

Building retail businesses for tomorrow today



Executive summary

Historically, retail companies the world over have focussed on increasing their store footprint for growth. Digital transformation gradually led to the proliferation of multiple channels and today, retailers have moved to a consumer-centric operating model which is solution-oriented and anticipatory to changes in consumer behavior. While both the physical store and the digital channels have found a way to co-exist and work together, factors like technological breakthroughs, demographic and social change and economic conditions have made it increasingly difficult to understand what customers value and this continues to pose challenges to the retail operating model.

Unlike global trends, digital transformation has become a means to overcome infrastructural difficulties in a developing country like India. As multichannel retailing has been helping India's consumption story, online retailing has emerged as a viable alternative by which organised retail can expand its share in the total consumption pie. The omnichannel agenda coupled with the pressures of delivering superior customer experience and aggressive competition is putting the onus on developing an operating model which is strategically aligned to business goals.

PwC's annual global total retail survey 2016 has tracked consumer behavior across retail channels, bringing to light the changes brought about by multichannel retailing. From choosing between channels to being channel agnostic, consumers today are rapidly moving towards the omni-channel way of life. According to our findings, 2016 could be a watershed for many of the trends that have been percolating over the past few years.

Given the relatively low percentage of penetration of organised retail, Indian consumers have readily embraced multichannel shopping - the biggest factor for this continues to be convenience as stated by 65% of the Indian respondents as against 47% globally. Convenience is also continuing to drive in-store shopping for daily needs as we see a 5% increase in hi-frequency shoppers (daily & weekly) in-store. 67% of consumers are even willing to pay for same day delivery from online stores as compared to a global average of 62%.

However, Indians remain value conscious shoppers as 49% of the respondents in the India sample indicated price as the dominant factor to driving them to choose their favourite retailer. Further,

according to our survey data and given the general perception that online shopping is discount-laden and hence more economical, monthly shoppers showed preference for online shopping as opposed to in-store.

Other than price, loyalty is emerging as a big factor driving purchase activity in India. 90% of consumers said that they were part of a loyalty program and selected value-related factors like additional discounts, monetary benefits and free shipping over experiential factors like special events access, access to a VIP lounge etc.

From the point of view of retail categories, online marketplaces are ensuring that more and more local sellers from tier II and III cities have a pan India reach to showcase their wares. This is leading to benefits for newer manufacturers across the landscape, right from electronics and hardware to apparel and food, translating into more choices for consumers. In addition to conventional products like books, apparel and consumer electronics, a significant proportion of consumers today are shopping more frequently online (more than 40%) for products like furniture (28%), grocery (35%) and jewellery (31%).

The online retail activity is also giving a further impetus to the growth of digital payment mechanisms and to mobile-based promotional and couponing activity.

As consumers exercise the online option, they are also increasingly demanding a better in-store experience. Knowledgeable store staff was the principal factor driving superior in-store experiences (37%) for consumers followed by a preference for self-service checkout (34%).

Over the past year, several trends have advanced, right from the unmistakable desire to buying more via smartphones, to becoming more reliant on social media and demanding a more service-focussed and knowledgeable store employee. Indian consumers are truly redefining what it means to shop today.

It's nothing short of a revolution, and the stakes have never been higher for both retailers and consumer goods companies

Anurag Mathur

Leader | Retail and Consumer Goods

PwC India



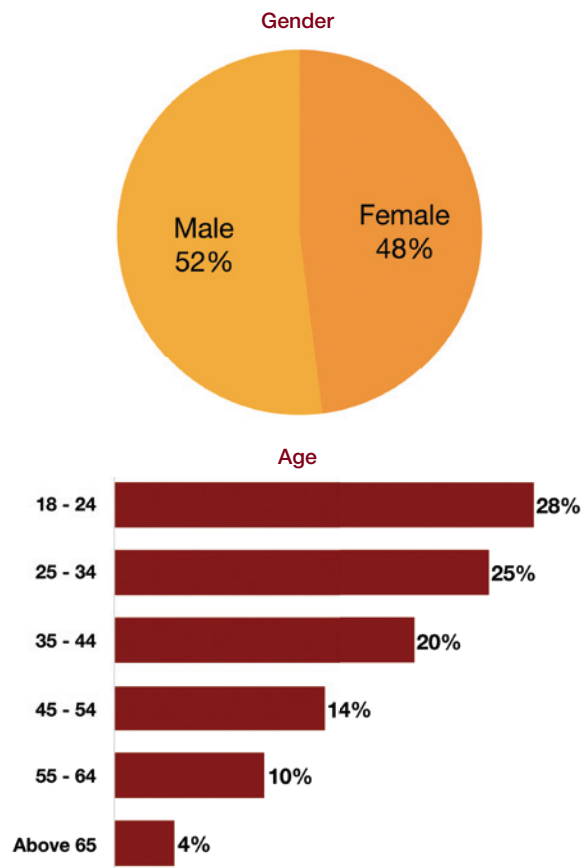
Methodology

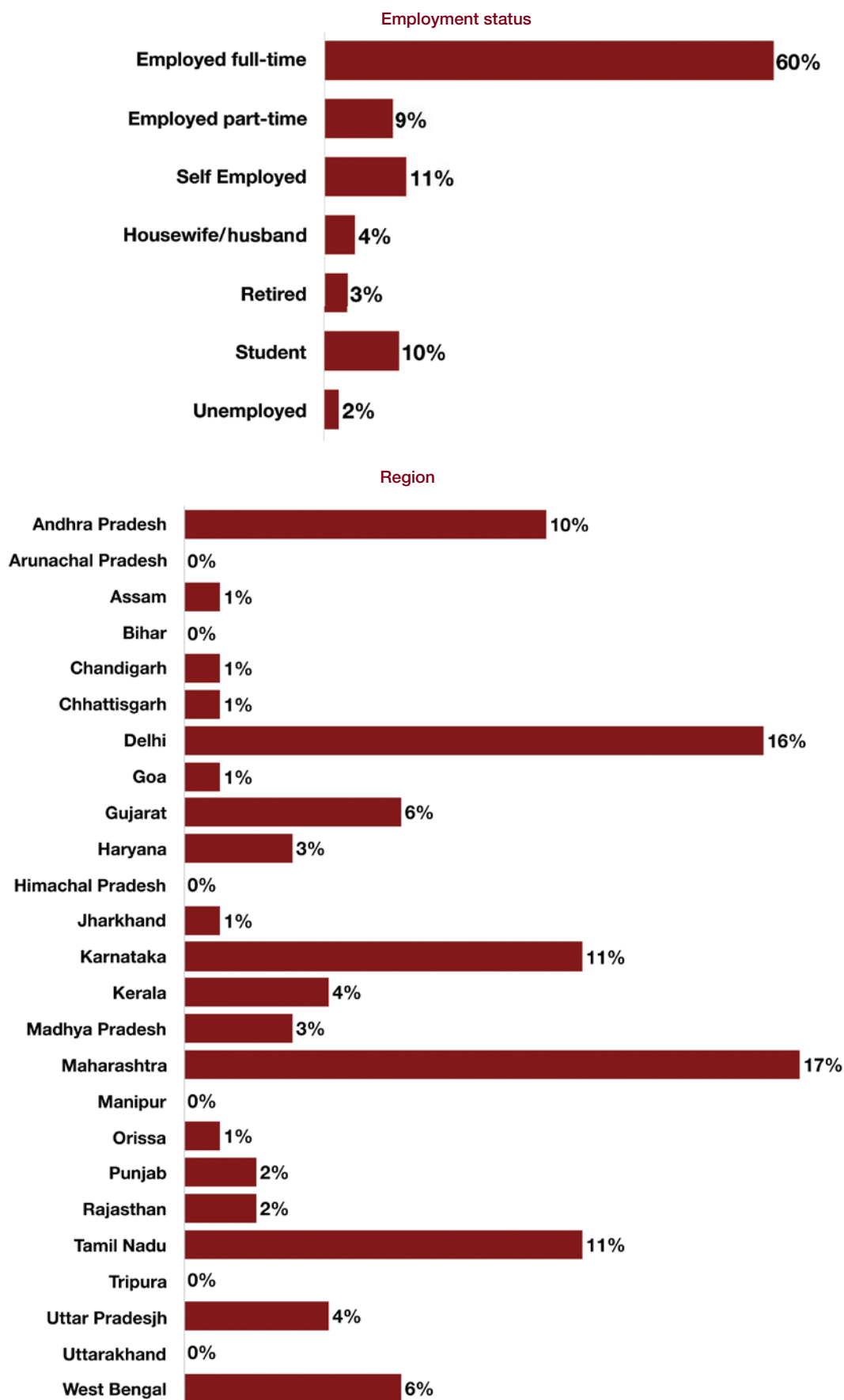
Conducted by PwC's global Retail and Consumer Goods practice, in conjunction with r2i, like every year, we administered a global survey to understand and compare consumer shopping behaviours and the use of different retail channels across 25 territories viz. Australia, Belgium, Brazil, Canada, Chile, China/Hong Kong, Denmark, France, Germany, India, Italy, Japan, Malaysia, Mexico, Middle East, Poland, Russia, Singapore, South Africa, Spain, Switzerland, Thailand, Turkey, UK and US.



22,618 online interviews were conducted globally. In India, 1000 online surveys were conducted which included respondents based in different parts of the country, spanning across different age groups from 18 to 65 years and above as well as those belonging to different economic backgrounds.

Total retail 2015: India sample distribution





What consumers want?

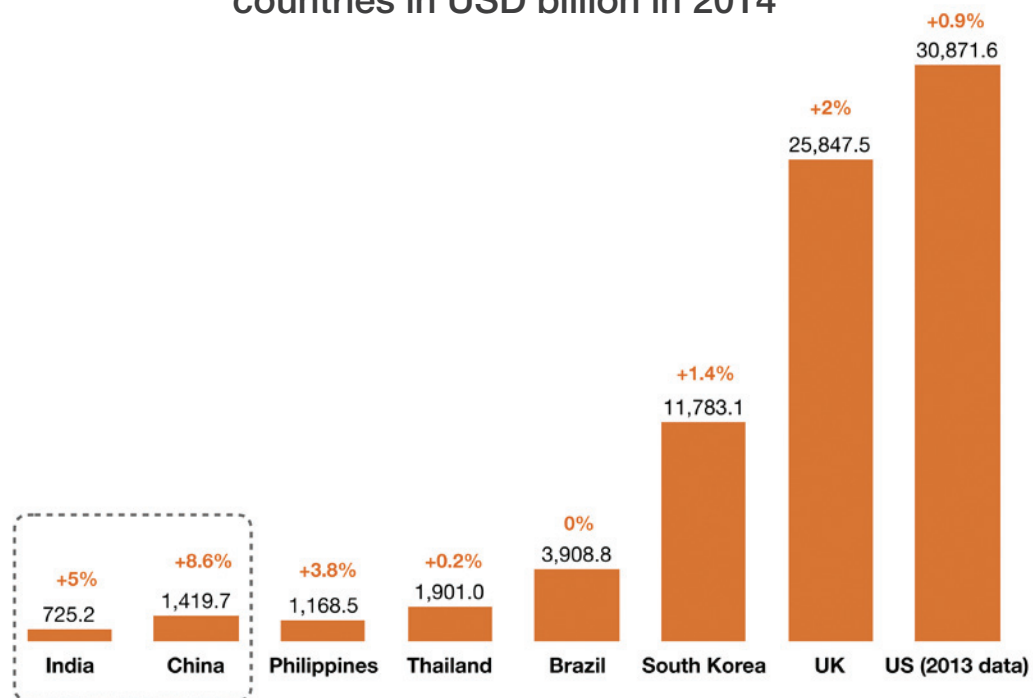
Driving the Indian consumption story

The Indian retail story continues to be strong.

The Indian retail sector has been growing at a CAGR of 7% and is poised to grow at 11% CAGR to become a USD 1000 billion market by 2020. Organised retail is expected to grow at a CAGR of 32% & its penetration in India is expected to treble from the current 8% to 24% by 2020. Online retail is expected to grow at a staggering 63%, albeit at a low base.

The Indian Consumer Confidence Index¹ as per Nielsen is on positive trajectory (112 in mid-2013 to 131 in Q4 2015) and India's 'household consumption per capita expenditure' as per a World Bank report is growing at 5% which is second only to China. All of this augurs very well for the India retail growth story.

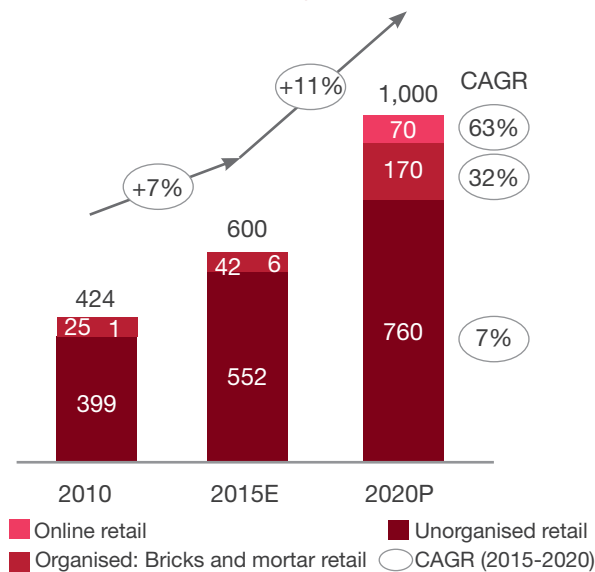
Household consumption per capita expenditure of major countries in USD billion in 2014



Source: World bank country data

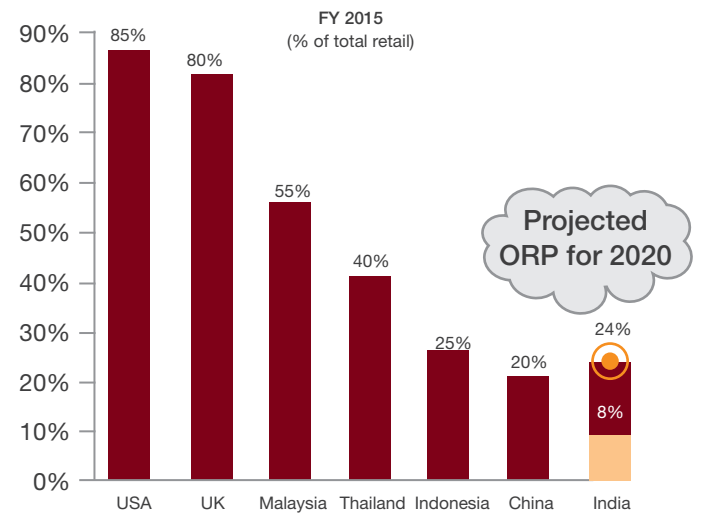


India retail sector growth (US \$ bn)



Source: PwC Strategy & analysis, CRISIL research, IBEF

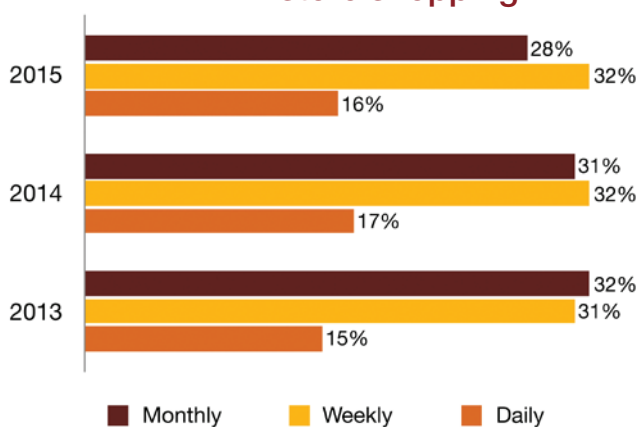
Relative organised retail penetration (ORP) - FY 2015



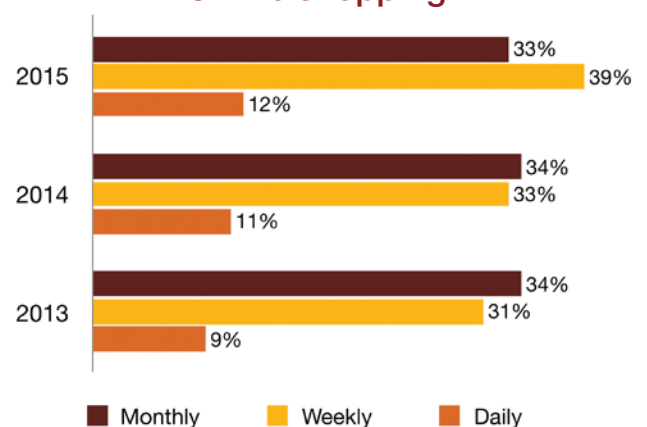
Over the last few years, our survey has consistently indicated an increase in the frequency of online shopping, a trend which continues this year. An increasing number of respondents have admitted to shopping more frequently (daily/weekly) online while in-store frequency remains almost the same. This is reflective of the increased consumption behaviour driven by the proliferation of multiple channels and the consumers' shift towards omnichannel purchase behaviour.

Within the online segment, the greatest increase has been in the frequency of online shoppers via smartphone/mobile with an almost 10% increase in the number of weekly and monthly shoppers. As illustrated in the graphs below, while in-store is still the preferred channel for daily shoppers (16%) as well as weekly shoppers (32%), PC (29%) and smartphone/mobile (24%) are also emerging as preferred channels for weekly and monthly shoppers.

In-store shopping

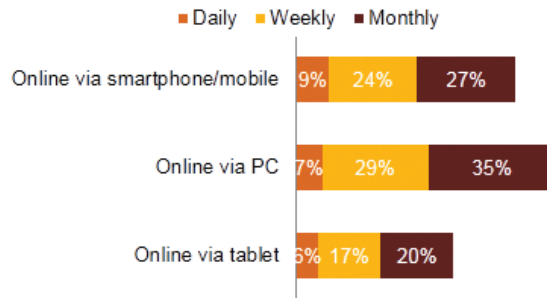


Online shopping

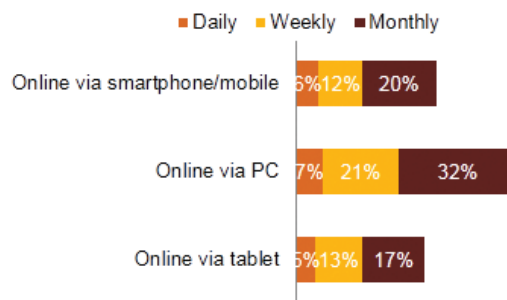


Cross channel shopping behaviour

Cross channel shopping behaviour: India 2015



Cross channel shopping behaviour: India 2013



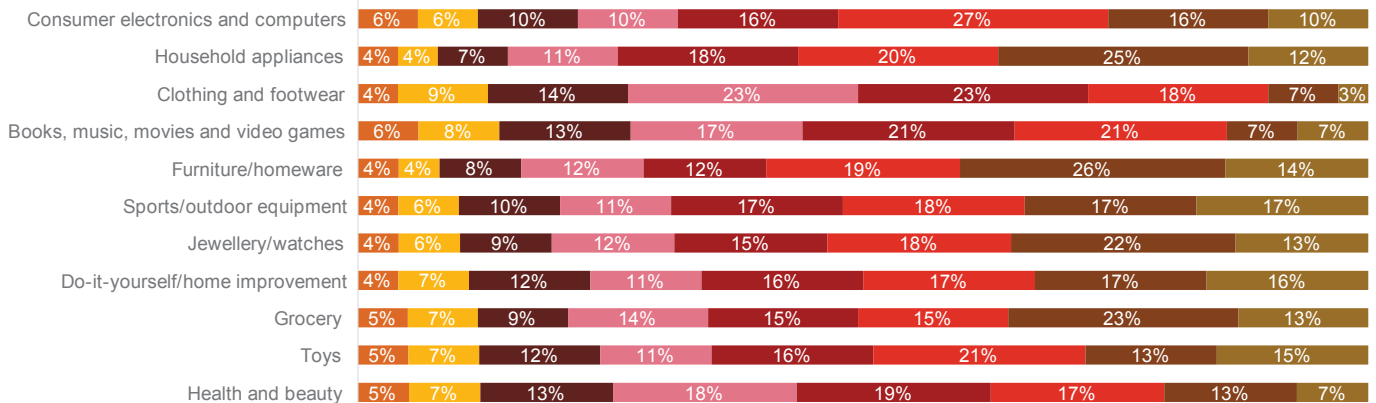
Category wise analysis of respondents' cross channel shopping behaviour suggests that besides conventional products like books, apparel and footwear, shoppers today are also open to buying products like health & beauty products, consumer electronics & furniture online. More than 35% of respondents purchase 50%+ of their grocery online.

Also, when compared to global survey responses, 4-5% of respondents in India purchase exclusively online in every category as opposed to just 2-3% respondents globally.

For each of the following product categories, how many of your purchases have you made online over the last 12 months?

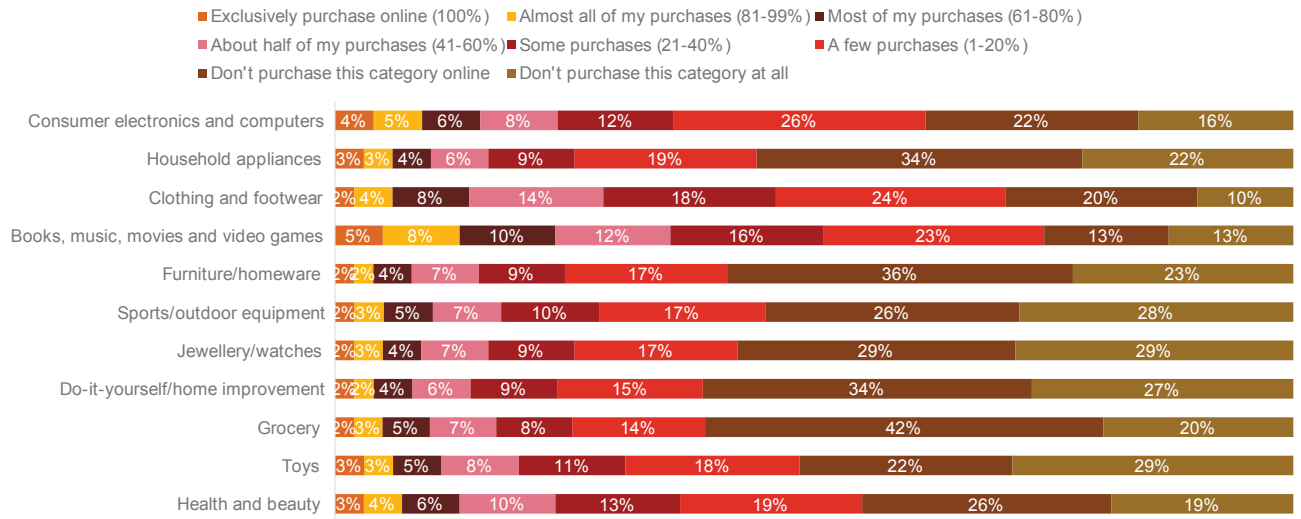
Category-wise online shopping 2015: India

- Exclusively purchase online (100%) ■ Almost all of my purchases (81-99%) ■ Most of my purchases (61-80%)
- About half of my purchases (41-60%) ■ Some purchases (21-40%) ■ A few purchases (1-20%)
- Don't purchase this category online ■ Don't purchase this category at all



For each of the following product categories, how many of your purchases have you made online over the last 12 months?

Category-wise online shopping 2015: Global average

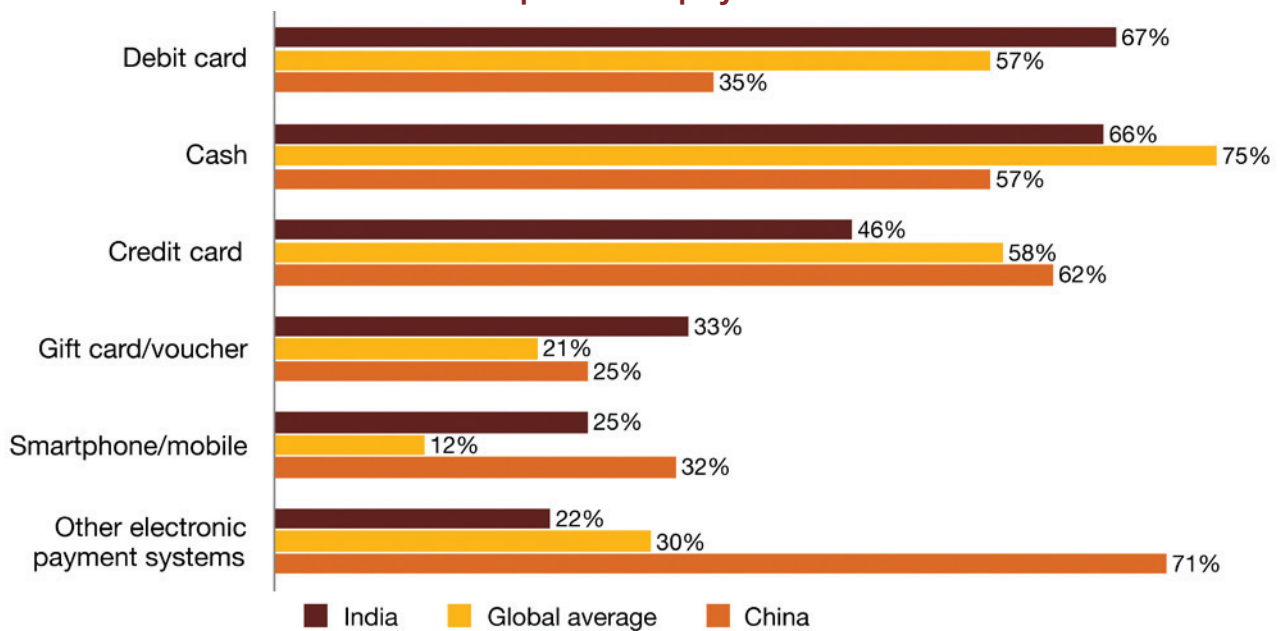


Digital payments making inroads

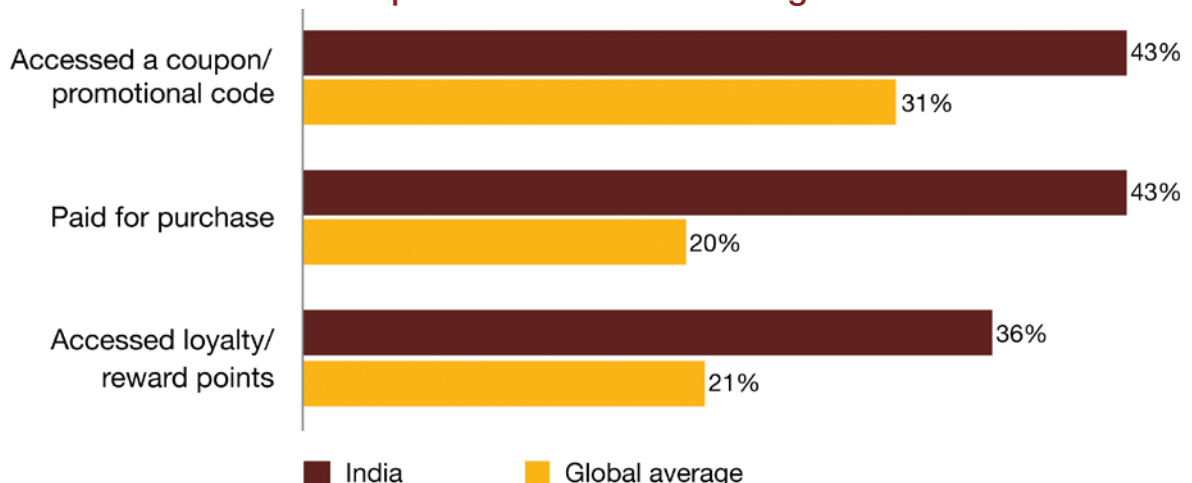
Digital payments have become popular in India. According to our survey, debit cards are the most popular payment method in India as against credit cards and mobile wallets.

Traditionally, digital retail trends globally have emulated China with some lag. Survey respondents in India demonstrate greater acceptance of smartphone/mobile based payment methods, as compared to the global sample average. Further, if China's numbers are any indication, then these are likely to increase in India as well. In India, mobile devices have evolved into the primary tool for purchase activity and as compared to the global sample, almost twice the number of respondents in India have paid for their purchase using their smartphone/mobile. Also, a greater number of Indian respondents have accessed a promotional code or reward points on their mobile as compared to the global average.

Most prevalent payment methods



Smartphone/mobile based usage in-store

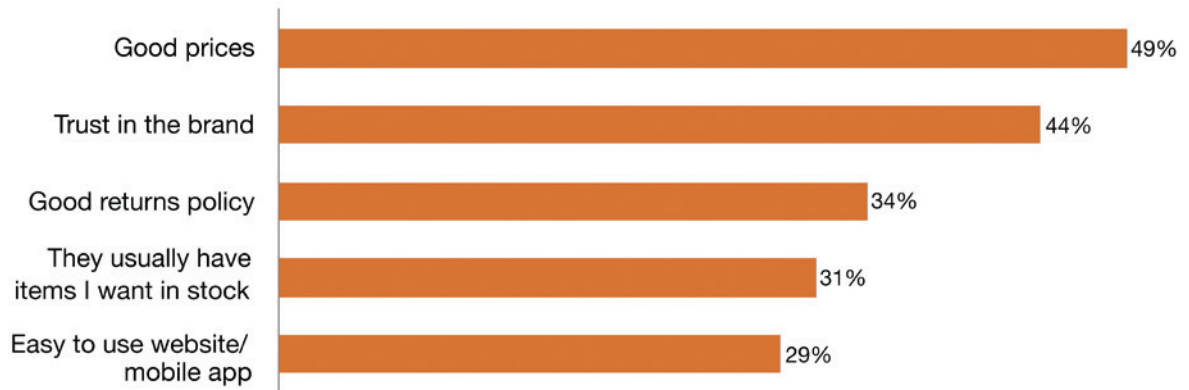


However, with the increased ease of usage, customers have also become wary of having their personal credit information hacked from their smartphone/mobile. While 68% of our respondents agree that their mobile phone has become the primary tool for purchase, almost an equal number (63%) is worried about privacy and information security.

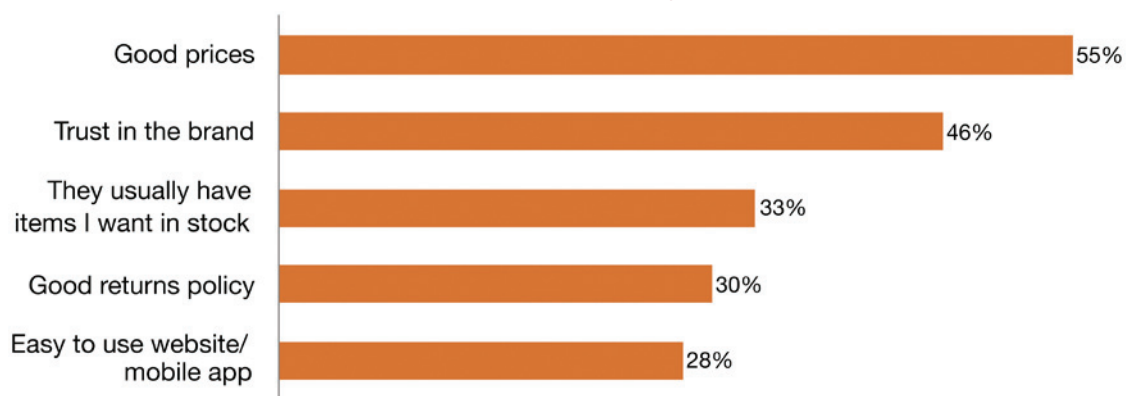
Price is important but is it just a part of the larger ‘value’ story

On being polled on the factors driving consumers to choose their favourite retailers, we have consistently found that good or reasonable prices offered by the retailer has been the topmost factor. This is followed by trust in the brand, good returns policy and availability of products.

Top 5 factors for consumers choosing their favourite retailer: 2015



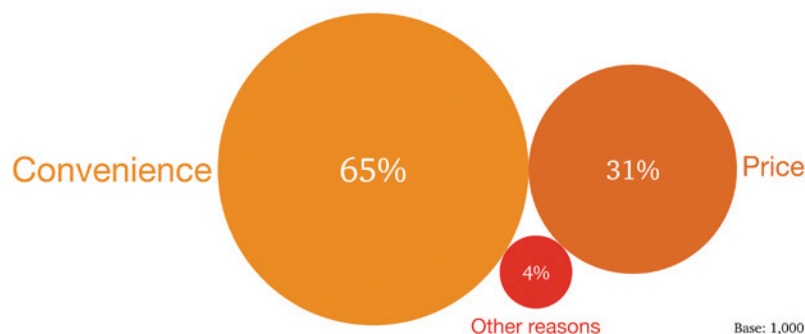
Top 5 factors for consumers choosing their favourite retailer: 2014



In the past, research has shown that Indian shoppers have been value conscious and hence, wary of paying exorbitant prices. Therefore, while there has been much debate around discount sales taking place all through the year, discounting strategies have been most successful at customer acquisition.

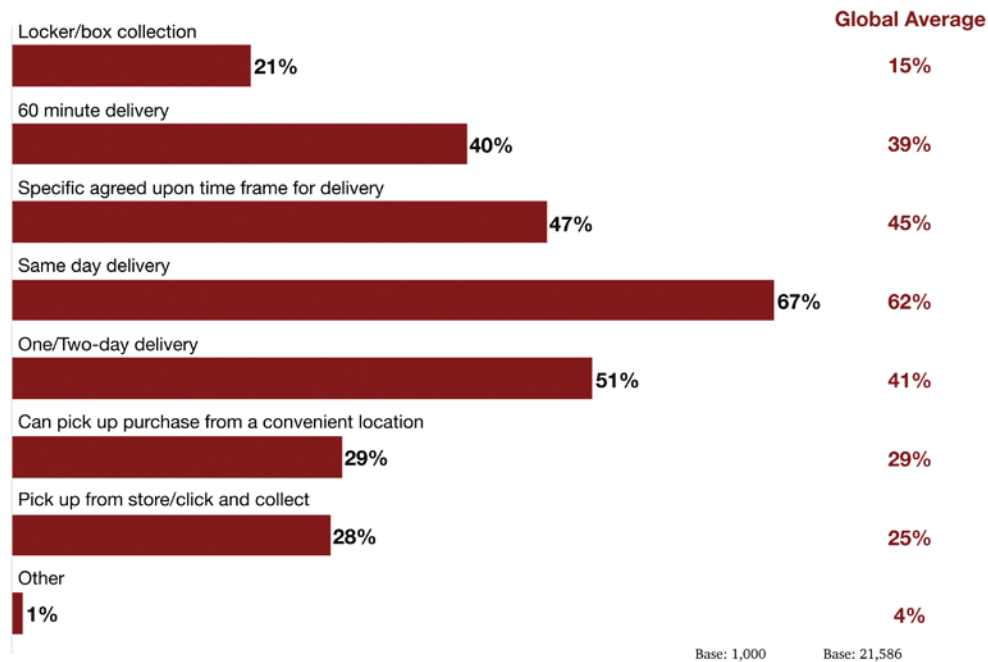
The increased competitive intensity brought about by e-commerce players has pushed retailers to offer more value at the lowest price possible. This value, more often than not, has translated to increased convenience offered to consumers. This is validated by the data below:

I buy online for...



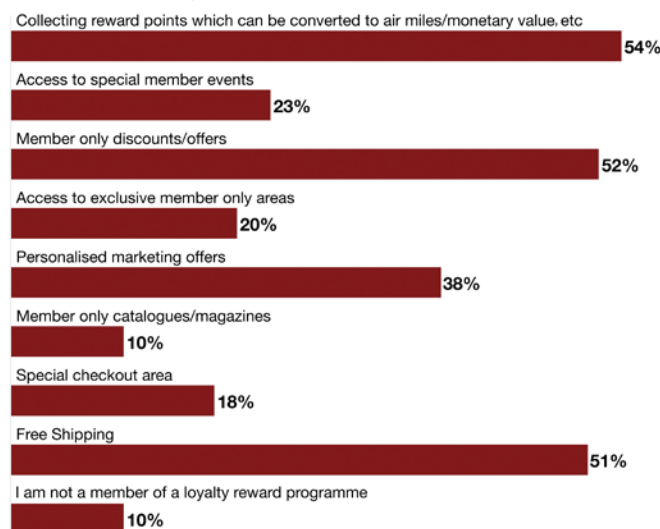
65% of our respondents cite convenience as the principal reason for shopping online. This is followed by price, as cited by 31% of our respondents. This has been further reiterated by our respondents when polled regarding their purchase journey. As compared to our global survey sample, a higher percentage of the Indian respondents were willing to bear an additional cost for customised delivery options. 67% of our respondents were willing to pay more for same day delivery of their online purchase.

Assuming you have free basic delivery, which of the following delivery options would you be willing to pay for?



It would therefore, be safe to say that while price is important; it is just a part of the larger ‘value’ story. Even in terms of loyalty programs, Indian respondents picked up value-related factors like additional discounts, monetary benefits and free shipping as against experiential factors like special events, access to the VIP lounge etc. Another important aspect is that only 10% of respondents were not a part of any loyalty program, thereby making 90% of our respondent base a part of at least one loyalty program.

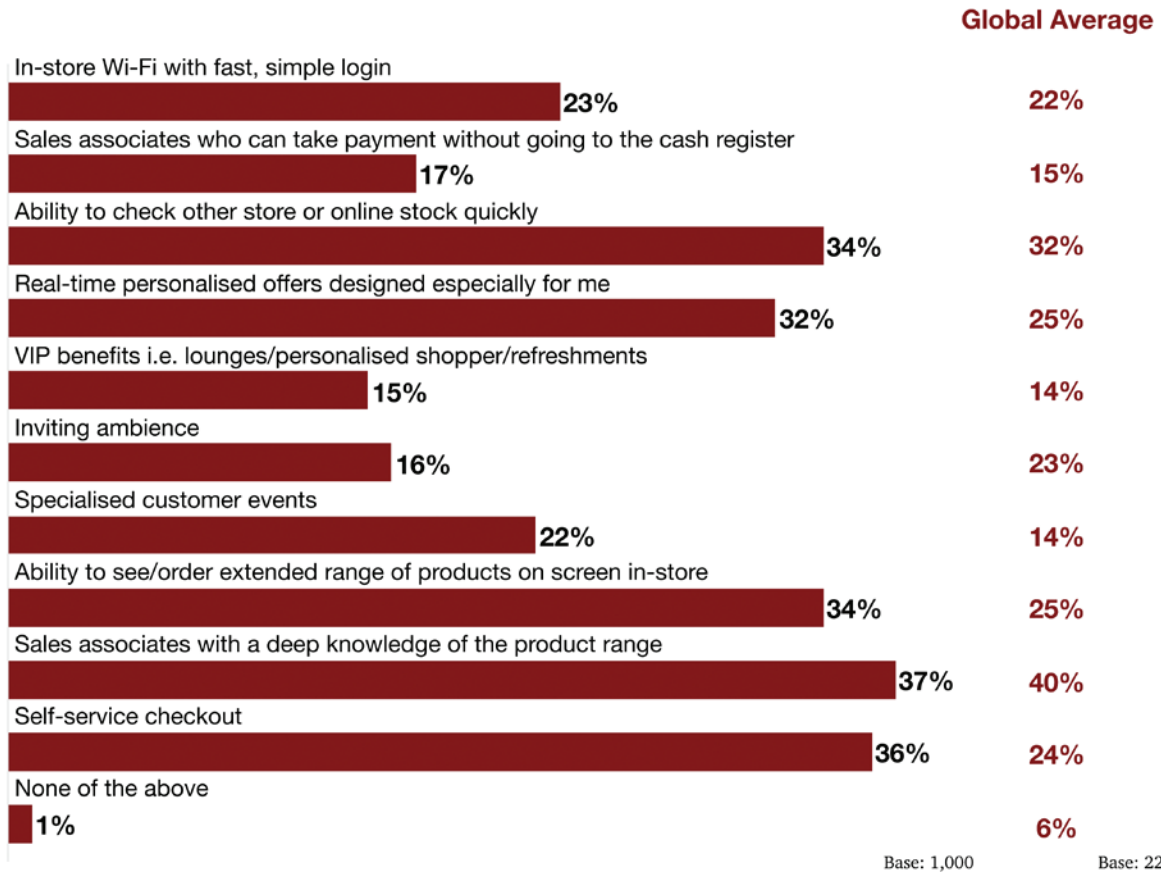
What do you feel are the key benefits of being a member of a loyalty/reward program?



Delivering superior customer experience

When it comes to in-store experience, our survey data shows that shoppers value the sales associate's knowledge of the product range and a hassle-free experience enabled by self-service checkout. Living in a time-starved age like ours, consumers also appreciate the ease afforded by technology-based in-store features such as the ability to check other stock or online stock and thereby, order from the extended range. According to our data, female shoppers value the digitally enhanced in-store experience, more than their male counterparts.

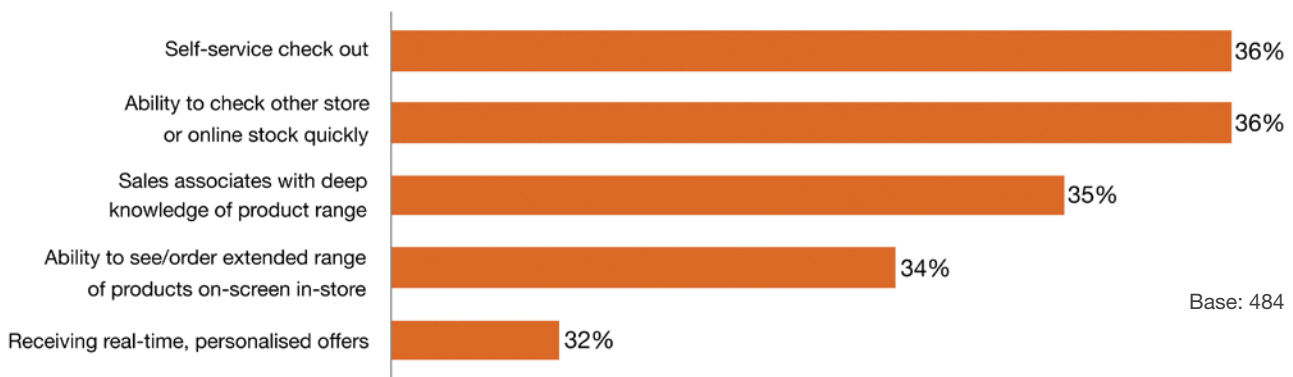
Which of the following would make your in-store shopping experience better?



Factors which would improve in-store experience: Men



Factors which would improve in-store experience: Women



When we talk about improving the in-store shopping experience, in-store sales associates play an important role. 37% of our respondents have indicated that sales associates with deep knowledge of products would improve their shopping experience and 43% respondents said that they would prefer to speak to the sales staff instead of using their smartphone whilst shopping in-store.

Among the top five cherished attributes, two of them indicate access to a wider range of products, in addition to what is available in-store. This feature has been common to not just the global sample, but a recurring phenomenon in the Indian sample as well over the past two years. Clearly, shoppers place immense importance on product range and availability – a natural feature of online shopping.

Nowadays, retailers have found that an omnichannel approach has made it easy to offer a wide range of products for shoppers to choose from. The virtual aisles solution in-store has made it easier for physical

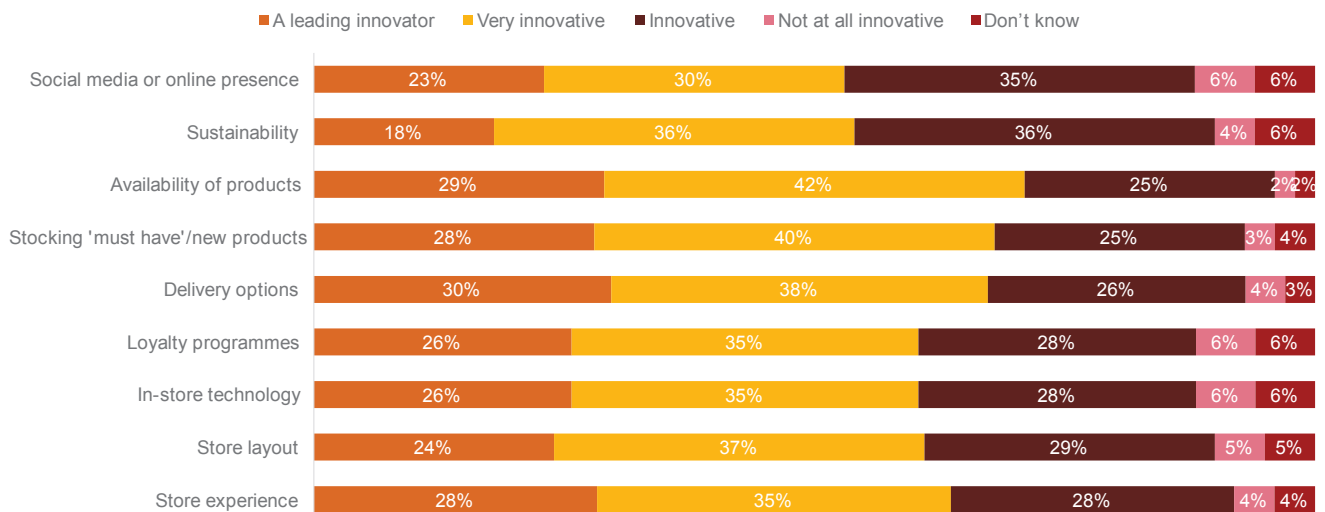
stores to ensure that walk-ins convert to sales whether or not the product is available right away in-store. Undoubtedly, smart technology in-store has the potential to create the much needed disruption in the in-store shopping experience.



Innovation

It's a debatable point how much of a premium retailers have put on innovation over the years. But one thing is for certain: consumers are now demanding innovation—technological innovation in particular—as they insist on a seamless, integrated omnichannel experience that enables them to shop anytime, anywhere via their mobile/smartphone, tablet, PC or wearable device; and all this in addition to traditional brick-and-mortar stores. When we asked respondents directly about how innovative they thought their favourite retailer was, the good news is that they generally view their favourite retailers as being quite innovative. However, only a small percentage of respondents that believe their favourite retailer is innovative enough to be a leading innovator. Responses in neither category topped 30%, and only 23% of respondents said that social media was a category in which their favourite retailer is a leading innovator. Given how active the world's online shoppers are on social media, retailers will certainly want to improve in this area. Possibly, consumers have set bar extremely high for social media innovation, in which case retailers have much more room to improve. But either way, this lack of enthusiasm about favourite retailers represents a huge opportunity. For those retailers with the wherewithal to invest, there's plenty of room to become known as a leading innovator.

Thinking of your favourite retailer, how innovative do you consider them to be with regard to following areas?



Total retail survey: India 2015



Conclusion

When Big Bazaar started its 'Sabse Sasta Din' offer in 2006, it generated a lot of excitement and anticipation amongst consumers, also making it the leading hypermarket chain in India. When we polled our respondents about their favourite retail store in 2013, Big Bazaar had emerged as a clear winner with 48% of our respondents voting for it. The chain introduced several other initiatives like Wednesday Bazaar and the Great Exchange offer since then.

Today, retail businesses have evolved dramatically with start-up retail companies' dotting the landscape right from food service (e.g. Bite club) to health & beauty (e.g. Patanjali); creating waves with business models based on personalization, both in the online and offline space. With most retailers in India today in the midst of implementing their omnichannel approach, increasing the geographical footprint has taken on a whole new meaning. At the same time, defining business success and profitability in this fast changing environment remains a challenge for companies.

Our survey findings have shown that store traffic doesn't matter as much as customer conversion. Customers are voting with their feet as they shop more online, and for multichannel retailers that means the need for an increasingly focused, curated and engaging brick-and-mortar store experience that creates maximum conversion – no matter what channel ultimately records the purchase.





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- PwC India's 2015 report titled Disrupting cash: Accelerating digital payments in India
- PwC's 19th Annual Global CEO Survey

About our Retail and Consumer goods practice

Our India Retail and Consumer practice has been working with Fortune 500 companies, helping them enhance value. Developing the market entry strategy for global companies, location assessment based on the target audience, streamlining the supply chain and distribution system, deploying IT strategy, linking customer data using analytics, managing the inventory and ensuring customer delight are among the gamut of services we offer our clients to help them in their journey to success.

Our clients in the Retail and Consumer goods sector operate in different formats ranging from supermarket chains to food and beverage manufacturers and from luxury goods retailers to consumer packaged goods manufacturers, and agribusiness companies.

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