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THE BOSTON CONSULTING GROUP



RETAIL 2020: RETROSPECT, REINVENT, REWRITE

Leadership Perspectives on Trends in Indian Retail



CREATING VISION FOR MODERN RETAIL IN INDIA

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 81 offices in 45 countries. For more information, please visit bcg.com.

Retailers Association of India (RAI) is the unified voice of Indian retailers. As a not for profit organization, RAI works with all the stakeholders in retail to create the right environment for the growth of modern retail in India. RAI encourages, develops, facilitates and supports retailers to modernize and adopt best practices. RAI's efforts center around advocacy and government representations, bringing best practices to the industry, fostering retail learning and training, creating a reservoir of information through retail research, disseminating communication through magazines, newsletters and its website, for the benefit of its members and the industry as a whole.

The Retail Leadership Summit (RLS) is the biggest knowledge dissemination platform—and the only one that is by the industry, for the industry. It's where the entire retail fraternity gets together to deliberate on not just business-relevant issues, but also industry-pertinent ones. It's the largest congregation of retail leaders, decision makers and visionaries. Together, they chart the path to take the industry to the next level.

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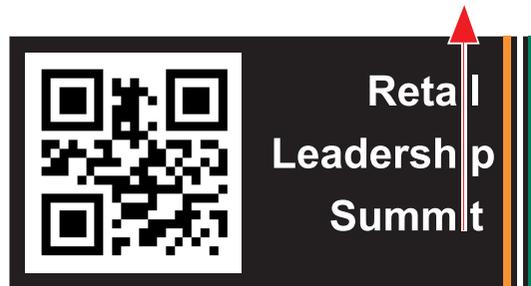
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FEBRUARY 2015



CREATING VISION FOR MODERN RETAIL IN INDIA

Foreword

Modern retail in India has experienced a remarkable transformation over the last two decades. As we **retrospect**, the fundamental strengths of the India consumption story continue to surface. Rising incomes, urbanization, and attitudinal shifts reaffirm this optimistic outlook, pointing to a **certainty of growth** in the future.

However, the future will have discontinuities along the way, forcing players to **reinvent**. For example, the **reality of digital** has arrived sooner than expected, reshaping customer behavior and expectations. In this rapidly changing retail landscape, brick and mortar retailers will be competing with an increasingly wider set of peers for the same customer wallet. This poses a **challenge of capabilities**. Players will need to modify their offerings across the purchase pathway to provide a seamless omni-channel experience to the digitally savvy consumer. In parallel, building capabilities in talent management and supply chain optimization will gain urgency.

As the industry evolves, players will be required to **rewrite** their approach. Incremental changes will not suffice and a **fundamental transformation** will be necessary. Players will need to find ways to fund this journey, in part as margin and cost pressures increase **the importance of economics**. In equal measure, the disruptive changes will require a set of measured bets to be taken even as organizations develop key enablers.

It is exactly these themes which have been echoed by industry leaders at the forefront of retail. This publication highlights the most relevant themes for retail in India and brings perspectives from over 20 CEOs of top retailers in India.

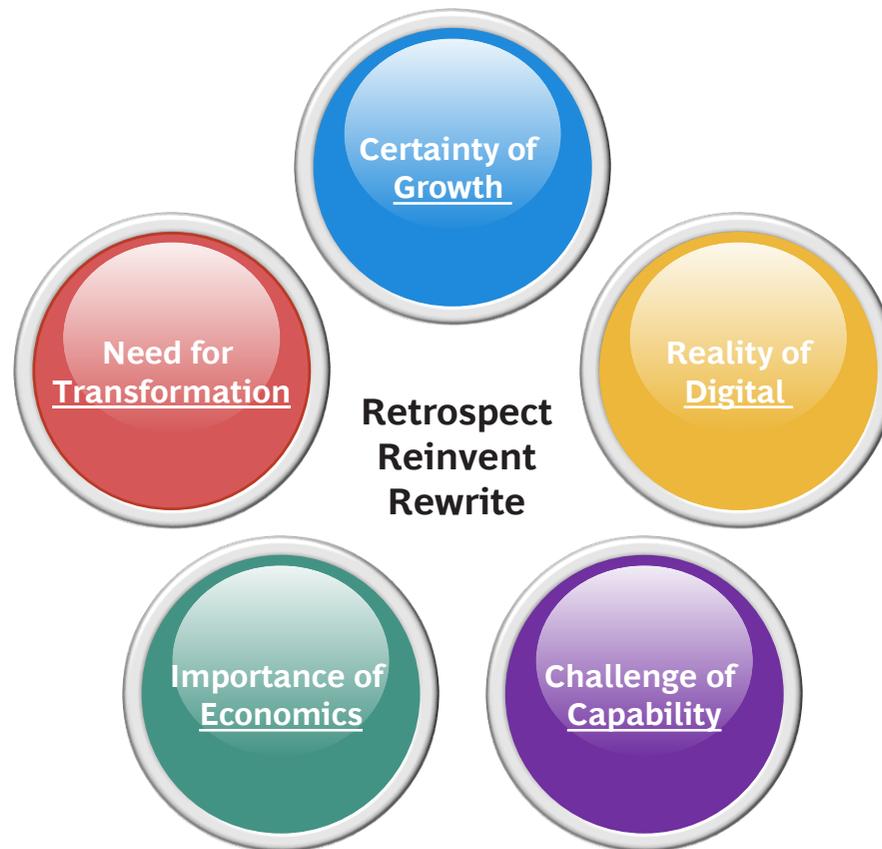
We would like to thank them for sharing their insights—we look forward to continued collaboration as we work towards accelerated performance in retail.

Kumar Rajagopalan,
Chief Executive Officer
Retailers Association of India

Amitabh Mall,
Partner and Director
The Boston Consulting Group

Retrospect, Reinvent, Rewrite

Based on interviews with 20 leaders at the forefront of Indian retail, BCG global experience as well as proprietary data and analysis, this report captures key trends across five themes. Over the next few pages, key insights and perspectives on these trends have been shared.



This report is divided into two chapters:

Chapter 1: Insights and Implications

- Summary of insights on trends across the five themes and their implications for retailers

Chapter 2: Leadership Perspectives

- Perspectives from the forefront—highlights from interviews with CEOs of top Indian retailers

Chapter 1: Insights and Implications

Certainty of Growth

Overall Indian retail projected to **double to \$1 trillion** by 2020 from \$600 billion in 2015

- Retail market expected to grow by 12 percent in line with historical trends

Rapid growth in retail driven by four factors

- **Income growth:** ~3 times increase in average household income from \$6,393 in 2010 to \$18,448 in 2020
- **Urbanization:** 40 percent population to live in urban cities by 2020, up from 31 percent in 2010
- **Nuclearization:** Over 200 million households to be nuclear by 2020—with 25-50 percent higher consumption per capita spend
- **Attitudinal shifts:** 75 percent of population by 2020 will belong to Generation I¹ with markedly higher consumption levels

Modern trade expected to **grow 3 times to \$180 billion** by 2020 from \$60 billion in 2015

- Traditional trade projected to grow at 10 percent per annum²
- Modern trade projected to grow at almost twice this pace

Three key trends to drive this growth in modern trade

- **Rapid consumer evolution:** Greater brand recognition, trading up, need for modern shopping environment
- **Supply-side evolution:** New entrants, new formats and differentiated strategies
- **Positive regulatory environment:** Reduction of multiplicity of taxes, promise of increasing ease of doing business

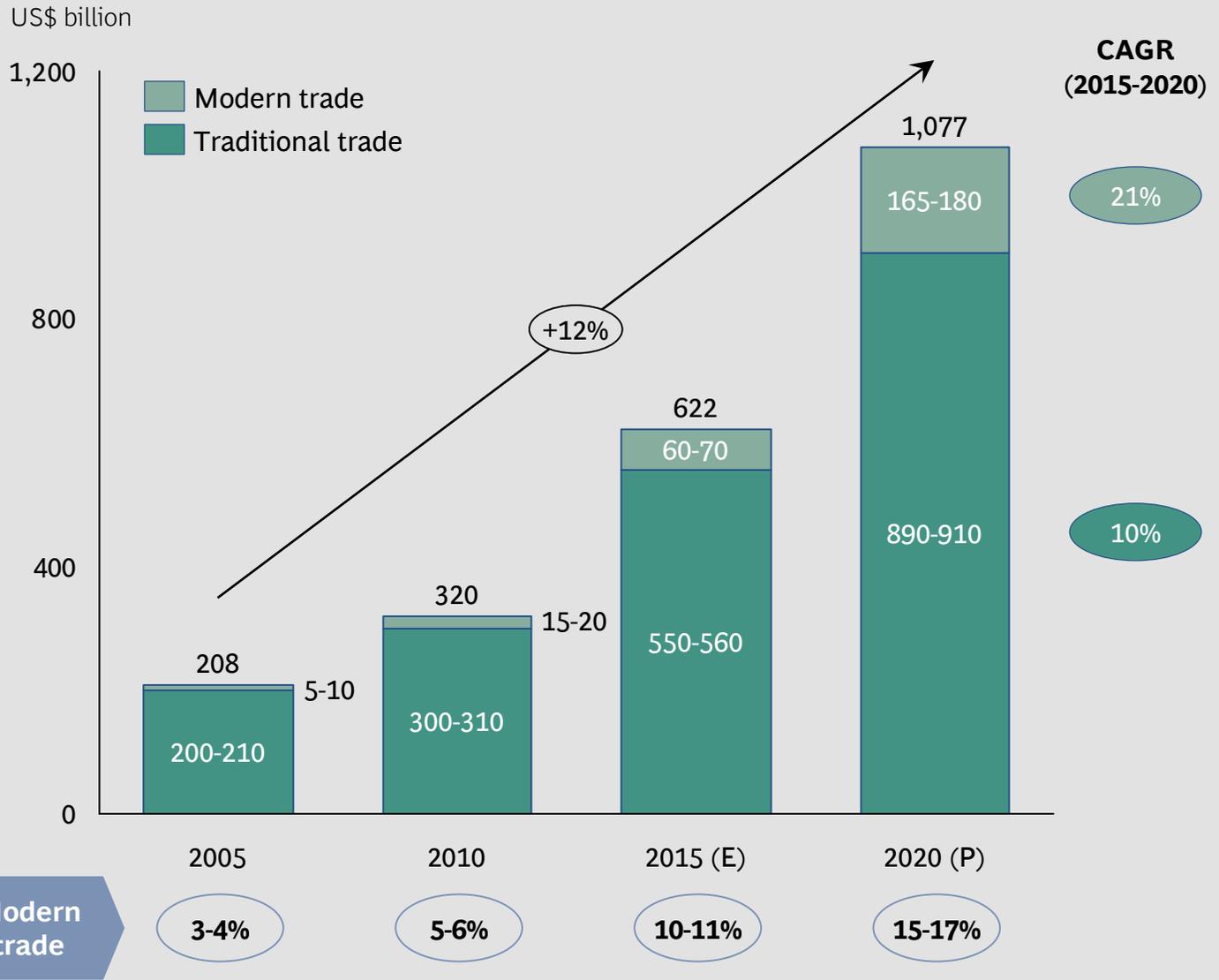
¹Individuals who have grown up in the liberalized economy (<14 years of age when economy started opening).

²At constant currency, i.e. real growth rate at 2010 constant prices.

Key Implications for Indian Retailers

- Sharply identify emerging opportunities across geographies and customer segments; be clear on what not to chase
- Constantly readjust propositions to remain relevant, with rapid reinvent-test-rollout model
- Allow for experimentation; be prepared for both successes and failures that drive innovation

Modern Trade to Grow Twice as Fast as Traditional Trade



Source: BCG analysis.

Reality of Digital

E-commerce market in India expected to **quadruple to \$60-70 billion** over the next 5 years, driven by faster growth in goods than services

Internet users expected to increase **3 times from ~200 million in 2014 to ~600 million by 2020**

- Increased **proliferation of smartphones** from 120-140 million in 2014 to 600-700 million in 2020
- **Lower cost of connectivity** and improved quality
- **Expanded reach** in lower tier cities and rural areas due to investments in network infrastructure

Customers attracted to e-commerce because of **superior value proposition** on several counts

- Broader assortment
- Higher discounts
- Greater convenience

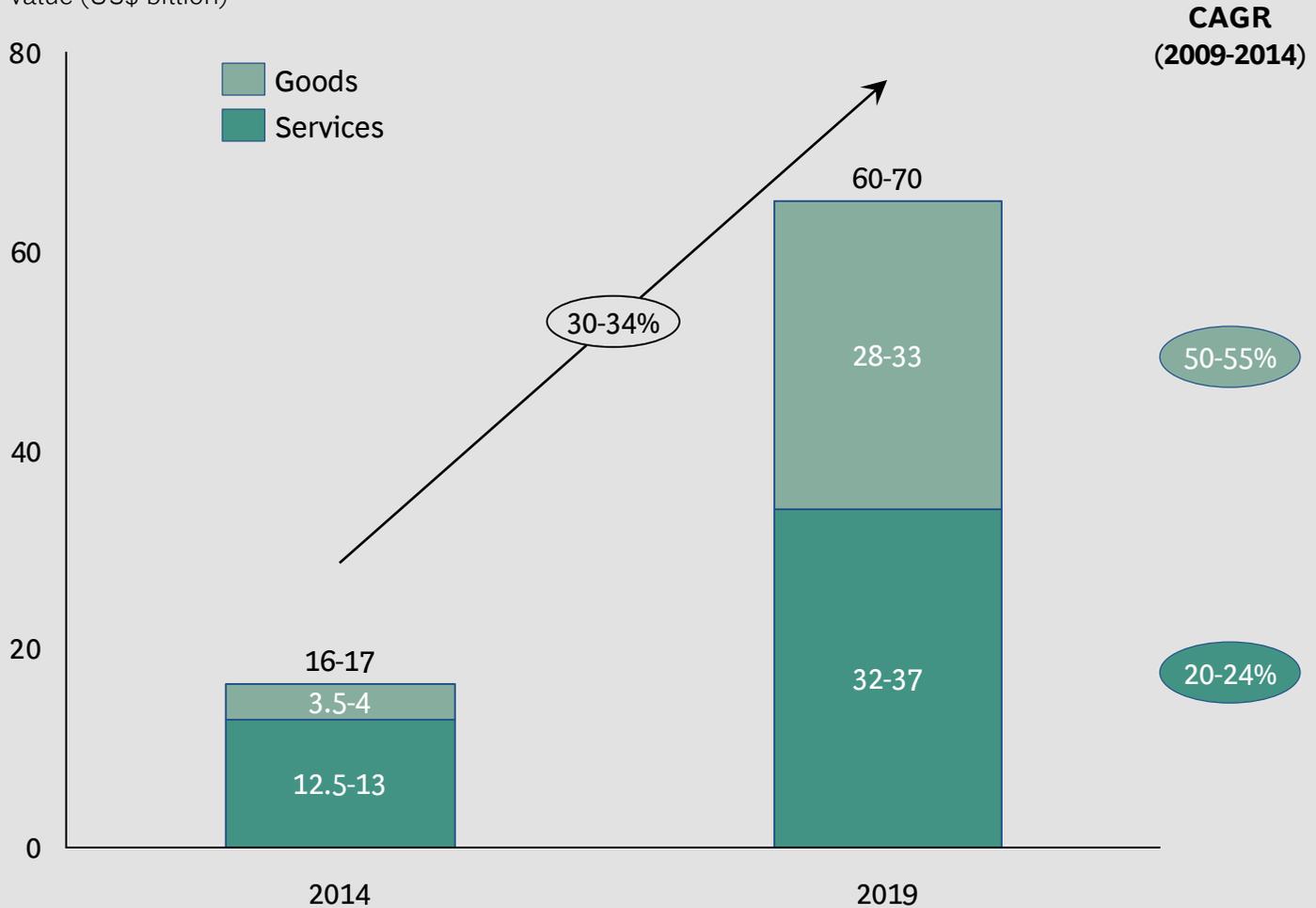
Efforts by players to develop **payment channels** (cash on delivery, mobile wallets) and streamlined **logistics infrastructure** to also aid e-commerce growth

Key Implications for Indian Retailers

- Proactively conceptualize and execute a digital strategy with clarity on why shoppers purchase online
- Smartly leverage social media to drive word of mouth
- Design a seamless and connected customer journey as shoppers migrate across channels

India E-Commerce Market to Reach \$60-70 Billion by 2019

E-commerce transaction value (US\$ billion)



Note: 2018 INR to \$ = 1/60.

Sources: BCG IAMAI 2014 report; Forrester, EM, eMarketeer, Ovum, ITU, Pyramid, BCG analysis.

Challenge of Capability

Promise of **omni-channel** increasingly relevant, even for brick and mortar retailers

- Customers do not distinguish between online and physical channels while shopping, but expect a **seamless experience**
- Traditional strengths and **expertise in retail insufficient** to deliver quality omni-channel experience

Well conceptualized **talent management** strategy critical to revitalize customer journey across channels

- **High attrition** at the front-end as opportunity sets expand for individuals
- Limited capabilities in the middle and top management due to **inadequate specialized training and depth of experience** in the sector

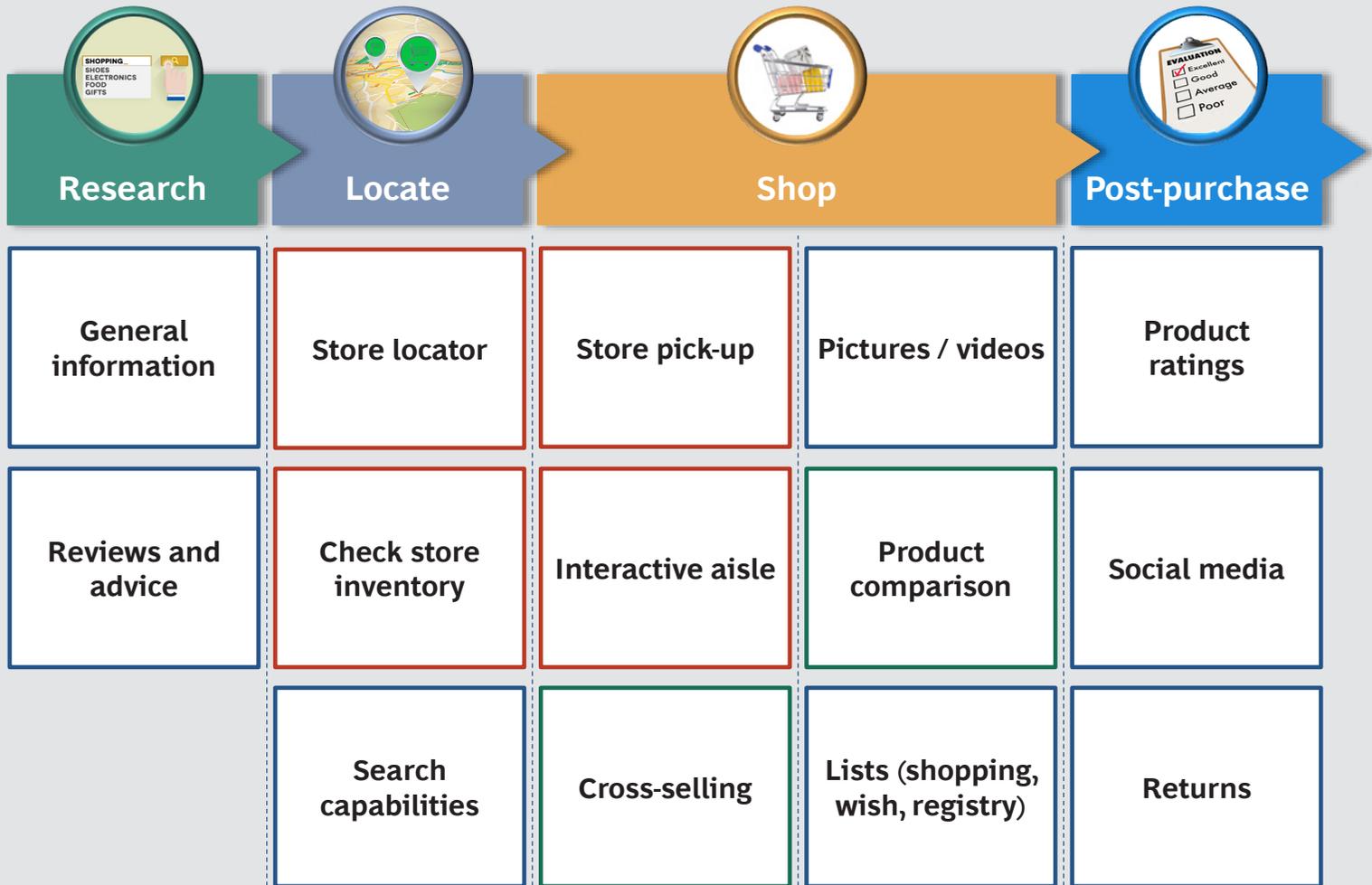
Supply chain requires evolution as modern trade grows exponentially

- **Low end-to-end visibility** of inventory flow, results in **long lead times** to respond to demand
- **Infrastructure challenges** make physical execution difficult

Key Implications for Indian Retailers

- Develop a comprehensive omni-channel offering which interacts with customers along the entire purchase pathway
- Adopt a targeted approach to training, appraisal and retention of leaders and employees while recognizing functional and regional variation
- Build a demand-driven supply chain anchored in real time flow of information

Omni-Channel is a Critical Capability to be Built Along the Customer Purchase Pathway



Available only to omni-channel retailers

Available to both omni and e-tailers but omni has an advantage

Available to both omni and e-tailers

Source: BCG analysis.

Importance of Economics

Several economic challenges plague Indian modern trade on **both demand and supply side**

On the demand side

- **Throughputs still not high** enough as the Indian consumer gets used to modern trade
- **Pricing and promotions often poorly executed**—customer willingness and ability to pay not leveraged adequately

On the supply side

- **Real estate costs** and rentals highly inflationary
- **High COGS** due to low bargaining power with suppliers due to limited scale
- **High cost supply chain** due to poor connectivity, out of stocks, excess inventory

Key Implications for Indian Retailers

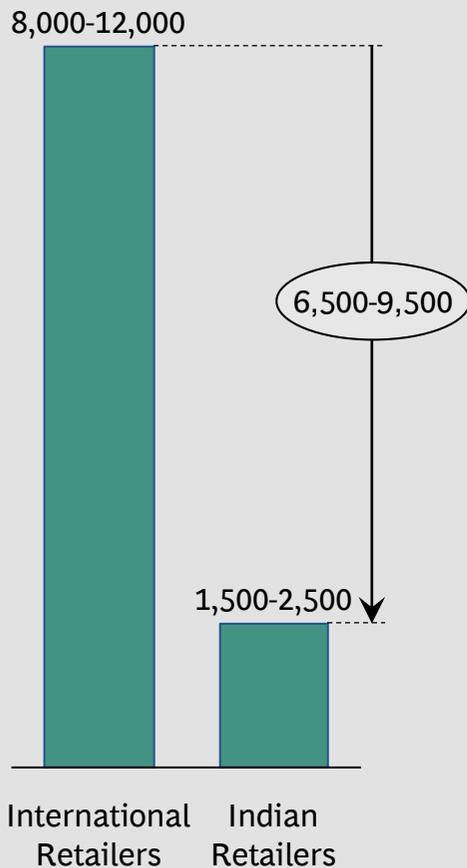
- Develop clear proof of concept that delivers the right profitability
- Attack the throughput problem first—costs and margins will follow

Several Structural Challenges in Economics of Indian Retail

Example: Food & Groceries Retail

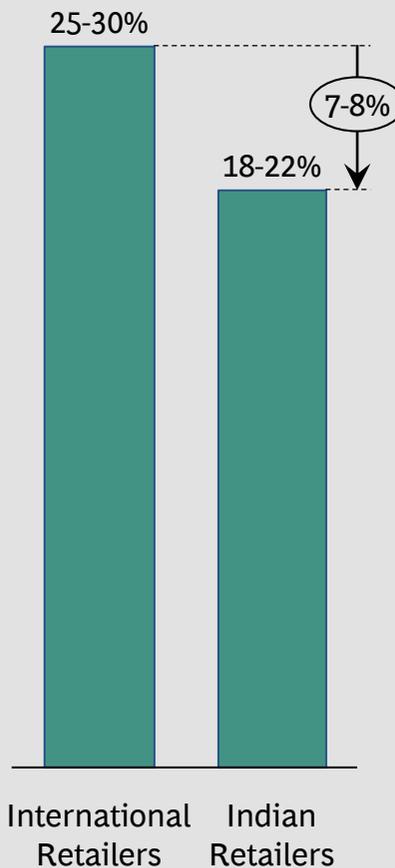
Lower sales throughput

Sales per sq. ft. (in Rs.)



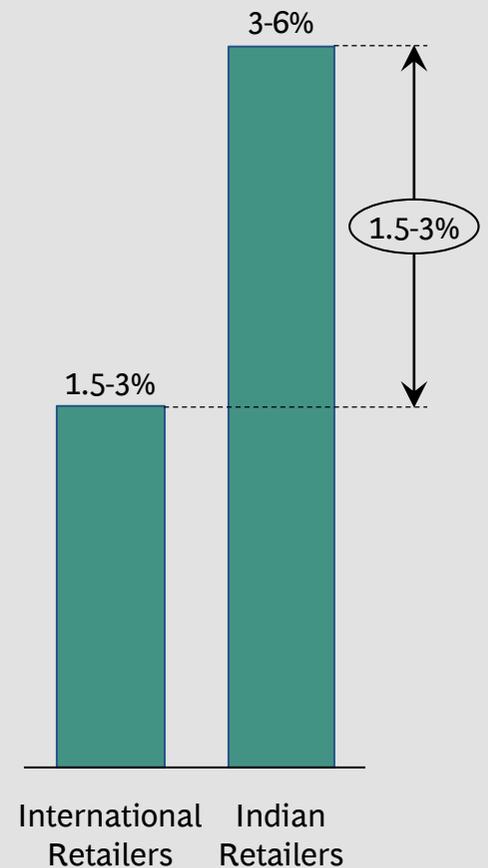
Lower gross margins

Gross margins % sales



Higher rentals

Rentals as % sales



Source: BCG analysis.

Need for Transformation

In the spirit of retrospect, reinvent and rewrite, retailers should aim for **fundamental transformation**, not incremental changes

- Optimally avail the remarkable growth opportunity
- Operate in the new digital reality serving empowered consumers
- Build capabilities in quality omni-channel experience, talent management and supply chain optimization
- Recognize the importance of economics and prioritize profitability

This requires working on four pillars simultaneously

- **Fund the journey:** Generate cash quickly from existing operations by relooking at core business
- **Win the medium term:** Identify the truly winning consumer proposition for the next 6-8 years and align the operating model
- **Take measured bets:** Invest in 2-3 emerging but important trends
- **Enable the transformation:** Invest in people and technology to improve efficiency, productivity and morale

BCG Transformation Framework in Retail

Fund the journey

Extracting cash from the business to fund future growth engines and experiments

- 1 Retail pricing strategy
- 2 Demand driven supply chain
- 3 Margin enhancement through COGS reduction

Win the medium term

Developing a differentiated offering to build medium term competitive advantage

- 4 Re-invent core banner proposition
- 5 Omni-channel management
- 6 Advantaged business model

Take measured bets

Evaluate emerging trends, invest light and early behind them now

- 7 Digital experience
- 8 Brand advocacy

Enable the transformation

Invest in skills and technology with an integrated business view

- 9 Leverage technology for agility
- 10 Organization structure, span and influence

Source: BCG analysis.

Chapter 2: Leadership Perspectives



Ajay Kaul
CEO, Jubilant

Certainty of Growth

*"In times when the economy is tight, we face the brunt of lower discretionary spend. But right now, we are feeling **very positive about the future** and our industry."*

Reality of Digital

*"The Indian consumer is on the **digitization cycle**—it is irreversible... it is causing habit changes which are undiscovered and will provide multiple opportunities to engage with."*

Need for Transformation

*"**Consumers** are categorically **democratizing consumption**—critical to break stereotypes in our mind."*



Ashish Dikshit
CEO, Madura Fashion and Lifestyle Limited

Reality of
Digital

*"In the short term before the value equation in consumers' mind gets redefined, **offline retailers still have an edge** in product and customer service experience over online."*

Challenge of
Capability

*"Our **supply chain** is robust and being in the business for long helps—it will be the **critical building block for the future.**"*

Importance of
Economics

*"We can get the capital if we deserve it—we have in the past **provided superior returns on capital** and hence have the shareholder confidence to back our growth & innovation plans."*



Ashutosh Garg
Founder & Chairman, Guardian LifeCare

Certainty of Growth

*"As a nation we are adding 25 million + consumers every year with **more disposable incomes**—growth in India will be a way of life."*

Reality of Digital

*"The pharmacy retail business works a lot on 'trust' and hence channel, product and experience fatigue does not set in too easily. The digital channels will **need to create that trust to win**—and it will take some time and not just discounts."*

Importance of Economics

*"The 'colour' of money is the same—**capital to grow the industry** must be welcomed."*



Atul Ahuja
Vice President—Retail, Apollo Pharmacy

Reality of
Digital

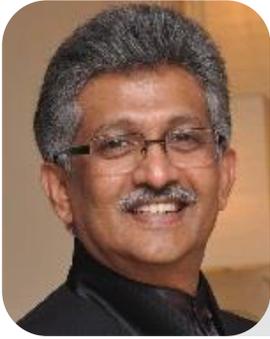
*"In pharma, categories which are advocacy and advice driven and not prescription driven will do well. Digital also opens up access to **categories** which are **in the personal space.**"*

Challenge of
Capability

*"Consumers are expecting a **more professional product manager** in the store—if you can't present a category well, don't show it."*

Need for
Transformation

*"Omni-channel has been experimented in the pharma space earlier as well—needs **the rigour of execution** to see through to success."*



B. S. Nagesh

Founder, TRRAIN, Non-Executive Vice-Chairman, Shoppers Stop

Challenge of Capability

*"Investments in technology are critical. However, **big data** cannot replace customer touchpoints. We need to ensure that we continue to talk to our customers."*

Importance of Economics

*"New ways to **create productivity and efficiency** are required; traditional cost-cutting may not work."*

Need for Transformation

*"Brick and mortar is still 80-85% of the market—players need to focus on **transforming this core** to provide a better customer experience which may not be possible with online."*



Bhaskar Bhat
Managing Director, Titan Industries Limited

Certainty of Growth

*"India opportunity is not only massive in the future but it is large even now. Aspiration of the consumers has **no reverse gear.**"*

Challenge of Capability

*"Retailers need to become **more relationship focused** rather than only being transactional."*

Need for Transformation

*"Imperative is to have a bit more of **the science of retailing**—both in floor management as well as shopper management."*



Himanshu Chakrawarti
CEO, The Mobile Store

Certainty of Growth

*"There will be growth in the market, but **not everybody will succeed**. There will be winners and losers."*

Challenge of Capability

*"Indian retailers will have to adopt **a cohesive digital strategy**. They cannot cut and paste from global benchmarks since they do not have the scale required."*

Need for Transformation

*"We need to **give the customer a compelling reason to transact**."*



J Suresh

Managing Director & CEO, Arvind Lifestyle Brands Limited

Reality of Digital

*"The online players today are playing a **dual role of e-commerce players and technology players**, with a focus on monetizing their tech platform. To succeed, they will need to be clear on their strategy."*

Challenge of Capability

*"Talent acquisition needs to be a big focus, with more emphasis on getting **quality talent vs. quantity**. Given the talent shortage, the thinking needs to change—need to hire those with raw talent and then groom them."*

Importance of Economics

*"The focus so far has been on expansion, i.e. creating new assets for growth. Going forward, the **focus** needs to be **on efficiencies** and sweating existing assets."*



Kabir Lumba

Managing Director, Lifestyle International Private Limited

Certainty of Growth

*"The market in India is immense—there are **enough customers to tap** in each segment & format of the retail market."*

Reality of Digital

*"**Digital** has clearly expanded the market reach and added a lot of excitement—it has helped in **breaking monopolies** of the incumbents."*

Challenge of Capability

*"Retail is a **common-sense** industry—if you have talent and intuition, you can learn & **grow on the job** very easily ... what is critical is to identify this attitude."*



Krish Iyer

President & CEO, Walmart India Private Limited

Reality of Digital

*"Current day online business models have **low profitability** but the **anywhere, anytime consumer** is here to stay."*

Challenge of Capability

*"Developing talent is a key pre-requisite in Indian retail in terms of both **front-end talent and merchant talent.**"*

Importance of Economics

*"China is far ahead of us in terms of real estate development and infrastructure: **sales productivity in India is much lower.** This coupled with high rentals puts pressure on profitability."*



Rafique Malik
Managing Director, Metro Shoes

Certainty of Growth

*"The overall trajectory for retail is on a growth path: outlook for GDP is positive, **brand acceptability in tier 2-3 cities**, and retail spaces in high street locations are expanding."*

Reality of Digital

*"Greater connectivity, **proliferation of smartphones**, nuclearization, working women and lack of time will drive online shopping."*

Challenge of Capability

*"Our key imperative is to **deliver a seamless and omni-channel quality customer experience** such that shopping online and offline feels the same. Equally, **talent management** is a concern: attrition rates are high, skilled manpower takes experience and time to build."*



Rahul Mehta
President, CMAI

Reality of Digital

"The consumer's online buying behavior is based on **three fundamental pillars—convenience, price and range**. So far, the 'price' factor is the primary driver of online business in the market. They will have to start emphasizing the other pillars—range and convenience."

Challenge of Capability

"A key to realizing the omni-channel dream (or vision!) would be the speed with which **back end inventory management** is integrated into store operations—i.e. how quickly can you make the '**endless aisle**' concept a reality."

Importance of Economics

"To my mind, **profitability pressure** is obviously the biggest pressure point. There is **over-reliance on the 'sale' concept**. Structurally, you are heading for a P&L where, instead of selling 60 to 65% of men's wear at full price, the industry is at 45%."



Rajesh Jain
Managing Director & CEO, Lacoste

Certainty of Growth

*"We are extremely positive about the Indian consumption story—specially in the premium segments of the market. Our performance in India continues to be strong both from a **growth & profitability perspective** and all growth capital is self created."*

Reality of Digital

*"The digital wave in India will be strong and change the way the game is played. Currently, the competition is **not between online and offline channels**, its a war **between discount and non-discount sales.**"*

Challenge of Capability

*"In the retail industry products need to be available to the right customer in the right place at the right time: we need a very **robust & adaptive supply chain.**"*



Randall Guttery
CEO, Reliance Retail

**Certainty of
Growth**

*"The **younger generation in India** is going to be a **true game changer**—they are going to expect more products, more efficiency, more excitement & more engagement."*

**Challenge of
Capability**

*"There is some form of a **lack of supplier assistance to modern trade**: somewhere they will have to accept that this is the way forward."*

**Need for
Transformation**

*"As FDI opens up, it will expand consumer choice and allow us **more scope to innovate**. The magic is not about taking an order—it is about fulfilling the delivery promise."*



S. Subramanian
CEO, Kaya

Reality of
Digital

*"Online consumers will be more **mature** in times to come—will likely spend less time browsing for deals, and will want to buy and complete the transaction quickly. They will also **want higher serviceability.**"*

Challenge of
Capability

*"It will be **critical to have omni-channel presence** including presence in mobile with right kind of gateways for easy access."*

Importance of
Economics

*"There will be **increased focus for online to demonstrate profitability**, not just growth, very similar evolution to what happened to modern retail, where focus earlier was on growth but now is on establishing profitability—building loyalty, keeping costs under control."*



Sadashiv Nayak
CEO, Future Value Retail Limited

Certainty of Growth

*"The Indian market opportunity & shape is changing by leaps and bounds. We are often surprised by how some categories are experiencing a **very different nature of consumption** and choice."*

Reality of Digital

*"The **premium on in-store excitement** is now higher—post the digital disruption, customers expect more from physical stores."*

Challenge of Capability

*"The whole **ecosystem** in retail needs to build capabilities to **move forward at the same acceleration gear**—it can't be done by a single banner & associated suppliers on their own."*



Sathish Babu
Founder & CEO, Univer Cell

Reality of Digital

*"The **online** growth in mobile devices is a **disruption driven purely by price**. They have not provided additional convenience or service. A retail store provides assurance of quality and an interactive shopping experience."*

Challenge of Capability

*"Shopping in a store needs to be a memorable experience—just talking features or price is not good enough, **the staff has to be able to tell a story**."*

Importance of Economics

*"Malls are still too expensive even as the **footfalls are declining**. There is a correction required."*



Shailesh Chaturvedi
CEO, Tommy Hilfger

Certainty of Growth

*"I am optimistic about the outlook of retail in India, there are several **consumption enablers** in place—the critical ones being the Indian appetite to trade up, monetary loosening & rational tax structures in the future."*

Reality of Digital

*"Digital is a way of life for retailers, **not just e-commerce**: a force for driving efficiency in operations and managing human resource besides a marketing and customer outreach channel."*

Importance of Economics

*"The future of retail will compose of 3Ds: Daulat (wealth sharing within the retail ecosystem), **Depth (in channels & category execution)** and Digital (significant part of the operating model)."*



Shital Mehta
CEO, Pantaloons

Certainty of Growth

*"The elephant is going to dance: **Buoyant future** for Indian retail lies ahead. I am extremely excited with the next generation of towns showing extremely positive signs."*

Challenge of Capability

*"The amalgamation of the virtual and real world is inevitable. **Multi channel will co-exist with pure-play e-commerce** with healthy tension between the two channels but overall very positive for the Indian consumer."*

Importance of Economics

*"In times to come, there will be calibrated **profitability centric expansion** across segments and markets. The right opportunities in India will always attract the right capital."*



Vishak Kumar
CEO, ABRL

Reality of
Digital

*"E-commerce is still very young and as a process of natural industry evolution, players will **figure out the profitability question** and set investor expectations accordingly."*

Challenge of
Capability

*"The **supply chain** in India is **not yet fully built for modern trade**; historically, business models were designed for traditional trade."*

Need for
Transformation

*"One area that does concern me is the **lack of differentiation in the space**—retailers will need to proactively think about their concept & unique appeal to consumers over time."*

FOR FURTHER READING

The Boston Consulting Group published other reports and articles on related topics that may be of interest to senior executives. Recent examples include:

Retail Transformation—“Love it or hate it, but you can’t ignore it”

A focus by The Boston Consulting Group, in India Retail Report, January 2015

India at Digital.Bharat—Creating a \$200 billion internet economy

A report by The Boston Consulting Group, January 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

Changing your orbit—The Handbook for Transformation in FMCG and Retail Business

A report by The Boston Consulting Group, June 2014

From Buzz to Bucks—Capitalizing on India’s “Digitally Influenced” Consumers

A focus by The Boston Consulting Group, April 2013

Retail 2020: Competing in a Changing Industry

A report by The Boston Consulting Group, August 2012

NOTE TO THE READER

About the Authors

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