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*◆ INDIA *👁️ PHYGITAL INDEX —◆✕ ◆◆ >>> 2023

A Blueprint for Successful
Omnichannel Retailing in India



ABOUT US



Established in 1992, IMAGES Group is India's most prolific and influential disseminator of retail intelligence. Recognised by Indian and international retail communities through its B2B magazines, conferences, exhibitions, research reports and web portals, the IMAGES Group is the largest retail intelligence organization in South Asia and the Middle East, whose multiple products and services function as catalysts for the profitable growth of modern retail through knowledge platform leadership.

The Group's knowledge platforms include print and online reportage, research studies, and major annual business events with conferences, masterclasses and workshops serving multiple verticals/segments/operations of retail. The mega industry events include: India Food Forum, India Fashion Forum and the Middle East Retail Forum.

Fynd is India's largest omnichannel retail platform and a global multi-platform tech company with expertise in retail tech, artificial intelligence & machine learning. Fynd's bespoke solutions enable retail brands to connect online and offline commerce. Fynd has scalable technology and expertise to integrate with the brand's brick and mortar stores, web stores, and business on third party marketplaces.



Fynd's holistic omnichannel management suite integrates inventory visibility across all stock-points. It allocates, creates, and processes orders and aligns last mile logistics to manage order fulfillment up to the customer's doorstep. Other than increasing sales, the platform helps brands seamlessly manage product catalogs & multiple sales channels on a single panel and offers a smooth and satisfying experience for a brand's end customers.

Fynd has proven its capabilities by managing 2,300+ brands, 10,000+ stores, contributing to 15-30% additional store sales, syncing 720B+ units of inventory & processing 1.5M+ orders per month.

ABOUT US



At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 152 countries with over 328,000 people who are committed to delivering quality in advisory, assurance and tax services.

In India, PwC has offices in these cities: Ahmedabad, Bangalore, Bhopal, Bhubaneswar, Chennai, Dehradun, Delhi NCR, Hyderabad, Jaipur, Kolkata, Mumbai, Patna, Pune, and Raipur. For more information about PwC India's service offerings, visit www.pwc.in

PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.

Strategy& is a global strategy consulting business uniquely positioned to help deliver your best future: one that is built on differentiation from the inside out and tailored exactly to you. As part of PwC, every day we're building the winning systems that are at the heart of growth. We combine our powerful foresight with this tangible knowhow, technology, and scale to help you create a better, more transformative strategy from day one.

As the only at-scale strategy business that's part of a global professional services network, we embed our strategy capabilities with frontline teams across PwC to show you where you need to go, the choices you'll need to make to get there, and how to get it right.

The result is an authentic strategy process powerful enough to capture possibility, while pragmatic enough to ensure effective delivery. It's the strategy that gets an organization through the changes of today and drives results that redefine tomorrow. It's the strategy that turns vision into reality. It's strategy, made real.



FOREWORD



IMAGES
GROUP. IN

Dear Readers,

Retail in India has truly come of age. And all its drivers—consumption, economy, innovation, technology—are equally powering the spectacular growth of the industry in the world's most exciting, aspirational market. The rise of India-Bharat as a Retail Powerhouse underlines the country's largest retail business event—Phygital Retail Convention (PRC) 2023. Held on 11th-12th May 2023 at the Jio World Convention Centre, Mumbai, PRC 2023 is hosting the who's who—and who's next—in the business of retail in India at a mega, 100,000 sq.ft highly experiential environment. Among many highlights of the event is the launch of India Phygital Index 2023 Report, which covers how Industry leaders offer integrated offline and online experiences to consumers that help them win. PwC Strategy&, the strategy consulting arm of PwC, along with IMAGES Group and Fynd, is creating this year's report.

As you will find in this in-depth report, its foundation is a category-specific survey to understand across analytics, marketing, omni experience, logistics, profitability and many more dimensions of brands and retailers across multiple consumption verticals. The research team has gone all out to gather valuable data and insights from every large and small, major and upcoming, retail and allied company in India. To share some names, Aditya Birla Fashion and Retail Limited, Arvind Fashions Limited, Cravatex Limited, DLF, GOPIZZA India Pvt. Ltd, Liberty Footwear, Kaya Skin Clinics, Landmark Group, Mad Over Donuts, Reliance Brands Limited, TCNS Clothing Co. Limited, Shoppers Stop, Starbucks, Titan Company, Usha Appliances, Da Milano, Rebel Foods, Trent Ltd., are just a handful of the brands and retailers whose phygital prowess and strategies will be unveiled in this remarkable report.

These are invaluable industry insights—what's the latest, what success looks like today and tomorrow, how to ensure you continue winning, among many other topics. The intent is to help organisations get more clarity in the dynamic and rapidly evolving consumer universe of today, and reset their priorities via decision making.

This report is the outcome of truly path-breaking work done by Strategy&, the strategy consulting arm of PwC, and Fynd, along with the team at IMAGES, and I expect it to become a valuable asset for every consumer brand and retailer aiming to win in the Indian market of today and tomorrow.

Amitabh Taneja
Managing Director
IMAGES Group

FOREWORD



Fynd

Dear Readers,

If 2022 taught us anything, it's that myths about the decline of offline retail are just that: myths. Retailers in India leased nearly 4.7 million square feet of space across top cities in 2022 alone.

It's not just a comeback; it's the age to cater to an audience that prefers experiences over products, and big retail brands are globally capitalizing on the trend. While the US is the hub of such stores, India too is on a steady rise.

India Phygital Index 2023 highlights how online-launched D2C brands are now moving offline and readjusting their physical store strategies. They are adopting technologies that facilitate omnichannel experiences, like QR codes, endless aisles, and self-checkouts.

The report also highlights iconic offline brands moving online to serve customers from smaller towns. However, online penetration is limited in categories like beauty and personal care, apparel, and home & furnishing, which require a higher level of look and feel. Retailers need agile and flexible commerce to bridge this gap, and composable commerce is the answer.

The omnichannel buzz can be overwhelming, but to stand out, retailers need to scale up to the right architecture to unify offline and online channels in the truest sense. From headless commerce to in-store experiences, technology adoption is the only key driver to combat changing market conditions, customer preferences, and emerging trends.

At Fynd, it has been a great experience to power the India Phygital Index 2023 by leveraging our omnichannel connection with brands in compiling the report. I hope this report will provide valuable insights into the current and future trends in the retail industry and help retailers prepare for the challenges and opportunities ahead.

Harsh Shah
Co-Founder
Fynd

PREFACE



Ravi Kapoor
Partner & Leader,
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PwC India



Girish Shirodkar
Partner, Strategy&,
PwC India

2022 is the year the Indian retail industry finally put COVID firmly behind. While offline retail has recovered, the consumer's continued embrace of the online world is ensuring that online continues to grow rapidly.

It is hence crystal clear that the present reality of retail is phygital. Customers' purchase journeys hop seamlessly from on-line to off-line and vice versa. Winning in this reality requires a clear focus not just on discovery/access but customer delight, a consistency in service across all channels, and timely fulfillment.

A holistic omnichannel approach is the foundation which seamlessly and consistently integrates all aspects of the retail value chain from assortment selection, showcase, inventory optimization, frontend staff, fulfillment and returns, etc., in order to deliver a consistent, personalized brand experience to customers.

In this report, we examine and answer three key questions likely to occupy retail leaders' minds:

1. How will online penetration evolve in each retail category?
2. How should we try to win in ecommerce? Focus purely on marketplaces or double down on our own website?
3. How can you create an omnichannel right to win in the current online-offline paradigm?

To answer these questions, we reached out to over 100 top Indian and global brands operating in India across categories, using the Images database built over 20 years, for an in-depth survey about the scale of their ecommerce business, their omnichannel readiness across people, analytics, marketing, customer experience, logistics, profitability, and many more dimensions. We analyzed ~3 million ecommerce transactions across 250 brands to derive insights into consumer behavior. We also interacted with more than 50 practitioners and leaders in the industry.

Additionally, our teams reached out to internal Retail Sector experts across the PwC network globally and comprehensively researched the latest developments in ecommerce and retail.

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EXECUTIVE SUMMARY 1/4

2022 was the year the retail market has fully recovered with organized retail sales in FY2023 clocking in 34% above pre-pandemic levels (FY2020), with healthy growth across all regions. Driven by the economy's continued growth, the number of households earning over ₹1 million per annum is expected to nearly double to ~78 million by 2030. Consequently, the Indian luxury and premium retail markets are expected to outpace the growth in the mass segments.

Why ecommerce penetration continues to grow

Ecommerce has rapidly made inroads into our lives in the last decade and is expected to grow at 24% CAGR by 2025. In order to understand the ever-increasing share of ecommerce, we must understand the underlying drivers:

- **Shifting Consumer Mindset:** Consumers have come to increasingly trust online channels & sellers with an increasing share of their wallets, thanks to consumer-friendly features such as unbiased user reviews, detailed specifications, review videos, and user-friendly return policies. Video/live shopping could attract even more customers by making online shopping more recreational, and interactive.
- **Supply:** Ecommerce has enabled delivery to ~25k serviceable pincodes in the country, as enabled by the marketplace, opening up access to markets otherwise untouched by regular store network. As marketplaces continue to build scale they are reducing entry barriers for new D2C brands/private labels, enabling next-day delivery, and minimal setup cost.
- **Social Media:** Social media has become a brand awareness channel where customers regularly consume hours of targeted advertisements, branded content, and engagement campaigns every week.
- **Infrastructure:** This ecommerce growth is underpinned by consumer adoption of smartphones and mobile internet and the UPI stack.

However, online retail penetration varies across categories—with categories that require touch & feel and lack standardization such as Beauty & Personal Care, and Home & Furniture lagging behind more objective categories such as Electronics & Appliances. The sector where online penetration is the least is Home & Furnishings. This is due to the unorganized nature of the category and deep need for touch & feel. Even in global markets, no profitable Home & Furnishings marketplace has yet demonstrated lasting profitability.

Within ecommerce, marketplaces comprise over 80% of online sales, which is predominantly led by horizontal marketplaces such as Amazon and Flipkart. Vertical marketplaces have made headway only in specific categories—Nykaa has built key category-specific features such as assurance of authenticity, easing trials and try-ons, and an unbiased community of users providing advice. Zomato and Swiggy lead food delivery thanks to their investment in a large hyperlocal logistics network that ensures timely delivery.

The latest growth driver of ecommerce is quick commerce (qcommerce) which is actively looking to cannibalize the neighborhood shopping market. Qcommerce has become a virtual shopping arcade that has expanded from Grocery to Beauty & Personal Care and is adding new categories rapidly.

EXECUTIVE SUMMARY 2/4

How online and offline shopping journeys are converging

Today, the customer purchase journey moves online-offline and back seamlessly—e.g. customers may research products online, only to go offline to get a demo and buy it.

Consequently, D2C brands are moving offline to monetize their brand, further build customer trust and complete the customer journey touchpoints. However, going offline requires the development of a completely new mindset and capabilities for D2C brands such as mature site-to-store processes, offline assortment planning, visual merchandising, among others. At the same time, legacy offline brands have also started moving online to leverage their loyal customers.

We are pleased to note that almost half the participants in our survey from the Fashion & Lifestyle and Food & Grocery sectors reported >10% online sales.

How can retailers compete on, and with marketplaces

Marketplaces present a unique opportunity—with users running into the hundreds of millions, online marketplaces are a low entry barrier sales channel for brands. As a result, D2C and private brands have launched and thrived on marketplaces. Similarly, many new dark and cloud kitchens have launched and thrived on food delivery platforms.

For existing offline retailers, the decision to build the brand's own website is not straightforward. It is dependent upon the product category and the brand salience—consumers are far more likely to buy an expensive mobile phone directly from original equipment manufacturers (OEMs) than a packet of mosquito coils. This issue is exemplified in the Food Delivery space where customers are more likely to open the leading food delivery apps which have the largest restaurant network.

Technology is making hitherto advanced features accessible for a small fee to any organization. AI & AR can help create a differentiated end-user experience by enabling users to virtually place a product in their household or try various fashion accessories on themselves. With the cost of integrating AR reducing drastically over the last few years, its adoption is likely to grow.

What is the secret sauce of winning in omnichannel

Only a few mature global brands have been successful in providing a unified and consistent omnichannel experience—with regular & personalized customer engagement, unified pricing & sales events, easy online/offline shopping & returns, and a consistent brand experience across channels. Delivering omnichannel delight requires consistently high operational KPIs for which brands must make thoughtful step-wise investments to enhance the capabilities across people, processes, and technology.

Our survey revealed that brands have started leveraging their omnichannel capabilities to improve profitability by optimizing assortment and omnichannel fulfillment to maximize return on ad spends (RoAS) while setting up dedicated omnichannel teams. This has resulted in 60%+ survey respondents indicating that they earn a RoAS above 4.

EXECUTIVE SUMMARY 3/4

Imperatives for the C-Suite

CXOs, instead of trying to do everything at once, need to focus on an incremental step-change approach to build the right capabilities and organizational strength to deliver meaningful impact with customers while transforming their organizations to be truly omnichannel ready with the following steps:

Gain discoverability with the online customers:

- Leverage the dominance of marketplaces to seed and gain visibility with the online customers.
- CXOs need to turn this visibility and ensure their brand is demonstrating success on marketplaces by developing well-rated best sellers, achieving high RoAS, high availability and fulfillment metrics etc.
- Focus on few but critical set of capabilities to turn online-ready with cataloguing, sourcing & supply chain capabilities.

Establish direct engagement with customers:

- As the brand achieves recognition on marketplaces, CXOs need to turn focus on own ecommerce website/apps to create a direct interface and connect with their customers.
- Brands need to start with a strong, compelling value proposition which is clearly articulated and communicated to their target audience.
- Brand ecommerce website & apps should become the cornerstone of delivering the stated value proposition with clear strategies to build traffic at low cost, optimize customer acquisition costs (CAC), achieve differentiation via service and fulfillment performance indicators (KPIs) and others.

Enable seamless omni-experience:

- As the brand's connect with digital experience matures, delivering rich and seamless omni-experiences to customers is an imperative for which CXOs need to ensure not just omnichannel feature deployment but also organizational alignment through cross-channel integrated functional planning (for assortment & pricing, marketing, sales events, CRM), frontend employee training and incentivization, adequately tech-enabled omni supply chain and other aspects.
- CXOs of D2C brands on the other hand would need to further double down on customer trust and serviceability by developing and expanding offline presence. To do this successfully, they need to develop critical capabilities to undertake catchment offering fit, identify the right locations, store size, layout, assortment, inventory planning, and visual merchandising.
- D2C CXOs would also have to undertake channel expansion strategy across both modern and general trade while digitizing the channel to ensure a seamless online to offline experience even via channel partners.

EXECUTIVE SUMMARY 4/4

Earn long term customer loyalty & advocacy:

- CXOs need to develop a set of differential capabilities in customer analytics, feedback-based assortment planning & pricing, etc. to deliver hyper-personalized experience to customers.
- CXOs need to strive constantly to increase customer lifetime value (CLV) by molding an organization that can identify and react to evolving customer needs from their brand/category in a hyper-competitive space.





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01 How will ecommerce penetration evolve?



Strong domestic consumption will drive healthy growth across retail categories

Indian Retail Market

(in USD billion)



Key Growth Drivers

Economic growth

- **6.5%** projected real **GDP growth** in FY2024
- Retail inflation has **declined to 5.8%**

Private Final Consumption Expenditure (PFCE)

- **56.9%** of GDP in FY2023
- Expected to grow to 57.2% in FY2024

Growth in online sales

- **Online** retail market to **grow at 22%** from 2022-25
- Driven by increased buying in tier 2 and 3 cities

Emerging tier 2 and 3 cities

- **77%** of internet users are from tier 2 and below cities
- **50%** of online shoppers are from tier 2 and 3 cities

Source: Euromonitor.com; MPC Report Feb'23; CEIC; Mint; Statista; Strategy& analysis

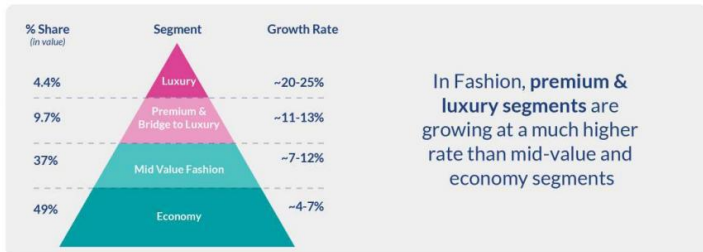
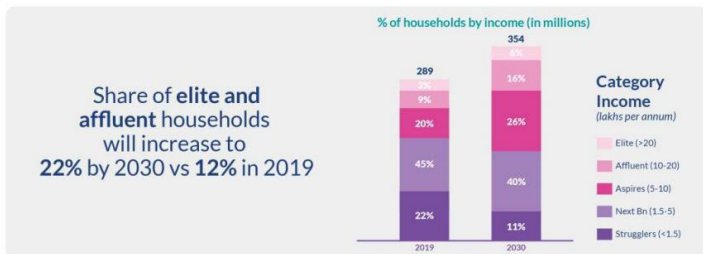
Category-wise Split

Categories focused in this report



Source: Euromonitor.com; Mordor Intelligence; BCG DCii Report; Strategy& analysis

Driven by a rising affluent class, Indian market is witnessing high growth in luxury and premium segments



High disposable income & aspirational shift to premium brands attract luxury brands & the need to go phygital

Impact of shift towards premium products

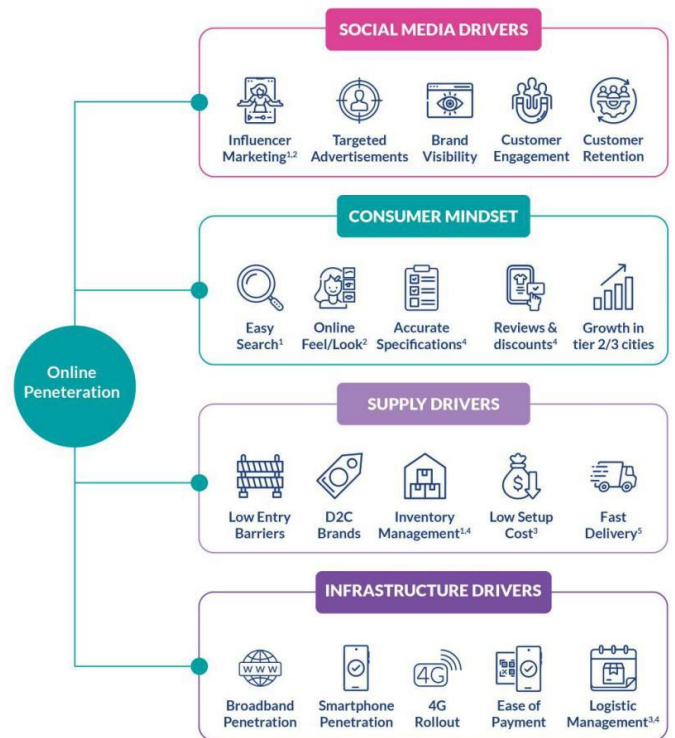
- 90% y-o-y EBITDA growth in Louis Vuitton's India business in FY2022
- 28% y-o-y growth in Luxury Goods Retail's revenue in FY2022
- 50% Growth in Luxury Time Pvt Ltd's sales in 2022 over 2019

Go Phygital

- Experiential Selling
- Emotional Touchpoints
- 4G Rollout

*Luxury Goods Retail Private Limited is a JV of Gucci in India
Source: Euromonitor.com, DCL report: BCG, MatrixPartners, Toffer, Mint, Strategy& Analysis

Online penetration is determined by social media reach, consumer mindset, supply and infrastructure

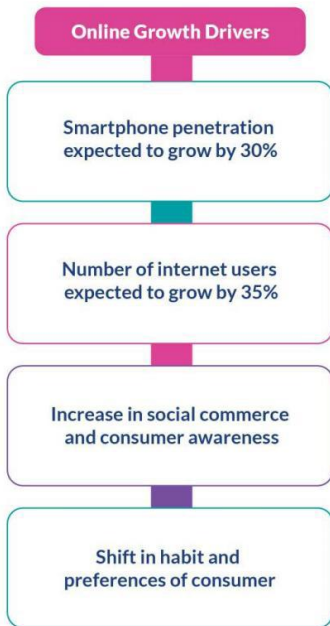


- 1 - Apparel & Footwear
- 2 - Beauty & Personal Care
- 3 - Home & Furnishing
- 4 - Electronics & Appliance
- 5 - Food & Beverages

Source: Strategy& analysis

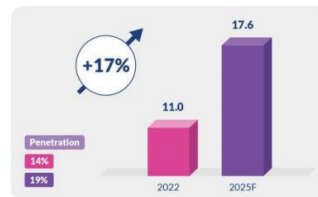
Online retail will grow at a CAGR of 22% till 2025, led by Food Delivery and Beauty & Personal Care sectors

Online penetration for selected categories (2022 to 2025, USD billion)

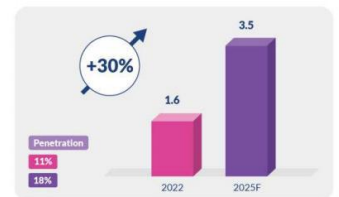


Source: Euromonitor, Statista, Mordor Intelligence, Economic Times, Zomato, Credit Suisse, Strategy& analysis

Apparel & Footwear (2022 to 2025, USD billion)



Beauty & Personal Care (2022 to 2025, USD billion)



Furniture & Home Textile (2022 to 2025, USD billion)



Electronics & Appliances (2022 to 2025, USD billion)



Food Delivery (2022 to 2025, USD billion)



Food delivery does not cannibalize offline market

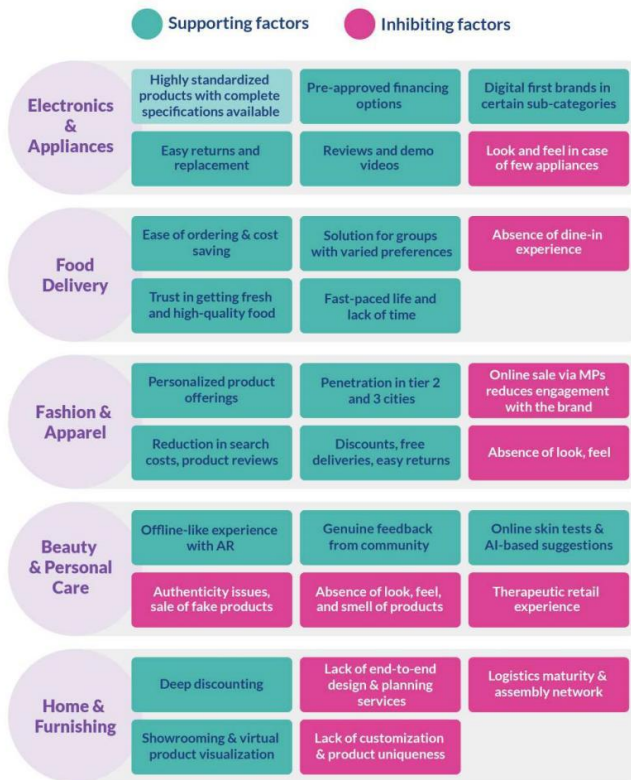
Online food delivery market mostly replaces home meal preparation and so has led to incremental growth for the category.

In FY2023, 40% of brands achieved growth via online channels

50% of brands expected a growth rate via online channels in FY2024

Based on survey conducted among retailers across these categories, 60+ questions asked across analytics, marketing, omni experience, logistics, profitability
Source: Euromonitor, Statista, Mordor Intelligence, Economic Times, Zomato, Credit Suisse, Strategy& analysis

Online retail penetration lags in categories that require touch & feel and lack standardization

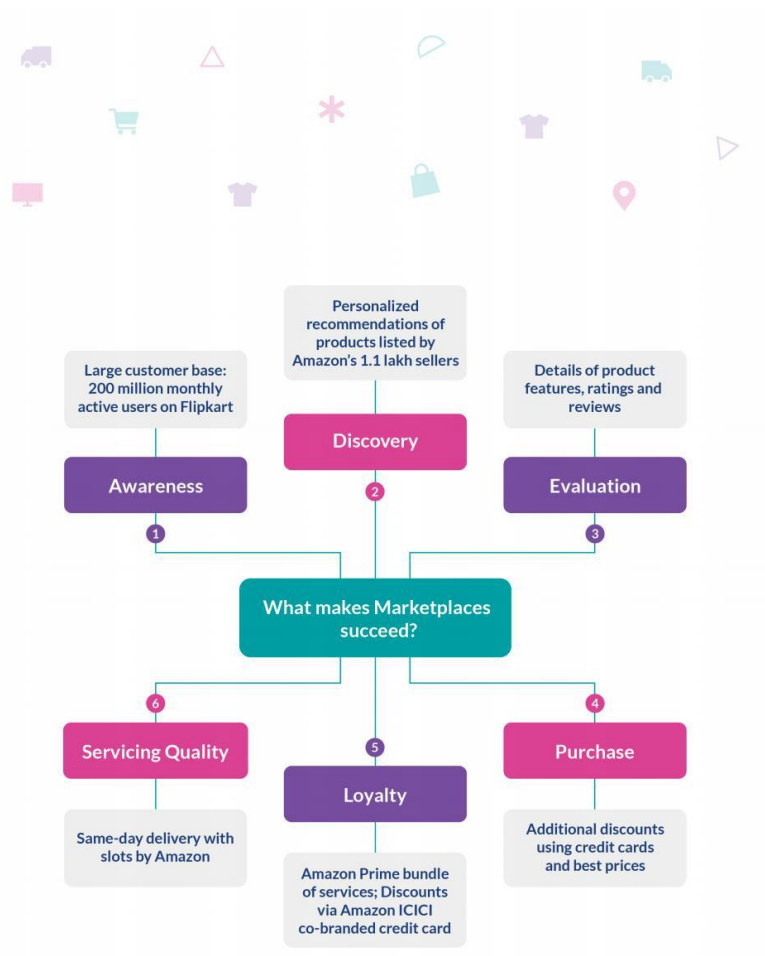


Ecommerce is dominated by marketplaces which corner over 80% of online sales



¹Based on survey responses

²Considering only Fashion & Apparel responders
Source: Euromonitor



Source: Amazon, Times of India, Strategy& Analysis

Nykaa accounts for 38% of the online beauty & personal care market by making trials & try-ons easy, unbiased recommendations & assured authenticity

Vertical marketplaces attract customers by solving category-specific customer anxieties

Product and review authenticity is assured	Easy trials to understand how a color looks	Community Building + Customer Loyalty
<p>Every product listing mentions that Nykaa is an authorized seller</p>	<p>Pick a trial-sized product, get a coupon to buy the final product</p>	<p>Loyalty Program</p>
<p>Research firms like Ventura, Motilal Oswal, ICICI appreciate Nykaa's unique inventory model: Buying from Nykaa assures that products are 100% genuine</p>	<p>Virtually try different lipstick shades</p>	<p>Live influencer sessions</p>
	<p>Buy from a nearby store or deliver to your home</p>	<p>Axis Capital: Nykaa Network is India's first beauty user forum to hit 3.6 Mn users</p>

Source: Authenticity Certificate, Nykaa Army, Nykaa Virtual Trial, Loyalty Program, Influencer Sessions, Virtual Try-On Report, Try & Buy example, ICICI, Ventura, Motilal Oswal, Axis Capital, Statista, Strategy& Analysis

After consolidation, Zomato and Swiggy have emerged as the biggest platforms in the organized online food delivery market

Supply-side drivers for consolidation

Hyperlocal logistics muscle

High capital required to sustain volume
No. of delivery partners:
Zomato 285k, Swiggy 300k

Restaurant network

Provide a wide range of options to customers
No. of active restaurants:
Zomato 180k, Swiggy 228k

Promotions

Restaurant-specific offers
Lower prices than competitors

Demand-side drivers for consolidation

Large customer base

Large number of reviews leads to easy decision making
No. of active users:
Zomato 16Mn, Swiggy 20Mn

One-stop solution

With a market share of 54% and 46%, Zomato and Swiggy, respectively, are preferred since food is a category in which variety and timely delivery are paramount

Source: Zomato, Swiggy, Entracker, Tracxn, Crunchbase, Economic Times

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Funds raised (USD)

Zomato: 2.6Bn
Swiggy: 3.6Bn

These investments funded losses

Zomato and Swiggy have recorded more than USD 1.2Bn in losses each, since their inception

Heavy investment in the acquisition of Food Delivery platforms as last-mile delivery is the most critical factor

Acquisitions were due to the loss-making nature of the business

Food Delivery startups acquired by Swiggy

48East

2017

Food delivery startup in Bangalore

Scootsy

2018

Delivery-based startup in Mumbai

Food Delivery startups acquired by Zomato

Sparse Labs

2016

Hyperlocal delivery startup

runnr

2017

Hyperlocal delivery startup

Tech Eagle

2018

Drone-based delivery startup

Uber Eats

2020

Food delivery platform

Source: Zomato, Swiggy, Entracker, Tracxn, Crunchbase, Economic Times

INDIA PHYGITAL INDEX 2023

Marketplaces are continuously pushing both strategic & operational levers in search of profitability

	Non-Food Retail	Food Retail
Scaling up private labels	<p>Myntra has been pushing private labels to bring their share to 30-35% of GMV</p> <p>Launch of Amazon Basics for high-quality electronics products at a low price and Solimo for Home & Kitchen segment</p>	<p>Swiggy operates private labels like Bowl Company, Breakfast Express and Homely</p> <p>"Zomato Everyday" services to diversify Zomato's offerings. "Hyperpure" provides best-quality ingredients to restaurants</p>
Backward Integration	<p>Marketplaces operate through preferred 3rd party seller</p>	<p>Swiggy experimented with "Swiggy Access" and rented out kitchen spaces</p>
Logistics Cost Optimization	<p>Marketplaces look to cut down on delivery costs by optimizing warehouse operations</p> <p>To reduce returns-related losses, returns management is a key priority area</p>	<p>Both Zomato and Swiggy have acquired multiple startups to optimize last-mile delivery</p> <p>Platforms like Zepto and Blinkit plan dark store locations to optimize delivery times and costs</p>

Source: The Hindu Business Line, Economic Times, Amazon Solimo, Benchmark Six Sigma, CNBC, Eshopbox, Money Control, Crunchbase, Business Outreach, Forbes India, Zomato, Hyperpure

Online marketplaces have substantially reduced entry barriers & costs for D2C brands

KEY DRIVERS	Large customer base	Build trust through user reviews	Seamless user experience	
	Product display and cataloging	Supply chain & logistics support	No hassle in receiving post purchase payments	
	Identifying White Spaces	Products	Growth	Online Revenue*
mCaffeine	Ingredient-based differentiation, not concerned about fair skin tone	Body care, face care & hair care products based on coffee, cappuccino, espresso, latte, choco, and green tea	<ul style="list-style-type: none"> Majorly online sales, sold via offline channel after 6 years, no exclusive brand outlets Directs customers to the website from Instagram using influencer marketing 	\$16 million (FY 2022)
boAt	No brand in mid-range wearable and headphone category	Wired and wireless headphones, home audio equipment, TWS, smartwatch, trimmers	<ul style="list-style-type: none"> Built its presence through marketplaces Started offline distribution in 2019 through distributors and retailers 	\$140 million (FY 2021)
Libas	Identified the need for casual ethnic wear. Brands focused on ethnic occasion wear	Women's ethnic wear	<ul style="list-style-type: none"> Launched own website after around 5 years of launch on marketplaces Acquired customers through marketplaces and diverted them to the company website 	\$66 million (FY 2022)

Disclaimer: Brands mentioned are examples of companies across different industries. The brands shown are not exhaustive
 *Online revenue amounts to ~90% of the total revenue
 Source: boAt DRHP; Inc42 reports, Business Standard, Images Group, Economic Times, Finology, Strategy& analysis

Similarly, many new dark and cloud kitchens have launched and thrived on food delivery platforms

Cloud Kitchen Market in India
(2019 to 2023, USD million)



Drivers for growth

- Low operating costs**
Reduction in overhead costs, improved efficiency, lower initial investments
- Experimentation with menus**
Innovation in food items, portion size and pricing possible due to low menu costs
- Emergence of the consumer segments**
Usage of data analytics, segment specific offerings and marketing

Cloud kitchens in India

HEALTH CONSCIOUS	COMFORT FOOD	EXOTIC CUISINES
Salad Days	Oven Story	Mandarin Oak
EatFit	Behrouz Biryani	Terra Gourmet
Nude Bowls	Speak Burgers	The Good Bowl

Disclaimer: Brands mentioned are just some of the examples of Cloud Kitchens in India. The list represented is not exhaustive
Source: Rebel Foods, The Hindustan Business Line, IBEE, Entracker

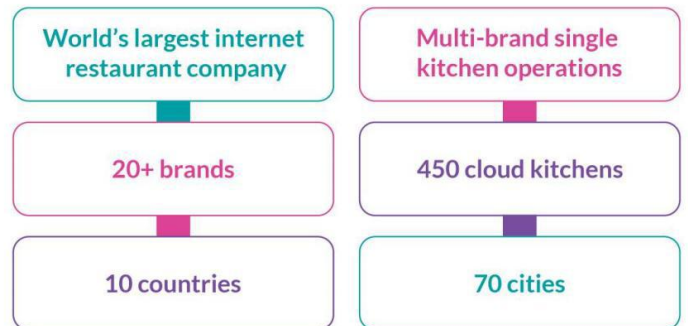
Rebel Foods Revenues
(FY2019 to FY2022, USD million)



Growth Journey

- 2011: Founded
- 2015-16: Started opening through cloud kitchen model
- 2016-18: Launched 7 cloud kitchen brands
- 2020: Expanded network to tier 2 cities
- 2021: Opened the first offline food court for omnichannel experience

Large network



Source: Rebel Foods, The Hindustan Business Line, IBEE, Entracker, Exchange Rates 2019, Exchange Rates 2022

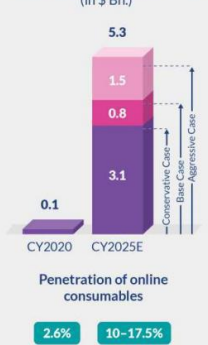
Starting with groceries, qcommerce has created a virtual shopping arcade comprising grocery, Beauty & Personal Care, & now consumer durables

Qcommerce is expected to become a **\$5 Bn** market by 2025

Qcommerce has cannibalized offline spending in metro and tier 1 cities and is set to include most retail categories

These companies can either **grow in quick commerce** or offer **logistics, payment, and entertainment services**

Quick Commerce Market in India (in \$ Bn.)



Maximizing wallet share

- Over time, the core audience transacts more and more on the qcommerce app, maximizing the share of wallet

Cannibalizing kiranas

- Quick commerce initially replaced urgent neighborhood milk runs
- Having built a habit, it has begun to displace quick fill in grocery & beauty/personal care visits too

Cannibalizing shopping arcades

- Quick Commerce has expanded into Electricals, Consumer Electronics, and Consumer Durables
- Non-FMCG Brands like Philips/ Eveready/Nippo (lighting), boAt/Nu Republic/Portronics (electronic), Atomberg, and Havells (fans) have been listed on Blinkit

How categories can participate

- Companies selling packed/ instant food mixes via D2C channel can list themselves
- Beauty and personal care brands that offer daily use mass products can list on qcommerce apps
- Utility electronics products like headphones can be bought via qcommerce apps

Increasing offerings

- Qcommerce firms can utilize their core hyperlocal logistics engine to offer food/medicine delivery, transportation, mechanic, supermarket shopping, FMCG distribution

Source: RedSeer, Inc42, Blinkit, App visits on 5th May, Strategy& analysis

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Online penetration in Home & Furnishings lags other sectors due to the unorganized nature of the category and deep need for touch & feel

Furniture & Home Décor have low amenability to online channels

	Furniture	Home Décor	Home Furnishing	Homeware
Amenability to online channels	Low	Low	Low	Low
Characteristics				
Average product price	Low	Low	Low	Low
Susceptible to damage	Low	Low	Low	Low
Customization	Low	Low	Low	Low
Selection assistance	Low	Low	Low	Low
Quality assurance	Low	Low	Low	Low
Assembly assistance	Low	Low	Low	Low

Why is the home & furnishings market so unorganized and fragmented?

Low regulatory compliance

Cost advantage gained by not adhering to labor laws, GST laws, etc.

Low quality material

Usage of sub-standard material to save cost

People in low-income bracket prefer local carpenters over branded product retailers

As per Euromonitor, players including **Godrej Interio & IKEA** account for **less than 3%** of the market share in homewares and home furnishing stores category

○ Low ● High

Source: Euromonitor, Crunchbase, NextBigWhat, YourStory, Times of India, UJ Annual report, Toffer, Entracker, Business Standard, Inc42, Strategy& Analysis

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Platforms have struggled to succeed in Home & Furnishings...

- Heavy marketing investment gives uncorrelated outcomes
- Customization, assembly and delivery needs are not met completely
- High-ticket, high-touch & low repeat purchase frequency of this category
- Return logistics is complex and expensive
- High inventory management costs due to bulkiness and weight of the products

- **Urban ladder** has been profitable only twice since its inception in 2012
- **Pepperfry** has raised over \$285 Mn in 10 rounds since its inception in 2011 and is unprofitable to-date



- High CAC and inventory management cost
- Offline presence is needed to provide touch and feel to online-first customers
- Stiff competition from horizontal marketplaces like Amazon and Flipkart, and offline players like IKEA, and Homecentre

...hence, in India, Home & Furnishing companies desirous of selling online need to build & scale their own website presence

Source: Crunchbase, NextBigWhat, YourStory, Times of India, UL Annual report, Toffler, Entracker, Business Standard, Inc42, Strategy& Analysis

Even in global markets, Home & Furnishing marketplaces have struggled to build a sustainable story

CASE STUDY: Wayfair, founded in 2002, is an ecommerce company that specializes in furniture and décor. It has grown to become one of the largest online retailers of home goods in the world.

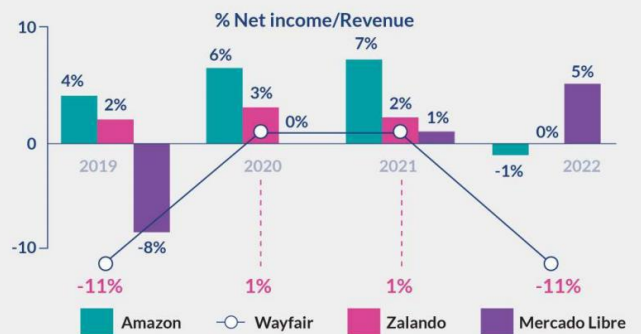
Wayfair

Funding Raised \$1.7 Bn in 4 rounds

Business Model

Wayfair has an inventory light business model. It sources products directly from suppliers and ships directly to customers.

Financial Performance



Source: Crunchbase, Macrotrends, Wayfair Annual Reports, Wayfair website, Amazon Annual Reports, Zalando Annual reports, Mercado Libre Annual reports, Credit Suisse

While Wayfair has its strengths...

Technology – Pioneer in implementing several AR/VR-based solutions to increase customer engagement

Supply chain – Efficient logistics network, CastleGate, delivering orders within 2 days to 97% of the customers

Social media presence – Effective use of multiple social media platforms

...it faces several category specific challenges

- High CAC
- Low repeat frequency due to the nature of industry
- Competition with horizontal marketplaces (Amazon), and offline retailers (Walmart, Target, etc)

Way ahead

Increasing AOV and repeat customers along with foray into offline channel under the brand AllModern can pave a way towards Wayfair's profitability in the future



Source: Crunchbase, Wayfair Annual Reports, Wayfair website

Marketplaces have launched social commerce/ video shopping to create an interactive/ recreational shopping experience

KEY DRIVERS

Users spend most of their time on their phone

Benefits of in-store shopping (recreation, window shopping) are reduced online

Teleshopping viewership has reduced as OTT & short video consumption rises

Live shopping can provide urgency to purchase

Increasing prominence of review videos before purchase

Live shopping/social commerce adds an element of authenticity & recreation to ecommerce

Current scenario



Experimental phase in India



Myntra, Amazon, Flipkart and Meesho are among the marketplaces that have launched video shopping features

Sector-specific foray in Social Commerce

Amazon Live showcases a few live streams in all sectors

Apparel & Footwear
Outfit styling

Beauty & Personal Care
Makeup tutorials

Home & Furnishing
Ways to decorate rooms

Electronics & Appliances
Popular smartphones

Food & Groceries
Deals on consumables

Growth

Market Growth

\$4 Bn Live Commerce (2025) predicted GMV

Strategies based on customer personas

Goal: Deeper customer engagement & driving urgency to shop

Photos, Short Videos

Livestreams

More money, less time

More time, less money

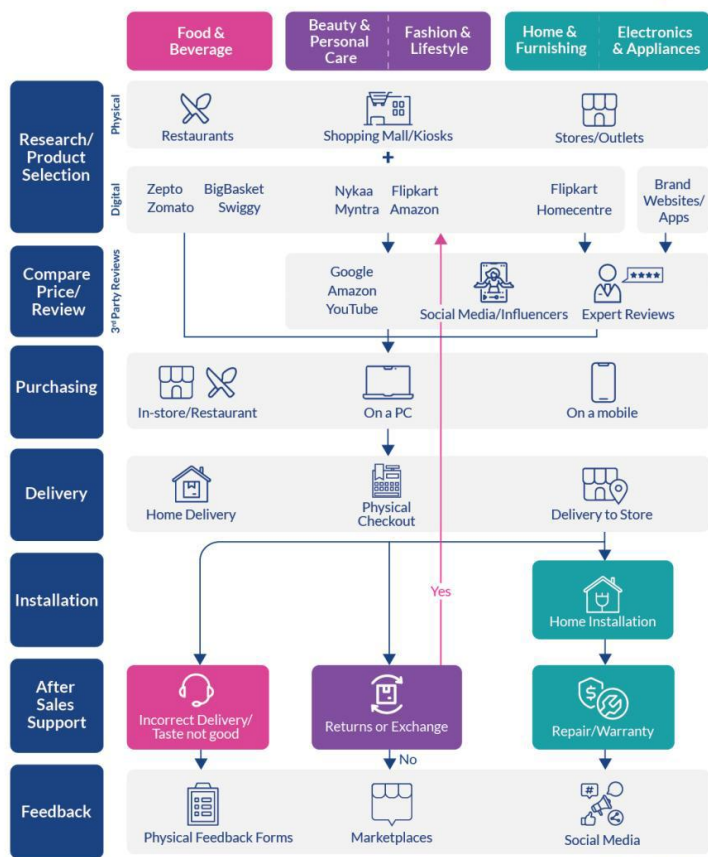
Source: RedSeer Consulting, Forbes India, Amazon, Strategy& Analysis



02 How online and offline shopping journeys are converging



Today, the customer purchase journey moves online-offline and back seamlessly



Source: Strategy& analysis

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D2C brands are moving offline to monetize their brand and complete the customer journey

ADVANTAGES	Increase user engagement	Improve brand visibility	Increase product awareness
	Identifying Whitespaces	Products	Offline Distribution
The Souled Store	A one-stop store for pop culture merchandise	Casual wear, activewear, footwear, and accessories	FY2022 Revenue: \$18 Mn • Online: 85% • Offline: 15% (12 stores) Key offline revenue metrics • ₹70,000/sqft vs industry standard of ₹ 10-20,000/sqft • 60% revenue is from outside of top 10 cities
Sugar	Economical products with premium quality & packaging, designed for Indian skin tones	Skincare, lips, eyes, face & nails cosmetics, and cosmetic accessories	125+ owned stores 40,000+ retail touchpoints FY2022 Revenue: \$29 Mn • Offline: 50% (expected to increase to 70%) • Online: 50%
Noise	Good quality and economical wireless earbuds and headphone	Wireless earbuds, headphones, smartwatches	• Available in 8,000 outlets • Started offline expansion to increase reach in tier 2 and 3 cities • FY2022 Revenue: \$97 Mn

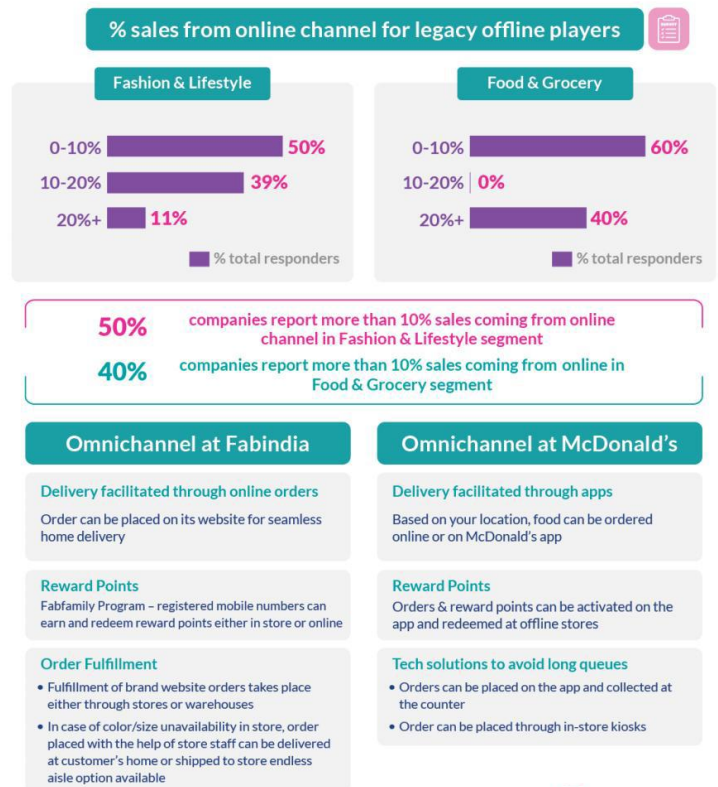
Disclaimer: Brands mentioned are examples of companies across different industries. The brands shown are not exhaustive
 Source: Yourstory, Economic Times, Souled store, Entrackr, indianretailer.com, Inc42, TheHindu, Strategy& Analysis

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Going offline requires development of a completely new mindset and capabilities for D2C brands



Legacy offline brands have also started moving online to leverage their loyal customers



Source: Strategy& Analysis, Fabindia, Fashion Network, McDonald's, IBECS Wire, EconomicTimes

03 Can retailers chart their independent online path



The online channel strategy (marketplace vs. own website) is dependent upon the product and the brand's customer value proposition

D2C Category Fit

Consumer Purchase Behavior

- Do consumers purchase category as stand-alone products or as basket of products?
- Do I have a wide portfolio to address consumer needs through D2C?

Unit Economics

- Does the average order size justify D2C unit economics, especially high cost of logistics & operations?

Customer Lifetime Value

- Does the customer lifetime value justify high cost of acquisition in D2C?
- Can the lifetime value be increased through recurring revenue streams (e.g., subscription, community building)?

D2C Brand Fit

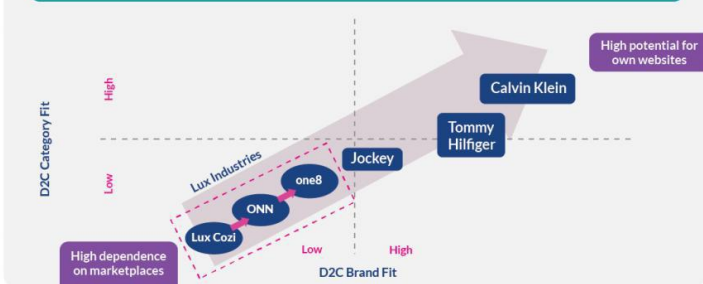
Brand Positioning

- Does my brand have differentiated positioning?
- Does my brand require communicating a unique brand experience through D2C?

Consumer Proposition

- Do I have a strong consumer proposition for own D2C?
- Can I improve consumer proposition through additional features (e.g., customer support, videos)?

Direct-to-Consumer Evaluation Framework: Illustration in Innerwear Segment



Disclaimer: Brands mentioned in the Direct-to-Consumer Evaluation Framework are examples of organizations in the innerwear industry. The list represented here is not exhaustive. Brand fit is based on average sale price points (SMIF's research report) and social media followership. The positions of all the brands mentioned are approximate indications of where they stand. Please note that these are not precisely located. Source: SMIFs Limited, Strategy& Analysis

Brand websites and apps face an uphill task in the Food Delivery space

Major challenges for individual websites/apps

Consumer habits	Consumer expectations: platform	Consumer expectations: logistics
Consumer habits and brand association is a moat for marketplaces	Consumers expect marketplace level sophistication in UI/UX	Consumers expect quick delivery and logistics equivalent to marketplaces
Zomato and Swiggy are the first choice of customers when it comes to food ordering	Consumers expect offers equivalent to marketplaces all the time	Consumers expect highly accurate delivery predictions (~99%) just like marketplaces
Food ordering is inherently a high discovery, low stickiness, high variety activity where marketplaces are the natural preference	Consumers expect endless variety from platforms - repeat orders are very limited	Accuracy is clearly lesser for most 3rd party logistics providers, especially during peak demand hours

Ordering System: a complex stack that is super hard to build



Faasos' continued losses show how hard this market is, even for multi-branded cloud kitchen companies

Despite 104% revenue growth, costs still grew 79%

Despite being in business since 2015, Advertising, Promotion & Commissions grew from 35% to 38%

Rebel Foods Financials (FY2021 and FY2022, USD Mn)



Low-profit Red Ocean

Low profit margins
Discounts are a key in food delivery market and it leaves lesser room for profit

High cost of logistics
Zomato spends over \$250 Mn per year on delivery partners

High CAC

Digital marketing
High cost to acquire customers because of competition

High short-term costs

Building a tech stack
Higher upfront costs to build online restaurant network

Source: Entracker, Zomato, Feedough, Economic Times, Exchange Rates 2021, Exchange Rates 2022, Strategy& analysis

Features that determine the success of own websites comprise of widely adopted ones as well as new game-changers

Current scenario

- Brands are building their own website to enhance customer engagement
- Goal: Divert customers from MPs to the brand's own website

23% of online revenue is driven by own websites & mobile applications

57% brands are listed or planning to do so on Open Network for Digital Commerce (ONDC)

68% brands don't have their own mobile app

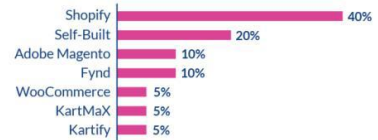
38% of own-site orders are on COD

Brands are creating their own websites

Tools used to build the website

Most companies prefer building their website on Shopify or on their own

Tools used by Responders



Features provided by brands on their websites

50% of our responders are saying that these features are a bare minimum requirement for their own website:

- Product Recommendations
- One-click login via social media
- O2O - Cross-sell engine
- Wishlists
- Automatic reminders for items in the cart

Game-changing features

Less than 20% of the responders are using the following features

- Interactive Product Display
- AR Trials
- Live Demonstration

Survey Results specific to Apparel & Footwear companies

Companies are leveraging AI/AR tools to create differentiation and enhance customer experience



Lenskart

- Virtual product trials via application
- Suggests frames that best suit your face shape and size



Nykaa

- Virtual product trials
- Hygienic & contactless option



IKEA

- Use AR to view products in customer space
- Check product aesthetics and fit before purchase



Havells

- Product rendering through application
- Product aesthetics & fit can be checked

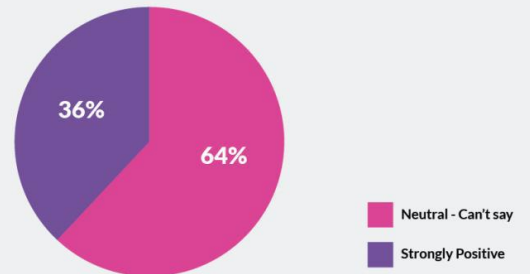
Image Source: Medium, Havells (Youtube Page), Lenskart, Architect Magazine. Source: Strategy& Analysis

AI/AR technologies have so far been hard to implement, and most respondents aren't strongly positive that they are driving sales yet

Two major impediments for brands to implement advanced AR on their website are cost and technological complexity



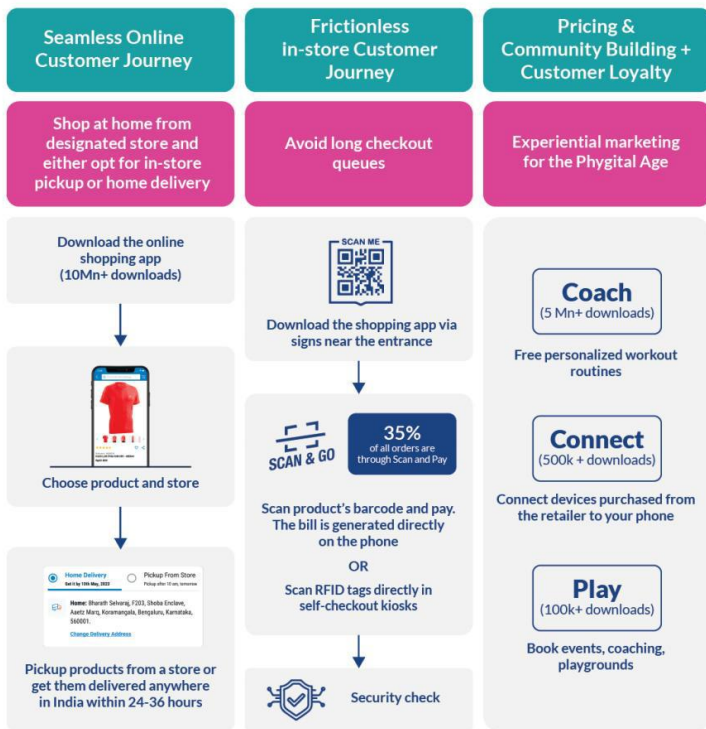
64% of the companies are unsure if their AR solution is driving sales



Based on survey responses

Only a few mature global brands have been successful in providing a seamless and integrated omni experience

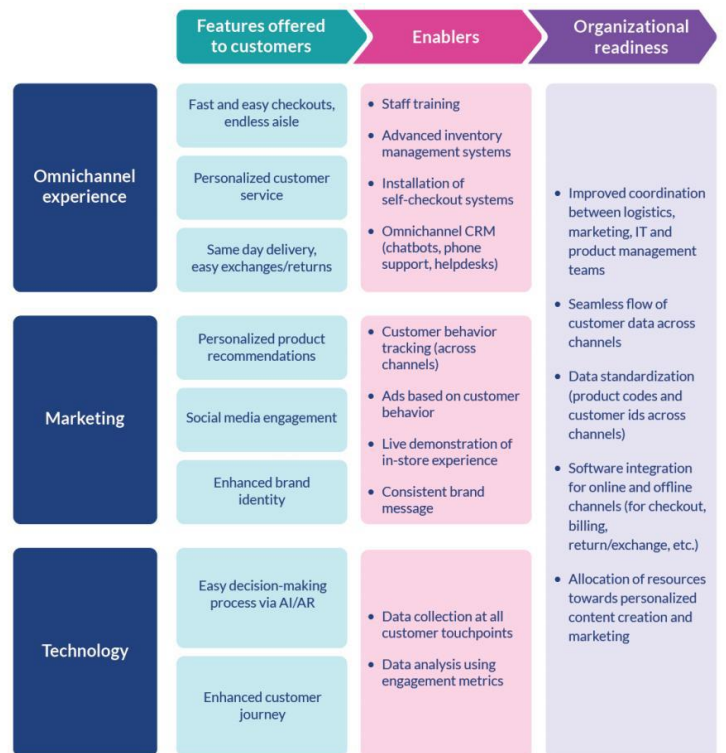
Leading Global Sports Retailer: same pricing across all channels; 104 stores selling 6,000+ products for 60+ sports



Source: [McKinsey](#); Strategy& Analysis

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Organizational level enhancements are required to offer omnichannel features to the customers



Source: Strategy& analysis

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In an omnichannel world, legacy brands need to ensure high operational KPIs to ensure a seamless customer experience

Delivery*

92%
Received orders are shipped

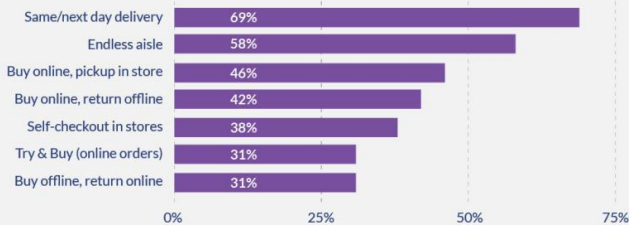
87%
Deliveries happen within the set turnaround time

9%
Received orders return to origin

2.4
Average days taken to resolve customer queries

Fashion & Apparel brands	Seller-driven cancellations
Marketplace	2.5%
Own website	8.6%

% responders that have an omnichannel feature



69% deliver orders within a day

42% allow you to buy online and return to any offline store

58% have endless aisle feature

31% offer Try & Buy on online purchases

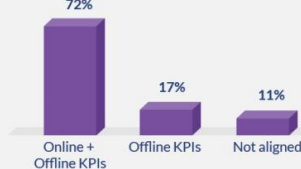
Based on survey responses

*Based on data provided by Fynd
Source: Strategy& analysis

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Omni experience at stores can be improved by using tech and by training & incentivizing store employees properly

Employee's incentive alignment based on KPIs & assortment management

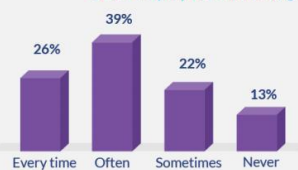


72% of respondents have store employees' incentives aligned with omnichannel KPIs

62% update their online assortment weekly

64% have special SMUs/SKUs for online

Store employees facilitating online experience to customers



For 65% respondents, employees assist their customers for complete omnichannel movement

58% train their employees regularly for facilitating omnichannel experience

Features facilitating omnichannel experience



Nearly 50% respondents have signs, QR codes and endless aisle

Only 17% use kiosks to facilitate omnichannel experience

Based on survey responses

*Based on data provided by Fynd
Source: Strategy& analysis

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Companies can achieve their omni vision by synchronizing online-offline capabilities and effectively using analytics

How well synchronized are online-offline capabilities

100% respondents have synchronized pricing and sales events either moderately well or extremely well
Brand-wise rating (scale: 1-5): 4+ (extremely well), 3 (moderately well), <3 (synchronized)

Number of responders that have synchronized capabilities extremely well



Online-Offline capabilities synchronized extremely well - per responder



Online-offline handshake

74% list products online based on their offline performance

83% analyze MP performance to plan their own website views/assortment

68% plan SKUs based on MP performance/trends

How effectively is analytics utilized by respondents

14% analyze more than 4 parameters effectively

41% can analyze only upto two parameters effectively

Number of brands that have effectively utilized analytics various parameters



Based on survey responses

Source: Strategy& analysis

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Brands have started taking concerted actions across the value chain to improve profitability

Actions

92% respondents have same pricing in online and offline channel

94% advertise on social media

79% work with social media influencers

74% advertise product listing on search engine

56% advertise on YouTube

- Targeted performance marketing and creating bestsellers
- Removing low priced products to increase basket value on marketplaces
- Bundling of products to increase cart value and reduce logistics cost per unit
- Negotiating commissions based on the brand value and quantum of sales
- Using own stores for deliveries to reduce logistics cost

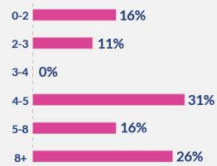
RoAS¹

In Home & Furnishing, respondents have achieved higher RoAS on own website as compared to that on marketplaces

58% companies achieved >4 RoAS on marketplace²



73% companies achieved >4 RoAS on own website²



Profitability

81% companies maintain separate P&L for online and offline channel

55% companies are profitable in online channel while 41% do not wish to respond



62% companies have a designated head for omnichannel business

Based on survey responses

¹RoAS = Return on Ad spend, ²For medium/low funnel spend
Source: Strategy& Analysis

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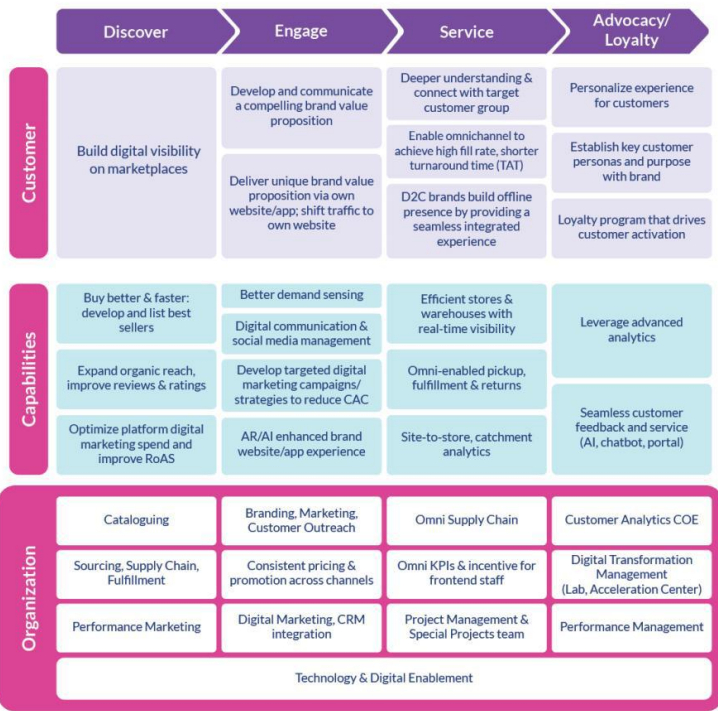
59



05 Imperatives for the C-Suite



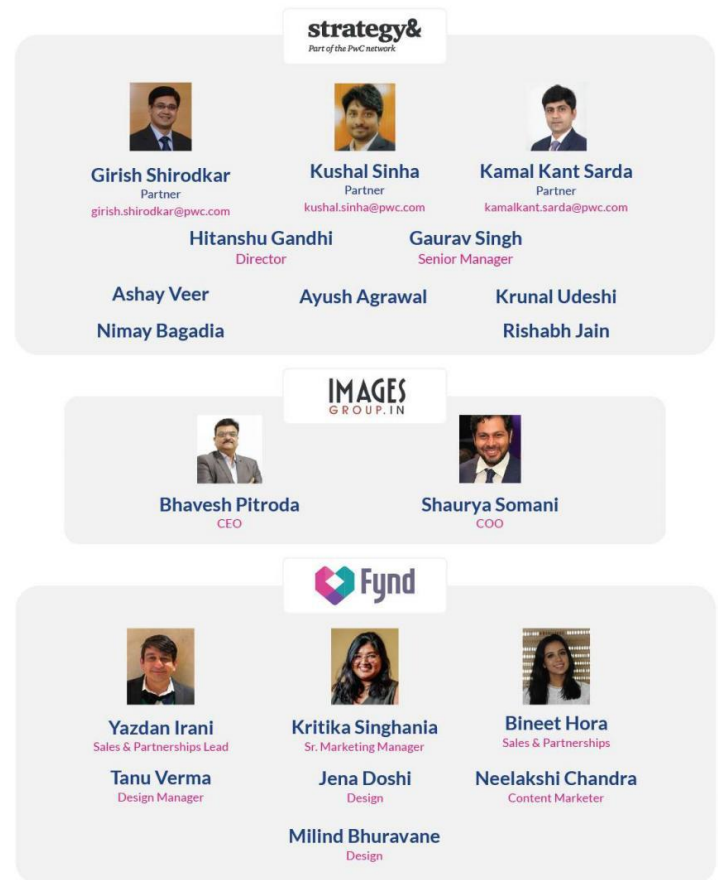
CXOs need to focus on building organizational capabilities to drive transition from a marketplace-led model to an omni-enabled brand to deliver on customer promise & delight



Source: Strategy& analysis

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Contributing team



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Powering delightful omnichannel shopping experiences for everyone, everywhere

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