

# Future of Retail Sector in India: Accelerating speed of Retail 4.0 in the “six feet economy”

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**ABSTRACT:** This research paper studies the retail industry in India amidst the pandemic. The industry has been very dynamic and has gone through various stages of development over the past 3 decades. The same wave of revolution expected in 2020, has been expedited due to changing consumer behaviors in the pandemic. The ultimate

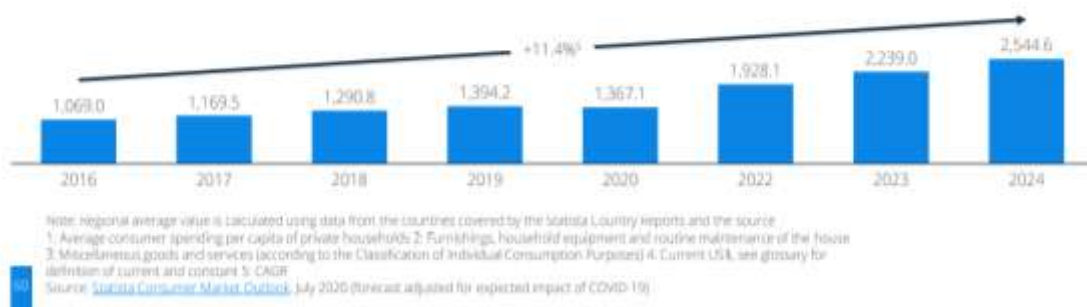
goal is an improved understanding of the Indian retail sector and what the major players need to do in order to develop and sustain a competitive advantage in the middle of the pandemic.

**Keywords:** Retail, Strategy, COVID, Amazon, Jio, Walmart, Future Group.

## I. RETAIL SECTOR IN INDIA

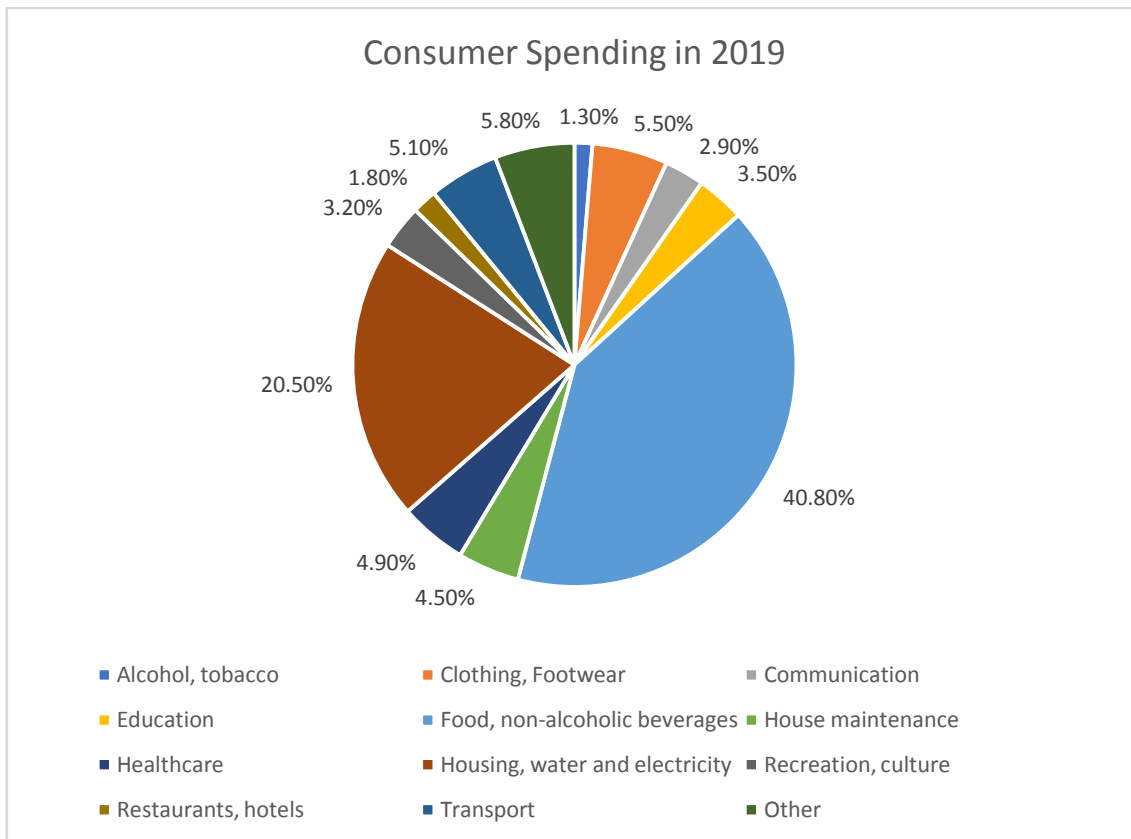
Retail sector has emerged as one of the most promising industry in India. The consumer spending has been on the rise ever since the 90's and is now expected to grow at a CAGR of 11.4% till 2024<sup>1</sup>.

Consumer spending<sup>1</sup> in US\$<sup>4</sup>



The retail sector in India can be broadly divided into various multi sectors basis the products. The major spending areas being **food and non-alcoholic beverages**.<sup>1</sup>

<sup>1</sup><https://www.statista.com/study/48366/india/>



The retail sector has been ever evolving in India. As per a BCG report<sup>2</sup> the retail sector has gone through 3 waves of change in the past 2 decades. The first wave was in the 90s which saw the following

- 1. Rise of modern trade stores:** There included stores like Shoppers Stop, Pantaloons from Future Group and Westside from Trent among others which catered to most household needs under one roof<sup>3</sup>.
- 2. Exclusive branded stores:** In 1995-96 first exclusive brand stores of Adidas, Reebok and Foodworld store from RPG came into being in India.

The second wave in the 2000s witnessed the entry of organized players like Big Bazaar, Future Group and Reliance with the following innovations:

- 1. Larger multi-category stores:** Big Bazaar, India's first hypermarket started operations in

2001. Hypermarket is a retail store that combines a department store and a grocery supermarket.<sup>4</sup>

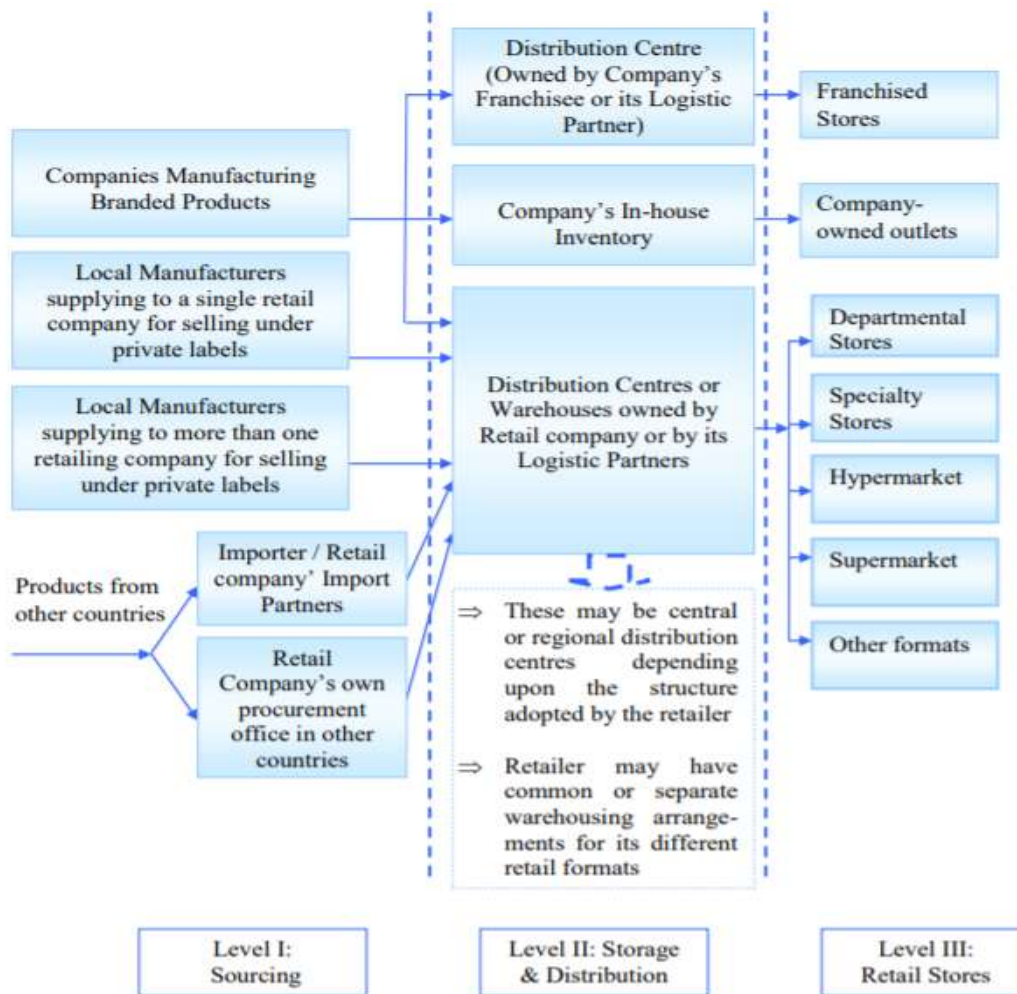
- 2. Organized supply chains:** With the advent of hypermarket stores in India, the supply chain management saw some formalization and innovation. The supply chain of modern trade stores back in 2009 looked like this<sup>5</sup>:

<sup>2</sup>[https://image-src.bcg.com/Images/BCG-RAI-Report-2020\\_tcm9-239844.pdf](https://image-src.bcg.com/Images/BCG-RAI-Report-2020_tcm9-239844.pdf)

<sup>3</sup><https://www.moneycontrol.com/news/business/modern-trade-picking-up-pace-outshines-traditional-stores-4602221.html>

<sup>4</sup><https://www.investopedia.com/terms/h/hypermarket.asp#:~:text=A%20hypermarket%20is%20a%20retail,appliances%2C%20clothing%2C%20and%20groceries.>

<sup>5</sup>[https://rasci.in/downloads/2009/Investment\\_Potential\\_Retail\\_Sector\\_India\\_2009.pdf](https://rasci.in/downloads/2009/Investment_Potential_Retail_Sector_India_2009.pdf)



The third wave in the 2010s the FDI permits (51% in multi-brand and 100% in single brands) has led to:

1. Introduction of various foreign brands like Zara, Ikea, H&M etc.
2. Introduction of e-commerce companies like Amazon, Flipkart, Snapdeal etc.

In the 2020s, a fourth wave of revolution in the India retail industry is expected. The following factors in the Indian ecosystem are expected to be the leading factors of the change<sup>6</sup>:

1. **Robust Demand:** The average consumer spending per capita is expected to be US\$2,544 by 2024<sup>1</sup>

2. **Increasing Investments:** The improvements in the ease of doing business index has led to increasing foreign investments over the years.

3. **Policy Support:** The easing FDI norms and favorable govt. schemes have helped the cause of retail sector. There are now plans to allow 100% FDI in ecommerce business<sup>3</sup>.

4. **Competitive Advantage:** With a burgeoning middle-class population, huge market size, economy of scope and low penetration in retail, India is a favorable destination for foreign retailers.<sup>7</sup>

<sup>6</sup><https://www.ibef.org/industry/indian-retail-industry-analysis-presentation#:~:text=Indian%20retail%20industry%20is%20one,Bank's%20Doing%20Business%2020%20publication.>

<sup>7</sup><http://www.iosrjournals.org/iosr-jbm/papers/Vol10-issue4/G01045762.pdf?id=5061#:~:text=India%20can%20get%20advantage%20of,players%20to%20invest%20in%20India.>

### The COVID impact: Changing Consumer Behaviors

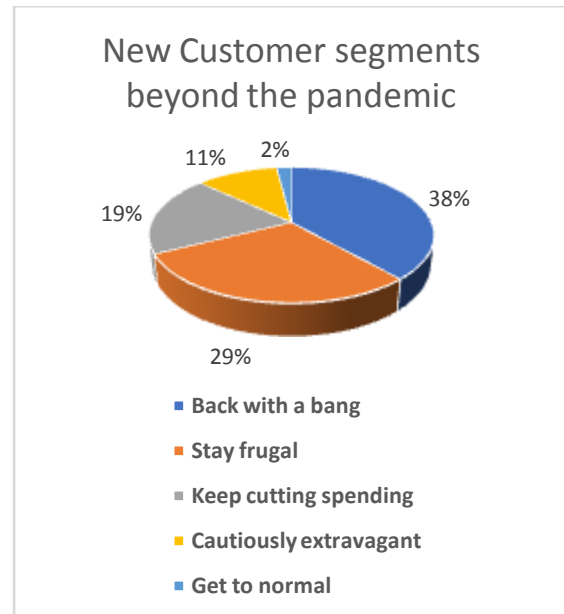
As per a recent report by Redseer consulting<sup>8</sup>, during the online festive season in October 2020, the rise in the number of consumers flocking to buy goods online has been one-fifth more than what was expected. The sales have been reported at **\$8.3 billion** as compared to the earlier prediction at **\$7 billion**. The offline retail has also seen a slump due to Covid. As per Redseer Consulting, “pandemic woos new shoppers from small cities, offline retail slump helps retail”.

As per an Accenture report<sup>9</sup>, 90% of consumers are making lasting changes to how they live, and this is expected to impact the Indian retail sector in irreversible ways. Some of the highlights of the report are as follows:

1. 85% of the consumers are now shopping more health-consciously
2. 48% of consumers are increasing purchases of personal hygiene products
3. 75% of consumers are more price conscious
4. 71% have an added focus on quality, safety and trust of the products
5. 74% are buying locally sourced products

Another interesting development during the pandemic has been the rise in **dependence on local Kirana stores**. A CPM India report<sup>10</sup>, has noted a sharp **increase of 44% in the sales** of Kirana stores. The lockdown has increased the consumer base of local stores by **60%**.

It is also expected that post Covid, these behaviors are going to sustain. As per a EY report<sup>11</sup>, five new customer segments will emerge:



<sup>8</sup><https://economictimes.indiatimes.com/tech/technology/flipkart-and-amazon-corner-88-share-of-festive-online-sales-report/articleshow/79434884.cms?from=mdr>

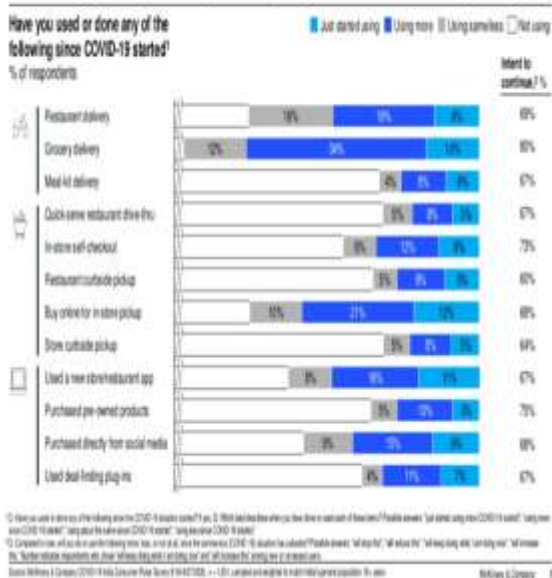
<sup>9</sup><https://www.warc.com/newsandopinion/news/indian-consumer-behaviours-permanently-altered-by-covid-19/43968#:~:text=Indian%20consumer%20behaviours%20permanently%20altered'%20by%20COVID%2D19,-2%20min%20read&text=A%20survey%20found%20that%2090,return%20to%20pre%2Dpandemic%20strategies.>

<sup>10</sup><https://www.indianretailer.com/article/whats-hot/trends/winning-during-disruption-a-perspective-on-kirana-stores-by-cpm-india-aims-to-understand-the-indian-retail-landscape-and-the-role-of-kiranas-during-the-lockdown.a6666/>

<sup>11</sup><https://retail.economictimes.indiatimes.com/news/industry/covid-19-pandemic-radically-changing-consumer-behaviour-in-india-ey-survey/76300366>

Another important trend in India has been buying online for **in-store pickup** including grocery deliveries. A McKinsey report<sup>12</sup> observed this trend to be widespread in India:

### Indians have adopted new digital activities during COVID-19, including grocery delivery and buying online for in-store pickup



It can be seen that customer behaviors have rapidly changed in India and the same is expected to continue over a period of time. Customers prefer to visit nearby local stores rather than visiting hypermarkets or malls. With health concerns and lockdowns in place, the dependency on online shopping has also increased and its adoption by smaller tier towns is now being expedited. Also, these changes are expected to continue after the pandemic is over. This requires the retailers to adopt to these changes and change their strategies to be successful in amidst and after the pandemic.

## II. RETAIL 4.0

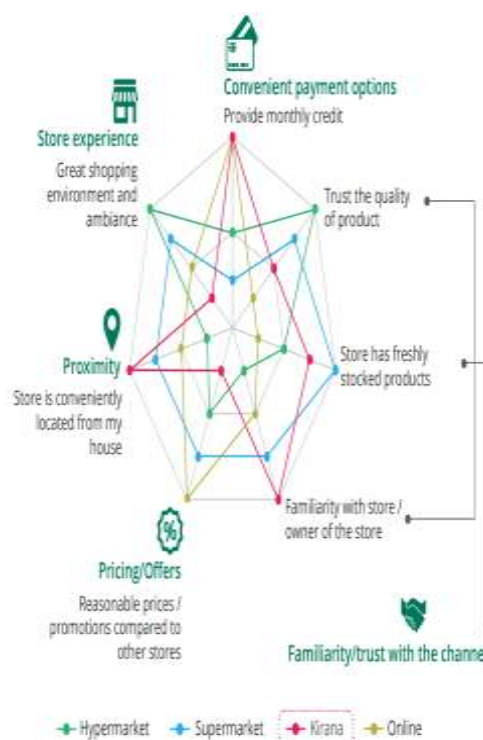
As per the BCG RAI report<sup>2</sup>, following changes were expected to take place in the 20s in Indian retail, however, with the advent of COVID, the changing consumer behaviors have forced the industry to expedite the process.

<sup>12</sup><https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/survey-indian-consumer-sentiment-during-the-coronavirus-crisis>

The following changes are expected to shape up the 4<sup>th</sup> wave of change in the retail sector:

- 1. Etail:** Since Tier II customers are shifting to etail faster than expected, top Retailers including Shoppers Stop, Reliance, Clarks India, Titan among others agreed the need to accelerate their digital presence in the wake changing consumer behavior, at the Retail Conclave 2020 held in September<sup>13</sup>.
- 2. Strategic Tie Ups:** With the rise in the dependence on Kirana Stores, top retailers are looking to tie-up with these Kirana stores in order to capture the large share of the market. Top retailers like Amazon, Jio-Mart and Walmart backed Flipkart have already started to woo India's Kirana stores, numbering close to **8 million**<sup>14</sup>.

### Kiranas associated with familiarity, proximity, monthly credit



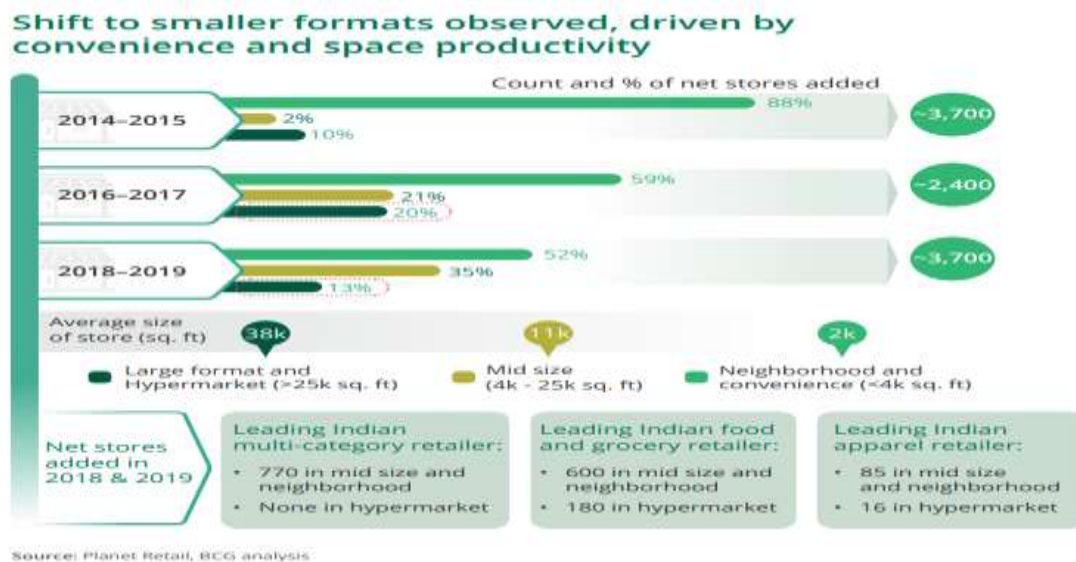
<sup>13</sup><https://www.livemint.com/news/india/online-becomes-key-for-retailers-as-consumer-preferences-shift-11600952252279.html>

<sup>14</sup><https://www.livemint.com/industry/retail/retail-india-set-for-a-recast-as-e-tailers-woo-kiranas-11587668948307.html>



**Convenient Retail:** Another change in the consumer behavior has been a preference for time saving as opposed to the earlier trend of enjoying bigger stores and spending more time on shopping. With this, the hypermarkets are staring at the

beginning of the end. Customers prefer smaller formats, where they can easily find products and quickly, and so there is slowing growth in the number of hypermarkets in India.



- Leveraging Gig Economy:** Many livelihoods have been lost due to the pandemic and the worst hit has been the gig workers. Due to this, major industries hiring gig workers, which includes the retail industry as well. Ecommerce companies like Amazon, Flipkart and online food delivery platforms like Swiggy have already started hiring Gig workers<sup>15</sup>.
- Private Labels:** Private labels have gained prominence over the past few years in many categories both online and offline and is expected to gain more prominence. As per a report by Nielsen, private labels sales have risen from **3.5% to 5%** in the first 5 months of lockdown in India since March.<sup>16</sup>
- Modern Supply Chain:** The disruptions in supply chain during COVID have been unprecedented both in scale and in severity. The pandemic has exposed the weaknesses of

the supply chain in India<sup>17</sup>. Speaking at the Global Business Summit, Devendra Chawla, MD and CEO, Spencer's Retail and Nature's Basket said, "Digital integration from end-to-end supply chain is required. Retailers have to up their game when it comes to experience during and post COVID."<sup>18</sup>

### III. FUTURE OF RETAIL IN INDIA

It can be finally concluded that retail has gone through leaps and bounds over the past 3 decades in India and it has come a long way from a fragmented industry of countless small players. However, as we progress, we have understood the importance of these small players.

Many trends like the dominance of online retail giants, large supermarket chains and technological breakthroughs in the supply chain

<sup>15</sup><https://indianexpress.com/article/jobs/festive-season-job-scenario-e-commerce-retail-amid-covid-19-pandemic-lockdown-7015955/>

<sup>16</sup><https://www.livemint.com/industry/retail/private-labels-share-in-modern-trade-grows-as-covid-turns-shoppers-economical-11600423485125.html>

<sup>17</sup><https://www.businesstoday.in/opinion/columns/covid-19-how-supply-chain-industry-is-adapting-to-coronavirus-lockdowns-e-commerce-retail-sector/story/408153.html>

<sup>18</sup>[https://www.business-standard.com/article/economy-policy/retail-experts-call-for-digital-integration-of-supply-chain-amid-covid-19-120092301277\\_1.html](https://www.business-standard.com/article/economy-policy/retail-experts-call-for-digital-integration-of-supply-chain-amid-covid-19-120092301277_1.html)

were predicted. Though they may have not exactly come true, a version of them has been observed over the years.

All these trends were expected to materialize and manifest completely over a few decades, however with the changing consumer behavior induced by the pandemic, these trends are expected to materialize earlier than expected. The shift to online purchasing preference, need for technological and strategic innovations in the supply chain have already started happening with online giants trying to make the most of the opportunities of the increasing demand. Preference of smaller nearby stores has also led to big partnership opportunities in the industry and the same is being seen as the next big game-changer.

It can be said that the next few years, especially once the pandemic gets over are going to be very interesting for the Indian retail industry. It will be interesting to watch if consumer behaviors of buying cautiously and from nearby stores/online retailers continues. Also, whether the retailers like Amazon and Flipkart continue with their price wars or is the war going to new arenas of Kirana stores tie-ups to reach more customers and improved supply chains.

Jio entering the industry has also been a major development and industry experts are watchful of every step it takes. The key question being, will it be able to disrupt the already dynamic industry, the way it did with Jio Telecom in the Telco industry.

Finally, the success and sustainability of retailers in India will depend on their ability to be flexible to changing consumer behaviors, with respect to store sizes, time saving, convenience and at the same time making most of the strategic partnership opportunities in the industry and leveraging gig economy and changes brought in supply chain by the pandemic.