

Thought Leadership: Retail & Consumer in India: Know the Hurdles



Preface

India never ceases to amaze. With an economic growth rate of over 7% and a population of over 1.2 billion, India is the world's fourth largest economy and has a plethora of diverse consumers, demands and needs. The time is ripe for international retail and consumer brands to enter the melee of the Indian market.

According to the IMF, 'India is the bright spot on the global landscape', as it will have the largest and youngest workforce in the world within the next 15 years. Similarly, the UN reports that 'India is projected to dominate growth in the working-age population in Asia Pacific by 2050, becoming home to over a billion people eligible to enter the job market.'

Of this working population, India's growing and aspiring middle class (approx. 300 million people) desire value-driven products, while the exponential growth of the population under the age of 25 has created a more connected market, with greater aspirations and demands.

A report by PwC entitled Shaping Consumer Trends, states that 'consumer spending in India is

expected to reach \$3.6 trillion by 2020, more than doubling India's current share in global consumption to 5.8%.'

However, the good news of India's growth trajectory can often conceal the difficulties of doing business in India.

While the huge population growth provides great opportunities to retail and consumer brands, they must first navigate the often unfathomably complex, diverse and unique cultures of the region. A combination of diverse global and regional consumer demands prevail, with everything from product quality and price point to taste in design varying from state to state.

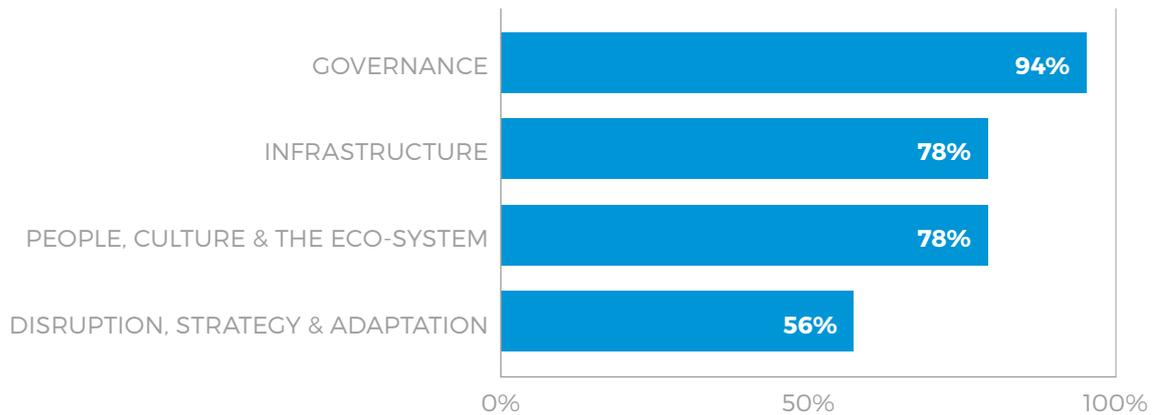
While India has moved from 134th to 130th rank in the Ease of Doing Business Index over the last year,

there is still much that the country needs to do to streamline business practice. There remain many challenges for businesses trying to operate in India.

Odgers Berndtson surveyed industry leaders to uncover the challenges facing foreign consumer and retail brands in India. We also invited participants to nominate the 'Shining Stars' – companies that they believed had best overcome various challenges in India. The answers we received were varied and far reaching, and often highly specific to each company or industry. However, four central topics emerged: **Governance, Infrastructure, People, Culture & the Eco-system** and **Disruption, Strategy & Adaptation**.

We take a more detailed look at these challenges in the paper ahead.

Challenges of Doing Business in India



Percentage of respondents who cited various challenges

(Source: Odgers Berndtson India Retail & Consumer Survey, 2016)

1. GOVERNANCE

Governance stands out as the biggest issue facing foreign brands in India. Foreign direct investment (FDI) regulations that limit investment from organisations outside of India, and the issues around the Goods and Services Tax are just the tip of the iceberg. While improving India's Ease of Doing Business ranking is one of Prime Minister Modi's pet issues, the functional and operational challenges remain.

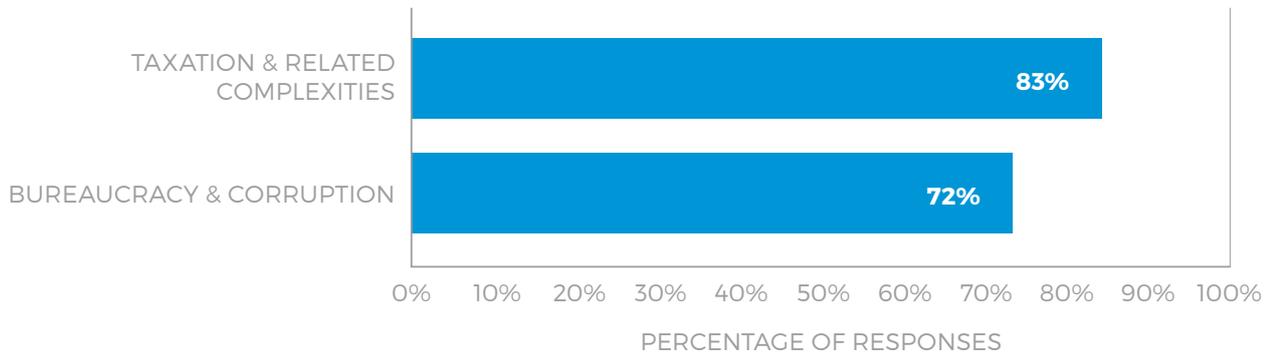
Taxation

Over 80% of those surveyed cited taxation and its complexities as their main governance concern. Respondents felt that excessive excise taxation is making it challenging to deliver profit margins acceptable to corporate headquarters.

A related issue, according to the Managing Director of a global alcoholic beverage company, is 'the difference in tax laws from state to state, resulting in certain geographies not making much money.'

Currently, manufacturing and services are taxed at both state and national level, with different rates applying in various states before Goods and Services Tax (GST) is applied. While the recent approval of GST is a step in the right direction for India's tax policies, it is not an immediate solution. GST will take at least 24 months to be implemented and even then there are critics questioning its real impact.

CHALLENGE: GOVERNANCE



(Source: Odgers Berndtson India Retail & Consumer Survey, 2016)

Bureaucracy and Corruption

Almost three quarters of the international retail and consumer brand leaders we surveyed highlighted the disruption caused by bureaucracy, corruption and unethical practices when working in India. There is a lack of clarity regarding the process of establishing a company, especially in terms of registration and licensing – the two most crucial activities required to set up shop. The unpredictability of the Indian system makes it difficult for firms to effectively predict costs and establish accurate timelines.

SHINING STARS

- **Coca Cola:** Has a local leadership that deeply understands the tax and regulatory landscape of India.
- **Arvind Group:** Combines their strong local regulatory knowledge and experience to act as a reliable partner for foreign brands.
- **Samsung and L’Oreal:** Both have been present in India for a long time, and have taken the time to understand and overcome local governance challenges.

‘Ambiguity exists in a number of areas, especially at the state level. There are no checklists available that would help new companies to progress smoothly.’

– COUNTRY HEAD OF A LEADING EUROPEAN RETAIL CHAIN

2. INFRASTRUCTURE

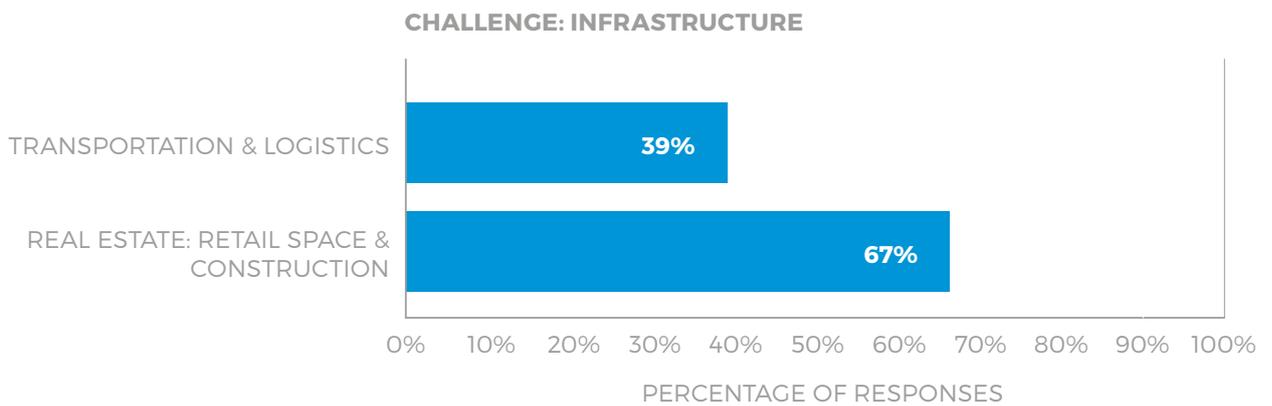
Transportation and Logistics

Transportation, logistics and supply chain are regularly quoted as infrastructure related challenges in doing business in India. For retailers, a big concern is the damage caused to products during distribution due to the lack of adequate transportation and poor quality of roads, especially in remote places. The inadequately presented or damaged products affect consumer confidence and the supply chain inefficiencies squeeze profit margins. Over one third of respondents pointed this out as a challenge.

Retail Space

Two thirds of those surveyed felt that another infrastructure challenge is the lack of high-quality real estate space available in India, especially for premium and luxury brands. This has inflated the price of property – office, factory, storage and retail space – dramatically squeezing profit margins and making the retail business unviable and repayment periods too long for international brands. A CEO of a large European Consumer Durables company said:

‘India is a large market, with over 100 major cities. Property issues pose a big challenge when setting up operations in these cities or the 200 to 400 smaller cities. There is a constant struggle between scale, expansion plans, cost and the global productivity benchmark.’



(Source: Odgers Berndtson India Retail & Consumer Survey, 2016)

Construction

The real estate landscape for retailers is hugely skewed, with some locations having an excessive number of malls, with very small or no spaces available, while other locations have no malls at all. Companies engaged in building projects have to deal with constant construction delays and improper construction standards. There are only a few contractors who focus on and succeed in delivering buildings that meet international quality and design standards. Other issues include lack of space due to urban zoning and no proper compliance (as per various construction related norms and specifications).

The lack of transparency and unrealistic industry forecasts add to the unease within international companies. CEO of a global apparel brand commented: 'Eight years back, an international property consultant issued a list of over 900 malls to be operational in the country over the next five years. Today, not even 100 out of these are operational and most of these projects are delayed by three to five years. The rentals demanded by developers for projects that do not even meet the basic specifications required to sustain a viable business model are sky high!'

'Even if you have all the right documentation, your shipment can still be held at customs for any indefinite period of time and for no good reason.'

- CEO INDIA OF A MAJOR GLOBAL FASHION BRAND

SHINING STARS

- **Amazon:** Have mastered the challenge of delivering products on time and undamaged, even to remote destinations.
- **IKEA:** Currently building its own retail shops with their own specifications.
- **Procter & Gamble:** Recently, this global giant has overcome many infrastructure issues by scaling up distribution partners.
- **Unilever and Nestle:** These are long timers who have built and succeeded steadily.
- Other brands mentioned were **Bata, Benetton** and **Zara**.

3. PEOPLE, CULTURE AND THE ECO-SYSTEM

Perhaps the most important part of any business, its people, is another area of concern amongst international brands. This issue is not limited to finding the right employees; the challenge extends to the broader business eco-system and includes selecting the right partners, vendors and service providers. A lot of the challenge has to do with the cultural disconnect that multinationals experience in India.

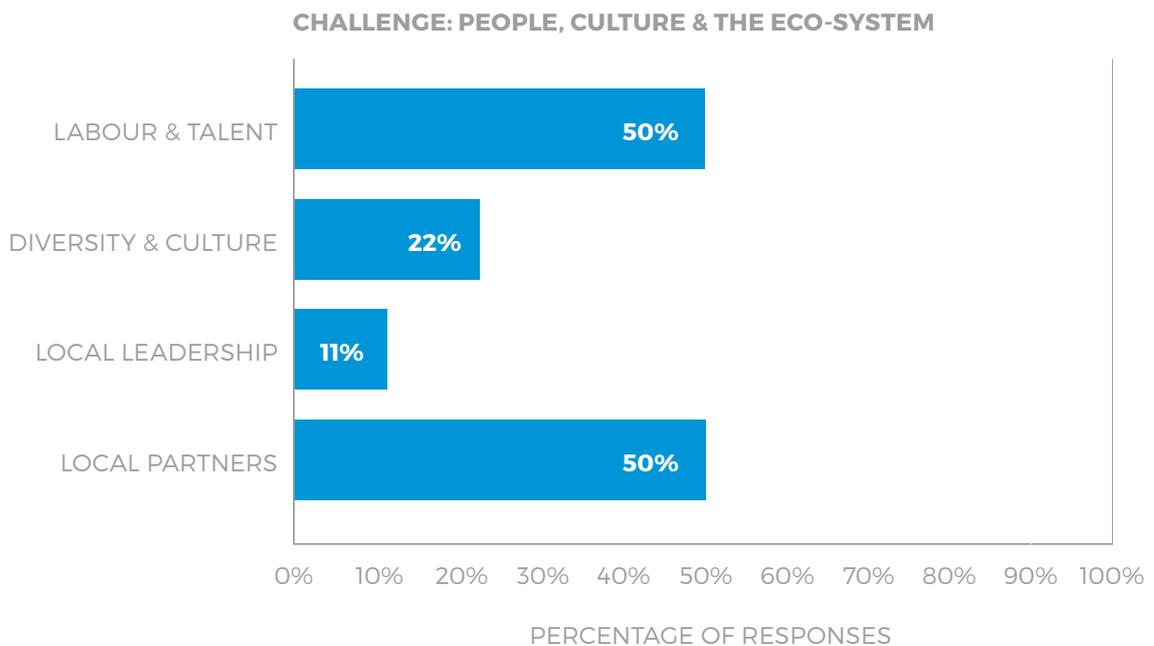
Our survey identified the following six hurdles as the major obstacles:

Labour and Talent

The two most commonly quoted challenges facing Indian business leaders are labour management and talent quality. The lack of proper labour laws and skilled talent, uncertainties created by labour unions and the dominance of panchayats (local self-governance organisations at village or a small town level) in labour-related decision making create huge hurdles for businesses. Panchayats are especially challenging for companies operating in rural areas.

Diversity and Culture

In a land of over 22 major languages, 13 different scripts and over 720 dialects, another issue is the difficulty of training people and developing multiple operational processes for each region or language. Many of our respondents agreed that difficulties arise when one needs to devise effective training materials and communication updates for field personnel who speak only the local dialect.



(Source: Odgers Berndtson India Retail & Consumer Survey, 2016)

'India is still a market which needs special attention and cannot be approached in a cookie cutter way.'

- INDIA CEO FOR A LARGE EUROPEAN LUXURY BRAND

'Global leadership needs to be open to hiring local talent and giving them the freedom to develop a locally relevant strategy, while respecting the global brand architecture and principles of the company.'

- MANAGING DIRECTOR OF ONE OF THE LARGEST AMERICAN FOOD COMPANIES

'International companies tend to look long term, while their Indian partners are more short term focussed.'

- COUNTRY MANAGER OF A LARGE INTERNATIONAL RETAIL CHAIN

Local Leadership

The top of the pyramid does not escape these problems either. Many respondents said that global organisations lack confidence in on-the-ground senior leadership within their India business. Many international companies still believe that hiring expats into leadership roles in India is the best route to take. However, there is ongoing debate as to whether this strategy works in such a diverse and intensely energetic market.

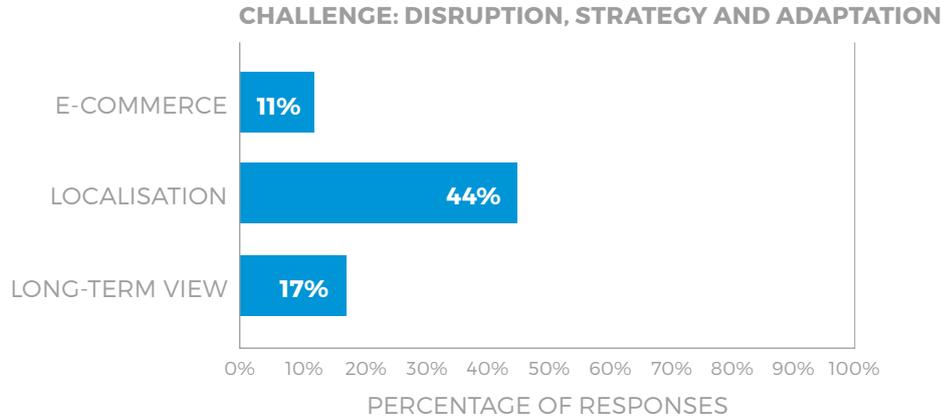
Local Partners

A further stumbling block for any foreign business in India is finding the correct local partner. An inability amongst companies to truly understand how to work with business partners for a win-win result can be seen within international brands trying to enter the Indian market. The benefits of getting this relationship right are strong, but companies are often so keen to establish partnerships that they sweep potential problem areas under the carpet. This is often followed by operational and strategic difference of opinions between the parties. While international companies tend to look at the long term, their Indian partners are often more short-term oriented in their approach.

SHINING STARS

- **Procter & Gamble:** Has an excellent track record in hiring local talent.
- **Arvind:** Considered one of the most influential Indian groups as partners to foreign brands.
- **Tommy Hilfiger:** A brand that has seamlessly 'clicked' with their local partners to build their brand in India.
- **Skechers, Clarks and Marks & Spencer:** These firms have all entered into joint ventures (JVs) and have been strongly engaged with their Indian businesses, with head offices in India (and not local partners) taking control of the day-to-day operations.

4. DISRUPTION, STRATEGY AND ADAPTATION



(Source: Odgers Berndtson India Retail & Consumer Survey, 2016)

E-commerce

Disruption is a much discussed topic in 2016. With the rapid development of India, consumer spend shows a fast growth trajectory, supported by a working democracy, free media and access to the internet. Recent disruptive factors include the boom of the e-commerce space and its growth into one of India's biggest sectors, hitting many retailers hard and in various ways.

The environment created by online companies through their price differentials and volume of sales have made brick-and-mortar retailers relook at strategy and question their sustainability. Similarly, the movement of talent from retailers to e-commerce companies fueled by outrageous (and unsustainable) salary

increments has created a pool of un-hirable talent. This is mainly due to the huge difference between the skill set that people have and the compensations that are expected and being offered. In addition, e-commerce, in the opinion of the Indian CEO of a multinational footwear brand, 'has been more far-reaching, offers better product availability and overcomes clustering issues', overthrowing the basic business model that other consumer brands and retailers operate in.

Localisation

A question often asked in India, as businesses continue to struggle to translate global strategies into local plans of action is, 'Where is the "localisation"?'

Unfortunately, global organisations still frequently underestimate the diversity and complexity of India. A vital issue that continues to surface is the ability and willingness of companies to tailor offerings to the Indian consumer, rather than simply making global portfolios available. The diversity found across India means that one plan often does not work for all regions and classes of consumer; India is in some sense not one, but many countries or many 'Indias'. Companies need to understand which products will drive profitability in which regions, and at which scale. They must constantly adapt and customise in order to be successful.

Long-Term View

The scenario of many 'Indias' along with the disruption caused by online companies and current economic sluggishness needs to be addressed by a well thought-out strategy. Companies need to have long-term vision and a plan, specific to India, recognising the diverse geographical, social and economic spread of the many 'Indias'. The traditional strategies of western firms may not be relevant; as the CEO of a global food company said, 'senior management needs

to understand that a successful business model in US or Europe will not automatically succeed in India.'

In line with this observation, 17% of those surveyed felt that inefficiencies and inadequacies in their overall strategy and vision for their India business was a major challenge. Short-sightedness at head office level and the inability to take a long-term view and make the necessary commitment to the Indian market is a problem for many of the local leaders we

spoke to. Echoing the sentiment of 11% of survey respondents and pointing to another related challenge, the Country Manager of an American consumer goods company said, 'there is a lack of aligned understanding and commitment amongst the stakeholders on the time and investment it takes to build scale in India; often people fail to acknowledge that upfront investment across various forays is needed to be successful.'

SHINING STARS

- **Nestle:** Despite the recent vindictive attention from the government, they have been a great success in building the Maggi brand over time by leveraging local insights on flavours (e.g. masala) and formats (e.g. atta).
- **McDonalds:** Successfully redesigned their menu for a majority non beef-eating nation by offering a menu focused on local tastes and preferences.
- **Hindustan Unilever and Procter & Gamble:** Both firms have demonstrated a great understanding of regional preferences and have successfully tailored their product strategies to take advantage of their insights.
- **Pernod Ricard:** Remarkably launched Blenders Pride, creating a new price point between local Indian-made liquor and imported premium brands.
- **Crocs, LG, Samsung, Hyundai, Tommy Hilfiger, Whirlpool and Speedo:** All of these firms have demonstrated the ability to tailor their products in response to the diversity of the region and have succeeded in localising their products.
- **Procter & Gamble:** A firm that has successfully scaled rapidly in alignment with global and local stakeholder expectations by understanding the investment commitments required to thrive in the Indian market.
- **Kellogg's:** Eventually managed (after a decade of doing business in India) to understand what Indian consumers wanted and what would work best in India, changing their offering and positioning from 'breakfast' to 'snack food'.
- **Colgate, Bosch, LG and Samsung:** After over a decade of investment and expansion by all of these firms, they are now reaping the rewards of their long-term strategies.

Conclusion

The opportunities in India are great but the price to succeed is even greater.

CEO of a large European Luxury Brand commented, 'India will remain an opportunity which needs to be leveraged in a leisurely way.' Any international business needs to approach India with a long-term vision and take things slowly, one step at a time. This will not mean that the challenges disappear, but it will make them easier to overcome. Building a successful and sustainable business in India takes time.

There are learning stages that most brands go through in India. One of our respondents, Managing Director of a leading

multinational footwear brand said, 'There are three stages of growth – market entry, market penetration and a sustainable growth strategy. Each of these stages do not seamlessly integrate or blend in India like they do in other countries. To move from stage to stage, one needs to do something catastrophic in India, like break away from a JV partner or change the strategy entirely. It is therefore always vital to have a backup plan and be prepared for the unforeseen and unplanned surprises, such as Nestle with the Maggi issue in 2015, or Coca Cola in the 1970s.'

Apart from unplanned business-related events, regular changes in government, policy and regulation demand agility and sensitivity from firms operating in India in order to adapt appropriately.

In order to understand and manage these ongoing challenges and thereby drive success, it is vital to have on-the-ground senior management who understand the local context as well as the global business model, enabling their companies to become 'glocal'.

'The orchestra have sufficiently tuned their instruments, the baton has given the signal, and there is a new symphony in play.'
– **Narendra Modi, India PM.**

ABOUT ODGERS BERNDTSON

Odgers Berndtson has supported a wide variety of global Retail & Consumer businesses to navigate these vagaries of the Indian market. In an increasingly connected and complex world, and in a time of widespread economic uncertainty, we believe our services are more critical than ever. Odgers Berndtson helps organisations recruit the best people for their most important jobs.

The ability to identify, develop and motivate ambitious and talented individuals and teams remains a vital point of competitive advantage for organisations, regardless of their size, sector or objectives.

This principle applies globally. With a network of over 50 offices in 28 countries worldwide, we know that effective leadership is a vital quality regardless of national borders.

ODGERS BERNDTSON IN INDIA

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