RedSeer Consulting

Changing retail landscape in India

A RedSeer Perspective

By Shubham Anand

Retail industry has gone through tectonic changes over the past two decades with slow transition from the unorganized sector to organised one

Evolution of Indian retail landscape

Key takeaways

Pre-2000s — Convenience retail

Kirana stores, local mom & pop stores, shopping centres, supermarkets, etc.

Key challenges

- Retail **development** in neighbourhoods are forcing small stores out
- Shift in **consumer needs**: more focused towards enhancing experience
- Rising **consumerism**, change in consumer behaviour preferences
- Advent of **alternate channels** – online retail

2000-Present — Destination retail

Shopping malls, lifestyle malls, destination malls, etc.

Key differentiators

- Food and beverages
- Entertainment
- Addressing shopping needs of the whole family
- Support services to enhance overall experience

Summary — Highlights

Retail Market
~USD 688 Bn in 2016

Expected growth
2016-20 CAGR: ~14%
2020F: ~USD 1.1 Tn

Organised share
2016: 9%
2020F: ~12%
2025F: ~15%

Organized share in Tier 2/3 cities, rural areas to be further enabled by mobile/ internet penetration

Unorganised — Priority level→ Timeline — Organised

Expected growth in organised retail penetration from ~9% in 2016 to ~15% in 2025 will see increased penetration into Tier 2/3 cities which were previously untouched by organised retail sector

Source: RedSeer Analysis

Shift from unorganized to organized has been further enabled by changes in consumer behaviour

Consumer led growth

Consumer preferences

Technology

1. Increased internet penetration (~30%)
2. High smartphone usage
3. Cheap internet access

Demographics

1. High urban internet usage (>60%)
2. High rural outreach
3. Multiple languages support

Preferences

1. High quality expectations
2. Experience focused
3. Increased spending

Awareness

1. Increased awareness, competition
2. Diversity in offerings
3. Custom offerings

These changes have seen **growth** in success rates of **online retailers,** and aspirations of an **omni-channel** presence

Source: RedSeer Analysis

Headwinds for retail sector remain strong and omni-channel retailers, customer experience focused retailers are best prepared to stand the storm

Organised Retail

Deep dive

Trends & outlook

Growth
Driven from mobile, small appliances & fashion segment in recent years

Outlook
Next wave of growth to come from large appliances, cosmetics, experiential shopping. E.g. beauty & wellness, jewellery, vacations, large appliances etc.

Non-discretionary spend to grow

Caution
Tier 2-3 cities population are not catered in spite of having high disposable income

Online
Rise of alternate channels like online/ mobile to serve unmet needs of major segments of population

Challenges

Policy clarity
Lack of policy consistency & clarity across states with regards to FDI, direct selling kept big retailers in wait & watch mode. E.g. Bharti Walmart

Sourcing norms
Stringent sourcing norms acted as major barrier for many organised players. E.g. groceries sector

New entrants got scared and did not enter; existing players limited scaling up

Rent : Revenue
Rent : revenue ratio in India is ~16-25% when globally 10% is considered ideal

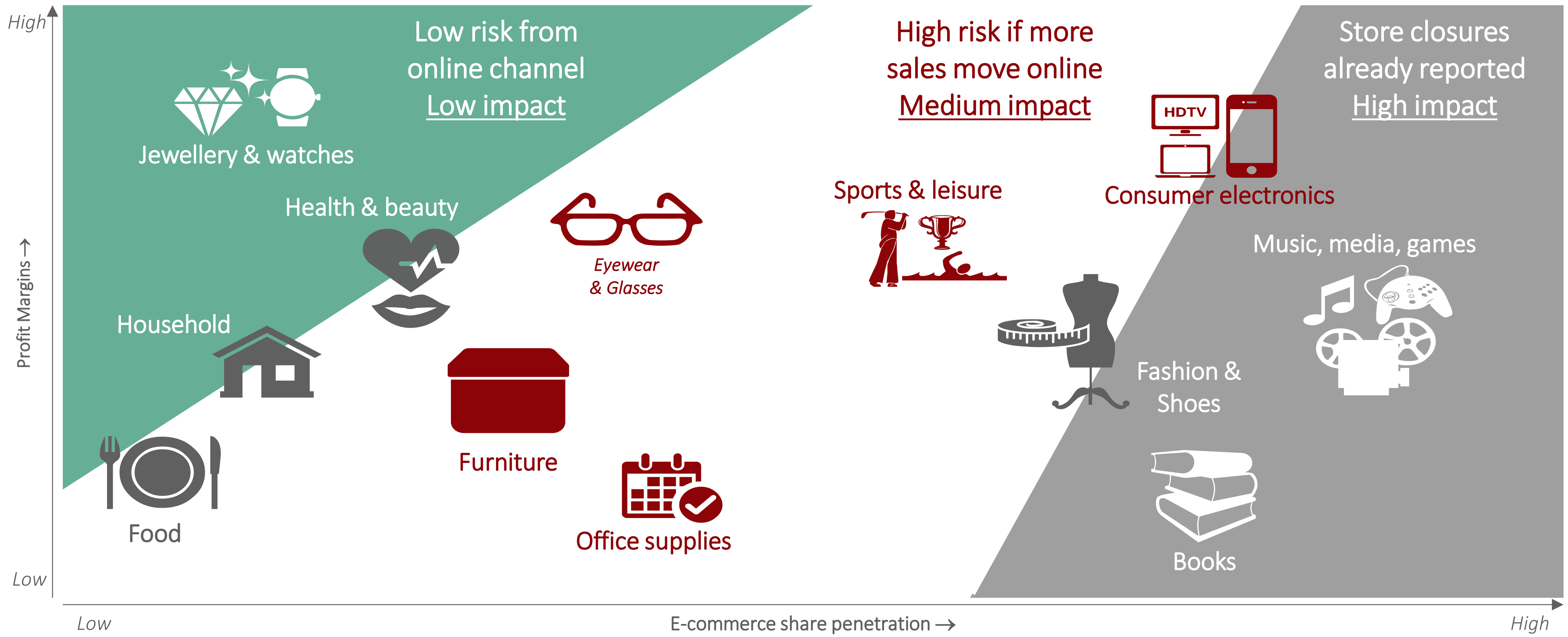
Alternate channels like online have stepped in to cater to unmet needs of customers and in the process disrupted the traditional retail industry

Source: RedSeer Analysis

Online channel growth jolted traditional retailers; first they ignored, then they ridiculed, then they fought, but in the process missed the opportunity of changing retail landscape

Online retail impact on traditional retail

Sub-sectors impact



Online retail has had a disruptive impact on retail landscape

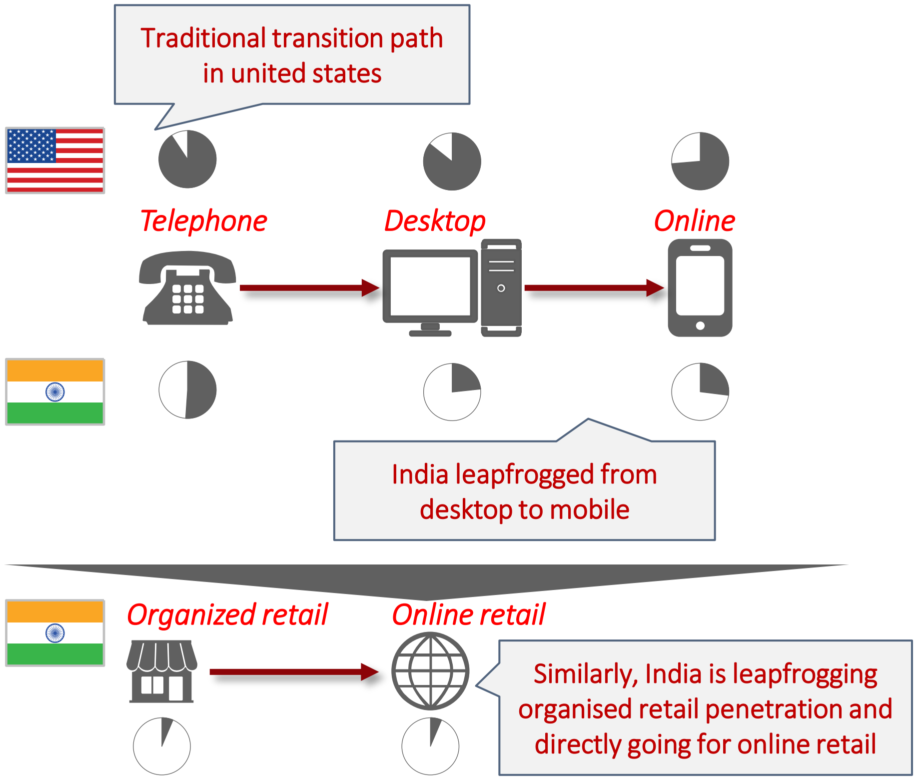
Source: RedSeer Analysis

Online retail growth in India has leapfrogged traditional path of organized retail growth

Online retail growth

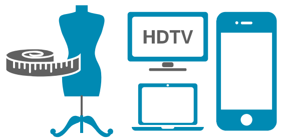
Illustrative

Online retail – journey



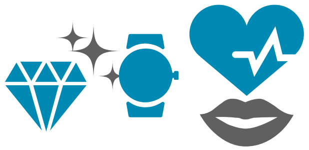
Trends & Implications

1 Major segments



- Fashion and consumer electronics have been the biggest segments for online retail
- Growth is starting to slow down in these segments

2 Future growth pockets



- Future growth expected from experience selling. e.g. beauty & wellness, jewellery, vacations, etc.
- Food & grocery organized/online penetration is very low

3 Future strategy

- Any leader will have to be present in multiple channels (including online)
- Focus on enhancing customer experience

The gap in online and traditional organized retail is expected to diminish

Source: RedSeer Analysis

Headwinds for retail sector remain strong and omni-channel retailers, customer experience focused retailers are best prepared to stand the storm

Retail landscape outlook

Outlook

Case studies

Country	Online retail share of overall retail	Internet users (Mn), penetration
USA	~12%	~250 million ~76%
China	~18%	~730 million ~53.1%
India	~2%	~450 million ~30%

Implications

1. Customer experience and service will be key differentiators
2. Online retail is set to grow in India
3. Omni-channel players are best positioned to succeed

Retailers will have to take tough call whether they want to focus on pure online market (~15% of total retail) or pure offline market (~85% of total retail) by 2025

Going forward omni-channel will be the new norm as pureplay online or pureplay offline won`t be able to cater to the evolving consumerism

Online & organized retail

Outlook

Key findings

1 Veteran organized retailers missed opportunity

- Veteran organized retailers thought retail industry will follow US pattern i.e. will transition into organized first and then online.
- Flipkart, Amazon, PayTM (Alibaba) tapped this opportunity

2 Customer buying behaviour differs by category

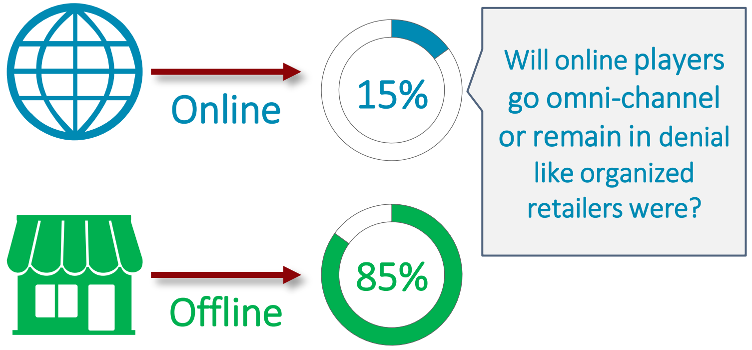
- In some category searches offline and buy online. E.g. fashion, footwear, etc.
- In some category searches online and buy offline. E.g. appliances

3 Organised retailers have suffered by being pureplay retail/ store format

- Organised traditional retailers remained in denial mode for long and resisted moving online

Outlook & Implications

Outlook 2025 | Indian Retail



1. Omni-channel strategy to become the norm in retail
2. No pureplay offline/ online retailers in future

Online retailers will have to make a call to continue with only online or enter omni-channel; or else traditional organized retailers opting omni-channel strategy might have the last laugh

Source: RedSeer Analysis

About Author

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Shubham Anand is heading Retail-CPG practice at RedSeer and working with clients across fashion, retail and other CPG verticals on Growth, Market Entry & Store Roll-out Strategy. He is also working with PE & VC funds to help them with sector scanning and their portfolio growth. Shubham has an overall work experience of 12 years across Management Consulting, Strategy, Marketing, P&L, etc. He has done his MBA from IIM Lucknow.

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RedSeer is one of the fastest growing research and consulting firms in India. It's unique service offerings serves decision makers across the value chain. RedSeer works across the sectors with specific focus on Retail, CPG, E-commerce, Funds & Investment banks.

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Thank You!

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