Retail leadership summit 2014

Emerging Consumer Segments in India

February 2014
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- The ‘Rurban’ consumer

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## Executive Summary

### Buying behavior of emerging consumer segments

<table>
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<tr>
<th>Segment</th>
<th>Characteristics</th>
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</thead>
<tbody>
<tr>
<td><strong>First time users</strong></td>
<td>High aspirational value and significant input from influencers drive first-time consumers’ purchasing decisions.</td>
</tr>
<tr>
<td><strong>Bottom of pyramid</strong></td>
<td>Increasing media penetration and brand exposure have led to a noticeable change in the Bottom of the Pyramid segment’s buying behavior. Local influencers determine the purchasing habits of the Bottom of Pyramid (BoP) segment in small cities.</td>
</tr>
<tr>
<td><strong>Time starved</strong></td>
<td>Rapid urbanisation and lifestyle changes have increased time-starved consumers exponentially; they derive value from the quality of service.</td>
</tr>
<tr>
<td><strong>Emerging affluent</strong></td>
<td>Emerging affluent consumers can be characterized by a need to be treated differently than the masses.</td>
</tr>
<tr>
<td><strong>Value Conscious</strong></td>
<td>Typically less brand conscious, purchase in bulk and actively look for deals, which demonstrates their high promotion sensitivity, which may impact brand loyalty.</td>
</tr>
<tr>
<td><strong>Online Consumers</strong></td>
<td>The online consumer increasingly comes from newer regions, and factors other than price are emerging as key differentiators for retailers.</td>
</tr>
<tr>
<td><strong>Rurban consumers</strong></td>
<td>Rurban consumption is characterized by high brand consciousness and strong local tastes and preferences.</td>
</tr>
</tbody>
</table>

### Key learning’s from the successful business models

- Successful players have used influencers and reduced purchase related risks effectively to engage *first-time shoppers*.
- Successful business models for BoP consumers are typically built around low-cost delivery systems coupled with high degree of product customization and scalability.
- Catering to the specific requirements of time-starved consumers requires a different level of service delivery and supply chain scalability.
- Successful business models are increasingly relying on technology to access untapped segments of emerging affluent in small cities.
- Successful business models targeting value-conscious consumers maintain balanced revenues with tight costs through front end and back end innovation.
- Retailers are focusing on satisfaction on key service parameters and loyalty, which can be driven by strengthening front end operations.
- Leveraging existing ‘traditional’ setups and networks is the key to access “Rurban” consumers; technology is likely to be an important enabler.

### Common themes running across business models

- Leveraging technology is expected to become key to enhance reach and convenience.
- Supply chain innovation is key to optimize costs without compromising on service delivery.
- Emergence of hybrid models leveraging online and offline presence to target consumers in Tier 2, Tier 3, Tier 4 towns and rural areas. Ability to leverage existing infrastructure is key to profitably target such consumer segments.
Setting the context
While Indian retail is growing at a healthy pace, some consumer segments clearly ‘stand out’ and are fast gaining traction.

A mix of economic factors and changing consumer preferences has led to emergence of some key consumer segments in retail. Tapping them successfully could hold the key to sustainable growth for retailers.

- **Value conscious consumers**: The constantly deal seeking, value conscious consumer segment; impacted by economic factors such as high inflation, limited disposable income, etc.

Sources (refer appendix for details): Retailing in India Report – Euromonitor (July 2013), KPMG in India analysis
The consumer landscape is experiencing evolutionary undercurrents which is significantly impacting the way they shop.

Key consumer trends shaping segment profiles in India

- **Education**
  - The Indian consumer of today is better educated.
  - This has a direct implication on their various aspects of shopping such as the choice of brands, on how they decipher value, etc.

- **Age**
  - India’s population is likely to be youth dominated in the foreseeable future.
  - A large youth population base is likely to act as a catalyst for consumption driving retail. Typically, this is also the segment with young earners more open to experimenting.

- **Income**
  - India’s annual per capita income has almost doubled from INR 23,198 to INR 46,492 between 2010-11. India’s burgeoning middle class is likely to be a key driver of consumption in the coming years.

- **Economic scenario**
  - The Reserve Bank of India revised its GDP forecast for FY14* downwards in October 2013 to five percent from 5.5 percent.
  - Amidst a slowing economy, the consumers also had to face high inflationary pressure which is likely to have a negative impact on consumer sentiment.
  - Impact of this trend is increasingly reflected in the form of down trading of brands, higher price sensitivity, etc.

- **Media and technology**
  - Growing penetration of media & digital technology such as internet, cable and satellite are revolutionizing the way consumers shop.
  - On the one hand this has helped companies create pull amongst consumers, on the other hand they have increased buyer power by placing more information and newer channels of purchase at his disposal.

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<table>
<thead>
<tr>
<th>Year</th>
<th>Expenditure per student in higher education (PPP) in international USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>1893</td>
</tr>
<tr>
<td>2006-11 (%)</td>
<td>9.9</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Higher education students ('000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>25.1</td>
</tr>
<tr>
<td>2050</td>
<td>48.5</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Median age (years)</th>
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</thead>
<tbody>
<tr>
<td>2010</td>
<td>25.1</td>
</tr>
<tr>
<td>2050</td>
<td>37.9</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Deprived (below INR112,000)</th>
<th>Aspiers (INR112,000-250,000)</th>
<th>Middle (INR250,000-1,250,000)</th>
<th>Rich (more than INR1,250,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>1%</td>
<td>13%</td>
<td>29%</td>
<td>3%</td>
</tr>
<tr>
<td>2015-16 (e)</td>
<td>3%</td>
<td>34%</td>
<td>56%</td>
<td>43%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Internet user base (millions)</th>
</tr>
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<tbody>
<tr>
<td>Oct-12</td>
<td>146</td>
</tr>
<tr>
<td>Oct-13</td>
<td>205</td>
</tr>
<tr>
<td>Dec-13</td>
<td>213</td>
</tr>
<tr>
<td>Jun-14 (e)</td>
<td>243</td>
</tr>
</tbody>
</table>

Note: *FY refers to Financial Year.

Sources (refer appendix for details): Euromonitor, United Nations Department of Economic and Social Affairs / Population Division, Financial Express, IAMAI website, KPMG in India analysis.

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The objective of the RAI–KPMG study is to define the key emerging consumer segments and to derive key business learning for successful business models

1. Defining key characteristics of the emerging segments
   • Understanding how various sectors and companies define these segments and understanding their underlying profile and purchase characteristics.

2. Identifying cases of successful business models which have successfully targeted the identified segments
   • Identifying key levers of success for each of the segments and mapping the same to consumer profile and purchase habits.

3. Deriving implications and learnings for Indian retailers
   • Amalgamating learnings from cases and identifying key implications and the way forward for Indian retailers to successfully target and tap these consumer segments and developing inputs for business models.
The research methodology involved a mix of primary and secondary research of companies across sectors.

**Research sources**
- In-Depth interviews
- Online emerging segment survey with retailers
- Primary survey reports
- Company reports
- Industry journals and magazines
- Press releases
- Newspaper articles

**Primary research**
- KPMG in India primary research – sample details
  - **Survey overview**
    - 15 primary interviews spanning across sectors such as apparel, footwear, food service and retail real estate
  - **Player details**
    - Max Fashion, Catwalk, United Colors of Benetton, Pan India Food Solutions, Lulu Mall

**Case study development**
- Business cases were studied in detail over and above primaries across segments to identify success levers

**Developing inputs for business model**
- Select case studies from KPMG in India primaries and secondary research have been presented in the learnings section

**Business cases**
- **Time starved**
  - 5 business cases
- **Bottom of pyramid**
  - 7 business cases
- **First time users**
  - 6 business cases
- **Value conscious**
  - 5 business cases
- **Online consumers**
  - 7 business cases
- **Rurban consumers**
  - 8 business cases
- **Emerging affluent**
  - 4 business cases
Key research considerations

**Sectors for learnings**
The Indian retail sector trails other sectors such as FMCG and telecom in targeting and tapping certain emerging segments. Learnings from these sectors have been included in business model inputs as well.

**Bottoms up view**
Study includes a ‘bottoms up’ view as well as focus on how consumer behavior impacts company operations and strategy. This is done through an understanding of consumer behavior through consumer insight reports, store level interviews, etc.

**Segment definition**
While there may be slight variations in the way each company defines various segments, the study highlights some key underlying characteristics and purchase factors common across companies and considers them as the basis to map learnings for key business models.
Defining the consumer segments
The first time consumer

“Two other key factors that are driving first-time shoppers to modern trade — word-of-mouth publicity and a strong urge to explore and discover new products”
— Nielsen Insights, 2013
High aspirational value and significant input from influencers drive first-time consumers’ purchasing decisions

First-time consumers in the modern trade (MT) format

1. About 25 percent of all modern trade shoppers
2. About 33 percent belong to SEC C class
3. Purchase about 35 percent of their FMCG** from MT***

Source: Nielsen

30 percent

- Store-related factors such as deals, promotions and events

50 percent

- Consumer-related factors such as word-of-mouth publicity and the urge to explore

Key influencers of purchase (percent of shoppers)

- Impulse purchasers
- Planned purchasers

Low aspiration but narrow-minded (19%)
- Bold and affluent (17%)
- Footloose and happy-go-lucky (10%)
- Liberal with family values (29%)
- Guy / girl next door (10%)
- Trendsetters (15%)
- Aspiring but narrow-minded (19%)

Factors driving experimentation in youth*

- Youth consumption across various categories in India can be characterised as highly experimentative.
- Youth is the driving force behind the consumption of new products in several categories such as food service, media and personal care.

Youth psychographics

- There are encouraging trends from the Indian youth, and psychographic profiling reveals that there is a significant percentage of youth that has a liberal mindset, which is likely to encourage experimentation.

- Lower SECs contribute considerably toward this segment, which is reflective of growing aspirations. This drives the trial of new retail formats.
- High share of impulse purchasers in the segment is again reflective of high ‘pent-up’ demand and aspirations.
- While deals and promotions are important, the main factors driving footfalls include word-of-mouth publicity and the consumers’ urge to explore.

Keeping the aspirational value alive and generating word-of-mouth publicity could be key to maintaining high ‘attractiveness quotient’. Satisfactorily addressing the requirements and desires of new shoppers can drive footfalls.

Note: *refers to Hansa Research youth segmentation conducted amongst SEC A and B urban respondents aged between 16-25 years; ** FMCG refers to Fast Moving Consumer Goods; *** MT refers to Modern Trade Sources (refer appendix for details): Nielsen – The First Time Modern Trade Shopper report, Businessworld Marketing Whitebook 2013-14, KPMG in India analysis

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Consumer at the bottom of the pyramid (BoP)

“The Low Income Value Explorer or L.I.V.E, is typically constrained for resources and seeks to maximize value in every purchase across categories”
— Nielsen Insights, 2013

“At the end of the day it can’t be just about consumption. The business model itself has to be generative, should create wealth for the community, generate employment, create livelihoods and consumer surplus, and save time”
— Stuart Hart, co-author, The Fortune at the Bottom of the Pyramid (Mint, November 2013)
Increasing media penetration and brand exposure have led to a noticeable change in the BoP*** segment’s buying behavior

- The BoP segment in India continues to move up the consumption ladder. This movement is also marked by drastic changes in their consumption habits.
- The growth in incomes, however, is modest as compared to other segments — which implies that value consciousness would continue to significantly influence their purchasing decisions.
- While the urban BoP segment enjoys significant media exposure and is well-placed in the existing distribution networks of companies and retailers, value consciousness and growing aspirations are some common trends.

Retailers may need to introduce customised offerings to match the growing needs of the BoP segment. There is likely to be a shift from the retailers’ ‘product push’ strategy to the ‘pull’ strategy based on specific requirements of the segment.

**Key purchase habits and influencers**
- Shifting purchase to branded products and planned purchases contribute only 43 percent of the basket, indicating an experimental nature. This puts retailers in a strategic position of influencing the purchase of goods through key in-store levers.
- High media exposure — about 67 percent own color TVs or mobile phones — coupled with growing aspirations can potentially shape future demand trends in this segment. This provides a fertile ground to companies that aim to tap this segment.
- Essentially value seekers — price is a key determinant of purchase, bulk purchase is another way of dealing with increasing prices. The definition of value now transcends the traditional price barrier and there are other means to drive purchase and trial.

*Note: *L.I.V.E refers to Low Value Income Explorer identified as around 10 million bottom of pyramid urban households, **SEC refers to Socio Economic Class, ***BoP refers to Bottom of Pyramid

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Local influencers determine the purchasing habits of the BoP segment in small cities

The financial status of this segment puts it in a very precarious position while dealing with challenges that may hamper its movement up the consumption ladder.

For the less exposed, rural BoP segment, local influencers and community leaders play a key role in influencing purchase.

Non-traditional means of creating awareness such as Below-the-line initiatives have also provided a means of creating strong connect with local audiences.

Local village ‘haats’ or festivals contribute to about 25 percent of the rural shopping according to a 2011 Nielsen report.

Volumes are critical for success in this segment and companies are relying on several community influencers and social initiatives to push sales in the market.

While these channels have traditionally been used to overcome awareness and accessibility barriers to purchase, as the BoP** consumer becomes more discerning, they are likely to be used as an important channel to gauge consumer preferences as well.

Urban BoP may prove to be lower hanging fruits especially for new entrants. Reliance on local influencers is likely to continue being a potent influencer of purchase especially in the rural context.

Some popular themes used by companies to target BoP consumers

- **Health**: Leveraging themes such as lack of availability of nutritional products and need for preventive measures to fight diseases and maintaining well being
- **Education**: Targeting consumers by catering to the need gap created by lack of educational facilities in rural areas
- **Financial upliftment**: Using lack of adequate income sources to develop supplemental sources of income through entrepreneurship, etc.

Underlying need – aspiration for a better life and insecurity / threat from issues such as health, etc.

Some key influencers / channels of purchase

- NGOs*
- Local traditional retailers
- Community anchors like Anganwadis, village leaders, etc.
- BoP consumers themselves

Note: *NGO refers to Non Government Organizations; **BoP refers to Bottom of Pyramid

Sources (refer appendix for details): Nielsen – The Rural Indian Consumer – Dissecting the $100B Opportunity, KPMG in India analysis

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“The time-starved working Indian consumer, who is in no mood to spend an hour in the kitchen preparing breakfast, is adopting this new eating habit to suit her lifestyle.”
— Times of India, July 2011
Rapid urbanisation and lifestyle changes have increased time-starved consumers exponentially; they derive value from the quality of service.

Growing income + Hectic lifestyle →

Increasing emphasis on **convenience** is a deciding factor for purchase.

**Profile** — Typically small families residing in urban areas, where both the members earn, are tech-savvy and belong to the top 20 percentile income group.

<table>
<thead>
<tr>
<th>Income share (%)</th>
<th>Expenditure share (%)</th>
<th>Surplus income share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>51%</td>
<td>40%</td>
<td>76%</td>
</tr>
</tbody>
</table>

Sources (refer appendix for details): Business Standard website, KPMG in India analysis

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Emerging affluent consumers

“According to market estimates, around 35–40 percent individuals within emerging affluent are entrepreneurs. Customers within this segment in India are highly digital and adapt new technologies quickly as compared to other global markets.”
— Anand Selvakesari, Country Manager, Global Consumer Group, Citi India (ET, May 2012)
The emerging affluent segment is characterised by a need to be treated differently than the masses

**Key consumer traits**
- Typically young, upwardly mobile consumers with high exposure to the media and brands. As a result, this segment is generally aware of — and demands — superior products and service delivery.
- Typical needs are different from those of the mass market and include and value convenience, better / preferential services and tailored solutions / products.
- Consists of several consumers who have entered new set ups — through marriage, smaller families or moving out into larger cities for work.

**Key implications for retailers**
- Delivering on service parameters becomes important to ensure customer satisfaction. Retailers require to target, communicate and deliver on these ‘class apart’ service aspects to successfully target this segment.
- Retailers can attract these ‘new decision-makers’ through targeted campaigns and solutions for products and services that fulfill their daily requirements.

**Emerging affluent class definition — example**
- Typically earning between INR 300,000-15,00,000 an year.
- Around 35-40 percent individuals within emerging affluent are entrepreneurs.
- Customers in this segment in India are digital-savvy and adopt new technologies quickly as compared to those in other global markets.
- Globally connected, frequent travelers both to domestic and international destinations.

**Source**: Citibank

**High quality, variety and brand consciousness differentiate this segment from others. The need to 'stand out' and be serviced differently are important factors that this segment continues to value.**

**Income share of urban households earning INR 300,000-1,000,000 annually (%)**

<table>
<thead>
<tr>
<th>City</th>
<th>Income Share</th>
</tr>
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<tbody>
<tr>
<td>Pune</td>
<td>20.9</td>
</tr>
<tr>
<td>Kolkata</td>
<td>18.9</td>
</tr>
<tr>
<td>Bangalore</td>
<td>17.0</td>
</tr>
<tr>
<td>Chennai</td>
<td>16.3</td>
</tr>
<tr>
<td>Hyderabad</td>
<td>15.7</td>
</tr>
<tr>
<td>Surat</td>
<td>12.6</td>
</tr>
<tr>
<td>Raipur</td>
<td>30.0</td>
</tr>
<tr>
<td>Coimbatore</td>
<td>29.2</td>
</tr>
<tr>
<td>Amritsar</td>
<td>27.8</td>
</tr>
<tr>
<td>Ahmedabad</td>
<td>27.1</td>
</tr>
<tr>
<td>Kanpur Nagar</td>
<td>26.6</td>
</tr>
<tr>
<td>Bhopal</td>
<td>24.1</td>
</tr>
<tr>
<td>Nagpur</td>
<td>22.8</td>
</tr>
<tr>
<td>Jaipur</td>
<td>22.7</td>
</tr>
<tr>
<td>Lucknow</td>
<td>22.5</td>
</tr>
<tr>
<td>Indore</td>
<td>22.1</td>
</tr>
<tr>
<td>Ludhiana</td>
<td>21.3</td>
</tr>
</tbody>
</table>

Clearly, non-metros stand out in terms of income share from the INR 300,000-1,000,000 segment.
The online consumer

“Consumers in smaller markets observe fashion trends closely and are now at par with the fashion sense of tier 1 cities like Delhi and Mumbai”
— Manu Jain, Co-founder, Jabong.com (ET, February 2013)

“Typically urban and above-average in affluence, India’s digital shopper isn’t regarding e-commerce as just an alternative channel”
— Nielsen Insights, 2012
The online consumer’s purchase basket is constantly evolving, as they include more categories, driven by value consciousness and convenience.

- Youth constitutes a considerable proportion of the online users with India’s youth comprising a significantly larger share than the global internet users.
- Convenience is a key determinant of online shopping — which is evident from the dominant share of mobile phones across consumer segments.
- The gender split of users is skewed towards men, as women constitute only 39 percent of the internet user base in India.

Increasing openness to purchase new categories presents an opportunity for retailers and companies to increase their consumer base, provided they succeed in achieving the right value proposition.

**India’s online population — modes of access (%)**

- **Total = 164.81 million (March 2013)**
  - Broadband: 13%
  - Narrowband: 14%
  - Mobile: 87%

**Age profile of online consumers**

- **Global**
  - 15-24 years: 13%
  - 25-34 years: 20%
  - 45-54 years: 26%
  - 55+ years: 26%
- **India**
  - 25-34 years: 39%
  - 35-44 years: 36%

**Dominant categories and key emerging categories**

- Apparel: 21%
- Computer software: 16%
- Comparison shopping: 15%
- Consumer electronics: 13%
- Computer hardware: 11%
- Food: 80%
- Tickets: 26%
- Jewellery / luxury goods: 25%
- Fragrances: 18%

**Intention to purchase categories online**

- Mobile phone: 50%
- Computer/game software: 45%
- Entertainment tickets: 38%
- Books/newspapers/magazines: 36%
- Travel: 35%
- Digital camera/MP3/MP4/GPS: 33%
- Computer/game hardware: 31%
- Household appliance: 30%
- Video/music publication: 29%
- Apparel/accessories/shoes: 25%

- Though high-end segments such as apparel and consumer electronics dominate the online retail segment, new segments are increasingly gaining popularity.
- The growth of categories such as grocery retailing can be attributed to a mix of increasing comfort with trying new ‘non-traditional’ categories coupled with improved value.

Sources (refer appendix for details): TRAI Report – Indian Telecom Services Performance Indicators, comScore – India digital future in focus 2013, Nielsen – Advent of ‘Me’ tailing, KPMG in India analysis
The online consumer increasingly comes from newer regions, and factors other than price are emerging as key differentiators for retailers.

- Growing aspirations and incomes in smaller cities, coupled with lack of availability of products is the key factor driving e-tailing in smaller cities.
- Additionally, increasing internet penetration in smaller cities has acted as key enabler for the growth of e-tailing in these areas.

<table>
<thead>
<tr>
<th>Share of revenues from smaller cities* (%)</th>
<th>Jabong.com</th>
<th>~ 50%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Myntra.com</td>
<td>~55%</td>
</tr>
<tr>
<td></td>
<td>Indiatimes.com</td>
<td>~40%</td>
</tr>
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</table>

**Important reasons for shopping online during festivities**

- Increased convenience and on-time delivery
- Aggressive online discounts
- Option of 24X7 shopping and price comparison
- Increasing variety of products online
- Increasing fuel prices
- Security concerns

Online retail is also turning out to be a popular option for shopping during festive season.

**Growth of internet penetration in smaller cities**

- 29% in 2006
- 37% in 2011

**Key issues**

1. Wrong delivery
2. Defective products
3. Lack of warranty
4. Delay in delivery / refunds

| 27 percent increase in consumer complaints for e-commerce firms between 3Q12 and 2Q13 |

- While price is an important factor for purchase, delivery on service parameters such as on time delivery, delivery of right products, etc. is also important for e-tailers.
- A growing sensitivity towards the service aspects is visible from the nature of issues cited by the consumers.

Non-delivery on service aspects such as on time delivery and timely refunds may impact consumer satisfaction.

Note: *Approximate contribution from Tier 2 and 3 cities as reported in the Economic Times article in February 2013; ** refers to cities with less than 5 lakh population

Sources (refer appendix for details): Economic Times website, ASSOCHAM website, IMRB website, KPMG in India analysis

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The value conscious consumer

“Deal seeking is now combined with growing preference for bulk packs acting as an important strategy to neutralize the impact of rising prices”
— Nielsen Insights, 2012

“Even though the average size of the family has shrunk over the years, along with decreasing sizes of houses, the new generation customer is still willing to pick up goods in wholesale if convinced of quality and value”
— Vaibhav Singhal, Founding Director, Savemax (Progressive Grocer, April 2013)
Value-conscious consumers are typically less brand conscious, they purchase in bulk and actively look for deals.

- The consumer confidence index is in sync with increasing inflation and slowing economic growth.
- As a result, consumers, especially in urban areas, have also resorted to reducing discretionary spending in several categories.

Inflation expectation and salary change in 2012 over 2011

- Inflation to be lower in 2012
- Inflation to be higher in 2012
- Inflation to be same as 2011

- Decrease in salary in 2012
- Increase in salary in 2012
- Same salary as 2011

Change in shopping behavior due to increasing prices

- Shoppers have responded to increasing prices by buying essential items and buying in bulk.
- The bulk buying trend is especially prevalent in modern trade. This presents a major opportunity for retailers and companies, provided they get the right price and size.

Reduced brand consciousness presents an opportunity for new products to increase the share of a customer’s wallet. Targeted marketing, promotions and sales can play an important role in tapping this segment.

Note: *MT refers to Modern Trade

Sources (refer appendix for details): Credit Suisse India Consumer Survey 2013, Nielsen website, Nielsen Report – Understanding India’s New Breed of Shoppers, KPMG in India analysis

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The segment of deal-seekers demonstrates high promotion sensitivity, which may impact brand loyalty

Shoppers are increasingly becoming attuned to the discount culture and are actively seeking discounts in their day-to-day shopping sessions as well.

Percentage of shoppers actively seeking offers

- More shoppers are now increasingly seeking offers while shopping.
- Retailers have responded to this trend by launching events such as deal weeks, changing the product mix and tweaking existing store formats.

Varying degree of cost consciousness exists among consumers across the pyramid

- Nielsen identifies Low Income Value Explorers — a BoP segment seeking lower price points, typically belonging to SEC E, also engaging in bulk buying.
- IMRB has identified a segment of cost-conscious buyers (typical of middle class) in the upscale luxury domain as well. Price consciousness is driven more by perception than income.

Shoppers’ response to promotions

- There is a noticeable and increasing impact of promotions on the consumers’ choice of brand.
- The deal-seeking behavior has spiked during 2011-12, primarily in the existing set of stores.

Impact of sales weeks* — share of total sales

- Event weeks organised by retailers have struck a chord with the price-conscious consumer. The success of such events is evident from their contribution towards driving the sales of retailers.


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The ‘Rurban’ consumer

“Delhi and Mumbai currently contribute 45 percent of our sales; the rest comes from cities like Lucknow, Kanpur and Raipur. The revenue for the company from smaller cities would only grow in the next few years”
— Eberhard Kern, MD and CEO, Mercedes Benz (ET, November 2013)

“Local marketing techniques and efficient supply chains help the brand become strong in a particular region”
— Nikhil Joshi, MD, Sapat Tea (ET, October 2012)
Growing aspirations of the underserved Rurban segment has resulted in consumers adopting newer channels of purchase to overcome inherent purchase barriers

Key characteristics

1. High density urban centers account for merely 4-5 percent of the land area
2. Districts with <50 percent urban population can be considered semi-urban, and they account for over 90 percent of land area
3. Districts with <20 percent urban population can be considered rural and they account for over 45 percent of land area

- While awareness on various products and services is increasing due to growing media and internet penetration, trust continues to be a key factor driving purchase in the rural context
- Companies in sectors such as FMCG increasingly rely on ‘trust channels’ and BTL** activities to increase sales and awareness.
- Even luxury brands are increasingly engaging with consumers directly and through local partners in small cities

While awareness on various products and services is increasing due to growing media and internet penetration, trust continues to be a key factor driving purchase in the rural context
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- Even luxury brands are increasingly engaging with consumers directly and through local partners in small cities

Consumption is increasingly shifting to more ‘urbane’ categories, driven by high aspirational values.
- Value growth is primarily pull-driven rather than distribution-led, indicating significant growth potential.
- Consumers are increasingly taking to online modes to meet aspirations in the absence of brand outlets.

Some key high growth categories in 2011 included cheese, hair conditioners, jams and jellies and aftershave lotions.

Companies are increasingly reaching out to the ‘Rurban’ consumer with the help of local partners acting as key influencers.

- Rurban markets refer to locations apart from top tier cities that are vastly untapped and are home to the majority of the Indian market.

Key trust channels influencing purchase

- Direct distribution
- Greater small retailer engagement
- Trust channels
- Influencing community anchors
- Community initiatives (education and health)

Small town contribution in FMCG sales (%)

- 40 percent

Percentage of FMCG sales contributed by small towns and cities

- 40 percent

Note: * refers to cities with less than 5 lakh population. **BTL refers to Below the Line, ***FMCG refers to Fast Moving Consumer Goods
Sources (refer appendix for details): Indian Express website, Mint website, Economic Times website, Business Standard website, TAM website, Progressive Grocer, Hindustan Times website, KPMG in India analysis

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Rurban consumption is characterised by high brand consciousness and strong local tastes and preferences

High brand consciousness

- Popular brands in sectors such as food and beverage, apparel and beauty salons are expanding in tier 3 and 4 cities, often aided by franchisees or other forms of local partnerships.
- Online players have stepped in to fill the demand-supply gap created by the lack of physical stores in these cities.

Strong local tastes and preferences

- Rurban markets are highly fragmented and composed of unique consumer subsets where consumption is heavily influenced by local tastes and preferences.
- Several regional brands catering to specific needs of local consumers have strong presence in various categories aided by local marketing techniques and efficient supply chains.
- Examples include Sosyo (soft drink brand in Gujarat), Sapat Tea (west India) and Today tea (north India).

Highly heterogeneous and fragmented markets

- Glaring unavailability, coupled with increasing income and aspirations, has led to major pent-up demand in this segment.
- This also puts channels such as local retailers and influencers in an important position to drive growth in this segment.

## Purchase characteristics

- **High brand consciousness**
- **Strong local tastes and preferences**

## Market share of top 10 regional F&B brands

<table>
<thead>
<tr>
<th>Region</th>
<th>Market Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>North</td>
<td>~13%</td>
</tr>
<tr>
<td>South</td>
<td>~30%</td>
</tr>
<tr>
<td>East</td>
<td>~28%</td>
</tr>
<tr>
<td>West</td>
<td>~18%</td>
</tr>
</tbody>
</table>

## Availability of various products per 1000 stores

- Confectionary: High in metros, low in 1-10 lac towns and rest of urban.
- Butter/margarine: Similar availability patterns as confectionary.
- Jams/jellies: Low availability in metros, moderate in 1-10 lac towns, high in rest of urban.
- Vermicelli/noodles: High availability in metros, low in 1-10 lac towns, moderate in rest of urban.
- Twin blades: High availability in metros, moderate in 1-10 lac towns, low in rest of urban.
- Hair conditioners: Similar availability patterns as twin blades.

## Share of revenues from smaller cities

<table>
<thead>
<tr>
<th>Website</th>
<th>Share of Revenues (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jabong.com</td>
<td>~50%</td>
</tr>
<tr>
<td>Myntra.com</td>
<td>~55%</td>
</tr>
<tr>
<td>Indiatimes.com</td>
<td>~40%</td>
</tr>
</tbody>
</table>

Amid growing brand consciousness, companies may also need to cater to strong ‘local’ tastes of Rurban consumers, which may involve tweaking the product, marketing and supply chain as well.

Note: *Approximate contribution from Tier 2 and 3 cities as reported in the Economic Times article in February 2013. **Nielsen data published in Economic Times in October 2012.

Case studies
Approach and criteria for the evaluation of cases of successful business models that have successfully targeted the identified segments

Collate cases of successful business models that have successfully targeted the identified segments

Effective identification and targeting
Identifying and responding to the fast evolving consumer landscape by serving well-defined target consumer segments through unique and relevant offerings.

Uniqueness and relevance of offering
Material benefit to consumer in terms of price, service, options availability and experience

Retailer Impact
Tangible benefits to retailers on parameters such as footfalls, shelf take-offs, profitability, repeat purchase and visibility.

Sustainability
Continuously evolved effectively innovative models such as partnership with local and small retailers / farmers for the development of sustainable business models

Key learnings
Amalgamating learning from cases and identifying key implications and business model input for Indian players to successfully target and tap these segments
First-time consumers

Case study — Sangeetha Mobiles: targeting first-time mobile phone users

- Founded in 1999, Sangeetha Mobile is one of the largest mobile store chains in south India with over 200 stores in Karnataka, Tamil Nadu, Andhra Pradesh and Pondicherry.
- It generated revenue worth INR 5.4 billion in FY13 and plans to expand operations to north India as well.
- It started as a music company in 1974 and is regarded as a pioneer of mobile retailing in India.

The business model

- The company’s competitiveness is defined by the wide range of services it offers.
- It is the first retailer that pioneered services such as mobile insurance, EMI schemes, exchange offers, doorstep services and exclusive android applications.
- The company has followed a company-owned company-operated (COCO) model for expansion in south India and plans to adopt the franchising route for cities in north India.

Addressing challenges and market needs

Trust for first-time buyers

- It introduced Sangeetha Swift, an insurance scheme with a single-window claim redressal system where the mobile handset is replaced within seven days of receiving the claim. Other companies typically do not either offer this scheme or take a long time to replace handsets.

Convenience for buyers

- It introduced Sangeetha Delight, a premium service where consumers’ defective phones are collected from their houses and they are provided with standby phones until their phones are repaired. This facility can be availed any number of times in a year for a one-time fee of INR 99.

Promotional offerings to overcome price barriers

- Sangeetha Mobiles organizes an annual anniversary sale that is not only a major awareness-building initiative, but also an opportunity for first-time buyers to try latest phones before buying them. Similarly, its ‘zero is hero’ scheme, which offers mobiles at a margin of INR 1 along with assured gifts, has been a hit among consumers. These schemes are offered across all brands.

Achievements and plans

- Sangeetha Mobile’s per square feet sales is increasing by INR 40,000 per year. In FY14, it is expected to reach INR 10 billion.
- Sangeetha Mobiles is planning major expansion in north India, especially in Delhi, UP and Haryana.

Target consumer...

... though it has caters to several segments, its success lies in capturing and retaining first-time mobile phone buyers.
BOP consumers

Case study — GSK’s Horlicks Mission Health: targeting rural communities and BOP consumers through local influencers

• GSK Consumer Healthcare is a leading healthcare company and a subsidiary of its U.K. parent – GSK.
• GSK’s flagship brand Horlicks, is available in rural markets with SKUs ranging from INR 5 sachets to a 2 kg pack costing approximately INR 300.

The business model

• Over the last 1.5 years, the Rural India business of GSK was set up by appointing 7000 rural distributors.
• These micro distributors ensure access of nutritional products to over 10,000 villages.
• Product launch takes place in every village through key stakeholder meetings aimed at building commitment towards the movement. Key community enablers for continued growth include:
  
Targeting local schools and actual consumers (kids)

• Each month, a set of activities are conducted in the village at schools, public health platforms and village doctor.
• These activities have a distinct theme and health messages are delivered through the format of stories, games and local traditional folk music-based songs.
• In schools, students are involved through songs, stories and games. There is also a “Sehat ke Sipahi” (The Health Police) program where students become health messengers and create awareness amongst the community.

Anganwadis (to target females - the decision makers)

• Through public health networks (Anganwaadis), a ‘Mothers workshop’ is run for pregnant / nursing mothers.
• The idea is to create the realization – traditionally unknown – that a mother must first take care of herself.
• This messaging, and useful, practical tips around healthcare are embedded in stories and traditional songs. Each mother also gets her free health check up done.

Achievements and plans

GSK Consumer Healthcare has doubled its top line since 2009 to more than INR 30 billion - a compound annual growth rate (CAGR) of 19 to 20 per cent.

The company is planning to touch billion serves of Horlicks in 2014.

Sources (refer appendix for details): Business Today website, Economic Times website, Changemakers.com website, KPMG in India analysis

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**Business model: ideal to cater time-starved consumers**

- **The offering:** Araamshop.com offers daily essentials such as laundry supplies, cereals, butter, jam, cereals, lentils, bakery items, sweets, milk, spices, coffee and tea through its website.
- The customer first searches the nearest neighborhood local grocery stores by refining their search on the basis of name, pin codes, location, maps or they choose to view all 'Araamshops' available, and then selects one store on its website.
- Once this shop is selected, the customer is asked to specify a delivery time of their choice.
- Once the user selects the desired items, adds them to the shopping bag and checks out, a confirmation e-mail and text message is sent with the amount and time of delivery.

**Key factors driving strategy for these players:**

- **Trusted neighborhood retailers:** Collaborations with trusted neighborhood retailers ensures that there are no perceived barriers related to trust while buying.
- **Zero inventory model:** No investment in back end infrastructure or supply chains, which eases the scalability of the model — important for increasing reach and delivering on the 'convenience' proposition of the company.
- **Convenience is key:** Take orders on phones/internet and provide doorstep delivery. Provide powerful feature of shopping lists, and reminders on the shopping lists (or Quick Order Lists) to ensure consumers are never out of day-to-day essential products.

**Source:** Company website, Economic Times, KPMG in India analysis

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Emerging affluent consumers

Case study — Catwalk Worldwide: providing affordable and disposable fashion to the emerging affluent Indian women

- Established in 1990 by Mr. Asif Merchant, Catwalk Worldwide is one of the leading premium footwear brands with a pan India presence.
- The company retails its footwear under collections named as Pret, Teen, Chic, Formal, Comfort and Bridal. The company’s target audience is in the age group of 18 to 40. It targets consumers within the income group of 5-20 lakhs and above.

The business model: Success factors

- Operates through specialty stores and departmental stores format as shop-in-shops, such as partnerships with Shoppers stop
- Strong and standardised operating systems such as national cost saving programs, investments in IT and logistics
- Focus on upgradation of store image/look with brighter, modern aesthetic renovations and more efficient and productive design concept
- Focus on under-penetrated online model of business to further leverage its unique positioning. Generates ~10 percent business through online sales.

Achievements and plans

- **Strong position in Indian footwear market:**
  - 0.8% - Luxury
  - 3.5% - Premium Non-Leather
  - 7.3% - Premium Leather
  - 9.6% - Active sports
  - 26.5% - Mass market
  - 53% - Mid/economy

- **At present, Catwalk has 350 shop-in-shop stores and 30 standalone stores. It plans to rapidly expand over the next two years.**

- **Catwalk Worldwide has been growing at a CAGR of over 20 percent for the last five years.**

Source: (refer to appendix for details of sources), Discussions with company management, KPMG in India analysis

Addressing challenges / Strategy adopted

- **Induce benefits through loyalty programs**
  - Catwalk has introduced a loyalty program for its customers named Advantage Catwalk. With exclusive offers and benefits, the organization has built and leveraged 75,000+ loyal customers who help to generate over 40 percent business.

- **Investments in IT infrastructure**
  - In order to reduce costs, Catwalk has made significant investments in IT infrastructure and logistics to keep a close control and track on its business operations. It has developed its own ERP system, Retails Unlimited (RU) for its IT operation.

- **Prepared to beat the international competition**
  - Footwear market is likely to see stiff competition from the international players in the future. To remain competitive in this market, Catwalk has hired international consultants, developed in-house designers network and formed alliances/JVs with large players for its manufacturing and logistics domain.

I feel really confident about my current business model, partnerships and JV structures to continue to derive future growth of business.

- Mr. Asif Merchant, Managing Director
Value conscious consumer

**Case study — Max Fashion: targeting value-conscious patrons by providing fashionable products at affordable prices**

**Context**
- Launched in 2004, Max is the international value fashion brand of the Dubai-based Landmark Group. It delivers international fashion products and value to the discerning shopper at affordable price points.
- Key highlights of Max’s business model, which differentiates it from others:
  - **Fixed stock turn model:** Due to a homogeneous profiling of its consumers, the company deals with limited SKUs and has a faster inventory turnover than other players — this is important for a player operating in the value segment.
  - **Sharper pricing:** Popular price point ranges from INR 200–600. This price range lures mall- visiting youngsters into impulse shopping.
  - **Better returns:** About 95 percent sales from private labels, in-house design team and a high turnover ratio enable better returns for the business.

**Success factors**
- Customer-centric strategy for the Indian market
- Absolute control over inventories through majority of company-operated stores
- Cost control through 95 percent private labels and penetration into malls
- Leverage brand equity of the Landmark group

**Achievements**
- Revenues: INR 1000 cr. (~35 percent CAGR since launch)
- 90 stores in top 40 cities in India
- Focus on ‘word to mouth’ marketing
- Plans to add 25 more stores
- More campaigns in colleges and on the social media

**Target consumer…**
- Fashion-conscious Indian youth in the 25–35 years age group
- Who earns ~INR 50,000–70,000 per month and belongs to small, white-collar families
- Who is highly aware about fashion and latest trends

**Action taken / strategy adopted**
- **In-house designers team:** Max retails its own merchandise, which follows its in-house designs. A team of 40 designers enables it to introduce fresh collection of international designs customised for the Indian market every season.
- **Introducing ‘fast fashion’:** The Indian youth is characterised by high aspirations and awareness on latest global fashion trends. To cater to this segment, Max ensures quick replication (within four weeks) of Landmark’s international stores’ fashion inventory in its Indian stores.
- **Operates through large format stores:** To provide enhanced shopping experience, Max chiefly operates through large format, company-owned stores.
- **Focus on malls:** Almost 70 percent of the brand’s outlets are located in malls, as malls report maximum footfalls for Max’s target consumer class of youngsters between 25–35 years. The average product price of INR 300 results in more impulse purchases in malls than in high streets. Malls also provide better in-store shopping experience than high streets.

**Knowledge about product, retail operations, real estate, global and local fashion and domain is the key to run business today**

**Mr. Vasanth Kumar**
Executive Director, Max Fashion

Sources: Discussions with company management; KPMG in India analysis

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Online consumer

Case study — Pepperfry’s managed marketplace model for online consumers

- Pepperfry was launched in January 2012 with a focus on the furniture and home merchandize category and it is the leading online player in this category.
- Pepperfry’s selection and category choices reflect actual consumption spends, where a major share of the Indian customer’s expenditure is spent on buying products for their homes and jewelry.
- Its revenue growth has gained traction and has crossed INR 1 billion in January 2013.

Business model

- Pepperfry follows the ‘managed marketplace’ model, which is a hybrid of the marketplace models (eBay’s facilitation model between sellers and buyers), and the one followed by players such as Myntra.com that manage inventory and logistics as well.

Potential assessment

- The company identifies products that are unique and have high sales potential to post them on its portal.

Merchant selection and on-boarding

- The company contacts merchants and craftsmen, typically small businesses and early-stage entrepreneurs and signs them up for production.

Placement of products on portal

- The company takes the onus of photographing products and preparing their descriptions and marketing plans.

Post sales service

- The company manages post-sales processes like quality control, shipping and customer support.

Addressing challenges and meeting market requirements

Maintaining service standards

- Loss of service quality is typically higher in the marketplace model than in an inventory-based model. Pepperfry tries to address this issue by intervening right from the merchant selection process to post-sales services. It also manages various aspects of products, such as quality, packaging logistics and listing.

High degree of customization as available in physical stores

- Pepperfry has also adapted its model to offer increased customization in select categories. For example, customers can personalize furniture by sharing designs, which merchants can design keeping in mind the desired modifications (such as dimensions and type of wood polish).

Cost benefits to consumers

- Pepperfry appeals to the value conscious Indian consumer, as it passes on the benefits of low costs to them. It maintains low overhead costs by working directly with suppliers (essentially craftsmen, jewelers and entrepreneurs).

Extensive offerings from an unique set of merchants

- Increased engagement of small business and artisans has led to the development of a unique portfolio of offerings.

Achievements and plans

- Currently, Pepperfry is India’s leading furniture, home and living destination, offering more than 45,000 products.
- Pepperfry crossed a turnover of INR 1 billion within a year of its launch.
- It has also secured funding worth USD 8 million, which it aims to utilize to strengthen its position in the home and living segment.
- Pepperfry has also secured funding worth USD 8 million, which it aims to utilize to strengthen its position in the home and living segment.

Target consumer....

...about 50 percent of Pepperfry’s customers are women, which is reflected from its home and jewelry business.

Sources (refer appendix for details): Pepperfry website, Business Standard website, Indian Retailer website, KPMG in India analysis
Case study — Big Bazaar Direct: combining physical and direct marketing

- The Future Group had launched Big Bazaar (BB) direct in 2013 – a hybrid e-commerce and physical retail model.
- The model is targeted at smaller Tier II and III cities and rural areas to start with, which have low organised retail penetration.
- The initiative was launched in Vidharba district to start with, to be expanded to north eastern parts of Maharashtra and Gujarat in the next phase.
- The products on offer will be non-perishable items start with and will focus mainly on categories such as groceries, electronics and furniture.

Target consumer:
....Smaller cities and rural India with little or no exposure to organised retail format
....Consumers seeking convenience and value (deals) from the comfort of their homes

Achievements and plans
- Well received by the target group, the company plans to have 50,000 Big Bazaar direct franchisees by the end of 2014 across India.
- After the pilot launch and initial assessment, the company plans to get a healthy INR 500,000 from each franchisee each year.

The business model

Step 1
The franchisee approaches the consumers door-to-door with a tablet with 1000 deals other than ones available in BB

Step 2
The customer enters his address and places the order selecting from the catalogue present with the franchisee

Step 3
The customer gets order confirmation on mobile phone and the payment is made to the franchisee

Step 4
The order is processed and delivered to the consumer in 3-7 days. Additional shipping charges for order less than INR 500

Addressing challenges and market needs

High infrastructure and maintenance costs in stores
- Sweating current assets in nearby hubs by extending reach of store through asset-light mechanisms

Technological illiteracy in Rurban areas
- Employing technology-customer interfacing franchisee, in-charge of guiding consumers on making orders

Lower penetration of technology
- Enabling franchisees with technology capable of being used to place the customers’ orders

Low penetration of non-cash payment modes
- Using franchisee to collect cash ahead of delivery, thereby eliminating associated risks with cash related modes of payment for online purchases

Sources (refer appendix for details): Business Standard website, Hindu Businessline website, Next Big What website, KPMG in India analysis

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• Founded in 2011, eDabba is an e-commerce portal, focusing on Rurban locations, that has adopted a hybrid ‘brick and click’ model of operations.
• It is present in more than 2000 towns across 28 states selling about 40,000 SKUs (stock keeping units) across segments such as books, electronics and décor. It also provides eTicketing option through more than 500 trust points.
• The site has collaborated with several physical retailers and sells their wares online, typically products and brands which are not easily available in small cities.

The business model

Channel 1
Consumer

Partner retailer

Consumer

eDabba.com

Channel 2
Partner retailer

Consumer

Partner retailer

Consumer

Product flow

Payment flow

• Channel 1: Consumer – eDabba
• Channel 2: Consumer – Partner - eDabba

• In addition to the direct online order system, which is usually followed by other retailers, eDabba.com provides an option to place an order at one of the partnering retailers as well.
• Delivery can be made directly to consumers or to retailers’ outlets. Retailers earn commission on each transaction.
• Simple franchise requirements have facilitated the rapid expansion of trust points.

Addressing challenges and market needs

Low exposure of Rurban consumers to goods

• eDabba provides a single platform where consumers with diverse profiles or backgrounds can browse and purchase products across categories

Low penetration of credit / debit cards

• Consumers can choose to place orders to partner retailers, thereby benefiting from the option of paying by cash

Lack of trust in information security (sharing account details)

• Consumers unwilling to share bank account / card details can opt for products to be delivered to the nearest partner retailer and collect it after making a cash payment

Rurban consumers requiring assistance in shopping

• Partner retailers can assist consumers in browsing and purchasing products of their choice owing to strong linkages between the company and partners.

Achievements

The company had a turnover of INR 190 million in FY13 and is targeting sales of INR 800-1000 million in FY14

Presently, the firm is catering to more than 10,000 orders each month with an average ticket size of INR 5,000

It has also secured funding of INR 45 million from an angel investor firm for expansion.

Target consumer....

...Rurban consumers residing in small cities and rural areas of India

...including those who have less or no exposure to online retail

Sources (refer appendix for details): Etailing India website, eDabba website, Nextbigwhat website, Techcircle website, KPMG in India analysis

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Key learnings and implications for retailers
Successful players have used influencers and reduced purchase related risks effectively to engage *first-time shoppers*

### Key learnings

#### Consumer

- **Consumers urge to explore** is a key factor driving purchase from first time consumers in categories such as organised retail.
- **Word of mouth** plays a big role, especially while stepping out of the comfort zone or trying out something new.
- This presents a **big opportunity** to retailers since a large part of their target segment may themselves come knocking at retailers’ doors.
- Purchase is often reliant on inputs from **influencers**, who may often accompany the shopper depending on the category.

#### Companies

- Successful players have effectively dealt by **overcoming the risks** associated with a first time purchase through innovative means. Examples include offering retailer insurance, free returns, spot trials and returns etc.
- Successful players have also **adapted their pitch** to deal with first time consumers – training salespeople to hand hold consumers, sensitisation to cultures, homely etiquettes, etc.

### Inputs for a successful business model

1. **Plan and prepare capacity**
   - Under-planning can play a spoil sport for the best consumer engagement efforts. Common examples include sale events organised by several retail chains where consumers often face basic issues like lack of adequate counters and staff, etc. This also includes sensitising the staff to the needs of the first time shopper, training for adequate hand holding, etc.

2. **Deliver to ensure positive word of mouth**
   - While dealing with any new category, new market or new segments positive word of mouth plays a critical criteria for inducing trials. It hence becomes important to ensure that the desired expectations are met before the target consumer exits the store. This becomes especially important during the first purchase occasions where typically maximum drop-outs happen.

3. **Provide reassurance and a reason to revisit**
   - The first time consumer often seeks reassurance of his decision post purchase. It does not necessarily mean after sale service, it may also include simple communication and personalised reminders.

4. **Influence the influencer**
   - A first time shopper may often be reliant in varying degrees to inputs from influencer. It is critical to reach out to such influencers proactively and incentivise purchase.

5. **Reduce ‘perceived’ risk associated with purchase**
   - It is a critical barrier to purchase and may go beyond monetary risks, to include reputation risk, social risk, health risk, etc.

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Several categories are now experiencing consumer aspirations and urge to explore bringing consumer to the store. Retailers need to do adequate groundwork in terms of staff, training, capacity, assortments to ensure this ‘moment of truth’ is not lost.
Successful business models for **BOP consumers** are typically built around low-cost delivery systems coupled with high degree of product customisation and scalability.

### Key learnings

**Consumer**
- Below poverty line consumers’ purchase is increasingly determined by growing media penetration, which presents a big opportunity for new entrants.
- Price continues to be the key determinant of purchase as the rate of income increase in this segment has been much lower than other segments.
- BOP itself is a highly heterogeneous segment with proximity to cities and urban areas being a key determinant of purchase behavior as well as potential for companies.

**Companies**
- Patience is a ‘must have’ – for any mutual benefit proposition to bear fruit on desired scale, the company has to be invested for the long term.
- Successful companies have invested in knowing the challenges and limitations faced by their company as a first step towards product innovation. While aspirations for better and ‘urbane’ products do exist, they are outweighed by desires to overcome existing challenges.

### Inputs for a successful business model

1. **Mind the costs**
   - Price is a key factor for purchase and is likely to remain so for this segment in the foreseeable future. An efficient backend will form the backbone of any BOP offering. Models for this segment have the highest failure rates, which necessitate strong monitoring mechanisms.

2. **Ensure and plan scalability**
   - Volumes are the key to getting returns in the BOP segment. Hence any offering should be positioned for a large enough consumer base to make the investment sustainable.

3. **Look for a mutual benefit proposition**
   - The BOP consumer is better exposed to media, which has made him more discerning. Still, he continues to experience issues related to income, health and education which may provide inroads into the consumption basket through relevant influencers.

4. **Target the more profitable sub-segments**
   - Barring a few players, not many have gained access to a vast population of BOP consumers. Often degree of investment might be a constraint. It is important to keep in mind that BOPs don’t just mean rural consumers. Many players have leveraged their urban infrastructure to identify, plan and expand in specific BOP sub-segments close to existing hubs – through a calibrated ‘cluster’ approach.

Increasing media and technology penetration provides an opportunity for new players to establish their foothold in the market.
Catering to the specific requirements of time-starved consumers requires a different level of service delivery, which only a few retailers have been able to deliver.

### Key learning

**Consumer**
- Hectic urban lifestyles, coupled with growing incomes, has led to the growth of this segment that values convenience.
- Typically small families, where both members earn and reside in urban areas, belong to high or middle income class and demand value-added products at their convenience.
- Time-starved consumers are tech savvy, hence prefer placing orders over phones/tablets and expect doorstep deliveries. They are ready to pay a premium for better services and value convenience.

**Companies**
- Retailers, who serve time-starved consumers, become servile to prosper. This means transforming your brand into a lifestyle focused on catering to the needs, desires and whims of customers, wherever and whenever they are.
- Successful retailers / servile brands that cater to time-starved consumers are easily accessible (online/neighbourhood store), deliver value-added services, offer spot trials and returns and customised delivery time at consumers’ doorsteps.
- They also charge a premium to dispense value-added factor along with convenience.

### Input for a successful business model

1. **‘Convenience’ is the key**
   - Successful retailers have ensured convenience as key priority for Indian time-starved consumers. Their business models have employed a mix of services such as taking orders over phone / internet, spot trials and return and customised delivery time at their doorsteps.

2. **Need to be at par with tech-savvy consumer**
   - Time-starved consumers are heavy internet users and expect instant information and believe in instant gratification to be built-in their offline experiences. Successful retailers have made noticeable investments in technology and social media to develop a strong and fully integrated network of customers and suppliers.

3. **Focus on sales growth and cost management**
   - Players are collaborating with traditional formats to make a positive impact on sales as well as cost management. Successful models need not require high investment — there are several ‘facilitators’ that meet the existing demand with the available supply, the key is targeting the right segment.

4. **Business-friendly supply chain**
   - Certain successful retailers have adopted the ‘zero inventory’ model — which doesn’t involve any investment in back end infrastructure or supply chains. This results in ease of scalability of the model — which is important to increase reach and deliver on the ‘convenience’ proposition of the company.

Opportunity exists for retailers to tap the ‘convenience’ potential that exists in this segment by addressing the current need gap. A significant overhaul of both back end and front end delivery systems may be required to facilitate this change.
Successful business models are increasingly relying on technology to access untapped segments of emerging affluents in small cities.

### Key learning

#### Consumer

- Affluent class consumers have been emerging rapidly in India for the last couple of years. They are young middle-class working professionals / entrepreneurs with high exposure to the media and brand awareness.
- As a result, this segment is generally aware of — and demands — superior products and service delivery.
- These consumers can be characterised by a need to be treated differently than the masses. Demand for superior quality, variety and brand consciousness differentiates this segment from others.

#### Company

- Retailers identified it as a huge potential segment a few years ago and that’s why a majority of organised retailers have been targeting this segment.
- Successful retailers have tweaked their business models to follow a ‘more, better, now’ approach in serving clients. Investing in technology, promoting brands using the social media and introducing global trends to India are some of the key strategies adopted by all retailers.

### Input for a successful business model

1. **Strong and standardised operating system**
   - Successful retailers have invested in trained manpower and vendor selections to ensure smooth business operations. Trained staff helps to deliver impactful customer services.

2. **Strong aspirational quotient attached to the brand**
   - Aspirational shopping is high in case of emerging affluent consumer. To prosper, retailers have focused on creating this aspirational quotient through tie ups with celebrities / associations or home trial promotions.

3. **Strong brand promotion through the social media**
   - Emerging affluent consumers are highly social and shop in big malls and buy reputed brands to stand out from the masses. Hence, strong brand promotion is integral to retailers’ progress. Retailers usually promote their brands on popular social networks such as Facebook and Twitter to tap this segment.

4. **‘Fashionable’ frugality is kept under consideration**
   - Today’s consumers are affluent but have high business acumen, which makes them indulge more in ‘fashionable frugality’ than ‘bargain hunting’. To leverage this, successful big players generate maximum sales during monsoon sales or by offering loyalty scheme discounts.

An increasing share of emerging affluent from small cities may require retailers to devise new strategies, which may typically include enhanced customisation of assortment and more handholding while purchasing.
Successful business models targeting *value-conscious consumers* maintain balanced revenues with tight costs through front end and back end innovation

### Key learning

#### Consumer
- Indian consumers are extremely value-conscious to the extent that their value-consciousness is often interpreted as price-consciousness. However, pricing is not the only criterion for them, they also consider ‘good value’, which is a combination of affordability along with greater benefits.
- Good value perception drives product trials; however, beyond a time and with frequent purchases, it becomes a hygiene factor and other influencers take precedence.
- They are typically less brand-conscious, prefer bulk purchases and actively anticipate deals. Promotional activities and events are also required to retain their attention.

#### Companies
- Control over inventory and the number of SKUs have helped players to increase purchases. They have achieved it by adopting the company-owned and company-operated business model, wherein the number of stores and SKUs is less.
- Successful players in this domain have not only ensured sharp pricing as product strategy to suit the requirements of value-conscious consumers, but they have also tweaked their marketing strategy significantly. They now focus more on promotional events and activities, which rely on ‘word of mouth’ publicity and help the brand increase its consumer base in this category.

### Input for a successful business model

1. **Inventory management is the key**
   - Successful players have maintained strict control over inventories to ensure quick stock turnarounds. They largely operate through adopting the COCO (company-owned and company-operated) or FOCO (franchise-owned and company-operated) business models.

2. **Pricing is the hygiene factor**
   - Price is a key factor for purchase and is likely to remain so for this segment in the foreseeable future. An efficient back end with complete control over costs is essential to cater to the requirements of value-conscious consumers.

3. **Beyond hygiene — an attractive ‘marketing strategy’ is a must**
   - Good value perception is a motivating factor that drives product trials; however, beyond a time, it becomes a hygiene factor and other influencers take precedence. Successful players maintain focus on targeted marketing, promotions and sales, to keep tabs on value-conscious consumers.

4. **Instigate bulk deals for products with increasing prices**
   - Value-conscious consumers have responded to increasing prices by buying only essential items and purchasing in bulk, with the latter prevalent especially in modern trade. This presents a major opportunity for retailers and companies, provided they get pricing and sizes right.

Since margins are typically low while catering to value-conscious consumers, retailers may have to majorly depend on targeted marketing and assortment planning to optimise off take, which would maximise revenues.
Delivering on service parameters would go a long way towards striking a chord with the online consumer

Key learning

**Consumer**
- The online consumer is primarily a young consumer who is increasingly adding new categories in his purchase basket and is open to making purchases in emerging categories such as food and beverage.
- Price alone does not drive purchase, online consumers are increasingly valuing other aspects, such as service and convenience, while choosing or rejecting retailers.
- Consumers are increasingly becoming accustomed to certain service and quality standards — spot trials and returns have transformed from being ‘differentiators’ to becoming essential features.

**Companies**
- There is huge potential for new players in this segment due to various factors such as consumers’ receptivity to experimentation, limited brand availability beyond major cities and proliferation of internet-enabled mobile devices.
- Several companies have struggled to maintain brand loyalty while scaling up due to under-delivery on service and quality parameters. Several players continue to depend heavily on third-party support.
- There is a vast untapped market of users other than those using internet and only a few innovative players have made inroads in this segment.

Input for a successful business model

1. **Choose a less rigid business model**
   - It is important to remember that a major percentage of India’s population that doesn’t use the internet constitutes an important addressable segment. Innovative business models employ a combination of physical retailing elements and technology to their advantage to overcome critical barriers such as lack of payment and trust.

2. **Scale up sensibly**
   - Several players have attempted to scale up rapidly without adequate backend and front end support. They should remember that the young consumer is highly social and connected and word of mouth publicity — positive or negative — spreads rapidly. Hence, it is important to ensure these standards are not compromised.

3. **Avoid herd mentality to create a niche**
   - The online segment is cluttered with several players, many of whom have little or no differentiators. Only a handful of players have differentiated themselves on aspects such as product assortment, service and delivery while others have often found themselves becoming targets of acquisitions by bigger players.

4. **Choose partners with care**
   - Partner is the face of the brand for an online retailer. The vendor ecosystem is at a nascent stage in e-tail industry, which, in turn, is in the early stage of development. There is a need for effective SOPs regarding staff training, recruitment and sensitisation with greater involvement from — and collaboration between — retailers and vendors. A revenue-sharing model / incentive programs are yet to be explored.

In a rapidly evolving online consumer landscape, satisfaction on key service parameters and loyalty can be driven by strengthening front end operations. It is essential to get the basics right in areas such as inventory management, delivery and returns — especially while collaborating with third-party players.
Leveraging existing ‘traditional’ setups and networks is the key to access Rurban consumers; technology is likely to be an important enabler.

**Key learning**

**Consumer**

- Rurban consumers have evolved rapidly and often ‘appear’ to be low-hanging fruits with maturing markets in larger cities. Several brands clutter mind space while the share of a customer’s wallet is occupied only by a few, limited by accessibility.
- Rurban consumers fall between the traditional rural and big city consumer with aspirations closer to the latter and purchasing power closer to the former.
- Usage is often occupied by traditional or local products that have strong regional connect backed by strong supply.
- A decentralised setup where stores have a large control over assortments, marketing, etc. could enable a high degree of localisation needed to establish connect with local consumers.

**Companies**

- Trust is a key anchor that players have adopted to induce purchase. They have done so through various channels such as NGOs, franchisees and local partnerships.
- Successful players in this domain have not only tweaked their products to suit local rurban requirements, but they have tweaked their marketing strategy significantly to make themselves relevant in these regions.
- ‘White spaces’ do not necessarily translate into opportunity. Often, pockets of consumers are highly dispersed in the rurban context, making investments unviable.

**Input for a successful business model**

1. **Do not reinvent the wheel**
   - Successful players have leveraged existing setups to their advantage, saving time, effort and costs required to overcome traditional purchase barriers.

2. **Keep the backend light to keep the front end going**
   - Rapidly changing preferences necessitate quick delivery systems capable of speedy adoption. Successful players have adequately tested the waters in target markets with calibrated expansion and asset-light entry.

3. **Don’t spread yourself too thin**
   - The Rurban space is highly heterogeneous and preferences may vary widely among seemingly ‘similar’ groups. Successful players have defined their players minutely and assessed sustainability closely. This has helped them design, source and target their products better.

4. **Choose the right channel to access consumers**
   - There is no ‘one size fits all’ solution. Companies often struggle to develop a mutually beneficial and sustainable relationship with partners, which is the key to success in this segment.

Leveraging existing setups and adapting to local conditions has led to the dual advantage of increased penetration and cost optimisation. Retailers would need to develop scalable and tailor-made formats to address the requirements of this segment.
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