Sell SMART

Moving towards a SMARTer consumer market

kpmg.com/in

ficci.com

Executive summary

The Indian economy seems to be going strong, with India's GDP growing faster than China's in January-March 2015. In the coming years, India is anticipated to be one of the fastest growing major economy's in the world, driven by growing urbanisation, changing consumption patterns and rising disposable income.

The government has envisioned the creation of 'smart cities' that can address the challenge of growing urbanisation, and act as a key driver for India's growth by providing advanced infrastructure, sustainable real estate and market viability, all of these augmented with information technology.

Along with the creation of 'smart cities' to address the challenge of urbanisation, the changing needs and consumption patterns of the Indian consumer also needs to be addressed. With the Indian consumer getting increasingly aware about brands and quality, and with rising disposable incomes, the retail and consumer goods industry need to evolve to meet the changing demands of the Indian consumer.

However, there are some key challenges which the FMCG and retail industry face today, that are acting as barriers to change – issues like complex taxation structure, infrastructural bottlenecks, counterfeits and pass-offs, and regulatory constraints throughout the supply chain. In this context, the FMCG and retail industry also need a 'SMART' boost.

This KPMG in India-FICCI report, on 'Sell SMART Moving towards a SMARTer consumer market' looks at five themes encompassing some major challenges faced by the industry and opportunities, which can shape its growth over the next five years.

Sustaining growth: The FMCG and retail industry have grown primarily due to the growth in consumer demands, while facing some key challenges with regard to the regulatory and taxation structure as well as poor basic infrastructure. Companies in these sectors have overcome the challenges through techniques such as internal capacity building, and using technology to overcome infrastructure gaps. However, it is important for the FMCG and retail industry to look at growth beyond consumer demand in order to sustain long-term growth.

Make in India: The government's 'Make in India' initiative to promote indigenous manufacturing can potentially enhance the growth prospects of FMCG and retail sectors. Despite inherent advantages such as availability of raw material, labour and cost competitiveness, FMCG manufacturing in India has not been able to grow in line with its potential due to challenges such as poor perception around ease of doing, poor logistics and infrastructure and poor perception on corruption. The agri-food processing sector in particular faces major challenges such as lack of proper storage facilities and transportation infrastructure, as well as issues in land acquisition delaying set-up times. With 17 million additional job opportunities in the retail sector expected to be created by 2022, skill development also needs to be a focus area for the 'Make in India' initiative to become a success for these sectors.

Authenticity of products: India is one of the fastest growing consumer goods market in the world. This makes it a country that is attractive for product counterfeiters, which poses a major risk for both companies and consumers. The impact of counterfeiting and piracy on the Indian FMCG and retail sectors is significant, considering that counterfeiting can damage brand image, be a risk to consumer health and cause significant revenue loss to the exchequer. Indian consumer brands and channel partners are addressing the growing challenge of counterfeit goods through internal and industry-wide initiatives. Government initiatives such as the 'Jago Grahak Jago' have also been instrumental in increasing consumer awareness. However, ineffective enforcement of consumer protection legislations remains a key concern.

Responsible business: Customer trust and Corporate Social Responsibility (CSR) are increasingly being considered crucial in the supply chain in developed countries. In the Indian context, incorporating CSR practices in local supply chains is important for inclusive growth of the Indian FMCG and retail sectors. The Companies Act, 2013 has made it mandatory for companies satisfying a certain criteria to contribute two per cent of their annual profits to CSR. However, the concept of formalisation of CSR is still at anascent stage, and while there are global frameworks such as the UN global compact that provide CSR knowledge resources and guidelines, Indian companies have limited participation at present.

Building consumer trust is important for successful business models. However, in the FMCG sector, the use of misleading advertisements to drive sales has been a key challenge. According to the industry self-regulatory body, the Advertising Standards Council of India (ASCI), more than half the complaints on advertising upheld in FY15 were from the FMCG sector. A FICCI survey of industry stakeholders in 2013 revealed that 80 per cent of the respondents were of the view that misleading advertisements need to be well defined and proactively monitored, especially beyond the electronic media, and increase visibility outside the metros and urban consumers.

Technology and innovation: significant growth in internet penetration and rising aspirations of the Indian consumer have changed the retail landscape, especially with the rapid rise of the e-commerce sector. The role of technology is also expected to be increasingly important in the supply chain, with emerging technologies such as precision agriculture and other agriculture extension services expected to bring in a significant increase in farm productivity. However, shortage of skills, especially in the Information Technology (IT) sector, is expected to be a key challenge to the adoption of technology across the FMCG and retail supply chains.

Industry discussions conducted by KPMG in India and FICCI have resulted in recommendations and specific action points for the various stakeholders of these sectors to address the opportunities and challenges across the five broad themes. Key among these recommendations is the early passage of the Goods and Service Tax Bill, the Land Acquisition, Rehabilitation and Resettlement Bill, and the creation of a nodal ministry for retail along with granting it an industry status.

We believe that implementation of these recommendations would help the FMCG and retail sector in India achieve growth that is sustainable in the long-term, while moving beyond consumer demand as the key source of growth.

Foreword

Rajat Wahi
Partner and Head
Consumer Markets
KPMG in India

The Indian economy has entered the second half of this decade with a renewed sense of optimism. India's GDP crossed the USD2 trillion milestone in 2014, and is expected to continue on a strong growth path, surpassing China as the fastest-growing large economy in the world this year.

Trends such as rising income levels, increasing urbanisation and a greater penetration of technology are expected to drive consumption and fuel the growth of FMCG and retail sectors in India.

There is further growth potential for these sectors that goes beyond consumption-driven growth, and this potential is not being achieved due to various challenges that have historically been barriers to growth. Two of these challenges, which have been a recurring theme during our discussions with senior stakeholders of the FMCG and retail sectors are, poor basic infrastructure and a complex multi-layer regulatory and taxation regime. There are high expectations that the passage of important legislations such as the Goods and Services Tax Bill and the Land Acquisition, Rehabilitation and Resettlement Bill would help resolve many of the issues being faced by FMCG and the retail sector.

The growing consumer demand also poses greater challenges with regard to the protection of consumer rights and the environment. Enforcement of regulations and legislations to protect the consumer, especially from the growing threat of counterfeit products, needs to be more effective than it is at present to help ensure this growth. Additionally, a greater responsibility towards the environment needs to be a key focus for FMCG and retail sectors, as increasing consumption may put more pressure on natural resources.

The penetration of technology (smartphones, tablets, etc.) among consumers is providing FMCG companies in these sectors an opportunity to reach out to consumers directly, and has given rise to the rapidly growing e-retail sector. Additionally, emerging fields in the technology sector ranging from precision farming to data analytics have the potential to increase the efficiency of businesses significantly, providing more opportunities for FMCG and retail sectors.

It is important for the government and industry stakeholders to collaboratively address the challenges being faced by the sectors, so as to enable them to enhance the opportunities, and at the same time ensure that consumers have access to good quality products that are affordable and are responsibly manufactured.

KPMG in India is pleased to be part of the FICCI Massmerize conference, which provides a common platform to various industry stakeholders to share leading practices, plan the way forward and address these challenges and opportunities that are key to the growth of FMCG and retail sectors in India. This report incorporates extensive discussions with senior stakeholders of these sectors and aims to present an all-encompassing view of the opportunities and issues present before the sector. KPMG in India and FICCI acknowledge and appreciate everyone who has contributed to this report.

Source: India is now a $2-trillion economy: World Bank report, The Times of India, 03 July 2015

Sanjiv Puri

Chairperson

FICCI FMCG Committee

Krish Iyer

Chairperson

FICCI Retail & Internal Trade Committee

Dear readers,

Welcome to Massmerize 2015.

Building our last year's theme of collaboration between Indian Consumer Packaged Goods (CPG) firms and retailers to create value for shoppers, we, in association with KPMG in India, set out this year to understand the factors that would shape the growth of companies in these sectors over the next five years.

In the coming years, India is anticipated to be one of the fastest growing economy in the world, driven by growing urbanisation, changing consumption patterns and rising disposable income.

This makes India an attractive market for Fast Moving Consumer Goods (FMCG) firms and retailers, with the FMCG market projected to touch INR6 trillion (or USD100 billion) and retail market projected at INR70 trillion (or USD1.2 trillion) by 2020, both larger than the GDP of many countries. Historically however, these sectors have faced challenging issues like a complex regulatory and taxation structure, infrastructural bottlenecks especially in the supply chain, counterfeits and pass-offs, as well as a shortage of a skilled pool of human resources, which have constrained the growth of these sectors to primarily consumption-driven growth. The retail sector, despite being a significant contributor to India's GDP for many years, does not have specific representation in government or an industry status. By recognising, retail as industry – there is a vast opportunity to drive 'domestic consumption' further and growth of retail is of paramount importance to drive consumption. This will also support the government of India' 'Make in India' initiative by driving demand. Growth of e-Commerce in the country has been an important development on retail front and we believe that omni-channel experience will be the way to go.

The good news is that the government has started many initiatives besides 'Make in India', such as 'Skill India' to address the issue of skill shortage and 'smart cities', to cope with the challenge of growing urbanisation, 'Digital India' to strengthen the country's digital infrastructure and deliver services digitally among others, that address some of the challenges being faced by the FMCG and retail sectors. The government's encouragement and support to the entrepreneurs is very inspiring and the focus on 'Start Up India' will drive significant economic growth in the country.

However, challenges continue to remain, including some that are specific to these sectors. These challenges have been covered under five key themes in Massmerize 2015 – sustaining growth and competitiveness, make in India, authenticity of products, responsible business, and technology and innovation, which form the rather apt acronym 'SMART'.

Throughout Massmerize 2015, we intend to initiate discussions about the opportunities and challenges under these 'SMART' themes, faced by FMCG and retail organisations. We hope that the interactions at the event, coupled with insights shared in this document, help you identify opportunities for your own organisation and in turn accelerate performance across both sectors. At the end of the day when businesses succeed, the economy prospers and larger value-creation takes place to propel a better tomorrow. That indeed is the compelling objective that drives Massmerize 2015.

Table of contents

SMAR'T' - technology and innovation

Recommendations and way forward

1 Introduction

The year 2015 started on a positive note for the Indian economy. As India's GDP crossed the USD2 trillion mark in 2014, the World Bank pegged India's growth at 7.5 per cent for 2015-16, positioning it as the fastest growing economy in the world, ahead of China.[1] India's demographic dividend, rise in consumer confidence and economy boosting government initiatives make it a very attractive consumer market.

India's position with respect to global business has improved since 2014, which can be attributed to a decisive electoral mandate that helped form the present government, and the expectation that this mandate brought with it seems to have enabled the government to take decisive policy measures, which can help bring the economy back on the growth trajectory. In the past year, the government has announced many pro-growth policy initiatives; the significant ones being 'Make in India', 'Skill India', 'Digital India' and 'Clean India', as well as a 'smart cities' programme. These initiatives have, in parallel, seen a growth in consumer and business confidence, as is evidenced by an all-time high consumer confidence.[2,3]

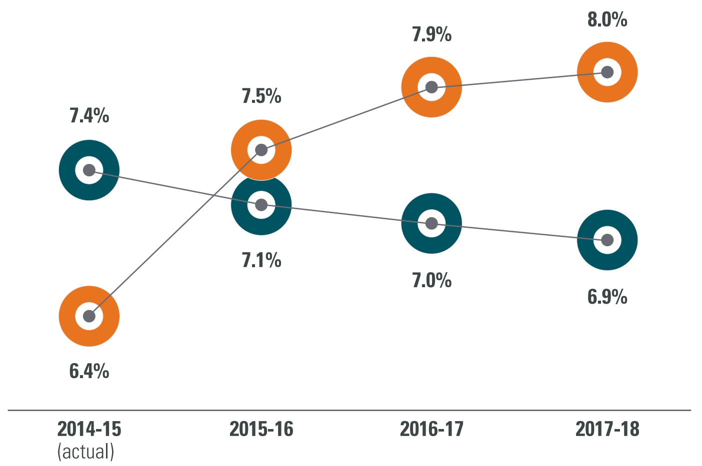
FICCI and KPMG in India view the need for the government, FMCG and retail industry to build a collaborative approach that addresses challenges faced by many industries, while at the same time enabling these industries to take advantage of the inherent drivers for their growth to further this resurgent consumer growth into the next decade.

1.1 India in a global perspective

The International Monetary Fund (IMF) expects India's GDP to cross USD3 trillion by 2019, surpassing Brazil, Russia and Italy to become the seventh largest economy in the world.[4]

India's rapid GDP growth, increasing disposable income levels and large consumer base, make it an attractive market on the world map. Multiple initiatives announced by the government in the past one year, with the aim of reviving manufacturing and improving infrastructure, have helped foster consumer, business and investor confidence.

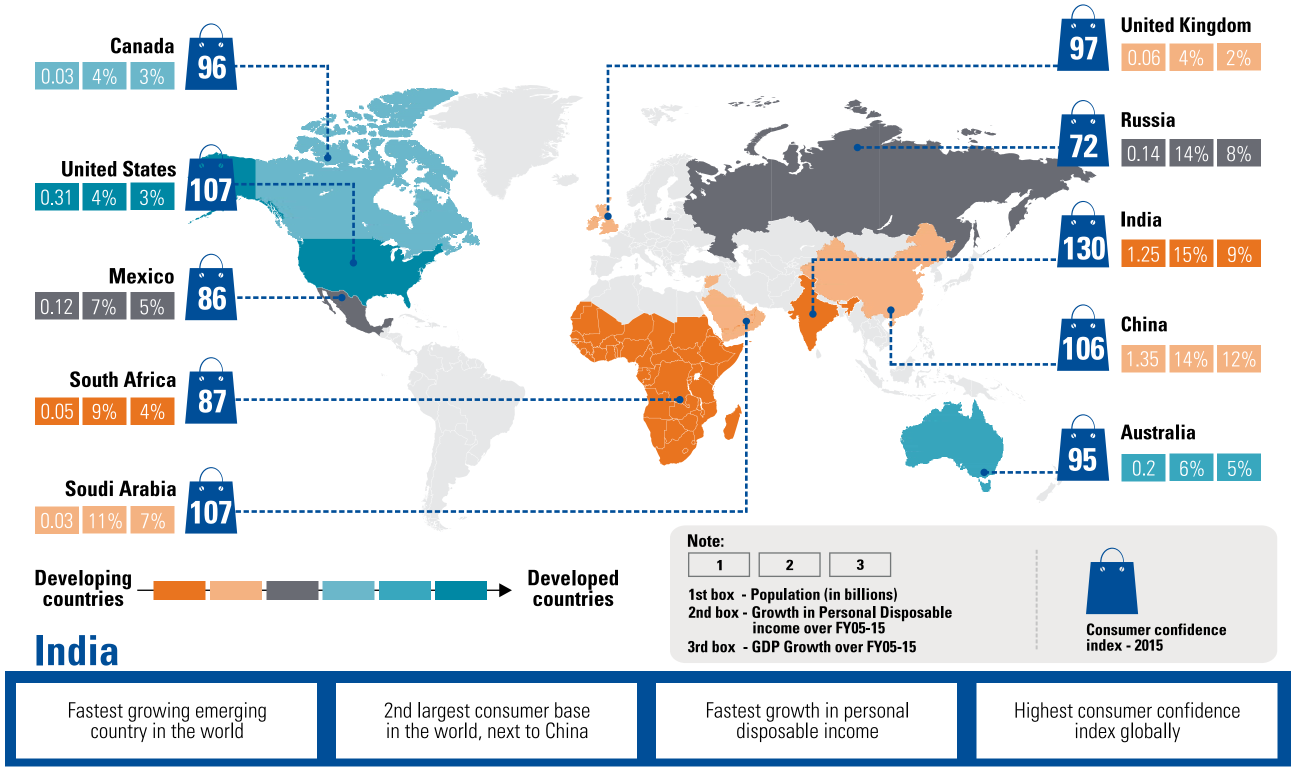
GDP annual growth forecasts - India outpacing China



Source: Global Economic Prospects report, The World Bank, January 2015

1. India Says Its Economy Will Grow 7.4%, Bloomberg, 2015
2. India Inc's Business Confidence Improves on Growth Outlook, NDTV, 2015
3. India continues to lead global consumer confidence index, Livemint.com, 22 May 2015
4. India set to become $2 trillion economy in 2014: IMF, The Economic Times, 19 October 2015

India's economy from a global prospective



Source: Economic Intelligence Unit (EIU) Research estimates, 2015; Global Consumer Confidence Index - 1Q2015, AC Nielsen, 2015

In our view, the economic policies and reforms which have contributed to the rise of consumerism in India, are also expected to impact the FMCG and retail industry, in the following three ways:

i. Growth in the absolute number of consumers, as a larger segment of the population reaches an employable age.

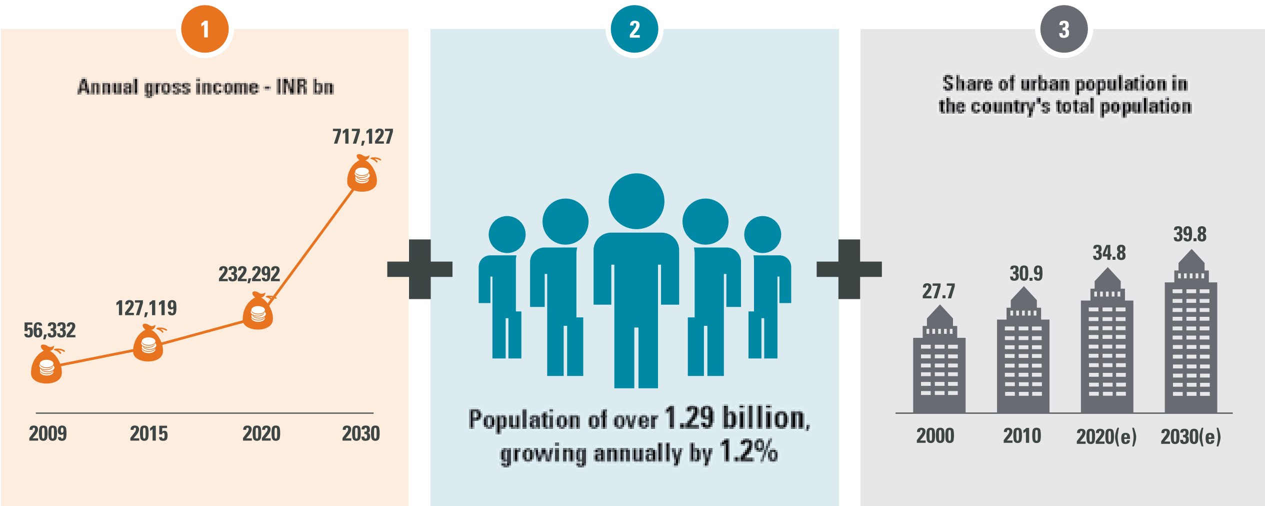
ii. Addition of new categories driven by changing consumption preferences.

iii. Increase in overall consumption as a result of higher disposable incomes.

1.2 Understanding the Indian consumer

The growth in India's FMCG and retail sector has been primarily driven by the increase in consumption brought about by economic prosperity, as a result of a strong GDP growth post-liberalisation in 1991.[5] This combination of growing income levels and rising urbanisation among over 1.29 billion consumers in India is expected to continue driving the increase in overall consumer spending in the country.[6]

Key growth drivers



12.7X Rise in gross annual income over 2009-2030

#2 Second largest and continually growing consumer base

1200 baisis points (bps) rise — Rising urbanisation

Source: KPMG in India's analysis based on industry discussions, 2015

5. How the Indian economy changed in 1991-2011, The Times of India, 2011
6. KPMG in India's analysis based on industry discussions, 2015

Key factors that are expected to shape the FMCG sector

a. Private consumption to grow significantly

- A CAGR of 15 per cent in private consumption has been projected for the next five years till 2019, which is the highest among all developing markets across the world.[7]
- Personal disposable incomes are expected to double in the next five years, to about INR159 billion by 2019.[7]

b. Demographics to drive a shift in consumption behaviour

- By 2020, 64 per cent of India's population would be in the working age group, making it the youngest country in the world.[8]
- Over 1.3 times growth is projected in the number of middle income households by 2030; over 200 million poor people would move to this income group.[9]
- The affluent population, described as earning more than INR1 million a year, is expected to grow to two per cent of the total population by 2025, as compared to 0.2 per cent in 2014.[10]

c. Spending patterns to undergo dramatic shifts, as expenditures on discretionary products and packaged goods are likely to show a significant increase

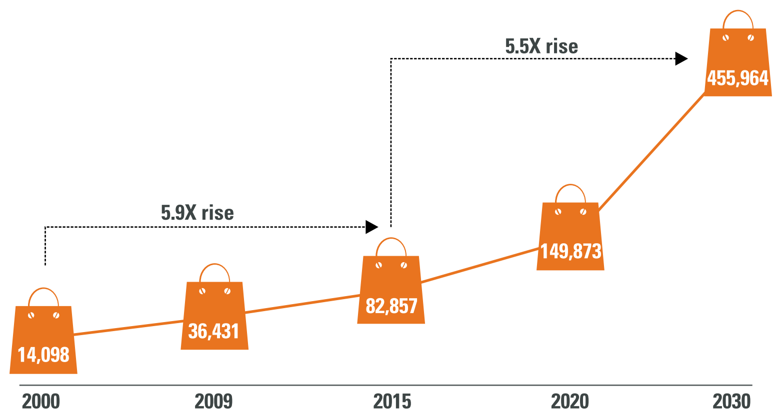
- Shift in demand towards packaged and branded goods is expected to increase the demand for aspirational and luxury products.
- Higher awareness and expectations regarding hygiene and product safety is anticipated.
- Greater importance would be given to convenience and choice in shopper behaviour.

Impact

The combination of rising household incomes, a large consumer base, and growing consumer aspirations for discretionary items is likely to lead to a significant increase in consumer spending.[11]

With a vast existing consumer base that continues to increase as the economy grows, the consumer goods sector is set on a path for high growth. In addition, changing preferences could aid growth in a number of new product categories in the retail basket.

Consumer spending – INR billion (current prices)



India is anticipated to become the world's fifth largest consumer market by 2030, with about five-fold projected rise in absolute consumer spending in the country.

Source: KPMG in India's analysis based on industry discussions, 2015

7. Economic Intelligence Unit (EIU) Research estimates, 2015
8. India is set to become the youngest country by 2020, The Hindu, 24 July 2015
9. Consumer Lifestyles 2015, Euromonitor, 2015
10. Indian Consumer Market, Australian Business Solutions Group, http://www.australianbusiness.com.au/international-trade/export-markets/india/indian-consumer-market, 2015
11. Economic Intelligence Unit (EIU) Research estimates, 2015

1.3 Reality beyond consumption

The optimism for the future also stems from the fact that Indian industry, which has historically been functioning in a challenging business environment, expects policy measures such as implementation of the Goods and Services Tax (GST), traction on land acquisition, as well as other policy initiatives by the government to improve business sentiment and foster growth.

However, infrastructure gaps, especially in the areas of procurement, logistics and storage, challenges from counterfeits and pass-offs as well as complex licensing and taxation frameworks, including regulatory constraints throughout the supply chain, have also posed challenges in the past to FMCG and retail companies. Despite the government initiatives, they may continue to challenge the industry till these initiatives are operationalised.

KPMG's discussions with representatives of the FMCG and retail industries brought out significant points on the present state of these sectors. Following are some key points:

i. Despite being one of the world's largest agricultural producers for several years, the level of food processing in India is amongst the lowest in the world

ii. Inefficiencies in the agricultural procurement and supply chains have resulted in a loss of up to 40 per cent of food grain produced annually

iii. Despite the large demand potential, the FMCG industry has not made significant inroads into rural India

iv. Modern retail has, over the years, created a significant presence in tier 1 cities, however, it has negligible presence outside these cities.

Key challenges across the consumer sector

Agri-food processing	FMCG	Retail (physical retail)	Online retail
• Poor farm connectivity to procurement and processing facilities • Poor supply chain infrastructure - inadequate warehouse and storage capacities • Lack of agri market intelligence among farmers.	• Poor rural-urban connectivity limiting distribution • Complex land acquisiton process to scale up manufacturing • Multi-layered and multi-level taxation • Multiple central and state food security laws • Lack of enforcement against counterfeit goods.	• Stringent FDI norms for multi-brand retail, including high level of SME sourcing • Perception of lack of ease in doing business • Lack of skilled manpower available in tier II and III cities • Lack of availability of retail-ready infrastructure • Multi-layer and complex tax regime.	• Poor transport infrastructure • Multi-layer and complex tax regime.

Addressing these challenges would enable FMCG and retail sectors to address the potential beyond a consumption driven growth in these sectors and have a carry-over effect on allied sectors, such as agri-food processing and logistics, while generating employment opportunities, especially in the SME sector.

1.4 Next steps - need for 'SMART' growth

Considering India is a consumption driven economy, KPMG in India and FICCI and are of the opinion that the success of 'smart cities' would require a parallel initiative of 'SMART' consumer markets growth. While the 'smart cities' initiative envisions the development and upgradation of infrastructure in 100 cities, 'SMART'er consumer market sectors could help ensure adequate manufacturing, supply chain and retail infrastructure to better serve the rapidly evolving consumer demands and aspirations in these cities.

The 'SMART' approach

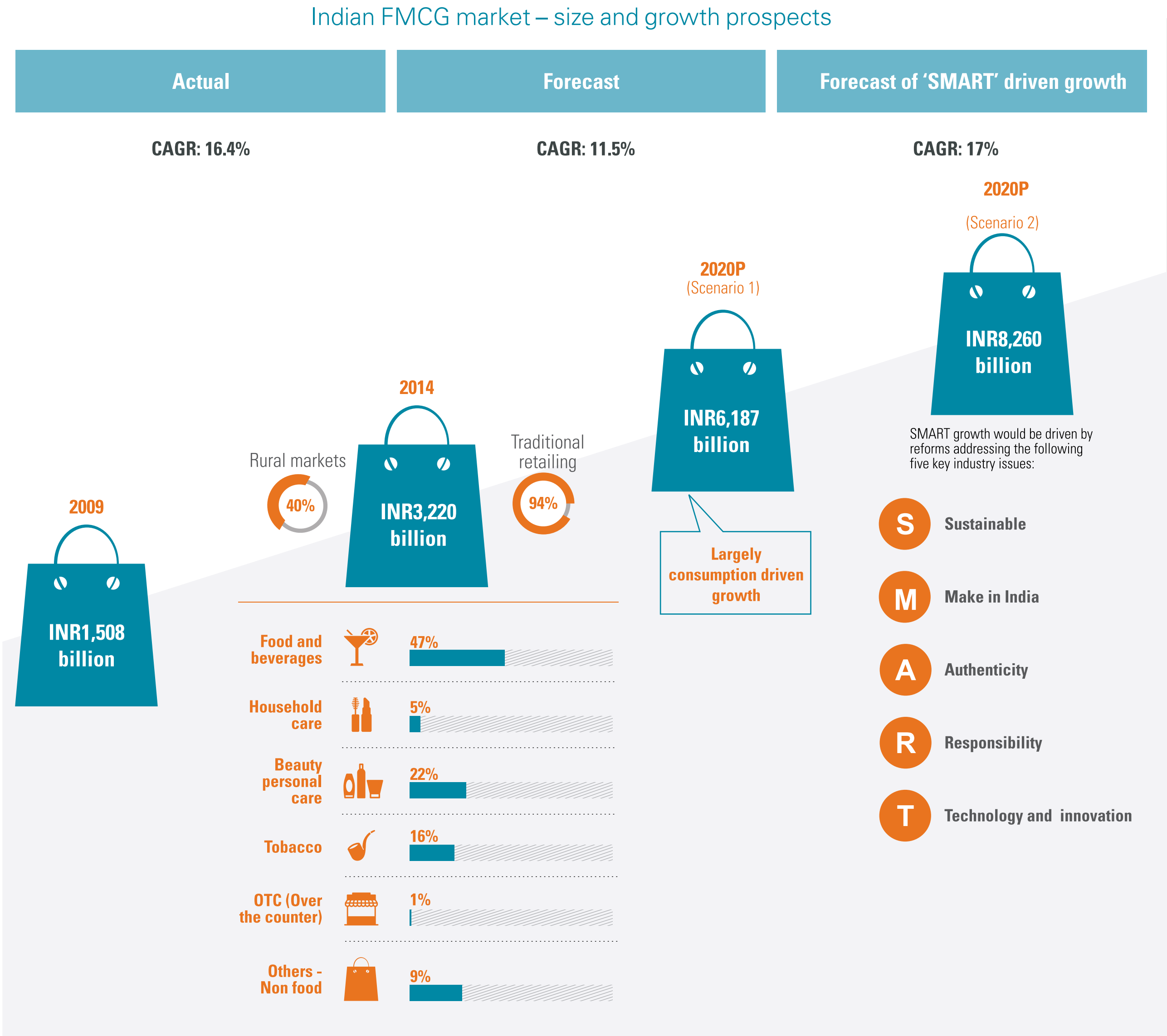
As a result of discussions with representatives from the FMCG, retail and e-retail sectors in India, KPMG in India and FICCI have broadly classified the foreseen challenges sectors into five categories:

- **Sustaining growth:** Attaining an efficient supply chain and enabling regulatory environment, which are significant for FMCG and retail companies in their aspirations to gain scale, has been a key challenge for companies. This needs to be addressed through policy action, as well as by institutionalising innovative business practices that have enabled industry leaders to overcome them.
- **'Make in India':** The government's 'Make in India' initiative to promote indigenous manufacturing could potentially enhance the growth prospects of FMCG and retail sectors. However, there are certain challenges, such as multi-layered taxation and complexities in doing business in India, which could prove a setback to build scale in these sectors.
- **Authenticity of products:** India has one of the fastest growing consumption rates in the world. This makes it an attractive country for product counterfeiters who can pose a major risk for companies and consumers alike. It is important for the government and the industry to take on counterfeiting and piracy in India collaboratively, as well as take steps to protect the consumer from this threat.
- **Responsible business (building consumer trust):** While customer trust and Corporate Social Responsibility (CSR) are increasingly being considered crucial elements of supply chains in developed countries, incorporating CSR practices in local supply chains is imperative for inclusive growth for the Indian industry. To be globally recognised, the industry needs to incorporate leading industry practices in the Indian and global contexts, and in addition, protect consumer confidence by addressing issues of misleading advertisements.
- **Technology and innovation:** The multifold growth in internet penetration in India, coupled with ever-rising aspirations of Indian consumers, have changed the retail landscape, especially with the meteoric rise of e-commerce. Incorporating technology is the biggest opportunity for the FMCG and retail industry to scale their reach and connect, both among consumers as well as in the supply chain, delivering greater value and variety to consumers through resultant efficiencies in the value chain.

According to the growth model based on these 'SMART' factors, the FMCG industry has the potential of adding another INR2.1 trillion, while the retail industry can potentially add another INR9.5 trillion, or a total of almost INR13 trillion, to the Indian economy.[12]

12. KPMG in India's analysis based on industry discussions, 2015

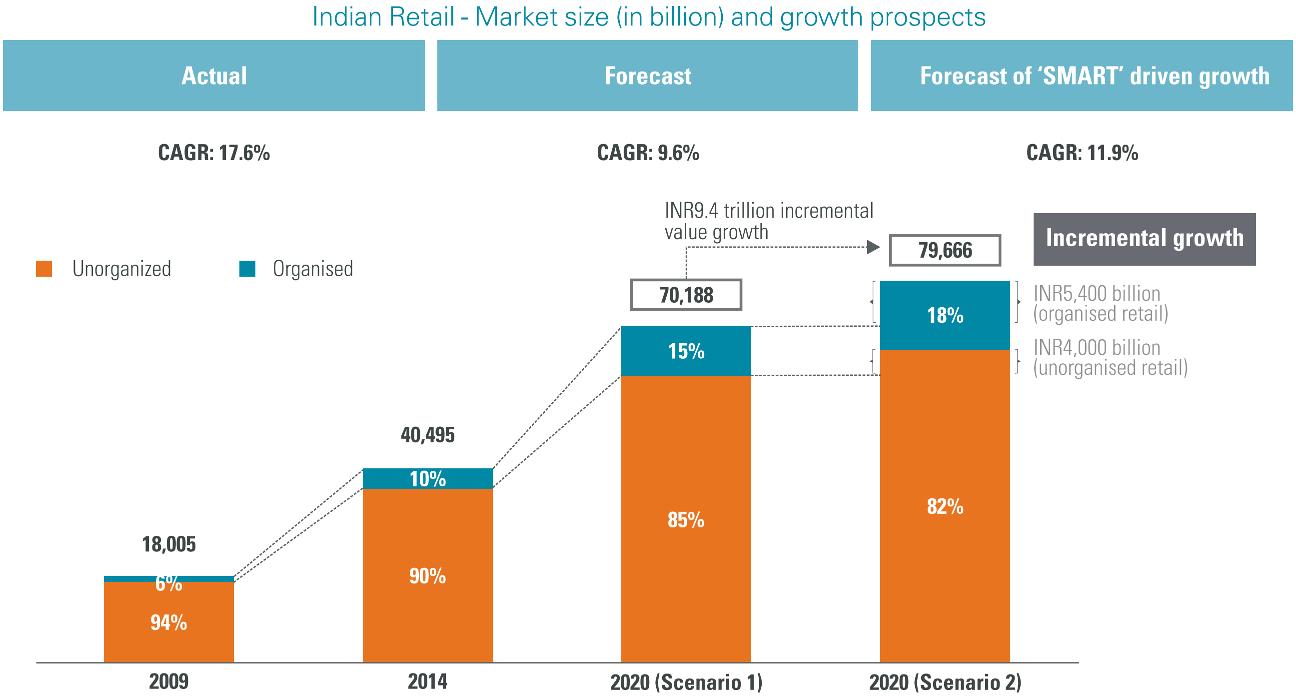
KPMG in India's research – SMART FMCG sector growth model



Source: IBEF – Indian Retail report, May 2015; ARANCA Research- 2014; KPMG in India's analysis based on industry discussions, 2015

The Indian FMCG sector is estimated to be valued at INR3.2 trillion in 2014 and is projected to register a CAGR of about 11.5 per cent from 2014 to 2019. Although the FMCG market growth can be primarily attributed to increased consumption, the challenges outlined earlier have acted as barriers in terms of reach and value generation. Addressing the issues outlined under 'SMART' have the potential to add INR2.1 trillion beyond the consumption-driven growth projection for this sector.

KPMG in India's research – SMART retail sector growth model



Source: India Retail Report, Images Group, 2013; Retail 2020 report, Retailers Association of India, 2015; KPMG in India's analysis based on industry discussions, 2015

The Indian retail sector is projected to touch INR70 trillion by 2020, from the current size of INR40 trillion in 2014. However, 'SMART'-driven growth could translate to an additional INR9.4 trillion growth for the sector in this period. Penetration of modern retail is expected to reach 18 per cent from current 9.8 per cent in this period, driven by the increasing appeal of modern retail among shoppers as well as change in shopper expectations and behaviour.

Some key benefits of 'SMART' growth are expected to be:[13]

- Higher value growth in FMCG and retail sectors, as well as the economy as a whole.
- Improvement in the attractiveness of India as an investment destination, especially for consumer goods companies.
- Increased competitiveness of domestic FMCG and retail companies among their global peers.
- Significant employment generation through growth in allied sectors such as logistics, supply chain management and manufacturing.
- Opening up of the potential of India's 'urban' and rural markets.
- Greater access to better quality products to Indian consumers.

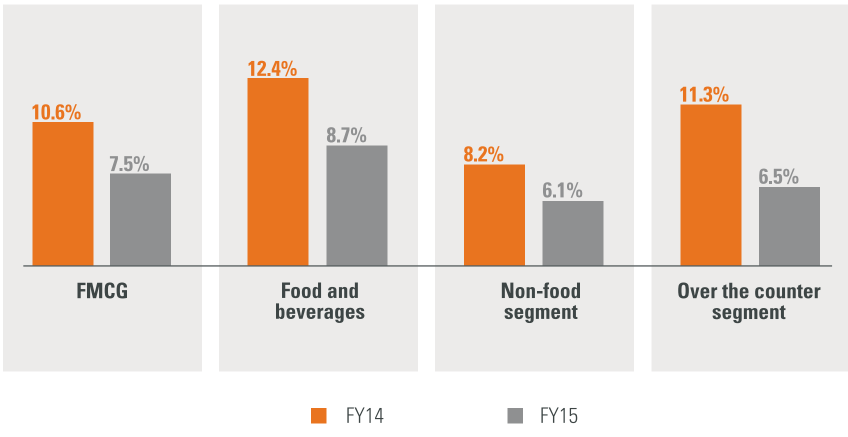
With the potential impact of these five SMART factors forecast to be highly significant for FMCG and retail sectors by 2020, it is important that regulations and policies evolve to ensure that the industry can provide quality products that are responsibly manufactured, while ensuring fair value to all stakeholders across the value chain.

13. KPMG in India analysis based on industry discussions, 2015

2 'S'MART – sustained growth and competitiveness

The Indian consumption story is characterised by a distinctive, diverse and dynamic consumer landscape. Favourable demographics, such as rising urbanisation, a young demographic base, rising income levels and a growing urban middle class, position India as one of the most attractive consumer markets globally. Despite an environment conducive for growth, FMCG and retail sectors have been unable to take full advantage of this potential owing to certain structural issues in these sectors; key issues being the paucity of proper infrastructure and a complex policy and regulatory framework in the country.

Indian FMCG sector (value growth)



Source: Nielsen research findings

The FMCG and retail sectors view it difficult to continue sustaining high growth rates purely on the basis of consumption-led demand, and fear that growth in these sectors may already be decelerating.[14] In FY15, the overall consumer goods market growth slowed down to 7.5 per cent from 10.6 per cent in the previous fiscal year.[15] The decline in growth was recorded in food, personal care, home care and over-the-counter goods across India.

In such a scenario, it needs to be analysed whether FMCG and retail companies would be able to sustain their historical growth rates or not, in the coming years.

Over the past decade, several domestic as well as international companies have established a strong foothold in the country and made significant contribution to the economic and social development of India. The key to this, apart from consumption driven growth, has been the ability of these companies to dynamically change and tune themselves to service the highly diverse consumer base.

14. KPMG in India's analysis based on industry discussions, 2015

15. Sale of consumer goods slows to 7.5% in FY15; consumption at 10-year low, The Economic Times, 19 May 2015

2.1 Key issues impacting growth and competitiveness

A. The FMCG sector

The FMCG sector faces multiple issues across the value chain, from procurement to distribution of finished products. Poor infrastructure is a common issue, while multiple regulations governing taxation and sale, and movement of goods also impact growth significantly.

Key issues impacting the FMCG sector

Key issues	KPMG's in India's assessment (Risk for sustained growth in the future)
Procurement-related issues	
Low coverage of organised procurement for food and agri-based FMCG, as a large proportion of produce goes to self-consumption (dairy market), sale in the local markets (cereals and fruits and vegetables) or sale to the government through the Agriculture Produce Marketing Committee (APMC) channel. A large number of unorganised players in the supply chain is another challenge for FMCG companies to set up long-term contracts with suppliers.	High
Lack of adequate warehousing, storage and transport logistics increases supply chain wastages and impacts quality of produce.	High
Significant post-harvest loss in agriculture - the quantity of loss in agriculture ranges from 5-15 per cent of the total produce, worth an aggregate of INR926 billion in the period 2012-2014, while the quality of loss was projected to be over INR3 trillion.[16]	High
High dependence on imports of inputs for high value added and quality products, particularly in the personal grooming and luxury products segments.	Medium
Absence of supplier-level infrastructure for testing, measuring, storage, sorting and grading of produce, which impacts quality of produce and processed product.	Medium
Processing and manufacturing	
The food processing sector is largely fragmented and unorganised. Lack of CAPEX capability among MSMEs and low adoption of modern food processing technologies can leads to higher wastages and loss of nutritional value of various foods. For example, when using traditional techniques, around two-thirds of the iron naturally found in flour is lost.[17]	High
With growing technology adoption in manufacturing, several skill gaps are emerging in various stages of the food value chain as well as ancillary industries, such as bottling and packaging.	High
Poor understanding on national food security laws leads to higher instances of non-compliance on requisite food standards for domestic sales as well as export. Unorganised food processors lack basic standardisation and certification infrastructure.	High
Distribution and sale	
Rapidly evolving consumer needs, tastes and preferences require companies to be proactive and innovative to sustain growth and market share in India. Categories such as food, personal grooming and infant care require higher investments on R&D, innovation and data analytics to better understand and serve consumers.	High
Multiplicity of centre, state and local level regulations and taxes add an additional layer of complexity. India also has higher indirect taxes as compared to other developing countries, including China.[18]	High
Regulatory complexities around state approvals result into delayed inter-state trading of goods. It is common to experience delays ranging from 3-20 days are common to obtain all permits and licenses for movement of multiple FMCG finished goods across the states.	High
There is a lack of adequate food safety infrastructure. The food safety apparatus is handled collaboratively among the central and state governments.[19] Many Indian states have reported shortage of technical staff to work in the food labs, while some others have quoted infrastructure deficit in terms of laboratories for testing the food samples.[19]	High

Source: KPMG in India's analysis based on industry discussions, 2015

16. Post-harvest losses 'alarming', The Hindu Business Line, 17 July 2015
17. Manual for wheat flour fortification with iron, USAID, http://pdf.usaid.gov/pdf_docs/Pnack485.pdf, p8, 2000
18. Ease of doing business in India, KPMG in India - CII report, 2014
19. Sunday story: Going bad, The Indian Express, 14 June 2015

B. Retail

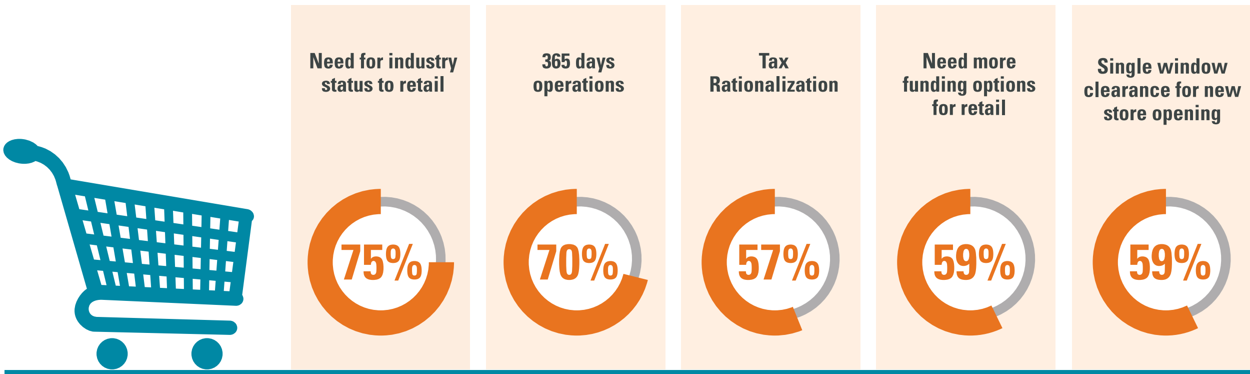
Wholesale and retail trade in India has grown at 8.6 per cent since liberalisation (1990–2013).[20] Despite this growth, the share of organised retailing in India has not increased significantly. Poor infrastructure, competition from unorganised retail and multiple regulations at centre, state and local government levels are barriers to entry for new players in the modern retail sector, and challenge the growth prospects of existing industry players.

In addition, operationally, indian retailers lag behind their global counterpart in terms of: (refer below diagram)

Sales generation per square feet	Gross margins as percentage of sales	Rentals as percentage of sales
About 5X lesser revenues per sq. ft. in India than international average	Around 7-8 per cent lower gross margins in India than international average	~2X higher rentals in India than international average

This disparity is due to the structural challenges prevailing in the Indian retail sector, which are a challenge for almost all the retail companies in India.

Retail Survey 2015 - Industry views about regulations and policies
%ages highlight number of respondents who want these policy reforms



Retailers' Association of India (RAI) survey findings wherein 126 independent retailers across retail verticals were interviewed to identify industry sentiments and expectations on the regulations and policies in the retailing in India.

Source: 'Retailer's Journey', RAI-Gofrugal report, February 2015, Retailers' Association of India (RAI) Retail Industry Survey, 2014 and KPMG in India's Industry interviews

20. Global Industry Databank, Oxford Economics, 2014

Key issues impacting the retail sector

Key issues	KPMG in India's assessment (risk for sustained growth in the future)
Procurement-related issues	
Lack of 'industry status' which causes multiple administrative and regulatory hurdles for retailers. Retailers also face challenges in terms of financing and investment options (loan to collateral ratios) from banks due to lack of an industry status for retail.[21]	High
Absence of a national-level policy for retail has impacted new retail investments, especially in organised physical retail in India. Retailing is regulated by different licensing and operating norms in every state, in addition to central and local governments' regulations. The number of licenses required for setting up new business is very high (up to 84 in certain cases).[22]	High
Infrastructure deficit with regard to poor supply chains, lack of adequate storage and warehousing facilities, poor road infrastructure, among others, have been contributing to high logistics costs for the retailers.	High
Retailers find it difficult to get the 'right space at the right location at the right price' due to limited and expensive quality retail space availability in metros and shortage of quality retail mall space in smaller cities, and an oversupply of low-quality retail mall space.	High
FDI guidelines on minimum 30 per cent local sourcing and a minimum of USD100 million investment in back-end infrastructure increase the set up complexities for foreign retailers trying to enter the Indian market.	High
High attrition in front-end jobs due to retail not being seen as a 'professional' industry tends to impact competitiveness of retailers. In addition, there is a paucity of talented professionals at the middle-management level in areas such as technology, supply chain, business development, marketing, product development and research.	Medium

Source: KPMG in India's analysis based on industry discussions, 2015

21. Budget 2015: Retail seeks industry status, national policy, Moneycontrol.com, http://www.moneycontrol.com/news/business/budget-2015-retail-seeks-industry-status-national-policy_1281658.html, 27 January 2015
22. Retailer's Journey, RAI-Gofrugal, 2015

> ITC endeavors to offer a wide range of superior and differentiated products for the Indian global market with the help of its robust trade marketing distribution network set up across the length and breadth of the country. Innovation, deep consumer insights and blending competencies resident within different businesses would sustain growth and competitiveness of ITC in the years to come. However, for a SMARTer growth, a new paradigm of policies and regulations that can unleash the true potential of India's FMCG and particularly the Food processing sector will have a multiplier effect on the Indian economy.
>
> \- **Sanjiv Puri**
> President – FMCG Business, ITC

> The recipe of success for Shoppers Stop is about 'Managing Growth Profitably'. We have successfully managed the profitable growth through the following factors – i) creating a brand that is trusted by customers, ii) strong loyalty programme, iii) powerful merchandise proposition, iv) low debt, v) de-risked stock model, and last but not the least vi) integrated supply chain and technology platform.
>
> \- **Govind Shrikhande**
> Managing Director, Shoppers Stop

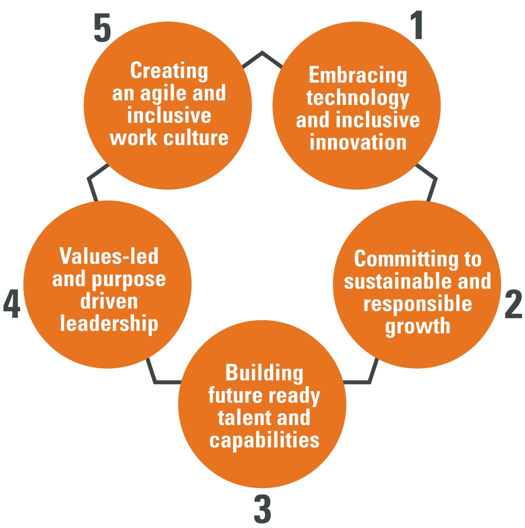
2.2 Industry case studies

Despite challenges in the regulatory and business environments, there are companies that have adapted and succeeded within these constraints.

Case I: HUL - sustaining growth and competitiveness

Hindustan Unilever Limited (HUL) is the largest FMCG company in India that has been present and has been present in the country for over 80 years. Through constant innovativeness in products and processes, the company has successfully overcome the challenges in the FMCG sector by establishing a vast distribution network and manufacturing capability in rural areas and institutionalising skill training.

Strategies for India



Addressing challenges and market needs

Sustainable Sourcing	Setting long term partnerships with farmers/suppliers for their wide portfolio range	Sustainable sourcing programmes for agri raw materials
Tapping rural markets	Reaching across rural India through a strong distribution network and continuous value added and technology driven innovations	Project Shakti
Capability development	Follows 70:20:10 capability across functions where 70% skills are developed on the job, 20% through coaching and 10% through training	'Career by Choice' programme, Career Break Policy, Agile Working
Under-developed rural India	Promoting entrepreneurship, creating jobs, expanding manufacturing and distribution. Helping farmers adopt modern techniques	Prabhat, Hindustan Unilever Foundation, Kwality Walls' vending operations

Future strategy – WiMi – Winning in Many Indias

HUL's approach to always remain 'future-ready' has helped the company to sustain growth in terms of profitability and market share in the past. Now the company aims to deepen its rural penetration by launching the 'WiMi' strategy -'Winning in Many Indias' - wherein HUL has divided all of India into 14 new consumer clusters.

Source: Unilever Sustainable Living Plan - India Progress 2014, http://www.hul.co.in/Images/USLP_India%20Progress%202014_tcm114-241468.pdf; http://www.hul.co.in/aboutus/,; KPMG in India's analysis based on industry discussions, 2015

Case II: Leveraging technology-driven innovation ways for sustaining customer connect

The growth of modern trade in India has followed a different trajectory compared to the growth of this segment in other countries. Organised retail has high penetration in tier I cities, but is faced with challenges such as intense competition, low availability of quality real-estate, very few 'high streets' for luxury retail, and customers increasingly moving towards online shopping. This segment has also been unable to successfully penetrate tier II and smaller towns due to poor infrastructure and operational challenges. However, some retailers have managed to overcome these challenges and establish a strong presence in both metros and smaller towns and cities.

The Big Bazaar model is an example of modern retail that has been able to establish presence outside of large cities successfully.

The Big Bazaar chain of stores was the fastest hypermarket format globally to roll-out 101 stores, in a short span of seven years.[23] The chain's market competitiveness has been driven by its innovative multi-channel growth strategy.

Case study: Big-Bazaar Direct - Technology driven strategy for pan India penetration

- In 2013, Big Bazaar launched a hybrid e-commerce and retail platform, named Big Bazaar Direct (BB Direct).
- The company plans to penetrate into small towns and villages through this model, where the penetration of organised retail is low or negligible.
- The pilot testing of this model was done in Vidharba (Maharashtra) and some parts of Gujarat, Rajasthan, Uttar Pradesh and Delhi.
- The products on offer would be non-perishable items to start with and will focus mainly on categories such as groceries, electronics and furniture.

The business model

1. **A 3G enabled tablet is given to every franchisee, which is connected to Big Bazaar s backend database the retailing in India.**
2. **The franchisee approaches the consumer door to door with the tablet, with deals other than the ones available at BB.**
3. **The customer enters his address and places the order selecting from the catalogue present with the franchisee.**
4. **The order is delivered to the customer in 3-7 days, with free shipping if the order is above INR500.**

Addressing challenges and market needs	Achievements till now
High infrastructure and operational costs for physical stores Extending reach of the store through asset-light techniques	**Well received by the target group, the company plans to have at least 50,000 BB Direct franchisees in the next three years.**
Low penetration of technology Enabling franchisees with technology capable of being used to place the customers' orders	**The model has generated monthly incomes up to INR8,00,000 for franchisees.**
Low penetration of non-cash payment modes Using franchisee to collect payment, eliminating the need for online payment mechanisms and guaranteeing payment	**Big Bazaar targets reaching 300 million people through BB Direct franchisees.**

Source: Big Bazaar Direct will be bigger than BB: Biyani, Hindu Business Line website, 16 January 2014, Big Bazaar Direct Franchisee Model : Decoding the Economics, Next Big What website, http://www.nextbigwhat.com/big-bazaar-direct-franchisee-model-details-297/, KPMG in India analysis based on industry discussions, 2015

23. Big Bazaar India's Real Retail Story, Moneycontrol.com, http://www.moneycontrol.com/news/business/big-bazaar-%E2%80%93-india%E2%80%99s-real-retail-story_358768.html, 29 September 2008

2.3 Decoding the factors for sustained growth and competitiveness

The 'S' of the SMART growth model refers to 'sustaining growth and competitiveness' for the FMCG and retail sectors in India. To sustain growth and competitiveness attained in the past, these sectors would need a clear growth strategy and a strong supporting infrastructure.

An analysis of the current situation reveals that in order to foster growth, both demand and supply side factors need to be addressed with the multiplier effect of the third factor, i.e. policy enablers.

Key factors for sustained growth in the Indian consumer sector

Demand side factors

- Rising urbanization and growing shift towards packaged and branded products
- Rapidly increasing income levels across income groups translating into higher discretionary spend
- Rising cross cultural exposure
- Expanding female workforce and nuclear families translating into increasing need for convenience
- Demand from tier 2, 3 and smaller cities.

KPMG in India's assessment

\+ **Highly favourable for the industry**

Short term	Long term
✓	✓

Policy enablers

- Complexities around taxation structure across India, high hopes for GST implementation in FY16
- Lack of single window clearances deters retailers
- Lack of a national level policy for the retail sector
- High cost of finances at multiple stages across the value chain
- Stringent FDI regulations in retail
- Delayed/slow implementation of government schemes such as mega food parks.

KPMG in India's assessment

= **Favourable - in long term only**

Short term	Long term
✗	✓

Supply side drivers

- Absence of sustainable sourcing/ procurement contracts between companies and vendors
- Large number of intermediaries across the value chain
- Limited basic infrastructure i.e. road, power and other utilities
- Absence of adequate logistics and storage infrastructure
- Maturing real estate in metro cities and complex and lengthy land acquisition process in smaller cities
- Very low efficiency and effectiveness of indigenous manufacturing capacities across food processing, textiles or non-food FMCG goods
- Rapidly stabilizing yield per acre and arable land due to high dependence on traditional methods of farming and cultivations.

KPMG in India's assessment

− **Unfavourable**

Short term	Long term
✗	✗

Source: KPMG in India's analysis based on industry discussions, 2015

Demand side drivers

The demographic dividend of a large population in the working age bracket is a key driver for growth in consumer sectors in India. Rising income levels combined with a large consumer base exhibits a tremendous potential in the years to come. The FMCG and retail sectors would need to frame a clear growth strategy to tap this growth in consumption.

It is important to note here that the Indian consumer of the future would be young, technologically and socially connected, and aware, which would require businesses to innovate and frame new business strategies to keep up to the consumers' changing preferences and expectations. In the e-retail sector, which has relatively low entry barriers as compared to the brick and mortar retail sector, companies are likely to continue using innovative marketing and technological techniques to retain and grow their customer base.

Policies that enable industry growth

The Government of India has indicated its focus towards making policies and regulations more business-friendly and improving centre-state coordination. The government plans to implement GST from 01 April 2016, post the passage of the Bill in Parliament.

The government has also announced various initiatives for reviving economic growth, such as 'Make in India', 'Digital India' and the 'Rural Development Programme', which have renewed investors' enthusiasm. The existing FDI policy on single brand retail that allows 100 per cent FDI has attracted significant international investment, despite the conditions attached to the policy.

Supply side drivers

Future demand for these sectors is expected to stem from rural and 'rurban' markets, in addition to urban markets, with the FMCG market in rural India projected to touch INR6,250 billion by 2025[24]. However the infrastructural challenges are more acute in rural and 'rurban' India, and can be barriers for entry due to resultant high distribution costs[25].

> "To ensure success in a highly competitive market, acquiring new consumers, rationalising marketing spends, improving the user experience and creating stickiness among shoppers is going to be essential. Focus is also on acquiring more sellers across the country to create inclusive growth and to give more variety to buyers."
>
> \- **Joy Bandekar**
> President (Corporate), Flipkart

24. Indian Consumer Market, IBEF, http://www.ibef.org/industry/indian-consumer-market.aspx, July 2015
25. Consumer goods sales take a beating in rural areas, The Hindu BusinessLine, 12 May 2014

3 S'M'ART – 'Make in India'

Unlike most developing countries, including China, India's positioning in the global market is as a services-led economy rather than a manufacturing-led economy.[26] Despite several inherent advantages, such as availability of raw materials and manpower, growth in the manufacturing sector in the country has been slow for the past several years.

The share of manufacturing sector in the overall GDP of India is almost stagnant at approximately 15 per cent since the 1980s. This is much lower than the share of manufacturing in other major growing economies in Asia such as China (31 per cent), South Korea (30 per cent), Malaysia (24 per cent) and Indonesia (22 per cent). This is an indicator that manufacturing in India has not been able to achieve its full potential. [27]

India's FMCG manufacturing sector is an example of an industry that has had significant potential, but in the face of challenges, such as inadequate infrastructure, a complex regulatory environment and weak perception on ease of doing business in India, it has not been able to grow in line with it.

'Make in India' is a major new national programme launched by the government to address some of the challenges faced by the manufacturing sector. The aim of this initiative is to foster investments and innovation in this sector, enhance skill-development, protect intellectual property and build advanced manufacturing infrastructure. [28]

India's inherent advantages

Consumption-led demand	Large raw material base
Strong consumption-driven demand across food and non-food retailing categories	Largest production base for many agriculture products
Demographic dividend	**Low cost labour force**
A large segment of population (~800 million) in the working-age group	A large pool of skilled and cost-efficient labour

Source: KPMG in India's analysis based on industry discussions, 2015

Key highlights of the 'Make in India' initiative[29]

- Introducing new policy initiatives to aid easy business processes, a liberal FDI policy, and enforcing intellectual property rights.
- Launch of a INR100 billion venture capital fund to strengthen Micro, Small and Medium Enterprises (MSME's) and increase focus on technology and innovation.
- Action policies for skill development and job creation in the leading manufacturing sectors, including textiles, footwear and food processing.
- Improve the image of Indian manufacturing overseas to drive international companies to invest into Indian manufacturing sectors such as electronics, food processing.

The 'Make in India' initiative sets an ambitious target of raising the share of manufacturing in the overall GDP of the country to 25 per cent by 2022, while generating over 100 million new jobs over the next decade.[30] The FMCG and retail sectors, which contribute and support the manufacturing sector significantly, are expected to be key contributors to this growth.

---

26. Made in India? Why manufacturing is the best route to development, The Guardian, 06 January 2015
27. World Bank data, 2015
28. Make in India website, www.makeinindia.com, 2015
29. Make in India Promises for an Industrial Revolution, Skoch Group (an Indian think-tank), http://inclusion.skoch.in/story/335/make-in-india-promises-for-an-industrial-revolution-635.html, 03 November 2014
30. Make in India website, www.makeinindia.com, 2015

3.1 Contribution of FMCG and retail to manufacturing

The availability of inexpensive labour, and the prevelance of third-party manufacturers, which reduce the capital cost required by the FMCG companies to start operations[31], have been key in the expansion of FMCG manufacturing in India.

Manufacture of food products alone accounts for 15.8 per cent of factories and close to 12 per cent of factory employment in the country.[32]

31. Indian FMCG Industry Overview, ITNext.in, http://www.itnext.in/event/casestudy/TPL_CASE%20STUDY_FMCG%20(1).pdf, 2015

32. Annual Survey of Industries 2012-13, Ministry of Statistics and Program Implementation (MoSPI), 2014

Food and agri-processing

Benefiting from the presence of a large agriculture sector, a significant livestock population and cost competitiveness with regard to labour and inputs, India has emerged as one of the largest food manufacturers in the world.[33] A majority of the Indian population relies on basic food, such as cereals, fresh fruits and vegetables. The share of packaged and processed food, such as ready meals and canned foods and drinks, is still very low in the country.

Despite this, India's food processing industry (FPI) ranks fifth globally, in terms of production, consumption, export and expected growth.[34]

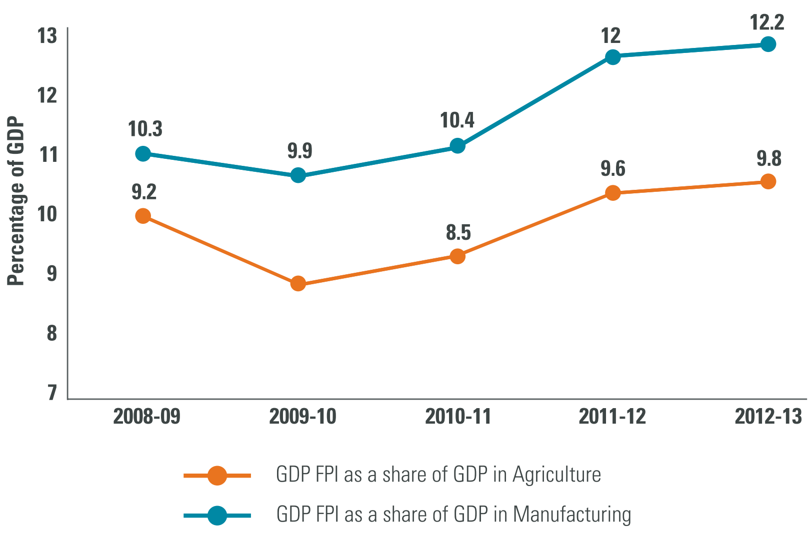
As per the current processing levels, the food processing industry accounts for about 32 per cent of the country's total food market, 9.8 per cent of the total manufacturing GDP, 13 per cent of India's total exports and six per cent of the total industrial investment.[35]

The agriculture sector in India

Supply-side drivers for the food processing industry

- India has the second largest arable land area in the world with 20 agri-climatic regions
- All 15 major climate types and 46 of the 60 soil types in the world exist in India
- Largest producer of pulses, milk, cashew and mangoes, buffalo meat in the world
- Second largest producer of tea, wheat, sugarcane and rice in the world
- Large livestock population which includes +200 million cattle

Historic performance - FPIs share in GDP



Source: Food Processing, IBEF, http://www.ibef.org/download/Food-Processing-March-2015, 2015

33. India : World's Emerging Food Leader, Techopak, 2014
34. Food Processing Industry in India, IBEF, http://www.ibef.org/industry/indian-food-industry.aspx, July 2015
35. Indian Food Industry, IBEF, 2015

An important reason for the low share of GDP in food processing in agriculture and manufacturing GDP is the lack of adequate infrastructure, especially in terms of storage and transportation. This seems to have resulted in very high overall losses across the field-to-fork value chain. [36]

Annually, up to 30 per cent of the agri produce, particularly fresh fruits and vegetables, perishes due to inadequate storage and processing capacity in the country.[37]

Level of processing across segments		
Segment	**India**	**Other countries**
Fruits and vegetables	2.2%	USA (65%), Philippines (78%), China (23)%
Marine	26%	60-70% in developed countries
Poultry	6%	
Buffalo meat	20%	
Milk	35%	60-75% in developed countries

Source: MOFPI Annual Reports, 2012, 2013 and 2014

FMCG and retail – empowering the SME sector

Small and medium enterprises (SMEs) in India are engaged in the manufacturing of a wide range of products and constitute a significant part of the manufacturing pie in the country. However, due to limited capital available for investment and expansion, and low level of technology adoption, small businesses typically remain restricted in their respective catchment areas, serving a limited set of customers and growing at a rate marginally higher than the inflation.

In the past decade, the growth of organised retail in the country has opened the door for new opportunities for regional businesses, offering them a modern platform to grow their businesses. It is estimated that organised retail sources 15 to 25 per cent of its products from SMEs in India.[38] In the FMCG sector, it is estimated that around 10 per cent of FMCG manufacturing is contracted to SMEs. [39] This sector is also seeing the growth of SMEs as strong players in the food and beverage segment, with their present share of market estimated to be at 30 per cent, which is expected to grow to 40 per cent by 2019.[40]

The advent of online retailing has given SMEs access to a pan-India customer base. During 2014 alone, leading e-commerce retailers have added over 100,000 SMEs, regional artisans and weavers on their e-commerce marketplaces.[41]

There are numerous other examples of retailers who have tied up with rural artisans, thereby, creating a base for skilled, sustainable rural employment and preserving India's traditional handicrafts in the process.

36. Indian FMCG Industry Overview, ITNext.in, http://www.itnext.in/event/casestudy/TPL_CASE%20STUDY_FMCG%20(1).pdf, 2015
37. Annual Survey of Industries 2012-13, Ministry of Statistics and Program Implementation (MoSPI), 2014
38. Big Retail in India gives SMEs a miss, The Financial Express, 04 November 2013
39. In food and beverages, Tier 2 players are rising fast, CRISIL, 2014
40. In food and beverages, Tier 2 players rising fast, CRISIL, 2014
41. Google aims to bring 20 million Indian SMEs online by 2017, Livemint.com, 26 May 2015

3.2 Significance of ‘Make in India’ for consumer goods manufacturing

With India’s population expected to touch 1.35 billion[42] and GDP to cross USD3 trillion by 2020[43], the next five years are expected to see a new wave of consumerism, characterised by higher disposible incomes, greater urbanisation, and changing consumption patterns.

The next five years are also expected to see the Indian FMCG companies expand their operations into growing markets in Asia, Africa and Latin America[44], as well as 17 million job opportunites created in the retail sector by 2022.[45]

These trends provide a three-fold opportunity for the FMCG and retail sectors through the ‘Make in India’ programme, by reducing dependence on imports and creating an opportunity for exports, cost efficiencies in manufacturing and the supply chain, and availability of skilled manpower.

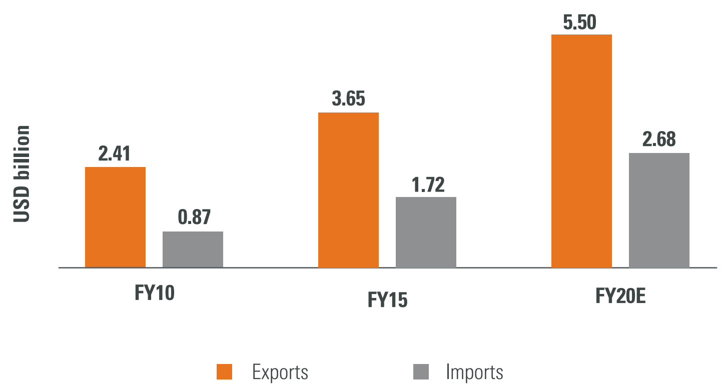
The import of packaged, prepared and processed FMCG products stood at USD1.7 billion at the end of FY15, an increase of 100 per cent against FY10. With consumption expected to increase further, imports are expected to rise to USD2.7 billion by 2020. Exports are also expected to rise based on existing trends and expansion of domestic FMCG companies to other developing regions globally.[46]

The ‘Make in India’ programme has the potential to increase the exports of packaged FMCG products while countering the increase in imports. Export-oriented food and agri parks, as well as incentives for global FMCG manufacturers to set up greenfield projects, would help in making India a regional FMCG manufacturing hub for South Asia, Middle East and Africa.

The food processing sector, an allied sector for FMCG, is in focus under the ‘Make in India’ programme. Growth in the food processing sector would provide a larger pool of contract manufacturers for FMCG companies, as well as a wider supplier base for private lables for retailers. The consumer would benefit from a cost perspective, as well as from the increased availablilty of hygenic, safe packaged food.[47]

Retail is a key sector for skills development, with a projected employment of 58 million people by 2022, and accounting for 14 per cent of the incremental human resource and skill requirement from 2013 to 2022.[48] With organised retail penetrating into smaller towns and cities, there is an expected requirement for skilled manpower in the retail space. The ‘Skill India’ programme, through the Retail Association’s Skill Council of India (RASCI) envisages the development of 10 million skilled retail operations personnel by 2022.[49] This potential pool of skilled manpower would be a key driver of organised retail’s penetration into tier II, and smaller towns and cities.

FMCG imports and exports 2010-2020e



Source: Ministry of Commerce data; KPMG in India’s analysis

42. World Bank Population data, 2015
43. GDP to grow 8% in FY16; hit $3 trillion mark in five years, The Economic Times, 30 June 2015
44. The three secrets of successful Indian globalisers, Business Standard, 16 June 2014
45. Monthly Newsletter, NSDC, April 2015
46. Indian FMCG Industry Overview, ITNext.in, http://www.itnext.in/event/casestudy/TPL_CASE%20STUDY_FMCG%20(1).pdf, 2015
47. Food inspector raj threatening government’s Make-in-India initiative, The Times of India, 13 July 2015
48. NSDC Newsletter, April 2015
49. RASCI vision, RASCI website, http://www.rasci.in/Vision.php, 2015

3.3 'Make in India' – success stories

Home and kitchen, apparels, sports goods and accessories, health and nutrition are few key FMCG categories that have been dominated by Indian manufacturers. However, based on KPMG in India's discussion with key players in the retail sector, the opinion of the industry is that those in the age group of 16 to 35 years have an affinity for products that are made in India, across various categories.[50]

This trend has encouraged retailers to give dedicated shelf space to showcase products that are made in the country, particularly handicrafts. For example, a leading e-retailer in India with over 100,000 merchants in its network[51] has launched a 'Make in India' section on its website, promoting indigenous apparel, accessories and goods made by small manufacturers. The organisation's initiative of National Retail Heritage (NRH) collection offers merchandise from India's iconic markets such as jewellery from Jaipur, ethnic apparel from Surat and textiles from Tirupur.[52]

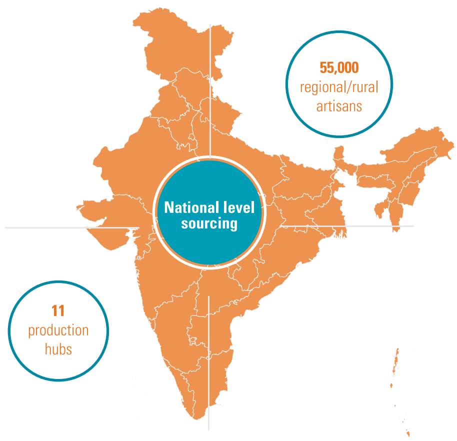
Case study - Weaving scale into traditional crafts

FabIndia has been one of the pioneers in the retail sector to source exclusively 'made in India' products. The company, which started operations in 1960 as an exporter, entered the retail business in 1976. Today, FabIndia is present in 189 stores across 75 cities in India and 8 stores abroad.

FabIndia owes its success to the creation of a robust supply chain through 11 Production Hubs at the grassroots level. FabIndia provides access to markets for goods that are produced using traditional techniques and skills. It provides opportunity for sustainable livelihood for artisans and crafts persons, largely in rural India.

The company has provided skills and management training to artisans, resulting in improved quality of hand-crafted products which could be sold at a premium, as well as a reduction in procurement cost over time.

Sustainable business model



Source: FabIndia website, http://www.fabindia.com

It is important to note, however, that this trend is not new. Retailers have a history of acting as catalysts for promoting entrepreneurship among small and regional players in the country. Companies, such as FabIndia. have built their business model around the 'Make in India' theme, with the dual impact of preserving traditional crafts and improving the appeal as well as, premiumisation, of such products.

50. KPMG in India's analysis based on industry discussions, 2015
51. Indian e-commerce: Shopclues emerges as challenger to Flipkart, Amazon, others, The Financial Express, 14 April 2015
52. E-commerce marketplaces are organising the otherwise unorganised marketplace, Business Insider, 16 February 2015

3.4 Challenges in achieving the 'Make in India' dream

The 'Make in India' initiative holds potential to transform India into a manufacturing leader for FMCG and retail sectors, globally. Manufacturing for consumer goods sectors needs to be revived on the three pillars of:

i) Raw material availability
ii) Labour availability
iii) Cost competitiveness.

While India scores well in all the aforementioned parameters, there are a few critical factors that have set the sector back. The biggest of these are the lack of adequate infrastructure, and a complex regulatory and business environment.[53]

Global rankings based on secondary factors impacting the manufacturing growth

	Ease of doing business[54]	Logistics performance[55]	Corruption perception[56]	Overall business environment	Global competitive Index[57]	Infrastructure[58]
India	**142**	**54**	**85**	**57**	**71**	**87**
China	90	28	100	50	28	48
US	7	9	17	7	3	12
UK	8	4	14	8	9	10
Japan	29	10	15	27	6	6
Thailand	26	35	100	34	31	48

India ranks poorly on the non-cost parameters, when compared with its global counterparts. It ranks among the lowest in the World Bank's rankings on ease of doing business for 2015. In the global survey conducted by the World Bank, India had dismal rating on most of the key determinants of investment attractiveness, such as starting a business, acquiring land, getting construction permits, enforcing contracts and regular tax payments. In addition, India's perception in terms of corruption is also very poor, ranked at a low 85 out of 175 countries.

India also scores poorly in terms of the state of its overall infrastructure as well as development of the logistics sector. The government has announced a major push in the infrastructure sector, with increased spending, creation of a National Investment and Infrastructure Fund (NIIF) with an annual investment of INR200 billion (USD3.2 billion) and tax-free infrastructure bonds to fund road, railways and irrigation projects.[59] The results, however, would take time to show as infrastructure projects typically have long lead times to completion.

53. Industry discussions with KPMG in India, 2015
54. Industry discussions with KPMG in India, 2015
55. Ease of doing business index – Economy Rankings, The World Bank, 2015
56. Logistics Performance Rankings, The World Bank, 2014
57. Corruption perception Index, Transparency International, 2014
58. Global Competitive Index 2014-15, World Economic Forum, 2015
59. India's budget: it's not a sprint, it's a marathon, BNP Paribas website, http://investors-corner.bnpparibas-ip.com/investment-themes-for-2015/emerging-markets/indias-budget-its-not-a-sprint-its-a-marathon/, 03 March 2015

The food processing industry is an example where secondary factors have stalled the government's plans for sector development. In the 11th Five year plan, the Ministry of Food processing Industries (MoFPI) launched the Mega Food Park (MFP) scheme to promote SMEs in the food processing and farm products sectors. Since then, 42 mega parks have been given in-principle approvals; however, only five MFPs have started operations.[60]

Case study - Mega food park scheme

42 Mega food parks

1. MoFPI plans to set-up 42 MFPs across India under public-private partnerships at an investment of INR9,800 crore.
2. These parks, collectively, would establish 1,200 food processing plots, where the government would facilitate basic infrastructure for food processing. Foreign and domestic Food processing, can take plots on lease and set up their manufactruing units.
3. However, since the inception of this scheme in 2009, only five food parks have been operationalised till date.

Key barriers to success

Lack of interest from the industry stems from the belief that the existing size of plots in food parks is geared towards the SME sector and is not large enough for manufacturers to set up large scale units.

Lack of access to adequate finance due to food parks being a relatively new business model.

Land acquisition issues and land use change delays have delayed operationalisation of food parks.

Multiple regulatory approvals required from both central and state governments contribute to operationalisation delays.

Source: Food Processing, Make in India website, http://makeinindia.com/sector/food-processing, 2015; Not a walk in the park, Business Today, 05 July 2015; Industry discussions with KPMG in India, 2015

> "Land acquisition for setting up new manufacturing plants is highly complex and time consuming. It may take you years to get the necessary clearances and approvals, which might impact your growth plans."
>
> - **Sanjeev Puri**
> President, ITC

During our industry discussions, it was noted that a majority of respondents from FMCG and retail sectors have highlighted that complexity of the licensing and taxation systems is a major hindrance to business growth. Larger corporations seem to have the capacity to absorb the time and cost impacts, but such complexities are a major challenge for SMEs, who are also suppliers for these companies. The industry recommends an effective single window system to ease the complexities of doing business in the country.

To boost manufacturing in FMCG, textiles, electronics and footwear sectors, issues such as non-uniform and stringent FDI and environmental norms, delay in implementation of Goods and Services Tax (GST) and lack of skilled workforce need to be addressed.

60. MoFPI Annual Report 2014, KPMG in India's analysis based on industry discussions, 2015

4 SM'A'RT – authenticity of products

Introduction

India is considered as a hot market for luxury goods and e-commerce. This growth directly or indirectly contributes to the growth in trade of counterfeit or fake products. The fake industry, if we may say, impacts not just the business or government but also the society at large. This lucrative business appeals to consumers who aspire to possess high-end branded products; however, the recent trend shows that this applies even to people who can shell out the required money. Several international brands are also seen going for cheaper substitutes, further adding to the downfall of the retail industry. It is not just the hawkers that we see around the city, but also e-commerce websites who contribute to the growth of the fake industry. The lucrative deals offered by e-commerce websites does lure consumers in purchasing the products, as most would rarely question the authenticity of these goods, since they come from trusted e-commerce giants/brands. The attractive presentation and packaging of these products makes it difficult to tag them as they often look similar to the originals.

Over the last decade, India has witnessed a rapid growth in the trade of such goods. Also, the country's large consumer base makes it an attractive destination for trade in counterfeit goods, and has enticed many of the counterfeit goods' manufacturers and traders to target the country's consumers, particularly in the consumer goods sector. As per the article published by a leading newspaper daily in 2014, e-commerce websites contribute up to 25 per cent to the fake goods industry. The same article quotes that the counterfeit luxury market is growing at the rate of 20 per cent. [61]

Less aware Indian consumers and small businesses knowingly or unknowingly get lured by the low prices of counterfeit goods, with disregarding to the quality. Existing laws and regulations such as copyrights, Intellectual Property Rights (IPR) and hallmarks; and consumer awareness programme such as 'Jago Grahak Jago' do not seem to have much impact in curbing this menace.

The counterfeit market in India accounted for more than INR1 trillion[62], in 2014. This raises an the dire need to have more powerful laws against this illegal trade. A major challenge lies before manufacturers and retailers in India, whose businesses are is largely impacted due to this industry. In addition, counterfeit goods that have been manufactured in India are increasingly finding their way into the global market. As a consequence, since 2010, India has been on the US Priority Watch List of countries that are more exposed to IPR violations globally.*

India on the US Priority Watch List, 2015*

India was among the ten countries on the Priority watch list of the U.S. in 2015. As per the Special 301 Report prepared annually by the office of the United States Trade Representative, while the whole of India reported trade of counterfeit goods, metro cities are identified as the most notorious for producing and exporting large quantities of fakes. Nehru Place and Palika Bazaar in New Delhi, Richie Street and Burma Bazaar in Chennai, Manish Market, Heera Panna, Lamington Road and Fort District in Mumbai, and Chandni Chowk in Kolkata – are the key places which need strict vigilance for their high-volume trade of fake goods.

The report highlighted serious concerns over India's inadequate legal framework and ineffective enforcement.

As per the US Trade Act 1974, a 'priority foreign country' classification is the worst of its kind, given to those that deny adequate and effective protection of IPR or fair and equitable market access to US entities relying on IPR protection.

Source: *Special 301 Report of the United States Trade Representative (USTR)', https://ustr.gov/sites/default/files/2015-Special-301-Report-FINAL.pdf, accessed on 30 July 2015

61. Online shopping portals account for 25% of counterfeit goods sales: Study, DNA News, 20 April 2014

62. Illicit Markets – A threat to our national interests, FICCI – CASCADE, April 2015

Production and trade in counterfeit goods has become a serious challenge for the industry's growth prospects. Production of low-quality counterfeit goods that enter the global market significantly undermines the 'Make in India' goal and damages India's reputation as a manufacturer of quality products.

4.1 The market of counterfeit goods

Trade in counterfeit goods is a clandestine activity, making it a challenge to quantitatively assess the true size of the market of such products in the country. Consumer goods sectors that are relatively more prone to counterfeit trading in India are alcohol, consumer packaged goods, personal care products, tobacco, mobiles and mobile components, automobile components, and computer hardware and software. The estimated value of counterfeit and smuggled goods in these seven sectors, grew from INR729 billion in 2012 to INR1,054 billion in 2014.[63] The growth rate for counterfeit goods of over 44 per cent per annum is significantly higher than the rate at which the overall consumer goods market in the country is growing.

Based on the consumer perception of purchase, the market of counterfeit goods can be classified into two broad categories:[63]

Types of counterfeit trade

Deceptive counterfeiting- where consumers unknowingly purchase counterfeit products at the price of genuine goods.

Lack of awareness and incapability to differentiate between genuine and fake goods act as key drivers for the deceptive counterfeiting trade.

Non-deceptive counterfeiting- where consumers willingly buy fake or pirated products, at relatively lower prices than genuine goods. For instance, pirated DVDs, fake 'luxury' watches and fashion accessories are common non-deceptive counterfeit goods in India.

Typically, consumers with high aspirations, but limited purchasing capacity, opt for buying fakes. Most of the time, such consumers are unaware about the possible negative consequences of purchasing fake products.

According to the industry views counterfeiting is more prevalent in rural and 'rurban' areas compared to urban areas, and there seems to exist a strong link between the reach of a company's direct distribution, i.e., reach of the distributors' sales force that services retailers in the assigned territories.[64] In the case of FMCG in particular, retailer who do not fall in the immediate territory for a rural area distributor or are considered to be too small to be 'economically viable' to service, are abandoned and forced to rely on wholesalers for merchandise purchase. With limited capital, these retailers, get easily lured by the promise of relatively low risk and high margins and join in the trade of counterfeit goods.[65]

A Marketing and Research Team (MART) study, conducted in 2013, reveals that counterfeiting is more popular for small package sizes for FMCG products, targeting consumers with low purchasing power. Rural consumers are known to be more brand loyal when compared to urban consumers.[66] Also, their aspirations are rising, due to economic development and growing communication technology. The less aware or illiterate segment of the rural population becomes an attractive target for imitated brands, presenting a huge market for such goods. The supply gap created by lack of direct reach, therefore, acts as a driver for counterfeit goods.

63. Illicit Markets – A threat to our national interests, FICCI – CASCADE, April 2015
64. KPMG in India's analysis based on industry discussions, 2015
65. KPMG in India's analysis based on industry discussions, 2015
66. Brand Imitation, Counterfeiting and Consumers, Indian Institute Of Public Administration, 2013, p48

4.2 Impact of counterfeiting

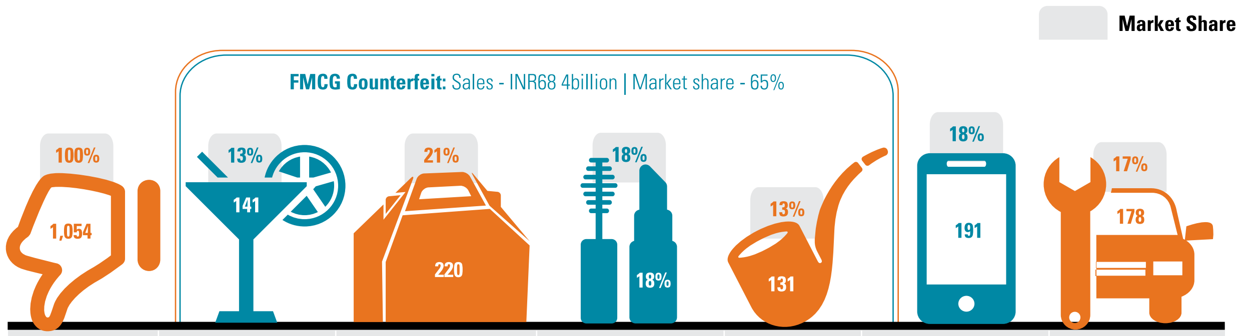
Counterfeit products have an impact on both producers and consumers; on one hand the producers risk damage to their brand image, and consequently on sales; on the other hand, consumers pay excessively for low quality products that could possibly have health and safety risks. Counterfeit products are a challenge for the government as well. Being a clandestine industry, the manufacture of counterfeit products causes a substantial loss to the exchequer in terms of lost tax revenue. In addition to and having health and safety risks, spurious counterfeit products also put a strain on the public health system.

Industry – legitimate businesses suffer significant losses in terms of sales, profits and goodwill to counterfeiters every year in India.

Technological advancement, especially in the print industry, has helped counterfeiters create replicas of leading FMCG brands, thereby, making the FMCG and alcoholic beverage's sector more vulnerable to the illicit trading of counterfeits in India. In 2014, the overall counterfeit sales of FMCG, alcoholic beverages and tobacco goods constituted 65 per cent of the total counterfeiting sales in the country, accounting for loss of sales of over INR684 billion to the Indian FMCG manufacturing sector.[67]

Counterfeit/fake and pirated market – top seven manufacturing sectors in India

Fake/pirated goods market- 2014 (INR billion)



Total loss	Alcoholic beverages	FMCG packaged goods	FMCG personal goods	Tobacco	Mobile Phones	Others (Auto components)
30.8%	60.2%	7.2%	21.9%	31.7%	52%	22%
Growth % in last 2 years						

Source: Illicit Markets – A threat to our national interests, FICCI – CASCADE, April 2015

67. Illicit Markets – A threat to our national interests, FICCI – CASCADE, April 2015

The salience of counterfeit products in almost all sectors, with the notable exception of FMCG packaged goods, is estimated to have grown by more than 20 per cent. Low growth rates of counterfeit FMCG packaged goods (7.2 per cent growth during 2012-14) can be attributed to FMCG companies focussing on the technological advancements and innovative packaging solutions, making it difficult for counterfeiters to 'crack' or replicate their products.

It is estimated that the grey market per centage for alcoholic beverages is close to 17 per cent.[68] The counterfeiters often refill empty bottles with illicitly produced alcohol and sell them as genuine products. This increases the level of direct competition for liquor brands, especially in the mass segments, with the genuine brand vying for market share with the illicitly manufactured counterfeit.

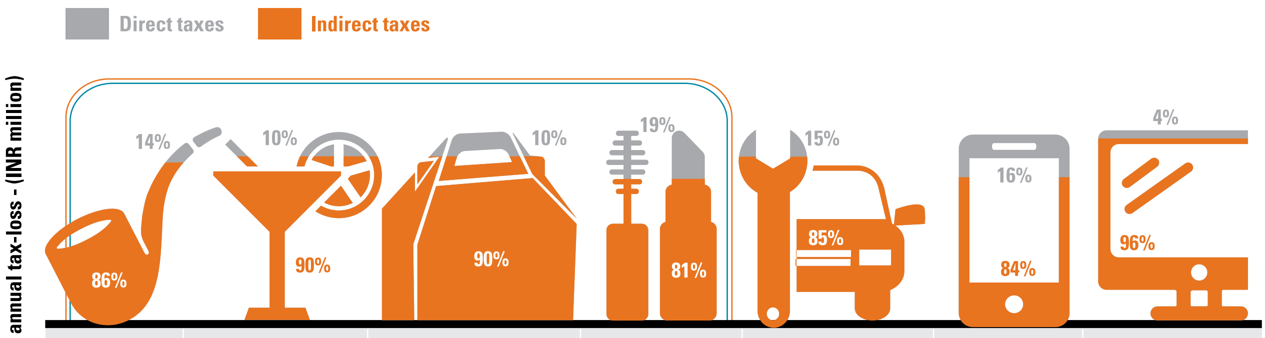
Such 'deceptive counterfeiting' results in loss of goodwill and trust, with consumers blaming genuine brands for poor quality of goods (replicas) purchased by them, consequently resulting in loss of brand equity. Additional expenditure on technology to protect brands from counterfeiting and creating consumer awareness positively impacts margins of the industry.

This issue gets magnified for SMEs who lack the capacity to compete with counterfeits, which significantly affects their operations.

Government – industry loss is exchequer loss

The most direct impact of counterfeiting to the government is loss in tax revenue. In 2014, the Government of India lost about INR392 billion in tax collections to the counterfeit trade in the country, an increase of 50 per cent from INR261 billion in 2012.[68] Out of this, **FMCG and alcoholic beverages sectors accounted for a loss of about INR275 billion, i.e. approximately 70 per cent of the total estimated loss.**

Loss of revenue to the government in 2014 – INR392,370 million



Tobacco	Alcoholic beverages	FMCG packaged goods	FMCG personal goods	Auto components	Mobile Phones	Computer Hardware
91,390	63,090	60,960	59,530	31,130	67,040	19,230
46%	151%	8%	28%	14%	111%	56%

Segment wise estimated tax loss growth (%) – over 2012-14

Note: Indirect taxes represent excise duty and VAT on domestic manufacture and import duty and VAT on imports and direct taxes represent corporate income tax
Source: Illicit Markets – A threat to our national interests, FICCI – CASCADE, April 2015

68. Illicit Markets – A threat to our national interests, FICCI – CASCADE, April 2015

The indirect impacts are also severe - gains from trading in counterfeit goods act as a source for illicit and anti-national activities such as money laundering and narcotics trade, among others. Although there has been no direct attribution of counterfeiting to such activities as yet, the social and economic cost as a result of these activities is significantly higher than the more tangible loss to the exchequer.

Economy – aiding a parallel economy

The impact of counterfeit products on the industry and the exchequer negatively affects the GDP of the country, and provides a source of black money for economic crimes such as money laundering.

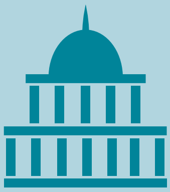
Another key impact of counterfeiting is the downward pull on employment and skills. Loss in sales leads to a cascading effect on production, especially for legitimate SMEs. This, in turn, results in potential job losses, especially for vulnerable SMEs, as many of them lack capacity to compete for market share with counterfeits. Additionally, workers in the counterfeit industry have to deal with poor working conditions with no vocational skill training, with salaries often lower than the minimum wages.[69]

Overall impact of the trade of counterfeit/fake or smuggled goods in India

Consumer

- Breach of trust
- Health and safety risks

Government



- Loss of tax revenues
- Investments on anti-counterfeiting and anti-summugling measures
- Additional spends on public welfare funds such as consumer awareness campagins

Economy

- Increases flow of black money
- Degradation of employment
- Impacts innovation and growth
- Funds criminal activities

Companies

- Loss of sales and profitability
- Loss of brand image and goodwill
- Additional spending on awareness campaigns and special packaging
- Brand and trademark dilution

Source: Illicit Markets – A threat to our national interests, FICCI – CASCADE, April 2015; Industry discussions with KPMG in India, 2015

69. Industry discussions with KPMG in India, 2015

Consumers – the biggest victims of counterfeiting

The consumer not only pays excessively for counterfeit products, but the usage of such substandard products also opens them to health and safety risks, thereby making them the ultimate victim of counterfeiting.

Fake products are made up of poor quality materials, and can pose a serious threat to consumer health, hygiene and safety. For instance, there have been many occurences of fake batteries exploding or catching fire. In the automotive spares industry, fake and poor quality components, such as brake pads and spark plugs, can catastrophically fail when subjected to routine mechanical forces. Counterfeiting in packaged food has resulted in many cases where consumer health has been impacted, and brand equity built over many years has suffered.

In India, about 80 per cent of the consumers buying counterfeit goods are victims of deceptive counterfeiting, i.e. they buy fake goods in the belief of buying genuine ones.[70] The fact that such a large number of consumers is exposed to counterfeit goods, more so in rural areas, only compounds the problem and demands immediate action.

70. Counterfeiting, Piracy and Smuggling in India – Effects and Potential Solutions, BACCP and FICCI report, 2013

A threat to national image

During 2014-15, the US Food & Drug Administration rejected over 2,100 imported batches of 'Made in India' products across food, personal care and health categories. Interestingly, most of these batches were tagged with the leading Indian FMCG and retail companies. In various interviews, these companies have declared these batches as counterfeits. Few companies have also highlighted that the batches were shipped by unauthorised third-party importers/distributors and were not ready to ship to the USA.

Source: 2,100 batches of Indian goods including those made by HUL, Britannia, Nestle, Haldiram fail to gain entry in US, The Times of India, 13 June 2015

4.3 Industry leading practices

Given the scale of complexity and the impact counterfeiters have on the manufacturing sector, what is needed is a multi-disciplinary approach involving industry experts and bodies, civil society, media, state and central governments, and the local law enforcement bodies.

In a joint initiative, leading FMCG companies in India have joined hands with FICCI to initiate a syndicate of all consumer sector companies, media agencies, consumer activists, legal experts, and research company AC Nielsen. This syndication has set up a Brand Protection Committee which aims to sensitise its members to fight against counterfeiting and smuggling, and to raise awareness amongst consumers across India.[71]

Industry initiative

Brand Protection Committee's four-fold strategy

Focus on enforcement and application of laws

Actively publicise the negative economic impact of duplicate/ fake products

Take direct action against illegal manufacturers, traders, wholesalers and retailers

Enhance communication among the stakeholders

Legal framework in India to combat counterfeiting and piracy

While there are no specific laws dealing with counterfeiting in the country, there are provisions in existing laws that address this issue. Some of these laws are:

- The Indian Penal Code, 1860
- Drugs and Cosmetics Act, 1940
- Prevention of Food Adulteration Act, 1954
- Consumer Protection Act, 1986
- Bureau of Indian Standards Act, 1986
- Trademarks Act, 1999
- Copyrights Act, 1957
- Design Act, 2000

Source: Fighting the crime of the 21st century, FICCI report, 2012

71. Spurious/Fake Products: An Abuse to Indian Markets, School of Management Sciences report, 2010

Some large businesses have been increasingly pro-active in targeting fake products by focussing on packaging manufacturers and label printers to curtail the misuse and misrepresentation of their brands in the market. Some FMCG companies have established **separate security departments** that work in collaboration with judicial/police authorities to identify and close down internet sites or physical shops selling counterfeit products. One of India's leading beverage company has set up a consumer response coordination system, through which it tracks and monitors reports and complaints about counterfeit products that carry its branding in the country.[72] A global sports footwear and apparel company conducts periodic audits of its suppliers and retailers, as well as monitoring online listings on e-commerce sites, as a response to curtail counterfeiting.[72]

Companies are also making significant **investments in technology** to upgrade their products and make replication difficult for manufacturers of counterfeit goods. For instance, one of the leading personal care FMCG companies initiated special tamper-proof packs for their fragrance products, with undetachable nozzles. Most of the FMCG manufacturing players have been periodically upgrading their product packaging or launching new product variants to create awareness among consumers about the possible ill effects of using their brand replicas.

International case example - awareness through comics

'Manga' comics in Japan - spreading awareness about counterfeiting

In Japan, in order to reach out to children and young consumers who are potentially more easy targets for counterfeiters, 'Manga comics' have been used to spread awareness about counterfeiting, and are considered as an important example by the World Intellectual Property Organisation (WIPO)

Source: The Manga phenomenon, World Intellectual Property Organisation, http://www.wipo.int/wipo_magazine/en/2011/05/article_0003.html, September 2011

72. KPMG in India's analysis based on industry discussions, 2015

Leading e-retailing industry practices to keep fake goods at bay

The e-commerce retail industry is the third largest category in registering maximum complaints for fake and counterfeit goods, next to telecom and consumer appliances.[73] While all online portals put noticeable disclaimers for all its shoppers to spread awareness about fake goods, they also undertake stringent measures to avoid such vendors on their marketplaces. Companies encourage customers to avail easy returns in case of deliveries of any fake products.

Bringing an end to counterfeit trade from India would require all industry stakeholders including consumers and media agencies, to come together, find for and implement global best practices as well as focus on long-term consumer awareness campaigns such as 'Jago Grahak Jago'.

Leading e-retailing industry practices to keep fake goods at bay

E-commerce

#3

among major sectors registering maximum consumer complaints for sale of fake goods, next to telecom and consumer appliance sectors

51%

of total e-commerce complaints were against leading e-tailing brands

Pro-active measures

Level 1 measures Building awareness

- 'Beware of fake' disclaimers – practiced by almost all online marketplaces in India
- Internal trainings to employees and regular internal audits to ensure due diligence in the vendor selection process

Level 2 measures Legal checks

- 'Vendor profiling', covering all legal aspects including entity structure, background checks, etc.
- 'Category profiling', where all products are classified into various risk categories
- Random sampling by mystery shoppers to keep a quality check on goods shipped by sellers directly

Level 3 measures Data analytics

- 'On-ground' teams to monitor sellers
- 'Three tier' rating for all vendors through data analytics
- 'Defect rate' methods, where sellers having defect rates of more than 5 per cent are monitored specifically

Re-active measures

- Regular legal health checks – any documentation issue leads to blacklisting of seller
- Easy return policies to encourage customers to return fake goods
- Cancellation of a seller license within 36 hours or receiving a counterfeit-related complaint

Source: How e-retailers such as Flipkart, Amazon are keeping fake products at bay, The Economic Times, 08 January 2015; KPMG in India's analysis based on industry discussions, 2015

73. How e-retailers such as Flipkart, Amazon are keeping fake products at bay, The Economic Times, 08 January 2015

5 SMA'R'T – responsible business

Introduction

Post the economic liberalisation, there has been a considerable increase in the Indian consumer base. Enterprises in the consumer space have also grown with the consumer, and touched their lives on a daily basis through their products and messaging. In addition to consumers, as the size and reach of enterprises expand, their business impacts a larger number of people, from their suppliers and distributors, to the communities, such as manufacturing, which are impacted by their operations.

As enterprises increasingly become part of the social system, they are accountable not only to their shareholders (in terms of revenue and profitability), but also to the society in general. This makes adoption of responsible business practices vital from the social and environmental standpoint.

In India, the concept of corporate responsibility is age old, and has evolved with time in four phases.[74] In the first phase, from 1850-1914, the activities were typically restricted to donations to religious institutions and social causes. The second phase, from 1914-1960, was strongly influenced by Mahatma Gandhi's theory of trusteeship, with the primary aim of social development. The third phase, from 1960-1980, was dominated by public enterprise, with focus on labour standards and equitable distribution of resources. The fourth phase (1980 – 2000), was characterised partly by philanthropic engagement, and partly by the voluntary and legislative integration of corporate responsibility into corporate policy.

Liberty Shoes Limited – a Gandhian legacy

A few years before India's independence, in 1944, the founders of the Liberty Group, Dharam Pal Gupta, and his younger brother Purshottam Das Gupta, inspired by the call of social upliftment made by Mahatma Gandhi, started a shoe retail co-operative in Karnal in undivided Punjab. In 1954, they were joined by their nephew Raj Kumar Bansal, and the co-operative was converted into a brand business known as Liberty Footwear Company. Today, Liberty Footwear has become into one of India's largest leather footwear manufacturers, producing more than 50,000 pairs a day, a long way from its humble beginnings as a small shop in Karnal, making only four pairs a day.

Source: KPMG in India's analysis based on industry discussions, 2015

74. Corporate social and environmental responsibility in India – assessing the UN global compact's role, German Development Institute, 2007, p2

5.1 Current scenario

The present phase (2000 – onwards) is highlighted by enterprise-level initiatives and the concept of a triple bottom line (economic, social and environmental impact) being adopted by organisations, and formalised through legislation. Apart from enterprise and legislation, the area of responsible business has seen growing interest from the consumer's side. With a faster flow of information owing to the multitude of media that have evolved, consumers are much more aware. Responsible business has become too an enabler for building trust with the consumer. This period has also seen several FMCG companies in India taking the initiative with regard to the consumer health and safety, be it through packaging innovations that are tamper- and contamination-proof, or through voluntary product recalls, despite there being no legislation compelling them to do so.

Businesses have realised that apart from building social capital, corporate responsibility can become a tool for growing the business as well. As a result, many companies have integrated it into their value chain of the company.

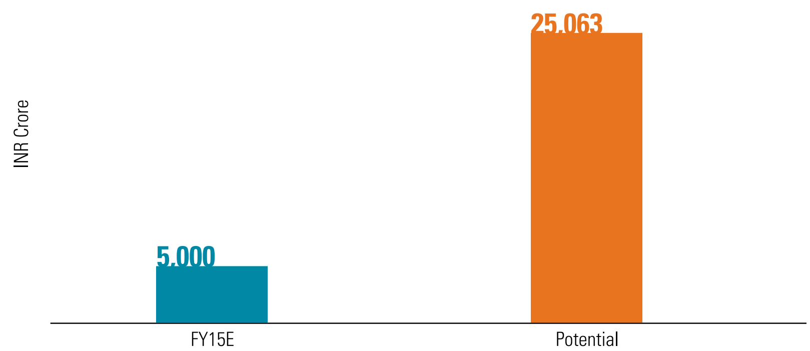
Amway India – child care through CSR – Amway Opportunity Foundation (AOF), the CSR arm of Amway India, works towards uplifting underprivileged children. AOF's National Project for the Visually Challenged had ensured that 85,000 school-going children had access to Braille textbooks through 15 projects undertaken in 12 states across India. In 2008, AOF launched the global One By One campaign for children in India, and partnered with 63 NGOs and institutions working in the areas of education and healthcare . AOF also launched 'Project Sunrise', which is aimed at helping Indian orphanages and children's homes, provide children with clean drinking water, education and nutrition, improving their basic healthcare.[75]

Legislation too has formalised the responsibility of corporates towards society. The legislation regarding corporate governance, labour and environmental issues has been in place for many years, but till recently there was no formal way to measure an organisation's impact on the triple bottom line. The Securities and Exchange Board of India (SEBI) in its notification on 12 August 2012 mandated the inclusion of business responsibility reports for the top 100 listed companies.[76]

The revised Companies Act of 2013, which came into effect from 01 April 2014, has followed up on this and mandates that any company with a net worth of more than INR500 crore, or a turnover of INR1,000 crore, or a net profit of INR5 crore or more should mandatorily spend at least two per cent of its last three years' average net profits on CSR activities, as specified in Schedule VII of the Companies Act 2013.[77]

The estimated social sector engagement by companies is estimated to be at INR5,000 crore[78], however, if the criteria is broadened to include all companies that come in the ambit of corporate tax, the amount can potentially reach INR25,000 crore[79], or three times the present estimated spends on CSR.

CSR spends by Indian companies



Source: Private firms unlikely to meet CSR target, Livemint.com, 25 March 2015

75. Direct selling - A global industry empowering millions in India, KPMG in India-FICCI report, 2014
76. Notification on Business Responsibility Reports, SEBI, 13 August 2012
77. Gazette Notification, Ministry of Corporate Affairs, 27 February 2014
78. Private firms unlikely to meet CSR target, Livemint.com, 25 March 2015
79. Union Budget 2015-16; KPMG in India analysis

5.2 Responsibility towards the environment

Environmental responsibility is a key component for driving a responsible business. The Indian consumer markets sector seems to have recognised this, with a majority of CSR activities focussing on the environment.[80]

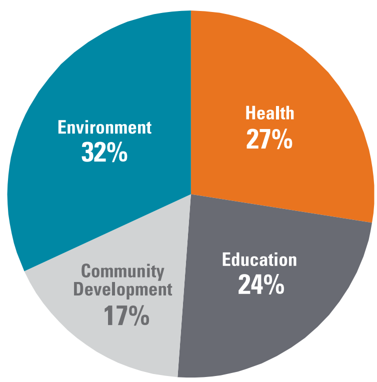
In the Indian context, environmentally sustainable consumption is a subject that is becoming more relevant as the consumption patterns of Indian consumers are changing with the improvement in the country's economic condition of the country. Now that the economy seems poised for higher growth in the coming years, it would be important to address the issue of sustainability of the resources used to fuel the consumption story through a framework of Sustainable Consumption and Production (SCP).[81]

India has a fairly well-developed legislative and legal framework in place for the protection of environment and resource conservation during production. However, these policies do not, in their present form, pay attention to the consumption of products as a driver of resource use. There are some sectors though where the government has promoted use of green products; for example, the Bureau of Energy Efficiency's star rating for energy appliances based on energy efficiency.[82]

In the FMCG and retail sectors, packaging is an area of key concern in terms of sustainable consumption. The major companies in these sectors comply and sometimes go beyond legislation to ensure the packaging is recyclable or already recycled, and safe. The e-commerce industry has become a big consumer for recycled corrugated boxes as packaging containers.[83] The sSMEs, however, especially those in the unorganised sector seem to have little knowledge or incentive to move towards more sustainable packaging.

The problem becomes more acute when it comes to product disposal. Though there is some traction on waste segregation at source, this has not been effectively implemented across towns and cities in India. Waste segregation in India is an unorganised industry, and typically happens upon collection or at the landfill by waste collectors. Despite the absence of an organised plastic waste collection and recycling industry, India has one of the highest plastic recycling rates (60 per cent of all plastics) in the world. However, this still translates into more than 6,000 tonnes of plastic waste that is not recycled.[84]

Segregation of major CSR activities undertaken by consumer goods firms in 2012-13



Source: An Analysis of Corporate Social Responsibility Expenditure in India, Economic and Political Weekly, 13 December 2014

80. An Analysis of Corporate Social Responsibility Expenditure in India, Economic and Political Weekly, 13 December 2014
81. Communicating Green Products to Consumers in India to promote Sustainable Consumption and Production, Green Purchasing Network of India, 2014
82. Notification on Business Responsibility Reports, SEBI, 13 August 2012
83. KPMG in India's analysis based on industry discussions, 2015
84. India reports plastic waste and recycling statistics, Plasticsnews.com, http://www.plasticsnews.com/article/20130501/NEWS/130509998/india-reports-plastic-waste-and-recycling-statistics, 01 May 2013

Brazil - using entrepreneurial networks to recycle multilayer packaging

In 1997, one of the world's largest manufacturers of aseptic packaging took an initiative to address the problem of environmentally safe disposal of post-consumption aseptic cartons in Brazil.

The biggest hurdle the company faced was the low rate of selective collection. The lack of regulations on recycling meant waste management companies had no incentive to segregate household waste for recycling. The company addressed this problem by an extensive outreach program to schools, creating awareness among children on the importance of waste segregation in the house itself. In addition, the company contacted municipal councils who had the capability to recycle, and worked with them to form collectors' cooperatives. Though there were challenges, like competition from private recyclers who tried to break these cooperatives, the initiative eventually succeeded in creating viable cooperatives of garbage collectors across 347 municipalities. These cooperatives helped in segregating the waste and selectively collecting the aseptic cartons for recycling, to an extent that in the period from 2000 to 2005, recycling rates of aseptic cartons had doubled.[85]

Considering that India's per capita consumption of plastics at 9.7 kg[86] is much lower than other developing and developed countries and is only expected to increase, an effective mechanism at the packaging and post-consumption stage of the product cycle needs to be implemented to ensure sustainable packaging for FMCG products.

85. Empowering the bottom of the pyramid via product stewardship, INSEAD report, 2007

86. Potential of plastics industry in Northern India, FICCI report, 2014

5.3 Indian CSR structure within the UN Global Compact initiative

The United Nations Global Compact (UNGC) is a United Nations initiative to encourage businesses globally to adopt sustainable and socially responsible policies, as well as provide a framework on their reporting. The UNGC was launched in the year 2000, and has over 12,000 corporate participants in more than 170 countries.[87] The guiding principles behind the initiative correspond with the Millennium Development Goals, specifically covering the areas of human rights, labour, the environment and anti-corruption which companies are expected to adopt within their sphere of influence.[88]

The UNGC has a high participation rate by organisations, especially NGOs in India, primarily driven by the objectives of knowledge-sharing and exchange of best practices in the area of CSR as well as networking.[88] However, it is important to note that participation of Indian FMCG and retail is limited, and only two FMCG companies are members of the UNGC in India.[89]

The UNGC's influence on companies' CSR engagement

Overall, it is apparent that UNGC does not have a significant impact on companies' CSR engagement. Its framework stresses on reporting on CSR initiatives through Communications on Progress (COP) reports. Though many non-members of the UNGC do provide COP reports, almost 50 per cent of Indian companies fail to do so. Time constraints and a 'lack of benefit' from drawing up COPs are among key reasons for not reporting them. Furthermore, companies are willing to discuss only soft issues while bypassing controversial issues such as addressing human rights and corruption.[88] Consequently, companies' CSR activities continue to focus on community development and traditional CSR areas, such as social and environmental issues.

Communicating progress – importance of UNGC and COP

The government of India has taken the first step of making CSR participation mandatory, albeit for companies that follow a certain criteria. As more and more companies, especially within growing sectors like FMCG and retail, start coming into the ambit of this criteria, monitoring and reporting of CSR activities are expected to be included in the legislative framework. Equally important is the fact that as Indian companies expand their operations overseas to countries where CSR reporting is mandatory, existing membership of UNGC networks and compliance with reporting standards is likely to help ease market entry. With social responsibility increasingly influencing consumer decisions[90], communicating progress to the consumer would ensure a greater degree of trust in companies and the brands associated with them.

---

87. Foundation website, UN Global Compact, 2015
88. Corporate Social and Environmental Responsibility in India - Assessing the UN Global Compact's Role, German Development Institute, 2007
89. Membership profile, Global Compact in India, 2015
90. Meaningful brands – APAC results, Havas Media, 2015

5.4 Building trust with the consumer

Responsible business and consumer trust have a strong relationship. According to a study by Havas Media in 2012, 62 per cent of consumers surveyed in India said that they would pay up to 10 per cent more for socially and environmentally responsible goods. In addition, **85 per cent said that they trust companies with a responsible profile more than others.**[91]

Trust, in turn, is a driver of brand equity[92], and any incident that impacts brand trust can cause irreversible damage to its equity that has been built over time. The issue of trust is more critical in rural and 'rurban' markets, which are more prone to counterfeiting, especially for FMCG products.

Standardisation marks for products are a key enabler in building consumer trust. India has a comprehensive system of product certifications that are governed by law, and are managed by government agencies.

The standardisation marks can guarantee a level of product quality to the consumer. However, consumer awareness about standardisation marks and certifications is low at present.[93] Though awareness on the ISI mark is fairly high, other standardisation marks have significantly low awareness.[94] However, the 'Jago Grahak Jago' campaign has had a positive impact on consumer awareness.[95]

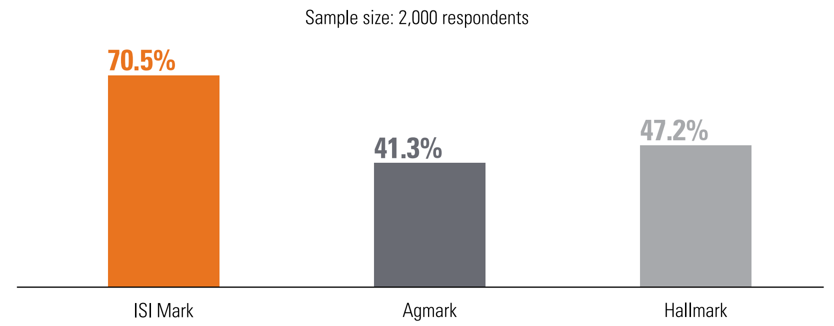
Government-enforced certification marks applicable to the consumer goods sector

Certification	Brief description	Certifying agency	Legal status
ISI Mark	Certifies that the manufactured product conforms to set standards	Bureau of Indian Standards	Mandatory for 123 items
Agmark	Certifies that the agricultural product conforms to set standards	Directorate of Marketing and Inspection	Advisory
Hallmark	Certifies that the piece of jewellery (gold or silver) conforms to set standards	Bureau of Indian Standards	Proposed to be mandatory
India Organic	Certifies that raw materials in the product were grown organically	Agricultural and Processed Food Products Export Development Authority	Advisory
Ecomark	Certifies that products conform to a set of standards aimed at the least impact on the ecosystem	Bureau of Indian Standards	Advisory

Source: Hallmarking of gold made mandatory, The Hindu, 04 January 2012

In parallel to the standardisation marks to help ensure quality, strong legislation is in place to protect the consumer rights, especially with regard to false advertising. In total, there are 15 Acts that have provisions related to advertising of consumer products.

Consumer awareness on standardised marks



Source: Impact and Effectiveness of Consumer Protection Act, Centre for Consumer Studies, 2013

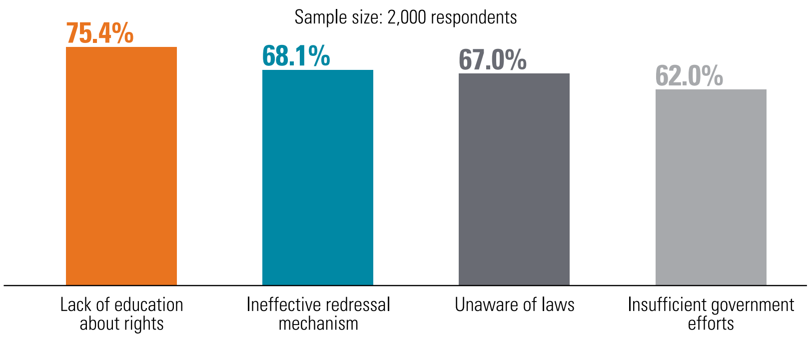
91. Meaningful brands – APAC results, Havas Media, 2015
92. Strategic Brand Management, Kevin L. Keller, 2003
93. Excellent Product Certification System is a pre-requisite for success, Press Information Bureau (Govt. of India), 19 January 2015
94. Impact and Effectiveness of Consumer Protection Act, Centre for Consumer Studies, 2013
95. Consumer protection movement faltering, The Times of India, 16 November 2014

Laws covering advertising across categories	Laws covering advertising within categories
The Consumer Protection Act, 1986	Drugs and Cosmetics Act, 1940
The Emblems and Names (Prevention of Improper Use) Act, 1950	Drugs and Magic Remedies (Objectionable Advertisements) Act, 1954
Trade and Merchandise Marks Act, 1958	Pre-natal Diagnostic Techniques (Regulation and Prevention of Misuse) Act, 1994
Cable Television Networks (Regulation) Act, 1995	Prevention of Food Adulteration Act, 1954/ Food Safety and Standards Act, 2005
Indecent Representation of Women (Prohibition) Act, 1986	Prize Chits and Money Circulation Schemes (Banning) Act, 1978
Monopolies and Restrictive Trade Practices Act, 1969	Prize Competition Act, 1955
	The Infant Milk Substitute, Feeding Bottles and Infant Foods (Regulation of Production, Supply and Distribution) Act, 1992 and Amendment Act, 2002
	Transplantation of Human Organs Act, 1994
	The Young Persons (Harmful Publications) Act, 1956

Source: An Analysis of Corporate Social Responsibility Expenditure in India, Economic and Political Weekly, 13 December 2014

The Consumer Protection Act of 1986, created a framework for grievance redressal for the Indian consumer. The aim of the act was to ensure the rights of consumers and protect them from exploitation by traders and service providers. The act has had the impact of enabling people to secure speedy and inexpensive redressal of their grievances. However, lack of awareness, particularly in rural areas, and negative perceptions regarding redressal mechanisms has dented the effectiveness of consumer protection legislations.[96]

Consumer awareness on rights



Source: Consumer protection movement faltering, The Times of India, 16 November 2014

96. Consumer protection movement faltering, The Times of India, 16 November 2014

5.5 The impact of false advertising on consumer trust

An advertisement becomes false or misleading if it deceives people, alters reality and affects buying behaviour. According to the US Federal Trade Commission[97], deception can occur when:

- There is misrepresentation, omission, or a practice that is likely to mislead.
- The consumer is acting responsibly in given circumstances.
- The practice is material and consumer injury is possible because consumers are likely to have chosen differently if there is no deception.

A significant source of misleading advertisements are the advertisements shown on dedicated teleshopping channels, an industry estimated to be worth USD500 million.[98] The advertisements typically target stay-at-home audiences in tier II and smaller cities, and are known to have significantly exaggerated claims on product functionality, quality, discounts and sales to influence the consumer's purchase decision.[98] Apart from traditional media channels, the rise of e-commerce and competition within e-retail has given rise to some websites using misleading advertisements to generate traffic (hits) or drive purchase by providing misleading product, pricing and delivery information. This has also given rise to a trend of paid product reviews on social networking websites or product pages.[99]

Examples of misleading advertisements

- Herbal products advertised to increase the height of a person significantly on regular usage
- Products claiming to re-grow lost hair through regular application, without any scientific proof
- A snack food product called 'diet', but having the same calorie content as regular snack food products.

In India, the Advertising Standards Council of India (ASCI), a Self-Regulatory Organisation (SRO) comprising of advertisers, agencies and the media, is the authority that addresses consumer complaints regarding standards and misleading advertising. According to the ASCI data, in the 12 month period from April 2014 to March 2015, out of the 1,351 complaints that were upheld, about 55 per cent were from the FMCG sector.[100] Within the FMCG sector, 90 per cent of the complaints were regarding health and personal care products, while the rest are regarding food and beverage, and other FMCG products.[101]

The large number of misleading advertisement complaints originating from the sector is a cause of concern. Misleading advertisements not only impact consumer trust and generate negative return on marketing spend, they can also harm the brand equity built over time.

A FICCI survey of industry stakeholders in 2013 revealed that despite the presence of ASCI, 56 per cent of the respondents felt that the existing self-regulatory framework was ineffective, with one of the reasons being that there was not enough knowledge among various stakeholders regarding the scope of the regulatory mechanism. Around 80 per cent of the respondents were also of the view that misleading advertisements need to be well defined and proactively monitored, especially beyond electronic media, and increase visibility outside the metros and urban consumers. The majority (64 per cent) of the respondents also believed, that similar to standardised marks and consumer protection legislations, consumer awareness regarding the complaint mechanism for advertising was low, despite regulations being at par with international standards.[102]

In its endeavour to address this problem, the Department of Consumer Affairs launched a dedicated portal for registering online complaints for Grievances Against Misleading Advertisements (GAMA) in March 2015. The focus of this initiative would be on misleading advertisements in six key sectors, which are food and agriculture, health, education, real estate, transport and financial services.[103]

97. FTC Policy Statement on Deception, US Federal Trade Commission (FTC)
98. Govt. tells broadcasters not to air ads that violate ASCI code, Livemint.com, 22 August 2014
100. Online Misleading Advertisement: Issues And Challenges, Legalbloc.com, https://legalbloc.com/wp-content/uploads/2015/05/Online-Misleading-Advertisement-Issues-and-Challenges.pdf, May 2015
101. KPMG in India's analysis based on the ASCI data, 2015
102. KPMG in India's analysis based on the ASCI data, 2015
103. Department of Consumer Affairs launches portal for redressal of grievances against misleading advertisements, Press Information Bureau, http://pib.nic.in/newsite/PrintRelease.aspx?relid=117262, government of India, 18 March 2015

6 SMAR'T' – technology and innovation

6.1 Impact of technology on the FMCG and retail sectors in India

In the past few years, consumer trends in technology have brought about a significant change in the way companies, especially those that are consumer-facing , such as FMCG and retail, conduct business. Traditionally, technology was considered as a tool to integrate business units and optimise production processes. However, with rapidly adopted advancements in technology, especially in the sector of Information and Communication Technologies (ICT), and industries alike, technology leadership has now become essential for growing and differentiating the business, and has emerged as one of the top priorities for businesses. Today, FMCG and retail companies depend on cutting edge technology, to enable them to offer an effective product mix at the optimal price and through the best available channels to their customers.

The retail industry has been at the forefront of this transformation through ICT, which is led by the growth of e-retail. The area of retail operations, especially supply chain and inventory management, has seen a significant change due to the innovative practices introduced by e-retail, such as the introduction of real-time customer data analytics. In addition, e-retail has helped grow and transform the logistics industry.[104]

The FMCG industry too has seen significant transformation through ICT, especially in terms of consumer connect. Social media platforms enable the industry to analyse customer sentiments. Managing customer interactions over such platforms is a significant challenge and opportunity at the same time for FMCG, as social media sentiments have the potential of impacting a brand's reputation significantly due to their reach and potential impact.

With government's initiative like the 'Digital India' and various other e-governance initiatives making the country more connected, IT is expected to become a core part of the marketing and business strategies for FMCG and retail businesses.[104]

104. Industry discussions with KPMG in India, 2015

6.2 Importance of digital media for the FMCG and retail sectors

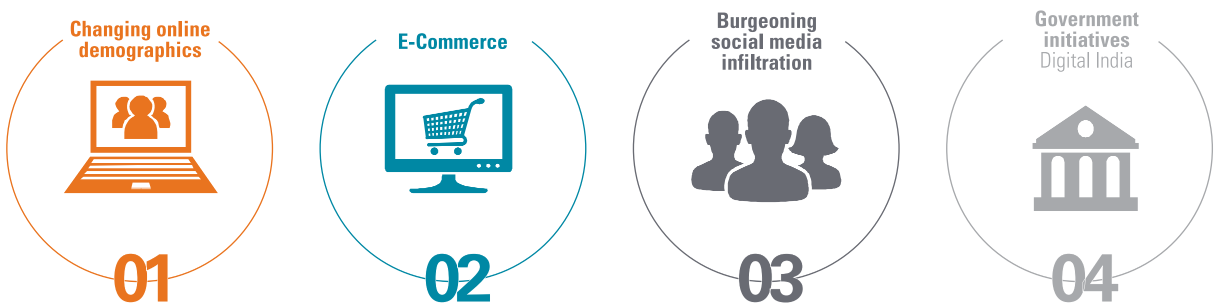
The rapid changes and adoption of the digital medium by both the industry and consumers, make it an important medium for consumer facing industries.

Trends such as increasing penetration of the internet due to affordable smartphones and tariffs, as well as government initiatives to improve digital connectivity, contribute to the growing importance of digital media. Some of the key trends are explained below:

Changing online demographics

India is estimated to have 350 million internet subscribers, and has the second largest internet user base in the world, which is expected to almost double to reach 640 million by 2019.[105] The increase in internet penetration is directly correlated to the penetration of internet-enabled devices, primarily through mobile internet devices such as smartphones – internet-enabled smartphones are projected to witness 30 per cent CAGR over 2014-19 – while 80 per cent of mobile internet access in 2019 is expected to be through 3G and 4G channels.[105]

Key trends

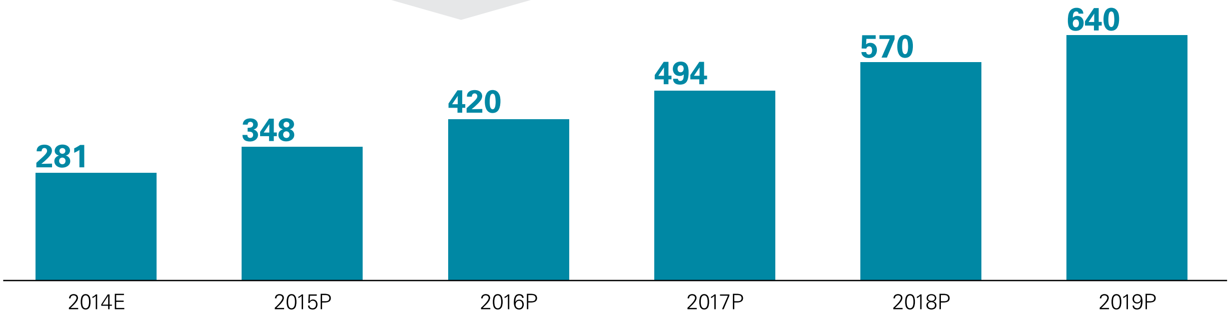


Illustrative

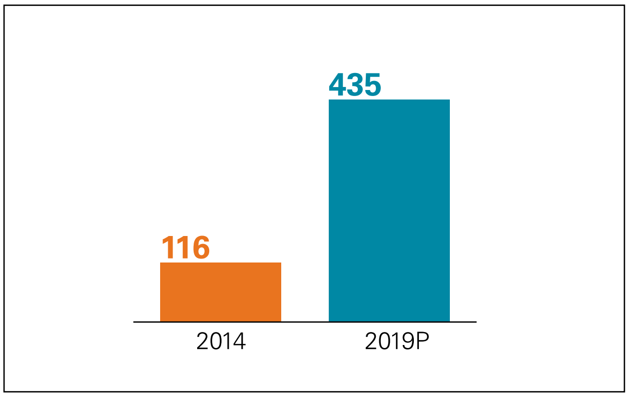
105. #shootingforthestars, KPMG in India-FICCI Frames report, 2015

Evolution of digitally equipped and connected consumers in India holds promising growth for consumer-driven industries

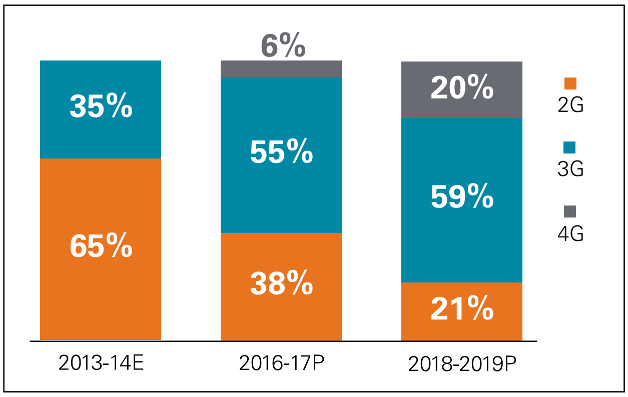
Internet users in India (million)



Internet enabled smartphones (million)



Breakup of data services revenues



359 million new internet users in next **5 years**

Out of this **359 million, about 89% new users** would access internet through smart phones

43% rise in 3G and 4G data usage

Source: #shootingforthestars, KPMG in India-FICCI Frames report, 2015

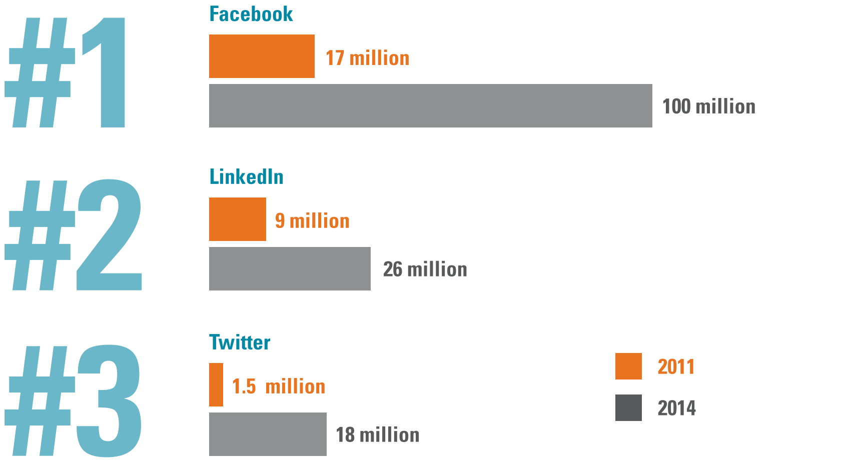
The rise of social media – Though it has only 19 per cent internet penetration and nine per cent penetration of social media, India is still one of the fastest growing markets in this sphere.[106] Social media sites such as Facebook, LinkedIn and Twitter have registered about 5.8X, 2.8X and 12X rise in number of users from India in the period 2011 to 2014.[107]

41 per cent active mobile users (i.e. approximately 71 million) on social media in 2014[107]

Social networking site users in India spend **2 hours and 31 minutes** on social media, on an average every day[107]

This trend is likely to continue growing, especially as private social media companies are also coming up initiatives to reach the under-penetrated rural areas in the country. For example, Facebook in collaboration with some telecom players has initiated the internet.org project that envisions to provide basic internet services to the Indian rural customer for free.[108]

Number of users for social media sites in India



Source: #shootingforthestars, KPMG in India-FICCI Frames report, 2015

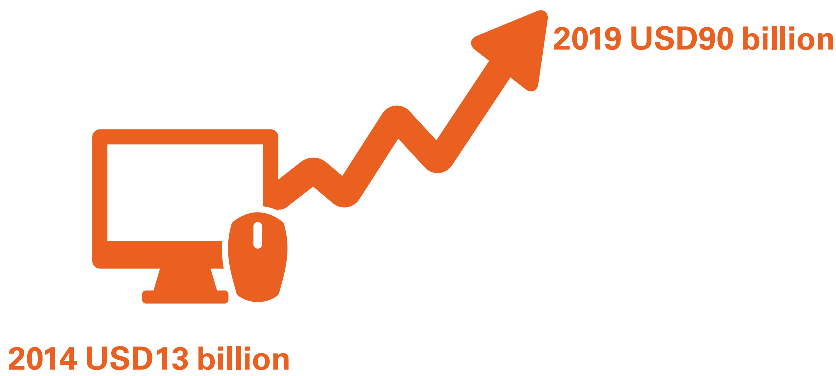
As a consequence, consumer sector companies would have to continue moving beyond traditional marketing and digitally connect with their customers through IT platforms such as social media.

E-commerce boom in India[109]

The e-commerce industry (both B2B and B2C) has witnessed a significant growth in the last one decade in India. The growth momentum is expected to remain intact as e-commerce in India is projected to post 47 per cent CAGR to reach USD90 billion by 2019, fuelled by rising penetration of the internet, primarily through mobile devices.

The most significant upsurge in the number of people shopping are seen in the tier II, III and smaller towns and cities in India, which account for 3,313 of the total 4,556 e-commerce hubs in the country.

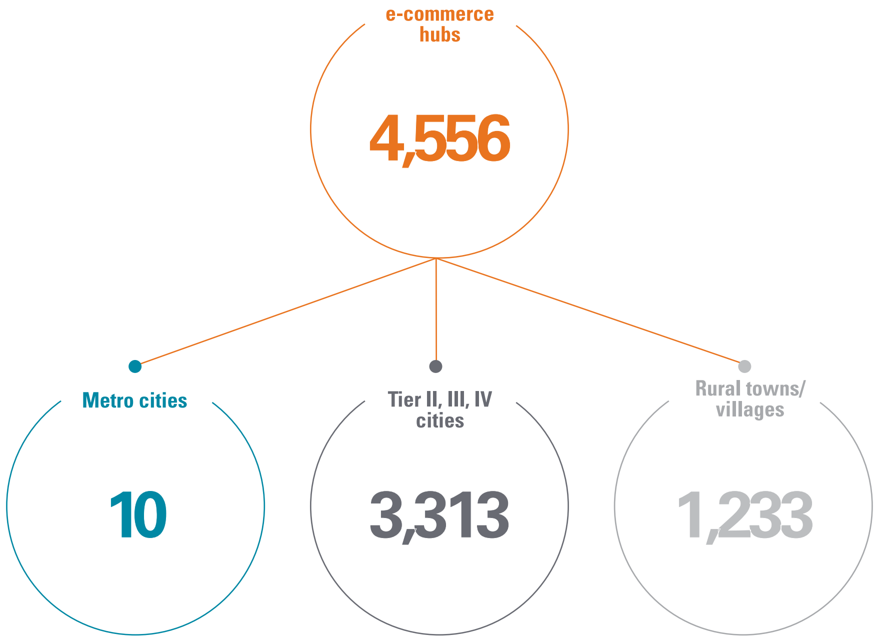
Online retailing market in India



106. Social media statistics, wearesocial.net, http://wearesocial.net/tag/statistics, 2015
107. #shootingforthestars, KPMG in India-FICCI Frames report, 2015
108. Facebook Takes Internet.org And Its Free Mobile Data Services To India, Techcrunch.org, http://techcrunch.com/2015/02/09/internet-org-india/, 02 February 2015
109. E-bay census report 2014; Indian Census 2011

Geographic composition of the e-commerce hubs in India[110]

In 2014, about 40 million consumers made online purchase in India, a number which is expected to rise to 65 million by the end of 2015.[110] In addition to this, the expected rise in discretionary spending from 52 per cent in 2005 to 70 per cent in 2025 is expected to translate into significant growth for the higher value online transactions in India. This is already reflected in the online shopping behaviour, where order values exceeding USD500 are more common now, while earlier, order values used to be in the USD40 to USD100 range.[111]



Government focus on digital connectivity

Government of India plays a significant role in enabling the establishment of digital infrastructure in the country. The 'Digital India' programme envisions to transform digital connectivity across the country, with the aim of providing high speed data connectivity to over 250,000 villages across the country by December 2016.[112] The government plans to invest about INR1 trillion on the existing schemes and additional INR130 billion on the new schemes under the 'Digital India' programme, primarily focusing on empowering citizens with universal access to phones and higher internet connectivity.[113] The private sector has also taken up initiatives to improve connectivity in rural areas, both independent of and collaborative with the government.

The increasing penetration of digital connectivity has had a spillover effect on business, and given rise to a new generation of e-entrepreneurs. Of the total 3,100 start-ups of 2014, about 500 were e-commerce firms.[114]

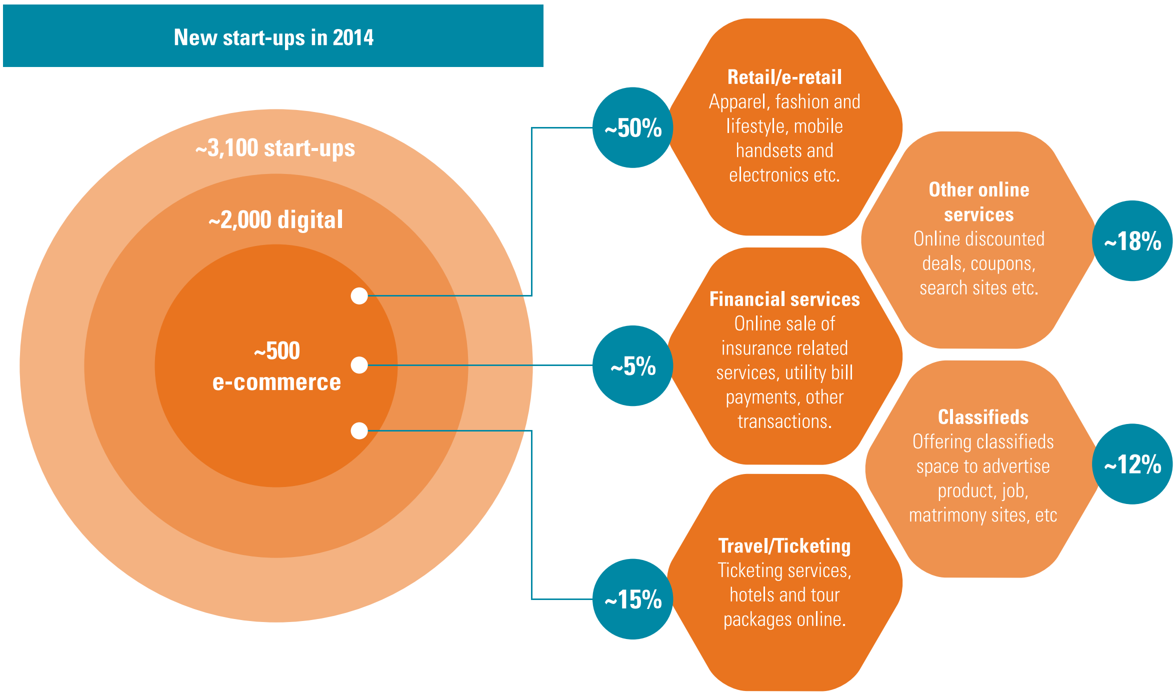
Focus areas under the 'Digital India' initiative:

- Digital infrastructure as a utility to every citizen
- Governance and services on demand
- Digital empowerment of citizens

110. E-bay census report 2014; Indian Census 2011
111. Rise of e-commerce in India, IBEF report, 2013
112. #shootingforthestars, KPMG-FICCI Frames report, 2015
113. Digital India initiative's vision, http://www.digitalindia.gov.in/content/vision-and-vision-areas, government of India, 2015
114. Technology in retail, NASSCOM report, 2015

With increasing opportunities in the digital space, enabled by both government and private initiatives, India is expected to have over 11,500 start-ups by 2020.

Profile of start-ups in India



Source: Tech Start-up in India: A Bright Future, NASSCOM

6.3 Generating value through technology

Technology driven innovations could prove to be a game changer for retailers in India. Digital technology has the potential to overcome multiple existing bottlenecks and transform the retail and FMCG sector in India. The total economic value add for upcoming technologies in the ICT space, such as the Internet of Things (IoT), is projected to be USD1.9 trillion by 2020. The retail sector is expected to be a key sector that holds the potential and leads this opportunity. The value generation possibilities, beyond retail, are also numerous, as mentioned in the table below:

Value generation possibilities through a strong digital infrastructure

Segment	Challenges	Technology solution	Value generation
Agri and food sector	• Traditional agriculture techniques and lack of awareness on new technologies • Lack of awareness among farmers on crop demand and pricing	• Real-time market intelligence enablement for farmers and processors • Adoption of modern cultivation, harvesting and supply chain technologies, such as precision farming • Internet or mobile-enabled farm extension services	• Improved farm yields • Reduction in produce damage • Better market intelligence among farm-ers, enabling better price for the produce • Improve efficiency, as well as more accurate monitoring and evaluation of government schemes and services
Food and non-food manufacturing FMCG	• Infrastructural bottlenecks, power shortage, poor transportation causing long delays putting pressure on storage and distribution • Weak supply chains leading to high inefficiency	• A connected supply chain – enabling just-in-time inventory. • Effective use of data analytics to plan for demand, as well as optimising distribution	• Reduction in overall supply chain operation cost • Reduction in wastages throughout the value chain • More efficient distribution
Retail	• Limited physical retail space, espe-cially in tier II and smaller towns. • Low level of understanding of the customer in case of modern retail can lead to oversised inventory and low customer loyalty	• Omni channel presence – would help the retailers expand their presence outside the catchment area of the retail outlets • Presence on online marketplaces would help smaller retailers reach out to a much larger universe of customers • Use of customer data analytics to tailor offerings and optimise inventory	• Increased reach for small retail • More accurate targeting of customers, leading to higher ticket sizes and better loyalty • Better inventory management

Source: KPMG in India's analysis based on industry discussions, 2015

6.4 Key trends in the adoption of digital technology

The Indian FMCG and retail companies are increasingly embracing ICT and analytics across their supply chains to improve operational efficiency and reach out to a larger customer base. Many retailers in the modern trade segment have invested significantly in Supply Chain Management (SCM) tools and technologies, real-time inventory control tools, Customer Relationship Management (CRM) tools and Business Intelligence (BI) systems. Over the next five years, Indian retailers are estimated to spend INR136.7 billion on such technology enabled solutions.[115]

Data analytics is also an emerging tool which retailers and FMCG companies are turning to. In 2014, though only about four per cent of the total ICT spend by retailers was in the data analytics, this category scored the highest among planned investments.[115]

Data analytics can help consumer-facing companies to innovate and establish their competitiveness by identifying shopper and consumer trends, combining them with other indicators, such as income levels, to come with solutions that help these companies optimise their offerings and make their operations more efficient.

For online retail companies, who have access to a much larger set of consumer data, data analytics lies at the core of operations. Data analytics allows online retailers to customise their offerings at the customer level, as well as drive operational efficiencies in terms of inventory management and improving distribution networks.

For the FMCG sector, the role of technology, especially ICT, has also evolved beyond lean manufacturing to an opportunity to reach out directly to their consumers. Leading FMCG brands have increased their digital media spends by about 50 per cent in the past two years.[117] The FMCG companies have used the digital platform to drive digital marketing programmes to increase their loyal customer base and strengthen connect with consumers. A leading chocolate manufacturing player has plans to spend between 10 and 12 per cent of its overall media budget in FY16 on digital media in India, compared to less than two per cent about three years back.[118] A leading global beverage and snacks company, which is the main sponsor of a large sporting event in India, has allocated 20 per cent of its ad spend on the event this year, up from five per cent last year.[119]

Key technology priorities among retailers in India

Technology priorities among retailers	% split of IT investments in 2014	% of retailers planning to invest in specific technology solutions
SCM (Supply Chain Management)	64%	69%
Infrastructure (data center)	6%	55%
CRM solutions	5%	55%
Data analytics	4%	64%
Inventory management solutions	3%	36%
Warehouse management	3%	45%
Network and network applications	3%	50%
Security solutions	2%	41%
United communications	1%	9%

Source: Retail 2.0, Retailers Association of India report, 2014

115. The anytime anywhere universe, Retailers Association of India, 2014
116. Catching Up Online, Business Today, 06 July 2014
117. FMCG battle for shelf space moves online, The Economic Times, 14 April 2014
118. PepsiCo demands higher visibility at IPL venues, The Economic Times, 03 April 2014

Engaging consumers will be key for FMCG companies as it is projected that online reviews are likely to influence about 30 per cent of purchase decisions of FMCG products in the next five years. Online shopping is forecast to contribute about INR2.2 trillion worth of FMCG sales through online channels, with male grooming, infant care and other beauty and personal care categories expected to drive FMCG sales online.[119]

40 per cent of the Indian online consumers who currently do not buy FMCG products online intend to do so in the next one year. The intent to purchase is highest in the food, beauty and infant care categories.

Source: How FMCG in India needs to step up its digital game, Business Standard, 25 May 2015

Digital transformation in India would derive multi-fold rise in digitally influenced FMCG sales in India[120]

Technology in the agri-food production sector

Despite retail and FMCG embracing advances in technology, particularly in ICT, on the supply side, the agriculture sector remains one of the least technologically-enabled sectors in India.[121] Deployment of modern technology in agriculture and food distribution sectors could potentially transform the sector economics, improve business yields and boost value addition.

Present ICT initiatives are a mix of government and private sector-led programmes. The government intervention on ICT in agriculture dates to 1995, when the blueprint on e-governance in the agricultural sector was laid out and an outlay of between three and six per cent of the agricultural budget was recommended for ICT.[122] The government programmes are primarily in the areas of agricultural informatics, such as commodity price, soil and climate information systems and agricultural extension services. The private sector has played a significant role in the dissemination of ICT in the agricultural sector as well. Industry have been primarily in the areas that bring in efficiencies to the supply chain, such as e-procurement.

As ICT becomes more accessible to the farmer, with the penetration of mobile networks and through the 'Digital India' initiative, the potential coverage and benefits are expected to become more significant for the agriculture sector.

It is estimated that mobile and smartphone-enabled information services alone can reach up to 67 million farmers by 2020, resulting in more than USD8 billion in potential additional revenue for these farmers and a reduction of water use up to 40 billion cubic meters and 1.5 million tons of fertiliser.[123]

By 2025, it is estimated that up to 90 million acres of farmland be brought under precision farming technology, which utilise GIS and sensor-based soil, water and water data to guide farming decisions.[124] The estimated collective impact of technology interventions in agriculture in India is expected to be between USD45 billion and USD80 billion by 2025.[124]

In the food supply chain, adoption of digital technologies, advanced storage and transport logistics, use of RFID, advance GPS tracking systems could reduce wastages and boost efficiency in food processors and manufactures in the country.

119. Internet to influence FMCG sales worth $35 billion in India by 2020, The Financial Express, 11 February 2015
120. How FMCG in India needs to step up its digital game, Business Standard, 25 May 2015
121. KPMG in India's analysis based on industry discussions, 2015
122. Agricultural Informatics Development: A Holistic Approach, National Informatics Center, 2012
123. Connected Farming in India, Vodafone report, 2015
124. e-Governance in Agriculture, Center for Innovations in Public Systems, 2015

6.5 Issues impacting the adoption of technology in Indian FMCG and retail sectors

There are several key issues which are restricting dissemination of technology, particularly ICT, in the FMCG and retail sectors.

In the retail space, the smaller 'kirana' store players' education levels and awareness about advanced business solutions such as ICT enabled supply chain and data analytics is very low. Larger retailers have been investing in their online presence, especially in the e-commerce capabilities. However, adoption of more technologically intensive (and investment intensive) solutions has not been as rapid. For example, inventory tracking mechanisms that have been used successfully outside India, such as bar codes, labelling, and RFID technology, have not yet been uniformly adopted across all retail channels in India.[125]

In addition, there is a shortage of ICT skills across the FMCG value chain – in agricultural production, food processing and FMCG manufacturing – which would be the biggest barrier for technology dissemination in these sectors. The government should ensure that the 'Skill India' initiative carries out training in the areas of modern technology and ICT, to promote adoption and efficient use of technology in these sectors.

126. Creating synergies, erasing boundaries, FICCI Massmerize report, 2014

7 Recommendations and way forward

India's GDP has increased from USD275 billion to USD2,067 billion, or almost 7.5 times, since liberalisation in 1991.[127] The growth in income, and resultant rise in consumption have fuelled growth in the retail and FMCG sectors.

This consumption-driven growth has been achieved despite the presence of several serious challenges pertaining to lack of of proper infrastructure and poor perception in ease of doing business due to multiple laws and varying policy decisions over the years. With technology becoming more complex and digitisation becoming an integral part of the manufacturing and retail ecosystem, lack of skilled manpower is becoming a key upcoming challenge.

Possible approach – renewed sense of optimism

Government policies and initiatives have bought in a renewed sense of optimism to help strengthen businesses across sectors. Along with optimism, there is a need to recognise the changing structure of the Indian economy and consumption trends, and make some fundamental changes in existing regulatory structure to adapt to this change.

The retail and FMCG sectors are drivers of India's consumption story, and both sectors need to undergo changes internally (i.e., at the industry level), as well as externally. Policy and legislative frameworks could enable the growth of these sectors while keeping pace with the evolution of consumption behaviour and consumer expectations.

We recommend the following approach which can be considered by both, the government and the industry, in the coming future that could act as enablers to the growth of these sectors.

Recommendations and applicability	Sustained growth and competitiveness	Make in India	Authenticity of products	Responsible business	Technology and innovation
Infrastructure – The backbone of FMCG and retail	✔	✔			✔
Improve the ease of doing business	✔	✔			
From Corporate Social Responsibility to Corporate Social Investment				✔	
Protecting the consumer's rights			✔	✔	
Digital India - going beyond connectivity	✔				✔
Recognise the potential of e-commerce	✔	✔			✔
A nodal ministry for retail	✔	✔	✔	✔	✔

Source: KPMG in India's analysis, 2015

127. GDP data (current USD), The World Bank database, http://data.worldbank.org, 2015

7.1 Infrastructure – The backbone of FMCG and retail sector

The government has recognised infrastructure as a core development area to sustain growth, and in the 12th five-year plan period 2012 to 2017, it plans to achieve over USD1 trillion of public and private investment in infrastructure projects on roads, ports, power and so on.[128]

The FMCG and retail sectors would be some of the key beneficiaries, as the lack of proper infrastructure has been responsible for high supply chain costs for companies operating in these sectors. With increase in the consumer demand as well as competition, there would be significant pressure on the manufacturing and supply chain capacities of FMCG and retail companies to meet this demand. This would require an integrated approach to infrastructure, from farm-level procurement to storage and warehousing on the supply side, as well as 'retail-ready' infrastructure.

FICCI – KPMG in India's recommendations	Action points	Applicability
Procurement 'at-source' – focus should be on implementing the recommendation of the National Farmers Commission on availability of markets within a 5 km radius.	Mobile direct procurement centres could be used to extend the reach of procurement.	Ministry of Agriculture, Industry
	Incentives on establishment of private market yards would also help improve the availability of procurement markets.	Ministry of Agriculture, Ministry of Finance, Industry
Improving cold storage infrastructure – improving the evenness of cold storage capacity across India, while ensuring efficient operating costs and enhancing availability of reefers.	Improve rail-based reefer services through greater capacity and better technology, and encouraging foreign players to enter this business under 100 per cent FDI in rail infrastructure.	Ministry of Railways
	Promote use of non-conventional and hybrid systems of electricity for cold chain use.	Ministry of Food Processing Industries, Ministry of New and Renewable Energy, State governments
	National Mission on Food Processing (NMFP) should also focus on marketing and merchandising infrastructure to upgrade fruit and vegetable retail establishments.	Ministry of Food Processing Industries, State governments
	Service tax exemption should be provided to cold chain services, not only to cold warehousing alone.	Ministry of Finance, Ministry of Food Processing Industries
Mega Food Parks Scheme (MFPS) – remove bottlenecks in implementation and encompass all FMCG manufacturing.	The present MFPS envisages multiple manufacturers, primarily MSMEs, with shared facilities. Large FMCG companies with own end-to-end processing facilities should also have the benefit of single window clearances and approvals through the MFPS.	Ministry of Food Processing Industries, State governments
	The passage of the Land Acquisition Bill would help investor confidence in this initiative, as operationalisation timelines would be significantly reduced.	Government of India
	MFPS operators should be incentivised for creating captive power infrastructure.	Ministry of Food Processing Industries, State Governments, Industry
	Facilities for providing marketing infrastructure and training for MSME companies by MFPS operators via universities should be provided within the food park as incentives for MSMEs.	Industry

128. A $750 Billion Gap in India's Push for Top Infrastructure, Bloomberg, 13 May 2015

FICCI – KPMG in India's recommendations	Action points	Applicability
Improve urban retail infrastructure especially in Tier II and below towns	Smart city planning should include smart urban planning as well. There should be adequate provision in urban planning to have space for malls and high streets separate from commercial areas, with considerations such as mass transit connectivity, smart traffic management, adequate power and municipal infrastructure supply considered in the plan.	Ministry of Urban Development, State Urban Development Authorities, municipal bodies
	Retail mall developers, especially in the smaller cities, must move beyond viewing malls as real estate investments, and should look at scientific management of malls. Real Estate Investment Trusts (REITs) could be considered as investment vehicles to reduce financial risk.	Industry
Improve 3PL logistics capability in the country to benefit FMCG manufacturers and retailers.	The logistics industry should look at the growth from FMCG and retail as opportunities and introduce global standards in the industry, specifically with regards to 3PL. A well-developed logistics infrastructure in the country would help reduce inefficiencies and losses in transportation and distribution.	Industry, industry associations
Ensure availability of skilled manpower to efficiently utilise the infrastructure developed.	Implement recommendations mentioned in the NSDC-KPMG skill gap reports for the retail, food processing, logistics and other allied sectors.	Government, industry, industry associations
	Operationalise skill development plans through the Food Industry Capacity and Skill Initiative (FICSI) with support of FMCG manufacturing companies on recognition of skill certifications as benchmarks for qualification.	Industry, industry associations
	Industry should give weightage to skill certificates and take steps to ensure their employees are skill certified. An industry weightage on skill development and certification would help give retail a 'professional' status.	Industry, industry associations

7.2 Improving the ease of doing business opportunity

India's perception as a business destination compared to its global counterparts has been poor historically. The country ranks among the lowest in the World Bank's rankings on the ease of doing business.[129]

According to the 'Ease of doing business in India' report, jointly published by KPMG in India and CII in 2014, loss in delays due to land acquisition alone increase the capital cost due to cost inflation and associated additional interest costs. This could contribute a loss of three per cent to four per cent on investment cost. Additionally, due to a multiplicity of taxes, companies in India face a higher tax burden as compared to Asian countries (estimated by the World Bank at 62.8 per cent as compared to 40.6 per cent in South Asia) which may lead to an additional cost of one to three per cent on investment cost.[130]

The government is trying to address some of these issues through the Goods and Services Tax (GST) Bill, and the Land Acquisition and Rehabilitation and Resettlement (LARR) Bill, which are expected to significantly improve the overall business environment, for the producer as well as for the consumer.

Apart from multiplicity of licenses and taxes, legislations and regulations at various government levels, the perception of high level of corruption is an added disincentive for companies to invest and grow in India, especially in the consumer facing food and retail sectors. Though the government is trying to address this issue at various levels, there is a need to leverage e-governance as a vehicle to reduce corruption, with simple and well defined regulations and defined approval timelines, ensuring more efficient set up times for manufacturing and retail.

129. Ease of doing business index, The World Bank, 2015

130. Ease of doing business in India, KPMG-CII report, 2014

FICCI – KPMG in India's recommendations	Action points	Applicability
Ensure early implementation of the Direct Taxes Code (DTC), as well as the Goods and Services Tax (GST) to ensure unhindered flow of goods and services throughout the country and ensure there are no 'taxes on taxes'. The GST is a critical factor for growth for all consumer industries, but care has to be taken on the rate of tax – GST rates should not be inflationary.		Government
The Land Acquisition and Rehabilitation and Resettlement (LARR) Bill is a key legislation which is expected to benefit manufacturing across industries. This Bill has generated significant debate due to the number of stakeholders impacted by the provisions of this Bill. The significance of the Bill requires all stakeholders to reach a consensus on its provisions, and ensure its passage in the legislature at the earliest.		All stakeholders impacted by the Bill
Simplify the corporate tax regime, from rationalising tax rates to ease of tax filing.[131]	Direct tax rates for individuals and companies need to be moderated to spur investment and consumption, and elimination of capital gains tax to boost investment.	Central government
	For indirect taxes, beyond the GST, consolidation of state and local taxes should be considered to eliminate 'nuisance levels'.	State and local government
	Emphasis should be placed on restricting practice of retrospective amendments.	Central government
	Taxes on processed food should be reduced to help make processed food products more affordable.	Central government, State governments
Move towards a more liberal agri-produce selling policy by giving the farmer the ability to choose whom to sell to.	Lay down clear timelines for amendment of state APMC Acts based on the model Act; target some degree of uniformity across states allowing farmers the flexibility for selling produce outside APMC rural market.	Central government, State governments
Ensure defined timelines for approval of licenses for establishing FMCG manufacturing and retail setups.	The government (both state and central) need to move towards having defined turn-around-times for license approval, from approvals of mega food parks, FMCG manufacturing and marketing, and retail sales.	Central government, State governments

131. Ease of doing business in India, KPMG-CII report, 2014

7.3 From Corporate Social Responsibility to Corporate Social Investment

As India integrates with the world economy, the country's industry would need to go beyond the traditional models of social responsibility and look at adopting global norms. Evolving legislation and regulations, through the National Voluntary Guidelines on CSR, SEBI notification on CSR reporting and, the Companies Act 2013, makes India the first country to have legislated CSR[132], albeit for companies satisfying a certain criteria.

Industry is of the opinion that CSR expense should be treated as an expenditure[132], more so as an investment. This is particularly true for consumer facing industries, such as FMCG and retail, as CSR activities help in increasing the overall standard of living, and as an extension for consumers in general. As more consumer facing companies adopt global standards of CSR, they not only help in making the consumer evolve, but also gain the trust of consumers for their brands.

FICCI – KPMG in India's recommendations	Action points	Applicability
Start treating CSR as an investment instrument.	The government should look at incentivising CSR spending as an investment rather than a legislated mandate. Weighted or nominal deductions could be looked at in terms on incentivising industry.	Ministry of Finance, industry, industry associations
	Clear guidelines on tax benefits for CSR spends should be discussed and implemented.	Ministry of Finance, industry, industry associations
Formalise reporting and overseeing mechanisms.	Make the UN Global Compact initiative in India a more effective forum, through collaboration with industry associations and the government on regulations and compliance.	Government, industry, industry associations
	Industry should consider voluntarily adopting reporting practices on lines of the Global Reporting Initiative.	Industry, industry associations
Industry working groups on sustainable production need to be set up.	Industry should consider adopting product lifecycle approach to sustainability, such as influencing the consumer toward environmentally sound disposal practices through labelling and external initiatives to increase recycling and reuse, or through innovative product innovations that reduce environmental impact.	Industry, industry associations
	Industry, especially companies with a global footprint, and industry associations need to identify global best practices in manufacturing and create working groups with focus on dissemination of knowledge for the implementation of leading global practices, in India.	Industry, industry associations

132. India now only country with legislated CSR, Business Standard, 03 April 2014

7.4 Protecting the consumer's rights

With the increase in consumption of packaged FMCG products and rising number of players in both FMCG and retail sectors vying for a share in the consumption pie, the risk to consumers increases significantly, with many players using unethical means to promote their brands and counterfeiters piggybacking on the consumption demand. Given this challenge, as well as the lack of awareness among consumers about their rights, it is necessary for regulators and the industry to come together to educate, elucidate and enforce regulations that ensure product and consumer safety and protection.

FICCI – KPMG in India's recommendations	Action points	Applicability
Strengthen the existing quality mark framework for FMCG and retail.	For processed food, with the certifying authority being FSSAI, it should be made mandatory that the FSSAI licence mark be accompanied with a relevant quality mark.	FSSAI
	FSSAI should look at accreditation to private laboratories to overcome the shortage of manpower and infrastructure for food testing and product certification.	FSSAI
	The industry and the FSSAI should improve their engagement to collaboratively resolve issues.	FSSAI, industry
	BIS hallmarking standards in jewellery should be re-visited after discussion with industry stakeholders, and made mandatory for industry.	BIS
	In the medium to long term, a uniform 'India Quality Mark', for products that can demonstrate compliance with the relevant quality standard, can be looked at to replace the multiple quality marks across categories.	Central government, State governments
Enhance consumer awareness about rights and redressal mechanisms, especially among vulnerable groups such as children and economically backward classes.	Government should explore how to supplement consumer education as a life-long process, including how primary and secondary education can be structured to build knowledge in a cumulative fashion over time, with support and consultations from industry associations.	Ministry of Consumer Affairs, Ministry of Education, State governments, industry associations
Increase the coverage of regulatory bodies to smaller towns and local players to ensure compliance with industry standards on advertising and quality, while also giving such bodies authority to oversee implementation of standards.	Industry self-regulatory bodies such as ASCI must expand their reach through internal stakeholder support to smaller towns and cities, and bring small local players under their ambit through creation of district level or state level chapters.	State governments, industry associations
	Statutory authorities concerned with product quality, such as the FSSAI, should be empowered with the adequate resources to look at food safety across licenced food vendors, including small vendors such as roadside vendors. The FSSAI in particular needs to evolve as a nodal organisation, with presence at a district level, integrating/collaborating with state food safety organisations.	Ministry of Consumer Affairs, state governments
	Ensure that industry regulations are clear and un-ambiguous, while also encouraging consumer facing businesses to self-regulate as per industry agreed norms.	Industry, industry associations
Strengthen the IP, copyright/trademark laws and their enforcement in the country by maintaining track on criminal enforcement instituted for trademark infringement and copyright piracy.	Establish a national IPR plan, which would derive single window system for enforcement of counterfeit goods trade in the country.	Central government (DIPP), State governments, industry, industry associations
	All stakeholders should collate their data to create a national database on counterfeit products and producers, to gauge the extent of the challenge and identify hotspots for action.	Central government, State governments, industry, industry associations
	Expand the number of exclusive dedicated IPR cells in police jurisdictions across the country.	State governments
Take pro-active measures to stay one step ahead of counterfeiters.	Global best practices in tackling counterfeiting, through innovations such as tamper-proof bottle caps and others should be disseminated across industry by industry associations/working groups.	Industry, industry associations
	Industry should strengthen distribution linkages to ensure counterfeit products do not enter the supply chain. This could include initiatives like educating the distributors and resellers, incentivising display of customer awareness collateral at points of sale, and other innovative techniques.	Industry, industry associations

7.5 Digital India – going beyond connectivity

The 'Digital India' initiative envisages a 'connected' India that bridges the urban-rural divide and brings e-governance to the doorsteps of people. Beyond connectivity, it is important to up-skill the workforce involved with agriculture, FMCG manufacturing and retail through this initiative, to enable them to effectively leverage the evolution in technology in these sectors, thereby increasing efficiency and productivity.

FICCI – KPMG in India's recommendations	Action points	Applicability
Promote agri-extension techniques beyond information dissemination.	Modern ICT-augmented agricultural techniques, such as precision farming, could be experimented with for implementation on a large scale.	Ministry of Agriculture, State governments
	Advanced skill training modules in agriculture skilling programe could be introduced that cover more technologically advanced agri-extension services.	National Skill Development Council, Sector Skill Councils
Creating a 'digitally-skilled' workforce.	ICT modules could be included in all skill development programs that have basic qualification requirements.	National Skill Development Council, Sector Skill Councils
Leverage data analytics to make business more lean and plug leakages and inefficiencies.	A significant section of the retail and FMCG sectors, especially the MSME segment, have low to no data capturing or analysis capability. Industry associations, across domains such as technology and FMCG, could collaborate to generate awareness on this field and its impact on business efficiency, from understanding customer behaviour to increasing efficiency in manufacturing and supply chain.	Industry associations

7.6 Recognise the potential of e-commerce (a FICCI perspective)

FICCI has always stood by, and continues to stand for the 'market economy'. We are always in support of the policies that encourage and facilitate the same. While building any position, this has been the guiding parameter for our advocacy.

Concomitantly, e-commerce today, is one of the most emerging sectors of the economy and is the future in retailing, with an immense growth potential. The penetration of technology and the benefits it confers to consumers is evident and indisputable.

Every developing and developed nations had gone through this phase where the adoption of technology had led to certain disruptions. However, gradually it has created its own space in the market and the e-channel has successfully coexisted with other conventional retail channels. Given the advantage that India has in terms of ever increasing consumer market, there is always room for all the models to coexist.

e-commerce is still a nascent phenomenon in India - multiple views have been generated on various models of business and their implications on related stakeholders. It is natural that such a revolution will attract conflicting views. Through this statement we endeavour to create a progressive, solution driven policy environment for all stakeholders.

FICCI's views on e-commerce are based on various aspects around this subject:

Foreign Direct Investment

B2C e-commerce:

At present, 51 per cent FDI is permitted in multi brand retail, however in B2C e-commerce FDI is prohibited.

FICCI feels that FDI should be allowed in B2C e-commerce, but in a phased manner and there could be a requirement to source significantly from within India to promote 'Make in India' and focus on preferable (not compulsory) sourcing of a certain per centage from MSMEs.

B2B e-commerce:

Currently, 100 per cent FDI is permitted in B2B e-commerce under the automatic route.

The activity of Cash and Carry wholesale trading has been defined under Para 6.2.16.1.1 of the FDI policy.

Intermediaries/market place model

The 'market place' is well defined in the IT act 2000 under the category of 'intermediaries as IT-enabled platform' and 100 per cent FDI is allowed in this category. FICCI feels that the market place model is doing well in the country, and hence, this status quo should be maintained. It is critical to understand the scope of this peculiar model. The services that they provide are at par with brick and mortar stores and can be treated in a similar manner, since both the models serve consumers. Thus, the apt treatment should be made under the relevant acts governing internal trade such as the Consumer Protection Act 1986, Drugs and Cosmetics Act, FSSA, etc.

Taxation issues:

Since the e-commerce model primarily involves interstate transfer of goods and as we have different tax structures and rates in every state, it has been observed that the e-commerce players feel challenged in terms of interpretation and treatment of 'intermediary'. Some of the recent point of contention has been VAT, Entry Tax and state specific local taxes, like LBT.

However, FICCI always advocates that the law of land should be followed in its letter and spirit. Taking into consideration the business operations and the taxation laws of the relevant states and the nation, companies should adhere to the rightful taxes imposed on them. As it is with the introduction of GST by 2016, there will be more streamlining of taxes and the issues will no longer exist as a uniform market would prevail.

Recently, as part of the GST rollout, the Revenue Department has announced that it will prepare 'place of supply' rules that will comprehensively cover taxation of e-commerce. These rules would help determine the location of supply of goods and services – whether the supply is intra State or inter State.

From FICCI's progressive school of thought:

Government should focus on 'ease of doing business' and whichever policy we endeavour to formulate or amend, care should be taken that both offline and online channel of retail is equally attractive for an investor. This is what we mean when we demand parity in online and offline retail.

By doing so, the government would then be creating a favourable policy environment where both the offline and online models will not only co-exist, but also will grow.

For any investment related policy, the underlying tenet should comply with 'Make in India', thereby, stimulating domestic manufacturing and exports.

FICCI stands for opening up of the retail sector, and keeping offline and online retail at par, as both are retail. Omni-channel is the way forward and keeping consumers at the centre of the policy formation is extremely important. FICCI is very supportive of government's 'Make in India' initiative, and hence, it is in favour of a significant per centage of sourcing from within the country, with a preferable (but optional) level of sourcing from the MSME sector (with a provision that once a company grows beyond the MSME definition, it is still considered as part of that preferable sourcing clause). Thus, we recommend that India, albeit slowly, should move towards a free and open market economy, where 100 per cent FDI is allowed in every sphere of retail.

7.7 A nodal ministry for retail

The retail sector in India is presently governed by central, State and local government regulations. However, this sector, presently estimated at approximately USD600 billion[133], is expected to cross USD1 trillion by 2020, does not have a distinct definition or representation as an industry.

This leads to a complex licensing and regulation mechanism, with every state having different legislation on this subject.

With the industry expected to grow significantly in the next five years, it is necessary to have a dedicated nodal ministry that represents this sector. In addition, with many legislations and regulations, (particularly around e-retail, foreign investment and taxation), that are being discussed and would have a significant impact on the trajectory this industry takes, a nodal ministry would serve as a much needed nerve centre to represent and safeguard the interests of all stakeholders, from small independent retailers to large organised players, as well as the consumers. Considering the variance in regulations across states on retail, this ministry would also help in bringing standardisation to retail-related regulations, such as a Model Retail Regulation Act, as well as serving as a single window for investors.

The establishment of a nodal ministry and the industry status to this sector would enable it to gain easier access to finance from the banking sector, especially for MSME retailers, and enable the sector to continue on its growth trajectory.

FICCI's point of view

Retail is an age old phenomenon in India; however, unfortunately, it still does not have any clear definition under any existing legislation which could lay out the scope of its business operations. Hence, it is important to deliberate on a clear definition of 'retail' that could help in safeguarding the interest of all stakeholders. Internal trade is a critical nerve of our economy, and thus, it is very crucial to recognise this sector by providing it an 'industry' status.

Giving retail an industry status will go a long way in making the business of retail more viable, enabling all retailers (including 'kirana' shops) access to formal credit, availability of industrial land for warehousing and large format retail, and other benefits.

This step would go a long way in creating a national unified market in India.

133. 'Indian-retail-market-to-double-in-next-5-years', Live Mint, http://www.livemint.com/Industry/5Xu8P8GltZk8XEsz7Xk74O/Indian-retail-market-to-double-in-next-5-years-report.html, 11 February 2015

The way forward

With the country poised for future growth and with higher awareness and expectations from consumers in the country, it is imperative that these challenges are addressed to help ensure that the FMCG and retail industries are able to harness growth opportunities beyond increased consumption and become globally competitive.

Following the government's motto of 'sabka saath sabka vikaas', or consensus for development, to address all these challenges, it is imperative that all stakeholders, from the central and state governments, to industry and industry associations and consumer associations, come together and ensure that the environment that enables SMART growth is created.

Acknowledgements

In order to provide a thorough industry view in the study, we have interacted with various representatives from the FMCG and retail sectors. We would like to thank the various industry participants, whose invaluable contributions have made this study possible.

The support provided by the Federation of Indian Chambers of Commerce and Industry (FICCI) has been instrumental in providing us with a platform to base our industry discussions. We would like to thank the team at FICCI for assisting us during the course of this study.

We have interacted with the representatives of the following companies/brands and would like to thank each of them for providing valuable inputs on the FMCG and retail sectors.

Amway India	FabIndia	Flipkart
Future Group	Hindustan Unilever Limited	ITC
Liberty Shoes	Puma India	Shoppers Stop
Snapdeal	Amazon India	Walmart India

We would also like to acknowledge the core teams from KPMG in India and FICCI who made this report possible:

Strategic direction	Report preparation team	Design and compliance team
Rajat Wahi, KPMG	Suvasis Ghosh, KPMG	Subhashini Rajagopalan, KPMG
Shilpa Gupta, FICCI	Harsh Dewan, KPMG	Priyanka Agarwal, KPMG
	Urvashi Gupta, KPMG	Neelima Balachandran, KPMG
	Surabhi Pant, FICCI	Sharon D'silva, KPMG
	Megha Gupta, FICCI	Aashruti Kak, KPMG
		Darshini Parikh, KPMG
		Shveta Pednekar, KPMG
		Nikhilesh Shetty, KPMG

KPMG in India contacts:

Nitin Atroley
Partner and Head
Sales and Markets
T: +91 124 307 4887
E: nitinatroley@kpmg.com

Rajat Wahi
Partner and Head
Consumer Markets
T: +91 124 307 5052
E: rajatwahi@kpmg.com

Federation of Indian Chambers of Commerce and Industry (FICCI) contact:

Shilpa Gupta
Head
Retail, FMCG, Gems and Jewellery
T: +91 11 2348 7270
E: shilpa.gupta@ficci.com

kpmg.com/in
ficci.com

Follow us on:
kpmg.com/in/socialmedia

Latest insights and updates are now available on the KPMG India app.
Scan the QR code below to download the app on your smart device.

Play Store | **App Store**

Printed in India. (013_THL0815 - FICCI Massmerize)