Foreword

Dear reader,

We are delighted to present the July-September 2015 edition of The retailer, our quarterly publication in the consumer products and retail sector.

The first article provides an overview of challenging potential offered by India's online grocery market. It also briefly covers the segment's market potential, growth drivers, trends and business models.

The second article provides a perspective on how technology can enable distribution channels deliver better. It highlights some of the key features across work streams, which a company could develop across distribution channels.

The third article in this edition discusses how organizations need to define analytical aspirations and achieve level of maturity to deliver business goals. It talks about examples/tools on how analytics can assist retailers in achieving some of its business goals.

In our interview feature, Mr. Shashwat Goenka, shares his views on the Indian retail market, including how he expects the consumer and market to evolve in future.

Finally, we continue our featured section, the “Innovation board”, where we attempt to present to you snapshots of recent innovations, which have emerged in the Indian and global retail and consumer market.

We hope you enjoy reading this issue of the retailer and look forward to your valuable comments and feedback.

Pinakiranjan Mishra

Partner and National Leader, Retail and Consumer Products
EY, India
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Involve yourself:
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How should retailers blend online grocery in their strategy?

Online grocery: small but rapidly growing segment

India is among the top-10 food and grocery markets in the world, with an estimated size of INR22.5 trillion (~US$350 billion) in 2015. The market has been growing at 10%-12% CAGR over the past five years and is likely to see similar growth going ahead.

Food and grocery is the largest segment in the overall retail market in India, accounting for close to 60% in 2015. Despite being the largest segment, the presence of organized players is still very low at less than 5%. The low share can be attributed to factors such as stiff competition from extremely fragmented unorganized market, commoditized nature of products, price sensitive demand, considerable investments needed to set up efficient distribution network etc. One of the emerging trends in food and grocery retailing is online.

The Indian e-commerce market is estimated to be around INR1,250 billion (US$20.7 billion) in 2015. The online grocery retailing market is estimated to be around INR40 billion (US$0.6 billion) in 2015, making up for less than 1% of the overall food and grocery sales. Although at a nascent stage, the online grocery retailing market is growing at a rapid pace of more than 35% CAGR.

China is the largest market; why is US still so small?

China is the largest online grocery market in the world with an estimated size of US$41 billion in 2015 and is estimated to grow at 34% CAGR to US$178 billion by 2020. The US, ranked fourth on the list with market size of around US$7 billion in 2015. Online grocery sales in the US are expected to grow at 21% CAGR to reach US$18 billion by 2020.


### Influencers for online grocery sales

<table>
<thead>
<tr>
<th>Parameter</th>
<th>US</th>
<th>China</th>
<th>India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of organized segment in total food and grocery retail (%)</td>
<td>85</td>
<td>&gt;50</td>
<td>11</td>
</tr>
<tr>
<td>Urbanization (% of population living in urban areas)</td>
<td>82</td>
<td>56</td>
<td>33</td>
</tr>
<tr>
<td>Labour costs (US$ per hour)</td>
<td>~36</td>
<td>&lt;5</td>
<td>&lt;5</td>
</tr>
</tbody>
</table>

Note: Hourly compensation costs in manufacturing in US$ in 2013


Online grocery sales in China are estimated to account for close to 3% of overall grocery market in 2015, while they make up for just around 1% in the US. The reduced share in the US is in sharp contrast with the high levels of internet penetrations the country enjoys. This may be attributed to high levels of organized grocery retail, urbanization and labor costs affecting last mile delivery. Moreover, factors such as traffic conditions in cities, commute time to reach a store etc., influence consumer preference for online buying. According to a report from McKinsey, 40% of Chinese consumers buy food online, as compared to just 10%-15% of their counterparts in the US.

What makes online grocery shopping popular?

The rapid growth in online grocery retail can be attributed to various factors such as demographical profile of consumers, number of working women, availability of internet connectivity, usage of smartphones, convenience etc. Traditional in-store buying of grocery is becoming more cumbersome given the fast pace of lives, especially in metro cities. Moreover, buyers are overcoming the biases of wanting to touch and see food and grocery products before buying. Consumers, pressed for time, are looking for modes which offer increased convenience and save time. Online grocery buying offers exactly that and hence, is gaining popularity across consumer segments.

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Growth drivers for online grocery retail

<table>
<thead>
<tr>
<th>Demand Side</th>
<th>Supply Side</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demographics</td>
<td>Mobility</td>
</tr>
<tr>
<td>Large Population - ~1.2 billion</td>
<td>By 2020</td>
</tr>
<tr>
<td>By 2020,</td>
<td>* Internet users to increase 3X to ~600 million.</td>
</tr>
<tr>
<td>&gt; 75% of less than 50 years</td>
<td>* Smart phones usage to grow 5X to 600-700</td>
</tr>
<tr>
<td>Household incomes to grow 3X to ~US$ 18,000</td>
<td></td>
</tr>
<tr>
<td>Over 200 million nuclear households</td>
<td></td>
</tr>
<tr>
<td>&gt; ~50% of population in middle class.</td>
<td></td>
</tr>
</tbody>
</table>

Source: BCG Report, EY Analysis

Quick facts about online grocery market in India

<table>
<thead>
<tr>
<th>Who is buying</th>
<th>When consumer buy?</th>
<th>What is being bought?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Women - 35-40% of shoppers, ~60% of transaction amount</td>
<td>More than 80% of orders are for the same day delivery</td>
<td>Entire basket of goods that a typical household consume over a month</td>
</tr>
<tr>
<td>Professional - ~85% of buyers are between 22 and 45 years of age</td>
<td>~85% of orders are placed after midday</td>
<td>The top five categories make up ~55% of the transaction</td>
</tr>
<tr>
<td>Senior citizens</td>
<td>~10% of deliveries are done during 10 pm - 12 midnight</td>
<td></td>
</tr>
<tr>
<td>Institutional buyers</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Market surveys conducted by AaramShop and LocalBanya

The considerable growth potential, along with reduced entry barriers in terms of initial investments to host an online grocery portal has attracted several entrepreneurs as well as existing players.

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Business models are still evolving

Most of the online grocers follow typical e-commerce business models – marketplace and hub and spoke. In case of marketplace model, the online grocer does not hold inventory and just provides a platform where vendors can sell to customers. In case of hub and spoke model, the online grocer holds inventory. Online buyers have an option of choosing for home delivery or pick-up from store or a warehouse. In India, home delivery-based models are more popular as they address the basic need of convenience of an online customer.

Apart from popular business models...

### Marketplace
- Online grocer sources products just in time; does not hold inventory
- Delivers to customer

### Hub & spoke
- Online grocer or omni-channel player sources products and maintains inventory in warehouse
- Delivers to customer

### In-store pick-up
- Omni-channel player uses its own existing store for sourcing
- Customer pick-ups from the store

### Warehouse pick-up
- Online grocer or omni-channel player sources products and maintains inventory in warehouse
- Customer pick-ups orders from the warehouse

Source: EY Analysis

The considerable growth potential, along with reduced entry barriers in terms of initial investments to host an online grocery portal has attracted several entrepreneurs as well as existing players.

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... some players are experimenting with hybrid models

#### Aggregator model
- An asset light model, where the retailer just hosts an online portal
- Orders go directly to local stores from where the vendor delivers products

#### Hyper local delivery model
- Hyper local delivery and front-end logistics management services

#### Delivery at different locations
- Customers can offer multiple options to receive deliveries
- Corporate programmes - an online grocer offers discounts to employees of participating organizations if they choose to have their orders delivered to the work place

Source: EY Analysis

Most players promise same-day or next-day delivery; however, some players claim to offer delivery within few hours of placing the order. According to Mr. Singh, founder and CEO of AaramShop, “When a consumer shops on AaramShop.com, she gets to choose a retailer in her neighborhood that she wants to order from. The order goes to the retailer, who delivers the order and collects cash on delivery. This ensures that the order moves from the web to the consumers’ doorstep within 45 minutes, without the need to re-invent the supply chain and with no additional costs”.⁸

The delivery times vary depending upon various models followed by players. According to Snapdeal’s Bahl, “A marketplace model is most suited for this segment.”⁹ On the other hand, K. Ganesh, co-promoter of BigBasket¹⁰, feels marketplace restricts scalability. He says, “Since the ticket sizes are small, scale is critical to be successful in this business.” As Peshwa Acharya, former marketing head of Reliance Retail points out, “The marketplace model will not work in food and grocery retail, and the retailer has to invest double of what he would have invested in, say, apparel or white goods retail in terms of putting in place the logistics and supply chain.” The jury is still out on which is the best model for this category in India.
Everyone wants to eat a piece of the pie

Although, there is no clear winner in terms of which business model works best with online grocery retailing, number of players, following different models, have entered the market. According to USDA report\[^{12}\], online grocers increased from 14 in 2013 to 44 as of September 2014.

Currently, pure-play online grocery retailers are at the forefront of the boom in grocery e-commerce. Most of them limit their distribution to a particular city due to distribution challenges and considerable investments are required to enter new markets.

Some unconventional players in the segment include mainstream e-commerce players as well as large traditional brick and mortar retailers.

Considerable growth potential attracting investors

Stiff competition and relatively low-level of service/product differentiation make it crucial to gain economies of scale and attain sizeable mass to stay ahead of the peers. Consequently, players are eager to expand in existing markets/enter new markets. This has resulted into frenzy in funding and acquisition space as well.

Players diversifying into online grocery

<table>
<thead>
<tr>
<th>Large e-commerce players</th>
<th>Traditional brick&amp;mortar retailers</th>
<th>Unconventional players</th>
</tr>
</thead>
<tbody>
<tr>
<td>► Amazon launched KiranaNow, an express delivery platform in partnership with neighbourhood stores</td>
<td>► Reliance freshdirect</td>
<td>► Ola launched a delivery platform using its fleet of taxis in Bengaluru</td>
</tr>
<tr>
<td>► Flipkart launched F-Quick</td>
<td>► Tata My247market</td>
<td></td>
</tr>
</tbody>
</table>

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Deals in online grocery retailing segment

<table>
<thead>
<tr>
<th>Player</th>
<th>Deal</th>
</tr>
</thead>
<tbody>
<tr>
<td>PepperTap</td>
<td>US$1.2 million in 2014</td>
</tr>
<tr>
<td></td>
<td>US$10 million in 2015</td>
</tr>
<tr>
<td>Localbanya</td>
<td>US$20 million in 3 rounds since inception in 2012</td>
</tr>
<tr>
<td></td>
<td>Currently in final stages to raise US$15-20 million by end of 2015-16</td>
</tr>
<tr>
<td></td>
<td>Planning to raise additional US$35-40 million by end of 2015-16</td>
</tr>
<tr>
<td>BigBasket</td>
<td>US$10 million in 2012</td>
</tr>
<tr>
<td></td>
<td>US$35.8 million in 2014</td>
</tr>
<tr>
<td>ZopNow</td>
<td>US$10 million since inception in 2011</td>
</tr>
</tbody>
</table>

However, raising funds is not a cake walk for all online grocers. Several me-too grocery portals have started mushrooming, which offer very limited service differentiation. Finding investors and getting the right funding is a challenge for them due to lack of robust business case. Unavailability of funding has forced players, e.g., ShopVeg, a Mumbai-based grocer, to shut down its operations.

Ample opportunities, but not without risks

Online grocery retail offers significant opportunities; however, there are inherent risks involved in the segment. Some of the biggest challenges facing the segment will be managing supply chain and logistics and scaling up of operations. While setting up business in a single location may be feasible in the short run but building a big national brand is not an easy task.

Apart from funding, the segment has also reported several acquisitions:

► Godrej Nature’s Basket acquired Ekstop.com to expand its distribution reach in Mumbai
► Grofers acquired MyGreenBox to strengthen its hyper local delivery network
► BigBasket acquired hyperlocal delivery service provider Delyver to strengthen its last-mile delivery network

Source: News 13

Key challenges faced by online grocers

Apart from this availability of skilled manpower, rising labor costs are also some of the risks, which have a significant bearing on sustainability of operations.

**Despite challenges, online grocery holds huge potential**

While on one hand, online grocery offers significant growth prospects, on the other it is plagued with challenges in terms of wafer-thin margins and supply-chain related issues. With rising competition, the players are likely to get into price wars by offering deep discounts to gain increased market share. This will squeeze the margins and could force less competitive players to shut shops or get acquired by bigger players. For long-term sustainability, players would face an increased need to scale up quickly and differentiate through innovation. Innovation can be in terms of catering to specific customers and offering niche products or offering customized services. Like most sectors which eventually attain a certain size, consolidation is bound to happen. Although online grocery retailing is likely to see a churn, it will be one of the sectors to watch out for in the coming years.
Chinmay Ojha
Assistant Director

Chinmay Ojha, Assistant Director, Strategic Market Intelligence (SMI), EY - Chinmay has more than 10 years of experience across consulting, project management, business development and research & analysis with professional services firms including EY. He has worked on a range of projects involving growth strategy, marketing & sales strategy, market entry & assessment, and business plan analysis for the leading global and Indian consumer products and retail clients. Chinmay leads the CP/Retail SMI team in India and also helps in driving the thought leadership agenda of the CP/Retail sector.

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Inputs from Nivedita Ukidwe, Strategic Market Intelligence, EY Knowledge
Consumer Product (CP) companies are relentlessly striving to gain a competitive edge and increase market share. In a market increasingly influenced by vacillating consumer choices, business models are in a constant state of flux to score this competitive advantage.

Instant gratification is not soon enough. – Meryl Streep

Coupon discounted fast food delivered at the doorstep, downloadable books, instant messaging – consumers want what they want, and they want it right now. Companies, wholesalers, and retailers host their products on online marketplaces, which are accessible to consumers through PCs, mobiles, and tablets. Demand for consumer products tending towards real-time availability and delivery has led to an increased focus on distribution channels. Ensuring operational efficiency, and just in time inventory across distribution channels, is essential in order to not just survive, but thrive in a highly competitive market.

Distribution channels

Products travel from the producer to the consumer along distribution channels. Distribution channels in different types of markets support different types of retail models. Distribution channels in culturally diverse markets support traditional retail models. Traditional retail models are characterized by personalized service and convenience of home delivery and trust-based credit. Conversely, distribution channels in technologically mature markets support modern retail models. Modern retail models are characterized by frequent promotional offers on a wide variety of high quality brands.

It’s not that we use technology, we live technology. – Godfrey Reggio

Distribution management systems enable the distribution channel of a business. It is a specially designed platform to assist the supply chain to plan and manage the product lifecycle from manufacture to delivery. This can be achieved by capturing and communicating data points at each stage of the distribution channel. A DMS enhances information processing and reporting capabilities in conjunction with traditional systems by giving last mile visibility in the distribution cycle. This last mile visibility of products reaching end consumers affects production planning, scheme and promotion management, sales forecasting, and inventory management processes in the supply chain.
A variety of processes in the distribution channel can be enabled through distribution management systems. However, there are certain inherent risks manifested through these functionalities.

<table>
<thead>
<tr>
<th>Processes</th>
<th>Functionalities</th>
<th>Risks</th>
</tr>
</thead>
</table>
| Scheme and promotion management  | ► Design and deploy area-specific/zonal schemes and promotional offers for dealers and distributors  
                                           ► Manage incentive calculations for dealers based on sales volume achieved  
                                           ► Interface with ERP for incentive pay-outs | ► Implementing unauthorized schemes  
                                           ► Unauthorized or inactive schemes applied on bills  
                                           ► Schemes do not flow to requisite authorizers for approval  
                                           ► Bills are generated even after scheme budget is exceeded  
                                           ► Unauthorized promotions/sales deal to favor certain customers |
| Pricing, credit, and claim management | ► Set product-wise, batch-wise, and SKU-wise prices with requisite access and approval matrix enabled  
                                           ► Approve and reject credit release for blocked sales orders, discounted sale of old and damaged material, and sales returns | ► Unauthorized claims are processed  
                                           ► Pricing and credit information is not transmitted across the interface of the ERP and DMS completely and accurately |
| Sales force management           | ► Sales force commission processing  
                                           ► Sales force reports: sales, profit, commission  
                                           ► Sales history enquiries and reports | ► Inadequate access and security controls over commission processing of sales force  
                                           ► Excessive access of sales data to sales force within the region  
                                           ► Inventory pileup and stock-out at dealer level due to ineffective interface between systems, leading to faulty production planning and sales forecasting |
| Stock management                 | ► Instant reflection of sales against inventory  
                                           ► Monitoring of inventory pileup and stock-out at dealer level  
                                           ► Interface with production planning and sales forecasting |                                                                                |
| Order management                 | ► Entry and update of customer orders  
                                           ► Individual or batch printing of orders and other sales tickets  
                                           ► Purchase order and receipt processing  
                                           ► Recording and maintenance of customer deposits | ► Inaccurate capture of sales and purchase data  
                                           ► Unauthorized changes made to sales orders and customer deposit information |
### Processes | Functionalities | Risks
--- | --- | ---
Brand management | - Capture and track customer complaints, feedback, and their resolution  
- Interface with marketing team for promotional events driven through the sales force and regional offices | - Failure to effectively resolve complaints and manage escalations in a timely manner resulting in disgruntled customers |
User management | - User access management for dealers, distributors, sales force, and sales commercial team | - Changes to user access resulting in unauthorized sales order processing, credit release, pricing approvals, claim processing, and scheme processing |

Automating distribution channel activities through distribution management systems will allow for smooth operations and minimum loss of efficiency. However, in order to mitigate inherent risks in the distribution process, it is essential to implement a mix of manual and automated controls in distribution management systems. An effective integration between ERP systems and distribution management systems will allow reliable flow of information, finance, and products to the end consumers as well as distribution channels.

A recent Twitter and Nielsen Consumer Survey revealed that 79% of users access Twitter on their mobile phones and 64% of users use Twitter to follow a brand. The touch point for consumers with the brand is in their pocket and secondary sales channel is the last mile through which the product reaches the consumer. Recent trends point to faulty packaging and late delivery as chief consumer concerns. Brands are made and unmade on social media platforms where consumers air their grievances publicly and unapologetically.

In such a scenario, there is a need to achieve effective product pricing through cost-effective distribution. A robust technology that offers mobility to the sales force and data analytics capability to the supply chain can be a differentiating factor towards building and maintaining brand equity.

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### A product with better distribution will always win over a superior product with poor distribution or customer access. It’s not fair. It’s not right. But it’s reality.

- Stephen Davis

This is the information age, where consumers make purchasing decisions in a virtual marketplace with specially designed websites that spoon-feed price comparison among competing products. Consumers can compare air fares, holiday packages, insurance policies, credit cards and prices of electronic goods, among others. In such a price-conscious, consumer-centric economy, there is a need to achieve effective product pricing. Cost-effective distribution is one way of achieving that goal.
The smartphone revolution and regulatory changes are changing the way wholesalers, retailers, and manufacturers operate. There is a marked move towards consolidation of wholesale and redistribution services through large, professionally run groups to service extensive geographies and distribution networks. This may lead to a shift in bargaining power from the manufacturer to large wholesalers, which may in turn affect overheads.

In a crowded marketplace, retailers have taken to the internet to compete for the consumer’s attention. However, technology comes at a price and this is where the small retailers lose out. Small retailers have the lowest margins in the distribution, and hence they have limited budget to invest in technology. Regulatory changes such as the upcoming Goods and Service Tax (GST) and relaxed Foreign Direct Investment (FDI) regulations are expected to impact prices, profitability, business processes, and investments. It will change the way companies structure their warehousing facilities and distribution network across the country.

These changes pose a noteworthy challenge to existing and upcoming DMS technologies.

Nonetheless, recent trends in internet commerce and regulatory changes can scarcely be ignored by consumer products companies.
EY point of view

Leading consumer products companies are implementing e-Commerce platforms, ERP systems, Business Intelligence (BI) tools, Transportation Management systems, Product Lifecycle Management (PLM) systems, Distributor Management system (DMS), Customer Relationship Management (CRM) systems— all with a view to gain competitive edge in the market. It is not necessary to adopt every new-fangled technology. The integration between legacy systems and modern solutions needs to be streamlined and optimized during each phase of the system development lifecycle (SDLC) or before implementation of packaged solutions.

Companies may adopt the following for a successful distribution channel technology enablement:

- Identify distributor channels (primary as well as secondary)
- Map distribution processes and the technology requirements
- Integrate traditional systems with new technologies
- Introduce mobility to connect with channels
- Use behavioral analytics to manage distribution
- Identify controls—manual as well as automated
- Embed information security controls within the system
- Deploy third-party tools to control leakage
- Establish continuous control monitoring

Companies rely on differential knowledge of distribution channels to build competitive positions in the market. Focused solutions and their effective implementation will help companies achieve trustworthiness and improved delivery in a complex market that is constantly disrupted by technology.
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Indian Retail: coming of age

Is digital influence on in-store purchases growing at a rate faster than anticipated? Are virtual perimeters set up by retailers contributing to sales and enhancing customer engagement? Are traditional retailers adopting digital channels to have an integrated business?

All evidence suggests mobile technologies will have a radical impact on consumer and retailer behavior. This disruptive change has posed a serious threat to traditional retailers by online retailers and forced them to evolve, develop business models to preserve and grow their share. In India we have several unique factors (ratio of unorganized to organized retailing, internet user base ~ covering 25% of the population, smartphone proliferation, likely to witness a different online to in-store purchases relative to global average) to script a story of digital investments combined with business intelligence systems to provide an increased degree of organized retailing and yield an incremental return for individual organizations.

In order for retailers to be effective, there is a need to examine factors that will propel use of mobile technologies by retail customers. We explore traditional retailers targeting fast-evolving India internet base, and leverage various analytics techniques to be effective (sales, customer experience, optimize network of retail outlets). Growth in opted-in and online customers reduce digital divide and have extended marketplace for retailers. These interactions have already helped overall market size to increase significantly from ~ US$0.6 trillion to more than US$1 trillion from a few years ago. Every organization needs to actively maintain balance between various formats including online. We are at an inflection point where digital is just as fundamental as traditional formats to make desired impact. India has seen meteoric rise of internet organizations (several valued at more than US$1 billion) that will have a strong trajectory of growth and be relevant in the marketplace. Organizations have mature transaction systems and are now capable of having advance business intelligence systems to have a segmented view by demographics or customer (micro market view), assess potential demand, and insightful dashboards that provide actionable intelligence.

Let us start with factors that prevail in the sub-continent. Why will current conditions encourage retailers to believe that engaging with connected customers will bring about a step change in the ecosystem? Here are key facts and projections that are pivotal to the transformation force India is experiencing:

1. Increased prospects: The retail market in 2015 was valued at US$600 billion and is expected to grow to US$1 trillion by 2020 at a growth rate of more than 10% p.a.

2. Country attractiveness: India is among the top nations in terms of GRDI (Global Retail Development Index) ranking.

3. Online volume: More than 35 million people are currently buying online and are expected to exceed 100 million by 2017.
4. **Headwinds:** Sales per sq.ft. and gross margins are lower than international average, while rentals are higher on percentage of revenue basis and not absolute terms. Supply chain and logistics cost go up to 10% as compared to 5% in mature markets.

<table>
<thead>
<tr>
<th>Productivity</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales per sq ft</td>
<td>Supply chain and logistics costs</td>
</tr>
<tr>
<td>Gross Margins</td>
<td>10%</td>
</tr>
<tr>
<td>India Average</td>
<td>Global Average</td>
</tr>
<tr>
<td>India Average</td>
<td>Global Average</td>
</tr>
</tbody>
</table>

Source: Live Mint
http://www.livemint.com/Industry/5Xu8P8GIz2k8XEsz7Xk74O/Indian-retail-market-to-double-in-next-5-years-report.html

5. **Confidence challenge:** India drops to the eleventh position. India maintained a position in the top 10 in the FDI confidence index since 2002

**FDI Confidence Index drop from top 10 to 11**

Source: FDI Confidence Index - A.T. Kearney

6. **E-commerce trajectory:** India is expected to experience growth on the back of robust investment activity in the sector – from ~US$16 billion to more than US$100 billion by 2020.

**Indian e-commerce sector (in billion dollars)**

Source: EY Research, Nasscom Survey
http://survey.nasscom.in/india-be-100bn-ecommerce-industry-2020

7. **Growth segments:** In the future, growth will be led by segments such as grocery, jewelry and furniture.

**Grocery**
The online grocery market is growing at 25-30% annually in metropolitan areas and large cities

**Jewelry**
Traditional jewelers expect online sales to account for much as 20% of its sales in two to three years from about 1% now

**Furniture**
Furniture e-tailing is pegged at a $200 million in e-commerce market in India and is growing at around 10% annually.

Source: EY Analysis

8. **New business models:** e-commerce has accelerated pace of business model changes. Physical retailers are ushering in online formats to combat competition, leading to slow additions of new stores.

**Company Name**
- Shoppers Stop (K Raheja Group venture)
- Spencers Retail (part of RP-SG Group)
- Reliance Retail
- Aditya Birla ‘More’

Source: Company websites, EY Analysis

9. **Retail frauds:** India has the dubious distinction of highest retail shrinkage rate in the world. This should encourage retailers to adopt e-Commerce channels to connect with customers.

**Reason for shrinkage** | **Impact of going online**
--- | ---
Employee Theft | Reduced
Shoplifting | Eliminated
Shipping/Warehousing | Reduced
Damage in transit | No change
Error in billing | Reduced
Paperwork errors | Reduced
Vendor fraud | Reduced

Source: EY Analysis
10. Internet penetration: India has an internet user base of more than 300 million, while it is low compared to developed markets, it is growing rapidly, at approximately 6 million new entrants every month.

<table>
<thead>
<tr>
<th>Internet Population in India (million users)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
</tr>
<tr>
<td>2013</td>
</tr>
<tr>
<td>~170</td>
</tr>
<tr>
<td>182.4</td>
</tr>
<tr>
<td>78</td>
</tr>
</tbody>
</table>

A leading skin-care label, utilizes geo-fencing at its 44 free-standing stores. The company is now exploring geo-fencing kiosks located in department stores. The company’s fences range from half a mile in New York and other big cities to two miles in more suburban areas. It sends alerts to customers and advertisements, which the company also showcases on social media pages and through its email list.

Source: Wall Street Journal
http://www.wsj.com/articles/SB10001424052702303978104577362403804858504

An American clothing retail chain based in Duluth, Minnesota, comprises more than 900 stores in the US and Canada, primarily located in shopping malls and small towns. The women’s clothing chain sends promotions to the phones of people who come within a few hundred yards of its stores. Consumers who opt in to the service are sent messages about in-store sales. It uses geo-fencing, to draw people into its bricks and mortar locations.

Source: Wall Street Journal
http://www.wsj.com/articles/SB10001424052702303978104577362403804858504

2. Instant gratification: targeted and relevant promotions

A leading retailer’s mobile app has a Store Mode that, amongst other things, responds to geo-fencing around stores, and delivers coupons and e-receipts. With one in five of online purchases picked up in store, this geo-fencing tactic is used to persuade those customers to spend more in stores.

Source: Econsultancy.com
https://econsultancy.com/blog/65223-eight-more-examples-of-geofencing-you-should-know-about/
An American multinational corporation and e-commerce company, providing consumer-to-consumer and business-to-consumer sales services via internet has added geo-fencing to its mobile application and partnered with leading electronics retailer to allow users to see special offers, browse open-stock items, and view items relevant to them right when they step into one of the electronics retailer’s 1,100 locations. The application senses when a user is in a store and delivers them personalized offers and rewards based on their location and the products they scan with the mobile app. This includes local discounts available at that particular store, installation services, special warranties, etc. It also shows accessories that might go with a product the customer intends to purchase.

Source: Tech Crunch

One of India’s leading destination for coupons and discounts, has forayed into offline retail by offering exclusive deals and listing available discounts for 200+ leading brands across categories such as fashion apparel and accessories, baby care, electronics, sports, footwear and home decor. The offers are available across 12000+ outlets in six cities – Mumbai, Delhi, Bengaluru, Pune, Ahmedabad and Chennai. The offers can be currently availed through the mobile app.

Leading Indian and international brands are listed on the platform. The new “In-store” section on the app provides customers with a comprehensive list of deals from more than 200 brands. The “near-by” option in the app displays all offers available near a customer in a map format for quick access. The geo-fencing feature allows the users to locate the best deals and discounts as they enter a shopping mall or retail outlet. The aim is to eliminate the effort of searching coupons and offering saving options at the point of purchase.

Source: Economic Times

3. Competition: target customers that are visiting competition

A leading QSR chain in the US, rolled out geo-fencing around competitors’ locations coupled with behavioral targeting to deliver coupons on mobile devices. The results were promising, with 36% of those who clicked on the offer taking some secondary action, 18% of these saving the coupon and 3.6% of secondary actions resulting in a redeemed coupon. The chain wanted to convert people who were either loyal to their competition or were undecided – sometimes would go to outlet, sometimes would go to some of their competitive coffee shops or c-store properties. The main goal of the chain was to target people and get them to come over to its outlet.

Source: Mobile Commercial Daily

A leading Indian car rental company, which operates in all major cities in India with a fleet of more than 6,500 cars catering to more than 6,000,000 customers annually has implemented targeted marketing through geo-fencing. It provides corporate and personal car leasing and rental services 24x7. The company was looking to drive-in more customers in Bengaluru. The target groups were males in the range of 28-38 years of age falling under SEC classification of A1 or A2. The focus was on customers from Bengaluru only, and it used geo-fencing to geo-target the city for its campaign. The campaign had user engaging display ads to make potential customers opt for the service. The campaign not only spread brand awareness but also fetched maximum conversions.

Source: Adiquity
Retail outlets for multi-brand (MBO), exclusive brand outlet (EBO), and large format stores have flourished, since there has been increased acceptance and growth of the organized sector. In recent years, adoption of internet by millions has contributed to decline in same store sales. In the wake of several billion dollar internet organizations, threat to brick and mortar companies had led them to adopt analytics to reverse slowing revenue. Impact of analytics in retailers decision making starts with dashboards that provide insightful information by answering pertinent questions internal and external to their ecosystem – retail outlet performance relative to customer base and demographics, visually does it offer adequate coverage, locations relative to competitors location.

In addition, network optimization across various outlets has become increasingly important. This will support organizations to ascertain outlets that should discontinue, identify new outlets (location), and format changes to existing stores (value-added services). As organizations are grappling with this issue, it is appropriate to respond to the following questions and complete a benchmarking study. Online, and traditional (brick and mortar) formats, will co-exist at the right balance by making adjustments as new business models evolve. Basic questions mentioned here will serve as a guide in determining future network of outlets.

1. What is the extent of interaction between outlets? - implying businesses that could move to an outlet that will continue to stay open, presuming that there is differentiated value.
2. Are there any financial, operational or practical constraints that justify status quo? (capital spend, population coverage, market share).
3. Is there a proposition to provide value added services that will be in addition to the existing portfolio of offerings – strategic initiatives?
4. Are there any other major underlying changes to the business that could have a significant impact on the optimal network?
Retailers that aspire to apply advanced analytics and achieve desired business outcomes will need to define enterprise intelligence strategy and implementation roadmap. Presuming that mature transactional systems are present, focus will be to develop all three layers — reporting, analytics and advanced analytics. Several could be developed in parallel, but fundamental blocks such as data availability, quality, architecture, and information governance are foundational blocks. Key dimensions across these layers need to be addressed to have a robust information system that guides business constituents (insight to action).

Key dimensions:
1. Data availability
2. Information quality
3. BI architecture/Information governance
4. Data mining
5. Root-cause analysis
6. Visual analytics
7. Unstructured analytics
8. Predictive analytics

A clear understanding and an astute use of analytics can assist in enabling business effectively. Every organization needs to define analytical aspirations and achieve level of maturity as it pertains to specific business goals.
Mr. Chandu Mukkavalli is a Partner with Ernst & Young LLP focusing on Enterprise Intelligence & Analytics practice. He has been in the forefront of advising his clients on leveraging technology as an enabling force for achieving specific business outcomes.

Mr. Mukkavalli has over 17 years of experience in strategy, design, and implementation of data management solutions. He has successfully led several large and complex end-to-end “business intelligence (BI)” implementations of data management solutions in life sciences, Supply chain, telecommunications, and high tech.

A prominent speaker at forums like NASSCOM, CII, TDWI and QAI, among others, Mr. Mukkavalli has extensively published papers on varied BI topics, in leading global journals such as TDWI, ICCA, ICDM, QAI.
Mr. Shashwat Goenka, Sector Head - Spencer’s Retail Limited, RP-Sanjiv Goenka Group, completed his business education from the Wharton School of University of Pennsylvania in 2012. His chosen fields of specialization were finance, marketing, and management. Before taking charge of Spencer’s Retail, he has worked in several RP-Sanjiv Goenka Group’s companies spreading across power, manufacturing, and media & entertainment sectors.

Born in 1990, Mr. Goenka was 23 years old when he took independent charge of Spencer’s Retail chain, one of the country’s most aggressively expanding multi-format retailers, which has a presence in more than 35 cities across India. He is also a part of the Board of Directors of ‘Firstsource Solutions Ltd., the Group’s customer-centric business process service provider’, and ‘Phillips Carbon Black Limited, one of the largest producers of Carbon Black in India’. He is also on the Board of Retailers Association of India (RAI).
In Conversation with
Mr. Shashwat Goenka

Q. Given the current economic situation, what is your view on the growth of organized retail in India?

A. The Indian organized retail industry has come a long way since its early days in 1990s — right from building acceptability in the minds of consumers to educating them about the concept of self-service stores. As we stand today, the outlook for organized retail looks encouraging, with reports touting the industry to grow to a size of US$900 billion in the next three years. As far as the immediate future is concerned, exploration of multiple channels of operations will be predominant for organized retailers.

Q. Do you expect global retailers to foray into the Indian hypermarket and supermarket segment in the next three to five years? If yes, how would it impact the market structure?

For most international players in any field, India proves to be one of their bigger markets, if not their biggest. Purely from that rationale, global retailers should ideally look to enter India. However, with uncertainty around investment norms relating to the hypermarket and supermarket space, it is something they will view with caution. However, B2B models in my opinion will continue to profit from investments and growth from global retailers.

Q. How is the Indian consumer evolving? Do they still weigh price as the most important factor or are they willing to pay for convenience, service and quality?

The Indian consumer has evolved exponentially over the last few years, due to increasing exposure to more developed countries and a globalized economy. Currently, some of the key trends in consumer evolution include a movement toward premium products, and purchasing that indicates a more “aspirational” lifestyle. While price is still an important aspect for the Indian consumer, they are willing to pay for value-added services and better quality. With time becoming an increasingly scarce resource, convenience finds an important position in the minds of the Indian consumer, and they are willing to pay for that. In terms of service as well, consumers expect the highest levels of service, irrespective of the environment in which they are shopping.

Q. What could be some of the concerns/challenges faced by Indian hypermarket and supermarket chains?

The challenges faced by organized retail players in the hypermarket and supermarket space include balancing growth and profitability, low margins, lack of skilled labor, high levels of attrition, and rising real estate costs along with unavailability of sufficient real estate in appropriate locations. Among these challenges, the growth of the e-commerce sector is another issue that the brick-and-mortar players are struggling with, be it in respect of pricing or depth and width of assortment.

Q. What is your opinion on the opportunity for omni-channel play in the food and grocery segment for existing Indian retailers?

With an increase in penetration of computers and mobile devices, more and more Indian consumers are using the web and as research has shown, the internet’s influence on purchasing decisions is increasing manifold, along with actual online purchases showing a strong growth. The online retail space is dominated by electronic and apparel categories, with food and grocery forming only a small portion of today’s online sales. However, with a majority population that is young in age and uses the internet for almost everything, it becomes imperative for brick and mortar players to adopt this channel to service these younger consumers as well as to meet the needs of convenience of shoppers. Moreover, shoppers expect to be able to transact with retailers at their desired time and location, and therefore, a presence across multiple channels becomes a requirement.

Q. What is your mantra of success for food and grocery-led retailing business in the Indian market?

The food and grocery business is essentially a highly localized business, and what has worked for us is being very close to the consumer and servicing their needs and requirements. While there is no clear mantra for success, what I believe is important for the business is to continuously innovate, be dynamic, and adapt to changes.

views expressed above are in personal capacity
1. Unique e-commerce deliveries

India's e-commerce market is growing and observing a remarkable amount of innovations in areas such as logistics and delivery.

Flipkart is collaborating with the well-known dabbawallas for delivering e-commerce packages. The dabbawallas will collect these boxes from Flipkart’s distribution centers and service the same neighborhoods from where they collect lunches. India Post is working together with companies such as Snapdeal and ShopClues to deliver packages to shoppers in remote areas. It has begun training its postmen for card payments, handling same-day shipments and opened 60 fulfilment centers. Amazon India conducted a pilot in Delhi and Mumbai with Bharat Petroleum wherein online shoppers can collect their packages at pick-up points at their nearest gas station.

Innovation is simplifying deliveries and online retailers continue to experiment with ways to reach out to their customers reliably and quickly.


2. P&G’s innovative warehouse management system

P&G China’s existing paper-based manual system proved to be cumbersome as volume increased in the company’s distribution centers. They deployed latest technologies in warehouse management system for their 20 distribution centers.

The new mobile computing device has streamlined business processes in several ways. Upon receipt of orders from sales managers orders are now entered into an Integration Distribution System (IDS) and transmitted to handhelds used by warehouse workers. Workers then use this information to pick up the necessary goods from the warehouse. Hence orders are ready for collection instantly and the accuracy of data has improved. The device permits workers to check stock availability with the scan of a bar code. All data captured on the handhelds are synchronized to IDS, and statements are automatically generated for accounting purposes.

Warehouse controllers address more inventory management concerns and worry less about accuracy of data and physical stock. Accurate order information captured by workers enables the company to better plan delivery routes to customers resulting in reduction of transportation costs


3. Amazon introduces “Add to cart” with social media

Amazon, the global e-commerce leader, consistently garners a disproportionate share of users’ loyalty and spending. Amazon Cart is firmly in the realm of social commerce. Amazon now allows users to add items to their Amazon shopping list by simply replying to any Amazon product tweet and tagging it with the “#AmazonCart” hashtag. The item is automatically added to the user’s cart. The next time they log into Amazon, they waste no time hunting for the product that caught their eye on Twitter.

This feature works by linking users’ Amazon account to their Twitter accounts, then proceeding with the back-end fulfillment. This feature, launched in early May 2014, has gained a lot of interest with more than 157,000 tweets containing #AmazonCart sent out in under two weeks.

(link accessed on 07 August 2015 - http://www.entrepreneur.com/article/237014)

4. Content driven e-commerce websites boosting sales

Most e-commerce retailers take the beaten path of showcasing their products on their websites, exactly how they would showcase them inside a real store. However, trouble is the way users behave online is very different from how they behave while shopping in traditional stores.

For one thing, users do not have the option of getting product reviews while shopping in a brick-and-mortar store. Nor can they hop from one store to another in the same time that it takes an online shopper to switch from one browser tab to another for comparison shopping.

E-commerce sites such as Net-a-porter and Joyus have caught on to this fundamental difference and offer a completely different online shopping experience to users. Both sites offer a content-driven approach to e-commerce. Net-a-porter has its original magazine styling for showcasing its products. It also offers videos and how-to guides to cater to more interactive tastes. It sells by recommending product “looks” that is likely to suit different types of users, instead of simply rattling off the price and manufacturer specifications and delivery details like most other e-commerce sites. In India, Limeroad.com also creates style magazines to which users can also contribute to.

(Link accessed on 7 August 2015 - http://www.entrepreneur.com/article/237014)
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