About BCG

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

AUTHORS: Amitabh Mall
About RAI

Retailers Association of India (RAI) is the unified voice of Indian retailers. RAI works with all the stakeholders for creating the right environment for the growth of the modern retail industry in India. It is a strong advocate for retailing in India and works with all levels of government and stakeholders with the aim to support employment growth and career opportunities in retail, to promote and sustain retail investments in communities from coast-to-coast, and to enhance consumer choice and industry competitiveness. For more information, please visit rai.net.in.
Decoding Digital @ Retail: Winning the Omnichannel Consumer
Demystifying Digital @ Retail: Four new realities in digital retailing

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

In this report, by the Retailers Association of India (RAI) and The Boston Consulting Group (BCG), we look at:
• Exploring the ‘Digital Tsunami’: Four trends that will shape retail
• Demystifying Digital @ Retail: Four new realities in digital retailing
• Winning in Digital World: Five key imperative for players to win

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

Foreword

Kumar Rajagopalan
CEO, Retailers Association of India (RAI)

Amitabh Mall
Partner and Director,
The Boston Consulting Group
Exploring the ‘Digital Tsunami’:
Four trends that will shape retail
Number of internet users will grow to 650 million by 2020

Internet users include those accessing the internet through mobile devices as well as desktops.
Profile of internet users would witness dramatic shifts

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

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

Average age: 24

Average age: 29

BCG proprietary research has been used for forecasting internet adoption and demographic shifts in user profile.
E–commerce (for goods) could be USD 45–50 billion by 2020

Size of retail segments (USD billion)

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Online Share by 2020 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apparel and footwear</td>
<td>12–14%</td>
</tr>
<tr>
<td>Baby care</td>
<td>6–8%</td>
</tr>
<tr>
<td>Branded packaged goods</td>
<td>4–5%</td>
</tr>
<tr>
<td>Consumer durables</td>
<td>10–12%</td>
</tr>
<tr>
<td>Health</td>
<td>5–7%</td>
</tr>
<tr>
<td>Jewelry, Fragrances</td>
<td>8–10%</td>
</tr>
<tr>
<td>Sexual wellness</td>
<td>7–9%</td>
</tr>
<tr>
<td>stapless</td>
<td>&lt;1%</td>
</tr>
<tr>
<td>Home</td>
<td>8–10%</td>
</tr>
<tr>
<td>Staples</td>
<td></td>
</tr>
</tbody>
</table>

Online complements physical stores
Online begins to compete with physical stores

ONLINE SHARE BY 2020 (%)

DEVELOPMENT

GROWTH
Online and physical stores battle for market share

The competition normalises with online and physical assuming well defined roles

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

Online share by 2020 (%)

- Apparel and footwear: 10–12%
- Consumer durables: 12–14%
- Electronics: 25–30%
- Travel: >60%
- Jewelry, fragrances: 8–10%
- Home: 8–10%
- Staples: <1%
- Branded packaged goods: 4–5%
- Health: 5–7%
- Baby care: 6–8%
- Sexual wellness: 7–9%
Demystifying Digital @ Retail:
Four new realities in digital retailing
MYTH
Digital is all about e-commerce

REALITY
Digital influence is a bigger and more pervasive force
Demystifying Digital @ Retail: Four new realities in digital retailing

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

Internet users

# of digitally influenced consumers

# of online buyers

2013

2015

2020

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

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

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

\(^1\) Digital influence is defined as the use of internet for conducting pre-purchase, purchase and post-purchase activities.
MYTH
Online is for the young

REALITY
Digital age and not physical age determines online behavior
Age groups (Years) 18–24 25–34 35–44

Digital age

1–2 years 2–4 years 4+ years

29% 31% 31%
37% 38% 36%
38% 40% 38%

% of buyers in a given physical age and digital age bracket who are digitally influenced

The above exhibit is an illustration for the apparel category. As can be seen, with increasing digital maturity of users, the level of digital influence increases regardless of physical age.
MYTH
E-commerce is all about deep discounting

REALITY
Price is not the only driver for e-commerce
Demystifying Digital @ Retail: Four new realities in digital retailing

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

Reasons for shopping online and percentage of consumers opting for them

- 41% Offers highest discounts
- 23% Has more options
- 11% Provides products unavailable in the city
- 6% Allows customization
- 10% More comfortable
- 13% Has the option of home delivery
- 4% Convenient
- 7% Entertaining
- 8% Helps to make informed decisions
- 7% Offers fixed price
- 4% Is convenient
- 17% No interaction with salesmen needed
- 9% No one sees me
- 4% Offers highest discounts
- 8% Gives detailed information online

Assortment, convenience and availability are significant drivers for e-commerce.
MYTH
The physical store is dead

REALITY
Stores would continue to remain important but their role would need to be re–imagined
Demystifying Digital @ Retail: Four new realities in digital retailing

The physical store would continue to be relevant and an important asset that would complement digital presence.

Reasons for shopping in physical stores:

- **HABIT** (Always buy from store/agents): 42% (Appliances), 44% (Electronics), 37% (Cosmetics), 38% (Nutrition)
- **PHYSICALITY** (Need to touch-and-feel): 34% (Appliances), 35% (Electronics), 36% (Cosmetics), 38% (Nutrition)
- **VALIDATION** (Need to check features before purchase): 19% (Appliances), 19% (Electronics), 13% (Cosmetics), 15% (Nutrition)
- **RISK** (Big ticket purchase): 17% (Appliances), 15% (Electronics), 0% (Cosmetics), 15% (Nutrition)
- **AVAILABILITY** (Not available online): 15% (Appliances), 15% (Electronics), 15% (Cosmetics), 17% (Nutrition)

Potential for purchase to shift online:

- The physical store would continue to be relevant and an important asset that would complement digital presence.

Response to the question: Reasons for not shopping online despite researching online.
Winning in Digital World: Five key imperative for players to win
Recap: The new reality

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

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

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

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

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

05 DIGITIZE YOUR BUSINESS: Create an agile backend through digitization to drive efficiency and effectiveness of operations.
...and e–commerce players need to push new frontiers

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

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

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

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

05. INVEST IN SUPPLY CHAIN CAPABILITIES: Create ability to handle bi–directional product flows. Choose the right fulfillment model to attain an optimal trade–off between responsiveness and last mile delivery costs.
Traditional capabilities would need to be re-cast to win in digital

**BASIC**

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### Omnichannel
- Updated websites and mobile app with rich, immersive content
- Tracking of basic KPIs on digital spend
- Basic e-commerce capabilities

### Big data and analytics
- Legacy based models for driving efficiencies in the business
- Customer analytics team working in silos

### Agile IT
- Core ERP and stand alone applications—mix of legacy platforms and "bolt ons" of new applications

### Supply chain
- Real time inventory view
- Efficient product check and repackaging in store and DC
Updated websites and mobile app with rich, immersive content

Tracking of basic KPIs on digital spend

Basic e-commerce capabilities

Legacy based models for driving efficiencies in the business

Customer analytics team working in silos

Core ERP and stand alone—mix of legacy platforms and “bolt ons” of new applications

Real time inventory view

Efficient product check and repackaging in store and DC

Personalized & curated content backed by rich multimedia

Surgical targeting of microsegments & optimized spend across channels

Use of data driven approach for tracking KPIs

Seamlessly integrated cross-channel offering

Data sources integrated to create one view of supplier/customer

Specialized analytics talent using analytics for creating new business streams

Scalable ecosystem partnerships

Low cost, scalable IT with agile platform

Incubator approach to use IT for disruption—scales, test & learn approach

Integrated inventory across channels

De-averaged flow paths—by SKU, customer type and economics

Fragmented supply chains
For Further Reading

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

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

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

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

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

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

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

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

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

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

**The Omnichannel Opportunity for Retailers**
An article by The Boston Consulting Group, July 2013
Note to the Reader

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