

Are you profitability ready?

Perspectives on the Indian retail industry





Executive summary

PwC and India Retail Forum are pleased to present our report titled 'Are you Profitability Ready?' that traces key trends and challenges influencing profitability for Indian retailers. Over the last two months, we met with senior management leaders from online as well as brick-and-mortar retail organisations operating across categories such as fashion and apparel, grocery, food services, electronics, furniture and furnishings, and multi-category players. This report identifies and investigates the findings from these discussions to understand how Indian retailers are gearing themselves to drive profitable growth in the digital age.

The retail industry is indeed becoming more complex and is changing at an ever-increasing speed. Factors like shifting demographics, growing disposable income, increasing digital penetration and acceptance, competitive intensity, demand for customisation, onset of the goods and services tax (GST), and the war for talent, require the industry to quickly adjust and modify existing models, approaches and processes to satisfy the needs of future consumers in order to be profitable.

As the report reveals, more than 39% of players rated profitability as their foremost objective, followed closely by expansion into new geographies (28%). The objectives are also driven significantly by access to capital, which ensures that independent retailers, conglomerates, and huge investor-backed companies, exhibit a different appetite to buy their way into growth.

However, the drive for profitability has not taken companies down the path of mindless cost cutting. In fact, more than 65% of retailers are focussing on improving profitability through improvement in revenue throughput. The need to sharpen the overall value proposition is at the top of the retailers' revenue agenda, and is a clear sign of the disruptive environment. Over 39% of retailers from our survey rate an enhanced value proposition agenda higher than better management of promotions or pricing.

On the cost front, the quality and cost of real estate continues to be part of every discussion. However, retailers feel they will need to focus on manpower. As the role of the store changes to become more experience driven, the growing consumerist attitude continues to mature to fulfill the promise of online retail; manpower cost management has emerged as a focus area for 36% of retailers, followed by a desire to ensure better supply chain cost management with the impending implementation of GST.

Based on our discussions and interactions with clients, we have identified six key themes that can unlock profitable growth for retailers:

- **Constantly strive to understand your consumers:** The battleground has extended beyond the 'point of sale' to the 'point of discussion'
- **Define your value proposition and ensure it stays relevant:** Drive your exclusivity
- **Make the experience seamless, fast and efficient across your channels:** Work in collaboration with suppliers
- **Drive decisions through continuous analytics:** Increase responsiveness and speed to meet local needs
- **Accelerate investments in new technology:** Keep it focussed and make it work hard

Protect your customer, image and brand in the digital world: Build a clear risk strategy and hold yourself to standards higher than those demanded currently

Anurag Mathur

Leader, Retail and Consumer
PwC India



Indian retail industry in a dynamic and exciting phase

The Indian retail industry has experienced high growth over the last decade, with a noticeable shift towards organised retailing formats. The industry is moving towards a modern concept of retailing. From a small penetration level of about 2-3% in 2005-06, organised retail today has a penetration of about 8-10%. Many factors are driving this growth.

A strong and growing economy presents numerous opportunities for organised retail players.

Almost 10 million people are migrating to urban areas each year in search of employment and opportunities. A country with a USD 2 trillion economy, India will soon be home to the largest and youngest workforce in the world. In spite of some slowdown in GDP growth over the last couple of years, a strong basic economy and a population of 1.2 billion provide enormous opportunities for the growth of domestic and international companies in organised retailing. Although India largely remains an agricultural economy, growth of the services industry will continue to create a class of consumers who have higher spending levels.

Retail spend in India is likely to increase by a CAGR of about 12.4% over the next four to five years.

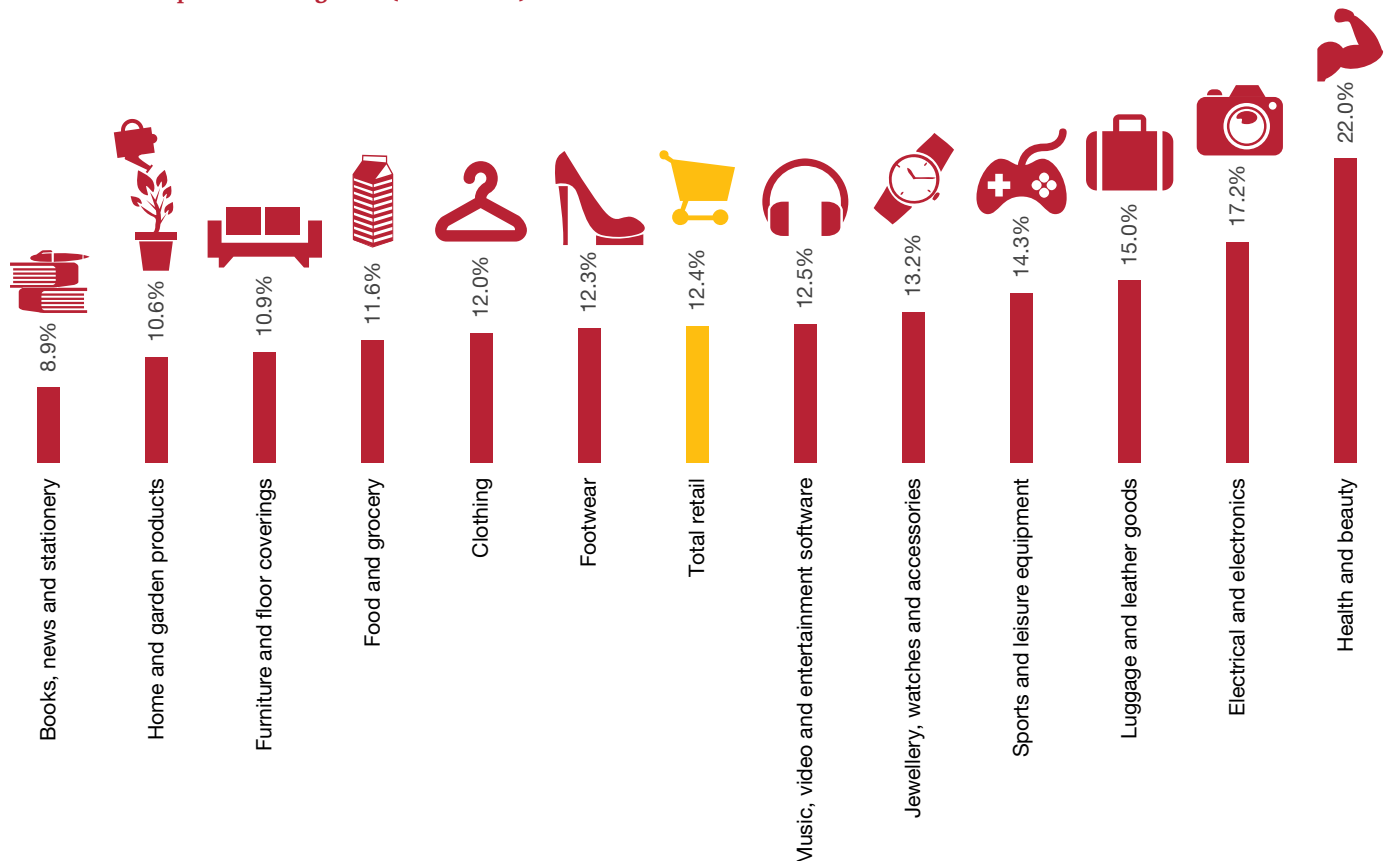
Total retail spend is forecast to reach 63 trillion INR by 2019, nearly double that in 2014. According to Conlumino research, food and grocery, electrical and electronics and clothing which account for the top three categories according to consumer spending, will continue to be major product categories

Fundamentals of Indian retail	
Current market size	600 billion USD
CAGR for next 5 years	12.5%
Unorganised retail	~12-14 million <i>kirana</i> stores
Organised retail penetration	~8-10%
Online retail	~0.6%
Retail density	~6-8%
Contribution to GDP	~14-15%

Source: PwC research

contributing to retail sales in 2019, thereby also offering retailers the biggest opportunities to expand. In the future, categories like health and beauty, electrical and electronics, and luggage and leather goods is likely to witness faster growth rates than traditional categories like food and grocery, and book, news and stationery. This can be attributed to the rising aspirations of young Indian consumers and their strong interest in self-grooming and being trendy.

Growth rate of product categories (2014-2019)



Source: Conlumino, PwC research

The smartphone revolution in India has empowered consumers and opened up alternative retail channels.

Along with consumers, retail shopping is also turning smarter as the smartphone revolution in India has given more power to consumers. Overall affordability has significantly increased the penetration of smartphones. The ability to shop on the go, growing availability of various apps to shop and overall convenience offered to consumers seem to be the primary factors driving retail sales through this channel.

Given the growth in organised retail in the last ten years, rising pressure on pricing, increasing consumer preference for online shopping and continued structural challenges for cost efficiency, we set out to understand the focus of retail businesses over the next few years.

Penetration



13%

of the population uses smartphones in the country. This is just the beginning.



Entertainment



91%

of smartphone users search for products via their smartphones.



Search



95%

of users have searched the internet locally using their smartphones.



Retail



54%

of smartphone users made purchases using their smartphones.



Key trends catalysing change among retail businesses

Trend#1: Consumer buying behaviour is evolving faster than before; buyers expect not only a frictionless but also a real experience.

Today's consumer is socially empowered, tech-savvy, information rich and time starved. The resulting level of disruption driven by this generation of consumers is unprecedented. Their ability to influence fellow consumers and companies alike is magnified well beyond that of previous generations.

As a result, these consumers expect the world to be at their fingertips, at a place and time of their convenience. They don't go shopping—they are shopping 24X7. Further, they want an authentic shopping experience that is customised to their needs. Four mindset megatrends will have far-reaching implications for the retail industry over the next five years.

1. Interconnected: Interconnectivity will become a part of life. Consumers will expect to connect to anyone, at any time, about anything and from anywhere.

2. In control: With interconnectivity as a base assumption, consumers will also become more adept at controlling the ways in which they interact. Control will take three forms:

- **Clout control:** Consumers will find that strength lies in association, and this can empower them to drive change. Crowd clout will help consumers demand the products they want, via the shopping experience they want, from companies that do business in the ways they want.
- **Context control:** Tools and technologies that enable time shifting and place shifting will increasingly allow consumers to capture information, communicate and conduct transactions regardless of time or place.
- **Contacts control:** Consumers are also gaining more control of whom they let into their interconnected 'world'. They are increasing their use of filtering mechanisms to create a 'closed loop society', where connectivity is limited to the contacts they allow in. Such filtering mechanisms today include spam filters, permission-based marketing, cell phone as primary phone, caller ID and sites where consumers can 'reject' unwanted contacts.

3. Indulgent: Over the next few years, consumer indulgence will be focussed on as the 'next new thing' and the 'next best thing'. Interconnected shoppers will have the tools to easily discover, find, filter and try the next new thing—at ever more affordable prices—and then quickly move on.

4. Individualised: Shoppers will gravitate towards products and experiences that offer individual focus, interaction and involvement in the entire value chain process. They will desire products and experiences they perceive as meeting their unique needs.

Trend#2: Competitive intensity is on the rise like never before; the growth of well-funded e-commerce companies coupled with hyper-local regional players can lead to consolidation in store footprints for many retailers.

The rise in e-commerce is forcing traditional brick-and-mortar retailers to rethink their store formats and numbers. At present, e-commerce is confined to the metro-dwelling, web-savvy, computer-and smartphone-using professional class. It is the same class that is also being served by big corporate-run stores. Right now, this retail segment, more than small shopkeepers, faces a threat from e-commerce. Sales per sq ft for big Indian retail stores has been declining due to this competition. The decline is particularly noticeable in segments like music, electronics, books and apparel. For the past three years, many big retailers have cut down on their new store openings as a result of competition from e-commerce. Planet M, the prominent music retailer, actually closed 100 stores between 2011 and 2013.

The key factor driving up the competitive intensity is pricing and the growth of well-funded large-scale e-commerce players who have successfully leveraged discounting as a mainstream business model. From being a much-anticipated annual event, discounting and sales have become a way of life. As a result, price has emerged as the biggest differentiator driving consumers to shop online or in-store. The other factor to watch out for is the rise in hyper-local regional players, offering highly specific and local products to a set of targeted customers. By doing so, they are hitting at the core of many a small multi brand retailer.

Trend#3: Birth of the 'experience' store will set new benchmarks in overall customer and brand experience

In the PwC India report titled 'Total Retail 2015: Retailers and the Age of Disruption', we discussed how the physical store will evolve into a sleeker, more customised and less transactional model. While the purchase journey is still centered on the physical store, the practice of omnichannel retailing has helped transcend physical boundaries for both the customer and the retailer. Over a relatively short period of time, Indian customers seem to have comfortably embraced multichannel shopping. This change has also come about as a result of the smartphone revolution in the country.

Physical stores have metamorphosed into experience stores and are trying to enhance customers' experience of buying in-store. So while e-commerce portals are luring a significant percentage of the demographic, physical stores too attract their fair share of customers. This two-pronged approach to entice customers, who are becoming channel-agnostic, has been working well for some retailers in India. For instance, Nilkamal sells its furniture through its retail outlets—@Home and also has an online presence on all the leading websites in addition to its own web portal.

While an online presence has resulted in increased sales, @Home's brick-and-mortar model still witnesses good footfalls. Despite attractive deals from online retailers, customers enjoy walking into our stores and experiencing good old-fashioned customer service during their purchase journey.

**Manish Parekh, Executive Director
Nilkamal Limited**

For some retailers, such a hybrid model has helped them scale up in terms of growth and also reach out to a wider target group. Online jewellery retailers in particular have found that physical stores have helped build customers' trust in the brand. The 'try and buy' concept has always proven to be successful.

With experience stores becoming popular, retailers are definitely setting new standards in customer service and brand experience.

Trend#4: Indians are learning to look beyond products and are ready to invest in services

One of the key drivers in the growth of online retail is going to be the onset of 'services' which will bring in a whole new arena of business that was not perceived as retail into the purview of this business.

When Best Buy launched "Geek squad" it was a pioneer in building a billion dollar service business as a retailer. Today players like Thumbtack, Urban Clap or QyK are changing perceptions on service retail.

Services associated with the product such as installation, insurance, extended warranty, annual maintenance contract (AMC), etc. did not qualify as key differentiators, now Indian consumers are looking beyond the product and are expecting organisations to understand their needs and offer end to end solutions.

Trend#5: Curation, localisation, and reimagining the overall value proposition of products is needed for retailers to woo customers

The retail industry is facing an explosion of creativity and retailers are pulling out all the stops to woo their customers. Brands like Chumbak, Happily Unmarried and India Circus have carved a niche for themselves with their quirky design-themed lifestyle products. Retailers like Forever 21 and Zara, also considered as pioneers in fast fashion, have seen meteoric success with their unique 'fresh off the ramp' style and youthful appeal. Similarly, gourmet food retailers and several fashion and apparel retailers have gathered their most loyal followers on the basis of their specially-curated collections. Apparel and fashion retailers are increasingly launching collections which have been

handpicked by youth icons and fashion designers at affordable prices. Recently, a popular restaurant aggregator application added a list of restaurants curated by popular celebrity chef George Calombaris to their 'collection'.

Product exclusivity, which has traditionally been a forte of luxury retailers, has caught on as a marketing strategy across categories and price ranges. Food and beverage products, electronics, and the fashion and apparel segment saw several exclusive product launches through their online channel as a strategy to attract maximum consumers in the past year. Retailers are becoming extremely conscious of maintaining exclusivity in their product portfolios.

It has become vital to ensure long-term brand affinity not just through innovation in product design but also through innovation throughout the purchase journey. Retailers are striving to gain visibility among consumers right from the point of discussion. Location and micro-location based marketing strategies are fast gaining prominence in India. Today, all popular social media platforms allow users to 'check-in' and make their locations known, making it easier for advertisers to push for more customised promotions towards targeted consumers. On the other hand, fan pages of retailers on social media sites that have contributed greatly in spreading awareness about the latest launches and collections, will now have a 'buy' button to facilitate the transition from product discovery to purchase.

Not only has it become easier to settle complaints and grievances but also social media fan pages and conversations involving brands have steadily contributed to the on-going marketing efforts by retailers. Testing a new advertising concept or even revising brand positioning has never been easier. Amazon, for instance, is crowdsourcing ideas to generate original content for its video services. The retailer lets aspiring screenwriters and filmmakers upload scripts to its website. Additionally, it also posts ideas for films or TV series in the form of comics to invite reviews and feedback from its customer base.

Such differentiated service offerings will help retailers create brand-defining experiences, thus driving more sustainable growth. Interestingly, start-ups which have been springing up in the retail space in the country recently have this concept etched in their psyches. They seem to be causing disruptions in the most fundamental way possible—through innovation in product design.

Trend#6: Supply chain management will see a fair amount of shake-up; goods and services tax (GST) and collaborations across the supply chain will define what it takes to reach the consumer

The three key value propositions of price, assortment and service offered by online stores are changing the reasons to shop at a traditional brick-and-mortar store. The traditional supply chains are simply not set up to handle this demand for variety, speed and convenience. Although many online retailers are able to

promise a wider assortment of products and faster deliveries at highly discounted prices, most of them are still grappling with building lean processes to create a resilient and responsive supply chain that is cost-effective.

Retailers will have to redesign their networks and move closer to the consumer to meet this demand while ensuring cross-channel coordination. Traditional supply chains optimised for a single channel cannot simply be extended to include another sale channel. Legacy issues and baggage will result in poor cross-channel coordination across channel-specific inventory pools and fulfilment processes, causing higher stock-outs in any given channel, especially during high-demand months.

Far from a 'business as usual' scenario, multichannel will soon be the dominant form of retail. The growth of third party logistics companies, which were initially developed as in-house functions of e-commerce businesses, will emerge as key resources in this regard. Further, hyper-local collaborations with neighbourhood stores to set up pick up points will ease last mile concerns.

The big disruption that is going to impact the way retailers manage supply chains in India is the introduction of GST. It will be the most significant tax reforms to be rolled out in India and is set to transform the way retailers do business in this country. Broadly, it is anticipated that GST will replace our current complex central and state indirect taxes to create a seamless indirect tax at three levels—central, state, and integrated GST. Implications of GST extend beyond tax and will impact every aspect of business from front-line operations to the back office. Supply chains that have been designed to minimise the incidence of tax will have to be re-engineered on first principles of demand and supply clusters instead of tax exemptions. With the roll-out of GST, India will soon be a single cohesive market where retailers will be able to avail credits of their sales and purchases across the country.

GST is going to alter the way retailers have traditionally viewed supply chains in India—a set of 29 different markets. A unified view of the supply chain for India as a whole is going to change

flow paths, transport lanes, and distribution routes to the consumer. This is a big opportunity for redeveloping the supply chain network and identifying the cheapest and fastest ways of fulfilling consumer demand. This transition is going to be an inflection point for many retailers and will be the deciding factor of who ultimately wins the game.

Trend#7: Managing risks will become critical, giving rise to tougher security standards

Fraud can be a pressing challenge for the retail industry, with the potential to impact finances, erode customer trust and impact brand value. Retail companies tend to have several third-party touchpoints such as vendors/suppliers, transporters, manufacturers/subcontractors, packers, stockists, distributors, or other service providers, that can significantly increase the risk of collusive frauds that are difficult to detect.

Furthermore, with e-commerce emerging as a new distribution channel for consumer product companies, the supply chain has become a source of new fraud risks such as counterfeiting. For instance, protection of the brand from unauthorised online sale by third-party sellers, who may sell branded products at highly-discounted prices, usually obtained through leaks in the supply chain.

Online companies might be the first ones to hire chief risk officers (CROs), given their vast reliance on thousands of suppliers to uphold their brand, and volumes of sensitive consumer data being shared with them. Security measures are likely to evolve and get tougher. The Companies Act, 2013, has amplified the roles and responsibilities of the board of directors to fight fraud, including accountability for fraud. Recently, there has been increased emphasis on fraud and integration with operational audits, mandates for companies, and statutory auditors to report fraud incidents to the government, and stringent punishments and penalties imposed for any non-compliance.



Trend#8: Store skills will improve; investments in training will increase to create retail employees of the future

With the concept of retail in India changing from a product focussed to a consumer-focussed industry, people management will play a critical role. Retailers will therefore take renewed and focussed approaches to engage and train their store employees.

With a dearth of skills in the Indian retail industry, in specialised areas like merchandising, inventory management and supply chain management, investments in training programmes to create the retail employees of the future will rise. Training will be seen as a key element for sustained performance on the store front—both in driving sales and for process adherence. Retailers will have a mix of online and classroom programmes, consisting of soft skills, grooming and product training.

Another factor to consider in this regard is ensuring consistency of training to ensure consistency of execution and consumer experience at the store level. Retailers admit that it is a big challenge to handhold and integrate employees across geographies. Technology will therefore be used extensively to deliver standardised training programmes and integrate far-flung stores with web-based programmes; a cost effective-way to address this issue. With consumers at the centre of all internal and external transactions, retention of key employees will be recognised by the industry as being important for sustained store growth.

Trend#9: New high streets will emerge and with extensive data available, including shopping patterns of the ‘underserved’, newer physical stores will come up in Tier II cities to cater to their requirements better

We have seen the steady rise of Tier II and tier III cities as new hubs for retail consumption. E-commerce players now have tangible data which proves that regions beyond metros have been driving sales comparable to traditional consumption centers. The increasing sale of smartphones and the consequent increase in Internet user base has led to the emergence of small towns as e-commerce hubs, while physical retailers continue to face challenges like high real estate costs, labour, sourcing and supply chain management, along with the conditions applicable for multi-brand and single-brand retail trading in India. Retailers who were interviewed as part of our survey also vouched for the growing demand from Tier II and Tier III cities and omnichannel assistance to overcome any infrastructural inefficiency. The increasing demand will lead to higher confidence among retailers to invest in real estate in these cities. Omnichannel to cover maximum pin codes will still be the norm, the opening of experience stores will also catch on thereby giving rise to new high streets in cities like Indore, Chandigarh and Surat.



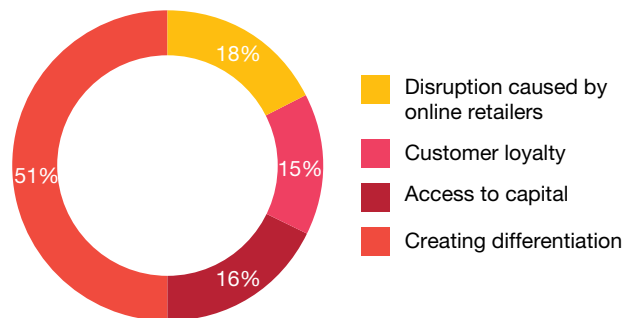
Challenges for retail profitability

PwC India's Retail and Consumer practice conducted a survey to understand what retailers are doing to drive profitable growth. The survey asked retailers what they were doing differently to win in today's times, with regard to the overall value proposition and efficiency across the value chain. Some of the top findings of the survey are listed below:

1. Creating differentiation is the top issue retailers face today

Creating differentiation in the value proposition has proven to be a game changer, while at the same time, factors like disruption caused by online retailing, access to capital, customer loyalty, and increased competition in the market continue to plague retail businesses. Fifty-one per cent of retailers interviewed agreed that creating differentiation is a major concern for them. Given the onslaught of 'discount' based business models, differentiation through other means such as product, service, brand, etc., becomes a critical imperative for retailers focussed on a profitable growth as opposed to only top-line growth.

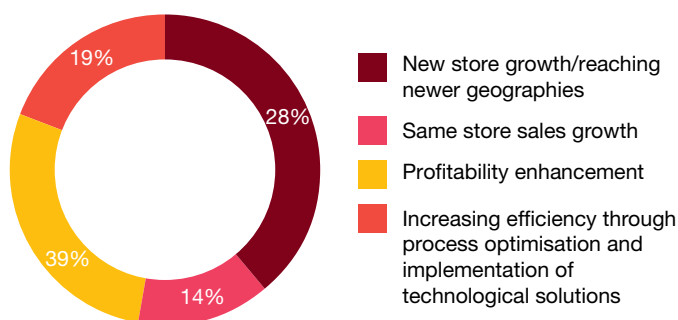
Issues facing retailers today



2. Profitability is the foremost objective, followed closely by expansion into new geographies

Our survey further showed that while retailers continue to harbour ambitions of entering newer regional markets, enhancing profitability and increasing efficiency through process optimisation and through integration of technological solutions have emerged as top priorities. Retailers across categories, have announced plans of opening new stores in otherwise untapped markets in the country for this fiscal year.

Priority areas for retail businesses over the next three to five years

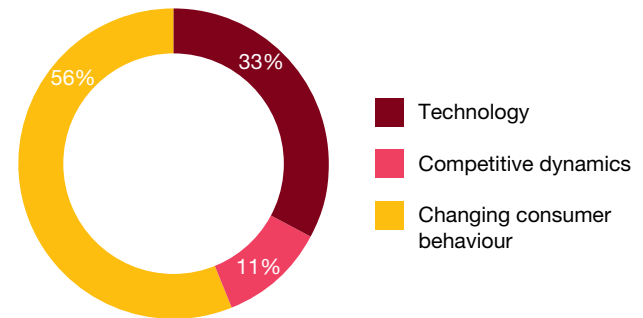


3. Changing consumer behaviour is the single biggest driver of changes in retail models across categories

Half of our survey respondents admitted that they have considered changes in their business operating models over the past couple of years. The evolving customer behaviour, a result of disruptive technological changes and the megatrends mindset, has made retailers reconsider their operating models.

As rightly pointed out by the PwC report titled 'Retailing 2015: New Frontiers', we anticipate that retailers will define themselves by the customers they serve, rather than by the products they sell. Retailers will grow by positioning themselves not only as more than just purveyors of 'stuff' but also as one-stop purveyors of lifestyles or need states. Customers' shopping habits today are increasingly being driven by experiences rather than by the product itself. Services which are hyper-personalised to serve even daily needs of customers have gained prominence.

Factors responsible for driving changes in retail operating models



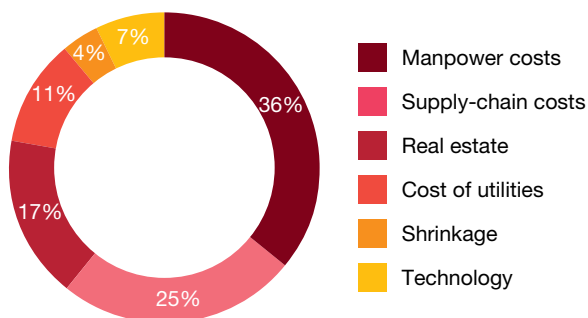
4. Indian consumers still shop less than their global counterparts; the average ticket size in India is smaller across categories

Today, with the increasing acceptance given to online shopping and social media, the trend towards impulse shopping is more apparent than before. Consumers are not only spending more time browsing through the limitless range of products but are also initiating social media conversations, which are indirectly driving the marketing efforts of e-tailers.

One of the retailers interviewed during our survey said that Indian consumers are now willing to spend more on higher-quality products. At the same time, their average ticket size still remains low compared to western markets. Frugality and value consciousness is firmly-rooted in the Indian psyche, and Indian e-commerce companies have offered discount shopping to this extent. Furthermore, although the concept of fast fashion is catching up in India, majority of consumers still have a utilitarian perception about shopping, and hence impulse shopping is still not such a common phenomenon.

5. Supply chain in India is still underdeveloped, but is still a core competency even if it's outsourced

Focus areas for managing costs



Supply chain management emerged as the second biggest concern, with 25% of the retailers interviewed still considering it as a cost to be managed

Supply chain is the backbone of successful retail operations and is a critical element of a retailer's mission to get the right amount of products on the shelves in a cost-effective manner. Some of the retailers manage their supply chain in-house while others outsource secondary distribution (warehouse to store) to specialised third-party logistics (3PL) service providers. Irrespective of the model deployed, supply chain is a core competency for any successful retailer and can make or break the business.

Parameters	Indian retail	Global retail
Logistics cost as a % of price	~ 10%	~ 5%
Inventory turns	3 to 14	18%, average
Stock-out %	5 to 15	Below 5%
Shrinkage %	2.2 to 2.7%	1.3%, average

Source: PwC research

In comparison to the rest of the world, Indian retail supply chain is underdeveloped and is one of the major obstacles in achieving profitable growth. PwC's 2015 Retail Profitability survey revealed that **almost 25%** of respondents considered supply chain costs and inefficiencies as a major deterrent to their profitability. Unlike global retailers like Walmart, which drives profitability based on supply chain allowances, the scenario is very different in India.

Due to heavy supply chain costs, most retailers do not invest in building their own supply chains. Also, with the associated infrastructure inefficiencies, losses due to shrinkages are assumed and accounted for in advance.

— Retail head of a major conglomerate in India

Another key area within supply chain that requires the attention of most Indian retailers is retail fraud and shrinkage management. While only about 4% of retailers interviewed see this as a focus area, they are well aware that shrinkage control is a must for sustainability in the future.

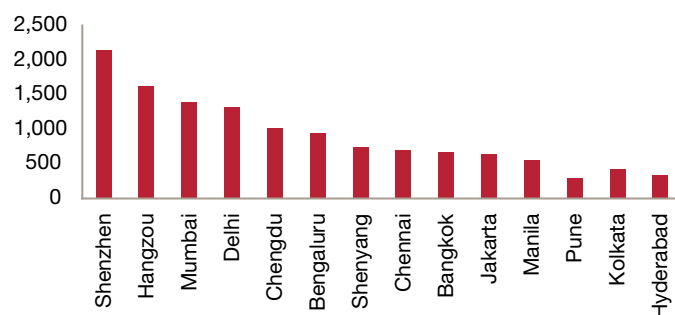
Supply chain issues affect not just brick-and-mortar retailers. E-commerce companies operating on the principle of 'no geographical boundaries' also require a robust supply chain, last-mile distribution network, and an established reverse logistics network.

A majority of our respondents admitted that developing omnichannel capabilities was high on their agenda. Such a unique set of logistics needs is not well-established and available in India at the moment. This is also the reason why we have seen many e-commerce players such as Flipkart establishing their own delivery network.

With time-to-market fast reducing and customer experience determining business objectives, there is a pressing need for organised retail to improve supply chain efficiency and productivity across channels. Supply chain needs to be part of the overall retail strategy. Focussed and smart investments, and appropriate IT solutions, will help in achieving long-term success in this area.

6. High lease rentals make retail in India a tough business to operate

Comparison of retail rentals (in USD/sq m/year)



Source: JLL, The Retail Index

Our survey revealed that almost a fifth of the retailers were concerned about high rental costs. High lease rentals are not only affecting existing players but are also impacting new players especially in the luxury retail segment.

In India, real estate costs account for 5 to 9% of the net revenue of the retailer as compared to 3 to 4% of global retailers. Availability of quality retail space at the right price has been holding the expansion plans of retailers. This has resulted in retailers moving out from prominent malls of Tier I cities.

Lack of quality mall space and the race between retail organisations and financial institutions for quality real estate has led to a skewed demand to supply ratio.

An analysis of retail rents across major cities of south-east Asia reveals that both Mumbai and Delhi rank quite high. The average retail rent across Mumbai and Delhi is around 1,360 USD per sq m per annum. In addition, even the average retail rent per sq m per annum across the seven major cities in India, which are considered as hubs for organised retail, exceed some of the major cities in regions such as Bangkok, Manila and Jakarta.

With such a scenario coupled with the increasing competition from e-commerce players who do not have the additional burden of real estate rentals, brick-and-mortar retailers will be compelled to rethink the roles of their stores in the coming years. Leadership teams need to go back to the drawing board and reconsider their planned future investments in conjunction with the strategy and aspirations, with an aim to optimise spends, thereby improving profitability. It is time individual stores are closely assessed for their respective profitability, and action is taken against those that do not make the cut.

7. Workforce management is a key challenge as it directly impacts store productivity and profitability

Workforce is the largest category of controllable non-product cost for retailers. Major retailers across the world have invested heavily in workforce planning softwares to ensure that appropriate hours are allotted to support planned sales. Among the retailers interviewed, more than a third agreed that given the changing consumer buying behaviours, workforce management has become a key challenge and will be one of their key focus areas going forward.

Looking into the future while keeping customer centricity as the focal point for profitable growth, the following are some key levers of workforce management in the retail sector:

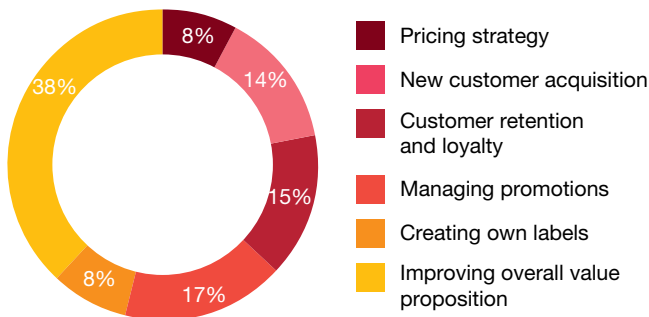
- **Creating a talent pool:** Retailers need to develop strategies in order to ensure talent availability for future expansion across semi-urban and rural geographies. HR leaders need to assess the demand and supply for talent taking into account the geography and by establishing mechanisms to enhance talent in the sector
- **Ensuring employee growth:** Staff training will play a key role in the development of employees. Some retailers already have taken the following steps and many are expected to follow:
 - Using outsourcing services to meet training requirements of employees
 - Developing infrastructure for conducting in-house trainings
 - Identifying new and creative ways of delivering training in real time to employees as operations expand across the country



- **Retaining employees:** As retailers expand operations across India, they will require resources to staff new outlets and offices as well as supervise operations. The retention of employees will therefore be critical and retailers need to actively start:
 - Developing structured recognition programmes (considered to be the best way of motivating employees and increasing loyalty)
 - Enhancing existing rewards and employee growth programmes to recognise talent
 - Implementing HR programmes and policies (education support, succession planning and career pathing) that demonstrate a long-term focus and commitment to building employee capabilities and careers

8. Improving value proposition as a key revenue enhancer

Focus areas for revenue enhancement



Customers' buying habits have undergone a drastic change due to round-the-year discounts across product categories. Consumers today have become wiser and ensure that they have researched all their options before shopping. Retailers however, do not view pricing strategies as a major cause for concern as only 14% of our respondents perceive it as a threat. In apparel and fashion, which is among the bestselling categories in online retail, premium brands have refrained from heavy discounting in order to maintain their overall image.

Maintaining exclusivity in the product portfolio and creating differentiation in the overall retail value proposition is seen as a bigger concern. Online pilot launches of products which have seen tremendous success in international markets, have instantly become major crowd-pullers in India. From an offline retailer's perspective, this has been a disturbing trend. A second launch in physical stores might or might not garner as much attention. Retailers therefore have to look at ways and means to package and price their products right. While analytics is being used by some Indian retailers to determine the prices across product categories, others are busy relooking at their product portfolios and localising their offers. It is time to gain insight into consumer patterns and curate retail offers that cannot be ignored.

Offline retailers, however, cannot deny the extensive reach of online mediums. With an increasing number of customers preferring to shop online instead of in-store, several brands are entering into exclusive distribution tie-ups with online retailers. In 2014, certain food and beverage products also saw exclusive pilot launches online. International fashion brands too are taking their first steps in the Indian market online. Exporting their merchandise to online retailers has helped them avoid dealing with India's complex regulations that tend to delay market entry. Besides, these brands end up saving on the costs of investing in real estate, among several other overheads.



So what does it take to be 'profitability-ready' in the digital age?

Some things about effective retail execution will never change: brand, product, price, and delivery. They are as important now as they've ever been. What is changing, though—and changing faster than ever—is the need to develop new technology, new processes, new skills for people, and a new organisational design. Retailers don't need a digital strategy anymore; they need a business strategy for a digital age, and a new business model. One thing is certain; no-one will make money in the future the way they made it in the past. Every aspect from the role of the store to the management of risk, individual roles, reward packages and responsibilities needs to be transformed.

At PwC, we have identified six pillars of profitable growth in the retail industry.

These are:



Constantly striving to understand your consumers

Put your consumers at the heart of all internal and external transactions and systems. As consumers vary by region, state, city and street, it is critical to understand local market dynamics and ensure that product assortments at the store level or on your e-commerce portal can meet their diverse needs. Creating localised products will help drive sales.

Many companies have now started appointing a chief customer officer while others are assigning the added responsibility of customer management to an existing C-Suite role, in some cases the CEOs. Customers no longer want to be kept on hold with a call centre employee or told that they need to get in touch with another function for whatever issue they want to raise. Retailers need to break down the internal silos that lead to that sort of negative customer experience.

They need to connect with their audience and hear what it has to say. Not too long ago, 7-Eleven taught us what it means to cater to consumer needs by making four assortment changes a day to remain relevant to the visiting consumer. In today's digital age, to be successful, retailers need to walk in the customers' shoes and connect better. It is no longer just about selling a product, but also about leveraging the power of social media listening, increasing brand visibility and being a part of the discussion.



Define your value proposition and ensure it stays relevant

Gone are the times of copying and pasting retail business models for your business operations. Retailers who design a value proposition that differentiates them from others are the only ones who will survive. Today's consumer is smart and values positive peer reviews instead of being swayed by fancy ad campaigns.

To develop a consumer-centric retail value proposition you need to harness the collective intelligence of your consumers and find out what they are saying about you, your products and stores, and online platforms. This will help you determine how to serve them better. The pace of change is faster than ever before and the balance of power has shifted from what the retailer wants to sell, to what the consumer wants to buy. For you to make your value proposition relevant, consumers need to be willing to share their personal experiences and information. This can only happen once they start trusting you.

Innovation is another significant driver of growth. Innovative ideas will add to the definition of your value proposition. Quality, though very important, cannot be the sole focus of businesses anymore. They need to start diversifying to add more product ranges and create better user experience.

New ways to gauge what your customers are thinking and doing in order to customise their experience need to be sought and implemented. The fact that today's customer is willing to give feedback bodes in the retailer's favour as long as the latter makes sure that due action is taken.



#3

Make the experience seamless, fast and efficient across your channels

Retailers need to merge the experience of shopping online and in-store so that each touchpoint is consistent, cumulative, and compelling. In a wireless world, retailers need to leverage digital connectivity as the bridge between the online and offline parts of their business.

Retailers, however, have to answer pertinent questions concerning the role of their stores going forward. These answers will further dictate all decisions from how much stock the physical stores need to have to where they need to be located. At the back end, Indian retailers need to focus on mastering the supply chain in order to drive competitive advantage. This again is a function of many important factors such as:

- Efficient and integrated VMI programmes to minimise the problems of stock-outs and excess inventory
- A well-defined and integrated sales and operations planning process
- Driving efficiencies through multi-modal transportation networks
- Investment in the training and development of staff in vendor management, inventory management, merchandising, supply chain management, warehouse management, CRM and store management
- Utilising technology to accurately manage the flow of information across the retail value chain

In this age where all products and services are a click away, shorter time to market becomes a critical success factor. Retailers and suppliers will need to use predictive tools to stay ahead of the curve and identify as well as act on trends early.



#4

Driving decisions through continuous analytics

Ever since Tesco started to mine information captured by its club cards in 1991, data analysis has been the not-so-secret weapon of the big supermarkets.

PwC India's recent report 'Retailing in the Digital Era' discusses analytics practices for retailers across three different categories—marketing, supply chain management and customer experience. Knowing who your customers are, what they want, and how and where they want it leads to better and faster decision-making across the whole retail value chain. Stock is managed more efficiently, and the most (and least) popular lines are identified in real-time; the supply chain is streamlined better, innovation is faster and nimbler, and marketing as well as merchandising are more effective. For instance, at one point, Amazon estimated that as much as 30% of its turnover was coming from sales prompted by its 'you might also like' feature.

Retailers, however, need to bear in mind that analytics is not a 'one-time process'. It needs to constantly evolve with the changing consumer preferences and deliver upon your continuously changing strategies.

#5

Accelerate investments in new technology

The retail sector has to realise that the only way they can gain an edge over their competition is by accelerating investment in digital technology. They need to be bold and take risks, and ensure that they have sufficient back-up to recover from a potential failure. While the life cycle of new technologies is reducing year-on-year, it does not mean that the return-on-investment (ROI) has to reduce as well. Direct communication with customers is more effective than blanket marketing, so over time, money spent on the first should save money on the second.

Cloud-based technology is nowhere as expensive as conventional data centres and considerably reduces the upfront risk. However, Indian retailers need to find and train people who can use these new-age technologies and apply them to solve problems and address challenges.

#6

Protect your customer, image and brand in the digital world

The digital world represents a whole new set of risks across various dimensions—people, processes and public perception. With your customer, image and brand at stake, the recent hacking of Sony Pictures Entertainment just proved how vulnerable businesses are in today's digital world.

Social media, for instance, has become increasingly important for the brand. Retailers will need to have clear and robust policies around what their staff can and cannot post on social media, whether in the company's name or in their own individual capacity while being associated with the company.

An increasing number of organisations from HMV to Associated Press (AP) have had their Twitter accounts hacked. Such breach of security can be potentially disastrous. For instance, a fake tweet from AP claiming that the US President had been injured in explosion at the White House, caused panic on Wall Street. Such hacking doesn't just pose a reputational risk but a financial and governance one and needs to be assessed, managed and monitored at the board level, along with all those other hazards that can bring your business down.



Conclusion

Through this report, we have attempted to outline the issues that can potentially impact retailers and their operations over the next four to five years. Success will likely be shaped by several factors weaved together in a flexible, scalable, and agile model. The winning retailers will have a superior understanding of their consumer. They will take into account income, demographic fragmentation as well as behaviours, and will have the inert ability to analyse shopper data and extract valuable information. They will leverage technological shifts to their advantage and turn business intelligence and data into actionable insight for the growth and benefit of the business. They will integrate these insights into a demand chain that is consumer-centric rather than product-centric. They will also effectively address the challenges to their economic models and accordingly adapt their store formats, supply chain employment models, and overall ROI. Apart from this, they will also build a true omnichannel operation that allows customers to approach the retailer through any channel of their preference on a 24X7 basis. By embracing these success factors, retailers as well as suppliers can productively manage the complexity and diversity of retailing in 2020.

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About our Retail and Consumer Practice

Our India Retail and Consumer practice has been working with the Fortune 500 companies, helping them enhance value. Developing the market entry strategy for global companies, location assessment based on the target audience, streamlining the supply chain and distribution system, deploying IT strategy, linking customer data using analytics, managing the inventory and ensuring customer delight are among the gamut of services we offer our clients to help them in their journey to success.

Our clients in the R&C goods sector operate in different formats ranging from supermarket chains to food and beverage manufacturers and from luxury goods retailers to consumer packaged goods manufacturers, and agribusiness companies.

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