Changing paradigms for winning in consumer sector

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Key takeaways:

- *With consumer wallets shifting across categories, it is imperative for brands/retailers to factor in the 'zero-sum game' and stay consumer centric going forward*

Another 'extraordinary year' has gone by. The year has been unpredictable and in this time of change, has created many new winners. Over the past year, India's consumer sector witnessed unprecedented raw material inflation, affecting most consumer categories. This has impacted Indian households as consumers bought less or looked for cheaper goods. Lockdown led constraints from 2020 have evolved into habitual patterns of spending as well as consumption in 2021.

Q2 witnessed a change with consumer demand tilting towards urban-led growth, rural consumption saw a slight dip. Most of the growth has come in from price inflation with volumes largely being stagnant. A latest industry report indicates an increase in price-led growth at 11.3 per cent YOY in Q2 versus 15.5 per cent in Q1 and a dip in volume-led growth at 1.2 per cent YOY in Q2 versus 18.5 per cent in Q1. Further, rural consumption has declined 2.9 per cent in Q2 versus 14.9 per cent growth in Q1.[1] Also, the driver for price hikes in previous quarters has largely been to withstand commodity price inflation, however impacting affordability adversely.

While there is optimism in the air, it is a time to be cautious as well. With consumer spends getting re-aligned across categories, organisations would need to factor in this 'zero-sum game' and change their approach to sustaining growth to conquer.

From what has been seen, a few strategies have been prevalent amongst the winners:

- **Value and convenience have emerged as the key drivers:** With growing pressure on household budgets, the perception of value is changing. Shoppers have demonstrated their willingness to put effort to seek value – be it in the form of price or experience.

- **Products/ services backed with innovation and direct customer relationships are gaining share:** Direct to consumer (D2C) brands, with significant war chests, are changing how consumers are interacting with brands. Consumers have shown a changing preference to nuanced/niche products and increasing comfort of experimenting through digital channels. An example is how super apps gaining clout; with leading retailers attempting to provide value and choices to consumers by bringing in multiple services under one umbrella and ensuring customer stickiness.

- **<u>Digital commerce and advertising are mainstream now, even in the business to business (B2B) space</u>:** Content-led models, focussed categories, and differentiated experiences have helped drive platform stickiness for consumers and small retailers. This is also applicable in B2B setups who are walking away with an increased share of wallet of smaller retailers.

- **<u>Customer experience is imperative</u>:** Creating frictionless journeys (connected experiences), right from awareness to sales to resolution, in an omni-channel model is increasing customer stickiness, and thereby, growing customer lifetime value. An example of this is how brands are seeking to connect with customers and shore up their brand reputation amongst the younger groups by leveraging influencer marketing. An 'influencer-first' strategy through various online social channels is gaining popularity, with investments in local/regional languages and curating relevant content being key.

- **<u>Digital and data backed thinking is winning</u>:** In an environment with an abundance of data, and channels available to monetize it; firms who have already invested in capabilities are seeing the return flow through.

- '**<u>Purpose' coming to the forefront</u>**: consumers are indirectly inducing brands to move to new categories or packaging or ingredients that are 'better for us.' An example is how climate conscious consumers shunning plastic packaging or choosing to buy local.

So, what does this mean as we step into the new year? Players would need to be ever more vigilant while fighting for a consumer share and double down on the points above. This would have an implication on some elements of operating model, and hence, there is a need of being mindful of the risk elements that were not a focus in the past. These include –

- **<u>Active participation in venturing</u>:** Early investments in innovations to scale acquisitions.

- **<u>Embracing partners and eco-systems</u>:** To allow for quick adoption of 'the new', without waiting to build internal capability.

- **<u>Managing data, privacy and fraud actively</u>:** Digitalisation has led to a shift to a more 'consumer privacy and data protection' focussed business model. Now, businesses need to ensure proper security measures to deal with fraud, data breaches, and other threats which could damage company reputation or consumer brand trust. Many companies are becoming custodians of consumer data for the first time and need to manage expectations on privacy and prevailing laws.

- **<u>Relooking at the cost of doing business</u>:** With the sudden spurt of new/alternate channels and niche categories emerging, it is important for brands/retailers to monitor profitability across channels and categories. It is critical to rethink the range and assortment, re-examine the real estate portfolio, workforce, and existing investment budgets to realign with best returns.

2022 promises to be exciting with many of the above playing out and putting new stresses on consumer companies. The uncertainty driven by COVID-19, recovery of the economy and easy access to war chests will create new winners. However, keeping one's ear to the ground and staying consumer centric is a good mantra to stay ahead.

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[1] NielsenIQ report on Q2 FMCG data, accessed on 23 December 2021