

Illustration By Sanjay Dalvi

PERFECTING THE SUPPLY CHAIN TO GAIN MARKET SHARE

For a retailer, it is all about selecting the right distribution system as his choice could have a direct bearing on the quality of service offered to the customer and the cost of service. The system not only has to reduce costs, but also add to a company’s bottom line system wide. The direct store delivery and centralised distribution systems are the two preferred choices for retailers. But before finalising on which distribution system to implement, a retailer has to consider factors such as store density in the identified service area, manufacturers’/vendors’ distribution infrastructure and capabilities, store format & location and cost consideration among others. It is only after considering these factors and weighing the pros and cons that a retailer should finalise on a distribution system, which will help him emerge a winner in the marketplace.

A decision regarding the selection of a distribution system for store replenishment is highly critical as it has a far reaching impact on the business. This impact could be in terms of both – the quality of service offered to the customer and the cost of service. At one end is the 100 per cent availability of all products on the shelf, while at the other end is the lowest cost incurred to ensure the same. The adopted distribution system should address both these parameters and should be capable of striking a balance between availability and cost.

DISTRIBUTION MODELS

Distribution modelling is one of the most discussed and debated subjects in the retail sector. The following two systems are often discussed and compared:

- *Direct Store Delivery (DSD)*: This is used to describe a method of delivering products from a supplier or distributor directly to a retail

store, thereby bypassing a retailer’s distribution centre.

- *Centralised Distribution (CD)*: This network describes the flow of goods from the manufacturer’s distribution network to a distribution centre (DC). The replenishment orders of the multiple outlets are then processed, consolidated and delivered to the outlets at the DC.

DECISION DRIVERS

Before analysing the pros and cons of various systems, it is important to understand how the following factors drive the decision:

Store density in the identified service area

Setting up a standalone back end system is a costly proposition. There should be sufficient number of stores

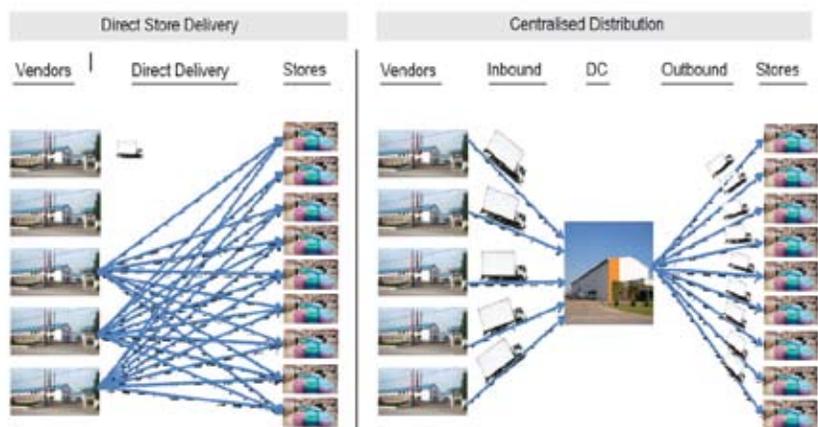


Figure 1: Pictorial representation of Direct Store Delivery and Centralised Distribution models

to be serviced in the identified area so that the back end cost is spread across more stores and hence, optimised. It should be physically feasible to service the area identified within a reasonable time i.e., the order to delivery cycle needs to be reasonable. Thus, the radius within which the stores fall is an important consideration. As a thumb rule, the transit time below 12 hours is a desirable expectation. A cost-benefit analysis of both the systems i.e., DSD v/s CD is a must. While taking the decision, immediate future store opening plans also need to be factored in.

Manufacturers'/vendors' distribution infrastructure and capabilities

Reliability and consistent deliveries to the stores are critical. Generally, major manufacturers and vendors operate through a structured distribution channel. The challenge arises when one deals with a medium or a minor vendor or one's stores are not within the urban township. In such a scenario, the vendor needs to be flexible to meet the business challenges, particularly during the start up stage.

Store format

The size and format of the store impacts the replenishment system. For example, a large sized cash & carry format ordering in bulk will have captive storage facility. In such a case, a DSD could be a good option. But the same may not be the case with a small format store.

Store location

Another important factor, which influences the distribution system selection, is the store location. If there are restrictions and constraints in free access to the stores, then a DSD may not be an efficient system and multiple small frequent deliveries may not be an option. In most of the cases, the vendor's delivery timings clash with business hours and interrupt the focus on the front end. In such a case, a CD will be a good option as suitable delivery timings could be worked around the constraints.

Profile of the merchandise

The profile of the merchandise in terms of volumes, freshness, shelf life, size & shape, handling challenges, etc. plays an important role in the choice of the delivery system.

Cost consideration

Retailing is a low margin business, driven by volumes and saving on all-round costs is an integral part of building a sustainable business. Hence, any decision on the distribution system cannot be taken without doing a cost-benefit exercise. The cost to be considered for this purpose is the overall system cost in the supply chain i.e., the cost of all the stakeholders like the manufacturer, vendor, DC, vendor's distribution channel, stores, etc. This is because irrespective of whoever incurs costs in the system, the end customer ends up paying for it.

FLOW THROUGH OR CROSS DOCKING

Flow through or cross docking is a bridge between the DSD & CD model used in the back end to bring in efficiency and cost savings. Here, the vendor packs & labels the merchandise for the individual stores and then directly delivers to the DCs. At the DC, they are unloaded and then simply cross docked and loaded to the outbound vehicle. This saves space, working capital, time, efforts and minimises documentation. High-value products, seasonal merchandise, promotion items, etc. could be routed through this system.

GLOBAL PRACTICES

Let us understand how various major global retailers handle the store deliveries:

Walmart

Any discussion on retail needs to start with Walmart, the US\$422 billion world's No. 1 retailer. It is widely known that Walmart is innovative and efficient in its back end & front end. In fact, its USP of 'Every Day Low Price' brings to the fore its better purchasing and supply chain competitiveness. The key to a retailer's success is his ability

to drive costs out of the supply chain and manage it efficiently. Many supply chain experts refer to Walmart as a supply chain-driven company that also has retail stores. The first Walmart store opened in 1962 and the first DC in 1970. From there on, till today, it successfully continues to work with the CD model with some level of fine-tuning for different countries, locations and markets.

Walmart confined to its time-tested distribution model when it entered India with an arrangement with the Bharti Group in 2007. All its small format retail stores in the entire northern region were serviced out of



McDonald's Success Story

Apart from the food & grocery retailers, there are many other segments where the Centralised Distribution model has been successfully implemented. Quick Service Restaurants (QSR) and some foodservice segments use such a system. McDonald's, the global leader in QSR business, is a case study. They operate under this system in all the global markets. In India, too, they started with the centralised model right from Day 1, when they opened their first outlet in 1995. Initially, they operated out of two Distribution Centres (DCs) – one in the north and the other in the west. Today, about 240-odd McDonald's outlets are serviced out of these two DCs and another two satellites hubs at Bengaluru and Kolkata. Ever improving inventory turns, reducing supply chain cost per outlet, consistent and predictable deliveries to outlets, comfort and convenience to vendors, faster new openings, full customer focus at the outlets and happy customers are the major benefits McDonald's enjoys. In fact, the back end supply chain efficiency gives it an edge over its competitors.

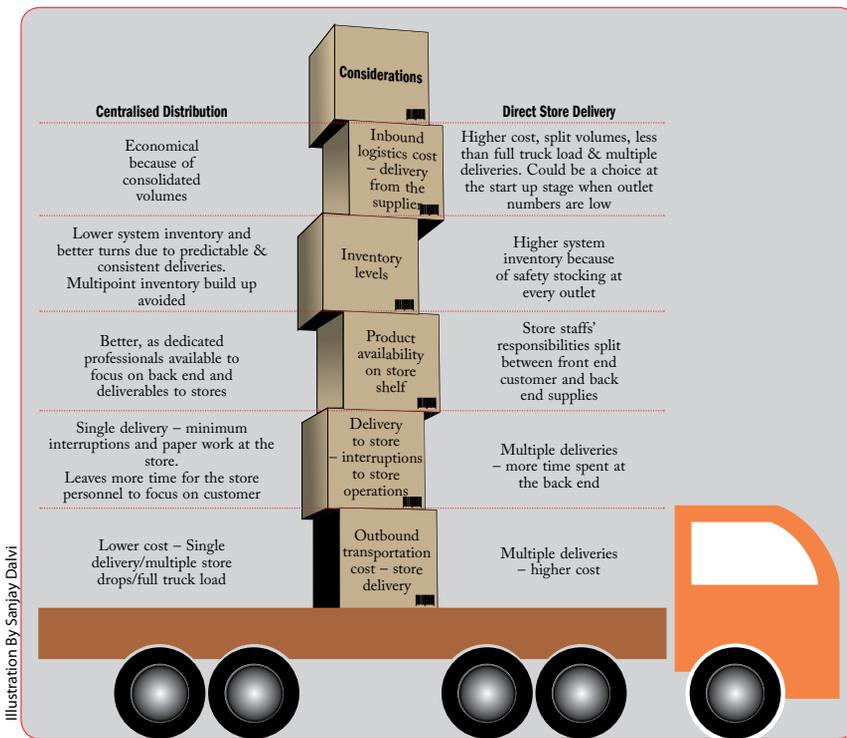


Figure 2: Pros and cons of Centralised Distribution and Direct Store Delivery models

the 80,000sqft central DC at Banur in Punjab. This centre included a facility to store and handle temperature-controlled merchandise too. Vegetables & fruits were exceptions, which were shipped out of a separate collection and consolidation centres. Initially, for the first two years, all the stores in northern region, including those in NCR, Rajasthan, UP, Uttarakhand, etc. were serviced out of the Banur DC. Though the operation at the DC is outsourced, Walmart controls and intensively oversees the functioning. Later, it added two more DCs - one in NCR and another one in Bengaluru.

Carrefour

The €101-billion French retailer is No.2 in the world in terms of generating revenue. It opened its first store in 1958. Like Walmart, Carrefour's stores depend on the supplies from the central DC. Carrefour also uses their centralised consolidation centres, which are designed for smaller suppliers. These suppliers ship their goods to a consolidation centre run by one of Carrefour's third party logistic (3PL)

partners instead of directly shipping it to a Carrefour DC. Smaller suppliers whose goods do not sell through quickly in stores present problems to retailers. The retailer can take truckload shipment, but then, it has to store the goods in warehouses for a longer period of time, thus incurring increased inventory carrying costs and spoilage. The retailer could also take less-than-truckload shipments, which raises the cost of the goods, clutters the DC yard, and makes the receiving process more labour intensive. However, if a consolidation centre covers a broad enough region, both the goals can be achieved. The consolidation centre can receive full truckload shipments more frequently. The merchandise from the consolidation centres flows through the DCs to the stores against specific orders. Carrefour's India entry is constrained by FDI regulations. Its visibility is limited to one wholesale cash & carry in Delhi.

Tesco

Tesco, the £61-billion retailer, is the third largest in the world in terms of

revenue. It opened its first store in the UK in 1929. Like other leaders, Tesco too follows the CD process to service its stores with some localisation for specific markets. Tesco has a limited presence in India. In 2008, it announced their intention to invest in India and tied up with Tata Group's Trent to open Star Bazaar hypermarket stores, which are predominantly serviced through a CD centre. All other leaders like Metro AG, Target, SPAR, etc. conceptually adopt the CD model with suitable modifications required to match the format or the local market needs.

WINNING FORMULA

The Indian breed of organised retailers like Reliance, More, Big Bazaar/Food Bazaar, etc. follow the same CD model. Though the model is conceptually established, the operational stability is yet to be achieved. The full benefit of such a system will accrue only after perfecting the operation. The unorganised retailers in India, who are now in majority, still use the DSD model and have achieved success. It is rightly believed that over a period of time, organised retailers will emerge stronger with the benefit gained from perfecting their supply chain, marketing and management.

The CD system is a proven model for retailers. But its effectiveness depends on the rigidity of the implementation and its interface with technology. Depending on the local realities, some work around may be essential, especially in a start up environment. No concept is complete unless it cuts costs, saves money and adds to the bottom line, system wide. All decisions need to be fit within this parameter. Understanding, tracking and computing the realistic costs then gains prime importance. But incurring additional cost in the beginning to build a viable system for the future is the call of the day. Many leaders have taken this route before emerging winners in the marketplace. ■

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