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IN THE LIMELIGHT

Supply chain as a key driver has arrived. And things couldn't have been rosier for supply chain professionals

BINAY GUPTA

What comes to mind, when one thinks of Godfather-II, Francis Ford Coppola's timeless classic? Michael Corleone, a.k.a Al Pacino. Perhaps one of the greatest ever celluloid performances not to win an Oscar. And that's the way it was for the genius, until he finally got his hands on the golden trophy in 1991, as 'Best Actor'. It was ninth time lucky for Pacino, after eight previous Oscar nominations. The bottom-line? Better late than never. It's never too late for people to recognise a peer's outstanding contribution. And that's exactly the case with supply chain. After years and years of being in the shadows, it has finally come to the fore. Supply Chain Management (SCM) as a profession in India, is finally on the fast lane.

Consider this: Supply chain as a concept didn't even exist, even until 15 years ago. It was basically about procurement and logistics like transportation and packaging. Liberalisation changed things, albeit slowly. Gradually, in the mid-90s, SCM's potential to impact business fortunes got noticed. But the pace was sedate. So what was the turning point? "Competition. As the economy opened up, competition turned things around," says Sujit Guha, General Manager, Supply Chain, Dabur India Limited.

With rising costs, people became more conscious of how SCM could be used as a competitive tool. "Supply chain today is a strategic and logical interaction between different functions like logistics, sales, marketing, R& D, production and vendors," says Ashim Chatterjee, Head, SCM, Philips Medical Systems, India. S.C. Sachdev, Senior Vice-President, Sourcing Centre, Clariant India, has an interesting take. "Supply chain has shifted from a rationing system to a demand-based system. It has now evolved from a stage where you did not have the product to a stage where you must have the product, to meet the demand."



"Supply chain has become strategic as against its purely operational avatar earlier"

Pramod Kaushik, Manager, Production & Logistics, JK Industries Ltd

Another critical factor which has influenced this turnaround is rising customer expectations. "The customer demands optimum quality, at an optimum price. It's not only about cost per unit of production, but also cost per unit of service," says A K Bansal, Executive Director, Corporate Affairs, Bharat Petroleum.

To sum it up, SCM has moved from the back-seat to the front seat of the competitive enterprise. "Earlier, SCM was typically a back-end function, with all responsibility and no authority - in terms of being able to steer the course of

action, or enforce a change or course of action. But not any more," adds Guha.

The evolution

"SCM is now important as we are in a sellers' market, rather than a buyers' market. Supply chain has become strategic as against its purely operational avatar earlier," says Pramod Kaushik, Manager, Production & Logistics, JK Industries Ltd.

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MESSAGE

TURNING OVER A NEW LEAF



It has been an eventful journey for Fast Track and its readers, over the last three years. When we started out, the idea was to create an awareness regarding business and management issues, with special focus on supply chain. Over the 12 issues that followed, Fast Track always kept that in mind. We brought you stories, which mirrored the evolution of the Indian supply chain. And the various twists and turns. So, then, what next? Well, it's time for metamorphosis, a leap in our own evolution. Based on the valuable feedback from our readers, Fast Track now will have new sections and concepts. The aesthetics has also been transformed. However, the fundamental ethos of Fast Track remains the same, i.e. to engage our audience and involve the industry in exploring things.

This issue's cover story looks at how supply chain is firmly in the limelight and how supply chain professionals are increasingly becoming part of senior management. What are the new competencies required and where is supply chain headed in the next five to six years? We look for the answers.

There are also a couple of new sections, called The Agenda and Concept. How does supply chain interface with marketing and sales? How has the equation between the two changed over the years? The Agenda finds out. Concept, on the other hand, looks at SOA (Service-Oriented Architecture), from a supply chain angle. Finally, we have Off-beat, which brings out Mother Dairy's supply chain strategy and how innovatively, it has carved out a niche for itself.

Read on...

Wishing you a great journey ahead in 2007.

PAWAN JAIN
Chairman & MD, Safexpress Pvt Ltd

Question is, has hierarchy changed within the organisation vis-à-vis supply chain? Definitely, say the majority in the industry. But the quantum of change evokes a mixed response. "Yes, of course," says Chatterjee. "Supply chain is recognised as a 'bridge' in our enterprise, connecting our production centres to our global markets. This is particularly relevant to us, as almost 99% of our in-bound logistics is import-based. Therefore, the role of a supply chain professional is critical. He co-ordinates logistics, projects, customer support, finance and accounts."

Kaushik is not so bullish though. "It will still take some time to really bring about a significant change in traditional hierarchy. But yes, some movement has happened. For example, we have done away with many of the 'silos' in our plants and streamlined our operations, based on processes. And that is where the roles of our business unit heads and plant people become vital."

"Even with all this jing bang of supply chain being important and everything, it is still more in terms of planning and reorder-levels stage", says Anil Syal, Vice-President, Marketing, Safexpress.

Sachdev is much more optimistic. "Now, we are in a flat organisation. Earlier, in our company, a supply chain manager was effectively a warehousing manager. He reported either to the purchasing or the administrative manager. Today, supply chain managers in Clariant India work hand-in-hand with the working capital management group which involves interplay with marketing, sales and finance. SCM profile has moved right up to the director level. Our vice-president, SCM, is part of our country management committee."

Guha agrees. "Supply chain definitely has moved up the pecking order. It is part of senior management. Product launches and strategic decisions are incomplete without supply chain inputs."

The skills

So what competencies do SCM professionals need? "Most of the basic skills remain unchanged," feels Kaushik. "A sound idea about the fundamentals of production and commercial knowledge of operations is important. One must know how various links in the pipeline are integrated."

Chatterjee offers a detailed insight into the skills required at Philips Medical Systems. First of all, "understanding the requirements of the customer." And this, he feels, comes from experience and awareness of his sensitivities. "For example, if a customer orders an equipment to be delivered before Diwali, we must appreciate that. Second, figuring out how our competitors work; what their strengths and weaknesses are. Third, knowledge of IT tools complemented by commercial exposure to things like VAT, excise, octroi and sales tax. Thereafter, product information, such as usage specifications and installation requirements. We also need to handle our outsourcing partners skillfully. Finally, an SCM guy should also have a fair grasp of financial concepts."

Bansal thinks that practical orientation is a must. "Text book skills won't do. Besides domain knowledge, systematic thinking and multi-tasking helps."

Communication and documentation skills are also important, says Sachdev. "Documentation is critical as the government will continue to play a vital role in supply chain activities of companies. Another gap is transportation skills available in the market, in terms of handling and other activities. Therefore, we have to spend a lot more on packaging our products. Lack of adequate training in transportation is a challenge. This leads to product short-

age, spillage and even loss of products." Both behavioural and functional skills are required, feels Guha. He says: "Behavioural competencies have remained pretty much the same — in terms of working efficiently, walking a tight-rope and listening to customers. One must learn to listen to views across hierarchy, even though the final decision is yours. This is a key behavioural skill."

Do competencies vary drastically across segments of supply chain? Not much, Guha says. "Procurement, for example, involves getting things from outside and putting them in. Conversely, inventory and production planning require taking things in and putting them out. So fundamentally, it's a case of flipping 'mirror images'. The basic tenets remain the same."

What about the trade-offs SCM guys need to make between operational and managerial aspects of work? How does one strike the right balance? "Good judgement is vital. And it's a continuous learning process", says Kaushik. Chatterjee concurs. "Trade-offs are made on the basis of experience and judgement. For example, if I have to make a delivery to Assam from Mumbai, and it's raining and flooded in Assam, then I need to take a call - do I ship it out by air, rather than by rail or road."

Rajendra Jain, Senior Vice President (Commercial), Grasim Industries says: "One has to take a call, keeping in mind the broad business requirement." Bansal agrees. "Organisational goal is supreme. The supply chain manager takes a decision based on the prime objective — the customer's expectations."

The roadmap

Now that the ends are defined, what are the means to reach them? How do SCM people acquire or further harness these skills? Jain suggests a persuasive approach. "In Grasim, we ask our employees to challenge themselves and understand new things. We expose them to different aspects of the fabric value chain. This helps in making them multi-skilled."

Chatterjee outlines some of the initiatives at Philips. "For IT skills, we conduct in-house training and conference room pilots, where real-world situations are simulated."

"Job rotation is one way of achieving multi-skilling. Infusion of fresh talent also helps. The average age of our supply chain team is between 25 to 35," says Guha. Further, collaboration between academia and industry will go a long way in addressing these needs, he adds. Bansal thinks the same approach in the case of suppliers will also be useful. "Lots of gaps remain at 3PL level, in terms of transportation and human resource skills. We have to work with them as partners."

Is there enough SCM talent in the market and how has that impacted salaries? "There is a shortage of skilled talent. And thanks to outsourcing of key activities by MNCs and the demand-supply gap, salaries have gone up," Chatterjee says. Guha agrees. "Today, if I go to a top B-school, even with an Rs. 8-10 LPA (lakhs per annum) offer, I still may not get a suitable candidate."

Finally, the big question. Can SCM professionals realistically aspire to become the top leaders? "Absolutely. It is already happening in Clariant India", says Sachdev. Guha is less optimistic though. "While SCM will continue to become part of senior management, it will be difficult to go up to the CEO level unless it's a specialised logistics company."

Chatterjee agrees with Guha. "It needs some more time. The FMCG sector can take the initiative as their distribution costs are comparable to the



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product costs, unlike capital and industrial goods. So under the circumstances, SCM people in FMCG and other related sectors have a better chance of making it to the top." Bansal, though, goes for the jugular, marking out SCM as a future stakeholder, in terms of creating shareholder value. "A few years down the line, companies will report benefits accrued from their SCM activities, as a separate item in their balance sheets." ■

RETAILING UNINTERRUPTED

Dipak Agarwal is Chief Financial Officer at Planet Retail. In a conversation with **Binay Gupta**, he spoke about retailing in India and the role of supply chain. Excerpts from the interview:

How is the organised retail sector going to impact the unorganised retailing segment, from a supply chain point of view?

The typical Indian unorganised retailer manages his supply chain in a detailed, micro level and quite subtly. This involves keeping an eye on the shelf and filling up the empty stocks in time. These are mostly individual-driven businesses and they are much more efficient than organised retailers, at this point of time. Since he/she doesn't have to worry about handling a huge store and a diverse product portfolio, unlike say, a hypermarket, the access to information and hence, the vendor is much faster. Unlike organised retailing, where information has to move across a number of channels.

Going forward, the implication for these players in light of organised retailing will be that they would have to be much more efficient, as modern technology will be a key driver for the organised operations, which the unorganised sector might find hard to compete with, in light of its resource constraints. Also, they would have to invest a bit in technology themselves. This will be crucial, particularly as the organised players will offer a diverse range of products to the customers, because of their scale of operations. In fact, it seems to be already happening, with some of the unorganised retailers going in for things like bar coding etc. Once RFID becomes more accessible, they can also leverage that.

What are the strengths and weaknesses of the organised retailers as far as their supply chain activities are concerned?

The obvious strengths lie in their investment capability and thus, the wherewithal to invest in technology. Secondly, access and exposure to best practices in supply chain, unlike an unorganised retailer. Thirdly, things like outsourced logistics and off-shoring activities in the area of



sourcing gives the organised sector an advantage, which is not available to unorganized and small retailer segment.

As regard weaknesses, organised retailers lack in micro-level planning especially in areas like inward and outward logistics, people management and material handling skills among others.

How can one address the challenge of long chain of intermediaries, from sourcing point of view? And how are distribution networks evolving in this scenario?

In fact, most retailers are trying to do that. Looking at the 'value-retailing' segment like hypermarkets, the idea is 'manufacturing to retailing' and eliminating the middle-men. Consequently, steps like contract farming are in vogue. However, in case of 'specialised/category retailing', there would be never a complete elimination. The trick there would be to minimise the chain. For example, at least in the local market, they are going through the factory or manufacturer directly, rather than the earlier mode of sourcing houses or buying houses. Also, steps like gaining license control over the brand and doing the manufacturing locally are being adopted. Going

forward, once the charm of brands would fade due to their easy availability, there will be more focus on private labels, which would be exclusive for a retailer. Eventually, the retailer with better product value, supply chain and retailing standards would win.

Coming to distribution networks, there is a serious lack of quality logistics infrastructure, in terms of ports, roads and airports. This is crucial in the context of the geographical complexity in the Indian retail market.

Therefore, large-scale investment needs to be made in bringing the logistics set-up to a minimum operating standard.

Of course, there is increasing focus on managing the distribution operations itself and 3PLs (Third-party logistics providers) are making a difference. But unless things improve significantly in terms of infrastructure, Indian retailing won't realise its full potential.

Is there enough awareness regarding the need for standards? What more can be done in this regard?

There is a glaring level of ignorance as far as standards are concerned. There are certain

retailers in the world who are known for 'leading standards in retailing' and this has been one of their sources of competitive advantage. As a case in point, in India, the need to have consistency in retailing standards like product return and refund policies, product packaging, trading hours, delivery times etc. across all the retail stores, irrespective of location.

Similarly, in packaging and labelling, best practices like secondary bar-coding and scientific packaging management can help. This would result in efficient monitoring of goods across the supply-chain links and optimum use of packaging resources like binding covers respectively.

Have initiatives like ECR (efficient customer response) helped?

"Yes, they have. More and more retailers are realizing the importance of customer feedback and are building it into their supply chain strategies. It has become a need for the retailers also. One very good example is the '30 minutes delivery' campaign of a food retailer. Now, the USP is the ability to deliver in 30 minutes and this is primarily a supply chain deliverable and therefore ECR is extremely important here. ■



CONSISTENCY IN SUPPLY

Sandeep Kumar Sharma is Head, Supply Chain Management at Barista Coffee Company Limited. He spoke to **Binay Gupta** about supply chain's role in the food and beverage retailing in India. Excerpts:

What are the critical factors affecting the industry today, from a supply chain point of view?

Supplier consistency is a major issue. How to get consistent supply of raw materials and other inputs from my suppliers is a big challenge. Not only in terms of quantity, but more importantly, quality. Because that directly impacts the finished good quality and thus, the QoS (quality of

service) to the end-customer. Another important aspect is the lack of enough infrastructure, both at supplier and retail industry level. Also, there is the issue of market segmentation. Customer profiles and also, climates differ from one area to another. Hence inventory management has to be customized for each region.

How have things changed in supply chain in the last few years?

With increasing competition, the awareness of SCM as a value-enabler has increased tremendously, especially in the last three years. Today's supply chain pipeline involves a whole range of components, from purchasing, production planning, warehousing to transportation. Moreover, supply chain is today much more

directly involved in devising our growth plans. Also, customer service has had a significant impact. The importance of user feedback into our supply chains to form a closed loop can not be under-stated.

What do you think of the 'people' factor in supply chain?

There is a real shortage of enough, qualified talent in this field, in India today. Also, the operational skills required differ from industry to industry. And there is hardly any formal institutional mechanism in industry today to bridge this gap. So let's say, a FMCG guy moving to an apparel retailing will learn the rules of the game, but the gestation period is something we can minimise if this aspect is looked at. ■



ENDURING SUPPLY HORIZON

With increasing competition and rising appetite of the Indian buyer, these are interesting times for the consumer durables sector. And supply chain's role is vital

BINAY GUPTA

Festivals are time to celebrate and enjoy the glitter and splendour, be it Dussehra, Eid or Diwali. And most certainly a time for many Indians to loosen their purse-strings, and indulge in some shopping. Refrigerators, colour televisions (CTV), washing machines, furniture... you name it. Consumer durables are the top spend. And one of the many challenges for the players in the business? To make their products available in the market, in time. So, when a customer comes to the shop to buy his/her favourite TV, the item had better be in stock. And therein comes supply chain, the pipeline, which must ensure that the consumer always gets what he/she wants. But that's easier said than done.

Why? What are the problems, in managing the supply chain? Quite a few, feel industry veterans. H. G. Raghunath, Vice-President, Sourcing & Supply Chain, Titan Industries Ltd, says: "Managing the wide range of products and variants we deal in is a challenge. Especially since we are into fashion accessories. We launch various new products and quite a few of them become obsolete, as fashion trends change. And our supply chain has to smoothen this process."

Stock planning and distribution management are important, says Abhijit Chaudhari, Senior General Manager, Logistics & Materials, Blue Star India.

"Stock planning is a result of demand and market conditions. Distribution management is more of a function of infrastructure. And managing both is a major issue, as far as our SCM (Supply Chain

Management) strategy is concerned."

D V Vora, Senior General Manager and Head, Supply Chain & Logistics, Godrej & Boyce Manufacturing Ltd (G&B), offers another insight: "The complexity of the range of products is a challenge in itself. More so, as we deal in appliances, interior division (home and office furniture) and other segments. Besides, transportation and warehousing are crucial. Coordinating out-bound logistics, across our various manufacturing locations is a challenge."

That's not all. Consider the seasons, for example. Weddings, events and festivals occur at different times of the calendar year. So, in northern India, you will have April-June and October-November as the peak periods. In the south, it would be October-February.

In short, supply chain has to be on the ball, to meet cyclical and seasonal demands. What about advertisements and promotions? For an industry so marketing-driven, the supply chain has to be efficient. For instance, a consumer sees Aamir Khan in a TV ad, promoting Titan's new Raaga. And then, goes to the retail store to buy it. What if the brand isn't there? What does that do to the brand's image and the consumer's expectations? "That's the point. It's crucial for our supply chain to be in sync with our ad campaigns," says Raghunath.

Now, where does IT feature in all this? That is another facet of the SCM framework, for managers to ponder. "IT capability is fragmented, due to what we call the 'island effect'," says Chaudhari. "Each component in the pipeline - material requirements planning (MRP), sales forecasting, real-time tracking, transportation monitoring - are islands. The

challenge is to link them and render seamless, real-time visibility in our supply chain."

Finally, customer expectations. With exponential media exposure comes high consumer awareness. The Indian buyer today is spoiled for choices, with tremendous bargaining power. Efficient after-sales service and support is key. "Delivery on time is a prime objective. The order-to-delivery cycle has to be flexible enough to meet any demand, at any time," says Vora.

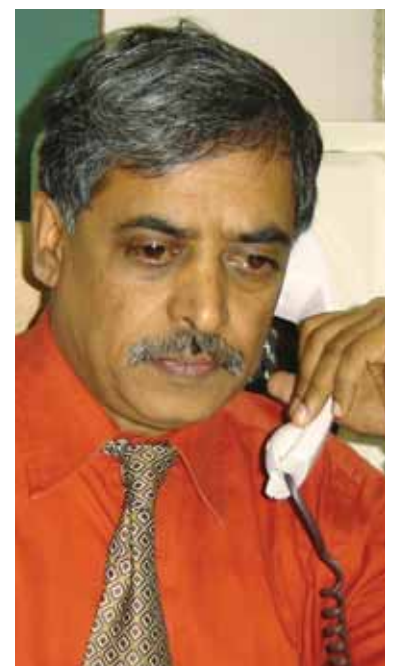
Pressure Points

So then, what are the potential bottlenecks in the supply chain? Where can things go wrong? Budgetary concerns, for instance. "With rising costs of materials like copper, nickel etc, we are facing increasing pressure on costs, says Raghunath. Logistics is another. "A lot remains to be done, vis-à-vis improving transportation and handling skills," feels Vora. He adds, "Also, we have to handle the skews, as a result of the billing pressures."

Chaudhari calls for an effective 'last-mile' strategy. "We incur a lot of unnecessary cost and effort in handling goods and disposing of packaging material. All the right moves in every other link of the supply chain would count for nothing, if we are not able to deliver the goods at the customer's end, in time and according to the supply commitment."

The Solution

Now, what is the way out? Blue Star has focused on what it calls a 'process map' strategy. The idea is to have clear separations, through 'atomisation'. For



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instance, activity level checking is done, on a day-to-day basis. Quite simply, the process breaks down each activity to the smallest possible working unit. Then, these atoms are mapped to actionable items.

G&B, on the other hand, has adopted a multi-faceted approach. People management, for one, is a key area. Special programmes and training exercises are conducted to enhance employee skills. Besides, the company has saved considerable time and cost in dealing with suppliers and sourcers ever since it put in place ‘e-bidding’ four to five years ago.

In Titan, weekly production and operation review meetings are held, where sales and marketing also participate. Daily MIS (Management Information System) reports are generated, using IT tools. ‘Alerts’ are triggered to the concerned link, in case of any deviations.

What about distribution though? Has this received attention? Yes, says Vora. In G&B, there is a central division, a Commercial department, which formulates the overall supply chain strategy of the entire company. Within each state we have a branch setup which has a sales team, the service team and also the Commercial team. The prime responsibility of the commercial team at the branch would be to cater to the supply chain needs at the local level which includes Depot management, stock management and local logistics within the state. The commercial team at the branch also takes care of all the branch infrastructure, back office needs etc.

Blue Star has similarly devised its own distribution infrastructure. For its refrigeration products, its distribution structure entails stocks in its factories, and 26 warehouses across India. In the last leg, finished goods are shipped to the dealers from these warehouses.

Best Practices

Certain best practices have resulted from these initiatives. Take the case of G&B. It has adopted a vendor-managed inventory (VMI) mechanism and has made it mandatory for its 3PL (third party logistics providers) partners to be close to its factory so

that in-bound logistics are run smoothly. In out-bound logistics too, G&B’s approach has been unique as it needs high-volume transport vehicles for many of its goods. A case in point is their two manufacturing locations, in the North and the West, specifically for appliances. Dedicated vehicles ply the north-west route on a per km basis. This insulates G&B from fluctuations and risks in the transport market. Also, based on geographical locations, G&B has adapted its mode of transport. For instance, goods are transported to the east from the factories in the north and west only by rail. This has helped in better transit times.

Titan has been using e-sourcing, for its component procurement, transport and logistics. It has also initiated a self-certification programme for employees, to help them improve skills. Similarly, different supply chain strategies are adopted for different brands. So, a Sonata, a mass brand, will require the out-bound logistics network to be able to reach out to a large number of dealer networks while a Titan, in the premier segment, will need a different strategy. Titan has also used IT aggressively. It has implemented SAP R3 and advanced planning systems (APS), to achieve real-time visibility in its pipeline.

Blue Star, on the other hand, has adopted reverse logistics, to take care of product obsolescence. This has resulted in a lot of savings, in terms of inter-depot transfer and machine selling. Secondly, it plugs in feedback at every stage of the supply chain cycle. And this drives its product innovation strategy. Also, Blue Star has dedicated supply chain quality managers, who track product defects. Finally, value-engineering. Blue Star partners with its suppliers to help offset the steep rise in input costs of raw materials.

The Results

So what is the bottom-line? Have all these efforts actually made any difference? Well, most certainly, if the figures are anything to go by. “As a result of our value-engineering initiative, we have achieved cost reduction, to the tune of around 8 per cent.



“IT capability is fragmented due to what we call the island effect”

Abhijit Chaudhari, Senior General Manager, Logistics & Materials, Blue Star India

Materials handling has tripled in the last three years. This has happened despite no relative change in the number of SCM personnel. Secondly, storage area utilisation factor has improved, even though FG (free goods) shipments have trebled. This reflects our effective inventory turnover strategy. Inventory turns have increased from 6 to 14, from 2003 to 2006 respectively. As a result, product velocity has increased significantly,” says Chaudhari.

Titan also has reason to smile. “SAP has enabled an inventory reduction of 30 per cent. Product alignment according to market needs has increased from 60 per cent to 85-90 per cent. Forecast-to-availability has gone up, to around 75 per cent at C&FA level. Inventory turns have increased by at least 30-35 per cent,” says Raghunath. ■



THE TRAPEZE ACT

The supply chain and the marketing departments are learning to trust and support each other and are putting the customer above divisional goals

SAYANTANI KAR

A trapeze act takes our breath away. The trapeze artiste lets go of her bar, swings through air cutting a wide swathe of nothingness to be caught in that precious nick of time by her team-mate while deftly completing the manoeuvre. It is a seamless act accomplished through precision, timing and above all trust.

How do a paint company, an FMCG company, and an automobile maker then remind us of this near flawless piece of artistry? They can, with an equation that is fast changing between their marketing and their supply chain teams. They are replicating a model on which depends the very life of a trapeze artist - one of trust, timing and support.

Departmental tussles are fast evaporating, with the other learning to let go of their myopic targets and trust each other. They are joining forces to stay alive and win over the customer who has become exacting than ever before.

The agenda is to reconcile the pressures of lead times, inventory and transport costs on the supply chain team, and that of customer demands, and availability of stocks on the marketing team.

Nitin Dhawan, National Parts Manager, General Motors, notes that to meet customer demands of quality and service, his company underwent an attitudinal change. Earlier, like many other companies, GM too had been focussed on optimising overall costs, and on a micro level, on departmental efficiencies. But now real-time monitoring of customer demands means responding to those demands is key. Departmental agendas have given way to a "Central Functional Team (CFT)."

"This has representatives from each of the disci-

plines," Dhawan points out. By letting go of their insulated targets, marketing too is better off. With all front-end supply chain links clearly visible, there is ample time to make the exact car variant demanded by the customer.

GM's web system is a visible interface where dealers log in sales. These are tracked by CFT to alert the manufacturing unit immediately. Real-time monitoring determines the flow of cars from manufacturing lines to dealer showrooms enabling stocks to be replenished daily.

The dealers too are better poised with knowledge of the number and types of cars present in the pipeline.

Nilendra Singh Pawar, Chief Manager, Logistics, Asian Paints, says the traditional bickering between supply chain trying to lower inventory costs and marketing trying to meet sales targets have been replaced by healthy competition.

Like Pawar, everyone else at Asian Paints believes that supply chain is core function. In fact, the supply chain department in Asian Paints can question marketing about any dip in sales.

"Our supply chain has to handle a huge number of SKUs, amounting to 1,500 stocked in over 75 sales branches across India," Pawar adds. Also, material costs are as high as 50 per cent of the total manufacturing cost. The supply chain can't just lower costs with cheap ingredients. It has to maintain the paint quality as well. It is also the supply chain's function to ensure that all paint variants are available on shop shelves. These factors make the supply chain crucial.

Yet, Pawar says, "the sales and marketing divisions are our internal customers". The key behind balancing the two lies in the joint process of forecasting at Asian Paints. This has helped them predict a

precise mix of the number of SKUs for all paint variants. Since 1999, the forecasts made by the supply chain department's mathematical model have been fine-tuned by suggestions from the sales team to accommodate their seasonal promotions. These forecasts, bereft of any departmental objectives, keep the supply chain personnel attuned to customers. The predictions are not oblivious to the pressures of time and costs on the supply chain. At the same time it is sensitive to marketing pressures as well. In the more dynamic markets, such as those of northern India, or during promotions, the supply chain maintains enough buffers to support marketing goals.

The Marico miracle

Six months ago, Marico had a brainwave in sensitising their personnel. They ran their marketing professionals through the stages in their supply chain. Dharmesh Parikh, Head of Sales, Marico, believes this made the marketing team appreciate the pulls on their supply chain counterparts.

Parikh says, "they understood that lead times can be cut down, not removed". The supply chain couldn't have been expected to produce something overnight to meet last minute marketing targets and consumer demands. The marketing team was therefore, told to "ask earlier", says Parikh.

Parikh says, "to achieve our growth targets of 40 per cent, we knew we had to create faster response times". Quicker communication between the two teams has slashed lead times from 45 days to 31 days.

The two disciplines are not just becoming sensitive to each other but are becoming symbiotic too. By sharing targets and through effective communication, the two are gaining miles in customer satisfaction. ■

Traditional conflicts between supply chain trying to lower inventory costs and marketing trying to meet sales targets have disappeared

AT YOUR SERVICE

Services-Oriented Architecture (SOA), a pioneering concept in modern software, promises to make businesses agile and flexible. What's in store for supply chain though?

BINAY GUPTA

Nothing matters more than flexibility and agility today. How swiftly one adapts to situations and challenges determines success. Supply chain is no different. Real-time, seamless flow of information and adaptability to a dynamic market has become top priority. And a lot of time and money have been spent on information technology (IT) to achieve this. So it's time supply chain managers paused and pondered - are we any closer to becoming agile and flexible? The honest answer will be 'NO'.

Why, many might argue. Look at our ERPs. Or the web portals. Or for that matter, the various warehouse management, inventory planning and other systems we have put in place, they would proclaim. Haven't all these and many more IT applications improved supply chain and logistics? Well, undoubtedly, yes. But most of all these have been piecemeal strategies, addressing a specific issue at a specific level, without not quite looking at the overall business processes and certainly not the long-term effects.

To put it simply, most of the afore-mentioned applications are like black boxes; one can't figure out what is inside and worse, can't change anything, if the need arises. The result: as businesses expand and the complexity of maintaining these applications increases, the big picture goes for a toss and which is ensuring optimum customer service. And we are not talking about new applications, as newer requirements emerge. So all one gets is information chaos.

For example, let's take the ERP systems. You implement ERP to your line of business. Fine, but you re-orient your business processes to ERP systems which are largely monolithic. Not an ideal scenario, considering the fact that technology must re-align itself to the requirements of the business and not vice-versa. What this means is that if tomorrow your company takes over a peer enterprise, the post-merger business integration will be tough if not impossible, if the ERP of the merging entity is different from the one you have been using. And that's the reality with proprietary technology today. And this is just one of the many consequences of monolithic technology binding enterprises and

holding them hostage. The bottom-line? Your business becomes inflexible. Moreover, while information needs have grown, companies have been tightening the budgets of IT departments. So they use harness existing IT infrastructure to create the new applications companies need. The result? Agility goes for a toss.

So what's the way out? Is there any way enterprises can breathe free air? Without going awry over this cost-flexibility paradox? Well, Services-Oriented Architecture (SOA) offers some hope. For starters, SOA is an architectural approach which provides a framework for organisations to describe their services.

A new application layer, called service layer, pulls data from existing "silos" of information, including databases and applications and presents them in a user-friendly manner. To top it all, it makes these applications available over the ubiquitous internet.

Wait. Services: what's that anyway? Well, let's take a purchase order module. A vendor seeking raw materials for sourcing goes to the relevant web page of the supplier portal and clicks on a button, let's say, "Raise purchase order (PO)". It takes him to another page which is a sort of a form. Details such as PO number, shipping date, billing address, shipping address, requested terms and a list of products with quantities and prices need to be keyed in. The vendor fills up the form and submits it. The facility to raise a purchase order in this manner is a service.

Once the vendor submits the request for the PO, the supplier needs to follow up. For this, he needs to know if the details provided by the vendor are correct. He also needs to track historical data, the track record of the vendor and other aspects. Now all this information would be located in different applications.

Vendor data could be lying in an SCM portal. Historical data could be coming from mainframes, AS-400 middleware and other legacy applications, while transactional data could be in a database attached to the core ERP application. SOA helps cull out the relevant information from all these disparate entities and presents it in a format that facilitates decision-making. This is another example of a service.

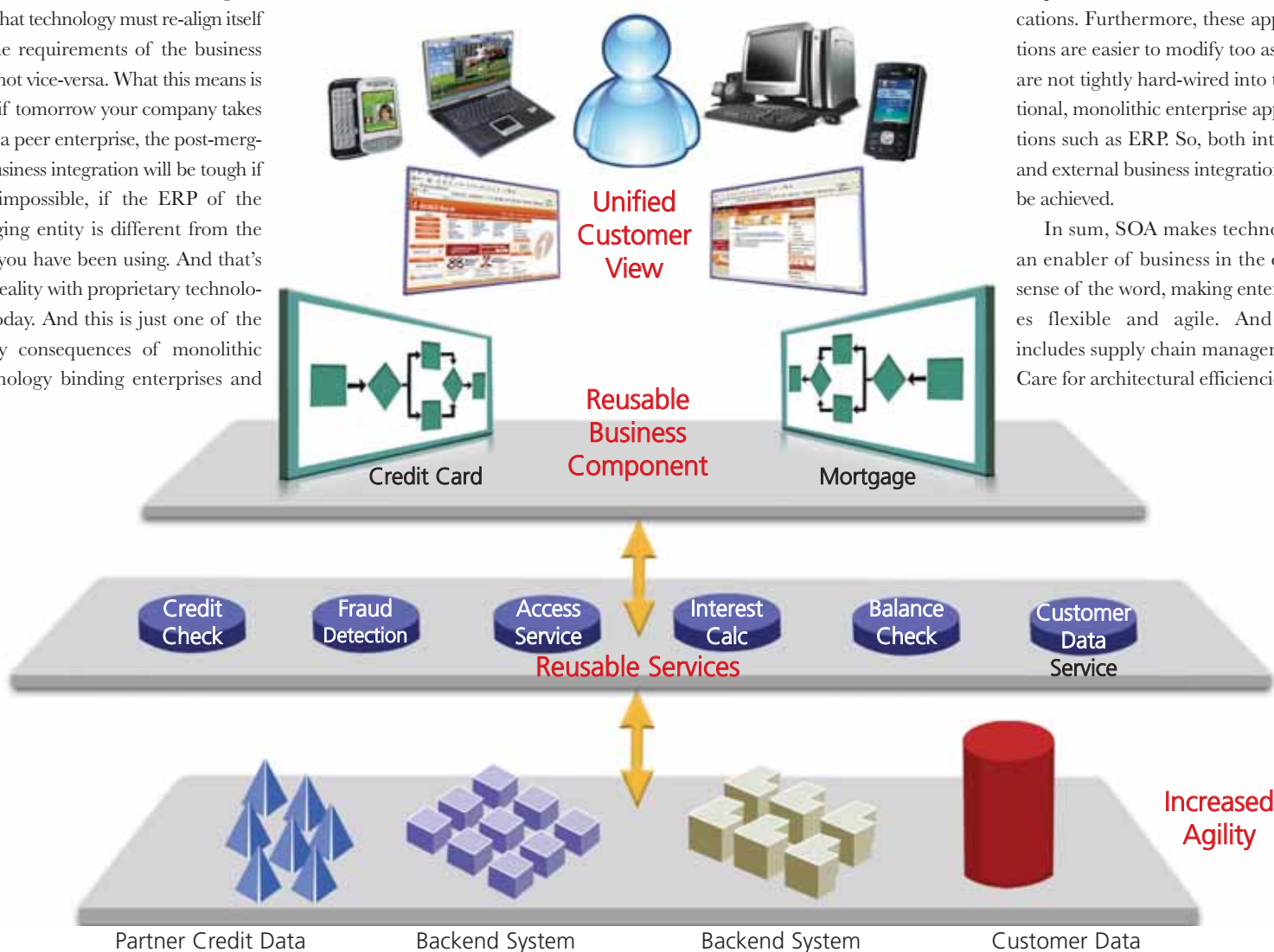
One can also configure a service at another level, aggregating output from several services. For instance, a service that gives a snapshot of a vendor's portfolio of suppliers for the senior management can be set up. How? By aggregating output from the services that help various managers of the vendor enterprise decide on suppliers. Therefore, SOA can be regarded as an approach that connects applications so that they can communicate with each other.

How is all this possible in SOA? Thanks to Web services. An open-standard, XML-based approach, web service enables a service to be freely executed across the web, with no constraints in terms of the underlying platforms and programming languages or the various connected applications. That's the key. Based on the universally accepted XML, SOA via web services imposes no proprietary constraints. Hence SOA provides the broad roadmap and web services the specifics.

In a nutshell, SOA's value proposition lies in mapping the service concept directly to the business view of the world. And the benefits are significant. SOA offers a realistic hope to make enterprises flexible, without too many costs. Enterprises can connect to their partners, suppliers and customers, through the omnipresent web, without having to abandon existing applications. This allows reusability and the incorporation of new services by external service providers to be included in applications. Furthermore, these applications are easier to modify too as they are not tightly hard-wired into traditional, monolithic enterprise applications such as ERP. So, both internal and external business integration can be achieved.

In sum, SOA makes technology an enabler of business in the every sense of the word, making enterprises flexible and agile. And this includes supply chain management. Care for architectural efficiencies? ■

SOA: AN ILLUSTRATIVE MODEL



MEASURING EXCELLENCE

Safexpress has tied up with Industry 2.0 to bring out a ranking of the top 500 manufacturing companies in India, based on supply chain metrics. As per the methodology, the Indian manufacturing industry was split into 39 sectors, and eight parameters were computed, measuring the magnitude of change vis-à-vis the sectoral benchmarks.

Ranking Methodology

The eight parameters spanned the entire working capital cycle. Inventory turnover efficiency was measured by two criteria - stock accumulation rate and inventory holding as a percentage of working capital. Variation in working capital cycle was split into five sub-categories - days raw material held (RMD), days WIP held (WIPD), days finished goods held (FGD), days in debtors outstanding (DEBD), and days available from creditors (CREDD). The eighth parameter defined as 'working capital required (WCR)' measured the need for the working capital funds, given the productivity and growth rate of the firms.

Key findings

- Raw material holding days for the manufacturing sector as a whole increased by three days in 2006, compared to an average of 46 days in 2005.
- For the 25 key sectors combined, the Net Working capital cycle declined by 19 days, with increase CREDD.
- The increase in RMD combined with the growth in IIP index, expected to be around 8 per cent, explained the increase in production levels by firms across sectors.
- Sector-wise, the highest increase in NWC was for diversified and steel sectors. Increase in raw material holdings days for steel and diversified sectors was around 16 days, with a 5 days' increase in finished goods holding for steel sector.
- 20 out of 25 key sectors showed a decline or a one-day increase in finished good holding days.

Commentary

There is a lot of scope for improvement in internal SCM for Indian manufacturing firms, as per the findings of the current study. The top five slots in the ranking for large companies are occupied by the petroleum companies. Though the ranks may seem to be biased due to the size effect, Industry 2.0 still believes the rankings are indicative of the productivity and efficiency of manufacturing firms in India. Top 25 large firms are from automobile, oil & gas, non-ferrous metals, consumer electronics, cosmetics & toiletries, and food and beverages sectors.

SAYANTANI KAR

The day begins for Mr. Gupta with a walk to the Mother Dairy milk booth in the neighbourhood. It's a daily routine for him, to get the day's quota of milk, for the family. That's the way it has been for Mr. Gupta, all along. But there's a difference. Today, with packaged milk, Mr Gupta need not fret about adulteration. Besides, there are so many varieties to choose from! Be it fresh cream to make rich coffee, or the toned variety just right for his health. On top of it all, even as early as 6 in the morning, the booth is open, with the packs of milk ready.

On the other hand, Mrs. Bhatia, his neighbour, would rather buy her milk in the evening. The Mother Dairy booth still has ample supplies!

Well, this is not the story of just one Mother Dairy booth. But of all, across Delhi and Mumbai. About 20,000 retail outlets in Delhi alone, catering to millions of consumers.

To put things in perspective, the Indian consumer is quite a challenge for any supply chain professional - especially in the perishable food business. Consumption habits change, from one location to another. Added to the mix is the weather, which can spoil food in a matter of minutes.

For Mother Dairy, it's no different. Milk has always been perceived as fickle, prone to getting spoilt. We even boil packaged milk, their pasteurised labels notwithstanding. Why? 'Coz the Indian mindset has always been to buy milk in small quantities, enough to meet the day's needs.

Rajeev Bhanawat, CEO, Mother Dairy, says: "Our consumers buy milk in very small quantities, at times, as low as 200 ml a day." Consumers would rather come twice a day to Mother Dairy booths, than buy in bulk. This is in stark contrast to European countries, where bulk buying is the norm.

Besides, you have the local milkman, part of the unorganised sector. And the weather, of course. So what's the secret? How has Mother Dairy managed this challenge? The answer lies in co-ordination and logistics.

In the wee hours of the day, farmers in villages across northern India wake up to milk their cattle. This is where the 'milky' journey begins. These farmers then take the small, discrete collections (some as less as 500 ml) to the collection centres nearby. That gets done by 6 am. "The milk thus pooled at thousands of vil-



THE MILKY WAY TO PURITY

Precise preservation techniques and delegation of tasks are behind the packet of milk that you buy everyday at Mother Dairy

lages is brought, to the dairy processing units," says Bhanawat. During the next four hours, the milk is processed and packaged. As the clock strikes 10, it is despatched to the stores. The milk thus collected in the morning is part of the evening supply, for places within 300 km of the dairy units. For longer distances, Mother Dairy chills and then transports the milk.

The milk does a repeat journey in the evening — this forms the early morning supply that reaches the retailers at 6 am.

However, packaged milk is perishable, unpackaged milk even more so.

While the local milkmen have their small fiefdoms, spanning a few blocks, Mother Dairy caters for entire cities. Mother Dairy brings you milk of 'village-bred' cows, while the local milkmen rely on 'urban' cattle. Yet, the former has to deliver milk that remains unadulterated and fresh throughout the 'milky way'.

What does Mother Dairy do then? Using advanced technology, it preserves the milk at each stage until it reaches the consumer. Co-ordination with other organisations has also helped. Be it during transportation, collection, processing, or packing,

Mother Dairy ensures that the right temperature and the right guidelines are followed with a missionary zeal.

The precision with which temperature is maintained is clinical. Preservation begins at the grassroots. "Mother Dairy lays emphasis on clean milk production at the farmer's level, to reduce the bacterial infection," Bhanawat says. It has installed bulk milk coolers (managed by Indian Dairy Machinery Corporation), in most of the supplying villages. This enables the villagers to refrigerate their milk even before it reaches the collection centres. Upstream, there

are warehouses at the dairy plants where the temperature is kept at 4° celsius, the optimum temperature to preserve milk. Twelve such plants operate around Delhi. Milk is pasteurised by heating it at 72° celsius and cooling it down to 4° celsius. Milk is also treated in separate processes to create batches of full cream, toned, double toned and skimmed milk.

Next comes transport. There are two types of vehicles — insulated and refrigerated (for long distances) for packaged milk, carried in crates. Loose milk is shipped out in tankers.

Finally, the retailers refrigerate the stock at optimum temperature. Loose milk in the bulk vending machines at Mother Dairy booths too is kept at low temperatures.

"Sales and marketing is entirely dependent on efficient logistics, keeping in view the perishable nature of milk," says Bhanawat.

The next challenge is to ensure the operations of scale. Efficient transport is key. Mother Dairy lays great emphasis on transportation in order to ensure ample stocks at the retailers'. The margin for error is razor-thin. Therefore, supply chain managers at Mother Dairy always have to be on their feet.

That's not all. Mother Dairy's consumers buy milk in small quantities and often, more than once a day. Which calls for large scales of production, frequent transport and accurate quality checks.

Therefore, Mother Dairy has outsourced some of this work. This has resulted in faster collections, stringent quality controls and a widening of the rural network.

Dairy farms and other suppliers work closely with Mother Dairy. First, they collect and deliver the milk from the farmers to the collection centres and from there to Mother Dairy's processing plants. They also manage the reverse logistics of returning the cans and crates — cans to the farmers and crates to the packaging centres.

NGOs and co-operative societies man the collection centres. They ensure the milk pooled from the villages is fresh and pure, which determines how much the farmers are paid. That is not where the quality check ends. The pool samples from each collection centre are further tested at the processing plants.

So this is the intricate journey of the milk we buy everyday.

No matter how perishable a product is, the right logistics can make the difference.

Ask Mother Dairy. ■

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 CEOs, 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.

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