



**Distribution Redefined**

# FAST TRACK

HOW AGILE IS YOUR COMPANY

Issue 2, December 2003-February 2004

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# They are Coming...

But are you ready? A few tips on how to make the most of the coming boom in consumer demand without putting your business at risk

VIKAS KAUL

**W**hen it all began is hard to say. Maybe sometime in April this year when the biggies of IT declared results that showed the worst was over. The rest of Corporate India followed up with good results. Maybe it was the good monsoons, maybe it was the US economy showing signs of recovery.

Whatever it was, it has taken the Sensex beyond the 5,000 mark. And now, there are unambiguous signs that the economy is getting into top drive (See 'Leading Indicators' on page 7.) The 'feel good' factor is back. The appetite for consumption is increasing. Everything—from real-estate to automobiles to durables—is witnessing a boom in demand.

The question is: Are you ready to ride the wave? How you manage this growth phase is as crucial for long-term profitability as surviving in the recessionary periods.

Consumers and markets are becoming less and less forgiving. Mistakes made during the good times come to plague you later. Even the conservative accountants seem to confuse revenues with profits in good times. The result is inventory pile-ups and dissatisfied customers who are promised moon and delivered a shadow. Sample these instances:

- The over-bullish Cisco had to pay a heavy price—\$2 billion in inventory write-offs once the tech buildup slowed down.
- e-commerce cheerleaders in the US booked orders before they could figure out how they would reach the stuff to the consumer profitably.
- The great e-learning revolution fizzled out when tons of technology went live without educators offering any meaningful service.
- A research in UK showed that nearly 50% of small and new businesses went bust at the first signs of let-up in demand after a boom. Ninety percent of these firms were over-



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

## CHECK THE BRAKES!

**T**he economy is once again revving, and everyone I know is readying for the ride ahead. Ramping up production, making investment plans, and thinking a few years ahead. All of this is understandable—after all, we live in one of the fastest growing regions of the world.

But the really smart ones are not merely getting ready for the ride, but are also checking their brakes, adjusting their rear view mirrors and making sure that their vehicle is safe for the journey ahead. That is why this issue of **Fast Track** has been created as a kind of tool-kit for the

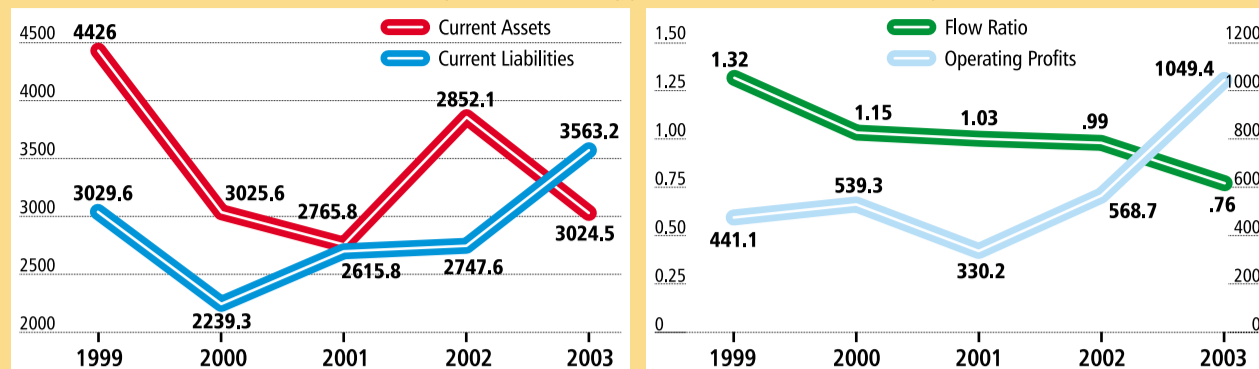
business leader who is preparing his company for the ride ahead.

This is the second issue of **Fast Track** that you are holding in your hands and we are heartened by the response the first one generated. It seems practising managers have been waiting for a publication that focuses squarely on issues of efficiency. Do get back with suggestions on how

we can make it even more relevant to you and your industry. In fact, if you have your own stories of managerial innovation to tell, share it with us; **Fast Track** now reaches out to a few thousand top-level decision-makers and there is no better way to spread the message of Indian Industry's resurgence.

**GOING WITH THE FLOW** How Tata Motors stands up to the Flow Ratio test

Flow ratio = (Current Assets-Cash)/(Current Liabilities-Short-Term Debt\*)



- Flow Ratio reduced from 1.32 to .76. Operating profits more than doubled from Rs 441 crore to Rs 1049 crore.
  - The whopping current assets of Rs 4426 crore in 1999 weren't real, they did not translate into monies.
  - In 2003, a much lower current assets figure of Rs 3024 crore and higher current liabilities of Rs 3563.2 crore, there were big profits.
- \* No Short Term Debt in the case of Tata Motors All figures in Rs crores (except Flow Ratio)

leveraged—blame it on the good times—and were unable to tackle the working capital crunch that followed.

There is always a danger that you might get carried away when the business cycle turns. On the other hand, play it too safe and opportunity will pass you by. *Fast Track* has identified a few basic financial concepts which ensure that your bottomline follows the trajectory of your topline. Stock analysts use these techniques all the time to evaluate the health of a business.

Let's begin with sales. There is a good chance that your company does not sell directly to the end user; it sells into the channel. Are you tracking end-user sales? What's the lag between production and sales?

A simple number, such as the **ratio of finished goods inventory to raw material inventory** could help. Rising finished goods inventory could signal a lack of end-user demand. On the other hand, an increase in raw materials inventory might signal increasing demand, as a company gears up for production. (It's a good way to put to test whether your investments in supply chain management are giving results too.)

Take another indicator: **Flow Ratio**. A new and rather hard to digest idea, it takes a contrarian view of what really makes for assets and liabilities. Conventionally, all accounts receivables and inventories are treated as assets and all accounts payables as liabilities. Assets are good and liabilities are bad.

Or is that really so? What makes you so sure that you'd be able to collect all receivables? Or for that matter, will the inventory—assuming it can all be sold—really hold its price? On the other hand, payables are what you owe—mostly without an interest, thus it's an interest-free loan. That can't be so bad. The Flow Ratio puts a neat little number on this equation.

Flow Ratio = (Current Assets-Cash)/(Current Liabilities-Short-Term Debt)

If the Flow Ratio is rising, then you must take a hard look at its three key components—receivables,

inventory, and payables—to try and understand why. As a company grows in size, each of these components is going to grow in size almost by default. What you need is a fix on the relative rate of growth.

So compare the rate of growth of a company's revenues to the rate of growth of its receivables and its inventory. If receivables or inventories are outgrowing sales, you have a warning sign—the revenues might not be real. Ideally, and this is purely a statistical thing - your flow ratio should not be more than 1.25.

Let's put this ratio to test for automobile giant Tata Motors (See 'Going with the Flow' above.) As the flow ratio went down, profits shot up. What's remarkable is that current assets—conventionally considered good—fell by two-thirds during this period while current liabilities went up by over 15%. This tells you why you must track flow ratio number all the time.

If however, you are a small or emerging business, the number you need to worry about most is **debt-to-cash ratio**; it helps indicate if a business is growing its earnings from operations, freeing it from interest payments. This ratio indicates how well a company is managing its working capital (current assets and liabilities), and if cash is being used efficiently.

Failure to manage working capital is the biggest cause of demise for such businesses. Bankers lose faith easily with smaller companies and credit can dry up at the first signs of trouble. For a small business, it is unwise to let it slip below 1, that is, you should be generating enough cash to pay your debts at all times. The target, however, should be in the range of 1.5, though admittedly it's a tough ask for a growing company.

All of the above can be monitored easily by culling out data from your MIS. Remember, good times are for strengthening and testing the company, not just for showing-off topline growth to keep the board happy. Sooner or later those grey-haired chappies are going to get down to the bottomline. ■

# Automated Storage & Retrieval System

When ITC Ltd ramped up manufacturing at its Bhadrachalam paper-board plant, it found the warehouse couldn't supply raw materials quickly. Also, information about stocks position came slow. If only stocks, and information about it, could be made available faster.

Thanks to Automated Storage and Retrieval Systems (AS/RS), this is possible now. An AS/RS performs four functions:

- Receive, identify and sort goods
- Dispatch to storage, and storage
- Retrieve from storage
- Pack, ship and keep records

All this is automated and controlled by computers. Other major components of AS/RS system include storage aisles (pallets and bins), storage and retrieval machines (such as stacker cranes that run on rails) and pick-up and delivery stations.

For ITC, AS/RS has increased the storage capacity nine times as it operates up to a height of 18 meters—conventional systems works only up to six meters. It has boosted speed of handling too—six times. "While a conventional forklift has to first move forwards and then lift, the lifting equipments in AS/RS can lift while moving," explains Manoj Ganjawalla of Godrej Efacec Automation and Robotics, the solution-provider for ITC. The AS/RS solution costs Rs 1-crore onwards and starts making sense if a warehouse has upwards of 2,000 bins or the area is larger than 180 square meters with the floor dimensions in the ratio of 1:5 (for example, 6x30 meters). It is particularly useful where multiple handling is needed (such as in apparel), and for high volume requirements. ■



## CASH IS KING—At least if you are a small business

The trickiest part of managing growth for a small enterprise is financing it. Think of what growth brings with it:

- Growth eats cash—fast—especially if you extend credit to individuals or customers while also financing your expansion.
- Requires new investment in resources—be it labour or equipment—which will invariably not be operating at full capacity and paying for itself immediately.

**Plus, as sales grow:**

- You struggle to hire the right people

- Get your suppliers to deliver on time.
- Lack systems to handle business.
- Money pressures grow as rising sales may not



translate into immediate cash.

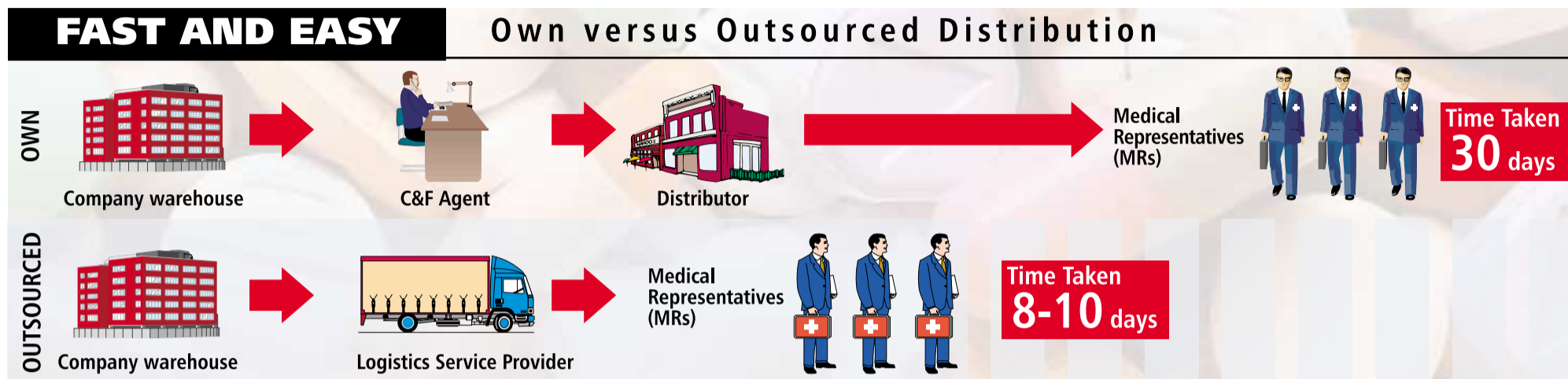
Of all the above, the last one can kill; under-capitalization is a small business' worst enemy.

**What can you do:**

Remember the debt-cash ratio we talked about in the story. But there is more. Sales bring profits—of course—but sometime they don't bring enough cash, at least in time. The lure of sales is hard to resist but you must know your limits and be prepared to forego sales. Companies—at least the young ones—run on CASH, not profit. ■

# Pharma Finds a Pill For Speed

Alembic becomes the first in the industry to test outsourcing of logistics



Much of marketing in pharmaceutical centers around the “Physicians’ Sample”. In absence of the advertising option, ethical sales—that is, sales through doctors—are the lifeline of the industry. Yet reaching these samples conveniently to field staff

has never been a priority.

Up until now.

Going to the distributor to pick “Physicians’ Sample” may soon be a thing of past for medical representatives (MRs). In fact, they might soon be receiving the cartons at their doorsteps!

A beginning has been made—by the pharmaceutical major Alembic Limited—and its experience might just make outsourcing the norm in an industry where it has been treated as anathema so far.

The Baroda-based company has decided to hire a logistics service provider to ensure the prompt and timely delivery of its promotional drug samples for doctors directly to MRs.

Currently, such samples are routed through the company’s supply chain. The samples go from the warehouse to Clearing and Forwarding (C&F) agents who pass the stuff on to the distributor. The company’s MRs pick the samples from these distributors.

This means drug samples must move at the same pace as the rest of the stocks. But the replenishment cycles for the two are different. That makes it hard to predict when the samples will actually be reaching the hands of the field force. Besides, collecting the samples from the distributor is a hassle for the MR.

“The promotional material often gets a step-motherly treatment in the normal course of delivery. Nobody can predict their movements. That’s one of the reasons why we have decided to outsource,” says A M Pendharkar, Manager, Marketing Services, Alembic Ltd. “Through outsourcing this job, we can have full control over the entire exercise. We can predict what stuff will reach

where and when. More importantly, we don’t have to wrack our brains about delays and such like. Everything is taken care of.”

Alembic, which has got a field staff strength of more than 1000 MRs all over India, supplies around 1500 to 1600 cartons of promotional samples on an average every year from its five product divisions—Prime Care, Pharma, Critical Care, Cardiac and Diabetic Care and Veterinary Care.

According to Pendharkar, the promo material usually takes almost a month’s time to reach various parts of the country. Through outsourcing, this period can be cut by nearly a third to a maximum of 8-10 days. The service provider guarantees delivery within this time-frame. In fact, the medical reps in the nearby cities can avail it the very second day itself. And those townships, which are distant from Ahmedabad, won’t have to wait for more than 10 days.

**Although the cost of outsourcing is slightly higher, in the long-term, service benefits far outweigh the costs**



But what about the costs? Are there any real cost benefits? Outsourcing tends to cost a bit more, but not very much more, according to Pendharkar. “I cannot provide you the actual figures. Still, I can say it looks slightly higher. But we definitely have service benefits. The advantage of service benefits far outweighs the additional cost in the longer term,” he adds.

Alembic is planning full-scale outsourcing of the supply chain management for promotional goods in the coming months. Apart from Alembic, a few other pharmaceutical firms including the Mumbai-based Glenmark Pharmaceuticals Ltd are also seriously considering supply channel outsourcing in their effort to streamline the promotional material delivery.

This is mainly because many companies find that the promotional material requires separate distribution channels to ensure prompt delivery, otherwise it is never a priority. Unless they have their own systems of effective delivery, like Ranbaxy Laboratories has, where it distributes the material through the depots meant for this purpose, pharmaceutical companies are increasingly feeling the need to outsource the job.

“All the promotional material meant for doctors are currently supplied through our [Glenmark’s] own men. But we are open to the idea of getting somebody to do the job. As of now no such decision on outsourcing has been taken. We may consider it sometime next year,” says Anand Sawant, from the Mumbai-based distribution division of Glenmark.

“The process has begun with fulfilment of referral marketing with one company now, where outsourcing reduces the lead time. The value proposition for the others will increase rapidly now,” says Anil Syal, General Manager, Marketing, Safexpress. Now the question is: if outsourcing of promotional material has begun, can outsourcing of bulk drugs/formulation deliveries be far away? Watch this space. ■

—SHREYA R

PRIORITY

A big thumbs-up for the Indian Logistics Industry! Pawan Jain, Chairman and Managing Director of Safexpress was declared amongst the Finalists for the **Ernst & Young Entrepreneur of the**



**Year Award Program** 2003 held last month. The nominees are chosen amongst those who exemplify and personify entrepreneurial excellence. The jury recognizes leaders who build their business on

vision, courage, endurance and passion.

Safexpress, the company Pawan Jain founded in 1995, is the fastest growing domestic logistics service provider in the country today, with a network that spans 483 cities

and townships. It provides a range of logistics and supply chain solutions including door-to-door distribution, reverse logistics, 3PL, single source invoicing, packaging solutions and e-logistics.

The achievement, a first for the logistics industry since the inception of this prestigious award, is an indicator of the vital position logistics is beginning to occupy in our economy today.



# Vendor Managed Inventory A reality auto component vendors are grappling with



**1** Supply from Tier II & below: Vendors get supply schedules from Tier I vendors on the internet. At this Pricol assembly plant in Manesar, 40% of vendors have already been covered under VMI.

**2** Assembly: Maruti keeps only 4 hours stocks inside. Pricol's assembly plant stays live with its main plant in Coimbatore through SAP to deliver for such short cycles.

**3** Packing: Components are put in specified bins, labeled and sent to MUL. Saves costs for vendors within 200 km radius. Cost rises beyond 200 km radius, as packing needs to be done twice.

**4** Finished stock inventory: Has come down for vendors also, from 4-5 days to about 2-3 days. For some high volume components, it is just about a day.

**5** Dispatch: Under MUL's e-nagara system, delivery is done once/twice/multiple times in a day. Loading is done using the Last In First Out principle.

CHITRA SUBRAMANIAM

The Maruti Udyog's factory in Gurgaon holds only four hours of component inventory from nearby vendors. A few kilometers away, the Hero Honda plant keeps only two hours of inventory from its ancillaries. It is a touch-and-go affair, and yet the system has been running smoothly, except for a few occasional glitches. This system is called Vendor Managed Inventory. (Colloquially, in India, it is also called Delivery Inward system, or DI.) Worldwide, automobile giants have found it tough to implement. In India, auto companies are embracing it enthusiastically.

The challenge lies in making VMI a win-win situation for both the OEM and its vendors.

The American Production and Inventory Control Society defines VMI as "a means of optimising supply chain performance in which the supplier has access to the customer's inventory data and is responsible for maintaining the inventory level required by the customer...It is accomplished by a process in which re-supply is done by the vendor through regularly scheduled reviews of on-site inventory." Put simply, VMI is a system wherein the inventory is so managed by the vendor that it is available just-in-time for manufacturing. The latter shares the supply schedule 15 days in advance and a tentative schedule for the next 15 days. The vendor then plans the production schedule accordingly. The finished stock is sent to the factory in predetermined bins with proper labels, synchronized with the production schedules.

VMI reduces stockouts and inventory in the supply chain. This in turn translates into lower working capital. In

## VMI—THE STORY SO FAR

- Most auto majors are implementing VMI.
- Class 'A' component inventory at auto companies down from 7-10 days to a few hours or maximum one day.
- Finished stock inventory with component manufacturers down by at least 5-6 days on an average and more in some cases.
- E-nagara, a virtual online system of delivery created by Maruti for its vendors.
- Substantial reduction in working capital requirements for vendors.
- Gradual movement towards VMI from Tier I to levels below.

one stroke, it also does away with the cost of maintenance and control of the inventory and storage costs. This reduces space and manpower needed.

OEMs have been known to maintain over two months of stocks of certain components. (A leading automaker had at one time over two years of stocks of engine bearings of one or two colours!) Ashish Gupta, an independent improvement consultant, says, "Earlier for Class 'A' components the auto company would hold 7-10 days of stock, now it is down to a few hours."

VMI has also brought to an end the process of dumping stocks with the OEM by the vendor. Now, only that quantity which is required for the next schedule of production is allowed to enter the factory premises. The supply chain is shortened, there is centralized forecasting and fre-

quent online communication of inventory and stockouts. Also material inspection on site is done away with. The onus of providing quality products is on the vendor since the components are put directly on the production lines.

Above all, it brings transparency in the system. The supply schedule of the vendor works in tandem with the production schedule of the OEM. K Kumar, GM & Plant Head, Pricol, Plant 2, says, "However, for the chain to be complete and work smoothly, we have to extend the pull system to our vendors and sub-vendors along with logistics providers. We are putting in place a VMI (B2B) with our vendors, wherein we put up the supply schedule with codes on the internet. At our plant in IMT Manesar, nearly 40% of the vendors have been covered."

Other players like Toyota and Ford have implemented this system from inception. Kumar says, "Some of the OEMs, like Toyota, take care of the logistics also and pick up the quantities as per the schedule from various vendors in a particular region. It saves transportation costs as each vendor need not make arrangements to send it to the factory separately. Similarly, even unloading at the plant is done from only one vehicle. They have refined it and taken it a step ahead."

The inventory in the supply chain has definitely come down. Money is no longer blocked in goods. Kumar says, "The earlier finished stock of 4-5 days has been reduced to about 2-3 days. For some high volume ones, it is just about a day. This was achieved mainly due to improvements in the planning system of the total supply chain including customer-to-vendor and the daily delivery schedules of the customers."

He adds, "MUL has introduced e-nagara for most of its

vendors in Gurgaon where the delivery is done once/twice/multiple times in a day. Everything is online and MUL just has four hours of stock. The daily supply schedule is put on the internet. For internal data interface we have implemented SAP which is live between Gurgaon and Pricol's main plant at Coimbatore."

The alignment of supply and production schedules has resulted in the sales of the vendor being streamlined also. Or as Rajiv Gupta, Assistant Manager (Sales), FAG Bearings, says, "In the last four years, our sales have doubled but the sales force has remained the same. It is a complimentary system not requiring a huge sales force."

The biggest saving has been in terms of working capital requirement. With stocks of finished goods coming down by 5-6 days on an average, the amount blocked in the inventory declines substantially. For Pricol, it has come down by about 10%, which is being reduced further by integrating the entire process with the planning system till Tier IV levels.

However, one of the major criticisms against VMI is its dependence on accurate forecasting. In case of a mismatch, where a quick change in production plan is required, the onus of delivery on time for the revised schedule is on the vendor. He bears the additional transportation costs, at times even having to airlift stocks.

Most vendors recall the recent transporters' strike where they had to resort to airlifting of components to meet their delivery requirement. So what happens if they cannot deliver? Surprisingly the answer is unanimous, "We cannot do that. We will have to supply at whatever cost."

Sunil Kalra, GM, Marketing, Kirloskar Oil Engines Ltd. says, "Our costs have actually gone up. Earlier we had our stocks lying at the OEM, and we could meet urgent requirements. Now at times we airlift quantities, which just adds to the cost. For critical parts, it has not been possible to fix supply schedules."

There is also an added cost of repacking for vendors who do not have factories in the vicinity. Says Kalra, "It is

a boon for MUL vendors in the vicinity as the parts are directly placed in bins, labeled and sent. The vans pick up the bins on their return. For components coming from a distance of more than 200 km, the cost rises as the components end up being packed twice." Pricol is moving towards a process of production of components close to the plant to the extent feasible. Says D Raghunathan, GM, Business Development, Pricol, "Under this system, we have realized that the risk is reduced if we are nearest to the customer. And there are cost advantages."

In VMI, the third party logistics provider plays a critical role to ensure smooth physical movement of goods. The logistic provider keeps track of the goods to ensure it reaches the local warehouse in time to re-pack—where it is put into bins, labeled and then delivered to the auto company. "VMI is a good example of JIT working with staggered supplies but the forecasting by manufacturers also needs to be more disciplined for it to be a win-win situation," says Jagdeep Luthra, Vice-President, Safexpress.

It is still early days for VMI in India. The degree of online connectivity is still not adequate. Also, suppliers from Tier I and below are under intense pressure to cut costs, maintain high levels of quality with faster response time. All of which seems impossible given the fact that margins are thinning, so the scope for absorption of these extra costs is limited.

In India, says Ashish Gupta, "The OEMs have got their act together, the rest have to do so. Vendors will have to become more efficient to become globally competitive," Kalra of Kirloskar Oil Engines adds, "Margins and profitability can increase only by increasing productivity and VMI is one of the tools."

Raghunathan of Pricol is also optimistic, "The chain is developing and in a few years from now we will get the right signals. The order of the day is cost reduction. Four years back, it was possible to increase price but now, no more. The entire chain has become more disciplined."

All this squeezing of suppliers is fine but unless more automakers learn to discipline their forecasts and bring in more flexibility into their own production, the industry might struggle to make money.

## WHAT'S NEXT

### What carmakers are doing globally to streamline supply chain

- German luxury carmaker, BMW, works on flexible shifts. Put simply, it runs several continuous shifts when it needs to make cars in large numbers. This is what all carmakers do. What's different about BMW is that it does not believe in continuous, steady-state production. Its contract with the workers obliges them to work X number of hours every month for a certain remuneration—these hours however are flexible. BMW operates with the lowest car inventories of all automakers.
- Smart, the wholly-owned subsidiary of Daimler Chrysler, and maker of the smallest car in the world, took the rather odd and challenging route of offering customers the option of

choosing colour parts like you can with your watch case. (In fact, Swatch, the watchmaker was a 50% owner initially.) To manage the complexity and keep costs low, the company built a large campus, which houses all its component suppliers. Since then, co-location in auto industry has been growing and would, in years to come become a norm.

Along with co-location have come new ways of moving stuff from vendors to OEM. For instance, the Ford Motor Company's new industrial park in Valencia, Spain, houses the suppliers as well. The park uses DAD (Direct Automatic Delivery), which brings in many of the components from vendors located in the park through an automatic conveyor that runs in from the vendor location.

PRIORITY

A recent research in the US shows that logistics as a function is finally moving into the strategic domain. This is causing a stratification of the function—the practice is being split into an execution



function (dealing with core issues of transportation and distribution) and a strategic function (dealing with a successful alignment of information, work and product flow across the entire

organization and beyond). In India too, the supply chain organization is evolving and logistics is being seen as a critical activity. Already the majority of companies have taken supply chain management out of

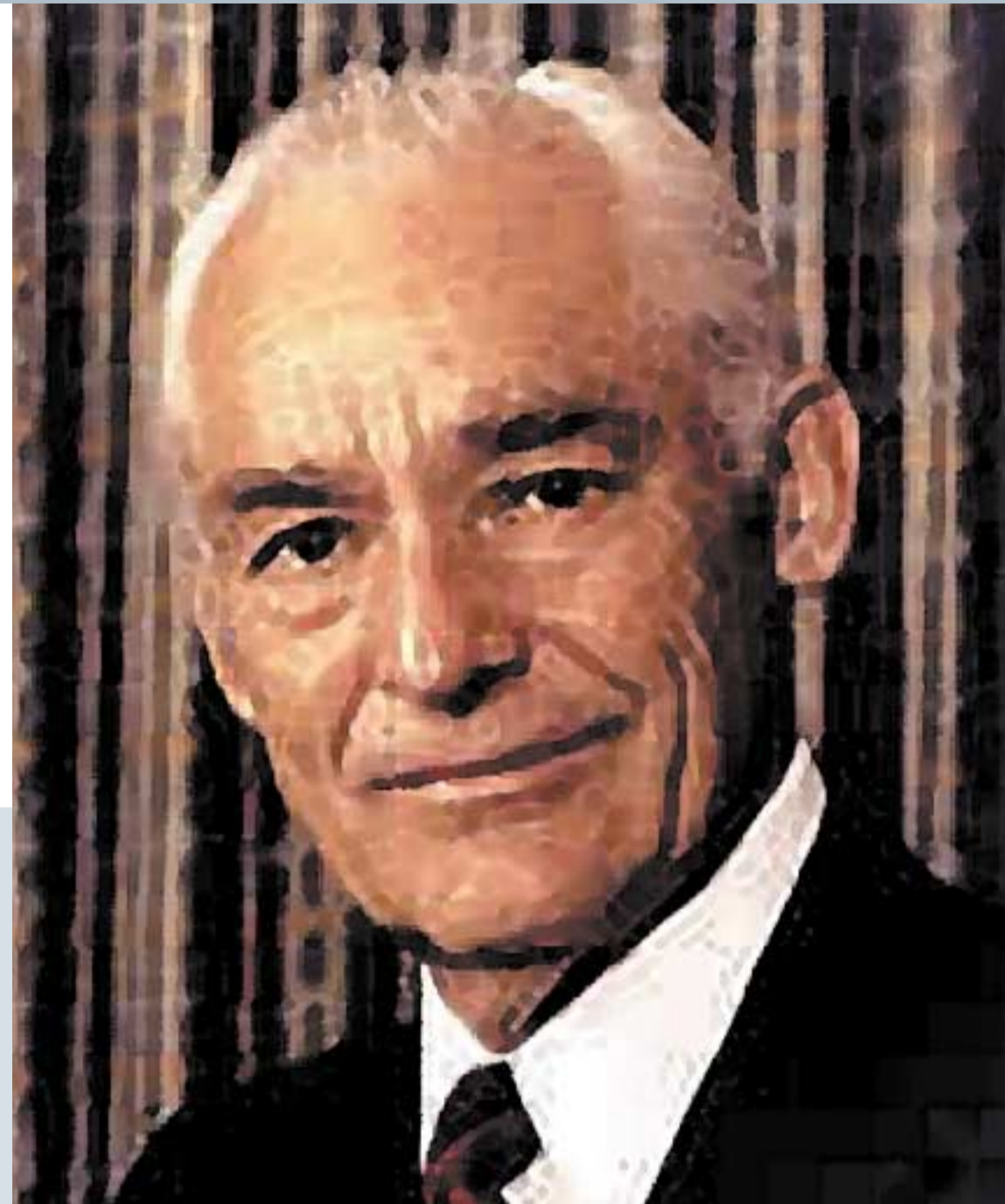
operations and appointed a functional head. Some companies have created specialist logistics job positions that focus on directing top management attention towards logistics and the effi-



ciencies that are possible out of it. This could be the beginning of a concerted management effort to extract efficiencies from one of the most ignored areas of business activity.

# Dance with the Elephant

How the largest corporation on the planet, the \$217-billion retail behemoth, Wal-Mart is also one of the most nimble-footed companies



**G**uess where the king of Supply Chain Management—Dell Computers—went looking for a CIO? Or where the great American icon Levi's is going to save itself from extinction? Can you name the company that sold over \$1 billion of stuff in a single day? (Yes, no typos here, a single day!)

Here is a hint: pundits expect this great corporation to hit \$1 trillion in sales over the next decade. We're sure you got the name but just in case you haven't, it's Wal-Mart. With nearly 5,000 stores the company notched up sales of \$217 billion last year. A number equivalent to the entire population of Japan strolls through its stores every week!

On November 23rd, 2001, Wal-Mart sold \$1.25 billion worth of goods.

No wonder Dell pinched Wal-Mart's CIO Randy Mott. And now, when Levi's looking to resurrect itself, it's betting big-time on breaking into Wal-Mart stores.

The big surprise: Levi's, a business school case study in lean manufacturing, didn't measure up to Wal-Mart's exacting standards.

Wal-Mart's size—and a massive 30,000 supplier base—does not stop it from being the fastest mover of products from its shelves across the world. And that's crucial to Wal-Mart's success as a seller of lowest cost merchandise. So how does the retailing giant work?

By a mix of some obvious, and quite a few very non-obvious strategies. Being big gives it great negotiating power, so it squeezes suppliers very hard (obvious). But it does some things rather differently. For instance, most retailers till recently were extremely secretive about sales information. They would never share this data with their suppliers. Result: inventory would be lying in warehouses but the shelves would be empty. That meant lost sales.

Wal-Mart changed all that. It realized that the real value of capturing sales information electronically lies in cutting down inventories and making sure stores are stocked with the right stuff. This couldn't be achieved unless the sales information was available to the supplier at the same time as Wal-Mart.

The first retailer to turn to technology for analyzing sales data, it then started to transmit orders directly to suppliers through electronic data exchange. That was in the 1980s. Through the 1990s, Wal-Mart consolidated the supply chain using its own applications, collectively known as Retail Link.

In many ways, this was the first collaboration-cum-supply chain management software at work on a large scale, much before the world had heard about SCM. Still Wal-Mart wasn't happy. It had to send software upgrades to vendors and maintain a bank of dial-up modems. A fairly expensive and complicated task given the retailer's 30,000 strong supplier base and the 5,000 stores.

So Wal-Mart teamed up with Cisco to create a Net-based platform, Pipeline, over which suppliers could find out how much was selling, create 'what-if' scenarios, and then work with Wal-Mart on sell-through and pricing.

The supplier is looked upon as a profitability driver (Wal-Mart's) and therefore must take responsibility for the same. That means it must integrate all its IT systems with Wal-Mart's; no mean task considering the latter works almost entirely with in-house IT systems. Besides, as Levi's found, this usually meant that the supplier must work backwards to tweak its own suppliers systems.

In Levi's case, it needed a 95% compliance—delivery on time—to make Wal-Mart happy. This called for investment into gaining complete visibility into its supply chain.

Usually, it means knowing how much stock—finished and work-in-progress—is lying where. That wasn't good enough. It should—insisted Wal-Mart—be able to track everything from raw material to every pair of jeans even in transit, so that the retailer could replenish stocks fast.

Essentially, stocking and managing inventories is the supplier's responsibility. Doing business with Wal-Mart can be demanding. Like Dell, it uses its enormous market power to make sure vendors deliver what it wants.

Imports and odd-size items (such as large TVs) are handled by logistics firms. Even the stocks for anticipated spikes in sales, such as during Christmas, are managed by specialist logistics firms that store and deliver as per requirement. Actually they do more. At the click of the mouse, they are able to provide distribution costs and time (for imports) from any destination, to help the retailer plan forward buys.

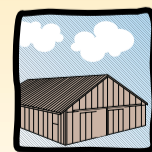
Wal-Mart is embracing Radio Frequency Identification Technology now. This is a more sophisticated version of barcode scanning, which can work wirelessly and carry more information. Significantly, information can be loaded to the tags attached to each item. So a logistics services provider can provide the distribution costs and other related costs to Wal-Mart also. Eventually, each SKU could have its own profit and loss account!

Now that's what you call "Bleeding Edge". ■

—VIKAS KAUL

PRIORITY

The dull, uninspiring, desolate piece of business infrastructure, warehousing, is undergoing a rapid transformation. No longer is it just a building where goods are stored; now it is very much

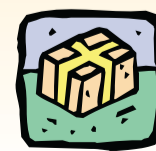


a key link in the supply chain. According to a report presented at Warehousing Education and Research Council's annual conference, technologies such as RFID and robotics (see fea-

ture on AS/RS on page 2) are coming into play to ensure that information about goods stored can be moved in real-time.

Warehouses are being used for product configuration, finishing, packaging,

labeling, ticketing, pricing, and creating shelf-ready products. Accuracy—in storing and locating stuff—and integration with the supply chain, is going to keep logistics managers busy in the



near term. Expect warehousing outsourcing to increase significantly in the days to come since companies do not want to invest in the capital-intensive warehouse ownership.



# Leading Indicators

What the current economic data says about the future

**A** remarkable level of correlation exists between the performance of the Indian IT industry and the US economy. The trend lines of the industry's performance mirror the US economy, with a phase lag of two quarters. Studies by leading global investment banking firms show that if you want to know how the Indian IT sector will fare six months from now, study the growth charts of the US economy today.

To discover a leading indicator such as this is indeed fortuitous. The search for a set of leading indicators that reveals what's coming in the next few months has so far been unsuccessful. So we decided to do the next best thing: compile a list of projections and expected developments across industries over the next 3-6 months. The emerging story should hopefully provide a picture that is more than a sum of its parts.

● Let's begin with the macro developments. The economy is firing on all cylinders. GDP growth estimates are ranging from 6.2-7%. The significant thing is that no study says that the Indian economy will do less than 6% this year.

● Buoyancy in the industrial sector however may not be felt in the next 3-4 months. The lag between agricultural growth and its effect on industrial activity is about 5-6 months. So, economy pundits are saying, expect industry to perk up around March 2004 onwards.

● In some industries, the ripple effect is already evident. Bike manufacturers Hero Honda and Bajaj Auto reported the highest-ever sales in the month of October. Their dealers are reporting long waiting periods. Their factories are getting busier. Of course, for the automobile industry, business has generally been good in recent times. The difference now is that their growth rate has moved into a higher gear.

● The really significant news is coming from sectors like cement, which has suffered from declining prices and margins for the last few years. Cement prices are rising

now. The industry association expects a rise between 8-10% in the next 3 months. This will ride on a demand growth for cement of 5-8% this year. According to the industry association, expect a sharper rise in cement prices in the next 6 months or so. The reason is that cement companies are restless to see some returns on investments they made in additional capacities in the last few years.

● In fact, overall corporate profitability estimates have been revised by DSP-Merill Lynch for this fiscal. Earlier estimated at 15%, they are now projecting a figure of 20%. The government also believes that business is getting better. It has revised corporate tax collection targets upwards by 20-25%.

● The industry apex body, CII, is saying that the mood of optimism is only going to increase. In the next 4-6 months, the industry body is projecting a 3.6 points increase in the business confidence index, which means that industry will be in the 'moderately positive confidence' zone. In the months ahead, everyone will gear up for another bout of rising demand.

● There are some new levers of demand that are also getting activated. A structural shift is coming in the steel sector. For a long, long time, growth in steel demand has averaged around 5%. Now, it has moved a notch higher to 7-8%. B Muthuraman, Managing Director of Tata Steel is saying that this means we are reaching faster the threshold for the big bang in steel consumption. This is how it happened in China. Of course, we are still some time away from reaching there. (China's steel consumption is 200 million compared to only 33 million in India.)

Now, how this new pattern in steel consumption is transmitting to your industry needs some careful thought. Maybe there is a leading indicator to be discovered there.

PS. Would you like to share your ideas and suggestions on leading indicators? Do write to us at [fasttrack@safexpress.com](mailto:fasttrack@safexpress.com)

Is your supply chain well organized? How can you find out? More importantly, where do you start your initiative to fix it? According to a Cap Gemini Ernst & Young research, there are six key



drivers to configuring your supply chain. **Collaboration:** By sharing of data across the value chain over a standardized platform. **Optimization:** By implementing new tools that lever-

age cost savings across communities. **Connectivity:** By fostering many-to-many collaboration over standardized platforms, perhaps a trade exchange. **Execution:** By improving distribution, transportation and exped-

ing financial settlements and measuring performance on all of these. **Speed:** By increasing the pace at which real-time information flows and making sure processes are adaptive. **Visibility:** By



tracking and managing events continuously. It is a useful checklist as you set out to reconfigure the supply chain, which most Indian companies are in the process of doing now.

## Putting New Ideas to Work

**T**he Japanese consider crisis as an indication of failure. Which management style would you vote for:



Effectively dealing with a demanding crisis situation or evaluating and countering factors that could possibly cause crisis in the future? A proactive approach is any day more successful, says management consultant, Preston Smith. However, a proactive approach is not as easy to implement as it appears. Read how you can keep a proactive approach as your goal and walk towards it.

<http://www.refresher.com/lpgsproactive.html>

How will you convince your employees to relinquish their old working style and embrace change? Merely dumping new processes on employees is no solution: it perhaps even increases the unwillingness to change. The task of managing change is a systematic procedure that requires unfreezing the current state, implementing change and then re-freezing. This primer delves in detail into Change Management.

<http://home.att.net/~nickols/change.htm>

New ideas are often not embraced wholeheartedly. We need to set priorities, allocate resources, and put implementation schedules in place. Managers must be prepared to meet resistance from their own folks. Business guru, Rick Maurer talks about types of resistance and the challenges.

<http://www.refresher.com/lresistancemat-ters.html>

By treating innovation as a legitimate business process, CEOs are encouraging new ideas and managing the risk that goes with them. Savvy CEOs know that future growth rests in the pursuit and execution of innovation. Read about the challenges that managers driving innovation face.

<http://www.chiefexecutive.net/ceoguides/june2002/p6.htm>

Your resources are limited and margins are squeezed. You are thinking that firing some people is the only option left. But consultant Jim Clemmer says downsizing only hurts productivity and morale and hurts companies in the long-term. The article explores alternatives to downsizing. <http://www.refresher.com/lwisemanagers.html>

# Making it all come together

How HECL delivers on the ultimate logistics challenge—installing VSATs in remote locations

**H**ughes Escorts Communication Limited (HECL), which helps companies connect to their remote offices, branches, warehouses through VSATs, faces two basic challenges: technology upheavals that lead to frequent product upgrades; and customer order fulfillment which almost always happens at the most inaccessible locations. The first challenge is what the genetic code of HECL is configured to overcome, but the second one has demanded a journey of learning and understanding. In the last eight years, the company has installed 10,000 VSATs across the country, each one at a different location. In the last 18 months, speed of installations has shot up to nearly 500 a month. The supply chain organization that delivers on this was created out of some bold and risky decisions, new experimentations, and some radical objectives, which are yet to be accomplished.

In the early days, HECL sourced VSAT equipment from suppliers in India and abroad, and sold it locally. For this, there was a purchase department, a logistics department and a customer fulfillment division. HECL had its own warehouse, and it worked with a custom clearing agent, a forwarding agent, and transporters.

“Neither the internal supply chain nor the external supply chain was integrated. A lot of management attention was required to make sure that our commitments to customers were met,” says D P Vaidya, Vice-President, HECL. As a first step, the internal supply chain organization was integrated. Purchasing, warehousing and installation was made the responsibility of one person.

But when it came to the external supply chain, the classical concept of supply chain could not be applied to the VSAT industry. The FMCG supply chain, for instance, is close to point-of-sale, and goods are stocked at multiple points. Products move in large numbers to essentially the same set of distribution points. For VSATs, every time it is a new customer, usually at a remote location, requiring a customised solution.

Hence, HECL did not need to stock at multiple points.



Warehousing and transportation could be handed over to a third party; a tough ask though. HECL's warehousing was complex, because each order was almost custom-built, made out of a combination of black boxes. It was important to know and record what has come into the warehouse and what has gone out.

Moreover, none of the service providers had an end-to-end distribution solution, there were either warehousing companies or distribution companies. “Safexpress was one of the few who were willing to learn, and offered integrated warehousing and distribution services,” says Vaidya.

Besides, direct costs related to freight and warehousing, after outsourcing, would rise sharply. “The freight we paid to a truck for a VSAT was around Rs 3000-Rs 4000. When we shifted to integrated logistics, the costs went up to Rs 12000! But what we brought down is the management attention and cost associated with warehousing and tracking deliveries. Also it gave us predictability in delivery times,” says Vaidya.

It was a bold step, because HECL went the full distance in outsourcing outbound logistics. Most organizations, which outsource distribution and warehousing, retain one critical function—collecting data about what and how much stuff has moved from the warehouse. HECL asked the logistics company to do that as well.

“Eventually, we would like to be only in the planning part and the order-capturing part. The rest has to be integrated outside, by the logistics service provider, who should provide bank-like services from warehouses, offer extensive reach, and cause reduction in costs.” The journey for the supply chain organization would end there. ■

—NITIN SRIVASTAVA



D. P. VAIDYA Vice-President, HECL



JAGDEEP LUTHRA  
Vice-President, Safexpress Private Limited

**Q. We are a readymade garments specialty brand with pan-India presence. We are in the fashion industry and hence have very dynamic supply chain requirements. We started with three retail stores in 2001 and today are present in 30 stores. We have grown fast and are expanding across the country. By December 2004, we will have 100 stores. We have one warehouse to service all the outlets that we manage ourselves. We hold inventory of approximately 30 days. How can we**

**improve our supply chain efficiency?**

**A.** There must certainly be merit in the way you are currently operating. However, there are possibly better solutions, and a detailed study would be required to configure the same. What's the frequency of dispatches to the stores? What's the volume movement per store/per month/ per season cycle? What's the lead-time taken by your service provider in logistics?

Based on what you have told us, the following would be prudent steps to follow:

● Outsource warehouse management to a pro-

fessional 3PL service provider.

- Go for Kaizen in distribution management. Look at continuous improvement in turnaround time for deliveries to stores, so they can hold optimum inventory of each item resulting in higher number of items on display.
- Link stores to company to warehouse to enable free flow of information to the entire team.
- Target inventory reduction (Though principally 30 days inventory is also good). Look at bringing real inventory holding to 30 days (inventory held at warehouse plus inventory at outlets). ■

**Fast Track** is a quarterly magazine on management, with a special emphasis on supply-chain issues, brought to you by Safexpress Private Ltd. The magazine is committed to promoting business agility. **Fast Track** reaches out to thousands of top decision-makers in India, including chief executive officers, finance heads and logistics heads of companies. We would be happy to take on-board issues related to supply-chain that you might be facing. Write to us at [fasttrack@safexpress.com](mailto:fasttrack@safexpress.com).