



**RETAIL 4.0: WINNING THE 20s**  
THREE DECADES GONE BY, A NEW  
WORLD OF POSSIBILITIES AWAITS

FEBRUARY 2020



## About BCG

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To succeed, organizations must blend digital and human capabilities. Our diverse, global teams bring deep industry and functional expertise and a range of perspectives to spark change. BCG delivers solutions through leading-edge management consulting along with technology and design, corporate and digital ventures—and business purpose. We work in a uniquely collaborative model across the firm and throughout all levels of the client organization, generating results that allow our clients to thrive.

## About RAI

Retailers Association of India (RAI) is the unified voice of retailers in India. A not for profit organization, RAI, works with various stakeholders to create the right environment for the growth of modern retail in India. It represents an entire gamut of retailers, from chain store retailers and department stores to independent emerging retailers. RAI encourages, develops, facilitates and supports retailers to modernize and adopt best practices. It works with all levels of the government and stakeholders to drive employment opportunities, promote retail investments, drive thought leadership, enhance customer choice and build industry competitiveness.

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# Foreword

Organized retail in India has been shaped by three distinct growth waves over the past decades. As we step into the 20s, we look back and reflect on how the major predictions by the industry, of the past decade, have played out. Have the themes around consumer preferences, retailer profitability, big-box formats, digital, e-commerce and the unorganized sector developed as anticipated?

This report talks about likely trends that could shape the industry in the next 5-10 years, considering multiple dimensions of consumer shifts, supply side innovations, data and technology driven disruptions, new competitive forces and regulations.

Retail in India continues to be fragmented. There is large headroom for the top five retailers to grow their market share from the current <5% to 10-12% in the next decade. In order to achieve this, retailers would need to drive business model innovations through themes around value proposition and operating model. The choices made would play a key role in shaping 'Retail in the 20s'.

The BCG-RAI report "Retail 4.0: Winning the 20s" is a useful guide for retailers, as it outlines the way forward imperatives in the form of must do's and choices. Whilst there is a strong consumption story waiting to unfold, retailers would need to adapt and rethink business models to stay ahead of the constantly evolving market dynamics and win in the next decade.



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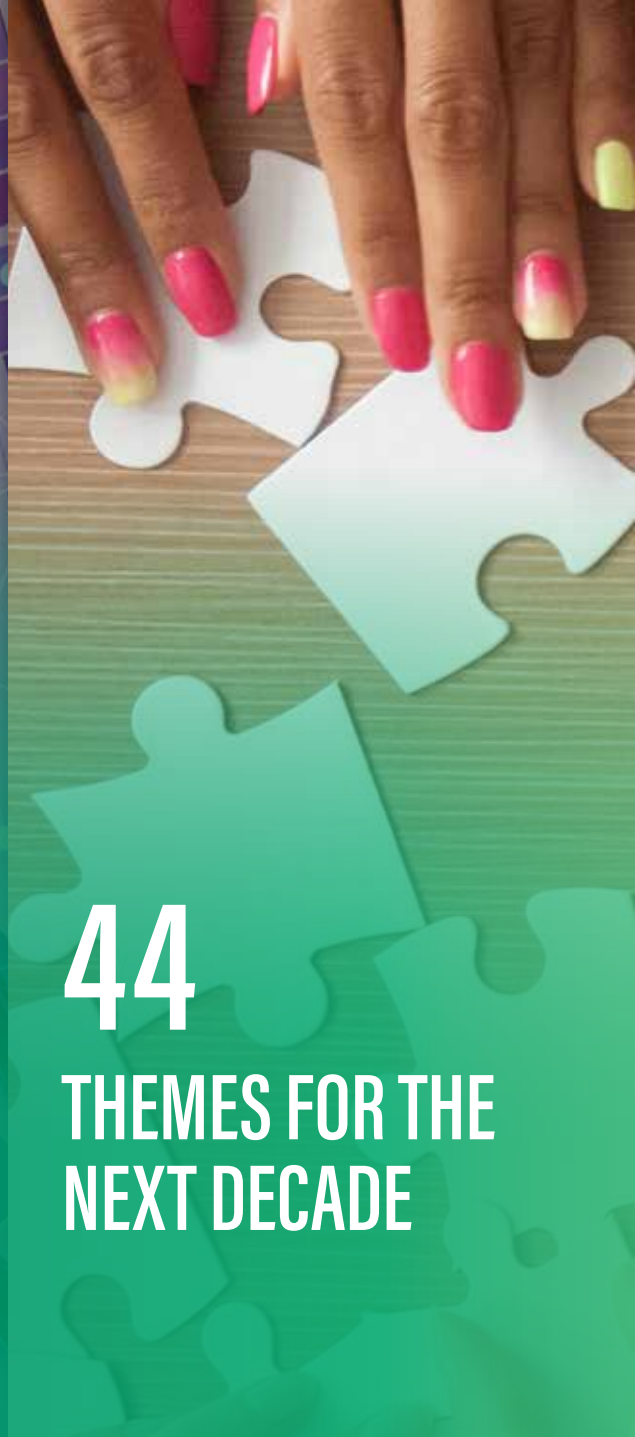
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# EXECUTIVE SUMMARY

Retail in India has come a long way. Evolution has seen waves of growth over the past three decades which can be synthesized into three distinct waves. The first wave was all about a new physical world of retail experience through large format multi-brand stores and exclusive branded stores, the second was triggered by the entry of large players in food retail through hyper and supermarkets, and the third fueled by rise of e-commerce and foreign brands.

As we step into a new decade, retail is expected to cross the trillion-dollar mark on the back of multiple structural, socio-demographic and economic drivers to boost consumption – but winners will need to establish models to viably tap the demand.

We take a moment to reflect whether major industry expectations of the past decade have played out as anticipated. The past decade saw sustained profitable models emerge in large retail categories with 'Value retail' being a clear proposition that has appealed to consumers. Small neighborhood stores continue to stay relevant amidst competition from e-commerce and modern trade. E-commerce has shown strong growth but penetration and share vary across categories. Mixed pathways have started to gain prominence vs. pure channel specific customer journeys. Hence, while many predictions landed well, a few have turned out differently.

We believe that with constantly evolving market dynamics, the future of Indian retail is likely to be shaped by five distinct forces - consumer shifts, supply side innovations, data and technology driven disruptions, new forms of competition and regulatory direction.



The India consumer is gradually but distinctly changing across multiple dimensions. The need for convenience, personalization, shopping on trend, multi-channel engagement and bias towards healthy living are becoming basic expectations. While some of these trends will continue to play out as is, a few could be conflicted with evolving preferences; e.g. convenience vs. gradual rise in sustainability, or hyper-personalization versus rising concerns around data and privacy. Some of the other emerging trends such as preference for renting over owning, shift towards experiences and brand affinity could go up or down, as witnessed in global markets.

Retailers in parallel are constantly transforming to solve for challenges. Globally, players have innovated on multiple fronts to improve retail economics. Some of these are likely to play out in India and gain scale. Alliances/ ecosystems could emerge in multiple shapes and forms to solve for growth, smaller store formats could gain prominence to drive improved economics, gig workforce could be a solve for flexible labor and private labels could extend across categories to deliver better margins/ differentiated proposition.

New data and technology driven trends could disrupt retail to improve customer journeys, shopper experiences and economics. The industry could also be impacted by new competitive forces who bring in a fresh perspective, e.g. social commerce and service players extending into retail. Regulations would constantly shape retail on multiple fronts such as FDI rules, minimum wages, tariffs, etc.

A significant portion of Indian retail continues to be fragmented. There is large headroom for the top retailers to increase their market share from the current <5% to 10-12% over the next decade, tapping into their established presence. This would require retailers to regularly evaluate model choices, network expansion opportunities and partnerships to build an edge. How clearly and effectively one adopts, will determine future success.

Innovation choices will need to be made on both the 'core consumer value proposition' as well as the 'operating model'. Based on BCG's learnings globally, there could be multiple themes that play out/ gain prominence in the 20s. While some themes on value proposition such as convenience and experiential retail are already visible in India, nascent themes such as responsible and alternate retail could gain scale. Models anchoring alliances, technology and the much talked about 'gig economy' could become the cornerstones of new retail.

Some global retailers have built their own unique models through a cluster of choices as they look at their 'winning script for the 20s'. Irrespective of the choice set, there are some clear 'no regret' actions to win in the next decade. Retailers must improve organization agility and continue to develop their unique products/ experiences with customer relationship at the forefront. Partnerships would be key, along with building cost efficient and technology enabled operations.

We hope the report will serve as an inspiration and a call to action for retailers determined to winning the 20s.





# REFLECTIONS OF THE PAST DECADE





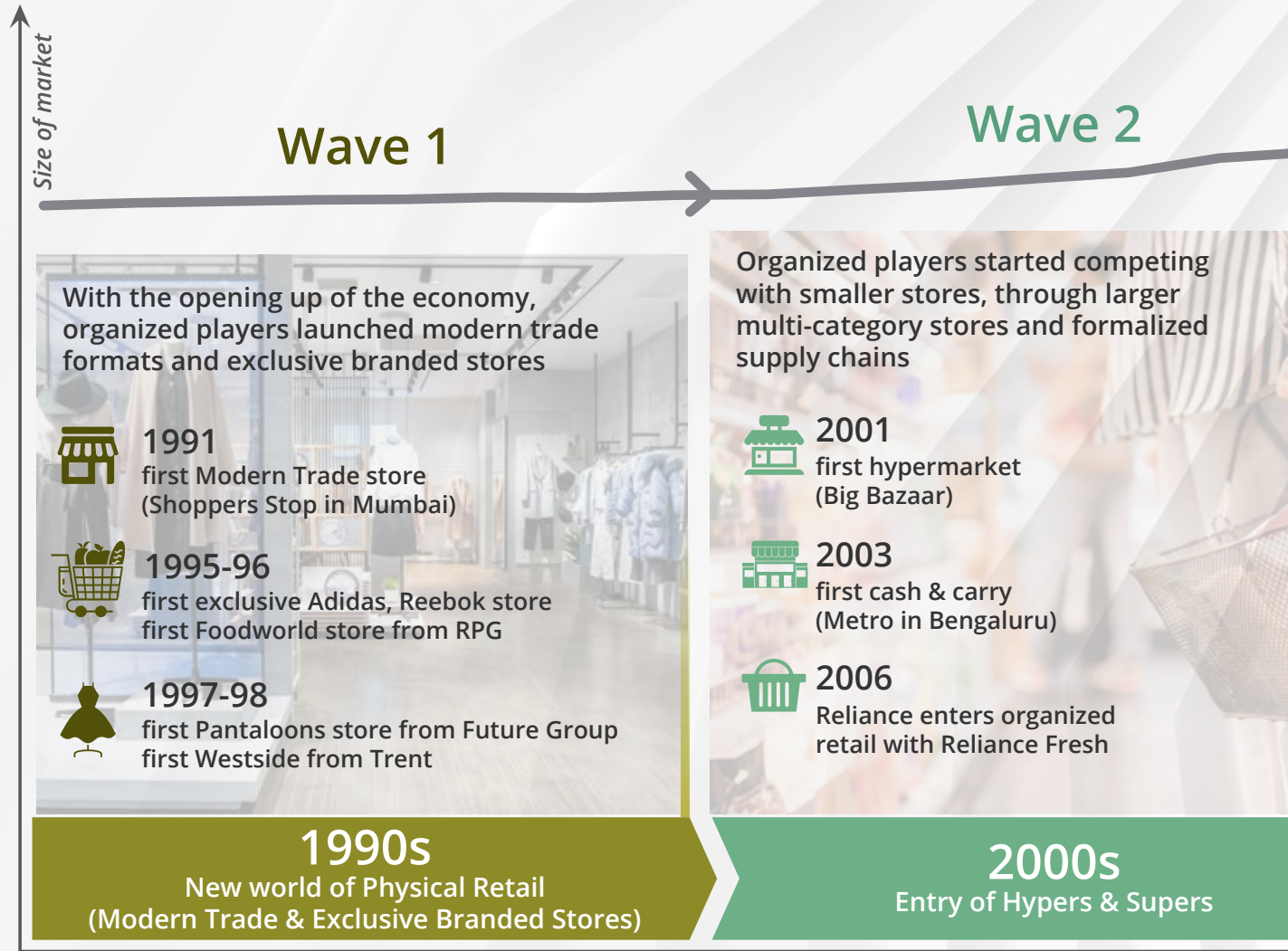


Organized retail in India has come a long way, since its inception in the early 1990s.

Three distinct growth waves have revolutionized Indian retail over the past few decades. Regulations related to opening up the market and bold bets by domestic and international players have fueled these waves.

The market has grown steadily in the past and is likely to continue on this growth trajectory in the long term, on the back of multiple structural, socio-demographic and economic drivers.

# Organized retail in India has come a long way



## Milestones

FDI in cash & carry permitted (1996)

Future Group reached \$1 billion (2007)

Select events

## Wave 3

## Wave 4

FDI permits led to the introduction of multiple foreign brands and attractiveness of e-commerce paved the way for a new digital age



2010

Zara first store in Delhi



2012

Amazon enters India



2015

H&M first store in Delhi



2018

Walmart acquires Flipkart  
Ikea first store in Hyderabad



2019

Uniqlo first store in Delhi

### 2010s

Rise of E-commerce & Foreign Brands

### 2020s

What will drive the next big wave of growth in the 2020s?

# 2030

# ?

# 2020



Time

51% FDI in Multi-brand,  
100% in Single-brand (2013)

DMart most valued retailer  
in <1 year of IPO (2017)

India's long term consumption and retail growth drivers are expected to provide a strong foundation for future growth.

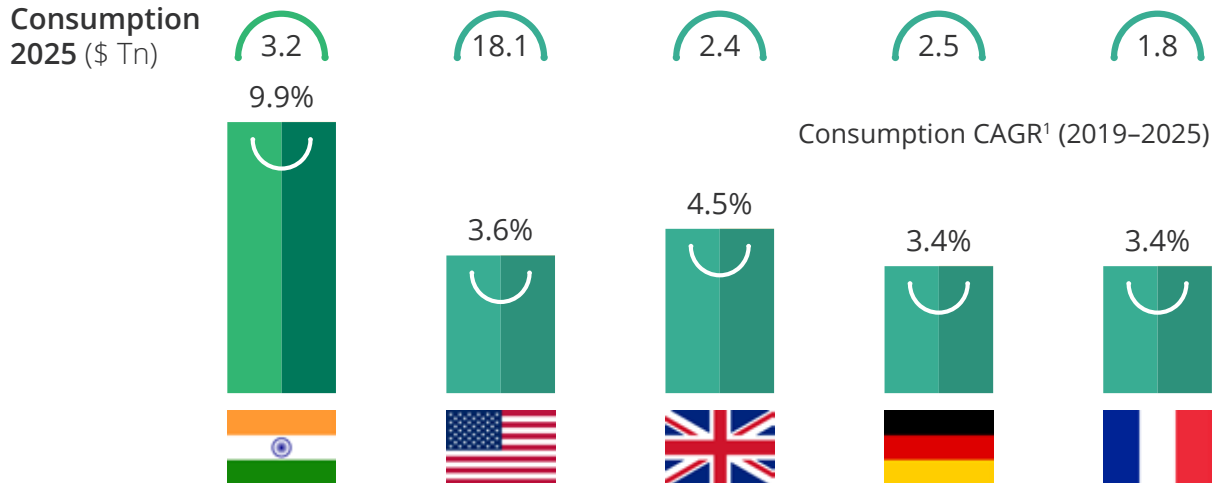
However, in the past few months, the economy witnessed signs of a consumption slowdown. The extent of this slowdown varies across categories, channels and geographies, e.g.

- Product categories such as white goods and mobile phones delivered double digit growth
- E-commerce and physical multi-category organized retail grew robustly
- FMCG grew by 7% over the past 12 months

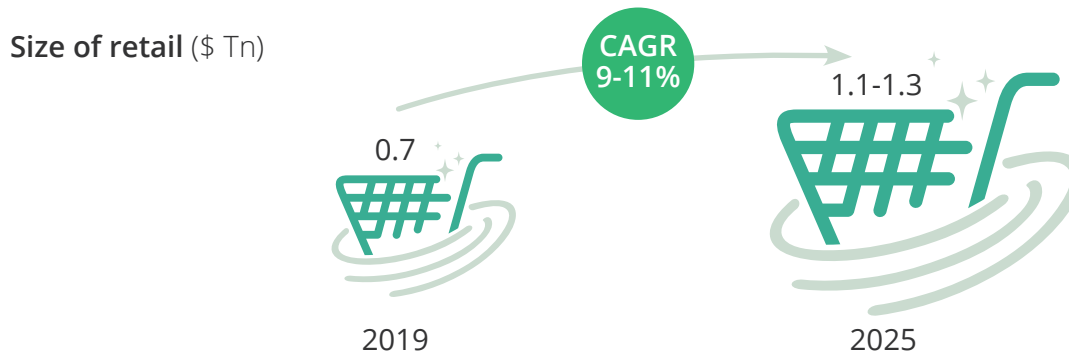
The strength of multiple structural, socio-demographic and economic drivers can sustain high growth in the industry over the 20s.

## India retail market estimated to reach \$1.1–1.3 Tn by 2025

### Indian consumption likely to outperform developed countries















### Indian retail expected to grow at 9-11%



Note: 1. Private consumption expenditure at current market prices in US\$  
 Source: RBI, IMF, EIU, Oxford Economics, Euromonitor, CCI Proprietary Consumption Model, BCG analysis



# Multiple structural, socio-demographic and economic drivers well in place to drive consumption over the next decade

Factor	Shift	Implications
 Income growth	 Increase in income per capita from 2016 to 2027 <sup>3</sup>	 Spend increase with income growth from \$1.6k to \$4k per annum
 Urbanization	 Urban population by 2027 versus 32% in 2016 <sup>5</sup>	 Average consumption per household in urban versus rural
 Nuclear families	 Households to be nuclear <sup>1</sup> by 2027 versus 71% in 2016	 Higher consumption of nuclear versus joint families
 Gen 'I'	 Population will belong to Gen 'I' <sup>2</sup> by 2027 versus ~70% in 2016 <sup>5</sup>	Have options, higher appetite to spend, comfortable with credit
 Farm and factory output growth	Steady increase in farm and production income and operating environment <sup>4</sup>	Steady agri-supply and stable commodity markets drive consumption and price stability

**Note:** 1. Nuclear households are households comprised of a married couple or a man or a woman living alone or with unmarried children (biological, adopted, or fostered) with or without unrelated individuals. 2. Gen I constitutes individuals who have grown up in the liberalized economy (<14 years of age when economy started opening). 3. EIU Country data 4. Agricultural Situation in India 2014 report, published by Ministry of Agriculture. Industrial output means real mining, quarrying, manufacturing, construction and utilities, EIU data till 2021. 5. National commission on population data, Govt. of India



## What would the industry have predicted? 10 years ago...



Having outlined the size of prize (i.e the Indian retail market), let us take a moment to look back at the past decade.

The 2010s were shaped by multiple trends such as:

- New FDI regulations making global brands accessible to the Indian consumer
- E-commerce unicorns, large retailers and burgeoning startups giving consumers new shopping experiences

1

Retail profitability improvement could be difficult, with industry facing multiple challenges

2

Multiple retail formats expected to drive scale and returns, with the rise of premiumization across categories

3

Small neighborhood stores would be threatened by increased competition from super/ hypermarkets and e-commerce

4

Hypermarkets would gain prominence and lead growth

5

E-commerce would gain fair share across categories

6

Digital would likely create a face-off between pure online and offline channels

7

Supply chain would move to integrated farm-to-fork

8

Role of store associates would diminish, given increasing use cases of technology





## What actually happened? 10 years later...



Sustained profitable models emerging across categories



Value retail clear winner amongst formats; 'Value' still the core of Indian consumption



Small neighborhood stores continue to be relevant owing to familiarity, proximity, monthly credit



Retail moving to smaller sized stores amidst rental pressures



E-commerce has grown but still has a long way to go; penetration varies across categories



Mixed pathways playing out; Multi-channel has unlocked growth for retailers



Some momentum observed in integration, end-to-end flows yet to be solved



Store associates still relevant, also play the role of experts and advisors

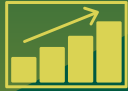


1

# Select models across some categories showing profitability

Retail profitability improvement could be difficult, with industry facing multiple challenges

10 years ago...



10 years later...

Sustained profitable models emerging across categories

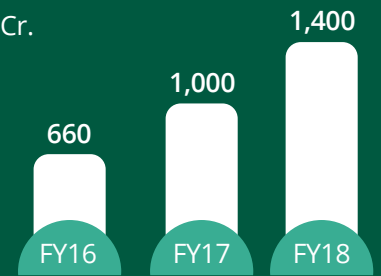
EBITDA margin of select listed Indian retailers	
Category	EBITDA margin
Food and Grocery	6-8%
Apparel	8-11%
Footwear	14-16%
Jewelry and Watches	10-11%
Food QSR <sup>1</sup>	12-15%

Note: 1. QSR - Quick Service Restaurant  
Source: Company annual reports, Analyst reports, Press search

The real size of prize for retail has been demonstrated when concepts and operations are scalable, driving sustained profitability. Indian retail is highly fragmented today and offers massive headroom for growth

Illustration: Listed retailer financial performance

EBITDA, Rs. Cr.



EBITDA margin



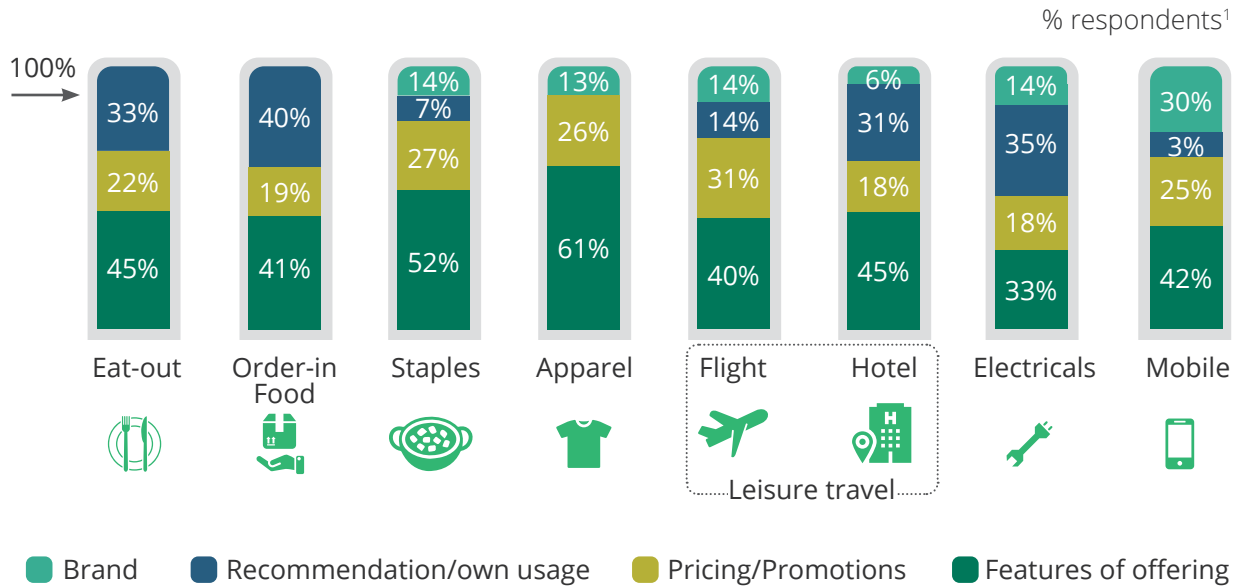
EV/ EBITDA



While some categories have started to see sustainable profitable models, a few others, such as consumer electronics/ appliances, continue to be challenged

## India values “value”

### Pricing/ promotions still a key factor influencing purchase



### What's worked for value retail in Food and Grocery in India

Sharp/ consistent positioning of consumer segments and shopping missions

Optimized assortment

Price led proposition

High throughput and turns

Clear in-store communication

Low cost operating model (supplier deals, payment terms, optimal staff, rentals)

Note: 1. Considering Rank 1 responses only: Q - Thinking about your last purchase for XYZ, can you tell me the 3 most important factors which helped decide what product should be bought? Data of only urban consumers  
Source: CCI Survey & BCG analysis 2019, N=1367

Multiple retail formats expected to drive scale and returns, with the rise of premiumization across categories

10 years ago...



10 years later...

Value retail clear winner amongst formats; 'Value' still the core of Indian consumption



3

# Kiranas associated with familiarity, proximity, monthly credit

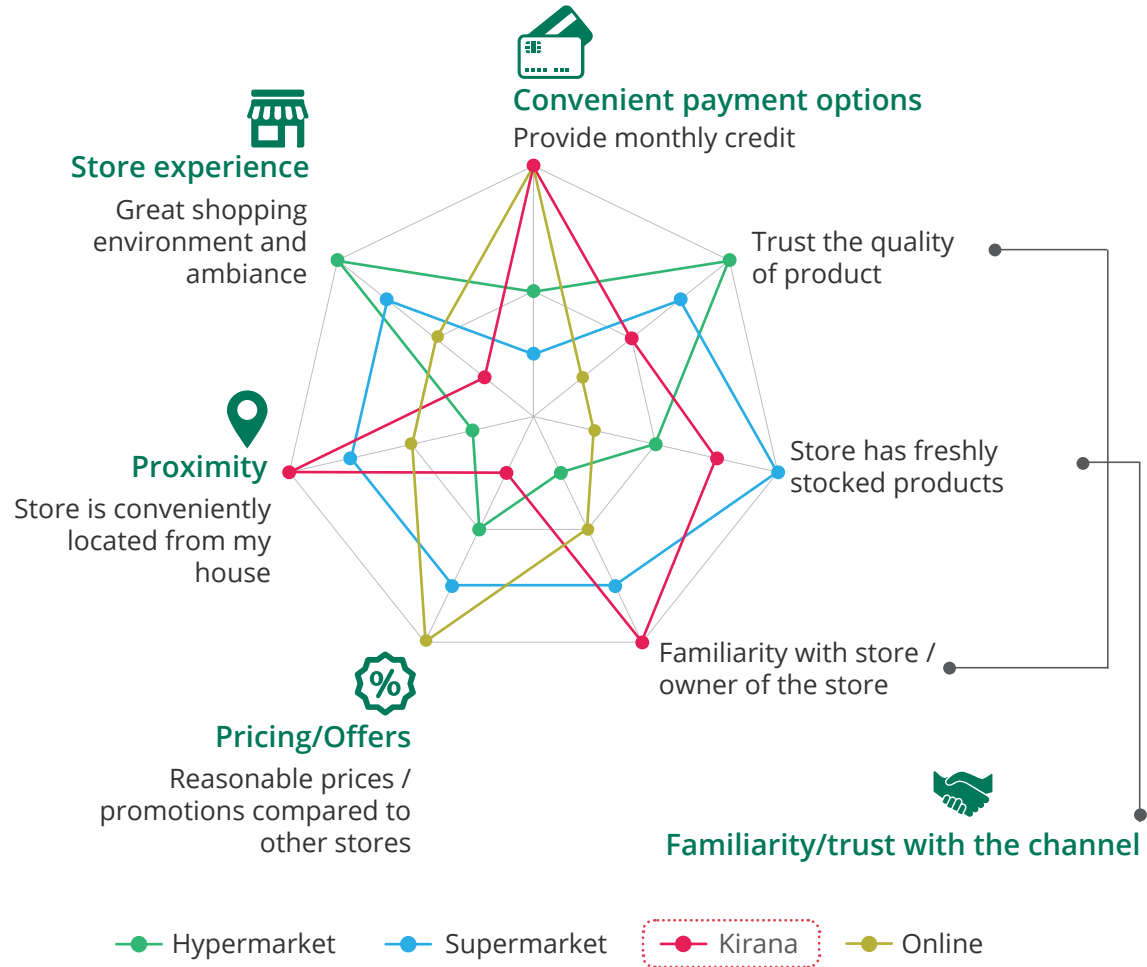
Small neighborhood stores would be threatened with increased competition from super/ hypermarkets and e-commerce

10 years ago...



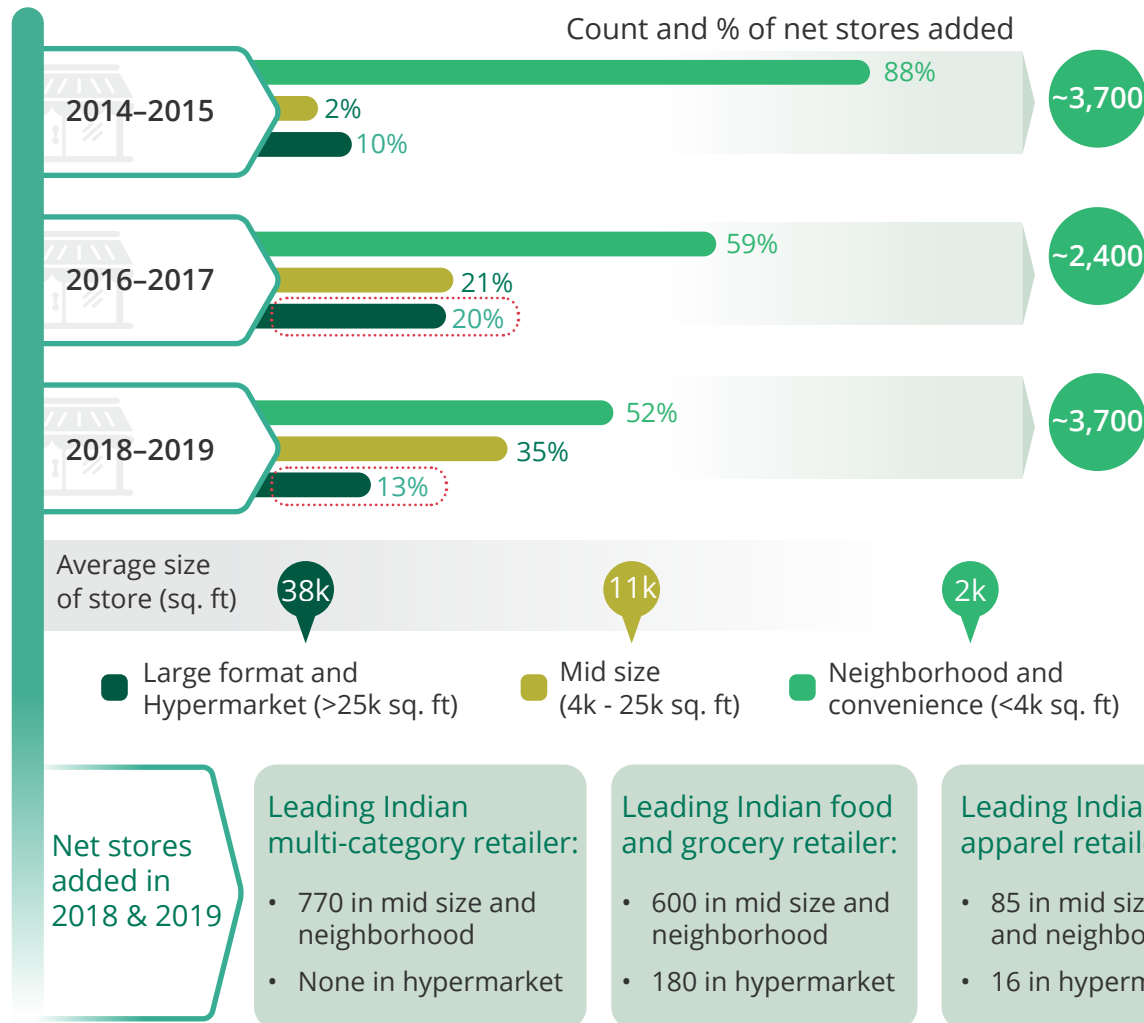
10 years later...

Small neighborhood stores continue to be relevant owing to familiarity, proximity, monthly credit



Note: Q: I am going to read out a number of statements and I would like to know which of these statements apply to any of these channels. You can select multiple channels for each statement. I would like your impressions of these channels, whether or not you've purchased from them in the past; Data of urban consumers shown. Top 7 factors of channel preference are shown. Source: CCI Survey & BCG analysis 2019, N=918

## Shift to smaller formats observed, driven by convenience and space productivity



Hypermarkets would gain prominence and lead growth

10 years ago...

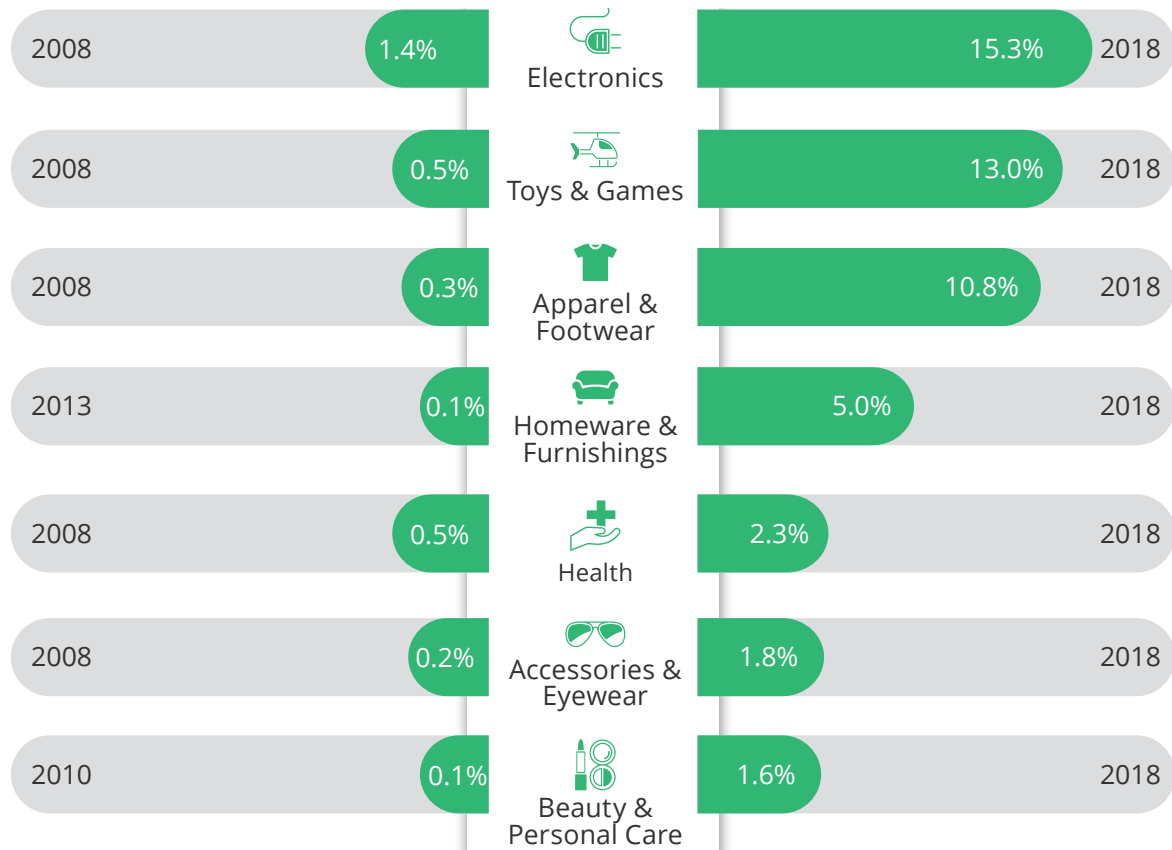


10 years later...

Retail moving to smaller sized stores amidst rental pressures

## Online disruption varies by category, with fast gains in Electronics and Toys & Games

### Online share of total retail sales in India



Faster shift to online

Slower shift to online

E-commerce would gain fair share across categories

10 years ago...









10 years later...

E-commerce has grown but still a long way to go; penetration varies across categories

Source: Euromonitor. 'Toys & Games' excludes retailers specializing in computer games. 'Health' excludes prescription medication. Data not available for 'Beauty & Personal Care' prior to 2010, 'Homeware & Furnishings' prior to 2013.



# Online important for mobile and service categories; offline continues to dominate across others

	% spend by channel <sup>1</sup>	Trigger <sup>2</sup>	Occasions/ year	Spend/ occasion (Rs.)
 Leisure travel	46% Online, 54% Offline	Experimental	1.8	15,051
 Order-in food	44% Online, 56% Offline	Experimental	13.8	605
 Mobile	35% Online, 65% Offline	Functional	0.4	10,860
 Apparel	7% Online, 93% Offline	Celebratory/ Societal	7.2	2,097
 Electricals	2% Online, 98% Offline	Functional	1.5	718
 Staples	1% Online, 99% Offline	Functional	17.0	1,966

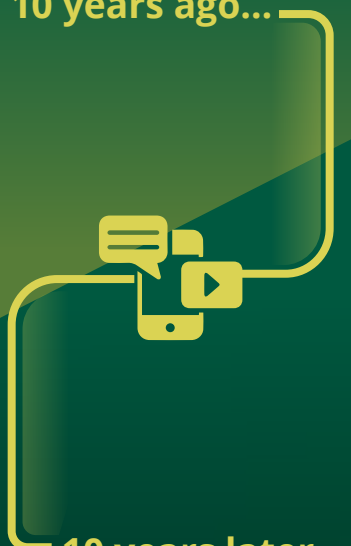
■ Online 
 ■ Offline (Includes modern trade, general trade)

**Note:** 1. Q - Can you tell me what proportion of total spends did you make across the channels for purchasing category? Data of only urban consumers. 2. Now I want you to think about the last time you purchased XYZ, what was the occasion/reason for your purchase? Data of only urban consumers. CCI Survey and BCG analysis, 2019, N=1367

## Mixed pathways prevalent across many categories

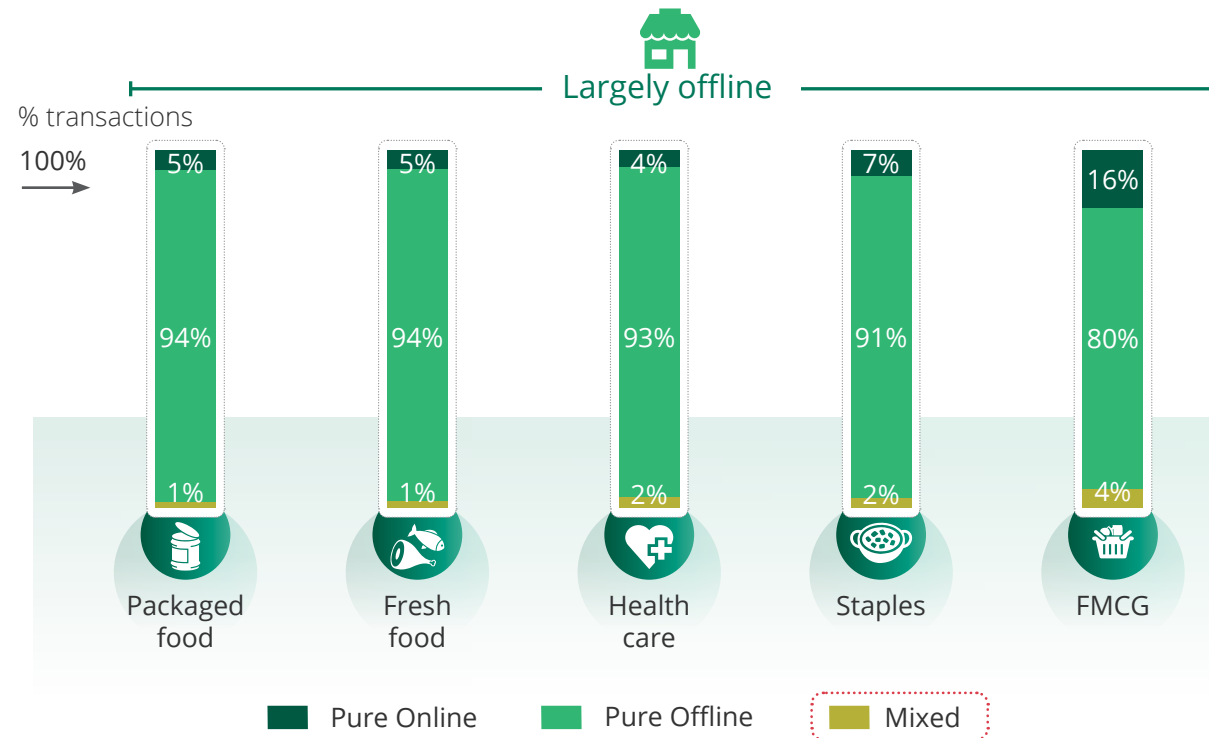
Digital would likely create a face-off between pure online and offline channels

10 years ago...



10 years later...

Mixed pathways playing out; Multi-channel has unlocked growth for retailers

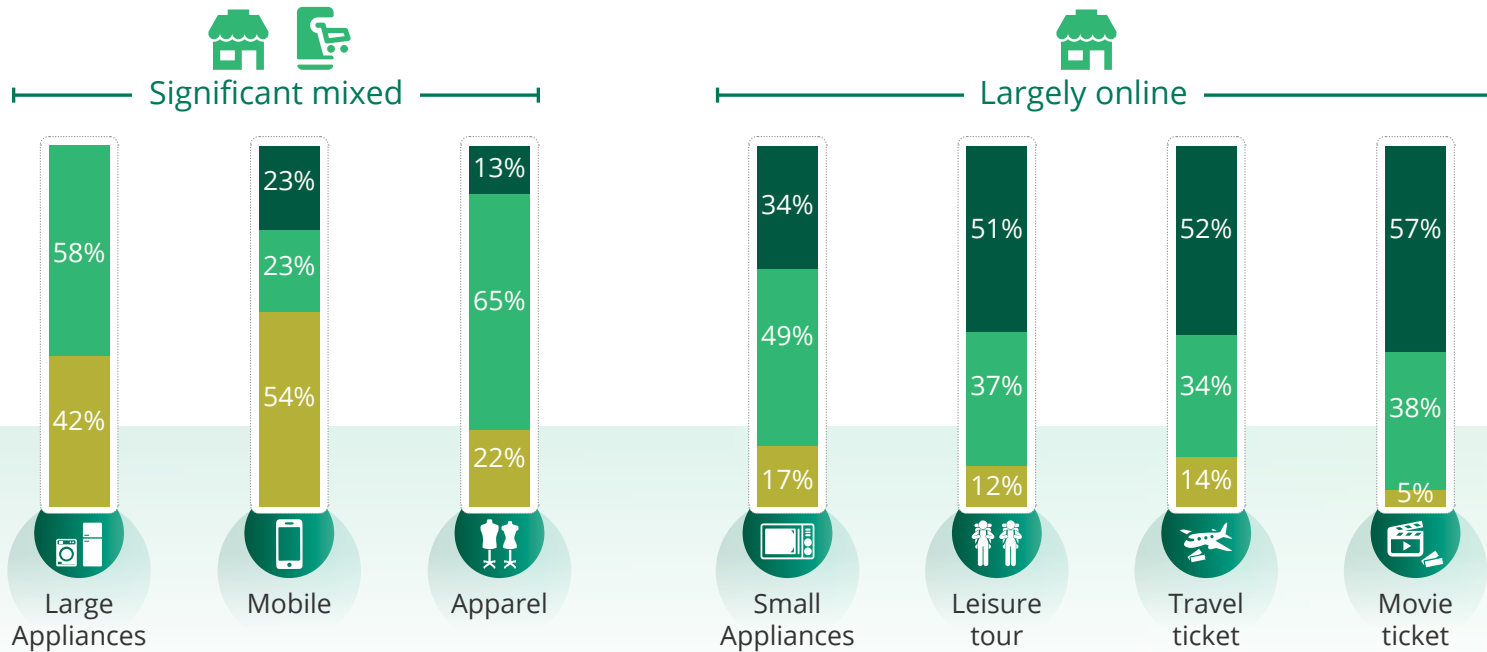


### Players leveraging multi-channel to drive growth



- Several online only players have extended their physical presence, either independently or via associations
- Many offline only players have scaled their e-commerce portfolios to build a complementary multi-channel presence

Source: CCI Digital daily survey, Digital deep dive panel, CCI Buzz to bucks 2016, press search, N=12088 transactions



### Online only players experimenting with physical stores



A leading Indian beauty retailer, as part of its offline expansion, has two types of stores – one houses luxury premium brands and the other carries a portfolio of brands that trend on its online platform

### Offline only players growing online presence



Some leading apparel players in India have established their online business and are actively looking to scale this channel – some even creating their own online only portfolios



## Farm-to-fork integration largely unsolved, however headed in the right direction

Supply chain would move to integrated farm-to-fork

10 years ago...



10 years later...

Some momentum observed in integration, end-to-end flows yet to be solved

### Structural challenges and how it affected the industry

#### Taxation and sourcing



- Differential tax regimes across states
- Suboptimal network of stock points and inventory build-up

#### Transportation



- Fragmented transport market and players increased logistics costs

#### Infrastructure



- Poor infrastructure led to inefficiencies through the value chain (ports, highways, warehouses, cold chain)

#### Internal



- Low technology adoption and limited end-to-end communication affected operations and collaboration
- Supplier integration limited

### Some progress seen

GST enables better efficiencies in logistics, consolidated warehouses; 20% reduction in truck turnaround time

Transportation still mostly fragmented; 3PL growing at ~15% CAGR, yet only ~5% of logistics market

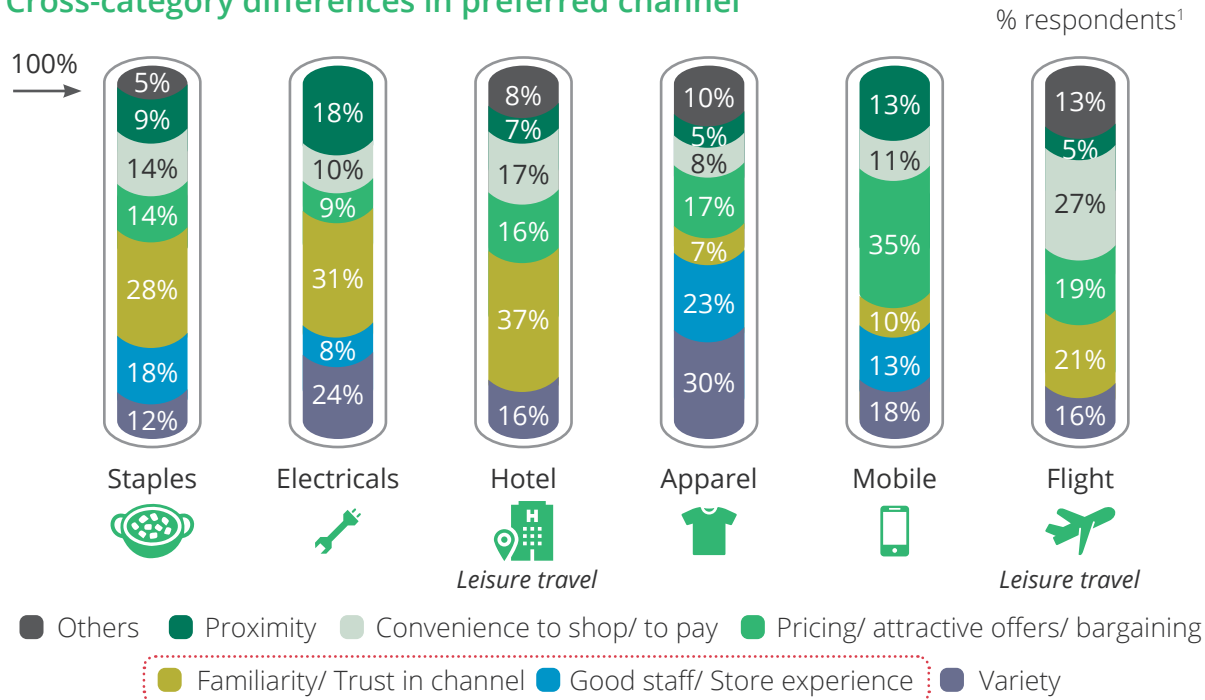
Road and ports have improved, long way to go; cold chain infrastructure yet to scale, ~30% agricultural produce wastage

Retailers started to solve a few challenges, e.g. supplier integration, rationalizing SKUs, using technology to improve operations

Source: Secondary research, BCG experience

## Staff/ store experience and familiarity/ trust in channel continue to be important for consumers

### Cross-category differences in preferred channel



### Reinventing the store associate role



A leading beauty retailer has in-store makeup advisors, color and skincare experts, who provide customers with consultations, touch-ups and makeovers



A leading paint company has in-house color consultants who help customers decide what works best for their homes

Note: 1. Q - Considering Rank 1 responses only: Can you look at the list below and rank top 3 reasons basis which you selected the channel? Data of only urban consumers

Source: CCI Survey 2019, N=1367 and BCG analysis

Role of store associates would diminish, given increasing use cases of technology

10 years ago...



10 years later...

Store associates still relevant, also play the role of experts and advisors

# FORCES EXPECTED TO SHAPE INDIAN RETAIL







## Forces that could shape the future Indian retail landscape

# 1

### CONSUMER SHIFTS

Given the attitudinal and demographic change in consumer preferences, there has been a significant shift in the way consumers shop – forcing retailers to constantly adapt to stay ahead of the curve

# 2

### SUPPLY SIDE INNOVATIONS

Increased margin pressures, retail space crunch, rising costs are putting considerable strain on business models – pushing retailers to innovate to win in the next decade



# 3

## DATA AND TECHNOLOGY DRIVEN DISRUPTIONS

With the onset of the digital revolution, it is imperative for retailers to embrace data and technology to shape consumer shopping preferences and minimize costs – prompting retailers to up their game

# 4

## NEW COMPETITIVE FORCES

As boundaries across industries continue to blur, the retail industry might see itself facing competition from a new genre of players – unsettling retailers and traditional models by bringing in a fresh perspective

# 5

## REGULATIONS

With changes in FDI, GST and other rules, the Indian retail industry continues to be sensitive to regulations and a changing political landscape – driving retailers to rethink businesses and models



# The Indian consumer is fundamentally changing

## Preference

## Consumers in the past

 Need for convenience	Were willing to spend time/ effort in identifying right product out of offerings
 Personalization	Accepted mass product offering 'push'; were willing to skim through and select
 Shop on trend	Shopped mainly for utility
 Rent or own	Took pride in owning possessions
 Shift towards experiences	Conservative outlook, believed in asset creation
 Brand affinity	Attracted to international brands
 Multi-channel engagement	Relied on offline channels for entire purchase journey
 Healthy living	Focused on health largely by managing food, exercise
 Shift in purchase decision maker	Men were the dominant decision makers
 Many Indias	Limited choice, were willing to go with mass product
 Interaction and influence	Select interaction with retailers via traditional media

Note: 1. CCI Survey, 2019, N=5000 and BCG analysis

Source: Ten Trends That Are Altering Consumer Behavior in India, BCG 2019





## Consumers of today

Convenience on the rise with time compression, expectation to access whenever and wherever: **57%<sup>1</sup>** use time saving products or services

Seek individualistic choices: **56%<sup>1</sup>** opt for personalization even at an added cost

Shopping frequently to maintain a trendy lifestyle or image: **62%<sup>1</sup>** bought a product to stay updated with latest trends

Renting gaining favor with trend of asset-light lifestyle: **37%<sup>1</sup>** consider renting a practical option vs. buying

Slowly shifting towards experiences: **37%<sup>1</sup>** trading down on possessions for experiences or indulgences

Preferring Indian brands: **50%<sup>1</sup>** consciously buying Indian over international

Gradually using multi-channel in purchase journeys, though preference varies across categories

Actively spending on health and wellness to stay and look fit: **57%<sup>1</sup>** spend on healthy food, services and products

Women rising as key decision makers: **54%<sup>1</sup>** final say of women in purchases, rising say in male dominant categories

Local product and brand preferences vary across the country, as choice increases

Interacting with family, friends, social media influencers, in addition to traditional channels

## Future expectation

Potential conflict with evolving preferences



Could go up or down – **Wild card**



Expected to **continue as is**



## Evolution of some consumer trends might be conflicted by evolving preferences



### Potential trade-off that could play out

'**Convenience** culture' on the rise, may conflict with awareness towards **sustainability**

Acceptance for **hyper-personalization**, could conflict with rising concern for **data and privacy**

Being more **trendy** could conflict with rising awareness of excess consumption, leading to **minimalism**



### Global example

Leading cosmetics brand anchoring around sustainability; became popular with young adults

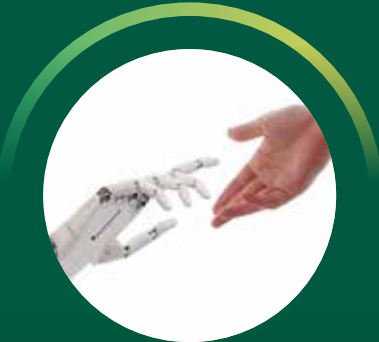
General Data Protection Regulation (GDPR) in the EU, aims to give individuals control over personal data

US apparel start-up adopted 'less is more' by minimalist designs for daily wear; lean closet, free of clutter

Source: Secondary research, BCG experience



# Indian consumers to further evolve, based on trends observed in global markets



With steady adoption in **automation**, rising need for **human and physical** element of retail



With more informed choices, rise in **'conscious consumption'**; more alignment with **corporate values**



Despite a more **connected** world, shift towards **single and loners** with evolving society dynamics

With increased incomes and more exposure to new ideas, experiences and technologies, the Indian consumer is steadily evolving.

Some trends may be **nascent**, yet to develop even in more mature markets, **while others** may be gaining firm ground across the globe.

It would be interesting to see how these global trends play out in India over the next decade.

Luxury department store redefined customer experience, by adding staff with expert product knowledge who guide consumers

Global sportswear retailer launched ad campaign supporting a socio-political issue; supported by consumers, sales increase, stock prices surge

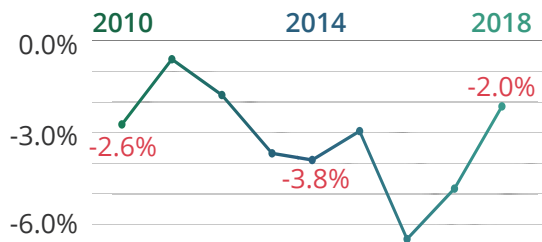
Singles' day started as an obscure 'anti-Valentine's' celebration for single Chinese in 90s; became prominent 24-hour online shopping event; replicated globally

# Globally, retailers continue to face multiple challenges



**Data and anecdotes**

US retail store traffic declined at a 4% average annual rate since 2010<sup>1</sup>



Leading US retailer's operating profits declined over time<sup>2</sup>

Profits as a % of revenue



Top agenda of a leading food and grocery retailer in China

How do we drive rural penetration and integrate offline and online to tap into China's \$5.3 Tn offline market?

Source: 1. ProdCo, Morgan Stanley research, 2. Annual reports, BCG experience

# ... but 'always on' innovation high on the agenda

— Global example    ..... Trend playing out



Leading US retailer opened several small-format stores, focusing on curated inventory, convenient locations

Retailers building a number of **small store formats** to deliver convenience



Leading US retailer found huge success with its own private-labels; generates quarter of its sales

Retailers building own **private labels** to improve value proposition and drive higher margins




US technology company uses gig workers as 'personal shoppers', to help consumers shop for groceries through app or website

Retailers benefiting with flexible workforce through **gig platforms**



Leading Chinese retailer expanded physical footprint by transforming and integrating mom-and-pop stores into own ecosystem

Retailers shifting to decentralized asset ownership for rapid expansion through **alliances and ecosystems**



Global fast-food chain has its own institute on restaurant management; trained 275,000+ employees

Retailers providing **training and educational support** - either in-house or through tie ups with educational institutions



UK technology company built a platform for renting out empty space in warehouses, allows retailers to variabilize costs

Retailers getting **warehousing solutions through shared spaces**, whose costs flex with fluctuations in demand



Source: Secondary research, Press search, BCG experience

# Retailer led innovations likely to gain significance in India

## Possible retailer trend

## How the trend would likely play out?


## Some implications



### Alliances and ecosystems

- Partnerships with small neighborhood stores started, led by e-commerce, B2B, B2C
- Likely to evolve, scale and lead to ecosystems over time

Shift of power to few; consistent customer service harder to implement



### Smaller store formats

- B2C retailers starting smaller store formats to provide convenience/ ease of access
- Likely to become more mainstream and play out across markets

Think through concentration of stores within an area



### Leveraging gig

- Start-ups in ride sharing and eating out have started using flexible workforce
- Likely to extend to other retailers e.g. physical retailers with high variability in footfall

Employees may become transactional, amidst rising need for relational retail



### Private labels

- Private labels have gained prominence in few categories, both offline and online
- Likely to extend to other categories, as retailers build new capabilities

Likely impact on quality/ consistency of products in initial period, supplier relationships

Source: Secondary research, BCG experience



# Alliances and ecosystems critical to retail

Alliances and ecosystems critical as they enable players to leverage each other's core capabilities

Nature of these alliances could vary from the past, considering the advent of data / technology, fintech, social media giants

No one size fits all solution. Players could leverage different shapes and forms of alliances, to create own ecosystems

## Ecosystems could involve combinations of multiple alliances with different stakeholders

*Illustrative*



### Potential alliances

### Rationale

Big retailer + Unorganized small stores	Potential to scale quickly in hard to reach markets
Big retailer + Niche retailer	Augments customer value proposition
Retailer + Fintech + Delivery + Messaging players	Creates seamless transactions
Retailer + Social media + Technology players	Enhances capability to understand consumer behavior, target consumers
B2B wholesaler + Unorganized small stores	Improves economics, access to consumer data

Source: Secondary research, BCG experience

Data and technology driven disruptions provide a real opportunity for those willing to **move fast, integrate operations and outpace competition.** Retail is evolving—and retailers must evolve as well.

### Key drivers



Mobile



Social



Cloud



Internet of Things

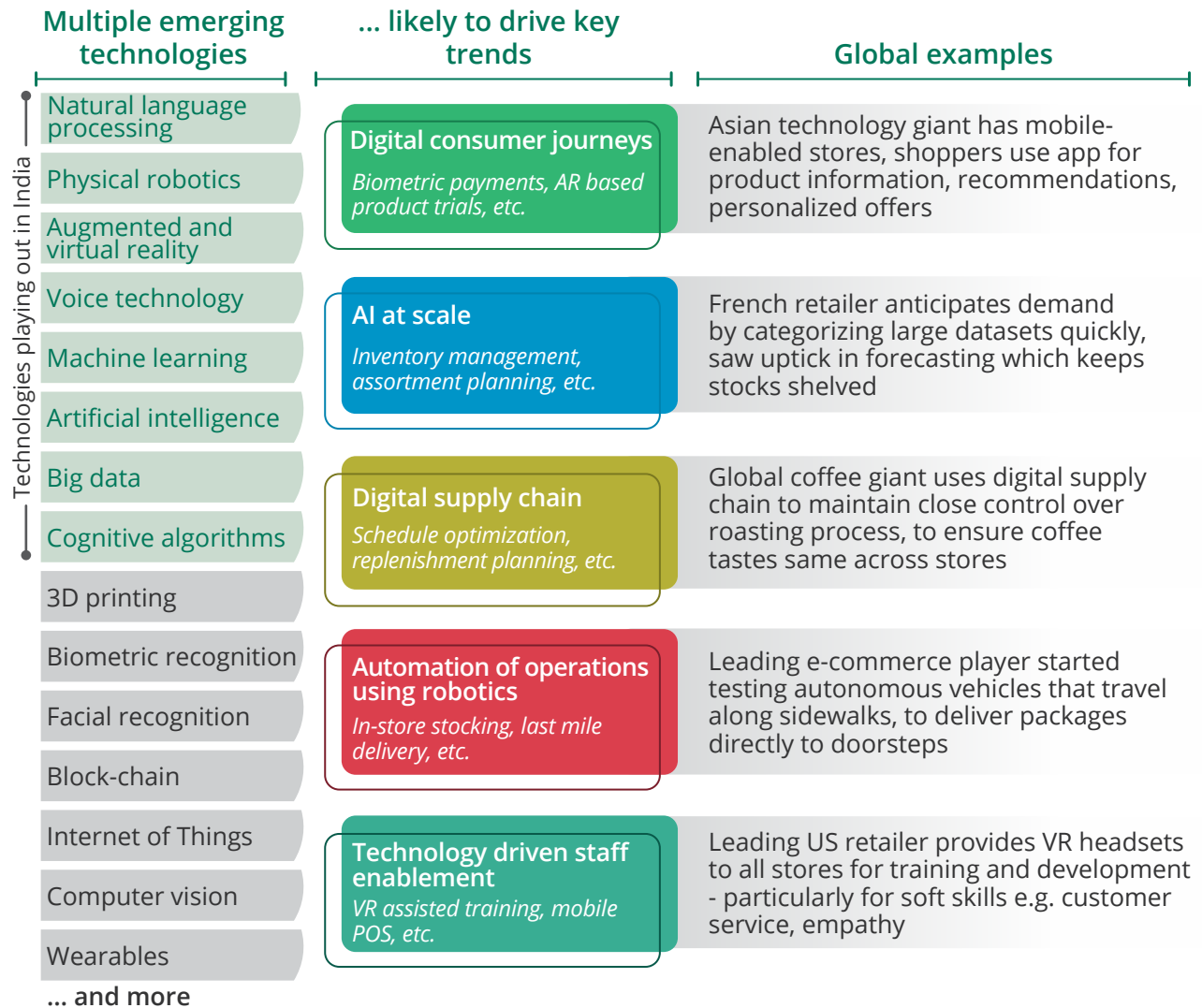


Advanced analytics



Digital reality

## Data/ Technology driven disruptions will trigger new trends



Technologies playing out in India

Source: Secondary research, BCG experience

# New genre of competitors will bring a fresh perspective to retail

## Social commerce

Right platform for user generated content, peer-network advocacy, integral part of shopping journeys



## Example

In Thailand, social commerce drives 40%+<sup>1</sup> of online sales in few categories, e.g. grocery, household products

## Cross-industry play

Cross-industry players entering retail by extending offerings/ business models



## Example

Indian film entertainment company selling own branded F&B in theaters, online channels, pop-up stores in malls

## Financial institutions

Financial players strengthen small stores by additional income, deeper customer relationships, streamlined payments









## Example

Some Indian Payments Banks partnering with small shops, where people can deposit/ withdraw cash/ transfer to other banks

Note: 1. BCG Thailand consumer survey, 2016, BCG analysis

# Regulatory changes could shape business models

Regulations	...and how they could likely play out	Some implications
 <p>FDI</p>	Relaxation of FDI, 100% in multi-brand retail	<ul style="list-style-type: none"><li>• Rethink models to compete with global retail giants</li></ul>
 <p>Minimum wage</p>	Higher minimum wage or benefits for employees	<ul style="list-style-type: none"><li>• Reliance on flexible workforce, improve employee productivity</li></ul>
 <p>Gig formalization</p>	Formalization or inclusion of independent contractors as employees	<ul style="list-style-type: none"><li>• Increase pay/ benefits/ change model to incorporate gig workers</li></ul>
 <p>Data privacy protection</p>	Stringent laws on capture, storage, utilization of personal data	<ul style="list-style-type: none"><li>• Clearly communicate, build greater transparency for personal data use</li></ul>
 <p>Private labels</p>	Curtailement of private labels	
 <p>Tariffs</p>	Changes in tariffs, localized sourcing norms, GST rules	<ul style="list-style-type: none"><li>• Rethink store economics and operating models</li></ul>

Source: Secondary research, BCG analysis



# To summarize: Forces that could shape the future Indian retail landscape

## Consumer shifts

### Potential conflict with evolving preferences

- Need for convenience
- Personalization
- Shop on trend

### Could go up or down - Wild card

- Rent or own
- Shift towards experiences
- Brand affinity

### Expected to continue as is

- Multi-channel engagement
- Healthy living
- Shift in purchase decision maker
- Many Indias
- Interaction and influence

### Emerging preferences based on trends in mature Geos

- Concern for data and privacy
- Mindful of sustainability
- Need for human element
- Minimalism
- Conscious of corporate values
- Rise of singles and loners

## Supply side innovations

- Alliances and ecosystems
- Smaller store formats
- Leveraging Gig
- Private labels

## New competitive forces

- Social commerce
- Cross-industry play
- Financial institutions

## Data and technology driven disruptions

- Digital consumer journeys
- AI at Scale
- Digital supply chain
- Automation of operations using robotics
- Technology driven staff enablement

## Regulations

- FDI in multi-brand retail
- Minimum wage
- Gig formalization
- Data and privacy
- Private labels
- Tariffs/ Local sourcing/ GST



# THEMES FOR THE NEXT DECADE

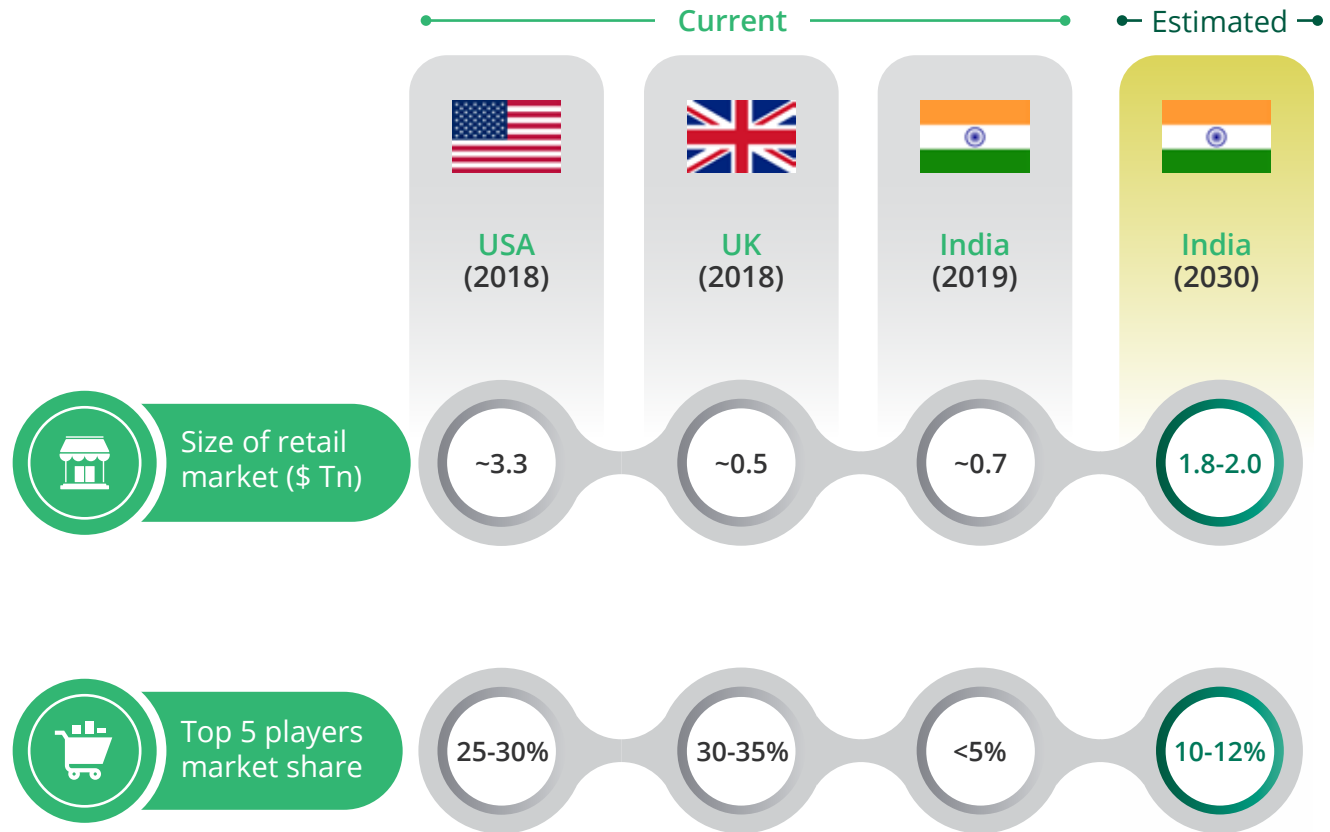




## In the next decade, top players could take on a bigger slice of the industry

A significant portion of Indian retail continues to be fragmented. There is large headroom for the top 5 retailers to increase their market share from the current <5% to 10-12% in the next decade, based on:

- Learnings from developed markets (typical share of 25-30%)
- Recent trajectory (share steadily increased from ~1% in 2010 to <5% in 2019)
- Rise of alliances / ecosystems expected to play out going forward, which allows for steady increase in consumer share of wallet



Source: Euromonitor, Company annual statements, Analyst reports, BCG analysis



# Winning the 20s would require a holistic rethink of business models

## Forces that could shape retail in the next decade



Consumer shifts

Supply side innovations

Data and technology driven disruptions

New competitive forces

Regulations

## Retailers would need to make business model innovations

### Value proposition

Target segments	Product range, price, quality, design, service	Brand promise
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*(Factoring lens of business economics)*



*Strong interplay based on choices made*

### Operating model

Channel	Store concept	Cost model
Value chain, Go to market	Organization, alliances	Data and Technology

In order to win in Indian retail, players would need to actively respond to **changing trends** across the industry.

Retailers who stop improving their core business, could gradually lose their competitive advantage and run the risk of falling revenues, store closures, losing scale  
**("Vicious Retail cycle")**

Retailers must instead constantly innovate to improve formats, drive customer experience, push for bigger baskets, loyalty, lower costs and improve profits  
**("Virtuous Retail cycle")**

## Key themes around value proposition likely to unfold

Based on BCG's learnings globally and forces that could potentially shape retail going forward, we believe **multiple themes could play out and gain prominence over the next 5-10 years.**

These themes could translate into choices for retailers either on Value Proposition or Operating Model.

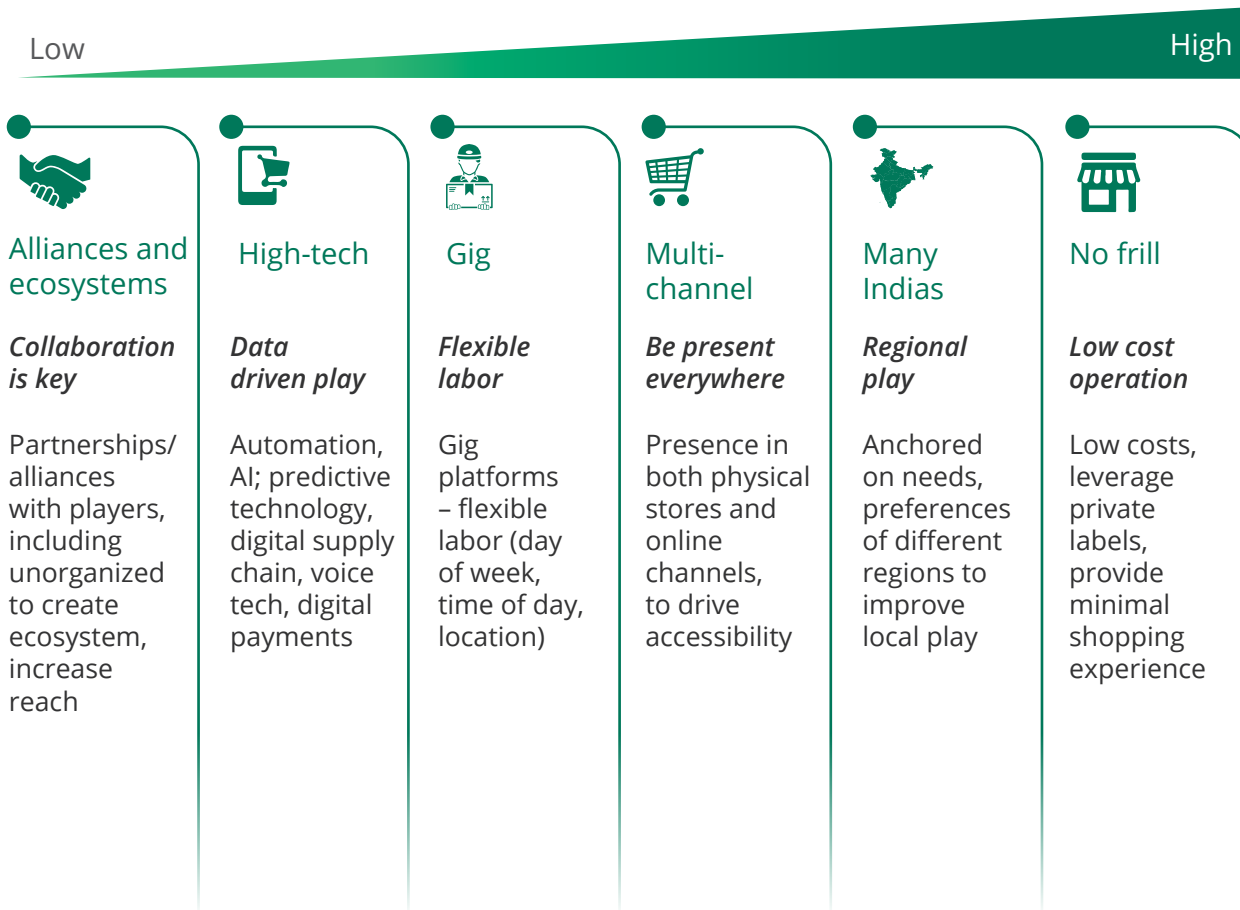
Each of these choices would come with a set of imperatives, that need to be thought through.



Source: BCG analysis, experience

# .. along with complementary choices to be made on operating model

Level of maturity with sufficient scale observed currently in India



Players can pick a theme or choose to straddle across multiple themes, depending on category, geography, investments, synergy with core etc.

**Prominence of each theme would vary by category**

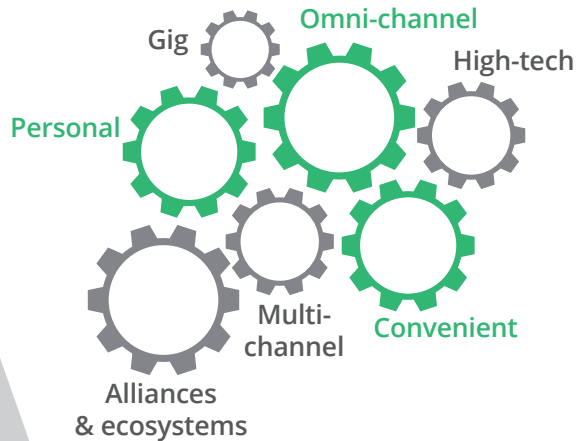
e.g. High engagement categories would see more innovative models of spectacular retail

**Despite different themes, a few elements would continue to hold prominence**

e.g. Customer experience is still very important – has different implications across themes

Source: BCG analysis, experience

# Globally, few retailers making choices across themes to craft 'Win the 20s' strategy



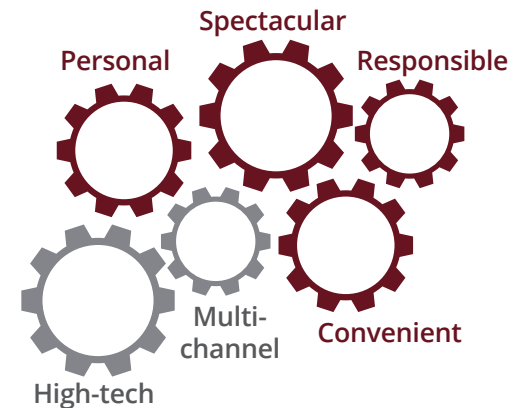
## Leading Chinese e-commerce company creating a unique food & grocery ecosystem

- Mobile app for information/ payments, omni-channel
- Personalizes recommendations through customer journey
- Convenience by leveraging store as a fulfillment center
- Gig personnel for deliveries
- Integrates physical store operations with online ecosystem
- Efficient inventory management, fully digitized supply chain



## Leading American sportswear retailer focusing on accessibility, innovation, customization

- Stores/ assortment localized to catchment
- Personalizes videos with tailored recommendations
- Provides basketball court, style consultations to experience products
- Convenience - pick-ups at smart lockers, Consumers message associates for return / exchange
- Digitalizes demand sensing and inventory, responsive supply chain
- Supported a sociopolitical issue



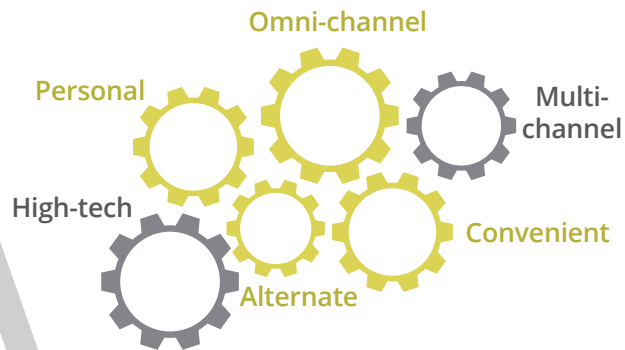
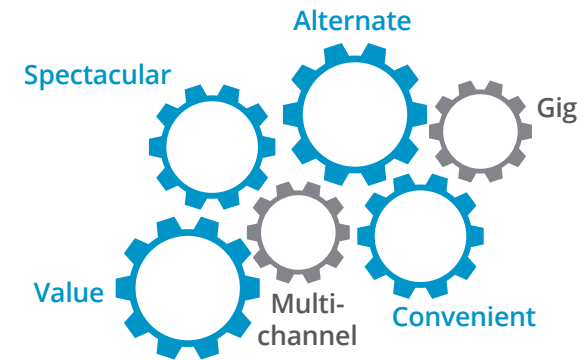
Source: BCG analysis, experience





## Leading global furniture retailer delivering low price and unique shopper experience

- Flagship store with VR, innovative 3D experience
- Smaller format stores in urban areas, curated assortment
- Subscription model for temporary furniture rentals
- AR at home using mobile apps to envision look
- Gig for customer DIY installations
- Multi-channel, in-store/ online shopping



## Indian start-up creating a health and wellness omni-channel ecosystem

- Entire solution for health/ wellness
- Subscription and app-based healthy food service
- Personalizes healthcare solutions
- Gym subscription for fitness, mental well-being
- Machine-driven technology to personalize offerings
- App-based technology for managing operations

# Some Must Do's to win the next wave of retail

Speed organization, be on the constant look-out to evolve retail model to stay relevant with emerging trends



Develop destination products/ experiences, the more differentiated the better



Build cost efficient and technology enabled retail operations, essential ingredient to success



Look out for partners, alliances help to maximize resources, capabilities, play to own strengths



Build own unique portfolio/ platform - invest in models that work, divest where needed



Improve customer experience, personally connect with customers, focus on customer relationship vs. product leadership alone



















Attract best talent with new capabilities



Apply a test and learn approach, consider when and how to scale aligned with goals



## ... while others are optional based on choices made

Themes	Call for action	Watch outs
 <b>Responsible retail</b>	Find appropriate product/ service proposition that can be sufficiently scaled	 Balance consumer willingness to pay vs. higher costs
 <b>Alternate retail</b>	Look for emerging models, develop internal innovation capabilities to build new concepts	 Disrupt yourself before getting disrupted by others
 <b>Personal retail</b>	Understand current data, build advanced models to monetize, road-map to enhance models	 Balance hyper-personalization with privacy
 <b>Omni-channel/ Multi-channel</b>	Outline shopper's journey across channels, optimize operations for frictionless experience	 Don't lose your loyal customer due to cross channel friction
 <b>Spectacular retail</b>	Build a compelling offer, find expertise internally/ externally to execute experience offer	 Re-evaluate associate role and profile – need experts
 <b>Convenient retail</b>	Right store formats, redefine role of store, rework infra to service faster/ more seamlessly	 No longer a race to have most stores, but right stores in right locations
 <b>High tech</b>	Harness technology across value chain, find right partners to develop and scale	 Balance human element, employee adoption while deploying digital
 <b>Gig</b>	Understand where flexible labor provides greater returns, evaluate end-end costs	 Balance transactional gig labor vs. customer warmth

# For Further Reading

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

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

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

## **Ten Trends That Are Altering Consumer Behavior in India**

An article by Boston Consulting Group, October 2019

## **Going for gold by creating customers who create customers**

A report by Boston Consulting Group, February 2019

## **Decoding value creation in retail**

A report by Boston Consulting Group, February 2018

## **Digital Consumer Spending: A \$100 Bn Opportunity**

A report by Boston Consulting Group, February 2018

## **Fashion Forward 2020**

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

## **The New Indian: The Many Facets of a Changing Consumer**

An article by Boston Consulting Group, March 2017

## **Decoding the digital opportunity in retail**

A report by Boston Consulting Group, February 2017

## **Decoding Digital @ Retail: Winning the omnichannel consumer**

A report by Boston Consulting Group, February 2016

## **Retail 2020: Retrospect, Reinvent, Rewrite**

A report by Boston Consulting Group, February 2015



# Note to the Reader

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