FEATURED INSIGHTS
DELIVERING CONSUMER CLARITY

RETAIL REVOLUTION
EVOLUTION OF RETAIL CHANNELS IN INDIA

• GROCERS AND GENERAL STORES SHOULD CONTINUE TO DRIVE RETAIL FMCG GROWTH

• CHEMISTS CHANNEL IS GROWING 20% FASTER THAN TOTAL FMCG CATEGORY

• MODERN TRADE CHANNELS ARE INCREASINGLY BEING USED AS LABORATORIES TO TEST PRODUCT INNOVATIONS

Twenty years ago, grocery shopping involved going to the neighbourhood grocer and making one’s choices from the limited offerings available. Today, it’s a whole different ball game. Supermarkets, mini-marts, speciality stores and even online grocery shopping have made life easier for consumers. Life for manufacturers, however, is only getting more complicated. With so many options available, how do they track existing and evolving retail channels? Which one do they focus on?

GROCERS – STILL THE BIGGEST

Grocery and general stores account for more than 75 percent of fast-moving consumer goods (FMCG) sales and together form the biggest retail channel in India.

For a long time, the key point of difference between grocers and general stores was the kind of stock they offered. Grocers tended to stock provisional items like food grains, cleaning supplies, etc. General stores, on the other hand, offered a wide array of packaged food and non-food products. However, over the years, this distinction blurred. Today, grocers and general stores offer very similar services and products. The variety offered by these retailers has ensured their popularity despite the growth of other channels, and Nielsen studies indicate this situation is unlikely to change in the near future.
DON’T IGNORE CHEMISTS

Chemists have come a long way from just stocking medicines. Today, chemists in India form a significant channel for FMCG manufacturers. In fact, of the 20 categories that contribute to 80 percent of Chemists’ value sales, only eight are over the counter (OTC) medications. The bulk of these retailers’ sales comprise FMCG products. This shift largely reflects the Food & Drug Administration’s (FDA) increased regulations on sales of prescription drugs (Rx) and OTC drugs, which require chemists to maintain purchase and sales records, ensure one pharmacist is on duty at all times and collect prescription copies for every sale. In addition, the FDA’s 2012 National Pharmaceutical Pricing Policy has brought 348 essential drugs under price control. As a result, margins for these 348 drugs have dropped from 20 percent to 16 percent* while operational costs have increased. It is not surprising, therefore, that chemists are compensating for these changes by incorporating more FMCG stock in their stores.

“IF YOU ARE A MANUFACTURER, THIS MIGHT BE A GOOD TIME TO DEVELOP A SEPARATE CHEMIST STRATEGY. OFFERING ATTRACTIVE PROFIT MARGINS, BUYING DISPLAY OR SHELF SPACE WITHIN STORES, AND DEVELOPING STRONG RELATIONSHIPS WOULD BE A FEW GOOD WAYS TO ENSURE PRODUCT RECOMMENDATIONS.”

THE RISE OF ‘PAAN PLUS’

Paan Plus stores, usually small kiosks selling tobacco-based products and located near transport hubs like railway stations and bus stops or in residential areas and slums, are increasingly carrying a greater assortment of consumer goods, making them another important channel for FMCG manufacturers. More importantly, these stands and small shops allow for impulse, as well as regular purchases.
Despite being significantly smaller in store size than grocers and chemists, Paan Plus stores have been stocking up on FMCG categories including impulse items as well as regular purchase categories like hair oils and toothpastes. What’s noteworthy is that this channel thrives on impulse categories such as biscuits, salty snacks, chocolates and confectionaries.

Manufacturers could leverage this channel for low priced products and small packs. Given the smaller store size and limited stocking capability, it would be a good idea to ensure a regular stock replenishment plan for Paan Plus stores.

**GROWING IMPORTANCE OF MODERN TRADE**

The impact of globalization can be seen in middle class Indian households. Not surprisingly, shopping patterns for many of these consumers have also changed. Modern trade—driven by better value offerings, better promotions through big day sales, wider assortment and better shopping experience—is rapidly growing. The number of shoppers visiting modern trade outlets has doubled over the past five years. In fact, among those families frequenting MT, almost 50 percent of family purchases come from this channel. Nielsen studies indicate that two out of every three purchases in this channel are impulse buys. The implication is obvious: Shoppers can be influenced inside stores. Since the modern trade demographic is largely middle to premium-end consumers, we believe it has potential to drive successful innovations among target consumer groups.
With a new government, policy changes are likely. If Foreign Direct Investment (FDI) is permitted in multi-brand retails, modern trade will likely receive a significant boost. China, Indonesia and Thailand have already walked that path. Modern trade contributes between 40-60 percent of FMCG sales in these countries, due to the advent of retail giants like Walmart, Carrefour and Tesco.

Of course, local player interests in these countries remain protected by policy, offering great examples of local players coexisting alongside international players.

**NEW AND EVOLVING CHANNELS IN INDIA**

Liberalization has seen the rise of new trade channels which owe their growth to the increasing penetration of technology, exposure to global platforms and brands and changing consumer behaviour. The question is - are they the way ahead for the fast moving consumer goods sector?
E-COMMERCE AND M-COMMERCE: NEW KIDS ON THE BLOCK

E-commerce has been around for a while. However, as per our estimates, its contribution to FMCG is still less than 1.0 percent. Despite the consumers’ increasing access to online payment methods, shoppers restrict their use of these options largely to travel and electronics. One possible reason for this could be lack of consumer trust in the quality of FMCG products being delivered. The other reason could be that e-commerce sites still haven’t ironed out the kinks in their distribution and deliveries. Late or incomplete deliveries, product mismatches, etc., have not particularly endeared the concept to online shoppers. Players like LocalBanya.com and Bigbasket.com are trying to change consumer perception with new advertising campaigns and investment in optimal distribution capabilities. However, any change will take time to pay dividends.

M-Commerce, on the other hand, is a relatively new phenomenon. Players like Flipkart and Amazon are leveraging the rapid growth in mobile internet penetration to reach the 180 million* potential consumers accessing mobile internet from their smartphones. A number of online retailers have created mobile applications that can be downloaded and used by consumers.

M-COMMERCE WILL LIKELY DRIVE THE NEXT WAVE OF E-COMMERCE GROWTH.

MOBILE INTERNET SUBSCRIBERS (MN)

BABY STORES ARE GROWING UP

Child care remains one of the top priorities for Indian consumers and is one category where they will not compromise. With a population of 1.2 billion and a healthy birth rate of 21 births per 1000 population, marketers should keep track of opportunities in this space. To put it in perspective, baby stores are a rapidly growing channel in China. With a 14 percent compounded annual growth rate (CAGR) over the past four years, baby stores contribute approximately 1.5 percent of total FMCG store count in China today. This has been hugely driven by the country’s large population, despite its relatively lower birth rate than India. And these drivers are even more relevant for India where child care is an emotive purchase. With the Baby Care category growing 2.7 times faster than the overall FMCG category in India, it’s clear that the demand truly exists.

Although the baby stores channel is at a budding stage, it will likely continue to develop and grow in the future. And until then, manufacturers should remain focused on existing retail channels to drive penetration of baby-related categories.
Thanks to increased competitiveness across different retail formats – be it the traditional kirana, paan plus, modern trade or e-retailers, everybody is trying to go that extra mile to woo the Indian shopper.

Online has become an exciting destination with all the traditional perks of trial, ease of return & hard-to-resist bargains.

The average Indian consumer seems to have best of both worlds. While a trip to the supermarket swamps you with the feeling of ‘having arrived,’ the coexistence of mandis in the vicinity and local bazaars, offer a distinct local flavour. The experiential connection with the local culture that traditional trade offers has a strong pull.

While retail therapy is a strong driver for modern trade, e-retailing is the new kid on the block which breaks the norms of traditional shopping. It’s an exciting domain which offers ‘value’ to consumers in myriad ways. The young, educated, single/ newly married, working populace is the active online shopper driven by lack of time but willing to succumb to convenience and the plethora of choice that is available at just a click.

CONCLUSION

With a multitude of channels available, the manufacturer’s route to a consumer’s shopping list is a complex one. The growth of modern trade is matched by the equally steady growth of traditional channels. At Nielsen, we believe modern trade is important. However, it is equally important for retailers to focus their efforts on traditional channels, at least for some time to come, because of the sheer size and expected returns from them. It would be a fine balancing act, no doubt, but one we believe will yield rich dividends in the long run.
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ABOUT NIELSEN

Nielsen Holdings N.V. (NYSE: NLSN) is a global information and measurement company with leading market positions in marketing and consumer information, television and other media measurement, online intelligence and mobile measurement. Nielsen has a presence in approximately 100 countries, with headquarters in New York, USA and Diemen, the Netherlands.

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