DECODING DIGITAL IMPACT: A $45 Bn Opportunity in FMCG

SEPTEMBER 2017
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WINNING WITH E-COMMERCE
EXECUTIVE SUMMARY

WE ARE WITNESSING THE RISE AND RISE OF DIGITAL...

# of internet users in India likely to grow from ~390 Mn to 650+ Mn users by 2020

3’V’s (Video, Vernacular, Views) important to win with digitally connected users

- Video : Reach of video on digital media already 2/3rd of the TV reach in Urban; video used beyond entertainment e.g. ‘how-to’ video searches grew by 3x in the past year
- Vernacular : In the last 1-2 years, there has been a 10x rise in vernacular searches, >2x growth in vernacular YouTube content and 5x faster growth of Hindi content consumption vs English
- Views of “Advocates” already leveraged by a large subscriber / consumer base – considered as new sources of trust

The next wave of internet users will be different from the current base

- Rural internet users will contribute to >50% of the user growth in the next 3–4 years
- Share of female internet users in urban is expected to grow from ~31% in 2016 to 40% by 2020
- Share of internet users with >25 years of age to grow from ~50% in 2016 to 65% by 2020
- Significant differences in online behavior based on digital age

Our estimates suggest that by 2020, upto ~40% of FMCG consumption (~45 Bn) is likely to be digitally influenced

- To put it in perspective, the digitally influenced FMCG spend would be 7x of e-commerce
- This would be comparable to other digitally influenced consumer categories : 45% in Apparel, 60% in Consumer Electronics

The extent of digital influence would vary significantly by category

- In some categories e.g. Baby Care, Fragrances etc., digital influence could impact > 50% of consumption

E-Commerce in FMCG can potentially grow to $ 5–6 Bn by 2020

- Penetration of e-commerce varies by category eg. very high in nutraceuticals and color cosmetics, low in dairy products and confectionary

... YET, SPENDS IN DIGITAL ARE LAGGING

Spends on digital not inline with time spent by consumers on digital, while the costs of digital video have dropped

- Time spent on digital by urban internet users already equal to time spent on TV
- Spends on digital estimated to be ~10% of the overall advertisement spends in FMCG

This report has been compiled using proprietary research and data from BCG & Google. We have also considered the perspective of CEOs, CMOs and COOs of some of today’s leading FMCG players
• Cost of online video advertising reduced by 2/3rd in last 2 years

Spends in digital lagging due to multiple reasons
• Lack of clarity on how to measure returns from digital
• Lack of expertise / limited understanding of the space – considered by some brand managers as the job of “digital specialist” in their teams
• Inertia with traditional media

If these barriers are addressed, share of digital in advertising in FMCG could potentially grow from ~10% to 25–30%
• In selected, premium spaces, this number could be as high as 50–75%

Interestingly, markets leaders in offline are not necessarily leaders in digital influence
• Challengers leveraging digital platforms over traditional mediums of branding and distribution to enable targeted reach

HOW SHOULD ORGANIZATIONS RESPOND?

Organizations should think of the role of digital in their context, as the extent of influence and ‘role of digital’ significantly differs by consumer spaces & categories
• Up to 7x higher influence in ‘problem solutions’ space vs conventional usage space e.g. ‘hair fall’ vs ‘hair shampoo’. -> Brands need to drive association with “problem solution spaces”, build credibility & use insights for innovation
• Degree of digital influence significantly higher in under penetrated categories vs well penetrated categories (~1.7x) e.g. Perfumes, baby care has higher influence than washing powder, biscuits. Thus, brands in underpenetrated categories, need to over-index on digital and adapt content to drive adoption

• Even in deeply penetrated categories, given eyeballs are shifting to digital and cost of digital advertising drastically reducing, brands need to remain relevant online by leveraging digital as another medium

Laser sharp focus with data driven marketing on the relevant consumer key to win
• 28 Mn (10%) HHs to contribute $27 Bn (~60%) of digitally influenced FMCG consumption by 2020 – These HHs would require laser sharp focus
• In the balance HHs, critical to follow the eyeballs in digital space

Last but not the least, there is wide recognition in the leadership in most organizations that driving influence digitally is critical, but there is clear recognition that the time spent by them is not commensurate with this strategic priority
THE EVOLVING LANDSCAPE
SUMMARY

Digital penetration is an all pervasive force – brace for exponential growth
- 650+ Mn people in India shall be online by 2020, which will be more than the expected population of the G7 countries
- Mobile is the preferred device for internet access for 77% of internet users
- Penetration accelerated due to economical handsets, affordable high speed internet

The next wave of internet users will be different from the current base
- Rural internet users will contribute to >50% of the user growth in the next 3–4 years, similar to what happened in China in 2008-13
- Rural usage behavior different from urban w.r.t medium (non-smart phones), type of apps (data light, vernacular) and needs (entertainment & education) and so requires a customized digital strategy
- Share of female internet users in urban India is expected to grow from ~31% in 2016 to 40% by 2020
- Share of internet users with >25 years of age to grow from ~50% in 2016 to 65% by 2020

Online behavior best predicted by digital age, not demographics
- Urban users with digital age of 4+ years spend 1.6x the time spent by those with a digital age of 1–2 years
- Similarly, rural internet user behavior evolves significantly with digital maturity
Users seek 3 ‘V’s online – Video, Vernacular content, Views and opinions

- Video is on the rise and is leveraged beyond entertainment: Digital video reach already 2/3rd of the TV reach in Urban; video used beyond entertainment (how-to video searches grew by 3x in 2016)
- Vernacular content is increasingly becoming important: 10x growth in vernacular ‘searches’, >2x growth in vernacular ‘YouTube content’, 5x faster growth of Hindi content consumption vs English in last 1-2 years
- Views of “Advocates” already leveraged by a large consumer base

Spends on digital in FMCG not inline with the time spent by consumers on digital, while costs are coming down

- In urban India, time spent on digital by internet users already equal to time spent on TV
- Cost of online video advertising reduced by 2/3rd in the last 2 years
- Currently in FMCG, ~10% of advertising spend is on digital ($ 0.25 Bn); can potentially reach 25–30% ($1.1+ Bn) by 2020, and 50–75% for selected, premium spaces
India is in the midst of a digital revolution. The number of internet users in the country is likely to cross 650 million by 2020 – essentially half of India will be online in the next 3 years. To put it in perspective, in 2020, more Indians will be online than the population of all the G7 countries put together.

Mobile is already the go-to device for online access. The importance of mobile is only set to increase with the ubiquity of affordable smartphones & access to cheap data. Coupled with rise in disposable incomes, this is fuelling an explosive growth in digital penetration. Brace for impact!

By 2020, # of internet users in India will be more than G7 population

<table>
<thead>
<tr>
<th>Year</th>
<th>Internet users in India</th>
<th>Population of G7 countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>~390 Million</td>
<td>~600–650 Million</td>
</tr>
<tr>
<td>2020</td>
<td>650+ Million</td>
<td></td>
</tr>
</tbody>
</table>

Mobile is already the primary device for accessing the internet in India

% of users

- Mobile: 77%
- Desktop: 10%
- Smart TV: 7%
- Laptop/Tablet: 6%

Smartphones available at lower prices

Average Smartphone Price (USD)

- 252 in 2011
- 128 in 2014
- 111 in 2016

Significant decrease in data tariffs over the past couple of years

Data tariffs in India

Annualized realized data tariffs per GB of data as a % of GNI per capita (2015)

- 2011: -2.2x
- 2014: 0.5–0.9
- 2016: 0.5–0.9

Next wave of internet users will be from rural India, will contribute to >50% of the growth in next 3-4 years

Between 2008-13, China went through a period of rapid internet penetration, with rural internet penetration doubling in five years. The Indian story is similar. More than half of India’s internet growth is expected to come from rural India taking the tally of rural internet users from ~33% today to close to 50% in 2020.

Every other internet user is going to be from rural India and understanding their behavior has become all the more critical.

Additionally, the digital user demographic in India is expected to expand beyond the traditional stereotype, with significant growth expected in female and older (more than 25 years old) internet users by 2020. This helps to reinforce the notion that digital is not just a small, targeted opportunity, but rather a way to reach the masses.

Share of urban female internet users is expected to grow significantly.

High growth expected in internet users over 25 years of age as well.

Sources: BCG RAI report – “Decoding Digital @ Retail”, BCG analysis, Feb 2017
Rural usage behavior different from urban w.r.t medium, type of apps and needs – requires customized digital strategy

Today, rural internet users differ from their urban counterparts on their device of choice, type of apps used, and use-cases for accessing the internet.

Approx. 60% of rural internet users go online using inexpensive internet enabled phones, primarily for reasons of cost & network availability. Only about a third of users have smartphones, compared to 2/3rd of urban users.

Because of the differences in device & network capability, rural users have different apps for similar activities. They tend to use lighter browsers and data light app alternatives. Additionally, vernacular media consumption apps are more popular than their English counterparts.

There is a clear difference in the usage patterns of urban and rural users. While urban users prefer talking to friends & social networking online, rural consumers primarily use the internet for entertainment & education.

Online behavior best predicted by digital age, not demographics

Interestingly, digital age (years spent online) is a bigger determinant of online behavior than physical age, as online actions get more evolved with growing familiarity to the medium.

In the case of the rural internet user, behavior evolves significantly with digital maturity as well. The time spent online by a user increases significantly with a change in the type of mobile device used for accessing the internet.

Higher digital age translates to higher digital activity...

<table>
<thead>
<tr>
<th>Digital age</th>
<th>Hours/day spent on digital activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1–2</td>
<td>1.1</td>
</tr>
<tr>
<td>2–4</td>
<td>1.3</td>
</tr>
<tr>
<td>4+</td>
<td>1.7</td>
</tr>
</tbody>
</table>

Rural internet user behavior evolves significantly with digital maturity

- **New on internet**
  - Phone type owned at each stage
    - ASP$^2$ = ~x
  - Spends on internet
    - Rs. x per month
  - Time spent
    - ½ hour, 4–5 times a week

- **2–4 years on internet**
  - Phone type owned at each stage
    - ASP = ~1.5-2x
  - Spends on internet
    - Rs. 2x per month
  - Time spent
    - ~1 hour per day

- **4 years+ on internet**
  - Phone type owned at each stage
    - ASP = ~2.5-3x
  - Spends on internet
    - ~Rs. 2.5x per month
  - Time spent
    - 1-2 hours per day

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1. Refers to all digital activities, including browsing, watching videos, playing games, etc.
2. ASP = Average Selling Price

Sources: BCG Rural qualitative study, BCG CCI Digital Influence Study 2016, BCG Decoding Retail Study, BCG analysis
Digital media has gained ground over the last two years, displacing timeshare from traditional channels such as TV. Urban internet users are spending approximately 90 minutes on digital channels everyday, an increase of 25% over the last couple of years. As of 2016, digital and television stand at almost the same timeshare, both at >2x that of print.

A noteworthy trend is the tendency of digitally mature consumers to spend progressively more time on digital media. A consumer who has been online for >4 years, spends 1.5x more time on digital media vs. new digital users (online for <2 years), who still allocate a majority of their timeshare to television.

Sources: BCG CCI Digital Influence Study – 2016; BCG analysis
Costs of digital advertisement have also dropped significantly

The costs of digital advertising are sharply declining. For example, the past 2 years have witnessed a 68% reduction in the costs of online video advertising. Digital advertising (in FMCG) in India has shown a consistent growth of over 30% for the last five years, with the share of digital ad spend at ~10% today. In comparison, the US has digital ad spend share of ~25% in F&B and personal care. In India, given the rapid growth of digital users and time spent online, coupled with decreasing costs, share of digital spend in FMCG advertising can potentially reach 25–30% by 2020.

Cost of digital advertising is coming down every year, with a 2/3rd reduction in past 2 years

Indexed cost of online video advertising

Share of digital in ad spend for FMCG at ~10% currently; could potentially grow to 25–30% by 2020

Share of advertising spend on different formats (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Digital</th>
<th>Others¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>0.32x</td>
<td>~90%</td>
</tr>
<tr>
<td>2017</td>
<td>~68%</td>
<td>~70%</td>
</tr>
<tr>
<td>2020</td>
<td>25–30%</td>
<td>~70%</td>
</tr>
</tbody>
</table>

Share of digital ad spend can be as high as 50-75% for selected spaces

1. Others includes Print, TV, Radio, Cinema and Outdoor.

Sources: Pitch Madison Advertising Report – 2017; Google Internal YouTube Auction Data, 2017; BCG analysis
The 3’V’s - Video, Vernacular, Views (I/III) : Video is already large and has usage beyond entertainment

The number of online video users and watch time have grown significantly in the past one year, by 2x and 4x respectively.

It is also important to note that digital video reach in urban India is already at 2/3rd of the TV reach, with digital expected to close the gap in the coming years.

Towards the end of 2016, a new entrant in the Indian telco market offered free high speed data to customers. Some interesting trends were observed with new adopters - some of the most popular use cases for these new adopters were actually watching & downloading videos, driven primarily by entertainment and media.

Thus, online videos are, as expected, a key source of entertainment. However, their importance has grown much beyond just entertainment. They are now an integral part of product research. They are also becoming the go-to destination for learning with 54% internet users using online videos to learn something new, and ‘How-to’ searches increasing by 3 times in the last year alone.

**Digital video reach already 2/3rd of TV reach in urban**

- Urban TV reach (age 15 and above): 275 Million
- Digital video reach: 180–200 Million

**More people watching online and watching for longer**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of users</th>
<th>Watch time (in hours)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>2x</td>
<td>2016</td>
</tr>
<tr>
<td>2017</td>
<td>4x</td>
<td>2017</td>
</tr>
</tbody>
</table>

**Sources:** BARC Broadcast Survey of India 2016; Google estimates, BCG analysis
Watching and downloading videos is a key activity for mobile users on a new entrant’s network...

**Key activities being tried for first time on mobile**

- Gaming: 11%
- Music downloads: 14%
- Online music: 24%
- Video calls: 28%
- Video downloads: 31%
- Video online: 42%

...with video increasingly being used beyond entertainment

- 54% of internet users view online videos to learn something new
- ‘How-to’ searches grew by 3x on YouTube in 2016

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1. Given as a % of users trying the mentioned activity for the first time.
   
   **Sources:** Consumer Barometer Survey, 2015–16, Google Internal Search Data, 2015–16, BCG analysis
The Internet in India is increasingly becoming ‘Indian’, with demand for local language content growing. Consumers are increasingly searching, viewing & demanding content in their local languages.

This is driven primarily by a rise in Indian language users who have already overtaken English internet users, with around 57% Indian language internet users in 2016. In fact, in certain cases, local language content is generating significantly more views than English content on popular YouTube channels.

**The 3’V’s - Video, Vernacular, Views (II/III) : Consumption of online vernacular content increasing rapidly**

Consumers are increasingly searching, viewing & demanding content in their local languages.

- **10x** Growth in ‘Local language’ searches over the past 1.5 years
- **5x** Faster consumption of Hindi content over English on websites

Local language content by major FMCG multinationals generating more views than English content

- ~7x more views for Hindi version of video
- 4.2 Mn Views
- ~0.6 Mn Views

Sources: “Google Internal Search Data, 2015–16; As per Adsense inventory on Google Display Network; Google Internal YouTube Data, 2016; Google–Nielsen data, 2016; ‘Be Beautiful’ YouTube page as of 14-Sept-2017; BCG analysis”
Digital video platforms have become a major source of information for the masses. Over time, certain online content producers have become more trusted than others. These ‘advocates’ already have a critical mass of followers and associating with such credible influencers will be critical for brands to win in the future.

There is a massive increase in content, especially on food and lifestyle, with growing consumer interest in videos on ‘recipes’ and ‘beauty tips’. This has fueled a 6x and 5x growth in watch time for ‘Recipe’ & ‘Beauty & Style’ related videos respectively in the past year.

FMCG related searches have also seen a big jump, growing by 2x in the past year, with people increasingly going online to search for answers to their queries. Food & recipes is the largest contributor, followed by beauty & personal care (index of search volumes - Food &/ recipe: 100, beauty & personal care: 90, baby care: 40, home care: 5)

<table>
<thead>
<tr>
<th>Influencer</th>
<th>Gender</th>
<th>Category</th>
<th>Subcategory</th>
<th>Subcategory Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nisha Madhulika</td>
<td>Female</td>
<td>Food</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kabita's Kitchen</td>
<td>Female</td>
<td>Food</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sanjeev Kapoor Khazana</td>
<td>Male</td>
<td>Food</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beer Biceps</td>
<td>Male</td>
<td>Male Grooming</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fashionable Brat</td>
<td>Male</td>
<td>Male Grooming</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Urban Gabru Men's Lifestyle</td>
<td>Male</td>
<td>Male Grooming</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pretty Priya TV</td>
<td>Female</td>
<td>Beauty &amp; Makeup</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IndianGirl Channel Trisha</td>
<td>Female</td>
<td>Beauty &amp; Makeup</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Glamrs.com</td>
<td>Female</td>
<td>Beauty &amp; Makeup</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Significant rise in watch time for ‘recipes’ and ‘beauty & style’ related videos as well as FMCG related searches.

1. Number of subscribers as mentioned on the YouTube pages of the respective channels, as of 14-Sept-2017

Sources: Respective YouTube channels, as on 14-Sept-2017; Google Internal Search Data, 2015-17; BCG analysis
As we brace for exponential growth of the Digital medium, it is important to acknowledge the two kinds of opportunities it possesses: E-Commerce or online purchase, and its less explored but more pervasive precursor, Digital Influence.

We will discuss the importance, extent & implications of both across categories over the next two sections.

Section 2 discusses digital behavior of users, impact of influence across categories & implications for businesses

Section 3 discusses purchase behavior across categories, attributes of the online shopper & implications for businesses
DECODING THE IMPACT OF DIGITAL INFLUENCE IN FMCG
SUMMARY

Digitally influenced FMCG spend will grow to 40% of total spend on FMCG, $~45 billion by 2020
- In some categories, such as Baby Care & Fragrances, >50% of the consumption could be digitally influenced, whilst in others, such as Laundry and Toilet Care, <25% of the consumption would be digitally influenced
- The extent of digital influence would be comparable to other digitally influenced consumer categories: 45% in Apparel, 60% in Consumer Electronics

Digital influence relevant for both mass & premium brands. Magnitude & shape of digital influence varies significantly based on ‘intent’ of consumption & ‘degree’ of category penetration. Significant implications for brands on how to think about digital
- Up to 7x higher digital influence in the “problem solutions” space than the conventional usage space e.g. searches for problems like ‘hair fall’ significantly higher than the category ‘shampoo’. Thus, for brands to drive association with the problem solutions space, brands need to establish trust, build credibility & use insights for innovation
- In under-penetrated categories, the extent of digital influence is significantly higher vs. well penetrated categories, for example, a significantly higher share of consumption in perfumes, baby care is digitally influenced vs. categories like washing powder. Thus, brands need to invest in category creation and adapt content to digital
- Given that eyeballs are shifting to digital & there has been a significant reduction in the cost of digital advertisements, even well penetrated brands need to remain relevant online and invest in the digital space
Interestingly, market leaders in offline not necessarily leaders in digital influence

For urban India, consumers with digital access are spending significantly more than offline consumers
- Relative spend varies by sub-category e.g. digitally connected consumers spend as much as 3.5x on face wash
- Within a category, relative spend higher for premium brands e.g. 4.4X for a premium toothpaste brand
- Similarly, within the same SEC, spends are higher for consumers with digital access
- Spends on natural brands within a category also higher for digitally influenced consumers

28 Mn (10%) HHs would account for $27 Bn (~60%) of digitally influenced consumption by 2020
- Imperative to have laser sharp focus to win with these households

Time spent on digital by leadership teams not commensurate with the importance they attribute to digital

Spends in digital lagging due to several reasons, such as inertia of traditional media, lack of clarity on what to do, and uncertain returns
Digital powers opportunities for actively influencing today’s consumers.

As digital penetration increases and online channels mature, customers increasingly rely on the internet for various pre-purchase, purchase and post-purchase related activities. These interactions influence their behavior considerably.

Urban users will continue to contribute substantially to digitally influenced FMCG purchase, though rural users are on the rise.

It is expected that ~40% of FMCG spend in 2020 will be digitally influenced. This translates to a value of roughly USD 45 billion by 2020.

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**Digitally influenced FMCG spend will grow to $ ~45 Bn by 2020, driven by changing digital landscape**

<table>
<thead>
<tr>
<th>Year</th>
<th>Digital Influenced Spend</th>
<th>Other Spend</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>~60% ~75 Billion</td>
<td>~10-15% 7-10 Billion</td>
</tr>
<tr>
<td>2020</td>
<td>~60% ~115 Billion</td>
<td>~40% 85-90 Billion</td>
</tr>
</tbody>
</table>

1. Digital influence is defined as the use of internet for conducting pre-purchase, purchase & post-purchase activities.

**Sources:** BCG CCI Digital Influence Study – 2016; BCG – RAI report: “Digital in Retail”, Feb 2017
Share of digitally influenced consumption by 2020

- **<25%**
  - Grocery, snacks
  - Oral Care
  - Beverages
  - Household Care
  - Low

- **25-50%**
  - Hair care (shampoo & conditioner)
  - Face cream & moisturizer
  - Male Grooming
  - Medium

- **>50%**
  - Fragrances
  - Baby care & Pediatric
  - Health food, nutraceuticals
  - High to Very High
By 2020, Affluent & Elite households will increase from 8% to 10% of the total households in the country. Their contribution to overall consumption will rise as high as 39% in 2020.

This shift would have a far reaching impact on consumption patterns. With higher digital influence in these income segments, they are likely to contribute substantially to digitally influenced FMCG purchase (60-65%). It is critical that firms focus on & win in this segment.

<table>
<thead>
<tr>
<th>Type of HH basis annual income</th>
<th>No. of HHs (Million) 2015</th>
<th>No. of HHs (Million) 2020</th>
<th>Consumption contribution 2020</th>
<th>Digitally influenced FMCG consumption 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elite</td>
<td>10 (4%)</td>
<td>15 (5%)</td>
<td>39%</td>
<td>60–65%</td>
</tr>
<tr>
<td>Affluent</td>
<td>11 (4%)</td>
<td>13 (5%)</td>
<td>22%</td>
<td></td>
</tr>
<tr>
<td>Aspirers</td>
<td>20 (8%)</td>
<td>31 (11%)</td>
<td>28%</td>
<td>18-20%</td>
</tr>
<tr>
<td>Next Billion</td>
<td>109 (41%)</td>
<td>120 (42%)</td>
<td>28%</td>
<td>18-20%</td>
</tr>
<tr>
<td>Strugglers</td>
<td>115 (43%)</td>
<td>108 (38%)</td>
<td>12%</td>
<td>9-10%</td>
</tr>
<tr>
<td>Total</td>
<td>265</td>
<td>287</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes: 1. Struggler: <1.5 Lacs annual HH income, Next Billion: 1.5 to 5 lacs annual HH income, Aspirer: 5 Lacs to 10 lacs annual HH income, Affluent: 10 lacs to 20 lacs annual HH income, Elite: 20 Lacs+
Consumers with digital access in urban India are spending as much as 2x the offline consumers.

This relative spend is as high as 2.0x for Personal Care.

This trend is even more pronounced for premium categories, such as face wash, chocolates etc. It has also been noticed that with an increasing contribution to consumption coming from Affluent & Elite households, there is a rising trend of premium brand consumption.

**Relative spends** of online over offline consumers in Urban India

<table>
<thead>
<tr>
<th>Category</th>
<th>Relative spend for the category</th>
<th>Variation by category</th>
<th>Variation by brand within a category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Care</td>
<td>3.5x</td>
<td>1.2x</td>
<td>Premium 4.4x Non-Premium 0.7x</td>
</tr>
<tr>
<td>Face Wash</td>
<td>2.9x</td>
<td>1.1x</td>
<td>Premium 5.5x Non-Premium 0.7x</td>
</tr>
<tr>
<td>Toothpaste</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food and Beverages</td>
<td>2.0x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chocolates</td>
<td>1.3x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Edible Oil</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Home Care</td>
<td>4.4x</td>
<td>1.3x</td>
<td>Premium 2.2x Non-Premium 0.7x</td>
</tr>
<tr>
<td>Air Freshener</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Detergent Bars</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. Relative spends = relative spend on purchased product in Online Household to Offline Household; Online Household defined as a household with access to internet via Desktop, Laptop, Tablet or Smartphone

**Sources:** IMRB Kantar Worldpanel 2016, BCG analysis
While there is an understanding that the extent of digital influence would be significant, brands often have the following questions on their mind:

1. How do we allocate digital spends across categories?
2. How would the nature of digital influence change to drive specific actions from organizations?

To answer this, we would like to share a simple framework to layout the likely extent of digital influence and resulting imperatives for brands.

**Magnitude and shape of digital influence varies significantly based on “intent” of consumption & category penetration**

### Intent: ‘Conventional’ Usage

**Penetrated categories (65% of market):**
For example: soap, home cleaner, edible oil, etc.

**Remain relevant & capture attention**
Given consumer eyeballs are shifting to digital, brands need to shift spends online. Use *digital as one more medium* to engage the customer.

**Examples**
Major FMCG companies are increasing share of digital spends for their mass brands based on Digital Reach & Cost Efficiency.
Degree of digital influence driven by: ‘intent’ of consumption & category penetration (e.g. ‘solution’ space or ‘conventional’ consumption) change in digital influence

**Intent: ‘Problem solutions’ space**

- **Under-penetrated categories (35% of market):**
  - For example: Deodorant, hand-wash, conditioner etc.

- **Solutions offered by multiple branded / unbranded products across categories**
  - For example: Weight loss, natural breakfast, hair style etc.

**Playbook: Imperatives for brand**

- **Think digital first, invest in online for category creation**
  - Consumers currently have limited understanding of these categories.
  - Brands need to think ‘digital first’ to target the right customers & create / adapt content specially for digital media.

- **Establish content destinations backed by authority of trust**
  - Brands to think ‘digital first’ & create a content destination backed by credible authorities.
  - Drive association with trust, build familiarity, & use insights for innovation.

A global beauty & makeup player leveraged digital for a new product launch by sharp targeting and focusing their communication to regular salon visitors.

A major global consumer goods co created an online encyclopedia-like portal to engage with premium audiences by offering expert advice on certain home care solutions.
**Higher digital influence observed in relatively underpenetrated categories**

Underpenetrated categories show a much higher level of digital influence compared to well penetrated categories, such as packaged foods and beverages. Thus, consumers of these underpenetrated categories are preferring to use the internet for any shopping related activity, be it discovery, purchase or post-purchase.

There is also evidence to suggest that digitally influenced spends in such underpenetrated categories will grow significantly in the next few years. By 2020, over half the spends for underpenetrated categories on an average will be digitally influenced.

### Digitally influenced users across FMCG categories in 2016 (Indexed)

<table>
<thead>
<tr>
<th>Category</th>
<th>Indexed Share of Users Using Internet</th>
<th>Projected Digitally Influenced Share of Spends</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal care</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hair oil</td>
<td>1.2x</td>
<td></td>
</tr>
<tr>
<td>Baby care</td>
<td>5x</td>
<td></td>
</tr>
<tr>
<td>Health Food / Nutrition</td>
<td>3x</td>
<td></td>
</tr>
<tr>
<td>Face cream, moisturizer</td>
<td>2x</td>
<td></td>
</tr>
<tr>
<td>Shampoo &amp; conditioner</td>
<td>2x</td>
<td></td>
</tr>
<tr>
<td>Dietaries</td>
<td>5x</td>
<td></td>
</tr>
<tr>
<td>Home care</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grocery &amp; staples</td>
<td>1.5x</td>
<td></td>
</tr>
<tr>
<td>Packaged food &amp; beverages</td>
<td>1.5x</td>
<td></td>
</tr>
<tr>
<td>Washing powder</td>
<td>1x</td>
<td></td>
</tr>
<tr>
<td>Home cleaner</td>
<td>1x</td>
<td></td>
</tr>
<tr>
<td>Projected digitally influenced share of spends</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Digitally influenced spend (avg % in 2020)**

- **>50%**
- **<35%**

**Sources:** BCG CCI Digital Influence Study – 2016, IMRB Kantar Worldpanel 2016, BCG analysis
Higher digital influence observed in ‘problem solutions’ space than in conventional usage spaces

Consumers are searching significantly more for ‘solutions’ compared to conventional ‘products’. For example, ‘hair style’ receives more searches than ‘hair oil’ or ‘shampoo’. Similarly, ‘home remedy for skin’ over ‘skin cream’ or ‘moisturizer’, ‘whitening’ over ‘toothpaste’ or ‘toothbrush’ etc.

Consequently, the opportunity for digital influence is higher for various solutions to common problems rather than the products and brands in the conventional usage space.

<table>
<thead>
<tr>
<th>Product</th>
<th>Brand</th>
<th>Problem solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Hair Care</strong></td>
<td>Shampoo</td>
<td>Hair oil</td>
</tr>
<tr>
<td>1x</td>
<td>2x</td>
<td>2x</td>
</tr>
<tr>
<td><strong>Skin Care</strong></td>
<td>Moisturizer</td>
<td>Cream</td>
</tr>
<tr>
<td>1x</td>
<td>2x</td>
<td>3x</td>
</tr>
<tr>
<td><strong>Oral Care</strong></td>
<td>Toothbrush</td>
<td>Toothpaste</td>
</tr>
<tr>
<td>1x</td>
<td>1.6x</td>
<td>0.6x</td>
</tr>
</tbody>
</table>

1. Hair care includes hair oils, shampoo, conditioner, hair styling, etc.  
2. Skin care includes creams, moisturizer, facewash, soaps, sunscreen, etc.  
3. Oral care includes toothpastes, toothbrushes, mouthwash, etc.

Source: Google Internal Search Data, Jan-Jun 2017
Customers with higher digital access seem to show a preference for natural solutions and brands. This preference is clearly pronounced upon looking at search patterns for natural solutions, with such searches as high as 3x over regular products.

Spends on natural brands are also higher than category averages and showcase a similar trend among digital consumers.

---

1. Relative spends = relative spend on purchased product in Online Household to Offline Household; Online Household defined as a household with access to internet via Desktop, Laptop, Tablet or Smartphone
2. E.g. ‘home remedies for hairfall’
3. E.g. ‘acne home treatment’
4. E.g. ‘bad breath natural remedy’

Sources: IMRB Kantar Worldpanel 2016, Google Internal Search Data, Jan–Jun 2017
Interestingly, offline leaders are not necessarily the leaders in driving digital influence.

Market leaders in the category are not necessarily the most effective in driving digital influence. In skin care for e.g.: Brand 5 with only ~3% market share has 4x times the number of visits to its webpage compared to Brand 1 with 35% market share.

This is indicative of the fact that leaders in the offline world are historically driven by mass branding and leveraging wide distribution networks across the country.

New challengers, however, are driving online presence through multiple platforms enabling targeted reach. This presents a unique opportunity for brands on the digital playing field, with significant potential for leapfrogging traditional players.

---

Online presence v/s Market share: Illustration for Skin care

<table>
<thead>
<tr>
<th>Brand</th>
<th>Market share of brand (%)</th>
<th>Average monthly webpage visits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brand 1</td>
<td>35%</td>
<td>1x</td>
</tr>
<tr>
<td>Brand 2</td>
<td>7%</td>
<td>0.2x</td>
</tr>
<tr>
<td>Brand 3</td>
<td>6%</td>
<td>0x</td>
</tr>
<tr>
<td>Brand 4</td>
<td>5%</td>
<td>2x</td>
</tr>
<tr>
<td>Brand 5</td>
<td>3%</td>
<td>4x</td>
</tr>
</tbody>
</table>

1. Includes skin cream, face wash, body cream, hand wash, etc.

Sources: ComScore, Euromonitor, BCG Analysis

---

Leader in offline world driven by:
- Mass branding through traditional medium
- Leveraging wide distribution network across the country

New challenger driving online presence through multiple platforms enabling targeted reach:
- Targeting people on ‘search’ and ‘social’ platforms
- Leveraging ‘referrals’ from relevant portals
In nearly 2/3rd of all organizations we surveyed, the leadership felt that digital was one of the top 3 strategic priorities.

However, this is not commensurate to the time spent by the leadership teams on the progress of their digital strategy. Nearly 3/4th of the respondents felt that in their organizations, <10% of the time was spent by the leadership team on digital.

**Results for digital strategy show that....**

<table>
<thead>
<tr>
<th>Question</th>
<th>% Responses</th>
<th>0%</th>
<th>0%</th>
<th>38%</th>
<th>63%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do you have a clearly articulated digital strategy?</td>
<td>% responses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No</td>
<td></td>
<td>0%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes – in some parts only, without specific goals</td>
<td></td>
<td></td>
<td></td>
<td>38%</td>
<td></td>
</tr>
<tr>
<td>Yes – but not with specific goals</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>63%</td>
</tr>
<tr>
<td>Yes – in a comprehensive manner with clearly articulated, specific goals</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Do you see using digital as one of the top priorities for your business?</td>
<td>% responses</td>
<td></td>
<td></td>
<td>63%</td>
<td></td>
</tr>
<tr>
<td>Top 3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Top 5</td>
<td></td>
<td></td>
<td></td>
<td>38%</td>
<td></td>
</tr>
<tr>
<td>Top 10</td>
<td></td>
<td></td>
<td></td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Is the progress on digital strategy clearly monitored and discussed in the management committee?</td>
<td>% responses</td>
<td></td>
<td>25%</td>
<td>25%</td>
<td>25%</td>
</tr>
<tr>
<td>Ad hoc reviews, not structured enough</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes – gets &lt;5% of the management committee’s time</td>
<td></td>
<td></td>
<td></td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>Yes – gets 5-10% of the management committee’s time</td>
<td></td>
<td></td>
<td></td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>Yes – gets &gt;10% of the management committee’s time</td>
<td></td>
<td></td>
<td></td>
<td>25%</td>
<td></td>
</tr>
</tbody>
</table>

Source: BCG–Google CXO Survey, Aug-Sep 2017
Spends in digital are lagging due to multiple reasons

We asked our respondents on key barriers for investing in digital influence. The graphic on the right, summarizes the key points.

What stops you from spending more on digital?

<table>
<thead>
<tr>
<th>Reason</th>
<th>% responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of awareness of importance of digital</td>
<td>13%</td>
</tr>
<tr>
<td>Lack of clarity on what to do in digital/returns from digital</td>
<td>63%</td>
</tr>
<tr>
<td>Limited capability in the organization for digital</td>
<td>13%</td>
</tr>
<tr>
<td>Inertia of current way of working/traditional media</td>
<td>38%</td>
</tr>
</tbody>
</table>

Which of the following best represents your current state on digital impact measurement?

<table>
<thead>
<tr>
<th>State</th>
<th>% responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clear understanding on returns on digital spend with defined metrics</td>
<td>25%</td>
</tr>
<tr>
<td>Metrics in place but limited linkage to business results</td>
<td>75%</td>
</tr>
<tr>
<td>Limited understanding of returns from digital campaigns</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: BCG–Google CXO Survey, Aug-Sep 2017
Key implications for FMCG companies

The New Reality

- Digitally influenced spend in FMCG likely to rise to $45 Bn by 2020
- Significant growth of 3V's (Video, vernacular, views) - important to win
- 10% of households to account for 60% of digitally influenced FMCG consumption by 2020
- Rural usage behavior different from urban
- Extent and nature of digital influence depends upon the intent of consumption & category penetration
- Spends in digital under-indexed: organizations unclear on how to leverage digital effectively
### Call for Action

1. Leverage digital across touch points in consumer journey to shape digital influence
2. Actively create and shape the digital strategy around the 3‘V’s
3. Invest in data driven marketing to win with these HHs
4. Digital strategy customized to behavior of rural consumer (data light, differential needs)
5. Index the extent of digital basis the participating categories; Differentiated approach for different spaces
6. Institute the right measures of performance for digital spends and build capability in the organization
Call to action for FMCG organizations (I/III)

**Leverage digital across touch points in consumer journey**

**Actively create and shape the digital strategy around the 3’V’s**

**Invest in data driven marketing to win with the 10% HHs**

**Digital strategy customized to behavior of rural consumer**

- **Targeted marketing:** Tailor messages to consumers based on demographics and interests, leveraging past usage patterns & ‘what's worked well’
- **Programmatic retargeting at opportune moments**
- **Digital Communities:** Facilitate two-way communication around a cause to deepen engagement

**Build awareness**

- **Targeted marketing:** Engage in strong user content to help users decide
- **Leverage multiple sources of content**
  - in-house
  - user-generated
  - third party influencer

**Help consumer decide**

- **Curated content:** Aid decision making
- **Personalized offers:** Selling based on browsing history of consumers

**Ease purchasing process**

- **Conversational commerce:** Integrate shopping into conversations, provide assisted shopping experiences

**Drive Post-purchase retention**

- **Offer exclusive pre-launches and services:** Offer exclusive products and services to loyal customers and influencers.
- **Foster ‘Virality’**: Encourage customer reviews, closely manage social sentiment

- **Vernacular content:** Create new or customize existing content to Indian languages
- **Data light & user friendly interfaces:** Create lighter apps & shorter purchase processes suitable for feature phones

**Adapt to serve for differential need on the same platform:** Identify behavioral differences in usage of same platform by rural consumers & create/ share content accordingly
Call to action for FMCG organizations (II/III)

Index the extent of digital basis the participating categories; differentiated approach for different spaces

<table>
<thead>
<tr>
<th>Conventional usage, penetrated category</th>
<th>Conventional usage, Underpenetrated category</th>
<th>‘Solution’ space</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital channel to complement traditional media</td>
<td>Think ‘digital first’ – precedence over traditional media channel</td>
<td>Index digital spend basis targeted space</td>
</tr>
<tr>
<td>Same / Similar content for all channels with some tweaks to be digital appropriate</td>
<td>Invest in specific digital content creation for category awareness</td>
<td>Adapt media channel strategy</td>
</tr>
<tr>
<td>Limited authority of trust needed for conventional consumption</td>
<td>Build environment of extensive credibility required for customer to believe in the ‘solution’</td>
<td>Customize content for channel basis targeted space</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Create content hubs backed by strong authority of trust</td>
</tr>
</tbody>
</table>
Institute the right measure of performance for digital

Create a focused digital agenda

Identify the right metrics defining ‘success’ for different elements of the digital agenda

Institute mechanisms to track the defined metrics and therefore measure the performance of digital

Build capabilities in the organization

Build an integrated marketing team with dedicated digital marketing resources executing the digital agenda

• Product facing: Utilize unlimited ‘digital’ shelf space; Improve rankings through search / best seller lists
• Navigation: Attract eyeballs through right choice of online departments and managing product reviews and product tags
• Packaging: Implement easy packaging to simplify e-com logistics

Build technical back-end capabilities to serve the space

• Touch and feel: Virtual experience enabled by rich media applications
• Product Information: Rich multimedia content for digital world which has no space constraints unlike the in-store set up

Build the digital performance metrics into the KPIs of the relevant teams in the organization
WINNING WITH E-COMMERCE
E-Commerce in FMCG can potentially grow to $5–6 Bn (4–5% of the branded FMCG market) by 2020.

E-Commerce penetration to vary across categories
- Very high penetration of 10+% by 2020 in categories like nutraceuticals and color cosmetics
- High penetration of 7–10% by 2020 in categories like weight management and baby care
- Moderate penetration of 3–7% by 2020 in categories like hair care and laundry
- Low penetration of <3% by 2020 in categories like dairy products and confectionery

Among urban users with >4 years digital age, online purchase penetration already at 45% compared to ~30% for digital age < 6 months.
Pricing is important for online FMCG purchase, but non price drivers are becoming significant for younger generation

- Non price drivers such as availability of options (critical for Tier 1 shoppers), Express delivery and returns (critical for Tier 2+3 shoppers) are becoming increasingly important

Digital medium is also giving rise to new business models and new competition in FMCG; Companies are trying to leverage new business models to premiumize the offering
E-commerce in FMCG could potentially grow to $5-6 Bn by 2020

E-commerce in FMCG is currently a $<1 Bn market, and can potentially grow to a $5–6 Bn market by 2020. In fact, over 10% of the overall FMCG growth in next 3–4 years would be contributed by the online channel.

Additionally, e-commerce penetration will be non uniform across product categories. Some segments like skin care and color cosmetics will see 10+% online sales by 2020, whereas others such as dairy products and soft drinks will have 1–3% sales online.

Sources: BCG – RAI report: “Digital in Retail” Feb 2017, BCG analysis
Share of e-commerce would vary by category

Share of online in category sales, 2020

- **1–3%**
  - Dairy products
  - Soft drinks
  - Confectionery
  - Savory snacks
  - Low penetration

- **3–7%**
  - Hair care
  - Laundry
  - Oral care
  - Toilet care
  - Moderate penetration

- **7–10%**
  - Feminine hygiene
  - Baby care & Pediatric
  - Vitamins & herbals
  - Weight management
  - High penetration

- **10+%**
  - Skin care
  - Color cosmetics
  - Fragrances
  - Nutraceuticals
  - Very high penetration

Online purchase behavior varies significantly with digital age, with online customers spending more than offline.

A key trend noticed among online shoppers is that digital age, rather than physical age, is a better metric to determine purchase behavior.

Customers who buy online also have significantly higher average spends compared to offline customers. Online consumers spend as high as 1.8x per transaction over offline consumers in categories such as baby care and groceries.

% of customers making online purchases (within urban India)

- <6 months: 28%
- 6 months - 1 year: 33%
- 1 year - 2 years: 31%
- 2 years - 4 years: 34%
- 4+ years: 45%

Sources: BCG – CCI digital deep dive daily survey 2016 (N=13,900 transactions), BCG analysis
Note: Analysis includes transactions of all F&G buyers from daily panel
Sources: CCI digital deep dive daily survey 2016 (N=13,900 transactions), BCG analysis

Winning with E-Commerce | 52
Attractive pricing is important for online FMCG purchase, but non-price drivers are becoming significant

The dominant reason for preferring e-commerce seems to be the attractive pricing and plethora of discounts offered online.

However, non-price drivers e.g. range, convenience etc. are becoming increasingly important, as can be seen in responses from younger respondents (aged 18–25).

<table>
<thead>
<tr>
<th>Top reason for online F&amp;G purchase – by age group</th>
<th>% online shoppers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Best price online</td>
<td>Overall</td>
</tr>
<tr>
<td></td>
<td>50%</td>
</tr>
<tr>
<td></td>
<td>33%</td>
</tr>
<tr>
<td></td>
<td>54%</td>
</tr>
<tr>
<td></td>
<td>48%</td>
</tr>
<tr>
<td></td>
<td>65%</td>
</tr>
<tr>
<td>Availability of brands/packages</td>
<td>Overall</td>
</tr>
<tr>
<td></td>
<td>17%</td>
</tr>
<tr>
<td></td>
<td>23%</td>
</tr>
<tr>
<td></td>
<td>12%</td>
</tr>
<tr>
<td></td>
<td>22%</td>
</tr>
<tr>
<td></td>
<td>17%</td>
</tr>
<tr>
<td>Saves time and effort</td>
<td>Overall</td>
</tr>
<tr>
<td></td>
<td>11%</td>
</tr>
<tr>
<td></td>
<td>21%</td>
</tr>
<tr>
<td></td>
<td>8%</td>
</tr>
<tr>
<td></td>
<td>11%</td>
</tr>
<tr>
<td></td>
<td>11%</td>
</tr>
<tr>
<td>Easy product discovery</td>
<td>Overall</td>
</tr>
<tr>
<td></td>
<td>3%</td>
</tr>
<tr>
<td></td>
<td>2%</td>
</tr>
<tr>
<td></td>
<td>4%</td>
</tr>
<tr>
<td></td>
<td>2%</td>
</tr>
<tr>
<td></td>
<td>0%</td>
</tr>
<tr>
<td>Free home delivery</td>
<td>Overall</td>
</tr>
<tr>
<td></td>
<td>3%</td>
</tr>
<tr>
<td></td>
<td>2%</td>
</tr>
<tr>
<td></td>
<td>5%</td>
</tr>
<tr>
<td></td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>0%</td>
</tr>
<tr>
<td>Others</td>
<td>Overall</td>
</tr>
<tr>
<td></td>
<td>17%</td>
</tr>
<tr>
<td></td>
<td>19%</td>
</tr>
<tr>
<td></td>
<td>17%</td>
</tr>
<tr>
<td></td>
<td>17%</td>
</tr>
<tr>
<td></td>
<td>9%</td>
</tr>
</tbody>
</table>

Note: Includes top 1 rank only

Q31A. Could you please tell me top 3 reasons why did you make your most recent purchase of F&G online? Please rank top-3

Sources: CCI digital deep dive Study 2016 (N=502), BCG analysis
Drivers of online purchase vary by city tier

For customers in Tier 1 geographies, availability of options is a significant driver of online purchases. Given the rising maturity of e-commerce related delivery and returns in these geographies, this is not a surprising trend.

In Tier 2 & 3 regions, however, features such as express delivery and return policy are highly preferred.

### Rank of top 5 criteria for selection of website

<table>
<thead>
<tr>
<th>Rank</th>
<th>Overall</th>
<th>Metro</th>
<th>Tier 1</th>
<th>Tier 2+3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Deals, discount and offers</td>
<td>Deals, discount and offers</td>
<td>Deals, discount and offers</td>
<td>Deals, discount and offers</td>
</tr>
<tr>
<td>2</td>
<td>Availability of fresh products</td>
<td>Availability of fresh products</td>
<td>Options for each product</td>
<td>Easy return policy</td>
</tr>
<tr>
<td>3</td>
<td>Easy return policy</td>
<td>Easy return policy</td>
<td>Availability of all payment options</td>
<td>Availability of fresh products</td>
</tr>
<tr>
<td>4</td>
<td>Availability of all payment options</td>
<td>Availability of all payment options</td>
<td>Easy return policy</td>
<td>Express delivery options</td>
</tr>
<tr>
<td>5</td>
<td>Options for each product</td>
<td>Options for each product</td>
<td>Express delivery options</td>
<td>Availability of all payment options</td>
</tr>
</tbody>
</table>

1. Based on MaxDiff technique – allocating 100 utility points across attributes.

Note: Only for online F&G buyers Q24. Now I am going to read out a set of attributes. Can you tell me of these, which are the most important factors and least important factors when deciding your choice of online seller for food & grocery?

Sources: CCI digital deep dive Study 2016 (N=502), BCG analysis
~40% online transactions for FMCG products are basket purchases

**Basket analysis of online FMCG purchase – by categories purchased**

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency of multiple FMCG category purchases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fruits &amp; Vegetables</td>
<td>42%</td>
</tr>
<tr>
<td>Groceries</td>
<td>49%</td>
</tr>
<tr>
<td>Packaged food</td>
<td>36%</td>
</tr>
<tr>
<td>Personal care</td>
<td>22%</td>
</tr>
<tr>
<td>Home care</td>
<td>30%</td>
</tr>
<tr>
<td>Make-up</td>
<td>8%</td>
</tr>
<tr>
<td>Baby care</td>
<td>16%</td>
</tr>
</tbody>
</table>

**Note:** Above share calculated based on all online F&G shoppers
**Source:** CCI digital deep dive daily survey 2016 (N=13,900 transactions)
Organizations trying multiples platforms; Driving sales of premium products a key priority

Which of the following do you use for e-commerce?

<table>
<thead>
<tr>
<th>Platform Type</th>
<th>% Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Online marketplace only, for eg. Flipkart</td>
<td>75%</td>
</tr>
<tr>
<td>Online pure play hyperlocal platforms, for eg. Big Basket</td>
<td>88%</td>
</tr>
<tr>
<td>Own brand.com</td>
<td>38%</td>
</tr>
<tr>
<td>Online category specialists eg. Nykaa</td>
<td>63%</td>
</tr>
<tr>
<td>Online flash sales</td>
<td>38%</td>
</tr>
</tbody>
</table>

What is your strategic rationale behind using a new business model?

<table>
<thead>
<tr>
<th>Rationale</th>
<th>% Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>De-risk current business</td>
<td>38%</td>
</tr>
<tr>
<td>Monetize current capabilities</td>
<td>13%</td>
</tr>
<tr>
<td>Premiumize offering</td>
<td>63%</td>
</tr>
<tr>
<td>Acquire a potential threat</td>
<td>13%</td>
</tr>
</tbody>
</table>

Source: BCG–Google CXO Survey, Aug-Sep 2017
Evidence of new business models in FMCG arising out of digital

Digital provides opportunities for brands to venture into new business models. A popular global confectionery brand provides customization opportunities online and charges a premium based on the degree of customization.

An up and coming milk foods player in India offers an online subscription option for doorstep delivery of fresh milk.

Global as well as Indian brands offering makeup & beauty products have also started online subscriptions with discounts & loyalty points on purchases. A global beauty brand offers a dedicated self-owned portal for its premium offerings.

An innovative Chinese packaged foods brand has an online-only business model aimed at young female consumers.

A global confectionery brand customizes orders online
- The brand charges a premium based on the degree of customization
- Within a year of launch, the brand received 325K orders, 5% of overall sales came from customized products.

An Indian milk foods brand offers online subscription
- The brand has an online subscription model
- Customers can create & manage accounts & pay online for doorstep delivery of milk

Sources: Press releases, BCG analysis
A global beauty & makeup brand has an evolved online offering
- Self-owned e-com portal with personalized offerings, active social media engagement for premium brands
- Basic digital presence (updated website, e-com partnerships) for rest of portfolio

An Indian grooming brand offers loyalty points & discounts
- The brand follows a reward points model for sign-up, purchase and reviews
- Witnessed 2x growth ratio with online presence across e-tailers

A global beauty brand customizes VIP accounts
- The brand offers a subscription based VIP account with discounts on every purchase

An innovative Chinese packaged foods brand takes online customer interaction to the next level
- The online-only brand interacts with consumers online on personal chat and prides itself on exceptional customer service
- The brand offers innovative and ‘cute’ packaging
Minimizing channel conflict through smart operating choices on price, assortment & inventory critical

How to win?

Multiple operating choices, each with different implications on channel conflict

**Pricing**
- Price parity in all channels
- Price parity of brand.com with Offline
- Price differentiation across all channels

**Assortment**
- New online only brand launched
- Exclusive products sold online
- Limited products sold online
- All products in limited SKUs sold online
- All SKUs sold online

**Partnership model**
- Marketplace model
- Part inventory
- Part marketplace
- Inventory model
Proactive management of friction with own brick and mortar business important for success

**Inventory** needs to be managed, presented and delivered across in-store and .com in a channel agnostic manner

**Assortment** decisions need to be made across channels

**Pricing** should ideally be different for different channels based on cost-to-serve, but omniconsumers looking at products across channels and expecting aligned price need to be managed

**Promotions** in-stores and online, need to be coordinated to avoid confusion among consumers and/or sub-optimal economics

**Accounting** lines between online brand marketing & trade marketing spends are fuzzy and call for new buckets to be defined both for budgeting and a managerial P&L

**Budgeting** processes, traditionally dividing funds by channel (trade, marketing, eCommerce) need to be rethought as purchase pathways merge

**Incentives** and metrics pushing business owners to optimize channel results vis-a-vis drive overall business need to be checked
FOR FURTHER READING

The Boston Consulting Group publishes other reports and articles on related topics that may be of interest to senior executives. Recent examples include:

Decoding Digital Consumers in India
A focus by The Boston Consulting Group, July 2017

Profiting from Personalization
An article by The Boston Consulting Group, May 2017

The New Indian: The Many Facets of a Changing Consumer
A focus by The Boston Consulting Group, March 2017

A Disconnect and a Divide in Digital-Marketing Talent
A focus by The Boston Consulting Group commissioned by Google, March 2017

Decoding the Digital Opportunity in Retail
A report by The Boston Consulting Group in association with Retailers Association of India (RAI), February 2017

The Rising Connected Consumer in Rural India
A focus by The Boston Consulting Group, August 2016

Travel Innovated: Who Will Own the Customer?
A focus by The Boston Consulting Group in association with BCG Digital Ventures and B Capital Group, January 2016

Re-imagining FMCG in India
A report by The Boston Consulting Group in association with Confederation of Indian Industry (CII), December 2015

A Renaissance for Revenue Management in Travel and Tourism?
An article by The Boston Consulting Group, October 2015

The Changing Connected Consumer in India
An article by The Boston Consulting Group, April 2015
NOTE TO THE READER

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