

The new rules of consumer businesses: digital, innovative, contactless, riding on cost and efficiency

January 2021

By Harsha Razdan, Partner and Head, Consumer Markets and Internet Businesses, KPMG in India

(4 min read)

This has been a transformative, albeit difficult, year for consumer and retail businesses. COVID-19 has reshaped consumption trends globally, in many cases for the long term. The acceleration in e-commerce has marked the most significant shift in 2020. Pandemic-weary consumers have embraced online shopping, while retailers have scrambled to roll out new technologies and apps to meet shoppers' needs. The words 'contactless' and 'frictionless' have quickly become part of the new lexicon of consumer businesses. The pandemic has, in many ways, challenged retailers to reinvent themselves and respond to changing consumer expectations with thoughtful actions.

Key trends in 2020

- **Strategic alliances:** To bypass logistical hurdles, most consumer companies and retailers partnered with food-tech players, shared mobility and last-mile delivery service providers. This strategy helped ensure seamless order fulfilment to consumers
- **Neighborhood store moves online:** Traditional *kirana* stores stepped up their digitisation efforts to adapt to the new reality where the 'home becomes the hub'. This trend largely triggered the unexpected online migration this year. Moreover, with contactless shopping being a consumer preference and the forming of the NUE (New Umbrella entity) FinTech, digitisation will continue to move into a faster growth trajectory
- **New product innovations:** As consumers prioritised personal hygiene and wellness in the wake of the pandemic, brands raced to roll out new product variants. Essential products or items that made 'work from home' more manageable and convenient registered a surge in demand. Individuals also started prioritising availability and quality of products over specific brand names while shopping
- **Digitisation:** Several offline channels, across stand-alone and multi-brand stores, moved online, launching their own websites, mobile applications, and social media presence. The journey from offline to online not only boosted sales but also presented business continuity. In order to build trust and showcase a safe environment, mass usage of digital wallets or payments options was promoted. With the rise of online wallets and digital payments, collaboration of various companies in the overall Fin-tech ecosystem has helped transform the entire traditional model for good
- **Local sentiment and green consumerism:** Consumers became more conscious about what they're buying, seeking locally sourced and indigenous products. Conscious buying and prioritising sustainability have now become integral drivers in purchase decisions. Several brands swiftly altered their strategies to adhere to this shift in consumer behaviour.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

Going forward, we believe that it will be crucial for consumer companies and retailers to focus on a few additional themes.

Expectations for 2021

- **Direct-to-Consumer is the new standard:** Direct-to-consumer brands are flexing their partnership prowess and exploring innovative models to spark disruptive growth and profitability. Customer choices have come under the lens as their preferences have moved towards availability, rather than the breadth of assortment
- **Social commerce gains further momentum:** The marriage between physical and digital ecosystems in retail will likely be further strengthened in 2021. Social commerce offers immense potential for rapid growth— proving once again that, while consumers may not be meeting in person, socially driven commerce is uniquely embedded in their DNA. We could now expect 'chat first' instead of app first, or the point of sale (PoS) shifting from 'shopping app' to social platform chats in order to ensure availability across all touchpoints in the consumer's purchase journey
- **Mainstreaming touch-free technology:** Aside from growing online commerce, retailers also have the opportunity to enhance in-store interactivity in the form of virtual trial rooms, voice-based ordering, real-time inventory views, buy online and pick up in store, shop by appointment, etc. Experiential led retail businesses are expected to leverage AR/VR services as they focus on gaining a competitive edge – e.g. jewellery retailers are personalising experiences for shoppers. We could anticipate similar shifts for fashion, apparel and other sub-segments
- **Regionalisation focus to intensify:** Emergence of voice-assisted commerce, regional language-based content and video-based outreach will be among the strategies retailers adopt as they continue to increase their sales mix from smaller cities and towns
- **Cost and Efficiency focus:** To ensure that they are 'fit for future', companies are now exploring various approaches to optimise and reduce costs (e.g. re-negotiating contracts, reinventing organisation structures, etc.). Older concepts, such as Kaizen and just-in-time, are now gradually being replaced by 'what-if' strategies to combat black swan events. In order to improve efficiency, a flurry of investments is expected in supply chain, warehousing, inventory, and new technologies for shipping etc. Leveraging data and analytics for evaluating profitable store formats and developing customer loyalty programmes could gain momentum. Cost optimisation in every aspect of business, automation for backend functions, lean operations and de-risking of supply chains are some of the top priorities for firms going forward
- **Re-looking at procurement strategies:** Considering impact on imports and China sentiments, companies are actively looking for alternate sourcing avenues – imports from other countries and increased domestic sourcing in India to mitigate import risks and reduce lead time
- **Skill upgrades and vendor ecosystem tie-ups:** Changing market dynamics will require companies to invest in upskilling their employees (digital, analytics, etc.). Companies will also have to take a holistic view on skillsets, including softer aspects such as communication, sustainability, leadership, etc. We could also expect strategic and technical alliances within the larger ecosystem to ensure faster and more efficient consumer access (for e.g.: packaged food companies with delivery services for logistics)

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

- **IPO in International Markets:** Defying expectations, companies raised a record USD150 billion plus on U.S. exchanges in 2020¹. We expect many of our country's emerging tech startups to continue to ride this wave and gear-up for listings in International markets
- **Focus on India based Global Captive Centers:** With reduced travel commitments and cross border challenges, a huge opportunity lies for Captives to upgrade themselves and become more relevant to the global footprint with increased value-added work being executed out of India
- **Cyber Security at the core :** With 'work from home' and 'shop from home' expected to continue, firms will need to invest and get themselves attuned with industry data privacy and cyber security regimes to protect individual as well as company related data.

Indeed, the new year is already looking promising, with many businesses moving towards the digital horizon. Consumer Commerce is the future. While we do expect brick-and-mortar outlets to continue to play an integral role, being channel agnostic and customer centric will be key as competition continues to increase in today's retail.

Going forward, it will be important for brands/retailers to analyse shifting consumer preferences while continuously evaluating profitability across channels. In addition, with consumers spending more time at home, consolidation of infrastructure and investments in the direct-to-home channel will be critical, especially for small and medium sized businesses. There is opportunity for further growth here, with consumers willing to spend more for locally sourced products. Retailers will need to rapidly understand the new view of what is essential vs. non-essential. Brands that are able to tap into the psychology of economic cycles/consumer confidence will be the real game changers.

¹ Data from Dealogic

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2021 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. The KPMG name and logo are registered trademarks or trademarks of KPMG International.