Distribution Redefined

FAST TRACK

HOW AGILE IS YOUR COMPANY

Issue 4, June-August 2004

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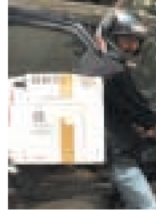

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A Crash Diet For Corporate Well-being

Companies give up on all that is non-essential as they go beyond lean production to lean enterprise

VIKAS KAUL

As country's largest cellular services provider, in the midst of fierce competition, Airtel should be working hard to make its mobile network cutting-edge to provide the best-in-class services. But about two months back, Airtel decided to outsource this critical part of its operation. In a $400-million deal signed with Ericsson, Airtel handed over its network management to the equipment supplier. Ericsson has taken complete charge of maintaining Airtel's network–operating it, and when new technologies hit the market, upgrading it.

If network is the heart of a mobile services company, information technology is the brain. By using IT tools, a service provider like Airtel can track how each customer uses the phone–details such as number of calls made, time spent, numbers most frequently dialed. Most of the battles to lure–or keep customers–are fought using this data to offer relevant services and tariff plans. But Airtel has recently outsourced the management of this critical infrastructure also–to IBM.

What is going on? Has Airtel stopped worrying about its customers? Why is it outsourcing functions that are believed to be its core competency?

Airtel–and a few other companies–are re-looking at the way they run their business. These companies place a high premium on the ability to respond quickly to changes. They believe that volatility and extreme competition will be a constant feature in their environment. They are adept in creating value through networks and partnerships, and they leverage technology to the hilt to achieve these objectives.

It is a new mindset; a manner of functioning that is sharp and agile. Lean is the physical description that best encapsulates these qualities.

Airtel is a lean enterprise. So are some other companies featured in this article, such as Maruti Udyog and ICICI Bank.

These companies work in a highly outsourced mode. They have mastered the art of managing partners, and they excel in collaborative ways of working. They are completely focused on delivering ever-increasing value to its customers.

Interestingly, the lean movement started in the 1980s as a

PAWAN JAIN
Chairman & MD, Safexpress Pvt. Ltd.

COALITIONS OF ANOTHER KIND

As I was watching the election results last month, I couldn't help reflecting on how much Indian politics has changed. Those who want to be in power today have no option but to learn how to work in coalitions.

The surprising thing is that business is moving in the same direction too. Those who want to dominate their markets today have to learn to work with a network of partners. The new mantra for success, it seems, goes like this: look deep inside to figure out your core strengths, build on them, and partner with others who can do the rest of the work better than you.

The reason why this approach works is that in this era of hypercompetition, adaptability has become the key to growth. Companies need to travel light and be fit and agile. None of us have the luxury of carrying unwanted luggage.

This issue of **Fast Track**, *therefore, is focused on travelling light–or, as our writer puts it, creating lean enterprises. Quite a few Indian enterprises have learnt the tricks of lean management. Airtel, for example, which has got Ericsson to manage its networks and IBM to look after its IT infrastructure. Or ICICI, which is using technology to create a formidable but lean banking network.*

As you read through the case studies, you may realise, as I did, that there is no one way to becoming a lean enterprise. And it isn't as simple as it may seem either. But we may have no choice.

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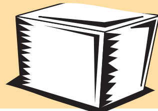
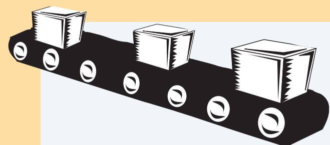
THE LEAN MINDSET

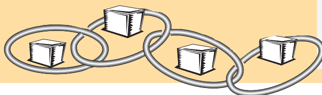
In product development
- Reduce time-to-market
- Include customers and suppliers in development

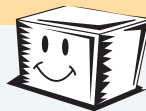




In manufacturing
- Eliminate production losses
- Improve flexibility on the shop floor

In supply chain
- Build deep, long-term relationships with fewer suppliers
- Exchange more than transaction-level information with partners





In customer fulfillment
- Deal with the customer directly, through Web
- Focus on fast response times

search for shedding waste in manufacturing. The term coined then was Lean Production.

It went into great deal about what made for waste, and how to get rid of it. That idea–of focusing on the essential and eliminating the rest–is now growing into a comprehensive organisational philosophy. Today, companies are seeking to raise the bar not just in terms of efficiency but responsiveness as well. To that end, the lean mindset is a very attractive approach. Outlined below are some facets of the lean enterprise.

Leveraging technology to grow without flab. Take the business of banking. Expansion in banking services business was once equated with setting up more branches and staffing them with more people. But ICICI Bank has done neither. It has used ATM and internet banking aggressively instead.

Today, it has over 1 million customers with internet banking accounts. Plus it boasts the largest ATM network. As a result, over half of the transactions happen electronically. Building upon this, it has launched new services such as Bill Payment and Demat accounts. It is adding nearly 3 lakh customer accounts every month. With Rs 112,000-crore of assets under management, it is now the second-largest bank in the country.

And yet, ICICI Bank is a lean enterprise. It has achieved this growth through a mere 450 branches across the country (The largest bank, SBI, has 7,000 branches.) Last year, its profits shot up by 36%–this at a time when interest rates were falling and competition was intensifying.

Technology is a key driver of the lean enterprise.

Outsourcing for higher output. Stung by eroding market share, and its first-ever losses of Rs 250 crore in 2000, Maruti Udyog Limited launched an initiative called "Challenge 50". The objective: increase productivity by 50% and reduce vehicle costs by 30%.

As a first step, Maruti began cutting the number of vendors–from over 300 to around 120. With these, it started working intensively to reduce lead times and costs. The responsibility of managing inventories for the components was transferred to the vendors. Maruti started sharing production schedules on a regular basis, making it the vendors' job to organise its production and supplies accordingly.

Today, Maruti works with a maximum inventory of four hours for local items and an average of six days for imported materials. The inventory to sales turnover ratio–on a scale of 100 in 1999-2000–is now down to 41. Mind you, this is despite the fact that the company offers more models now–9 models with over 20 variants. In 1995, with 4,800 employees Maruti was making 730 cars a day. Now with 300 less employees, the carmaker cranks out 1,700 cars every day. It is confident that the 350,000 cars-a-year plant at Gurgaon will be able to churn out 500,000 cars every year!

Maruti learnt to be lean through outsourcing, which resulted in more output with the same level of resources.

Sharing risk for ROI fitness. In the wireless telephony industry, scaling up the network can be a risky proposition, both from a financial as well as technological point of view. Growth can outpace the network's ability to scale up, and even the technology could get obsolete.

From a lean enterprise mindset point of view, this calls for sharing and mitigating the risk.

A good example of this is Airtel's first-of-its-kind deal with telecom equipment vendor Ericsson. Ericsson will upgrade Airtel's Delhi network to the 'Enhanced Data Rate for Global Evolution' (EDGE) technology. But instead of getting paid for the technology, Ericsson will earn its money every time a subscriber downloads video or plays a Java game.

What this means is that Ericsson will make money as a percentage of Airtel's revenue coming out of this new technology.

This way Airtel upgrades its network without the accompanying investment risk (but it takes the risk of banking on a new technology). It also reduces its own manpower by as much as 400 people, saving Rs 50 crore every year. Ericsson gets to roll out its latest technology in what's clearly the hottest telecom market in the world, and earn money on it.

Together, they establish a new rule for lean operations–collaborate to seed a new market, and share the risk and revenues.

In the end, the lean enterprise is an articulation about how to maximise value creation by being open, nimble-footed and staying focused on the essential. ■

>>technologistics<<

mySAP.com

ERP tools are now accessible to small and mid-size companies also. Using internet-based tools, these specialised software packages can execute SCM functions such as sourcing materials, forecasting demand, scheduling production and meeting transportation needs for smaller companies also.

mySAP supply chain management (SCM), a solution provided by SAP, is one such package customized to meet the demands of small and medium businesses (SMB). It allows people across all channels to collaborate and coordinate. Using it, companies can turn their linear supply chains into adaptive networks.

As part of its solutions for SMBs, SAP has developed an individualized solution called mySAP All-in-One, a set of pre-packaged, verticals led e-business solutions for various industry segments such as automotive, oil and gas, commercial printing, manufacturing, engineering and construction, and management consultants. "The solution packs in the best practices, helps streamline business processes in a short time, and focuses on cost reduction," says, Srinivas Rao A, Sales Director for SMB, SAP India.

SAP claims that its solution takes 40% lower time and costs 30% less than traditional implementations. mySAP All-in-One can be installed in about 8 weeks, and the entry level cost is Rs 25-30 lakhs. This includes costs for license, implementation, hardware, training, post-implementation service and master data upload. Post-implementation, all that is needed is an IT manager and tying up with a local support partner–appointed by SAP–who has the domain expertise for troubleshooting. ■

>>trends<<

SUPPLY CHAIN—A PREVIEW OF THE FUTURE

As orders originate from multiple points–retailers, Web-based sellers, tele sales–SCM is entering a new phase. It is getting executed through multiple channels. A preview of how this is happening:

Wireless: The world's biggest retailer Wal-Mart has decreed its major suppliers must implement the RFID technology by January 2005. Meanwhile, phones with GPS capabilities are becoming more affordable and Wi-Fi is gathering steam. Put together, these technologies are allowing newer and faster ways of collecting and integrating data about stuff in the pipeline.

Integration with the front-end: So far, the focus of SCM has been to integrate vendors and improve back-end operations. Such a supply chain can at best speed up fulfillment.

Now, companies are looking for ways to prioritize customers–by profitability–and figure out how to serve the most profitable ones first. An Accenture study shows that this could improve margins by as much as 18%.

Enterprise Portals: As attention shifts to the front-end, and data inputs come from multiple sources, Enterprise Portals over the internet are becoming the most compelling data aggregation platform to connect customers, employees and suppliers in one seamless chain. These portals can be accessed through multiple devices such as PCs, cell phones and PDAs. ■

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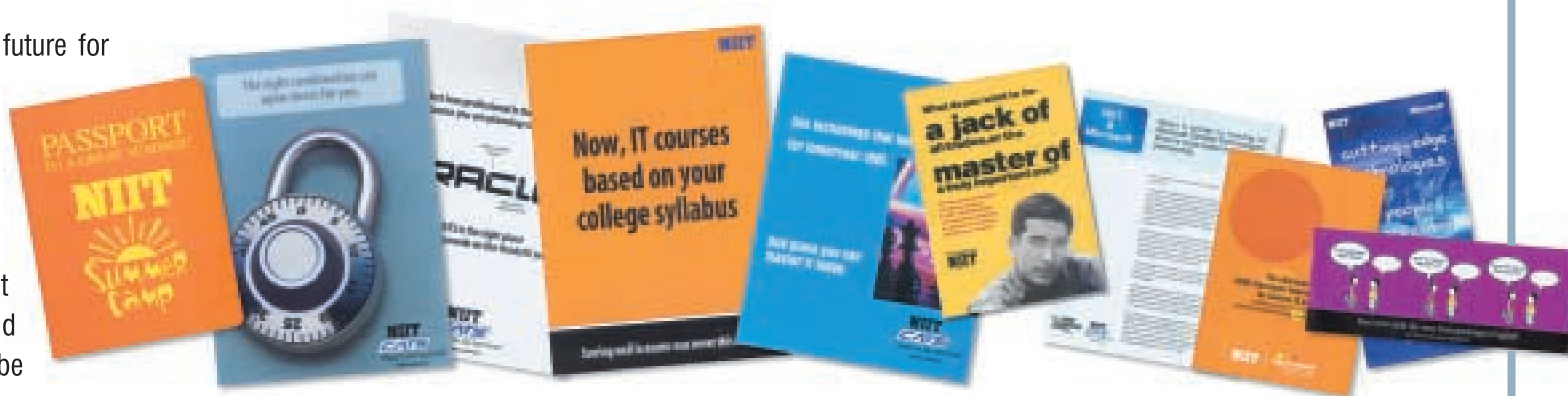
Lessons NIIT Learnt

How a dull market taught NIIT to create a smart and responsive supply chain



Piyush Srivastava has a vision of the future for NIIT's education training business. "One day, I will stop giving directions to my suppliers. The printer will log on to the system to find out how much courseware he has to print, the logistics partner will figure out when and how it has to reach my franchisee centers. I won't hold any stocks, so inventory management won't be my responsibility either. I will just be given a consolidated bill once the delivery is made."

As Vice President, Commercial Services Organisation, NIIT, Piyush Srivastava knows what it will take to get there. "In fact, companies are already doing such innovations," he says, pointing out the case of Airtel. All Airtel billing details from its call center goes to Xerox India office. Xerox prints the bills, seals it in an envelope and despatches it.

How NIIT will reach this chosen goal should be seen as a continuum of its business, and its supply chain evolution. Today, NIIT's education business has reached a mature phase where growth is steady, competition is intense and product obsolescence is high. The company caters to 50,000 students across 2,000-plus franchisee centers spread over 500 towns and cities in India.

The challenge: keeping the content completely up to date (IT technologies and applications change in cycles of 12 months and less); knowing accurately how much courseware has to be printed (student intake volumes keep varying); and making sure that each center gets the right courseware in the right quantity.

How NIIT has tackled this challenge can be seen through three phases.

Hyper Growth: There was a time–between 1991 and 1998–when NIIT grew in almost geometric progression. Revenues grew from Rs 30 crore to Rs 648 crore in this period, so did inventories–to 90 days.

By mid-1990s, NIIT had a 15,000 square feet warehouse at its head office in Delhi, another 2,000 square feet of space in its 8 regional offices–and 200-300 square feet of storage space in each center! "Our focus was expansion, so we didn't worry much about other parameters," says Srivastava.

The supply chain was almost a corollary of the expanding business activity; no real practices were put in place.

The Squeeze: Around the end of 1999 and beginning of 2000 came the crash. Student enrolment dropped by 30-35%. "Good things happen at bad times. We started implementing SAP then, which told us what was our situation on a given day, as against 15 days later. Our profitability measurements were online now," says Srivastava.

PIYUSH SRIVASTAVA *VP, Commercial Services Organisation, NIIT*

> "We should reach a capability of delivering a single lot of one to our franchisees if required"

The entire logistics process was also optimised. First, NIIT started dealing with only a chosen set of transporters, with whom it negotiated long-term contract. Then, it handed over the loading and unloading of course material also to the transporters. Finally, the transporter (Safexpress) also started managing the warehouses for NIIT (and now NIIT is in the process of giving up ownership of warehouses also.)

When student enrolment started to drop, franchisees began asking for courseware in smaller lots (there were 40 sets in a lot). By partnering with a logistics service provider and riding its network, it became economically possible for NIIT to send smaller lots of 20 or 30 sets.

It was a precursor of things to follow. "We should really reach a capability of delivering a single lot of one if required," says Srivastava.

The New Age: The focus now shifted to greater visibility of stocks, during transit or even during production. Shortening cycles in new IT developments meant greater obsolescence risk that had increased to 2-5% on an annual basis.

To begin with, a direct connection between the franchisee and logistics company was set up enabling checking of delivery status over phone. This activity was then moved on to the Web, where the franchisee could log in, enter the challan number and have access to all kinds of information (when was it despatched, where is it right now, how many days more to reach.)

Also, an internet portal was created for the franchisees. Each time a student registered, the franchisee logged an entry, and the ERP system at NIIT captured this information. This information was cascaded across the entire supply chain–production orders, billing statement and despatch schedule.

"As a result of all this, our ability to know how much to produce, franchisee's ability to know when the material will reach him, and overall anticipation has got better," he says. Inventory levels have been brought down to 30 days. For courses where the content needs frequent updation, inventory of only 15 days is maintained.

NIIT's next objective: to bring the printing press online. The envisioned future–where the printing press, the logistics company, and the franchisee manage the supply chain–isn't far away. ■

–Nitin Srivastava

PRIORITY

'Please don't hang up, your call is important to us. Our customer care executive will shortly be with you.' How often have you felt frustrated or just worried about how much this repetitive drone will add to your phone bill?

India's fastest growing logistics solutions provider, Safexpress, has recently added an online live-chat facility that addresses this problem. The customer can click on a link on the Safexpress website to open a chat screen. This brings the company's customer care executive online, who responds about topics such as status of shipment, information on new services, register escalation and even giving feedback on services. The idea: provide personalized interaction without the costs that go with it.

This first-of-its-kind service is in tune with the global trend of logistics companies adding newer customer interfaces such as Web and SMS to make their supply chain transparent. This makes it easier for a customer to track his shipment, and have better control over his own supply chain.

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Copycats set new benchmarks

The office automation industry is leading the way in the outsourcing revolution. How they are doing it and why

THE CUSTOMER: The customer who needs a consumable, calls up Xerox's call center which is the nerve center of its servicing infrastructure

THE STOCKING POINT: Vans spread all over the city act as the stocking point for spares/consumables. Call center relay requests to the vans

THE DELIVERY BOYS: Vans pass on the consumables to delivery boys and intimate them about where it has to be delivered

BACK TO THE CUSTOMER: The customer gets his order fulfilled within an hour of calling up the Xerox call center

CHITRA BALASUBRAMANIAM

About half-a-dozen multinational companies battle it out for supremacy in India's 40,000-units-a-year market for office automation equipment. Xerox, Canon, Ricoh, HP are all out there pushing their wares in a market growing at 20% a year. In fact, office automation is one sector where the multinationals have completely taken over.

This brings its own supply chain challenges, though. With the exception of Xerox, all these companies rely entirely on imports.

Plus, there are consumables–ink cartridges, toner etc–that must be delivered too. Delivering consumables on time, time after time, is the key to customer satisfaction. Add on the fact that these expensive equipment need to be sensitively handled in transit, and you get a picture of the pressure that office automation company managements are under. No wonder then, they are calling in the experts.

Companies in office automation industry have gone farther than everyone else when it comes to outsourcing.

Office automation companies are now outsourcing not just warehousing and transportation of goods, but are even involving third party logistics solutions provider in delivering after-sales support.

Two major factors have contributed to this trend. One is that most automation companies in India operate as pure marketing firms. The second is that their global parents have substantial experience in, and are comfortable with, outsourcing.

But these companies also know that to get the best out of outsourcing, they need to define the processes clearly, finetune their forecasting methods and work out innovative supply chain strategies.

The rise and rise of outsourcing

In some ways, outsourcing is built into the DNA of companies in the office automation industry–the global majors use third party service providers for everything from manufacturing to logistics.

Their Indian subsidiaries are naturally inclined to look at the option seriously. Since hardly any company does any manufacturing in the country, there is little incentive to invest in distribution and infrastructure.

Flexibility is another important reason–outsourcing gives companies the ability to respond to changes in market structure without having to make new investments. Besides, there is a growing realisation that extensive distribution helps increase revenues. Local presence could mean the difference between winning and losing a contract.

> **"Since the cost of the equipment could be high as Rs 1 crore, service expectations are high and backups are required"**
>
> **H K SHAH** *Director, Logistics & Supply Chain, Xerox Modicorp*

Sharp, Cannon, HP...everyone has taken to outsourcing at one level or another. Xerox, the only major player with a manufacturing base in India, is toying with the idea. What makes outsourcing in the office automation industry unique is the amount of work that goes into managing it and the innovative uses that it is being put to.

Outsourcing–On a tight leash

Take the issue of monitoring, for example. "The reason why many companies in other industries haven't yet taken to logistics outsourcing in a big way is the concern whether they will be able to monitor what goes on in the warehouses after they have taken the plunge," says Anil Syal, General Manager, Sales, Safexpress.

Companies such as Xerox, HP or Cannon, however, have figured out how to tackle such issues. They have elaborate management information systems (MIS) with stringent reporting requirements. They insist on immediate updates and use technology to make it possible. For instance, HP has given access to its servers to the logistics solutions provider Safexpress so that the latter can update the MIS as soon as a transaction takes place.

The demands these firms place on the service providers don't stop here. Since the average value of a stock keeping unit (SKU) is very high, office automation companies need quick turnarounds. They are very particular about timely deliveries and timely payments. The service provider has to not only deliver on time but also come back with Proof of Delivery (PoD) within a short period, of 3-5 days, so that they can follow-up on payments.

Outsourcing–The service imperative

Office automation companies have been among the first to extend the idea of outsourcing to delivery of services. For these firms, selling hardware is just the beginning. They make their money on consumables. And customers too judge a company by its ability to deliver the consumables on time, and also provide good after-sales service as there is plenty of wear and tear on the equipment.

This is particularly true of customers whose usage volumes are high. Telecom companies, for example, print bills at the rate of 130 per minute per machine. Even an hour's breakdown will mean delays in bill despatch and collection, which ultimately affects revenues. "Since the cost of the equipment could be as high as Rs 1 crore, service expectations are high and backups are required," says H.K. Shah, Director, Logistics & Supply Chain, Xerox Modicorp Ltd.

The objective is to ensure zero downtime, and the search for it has led to several interesting innovations. Xerox, for instance, has found an innovative solution for delivery of spares and consumables using Safexpress' services. The engineer who needs a spare part or a customer who needs consumables calls the centralized call center number and places his requirement. Safexpress keeps stocks in vans stationed all over a city. The call center passes on the request to these vans which in turn pass them on to mobile delivery boys with scooters who zip across to the customer's premises and deliver the stuff–within an hour of the call being logged.

Ricoh follows an auto replenishment system. The average consumption of consumables is calculated on the basis of the monthly requirement of each machine. Each machine is monitored using an in-house software. On the basis of this reading, consumables are delivered at the clients' offices. Ricoh divides each city into zones for logistical ease, and a delivery person calls on all clients in a particular zone in a particular week of the month. A back-up delivery person ensures that consumables are delivered on time in case there is an emergency.

Industry players are cagey about revealing cost savings; they say the primary motivation for outsourcing is the streamlining and increased efficiency. But some insiders estimate that it is possible to effect a 25-30% reduction in operational costs, not counting the reduction in managerial headache! ■

GETTING IT RIGHT

Since manufacturing happens overseas in the case of most office equipment companies, the lead times for delivery are quite long. Canon, which imports its goods from Singapore, has a 7-8 week delivery cycle.

That's why forecasts matter. Not just a general assessment of demand behaviour, but specific anticipation of demand for each of the models, spares and even consumables.

Manoj Kumar, Associate Vice President (Finance & Control), Ricoh India Ltd says: "We use the moving average method. We spend three months just collecting data. It is done model-wise, branch-wise and district-wise. Variance is budgeted." On an average, the industry says, the error or variance is not more than 5-10%. The parent company plans its production schedules in synchronization with the forecast.

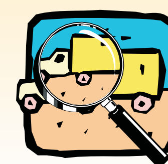
Shiv Jhunjhunwala, Assistant Manager-MIS, Sharp Business Systems Ltd, says: "We carry minimum stock. We place orders every month and this is done three months in advance. The forecast is on a six-monthly basis. And in most cases it works well." This process assumes significance since most companies promise delivery to the customer within 4 weeks of placing order.

Luckily, the demand for office automation equipment does not have too many spikes.

PRIORITY

We have covered RFID in previous issues. Now let's take a look at a more complete technology system that can keep tabs on supply chain information, and has the capability to surpass any barcode system. Automatic Identification (auto ID) is a technology system that can be used for machines to identify objects. It can examine a number of tags simultaneously and capture data automatically. Technologies such as smart cards, voice recognition, optical character recognition and radio frequency identification fall under the Auto ID umbrella.

Auto ID allows companies to track objects as they move from manufacturing to the stores thereby increasing the efficiency of individual processes, enhancing forecasting accuracy and improving the ability to respond to changing conditions of supply and demand. Companies can leverage their ERP investments using Auto ID as it increases data quality and quantity.



In the last issue, we carried a report on supply chain issues in the FMCG industry. Recently, an article in the Logistics Management magazine talked about how Gillette achieved dramatic improvements in its supply chain.

In 2002, Gillette worldwide conducted a research which revealed it had more inventory and lower service levels than its rivals. The problem: there was a gap between planning and execution. For instance, there were a large number of unnecessary SKUs, which led to piling up of unsold products at warehouses.

So Gillette now breaks down its demand planning chain into smaller components such as key accounts, special promotions and club store purchases. It has also reduced the order delivery shipment periods to its distribution centers.

For inventory planning, Gillette now uses a software that points out weekly-order history and time required for replenishment. The result: inventory lowered by 24% in just two years.

champions

Defying Wisdom

Spanish fashion retailer Zara, part of $3.9 billion Inditex Group, defies all that is fashionable in the business of fashion

Conventional wisdom in the fashion industry says: Fashion brands must spend big on advertising. They do–spending over 3.5% of their turnover. Fashion brands must reconcile themselves to low inventory turns. They have done that–keeping inventory of three to four months. Fashion brands have to live with long lead times. They do–with design to production taking in excess of three months.

Now check these numbers: Advertising spends–0.3% of sales; inventory turnover–one month; and lead time-to-market–three weeks (weeks, not months). This is despite making more than 11,000 stock keeping units (SKU) a year. It can't be fashion retailer.

But it is. It's Zara, the fashion retailer from Spain with an estimated revenues of $3 billion in 2003. Zara has over 1,000 stores in 47 countries and it is adding stores at the rate of one every week.

Call it freaky, or smart, Zara has turned much of fashion industry's conventional wisdom on its head. And it is largely due to its reclusive founder Amancio Ortega Gaona's penchant for doing things differently.

For instance, Ortega never believed in advertising. Story has it that when a famous Spanish actress asked for a photo shoot in one of his shops, Ortega declined the request. In fact, he chastised the newly appointed marketing executive (who thought–like everybody else in his trade–that it would mean free publicity for Zara). "You haven't got the idea yet, have you," said Ortega. At a Zara outlet, product is the hero.

Ortega did not stop at this. He decided, when it came to fashion trends, Zara would follow rather than lead. It will beat competitors with speed. So it does what most of its peers in the industry would dismiss as "outdated": keep every single element of the supply chain under its control. Zara owns everything from design to production, to even the outlets that merchandise its products. For its CEO, Jose Maria Castellano, vertical integration is the key to having complete control over its destiny–his term for speedy execution.

Zara has many manufacturing facilities in Spain but it also has a network of 400 small workshops throughout Spain and Portugal. The company outsources the most labour-intensive aspects of its production to these smaller workshops.

These are not owned by Zara but are informal networks of everybody from grandmothers to teenage girls looking for some extra income. Zara provides the necessary technology and logistics capabilities for them to collaborate with other partners in the supply chain. This network–apart from providing low cost labour–also gives the fashion retailer incredible flexibility in planning its production.

The clothes are shipped to stores twice a week. This gives the company more flexibility in production, sales and stock management. For instance, if customers ask for a square neck on a shirt rather than the round neck on display, Zara can get the new version in stores within ten days of receiving the request.

Executives at Zara stores use handheld devices to send customer feedback to in-house designers, which keeps them informed about the changing customer demands and trends, thereby resulting in better managed inventory and no obsolete merchandise.

Besides, managers at Zara shops are equipped with handsets which they use to update designers at the end of every day on what's sold, and what's not. This information is used as a basis to decide the product lines and colors that should be used.

To make clothing styles available faster than its competitors, Zara designs and cuts its fabric in-house. To keep costs low and logistics manageable, fabrics are available in only four colors, and dyeing and printing designs are postponed until close to manufacture to avoid creating inventory that can't be cleared.

All this has helped Zara bring down product lead-times–from design to arrival at stores–from several months to three weeks. (The industry average is three months but some retailers take upto nine months from concept to store.)

Such a tight and responsive supply chain allows Zara to kick-start a season by committing just 15% of production in advance, making it easier to dump an unpopular range. Its competitors have to commit as much as 60% of production in advance, resulting in high unsolds or returns from stores–the biggest profit killer in fashion business. And Zara ends the year with finished goods inventories of less than 10% of revenues which is half of what the best managed fashion retailers manage.

An unusual business model that defies every rule retailers follow today has Zara going from strength to strength. No wonder, Daniel Piette, Fashion Director, LVHM (owners of Louis Vuitton brand) describes Zara as "possibly the most innovative and devastating retailer in the world." ■

–Shikha Saroj

PRIORITY

According to IT research firm Gartner India, India's enterprise application software (EAS) market grew to nearly $40 million in 2003. This is an 8-10% jump over the previous year. In 2004, this market is expected to grow at the rate of 10-12%, according to the research firm.

Much of this growth is courtesy the manufacturing sector that has seen a resurgence of investments in IT. For the last few years, manufacturing has trailed the financial services sector in technology spends. But now, the trend is reversing. Manufacturing sector's allocation on IT is expected to be higher in 2005 also.

EAS applications such as ERP and SCM are contributing significantly to this growth. While ERP has been around for a while and makes up half the size of EAS market, SCM applications are also being adopted in a big way now. This suggests companies are finally training its sights on extracting efficiencies out of the supply chain.

fuel-stop

Shaky Ground

Why CEOs must worry if their companies are rigid and rank-based

During the internet boom, a large number of people left jobs in traditional companies to join dot-coms. What were they after? Quick buck that soaring stock prices promised, was the common refrain. However, many surveys during that period revealed a different motivation: a search for meaning in work. An article in the magazine *Fast Company* pointed out that with people spending more time at work than at home, they sought jobs where they believed they could make a difference rather than being just a cog in a giant corporate wheel.

Carrying out orders or working in an environment with rather limited span was no longer exciting, particularly to the 'knowledge workers'. Dotcoms gave them the opportunity to feel truly 'empowered' and therefore a large number of executives jumped the ship.

People feel stifled in traditional firms because of its hierarchical, rank-based structure that pervades almost all organizations today. Popular thinking is that a rank-based organization ensures smooth operations due to its disciplined structure. While this is true, there is a very fine line between having a very organized management structure and being a hierarchy-obsessed company.

The essential difference between an uncomplicated management structure and a rank-based structure is in the flow of information and ideas. In the former, there is free flow of information across the organization; the latter has employees who have a set idea about their place in the working structure, thus limiting exchange of ideas and information. This impacts employee productivity and in particular their ability to deal with emerging situations.

Take, for example, any mobile services operator. Each of them have call centers to assist customers. Yet hardly anything gets sorted out–beyond registering a complaint–and talking to customer care executives. She neither has the access to relevant information nor the authority to solve a customer's problem. Her job is clearly defined: take the call and be polite during the period of the call. Someone else is empowered to take decisions.

In *The Myth of Leadership,* Jeffrey Nielsen talks about a peer-based work culture.

As opposed to rank-based thinking–a process where a privileged few take decisions–in peer-based thinking every person in the organization has equal access to information, and has a say in the company's decision-making process. There are certain characteristics on the basis of which we can differentiate between a rank-based and a peer-based organization, according to Nielsen.

Exclusive versus inclusive: A rank-based organization practices exclusivity as there is hierarchy and those at the top do not relate with those that are at the bottom of the hierarchy ladder. A peer-based system encourages everyone to be a mentor and participate in decision-making.

Mechanistic versus organic: People working in rank-based organizations consider themselves to be dispensable and an unimportant part in the organization whereas in a peer based organization, everyone appreciates his/her contribution to the organization. There is a heightened sense of responsibility.

Commanding versus influencing: A rank-based organization seeks control over people as opposed to a peer-based organization, which views power as a source for influencing other people.

Scarcity versus abundance: Rank-based organizations believe that people are selfish and unwilling to share resources and information. And as these things are scarce, you have to compete to get your share. However, in peer-based organizations, there is a belief that more resources and information can be generated with shared efforts.

Nielsen does not however suggest letting everybody have a say in everything; that would lead to chaos. Instead he divides decision-making into four areas: strategy, operations, tactics and people. His suggestion: you don't need to tear away your organization structure to get started. You could always choose one or two of these areas and start with simple measures like creating a non-hierarchical group to let everyone in. ■

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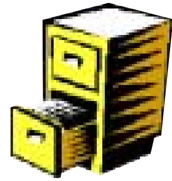
>>toolkit<<

Putting New Ideas to Work



Companies today are looking at blending business strategy and line marketing activities. Strategy consultants can analyze markets very well but they lack tactical training. Traditional marketers, on the other hand, are great tacticians but their efforts might not be measurable for senior management.

Thus, there is a need for a 'strategic marketer' who will be involved in the organization's entire functions. Such a marketer is armed with experiences that are a sum of varied, unconventional backgrounds; he can rethink the old rules of brand management and execute marketing plans that achieve business goals. To know more about what skills are required to be such a strategic marketer and how they can be important to your organizations success, go to http://www.strategy-business.com/press/article/21649?pg=0

New ideas do not always stem from systematic, planned thoughts and analysis–most often they are sporadic and spontaneous. A study of radical innovation projects such as IBM's silicon-germanium devices, GE's digital X-ray, GM's hybrid vehicles, and DuPont's biodegradable plastics makes it clear that generating ideas that work require strategies such as involving all the employees and customers. There are a number of strategies to have an innovation-centric organization. To know more log on to http://innovationtools.com/Search/searchdetails.asp?sitesearch=robert+tucker&ContentID=77

Companies are often not aware which parts of their marketing spend leads to an increase in sales and profitability. What if companies knew exactly how and where to apply marketing expenditures? This is ROI marketing, an application of modern measurement technologies to achieve optimum investment returns. It is a philosophy that all marketing activities agree with, and it recognizes the importance that effective marketing should be all-encompassing. For tips on ROI marketing, get to this link http://www.strategy-business.com/press/article/8235?pg=0

FAST TRACK

>>believe it or not<<

India presents one of the toughest logistical challenges in the world. Lets take a case:

- The distance between Delhi and Trivandrum: **2790 kilometers.**
- The distance between London and Moscow: **2792 kilometers.**
- No. of states between Delhi and Trivandrum: **8**
- No. of countries between London and Moscow: **8**
- No. of checkposts between Delhi and Trivandrum: **12**
- No. of checkposts between London and Moscow: **0**
- The length of National and State Highways in India: **1,95,231 kilometers**
- The highways in the eight countries between London-Moscow: **31,43,742 kilometers**
- Highways as % of land mass: **16.6%** in 8 European countries versus **5.93%** in India

The best logistics service providers in Europe take **4 days** to cover this 2792 kilometers.

Yet to cover the same distance, with its associated challenges, leading logistics service providers in India also take only **4 days**!

CAN YOU BEAT THAT! ■

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Warehouse-on-Wheels

Barista puts its inventories on road in quest for supply chain efficiencies

Howard Schultz, the legendary owner of Starbucks, was visiting an outlet in Abu Dhabi recently. A Barista shop had come up right next to Starbucks there. He stood outside the Barista outlet and remarked: "So this is Barista from India!" Schultz' team had obviously briefed their boss about their new competitor on the horizon. (Barista is opening outlets in neighbouring countries in Asia while Starbucks is set to launch its chain of coffee shops in India soon.)

Of course, Barista is puny compared to Starbucks. Starbucks has 7,800 outlets in 28 markets outside North America; Barista has 117 outlets in three countries. But Barista is harboring ambitions to be a big player globally. From 117 today to 3,000 outlets in the next 18 months, said C Sivasankaran, the new majority shareholder of Barista Coffee Company in an interview to *Business Standard* recently. In January earlier this year, Barista's CEO Yogesh Samat told a business magazine that expanding in Asia was going to be its focus in the next few years.

YOGESH SAMAT, *CEO, Barista Coffee Company*

The coffee chain that made terms like cappuccino, mocha and latte popular lingo in India is going mass market now. Its foremost challenge is going to be replicating the 'Barista coffee experience' on such a big scale. In fact, after the tweaking in its pricing strategy, and introducing some exciting options in its menu, more people are coming to Barista now–1.3 million monthly footfalls currently, which is a 20% rise in the last 6 months.

To keep this momentum going as it goes on an expansion spree will be one of the most fascinating supply chain challenges in recent times. What is in Barista's favour is its track record in managing its supply chain so far. Says Ashish Chakravarti, Head–Supply Chain and IT, Barista, "Today, our inventory costs are 2.6% of sales, while the industry average for such formats is 4.5%." Underlying this achievement are some innovative practices and ideas.

Keep stocks on the road. Why keep stocks in the warehouse, asks Ashish Chakravarti. It makes more sense for it to be on trucks, on the roads, he says. This is why.

There are 200 types of dry stock (coffee powder, sugar, tea etc) that have to be indented and replenished at Barista outlets every week. Suppose, the requirement patterns are calculated accurately–which Barista has managed to do over a period of time. Then, the trucks can be despatched with near accurate requirements without waiting for the formal indent. Once this system starts working–where order planning is accurate enough–then why incur costs in storing large quantities of stocks in the warehouse?

It is only a marginal shift in emphasis–more stocks moving on trucks instead of being held at a central point.

Barista did all this, and there came a time when it was turning its inventory every 7 days (which was later reconfigured to 9 days to achieve system-wide process optimisation). The rest of the industry was taking 15 days.

From a static model to a dynamic system. Barista has negotiated with its logistics solutions provider (Safexpress) to be charged for part-load moved rather than on a per truckload payment system. Generating a truckload of stock was no longer a necessity. Smaller lots could be despatched more frequently.

An extension of this practice was the linking of warehouse management charges to the part-load moved. Instead of a fixed charge every month, Barista could extract cost efficiencies by changing over to this dynamic mechanism of warehouse management costs.

Regionalise, rationalise. The speeding up enabled innovations at the front-end as well. Barista started refreshing its menu every six months. The first time it did this, there were problems. Fast delivery systems were not enough. Modifications were required in its sourcing strategy as well. Contracts with vendors were signed on a national basis, but fulfillment was regionalised. So if there was a smoothies promotion in Chennai which created a spike in smoothies demand, the Chennai outlets could directly source additional supplies locally.

Now, as Barista puts its expansion strategy in execution mode, the next chapter in supply chain innovations will surely be written. Stay tuned. ■

–NITIN SRIVASTAVA

JAGDEEP LUTHRA
Vice-President, Safexpress Private Limited

Q. We are dealing in Color Coating products and have a large market presence in India. We introduced a 'specialty' product a few years ago and are facing problems leading to excess/shortage scenarios consistently. We import from the UK by sea and the inbound gateway is Kolkata. From there, the goods move to the Central Warehouse near Delhi. Thereafter "medium" lots are despatched to the secondary warehouses across the country. The goods reach the consumers through a channel of distributors/dealers. Please suggest some measures to revamp our supply chain.

A. Although a thorough answer would require more details but the following measures should help address the problem:

- Firstly, entire supply chain has too many "intermediaries"–the goods pass through four channels. Also, do you really need to route imports through Kolkata or Mumbai would be better?
- You may be incurring huge costs as the entire chain is too long leading to shortage/excess with the forecast also covering 'longer' periods.
- If Mumbai could become the inbound port, central warehouse could be relocated to Mumbai itself thus saving freight. We recommend the goods move to the distributors directly with just one channel to reach the consumption points.
- Since the entire lead-time within the country, post entry, gets reduced we suggest indents for fresh stocks in smaller lots for imports to reduce inventory holding costs. This is of course subject to the Minimum Order Quantity (MOQ) understanding you have with the principals abroad. ■

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. **Now, you can order an e-zine version of *Fast Track* for your friends and colleagues**. Write to us at fasttrack@safexpress.com.

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