Agile and Collaborative Retail Value Chain

How can Indian retailers change their operating model to best serve connected consumers?

About A.T. Kearney

A.T. Kearney is a leading global management consulting firm with offices in more than 40 countries. Since 1926, we have been trusted advisors to the world's foremost organizations. A.T. Kearney is a partner-owned firm, committed to helping clients achieve immediate impact and growing advantage on their most mission-critical issues. We have 61 offices in major business centers in more than 40 countries. For more information, visit www.atkearney.com

About Retailers Association of India

Retailers Association of India (RAI) is the unified voice of Indian retailers. RAI works with all stakeholders to create the right environment for the growth of modern retail in India. As the apex body of retailers in India, RAI takes various initiatives to upgrade the quality of retail workforce, promote and sustain retail investments, enhance consumer choice and industry competitiveness. For further information, visit www.rai.net.in

About Retail Leadership Summit

Instituted by Retailers Association of India, Retail Leadership Summit (better known as RLS) is India's largest gathering of retail leaders, service providers and other stakeholders from the industry for an industry-level dialogue on the way forward. A hallmark of RLS is the release of reports by globally-known consultancies. Over the years, RLS has earned the reputation of being the ultimate knowledge-sharing platform, and a reputed source of insights on improving business efficiency. The theme for RLS 2017 is 'Collaborating to Win the Connected Consumer'. For details, visit www.rls.net.in

Foreword

In this connected world, the perception of value is changing rapidly in the minds of customers. Retailers need to create propositions that also evolve rapidly. This cannot be achieved by standing tall and alone. Collaboration is the name of the game for retailers. They need to constantly try to extract value across the value chain or face the risk of being redundant.

Retailers need to collaborate for merchandise, people, resources, space, finance and technology to offer the best to customers. RAI- A.T. Kearney report looks at various facets of collaboration and can be the guiding force for retailers, helping them evolve to gain market supremacy.

We, at Retailers Association of India, are thankful to our members for their time and views and the A.T. Kearney team for their efforts and insights.

Kumar Rajagopalan
Chief Executive Officer
Retailers Association of India

Customers of today are connected as they have never been before. As they seamlessly navigate through the various technologies at their fingertips, the line between purely digital and influenced by digital is becoming increasingly blurred. As a result of this, the expectations the customer has of the retailer have increased. Customers demand the right product, at the right price, as per their convenience. Above all, they seek an integrated experience across all platforms. Guaranteed inventory in-store, omni-channel experience, shorter delivery lead times – these are only some of the asks of today's connected consumer. In this rapidly changing world, enabled by unfettered digital access, there is an urgent need for Indian retailers to take note of these changes and prepare their businesses accordingly. In this report, A.T. Kearney outlines how retailers need to develop an agile and collaborative value chain to future-proof their businesses against expectations of the connected consumer.

A.T. Kearney's report is aimed at retailers and business leaders who want to put their fingers on the pulse of the connected consumer and understand the trends that will shape the Indian retail value chain. Through global best practices, consumer and retailer surveys, in-depth CXO interviews, and cutting-edge analysis of the nation's consumer retail market, we have defined five trends that will shape the retail value chain in the coming years.

Our report covers all aspects of the value chain – from supplier collaboration to digital enablement of the salesforce – and lists the steps retailers can take to succeed in this rapidly transforming Indian landscape.

Abhishek Malhotra
Partner, Consumer Products and Retail
A.T. Kearney

Subhendu Roy
Partner, Consumer Products and Retail
A.T. Kearney

Digitization will result in profound changes for the Indian retail industry

Emergence of ecommerce channel	Increasing customer reliance on digital	Enhanced digital focus by retailers
• **4 ecommerce unicorns** (startups with valuation > $ 1bn)	• **38%** of consumers look for **digital touch-points** while shopping	• **15%** expected YoY **growth in IT spend** from 2015 to 2020
• **85% YoY growth in** ecommerce revenue in last 3 years	• **76%** of customers use **online price comparison**	• **13%** share of **digital marketing** in total marketing spend
• **~USD 55bn** expected e-tail spend in 2020	• **90%** of customers who buy online will **purchase again**	• **70%** of leading retailers are present in both **online and offline channels**

Source: Research Databases, Press Reports, A.T. Kearney Google Report 2016, A.T. Kearney analysis

Exploding internet penetration and technology advancement has rapidly shaped purchase behavior of Indian customers. The customers are open to trying new experiences and are increasingly engaging with retailers through digital channels.

As a response to changing customer behavior, retailers are driving digitization across the organization. Majority of retailers are enhancing presence across channels. They are also focusing on improving their IT infrastructure and building analytics capability in their organization.

At the same time, retailers are also thinking of revamping their operating model and developing a collaborative and agile value chain to cater to the needs of connected customers and accelerate response to fast changing market dynamics.
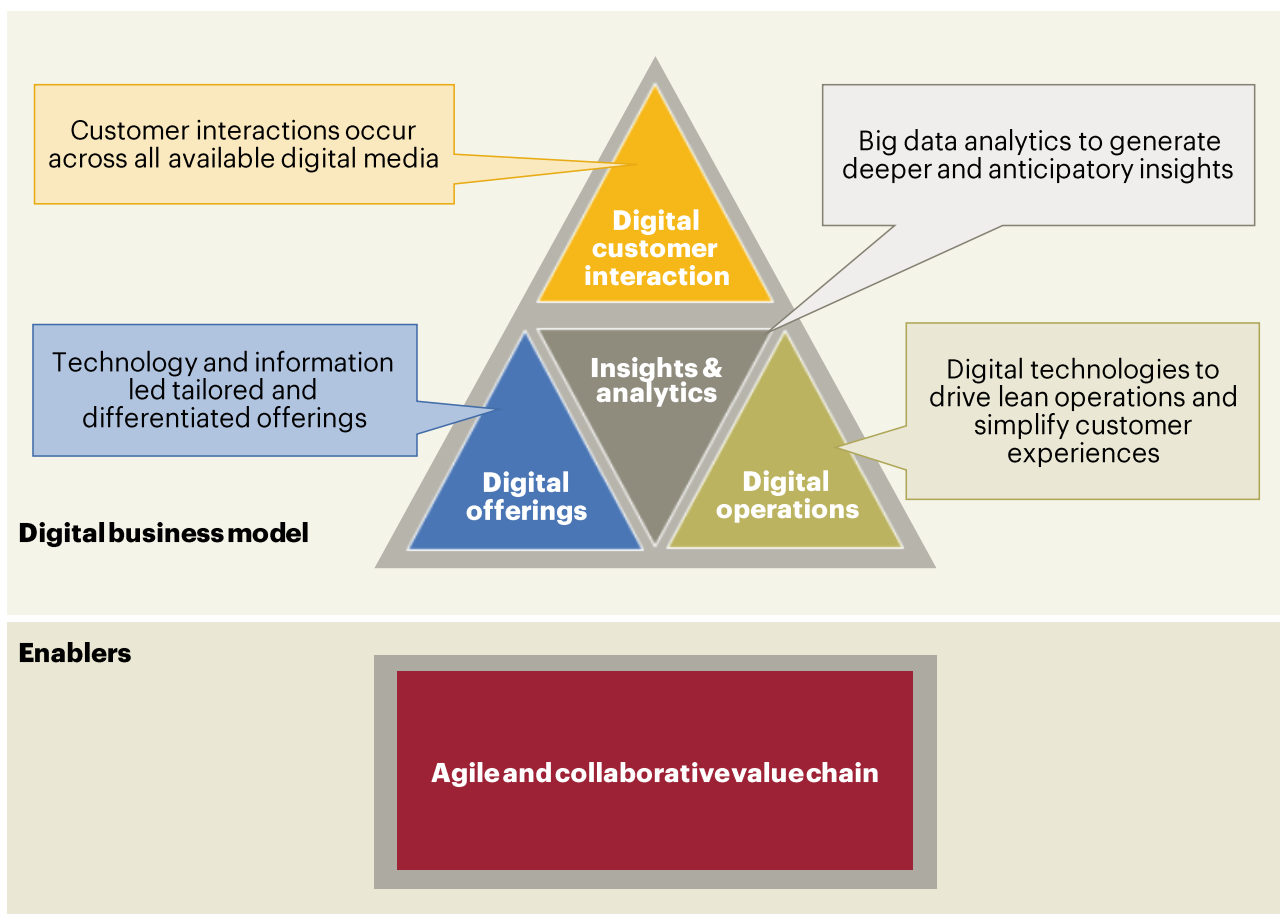
Customer shopping behavior is changing with increased connectivity

	Inform	Browse	Buy	Fulfill	Service
Change in customer behavior	• Use of **multiple information sources** • Strongly **influenced by social trends**	• **Discerning** about product & service offerings • Process **more information** before choosing	• **Make rapid transitions** across channels to complete a purchase • Seek **higher convenience** during shopping	• Demand **flexibility** in delivery modes • Expect **quick turn-around time** for deliveries and returns	• Desire **connectivity anytime and anywhere** with retailers • Propensity to **share and amplify feedback**
Imperatives for retailers	• Ensure **consistent messaging across channels** • **Increase customer engagement** in information process	• **Customize recommend-ations** • Increase **assortment width and quality**	• Provide seamless **omni-channel experience** • **Simplify in-store shopping experience**	• Develop **flexible delivery systems** • Build **responsive supply chain**	• **Improve responsive-ness** to customer feedback • Provide **differential service levels**

Source: A.T. Kearney analysis

Retailers need to adapt their business model in this era of digitization

A.T. Kearney digital framework

Customer interactions occur across all available digital media

Big data analytics to generate deeper and anticipatory insights

Digital customer interaction

Insights & analytics

Technology and information led tailored and differentiated offerings

Digital technologies to drive lean operations and simplify customer experiences

Digital offerings

Digital operations

Digital business model

Enablers

Agile and collaborative value chain

Source: A.T. Kearney analysis

7 steps are needed to win over connected customers

Customer purchase lifecycle			
Inform	1	Communicate **authentic value proposition consistently** across all channels (digital/physical)	
	2	Design highly **personalized and interactive** marketing campaigns	
Browse	3	Customize **assortment and promotions** based on customer needs and shopping history	
Buy	4	Enhance **customers' end-to-end shopping experience** through use of technology	
	5	Deliver **seamless shopping experience** across channels	
Fulfil	6	Expand **ecosystem partnerships** to interact with 'connected' customers	
Service	7	Increase **two-way engagement** with customers through **digital channels**	

Source: A.T. Kearney analysis

A.T. Kearney's 2016 paper Retail in the Era of the Connected Customer identified 7 steps retailers should take across the customer purchase cycle to win over connected customers.

To achieve this, Indian retailers will need to build an agile and tightly connected value chain to deliver a seamless experience to the customer. Retailers will have to improve collaboration across the value chain in terms of Infrastructure, People, Processes and Systems, while using the right technology options.

Retailers need to build an agile and collaborative value chain to cater to connected customers

Agile and collaborative value chain framework

1	• **Assortment selection** • **Demand estimation** influenced through **pricing** and **promotion** • **Alignment with key stakeholders** within and outside organization
2	• **Supplier selection** and **development** • Product **procurement** • **Logistics** and **supply chain**
3	• **Product placement** • **Shelf availability** • **Sales team capability**
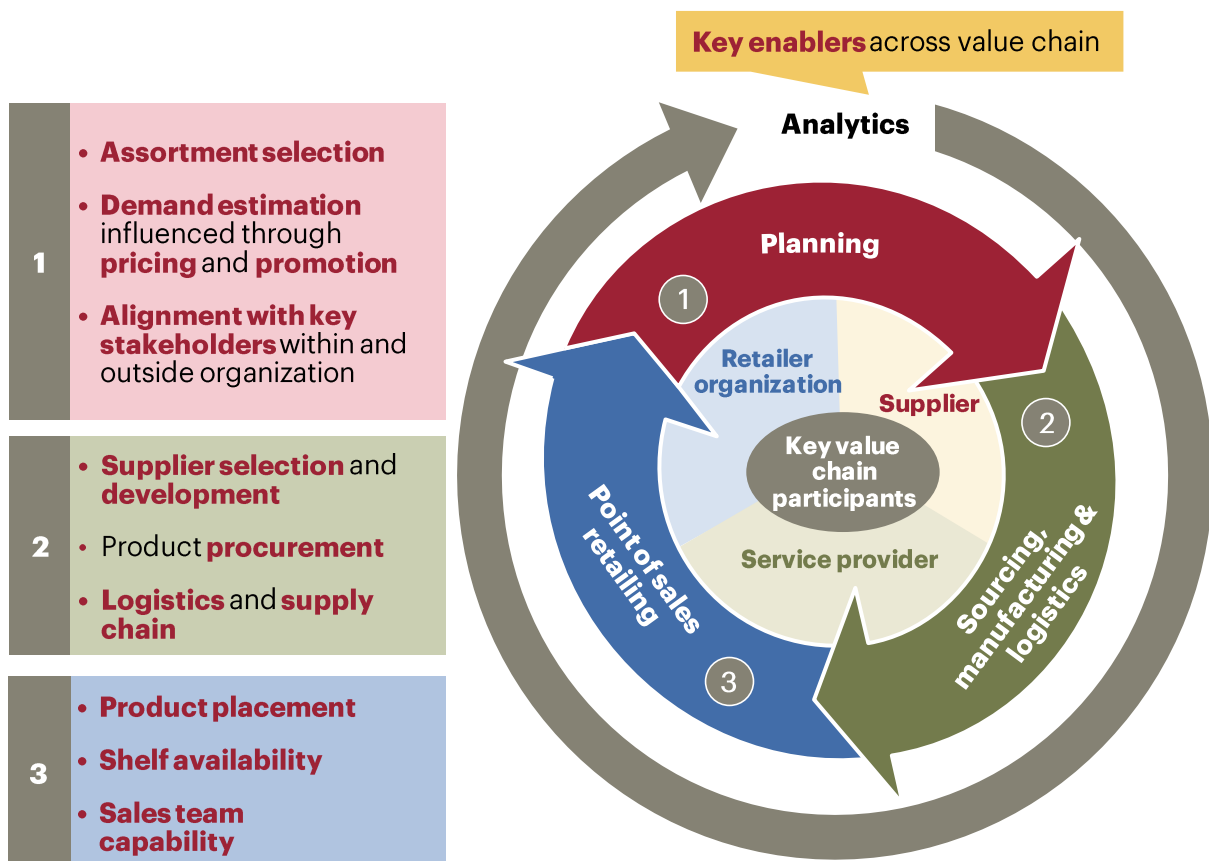
Source: A.T. Kearney analysis

To achieve excellence across the value chain and to cater to today's tech-savvy connected customer, retailers need to focus on:

- Strong **collaboration with suppliers** in planning and procurement

- **Partnership with service providers** to deploy right technology and infrastructure across value chain

- **Capture & analyze data** to ensure data-driven insights are made available to stakeholders within and outside the organization

Five big themes exist for retailers of all hues

Planning

1	Big-data decision making for assortment, pricing and promotions

Sourcing, Manufacturing & Logistics

2.A	Collaborative and responsive supply chain
2.B	Upstream integration in the value chain (into design, source, make)

Point of Sales Retailing

3.A	Real time collection, analysis and use of PoS data
3.B	Digitally enabled sales force

Source: A.T. Kearney analysis

1. Big-data decision making for assortment, pricing and promotions

- With exponential growth in use of digital devices across various customer touchpoints, retailers are confronted with large quantities of unstructured data from social media, Internet, PoS etc.

- The velocity of data generation and its free form nature makes it difficult for conventional analytics platforms to store, manage, process and analyze the data

- As per the A.T. Kearney-RAI 2017 retailer survey, 71% of Indian retailers believe that advanced data analytics (including big data analytics) will be an important capability in retail in the next 3-5 years

- However, currently less than 50% retailers leverage analytics for predictive modelling (e.g. demand forecasting, purchase behavior prediction)

- Current challenges are the cost of complex analytics platforms, capability gaps in internal teams and data quality issues

Using data analytics
(% of respondents selected highlighted option)
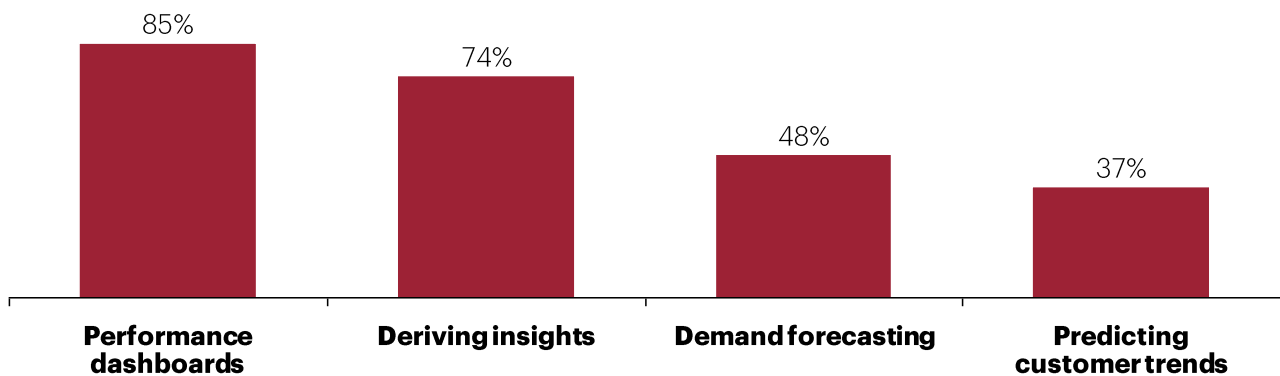
Source: A.T. Kearney – RAI retailer survey 2017

"Usage of big data analytics is still at a nascent stage in India but is expected to evolve comprehensively in next 4-5 years."

Head, Leading Indian Multi-format Retailer

"We run targeted promotions based on insights derived from customer data. For example, we have different promotions for weekdays, weekends and during new product launches."

CMO, Leading QSR

Data capture, analysis and action enablement

| Data collection from multiple sources | Big data retail analytics | Customized retailer offerings |

Social Media   Internet

Point of Sales   In-store Experience

Email   Mobile

Demand cyclicity

Local preferences

Historical promotion campaign results

Price elasticity & discount responses

...

MPP (Massively Parallel Processing) Architecture for predictive analytics

Assortment

Localized & Personalized Offerings

Pricing   Promotions

Generation and capture of sales and customer data

Source: A.T. Kearney analysis

Select case studies

Macy's

- Macy's adopted customized big data solution to analyze operational performance data (out-of-stock rates, sell-through rates), SKU level sales data and customer details:
  – Created personalized assortments for each customer at each location
  – Hyper targeted direct mailers (including 500,000 unique versions of a single mailing)

Future Group, India

- Partnered with a global analytics firm for implementing analytics solutions to reduce stock outs, customer churn and lead time
- Used an off-the-shelf solution for optimizing assortment performance and price realization by real time analysis of store data

DinoSol

- Deployed an advanced inventory planning and retail demand forecasting solution across all its convenience stores in Spain
- Helped create localized assortments to appeal to specific regional customers

Key steps for Indian retailers

- Capture all streams of data accurately (customer shopping history across channels, in-store behaviour through low-cost IoT sensors, PoS sales data)
- Deploy a customized big data analytics platform based on need, complexity and budget
- Use an iterative approach to execution of customized marketing, promotions and assortment (deploy, capture feedback, quickly improve and repeat this process)

2.A. Collaborative and responsive supply chain

- As connected consumers' expectations evolve rapidly with the proliferation of products and channels, retailers will need to streamline supply chains to reduce replenishment time, stock-outs and support greater assortment width

- Most retailers are not equipped to independently manage these supply chain challenges and will need to collaborate with suppliers and technology partners

- According to the A.T. Kearney-RAI 2017 retailer survey, only 30% retailers currently collaborate with their suppliers; 65% retailers believe that collaboration is being hindered due to lack of technology platforms and lack of intent from suppliers

- Retailers will need to leverage efficient IT platforms which allow for real time store-level data sharing, material movement visibility and coordinated communication with suppliers / technology providers

- Based on investment budget and scope of requirement, retailers could either opt for sophisticated customized solutions or more economical off-the-shelf products

Benefits for retailers in collaborating with suppliers / service providers

(% of respondents selected highlighted option)

Low inventory & safety stock levels	Improved production planning	Improved shelf utilization	Accurate demand forecasting	Improved promotion effectiveness
74%	69%	65%	65%	61%
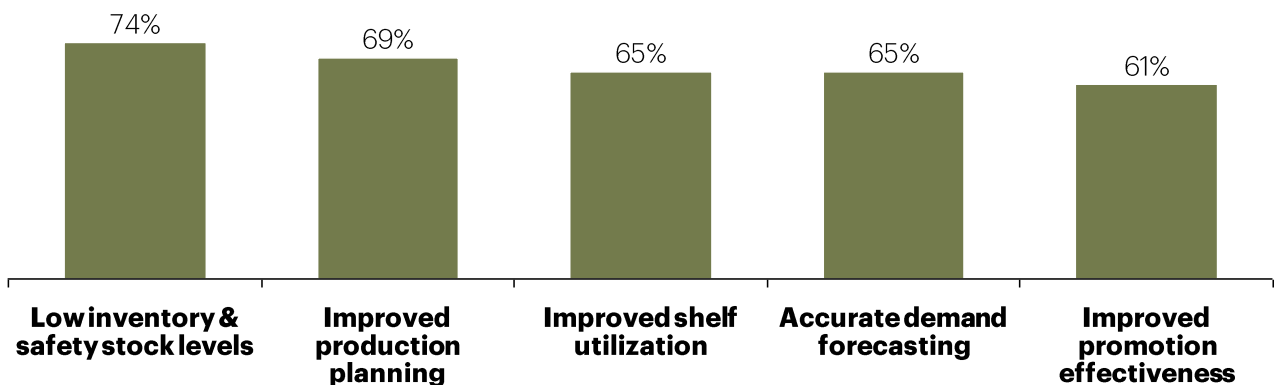
Source: A.T. Kearney – RAI retailer survey 2017

"For our top suppliers, we have an electronic data interface which synchronizes our data with the supplier's ERP data. This system has enabled us to control our inventory levels."

Head of Finance, Leading Cash & Carry Retailer

"With our key suppliers, we share 3 months demand forecast, have quarterly joint business reviews and our R&D team works very closely with them on innovation."

CMO, Leading QSR

Collaboration between retailers and suppliers / service providers
(% retailer respondents)

27%	12%	31%	23%
73%	88%	69%	77%
Data sharing	Infrastructure sharing (e.g. warehousing)	Joint business planning (incl. promotion campaigns, demand forecasting etc.)	Collaborative innovation (innovation related to promotions, assortment etc.)

■ Strong collaboration ■ Weak collaboration
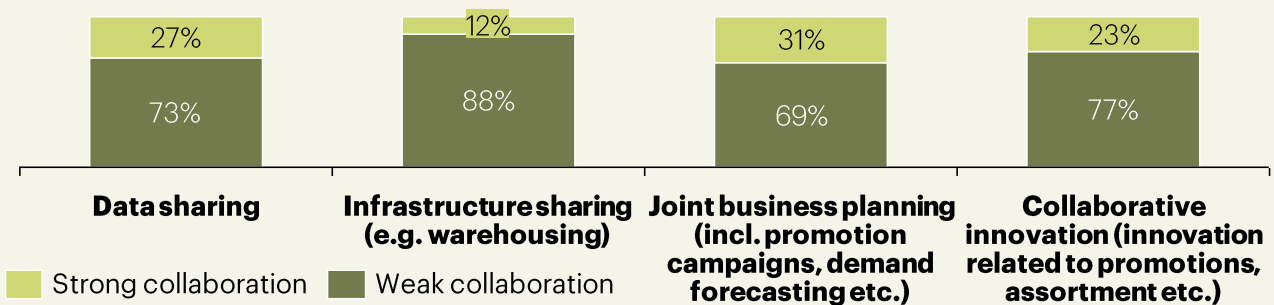
Challenges to collaboration with suppliers / service providers
(% retailer respondents)

65%	65%	35%	35%	35%	23%
Lack of appropriate technology platforms	Lack of intent from suppliers / service providers	Trust issues	Lack of management focus	Human resource related capability issues	Financial constraints
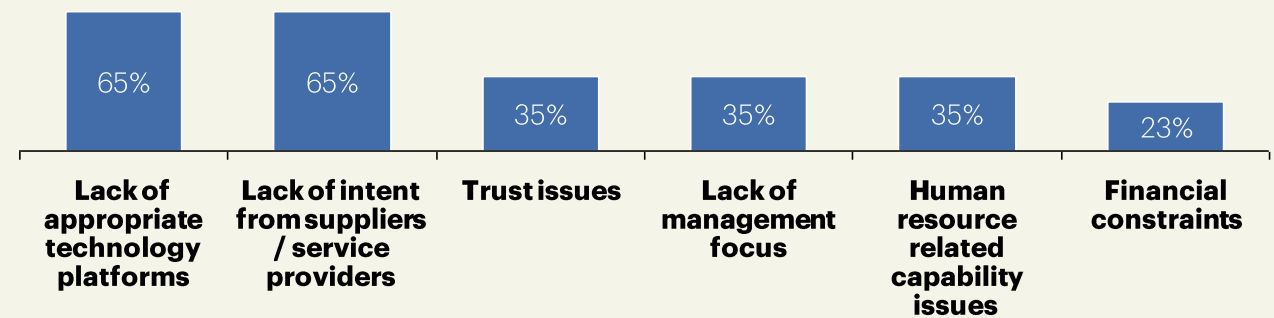
Source: A.T. Kearney – RAI retailer survey 2017

Retailer supplier collaboration

Retailer data		Product availability
Market data	**Retailer – supplier collaboration platform**	Logistics visibility
Customer data	Data storage & sharing / Data analytics	Improved assortment "freshness"
Supplier data		Joint business planning
		Inventory control

Source: Analyst reports, A.T. Kearney analysis

Select case studies

Kroger

• Collaborated with global cosmetics maker, Maybelline, using IT collaboration platform

• Real-time sharing of inventory data, POS data and promotions related data between Kroger's internal team and Maybelline

Metro Shoes, India

• Deployed in-house software to enable material movement visibility to suppliers from suppliers' premises to stores

• Suppliers able to view sales data by different product attributes (such as size, color, etc.)

Walmart

• SPARC (Supplier Portal Allowing Retail Coverage) – Walmart Supplier Portal

• SPARC provides real-time insights on product performance (category and SKU level) for in-store transactions simultaneously to both store managers and suppliers

Key steps for Indian retailers

• Be more open in sharing information with strategic suppliers and service providers

• Setup a cloud based collaboration platform for data sharing, which will help facilitate analytics and joint planning

2.B. Upstream integration in the value chain (into design, source, make)

- Faced with the task of offering a standardized omni-channel experience, retailers need to respond to customer demands in an ever shrinking timeframe

- This creates the need to compress the retailer - supplier - service provider communication loop while simultaneously driving lower costs

- Retailers can gain greater control over the value chain through product sourcing, private label manufacturing and building capabilities in design

- 70% of Indian retailers believe that this will help improve production planning, 65% believe that it will improve shelf utilization and 75% say that it will reduce inventory levels

The need for integration
(% of retailers who agree collaboration with suppliers exists)

| 27% | 12% | 31% | 23% |
| Data sharing | Infrastructure | Joint planning | Innovation |
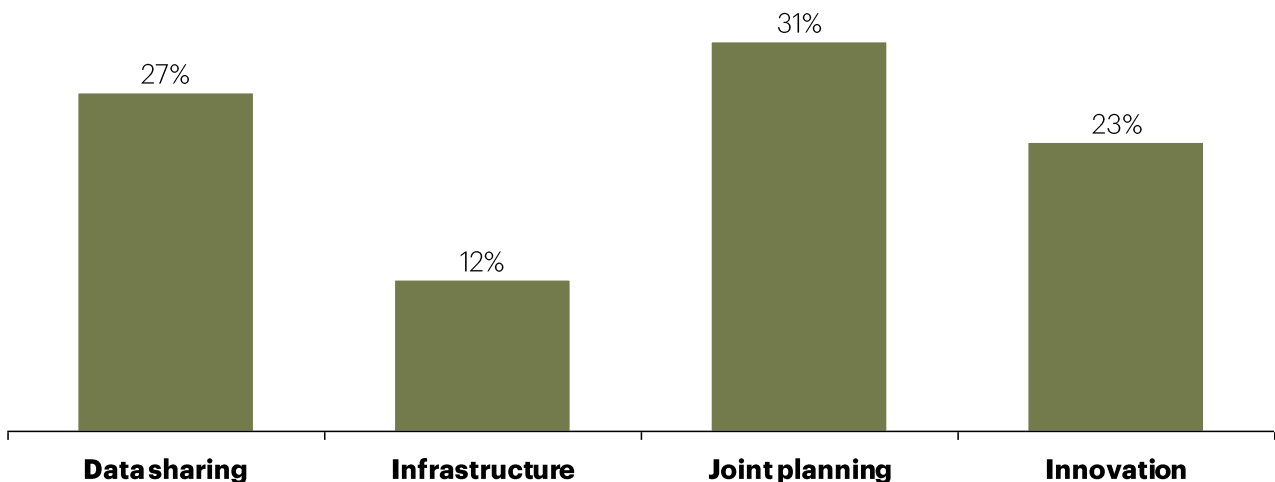
Source: A.T. Kearney – RAI retailer survey 2017

"Vertical integration has to be carefully employed. If immediate responsiveness to customer trends is the only focus, brands can lose sight of what their products stand for."

MD, Leading Clothing Retailer

Emerging retail value-chain trend

| Design | Source | Make | Distribute | Sell | Deliver |

Upstream Integration

←

Retailers

Forward Integration →
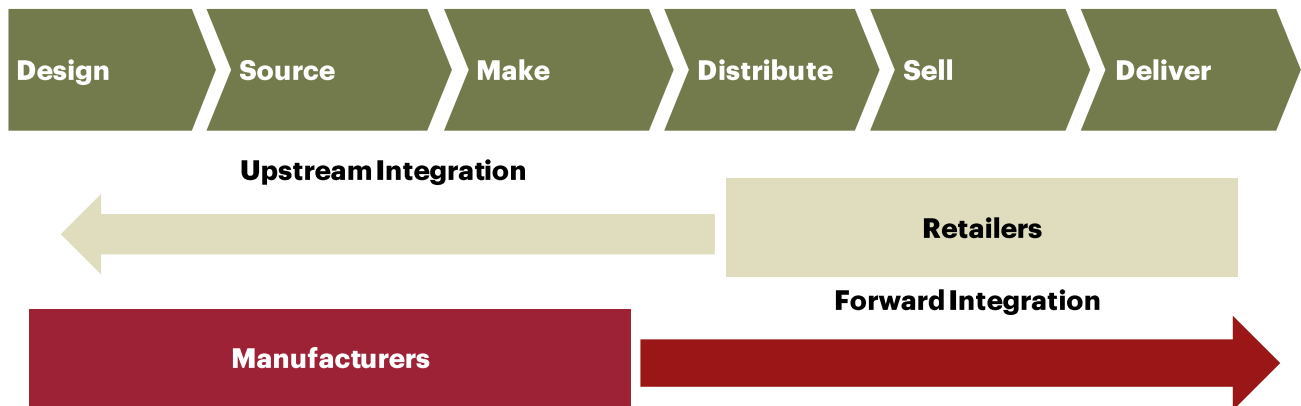
Manufacturers

(1) Adopt manufacturer mindset in private label (2) Develop segmented supply chain

Capabilities that a retailer needs to build for upstream integration

- Product development and component sourcing
- Lifecycle management
- Should-costing, benchmarks
- Manufacturing and contract-manufacturing

- More sophisticated inventory deployment
- Managing more on-hand inventory

Source: A.T. Kearney analysis

Select case studies

Café Coffee Day (India)

- CCD is India's first and largest integrated coffee company – vertical integration helps them drive costs down and maintain quality
- CCD engages in everything from manufacturing to retail – from owning plantations, to growing coffee, making coffee machines and even their own furniture for the outlets

H&M

- Entered into designing (400 in-house designers expanding latest trends into H&M collections), planning & controlling (20 production offices to control logistics and distribution) to transform new styles into collections
- Led to very quick turnaround time (2 weeks)

Morrisons

- A vertically integrated business model and efficient processes enable Morrisons to drive out waste and offer customers great food at "affordable" prices

- Off-the-shelf IT solutions were implemented across the end to-end supply chain — integrating the business from manufacturing through the store

Key steps for Indian retailers

- Extend own capabilities in design, sourcing and manufacturing through partnerships and close supplier collaboration

- Adopt a segmented supply chain approach customized for different product categories

- Use downstream customer data to improve upstream value chain performance (e.g. tailored design, right sourcing choices, right product specifications)

3.A. Real time collection, analysis and use of PoS data

- Today's customer expects a seamless experience across all channels; however, retailers struggle with providing an in-store experience that matches the convenience of online

- Typical challenges faced by retailers include stock-out of popular SKUs and ineffective pricing & promotions

- >95% retailers rely on data driven decision making, but PoS capture is still relatively basic

- Effective collection, analysis and usage of PoS data will ensure retailers are monitoring all store activity in real time, which can in-turn help deliver a better customer experience

Importance of PoS data

(% of retailers that employ data driven decision making)

70%	26%	4%

■ Significantly   ■ Moderately   ■ Somewhat   ■ Not at all
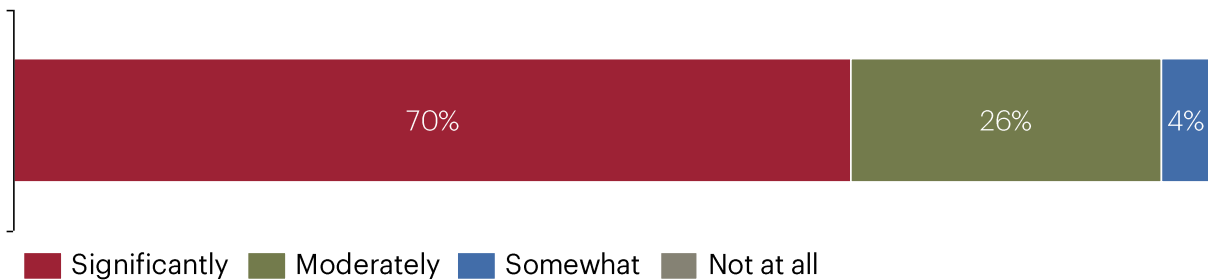
Source: A.T. Kearney – RAI retailer survey 2017

"Most QSRs currently capture PoS data only through manual processes; automation is required."

CMO, Leading Indian Food Chain

"PoS data capture & beacon technology can help make personalized recommendations to 100% of in-store customers within the next 2-3 years."

MD, Leading Clothing Retailer

The ideal PoS data journey

1 Integrated data collation (offline and online) and data mining

2 Advanced data analytics to generate consumer / product insights

PoS data capture

4 Dynamic decision making by multiple org. verticals
• Merchandizing, marketing, operations etc.

3 Define / Enhance value proposition
• Pricing & Promotions
• Customer experience
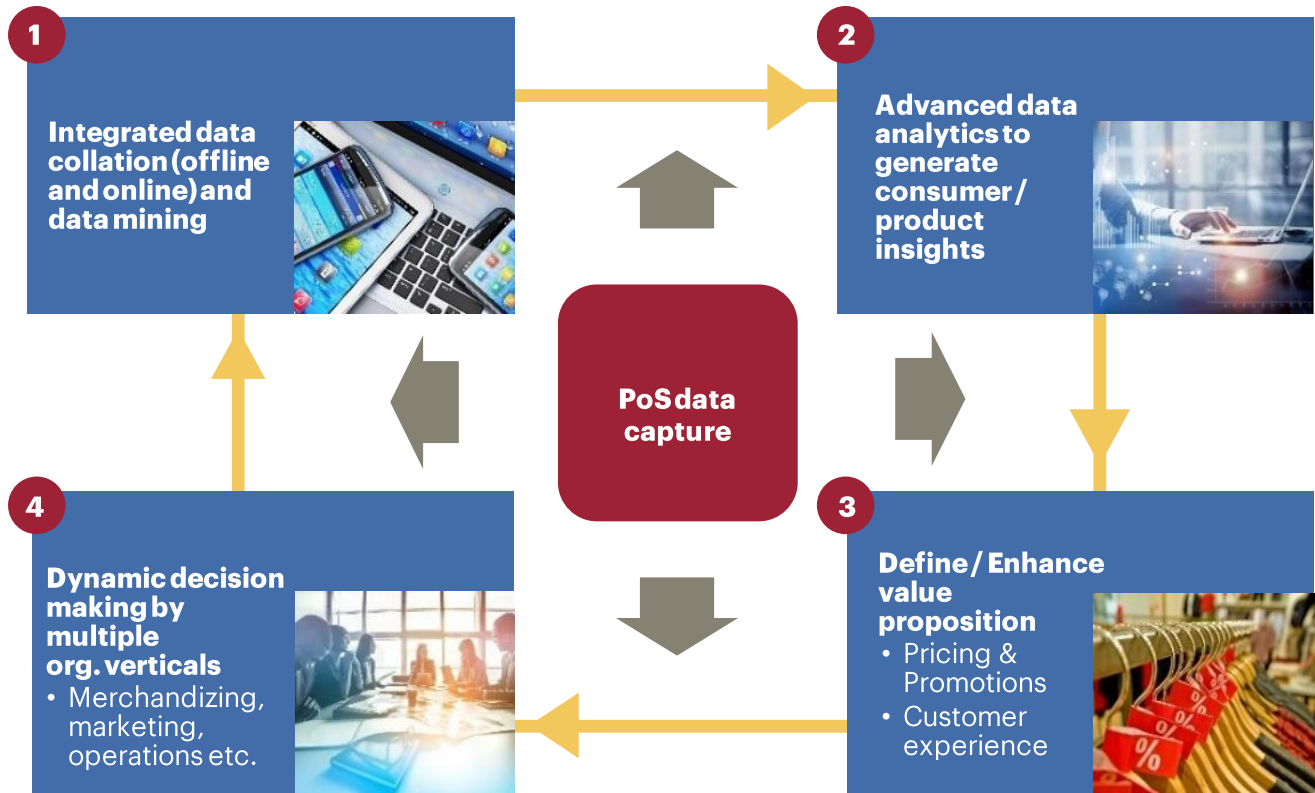
Source: A.T. Kearney analysis

Select case studies

XCVI

• Uses mobile PoS solution, dashboards and reporting capabilities to access real-time, actionable PoS data on store performance, customer behavior and inventory

• A centrally-controlled inventory system ensures standardization across all stores and therefore greater efficiency

Paul Smith

• Deployed cloud technology to permanent stores where the staff can access real-time stock information at a store level, as a live picture, resulting in 90% greater visibility

• Better data flow between the PoS and ERP systems allow for 100% accurate hourly syncing of information

LUSH Cosmetics

- Deploys BI tool across the organization, which is used by multiple teams
  – Provides hourly updates to employees on the shop floor
  – Accounts get real time data on sales, ledgers and petty cash amongst others
  – Big data allows manufacturing to facilitate orders between the factory and shops
- Benefits include better stock management, process adherence and sales upside

Key steps for Indian retailers

- Move from passive PoS data capture to active real-time processing of PoS information
- Synthesize PoS data and deliver real-time insights through a mobile app to store teams (e.g. dynamic offer suggestions, stock replenishment warnings)
- Partner with the right technology providers to unlock innovative use of PoS data

3.B. Digitally enabled sales force

• The number of omni-channel shoppers is increasing rapidly in India; expected to grow by over 3X to ~175 million by 2020

• Due to the convenience offered by the online channel, such customers will increasingly turn to stores only if they receive a powerful and differentiating experience (e.g. in the form of a strong and knowledgeable salesforce)

• Expectations from in-store shopping now include being able to look up product information, offer feedback and receive personalized recommendations based on past shopping behavior

• Equipping retail salesforces with the right digital tools can help retailers fulfill most of these expectations

• Salesforce loyalty and low attrition can help improve customer connect without having to invest in unproven technology

Need for in-store technologies
(% of retailers that believe their resultant capabilities are necessary)

85%	81%	74%	70%	67%
Real time access to product information	**Real time access to inventory across stores**	**Place orders located in other stores / DCs**	**Orders via mobile POS**	**Make personalized recommendations basis past behavior**
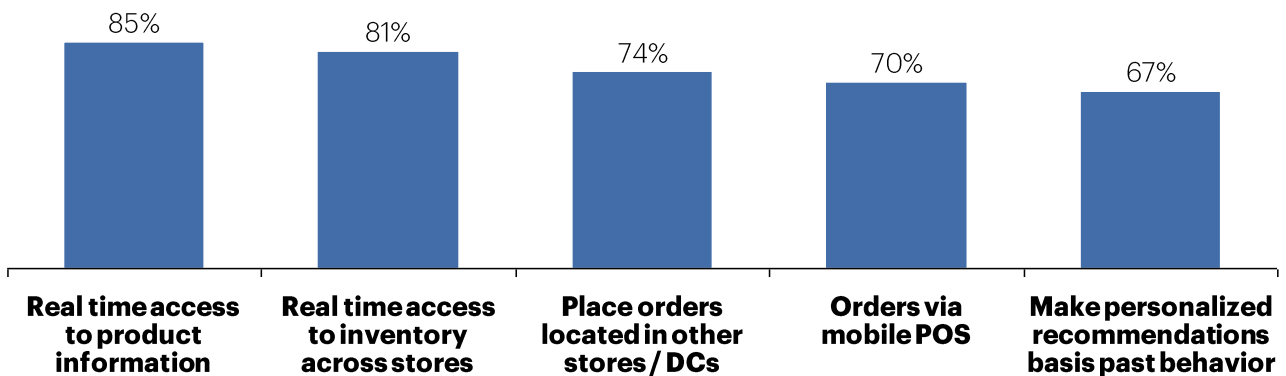
Source: A.T. Kearney – RAI retailer survey 2017

"Feedback system is currently a questionnaire available on the online website, and customers are offered discounts to fill it. However, it's rarely used and most complaints come through social media."

CMO, Leading QSR

"Stores are selling increasingly through visual contact rather than verbal. Everything has to be digitized in order to tell the brand story."

MD, Leading Clothing Retailer

Digital enhancements in 2016　　　　　　　　　**Implemented by ...**

In-store multichannel shopping:
Use in-store computers (iPads) to view and buy extended ranges

...fashion stores of all kind

In-store digital customer care:
Login to in-store Wi-Fi with your mobile or at the in-store computer to get access to detailed product information, recommendations or special offers

....wholesalers and retailers (e.g. eatitaly.com)

In-store digital marketing:
Use online or mobile coupons for in-store shopping

..bars, restaurants, food-corners (e.g. McDonald's; ...)

Source: A.T. Kearney analysis

Select case studies

Walmart

• The Walmart app, MyProductivity, feeds real-time information to sales associates to help them find particular products, and is available to every member of its in-store team

• With MyProductivity, managers can take care of business right on the sales floor – including restocking specific items, accessing real-time data, and answering customer questions

Levi Strauss & Co.

• Levi's uses an off-the-shelf analytics solution from a leading IT firm to help salespeople quickly find misplaced items in a store and ensure those items are back on the shelves

• The solution incorporates RFID tags, in-store sensors, a gateway system, and cloud-based analytics built on TAP

Lowe's

- Lowe's has distributed 42,000 iPhones to its sales staff to enable real time check of in stock units, location of articles and purchase history of consumers

- Lowe's salesforce can seamlessly coordinate inventory across stores, manage misplaced items and make personalized recommendations to their customers

Key steps for Indian retailers

- Deploy only a select set of tools that truly have an on-ground impact - e.g. item tracking, customized offer generation, real-time inventory tracking

- Feed real time information to sales associates through hand-held device(s)/ mobile apps

- Invest in training and retaining your sales staff - they are your key assets

![AT Kearney logo]

Authors

Abhishek Malhotra
Partner,
Consumer Products and Retail
Mumbai

Subhendu Roy
Partner,
Consumer Products & Retail
New Delhi

Kaushik Sriram
Principal
Mumbai

Karan Dhall
Manager
Mumbai

Further Reading

A.T. Kearney has published other reports on topics related to 'connected customers' and retailer strategies in an increasingly digital world.

Our reports offer unique, in-depth, forward-looking analysis of major issues for business leaders, helping them make the best decisions in an increasingly global world.

Retail in the Era of Connected Consumers

Joint A.T. Kearney and RAI report - Perspectives on how Indian retailers can win in today's world of connected customers

Digital Retail in 2020: Rewriting the Rules

Joint A.T. Kearney-Google India report – how retailers can tap into digital technologies to boost mind-share and market-share

10 Steps to Reach Online Sales Excellence

A guide to boosting the digital retail channel

Sleepless in India

How Retailers and Product Manufacturers Can Embrace E-Commerce

Connected Customers Are Not Created Equal: A Global Perspective

Continuous connectivity is both an opportunity and a threat for brands and retailers

Capturing the Online Grocery Opportunity

How can food retailers win in this fast-growing market?

Back to the Basics in Omni-channel Retailing: Delighting Your Customers

Forward-thinking retailers understand the changing nature of demand and adjust to deliver a consistent experience across channels

Global Retail E-Commerce Index

A comprehensive ranking of countries on their online market attractiveness

Global Retail Development Index

A comprehensive ranking of countries on their market attractiveness, country risk, and market saturation

ATKearney

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