

RETAIL INDUSTRY

RESEARCH REPORT ON CHANGING ECO SYSTEM OF INDIAN RETAIL SECTOR OVER THE LAST 2 DECADES

-A Synopsis



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Changing Eco System in Retail Sector in India Over Two Decades

Pandemic-Induced Transformations in the Retail Sector (2021):

The Covid-19 Pandemic Marked A Seismic Shift In Consumer Behavior. Essentials, Groceries, And Digital Products Became Priorities, While Neighborhood Sellers Thrived as Micro-Entrepreneurs Catering to Localized Demands. Innovations Like WhatsApp-Based Commerce and Hyper-Local Delivery Networks Reshaped the Ecosystem. Segments Like Home Furniture and Personal Care Saw Increased Demand, Fueled by Remote Work and Hygiene Consciousness. However, The Scalability and Sustainability of These Micro-Sellers Emerged as Challenges.

Acceleration And Expansion (2012):

In the year 2012, The Indian Retail Sector Witnessed Unparalleled Growth Driven by Rising Income Levels, A Burgeoning Middle Class, And Innovative Retail Formats. Organized Retail Grew To 5% of the $511 Billion Market, With Projections to Reach $833 Billion By 2017. Urbanization Extended Retail Opportunities to Tier ll and lll Cities. The Proliferation of Global Brands and FDI Reforms Further Spurred Market Expansion. Key Growth Enablers Included Improved Mall Management Practices, Evolving Consumer Behavior, And Advancements in Supply Chain Management.

The Dawn of Organized Retail (2006):

The Indian Retail Landscape In 2006 Was Characterized by A Dominance of Unorganized Players, With Organized Retail Occupying Merely 1.2% Of The $245 Billion Market. This Nascent Phase Saw the Emergence of Supermarkets and Convenience Stores Like Apna Bazaar and Food World. Organized Retail Aimed to Address Consumer Demands for Convenience and Variety Under One Roof, Despite Challenges Such as Limited Foreign Direct Investment (FDI) And Competition from Traditional Kirana Stores. Key Drivers Included Growing Consumer Aspirations and Urbanization, With the Textile Industry Playing a Pivotal Role in Apparel Retail.

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Retail Sector – Indian Scenario: 2006

The Indian retail industry is no more nascent today. There has been a significant change in retail trading over the years, from small Kirana Walas in the vicinity to bigsupermarkets; a transition is happening from the traditional retail sector to organized retailing. The unorganized sector still holds a dominant position in this industry. The organized segment holds just about 1.2% of the current US$ 245 billion retail market, which is expected to reach about US $ 385 billion by the middle of this decade.

The organised retail in India is hardly 2% and remaining 98% is unorganized sector. With consumers looking at convenience with multiplicity of choice under one roof and expectations evolving over time, consumer demand is truly the driving force for organized retailing in the country. Food and beverages form the main chunk of theretail market. They are followed by apparel and footwear.

The Indian textile industry, the backbone of the apparel segment, has a large share ofthe Indian economy, accounting for over 20% of industrial production as well as providing direct and indirect employment to around 65 million people.



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The organized segment of the retail industry has grown past the 1% share during the year, from 0.6% of the market three years back. The establishment of supermarkets and convenience stores has been a great effort to communicate the advantages of organized retailing to customers. With supermarkets like Apna Bazaar, Sahakari Bhandar, 9 to 9, Food World and Margin Free shops providing easy access to goods at reduced prices, with few even providing a constant supply of foreign goods, the organized sector does attract the bargain hunter's attention. Though the Indian retail industry is still a "protected industry" from the standpoint of foreign direct investment (FDI), the government is expected to provide some flexibility on this front. Though FDI can help generate employment in this sector, it is likely to pose stiff competition for existing small businesses. Unlike the country's FDI investment objective of technology transfer and export promotion of the 1980s, today's infusion of capital – specifically in the retail segment - can bring to the table issues on size of investment, actual inflows and domestic company take-overs. Given the constraints, FDI should be viewed as a developmental resource that can help in restructuring the industry. It should be aimed at filling up the resource and technology gaps in the retail segment.





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Retail Sector – Indian Scenario: 2012

The retail sector in India is witnessing unparalleled growth. Unmatched demographics, rising income levels, shifting lifestyles and changing aspirations of the burgeoning middle-class have unleashed a retail revolution in the country. Fresh retail geographies are emerging, innovative formats are being introduced, and retailers are tapping new customer segments with prolific product offerings.

Consumer spending in India has increased by an impressive 75% in the last four years and will quadruple in the next twenty years. (source: AT Kearney)

The Indian retail market which is currently valued at $511bn, is projected to grow to $833 bn in the next five years. Organised retail that currently accounts for less than 5% of the total retail market is expected to grow with a CAGR of 40% to swell to $107 bn by 2013. So compelling is the opportunity and potential presented by the retail sector in the country that apart from expansive market penetration plans of Indian retailers, a multitude of international brands and retailers have either already established themselves in the market or are aggressively securing a presence through joint-ventures, franchisee and other arrangements.



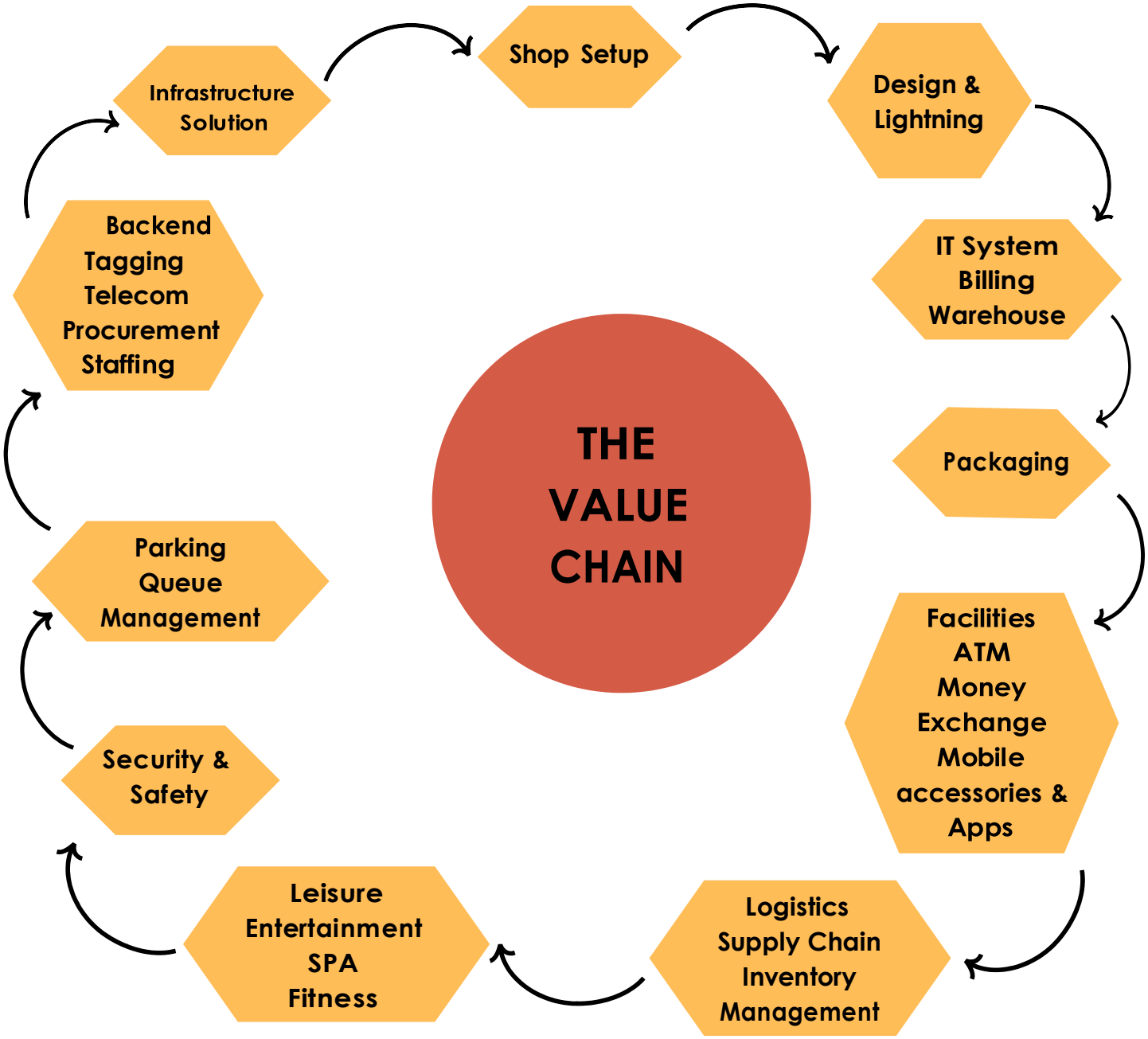
Total retail sales in India will grow from US$ 395.96 billion in 2011 to US$ 785.12 billion by 2015, according to the Business Monitor International (BMI) India Retail Report for the second quarter of 2011. Strong underlying economic growth, population expansion, the increasing wealth of individuals and the rapid construction of organized retail infrastructure are key factors behind the forecast growth. With the expanding middle- and upper-class consumer base, there will also be opportunities in India's tier II and III cities.

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Organized retail in India is expected to increase from 5 per cent of the total market in 2008 to 14-18 per cent and reach US$ 450 billion by 2015.
(Source: McKinsey & Company report titled 'The Great Indian Bazaar: Organised Retail Comes of Age in India')

The Indian Retail Sector:

- Is ranked as one of the world's most exciting retail destinations
- Is witnessing a high rate of growth for the organised sector
- Is frequented by consumers who have some of the highest consumer confident levels



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Growth Drivers:

- Media Proliferation
- Availability of quality real estate & Mall Management practices
- Availability of brands and merchandise
- Enhanced Funding Options
- Changing Trends in the Indian Consumer Behavior
- Rising income levels
- Young population with high disposable income
- Changing Lifestyles and Buying Pattern of Urban consumers
- Increasing Awareness
- Impact of globalization
- Inbound tourists, shopping

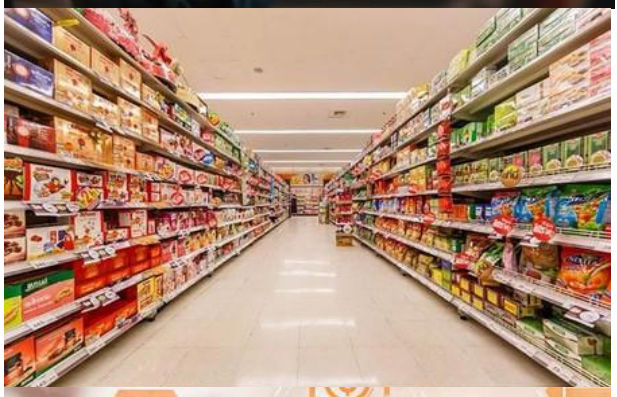
Technology:

- Role of Technology in Retail
- Supply Chain Management – a) Article Numbering (b) Efficient Consumer Response Logistics Management
- Inventory Management
- Emerging Technologies – a) CRM b) OLAP c) Systems Analysis and Program (SAP) d) Radio Frequency Identification (RFID)

Critical Success Factors:

- Location Merchandise
- Knowledge and Information Customer Satisfaction
- Ability to acquire the right products
- Product Presentation/ Placement
- Traffic Building
- Layout
- Keeping Pace with Technology







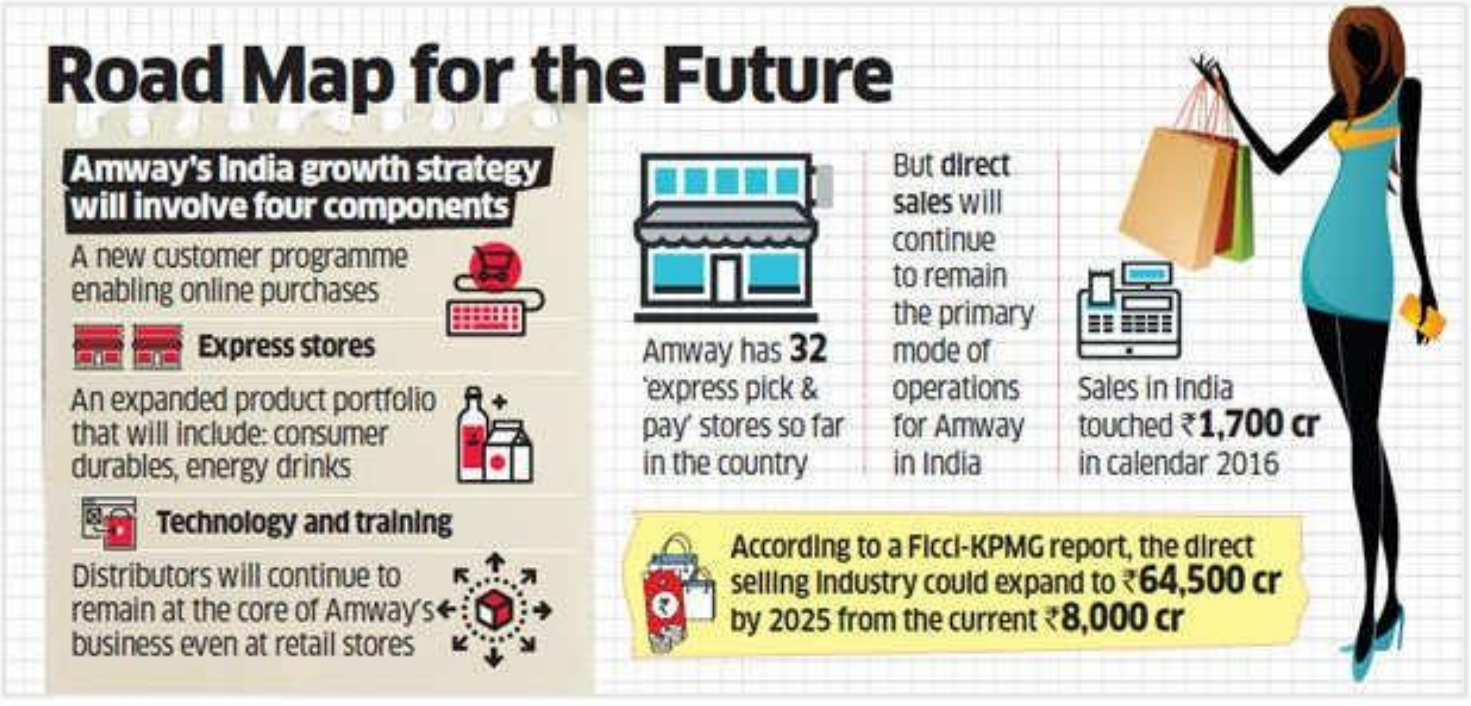




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Future Outlook:

- Investment will increase
- Changing Consumer Demographics will affect Retail Sales
- Regional differences will stay
- Retailers would adapt more than one format
- Dual focus on costs and time
- 24 hours of retailing
- Small retailers will coexist
- Supply chain dynamics
- Internet



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Retail Sector – Indian Scenario: 2021

Emergence of Micro sellers- 600 Crs Market and an Underlying Opportunity

There has been a huge shift in buying behavior during the 1st and 2nd lockdown and at the verge of end of COVID. The shift has been predominately from nonfood to food and essentials, perhaps Mobiles, Laptops, Tabs and accessories has been categorized as essentials.

While the 1st Phase has been dominated by Kirana Stores, who came in as a savior even though with limited stocks, then with the opening of e retail where in the demand was on groceries and Ready to Eat (RTE's)

Learnings from the pandemic is Direct to Customers, approach has necessitated companies to shift their product offerings with enhanced focus on Health and Hygiene, at the same time this created more entrepreneurs in the Neighborhood catering to homegrown products ranging from cold pressed oils to jaggery as a direct substitute for sugar for instance in large societies in Metros has been their easy target, the neighborhood Sales Aunty were able to provide from groceries to readymade garments/ Dress material with extended tie up of tailoring facilities as a extended support system where by creating a value chain

While the 3 stars and 5 stars hotels were offering take away facility to keep their kitchen active and calibrated, the Dubba Walla's and housewives found and opportunity especially for Cakes in the society (approximately 4-5 birthdays in a week) in such situation even thought they were aware of this temporary phenomenon, but some have established this as a business model too. Maybe we may witness unicorn too.

Yes, some of the brands were able to do a bit of damage control like Big bazaar etc setting up store in the weekend in the housing societies especially for groceries, some brands did few promotional activities/ knockdown sales. But the vacuum still remains as a scar.

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I was just scrolling down on my smart phone on digital payments over the year or so, was grossly surprised to see the average payment value is still in 3 digits which were made to local food joints, snackies (of course all homemade and delivered at Neighborhood) .

The question remains will this habit and taste buds shift back to restaurants; we need to wait and watch.

Let's move to a different segment, which witnessed a surge in demand, Home furniture, WFH has necessitated the same, which all of us are aware, what was surprising was home furnishing, as people were bored of seeing the same curtains or the paintings , which they have never noticed over the years or not given a thought, DIY kits have made a good entry points as a hobby not the kids for the adults like changing the changing of the walls/ decal designs and fixture Digital learning, what I mean is for the adults, which made a solid inroad enabling people to upscale/ reskill.

The other segment which witnessed a high growth is the personal care products, while high end products like for the HNI took a hit shrinking the market size, Homemade/ handmade soaps and shampoos made a quick entry for short term yield.

I was wondering how does this eco system works

a) WhatsApp groups
b) Telegram
c) Instagram
d) The most important in the large societies are the apps (My adda, My Gate etc.)

Do we call these new retail marketers as COVID INNOVATIONS/ SMALL BUSINESS HOME BUSINESS

Still wondering how large retail chains missed this opportunity to stay connected with their customers, why they did not leverage on the huge amount of data and the analytics grossly failed to map this segment creating different type of competition from unknown sources.

But the challenge still remains in scalability and sustainability of these new entrants "MICROSELLERS".

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Retail Sector – Indian Scenario: 2023

The organized sector of Indian retailing is evolving rapidly with new entrants, which span fashion and apparel, beauty, electronics, and furniture. With increased competition and investment in retail, consumers will benefit through lower prices, and wider and more localized assortments, while driving improvement in supply chain logistics.

These new-age retailers are under tremendous pressure to grow rapidly, and at the same time, deliver on aggressive margin goals demanded by their investors. To gain this operational efficiency, they need to offer assortments that align with the needs of the consumer at specific store locations and make changes to merchandising and supply chain processes, to deliver on this hypergrowth.

This requires a digital transformation in planning and decision-making across stakeholders, processes, and technologies. New-age retailers need to upend their current manual and largely spreadsheet-driven operating model, with a digital operating model, so that they can quickly analyze, optimize, and evaluate interconnected decisions before taking action.



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Here are some key areas of retail where digital can play a transformative role:

Merchandizing - Merchandise Financial Plans are mostly manual with sales and receipt projections planned with growth assumptions over the previous year. This needs to be digitally transformed with planners providing inputs such as new store openings, new product introductions, marketing spending, and promotion calendars so that the system can build robust plans. Planners can make overrides and adjustments and manage by exception. This will take the manual decision-making and bias away from this process and provide a perfect balance of art and science. Planners can now spend time devising strategies for merchandise categories keeping the end consumer in mind, instead of building plans manually.

Assortment Planning - Hyper-localized assortments, considering local consumer demographics, are as important in new-age retail as it is in traditional retail outlets. Curating the right product ranges to the right stores to provide a personalized assortment to consumers is critical, and needs to be digitally transformed, with advanced clustering techniques based on multivariate algorithms that consider many inputs, including past-buying patterns, income levels, seasonality, and regional variations.

Replenishment and Allocation - With thousands of items and many channels (buy online/home delivery, click-and-collect, store purchase), it is difficult for allocators and replenishment planners to manage each item and store combination, yet achieve the most optimal results with the right product at the right location. Digital transformation requires a forecast-driven approach to allocation and replenishment, freeing up a lot of time for planning teams and allowing them to strategize the inventory placements to the locations where it can sell quickly.

Demand Forecasting - Demand uncertainty of innovative items, seasonal, short lifecycle, or high-fashion products is a big challenge for new-age retailers. Using newer forecasting techniques available with Artificial Intelligence and Machine Learning, and leveraging external data such as incomes, interest rates, weather patterns, and demographic data, reduces forecast error at the point of purchase. This means increased revenue due to lower stockouts, more satisfied customers, and lower supply chain inventory and transportation costs. In addition, digital transformation drives automation with touchless forecasting and replenishment, with planner attention and input driven by exceptions.

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The Emergence of Integrated Retail Data and Analytics Platforms

It becomes clear that the key asset that needs to be leveraged is data across the retail enterprise that must be converted to knowledge and insights. Planners, merchants, and allocators spend a lot of time and effort collecting data spread across multiple systems such as spreadsheets, data marts, ERPs, and data lakes to glean insights.

A data platform to store this data across multiple systems in one place would allow the planning teams to focus on the high-value-add tasks instead of spending time gathering data, and cleansing, aggregating, and maintaining it. Such platforms also model the assortment and the retail supply chain to provide insights and recommendations on assortments by location, optimal price points, promotions and markdowns, and the timing thereof, as well as the amount of inventory to be held at every node in the supply chain.

New-age retailers have no choice but to invest in such data and analytics platforms, as well as the talent with the necessary skills, to digitally transform the way their businesses are run to deliver profitable hyper-growth.

Increasing disposable income is allowing Indians to move up the value chain and ask for products for different use occasions, further leading to the surfacing of new product segments in footwear in terms of price, performance, and aesthetics. This, in turn, is fuelling growth in individual categories, be it slippers, sandals, or shoes, driving industry leaders to innovate their offerings continually.



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Customer Preferences:

"Consumers increasingly expect to be able to shop anywhere and anytime across multiple channels."

Millennials - More than 70% in urban areas and 55% in small towns have shown a flair for online shopping across clothing, footwear, electronics, cosmetics, gifts and essential items (Grocery and Toiletries)

Preference for in-store shopping among Indian consumers of all generations corresponds with their desire to try on an item before buying. This is consistent with the APAC and global sentiments. Examining the products remains the top reason driving people to brick-and- mortar stores across most categories; with the exception of essential items where immediate availability of products takes priority. The ready availability of products across homeware/ home decorations and furnishings, etc., DIY (Do-It-Yourself), luxury/jewelry, and cosmetics segments has also been rated as the second most important reason by Indian shoppers.



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Sustainable Consumerism on the Rise:

Sustainability amongst customers has induced to buy environment-friendly products despite the additional cost associated with it and the sentiment is stronger among the older generation - early millennials, Gen X, and baby boomers. This demographic includes mostly high-income earners residing in city centres who are homeowners with a certain sense of security and are in a position to make sustainable choices while buying any product.

Especially late millennials have stated that they have purchased more locally sourced products and smaller / independent brands. Shoppers have also indicated their attempt to reduce consumption not only in a bid to be sustainable but also frugal. High price points of certain products and a desire to have varied options have led many of the young respondents to rent instead of buy.

Work:

While hybrid working (hybrid working excludes both 'fully office' and 'fully remote' categories) has been more widely adopted and people preferred to work at least three days from the office. However, a slight variation in trends amongst genders is visible as female employees tend to place a greater emphasis on flexibility when evaluating potential job opportunities, as they may have higher family commitments and strive for a better work-life balance by preferring to work remotely. Preference for working in an office under the hybrid working model is likely to increase.

The impact of the work patterns would reflect in customer buying pattern in the cosmetic industry.







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Green Consumerism is in raise:

People have consciously decided to use green makeup products. Why? Customers today are better known than ever before. They have opted to be cautious about what they choose to put inside their bodies and faces, especially after the pandemic. As a result, we're moving towards a new normal.

Sustainability is a force in the beauty industry, with its environmental and social dimensions. Today, 76 percent of consumers intend to purchase sustainable cosmetics, with Millennials (80 percent) and Gen-Z shoppers (86 percent) being the most likely to do so. 64 percent of global citizens are willing to pay more for sustainable products. Products marketed with sustainable claims grew 7.1 times faster than those without such claims. The pandemic has pushed sustainability to the forefront and is now a top priority for many cosmetic companies.

Consumers are increasingly demanding cleaner products. They are campaigning to eliminate chemicals from makeup products and lending support to environmentally responsible businesses. In addition, the pure beauty market is expected to reach $22 billion by 2024. Hence, even the brands that are not labeled clean have an essential decision to make to remain significant.

Where there is a demand, there is a supply. Many homegrown brands now understand the importance of venturing into sustainable business trends. That is how we can see different industries shifting towards cleaner products and services for the consumers' needs.

Saving the Ocean - Customers seeking clean beauty products also know the importance of purchasing products that focus on waste reduction. When a brand uses reusable packaging in the long run, it helps ensure it does not clog landfills or pollute the oceans



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Sustainability and Packaging:

Brands that believe in delivering plastic-free and zero-waste solutions have experienced increased demand. The number of internet searches for plastic-free products has increased 87 percent in the last year. Customers are also gravitating toward such businesses as a result of their own conscious decision.

Sans Parabens - Butylparaben, methylparaben, ethylparaben, and propylparaben are chemical preservatives labelled at the back of the product. Parabens are known to imitate the hormone estrogen and to penetrate deeply into the skin's matrix, where they can accumulate over time. As a result, there has been a significant shift in the number of brands that curate paraben-free products

Changing Trends in Retail: Hygital Retail is Here to Stay:

The future of beauty will reside in an omnichannel experience, bringing offline and online closer with the advent of a host of digital tools to enhance the consumer experience. Moreover, in the coming years, brands are increasingly going 'phygital', ensuring both online and offline experiences. For beauty brands, the future is phygital, which gives business practices and shopping experiences a combination of physical shopping touch points with digital technologies to keep the customer experience at the forefront.

Phygital retail has had a positive impact on businesses because it allows consumers to order online and pick up in-store. It remains to be an incredibly important and strategic channel for enhancing sales. It is essential for brands, with a special emphasis on emerging brands, to be strategic about their retail strategy, who they enter partnerships with, what the rollout look like, how much support they are receiving, what are the working capital requirements, what is the margin profile, etc. Some retail stores can be very instrumental for brand awareness and give consumers the opportunity to interact in real life with the brand.

The move to phygital allows brands to get a better understanding of the consumer journey and ultimately provides an immersive shopping experience.

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The Shift in Consumer Lifestyle Habits:

As the post-pandemic outlook of international beauty brands sees a wave of change, the $11 billion Indian market, as per statistical data, continues development by revamping brands and finding a way to target India's young consumers.

The Indian beauty market is expected to touch $30 billion by 2025 and relies heavily on multi-brand online stores. The key reasons contributing to the growth of this space are market drivers, such as the increasing number of smartphone users in the country, the distribution of the internet, and the continuing rise of India's young, aspirational workforce, among others. With the start of the pandemic, consumers were controlling their expenses and limiting them to small indulgences. On the other hand, now, they are seen moving towards revenge spending and the lipstick effect, which are significant contributors to the growing skincare and beauty market.

A strong case could be made that the influence of digital marketing and social media has gone deeper, and faster in beauty than in any other FMCG industry. To a large degree, consumers seem to be acting on that idea of learning about products through content rather than advertising. Color cosmetics products particularly appeal to millennial buyers because of their visual nature. Traditional product marketing vehicles, such as in-store displays, print advertising, and television commercials, therefore influence millennials less. As beauty consumers, they are quick to try new products, and they change their preferences often.

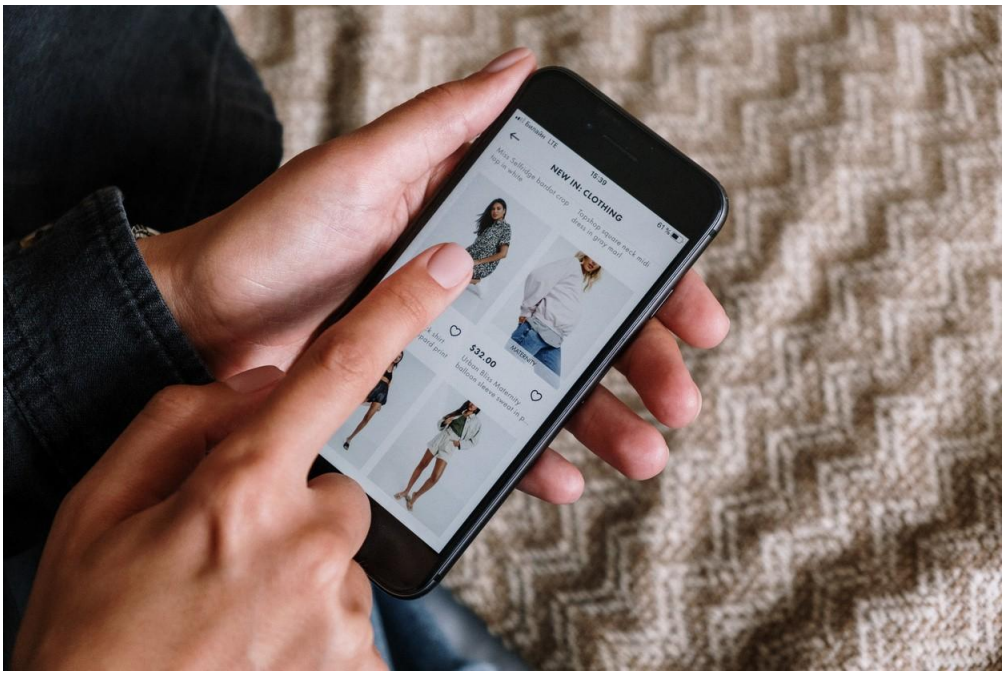


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Influence of Social Media Marketing on Digital Retail:

When it comes to their purchasing decisions, today's consumers are turning to social influencers for their buying decisions. Millennials seek out people they can relate to online and hold their online communities' opinions in high regard. As mobile devices drive the majority of global internet traffic, social media platforms are now conversational hubs where product information and experiences are shared between consumers. This is particularly true for the beauty industry, where social media platforms are key to engaging customers with the brand's content to increase sales. Along with targeted social ads, brands are now communicating their core values, developing their 'social tone of voice, and engaging with customers using stories that connect with followers on a personal level to instill confidence and provide product knowledge. Leading international and small-scale brands post tips on how to use their products with multiple images or videos, launch mini-campaigns, constantly incorporate editorial content, and publish exclusive 'social media only' competitions to stimulate engagement and increase their user base.

Over the coming years, holistic approaches to biometric data and blurring lines between social media and online retail will encourage brands to drive unprecedented customization of the shopping experience. A retail social media strategy is essential for increasing in-store and online sales, building relationships with customers, establishing your brand, and improving your share of a customer's spending. The benefits of social media for the retail business compound when you think about the number of users. An effective strategy gives shoppers the chance to find and shop with you.



CHANGING ECO SYSTEM OF INDIAN RETAIL SECTOR

The pandemic saw e-commerce capture a growing share of the beauty market. Innovations launched out of necessity at a time of social isolation have established a firm foothold and are now setting the strategic agenda for beauty sales into the future. As beauty brands continue to evolve in the post-pandemic world and look to the future, they must prioritize technologies that enable personalized and engaging phygital shopping experiences. Beauty tech is one of the most effective tools for creating impactful phygital experiences that combine the personalized touch of in- person shopping with the ease and convenience of digital platforms.

Online retail to account for 10.7% of India retail market by 2024, the size of the retail market is expected to touch USD 2 trillion by 2032, The contribution of online retail in the total retail market in India is expected to touch USD 2 trillion by 2032.







An Economical Summary of the Retail Sector's Evolution in India Over Two Decades

The Digital and Phygital Revolution (2023):

By 2023, the retail sector embraced digital transformation, integrating data-driven insights for enhanced merchandising, hyper-localized assortments, and precise demand forecasting. The shift towards a phygital model—blending physical and digital retail—became a cornerstone, offering immersive consumer experiences. E-commerce penetration deepened, accounting for 10.7% of the market. Sustainability emerged as a key consumer priority, influencing choices in beauty, apparel, and home care. Social media and influencer marketing further reshaped consumer engagement.

Key Trends and Drivers:

- Technology Integration: Retailers adopted AI, ML, and digital platforms for inventory optimization and personalized shopping experiences.
- Sustainability and Green Consumerism: Consumers favored eco-friendly and ethically sourced products, driving changes across industries.
- Omnichannel Retailing: A seamless blend of online and offline experiences redefined convenience.
- Evolving Consumer Preferences: Millennials and Gen Z prioritized digital engagement, sustainability, and localized offerings.
- Resilience and Innovation: Small and large retailers adapted to challenges, leveraging digital tools and community-driven models.

Future Outlook:

India's retail market, projected to reach $2 trillion by 2032, will continue evolving through technological advancements, regulatory reforms, and demographic shifts. Organized retail will gain a larger share, while micro and e-commerce businesses will coexist, addressing diverse consumer needs. Retailers must focus on agility, sustainability, and customer-centric strategies to thrive in this dynamic landscape.

This journey reflects not just economic growth but also a transformation in cultural and technological dimensions, heralding a promising future for Indian retail.