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Supply chain management and its role in retail industry

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Abstract

Indian industries due to globalization facing lot of competition, in order to protect the business interest, every industry is trying to improve their process it could make the cheaper product with better quality. For that purpose industries are trying to redefine, reorganize and reengineering their traditional processes. More emphasis is given on the effectiveness of the whole supply chain rather than single function of the supply chain. Supply chain management is complex process of different function; involves so many issues at different levels. And many organized retail stores adopted six sigma concepts to reduce the cost, defect, cycle time reduction and to increase the customer relationship management, market growth share, productivity and product and service management. The objective of present work is to find out the importance supply chain management in organized retail markets and impact of supply chain management on organized retail markets. And to find out the problems areas in supply chain management on organized retail store (Critical to customer, critical quality and voice of the customer and even in terms of mediators).

Keywords: Supply Chain, Retail, Industry

Introduction

In the organized retail market in India the role of supply chain is very important for the Indian customer demands at affordable prices a variety of product mix and it is ensure to the customers in all the various offering that company decides for its customer, be it cost, service, or the quickness in responding to ever changing taste of the customer. Presently, we are seeing that customers have a good knowledge and awareness about merchandise, they also know who the manufacturer of these particulars is and what the basic objective of manufacturer towards customers is. Today's customers are very intelligent, smart, talented and busy and they want all the things in their hands with comfort and with convenience. Retail sector always indicate that all merchandise will be available under one roof and in a hand of customers by providing time, place and possession utility to customers. So in this regard there is total responsibility of supply chain management to make it success. In the absence of it, none can assume the success and even growth of retail sector.

Supply chain management is a topic of importance among the logistic researchers because it is consider with a competitive edge. Supply chain management deals with the management of materials, information and financial flows in a network consisting of suppliers, manufactures, distributes and customers.

From an analytical point of view a supply chain is simply a network of material processing cells with the characteristics such as supply, transformation and demand. Supply chain management is management of a network of interconnected businesses involved in the ultimate provision of product and service packages required by end customer. Supply chain management spans all movement and storage of raw material work in process inventory, and finished goods from point of origin to point of consumption.

The success in this competitive and dynamic sector depends on achieving an efficient logistics and supply chain, which can be provided by professionals, as they combined the best systems and expertise to manage a ready flow of goods and services. The retail boom promises to give an impetus to host of allied sectors and the logistics industry, as the back bone of the retail sector, stands to gain the maximum. In India the logistics market is mainly thought to mean transportation. But the major elements of logistics cost for industries include

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transportation, warehousing etc., and other value added services such as packaging. The Logistics cost accounts of 13 percentage of GDP (Gross domestic product). The industry is currently on an upswing and is poised for a growth of 20 percentages in the coming years. With extension of retail supply chain will take on an increasingly important role. With the end consumer becoming more demanding and time conscious, the need for just in time services is increasing. In retail where competition is intense and stakes are high, customer satisfaction is paramount.

India is witnessing changing life styles, increased incomes, the demographic variability's and vibrant democracy. Indian retailing is expanding and is expected to reach at US \$637 billions by 2015. Modern retail is soon capturing 22% share in total retail by 2011 with the expansion of 12 millions outlets and provision of creating 1.5 millions jobs in 2 to 3 years. The industry is playing vital role in the economic growth of the country. The concept of shopping is moving in and around hypermarkets, supermarkets, and specialty stores and in other formats. Retail industry is one of the key upcoming sectors in India contributing major to employment generation. Retail in India is featured with street markets and convenience stores which accounts for 96% of retail business. Most of the stores are very small with an area of less than 50 sqcm.

Research Study

The role of supply chain in Indian organized retail is very significant for on it depends the growth of this sector. The Indian Supply Chain Council have been formed to explore the challenges that a retailer faces and to find possible solutions for India. The role of supply chain management in retail sector is self-centric. Means there us a mutual partnership between retailers and the manufactures. And this will indicate that they are loss free from the external hurdles and the response of that will give to growth to top and bottom management. As we take the example of fresh products (vegetable and fruits) in the organized retail sector then definitely we find that is a less availability. This is so for the nature of supply chain is very fragmented. This shows the important role of supply chain in the organized retail sector. In the organized retail market in India the role of supply chain is very important for the Indian customer demands at affordable prices a variety of product mix. It is the supply chain that ensures to the customer in all the various offerings that a company decide for its customers, be it cost, service, or the quickness in responding to ever changing tastes of the customer.

The infrastructure in India in terms of road, rail, and air links are not sufficient. And so warehousing plays a major role as an aspect of supply chain operations. To overcome these problems, the Indian retailer is trying to reduce trans portion costs and is investing in logistics through partnership or directly. The Indian organized retail sector is growing so the role of supply chain becomes all the more important. It should become all the more responsive and adaptive to customers demand. There is also need for the supply chain to be more cost efficient and collaborative to win the immense competition in this sector. The role of supply chain in Indian organized retail has expanded over the years with the boom in this industry. The growth of the Indian retail industry to a large extent depends on supply chain, so efforts must be made by the Indian retailers to maintain it properly.

The strategic significance of the supply chain is clearly

understood by retailers and manufacturers, who recognize that the correct supply chain strategy presents a source of competitive advantage: "We don't have as much buying power as some of our competitors, therefore our supply chain must allow us to compete" Retailer. "Logistics has moved very firmly from being seen as a necessary evil to something that can add enormous value when it's working well" Retailer. "Logistics is definitely about value-add now, but it wasn't always the case" Manufacturer.

The report found that a company's financial performance and its position in the supply chain also has a bearing on organizational strategy, such that most evidence of customer focused behaviour and decision making is to be found within organizations that are performing well. However, the reality is that truly focusing on end customer needs requires excellent forecasting or an extremely responsive supply chain. This report reveals a trend of manufacturers successfully working towards increasing product flow, partly as a result of the demand from their retail trade customers. One of the most important challenge in organized retail in India is faced by poor supply chain and logistics management. The importance can be understood by the fact that the logistics management cost component in India is as high as 7% - 10% against the global average of 4% - 5% of the total retail price. Therefore, the margins in the retail sector can be improved by 3% to 5% by just improving the supply chain and logistics management.

The supply chain management is logistics aspect of a value delivery chain. It comprises all of the parties that participate in the retail logistics process: Manufacturers, wholesalers, Third Party Specialists like Shippers, Order Fulfilment House etc. and the Retailer. Here, logistics is the total process of planning, implementing and coordinating the physical movement of merchandise from manufacturer to retailer to customer I the most timely, effective and cost efficient manner possible. Logistics regards order processing and fulfilment, transportation, warehousing, customer service and inventory management a interdependent functions in the value delivery chain. It oversees inventory management decisions as items travel through a retail supply chain. If a logistics system works well, the retail reduces stock outs, hold down inventories and improve customer service – all at the same time. Logistics and supply chain enables an organized retailer to move or store products more effectively, efficient logistics management not only prevents needless movement of goods, vehicles transferring products back and forth; but also frees up storage space for more productive use. Retail analysts say on-time order replenishments will become even more critical once the Wal-Mart/Bharati combine begins operations – the American retailer works almost entirely on cross-docking and is likely to demand higher service levels, including potential levies for delays in shipment. The efficiency and effectiveness of supply chain and logistics management can also be understood by the fact that modern retail stores maintain lower inventories are kept; while in a modern retail store like hyper city its nine days and its under two weeks for Food Bazaar. Now, it is beneficial for both the manufacturer well as the retailer. If we go through the following food supply chain in India, we find that a lot can be improved by maintaining the supply chain and logistics.

Significance of the study

In India, about 60 percent of food quality is lost in the supply

chain from the farm to the final consumer. Consumers actually end up paying approximately about 35 percent more than which they could be paying if the supply chain was improved, because of wastage as well as multiply margins in the current supply structure. The farmer in India gets around 30 percent of what the consumer pays at the retail store. Compare this with the situation obtaining in the USA, where farmers can receive up to 70 percent of the final retail price and wastage levels are as low as 4 to 6 percent. One can easily understand the benefits that could be generated from emulating those practices and tapping that expertise for the supply chain in India. As supply chain Management involves procuring the right inputs (raw materials, components and capital equipments); converting them efficiently into finished products and dispatching them to the final destinations; there is a need to study as to how the company's suppliers obtain their inputs. The supply chain perspective can help the retailers identify superior suppliers and distributors and help them improve productivity, which ultimately brings down the customers costs. At the same time, Market logistics helps planning the infrastructure to meet demand, then implementing and controlling the physical flows of material and final goods from point of origin to points of use, to meet customer requirements at a profit.

Till now most retailers in India have invested majorly into the front end, but relatively little on the back end and supply chain. Even in countries like the USA, Germany and England, where organized retail is highly developed; supply chain efficiency is a major concern. The nature of retail sector in India is different from other countries around the world. The organized retail sector in India is highly fragmented and there are huge inefficiencies in the supply chain. The most important part of retailing business is to find a balance between investing in frontend and back-end operations. The channel dynamics is going to change over next couple of years as the retailers start growing in size and their bargaining power is likely to increase. Probably that would bring some kind of mutual understanding between manufactures and retailers to develop strong supply chain network. In such a scenario, both the existing operators and new operators must put collaborative efforts to phase out inefficiencies in the supply chain network.

The success of Wal-Mart is well known all across the world. One of the major factors behind their success is the right implementation of supply and logistics management. Now the same supply chain and logistics management take a front seat here and that's why Wal-Mart is coming to India in a joint venture with Bharti Group. Here, Wal-Mart is going to manage the back end operation, while Bharti will manage the front end operation. Wal-Mart has also started that it would replicate its global supply chain model in India, while taking into account the unique feature of the Indian market. They are also going to emphasize on local sourcing of goods. Besides sourcing locally, Wal-Mart, through its international operations is also in a position to source globally. The company is set to roll out its first set of stores by the first quarter of 2008, in cities that have a population of one million. Wal-Mart claims it will take 35% of the Indian retail market by 2015. It is the sheer importance of the logistics management that Wal-Mart's fully-owned logistics arm Gazel has already confirmed its India foray and is going to look after the Wal-Mart and Bharti retail venture. They are closely study various logistics providers like Radhakrishnan Foods, before they finally closed on its India model. Again,

Bharti Enterprises is directly negotiating with the rail authorities instead of negotiating with a logistics provider.

Future trends

INDIA can position itself as a lead player in Asia, if the retail sector here attains the competitive strengths by responding to the changing markets, Mr Patrick Medley, Distribution Sector Leader, Asia Pacific, IBM Consulting, Singapore, said here today. Addressing the conference on 'Winning with Intelligent Supply Chains' (WISC 2004), organised by the Federation of Indian Chambers of Commerce and Industry (FICCI), he spelled out the strategy for efficient management of supply chain. He said that by 2010 the supply chain must be focused and differentiated. "In today's highly competitive environment, as companies are under intense pressure to reduce costs, expand into fresh markets and develop new products, every manufacturer's supply chain is expanding and becoming increasingly complex.

Effectively managing complexity can be a manufacturer's greatest asset," he said. Experts from the retail business affirmed that the current retail boom in India could only sustain its momentum if supply chain management is given the top priority by the retail players. The supply chain has a key role to play in the expansion and profitability of many companies, but it has rarely been adapted to meet the new demands placed upon it, said Mr Medley. The critical differentiating factors that synchronises the entire global supply chain are collaborating with customers, rather than only with suppliers, he added.

Conclusion

The role of supply chain in Indian organized retail has expanded over the years with the boom in this industry. The growth of the Indian retail industry to a large extent depends on supply chain, so efforts must be made by the Indian retailers to maintain it properly. Therefore, with the generous use of Global and Local Experiences, Indian retailers are going to improve their bottom lines with efficient, management of Supply Chain and Logistics. At the same time, Indian Retailers like future Group with retail stores like Big Bazaar, Pantaloon and Reliance retail are also going to show the world as to how it can be managed in a more innovative and efficient manner.

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