



**Unravelling the
Indian Consumer**

February 2019



Online



Foreword by Deloitte

In the backdrop of evolutionary times coupled with day to day disruptions in the consumer sector, it is essential to pause, take a step back and unravel the Indian consumer.

India continues to hold a very strong position as far as its market potential is concerned. It provides a solid platform for all types of market players namely consumers, distributors, logistics service providers and up the chain to manufacturer. Development of the ancillary sectors including transportation, logistics, cold chain facilities, etc. is catching up with the growing consumer sector. In fact the Hon'ble Finance Minister while tabling the recent budget 2019, has envisioned India to be regarded as a 'global manufacturing hub'.

The report contains a unique analysis of the Indian consumer market. It also gives

a subtle overlay of the various emerging trends and challenges. 'S Commerce' (Social Commerce) is the next gen trend which is touched upon in this report. Use of technology, transparency, awareness creation backed by loyalty programs are the backbone of today's consumer experience and behavior. The sector analysis contained in the report gives the number of the companies in each sector, market capitalization, revenue, growth, CAGR with specific emphasis on PAT analysis.

This report gives a report card of the health of the companies in the consumer space leaving the reader with visibility of the depth of the potential which still needs to be fully tapped.

Foreword by RAI

Understanding the Indian Grahak

India, a nation of 1.2 billion people, is the most varied market in the world, thanks to regional differences in cultures, lifestyles and preferences. Although we are different in our choices and way of living, we Indians live by the doctrine Grahak devo bhava and treat customers like they are incarnations of God as it is they who keep businesses afloat.

Today's consumers will only bless those businesses with their time and money that understand them and provide them with experiences they seek. The RAI - Deloitte report 'Unravelling the Indian consumer' assesses the patterns, behaviours, preferences of the consumers from this diverse market.

It gives retailers an overview of the current market trends that are shaping the Indian

retail industry and highlights the specific areas on which retailers are working on with a view to improving customer experience such as premiumisation, social commerce, automated product delivery and touchless commerce.

Furthermore, it has isolated various consumer sub-sectors to help retailers better understand the factors that influence purchase decisions of consumers. A data-driven approach to macro-economy outlook, consumer sector briefings, mergers & acquisitions and consumer market, makes it a comprehensive resource that equips retailers with all that they need to understand the new-age Indian consumer in the context of the market.

Kumar Rajagopalan

Chief Executive Officer
Retailers Association of India

Executive Summary

Driven by technology and modernisation, the retail sector in India is at the cusp of evolution. Disruptions throughout the value chain – sourcing, manufacturing, transportation, procurement, warehousing and inventory, distribution, marketing and advertising, selling, logistics, delivery, after sales servicing, etc. – are driving this evolution, not just in retail but throughout the broader consumer business practices.

While the consumer businesses majorly include consumer product focused sub-sectors such as food & beverages; apparel & footwear; consumer durables & electronics; jewellery & accessories; agri-business; automotive; fast moving consumer goods including personal care and beauty products; hotels & restaurants; household goods and small appliances, etc. Retail can majorly be considered to be a channel for the end-consumers to access and buy these consumer products. Therefore, consumer markets broadly constitute consumer product businesses as well as retail. In light of this interlinkage between consumer products and retail, the evolutions impacting either one of the sectors will have an effect on the other as well.

The report, 'Unravelling the Indian consumer', begins by shedding some light on the Indian economic and macro-economic scenario vis-à-vis global economy. Driven by strong macro-economic factors, India is one of the fastest growing major economies globally. Coupled with its robust demographics, it provides

a highly positive outlook to the consumer businesses in India. These factors, will fuel the retail market growth in the country, making India Asia's third largest and the world's fourth largest retail market. The retail market is expected to grow from USD795 billion in 2017 to USD1.2 trillion by 2021. Further, as the internet penetration in the country increases and more international retailers start operating in India, the share of organized retail market is expected to increase from ~12 percent in 2017 to 22-25 percent by 2021. This will also be driven by the growth of e-commerce market from USD24 billion in 2017 to USD84 billion in 2021.

Given the strong retail and consumer outlook, India is expected to witness redefining trends in the consumer markets which will shape the future of the retail industry in India. Consumer experience will be the key focus of the companies and technology will facilitate the enhancement of consumers' experience throughout their shopping journey. This report focuses on the above mentioned parameters and throws light on the retail market and trends expected in near future. Further, it analyses the performance of various consumer sub-sectors on the basis of financial performance of publicly traded consumer product companies in the country. An in-depth analysis of the major consumer sub-sectors is provided to evaluate the future prospects of the sectors and thus the consumer companies.

Table of Contents

Foreword by Deloitte	04
Foreword by RAI	05
Executive Summary	07
India macro-economy outlook	11
Consumer market and retail	17
• India market overview and trends	17
• Indian retail industry's growth will be fuelled by strong macro-economic factors and favourable demographics	23
• Trends shaping the retail industry in India	25
Performance of various consumer sub-sectors	45
• Consumer sector briefings	46
• Mergers and acquisitions	52
Looking forward	54
Abbreviations	55
About Deloitte	56
About RAI	57
Contacts	58

India macro-economy outlook¹

Introduction

A strong economic growth across the globe, especially in the United States, is seen to have created an imbalance for the emerging markets and put pressure on their currencies. India is no exception. With the rupee under stress and the crude oil bill on the rise, India's current account deficit (CAD) is widening and will likely continue doing so in the near future.

Historically, India has had a current account deficit, mainly because the Indian growth story is largely scripted on the strength of domestic demand, which fuels

both domestic production and import consumption. Over time, the composition of exports has remained unchanged, without any substantial shift toward high-tech exports. However, the composition of imports has shifted considerably from raw material to capital-intensive sectors, reflecting the needs of a consumption economy. This difference is at the heart of India's structural challenges that require to be addressed through policies and incentives².

India – Income and demographics

	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Nominal GDP (USD billion)	1,856	2,036	2,089	2,262	2,534	2,695	2,801	3,226	3,461	3,822
Population (million)	1,279	1,294	1,309	1,324	1,339	1,354	1,369	1,383	1,397	1,411
GDP per head (USD at PPP)	5,249	5,679	6,124	6,567	7,054	7,686	8,336	8,922	9,689	10,568
Private consumption per head (USD)	835	913	924	1,003	1,115	1,175	1,221	1,381	1,466	1,598
No. of households (million)	236	239	243	247	251	255	259	262	266	270
No. of households with annual earnings above USD 5,000 (million)	80	90	96	108	126	138	149	173	188	206
No. of households with annual earnings above USD 10,000 (million)	17	19	21	24	31	36	41	54	64	79
No. of households with annual earnings above USD 50,000 (million)	0	0	0	0	0	0	1	1	1	1

Source: Economic Intelligence Unit (EIU)

According to the International Monetary Fund (IMF), in its latest World Economic Outlook, India will grow 7.3 percent in FY19 and 7.4 percent in FY20. The Indian economy grew at 6.7 percent in FY18. This acceleration is primarily a result of a rebound from the transitory shocks (the demonetisation initiative and the national goods and services tax implementation),

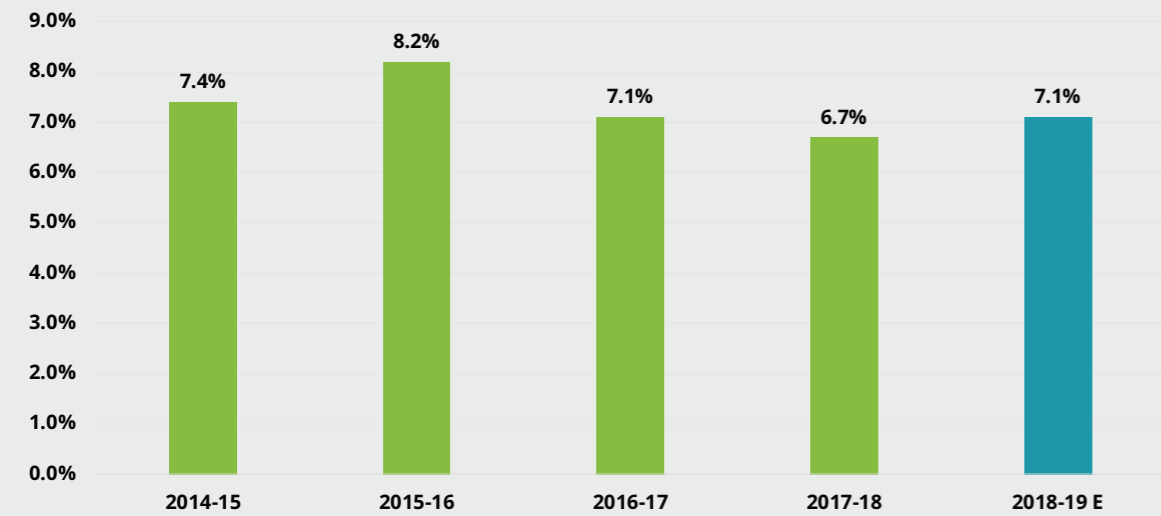
with strengthening investment, and robust private consumption. The medium-term growth prospects remain strong at 7.75 percent due to the ongoing structural reform and a favourable demographic dividend. Moreover, the economic recovery is supported by the domestic demand-led pickup³.

¹<https://www2.deloitte.com/insights/us/en/economy/asia-pacific/india-economic-outlook.html>

²<https://www2.deloitte.com/insights/us/en/economy/asia-pacific/india-economic-outlook.html>

³<https://economictimes.indiatimes.com/news/economy/indicators/imf-retains-india-fy19-growth-outlook-at-7-3/articleshow/66126065.cms>

India - Real GDP growth rate



Source: CEIC, Deloitte (Note: Estimates for 2018-19 have been taken from the 2018 budget)

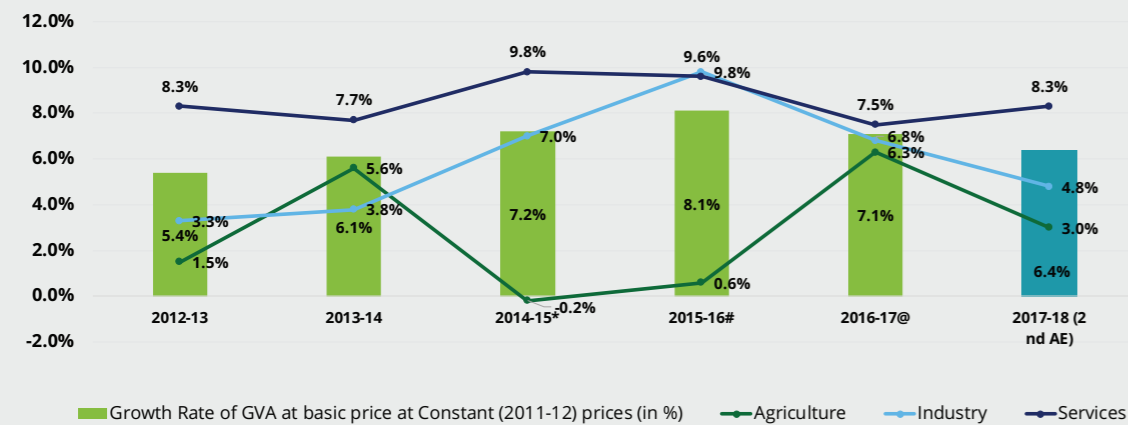
Economy has started to show signs of growth, rising 6.7 percent in 3QFY18 compared to the 6.2 percent growth in 2QFY18. This was driven largely by a swift rise in industry, especially manufacturing and construction and was further

supported by services growth. The services sector grew 7.7 percent in 3QFY18 from 7.1 percent in 2QFY18⁴.

The industrial growth recorded an upswing from 5.8 percent in 2QFY18 to 6.8 percent in 3QFY18, primarily owing to a healthy

rise in manufacturing and construction. Manufacturing grew 8.1 percent in 3QFY18 from 6.9 percent in the previous quarter while construction shot up to a steep 6.8 percent in 3QFY18 from 2.8 percent in 2QFY18⁵.

India - GVA at basic price at constant prices (%)



Source: Central Statistics Office* (Note: *Third Revised Estimates, #: Second Revised Estimates, @: First Revised Estimates. AE: Advanced Estimate)

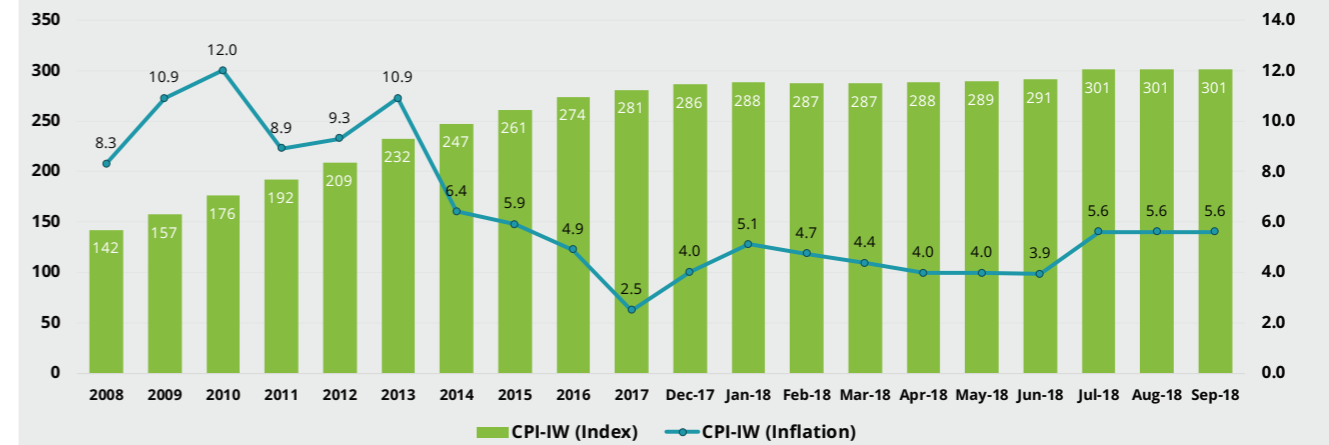
On the expenditure side, GDP rose 7.2 percent in 3QFY18 compared to the 6.5 percent rise in the previous quarter, primarily due to better capital formation numbers and increased government expenditure⁷.

The total consumption has remained largely stable at 5.7 percent in 3QFY18 as compared to 5.9 percent in 2QFY18 on the back of better transmission coming from the government side. In contrast, capital formation revived, with a steep 12 percent

growth in 3QFY18 from 6.9 percent in 2QFY18, reflecting an improving investment appetite⁸.

⁴<https://www2.deloitte.com/content/dam/Deloitte/in/Documents/about-deloitte/in-about-deloitte-indian-economy-outlook-2018-noexp.pdf>
⁵<https://www2.deloitte.com/content/dam/Deloitte/in/Documents/about-deloitte/in-about-deloitte-indian-economy-outlook-2018-noexp.pdf>
⁶http://eaindustry.nic.in/key_economic_indicators/Key_Economic_Indicators.pdf
⁷<https://www2.deloitte.com/content/dam/Deloitte/in/Documents/about-deloitte/in-about-deloitte-indian-economy-outlook-2018-noexp.pdf>
⁸<https://www2.deloitte.com/content/dam/Deloitte/in/Documents/about-deloitte/in-about-deloitte-indian-economy-outlook-2018-noexp.pdf>

India - Consumer price Inflation (Industrial Workers) Base: 2001=100

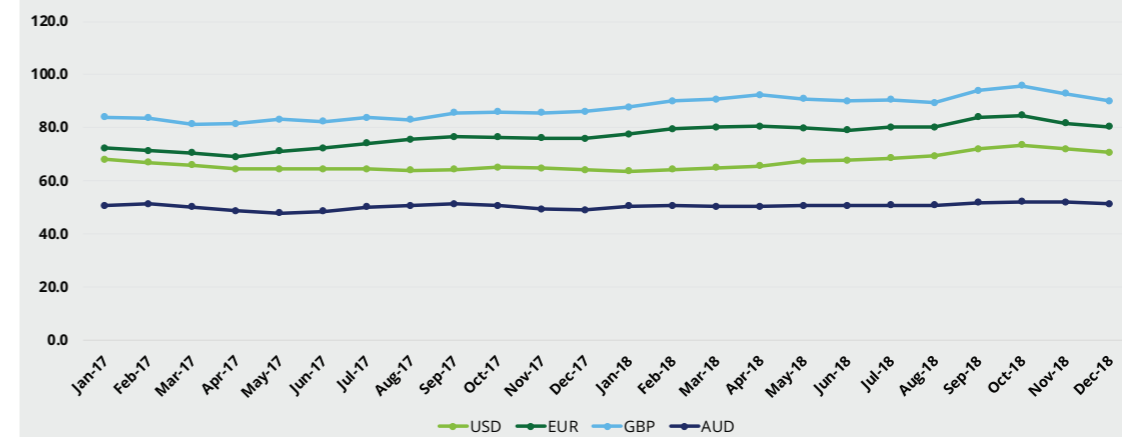


Source: Labour Bureau of India^{9,10}

The consumer price inflation gradually increased in April 2018 by 4.6 percent as compared to 4.3 percent in March 2018. The upswing came after two consecutive months of softening^{11,12}. The hike was largely driven by an upswing in core

inflation, especially with a broad-based increase in services segment while marginal upside movements were seen in clothing and housing segments as well. The rising crude prices is likely to maintain inflationary pressure in the period ahead.

India - Currency exchange rates (Monthly Average, INR per unit of foreign currency)



Source: X-Rates.com

The Indian rupee (INR) has depreciated over the last year, and the risks on rupee strength has remained on the downside as inflation pressure has built. The INR is expected to remain volatile around current

levels in the near term and depreciate over the course of the year on strengthening US dollar, inflationary pressures, and lower investor sentiment.

⁹http://eaindustry.nic.in/key_economic_indicators/Key_Economic_Indicators.pdf
¹⁰http://labourbureau.gov.in/LBO_indtab_new.pdf
¹¹http://eaindustry.nic.in/key_economic_indicators/Key_Economic_Indicators.pdf
¹²http://labourbureau.gov.in/LBO_indtab_new.pdf

Global economic outlook

In contrast to the economic situation in India, the global economic conditions have gained momentum and have possibly created a ripple effect across regions. According to the IMF, the world economic growth is still solid compared with earlier this decade, but it appears to have plateaued¹³.

With broad-based recovery on the cards, the global growth forecast has been inched up by 0.2 percentage points to 3.9 percent

for 2018 and 2019¹⁴. The growth outlook for the US is estimated to be positive due to improving domestic demand as well as the anticipated boost to the economy by way of US tax policy changes. Across other developed economies, the Euro area saw further expansion on the back of falling unemployment rates, investment optimism, and lower interest rates which seem to have stimulated consumption further, while the effects of a strong external demand were visible in Japan where manufacturing activity moved to the upside.

Looking ahead, it is widely expected that this decoupling will not continue. As per the IMF and the World Bank, the world economy is expected to grow at 3.7 percent and 3.1 percent¹⁵ in 2018 while the Indian economy is expected to grow at 7.4 percent and 7.3 percent, respectively¹⁶ for the same time period. Currently, India is the world's sixth-largest economy displacing France¹⁷.

¹³<https://economictimes.indiatimes.com/news/economy/indicators/imf-retains-india-fy19-growth-outlook-at-7-3/articleshow/66126065.cms>

¹⁴<https://www.imf.org/en/Publications/WEO/Issues/2018/01/11/world-economic-outlook-update-january-2018>

¹⁵<http://www.livemint.com/Politics/EykbGSLQXmXFGIPN3S2OsK/IMF-cuts-Indias-2017-growth-forecast-but-sees-medium-term.html>

¹⁶<http://www.worldbank.org/en/publication/global-economic-prospects>

¹⁷<https://www.hindustantimes.com/business-news/india-is-world-s-sixth-largest-economy-at-2-6-trillion-says-imf/story-7wXZPXSWIwimAvpLKeNL.html>





Consumer market and retail

India market overview and trends

Sector highlights

Today's consumers, especially in the urban areas, have far evolved and expect their shopping experience to be seamless across every channel, whether it's a brick-and-mortar store, an e-commerce website, a mobile app, or even a phone call with the customer service. Internet of Thing (IoT) technology is already seen to be reshaping and revolutionising the retail industry, yielding advances and new opportunities in customer service, throughout the supply chain, and in brick-and-mortar stores and other channels — including new venues that show a lot of promise, such as home-

based connected platforms. Globally, retailers looking to gain a competitive advantage are installing smart shelves that detect when inventory is low, RFID sensors that track goods throughout the supply chain, systems that send personalised digital coupons to shoppers when they enter the store, and sensors that monitor the quality of perishable items.

The Indian retail sector operates through a host of business models which are rapidly evolving with the changing trends and increased use of internet and technology. Outlined below are some of the major retail models, along with their impact and opportunities they offer for Indian retail.

Retail models and the opportunities they offer¹⁸

Mechanism of retail	Impact/Opportunities
Cash and carry/ Wholesale trading	In India, the consumer goods/FMCG products retailing is clearly divided between urban and rural markets. While the global businesses will focus on the urban markets, the impact of ease of FDI regulations on the existing businesses, both in urban and rural zones, is to be seen in the future. So far, this segment has had automatic investments to the tune of 100 percent as per the regulations set by the government.
Single brand retail trading (SBRT)	The government has eased the sourcing norms in this segment and allowed single brand retail outlets by international brands. The government has now permitted 100 percent FDI under automatic route of SBRT. This immediately opens up opportunities for consumer durables especially the global technology product companies for starting retail operations of their globally successful products in India. The single brand retail model will now be allowed to operate on the e-commerce front, which was not allowed previously as part of the government regulations. Entities engaged in SBRT would be allowed to set off their incremental sourcing of goods from India for global operations during the initial five years beginning from 1 April of the year of the opening of first store against the mandatory sourcing requirement of 30 percent of purchases from India. Sourcing norms will not be applicable up to three years from the commencement of business, that is opening of the first store for entities undertaking SBRT of products having 'state-of-art' and 'cutting edge' technology and where local sourcing is not possible. A committee under the Chairmanship of Secretary, DIPP, with representatives from NITI Aayog, concerned administrative ministry and independent technical expert(s) will examine proposals which would be eligible for the relaxation of the local sourcing criterion under the SBRT norms ¹⁹ .

¹⁸Retail FDI in India, Deloitte, October 2018

¹⁹<http://www.mondaq.com/india/x/695982/Inward+Foreign+Investment/Liberalisation+Of+FDI+In+The+Single+Brand+Product+Retail+Trading+Sector>

Multi Brand Retail Trade (MBRT)	<p>These are traditional styled shops or retail chains established across India, historically known as 'Bazaars' or "Mom and Pop" stores as known in most countries. The impact of the government-approved route in retailing by grocery chains or consumer goods retailing is perceived to be strong in various analyses done on this market. The global businesses in this segment tend to operate in the urban landscapes with fairly large investments on infrastructure and emphasis on generating high volumes of business. The competition in this segment is expected to be rising significantly in the urban markets. Nevertheless, there is expected to be enough room for growth in the organized retailing of multi-brand establishments.</p> <p>On the regulation front, this is the most debated area in terms of the investment portion allowed into the country. As per the revised FDI policy, the government has allowed 100 percent FDI under automatic route for selling, including by way of e-commerce, processed food as long as they are produced and/ or manufactured in India²⁰. This new development is expected to be seen as a significant challenge for many global retail giants altering their plans and usual operating methods.</p>
E-commerce (Marketplace model)	<p>This segment is allowed to bring investments in the automatic mode to the tune of 100 percent. Some of the world's largest brands are operational in this segment and have had significant success in India. However, it is seen to be facing immense competition from several other domestic companies. The developments in this area included mergers and acquisitions in a short span of time. Over the last decade, growth in this space has been in triple digits and continues to grow. There is a tremendous level of innovation that this segment is driving with modern retail concepts and use of technology in almost every part of their retail sale process.</p>

Source: Retail FDI in India, Deloitte, October 2018

Foreign Direct Investments (FDI)

In January 2018, the Government of India (GoI) relaxed the rules for foreign direct investment (FDI) in single-brand retailing, permitting 100 percent investment under the automatic route (previously 49 percent under the automatic route). Further, companies can meet the 30 percent local-sourcing requirement through incremental sourcing by their global businesses for the initial five years. In 2016, the GoI permitted 100 percent FDI in food retailing (including e-commerce) and food processing for locally made or processed products. It has approved a proposal from a multinational technology company focusing on e-commerce to invest USD500 million in food retailing over five years (on the condition to keep its marketplace and food-retailing arms separate).

The GoI has also amended the FDI policy on e-commerce vide Press Note No.3 dated 29 March 2016 and permitted 100 percent FDI in the marketplace model of e-commerce (e-commerce marketplace entities) under the automatic route. FDI is not allowed in the inventory-based model of e-commerce.

To provide clarity and strengthen the regulatory framework governing FDI in e-commerce marketplace entities in India and to provide a level playing field among online and offline traders, the GoI has further amended the consolidated policy in relation to FDI in e-commerce entities which has become applicable to all e-commerce marketplace entities having FDI with effect from 1 February 2019. There are conditions mentioned in the press note, which inter-alia includes prohibition on equity participation by e-commerce players in the vendor entity, restriction on ownership and control over the inventory of the vendor entity, and restriction on the exclusive sale of products on the e-commerce platform of the marketplace player. These amendments are expected to have a far reaching impact on the business carried on by big e-commerce players in India and are likely to require them to have a relook at their business models.

Further, it is understood that the GoI is working on a new draft e-commerce policy which is likely to be released in sometime.

Sectoral caps of investments on select relevant activities²¹

Sector/Activity	% of Equity/FDI Cap	Entry Route/ Approval
Cash and carry wholesale trading/wholesale trading (including sourcing from MSEs)	100%	Automatic
Single brand product retail trading (subject to conditions)	100%	Automatic
Multi-brand product retail trading (subject to conditions)	51%	Government
Duty-free shops	100%	Automatic
E-commerce marketplace (subject to conditions)	100%	Automatic
Agriculture:		
<ul style="list-style-type: none"> • Floriculture, horticulture, and cultivation of vegetables and mushrooms under controlled conditions; • Development and production of seeds and planting material; • Animal husbandry (including breeding of dogs), Pisciculture, aquaculture, apiculture; and • Services related to agro and allied sectors 	100%	Automatic
Note: Besides above, FDI is not allowed in any other sector/activity.		
Plantation:		
<ul style="list-style-type: none"> • Tea sector including tea plantations • Coffee plantations • Rubber plantations • Cardamom plantations • Palm oil tree plantations • Olive oil tree plantations 	100%	Automatic
Note: Besides above, FDI is not allowed in any other plantation sector/activity.		

Source: Retail FDI in India, Deloitte, October 2018

²⁰<http://pib.nic.in/newsite/PrintRelease.aspx?relid=175501>

²¹Retail FDI in India, Deloitte, October 2018

FDI equity inflow in select sectors

(Amount in USD million)

Sector	April 2000 to March 2018	April 2000 to March 2017	Increase in 2017-18
Trading	18,558.99	14,210.86	4,348.13
Hotel and Tourism	11,275.43	10,143.46	1,131.97
Food Processing Industries	8,447.81	7,542.91	904.90
Hospital and Diagnostic Centres	5,047.58	4,339.49	708.09
Soaps, Cosmetics and Toilet Preparations	1,340.95	1,203.92	137.03
Vegetable Oils and Vanaspati	782.63	697.51	85.12
Retail Trading	1,212.34	988.56	223.78

Source: : DIPP, Deloitte analysis

Further, apart from encouraging organised retail and incentivising foreign retailers through liberal FDI norms, the Gol has taken various major initiatives to facilitate the growth of retail and consumer markets as a whole:

Table: Initiatives²² and policies undertaken by the Government of India

S.No	Initiative/Policy	Details
1	Make in India	<ul style="list-style-type: none"> India ranked as the 58th most competitive economy on the World Economic Forum's (WEF) global competitiveness index (GCI) for 2018²³ India's rank in World Bank's Doing Business 2018 improved to 77²⁴ FDI inflows have been recorded at USD563,320 million till June 2018, according to the Department of Industrial Policy & Promotion (DIPP)²⁵ Six industrial corridors being developed across various regions of the country
2	Digital India	<ul style="list-style-type: none"> 100 percent FDI allowed in the telecom sector, of which 49 percent is allowed through the automatic route²⁶ August 2018 recorded digital transactions at 244.81 crores, up 207 percent since demonetisation²⁷; introduction of Unified Payments Interface (UPI), a payment system that allows mobile-enabled money transfers between bank accounts Promotion of the Bharat Interface for Money (BHIM) for a cash-less economy
3	Initiatives in agriculture	<ul style="list-style-type: none"> Launch of new crop insurance schemes and higher funding for irrigation to counter weather risks Focus on doubling farm incomes in real terms by 2022, as opposed to the historical focus on increasing production A range of marketing reforms initiated to create a "one nation, one market" in agriculture

²²Initiatives related to packaging and labelling norms, sustainable sourcing and environment conservation by means of minimal waste disposal, cashless economy and growth of Unified Payment Instruments (UPIs), etc.

²³<https://www.thehindubusinessline.com/economy/india-ranks-58th-most-competitive-economy-in-wef-index/article25244640.ece>

²⁴<https://www.indiatoday.in/education-today/gk-current-affairs/story/india-ease-of-doing-business-world-bank-1380118-2018-11-01>

²⁵https://dipp.gov.in/sites/default/files/FDI_FactSheet_23August2018.pdf

²⁶<https://www.businesstoday.in/sectors/telecom/idea-cellular-requests-government-approval-to-hike-fdi-limit-to-100-percent/story/268947.html>

²⁷<https://inc42.com/buzz/indias-volume-of-monthly-digital-transactions-rise-three-fold-since-demonetisation/>

4	Initiatives for green economy	<ul style="list-style-type: none"> Push for electric vehicles to achieve the goal of an all-electric fleet of cars by 2030 Solar Energy Centre (SEC) envisaged a grid connected Solar Thermal Power Plant of 1 MW capacity²⁸ Launch of government schemes for setting-up of over 2000MV grid-connected solar PV power projects with viability gap funding (VGF) under Batch-III of phase II of the NSM²⁹ Plans to auction 40 GW renewables every year till 2028³⁰ INR42,000 crore unlocked for afforestation with the Parliament passing the Compensatory Afforestation Fund Bill, 2016³¹
5	Smart Cities Mission	<ul style="list-style-type: none"> Launched in June 2015 with 100 shortlisted cities and an estimated outlay of USD15 billion Promotes core infrastructure and a decent quality of life to citizens, a clean and sustainable environment, and application of smart solutions Government data points out severe under-utilisation of allotted funds with only 7 percent of INR98.6 billion released to 60 cities under the urban overhauling project According to the Housing and Urban Affairs Ministry data, of the total INR2 billion investment released to each of around 40 cities, Ahmedabad has spent the maximum amount of INR801.5 million, followed by Indore, Surat, and Bhopal³²
6	Ayushman Bharat	<ul style="list-style-type: none"> Aimed at addressing health holistically, in primary, secondary and tertiary care systems, covering both prevention and health promotion With the National Health Policy envisioning health and wellness centres as the foundation of India's health system, under this initiative, about 1.5 lakh centres will be created with a budget of INR12 billion to provide health care, including for non-communicable diseases and maternal and child health services The National Health Protection Scheme is aimed at providing health cover of up to INR0.5 million per family per year for secondary and tertiary care hospitalisation and will cover over 100 million poor and vulnerable families (approximately 500 million beneficiaries)
7	Goods and Services Tax (GST)	<ul style="list-style-type: none"> Launched in July 2017 with the aim to consolidate all other indirect tax laws (except a few) and also bring a harmonised tax structure and uniform compliance practices both by regulators and businesses Food items (staple food/basic food items) have been placed in zero or the minimum slab while luxury items get taxed more³³ 18 percent GST on pulleys, transmission shafts and cranks, gear boxes, monitors and TVs of up to screen size of 32 inches, re-treaded or used pneumatic tires of rubber, power banks of lithium ion batteries, digital cameras and video camera recorders, video game consoles and other games and sports requisites³⁴ 12 percent GST on cork roughly squared or debagged, articles of natural cork, agglomerated cork³⁵ 5 percent GST on parts and accessories for the carriages for disabled persons, marble rubble, natural cork, walking stick, fly ash blocks³⁶
8	Insolvency and Bankruptcy Code	<ul style="list-style-type: none"> Launched in December 2016, it is intended to be a one-stop solution for resolving insolvencies, which was a long process and did not offer an economically viable arrangement The code is intended to protect the interests of small investors and make the process of doing business simpler As per RBI, the total outstanding amount for the top 50 stressed borrowers, funded by scheduled commercial banks, stood at INR3.7 trillion as on 30 September 2017.

Source: Deloitte Analysis³⁷

As a result of these initiatives, a plethora of foreign retailers have entered India and are operating in the country through various operating models. Each model has its pros

and cons, and prospective entrants need to make the choice suited to their aspirations, management bandwidth, and business strategy.

²⁸<https://mnre.gov.in/new-initiatives>

²⁹<https://mnre.gov.in/scheme/Solar%20-%20Grid%20Connected>

³⁰<https://energy.economicstimes.indiatimes.com/news/renewable/india-to-auction-40-gw-renewables-every-year-till-2028/64811779>

³¹<https://www.downtoearth.org.in/news/forests/rajya-sabha-paves-way-for-compensatory-afforestation-fund-bill-to-become-an-act-55095>

³²<https://www2.deloitte.com/content/dam/Deloitte/In/Documents/about-deloitte/in-about-deloitte-state-of-the-indian-economy-noexp.pdf>

³³<https://economictimes.indiatimes.com/news/economy/policy/no-single-rate-for-all-items-under-gst-arun-jaitley/articleshow/62338280.cms>

³⁴http://www.gstcouncil.gov.in/sites/default/files/press-release/PressRelease_Goods-rates_%2031-GST-Meeting-22122018.pdf

³⁵http://www.gstcouncil.gov.in/sites/default/files/press-release/PressRelease_Goods-rates_%2031-GST-Meeting-22122018.pdf

³⁶http://www.gstcouncil.gov.in/sites/default/files/press-release/PressRelease_Goods-rates_%2031-GST-Meeting-22122018.pdf

³⁷<https://www2.deloitte.com/content/dam/Deloitte/In/Documents/about-deloitte/in-about-deloitte-state-of-the-indian-economy-noexp.pdf>

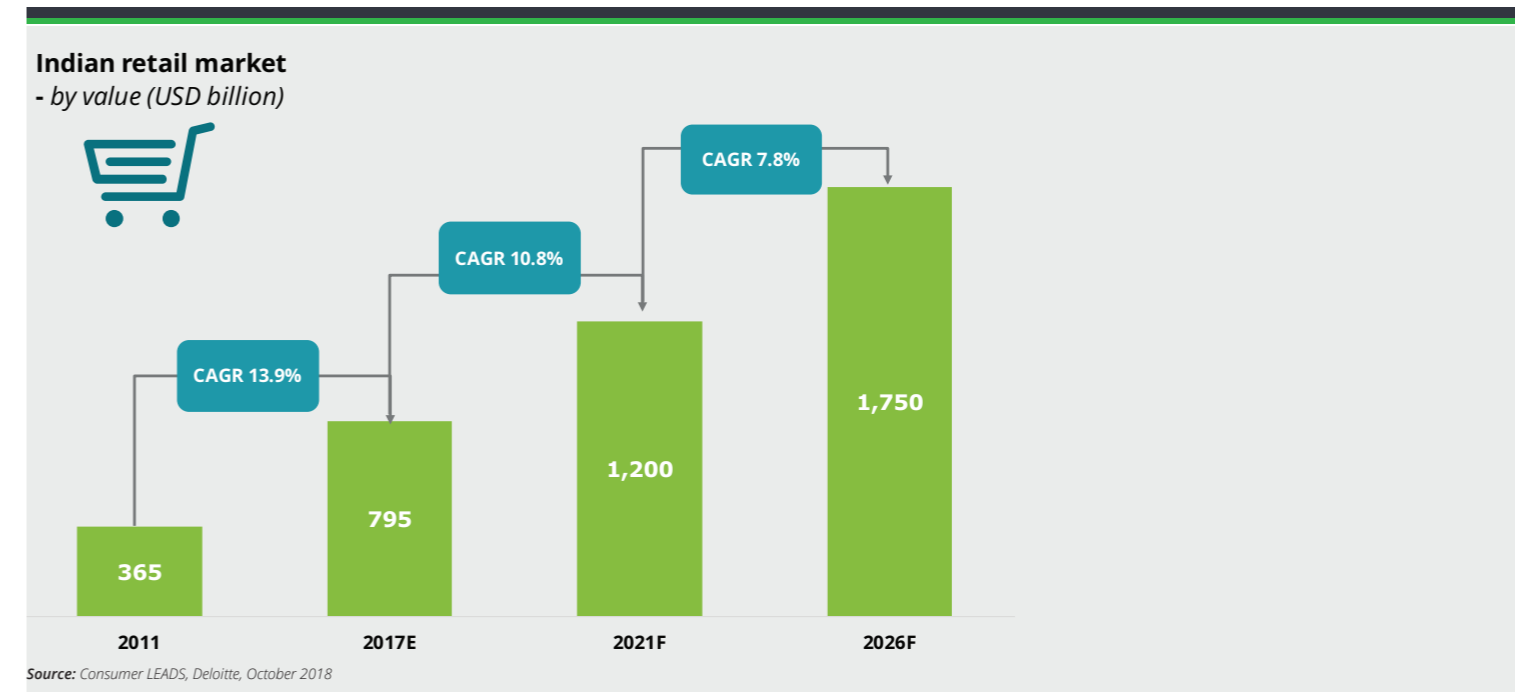
Retail operating models and their potential advantages/disadvantages

Operating Model	Potential Advantages	Potential Disadvantages
Licensee/ Distribution	<ul style="list-style-type: none"> • Lower investments • Higher reach through multi-brand outlets 	<ul style="list-style-type: none"> • Lower control on business • Partner may be a licensee to multiple brands and pay limited attention
Micro Franchisee	<ul style="list-style-type: none"> • Possibility of faster roll out • Micro franchisees have better understanding of local market 	<ul style="list-style-type: none"> • Multiple partners, hence difficult to manage
Master Franchisee	<ul style="list-style-type: none"> • Lower Investments • Benefits from partner's existing infrastructure • Easier to manage 	<ul style="list-style-type: none"> • Lower control on business • Difficult to locate a partner with deep investment capability
JV with Indian Company	<ul style="list-style-type: none"> • Scope to leverage partner's strength • Better management • High level of control on business • Option to undertake e-commerce model 	<ul style="list-style-type: none"> • High dependence on partner • Varying partner interest in the long term
100% Owned Subsidiary	<ul style="list-style-type: none"> • Operational flexibility • High level of control on business • Option to undertake e-commerce model 	<ul style="list-style-type: none"> • Various operational, regulatory and tax complexities • Possibility of slower initial roll out due to longer learning curve
Limited Liability Partnership (LLP)	<ul style="list-style-type: none"> • Lesser tax outflow as compared to subsidiary/company model • Lesser compliance/reporting requirements • Option to undertake e-commerce model 	<ul style="list-style-type: none"> • Downstream investment by LLP with FDI is subject to fulfilment of conditions • Relatively newer model of operation and accordingly may not be preferred from credit perspective • No provision to list the business in future

Source: Retail FDI in India, Deloitte, October 2018

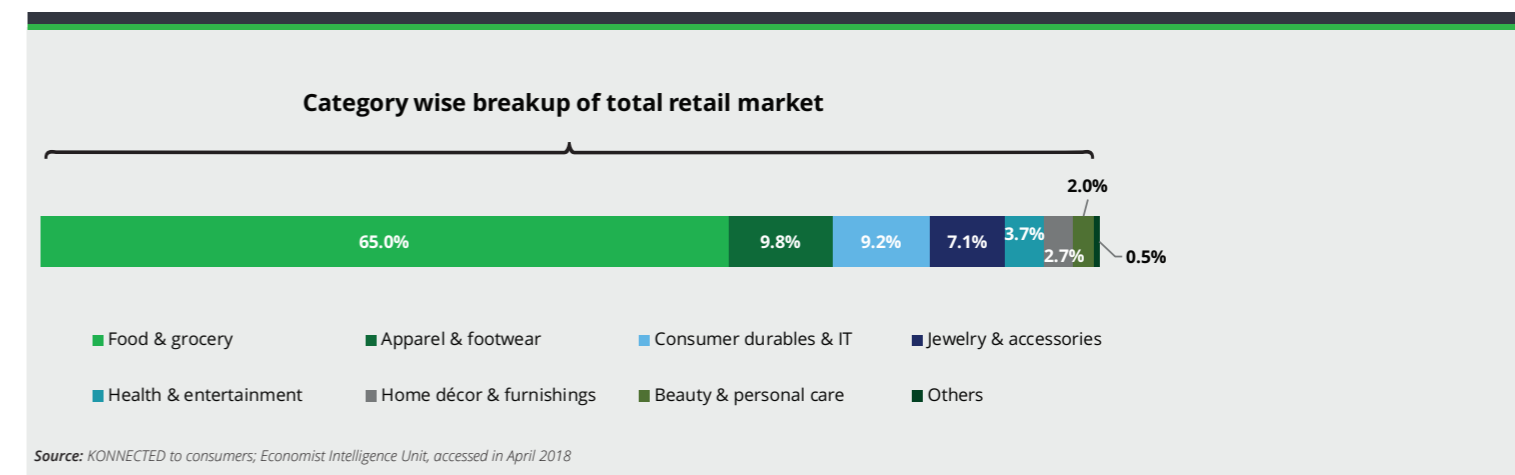
Indian retail industry's growth will be fuelled by strong macro-economic factors and favourable demographics

Favourable macro-economic indicators and rapid growth in consumption have been and are expected to continue driving the growth of the retail sector as a whole.

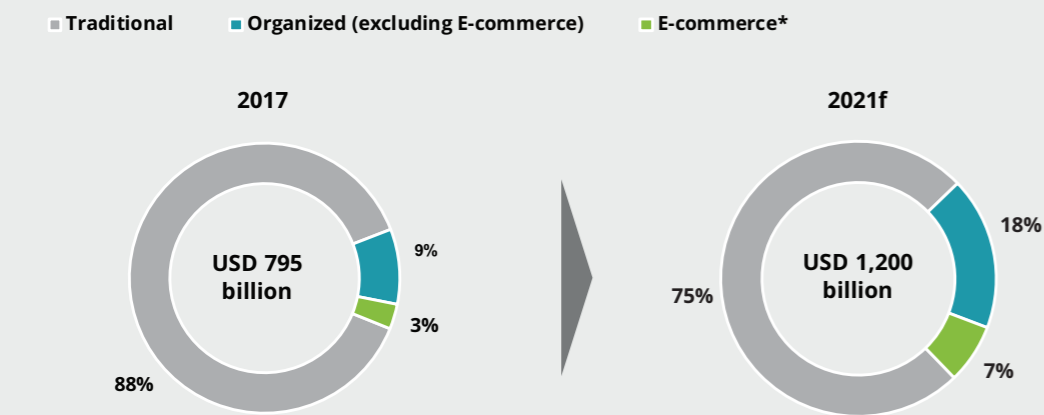


- India is **Asia's third largest retail market** and the **world's fourth largest** after the US, China, and Japan³⁸
- It is one of the **fastest growing major economies** in the world, in turn leading to high growth in consumer and retail

markets, thus presenting massive investment and business opportunities. Food and grocery accounts for the majority share of the retail market in India followed by apparel and footwear, consumer durables and IT segments:

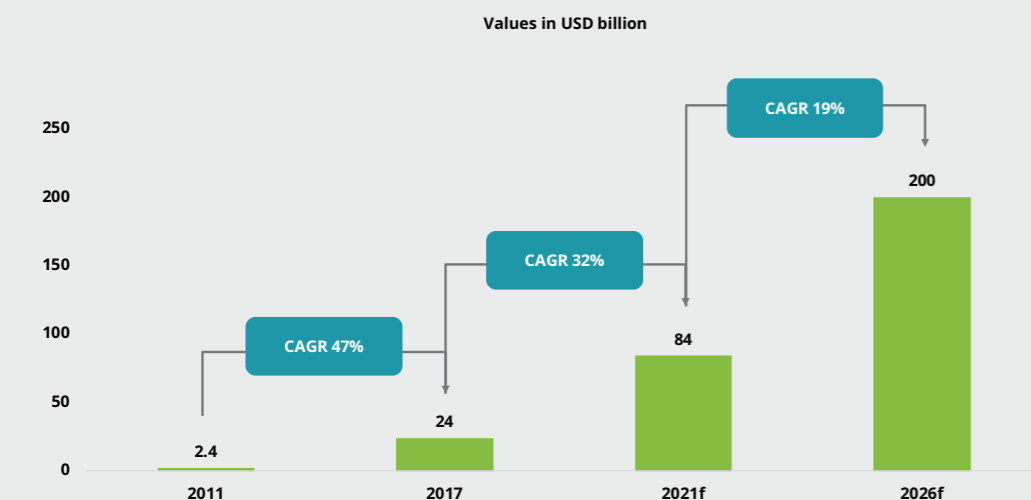


While traditional format dominates the retail market, share of organised segment is rapidly growing.



Source: KONNECTED to consumers; Economist Intelligence Unit, accessed in April 2018; Media articles; Indian Retail Industry: Growth, Trends, Challenges, and Opportunity, India Retailing, 16 November 2017; Deloitte analysis.
 Note*: e-commerce market here refers to sale of products and services through electronic transactions, home shopping is also considered a part of e-commerce.

Indian e-commerce market – on a high-growth trajectory



Source: KONNECTED to consumers, Deloitte, 7 September, 2017; Media articles

The high growth in e-commerce market is majorly attributable to factors including³⁹ :

• **Growing internet penetration:**

Internet users in India are expected to increase from 432 million in 2016 to 647 million by 2021, taking the internet penetration from 30 percent in 2016 to 59 percent in 2021
 – Approximately 75 percent of the new internet users are expected to come from rural regions

• **Rising number of online shoppers:**

The number of online shoppers would increase from the current 15 percent of the online population to 50 percent by 2026.

• **Increasing usage of smartphones:**

Smartphone users in India are expected to increase from 260 million in 2016 to around 450 million by 2021, which is also likely to drive the m-commerce sales from USD10.5 billion in 2016 to USD38 billion in 2020.

³⁹KONNECTED to consumers, Deloitte, 7 September, 2017; Media articles

Trends shaping the retail industry in India⁴⁰

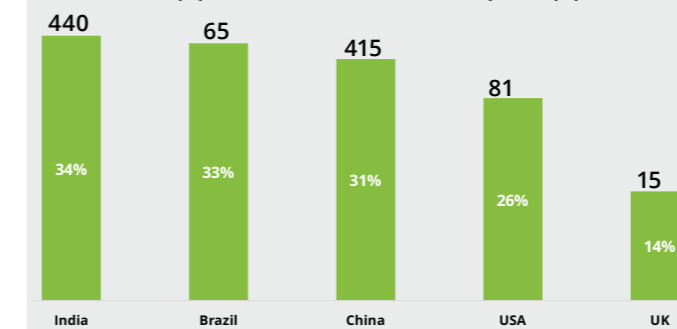
01. Increasing importance of millennials

India has the world's largest millennial population in absolute terms. Falling in the age group of 18-35 years, and having a population of over 440 million, millennials constitute nearly 34 percent of the country's total population. Further, millennials account for a major share in the workforce population. While millennials constitute more than one-fourth of the workforce

in the Asia Pacific region, their contribution to the Indian workforce is significantly higher at nearly 48 percent⁴¹.

Millennials form the largest population group globally, thereby, driving advancements in the consumer industries. With nearly 2 billion millennials (over 27 percent) out of the total population of 7.4 billion people globally, the cohort forms the largest demographic group in the world.

Millennial population (in millions) as a % of country's total population



Source: UN population stats, Deloitte Analysis

With the largest millennial population globally, India offers a tremendous growth potential for the consumer markets and retailers. The share of India's millennial population as a percentage share of the country's total population (34 percent) is also one of the highest amongst the major economies.

Millennials are the first global generation of digital natives, implying that the population group was the first to witness and leverage technology and internet for shopping. Being better connected to information and being the chief wage earners in the household, millennials have significant spending power and greater access to products and services. This trend is expected to drive the consumer market in the country, leading to disruptions, especially in discretionary segments where the millennial group, in general, has a greater tendency to spend more vis-à-vis their increasing disposable incomes.

The key characteristics of the evolving customer needs of these millennials have been identified below:

• **Greater emphasis on health care and wellness**

– Millennials are increasingly becoming health conscious and placing higher importance on physical and emotional wellbeing, and thus swiftly moving towards healthier and organic options. Research indicates that 36 percent of the Indian millennials have a fitness app installed on their phones and about 45 percent think leading a healthy life is essential⁴². Therefore, even though 'eating out' as a concept has significantly increased, specifically amongst millennials, focus on healthy alternatives is also on the rise.

Even under the personal care category, there is a growing reliance on nature-based/organic cures. Customers are looking for chemical free, ayurvedic products for their daily skincare regime, and hence, a large number of leading and upcoming brands are focusing on the same.

⁴⁰Consumer LEADS, Deloitte, October 2018

⁴¹UN population stats, Deloitte Analysis

⁴²What the millennial Indian wants: Not cars & houses, just fun & convenience, The Economic Times, 2 November 2017

Importance of convenience

– Convenience is an important consideration for millennials on account of their hectic lifestyle. For the working younger generation, dearth of time is one of the key reasons for the growth in online shopping and online ordering from restaurants. It is for this reason that the 'ready to eat' product category has grown exponentially at the rate of over 28 percent per annum over the last five years⁴³.

Value delivered by the brand –

Millennials view brands through a holistic lens and place greater reliance on the

ethos and the value system of the brand. Brands that clearly define the source of their materials or establish work done for a specific cause/movement tend to strike a chord with current and prospective customers.

- **Need for personalisation** – Millennials aim at differentiating themselves from the rest of the crowd and in lieu of the same, prefer personalised product and service categories. They attach more importance to aesthetic aspects than to core functional aspect. Thus, personalisation is gaining focus.

02. Rise of multichannel retail

In the current multichannel age, consumer companies in India are aligning their business strategies, especially to cater to the demands of a young and technology-driven population. Leading consumer companies are facing stiff competition in their omnichannel offerings, while aiming to provide seamless and integrated solutions to consumers' needs. The advent of technology has led to consumers leveraging multiple channels for making their purchases:

- Browsing online and shopping in-store for product's look and feel;
- Shortlisting products in-store and making the purchase online for better prices and offers;
- Getting custom/exclusive products shipped from foreign countries through company websites;
- Tele-ordering products for ease of access;
- Ordering products after reading reviews/recommendations on social media;
- Picking products from store/delivery centre after ordering online to avoid last-mile delivery delays (click and collect model);

- Placing personalised product orders in-store to get them delivered later;
- Consumer-to-consumer (C2C) buying. Internet and mobile apps have made the shopping journey of consumers convenient to the extent that the millennials and younger generations have now become habituated to instant gratification. Millennials are seen to be keen on socialising and collaboration, and thus, companies need to consider proactively streamlining their two-way communication with consumers. It is owing to this two-way communication that a new model of consumer-to-business (C2B) has emerged where companies get cues to new products and services through crowdsourcing. Consumers are conveying their specific needs to companies which are being used for creating brand value and providing unique experiences to consumers.

03. Consumer experience taking front seat

- The evolving consumer markets are seen to have shifted stance from 'bricks versus clicks' to 'bricks-and-clicks'. While earlier it was a battle between the online and offline channels, now the industry seems to be moving towards a

A beverage and snacks manufacturer has made a strategic shift in its product portfolio to cater to the growing millennial population

A global beverage and snacks manufacturing company aims at expanding its product portfolio in India to include nutrition-based food categories to cater to the growing demand of millennials.

They aim at combining taste and health benefits while making it convenient (through easy ready-to-eat packs) for prospective customers to consume the same.

On account of these new products they expect to increase their revenue from the nutrition category by 2.5 times their revenues from the core (beverage) product category.

more immersive model in current times where collaboration is considered to be the key. The confluence of online and offline channels is expected to drive the markets, where consumer experience takes the limelight. The expectations from a modern brick-and-mortar store have transformed completely – consumers no longer walk-in to the stores just to buy the products. They are looking forward to an enhanced shopping experience where they get immersed into a whole 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. Retail is thus evolving into a new dimension of 'retailtainment' or 'retail and entertainment', which is likely to dominate the consumer industry in the near future.

New age consumers' characteristics

Changing purchase patterns

With increasing internet penetration in India, online buyers are rapidly increasing. Moreover, m-Commerce is growing at an exponential pace, m-wallets transactions in India increased from INR 200 billion in FY16 to INR 3,000 billion in FY18

Connected consumers

Consumers in today's world are more connected than ever. They are empowered by technology to get what they want, when they want and where they want

Experiential shopping

Consumers increasingly prefer to buy from modern retail stores with spacious layouts. While there are multiple options from where a product can be bought, shopping experience is becoming the key differentiator amongst channels

Preference for convenience

In today's world of cash-rich and time-starved consumers, convenience has become a paramount consideration

Healthy choices

Increasing sedentary lifestyle and changing eating habits has made way for healthier choices including natural, herbal, organic and Ayurvedic



Source: Deloitte analysis

⁴³World Bank, UNDP, Deloitte Database and Analysis

Experiential shopping: Case studies⁴⁴**• Personalised digital displays in-store**

One of the major beverage manufacturing companies launched in-store display systems to show personalised messages to approaching consumers based on their smartphone data. The personalised marketing feature worked on cloud technology to enhance shoppers' media-rich experience in store. It also leveraged built-in smartphone features and beacon technology to interpret shopper's buying preferences and habits.

• Impact: This pilot, run across more than 250 grocery chain stores by the company, delivered Return on Investment (RoI) within one-month. Further, the personalised displays not only helped drive the sales of company products but drove the overall sales of carbonated drinks as well in these retail outlets.

• Augmented Reality (AR)/Virtual Reality (VR)-based experiences for apparel

While online retail, especially for lifestyle and beauty enhancing products, is rapidly embracing the concept of AR, physical retail stores are also following suit by piloting AR/VR-based virtual trials

at their stores in India. These stores are redefining the extent of convenience for consumers.

For example, at one of the modern AR-based apparel stores, consumers have to just walk in, choose their preferred attires from a wide range of product assortments available through a virtual inventory, enter the trial room and try all the outfits via a virtual mirror without actually having to perform all these tasks. The combination of technologies leveraged at these modern apparel stores facilitate a seamless experience for the consumers, an experience which is more engaging and convenient while at the same time providing more options. The buying experience is engaging and unique in value for the consumers, thus encouraging repeat visits as well as word of mouth advertising. Stores or e-commerce platforms try to ensure that the consumers' queries and concerns are adequately addressed, and they are appropriately guided so as to facilitate and enhance their overall shopping experience.

Stores are trialling AR to showcase the entire range of products 'virtually', allowing shoppers/consumers to browse

the catalogue and make selections through AR, thereby reducing the physical space required by stores to display the products. In many cases, the 'virtual' catalogue is connected to social media platforms, allowing consumers to get real-time feedback from other consumers who have bought/used the products, watch advertisements of selected products, and also check for their favourite celebrities who may have used the products, further enabling them to make the choice.

In one of the modern apparel stores in the UK, highly personalised store interactions are offered by pushing promotions and discounts to consumers' handheld devices based on their store location. Further, to engage shoppers in the store, each online order placed for made-to-order garments or perfumes triggers RFID-enabled smart mirrors, which are placed in the store. These mirrors depict the journey behind the making of the selected products. If the consumers do not visit the store, the short film would be triggered in the phone through which the order had been placed.

04. Technology stepping up the retail play

Technology has been the front-runner in driving engagement and experience in consumers' shopping journey. Apart from understanding consumers' behavioural insights through advanced data analytics, emerging technologies such as IoT, AR and VR, Artificial Intelligence (AI), bots and drones, beacons, cloud-platforms, etc. have played a key role in enhancing consumers' engagement more than ever.

• Consumer alerts through beacons

Beacons are small, battery-operated wireless devices that transmit coded messages to nearby paired smartphones using Bluetooth Low Energy (BLE). Beacon technology has been slowly catching up in the consumer business since its introduction in 2013. While major consumer companies continue to explore its applications, the technology has been estimated to have driven retail sales worth over USD44 billion in the US

in 2017⁴⁵. Since beacons deliver hyper-contextualised content to users based on their location, they provide an extremely personalised experience to consumers and enhance their engagement with the brand. The technology is also leveraged majorly for proximity marketing and personalised recommendations, where consumers receive brand advertisements and suggestions if they pass through a nearby brand store.

Case study⁴⁶ : A major fast food chain witnesses an increase in its conversion rate with the use of beacon technology

A major global fast food chain installed beacons at its select restaurants and partnered with a shopping app to distribute coupons amongst the app users. The company found pleasing outcomes of its technology drive:

- As a result of its proximity campaign, 30 percent of the consumers who received promotional content through beacons, visited the restaurant to buy beverages.
- The company estimated the conversion rate of this drive at around 20 percent.

Similarly, a UK-based major FMCG company and major retailers across the US installed beacons and offered special privileges and discounts to consumers using the technology-enabled app. Retailers also leveraged the technology to enhance in-store experiences by linking it to their loyalty programmes and providing access to special in-store events.

⁴⁵What's Next for Beacons in Retail?, Business2Community, 30 June 2017

⁴⁶Company website

⁴⁴Media articles, Company websites



- **Conversational commerce through voice-activated assistance**

Voice-activated assistance devices are witnessing a growing demand driven by the consumers' increasing disposable income, rising social status consciousness, and greater preference for convenience. While the technology is at a nascent stage for 'Conversational Commerce', it is expected to be widely accepted by consumers around the world to complete their purchases. Currently,

the tech-enabled devices are used majorly for playing music, setting alarms, searching for information, ordering cabs, etc. Voice-activated assistants can help consumers across various stages of their shopping journey, including:

- **Awareness:** Similar to general web research, voice-activated assistants help consumers in exploring different brands and products.
- **Consideration:** Consumers can conduct specific product/service-

related searches using voice enabled technology.

- **Purchase:** When linked to the payments account (through net banking, debit/credit cards, or m-wallets), the voice-activated assistants can perform a purchase and complete the payments.
- **After-sales:** The technology can be used to contact customer care services and get the queries/issues resolved quickly.

- **RFID for tracking inventory**

Widely accepted and used across consumer businesses, RFID enables companies to keep a tab on their inventory positions by tagging products at the time of manufacturing and allowing

them to be tracked until the distribution process. Similarly, few companies also allow consumers to check specific products online, a process enabled through RFID

Case study: A global apparel chain leverages RFID for multiple benefits

One of the major global apparel brands, known for its best in-class supply chain system, leverages RFID technology to track its inventory. The technology is stated to have saved the company a significant amount of time, as earlier its employees had to scan each and every product through its barcode – one at a time, every six months, to track the inventory position. Implementation of the RFID technology helped the company reap multiple benefits:

- The system warns the company if any garment/product is about to run out of stock.
- Implementation of RFID systems across logistics centres allowed the company to save significant amount of time.
- Installing RFID in stores enabled consumers to check availability of products.
- The systems also enhanced security in stores, which reduced shrinkage.

Additionally, the company also introduced its 'click-and-collect' stores using the RFID technology. Coupled with its smart room mirrors, the RFID scanning presents similar products and supplementary garments, as recommendations to consumers.

Case study: A major cosmetics company launches voice-activated virtual personal assistance

A major cosmetics company pioneered in the space of voice-activated assistance provider by launching its app in 2017. The voice-activated virtual personal assistant allows consumers to search for products and services offered by the brand, through the app running on smartphone or web.

The initial services offered by the company through its voice-activated assistant include:

- Booking beauty services, such as complete make-up (appointments confirmed over email later)
- Beauty quizzes, allowing users to play quiz games and increase their awareness
- Beauty podcasts, allowing consumers to listen to exclusive beauty and brand-related information

The brand plans to introduce greater functionalities for consumers in coming years.

Voice-activated assistants can provide a direct communication channel between the consumer and the brand and make the whole process hands-free and convenient, thus removing barriers to consumer engagement.



- **Smart shopping carts and self-check-outs**

Major global consumer giants are testing varied versions of smart shopping carts, some of them being self-driven as well. With smart shopping carts, consumer companies intend to enhance the shopping experience of consumers and set new benchmarks of convenience. These carts are expected to serve as a direct response to online shopping,

as they would guide consumers to the products in their shopping list and enable self-check-outs. Similarly, companies are also testing the concept of smart shelves, which consist of multiple sensors, each sensing a unique aspect of the product – weight, dimension, form, packaging intact or open, etc. These individual information pieces together combine to a broader product picture, which enables the sensors to track the product purchase

and automatically update the shopper's bill, based on the product pickings. Coupled with deep machine learning algorithms, these information pieces can be stitched together to provide highly insightful shopping characteristics of consumers, which is expected to further open up multiple channels for companies to personalise their offerings for each set of consumers.

Case study: A major global retailer tests self-driving shopping cart

One of the biggest global retailers is working with a robotics firm to develop self-driving shopping carts and help consumers find product items from their list, across the aisles of the hypermarket. The company is also implementing tools to allow consumers self-checkout, by scanning and purchasing items through their mobile phones, without having to stand in a checkout line.

- **Touchless commerce through contactless payment methods**

With the advent of fintech, payment means have increased manifold. While traditionally, consumers used to make the payment for their purchases through cash or plastic money. However, the rise of internet and other payment methods including net-banking, online cash transfers, mobile wallets, single touch

payments, payment through scanning code, etc. have shown an exponential increase in the country. Moreover, "selfie payments" is another advance and innovative payment solution, which is expected to revamp the payment process across consumer markets and other industries. Being already rolled out by a few finance and consumer companies across different parts of the world, the

technology leverages "facial recognition" to authenticate payments. Further, to address the concern of security, as photographs could also be used to authenticate the payment process, companies require the consumer to make a particular gesture while looking at the camera – a blink, or a smile, or a wave, etc.

Case study: A multinational conglomerate tests touchless commerce

A major multinational consumer durables conglomerate is testing a touchless checkout system, referred to as 'Touchless Commerce' technology. While 3D and facial recognition would be leveraged to authenticate the payments by shoppers, the company has coupled the payments system with scanning of the shopping basket.

The system scans through the basket using multiple sensors to automatically update the invoice of the consumer. It then performs facial recognition of the shopper to charge it to the shopper's credit/debit card. If rolled out successfully for the public, the combination of systems could revolutionise the entire shopping and buying process and truly make it a case of 'Touchless Commerce'.

- **Automated product delivery at consumers' doorstep**

Major consumer brands across the globe are investing in innovative ways for making product delivery seamless, convenient, and cheaper. With brands exploring multiple ways of leveraging a host of channels to accomplish the last leg of consumers' shopping journey,

new delivery models are increasingly coming up. Consumer experience and instant gratification seem to be the main drivers behind these innovations. Brands are experimenting with automated delivery through self-driven and AI-enabled trucks, which drive to consumers' pre-fed locations, deliver the products at consumers' doorstep

and alert respective consumers on their smartphone app. Similarly, pioneering brands in consumer markets and retail are also testing delivery by drones through aerial route. Innovations like these present a promising future to the delivery challenges, especially the last-mile delivery concern in India.

Case study: One of the biggest retailers globally may start drone delivery in next two years

One of the biggest global retailers is currently testing its drone delivery model and is working with the US government to get necessary approvals regarding commercial usage of drones. If approved, the company could start delivering product packages to consumers through drones in the next two years, subject to the drones flying under 400 feet and weighing less than 55 pounds.

Another major global retailer is currently leveraging the drone technology to check its inventory. While it generally takes a month's time to check all inventory manually, the drone technology has allowed the company to save significant time, as it completes the process in about a day or even less. The company is also testing how drones can be leveraged in other business functions to increase efficiency and stay on top of technology trends. The drones essentially work by capturing images of products and aisles at 30 frames per second. These images are fed to a control tower which sends alerts for flagged items.



05. Social commerce for 'We shopping'

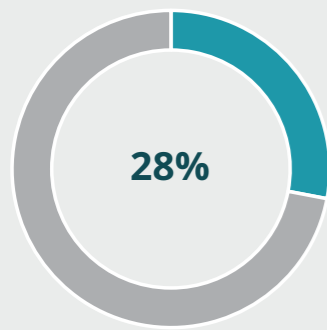
Significance of 'S-commerce' or social commerce has significantly increased in today's world of connected consumers. Pictures and videos of products/brands posted by consumers on social networking sites and blogs, user experiences and stories shared on the web, ratings, reviews and recommendations posted online, etc. act as user-generated advertorial content. This content either promotes or demotes a particular product, brand, or service amongst a specific set of people that have access to view/read the content. Social commerce is not just restricted to social network driving sales, but consists of other

forms such as peer-to-peer sales platforms (community-based marketplaces), group buying (products and services offered at reduced rates if enough buyers are willing to make the purchase), user-curated shopping (where users create and share list of products/services for others to shop from), participatory commerce (where consumers become decision makers across the product value chain through voting, funding, and collaboratively designing), etc.

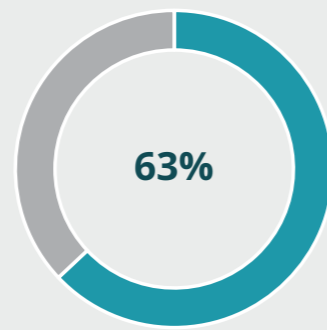
Since consumers can freely post information regarding their purchases or experiences on various social platforms and express their views, social media has become a great tool for companies to

engage with consumers. Companies are leveraging various analytical tools and advance analytics are being to analyse the social and behavioural traits of the consumers and tweak their strategies accordingly to suit the consumers' needs and convenience. Social sites are also used frequently to raise queries or post grievances which keeps the consumer companies on toes to respond promptly to such concerns and avoid any damage to their social rapport.

Social media platforms and online product/service reviews form an important part of the millennials' shopping journey as it influences their purchase decisions:



28% millennials purchase products due to social media recommendations



63% millennials stay updated on brands through social media

S-commerce, though nascent in its current stage, offers significant advantages in terms of greater engagement with consumers and is touted to be the next step to multichannel retail.

06. Personalisation for brand loyalty

Personalisation to enhance the consumer engagement and to make the shopper feel privileged is increasingly becoming a norm in the industry. Consumer brands across industry segments such as food and beverage, apparel and footwear, fast-moving consumer goods (FMCG), skin and personal care, etc. are increasingly focusing on differentiating from the competition by offering more than just the product. The quality of the shopping experience has

once again put the focus on the consumer. Retailers, both offline and online, are now looking to provide customised solutions to the consumers. A few major examples include:

- Personalised advertising and marketing campaigns run by FMCG players such as beverage companies;
- Special 'wow' experiences in store to attract and retain consumers, created by lifestyle product retailers such as apparel;

- Made-to-order products in personal care segment like lipstick, or luxury segment where consumers choose the ingredients/contents and witnesses the product being designed for them;
- Custom loyalty programmes by modern retailers providing "personalised" benefits to consumers based on their shopping patterns;
- Exclusive customised product and service offerings for premium and high-spending consumers in e-commerce.

Case study: A major houseware retailer increases its revenues through segmentation⁴⁷

One of the global houseware retailers, with more than 400,000 customer records, intended to increase sales by leveraging multiple customer data streams being collected over time. The data streams included:

- Basic profile information including age, income range, etc.
- Geo-location data such as purchase location, channel used (offline/online), etc.
- Behavioural data such as purchase

history, shopping basket and its contents, etc.

The data was collated, analysed and presented in a coherent way to extract relevant customer insights which resulted in understanding of customer loyalty and long-term value (LTV). The analysis helped in creating micro-clusters of consumers, which in turn helped the retailer in better targeting, better sales engagement, and better product offering strategy.

The offers were delivered to customers via email and via its website.

Just after six weeks of deployment of the analysis results, the retailer's revenues shot up by USD1 million. Further, personalised offerings to the micro-clusters increased the probability of customer conversion and retention, and decreased the overall churn.

⁴⁷Media articles



Examples of companies repositioning their portfolio for affluent consumers⁴⁸

Luxury chocolates by a major FMCG conglomerate

One of the major FMCG conglomerates in India launched its luxury chocolate segment in India. The key differentiators for this chocolate to make it feature in the luxury segment include the following:

- Cocoa for the chocolate is sourced from world's finest cocoa growing regions such as Ghana, Cote D'Ivoire, Madagascar, Santo Domingo, Venezuela, and Sao Tome.
- Special master chocolatiers and international chefs are appointed to blend the cocoa with exotic ingredients and craft it into fine chocolates that provide sensational flavours and aromas.
- To make it a more personalised experience, consumers are also provided an opportunity to design their own chocolate cups from an assortment of creations.

Ready-to-wear offerings by a major apparel brand

A major apparel manufacturer established exclusive stores to offer greater convenience and luxury feel and experience to its consumers. The stores fuse cutting-edge technology with superior hospitality to redefine consumer experience. Similarly, its thoughtfully conceptualised fitting rooms eliminate the need for consumers to carry the clothing. Instead, preferred garments with desired size and colours are made available inside the trial room wardrobe.

To revamp the look and feel of the stores, the company leveraged digital signboards and visuals, which helped the brand become more appealing and attractive to consumers.

Dedicated platforms at online portals for luxury consumers

One of the biggest global e-commerce players launched a dedicated section on its website for premium and luxury brands.

The move was a part of the company's strategy to tap super wealthy online shoppers by offering premium products in categories such as apparel, watches, beauty, and cosmetics. To make it more exclusive, the company made its platform invite-only and offered customised shopping experiences from personalised homepages to exclusive VIP rewards and individual post-purchase customer service.

Similarly, another major global e-tailer launched its luxury beauty store online to tap affluent consumers. The key differentiating factor of the store was its elegant design and refinement where products from more than 20 luxury brands of beauty care were showcased. Consumer experience was factored in through different look, clear navigation, and rich visuals. Additional product information and visuals were also available for the ease in decision-making.

The rise of the great Indian middle class is fuelling the growing premium market in India. Consumers are not completely switching to luxury lifestyle but upgrading from economy to premium brands and adding luxury items to their repertoire. It is under this context that the premium and luxury segment in India is seen to experience strong evolutionary undercurrents. The traditional characteristics of luxury are evolving, providing a multitude of opportunities to companies willing to delve in this space. Luxury is no longer limited to exotic contents/ingredients, customised products, privileged services, etc., but has expanded into the experience space where consumers are enthralled with a 'Wow!' factor. Retailers are leaving no stones unturned to go that extra mile and create memorable experiences for their premium consumers and earn their loyalty.

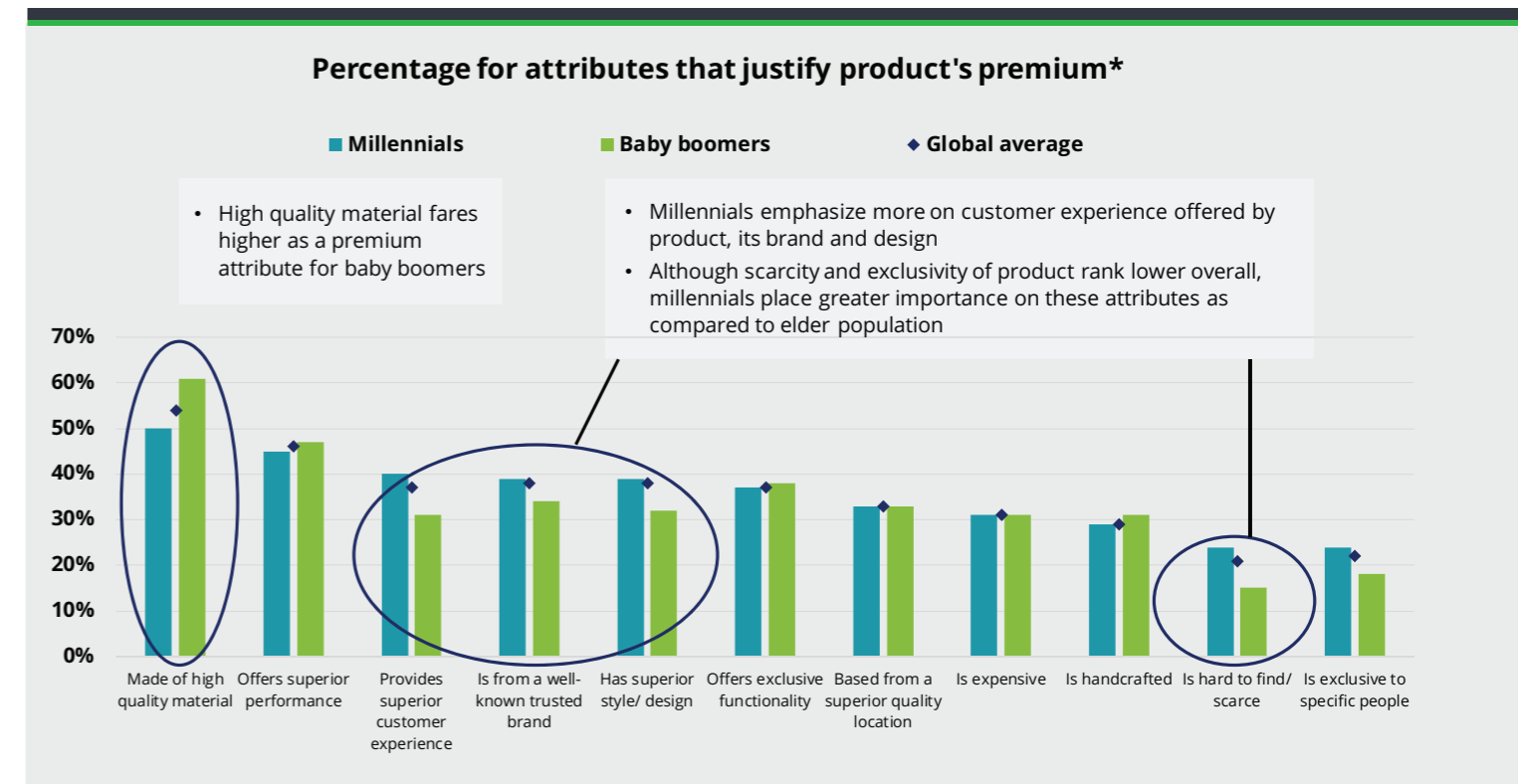
07. Premiumisation

Premiumisation started as a trend in 2016 in India. Currently, it is one of the major trends across consumer markets. Rising personal disposable incomes and changing

lifestyle of consumers – giving preference to convenience – has led to this trend being adopted in full swing across sectors of consumers including retail, food and beverage, FMCG, apparel and footwear, consumer durable and electronics, etc.

With the rapid growth of millennials as the major consumer segment, the perception of product's value and premiumisation has also altered. Consumers no longer consider a product premium based on just a high price tag. Globally, less than one-third (31 percent) of the consumers consider a product premium only because it is expensive. Thus, a clear demand for value-for-money is emerging amongst the younger consumers.

Further, as depicted in the graph below, while the attributes of perception of premium products rank similarly for baby boomers and millennials globally, the sentiment on quality and experience, product brand and design, and product scarcity or exclusivity vary significantly among the population cohorts



⁴⁸Media articles, Company websites

08. Resonating core brand values

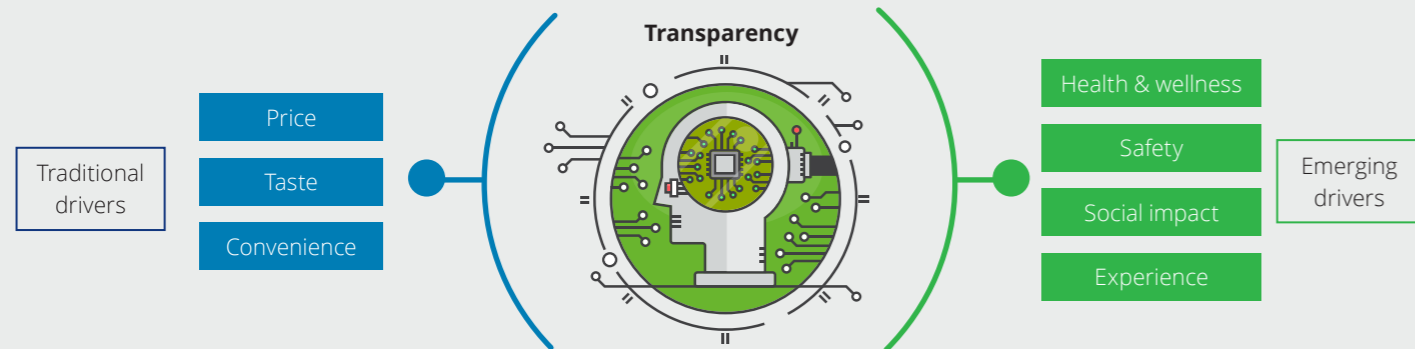
The rapid use of technology in the consumer market space and the rising preference for convenience are seen to be constantly challenging consumers' brand loyalty. In the current fast-paced environment, attracting and retaining consumers to a particular brand requires significant time and effort investments. Further, consumers' shopping traits and preference nuances would need to be analysed in depth to offer customised products and services that match their requirements. Innovation in products and bespoke service offerings such as personalised loyalty programmes, convenient after sales services, etc. could

assist in attracting consumers towards a particular brand. However, to have a sustainable long-lasting relation with consumers, it may be necessary to have such brand values that resonate with the target consumer group's core values. Imbibing such values would not only help companies build a strong brand image, but also lead to repeat consumers, implying more business.

Consumers today are seen to have a new set of value drivers, which are more intrinsically linked to their core values and beliefs. Traditional drivers such as price, taste (for food products) and convenience remain critical to making buying decisions, but new drivers such

as social impact, health and wellness, safety, and experience are emerging to the forefront. According to a Deloitte survey, 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 demonstrated⁴⁹. Increasing disposable income, preference to unadulterated genuine products, increasing health and wellness consciousness, and awareness about implications of unsustainable social and environmental practices are a few major reasons driving these changes.

Evolving value drivers in consumer markets



Source: Deloitte analysis, Media articles

Emergence of new value drivers is evident from the fact that consumers are now showing a greater interest to know and understand the story of the product. They are more willing to know the source of the raw materials and the farms/factories they have been sourced from. Consumers are keen on understanding the complete value chain of the products they are consuming, including the means used to source the raw materials, contents or ingredients used in the manufacturing of the product, packaging and labelling norms – whether the product labels provide factual and transparent information, etc. Further,

there is an increasing concern amongst consumers to understand the company's wastewater and other waste recycle/reuse processes. These queries together form a story behind the journey of a product and the practices followed by the company, which in turn portrays a brand image on consumers' minds. It is this brand image or the emotional impact that is seen forming one of the biggest reasons for consumers' loyalty towards a particular brand. For a brand to successfully engage and make its consumers loyal, it should be able to connect the dots and link its brand value with the emotional impact of consumers.

As the consumers find brands resonating same values as their own and echoing their self-expressions, they not only turn loyal with repeat visits and purchases, but also act as brand advertisers, marketing the brand through word of mouth.

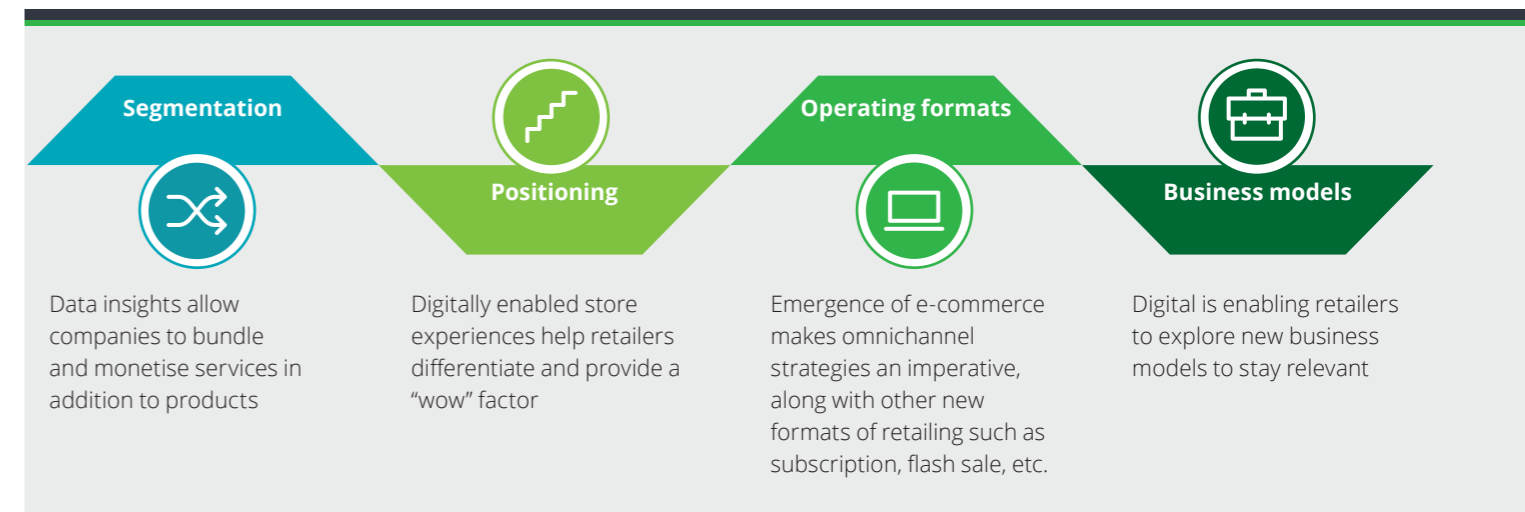
09. Building a 'Future Fit' retail organisation

The advent of digital in retail has provided opportunities for retailers to acquire new customers, engage better with existing customers, reduce the cost of operations, and improve employee motivation along

with various other benefits that have a positive influence from a revenue and margin perspective. Digital has impacted three key elements of the retail business and operating model:

- **Strategy** – Disruptions such as Internet of Things, Big Data Analytics, Artificial

Intelligence, Predictive Analytics, Automation, Dark Analytics, Virtual and Augmented Reality and Blockchain have led to the onset of some fundamental changes in retail strategy and business models.

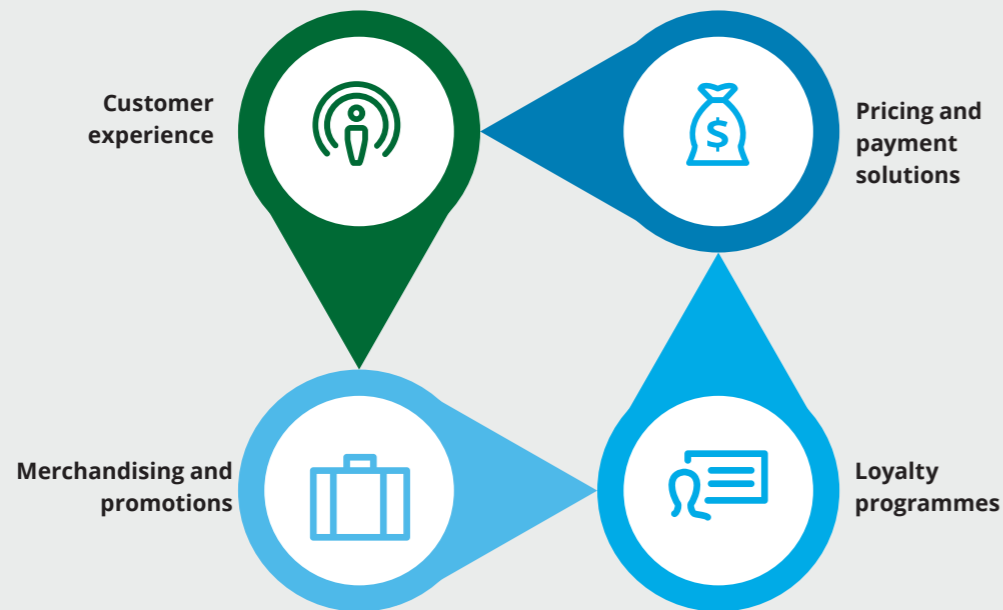


- **Front end** – The impact of digital on the front end of the retail value chain is significant and revolves around "the digital customer" experience as the pivot,

with merchandising, promotions, loyalty programmes as well as point of sale (PoS) related digital solutions enriching that experience.



⁴⁹Deloitte Food Value Equation Survey, 2015



• **Back end** – Digital is driving the retail organisations to become more agile. It is impacting various facets of the back end in following manner:

- **Supply chain** – Shift from traditional supply chain (information travels linearly, in sequential chain of events) to digital supply chain (each supply node becomes more capable and connected, resulting in an integrated network)
- **Logistics and warehousing** – The rise of e-commerce has led to new digital entrants in the last-mile delivery market. Digital platforms are expected to become increasingly important in the logistics industry, allowing small companies in India to have a global reach and compete with the sector’s established giants. Information services, shared logistics capabilities, delivery capabilities, etc. are the key digital themes of logistics to get affected by digital.
- **Finance** – Today, digital finance is far beyond incremental technology tweaks. It is an ecosystem that brings together the forces of exponential computing

power and the behavioural disruptions of socio-economic forces. Digital finance is the next generation finance ecosystem that utilises disruptive technology, innovation, data, and people to elevate and differentiate the capabilities of the finance function

- **Procurement and vendor management** – Low-cost computing and data storage have enabled advancements in mobile technology and the cloud. Constant connectivity is the norm, and sensors bring devices and machines to life in the Internet of Things. The application of these disruptive technologies to procurement is already fundamentally altering the impact of this function. Strategic sourcing is becoming more predictive, transactional procurement is getting more automated, and supplier relationship management is becoming more proactive.
- **Assortment mix and planning** – While traditional retail assortment-mix and planning focuses on the product, today’s most successful brands focus

on the customer when making retail assortment planning decisions. To attract shopper traffic, companies now adopt a demand-driven, customer-centric assortment optimisation strategy. This is enabled by digital transformation, which in turn brings accuracy to the assortment mix and planning process.

- **People** – The definition of success, which was extensively around attracting and retaining customers and providing consistent customer experience earlier, has now expanded to encompass the employee aspect as well. Three primary building blocks that form the cornerstones of the digital transformation at workplace and have led to improved employee efficiency involve:
 - Empowering through simplification and building a community
 - Building people analytics capability
 - Training on demand




10. Way to go forward through sustainable practices

For a brand to be competitive in the long run, it needs to focus on sustaining its business practices and operations in a manner that addresses the triple

bottom line (3BL) parameters – social, environmental (ecological), and financial. There is a need for not only working towards sustainable profits for making the businesses economically viable, but also to deliver back responsibly to the society

and the ecology, for running the business as a two-way win-win model. Consumer businesses are seen injecting more sustainable measures into their operations to be more competitive and create a positive brand image.

Major sustainable practices in the industry

 Economic	 Environment	 Social
<ul style="list-style-type: none"> • Investing in programs related to education, training, etc. to enhance economic opportunities • Supporting local and small businesses 	<ul style="list-style-type: none"> • Promoting sustainable sourcing by fixing supplier standards • Reducing GHG emissions through the use of renewable energy • Applying waste management techniques to reduce wastes through recycling, donation, animal feed, etc. 	<ul style="list-style-type: none"> • Providing healthier products through natural offerings, or minimising the use of chemicals, additives, artificial flavours, etc. • Maintaining workforce diversity in terms of gender, nationalities, ethnicity, et al. • Helping communities by means of CSR activities

Source: KONNECTED to consumer



Case study: How a major hotel chain in India blended luxury with responsibility

The hotel undertook a massive rejig to offer a unique blend of 'responsible luxury'. The chain stands by its ethos of 'luxury without compromising the Earth and sustainability without compromising luxury' and is amongst the world's largest Leadership in Energy and Environmental Design (LEED) platinum-rated hotel. A few major sustainable offerings in the luxury hotel include:

- Using glass bottles, instead of plastic packaged
- Serving locally sourced food and food ingredients
- Operating a self-owned sewage treatment plant – 100 percent waste water from the hotel is recycled and reused for horticulture, flushing, and cleaning
- Operating water harvesting areas
- Providing in-house drinking water purification facility to save on transportation and logistics costs for potable water
- Using solar energy to meet nearly 20 percent of hot water requirements
- Operating a self-owned wind farm, powering the 600 luxury room hotel
- Using bio-diesel as a fuel in boilers and heat pumps, instead of wood/coal, reducing CO2 emissions, and saving energy sources
- Using an organic waste converter, to convert waste into compost – the hotel gives away this compost free of cost to local people

Each of the hotels under the company's chain embodies the principle of 'responsible luxury'. Nearly 60 percent of all the electricity requirements across the hotels are met through renewable sources, including wind and solar power. The in-house wastewater treatment plants ensure reduction in water consumption. Further, all excess recycled water is shared with local municipal authorities for their use.



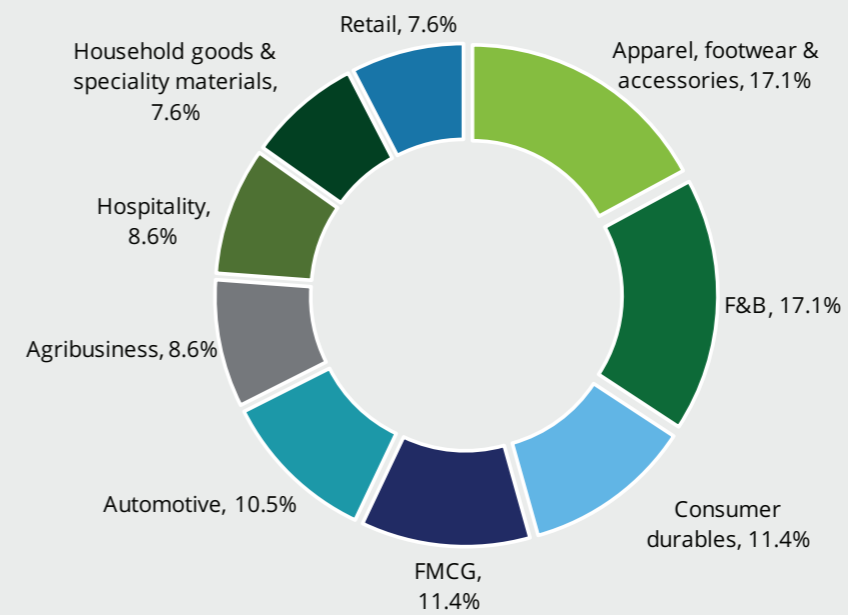


Performance of various consumer sub-sectors

This section analyses the performance of various sub-sectors within the consumer business space based on publicly available data of 105 consumer companies⁵⁰ by market capitalisation and revenues. These companies are part of at least one of the following sub-sectors within the consumer business space:

- Agribusiness (includes agri-feed, fertilisers, etc.)
- Apparel, footwear, and accessories (includes textiles and jewellery)
- Automotive (includes automotive vehicle manufacturers)
- Consumer durables and electronics
- Fast moving consumer goods (FMCG)
- Food and beverage (includes all companies in the food and beverage manufacturing space)
- Hospitality (majorly consists of hotels chains)
- Household goods and speciality materials (includes small household goods provider and home décor and other household items)
- Retail (consists of major retail chains operating in India)

Major consumer sectors - Share of sample companies



Source: MoneyControl.com, accessed on 2 February 2019; Deloitte Analysis

⁵⁰The 105 companies are selected based on publicly available data of consumer companies selected from the BT 500 list (The annual list compiled by Business Today of the top 500 listed companies) by market capitalization and revenues. Selection of companies have been done by Deloitte. Deloitte has accessed the published financials of these companies from www.moneycontrol.com on 2 February 2019. Analysis and representation of this data is carried out by Deloitte on its own.

Consumer sector briefings

Agribusiness: Agriculture, with its allied sectors, is the largest livelihood provider in India, more so in the vast rural areas, contributing around 17-18 percent to the Gross Domestic Product (GDP)⁵¹. Sustainable agriculture, in terms of food security, rural employment, and environmentally sustainable technologies such as soil conservation, sustainable natural resource management and biodiversity protection, is essential for holistic rural development. The Indian agriculture and allied activities have witnessed a green revolution⁵², a white revolution⁵³, a yellow revolution⁵⁴, and a blue revolution⁵⁵. The GoI encourages modernisation of the farming practices and provides support to farmers through its Budget outlays and policies.

Automotive: Increasing demand for autonomous and connected vehicles is expected to lead to a new era in the automotive industry. In the current scenario, India is one of the top ten automotive markets in the world and is expected to reach in the top three by 2020⁵⁶. Initiatives by the GoI, such as low-cost electrical vehicles, voluntary

vehicle fleet modernisation programme, Bharat Stage VI norms, etc. are expected to further redefine the outlook of automotive industry in the country. The industry allows 100 percent FDI under the automatic route and witnessed FDI worth USD19.3 billion during April 2000 to June 2018 period⁵⁷.

Apparel, footwear, and accessories: India's youth is highly brand and fashion-conscious. Over the recent decades, many leading garment manufacturers in India have become some of the major suppliers of readymade garments for the global market. Further, footwear is increasingly becoming a necessary style statement among all categories of population. Rising incomes, advent of globalisation, and improved employment and living standards in the country have led to the expansion in the market size of apparel, footwear and accessories.

Consumer durables and electronics: The consumer durables industry can be broadly categorised into two segments:

- Consumer electronics, such as televisions, laptops, cameras, computers, and audio systems
- Consumer appliances, such as

washing machines, microwave ovens, cleaning equipment, air conditioners, refrigerators, kitchen appliances, and other household appliances

The factors driving growth of the consumer durables and electronics market include increasing awareness, better access, changing lifestyle, and policy and regulatory changes such as relaxation of licence rules and approval of 51 percent FDI in multi-brand and 100 percent in single-brand retail. The government's increasing focus on investing significantly in rural electrification is expected to lead to a growing demand for durables like refrigerators as well as consumer electronic goods in the coming years in the rural markets.

Fast Moving Consumer Goods (FMCG): Consumer preferences in India are shifting from price of product to value for money. The government's focus on agriculture, MSMEs, education, health care, infrastructure, and employment is expected to drive the growth in FMCG sector. Companies in the FMCG domain plan to invest in energy-efficient plants and improved distribution channels to benefit the environment, lower costs and increase

the quality of goods. Further, there is an enhanced focus on rural markets as the companies realise the potential of Indian rural consumers.

Food and beverage: The GoI is focusing on expanding the food-processing sector and has announced several initiatives such as setting up mega food parks in collaboration with the Ministry of Food Processing Industries (MoFPI). The government has planned for several reforms to encourage private agricultural markets, online agricultural sales, and food-processing investments, which could eventually lower prices⁵⁸. Some of the industries constituting the food processing industry include grains, sugar, edible oils, beverages and dairy products.

Hospitality: The hospitality sector in India has the potential to become the main driving force behind the growth of the economy. It includes a wide variety of activities within the services sector and is a major job provider, both direct and indirect. The growth in the hospitality sector and its contributions to the GDP are likely to continue to be substantially higher than other sectors of the economy owing to an

increasing tourism potential in the country. The travel and tourism market offers a diverse portfolio of niche tourism products - cruises, adventure, medical, wellness, sports, eco-tourism, film, rural and religious tourism, restaurant and hotels, etc⁵⁹.

Household goods and speciality materials: The home décor market has experienced growth due an increasing demand in the residential real estate industry over the last few decades. In addition, an increased consciousness among home owners for stylish interiors and beautiful indoors as well as rise in disposable income and better education have together led to a rise in this category. As more and more customers are open and willing to buy online in this segment, the awareness among buyers is growing. To cater to consumers' increasing demands, manufacturers are now using performance apparel technologies in home textile products⁶⁰.

Retail: The Indian retail industry is expected to grow from USD795 billion in 2017 to USD1,200 billion by 2021⁶¹. The retail sector in the country is experiencing exponential growth, wherein retail

development is taking place in major cities and metros, as well as in Tier-II and Tier-III cities. The factors driving growth for the organised retail market include healthy economic growth, changing demographic profile, increasing disposable incomes, urbanisation, and changing consumer tastes and preferences. The purchasing power of the Indian consumer is growing in categories like apparels, cosmetics, shoes, watches, beverages, food, and even jewellery. India's price competitiveness attracts large retail players to use it as a sourcing base. Global retailers are increasing their sourcing from India and are moving from third-party buying offices to establishing their own wholly owned/wholly managed sourcing and buying offices. To increase investments, the government has approved 51 percent FDI in multi-brand retail and 100 percent in single-brand retail under the automatic route. This is likely to further boost the ease of doing business and 'Make in India'.

⁵¹<https://www.financialexpress.com/budget/india-economic-survey-2018-for-farmers-agriculture-gdp-msp/1034266/>

⁵²Green revolution is the period when Indian agriculture was converted into an industrial system due to the adoption of modern methods and technology such as the use of high-yielding variety (HYV) seeds, tractors, irrigation facilities, pesticides, and fertilisers.

⁵³White Revolution was one of the biggest dairy development movements by the Indian Government in 1970. It was a step taken by the Indian Government to develop and help the dairy industry sustain itself economically by developing a co-operative, while providing employment to the poor farmers. The White Revolution helped increase milk productivity and milk was now sold at competitive market prices. This programme increased the demand for development and production of healthy animals, use of modern technology in milk production sector, and networking between various small and large-scale dairy industries.

⁵⁴The growth, development, and adoption of new varieties of oilseeds and complementary technologies nearly doubled oilseeds production from 12.6 metric ton in 1987-88 to 24.4 metric ton in 1996-97, catalysed by the Technology Mission on Oilseeds, and brought about the Yellow Revolution.

⁵⁵Realising the immense scope for development of fisheries and aquaculture, the Government of India has restructured the Central Plan Scheme under an umbrella of Blue Revolution. The restructured Central Sector Scheme on Blue Revolution: Integrated Development and Management of Fisheries (CSS) approved by the government provides for a focused development and management of the fisheries sector to increase both fish production and fish productivity from aquaculture and fisheries resources of the inland and marine fisheries sector including deep sea fishing.

⁵⁶<https://www2.deloitte.com/in/en/pages/manufacturing/articles/considerationsforpurchase.html>

⁵⁷DIPP, GoI, accessed on 4 February 2019



⁵⁸<https://www.investindia.gov.in/sector/food-processing>

⁵⁹<https://www.investindia.gov.in/sector/tourism-hospitality>

⁶⁰<https://www.indiaretailing.com/2018/01/07/retail/14-brands-that-are-energising-the-indian-home-decor-segment/>

⁶¹Consumer LEADS, Deloitte, October 2018

Market capitalisation of consumer sectors

Top FMCG and automotive companies are highly valued in terms of market capitalisation. As outlined in the table below, the number of companies in the

FMCG and automotive sectors is less than the number of companies in food and beverage and apparel, footwear and accessories space, while their total market capitalisation numbers are much higher than the latter. This is also owing to the

FMCG and automotive companies being of a much larger scale relatively and doing significant volumes of sales as compared to top companies in other sectors.

S.No	Product Sector	Number of Companies	Total market capitalisation* – Feb 2019 (INR crore)
1	FMCG	12	9,83,501
2	Automotive	11	6,03,297
3	Food and beverage	18	4,70,836
4	Apparel, footwear, and accessories	18	2,38,528
5	Household goods and speciality materials	8	2,25,415
6	Retail	8	1,65,004
7	Consumer durables and electronics	12	1,38,190
8	Hospitality	9	61,924
9	Agribusiness	9	57,541

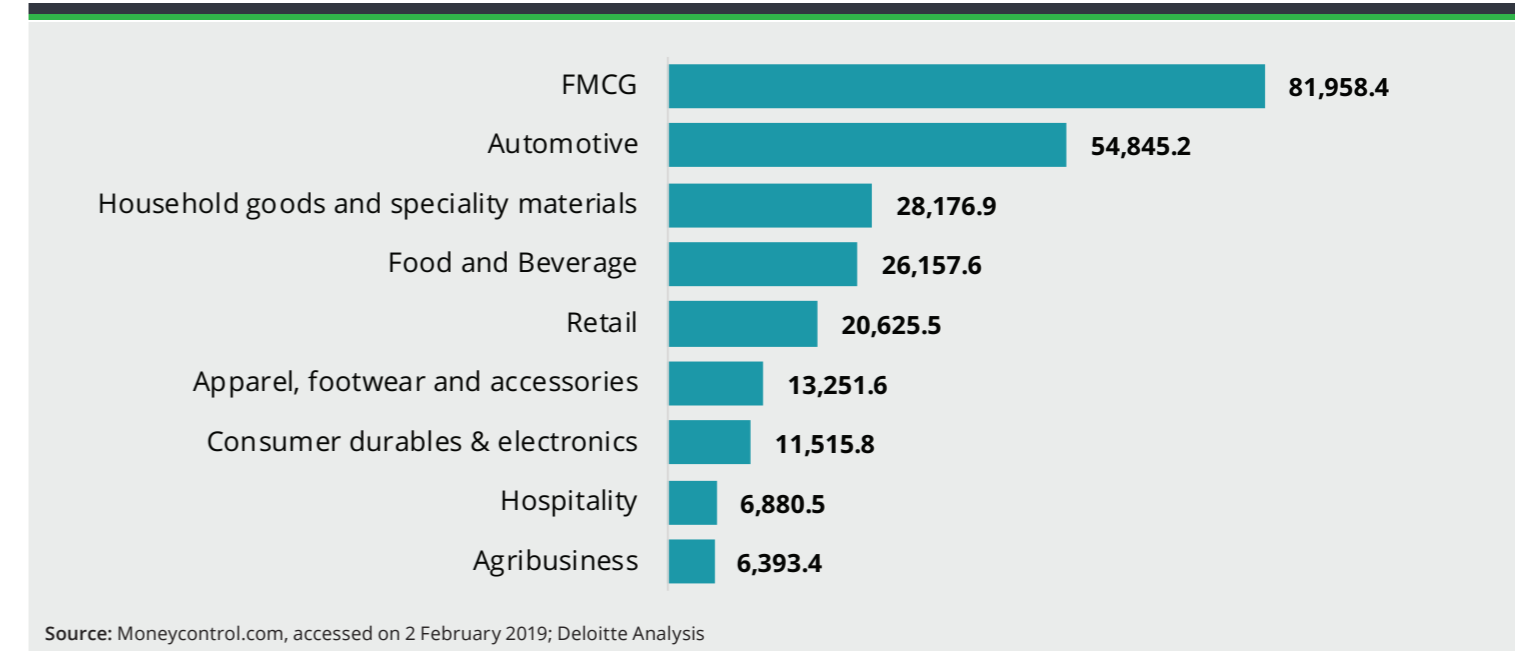
Source: Moneycontrol.com, accessed on 2 February 2019; Deloitte Analysis
 Note*: Numbers rounded off to closest non-decimal digit

In terms of average market capitalisation (calculated by dividing total market cap of the sector by the number of companies considered in that sector), FMCG and automotive sectors come out on top again. However, the average market cap

of companies providing household goods and speciality materials is higher than the market cap of food and beverage companies. Similarly, the average market capitalisation of retail companies is higher than the companies in apparel, footwear,

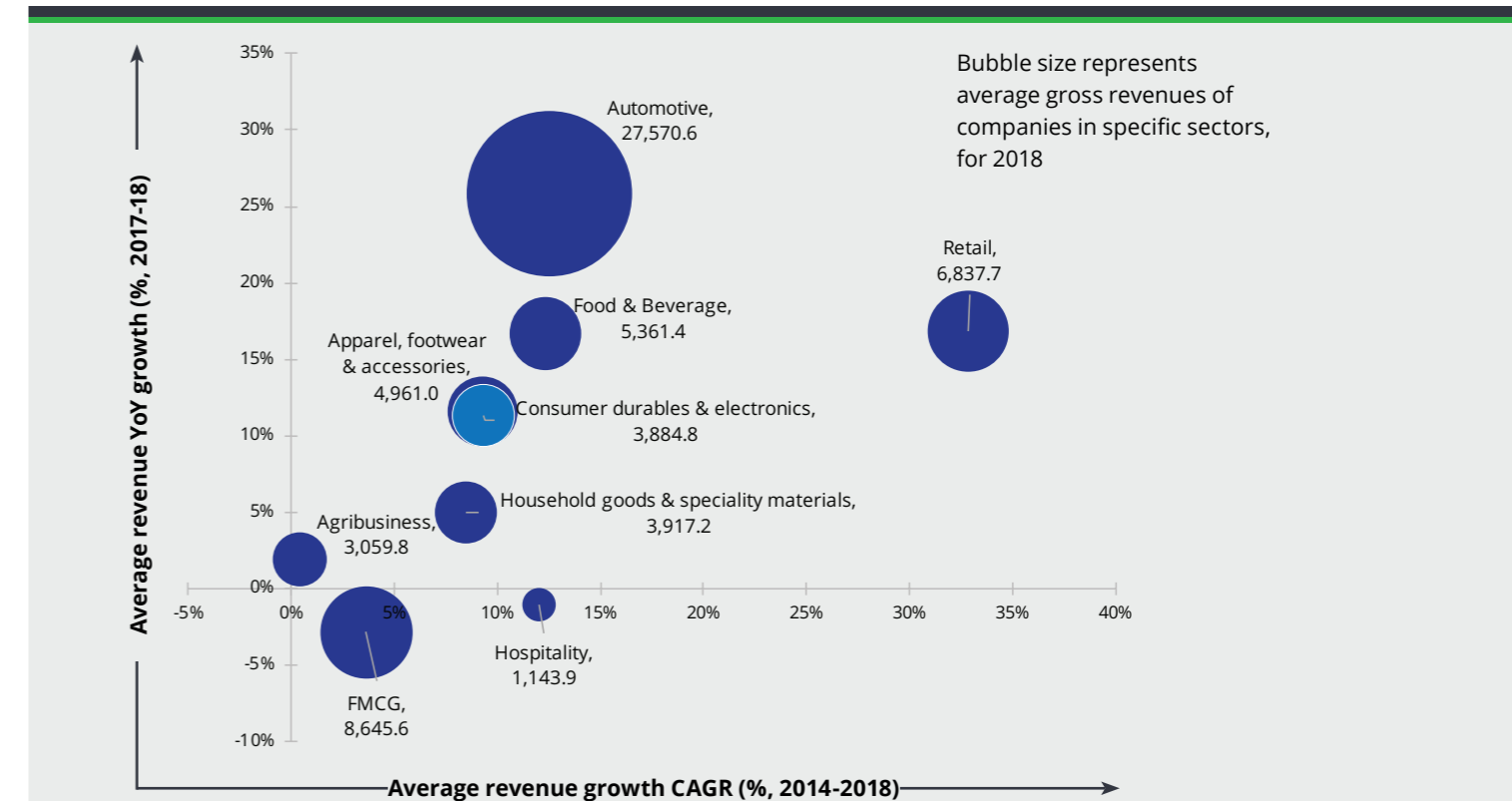
and accessories space although the total market cap of companies in the latter is more than the former. The market capitalisation of companies in hospitality and agribusiness is relatively lower, both in totality and on an average.

Sector-wise average market capitalisation (INR crore, February 2019)



Source: Moneycontrol.com, accessed on 2 February 2019; Deloitte Analysis

Analysis of financial performance of consumer sectors (revenues in INR crore)



Source: Moneycontrol.com, accessed on 2 February 2019; Deloitte Analysis

As can be seen from the chart above, in terms of revenues, average gross revenues of companies in the automotive sector are quite high. Similarly, average gross revenues of companies in the FMCG, Retail, food & beverage and apparel, footwear & accessories domain are also relatively higher when compared to other sectors such as household goods & speciality materials, agribusiness, hospitality,

consumer durables & electronics, etc. Companies in the retail sector witnessed fastest average revenue growth in the period 2014-18, growing at a CAGR of over 32 percent in the period. However, in terms of year-on-year growth, average revenue growth for companies in the automotive, retail and food & beverage sectors was relatively higher, at over 15 percent in 2017-18.

Historical financial performance of sectors based on average revenues and growth numbers of top companies under specific sectors

S.No	Product Sector	Average gross revenues 2018 (INR crore)	Average YoY gross revenue growth 2017-18 (%)	Average gross revenues CAGR 2014-18 (%)
1	Automotive	27,570.6	25.8%	12.5%
2	FMCG	8,645.6	-2.8%	3.6%
3	Retail	6,837.7	16.8%	32.8%
4	Food and beverage	5,361.4	16.7%	12.3%
5	Apparel, footwear, and accessories	4,961.0	11.6%	9.3%
6	Household goods and speciality materials	3,917.2	4.9%	8.5%
7	Consumer durables and electronics	3,884.8	11.3%	9.3%
8	Agribusiness	3,059.8	1.9%	0.4%
9	Hospitality	1,143.9	-1.1%	12.0%

Source: Moneycontrol.com, accessed on 2 February 2019; Deloitte Analysis

While the average revenues of top automotive companies are significantly higher than average revenues of top companies in any other sector, the average growth in revenues in 2014-2018 period is highest for retail sector at close to 33

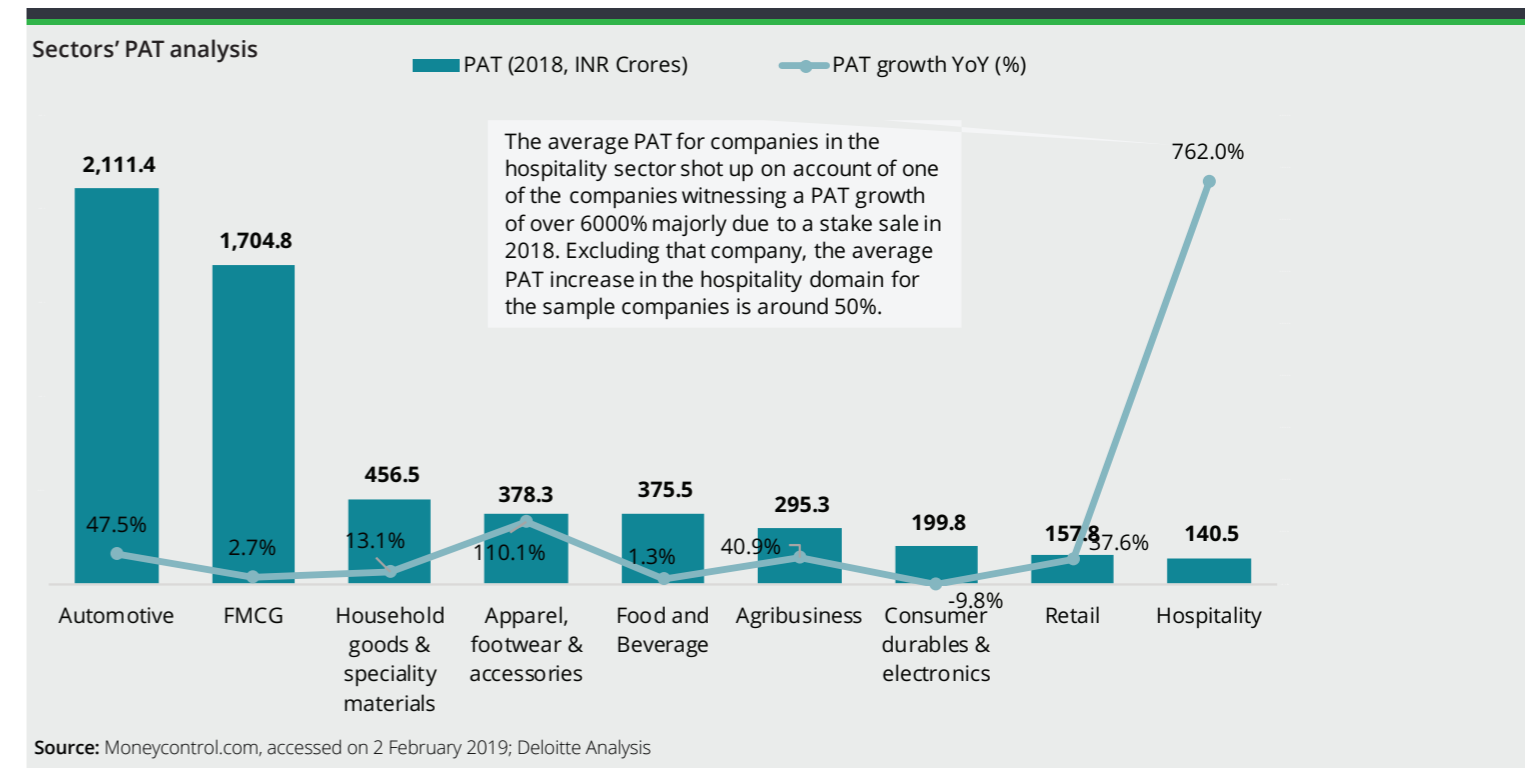
percent followed by automotive, food and beverage, and hospitality with 12.5 percent, 12.3 percent, and 12 percent growth, respectively, during the aforementioned period.

Analysis by profits in the sectors

Top automotive and FMCG companies reported significantly higher average profits (profit after tax – PAT) for FY2018 as compared to average PAT for companies in other sectors. However, in terms of year-on-year PAT growth, companies in

the apparel, footwear, and accessories domain witnessed significantly high profit margins as their average PAT increased by over 100% year on year in 2018. Similarly, companies in hospitality and automotive domains also reported high average profit margins for 2018⁶².

While companies in all other consumer sectors witnessed some increase in the profits relative to their previous years' performance, companies in the consumer durables and electronics sector witnessed a decline in their year-on-year PAT numbers by an average of about 10 percent in 2018.



As can be seen from the chart above, top consumer companies overall witnessed a good FY2018 in terms of financial performance. Given the strong

macro-economic factors and favourable demographics, the consumer industry, especially the retail sector, is expected to continue growing in the coming years.

Mergers and acquisitions

Major deals⁶³

The consumer industry also witnessed a good amount of mergers and acquisitions (M&A) in 2018. The number of deals

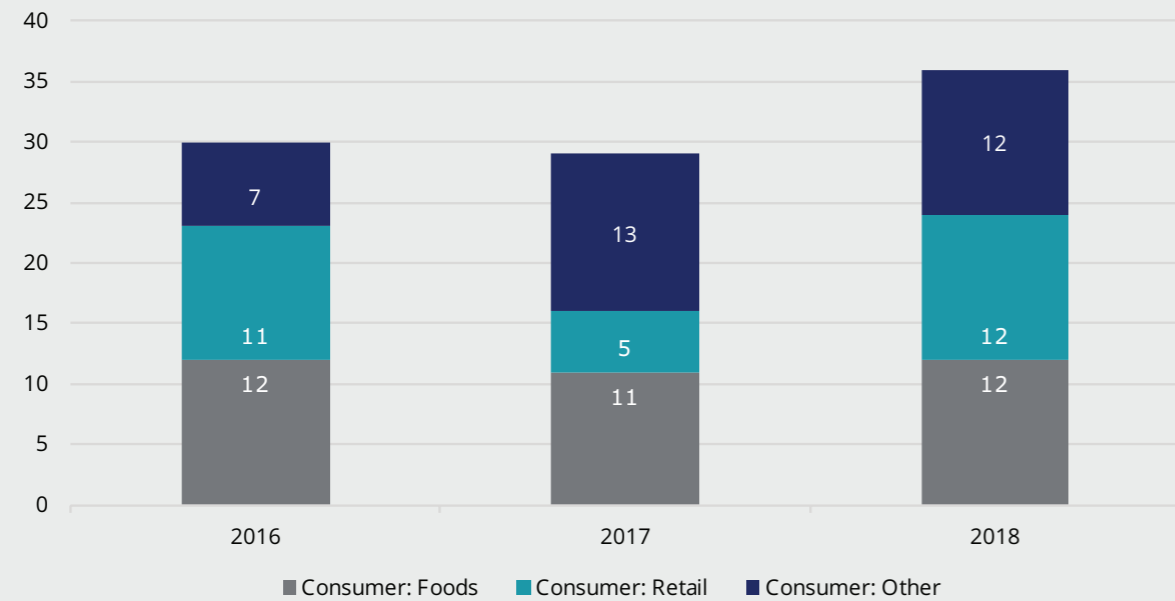
increased by nearly 25 percent from 29 in 2017 to 36 in 2018. The total deal value of the 36 deals was INR557.1 billion – a substantial increase of over 375 percent year on year.

M&A activity in the consumer (foods, retail, and other) industry in India

Year	Total number of deals (#)	Deals with disclosed value (#)	Total value of disclosed-value deals (INR million)	Average value of disclosed-value deals (INR million)
2018	36	31	557,133.69	17,972.05
2017	29	21	117,039.94	5,573.33
2016	30	26	105,930.84	4,074.26

Source: MergerMarket, Deloitte Analysis

M&A activity in the consumer (foods, retail, and other) industry in India, 2016-2018



Source: MergerMarket, Deloitte Analysis



⁶³The mergers and acquisitions details (including both the volume and value) are taken from the MergerMarket database. Deals in the consumer (food, retail and others) sector during 2016-18 have been taken. Deals include joint ventures, acquisitions, strategic alliances, and mergers.

Looking forward

The retail sector in India is an ever-changing domain and is suited well in the backdrop of the growth trajectory. The two main causes for this constantly changing sector are:

- Consumer behaviour, profile, and digitisation; and
- Competition and price wars, product and business model innovation.

The very nature of retail competition is changing due to the democratisation of digital technologies and barriers to entry fall. The retailer market share is fragmenting; as a result, these newer retailers are rampantly (although not always) turning digital and being accessed by customers online, and are operating with vastly different business models than their more entrenched counterparts. Smaller, online retailers are often more nimble from an assets and infrastructure

perspective as well, choosing, for instance, not to pay for their own costly data centres or call centres.

The next generation of retail technology is indicating the rise of the digitally influenced shopping experience and the tidal wave of exponential technologies on the horizon. One digital 'size' does not fit all customers within a marketplace. Going forward, the consumer industry is likely to experience newer approaches and bolder moves by many retailers and brands as they look to build differentiation and growth. Against the backdrop of the Indian and global economy that sets the stage for achieving globalisation, innovation, M&A activity, and increased digitalisation, consumer companies are likely to continue to reinterpret traditional levers to stimulate growth in a competitive business environment.

Abbreviations

Abbreviation	Details
AI	Artificial Intelligence
AR	Augmented Reality
BHIM	Bharat Interface for Money
BLE	Bluetooth Low Energy
Bn	Billion
CAD	Current Account Deficit
CAGR	Compounded Annual Growth Rate
CPI	Consumer Price Inflation
C2B	Consumer-to-business
C2C	Consumer-to-consumer
DIPP	Department of Industrial Policy & Promotion
FDI	Foreign Direct Investment
FMCG	Fast Moving Consumer Goods
F&B	Food and Beverage
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GVA	Gross Value Added
GST	Goods and Services Tax
Gol	Government of India
GCI	Global Competitiveness Index
IDC	International Data Corporation
IMF	International Monetary Fund
INR	Indian Rupee

IoT	Internet of Things
LEED	Leadership in Energy and Environmental Design
LTV	Long Term Value
Mn	Million
MNREGA	Mahatma Gandhi National Rural Employment Guarantee Act
M&A	Mergers and Acquisition
MMSME	Micro, Mini, Small and Medium Enterprises
MSME	Mini, Small and Medium Enterprises
Market Cap	Market Capitalisation
PAT	Profits After Tax
PoS	Point of sale
RBI	Reserve Bank of India
RFID	Radio-frequency identification
RoI	Return on Investment
Rs.	Rupees
SEC	Solar Energy Centre
UPI	Unified Payments Interface
USD	United States Dollar
VGF	Viability Gap Funding
VR	Virtual Reality
WEF	World Economic Forum
YoY	Year on Year

About Deloitte

All the facts and figures that talk to our size and diversity and years of experiences, as notable and important as they may be, are secondary to the truest measure of Deloitte: the impact we make in the world.

So, when people ask, “what’s different about Deloitte?” the answer resides in the many specific examples of where we have helped Deloitte member firm clients, our people, and sections of society to achieve remarkable goals, solve complex problems or make meaningful progress. Deeper still, it’s in the beliefs, behaviours and fundamental sense of purpose that underpin all that we do.

Deloitte Globally has grown in scale and diversity—more than 263,900 people in 150 countries, providing multidisciplinary services yet our shared culture remains the same.

About RAI

Retailers Association of India (RAI) is the unified voice of retailers in India. A not for profit organization, RAI works with all stakeholders for creating the right environment for the growth of modern retail industry in India. We encourage, develop, facilitate and support retailers to modernize and adopt best practices that will delight customers.

Contacts

Please contact us at
inconsumerbusiness@deloitte.com
for any information/assistance.

Deloitte Touche Tohmatsu India LLP

Indiabulls Finance Centre
Tower 3, 25th-32th floor
Senapati Bapat Marg,
Elphinstone Mill Compound,
Elphinstone (W)
Mumbai – 400 013, India

Acknowledgments

We thank the inputs provided by the following subject matter experts:

[Anil Talreja](#)

[Suvasis Ghosh](#)

[Shweta Gupta](#)

[Bhavesh Verma](#)



Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

This material is prepared by Deloitte Touche Tohmatsu India LLP (DTTILLP). This material (including any information contained in it) is intended to provide general information on a particular subject(s) and is not an exhaustive treatment of such subject(s) or a substitute to obtaining professional services or advice. This material may contain information sourced from publicly available information or other third party sources. DTTILLP does not independently verify any such sources and is not responsible for any loss whatsoever caused due to reliance placed on information sourced from such sources. None of DTTILLP, Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this material, rendering any kind of investment, legal or other professional advice or services. You should seek specific advice of the relevant professional(s) for these kind of services. This material or information is not intended to be relied upon as the sole basis for any decision which may affect you or your business. Before making any decision or taking any action that might affect your personal finances or business, you should consult a qualified professional adviser.

No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person or entity by reason of access to, use of or reliance on, this material. By using this material or any information contained in it, the user accepts this entire notice and terms of use.