Decoding Digital @ Retail

Winning the Omnichannel Consumer

The Boston Consulting Group

RETAILERS ASSOCIATION OF INDIA

About BCG

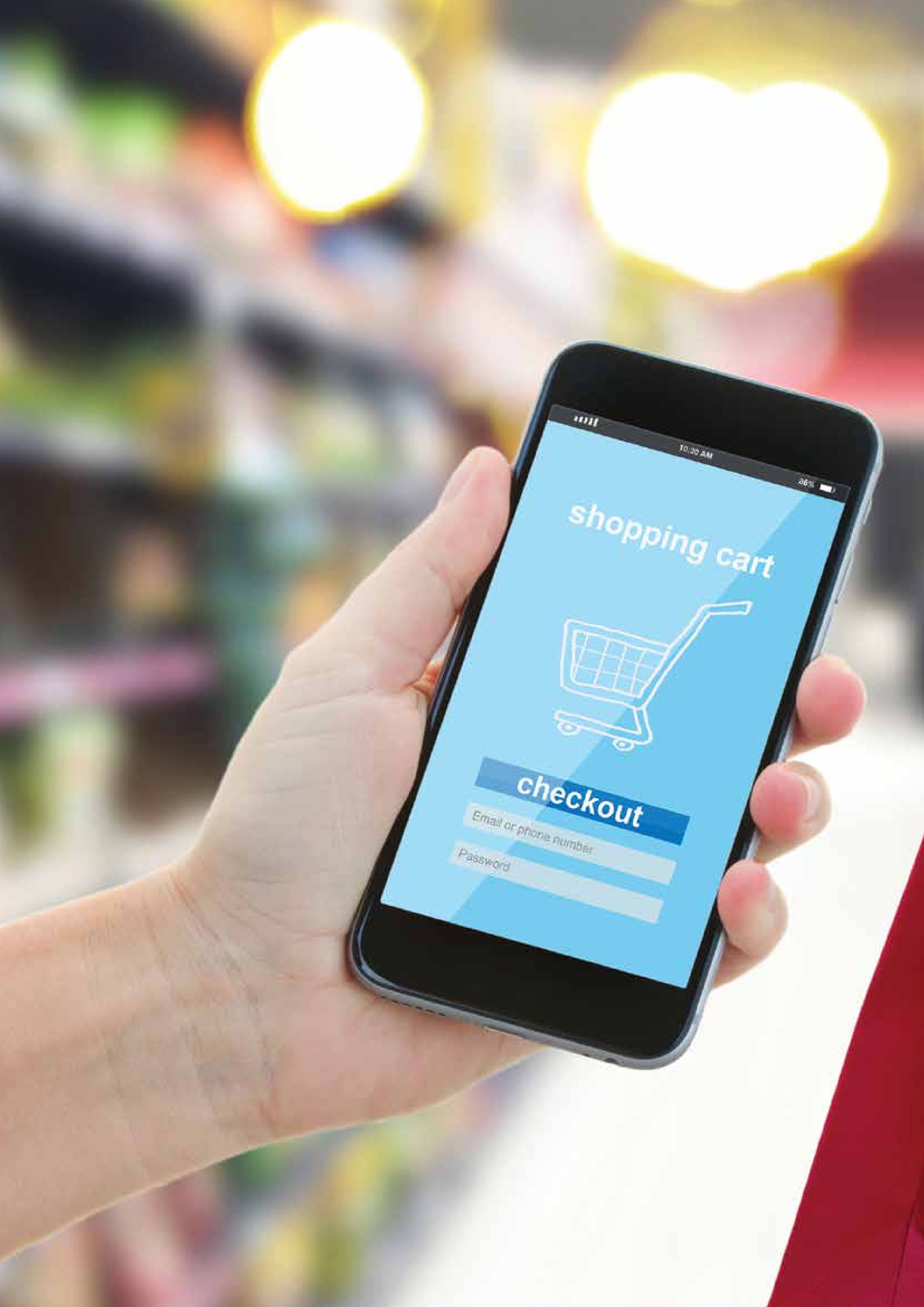
The Boston Consulting Group (BCG) is a global management consulting firm and the world's leading advisor on business strategy. We partner with clients from the private, public, and not–for–profit sectors in all regions to identify their highest–value opportunities, address their most critical challenges, and transform their enterprises. Our customized approach combines deep insight into the dynamics of companies and markets with close collaboration at all levels of the client organization. This ensures that our clients achieve sustainable competitive advantage, build more capable organizations, and secure lasting results. Founded in 1963, BCG is a private company with to 82 offices in 46 countries. For more information, please visit bcg.com.

AUTHORS: Amitabh Mall

About RAI

Retailers Association of India (RAI) is the unified voice of Indian retailers. RAI works with all the stakeholders for creating the right environment for the growth of the modern retail industry in India. It is a strong advocate for retailing in India and works with all levels of government and stakeholders with the aim to support employment growth and career opportunities in retail, to promote and sustain retail investments in communities from coast–to–coast, and to enhance consumer choice and industry competitiveness. For more information, please visit rai.net.in.

Rachit Mathur Namit Puri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Foreword

India is in the midst of a digital revolution. Expanding internet access, growing smartphone usage, and rising digital media consumption will have a profound impact on the future of Indian retail over the next few years. Winning in the new world would require retailers to re–think their consumer value proposition and align business models to deliver a superior consumer experience.

In this report, by the Retailers Association of India (RAI) and The Boston Consulting Group (BCG), we look at:

- Exploring the 'Digital Tsunami': Four trends that will shape retail
- Demystifying Digital @ Retail: Four new realities in digital retailing
- Winning in Digital World: Five key imperative for players to win

We would like to take this opportunity to thank all the members of Retailers Association of India (RAI) for their valuable contribution and providing input for this report. We hope you find this report interesting and informative for your businesses.

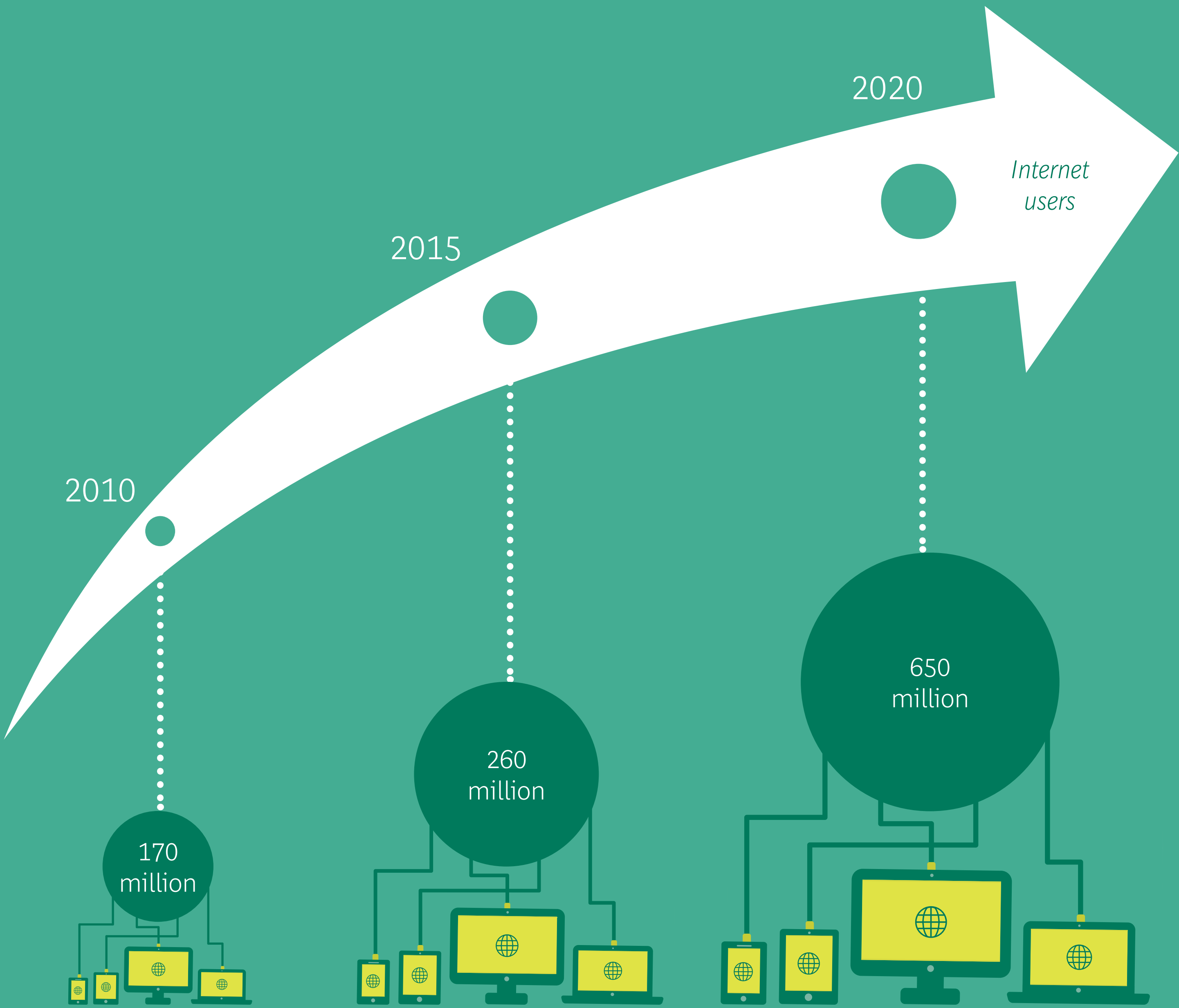
Kumar Rajagopalan
CEO, Retailers Association of India (RAI)

Amitabh Mall
Partner and Director,
The Boston Consulting Group


say

Exploring the ‘Digital Tsunami’:
Four trends that will shape retail

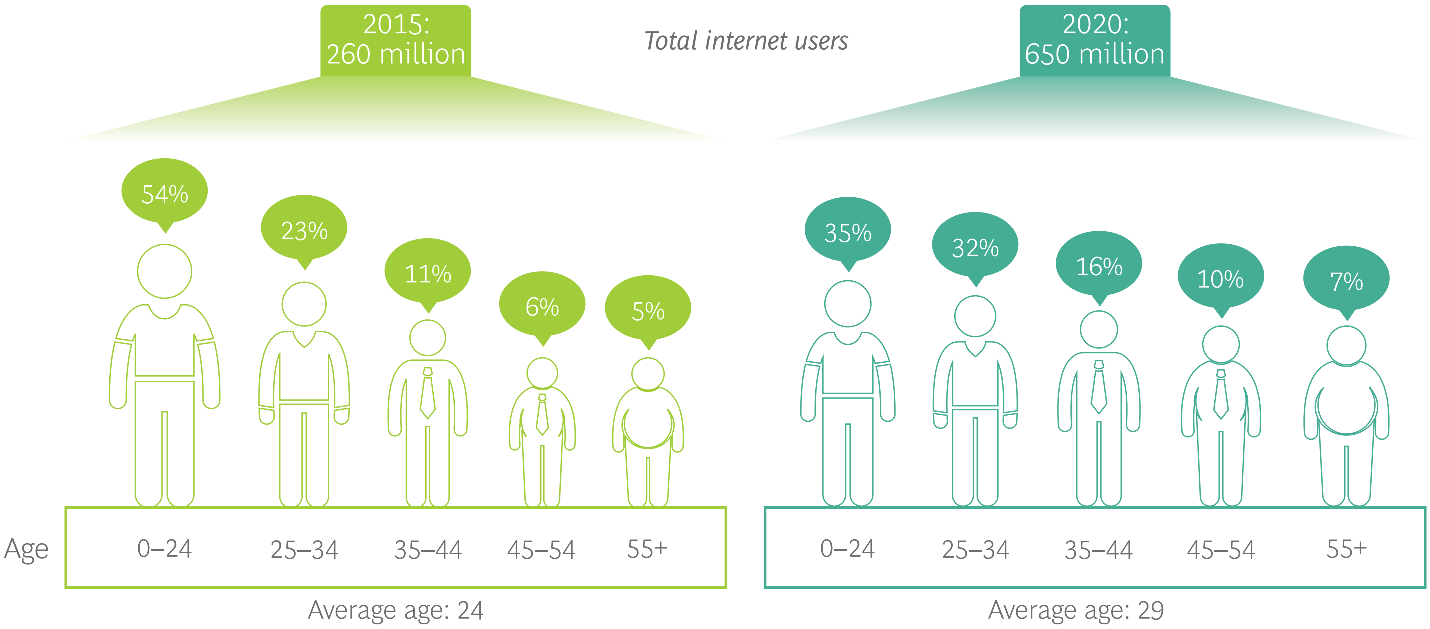
Number of internet users will grow to 650 million by 2020



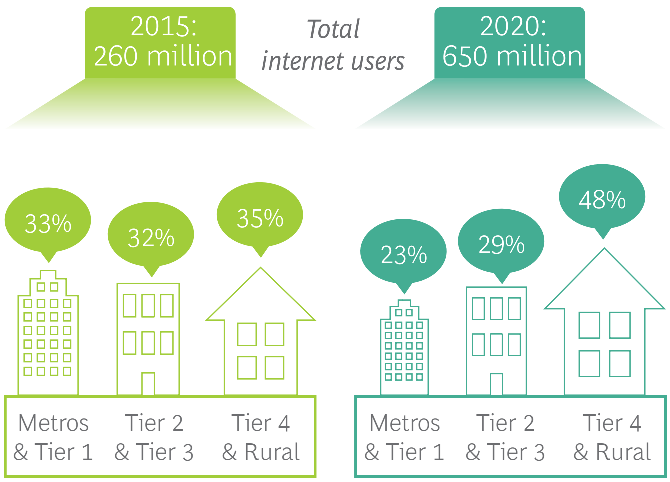
Internet users include those accessing the internet through mobile devices as well as desktops.

Profile of internet users would witness dramatic shifts

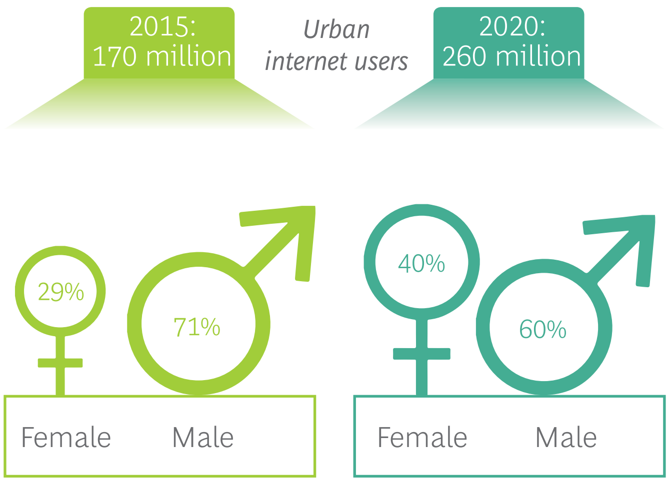
One third of the users would be >35 years old as opposed to 22% in 2015



Urban users to nearly double from ~80 to 150 million, share of rural users to grow from 1/3rd to 1/2

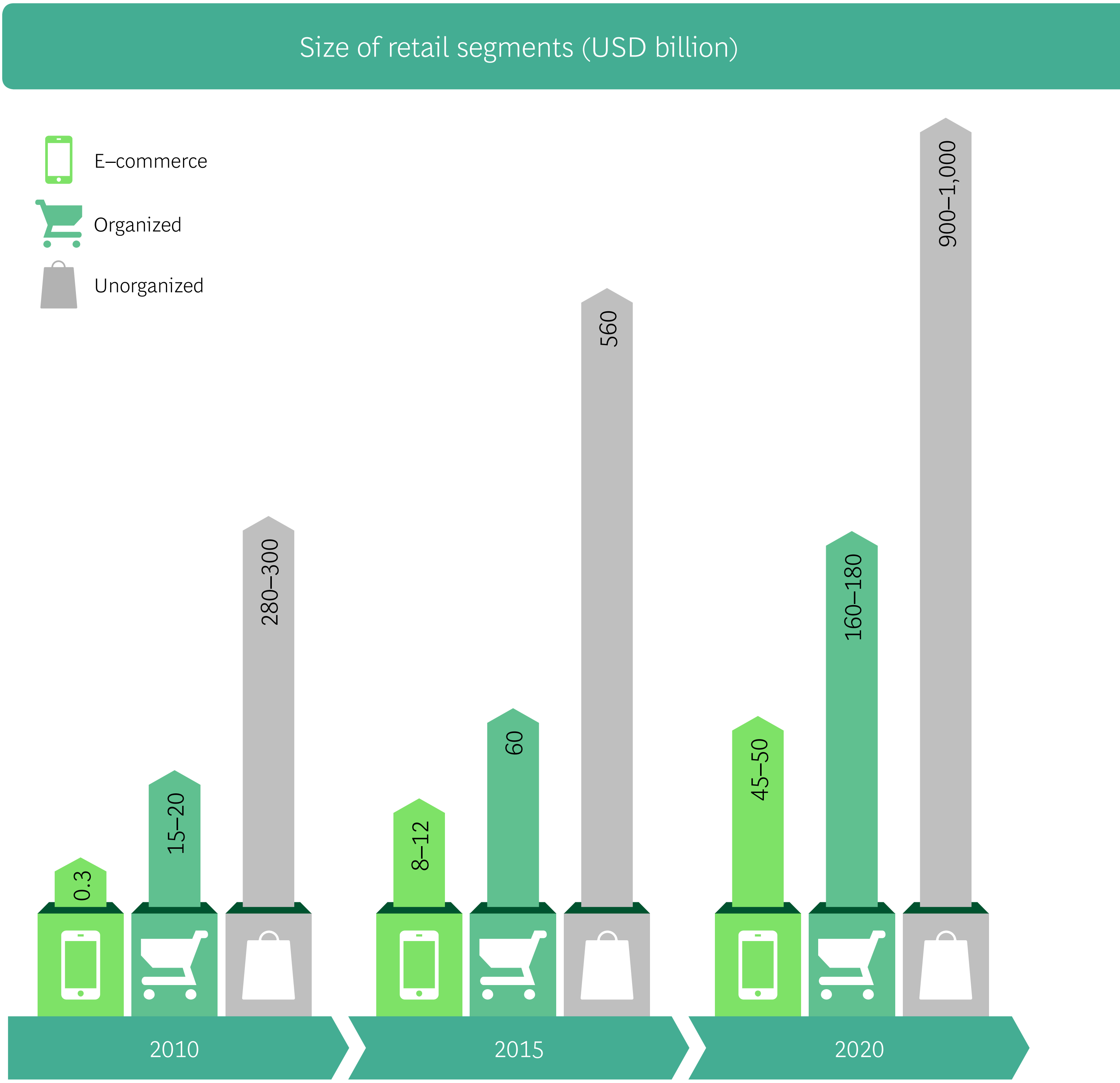


In urban areas, share of women users likely to grow from 29% to 40% in 2015

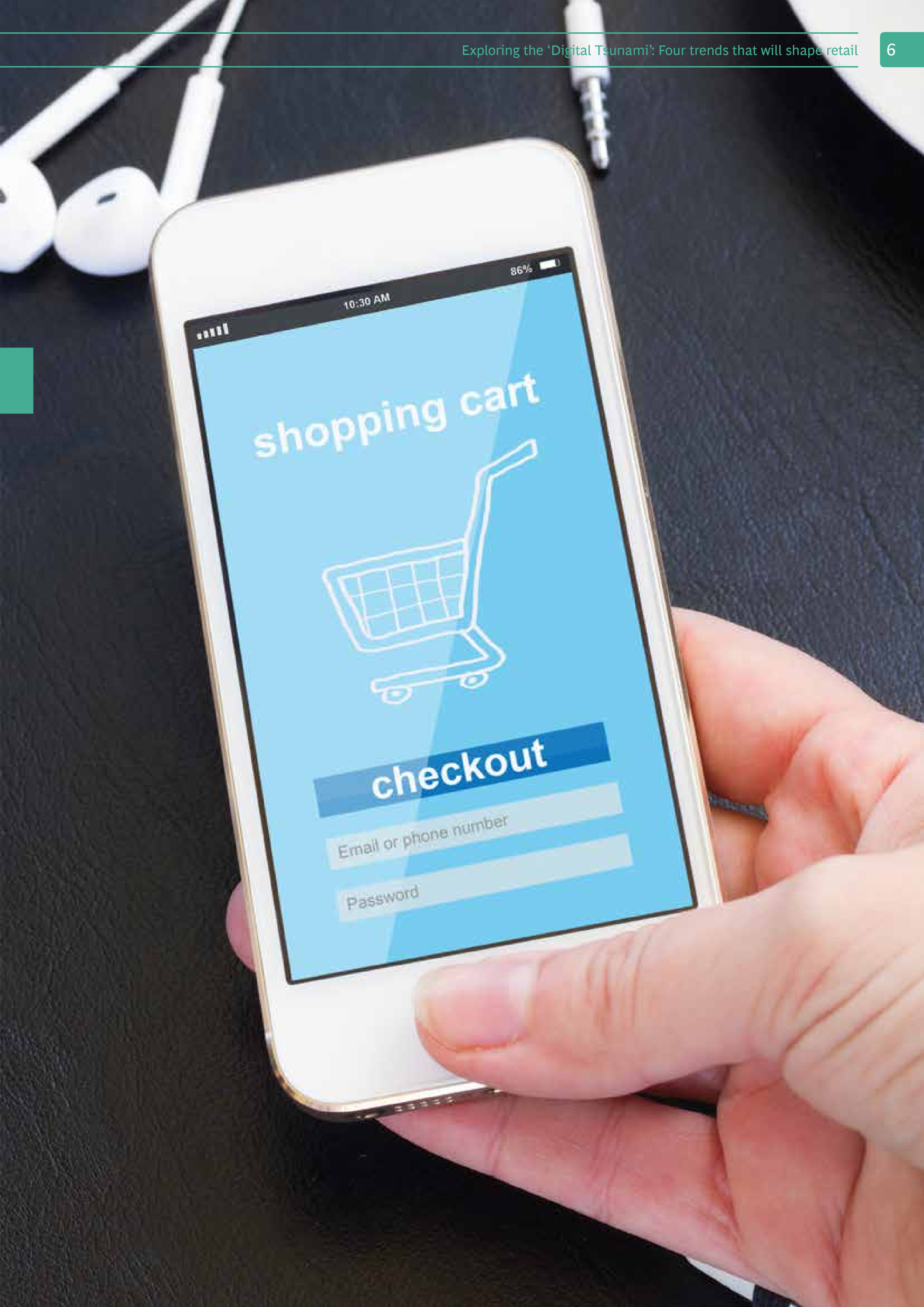


BCG proprietary research has been used for forecasting internet adoption and demographic shifts in user profile.

E–commerce (for goods) could be USD 45–50 billion by 2020



The e–commerce market size includes ***only goods*** *and not services. This number could be higher given active steering from ecosystem partners and supply side interventions.*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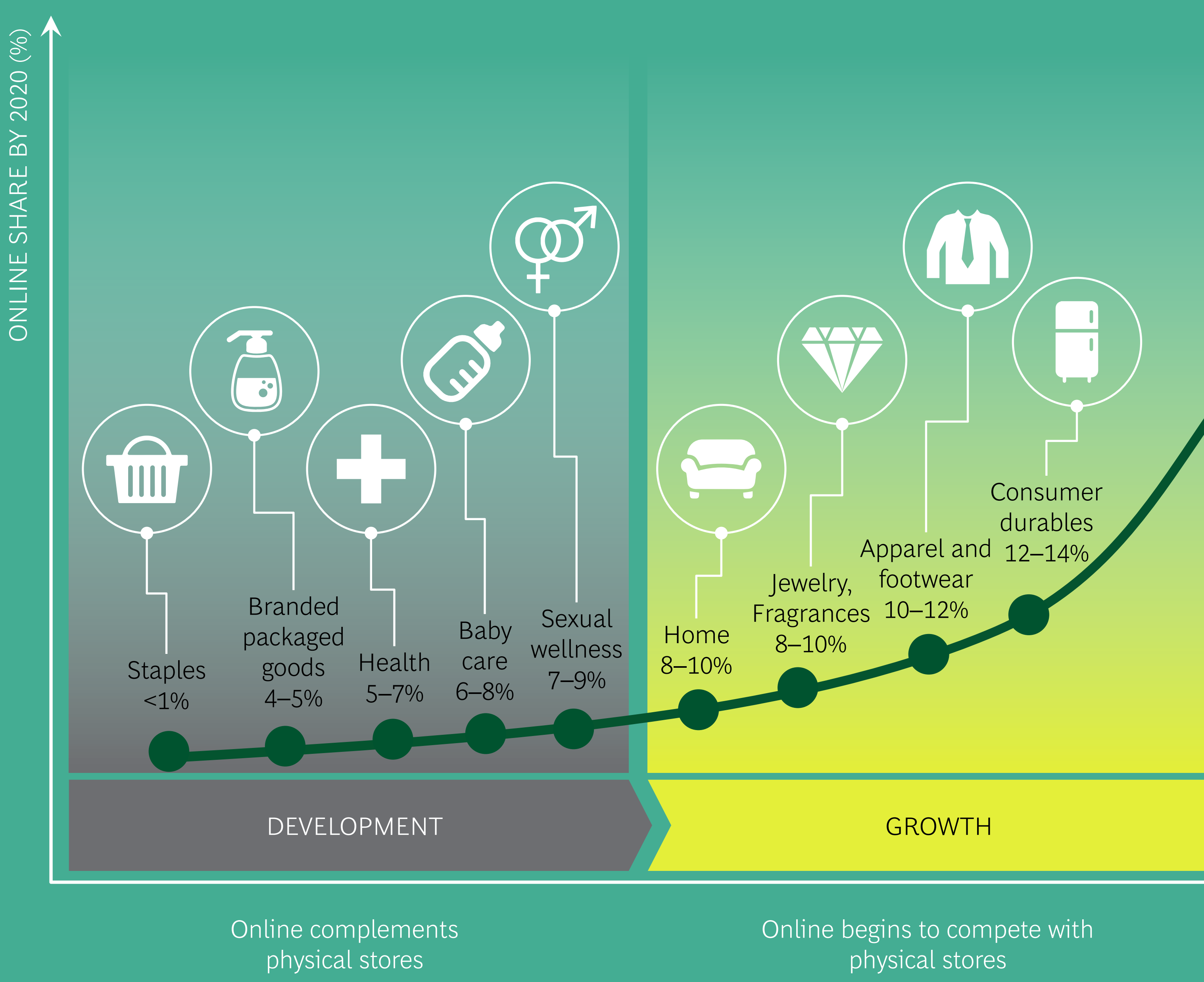
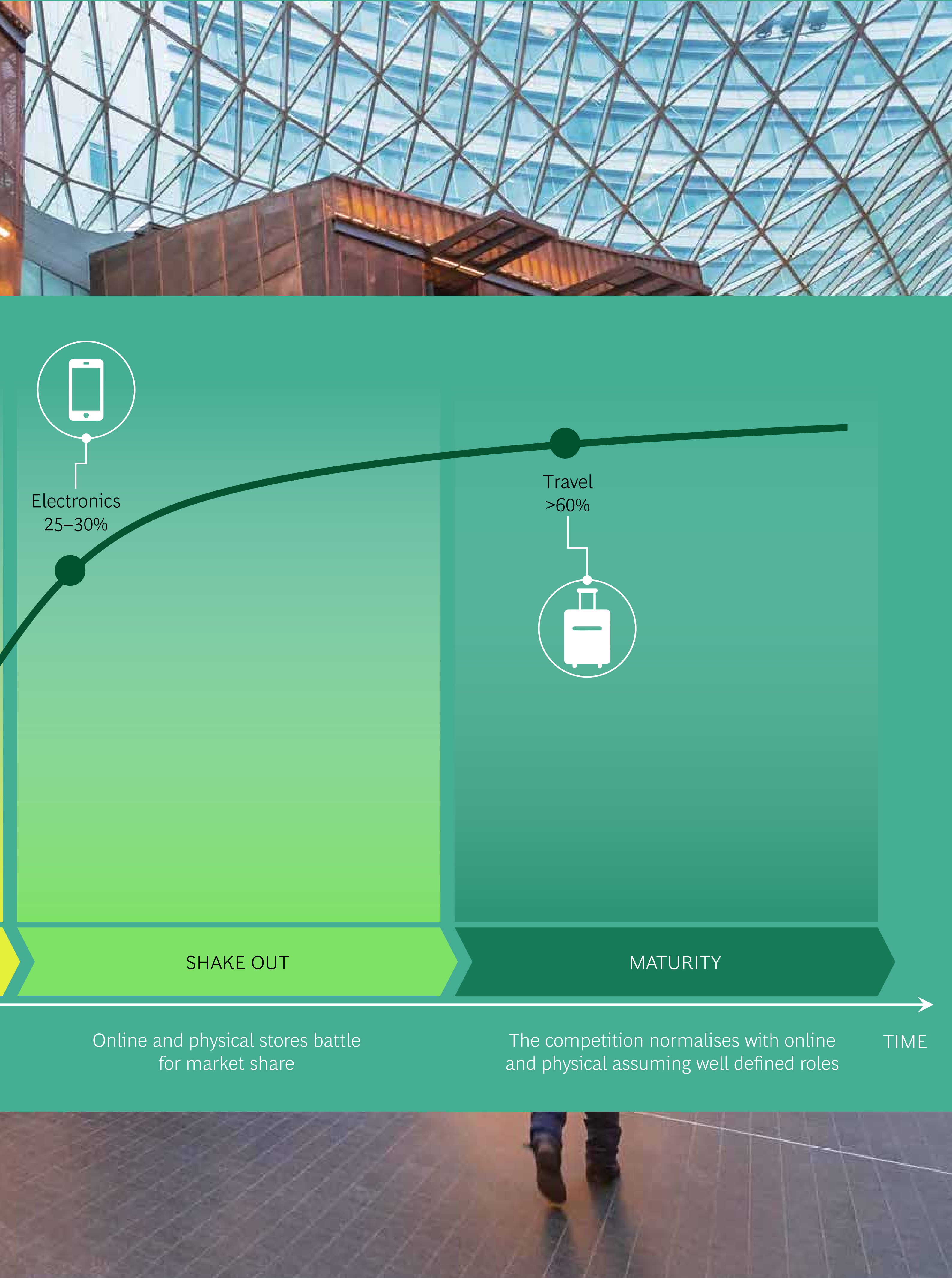
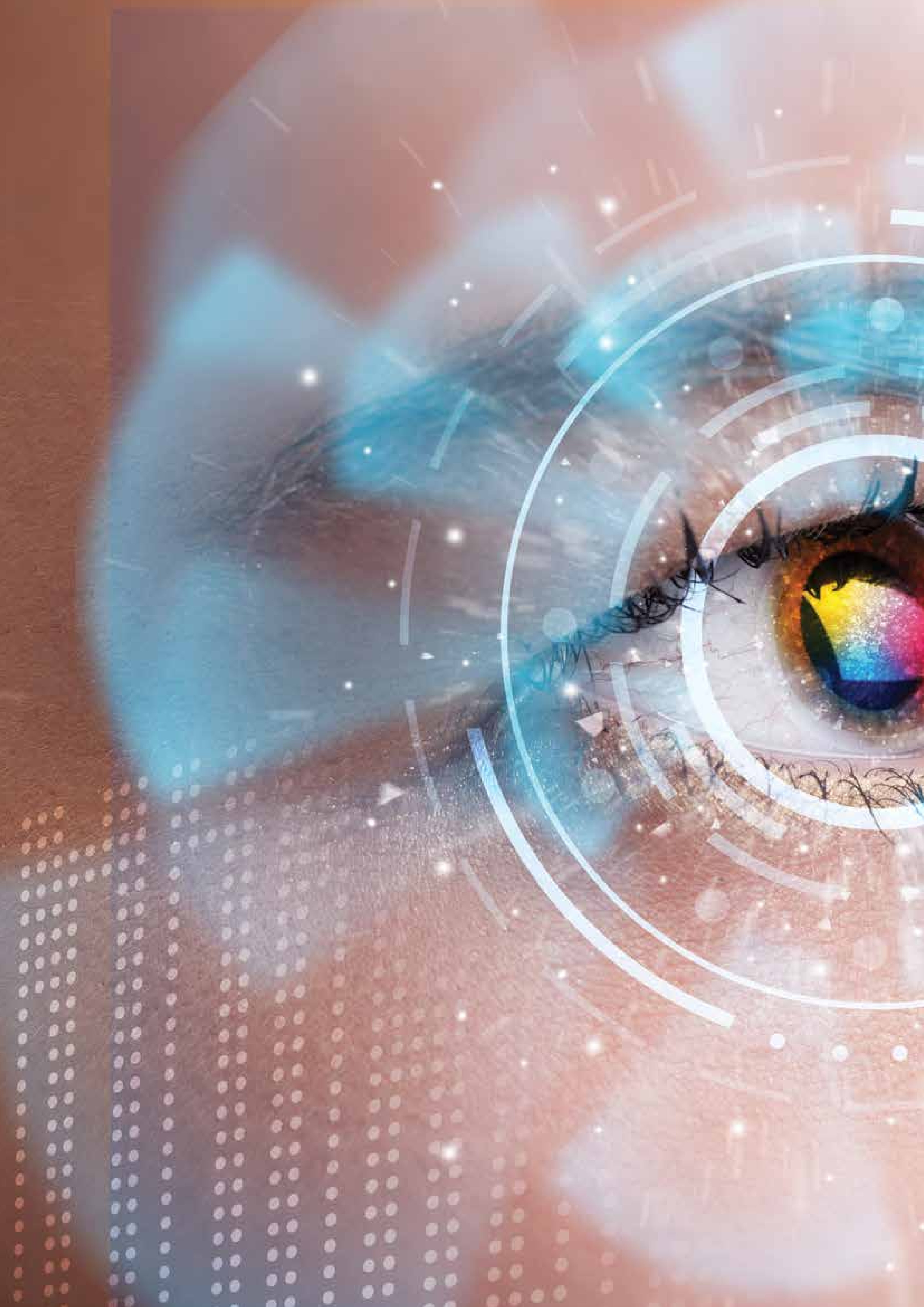
Shape of e–commerce growth would differ starkly by category




Electronics
25–30%
Travel
>60%
SHAKE OUT
MATURITY
TIME
Online and physical stores battle for market share
The competition normalises with online and physical assuming well defined roles



Demystifying Digital @ Retail:
Four new realities in digital retailing

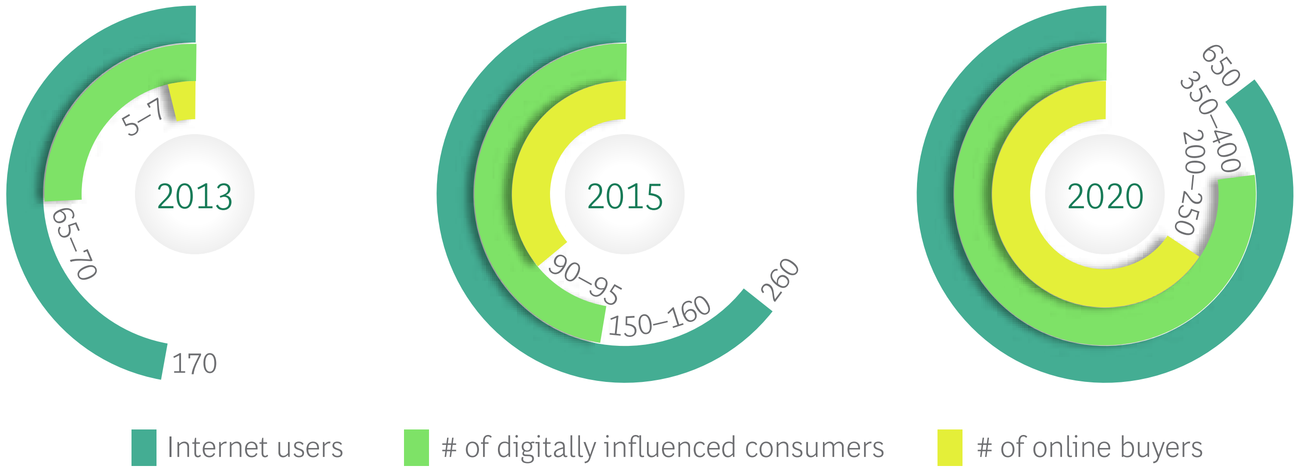
MYTH

Digital is all about e–commerce

REALITY

Digital influence is a bigger and more pervasive force

350–400 million consumers could potentially be digitally influenced[1] in 2020. These consumers would account for 20–25% of the retail spend



2020

240–250 billion USD of retail spend would be digitally influenced *(20–25% of overall spend)* compared to e–commerce value of 45–50 billion USD *(4–5% of overall spend)*

Digitally influenced spend could account for as much as 50–60% of total spend in some categories

	# of digitally influenced consumers (million)	Digitally influenced spend (% of total)	
	2020	2015	2020
Apparel, footwear and accessories	280–300	15–20%	35–40%
Consumer electronics	200–220	20–25%	65–70%
Branded packaged goods	140–150	10–15%	35–40%
Appliances	90–100	20–25%	55–60%
Jewellery, fragrances	80–90	25–30%	50–55%
Home furnishings	70–80	10–15%	40–45%

[1] *Digital influence is defined as the use of internet for conducting pre–purchase, purchase and post–puchase activities.*

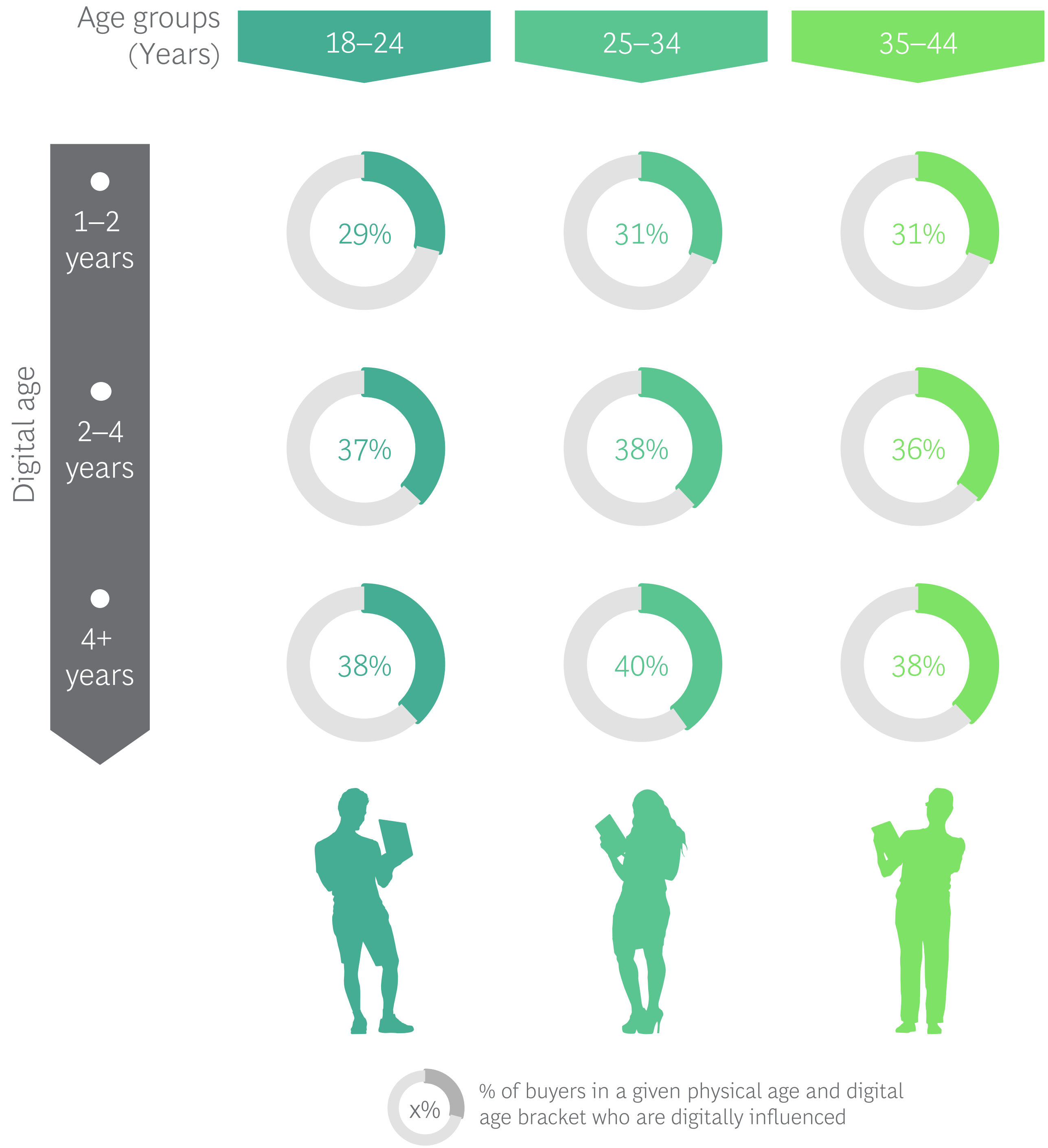
MYTH

Online is for the young

REALITY

Digital age and not physical age determines online behavior

Digital age and not physical age is a bigger determinant of online behavior

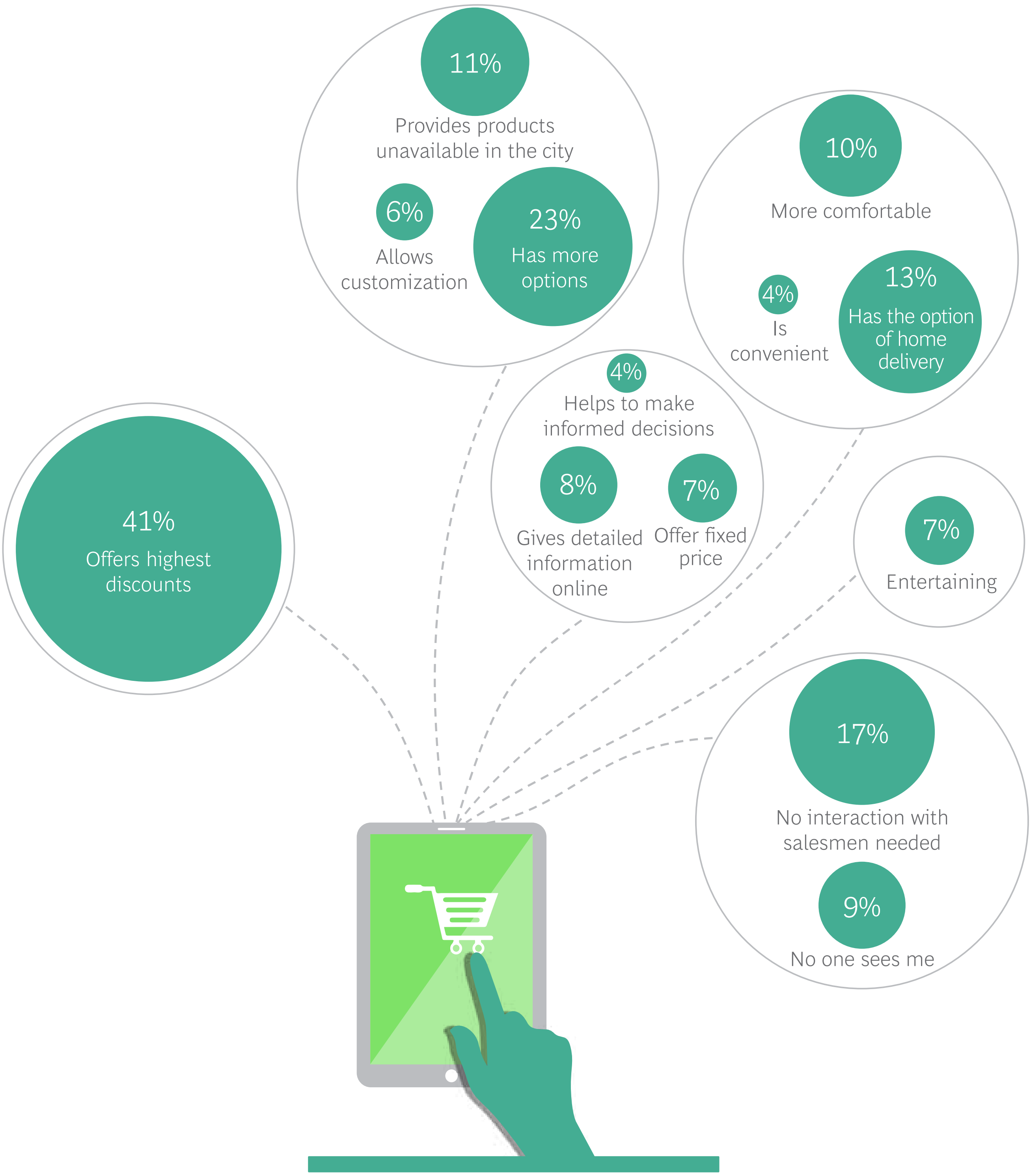


The above exhibit is an illustration for the apparel category. As can be seen, with increasing digital maturity of users, the level of digital influence increases regardless of physical age.


MYTH
E–commerce is all about deep discounting
REALITY
Price is not the only driver for e–commerce

Assortment, convenience and availability are significant drivers for e–commerce

Reasons for shopping online and percentage of consumers opting for them

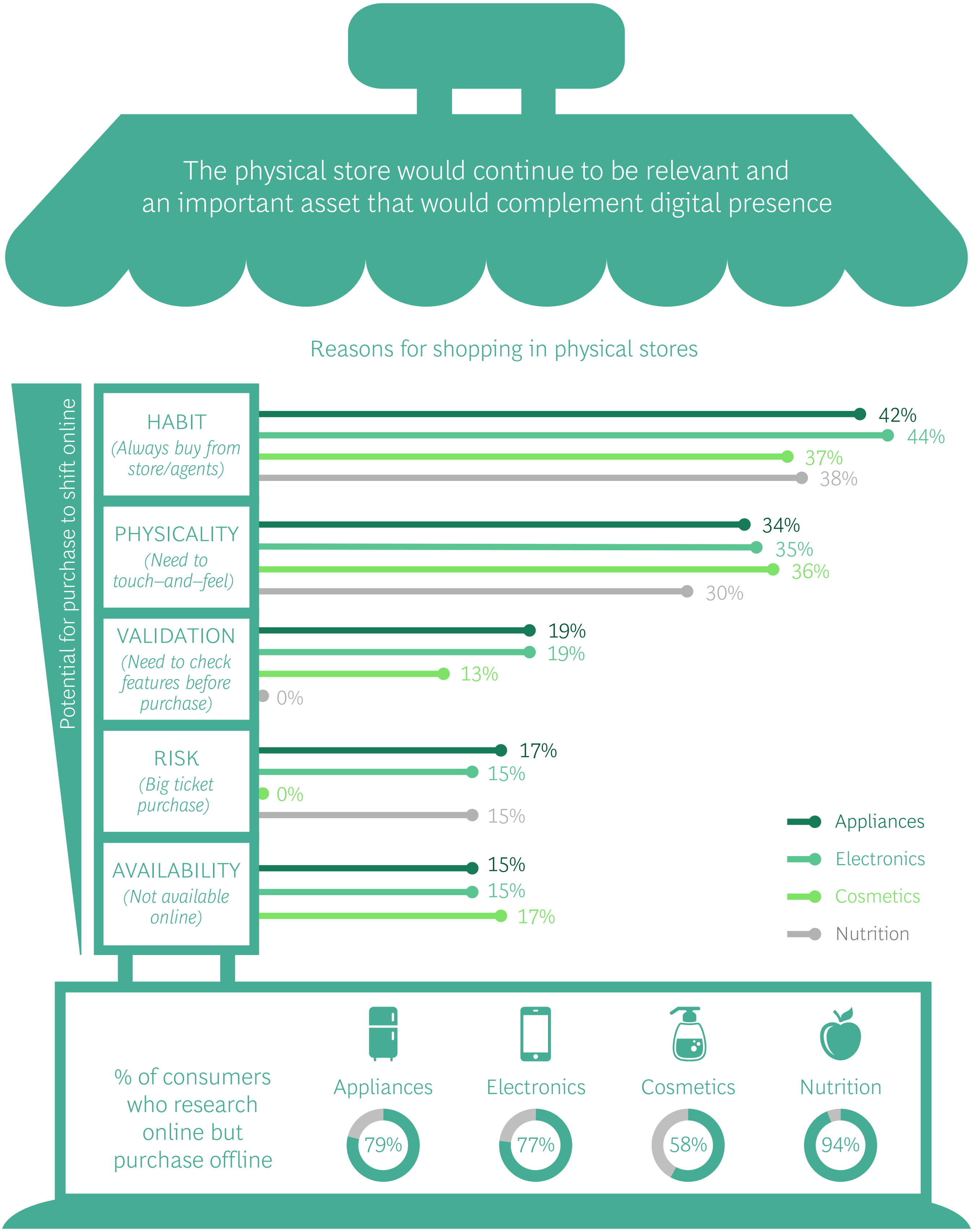


MYTH

The physical store is dead

REALITY

Stores would continue to remain important but their role would need to be re–imagined



Response to the question: Reasons for not shopping online despite researching online.

key
idea

Winning in Digital World:

Five key imperative for players to win

Recap: The new reality

- Size and shape of Internet users will change dramatically
- E–commerce (goods) is expected to be USD 45–50 billion by 2020
- Digital influence is a bigger, more pervasive force than e–commerce
- Digital age is all that matters. It is the most important determinant of propensity for online influence and purchase
- Beyond price, other drivers would fuel e–commerce growth: convenience, variety, and availability
- The physical store would continue to be an asset, however its role would need to be reimagined

To win in the new reality brick and mortar retailers need to reinvent themselves…

01 OVER INVEST IN DIGITAL INFLUENCE: Target microsegments of consumers through curated, personalized content to enhance digital influence. Harness the power of social media and build powerful brand advocates and use a data driven approach to enhance effectiveness of digital spend.

02 BUILD CLEAR ASPIRATION AND ROADMAP FOR A PROFITABLE E–COMMERCE BUSINESS: Articulate a clear revenue and profitability aspiration for the e–commerce business backed by a compelling consumer value proposition and a robust operating model.

03 INVEST IN NON–PRICE DRIVERS TO BUILD BRAND LOYALTY: Pivot towards non–price drivers relevant to the category, e.g. curated assortment, variety, personalization and convenience.

04 REIMAGINE THE ROLE OF PHYSICAL STORES TO CATER TO THE OMNICHANNEL CONSUMER: Roll out selective digital interventions to offer an elevated shopping experience in stores. Craft seamless and integrated cross channel journeys for the omnichannel shoppers. In order to be capital efficient, invest in a segmented approach for rolling out digital initiatives.

05 DIGITIZE YOUR BUSINESS: Create an agile backend through digitization to drive efficiency and effectiveness of operations.

…and e–commerce players need to push new frontiers

01

ENHANCE CONSUMER STICKINESS BY INVESTING IN DRIVERS BEYOND PRICE: Improve unit economics by increasing consumer stickiness through interventions: offer exclusivity, curated assortments, personalized offerings and greater convenience.

02

BUILD NEXT GENERATION CLM / CONSUMER ENGAGEMENT CAPABILITIES: Build high levels of consumer involvement through investments in user friendly UIs and powerful recommendation engines. Take a consumer lifecycle management approach to drive frequency of purchases, and higher number of replacements and upgrades.

03

LEVERAGE BIG DATA: Harness the power of big data to create new revenue pools and business models by sharper targeting of consumer micro segments as well as granular segmentation of micro markets.

04

EXPERIENCE OFFLINE, SELL ONLINE: Evaluate investments in physical presence for private brands in categories which require 'touch & feel' to provide superior consumer experience. Alternatively, explore creative partnerships to offer an ominichannel experience.

05

INVEST IN SUPPLY CHAIN CAPABILITIES: Create ability to handle bi–directional product flows. Choose the right fulfillment model to attain an optimal trade–off between responsiveness and last mile delivery costs.

Traditional capabilities would need to be re–cast to win in digital

	BASIC
Omnichannel	✓ Updated websites and mobile app with rich, immersive content ✓ Tracking of basic KPIs on digital spend ✓ Basic e-commerce capabilities
Big data and analytics	✓ Legacy based models for driving efficiencies in the business ✓ Customer analytics team working in silos
Agile IT	✓ Core ERP and stand alone applications—mix of legacy platforms and "bolt ons" of new applications
Supply chain	✓ Real time inventory view ✓ Efficient product check and repackaging in store and DC

ADVANCED

- ✓ Personalized & curated content backed by rich multimedia
- ✓ Surgical targeting of microsegments & optimized spend across channels
- ✓ Use of data driven approach for tracking KPIs
- ✓ Seamlessly integrated cross-channel offering

- ✓ Data sources integrated to create one view of supplier/customer
- ✓ Specialized analytics talent using analytics for creating new business streams
- ✓ Scalable ecosystem partnerships

- ✓ Low cost, scalable IT with agile platform
- ✓ Incubator approach to use IT for disruption—scales, test & learn approach

- ✓ Integrated inventory across channels
- ✓ De-averaged flow paths—by SKU, customer type and economics
- ✓ Fragmented supply chains

For Further Reading

The Boston Consulting Group publishes reports, articles and books on related topics that may be of interest to senior executives. Recent examples include those listed here.

Retail: Defending Against the Threat from E–Commerce
An article by The Boston Consulting Group, December 2015

How Retailers Can Improve Promotion Effectiveness: A Four–Part Approach to Generating Growth
A focus by The Boston Consulting Group, July 2015

Winning at Omnichannel Pricing—Maximizing Growth While Protecting Margins
A focus by The Boston Consulting Group in association with Boomerang Commerce, May 2015

Four Digital Enablers: Bringing Technology into the Retail Store
An article by The Boston Consulting Group, February 2015

The Retail Revival Series: Succeeding with a Store–Led Strategy—A Store–Level Focus Can Transform Retail Chains Faster and Yield Real Results
An article by The Boston Consulting Group, September 2014

In Omnichannel Retail It's Still About Detail
An article by The Boston Consulting Group, August 2014

The Evolving Convenience–Store Consumer—Drivers of brand differentiation and Customer Choice
A focus by The Boston Consulting Group, February 2014

Omnichannel Alchemy: Turning Online Grocery Sales to Gold
A focus by The Boston Consulting Group, October 2013

Staying Ahead of the Customer: Retail Transformation and Reinvention
An article by The Boston Consulting Group, September 2013

The Omnichannel Opportunity for Retailers
An article by The Boston Consulting Group, July 2013

Note to the Reader

ABOUT THE AUTHORS

Amitabh Mall is a Partner and Director in the Mumbai office of The Boston Consulting Group and leads the Marketing & Sales Practice and Retail topic of BCG across India.

Rachit Mathur is a Partner and Director in the New Delhi office of The Boston Consulting Group.

Namit Puri is a Principal in the New Delhi office of The Boston Consulting Group.

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FOR FURTHER CONTACT

If you would like to discuss the themes and content of this report, please contact:

Amitabh Mall
Partner and Director
BCG Mumbai
+91 22 6749 7079
mall.amitabh@bcg.com

Rachit Mathur
Partner and Director
BCG New Delhi
+91 124 459 7293
mathur.rachit@bcg.com

Namit Puri
Principal
BCG New Delhi
+91 124 459 7339
puri.namit@bcg.com

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