



Rise of Phygital

A Case For Convergence of Physical and Digital Channels

2018

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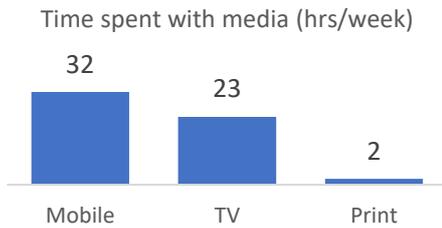
Phygital is a convergence of physical and digital channels

Till the start of 20th century, most transactions and shopping had been with a physical presence. Be it visiting a government office, bank branch, railway ticket counter, local shop or a school classroom. Our behaviour has been defined by our senses. We trust what we feel, what we see or what we hear. A physical presence therefore become essential in most of our transactions.

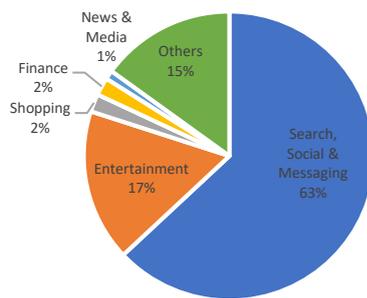
Early 20th century focused on improving this experience. We saw rise in organized retail, shopping malls, hypermarkets and similar large retail format which would focus on providing a customer experience. Brands invested a lot in this new physical channel which led to rise of brands and consumerism.

Rise of digital economy started with internet but flourished with beginning of smartphones since 2010. Internet users increased drastically with availability of cheap smartphones and falling price of data. Smartphones moved away from just being communication devices. They started changing behaviours. Adaptation of online payments paved way for early ecommerce, mostly in categories like books, music/entertainment where barriers of trust were low, and goods were standardized. Today ecommerce has moved to multiple categories including non-standardized fashion segment. These digital platforms offered customers – convenience, assortment and availability, which was lacking in physical channel in most categories. Discounts/deals was only means to break existing trust networks and shopping habits.

Penetration of digital channel has increased across multiple categories. In some segments like travel booking, hotel booking growth in digital channel has outpaced growth in physical channel. Physical channel has had ignored digital channel in past, however they can no longer ignore the threat of digital channel. Still, there exists several barriers in various categories which would resist complete shift of consumers from physical channel to digital channel. This is where digital channel has started relying on physical touchpoints with customers. Phygital is a convergence of physical and digital channels!



% Time spend on mobile by category



Source: Kantar IMRB & MMA Smartphone Usage and Behaviour Report 2017

Technology disruptions are nothing but long-lasting behaviour change

Smartphones have changed the way we spend our time. We use smartphones to communicate with friends, consume entertainment, manage our finances and do shopping. Large amount of user time is spent in digital world.

An average user spends approximately 4.5 hours daily accessing the Internet on a smartphone

Early tech adopters – most captured



Early technology adopters were the low hanging fruits for the digital companies – E-tail, online travel / media, O2O services and digital payments. Digital advertising to urban internet users was easiest way to acquire customer. But obvious, digital advertising in India has grown to Rs. 80bn (14% of total advertising spend).

However, with internet penetration in urban areas saturating, acquiring additional non-urban customers is becoming difficult and would need acquisition through physical channel. Therefore, most forecasts for digital advertising do not see it growing beyond 25% of total advertising spend in next five years.

Entry barriers to purchase

Our transactional behaviour values trust, look, touch and feel which only physical real world can deliver effectively (or digital world with technology is yet to provide).

Category	Barriers to online purchase	Triggers for online purchase
Fashion	Touch and feel Prices better offline Fitting issues	Assortment Convenience Availability
Mobile / Durables	Delivery time Ease of Return / Services Guidance	Options Exclusive on ecommerce Convenience
Food & Grocery	Product quality Delivery Time Easier returns	Assortment Convenience
Travel & Hotel Services	High transaction value Better deals offline	Options Convenience / No hassles of queues Better research
Insurance / Investment	Online privacy issues Clutter online – assistance	Comparison Convenience – online payment
Real Estate	Trust	Options Convenience
Recruitment	Irrelevant / Outdated posting online / Spam Offline alternative user friendly	Wide range of jobs
Pharmacy	Delivery time Trust / Online fake medicines	Home delivery Alternates
Education	Counsellor based sales Role of teacher inseparable Doubt solving / Service	Wider reach Diverse topics / Availability
Healthcare	Expert based sales Role of doctor/expert inseparable Most fulfilment offline	Wider reach Availability

Source: BCG – Google 2018



Competitive forces to push for convergence

Today competition is not limited to within physical channels or within digital channel, but across the channels. Hence competitive forces will push physical channels to augment their digital presence. Digital channels would need to differentiate themselves through physical touchpoints with the customers.

Digital going physical

The digital revolution began with the transformation and transposition of as many “real life” activities and functions as possible into a digital entity. Today, the reverse tendency is becoming ever more apparent; the virtual is beginning to reveal itself within the actual.

List of online companies focusing on offline

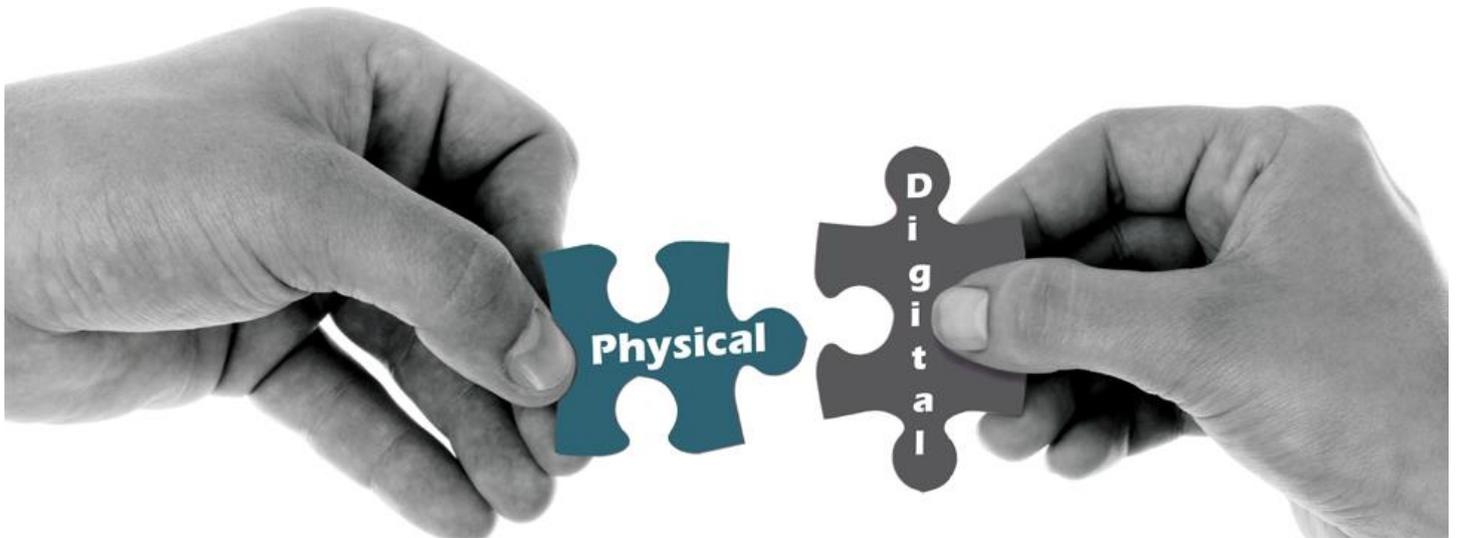
Flipkart	<ul style="list-style-type: none"> → Piloted with offline stores to let users collect items purchased → Experimented with 'Experience Zone' across urban location where users can touch and feel products.
Amazon	<ul style="list-style-type: none"> → Invested in Shoppers' Stop → Partnered StoreKing with presence across 10,000 rural outlets in 1200 cities through kiosk and shopping assistant. → Tie-up with Café Coffee Day to promote Amazon Fashion → Fashion kiosk / experience centre in 10 corporate parks → Pilot of Offline kiosk / seller café → Tie up with local shopkeepers as collection points for customers
Urban Ladder	<ul style="list-style-type: none"> → Transformed itself as an omni-channel brand → Segregating its furniture business under experience centres (7,500 sqft), sofa lounges (750 sq ft) and interiors (2,500 sqft) to signify new formats under furniture retailing.
Pepperfry	<ul style="list-style-type: none"> → Opened stores in Bengaluru, Hyderabad, Delhi and Mumbai. → Plans to open new Studios through the franchisee model, across Tier I and II cities by March 2018, taking the firm's total store count to 48
Myntra	<ul style="list-style-type: none"> → Physical outlet for its private label Roadster in Bengaluru.
Nykaa	<ul style="list-style-type: none"> → Has two offline store formats – Nykaa Luxe and Nykaa On Trend. → Plans of launching a total of 30 offline stores by 2020
Livspace	<ul style="list-style-type: none"> → Opened four flagship Design Centres across top metros to bring an omni-channel design experience to home-owners.
Teabox	<ul style="list-style-type: none"> → Forayed into the offline space with a new shop in central Bengaluru
Lenskart	<ul style="list-style-type: none"> → It has around 300 stores across India and plans opening of 400 stores, in the next two years.
Firstcry	<ul style="list-style-type: none"> → Started offline stores in 2012, today has over 300 franchise stores
Limeroad	<ul style="list-style-type: none"> → plans to open 2,000-3,000 stores across the country in the next 2-3 years
Zivame	<ul style="list-style-type: none"> → Currently has 20 stores and plans to have around 40 stores by March 2018 → Zivame Fit studios launched with Fit Advisors and comfortable changing rooms → Zivame's private labels — Penny, Cou Cou and Rosaline — are also expanding offline via the franchise route
Craftsvilla	<ul style="list-style-type: none"> → Plans to explore omni-channel distribution with the launch of its private label – Anuswara. They will be entering partnerships with modern retail stores such as Lifestyle and Shoppers Stop
Prettysecrets	<ul style="list-style-type: none"> → Online lingerie brand launch of two standalone stores in Mumbai in April 2017. Plan to have 300 stores by 2019.
Naaptol	<ul style="list-style-type: none"> → Adopts franchise model for offline push; → Opened 5 stores so far and plans to open 100 stores in 2018 → Expects offline sales to contribute 30% of its total revenue

Tata Cliq	Omni-channel platform for its customers
Shoppers' Stop	Exclusive arrangement with Amazon
Reliance Fresh	Reliance Fresh direct – online grocery to expand reach
Aditya Birla Retail	Exclusive tie up with Zop Now – online grocery
Starquik	Tata Group is looking to enter online grocery business under Starquik brand
Samsonite	To launch eBags.com in India by 2018-end.
Arvind Mills	Operates a platform called NNNow.com
Reliance Retail	Entered e-commerce venture for clothes is Ajio
Talwalkars	GrowFitter is an Online Fitness and Health Discovery Platform

Physical becoming digital

Physical channels have been leveraging technology to create differentiation and enhance customer experience. They have had adopted Point of sale systems, mobile coupon, mobile loyalty, digital payments and other technology tools to enhance customer experience.

Physical channel is generally believed to be fixed cost heavy. In case of banks, the traditional model of having branches, having people to staff them, is too expensive. Banks today have moved to an alternative distribution channel enabled by technology like mobile, Internet and kiosks.



We will all live in an increasingly physical world, empowered by digital.

Consumer driving convergence

Post digital era, consumers have become more demanding. They love simplicity, flexibility, usability and immediacy. They want answers, goods and services faster. They interface with a brand at different places. For instance, a customer might seek initial comparative information online, step into a department store to try a product, pay for it online and have the product delivered at home. Hence it become imperative to provide uniform experience across channels. Online and offline both are essentially aimed at expanding reach and engaging with customers in more customized ways. This trend has made online retailers take a step backward and physical retailers to think forward.

Phygital - combines the physical and digital worlds for an experience that is full “immediacy, immersion and interaction. it's evident that consumers are increasingly desiring the best of both worlds. The challenge today is knowing how to effectively combine the two

IOT, Embedded systems,
Virtual Reality

Is Divergence scenario possible?

Digital will soon become the invisible fabric and engine of our lives. Technology through augmented reality, virtual reality, IOT sensor, artificial intelligence would lead to the creation of physical experiences that involve our bodies, feelings, emotions, actions and reactions. Digital operating systems embedded and hidden inside our accessories and clothes, transportation vehicles, offices and homes would enhance our senses. What if technology has solutions to eliminate barriers to online purchase?

Technology still at nascent stage. Google Glass project has been shelved. VR still young. IOT will emerge slowly but steadily. Till such time convergence of physical and digital channels shall prevail.

At IMAP, we believe that this Convergence shall drive marriage of online and offline firms. We expect significant deal activity driven by this theme in 2018 & 2019.

4. M&A and PE Transactions

List of transactions driven by convergence of player having dominant physical presence with online player or vice versa is provided below

Year	Investor	Investee	Description - Investee
2018	Walmart	Flipkart	Ecommerce
2018	Mahindra & Mahindra	CarSense	Smart Car Solutions
2018	Bajaj Finance	Mobikwik	Mobile Wallet
2018	Mahindra & Mahindra	Zoomcar	Online Vehicle Rental
2018	Future Group	GoJavas	Ecommerce Logistics
2018	Emami	Brillare Science	Salon Products Firm
2018	Spice Digital	Anytimeloan.in	P2P Lending
2018	Reliance Industries	AltBalaji (Balaji Telefilms)	On Demand Video
2018	Unilever Ventures	Milkbasket	Grocery Delivery
2018	Teamlease	Schoolguru	Online Education
2018	Quess Corp	Monsterindia.com	Online Recruitment
2018	TVS Motor Company Limited	Condivision / Rentongo	Online Marketplace - Renting Bikes
2017	Wipro consumer Care	Happily Unmarried	Digital Brand, Retail
2017	Mahindra & Mahindra	Gold Farm	Online Farm Equipment Rental
2017	Shriram transport finance	Freight Tiger	Logistics Tech
2017	RPG Ventures	Shieldsquare	Cybersecurity
2017	Hero Enterprises	Corvi LED Light	Led Lighting
2017	RPG Ventures	Seniority	Elderly Ecommerce
2017	RPG	Medsonway	E-Pharmacy
2017	Sundaram Finance	GyanDhan	Educational Loan Marketplace
2017	Marico	Beardo	Digital Brand, Retail
2017	IIFCO	Gramin Health Care	Health Tech
2017	Axis	Freecharge	Mobile Wallet
2017	Mahindra	Nightingale	Elderly Care
2017	JSW Ventures	Indus OS	MOBILE Operating System
2017	JSW Ventures	Limetray	SaaS Based Solutions
2017	Marico Innovation	Yostra	Health Tech
2017	Emami (Helios Lifestyle)	The Man Company	Men Grooming Brand, Online Retail
2017	ICS (Ixora Corporate Services)	Renowala	Home Services
2017	TVS	Ultraviolette	Electric Vehicle Start-up
2017	Bharti Airtel	Juggernaut	Digital Publishing
2017	Bharti Airtel	Seynse (loan singh)	Fintech
2017	Tata Group	Grocermax	Online Grocery
2017	TVS Group	CheckGaadi	Online Vehicle Inspection
2017	AON Hewitt	Cocubes	Online Assessment
2017	S Chand publishing	Vagupu	Online Education
2017	Essel Finance	Bimadirect	Online Insurance Aggregator
2017	Kalyan Jewellers	Candere	Online Jewellery
2017	Amazon	Shoppers Stop	Organized Retail
2017	Murguappa group family	Vogo Automotive	Scooter Rental
2016	Hero Corp	Ather Energy	E-Bikes
2016	Mahindra holidays	Giftxoxo, FROGO	Travel Gifting Solutions

2016	Harsh Mariwala (Marico)	Nykaa	Online Cosmetics Retail
2016	Burman Family office	Easypolicy	Insurance Services
2016	Murgupappa group, TVS Group	Industrybuying.com	B2B Retail
2016	Kirloskar Brothers	Jugnoo	On demand Auto Services
2016	JSW Ventures	Purpille	Online Cosmetics Retail
2016	Mahindra Univeg	MeraKisan	Online Agri-Retail
2016	Mahindra Group	Medixine	Finish Startup, Cloud Solution
2016	Eureka Forbes	Idea bubble	Health Tech
2016	Future Group	Fabfurnish.com	Online Furniture
2016	Rise India - education firm	Padhopadhao.com	Online Tutor Aggregator
2016	TVS Group	Carcrew	Car Servicing Startup
2016	TVS Automobiles	Jazzmyride.com	Vehicle Accessories Ecommerce
2016	TVS Automobiles	Autosense	Technology And Analytics
2016	TVS Automobiles	Redsun	IOT for Cars
2015	Murgappa group	iLoads.com	Online Freight Marketplace
2015	Burman Family office	Storemore	Storage Services
2015	Murgupappa group	Zoomcar	Online Vehicle Rental
2015	Mahindra Finance	Flybird	Smart Farming
2015	Spice Digital	Anytime Learning Private	Online Education
2015	Godrej Nature Basket	Ekstop	Online Grocery

Source: Multiple Industry News

191

Deals closed in 2017

\$12+ bn

Transaction value of deals closed in 2017

36%

Cross border transactions share in 2017

About IMAP

IMAP is a global network of investment banking firms with presence in 35 countries. IMAP closed over 2100 transactions valued at \$90+bn in last 10 years. IMAP is ranked 7th in the world in the mid-market segment by Thomson Reuters and has executed 191 transactions worth US\$12 billion in 2017. IMAP has 48 offices in more than 35 countries, > 400 M&A professionals. IMAP India is exclusive India partner of IMAP.

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