

**MEASURE TO EXCEL 3**

Benchmarking supply chain helps a company stay competitive



**CRITICAL TERRAIN 4**

Automakers are tweaking their logistics support to keep pace with customer demands



**ORGANISED RETAIL 6**

Rewriting the rules of retailing has brought good news for an FMCG major



**SMART MOVES 8**

Agility, rather than size, is what matters in the market



Chairman and Managing Director A M Naik is passionate about putting construction and engineering giant L&T on the global map. Executing the mandate will mean those at the helm of L&T's logistics have to get ready to move mountains across continents



Sanjit Kundu/Businessworld

# Moving Mountains

VIKAS KAUL

Think of a giant tube, 3 storeys tall, weighing 150 times the weight of a truck. Now imagine if you were asked to pick it up from somewhere in Hazira-Gujarat, move it using a combination of cranes, hydraulic axles, route surveys and highly qualified personnel. Then, the item is finally loaded onto a vessel like an Ocean-going barge. The tube moves to an anchorage point where ships with huge lifting capacities, use their massive cranes in tandem to pick up the item from the barge and load it on-board. It sails all the way to Europe, with deliveries made to a site in France.

That's the sort of task those managing supply chain at L&T

are put to.

Larsen & Toubro with footprints in over 14 countries has decided to add two new countries every year. Revenues from international business have swelled almost 10 times in the past 3-4 years from Rs 200 crore to about Rs 3,000 crore. A M Naik, Chairman and Managing Director, L&T, wants the share of international business to go up from the current 19 percent to 25 percent by 2009.

To understand how the logistics of such a company works, one first needs to understand different parts that make up the company.

L&T's Electrical Business Group makes items like switch-

Continued on page 2 >>



**PAWAN JAIN**  
Chairman & MD, Safexpress Pvt Ltd

## REACHING TO THE CUSTOMER

There is a famous saying that sums up the greatest challenge in winning a war: Boys talk war, but men talk logistics. Through the ages, conquests have been as much about valour as solid logistics. Tomes have been written on logistical brilliance of Alexander the Great.

Today, fortunately for us, the only battlefield we all have to fight out in is the market place. But the challenge companies face is no

different. Anyone can make soap or a detergent and air an advertisement. But very few can reach it to a million outlets.

India's largeness holds the promise but it also poses a challenge: how to get stuff to people in a country so large and diverse. And what about companies with ambitions of straddling the globe - and that's not just the West but even countries such as Kazakhstan.

As I went through the features in this issue of *Fast Track*, I realised how much has India changed. Every company, big and small, has acquired an insatiable appetite for growth. In the process, daunting barriers have become mere 'issues' that need fixing.

Be it large corporations such as L&T, Maruti or Volvo or fast-growing, home-grown FMCG companies (for example Bectors Food Specialties and Ozone Pharmaceuticals), each is finding innovative ways of managing their supply chains efficiently. Not every

problem has been solved. But solutions - rather than excuses - are being explored. And that's what really matters.

On our part, we at Safexpress take great pride in the fact that we have had some role - big or small - to play in this national quest for growth and success. We assure you, as in the past, we will continue to innovate to put the impossible within your reach.

Happy reading.

*Rajiv*

boards and tools that are sold primarily in the domestic market. L&T has an over 50 percent market share in this space. This part of L&T business works pretty much like any other business where products are made based on sales forecasts and then pushed into a distribution chain. Matching supply with demand is of essence here.

L&T's MIPD group has companies like Audco (industrial valves), L&T Komatsu (road making equipment), L&T Case (loaders) etc which manufacture highly complex equipment in partnership with the best-in-class global companies primarily for the Indian market. While most of these companies require domestic logistics, Audco has enjoyed considerable export success.

L&T's Heavy Engineering Division is responsible for manufacturing process equipment like evaporators, condensers, gasifiers, etc. These products are classified as ODC - Over Dimensional Cargo. The challenge here is to manage the inward movement of raw material from a global vendor base and then the final despatch and delivery of the finished product. Logistics professionals with years of experience manage these despatches, using sophisticated load plans and perfect operations.

L&T's Engineering & Construction division is like an EPC contractor, taking up entire projects - greenfield or otherwise. From a logistics point of view, this involves managing huge volumes of tonnage. For a project in the Middle East, the freight tonnage is upward of 400,000FRT. It also involves inward vendor management till the point of manufacture, destination warehousing, personnel and equipment management and delivery to construction site using JIT. While the planning of all the logistics is done in-house, the execution is done by global Project Logistics organizations - typically large consortiums with local, regional and international networks and equipment at their disposal.

L&T's ECC division is purely into construction and has increased its footprint far beyond Indian boundaries. The primary logistics activity here is the movement of a large amount of standard construction related items such as pipes from vendors to the site.

Such is the nature and diversity of L&T's business that almost every conceivable supply chain model - built to order, stock-and-sell - has to be put to use. Add to it the fact that L&T is a conglomeration of several business entities - 26 to be precise - that have enjoyed quite a bit of autonomy, and the enormity of the task should become evident.

Considering the company spends a whopping Rs 750 crore every year on logistics, it needed a mechanism to get the most out of that investment. But how does a company like that start putting some method to all this

madness? Where does it begin?

The initiative to streamline supply chain and leverage synergies between different operating units began three years back. As a group, L&T was spending substantial amounts on buying services; it made sense to start by first targeting this function for integration. Besides, leaving day-to-day operations in the hands of individual companies made sense as they are in the thick of things.

Therefore, L&T has divided the entire logistics function into two parts - or circles as it calls it. One, the strategic circle which brings massive purchasing power to the table. It has constituted a freight management centre (FMC). "The idea is to consolidate buying of logistics services such as striking deals with shipping lines and airlines. The concept is simple: what's the best deal of the day," says Prasan Yedekar, Counsel, FMC, L&T. Being a strategic unit, FMC concentrates on bringing long-term gains and then distributes these deals to all who need them. "For example in September 2005, FMC

**“ The idea is to consolidate buying of logistics services, such as striking deals with shipping lines and airlines ”**

**PRASAN YEDEKAR**  
Counsel, FMC, L&T

**“ The variation between forecasts and actual sales is monitored on an hourly basis ”**

**K K SHUKLA**  
Head Logistics, ESP

negotiated with the two main shipping lines which brought in their raw material from the Europe. The negotiation was for a frozen rate for the whole of 2006. The rate also froze international fuel prices add-ons etc. Today L&T enjoys a substantial discount over market rates on break-bulk shipping from the Europe to India," says Yedekar.

FMC brought in 4PL management of its inward raw material and works directly with absolutely the top-most management of international shipping lines, airlines, freight forwarders and other service providers.

On a domestic front the FMC has worked out freight rates for each of the five zones with two leading third-

party logistics providers including Safexpress. If a shipment has to be sent from Assam to Mumbai, the rates remain the same as Mumbai to Assam since the distance is same.

This system has evolved over a period of time during which more and more units were encouraged to work with FMC for buying services. "Now, 22 units are working with the FMC. We have only just started and have a long way to go in synergizing the entire group's logistics," says Yedekar.

Two, day-to-day operations. Within companies there are managers heading the logistics function. There are 120 people manning the function in different entities. They look after the day-to-day operations within each unit.

When it comes to operational excellence, the onus lies on the unit. Take the electrical equipment business, for example. The division which sells electrical switchgear has over 20,000 SKUs out of which 4,000 must never run out. It operates on a stock-and-sell model.

But the demand is variable and weather, which is unpredictable, has a major role to play.

The division has a meticulous forecasting process. It uses 30 years of historical data which are used to generate 3 months forecasts. These are then moderated based on the inputs received from the sales engineers who are in the field.

But to ensure it does not miss a beat, all 500 distributors have been wired up. "Those in charge of planning have up-to-date information available by the minute. The variation between forecasts and actual sales is monitored on an hourly basis," says K K Shukla, Head Logistics, ESP.

But knowing the problem is one thing. Having the wherewithal to solve it is another. So the group has worked out options in case it finds it is running short on some item.

If the company runs out of something in, let's say Nagaland, but the item is there in Kolkatta, then it is shipped. The 9 warehouses combined with virtual warehouses - outsourced to third-party logistics service providers - that store fast-moving items, makes this possible.

"However, if there is a country-wide shortage and, therefore, cross-shipping is not an option, the factory is geared-up to produce anything within seven days. To ensure this, all material is stocked for at least 30 days of production," says Shukla.

The company plans to reduce the number of own warehouses as soon as CST comes down to 1 per cent. It expects that will bring about savings of 30-40 percent in inventory costs.

But more than any specific mechanism, it is this spirit where everyone throughout the hierarchy is working to achieve excellence that makes L&T a unique enterprise.

## Keeping track

GPS (global positioning system) providers are set to launch a slew of GPS-based devices in the country with prices ranging from Rs 10,000 to a lakh. With the market in India for GPS worth Rs 100 crore (\$23 million), companies find enormous potential for GPS-based applications especially in logistics for tracking cargoes and trucks across the country.

International GPS device maker Garmin would bring its range of GPS devices including

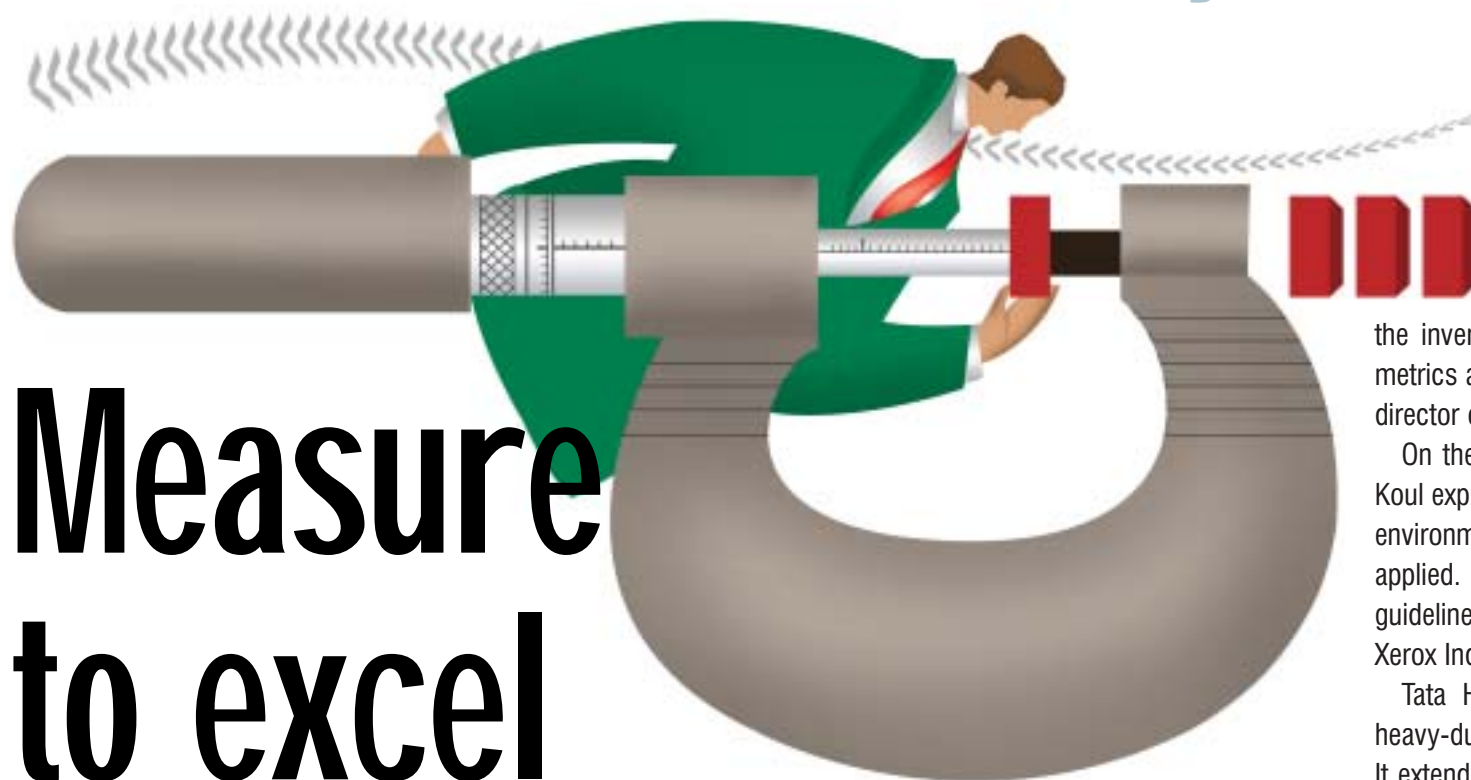
the Nuvi within a month's time. On sale would be 35 other models with prices ranging from Rs 35,000 for a basic model to Rs 1.5 lakh for a high-end model that not only suggests routes, but also prompts the user through voice commands on directions to take to reach the destination. The Nuvi can let users look up and translate more than 17,000 words or 20,000 phrases in nine languages and is priced about Rs 40,000.

Domestic company SatNav Technologies is



also planning to come out with a logistics and tracking device called Sat Trax within the next two months. "It would be a GPS/GSM-based device installed with a web-enabled software and would be based on a ASP (Application Service Provider) model," says

Dinakar Reddy, deputy general manager, Navigation & Telematics, SatNav Technologies. Sat Trax would be a subscription-based service and the rates are expected to be as low as Rs 999 per month.



# Measure to excel

## Indian companies feel the need to benchmark their supply chain

Competitiveness is perhaps a bigger reason to gauge how your supply chain is doing. Industry benchmarks for metrics such as fill rates, lead times, response times and total supply chain costs help businesses know how they compare against the best.

It is with this reason that an initiative which will eventually come up with benchmarks for supply chains within the FMCG and retailing space has been taken up by ECR India. ECR India (ECR incidentally also stands for efficient consumer response) is an organisation formed under the aegis of GS1 India (formerly EAN India) responsible for many supply and demand chain activities. ECR initiative comprises FMCG companies and retailers such as HLL, Johnson & Johnson, Nestle, Pantaloon, Spencer's and Nilgiri among others. Talking about this initiative, GS1 India's CEO, Ravi Mathur says: "What ECR did was draw up a list of KPIs which would be applicable to the FMCG sector which include fill rates, turnarounds of inventories, stock outs, and other parameters which they have set for themselves to measure the efficiency of their supply chains." This exercise will finally come up with a score card and benchmarks which will help them compare themselves with the best in India and globally.

Though the exercise was initiated about two years ago, it has not been completed, Mathur added. One reason is each company would take different amount of time to get ready for benchmarking. Higher priority has been placed on a collaborative exercise on stock-out situations as these have a profound impact on the profitability period.

This is the only instance of an industry-wide effort to create benchmarks. Other companies have to find their own ways.

Xerox India uses Six Sigma framework for improving its supply chain. In fact, J B Koul, Deputy General Manager at Xerox India himself is Green Belt certified. Xerox's supply chain extends from its international hub in Holland to all corners of India. It supports the sales and service functions and delivers spares, new equipment and paper

products. A tail metric to this measures variance counting the number of orders pending for more than 10 days. Another metric looks at the value of pending orders which were received before the 25th of each month. The other significant metrics are the total value of the inventory held and the total supply chain cost. All metrics are reported on a monthly basis to the managing director of the company.

On the question of benchmarks for the supply chain, Koul explained that due to the unique nature of the Indian environment, none of Xerox's parent benchmarks can be applied. However, it has instituted best practices and guidelines for supply chains across the world to which Xerox India also contributed.

Tata Holset, which manufactures turbochargers for heavy-duty engines, manages an extensive supply chain. It extends from its suppliers to its manufacturing facility at Dewas and finally on to its customers across India. Shirish Pande, Head Materials and Customer Support at Tata Holset, says: "We have metrics which measure efficiency of functions which include scheduling, despatches from the suppliers, the vendor managed inventory for some of the suppliers, receipt and subsequently the issue of parts within Tata Holset, and finally the shipment."

Other metrics include the accuracy of forecast received, variation from the actual production according to orders received and variance between planned and actual production. This metric is significant in order to avoid both unutilised inventory and stock-outs which would put strain on cost or production schedules.

Tata Holset also uses Six Sigma methodologies for supply chain improvements. "Six Sigma is our life here at Tata Holset. We have done projects on productivity improvement in the supplier base and another is tools and material cost reduction in the supply chain," Pande says. The company follows performance measures set by Cummins' for its operations worldwide in the absence of any industry benchmarks existing in India.

As an internal measure of performance, companies seem to find Six Sigma framework useful. Every diversion from the set norms is taken as a defect and then weighed against the Six Sigma ratings which allow the defect rate of 3.4 per million.

While individual companies try and figure out ways to get a measure of how well they are doing on supply chain, they still have no way of knowing how well they are doing vis-a-vis their competitors. There is an urgent need to have some sort of industry-wide benchmarking initiative. As one wise CEO once said: "What cannot be measured, cannot be improved".

**-PANKAJ MULLICK**



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**JB KOUL**  
Deputy General Manager, Xerox India



**“ What ECR did was draw up a list of KPIs which would be applicable to the FMCG sector. ”**

**RAVI MATHUR**  
CEO, GS1 India



**“ Six Sigma is our life. We have done projects on productivity improvement in the supplier base. ”**

**SHIRISH PANDE**, Head Materials and Customer Support, Tata Holset

to end-customers, dealers and distributors.

For Xerox, "One of the most significant metric relates to the efficiency with which the products are despatched from our mother warehouse at Mumbai after the order has been logged," says Koul. Another is the percentage of equipment available in the month of order logging.

The turnaround time for logistics is 24 hours for manufactured products and two days for non-manufactured

events, meetings, picnics and gifts. The year will start with a bang with customer meets across India, launch of lots of fresh initiatives including gifts and benefits for its regular customers. Going by the theme of a

young-yet-mature organisation; a business-like service, whatever-it-takes attitude, Safexpress is investing in a brand new fleet, a completely new online look and feel, and robust backend operations.

A new hub being rolled out in Beharagora (Jharkhand) on April 14th with a state-of-the-art cross-docking features, will make the rest of India to East and North-East India operations of Safexpress faster.



**W**ith the start of this financial year, Safexpress Pvt Ltd has entered its 10th year in business - a matter of pride, a reason to celebrate. This will be a 'Year of Celebrations' with a slew of parties,

SAYANTANI KAR

It all begins with two men driving a Gypsy through the scenic but desolate Ladakh. Their hunt for hotel is met with a shake of the head by a local boy. They ask whether there is a shop around somewhere ... the answer is still negative. Finally, they ask him - more out of rote than any real expectation - whether there is a Maruti service station nearby. Much to their joy and surprise, they find the boy pointing the way towards one.

This particular advertisement sums up the promise and the challenge before the leading carmaker in the country, Maruti Udyog Limited. With an installed base of 45 lakh cars across every nook and corner of the country, ensuring availability of spares to each one of them must count among the more stringent tests for supply chain managers.

If Maruti represents one end of the spectrum, Volvo sits on the extreme end of the other side. The Swedish automaker has less than 4,000 trucks and buses on Indian roads. But each of these costs a bomb, upwards of Rs 29 lakh. Keeping them running all the time is crucial for those who buy these if they have to make money. Since the numbers are small, it does not make sense for Volvo to have as extensive a network as Maruti. Besides spares are expensive and Volvo machines are far too sophisticated for a roadside mechanic to try his hand at fixing it.

So if Volvo were to make an ad showing how it keeps its trucks and buses running, it will probably have to show a suited service engineer taking an SOS from a truck stranded somewhere in the Thar desert in Rajasthan, rushing to the warehouse, picking the part and getting into a chopper reaching out to the distressed vehicle in need in no time. That's pretty much what Volvo aims for - minus the chopper part.

But both Volvo and Maruti have to contend with challenges and issues so very peculiar to India.

## Rough Terrain

First is the sheer expanse and diversity of geography. Ladakh or Thar can hardly be called friendly places. Infrastructure - roads, telecom connectivity - ranges from world-class to non-existent. Accessibility too is patchy, "Towns such as Ranchi and Jabalpur are hard to reach," says Ajansondkar Rajendra, deputy general manager & business head, Volvo Parts, Volvo India.

For companies such as Volvo and General Motors that rely on imports, getting components past customs too takes effort. Dealer and vendor relationships too are in dif-

# Not much to

As competition gets fierce and service becomes a key differentiator, auto makers must make sure their customers never have to wait to get their machines fixed

ferent stages of evolution.

Jitendra Lal, deputy manager, Spare Parts Division, Maruti, feels logistics support needs to improve. "Very few logistics companies have their own fleets. Therefore the lack of concern on the part of the people handling stocks, can lead to damaged stock." It is toying with ideas such as logistics partners using Maruti's resources for better operation and if Maruti should revamp some of its processes.

However, each of the companies is working out ways to deal with the challenges. Volvo has constituted a system of feedbacks and survey for its dealers to streamline workflow. Maruti plans to minimise its role as an intermediary between dealers and vendors, saving costs and preventing delay in information flow across the chain.

Volvo is working to reduce import cycle. Rajendra says: "Challenges exist when it comes to improving lead times on imports due to infrastructure limitations. However, by following up and working closely with the forwarders and transporters we are able to minimise the turn-around time to the lowest possible level."

Accessibility is being tackled through tie-up with large third-party logistics solutions providers such as Safexpress. "Automotive spares need to reach the dealers and distributors on time, particularly when it is a VOR (Vehicle off road) situation. Apart from this, there are con-

cerns like safe handling, and visibility into inventory on road. Safexpress does all this and more for its customers," says Anil Syal, VP Marketing, Safexpress.

Lal foresees the advent of moving warehouses thanks to VAT, when a part in a Gujarat warehouse can easily be shipped to Hyderabad without any extra cost. This could bring in radical changes to the way the distribution networks are structured.

Beyond common concerns, the needs and, therefore, strategies that companies have adopted, are understandably unique because of their product offerings. Volvo has to keep its vehicles running - at all costs, General Motors needs to get closer to its customers as volumes build up and Maruti must make sure spares are available everywhere, anywhere.



**Maruti has found 'milk runs' work well when it comes to servicing such a large network.**

**JITENDRA LAL**  
Deputy Manager, Spare Parts Division, Maruti

## Mission Critical

That - in two words - sums up the task before Volvo. Since it entered India in 1998, it has put 1,200 city coach buses and 2,700 trucks on roads, besides its construction vehicles. But if any one of these breaks down, anywhere across the

country, Volvo must reach the service personnel and/or the spare part quickly. Real time reaction to an SOS is both its trump card and necessity.

So, Volvo had to organise its supply chain in such a manner that engineers or parts are never too far away from the action. Volvo's stocking units are spread across



PRIORITY

Oracle, along with logistics software developer G-Log, has introduced a new transportation management suite (TMS) that lets users plan, execute and analyse the movement of goods across their supply chain. According to

Oracle, the new tool delivers capabilities that will allow for reduced cycle times and lower transportation costs. TMS is said to provide a range of services such as optimisation, order entry, pro-



curement, supply chain event management and visibility, track-and-trace, freight payment and historical analysis. It supports domestic and international transportation including inbound and outbound,

from point-to-point to complex multi-nodal, multi-leg and cross-docking operations. The solution also provides real time visibility to information so that users can act on unexpected events such as when a shipment is delayed or incorrect.

The ARC Advisory Group, a research analyst firm has estimated that the TMS market in Asia Pacific would grow at a Compound Annual Growth Rate (CAGR) of 14.6 per cent and would be worth \$158.9 million by 2009.

# spare

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the four zones - north, south, east and west - concentrated in areas with high vehicle population.

Volvo Parts, the division that manages spare parts distribution, has its central warehouse in Bangalore. It sources 98 percent of its spare parts stocks from Belgium and Singapore. The unit serves as the single source for spare parts for hub sites or service centres across India. There are eight to nine of these.

These hubs are full-fledged service centres with workshops, a complete range of spare stocks, parts operations units and trained engineers. These further branch out to 50 satellite sites, which are usually located at sites of construction/mining, or simply deeper into the region. Crucially, 38 of these are mobile customer-site-support units.

The tiered infrastructure, in combination with mobile units, allows Volvo to cover a large area. Third party logistics providers such as Safexpress help ferry the parts from the different nodes i.e. the distribution centre or the dealer, by air and on road. It even delivers to construction sites with massive excavations, and to mining sites.

Parts ordered before the cut-off time of 4:30 pm everyday, reach the destination within 72 hours - often within a day's time, thanks to the service provided by third party logistics partner. Emergency orders are logged even after the cut-off time by a 24X7 helpline. An impressive 90-plus percent availability of parts at its warehouse, thanks to the accurate forecasts, helps immensely.

Should the vehicle break down, the on-dash diagnostic systems helps identify the fault and beam it to the service station. That allows Volvo to decide which spare parts the engineer should take with him. This is as hi-tech as it gets. It is unlikely that many firms will go this far in the immediate future. But Volvo shows that by combining technology with the right logistics partners can go a long way.

## Getting close

Change is under way at General Motors which entered India in 1994. The company which has just launched Chevrolot Aveo, will soon have to step out of the big metros and reach out to the hinterland. As a result, GM is in the middle of transforming its spare parts supply chain.

GM is switching from a single, central warehouse located in Gujarat, to having warehouses located in different regions. It has taken up space at Safexpress' state-of-the-art facility at Mumbai to serve the western corridor. It has a warehouse in Chennai too and one at Delhi is on the offing.

This allows GM to replenish stocks every 15 days instead of holding over a month of inventory. "That has helped us bring down the level of inventory in the system," says Nitin Dhawan, National Parts Manager, General Motors India.

GM now keeps slow-moving, high-value parts at its central warehouse while fast-moving and less expensive spares are stored in the regional warehouses. These warehouses then transport the parts to the GM dealers.

Besides saving costs and increasing flexibility to react to market demands, "Outsourcing has allowed us to take advantage of the VAT in Maharashtra, and having a warehouse close to the port in Mumbai too has helped," says Dhawan.

As GM gets ready for higher volumes with the impending launch of Aveo, it is pondering whether to create separate channel for second- and third-time owners. "This could be done using existing dealers' network to deliver to an extended universe of service stations or it could be an exclusive chain," says Dhawan.

Significantly, GM has turned a big votary of outsourcing infrastructure. All its regional warehouses will be outsourced. While other companies in the industry have outsourced different elements of the spare parts chain, no one has gone as far as GM has. If the experiment succeeds, this could bring about a big shift in the way spare-parts supplies are managed, particularly as auto companies would eventually like the component makers to directly service the dealers and service outlets. Such a model, once proven, can be of tremendous help to Maruti which has to service the largest network within the industry.

## Wherever you go

There is a Maruti service station every 30 km. And the chances are there will be a mechanic who can fix the car at an even lesser distance. Add the huge number of Marutis on road - 45 lakh by last count, a teeming second-hand car population and a large portfolio of models and

variant and the challenge for those in charge of spare-parts supply chain becomes evident.

The carmaker has to stock 28,000 parts, which it needs to deliver to over 2,000 outlets (including authorised service stations, dealers, distributors etc), spread all over India.

The central warehouse at Gurgaon, Haryana serves as the nerve centre of Maruti's spares delivery system. From here the dealers and distributors take over. They not only use parts while providing service but also sell into a secondary channel - the unbranded repair shop.

Maruti has found 'milk runs' rather than point-to-point transportation, works well when it comes to servicing such a large network. So, a truck that picks up parts from Gurgaon to deliver them to Bhopal also drops off parts at Mathura, Agra, etc en route to Bhopal. This has allowed Maruti to reduce instances of stockout as there are more frequent deliveries. No longer does it have to wait for trucks to have full load for each destination.

Dealers usually store a month's stock (about 1,000 items) as buffers for travel time. If they do not have the part at their end, they are well connected to other dealers who come to their aid.

Should everything fail, Maruti's fast mode despatch enters the picture. Dealers have three chances each day to have their orders despatched from the hub warehouse, maximum by 4 pm. This is usually when dealers have to replace a particular part that needs immediate replacement, as opposed to the usual stock replenishment. Fast deliveries are made easier by Maruti's categorisation of its inventory - there is category A which include air and fuel filters, power plugs, clutches that erode faster. Category B has fenders, glasses, doors which are less needed often.

Over time, Maruti has learnt different destinations need different strategies. For instance, reaching a part to Jaipur

by road is faster than shipping it by air.

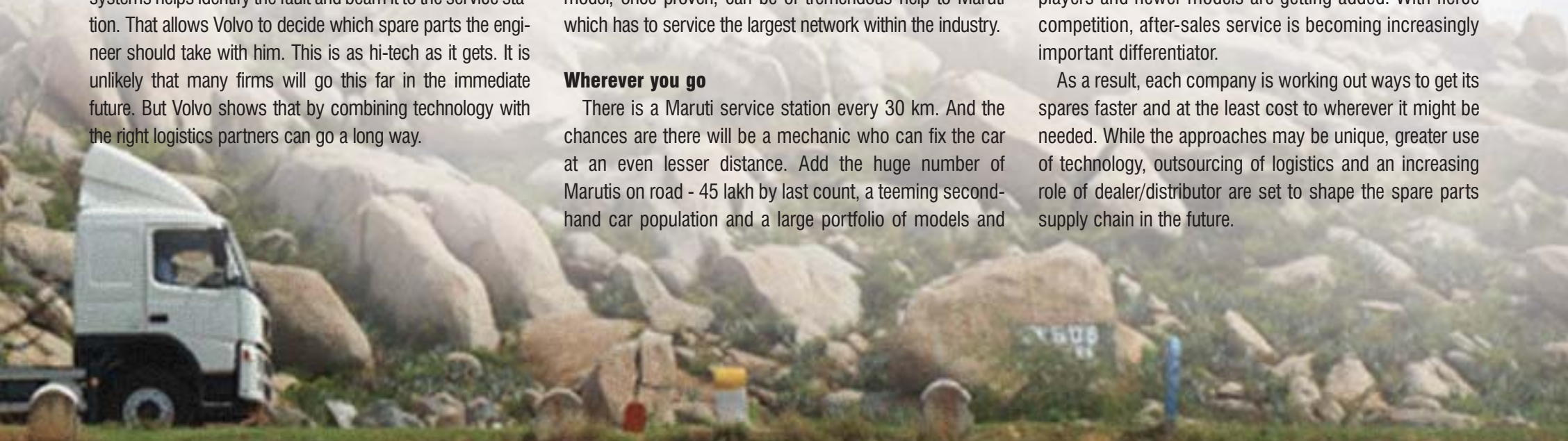
The Indian automobile industry is evolving rapidly. New players and newer models are getting added. With fierce competition, after-sales service is becoming increasingly important differentiator.

As a result, each company is working out ways to get its spares faster and at the least cost to wherever it might be needed. While the approaches may be unique, greater use of technology, outsourcing of logistics and an increasing role of dealer/distributor are set to shape the spare parts supply chain in the future.



**For Volvo real-time reaction to an SOS is both its trump card and necessity.**

**AJANSONDKAR RAJENDRA**  
Deputy General Manager & Business Head, Volvo Parts, Volvo India



**A** recent study by international food and grocery specialist IGD, identified Tesco as the best-in-class retailer, while P&G is the most admired manufacturer. The survey showed the characteristics of a leading retailer to include:

sales and profit growth; a strong customer focus; an integrated supply chain; a distinct business model, and strong collaborative relationships. Tesco known to be 'one step



ahead of its competitors', and other retailers include Wal-Mart, Aldi, Lidl and Ikea. The characteristics of a leading manufacturer include innovation; effective brand management; speed to market; cus-

tomers management, and scale and agility of the supply chain. P&G was identified as the most admired manufacturer for its 'leading edge and scale'. About 64 percent of the respondents believed supply chain to be of high strategic

importance, and a key element in driving competitive advantage, organisational capabilities and business integration. The survey showed 60 percent of companies outsourced their warehousing, while 70 percent outsourced their transport.



## Procter's bold Gamble

P&G climbed to the top of supply chain leaders' charts by turning conventional wisdom in FMCG retailing on its head

**S**ix years back, Procter & Gamble (P&G) supply chain was a mess. It had \$3.8 billion worth of inventory floating in the system. And yet, retailers faced stockouts in at least a fifth of P&G's product range, causing an 11 percent loss in sales.

That was in 1999-2000. In 2005, AMR Research rated P&G just behind Dell in its ratings of the world's top 25 supply chains. That's some turnaround.

In the course of this dramatic turnaround, P&G rewrote the commandments of FMCG retailing - that pushing products into the supply chain and batch processing is not the way to go.

It had, what is called, a push-based model for its supply chain. So it produced goods based on historical demand data or forecasts set by sales teams and back it up with discounts and other sales schemes to generate demand.

Another normal practice for P&G was batch processing. It would manufacture a single product for a long stretch before affecting a changeover on its production lines. This inflexibility led to excess stock of one item while another was out of stock even as the market demanded the opposite. In a nutshell, the traditional practices were proving inefficient for both P&G and retailers, leaving a trail of disgruntled consumers.

Time lag in the flow of information was another problem. Any order from the retailer would take seven to ten days to be fulfilled at the end of which the retailer would

be saddled with stock that answered 10-day-old needs.

The practice to allow price breaks to retailers whose orders would fully fill up trucks too, it turned out, wasn't very smart either. While it optimised transport costs, this practice had its drawbacks. The retailers held back orders until they could fill a truck 100 percent, even at the risk of running out of stock. Conversely, excess inventory would be created when retailers ordered more than they required just to fill up a truck.

P&G started with changing this practice. P&G allowed a leeway of 10 per cent thereby reducing volatility by around 30 per cent. Making up for the lost sales, which had amounted to \$2 billion a year, easily compensated the increase in transport costs.

More significantly, it implemented a pull-based supply chain system. To start with, people in P&G were asked to focus on processes such as changeovers on the factory floor and bring about shorter runs of more product types. This meant fewer stock-outs, a reduced need for buffers, and higher flexibility. This leaner model of adaptive manufacturing made it possible to restock retailers in 24 hours rather than the then prevalent 48-72 hours.

It decided to involve retailers and vendors in planning and delivery processes. This helped P&G secure real-time information about consumers and their buying patterns. P&G also asked the major retailers to involve it in store promotions and events. This helped it to adapt its manufacturing schedules and stock distribution to meet

the demand spikes triggered by such events.

Research firm AMR found that businesses with demand-driven supply networks get paid 70 days sooner and bring new products to market 70 per cent faster than their less-enlightened rivals. These companies with a demand-driven approach to production have a 92 per cent perfect-order rate, versus 81 per cent for their competitors. Overall, companies with a demand-centric - as opposed to factory-centric - bent are adding 5 per cent to their top lines.

To make the network even more sensitive to consumer needs, electronic product codes based on RFID technology were also implemented. Real-time information undid the knots clogging up the distribution pipeline. This also increased visibility allowing trucks to deliver what was needed in different stores in a locality, thus also optimising transport costs to a degree.

Compared to five-seven years ago, P&G now has three times the number of SKUs running at lower costs, with well-controlled inventories and growing volumes. Working capital rose from \$700 million in fiscal 2001 to more than \$1.7 billion in fiscal 2003.

With such statistics fuelling its network, P&G is poised to meet the demands of its large customers too who become bigger through consolidation. Its foray into the controversial but promising area of RFID technology is yet another sign of its spirit of venturing off the beaten track that has always brought good tidings for the company. ■

—SAYANTANI KAR

The Indian School of Business will be holding the 2006 Summit on Indian Manufacturing Competitiveness: Global Manufacturing and Service Networks. To be held on August 2-4, the Summit will provide a forum for

leading industry experts, business executives, and academic researchers from around the world to share experiences, ideas, and industry-and firm-specific research focused on



the growth of manufacturing sector, as India begins to exploit its industrial potential. The first session will have presentations from industry and government leaders, experts, and researchers

focusing on best practices, and case studies. The second half of the conference will comprise leading academic researchers in the field focusing on problem-solving, innovations and case studies.

If you would like to present a

paper on manufacturing and supply chain innovations of your company, send an abstract not exceeding 6-double-sided pages to [simc2006@isb.edu](mailto:simc2006@isb.edu) by April 30th, 2006. ■

For more details log on to [www.isb.edu](http://www.isb.edu)

# Hit or Miss

Winning and losing in the marketplace is all about doing simple things right

**H**ow to lose customers and drive away new ones" is one book title that just wouldn't sell. One would like to think that this would be because most sales and marketing professionals have learnt from their mistakes. While that might be true, let's look at some 'cardinal sins' that are still committed in the name of marketing along with some tips to snare new prospects.

A simple fact first. Most marketing efforts fail because the message is relayed to the customer out of context. Imagine catching a shaving cream ad during a children's show or a nappy commercial during an action movie and you've got the picture. Marketing's job is to get its message out into the market and prepare the ground for sales to do its job. Each ad that one sees in print, electronic and emerging media is an example of the marketing message. With so many options available, one would think there should be no problem getting the message through to the target audience. Yet marketers might not always work towards placing the message in the best suited media. An example of this could be a landscape architect advertising in the properties classified section instead of the business section.

Even in the right context, the message itself could be wrong. We all know products and services sell because they satisfy a perceived need of the consumer. In other words, it's the benefit that the consumer gets that incites him to buy. Despite the clarity of this principle, many marketers leave their benefits statement vague or do not include it at all. Whether the benefit is 'saving money' or 'peace of mind', the message must go out clearly stated. This not only provides clarity to the customer but also helps a business differentiate itself.

Despite getting the right message out in the right context, one can still manage to drive away business by underestimating the first contact. Say, Mr. A calls your company after seeing your advertisement. Instead of being able to talk to someone he gets the voicemail and decides to grudgingly leave a message (which most prospects might not do). You call him back later and find out that he is not available but leave a message. Mr. A meanwhile has gone over to your competitor never to come back to you. All because there were no systems, like maybe a call centre, which would ensure that all first contacts are treated with care increasing their chances of conversion to a loyal customer.

Ignore your customers at your own risk. Aside from campaigns, perhaps the best way of getting more customers is through your existing ones. Feel free to ask for referrals from your customers who are living proof

of your product or service's quality. Undoubtedly, this is a surest way to widen your business net. You can also ask for testimonials from customers which can be posted on your company website or circulated otherwise. On the same lines, case studies of exemplary applications of your products and services can also be posted on the company website.

Moving on to retention, perhaps the most important activity of any marketing department is listening to its customers. It's well known that a satisfied customer

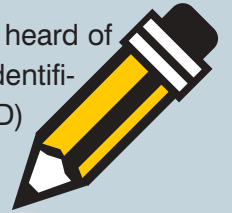


may or may not talk about the quality of service or product but an unhappy customer is sure to tell at least five people of how bad the quality was. Thus the marketing department's job becomes to listen for both good and bad news - and to get it first. This helps not only in damage control, retaining the customer, getting more feedback about the product or service, but incorporating this feedback in to the offering also helps strengthen the relationship with the customer. While surveys help, nothing quiet beats personal contact with as many customers as possible.

**-PANKAJ MULLICK**

## Supply Chain White Papers

**Y**ou have obviously heard of Radio frequency identification device (RFID) and the benefits it could bring to your business upon implementation.



However misconceptions about RFID still exist which has discouraged many companies from taking advantage of the technology. The white paper, 'ABCs of RFID: understanding and using RFID applications', discusses in detail all that you wanted to know about RFID technology and its capabilities. It suggests ways for you to take advantage of RFID to improve safety, security, accuracy and convenience by explaining the common frequencies and technologies used in business applications and identifying major standards. More of it in this link: <http://tinyurl.com/gzurp>

With changing business dynamics, the focus has shifted to achieving greater coordination and collaboration among supply chain partners. This white paper deals in the objective of supply chain optimisation, metrics for customer value in a supply chain, distribution strategies for global optimisation, operational excellence, extended ERP and supply chain optimisation. While earlier economies of scale were achieved by utilising physical assets and exploiting a company's brand, the new economies of scale are based on the ability of a company to collaborate successfully among its business units and subsidiaries thereby sharing knowledge and jointly developing new products and services. Know more about these on: <http://tinyurl.com/oof8d>

By applying bar code and wire-less data collection systems, companies can save labour, increase productivity and reduce operational costs. This paper will help understand how investing in ADC will enable small-and-medium sized businesses (SMBs) to earn a full and rapid return on investment through reduced expenses and efficient operations. It exposes some of the hidden expenses that hampers efficiency and how accurate data collection eliminates them. Check out the paper on <http://tinyurl.com/kzd6r>

**A**riba, a leading spend management solutions provider, and the Indian Institute of Material Management (IIMM) have recently announced the recipients of the IIMM-Ariba Sourcing Excellence Awards.

The awards, designed to recognise distinctive sourcing and supply chain leadership and significant contributions towards this practice, were given in three categories. Mr. Ganesan



Subramani, General Manager, Ranbaxy Laboratories, was named Chief Procurement Officer (CPO) of the Year; Tata

Steel was given the Corporate Sourcing Excellence Award and Hindustan Motors received first prize in the Young Material Manager Award, followed by Wheels India and MICO who won second and third prize, respectively.

"Their application of best practices in sourcing/supply chain management and use of innovative technologies have set a clear example for companies around the world to follow," said T Sivakumar, group director, Ariba.

# Rewriting the rulebook

Stretched by the vast expanse of the country, emerging FMCG players are innovating to reach their products across India

India is a challenge even for the mightiest of corporations such as HLL and ITC. Getting products across the length and breadth of the country through myriad channels and at best whimsical legal maze can be quite daunting for companies with deepest of pockets.

But for smart, fast-growing companies with oodles of spirits and smarts - rather than millions to blow - it is just another challenge as they take on the big multinational corporations on their turf.

Companies such as Ozone, Bectors Food Specialities and Menezes Cosmetics are proving that increasingly when it comes to winning in the marketplace, it is the agility, rather than size, that really counts.

Such smart companies tend not to favour sinking too much money into asset intensive activities. And they are showing that challenge that is India can be surmounted in a different way.

Take Ozone Pharmaceuticals for example. The maker of one of the more popular cosmetics brands - No Marks - has its manufacturing units located in Himachal Pradesh and Assam. The company has 24 C&FAs (clearing and forwarding agents) who stock its wares.

Ozone has found that the right combination of partners - including third-party logistics services from Safexpress - and greater delegation to C&FAs can be quite useful.

Outsourcing logistics allows Ozone to rapidly move stocks from one state to another in response to demand. This means it no longer has to keep large buffer stocks to deal with unforeseen spurts in demand. As Shruti Sehgal, Manager, Procurement, Ozone Pharmaceuticals, points out: "Thanks to such methods, we have been able to slash our buffer stocks from 90 days to 45 days."

Besides, the responsibility to manage retailers has been delegated to managers at C&F depots in each state.

Sprucing its transport has also helped it cut down on intermediaries. Stocks from the factories can now directly be routed to the state depots, bypassing the warehouses. "Inbound transportation - to fetch raw materials from vendors - too has been outsourced leading to better handling and timely deliveries," says Sehgal.

The Goa-based Menezes Cosmetics has taken on the distribution of licensed products such as 'Old Spice'. It uses a network of intermediaries to 80,000 retail outlets across India. Menezes' 19 C&F depots are further supported by 270 authorised distributors or stockists.

Menezes has learnt to allocate its stocks not just on the basis of its quarterly forecasts but also on the proximity of the C&F from the factory. Therefore, it maintains lower buffers for western and southern regions (as they are close to Goa) but higher stocks for the northern and eastern regions that take longer to reach.

However, there is so much that Menezes can afford to lock in inventory. So for the eastern region, that is the toughest to reach, the company supplements its stocks by rushing SKUs through courier should the need arise. "On an average, buffers amount to one month's stock, based on the forecasts", informs U P Sinha of Menezes Cosmetics.

Bectors Foods Specialities is a fast-growing company with an impressive client list that includes McDonald's, and Pizza Hut among others. The company supplies them a range of items such as a variety of sauces, condiments, buns, glucose biscuits. In all, the company has nearly 200 products in its portfolio which it supplies to hotels, restaurants, and caterers, military canteens and hypermarkets like D'marts, Big Bazaar.

Therefore, to simplify things, the company decided to segment its customers. It has a system of three different types of despatches. One of the despatches of stocks, from its Ludhiana factory, is through a mix of 3PL providers to direct accounts like Café Coffee Day while in the case of McDonald's and Pizza Hut, the latter take care of the picking up stocks.

The second despatch ferries stocks to the dealers present in 44 cities across India. Each C&F, (currently 7 with 4 more in the offing) feeds 10-15 dealers in each city.

The third despatch exports a part of the stocks to the Middle East, UK and Australia. Export despatches - stocks for four weeks sent by sea, but there is a buffer of two weeks stocks which are kept at the Bombay C&F, ready to be lifted by air freight in case of sudden demand. For exports timelines have been drawn.

"Our biggest concern is the factory location. The faster growing markets in west and south India while our plant is at Ludhiana," says Vijay Prasad, General Manager, Bectors Food Specialities. "Initially, there was merit in having the factory in a place like Punjab. With Bectors rising to become a national player, its new-found recognition has brought with it investors who have shown an interest to finance Bectors to open shop in west and south India," says Prasad.

For the time being, Bectors is making up by keeping a buffer. "We have a rule. If a customer orders 40 items, he will receive 50. The extra stocks come in handy during crises or in case of stocks getting damaged during the transit," says Prasad.

This may not be the stuff out of supply chain textbooks. But it works as Bectors' rapid growth shows. And that's so true of all the three companies. They are not content with following the rules. They are writing their own rules.

—SAYANTANI KAR

**VIJAY PRASAD**, General Manager, Bectors Food Specialities



**S. R. SHARDA**  
Executive Director, Safexpress Private Limited

There have been developments of late in the service tax rules which probably most of you are aware of. Still I thought of apprising others through this column.

Finance Minister has proposed to increase the service tax from the present 10% (10.2% including education cess) to 12% (12.24% including education cess). Though this has been proposed, the application date of the increased service tax is still not here yet. This will happen on approval of the finance bill by

the lower and upper house of parliament.

I recently met someone who was not aware of the service tax credit rule made applicable last year. Most of us were aware that service tax paid was allowed credit against service tax collected. This became applicable a while back. Last year, service tax paid was allowed credit against excise payments made. This means all units paying excise can take credit of service taxes paid for input services. This most certainly

reduces a big burden of service tax that manufacturing units are paying.

Another update is that VAT is being made applicable in BJP-ruled states of Chattisgarh, Gujarat, Madhya Pradesh, Jharkhand, Rajasthan. UP and Tamil Nadu are still out of VAT regime. For forms and permits changes of these states refer to our website [www.safexpress.com](http://www.safexpress.com). If there are any specific statutory assistance required, feel free to write in to our email [fasttrack@safexpress.com](mailto:fasttrack@safexpress.com).

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