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The state of grocery retail in India

January 2022





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Preface

With 12 mn grocery retail outlets, a million wholesalers and distributors,¹ and a multi-tiered structure, the Indian grocery retail ecosystem is one of the most complex in the world. Over the past 10 years, gradual shifts, such as the onslaught of modern trade, the entry of cash and carry, the advent of the e-commerce revolution and, more recently, the growth in new-age B2B providers have begun to transform this ecosystem.

To add to it, the Indian consumer has been evolving dynamically in their quest for convenience, health and value. The pandemic that forced everyone to stay home further accelerated many of these trends.

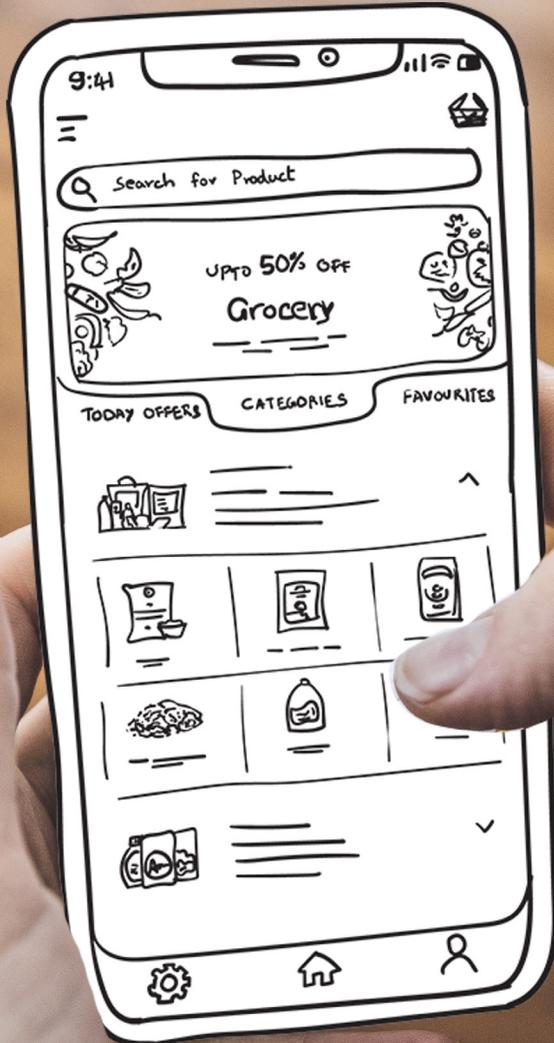
The year 2021 was defined by sinusoidal changes and uncertainties for the Indian consumer, and consequently for grocery retailers as well. The grocery landscape has a transformation underway, with multiple winds guiding this shift:

- **Digital adoption:** With close to 500 mn² Indians connecting on the Internet and more than 100 mn making transactions, the country has seen one of the fastest accelerations in digital adoption anywhere in the world
- **Innovation:** Rapid digitization has made way for new start-ups, which have built or adapted their operating models to the Indian context
- **Direct-to-consumer (D2C):** A market-shifting force that is transforming the way Indians shop

These changes in the grocery retail landscape are giving brands and retailers much to think about in the pursuit of popularity and profitability. The eventual path to success for retailers seems to be to strengthen their core and be the first to develop new capabilities in omnichannel, analytics and personalization. For brands, it could be critical to think about strengthening their core channels while building new ones and also embedding the capabilities required to sustain these shifts.

¹ <https://www.financialexpress.com/industry/how-indias-12-million-kirana-stores-becoming-corner-stone-of-growth-plans-of-reliance-retail-amazon-flipkart/2033468/>

² The Future of Internet in India, NASSCOM report, 2020.



9:41



Search for Product

UP TO 50% OFF
Grocery

TODAY OFFERS

CATEGORIES

FAVOURITES



Product card placeholder with horizontal lines



Product card placeholder with horizontal lines





The changing face of demand

01

The next-generation
consumer

02

Two epicentres
of growth

A source of sustenance and nourishment for human beings, grocery and its retail are heavily defined by the needs of its consumers. As the nature of demand changes in India, it will determine the way the grocery retail industry responds and evolves.

Two major forces of change are shaping preferences and demand in the grocery retail space. One is the sheer knowledge to which the average Indian consumer has access, transforming their and their household's shopping behaviour. Four key themes are currently influencing consumer choices: value, digital offerings, willingness to experiment and preference for niche items. The second shift is where this demand is coming from – the epicentres of growth momentum continue to be polarized between urban and rural areas in India. While the semi-urban areas and emerging cities are expected to drive the next wave of value growth due to the rapid rate of urbanization, rural demand is likely to continue driving volume growth.

01

The next-generation consumer

With half a billion internet subscribers, digital adoption in India has fundamentally changed the access to information and choices for households³. “Stay-at-home” access to a customized assortment of thousands of stock-keeping units, the irresistible option to compare prices across multiple platforms, and the expectation of doorstep delivery all mean the customer can cut through the clutter and make discriminating choices from the comfort of their sofas.

These choices are manifesting themselves in the way consumers interact with brands, and how they choose among different channels and options available to them. A McKinsey survey of around 1,000 respondents across urban and rural locations in India has led us to identify four shifts in consumer behaviour.

Quality and Value as core

Over half of all respondents from the four regions – East, West, North and South India – shared that quality and value are two of their key criteria while buying groceries (Exhibit 1). Nearly a third of the respondents consider the “best balance” between good price and good quality as the most important criteria for purchase.

44%

Consumers consider value to be a key factor in deciding where to buy groceries

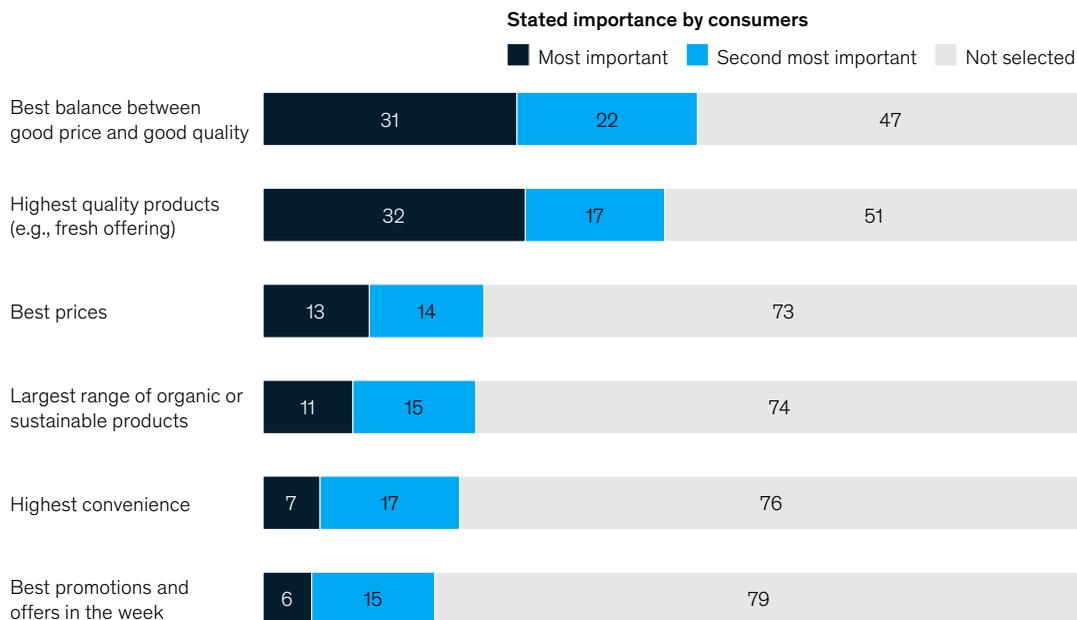
³ <https://www.mckinsey.com/business-functions/mckinsey-digital/our-insights/digital-india-technology-to-transform-a-connected-nation>

Exhibit 1

Almost a third of Indian consumers consider balance between quality and price to be a key factor influencing purchase behaviour.

Which factors influence where to shop for groceries?

% of respondents



Source: McKinsey & Company COVID-19 India Consumer Pulse Survey November 2020, n = 1,091, sampled and weighted to match India's general population 18+ years

In a McKinsey survey of 1000 people, conducted in Nov 2021, nearly 50 percent respondents selected value as the primary reason for switching to a new brand since the pandemic began, especially in the baby boomers and Gen X segments (Exhibit 2).

74 percent of the consumers, in the same survey, expect to spend extra to “splurge or treat themselves”, especially Gen Z and millennials (Exhibit 3).

Value is the biggest driver for alternative shopping behaviour.

Reason for trying a new brand since COVID-19 began¹

% of respondents selecting reason in top 3

Difference from all respondents, Percentage points

■ < -3
 ■ Between -3 and +3
 ■ > +3

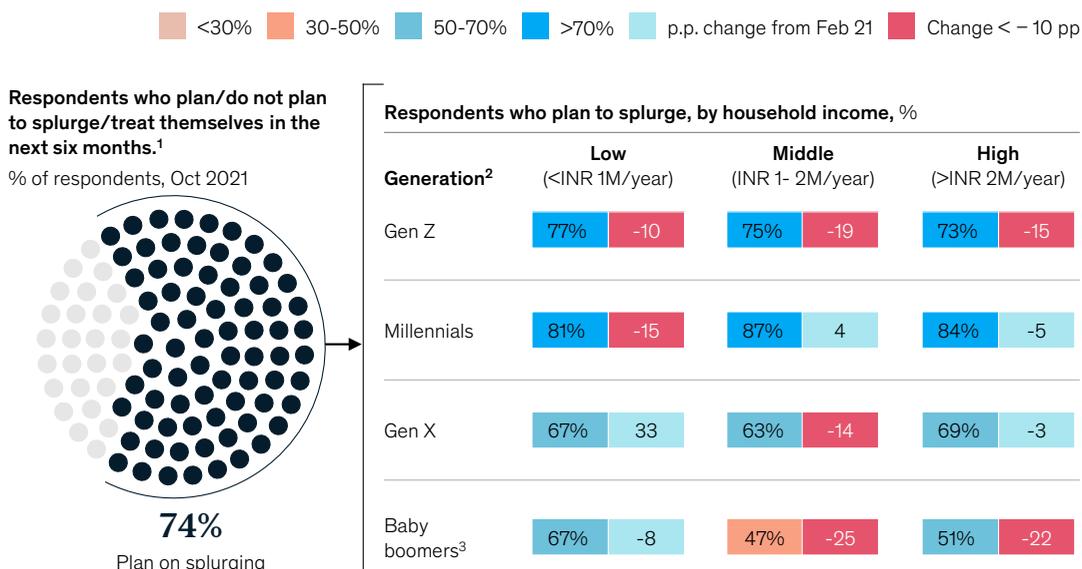
	Net % of respondents per category	All consumers		Difference from all respondents, Percentage points			
				Gen Z + millennials	Gen X	Baby boomers ²	
Value	60	Better prices/promotions	25	< -3	21	> +3	33
		Better value	23	Between -3 and +3	22	Between -3 and +3	33
		Better shipping/delivery cost	17	Between -3 and +3	17	Between -3 and +3	20
		Larger package sizes	11	Between -3 and +3	13	Between -3 and +3	8
Quality/organic	46	Better quality	32	Between -3 and +3	31	Between -3 and +3	39
		Natural, organic	20	Between -3 and +3	20	Between -3 and +3	25
Purpose-driven	39	Is more sustainable/better for the environment	13	Between -3 and +3	13	Between -3 and +3	15
		Supporting local businesses	12	Between -3 and +3	12	Between -3 and +3	14
		Shares my values	11	Between -3 and +3	12	Between -3 and +3	6
		The company treats its employees well	9	Between -3 and +3	9	Between -3 and +3	6
Novelty	32	Wanted to try a new brand I found	19	Between -3 and +3	20	Between -3 and +3	12
		Wanted to try a type of product I've never tried before	14	Between -3 and +3	14	Between -3 and +3	17
Personal choice	29	Wanted variety change from my normal routine	15	Between -3 and +3	17	Between -3 and +3	8
		Wanted to treat myself	14	Between -3 and +3	15	Between -3 and +3	13
Health/hygiene	16	Is cleaner/safer	16	Between -3 and +3	16	Between -3 and +3	13
Availability	15	Products are in-stock	15	Between -3 and +3	17	Between -3 and +3	13
Convenience	13	Available where I'm shopping (i.e., in-store or online)	13	Between -3 and +3	12	Between -3 and +3	22

¹ Q: You mentioned you tried a new/different brand than what you normally buy. What were the main reasons that drove this decision? Select up to 3 relevant reasons. "Brand" includes different brand, new private label/store brand. Over-arching reason based on % of individual respondents responding to at least one reason in the group.

² Baby boomers includes silent generation.

Source: McKinsey & Company COVID-19 India Consumer Pulse Survey, October 2021, n=1,002; February 2021, n = 1,019; sampled and weighted to match the US general population 18+ years

74% of consumers plan to treat themselves/splurge in the next six months.



¹ Q: With regard to products and services you will spend money on, do you plan to splurge/treat yourself in the next six months. For example, are there categories of products or services you have spent less on over the last year and half which you feel you will spend more on now?.

² Q: You mentioned that you plan to splurge/treat yourself in the next 6 months. Which categories do you intend to treat yourself to? Please select all that apply.

³ Baby Boomers includes silent generation.

Source: McKinsey & Company COVID-19 India Consumer Pulse Survey, October 2021, n = 1,002, February 2021, n = 1,019; sampled and weighted to match the India general population 18+ years

This spend is likely to increase across several categories, notably, grocery, personal care, vitamins and OTC medicines and wellness/fitness (Exhibit 4).

Flight to digital

Customers have relied heavily on online channels over the last year for grocery purchases. Online platforms have been the biggest gainers of this preference, with large e-commerce players witnessing high customer traffic on their portals ⁴.

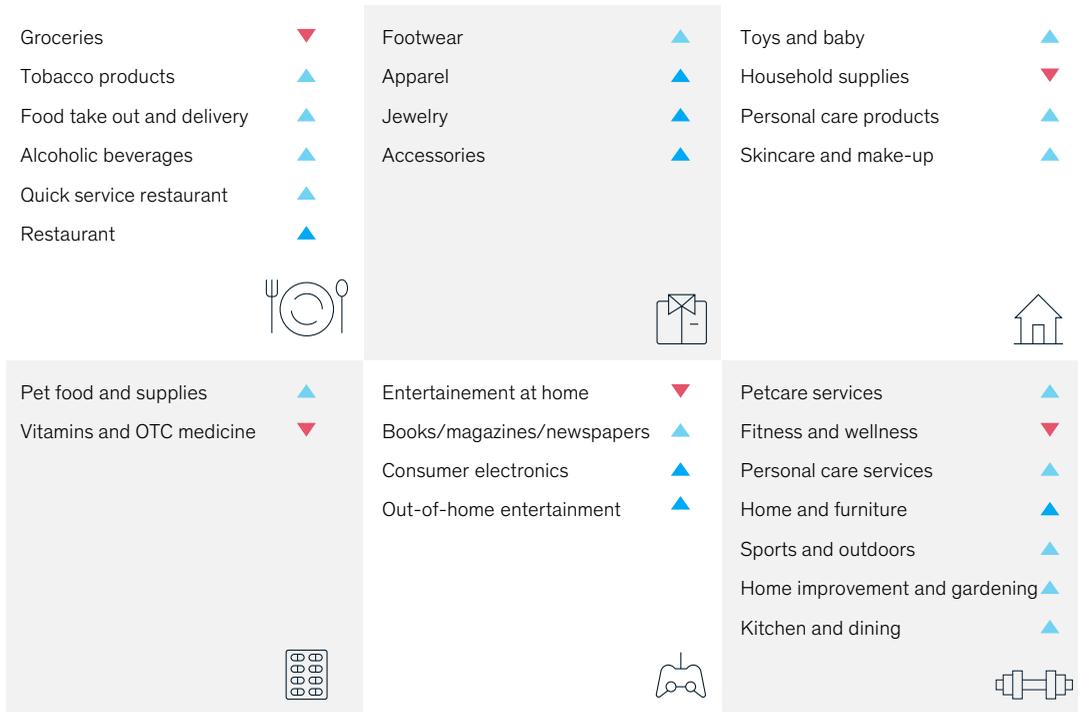
⁴ Industry conversations.

Consumers intend to spend more on discretionary categories, especially personal care or entertainment.

Expected spending per category over the next two weeks¹ compared to post COVID-19²

% of respondents

Net intent evolution ▲ Above +25 ▲ +15 to +25 ▲ 0 to +15 ▼ Below 0



¹ Q: Over the next two weeks, do you expect that you will spend more, about the same, or less money on these categories than usual? Figures may not sum to 100% because of rounding.

² Q: Once the COVID-19 crisis subsides (i.e., once there is herd immunity), do you expect that you will spend more, about the same, or less money on these categories than during the COVID-19 pandemic? Figures may not sum to 100% because of rounding.

Source: McKinsey & Company COVID-19 India Consumer Pulse Survey February 2021, n = 1,019 ; November 2020, n = 1,091, sampled and weighted to match the India general population 18+ years



Our survey indicates that over 60 percent consumers use omnichannel for purchases in all categories (Exhibit 5).

More than 60 percent consumers intend to continue to use online as an alternative to in-store shopping, in-grocery shopping and take-outs (Exhibit 6).

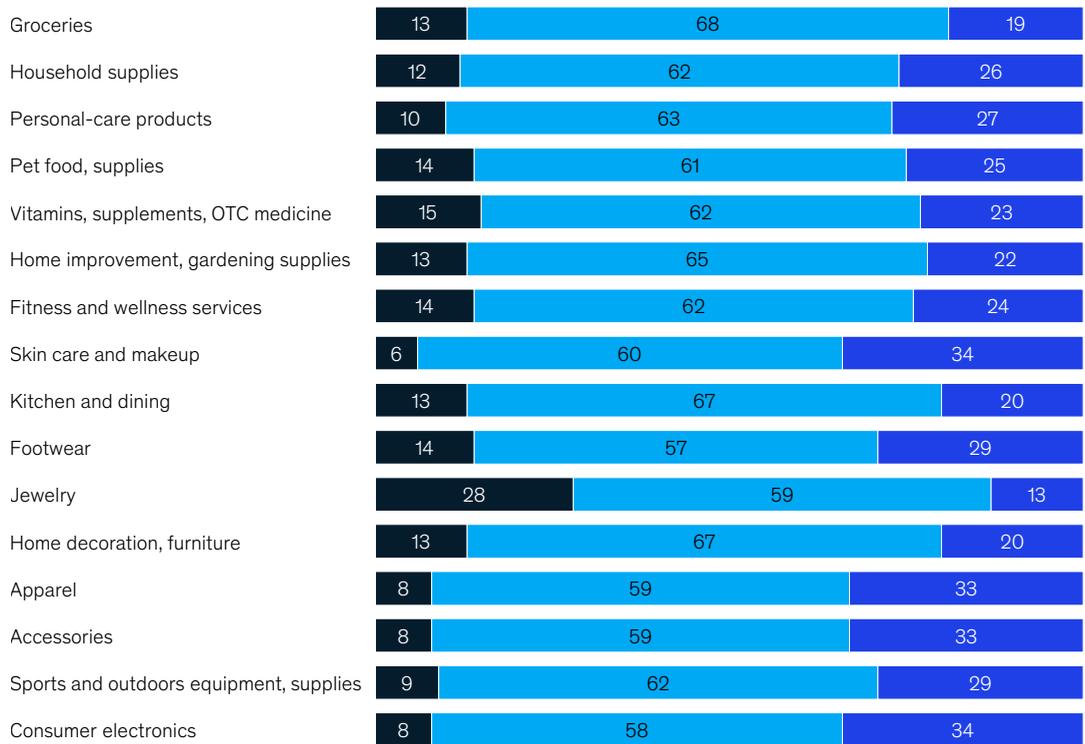
Exhibit 5

More than 60 percent consumers use omnichannel for purchases in all categories.

Product searches and purchases by channel^{1,2}

% of respondents who purchased in these categories in the last 3 months

■ In store ■ Omnichannel ■ Online



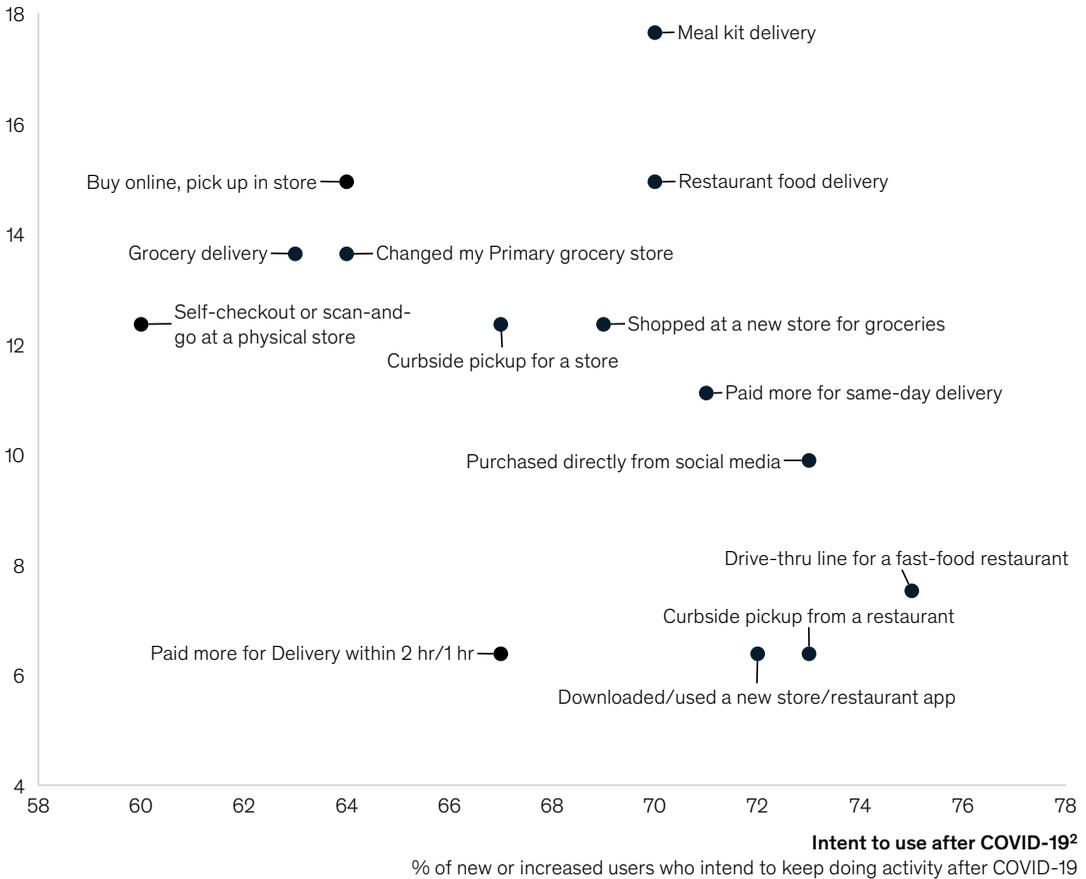
¹ Q: Which best describes how you have purchased the following categories over the last 3 months?

² Q: Which best described how you have researched the following categories over the last 3 months?

Source: McKinsey & Company COVID-19 India Consumer Pulse Survey, October 2021, n = 1,002, sampled and weighted to match the India general population 18+ years

Alternatives to in-store shopping grew during COVID-19 and 60 to 70 percent of consumers intend to continue their use.

User growth since COVID-19¹



¹ User growth is calculated as % of respondents who replied that they are new users over % of respondents who replied that they were using the product/service pre-COVID-19 (using more, using the same or using less) on Q: Which best describes when you have done or used each of these items?
² Q: Compared to now, will you do or use the following more, less, or not at all, once the coronavirus (COVID-19) crisis subsides (ie, once there is herd immunity)? Possible answers: "will stop this"; "will reduce this"; "will keep doing what I am doing now"; "will increase this." Number indicates percent who chose "will keep doing what I am doing now" and "will increase this" among new or increased users.

Source: McKinsey & Company COVID-19 India Consumer Pulse Survey, October 2021, n = 1,002, sampled and weighted to match the US general population 18+ years

Social Media is emerging as a prominent influencing medium for purchase decisions across all categories, especially among millennials (Exhibit 7).

Exhibit 7

Millennials most influenced by social media for their purchases across all categories.

Categories where respondents were influenced by social media¹

% of all respondents who purchased in these categories in the last 3 months

Difference from all respondents, Percentage points

Red: < -3 Blue: Between -3 and +3 Teal: > +3

Categories	%	Generational cut			
		Gen Z	Millennials	Gen X	Baby boomers ²
Fitness & wellness services	73	66	77	71	63
Accessories	73	74	76	70	65
Sports and outdoors equipment and supplies	70	61	71	74	75
Home decoration and furniture	69	66	75	66	51
Home improvement and gardening supplies	68	59	71	65	69
Skincare and make-up	68	75	73	61	52
Consumer electronics	68	67	70	67	60
Apparel	67	71	71	65	47
Personal care products	66	72	71	59	48
Jewelry	65	67	70	51	67
Footwear	63	68	75	51	37
Pet food and supplies	56	55	64	51	14
Kitchen and dining	55	52	64	50	38
Vitamins, supplements, over-the-counter medicine	54	49	68	46	30
Groceries	52	51	61	47	28
Household supplies	51	45	63	44	34

¹ Q: Think about the purchases you have made in the following categories over the past 3 months. Were you influenced towards a certain brand by a post on social media in the following categories?

² Baby boomers includes silent generation.

Source: McKinsey & Company COVID-19 India Consumer Pulse Survey, October 2021, n=1,002; February 2021, n = 1,019; sampled and weighted to match the US general population 18+ years

Shock to loyalty

Consumers are finding it easy to switch brands as they continue their quest for variety, quality and value. Over the past year, almost all respondents tried a new shopping approach. This change in behaviour has been much more extensive among younger consumers (Exhibit 8).

Preference for niche items

At least 70 percent of respondents are determined to purchase groceries to sustain healthy and nutritious eating in

2021 compared to 2020. Over half of these respondents intend to spend more on organic ingredients (Exhibit 9). While organic foods seem to be a big stated trend, the likelihood of conversion to such preferences through online or offline sales remains to be seen.

Exhibit 8

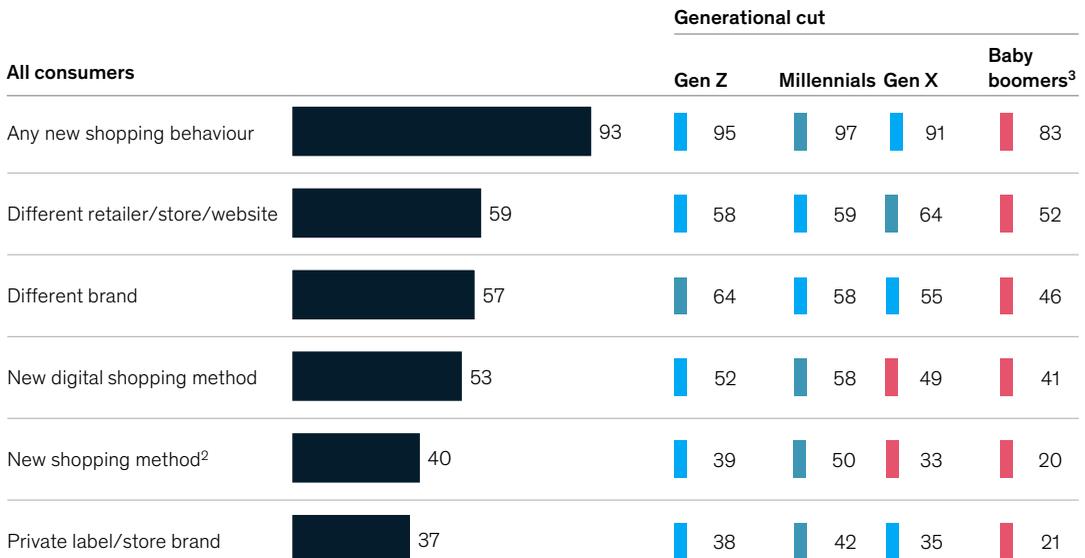
93 percent consumers have tried a new shopping behaviour since COVID-19; witnessed most extensively among younger consumers.

Behaviors since COVID-19 started¹

% of respondents that have tried a new shopping behaviour

Difference from all respondents, Percentage points

■ < -3 ■ Between -3 and +3 ■ > +3



¹ Q: Over the past 3 months, which of the following have you done? 7% replied "None of these"

² "New shopping method" includes curbside pickup and delivery apps.

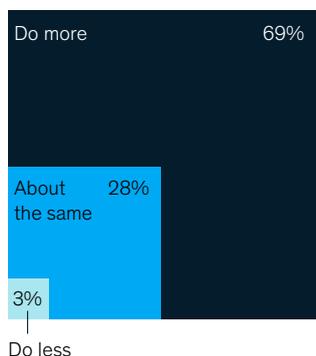
³ Baby boomers includes silent generation

Source: McKinsey & Company COVID-19 India Consumer Pulse Survey, October 2021, n = 1,002, February 2021, n = 1,019; sampled and weighted to match the India general population 18+ years

Net spending intent has improved across healthy and organic food with overall increase in focus on health and nutrition.

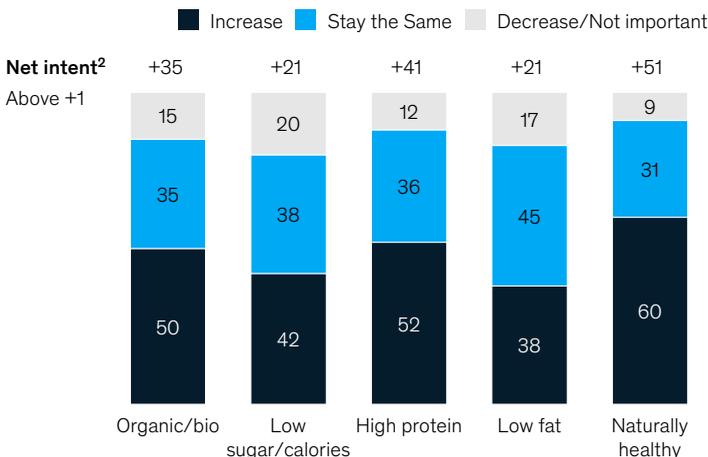
Grocery shopping focus on healthy eating and nutrition in 2021 compared to 2020

% of respondents



Expected spending per food product category in 2021 compared to 2020

% of respondents



¹ Net intent is calculated by subtracting the % of respondents stating they expect to decrease spending from the % of respondents stating they expect to increase spending.

Source: McKinsey & Company COVID-19 India Consumer Pulse Survey February 2021, n = 1,019 sampled and weighted to match the India general population 18+ years

02 Two epicentres of growth⁵

The epicentres of growth momentum for grocery retail continue to be polarized between urban and rural areas in India. While growth in the metros is likely to be muted in 2022, the greatest contribution to value growth (monetary value of consumption) in the near future is likely to come from semi-urban areas and emerging cities, thanks to the rapid rate of urbanization (India is expected to be 38 percent urbanized in 2025, a projected 1.4x jump from 2011 numbers – Exhibit 10)⁶. Rural India, on the other hand, is likely to

drive volume growth (growth in quantity of consumption).

In 2020, India's metropolitan and Tier 1 cities contributed to about 45 percent of the value growth in the fast-moving consumer goods (FMCG) sector in the traditional trade and modern trade segments. By 2025, urban areas could make up around 60 percent of all consumption.

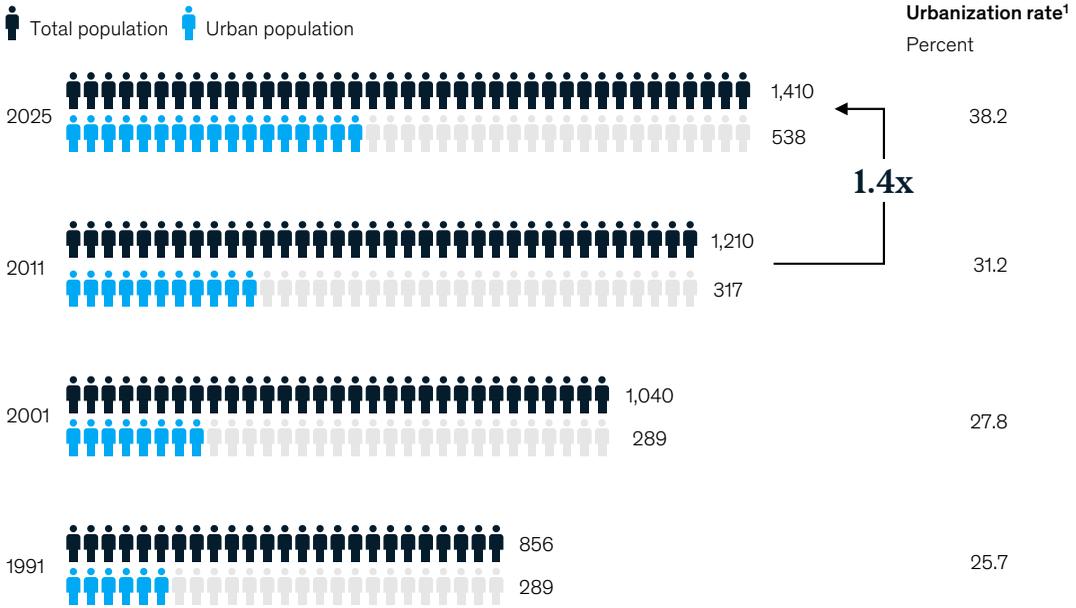
⁵ Unless otherwise indicated, all numbers in this section are taken from the Nielsen Q3 and Q4 FMCG Snapshot report, 2020.

⁶ McKinsey Global Institute analysis, Census of India.

Exhibit 10

India is expected to be 38 percent urbanized by 2025.

Million persons



Source: McKinsey Insights India, McKinsey Global Institute analysis, Census

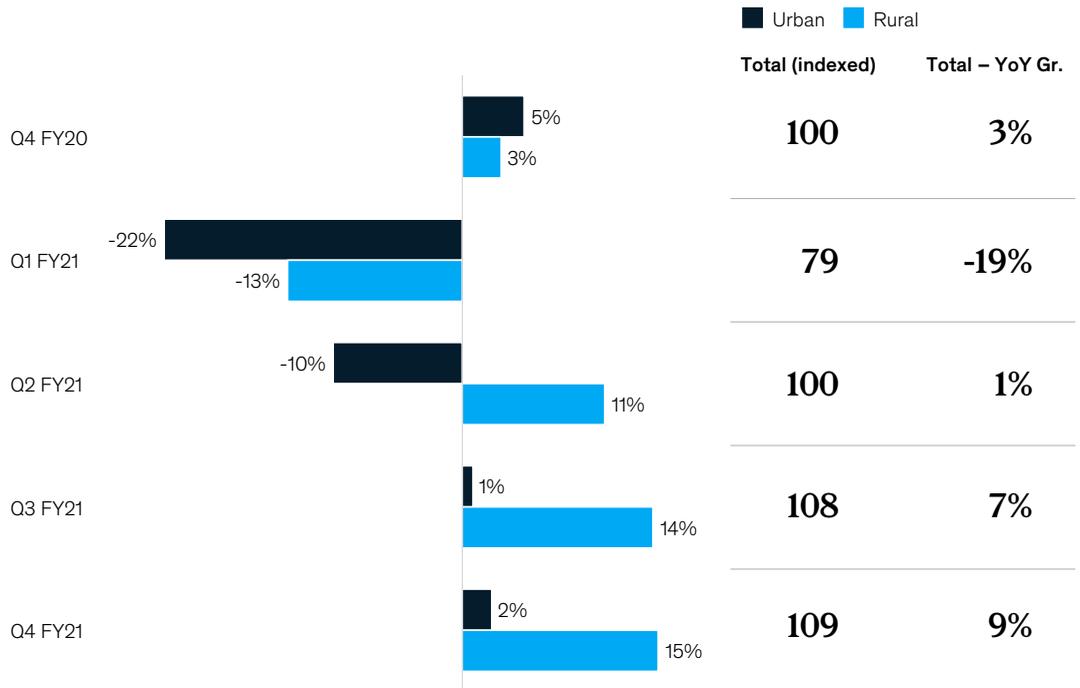
In Q4 FY21, rural area consumption demand grew by about 15 percent, 500 basis points higher than FMCG growth. (Exhibit 11).

Three factors have contributed to rural growth: increased government stimulus (83 lakh new households joined under MNREGA scheme) and impetus on agricultural reforms, a good monsoon and possibly the most important factor—reverse migration⁷.

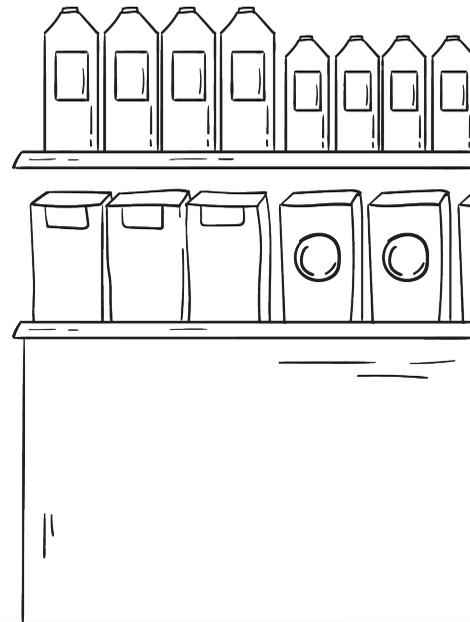
⁷ Nielsen FMCG Insights.

Exhibit 11

Rural areas continue to drive growth.



Source: Nielsen FMCG Q3 Report





The Online Supermarket

food > fruits and vegetables

Lettuce

★★★★☆



Tomatoes

★★★★☆



Potatoes

★★★★☆





The dynamic grocery retail sector in India

01

Disruption in the
ecosystem

02

The ascendance
of omnichannel

The retail space itself has been continuously changing to tap into emerging trends or cater for new requirements. This has led to the emergence of five archetypes of disruption in the ecosystem, of which the move towards omnichannel retail is the most notable.

01 Disruption in the ecosystem

Globally, around USD 42 bn has been invested in the grocery space (excluding mergers and acquisitions) since 2017. Historically, investments in Indian firms accounted for around 1 percent of the total share. But 2020 was a golden year for the Indian grocery sector which saw investments of around 70 percent of the global share excluding mergers and acquisitions (USD 7 bn of a global total of USD 10 bn⁸). Reliance Retail received the lion's share of this money, attracting over USD 5 bn from the likes of General Atlantic, KKR and Silver Lake.

Investments by firms such as Tiger Global and Accel in niche players like Ninjacart are also a testament to the growing interest of global private equity companies and venture capital funds in the Indian grocery sector⁹.

Spurred by positive market sentiments and the capital inflow, five archetypes of

disruption have emerged in the grocery ecosystem today (Exhibit 12).

Of these, omnichannel seems to be most predominant in the country, and deserves a closer examination. Through this disruption, ecosystem players are looking to create an end-to-end value chain, bringing brands and consumers closer than ever. Furthermore, supply-side disruptions and shifting channels have kicked off consolidation within the industry, with each player vying for a unique vantage point. Key deals in the last few years include:

- **Amazon and Samara acquire More Retail, 2018¹⁰:** This was to enhance Amazon's D2C offering. Targeted expansion of More Retail's physical network of stores could also strengthen its larger hyperlocal play.

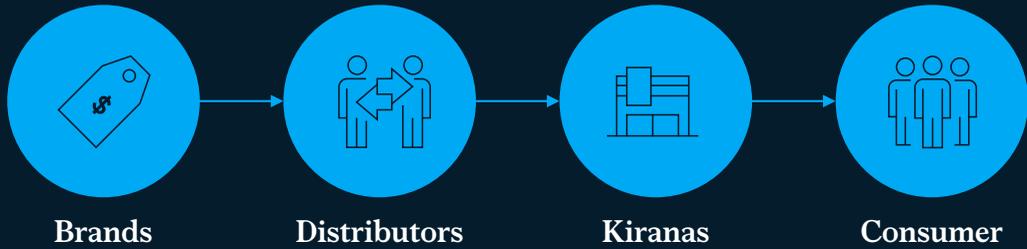
⁸ PitchBook, a McKinsey proprietary tool to capture investments in the capital market.

⁹ This and the previous paragraph are based on the PitchBook database, a McKinsey proprietary tool to capture investments in the capital market.

¹⁰ <https://www.financialexpress.com/industry/amazon-acquires-aditya-birlas-more-buys-retail-chain-with-samara-capital-for-this-much-money/1319036/>

¹¹ <https://www.livemint.com/companies/news/flipkart-acquires-walmart-india-s-wholesale-business-11595483949463.html>

Five archetypes of disruption in the Indian grocery ecosystem



eB2B

- Platform-based ordering with varying levels of asset ownership



Payment digitization

- Targeting cash handling inefficiencies and untapped digital spend
- Data analytics offering by fintechs



New MT formats and private labels

- Private label brands emerging
- Modernization of kirana stores leading to "minimart"-ization
- Specialist Fresh players focused on fruits and vegetables



Direct-to-consumer

- Spurt in e-commerce post COVID-19
- Kiranas offering home delivery to compete with e-commerce
- Nascent trend of D2C niche brands gaining share



Omnichannel ecosystems

- End-to-end ecosystem transforming channel landscape connecting brands and consumer



- **Flipkart acquires Walmart India Wholesale, 2020¹¹**: This reverse acquisition of Walmart India's strong B2B arm could augment Flipkart's current D2C capability. Walmart has a strong network of around 30 best price stores, more than 1 mn kirana and MSME members, backed by two large fulfilment centres.
- **Reliance Retail's¹² iconic acquisitions worth USD 4.2 bn in the last two years¹³**: Reliance has acquired over 12 companies to strengthen its digital and physical play in the retail market. In grocery retail, the company has completed the acquisition of subscription-based micro-delivery platform MilkBasket to add another dimension to its ecommerce play. It has also secured a franchisee deal with iconic American chain, 7-Eleven, to enter the fast-growing convenience store segment and expand its 12k strong physical store footprint.
- **Tata Group's acquisition of BigBasket in 2021¹⁴**: With one of the largest assortments of household and grocery items, BigBasket will be pivotal in Tata's grocery proposition. Sitting alongside other marquee acquisitions (1Mg, Curefit), BigBasket will allow Tata to further penetrate into online grocery.

02

The ascendance of omnichannel

Pure play e-grocers and hyperlocal players, along with omnichannel ecosystems have disrupted the grocery retail sector, prompting exponential growth and blurring the lines between online and offline players. Omnichannel grocery retail contributed under 1 percent in value to FMCG growth in 2010, but has grown ever since¹⁵.

Online grocery retail in India has seen a cumulative annual growth rate (CAGR) of over 50 percent, estimated to be USD 2 bn to 3 bn in 2020, and projected to grow to

USD 10 bn to 12 bn by 2025. The top six or seven metros are expected to make up 60 percent of the market and mid-to-high affluent households could form the bulk of the customer base¹⁶.

Serving customers directly and through an omnichannel approach is emerging as a prerequisite to growth. In our experience with leading CPG players and retailers in the country, the average revenue contribution from online business has nearly doubled in just the last three years.

¹² Pitchbook

¹³ https://www.business-standard.com/article/companies/ril-s-big-retail-push-a-dozen-buys-worth-4-2-billion-in-2-years-121071900025_1.html; https://www.business-standard.com/article/companies/reliance-retail-ventures-brings-7-eleven-to-india-after-future-exit-121100800040_1.html; <https://inc42.com/buzz/reliance-retail-completes-milkbasket-acquisition-acquires-96-49-stake/>

¹⁴ <https://inc42.com/buzz/a-sneak-peek-into-tatas-super-app-tataneu/>; <https://www.tata.com/newsroom/business/tata-digital-bigbasket-acquisition>

¹⁵ Euromonitor.

¹⁶ Internal estimates based on data from Euromonitor.

In the modern trade landscape, Reliance Retail has enhanced D2C offerings with JioMart and the kirana ecosystem. Discounters like D-Mart (Avenue Supermarts) are also entering the market with D-Mart Ready, which allows for online shopping and home delivery. Big Bazaar¹⁷ (Future Retail) has introduced two-hour delivery to consumers through a proposed seamless application interface¹⁸.

Beyond online and omnichannel grocery retailers, the online market has two other major players:

- Hyperlocal grocery players: Include the likes of Swiggy and Dunzo and specialize in express deliveries (30 to 45 minutes), catering to the convenience-seeking shopper
- Category specialists: Include Licious, Milkbasket and others focusing on niche categories – fresh meat, milk deliveries mainly catering to brand conscious customers

Hyperlocal commerce has witnessed disproportionate growth in the past five years and has attracted heavy investments.

Meanwhile, profitability has been a challenge for online grocers, which focus on growing their gross merchandise value (GMV) to offset high operating costs, investments in delivery infrastructure and, often, the customer's reluctance to pay for deliveries. Most leading players having a negative EBITDA, while offline grocers typically have an EBITDA of 5 to 8 percent¹⁹.

As grocers scale their omnichannel business, customer acquisition and profitability could help them to unlock further growth.

During the pandemic, customers have shown an increasing willingness to pay for delivery, which itself helps to fund the incremental acquisition of customers²⁰.

Online grocers are tweaking their existing models to strike the elusive balance between attracting or retaining customers while remaining profitable. Their attempts include the following:

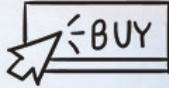
- Driving loyalty-based subscription programs which could help recover delivery costs and increase order frequency by offering value with free deliveries, quicker delivery slots for subscribers
- Personalizing promotions and offers to increase the basket size of high-value customers and offering discounts to price-sensitive customers

¹⁷ Public information

¹⁸ D-Mart: Investor Report Q3FY21, Big Bazaar: <https://www.livemint.com/companies/news/big-bazaar-set-to-offer-two-hour-delivery-11617281019168.html>

¹⁹ Numbers from annual reports.

²⁰ Expert conversations.





Going bold or losing big

01

Implications for
retailers

02

Implications for
Consumer Packaged
Goods companies

Global examples indicate that omnichannel customers typically spend more and are more valuable. Going omnichannel requires strategic actions of nurturing and retaining most loyal customers, acquiring new customers and maintaining store productivity (Especially when stores have been shut due to the pandemic). Shifting to omnichannel is a bold move, requiring retailers to venture into an uncharted territory not involving native skills but a completely different set of capabilities. They may need to re-invigorate their core through a distinctive customer value proposition and an agile operating model, while building new capabilities in digital and analytics.

For brands and disruptors in the consumer packaged goods (CPG) space, the way ahead could lie in strengthening their existing portfolio with a similar cost structure and distribution channels while being the “first to build” capabilities in digital, analytics and distribution of the future.

01 Implications for retailers

Retailers could anchor their winning approach around three themes.

A Redefine the core value proposition

Grocers are facing increased competition from disruptors and an ever-growing consumer demand for personalization, choice and better experience. Being “all things to all people” may no longer be sufficient to win. Instead, they could gain from building distinctiveness in one or two areas, across merchandising authority (assortment), in-store experience, customer service, convenience and value.

McKinsey’s work and research in the consumer and retail industry globally has led to the observation that retailers who successfully defined a clear customer value proposition (CVP) against one or more of these criteria have consistently outperformed peers over the past 10 years.

Brands and retailers could take a three-step approach to build and deliver a distinctive CVP

- 1. Define a clear, customer-backed value proposition and format strategy.** This could be based on a re-evaluation of customer behaviour, such as spend patterns, shopping missions, and share of wallet across categories. Companies could do this both quantitatively through transactions data and qualitatively through research and survey insights.

Retailers and disruptors trying to craft a distinctive proposition could consider four fundamental questions on customer behaviour.



1

What are the spending behaviours and shopping missions of our current consumers?

- What is the pareto of customer spend ? In which customer group(s) does the biggest opportunity lie? What is the opportunity from driving basket size versus frequency of visit? Which categories matter to drive these?
- What is the current distribution of shopping missions and where do we under-index? Which categories matter for the key missions?



2

What is the 'headroom' to capture share of customer wallet?

- What is our current share of wallet relative to competitors?
- In which categories (by region) do we currently over- and under-index?



3

What is our churn (and downward spend/frequency migration), by customer segment?

- How much value are we losing from churn and downshifting each month/year?
- Which categories are the indicators of churn/downshifting?



4

Who are our key competitors and what is their CVP/offering?

- What are the head/tailwinds toward / away from supermarkets?
- What is the CVP of different competitors? How do we compare on dimensions of the retail pentagon?

The box above features starter questions for retailers as they begin their journey to re-assess customer behaviour, their next-gen needs and implications on strategy/growth of retailers.

2. Translate the CVP into specific category tramlines (What does the retailer/disruptor stand for in innovation and assortment? What is the private label play? How should the value be offered to the consumer?). These questions require category level target setting for each lever (e.g., merchandising, pricing) that adds up to the growth page. (see box on facing page).

3. Develop merchandising KPIs that are essential to move from commercial strategy to store-based reality:

These could include the umbrella metric of Net Promoter Score and drill-down specific KPIs of frequency, number of trips, churn percentage and average size of basket by sub-categories.

In addition, any change in proposition needs to be reflected at a store level reality that is perceptible to the consumer, including granular elements like shelf display and store communications.

60%

of grocery retail in India is dominated by Staples and Fresh.¹

Leading grocers have started to invest heavily in these two categories, which uniquely offer potential for a price advantage and differentiation through distinctive quality, fresh perception and role of own brands.

To become the destination of choice in Staples and Fresh products, grocers could focus on three areas:

1. Transforming quality from good to great:

Grocers could invest to improve freshness at the store, enhance the quality perception of the top items in the basket (e.g., potatoes, seasonal fruits, loose flour/rice) and boosting product attributes that matter most to consumers. Better quality is tightly linked with the back-end supply chain. Grocers and disruptors are re-visiting sourcing strategies and supply chain to minimize lead time from harvest to store. They are laying emphasis on analytical tools and practices, e.g., data-driven demand forecast and ordering, technology-enabled quality checks to minimize wastage at stores and infrastructural changes to enhance freshness perception at stores.

2. Offering greater value: Grocers could invest in analytics-led pricing, promotions and merchandising, as our survey found that value was the second-biggest differentiating factor for consumers. Staying ahead of the consumers through data driven pricing, personalized promotions and in the long term, offering value through loyalty could be a game changer for grocers. An integrated promotions strategy including a calendar, a promo effectiveness measurement tool and cross category promotions could maximize store level profitability.

3. Building private labels into powerhouse brands: With customers expected to switch brands and explore different shopping behaviours in 2022, grocers, disruptors and brands have the unique opportunity to embrace private labels and transform them into powerhouse brands for the stores/online platforms. While multiple players have already ventured into these territories by introducing private label brands in specific categories others are at the inflection point.

In South East Asian countries demographically similar to India, large and growing consumer segments that seek value and propensity of consumers willing to try new brands are developing private labels in multiple categories. These brands come in wide variety and offer quality that is similar or at par with national brands at a price tag that is at least 10 to 20 percent lower. We find that such brands increased margins over a five-year period.

As the shift to healthy and organic products continues (based on survey findings), grocers have a ready platform to foray into new spaces. Those looking to explore a private label could begin by thinking about four questions:

- What should be their consumer-led brand strategy and economics?
- How robust is their new product development engine in terms of supplier base, sourcing collaboration and product launch?
- How will their category management evolve in conjunction with existing national brands, in terms of price, promotion, visibility and placement?
- Does the organization have strong executional capabilities?

¹ Euromonitor, 2020.

B Revamp the operating model

Over the years, the back-end operations for grocery retailers have become increasingly complex, with omnichannel supply chains, heightened customer expectations for faster delivery and lower productivity levels of the labour force. Grocery retailers have therefore been eyeing investments in automation, mechanization and analytics across their entire value chain. While innovation in such applications is still at a nascent stage elsewhere in the world, in India it could help overcome the supply chain inefficiencies and high operating costs laid bare by the pandemic.

Retailers could specifically focus on the following three areas as they look to revamp their operating model:

Warehouse automation

Over the next five years, the global automated material handling equipment market is expected to grow at a CAGR of 13 percent – a 2x increase over the growth rate of the past five years²¹.

Grocers and disruptors have started to invest in the best practices of docking, stock movement and planning flows in the warehouse to swiftly eliminate back-end inefficiencies. This also entails nascent investments in automation and digitization to weed out redundant activities such as multiple instances of stock/crate weighing across the value chain, multi-handling of stock, manual MIS generation and manual invoice sampling.

Analytics in planning and logistics

The retail analytics market is expected to grow more than 20 percent annually for the next five years,²² with a number of enterprise resource planning providers such as SAP and Oracle, and technology players such as Locus, BlueYonder, Loginext and ElasticRun, developing new offerings. In India, grocery retailers have started to leverage analytics to automate their planning flows with varying degrees of success²³.

The typical benefits of automated planning flows include lower levels of shrinkage, fewer days of inventory in stock, and higher service levels. Another application of analytics is to couple it with automation in the ordering and replenishment processes.

Additionally, a popular aspect of analytics is to use it coupled with optimization for transportation analytics – to create dynamic routing solutions. The most advanced solutions optimize trucking routes in real time based on traffic conditions and disruptions such as road accidents. Typical benefits of this technology include fresher products, timely deliveries and lower internal costs. Routing solutions can also be coupled with sensor-based technologies to monitor transport conditions, for example, to detect quality issues around cold chain transport that can damage or lower the shelf life of products.

²¹McKinsey Corporate Performance Analytics.

²²<https://www.marketsandmarkets.com/PressReleases/retail-analytics.asp>, IMARC Group report.

²³Secondary market research

Our experience with retailers elsewhere suggests that leveraging planning flows with automation and optimization leads to an integrated and transparent supply chain, one that operates with minimum human intervention and is able to make decisions from ordering off stock-keeping units to last-mile fulfillment under various market conditions.

Workforce optimization

Dynamic staffing can offer a transparent view, helping on-ground operations teams to optimize physical staff and the management to get almost real-time visibility of the optimum workforce deployed at the front- and back-end. These “intelligent staffing” solutions through advanced analytics aim to lower store and warehouse operating costs and increase visibility of future workload requirements – a capability that, when applied successfully in stores and warehouses, has reduced costs by 15 to 18 percent for some Indian players.

Such technologies represent a clear opportunity for the sector, and companies willing to invest early are set to reap the benefits in their profit and loss statements, outpacing their competition.

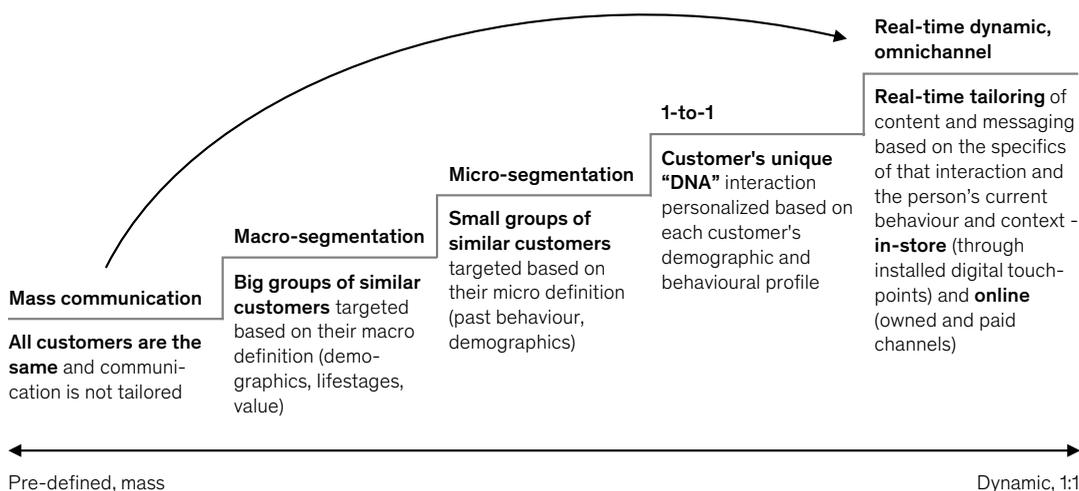
Increasing data availability also yields an opportunity for retailers to target customers based on their unique tastes and preferences. Personalization powered through data and analytics could be a powerful tool to strengthen a consumer’s connection with a brand, inspire their loyalty, and draw them into stores. We have seen several global leaders in grocery who have excelled at personalization and consequently boosted revenues, reduced marketing costs, enhanced customer acquisition, reduced customer churn and increased overall customer satisfaction.

Given the nature of the next-gen consumer, personalization and analytics need to be omnichannel. Delivering personalized, customer-centric, data-driven experiences across the customer journey (from acquisition, onboarding to loyalty loop) and online and offline touchpoints (omni-channel), is a step-wise process (Exhibit 13).

C Invest in digital, analytics and personalization

More influential and empowered than ever before, customers have grown very specific and distinct in their preferences and requirements. The pandemic has weakened brand loyalty significantly, with 90 percent of our survey respondents admitting to changing stores, brands, or channels in the past one year. Knowing the customer and their changing preferences has thus become quintessential to customer retention, loyalty and growth.

Typical personalization journey.



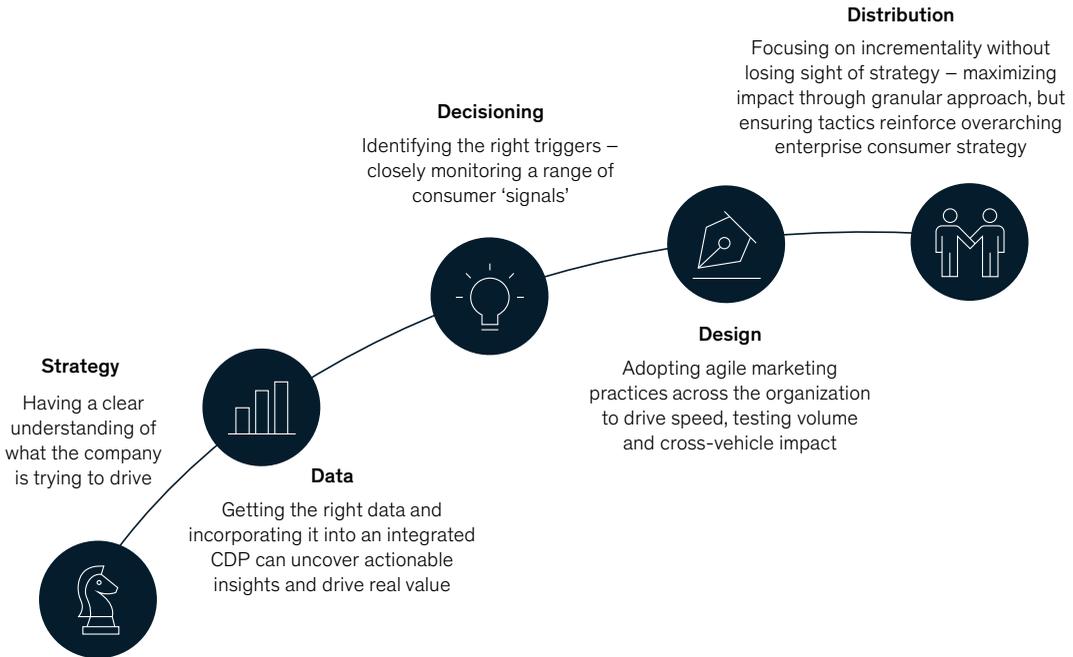
To move from campaign-driven mass communication to consumer signal-led, one-on-one, dynamic and coordinated multi-channel communications, retailers could think about strategy and the 4Ds (Exhibit 14).

- **Strategy** – Based on their overarching business strategy, companies could prioritize a set of use cases in their effort to unlock maximum value.
- **Data** – A Consumer Data Platform (CDP) could provide a 360-degree consumer view. It could combine data across disparate sources (offline and online) including but not limited to basic demographic and behavioural data, marketing and channel engagement data, promotions and offer redemption data. Retailers may have in place data lakes to store their vast amounts of business data. However, activating this through a CDP and augmenting it further through marketing and channel engagement data, website clickstream data might enable companies to

optimize customer experience and capture high value.

- **Decisioning** – This analytics engine powers the core personalization proposition – delivering the right message, at the right time, through the right channel to the right customer. It can range from being an off-the-shelf marketing technology platform to a solution customized for the retailer's requirements and cost considerations.
- **Design** – Moving towards one-on-one personalized communication requires modern design and content capabilities to produce, store, tag, publish creatives, offers and content dynamically, in real time. Furthermore, setting up an agile marketing war room to drive at-scale execution is a critical component of this journey. At its core, an agile marketing war-room is a cross-functional team that drives speed, testing volume and cross-channel impact.

Developing at-scale omnichannel personalization engine.



- **Distribution** – Delivering this personalized, cross-channel experience (across owned and paid channels) requires a fully-integrated, thoughtfully constructed marketing technology (MarTech) stack that enables seamless execution and easy measurement and attribution. While there is no ideal MarTech stack, retailers could invest in onboarding the right set of platforms/tools to deliver their identified set of use-cases. The MarTech landscape has a plethora of solutions – ranging from full-stack/ marketing clouds to specialized point solutions. Several well-known Indian start-ups like NetCore, CleverTap, and Capillary also offer a suite of solutions, and retailers must carefully study their requirements to ensure that their tech stack is driven by their use cases, and not the other way round.

While these building blocks comprehensively address the journey to one-on-one personalization, complete omnichannel personalization at the store through in-store operations and communication requires certain additional considerations, such as customer identification in-store, triggers incorporating in-person behaviour (e.g., location-based targeting, in-store beacons, browsing in-store), setting up digital touchpoints for engagement in-store, effectively leveraging in-store teams to support.

Examples of omnichannel personalization could include integrating personalization through encouraging customers to “opt in” by downloading and engaging with an app, interacting with a screen, or sharing information with an associate in a live interaction.

Organizations and brands starting their journey to being omnichannel could evaluate the answer to four sets of design choices that might eventually help them build a unique omnichannel proposition that is also profitable in the long run (Exhibit 15). The story of HEMA stores in China is similar.

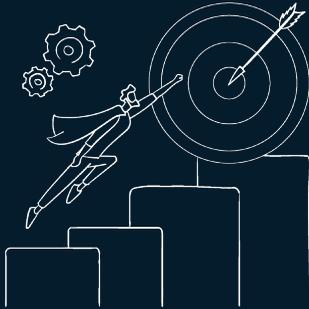
Making the shift to omnichannel

The omnichannel business for retailers seems strongly poised to become table stakes for grocers who seek to be ahead in the game and stay relevant in the next five years. While leading adopters have started treading these territories, other grocers have started to focus heavily on omnichannel as a strategic priority.

Sustaining the growth momentum in an omnichannel setup requires the following:

- Investing in digital customer lifecycle management and in supply chain
- Embedding new organizational capabilities for change management – and omnichannel category management. The latter could entail the following:
 - Agile category teams working cross functionally with supply chain and sourcing
 - Data- and technology-enabled supplier toolkit for decision-making support
 - Capability building through field and forum training from top to bottom

Global examples demonstrate that building an omnichannel offering includes four design choices for different retailers and disruptors



What is the scale of the overall ambition?

Shape the market (drive shift to online)

Be the fast follower (be present in pockets of demand)

What are the key online shopping missions and how to establish their relevance?

Missions

Stock up/top up/ dry goods/multi store purchase

Assortment

Number of SKUs/assortment – hyper assortment/select online assortment

Demand generation

Demand generated client/solely by Amazon with loyalty programs, digital marketing.

Service model

Selection of delivery window and minimum order – same day delivery/30 min delivery



What is the operating model?

Type of store

Hypermarket, supermarkets, hybrids

Transport model

Gig vs. owned vs Amazon/partners

Pick model (degree of centralization)

Fully centralized, semi, decentralized

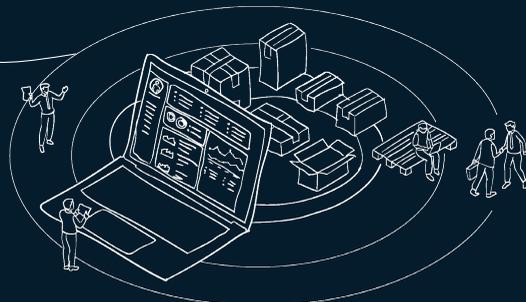
What is the network fulfillment model?

Inventory

Deployed from WH/ dark stores/ stores

Store network

Choose select pincodes to serve online demand/offline demand



The Hema story

How a hyperlocal presence helped scale up omnichannel retail and unlock profitability

Hema was launched in 2016 with a modest eight stores in China. Integrating offline, online, logistics and data across a single value chain, the group now has 220 stores across China with a target of reaching 2,000 stores by 2022.

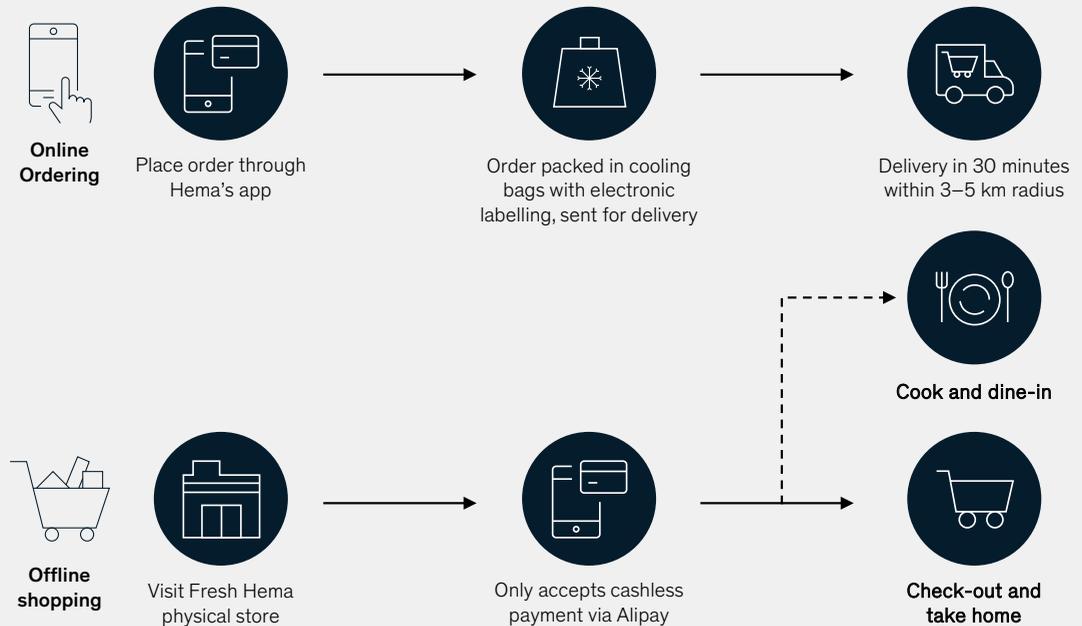
This rapid expansion has been built on the back of its unique value proposition: “Fresh e-retailer with physical stores”. Hema offers an omnichannel integrated grocery shopping experience to capture offline consumers and to drive online traffic across scenarios:

- Delivery to home (order online → cashless payment → delivered home)
- Take home purchase (visit store → cashless payment → take home)
- Experiential retail and dine-in (visit store → cashless payment → cook and dine in)

Hema has put in place strategic business guardrails as it attempts to convert traffic from offline to online. These guardrails are expected to help the retailer to unlock economies of scale and optimize costs:

Illustrative customer journey mapped across online and offline channels.

Customer journey



- **Increased revenue:** Push to achieve over 5,000 online orders a day
- **Reduced COGS percentage:** Direct procurement helps bypass agency fee, and economies of scale ensure access to a lower bulk price
- **Reduced delivery cost:** Rule of “3 and 30” (serving customers within 3 km radius, delivering in under 30 minutes) coupled with the use of a low-cost third-party agent
- **Reduced logistics cost:** Route optimization increases net number of delivery points per dollar

Supplementing these guardrails are a set of marketing and customer-centric initiatives to drive the number of orders and incentivize re-purchase:

- **Targeted field promotion of Hema App:** Aimed at communities within 3 km of the store
- **Increased marketing:** For select “killer Stock Keeping Units (SKUs)” (fresh milk, premium seafood)
- **Hassle-free customer service:** Guaranteed delivery times, unconditional returns, free food solutions and access to call centres
- **Dine-in facility:** Builds trust in food quality and safety; collaborations with restaurants/chefs act as a bonus

This omnichannel approach empowers Hema to command a monthly revenue 4.4x higher than that of an average store (INR 91,000 per square metre vs INR 21,000 per square metre) with its offline offering contributing to over 50 percent of the total revenue.

To attain these numbers, Hema has worked to develop a deep understanding of customer lifecycle management and integrated it across channels through a robust back-end and an efficient supply chain network. The outcome – the average profitability of a HEMA omnichannel store is between 7 and 10 percent, significantly higher than that of a typical brick and mortar store²⁴.

HEMA's growth proves that the integration of offline and online channels, with a strategic impetus on online business is key for brick and mortar stores looking to plunge into their next wave of growth.

²⁴ Annual reports

02

Implications for CPG companies

Consumer Packaged Goods (CPG) players of scale in India have been operating with two big moats – their brands and an intricately built network of thousands of distributors reaching over 1 mn outlets directly and another 10 mn indirectly, through wholesale channels²⁵. This in turn gives them a big advantage on taking more products to the market.

In recent times, however, several outlets have been witnessing an income drop of 20 to 30 percent due to slower growth and rising costs²⁵. Steering through the wholesale channel, which was the bread and butter of CPG distribution, could often be a frustrating experience for indirect retailers. A visit to the wholesale 'mandi', typically meant spending half a day away from the shop, often at opportunity cost and the additional expense of travel - a direct cost. Wholesale also rarely offered credit, leading to a significant working capital hit for the retailer.

E-B2B is solving a lot of these problems with easy orders, next-day delivery and standardized credit.

These developments beg the question of whether dependence on wholesale could likely see a decline in the coming years, and if over time, direct company distribution could also be in potential danger.

The rapid growth of "modern retail" - ecommerce and the expansion of modern trade to omnichannel—has resulted in CPG companies reevaluating their commercial cube (channels X brands X geography/ Tier). With the share of traditional retail sliding from a historical 85 percent to close to 65 to 70 percent over the next three to five years, the implications are not only affecting the approach to modern retail but also leading to a review of the traditional trade moat²⁵.

There are two critical imperatives for India's legacy CPG businesses when it comes to the disruption of their distribution moat:

1. Strengthening their core distribution
2. Shaping the new channels

Both these imperatives require embedding key capabilities within the organization (e.g., DnA, redefined forward-looking organizational resource allocation, specialist capabilities to win with large ecosystem players) and GTM stakeholders (e.g., re-imagining the role, capability and profile of the distributor to set up future-ready distributors).

²⁵Industry knowledge.

Strengthening existing channels

Companies could tailor interventions and programs by outlet type to meet changing channel expectations.

- Segment execution to outlets by classifying them on performance (using internal data) versus potential (external and internal markers), will help strengthen relevance of outlets that matter the most. Companies could also optimize their operating model for smaller, high churn outlets.
- Leverage DNA to make better decisions. Granular external data is useful to gain outlet-level perspective that CPGs have long sought. Use external and internal data together through a list of high impact DNA use cases such as expansion, extraction, churn prevention, trade promo ROI tracking instead of making judgment-based decisions.
- Change management is critical for DNA adoption. Ensure complex algorithms are translated into clear instructions for efficient execution.

Shaping new channels

CPG players could also take advantage of market disruptions by setting up new channels with eB2B and omnichannel ecosystems.

Partner with eB2B players

Such partnerships could be a quicker way to build new channels rather than creating a B2B channel from the scratch. CPG players could pursue three kinds of goals with these partnerships.

- **Portfolio:** Expand distribution of core and new products. This can be achieved by focusing on core pull-driving SKUs along with an eB2B forward portfolio e.g., premium portfolios or larger pack-sizes. In addition, enable second visits through eB2B feet-on-street personnel.
- **Channels:** Accelerate growth in new and emerging channels with eB2B players e.g., pharmacy or beauty.
- **Geographies:** Expand to new white spaces (specific geographies) that have no presence or low market share. Use eB2B partner as preferred supplier in these locations.

Grow with online platforms and build D2C muscle

CPG companies could focus on building strong partnerships with online platforms in the following ways:

- Performance driven digital marketing
- Leveraging their shopper understanding to build online-first products and packs²⁶
- Using their data and relationships with e-commerce companies to design online-only promotions that encourage shoppers to engage with products

The D2C channel has gained importance with several CPG companies investing in startups to build D2C brands – e.g., Reckitt Benckiser invested in the Bombay Shaving Company²⁷.

Build effective organization structures to partner with omnichannel ecosystems

CPG companies could rethink their organizational structure to partner more effectively with ecosystem players. This could range from a standalone organization, de-linked from the external customer organization's structure, to an integrated structure that mirrors the ecosystem design.

Standalone structures in companies with lower omnichannel and e-commerce maturity typically have a separate e-commerce head with a digital and analytics team whereas a fully integrated structure has digital and analytics integrated across the marketing organization with designated heads for partnerships with e-commerce and ecosystem players.

The grocery retail landscape is constantly evolving and retailers and brands need to keep up to speed by adapting quickly to these changes. Not acting is no longer an option. With rapid digitization and capital inflow, players are now equipped to build an enhanced shopping experience for customers by ramping up their existing services or working with partnerships to build an omnichannel offering. While they do this, they must also be cognizant of the new-age Indian shopper and the changes in their behaviour as a result of the ongoing pandemic.

²⁶ <https://www.livemint.com/news/india/fmcg-firms-gear-up-to-launch-digital-brands-11612439638897.html>

²⁷ <https://www.businessinsider.in/business/startups/news/indian-grooming-startup-bombay-shaving-company-gets-45-crore-investment-from-dettol-maker-reckitt-benckiser/articleshow/80491558.cms>; <https://www.livemint.com/companies/news/tata-consumer-products-to-buy-maker-of-soulfull-cereals-11612280267261.html>

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