

Changing paradigms in the Indian consumer goods sector – imperatives for CPG companies



Consumer goods sector in numbers - India

India's Consumer Goods industry is at an inflection point. While the heterogeneity and diversity in the Indian CPG market have always posed challenges, structural changes are creating tectonic shifts in market dynamics. This document explores this aspect and allows organizations to prepare for the future (which is already upon us.)

The FMCG sector is the fourth largest sector in the Indian economy. With respect to the segment-wise distribution, household and personal care products account for 50% of the pie, while healthcare and food and beverage are 31% and 19% respectively. Urban households account for 55% of the total FMCG market in India, with the market size expected to grow at a CAGR of 14% between 2020 and 2025. Consumer spending in India is likely to reach US \$3.6 trillion by FY'22. Private consumption expenditure (at constant prices) was estimated at US \$1.18 trillion in FY20 against \$1.12 trillion in FY19.¹

Structural shifts in the consumer goods sector - Trends & outlook

Based on our research, the following trends are taking center stage with respect to the strategies adopted by consumer goods sector leaders to garner not just market share but also their customers' mind-share (the battle lines are drawn here very clearly).



Millennials and Gen Zs have become the most important cluster of 'target customers' for most brands. Retail and FMCG companies are exploring ways to evolve 'business models' by creating consumer-centric experiences driven by digital transformations. Social commerce, communities, and hangouts are few examples of newer areas in which companies are mining data for decision making.



Creating and managing 'power brands' has become a strategic area of focus for companies.



There is a massive rise in health awareness and lifestyle management in India. More than ever before, consumers are conscious of what they eat and how they look and are focusing on healthier diets. So, companies are focusing on 'accelerated' new product launches in the health, wellness, safety, and hygiene baskets to beat the competition.



There is a radical reshaping of distribution channels with e-commerce and direct-to-consumer, enabling sales growth acceleration. Companies are piloting 'last-mile' connectivity and 'omnichannel' models for better penetration and reach. Nasscom, in one of its recent studies, called this the retail 4.0 or O+O model – Offline+Online.



Another important and visible trend is the significant increase in the demand for branded products in rural India. The rural FMCG market is expected to grow at a CAGR of 10 percent over the next five years. Multiple factors are contributing to this trend such as increasing rural consumer awareness, access to information and services, and outreach activities by FMCG companies.



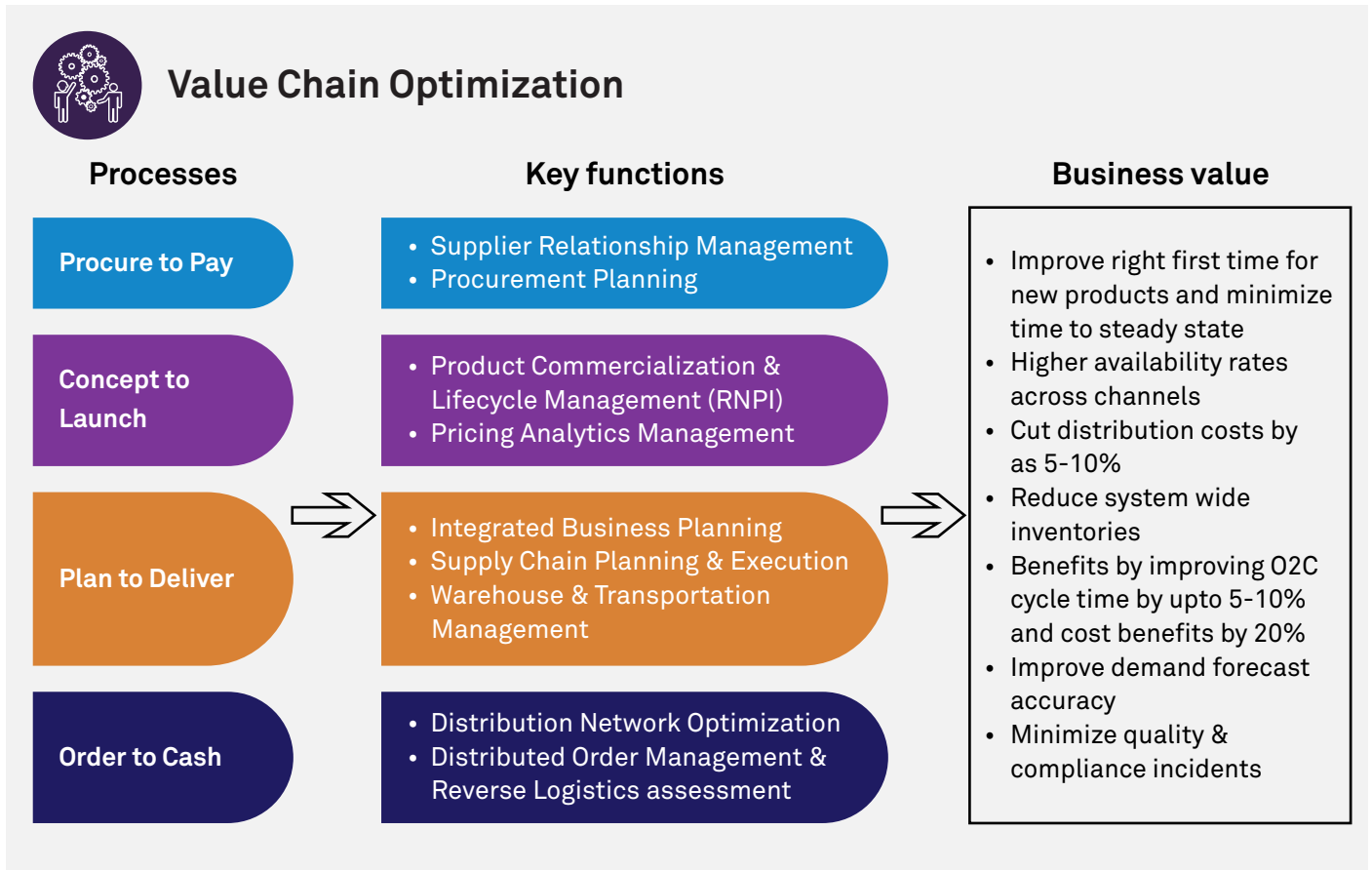
Supply chains are being redrawn, driven by outcomes delivered through value-chain optimizations. Whether it's getting connected with global supply chains or integrating 3PLs/4PLs, digital demand planning platforms and intelligent solutions (AI/ML-based) are accelerating these transformations.



ESG – Environment, Social, and Governance is becoming a critical theme to Corporate Social Responsibility (CSR). Customers are paying closer attention to activities that companies undertake globally (and in India too), which is having a direct impact on corporate brand building and messaging.

Transformation Themes

While organizations have traditionally focused on process efficiencies and automation, optimizing value chains and enabling them to sustain the true value of transformation through reducing risks is gaining a lot of traction. At Wipro, we have worked with global CPG and retail customers to design high-impact process transformations with a clear focus on generating business value acceleration and outcomes.



Wipro has gained extensive experience in working with global marquee clients to provide end-to-end solutions across the value chain. Examples of this include New Product Designs, reimagining retail experiences, new processes orchestrations and digitization, defining newer Routes to Markets, designing Intelligent Demand and Supply planning (AI/ML based solutions), and creating Smart Manufacturing solutions with Industry 4.0 rollouts. With the continuously changing consumer behaviors, market dynamics, and technology landscapes, the need for innovation is higher than ever.

Let's take a look at a few themes which are propelling the transformations:

Direct-to-Consumer: From cosmetics and fashion to consumer durables (e.g. electronic items) including luxury goods companies, CPG and retail companies are embracing faster route to consumer. D2C involves selling directly to your end customers via your own e-commerce platforms or through marketplaces. The benefits are many - streamlined sales, reduced overheads, and an engaging experience to build your brand online and receive valuable customer insights. Companies are building immersive D2C platforms, enabling integrated fulfillment and assortments planning while managing partners (3PL, trading partners, etc.) Wipro helped an iconic denim jeans brands streamline their D2C order management capabilities,

leading to near real-time inventory flow and daily inventory sync and improved inventory accuracy. One inventory view of the enterprise increased order promising, reduced cancellations to less than 5%, as well as reduced lead time in business issue resolution. The project involved the implementation of Manhattan Associates Enterprise Order Management software for its D2C business.

Omni-channel fulfilment: For brands, creating seamless CX (customer experience) across online and offline channels has become extremely important since this is what's expected by the nextgen. This requires unified and collaborative efforts across channels. End-to-end visibility of transactions from purchase to delivery - including inventory management, order management, and shipping management is also paramount.

Wipro is working closely with a leading American multinational corporation which is involved in designing, manufacturing, and marketing footwear, apparel, equipment, accessories and services to enable a global omnichannel strategy for the client. The company upgraded its technology to build a flexible supply chain, improved order allocation, and fulfillment by system integration and drive better business visibility via dashboards. This led to an 18% increase in e-commerce revenue, 13% increase in order value, significant improvement in new customers, a reduction in cancellations from 15% to <2%, and a reduction in undersell as well as better inventory visibility across systems.

E-commerce fulfillment automation: During FY'21, e-commerce business contributed 5% - 10% of FMCG sector leaders' sales, accelerated by the pandemic. Many companies are targeting to grow this figure to 15% - 25% over the next three years. Challenges abound in trying to meet these goals. Selling products through e-commerce platforms, multiple brand websites, and marketplaces are making order fulfillment processes a complex issue. This is also impacting fill rates. Automation of the end-to-end process can streamline the process while reducing lead times and increasing fill rates. This can be enabled through integrating the trading partners via EDI, APIs as well as automating order receipts, inventory feeds and allocation, shipment notices, invoices, and more.²

Wipro has worked extensively with one of the marquee Indian consumer goods majors to automate the company's e-commerce fulfillment process. This covered everything from purchase orders to invoicing automation - POs received from marketplaces such as Amazon and Flipkart to inventory allocations, SO processing, and dispatching. All of this was enabled

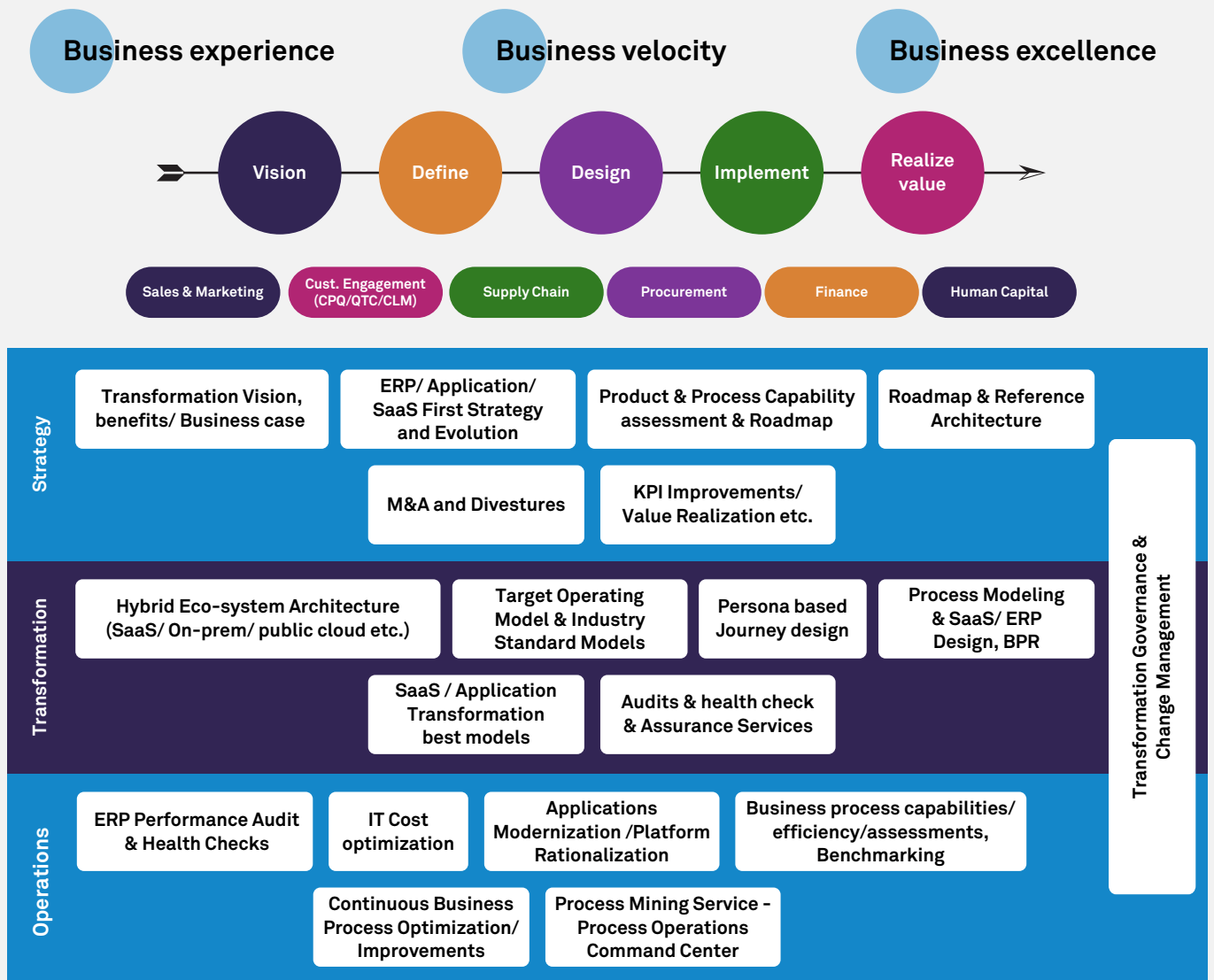
through Wipro's IP platform, integrated with both third-party marketplace systems as well as backend ERP. The realized benefits included improved fill rates, leading to higher e-commerce sales and a significant reduction in TAT (lead time to fulfill).

General Trade route-to-market acceleration: For most consumer goods companies in India, general trade contributes upwards of 80 percent of revenues. Traditionally, this channel has remained a laggard in technology adoption and digital transformations. Over the last three to five years, sector leaders had made significant investments in transformations. Be it 'last-mile connectivity', 'apps for retailers', 'direct retailer orders', 'salespersons route optimization', data analytics and advanced technologies to run algorithms, geo-fencing using sensors and imagery - they are all pressed to service. These are bound to improve retail penetration, effectively track store performance, increase salesforce territory coverage and effectiveness. Wipro uses advanced analytics platforms, IoT, and image analytics solutions to design and deploy the use cases for its clients.

For one of the large dairy clients in India, Wipro piloted an ice cream cart tracking solution using IOT and mobility solutions. Wipro applied its IP solution to help the customer effectively track and optimize the route taken by the carts. As a result, the end customer was able to track the nearest cart and the cart owner was directed to the nearest sales points. This led to reductions in the theft of carts and increased sales through the reduced movement of carts.

Wipro is working with many large and mid-sized FMCG companies in India to manage and support DMS applications. Wipro set up pan-India helpdesk support for one such client, India's largest oral care and personal care products major, for the SAP DMS application implemented at the distributor site to ensure the smooth running of the business. Wipro team manages DMS support for sales, returns, schemes, master maintenance, invoice, payments, claims, and more.

Wipro has rich experience working on transformation and consulting engagements across SCM value chain



Supply chain transformations: Case in point - Predictive inventory replenishment Supply chains are the life lines of all consumer goods and retail companies. Whether it's 'Farm to Fork' (food sector), 'Grain to Glass' (beverage sector), or 'Bush to Brand' (Beauty and Personal care sector), consumer behaviors are changing rapidly. SKU growth becomes unmanageable and the increasing number of sales channels cause supply chains to become highly complex. Challenges such as low life cycles of perishables, the stringent environmental conditions of healthcare products, the fast-moving nature of goods and apparel (i.e. becoming outdated quickly and managing returns) add to this complexity. So do managing orders and inventories across the channels. Companies are trying to solve these challenges by building digital supply chains that are not only 'resilient' but also 'intelligent.' Going beyond 'track and trace', Wipro offers solutions that use data

analytics and AI/ML to create the right models for demand planning, supply planning, S&OP, capacity planning, inventory planning, and warehouse operations management. Digital supply chain towers are enabling end-to-end visibility of entities and transactions across the value chain.

Wipro helped a global apparel company achieve significant cost savings, eliminate chargebacks, and reduce direct labor cost through business process restructuring, technology development on pricing and distribution platforms, and building additional logic to track and block incorrect pricing.

For one leading US retailer, Wipro's forecast method yielded a better result than baseline forecasts, improved the accuracy of weekly sales volume forecasts by 5-10%, and improved revenue by 2-3%.

The above picture depicts the services that Wipro can offer - from vision to value realization. To address low fill rate challenges, maintaining optimum inventory based on analytics - sufficient to fulfill the demand but at minimum cost to the company - becomes critical. Automating the replenishment processes across locations can reduce manual interventions. With effective forecasting, risks to inventory availability can be addressed.

Convergence of urban and rural markets: India's rural economy has come into the reckoning during and post-pandemic - and so has the rural consumer. Some interesting information underscores this point. During the last year, 'rural data consumption' swelled by 400 percent, aided by nearly 100,000 panchayats becoming digitally connected. Today, the number of registered households that subscribe to high-speed internet stands at two million. Data consumption grew from 400 TB in July'19 to 13,000 TB in Jun'21. Ease of access to content creation through mobiles has created new market segments. Companies have taken cognizance of these trends - and are aggressively preparing to engage with this market segment.

The way forward

Organizations realize that there is an interplay of consumer behavior changes, technology evolution, and market dynamics that have a bearing on the design of growth strategies. Challenges around legacy issues and skills gaps weigh in for companies to deal with large-scale transformations. They are adapting the 'learning-on-the-go' model, an agile approach driven by POCs and pilots towards transformation. Technology is no more an enabler but has become central to business strategy as it has a direct impact on KPIs and outcomes. It's imperative for organizations to look to strategic partnerships with technology companies to co-create the future. This calls for the identification of priority areas and purpose, defining themes and use cases relevant to business, and creating roadmaps for transformation with clear outcomes and ROIs. With vast experience working with global consumer and retail majors, Wipro has provided consultative as well as implementation support in this transformation journey.

References

¹[Source: IBEF, Livemint, ET]

²[Source: Indian FMCG cos Annual Reports, Investor presentations and Gartner Report on CPG Industry - 2021]

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