ADDING TO CART: DIGITAL'S IMPACT ON CONSUMER GOODS IN INDIA

A Bain & Company and Google India Report

Google™

BAIN & COMPANY

Nikhil Ojha is a partner with Bain & Company in New Delhi. He has extensive experience in consumer products, and he leads Bain's Strategy practice in India. Sachin Khandelwal is a principal with Bain & Company and a member of the Consumer Products practice. Subhashini Gupta is an industry analyst for consumer packaged goods with Google India.

Contents

Key takeaways

- The online population in India is large and growing rapidly: 650 million Indians will be online by 2020 and up to 250 million will be shopping online, spending more than US$50 billion
- At least $5 billion of that spending will be for fast-moving consumer goods (FMCG)
- Significantly, more than one-third of total FMCG sales in 2020, or an estimated $35 billion, will be affected in some way by digital activity
- The population of online users, buyers and influencers is steadily shifting from well-off adult males in large cities to women, digitally savvy Generation Zers and residents of smaller cities
- There is a growing mobile Internet revolution in India, with some analysts predicting that at least 50% of online buying will take place on a mobile device by 2020
- Indian consumers are already employing digital media in the purchasing cycle and across all FMCG categories
- Two powerful lenses indicate a category's online progress: digital density (online sales as a proportion of overall sales) and digital influence (the influence of digital information on consumers' online and offline buying decisions)
- These lenses highlight three primary online category types—Digital Frontrunner, Digital Emergent and Digital Laggard—with different implications for each
- Three categories will likely see rapid growth in 2020: infant care (25%–30%), male grooming (20%–25%) and beauty (8%–10%)
- FMCG e-commerce is witnessing the emergence of four online retail business models: the online-only multicategory generalist, the online-only category specialist, the brick-and-mortar retailer with an online channel and the FMCG brand with an online portal
- While digital is a high priority for most FMCG companies, many are still hesitant to engage. Four main barriers block the way: economic and logistical challenges, insufficient metrics, a lack of appropriate talent and poor infrastructure support
- To compete in the digital era, we propose that FMCGs shift through five "gears": Stop and rethink the role of digital in their categories, brands and portfolios; choose where to focus among consumer and product segments; perfect the online and offline consumer experience; reallocate resources in marketing, promotion and research; and build the capabilities and partnerships necessary to deliver and sustain change

Introduction

India stands on the cusp of dramatic growth in Internet and e-commerce activity. While Internet penetration today is only a third of that in the other three BRIC countries (Brazil, Russia and China), we anticipate rapid growth over the next few years, with more than 650 million Indians online by 2020—which would make India second only to China in projected Internet users. Many of these users will be women and "digital natives," born during or after the introduction of digital technologies.

As a result, the retail environment and shopping practices of everyday Indian consumers will change in ways that older generations might find hard to imagine, creating tremendous opportunities. By 2020, these Internet users will generate more than US$50 billion in total online sales.

As these opportunities materialize, we ask: What is the size of the prize for fast-moving consumer goods (FMCG) companies? Who is the new Indian online consumer? What barriers are keeping some FMCG companies from embracing digital technology? If there are frontrunners, what are they doing differently? How can FMCG companies realize the full potential that Internet growth has to offer?

To help answer these questions, Bain partnered with Google to survey approximately 1,600 "lead" consumers—consumers who have Internet access, belong to higher socioeconomic classifications (SECs) and reside in metro or Tier-1 cities.[1] We also spoke with several leading FMCG companies, retailers and other ecosystem players, such as creative and media agencies and IT and analytics firms. The conclusions are striking, as are the implications for FMCG businesses.

First and foremost, there is a great deal at stake for FMCG companies. Yet leading players are holding back. Few have articulated a digital strategy, and most are not fully using digital technology across the value chain. Some industry leaders have begun to experiment and innovate, but even they seem to systematically underestimate the power and potential of the Internet to transform businesses.

If FMCG companies in India are to win the race for the digital consumer, we believe they must move quickly to gain mindshare—and wallet share—in the growing online community. Those who do not could face material opportunity costs, not only in terms of revenues and profits, but also in digital shelf space, scarce ecosystem resources and connections to digitally savvy shoppers.

India on the cusp

Digital's time is now

With just 24% of its population online today, India's Internet penetration is still just about a third that of the other BRIC countries *(see Figure 1)* and similar to less developed countries, such as Yemen and Angola.[2] Yet in absolute numbers, the Indian online population is already large and growing rapidly. With approximately 250 to 300 million Internet users, it is the second-largest country by users globally—just behind China and ahead of the US.[3]

To better understand the challenges and opportunities ahead for this rapidly growing online community, we conducted extensive research—surveying 1,600 lead consumers, holding in-depth discussions with leading FMCG companies and partnering with Google to provide additional data and insights (see Appendix).

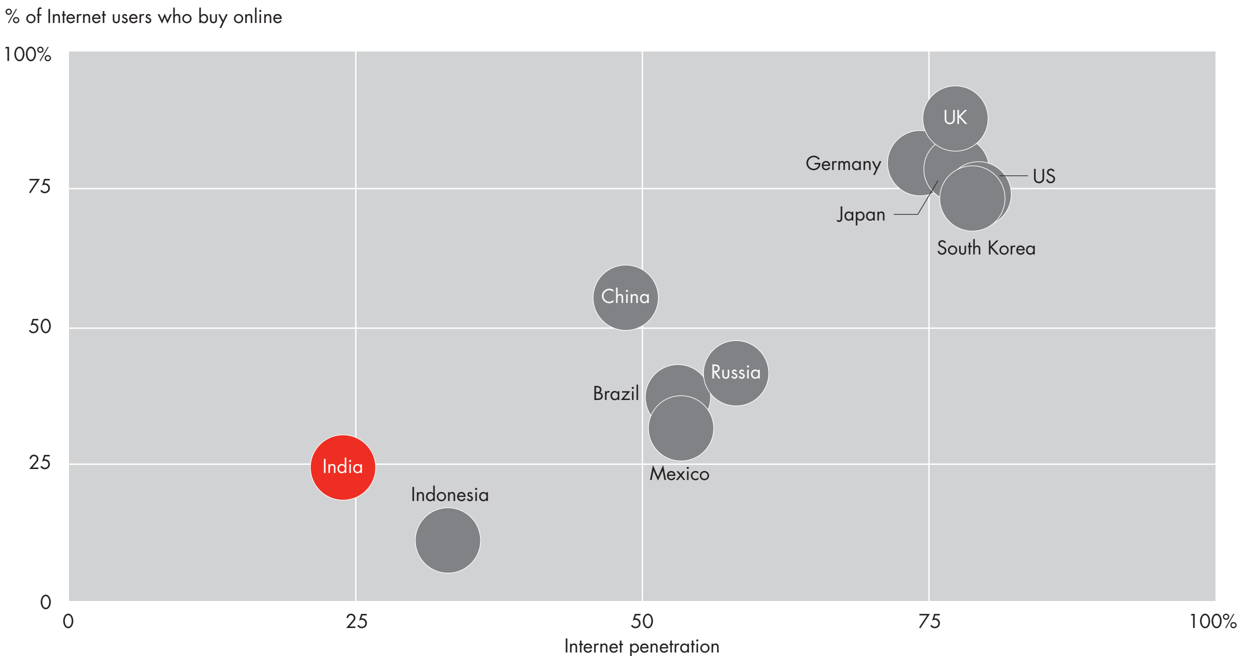
Our research indicates that online penetration in India could reach 50% by 2020, much higher than many have anticipated. Some estimates put the number of Indians online in five years at 650 million, with India continuing to hold its second-place position.

An FMCG foot on the accelerator

The implications of our findings for e-commerce are tremendous. With less than one-fourth of Internet users shopping online today, the e-commerce market in India, excluding travel and financial transactions, is still nascent—just $5 billion in size. Online sales make up less than 1% of total retail sales, compared with 6% in China. Yet we believe online sales in India are poised for huge growth. As Internet penetration continues to rise, we anticipate that up to 250 million Indians—about 40% of the forecasted online population—will be shopping online by 2020, generating upwards of $50 billion in e-commerce. According to our consumer survey, availability of a wide range of products, availability of premium brands, and online deals and discounts will drive a large part of the shift to online sales.

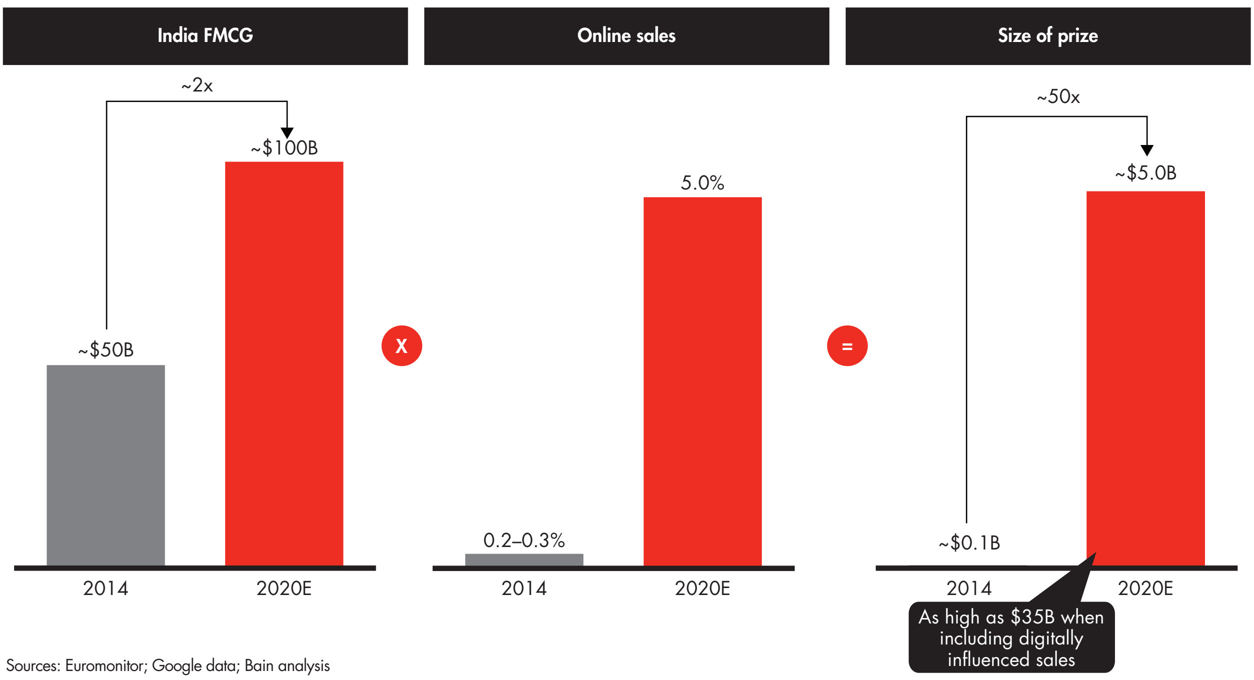
The implications for FMCG e-commerce in particular are even greater, with online sales of FMCG set to grow at a faster pace, reaching $5 billion by 2020 under conservative estimates. Digitally influenced FMCG sales, in turn, could be as high as $35 billion, based on a forecasted $100 billion FMCG total market size *(see Figure 2)*.

Figure 1: E-commerce in India is still nascent



Sources: eMarketer (2014E); Google data; Bain analysis

Figure 2: E-commerce in FMCG: A $5 billion opportunity by 2020



Sources: Euromonitor; Google data; Bain analysis

The new digital nation

A changing online demographic

The composition of online buyers in India is changing almost as rapidly as the market itself. Today, a little less than 40% of the online population resides in the country's top 35 cities and accounts for close to 60% of online shoppers; about half are adult men and nearly three-quarters belong to SEC groups A and B.[4] The future will be quite different.

Women will primarily lead the growth of Internet usage and e-commerce over the next few years—especially members of Generation Z, whom we define as those born in India after 1995—along with residents of rural areas and smaller cities.[5]

- **Women.** Although they are the primary decision makers and influencers for offline FMCG purchases in Indian households, women are underrepresented online and account for only 15% of Internet users today, compared with 24% of the overall population. But this statistic is estimated to reach more than 30% by 2020, with 200 million women online, significantly boosting the potential for e-commerce and digitally influenced sales in India. We note the subgroup of working women is even more promising: They spend twice as much time online as the average nonworking women we surveyed and are 1.5 times more likely to buy FMCG products online. The recent boom in the online apparel and accessories market, almost entirely driven by women, provides a taste of things to come.

- **Generation Z.** The 500-million-strong members of Generation Z, those digitally savvy Indians born after 1995, make up a new generation of FMCG consumers in every sense. These young Indians, particularly the 200 million "screenagers," born between 1995 and 2002, will begin to play an important online role as they become financially independent over the next few years.

- **Rural areas and smaller cities.** Although Internet penetration to date has been highest in the metro and Tier-1 areas, growth is now far more rapid in the less populated Tier-2 and Tier-3 cities.[6] As early as 2013, more than a third of the buyers in India's Great Online Shopping Festival—a day of discounts across e-commerce websites—came from Tier-2 and Tier-3 areas. Similarly, more than 70% of FMCG samples shipped to consumers during the Grand Diwali Mela 2014, a more recent online shopping festival, were delivered to Tier-2 and Tier-3 cities. By 2020, rural Internet users in India will account for 40% of the country's total Internet users. This change, coupled with an increase in rural annual per capita disposable income from $480 today to $630 in 2020, will make this segment easier to target online and more valuable (see sidebar, "The online Indian").

The influence of mobile technology

India's online growth and its changing online demographics are being strengthened by the mobile Internet, as low-cost mobile phones and tablets give easy and inexpensive online access to many who might not be able to afford a PC or a wireline Internet subscription. Smartphones now cost as little as $30, and 3G and 4G network infrastructure is growing rapidly, enhancing connection quality and speed and reducing data costs. Data plans are already half the price they were just four years ago.

The online Indian

- A mobile nation
  - About 70% of Internet users have online access through their mobile phones
  - More than 90% of Indian smartphone users access the Internet daily
  - India is the largest market for WhatsApp and the second-largest market for Facebook
- Women on the rise
  - Lead urban female online consumers are spending an average of 75 minutes a day on the Internet
  - More than one-fifth of these women already note a digital influence on their FMCG purchase decisions (a brand website, a YouTube video, a blog, an online ad or another online source)
  - 50% of women who shop on the Internet have bought FMCG online, while 10% of all women buying FMCG have shared their buying experience post-purchase on the Internet, whether they purchased online or offline
- Younger generations gaining importance
  - For today's 18– to 25–year-olds, the average time spent online each day is about 100 minutes, with the greatest time spent on email, search and social media
  - About 40% of "screenagers" (those born between 1995 and 2002) living in urban areas have access to a mobile device, with 3 million using mobile broadband on personal phones
  - Around 50% of "screenagers" prefer surfing the Internet on their phones to watching TV

With its relatively late entry into the digital world, it seems India is skipping a stage in the standard Internet-penetration model, with mobile Internet taking the lead over fixed-line broadband. There are currently 140 million smartphone users in India, with the numbers increasing rapidly. By 2020, some analysts estimate that at least 50% of online buying will take place on a mobile device.

We already know that India is a country of texters, Tweeters and WhatsApp users. According to eMarketer, India is among the world's fastest-growing nations in terms of social network usage. India is also WhatsApp's largest market. In addition, smartphone users with mobile Internet access are more active on social media and more likely to watch videos, read articles and blogs, and search for information.

Feeling digitally empowered

For pragmatic Indians, the Internet is often simply about adapting a new medium to their day-to-day life. Online puja and prasad religious portals, for example, have been around a long time and have now expanded to nonreligious products and services. At the same time, the Internet is creating a new class in India of digitally empowered users. Like many online users around the globe, these viewers are demanding the entertainment they want, when and where they want it. YouTube, which allows users to view and share videos on their own time schedule, saw viewing time for women for FMCG-related content increase by 400% from 2013 to 2014, with 40% of that viewing time now taking place on mobile phones. Content creators and marketers have begun to follow consumers online; the popular televised quiz show *Bournvita Quiz Contest*, for instance, moved fully online in late 2014.

This phenomenon of empowerment is particularly pronounced in e-commerce, with online shoppers becoming ever more demanding and adventurous. They are not just looking for a better experience than that afforded by brick-and-mortar stores; they are also searching for the best products at the lowest prices. In addition, our lead-user research, which looked at online FMCG consumers in high socioeconomic groups in India's top 13 cities, found that about 80% of these high-end consumers were more likely to try new brands and products when buying online than offline, and a similar percentage were willing to spend more when buying online. Over the next three to five years, we expect the rest of the online FMCG buyers to follow this lead.

Engaging across the full cycle

India's new digital consumers are engaging across the entire consumption cycle. In the early stages of the cycle, Google searches grow rapidly, including everything from information gathering to recipes to advice on infant care. In fact, we found a 63% increase in Google searches online in FMCG in the last quarter of 2014 compared with the same period the previous year, with food products, infant care and beauty making up the majority of the searches *(see Figure 3)*.

Searches on YouTube are also increasing rapidly, with viewers demanding video content in categories such as beauty and food. In addition, more than one-fifth of lead urban female online consumers note a digital influence on their FMCG purchase decisions, while 35% of lead urban male online consumers are similarly influenced. The highest influence comes from online ads, followed by social networking, search websites and "how to" videos.

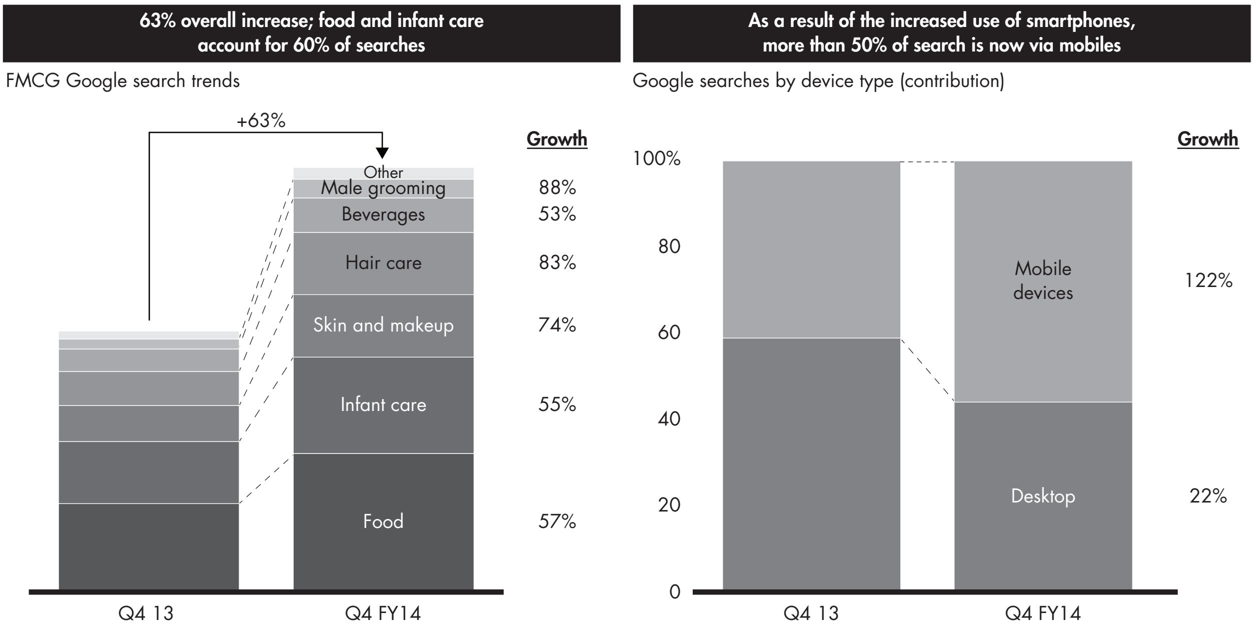
While online purchases of FMCG products are still relatively low, we found that 40% of online respondents who currently do not buy FMCG products online intend to do so in the next 12 months, with the intent to purchase highest in the beauty and infant care categories. We also found that 10% of lead online consumers are sharing their experience post-purchase, writing product reviews or rating products. Such information sharing can have a profound influence on the purchasing decisions of other consumers—hurting or bolstering sales, reputations and profits.

Note that consumer concerns about the credibility of online retailers, the quality of products and the sharing of financial information online need to be addressed in the short term to boost the online shopper base.

Not all categories are equal

There are wide differences in the stages of e-commerce development across categories in India, from the home care category, with just 1.5% of lead users buying online, to infant care, with 3% of lead users buying items in this category. In addition to convenience, factors such as online discounts, availability of a wide range of products and availability of premium or international brands are creating e-commerce growth.

Figure 3: FMCG-related Google searches have witnessed strong growth, mostly from mobile devices



Note: Basic keywords used were not related only to FMCG products, e.g., food-related searches include queries on recipes.
Source: Google search data

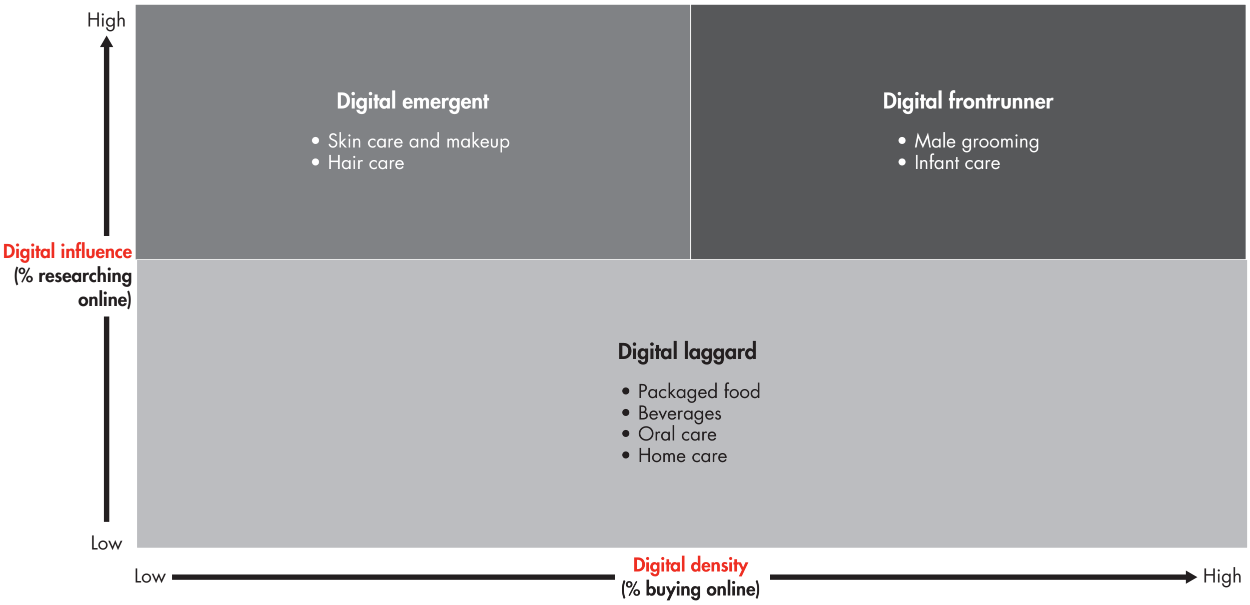
Products with a predictable rate of use, such as diapers, tend to have a high digital density, while impulse purchase categories such as cookies and confectionary, have a much lower density. One reason is that the consumer's end-to-end shopping journey is often far simpler offline than online; online shopping can be overly complicated for an impulse buy such as a pack of Oreos or a can of Coke.

Looking below the surface, e-commerce is not the only lens into a category's online success. The influence of digital information on buying decisions, whether from Internet research, online reviews or some other source, is equally important. Our survey revealed, for example, that consumers research the male grooming category more than any other—although the e-commerce penetration of the latter categories remains modest. Among women, skin care and hair care have the highest growth in searches.

Putting these lenses of digital density and digital influence together, we find three types of FMCG categories online (see Figure 4):

- **Digital Frontrunner.** Categories for which the digital impact is high on both prepurchase and purchase, and consumers are already engaging heavily online, for example, male grooming and infant care. For male grooming, a very high online population, especially young males, drives this engagement. For infant care, prepurchase influence is high due to the sheer magnitude of information available online to answer the questions of young parents, and purchase incidence is high due to attractive deals for products like diapers, as well as the convenience of home delivery of regularly used bulky items.

Figure 4: Not all categories are digitally equal



Notes: Lead consumers belonging to higher socioeconomic classifications (A, B and C), residing in Tier-1 and Tier-2 cities, with Internet access; socioeconomic classification is based on education level and occupation of the household's chief wage earner, and segments urban India into seven groups (A1 to E2)
Source: Bain-Google consumer research (n=1,449)

FMCG companies competing in the Digital Frontrunner categories have no option but to raise their digital game quickly for engagement and e-commerce in particular, as these categories are most likely to witness the emergence of disruptive business models such as the Dollar Shave Club, which is challenging the traditional way of selling shaving implements.

- **Digital Emergent.** Categories for which consumers are engaging heavily with digital media during prepurchase, but are largely buying offline. Hair care and skin care categories have high prepurchase digital engagement, influenced by consumers' desires to discover the latest trends and fashions or to address specific problems, such as acne or dandruff. While the current online purchase incidence is low, recent market trends indicate significant growth to come over the next three to five years.

  As these categories move from Emergent to Frontrunner over the next few years, FMCG companies that move quickly, identifying ways to nudge consumers from prepurchase research to online purchase through appropriate interventions, will be best placed to capture a disproportionate share of digital consumers' minds and wallets.

- **Digital Laggard.** Categories in which digital influence during prepurchase and purchase is low, and consumers have engaged only minimally with digital media; these categories include packaged food, beverages, home care and oral care. These are relatively low-involvement categories, and some have yet to see full-scale, organized player participation.

While these online categories are still immature, a further segmentation by usage occasion reveals fast-digitizing product pockets. For example, while soft drinks belong to an impulse category and seem unlikely to move online, planned purchases of large packs may shift quickly to digital. FMCG companies operating in the Digital Laggard categories could benefit from a nuanced understanding of occasion-based purchasing behavior, offering attractive deals and convenience to help consumers move online for these low-involvement categories.

Beauty: Set to explode

Women frequently look for beauty inspiration and advice online, making beauty (skin care, makeup and hair care) the second-most searched FMCG category, with 78% growth in Q4 2014 over the same quarter the previous year. However, only 15% of beauty searches are brand related—the rest relate to trends, tips, problem resolution and other topics. This gap presents an opportunity for brands to associate themselves with relevant interest areas and create content around them.

Hindustan Unilever Limited (HUL) was one of the early movers with its online platform "Be Beautiful," which pioneered a YouTube beauty revolution in India by signing up the leading beauty bloggers to generate high-quality content. By 2020, we expect a material share of the beauty and personal care categories to move online, with 25% to 30% of total sales in male grooming, 20% to 25% of sales in infant care and 8% to 10% of sales in the beauty category taking place over the Internet.

Food: Waiting to happen

Indian Internet users are increasingly looking for new recipes and culinary inspiration, making food their most-searched FMCG category. Their passion for food-related topics is not limited to consuming content: India is also among the top online contributors to cooking-related content globally. Cooking is among the top 5 categories on YouTube India by viewing time, while 4 of the top 10 YouTube food channels in Asia by viewing time are Indian. In addition, chefs such as Sanjay Thumma and Nisha Madhulika have built mammoth fan followings, with millions of YouTube viewers.

Despite such a thriving ecosystem, the digital influence on product purchase is low because food and beverage brands have been relatively inactive on the Internet to date. We expect this to change, however, as brands such as Saffola Masala Oats, Maggi, Knorr and others move quickly to create recipe videos integrated with their product offerings.

How FMCG companies are responding

A complex digital landscape

FMCG companies interested in pursuing a digital strategy in India face a budding yet already complex e-commerce landscape, with myriad players competing for a share of the online wallet *(see Figure 5)*.

Four types of players have emerged so far:

1. **Pure online generalists** such as Flipkart, Snapdeal and Amazon are leading the charge with their multicategory models. Flipkart has captured a substantial portion of the e-commerce market through its unique services and delivery and payment options. Snapdeal, the highest-trafficked e-commerce site in India, caters to the shopping needs of customers across more than 4,000 towns and cities and boasts more than 20 million members.[7]

2. **Pure-play, online-only companies** focused on groceries, such as BigBasket and AaramShop, are competing by offering consumers a wider assortment of grocery products than normal—from imported merchandise, such as gourmet cheeses, to locally sourced spices. In addition, they offer consistent quality, such as cleaned, cut and packed vegetables; and convenience, including shopping lists and guaranteed delivery with fixed time slots.

Figure 5: The evolving e-commerce landscape

Model	Examples*	State of play
Pure online generalist players	• Flipkart • Snapdeal • Amazon	• Have a head start • Challenge: Quick, time-bound delivery
Pure online specialist players	• Grocery: BigBasket, AaramShop • Lifestyle: Myntra, Jabong	• Promising start • Challenge: Ability to scale up
Click-and-mortar retailers	• Big Bazaar Direct • Nature's Basket	• Recent entrant • Challenge: Viable omnichannel model
FMCG players	• Shop Paper Boat • Shopping Aashirvaad Ready Meals	• Focused on consumer engagement • Challenge: Viable delivery logistics

*Not an exhaustive list
Source: Bain analysis

3. **Traditional brick-and-mortar retailers that have developed an e-commerce portal,** including Big Bazaar Direct and Nature's Basket. However, these are still in the early stages and traditional retailers have just begun experimenting with such omnichannel business models in the hopes of maintaining and enhancing their competitive edge.

4. **FMCG brands that have launched e-commerce sites to sell directly to consumers.** For example, Indian ethnic-drinks brand Paper Boat, from Hector Beverages, has an online shop at shoppaperboat.com to make its products more accessible to consumers.[8] Similarly, Aashirvaad, one of India's leading brands of food and kitchen staples, has launched an e-commerce portal at shopping.aashirvaad.com.

We know it's big, but we're waiting

Despite these emerging models, most FMCG companies have so far taken a tentative approach to the online opportunity in India. They seem to understand that digital activity will end up being substantial, and they have a fairly accurate view of what their future engagement with digital will be. In addition, our conversations with top FMCG players found that 70% see digital as a high priority, while 90% say they expect to at least double both their spending on digital marketing and their sales from e-commerce in the next three to five years. Yet only 40% of these companies have articulated a digital strategy. Even among those that have, the majority still treat digital as a standalone element to be pursued independently. They have not accepted that digital will be pervasive and will therefore need to be integrated into all elements of existing strategies. As PepsiCo India CEO D. Shivakumar noted, "It is not about digital marketing, but [about] marketing in a digital world."

Looking to the digital future, most FMCG companies believe the biggest influence on their top line will come from either digital advertising, digital engagement, e-commerce or Big Data, the enormous quantities of data being generated through digital technologies today. Nonetheless, there is currently wide variation in how and where companies are using digital technologies. Our survey found that 70% of companies with a digital footprint use e-commerce, while half use digital for customer insights. However, very few use digital across the variety of areas needed to take full advantage of its potential. In fact, only 15% of companies use digital technologies across the value chain, from consumer engagement to e-commerce, consumer insights and supply chain planning.

In addition, many companies are being extremely cautious about establishing their own e-commerce sites, with three-quarters relying on e-commerce retailers for sales. Many of these are also wary about the categories to include, with niche or premium categories more likely to be marketed and sold online than any other categories, given that their target consumers—well-educated, middle- to high-income shoppers—are more likely to be found online as well.

Facing the barriers

While FMCG companies can rely, in part, on their brand images and consumer relationships, they face some important barriers to online success.

- **Economic and logistical challenges.** Economics and logistics are important challenges for FMCG companies wishing to move into e-commerce. The legacy skills and infrastructure of these companies have been established primarily for neighborhood kirana stores and the organized retail sector, and do not tend to address the requirements of digital technology. Their warehouses are centralized, for example, and point-of-sale data informs their demand forecasting data—neither of which will necessarily work in e-commerce. As a result, these companies have found it difficult to meet consumers' top-up demands and to cost-effectively trial personal-care products. In addition, experts estimate that a delivery cost of Rs 60 to Rs 70 (or less) is needed to make the economics of digital commerce work. As the current costs of residential delivery are anywhere from Rs 150 to Rs 200—or 15% to 20% of the average online FMCG basket—this effort is economically unfeasible.

- **Lack of relevant metrics.** Most of the FMCG companies we interviewed are used to traditional metrics such as reach and frequency. When it comes to digital, although many metrics are available that can be tracked in real time, such as views, comments, "likes" and time spent, there is a need for simple metrics that demonstrate the effect of digital exposure on the opinions of end consumers, on brand image and on sales. As Beiersdorf India's Managing Director Rakshit Hargave put it, measurement is "the single biggest parameter" holding companies back from significantly increasing their digital expenditures.

- **Lack of appropriate talent.** Most of today's FMCG businesses lack the in-house expertise to use digital technologies effectively and, given the nascent stage of India's digital efforts, external talent is hard to find. At Hector Beverages, a start-up using digital technology to play on the edges of the mainstream beverages industry, co-founder and CEO Neeraj Kakkar confirmed the company has not been able to find the right digital agency, as "talent is phenomenally scarce."

- **Lack of infrastructure support.** FMCG companies looking to industry partners, such as advertising agencies, for metrics and other digital marketing support have not found a compelling value proposition. Insights into consumers' online behavior and digital shopping trends have been slow to materialize. It has been interesting to see new ecosystem players like media agencies begin to respond, moving more quickly than the traditional creative agencies. Some have set up in-house creative and analytics teams with digital expertise, or they developed strategic partnerships with digital creative agencies in order to move up the value chain. Traditional creative agencies must now play catch-up.

Our conversations with top FMCG firms indicate four main barriers to digital fluency from the company perspective: economic and logistical challenges; a lack of relevant metrics to measure reach and efficacy; a lack of appropriate talent, both in-house and within the ecosystem; and a lack of infrastructure support.

The frontrunners

Despite the barriers, it is clear that a number of FMCG companies have already innovated and tasted success. Coke Zero, for example, had a highly successful launch on Amazon.in, where it was sold exclusively for two weeks. The company sold 1,700 cans in four hours on the first day and more than 100,000 lakh cans in 13 days. AaramShop, another online success, integrated its online and offline efforts by providing a digital interface that allowed consumers to transact with their local kirana shops, closing the logistics gap.

Hector Beverages, in turn, set up an in-house digital team to overcome the lack of talent in the existing ecosystem. In addition, Nestlé established a social command center to monitor all social media chatter across brands; the findings have been used to draw insights and provide support in both digital strategy formulation and content creation.

Nonetheless, the absence of many of the established FMCG companies online has also left the digital field open to small, existing players with new business models, as well as to entirely new and niche players. These companies tend to be more flexible and therefore more likely to utilize digital technology to develop disruptive business models. There are already several US examples, including Dollar Shave Club, which launched its membership service with a YouTube video in 2012. The service, which delivers a monthly package of razors and other personal grooming products by mail, received 12,000 orders in the 48 hours after the video was released. It now has more than 600,000 members and sells more than 24 million razors a year.

Time to enter the race

The race has begun, and premium- and niche-category players are already on the track. If FMCG leaders are not prepared to enter this race in the next three to five years, we believe they will experience material opportunity costs in terms of lost revenues and profits. The overall costs could be much larger than they currently appear, given that several more product categories will have a high proportion of both e-commerce sales and digitally influenced sales than the few niches for which this is true today.

Losing the first-mover advantage could have long-term implications as well, including reduced market share due to a loss of digital shelf space—the result of a lower ranking in online searches and lower-ranked products on retailer websites. Lower market share could also mean a loss of mindshare—and wallet share—in the growing community of online consumers.

Adding to this dilemma, companies that enter the market later will find it increasingly difficult to recruit new Generation Z consumers. These consumers, many of whom will become independent decision makers over the next five to six years, were raised with the Internet. Late entrants will find it increasingly difficult to dislodge early movers who have already captured the mind space of, and established emotional connections with, these digitally savvy shoppers. Finally, FMCG latecomers could face a crunch in gaining access to scarce but important resources in the ecosystem, including talent, technology and intellectual property.

How to win in the Indian online market

Getting into high gear

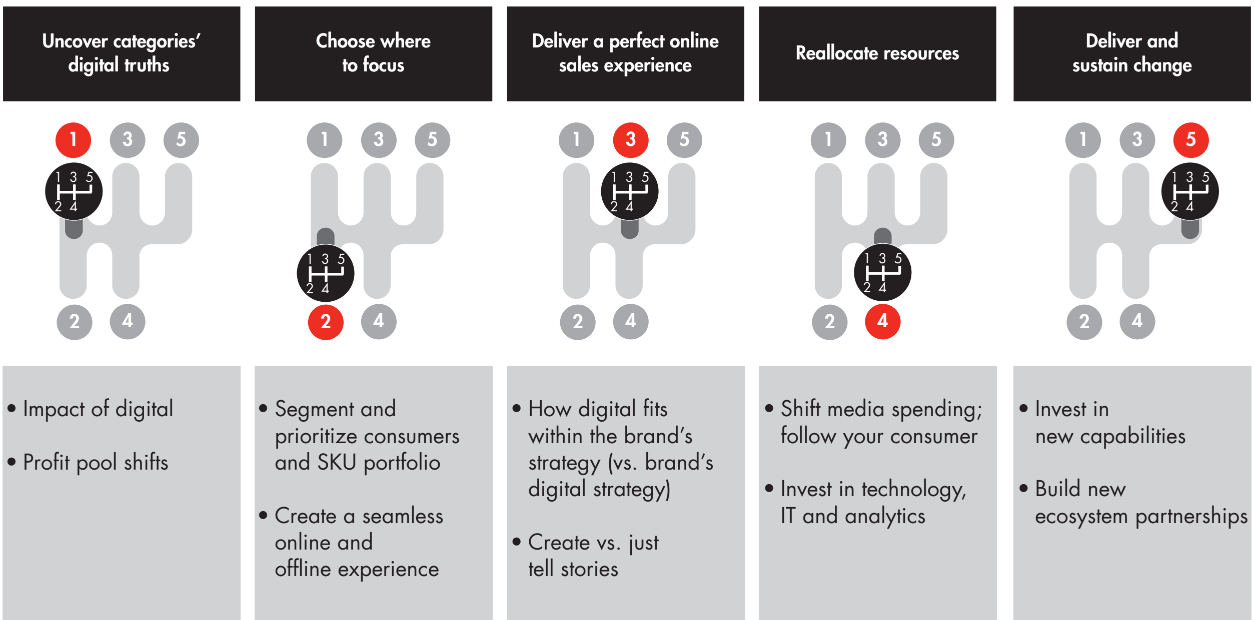
While there are different paths to success in multichannel retail, we have found that businesses that successfully take advantage of digital media tend to do three things consistently well: They educate themselves about their target consumers, they become best in class in engaging those consumers digitally and they deliver a "perfect" shopping experience, both online and off.

To take on these three challenges and overcome the four primary barriers discussed previously, we propose that FMCG companies move through five "gears." Just as in driving a car, shifting into each of these five gears, in turn, will help FMCG players reach their desired destination *(see Figure 6)*.

Gear 1: Uncover categories' digital truths

Companies should begin by asking themselves fundamental questions about their business categories, target consumers and profit pools, bearing in mind that digital marketing and sales efforts should be made to fit into existing brand strategies rather than fostering an entirely new digital approach.

Figure 6: Crafting a winning digital strategy



Source: Bain & Company

Questions to include:

- How are the company's core categories positioned in terms of digital involvement and digital density—and how are they likely to evolve?
- How will the company acquire and engage digitally empowered consumers?
- How are the organization's profit pools changing in the digital world—e.g., which parts of the value chain are becoming commoditized, and which are starting to command a premium?

Gear 2: Choose where to focus

Next, businesses should acquire a granular perspective on their portfolio, including a nuanced understanding of category dynamics and consumer behaviors. This more detailed perspective will help identify the most relevant opportunities from a digital standpoint. Even in digitally nascent categories, for instance, there could be segments that are ripe for rapid digitization, such as bulk buys in otherwise largely impulse categories like beverages.

In addition, taking an omnichannel view of the future will be critical. Companies must decide whether to go it alone on their e-commerce portal or work through a grocery.com, a clickandmortar.com or a multibrand.com partner. In the process, they must decide whether to integrate their e-commerce approach with their offline retailing, in each case thinking through the margin structure for intermediaries and channel partners, the appropriate promotion formats and how best to utilize consumer data and insights.

Gear 3: Deliver a perfect online sales experience

Creating and reinforcing a strong brand image in the minds of digitally savvy consumers will require a seamless consumer experience across online and offline channels. To engage effectively, companies will need to create memorable brand stories and use the strengths of a variety of media.

Another crucial success factor is delivering the "perfect" online sales experience. To do so, companies will need to develop a number of internal and external enablers, including:

- Consumer insights to inform brand, assortment, promotion and other decisions
- An optimized e-commerce supply to ensure product availability and minimize cost to serve
- Account management to ensure strong relationships with more complex online customers
- Favorable trade terms with online retailers to enhance consumers' online experiences and add value vis-à-vis offline sales

Gear 4: Reallocate resources

As FMCG companies take their chosen portfolios to market, they will need to evaluate the effectiveness of their spending across channels and media types. It will be critical to keep a finger on the pulse of consumers' evolving media-consumption habits, dynamically adjusting advertising spending to match.

To do so effectively, they will need to develop a rich all-around view of their consumers’ habits as they move between online and offline media, and use this information to engage their consumers in real time, whether responding to negative social media commentary or making product offers to match a consumer’s interests. In the longer term, this effort will require a significant investment in both IT infrastructure and data analytics, allowing companies to gather millions of data points about consumer behavior, run sophisticated analyses and generate actionable insights. In the near term, however, companies may take advantage of their legacy systems to conduct point analyses, getting the answers they need to make early decisions.

Gear 5: Deliver and sustain change

Ongoing investments will be essential if companies are to deliver and sustain the changes just discussed. Looking at digital capabilities end to end, rather than piecemeal, will help ensure the entire organization is geared to meet the changing requirements.

In addition, FMCG companies should push the members of their ecosystem to evolve to meet new omnichannel needs and not hesitate to develop new ecosystem relationships, including linking with online ecosystem partners such as e-commerce players, social media websites and analytics firms that can provide improved insights into the digital consumer. Creating new offline partnerships with logistics firms as well as effectively working with agencies, both creative and media, will also be critical.

Conclusion

The Indian online market is growing rapidly. It will be only a matter of years before it is as large as China's online market today. We expect FMCG companies to play a substantial role in this growth, with product categories such as skin care and men's grooming becoming disruptive forces. Already, these categories are pioneering substantial e-commerce transactions and digitally influenced sales. In the meantime, niche and premium players are setting down stakes.

Those FMCG players who only watch and wait, biding their time, could lose a tremendous opportunity to gain mind share and wallet share among the rapidly expanding online community in India. We believe that leading players should look closely at their current and proposed strategies, narrow their portfolio and channel focus, create an optimal consumer experience, readjust their media spending and investing to sustain the change. Given the size of the prize, these efforts will be well worthwhile.

Appendix: Primary research

This report relies on four primary research studies performed among consumers and businesses across India. In addition, a recent collaboration with Google provided data and insights on female consumers, consumer search trends such as keywords and videos, and the digital activities of top FMCG companies around the world.

The first of our studies, a quantitative survey, queried 1,600 "lead" consumers across India to understand their consumption patterns and FMCG buying behavior across eight FMCG categories: hair care, skin care, oral care, male grooming, home care, infant care, packaged food and nonalcoholic beverages. Lead consumers comprised Internet users residing in metro, Tier-1 and Tier-2 towns across SEC classifications A, B and C.

Note that only the online respondents' answers were used as input in our 2020 projections. We used only women in our category analysis, as they are either the primary decision makers or have a significant say in the FMCG-related decision making in Indian households. The exception was the male grooming category, in which only male respondents were considered.

The second of our studies, a consumer ethnographic survey, took an in-depth look at 12 respondents in two leading consumer categories: women and young consumers ages 18 to 25. The purpose was to add further color to our quantitative research, understanding specific instances and examples of digital consumption and FMCG buying behavior.

The third was a corporate survey of 20 leading FMCG companies in India. Our aim was to understand their current view of the digital world and their response to it, along with their main barriers to digital activity and their plans up to 2020.

Finally, we held in-depth interviews with nine of the leading FMCG companies and seven leading ecosystem players, including online FMCG retailers, brick-and-mortar retailers, media agencies and creative agencies. Our goal was to follow up on the corporate survey and to further understand these businesses' plans, concerns and strategies for the digital future.

1 Indian cities are ranked by population size as metro (top eight cities, with populations of more than 4 million), Tier 1 (population of more than 1 million), Tier 2, Tier 3 and Tier 4.

2 Internet Live Stats, "Internet Users by Country (2014)," http://www.internetlivestats.com/internet-users-by-country/

3 Google Online Shopping Growth Trends: Forrester Group-Google Report.

4 The SEC, or socioeconomic classification, is used to categorize consumers' basis occupation and education of the chief wage earner (or head) of the household. It is used as a way of understanding market segments and consumer behavior.

5 Note that the data on the following two pages is for lead users, as defined in the Appendix of this report as consumers with Internet access belonging to SEC groups A, B and C, and residing in top 13 cities.

6 "The Next India: Internet—Opening up New Opportunities," Morgan Stanley, February 2015.

7 TechNavio, "The Online Retail Market in India, 2014–2018."

8 Alok Soni, "Taste of Your Childhood Now at Your Doorstep—Paper Boat Goes Online," YourStory Media http://yourstory.com/2014/08/paper-boat-online-shoppaperboat/

Key contacts

Bain

India: Nikhil Ojha (*Nikhil.Ojha@Bain.com*)
APAC: Sebastien Lamy (*Sebastien.Lamy@bain.com*) Jason Ding (*Jason.Ding@bain.com*)
EMEA: Richard Webster (*Richard.Webster@bain.com*)
America: Suzanne Tager (*Suzanne.Tager@bain.com*)

Google India

Vikas Agnihotri (*vikasagnihotri@google.com*)
Bhaskar Ramesh (*rameshbhaskar@google.com*)

Acknowledgments

This report was prepared by Nikhil Ojha, partner and head of Bain & Company's India Strategy practice; Sachin Khandelwal, principal and member of Bain's Consumer Products practice; and Subhashini Gupta, sr. industry analyst, Google India.

The authors thank Amit Gupta, Zara Lightowler, Srinivas Bhaskar and Rahil Bharani for their contributions, and Alice Griffiths and Anjali Mody for their editorial support.

About Google Inc.

Google's innovative search technologies connect millions of people around the world with information every day. Founded in 1998 by Stanford PhD students Larry Page and Sergey Brin, Google today is a top Web property in all major global markets. Google's targeted advertising program provides businesses of all sizes with measurable results while enhancing the overall Web experience for users. Google is headquartered in Silicon Valley with offices throughout the Americas, Europe and Asia. For more information, visit www.google.com.

Shared Ambition, True Results

Bain & Company is the management consulting firm that the world's business leaders come to when they want results.

Bain advises clients on strategy, operations, technology, organization, private equity and mergers and acquisitions. We develop practical, customized insights that clients act on and transfer skills that make change stick. Founded in 1973, Bain has 51 offices in 33 countries, and our deep expertise and client roster cross every industry and economic sector. Our clients have outperformed the stock market 4 to 1.

What sets us apart

We believe a consulting firm should be more than an adviser. So we put ourselves in our clients' shoes, selling outcomes, not projects. We align our incentives with our clients' by linking our fees to their results and collaborate to unlock the full potential of their business. Our Results Delivery® process builds our clients' capabilities, and our True North values mean we do the right thing for our clients, people and communities—always.

For more information, visit **www.bain.com**