About BCG

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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.

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Retail in India has evolved significantly over the last decade. In response to constantly changing consumer behavior, companies are continuously reshaping their business models to improve the retail experience.

We have looked at value creation in retail from a shareholder perspective, over different durations, to identify companies that have been able to consistently deliver superior shareholder return. How have retail companies performed with respect to the market? Is the performance consistent over time periods? What has really been driving their performance? The questions are many – and while the performance of a few companies is well known, this report breaks it down to the financial drivers underlying this value creation – disaggregating the impact of revenue growth, margin expansion, capital structuring and market expectation.

However, it does not stop there. It goes one level deeper, to supplement the numbers with voices that represent different stakeholders – top managers, customers, employees – to really understand the factors that have driven value creation in the past and are likely to drive it in the future.

Kumar Rajagopalan  
CEO, Retailers Association of India (RAI)

Abheek Singhi  
Senior Partner and Director,  
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Shareholder value creation in retail: An Indian perspective
Each year, The Boston Consulting Group (BCG) publishes the annual value creators report to offer commentary on the trends in the global economy and the world’s capital markets. BCG also shares the latest research and thinking on value creation, and publishes detailed empirical rankings of the world’s top value creators.

Total Shareholder Return (TSR) measures the combination of share price gains (or losses) and dividend yield for a company’s stock over a given period. It is the most comprehensive metric for assessing a company’s shareholder-value-creation performance, preferred by investment funds to measure business.

TSR can be disaggregated into multiple components (see exhibit below). The model uses a combination of revenue growth and change in margins to indicate a company’s improvement in fundamental value. It then uses the change in the company’s valuation multiple to determine impact of investor expectations on TSR. Together, these two factors determine the change in a company’s market capitalization and the capital gain/loss to investors. Finally, the model tracks distribution of free cash flow to investors and debt holders (as dividends, share repurchases, and debt repayments) to determine contribution of free-cash flow payouts to a company’s TSR.

All these factors interact with one another — sometimes in unexpected ways. A company may grow its revenue through an EPS-accrative acquisition yet not create any TSR because the acquisition erodes gross margins. And some forms of cash contribution (e.g. dividends) have a more positive impact on a company’s valuation multiple than others (e.g. share buybacks). We therefore recommend companies to take a holistic approach to value creation strategy.
In the study, we analyzed 1,820 publicly traded companies with market cap greater than 1 Billion INR (100 Crores) across 11 industries. We classified these companies into three segments:

- Large cap: Market capitalization > 100 Bn INR
- Medium cap: Market capitalization > 20 Bn INR and < 100 Bn INR
- Small cap: Market capitalization > 1 Bn INR and < 20 Bn INR

Of these, we have identified 56 companies in retail. These companies have significant retail presence in India, via own or franchisee stores. They span across various sectors – apparel, accessories, footwear, restaurants, department stores, online retail, specialty stores and food retail. TSR has been computed across multiple periods, using different base years to understand what has changed.

The list of retail companies considered in the above TSR analysis, do not include the following:

**Listed companies**
- Recently listed (<3 years): e.g. D-Mart, Café Coffee Day, Future Retail
- Part of large conglomerates: e.g. Reliance Retail, Apollo Pharma

**Private companies**
- e.g. Spencer Retail, Fab India, Manyavar, Kalyan Jewellers, Geetanjali Group, Lawrence & Mayo

**Globally held companies**
- e.g. Landmark Group, Marks & Spencer, Levis, Nike, Adidas

While the above companies do not form a part of the quantitative study, we have covered some interesting business models in the qualitative section.

**Retail market landscape**

<table>
<thead>
<tr>
<th>Number of companies</th>
<th>Sector mix</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large cap: 10</td>
<td>6 Departmental stores</td>
</tr>
<tr>
<td>Medium cap: 17</td>
<td>6 Internet &amp; Direct marketing</td>
</tr>
<tr>
<td>Small cap: 29</td>
<td>7 Restaurants</td>
</tr>
<tr>
<td></td>
<td>28 Apparel &amp; Accessories</td>
</tr>
<tr>
<td></td>
<td>2 Food retail</td>
</tr>
<tr>
<td></td>
<td>3 Footwear</td>
</tr>
<tr>
<td></td>
<td>4 Specialty stores</td>
</tr>
</tbody>
</table>

1. As of 31st December 2017
Source: S&P Capital IQ, BCG analysis
Retail outperformed the market in a 10 year period

In the last decade (2008-17), Indian retail companies have delivered an annual median TSR of 17% vs. the overall market TSR of 13%. Compared to other allied consumer segments, retail ranked 2nd after consumer durables, which had a TSR of 22%.

A decade back, fewer retail companies were listed and a majority of them were in their early stages of growth, experimenting with multiple retail formats. Over time, business models have evolved allowing some companies to achieve scale.

Retail performance however lower than market in a 5 year period

In the 5 year period (2013-17), retail has however delivered TSR of 26% vs. the overall market TSR of 30%. Compared to other allied consumer segments, retail has now slipped to the 3rd rank featuring after fashion & home and consumer durables sectors.

1. Ten-year average annual TSR (2008-17) of the respective sample 2. Five-year average annual TSR (2013-17) of the respective sample

Note: Other allied consumer segments fashion & home, travel & tourism and consumer services are not represented in the chart

Source: S&P Capital IQ, BCG analysis
An analysis of value creators for retail companies over the last decade indicates that a large share of TSR was driven by revenue growth (13%). Over this time period, contributions from cash flow and change in valuation multiple were 2% and 5% respectively. In contrast, margin change has been marginally negative which is indicative of the profitability pressure faced by the retail sector.

If we were to take a shorter time frame of 5 years, the analysis shows a similar pattern. However, the revenue growth is a bit muted and margin change is slightly exaggerated.

### Retail TSR disaggregation

<table>
<thead>
<tr>
<th></th>
<th>10 year period</th>
<th>5 year period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue growth</td>
<td>13</td>
<td>9</td>
</tr>
<tr>
<td>Margin change</td>
<td>-2</td>
<td>-6</td>
</tr>
<tr>
<td>Change in valuation multiple</td>
<td>5</td>
<td>22</td>
</tr>
<tr>
<td>Cash flow</td>
<td>2</td>
<td>3</td>
</tr>
</tbody>
</table>

1. The contribution of each factor to the annual median TSR is shown in percentage points. Because of rounding, the numbers may not add up to the TSR figures shown.

**Note:**
- n=23 for 10 year period (2008-17), n=31 for 5 year period (2013-17)
- **Source:** S&P Capital IQ, BCG analysis
Indian retail outperforms Global retail

While we have discussed the performance of Indian retail with respect to the overall Indian market performance, we have also compared it to the performance of global retail.

Indian retailers have delivered higher returns on an absolute basis than global retailers, in a 5 year (26% vs 16%) and 10 year period (17% vs 13%).

Looking at the relative market performance, global retail has consistently delivered higher returns compared to the overall global market in the 5 and 10 year period. In the last decade, global retailers delivered TSR of ~13% vs overall global market TSR of ~8%.

When we look at the disaggregation components of TSR across 5 and 10 year periods, we observe that revenue growth, followed by expansion in multiples remain the primary drivers for both global and Indian retail. Margin change however remains relatively flat for global retail, indicating that margin pressure in retail is a challenge globally as well.

TSR performance in Global and Indian markets across periods

<table>
<thead>
<tr>
<th></th>
<th>Median annual TSR (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>26%</td>
</tr>
<tr>
<td>Global</td>
<td>16%</td>
</tr>
<tr>
<td>India</td>
<td>17%</td>
</tr>
<tr>
<td>Global</td>
<td>13%</td>
</tr>
</tbody>
</table>

5 Year
2013–17

10 Year
2008–17

1. These are preliminary numbers on a rolling LTM basis, which could change marginally when the year end global results are out
2. S&P Global 1200 INDEX TSR as a representative of world markets (This typically covers 70-80% of world markets in terms of value)
3. The median TSR value of all the companies considered in the analysis

Note: n=23 for 10 year period, n=31 for 5 year period for India. n=85 for 10 year period, n=95 for 5 year period for Global
Source: S&P Capital IQ, BCG analysis
Indian retail performance relative to the market changes with the time period under consideration. On comparing the 5 year TSR performance indexed to 2017 (2013-17) and 2016 (2012-16), retail has consistently delivered lower returns relative to the market. The trend remains the same during the 10 year period indexed to 2016 (2007-16). However, retail has outperformed the market when indexed to 2017 (2008-17). On analysing disaggregation of value creation over a 10 year period, TSR indexed to both 2017 and 2016 seems to be driven primarily by revenue growth.

**TSR performance in 2012-16 and 2013-17**

<table>
<thead>
<tr>
<th>Year</th>
<th>Retail 5 Year TSR</th>
<th>Market 5 Year TSR</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016 (2012-16)</td>
<td>13%</td>
<td>24%</td>
</tr>
<tr>
<td>2017 (2013-17)</td>
<td>26%</td>
<td>30%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Retail 10 Year TSR</th>
<th>Market 10 Year TSR</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016 (2007-16)</td>
<td>6%</td>
<td>12%</td>
</tr>
<tr>
<td>2017 (2008-17)</td>
<td>17%</td>
<td>13%</td>
</tr>
</tbody>
</table>

1. The median TSR value of all the companies considered in the analysis

Note: n=23 for 10 year period, n=31 for 5 year period of 2017, n=21 for 10 year period, n=28 for 5 year period of 2016

Source: S&P Capital IQ, BCG analysis
There are clear winners and losers amongst Indian retailers based on their 5 year TSR performance. The annual median TSR of the top 15 is 37% vs. 12% for the bottom 15. Top 15 value creation is largely attributed to expansion in valuation multiples, followed by revenue growth, while margins continue to be a challenge for most top retailers as well. Top 15 represent a diverse mix of 5 large, 6 mid and 4 small cap companies. Apparel and innerwear sectors combined have 8 players, followed by accessories.

### Large caps showing balanced growth
Top performers such as Page Industries, PC Jewellers and Arvind have delivered relatively balanced TSR – revenue growth along with retail premium.

### Small and mid-caps driven by high retail premiums
Growth across small and mid-caps is driven primarily by valuation multiples, followed by revenue growth. Few companies have delivered balanced growth – Heritage Foods (amongst mid-caps) and India Terrain Fashions (amongst small caps) have reported both revenue and margin growth.

### 5 year TSR performance
(2013-17)

<table>
<thead>
<tr>
<th>Company</th>
<th>Sector</th>
<th>TSR</th>
<th>Revenue growth</th>
<th>Margin change</th>
<th>Change in multiple</th>
<th>Net debt/leverage</th>
<th>Dividend yield</th>
<th>Share change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Page Industries</td>
<td>Innerwear</td>
<td>51</td>
<td>26</td>
<td>-1</td>
<td>25</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>PC Jeweller</td>
<td>Jewelry</td>
<td>45</td>
<td>23</td>
<td>-10</td>
<td>28</td>
<td>4</td>
<td>2</td>
<td>-2</td>
</tr>
<tr>
<td>Arvind</td>
<td>Apparel</td>
<td>37</td>
<td>13</td>
<td>-5</td>
<td>21</td>
<td>7</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Titan</td>
<td>Accessories</td>
<td>26</td>
<td>8</td>
<td>-1</td>
<td>18</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Trent Limited</td>
<td>Apparel</td>
<td>22</td>
<td>NA4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Siyaram Silk</td>
<td>Apparel</td>
<td>68</td>
<td>11</td>
<td>0</td>
<td>43</td>
<td>11</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Westlife Development</td>
<td>Restaurants</td>
<td>55</td>
<td>11</td>
<td>-18</td>
<td>70</td>
<td>2</td>
<td>0</td>
<td>-10</td>
</tr>
<tr>
<td>Heritage Foods</td>
<td>Department Stores</td>
<td>47</td>
<td>6</td>
<td>17</td>
<td>19</td>
<td>4</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>VIP Industries</td>
<td>Accessories</td>
<td>35</td>
<td>8</td>
<td>-7</td>
<td>31</td>
<td>1</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Rupa &amp; Company</td>
<td>Innerwear</td>
<td>29</td>
<td>9</td>
<td>-1</td>
<td>17</td>
<td>3</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Kewal Kiran Clothing</td>
<td>Apparel</td>
<td>24</td>
<td>10</td>
<td>-4</td>
<td>18</td>
<td>-2</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Indian Terrain Fashions</td>
<td>Apparel</td>
<td>79</td>
<td>23</td>
<td>7</td>
<td>33</td>
<td>22</td>
<td>0</td>
<td>-6</td>
</tr>
<tr>
<td>Mirza International</td>
<td>Footwear</td>
<td>47</td>
<td>11</td>
<td>2</td>
<td>27</td>
<td>10</td>
<td>2</td>
<td>-5</td>
</tr>
<tr>
<td>Maxwell</td>
<td>Innerwear</td>
<td>34</td>
<td>1</td>
<td>-6</td>
<td>32</td>
<td>8</td>
<td>4</td>
<td>-5</td>
</tr>
<tr>
<td>KDDL</td>
<td>Accessories</td>
<td>27</td>
<td>14</td>
<td>-15</td>
<td>22</td>
<td>9</td>
<td>1</td>
<td>-4</td>
</tr>
<tr>
<td><strong>Top 15</strong></td>
<td></td>
<td></td>
<td><strong>37</strong></td>
<td><strong>-2.5</strong></td>
<td><strong>26</strong></td>
<td><strong>4</strong></td>
<td><strong>1</strong></td>
<td><strong>0</strong></td>
</tr>
<tr>
<td><strong>Whole Sample</strong> (n=31)</td>
<td></td>
<td></td>
<td><strong>26</strong></td>
<td><strong>9</strong></td>
<td><strong>22</strong></td>
<td><strong>2</strong></td>
<td><strong>1</strong></td>
<td><strong>0</strong></td>
</tr>
</tbody>
</table>

**Legend:**
- **L** Large cap
- **M** Medium cap
- **S** Small cap

1. The contribution of each factor to the average annual TSR is shown in percentage points. Because of rounding, the numbers may not add up to the TSR figures shown.
2. Change in EBITDA multiple
3. Change in number of shares outstanding
4. Meaningful disaggregation of this company not possible because of negative or minimal EBITDA in either the first year or final year of analysis

Source: S&P Capital IQ; BCG analysis
Some top performers consistently appear

When we looked at the top 15 performers ranked across three different durations, there is considerable variation in the 3, 5 and 10 year period. However, some players are able to consistently maintain their ranking. Although there is a diverse representation of sectors across the three periods, apparel players continues to dominate.

Volatility across performance of top and bottom performers has increased over the recent years, as seen in the exhibit below. Continuous innovation, emerging business models and pressures from emerging online players, make this an interesting time for retail companies in India.

8 companies consistently feature in the top 15 across the durations, however with significant movement within ranks.

There are 4 new entrants in the 3 year period and all of them feature in the top 10 rankings.

1. V-2 Retail is omitted because its TSR is beyond the threshold considered for the analysis
2. n=23, the ten year period is from 31st Dec 2007 – 31st Dec 2017
3. n=31, the five year period is from 31st Dec 2012 – 31st Dec 2017
4. n=36, the three year period is from 31st Dec 2014 – 31st Dec 2017

Note: For the industry benchmarking only the companies that are above the market cap of 1 Billion INR are considered

Source: S&P Capital IQ; BCG analysis
Consistent performance possible, few left behind

When we consider the top 15 retail performers based on 5 year TSR performance across two time periods, 2016 and 2017, we observe that there is relatively low volatility.

The top 5 retail companies are the same across both time periods. 12 of the 15 companies have continued their high performance trajectory, and maintained their top ranks.

There are three new entrants in the 2017 analysis, all of which are from the accessories sector. Two players in the footwear sector have dropped out from the top 15 in 2017.

<table>
<thead>
<tr>
<th>Company</th>
<th>TSR₁</th>
<th>Company</th>
<th>TSR₁</th>
</tr>
</thead>
<tbody>
<tr>
<td>Page Industries</td>
<td>43</td>
<td>Page Industries</td>
<td>51</td>
</tr>
<tr>
<td>Arvind</td>
<td>41</td>
<td>PC Jeweller</td>
<td>45</td>
</tr>
<tr>
<td>Trent</td>
<td>20</td>
<td>Arvind</td>
<td>37</td>
</tr>
<tr>
<td>Titan</td>
<td>15</td>
<td>Titan</td>
<td>26</td>
</tr>
<tr>
<td>Westlife Development</td>
<td>83</td>
<td>Trent</td>
<td>22</td>
</tr>
<tr>
<td>Heritage Foods</td>
<td>65</td>
<td>Siyaram Silk</td>
<td>68</td>
</tr>
<tr>
<td>Siyaram Silk</td>
<td>43</td>
<td>Westlife Development</td>
<td>55</td>
</tr>
<tr>
<td>Kewal Kiran Clothing</td>
<td>23</td>
<td>Heritage Foods</td>
<td>47</td>
</tr>
<tr>
<td>Timex Group</td>
<td>22</td>
<td>VIP Industries</td>
<td>35</td>
</tr>
<tr>
<td>Rupa &amp; Company</td>
<td>13</td>
<td>Rupa &amp; Company</td>
<td>29</td>
</tr>
<tr>
<td>Bata India</td>
<td>12</td>
<td>Kewal Kiran Clothing</td>
<td>24</td>
</tr>
<tr>
<td>Indian Terrain Fashions</td>
<td>58</td>
<td>Indian Terrain Fashions</td>
<td>79</td>
</tr>
<tr>
<td>Mirza International</td>
<td>41</td>
<td>Mirza International</td>
<td>47</td>
</tr>
<tr>
<td>Maxwell</td>
<td>21</td>
<td>Maxwell</td>
<td>34</td>
</tr>
<tr>
<td>Liberty Shoes</td>
<td>20</td>
<td>KDDL</td>
<td>27</td>
</tr>
</tbody>
</table>

Notes:
- Market cap >100 Bn INR: Figure in both periods
- Market cap 20 Bn INR< Market cap <100 Bn INR: Figure only in 2012-16
- Market cap < 20 Bn INR: Figure only in 2013-17

1. Average annual TSR (%)
   Note: For 2012-16: n=28, for 2013-17: n=31
   Source: S&P Capital IQ; BCG analysis
Imperative for players to win in retail

Analysis of the top value creators reveals that the key driver for success has historically been sales growth, which has been a bit muted recently. Profitability continues to be an on-going challenge for most retailers.

While there are multiple paths for retail companies to create value, it is clear that there is a strong need to build a balanced approach to maximize TSR, restore sales momentum and rethink profitability. We propose 5 key aspects that would play a crucial role in winning in the long term.

1. **Build customer centricity**
   - Shift from product focus to product and customer focus
   - Define holistic customer experience proposition explicitly
   - Leverage digital to drive customer centricity

2. **Build a category leading portfolio**
   - Focus on high growth, high margin categories
   - Tailor portfolio to meet specific customer needs

3. **Drive personalization**
   - Target individual customers, build 1:1 relationships
   - Create what customers want, leverage data
   - Master the model of building personalization at scale

4. **Rethink physical stores**
   - Store economics – smaller, profitable stores, sharp assortment
   - Consumer centric – fulfillment (availability, flexible delivery models)
   - Drive unique in-store experiences

5. **Relook at internal operations**
   - Optimize operational costs
   - Sharper execution on digital and pricing

Shareholder value creation in retail: An Indian perspective
Leaders’ view on value creation: Today and tomorrow
1 Building a strong value proposition

Focus on specific segments and tailor unique business models to address customer needs

“Leading value creators in retail are companies who have been able to come up with a unique model and have stuck to it. The model need not always start with the customer, but can start either from product or format. The target segment however needs to be sharply defined, and need not be the entire gamut of customers.”

– Jamshed Daboo, MD, Trent Hypermarket Ltd

Max – “Creating a unique value proposition”

“Max focused on value considerations of the Indian consumer, and built a unique proposition in value retail. Positioned as a family store, it has created a mono brand delivering latest product designs at attractive prices. It also went after the segment <INR 500 through the “easy buy” format, with a different franchisee model.”

– B S Nagesh, Non-executive Vice Chairman, Shoppers Stop

2 Leveraging an existing platform to drive growth

Build capabilities alongside the brand; use this platform to grow; expand operating model while leveraging the brand’s equity

“We started off with building a strong base in the watch market. After that success, we were able to use our company’s design/branding/retail experience to disrupt other categories such as jewelry. We entered an unorganized market with a very different value proposition - Tanishq was able to carve out a niche against local jewelers.”

– C K Venkataraman, CEO Jewellery, Titan Company Ltd

Arvind Brands – “Strong growth fundamentals”

“The fundamental lever of growth is pivoted around our portfolio of brands and capabilities, which we leverage consistently... We initially focused on building strong brands and specific capabilities to sustain growth at a profitable level. We then expanded our distribution network across multiple channels, and then started to leverage our brands across multiple categories.”

– J Suresh, MD & CEO, Arvind Lifestyle Brands Ltd & Arvind Retail Ltd
20 Leaders’ view on value creation: Today and tomorrow

3 Creating an end to end experience

Deliver customer delighters across all aspects of the retail journey; eliminate operational silos

“Organizations that have done well have proactively looked into all aspects of the retail experience. They have identified relevant trends, assessed needs across the entire organization (products, experience, etc), connected with the consumer and driven customer centricity.”

– B S Nagesh, Non-executive Vice Chairman, Shoppers Stop

PVR – “Delivering differentiated customer experience”

“PVR’s focusses on delivering a differentiated customer experience throughout the movie journey - from a convenient app for booking tickets, theater ambience, food, associate interaction… Movie goers are often willing to pay extra for the experience even if the movie is not good enough!”

– Vinay Nadkarni, MD & CEO, Globus Stores Pvt Ltd

4 Focussing on execution

Stick to the model consistently; operate with discipline and build scale

“In order to become a market leader, companies should stick to a single format or a couple of formats. You need to focus on niche and positioning - but it is not just about the core philosophy. This needs to be accompanied with building scale through focused expansion – using all financial and operational levers, and going after them with utmost discipline.”

– Krish Iyer, CEO, Walmart India Pvt Ltd

D-MART – “Delivering excellence through discipline”

“D-Mart built a format around value focus - quality products at low prices, prioritized product availability over store appeal/ low capex, cashier training due to high monthly basket volumes...Over time it has stuck to a single format, built scale and maximized both financial and operational parameters through focused and consistent delivery.”

– B S Nagesh, Non-executive Vice Chairman, Shoppers Stop
1. Staying ahead of the customer
Pre-empt customer latent needs, leverage AI, know the consumers’ digital footprint, etc.

2. Changing ways of working
Companies need to innovate and bring in new ways of working (e.g. Omni channel capabilities, analytics, digitization with suppliers/ customers, etc.)

3. Redefining customer centricity in the digital era
Curate products such that customer delights get incorporated into product development and delivery

4. Rewiring physical stores
Rethink physical stores, bring them alive and drive up productivity

5. Building next level of distribution
Winning in distribution is critical to deliver growth. Agile business models help to serve a wider catchment
“We are trying to deliver continuously based on changing customer expectation. One needs to understand what the customer wants (AI induced products, what he’s browsing on net, etc.). Expectations may not be directly voiced by the “self indulging customer” yet you need to deliver products curated to deliver exclusiveness.”

– Vinay Nadkarni, MD & CEO, Globus Stores Pvt Ltd

“Start embracing digitization across the value chain. Ways of working need to change. Use analytical driven approach to improve customer personalization and efficiency.”

– J Suresh, MD & CEO, Arvind Lifestyle Brands Ltd & Arvind Retail Ltd

“In big-box retailing where the differentiation in brand-range may be a challenge, the next round of improvement is to go really deep into what really matters to consumers: for example merchandise width and depth.”

– C K Venkataraman, CEO Jewellery, Titan Company Ltd

“Going forward, there would be premium for customer service delivery mechanisms rather than just the product. The stores need to convey customer experience.”

– Vinay Nadkarni, MD & CEO, Globus Stores Pvt Ltd

“While redefining the customer centricity in the digital era, relationships, warmth are themes no one talks about today. We’ve seen the benefits of building relationships and not just the brand & customer. It pays off by maintaining & increasing market share.”

– C K Venkataraman, CEO Jewellery, Titan Company Ltd

“Stores needs to look different. We need to use analytics to drive up productivity. Retailer who’re able to crack this model would win.”

– J Suresh, MD & CEO, Arvind Lifestyle Brands Ltd & Arvind Retail Ltd

“Traditional retailers can do a lot more than e-commerce. Physical stores would always exist, and it’s all about rethinking what kind of magic can happen in a store.”

– C K Venkataraman, CEO Jewellery, Titan Company Ltd

“Indian consumption is not marginal, there is a fairly aggressive rise in aspiration. As metros/ tier 1s get saturated, retailers need to tailor proposition to cater to smaller towns and emerging customers.”

– Jamshed Daboo, MD, Trent Hypermarket Ltd

“Retail in India will be driven by consumption led economics, where reach and distribution would become one of the biggest opportunities to drive differentiation.”

– B S Nagesh, Non-executive Vice Chairman, Shoppers Stop
Customer centricity: A key driver for growth
Customer experience – an essential component of customer centricity

Customer centricity is deep rooted in an organization and has many components that influence the business model - product design, service orientation, customer journeys, store design, etc. In this report, we want to present our perspective on one of the key components of customer centricity – ‘customer experience’, which has evolved significantly over the past decade in response to continuously changing consumer behavior.

Superior consumer experiences lead to higher customer satisfaction scores, which in turn increases loyalty and advocacy. Loyalty drives a decrease in churn and increases cross-sell opportunities, while advocacy leads to higher sales and lower cost of execution. Many B2C players are offering best-in-class customer experiences, creating new standards, shaping expectations and building “empowered customers”.

Quality of experience offered by companies

<table>
<thead>
<tr>
<th>Quality of experience offered by companies</th>
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<tr>
<td><strong>High</strong></td>
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<tr>
<td>Great customer experience</td>
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<tr>
<td>• Create advocates and loyalists</td>
</tr>
<tr>
<td>• Lower cost to serve</td>
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<tr>
<td>• Accelerated growth opportunities</td>
</tr>
<tr>
<td><strong>At par customer experience</strong></td>
</tr>
<tr>
<td>• High cost of customer acquisition</td>
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<tr>
<td>• Decreasing lead conversion rate</td>
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<tr>
<td><strong>Poor customer experience</strong></td>
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<tr>
<td>• Risk of falling market share</td>
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<td>• Risk of increased churn rate</td>
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One of the first steps along the customer experience journey is to understand customer needs and expectations. While there are multiple approaches and tools available to gauge consumer insight, companies would need to leverage a combination of approaches. It is also important to keep in mind that consumers may not always be aware/express what they want, so companies should strike a balance of asking questions, listening and observation.

Companies need to be able to map out end-to-end customer journeys, to understand specificities in-depth, and distinctly draw out opportunities to delight customers.

Proactively seek to learn how India shops

**Who are your customers?**
- Segmentation
- Profiles

**How do they shop?**
- Purchase journey
- Shopping behavior

**What do they want?**
- Communication preferences
  - Channels
  - Regularity of contact

By leveraging the right tools

- Ethnographic research
- Focus group discussions
- Spend tracking
- Quant booster surveys
- Store exit checks
- Big data & Analytics
- Social listening & communities
Customer experience from two lenses: consumer and store associates

We propose to look at consumer experience from two lenses:

- In-depth discussions with consumers across different retail sectors (low to high involvement categories), to decipher their shopping behavior and understand opportunities/ delights along their customer journey
- Interviews with store associates across a few retail formats, to understand what it takes to deliver exemplary customer experience, based on their strong understanding of customers

Ethnographic research with few consumers across retail categories

Interviews with store associates across retail categories/formats

The modern Indian consumer
- Has evolved rapidly over the last few years
- Demands clear and consistent delivery of value proposition

The store associate today
- Understands the consumer perspectives and needs
- Builds not transactional but long-term relationships
Retail comprises multiple sectors, each triggering different customer needs and shopping behavior. We selected three distinct retail categories for our study - food, apparel, jewelry, each requiring varying levels of engagement.

While a few core customer needs remain relatively consistent across retail categories, there are many elements around shopping behavior and customer journey which vary significantly. Customers typically have lower expectations for differentiated service in lower involvement categories (such as food retail) when compared to higher involvement categories (such as jewelry).

We have presented a few illustrative customer journeys in the following pages, highlighting activities undertaken, delighters, pain points, opportunities, key influencers, etc.

Source: BCG qualitative analysis
Grocery retail: Usha’s weekly visits to the departmental store

Usha Batra
- 40 years, New Delhi
- Home maker, mother of two children; Lives in Malviya Nagar
- Responsible for weekly shopping for grocery and vegetables
- Value conscious about family budget
- Prefers to buy day to day grocery from organized departmental stores

“If you get discounts like buy one get two free, you think of buying it not just for yourself but also family. We plan to buy items worth INR 10,000 but we have cards so we end up buying more - it is never less.”

Activities (Do)
- Let me make a list to replenish items at home
- Ahh great! Big Bazaar has a lot of offers, let’s go on Wednesday

Think and feel
- I am not sure whether to buy from the nearby City Store or travel 30 mins to a Big Bazaar
- Big Bazaar has better quality of pulses than the nearby City Store

Delighters, Pain points, Opportunities and Key influencers
- Big weekly discounts
- Travelling to Big Bazaar is time consuming
- Bigger network/footprint of stores – potential to evaluate mini-stores, etc. as ideal for high frequency purchases
- Print advertisements
My husband and I don't quite like the taste of multi-grain Atta. Let me mix the old and new Atta so that we have both taste and health. I should check the entire store for more discounts. My husband and I don't quite like the taste of multi-grain Atta. Let me mix the old and new Atta so that we have both taste and health.

- Store staff is attentive and informed
- Shelf space is biased towards Big Bazaar’s in-house brands; unable to find products I want
- More organized store with clear signage to provide guidance
- Sales staff

- Chances of meeting my neighbors are high
- Long waiting queues
- Lack of assistance to inform about the best products
- Self checkout and no technology to increase convenience
- Casual conversations with friends throughout the week

- Friends appreciating the innovative idea of healthy family nutrition
- The healthy alternatives don’t taste as good
- Differentiate grocery along lines of health/origin etc.
- Family and friends

Customer centricity: A key driver for growth
Apparel retail: Vatsal’s journey to the new look at the annual office party

Vatsal Doshi

- 24 years, Mumbai
- Young working professional at TCS; earns Rs 7 LPA
- Single, living with friends in an apartment in Santacruz
- Loves travelling and eating out with friends over weekends
- Choice of clothes influenced by cousins and friends
- Engages in online and offline shopping – represents fashion conscious urban Indian population

“... I prefer branded apparel over local outfits. I am not loyal to a specific brand. It all depends upon whether it suits me.”

I need a cool new t-shirt for the office party

Its Friday! Let me make weekend shopping plans at Inorbit

I am feeling rich #salarycredited

Really liked those digital print t-shirts in the Myntra ads

Thank God I am not alone otherwise I would feel ignored

Trigger and Discovery

Activities (Do)

Delighters, Pain points, Opportunities and Key influencers

Finding relevant designs on social media

Buying online is tricky with a new brand; It would take 5-6 days to deliver

Leverage omni-channel capabilities (Online + Offline) e.g. - personalized billboards, buy online and collect at stores

Online trends/ social media
Hand-pick

I can’t find those cool designs!

I should head to Ed Hardy - they always have cool tees

I choose some styles to try

I need to try them to check whether they suit me and fit well

I want to buy a good brand but I am not fixated on any particular one

My t-shirt: quality, fitting and design all 3 are equally important

Wide variety and quality of brands to choose from in Inorbit

Store associate isn’t able to show the designs advertised online

Sales staff

Zero moment of truth

Oh wow! Perfect fit and all my friends agree

I buy 3 of the t-shirts I had tried

I feel good about the shopping done today

Looking forward to wearing one of my new t-shirts to the party

Pre-view sale for loyalty program members

‘No questions asked’ returns policy

Additional discount on another bank’s credit card but not mine

Showroom tech to create avataars and share looks

Approval of friends and family

Social media integrations with contests, etc. for people to post purchases and spread word of mouth—a trigger to collect feedback online

Close friends

Own and Wear

Party is here! I am wearing the black one today

Loads of compliments! I look good in the party pics on facebook

I should buy more of this brand

This is now my go-to party t-shirt

Customer centricity: A key driver for growth
Jewelry retail: Neha’s plans for her life after wedding

Activities (Do)

I need to buy jewelry for my wedding next year; let’s start with a pendant

My family jeweler suggests waiting for lower gold prices

We have bought jewelry from Dhirsons Jewelers since ages

My parents don’t trust online websites for buying jewelry

Think and feel

Since it’s not urgent, I will wait

Delighters, Pain points, Opportunities and Key influencers

Comparatively lower rates at local jeweller

Price fluctuations in the market would make me wait before buying

Have online store that provides home trial facility along with a COD option

Parents

Neha Chadda

- 25 years, New Delhi
- Young secondary school teacher; Earns Rs 5 LPA
- Getting married soon; lives with parents in Lajpatnagar
- Loves to spend time with family and friends on weekends
- Keen on keeping up with trends and designs on social media especially Instagram
- Looking forward to planning and shopping for her wedding

Trust is most important in case of jewelry... my parents both mom and dad’s side have always bought Gold from Dhirsons."
I wear the pendant on a regular working day

I post a selfie of me wearing it on Instagram

My friends and colleagues in office ask me about the pendant and congratulate me

I wear the pendant on a regular working day

I order the pendant and pay - delivery will take a week or two

I love the pendant that I have ordered today

I feel I got the best possible deal in town, because of our long standing relationship

I love getting all these compliments

Already saving up to buy a bracelet for myself

Satisfied with the wide variety of designs to choose from

I don’t want the pendant to hang loose; I need a smaller chain for daily use

I want the design to be sleek and trendy

Store’s ability to make modifications

Discounts for being loyal customers

Mark-up or making charges on diamond setting is quite high

Personalization for occasions and gifting

Parents and friends

No modification charges from Dhirisons because I bought the pendant from their store

Low re-sell value for diamonds

Buy back, upgrades for diamond jewellery

Advertisement
Customer centricity: The store associates view

An example | Usha is shopping for her groceries at the Hypermarket...

The Expert
The expert is well versed with his product range and able to make cross sell and upsell suggestions. Commonly found in categories that are higher involvement, guidance and trust; like jewellery.

Where is the Zed multi grain Atta that’s supposed to be on 40% discount?

Oh yes that is very popular! That’s on the 4th shelf in aisle number 11, straight ahead and third right…

The Indifferent
The indifferent is just hanging around, doing the bare minimum he can get away with hardly knowing anything about the product and does not care about the customer either. Sadly, they are commonly found everywhere.

Sorry that is not my section; please ask that guy over there
Delivering excellence in retail does not only involve understanding what customers want but also ensuring last mile execution. The store associates have an important and a unique birds eye view from their position. Through in person engagement with customers, they are a key factor and medium of delivering customer delight.

Historically, retail companies in India have primarily focused on short-term sales effectiveness. However, today they are gradually adopting a longer term view with customers. The store associates, besides knowing about the products also need to deliver superior customer experience. Based on our interactions with a few store associates, from different retail sectors and formats, we believe that their role is gradually moving away from being solely “An Expert” or “An Assistant” towards becoming “An Expert Assistant”

### The Expert Assistant

The expert assistants are able to understand customers needs and then use their product expertise to serve them. They are going to be the store associates of the future. They should be everywhere.

Oh let me show you madam, its right here! You might also consider the new rice bran oil from Zed, that’s on offer too…

### The Assistant

The assistant takes time to listen and understand the consumer. He tries his best to serve their needs. Commonly found in categories that are higher in variety & frequency of purchase.

Oh let me see I am not really sure about Zed…but all the Atta is together, come let me show you…
Decoding value creation in retail

Changing role of store associates...

Customer expectations are continuously evolving, causing a shift from a ‘product’ focus to a ‘product and experience’ focus. Hence the retail store associate’s role is pivotal in enhancing the consumer experience. This trend is however more prominent in higher involvement retail categories.

Aiding choices with empathy

A customer walked in asking for running shoes that he recalled from the latest advertisement that he had seen on television. He even quoted a few products of our competitor from whom he usually buys.

I brought a few of our shoes from our latest collection, explained the new technology and its benefits and why it was superior to the competitor’s product... He appeared hesitant since he had never used our brand before. I gave him a few examples of my regular customers who had bought this shoe and had good feedback. He was still reluctant.. so I asked him to visit our website which had customer reviews as well.

He came back to our store after a couple of hours and bought the product because he was impressed by the brand.

Building and rewarding loyalty

Welcoming feedback

Profiling and tailoring the sales pitch

Guiding the consumer

Being the ‘expert’

Creating relationships
Last week, while we were closing the store, a gentlemen walked in at 9pm. He explained that he was returning from work, and urgently needed a blue suit for a very important meeting. I was aware that corporate customers don’t have much time, so I decided to help.

I showed him all our ready-made suits in various fabrics, in various weights from polycot to wool... and realized that he was looking for the best quality fabrics and a good fit. So I brought our latest collection in wool blends, explained the fabrics and fits. The customer complemented me about my product knowledge... did a few trials and liked one of the slim fit suits, but needed a small alteration to get the right fit. I offered to deliver the suit to his office next evening.

While leaving, the customer thanked me and said that he would return the next weekend for a few shirts.

A gentlemen came in a few months ago looking for a gold set. He needed 5 sets of the same design for his sister’s wedding, 13 days away. He instantly liked one of our designs, but we had only 1 set. I first called our other stores for similar stocks, but we managed only 2 more sets. I checked with my store manager, the only option was to get it made from the factory.

The customer was worried whether we’ll be able to deliver on time. After multiple follow-ups with the factory, we received the sets 3 days before the required date. He was delighted with our service, registered for our loyalty program... assured that he would visit our store and ask for me for any future purchase... and also recommend to friends and family.

After a few weeks, his younger brother visited our store and asked for me. I was thrilled, and went out of my way to help them. The Khatri family are now my regular customers.
Customer centricity has more to do than what meets the eye

**Customer insight**

Needs & expectations

“Customer insight is very important in every customer facing business. Infact, it becomes even more important to listen and keep them at the center of every decision. In our retail business, it has almost become a hygiene factor”

– Krish Iyer, CEO, Walmart India Pvt Ltd

**Digitization of the core**

Customer data collection, centralized back-end systems

“Over the years, retailers are gradually replacing gut feeling by process driven approach to understand how the customer is changing, how to deliver quickly to those expectations. Companies are trying to build digital capabilities to capture feedback, build sharper assortment, improve assortment efficiencies”

– Vinay Nadkarni, MD & CEO, Globus Stores Pvt Ltd
Customer journey nuances

Timing of interactions, channels used, experience offered (timeliness, customization, etc.)

“We realized that avenues of differentiation on product and location were reducing against competition... so we thought of a differentiated experience at the point of purchase. We created “personal shoppers” who now deliver a meaningful share of our business”

– B S Nagesh, Non-executive Vice Chairman, Shoppers Stop

Empowering employees

Talent, capabilities, priorities, sourced from recruiting, training, incentives

“We are constantly investing in our employees and even franchisees, to give them high level of empowerment and make them strongly committed. The role of a store associate is gradually evolving, and the good sales people almost become part of family of customers which pays off in maintaining and growing market share”

– C K Venkataraman, CEO Jewellery, Titan Company Ltd

End to end customer centric processes

Simplified & lean, collaborative processes, focused on continuous improvement on customer-first structure

“We have been driven by customer centricity from the beginning, always making an effort to put what is good for the customer first. Now we aim to take it to the next level. We’ve brought in fresh desk at stores to ensure transparent communication and SLA driven resolution of issues. We’ve also started a vendor portal and a B2B customer portal to digitize all interactions and increase collaboration”

– J Suresh, MD & CEO, Arvind Lifestyle Brands Ltd & Arvind Retail Ltd
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.

**Four Ways to Improve Digital Customer Service**
An article by The Boston Consulting Group, December 2017

**How Customer Insight Can Be a Powerful Business Partner**
An article by The Boston Consulting Group, October 2017

**Demystifying the Indian Online Traveler**
A report by The Boston Consulting Group in association with Google, June 2017

**Profiting from Personalization**
An article by The Boston Consulting Group, May 2017

**How Discounters Are Remaking the Grocery Industry**
A focus by The Boston Consulting Group, April 2017

**Fashion Forward 2020**
A report by The Boston Consulting Group in association with Facebook, March 2017

**How to Become a Customer-Centric Grocer**
An article by The Boston Consulting Group, March 2017

**Decoding the Digital Opportunity in Retail**
A report by The Boston Consulting Group in association with Retailers Association of India, February 2017

**Creating Value Through Active Portfolio Management: The 2016 Value Creators Report**
A report by The Boston Consulting Group, October 2016

**Decoding Digital @ Retail**
A report by The Boston Consulting Group in association with Retailers Association of India, February 2016

**Retail 2020: Retrospect, Reinvent, Rewrite**
A report by The Boston Consulting Group in association with Retailers Association of India, February 2015
Note to the Reader

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