

KNOW your consumer
What you see is what you get!

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Foreword Deloitte

The COVID-19 pandemic led to a global crisis, with the world witnessing a recession where a majority of the countries experienced a contraction in GDP. The pandemic has caused many losses in different areas: human, social, and economic. What we are now experiencing is an unprecedented crisis in the modern history.

This prolonged disruptive situation is resulting in profound changes in consumer behaviour and how companies are responding to these disruptions. This has prompted a debate about the future of the retail and consumer goods industry. Brands are rethinking how to drive the business in new directions, considering which business models will be feasible and more relevant in the new normal. During uncertain times, companies often come up with new ideas and innovations, converting a crisis into an opportunity and adopting a long-term vision of future challenges. We see the pandemic acting as a divider between the old way of doing business and the new scenario that is taking shape, characterised by changing consumer behaviour.

The global pandemic has been disruptive for the retail and consumer goods industry. It has contributed to accelerating the adoption of technology to compensate for store closures and the consequent reduction in customer engagement due to lack of touchpoints. Now more than ever, companies are seeking new ways to connect with their customers. They are reinventing and re-imagining themselves in ways that were previously unimaginable. COVID-19 has stimulated the adoption of online shopping channels by both companies and customers. Brands started using digital channels to amplify their vision, convey their messages, and develop a strong connection with consumers (keeping in mind social distancing measures).

To track continually evolving consumer behaviour, companies are developing an appetite for analysing big data through Artificial Intelligence (AI) and

Augmented Reality (AR) applications. As customers use more channels for purchasing, retailers are seeking to develop more extensive client relationships by refurbishing stores and providing an omni-channel presence. Many retailers now use a variety of channels to promote and display their new collections, engage customers, and increase their loyalty; sometimes they use endorsements from selected influencers.

In the future “new normal” world regulated by social distancing and health conscious consumer, virtual technologies will become increasingly important for brands to keep in touch with consumers and listen to their needs. Retailers and dealers would need to reinvent their marketing strategies and think of innovative ways to KNOW their consumers better and meet their changing requirements.

This report delves into the nuances of customers’ buying behaviour and influencers on the entire buying journey. It also focuses on certain innovations and strategies that brands can emulate to entice and retain customers throughout their buying journey.

We believe that as Indian consumer/shopper’s journey evolves in the continually changing landscapes, it is important to ‘KNOW YOUR CONSUMER’.



Porus Doctor
Partner and Consumer Industry leader
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Foreword RAI

Financial year 2020-21 was a tough year for economies around the globe. Most of the world economies that contracted severely are expected to bounce back sharply over the next two years, driven by the vaccination drive and other measures being taken to control the pandemic. The retail Industry in India has always been on the forefront of driving the economy's growth; this engine of growth has been one of the most severely affected over the past year. As the dust settles, the disruptions caused will lead to a new "normal" in the way consumers alter their shopping behaviour and companies adapt to the rapidly changing landscape.

One of the key behavioural changes driven by the pandemic has been the fast-track adoption of digital. E-commerce implementation has been accelerated perhaps by a decade and companies have started using AI and ML extensively to cater to the new reality of the consumer. Many of the long-standing trends have been affected, and organisations need to be nimble and digitally enabled to identify the new ones and catch them early. Given that economies across the world are expected to grow strongly over the next two years, brands must be able to ride the growth wave and emerge stronger on the other side of the pandemic.

As brands think about riding this growth wave, they have to dig deep into the markets they cater to, nuances of the customers they target, and set up the required omnichannel experiences and key elements for winning their customers. This report delves into these aspects for retail brands and lays out a starting frame for companies to proactively think about winning in the new normal. It focuses on the technology-driven future of retail and brings to life select inspirations from best-in-class peers. As the customer journey of the average Indian consumer evolves over the next few years, the tenets of KNOWing your customers come to the forefront of business decisions.



Kumar Rajagopalan
Chief Executive Officer,
Retailers Association of India

Introduction

India is witnessing a V-shaped recovery, coming back from a 23.9 percent contraction in GDP in Q1 and a 7.5 percent decline in Q2, to neutral-to-positive growth in Q3.¹ It is showing a strong recovery across almost every key economic indicator. As a result of the rebound, India is expected to be one of the fastest-growing economies in the next two years.

Unlike previous economic crises, COVID-19 had affected both demand and supply and led to a complete shutdown for 2-3 months. The unprecedented nature of shock, the prolonged unplanned lockdowns, the associated uncertainty about the length and severity of the pandemic, and the increased spending on essential items (such as food and other non-durable consumer products) as families hoarded these in the early stages, caused imbalance across the entire value chain. The situation was especially bad for some sectors, such as offline non-essential retail, hospitality, food services, and travel, which completely shut down for many months. In response to this, the government announced various structural reforms to support production and accelerate demand, and various fiscal measures to try and boost the economic recovery.

The re-opening of the economy presents large opportunities for retail players that have managed to survive the crisis. We are likely to see an increase in consolidation activities, with larger established players becoming larger and many small players closing shops. The rebound in 2021 and 2022, along with India's strong expected GDP growth of 10–11 percent (expected to be higher than both the US and China because of the increasing number of Indian households, rising consumer spending, rapidly growing rural consumption, etc.), is being further supported by rising mobile and internet penetration. This augers well for the retail sector.

The lockdown has also pushed most brands/ companies to review their business models to invest in cloud-based technologies, AI and blockchain-enabled digital procurement, AR, and VR to enhance

consumer and shopper experience, and analytics-driven decision-making. This has also enabled companies to refocus on consumers at the centre of their activities, and build a better understanding of the evolving shopper journey (through a combination of in-depth consumer knowledge, channels, product positioning, and technology application).

Today's consumers are extremely agile, volatile, and demanding. Their preferences are rapidly evolving due to their changing lifestyle, better access to different types of data, advancement in technologies, and the work from home and learn from home that is likely to prevail in the future. Consumers are also tech-savvy. They are more aware of the brands they are using and seek comfort and convenience (they want everything at the click of a button), which is further driving e-commerce and m-commerce across categories.

Given these disruptions and the pandemic situation, retailers and brands need to reinvent their marketing strategies and think of innovative ways to KNOW their consumers better to meet their changing needs.

Our point of view titled **"KNOW your consumer"** is an attempt to relook at today's consumers, channels, and global markets, and provide an updated perspective for retailers to help them strategise in the new normal.



Rajat Wahi
Partner and Consumer Head, Consulting
Deloitte Touche Tohmatsu India LLP

¹ India Economic Survey and The National Statistical Office

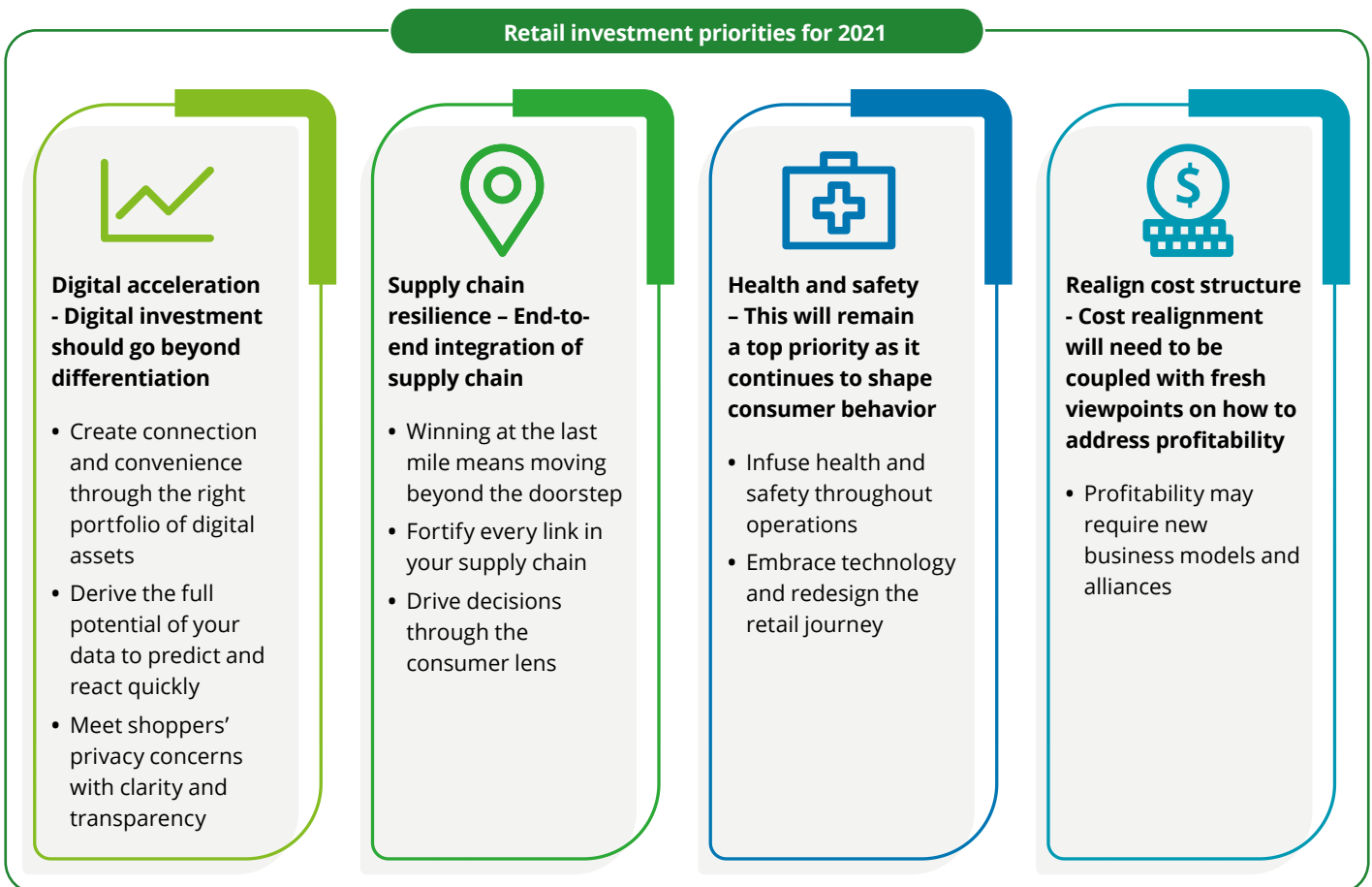


Global and India Consumer and Retail trends

Trends for retail and consumer goods companies in the US

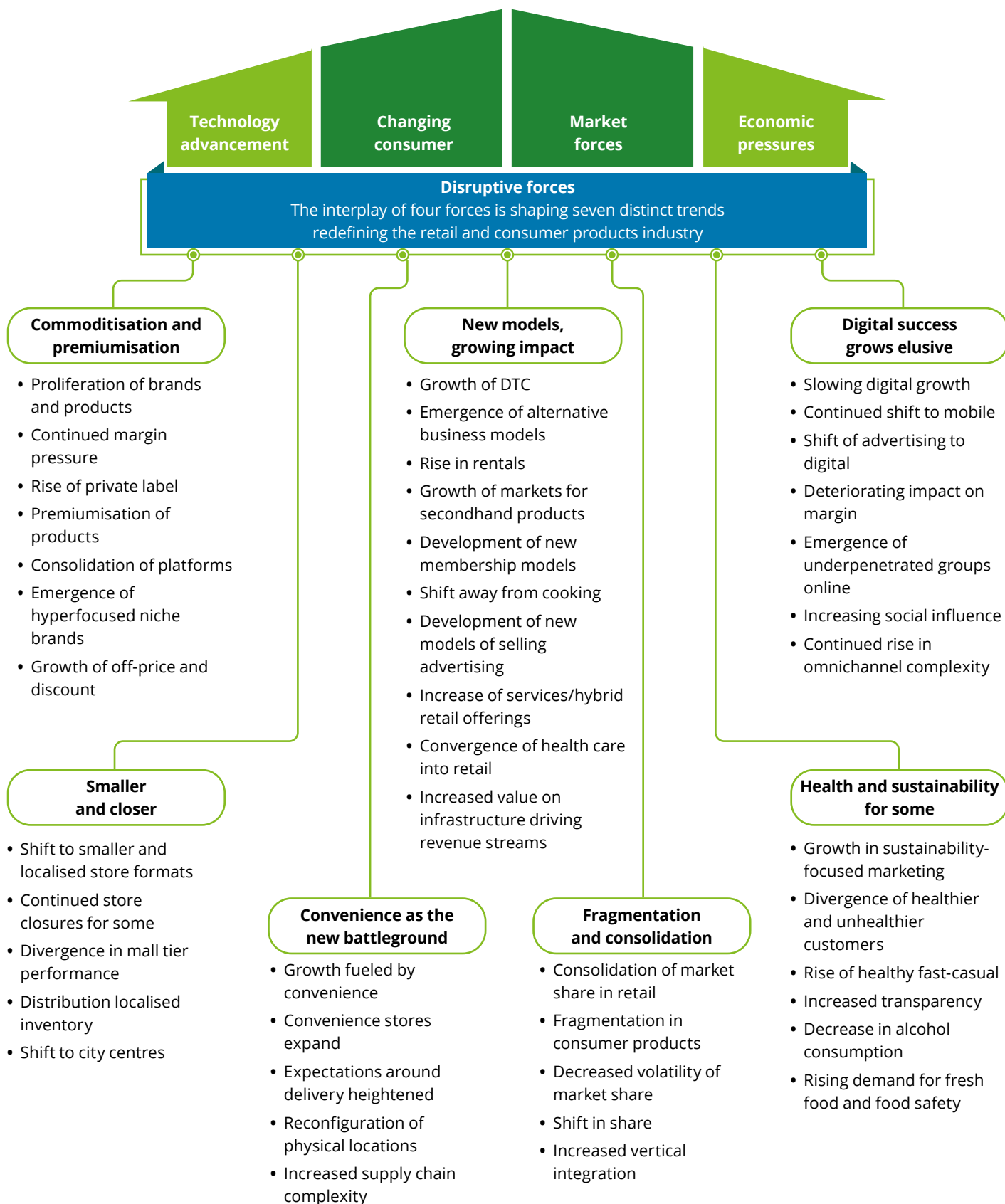
COVID-19 changed consumer behaviour overnight as health and safety concerns suddenly became a purchase driver. The industry witnessed technological adaption in a matter of months that would usually have taken years to occur.

Four priority areas for retail investment for 2021



Source: 2021 Retail Industry outlook, Deloitte

Trends fuelling the evolution of the retail and consumer products industry



Source: Trends that are fueling the evolution of the retail and consumer products industry, Deloitte



Knowledge of the markets

Overview of the Indian economy

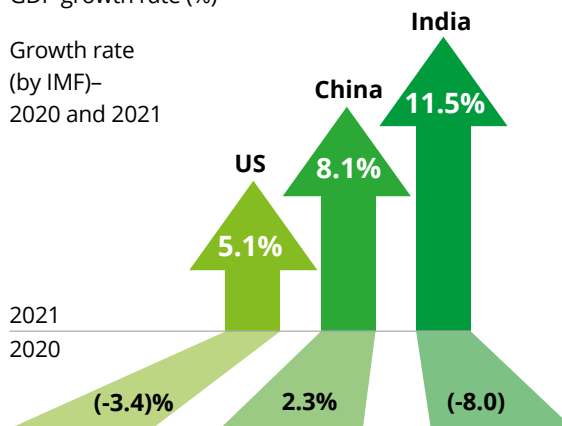
The Indian economy contracted by 23.9 percent in Q1 of FY21² due to the pandemic's impact as the country implemented a nation-wide lockdown. However, as the country opened up since 'the unlock', the economy bounced back, with pent-up and festive season demand narrowing the contraction to 7.5 percent in Q2 of FY21³. The country's GDP is expected to rebound to double digits in FY22.

The government has announced an expansionary budget to boost the country's growth. The union budget has redefined the Indian economy's growth trajectory in the post pandemic world, with a push for infrastructure and healthcare spending. The government expects real GDP to grow at 10-10.5 percent in FY22².

Per the World Economic Outlook by International Monetary Fund (IMF), the global economy is expected to contract by 3.5 percent in 2020. It is projected to grow at 5.5 percent in 2021 and 4.2 percent in 2022. The US economy is expected to contract by 3.4 percent in 2020. China is the only country that is expected to witness growth at 2.3 percent in 2020⁴.

India is expected to be one of the fastest growing major economies major
GDP growth rate (%)

Growth rate
(by IMF)-
2020 and 2021



The global economy is expected to contract at 3.5% in 2020, before growing at 5.5% in 2021

Source: World Economic Outlook by IMF

This GDP growth is expected to lead to growth of the manufacturing, construction, and services industries. This, coupled with larger opportunities for investment and business, favourable macroeconomic indicators, and rapid growth in consumption, will drive the consumer and retail markets.

² Source: India Economic Survey

³ Source: The National Statistical Office

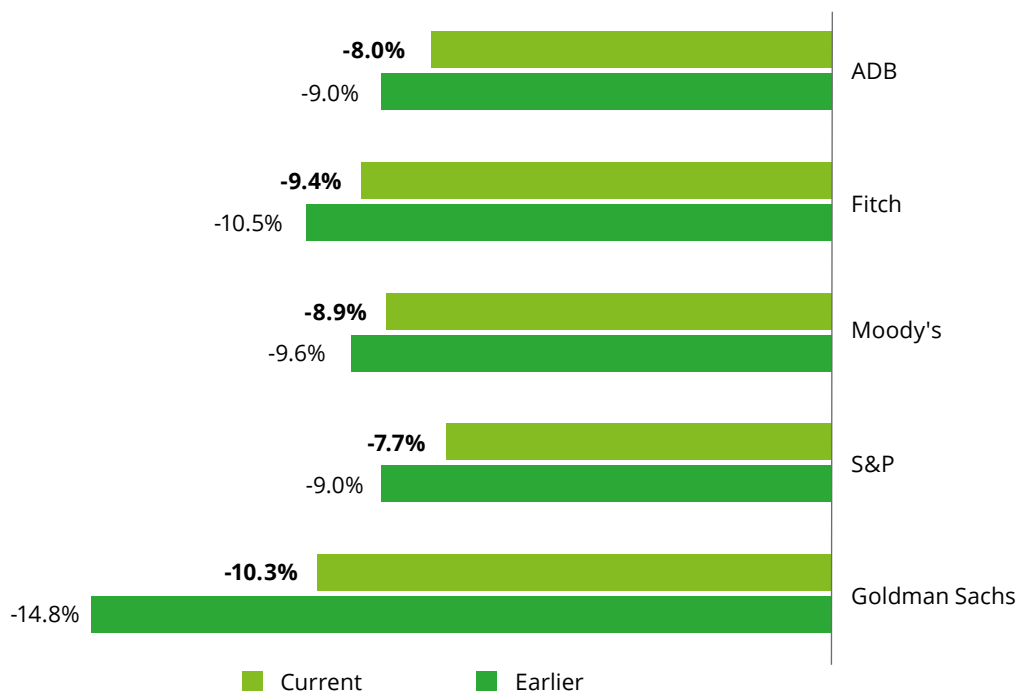
⁴ Source: World Economic Outlook by IMF

Impact of COVID-19

The pandemic has caused a major slowdown across sectors.


Major financial institutions have slightly improved growth estimates after Q2 results; however, they still predict a drastic fall in growth in FY21

FY21 growth projections for India




Source: Press articles

Sectoral impact: Many Consumer Packaged Goods (CPG) companies and retailers are affected



E-commerce - High growth

- Increased traffic on e-commerce sites as people tend to avoid going out and maintain social distancing
- Increased penetration of e-services, including online fitness, food delivery, and tele-health
- Major retailers and consumer brands focusing entirely on online offering for continued operations
- Festive season saw increased participation from consumers belonging to tier-II cities and beyond
- Emergence of many Direct to Consumer (D2C) brands and social commerce



Essentials (Food, grocery, etc.) - High growth

- In November 2020, the food and grocery segment demonstrated 5 percent year-on-year (YoY) growth in sales.⁵
- Grocery and e-pharmacy gained prominence for online shopping.
- Recovery for food and beverages are expected to continue to strengthen.

⁵ Source: Media articles



Alcoholic beverages - Moderate growth

- The segment witnessed an exponential surge in demand after the lockdown after coming to a virtual standstill.
- Measures such as opening of select stores, issuance of e-tokens, and a steep hike in taxes and thus, liquor prices, have been taken to mitigate risks of contamination due to a surge in buying and long queues.
- The industry saw a rapid shift towards digital platforms and introduction of cocktail kits on their takeout menus.
- The year 2021 will witness exclusive consumer-driven cocktail/beverage experiences in a digital set-up.



Consumer durables and electronics - Moderate growth

- In November 2020, the consumer durables and electronics category continued to recover, logging sales at 12 percent YoY.⁶
- However, some categories, such as washing machines, TVs, vacuum cleaners, trimmers, laptops, and mobiles, have seen a surge in buying.
- Computers, laptops and accessories, and tablets have seen the highest growth across categories, driven by continued work from home and online schooling for kids.
 - In Q3 2020, computers and laptops witnessed an increase of ~150 percent and computer accessories reported ~100 percent growth over Q1 2020⁶.
- The industry is highly impacted as there is high dependency on China for imports



Apparel, footwear, and accessories - Steep decline

- In November 2020, the apparel and clothing category was still reeling under pressure, with about (-12) percent YoY growth compared with pre-pandemic sales⁶.
- There are restrictions on socialising (office spaces, parties, gyms, restaurants, hotels, etc.), leading to a major slowdown in purchases; demand exists only for indoor products, casual clothing (mostly tops), etc.
- Some retailers may need to temporarily shut down or even close business; the fashion industry is deeply affected.
- After the unlock, the industry saw an increase in sales due to pent-up demand.
- Retailers have a better digital presence and are planning their inventory in moderation.
- New channels and retail strategies have emerged – curbside pick-up and order delivery, as well as virtual shopping appointments and livestream shopping.
- Manufacturers are rethinking their supply chain strategies to diversify their supply chains, with a greater emphasis on seeking alternative suppliers outside China.

⁶ Source: Media articles

Deloitte State of consume tracker

The pandemic has fundamentally altered the world. To understand changing consumer sentiment and behaviour, Deloitte has been tracking the relationship between physical and financial well-being, spending intention, and the trends accelerated by the pandemic

Health Concerns



My Physical well-being

75%



Health of my family

76%



Losing my job

59%



Financial Concerns



Making upcoming payments

47%



I'm delaying large purchases

58%



Returning to my workplace

15%



Safety Concerns

I feel safe...



Going to the store

67%



Engaging in person-to-person service

61%



Staying in a hotel

55%



Going to restaurant

56%



Attending in-person events

52%



Taking a flight

56%



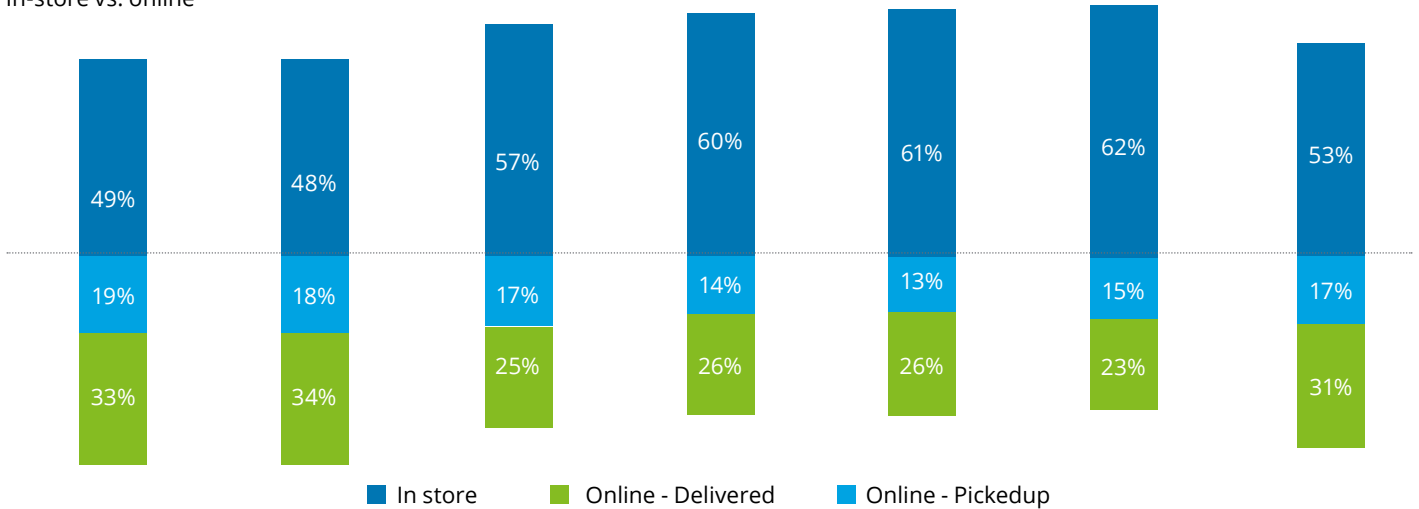
Net spending intent (over the four weeks period starting 3 February 2021)

Intent to spend more over the next four weeks



Intended shopping channel

In-store vs. online



Source: Deloitte State of the Consumer Tracker - Deloitte has been tracking monthly changes in consumer sentiment and behaviour through a consumer tracker; <https://www2.deloitte.com/global/en/insights/industry/retail-distribution/consumer-behavior-trends-state-of-the-consumer-tracker.html>

The country's strong demographics also work in its favour. In India, median age is relatively lower than that in major countries globally. The proportion of working population is higher in India.

Median age

Median age by country



Source: CIA World Factbook, accessed February 2021

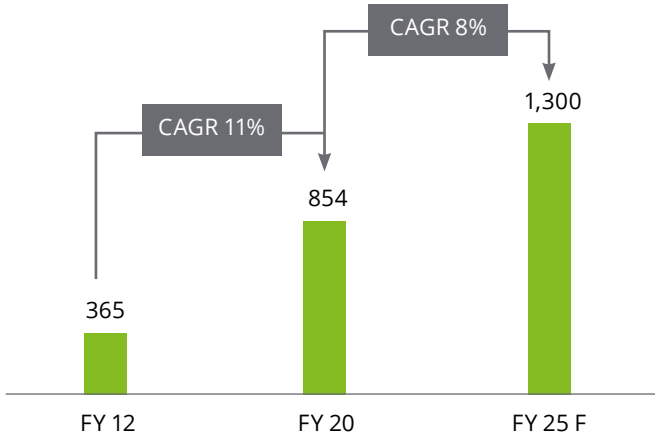
The young population and median age of the country are expected to present strong growth dynamics for the consumer industries as a whole.

Growth drivers of the retail

India is Asia’s third-largest retail market and the world’s fourth-largest after the US, China, and Japan⁷.

Indian retail market

US\$ billion

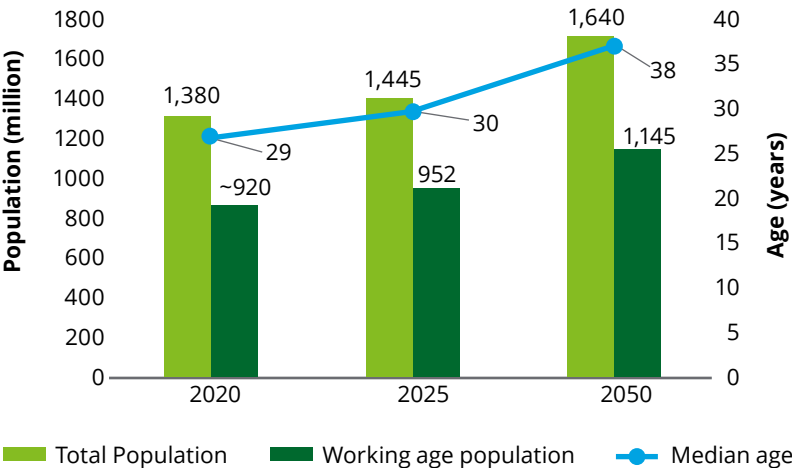


Source: EIU; IBEF; Deloitte analysis

This growth is attributable mainly to rising consumption due to many factors. Some of these are mentioned below:

Rising working population

Increase in working population* to provide impetus for higher income



- India has a median age of ~29, which is relatively lower than the median age in major economies of the world.
- Population is expected to grow with a relatively young working population.

*Working population: People between the age group of 15-64
 Source: UNDP Asia Pacific HDR 2016; Census India, World Bank, MoSPI, Make in India

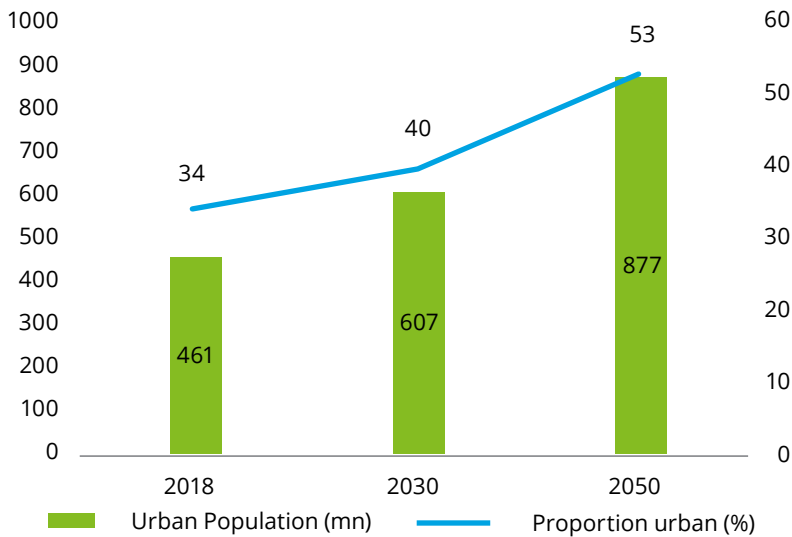
As the working population increases faster than the country’s overall population, this will lead to greater income in the hands of consumers, thus driving consumption.

⁷ Source: Media articles

Rurban (tier 2, 3, and 4 cities) growth

India is proceeding towards higher urbanisation. However, future pace of urbanisation will depend on the country's economic growth. India has consistently been adding to the number of towns and cities, along with many more metropolitan cities. This is expected to continue with the addition of more urban settlements.

Between 2018 and 2050, urban areas in India are expected to add 416 million people.



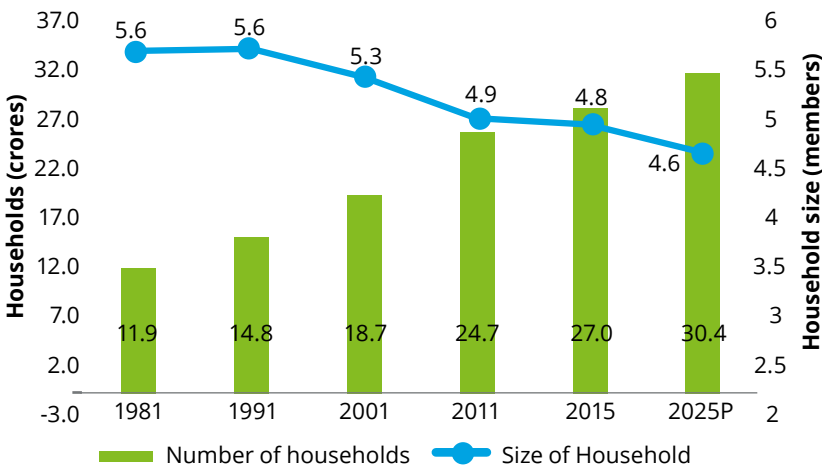
- Oxford Economics' global cities report estimates that 17 of the 20 fastest-growing cities in the world between 2019 and 2035 will be from India.
- Indian cities are likely to contribute 70% to the country's GDP by 2030.

Source: UN World Urbanisation Prospects 2018

Urbanisation will spread across Indian states with tier II and III cities such as Lucknow, Jaipur, Chandigarh, Kochi, Indore, Patna, Nagpur, and Bhubaneswar being the next retail destinations. Retailers and private equity firms have started taking more interest in the Indian retail sector; they are investing in high-end retail malls in tier 2 and 3 cities.

Increasing number of households

Increasing number of households with reducing household size to increase demand



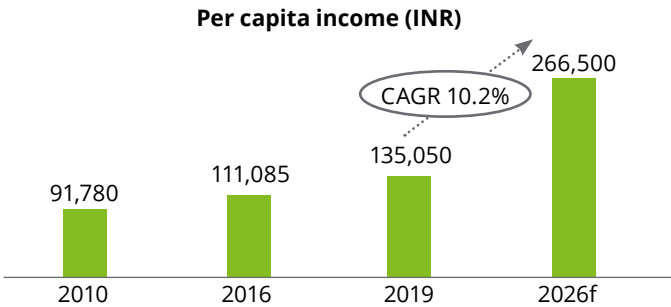
- The number of **households** is **increasing** with a **reduction in household size**.
- This indicates a rise **in nuclear families**, leading to higher demand.

Source: UNDP Asia Pacific HDR 2016; Census India, World Bank, MoSPI, Make in India

The increasing number of households directly reflects the potential for increased consumption, as the spending per household rises with growing nuclear families.

Rising per capita income

Per capita income is expected to increase at a CAGR of 10.2 percent to reach INR 2,66,500 by 2025.

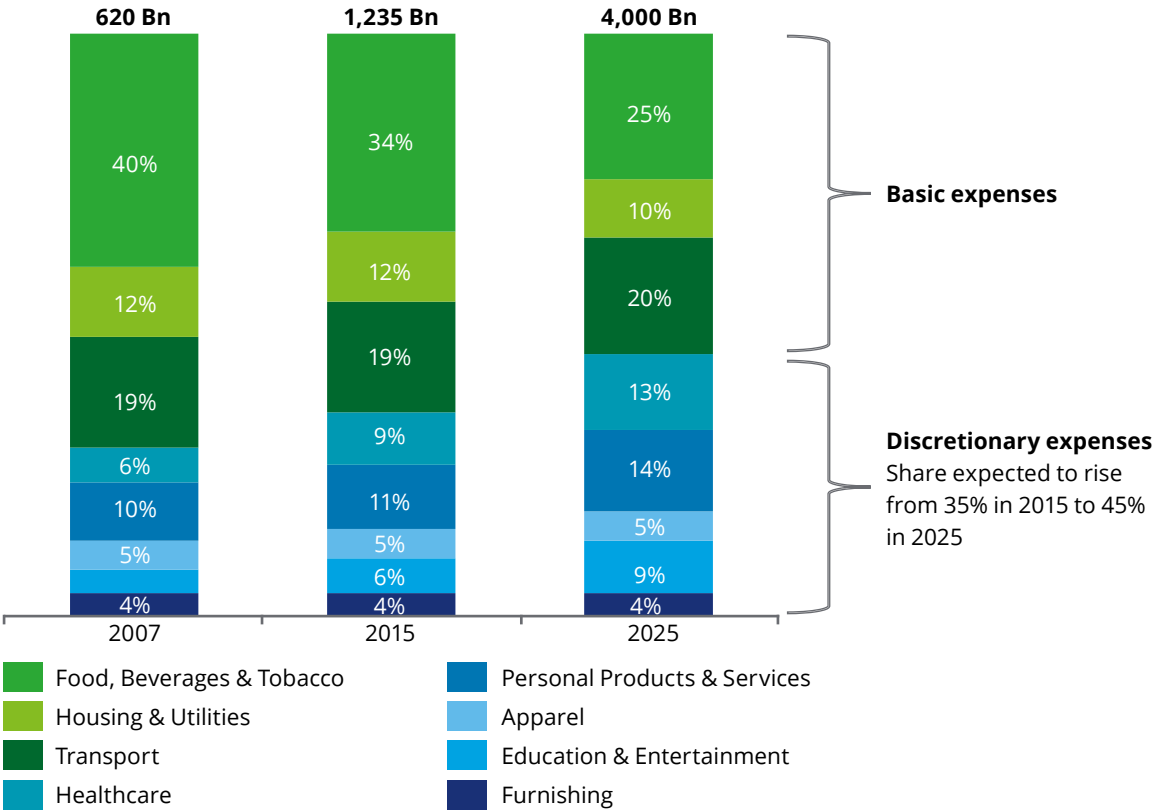


Source: Media articles

Steady growth in household earnings is expected to further drive consumption. India’s burgeoning middle-income households are likely to drive an increase in discretionary spends and create a shift in consumption patterns.

Increasing disposable income

Increase in disposable income is resulting in higher consumption, leading to a rising proportion of discretionary spend.



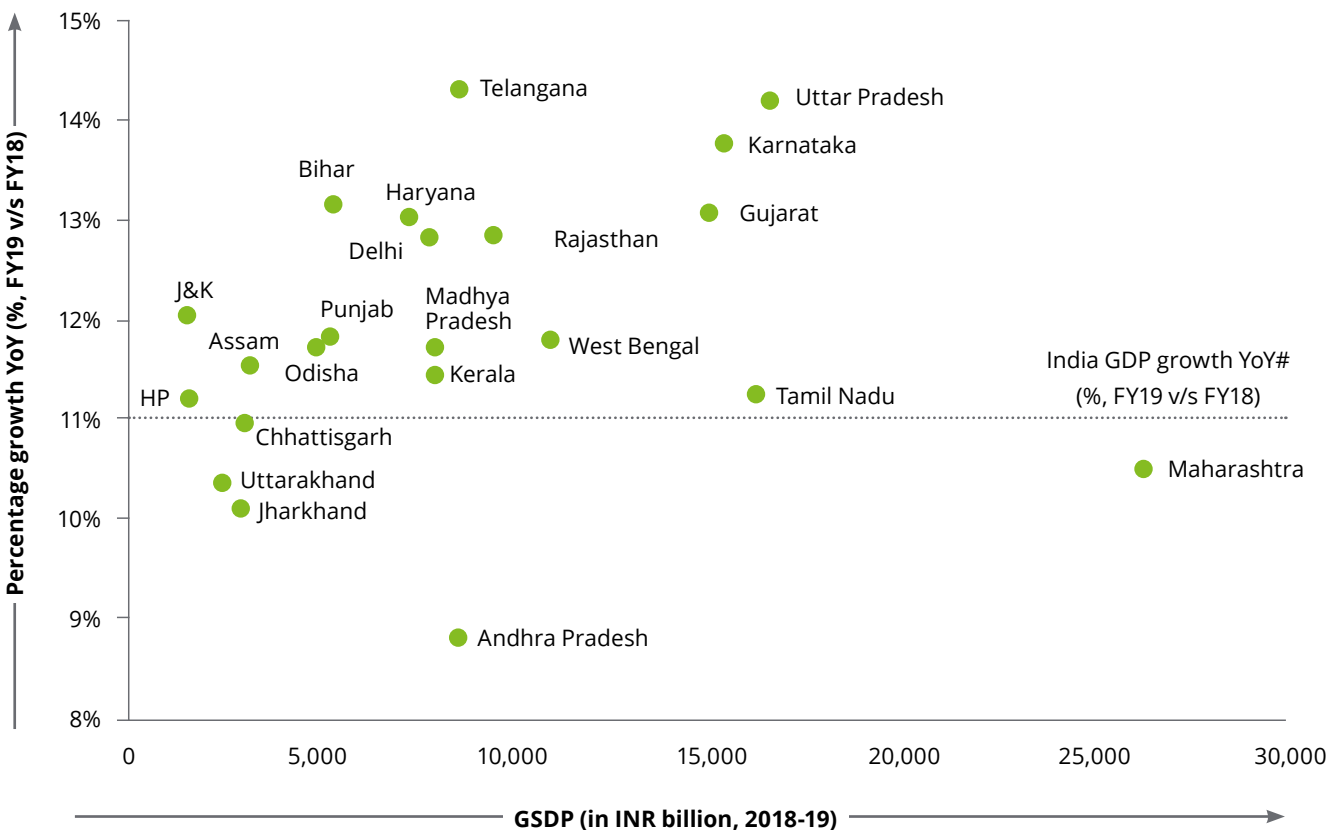
Source: NITI Aayog, MOSPI, Deloitte analysis

Consumers’ discretionary spending is also increasing with rising disposable income. This implies consumers are getting more conscious of brands and their social status, leading to increased purchase of apparel, footwear and accessories, personal care products, home décor, furnishing, etc

State performance – Deliberating state-level variations

Dwelling deeper into the regional-level analysis of Indian states, companies can target specific regions on the basis of their value proposition and applicability to a specific set of consumers. As can be seen from the following charts, while overall India presents a lucrative growth opportunity, the country can be further segregated by the potential they offer in terms of GDP contribution to the nation, Ease of Doing Business (EoDB), and overall employment.

GSDP by state (at current prices, base year 2011-12)*

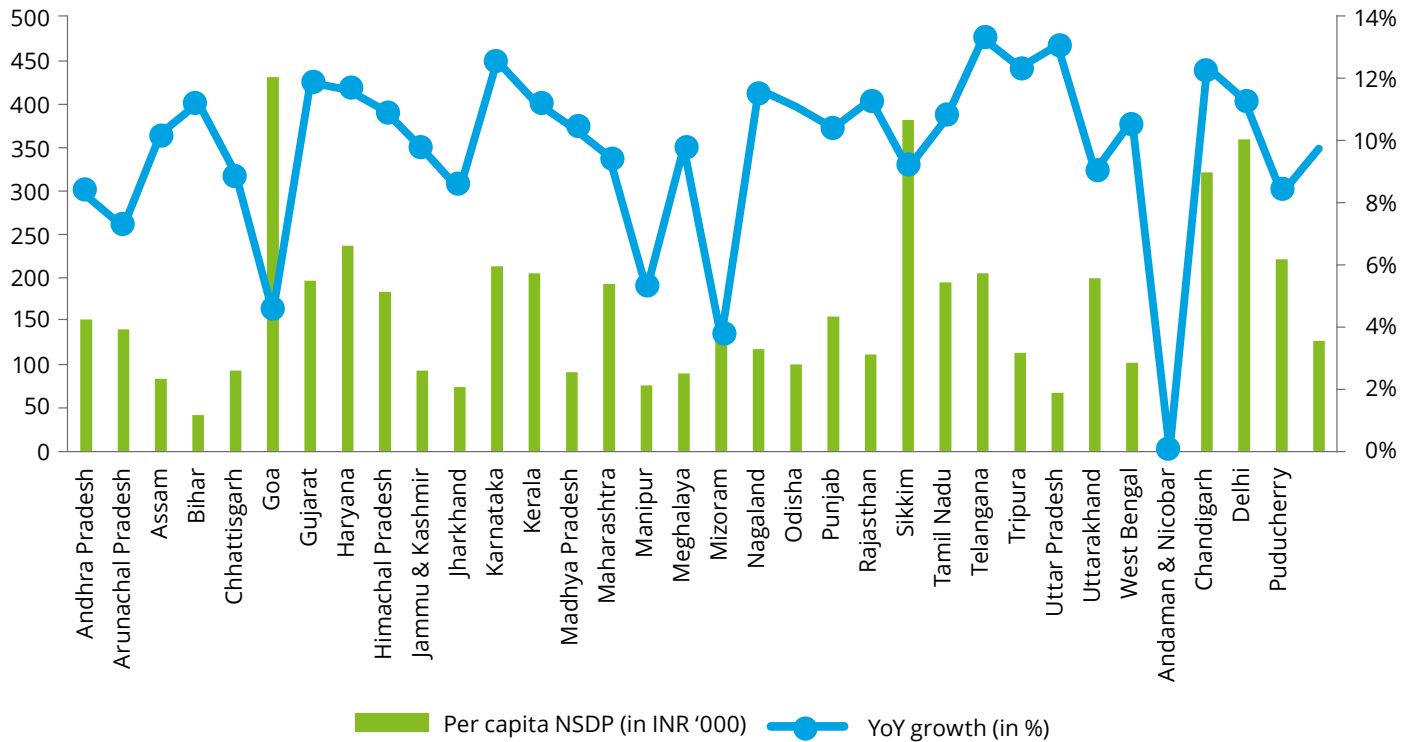


Note*: States/UTs having less than INR 1,000 billion GSDP have been excluded (Sikkim, Andaman and Nicobar Islands, Chandigarh, Arunachal Pradesh, Nagaland, Manipur, Mizoram, Tripura, Meghalaya, Goa, and Puducherry)
 India GDP growth YoY#: Calculated by summation of GSDP of each state for FY18 and FY19 and taking the YoY growth percentage
 Source: MoSPI, GoI, accessed on 4 February 2021

Gross State Domestic Product (GSDP) of 17 states/ Union Territories (UTs) – Telangana, Uttar Pradesh, Karnataka, Bihar, Gujarat, Haryana, Rajasthan, Delhi, Jammu and Kashmir, West Bengal, Punjab, Odisha, Madhya Pradesh, Assam, Kerala, Tamil Nadu, and Himachal Pradesh – grew faster than India’s overall YoY GDP growth rate. Further, Gujarat, Tamil Nadu, Karnataka, Uttar Pradesh, Maharashtra, and West Bengal contribute more than INR 10 trillion to GSDP.

Higher GSDP of the states mentioned above usually implies greater manufacturing and service-driven states. This also implies greater economic activities and relatively better consumer sentiment. Further, greater optimism and better sentiments may lead to increased consumption, thus driving the consumer markets.

Per capita Net State Domestic Product (NSDP) – At current prices, with base year 2011-12



Source: MoSPI, Gol, accessed on 4 February 2021

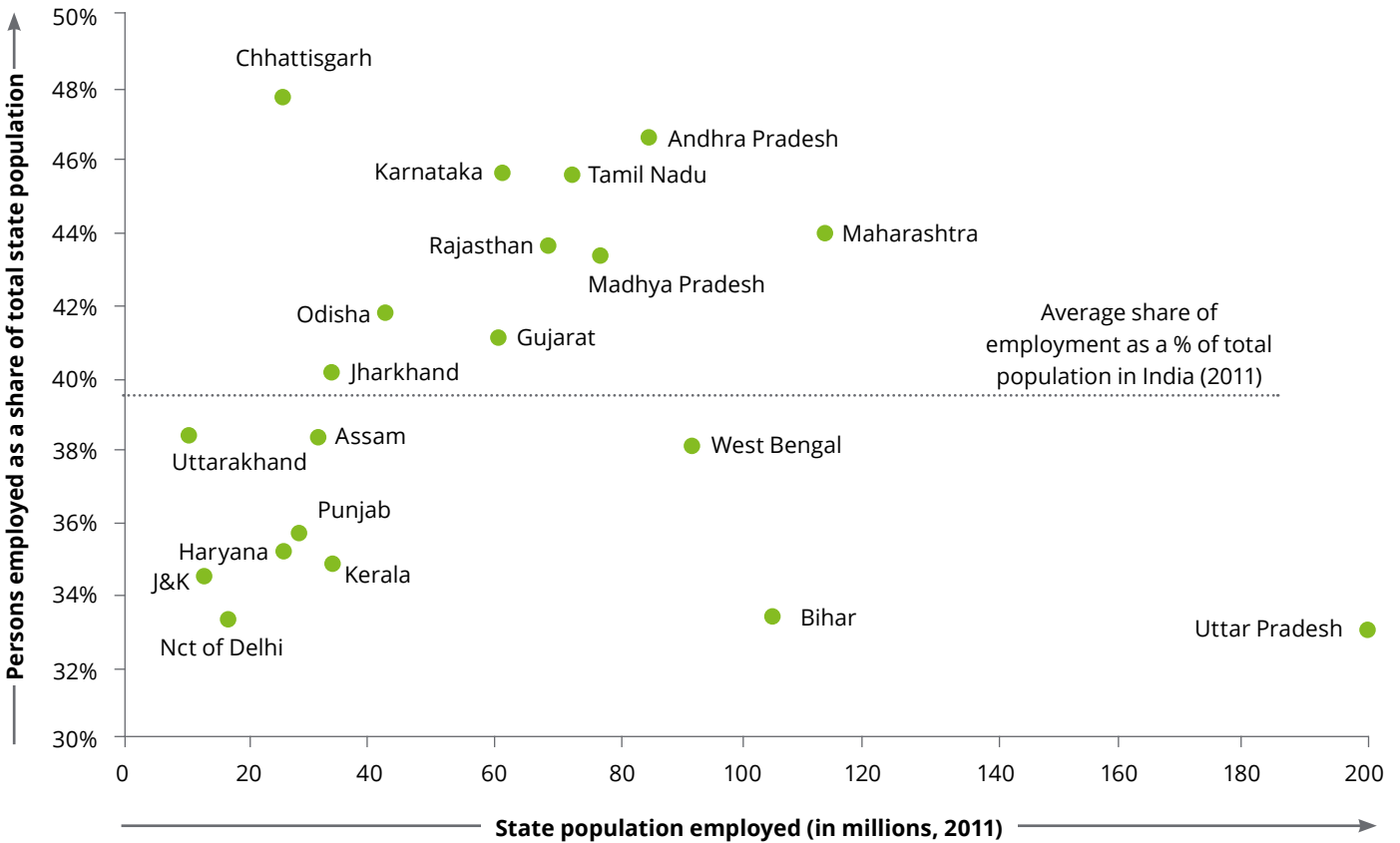
As can be witnessed from the chart above, 16 states/UTs have a per capita NSDP of more than INR 150,000 and 9 states/UTs have a per capita NSDP of more than INR 200,000. States/UTs recording a per capita NSDP higher than India's per capita net national income (INR

126,521) have a greater volume of goods and services produced in the respective states/UTs. With greater volumes of production, the employment is driven higher and thereby, the overall income.

Employment

States can also be measured by their employment levels. Those with a higher level of employment generate a greater number of jobs for its population, which is a good indicator of development. While the pay scale of these jobs also becomes an important parameter, the per capita domestic product (analysed above) is taken as a proxy in view of absence of reliable pay data for jobs across states.

Employment at state level*



Note*: The employment data excludes temporary/partial workers and workers in unorganised sectors. Further, states/UTs with less than 10 million employed population have been excluded (Sikkim, Daman and Diu, Dadra and Nagar Haveli, Lakshadweep, Andaman and Nicobar Islands, Himachal Pradesh, Chandigarh, Arunachal Pradesh, Nagaland, Manipur, Mizoram, Tripura, Meghalaya, Goa, and Puducherry).
 Source: Census India, Labour Bureau, Gol, accessed on 4 February 2021

Overall, nine states (Chhattisgarh, Karnataka, Andhra Pradesh, Tamil Nadu, Maharashtra, Rajasthan, Madhya Pradesh, Odisha, and Gujarat) have their share of employment as a percent share of their population is greater than the country's average percentage

of 39.8 percent. Further, Bihar, Uttar Pradesh, and Maharashtra account for the largest share of working population. Each state has more than 100 million people working.

Ease of Doing Business (EoDB)

The World Bank ranks various nations globally with respect to the extent of a conducive environment provided to businesses in those countries. Facilitated by the Department of Industrial Policy and Promotion (DIPP), the World Bank also ranks Indian states according to their ease of doing business indices on the basis of the annual Business Reforms Action Plan (BRAP). This state-level EoDB ranking provides a glimpse of states' willingness to reform and attract investments. The states are classified under the following four categories:

EoDB ranking of states (2017-18)

1. Top achievers

(having a score of above 95%)

S.No.	State	Score (%)
1	Andhra Pradesh	98.30
2	Telangana	98.28
3	Haryana	98.06
4	Jharkhand	98.05
5	Gujarat	97.99
6	Chhattisgarh	97.31
7	Madhya Pradesh	97.30
8	Karnataka	96.42
9	Rajasthan	95.70

2. Achievers

(having a score between 90-95%)

S.No.	State	Score (%)
10	West Bengal	94.59
11	Uttarakhand	94.24
12	Uttar Pradesh	92.89
13	Maharashtra	92.88
14	Odisha	92.08
15	Tamil Nadu	90.68

3. Fast movers

(having a score between 80-90%)

S.No.	State	Score (%)
16	Himachal Pradesh	87.90
17	Assam	84.75
18	Bihar	81.91

4. Aspirers

(having a score below 80%)

S.No.	State	Score (%)
19	Goa	57.34
20	Punjab	54.36
21	Kerala	44.82
22	Jammu & Kashmir	32.76
23	Delhi	31.69
24	Daman & Diu	28.69
25	Tripura	22.45
26	Dadra & Nagar Haveli	21.88
27	Puducherry	15.65
28	Nagaland	14.16
29	Chandigarh	11.54
30	Mizoram	3.66
31	Andaman & Nicobar Islands	1.25
32	Manipur	0.27
33	Sikkim	0.14
34	Arunachal Pradesh	0
34	Lakshadweep	0
34	Meghalaya	0

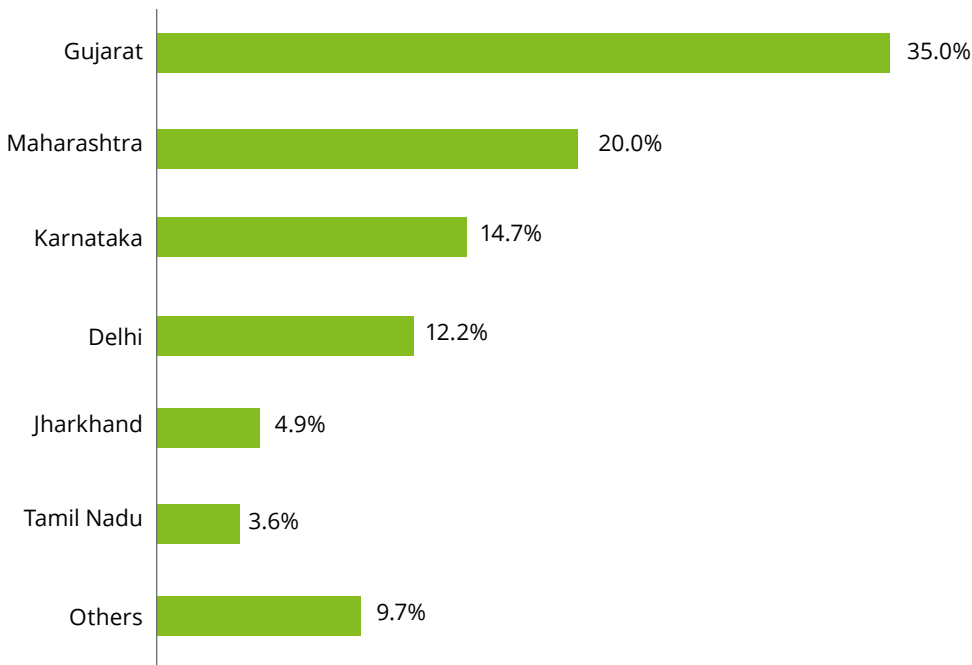
Source: DIPP, Gol, accessed on 4 February 2021

While states such as Andhra Pradesh, Telangana, Jharkhand, Gujarat, and West Bengal consistently perform relatively better in the EoDB rankings, Mumbai (Maharashtra) and Delhi (NCT of Delhi) together account for almost half of the FDI inflows in the country.

Greater EoDB directly affects the amount of FDI inflow. Multinational companies and brands are more willing to invest or set up their manufacturing/

operations in states with a better EoDB index. Further, multinational companies operating in the country have a multiplier developmental impact on consumer industries. Such foreign companies bring along latest technologies and practices that can be used by indigenous and local players. Further, greater companies operating in the region imply greater employment, increased consumption, and more product choices to consumers.

FDI inflows in states (as a % of total country FDI inflow: October 2019–September 2020)



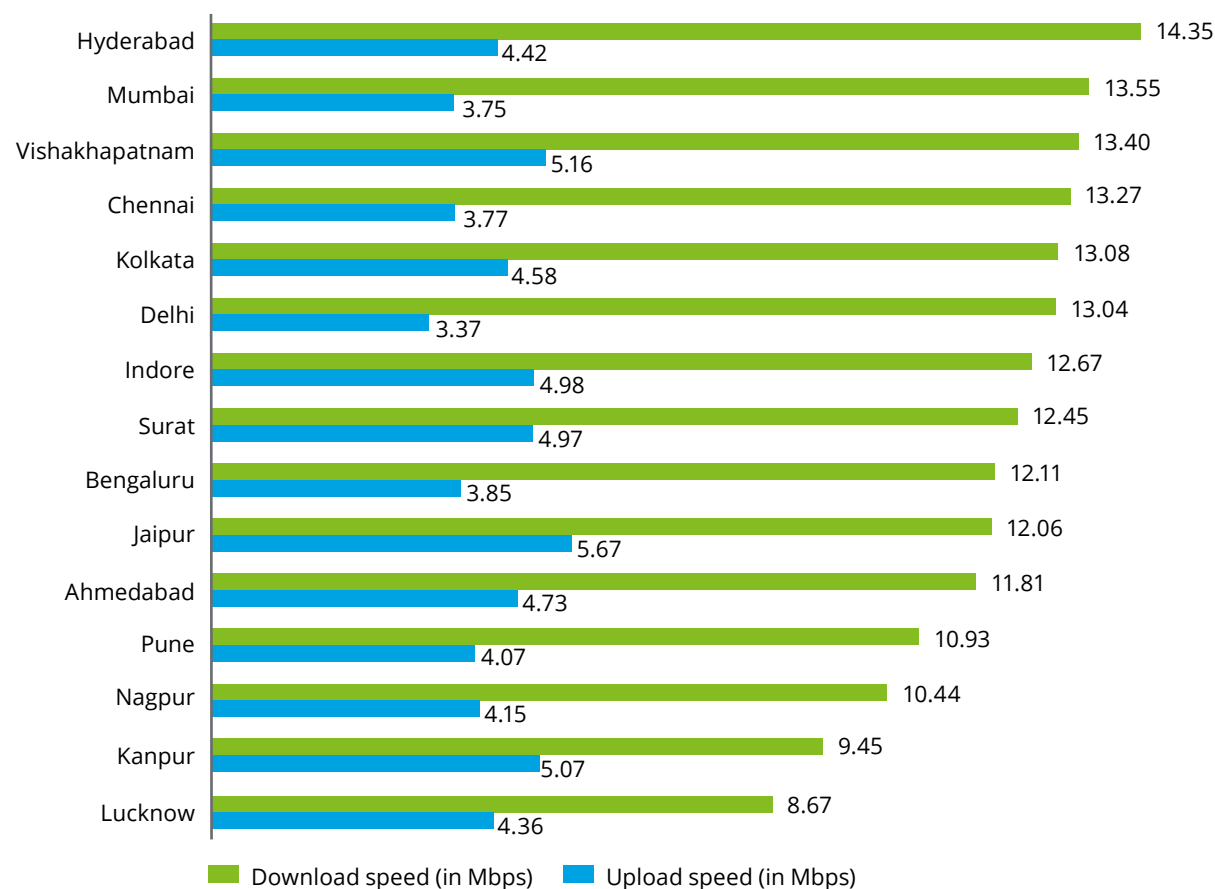
Source: DIPP, Gol, September 2020, accessed on 4 February 2021

Internet speed

With the increasing internet penetration across the country, internet and broadband speed becomes an important criterion to measure the competitiveness of states. The government, ministries, or government bodies do not specifically gather information on internet speed. This is tested globally by one of the

mobile and broadband network intelligence, testing applications, and technology companies. According to its results, the southern part of India has greater download and upload internet speed. The top 15 cities in terms of fastest mobile internet speed are presented below.

Mobile internet speed in India’s largest cities (Q3 2020)



Source: Upgrades in mobile speed in India come with expanded 4G availability, Speedtest, 28 October 2020, accessed on 4 February 2021

The internet speed carries significant criticality due to the rapid growth of the e-commerce channel and increasing means of digitised shopping. Every task across a consumer’s shopping journey can now be done online. These tasks include browsing web for products, checking the availability of products online, comparing prices and buying at e-tailing sites, and posting product reviews on social media. Further, with the government pushing digital payment and digitising the economy, internet and data carries more importance than ever.

The above-mentioned parameters are only a few amongst other areas that companies may consider to shortlist the geographic regions for their investments and operation (as deemed suitable according to their strategic choices). Brands must have a complete know-how of the consumer group they want to target, their buying characteristics and preferences, and the characteristics of the regions where they live. These nuances have to be then leveraged, the challenges have to be seen upon as opportunities, and the branding needs to be adequate across channels to make a mark in the ever-growing consumer market.



Nuances of your consumers

Tapping consumers' altering buying behaviour – evolution of the shopping journey

The modern Indian consumer has evolved from being reactive, waiting for information to reach him or her, to being proactive—actively seeking product information, comparing products available in the market, and taking informed decisions. This tectonic shift in consumer behaviour is mainly driven by the following factors:

01. Changing lifestyle

Factors such as higher disposable incomes, consumers' aspirations to improve their quality of life, increasing access to global information and products, etc., are resulting in changing consumers' lifestyle. The altering lifestyle is in turn leading to a change in consumers' shopping basket, which is now adding high-quality and better options. The rising upper and middle classes, which account for a majority of the consumption, are mainly interested in enhancing their shopping baskets.

Sedentary lifestyle (due to lack of time and long work hours), coupled with lack of physical activity and changing eating habits, has led to more consumption of items such as low-fat options, gluten-free and dairy-free options, organic and chemical-free food items, and products manufactured using natural ingredients.

According to the Indian Council of Medical Research (ICMR), a majority of the Indians lead a sedentary lifestyle with minimum or no physical activity. Further, according to a study conducted by ICMA in 2018, the level of physical inactivity in India has increased rapidly to 54.4 percent.

Source: Indian Council of Medical Research (ICMR); <https://www.thehindu.com/sci-tech/health/34-indians-not-active-enough-who/article24874341.ece>; data by WHO; and [https://www.thelancet.com/journals/langlo/article/PIIS2214-109X\(18\)30357-7/fulltext#seccestitle10](https://www.thelancet.com/journals/langlo/article/PIIS2214-109X(18)30357-7/fulltext#seccestitle10)

02. Advancement in technology for search and more connected appliances at home

New technologies are transforming the retail scenario in India by influencing consumers' purchase decisions and redefining their shopping journey. The current retail scenario is characterised by advanced technologies and digital solutions.

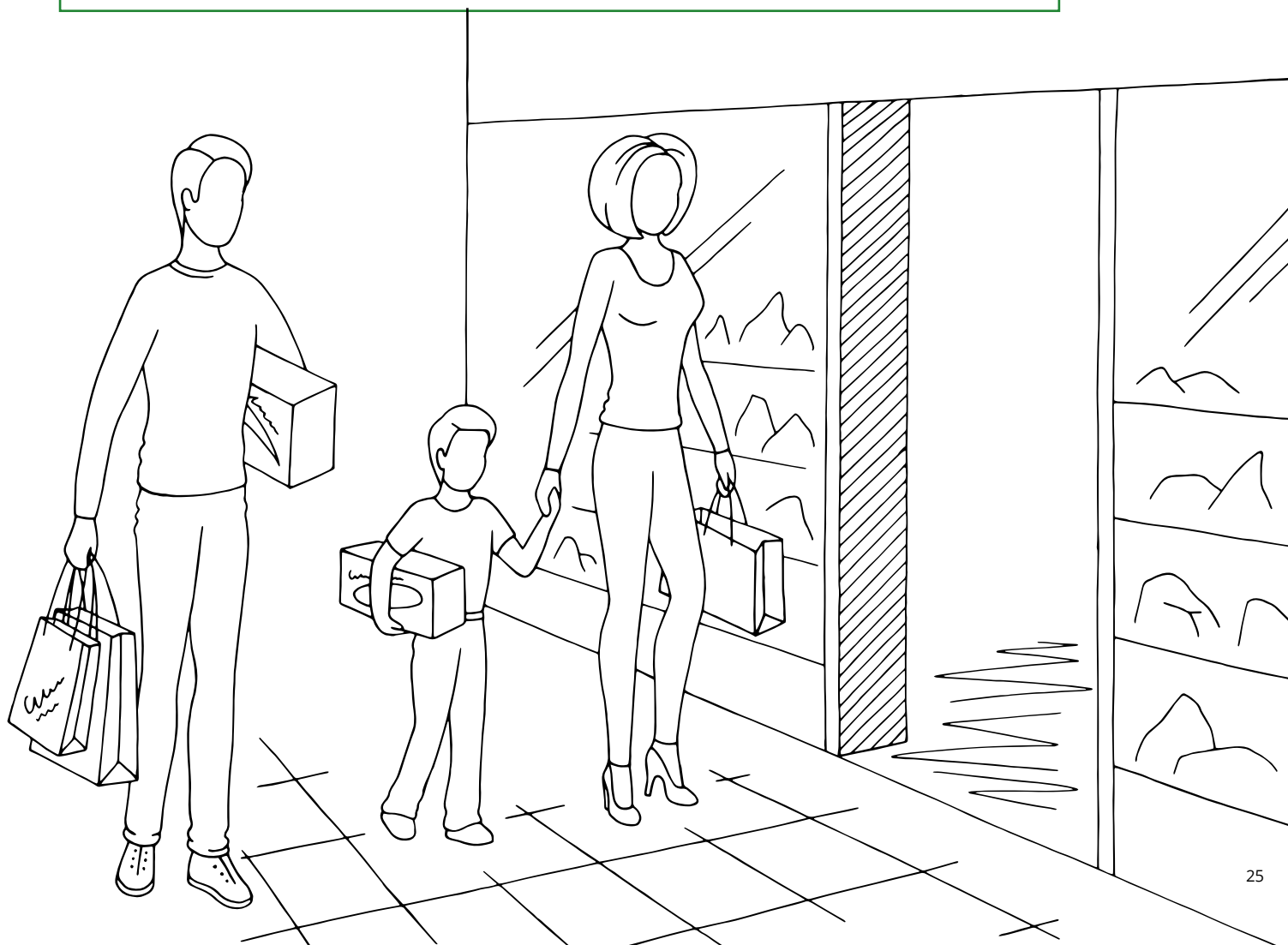
Modern consumers are aware and know what they want. Before buying anything, they do thorough research online, check reviews, and compare options available in the market and their prices. To attract such an informed set of consumers is an onerous task. Therefore, modern retailers are using advanced technologies, such as data analytics, social media, machine learning, and chat bots, to know their consumers better, identify factors that trigger purchase, and formulate their marketing strategies to target consumers.

These developments are also influencing consumers' decisions related to discretionary spend. A big chunk of discretionary spend goes towards consumer durables – a product segment that has been closely related with growth in GDP and rising household income.

The evolution of typical household customers:

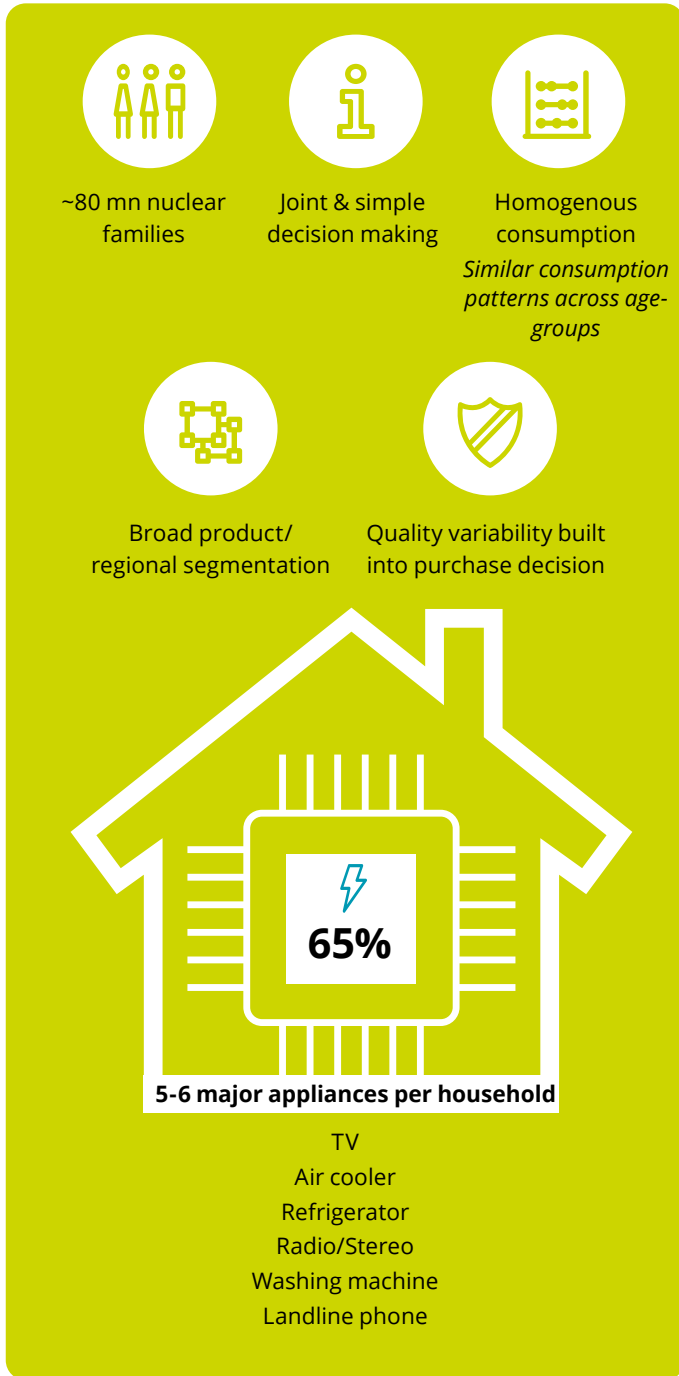
- 5-6 appliances in 1990s
- 12-15 appliances as of now
- A network of inter-connected and inter-communicating devices in the next decade: (smart devices, convenience redefined, smart security, AR/VR and AI, and custom designs)

(Sources: <https://www.news18.com/news/india/google-says-70-per-cent-buyers-decide-on-products-online-522773.html>; <https://economictimes.indiatimes.com/industry/telecom/telecom-news/india-home-to-worlds-second-largest-internet-user-base-thanks-to-jio-report/articleshow/69757870.cms>; tribetailing document, Deloitte analysis, Media articles)

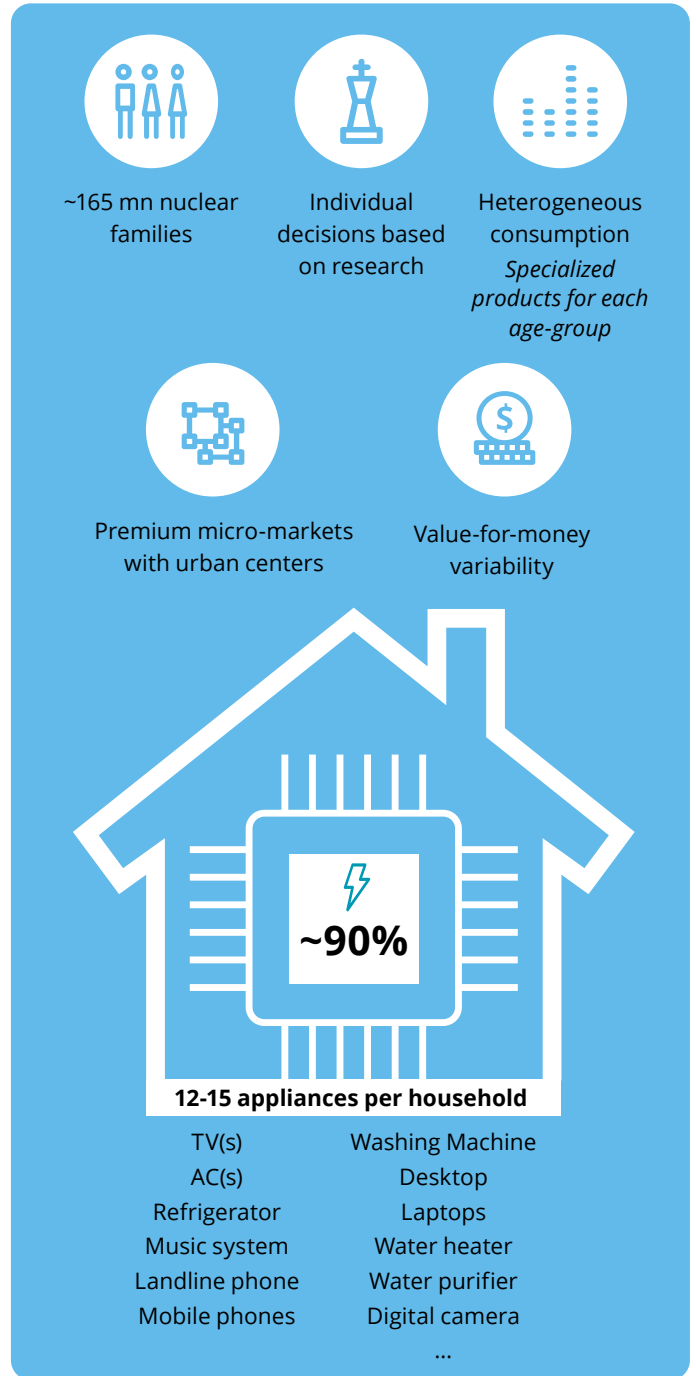


Typical customer households have evolved from housing 4-5 major appliances during the 1990s to ~12-15 appliances today...

Typical traditional households
1980s-1990s



Current households
(2018)



Represents percentage of household electrified in India

Source: Deloitte analysis

Further, with the advancement of technology and owing to increased connectedness globally, the households are expected to evolve into a network of inter-communicating devices:

Households envisioned in the future.. (2025)



Smart Security

- Facial recognition
- Drones patrolling
- Robotic alarms



Convenience redefined

- Natural interfaces (voice & gesture)
- Inter-communicating devices (wireless)



Smart Devices

- Smart appliances
- Smart meters/sensors
- Natural interfaces



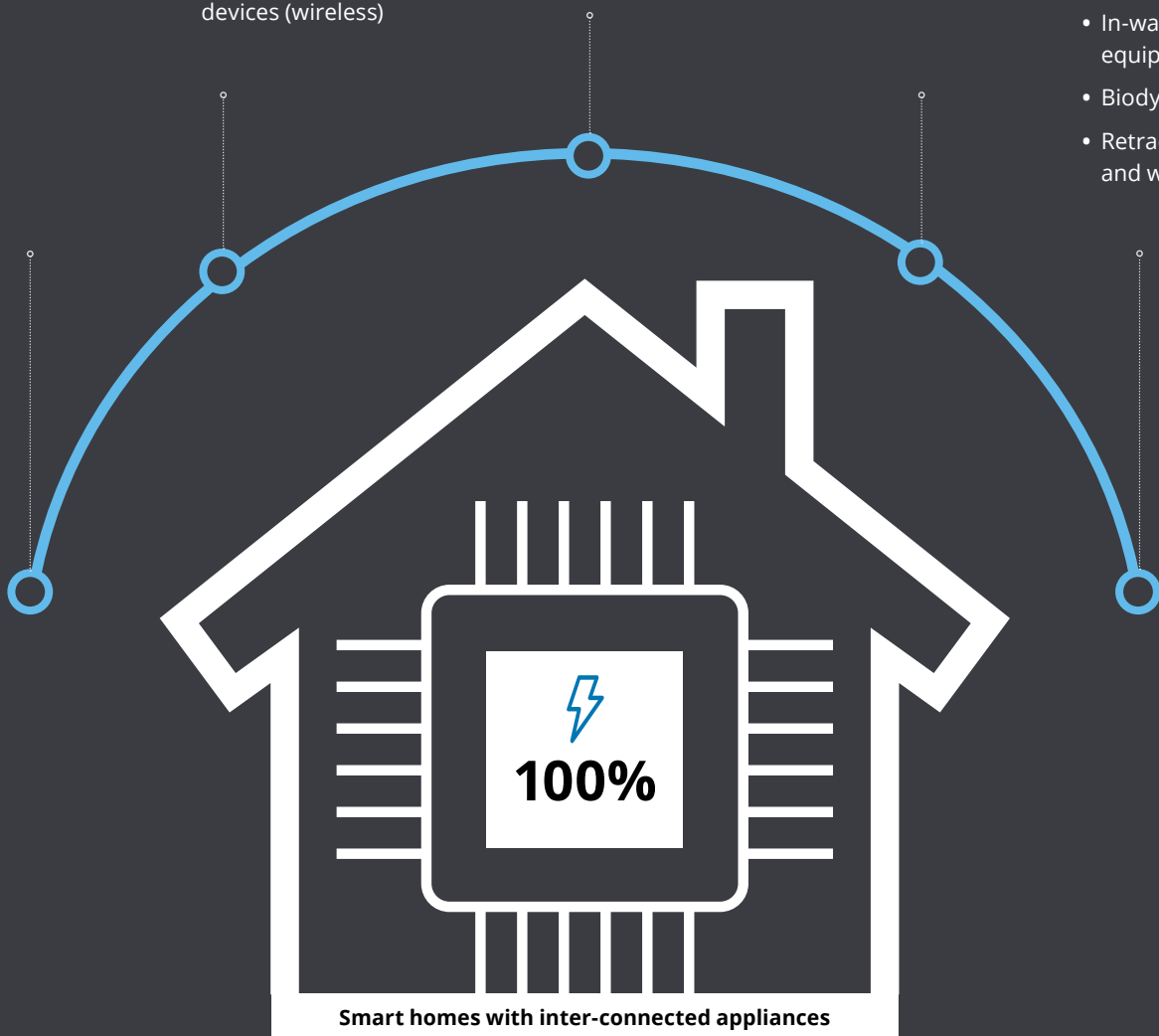
AR/VR & AI

- Virtual gaming, shopping, experience, etc.
- Bot assistance



Custom designs

- 3D printed bespoke designs
- Re-designable lightings and fixtures
- In-wall audio-visual equipment
- Biodynamic lighting
- Retractable roofs and windows



03. Greater and easy access to different types of data

The implementation of new technologies and the e-commerce boom have given consumers and retailers easy access to data, which is generated by analysing consumers' online activities:

- Activity-based data – Mined from users' activities such as website usage, purchase history, call centre and telephonic data, and mobile and internet data
- Social network data – To track users' public and personal interests and preferences, work history, group memberships, and lifestyle-related information
- Social and political influences and sentiment data – To understand the motivation driving consumers' actions, and provide insights through users' reviews and comments, customer service records, etc.

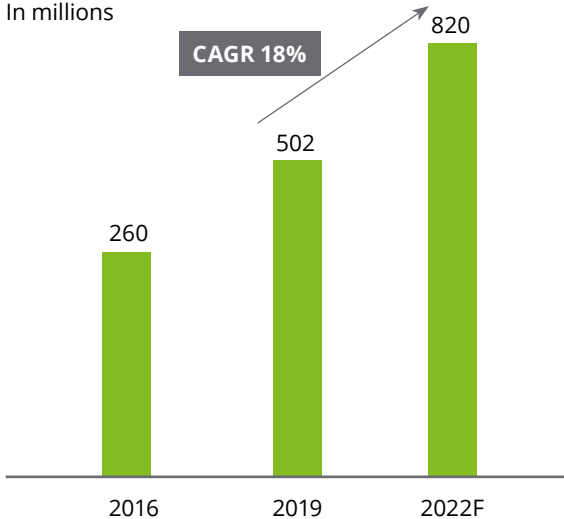
04. Growth of internet

India has the second-highest number of internet users and is the second-largest smartphone market in the world after China. Interestingly, most of the web traffic in India originates from mobile phones. Both e-commerce and m-commerce are increasing in India, indicating consumers' inclination towards online shopping.

India is the second-largest smartphone market globally and accounts for nearly 10% of the global smartphone sales.

Smartphone users in India

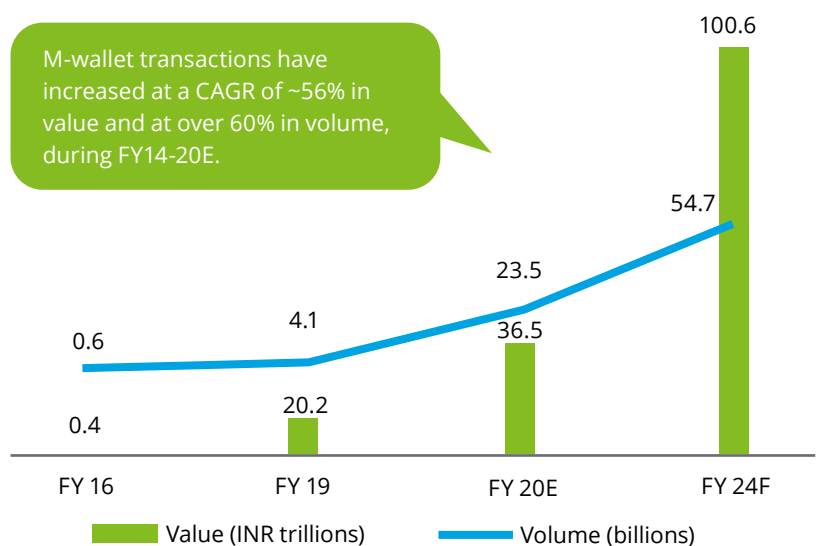
In millions



Source(s): Media articles, updated as on 4 February 2021

While traditionally, m-wallets started with services such as recharge and bill payments and money transfer, these are now increasingly being used for various shopping purposes.

M-wallets transactions in India (FY16-24F)



Source(s): Media articles, updated as on 4 February 2021

Customer's buying journey

Past: Consumers checking newspaper/TV/Billboards/etc. to familiarise themselves with a product, visiting two-three stores to compare prices, not focusing much on aftersales services

Present: Consumers going online to seek information about a product, engaging in some form of online activity while shopping from a store; making purchase decision on the basis of social media recommendations, convenience, and benefits; companies engaging with consumers even after purchase; companies offering consumers loyalty programmes, discounts, offers, etc.

Customers now embrace an omni-channel experience and switch brands unpredictably.

Awareness

Owned media
Website, controlled social media

Earned media
Reviews, blogs, editorials, etc.

Paid media
Print media, audio, and video media

Today (2019)

- Traditionally, consumers waited for the information to reach them. Currently, they actively gather information.
- About 63% of the millennials stay updated on brands through social media.

Consideration

Peer reviews, Online influencer, Discount/coupons, Fit with persona, Price comparison, Brand story, CSR

Parameters

90%

Consumers engage in some form of online activities while conducting shopping in-store.

Purchase

Shopping becoming more social

Tele-shopping

E-com **Store purchase**

- Decisions moved from being based on availability of products to being based on convenience and benefits.
- About 28% millennials purchase products due to social media recommendations

Aftersales

Visit store, Online tutorial, Call center, Social media, Digital channel, On-demand doorstep services

Options

- Immediate gratification becoming more important

Loyalty

Experiential loyalty, Online reviews, Conditional loyalty, Loyalty programme, Discount and offers

Weakening consumer loyalty

40% **39%** **46%**

- Percentage of consumers willing to spend on loyalty programmes

Source: Deloitte analysis

Future: A consumer will have access to AI and experiential branding. Brands will seek out consumers who will be able to purchase products through stores on wheels and 24/7 robot-manned stores. Customers would want zero-error and best service (first time right) and expect SLAs offering a guaranteed product uptime. Loyalty will be customer-centric and transient.

Product uniqueness, pricing transparency, and prompt service will be key in the future.

Awareness

Tomorrow
(2025)

- Consumers should have access to AI branding and experiential branding – gamification, brand as a friend, etc.

Consideration

- Brands will seek out consumers.
- Companies will need to keep up with their customers' lives in a non-intrusive way and provide customised offerings.

Purchase

- Consumers will be able to purchase products through stores on wheels and 24/7 robot manned stores.

Aftersales

- With increasing customer expectations, customers would want zero-error and best service (first time right).

Loyalty

- Loyalty will be customer-centric and transient.
- Customers will tend to share data with companies and expect personalised offerings.

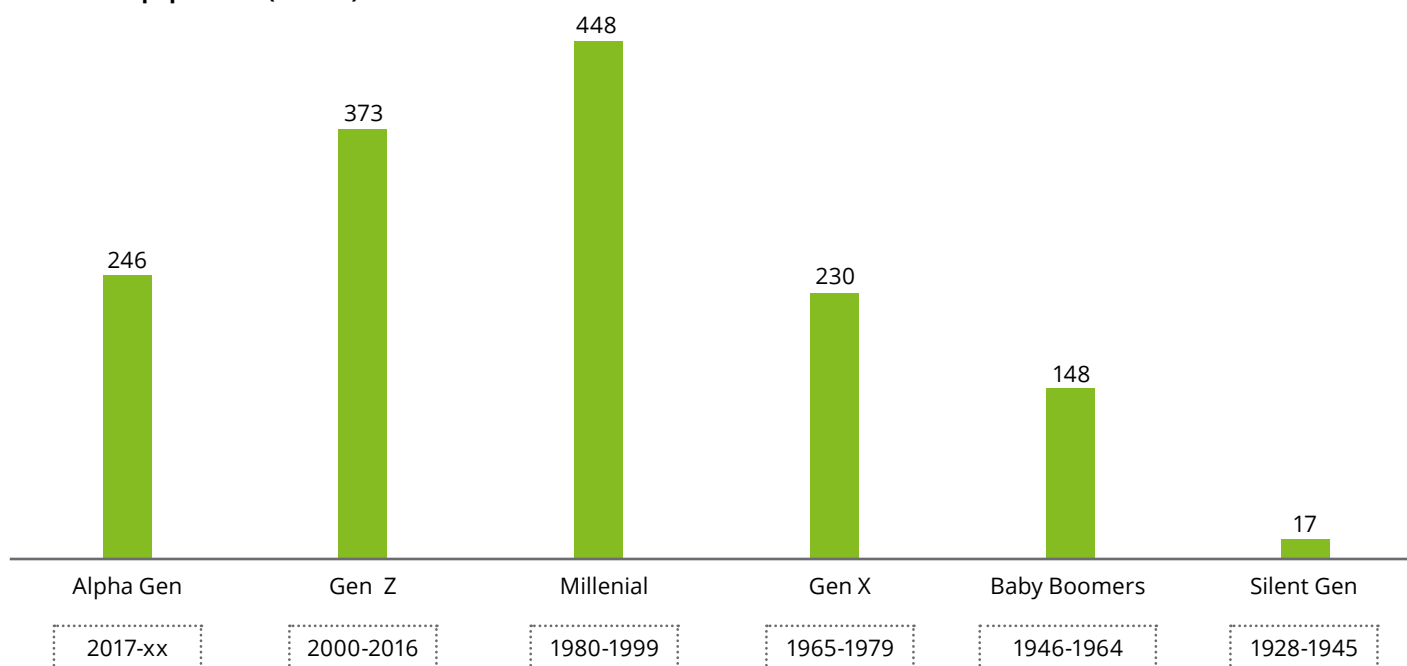
Source: Deloitte analysis

Market players would need to continuously adapt to evolving consumer behaviour and preferences, to digitally influence and engage consumers, and gain their loyalty

Identifying your niche - Moving away from mass targeting

The modern consumer market, which also includes millennials and generation Z, is diverse. It is expected to witness six generations of consumers by 2025.

2025 Indian population (million)



- Each of these generations **has faced different events/disruptions/lifestyle during their lifetime.**
- Companies will need to understand the evolving consumer better due to the **shifts happening in technology, consumer behaviour, and convergence across sectors**, to adapt their organisations.

These consumers are well informed and confident, and do not settle for anything but best. They not only love experimenting but also know what they want. This scenario poses a significant challenge for retailers – how to attract and woo such a diverse set of consumers? One of the commonly used ways is tribetailing.

Tribetailing

It is a retail strategy in which companies identify and cater to a niche set of consumers. As consumers' preferences are changing at a dynamic pace with an evolving retail environment, tribetailing helps retailers connect with buyers and understand them better. Riding on the digital wave, retailers are using advanced technologies, such as AI, ML, and social

media analytics, to get information about consumers' shopping history, behaviour, preferences, and online activities.

This information helps retailers group consumers in different categories, and come up with bespoke solutions and devise personalised marketing and promotional programmes (such as membership and loyalty programmes and discounts) to target niche consumer segments.

Consumer personas for shoppers can be broadly segregated into the following 10 major categories:

- Brand aficionado
- Experimental
- Gift lover
- Impulsive shopper
- M-shopper
- Procrastinator
- Re-loader
- Researcher
- Social butterfly
- Value seeker

A globally acknowledged and well-practiced example of tribetailing is for the ageing population. Various features to facilitate the shopping journey of the elderly include the following:

- Modified escalators to provide easy accessibility to various floors in a shopping mall/big retail complex
- Exclusive pension day discounts
- Supermarkets with magnifying lenses on shopping baskets and shelves, brighter and more natural lights, non-slippery floors, and emergency call options
- Adequate shelving heights so that older consumers are not required to either reach too high or bend too low for their common products

Similarly, Indian consumer segments are also responding to specific needs of the elderly. New e-tailers that provide exclusive products and services for the older population are coming up in the market when nuclearisation is on the rise and the senior citizens require more care and assistance. While various start-ups are delving into this space in India, the market specific to elderly, especially offline, still remains in nascent stages.

Delighting customers with made-to-order offerings

Mass marketing techniques are increasingly being replaced by made-to-order techniques that involve personalisation and customisation. Retailers are preferring a multi-pronged approach to hook niche consumers, which are not loyal to any brands and can switch brands over things such as reward programmes, aftersales services, and brand image in the market. Retailers can use tribetailing to differentiate themselves in the market and offer personalised and customised products to inculcate a sense of privilege in consumers.

Tribetailing and personalisation are increasingly picking pace in the luxury segment. Some categories, such as fine dining, hotels and travel, concierge services, jewellery, gadgets, personal care, and wines, are driving the segment's growth. To seize this opportunity, many Indian companies operating across categories have changed their marketing and promotion strategies, and repositioned themselves as premium players. They are conducting predictive analysis of social media profiles of customers for targeted marketing and drafting their digital marketing strategies on the basis of micro segmentation to offer a tailored experience to consumers.

Case studies

Coffee chain offering personalised experience to customers

One of the major multinational coffee chains has been working on creating the 'third place' experience in India. Their flagship stores across India have elements specific to each city and its culture. The company focuses on experiential marketing and engages with its customers to build its brand value.

During the COVID-19 lockdown in India, the company devised a social media campaign to reconnect and recreate the experience of visiting stores, creating a similar online experience to reaffirm the relationship with its customers, and help them re-visit their favourite store moments. The company rolled out the campaign in multiple phases, each one aiming to strengthen the connections with its customers.

The company also plans to launch a mobile app for customers in India to place and customise take-away orders and pick them up later from their local stores.

Ready-to-wear offerings by a major apparel brand

An Indian ethnic-wear brand partnered with a global business solution company that offers visual fitting rooms worldwide, to introduce a virtual dressing room on its website.

The company has brought the next-generation solution for fit, size, and personalisation in the country. The company has come up with a precise 2D body model of the customer virtually, so they know not only the right size but also the correct length of the clothing. The platform offers suggestions on sizes and fits, and provides information regarding the elasticity of the fabric and how a particular item will feel on a customer.

Within the first two months of integration, the company's revenue boosted by 5 percent, and time spent on the website and pages viewed per visit increased by 266 percent and 136 percent, respectively.

A consumer goods company woos consumers through a targeted marketing campaign

An FMCG company launched a hashtag campaign for its detergent brand that talks directly to its target audience and quickly became a movement. It launched a video and talks to an audience that is changing with time and is progressive in a society that takes them for granted.

This video was well received across the country and received over 9 million views. The brand involved a large number of celebrities and influencers to take part in its campaign, making it a multichannel marketing campaign.

The campaign was widely spoken about by both women and men and is particularly popular amongst generation Y and Z.

Capitalising sports events to increase sales

To cash in the cricket frenzy of people in India, a food ordering and delivery platform launched six witty commercials during IPL to celebrate two of India's biggest passions: cricket and food. The ads focused on driving home the brand's propositions, while subtly weaving in cricket lingo.

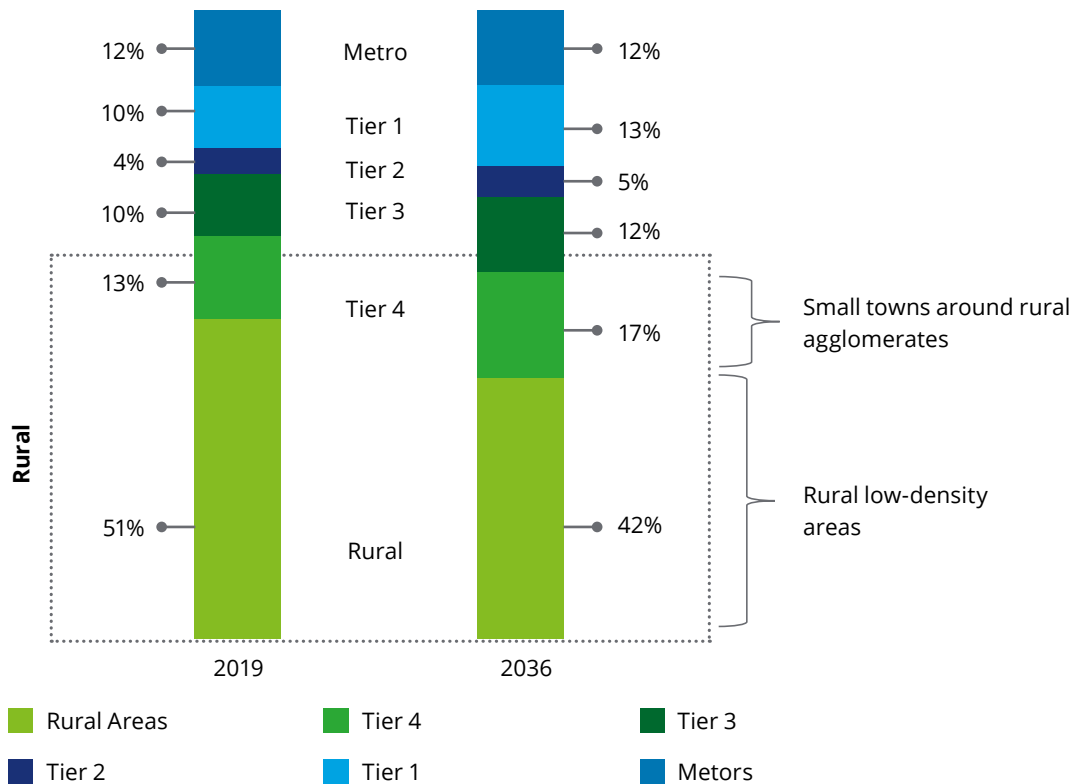
These ads focused on the platform's product differentiators such as 'no minimum order', 'lightning fast delivery,' and 'variety of restaurants'. It also launched integrated campaigns and rolled out a contest on Twitter involving an IPL trivia.

This provided an opportunity to the brand to generate a transaction and a great food ordering experience right when the consumer is viewing the ad, and reach out to potential new users who may not have used the platform before.

The unnoticed and underestimated rural consumer

The country's rural consumer market has a lot of untapped potential. The rural segment constitutes nearly two-thirds (66 percent) of the country's population—contributing significantly to the economy. Easier access to infrastructure and data will support the growth of the rural segment.

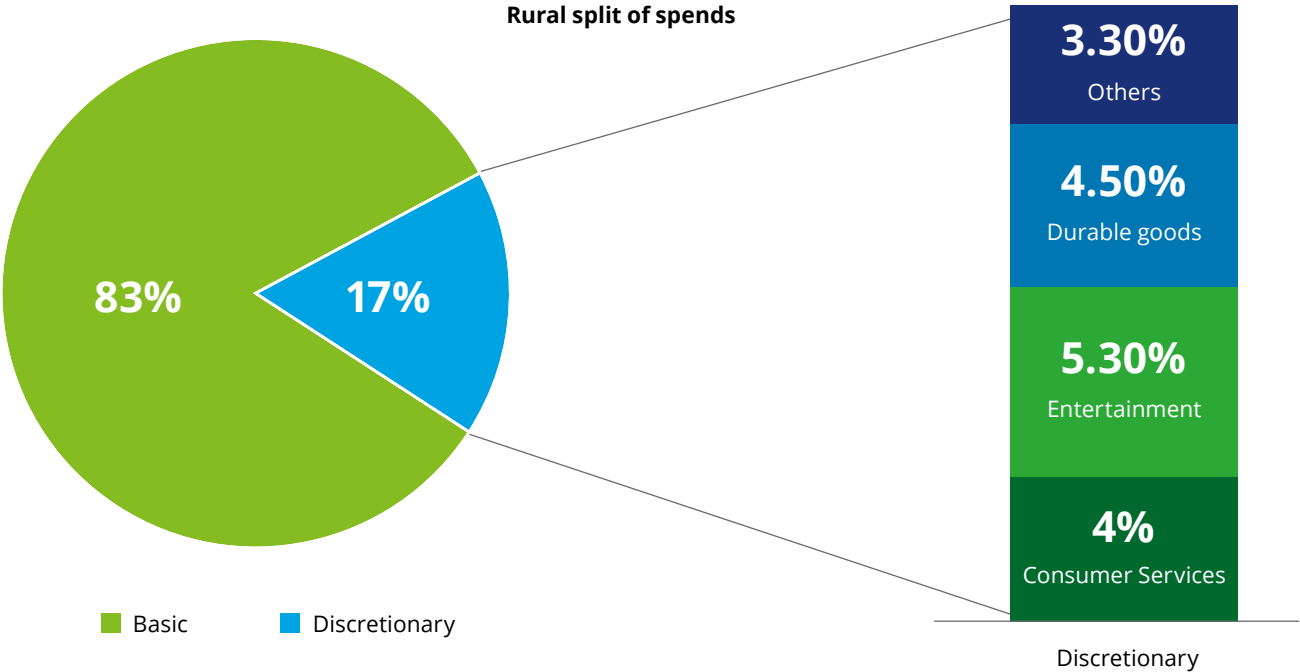
Rural population has been large and expected to remain so...



Source: World Bank, ResearchGate, Newspaper reports, MORD, GOI, Deloitte Analysis

- **Tier-4 areas** are acting as agglomerates of **rural areas** developed into small towns with improving infrastructure.
- More than **half of India's industrial production** comes from rural India.

Over the years, the discretionary spending in rural areas has remained low compared with urban areas.



Source: World Bank, ResearchGate, Newspaper reports, MORD, GOI, Deloitte Analysis

Rural areas present a promising opportunity for consumer markets

Contribution by rural area

- Nearly two-thirds, or 66% population contribution
- ~130 million households
- ~45-50% GDP contribution
- ~40% FMCG sales contribution
- Nearly 50% two-wheelers and 30% four-wheelers contribution by volume
- ~45% telecom contribution



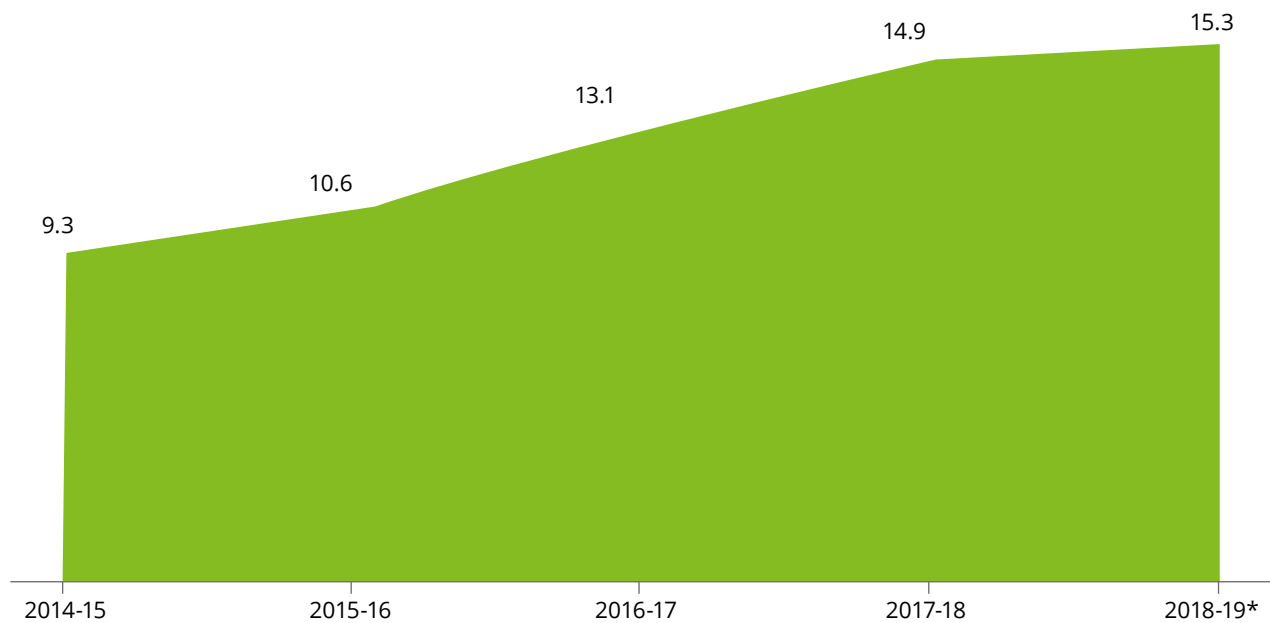
- Accessibility**
Better road connectivity has made it easier for rural population to reach bigger towns – implying greater consumption
- Affordability**
Better infrastructure has allowed rural consumers to explore non-agrarian employment opportunities – leading to higher disposable incomes
- Awareness**
Greater penetration of phones and internet (mobile data) has led to increased awareness

Source: Planning the route to growth in rural markets, Nielsen, 2018; Govt. of India Census 2011; IBEF; Media articles

Rural consumers have significantly evolved on the back of greater internet and smartphone penetration. There is a large information flow from the developed areas (urban centres and foreign countries) to rural and tier-II, tier-III regions, thereby leading in the rural population's increasing trends and market awareness.

The government is also taking various developmental measures, including infrastructural (physical and digital) initiatives, to uplift the rural and non-urban regions.

Government expenditure on rural development
Rural development expenditure (US\$ B)



*Expenditure as on 25 January 2019
 Source: Ministry of Rural Development, GOI, updated on 4 February 2021

A few major steps taken by the government in the recent past include⁸:

- Financial inclusion through **25.66 crore rural Jan Dhan accounts** opened in rural/semi urban India (Aug 2020)
- **1,088.1 crore person days employment** generated during FY16-21
- **140 million hectare of irrigation** potential in 2019
- Between 2014 and 2019, ~200,000 km of road was built across rural India at 109 km/day
- **100 percent electrification** of villages
- **45 percent YoY growth** in internet penetration in 2019

Further, in its recent budget, the government announced the following steps to enhance development in rural regions:

- By 2022, every single rural family to have **access to electricity** and clean cooking facility
- **Housing for all** – In its second phase, 1.95 crore houses to be constructed under the PMAY-Gramin scheme in FY19-22 to provide housing for all by 2022.
- **PM Sadak Yojana** – In its third phase, 1,25,000 KM of roads to be constructed over the next five years at a cost of INR 80,250 crore
- **Internet provision** to every Panchayat through the public-private partnership model

⁸ Source: Press Information Bureau, Government of India, MGNREGA, Media articles

Rural consumer, then, and now:

Traditional rural consumer

- Major concerns regarding basic needs of food, clothing, and shelter
- Relied on conventional channels for purchase decisions
- Decisions driven by necessity and costs
- Majorly a source of earning through agricultural output and thus dependent on monsoons and government subsidies
- Patriarchal set-up with almost all purchase decisions taken by men

Modern rural consumer

- More aspirational –concerned about social image and aware of brands
- Is more connected, implying access to online means to connect and gather information and make purchases
- Decisions driven more by value for product and returns generated from purchase
- Greater focus on health, education, and comfort
- Less reliance on agricultural income and greater diversification of work and income sources
- Patriarchal set-up still exists but greater role of women in day-to-day household purchases
- Other changes include upgrading from feature phone to smartphone, CRT TV to LCD/LED TVs, tooth powder to toothpaste, local snacks to packaged and ready-to-eat food, cycles to motor-vehicles (mainly two-wheelers), etc.

Case studies

Touching the lives of rural people by creating a network of local shops

The COVID-19 pandemic led to the integration of local kirana shops in the supply chain network of e-commerce companies. Two major e-commerce players in India have partnered with kirana stores across the country, using them as carrying and forwarding (C&F) agents for storing and delivering goods.

A large Indian conglomerate partnered with a social media company to create a platform to enable kirana and other offline stores to deliver products and services, and transact using their platforms. This will provide digital terminals to offline shopkeepers, for inventory management and stock ordering from a network of wholesalers and help them cater to the new set of consumers who are more tech-savvy.

B2B start-ups also help digitise kirana stores to enable online ordering, ensure online payments, and even deliver goods to shoppers.

The companies, thus, need to strategise their offerings keeping in mind minute variations amongst consumers:



Build customised experiences

Build an authentic experience. Pre-shopping analytics will be the critical agent to drive customisation



Redefine customer segmentation

Future customer will need to be targeted using a customised and relevant value proposition.



Digital engagement

Engage consumers digitally and map nuanced category dynamics and consumer behaviour.



Building micro-influencers

Customers will have selected trusted influencers, which will be identified by companies.



Omni-channel engagement

Customers would want brands to understand them regardless of touchpoint and remember their historical experience with the brand.

Brands are adopting unique strategies to overcome challenges and cater to demand from new rural consumers.



Promoting brands through live events and social campaigns

A major FMCG company launched a branding campaign during a fair which is considered as the key congregations in rural areas in India. In this campaign, rural customers had a chance to have live experience of the company's product. This campaign resulted in an increased market share of the product in the rural market.

The company also launched different social initiatives in rural areas to promote its brands. In one of the campaigns, the company took the initiative to build sanitation facilities in rural areas. This campaign received great appreciation and response from every part of India.



Tie-ups with local distributors for last-mile delivery

One of the biggest e-commerce players in the world tied-up with a local player to bridge the last-mile gap in rural areas:

- It has launched its India-first programme to help kirana stores and local shops in tier 1, 2, and 3 cities and beyond, digitise their existing business.
- The company will use their technology, training, and enablement capabilities to power local shops across India to sell online.
- If a retailer does not have its own delivery system, the company will help them sign up with third-party courier service providers to scale the business and connect with buyers in other regions as well.
- The e-commerce giant is also planning to launch an express delivery platform, in coordination with mom-and-pop stores.



Introducing smaller packaging

- Various FMCG and consumer goods companies have introduced their products in smaller packages.
- While smaller packaging helps provide products to rural consumers at lower costs, it helps increase the company's volume sales.
- Smaller packages, such as sachets and one-time-use packs, are proving to be highly successful in rural regions.
- Financial constraints due to COVID-19 has led to a further increase in demand for value packs in rural areas.

Source(s): Media articles



Omni Channel Retail

Connecting with consumers at the right time and place

First retailers need to know who their consumers are, and then connect with them at all digital touchpoints throughout their buying journey. Digital touchpoints across consumer buying journey

Find inspiration

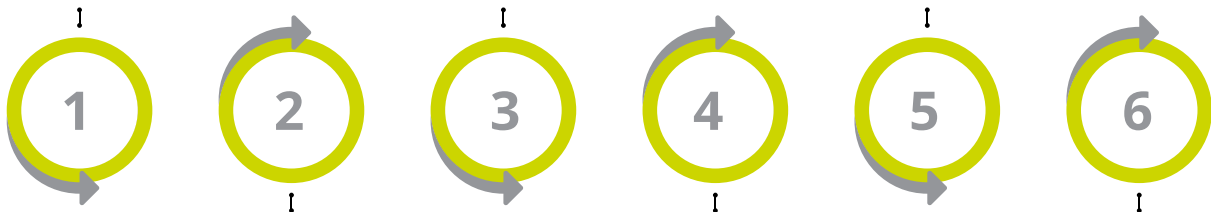
- Family and friends
- TV and Radio
- Experience
- YouTube
- Cooking blogs
- Pinterest
- Crowd-sourcing offerings

Select and validate

- In-store displays
- Product packaging
- QR code
- In-store kiosks
- Mobile apps
- Digital self displays

Consumption

- Connected devices
- Wearables
- Contextual push notifications



Browse and research

- In-store associate
- Direct mail
- Retailer website
- Manufacture website
- Personalised messaging

Purchase and pay

- In-store coupons
- Assisted check-out
- Mobile check-out
- On-demand delivery
- 'Just walk out' payment
- Mobile coupon push notification

Reconsider

- Customer service
- Loyalty programmes
- Recommendation to friend/family
- Blog/social media post
- Recurring subscriptions
- Online product review
- Loyalty apps

Legend

- Traditional touchpoints
- Digital touchpoints
- Next-gen digital touchpoints

Source: Deloitte analysis

AI, ML, advance data analytics, and other cognitive technologies provide retailers enough ways to know their consumers.

E-commerce as an influencer

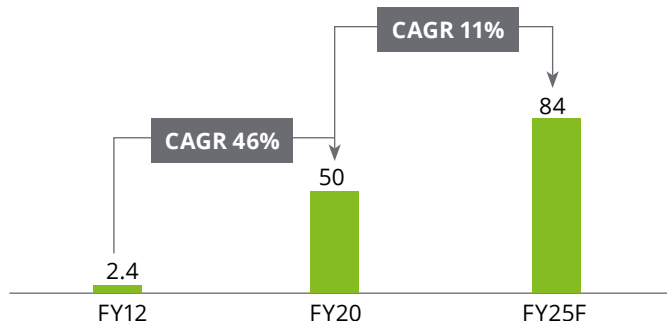
Total retail sales in FY20 reached about US\$ 854 billion, wherein e-commerce retail sales constituted nearly US\$ 50 billion. The total retail and e-commerce sales are expected to increase to US\$ 1,300 billion and US\$ 84 billion by FY25, respectively⁹.

The e-commerce market's high growth is majorly attributable to factors, including:

- **Increasing internet penetration:** The number of internet users in India is expected to increase from 688 million in Jan 2020 to more than 1 billion by 2025, taking the internet penetration from 50 percent in early 2020 to ~70 percent in 2025.¹⁰
 - Approximately 75 percent of the new internet users are expected to come from rural regions¹⁰.
- **Rising number of online shoppers:** The number of online shoppers is expected to increase from ~100 million in FY20 to ~350 million by FY25.¹⁰
- **Increasing use of smartphones:** Smartphone users in India are expected to increase from 502 million in 2019 to about 820 million by 2022.¹⁰

Today, consumers engage on numerous mediums, such as smartphones, websites, digital and print media, and physical stores. They search on a mobile phone for a local restaurant in their city or a new place, and make online transactions and digital payments. Low-cost mobile phones, better network coverage,

Indian e-commerce market
-by value (USD billion)



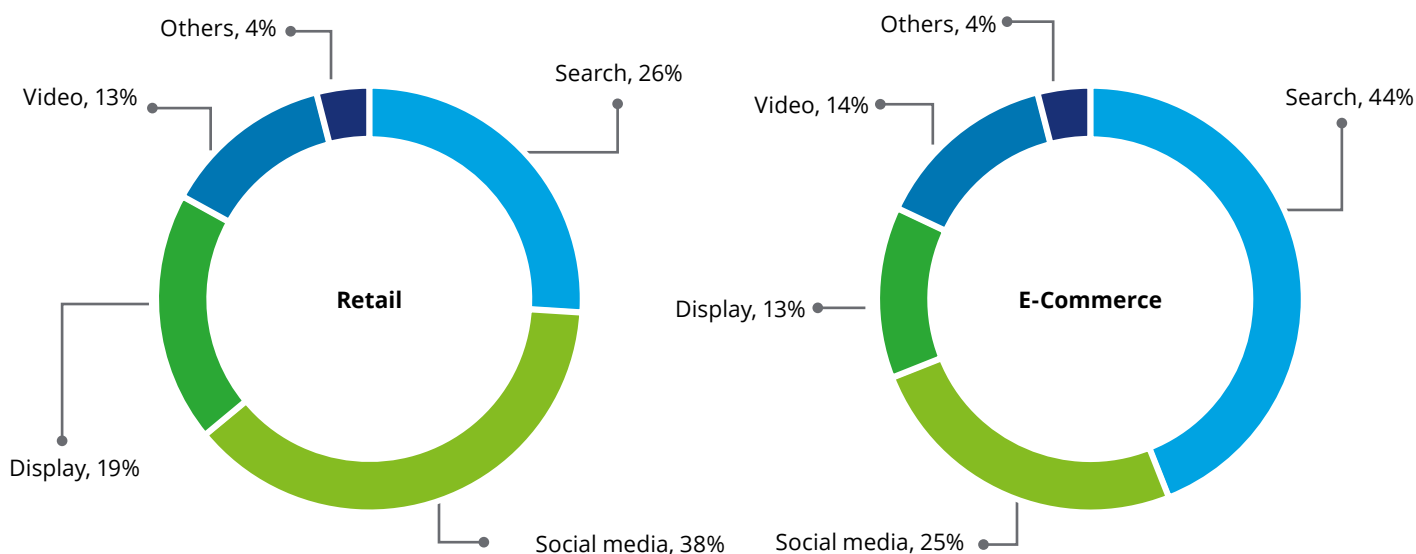
Sources: EIU, IBEF, Media articles, Deloitte analysis

affordable internet plans, and increased awareness driven by government programmes are bridging the gap between the urban area and the rural area in India. Increasing internet penetration has led to increased use of these mediums.

Ad spends

The rising internet penetration is also shaping the Indian digital advertising industry. The advertisements on digital mediums have a bigger impact on consumers. Digital media is likely to see the largest growth in terms of ad spend followed by television and print.

The retail sector and the e-commerce segment divide their digital media budgets in the following way:



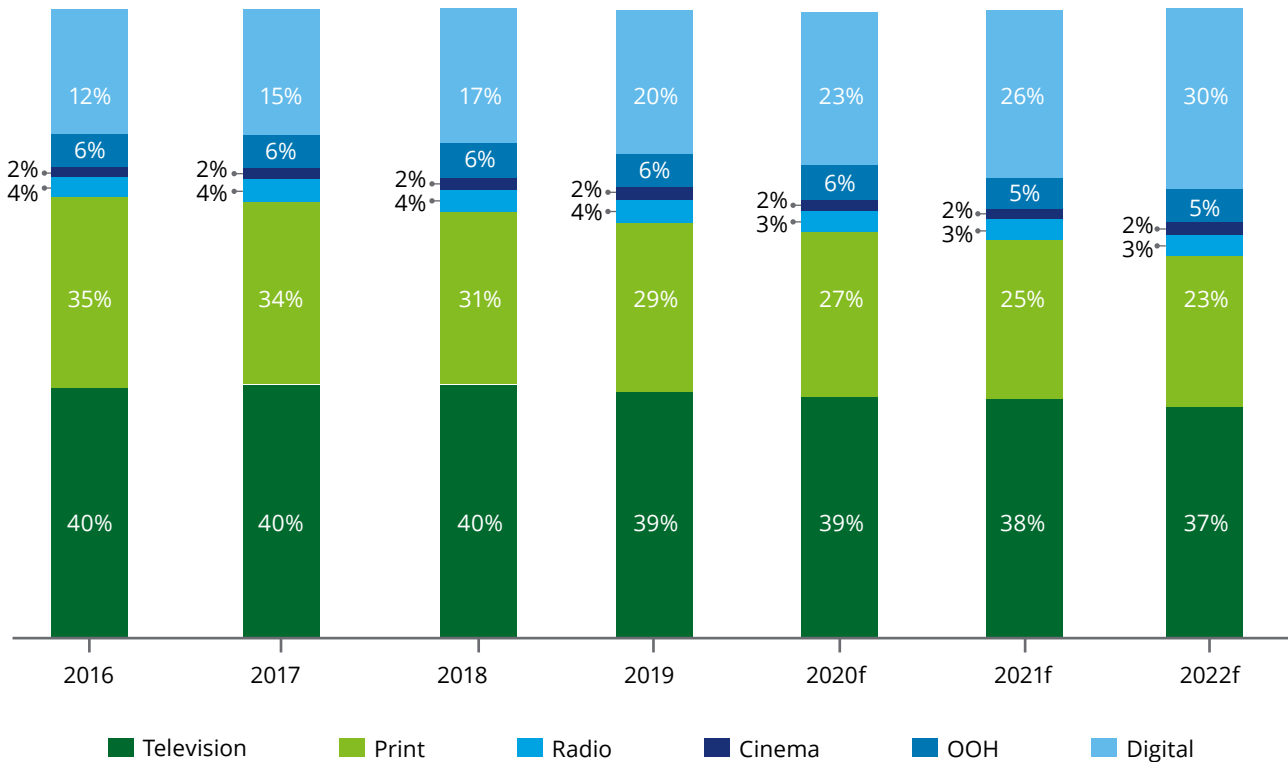
Source: Digital Advertising in India 2020, Dentsu Aegis Network, updated as on 4 February 2021

⁹ Source: Media articles, Deloitte analysis

¹⁰ Source: Media articles

Ad spend on digital mediums is increasing due to advancements in technology, improvements in data science and analytics, implementation of algorithms to automate various procedures, better detection of ad fraud, and improved data policies and regulations.

Media Ad spends - Forecast



Source: Digital Advertising in India 2020, Dentsu Aegis Network, updated as on 4 February 2021

Growth of digital payment modes

The RBI Ombudsman scheme for digital transactions defines a 'digital transaction' as "a payment transaction in a seamless system effected without the need for cash at least in one of the two legs, if not in both. This includes transactions made through digital/electronic modes wherein both the originator and the beneficiary use digital/electronic medium to send or receive money."

The digital payments ecosystem has been on the rise. Rising internet penetration and the government's push towards the digital economy is leading to a greater smartphone penetration and use of e-payment instruments. The transition to a digital

economy will require payments acceptance systems to move to digital as the default option. Although m-wallets have traditionally started with services such as recharge, bill payments, and money transfer, consumers have started using them for other purposes, including shopping. M-wallet transactions increased at a CAGR of ~56 percent in value and at over 60 percent in volume during the FY14-20E period¹¹.

The number of online shoppers is expected to increase from ~100 million in FY20 to ~350 million by FY25. Smartphone users in India are expected to increase from 502 million in 2019 to about 820 million by 2022¹¹.

¹¹ Source: Media articles

E-commerce payment methods (2020)

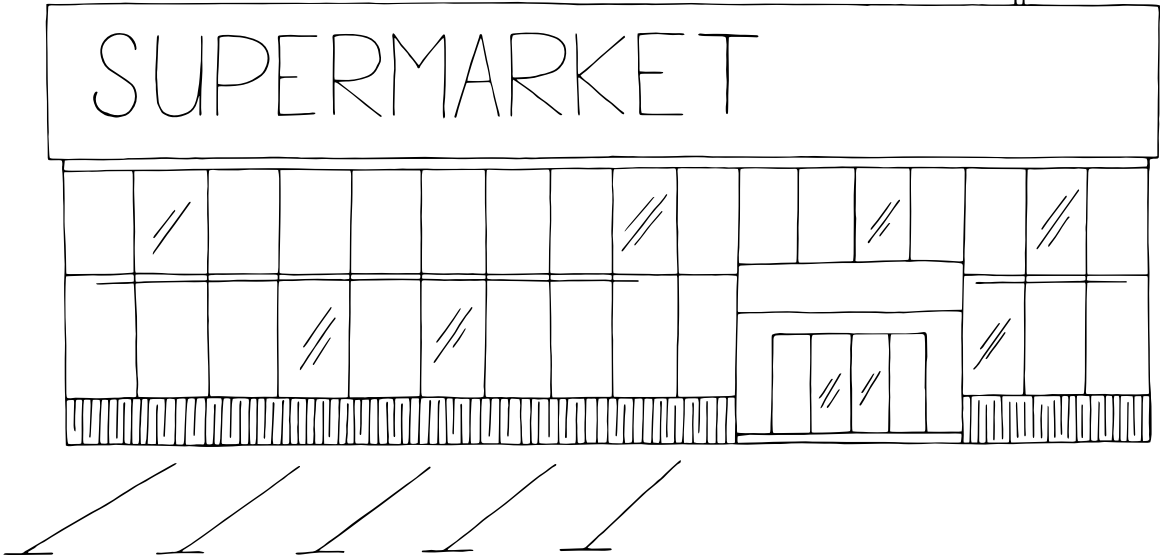


Source: E-commerce Market & Trends: A Report On How India Sells & Shops, Razorpay,

Case studies

Using data for personalized marketing
An e-commerce giant uses big data algorithms and predictive analytics to offer personalised communications and products. When a customer searches the online platform’s database for a product and clicks on the product, the interface automatically recognises the search and a “frequently bought together” section appears on the page. The company also creates a personalised homepage for each of its customers, on the basis of their historical shopping habits, wish lists, and shopping cart.

Offering Hyper-personalized customer experience
An online content platform provides a highly contextualised and individual experience, starting from a homepage that is based on their past viewing history and uses viewing habits to recommend content. It uses an algorithm to predict content that users will want to see. It combines behavioural attributes with predicative learning to send 103 million users unique movie and show recommendations to increase engagement and loyalty.



Future use of technology and data analytics in retail marketing

Internet of things (IoT)

IoT is a system that can transmit data over a network without human or computer intervention. It creates a network amongst devices connected by internet. Organisations across industries have started using IoT to understand their customers, operate more efficiently, and improve their decision-making abilities. India's IoT market is expected to grow in the next few years. The number of units under IoT is expected to increase to 1.9 billion by 2020, growing at a CAGR of 137.2 percent in 2016-20, compared with the global growth at 33.6 percent. The industrial IoT market size in the country is expected to be US\$ 4.95 billion by 2020¹². In addition, industries such as utilities, manufacturing, automotive, transportation, and

logistics, are expected to see the highest IoT adoption level in India.

This growth is driven by government initiatives, increasing acceptance of smart applications, and rising internet penetration across the country. The '100 smart cities' project is one such government initiative.

AR/VR market

According to the India Mobile Congress (IMC) 2018 report, the size of the AR and Virtual Reality (VR) market in India is expected to increase from US\$ 52.7 million to US\$ 234.4 million by 2023. AR-VR players improve availability of skilled talent using both formal and vocational education. They also focus on creating customised content to appeal to people across age groups, cultures, regions, and other demographics, as well as for businesses.

Figure: AR/VR growth across markets

Country		2015-17		2017-22	
		Since 2017 (US\$ billion)	CAGR (in %)	Since 2002 (US\$ billion)	CAGR (in %)
Canada	AR	0.2	168%	6.1	90%
	VR	0.1	55%	0.7	49%
USA	AR	2.6	159%	59.3	86%
	VR	1.1	48%	6.6	44%
Latin America	AR	0.4	139%	5.4	71%
	VR	0.1	43%	0.6	39%
UK	AR	0.6	157%	0.2	85%
	VR	0.3	49%	12.5	45%
France	AR	0.4	153%	8.1	83%
	VR	0.1	49%	0.9	45%
Germany	AR	0.8	148%	15.7	80%
	VR	0.3	45%	3.5	43%
ME & Africa	AR	0.3	136%	0.4	69%
	VR	0.1	41%	0.1	37%
India	AR	0.2	172%	6.0	91%
	VR	0.1	57%	0.6	57%
China	AR	0.6	170%	15.6	92%
	VR	0.2	55%	1.6	50%
Japan	AR	0.7	165%	17.7	89%
	VR	0.2	50%	1.6	45%

Size is in US\$ billion (also for 2017-22 calculated with values from 2018-22), CAGR in %

¹² Source: Media articles

Artificial Intelligence and Machine Learning

Retail has been one of the early adopters of AI solutions. Applications such as improving user experience by providing personalised suggestions, preference-based browsing and image-based product searches, etc., have evolved because of advancement in AI and its use in retail.

AI has the potential to disrupt the entire shopping journey of consumers in the following ways:

- **Awareness:** Application areas include personalised feeds and information on relevant options, AI branding using big data analytics, predictive computing, etc.
- **Consideration:** Customer demand anticipation, AI-enabled chat bots/customer service agents to resolve queries and educate consumers, etc.
- **Purchase:** 24*7 AI-enabled robot-manned stores and automatic and self-checkouts
- **Aftersales:** Chat bots personalised according to consumers' shopping pattern and behaviour, AI-enabled service mechanism to provide quick and accurate resolution
- **Loyalty:** Customised loyalty programmes driven by consumers' buying pattern and average monthly spend, automated and relevant recommendations of new products and services being offered specifically to a particular set of consumers

The wow experience

Retail is evolving into a new dimension of **retailtainment**. In today's ultra-competitive market, consumers look forward to an enhanced shopping experience where they are immersed into a completely new dimension and get to know about new products and features, engage with technology and devices, experience delectable global cuisines, get absorbed into virtual entertainment, special events, and product launches, etc.

Physical retail stores are piloting AR/VR-based virtual trials at their stores in India. These stores are redefining the extent of convenience for consumers. Many of these AR/VR trials are still to be commercialised in India and in the testing phase.

Digital engagements across consumer buying journey

Digital will be a main disruptor in the retail market as it is enabling retailers to explore news models to stay relevant and ahead of the curve. It is also changing the way consumers research and buy products. Now they browse products, understand their features, research on different websites, compare prices, and purchase through mobile phones, computers, and other devices anytime.

Case studies

Using digital platforms to enhance customer experience

A makeup brand has launched an online Skin Advisor - a digital platform incorporating facial recognition technology and ML that enable women to better understand their skin. The platform uses AI to conduct a smart skin analysis and provide personalised product recommendations.

A retailer has launched a virtual dressing room, with AR-based smart mirrors and interactive kiosk solutions, in its store. The Magic Mirror is an intelligent photo booth, providing customers the option to select and view apparel and accessories on themselves without having to physically 'try on' the desired products.

An e-commerce giant has integrated its voice service technology into third-party consumer electronic products, such as speakers and TV sets, as the online retailer seeks to expand the presence of its intelligent personal assistant in India. The company plans to integrate this technology into other products, including LED TVs, microwaves, and air conditioners.

Video and Voice – The Era of Vernacular

Vernacular content or offering services in local/regional languages is proving to be the next big thing to connect with the non-urban population. Internet users are increasingly giving preference to content in their local languages. Further, various non-internet users are now being targeted by companies to come aboard and engage in a seamless online experience in the language of their choice, thus enhancing their online experience. Various consumer companies have either started offering or are planning to offer their web content in regional languages to tap the evolving demand.

Vernacular is changing the ball game of video and voice content consumed by the consumers, especially on social networking and video sites by young consumers. With increasing internet and smartphone penetration in India, the millennials in India are estimated to spend nearly 17 hours online every week – with the major activities being social networking, streaming music and videos, and shopping online. With such a significant engagement through online channels, social networking sites have become a medium for instant gratification for the millennials and younger generations. Social media is also a noteworthy medium for digital advertising, it accounts for nearly 28 percent of the digital advertising market in India¹³. While e-commerce companies spend the most on social advertising, nearly 43 percent of the digital advertisements are tailored for handheld devices. According to a survey conducted in 2018 by a major global online payment system company, social media platforms account for nearly 79 percent of the e-commerce business in India¹⁴.

To tap the social commerce and video content market in India, one of the biggest e-commerce players globally has launched its social commerce platform for Indian consumers. The platform is expected to lead consumers into discovery-based shopping. Many major players plan to launch their social platforms to address the emerging needs of the youth in the country. Further, various social commerce platforms are already functional in the country,¹³ and generating notable funding amounts from investors. Companies

are supplementing their product marketing and advertising using video content for consumers to relate more with the products and make informed purchase decisions. Technology such as AR is also being leveraged for users to upload their images/videos and see how the product (usually apparel and accessories in this specific case) suits on them.

Similarly, the use of digital in retail has provided retailers opportunities to acquire new customers, engage better with existing customers, reduce operation cost, and improve employee motivation. This move has also offered other benefits that have a positive influence from a revenue and margin perspective. Digital has affected three key elements of the retail business and operating model – strategy (using IoT, big data analytics, AI, predictive analytics, automation, AR/VR, blockchain, etc.), front-end (operations including store front, merchandising and promotion, customer experience (including loyalty, marketing, and communications), pricing and point of sales solutions) and back-end operations (making processes such as supply chain, logistics & warehousing, finance, procurement & vendor management, assortment mix & planning, etc. more agile).

The major drivers of vernacular content, apart from increased internet and smartphone penetration, are digitisation of rural India and a vast majority of Indian population speaking local languages (only ~15 percent of the Indian population speaks English). At present, India has nearly 200 million¹⁵ local language internet users and this number is expected to go up to 400-500 million¹⁶ users in 2021. About 75 percent¹⁷ of the internet users prefer content in local languages over English¹³. As the content and communications are in English, brands miss out a huge chunk of potential buyers. These buyers will connect better with the brand if communications are in local language. About 41 percent¹⁸ of the local language internet users said that limited content in local language remains a challenge. Four languages – Telugu, Marathi, Tamil, and Bengali – are expected to account for about 30 percent of non-English internet users, whereas Hindi is expected to be the most used language.

¹³ Source: Media articles

¹⁴ Inventiva, December 2018

¹⁵ User count is for languages – Hindi, Bengali, Telegu, Tamil, Malayalam, Marathi, Kannada and Gujrati

¹⁶ User count is for languages – Hindi, Bengali, Telegu, Tamil, Malayalam, Marathi, Kannada and Gujrati

¹⁷ <https://www.livemint.com/opinion/online-views/opinion-vernacular-india-is-the-next-big-internet-wave-1551639757291.html>

¹⁸ %age count is for users of languages – Hindi, Bengali, Telegu, Tamil, Malayalam, Marathi, Kannada and Gujrati

Online retailers see this emerging segment as a new growth driver. The number of e-tailing customers who use Indian languages rather than English are expected to reach 165 million by 2021 from 42 million in 2016¹⁹. Recently, in August 2018, one of the major

e-commerce companies acquired an AI company that converts speech into text in 10 Indian languages. Another Indian e-commerce company has optimised its website using Hindi for better shopping experience.

Case studies

Offering services and content in local language

A major global e-commerce player in India has launched its voice service product in Hindi to enhance customer experience and cater to users who do not converse in English. The company developed AI advances in multi-lingual understanding to enable customers to interact in different regional variants of colloquial Hindi.

An e-commerce company launched a Hindi interface for its mobile website and app in India. The interface features text in Hindi, making the shopping experience convenient and easy for customers in India. The company plans to add support for more local Indian languages on its app and mobile website in the future.

¹⁹ Source: Media articles





Winning with Consumers

Resonating core brand values to connect with consumers

Winning consumers' loyalty in the digital and dynamic business age is a big challenge. Modern retailers need to make concerted efforts and investment in terms of time and effort to attract and retain modern consumers who are conscious, demanding, and picky.

Consumers take interest in ethical practices of companies they buy from and do not base their decisions solely on one factor, i.e., price.

In addition to logic, they give equal importance to emotions, brand image, product origin, environmental and social impact, and companies' core values.

Consumers, especially millennials and generation Z, will patronise and support companies that align with their values. It matters to them whether companies are living up to their core values or not. Issues such as over-production, environment-conscious practices, and transparency are also in consumers' mind. Personal offers, discounts, membership schemes, reward points, easy exchange and refund policies, and after sales and insurance programmes are some benefits companies offer to get consumers' loyalty. According to a Deloitte survey²⁰, more than half of the consumers weigh these evolving value drivers more heavily than the traditional ones and nearly 63

percent are willing to pay more for products where social impact values are demonstrated.

Increasing preference towards unadulterated products; and rising health and wellness consciousness and awareness regarding implications of unsustainable social and environmental practices, are a few major reasons driving these changes.

Gaining consumers' loyalty

Mass marketing techniques are giving way to made-to-order techniques and old consumer loyalty schemes are being replaced by loyalty programmes based on winning consumers' trust.

Both brick-and-mortar and online retailers need to refine their business models to incorporate guidelines of loyalty programmes to adapt to the changing consumer markets. These programmes will also help them enhance customer engagement and shopping experience, and induce frequent purchases from a brand. They make consumers feel privileged and give them a sense of elitism.

A majority of Indians (74 percent) prefer participating in a loyalty programme, especially digital loyalty programme attributes or features²¹.

²⁰ Deloitte Food Value Equation Survey, 2015

²¹ Source: Media articles

These programmes can be monetary and non-monetary in nature.



Monetary benefits

- Free shipping
- Product discounts
- Free products
- Rebates or cashback
- Redeemable reward points



Non-monetary benefits

- Personalized product or service experience
- Higher priority service
- Discounted shipping
- Exclusive access to products
- Recognition as a valued consumer

Apart from the factors mentioned above, future consumers would want to be associated with socially responsible and environment-friendly brands that give back to society. They would value transparency, courage, innovation, and business ethics. According to Steve Jobs, “marketing is about values.”

Source: <https://postcron.com/en/blog/10-amazing-marketing-lessons-steve-jobs-taught-us/>

Purpose to be at the heart of strategy and innovations

Modern consumers want companies to be driven by purpose and value. This purpose and value should resonate in companies’ marketing and promotional activities.

Younger generations think that their buying decisions have an impact on environment and the society at large. They speak with their wallets in ways that seem different than previous generations. Consumers are susceptible to advertising and get frustrated with poor service and underperforming products. However, millennials and Generation Z start and stop relationships with companies for personal reasons, often related to a company’s positive or negative impact on the society.

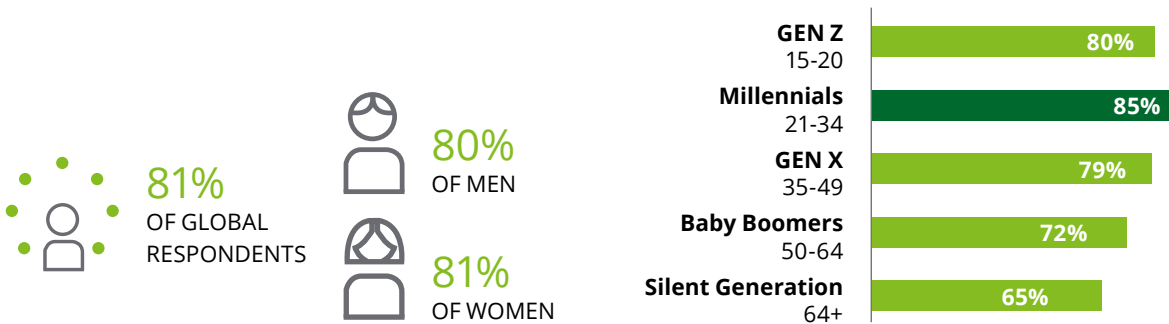
For example, 42 percent millennials said they have begun or deepened a business relationship because they perceive a company’s products or services to have a positive impact on society and/or the environment. Further, 37 percent said they have stopped or lessened a business relationship because of the company’s ethical behaviour; conversely, 36 percent started/deepened a relationship because they believed a company was ethical.²²

In a 2019 Deloitte Global survey of CXOs, 73 percent executives said their organisations had changed or developed products or services in the past year to generate positive societal impact. This indicates that corporate sustainability is in high demand.

²² Source: Sustainable shoppers - Buy the change they wish to see in the world, Nielsen, November 2018

Corporate Sustainability in high demand across gender and generations

Percentage of respondents who said that it is “extremely” or “Very” important that companies implement programs to improve the environment



Source: The conference Board @ Global consumer confidence survey, Conducted in Collaboration with Nelsen Q2 2017

That day is not far when the success of a retailer will be measured in terms of consumer experience and perception. In the future, retailers’ success will be driven by the following factors:

- In-depth understanding of consumer behaviour
- Connection with consumers at every level
- Ability to adopt disruptive technologies and business models (both offline and online)
- Building technical and digital capabilities to become future-ready

Source: Get with the program, Nielsen, 2016

Case studies

Companies are undertaking cause marketing campaigns to engage customers and build brand value
 A multinational food and drink processing conglomerate, in collaboration with a women empowerment organisation, released a poetry film. The poem recited by a spoken word performance artist, urges people to collectively imagine a cleaner environment that helps biodiversity flourish (similar to what we experienced during the lockdown).
 In its new campaign, a FMCG company highlighted how Mother Earth healed herself when the global pandemic locked us down. Through this, the company encourages customers to reflect upon how the situation has given us the opportunity to rethink, reboot, and reimagine the new normal.

Loyalty programmes for increased conversion and top line growth
 To build more convenience around eating and food delivery, one of the major food delivery and restaurant service providers added a bunch of new services for consumers over 2017-18. It launched various loyalty programmes, each targeting a specific set of consumers and provided offers having high-value proposition to consumers – especially in metro cities where consumers eat out more often. The company now has more than 700,000 active members enrolled in its loyalty programme – 71 percent of them used their membership to redeem food, while 29 percent opted for drinks.
 The loyalty programmes helped users save more than INR 176 million in eating out. Further, it helped the company raise funds equivalent to the cost of 2.2 million meals for an NGO foundation it supports.

Case studies

A multi-brand loyalty program

A company offers a loyalty programme that runs across 50+ partner brands, both online and offline. The diverse portfolio of partner brands spans daily shopping needs, making it possible for members to cover 80 percent of their everyday consumption needs (including refueling, traveling, shopping, eating out, watching movies, and flying). They have also extended their benefits to the corporate sector through their corporate rewards programme.

An Indian lifestyle company manufacturing fashion accessory takes a holistic approach to loyalty across its different brands. It offers the '1 point earned equals 1 rupee' accumulation and redemption model, has no minimum threshold to start redeeming points and no additional fee to become a member. The customer starts earning reward points from their first purchase. These points are usable in multiple ways – reduction in the subsequent purchase bills, anniversary offers, sneak peek into new launches, jewellery or eyewear clean-ups, and appointment reminders.





Key takeaways

Impact of COVID-19: The pandemic continues to affect the economy, people, and businesses. There have been drastic changes in consumers' buying behaviour. Retailers are proactively responding to the new shopping habits that consumers are developing in a continually changing landscape. Brands have been adapting strategies and models in the 'new normal'. Retailers will need to re-learn the shopper journey and KNOW the new customer. They need to be highly adaptive to meet elevated expectations of consumers/shoppers.

Customisation and personalisation of products: With increasing competition amongst consumer brands in different product categories, brands are finding it challenging to offer unique value propositioning. As a result, personalisation and bespoke offerings are becoming a norm to attract and retain consumers. Do-it-yourself products, especially in the food and beauty segment, reflect consumers' desire to take control of what they eat, drink, and put on their skin.

Consumer Brand Awareness: Modern consumers are more connected and conscious. They are more aware of the brands they are using, the sourcing and supply chain of raw materials used, the contents or ingredients of the food they are consuming, the environmental and social impact of production processes, their own and brands' values, etc. These consumers indulge in mindful consumption of products and are usually more thoughtful and influential in their purchase decisions.

Digital bonding: Consumers today are more connected than ever. Technological advancements, and the rising internet and smartphone penetration have facilitated information exchange from most advanced and developed countries to the remotest rural regions in the country. This information exchange has allowed varied and distinct consumers to connect (through chatting, social media, etc.) and pick up on trends prevalent elsewhere, influencing consumers' buying decisions. Consumers' online and offline purchase decisions are now increasingly affected by reviews from strangers and social media posts.

From B2C to C2B: Advancement and increased penetration in technology have made every consumer an expert. Consumers can access internet and know everything about a product/service they wish to buy. This has led to a communication shift where earlier, brands used to push products into the market, and now there is a greater pull of custom products from consumers. Brands are listening more to consumers and catering to niche segments to thrive in their respective segments and categories. There is a shift in power between a retailer and a consumer with regards to information exchange and a new meaning for the 'word of mouth' marketing has emerged.

Greater responsibility: With increased concerns around broad issues (such as global warming, exploitation and implicit scarcity of natural resources, and increasing wastage) and greater realisation of

their implications, consumers are becoming more responsible in choosing products. There is wider acknowledgement of the repercussions of using plastic bags, a greater focus on keeping surroundings and areas clean and hygienic, and a greater acceptance and preference to eco-friendly and recyclable products.

Instant gratification: The changing lifestyle of consumers has made them busier than ever. There are greater expectations from companies and consumers now want instant action on their requests just by a click on their phone screens. Brands are also evolving by adopting lean and agile processes and being responsive across any and every channel, including print and electronic media, digital, radio, and social media. Consumers are increasingly seeking seamless experiences that suit their routines and lifestyles.



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