



B K KHARE & Co
CHARTERED ACCOUNTANTS

Monthly Newsletter
Risk Advisory
Monday, 5 October 2020
Volume 6, Issue 7

Evolving Retail sector in India post COVID



The retail sector operates as a gateway to consumers from upstream sectors, accounts for almost 10% of GDP in India and 8% of employment. India was ranked No. 2 in the Global Retail Development Index (GRDI) in 2019. Earlier, retail businesses were operated through weekly bazaars and rural fairs across urban and rural areas. Post-liberalisation of the economy in the 1990s, the retail sector witnessed a remarkable change in terms of its scale and functioning. It accounts for employment of about 25% of the workforce in India. The retail sector can be categorised into 3 segments based on service delivery model i.e. Kirana Shops, Malls and Supermarkets and E-Commerce establishments. COVID Pandemic has unsettled many sectors including Retail Sector – unsettling the business models of a few and also creating new opportunities. →

Risk Management in Retail

Operating any type of business comes with inherent risks. Operating a retail store or an e-commerce website is no different. They can range from customer safety e.g. a store visitor spraining an ankle from slipping on a wet floor or getting infected by COVID Virus due to inadequate safety precautions or data theft e.g. digital thieves launching a phishing attack to steal customer data. However, a comprehensive and proactive retail risk management strategy can neutralize many threats before they occur. Some of the major risks are as follows →

In Summary

The retail sector is at an inflexion point, and is ready for one more transformational change. Kirana shops are upgrading to app-based services. E-commerce Retailers are tying ups with Kirana Shops and small retailers to provide

express delivery to their customers. Customers are opting for subscription models for essential supplies through E-Commerce Retailers for daily needs. The influence of technology and need for speedy delivery with safe and engaging customer experience is the new norm in retail. This also creates windows of various risks associated with end to end retail processes. Engaging a risk management professional in redefining and reviewing the retail management processes will definitely ensure that the risks are mitigated without compromising both - customer satisfaction and business objectives

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Retail sector insights post COVID pandemic

1. **Kirana Shops:**

Indian retail sector is largely an unorganized sector with about 85% of sales through small mom-and-pop stores or stand-alone outlets known as Kirana shops. Kirana shops thrived even after the advent of large retailers like Big Bazar, More, Reliance Retail, etc. as well as online retailers like Amazon and Flipkart. This is attributed to personalised service, immense understanding of customer requirements and needs, extension of credit and turnaround time for home delivery that can be as low as 15 minutes. Larger retailers as well as online retailers cannot match these niche features so far.

Post-COVID pandemic, Kirana shops, too, are adapting to the changing regulatory environment and customer expectations like contactless payments through Paytm, google-pay, etc. They are approaching the customers by creating WhatsApp groups of customers to offer them products and discounts. Software providers like snapbiz, are providing retailers with customer-friendly applications for ordering, payment and tracking delivery schedule.

Kirana shops will continue to exist by using the unique advantage of low operating cost and technology enablers. However, the traditional Kirana shops who do not change to the requirements of changing times may see decline and become extinct.

2. **Malls and Supermarkets:**

Malls and Supermarkets emerged in metros like Mumbai, Delhi, Chennai, Kolkata, etc. giving a world-class experience consisting of 3 Vs i.e. variety, value and volume to the customers under one roof. This model grew in Tier 2 and Tier 3 cities as well. Retail formats like supermarkets and hypermarkets were established. This was a significant change from the customer experience perspective. Initially, increased footfalls did not translate into the



desired sales volume. However, innovative strategies of discounted pricing, bulk discounts, bundled offers and home delivery, helped retail malls gain the market share.

The retailers who had acquired properties outright reaped the benefits in the long run as the major cost in the retail business is cheaply rent. The retailers whose business plan relied heavily on leasing, could not compete over a period of time due to year on year increasing rent.

This segment has been affected the most during lockdown post-outbreak of COVID pandemic. More than 95% of retailers operating through Malls and Supermarkets remained closed for almost 3 months as they were classified as suppliers of non-essential goods. Post, relaxation of the restrictions, extremely cautious behaviour of customers has resulted in fewer footfalls and lesser sales. Thus, mere 'physical' model of retail is not performing well.

To mitigate this challenge, retailers have resorted to innovative service delivery models by using internet-based applications and customised solutions. e.g. Some of the apparel retailers have started using 'Magic Mirror' technology which shows a 3D image of selected clothes on the virtual body of the customer without visiting the shop.

3. **E-commerce**

This trend started with websites of E-commerce retailers. However, now 40% of Indians have access to high-speed internet and smartphones resulting in the potential of sales through smartphones. E-Commerce players like Amazon, Big Basket, Flipkart, Milk bag, Shopclues, Grofers, Snapdeal, Nykaa.com, Rediff, Homeshop18 have created user-friendly applications which can be easily accessed to select the product, to place an order, to make



payment and to track the delivery. Options of returning the goods to the retailer have developed confidence among the customers who use E-Commerce.

E-Commerce has experienced a significantly higher rate of growth as compared to that of Kirana shops and Malls over the past few years. E-commerce accounts for 3% of overall FMCG sales in India and it is the fastest growing channel as per market research company, Nielsen.

The revolutionary changes brought by E-commerce were in the form of a wider variety of options for the customers. E-Commerce applications provide multiple options for the same product at various price points. This unique feature is difficult to replicate by Kirana Shops and Malls. The scale at which the E-Commerce companies operate allows providing heavy discounts and optional pricing to the customer. For largely a cost-conscious Indian customer, this is an added advantage.

Prompted by COVID induced lockdown, several FMCG companies from Dabur and ITC to Mondelez and Marico are using e commerce platforms to launch products before making them available in traditional retail shops. While this has resulted in increase of e-commerce share of sales, marketers said the online-only or online-first strategy works well for slightly niche or premium brands which may not find much traction in offline shops.

Larger E-Commerce retailers use big data analytics, social media and predictive analysis of customer requirements which keeps the e-commerce players ahead of the curve.

Post-COVID, E-Commerce players suffered an initial setback as there were restrictions in the delivery of goods. However, post relaxation of restrictions they have experienced significant growth. However, it has also provided a boost to their business model. As per a



study of JLL, current warehouse space used by retailers in India is approximately 220 mn square feet. The retailers are expected to acquire more than 375 mn square feet by the year 2021 primarily due to expansion plans of e-commerce players, indicating a growth of 70%

4. New Retailers

Looking at this rapid growth in online sales, small niche FMCG manufacturers who were so far dependent on either malls or e-commerce websites are creating their own websites and applications to reach the customer directly. This will create a new segment of E-Commerce retailers who are manufacturers, transforming themselves into online retailers. MTR had 2.5 % of its overall sales through online retailers. Post-COVID it has increased to 4.5%. Similarly, Parle Agro products experienced the growth of over 300%.

Many customers who did not use the services of online retailers till the arrival of COVID, have used them during the lockdown. The habit of prolonged usage of buying through online sites will lead them to continue with the online retailers' post-COVID era.



1. Shop lifting

Shoplifters and other criminals remain a major headache for traditional retail store operators. According to data from the National Retail Federation of USA which is a country with the highest retail business, theft cost U.S. retailers more than \$50 billion in 2018, an increase of about \$4 billion from the previous year. CCTV surveillance, trained staff and boards displaying that shop lifters will be prosecuted can deter shop lifting to some extent. Retailers can also install physical security systems, sensor-based product tags and labels, locked display cases for items that can be easily stolen, and alerts that sound when customers enter or leave the store. Any weakness in using the above mentioned measures can open a window of opportunity especially when there are pandemic induced preventive restrictions on number of staff in the shop and social distancing norms.

2. Frauds

E-commerce websites experience frauds by their employees and by customers. In some instances, employees deliver a duplicate or counterfeit product instead of the originally ordered product. This occurs in case of high cost apparel, mobile phones, electronic gadgets, etc. These type of frauds cannot be carried out by an individual employee. It requires a team-work of group of employees/ subcontractors. An end to end process with adequate checks and balances can minimise the likelihood of these frauds. Similarly, some fraudsters pose as customers and order expensive merchandise and claim that they received fake products. These events can be checked by maintaining database of such exceptional cases and identifying methodology used by fraudsters e.g. use of same name, address, type of items bought, etc. These are of course the usual money frauds which too can be minimised with goods checks & controls.



3. Data breaches and Digital theft

More people prefer shopping online. Consequently, e-commerce crimes are on the rise. In a 2017 report, credit bureau Experian found that online shopping frauds had risen by 30% from the previous year. E-commerce businesses lost a collective \$7 billion to fraud in 2016, and that number is projected to more than quadruple in 2020, according to a TransUnion blog post.

Digital criminals can target online retailers in several ways. A sophisticated phishing scam might convince unsuspecting employees or customers to hand over their credit card information. A distributed denial of service (DDoS) attack can cripple your business's servers, preventing customers from purchasing items. Cybercriminals can also target brick-and-mortar retailers by hacking into physical point-of-sale (PoS) systems. Apart from loss to individual customers, it also affects confidence of the customer in the establishment through which the transaction occurred. Organisations maintaining high level of cyber-security have greater chances of preventing data breaches and digital thefts.

4. Customer and Employee injuries

While shoppers cannot sustain physical injuries while browsing your e-commerce website, customers who are visiting a brick-and-mortar store can become injured in a variety of ways irrespective of warning of wet floors or construction work. An adequate insurance cover can help a retailer to limit the liability in case of litigation by a customer or employees of the retailer.

5. Operations Risk

These risks include inaccurate demand forecasting, weak inventory management, lack of required skillsets and absence of contingency planning. A retailer who invests in better management practices, deploys appropriate level of automation



and monitoring systems is able to predict likely issues well in advance to take preventive and corrective measures.

6. Inconsistent Customer Experience

Retail process has progressed from just being about a transaction to becoming an experience. It is imperative that the experience is continuously made better. This requires dispassionate objective study of measurement of Customer Experience and to identify areas of improvement. A risk management professional can give actionable insights on customer experience, as well.