

India Retail Reboot 2021

REPORT

CBRE RESEARCH
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CBRE



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Retail sector during the COVID-19 outbreak

Lockdowns during the second wave hindered the recovery

The most immediate impact of the COVID-19 pandemic and the resultant nationwide lockdown in March 2020 was felt on the retail sector as the government-mandated shutdowns, travel restrictions and social distancing made a huge dent on consumer confidence and discretionary spending. As a result, **sale of products that fell in the “non-essential category” was negatively impacted not only across store-based retailers, but also on e-commerce platforms.**

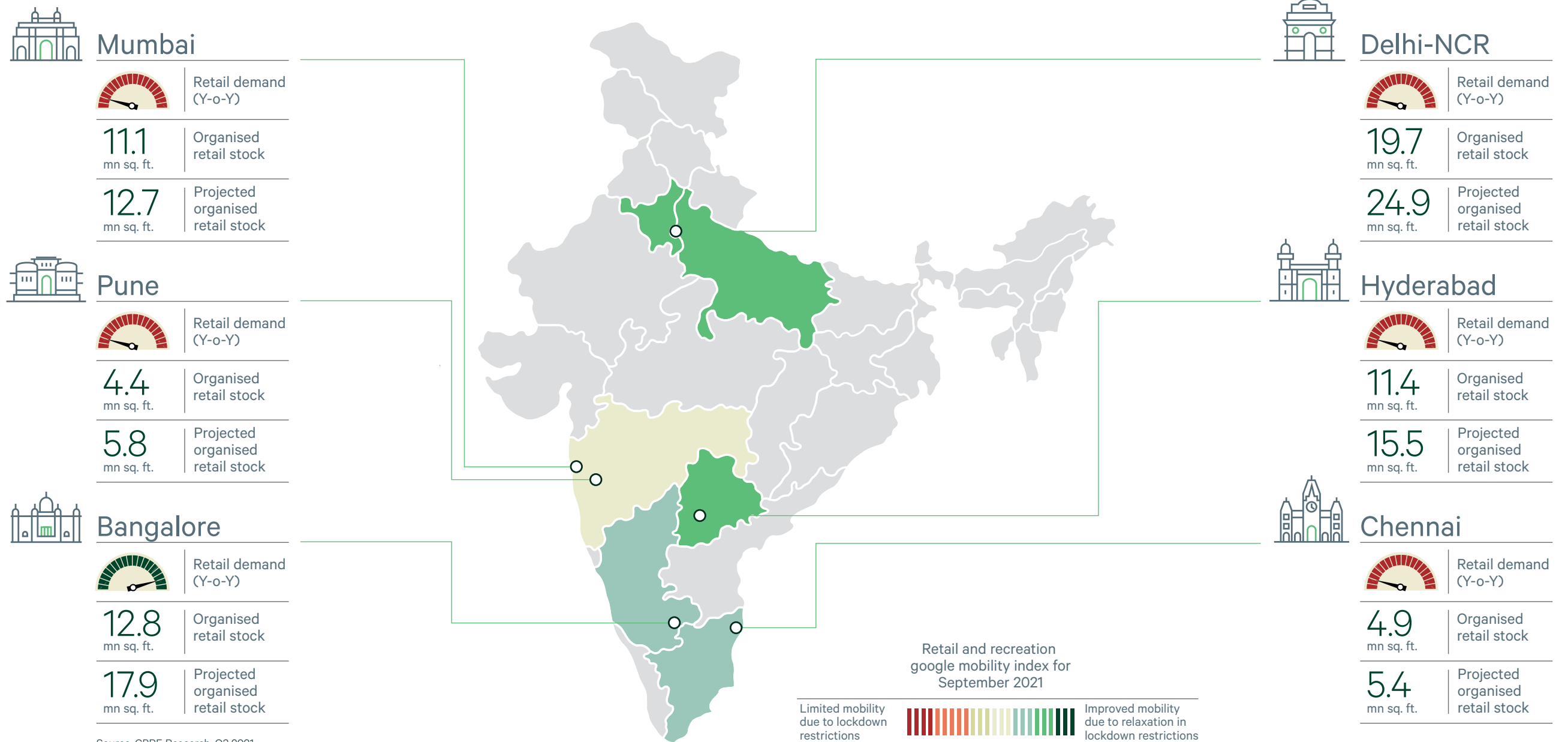
However, the receding pandemic, commencement of a vaccination drive and lifting of restrictions towards the end of 2020 resulted in increased footfalls across high streets and malls. The recovery gained further momentum in early 2021, especially across southern and northern cities as **Pan-India retail sales in February 2021 touched almost 93% of February 2020 (pre-Covid) levels**¹.

However, the onset of the second wave in April 2021 and re-imposition of the lockdown restrictions impacted consumer confidence and purchasing activity once more. But, unlike the national lockdown in 2020, the impact on retail was not as severe because most restrictions were regional / localized. **The gradual lifting of restrictions since early June led to a steady rise in footfalls.** This recovery was initially led by North India, where a relatively stronger bounce back from the second wave was witnessed; and mostly recreation-led footfalls improved across prime malls and high streets. From July 2021 onwards, this recovery was visible across other regions in the country as well and **Pan-India retail sales reached more than 70% of the July 2019 levels**².



1. 13th Retail Business Survey by the Retailers Association of India
2. 17th Retail Business Survey by the Retailers Association of India

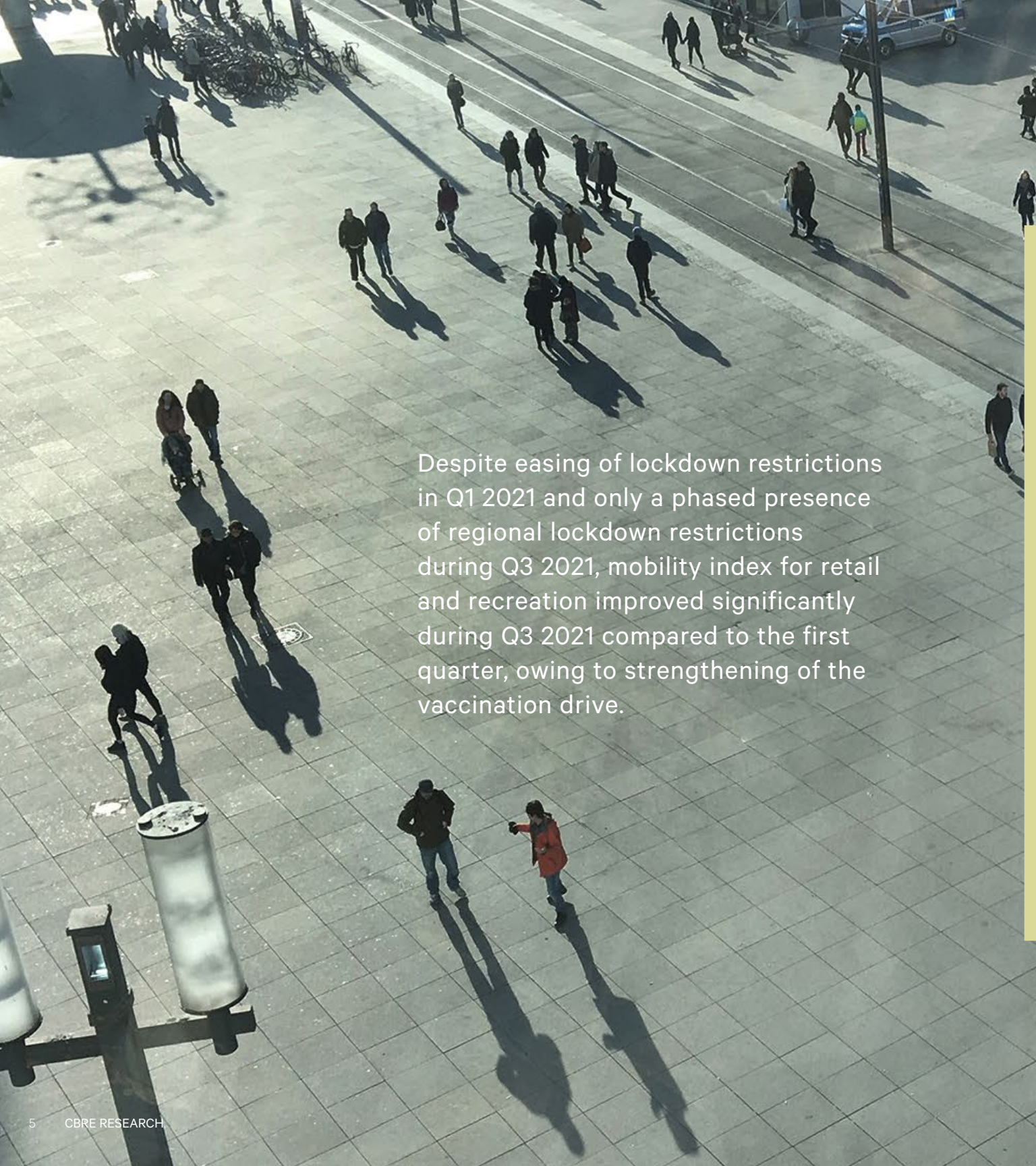
Figure 11: Current retail demand, organised retail stock and projected organised retail stock across major cities in India



Source: CBRE Research, Q3 2021

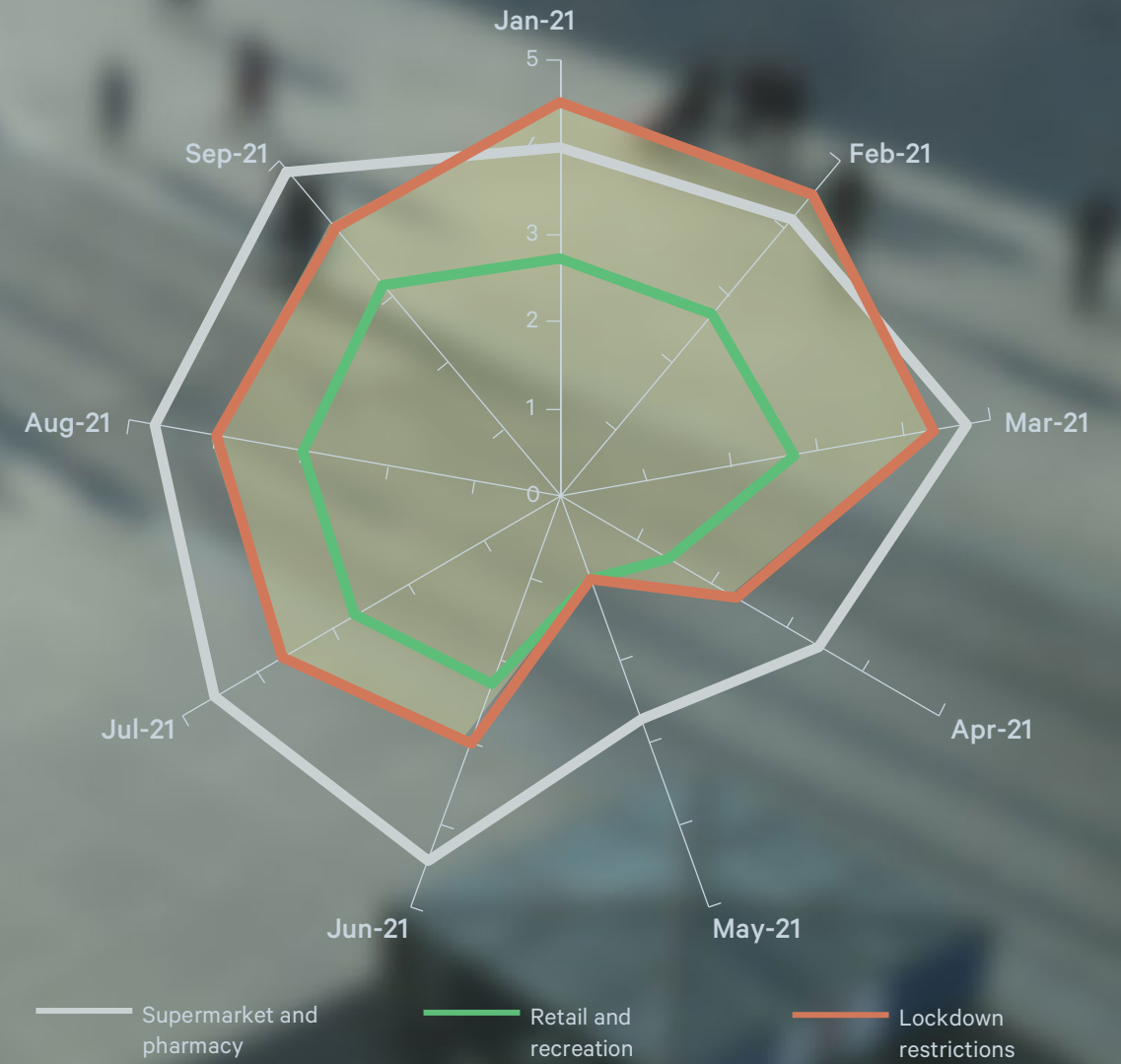
Note: Retail demand (Y-o-Y) indicates H1 2020 vs. H1 2021 leasing demand across grade A malls and prominent high street locations; demand improved in Bangalore during H1 2021 owing to the closure of one large sized transaction
 Organised retail stock up to H1 2021 (Grade A malls only)
 Projected organised retail stock up to 2023 (Grade A malls only)

Source: Google Mobility Index; CBRE Research, Q3 2021



Despite easing of lockdown restrictions in Q1 2021 and only a phased presence of regional lockdown restrictions during Q3 2021, mobility index for retail and recreation improved significantly during Q3 2021 compared to the first quarter, owing to strengthening of the vaccination drive.

Figure 1.2: Month-wise mobility index for India

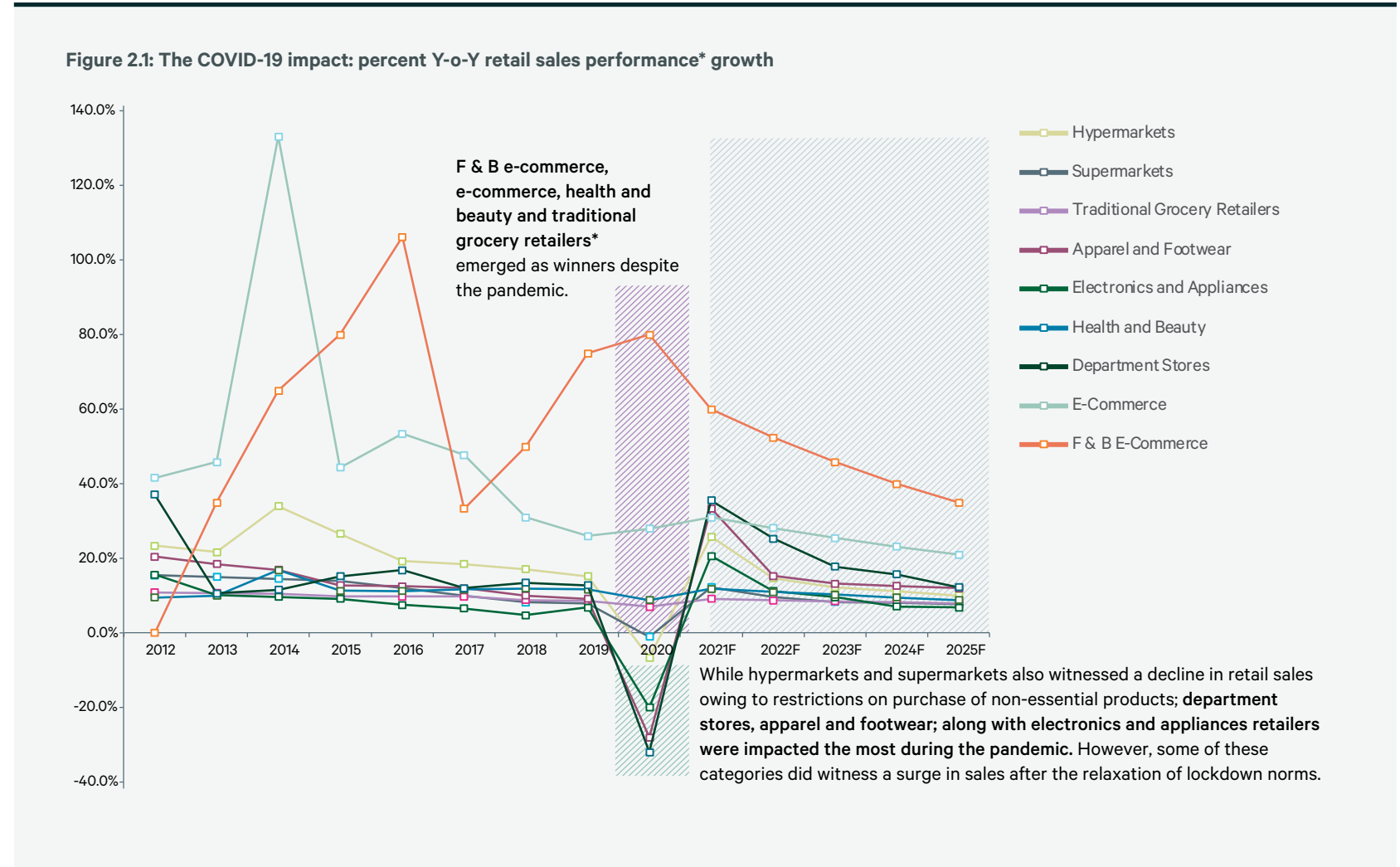


Source: Google Mobility Index; CBRE Research, Q3 2021

The COVID-19 impact: Realignment in retail categories

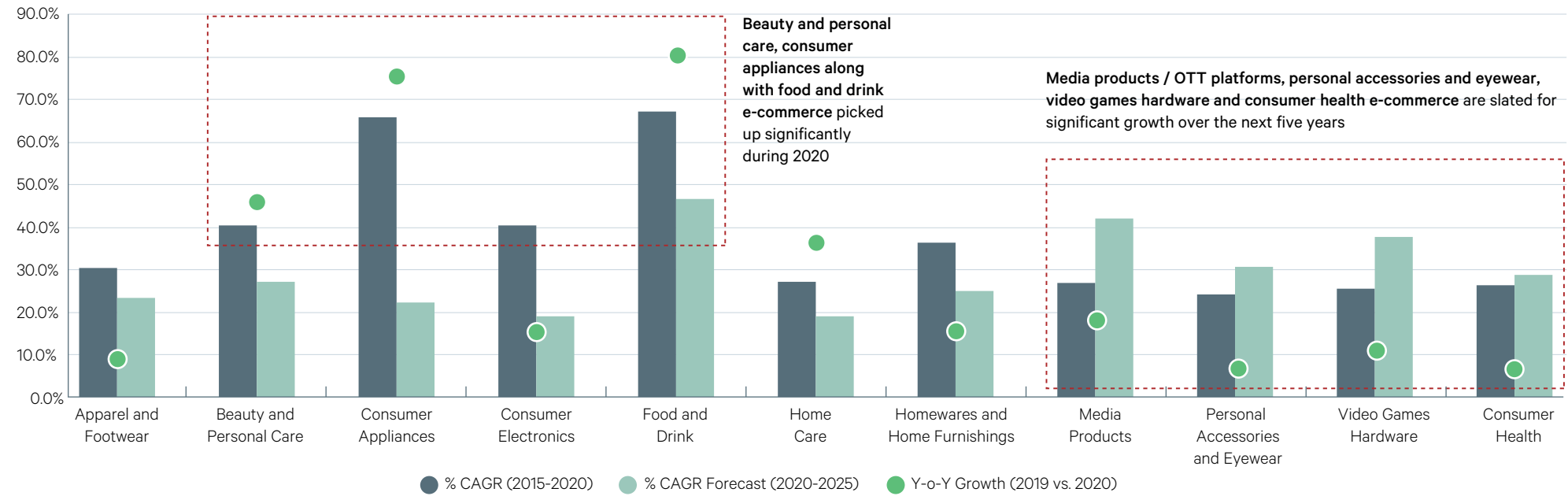
As the unpredictability intensified, changing priorities resulted in a reshuffle in “top” categories

The COVID-19 pandemic induced not only a change in economic growth direction but also resulted in a realignment of consumption patterns. As consumer priorities witnessed a change in order, the **preference for ‘conscious spending’** increased and significant shifts were witnessed in consumer purchase behaviour – both across physical retail and e-commerce.



Source: Euromonitor International, February 2021; CBRE Research, Q3 2021
 Note: Traditional grocery retailers - local neighbourhood stores
 *Retail Sales Value RSP (Retail Sales Price) excluding sales tax

Figure 2.2: The COVID-19 impact: growth categories for e-commerce



Source: Euromonitor International, February 2021; CBRE Research, Q3 2021

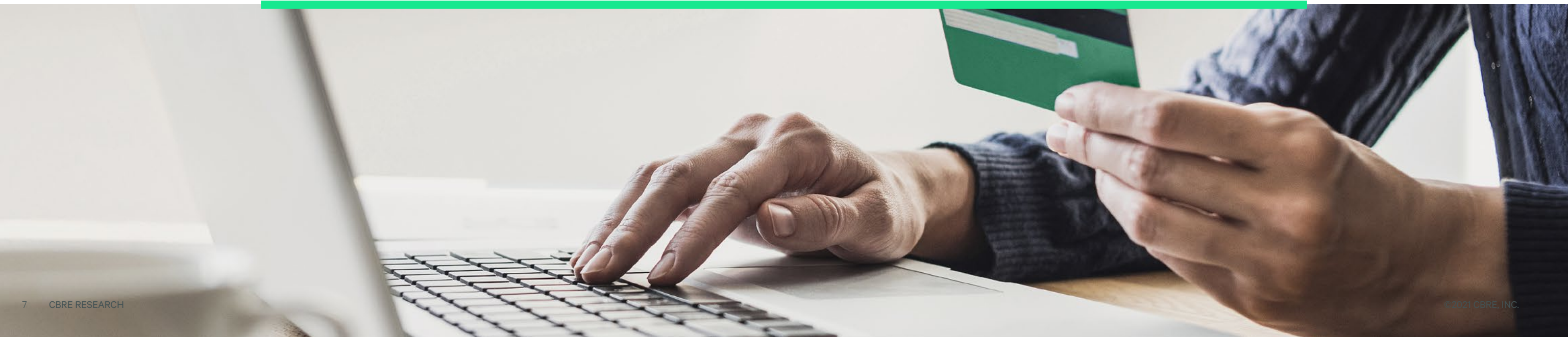
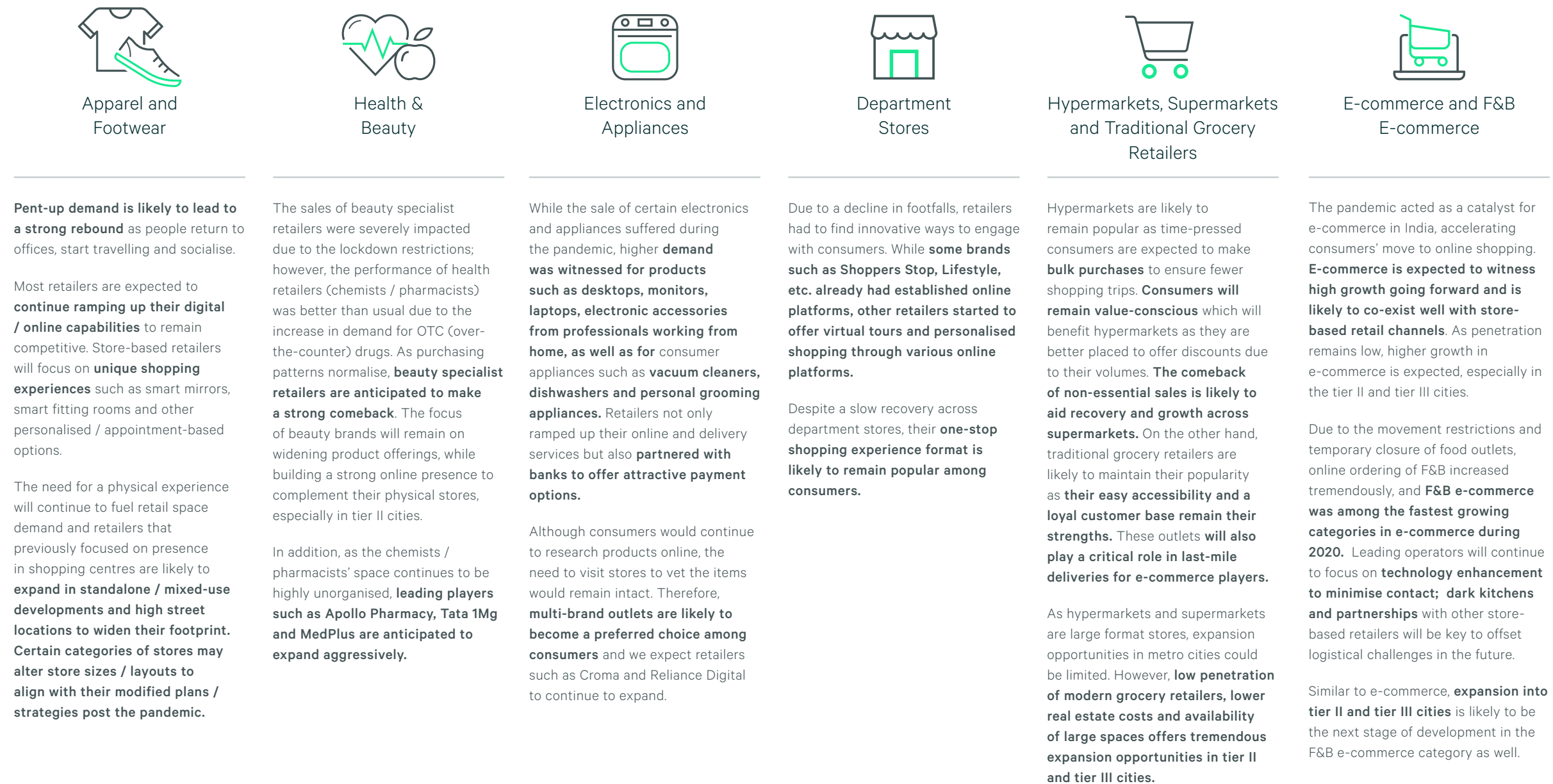


Figure 2.3: Demand across retail categories



Source: CBRE Research, Q3 2021

What lies ahead: Re-thinking pre- COVID-19 KPIs

A few changes will remain permanent as retailers and consumers align with the new normal

The **pandemic has created a new set of challenges** for a sector that is fairly unorganised and already dealing with several structural changes. Trends that were on a multiyear trajectory saw a dramatic acceleration and the retail industry witnessed more innovation in the past year than it did in the prior decade.

To traverse through this looming uncertainty, **CBRE has identified six imperatives that are expected to help retail stakeholders adapt to a changing consumer landscape while pursuing new opportunities.**

Figure 3.1: Imperatives for building a new retail realty



Source: CBRE Research, Q3 2021



Restructuring retailer-landlord relationships

Post the pandemic, **more partnership-like agreements started to surface between landlords and retailers.** Landlords provided several relief measures to accommodate retailers, including rental rebates / deferments. Going forward, we **expect that lease agreements that are designed to absorb the impact of such structural disruptors while at the same time provide scope for rental growth and visibility on retailer performance would be preferred by retail stakeholders.**



Navigating the digital shift

According to a survey conducted by CBRE, 75% retailers believe digital and technological innovation is a key **enabler for the retail sector**³. **Technology in retail is rapidly evolving; especially post the pandemic. Technologies such as virtual fitting rooms will help to synchronise the store's inventory and point-of-sale systems,** enabling stores to catch up with data-rich e-commerce by generating insights on data points such as time spent in fitting rooms and conversion rates. **Focus on real time data is expected to increase,** especially for stores that operate in the essentials category to ensure more accurate information on product availability and consumer behaviour, particularly in unpredictable situations such as the COVID-19 pandemic.



Tapping the altering consumer behaviour

The pandemic fundamentally transformed consumer behaviour and preferences. **Health and safety concerns have become important purchase drivers for the consumer, as has the 'price to value' equation** where quality for an optimum price is still on top of the decision-making process.

In addition, consumers today are extremely agile, demanding and tech-savvy. **Their preferences are rapidly evolving due to their changing lifestyle, better access to different types of data, advancement in technologies, and alteration in the current work environments.** They are more aware of the brands they are using and seek comfort and convenience, which is further driving the e-commerce demand. Given these preferences and the pandemic-related disruption, retailers should focus on reinventing their marketing strategies and think of innovative ways to know their consumers better.



Omnichannel to become omnipotent

A key takeaway from the pandemic has been that buyers are looking to minimise contact and touchpoints. Online shopping has provided existing (and many new) customers with the convenience to shop in a safe environment. As a result, most leading brands and even small, homegrown retailers are either setting up their own e-commerce platforms / partnering with third-party aggregators – in addition to their physical store footprint. **While omnichannel was already a trend before the pandemic, the change in consumer shopping patterns (some of which are expected to be permanent), have ensured that retailers consider omnipresence as one of the pillars of their business plan.** Just like virtual kitchens were an invaluable asset to businesses that had them during the pandemic, omnichannel is expected to be the fallback plan for businesses during uncertainties / lean economic cycles.



Reshaping the idea of a “store”, free standing stores to proliferate

While brick-and-mortar stores will undoubtedly remain key going forward, experiential retail would hold sway among brands. Meanwhile, store design and location strategy is likely to evolve in response to consumers’ changing expectations. **CBRE foresees the redistribution of space between the various areas of retail stores such as fitting rooms, product testing zones, pick-up counters and stockrooms.** As a result, less space will be allocated to areas that have a minimal positive impact on consumer satisfaction. **With inventory management already being optimised with the aid of predictive demand analytics, brick-and-mortar stores may eventually become inventory free** as purchases would be dispatched from warehouses to consumers’ homes upon payment. Check-out counters could also be reduced in size or replaced entirely by mobile Point of Sale (POS) systems. Location strategies are expected to be more inclusive – **brands that did not consider high streets as a viable option will seek space in these locations to allow easier customer access for business continuity** – in case of any further restrictions on movement being imposed.



Rethinking retail asset management strategies, health and safety to remain paramount

Similar to other aspects in the sector, retail asset management strategies are also expected to evolve post the COVID-19 pandemic. Landlords are likely to adopt measures and technologies (touchless tech) to improve the sanitation of physical environments as our hygiene awareness has reached unprecedented levels. **Physical spaces are likely to be rethought and social distancing may remain in effect going forward as well** – attention is already being paid to vaccinated staff as a key “safety parameter” for customers. Developments that are currently under construction / planned are expected to make provisions for more open and green spaces in their design layouts. In addition, adoption of **PropTech is likely to take centre stage in the maintenance and day-to-day operations across the retail-built environments.**

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