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The "e" challenge to physical retail

Several fascinating changes are currently underway in India that will fundamentally transform how Indians will shop just a few years ahead, and thereby irreversibly alter the composition of various formats of retail businesses especially those catering to the needs of urban, semi-urban, and even the relatively large (say the top 50,000 of the estimated 650,000) villages in rural India. This change will create, in the near term, a rapidly escalating conflict between physical retailers (and mall owners having physical retailers as their tenants or as revenue-sharing partners) and the e-tailers. There are already many visible examples of this conflict with reports of threats from mall owners to brands owners entreating them to ensure "price" parity between the physical and online retail channels. However, such threats (or hopes) on behalf of physical retailers, select brands, and mall owners / shopping establishments' landlords are unlikely to work (notwithstanding even the questionable legality of the same from the point of view of competition laws) since the tide is very clearly in favor of e-commerce (of both services and merchandise).

Underpinning this transformation in the making are 5 major factors. The first and perhaps the most important of these five is the increasing time-poverty being experienced by the core consuming class residing in urban India. While the very rich are able to "outsource" many of their mundane time intensive activities to a retinue of attendants and assistants leaving them with more time for leisure, recreation, and shopping (and the very poor may have the time but no disposable, discretionary spending earnings), the middle classes face more pressures on their time as they juggle the time needs of their jobs; longer commutes; attending to the myriad needs of their children such as tutoring and pickups and drops for coaching; growing number birthday, anniversaries, marriages and other social obligations to attend to; the peer pressure of taking more out-of-town short breaks and vacations; higher cost and reducing availability of trained domestic help; higher nuclearization of families etc. etc. Indeed, if time could be bought, it would command a rapidly growing premium from the typical middle-class urban Indian household.

The second factor is the impact of sustained double digit consumer price inflation across India. From the barely comfortable 5%-6% range of yesteryears, the average Indian consumer has endured several successive years of double digit inflation. With the economy also slipping to a very low growth trajectory, most Indian consumers (other than the uber rich) have seen nearly stagnant or even declining inflation-adjusted incomes. As a result, there are a growing number of consumers who have started to trade-down and looking for cheaper options.

The third important factor is the fact the 15-34 age groups now comprises the largest demographic grouping in India, with about 435 million in this group. The next big group is the 1-14 comprising of about 345 million. 35-59 now account for just about 27% (about 325 million) of India's population. It is no surprise that the majority of Indian consumers today have many new needs and aspirations. On account of digital media (TV and social), there is also an increasing convergence across geographies and socio-economic strata when it comes to these new needs and aspirations.

The fourth factor is the exponential increase in the internet connectivity across urban and rural India. From about 150 million unique internet users at the beginning of 2014, India would probably see this number grow to over 300 million by 2016 (with bulk of the growth coming through rising penetration of smart phones). While the quality and speed of connectivity remains patchy today, it is likely to improve rapidly with the anticipated aggressive roll out of 4G networks in the coming years.

The fifth and equally important factor is the emergence of an exceptionally vibrant ecosystem of e-commerce entrepreneurs who are relatively young, more ambitious, very tech savvy, and risk loving. They are able to adapt their business models almost on a monthly basis as they get a better handle on consumers' needs and the challenges of running e-tailing business in India. Unlike the corporatized "brick & mortar" retail where international giants are still struggling to make their presence felt, the e-tail universe in India already has two of the world's biggest and most successful retailers present in India (eBay and Amazon) and making an impact. There is seemingly also no dearth of capital for the more promising e-businesses.

On the other hand, corporatized physical retail has not really lived up to the early promise and potential. The last 20 years have seen entry of some of the most formidable businesses and entrepreneurs in the retail sector but sadly, for various reasons, most have struggled and continue to struggle to find the right business model, right format, and the right management that is capable of delivering both growth and profitability while also creating customer delight (and thereby, customer loyalty). At this time, physical retail faces even more headwinds that include inadequate availability of appropriate quality and right-priced real estate, rising operating costs that include salaries and utilities, and almost no access to global capital thanks to the highly convoluted and impractical FDI policy for multi-brand retail.

With all these challenges for the brick & mortar retailers, and in the backdrop of the various fundamental changes in Indian consumers' behavior, "e" is likely to emerge as the most attractive retail channel for meeting the shopping needs of a large segment of the urban Indian consumer and offer the maximum competition to corporatized physical-format retailer especially those who operate in major high streets and shopping malls in major Indian cities. Indeed, by 2023, E-commerce shall be the dominant "organized" retail channel in the top-75 Indian cities (cities with population of 1 million or more), with as much as 30-35% share of total merchandise sale by value in these cities and then about 20% of total merchandise sales in the rest of urban India. Traditional, small, independent retail outlets shall continue to account for a very significant 35%-40% of total merchandise sale in the top 75 cities and closer to 50%-55% in entire urban India. Organized "brick & mortar" channel sales shall be limited to between 25% - 35% share in top-75 cities and between 20-25% for all of urban India.

Hence, the earlier the mall owners / retail landlords (and then some brand owners too) accept the reality of "e-tail" and take steps to adapt to these fundamental shifts, the better it would be for them. Indeed, there are many possibilities for such mall owners and landlords to rejig their spaces and business model to co-opt "e-tailers" as their partners rather than see them as adversaries. Likewise, the brands too should not focus too much on preserving their "price integrity" across various shopping channels but instead, collaborate with their channel partners (physical retailers and e-tailers) to find ways of stimulating consumer demand and thereby give a growth fillip to their overall business.

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