

India Retail Trends 2014

WHITE PAPER

The Indian Retail Milieu

The Indian retailing scene has never been more exciting both from consumers' and marketers' points of view. The Indian consumer is now spoilt for choice and has only one problem to deal with and that is the Problem of Plenty!

From a marketer's point of view, retail premise continues to be the battle ground, where brand destinies get decided based on the consumers' preferences. Given the charm of the Indian consumer, the churn in the Indian retail scenario will continue. This report attempts to delineate key trends that are likely to define the Indian retail sector in 2014.

Key Statistics

- What can be more exciting than a billion+ people contributing approximately \$700b to \$750b (FY15) retail market with a forecasted growth of about 13-16% depending on which research report you are reading. (One of the source: India Retail sector report 2013 – Michael Page)
- A penetration of just 8% to 10% by the organized sector and a 200 million+ urban consumers has captured the imagination of giant corporations on either side of the Atlantic and Pacific oceans. (India Retail sector report 2013 – Michael Page)
- E-Commerce (B2C, C2C) revenues have been growing at a whopping ~50% year on year with ~\$10b (2011). This is estimated to be around \$40b (2015) if it sustains the same growth rate. (Rebirth of e-Commerce in India, 2011 – E&Y)
- 81% of the above e-Commerce transactions are from domestic travel segment. (Rebirth of e-Commerce in India, 2011 – E&Y)
- Close to 33% of organized retail market is from Clothing and Accessory segment, 22% from consumer electronics and gaming. (India Retail sector report 2013 – Michael Page)

Key Enablers

- Annual household income has been increasing and in FY 15(e), of the total 246m households in India only 29% fall under the bottom of the pyramid as against 64% in FY 06 on a 204m household base.
- (Refer figure 1 below (Source: www.tata.com))
- Annual household income to increase from \$2632 (2005) to \$3823 (2015e) to \$6790 (2025e).
- (Source: Rebirth of e-Commerce in India, 2011 – E&Y)
- Falling communication costs, increasing PC, broadband internet penetration. Internet is up from 5.5m (2000) to 300m in FY15e, broadband user base 51000 (2001) to 150m in FY15e. (Source: Rebirth of e-Commerce in India, 2011 – E&Y)
- Increasing credit (CC) and debit card (DC) penetration with higher value limits for spending. From 4.2m (CC), 0.3m(DC) in 1999 to 18m(CC), 228m(DC) in 2011 and expected to reach 73m(CC), 350m(DC) in FY15(e). (Source: Rebirth of e-Commerce in India, 2011 – E&Y)

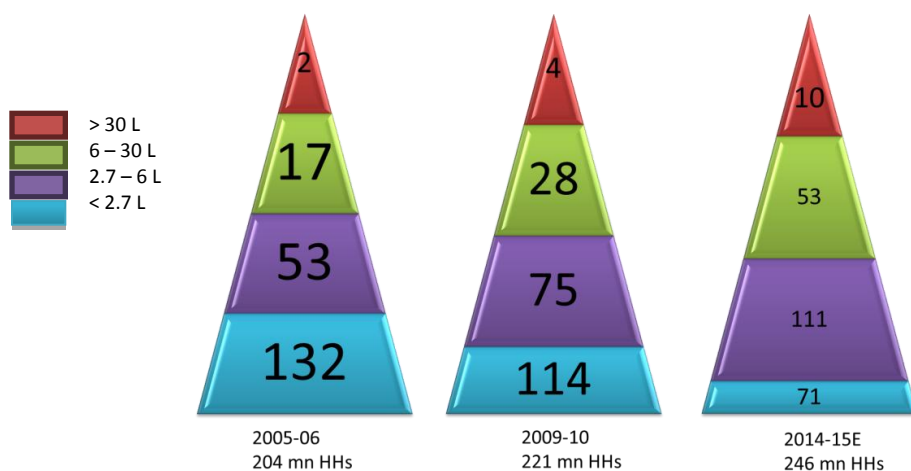


Figure 1: Households (millions) with Annual Income segments

- Numbers of online transactions are increasing and cash on delivery is the most preferred payment option with over 30% of buyers opting for it. (Source: Rebirth of e-Commerce in India, 2011 – E&Y)

Key Challenges

- The internet penetration rate in India is still one of the lowest in the world.
- Average broadband speed in India is among one of the lowest. (0.9mbps in 2012 as against South Korea at 16.7mbps, Japan 8.9mbps and US at 6.1mbps).
- Increasing cost of operations in Tier 1 and 2 cities as the land price inflation rates are very high. Lack of quality power and transportation in many places increases the cost of overall cost of operations.
- Lack of quality talent pool and increasing attrition challenges the industry faces.
- Policy uncertainty at macro level which needs clarity and political will.

Key Sector Trends in 2014

- **Food and Groceries Retail**

In Tier 1 cities Small is Big Business, Tier 2/3 cities will embrace larger retail formats

Compact formats and hypermarkets will increase in tier 1& tier 2/3 cities respectively.

Retail profitability depends a great deal on retail space productivity; hence particularly in tier 1 cities with burgeoning real estate costs, compact formats will be popular for food and grocery retailing. While Tier 2 and 3 cities will find themselves embracing hypermarkets particularly in highly attractive catchment areas more out of

an urge to experience modernised shopping premises. Franchising will also take its first strides in this sector blurring the boundaries between organised and unorganized grocery traders.

E-tailing will increase significantly in the food and grocery space

Thrust on cold chain will determine sustainability of e tailing for perishables.

The other interesting trend to look out for is the increase in the number of e-tailers operating in this space. Near-sourcing will be popular model adopted by e-tailers to gain competitive advantage. While groceries with moderate shelf life has worked well in the e-tailing model, perishable commodities such as fresh vegetables, fruits and meat in e-tailing format will begin getting popular. In this context, cold chain will gain significant thrust.

Speciality products and private labels will both grow

Organic foods, international foods, processed foods and wines will find its way in speciality food shelves.

With retail houses like Future Group democratising organised retailing in India, the patronage for in-store retail brands commonly referred to as private labels will continue to increase adding pressure on manufacturers' brands. At the same time, speciality product categories such as organic foods, international foods and processed foods are gaining impetus in the Indian food retailing scene. Furthermore, particularly in more evolved metro markets, hedonic products such as liquor and wines gain entry among day to day groceries perhaps markers of the modern lifestyle.

Fashion and Apparel Retail

Competition from international brands and e commerce will intensify

Multi-channel marketing will gain impetus.

Indian youth particularly seem to get comfortable ordering online. Besides, their craving for anything foreign is legendary. Hence, Brick and Mortar apparel and fashion retailers will have to deal with competitive intrusion at two levels; one being continued entry of foreign labels to the Indian fashion landscape and secondly the evolving e-commerce space. Pricing for routine wear and exclusivity in case of event-wears will emerge as key differentiators in this sector. So, the coming year may witness most fashion and apparel retailers will join the multi-channel bandwagon (web and mobile spaces) to continue remain relevant to their target group.

Retailers take their in-house fashion brands seriously

In house brands and private labels will move on to set up exclusive outlets.

Profitability and patronage enjoyed by in-house fashion and apparel brands will prompt retailers to set up exclusive showrooms for them. These stores will assume compact formats with focus on deeper assortment and greater space productivity. Celebrity endorsements and in-movie/event placements may be sought to provide greater visibility and mileage to the in-house fashion brands.

Brand Licensing will increase particularly in kids' category

Movies and animated cartoon characters continue to inspire kids and influence spend

Retail chains will increasingly house licensed brands particularly in kids category chiefly inspired by cartoons, animated characters and Bollywood and star cricketers. This would include proprietary content from home-grown and international production houses.

- **Jewellery Retailing**

Jewellery as indulgence rather than for investment

Jewellery retailers in luxury and high end lifestyle ecosystems will gain ground.

Indian jewellery market has seen a big shift in terms of its consumption pattern. Jewellery has been long perceived as a traditional investment product. Changing demographics now cause jewellery to be regarded as being a marker of upward mobility in the society and a lifestyle consumption trend. So, what you buy is as important as where you buy it. Hence, destination retailers with focus on exclusive jewellery brands will see increasing interest from consumers in tier 1 and tier 2 cities.

Focus will shift from customised jewellery to designer finished fashion product

Visual merchandising and Inventory management will gain new meaning among jewellery retailers.

Indian consumers will continue to seek unique pieces of jewellery to possess, however time-poverty compromises their ability to wait for that masterpiece to be crafted. Hence, focus will move to pieces that catch the eye. In this context, forecasting a demand pattern, managing inventory effectively and visual merchandising for enhancing store display will increased emphasis among retailers of precious jewellery.

Precious jewellery retailing will recede from fashion and apparel retailers

Costume jewellery with semi-precious metals and gems will find takers in fashion and apparel stores.

Indian consumers have not fancied buying precious jewellery in retail premises that co-house other categories of products. They seem to prefer exclusivity in the premise, offerings and services when it comes to buying precious jewellery. In this context, we will find precious metals and diamond brands losing shelf space from fashion and apparel premises. Costume jewellery which team up as accessories on the contrary will find increased popularity among fashion and apparel stores.

Men influence choice of retail destinations for jewellery

Retailers featuring hedonic products of consumption for men will help differentiate retailing destinations.

Men have always had a say in the women's buy of precious gems and jewellery in India. The twist in the tale will be in terms of men preferring retail destinations that have something for them too. Retail stores that feature gem-studded gadgets, precious metal watches and accessories for men will gain patronage as luxury retailing destinations.

Mid-bracket access jewellery brands gain momentum

Retailers focus on depth and width of assortment to clock in both the indulgent and aspiring shopper.

Traditionally Indian jewellery retailing has focused on weight of jewellery purchased as a marker, while the consumer today focuses on the number of different pieces of jewellery he/she possesses than its weight. Hence the focus is on more frequent purchases of low weight products. In this premise, there is tremendous scope for retail jewellery brands to introduce access brands. These mid-bracket access brands work for the cause of both the indulgent shopper who wants to add an additional jewellery piece to her wardrobe as well as for scores aspirers who seek to possess precious gold and diamond jewellery, which was for long inaccessible to them.

Online shopping will continue to increase in this category.

Try before you buy assurance on quality and buy back add to consumers' confidence in jewellery e-tailing.

The popularity of online jewellery buying will continue to grow in India. Interesting wearable designs, low-base price points, choice between 14 - , 18 - and 22-carat gold, besides a range of diamond quality to pick from boosts the interest in online jewellery portals popular among discerning youngsters. Additionally the try before you buy offer besides the assurance on quality and buy back in the future seems to instil increased interest in this format of buying.

- **Consumer Durables and kitchen appliances**

Brick n Mortar retailers' will embrace hybrid multichannel existence to serve the market

Consumer durable retailers will attempt to increase their relevance with respect to their target audience.

With online buying becoming increasingly popular among Indian consumers, brick n mortar retail chains are making sure they have online Consumer durables and kitchen appliances accessible at a click online. We will see more retail chains firming up their online presence. Furthermore, private brands will emerge in this sector, the

Online shopping will continue to increase in this category.

Significant price discounts from e-tailers coupled with manufacturers' guarantees will help drive this trend.

success of which seems bleak at this point of time.

We are a very price conscious nation, and online retailers continue raining promotional prices in the market, offering a significant boost to e-tailing in consumer durable sector. Options like cash on delivery and manufacturers' warranty add fuel to this rage.

Retailers' initiative in creation of secondary markets will drive consumption in primary markets

Both of online and offline secondary markets will gain momentum.

The consumption pattern among Indians for consumer durables and kitchen appliances is still largely need-driven, which reflects in the low-churn rate. Perhaps one way to increase consumption of this category of products is by creating secondary markets wherein products, slightly dated, yet in perfect working condition are up for takes. This way, consumers have both the mental and physical space to acquire more durables within shorter purchase cycles. Manufacturers and retail chains together will create such platforms for secondary markets both online and offline to drive primary sales. Exchange anything for anything is just a first step in that direction.

Retailers' service commitment will act as a differentiator when it comes to store patronage.

Exclusive showrooms will give room to multi-brand outlets with service capabilities.

With cut throat competition and competitive prices doing the rounds between retail chains, there is very little differentiation between retailers in this domain. Perhaps retailers' capability to offer seamless service network will be a big influencer for customers to patronize a retail chain.

Speciality Retail

Speciality Retail will be most influenced by e-tailing

Retailers need to look for out of the box engagement ideas to ensure footfalls and conversions

We believe speciality retail consisting of Books, Gifts and Stationary, Eye wear and Time wear will most likely go the electronic way at least in tier 1 and tier 2 cities. There will be a spurt in electronic versions of merchandise for both self-consumptions as well as for gifting; these would include but not limited to e-books, e-vouchers, e-coupons and the like. Services related to Corporate and event based gift management which are customized and personally offered shall increase and new service providers shall emerge in this category.

- **QSR based retail formats**

Franchising will be the name of the game

Greater penetration in tier 2 and tier 3 cities.

Quick service restaurant (QSR) based retail formats will continue mushrooming across, with greater in tier 2 and tier 3 cities. The only way national brands can achieve the reach is by using a rigorous franchisee development model. Private brands (branded cookies, coffee powder etc) will see renewed interest for these have found to be effective impulse purchase products.

Indians find international foods cool, but desi khaana hot

Indianising international foods as well as standardising Indian street foods will both find takers.

Indian consumers now fancy Sabudana wada and a Sub to nearly same extents. QSRs capable of standardising Indian street food even at a premium will be welcome by the hygiene conscious consumer. At the same time considering the beeline international cuisines are making into Indian palettes, only those who mind the Indian taste bud will walk away with the cup!

Cross branding and price wars will continue

With Inflation prone inputs and price prone customers QSRs should focus on synergy and value.

Price wars will continue to exist in this turf. However for sustainability and growth, QSRs need to focus on providing palpable value to the customers, leading to loyalty equations. This is all the more relevant since most inputs of QSRs are inflationary in nature and an average Indian consumer is far from loyal as far as QSRs are

concerned. Also, to clock in profitability QSRs will get into synergistic business models and cross branding will a key result area emerging out of this.

Personal computing and electronics

Devices based on non-conventional energy sources and hybrid formats will emerge

Multi-brand retailers need to create touch points that translate these attributes into enhanced customer experiences.

Novel devices demand novel engagement experiences. With the proliferation of high power devices and larger screens, energy management is going to be a key challenge and mobile consumers would find portable power mobile kits especially with solar energy based power kits very attractive.

E-tailing will continue to increase

Service quotient may be the only differentiator of brick and mortar stores.

Online reviews and feature comparisons seem to rule the roost when it comes to purchase decisions for consumer durables. Besides aggressive pricing, e -tailers score on the aspect of facilitating head to head comparison of features particularly for smart phones. Video shall be a very big enabler and differentiator to offer customized reviews and features to the customers. Emphasis on service quotient may be the only the way to pull and retain these value customers at physical retail stores.

Lifestyle based branding and access brands will both continue in this category

Digital retailers, a category committed to retailing mobile devices will increase in number.

Favourable demographics, increasing interest in technology powered gadgets compels manufacturers to take up a lifestyle based brand for their offerings. We will also see digital retailers exclusively dealing with phones and other mobile devices establishing committed premises for themselves by breaking away from multi-brand consumer durable chains. Simultaneously brands at accessible price points will continue to infuse the churn in the market among the large category of aspirers. Considering the level of technological obsolesce, secondary markets will continue to boom in this domain.

Talent Management as a key challenge

It is estimated that currently Indian organized retail employs over 10m people in India and is estimated that the demand shall reach 70m by 2018. Depending on the size and format of the retail stores one person is employed for every 200-300 sqft. Speciality stores may demand more skilled manpower than this ratio.

75% to 80% of these resources have to specialize in Store operations and 80% of this work force is expected to have a Diploma or a XII standard educational qualifications or less. Retail corporations need to specialize in large scale talent management activity or partner with learning and development organizations to support them in this segment. Multiple strategies have to be adopted like Platform based learning and certifications, integrating affirmative action programs with large scale skill development, partnering with state and central institutions on National and sectoral skill development initiatives.

Ability to talk in local language, product and feature proficiency, ability to sell new products, customer interaction management skills are key challenges to the Indian retail industry. It is predicted that large scale skill development units will be formed which shall be PAN-India focussed than regionally focussed service providers.

In Summary

- Increasing market access shall be key driver.
 - Fine print of FDI In retail will be watched cautiously by foreign retail chains before taking giant strides.
 - Most brick and mortar stores will take up a hybrid format by strengthening their online presence.
- Brand creation and management shall be focussed on the middle of the pyramid.
 - Access brands will gain momentum across all retail sectors.
 - Private brands as attractive profitability drivers will gain increased attention perhaps even in exclusive store formats.
 - Personalised marketing to see a spurt
- Customer experience management shall be the key differentiator.
 - Cash and carry format will intensify in Tier 2 and Tier 3 cities.
 - Retail service companies will see a boom; these would include consultants in Visual Merchandising, manpower hiring consultants, IT, supply chain and logistics providers, retail audit companies as well as E-waste management companies.
 - Besides lowering costs and increasing shopper engagement via novel ways, loyalty management will come under focus this year, for retail chains cannot afford to lose their most precious clientele.
 - To reduce the billing and check out time large retail outlets shall adopt mobile based quick check out options.
- Talent management is the key challenge to be conquered.

- Most successful companies would have strengthened or partnered with talent management entities. There shall be a war on talent and the attrition related costs and employee satisfaction risks shall increase.
- Platform based training and certification shall increase.
- Integrating affirmative action and skill development initiatives will find favour in Tier 2/3 cities.

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