

Navigating the New Digital Divide

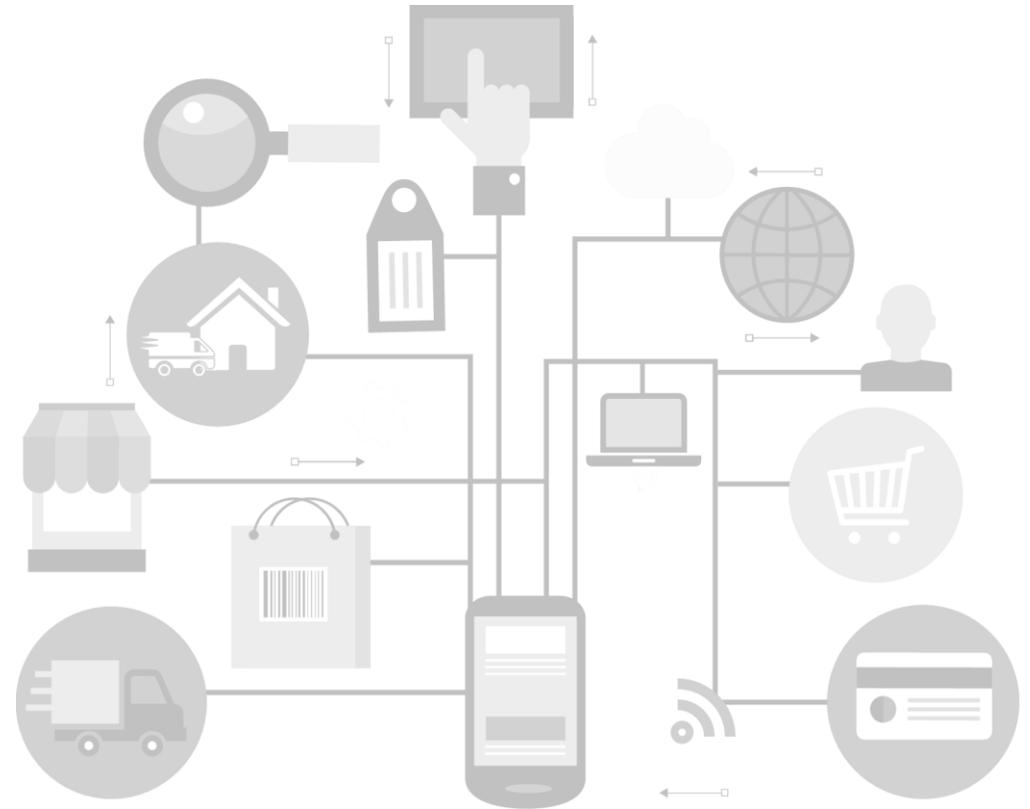
Key Imperatives for Indian Retailers

2015



Contents

| | |
|--|----|
| The New Digital Divide: Analysis Methodology | 3 |
| Key Findings | 4 |
| The Digital Influence Factor | 8 |
| Impact of Digital Influence | 11 |
| Digitally Influenced Shopping Preferences | 13 |
| Key Takeaways for Retailers | 20 |
| Appendix | 22 |



The New Digital Divide: Analysis Methodology

De-mystifying influence of digital through shopper research led insights



Context

A digital revolution is underway in India, catalyzed by proliferation of smartphones and growing internet users.

Hypothesis:

Digital influences retail not only in the form of pure online purchases (m or e-commerce) but also in-store purchases. This influence is significant and growing!



Objective

Understand trends in digital influence on organized retail players.

Objective of this report is to de-mystify the following with respect to in-store shopping:

- **Influence of digital on an urban Indian shopper**
- **Impact of the digital influence**
- **Preferences of the digitally influenced shopper**



Methodology

Derived insightful metrics for organized retailers, based on a primary survey of shoppers.

- Conducted a **primary survey of c.2,000 urban Indian shoppers** (internet users and regular shoppers across Tier 1, 2 and 3 cities)
- **Analyzed findings**, mapped them to Indian urban macro-economic realities, digital penetration and SECs



The New Digital Divide: The gap between consumers' digital behaviors and expectations and retailers' ability to deliver the desired experiences.

Key Findings (1/4)

Significant digital influence on in-store retail purchase

INR **60,000** Cr.

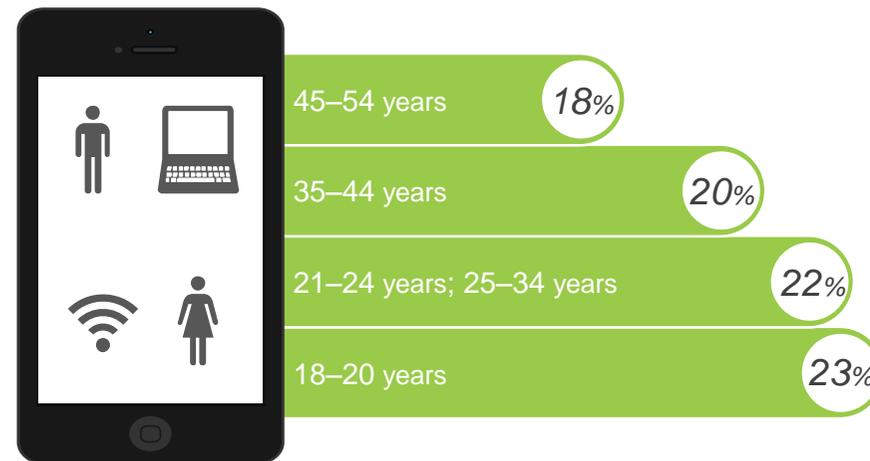
of in-store retail purchase is influenced by digital. This number is estimated to grow significantly, with increasing penetration of smartphones (140 Mn+ estimated to grow to 500 Mn by 2020) and growing internet users (300 Mn internet users estimated to grow to 600 Mn by 2020)

High Digital Influence Factor (DIF) across product categories



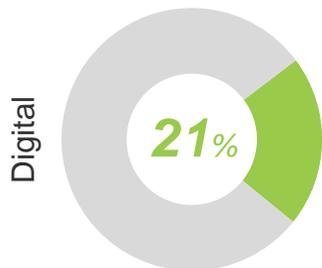
DIF = 21%, of which MIF = 18%

Digital Influence: Consistent across age-groups



Digital Influence Factor

Mobile Influence Factor



INR 60,000 Cr.

INR 50,000 Cr.

Digital Influence Factor (DIF): The percentage of in-store retail sales influenced by the shopper's use of any digital device, including: desktop, computers, laptops, netbooks, tablets, smartphones, wearable devices, and in-store devices (i.e., kiosk, mobile payment device.) It is an accelerating phenomenon that is shaping both how consumers shop and make decisions in-store.

Mobile Influence Factor (MIF): The percentage of in-store retail sales influenced by the shopper's use of a web-enabled mobile device, including smartphones.

Note: Based on research with c.2,000 Indian urban shoppers. The research data was normalized to account for penetration of digital devices

©2015 Deloitte Touche Tohmatsu India Private Limited. Member of Deloitte Touche Tohmatsu Limited

Key Findings (2/4)

Digitally influenced shopper converts more, spends more, & has specific preferences

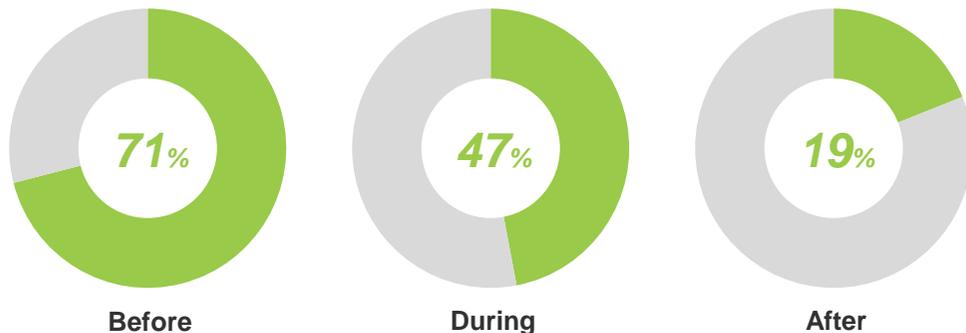
Digital impact areas



Conversion rate of shoppers who use a digital touch-point is 40% higher than the non-digitally influenced shoppers.

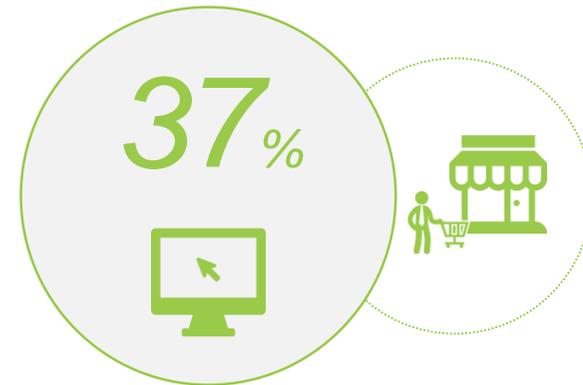
66% shoppers spend more as a result of using digital, with 38% spending at least 25% more.

Role of digital during shopping journey (% of shoppers who use digital)



Digitally influenced shoppers use digital through-out their shopping journey.

Buy-Online-Pickup-in-Store



Buy at home/ office (online), pick up in store

More than 1/3rd of digitally influenced shoppers would prefer the flexibility of Buy-Online-Pickup-in Store (BOPUS).



Even within the store, more than 2/3rd of digital shoppers prefer to use a digital device for help rather than an in-store sales associate.



Key Findings (3/4)

Leveraging this digital revolution is a business imperative for retailers (1/2)

| | We see shoppers... | We see retailers... | Bridging the new digital divide |
|----------------------|--|---|---|
| Shopper Experience | Use digital touchpoints (desktop, mobile, tablet) differently along their shopping journey. | Emphasize on functionality across touchpoints, focused more on the in-store part of the journey and not on creating a unified presence across touchpoints along the entire journey. | <p>Shoppers want a coherent shopping experience along their path to purchase.</p> <p>The physical and digital experience of the shoppers should not be viewed by retailers as discrete, but as a holistic one. A holistic view becomes a powerful indicator of shopper behaviour and purchase intent.</p> |
| Marketing/ Budgeting | Use the retailer's website/ mobile apps as part of their planning for an in-store visit. | Drive the quantum of, and the importance accorded to digital marketing basis their e-commerce sales target. | Retailers should recognize the impact of digital on the overall business and not look at digital marketing basis only e-commerce revenue share/ sales target. |
| Merchandising | Use digital devices to browse and research stocked assortments before embarking on a store visit. They end up creating personal assortments in advance of a store visit. | Create disjoint merchandise assortments online and in-store. | <p>Shoppers have their expectations set about the in-store experience through a retailer's online presence/ mobile apps. A gap in merchandising assortments in-store/ online causes frustration in the shopper's experience.</p> <p>The experience of browsing to seek product information online should be seamless with that of in-store merchandising.</p> |

Key Findings (4/4)

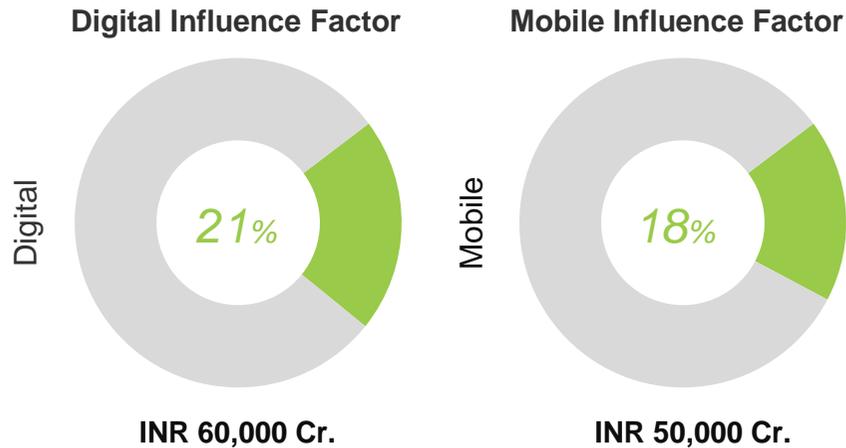
Leveraging this digital revolution is a business imperative for retailers (2/2)

| | We see shoppers... | We see retailers... | Bridging the new digital divide |
|--|---|---|--|
| Analysis/ Measurement | Show purchase intent and preference while browsing before visiting a store. | Focus only on conversion specific metrics like channel attribution and click-through rates. | Retailers should apply advanced analytics and IT tools to leverage the digital imprint of shoppers across their journey, right from the visit online, to shopping in-store to post purchase actions. |
| In-store Experience | Show preference for using digital touchpoints during shopping journey with a focus on easing their regular purchase activity (research, checkout, etc.). | Focus on features/ functions such as store location and in-store navigation and train store associates for capabilities which the shoppers would rather have on their own devices/ digital kiosks. | Retailers need to revisit their in-store digital offerings, considering the preferences of the digital savvy shopper. The role and training of sales associate needs to undergo significant change in order to add value to the shoppers experience. |
| Product Information and Digital Content | Seek product information in a digital format throughout the shopping journey. Information sought ranges from seeking shopping inspiration, getting product information to compare prices, post social reviews and give ratings. | Maintain on-line product catalogs that are different than products in-store. Product information and other content in the digital world usually caters only to the online catalog. Hence, many in-store products miss out being represented in the digital world. | Retailers need to provide product information to shoppers across the superset of products they sell online and in-store. Differentiating across physical and digital presence creates shopper dissonance. |

The Digital Influence Factor (DIF)



21% of in-store shopping in urban India is influenced by digital



- Digital Influence Factor (DIF) = 21%
- Mobile Influence Factor (MIF) = 18%

Implications:

- Digital currently influences 21% of the c. INR 280,000 Cr.* being spent across all categories of in-store organized retail sales
- Amongst all digital devices, smartphones are the device of choice for shoppers

Note: Digital includes mobile, laptops and desktop computers, tablets, wearables, and in-store digital devices.

*Source: CII Retail Report 2015

Influence factor methodology



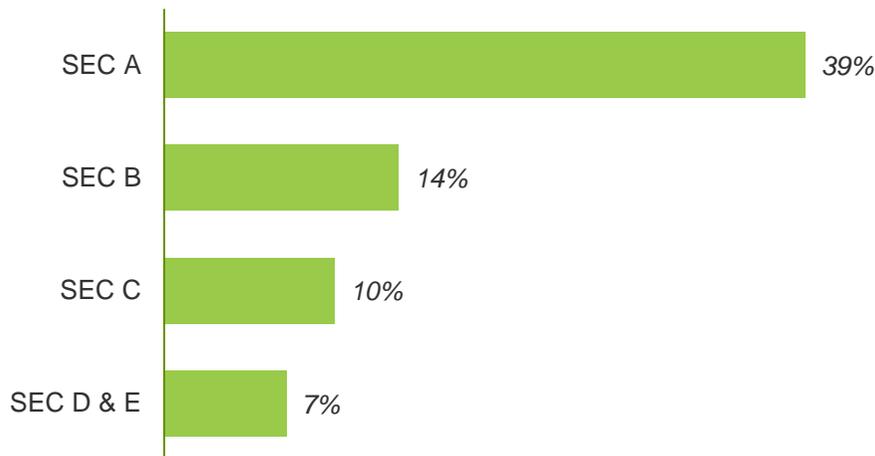
Note: Based on research with c.2,000 Indian urban shoppers. The research data was normalized to account for penetration of digital devices

The Digital Influence Factor (DIF)



DIF is significantly high for SEC A shoppers. However, it is similar across age groups

Digital influence factor across Socio-Economic Class (SEC)



SEC A population is the most digitally influenced – three to five times higher than other SECs. Similar digital influence is seen across all age groups, and not just the younger population.

Digital influence factor across age groups



Note: Based on research with c.2,000 Indian urban shoppers. The research data was normalized to account for penetration of digital devices

©2015 Deloitte Touche Tohmatsu India Private Limited. Member of Deloitte Touche Tohmatsu Limited

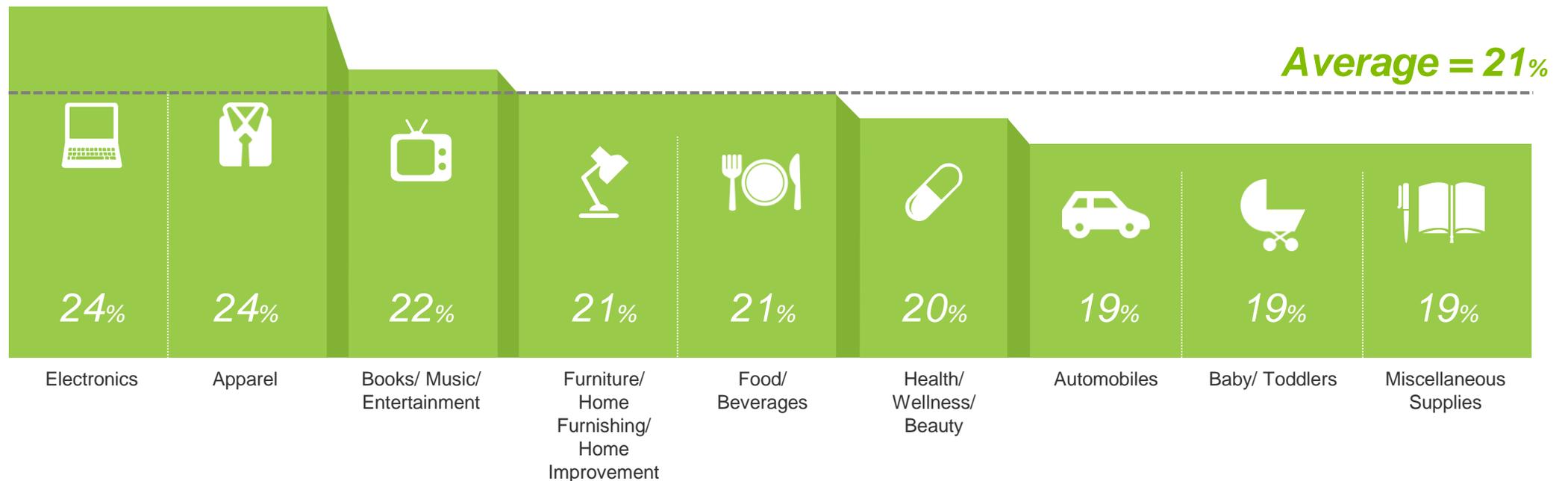
The Digital Influence Factor (DIF)



Digital influence across categories is high, the highest being for apparel and electronics

Digital Influence Factor – Ranking across categories*

Digitally influenced shoppers tend to use digital across product categories.



*Detailed product category descriptions provided in appendix

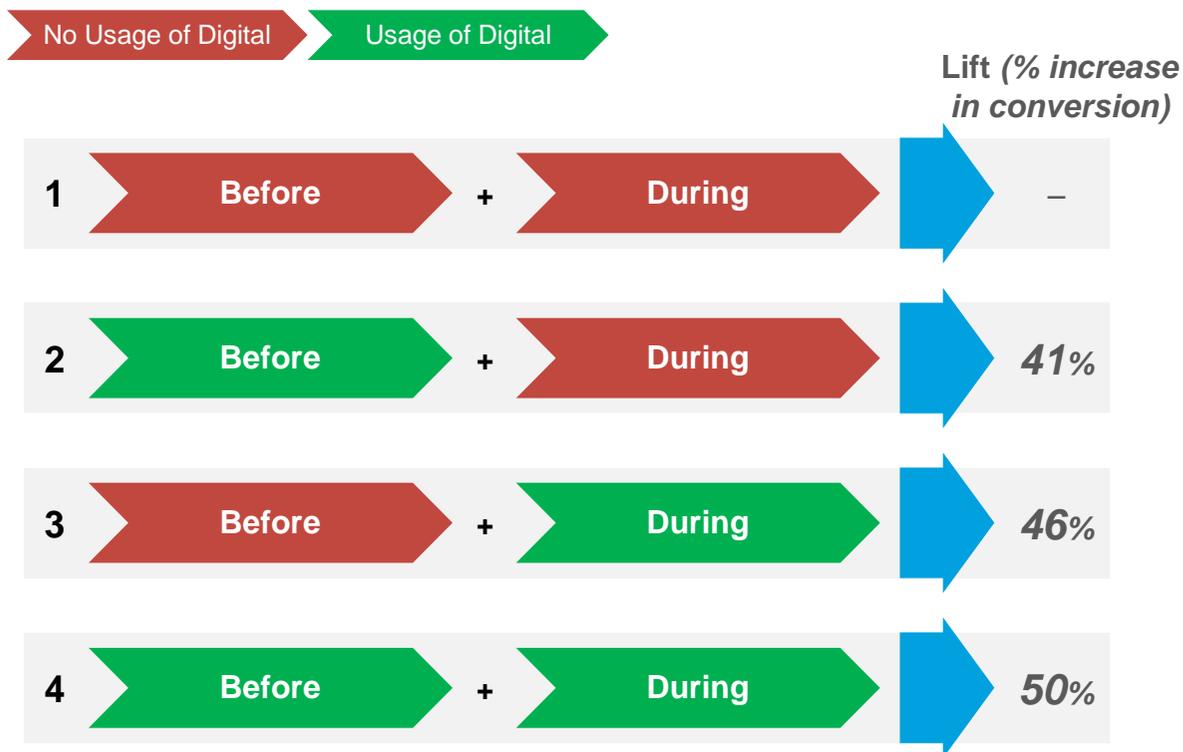
Note: Based on research with c.2,000 Indian urban shoppers. The research data was normalized to account for penetration of digital devices

©2015 Deloitte Touche Tohmatsu India Private Limited. Member of Deloitte Touche Tohmatsu Limited

Impact of Digital Influence

Digital influence increases in-store conversion by almost 50%

Digital's impact on conversion during the shopping process



Lift is the percentage increase in conversion from the baseline, i.e., when digital was not used before or during the shopping journey. Facilitating a shopper's digital interaction increases the probability of conversion for a retailer by as much as 50%!!

Impact of Digital Influence

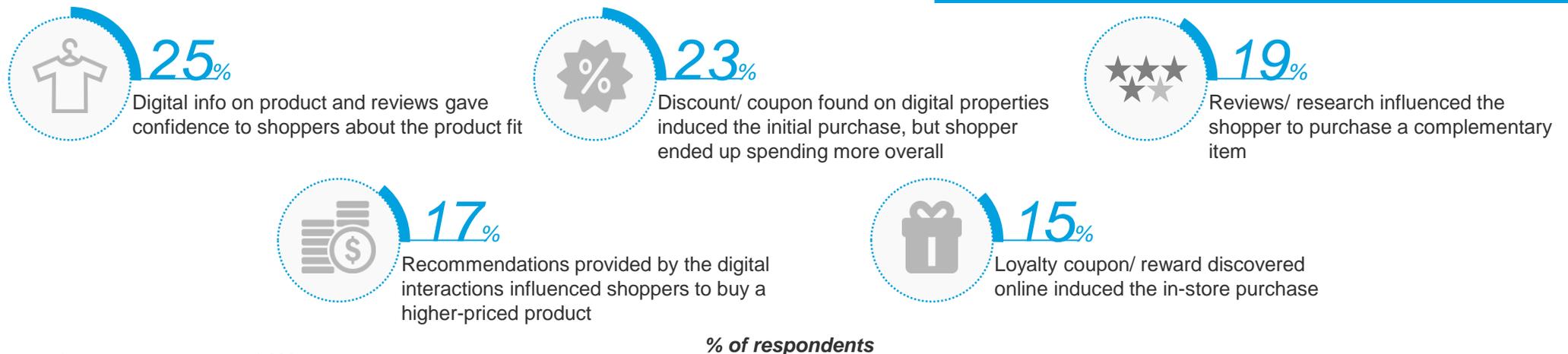
Digitally influenced shoppers not only convert more often, but also spend more

66% of shoppers spend more as a result of using digital touchpoints – with 38% spending at least 25% more than intended.

Impact of digital on spend



Top reasons that digital experience causes higher spend than planned



Digital information/ reviews/ recommendations and online discounts/ coupons influence shoppers to spend more.

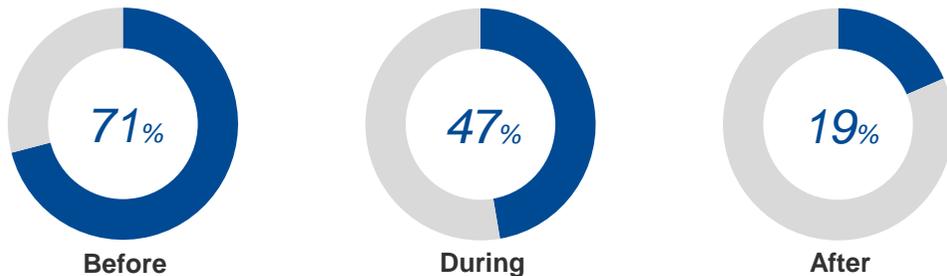
It becomes critical for retailers to understand the new role of marketing: digital content/ information planning, recommendation engine, providing online coupons/ rewards to shoppers. Analytics (powered by increasing richness of data with time) will become increasingly important for retailers to gain insight into shoppers, and to tailor the shoppers' experience.

Note: Based on research with c.1,900 Indian urban shoppers

Digitally Influenced Shopping Preferences

Shoppers are using digital across all phases of their shopping journey

Percent of shoppers who use digital



Digitally influenced shopping journey: Key takeaways

| Moment | Key observation |
|----------|--|
| Dream | 55% of digitally influenced shoppers become aware of products through means outside of retailer or brand communications, while 45% get their initial inspiration from a retailer's or brand's advertisement. |
| Explore | 2/3 rd of digitally influenced shoppers browse retailer (including e-commerce) specific apps or sites!! |
| Validate | 45% of digitally influenced shoppers use social media to gain validation from personal network. |

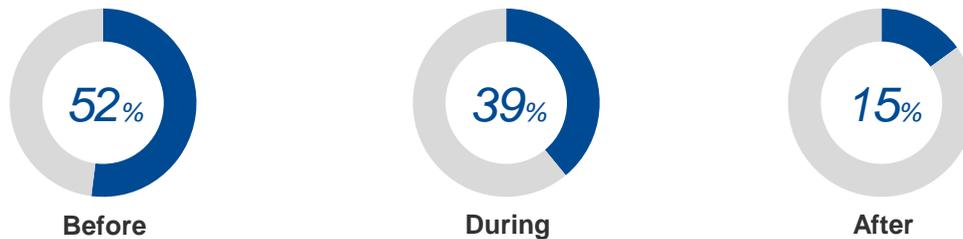
Digital is influencing shoppers across shopping moments, right from inspiration to validating purchase.

Retailers need to have a strong digital presence not only through transactional sites but also through appropriate digital marketing media which can influence shopper preferences and increase store walk-ins.

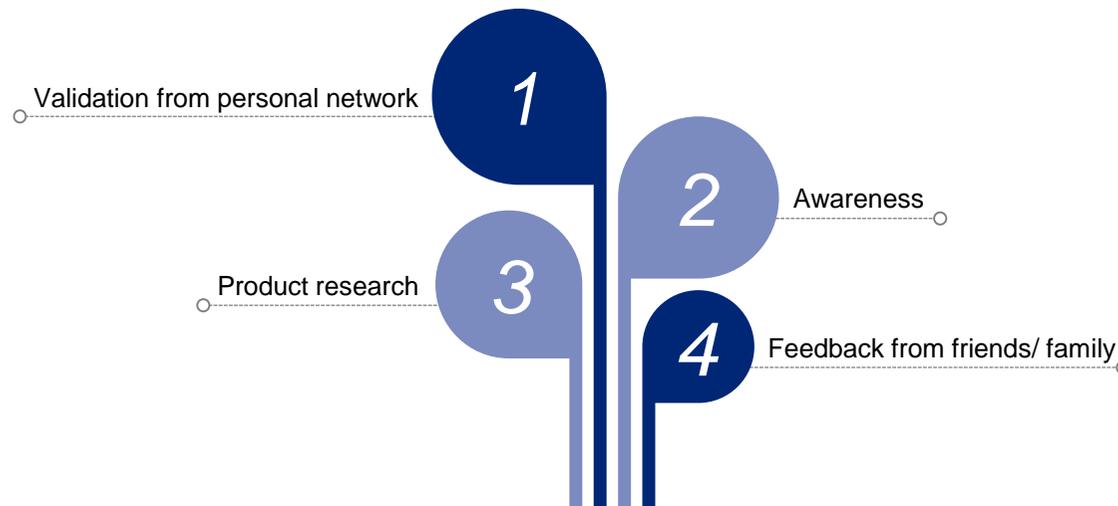
Digitally Influenced Shopping Preferences

Impact of social media is significant

Social media usage across all phases of the shopping journey



Key reasons for using social media during shopping



Social media is critical for retailers to not only make shoppers aware of their offerings but also to get their feedback and learn about new trends.

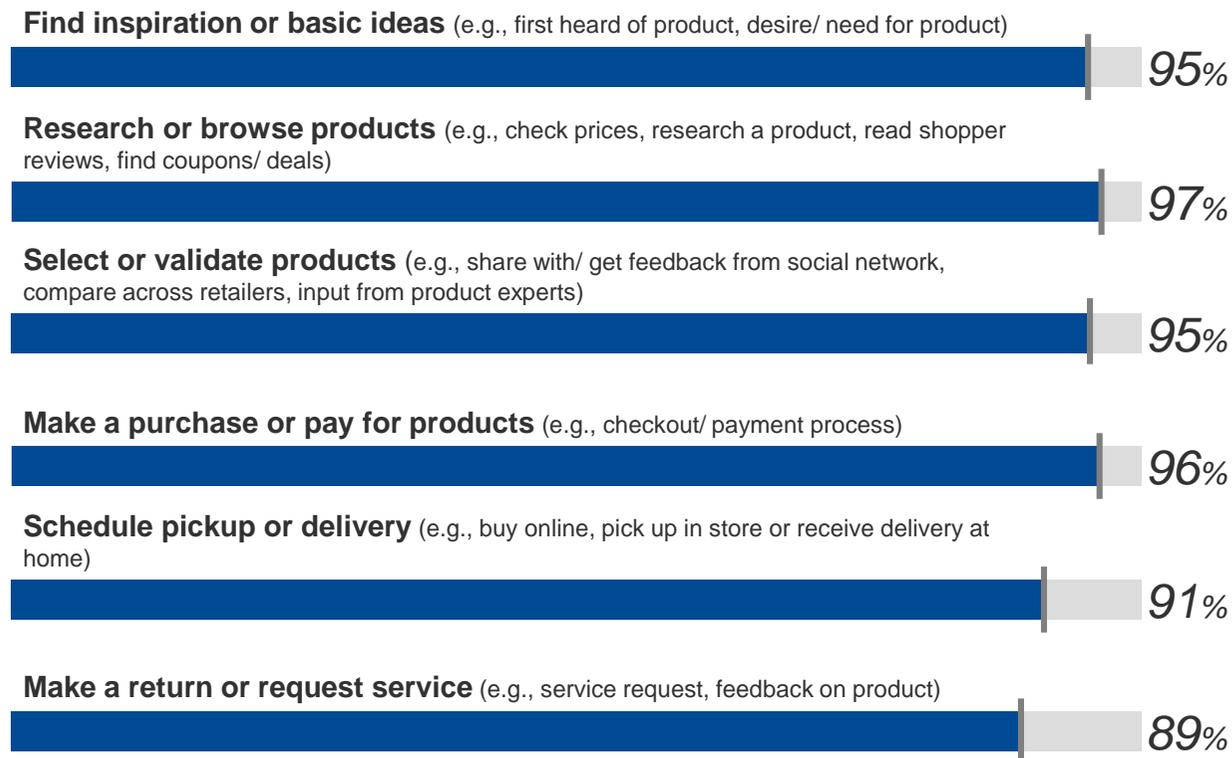
A positive and responsive social presence needs to be an integral part of retailers' digital strategy. In addition, social media analytics could help retailers gain critical insights on buying behaviour and shopper feedback, thus creating long-term loyalty.

Digitally Influenced Shopping Preferences



Given the right tools, shoppers prefer to use digital touchpoints throughout the shopping journey

Preference for using digital throughout the shopping journey



Digitally influenced shoppers overwhelmingly expressed a preference for using digital across all phases of the shopping experience – right from finding inspiration to post-purchase actions.

Retailers would need to create an appropriate influencer network, use marketing tools, facilitate in-store digital usage and establish a responsive social media presence to increase conversion among digitally influenced shoppers.

Note: Based on research with c.1,900 Indian urban shoppers

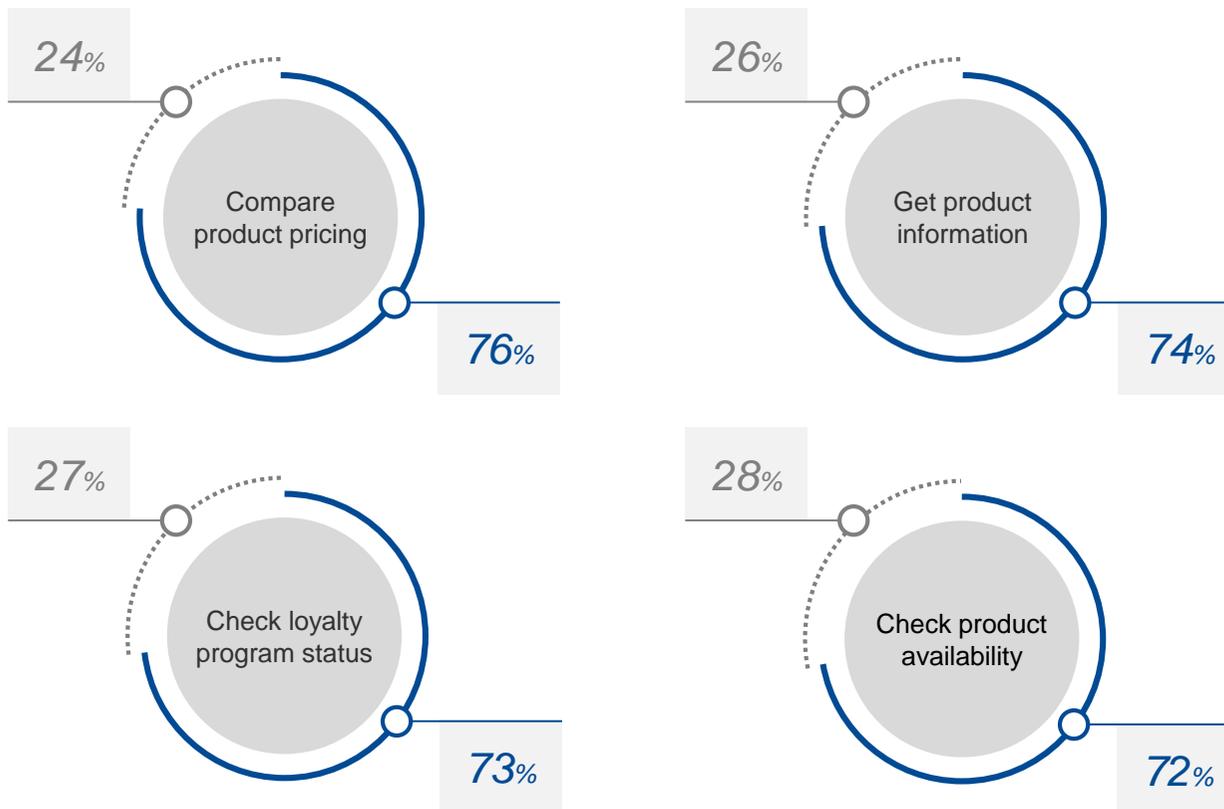
©2015 Deloitte Touche Tohmatsu India Private Limited. Member of Deloitte Touche Tohmatsu Limited

Digitally Influenced Shopping Preferences

Shoppers prefer digital devices (own and kiosk) rather than sales associate for in-store activities

..... Sales associate

— Own digital device or self-service kiosk



% expressing preference

In a store, over 70% of shoppers would prefer to use either their own device or an interactive in-store digital device for their shopping-related needs.

Retailers digital strategy needs to support the shoppers digital shopping experience not only before the store visit but also in-store.

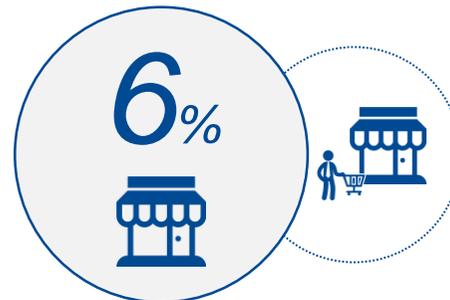
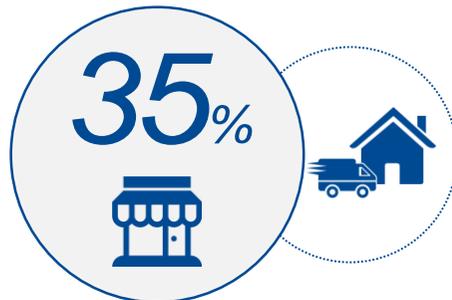
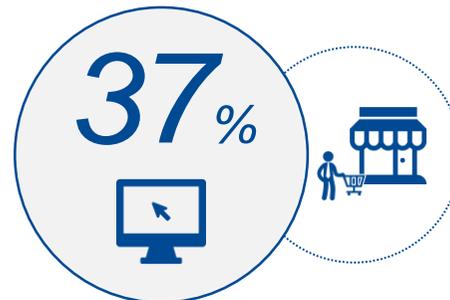
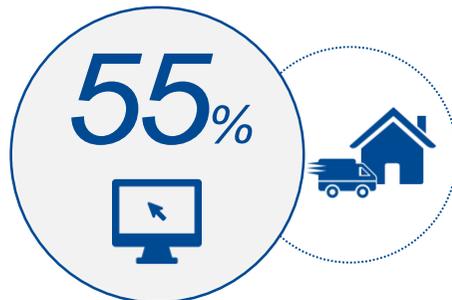
Resourcing and training needs of sales associates need re-visiting, to be able to add value to the shoppers experience.

Digitally Influenced Shopping Preferences

Shoppers are looking for greater flexibility in purchase and delivery of products

Apart from shoppers preferring to shop online and receive delivery at home, a significant percentage of digitally influenced shoppers expressed willingness to try the **Buy-Online-Pick-Up-in-Store (BOPUS)** model, which gives the organized brick and mortar retailers a positive edge over pure-play online players.

Preference for pick-up and delivery options



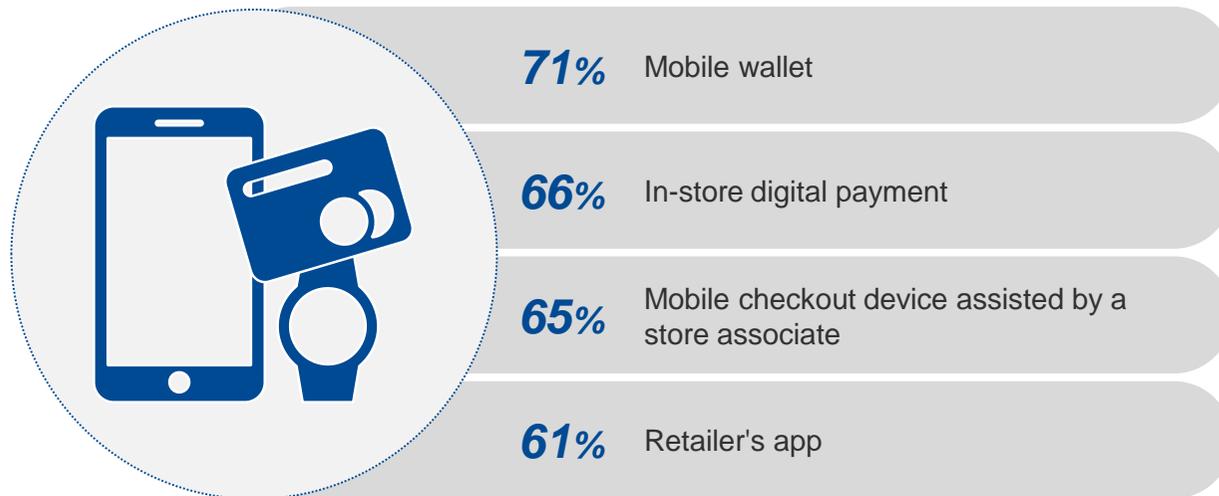
To leverage the shopper's preferences for higher flexibility in buying and receiving delivery of products, retailers need to effectively provide a seamless cross sell experience to shoppers. The retailer would therefore need to enhance its fulfillment channel by taking a holistic approach to integrate a robust supply chain strategy and Omnichannel supply chain operations. This could mean upgrading key supply chain capabilities such as inventory management, order management, order fulfillment and logistics. Retailers would need to be cognizant of tax regulations while upgrading their supply chain to provide an Omnichannel experience.

Digitally Influenced Shopping Preferences

Shoppers would prefer the option of using digital payment methods

96% of digitally influenced shoppers are interested in using a digital device or touch-point to make a payment in-store, as and when such payment options become available in the future.

Preference for digital payment options



Far from being a roadblock, shopper preference is now a good reason for retailers to adopt new and improved in-store electronic payment modes. This may actually draw in more shoppers but the key would be to integrate shopping, checkout and payments into a seamless and delightful shopper experience, i.e. the payments experience needs to be liberated from legacy payment terminals lined up at checkout counters.

Note: Based on research with c.1,900 Indian urban shoppers

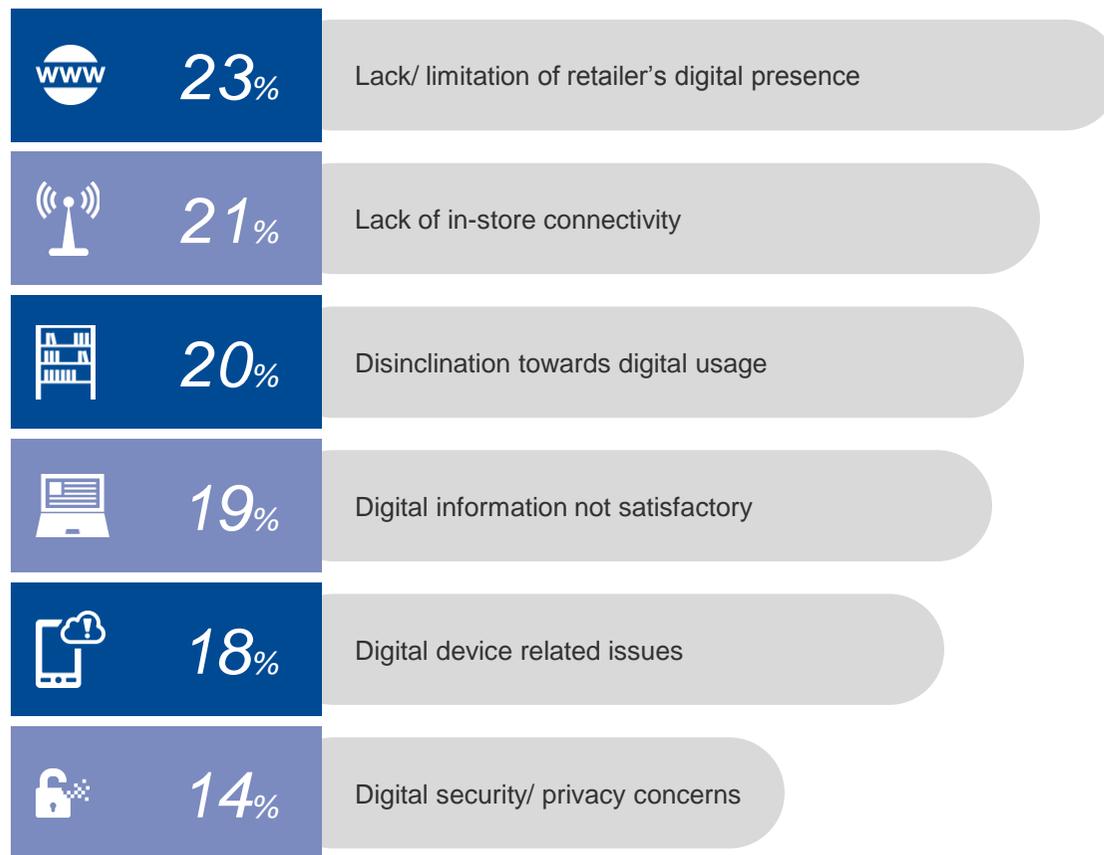
©2015 Deloitte Touche Tohmatsu India Private Limited. Member of Deloitte Touche Tohmatsu Limited

Digitally Influenced Shopping Preferences

There is significant opportunity for retailers to enable digital usage by their shoppers



Reasons for not using digital touchpoints



% of respondents

Note: Based on research with c.2,000 Indian urban shoppers

©2015 Deloitte Touche Tohmatsu India Private Limited. Member of Deloitte Touche Tohmatsu Limited

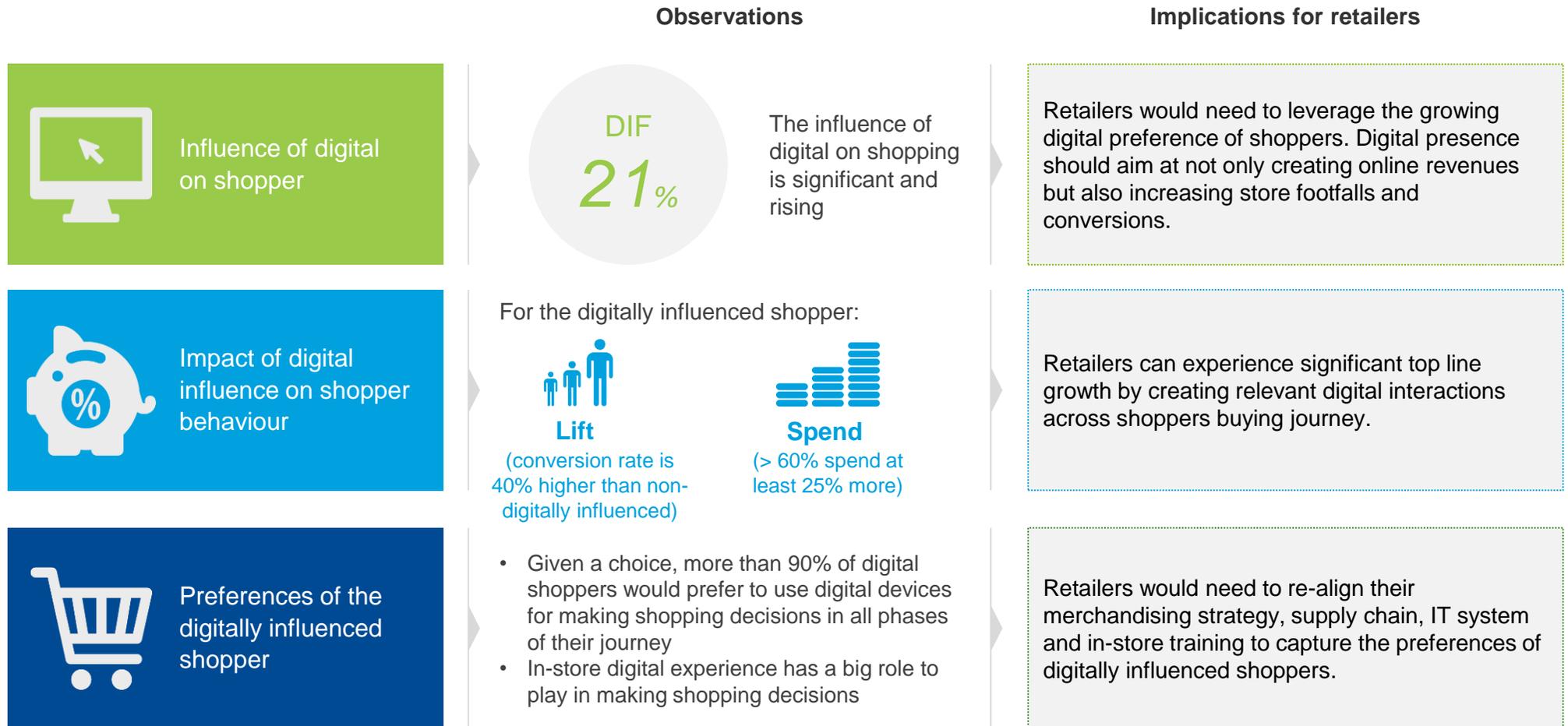
Most factors inhibiting digital access (lack of online/ offline digital infrastructure) are within retailers' control.

Considering the positive and growing impact of digital influence, it becomes critical for retailers to facilitate a shopper's digital interaction anytime, anywhere.

Retailers would need to create appropriate infrastructure and environment to encourage shoppers to use digital media.

Overall Impact of Digital

A digital revolution in retail is underway in India



How Can Retailers Evolve?

It is imperative for retailers to evolve to this new way of life to align with changing shopper behaviour

The journey for retailers in India ...

Create a meaningful digital presence

Digital is not a choice anymore, but an imperative. Retailers are required to build a well thought-out digital roadmap. As retailers plan this roadmap, they must be aware that going digital is not a one-size fits all approach. Each retailer needs to understand shopper requirements, develop clarity on its own positioning, define its own objectives and accordingly build its roadmap.

Build path towards seamless integration of physical and digital assets

Operating the digital and physical businesses separately will inhibit focus. Retailers would need to re-look at their operations (systems, supply chain, store fronts, people etc.) and define changes to strive towards a seamless integration of physical and digital assets.

Develop relevant ecosystems

Organization structure, supply chain partners, other vendors – retailers need to align both internal and external elements to this new way of life. It is critical for retailers to build the right ecosystem.

Undertake marketing transformation

Shoppers have unprecedented access to information, and they place their trust in sources they believe are most authentic. As a result, the traditional role of marketing is being disrupted. Retailers should evolve from the traditional approach and focus on elements relevant to digital shoppers.

Measure it right

Success of digital has to be measured in a broad-based comprehensive manner, rather than a channel-specific sales lens – define metrics across the shopper journey, build tools to measure these metrics, analyze and adapt as per the results.

Appendix

Omnichannel Retail Strategy

Omnichannel has been successfully implemented by retailers (1/2)

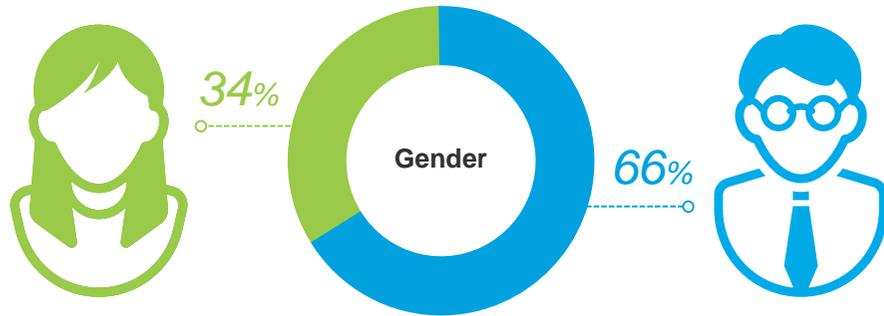
| Company | Omnichannel initiatives | Impact |
|---|--|--|
| An upscale fashion retailer in the US Began investing in Omnichannel in 2004 | <ul style="list-style-type: none">• Installed a new POS platform that enabled store associates to retrieve item information, place orders and track shopper purchase history across channels• Created shared inventory between full-line and online stores• Consolidated inventory systems into one backend system• Aligned merchandise offering between online and physical stores to create a seamless consumer experience• Launched “Buy Online, Pickup In Store” and “Ship From Stores”• Installed Wi-Fi in all full-line stores• Redesigned company website – added website editorial features such as blogs and uploading photos | <ul style="list-style-type: none">• Same-store sales increased by an average of 8% in the 11 months after launch. In the 11 months prior, same-store sales had decreased by an average of 11.9%• Inventory grew at a CAGR of 3% between 2005 and 2010• In-store conversion rate increased. The percentage of shoppers who bought merchandise after searching for an item on the site doubled |

Omnichannel Retail Strategy

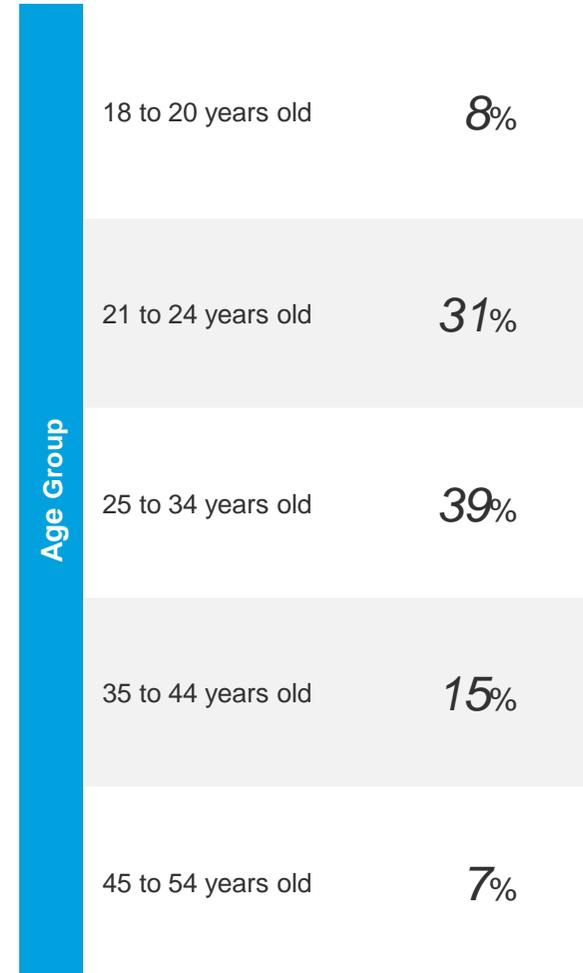
Omnichannel has been successfully implemented by retailers (2/2)

| Company | Omnichannel initiatives | Impact |
|--|---|---|
| An upmarket department store chain in the UK | <ul style="list-style-type: none">• Launched BOPUS service – Allowed shoppers to collect online purchases from any store across the UK | <ul style="list-style-type: none">• BOPUS initiative grew by 100% between 2012 and 2013 |
| Began investing in Omnichannel around 2011 | <ul style="list-style-type: none">• Launched “Omnichannel stores” – Offered full list of products in small stores through the use of online technologies• Launched a personalized shopping experience – Every shopper had their individual shopping history recorded to enable the retailer to suggest what the shopper would like to buy• Opened 24 hour virtual shops – Shoppers would scan QR codes of products displayed in shop windows which would guide them to the mobile version of the retail store to make a purchase• Launched an i-phone app – To have shoppers scan barcodes of products in-store and order via mobile if out of stock | <ul style="list-style-type: none">• Mobile shopping grew by 200% between 2012 and 2013 |

Survey Respondent Profile



City Tier



Total Survey Respondents: 2,006

Survey Methodology

India Study (N=2006)

The survey was commissioned by Deloitte and conducted online by an independent research company on February 5-17, 2015.

The survey polled a national sample of 2,006 random consumers. Data were collected and weighted to be representative of the online population in India for gender and age.

A 90 percent confidence level was used to test for significance.

Below are the margins of error for specific sample sets in this study:

- National Random Sample – 90 percent confidence, margin of error 2-3 percent (+/-)
- Device Owners – 90 percent confidence, margin of error 2-3 percent (+/-)
- Smartphone Owners – 90 percent confidence, margin of error 2-3 percent (+/-)
- Tablet Owners – 90 percent confidence, margin of error 3-4 percent (+/-)

Additionally, a sub-set of consumers were randomly assigned to provide information about how they use a digital device to shop for up two different product sub-categories (such as shoes or books and music). Sample sizes ranged from 148 to 152– 90 percent confidence, margin of error 7-8 percent (+/-). Specific digital behavior data represents consumers who use digital devices to shop.

Product Categories

The following product categories were covered in our survey

Food & Beverages

Groceries (e.g. - store pickup, home delivery)

Food (e.g. - delivery or take out, fully cooked meals)

Apparel

Clothing (e.g. - shirt, skirt, pants, jacket)

Accessories (e.g. - jewellery, tie, bags, scarves, hat)

Essentials (e.g. - intimates, socks)

Shoes

Electronics

TV and Audio Products (e.g. - television, speakers, DVD)

Personal Electronics (e.g. - mobile phone, tablet, smartphone, laptop computer, computer accessories, cameras)

Home Appliances and Electrical Items (e.g. - blender, light bulbs, microwave)

Furniture/ Home Furnishings/ Home Improvement

Furniture and Home Décor Items (e.g. - sofa, patio set, tables, rugs, candles)

Home Improvement (e.g. - paint, wallpaper, tools)

Books/ Music/ Entertainment

Books and Music

Games and movies

Health/ Wellness/ Beauty

Prescription Medications

Non-prescription Health Aids (e.g. - vitamins, over-the-counter medications)

Cosmetics and Beauty Tools (e.g. - make-up, nail polish, hair dryer)

Exercise/ Sports Equipment (e.g. - hand weights, yoga mat, treadmill)

Automobiles

New or Used Cars

Auto Parts and Accessories

Baby/ Toddlers

Baby/ Toddler Clothing (e.g. - pyjamas, shirts, pants)

Baby/ Toddler Essentials (e.g. - diapers, bottles, formula)

Miscellaneous Supplies

Pet Supplies (e.g. - pet food, toys)

Office Supplies (e.g. - pens, notebook)

Contacts

Authors:

Neeraj Jain

Senior Director

neerajain@deloitte.com

+91 9560224446

Ajit Kumar

Lead, Deloitte Digital India

ajkumar@deloitte.com

+91 9008377110

Rohit Bhatiani

Director

rbhatiani@deloitte.com

+91 9818079653

Chaitanya Prabhu

Director

cprabhu@deloitte.com

+91 9820630771

Gunjan Gupta

Senior Manager

gunjangupta@deloitte.com

+91 9920031190

Contributors:

Pooja Vijayan

Manager

Paritosh Sharma

Consultant



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

This material and the information contained herein prepared by Deloitte Touche Tohmatsu India Private Limited (DTTIPL) is intended to provide general information on a particular subject or subjects and is not an exhaustive treatment of such subject(s). This material contains information sourced from a survey carried out by DTTIPL and from third party sites (external sites). DTTIPL is not responsible for any loss whatsoever caused due to reliance placed on information on the survey report and such external sites. None of DTTIPL, Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the “Deloitte Network”) is, by means of this material, rendering professional advice or services. The information is not intended to be relied upon as the sole basis for any decision which may affect you or your business. Before making any decision or taking any action that might affect your personal finances or business, you should consult a qualified professional adviser.

No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this material.

©2015 Deloitte Touche Tohmatsu India Private Limited. Member of Deloitte Touche Tohmatsu Limited