

Strategic Issues for Retail CEOs*

Perspectives on Operating in India's Retail Sector



*connectedthinking

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Executive summary



The Indian retail sector is dynamic, exciting and challenging!

India's robust macro- and microeconomic fundamentals, such as robust GDP growth, higher incomes, increasing personal consumption, favourable demographics and supportive government policies, will accelerate the growth of the retail sector.

India's robust macro- and microeconomic fundamentals, such as robust GDP growth, higher incomes, increasing personal consumption, favourable demographics and supportive government policies, will accelerate the growth of the retail sector.

As outlined in the PricewaterhouseCoopers thought leadership study entitled Building to Win: How multinationals are structuring to compete in emerging markets, most global retailers, especially in the current economic environment, are looking at India and China to grow, to shore up revenues and to access new customers. India's retail sector is perhaps one of the most challenging, dynamic and exciting markets to operate in, as based on our discussions with retailers—

- **Serving a heterogeneous market (CUSTOMERS)** - India is characterised by varying consumer tastes, preferences and buying habits. India's states have unique languages, cuisine, geography, etc. and many retailers believe that consumers' tastes and preferences vary by state, city, catchment area and even by street! This makes it seem that India is a collection of 28 countries instead of 28 states!
- **Developing a long-term investment horizon (INVESTMENT)** - Domestic and global retailers view India as a long-term investment proposition and suggest that patience, deep pockets and customisation of products and services are required for success.
- **Focusing on innovation, customisation and new product development (PRODUCTS)** - Global retailers are, through the launch of India - inspired products, positioning themselves as international retailers who understand the nuances of serving Indian customers in terms of offering them the right product, at the right price and through the right distribution channel.
- **Operating within the current regulatory framework (BUSINESS ENVIRONMENT)** - Global retailers should realise that international strategies may not always be the best for the Indian market; some amount of customisation may be required to succeed in the Indian marketplace. Retailers need to comply with national- and state-level legislation, tax issues and regulatory frameworks.

Selected trends	Key challenges
• Improving operational effectiveness • Focusing on innovation • Sophisticated consumers • Embarking upon a green agenda	• Infrastructure • Workforce management • Value-conscious consumers • Supply chain

Discussion theme 1- Improving supply chains and operations will enable retailers in India to enhance competitiveness and successfully deploy growth initiatives.

Mastery of supply chain dynamics is a critical enabler for the growth of modern trade. The primary objective of the retail supply chain is to source, store, transport and deliver the right merchandise to the store shelf at minimum costs, in the right condition and within acceptable timeframes. Globally, robust supply chain management is viewed as a competitive advantage. In the Indian context, most retailers are in the early stages of developing their supply chains, although there are specific instances of higher levels of supply chain maturity. Some retailers have implemented cutting-edge IT systems to support and scale operations, enabling them to generate operational efficiency, increase productivity and improve customer experience. Observations pertaining to supply chain, logistics and operations, as based upon our primary research interviews, internal insights and secondary findings are listed below -

- **Supply chain-** Efficient sourcing practices, managing inventory turns and overall supply chain management are important measures to improve profitability. The ability to measure and manage supply chain risks is essential to the success of any retail operation.
- **Operations -** The decision to close stores is a function of unfavourable catchment areas, being located in malls witnessing dwindling footfalls, and a mismatch with the current format portfolios.

Primary case examples

- Aditya Birla Retail Ltd's -
 - Methodology for Scoring Store Success
 - Best Practices Workshops



Discussion theme 2— Strategy and innovation is a holistic concept involving the launch of new products, the creation of unique marketing strategies, the development of new distribution channels, the customisation of products, etc.

Innovation, aside from encompassing the launch of new products and services, involves—

- The launching of new formats such as shop-in-shop formats, value, etc.
- The introduction of customer loyalty programmes from which data can be harnessed to better serve consumers
- The expenditure toward IT systems that link operations, drive efficiencies, manage stockouts, liberate costs, etc.
- The creation of private labels that will be marketed into well-recognised brands
- The development, creation and implementation of customer service standards that delight and excite consumers
- The creation of new distribution channels that enable retailers to efficiently and effectively reach consumers

Innovative practices that interviewed retailers are embarking upon include creating India-inspired product lines, offering private label products and selecting, and accordingly, customising the global product assortment for the Indian market.

Primary case examples

- Dolphin Kids Wear's Efforts to Create a Brand Partnership with Children
- Spa Group's Non-Retail and Digital Channels
- Spa Group/Lladro's India-Inspired Products
- Innovation at Swarovski
- The Mobile Store's "Rock with Rolls" Promotion

Discussion theme 3— Private label offerings are a major catalyst for growth.

Indian consumers are value conscious, more so in the current economic environment. Retail companies are launching a range of private labels products in order to meet the demands of value conscious consumers, to develop product portfolios and to improve margins in a retail environment where efficiency and competitiveness is imperative. Private label brands are important revenue drivers in developing markets and fill a demand gap in terms of range, quality and price.

Observations from retailers we interviewed include—

- **Leveraging a growth opportunity**—Most retail organisations believe that private labels are a major avenue for growth in serving both retail and business customers.
- **Assessing market potential**—Some retailers are embarking upon pilot projects to assess the impact of private labels on sales. These retailers want to assess the impact that private labels have on increasing share of space and category, improving visibility and driving sales and revenues.

- **Providing robust range and assortment**—Retailers offer private labels in a range of categories that include but are not limited to food and non-food categories.
- **Employing specialised staff**—Retailers employ specialised and trained staff to develop private labels that offer health benefits to consumers. These trained staff prepare formulations and maintain an active and important role in Research&Development.
- **Ensuring quick time-to-market**—Most interviewed retailers indicate that it takes between three to 12 months to launch private label products, given the relative ease in finding manufacturers.
- **Experimenting with products**—Some retailers indicate that they are experimenting with private labels and are in the process of identifying underserved categories, finding common features that several customers are demanding for products in stores, etc.

Primary case example

- Guardian Lifecare's Private Label Strategies

Discussion theme 4—Goods and Service Tax (GST) is likely to benefit retailers.

After much deliberation, the Empowered Committee (EC) of State Finance Ministers finally released the First Discussion Paper on 10 November 2009 on implementation of a dual GST in India. The nation-wide implementation of a dual GST signals the next generation of tax reforms designed to address the barriers to trade and to expand the tax base.

With the merger of several indirect taxes into a dual GST, an immediate impact area for businesses paying these taxes is to understand how the tax consequences would change under the dual GST. The taxable events under the dual GST regime would be different from the existing excise and value added tax provisions. These changes will have a considerable impact on trade and industry, ranging from how the tax is levied, to when it is required to be paid, to whether credits accrue for such taxes.

Discussion theme 5 - Workforce management practices are in the nascent stages of being developed in the Indian retail sector.

Hiring in the retail sector is projected to increase in the future due to several new global and domestic entrants and the range of formats they plan to offer. Growth in the Indian retail sector and the corresponding demand for talent has highlighted the need for effective workforce management systems. In general, HR practices in workforce management are in the nascent stages of development in the Indian retail sector. Since organised retail is an emerging sector in India, experienced retail talent is somewhat scarce. The talent crunch in retail is exacerbated by the lack of the requisite training infrastructure.

Once talent has been acquired (through external hiring, internal hiring, referral hiring, etc.) and developed (through the provision of soft skills training and the introduction of salary/performance pay/commission plans), retailers will need to—

- **Create a talent pool**—Retailers are developing strategies for ensuring talent availability for future expansion .
- **Ensure employee growth**—Companies are developing employees to meet hiring needs by using outsourcing, creating training infrastructure and identifying new and creative ways of delivering training.
- **Retain employees**—Retaining employees is critical to successfully expanding business operations. Employers are working towards employee retention by developing structured recognition programmes, enhancing rewards and employee growth programmes and implementing HR practices and policies which demonstrate a long-term focus and commitment to building employee capabilities and careers.

Primary case example

- Marks & Spencer Reliance India Pvt. Ltd's "People Engagement" Programme



Discussion theme 6 - Sustainability and green marketing initiatives will need to be addressed as influences (e.g. government mandates, consumer awareness, competitor actions, etc.) converge and heighten in voice.

Converging influences, such as consumer awareness, pressure on commodity and energy prices, together with regulator and competitor actions are combining to ensure businesses cannot ignore the environmental and social dimensions of how they operate. Our primary research interviews suggest that green marketing and other sustainability practices are in the initial stages of being incorporated into modern trade. Three major sustainability issues facing retailers now are—

- **Climate change**—The measurement of retailers' carbon footprints and those of their products is seen as an important step in enabling retailers to understand and mitigate their impacts on climate change.
- **Waste**—There is a widespread call for reducing the overall amount of packaging, more guidance on recycling and more education and emphasis on re-use.
- **Supply chain**—Ensuring security of supply is considered to be a goal which can be compatible with social compliance and also something that retailers can work on together. Responsible procurement brings with it many issues for retailers and these are perceived to become more pressing as environmental pressures become increasingly felt.

Primary case examples

- Sustainable Design at Inorbit Mall
- Levi Strauss and Co.'s Product Sourcing and Sustainability Practices
- Max Hypermarket's Sustainable Sourcing and Procurement Practices
- Swarovski's Water Schools





The Indian retail sector
is dynamic, exciting and
challenging!



The Indian retail sector - A major growth opportunity

PricewaterhouseCoopers estimates that the Indian retail sector is worth USD 350 billion and is growing at 15 to 20 percent per annum. Organised retail penetration accounts for between 5 to 8 percent. The unorganised market comprises 12 million mom-and-pop stores, also called 'kiranas'.

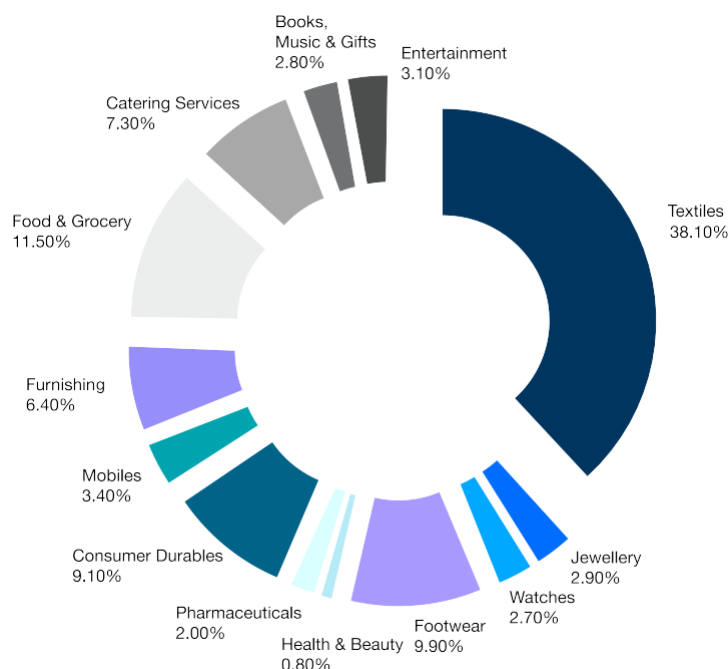
Market size and penetration

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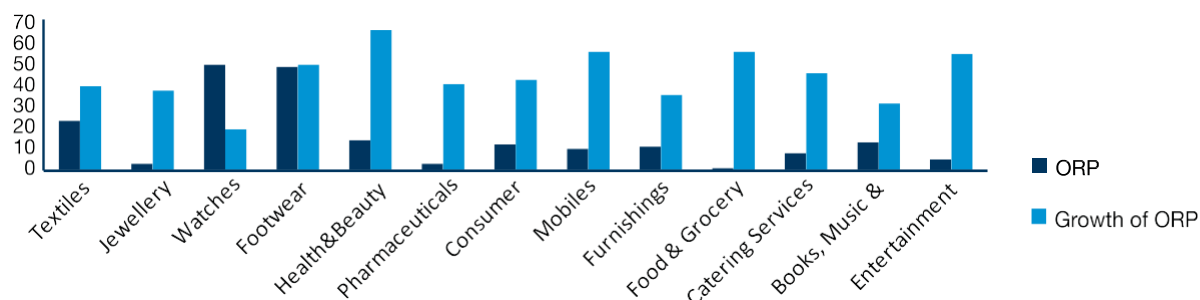
The retail and wholesale sector in India accounts for approximately 14 percent of GDP and over a quarter of the value added in all services sectors. In terms of employment, the sector is the second largest employer (after agriculture) providing over 10 percent of all formal jobs in India. Strong demand and supply features are responsible for growing the retail sector. These include -

Selected demand drivers	Selected supply drivers
• Demanding consumers who want access to the latest and best products • Increased access to credit • New customer segments e.g., children, men, working women, etc.) clamoring for products catering to their needs • Increasing incomes are driving the purchase of both essential and non-essential products	• Growth of modern trade formats are making it easier for consumers to access established and new products/brands • New entrants are launching a range of products and services for consumers • Modern trade participants have long-term expansion plans for the Indian market • Growth of niche areas such as health and wellness, organic products, skincare, etc.

India's retail penetration—growth opportunities in most categories



Indian retail sector—quick facts	
Market size	USD 350 billion
Organised retail penetration	5 – 8 %
Unorganised retail market	12 million kiranas
Growth rate	15 – 20%
Estimated investment by 2011	USD 412 billion
Retail density	6%



Source: IMAGES F&R Research

India's retail sector is supported by strong economic fundamentals

India's robust macro- and microeconomic fundamentals will further accelerate the growth of retail –

- **Robust GDP growth**— India, with its aggressive growth policy, witnessed an average growth rate of 9 percent per annum from 2005 to 2008 and an impressive growth rate of 6.7 percent in 2008-09, despite the pervasive effects of the global financial crisis.
- **Favorable demographics**— India is one of the youngest and largest consumer markets in the world with a median age of approximately 25.1 years, the lowest compared to other developed countries. Young Indians are earning higher salaries than their parents did at their age. They are adding further lift and buoyancy to the economy through the purchase of several categories of products that include mobile phones, two-wheelers, branded apparel, jewellery, etc.
- **Government policies**—The Indian Government's efforts to encourage inclusive growth are expected to help drive total consumption levels. In the Interim Budget for 2009-10 (16 February 2009), Finance Minister Pranab Mukherjee stated that the government will ensure that its policies encourage further inclusive growth by creating 12 million new opportunities for work per year and reduce the number of people living below the poverty line to less than half by 2014. The government is also investing in improving education, infrastructure and agricultural growth; these investments will further boost consumption in the country.
- **Growth potential in rural India**—72.2 percent of India's population resides in rural areas, making rural India an incredibly attractive market. Rural India is experiencing an increase in liquidity levels, growth in demand and a rise in consumerism due to rising incomes as a result of healthy agricultural growth rates of over four percent from 2003-04 to 2008-09. The Government of India is also undertaking various initiatives focused on accelerating rural development, such as extending the loan waiver scheme and expanding rural development programmes (e.g., The National Rural Employment Guarantee Act).

India—an important market for both global and domestic retailers

The PricewaterhouseCoopers thought leadership study entitled Building to Win: How multinationals are structuring to compete in emerging markets indicates that growth prospects remain favourable in Asia, buoyed by the strong showing of China and India in recent years. India, as compared to other countries, has been relatively insulated from the global economic slowdown. This is apparent when looking at India's consumer confidence levels, its GDP projections for the new fiscal year, investor confidence in response to election results, etc. India's retail sector is perhaps one of the most challenging, dynamic and exciting markets to operate in, as based on our discussions with retailers—

- **Serving a heterogeneous market (CUSTOMERS)**— India's 28 states have unique languages, cuisine, geography, etc. and many retailers believe that consumers' tastes and preferences vary by state, city, catchment area and even street! Brand loyalty is an important aspect in serving customers. Some interviewed retailers indicated that Indian consumers are brand loyal; that said, if retailers do not listen to consumers and use their feedback, buyers are quick to frequent other retail establishments. Consumers are increasingly demanding value for money, are not willing to compromise on product choice or quality and are willing to visit other retailers if their needs are not met
- **Developing a long-term investment horizon (INVESTMENT)**— Both domestic and global retailers view India as a long-term investment proposition, and suggest that patience, deep pockets and customisation of products and services are required for success.
- **Focusing on innovation, customisation and new product development (PRODUCTS)**— Global retailers who have long-term plans for India are, through the launch of India-inspired/customised products, positioning themselves as international retailers who understand the nuances of serving Indian customers in terms of offering the right product, at the right price and through the right distribution channel.
- **Operating within the current regulatory framework (BUSINESS ENVIRONMENT)**— Currently, the Indian retail sector is not fully liberalised. Global retailers looking to enter India can do so through the cash and carry route, single brand retail (i.e., a joint venture agreement with an Indian party where the foreign retailer holds a maximum of 51 percent equity), franchising, distribution and strategic licensing agreements. Global retailers wanting to enter India need to find a structuring solution that meets their overall needs and strategic goals. Selecting “the right” Indian partners for single-brand entry, licensing, franchising and distribution is a critical success factor.

The global economic downturn has depressed worldwide consumer spending, sentiments and investor confidence and the retail industry, as with other industries, has been adversely impacted. That said, the PricewaterhouseCoopers thought leadership study entitled *Glimmers amid the gloom: The outlook for the retail and consumer products sector in emerging markets* suggests that there some sub-sectors within the Retail&Consumer industry that are performing robustly, globally, despite market conditions.

Supermarket chains	There is little evidence that the expansion plans of multinational supermarket chains will falter. Multinational retailers, such as Wal-Mart, Carrefour, Tesco and Metro, will continue to expand their operations in emerging markets. Asia remains particularly buoyant despite the global economic downturn.
Apparel retailers	Asia is the most exciting growth region for apparel retailers, with China and India expecting double-digit growth rates for sales. India is the third-largest apparel market after China and Japan, and is expected to grow faster than both these countries in the next two years.
Fast food restaurants	Fast food is proving to be recession-proof in emerging markets. In Asia, while affluent consumers are trading down from fine-dining options, they and lower income consumers can still afford to eat out. Restaurant chains are rapidly increasing their outlets and are keeping costs down to fund this expansion.
FMCG	The FMCG sector faces competitive threats from retailers' private-label goods. The trend across Asia and Latin America is for firms to penetrate markets more deeply and reach lower-income consumers. At the same time, firms are concentrating on reducing their supply chain costs and investing in marketing.
Luxury firms	Sales of luxury goods in Asia are defying the current financial crisis and this region has the brightest outlook for the future, with 15,300 households estimated to have a net wealth of over USD 1 million in 2008. The Indian luxury market presents tremendous growth potential; however, the current regulatory environment may prevent rapid expansion.
Consumer durables and electronics	Asia, already the largest manufacturer of consumer electronics, is also emerging as one of the biggest buyers of computers, colour TVs, DVD players and mobile phones. Consumer electronics majors are cautiously optimistic. Despite the current economic crisis, a steady growth in demand is forecast for this region, as Asians continue to spend on electronics.

Operating in the Indian retail market—selected trends and challenges

Selected trends in India's retail sector include—

- **Improving operational effectiveness**— Retail&Consumer companies are optimising operations, streamlining the movement of goods, increasing efficiencies and assessing stores. Retailers are assessing their supply chains, renegotiating rental agreements (since rental rates have fallen), establishing shop-in-shop formats and are closing underperforming stores
- **Focusing on product development**— Indian Retail&Consumer companies are launching private labels in a range of categories, including apparel, beauty care, consumer durables, FMCG, food, footwear, home goods, household cleaners, etc. While these products may have a “no frills” approach in packaging and marketing, they satisfy consumers’ value preferences. India’s major retailers expect to increase the range and visibility of private label offerings, derive an increased share of revenue from the sales of these products, embark upon promotional offers and sales for such offerings and offer some of their private label products through other retailers’ outlets.
- **Increasingly sophisticated consumers**— The Internet/media, global lifestyle influencers, increasing incomes, overseas travel and a preoccupation with celebrity culture are making Indians more aware than before. Sophisticated consumers are demanding access to new products in health foods and beverages, dietary supplements, health and wellness, skincare, etc.
- **Embarking upon a green agenda**—Although nascent in India, some retailers are revising business strategies and embarking upon sustainable business practices to appeal to environmentally-aware consumers. Competitive forces are playing a role in encouraging the use of biodegradable packaging, adopting sustainable business practices, reducing carbon footprint, etc.



Key challenges in India's retail sector include -

- **Absence of infrastructure and good retail space** - Interviews with retailers suggest that the main challenge in expanding outlets has been the absence of good retail space at the right price that opens at the right time (since openings can be delayed, etc.). The pace of expansion is a challenge since it is difficult to find developers who maintain a long-term view of partnership. The major infrastructure required for moving goods in an efficient manner involves roads, the freight industry, railways, ports and shipping and pipelines, all of which are either managed or regulated by the government. Connectivity, quality of and costs incurred in developing infrastructure need to be improved. Streamlining and improving logistic services will improve productivity and reduce costs, thereby benefiting Indian consumers.
- **Workforce management** - Since retail is relatively new in India, there is an absence of well-qualified retail front-line staff. Retail companies need to better train and develop their staff regarding the improvement of product information, customer service, managing customers, etc.
- **Value-conscious consumers** - Indian consumers can be challenging to serve since they are discerning, demanding and value-conscious. In this capacity, private label products successfully straddle value and quality parameters.
- **Supply chain** - The absence of robust supply chain and cold chain systems make it challenging to move goods, reduce costs and capture efficiencies. Improving supply chain and logistics enables retailers to significantly enhance overall competitiveness and successfully deploy expansion plans.

Operational excellence using Lean Service Principles

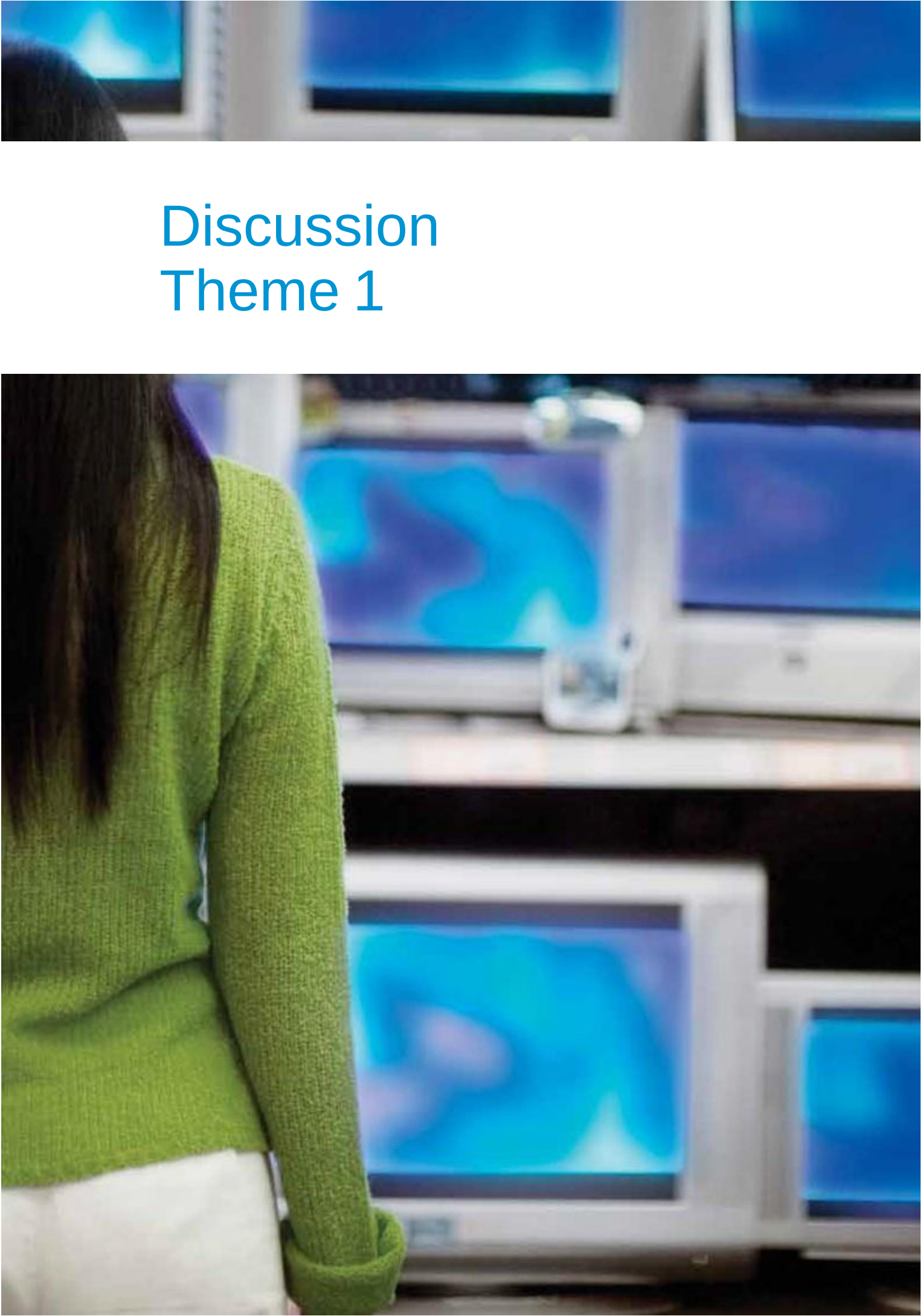
Cost liberalisation—inventory turns, category cash cycles

Value enhancement—stock outs and service outages, discounting for velocity, effectiveness of schemes

Cost reduction—shrinkage, real estate costs, space utilisation

Supply chain—key aspects

- Finance
- Merchandising
- Transportation
- Planning
- Real Estate
- Cold Chain
- Warehousing
- Stores
- Internet
- HR
- Call Centers
- IT Systems
- Shrinkage
- POS



Discussion Theme 1

Supply chain is a critical growth enabler.

Improving supply chain and logistics will enable retailers in India to significantly enhance overall competitiveness and successfully deploy growth initiatives.

Supply chain and operations - an enabler for modern trade

Improving supply chain and logistics will enable retailers in India to significantly enhance overall competitiveness and successfully deploy growth initiatives. India's retailers are building supply chains, improving back-end processes and instituting technologies. These efforts will ensure—

- A smoother transfer of goods from point of origin to point of consumption
- Increased operational efficiencies
- A reduction in overall costs
- Improved customer service since goods can be moved between factories, warehouses and outlets more efficiently

Mastery of supply chain dynamics is a critical enabler for the growth of modern trade. (Supply chain costs can form over 50 percent of total operating costs.) As modern trade grows in India, supply chains will become essential for growth since—

- Regional variances exist in demand patterns which result in differences in goods distributed to cities/rural areas
- Value conscious consumers demand lower prices, which require retailers to be cost efficient
- They can assist retailers in creating strong customer value propositions, such as being more cost effective, providing fresher products, providing better product assortment and having a better reach

India is a large and fragmented country and the absence of strong infrastructure and logistics systems make it challenging to reach consumers located in urban, semi-urban and rural India. With the Indian government making investments into state highways, an overall decline of logistics costs will occur; studies suggest that logistics costs are between 10 to 12 percent of total GDP. The Budget 2009-2010's extension of investment-linked tax incentives to businesses engaged in the development of cold chain units/warehousing facilities should help drive the development of this important sector.

Supply chain expertise and manpower availability are the sector's major challenges. Few institutes offer specialised courses in this terrain and most courses remain theoretical and general. Attracting and retaining talent is a major issue and companies need to develop a high degree of professionalism among staff.

Sectoral snapshots	
Logistics	Cushman & Wakefield (C&W) estimates that the Indian logistics industry will grow at around 15 to 20 percent per annum, reaching revenues of USD 385 billion by 2015. Market share of organised logistics companies are expected to be 12 percent by 2015.
Cold chain	Secondary research indicates that total market for cold chains in India was worth approximately INR100 billion (USD 2.2 billion) in 2008 and is estimated to reach INR 400 billion (USD 8.7 billion) in 2015.
Warehousing	C&W estimate that Indian warehousing sector will be USD 55 billion by 2010-2011. Forty five million square feet of warehousing space and 110 logistics parks will be developed in India by 2011. Warehousing activities account for 20 percent of the total Indian logistics industry and offer robust growth potential.

Supply chains in the Indian retail sector

The primary objective of the retail supply chain is to source, store, transport and deliver the right merchandise to the store shelf at minimum costs, in the right condition and within acceptable timeframes. The impact of the recent economic downturn on the Indian retail sector, has underscored the importance of supply chain management in ensuring business sustainability and return on investment.

Globally, robust supply chain management is viewed as a competitive advantage in the retail industry. Major retail behemoths have developed their supply chains as strategic assets. In the Indian context, most retailers are in the early stages of developing their supply chains, although there are specific instances of higher levels of supply chain maturity. A quick analysis of sample supply chain performance indicators (provided in table below) suggests that retail supply chains in India are still under-developed.

Indian retail vs global retail				
	Logistics cost as percent of price	Inventory turns	Stock-out percent	Shrinkage percent
Indian retailers	Approximately 10	3 to 14	5 to 15	3.1
Global retailers	5	Average 18	Below 5	Average 1

Source: PricewaterhouseCoopers estimates, Global Retail Theft Barometer Survey for 2009

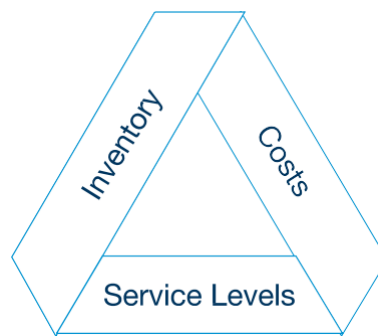
Selected key features of globally competitive retail supply chains include:

- Nimble and agile
- Strategic partnerships with third-party logistics providers
- Better availability of infrastructure in terms of cold chains, advance logistics systems, etc.
- High levels of integration among various stakeholders in the supply chain
- Heavy dependence on advance IT systems and tools for information visibility/ sharing



Inventory management

A retail supply chain needs to manage a critical tradeoff among three parameters namely inventory, service levels and costs. Inventory impacts service levels and costs; therefore, efficient and effective inventory management is essential for the success of retail supply chains. High inventory not only adversely impacts working capital but also increases the probability of obsolescence/ mark downs leading to reduced returns to the investment.



Inventory management in retail becomes complex due to several reasons—

- **Nature of products**—Perishable, fragile, short life cycle
- **Customer demands**—High variety/ Stock Keeping Units (SKUs), new products, shorter lead times, complete order fulfillment of multiple products, etc
- **Suppliers Issues**—Long lead times, capability and reliability, high logistics costs

Global retailers have successfully adopted different supply chain management strategies to achieve business objectives, such as speed to market, managing costs and inventory, etc. Modern Indian retailers understand the importance of efficient inventory management and in comparison to the approximate three weeks of inventory in 'kiranas', the average modern retail has inventory levels of approximately less than two weeks.

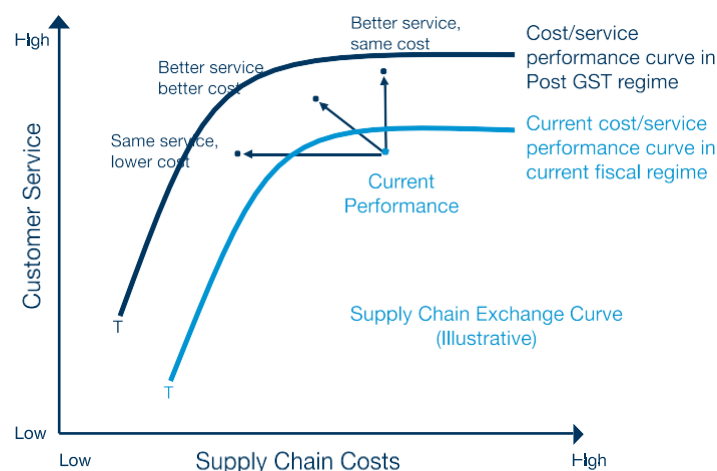


The Indian retail supply chain typically faces the following issues—

Presence of multiple intermediaries Supply chains in India involve multiple intermediaries. • The agri-produce supply chain in India typically has five players compared to three in mature markets; this leads to higher lead times, costs and wastage. • Intermediaries hoard margins and reduce both the price paid to producers and the margins for retailers. Indian farmers typically receive approximately 30 percent of the retail price compared to average 50 percent globally. Some of the major players in the Indian retail sector are addressing this issue through disintermediation and approaching wholesale markets directly. The presence of multiple intermediaries leads to: High lead times, High costs and High wastage.
Lack of suitable infrastructure Despite increased investments in infrastructure development, the availability of infrastructure in terms of good roads, cold chains, etc. remains limited. • Infrastructure is a point of concern since the quality of roads requires major improvement. • Logistics costs, as a component of total costs, are very high. • Quality transportation partners are rare, given the fragmented truckers market. • The third-party logistics industry is at a nascent stage with limited capabilities leading to only 30 percent of retailers outsourcing logistics completely compared to more than 50 percent globally. • The absence of a suitable cold chain infrastructure leads to wastage levels of around 20 to 40 percent of agricultural produce and perishables. Lack of adequate infrastructure and elements leads to: High logistics costs, High lead times and High wastage.
Lack of integration with suppliers Operations of retailers and their suppliers are not adequately integrated in India. • Best practices like vendor-managed inventory and cross docking are in the early stages of being adopted. • Innovative methods to aggregate the fragmented supplier base need to evolve to enable better integration of suppliers into supply chains. Lack of integration among supply chain leads to: high lead times, high costs and limited supplier flexibility.
Increased demand from consumers In addition to growing briskly, the Indian retail sector is experiencing increasing demand from customers for product variety, shorter lead times, etc. which, when coupled with intense competition, is leading to increased supply chain complexities and mandating a new focus on developing world-class supply chains. Key aspects contributing to supply chain complexity include: • Geographically spread market • Fragmented market (especially rural markets) • Regional variances in demand patterns, and hence a need for information visibility and need to understand nuances of the local markets • Value driven consumer, hence need for cost efficiency To create strong customer value propositions, retail chains need to: be more cost effective, provide fresher products (reduce lead times), provide better product assortment (high product variety) and have better reach.

However, despite these issues, we see significant emerging opportunities for strengthening the Indian retail supply chain. If stakeholders in the supply chain proactively work towards realising these opportunities, it will result in significant gains for the sector. Selected major opportunities include -

- **Outsourcing to third-party players and use of cold chain to strengthen the supply chain** — Currently the level of logistics outsourcing in the Indian retail sector is very low. It is estimated that only 30 percent of organised retailers outsource the logistics function. Selected major retail players have developed their own logistics companies to serve retail businesses. Outsourcing of logistics makes economic sense for retailers, enabling them to focus on their core activity of retailing. Also in view of future stringent carbon emission norms and rising fuel prices, third-party supply chain solutions will be critical for businesses. That said, large investments are needed for the third-party logistics industry to ramp up, create more sophisticated services, etc.
- **Network redesign to reap benefits of Goods and Services Tax (GST)**-The GST regime is scheduled to be implemented in April 2010 (although it might be delayed). With the simplification of the indirect tax structure, there is an opportunity to realign supply chain management purely on business needs. Selected benefits that retailers can avail include –
 - In the GST regime the tax paid by the logistics company can be offset later on in the chain, reducing the cost of outsourcing and providing an impetus to third-party logistics players.
 - Tax efficiency considerations will not overwhelm other factors in warehouse location decisions. This will allow rationalisation of the locations to improve supply service levels to the stores.



- **Use of advance IT systems and tools**—The use of advance IT systems and tools in Indian retail sector is still limited, a more enhanced utilisation of these IT tools can help in achieving significant benefits such as:
 - Integration of various partners within the supply chain
 - Information sharing among different partners in real time
 - Effective monitoring and reporting through BI (Business Intelligence) tools
 - IT Planning tools to improve effectiveness of supply chain planning
 - Specific advance systems such as warehouse management or transport management systems to improve supply chain efficiencies

The use of IT in retail operations

Retail participants in India vary according to size, format and segments they operate in (i.e., 'kiranas', cash and carry, supermarkets, hypermarkets, specialty outlets, etc.). Similarly, the IT adoption across retailers, such as those in food & grocery, home furnishing, luxury, specialty, etc. varies. A number of modern trade retailers have applications and hardware related to Enterprise Resource Planning (ERP) stores, warehouse and point of sale (POS) which automate a large part of the retail operations. However, successful retailers will use these systems which are used and leverage them to provide the differentiation that is so critical to compete and to be profitable.

To add to the complexity, organised retail is not solely an urban phenomenon. Some retailers have ventured into organised rural retail. Beginning as retailers for core products, they have, with time, evolved into multi-product stores catering to the needs of rural residents that go beyond farming. Addressing the complexities of operation and keeping costs under control is a major concern for retailers in India. Managing the supply chain, backward integration, merchandising, planning and fulfillment, maximising footfall to conversion ratios and average bill value, and workforce management are some of the major issues facing retailers. Once retailers have successfully reached scale, they want to increase reach. The question that most retailers are asking now is how to build a strong IT backbone that can support the optimisation in these areas.

Some retailers have had the opportunity to learn from other retailers outside India and implement most current IT systems to support and scale operations. This has enabled Indian retailers to generate operational efficiency, increase productivity and improve customer experience. Like with other emerging industries, this has been a learning process with retailers overcoming on-ground realities.

Having implemented systems which address finance, accounting, HR, merchandising, planogram, loyalty programs, etc., retailers are now making next generation investments to—

1. Consolidate the investments already made in IT
2. Leverage other technologies available to increase market reach

The use of business intelligence (BI) systems, Radio Frequency Identification (RFID), mobile point of sales, digital signage and xRM (Any Relationship Management) have emerged as the next area of investments for retailers. It is a well-accepted truism that buying patterns vary in India by state, city and catchment area. Retailers in India are now using BI systems to better understand these patterns and structure store inventory to cater to local requirements. This helps retailers avoid over stocking or stock outs, improves the customer's shopping experience and helps retailers understand individual customer needs, cross sell products, etc.

Some retailers are efficiently using RFID to create applications that reduce the time that consumers are in queues, waiting to pay for their purchases. A mobile POS helps consumers capture the purchase data as they shop and reduces the time for check out. As a next step, retailers can develop contactless cards which can drastically reduce the time for payment. These contactless cards could function as pre-paid cards which require the buyer to wave the card under a reader and self check out.

As the integration of applications with SMS services becomes more common, it can be used more as a personalised medium to communicate with and keep in touch with consumers. For example, if a customer is at a wellness store to purchase contact lens solution, he/she will receive a reminder after a few weeks that his/her stock may be running out and needs to be replaced. Extending this further, the store can offer to have the solution delivered free of cost in case the customer resides within a few kilometers from the store.



Personalisation, integration with call centers, customer recognition, customer intelligence, coupled with digital signage and mobile POS applications will help create a unique shopping experience for customers that will repeatedly bring them to the store.

In addition to managing relationships with customers, it is essential to create robust relationships with staff and partners. The xRM framework piggybacks on the CRM application and, at the same time, helps organisations manage relationships with their staff and partners. The application can be used to track staff across locations, capture details of interactions with them, address their concerns and also understand the status of staff at any point of time. Similarly the details of partners like suppliers can be tracked and satisfaction monitored using the xRM framework.

As a next step, retailers can also explore the option of using social media to support growth strategies. Social media can be used to keep in touch with customers, understand what they think and use this as a test ground to obtain feedback on any new product or scheme being launched.

It is important to be remembered that IT has to be supported by planning, aligned with organisational goals and priorities. The chief information officer needs to build a robust IT strategy and portfolio to support this goal and monitor it constantly. Retailers need to create a roadmap that will fill need/operational gaps and project the organisation's IT Strategy, spend and support framework for the next three to five years.



Retailers are optimising operations, streamlining the movement of goods, increasing efficiencies and assessing stores. Salient observations pertaining to supply chain and operations, based upon our primary research interviews, internal insights and secondary findings are given below.

Observation 1—Supply chain is critical for vision

Efficient sourcing practices, managing inventory turns and overall supply chain management are important measures to improve profitability. The ability to measure and manage supply chain risks is essential to the success of any retail operation. Most of the retailers who were interviewed maintain one or few distribution centers which feed stores with stock. However, some retailers believe that their supply chain systems are not robust enough and often experience issues such as transport vehicles not moving between states, supplies not reaching on time, etc.

Observation 2—Third-party manufacturing facilities can improve production processes

Most retailers indicated that India's poor infrastructure is a major hindrance for expansion. Retailers typically use third-party factories for production in which—

- Retailers' designers and technicians work with the third-party factories to create unique product lines.
- Raw materials and key product components are supplied by retailers, after which the factories assemble and produce the finished product.
- Retailers have installed software at factories that allow for transparent and systematic views into production schedules, delivery timelines, etc.

Observation 3—Enjoying a first-mover advantage

Retailers indicate that while there is no guarantee on how long it will take for a store to perform, they continue to open stores in new or weak markets since they invest heavily on stores to improve performance. Opening stores in newer cities enables the retailer to enjoy a first-mover advantage and also benefit from signing agreements with developers at lower rental rates than those available in Tier I cities.

Retailers who embarked upon rapid roll-outs typically reviewed store performance, sales and profitability every six to eight months and shared some of the mixed lessons they have learned—

- Early stores started to perform well once consumers became aware of the chain and started seeing stores being launched in other parts of the city, state and country.
- Some stores underperformed because construction was not built in those localities resulting in less store traffic and sales.

Observation 4—IT spend is critical to link the organisation, provide transparency, etc.

Retailers have employed large-scale ERP systems or due to cost constraints, have worked with smaller retail solutions providers to develop customised solutions. Most retailers have accounting, logistics, CRM and front-end operations linked real-time so there are no inventory tracking delays, etc. Retailers have also been diligent in ensuring that their backend systems are linked to the ERP systems of vendors who are based overseas, thereby enabling stores in India to locate products in stock in overseas headquarters, place orders, etc.

Observation 5—Sourcing ushers in several macroeconomic benefits for India

Sourcing is an integral component of developing efficient supply chain systems. The PricewaterhouseCoopers study titled The Rising Elephant: Benefits of Modern Trade to Indian Economy indicates that India is already an important sourcing base for global retailers, primarily in products like apparel, home textiles, leather goods, gems and jewellery, handicrafts, furniture, watches, etc. Global retailers have already been sourcing from India and their retail presence in the Indian market will enhance exports from India, as they develop and leverage relationships with local suppliers. The extent of sourcing from India will grow manifold when global retailers are allowed to operate in the Indian market. Modern trade creates vital market access for small-scale suppliers and imparts necessary training and investments in improving their productivity and in adopting best practices.

The presence of global retailers in the Indian market will enhance sourcing and exports from India, as retailers develop and leverage relationships with local suppliers. Once the supplier relationship is established and proves to be viable, these retailers can source for their global operations from India.

Observation 6—Closing of underperforming stores is due to several factors

Interviews with retailers indicate that retailers are closing stores that are located in unfavourable catchment areas, that are located in malls which are witnessing dwindling footfalls, that do not fit into format portfolios, etc.

Unfavourable store attributes	Underperforming stores that are unprofitable, located in the wrong catchment area, are not populated by enough SEC A, B and C households, are being closed by retailers. While large store networks are important from a scale perspective, stores have to be sustainable and need to contribute to profits.
The end of the “mall’s life”	Some retailers are closing stores that are located in malls which have reached the end of their “mall life.” These malls are located in areas that have not received further development in terms of infrastructure improvement, establishment of residential colonies/apartment buildings, etc. As a result, these malls are likely to be witnessing decreased footfalls and lower conversion rates.
Portfolio assessment	Some global retailers have divided their format portfolio into between five to seven categories. These foreign companies’ Indian entities have analysed the risk profile of each category and structured formats and model that are based on investment levels required, expected revenues/profit, etc. Economics in India vary to those elsewhere and as such, Indian operators created their own matrices of expected revenues. Since it takes time to generate revenues, processes have been built into the business to help outlets generate revenue. For example, in the event that outlets are struggling, Indian operators maintain teams for each region/zone that are responsible for ensuring that a subset of outlets succeed, perform robustly and are profitable. These teams assess outlets according to a series of parameters and are empowered to spend money up to a certain level to help the outlets improve performance. Some of the parameters include visibility, accessibility, catchment particulars and traffic flow

Case in point 1 - Aditya Birla's methodology for scoring store success	
Food and grocery Factors for success • Extensive due diligence of catchment area • Scientific rigor in determining parameters/metrics for store success	One of the key and the most important decisions for any retail organisation is to set up quality stores at the right location and the right catchment. Aditya Birla Retail Ltd (ABRL) has a detailed process which ensures that extensive due diligence is completed for the opening of new stores. Every new store is scientifically measured on the following key parameters: 1. Store location 2. Store catchment 3. Store financials a. Pay back b. Store Contribution in a specified time frame The new store sign off process is rigorous and has various check points in the system. New store opening is an action that is not easily reversible and hence ABRL spends significant time and energy in ensuring that any new store that is opened is a high quality store that delivers the value proposition to its customers and contributes to the positive bottom-line of the organisation. In spite of the rigor and detailed due diligence in the opening of a new store, there would be a small percentage of stores that might not deliver the expected bottom line for the organisation. Hence, it is important to review the performance of the stores both from financial and non-financial parameters. ABRL maintains and reviews a monthly store scorecard that enables them to measure, on a scientific basis, the likelihood of success for outlets in the short and medium term. The store score card has the following parameters that are measured scientifically: 1. Location/ catchment* 2. Assortment 3. Pricing 4. Stock availability 5. Communication Stores with a rating of one or two on the five-point scale are closed unless there are special circumstances. *Note: Catchment is defined as 1.5km for supermarkets and 5km for hypermarkets, which are the two formats that ABRL operates. (Source: Primary research interview with Aditya Birla Retail)

Case in point 2 - Aditya Birla's methodology for scoring store success

Best practices workshop

Factors for success

- Systematic and measured approach to aligning staff and the organisation in a singular direction
- Extensive due diligence of KRAs, KPIs, expectations, etc.
- Best practices workshops based on operational dynamics
- Focus on ensuring that "everyone is on the same page"
- Support and buy-in from senior management was essential in encouraging new and shared behaviours, actions, etc.

ABRL realised that they had an employee base that possessed unique skill sets acquired from having worked in several industries, including FMCG, retail, brick and mortar, etc; as a result, the mindset of staff was diverse. Mr. Thomas Varghese, Chief Executive Officer, ABRL realised that the company needed to create a uniform set of standard operating procedures, processes and prescribed methodologies by which all members of the organisation would be aligned

To achieve this, Mr. Varghese created a high potential team that was mandated to create the content of the Best Practices in Retail. This team assessed all the operational functions of a retailer, such as—

- Business Development (Opening right quality profitable stores)
- Buying and Merchandising
- Supply Chain Management
- Store Operations
- Loss Prevention
- Quality
- Execution of Private Labels
- Marketing and Visual Merchandising
- Human Resource
- Finance and Commercial

These functions were then translated into a series of Best Practice Workshops. It took four months for the team to create and execute the excellence workshops. The workshops were rolled out over two days for zonal teams across 13 zones. Each day lasted between 12 to 13 hours and it took over two months to cover all the zones. These workshops were conducted by internal domain specialists and by March/April 2009, the organisation had 1300 people who understood excellence and were aligned in a singular direction, with common perspectives, goals and directions.

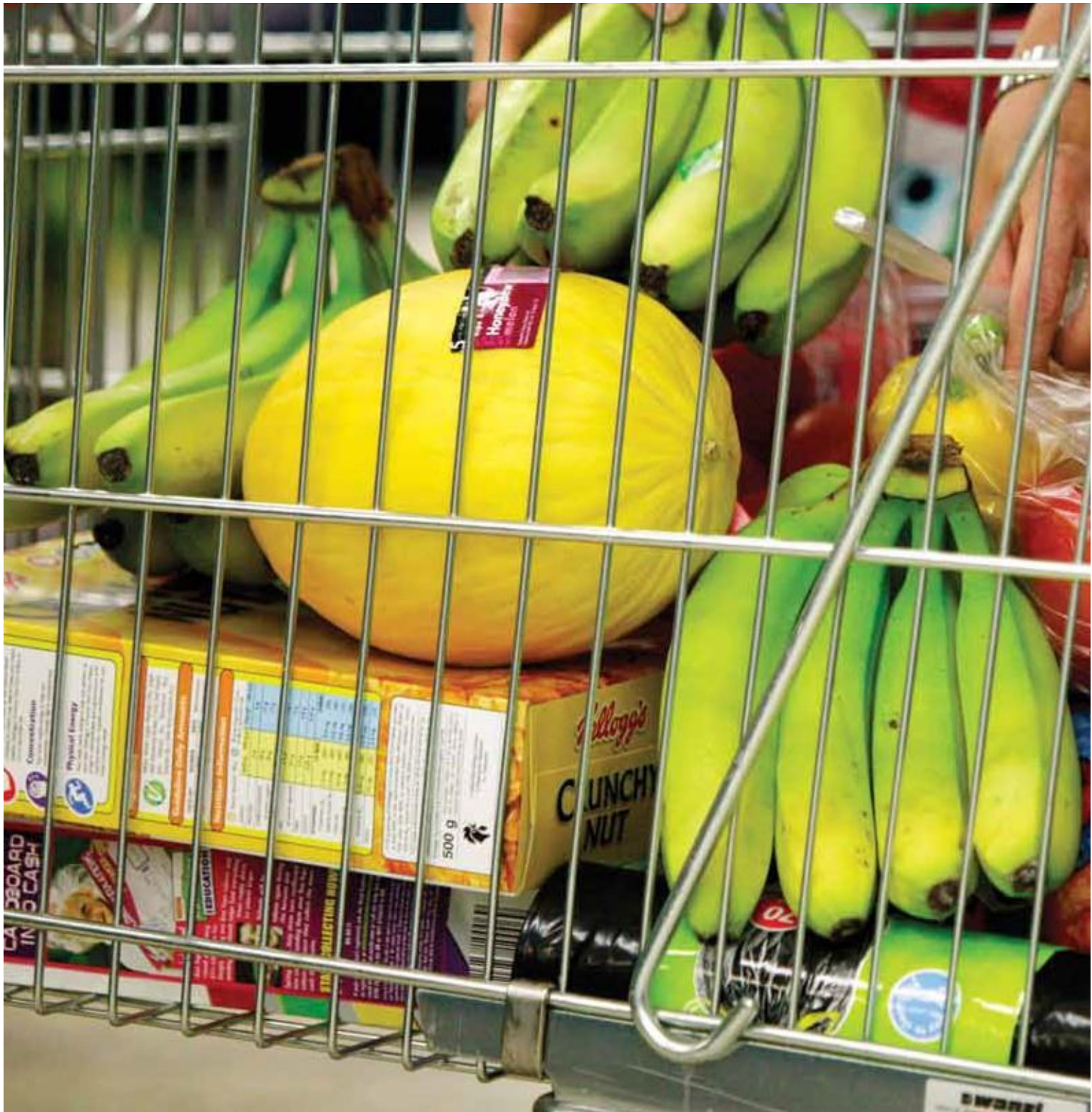
Best Practice training is a continuous process. The re-training of best practices occurs on a periodical basis for zonal operations teams. The Business Excellence team owns and drives the implementation of the best practices across all stores. This team assumes an important role in updating and converting new best practice into SOPs (Standard Operating Practices.)

ABRL interprets the concepts of measurement and standardisation through a holistic approach. ABRL follows the Balanced Scorecard methodology in deriving the KRAs and the KPIs in a top-down approach. This has enabled ABRL to drive its organisational objectives through aligned goals across the length and width of the organisation.

(Source: Primary research interview with Aditya Birla Retail)



Discussion Theme 2



Innovation and Marketing— Synergising branding, new products and marketing

Strategy and innovation is a holistic concept involving the launch of new products, the creation of unique marketing strategies, the development of new distribution channels, the customisation of products, etc.

Innovation and Marketing—Synergising branding, new products and marketing

Branding

Branding enables consumers to choose between products and reduces a consumer's risk in purchasing products. Underpinning branding activities are the positioning platforms on which companies choose to base their brands. Positioning helps bring clarity and focus to—

- What the brand competes with
- The brand's target consumer base
- The brand's unique strengths
- The brand's offerings and unique selling proposition

A strong positioning reflects what the brand can offer and can help cut through “clutter” (e.g., advertisements from competition, etc.) Developing an appropriate position is typically directed by factors such as the competitive marketplace, specific corporate goals and organisational strengths. In his book *Differentiate or Die* (2000), Jack Trout recognised that differentiation takes place in the mind of the consumer, writing, “If you understand how the mind works, you'll understand positioning.”

Indian retailers face the following challenges in branding and differentiating their stores—

- **Absence of store differentiation**—Leading retail stores offer common brands, similar ambience and similar layouts, resulting in limited scope for differentiation.
- **Merchandising confusion**—Some long-established (smaller) retailers (mainly in the department stores format) have been able to successfully withstand the expansion of larger modern trade outlets. These retailers have been able to leverage the consumer insights they have with regard to product, selection and price. This rich and detailed level of consumer insights has enabled original retailers to survive successfully!
- **Discounting**—Given the widespread availability of the same brands, large retailers have to cope with discounts offered by smaller retailers. Large stores can secure larger margins from most suppliers. Small retailers are tempted to pass on lower overheads in the form of discounts to customers.

The importance of branding is imperative in today's increasingly crowded retail marketplace which not only comprises several brands but is also characterised by the consumers' fickle mindedness about choosing products. The best brands are those that are innovative (in formats, product design/features, marketing and promotion, etc.), aggressive and always looking for the next great “need” or “want” to satisfy in their target consumers.

Some market analysts believe that a slowdown is an opportune time to invest in brands and in branding. At this time, retailers can grow their store networks (leveraging lower and more rationalised rental rates), improve customer service, harness insights from customer data captured through loyalty programmes, launch new products, etc.

Today, Indian retailers are—

- Leveraging parent company names/brands for retail ventures
- Focusing on one or few niche/specialty areas
- Creating discount formats where value for money is the primary driver
- Choosing a cluster bombing strategy where retailers plan to enter and dominate major retail sub-categories and/ or formats like consumer durables, health and wellness, books and music, hypermarkets, supermarkets, etc.

As consumers' purchasing powers, brand awareness and exposure levels heighten, retailers will increasingly offer branded merchandise in categories like apparel, cosmetics, shoes, watches, beverages, food, jewellery, etc. In order to create a 'total lifestyle solutions' platform for consumers, retailers will evolve into lifestyle-oriented brands which operate across target consumers and categories. At this juncture though, they are focused on scaling up retail operations, understanding product mix, launching new products, assessing the drivers behind consumers' purchases, etc. Sustainable competitive advantage will be dependent on translating core values, products, image and reputation into a coherent retail brand strategy. To do this, best-in-class retailers will need to focus on innovation as a key driver of growth.

Innovation in the Indian retail sector

Aside from encompassing the launch of new products and services, innovation involves—

- The launching of new formats (SIS, value, etc.)
- The introduction of customer loyalty programmes that enable retailers to use customer data to generate new product ideas, build brands, launch marketing and promotional campaigns, improve customer service and establish new service standards, etc. Retailers who operate several formats are extending customer loyalty cards for all outlets, enabling consumers to leverage points generated from expenditure made across offerings.
- The creation of private labels that, over time, can be marketed, branded and positioned as unique and well-recognised brands.
- The development, creation and implementation of customer service standards that delight and excite consumers as they interact with retailers. Customer service standards encompass a range of activities, such as—
 - Interacting and engaging with consumers at the store-level (greeting consumers, answering product-related queries, resolving customer service issues, etc.)
 - Handling disgruntled consumers
 - Assisting customers with after-sales service queries and formalities
- The creation of new distribution channels such as non-store channels where the staff visit consumers at their homes and bring merchandise, allowing consumers to display products in their homes, understand product features in the comfort of their homes, etc.

Case in point 3 - New distribution channels at The Spa Group

We discuss two new distribution channels that The Spa Group launched as a means to reach and serve consumers.

- The Spa Group deepened relationships with clients through the *non-retail channel* (NRC). The NRC requires that staff visit customers in their homes, display products (e.g., dinner sets) and even leave the products there for a few days until customers have made up their minds to select and purchase products.
 - While the NRC has limited capital expenditure involved, per manhead sales are greater than that of the boutique.
 - Members of the NRC also develop deep relationships with families they visit and serve. In fact, customers typically request NRC members to help them with other services (e.g., buying tickets for Broadway shows, etc.). In effect, Spa has developed an informal luxury concierge service for clients.
 - The Spa Group has 11 NRC channel groups; established in 2006, Spa worked with staff to teach them how to interact with (often very affluent) customers, maintain sensitivities, display product awareness and knowledge, etc.
- The Spa Group, realising the future potential of digital marketing, established a *digital channel* that enables the company to reach customers through digital avenues (e.g., Internet, mobile phones, etc.). That said, the company understands that consumers place a high premium on privacy and therefore aims to communicate with high-net worth individuals in a non-invasive manner. Selected benefits experienced by Spa Group through the use of this channel include -
 - As customers' lives become more stressful and busy, they will increasingly value their leisure time and will prefer not to indulge in in-person shopping. Digital marketing will enable customers to shop at their convenience and in comfort (i.e., from their homes).
 - Though the luxury market is nascent in India, Spa Group believes that launching a digital medium for selling luxury products will result in higher sales by 2012.

(Source: Primary research interview with The Spa Group)

Specific innovation practices that retailers are embarking upon, as obtained from our primary research interviews, are provided below:

- **Creating India-inspired product lines** - International brands are creating India-specific lines that reflect culture, religion, mythology, heritage monuments, etc. Tremendous efforts in terms of design, research and development are undertaken to ensure authenticity of work and detail for the products.
- **Offering private label products** - Retailers want to create a total solution set for consumers and to that end, are creating private labels in categories without clear established market leaders. These retailers believe that business opportunities exist in creating private labels for categories without established majority market leaders. That said, these categories must be of appeal and interest to target consumers.

- **Selecting and accordingly, customising the global product assortment for the Indian market** - Some global retailers select their product assortment (e.g., menu offerings, footwear, apparel, accessories, lingerie, etc.) from international product ranges. While the majority of international product ranges are correct for the Indian market, some retailers believe that it is necessary to customise the product assortment for India with regard to—
 - Style, fit and colour for apparel
 - Taste for food and beverage items
 - Product range and assortment for each store—For example, woolen apparel is required for North India but would not sell as well in South India.

This enables international retailers to be viewed or perceived as those who listen to and execute against local market insights.

Case in point 4 - The role of innovation and new product development at retail organisations

India-inspired products for luxury home accent products

Factors for success

- Trust, willingness to listen to new ideas, constant cooperation
- Commitment towards the process, which may involve discarding over 50% of ideas and concepts
- Appetite for risk in launching country-specific product lines
- Overcoming the perception that Indians only want products that are “foreign” in nature

The Spa Group partners with its vendors, such as Lladro, work to suggest and create India-centric products. Spa assumes a hand-holding approach with its vendors where it—

- Suggests ideas and themes for products that are typically based on religion, mythology, culture, heritage, national/heritage monuments, etc.
- Embarks upon Research&Development, interact with the vendor's design department
- Identifies and sends artists from India to validate sculptures, designs, etc.

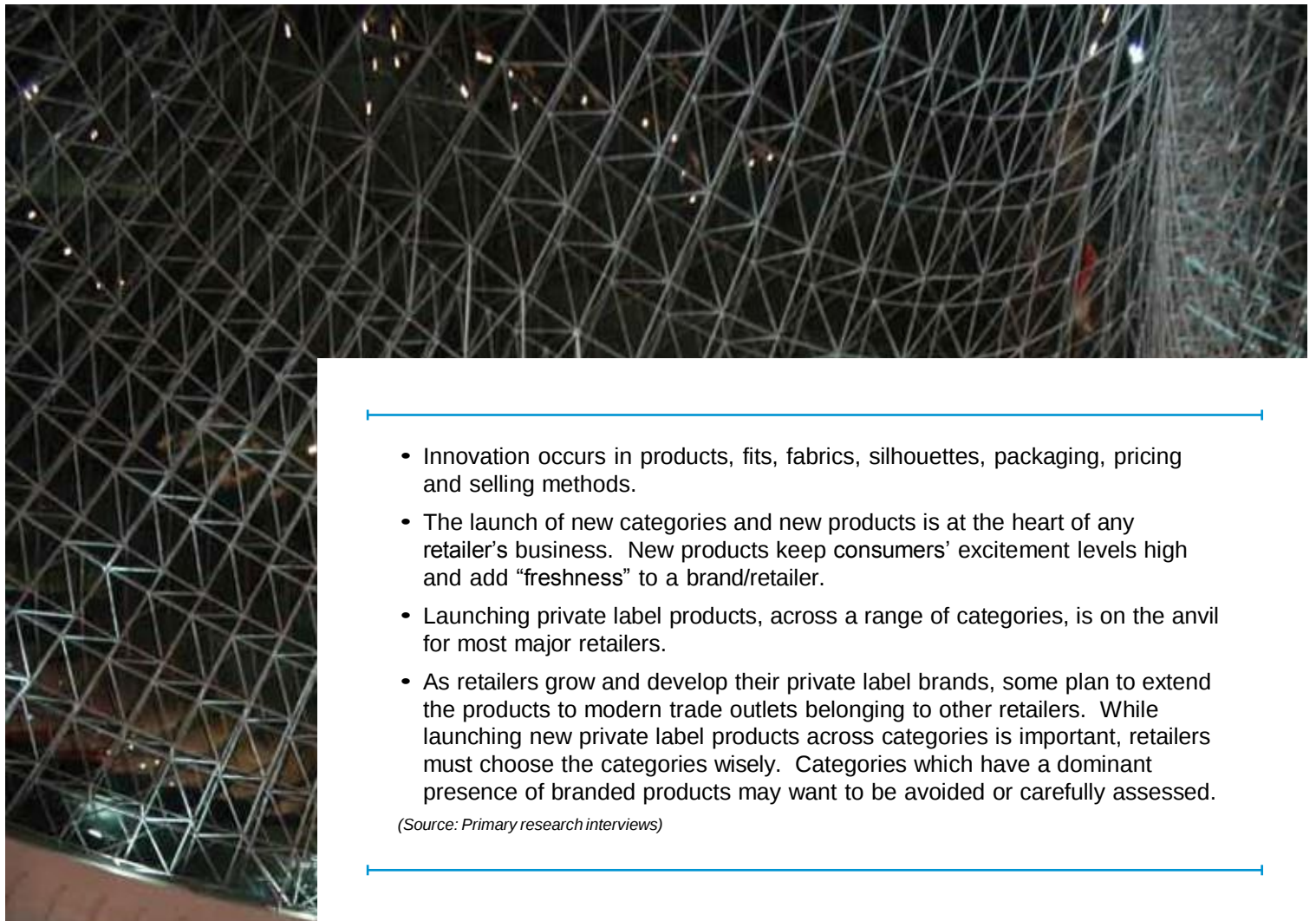
The gestation period that encompasses concept creation, design and delivery typically lasts for three years. The collaboration between Spa and Lladro has proved to be successful—

- Lladro's Laxmi sculpture is one of the company's best-selling items worldwide.
- Fifty percent of Lladro's sales in India come from India-inspired products.
- Sixteen percent of Lladro's global sales come from its range of India-inspired artifacts, suggesting the growing popularity of these products worldwide among non-resident Indians and others.

Lladro's India-themed collections include Radha Krishna, Lord Krishna, Sacred Cow, Ganesha, etc.

There are 100 new products under development of which 40 to 50 will likely become new product additions for Lladro; between two to three new products will be launched every year for the next few years.

(Source: Primary research interview with The Spa Group)



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- Innovation occurs in products, fits, fabrics, silhouettes, packaging, pricing and selling methods.
 - The launch of new categories and new products is at the heart of any retailer's business. New products keep consumers' excitement levels high and add "freshness" to a brand/retailer.
 - Launching private label products, across a range of categories, is on the anvil for most major retailers.
 - As retailers grow and develop their private label brands, some plan to extend the products to modern trade outlets belonging to other retailers. While launching new private label products across categories is important, retailers must choose the categories wisely. Categories which have a dominant presence of branded products may want to be avoided or carefully assessed.

(Source: Primary research interviews)



Case in point 5—The role of innovation and new product development at retail organisations

Innovation helps create diverse premium products in jewellery, home lighting, architectural elements, watches,

Factors for success

- Positioning itself as a total lifestyle solutions provider for consumers' total needs and wants with regard to both home and personal accents
- Believes in innovation and reinvention, the company leverages its core competency in crystal towards new and diverse product lines

Innovation assumes a major role at Swarovski and spans several areas—

New revenue streams

Swarovski is comprised of two major divisions—

- One division produces and sells loose crystals to the industry
- The other division creates design-driven finished products

Swarovski has several product lines that it offers consumers and business clients namely—

- Crystals—Swarovski crystal components, known by their product brand names CRYSTALLIZED™ (i.e., Swarovski Elements for fashion) and STRASS® Swarovski® Crystal (i.e., for architecture and light) are essential ingredients of international design.
- Consumer and home products—Swarovski's lines of accessories, jewellery and home décor are sold through over 1150
- Couture—The exclusive Daniel Swarovski accessories collection is the company's couture signature.
- Industry—The Swarovski Corporation also includes four industrial brands—
 - Tryolit® is for manufacturing grinding tools
 - Swareflex is for road safety reflectors
 - Optik produces precision optical instruments
 - Signity is Swarovski's brand for genuine and created gemstones

This diverse range of product offerings enables Swarovski to increase its revenue streams, serve diverse business and consumer segments and also increase its breadth as a major player in the crystal industry.

New products

Every year, the brand comes out with two collections, Spring/Summer and Autumn/Winter. The range is a rich and diverse assortment of fashion accessories, jewellery and Crystal Living products. Over 1000 SKUs are launched each year. The products are available across categories, and include sparkling jewellery, charms, Swiss-made watches, crystal figurines inspired by nature, leather wallets, clutches and bags.

New distribution channels

Swarovski views India as a high-potential market for growth and is creating new avenues from which it can reach customers.

- In addition to developing its presence in the metropolitan cities, Swarovski also opened dealer stores in Tier II cities and plans to be present at the new airports in Delhi and Mumbai.
- With the launch of watches in 2009, the brand has been retailing its design-led watches in their stores and at premium watch stores/ outlets. The company plans to continue to offer watches through specialised watch outlets and with the launch of its watches, has created a new distribution channel.

New customer groups

Swarovski constantly innovates itself to appeal to its target Indian consumers. Swarovski notes that sales growth from its target consumers, across age-categories, have been growing robustly.

- The brand is popular with younger Indians who are drawn to the brand's contemporary fashion accessories.
- Swarovski's jewelry collection appeals to urban professional working women.
- Swarovski's Limited Edition range and larger Crystal Living figurines are extremely popular with the crystal lovers and/or Swarovski Crystal Society members.

(Source: Primary research interview with Swarovski India)

Marketing

Tied strongly to the idea of branding and innovation is marketing. Marketing and promotional campaigns, an integral part of retailers' strategies, are being used to increase visibility, drive sales, advertise new products, popularise products and reach out to new consumers.

Given the current economic situation, companies are focusing on making marketing strategies more efficient, faster and at the lowest possible cost. Five marketing vehicles that are being increasingly used are presented below.

Sectoral snapshots	
Reality shows	Reality TV shows are a popular vehicle for marketing products since they ensure good returns on investment. Reality shows are captivating and attract a greater percentage of consumers. Reality TV shows are beneficial to marketers in various aspects because — • Reality shows help marketers reach new audiences/consumers. • They provide advertisers with a platform for live interactions. • Marketers can embark upon product placement, whereby products are integrated into the programme.
Mobile phones	With approximately 300 million subscribers in India, mobile phones are increasingly becoming a powerful marketing tool. The key differentiator of mobile marketing is that it is a more personal method, reaching consumers on a one-on-one basis. Selected major companies have undertaken mobile advertising to launch new products, announce promotional offers, etc.
Brand ambassadors	Associating a brand with events and personalities is one way to build and enhance a brand's image and status. In India, film actors and sports personalities are admired by millions of people and are typically signed by Retail&Consumer companies to become brand ambassadors for their brands/products. These brand ambassadors are featured in major print and media campaigns and also participate in theme-based events, such as polo matches, parties to celebrate product launches, etc. The use of brand ambassadors enable Retail&Consumer companies to increase awareness and recognition, build brand recall, leverage the positive traits, qualities and characteristics of ambassadors towards the brand, reach and appeal to new consumers, etc.
The Internet	Retailers are starting to leverage the electronic platform to introduce online company- and/or product-specific games, chatrooms, microsites, etc. The use of microsites is becoming increasingly popular as Retail&Consumer companies target young and aspiring Indian consumers.
Sponsorships	Retailers are sponsoring marathons, sports-based tournaments and events, and concerts in order to build brand equity, push the brand to a larger subset of consumers and gain advertising/media mileage.

Case in point 6—The “Rock with Rolls” promotion at The MobileStore

Best-in-class telecom experiences for consumers

Factors for success

- Campaign centered around consistent theme of the telecom retailer’s commitment to provide consumers with a rich and meaningful in-store experience
- Unique campaign created buzz, media awareness, excitement and consumer interest
- Campaign helped link best-in-class service with The MobileStore
- Extensive consumer involvement

In order to increase its reach and penetration and take the “brand across households in the country,” The MobileStore (TMS) embarked upon a two-year long unique and exciting marketing campaign that involved the luxury automotive brand, Rolls Royce. Referred to as the Rolls Royce Promotion, this innovative marketing and branding campaign conveyed TMS’s promise to consumers that they will enjoy a “best in class” telecom shopping experience and be made to “feel like a king” at TMS outlets. A Rolls Royce that was painted in the TMS colours of red and white was driven around stores in 50 cities. Mumbai was the first city to experience the Rolls Royce, followed by Ahmedabad, Delhi, Ludhiana, Chandigarh, Kolkata, Hyderabad, Bangalore, Chennai, Cochin, Pune, etc.

The use of Rolls Royce was based on TMS’s effort to reach young and aspiring Indian consumers who are demanding more premium mobile services. The use of the Rolls Royce, an icon for customised luxury, was to link TMS to the high-end automobile, propagating the consistent message that products and services associated with the chain are the best.

As TMS’ Rolls Royce cruised from one city to another on a pre-defined route, it enabled Indian consumers to touch, feel and experience the TMS brand. As part of this, TMS wanted to reach and engage as many people as possible to let them near the car.

- Consumers were able to get a chance to touch, feel and get a ride in the Rolls Royce.
- Consumers received free Value Added Services coupons and other freebies to be redeemed at stores.
- TMS also held a “Rock with Rolls” contest in which consumers who made purchases at TMS during the period that the Rolls was in their city, were able to complete a lucky draw coupon and stand a chance to win a “Lunch n Ride” in the Rolls. This entitled the winner to go for a lunch date in the Rolls Royce!

The impact of this campaign was manifold—

- The campaign increased visibility for the TMS stores since over 200,000 people received a free ride in the car, giving consumers a once in a lifetime experience. These 200,000 people have shared their experience with thousands more through word-of-mouth, etc.
- India’s leading national publications covered the promotion proving TMS with further awareness and buzz. Quality coverage with photographs of the Rolls Royce and celebrities were published in newspapers wherever the promotion went, generating a huge mileage for the Brand.

(Source: Primary research interview with The Mobile Store)

Critical to marketing is the defining of key consumer target segments. Interviewed retailers indicated the significance of the following -

- **Emerging target consumers** - While retailers have a main target consumer base, they are aware of new emerging target groups that they may, at a later date, serve.
 - *Children and teenagers* are emerging target consumer groups for the future. These segments of consumers are strong influencers on household purchasing decisions.
 - Some retailers who direct most of their marketing, communication and media to women, plan to launch selected *menswear* offerings on a pilot basis.
 - Some retailers are looking at India's *young consumers*. These retailers are already planning or plan to work around the purchase occasion, in keeping with this consumer group's expectations, desires, etc.
- **Developing long-term relationships** - Some niche retailers prefer to create customised profiles of customers. These retailers view relationships as a key determinant for repeat sales, referrals and increased revenues. These retailers develop strong relationships with customers, which involves learning more than just purchasing behaviours, price sensitivities, etc.; retailers learn about the consumer's personal lives, the names of family members, likes and dislikes, etc.
- **Harnessing internal insights** - Some retailers maintain dedicated Customer Relationship Management (CRM) departments that are responsible for developing strategies for serving customers. The CRM department then works with front-end staff who execute on the strategies.
- **Serving rural consumers** - Few retailers view rural marketing as a long term proposition given that the population in many rural areas is small and accordingly, demand is thin. Most initiatives in this market has been to put money into the hands of rural consumers by supplying essential items such as tractors, cycles, farm equipment, etc. which will improve farmer incomes and thus create a capacity to consume.



Case in point 7 - Dolphin Kids Wear's strategies to build relationships with children

Embarking upon initiatives to build both the brand and relationships with target consumers

Factors for success

- Designing and executing non-conventional marketing initiatives that appeal to children
- The brand's value proposition of offering fashionable children's apparel at reasonable prices

A recent trend observed in marketing is the use of non-conventional media to target specific customer groups. Bangalore-based Dolphin Kids Wear, a new entrant into the Indian children's wear market, plans to embark upon innovative and attractive initiatives to build brand recall and brand loyalty amongst its target consumer group. The brand offers high quality and fashionable apparel at reasonable prices.

Today, children are demanding and have become influential decision makers in their families. Therefore, Dolphin believes that undertaking initiatives that make children loyal to their brand is a more effective method than using conventional advertising media, which is typically targeted at parents. Selected initiatives that Dolphin plans to undertake include -

- **Building a play area within its stores** - Dolphin plans to build a play area for children within its stores. The play area will function as an interactive space rather than simply a playground. Though it will have the conventional slides, see saws and swings, Dolphin plans to utilise this place to stage drama performances, conduct book reading sessions and organise bond building games for its regular customers. The company also plans to hold magic shows, face painting and balloon-making sessions as promotional events. Dolphin feels that by having a range of entertainment options within the store, the shopping experience will be more memorable and exciting for its target customers—the children!
- **Participating in school events** - The company is planning to organise, sponsor or participate in school events (such as inter-school and intra-school events) and other children's events to generate brand awareness. Dolphin believes that school events and inter-school competitions bring out the best characteristics in children, such as cooperation, healthy competition, strategising and most importantly the desire to play. The company feels that by being involved in such activities, it lends its support to children's growth and at the same times manages to make its core market aware of its brand and more importantly brand values.
- **Organising a Christmas fashion show** - In December 2009, Dolphin plans to formally launch its stores and to that end they are organising a Christmas fashion show for children. The event will involve auditions and 30 children (20 girls and 10 boys) will be chosen for the final show. The show will be professionally choreographed and the children will be attended to by professional fitters, make-up artists, and hairdressers. Dolphin chose to do a fashion show since it will be a confidence-building event for children that enable them to voice their opinion on their own personal style. The company feels that the show will be a successful marketing event since it will be an opportunity for Dolphin to present its winter collection to the participating audience. This will provide the company immediate feedback on their apparel range and help in improving upcoming ranges.
- **Providing in-store entertainment services** - The company realised that when parents bring children out shopping, they get bored easily and ask to leave. Making shopping fun for them will ensure that they buy more and visit often. Based on children's genetic psychology and preferences based on casual analysis, Dolphin plans to provide in-store entertainment opportunities, such as -

- A hair dresser and a makeup artist for giving free makeovers to girls
- A videogame console for boys

Through these initiatives, strong personal relationships with children and word-of-mouth publicity, Dolphin hopes to -

- Create memorable shopping experiences for children
- Increase footfalls
- Drive sales
- Heighten brand awareness

(Source: Primary research interview with Dolphin Kids Wear)

Discussion

Theme 3



Private label offerings are a
major catalyst for growth.

Indian consumers are value conscious, more so in
the current economic environment.

Private label products—a major growth driver for retailers

Indian consumers are value conscious, more so in the current economic environment. Consequently, Retail&Consumer companies are launching a range of private label products in order to meet the demands of value conscious consumers, to develop product portfolios and to improve margins in a retail environment where efficiency and competitiveness is imperative. While private labels may have a “no frills” approach in their packaging and marketing, they aim to satisfy consumers’ value preferences.

Categories that have little emotional connect and are mainly functional are likely to have successful private label offerings. India’s retailers view private labels as a robust value proposition and are also witnessing double-digit growth rates in the sales of these products. The margins of private labels are typically double than that of nationally branded products.

Private label brands are an important revenue driver in developing markets and filling a demand gap in terms of range, quality and price. Since consumers may not be too familiar with private label offerings, retailers need to embark upon intensive promotional and marketing campaigns to advertise products and drive sales. Using mainstream advertising, placing free point-of-sale samples, using in-store advertising, audio-visual advertising, and participating in media articles all help to drive consumer awareness and demand. For certain product categories, such as FMCG and food, consumers are fickle in choosing between products and are not too brand loyal. This represents an opportunity for retailers to build brands that will “stand tall” against national brands. In this context, it is essential to have robust positioning of the private label offerings and induce the trial of the products (through freebies, buy one get one free offers, etc.)

While low-price private labels exist, retailers are changing their focus from “a price game” to one that involves developing a portfolio of brands with distinct positioning for each brand. Retail chains are trying to understand unfulfilled demands existing in Indian market through need-gap analysis and are incorporating demographic and psychographic indicators.

India’s major retailers expect to embark upon the following strategies for their private label products—

- Increase the range of offerings
- Derive an increased share of revenue from the sales of products
- Embark upon promotional offers and sales
- Increase the visibility of products in store outlets
- Offer selected products through other retailers’ outlets

Private label offerings are observed in a range of categories including—

- Apparel
- Beauty care
- Consumer durables
- FMCG
- Food
- Footwear
- Home goods
- Household cleaners
- Store brands (eg., Westside)

Observations from the retailers we interviewed include—

- **Leveraging a growth opportunity** - Most retail organisations believe that private labels are a major avenue for growth—
 - Serving retail customers—Private labels are essential in sustaining margins when selling to individual consumers.
 - Serving business customers—Some specialty retailers manufacture private label products for large India-based retail organisations; in these situations, the retail organisation (i.e., business customer) specifies the desired pricepoints while the specialty retailer maintains oversight of the design and manufacturing processes (in terms of providing the latest styles, colours, etc.).
- **Assessing market potential** - Some retailers are embarking upon pilot projects to assess the impact of private labels on sales. These retailers want to assess the impact that private labels have on increasing share of space and category, improving visibility and driving sales and revenues. Most projects have been successful and even increased sales by two to four times, in some cases!
- **Providing robust range and assortment** - Retailers offer private labels in a range of categories that include but are not limited to the following food and non-food categories—
 - Food- Includes beverage, food articles, cereals, snacks, coffee/tea, sauces, jams, instant food, confectionary, spices, dry fruit, juices, mineral water, etc.
 - Non-Food— Includes personal care, skincare, home care, health and beauty, home linen, footwear, apparel, pharmaceuticals, etc.

- **Employing specialised staff** - Retailers employ specialised and trained staff to develop private labels that offer health benefits to consumers. These trained staff prepare formulations and maintain an active and important role in Research&Development.
- **Ensuring quick time-to-market** - Most interviewed retailers indicate that it takes between three to 12 months to launch private label products, given the relative ease in finding manufacturers.
- **Experimenting with products** - Some retailers indicate that they are experimenting with private labels and are in the process of identifying underserved categories, finding common features that several customers are demanding for products in stores, etc.

Benefits of private label brands - The retailer's perspective	Benefits of private label brands - The consumer's perspective
• Retailers can maintain control over development, design, marketing, promotion, positioning, etc. • Private labels have higher margins than branded products • Private labels help draw footfalls • Private label offerings appeal to cost-conscious consumers • A private label brand can become synonymous with the retailer, thereby developing brand equity • Private labels can, over time, help retailers differentiate their offerings	• Private labels are typically priced lower than branded products • Private labels are available across a range of categories, such as food, beauty care, apparel, home furnishings, FMCG, household cleaners, consumer durables, etc. • Retailers plan to launch additional private label brands which will ensure that the consumer is not starved of choice!

Case in point 8—Building private label portfolios at Guardian Lifecare

Private labels in personal care, food and beverages, and health and wellness categories

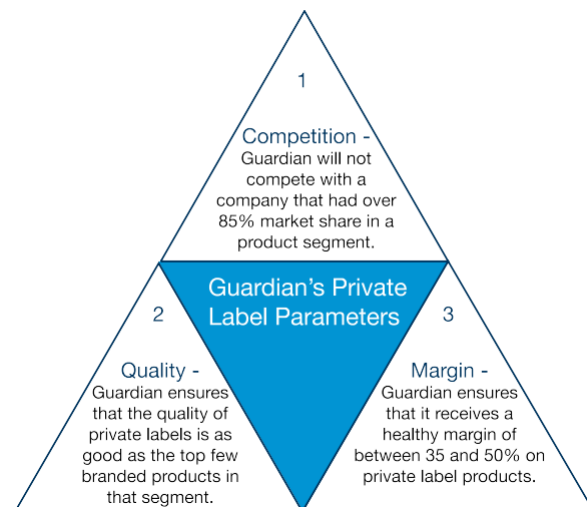
Factors for success

- Determining parameters for creation (eg., margin, quality, depth, etc.)
- Maintaining control over formulation
- Identifying new product lines

As part of its private label strategy, Guardian Lifecare first identified categories that it would establish private labels in, such as--

- Ayurvedic juices
- Baby care
- Health and wellness products
- Personal care
- Pharmaceuticals
- Feminine hygiene
- Men's grooming
- Mineral water
- Weight loss

During the process of launching private label products, Guardian identified the top-selling 500 products in their outlets. In tandem, the company adopted three major principles for launching private label products -



The entire process of launching a private label product takes approximately three months. Guardian employs a team of pharmacists who prepare the formulations which are then sent to third-party pharmaceutical companies for production. Manufacturing is outsourced to companies that also produce products for some of the leading companies in the pharmaceutical space.

(Health and wellness products are named with the word Xtra, such as Xtra Protein, etc. Pharmaceutical products are named with the word Guard, such as DanGuard for anti-dandruff shampoo, etc.) The company plans to increase the number of private label products from the current level of 150 to 500 by 2010. Guardian plans to launch new products in new segments, in addition to adding further products to existing segments.

(Source: Primary research interview with Guardian Lifecare)



Discussion Theme 4



GST will benefit retailers.

The nation-wide implementation of a dual GST signals the next generation of tax reforms designed to remove the barriers of trade through a common market in India and to accelerate the country's growth prospects.

Tax issues - GST will benefit retailers

The nation-wide implementation of a dual GST signals the next generation of tax reforms designed to remove the barriers of trade through a common market in India and to accelerate the country's growth prospects. After much deliberation, the Empowered Committee (EC) of State Finance Ministers finally released the First Discussion Paper on 10 November, 2009 on the implementation of a dual GST in India. The nation-wide implementation of a dual GST signals the next generation of tax reforms designed to remove the barriers of trade through a common market in India and to accelerate the country's growth prospects. The dual GST will have a material impact on businesses. The taxable events under the dual GST regime would be significantly different from those prevalent under the existing excise and value added tax provisions. Besides, there will be major differences in terms of the tax base, the rates of tax, the manner of levy and collection thereof, the manner of utilisation of input tax credits etc.

It is therefore apparent that trade and industry must gear itself up for the GST, not only from a business efficiency standpoint but also from a compliance standpoint. In particular, the impact of the GST on the retail sector is likely to be extremely significant, given the significant growth of the retail sector and hence its relatively large size, but also because of the nature of the dual GST itself.

Presented below are some of the key advantages for the retail sector under the GST regime.

GST will benefit retailers

Implementation of a dual GST will be a great boon for the country. Cross border retail trade between States can get easier with GST and this would help many retail companies to expand their distribution optimally. The tax will also have a significant positive impact on the supply chain of retail operations. However, most importantly, the dual GST is expected to operate in a manner that all of the input taxes paid on procurement of goods and services by retail companies will henceforth be eligible for a complete offset.

Major tax issues impacting retailers and how GST can assist

The retail sector currently faces the significant challenge of an inability to offset the service tax credits pertaining to several input credit services, including the most significant cost for retail companies of property rentals, as also non-creditable central sales tax on inter-state purchases of goods. Similarly, on imports, the retail sector is unable to offset the countervailing duties against output taxes.

Under the proposed GST regime, these challenges will entirely disappear since the retail sector would be able to offset the entire input taxes, whether paid at the Central level in the form of the CGST or at the State level in the form of SGST against its output CGST and SGST respectively. Even with regard to inter-State sales of goods, the sector can offset the input taxes of the CGST and SGST against the output IGST which is applicable on such inter-state sales.

Simplified compliance requirements

- **From excise standpoint** - The retail sector typically undertakes activities such as packing and repacking of goods procured in bulk quantities into retail packs. Such activities with reference to specified products are treated as deemed manufacture under the current excise laws and accordingly are liable to excise duty. As a result, under the current tax regime, the retail stores are burdened with the responsibility of complying with the rules and procedures prescribed under excise law. The retailers have to ensure timely payment of such taxes, filing of returns etc. leading to practical difficulties and increased compliance costs. Further, the additional excise duty burden is possibly borne by the retail sector as increases in the price of products may not always be possible. The GST regime can help address some of these problems.
- **From state VAT standpoint** - Currently the retail traders need to deal with different compliance procedures in different states. Besides adding to compliance costs, these pose problems in maintenance of uniform and consistent documents and accounts across all states. This leads to serious IT systems challenges. The GST regime would reduce the currently prevalent disparities in compliance procedures across different states to a large extent thereby paving the way for a far lower tax compliance cost for the retail sector.
- **Uniform threshold limits under proposed GST regime** - The current tax structure lacks uniformity, in terms of prescribed threshold limits and periodical compliance requirements. The threshold limits prescribed by the different State VAT laws vary from INR 0.2 million to INR 0.5 million.

Under the proposed GST regime, a uniform SGST threshold across states is recommended at a gross annual turnover of INR 1 million both for goods and services. However, the threshold for CGST for goods is proposed to be kept at INR 15 million with a similar high level for services as well. In addition, there would be a compounding cut-off at INR five million of gross annual turnover and a floor rate of 0.5% across the States.

Differing thresholds for CGST and SGST will be relatively difficult to administer as compared to administering uniform thresholds across the two taxes. Further, differing thresholds across goods and services will also pose problems. Clearly, uniform thresholds are a better option from a business standpoint. The retail trade has a stake in ensuring uniform thresholds. However, should the differential thresholds remain intact, the retail sector would need to adopt thereunder in order to ensure that it is both compliant under differing thresholds as well as able to fully offset its input taxes.



The impact of GST on tax collection from the retail sector

It is expected that the dual GST will comprise CGST and SGST of 8 percent each. If this assumption becomes a reality, it would mean that the overall revenues could decline due to reduction in the current aggregate rate of 20 percent (approximately) comprising federal excise of 8 percent and the State VAT at the typical rate of 12.5 percent by four percentage points. However, this will be balanced by the fact that the federal GST will now apply throughout the chain and will no longer be restricted to manufacturing. Similarly, the increased tax base will enable the state governments to maintain tax revenues from the retail sector, notwithstanding the reduction in the State GST rate from 12.5 percent to 8 percent. The important and independent point however, is that the GST will surely incentivise an explosion in consumption and therefore it plays to the larger story around the fact that India's economic growth is essentially domestic consumption led growth. Hence, it is this incentivising consumption that would lead to significant enhancement of revenue for both the Central and the State Governments. The retail sector is at the centre piece of this great consumption led growth story. Consequently, the GST will undoubtedly ensure that the tax revenue from the retail sector will significantly rise in the times to come.

Summary

The key benefits of the GST for the retail sector are as follows—

- Enhanced competitiveness through efficiencies in procurement and distribution
- Enhanced competitiveness through full and complete offset of all input taxes
- Ability to offer lower prices for goods through increased offset efficiencies as also lower compliance cost
- Lower cost on compliance from an accounting and reporting standpoint
- Enhanced government revenues from retail sector through higher CGST, SGST and IGST collections





Discussion Theme 5



Workforce management practices are in the nascent stages of being developed in the Indian retail sector.

India has been identified as a major target market and growth opportunity for both global and domestic retailers. Several studies suggest that India is one of the top retail investment destinations among 30 emerging markets.

Workforce management retailers plan to develop robust programmes to engage and retain staff

India has been identified as a major target market and growth opportunity for both global and domestic retailers. Several studies suggest that India is one of the top retail investment destinations among 30 emerging markets.

According to the Indian Labor Market Report 2009, published by the Tata Institute of Social Sciences (TISS), retail is the largest employer among the emerging sectors in India. Hiring in the retail sector is projected to increase in the future due to several new entrants, including well-known global names, entering the sector as well as the range of formats that retailers plan to adopt

Growth in the Indian retail sector and the corresponding demand for talent has highlighted the need for effective workforce management systems. A closer look at the industry suggests that in general, HR practices in workforce management are in the nascent stages of development. To understand the challenges in acquiring, developing and retaining a retail workforce, it is important to understand the context of talent in the retail sector:

- Since organised retail is an emerging sector in India, experienced retail talent is somewhat scarce.
- Globally, retail has a high turnover of greater than 40 percent, with even the larger and more established retailers facing attrition rates, which can be higher than in other sectors.
- The talent crunch in retail is exacerbated by the lack of requisite training infrastructure.

PricewaterhouseCoopers estimates suggest that retailers fulfill their hiring needs from the following sources—

- Referral hiring—
Between 50 – 80 percent
 - External hiring—
Between 15 – 50 percent
 - Internal hiring—
Between 1 to 10 percent
-

Talent acquisition

Organised retailing is highly manpower intensive. Similar to manufacturing, 80 percent of the employees in retail work at the front-end. At the lower levels, there is requirement for large number of support staff, such as customer care associates. The sector can employ the urban, semi-urban and rural unemployed since high educational qualifications are not necessary preconditions; in fact, several employees in retail operations are not graduates. It is essential to hire employees with the right hard and soft skills, customer service ethic, etc.

Employers have explored various options of meeting workforce requirements from hiring students on a part-time basis to entering into agreements with management schools to offer programmes in retail management for line staff and store managers.

- For experienced frontline staff, companies typically poach from multinationals and other retailers.
- For filling front-end operations like HR and merchandise management, FMCG companies are targeted as sources for potential hires.
- Retailers are entering into partnerships with business schools to create content and courses in retail management.
- Companies are using referral programmes and internal hiring to fill talent requirements. Employers are increasingly using technology and outsourcing services to manage large scale staffing programmes, ranging from workforce planning, candidate selection, onboarding, etc.

Talent development

Currently, retail chains derive a substantial part of their revenues from the top 10 cities in India. However as competition intensifies in these cities and as purchasing power increases in Tier II cities and towns, retailers will need to expand to these markets. Retailers will then need to hire from local communities since they want employees to reflect the language and the culture of the communities they serve and operate within.

This will pose new challenges for retail employers who will need to ensure consistency in customer experiences across stores while at the same time catering to the unique training and development needs of employees in different regions. For example, staff in the smaller towns and cities drawn from the local communities will most likely require intensive training in soft skills such as communication and customer care. Training has to be constant, in the classroom and on the job, on a daily basis. It is suggested that employees spend at least 80 man-hours per year in the classroom.

There are competency gaps in key areas like supply chain management, vendor development, merchandising, inventory management and customer relations management in the retail business in India. There is requirement for qualified and trained manpower to look after daily operations and cater to a wide range of customer expectations. High attrition rates also further elevate the importance of finding the right talent, developing staff and retaining high-potential employees.

Retailers are embarking upon selected practices in talent development -

- Most retailers provide elaborate techno-functional, leadership and soft skills training apart from the induction and refresher training which is offered.
- HR leaders are identifying unique and innovative channels for delivering training, including computer-based online training and audio/video training modules which are delivered to retail stores to manage the logistical challenges.
- Training administration is typically managed by vendors or by shared service centres.
- Employers are using outsourcing services to deliver standard training for entry-level staff and contract employees.
- Most HR leaders and trainers are currently developing scalable and efficient models for designing and delivering training to the workforce, given the large sizes of the workforce.
- HR leaders are using a mix of salaries, performance pay and commission plans to reward and recognise employees.

Talent retention

It is a widely known fact in the retail sector that the sales per hour for experienced staff are significantly higher than for employees with little or no experience in an organisation.

For front-end staff, the attrition rate is between 25 to 50 percent. As the economy grows, and as more and more retailers launch their retail initiatives, attrition is expected to rise significantly at all levels. At lower levels some perennial issues for high employee turnover within the sector include seasonal employment during peak trading period and the perceived lack of career opportunities.

Retailers have initiated innovative and tailored solutions to contain high attrition levels:

- Some retailers realise that addressing the employees' hygiene needs positively impacts staff engagement and commitment. These retailers provide uniforms, restroom facilities, canteens, dining areas, recreation rooms, etc.
- Lateral movements are a popular way of addressing boredom among employees.
- Some retailers encourage their staff to study further and are willing to pay the fees for their professional courses.

A view into the future

Some of the critical levers of workforce management in the retail sector, moving forward, include -

- **Creating a talent pool** - Retail companies are developing strategies to ensure talent availability for future expansion across semi-urban and rural geographies. HR leaders are assessing the demand and supply for talent by geography and by establishing mechanisms to enhance talent in the sector:
 - Retailers will implement branding initiatives to position retail as an exciting and rewarding sector to work in
 - Retailers offer online certification courses for new hires to qualify for retail careers
 - Retailers are working with local, national and international educational institutes to develop retail specific management courses
- **Ensuring employee growth** - Companies are identifying means of developing employees rapidly in order to meet hiring needs. Retailers are:
 - Using outsourcing services to meet training requirements
 - Creating infrastructure for in-house training
 - Identifying new and creative ways of delivering training in real time to employees as operations expand geographically
- **Retaining employees** - As retailers expand operations across geographies, they will require resources to staff new outlets and to supervise operations. The retention of employees will be critical to successfully expand business operations. Employers are actively working towards employee retention programmes by:
 - Developing structured recognition programmes which are considered to be the best way of motivating employees and increasing loyalty
 - Enhancing rewards and employee growth programmes to recognize talent
 - Implementing HR programmes and policies (e.g., education support, succession planning and career pathing) which demonstrate a long-term focus and commitment to building employee capabilities and careers.

Case in point 9—The role of Workforce Management in increasing employee engagement and commitment to the organisation

Focusing on people engagement enables Marks & Spencer to move closer to its goal of becoming an employer of choice in the Indian retail sector

Factors for success

- Commitment to become an employer of choice
- Comprehensive range of people practices that comprise the workforce management programme
- Uniformity in systems and processes
- Clear and transparent communication

Marks & Spencer created a "people engagement" programme that encompasses several important people practices in workforce management. Marks & Spencer created this programme with the goal of becoming the employer of choice in the retail sector. This programme, which has been customised for the Indian marketplace, includes Recruiting, Hiring and Orientation, Learning and Development, Talent Management, Performance Management, Health and Well-Being, Work Environment, Work/Life Balance and Financial Security.

Marks & Spencer indicates that their robust workforce management programme has positively impacted attrition and commitment to the organisation—

- Attrition reduced from 30 to 35 percent to between 10 to 15 percent currently.
- Marks & Spencer conducts an annual employee perception survey which is based on three main parameters—
 - Positivity index— Marks & Spencer scored 86 percent
 - Commitment index— 91 percent of staff indicated that they plan to remain with the organisation in the next 12 months
 - Responsiveness index— 97 percent of staff responded

Induction program

- A robust induction programme offered to front-line staff
- Program has a cohesive and collaborative approach with both HR and line function contributing extensively
- Modules range from product information, values, company policies and procedures, etc.
- Corporate staff too receives an induction program

Learning and development

- Front-line staff are assigned individual development plans
- Staff receive comprehensive training on several operational and organisational strengths
- Staff are assessed at assessment and development centers

Talent management

- Staff receive 360 degree feedback and are aware of future career paths
- Current leaders at corporate headquarters and store managers are asked to train, coach and develop the next line of leaders

Performance and reward

- M&S uses a competency-based performance management system which is based on KPIs, reinforces company values and prescribes behaviours
- M&S also offers performance-linked pay and a range of financial and non-financial rewards, such as—
 - Individual Contributors
 - Team Contributors

(Source: Primary research interview with Marks & Spencer Reliance India Pvt. Ltd.)



Discussion Theme 6



Sustainability is becoming a business imperative and involves securing businesses for the future.

Sustainability and green marketing initiatives will need to be addressed as influences (e.g., government mandates, consumer awareness, competitor actions, etc.) converge and heighten in voice

Sustainability and green marketing—the story is unfolding in indian retail

Sustainability is becoming a business imperative and involves securing businesses for the future. Sustainability issues are affecting retailers across every point of the business model. Converging influences are forcing sustainability issues to the top of the corporate agenda and are impacting every function and business unit. Consumer awareness, pressure on commodity and energy prices, scarcity of raw materials, together with regulator and competitor actions are combining to ensure businesses cannot ignore the environmental and social dimensions of how they operate. Understanding the strategic implications of the drive for sustainability and factoring it into corporate decision-making is to secure the future and enhance commercial performance.

The convergence of company goals, consumer preferences, environmental imperatives and government encouragement will usher in new sustainable business practices that will help generate profits, meet client expectations and enable companies to become better corporate citizens.	
Consumers	With increasing media coverage commenting on environmental issues, consumers are becoming concerned about sustainability and ethical practices. Environmentally-conscious consumers are purchasing hybrid electric cars, avoiding acquisitions of leather and fur-based products, switching to vegetarianism, etc.
Companies	Some companies are revising business strategies and embarking upon sustainable business practices to appeal to their target consumers. Companies who recognise their role as citizens in a larger community are integrating environmental objectives into their profit-related objectives.
Governments	Governments across geographies are encouraging companies to adopt environmentally safe production/consumption practices and selling methods. For example, governments in some countries provide tax benefits to consumers who purchase hybrid car. Other countries plan to ban the use of plastic bags to encourage more environment-friendly practices.
Competitive forces	Some firms are electing to undertake green marketing in response to competitive pressures, whereby companies in their peer set have committed to reducing the impact of their products on the environment by reducing emissions, re-examining their production processes (i.e., substituting old production techniques with new green techniques), etc. Green marketing can also serve as a means to differentiate companies in the marketplace.

Sustainability has internal and external implications for costs, risks and commercial performance. The commercial logic for assessing and minimising energy, carbon, water and commodity usage is clear. A more efficient use of key inputs and reductions in waste offers cost-saving opportunities. Furthermore, underlying structural changes in the world economy, such as continued growth in the economies of Brazil, Russia, India and China, means that competition for resources is intensifying; resource scarcity is likely to become a major issue in the future.

Therefore, leading companies are opting for a two-pronged mandate —

1. Reducing the levels of resources used
2. Adopting innovative solutions to secure the quantity and quality of materials needed to manufacture and operate

Consumers are becoming increasingly attuned to sustainability issues and demanding retailers to keep pace with their changing expectations. Most consumers in India are in the early stages of thinking of sustainability as a high-cost option or a “luxury” that “normal people” cannot afford. Retailers, therefore, assume an important role in promoting the accessibility of sustainable products to all consumers. Further, consumers are smarter, better informed and more discerning than before. In today’s economic climate, consumers want to understand why a price premium exists so they can make an educated choice on which products best fit their emotional, ethical and functional needs.

At present, the three major sustainability issues facing retailers are -

- **Climate change** - The measurement of retailers’ carbon footprints and those of their products is seen as an important step in enabling retailers to understand and mitigate their impacts on climate change. Although the carbon footprint labeling of individual products by selected large retailers is a step forward, the initiative is at a relatively early stage and to date lacks the critical mass and public awareness to drive significant changes in consumer behaviour.
- **Waste** - This issue is at the top of the agenda for both consumers and retailers. There is a widespread call for reducing the overall amount of packaging, more guidance on recycling and more education and emphasis on re-use. This area needs co-ordination and leadership, ideally from the industry, working closely with local authorities and other experts.
- **Supply chain** - Ensuring security of supply is considered to be a goal which can be compatible with social compliance and something that retailers can work on together. Responsible procurement brings with it many issues for retailers and these are perceived to become more pressing as environmental pressures become increasingly felt. Collaborative efforts seem to be the most effective response to many of these issues in terms of increasing the impact and reassuring consumers.

Green marketing

Green marketing, which initially emerged in the early 1990s in the developed countries, involves the procuring and supplying of products or services that have a lesser or reduced effect on human health and the environment, as compared to competing products or services that serve the same purpose.

The goal of a green marketing program is to implement approaches that enable companies to purchase and supply products or services of a high quality, at the most reasonable cost, while also lowering the impact on the environment and human health. Green marketing has the potential to impact sustainable consumption and also result in significant shifts in demand and supply, on the basis of environmental performance.

While the development of these items is at a nascent stage, consumers are helping drive Research&Development efforts due to increasing awareness about climate changes and rising energy prices, heightened focus on health and safety, and the desire to help contribute to the preservation of the environment. Green marketing typically aims to satisfy customers and improve the quality of the environment. Retailers must take several initiatives to shift their focus from niche to mainstream consumers, make green products affordable and thereby contribute in solving environmental issues.

Environmental and social impacts can occur at any stage of a product's life cycle from extraction/ acquisition of raw materials, transportation, production, manufacturing, packaging, distribution, operation, maintenance and disposal or reuse of the product or service.

Our primary research interviews suggest that green marketing and other sustainability practices are in the initial stages of being incorporated into modern trade. The following aspects related to the development of green marketing initiatives in India were obtained through our primary research efforts—

- **Absence of consumer demand for green products** - Some retailers are not focusing on green marketing at this time since their consumers are not demanding environment-friendly products and services.
- **Focus on operations and improving profitability** - Some retailers indicate that they are choosing to focus on improving operations and strengthening the profitability of their ventures, before addressing non-core activities, like sustainable practices and development.
- **Reducing carbon footprint** - Selected retailers, such as McDonald's, are committed to reducing their carbon footprints. To that end, the company removed prechillers from its restaurants and found a way to direct cool air from ACs to the coke system which results in chilled coke. The company, in addition to using biodegradable packaging, also constantly refreshes air in their restaurants; during low volume periods, McDonald's adjusts fresh air refreshment levels to reduce carbon emissions.
- **Making initial strides** - Interviewed retailers plan to embark upon some or most of the following tactics towards sustainable practices:
 - Reducing the number of plastic bags given to consumers since plastics and packaging are high costs items

- Encouraging consumers to buy company-branded linen bags or persuading them to bring their own bags by charging them for the purchase of plastic bags
- Using recyclable paper billing roles and printing thermal bills which are 20 percent the size of A4 paper-based bills
- Restricting the use of air conditioning in stores
- Sponsoring green events (eg., concerts)
- Introducing biodegradable packaging for products

Quick wins towards sustainability/green marketing

Here, we present a series of quick wins that retailers can embark upon in creating sustainable business practices-

- **Discourage plastics**
 - Reduce the number of plastic bags given to consumers, and instead use paper/ jute bags
 - Encourage consumers to bring their own bags
 - Encourage consumers to purchase retailer-branded linen bags
 - Avoid excessive packaging and reduce the use of plastic as a packaging material
 - Introduce the use of biodegradable packaging for products
- **Printers, copiers and faxes**
 - Minimal power consumption during operation and standby mode
 - Reduce the quantity of paper consumed, (i.e. two-sided copying/printing and multiple-page in one page copying/printing)
 - Use toner cartridges that have reusable and recyclable parts/raw materials
- **Paper usage**
 - Use recyclable paper billing roles and print thermal bills
 - Separate and recycle various types of papers (copy paper, newspapers, magazines, corrugated cardboard, etc.)
- **Refrigeration/ Air conditioning**
 - Minimum power consumption during operation and stand-by mode
 - Materials for refrigerants, insulators and foaming agents that have minimal effect related to ozone layer destruction and global warming
- **Creating awareness**
 - Sponsoring the green events and offsetting the emission when organising events
 - Putting the sensitising taglines in the products (e.g., Think Climate – Wash at 300C.)

Other initiatives that ensure sustainability

We present a series of initiatives that retailers can implement in creating sustainable business practices-

- **Carbon Footprinting** - A carbon footprint is the total set of greenhouse gas (GHG) emissions caused by an organisation, event or product. Retail space carbon footprint reduction is gaining importance due to the emergence of green building concepts and also the increased focus on establishing energy efficiency in stores.
- **Transportation** - Many supermarket chains have been assessing transport usage and are exploring alternatives to transportation and distribution by road. Some global retailers have -
 - Reassessed the locations of warehouses to reduce the number of road miles required
 - Changed their fleet vehicles to use more efficient vehicles and therefore, lower the level of emissions
 - Switched some transportation activities from road to rail
- **Water Footprinting** - The water footprint of a business (i.e. the 'corporate water footprint') is defined as the total volume of freshwater that is used directly or indirectly to run and support a business. It is the total volume of water use, to be associated with the use of the business outputs. The water footprint of a business consists of two components -
 - The direct water use by the producer (for producing/manufacturing or for supporting activities)
 - The indirect water use (in the producer's supply chain)Corporate Water Footprinting further demonstrates how water efficiency fits with a broader climate strategy and leads to greater savings in carbon, energy and costs.
- **Investment in renewable energy** - Switching to renewable sources of energy, such as wind and solar power, to operate offices helps reduce carbon emissions. Investing in renewable energy also supports the uptake of green energy which is vital in moving towards a low-carbon economy.
- **Energy/ Green House Gas (GHG) emission label in products** -
 - Informing and developing awareness among consumers about energy used and GHG emissions emitted during manufacturing of the product is important.
 - Using more energy-efficient ovens, refrigeration and air-conditioning is important since these tools are the major users of energy in retail stores.
 - Using more efficient lighting, timers and motion detectors that switch off lights when they are not needed.

- **Waste management of packaging materials** - Physical supplies are running out faster than previously predicted, competition for remaining resources is intensifying and in the medium-term we are likely to see changing weather patterns that lead to volatile output levels. Many retailers have been working with suppliers to reduce packaging waste associated with the products sold. For example -
 - With the aim to maintain current waste levels despite growth, one global retailer sells its animal by-waste to soap and pet food manufacturers
 - One global retailer uses lighter packaging for ready meals and promotes the recycling of its clothes in partnership with Oxfam
- **Rural livelihoods** - The use of retail goods leading to sustainable livelihoods for indigenous artisans and craftsmen is increasing, as locally made handicrafts, fabrics and ecologically beneficent and 'natural' products find place in retail outlets that position themselves as sensitive to sustainable business practices.
- **Supply chain dynamics** - Greening the supply chain through healthier products and environmental quality is emerging as large international groups who follow a uniform global policy with respect to green procurement enter India. Thus, it is essential to -
 - Ensure key raw materials come from the most sustainable sources
 - Work with suppliers so that vehicles do not travel empty after making deliveries
- **Involving consumers** - Retailers need to encourage and help customers to change their behaviours. The retail sector can effectively influence lifestyles changes since it is in daily contact with consumers' moods, preferences and expectations. Some issues that retailers can explore include -
 - Conducting R&D on healthier options for consumers
 - Educating customers about healthier options and nutritional enrichment of food products
 - Discouraging overconsumption: Replacing "buy one get one free" offers with promotions for greener (low carbon) products could have a significant impact on consumer choice.

Case in point 10—Sustainable sourcing and procurement practices at Max Hypermarket

Working with local communities, sourcing locally and imparting best practices in farming enable Max Hypermarket to offer high quality fruits, vegetables, meat and fish to consumers

Factors for success

- Commitment to working with local farmers/ producers
- Ownership of robust processing unit
- Time, effort, patience and dedication in communicating the importance of basic business practices (payment mechanisms, other general business knowledge, hygiene, adhering to quality standards, etc.)
- All portioning, pre - packing and marinating of lamb and poultry is done at the stores to ensure freshness for consumers

The 2008 PricewaterhouseCoopers thought leadership study, The Benefits of Modern Trade to Transitional Economies indicates that farmers benefit from modern trade by being better integrated and linked into the food supply chain. Farmers and modern trade players can explore partnership models that benefit consumers (i.e., lower prices for produce since middlemen are eliminated), farmers (i.e., not exploited by middlemen, receive fair market wages for produce) and modern trade players (i.e., savings through direct dealings with farmers/producers).

In 2004, Max Hypermarket entered into an agreement with SPAR to retail food and non-food merchandise in India. We focus on Max's sustainable business practices of working with local farmers and communities to procure fresh fruits, vegetables, meat and fish for consumers. These sustainable sourcing and procurement practices ensure that—

- Suppliers receive a fair market price, are paid on time and regularly and are also educated on best practices in farming and business management
- Max receives well-priced and high quality products that can be sold to consumers
- Consumers receive price benefits from Max and also consume fresh and hygienic food that meets Max's high standards of quality

Fruits and vegetables

- Max maintains agreements with local farmers for the farming and procurement of fruits and vegetables. Seventy percent of the fresh produce in Max's hypermarkets and large format supermarkets is sourced from these farmers
- Max established a captive processing unit for fruits and vegetables; this processing unit is temperature-controlled with sufficient cold storage space
- The 80 farmers that Max works with are located between one to two hours away from the unit
- Max ensures freshness of product since it has a mandate of 24-hour fresh delivery—
 - 12pm, Processing center—Farmers deliver their produce
 - 12-7pm, Processing center—Fruits and vegetables are cleaned, sorted, graded, cut and pre-packaged
 - 7pm, Transport by temperature-controlled trucks—Produce is transported in the evenings to the outlets since temperatures are lower in the evening
 - 9pm, Max outlet—Produce is delivered to Max outlet and is kept in cold storage before being placed onto temperature-controlled produce section
 - 9am, Max outlet—Customer receives fresh produce

Lamb

Max buyers have deep and personalised relationships with suppliers which have been developed over the period of a few years. Lamb rearers are based in and around Karnataka; this required Max buyers to visit farms and check the antecedents of livestock. Suppliers send the live animals of a certain weight to government-approved slaughterhouses, after which the carcasses are transported to Max within two hours of slaughter. Max needed to educate the vendors regarding health and hygiene standards, etc. While this initially proved to be a bit of a challenge, buyers are in continuous contact with rearers and slaughterhouses to constantly ensure quality control, transparency of process, establish communication, etc.

(Source: Primary research interview with Max Hypermarket Pvt. Ltd.)

Case in point 10—Sustainable sourcing and procurement practices at Max Hypermarket (cont'd)

Max buyers maintain a long standing relationship with suppliers for fruit and vegetables, lamb, poultry and fish. This enables Max to ensure that rigorous standards for procuring and sourcing of these products are fulfilled.

Poultry

Similar to the case of the fisherman, most of the lamb vendors did not have bank accounts and had to be educated on the issues of payments, opening bank accounts, accepting cheque payments, etc. The relationship with the poultry farmers is similar. Max buyers maintain a long standing relationship with poultry farmers and processing units. The farms and processing units have been checked prior to acceptance to ensure that they meet Max's stringent quality and hygiene standards. Birds of a certain weight and size are sent to processing units where they are culled and processed according to Max standards. Spot checks and surprise visits are typically made by buyers to ensure that quality and quantity benchmarks that were set are being meticulously followed. Timing, packing, transportation and delivery processes have been streamlined and payment procedures have also been put into place.

Fish

Max needed to create and nurture direct relationships with fishermen. The fishermen's experiences with other buyers had been traditionally unfavorable due to issues like non payment, pricing problems, etc.; over time, this lead to a feeling of mistrust on the part of fishermen. The fishermen were initially hesitant to supply to a large modern trade retailer like Max. Understanding this, Max gained their confidence and solidarity towards supplying high-quality fish.

Max initially faced issues with regard to the quality of fish. Suppliers were not present at the time when shipments were received at the Max store and problems would arise regarding quantity and quality of products. Another issue was with regard to payments since fishermen did not have bank accounts. Max expended the effort to teach fishermen how to open bank accounts so that the process of payments would become streamlined. In addition to payment mechanisms, grading and quality parameters have been clearly understood by suppliers and the rejection rate has come down to nil. The timing of deliveries, packing and transportation of fish to stores were also issues which have, over time, been addressed and streamlined, in alignment to Max's specifications.

Max buyers have traveled the Indian coastline to locate vendors that can supply the kind of quality that the company demands for its customers. In fact, the main coast is not the catchment from where the fish is sourced; it comes from lesser known adjacent areas where the demand is less, so SPAR can command better prices. Eighty percent of fish is sourced directly from the landing centres and the fish farms. These relationships, which have been built up over a period of five years, are deep-seated and have involved buyers having lived with and fished with the fishermen on the trawlers, in order to experience firsthand and learn the process of fishing! Sourcing processes have also been enhanced by the classification of fish that is followed by Max. These classifications are -

- Core (e.g., rohu, catla, seer)—Everyday buys for the customer
- Alternative (e.g., barracuda, kingfish, shark)—Available in case the core catch is in short supply
- Darling (eg., pearl spot, lady fish, anchovy, parrot fish)—Somewhat more exotic fish which add interest and colour to the display
- Range (e.g., sole, halibut, salmon)
- High range (e.g., lobster, jumbo prawns, hilsa)—High value catches

This helps in sourcing and pricing, merchandising, inventory management and promotional activities. Local vendors are given substantial orders based on the classification; this is more economical for fishermen and Max receives a better price which it passes to consumers.

Case in point 11 - Responsible business practices: product sourcing & sustainability at Levi Strauss and Co.

LS&Co. is focused on responsible sourcing and sustainability

Factors for success

- Partnerships with other companies and organisations to develop the next generation global standards and goals
- Leadership involvement with organisations enables LS&Co. to share ideas, effect change and learn from others

Levi Strauss & Co. (LS&Co.) has been addressing corporate citizenship by focusing on complex issues. LS&Co. is one of the first major companies to commit to eradicating HIV/AIDS, launching an ethical code of conduct for suppliers and engaging in public policy to drive social change.

Responsible sourcing and sustainability are two cornerstones of LS&Co.'s citizenship work (in addition to HIV/AIDS, diversity, community involvement and Levi Strauss Foundation grant-making).

A. Responsible product sourcing

LS&Co. strives to take a leadership role in establishing product sourcing practices that ensure every person involved in making its products is treated with dignity and respect.

In 1991, LS&Co. became the first multinational company to establish a comprehensive ethical code of conduct for its contractors. Since then, this has evolved with the company's approach into the Global Sourcing and Operations Guidelines to address issues at three levels— the factory, community and government.

- At the factory level, LS&Co.'s Terms of Engagement programme (TOE) covers specific business practices that its suppliers need to meet. Highlights relating to the TOE include:
 - Trained assessors monitor suppliers in different countries and ensure compliance of the manufacturing facility and processes. Suppliers are assessed by LS&Co.'s staff and representatives from external agencies (such as NGOs). The external monitors need to pass LS&Co.'s qualification programme to perform TOE assessments.
 - LS&Co. requires suppliers to be compliant in 13 areas (i.e., Ethical standards, Legal requirements, Environmental requirements, Community involvement, Child labour, Prison and Forced labour, Working hours, Wages and benefits, Freedom of association, Disciplinary practices, Discrimination, Employment standards, Health & Safety).
 - LS&Co. made its standards publicly available through www.levistrauss.com.

Building on these, the company published its list of suppliers on its website, reflecting its openness to collaborating with other brands to efficiently help shared contractors raise their standards. (Suppliers are assessed every year and the list is updated every six months, as necessary.)

- At the community level, LS&Co.'s philanthropy and the Levi Strauss Foundation grant-making focus on strengthening workers' rights and improving working and living conditions in communities where the company's products are made. Examples of workers' rights programme include:
 - The Asia Foundation project—Since 1999, the project has been educating migrant women workers in China on their workplace rights and providing financial literacy as well as basic healthcare.
 - Development Initiative for Social Causes (DISC), in 2004-05, to improve working conditions, labor standards and the status of female garment workers in Bangalore through worker and supervisory training on labor and human rights and health.
 - A 2004 grant to SHEVA, a Bangladesh-based NGO to fund the education of factory workers on local labor laws, codes of conduct and improved management systems, including the institution of employee grievance procedure.
- At the government level, the company works closely with governments, NGOs, industry associates and other stakeholders to strengthen labor laws in countries where it has a business presence. LS&Co. conducts thorough assessments of all countries where it has or is considering placing production to help make responsible sourcing decisions. Its trade/labour policy and advocacy to drive fair employment practices, policies and laws augment its workers' rights programme.

(Source: Primary research interview with Levi Strauss & Co.)

Case in point 11 - Responsible business practices: product sourcing & sustainability at Levi Strauss and Co.

LS&Co. is focused on responsible sourcing and sustainability

Factors for success

- Partnerships with other companies and organisations to develop the next generation global standards and goals
- Leadership involvement with organisations enables LS&Co. to share ideas, effect change and learn from others

B. Sustainability

The launch of LS&Co.'s ethical code of conduct two decades ago captured the company's belief in sustainability. The code stated, among other things, that the company would only conduct business with partners who shared its commitment to the environment and conduct their businesses in line with that philosophy. LS&Co.'s long-term goal remains to be a zero-waste company and to build sustainability into all operations and processes.

LS&Co. assumed a product lifecycle assessment, a study of every input, cost, impact that went into the life cycle of its core products, from the cotton in the ground to the last time the pants are washed. The study took almost a year to complete and the most surprising finding was that the biggest environmental impact fell outside its supply chain control—namely, growing cotton and consumers' washing and drying of its clothes.

Cotton

Even though LS&Co. is a large cotton consumer, it uses less than half a percent of the world's annual cotton crop. Nonetheless, it has been working to impact cotton growing practices at the farm level by building a sustainable cotton supply chain, creating alliances with businesses that use cotton and working with farmers to improve their growing methods. To that end, it partnered with other brands in the Better Cotton Initiative to promote sustainable cotton production. The goal is also to try to mobilise greater buying power in support of more sustainable cotton. LS&Co. has also collaborated with other companies, socially responsible investors, and NGOs to take a stand on how cotton is grown in Uzbekistan, where forced child labor is a major concern.

Helping shape sustainable consumer habits

Through its life cycle assessment, LS&Co. gained insights into washing and drying clothes and has started its consumer engagement/education initiatives—

- LS&Co. started with changing its garment care labels to read "wash in cold water" and "tumble dry medium," with an eye to reducing energy use.
- In Fall 2010, the care label on LS&Co. products around the world will also bear a call for consumers to donate to charity when the garment is no longer needed.
- LS&Co. partnered with the Alliance to Save Energy and Procter & Gamble to encourage consumers to save energy and money by washing their jeans in cold water.
- It is contacting new partners to educate shoppers in retail stores about the importance of water and dryer temperature, and reuse or recycling when our clothes are discarded.

In addition, it continues to push sustainability in the following areas:

Water

The company is decreasing water usage and improving water quality in significant, measurable ways. From cotton production, fabric manufacturing and finishing products, LS&Co. relies on abundant sources of clean water. The company also needs potable water to sustain the health of the workers who produce the apparel. Specific programmes to address water conservation include—

- Its Global Effluent Guidelines (GEG) set water quality standards and mandate maximum wastewater contaminant levels for its manufacturing locations worldwide. In 2008, LS&Co. began working with Business for Social Responsibility (BSR) and 12 other companies to extend the GEG to second-tier suppliers of bulk fabric and sundry items.
- Future efforts will go beyond keeping water clean to comprehensive water management programmes including water reclamation, water efficiency, and reuse.
- Water footprint analysis in 2008, which has led to water reduction activities in distribution centers and owned manufacturing facilities. The company is finalising a methodology for analysing the water footprint of its supply chain partners to be deployed in 2010.

Case in point 11 - Responsible business practices: product sourcing & sustainability at Levi Strauss and Co.

Partnerships with the Better Cotton Initiative, Business for Social Responsibility (BSR), the Apparel and Footwear International RSL Management (AFIRM) working group, and the Business for Innovative Climate and Energy Policy (BICEP) enable LS & Co. to share and obtain best practices in sustainability

Chemicals

LS&Co. is minimising the environmental impact from chemicals used in all the stages of its product lifecycle. While it may not be able to eliminate the use of chemicals in the foreseeable future, it is committed to minimising their environmental impact.

- The company focuses on the responsible use of chemicals in product design, development, manufacturing, and distribution processes.
- It established a Restricted Substance List (RSL) identifying the chemicals that will not be allowed to be used in products or in the production process due to their potential impact on consumers, workers, and the environment.
- LS&Co. is working to phase out five chemicals potentially used in its production cycle, including PVC, which carry a higher environmental impact.
- It supports its chemical policies with strong training, auditing, and testing, ensuring that they are applied consistently across the supply chain. By co-founding the Apparel and Footwear International RSL Management (AFIRM) group, Levi's furthered its commitment to reducing the use and impact of harmful substances throughout the industry

Energy efficiency and climate change

LS&Co. is committed to achieving carbon neutrality and moving to the use of 100 percent renewable energy in its operations and supply chain. The company has mandated that all owned and operated locations globally (e.g. retail locations, offices, distribution centers, manufacturing locations, etc.) reduce their energy use and greenhouse gas emissions by 11 percent by 2011, from 2007 levels. In early 2009, the company announced that it had already reduced energy levels by two percent and is well on its way to achieving its target. This includes an up to 10 percent decrease in energy consumption in facilities and retail stores. In addition, LS&Co. is making strides in reducing its climate change impact within its supply chain. In one of its key transportation routes, LS&Co. achieved a 47 percent decrease in greenhouse gas emissions from reduced fuel.



Case in point 12 - Sustainability starts at the design and concept stage at Inorbit Mall

Sustainability starts at the design process

Factors for success

- A focus on energy efficiency that starts at the design and concept stage minimises errors in development and fitout
- A mandate to reduce energy emissions and to conserve water permeates the organisation and is communicated to the company
- The company approaches the issue from a holistic perspective that spans energy use, water preservation and conservation, etc.

While there may not be a formalised code for sustainability at malls, the K Raheja Corp's Inorbit Mall approaches the issue from the design and concept phase. Energy costs are between 40 to 45 percent of the company's operating cost of its centres in Mumbai, mandating the need to develop and follow energy efficient processes—

- The company endeavors to bring the maximum amount of light into the mall to reduce the need for lighting (which therefore positively impacts energy consumption).
- The company ensures that the direction of light, from the perspective of absorption of heat, is limited (in order to reduce the strength of air conditioning). Absorption of heat is also dependant on the extent and quality of glass used which the company assesses at the design stage.
- The company orders energy efficient equipment such as water cooling systems for air conditioning and variable speed equipment to reduce the load of electricity, which is further closely monitored through extensive use of Building Management Systems.
- The company uses vermiculture to recycle biodegradable waste
- The company also focuses on water conservation—
 - Rainwater harvesting recycles water for gardening, flushing and air conditioning
 - An onsite sewage treatment plant recycles water for gardening, flushing and for air conditioning

The company has upgraded its systems at the Inorbit Mall in Malad in order to conserve and preserve energy. Subsequent and future malls have and will comply with the company's energy efficient practices.

The company also performed a detailed energy audit at the Malad Centre to understand areas of improvement and how to be more energy efficient, moving forward. The company is involved with The William J. Clinton Foundation's Clinton Climate Initiative (CCI). The CCI creates solutions to the core issues driving climate change. Working with governments and global and local businesses, CCI focuses on three strategic program areas: increasing energy efficiency in cities, catalysing the large-scale supply of clean energy, and working to stop deforestation. Inorbit's initiative under this program would be the first of such initiatives to reach completion in this part of the world.

(Source: Primary research interview with Inorbit Malls (India) Pvt.Ltd.)

Case in point 13—Swarovski's Water Schools

Corporate social responsibility and a green agenda support sustainable business practices



About Swarovski

Austria-based Swarovski offers beautifully-crafted crystal gift items, fashion accessories, jewellery, watches, home décor, etc. Swarovski commenced operations in India in 2002 and plans to maintain 30 dealer-authorised stores in India by 2012. Swarovski vies India as a high-potential market for further earnings, revenue and growth.

The green agenda at Swarovski is blue!—Swarovski's Water School for a Living Yangtze

The increasing world population, rising urbanisation levels, unsanitary conditions, climate change and enhanced water use are placing a strain on the world's water resources. To that end, Swarovski maintains a strong commitment to water management through its programme involving Water Schools. Water is an essential resource for the company and is the main theme of its Corporate Social Responsibility strategy. Swarovski's water schools programme involves working with school children, who are viewed as the future custodians of the world's water resources. While there is enough water on earth for all people, it must be wisely managed and justly distributed. Children need to know about the issues and problems of the world's limited water resources and its sustainable management. This belief prompted the development of the Water Schools programme. Swarovski is creating Water Schools for three rivers, namely the Amazon (South America), Yangtze (China) and the Ganges (India).

The goal of a Water School is to create awareness and understanding of:

- The fundamental importance of the 'resource water' for all life on earth,
- The ecological, economic, social and cultural problems affecting it locally and globally,
- The principles of wise and sustainable water management, and
- The responsible actions by individuals, communities and governments

The methods of the Water School are:

- To produce imaginative and motivating teaching materials
- To train and motivate the teachers
- To reach the children through their minds, hearts and hands
- To make the children ambassadors of change to influence their families and communities to care for the limited water resources

Since Swarovski is in the midst of developing its Water School for the Ganges, we choose to discuss its Water School for China's Yangtze River, called the Water School for a Living Yangtze (2008 – 2011). (It is envisioned that India's Water Schools will be similar to the schools in China.) China has only seven percent of the global water resources for 20 percent of the world's population. Four hundred cities are facing severe water shortages and 300 million people do not have access to clean drinking water. China also suffers from severe pollution (40 percent of water in major rivers is only fit for industrial and agricultural use) and the worst soil erosion problems in the world (37 percent of China is impacted by agricultural and industrial development, overexploitation for irrigation, large hydro-power developments and droughts and global temperature increase).

Case in point 13—Swarovski's Water Schools

The Yangtze, in addition to being China's longest river, flows through Qinghai, Tibet, Sichuan, Yunnan, Hubei, Hunan, Jiangxi, Anhui and Jiangsu. It has a total catchment area of 1.8 mill. Km2 and is half the size of the European Union. Swarovski supports three Water School locations along the river— Shangri-la (8 schools), Sichuan (6 schools) and Shanghai (6 schools). The programme's principles are as follows -

Water School for a Living Yangtze (2008 – 2011)—Principles

Principle	Description
Enhance education by	• Rooting the Water School education in the community • Encouraging critical thinking, active engagement and providing meaningful experiences • Making learning authentic and alive
Encourage stewardship by	• Getting to know a place and its people • Caring for that place and its well-being • Instilling a sense of caring and responsibility for it
Inspire hope by	• Contributing to the maintenance and improvement of the neighborhoods through civic action and environmental restoration • Showing that you can make a difference
Build community vitality by	• Initiating and participating in actions that build a sense of community spirit

Learning and action occurs at three levels:

Individual	Organisational	Societal
Enhancing knowledge, skills and commitment of teachers, students and community members in sustainable water resource management	Strengthening institutional capacity in water education in selected watersheds of Yangtze • Water School Yangtze Leadership Institute • Regional Leadership Institute in SSS • Local Leadership Teams, which are composed of representatives from schools, communities, nature reserves, monasteries etc.	Connecting with broader structures and decision-making processes through • Partnership building • Networking (website, newsletter etc) • Policy influence

Case in point 13—Swarovski's Water Schools

The Water School for a Living Yangtze is characterised by the following goals and objectives—

Long-term goal - Restore ecological integrity of Yangtze River through effective public participation in sustainable water resource management

Programme goal - Improve environmental stewardship in selected watersheds of Yangtze through participatory learning and action by schools and communities

Objectives - A series of five objectives implement the programme into practice

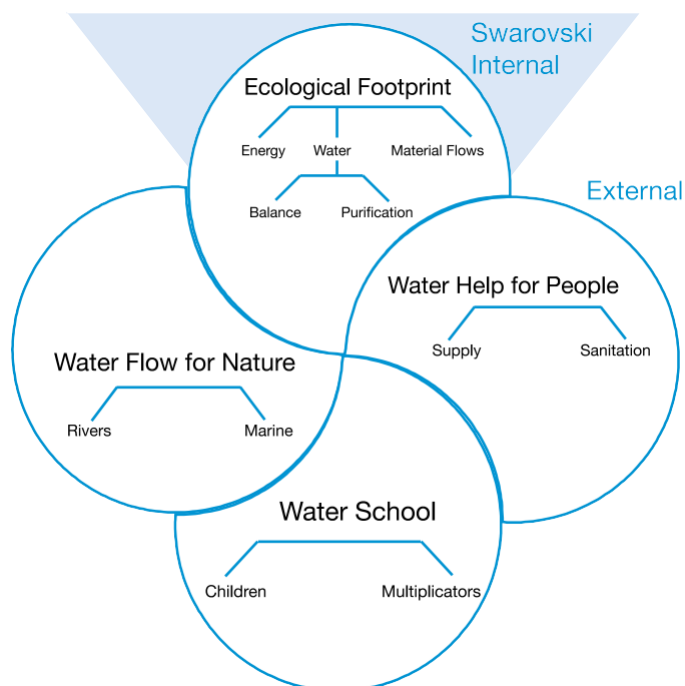
- **Objective 1 - Develop Water School teaching material.** Special Water School resource packs will contain translated and adapted teaching materials developed by the Water School International about global water problems, special information about national and regional water issues, teacher training manual, guide for multidisciplinary water-related activities for ages K-12 grades for schools, children, families and communities (hands-on, easy to use, and fun), basic tools for testing water quality in the field, etc.
- **Objective 2 - Train teachers for the Water School Programme.** Innovative teacher training is essential for achieving the programme's goals. Since the Water School is more than just ordinary classroom teaching, teachers will be trained in special techniques such as: activity-oriented approaches, place-based and integrated learning, working with the community on real-life projects, project planning and supervision with students, etc.
- **Objective 3 - Conduct the Water School in selected pilot schools.** Trained teachers will teach the Water School curriculum in 20 selected pilot schools. The curriculum will address water issues on local, national and global levels, ecological, economic, social, cultural and ethical aspects and management of limited water resources. The Programme will actively involve the children through water investigations in the field, analysis of water data collected in nature, communications on water issues with other schools and planning of actions in the community
- **Objective 4 - Foster and support water community action by the pilot schools.** A fundamental principle of the Water School is to motivate children to become "ambassadors" of the water message for families and communities. They will learn how to initiate and conduct local water conservation projects by local communities
- **Objective 5 - Link the regional Water Schools on national and international levels.** Water Schools programmes are being run in three localities in China, a National Park in India and three provinces of Austria and are supervised and assisted by a coordinating office in Austria. The students of the three regions along the Yangtze will be linked through internet connections with joint website for all pilot schools, student exchanges, a student congress involving children from all schools, a national project competition, other joint events, etc. Links between the Water Schools in other countries will also be established through an international Water School Website, annual meetings of Water School leaders and a joint event for students in 2010.

Case in point 13—Swarovski's Water Schools

The Water Schools programme has had a positive impact in increasing awareness about the importance of water management, improving water management initiatives, etc. For example, the Diqing Tibetan Middle School discovered that pollution was affecting the Nachi River. The students developed an action plan involving—

- Compilation and public display of information about the status of the river
- Open letter to the prefecture government
- Public singing and dancing performance to draw attention of the public
- Direct river restoration activities: removing trash from the river bed and planting trees along the bank
- Awareness information for local hotels and business

The students' efforts have been successful in garnering positive and supportive reactions from the community and local government.



Source: Primary research interview with Swarovski India Pvt Ltd

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About RAI

Retailers Association of India (rai) is the unified voice of Indian retailers working with all the stakeholders for creating the right environment for the growth of the modern retail industry in India. RAI is the body that encourages, develops, facilitates and supports retailers to become modern and adopt best practices that will delight customers. RAI has a three charter aim of Retail Development, Facilitation and Propagation.

The country's key retailers have been spearheading the growth of RAI. RAI's Governing Board comprises the following people who led the retail revolution in our country – Mr. Kishore Biyani of Pantaloons, Mr. B S Nagesh of Shoppers Stop, Mr. Noel Tata of Trent Ltd, Mr. Vinay Nadkarni of Globus, Mr. T. Shantakumar of Kirtilal Kalidas Jewellers Pvt. Ltd., Mr Sumantra Banerjee of RPG Retail, Mr. B A Kodandarama Setty of Viveks, Mr. Vikram Bakshi of McDonalds India (North & East), Mr. Ajit Joshi of Infiniti Retail Ltd, Mr. Rajiv Agarwal of The MobileStore Ltd, Mr. R C Agarwal of Vishal Retail Ltd, Mr. Gibson G Vedamani of Kirtilal Kalidas Jewellery Pvt. Ltd. and Mr. Kumar Rajagopalan, Chief Executive Officer, RAI.

the 1990s, the number of people in the UK who are employed in the public sector has increased by 1.5 million (from 2.5 million in 1980 to 4 million in 1998). The public sector has become a major employer in the UK, and this has implications for the way in which the public sector is managed and the way in which it is funded.

The public sector is a complex organisation, and it is difficult to understand how it works. The public sector is made up of many different organisations, each of which has its own aims and objectives. The public sector is also funded by the government, and this has implications for the way in which it is managed and the way in which it is funded.

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