KPMG

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INDIA INSIGHTS

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India at a glance: Quarterly update

Q1FY18-19 (April-June 2018)

Macro economy

- **Gross Domestic Product (GDP)** expanded at 8.2 per cent in Q1FY18-19 vis-à-vis 5.6 per cent in Q1FY17-18[1]
  - Strong acceleration in value addition was led by the farm sector, double-digit growth in the manufacturing sector and a low base
  - Several structural reforms such as Goods and Services Tax (GST) have started paying rich dividends
  - However, sustaining over 8 per cent growth also depends on crude oil prices, the Indian rupee's performance, as well as fiscal constraints.

Government finance

- India's fiscal deficit at the end of the first quarter of the current financial year stood at 68.7 per cent of the budgeted target for 2018-19, lower than 80.8 per cent in the corresponding period last fiscal[2]
- Trade deficit worsened at -USD16.60 billion in June 2018 vis-à-vis -USD12.96 billion in June 2017.[3]

Foreign Direct Investment (FDI)

- FDI equity in India increased by 23 per cent to USD12.75 billion during Apr-June, 2018 vis-à-vis USD10.40 billion during corresponding period last year.[4]

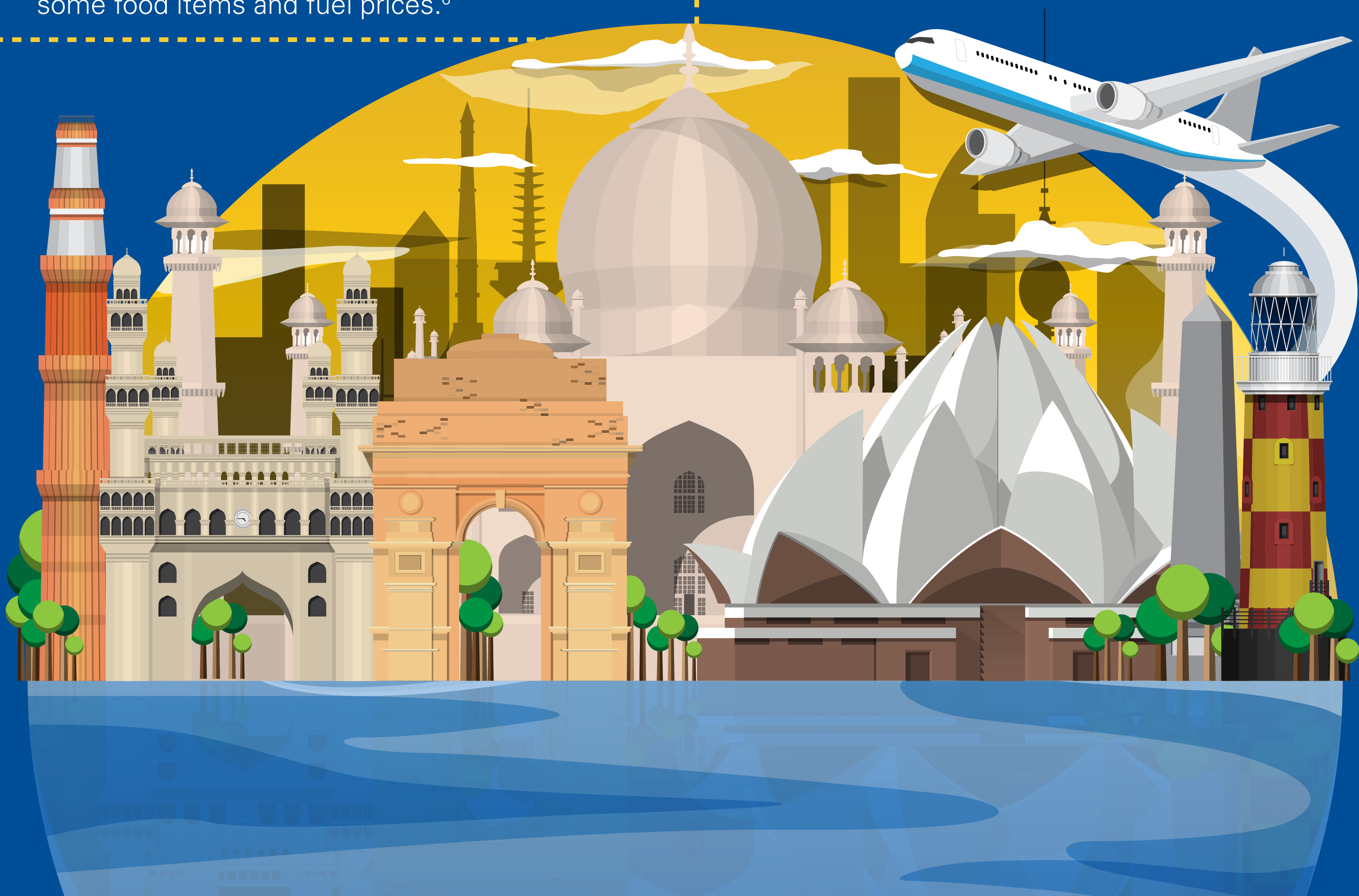
Inflation

- India's retail inflation or Consumer Price Index (CPI) stood at 5 per cent in the month of June 2018, compared with 4.87 per cent in May 2018[5]
- The Wholesale Price Index (WPI) grew 5.77 per cent in June 2018, a four-and-half year high, compared to 4.3 per cent in May 2018 driven by some food items and fuel prices.[6]

Forex

- Foreign exchange reserves stood at USD406.05 billion as on 29 June 2018.[7]

1. Press Note on Estimates of Gross Domestic Product for the First Quarte (April-June) 2018-19; MOSPI, 31 August 2018
2. Q1 fiscal deficit at 68.7% of 2018-19 budgeted target; The Economic Times; 31 July 2018
3. Key Economic Indicators; Office of Chief Economic Advisor, DIPP; updated as on 21 August 2018
4. Factsheet on Foreign Direct Investment (FDI); Quarterly Factsheet ; DIPP; updated as on 23 August 2018
5. CPI inflation rises to 5% in June 2018; Business Standard; 12 July 2018
6. Wholesale price inflation hits 4-year high in June at 5.77 per cent; The Economic Times; 16 July 2018
7. Weekly Statistical Supplement; Reserve Bank of India; 29 June 2018



Tune in

India CEO Outlook 2018 Survey - Key takeaways[1]

In an increasingly volatile business environment, CEOs are likely to face myriad challenges that come with global economic growth, organisational agility, cyber security, customer engagement and evolving technologies, as they seek to transform their organisation and chart out a proactive growth strategy.

KPMG in India's fourth annual CEO Outlook Survey report, titled 'Growing pains: India CEO Outlook 2018', attempts to capture the views of 125 CEOs in India on some of their highest priority areas and most formidable challenges towards initiating a transformation across several areas within their organisations. It also draws insights from KPMG International's Global CEO outlook report, assessing international trends that could impact India.

The survey highlights that despite growing optimism around the growth prospects of the world economy, global territorial dynamics and enhanced protectionism have started to impact CEO strategies, especially when it comes to geographic expansion in developed countries. While some CEOs have identified turbulent situations, such as Brexit, as opportunities for expansion, others are showcasing their positive sentiments about emerging markets from future growth standpoint. Additionally, CEOs believe that a return to territorialism may pose a considerable challenge to their growth prospects in the future.

Other impending threats which continue to emerge as important concerns for CEOs in India include cyber security and data privacy. The survey reveals that only a little above one-third of the CEOs believe that their organisation is well prepared to mitigate the effects of any potential cyber-attacks. Hence, lot remains to be done when it comes to building and evolving a strategy around potential cyber threats.

With regard to data and analytics, while the global business community is increasingly relying on data-driven models and analytics for decision making, business leaders in India depend more on experience and intuitions to make strategic calls. Nevertheless, with the advent of new technological innovations and forecasting tools getting more advanced, the acceptance of predictive modelling by organisations is expected to become more common in India. In future, it will be imperative for organisations to combine their intuition with data-driven analytics to identify new growth opportunities.

1. Growing pains – India CEO Outlook 2018; KPMG in India; July 2018

On the technology front, even though on-ground implementation of digital transformation continue to pose significant roadblocks, CEOs continue to favour new disruptions. They are also enhancing the role of data science within their organisation in a bid to improve process efficiency, decision making and customer engagement.

CEOs are now willing to make their businesses more agile, collaborative and adept to evolving customer requirements. However, they are simultaneously looking to reduce additional expenditure on inorganic growth strategies such as M&As.

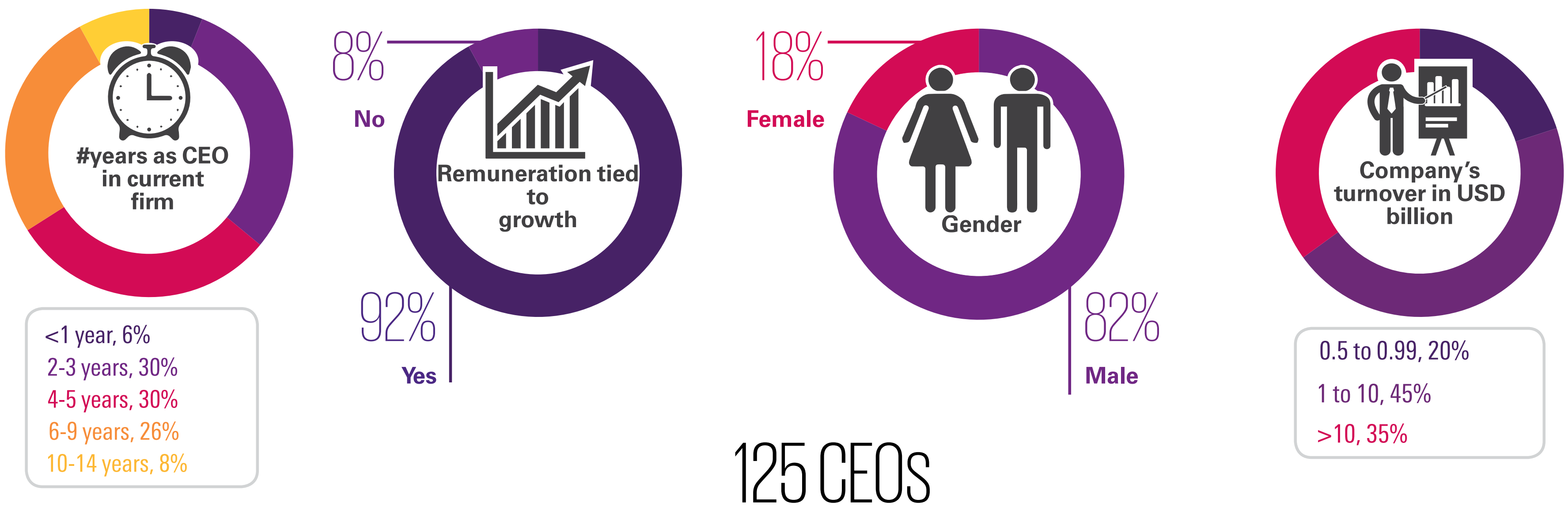
Lastly, given today's highly customer-oriented nature of business, firms would need to ensure ongoing success, and the ability to create a positive impact on current and potential customers. CEOs, therefore, need to depend on their adeptness to build greater trust, awareness to sense market signals and flexibility to embrace disruptions with innovations, ensuring continued success for their enterprises.

Looking ahead, in the current scenario, the survey concludes that CEOs can be equally optimistic about global opportunities, but they have to give priority and be cognisant of geo–political risks while setting targets for the coming year. Leaders have to accept that they cannot predict the future, but must prepare their organisations effectively to manage the growing pains in their business.

50% CEOs consider cyber security specialists most important in supporting their organisation's growth plans

94% CEOs see technology disruption as an opportunity

Participants' profile — Indian CEOs



125 CEOs

Consumer and retail	8%
Energy	10%
Asset management	8%
Manufacturing	15%
Banking	10%
Automotive	6%
Telecom	10%
Life sciences	8%
Technology	8%
Insurance	8%
Infrastructure	9%

Spotlight

Eliminating friction in the path to purchase

Imagine spending hours in a queue to purchase a product, only to find that it's sold out, or the product that you intend to buy is starkly different from the product shown in the advertisement. You wish to have a detailed understanding of the product features, but the brand executive does not have the requisite knowledge to guide you, or worse, shows no inclination to help you. These are just a few of the challenges that consumers face at different stages of their purchase journey, ultimately leading them to drop out of the journey.

Today's consumer expects and demands convenience, speed, automation and simplicity. Friction, is, therefore, referred to as any unnecessary additional effort, incremental step or inconvenience, which may make consumers abandon their purchase journey.

The concept of friction is sector agnostic and remains a challenge for brands/marketers across the business spectrum. Facebook, in association with KPMG in India, is publishing multiple industry research reports that aim to define, understand and mitigate friction in purchase journeys to unlock new avenues for business growth. The sectors covered as part of the study include smartphone, automobile, fashion, travel and financial services.

A typical purchase journey of a consumer has four stages – awareness, **consideration, intent and purchase**. The series of reports suggests that consumers experience varied friction at different stages of the purchase journey.

At the awareness stage, where the consumer has identified the product need, failure to get relevant information on product features, pricing, terms and conditions, lack of guidance to carry out next steps in purchase journey or receiving irrelevant offers lead consumers to drop out of the purchase journey.

At the consideration stage, where a consumer has to finalise a product, difficulty in comparing products/features, ambiguity

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in offer terms and conditions, brand clutter, information clutter or even lack of trust on the source medium can lead to consumers dropping out.

At the penultimate stage, i.e. the intent stage, where the consumers have finalised their product/service, failure to get preferred payment or financing options, lack of availability of expert advice, difficulty in reaching out to the brand for information or lack of timely response from the brand can lead to consumers dropping out of the purchase funnel.

Cost per acquisition, one of the key marketing KPIs, can increase substantially if leads generated or prospects abandon the purchase journey, leading to a loss in sales revenue. Cost per acquisition can increase further if consumers spend more time at each stage of the journey, which effectively means higher cost accrued in lead to sales conversion for the brand.

The reports suggest that different cohorts classified on age, gender or socio-economic groups for a particular industry may drop out due to varied friction areas even at a single stage. This clearly demonstrates the fact that a one size fits all approach no longer works for marketers.

While marketers may not be able to completely influence consumer's pain areas, they can definitely help solve media friction. The reports suggest that across the sectors, a significant proportion of the friction can be attributed to media friction. It is, therefore, imperative for marketers to influence choice of media to facilitate seamless movement in the purchase journey.

Increasing mobile in media mix can reduce media friction arising out of traditional media such as print, radio, outdoor and television, ultimately leading to increased billion dollar sales opportunities and reduced consumer acquisition cost for the brands within the category. Also, mobile enabled purchase journeys are more compact, effectively leading to greater ROI for marketers.

Some of the mobile-based solutions that can bust major friction areas include sequential storytelling, immersive ads, digital cohort-based targeting, dynamic chat bots, artificial intelligence and machine learning-based consumer grievance redressal, customised creatives, etc.

In the future, consumers will no longer belong to a homogenous segment. With increased adoption of digital and rapid enhancement in consumer-friendly technology such as Augumented Reality (AR), Virtual Reality (VR), consumer analytics through AI, machine learning and personalised offers, the path to purchase is expected to become shorter, smoother and increasingly non-linear.

Market trends

Global Capability Centres (GCCs) empowered cybersecurity global delivery

Global organisations recognise the inevitability of cyber-attacks, and are enhancing their cyber security strategies by bringing together skilled people, cutting-edge technologies and new age processes to secure their organisations. Global Capability Centres (GCCs), by design, allow organisations to insource key functions, retain control and hold on to expertise in-house. Growing at a CAGR of 11 per cent YoY, the growth of India-based GCCs is well-known globally.[1]

India has been rapidly moving upwards on the technology adoption curve to innovate and to efficiently deliver a variety of services. It has excelled in multiple domains, and has been serving as one of the most attractive offshore delivery locations when compared to some other nations. There are varied factors driving this thriving landscape, and a wide range of capabilities, smart practices and innovation techniques.

According to KPMG in India's report, ‘Secure in India’, the availability of a rich talent pool emerges as the top-most driver for setting up cyber security service delivery from India-based GCCs (cyber GCCs), while cost arbitrage as a driver comes up as a distant second. Further, high value generating functions are surging in cyber GCCs, with over 57 per cent of the cyber GCCs delivering ‘cyber security strategy and governance’ function, and 59 per cent delivering ‘cyber security products and new solutions development’. Cyber GCC leaders owning global cyber functions are also on the rise, with 70 per cent of the cyber GCCs having representation of India-based GCC leaders in global committees. Moreover, cyber GCC leaders also continue to gain more experience in dealing with global regulators and auditors. India-based cyber GCCs are continuously adapting to enhance value and about 70 per cent do so through collaboration with external parties (e.g. industry peers, industry bodies, regulators, academia, start-ups, etc.). These trends indicate that cyber GCCs are at the cusp of transformation.

This positivity is tempered with realism. Cyber GCC leaders face challenges in meeting ever increasing demand for niche skills, addressing growth path of key people, and are looking for more value creation through collaboration with GCC communities and industry bodies. Cyber GCCs have adopted interesting smart practices and innovative methods employed to overcome these challenges, but there’s a long way to go.

In the wake of increasing volume, complexity and velocity of cyber threats, it is imperative for organisations to stay abreast and manage cyber risk in order to remain successful. Therefore, it is important for cyber GCCs to be well-positioned to meet the evolving business needs. A mutually beneficial ecosystem of GCCs, policy makers and industry bodies are key for a continued sustenance and transformation of cyber GCCs, enabling these organisations to be ‘Secure in India’.

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1. Secure in India – Leaders’ insights on GCC empowered global cybersecurity delivery; KPMG in India; July 2018

KPMG in the news

We should not get mixed up between protectionism and nationalism: KPMG India CEO| Interview with Forbes India Magazine | July 2018

"India needs to be a little careful because it is a beneficiary of globalisation. We should not get mixed up between protectionism and nationalism because it is in the national interest to have more global engagement. India has benefited since 1991 with increased global engagement."

- Arun M. Kumar, Chairman and CEO, KPMG in India

A long-term strategy to reduce crude imports| Opinion article in Mint | 31 July 2018

"What India needs now is a carefully devised strategy that is not driven by short-termism, but aims to gradually insulate the country from global oil price volatility. Such a strategy should be centered on three things: expediting the migration to electric mobility, expanding the biofuel blending in petrol, and stimulating exports."

- Akhil Bansal, Deputy CEO, KPMG in India

Leverage diversity to foster staff camaraderie at work | Opinion article in the Times of India| 18 July 2018

"Today's focus is shifting towards holistic employee experience — basically employee engagement, but with a long-term view. Organisations have realised that work is only an extension of the lives that employees want to live for themselves, and hence many are taking steps to ensure that the workplace is an extension of their homes."

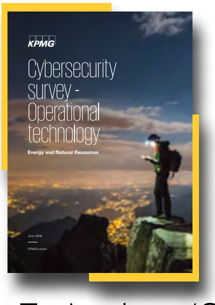
- Unmesh Pawar, Partner and Head, People Performance and Culture, KPMG in India

Featured publications

Customer experience: the new operational excellence

Based on a survey of almost 2508 consumers across 108 brands and nine sectors in the Indian market, the report identifies which brands emerged on top for customer experience excellence. Brands were measured across the six pillars of customer experience excellence to identify the leaders across: personalisation, integrity, expectations, resolution, time and effort and empathy.

[Click here for the report]



Cybersecurity survey - Operational technology (Energy and Natural Resources)

Cyber security is a strategic enterprise risk that goes far beyond information technology. There would be a huge impact of a cyber security breach in case a real-time Operational Technology (OT) system is compromised in the Energy and Natural Resources (ENR) sector, which is one of the most important sectors in the economy of any nation state. This survey report provides insights that can be leveraged in shaping the cyber risk posture of organisations by focusing specifically on the ENR sector and identifies some of the critical challenges faced by its OT environment.

[Click here for the report]

Media ecosystems: The walls fall down

The Indian media and entertainment industry is now on the road to recovery after facing headwinds due to fallout of major regulatory interventions such as demonetisation, GST and RERA, resulting in lower consumption and ad-spend during FY18. However, the long-term outlook for the sector remains strong on the back of a buoyant Indian economy, robust domestic demand, particularly in rural and regional markets and growing digital access and consumption. This report brings forth the trends in the M&E sector after extensive research and analysis, including in-depth discussions with multiple stakeholders from the Indian M&E industry.

[Click here for the report]

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