



# Foreword

Dear Friends,

Retail and FMCG Companies are natural partners, be it traditional retail, modern retail, digital retail or a mix of the same. Neither can do without the other. Massmerize hopes to examine best practices in this relationship from around the world and provide a forum through which FMCG players and retailers get together to learn and grow.

I take this opportunity to wish Massmerize all the very best and I am sure, as usual, it will be a great learning experience for all those who attend it.

**Kurush Grant**

Chairman – FICCI FMCG Committee

Dear Friends,

Today, we are poised at the cusp of several revolutions and evolutions – the ongoing retail revolution, the initial steps of the e-commerce revolution, the rapidly changing Indian consumer and the ongoing changes in digital communication. As retailers, we have the opportunity to embrace all of them.

The convergence of screens, improving access to the internet, the increasing role of social media and community marketing, and the ability to more accurately target and retain individual customers will usher in significant changes in the traditional retail model.

Digital technology will be an enabler and a game changer. Those who leverage its capability will differentiate themselves from the rest. And for that, retailers will have to futurescape these technologies and understand its impact on their business models and customers, and re-engineer their efforts to adapt to the significant changes you should expect.

At Massmerize 2012, we offer an opportunity to showcase and discuss these trends amongst our industry colleagues. Leading Consumer product companies and Retailers will share a platform to jointly discuss the implications these changes will have for their consumers and customers. The key discussion themes will be opportunities for collaborative action to connect and engage with consumers and customers and to increase consumption levels and remain abreast with the rapidly changing consumer. We share the common goal of creating a \$1.2 bn market by 2020.

I am sure you would find the day at the Conference time well spent and personally enriching and this white paper a stimulating challenge. Happy reading.

Wish you all success in your endeavours.

With regards,

**Bijou Kurien**

Chairman – FICCI Retail Committee

It is déjà vu time for Indian Retail. From a multi-billion dollar opportunity in early 2005, today Indian Retail is poised to become a trillion dollar opportunity by 2020. However the euphoria and excitement that was prevalent seems to be weak this time.

In the past, retailers have tried to exploit this opportunity by increasing their store presence across major cities in India but with limited success. The trillion dollar Indian retail opportunity cannot be addressed by the conventional retail model as the opportunity is spread across the sub-continent where a billion plus customers need a million sales and service touch points. Is the current operating model followed by Indian Retailers prepared to cater to such unique and ubiquitous customer demands across these million touch points?

Integrated Multichannel Retailing is a forward looking model for Indian retailers to make the elusive trillion dollars consumption dream a reality. And one of the key variables that will contribute towards the success of this model would be the deep collaboration between Retail and its FMCG Partners.

India's retail market is expected to cross US\$1.3 trillion by 2020. With the current market size estimated at US\$ 500 billion, this translates to an additional US\$ 800 billion in the next eight years. It is expected that the modern retail with penetration of only 5%, will grow by about 6 times from the current US\$27 billion to US\$220 billion by 2020 with tremendous potential for growth across categories and segments. Sales through digital channels which is a miniscule percentage of modern retail today, will increase to 6 - 8 % of total modern retail amounting to about US\$13.3 billion – US\$17.6 billion by 2020. New consumption hubs are emerging with economic growth percolating to smaller cities. By 2020, there will be around 200 cities in India with a population of more than 0.5 million which will fuel modern retail growth . While the opportunity seems bright and opportune for retailers, the past memories coupled with bleak current macroeconomic environment and reduced customer spending still haunts many. In the past, retailers have focused on growth and were in a

race to add up new stores to cater to the demand coming from a rising Indian middle class population. The over- optimistic attitude or sheer disregard to store operating expenses, retailers today are threatened with razor thin bottom-line or are saddled with non-performing stores.

Today retailers are not announcing expansion plans but the focus has largely shifted towards consolidation and profitability. Contrary to this, Indian customers are on an evolutionary journey. Having experienced modern retailing and with increased exposure to digital technologies, they are looking towards channels that can enhance their overall shopping experience and bring value to them in the form of lower prices, wide assortment or sheer convenience.

To cater to this demand, a host of pure-play internet retailers have mushroomed and some are doing brisk business, with beeline of others who want to do the same. Investments have poured in from all quarters, including inflow of funds from Venture Capitalists (VCs). Things look

rosy but these internet retailers are not on a profitable roadmap. They are primarily in a race to build revenues by acquiring newer customers, only hoping that an acquired new customer will be profitable in future. Even some of the largest Indian online retailers seem to have run into a rough patch, where questions have been raised on model viability and profitability.

Unlike matured retail markets, where brick and mortar retailers feel the competition from pure click retailers, the scenario in India will be different. Lack of physical presence, low technology penetration and usage and imperfect payment mechanisms will act as impeding blocks for pure click retailers to quickly reach sustainable revenue levels than can start generating positive Return on Investment (ROI) for the business.

On the other hand, pure brick and mortar retailer cannot address this situation by merely opening more stores as expensive real estate in Indian cities will always make ROI realization difficult. The emergence of Digital Channels (3 screens, that is, Laptop, Smartphone & Flat Panel Televisions) can augment a retailer's physical stores to not only reach customers anywhere but also engage with customers across relevant

channels and throughout the shopping journey. This is convenient for customers – they can shop wherever and whenever they want without being restricted by limited assortments that are available at a store and its timings. Large numbers of brick and mortar retailers have created digital presence and are active on multiple channels, but the success seems elusive. There can be multiple reasons for the same but all of them basically emerge from a common issue – integration of multiple channels to realize optimization benefits is absent. A feasible model that can address this, taking the best of offline as well as online retail, would be 'Integrated Multichannel Retail (IMR)'.

In this paper, we will present Integrated Multichannel Retailing (IMR) as an inevitable choice for Indian retailers in their quest for enhanced customer experience and business sustainability. It will cover in-depth what this Integrated Retail environment means for FMCG Companies and how they will play an important role in its evolution. The paper will also highlight the Multichannel Maturity Model and also detail out 5 simple steps required for Indian retailers to move from an independent stage in maturity to an evolved Integrated Multichannel Retailer.

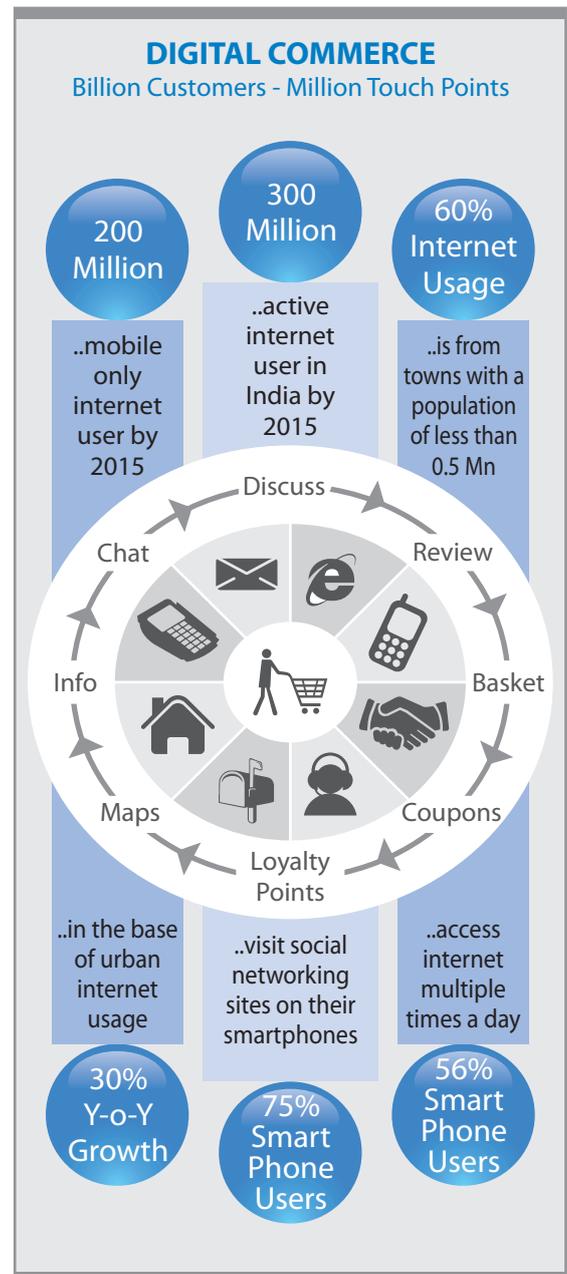
# Understanding the Discerning Indian Consumer

## Retailers Perspective

Past experience has already shown us that the answer to profitable retail and addressing demand cannot be just through store growth but needs new operating models. As India's growth story continues, the Indian consumer is rapidly evolving. There is an uptrend in the penetration of internet and smartphones and it has rapidly made its way into the smaller towns of India and among the less prosperous. Some of the key trends which will influence retailers to re-look at their operating models are:

- Smaller urban centers fuelling growth:** Of the 120 mn users in the country, the base of urban internet usage has grown over 30% Year-on-Year and towns with a population of less than 0.5 mn have a combined usage of more than 60% which is more than the top eight metros put together.
- Increased internet penetration in lower SECs:** Penetration in lower SECs continues where 25% of the users are of SEC C status and 11% for the ones with SEC D and E status. As the literacy rates go up, this trend is going to continue further and bring an interesting mix of demographics of active internet users. It will also be interesting to see the kind of products or services that the e-commerce world will be divided into in the near future.
- Mobile phone emerging as the preferred device to access internet:** Of the active internet users in urban cities, 26.3 mn access the Web through their mobile phones. This has been the most recent change in the access behavior. High cost of broadband ownership has fuelled this trend.
- Youngsters and smartphone users driving the usage pattern:** Up to 75% of the active user base is either school and college kids or young men. 3 mn+ smartphone users in India,

with 56% of them accessing internet multiple times a day compared to 53% in US. Over 75% of the Indians visit social networking sites on their smartphones as compared to 54% in US, while, up to 81% of Indians access e-mail on the phones as against 73% doing the same in US.



- Multichannel environment has created multichannel Shoppers: The multichannel environment has also created multichannel buyers whose choices of channels for their purchases is directed by different occasions, diverse situations and their current needs. Brick and mortar retailers today have started facing the heat of this situation as it is quite common for shoppers to compare prices across channels to make their purchase decision inside the store or on digital channels. It is therefore imperative for brick retailers to increase their presence across channels so that they can cater to the changing needs of a multichannel buyer.

- Individual channels plays specific roles in consumer shopping journey: A typical journey of a shopper goes through the following six stages : Discover, Search, Research, Compare, Decide and Purchase. When it comes to the retail context, there is a preferred channel for every stage for a shopper. For example:

- Discover, Search, Research, Compare – Online
- Search, Compare – Online, Mobile
- Research – Online
- Decide – Online and Stores
- Purchase – Stores, Online, Mobile

Keeping these preferences in mind, a retailer needs to be present with the right content and customer enablement across these channels to remain relevant in the shopper buying cycle.

### FMCG Perspective

According to industry reports, Indian FMCG industry is estimated to be US\$ 30 Billion in 2011, and growing at nearly 11 % CAGR<sup>1</sup>. Though direct downstream of this industry, retail

estimated at US\$ 450 Billion, consists only 6% of organized trade including digital commerce , but organized retailing is growing at 20% CAGR and is expected to reach 30% by 2020. With the growth of modern retailing coupled with digital revolution, the Indian consumers today exhibit unique characteristics which define his consumption trends:

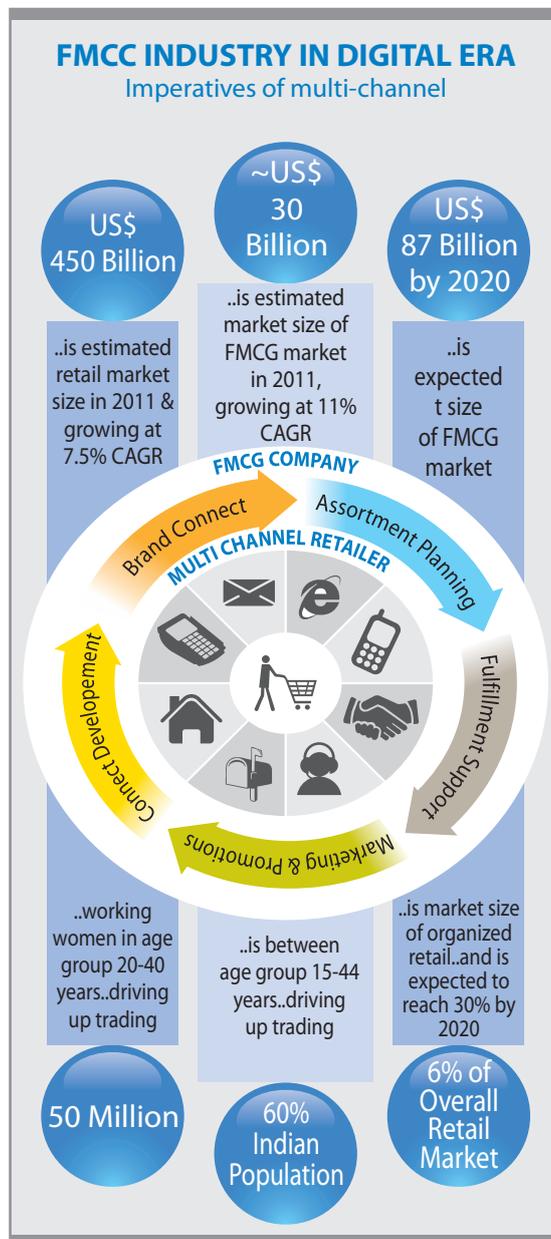


Figure 2: CPG Industry Landscape

■ **Affluent shoppers prefers Digital medium for Premium products:** Shoppers today exhibit a multi step buying behavior with strong focus on research & comparison of product & brand alternatives, moving between channels for the right information & offer for premium products like perfumes , cosmetics and deodorants . This behavior warrants that consumer goods companies create multi channel presence or support retailers with consistent information and experience across channels which will facilitate decision making.

■ **Targeted Communication for Brand Connect:** Post slowdown, more watchful discretionary spending by consumers and higher likelihood of switching brands is forcing consumer product companies to find

strategies to be on top of consumer's mind. Brand Social Media connect and retailers consumer database should be leveraged for targeted promotion for stronger brand connect and improved ROI on marketing.

■ **Facilitate shopper's decision making process in the Retailer's aisle:** The assortment width and depth at the retail store and infinite aisle on digital channels have created unlimited choices for an Indian consumer. The "Moment of Truth" for FMCG companies is shifting from a retailer's POS to its shelf and therefore FMCG companies are partnering with retailers, to provide adequate brand communication at the shelves through new mediums like QR code content and digital signages which are interactive and intuitive.

## Why a pure Brick and Mortar retailer will face an uphill task achieving profitability in India?

Post the slowdown of 2008, retailers are looking out for sensible growth and innovative ways to increase revenue without increasing operating expenses. Digital Commerce provides brick retailers with an opportunity to increase reach and revenue without actually investing hugely into expensive real estate. The low cost operating model and synergy makes digital commerce an inevitable choice for profitability. Brick and mortar retailers need to get back to the drawing board to create an integrated strategy which dovetails the brick and mortar stores with digital commerce platform. This integration should not be limited to operations and transactions but should be done at an organizational strategy level. We have listed down few compelling reasons which will make brick retailers invest significantly in digital commerce as it is an inevitable path to profitability in India.

**Expensive real estate rentals:** Expensive real estate costs have already played a spoilsport for Indian retailers. It would be impossible for most retail categories to reach breakeven at such high rentals of 10-15% of the revenue. Logically the scenario will always remain the same or deteriorate further as India occupies only 2.4% of the world's land area and it supports over 15% of the world's population. This disparity will always give rise to scenarios where rentals in metros and high streets are bound to be expensive. The retailers need to rethink their business plan and shift a chunk of their sale from stores to alternate low cost channels.

**Disconnect between assortment width and shrinking format size:** Size for a retail store is directly proportional to the immediate catchment potential and assortment width

which will provide the desired experience to the customer. Revenue hits a plateau after a particular square footage and past learning has led to shrinking store sizes with a focus on profitability. Contrary to this, the digital platform has made customers more knowledgeable and demanding. They want the width and depth in assortment. As customers are increasingly becoming channel-agnostic, retailers can provide a wider assortment by moving a large section of merchandise to digital mediums.

**Multichannel customer with shifting loyalty:** Individual channels play specific roles in consumer buying cycle and an absence in that channel will lead to opportunity loss for brick and mortar retailers. A customer might walk in to a store with the intent to purchase or to experience the brand, but might ultimately purchase from a different retailer or channel depending upon the best deal available or a better service. For a retailer it becomes imperative to operate across channels and also be competitive in them.

**Optimizing Inventory carrying cost:** Servicing the demand of additional channel does not require the retailer to set a separate inventory for individual channels. The current inventory levels can be adequately modified to service a new sales channel. This can lead to increased revenue with a marginal increase in overall inventory levels. It is possible to minimize obsolescence, due to end of line products resulting in a locked working capital, can be minimized by selecting an appropriate channel to sell the product. For example, the retailer can leverage other channels like a third-party deal-based website or its own online channel apart from the brick store.

# Making a Business Case for Integrated Multichannel Retail

## What happens if you move 5% of your Store sales to digital channels?

Figure 2 shows the example of an Apparel retailer with and without Integrated Retail and the impact on its Operating Margins.

### Assumptions:

- The figures used for calculation purpose here are estimated figures based on industry averages
- Revenue/Sqft (Annualized): Brick & Mortar Apparel retailer – Rs.9000/sqft
- For the above calculation, the retail carpet area for each format is 500,000 sqft. which is spread across various city types
- Gross Margin %: Brick & Mortar Apparel retailer – 32%;
- Rental/sqft ( including CAM) - Brick & Mortar Apparel retailer – Rs.90/ sqft
- Manpower/Sqft.: Brick & Mortar Apparel retailer – Rs.520/ sqft.
- The revenue shift to digital channels for apparel is estimated on propensity of category purchase in that particular channel in India
- Manpower for multichannel will be shared for common functions like Buying & Merchandising, Marketing and Supply chain. Dedicated resources have been planned as Functional Head -1 , Senior Managers -2 , Managers -3 , Executives - 4 at H.O for managing/co-coordinating day to day operations
- The average cost of free shipping today is Rs.45 and as the integrated retailer will have multiple points of presence and distribution

centers, it will be in a position to ship products from the nearest DC thereby reducing the shipping cost to Rs.25 per shipments. Apart from this it is assumed that about 30% of the shipments will be store pickup thereby further saving shipment costs

- IT and Technology Infrastructure including Call Center will be a shared cost with the existing business

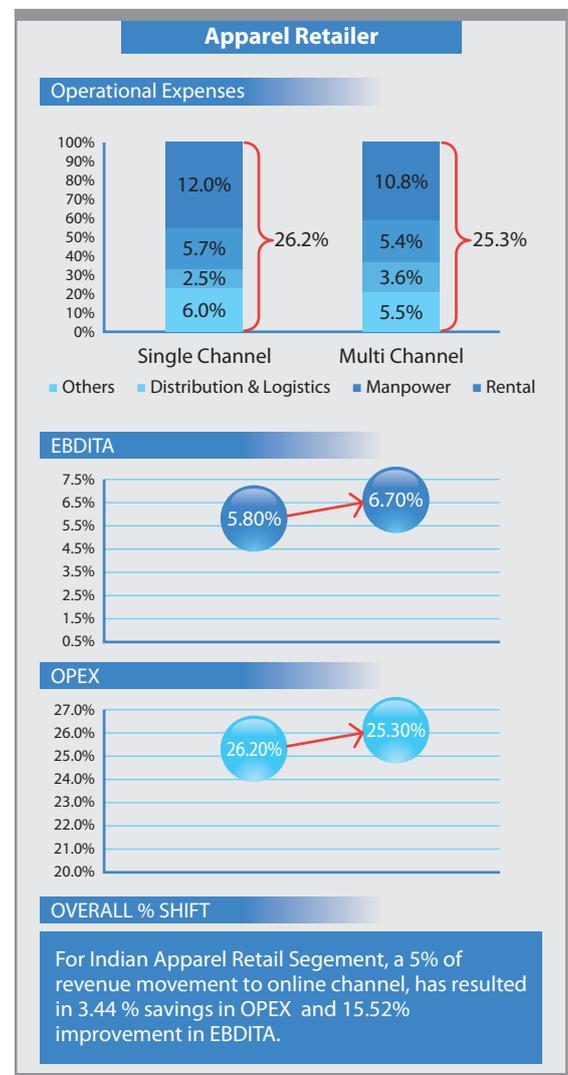


Figure 3: Business Case for Multi Channel

## How can retail executives benchmark their multichannel practices with best-in-class?

Though organizations are increasingly becoming multichannel, efforts are being taken to create new channels. As most of these initiatives are ad-hoc, they are not in sync with the overall organizational objectives and thus turn into experience islands for customers where the delivery of product and services are not aligned with the larger organization. These discrete efforts in multichannel initiatives fail to bring the much expected results in the form of increased revenue, cost synergies and overall enhanced customer experience. The greatest challenge for retailers today seeking sustainable growth is to develop a model which aligns their current brick and mortar practices with their multichannel initiatives and thus there is a need to have a credible framework for embarking on this journey.

Benchmarking with global best practices has been the most effective way of addressing this challenge and “4i Model” presented here is developed on the same premise. It allows a retailer to assess where their organization stands, to benchmark with leaders, to identify gaps and to monitor progress in the journey to improve maturity towards become the best in today’s digital era. 4i Model states four maturity levels – Individual, Independent, Interconnected and Integrated – based on a qualitative analysis across eight critical business areas.

INDIVIDUAL	INDEPENDENT	INTERCONNECTED	INTEGRATED
Brick channels operate as sole sales channel, while available alternate channels are used for marketing & communication purpose only.	Brick and click channels are managed as separate entities, possibly operating under different brand names. In this stage of maturity retailer does not encourage customers to switch between channels to avoid channel conflict; target different customer / geographical regions or provide channel-specific assortment/pricing.	Brick Channel & Alternate Channels are managed as same entity and share top management at organization level. But cross channel collaboration and inventory sharing is limited to few channel touch points. In this stage of maturity retailer encourage customers to switch between channels by providing incentives and explicit links/ support.	Brick-click & emerging channels operate as complementary components of an integrated retail system that aims to provide a high level of customer convenience & value through channel movement in and between customer purchase journey & sales transaction phases.

4i MULTI CHANNEL MATURITY MODEL (4iMMM)					
DIMENSIONS \ MATURITY	INDIVIDUAL	INDEPENDENT	INTERCONNECTED	INTEGRATED	
1 STRATEGY	Growth Strategy	Market penetration with existing products	Penetration in with new products/channels	Penetration & Growth with new channels and new channel touch points	Growth, penetration & diversification with integrated channel & emerging touch points
	Differentiation Strategy	Cost-Value Competitive Parity	Price Advantage & efficient transaction focused	Price advantage and cross channel convenience driven	Customer relation innovation & value chain performance driven
2 MODEL	Operating Model	No additional economies in line with industry average	Limited economy of shared administration, No revenue sharing	Economy of shared resources & Inventory pool, Partial revenue sharing	Economy of convergence, fair sharing of revenues
	Distribution Model	No alternate channel distribution network:	No overlapping of channel distribution networks	Limited overlapping of channel distribution networks	Optimized distribution network of fully integrated value chain
3 CHANNEL	Channel Role	Store as sales channel, Digital channels as marketing tool	Store & Web as dominant channel, Emerging channels as enabler in directing customers to dominant channels	Store Web & Mobile as dominant channel, Emerging channels as enabler in multi channel transactions	Dominant Channel & Enabling Channel roles customized as per individual shopper's channel preferences
	Revenue Contribution	0 % Digital channel contribution	< 5 % Digital channel contribution	< 10% Digital Channel Contribution	< 15% Digital Channel Contribution
4 ORGANIZATION	Leadership	Single leadership	New channels led by middle management	New channel led at senior management level	Channel commonly led at senior management level
	Structure	Functional	Separate P&L, Intra Channel Decision making	Separate P&L, Inter-channel decision making during annual planning	Single P&L, integrated decision making at planning & execution level
	KPIs & Incentives	Channel Specific & Functional	Channel Specific to avoid conflicts	Overlapping to improve collaboration	Integrated & aligned
5 PROPOSITION	Products	Assortment Limited by Space	Full Assortment of limited categories in alternate channel	Full Assortment of all categories in alternate channel	Synchronized Assortment of all categories
	Services	Product Delivery to customer destination	Info, Review, Comparison, Intra Channel Availability & Product Delivery	Info, Review, Comparison, Availability across Channel & Flexible Delivery	Info, Review, Comparison, Availability across Channel, Customized Delivery
	Value Ads	Provide Touch & Feel	Provide infinite aisle assortment	Provide large assortment anywhere-anytime	Provide large assortment with anywhere-anytime personalized experience
6 PROCESS CAPABILITY	Plan: Operating Plan	Single Channel AOP Development	Channel-wise AOP Development	Channel-mixed AOP Development	Channel-optimized AOP
	Plan: Sourcing	One-channel Sourcing Partner	Channel-wise Sourcing Partner	Sourcing Partner for Limited Channels	Sourcing Partner for All Channels
	Plan: Customer Reach	Single Channel Reach Plans	Channel-wise Reach Initiatives	Over-lapping Reach Initiatives	Unified Customer Reach Program
	Buy: Procurement	Single Channel Purchase Orders	Channel-wise Purchase Orders	Aggregated Purchase Orders	Aggregated Purchase Orders
	Buy: Assortment Planning	Single Channel Assortment Plan	Channel-wise Assortment Plan	Over-lapping Assortment Plans	Integrated Continuous Assortment Planning
	Buy: Item Master Maintenance	Single Item MDM	Ad hoc Item MDM	Aggregated Item MDM, without PIM	Aggregated Item MDM, with PIM
	Move: Replenishment	Point Delivery	Point-to-Point Delivery	Multi-point Delivery	Optimized Multi-point Delivery
	Move: Allocations & Transfers	Single Channel Allocation	Channel-wise Allocations	Adhoc Allocations between Channels	Pre-defined Allocations for each customer group
	Move: Reverse Logistics	Single-Channel to Single DC	Multi-Channels to Single DC	Multi-channels to Multi-DCs	Multi-channel Returns at Mother DC
	Sell: Sales & Return	Single Channel Transaction	Intra Channel Transactions	Cross-channel Transactions	Channel-agnostic Transactions
	Sell: Pricing	Single Pricing	Channel-specific Pricing	Price Matching across Channels	Uniform Pricing across Channels
	Sell: Promotions	Self Promotions	Channel-specific Promotions	Channel-wide Promotions	Cross-channel Promotions
	Service: Product Delivery	Location Constraint Order Delivery	Unconstraint order delivery with fixed lead times	Aggregated Order Delivery with limited delivery time options	Cross Channel order integration with personalized delivery option
	Service: Service Resolution	Dedicated Channel Service Team	Common Channel Service Team	Cross-channel Service Team	Centralized Channel Service Team
Service: Loyalty Program	Channel Relationship only	Channel-specific Loyalty Benefits	Channel-wide Loyalty Benefits	Integrated Loyalty Benefits	
7 SYSTEMS	Sales	In store POS	Channel Specific POS	POS system integrated with e-commerce	Cross Channel Order Management Ready POS, Digital Invoice
	Order Management	Single OM system/ERP	Distributed order management	Cross channel order management system	Seamless cross channel order management
	Analytics	Demographic segmentation, Loyalty tracking	Channel customer segmentation & value tracking	Cross channel customer segmentation & relationship tracking	Real time analytics, Same shopper sales growth & behavior tracking
8 CUSTOMER ENGAGEMENT	Listening	Monitor: Performance tracking	Mass Media: Customer's online behavior	Social Media: Individual's online behavior	Direct: Use of direct interaction platforms
	Acquisition	Channel Constrained: Firm Initiated	Channel Limited: Firm Initiated and web triggered	Standard & cross channels: Firm Initiated, web & social media triggered	Innovative enabled by advanced analytics
	Interaction	Transactional: opportunistic programs	Mass Broadcast: opportunistic channel programs	1-to-1 Interaction: on going target programs	Proactive 1-to-1 Engagement: predictive target programs
	Retention	Complaint resolution: post sales support	Customer Focus: support/loyalty	Customer Satisfaction: support/deals/enablers	Customer Allegiance: Customized deals/enablers and proactive support

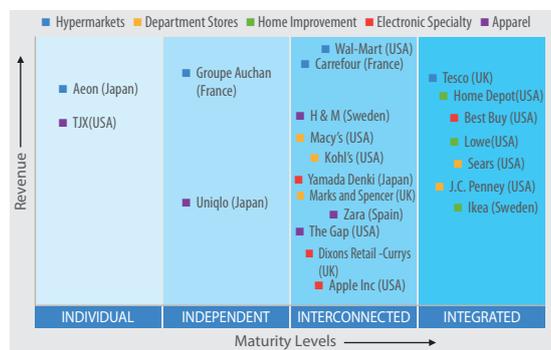
Figure 4: 4i Multi Channel Maturity Model (4iMMM)

Integrated Multichannel Retailing Best Practices			
DIMENSIONS \ MATURITY	BEST PRACTICES	EARLY ADOPTERS	
1 STRATEGY	Growth Strategy	# Become a multi-channel across all markets, not limited by geography # Establish Digital Channels as an extension of developing new Store formats	Tesco, Sears Tesco
	Differentiation Strategy	# Develop a single view of the customer, based on a Unique ID, for uniform multichannel experience. # Seamless launches of New Products & Brands across all Channels	Tesco, Apple JC Penney
2 MODEL	Operating Model	# Plan a mix of Dominant Shopping Channels & Enabler Channels # Re-visit existing Store Sizes & Store Locations, in lieu of New Digital Channels	Tesco JC Penney
	Distribution Model	# Distribution models capable of sending a single item to a Customer's Door # Build capacity to incorporate direct Customer Orders, in sync with routine Store Orders	Carter's Bed, Bath & Beyond
3 CHANNEL	Channel Role	# Channel-agnostic customer experience offered across all channels # Unique customer engagement role identified for each channel, in sync with overall retail experience	JC Penney Home Depot
	Revenue Contribution	# Digital channel contribution in overall sales is measured and tracked	Tesco
4 ORGANIZATION	Leadership	# Dedicated Multi-channel Retail Leader to be part of the Organization	Best Buy, Home Depot, JC Penney,
	Structure	# Prepare a single Sales & Expenses Statement, outlining components of each Channel	Best Buy
	KPIs & Incentives	# Measurement of Revenue/Customer, forming the basis of Customer Lifetime Value	Tesco
5 PROPOSITION	Products	# Complete Assortment access through Digital Channels - even at Store	Best Buy, Ikea
	Services	# Facilitate product & price comparison across all Channels	Best Buy
	Value Ads	# Enable tools like Tablets, Kiosks, Mobile Apps, Etc. for customer's instant information requirements	Burberry
6 PROCESS CAPABILITY	Plan: Operating Plan	# Sales Planning to be done for Offline as well as Online Channels, aggregating in a single AOP	Tesco
	Plan: Sourcing	# Establish a centralized sourcing centre for all Channels	Zara, Home Depot
	Plan: Customer Reach	# Create an integrated Annual Marketing Calendar, with planned initiatives on each Channel	Tesco
	Buy: Procurement	# Aggregate Demand by Product Category across all channels, for Procurement	Apple
	Buy: Assortment Planning	# Develop organization-wide quick response time for changing Trends & Customer Expectations	Zara
	Buy: Item Master Maintenance	# Create a single item Master Database, covering products of all channels	Best Buy, Home Depot
	Move: Replenishment	# Dedicated Fulfillment Centers for Digital Channel Orders	Macy's
	Move: Allocations & Transfers	# Develop a single view of inventory across all Retail Channels	OfficeMax, Nordstrom
	Move: Reverse Logistics	# For a specified period, allow Customer Returns back to the same channel of Service	Neiman Marcus
	Sell: Sales & Return	# Uniform Sales, Return & Exchange Policy across all channels. # Have dedicated Customer Sales Associates for Digital Channels, in sync with Store	Zara, Burberry, Home Depot JC Penney
	Sell: Pricing	# Pursue common Pricing across channels # Offer Price Match & Price Guarantees, in case of any price differences across Channels # Design promotions to facilitate traffic from a customer's Enabler Channels to Dominant Channels	Tesco, Zara Best Buy Home Depot, Tesco
	Sell: Promotions	# Personalize Promotions, facilitating cross-channel Purchases by Customers # Increase proportion of Digital Communication to Customer versus Traditional Media	Starbucks Ikea
	Service: Product Delivery	# Store Pick-up & Home Delivery options for any purchases across any channel - Offline or Online # Allow preferred Time of Delivery to customers # Dedicated parking & pick-up areas for Online Orders at Stores	Home Depot, Callaway Tesco, Lowe's Best Buy, Ikea
	Service: Service Resolution	# Build a single Service Business Unit catering to customer Service requirements for all channels # One view of customer Transactions to be available for all Customer Associates	Best Buy, Lowe's Best Buy
	Service: Loyalty Program	# Offline & Online Points Accrual as well as Redemption	Tesco
7 SYSTEMS	Sales	# Store POS to be capable of accessing & completing Digital Channel orders	Home Depot, Tesco, JC Penney
	Order Management	# Multiple channels ordering should be integrated into a single Ordering System	Tesco, Best Buy, Home Depot
	Analytics	# Capture customer shopping behaviour across all channels into a single information Repository # Develop real-time customer reward mechanisms, based on past shopping behavior	Neiman Marcus Starbucks, Tesco
8 CUSTOMER ENGAGEMENT	Listening	# Establish listening fronts on credible social media platforms like Facebook, Twitter, etc. # Capture voice of customers across all Channels and collect in a single Repository	Zara Best Buy
	Acquisition	# Develop community & referral programs, facilitated by new Social Media # Develop new channels for Customer Acquisition like Mobile Apps	Ikea Tesco
	Interaction	# Appoint a business owner for all customer interactions across all channels # Develop interactive retail communication like Online Guides, Youtube Videos, Etc.	Best Buy Ikea
	Retention	# Develop continuous customer connect Programs, covering all channel customers	Lowe's, Sears

Figure 5: Integrated Multichannel Retailing Best Practices

# Where is Retail Industry in terms of Multichannel Maturity?

While compiling this paper, we looked at Top 10 retailers across five formats – Hypermarkets, Department Stores, Home Improvement, Apparel/Footwear and Electronic specialty. We have looked into the parameters suggested in the 4i MCCM Model and have segregated retailers across different level of maturity, based on our estimate.



**Figure 6: Industry Multi Channel Maturity\***

\* A total of 65 retailers were considered for this study. Only 26 retailers have been represented on the above figure

\* Disclaimer: The result of this study in figure 6 is entirely TCS'S view based on secondary research on five key parameters of 4iMMM ( option for store pickup, option for store return, cross channel assortment, social media integration and innovative techniques adopted like mobile commerce, mobile applications, kiosks, QR code ) and may vary from the retailer's actual multichannel maturity.

The study highlighted the following:

- Out of the 65 retailers included in the study only 11% achieved the highest level of maturity.

- Department Stores and Home Improvement retailers have taken initiatives for multichannel integration and are seen mostly in Level 3 and Level 4 of multichannel maturity

- Tesco with its integrated 'Club Card' program, innovative mobile apps, cross-channel transaction integration and precise delivery time slots have achieved the highest level of maturity. It has also been awarded with the "Multi Channel Retailer of the Year 2011" in Oracle World Retail Awards

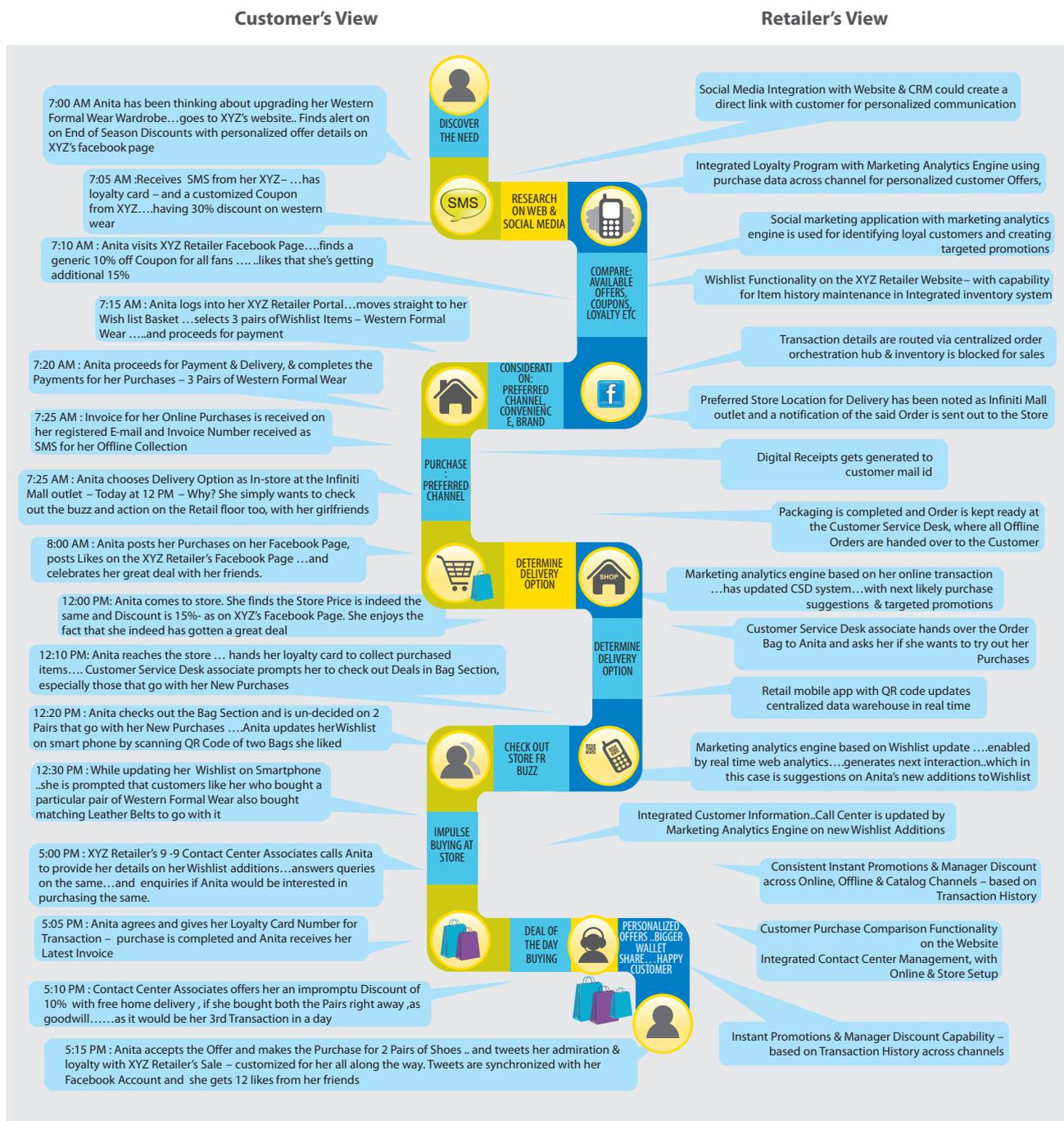
- Best Buy, the biggest electronics specialty retailer in the world has managed to achieve the 'Integrated' level of maturity by investing more in cross-channel capabilities and integrating the processes and systems between call centers and stores leading to a unified ownership of customers between all sales and operational channels

- Out of the 16 Indian retailers analyzed, 60% do not have any e-commerce presence and hence fall in the lowest level of maturity 'Individual'. Retailers like Shoppers Stop and Future Group have made initial forays into multichannel capability

As more and more Indian retailers realize the importance of integrated commerce, we expect the multichannel trend to catch up and many more Indian retailers heading towards high levels of maturity.

# Integrated retailing ecosystem in action:

Anita is shopping for Western Formal Wear (and complementary items), using a mix of Online, Store and Contact Center Channels.



# Implications of Integrated Retail for FMCG Companies

By now we have seen how the consumer shopping cycle seamlessly flips between multiple Retail Channels and expects a uniform experience nonetheless ...how Integrated Retailing will be a suitable model for India. And, this multichannel shopper also buys more than a single-channel shopper. We have also seen the organizational changes a Retailer will undertake towards its journey in becoming a truly integrated entity to address the requirements of a multi channel shopper as well as tap synergies of integrated multi channel retailing. As retailers evolve in line with consumer evolution, it is a foregone conclusion that the upstream partners to retailers – FMCG Companies – will also need to undertake multiple initiatives to not only synchronize their operations with retailers, but also gain operational benefits themselves in the process.

It is seen that FMCG Partners actually surround Retail across its Value Chain - from assortment planning, planogram, space optimization to promotion & replenishment today. The deep collaboration that Wal-Mart and P&G have developed in over the years for their Stores-Retail business is a benchmark for Retailer-FMCG collaboration. As we look ahead, the point of deliberation is whether this collaboration is flexible and if it can be extended towards an

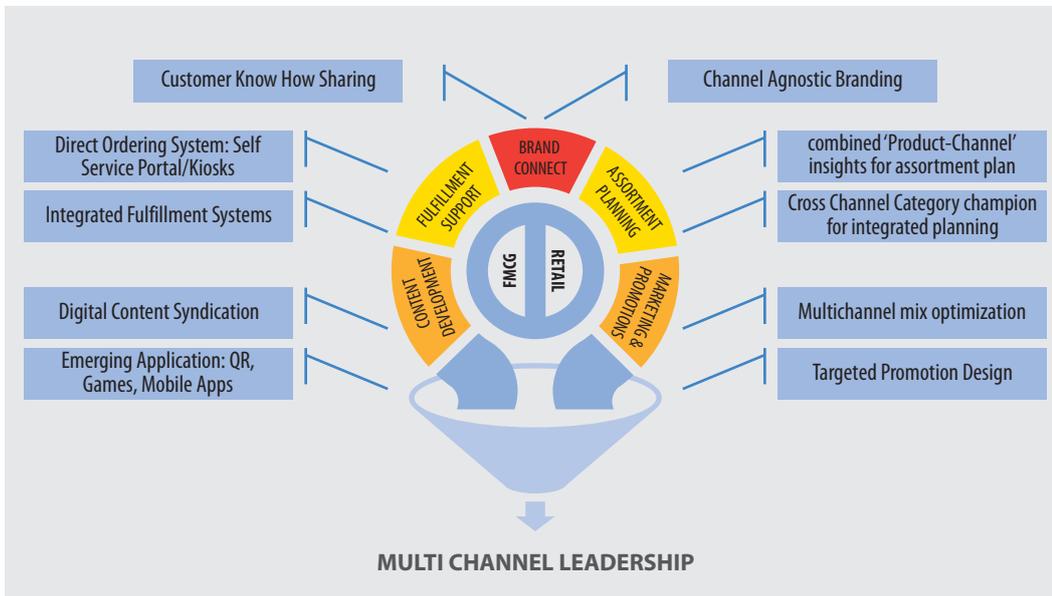
Integrated Multichannel Retail environment? Can Wal-Mart and P&G have the same partnership efficiency with the addition of a Walmart.com and P&G-store-link-on-Facebook? Yes, we believe it is possible and in some ways it has already begun.

To create a win-win, consumer goods companies and retailer will develop a symbiotic relation, towards this deliberation, we have identified a few areas below where FMCG Companies can & will work together with Retailers and will play an instrumental role towards the success of the Integrated Multichannel Retail model.

## Key Opportunities for FMCG-Retailer Collaboration for Integrated Multichannel Retail Model

As quick pickings, we see these areas where FMCG-Retailer Collaboration can be initiated right away:

1. Channel Assortment Planning
2. Content Management
3. Fulfillment Support
4. Marketing & Promotions
5. Brand Connect



## 1. Channel Assortment Planning

It would be more or less common knowledge that that a Multi-channel Retail consumer purchases would be varied by FMCG Category. A study by The Nielsen Company for the US Market in November 2010 showed that Paper Products was one of the most fragmented categories of the 15 they had examined. 83% of category-buying households shopped two or more channels in 2009 for paper towels, toilet tissue, facial tissue and other paper goods. In addition, 82% of snack product shoppers used two or more channels. Frequency of multichannel retail shopping dropped considerably after these two categories. Carbonated beverages come in third place with 72% of shoppers in this category using multiple channels. Conversely, about half of disposable diapers, coffee, vitamins and cough and cold purchases came from shoppers who shopped for those categories exclusively in one channel.

It would be higher for Non-perishables versus Perishables. It would be higher of Ready-products versus Un-finished Products. It would be lesser for Personal Consumption items versus General Use items and so on. The key takeaway here for both FMCG Players and Retailers is that these combined 'Product-Channel' insights give them a far deeper understanding about what to stock in Stores and what can be directly delivered to the customer at home. It helps them decide their Channel Assortment Planning, with far greater precision than it is being done today. It not only leads to operational efficiencies for both, but it helps them present the right Product to the right Consumer on the right Channel.

## 2. Digital Content Management

With trends like mass media viewership fragmentation and social media taking center stage, digital marketing is already undergoing a major change, becoming more personalized and

interactive. Now with retailer having a direct link with end consumers, FMCG will be willing to go the extra mile in making sure that any digital content a consumer is seeing is the image the product company wants to create. This would mean joint syndication of digital content as well as collaborative digital content development with retailers. This trend will rise and will go beyond joint content development & syndication to, development of mobile apps, games and social media apps that can be integrated into websites & Facebook fan pages.

Another area of collaborative content would Work with retailer to develop QR codes which link to jointly developed content available at retailer website or FMCG website.

### **3. Fulfillment Support**

Among best practices identified for Distribution Model by early adopters of Integrated Multichannel Retail, is the capability to fulfill a single item purchase from any channel and deliver to a customer's door. To be able to do this most effectively, retailer POS & order orchestration system must be tightly integrated with manufacturer's ordering & fulfillment process system, so that if the retailer is out of stock then the order can be directly placed to the manufacturer and clubbed with store replenishment orders or delivered directly from manufacturer's DC for quick service. This would result in mutually winning scenario by improving revenues of both Retailer & Consumer Goods Company.

Another emerging way of fulfillment collaboration is through store kiosks or POS systems to directly place order to manufacturer's website. A case in point is BATA India, who has enabled their Store Managers to place customized orders for out-of-stock merchandise directly.

In terms of Distribution Capability, the FMCG Partner is un-matched in India and stories of the likes of Hindustan Unilever reaching lakhs of Retail Outlets across every substantial consumer location in the country – organized & un-organized – are very well-known. Against that the biggest retailer today will have access to 1000-odd consumer locations. Can they combine their efforts to reach more consumers, where a consumer purchases a FMCG Product on a Retailer's Channel – likely to be Online – and the order fulfillment actually happens through the FMCG Partner's Distribution Network?

It is possible and note that Wal-Mart-P&G collaboration are evaluating early steps in this direction already. Walmart.com is considering linking with P&G's Facebook pages as an option, according to an Advertising Age news piece last June.

### **4. Marketing & Promotions**

On the face of it, this would probably be the easiest area of collaboration in the Integrated Retail era, between FMCG Players & Retailers. Some of the functional areas where huge synergies are seen are as noted below:

- **Promotion ROI Optimization: FMCG Partners & Integrated Retailers** can identify and realize the optimum multichannel mix based on costs & returns, by executing Promotions across different Offline & Online Channels. By measuring its effectiveness across channels, the model will feed future Promotions vs. Channel mix and on an ongoing basis keep optimizing it.
- **Increasing Promotion Effectiveness:** With retailer's having rich data about consumer profiles and segment behavior, these can be shared with an FMCG Partner in determining a ready audience for its New Product Launch. For example, a customized promotion for a New Ladies Deodorant can be run as a Retailer Direct Marketing Campaign for all working women across its Database. This guarantees an initial adoption push for a FMCG Partner, while making the Retailer look personal and in sync with a consumer's tastes & preferences.

Let's check out the dynamics of a Kraft iFood Mobile Application in the US Markets. It is an application which allows a customer to access its Mobile Portal, obtain Food Recipes, make a Shopping List and obtain directions for nearby Retail Stores. , This is how FMCG-Retailer Marketing collaboration can work, to stay connected to its customers – at a Brand or a Retail-level.

## 5. Brand Connect

A study in the USA by comScore in January 2012 indicated that visitors to FMCG company websites spent 37% more in retail stores than consumers who did not visit them. Additionally, visitors on FMCG company websites completed 41% more transactions at store against non-visitors. This is an interesting note especially for FMCG Partners of Retailers.

The Brand of a FMCG Player has connected with a consumer through its own website. However, that brand connect to actual shopping conversion is happening at the Retail outlet. A consumer would not convert into a Brand Purchase, if for whatever reason the Brand was badly presented at a Retailer's outlet. For example, would a consumer purchase an opened or punctured bottle of Clinic Plus in a hypermarket? Would a consumer wait for Fiamma Di Willis Men's Body Spray on a Retailer's website showing it as out of stock? No they would not. Would they stay impressed with the Brand? Maybe, not. Implication: a FMCG Brand experience is ruined because of lack of last mile FMCG-Retailer connect. A seamless Brand presentation by a Retailer across all its multi-channels is imperative for a FMCG Brand to succeed and this would be one of the key areas that they need to work together on.

# Steps to Graduate to the Next Level of Maturity

## The difference between knowing the path and walking the path

By now the advantages that an integrated multichannel retail organization can gain by being present across channels of a customer's shopping cycle are evident. And a framework has been suggested which can help retailers identify their current and desired states of multichannel maturity. Once the retailer have noted the need for IMR, few pertinent questions still linger:

- Where do I begin my multichannel journey?
- What are the resources needed for me to undertake multichannel initiatives?
- How do I bring assimilation of my multichannel initiatives?
- How do I measure effectiveness of my efforts?

- How do I sustain the benefits that I may accrue?

A glide path has been created which can help retailers make a meaningful start in their integrated multichannel journey leveraging the 4i Model. Once retailer has identified its current stage of multichannel maturity, implementing the 5 steps in the framework suggested in Figure 7 can be used achieve competency in the current level to gear up for the next level of maturity. The five steps of the framework are:

1. Plan
2. Build
3. Execute
4. Harvest
5. Nurture



Figure 8: Integrated Multi Channel Maturity Roadmap

**1. Plan:** This step involves defining what is going to be done and how it is going to be done.

- A clear set of organizational objectives and a precise customer proposition are at the core of a successful multichannel strategy. And there needs to be a single owner of this entire plan. Often, multichannel initiatives are taken in isolation with little or no overlap with dominant brick and mortar channels and thereby any development in the multichannel space are often a series of ad-hoc initiatives rather than a well thought out plan of action. This results in inefficiencies of the multichannel model, often negating all the envisaged benefits.
- Thus with future business and customer goals defined as series of milestones, a strategic blueprint should be charted which clearly articulates: a retailer's current state and a desirable end-state. And this end-state needs to be further refined to outline phased growth objectives, contribution of each channel in achieving phase-wise growth objectives (penetration/diversification) and role of each channel in satisfying customer requirements.
- Having set channel role and priorities, the next item is acting on the growth objectives by translating organizational goals into integrated annual operating plans, with possible channel initiatives and targets. Also, careful deliberation must be made to identify the investments that will be needed towards this agenda and the metrics that will be the key for measuring the efficacy of efforts in this area.

**2. Build:** This step involves allocating adequate resources for success and taking initial steps of action.

- An integrated organization structure aligned

with annual operating plan is a foundation which delivers these targets at the organizational level. Allocation of resources and channel product assortment is a strategic decision that must be taken based on both channel conversion and enablement objectives to meet overall organizational goals.

- **Customer Connect:** A retailer needs to understand its customer needs from each channel by tracking a customer segment's "channel journey" and "channels switch reasons". Define channel touch points and interaction methodology to replicate the customer expectation across preferred and dominant channels. Prioritize channel initiatives and integrate preferred channel customer touch points.
- **Organizational Building Blocks:** This will require efforts on these activities like:
  - i. Continuous Assortment Planning
  - ii. Seamless Order Management
  - iii. Supply Chain Visibility across Channels
  - iv. Customer Interaction Orchestration
  - v. Social Media Integration with Promotions
  - vi. Cross Channel Customer and Product Analysis
- A retailer must identify and prioritize organizational building blocks. For example, it could first independently build channel touch points and then integrate them. Or it could quickly integrate existing touch points and keep on adding innovative touch points.
- Following this, a retailer can begin to use new cross-channel processes and integrate real-time information into existing customer

touch points. Also, it needs to develop a capability to track, analyze, identify, understand and respond to customer transactions.

**3. Execute:** This step involves exhaustively implementing things on the ground and synchronizing efforts towards the desired end-state of the initiative.

- This is an important phase in the multichannel maturity journey, when it all begins to come together. As a retailer begins to align its Value Chain, it needs to set up robust business processes and systems and ensure its compliance on the ground, by covering exhaustive Key Performance Indicators (KPIs), business scenarios and alerts. And, these must be built with a 3-year roadmap in mind. What may work today, may not work tomorrow. So, flexibility must be built-in when integrating the various businesses together.
- This is also a phase when efficiencies of the multichannel model begin to take shape. For example, a retailer can integrate multiple channel functions to single functional leadership, to allow information and asset sharing across organization. It can move from channel-centric model to business-centric to enable single view of customer transactions. It will also lead to the development of new cross-channel processes that are customer-centric and enable converged inventory pool, assets and distribution across channels.
- A retailer can begin to be forward-looking by integrating real-time cross-channel information for collaborative merchandising, cross-channel pricing, integrated marketing plans and cross-channel supply chain. Most importantly, it can look rationalize its overall

expenses by mixing varying multichannel costs, for improving its margins and revenues.

**4. Harvest:** In this phase, a retailer measures effectiveness of his multichannel initiatives and identifies synergies gained from the efforts.

- This is a mixed time for multichannel retailers. While the benefits of moving up a maturity level in its pursuit of multichannel retail begin to add up, it is also a phase when the customer begins to expect more. A nice balance has to be struck between doing more and doing less. There are four key elements for any successful customer engagement – listening, acquiring, interacting and retaining. Retail analytics will play an important role in matching the right channel with the right element for engaging with its customers.
- A retailer will know the channels that are best for increasing sales and the channels that are best for reducing costs – in the context of its customer shopping behavior. There are huge cross-channel shopping as well as operational synergies in doing this and these observations need to be institutionalized and promoted across the organization. This also leads to a paradigm shift in retail KPI from revenue per store to revenue per customer.
- This is also the phase for pursuing Process Excellence and measuring Customer Satisfaction Index (CSI) on a regular basis. The KPIs identified in the plan phase must be tracked very closely and all gaps must be covered immediately – for the multichannel proposition to remain relevant and sustainable.

**5. Nurture:** This last step is a trigger to step one again, where a retailer gauges relevance of its current efforts, pursues excellence in its efforts and prepares for the next level of evolution.

- It is important to know that while each channel may have varying importance in terms of business objectives and customer use and relevance, it has to maintain excellence in each of the channels. In a bricks world, if customers have one bad experience across some chain store, they carry that impression for the entire chain. Similar will be the case at a multichannel retail level. In an integrated multichannel world, only word-of-mouth is replaced by word-of-mouth and word-of-mouse, which will play a multiplier role. One bad experience in some single channel and it will reflect on the entire retail organization, very fast and very far.
- A multichannel retail entity occupies a unique place in a customer's life, by making things available the moment a customer thinks of consuming it. And the customer rewards it with business instantly. The concept of customer lifetime value becomes more relevant in the multichannel world than ever before. This is the USP of the multichannel entity and it must be nurtured.
- While a retailer has to maintain excellence in each of its channels, it must continue to evolve through trials and pilots on emerging touch points like Mobile Apps or Interactive TV, Video Games and so on. It can start small on emerging touch points and use proof-of-concepts in trying out new ways of staying connected with the customer.

These five steps are guidelines for any retailer in its pursuit towards integrated multi-channel retailing. It is possible to use these steps without its sequence, if a retailer is carrying out multiple initiatives at the same time. However, for success the activities and rigor that is imperative for each steps must be pursued in total.

## Conclusion

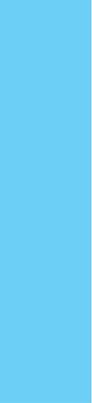
Indian retail has the tremendous potential of 1.2 billion consumers, but is constrained by its relatively inadequate and expensive customer connection points in the form of physical stores. The emergence of digital channels (three Screens, that is, Laptop, Smartphone & Flat Panel TV) can augment retailer's physical stores in India, for not only in increasing customer reach but also engaging customers through channels that are relevant during their shopping journey. A shift of small percentage of the business to digital channels can bring in much needed efficiency in the retailer's business leading to significant improvement in profitability. For a retailer to make this happen, it needs to collaborate very closely with its suppliers and synchronize its operations with their key FMCG partners.

Retailers in their endeavor to transform into an Integrated Multichannel Retail (IMR) entity that is present every where an Indian customer shops, need to initiate the transformation with 3 simple steps:

1. Conduct a diagnostic study to understand the multichannel maturity by leveraging the 4i MCMM model
2. Create an Integrated Multichannel Roadmap for execution
3. Begin the journey following the five steps ( Plan, Build, Execute, Harvest and Nurture ) that will help him graduate to the next maturity level

The journey towards becoming an Integrated Multichannel Retailer has begun. The trillion-dollar opportunity will get realized, through a million customer touch-points!





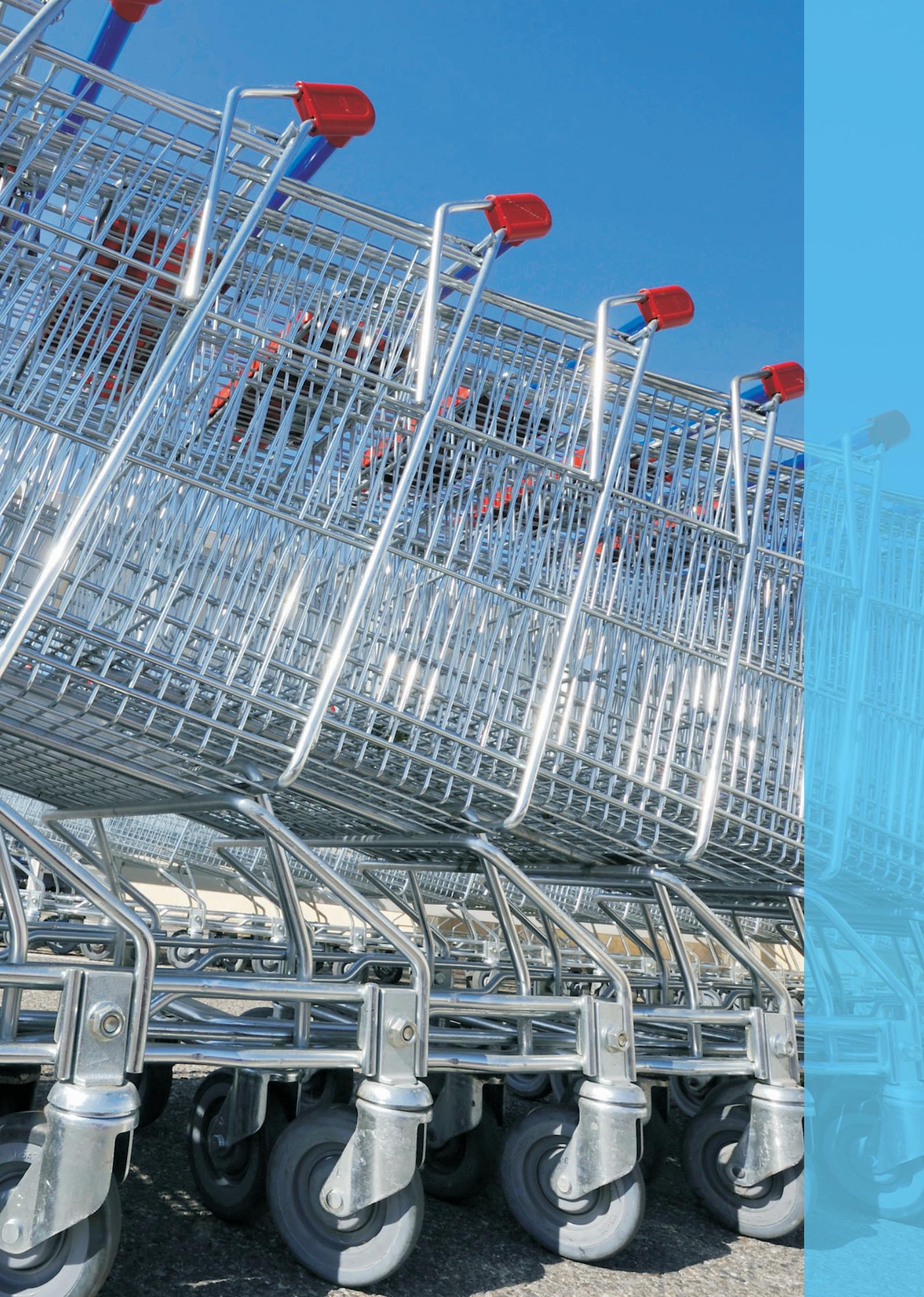
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