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DECODING DIGITAL IMPACT:

A \$45 Bn Opportunity
in **FMCG**

SEPTEMBER 2017

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DECODING THE
IMPACT OF DIGITAL
INFLUENCE IN FMCG



45

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

- 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

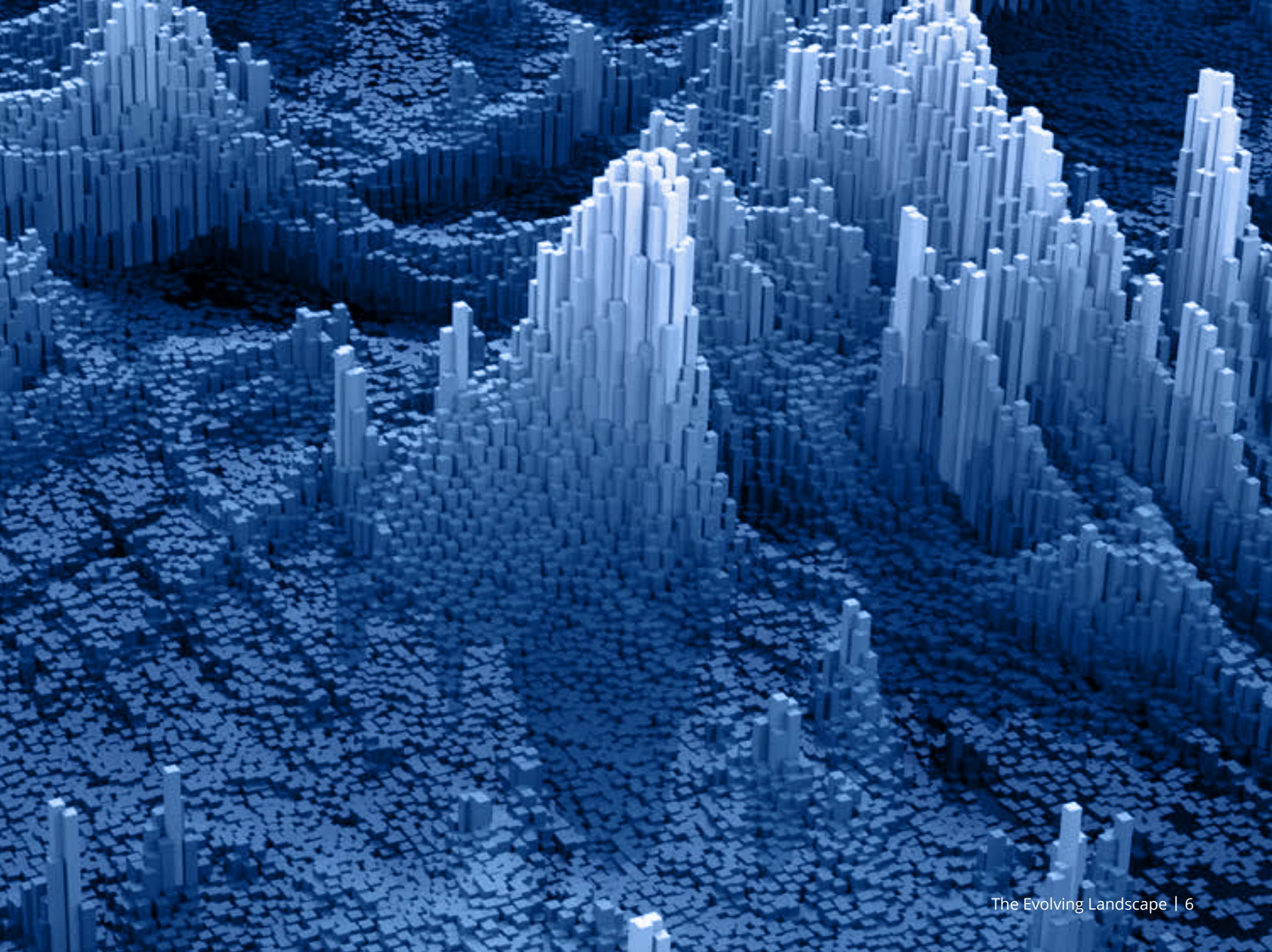
- Even in deeply penetrated categories, given eyeballs are shifting to digital and cost of digital advertising drastically reducing, brands need to remain relevant online by leveraging digital as another medium

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



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



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

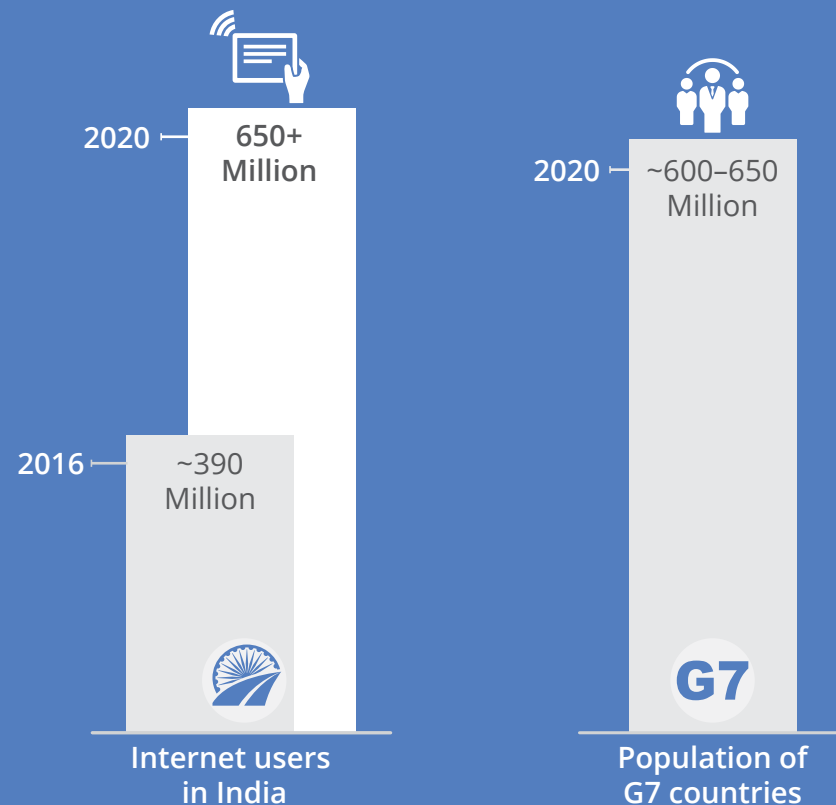
Digital penetration is an all pervasive force – brace for exponential growth

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!

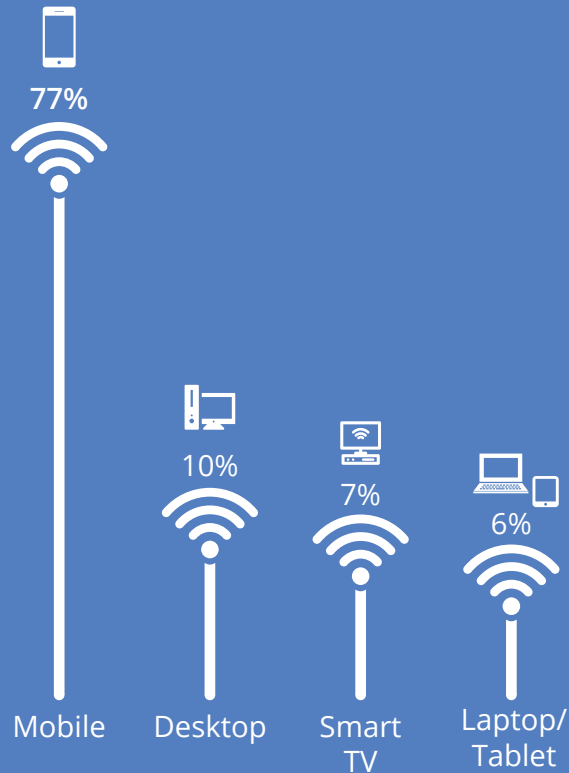
By 2020, # of internet users in India will be more than G7 population

Number of people (Million)



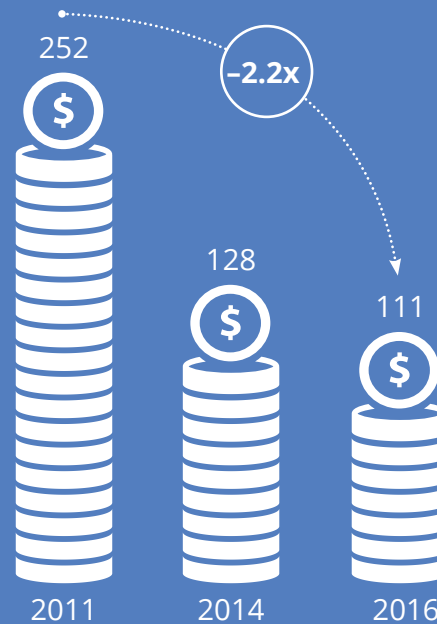
Mobile is already the primary device for accessing the internet in India

% of users



Smartphones available at lower prices

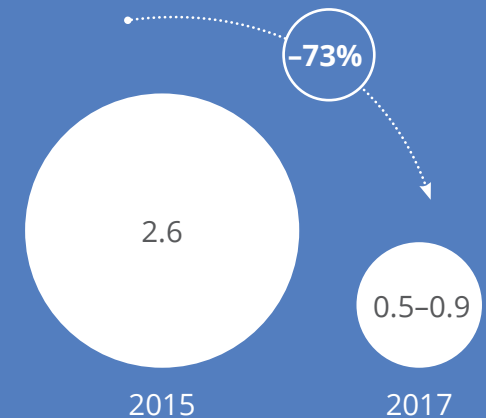
Average Smartphone Price (USD)



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)



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

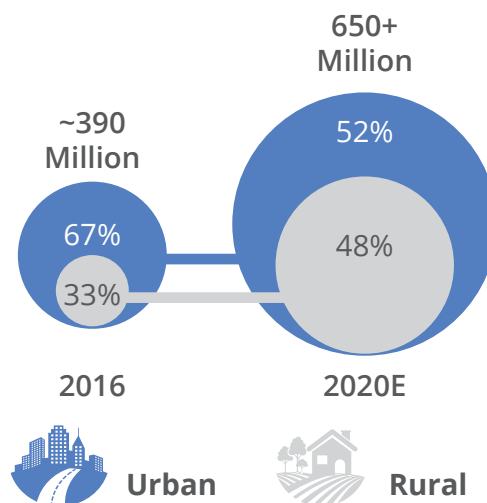
Between 2008-13, China went through a period of rapid internet penetration, with rural internet penetration doubling in five years. The Indian story is similar. More than half of India's internet growth is expected to come from rural India taking the tally of rural internet users from ~33% today to close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

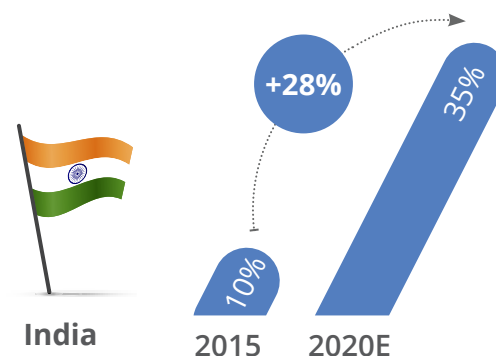
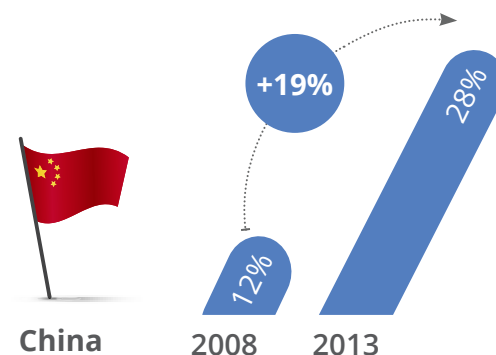
>50% of India's internet growth in next 3-4 years is expected to come from rural India

Internet users (Million)



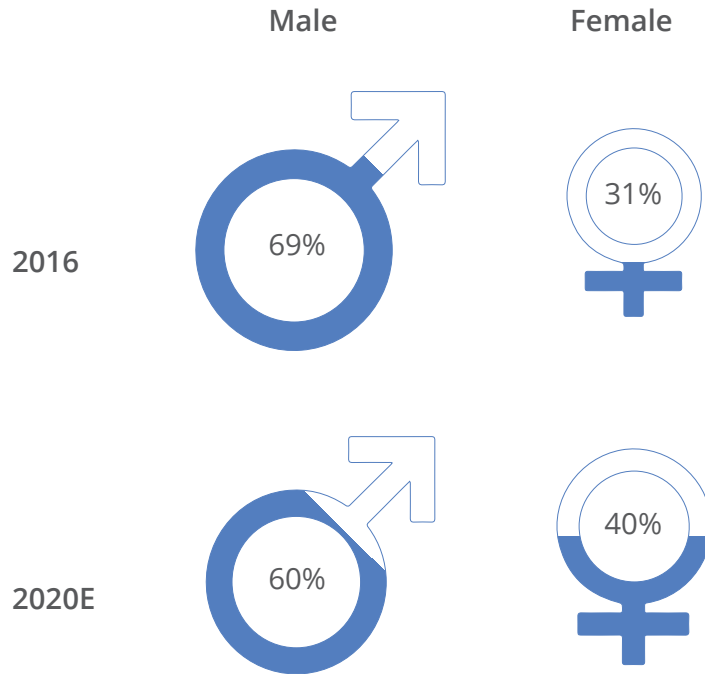
Future growth in rural internet users should be similar to what China witnessed a few years ago

Rural internet penetration (%)



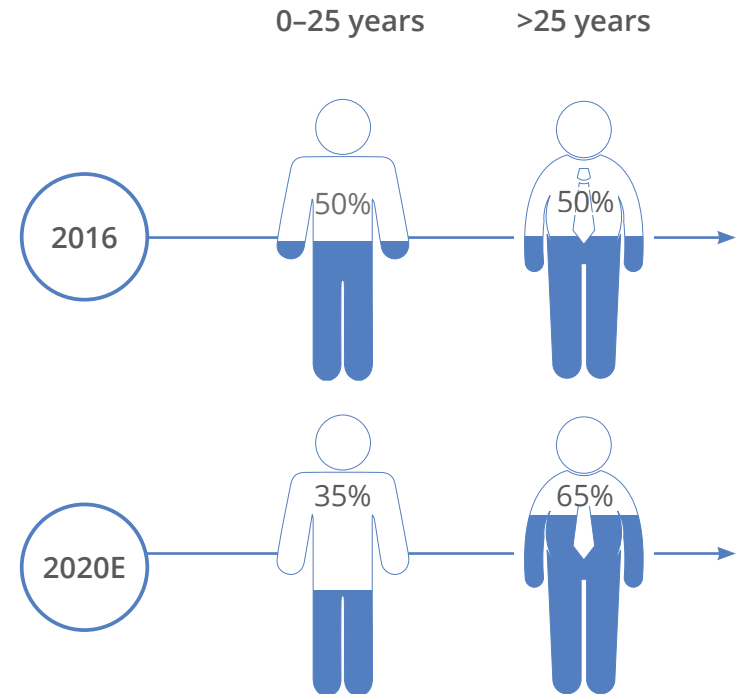
Share of urban female internet users is expected to grow significantly

% of urban internet users



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

% of internet users



Rural usage behavior different from urban w.r.t medium, type of apps and needs – requires customized digital strategy

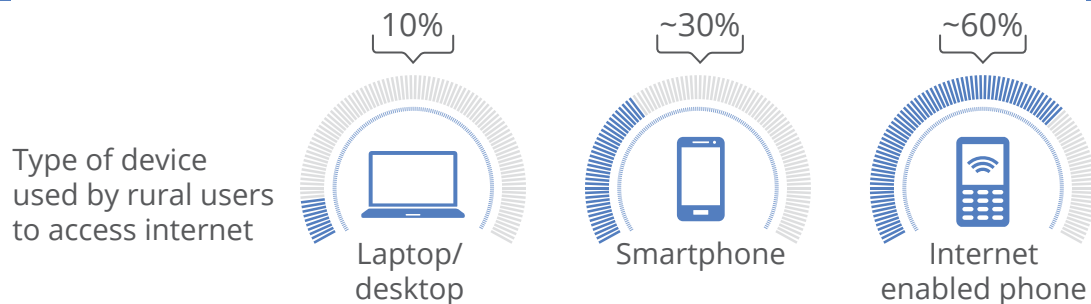
Today, rural internet users differ from their urban counterparts on their device of choice, type of apps used, and use-cases for accessing the internet.

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.

Inexpensive internet enabled devices



Data-light, vernacular apps more popular

Rural customers tend to use lighter apps that are supported by inexpensive devices and poor connections.

- UC Web browser is more prominent
- WhatsApp is commonly used
- Entertainment apps are expected to gain traction with cheaper data plans

Vernacular media consumption is relatively higher.

- e.g. regional news aggregators preferred to national English dailies

Different use-cases for accessing the internet

Ranking the top use-cases for accessing the internet



Urban consumer

- Online communication
- Social networking
- Entertainment



Rural consumer

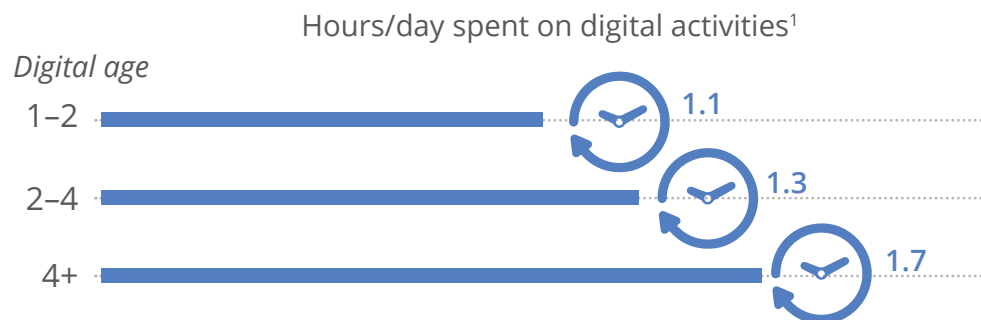
- Entertainment
- Education
- Social Networking

Online behavior best predicted by digital age, not demographics

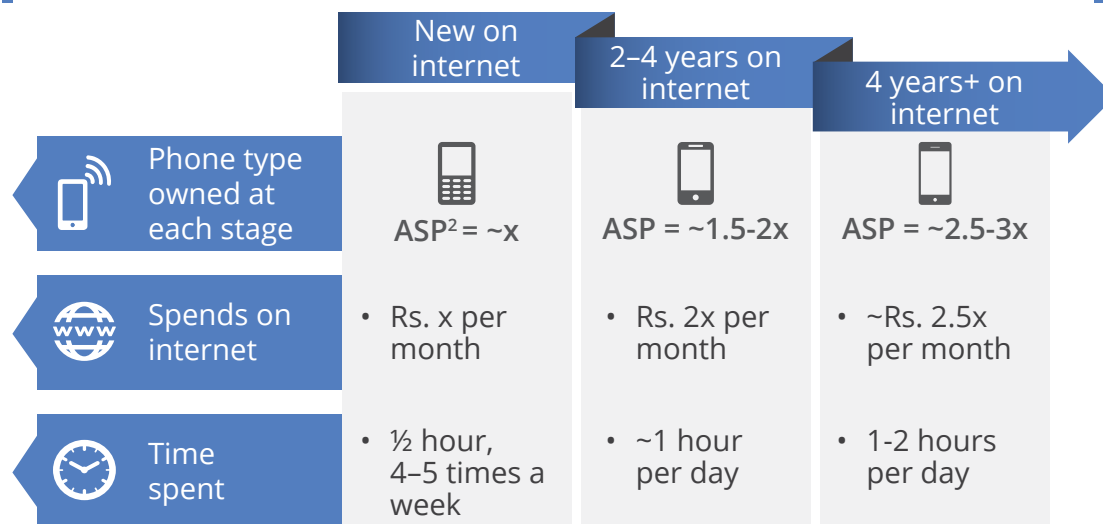
Interestingly, digital age (years spent online) is a bigger determinant of online behavior than physical age, as online actions get more evolved with growing familiarity to the medium.

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...



Rural internet user behavior evolves significantly with digital maturity



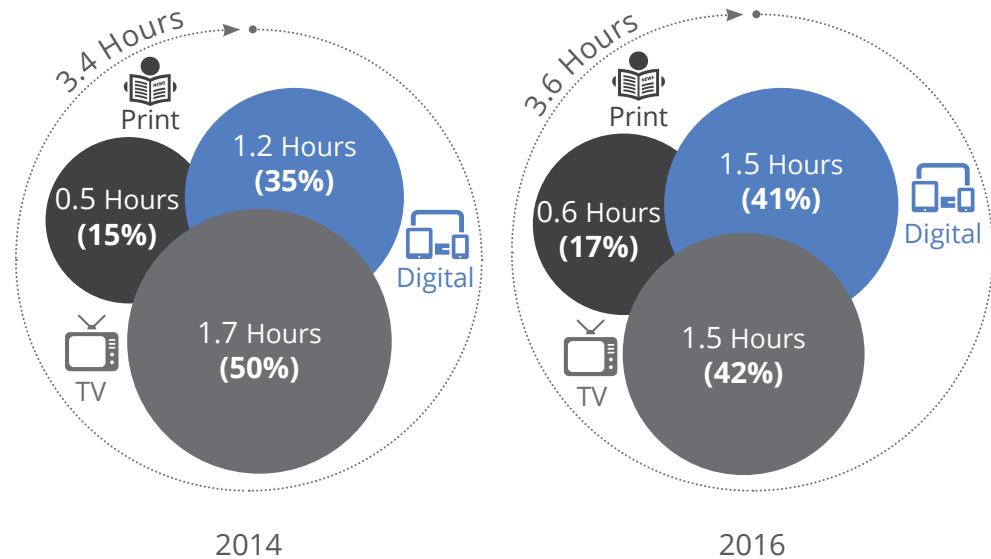
¹. Refers to all digital activities, including browsing, watching videos, playing games, etc. ². ASP = Average Selling Price
Sources: BCG Rural qualitative study, BCG CCI Digital Influence Study 2016, BCG Decoding Retail Study, BCG analysis

Time spent on digital and TV similar in urban connected users

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.

Time spent by internet users on accessing media (Hours/day)



Costs of digital advertisement have also dropped significantly

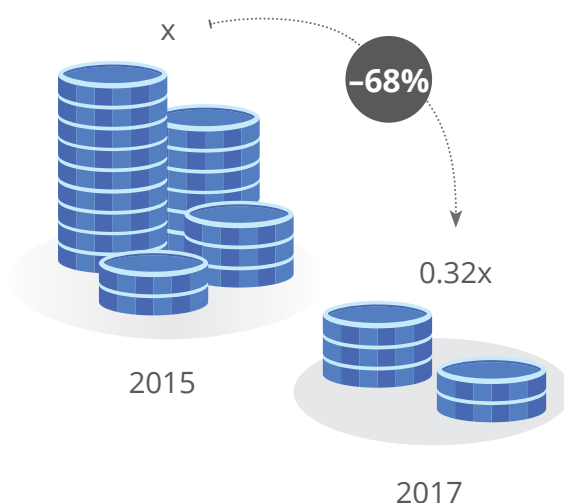
The costs of digital advertising are sharply declining. For example, the past 2 years have witnessed a 68% reduction in the costs of online video advertising.

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.



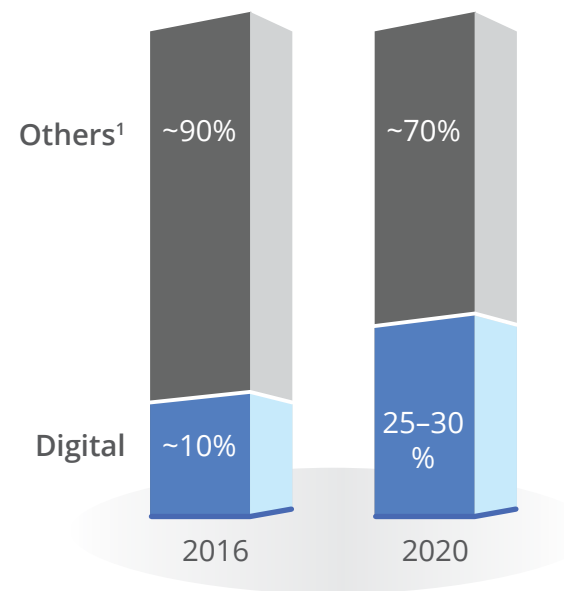
Cost of digital advertising is coming down every year, with a 2/3rd reduction in past 2 years

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 (%)



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

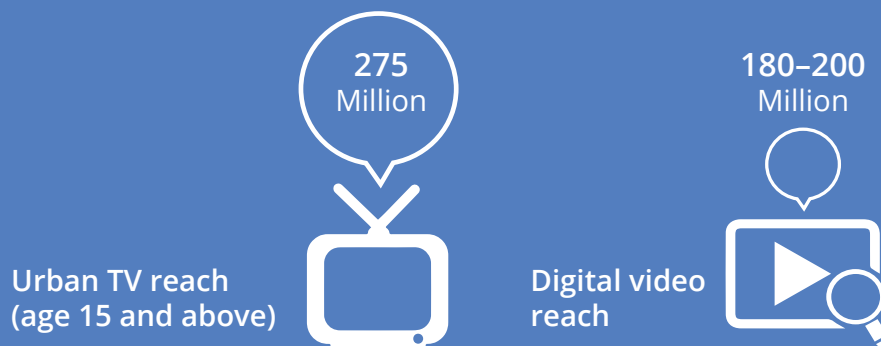
The number of online video users and watch time have grown significantly in the past one year, by 2x and 4x respectively.

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.

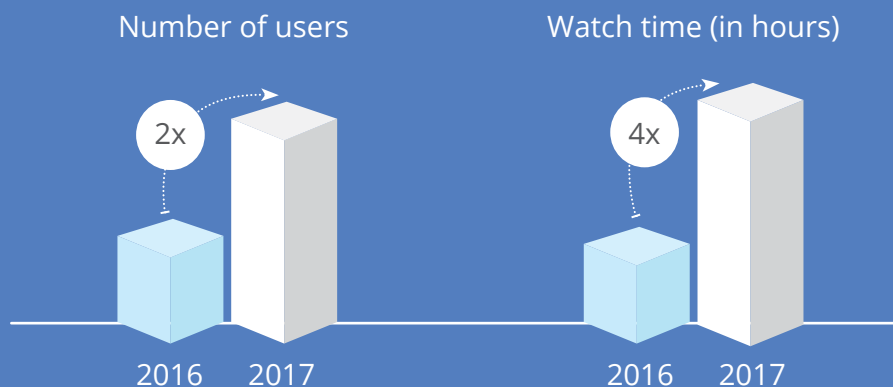
Towards the end of 2016, a new entrant in the Indian telco market offered free high speed data to customers. Some interesting trends were observed with new adopters - some of the most popular use cases for these new adopters were actually watching & downloading videos, driven primarily by entertainment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

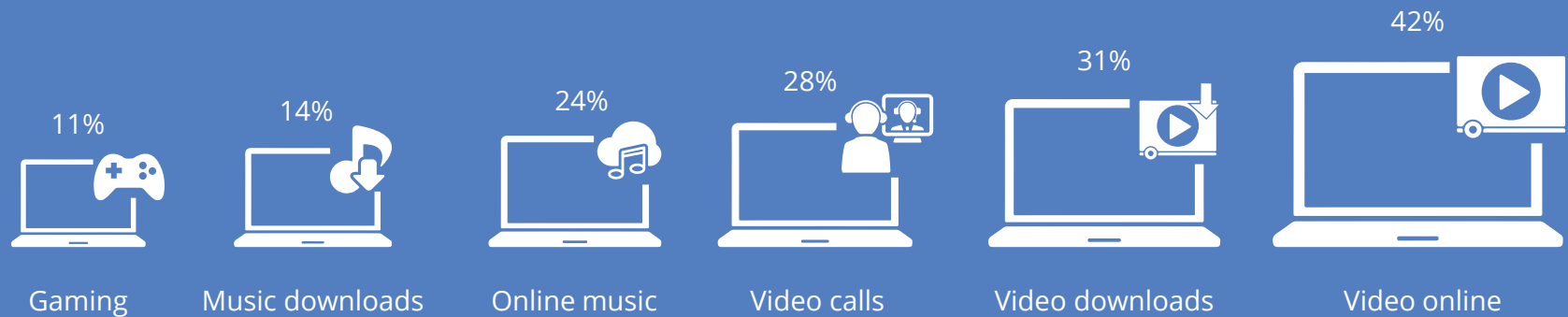


More people watching online and watching for longer

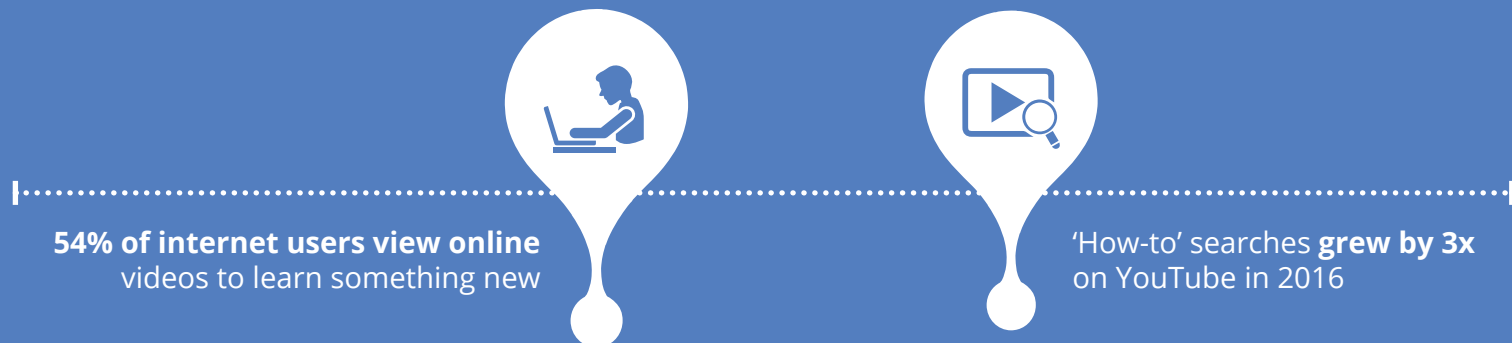


Watching and downloading videos is a key activity for mobile users on a new entrant's network...

Key activities being tried for first time on mobile¹



... with video increasingly being used beyond entertainment



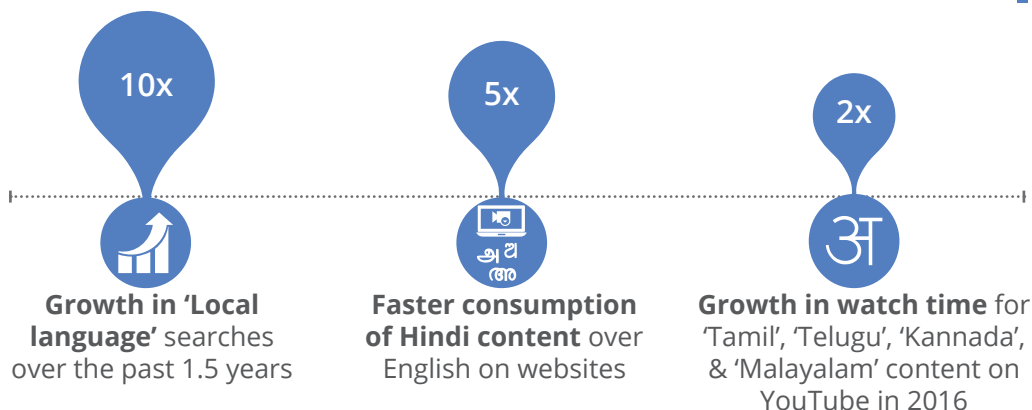
1. Given as a % of users trying the mentioned activity for the first time
Sources: Consumer Barometer Survey, 2015–16, Google Internal Search Data, 2015–16, BCG analysis

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

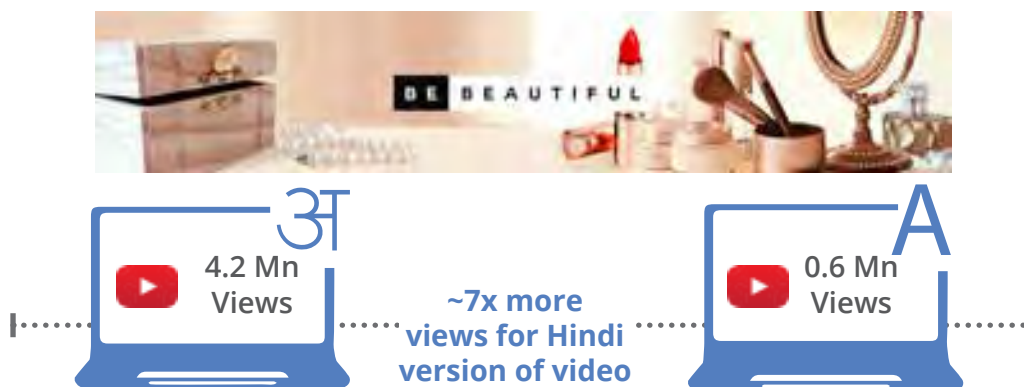
The Internet in India is increasingly becoming 'Indian', with demand for local language content growing. Consumers are increasingly searching, viewing & demanding content in their local languages.

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.

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



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



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

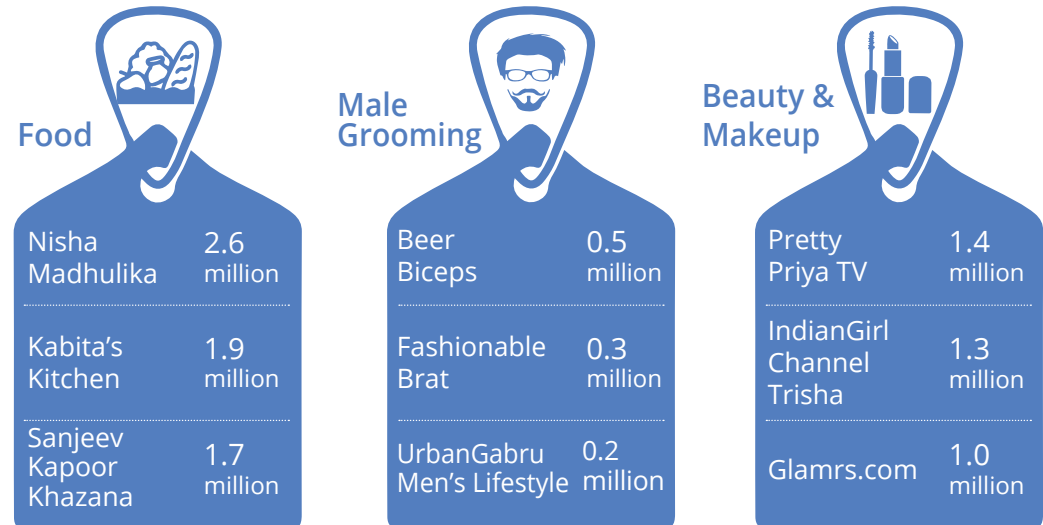
The 3'V's - Video, Vernacular, **Views** (III/III) : Online "Advocates" trusted by a large consumer base

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)

of subscribers¹ of some top influencers



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

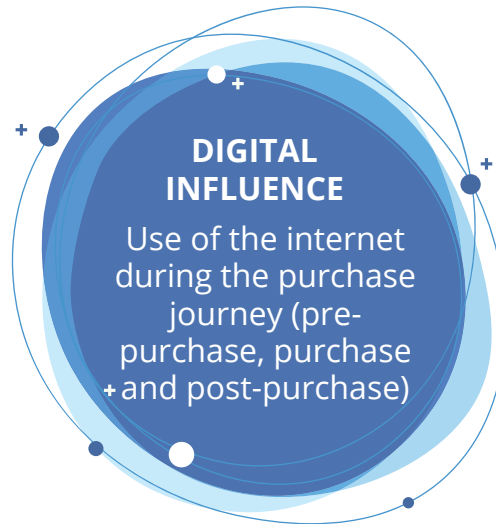
Sources: Respective YouTube channels, as on 14-Sept-2017;
Google Internal Search Data, 2015-17; BCG analysis

Two key imperatives for FMCG organizations – Digital Influence & E-Commerce

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.

Two kinds of digital opportunities



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



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



Interestingly, market leaders in offline not necessarily leaders in digital influence



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

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

Digital powers opportunities for actively influencing today's consumers.

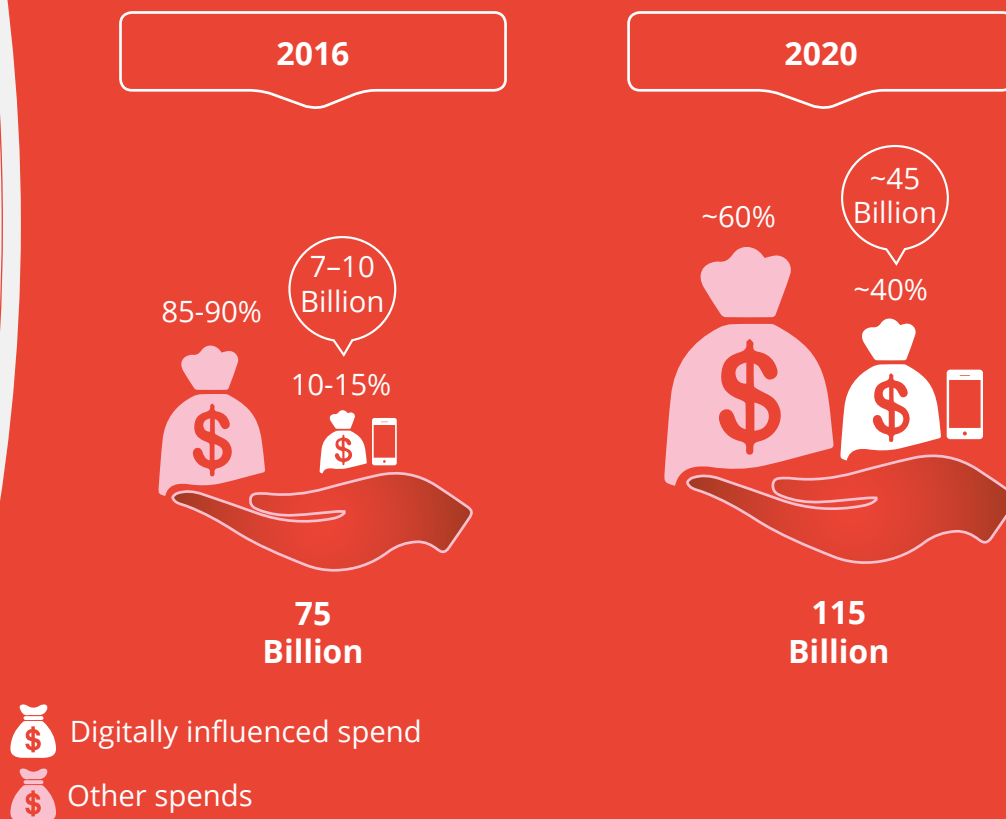
As digital penetration increases and online channels mature, customers increasingly rely on the internet for various pre-purchase, purchase and post-purchase related activities. These interactions influence their behavior considerably.

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

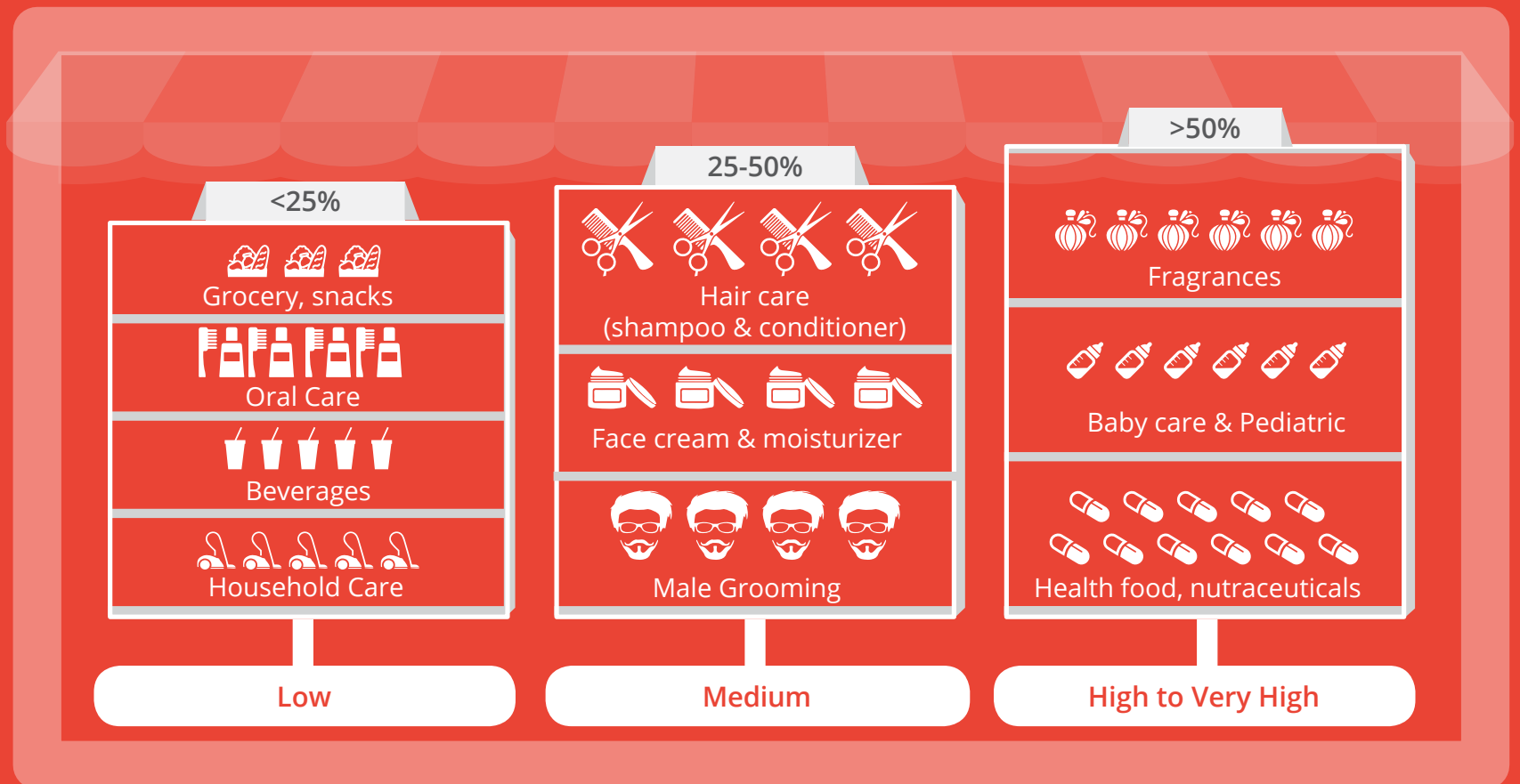
It is expected that ~40% of FMCG spend in 2020 will be digitally influenced. This translates to a value of roughly USD 45 billion by 2020.

Digitally influenced consumers use the internet for conducting pre-purchase, purchase and post-purchase activities, and are steadily rising...

FMCG spend (in \$)



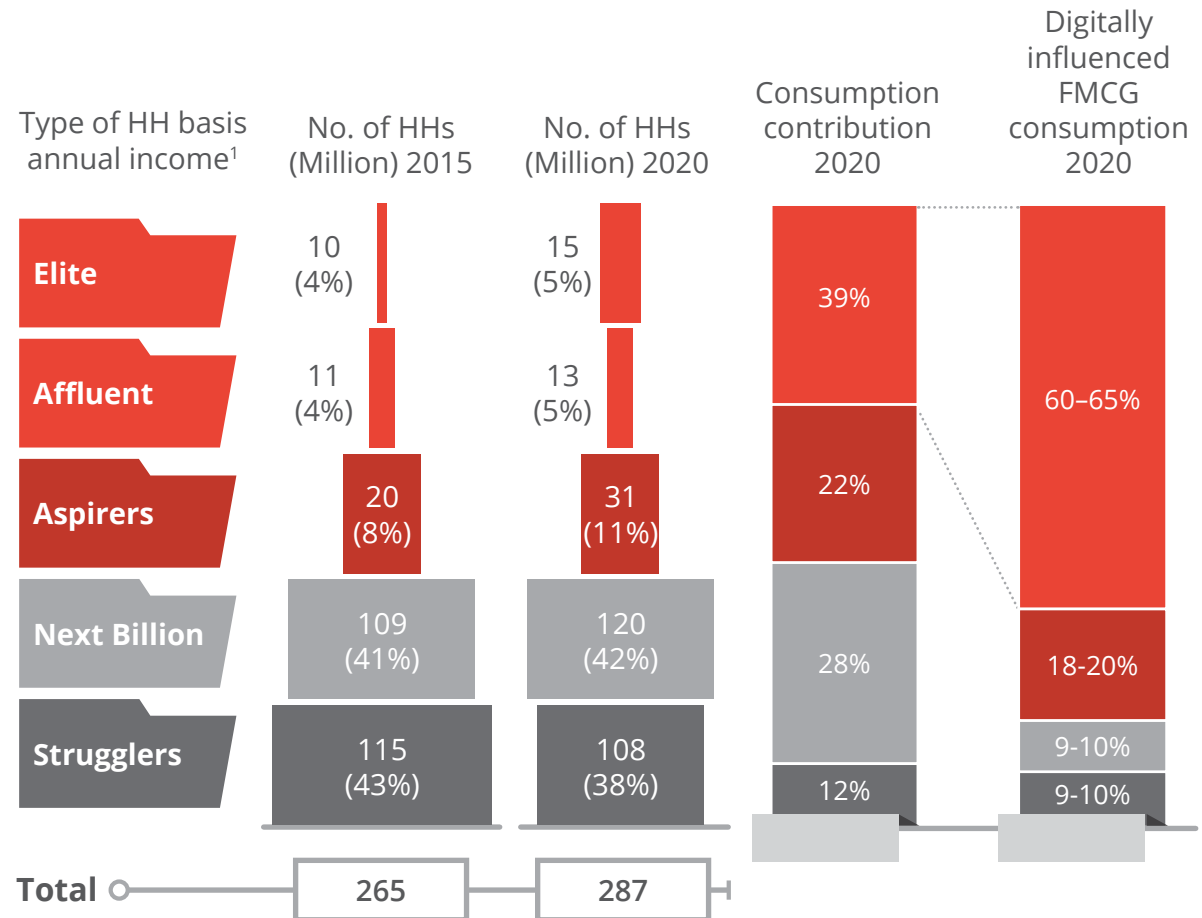
Share of digitally influenced consumption by 2020



~10% of HHs to account for ~60% of the digitally influenced FMCG spend

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.



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+

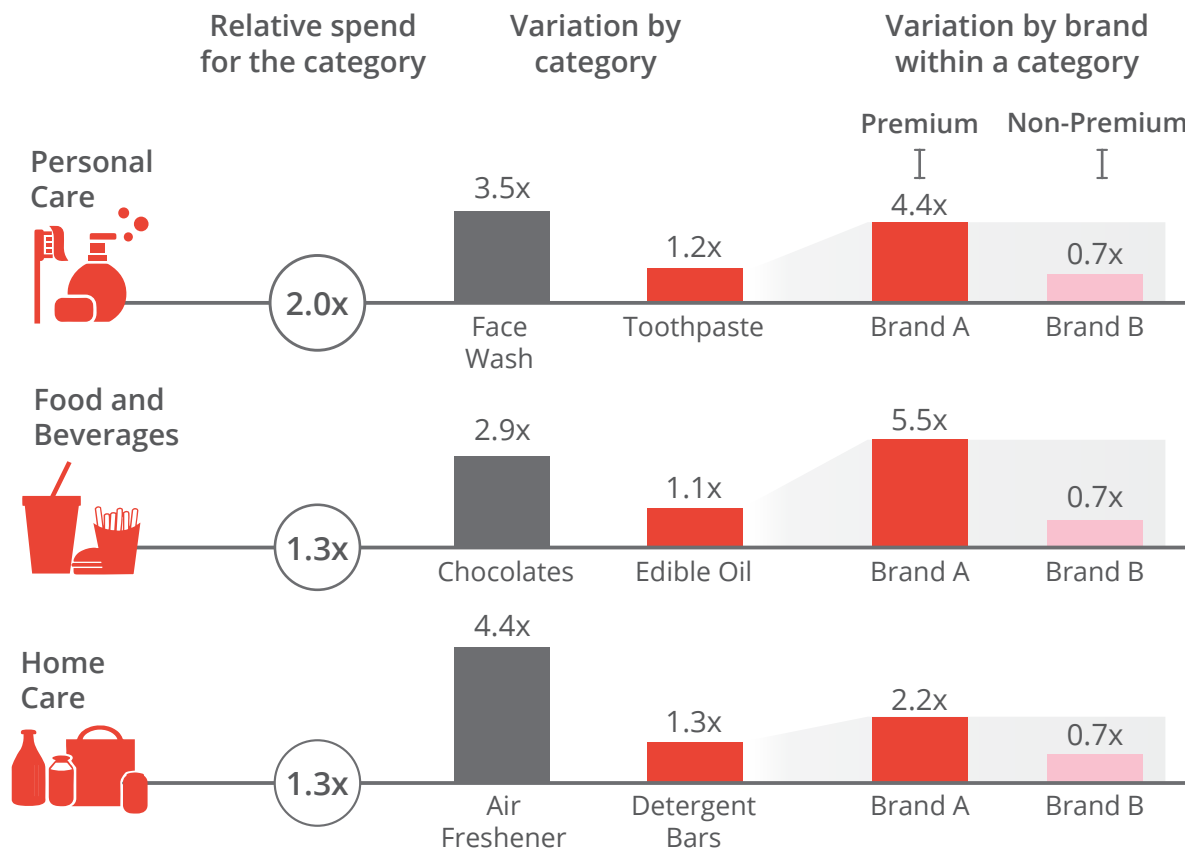
Sources: BCG CCI Digital Influence Study - 2016; BCG - RAI report: "Digital in Retail", Feb 2017

Consumers with digital access in urban India are spending as much as 2x the offline consumers

Consumers with digital access, especially in urban India, spend significantly higher than 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 spends¹ of online over offline consumers in Urban India



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

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

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.

Examples

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.

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.

Increasing order of digital influence



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

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



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 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

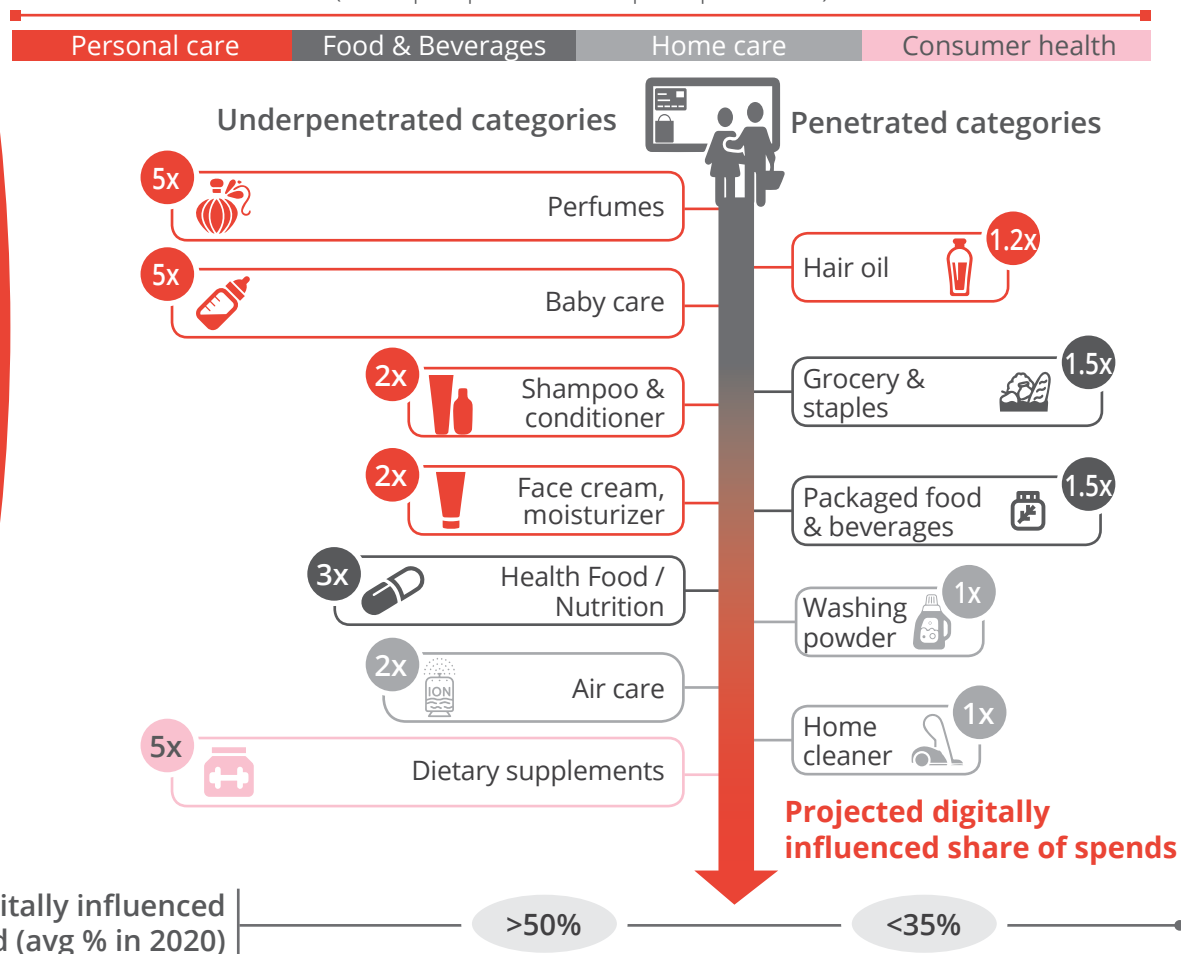
Higher digital influence observed in relatively underpenetrated categories

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)

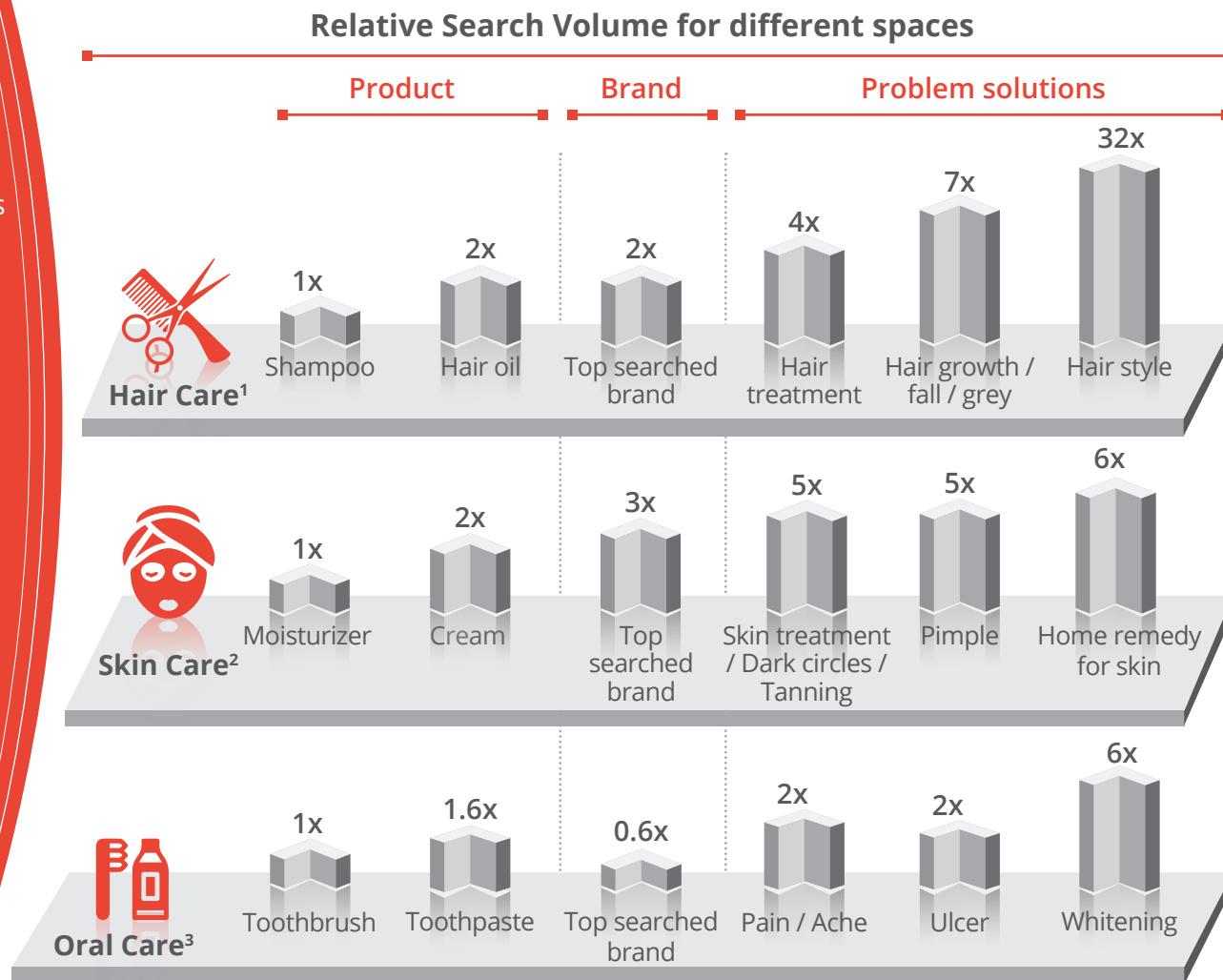
Share of users using internet during the purchase cycle
(from pre-purchase to post-purchase)



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.



1. Hair care includes hair oils, shampoo, conditioner, hair styling, etc. 2. Skin care includes creams, moisturizer, facewash, soaps, sunscreen, etc.

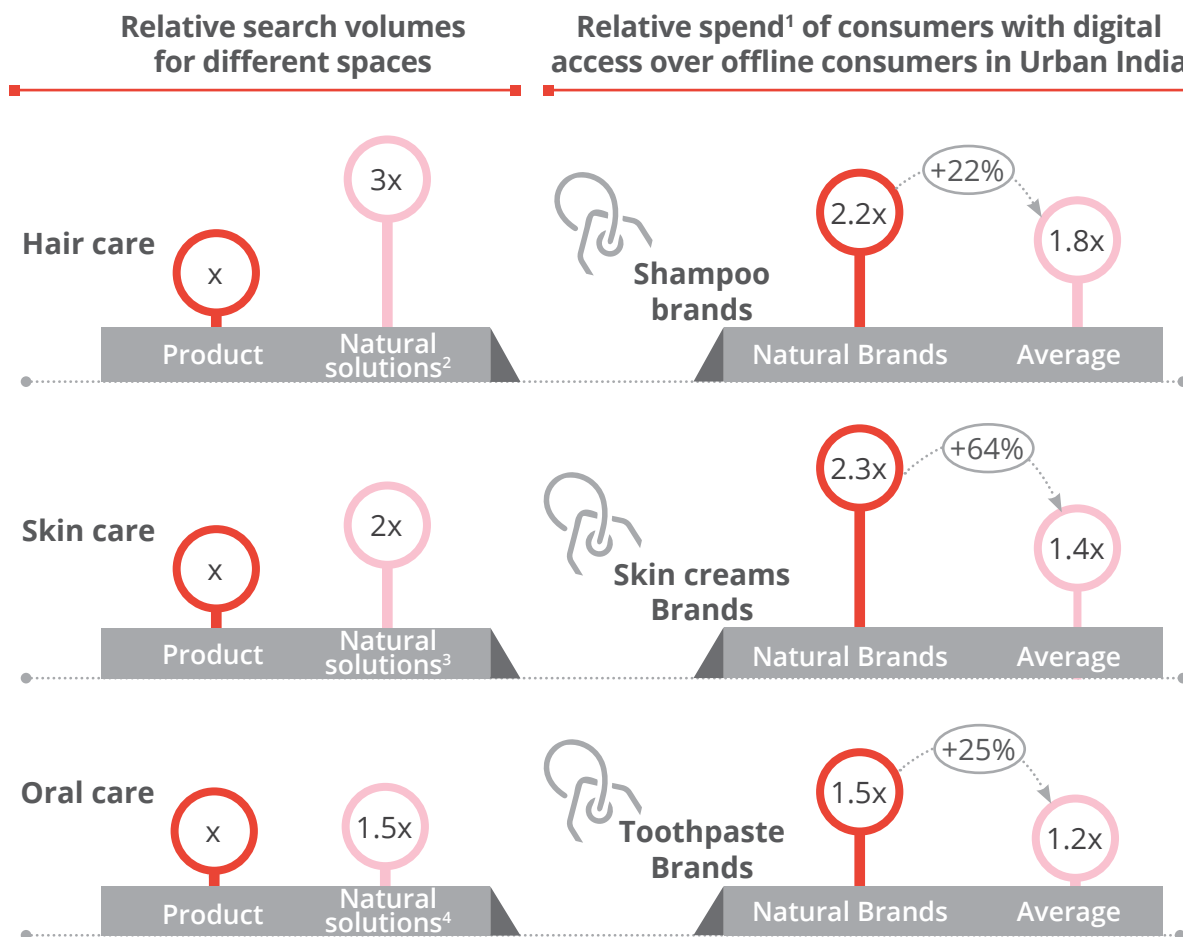
3. Oral care includes toothpastes, toothbrushes, mouthwash, etc.

Source: Google Internal Search Data, Jan-Jun 2017

Digital influence higher for 'natural solutions'; Consumers with digital access spend more on 'natural' brands

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

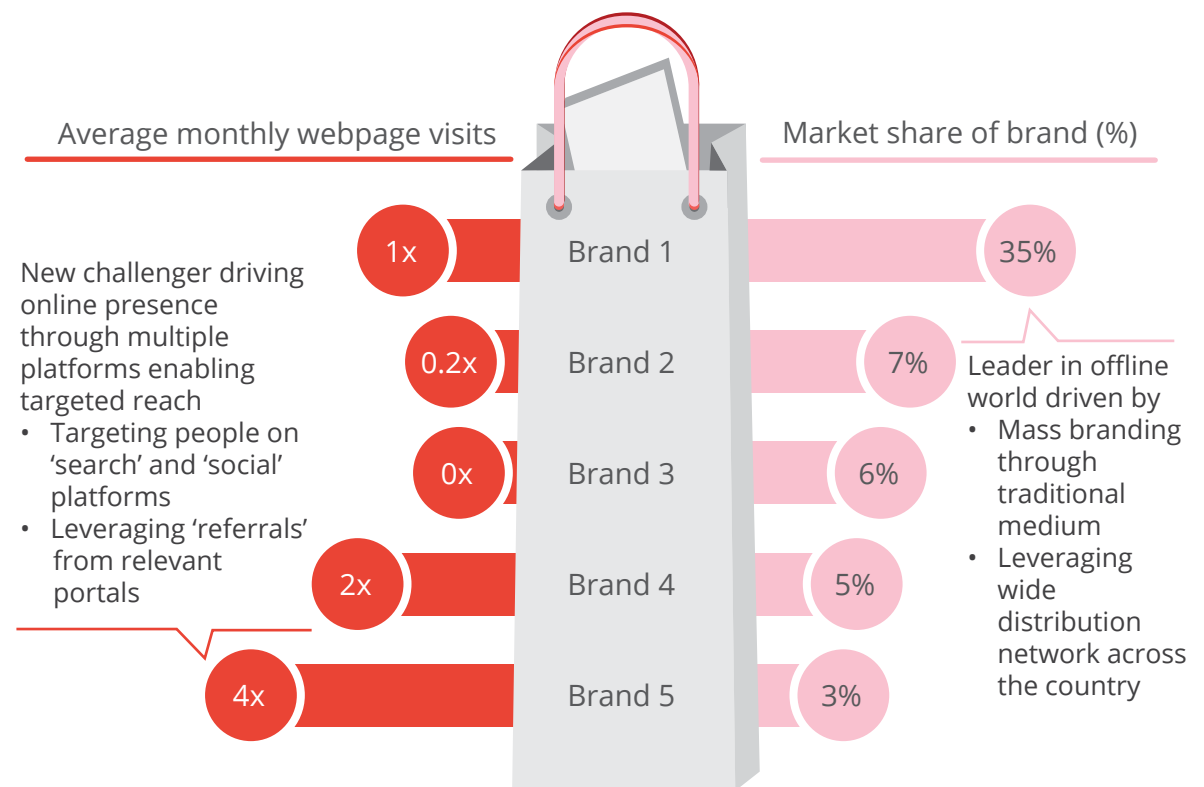
Interestingly, offline leaders are not necessarily the leaders in driving digital influence

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 care¹



¹. Includes skin cream, face wash, body cream, hand wash, etc.
Sources: ComScore, Euromonitor, BCG Analysis

Most FMCG orgs agree on need to drive digital strategy, but time spent by leadership not commensurate

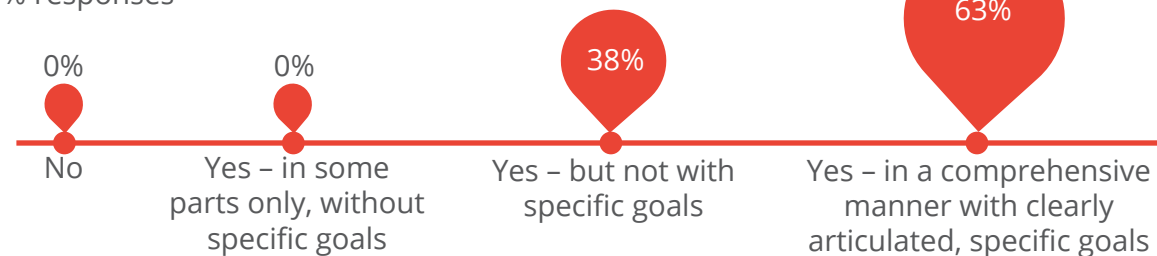
In nearly 2/3rd of all organizations we surveyed, the leadership felt that digital was one of the top 3 strategic priorities.

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....

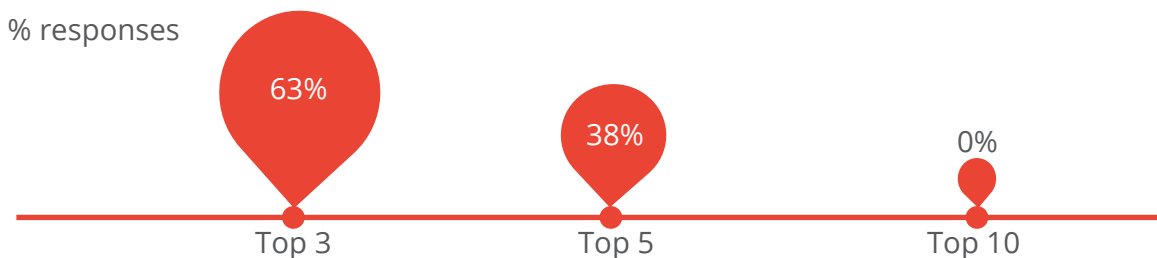
Do you have a clearly articulated digital strategy?

% responses



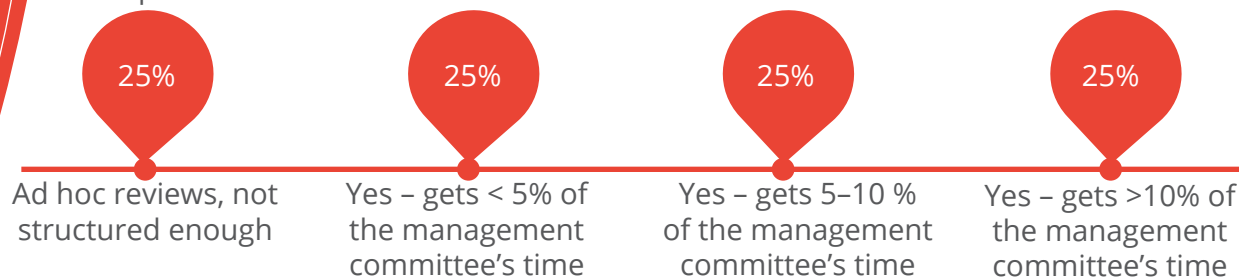
Do you see using digital as one of the top priorities for your business?

% responses



Is the progress on digital strategy clearly monitored and discussed in the management committee?

% responses

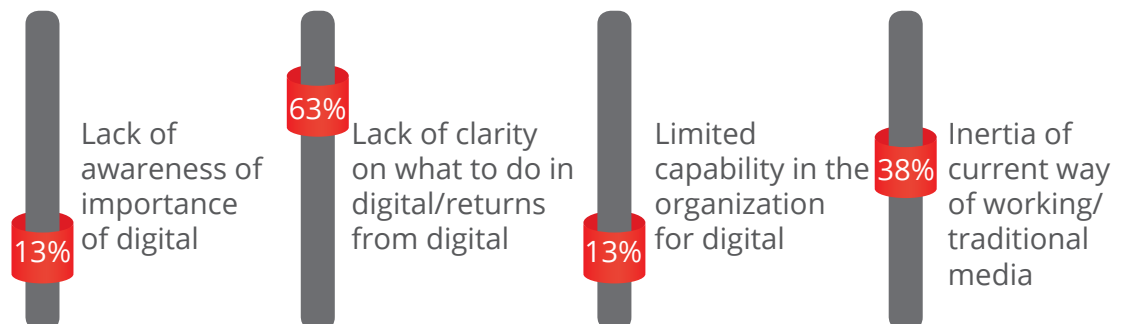


Spends in digital are lagging due to multiple reasons

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

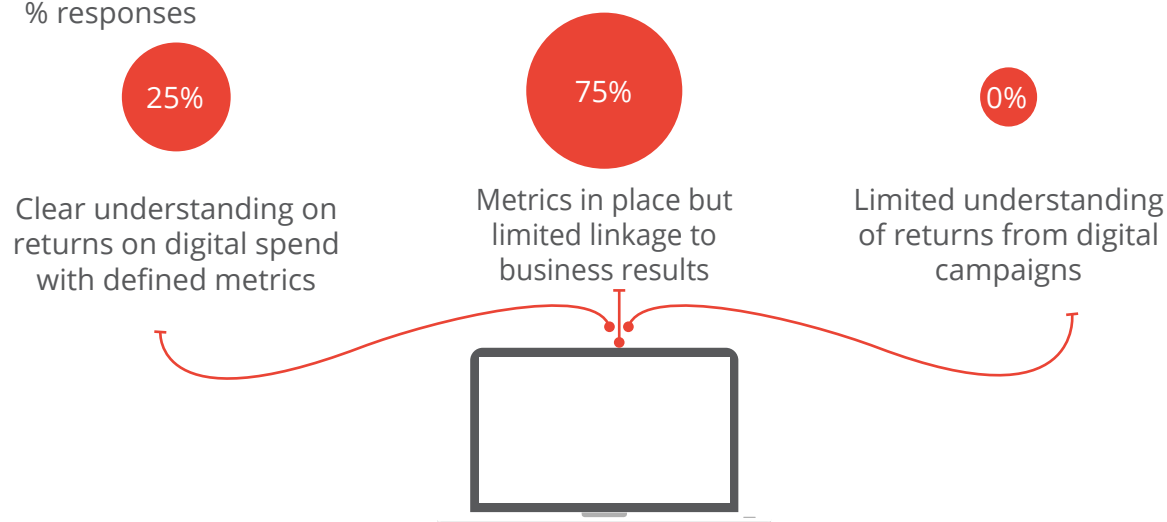
What stops you from spending more on digital?

% responses



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

% responses



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

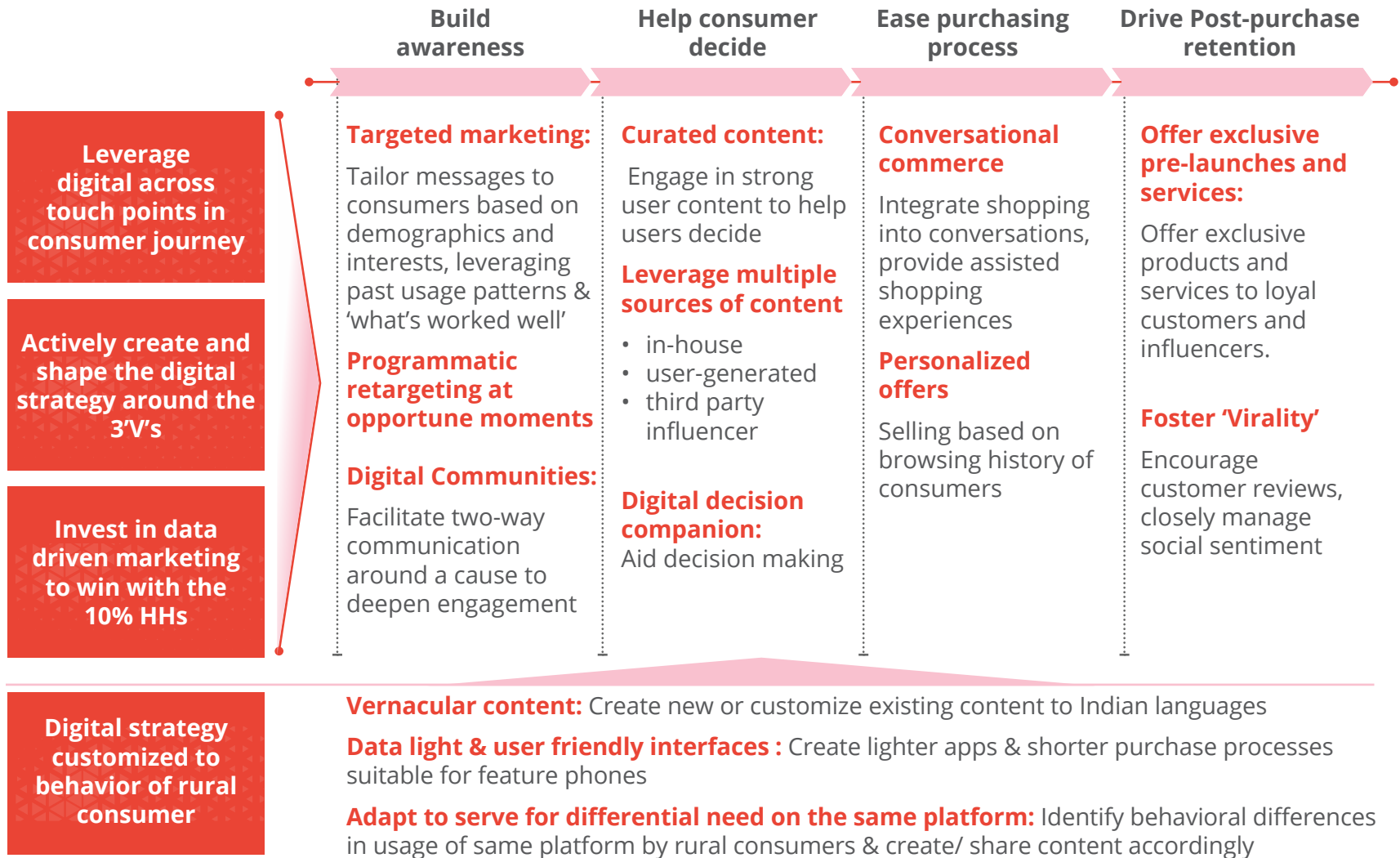


Spends in digital under-indexed: organizations unclear on how to leverage digital effectively

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 3V'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)



Call to action for FMCG organizations (II/III)

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

**Conventional usage,
penetrated category**

**Conventional usage,
Underpenetrated category**

'Solution' space



**Index digital
spend basis
targeted space**

Digital channel
to complement
traditional media

Think 'digital first' – precedence
over traditional media channel

**Adapt media
channel strategy**

Same / Similar content
for all channels with
some tweaks to be digital
appropriate

Invest in specific digital content creation
for category awareness

**Customize content
for channel basis
targeted space**

Limited authority of trust needed for
conventional consumption

Build environment of
extensive credibility
required for customer to
believe in the 'solution'

**Create content
hubs backed by
strong authority
of trust**

Call to action for FMCG organizations (III/III)

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







SUMMARY



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

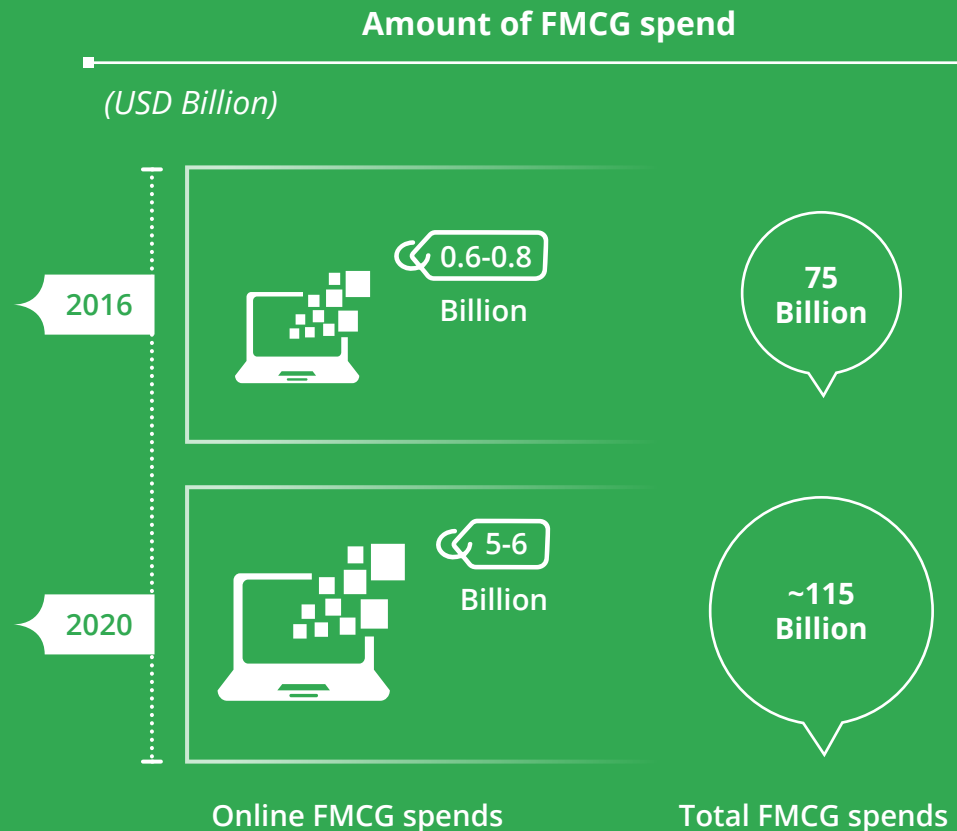


Digital medium is also giving rise to new business models and new competition in FMCG; Companies are trying to leverage new business models to premiumize the offering

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.

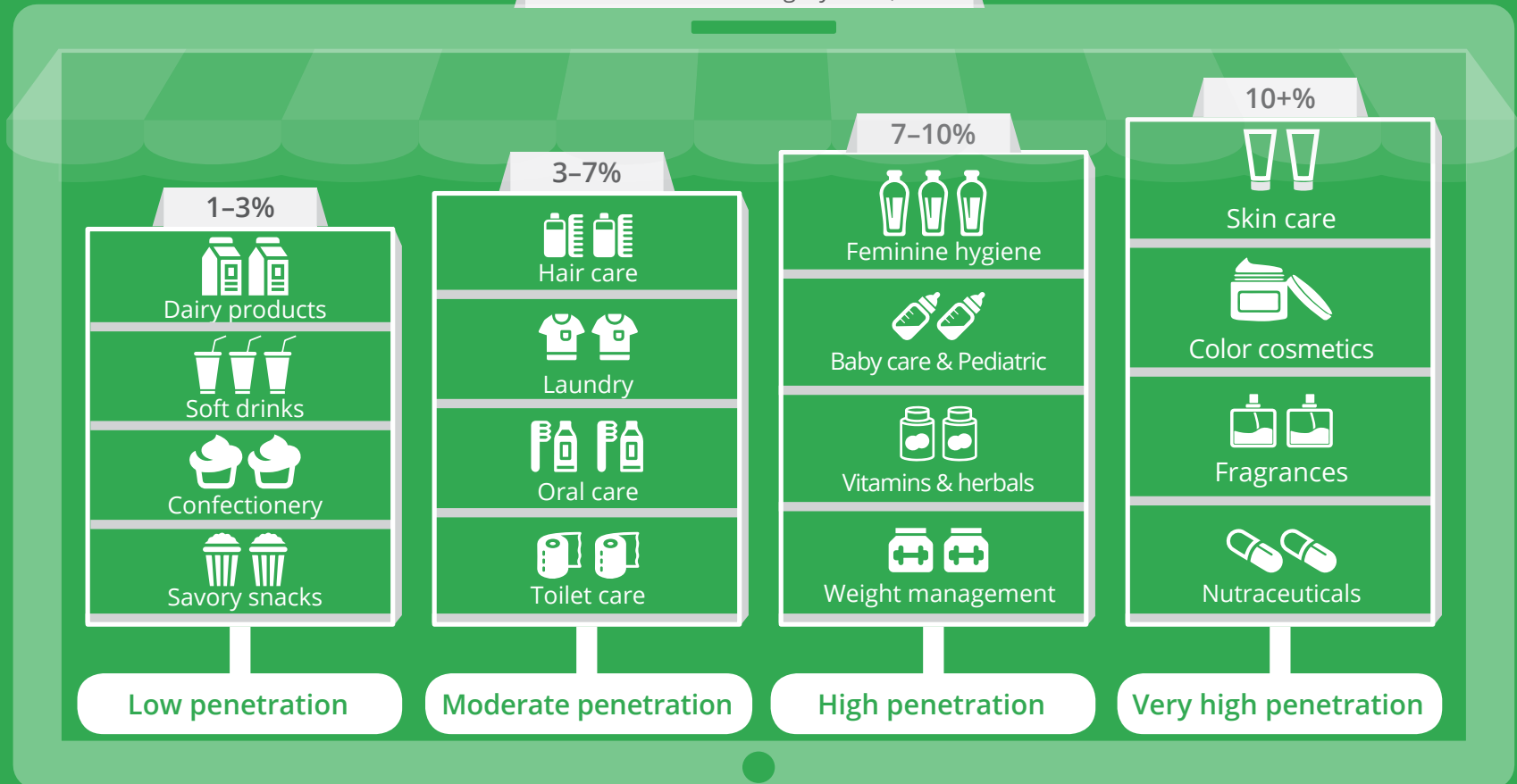
Additionally, e-commerce penetration will be non uniform across product categories. Some segments like skin care and color cosmetics will see 10+% online sales by 2020, whereas others such as dairy products and soft drinks will have 1-3% sales online.



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



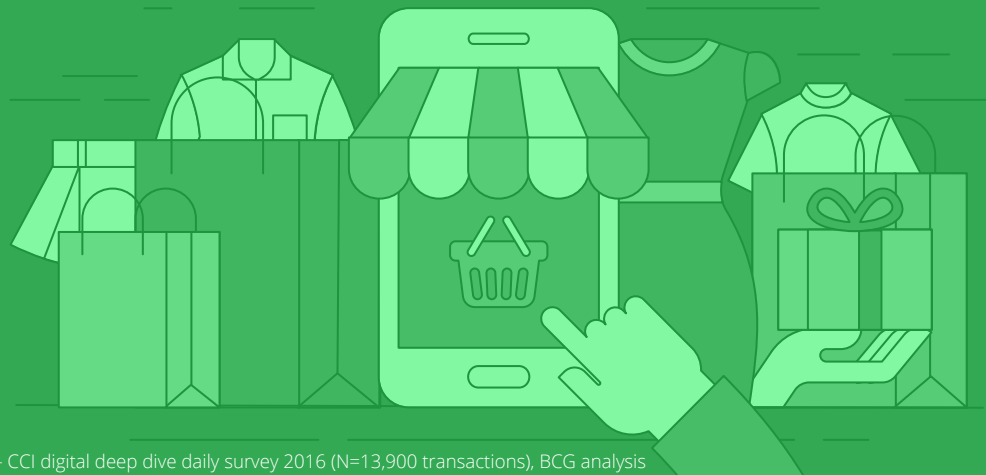
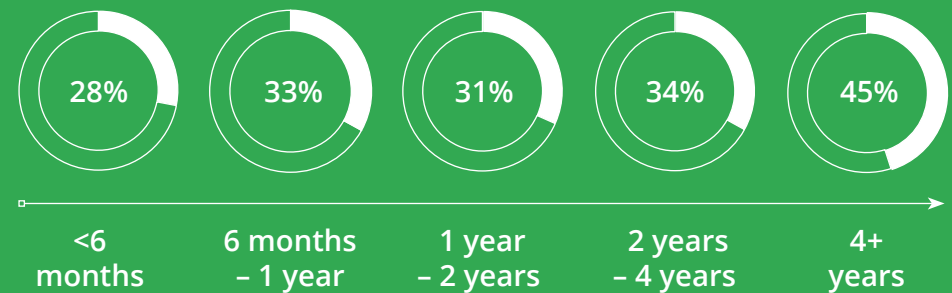
Sources: BCG CCI Digital Influence Study – 2016; BCG – RAI report: “Digital in Retail” Feb 2017, Euromonitor, BCG analysis

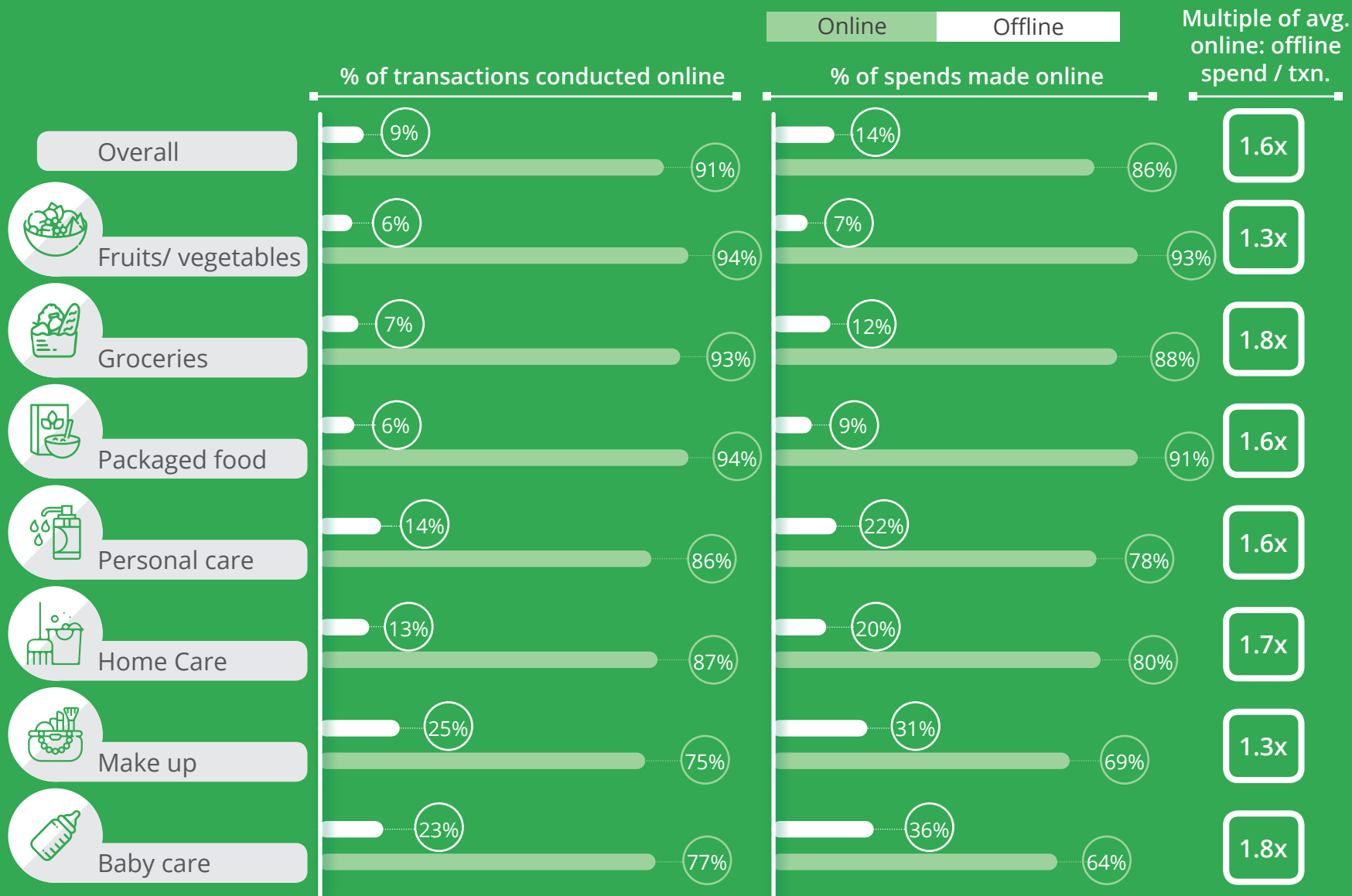
Online purchase behavior varies significantly with digital age, with online customers spending more than offline

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)





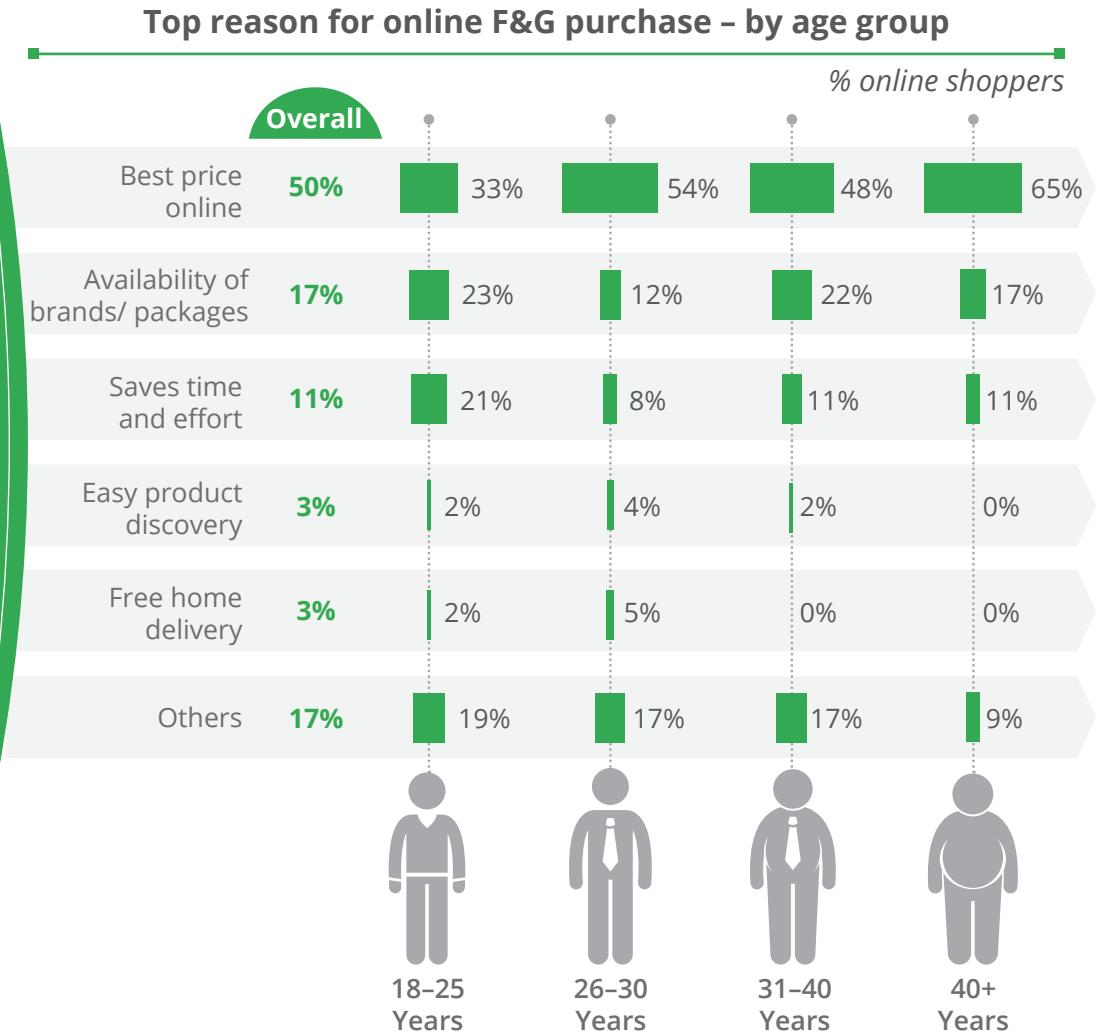
Note: Analysis includes transactions of all F&G buyers from daily panel

Sources: CCI digital deep dive daily survey 2016 (N=13,900 transactions), BCG analysis

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).



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 website¹ – by city tier

	Overall	Metro	Tier 1	Tier 2+3
1	Deals, discount and offers	Deals, discount and offers	Deals, discount and offers	Deals, discount and offers
2	Availability of fresh products	Availability of fresh products	Options for each product	Easy return policy
3	Easy return policy	Easy return policy	Availability of all payment options	Availability of fresh products
4	Availability of all payment options	Availability of all payment options	Easy return policy	Express delivery options
5	Options for each product	Options for each product	Express delivery options	Availability of all payment options

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

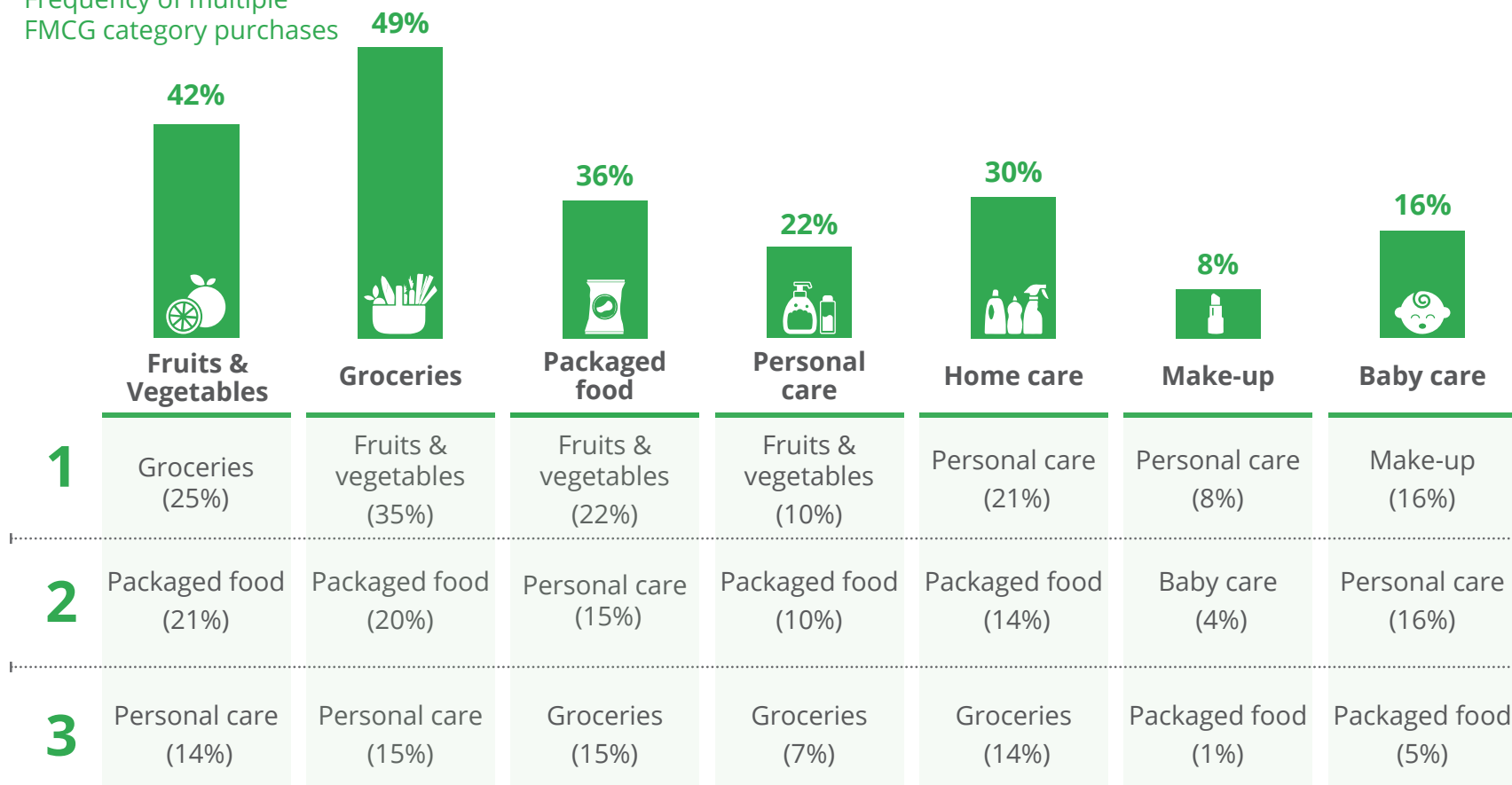
Note: Only for online F&G buyers Q24. Now I am going to read out a set of attributes. Can you tell me of these, which are the most important factors and least important factors when deciding your choice of online seller for food & grocery?

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

Frequency of multiple FMCG category purchases



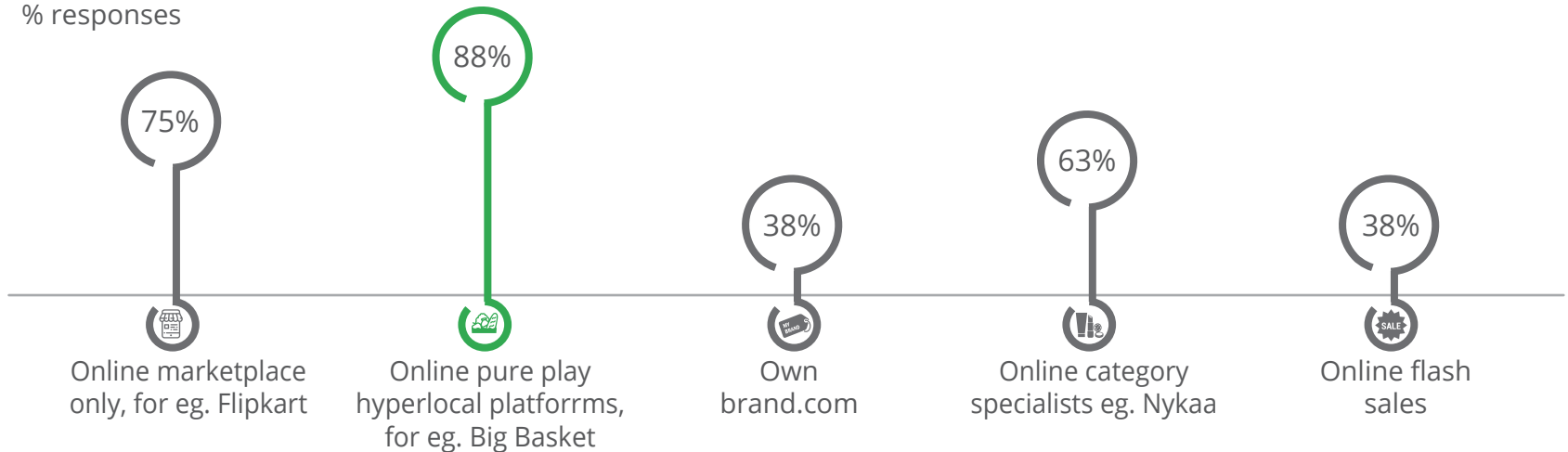
Note: Above share calculated based on all online F&G shoppers

Source: CCI digital deep dive daily survey 2016 (N=13,900 transactions)

Organizations trying multiples platforms; Driving sales of premium products a key priority

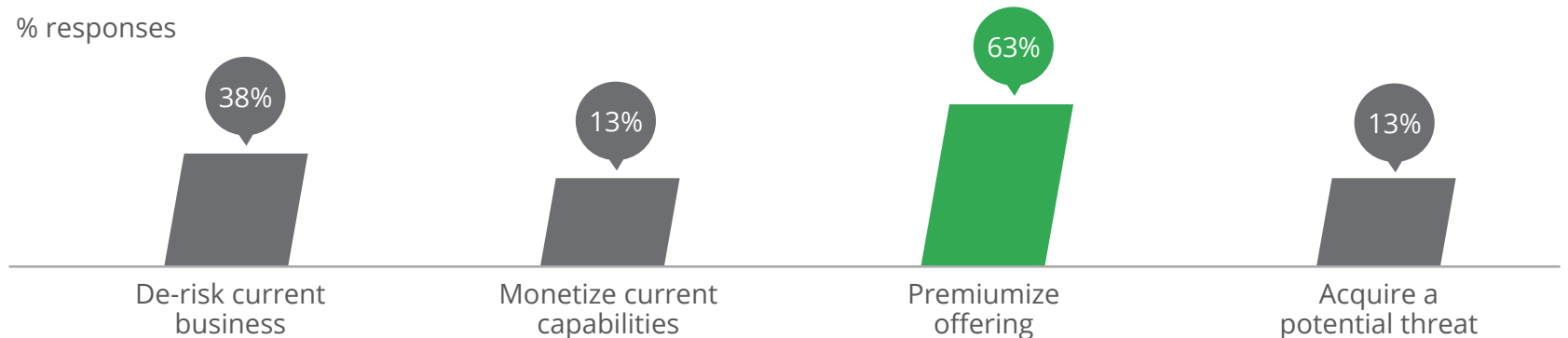
Which of the following do you use for e-commerce?

% responses



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

% responses



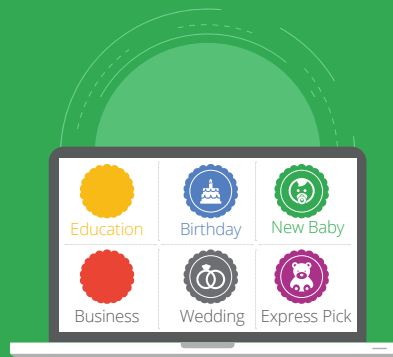
Evidence of new business models in FMCG arising out of digital

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.

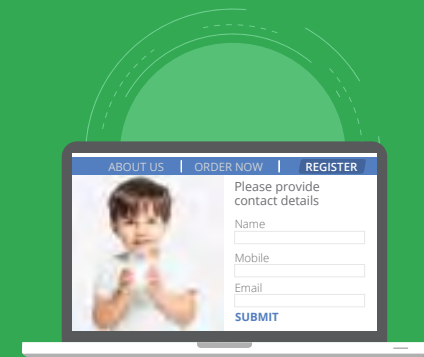
Global as well as Indian brands offering makeup & beauty products have also started online subscriptions with discounts & loyalty points on purchases. A global beauty brand offers a dedicated self-owned portal for its premium offerings.

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



A global confectionery brand customizes orders online

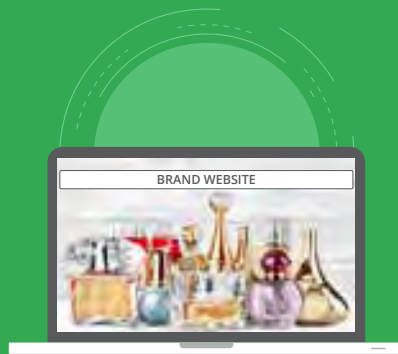
- The brand charges a premium based on the degree of customization
- Within a year of launch, the brand received 325K orders, 5% of overall sales came from customized products.



An Indian milk foods brand offers online subscription

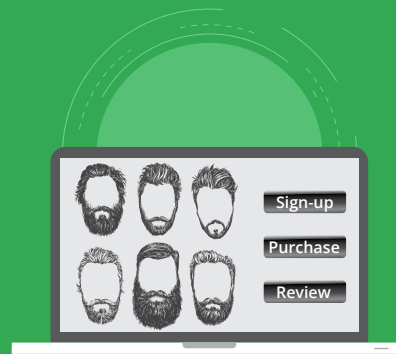
- The brand has an online subscription model
- Customers can create & manage accounts & pay online for doorstep delivery of milk

Sources: Press releases, BCG analysis



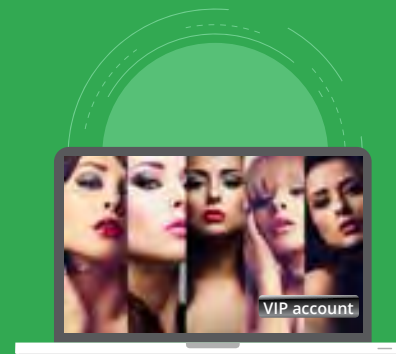
A global beauty & makeup brand has an evolved online offering

- 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



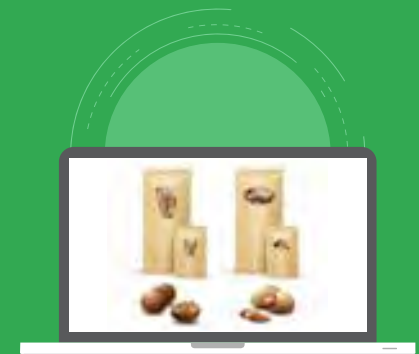
An Indian grooming brand offers loyalty points & discounts

- 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 omni-consumers 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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