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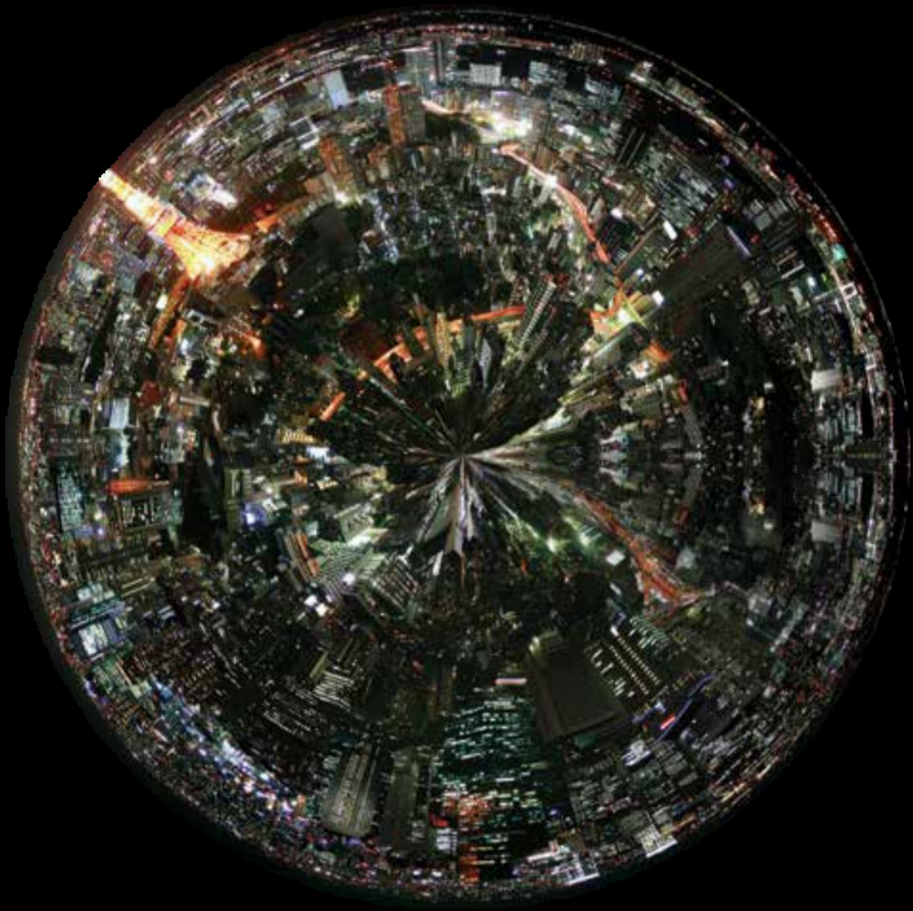

CFO Perspectives

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CFO Speaks

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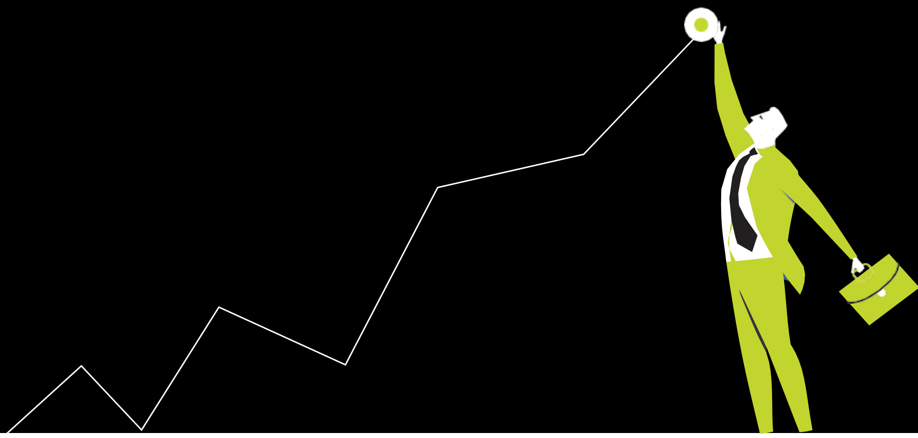

1. **With regular government interventions on policies and decreasing COVID-19 cases in the second wave in India, what are your views on the revival of the Indian economy in the next few months?**

   A variety of indicators seem to point at plateauing of the second wave of the pandemic. While count of new cases reported everyday has started falling, the active cases continue to remain at a high level.

   With better visibility of the peak of COVID-19 cases and the impact of lockdown, a relook at FY22 growth estimates is warranted. Economic activity has certainly fallen from pre-pandemic levels by 25–30 percent. Urban consumption recovery through pent-up demand is expected to be weaker than the first wave. While agriculture output looks resilient, other factors seem to be less conducive of rural consumption in FY22. Even before the second wave, private investment recovery faced headwinds from weak domestic demand, low capacity utilisation, and ongoing COVID-19 uncertainties. Less severe (focused on high impact areas) lockdowns than the first wave, better geared up organised sector, controlled long-term scarring, boost in external demand, and vaccination drive in the second half of the year could certainly be helpful.

   The recent budget announcements have been encouraging for the healthcare sector.

   A significant increase in the budget outlay for the healthcare sector focusing on basic preventive healthcare and health hygiene initiatives (the Government plans to increase public healthcare spend to 2.5 percent of GDP by 2025 from the present 1.26 percent), fund allocation of INR 64,200 crore over the next six years under Prime Minister's Atmanirbhara and Swastha Bharat Yojana will certainly have a positive impact on the healthcare sector in many ways. These include a boost to Active Pharmaceutical Ingredients (API) and bulk drugs production.

   Additionally, a high emphasis on financial inclusion – getting more population into the formal economy – Aadhar, Pradhan Mantri Jan Dhan Yojana (PM-JDY) initiatives, and the bold step of assets monetisation by the privatisation of Public Sector Undertakings (PSUs) to generate funds for growth initiatives, improvement in some other parameters (such as improvement in ease of doing business ranking), rapid growth in wealth and purchasing power, improvement in average saving rate are also reassuring. Overall, I remain quite hopeful and positive on the economy's revival, albeit, over a period of time in a phased manner.

2. **India is rapidly increasing its presence in global pharmaceuticals. It is the largest provider of generic medicines globally (with a 20 percent share in global supply by volume and supplies 62 percent of the global demand for vaccines). Given this, what is your outlook on the Indian pharma industry?**

   The India pharma industry is certainly on a growth trajectory. The government's focus to make India the pharmacy to the world is quite visible. India is already the world's largest supplier of low-cost generic medicines with the second-largest number of United States Food and Drug Administration (USFDA) approved and World Health Organization (WHO) compliant plants outside US. The pivotal role that India has played in this pandemic speaks about its ability and prowess in innovation/manufacturing/distribution of medicines. The Indian pharma industry is critical for global landscape, considering its role in manufacturing medicines particularly generics and now vaccines.

The India pharma industry is poised and aspiring to grow at a CAGR of 11–12 percent to increase its revenue to more than US$ 100 billion by 2030. The plans to set up mega bulk drug parks over the next five years, and announcing of Production Linked Incentive (PLI) scheme for the healthcare sector and "Atmanirbhar" Yojana would go a long way in boosting API and bulk drug manufacturing and reducing India's dependency on other countries.

The pharma industry is also gearing up to address changing disease patterns from acute to chronic and meet unmet medical needs through the launch of innovative therapies and medicines. While the regulatory environment is being simplified, there exist a scope to do more in this space to speed up the process of bringing newer innovative medicines to patients, and support and protect innovations.

3. What are some of your focus areas for business growth – organic or inorganic?

As mentioned earlier, the focus areas are − addressing affordability concerns, overcoming access barriers, launching innovative therapies/medicines to address unmet medical needs, and using public-private partnerships for reaching innovative medicines to patients and channel management initiatives (including newer go-to-market models to enhance the reach and focus on "winning for patients"). The business growth is seen from the perspective of supplying medicines to maximum possible patients.

The Indian pharma market has not witnessed any mega mergers or consolidation in the past few years. The major activities in the inorganic space have been focused more around portfolio realignment, marketing, and distribution alliances in the form of co-marketing, co-promotion, and co-branding.

4. Given the high compliance requirements, including the FDA norms for pharma companies, how do you balance the risks and the associated costs?

With my experience of almost 25 years in the pharma industry (globally and locally), I strongly believe in two things. One, "the cost of compliance is always less than the cost of non-compliance" and second, "compliance is conducive and complimentary to the business growth and strategy and not a hindrance." The pharma industry has always been a highly regulated industry and for right reasons.

Driving heightened compliance agenda and awareness across the organisation is integral to enterprise risk management. Continuous and proactive risk assessment and mitigation, adhering to relevant regulations and laws in letter and spirit and fostering right mindsets/behaviour across the organisation is indeed a key to success, sustained business growth, and value creation. Compliance is a continuous journey with ever-evolving business risks and changing regulations. Therefore, building organisational capabilities and compliance platforms (such as right systems/processes/tools), and using external expertise as deemed necessary to drive strong governance, are imperative. These spends need to be evaluated more as investments and our irrevocable commitment to multiple stakeholders, and society at large, not as the cost of doing business.

Needless to state, the corporate image, brand equity, and general perception of the organisation and industry are directly related to and dependent on our commitment to compliance and quality.

5. We have seen that with the advent of digital, the finance function has been transforming each day. To what extent do you witness the change in the finance function's role in your organisation?

With the launch of digitalisation, the role of the finance function and CFO has undergone a major and positive change in many ways. First, an integrated system platform, such as Enterprise Resource Planning (ERP), was set up that covers business, and accounting processes have been made inherent to the digitalisation process. The platform enables real-time accounting of transactions and business analytics. This helped organisations to set up transactional hubs, such as Centres of Excellence (COEs), to use scale of operations (cost and knowledge arbitrage), and drive simplification and standardisation. There is significant savings in time, management bandwidth for the finance function, and CFOs that now can be more efficiently and productively used for driving business growth/strategy, risks and opportunities management, and business partnering.

Second, digitalisation in the banking sector, various regulatory agencies, including tax administration (direct and indirect taxes), have brought in significant ease in business operations. This led to much-needed transparency, high speed of action/response, objectivity, reduced litigations, and overall good governance.
Third, the system-imbedded controls have significantly improved the compliance and control standards, and reduced the need for multiplicity of manual checks and controls (which are often time consuming and error prone).

There is a paradigm shift. Significant efficiency is achieved in closing books of accounts, completing audits in a short time, submitting statutory and tax returns, and responding to internal and external information needs almost on a real-time basis. This enables informed decision-making and proactive management of risks and opportunities.

Last but not the least, the current prolonged pandemic situation and Work from Home (WFH) has given further stimulus to the digital transformation process, particularly related to our interaction and interface with external stakeholders, namely, healthcare professionals, patients, distributors, vendors, regulators, bankers, payers, and service providers.

The pharmaceutical industry has been adapting fast to the new normal and changing business dynamics. The insurgence of ePharmacy, telemedicine, tele healthcare solutions, and virtual connect with Healthcare Professionals (HCPs) have become integral part of the 'new normal'. The finance function is also evolving to deal with this paradigm shift in business dynamics.

Expert views

Changing consumer sentiments driving retail innovation amidst an ongoing global pandemic

The pandemic has changed the way an Indian consumer views the end-to-end retail experience. Across the country, lockdown restrictions have led to limited product availability, a shift to online shopping experience, and fewer marketplace options.

Deloitte State of the Consumer Tracker, an ongoing initiative to track consumer sentiments, recently revealed a growing trend towards convenience, social well-being, and blended commerce models. Over the past 12 months, consumers have started prioritising safety and hygiene, with 78 percent consumers showing concern for their physical well-being and avoiding visits to stores.

Retailers have responded to the pandemic and the change in consumer needs by moving away from traditional brick and mortar stores, towards integrated multi-channel offerings. Digital collaborative distribution models have emerged, providing customers a personalised and consistent Offline-to-Online (O2O) experience. The share of e-commerce and D2C channels is expected to rise due to increasing digital spends by millennials, a rising need for convenience, and growing in-home consumption.

Retail evolution drivers

The latest edition of Deloitte's Global Powers of Retailing report analysing the top 250 retailers brings some interesting factors, driving their success stories. The following key themes have emerged:

Response to store closures: The impact of mall closures and restriction on non-essential goods sales forced many businesses to pivot their product portfolios to provide essential goods, absorb contribution margin losses, or remain permanently shut. Successful retailers operated across different business models and identified new channels to directly reach consumers that enabled them to minimise the impact of forced store closures.

Digitally savvy retailers: Retailers with a digital DNA were well placed to manage the pandemic's impact. They were able to respond, recover, and thrive faster. Conversely, companies that relied solely on traditional distribution channels were at a disadvantage. They had to rebuild their networks to adopt a more digital approach.

Consumer "stay-at-home" focus: Companies have seen a significant number of purchases originating from e-commerce channels. Per Deloitte's State of the Consumer Tracker, more than 70 percent consumers prefer staying at home and paying more for the convenience of home delivery. Retailers have been re-evaluating their product offerings and consumer strategy to best serve this consumer preference. As a result, we see a shift towards value-for-money large packs and ongoing investment in digital technologies to serve the increasingly connected consumer.

Retailer product category mix: Consumers have shown an increased preference towards spending on groceries, household goods, and medical products as they continue to hold back on discretionary products to preserve cash. Companies have to re-evaluate their product mix to align with these changing consumer preferences, particularly from an increased focus on convenience and health.

E-commerce growth story

Digitally influenced non-linear customer journeys and development of integrated omnichannel retail experiences have led to a high adoption of e-commerce-based retailing models. This trend is expected to lead to innovative offerings from companies.

The growth and emphasis on e-commerce is not restricted only to tier 1 and 2 cities, with significant contribution coming from rural India. In fact, during the first wave of the pandemic, we saw rural India driving revenues in retail. Several players are forging new strategic alliances to expand distribution capabilities and direct coverage across rural parts of the country.

Future of retail

Several trends have emerged over the past 12 months – growth in e-commerce, more diversified product portfolios, availability of hyperlocal delivery models, evolving consumer preferences, and an increased focus on health.

Looking ahead, brands and retailers will need to realign their businesses and priorities across manufacturing, distribution, and product mix, enabling them to improve their responsiveness to a constantly evolving market landscape. Companies are updating business models towards more D2C and omnichannel options. They are increasing investments to digitalise their supply chains to operate efficiently and allow them to evolve as trends change. Retailers can see the pandemic as an opportunity to disrupt the traditional shopping experience and create something truly connected.

About Deloitte's CFO Programme

The CFO Programme brings together a multi-disciplinary team of Deloitte leaders and subject matter specialists to help CFOs stay ahead in the face of growing challenges and demands. The programme harnesses our organisation's broad capabilities to deliver forward thinking and fresh insights for every stage of a CFO's career – helping CFOs manage the complexities of their roles, tackle their companies' most compelling challenges, and adapt to strategic shifts in the market.

For any feedback, suggestions, or additional information, please write to us at incfo@deloitte.com

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