

# Retail and Consumer Worlds

July, 2009

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Although the economic outlook is still quite gloomy, savvy companies are using this time to focus on strategy, explore opportunities and transform themselves so that they are in a better competitive position when the good times return.

In this issue of *Retail and Consumer Worlds* we offer some strategies for doing exactly that – taking advantage of the opportunity to strengthen your business.

In our lead interview, Professor Dr. Marcus Schögel, University of St. Gallen, Switzerland, shares his perspective on multichannel retailing and discusses how cross-channel selling actually creates value for customers. Dr. Schögel is head of the competence centre for marketing channels and alliance management.

All eyes are on emerging markets in this time – and India is showing promising GDP growth rates. Inside you'll learn more about what's driving India's growth, including recent easing of government restrictions on investment in the country.

Regional shared service centres are no longer just a cost-saving tool – they are being used in a much more strategic way to support revenue growth. Read on to find out more about how this model is allowing companies to address the evolving business environment and better position themselves once the downturn eases. If you're considering structural changes to your organisation, it's important to consider potential tax implications, and a related article discusses the tax benefits and opportunities of structural changes such as regional shared service centres.

Finally, in this current economic and regulatory environment, the need for retail and consumer goods companies to manage and protect sensitive customer information is more urgent than ever. You'll find insightful tips inside for managing this critical risk.

Regards,



Carrie Yu  
Global Retail & Consumer Leader



# Multichannel management: a port in the storm?



***Interview with Prof. Dr. Marcus Schögel  
University of St. Gallen, Switzerland***

Prof. Dr. Marcus Schögel is a full-time lecturer in marketing at the University of St. Gallen and a director at their research institute of marketing. He graduated from Berlin's Free University in Germany and holds a Ph.D. in management from University of St. Gallen, Switzerland. He teaches on the undergraduate and graduate levels in marketing and brand management. He is responsible for the marketing curriculum in the part- and full-time MBA-Programmes of University of St. Gallen. His research focuses on strategic marketing, innovation-driven marketing, distribution and channel management strategies. Marcus has worked together with companies from many different industries – including BMW, Microsoft, McKinsey, Metro Group, Henkel, Phonak, Holcim, Bertelsmann, TUI and Allianz. He has published numerous articles and books and is a co-editor of the *Marketing Review St. Gallen*.

With storm clouds still on the economic horizon – and poised to stay there for a while – multichannel selling strategies may be exactly what the doctor ordered.

**PwC:** How is the downturn affecting retailers and consumer goods companies in Europe? How would you say the situation there compares to North America or other parts of the world?

Prof. Schögel: In general, the economic downturn is a global phenomenon with all regions of the world affected by the crisis. As opposed to the situation in North America, to date there are no substantial social cuts in Europe, and problems like mortgage foreclosures and devaluated retirement provisions will hopefully remain contained mostly to the United States and some European countries, such as Spain. Nevertheless, export-oriented economies like Germany and Japan suffer from decreasing demand. This is the point where retailers and consumer goods manufacturers are affected. Even conservative estimates see a continuous recession for these countries until 2010, whether the crisis eventually attenuates or not. On the other hand there is no doubt that Asia has not been affected as quickly or to the same extent as North America and Europe. However, across the region, economic growth is slowing down as the global downturn takes hold.

**What subsectors do you see doing well? Which ones are struggling and why?**

For consumer goods, the downturn will affect spending on different categories in different ways. If you look closely at consumer spending during past downturns, i.e., during 1990–91 and 2001–02, US consumers changed their priorities instead of making across-the-board cuts. Daily amenities like eating out, care products and services suffered. But categories such as groceries and reading materials, which functioned as substitutes for more expensive options, actually benefitted from higher spending, as did less-discretionary items, like insurance and health care. But these historical trends may not tell the whole story. The extent of the recent global downturn may cause individuals to cut spending faster and deeper across more categories. Even so, some categories will be able to weather the storm better than others. Companies that react to the downturn with appropriate measures will have a better chance to do well.

As consumers guard their wallets more closely, each purchase they make is going to have to be more impactful. In your opinion, what does this mean for retailers and consumer goods companies?

As all marketers in a downturn, smart retailers and consumer goods companies will re-examine the value propositions of their brands, fine-tune products and pricing and manage the cost of media and other vendors carefully. But these steps won't be enough. Consumers want to interact with retailers and manufacturers across multiple channels in order to gain even more value out of these interactions. In turn, companies have the opportunity to attain customer loyalty and share of wallet.

**Innovation becomes even more critical in difficult environments. What are you seeing in terms of innovative approaches to distribution in the European market?**

In my opinion, cross-channelling will be the most important approach in distribution. In a recent consumer survey, AT&T's software company Sterling Commerce discovered that 82% of consumers want to be able to switch between channels while completing their purchases. This includes shopping in-store, online and by catalogue, with no difference in service between channels. Furthermore, a majority of customers value the option of having merchandise delivered to their home or picking it up in-store after purchasing online and want to be able to return merchandise to a store even if it was purchased in an online store or over the phone.

Cross-channelling is a revolutionary change in how companies think about their customers and includes e-commerce, merchandising, marketing, store operations, supply chain and IT capabilities. Also, a shift in thinking from "channel first" to "customer first" is required. Companies have to ask themselves how customers want to engage with them and which channel services will be needed to meet these needs.

E-commerce/online retailing is the major growth driver in mature retail markets. What do you think will be the next big challenge in e-commerce?

There are plenty of challenges for e-commerce. First of all, e-channels need to reach a critical number of customers to pay off for companies. In my opinion, this is crucial for retailers and consumer goods companies if they want to boost their business with e-commerce. Generally, companies have two possibilities to achieve this: attracting new customers or steering customers from existing channels to the online channel. According to their strategic goals, companies should concentrate on customer acquisition – for example, with behavioural targeting and interactive marketing – or actively steer their customers from brick and mortar stores or indirect channels to the direct e-commerce channel.

Which competencies do retailers and consumer goods companies need to tackle these challenges? How well are they prepared?

If the primary objective is to conquer, companies need competencies for targeting new customers by means of interactive marketing. This includes marketing instruments such as blogs, communities, social networks and viral marketing. If companies want to steer existing customers into online channels, they need to build distinct steering capabilities and plan the steering process thoroughly to avoid a negative impact on customer satisfaction and loyalty.

Also, two of the key competencies for companies selling online are building trust and providing the same level of convenience as in other channels. Shoppers see all channels a retailer or consumer goods company uses as one brand – they don't think in terms of distinct channels. Overall, although many companies have begun to deal with these challenges, there is still plenty of room for improvement in interactive marketing, customer steering and building online trust and convenience.

Mobile and Internet are pretty much mainstream now. How can interactive media be better used by retailers and consumer goods companies to add value in this current downturn?

Value can be added by the cross-channelling possibilities a company provides. Multichannel customers are associated with higher customer profitability through expanding purchase and communication options. As I mentioned, companies need to build trust and provide convenience in all channels. Also, multichannel integration within the company can be a challenge. Cross-channel processes cannot be simply tacked onto existing functions. Providing the integration needed to deliver a seamless cross-channel customer experience and improving operational efficiency are challenges for the whole company.

What product categories does it work best for?

E-commerce is especially appropriate for all standardized goods that are self-explaining. Within today's consumer goods sector, electronic goods, books, records and clothes are typically sold on the Internet. For more complex goods, such as cars, customers typically use the Internet to search for information online before purchasing at a traditional channel. Here cross-channel competencies are crucial for market success.

What's involved in terms of costs? How much investment is required?

Compared to other channels, flagship stores or intermediaries, the financial investment for an online channel is quite low. Much more important are investments in internal processes: incorporating e-commerce into the existing multichannel environment and building up cross-channel competencies are serious challenges and need to be addressed. If a company fails to build up these capabilities, multichannel conflicts may short-circuit the potential benefits from an additional online channel.

## How about the timelines involved?

Despite the duration of the downturn, manufacturers and retailers will want to thoroughly examine the possibilities and potential benefits provided by e-commerce. As many companies have slack marketing manpower during the downturn, it is a good time to begin. If a company is willing to use existing resources to build an online channel and to follow a sophisticated multichannel strategy, such a process may pay off after a couple of months when the new channel is accepted by a critical mass of customers.

## In times of a downturn a sustainable business model is crucial for creating value. Which business models will best weather the crisis and what will the industry look like in five years?

Overall, the recession will clean the market of low-performing companies. On the brighter side, retailers and consumer goods companies that are able to produce and stand for good quality, no-nonsense and excellent value for money will prosper in the downturn. Companies in China, India, Brazil and Russia have built strong brands at home, but they have mostly stayed there. Together with the arrival of these big emerging-market brands in the developed world, industries will be roughed up and competition more dynamic than today.

Even in this downturn there are multiple opportunities. This is the time to take a fresh look at your online strategy and how it can add value for your customers. ■

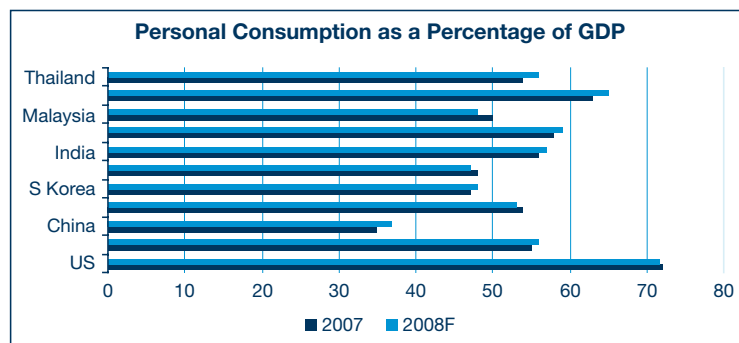
# India—the rising elephant



Now more than ever retail and consumer products companies are looking to the emerging market economies for growth. India, a promising emerging market economy, is characterised by robust GDP growth rates (higher than in industrialised nations), a large middle class, steady incomes and the world's largest youth population. In fact, half a billion people in India are under 25. India has been one of the best performers in the world economy, and its growth has been supported by market reforms, foreign direct investment (FDI) inflows and rising foreign exchange reserves.

If consumer confidence levels are an indicator of consumer sentiment and overall economic health, India is smiling. In January 2009, the country topped the Nielsen Global Consumer Confidence Index with 114 points. The Index surveyed more than 26,000 consumers in 52 markets about confidence levels and economic outlook. Another source, the MasterCard Index of Consumer Confidence, posits that India's current index of 63.9 suggests that consumers are still optimistic, if less so than six months ago (82.1) or a year ago (86.6). Indians believe that India will emerge from the economic recession faster than other industrialised nations.

Today, India has one of the highest levels in Asia of personal consumption as a percentage of GDP – over 55% in 2008. As consumer confidence levels increase and per capita incomes grow, retail sales will continue to flourish.



Source: Cushman & Wakefield

### Growing retail and consumer goods sector

The Indian retail sector is worth USD350 billion and has an organised retail penetration level of between 5 and 8%, suggesting tremendous opportunity for participants. Growing at over 20% per year, the Indian retail sector is attractive to both domestic and international retailers. The retail sector has been somewhat impacted by the global economic environment, but perhaps not as much as the sector has been in other countries. While consumers have become more cost-conscious, certain categories, such as fast moving consumer goods (FMCG), are showing robust growth. Investments in manufacturing capacity, price reductions and increasing rural penetration are also helping FMCG companies generate sales.

In India, retail and consumer goods companies are:

- Launching products, especially in private labels
- Focusing on performance improvement and supply chains
- Expanding store networks
- Reducing prices of products, especially in the FMCG sector

While the pace of expansion may not be as rapid today as it was a year ago, growth rates, prices and targets/objectives are being rationalised.

## Favourable recent regulatory changes

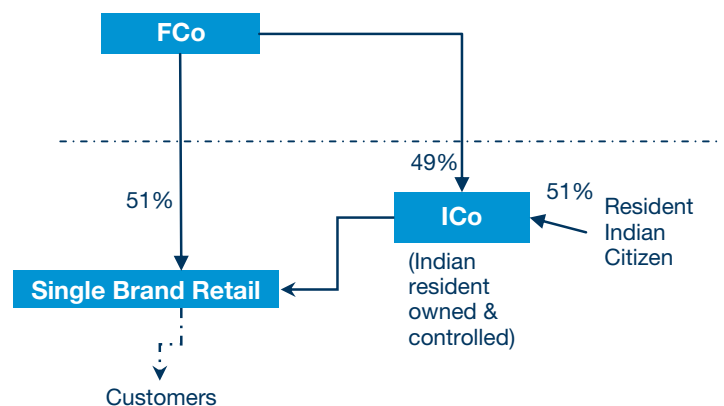
Two recent regulatory amendments are particularly worth noting.

**FDI rationalisation.** The Indian government recently issued guidelines stating that where an Indian company is 'owned and controlled' by resident Indian citizens (or by Indian companies ultimately owned and controlled by resident Indian citizens) any downstream investment by such company is not treated as FDI.

In other words, an Indian promoter is now free to attract foreign capital for making downstream investments — and such investments shall be treated as domestic investments (not FDI) as long as the Indian promoter has majority ownership and control of the company in which the foreign investor has invested. The new policy is a milestone — especially for the retail sector in India.

As per existing FDI policy in the retail sector, up to 51% FDI is permitted for single brand retail with prior government approval. With the revised norms, the Indian joint venture partner company can also have up to 49% foreign investment and the same shall not be counted towards the 51% ceiling as long as the joint venture partner company is controlled by the Indian partner. Consequently, the foreign investor can have enhanced economic ownership in an Indian single brand retail project (51% directly and 49% through an Indian joint venture partner company).

This is depicted by the chart below:



While FDI in multi-brand retail is currently prohibited, it is envisaged that there may be a policy rationalisation in due course.

**Duty and service tax rate cuts.** In late February the government reduced excise duty and service tax rates by 2%: excise duty was decreased to 8% from 10%, while service tax rates were cut from 12% to 10%. The government hopes that these cuts will stimulate demand, increase consumer spending and stimulate the economy. The overall intent is to offer a benefit to companies in the service sector, reduce total costs paid by consumers for services and also move towards a unified goods and services tax regime.

Possible outcomes of these cuts may include:

- Consumer durables—Consumer durables companies may pass on cost savings to consumers in order to stimulate demand.
- Food processing—There may be some impact on soft drinks and food concentrates. Participants in India's food processing sector indicate that most items incur excise duties of less than 10%, decreasing the impact of the duty reduction.
- Gems and jewellery—Those involved in the gems and jewellery sector believe that the reduction in service tax, while minor, will let them reduce the cost of operations in areas such as courier services, airline transportation, contract labour and security agency services.

## Large potential in rural India

Retail and consumer goods companies view rural India as a market for robust revenue growth. In addition to critical mass (almost 70% of India's population resides in rural areas), rural India today is characterised by rising incomes, a healthy agriculture sector, increasing consumption and increasing liquidity levels due to farm subsidies and sales of agri-products. The government of India is also focused on accelerating rural development, which should also empower rural consumers. Media reports suggest that:

- The rural retail market comprises approximately 40% of the USD350 billion Indian retail market.
- Rural India was responsible for a 71% rise in telecom subscriber additions.
- In 2008, FCMG witnessed a 22% growth in cities – and a 57% growth in rural markets.

Some of the challenges associated with marketing to rural India include inadequate distribution networks, lack of understanding regarding consumers' needs and misconceptions about the rural Indian consumer. Regardless, retail and consumer goods companies are engaging in partnerships, educating rural consumers about product benefits, improving distribution networks, allocating robust resources for marketing, creating end-to-end solutions and customising marketing messages, packaging sizes and price points to better suit rural consumers.

Finally, companies are examining their brand portfolios and are increasingly launching private label products to appeal to cost-conscious Indian consumers. They are increasing their private label products in a range of categories, such as food and grocery, FMCG, apparel and footwear.

In summary, India is undergoing an economic evolution and in the process creating new opportunities for global retail and consumer goods companies. Consumer confidence remains relatively high, GDP growth is currently outpacing the developed economies and the regulatory system is gradually becoming more friendly to foreign investment. ■

### India—The world's fourth-largest economy

- GDP growth rate—Average 9% in the last four years
- GDP (in PPP)—USD1.5 trillion (2008)
- GDP per capita (in PPP)—USD4,542 (2008)
- Gross fiscal deficit (%GDP) declined from 5.9 (2002-03) to 3.1 (2007-08).

Source: Central Statistical Organisation (CSO), PricewaterhouseCoopers Research

### India's retail and consumer goods sector – at a glance

- Size—USD350 billion
- CAGR—Over 20%
- Organised retail penetration—Between 5 and 8%
- Contribution to GDP and employment—Retail is 13% of GDP and 7% of employment

Source: PricewaterhouseCoopers Research



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# Managing the move to regional shared service centres



As consumers respond to the current economic downturn, confidence levels have fallen and spending patterns have changed. Smart companies across the globe are developing new strategies to react to these economic challenges. CEOs are re-examining business fundamentals and operating models to allow them to address and adapt to the rapidly-evolving business environment and to take appropriate action once the downturn eases.

In the retail and consumer sector, CEOs are faced with falling profits, eroding market share and margin pressure. The recent PwC survey *Global Sourcing: Shifting Strategies* highlighted the fact that companies in the retail and consumer goods sector are striving for greater efficiency in both their operations and sourcing/manufacturing in the face of a crowded and competitive marketplace. The use of regional centres has experienced profound growth in the recent past, and current trends show these centres moving from a pure focus on cost reduction to a more strategic focus, such as effectively supporting regional growth.

### The regional centre as a strategic tool

One tactic to help companies ride out the current economic storm is to rethink the use of shared services and outsourcing as a strategic tool. While shared service/outsourcing centres have been around for several decades, the lines between implementing them for tactical purposes versus strategic purposes have blurred. We have recently seen more and more organisations using shared service/outsourcing centres as a tool to help achieve strategic objectives; this is in contrast to prior years, where they were more often used for tactical objectives, such as pure cost saving through labour arbitrage.

### What does a regional centre look like?

Implementing shared services is an established approach for organisations looking to free up critical skills and resources, while allowing management to focus on value-creating activities. These shared service centres are typically transactional in nature and usually focus on one specific function, such as finance, in their initial stages. The common model is for the shared service centre first to take on transactional finance activities for business units, with the benefits being reduced risk and simplified processes.

Over time these shared service centres will generally evolve into more sophisticated regional centres including more knowledge-intensive activities, such as budgeting and forecasting for a specific market or region. In addition, these centres will generally expand in terms of scope of function to take on activities such as customer call centres, human resources management, finance management, contract management and operations management. We have seen this evolution continue today, with more and more organisations looking at implementing regional centres to provide robust operational support and management across a range of functions. We have seen this trend both in Asia and globally.

The concept of creating a regional centre is now focused less on cost reduction in terms of labour arbitrage and more on achieving process efficiencies, avoiding costs, managing risk and controls and building an efficient operations support system. In a number of cases these regional centres will expand to provide all manner of shared activities including ones that once might have been considered unsuitable for regionalisation – such as sales, marketing and customer relations activities and treasury and corporate management functions – and which have been traditionally undertaken by business units in country.

The establishment of regional centres, if managed correctly, can be an effective tool to support management in achieving greater efficiencies in business operations – thereby allowing for increased focus on strategic goals such as regional growth. As an example, if management's strategic goal is to increase customer focus and market penetration, the regional centre could be constructed to support business operations to achieve these goals. The responsibility and objectives of the centre would then be to actively manage vendor and supplier relationships, monitor and maintain a tightly-controlled supply chain, ensure sustainability of existing operations and actively track organisational performance and realisation of benefits.

## Pay attention to these critical success factors

PricewaterhouseCoopers has helped a variety of organisations establish regional centres. The recommendations below, while seemingly obvious, are the most overlooked and yet most necessary critical success factors for setting up a regional centre.

- Ensure management support. Setting up a regional centre or evolving a regional centre from an existing function requires top down and bottom up buy-in and support throughout the organisation – it is not a stand-alone activity and will impact all areas of your organisation and business units.
  - Don't underestimate the management skill and experience required. Subordinating project and program management of a regional centre to special project status or to a potentially redundant member of the management team will only result in poor results. Bringing in experienced people and specialist support will significantly contribute to success.
  - Be very clear in defining and resourcing the project, setting up the regional centre and program and running the centre. The resources, at least the management team, should be different and distinct for each area. In addition, the skill sets required to carry out the project and the program are different.
  - Build a comprehensive and detailed roadmap, along with a comprehensive business case that is consistently referenced through the lifecycle of the project.
- Don't forget tax. Tax is an area that is often overlooked yet plays a critical role in establishing a successful regional centre – not just from a regulatory and compliance standpoint but also in terms of financial incentives. Tax incentives can often play a role in making a regional centre a more financially attractive proposition for operations, particularly where an organisation may have manufacturing or other business-related activities in the chosen location, and local authorities offer tax incentives to set up the centre.
  - Ensure change management and communication with all affected stakeholders and users. This is critical, and we often see these as the most discussed yet least applied practices.
  - Set up a steering committee that really can make decisions, is empowered to make resolutions for the whole organisation and has direct board access.
  - Don't try to build an operation that on paper is perfect in every single detail; it will never be perfect on paper. Design something that will establish quick wins and will work with no negative impact on the organisation's operations. Organisations spend years perfecting their operations, and a regional centre will be no different. Management can go live with something that works, and look to 'perfect' it later.
  - Be very committed to setting up an operation and getting it going, not just working through a project on paper which never takes flight.

Increasingly, shared service centres are moving from tactical to strategy tool, with a goal of supporting business growth. Used wisely, they can offer the dual benefits of reducing risk and simplifying business processes. ■



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Transforming your  
value chain? Don't  
forget the tax impacts



Surviving when times are tough requires agility and a clear focus on performance. Smart companies are now taking a hard look at their value chains to find new structures and initiatives that will squeeze out costs and deliver tangible savings. Considering the tax implications of new models can ensure that those savings aren't lost.

Times are tough. Faced with ongoing economic uncertainty, consumers are tightening their purse strings. Retailers and their suppliers are under pressure to maintain current pricing structures. For many, there is an expectation to reduce prices. Consumer prices are falling in Japan and the US and, according to an article in the April 16, 2009 issue of *The Economist*, "barely rising in the euro area". With prices effectively capped, retailers and consumer goods companies are being forced to focus on managing costs in order to survive.

One of the main targets for scrutiny for this sector is the value chain. When times were good, disparate and duplicative value chains were overlooked because the focus was building top-line growth by expanding into new territories or launching new products. No longer able to rely on expanding markets, companies are examining new value chain structures and practices in order to deliver precious cost savings. Typically the models involve undertaking decision-making on a regional or global basis, across one or many parts of the value chain.

### How can tax planning enhance these value chain opportunities?

For many organisations, tax can be a significant cost. American corporate tax rates can exceed 40%, the European average is 30% and the Asia Pacific range is between 25% and 30%. Unless value chain initiatives are managed with tax issues in mind, a large portion of the targeted savings may be lost to tax. By tax advantaging value chain transformations, margin improvements and sales growth can be captured in a low tax environment. Businesses become "hard-wired" for a lower tax result by locating the key decision-making and management of business risks in a low tax territory. More than ever, many companies consider the value chain approach preferable to traditional forms of finance-based tax planning, which are increasingly targeted and attacked by cash-strapped tax authorities.

Each link in the value chain can be tax-advantaged in order to maximise the benefit from these cost-management initiatives.

### Procurement and purchasing

Globally-centralised procurement structures are attracting an increasing level of interest for those seeking to manage their input costs. We helped one large consumer products group adopt a centralised procurement model, with a resulting savings of close to USD 160 million per year. More than USD 20 million of that came from annual tax savings.

Emerging centralised and centre-led procurement models allow for savings from global or regional sourcing to be captured in a tax-efficient way. Centralised models consolidate all purchasing decisions in one location, with potential for tax savings based on the location of this team. Centre-led procurement models have a central team managing common supplier groups, with local teams executing framework agreements.

These procurement structures can save significant costs by:

- Creating a centre of excellence for procurement vision and policies, with streamlined supplier collaboration
- Eliminating duplicative and conflicting procurement efforts, which often produce inefficient inventory positions
- Supporting faster supplier contracting, with better understanding of the supplier base and improved leveraging of buying power for volumes and service levels.

## Supply chain management

Multinationals are demanding that their supply chains deliver cost savings in order to preserve margins. One reaction has been to create a central supply chain management team, which generates substantial cost and quality benefits, including:

- Managing stock levels across several sites, cutting working capital levels
- Enhancing collaboration with suppliers and enabling leveraged buying
- Rationalising manufacturing
- Harmonising product and reducing SKUs
- Coordinating logistics and warehousing services.

A tax-advantaged location for supply chain management increases the benefits by ensuring that the cost savings are captured in a low-tax environment. Tax savings can typically contribute an additional 20% to 25% of the total supply chain savings.

## Sales, marketing and merchandising

Managing sales risks and marketing and promotion decisions can be brought into a centre of excellence located in a low tax territory. This eliminates duplicative costs and divergent marketing messages which may occur when local teams are responsible for advertising and promotion decisions. The impact can be equal to a 5% to 10% increase in sales.

Simplified selling models are particularly attractive to consumer goods groups. A consistent range of products can be sold across several countries, with common marketing messages and pricing points. For example, as food retailers in Europe have become more multinational, consumer goods producers that supply them have adopted this approach in order to manage their promotional programs across the region.

A centralised marketing and merchandising organisation can also be employed by retailers. Depending on the nature of their products, there can be difficulties in adapting product ranges and pricing models for local circumstances, such as local tastes and competitive conditions. However, for those with a stable collection of products and relative conformity across markets, these models are one way to drive efficiencies and cut costs.

## Intellectual property

The retail industry is familiar with the franchise model, which generates royalties for the use of brands and store concepts. The opportunity exists not only for companies that sell their concepts to third parties; low-tax income can also be generated for intellectual property (IP) shared within a group of companies.

Similar models can be employed where specialised teams are responsible for:

- Owning and managing IP (such as brands, trade secrets)
- Developing store designs and store concepts
- Creating new product ranges and product design.

A number of organisations seek to base stand-alone IP in low tax territories. This approach has been particularly popular with IP-rich US groups, enabling a migration of between 25% and 33% of operating profit in some cases.

While these value chain models can increase the after-tax savings of business restructuring programs by tax-advantaging the margin gains, incremental benefits can also be delivered by:

- Moving the pre-restructuring underlying profits from high tax to lower tax territories
- Managing tax losses better
- Lowering internal costs through simpler transfer pricing and fewer intercompany transactions.

## Typical challenges

Any value chain transformation will present challenges – and these should not be underestimated. Accurate and up-to-date information is critical for effective forecasting and planning. Information systems are relied on to provide data from the local markets and support the complex modelling for many territories.

Another issue to manage is the impact on people. New skills and ways of working are often required to successfully implement changes to the value chain. Restructuring brings potential disruption to the business because roles are moved and responsibilities and reporting lines are re-allocated between central and local teams.

Common tax issues arising during value chain restructurings include potential “exit taxes” – the obligation to compensate entities on an arm’s length basis for assets given up or transferred to the centre (e.g. IP, goodwill). Also, many tax authorities require the demonstration of a commercial rationale for the reorganisation. Both of these issues are easier to manage during a downturn.

The difficult economic climate means that there is an urgent pressure to cut costs. By including tax as a cost to be managed in the value chain, retail and consumer goods companies are able to improve their ability to see through the bad times – and make the most of the good times when they return. ■



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Know your customer –  
but guard their sensitive  
information



Managing and protecting personal information were once moral obligations to all and a compliance requirement for highly-regulated industries, such as healthcare and financial services. As global security breach and identity theft incidents have become commonplace – even more so in the current economic conditions – previously unregulated retail and consumer goods companies have come under heavy scrutiny from regulatory and industry groups. Stricter requirements, more laws and regulations, and the potential for substantial brand risk are driving the need to comply with good data security and privacy practices that go beyond high-level policies and technology solutions.

### The threat grows

As retail and consumer goods companies deal with the downturn of global markets, many continue to face a challenging dilemma related to how they collect, use, manage and protect sensitive information. Sensitive information can take many forms depending on its value to the organisation; it commonly includes the personally identifiable information (PII) of customers and employees. The dilemma has escalated to an enterprise requirement due to various regulations, contractual obligations and heightened scrutiny from consumers based on the increasing number of large-scale and highly-publicised security breaches.

Examples of regulations include the US Breach & Disclosure laws, EU Data Directive, India's Information Technology Act, Article V of the Constitution of Brazil and Japan's Personal Information Protection law. These laws have existed for years; however, only recently has a consistent level of funding been dedicated to compliance. Contractual obligations such as the Payment Card Industry (PCI) Data Security Standard (DSS) seek to enforce the protection of small subsets of PII and require merchants to provide annual certifications of compliance, either through internal assessments or external assessments conducted by third-party firms. The issue is further magnified for global organisations as many of the laws are duplicative, with differing enforcement actions and restrictions related to cross-border data transmission.

### Serious risks of non-compliance

Consequences for non-conformance with these regulations include fines, increased operating costs and criminal actions against company officers. For companies that suffer major breaches of PII, both tangible and intangible losses will result. Many studies have tried to measure the tangible losses, each using different metrics, with one consistent conclusion: tangible losses can be substantial and most often come in the form of lawsuits, fines, mandatory credit monitoring services and forced enhancement and monitoring of security and privacy programs. What's more, research has indicated that consumers will change their spending patterns with an organisation if they determine it is improperly using or protecting PII. Recent incidents have shown that consumer and investor confidence is impacted, resulting in immediate damage to an organisation's brand, as evidenced by highly-publicised incidents such as Dai Nippon Printing Company (8.6MM records), TJ Maxx (94MM records), Heartland Payment Systems (about 100MM records), and HM Revenue and Customs (25MM records).

Many organisations have exerted substantial effort to address risks involved in collecting PII. In many cases, the effort is focused tactically, often using a silo approach, and applying specific technical or procedural controls to differing types of sensitive information based on the regulations or obligations. While this often reduces the compliance risk, it has often proven to be inefficient and costly when operating across different geographies and business units. For example, an organisation may collect PII that is subject to multiple data protection mandates

with the use of that data spread across various business units. Each of these business units recognises either their legal or contractual obligation but fails to see the commonality and overlap within the enterprise. Individual project efforts are pursued with little or no collaboration, leading to redundant processes, resources and in some cases technology solutions. This increases the cost to the enterprise and also raises the risk of non-standardised or inadequate solutions that fail to align with current and future business and regulatory needs. Furthermore, focusing only on the compliance aspects does not typically result in reducing overall risk, adequately protecting PII or preventing security breaches.

## What Works

In our experience, successful organisations have taken a holistic risk-based approach. These companies focus on changing business processes to ensure that PII is only collected when allowable and when it has specific value to the organisation. Also, successful organisations are investing appropriate resources to build solutions and processes that apply consistent data management and protection principles. While this approach helps reduce forward-looking risk, additional focus and effort is required to reduce the risk associated with the historical proliferation of PII throughout an organisation. Often the cost associated with “paying for the sins of the past” is substantial, and the most common mistake is “not knowing what you don’t know”. It is typical for an organisation to quickly realise that PII that was collected in the past has been scattered across the organisation, making it difficult to determine how, when and where to begin data-purging strategies.

Knowing your own business is the key to the puzzle. This means understanding the points of collection and maintaining control of the information throughout its lifecycle. Traditional collection, processing and transmission methods such as point-of-sale and electronic commerce channels are important to consider, but attention should also be paid to the nonstandard or emerging methods of reaching the customer. These new methods include technologies and sales channels such as Web 2.0, customer centric e-commerce, social networking, and alternative marketing methods such as mobile advertising. Understanding the data lifecycle requires both a top-down (identifying business process collection points and where they push data) and bottom-up analysis (identifying data elements contained within the technical environment regardless of the technology’s connection to a business process). This hybrid approach allows you to make informed decisions on the appropriateness of historical data and the best way to reduce risk, most often resulting in purging the unneeded data or implementing security and control measures to ensure data is kept only when appropriate and always subject to appropriate security/controls.

## Summary

The traditional drive to “know your customer” now carries substantial cost and increased risk, as companies balance the need to know with the ability to protect what they know from unauthorised and inappropriate use. In the current economic and regulatory environment, the need for retail and consumer goods companies to apply good practices over the management and protection of PII is even more urgent. We expect this issue to continue to become more complex and more important due to new regulations, contractual obligations and high profile security and data-breach incidents. Initial steps to consider as you develop data protection and privacy programs include:

- Identify and assign program stakeholders and sponsors that hold influential positions within the organisation (e.g. senior executives) to champion the data security and privacy foundation of the enterprise.
- Inventory all business functions across the enterprise from domestic to international operations and understand the data collected.
- Research and develop a common enterprise understanding of all regulatory, business and contractual obligations/requirements for data protection and privacy impacting your organisation.
- Classify all known enterprise data elements, both structured and unstructured, into appropriate groups based on sensitivity or regulated nature and establish a common data protection control framework that reflects the classifications.

Successful companies will address this need using a holistic approach through a combination of business process, operational procedures and technical solutions that enhance an organisation’s ability to manage this critical enterprise risk. ■



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