

# REFORMATTING RETAIL IN INDIA

## THE RISE OF MODERN TRADE AND TRENDS THAT WILL DEFINE THE FUTURE

- **The current size of the Modern Trade market for FMCG categories that Nielsen tracks, is INR 41, 416 crore for MAT August 2018, a substantial growth of 22% from a year ago.**
- **Significant government moves like Demonetisation and the introduction of the Goods and Services Tax, has driven digital payments and proved beneficial for Modern Trade.**
- **Omni-channel dynamics, competitive pricing and innovation in payment methods will drive growth for Modern Trade in the years to come.**

Today, many Indian consumers can't imagine life without the convenience of Modern Trade (MT). In fact, even when the term MT was coined back in the late 90s, it was expected that the nascent organised retail format would steadily fuel economic growth in the future. In spite of a great start, impediments like poor infrastructure slowed the sector down, particularly in the financially trying period between 2008 and 2016. While new players and formats were seen in the market between the end of 2015 and through most of 2016, it was a time of deliberation, deep contemplation and consolidation.

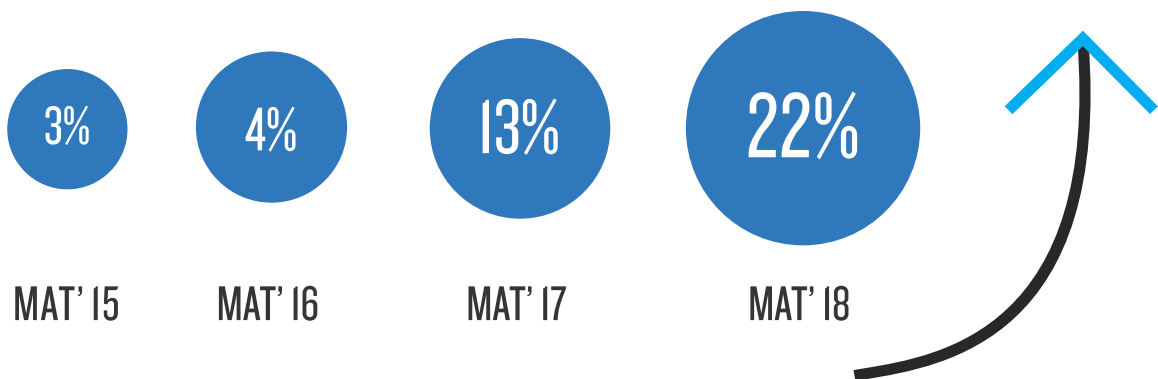
The size of the MT market for Fast Moving Consumer Goods (FMCG) categories that Nielsen tracks, was INR 30,126 crore as on Moving Annual Total (MAT) August 2016. Subsequently, there was a surge at the end of 2016 resulting in a 13% increase in MT sales and culminating in an improved market size of INR 33,895 crore in MAT August 2017.



Demonetisation and the introduction of Goods and Services Tax (GST) became tailwinds for the sector by triggering the mass adoption of digital modes of payment among consumers. Also, advance setting of systems across both buying and selling, helped MT gain a sizeable growth advantage over General Trade during the implementation of GST.

The good times continue to roll for MT with the current market size standing at INR 41,416 crore for MAT August 2018, a healthy growth of 22% from a year ago.

## GROWTH IN MODERN FORMAT SALES OVER YA

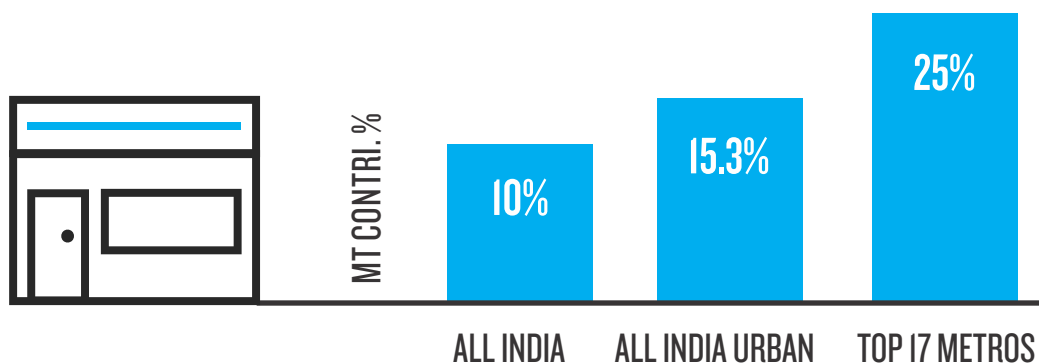


**DEMONETISATION AND THE INTRODUCTION OF GOODS AND SERVICES TAX (GST) BECAME TAILWINDS FOR THE SECTOR BY TRIGGERING THE MASS ADOPTION OF DIGITAL MODES OF PAYMENT AMONG CONSUMERS.**

## MODERN TRADE BY GEOGRAPHY

The national contribution of MT is 10%, with a greater concentration in urban areas, particularly the top 17 metro cities.

## THE CONTRIBUTION OF MODERN TRADE ACROSS INDIA



Interestingly, the regional composition of MT has not changed much over the years, as South India still leads with a 22% contribution. West continues to be the second largest market, though it has narrowed its gap with the South. The big retail brands have focused on opening several hyper stores in the West resulting in the perceptible increase in this zone. Going forward, North India is expected to grow on the back of expansion by various retailers, followed by the east.



MAT Aug'18	MT Contribution	MT % Growth
ALL INDIA	15.3%	22.2%
North	10.6%	25.0%
East	7.5%	27.4%
West	19.0%	20.5%
South	22.4%	21.0%

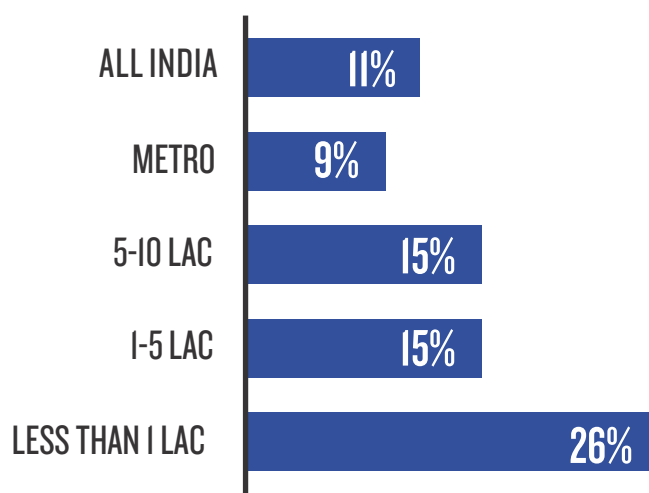
India's top 29 metros make up ~72% of the MT business, of which 85% comes from the top 10 metros. Chennai, with a MT contribution of 40%, and Pune with a contribution of 35%, are amongst the top 10 metros where the share of MT has increased by 5% and 3% respectively. This growth in the contribution of MT has gone beyond the top cities. The next rung of cities like Lucknow contributing 27%, and Kochi contributing 38%, have increased their contribution to MT by 9% and 3% respectively. Even a city like Amritsar with a contribution of 14%, which is over indexed on cash and carry as a channel, has seen an increase in MT contribution of 3%. Of the 29 metros that Nielsen reports cover, 24 have a MT contribution that is higher than 10%. These facts go to show that MT is here to stay. Increased investments and omni-channel dynamics will continue to increase the relevance of MT for both shoppers and manufacturers.

**THE REGIONAL COMPOSITION OF MODERN TRADE HAS NOT CHANGED MUCH OVER THE YEARS, AS SOUTH INDIA STILL LEADS WITH A 22% CONTRIBUTION. WEST CONTINUES TO BE THE SECOND LARGEST MARKET, THOUGH IT HAS NARROWED ITS GAP WITH THE SOUTH.**

## THE EVOLUTION OF FORMATS

The MT landscape in India comprises both local and national brands, which consists of chains and strong independent stores. Together, there are about 600 MT banner stores in India, with the top 20 contributing to ~75% of the business. According to Nielsen estimates the total number of organised stores is ~18,197, of these, 11,758 are banner stores. Such stores have grown by 19% as of MAT August 2018, is a clear indication of the burgeoning size of MT as a channel. Data reveals that supermarkets<sup>1</sup> grew by a sizeable 25%, while hypermarkets grew by 15% in comparison in the same timeframe. The number of modern trade stores in small towns of less than 100,000 population, have also seen a sizeable increase, growing three times faster as compared to metros.

### MODERN TRADE DISTRIBUTION GROWTH: CAGR (2 YEARS)

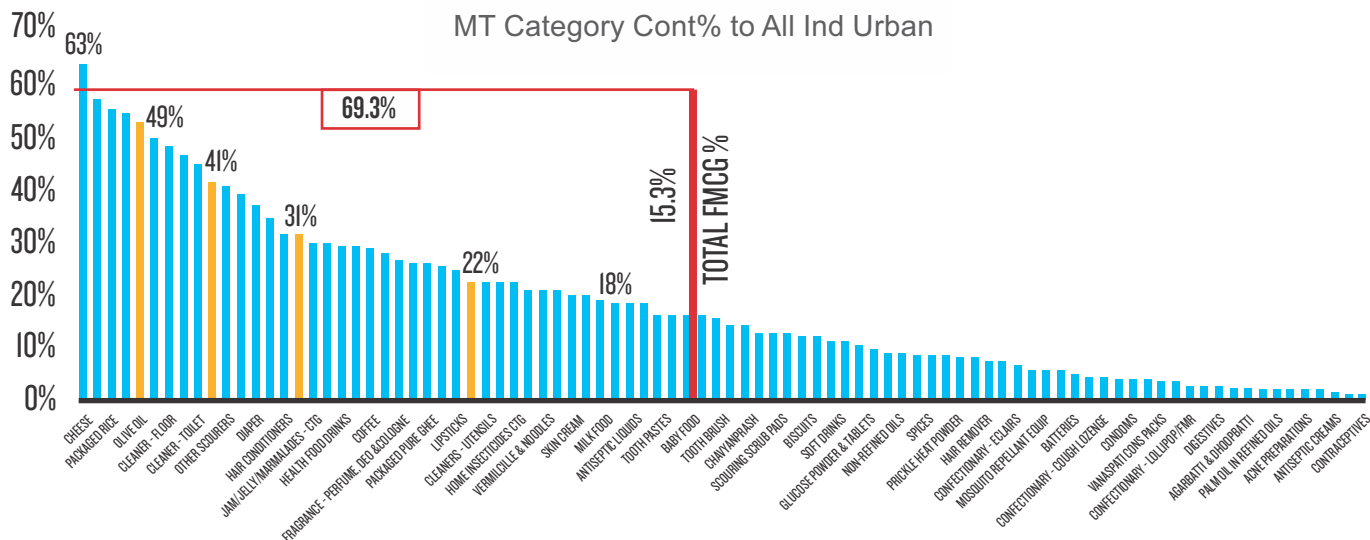


**TOGETHER, THERE ARE ABOUT 600 BANNERS IN INDIA, WITH THE TOP 20 CONTRIBUTING TO~75% OF THE BUSINESS.**

Of the 90 FMCG categories tracked, 43 of them have a higher MT contribution and make up almost 70% of total MT sales. Categories like Cheese, Breakfast Cereals, Packaged Rice, Hand-wash/ Body wash and Olive Oils have a much higher MT contribution, to the tune of 50%. Geographies aside, analysis of seasonal trends reveal that big sale events in January, May, August and during the festival of Diwali are a huge draw for consumers, taking the MT contribution to 17% from 15%. Categories like Washing Powders, Chocolate, Salty Snacks, as well as large packs of Packaged Rice, Diapers, Packaged Tea and branded packs of Deodorants are a big part of shopping baskets during events.

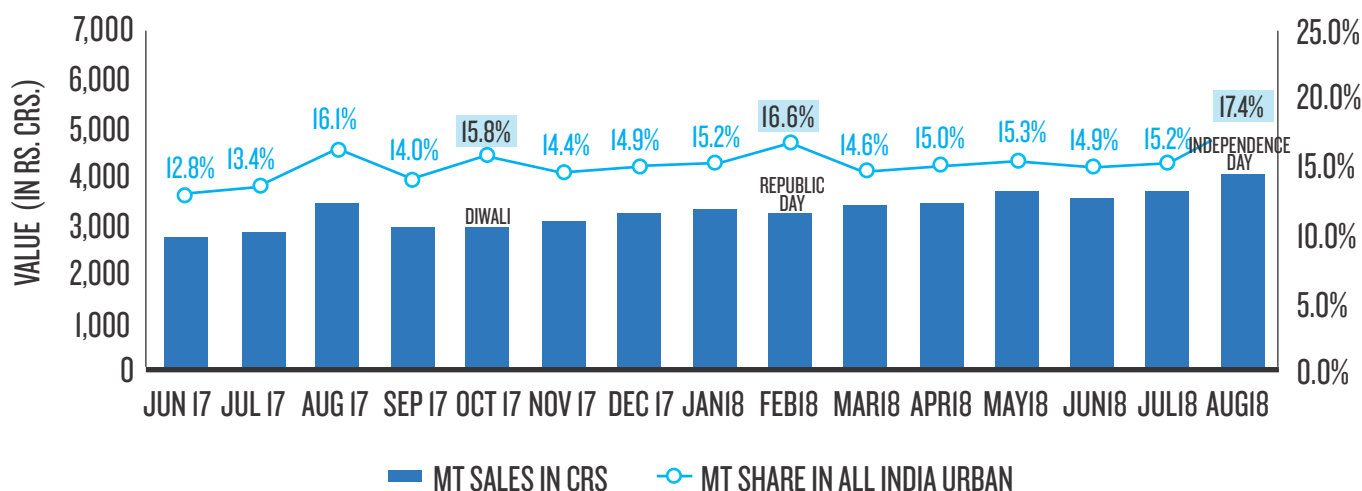
<sup>1</sup>Supermarkets are defined to include all chain and stand-alone stores, that have an area of less than 15000 sq ft, and not more than 9 POS counters. The rest are classified as hypermarkets.

## 43 CATEGORIES OVER-INDEXED IN MT WHICH CONTRIBUTE 70% OF TOTAL MT SALES



Source: Nielsen MT Index

## MT SHARE PEAKS TO 17% DURING BIG DAY MONTHS



Source: Nielsen MT Index

## WHAT THE FUTURE HOLDS FOR MT AS A CHANNEL

- Omni-channel is the new reality** - Consumers are no longer shopping entirely online or offline. Rather, they're using whatever channel best suits their immediate needs. In the scenario where consumers frequently use both, thinking in terms of bricks versus clicks is fast being replaced by bricks-and-clicks. A large retail brand has introduced a 'Click-and-Collect' model, allowing customers to shop through the app and collect their groceries at convenient pick-up centres.

- **Pricing is still a big draw for MT** – The already fierce and ever-increasing competition in grocery retail has been heightened by the entry of e-commerce players. So, all the major retailers are focusing on providing the greatest value to consumers at low prices. A large retail brand has introduced the ‘everyday low price’ strategy, which involves offering customers discounts on a daily basis. Another offers a ‘lowest price guarantee’ across all their stores for key Stock Keeping Units (SKUs). A third prominent retail brand offers low prices everyday only in their hyper format stores. In this situation, price will continue to play a major role until retailers are able to carve a differentiated identity for themselves.
- **Innovation in payment options** – Technology is a strategic imperative today, and in this setup, mobile digital wallets are critical for retail businesses. In addition to simplifying payments it is also convenient for modern, smartphone users, resulting in faster checkouts and cashless transactions. A survey by GlobalData<sup>2</sup> reveals that the share of cash or cheque including cash on delivery, in total e-commerce transaction value, declined from 31% in 2013 to 16% in 2017. During the same period, the share of mobile wallets jumped from a mere 7% to 29%. Both mobile wallets and digital loyalty wallets are gaining favour in India. For instance, the app of a major retail player allows shopping across all group outlets. The app is specially created for the loyal customer base and gives users exclusive offers and deals.

With the government’s focus on building infrastructure and facilitating widespread digital adoption, the environment is conducive for the continued growth of MT.

<sup>2</sup>Source: <https://www.google.com/url?q=https://www.globaldata.com/mobile-wallet-gradually-displacing-cash-india-says-globaldata/&sa=D&source=hangouts&ust=1541827357427000&usg=AFQjCNE8fP0OBD62DuLSNj-PwJjFV70k6g>

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## ABOUT NIELSEN

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