

Conceptual development of supply chain management in Indian retail organised market

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INTRODUCTION

Supply chain management is a topic of importance among the logistic managers and researchers because it is a Consider with a competitive edge. Supply chain management deals with the management of materials, information and financial flows in a net work consisting of suppliers, manufactures, distributes and customers. From an analytical point of view a supply chain is simply a net work of material processing cells with the characteristics such as supply, transformation and demand. Supply chain management is management of a net work 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 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.

Objectives of the study

1. To understand the importance of logistics and supply chain management in organized retail sector.
2. To know the impact of logistics and supply chain management on organized retail market.
- 3 To know the problems and prospects of retail industry and to suggest the suitable remedies to overcome the problems.

Indian retail overview

The 720 million Indians to join consuming age by 2010. 55% of the Indian population will be under 20 years of age by 2015. This market is increased by 32% in urbanisation by 2008, there is 10% annual growth in Retail market since 2000 with 85 of the Indian population is employed by the retail sector than to agriculture. 7% of the population is engaged in retailing. A booming US\$ 300 billion retail market in India, and 5.5 retail outlets per 1000 population, highest in the world 25-30% annual growth in retail loans and credit cards.

Organised Retail is predicted to capture 15 - 20% market share by 2010. Though it is one of the least developed sectors, the Retailindustry accounts for 10% of the GDP.

India is the hottest Retail destination. It was ranked as the most attractive retail destination among 30 emerging markets by the Annual Global Retail Development Index (GRDI) for two years consecutively (AT Kearney)

India is young. 47% of its population is under 20 years of age and contributes immensely to the growth of the Indian Retail sector. This young and modern Retail country displays the highest propensity to spend.

Organized retail which presently account for only 4-6 percent of the total market is likely to increase its share to over 30% by 2013. it offers huge potential for growth in coming years. India is becoming most favored retail destination in the world.

Generating employment for some 2.5 million people in various retail operations and over 10 million additional workforce in retail support activities including contract production and processing, supply chain and logistics, retail real estate development and management etc.; the retail sector is growing a scorching pace of about 37 percent in 2007 and expected to grow by 42 per cent in 2008. With this enormous growth, the retail sector is also facing challenges in the fronts of escalating real estate cost, scarcity of skilled workforce and structured supply of merchandise.

IMPORTANCE OF SUPPLY CHAIN AND LOGISTICS MANAGEMENT

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 Fulfillment 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 in the most timely, effective and cost efficient manner possible. Logistics regards order

processing and fulfillment, 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.

Components of Indian retail market

Banks, capital goods, engineering, fast moving consumer goods (FMCG), software services, oil marketing, power, two-wheelers and telecom companies - they are the main driving force in the retail growth of India. Global retailers still now find India to be among the most attractive destination. On July 2009, the foreign direct investment (FDI) inflows, in single-brand retail trading, touched approximately US\$ 46.60 million.

Size of Indian retail market

India's retail sector is estimated to touch US\$ 833 billion by 2013 and US\$ 1.3 trillion by 2018, with a compound annual growth rate (CAGR) of 10% - which is quite lucrative. All these estimations are due to the fact that the consumer spending has seen a rise of around 75%, in the past four years. The organized Indian retail market is slated to grow at a

CAGR of 40%, touching US\$ 107 billion by 2013.

5% of the Indian retail market is occupied by the organized retail sector, which is all slated to witness the majority number of large format malls and branded retail stores. The increase in the number of such malls would be first seen in South India, followed by North, West and the East over the coming two years. Another latest research shows that more than 100 malls spanning a space of over 30 million sq feet is estimated to open in India between 2009 and 2010 end. Investment in the organized retail market would be around US\$ 503.2 million in 2009. This could go further up to US\$ 1.26 billion in the next four to five years, at a CAGR of 40%.

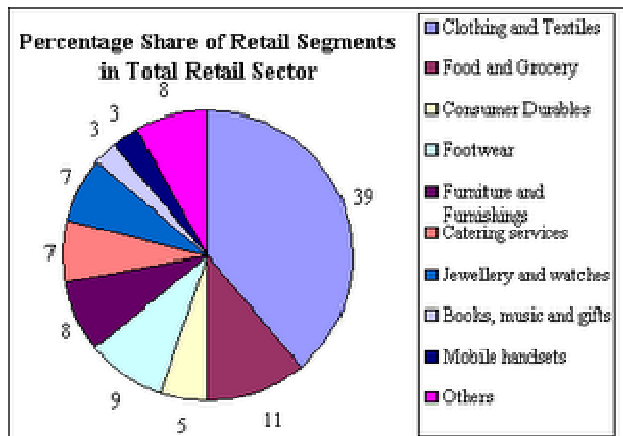
India has emerged as the third most attractive market destination for apparel retailers over the years. In India, apparel is the second largest retail category and will have a 12-15% growth rate every year. Apparel, food and grocery is expected to lead the organized retail sector in India.

The Indian retail market has been witnessing exponential growth with developments taking place not only in major cities and metros but tier-II and tier-III cities in India are also on the focus.

Developments in the Indian retail market

- Marks & Spencer Reliance India has plans to open 35 stores over the next five years. The 51:49 joint venture between UK's Marks and Spencer and Reliance Retail Ltd. already has 15 stores spanning India.
- Carrefour SA, the largest retailer of Europe, is expected to start wholesale operations in India by 2010 and also has shared its plan for setting up the first cash-and-carry outlet in the National Capital Region. The present status looks alluring with Carrefour exporting goods valued US\$ 170 million from India to Europe, UAE, Indonesia, Europe, Thailand, Singapore and Malaysia.
- Jewellery manufacturer and retailer, Gitanjali Group and MMTC will set up a chain of exclusive retail outlets jointly known as Shuddi-Sampurna Vishwas. This joint venture will see 60 stores across India by end of 2009. They will retail hallmarked gold and diamond Jewellery.
- Mahindra Retail, a part of the Mahindra Group, is hopeful about its investment plans to the tune of US\$ 19.8 million. This investment will help them come out with a specialty retail concept by 2010 known as 'Mom and Me'.
- Pantaloon Retail India (PRIL) has investment plans of more than US\$ 103.3 million for expanding its seamless mall Central and the value fashion format Brand Factory in the next two years.

- Bharti Retail has launched eight Wal-Mart private labels-including two large labels 'Great Value' and 'George'- in its supermarket chain Easyday. It is all set to attract more consumers because of their international design and packaging.
- Italian sportswear brand Lotto is all set to launch two new footwear brands Sabots and Calchetto in India very soon. By March 2010, they will have at least 50 exclusive outlets.
- Steel players such as JSW Steel and Essar Steel are focusing on opening up more retail outlets across the Indian market. JSW Steel presently has 50 steel retail outlets known as JSW Shoppe and the target is to increase the number to around 200 by March 2010. Similarly, Essar Steel has retail outlets known as Essar hypermarts. With around 150 such outlets, this segment is responsible for about 20-25% to the Essar's total revenue.
- Expansion mode for the large retailers - Aditya Birla Retail, Reliance Retail and Shoppers Stop, and food chains like McDonald's as the rentals are dropping sharply.
- Few of the major international brands are aiming to establish a strong foothold in India. Few of such brands are The Pizza Company and Spicchio Pizza (from Thailand), Coffee Club from Australia, Japanese brand Lolita Fashion, Revive Juice Bars from the UK, Mrs Fields Cookies and Jamba Juice from the US, and French fashion brand Jules.
- Retail brands like United Colors of Benetton, Tommy Hilfiger and Puma have been opening up factory outlets for selling excess stock. This step is always an interesting method for wooing the price-conscious buyers.



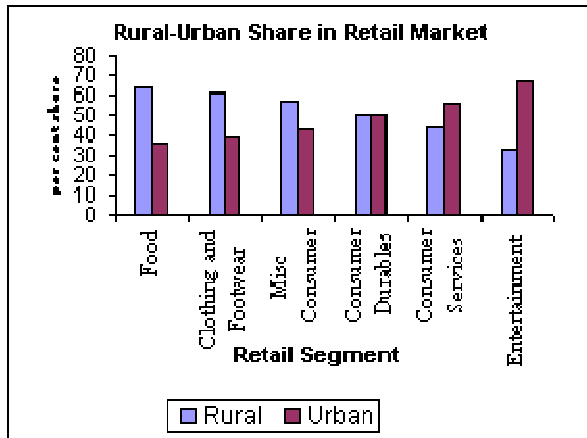


Table 1: Share in Retail Market:
Urban vs. Rural (per cent)

Segment	Rural	Urban
Food	64	36
Clothing and Footwear	61	39
Misc Consumer Goods	57	43
Consumer Durables	50	50
Consumer Services	44	56
Entertainment	33	67

Source: NSSO and KPMG Analysis

Food Supply Chain in India

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 front-end 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.

Now, let us try to find out what efforts are being taken up by the big retailers in India like Future Group with retail stores like Big Bazaar and Pantaloons, Reliance Retail and Wal-Mart & Bharti to improve the efficiency and effectiveness of supply chain and logistics. We will also try to find out the changed role of Agriculture Produce Marketing Cooperatives and third party sourcing firms.

Reliance Fresh

Reliance Retail is also going to open one store for every 3,000 families within a radius of 2 km across all locations by 2011. The company is competing directly with the large number of traditional local provision stores. Reliance Retail is either going to set up new

stores in the identified areas or take over existing stores. The company has already done that in Mumbai and other cities.

Of the four million sq ft of retail space to be created under the "Reliance Fresh" brand (for groceries), million will e through acquisitions. The retailer is also moving into laundry, personal care and apparel product lines, in which it plants to launch private labels. Reliance is planning to roll out its specialty form stores this year, beginning with consumer durables, for which it has struck sourcing deals with companies in Hong Kong, the Chinese mainland and with Videocon in India.

To strengthen its links with farmers, the company is setting up integrated agri-retail business centres, which include three processing and distributing centres, 51 retail outlets for farmers and 75 rural business hubs, all with an investment of US \$445 million. Many companies, looking at the retail boom in food and grocery, are setting up ventures to help retailers source these goods.

Reliance Logistics Ltd part of Reliance Industries Ltd., currently handles Reliance Retail's logistics services.

Wal-Mart and Bharati

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.

Concluding remarks

This study was conducted only in Reliance fresh ,Wal- Mart and Bharti. It has been observed that Reliance fresh strengthen its logistics and supply chain of products and services with their farmers (integrated Agri Retail Business centres) Wal-mart is entering into India through the help of Bharti group.

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, Pantaloons 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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