



The Rise & Growth of the Indian Retail Industry

Consumers in India have far evolved and expect their shopping experience to be seamless across every channel be it brick and mortar, e-commerce or on mobile. With these changing consumer demands and expectations retailers are required to work continuously towards gaining a competitive advantage. This can be done by using innovative retail formats and next generation methods to yield growth throughout various channels of distribution.

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Over the years, retailing in India has been one of the most dynamic and fast paced industries, which has travelled through different phases. Origins of retailing in India can be traced back to the emergence of kirana and mom & pop stores, but with Indian economy getting liberalised in early 1990s, many indigenous franchise stores propped up. Many domestic players like Raymond, Bombay Dyeing etc. started to forward integrate from manufacturing to retailing thereby catering to a larger base of customers.

In the backdrop of evolutionary times coupled with day to day disruptions, retail outlets like Shoppers Stop, Planet M, Crosswords, Pantaloons etc. entered the market in the 1990s, followed by a few shopping malls, department stores and supermarkets. Thus, from early 90s to about 2005, shoots of organized retail started emerging in India. 2005 onwards marked a phase of growth and stabilization where large corporates like Reliance, Aditya Birla, Godrej etc. entered and grew their retail business. Retail became the 'buzzword' and the industry to be in. In the decade the industry saw

many ups and downs and a few groups also exited retail who were not being able to grow and compete in the sector. A large number of International brands and retailers also entered India during this phase, many of them like Zara and H&M becoming extremely successful while the others still struggle to find a foothold.

Currently, driven by strong macro-economic factors, India is one of the fastest growing economies globally and the fourth largest retail market in the world. It thus holds a very strong position as far as its market potential is concerned. It provides a strong platform for

consumers, distributors, manufacturers and ancillary sectors like transportation, logistics, cold chains etc. Retailers are continuously trying to fully tap the depth of this potential by making use of latest technologies along with next gen tools like data analytics, social commerce, CRM solutions etc. which form the backbone of modern retailing.

The burgeoning millennial population, growing middle income households and increasing women workforce provide a highly positive outlook for the retail businesses in India. Fuelled by these factors, the Indian retail industry is expected to grow from US\$ 790 billion in FY 2019 to US\$ 1400 billion by FY 2024, as the overall economy crosses the US\$ 5 trillion mark.

As internet penetration increases, more international retailers set up shops in India and established Indian brands and retailers set themselves on a high growth trajectory, the share of organised retail market is expected to increase from 12 percent in FY 2019 to 25 percent in FY 2024. The e-commerce market itself is estimated to grow from US\$ 24 billion in FY 2019 to US\$ 98 billion in FY 2024.

Going forward, given the strong retail and consumer outlook, India is expected to witness redefining trends which will shape the future of the retail market. Consumer experience will be the key focus of the retailers, while technology will play an important part in increasing sales as well as facilitating the enhancement of consumer experience throughout their shopping journey. The next 10-12 years will be the defining years for Indian retail

as the market will mature and organized retail will penetrate deeper into smaller cities and towns. While on one side more international brands and retailers across categories and formats will aggressively enter and grow the Indian business, India will become the key growth market for the ones already present. Technology will replace many 'human roles' in retail and new ways to emotionally connect with consumer will evolve. New markets will develop, and new channels will disrupt and reshape the markets.

This article focuses on the some of the above points and throws light on trends expected to disrupt Indian retail industry in the near future.

Growth of Indian Economy & Consumption

Just days after coming to power, the current government spelt out its key priorities, which were focused on laying the foundation for making India a US\$ 5 trillion economy by FY 2024. As per IMF too, India's GDP will grow at 7.4 percent in FY 2020, with medium term growth projection expected to remain strong at 8 percent due to ongoing structural reforms and a favourable demographic dividend.

These factors are largely scripted on the strength of India's growing domestic consumption. This high rate of growth in consumption is accompanied by a substantial decline in India's poverty rate and increase in formal employment, due to growing proportion of jobs in services and declining share of employment in agriculture. The growing contribution

of services sector towards India's overall GDP, has resulted in creating improved working conditions and better income for Indian households. As a result of this, India's GDP per capita has crossed US\$ 2,000 mark in FY 2019.

The government now intends to focus on the manufacturing sector to create new jobs and has launched many initiatives like "Make in India" for this. This will further help in increasing the GDP per capita, thereby putting more money into the hands of people to improve their lifestyle, thereby supporting consumption and the retail market.

FIGURE 1: SECTOR WISE CONTRIBUTION TOWARDS GDP

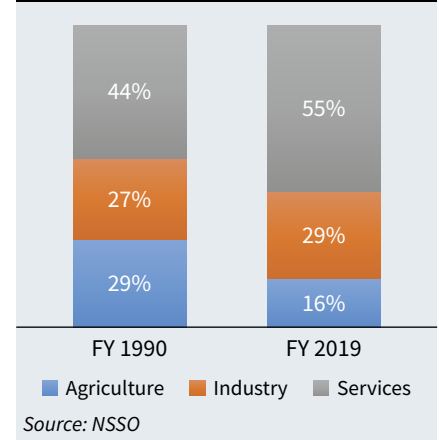
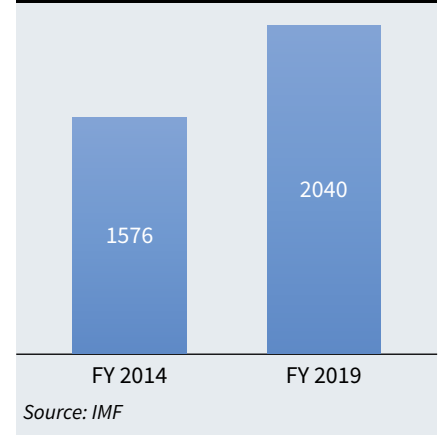


FIGURE 2: INDIA'S GDP PER CAPITA (US\$)



It has been seen in the case of China that when the per capita GDP reaches US\$ 2,000 mark and the basic requirements of shelter, food and clothing are met, people start spending many other categories and the retail market consumption prospects improve and investment momentum



increases significantly. At this level of per capita income, basic needs are met and income available for discretionary spend increases. As India has crossed this US\$ 2,000 mark in FY 2019, it can be expected that Indian retail has reached its inflexion point. With rapidly growing economy and higher GDP per capita, it can be assumed that Indian retail industry has started to change its gears, just like China did in the last 15 years.

Indian retail is thus expected to reach US\$ 1400 billion by FY 2024 from US\$ 790 billion in FY 2019, growing at a CAGR of 12 percent.

FIGURE 4: SHARE OF RETAIL FORMATS IN INDIA

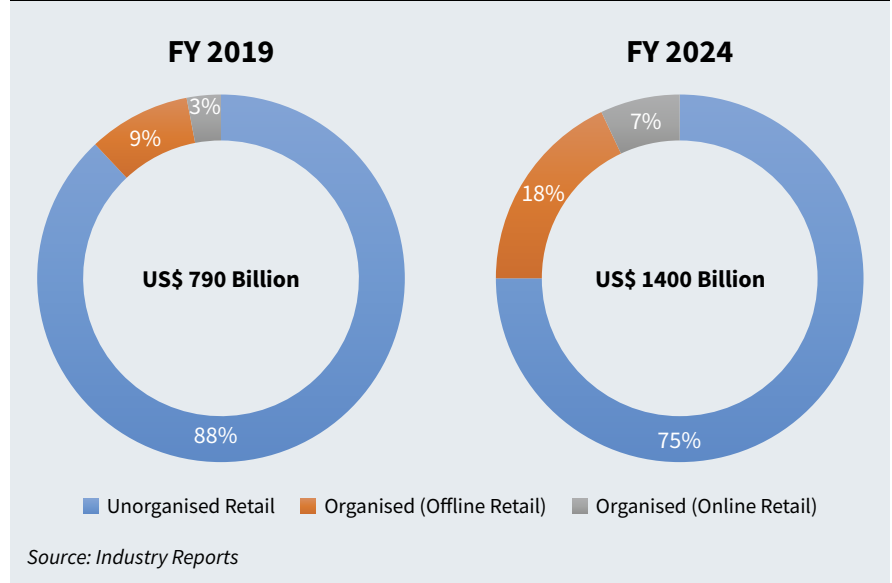


FIGURE 3: INFLEXION POINT FOR INDIAN RETAIL

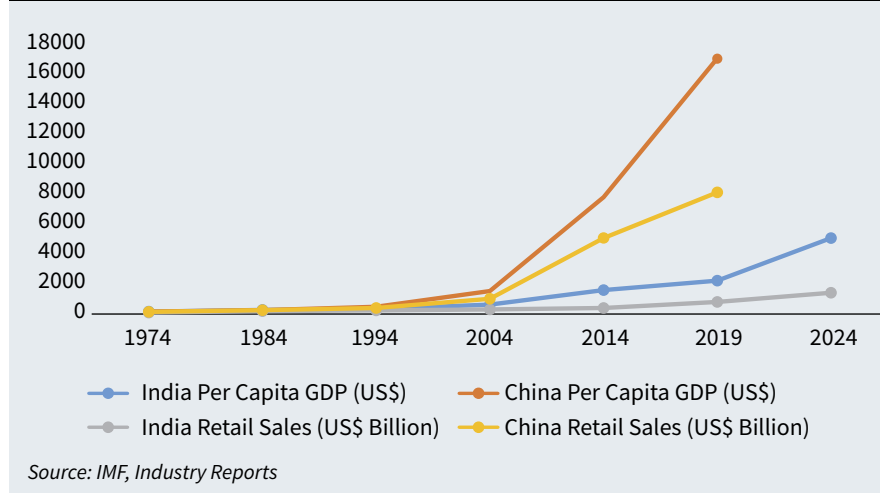
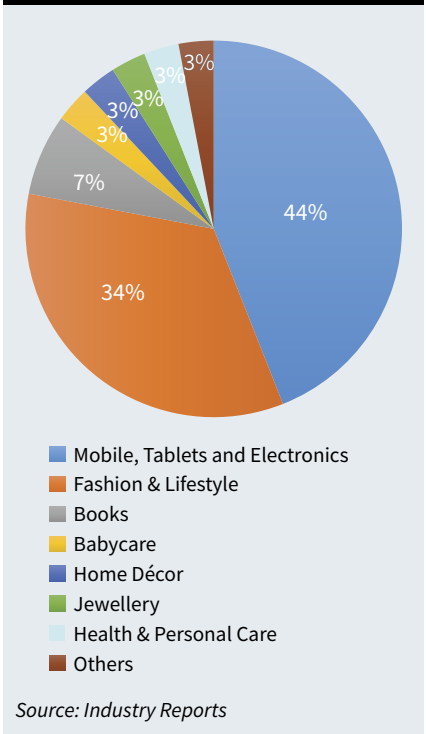


FIGURE 5: CATEGORY WISE SHARE IN ONLINE RETAIL



Growth of Organised Retail

Due to the sharp rise and changing consumption pattern of Indian consumers, share of organised segment is growing rapidly. While traditional formats or unorganised retail formats continue to dominate the retail market, organized retail is growing at a faster pace and eating up into traditional retail. A major driver of this high growth trajectory has been online retail which is projected to grow at a CAGR of 33 percent between FY 2019-24. Growth in online retail is majorly attributed to factors including:

- Increasing internet penetration
- Growth in number of smartphone users
- Growing number of online shoppers



Although mobile, tablets and electronics as a category continue to be the dominant one in the online market of India, new breed of online players are targeting other categories like food & grocery, pharmacy etc. These will be the categories where we will see 40 percent plus year on year growth in the online space.



Factors Driving the Growth of Indian Retail Market

Indian consumption and retail market growth is largely supported by the following factors:

Burgeoning Millennial Population and Changing Outlook towards Spending

With median age of 27 years, India is home to world's largest Millennial population. With 440 million of them, they make 34 percent of the total population in India. Further, their contribution to the Indian workforce is significantly higher at nearly 48% in FY 2019.



This set of consumers are more confident of future success and earning at a much younger age than their parents. As they are more urban in their approach, these consumers are career driven and well-travelled people. They aspire high, with fewer things seems to be out of bound for them. Millennials no longer feel guilty about spending too much on self, instead they believe in investing towards fulfilling their needs more thoroughly. They spend on things that make them look good in a "selfie" world. They also spend on things that improve their lives and their "image". The focus is shifting from high capex items like house and cars that the last generation saved and spent on, to spending more on experiences and on day to day things, buying better products and brands in a more convenient way.

Also, Millennials are known to be marrying late, with average age of marriage for women in urban India increasing from 20-22 years to 25-26 years, while for men it has increased from 25-26 years to 29-30 years in the past few years. This has resulted in young Millennials having more disposable income to spend on "self", thereby growing various categories like personal gadgets, solo holidays etc.



Increasing Women Workforce

With changing societal mind set and increasing gender equality at office, women entering workforce has been on the rise in past few years. From FY 2014 to FY 2019, women workforce in India has increased from 5 million to 7 million respectively and is expected to reach 10 million by FY 2024. This has led to the increase in earning members and family income, thereby giving rise to discretionary spending. Today, women in India are getting independent in terms of their purchase decisions. This coupled with increasing time pressures and aspirations to spend on self-development, is giving rise to the consumption of new categories like personal care, readymade products etc. 'Convenience' is again a theme that comes up very strongly here. Across categories, products and brands that can make the consumer life more convenient will continue to grow very rapidly.

Growing Wallet Share and Price Trade-Off

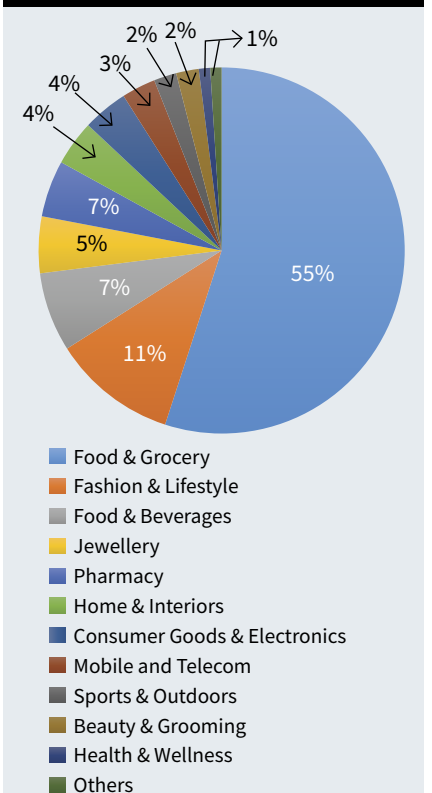
With growing GDP per capita and higher disposable incomes, consumers have become more aspirational and are open to buying new categories. This has led to a change in wallet share of Indian consumers. Earlier wallet share of Indian consumers was largely dominated by food and clothing only, but with evolving buying behaviour, new categories like mobile and communication, beauty & grooming, personal gadgets etc. have now become a part of Indian consumer's wallet share.

Many new categories of spend have thus emerged in the last few years and many others have redefined themselves.



Consumers have traded "durability" for "price" and "fashion". E.g. in the 80s and 90s, consumers purchased a TV or a refrigerator or furniture only once or twice in their lifetime, largely when the older product became irreparable. However, Millennials buy these products every 5-7 years as products with new features and designs are launched. Thus, the market for these products has grown tremendously,

FIGURE 6: WALLET SHARE OF INDIAN CONSUMERS



Source: Industry Reports

as first-time buyers purchase these products driven by greater affordability and there is a high replacement driven demand. There is also a great growth in the second-hand market, which is also becoming online with many online players entering the market.



Growth of Markets

With online players now delivering to the smallest of towns, consumers in these cities are aware of many international and indigenous brands available in the market. This spells a big opportunity for the modern retailers who are looking to enter into Tier III & IV markets. Many consumers living in Tier III & IV towns have now experienced the brands, through online purchases. Leading national brands are now looking at 500 plus cities as their market and are already opening stores. Other international and indigenous brands are planning expansion into these cities based on factors like changing lifestyle, digital connectivity etc.

Growth of Malls

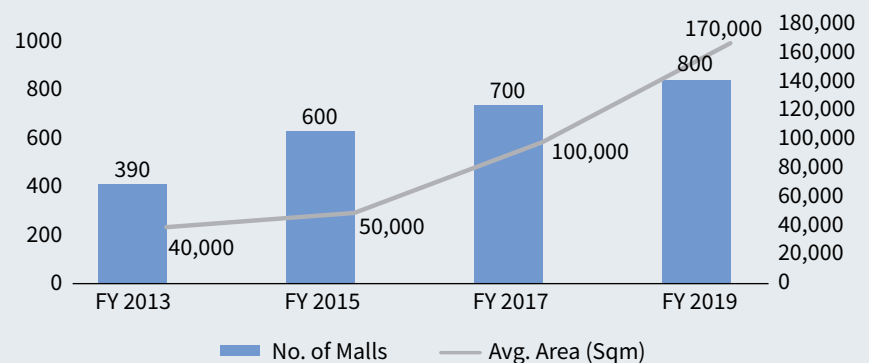
With wide variety of international and domestic brands available and with growing consumer desire to own these brands at a more organised, better and bigger destinations, there has been a sharp rise in the number of malls operating in India. Earlier the mall development was confined to top tier cities like Delhi-NCR, Mumbai, Hyderabad, Chennai, Pune etc. However the next round of mall development is expected to come from Tier III cities like Allahabad, Coimbatore, Jamshedpur, Panaji, Udaipur etc.

Malls have also progressively become bigger and are considered to be destinations or experience centres instead of just shopping or transactional places. Today, malls are focusing more to become a community or public interaction centres by creating meeting places, entertainment areas, providing better shopping experiences through enhanced



ambience, brand selection etc. By bidding farewell to the categories like books and music, and mobile, that have moved online, malls have started to focus on the growing significance of offering a good line-up of experiential categories like food and beverage, entertainment options like multiplexes, gaming centres along with other amusement options to encourage greater footfalls and more return visits.

FIGURE 7: NO. OF MALLS VS AVERAGE AREA OF MALLS



Source: Industry Reports

Digital Disruption

The advent of technology in the retail space has disrupted the traditional business models, having transformed the earlier rules of engagement to a “Phygital” experience with an in-built mechanism to understand the customer needs like never before. This has been made possible through continuous consumer interaction with digital platforms wherein reviews, suggestions and AI based product assortments have made in-store digitization possible, shaking up the entire structure in which the retail

industry operates. These techniques have now allowed the retailers to influence consumer behaviour, as they can now connect with the consumers at all possible touch points.

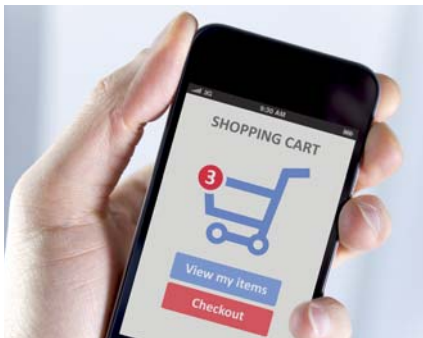
Technology is now considered to be the major factor in driving engagements and experiences in consumer’s shopping journey. It is enabling retailers to acquire new customers, engage better with existing customers thereby increasing sales and to reduce the cost of operations. As customers become more aware, retailers



are compelled to respond using data-driven technologies to meet the growing expectations. Emerging technologies like AR, VR, Artificial intelligence, IoT, bots, drones, cloud platforms etc. have thereby, become indispensable in enhancing the buyer's journey.

To further this experience, retailers are coming up with various innovative technologies which have been in demand, supported by growing consumer consciousness and greater preference for choice and convenience. Some of these technologies are discussed below:

→ **Smart Shopping Carts:** Many retailers have started introducing smart shopping carts and self-checkout options to achieve new benchmarks of convenient shopping experience. These carts serve as a direct response to online shopping, as they guide consumers to their products in their shopping list.



→ **New Payment Gateways:** With the advent of online payment companies or fintech companies, touchless commerce through contactless payment methods have increased exponentially. With the rise of internet and other payment methods including net-banking, online cash transfers, mobile wallets, single touch payments,

payment through scanning code, etc. have shown an exponential increase in the country.

→ **Beacons** in outlets are used to send personalised recommendations and suggestions to consumers who are near the store. They are battery powered devices that transmit coded messages by pairing through Bluetooth. This technology has been leveraged by



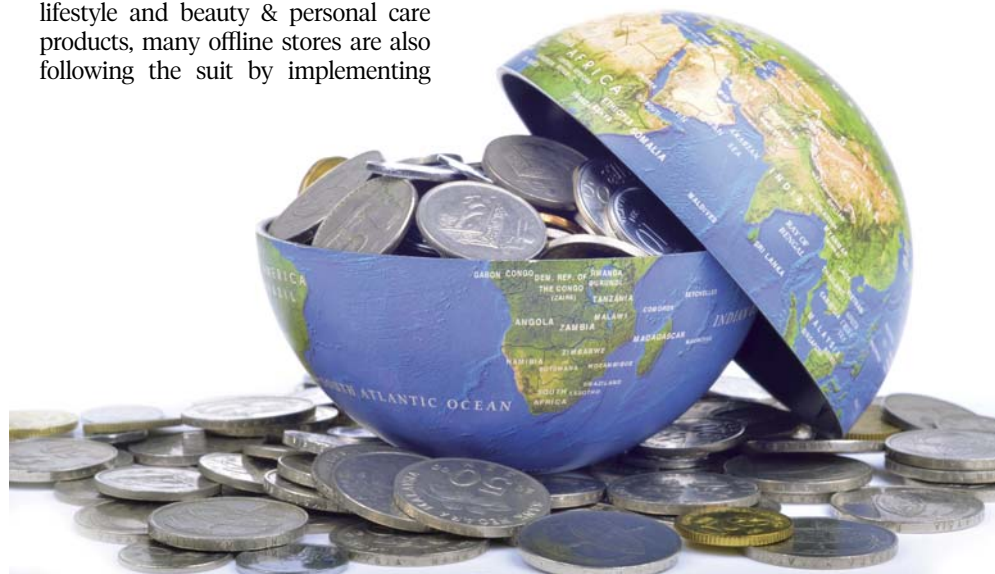
brands for proximity or close area marketing. Recently a major global fast food chain installed beacons at select restaurants and partnered with a shopping app to distribute coupons amongst the app users, resulting in increased sales.

→ **Immersive Technologies:** While online players are rapidly embracing the concept of experience-based shopping using AR/VR, especially in fashion & lifestyle and beauty & personal care products, many offline stores are also following the suit by implementing

this technology in their stores. These stores are redefining convenience for consumers. In these stores, consumers are required to just walk in, choose their preferred products from a wide range of assortment through a virtual inventory. Then enter the trial room and try all the outfits via virtual mirror without actually having to perform all these tasks. This combination of technology in stores are facilitating seamless experience to the consumers. The buying experience is engaging and unique in value for the consumers.

→ **AI & Bots:** With excitement around artificial intelligence running high, customers are getting more and more comfortable communicating with robots. AI's impact on retail in future will grow in the area of smart speakers and chatbots. These voice-activated virtual assistants will be involved in majority of all business to consumer interactions. Retailers in future need to tap this obsession around AI to provide a better personalized experience to their customers.

Robots have started to become the first customer touch point in many retail outlets. Their impact is multi-dimensional, starting right from logistics, customer handling, warehousing to back end office work. Robots have replaced humans to an extent that they are performing the same tasks more efficiently by reducing





errors and saving both time and cost, thus increasing productivity and profit margins. Robots are now performing many tasks related to retail sector:

→ **Inventory management by Robots**

- Robots are proving to be immensely successful in increasing operational efficiencies by achieving zero logistic defects, product picking, delivery, observing customer path and analysing it. E-commerce giant Amazon has deployed an army of 45,000 robots in

its warehouses in US. Retail giant Tesco has robots, scanning their inventories with increased efficiency and far less errors.

→ **Enhancing in store experience** –

Robots are being used to enhance shopping experience for customers by welcoming them at any outlet, guiding and helping them around the store and making it hassle free for customers. In order to deliver better shopping experiences, few techniques like use of 3D scanner for frame detection of a human body or engagement with customers through speech recognition, are being taken into practice by the use of robots.

The use of technology to bring about efficiencies in retail may drive job losses, but at the same time, it may introduce new types of workers as stores become less about concluding transactions and more about creating a good customer experience. Stores in the future are expected to be staffed with sales associates and their role will be like a personalised consultant for each customer with basic jobs like billing etc. getting robotized.

→ **Social Commerce:** Going forward, the technology will continue to change the rules of engagement. With consumers getting more demanding with time, getting their brand noticed amid all the noise will be a huge challenge for retailers in the future. Significance



of 'S-commerce' or social commerce will significantly increase in the lives of today's connected consumers. More and more pictures and videos of products or brands will be posted by consumers on social networking sites, while sharing their experiences and stories on the web, giving ratings, writing reviews and recommendations.

Key Learning for Retailers Going into the Future

Consumers in India have far evolved and expect their shopping experience to be seamless across every channel be it brick and mortar, an e-commerce website or a mobile app. With these changing consumer demands and expectations retailers are required to work continuously towards gaining a competitive advantage. This can be done by using innovative retail formats



and next gen methods to yield growth throughout various channels of distribution.

The expectation from a modern retail store has transformed completely, as consumers are no longer visiting these stores just to buy the products, but to experience a journey from a soothing entry to a satisfying exit. The idea here is not just the optimization of the experience but also the ability to offer guidance towards the right purchase decision by projecting an understanding of the customer profile.

The effect of digitization on retail has already begun where futuristic retail outlets are expected to be digital kiosks with virtual trial rooms enabled by augmented reality. The capability to break through the status quo with new innovative possibilities is where the future of retail is headed.

Having realised the scope of mass digitization of the retail ecosystem, retailers are required to proactively take steps to fine tune their day to day operations to achieve enhanced customer value. Therefore, retailers need to invest funds towards revitalising the customer experience to build loyalty and stem churn by providing individualised experiences at scale.

With the above and given the great potential in the Indian retail, the future holds a very exciting and rewarding time for all stakeholders in the retail industry. 