

# Thoughts

Reflexion and Analysis for the Indian Market

October 2018

## Analytics framework for FMCG and Retail Sector



## Foreword

India continues to be the ‘golden land’ for consumer businesses with the expenditure on consumption growing at a healthy 15%. In the largely mixed backdrop of growth in consumer markets across the world, Indian remains a bright spot.

However, despite the obvious potential and promise held by these sectors, the last two years have been challenging for the consumer business with the growth in the rates of packaged goods dipping to single digits. This has been due to sluggish rural demand and the organised retail business being subject to strain because of the growth of the ‘same store’ format across categories. Organised retail has however grown at an overall pace of over 20%, buoyed by the growth of new stores and eCommerce.

On the whole, rapid macroeconomic, demographic and lifestyle shifts in the country clearly point towards exponential growth in the packaged goods industry. These shifts, bolstered by policy and regulatory changes, have the strong potential of taking India towards its goal of becoming the fifth-largest consumer market over the next decade.

India’s robust economic growth and rising household incomes in the country are expected to increase consumer spending to USD 3.6 trillion by 2020, with the maximum consumer spend likely to occur in the food, household and transport and communication segments. India’s share of global consumption is also forecast to expand to more than twice its current levels (to 5.8%) by 2020.

Over the next five years, India’s retail market is expected to reach USD 1 trillion, fuelled by a significant growth in organised brick-and-mortar retail and eCommerce. The eCommerce market is expected to reach USD 125 billion in terms of its Gross Merchandise Value (GMV), growing at the rate of 31%, and it is estimated that the packaged consumer goods sector will grow at the pace of 18% and cross the USD 100 billion mark by 2020.

In the last few years, we have seen several small players take advantage of these trends and create new categories, e.g., cold pressed juices, food tech startups such as Zomato, Ayurveda and natural product players such as Patanjali and specialist eTailers such as Greendust. These new entrants are challenging the dominance and growth of leading market players. Market leaders are taking cognisance of this changing environment and trying to bring their companies out of their comfort zones to capitalise on these opportunities with agility.

**Integration of consumers’ experiences can affect the top line of**



## FMCG and Retail Sector

Consumers' buying behaviour is evolving faster than ever before, with buyers not only expecting seamless services, but also a real experience. Today's consumer is active on social media, and is tech-savvy, information-rich and time-starved. The resulting level of disruption driven by such consumers is unprecedented. Consequently, they expect the world to be at their fingertips, at a place and time of their convenience. They don't go shopping, they shop 24x7. Moreover, they want a shopping experience that is customised to their needs and offers them a faultless experience – online and offline.

The following are some key technology trends that can affect the top line in the FMCG and Retail sector:

- Interconnectivity – it has become a part of life and consumers expect to connect with anyone at any time about anything from anywhere;
- In control – with interconnectivity as their base assumption, consumers have also become adept at controlling the ways in which they interact. They find that their strength lies in association, and this empowers them to drive change tools and technologies that enable a shift in time and place;
- Consumer indulgence – over the next few years, consumer indulgence will be focused on the next new thing and the next best thing. Interconnected shoppers will have access to tools to easily discover, filter and try the next new thing at ever more affordable prices and then quickly move on;
- Individualisation – shoppers will gravitate towards products and experiences with individual focus, interaction and involvement in the entire value chain process. They will want products and experiences they perceive meet their individual needs.

## Data and Machine Learning in FMCG and Retail

Retail and consumer organisations are under ever-increasing pressure due to greatly increased competition and the ongoing economic uncertainty. They need to be very responsive to demanding customers, suppliers and other stakeholders. Using the various



analytics models available can help organisations in these sectors improve the customer experience, streamline their supply chains and take informed marketing decisions, which will help them achieve the desired competitive advantage.

Analytics can help them find effective solutions for issues they face in their businesses by improving inventory planning, identifying the most profitable customers and retaining them, increasing efficiency in their supply chains and being extremely responsive to their customers' needs. It can also help them identify the root causes of problems, estimate future sales and suggest possible positive scenarios. To be successful in a competitive landscape and maximise their return on investments, such organisations will need to follow a plan that is driven by deep business insights. This will entail a more detailed analysis of customers and business operations than ever before – and that's what analytics will help them achieve.

A comprehensive analytical programme should include descriptive, diagnostic, predictive and prescriptive capabilities that will enable retailers to deliver outstanding results by substantially improving business executives' decisions when they execute their strategies and plans. The use of analytics has been highly disruptive across global retail and positively affected not only revenue and cost structures, but also shaken up core business and operating models, and enabled organisations to achieve outstanding results.

However, Retail and FMCG companies may face certain challenges while building their analytics capabilities. Instead of focusing on technology initially, the core capability dimensions they need to address at the onset should be process, culture and resources. Leadership and executive sponsorship are critical for organisations in their effort to enable and drive the required change in their culture. Nurturing analytics talent—communities of practice, career paths, etc. —is essential for them to attract and retain data science specialists.

## **Analytics framework for FMCG and Retail Sector**

Retailers need to use analytics to generate in-depth insights across the value chain of their operations, including procurement, supply chain, sales and marketing, store operations and customer management.

Following a retail analytics framework that can help them structure their programs in the four areas given below:



- Merchandising
- Marketing
- Supply Chains
- Store Operations

Merchandising analytics - Retailers need to use merchandising analytics to stock the right products at the right place and the right time. Merchandising analytics empowers planners to align their merchandising decisions with customers' expectations. The key areas of merchandising analytics include assortment planning, demand forecasting and space allocation.

Marketing analytics: To keep up with customers' changing demands and ensure their loyalty, retailers now have the option of using marketing analytics to gain an in-depth insight in customers' needs, have targeted interactions with them and provide improved services to them. Marketing analytics combine all relevant customer-related data from Point of Sale (POS) systems CRM databases, loyalty cards, etc., with social media, weblog and channel data, enable customers to perform sophisticated analytics and share insights with them to help them optimise their marketing decisions. This can help to deepen customers' insights, enhance their multi-channel performance, improve the effectiveness of their marketing initiatives and enhance their social media presence

Supply chain analytics – the profitability of retail is directly affected by the efficiency of the logistics function in organisations to maximise fulfilment of demand and avoid any back orders or stock outs. These include interventions in logistics, inventory and suppliers performance.

Store operation analytics: The performance of retail operations depends on various factors, including the effectiveness of the store staff, the cost incurred on them, reduction of pilferage in the store, management of inventory at the right level and improvement in the overall performance of employees in terms of footfalls and conversion rates.

An FMCG analytics framework comprises the following four domains, coupled with a strong information architecture:

- Forecasting of demand and optimisation of inventory



- Marketing ROI / Trade promotion
- Sales and distribution analytics
- Customer service

Forecasting of demand and optimisation of inventory: Forecasting demand helps an organisation accurately predict its future sales through statistical analysis of time series data and identification of the key events and demand drivers that affect demand. Estimation of optimal inventory levels helps companies manage their inventory-carrying costs and ensures that the risk of a stock out is minimised. Informed decisions about inventory replenishment strategies that better align supply and demand lead to a reduction in excess inventory and lost sales.

Marketing ROI/Trade promotion: These help organisations segment their previous promotions into tiers, based on the uplift in volume and ROI, to identify promotions that did well and those that did not. It also helps to optimise ‘promo’ spends in the future to maximise uplift in sales. Insights into past promotion tactics and identification of the most profitable promotion types lead to increased profitability through precision planning and not mere intuition.

Sales and distribution analytics: Understanding data behind logistics (network design, warehousing, transportation, etc.) can reveal opportunities for organisations to improve their supply chain design and implement best practices. Distribution analytics helps distributors deliver the right products at the right time—and without a loss—to avoid lost sales and returns due to improper shipments and defective items.

Customer service: Customer service is an important lever for improving the overall customer experience. The Customer’s Net Promoter Score (NPS) is used to understand customers’ overall satisfaction with a company’s products and their loyalty to a brand. Another area is claims analysis, which can help organisations identify the root cause of claims, such as whether it is a delivery- or production-related issue, and resolve this early in the lifecycle of a product, leading to fewer warranty claims and increased customer satisfaction.

## Conclusion



The important component of successful analytics frameworks is an efficient information excellence backbone, which integrates data from various data sources including customers, point of sales, suppliers, markets and social media, and stores this in a ready-to-use format for various analytical modelling applications. The choice of technology is dependent on the retailer's existing technology landscape, its budget and the functionalities it would like to include in its analytics solutions.

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Our functional expertise entails Strategy, Marketing, Sales & Distribution, Operational Efficiency, Risk Management and overall Project Management Office including topics such as Business transformation, Customer Base Management, Channel Management and Organizational redesign.

We work with leaders and challengers combining our strategic vision for growth with a pragmatic and solution-oriented approach in our projects, delivering sustainable growth.

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