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Resilience in the FMCG & Retail Sector

September 2021

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Foreword Deloitte



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The COVID-19 pandemic continues to affect the Indian economy across sectors, including FMCG and retail. What was envisaged as a temporary shutdown for a few months in 2019, has continued to extend to the second and possibly third waves globally and in India. Each wave brings its own set of challenges for sectors as they face massive disruptions across the value chain − ranging from manufacturing and logistics, to distribution and retail due to sporadic/ad hoc and continuous lockdowns. We have also seen major changes in consumers' behaviour as they continued to study and work from home for long periods. As FMCG companies and retailers continue to adapt to the 'new normal', they are developing alternate routes to market, building new business models (including Direct to Consumer/D2C), increasing their online presence while preserving their offline stores and footprint, expanding their rurban and rural coverage, etc. They have had to embrace technology and digitisation to make their businesses more agile to minimise disruptions in the future. With the shopper journeys becoming non-linear, enabled by technology and connectivity, companies have had to learn to proactively respond to consumers' new shopping habits. With high streets and malls reopening and footfalls returning, FMCG companies and retailers will need to adapt their marketing plans to the evolved shopper journey. They need to create a seamless shopping and consumer experience for their customers, and put consumers/ shoppers in the centre of everything they do.

The Deloitte−FICCI report "**RESILIENCE IN THE FMCG AND RETAIL SECTOR**" looks at how FMCG and retail companies have rapidly adapted to the "new normal" by displaying resilience and their desire to succeed and realigned their businesses and business priorities to enhance consumer and shopper experience. They have accomplished this by building a flexible distribution network, accelerating the adoption of the omni-channel strategies across brands, continuously improving and digitising the supply chain, and focusing on sustainable business practices to operate efficiently and thrive in a new business landscape.

Foreword FICCI



Dilip Chenoy
Secretary General
FICCI

Amidst the pandemic, the Indian economy has emerged as a vibrant economy and contributed immensely to global development. The country has evolved as one of the most attractive investment destinations with its expanding middle class, rapid industrialisation, and a shift in the demographic pattern. In our economy, sectors such as retail, Fast Moving Consumer Goods (FMCG), and e–commerce are consumer centric and can be the significant accelerators of the economy soon as consumer confidence enhances. The government is also framing policies and putting in place regulations to assist in mitigating the pandemic's impact. While India is one of the world's fastest-growing economy and has immense potential, it needs to promote participation and involvement of businesses to enhance the cause of nation-building and achieve the goals of inclusive growth and empowerment of the people.

The COVID-19 outbreak made it evident how each and every economy is vulnerable to disruptions in this VUCA* world. As the vaccination campaign progresses and restrictions ease, businesses move from the "respond" phase to the "recovery" phase. They must incorporate various strategies to their model with a special emphasis on digital infrastructure. In line with this view, the theme for Massmerize 2021 is **RESILIENCE**.

FICCI Massmerize is a C-level exclusive dialogue between the government and the retail, FMCG, and e-commerce sectors to discuss regulatory issues, and macro-economic and consumer trends. With the underlying theme of **''RESILIENCE,''** the FICCI−Deloitte report focuses on analysing the FMCG, retail, and e-commerce industries to explore innovative strategies assisting industries to be resilient.

We hope that the insights shared in this report will help identify new opportunities across areas such as supply chains, innovative retail business models, sustainability, workforce management, and leveraging technology to improve performance in various sectors, which will encourage improved performance in various sectors.

* Volatility, uncertainty, complexity and ambiguity

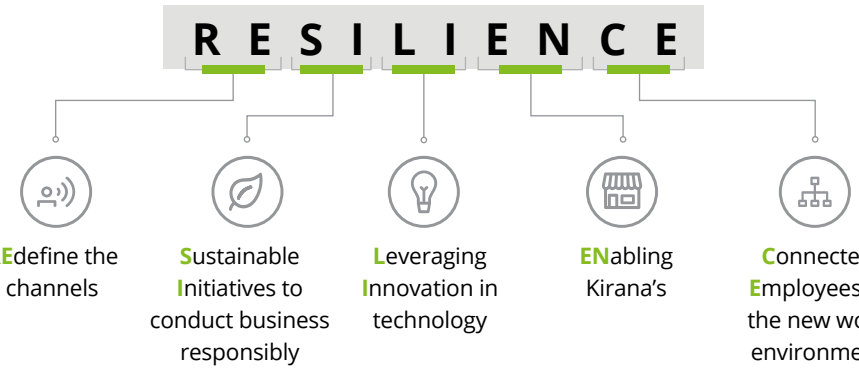
Executive summary



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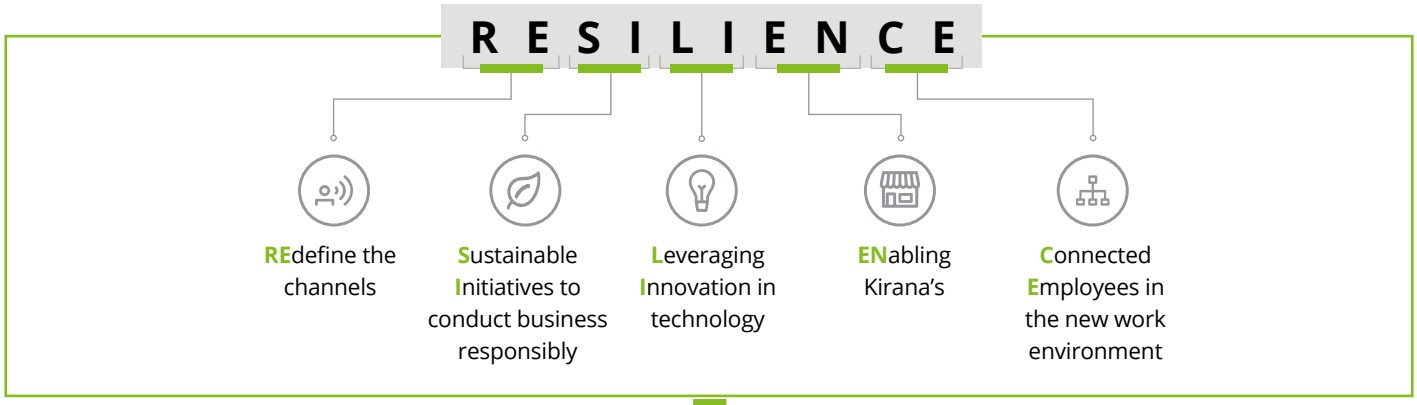
The two waves of the pandemic have rapidly evolved and transformed the way businesses and the industry operate, the way we operate as businesses, and overall, as an industry. Companies and brands across sectors, including FMCG and retail, have been affected in every aspect of the business. The crisis has also given us an opportunity to adapt to changing realities and meet consumer needs with unprecedented agility. The FMCG sector is well-positioned to rise to the challenge. In the past 18 months, technology adoption took place at a breakneck pace across the entire value chain; this would have taken several years in a pre-pandemic world. Companies have accelerated innovation across every business aspect – product development and marketing, manufacturing, retail, or strengthening the organisational culture in the new normal.

Although the outlook for the FMCG sector remains positive in the long term, challenges remain in the near term. The most competitive advantage that will help businesses chart their course through uncertainty, and the fast-evolving **consumer and retail landscape will be RESILIENCE**. Resilience needs to be built into every aspect of the business rather than bolted on as an additional muscle. It needs to be built into the manufacturing process, daily operations, retail and logistic channels, consumer insights, and communication. It should also be a part of the way we recruit, train, and develop people. This will enable businesses to withstand short-term challenges and continue creating value for consumers and the economy. This year's Deloitte–FICCI report has the key theme as RESILIENCE:



As consumers and brands continue to be more "KONNECTED" through technology and the internet/e-commerce ecosystem, brands must realise that today the consumer LEADS the conversation (moving from B2C to C2B). They need to cater to consumers' needs in their product and service offerings. As a result, brands must EVOLVE and REBOOT their business models to succeed. The FMCG and retail sector has shown resilience and rapidly adapted to the new normal. With the right support and interventions, the sector will play a decisive role in fuelling India's economic growth and making a resilient comeback.

RESILIENCE for FY '21 and beyond



COVID-19 brought several challenges and created fresh opportunities for trade channels in India. As a result, FMCG companies were forced to redefine their go-to-market strategies to create a digital ecosystem spanning across channels to reach end-consumers. Riding on the growth of online channels, FMCG companies are exploring their D2C operations and expanding their social commerce.

The FMCG and retail industries exhibited strong **"RESILIENCE"** to overcome the challenges posed by the first and second waves. As a result, 2021, so far, has been the year of turnaround and innovation. Since the beginning of this year, companies have been using technology to re-engineer their business models to find a way around frequent lockdowns and closures, movement restrictions, and consumption shift from offline to online.

The crisis forced companies to significantly revamp their digital programmes and transition to the future of work, with work from home becoming the new normal. As a result, many organisations are redesigning work, and exploring newer workplace and workforce models. The hybrid workplace model (physical and remote) is gaining traction. Many organisations are gradually embracing a model where the office could be used as a collaboration zone rather than a pure workplace.

The global pandemic has also pushed the FMCG sector to adopt sustainable initiatives across the value chain. With the fast-evolving attitude of millennials, companies will need to focus more on sustainable practices in their businesses, including responsible sourcing and sustainable production and packaging, end-to end visibility, integration, agility, and optimisation. The global disruption has also forced organisations to adopt agile planning and forecasting as well as accelerate smart manufacturing initiatives, digital transformation, and procurement to stay competitive in the future.

COVID-19 also pushed the adoption of digital technology, enabling kirana stores/neighbourhood mom-and-pop shops to adopt technology to expand their businesses. More kirana stores are going online providing app-based ordering and last mile delivery; offering a variety of payment options; and automating their bookkeeping, invoicing, and inventory management processes. The future of retail comprises digitally connected stores with customer data integration, real-time inventory management, mobile POS, and store operations.

Each chapter of the report looks at current major trends in the Indian retail and FMCG sector from an Indian perspective. The chapters further highlight some best practices through case studies. We believe that the content and information provided in the report will be beneficial for stakeholders — consumers, shoppers, companies/corporates/industries, the government, and the academia.


SMART
RETAIL

Redefine the channels

In India, the FMCG sector has grown on the back of diverse channels, such as general trade (GT) (kirana shops, mom-and-pop stores, etc.), modern trade (regional and national chains), and online channels (Direct-to-consumer platforms/aggregators). The COVID-19 crisis brought with it numerous challenges and opportunities not only for FMCG companies and retailers, but also for trade channels. Although the impact varies by channel, the channels have continued to co-exist, serving as different customer touchpoints. Many of them are trying to bounce back as markets open up. While urban India continues to be the most significant contributor to overall FMCG sector revenue, rural India's contribution to the sector has grown rapidly during the pandemic due to increased spending power, large population migration from urban to rural India, and rising consumer aspirations.

Towards the later stages of the pandemic, significant growth has been seen in shopping through online/e-commerce channels, driven by frequent lockdowns of offline stores, movement restrictions, overall trends of nuclear families, rising inclination for consumption from millennials, preference for premium products amongst higher-income groups, etc. Faster delivery by online channels and multiple modes of payment have also fuelled the exponential growth of e-commerce. Riding on this online shopping trend, major FMCG companies built their online presence through platforms and their D2C websites. Online presence will not only improve their availability, but also provide a differentiated customer experience and educate customers on their brand products and usage.

India is witnessing rapid changes in consumption and a shift in attitude amongst customers. Online shopping trends seem to have shifted from "buy it if you need it" to "I will buy it to try it and then decide". This shift in consumer behaviour has led to changes in FMCG companies' portfolios. In addition, technology-backed innovations, such as demand anticipating algorithms, fast order fulfilment through the digitised supply chain, and digitised operations, are enhancing the efficiency of online channels.

FMCG channels in the past

- GT (kirana, grocery, mom-and-pop, and paan shops) dominated the retail space.
- FDI investments made a space for big-box 'organised' retailers, cash-and-carry players, and e-commerce giants to enter the market.
- FMCG companies relied on channel partners and distributors to reach the targeted audience.
- There has been a rise in Modern Trade (MT), especially in metros, and tier 1 and 2 cities.
- GT remained the lifeline of distribution.
- Chemists/pharmacy channels were expanding faster and becoming relevant to the FMCG sector.

Channels of the future

- Growth in evolved mom-and-pop stores (called evolved GT) will be fuelled by technology adoption, digitisation, and urbanisation.
- MT, both B2B and B2C, is expected to grow rapidly in urban areas.

- B2B marketplaces (cash and carry chains) wil target kirana shops.
- B2C online retail will be prominent in metros/tier1 and 2 cities. Category specialists/start-ups will continue to target niche segments.
- E-commerce will continue to grow faster in some categories, such as cosmetics, baby care, and wellness.
- GT is expected to lose market share; transition from GT to evolved GT will continue.
- The emergence of omni-channel distribution will merge all channels for the consumer.
- New models – O2O, social commerce, subscription services, EBOs, etc., will have a sizable share of the retail pie.

Emerging trends in channels



In the retail pie, GT share is expected to shrink but remain the dominant channel.

Retail outlets are expected to evolve into modern outlets with the help of technology and newer models.

Urbanisation and urban consumers will fuel growth of modern formats of retail, including online channels.

B2B modern trade channel will gain momentum and has the potential to disrupt traditional distributor-led channel.

New models within e-commerce O2O,D2C,e-B2B,C2C, and social commerce are emerging.

GT

Kiranas play a significant role in the Indian retail sector and contribute almost 80 percent to the total retail, 11 percent to GDP, and 8 percent to its total workforce[1]. They have seen a strong rebound during the pandemic, as most kiranas selling essentials were allowed to operate throughout the lockdowns. Most FMCG companies worked hard to adapt their manufacturing and distribution to make products available at kiranas to ensure that consumers could buy essentials. B2B distribution aggregators/companies are changing how kiranas were serviced in the past. They are competing with FMCG distribution to reach kiranas. Using **eB2B, companies connect with manufacturers directly** and procure products with the aim of managing inventory more efficiently. These companies also have access to a broader category of products to offer to kiranas in rurban/rural markets. Small rurban/rural retailers using the digital ecosystem have led to a rise in the number of eB2B start-ups; one such start-up became a unicorn in just two years, showing the tremendous demand potential in rural markets and new distribution models.

[1] https://www.investindia.gov.in/team-india-blogs/modernization-kirana-stores-india

The eB2B space focuses on the mass market, which is price-sensitive and demands local products for faster availability and convenience of payments. Companies in the eB2B space also provide logistics and lending capabilities with delivery covering more than 900 cities and thousands of pin codes. Their apps also help gather **direct feedback from retail stores** to provide deeper insights into customer behaviour. These channels assist stores in improving margins, profitability, and inventory management, facilitating wider assortment, and providing delivery, logistics, and local/regional consumer promotion services. Kirana stores are also **adopting digital payments mediums,** such as PhonePe, Paytm, and credit cards, where earlier a majority of their operations were in cash.

MT

MT, which accounts for about 12-15 percent of the total retail, was directly and severely affected by COVID-19. The pandemic led to a major drop in footfalls as many high streets and malls were closed for long periods. However, the situation is slowly improving as consumers have started visiting stores/outlets after a reduction in infection cases and deaths (following the government's vaccination drive). Even today, MT and e-commerce are considered key growth channels for the future. Last year, e-commerce growth far outpaced other channels. As India's middle class expands, leading to increased consumption and spending capacity, both channels are expected to continue to grow. With three main competing channels, brands need a differentiated portfolio strategy specifically designed for each channel. Some retailers have even started accepting orders on calls and delivering goods on the curbside/ parking lot; sometimes, consumers walk into the store for pick up only, reducing touchpoints. Technology adoption for improved visibility of inventory, automated backend systems, focused marketing interventions, in-store sampling and merchandising, better product displays, and creating best-in-class customer experience (driven by analytics) are some of the factors driving modern trade.

Online channels

E-commerce, which accounted for only 3-4 percent of the total retail in early 2020, has seen the maximum growth over the past 18 months. The new-age customer expects brands to "know me, engage me, hear me, empower me, and delight me". With rapid digitisation driven by the growth of internet and smartphones, the increased association of tech in everyday lives has made online media and retail omni-present. New-age consumers engage with online channels throughout their shopper journey – ranging from discovering products, making buying decisions, and sharing it with others, to making payment, and thereby driving repeat purchases. Heavy media spend, deep discounting, wide assortment and range, prompt delivery and returns, and ease of payments, along with **sentiment analysis** of consumers through social listening (to see if a brand product has a positive, negative, or neutral impression on the consumer), have become a growth driver for e-commerce.

Voice-enabled search has become a major growth area for e-commerce businesses, driven by the launch of cloud-based voice services, such as Alexa, Siri, etc. In addition, devices provide regional language options to enable consumers to search and order products. E-commerce channels also include voice search optimisation in their marketing strategy to further improve the search and provide better options. Powered with Machine Learning (ML) and Artificial Intelligence (AI), these devices can capture shopping behaviour and habits, and provide shopper insights to brands. E-commerce is driving personalisation, tailored experiences for users, and relevant recommendations for consumers, based on the data they capture and advance analytics. These are some of the factors driving higher conversion rates online.

User-generated, content-based marketing: **A product's positive reviews** can nudge a customer to try a product from a different brand. This is the new trust-based, peer-to-peer recommendation enabling conversions on online platforms. A robust pricing and marketing strategy, along with many positive reviews based on user experiences, can push customers to buy a product.

Influencer marketing - With people staying home longer and affinity with social media increasing, influencers (usually celebrities or well-known personalities who endorse products online for brands) are a force to reckon with in this new digital age. Influencers have a stronger connection with their subscriber base usually following them on social media. Companies engage local and international celebrities to garner more extensive market awareness with their consumers. They also engage regional influencers to drive conversions in various parts of the country. Many brands have reaped the benefits of influencer marketing. This is likely to become the single-largest medium to reach end-consumers, as many celebrities have millions of followers, "following" every move they make and every product they use.

Another emerging online shopping medium is **social commerce**, which uses social media websites, such as Facebook, Instagram, and Twitter, as a medium to promote and sell products. The reach is measured through likes, shares, and retweets. It is still a small emerging market in India. However in countries such as China, one of the messaging and social media app is commonly used for online shopping; the company's market value rose to more than US$65 billion in early 2021.

Retail landscape: India (Outlook)

GT	GT(E*)	MT B2B	MT B2C	Online	Others
Old kirana	Old kirana	Cash and carry	Supermarkets	Vertical specialists	Experience centre
Mom n pop	Mom n pop-e	Marketplace	Hypermarkets	Aggregators	EBOs
Pan plus	Kiosks	Discount stores	Department stores	Brand site/ apps	Used goods
Chemist	Drug stores		Speciality stores	Social commerce	Pop-up stores
Wholesaler	Convenience stores		Drug stores	C2C	Vending machines/ e-stores
			Warehouse stores	Subscription	
				O2O	

Conversion · De-Growth · Sustain · Avg Growth · High Growth

Source: Deloitte analysis

Rural markets helped FMCG businesses stay resilient during and post-crisis

India has more than 650,000 villages, with 60 percent of the population residing in these villages[2]. Many government schemes and private sector-led initiatives have helped increase consumption in rural India over the past decade. For the past 18 months, the growth in urban centres has been slow due to economic lockdowns, etc. However, rural areas where GT acts as a critical touchpoint for consumers, the FMCG sector's growth has been strong, driven by large migration from the urban to rural areas and major government financial and development schemes (to support rural markets, infrastructure development, etc). In addition, rural consumers' consumption habits are also changing as they move away from unbranded, unpacked products to branded, packaged products, driven by higher income and awareness. The rural market's growth has increased the size of the pie for FMCG businesses. FMCG companies now need to enhance their rural distribution footprint to provide better assortment and range, to keep consumers engaged with new product segments. While urban centres suffered during the lockdowns, the rural areas have continued to grow for the sector.

A consumer goods company scaled up its rural distribution network through a programme many years ago – this involved building micro-entrepreneurs for distributing their products to households. At present, the company has ~1.4 lakh micro-entrepreneurs spread across 18 states. Many FMCG companies have now successfully emulated this model. Another consumer goods company currently has a rural distribution network spanning 60,000 villages and aims to increase to 80,000 in two years. Adding products (such as ayurvedic items) to the portfolio attuned to rural consumers' demands and expectations has further propelled the sector's growth.

Challenges for companies to grow online

While FMCG companies find it easier to start a Direct-to-Consumer (D2C) model, the initiative is fraught with many challenges. These challenges range from customer acquisition and retention, order fulfilment, payments, and returns. The increased cost of advertising, leading to limited visibility from social campaigns on reach and conversion, along with high cost of last mile deliveries (as a percentage of bill value), makes the proposition of the D2C channel less lucrative for FMCG companies. Building a differentiated value proposition has become key for D2C models.

Gaining customer loyalty is becoming difficult due to increased noise and spend on online channels. In addition, with many channels distributing brands, channel conflicts are becoming a major bottleneck. To avoid channel conflicts, many brands need to change their strategies and offer exclusive/differentiated products, further increasing operating expenses. In addition, there is margin pressure as more retailers compete in the marketplace. E-commerce margins are slim, and shipping and warehousing costs are higher due to last mile delivery and a high rate of product returns.

Many FMCG companies face challenges such as a fragmented view of customer journey, lack of inventory planning, frequent shutdowns, changing consumer behaviours, etc., which hamper their growth. Organisations need to pivot towards data-driven, decision-making and digitised businesses to develop a single view of customers and inventory to facilitate frictionless order placement and superior customer experience. The single view of customer/inventory provides better visibility to the FMCG company to optimise forecasting and planning. Omni-channel has become a necessity for survival. Precise planning from customer needs and investments in technology will bring the omnichannel strategy to reality and help realise the scale for businesses.

Omnichannel – The future of retail

Companies are creating a digital customer ecosystem through connected stores comprising demand generation, capturing, and fulfillment. To meet rising customer expectations, companies need a holistic approach that involves creating an ecosystem experience (instead of building different experiences through the mobile, website, and social media) using every touchpoint together as part of an omnichannel strategy.

[2] https://www.ibef.org/industry/indian-rural-market



Sustainable initiatives to conduct business responsibly

"Sustainability is not a luxury or to be used as a marketing tool; with the heightened consumer awareness around the concept, sustainability is becoming a business imperative."

Understanding the green recovery for the FMCG sector

The global pandemic has had an impact on lives, livelihoods, and economies. With more than 221 million confirmed cases and over 4.5 million deaths worldwide (per the World Health Organisation, September 2021), the pandemic's impact in terms of job losses and economic recession at the national and global levels has been significant. Asian Development Bank (ADB) estimates that the global economy could incur losses between US$5.8 trillion and US$8.8 trillion, equivalent to 6.4– 9.7 percent of global GDP. However, the pandemic has accelerated structural change in the FMCG sector that includes a shift in channel strategy towards e-commerce and focus on health and well-being. These changes exposing problem areas in the supply chain.

The FMCG sector is the fourth-largest GDP contributor to the Indian economy, with an estimated GDP contribution of 20 percent[3]. With the sector's growth, consumer awareness around products and the inherent impact on the environment has become a point of concern. Consumers with better paying power have already started transitioning to sustainable products and/or making responsible product choices.

The global pandemic has triggered a level playing platform for several sectors. Revival plans have been conceptualised considering sustainability across the product value chain. Companies not only address how they present and package their products but also focus on what material they use in their products. To meet consumer demand, more FMCG companies offer compostable, recyclable, and reusable packaging. Additionally, the use of vegan ingredients is on the rise in food as well as non-food items, such as cosmetics and cleaning products. For example, in the oral care segment, a brand has launched a certified vegan toothpaste.

"Sustainability is becoming the epicentre of FMCG business strategy. From innovation in the supply chain to energy efficiency in the distribution network, the sector will take more steps towards reducing environmental damage next year."

[3] https://www.ibef.org/industry/Fmcg-presentation

What are the consumers looking for?

Consumers are expecting their products to be made and distributed ethically with limited impact on the environment. They are also concerned about food waste and plastic packaging. They want to see consumer-facing companies exhibit sustainable practices in their businesses. For example, concerning themselves with human rights, limiting their carbon emissions, and reducing their use of non-renewable energy and water. The key drivers of sustainable consumption in India can be recognised as:

India may become the third-largest consumer economy by 2025 (consumption expenditure to increase three times to reach US$4 trillion)

Source: Retail Industry in India - Indian Retail Sector, Market (investindia.gov.in)



The major FMCG industry trends that address these changes involve sustainable solutions for product development and packaging, improving customer experience, and implementing digitalisation. The key changes in the consumer behaviour suggest the following asks from companies:

- **Sustainable Production:** In India, millennial population is increasing and the average age is expected to be 29 by 2025[4]. The country will add nearly 90 million new households headed by millennials, who were born into liberalised India.

These consumers have changed the expectation of any business they interact with. Millennials focus more on procuring sustainably grown and produced products globally.

The FMCG sector is being affected substantially and is rapidly evolving, pledging a move to more sustainable practices and investments. This trend is catching on with the Indian market as well. A recent research done by Stern Center for Sustainable Business showcases that products marketed as sustainable grew 5 .6 times faster than those that were not[5].

Leading the way

By 2020, 100 percent strategic suppliers of a consumer goods company will participate in its sustainability programme. The group has developed a two-pronged approach. It selects suppliers based on their environmental and social performance and provides them training tools. It is recognised as a leading company in fighting climate change. In the area of sustainable production, it is ahead of the target in its transformation towards a model, low-carbon enterprise.

[4] https://www.investindia.gov.in/sector/retail-e-commerce#:~:text=India%20will%20add%20nearly%2090,of%20600%20million%2B%20by%202025.
[5] https://sustainablebrands.com/read/business-case/sustainable-share-index-illustrates-roi-for-sustainably-marketed-products

Sensing the change in consumer behaviour, the FMCG sector has started taking steps towards more conscious decision-making. It is using lifecycle assessment and emission inventory as tools to rethink and redesign products. For example, another consumer goods company endorses its laundry detergent brand with campaigns promoting efficient water use. These products are said to use very less water in the formula and require less water to manufacture as well.

- **Sustainable Packaging:**
  In the FMCG market, sustainable packaging is moving from being purely cost driven, towards using a strategic resource management approach. In the past few years, the market for sustainable packaging in India was driven primarily by cost reduction. However, corporations are now placing more thought leadership into their sustainable packaging plans across the value chain. With India being on the brink of leapfrogging from a traditional retail economy to an e-commerce economy, packaging will become a key aspect in ensuring sustainability of the product. FMCG companies will have to increase the adoption of sustainable packaging, as it minimises the environmental footprint over a period. This can be achieved in the following ways:
  - Promoting the use of recycled raw materials for packaging
  - Ensuring an efficient production process to minimise the production process, supply chain, and carbon footprint
  - Enabling reusability by developing a circular economy related to packaging and extending packaging use. For example, a company manufacturing oral hygiene products in India has introduced recyclable toothpaste tubes. It is committed to transition from manufacturing toothpastes to recyclable tubes in the next few years.

Regulatory push towards sustainability

The Indian government is making efforts to ensure that packaging moves away from single-use plastic and becomes more sustainable in the future. It introduced extended producer responsibility to ensure that hazardous waste, including plastic and e-waste, is managed effectively and responsibly. It is the responsibility of the producer to collect and manage disposed-off goods. This has, in a way, laid new pressure on producers and packaging developers to reduce the environmental impact of packaging as well as comply with regulations while satisfying consumers. However, this has also brought to the surface the need for innovation to support the sustainable packaging aspirations of FMCG companies and retailers. While FMCG companies and retailers are making bold commitments to improve both the sustainability of their packaging and fundamentally rethinking their packaging systems, there is a long path for this group to tread in terms of sustainable packaging.

Key Example: A multinational food and drink processing conglomerate has committed that 100 percent of its packaging will be recyclable or reusable by 2025. It has made a number of global commitments, including the elimination of non-recyclable plastics. It is working towards achieving a waste-free future. In 2019, about 87 percent of its total packaging by weight and 66 percent of its total plastic packaging was recyclable or reusable.

Consumers' awareness about discarding packaging waste into oceans and landfills is pushing regulators and FMCG companies to adopt targets and make bold commitments to rethink packaging.

- **Ethical Procurement**
  In the past few years, with the adoption of SDGs, businesses are facing more pressure to prioritise ethical, sustainable, and socially conscious practices across their value chains. With the pandemic disrupting the entire supply chain, it has become more evident that the FMCG sector cannot flourish without being accountable for ethical sourcing.

In the future, companies need to consciously identify blind spots across the supply chain, ensure that the gaps are bridged, and finally communicate transparently and effectively with stakeholders. They need to recognise that ethically sourced products tend to ensure a more secure supply chain. Also, responsible sourcing is evolving as more organisations aim to balance profitable growth with sustainability.

What are the key aspects in the sector to look out for?

The FMCG sector's sustainability depends on the implementation of sound eco-friendly practices that minimise the negative impact on the environment, help conserve natural resources, and contribute effectively towards social needs.

- **Using AI for efficient growth**
  AI was deemed useful for a few sectors. However, as the technology is evolving, AI has found its applicability to more sectors, including FMCG. With the advancement in algorithms, FMCG businesses can easily analyse their production units and supply chains to identify inefficiencies such as security lapses, wastage, and quality inadequacies.
- **Data-driven changes**
  With the changing consumption behaviour and pattern, customer relationships are shifting to online platforms. The expansion in data availability and analysis has presented an opportunity to understand a consumer's needs. This has made it important for the sector to rethink how they can deliver products/ services tailored to individual needs and create an engaging customer journey.
- **Embrace the change:**
  The Indian consumer landscape is changing, with people now accessing global trends and becoming more aspirational. This leaves no room for the FMCG sector to remain complacent. It is becoming more important for companies to ensure that they stay in touch with the latest societal and technological developments and demonstrate a willingness to leapfrog from traditional business models to new digital approaches. This can be done by ensuring that employee base is representative of the diverse consumer base and well equipped to apply analytical skills to improve the products.

Leading the way

A multinational food and drink processing conglomerate's annual purchases of cocoa are more than 300,000 tonnes. The company only uses sustainably sourced cocoa from suppliers accredited by independent third parties to make its chocolate bars. The company's Cocoa Plan operates across three key pillars: better farming practices, better lives of employees and their communities and better-quality cocoa.

The shift to a more sustainable path makes the future of the FMCG sector exciting. The opportunities for commercial growth, sustainability monitoring, and operational efficiency need to be grasped and turned into an integral piece of the business model.





Leveraging Innovation in technology

Role of digitally connected operations in modern day consumer supply chains

Introduction

Consumer supply chain professionals have long focused on the "four Vs" (volatility, volume, velocity, and visibility) as they attempt to optimise total cost, service, quality, and support for innovation. A decades-long focus on supply chain optimisation to minimise costs, reduce inventories, and drive-up asset utilisation has removed buffers and flexibility to absorb delays and disruptions. However, COVID-19 led many operations to rethink their vulnerability to global shocks through their tiered supply chain network.

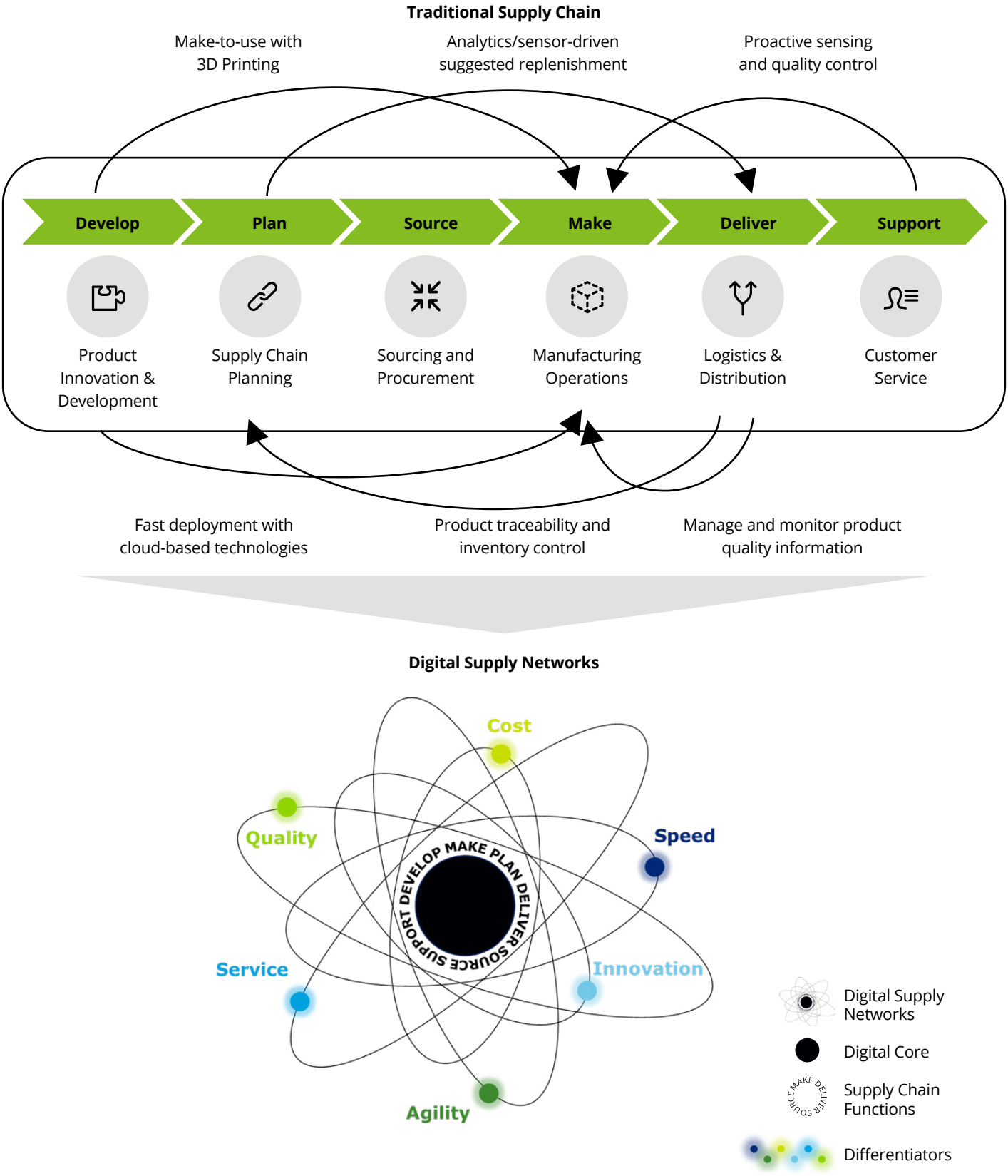
With supply chain resilience becoming the cornerstone in the post-COVID-19 response strategy, emerging business models (such as direct to consumer) in niche consumer products, and emergence of digital business models (such as pay-per-use) in consumer durables have come to the fore.

From an India perspective, traditional priorities are not likely to change. However, supply chain decision makers may achieve better performance, with supply chain capabilities developed in a non-linear environment. Fortunately, new supply chain technologies are emerging that can dramatically improve visibility across the end-to-end supply chain and support much more agility and resiliency (without the traditional "overheads" associated with risk management techniques).

The earlier view of a linear supply chain and optimising it for own business is transforming into Digital Supply Networks (DSNs). In DSNs, functional silos are broken down within the organisation and are connected to full supply network to enable end-to end visibility, collaboration, responsiveness, agility, and optimisation. These digital supply networks are being built and designed to anticipate disruptions and reconfigure themselves to mitigate their respective impacts. Early adopters and innovative companies are shifting to dynamic and integrated networks that deliver a continuous flow of products, services, information, and analytics for decision-making. Traditional organisations are evolving their supply chain functions to meet the increasingly volatile consumer preferences, while trying to stay ahead of the competition. While the level of emerging technology adoption and use cases are relatively low in India, it is only a matter of time before supply chains across industries would be reimagined, improved, and disrupted.



Figure: DSNs



Source: Deloitte analysis

The nuances of creating the DSN will vary from sector to sector and even company to company. The FMCG and retail industries would need to align DSN with their business strategy while considering risk management as an integral element of that design. The key will be to build a "resilient" supply chain that seeks to reduce risks and is prepared to quickly adjust and recover from any unanticipated supply chain disruptions that occur. When fully adopted, DSNs can cause a paradigm shift in the operational delivery for the FMCG/retail industry. Innovators and market leaders would strive to achieve operational digital congruence – configuration of the right capabilities in the right way within their operating models.

Agile planning and forecasting

In the current environment, agile planning and forecasting of fast-changing customer preferences and disruptions require a collaborative effort across multiple functions (often working remotely in a dynamic manner).

In the 'new normal' driven by the pandemic, demand does not necessarily drive the entire forecasting process. Availability of logistics, labour, or raw materials may be equally significant drivers. Forecasting is no more a calendar and workflow-driven exercise, but something driven by internal and external drivers that may be beyond an organisation's control. These require articulating different scenarios rapidly, identifying essential and at-risk suppliers, and building capability to model the projected financial impact. In line with these changes, organisations are revisiting their planning process, which have always been a demanding and challenging task independent of scale and scope. However, in the current age of information overflow and connected networks, these challenges have become even more daunting.



Some of the considerations for the phased journey of agile planning for the FMCG/ retail industry are summarised below:industry are summarised below:

Considerations for FMCG/ Retail	Maturity journey in agile planning	Point of Arrival
• Region/ State-specific demand characteristics • Balancing freshness vis-a-vis availability on shelf	Year | Quarter | Month | Week | Day | Shift | Hourly BU | Zones | States | Warehouse | Distributor | Retailer | Customer	• System driven uniform supply chain planning processes across the organization • Demand sensing and shaping leveraging structured and unstructured data sources. Improve forecast accuracy
• Multiple channels for sales – modern trade, retailers, Govt agencies, institutions • Changing consumer trends, impact of promotions, campaigns, seasonality	Manual Excel | Automation | Heuristics | Optimization | AI Digitization | Doing Digital | Being Digital	• Achieve the right balance between agility and stability in planning. Improved availability, OTIF, and margins • Build the base for doing advanced predictive analytics. Help drive corrective actions • Optimized inventory across the chain.
• Operation focus v/s planning focus : Frequent plan revisions to meet variability in demand and supply	Forecast | Push | Pull | Shape | Sense	• Informed decision-making process through scenario analysis for plan changes • Free up planners from operational activities, and help focus on strategic initiatives
• Manual/ offline modes of planning, and limited use of AI/ ML technologies	Capacity utilization | Market share | Net margin maximization	• Single source of truth for the organization

Source: Deloitte analysis

As companies start on this journey of shifting from traditional operating models to insight-driven and agile operating models, they need to focus on the following key areas:

- Keep the retail customer at the core: Typically, organisations focus on internal stakeholder requirements. They have monthly meetings and a sequential approach to supply and demand planning. In today's dynamic environment, this rigid structure is unable to accurately and timely respond to retail customer requirements. Hence, the operating model and planning processes would need to be relooked at with the retail customer at the core.
- Focus on collaboration: The operating models with focus on agility, allow for new areas of collaboration and innovation – hyper segmentation for personalised customer experience and targeting, collaborative distribution models, new product development using real-time customer feedback and upcoming megatrends, and extending planning processes and visibility to vendors.
- Single integrated platform: The platform should connect supply chain to finance and sales and marketing; use common data models, and be capable of real-time data capture (e.g., through IoT) and parallel processing. This would then help the organisation fully unleash the power of DSN.
- Scalable and customisable: As people work from home or remotely, real-time access to systems would be critical. Hence, there is need for stable and scalable platforms that allow concurrent logins without affecting performance and support with continuous monitoring of KPIs (through role-based dashboards).

Industry 4.0 and IoT

Ongoing disruption and economic hardship caused by the pandemic have increased the urgency for organisations to accelerate smart manufacturing initiatives to remain competitive in the future. Over the next five years, agility will be key to how manufacturers manage disruption. Investing in digital transformation across production and the supply network can help manufacturers respond to disruption and build resilience to help them thrive.

Several organisations leverage smart factory's components in areas such as advanced planning and scheduling using real-time production and inventory data, or augmented reality for maintenance. A smart factory is a more holistic endeavour, moving beyond the shop floor towards influencing the enterprise and broader ecosystem. It is a flexible system that can self-optimise performance across a broader network, self-adapt to and learn from new conditions in real or near-real time, and autonomously run entire production processes. Broadly, a smart factory has five key characteristics:

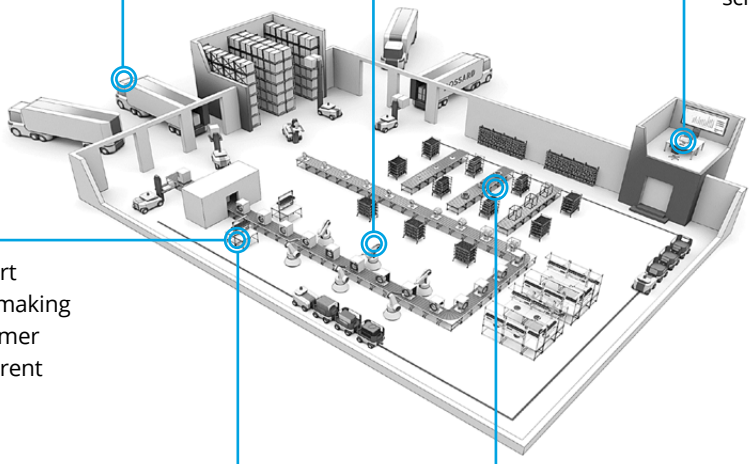
- Connected processes, materials, and equipment
- Optimised for minimal manual intervention and high reliability
- Transparent network to enable greater visibility across the facility
- Proactive approach for issue identification and troubleshooting
- Agile operations to self-configure equipment and material flows with staffing, schedule, and product changes

A smart factory's key characteristics are connectivity, optimisation, transparency, proactivity, and agility. These features can play a role in enabling more informed decisions and help organisations improve the production process. No two smart factories will look identical. Organisations can prioritise various areas and features most relevant to their specific needs.

Connected
Continuously pull traditional equipment datasets, new sensor and location-based datasets enabling collaboration with suppliers and customers

Optimized
Reliable, predictable production capacity planning and enhanced asset uptime modelling

Agile
Configurable factory layouts and equipment with flexible scheduling and changeovers



Transparent
Live metrics and tools to support timely and consistent decision making with real time linkages to customer demand forecasts, and transparent customer order tracking

Proactive
Real-time equipment monitoring with predictive anomaly identification and resolution capabilities

Secure
Holistic cyber management program that extends across the enterprise (IT and OT) to identify, protect, respond to, and recover from cyberattacks

...And Enables

Improved asset efficiency, OEE and reduced downtime via real time and predictive maintenance. Enabling friction less operations

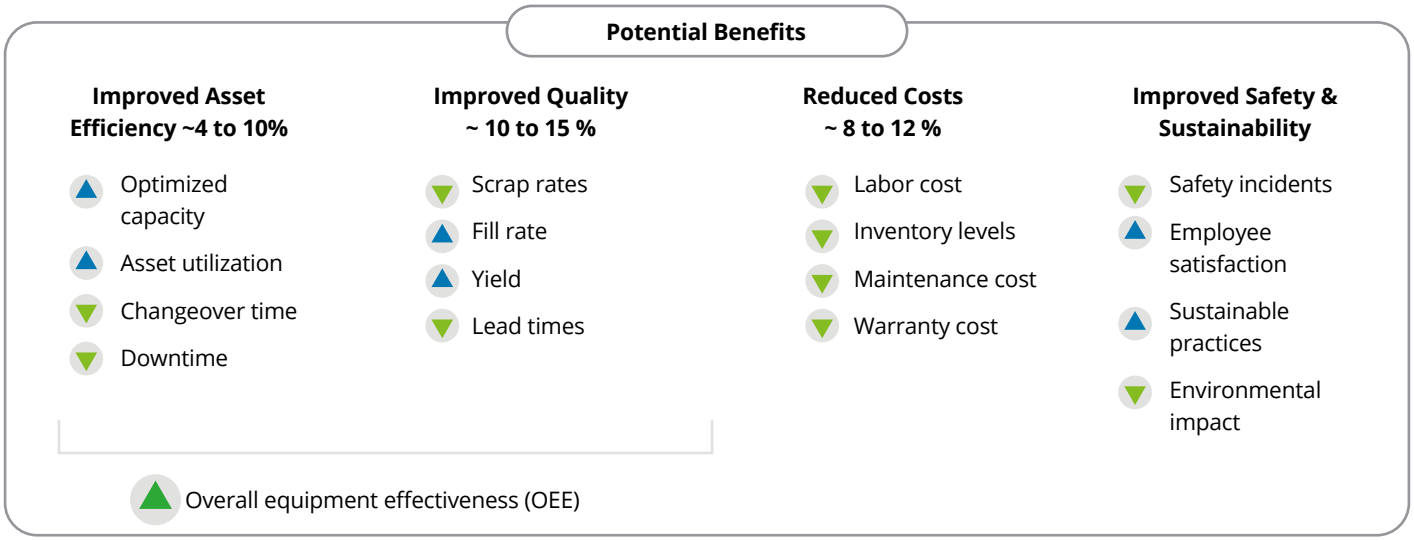
Cost efficient processes with improved quality compliance, safety, throughput and productivity

Accurate tracking of inventory from raw materials to customer delivery

Historical and real time reporting of production status, and analytics to pinpoint root causes of failures resulting in empowered workforce

Source: Deloitte article - https://www2.deloitte.com/us/en/insights/focus/industry-4-0/smart-factory-connected-manufacturing.html

Smart factory transformations, when done at the plant or enterprise level, create significant cost savings, improved product quality, and increased employee satisfaction.



Source: Deloitte article - https://www2.deloitte.com/us/en/insights/focus/industry-4-0/digital-lean-manufacturing.html

The following categories provide an overview of the main capabilities within a smart factory and address the most pressing factory challenges in India:

Factory Asset Intelligence / Performance Management
- Component Health Monitoring
- OEE Insights
- Plant Control Tower
- Production Tracking
- Recipe Optimization
- Setpoint Optimization

Quality Sensing & Detection
- Continuous Product Inspection
- Predictive Quality Analysis Tools
- Social Sensing and Advanced Detection

Smart Conveyance
- AGV Implementation
- E Kanban System

Smart Warehousing Solutions
- Automated Storage and Retrieval Systems (AS/RS)
- Warehouse Management System (WMS)

Plant Consumption & Energy Management
- Automated Energy Management Tools (Auto shutoff and reduced consumption, etc.)
- Energy Waste Alerts and Alarms

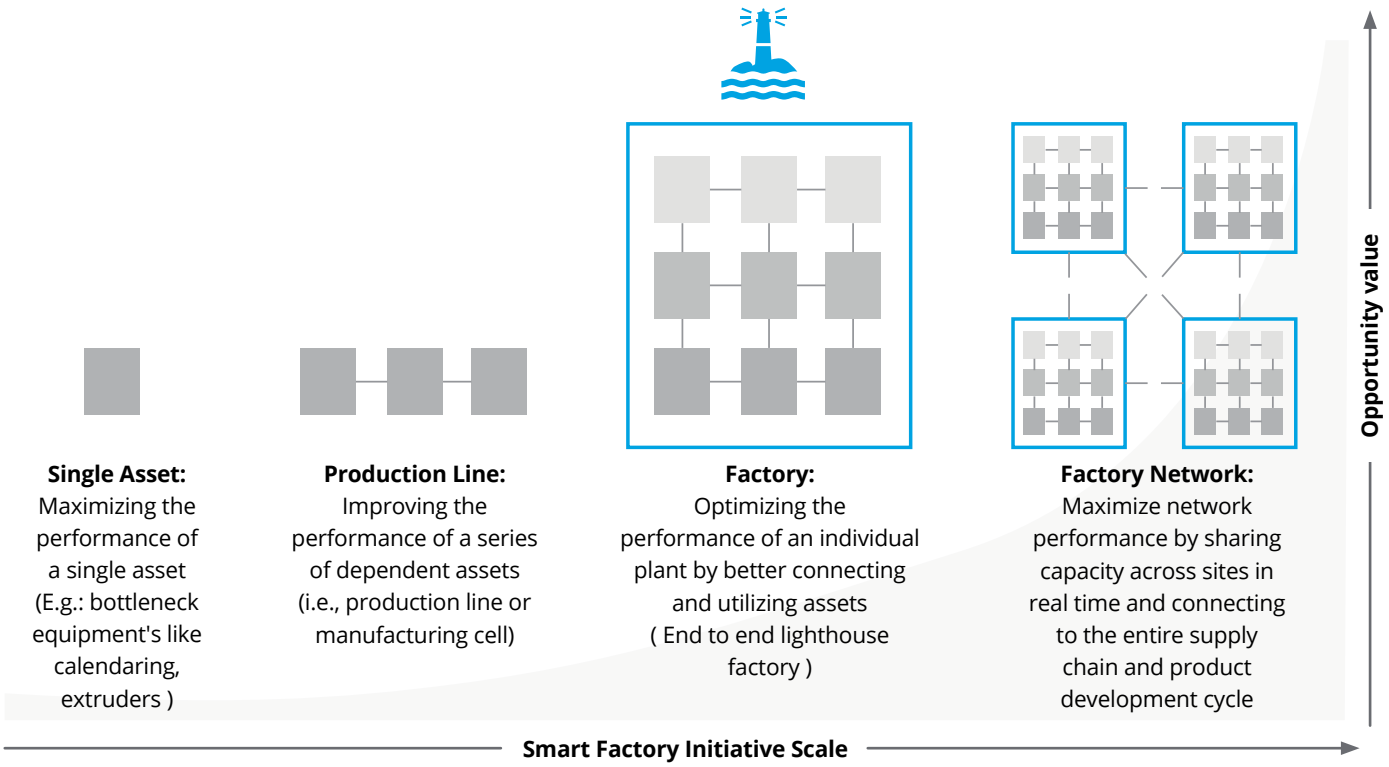
Augmented Workforce Efficiency & Safety
- Augmented Reality Training
- Augmented Reality Troubleshooting and Guidance
- Geo fencing / controlled access

Factory Synchronization & Dynamic Scheduling
- Material Traceability & Prediction
- Asset Location Tracking
- Dynamic Production Scheduling
- Demand Forecasting Insights

Engineering Collaboration / Digital Twin
- Equipment Health Monitoring
- Design Simulation
- Production Simulation
- Quality Prediction

Source: Deloitte report - https://www2.deloitte.com/content/dam/insights/us/articles/6276_2019-Deloitte-and-MAPI-Smart-Factory-Study/DI_2019-Deloitte-and-MAPI-Smart-Factory-Study.pdf

Organizations can get started down the path to a true Smart Factory at any level of their network – value creation can begin with and scale from a single asset.



Source: Deloitte article - https://www2.deloitte.com/us/en/insights/focus/industry-4-0/smart-factory-connected-manufacturing.html

Consumer business organisations are moving away from a single asset model, which may not be relevant for them. It is key to adopt a business impact approach, with focus on improving bottom line through smart factory initiatives. Understanding the company-specific situation will be key in determining the potential value at stake of a smart factory transformation.

The smart factory is an evolving solution — one that taps into multiple features, such as agility, connectedness, and transparency. It requires more than just a set of connected assets. Organisations would need a way to store, manage, make sense of, and act upon the data gathered. Moreover, companies would need the right talent to drive the journey and the right processes in place. Each smart factory journey would require transformation support across solution design, technology, and change management dimensions. Investing in a smart factory capability can enable organisations to differentiate themselves, and function more effectively and efficiently in a complex and rapidly shifting ecosystem.

Digital procurement

Digital procurement is the application of disruptive technologies that enhances the value delivered by the procurement function. The future of procurement and supply chain management in consumer businesses is primarily driven by rapid technological advancements.

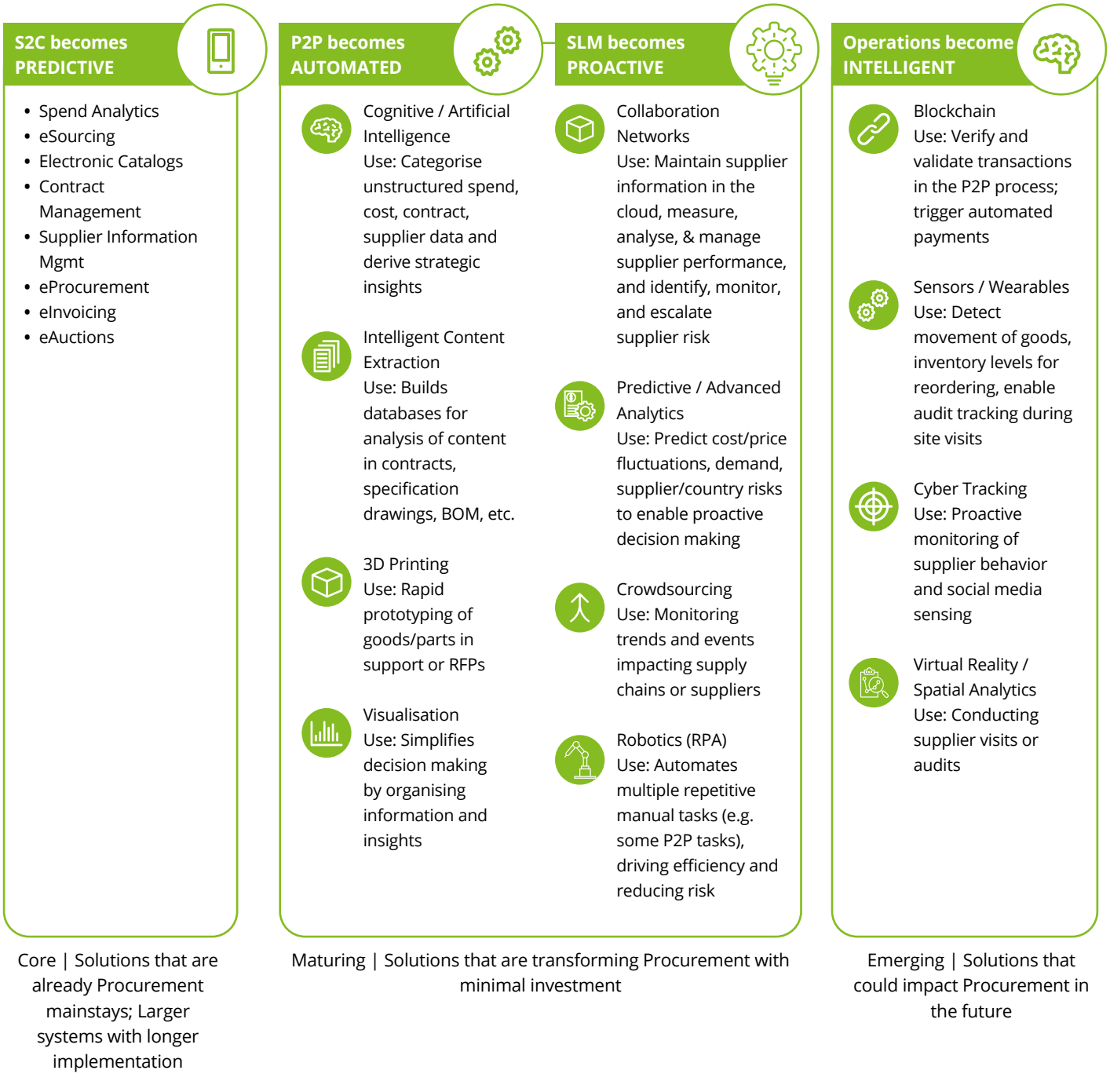
"Anticipative, proactive, intelligent" are the new norms of the next generation SCM function

Companies embark on a transformation journey to stay ahead of competition in this evolution

S2C becomes PREDICTIVE	P2P becomes AUTOMATED	SLM becomes PROACTIVE	Operations become INTELLIGENT
Supply base, prices, costs are all predicted empowering you to reach transparent agreements	Transactions are all automated, requiring minimal human intervention to address incongruity	Risk mitigation strategies are proactive, preemptive, allowing you to continuously optimize ops	Operational oversight is real-time enabling optimisation of inventory, and logistic costs
Anticipating and mitigating supply market opportunities & risks	**Enabling talent redeployment to strategic procurement**	**Managing suppliers proactively through connected digital assets**	**Driving intelligent procurement operations**
			
Imagine...	**Imagine...**	**Imagine...**	**Imagine...**
Managing spend in real-time	Automatically sensing material demand and requisitioning delivery	Monitoring risk in real-time	Monitoring logistics in real time
Predicting demand with AI	Eliminating repetitive processing	Leveraging collaboration platform	Proactively trigger inventory
Knowing total cost for commodities	Triggering payments in real-time	Performing supplier audits through crowd sourcing	Connect Employees and suppliers through social media platforms
Leveraging market intelligence for assessing sources of supply	Exchanging goods through decentralised ledgers	Monitoring sustainability via automatic reporting and visualisation	Monitoring slow/ non moving inventories

Source: Deloitte analysis

Technological changes taking place at an exponential pace will fundamentally affect every component of the procurement function. Organisations have to ensure that the core technologies engage with mature and emerging technologies to deliver value



Source: Deloitte analysis

Why is it important to digitise procurement?

Digital procurement solutions have enabled physical and digital inputs to be connected, thereby driving improved decision-making and efficiency. These solutions offer the following benefits:

- Improved insights and strategies, leading to accelerated cost leadership. Embracing digital technologies can enable companies save considerable amount of costs.
- Improved vendor collaboration for enhanced speed to market and easier innovation aligned to market dynamics, customer preferences, and competitor actions.
- Enhanced process excellence, leading to greater organisational efficiency and effectiveness. With technological advancements, different teams find it easier to work in sync. For example, collaboration with retailers has become more seamless. Increased collaboration and integration of data with retail stores in real time is gaining significance, as a means to sense and shape demand.
- While today's globalised sourcing and manufacturing processes are driving down costs, they have a high exposure to risk. Consumer electronics manufacturers and OEMs will need to invest in data integration, business intelligence capabilities, KPI tracking ability of suppliers, event tracking capabilities, etc., This will ensure that they are pro-active (rather than reactive) and swiftly respond to changes by improving risk mitigation.
- Companies are taking initiatives to augment simplicity and increase customer satisfaction. For example, providing upfront inventory information to the customer on the order placing platform itself would make the platform much more intuitive for the customer.
- With digital procurement, managing an enterprise-wide transformation can be executed effectively. Companies will be in a better position to react quickly to market trends and customer demands.

Key considerations to embark on digital procurement transformation

- **Procurement maturity –** A digital procurement strategy should take into account the current level of core technology maturity.

Core Technology Maturity			
If your Core Technology Strategy looks like...	**Minimalist** Little to no investment in core technology	**Typical** Moderate investment in core digital technologies	**Advanced** Significant investment in core technologies and early adopter of enhanced applications.
...Then your Maturing & Emerging Technologies need to	**Leapfrog** Take advantage of enhanced digital application to offset select core investments	**Plug Gaps** Invest in technologies that can complement your existing core	**Accelerate** Choose where you want to excel and differentiate
Maturing and Emerging solutions that will transform Procurement in the near future			

Source: https://www2.deloitte.com/content/dam/Deloitte/us/Documents/process-and-operations/us-cons-digital-procurement.pdf

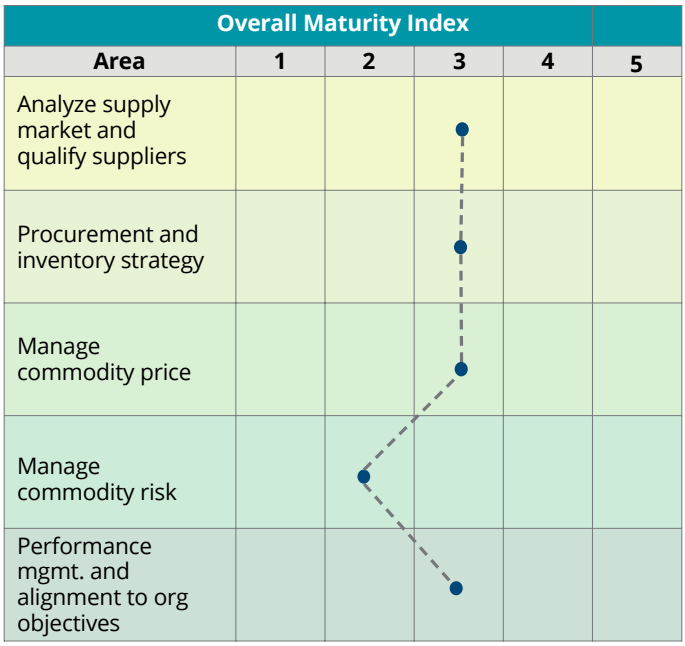
- **Digital strategy –** An organisation needs to have a well-defined business transformation strategy and execution plan before embarking on the digital transformation journey. Setting the strategy is critical and often the hardest part. Digital transformation projects require a different approach and thinking. Hence, a strong ecosystem of experts and technology partners are required to strategise, execute, and reshape the business processes using emerging technologies.
- **Choosing the right partner –** An organisation should choose a partner with an extensive technology consulting expertise and experience in digital transformations. They must have the capabilities to use a wide array of emerging technologies and technology-enabled services to act as a catalyst to the business transformation. The organisation must carefully examine their transformation stories, demos, and detailed discussions to assess if the company is a good fit.
- **Digital solutions -** The digital transformation partner the company chooses must thoroughly understand the business goals, existing processes, and the ideal technologies of digital transformation suited for streamlining business processes. The digital solution should be customisable, scalable, and flexible to meet the business requirements. It must enable faster time-to-market using advanced technological building blocks to expedite implementation.the implementation

Digital procurement in consumer context in India
Focus areas for FMCG and Retail

Prevalent practices in the current scenario

- Not much effort is spent on vendor development & performance management
- Heuristics-based inventory norms. Low adherence to the defined norms
- Broad understanding of pricing factors, do not use statistical modelling techniques
- Positions on physical inventory and derivatives are used for risk management.
- Buyers' performance measured by comparing their wt avg price against avg market price

Maturity index



Industry best practice

- Use digital tools for supplier identification, onboarding & performance measurement
- Prescriptive recommendations provided by tools are leveraged to manage inventory
- Codify intelligence into advanced analytical models for forecasting prices
- Hedging is part of the procurement strategy and have mature in-house trading desks
- Track buyer performance against price forecasts & budget through a buyer console

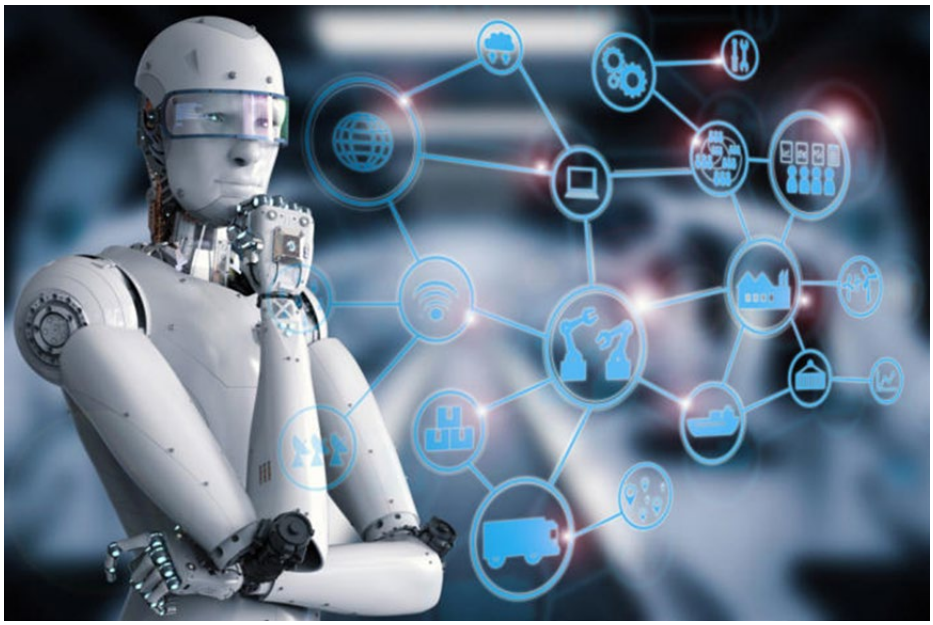
Source: Deloitte analysis

- A majority of these firms are in the developing stage (scoring 3 on a 5-point scale) of their supply chain and procurement process. They are not in the performing/leading stage.
- Chief Procurement Officers (CPOs') must first analyse their procurement maturity and quick wins in this space. After that, they must identify the segments needing improvement on priority.
- Digital procurement transformation primarily requires digitisation capabilities. These capabilities can be built internally in the organisation. However, it often requires expertise of seasoned professionals. Hence, external recruitment is critical. In India, many firms do not have advanced digitisation capabilities.

Example

Digital transformation in procurement for one of the largest global CPGs

To move from an "operational heavy" to a "value focused" organisation, the organisation initiated a digital transformation programme for its procurement function. The programme covers its markets and centres of excellence in Europe, India, and the US. The engagement led to the following benefits:



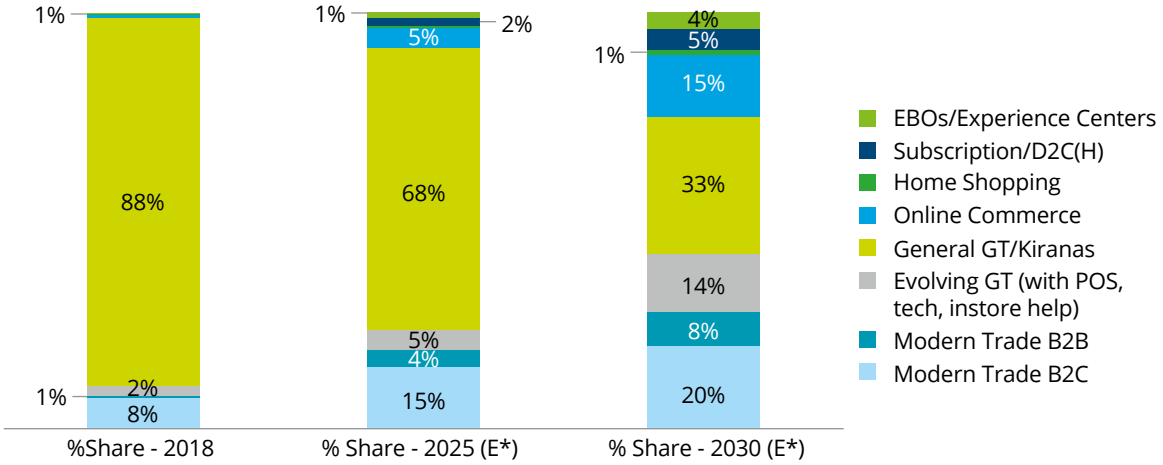
- About 30-40 percent hours of savings from buyers' effort and ~10% enhancement in Value in Purchasing (VIP)
- Contract TAT < 2 days
- Supplier on-board seven times faster
- Automated and standardised global price forecast generating platform - improved no-touch forecasting and forecasting accuracies
- About 90 percent NTPO and ZTPO enabling responsive and intelligent operation



Enabling Kiranas

Evolving channels in India

The MT and online distribution models are eating into the traditional GT market share. However, the GT channel is expected to remain dominant in the short run, especially in non-metros and rural markets.



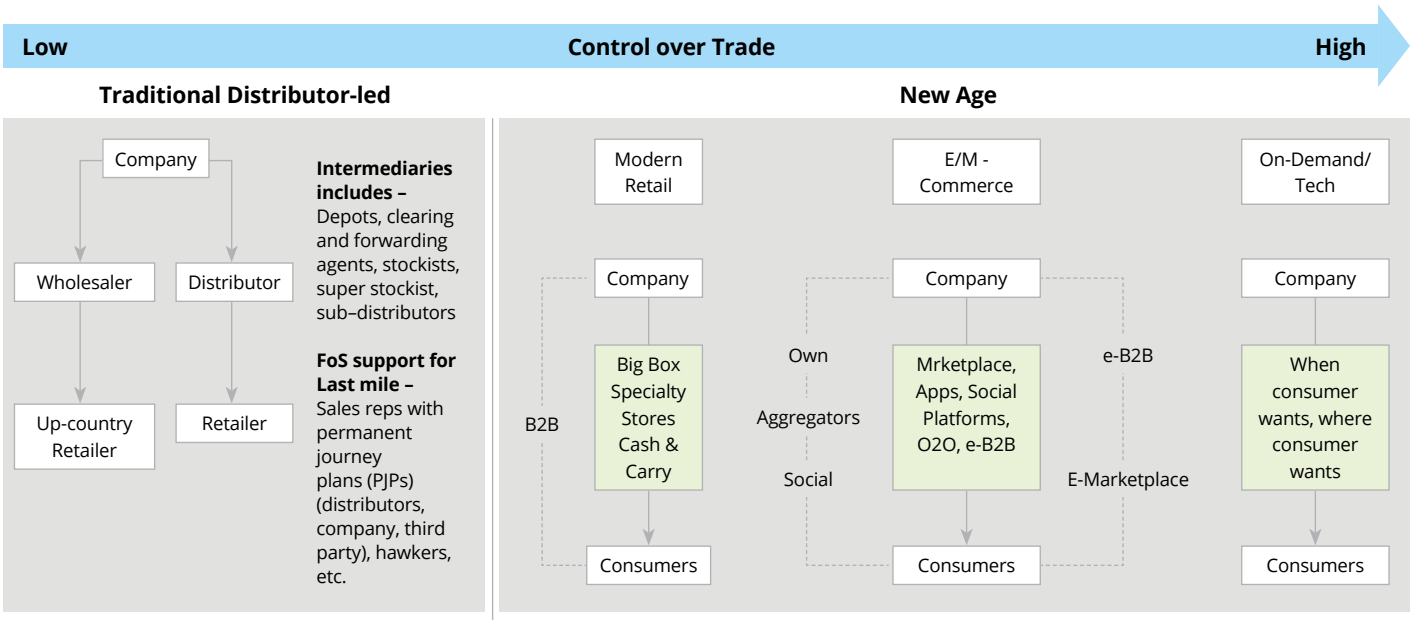
Source: Deloitte analysis

More than 12 million neighbourhood stores, popularly known as 'kirana walas', dominate India's retail. With ~90 percent share in retail, kiranas are the highest contributor to GT[6]; they have been the backbone of the Indian retail ecosystem. These kiranas (Indian mom-and-pop stores, family-run shops, “paan” outlets, etc.) sell various items, including groceries, food, over-the-counter products, and vegetables. Their importance grew during the pandemic as they were classified as an “essentials” business and allowed to operate throughout the lockdowns (with some restrictions). Indians have continued to depend on their neighbourhood kiranas for their everyday needs. This trend was further reinforced during COVID-19.

Old kirana shops

In late 90’s, kirana stores deployed manual methods of operations, including billing, bookkeeping, and inventory management. They were not accepting digital modes of payment. Shopkeepers did the product placement themselves; store layout was sub-optimal and stores were cluttered. Most kirana stores carried limited stock keeping units (SKUs), were dependent on distributors/wholesalers, deployed non-regulated credit arrangements, and had little or no visibility into their inventory. However, kiranas have continued as the important link for Route to Market for reaching end-consumers in India for many categories. A traditional approach with a solid distributor-led GT network ensured robust growth for large companies. New-age channels are contributing to the growth of the retail market, creating new opportunities for brands and consumers, and challenging existing/conventional RTMs. In partnership with these new-age channels, many FMCGs and start-ups are innovating to tackle issues related to supply chain, delivery, payment, and credit.

[6] https://www.orfonline.org/research/digitising-indian-retail-analysing-challenges-and-exploring-growth-models/



Mini Distributors	Mega Distributors	More control but high investment model	Through aggregator platforms	On-demand models gaining traction; already adopted in food delivery and personal transport
Distributor for main geography (e.g. city, district)	Large business entity CnF/stockist chosen to cover 1-2 state(s)	Usually a company directly bills retailers	Through own sites and apps	Leading consumer goods company taking initiatives
Wholesalers cover out-of-coverage areas (leveraged to enhance reach)	May also have local influence	B2B, and cash and carry (C&C) models are gaining traction like metro C&C	Subscription models becoming popular in some categories	Technology-enabled distribution platforms for rural India
Has been the go-to model for a large number of FMCG companies in the past	Typically involves long-term strategic alliance – significant investments Used by large companies with huge product portfolios	Serves as a branding avenue	O2O models successful in China; companies are exploring O2O routes	Food delivery platforms used for running daily household tasks/delivery
			B2B trade platform, designed specifically for SMBs	
			Social commerce using social platforms	

Source: Deloitte analysis

How is Kirana evolving?
New-age kirana stores offer customers a wide variety of payment options ranging from credit/debit cards to UPI-based mobile payment methods. They use a range of technological interventions to automate bookkeeping, tax returns, inventory management, invoicing, etc. Product shelves are better organised to ensure maximum visibility. Some stores allow a self-service model to provide maximum convenience to customers. Effective inventory management leads to a decrease in a number of damaged, expired products and increased inventory turnover, while ensuring that consumers get products when they need.

During COVID-19, these stores showed resilience and adopted technology to support consumers – taking orders through mobile calls and WhatsApp and delivering the same day . GT is a price-sensitive segment, but the stock turnover is high. GT owners used their relationship with brands and customers, and trust-based selling during the order placement calls by nudging customers to try different brands when customers' requested brands were not available during the lockdowns.

Kirana stores have also expanded their product portfolios, understanding changing product adjacencies due to consumer needs and expectations. This is especially true as consumer behaviour has changed, and the convenience of home delivery has gained significant traction. The trend has helped increase the basket size (as there was a minimum order cap) and brought cross-selling and upselling opportunities for kirana stores. Based on stores owners' knowledge of customer ordering behaviour and preferences, trust-based recommendations for different product brands and categories also supplemented the sale.

COVID-19 made some short-term and long-term changes in consumption behaviour. As a result, some product segments that were earlier missing from the consumer's cart, have become part of regular orders. Kirana stores have also worked on the visibility of broader category items through anticipating customer needs. Many stores have also taken the initiative to go online and used app-based ordering to speed up product stocking. Further digitising this channel, which is the most significant contributor to the FMCG sector, will open new growth opportunities.

Changing Ecosystem around Kirana

The FMCG industry is being disrupted through digital innovation. Companies and start-ups are innovating across the value chain to service kiranas effectively. FMCG companies are focusing more on direct to outlets through their portals/apps and marketplace models. Companies are trying to make their products available on-demand with multiple delivery options, reducing the cost of supplying to channel partners by partnering with B2B delivery aggregators. Delivery aggregators also help ensure the supply chain is robust by reducing dependency on traditional transporters. B2B trade platforms/ aggregators provide stock to kirana stores while offering additional benefits, such as easy returns, multiple sellers and brands, and easy access to credit. With access to alternate data sources and new-age underwriting models, several fintech players are offering kiranas working capital loans across the country to facilitate their business.

FMCG companies: FMCG companies have a role to play as they deploy innovative technologies around order taking, trade promotion schemes, and incentives, etc. FMCG companies also need to deliver customised merchandising and optimised product assortment to transform their kirana servicing. Companies are facing the pressure of channel conflicts between traditional channels and online channels, especially in B2B players servicing kirana

and other outlets. They need to work with both the channels and their distributors to ease these conflicts.

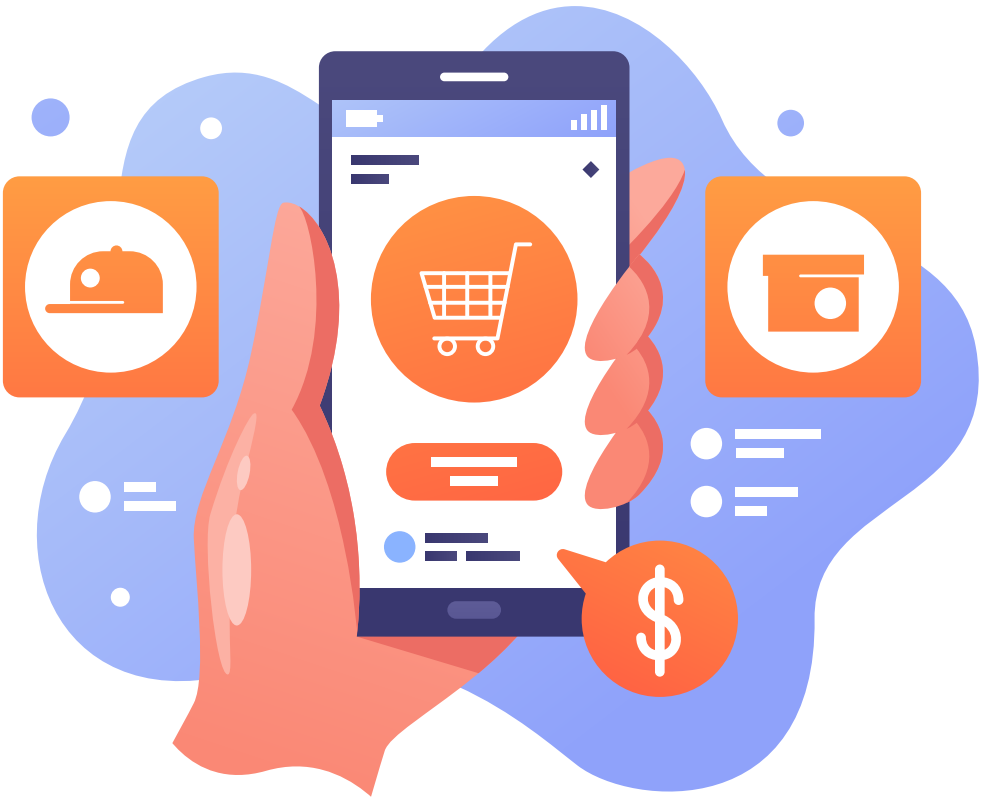
Supply Chain Partners: Intermediaries such as wholesalers will also need to transform and add value to the supply chain in inventory management, financing, assortment planning, and distribution. Third-party logistics providers will need to ensure that their systems and processes support the transformation of kirana shops.

Government: Suitable government policies will drive the large-scale transformation of the kirana ecosystem. Systems that drive ease of compliance and specific interventions from the government will ensure that stakeholders play their part as we shift towards a more digitally enabled retail ecosystem. Retailer associations can partner with government organisations and technology providers to modernise kiranas.

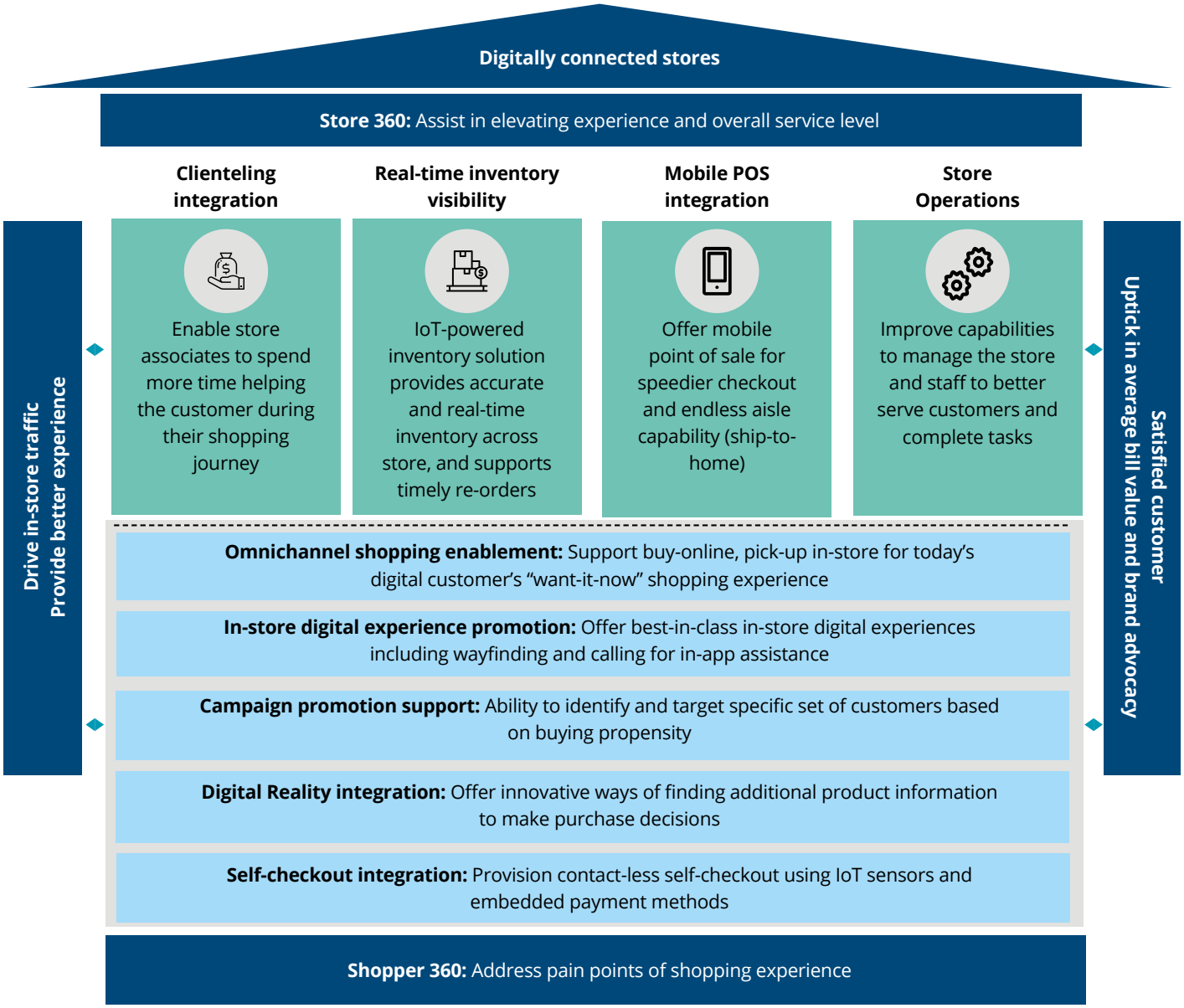
Start-Up and Technology providers: Start-up firms are innovating to enable kirana owners to accept digital payments and easily access credit. In the e-commerce space, players could also partner with new kirana store owners to solve last-mile delivery challenges in semi-urban, rural areas. Several start-ups also provide a host of business service solutions to ease the burden of store operations, thereby allowing kirana owners/operators increase their customer focus.

The way forward for Kiranas

Kirana store owners need to collaborate with logistics companies to solve last-mile delivery challenges. Large companies can strengthen their hyper-local strategy through partnering with kiranas and using existing retail space as a warehouse to supply to local kiranas. Kirana stores can also play an essential role in enabling other industries to connect with end-customers to facilitate last mile connect/ delivery. Financial services companies can use kirana outlets to provide ancillary services to customers. FMCG companies will need to reimagine their retail ecosystem, while continuing to partner with kiranas to leverage their strong connects and trust with end-consumers.



Digital Store of future: Concept



Source: Deloitte analysis


OPEN

Connected Employees in the new work environment

Future of Work Accelerated?

As the world copes with the uncertainty of the pandemic, India Inc. has been working overtime, initially formulating responses to the immediate crisis. Now with almost a year and half of experience, the industry is testing the efficacy and relevance of different strategies. Government regulations are also evolving in a bid to support growth and employment while ensuring that subsequent COVID-19 waves do not affect the country in the same way that it did a few months ago.

The Future of Work comprises three equally important dimensions 'Work' (what can be automated), 'Workforce' (who can do the work) and 'Workplace' (where is the work done).

COVID-19 as an accelerator in the transition to the envisaged future of work

Historically, the pace at which people, businesses, and public policy have changed has usually been slower than that of technology evolution. With the current crisis forcing change, we asked CXOs if they see the change being sustainable, and they answered in a strong affirmative. The acceleration of the Future of Work seems to have been due to a breakdown of legacy mindsets, digital adoption, and new demands being placed on businesses and employees. This pandemic has forced businesses and public policy to significantly revamp their digital programmes.

Is acceleration uniform across levers of work, workforce, and workplace?

Automation and cognitive technology investments have not been a focus area during the crisis as leaders are largely in the "respond" phase. However, we see key shifts in the way "workforce" and "workplace" are perceived:

01. Businesses have started bringing in alternative workforce models and leveraging the gig economy.
02. The idea of a hybrid workplace (physical and remote) is gaining traction. Many organisations are gradually embracing a model where the office will be used more as a collaboration zone than as a pure workplace.

Working from home is the new normal. How is India Inc. coping?

To test our hypotheses, we studied 42 reputed Indian organisations through a combination of survey and one-on-one conversations with CXOs. We identified seven key learnings from the current crisis, which could potentially accelerate the Future of Work in India.

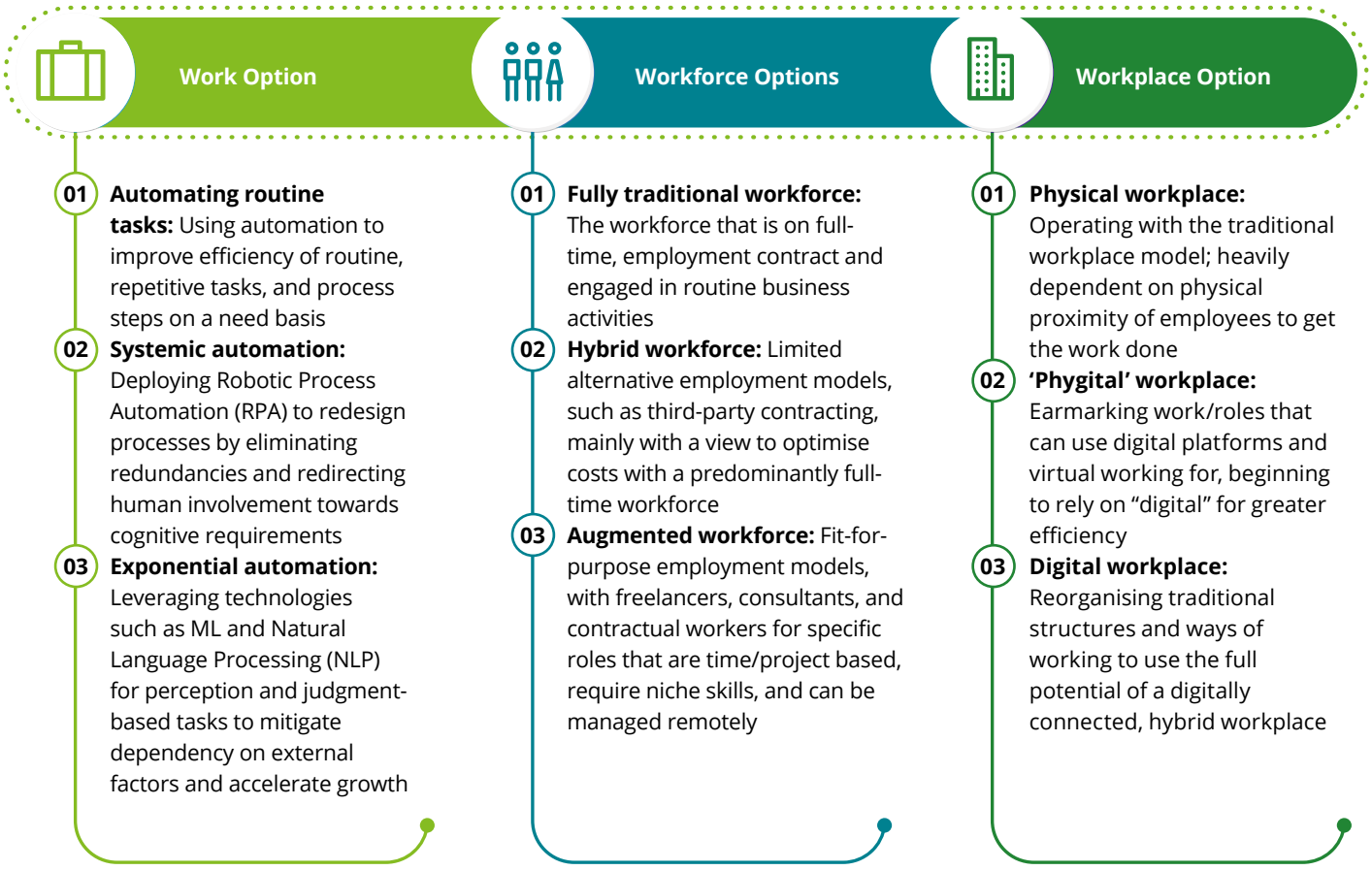
01. Business Continuity Challenges: A collaborative effort was required to minimise disruption arising from the attachment to physical assets, lack of IT infrastructure, and social structure. About 55 percent CXOs agreed that their IT infrastructure (availability of hardware, internet, and remote access) fell short of facilitating a smooth transition to remote working. About 40 percent CXOs have already

initiated a review of how roles can be redesigned to minimise attachment to physical assets (heavy machinery and confidential systems). Organisations will need to redefine their HR policies to enable changes in ways of working.

02. **Adoption of Collaboration Tools:** The key shift seems to have been in adoption of, rather than investment in, virtual tools for collaboration. About 75 percent CXOs said they did not have to invest in new platforms for virtual collaboration. Instead, they saw a surge in 'forced adoption' of tech platforms. About 60 percent CXOs stated collaboration seems to have significantly increased. The decision-making process has also become more efficient, possibly due to greater efficiency of virtual meetings.
03. **Workforce Productivity:** Leaders believe that individual employee productivity has in part, increased as a result of remote working. About 70 percent CXOs have reported 'no impact' or increase in individual employee productivity. Disruption to the workplace has placed greater demand on operations, IT, and HR teams, as they had to play a larger role in facilitating remote working. Roles that require cognitive thinking or independent/project-based work have seen a positive impact on productivity as employees manage their time more effectively. At a fundamental level, organisations agree that productivity as measured by clear process outcomes or hours worked, has not suffered. They still need to evaluate whether quality or innovation has improved.
04. **Employee Wellness and Learning:** As the crisis has propelled greater focus on employees' physical well-being, more than 70 percent CXOs confirmed that their organisations have set up dedicated programmes to work on employee wellness. Several organisations also made massive collaborative efforts to manage the second wave. The learnings from that will remain with companies as they plan future wellness initiatives for their employees. CXOs also reported a three time increase in training efforts, as organisations use virtual channels to impart future-ready skills.
05. **Everyone in it together:** About 90 percent CXOs say workforce is putting in more working hours. Absenteeism was significantly low during the crisis. About 72 percent CXOs also believe that the team lead's role will be important for leading the organisation through the change and their managers have been stepping up to the task.
06. **Agility as a key lever of success:** About 60 percent CXOs felt that the breakdown of traditional organisation structures helped them reorganise based on priorities. About 85 percent leaders stated that agility of their workforce to adapt to the new ways of working surprised them the most. It was the one big takeaway for them from the crisis. Organisations that proactively created empowered teams to facilitate large-scale migration to virtual working reported lower disruption.
07. **Gig workforce:** About 60 percent organisations are evaluating increasing the share of gig workers, while 40 percent said they will reduce dependence/maintain status quo and favour the full-time workforce.

How will organisations sustain the change? The journey from "respond" to "recover" to "thrive".

The move from 'responding to the crises' to 'thriving in the new normal' is likely to depend on how successfully organisations take their learnings into the future. These learnings need to be applied across three levers of the Future of Work − work, workplace, and workforce.



The COVID-19 crisis presented organisations an opportunity to move to newer workplace and workforce models, with many decisions being accelerated to support business continuity. CXOs we spoke to believe the changes are likely to be here to stay. Organisations moving to the Future of Work are likely to see it emerge as a lever of competitive advantage in a post COVID-19 world. They should consider redesigning work across three levers, keeping the work humans do best at the centre.



Conclusion

COVID-19 has fundamentally changed consumer demand, challenged the integrated supply chains, and altered some category dynamics forever, thus defining a "new normal" for businesses. It has created opportunities for businesses across the world, forcing them to "respond, recover, and thrive". Businesses are taking this opportunity to understand the long-term impact of the crisis on their operating models and find new ways to quickly adapt to the post-COVID-19 world. The **FMCG and retail industry is exhibiting "RESILIENCE"** to grow and evolve in ways that create more value in the future for the entire chain.

Brands are **redefining their models** to build a holistic approach covering every touchpoint to enhance and build connects with the next generation of consumers and shoppers. Companies are consciously identifying blind spots across their operations to incorporate **flexible** and **sustainable initiatives** as an integral piece of their business model. Brands are also **leveraging innovation in technology** to be agile in their planning and forecasting. They are digitalising their supply chain and procurement, undertaking smart manufacturing initiatives, and building smart factories to evolve with the changing trends. Digitisation is **enabling kiranas** and opening new growth opportunities for the FMCG sector. Further, organisations will have to rethink and reimagine their work, workforces, and workplaces to keep their **employees connected** in the new work environment, position themselves for the next phase, and thrive in new realities.

Earlier reports by Deloitte and FICCI

FMCG and retail REBOOT (2020)

The fourth edition of the report examined how brands needed to 'reboot' their business models and partnerships to thrive in the new normal. It highlighted the importance of how brands needed to realign their businesses and business priorities to enhance consumer and shopper experience by building a flexible distribution network, accelerating the adoption of the omni-channel strategy across brands, continuously improving the supply chain, and focusing on sustainable business practices to operate efficiently and thrive in a new business landscape.

R

REALIGN businesses and business priorities post COVID-19

Organisations are re-evaluating their priority segments, distribution, and product mixes; re-assessing their REALIGN businesses and business priorities post COVID-19 – manufacturing footprints; investing in more agile planning solutions; and exploring digitalisation.

E

ENHANCE consumer and shopper experience

They are adopting strategies and harnessing digital technologies to cater to elevated consumer experience and developing a "single view" of the consumer. They are moving towards personalised zero-touch shopping experience across the physical and digital channels, and predictive metrics.

B

BUILD distribution post COVID-19

Organisations are re-evaluating and re-building their operating and distribution models during the lockdown using new-age distribution channels (such as e-commerce, omni-channel, direct-to-consumer, hyperlocal delivery, and aggregator models).

O

OMNI-channel for expanding reach

With consumers shifting to online and low-touch shopping experience, brands and retailers are looking to integrate online and offline digital touchpoints to influence and enhance their shopping experience.

O

OPERATE more efficiently

As organisations move to the recovery phase, in many cases, they are looking at next-generation manufacturing (manufacturing 4.0), digital procurement based on Artificial Intelligence (AI) and Machine Learning (ML), sourcing, and physical network reorientation, to reach pre-COVID-19 volumes.

T

THRIVE by focusing on sustainability

The COVID-19 crisis has put sustainability on the backburner in many cases. More governments are likely to push for stringent compliance to existing sustainability norms and establish new ones. The move will put pressure on businesses to increase their investment to incorporate sustainability across their business strategies.

EVOLVE for Consumer (2019)

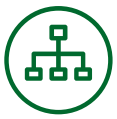
The third edition of the four-year annual series of reports delved into the major aspects of a consumer's shopping cycle where brands needed to "EVOLVE" to thrive in an evolutionary consumer landscape. Consumer markets are evolving rapidly with the help of technology in an environment where data is the new oil. In such a highly competitive scenario, the report highlighted that companies could not afford to overlook any aspect of the shopper journey and lag behind in the competitive market. Consumer experience has become more crucial today, and brands must constantly innovate to offer novel products and services to cater to modern consumers' evolving demands. The report covered the following aspects:



Engage for better connect: Personalised advertisements, proximity marketing, leveraging modern technologies such as AR, VR, AI, chatbots, etc., are means through which brands—both offline and online—can engage with their consumers.



Voice of consumer to be paramount: Listening to the consumers' opinions, suggestions, and feedback is equally important for offering them the most suitable products based on their needs. Social media sites, company websites, blogs, emails, phone calls and texts, in-store communications, and other physical and online touch points should be used for this—brands must be omni-present across mediums to listen and act upon the consumers' needs.



Organise retail channels and trade to provide seamless and integrated solution: The retail market in India has evolved from a "Bricks-versus-Clicks" to "Bricks-and-Clicks" and is now moving towards an "Intermix". In future, the most sustainable way for the brands to cater to consumers' needs is to play across the confluence of multiple retail modes—traditional stores, modern brick-and-mortar stores, online channels, etc.,—to offer a seamless shopping experience.



Loyalty to be built by going the extra mile: There is a need to redefine the Key Performance Indicators (KPIs) for loyalty measurement. In an environment where the consumers have a plethora of options and brands to choose from, benchmarking loyalty through traditional parameters becomes highly challenging and not reflective in true sense. The brands must go the extra mile to ensure that all its consumers have a memorable experience irrespective of whether any products are bought or not.



Vouch for commitment: Consumers now actively gauge a brand's commitment to its values and promises. They have become more conscious than before regarding the sustainability practices of brands and the impact of these practices on the environment. Hence, there is a growing need for public institutions and brands to collaborate and collectively ensure sustainable measures as a standard norm in their operational practices.



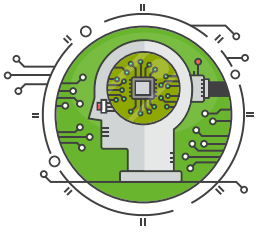
Enhance product and service offering: While brands must use technology to engage with consumers more, there is also a need to enhance the shopping experience of the consumers through hyper-personalised offerings, bespoke marketing and loyalty solutions, agile and lean business models, etc. Another major trend is need for the vernacular content to cater to the consumers' needs—many brands are now catering to the demands of both urban and non-consumers by offering their services in non-English regional languages.

Consumer LEADS (2018)

The second edition of the annual series of reports had put consumers and their buying experiences at the forefront. While brands must remain connected to consumers throughout their shopping journey, listening to the consumer is also important as he/she "LEADS" the conversation (moving from B2C to C2B). The report delved into key action items for brands, demonstrated through best practices and select case studies:

CONSUMER

L E A D S



Learn from millennials for innovation and strategy



Engage with consumers to enhance brand connect



Accelerate digital investments to cater to new-age shoppers



Deliver value and convenience to be competitive



Sustainable practices to deliver responsibly

- Showcases how the youth in the country are influencing the traditional buying behaviour, and the need for brands to work constantly to cater to these altering needs through innovation and prioritisation.
- Highlights the importance of transforming the entire shopping journey of the consumers—awareness, consideration, purchase, aftersales, and loyalty—to make it more engaging and immersive for consumers.
- Develops a perspective for the brands to accelerate their investments in digital and technology to address the new-age consumer needs.
- Provides best practices and case study examples for brands to refurbish their value propositions to resonate with the consumers' values and beliefs.
- Highlights the importance of sustainable practices to ensure that the brands conduct responsible businesses.

KONNECTED to consumer (2017)

This edition of the report explored the connectedness of consumers—the main aspect being that the internet and technology are driving the inter-connectedness of consumers amongst themselves and with brands. It is critical for brands to be **"connected"** to their consumers/shoppers to win them. The report covered the following areas:

K **Knowledge of consumer data and insights**
"Big" data generated via digital/online and through technologies used by brands in myriad forms and ways to make the consumer retail journey and experience better. The knowledge from this valuable consumer data will help brands in customised targeting, personalised offerings, and to have a more "meaningful" dialogue with their consumers.

O **Omni-channel approach unlocking the prospects**
The infusion of offline and online retail modes has led to the emergence of omnichannel retail, where the shoppers may browse online and buy offline or vice versa. This has led to the shifting of major brands into both pure-play offline and pure-play online mode or a mix of both.

N **National policies impelling business growth and benefitting consumers**
Conducive policies have led to increased investments that not only help the country grow monetarily, but also assist in building infrastructure, bringing modern technologies, creating substantial social and environmental impact, etc.

N **Novelty attracting the new-age shoppers**
While affordability and convenience remain the most crucial factors to influence a consumer's purchase decision, novelty or uniqueness in the offering also drives the sales. Novel approach by the brands to offer benefits via digital means also helps brands in connecting with their consumers and building loyalty.

E **Environment and social practices driving sustainability and influencing consumer behaviour**
Sustainable practices can help brands to stand out and build brand trust. Preference to sustainable practices such as sustainable sourcing, reduction in greenhouse gas emissions, waste management, clean packaging, natural and healthy food options, etc., is gaining traction.

C **Convenience bridging the gaps**
The growing consumer needs are pushing companies to implement improvements to their last mile delivery to make it easy for consumer and shoppers to access the products. This compelling need of convenience and wanting the product "now" is giving rise to hyperlocal start-ups, which connect local buyers and stores to penetrate remote areas, etc.

T **Technology augmenting consumer experience**
Factors such as improved digital infrastructure, greater use of smartphones, and increasing number of start-ups in technology space is assisting in wider acceptance and greater implementation of modern technologies for commercial retail, especially with the evolved general trade.

E **E-wallets scaling up the payment ecosystem and handiness**
Greater degree of convenience, increasing internet penetration, greater smartphone usage and government support have led to the exponential growth of Unified Payment Instruments (UPI), especially m-wallets.

D **Digital marketing as growth engine**
Advantages such as cost-effectiveness, consumer engagement, and personalised offerings are expected to drive the rapid growth of digital marketing in India. Going forward, native marketing—a completely non-intrusive ad format—will be used in India to make the ad experience of the consumers completely natural and in flow with their retail journey.

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