

Leakages faced by organisations in the consumer market sector: an outlook during the COVID-19 pandemic

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As the world comes to terms with the disruptions caused due to the COVID-19 pandemic, the Indian economy is still grappling with an appalling second wave of the COVID-19 outbreak. The alarming impact of the second wave is that it is causing tragic loss of human lives and exerting massive pressure on the healthcare infrastructure. Localised lockdowns and restrictions have been levied in various states across the country to control the spread of the pandemic. Organisations in the consumer market sector have also been impacted and are facing multiple operational disruptions due to restrictions on transportation, temporary disallowance on sale of non-essential products, shortage of manpower and cash flow challenges.

Consumer behaviour has changed substantially in the last one year with more focus on safety and hygiene; a rapid increase in online purchases and digital payments; and a shift towards online entertainment platforms. With individuals adopting the 'new normal' way of life and seemingly persistent changes in consumer behaviour, [organisations need to adopt radical strategies](#) to retain/ attract customers and attain customer satisfaction.

Despite the substantial short-term contraction in consumer spending caused by the pandemic, it is expected that consumer spending in India will quadruple by 2030¹, driven by various factors, such as rise in middle-class households with higher disposable incomes, dynamic spending behaviour of millennials and strong surge in rural consumption, among others.

Such rapid transformation in the consumer markets sector also creates avenues for cost and revenue leakages due to vulnerabilities in the existing business processes and lack of adequate monitoring mechanism. In our experience, typical issues faced by organisations in the current scenario, which could further aggravate in the future are as below:

1. Procurement

- Collusion and conflict of interest scenarios with vendors owing to restrictions on import and challenges in domestic transportation
- Selection of unsuitable vendors without adequate vendor evaluation and due diligence, due to restrictions on travel and movement of people
- Due to remote working and reduced focus on compliance, payments routed to fraudulent accounts as a result of unauthorised changes in vendor master database
- Inflated invoices submitted by vendors in collusion with employees, without providing the requisite material/services.

2. Sales and distribution

- Misuse of sales promotion schemes with scheme benefits not reaching the intended recipients.

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- Sale of damaged/expired products or counterfeit products, owing to perceived shortage of essential products during the lockdown.

3. Supply chain and inventory

- Pilferage of products from the warehouse or during loading and unloading of goods because of shortage of manpower to ensure compliance.
- Theft of material by transport vendors/scrap dealers, in collusion with employees.

4. Regulatory non-compliance

- Irregular payments made to statutory authorities by employees/vendors to ensure smooth and quick clearance and transition of goods during the lockdown period, which could result in violation of applicable Anti-Bribery and Corruption ('ABC') laws and regulations.
- Shortage of manpower and lack of adequate monitoring could lead to non-compliance of the food safety and hygiene regulations laid down by Food Safety and Standards Authority of India ('FSSAI').

5. E-commerce

- Creation of fictitious customers to misuse sales promotion schemes, discounts and cashback offers by employees and third parties, in collusion with each other.
- Surge in digital payments by consumers may lead to an increase in hacking and phishing attempts towards obtaining consumer credentials and diversion of payments to fictitious bank accounts.
- Pilferage of original products and delivery of fake products to customers.

While organisations rethink their strategies going forward, it is pertinent for them to also consider the below proactive measures to plug leakages in their processes, which could lead to substantial cost savings for them.

- Vulnerability assessment of key business processes to identify process gaps causing cost/revenue leakages and plugging these gaps to minimise these leakages.
- Proactive data analytics that provide early warning signals of potential leakage areas.
- Root cause reviews of suspicions or complaints regarding potential leakages.
- Due diligence checks for new and/or existing vendors and third parties.
- Employee background checks to screen prospective and/or existing employees.
- Trainings and awareness sessions for employees and third parties to create awareness on typical leakages that could occur, along with potential indicators of such leakages.

Organisations in the consumer market sector have become increasingly vulnerable to leakages due to the current COVID-19 situation. Such leakages could cause immense financial, as well as reputational damage to them. Therefore, organisations need to be more prudent in strengthening their processes to plug the leakages, which would ensure smooth operations and satisfied consumers. This will benefit not only the organisations, but also the society at large.

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¹ How India will consume in 2030: 10 mega trends, World Economic Forum accessed on May 25, 2021

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