated in all local areas. Traditionally, the customers had only limited options to place their orders like via phone or visiting the store. However, various companies are exploring opportunities in building their own e-commerce platform to let customers placing their order online and pick up from local stores to save their time. While it enhances the customer convenience, it also provides the company with meaningful data to improve their reach.



Case: A major Indian consumer company partnered with small neighborhood kirana stores in Mumbai and Gurgaon enabling online shoppers to pick up their products from nearby stores. Through this initiative, the company was able to generate useful consumer insights related to their purchase patterns, regularity, selection of products, etc., in order to improve their last mile distribution.

This type of distribution strategy is useful in providing product assortments and cater to the needs of local population. However, with a number of local shops operating in different locations in India, the companies could find it difficult to achieve cost efficiencies and sufficient coverage through this method. Hence, a cost-benefit ratio would be crucial in determining the need and impact before implementing this.

Both retailers and consumer companies are recognizing the need to provide better services that makes the daily need products easily available to consumers. This is expected to provide a push to new verticals for retailers and CPG companies to expand their reach and reduce time for deliveries. The rise of hyperlocal start-ups and rural partnerships are likely to be very useful in improving the overall delivery mechanism. However, the companies are required to be cognizant about the required investments for such projects in order to gain maximum benefits from this. With these developments happening, the brick-and-mortar segment needs to expand their use of technologies and new techniques to be competitive with online sellers.

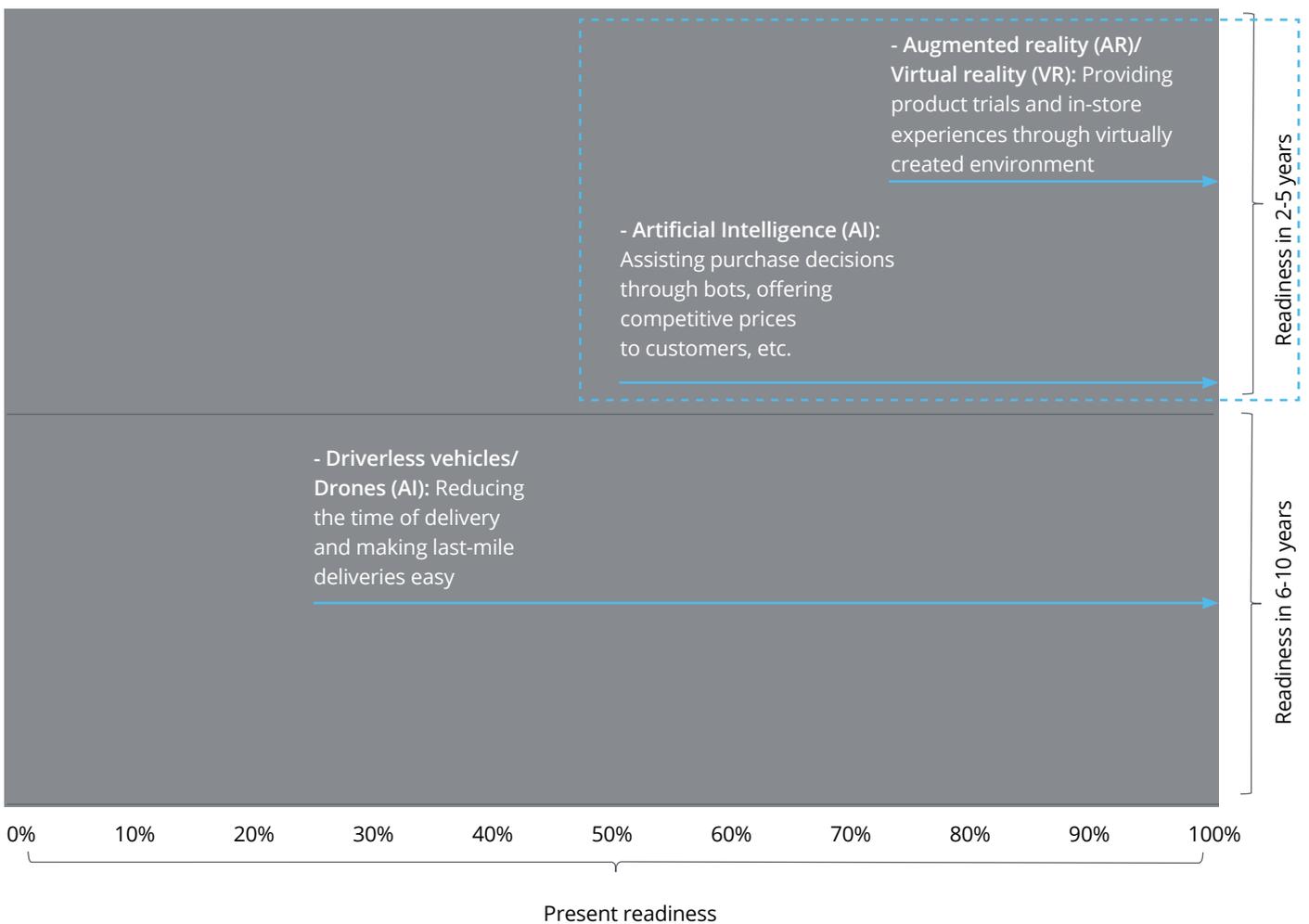
Technologies have rapidly evolved and transformed the business processes across supply chains. The application of a few technologies, such as Artificial Intelligence (AI), Augmented Reality (AR) & Virtual Reality (VR), etc. have become extremely crucial modes to provide a value-add to customers and enhance the shopping experience. These technologies help brands to provide an exceptional service in the form of experiencing the actual look and feel of products while browsing at home, virtually trying items without actually going to the trial rooms, personalized communications basis the needs and requirements, knowing product information through bots, etc. While the technologies become more ready for global retailers and CPG companies, the improving infrastructure and rise in millennials are likely to push Indian brands to be more active in adoption. However, the implementation and execution do face a few issues related to readiness of industry participants and high digital costs.

7.1 Technologies redefining consumer experience

The use of technology has changed the way consumers shop and certainly playing an expanded role than before across industries. The digital techniques are helping the businesses to deliver prodigious customer experiences. While e-commerce paved the way Omni-channel route, a set of new technologies

are shaping up to improve business interactions and increasing the engagement levels. With this transformation, various technologies have already made their impact with the growing level of acceptance across all business lines, and are likely to be fully ready in the span of next 2—10 years.

Maturity of major emerging technologies in retail and CPG (Global and consumer-focused)

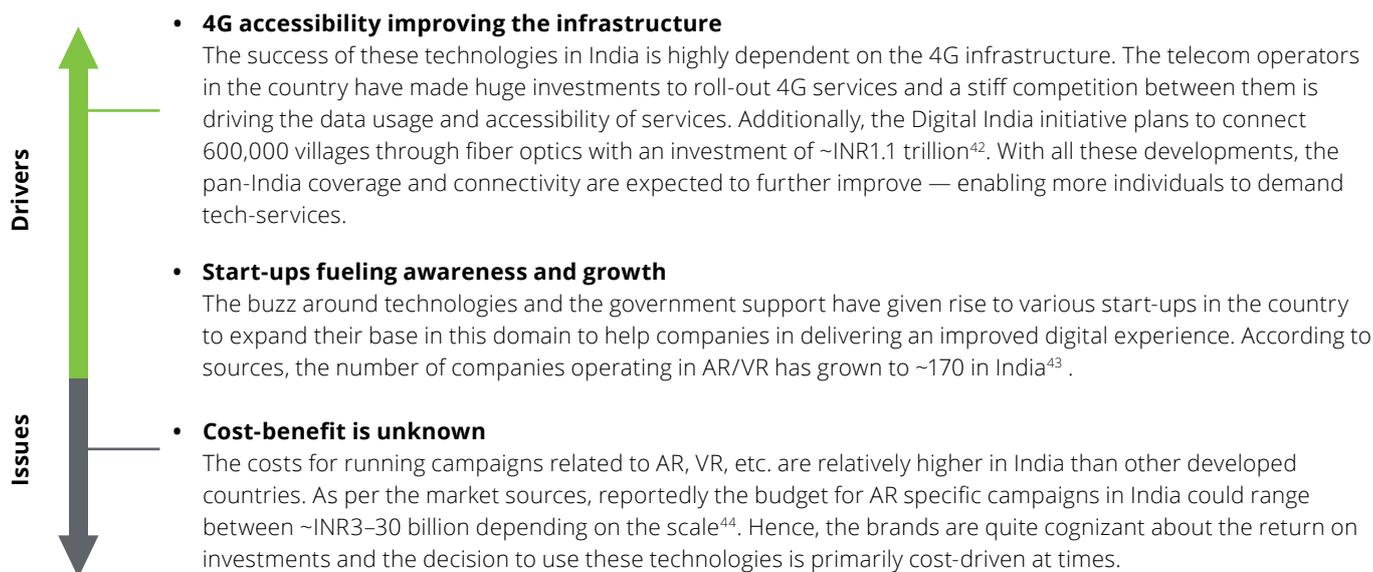


Source: Shaping the Future of Retail for Consumer Industries, January 2017, World Economic Forum

With no doubts, the technologies including AR & VR and AI are playing a pivotal role in transforming the purchase cycle for global retailers and CPG industries. The scenario in India is yet to reach the level of maturity like developed markets, but the country is rapidly overcoming the traditional challenges related to

execution. While a few brands have already started using some of the most evolved technologies (especially AR), the increase in adaptation would be critically dependent on various factors related to digital spends, leadership, infrastructure, etc.

Major drivers and issues affecting the role of evolving technologies in India



7.2 Application of major technologies in global and Indian retail and CPG industries

The use of technologies such as AR, VR, AI, etc. is picking up significantly, especially in the developed geographies. While the majority of Indian retailers and CPG brands are yet to invest a lot in this domain, the usage is likely to expand as global companies continue to innovate and make a business impact from digital investments.

■ Global ■ India

- AR** is amongst the widely used technologies in enhancing the customer experience and engagement levels. A number of global brands have creatively used AR to market their offerings through virtual product experience. In India, the marketing trends suggest that various clothing brands would adopt AR to create digital stores as the results become more prominent.

<p>■ Case: A Netherlands-based leading furniture retailer introduced an AR catalog app to assist shoppers envisage and test selected products through the use of smartphone or tablet – making the purchase decision convenient and easier for customers⁴⁵. According to the sources, there was a rise in app downloads post its launch.</p>	<p>■ Case: A renowned Indian clothing brand launched a ready to wear experience store in Bengaluru offering selected clothes and desired sizes inside the fitting rooms through a click on the iPad. According to the initial trends, the company was able to generate more than average footfall and transaction value⁴⁶.</p>
--	--

42 4G infrastructure remains critical for high speed Internet in India: Report, 21 May 2016, Indian express
 43 Virtual reality startup Merxius gets you closer to reality, 13 January 2017, The Economic Times
 44 Building Brands: Why India lags in leveraging virtual augmented reality, 14 June 2016, Financial express
 45 IKEA catalog uses augmented reality to give a virtual preview of furniture in a room, 14 August 2013, Newatlas
 46 Traditional retail ups its digital quotient, 26 January 2016, Financial express

- **VR** is gaining strong traction in the developing countries and is not only used as a marketing tool, but also a sales enabler. The technology helps in saving time, workforce requirements, locating products, etc. Since the entire process is dependent on a VR device and appropriate content, both businesses and customers in India would require some time to accept this as a medium to connect with each other.

Case: In May 2016, a US-based e-commerce retailer launched the world's first VR department store in Australia. The technology allowed shoppers to scan through >12,500 products without even visiting the physical store. To complete the purchase process, the customers just had to hold their sight on the product icon⁴⁷.

Case: In March 2017, a leading fashion online retailer launched its first offline store equipped with VR gadgets to provide the customers with 360 degree videos of road trips featuring one of its flagship brands. According to the company, the use of VR will be used to draw customer engagement and will not only focused on driving sales⁴⁸.

- **AI** is transforming various business process in the form of ease of payments, providing product information, offering personalization and others. While global brands are swiftly innovating, India is in the initial stage of understanding customers through data analyzers.

Case: In December 2016, one of the biggest US-based e-commerce companies launched a concept grocery store without the cashiers and checkouts, enabling customers to pick the selected products and leave the store. The sensors will track the picked products and charge it to customer's account on exit⁴⁹. However, the opening of the store for public is yet to be announced.

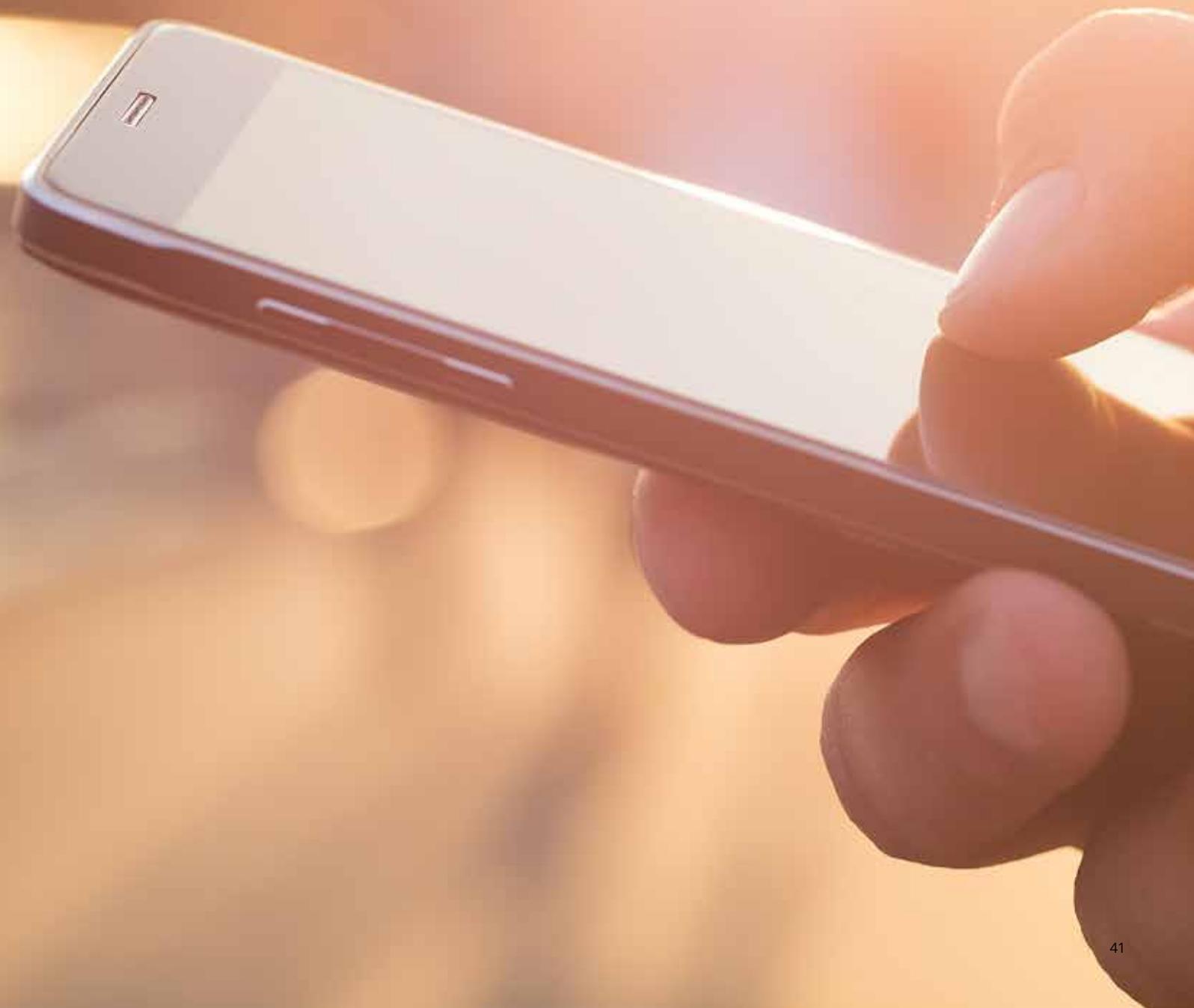
Case: While majority of retailers and brands are quietly conducting experiments, one of the leading online clothing brands started using AI to analyse data and predict fashion trends. This enabled the designers to incorporate the demand and requirements into their output. As next step, the company intends to use AI in predicting delivery timing⁵⁰.

The growth prospects of Indian retail and CPG industries is quite promising and present a huge opportunity for brands to gain the first mover tech-advantage. The product-focused approach is not anymore the sole factor in driving the brand sales. Various customer engagement techniques through AR, VR and AI are gaining traction and bringing changes in customer interactions at a faster pace. Though India is a little slow in adopting major global technologies, the evolution and impact are expected to reach at its full potential in coming years. The major bottlenecks inhibiting Indian companies to use these technologies are largely related to high investments and unknown business returns. However, the growing number of smartphone users, improved 4G networks and the role of technology start-ups in the country are predicted to change not only the business perceptions, but also the way shoppers transact and pay.

49 Amazon Go grocery store replaces cashiers with automation and AI, 5 December 2016, TechRepublic

50 How online retailers are using artificial intelligence to make shopping a smoother experience, 10 March 2017, The Economic Times

E-wallets scaling up the payment ecosystem and handiness



The extensive adoption of smartphone and rising internet penetration levels in India are positively swaying the evolution of mobile wallets. Through a smartphone and internet connection, a customer can easily access wallet money to transact from anywhere and anytime. For retail industry, mobile wallets have played a pivotal role in facilitating payments, especially after the announcement on demonetization by the Indian government last year. The convenience and acceptability have been the major factors bolstering the growth of providers, and the medium is expected to continue as newfangled way for sellers to connect with the buyers.

8.1 Emergence of digital payment modes in India

The Indian economy is largely driven by cash transactions that account for almost 4/5th of all payments⁵¹. The digital intervention and government’s efforts to promote cashless economy have given rise to the growth of other alternate payment methods. Apart from some popular means, such as

Real Time Gross Settlement (RTGS), National Electronic Funds Transfers (NEFTs), cheques, etc., there have been a number of consumers increasingly using mobile banking and prepaid instruments (including e-wallets) for making day-to-day purchases, especially for low-ticket items.

Digital payments ecosystem

Real Time Gross Settlement (RTGS)	Clearing Corporation of India Ltd (CCIL)	Paper clearing	Retail Electronic Clearing	Cards	Prepaid payment instrument (PPI)	Mobile Banking
Customer Transactions	Collateralized Borrowing and Lending Obligation (CBLO)	Cheque Truncation System (CTS)	Electronic Clearing Service (ECS)	Credit Cards	M-wallets	
Interbank Transactions	Government Securities Clearing	Non-MICR (magnetic ink character recognition) Clearing	National Electronic Funds Transfer (NEFT)	Debit Cards	PPI Cards	
Interbank Clearing	Forex Clearing		Immediate Payment Service (IMPS)		Paper Vouchers	
			National Automated Clearing House (NACH)			

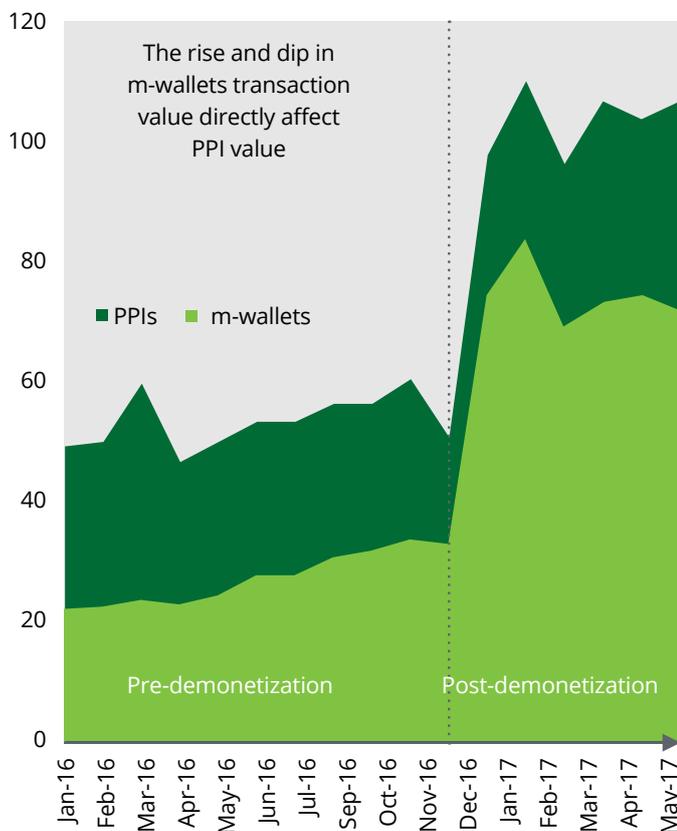
⁵¹ Payments Industry in India Q4 2016, IMAP India

With the use of digital payments – including the Prepaid Payment Instruments (PPIs) – getting a significant push, the mobile wallets expected to remain as one of the major growth drivers in future ...

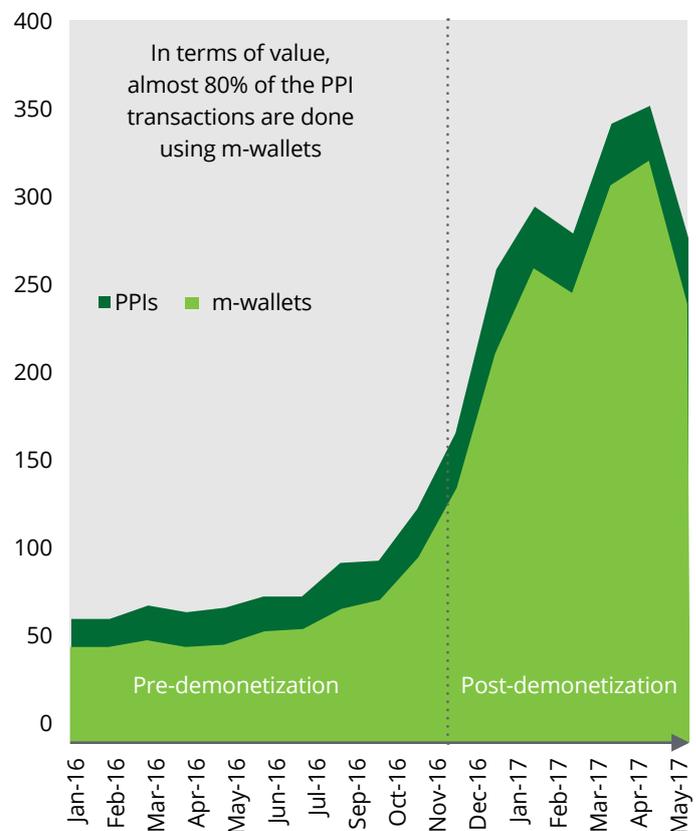
In November 2016, the Indian government cancelled the legal tender of INR500 and INR1,000 currency notes to counter black money, counterfeit currency and tax evasion. The move encouraged businesses engaged in electronic transactions, such as Prepaid Payment Instrument (PPI) and other digital arenas of banks such as debit cards, credit cards and mobile banking. Additionally, in effort to make digital fund transfers easier and

accessible to everyone, the government and National Payments Corporation of India (NPCI) also launched a mobile app – BHIM (Bharat Interface for Money) through the Unified Payment Interface (UPI), allowing users to instantly transfer funds to different bank accounts. The rise of m-wallets is the major driver behind the increasing transaction value and volume of PPIs in India, especially post demonetization.

M-wallets vs. other PPIs by value (INR billion)



M-wallets vs. other PPIs by volume (million)



Source: Reserve Bank of India (RBI)

The m-wallets have achieved the maximum growth, as it helped consumers to make small payments after demonetization due to non-availability of cash. To cater the low-ticket transactional requirements through PPI, the Reserve Bank of India (RBI)

introduced various favorable policies to encourage its use in the country by permitting users to deposit cash in their PPI balance, introducing special dispensation for small sellers, enhancing balance limits, etc.

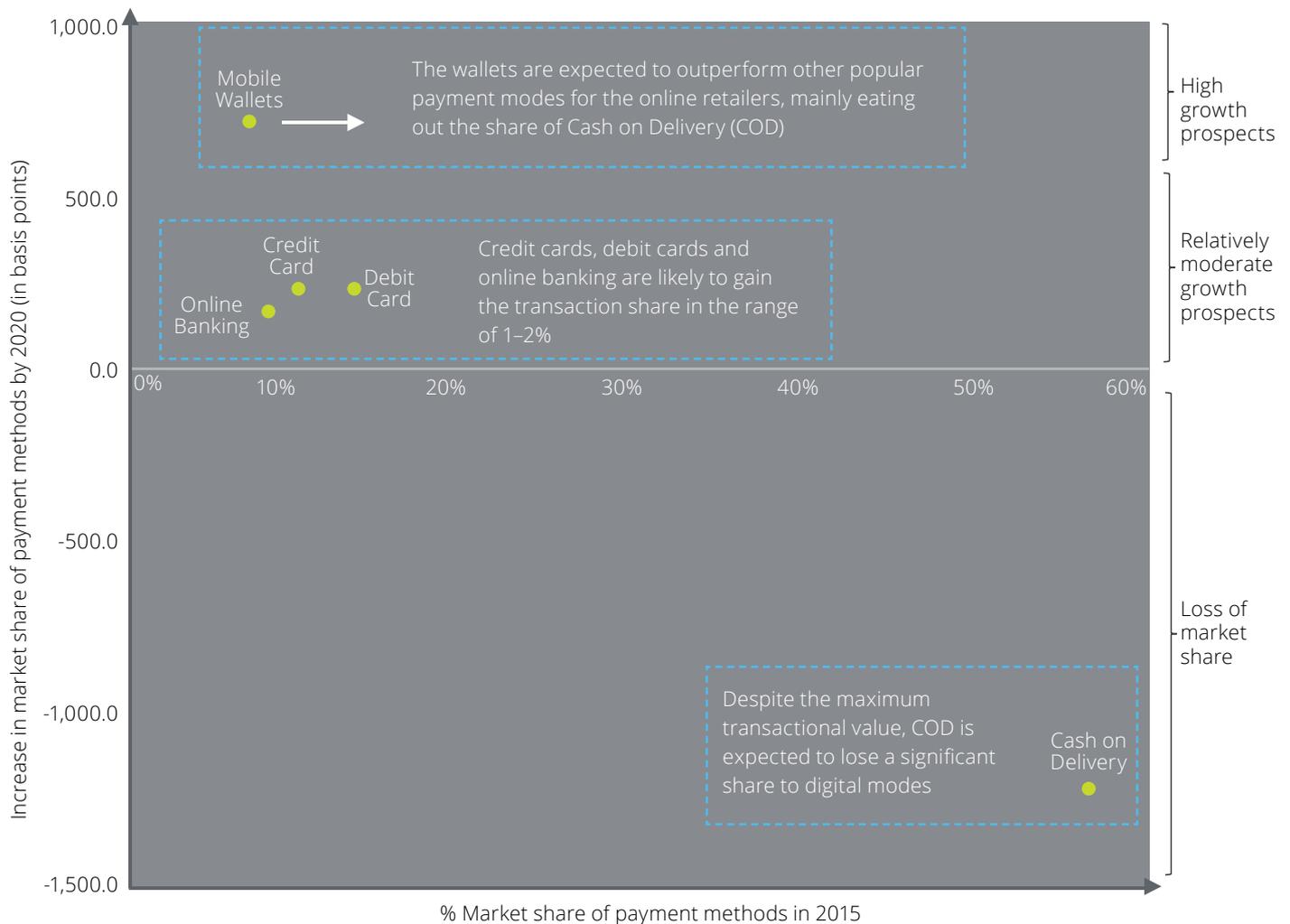
8.2 Impact of digital wallets on the retail business and outlook

The concept of mobile wallets is relatively new in India and gaining a great share of attention of consumers, especially millennials. The use of wallets not only provides customer with an alternate payment method to transact on online channels, but also enable them to pay small merchants or even street dwellers, who are reluctant to accept payment through non-cash instruments for low-ticket transactions.

With traditionally starting with the services like recharge & bill payments and money transfer, the wallets are now used for various shopping purposes, such as shopping, travel and entertainment reservations, taxi services, food orders, etc. Therefore, a number of m-wallet providers are entering into this space and changing the payment eco-system by combining the changing needs with seamless services.

While other emerging payment platforms are also scaling, m-wallets are still expected to stay in high growth zone for e-commerce purchases. However, innovation and collaboration are likely to remain key determinants of growth.

2015 vs. 2020F E-commerce payment modes



Source: Company database and analysis

The significant growth in m-wallet transactions has pushed almost all e-commerce companies in India to tip up with more than one provider, in order to promote ease of payment and various additional discounts in the form of attractive cashbacks.

This certainly provides the cost advantage to the companies, as the administrative costs associated with the most popular payment mode i.e. COD is relatively quite high and put stress on their margins.

Digital marketing as growth engine

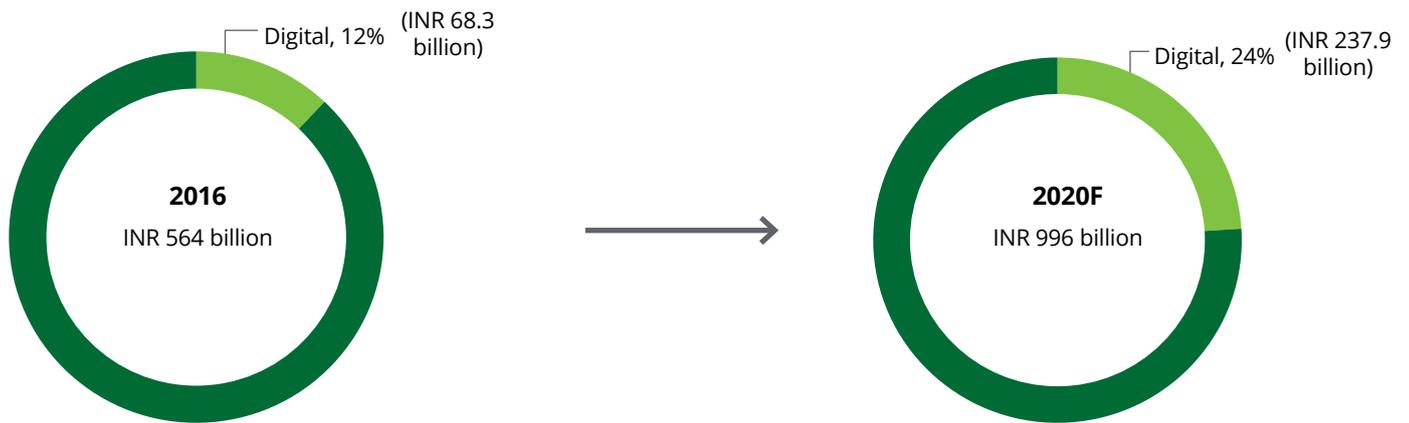


Increasing smartphone adoption and greater internet penetration are driving the digital advertising and marketing industry in India. The digital advertising industry in India has grown at a CAGR of over 40% from 2011 to 2016 compared to the overall advertising industry growth of about 12% during the same period, and is expected to continue the trend by 2020.⁵⁵

9.1 Rapidly growing share of digital advertising industry in India

Share of digital advertising in total advertising industry in India is expected to double from 12% in 2016 to 24% in 2020, growing at a CAGR of 37%, compared to overall industry growth at a CAGR of

15%. Growth in digital ad medium would be primarily driven by its advantages such as greater affectivity and hyper-targeting.



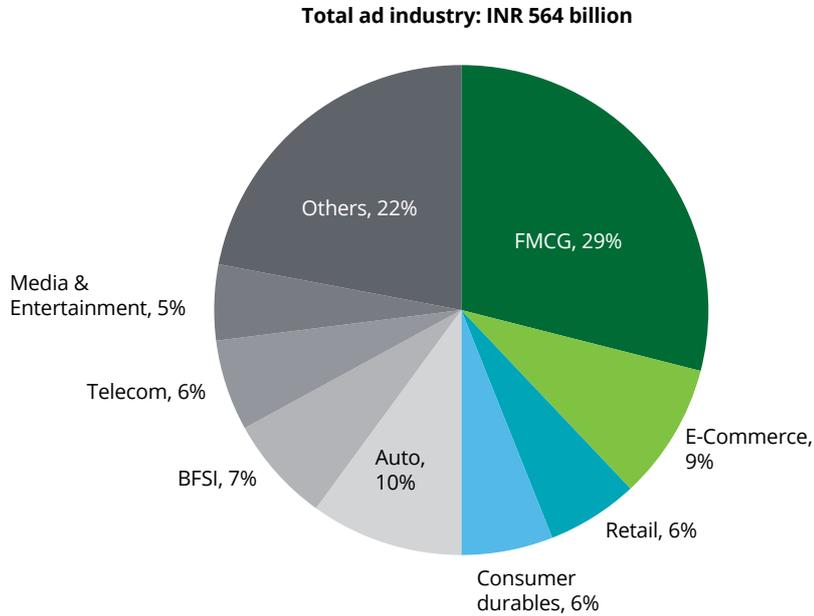
Source: Digital Advertising in India 2016

The trend is similar to global observations, where, while media advertisements have grown at an annual rate of 2–6% from 2011 to 2016; digital advertisements have grown at over 15% rate and

mobile advertisements have grown at an extremely rapid pace of more than 50% annual growth rate.

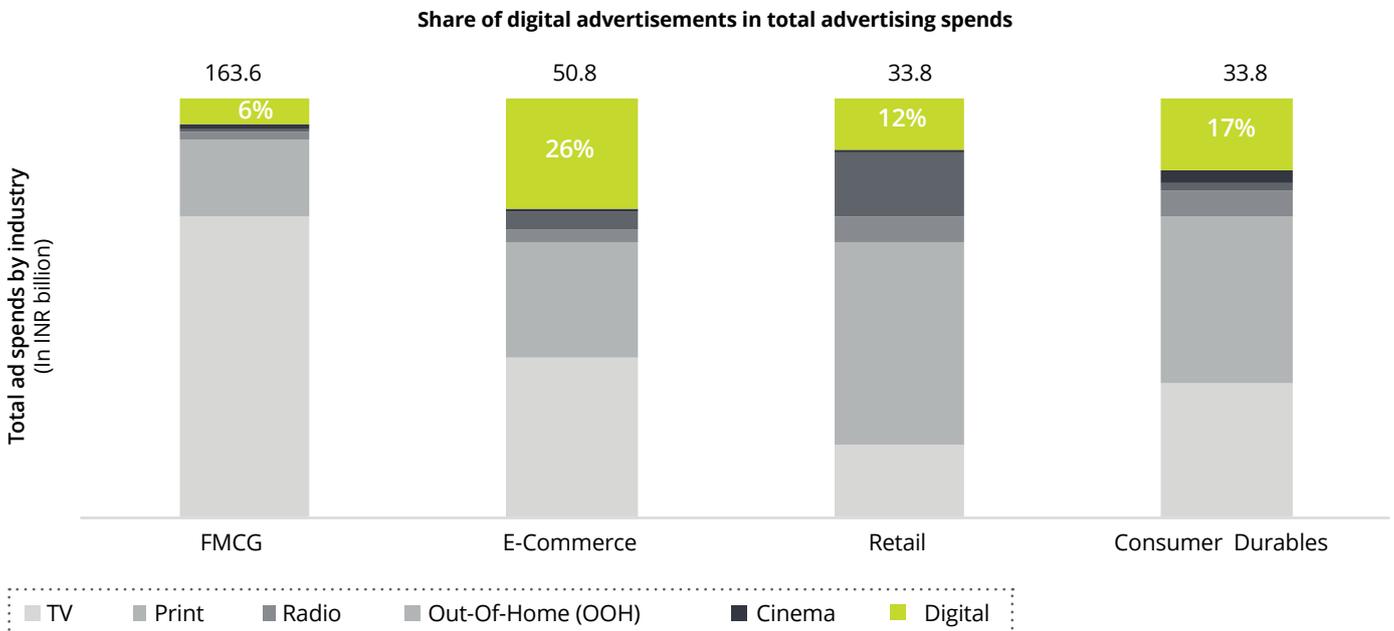


Overall, the consumer related sectors – FMCG, E-Commerce, Retail, Consumer durables – account for approximately half of the advertisement spends across all industries in India



Source: Digital Advertising in India 2016

While FMCG industry is amongst the biggest spenders on advertisements, the share of digital advertisement in e-commerce is the highest



Source: Digital Advertising in India 2016

Further, within digital advertising video, search-based and social media advertising are more prominent in the FMCG, e-commerce and retail industries, respectively. With the growing applicability of digital advertising, social media advertising is expected to take prominence in other consumer industries as well.

9.2 Major benefits of digital marketing

Cost effective advertising, greater ROMI

Digital marketing helps companies make significant cost savings, leading to margin expansions and greater Return on Marketing Investments (ROMI)

While traditionally, companies used to outsource the content design, implementation and feedback processes to advertising agencies, they can now manage all these processes digitally in-house or with minimum assistance

Longer consumer engagement

Digital marketing helps brands to achieve:

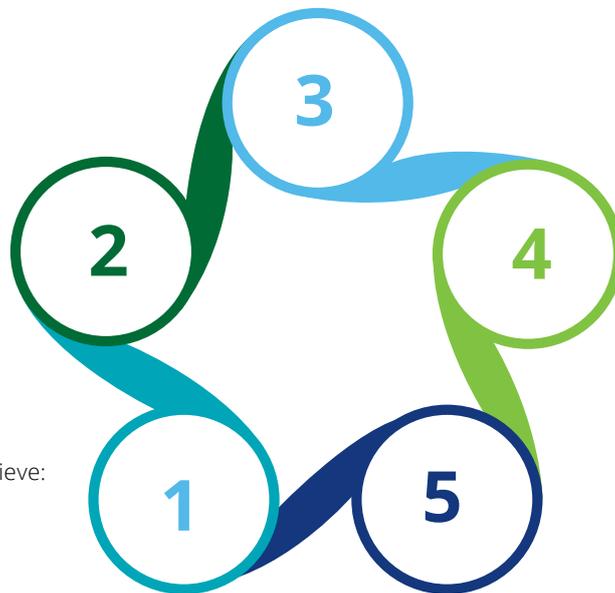
1. rapid reach
2. deeper engagement relationships
3. data-based relevant insights
4. personalized solutions
5. specific targeting

Case: One of the leading FMCG companies in India has a dedicated website to educate consumers on personal care segment by providing comprehensive content through online videos and articles in regional languages

- The company claims to have higher click rates, and double the volume of website traffic compared to earlier period

Easy to track and measure impact

It is easier to track the Key Performance Indicators (KPIs) in digital marketing. For example, for email marketing targets such as click-through rate, conversion rate, click to open rate, lead generation, etc. can be easily measured, compared to a TV campaign



Personalized offerings

Digital marketing enables brands to provide customized offerings to consumers, suitable to their preferences

Case I: One of the major global confectionery companies designed a website where consumers could unlock their personalized gifts by scanning the QR code or URL from the product packs

Case II: Another major global beverages manufacturer, allowed users to share video messages and gifts through vending machines

Quick response to queries and feedback

Digital marketing allows brands and customer representatives to respond to queries and feedback real-time. According to majority of the brands, the average response time to consumers, fans and followers on a digital marketing campaign varies from one to five hours



9.3 Upcoming trend

Leveraged well in developed countries, programmatic marketing is an upcoming means of marketing in India and has been growing exponentially in the past couple of years. It automates the sale and purchase of advertising space in a matter of milliseconds, using software and algorithms via a bidding system. The user/brand can target their audiences, frequency of advertisement and time slots, platforms for advertising, etc. to deliver the right content at the appropriate time making it a highly effective and efficient tool for marketing.

While programmatic spends in the US were estimated to reach INR 150,000 crores in 2016, representing approximately 67% share of total digital display market, its market in India is at a nascent stage, estimated to be about INR 1,800 crore⁵⁶ currently. Native advertising – one of the forms of programmatic marketing, has played a major role in its success and growth. It is a completely non-intrusive ad format where the ad experience follows a natural form of user experience and is being used by brands to overcome the challenge of ad-blocking.⁵⁷

Case study: Confectionery manufacturer

One of major confectionery manufacturers tied up with an advertising agency in 2015, with two major objectives for its biscuits brand:

01. Increase sales volume by 5%
02. Be recognized as not just a brand for kids, but for teens and young adults as well

Strategy adopted

Identification of interest categories

- A Social Media Interest Analyser (SIAM) model was developed by the agency, to identify interest categories amongst the target group leveraging data from day-to-day social media activities

Personalisation for greater engagement and connect

- A one-to-one program for target group was designed based on their interest categories
- The program was introduced through a TV commercial, and populated via social media platforms
- The program engaged consumers by motivating them to use the brand's product in many ways as a prop to inspire playfulness and imagination

Expanding the outreach

- The agency amplified the outreach and thus impact of its campaign by developing a virtual wall on the brand's website and presenting interesting entries from fans and followers
- The content could be further shared by users on different social media platforms

Outcome

- Average volume sales of the product grew by 6% during the campaign period
- The company was able to reach more than 25 million users, with 101million impressions and 9.2 million views
- It also achieved significant engagement rates on various social media and video platforms
- Various other companies and brands also participated in the brand's activity owing to its high engaging

⁵⁶ Embracing programmatic advertising in India, emerging markets

⁵⁷ Key factors in growth of programmatic advertising in India: Ashish Shah

Way forward

Recommendations

Topic	Konnection*	Recommendations (for industry/government)	Priority
Knowledge of consumer data and insights		<ul style="list-style-type: none"> Embed IoT techniques to encourage impulsive buying through in-store movement tracking of consumers and more informed decisions related to product display, placement, and personalization Explore opportunities in predictive analytics to recommend related products and sending location-based triggers to consumers 	
Omni-channel retail		<ul style="list-style-type: none"> Integrate online and offline processes to provide consumers seamless browsing and shopping experience Keep a tab on consumers' requirements (through social media, reviews, feedbacks, etc.) and explore other retail channels and means to appropriately cater to their specific set of requirements 	
National policies		<ul style="list-style-type: none"> Government: Enactment of national level retail policy or formation of a central nodal agency for retail Industry: Pass on the benefits of GST to the consumers and invest in enhancing consumer engagement levels 	
Novelty		<ul style="list-style-type: none"> Focus towards the unique value proposition of the product/service offering and enhance it to attract consumers Periodically alter the consumer loyalty programs through testing and data analytics and deliberate more towards offering monetary privileges 	
Environment and social practices		<ul style="list-style-type: none"> Focus on sustainable or recyclable packaging material, like plastic, especially for the transported products Supplement more natural ingredient-based products in the portfolio by reducing the use of artificial additives and preservatives Execute a non-price focused strategy while targeting new consumers 	
Convenience		<ul style="list-style-type: none"> Use commission model with rural outlets to expand the reach and save costs Evaluate the financial and business feasibility of direct distribution models in remote areas 	
Technology		<ul style="list-style-type: none"> Expand the usage of AR in brick-and-mortar concept and pick strategic geographies to expand Define the digital involvement and investment budgets in the marketing campaigns to tactfully gain return on investments 	
E-wallets		<ul style="list-style-type: none"> Integrate various payment mediums to m-wallets to deliver an additional layer of convenience to the customers through one-click payment Establish alliances with various financial institutions and fin-tech companies to upsell and cross-sell products like personal loans, insurance, etc. Collaborate with other geographies to facilitate seamless cross border transactions 	
Digital marketing		<ul style="list-style-type: none"> Digitize the marketing and advertising content to the extent possible and increase penetration in non-urban regions Collaborate with technology providers to enhance the ad-experience through programmatic advertising 	

*Konnection denotes the engagement level of consumers when subject to the respective technology/process

Conclusion

The digital era has transformed the consumer retail journey and is driving the modern-age trade in India. To understand the consumer behavior of modern-age shoppers, the **Knowledge of consumer data and insights** is gaining traction and the companies are expected to increase their focus on techniques like predictive data analytics and IoT to forecast purchases. With the rapid growth of internet penetration, supported by the improving 3G and 4G infrastructure, the **Omni-channel approach is unlocking the prospects** for various brands in the form of increased sales and reach. To support this, various government initiatives and **National policies are impelling the growth of businesses and benefitting consumers** through relaxed FDIs, flowing PE/VC investments, GST introduction, etc.

The constantly changing business landscape is making the retail environment more dynamic in terms of innovation, with **novelty to play a crucial role in attracting the new-age shoppers**. Further, companies are realizing that **environment and social practices are driving sustainability and influencing consumer behavior**, leading them to integrate responsible practices within their supply chains. With **convenience abridging the gaps** of last-mile and rural outreach, innovative distribution models and hyperlocal trade would add an additional layer to attract shoppers.

Though the concepts like AI, AR & VR, IoT, etc. are new-fangled in India, these **technologies are already augmenting the customer experiences**, supported by rapidly growing internet accessibility and technology start-ups. Consequently, this has given rise to digital payment modes where **e-wallets are scaling up the payment ecosystem and handiness**, which got a major boost from the government's stand on promoting a cashless economy. With technology in the fore-front for all these developments, the businesses are expected to use **digital marketing as their growth engine** to improve the engagement levels with connected consumers.

Contacts

Rajat Wahi,

Partner, Deloitte Touche Tohmatsu India LLP
rajatwahi@deloitte.com

Suvasis Ghosh,

Director, Deloitte Touche Tohmatsu India LLP
suvghosh@deloitte.com

Leena Jaisani

Assistant Secretary General & Head - Retail, FMCG, Gems & Jewellery, Direct selling, FICCI
leena.jaisani@ficci.com

Contributors

Rohit Bhatiani

Director, Deloitte Touche Tohmatsu India LLP

Rohit Nasa

Senior Manager, Deloitte Touche Tohmatsu India LLP

Damandeep Marwah

Manager, Deloitte Touche Tohmatsu India LLP

Bhavesh Verma

Senior Consultant, Deloitte Touche Tohmatsu India LLP

Sandeep Kumar A V

Senior Consultant, Deloitte Touche Tohmatsu India LLP

Ankit Shukla

Senior Assistant Director, Retail, FMCG, Gems & Jewellery, E-Commerce, FICCI young Leaders Forum, & Luxury, FICCI

Ankit Misra

Assistant Director, Retail, FMCG, Direct Selling, FICCI



Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

This material has been prepared by Deloitte Touche Tohmatsu India LLP (“DTTILLP”), a member of Deloitte Touche Tohmatsu Limited, on a specific request from you and contains proprietary and confidential information. This material may contain information sourced from publicly available information or other third party sources. DTTILLP does not independently verify any such sources and is not responsible for any loss whatsoever caused due to reliance placed on information sourced from such sources. The information contained in this material is intended solely for you. Any disclosure, copying or further distribution of this material or its contents is strictly prohibited.

Nothing in this material creates any contractual relationship between DTTILLP and you. Any mutually binding legal obligations or rights may only be created between you and DTTILLP upon execution of a legally binding contract. By using this material and any information contained in it, the user accepts this entire notice and terms of use.