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WAYS TO SHED COSTS 4

As margins shrink, FMCG majors are experimenting with new logistics solutions. A snapshot



LEAN MACHINE 6

How Toyota Motor Company changed the world of manufacturing and gave the world just-in-time



LOSING COOL 8

Blue Star Ltd. has stopped dealers from directly booking orders to factory. It is proving effective



Built To Change

Are you an "Adaptive Enterprise"? If not, there is trouble coming your way

NITIN SRIVASTAVA

Conventional wisdom has it that successful companies are companies that are *built to last*. When put that way, it looks as if successful business leaders spend all their time casting in concrete a set of processes and systems that can withstand all manner of shocks for all time to come. Probably this was true—*once upon a time*.

In an age when industries and markets are in flux, casting anything in concrete can be a very risky thing to do. What you need today, above everything else, is flexibility—the ability to respond to changes in your market with as little fuss and as little disruption as possible. To put it in other words, successful companies in the twenty-first century will need to be *built to change*—if they are to last! They will need to be "adaptive enterprises" that are very sensitive to changes in their environment and can react very quickly.

Nothing illustrates this better than the example of Reliance Infocomm. When it first entered the market in December 2002, Reliance Infocomm was a spectacular failure. Its pricing was wrong, its technology was immature, its servicing had glitches, and even its marketing was heavy-handed.

Many people, in fact, wrote off Reliance's telecom venture as a dead loss—the industrial giant, they said, just didn't know how to operate in the service economy.

But if Reliance's failure was a blockbuster, so was its return. A year and a quarter after its launch, Reliance Infocomm today is the largest mobile services player in the country, with over 5 million subscribers. After the disastrous roll-out in December 2002, it took Reliance only three months to create a new, attractive pricing package, a brand new marketing campaign, completely refashion and rationalize its dealer channel and fix the problems with the handsets. Within 10 months, it had built up a subscriber base of 3.5 million. To put it simply, Reliance Infocomm proved that it is an Adaptive Enterprise.

This shouldn't have come as surprise though, because Reliance has always given particular attention to the factors mentioned earlier that go to make



ADAPTIVE ENTERPRISE



PAWAN JAIN
Chairman & MD, Safexpress Pvt. Ltd.

There used to be a time when long-term planning was the rage in corporate boardrooms. Today, traditional long-term planning with its cast-iron certainties is a venture fit only for the delusional. Because no one, absolutely no one, can predict in what precise ways the technological tsunami we are experiencing will alter the

business environment around us. Look at the US. The forces that the US technology industry unleashed less than a decade ago are now causing jobs in the very same industry to shift to the rest of the world with amazing rapidity. So much so that "offshoring" is fast becoming the top agenda item in the US elections.

But companies can't abandon their future to the vagaries of accident; they still need to think ahead. It's just that they will need to plan for the future in a different manner than they used to. An organization with an innate ability to respond to changes in its environment faster than its competitors is one that will survive longer. We call such a company the Adaptive Enterprise.

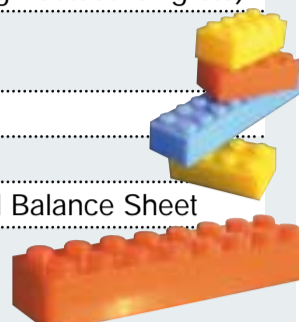
This issue of **Fast Track** is

focused on how Indian business leaders can build adaptive enterprises. Better technology and smarter logistics solutions will help in this, but I would say the real challenge lies in changing our mindsets, to look at change not as a threat, but as an opportunity. Hope you will find this issue as useful as you did the earlier ones.

Blair

TOWARDS AN ADAPTIVE ENTERPRISE...

Existing Approach	The Adaptive Approach
Reduce cycle times	Reduce response times
Minimise operational costs	Make operational costs variable (through outsourcing etc)
Extract efficiency out of the organisation structure	Focus on building structural options
Acquire assets	Influence assets in your ecosystem
Drive internal integration	Drive external connectivity
Responsible for Profit & Loss	Responsible for Profit & Loss, Risk and Balance Sheet
Top-down, heirarchical control structures	Self-initiated, market-driven



an adaptive enterprise—sensitivity to change and quick reaction. But what specifically does a company need to do, to be sensitive to change, and to respond fast?

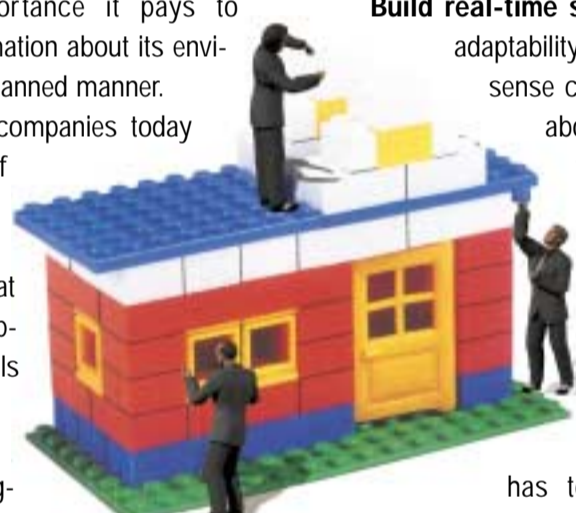
Being sensitive to change is about the ability to capture relevant data and see the patterns in them. At a mundane level, it would mean your ability to numerically track the different factors that affect your company's bottomline or topline so that you know what tomorrow will bring. At a higher level, it would mean having a good sense for what even the medium term will bring. Infosys CEO Nandan Nilekani could see that the technology recession would last 6-8 quarters at a time when most in the industry expected it to be over in a quarter or two. This insight comes only partly from gut feel—to a large extent, it is the result of an organisation's information-sensitivity, how much importance it pays to collecting and analyzing information about its environment in a systematic and planned manner.

It is clear that successful companies today

focus on a different set of things than they used to earlier. If you were to go back some decades, you will see that focus of attention was on keeping direct costs like materials and labour under control. Then came the next stage, when attention shifted to wringing efficiencies out of indirect costs.

Now, as the times that we live in become more and more uncertain, managing the cost of change will occupy more senior management time. But to manage the cost of change efficiently, a company will have to reach outside its own walls, into the innards of its suppliers, its buyers and its partners. External connectivity will now become as important as internal connectivity.

Creating an Adaptive Enterprise will require intervention on all three levels—strategy, operations and execution. Here's a short list of things you could pay



particular attention to:

Nurture your ecosystem: Adaptability at a strategic level requires a view where suppliers, factories, distribution channels and service partners are all part of your ecosystem. It is not enough to just say this; if you really mean it, you should share substantially more information with your suppliers and partners.

Rethink modularisation: The process efficiency reached its pinnacle through re-engineering which created modules within the organisation. What mattered then were measures such as cycle times and throughput. But in such a structure, flexibility is not cost-effective. These modules need to be reorganised around capabilities that deliver flexible response, and reduce response times.

Build real-time systems: At the execution level, adaptability requires new mechanisms to sense changes and capture information about them. This would involve IT tools such as real-time software that captures events as they unfold. You should make sure, however, that all this doesn't end up as show-piece information dashboard for the senior management. If an extra shift has to be run to meet additional demand, then the plant manager has to get that piece of information well in advance.

In their own ways, some Indian companies are on the way to becoming adaptive enterprises. Blue Star, Pantaloons, Shoppers' Stop and some of the FMCG companies featured in the subsequent pages of this issue are good examples of that. Some of them are junking their forecasting-led model to experiment with what they call "postponement-led" production and distribution. Others are crunching their replenishment and reordering cycles from weekly to daily runs. Remember, nothing lasts that doesn't change. ■

Warehouse Management Systems

Until now, warehouse has been a lonely spectator to all the action happening in the supply chain. Now with the Warehouse Management System (WMS) software, it too is getting the smarts for not only managing activities within the warehouse but even outside such as inventory tracking, labour tracking, yard management and parcel shipping.

Makers of manufactured goods, grocery



and distribution companies are the biggest users worldwide. In India, firms like Colgate-Palmolive and Hindustan Lever, which have fairly large and complex distribution systems have shown interest, as have logistics solution providers such as Safexpress.

WMS comes in all forms and prices. "A basic package sold by Indian software vendors costs as little as Rs 30,000-40,000. For a largish company with ERP, without the complexity of a Hindustan Lever, the warehouse management module in ERP itself will do," says Prabhakar Shetty, principal consultant, Satyam Computers.

More complex solutions cost over Rs 1 crore and take 15-30 months to implement. A smallish project can go live in 3-6 months.

It is early days for WMS in India, but global experience suggests you could recoup your investments within two years. ■

FIVE KEY SUPPLY CHAIN TRENDS

1. Order to cash: No longer are companies looking at order delivery as the end of the fulfillment cycle. It is being extended to freight payment and cash collection from the customer. The focus is now on cash settlement.

2. Collaboration with key suppliers: This trend has been around for some time, but now it has a new catalyst. With increasing emphasis on speed, companies are seeking ways to increase their flexibility of response. So real collaborative work with suppliers is beginning to happen.

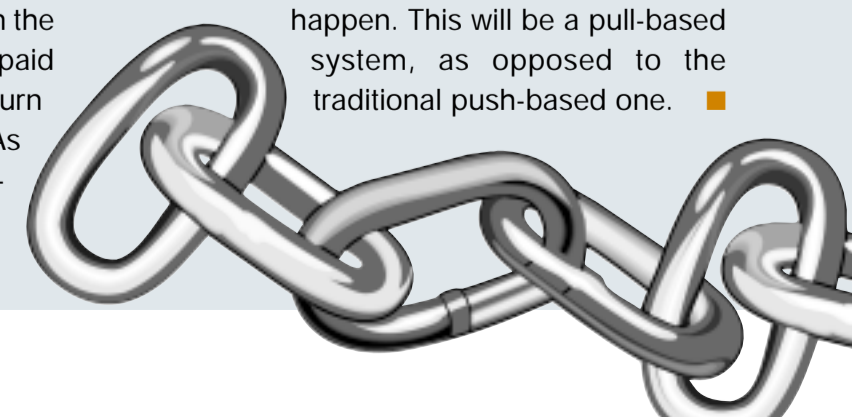
3. Services and spare-parts management:

As costs get squeezed out of direct supply chains, focus will shift to efficiency in after-sales services and spare-parts inventory management. There will be greater integration between production operations and spare-parts planning.

4. Supplier-funded inventory: It started in the FMCG industry—with the company getting paid by the customer immediately, but it in turn delaying the payments to the suppliers. As distribution, warehousing and transportation processes become more efficient, companies in other sectors will also derive

benefits out of 'negative' working capital.

5. Event-driven planning: Forecasting is out, postponement is in. This means rejigging the entire supply chain, including the factory, so that it can respond to demand changes as they happen. This will be a pull-based system, as opposed to the traditional push-based one. ■



Retail gets it Right

Pantaloons and Shoppers' Stop find a secret code to sustainable growth. It spells P, V, S and I

After eight years of operation, Pantaloons Retail was sitting on just Rs 49 crore in sales in 1998-99. Then something happened. Between 1999 and 2003, its turnover shot up to Rs 441 crore. In the next two years, the figure is expected to go up even further, and touch Rs 1,000 crore.

Three years ago, departmental store pioneer and market leader, Shoppers' Stop, was in deep trouble. Losses were mounting (Rs 22 crore in FY01), and operational costs were high. Then last year, things suddenly turned around, resulting in a net profit of Rs 10 crore. Now the pace of expansion is quickening – the company will add 27 more stores over the next two years.

Something has fallen into place for these two fashion departmental store chains. Says Anshuman Singh, Head, Supply Chain Management & Logistics, Pantaloons Retail: "The key in retail is to fully align the supply chain to the demand chain. The customer – the final consumer – is not willing to wait."

It is this alignment that the management teams at Pantaloons and Shoppers' Stop have worked hard to get right in the last two years. What they have got as a result is a responsive supply chain, which has meant several things. Stock levels for Shoppers' Stop have been cut by more than half – from 4-5 weeks to 2 weeks now. Pantaloons has improved its on-time deliveries from an abysmal 33% to 75%, and reduced its mark-downs from 15% to 5%.

A few key elements drive the responsive supply chain the two companies have fashioned.

Postponement: What quantities of stocks to order from the factory or the warehouse has always been the tricky part. The tradition so far has been to use variations of a forecasting-led model, with disappointing results in matching demand with supply.

Both Shoppers' Stop and Pantaloons have deployed a software tool, Automatic Replenishment System (ARS), that tracks stock levels in each store and triggers replenishment from the warehouse based on current offtakes. This way the stores don't have to worry about excess



ANSHUMAN SINGH Head, Supply Chain Management & Logistics, Pantaloons Retail

"The key in retail is to fully align the supply chain to the demand chain."

inventory. The ARS acts as a real-time link that controls stocks movement from the warehouse to the stores.

Visibility: Pantaloons found that turnaround time at its warehouses was between 2 to 8 days. Only if the position of each stock is known could the processing time

at the warehouse be reduced. The situation for Shoppers' Stop was no different.

Both have, therefore, implemented a Warehouse Management System (WMS) – a software which gives full visibility of its stocks in the warehouse. It shows the stocks position in complete detail – down to the slot, rack, and aisle where it is kept. The moment the ARS triggers a replenishment, the warehouse can process the request in real-time. "The quantity allocated by the merchandising team is always dispatched from the warehouse without any variance," says Devadas Nair, Senior Manager, Logistics, Shoppers' Stop.

Speed: At Shoppers' Stop, replenishment of stocks from the warehouse happens on a daily basis. "Stocks come directly to the shopfloor from the warehouse. Before 10.30 AM every day, before the first customer walks in, our pre-retail team puts up the fresh stocks on shelves," says Nair.

Pantaloons has used another innovation. For items to be hung on racks (trousers, suits etc), it has specially fabricated racks with trolleys. These racks, with displayed items, are wheeled into the trucks, and wheeled out to the display shelves directly. "Other innovations like developing an inner pack bar code label – it gives details of pieces inside a carton without opening it – have also given speed to our processes," says Anshuman Singh.

Integration: Pantaloons has integrated backward – it is the only departmental store chain that has its own garment

manufacturing units for tops and bottoms. In other categories, the number of vendors have been rationalised, from 400 to 120 now. Shoppers' Stop has consolidated deliveries from its four warehouses to its 14 stores through a single transporter. Going forward, it wants to similarly integrate deliveries from its 350-plus vendors. "3PL companies now have the capability to provide services that will facilitate integration more rapidly" says Jagdeep Luthra, Vice President, Safexpress.

Pantaloons and Shoppers' Stop are beginning to enjoy the sweet notes of a well-orchestrated supply chain. ■

–SHREYA R

At the recently held Images Fashion Forum 2004 in New Delhi, Safexpress announced the launch of Wrinkle Free Logistics, a first-of-its-kind SCM solution for the apparel industry which would take



care of the industry's logistics and distribution needs.

This should be a big relief to apparel makers who are bogged down by the hassle of managing very large SKUs and have to deal with

unpredictable returns (of unsold merchandise).

The Wrinkle Free solution includes Safexpress taking responsibility for delivering and replenishing merchandise directly to retailers, thus eliminating shortage scenar-

ios. The service includes bar coding and warehouse management, quality checks, and customized carriage.

This apparel-specific solution from Safexpress could help drive logistics-related

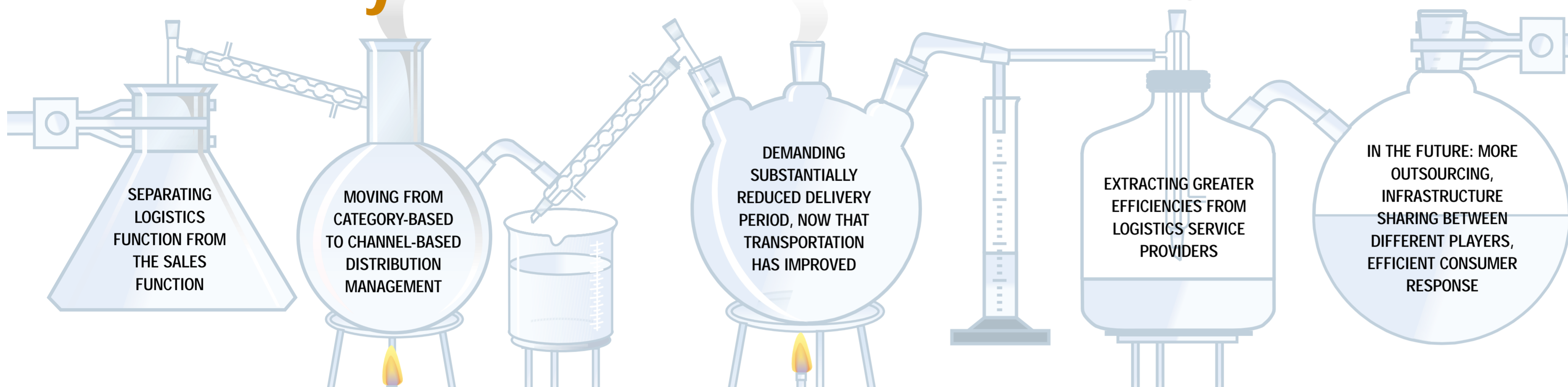
operational efficiencies for the industry. Launched at the high-profile industry forum (Safexpress was a key spon-



sor of Images Fashion Forum 2004), it was received enthusiastically by industry leaders.

Three Ways to Shed Costs

As margins shrink, FMCG players are experimenting with new logistics solutions



Efficient Consumer Response

The biggest supply chain management tool to hit FMCG businesses worldwide, ECR (Efficient Consumer Response), should be soon making its way to India. It is defined as the realization of a simple, fast and consumer-driven system, in which all links of the logistics chain work together, in order to satisfy consumer needs at lowest possible cost.

ECR begins by putting item codes on SKUs. Once these are in place, their movement can be tracked in real-time across the chain, which must be wired up, linking different participants.

Thus ECR allows all the participants complete visibility into what's selling where and thus help in stocking and replenishment. Proponents of ECR claim it lowers inventory levels and stock outs by a staggering 50%.

Apart from various enabling technologies, industry level partnership is the key to deploying ECR in a meaningful way since it involves creating common standards and platforms for data interchange.

VIKAS KAUL

Hindustan Lever has this beautifully done book with inspiring stories and vivid pictures of elephants and boats delivering consignments to far-flung places. It has a feel of an enormous task being attacked with missionary zeal, backed by a belief that it's the "right thing" to do. The company prides itself on its massive distribution reach—over a million outlets.

For others in the FMCG business, HLL has been the company to emulate, and beat. But after fighting Levers, as it is popularly known, for an entire life, some of its fiercest competitors such as Godrej and Johnson & Johnson (J&J) are joining ranks.

These are tough times for FMCG players. Hindustan Levers, the bellwether of the FMCG industry, saw its topline shrink by 7% in year 2002-03. Stock-outs for the industry, at almost 25%, are muzzling profits. Managing returns has been just as hard and inventory obsolescence continues.

The last few years saw big players wiring up Clearing & Forwarding Agents (C&FA), stockists and distributors in search of operational efficiencies. The idea was if the information flows could be speeded up, the rest would follow. All this has helped. Inventory levels have come down to 7-15 days from 21-30 days two years earlier. But inefficiencies in the system abound, response times are way too high.

So the industry has set out to conquer the next frontier:

logistics. All sorts of experiments are taking place—sharing of infrastructure, switch to channel-based distribution management, policies to extract more out of third-party logistics service providers. Objective: to cut stock-outs and improve response times.

De-linking logistics with sales

Almost all FMCG companies have established a logistics department. Logistics was so far seen as an adjunct to the sales division. Now companies are taking away the decision from its sales teams as to how stocks should move. "Sales would handle everything—tax issues, stocking, movement of goods—they would do everything but selling," says Rakesh Kumar, Value Chain Director, India & South Asia, Gillette India.

Until 2001, this was the case at Gillette India also but now logistics functions independently of sales. In Hindustan Lever too, the sales force merely books orders from the channel. The rest is decided by its logistics managers. Marico has appointed separate managers for primary distribution (between the factory and the C&FA) as well as secondary distribution (from stockists to retailers).

This is a radical departure from the past, where for all practical purposes, the sales force called the shots, often pumping excess stocks into the channel. Under pressure to sell, managers would launch promotions that would play into the hands of distributors and wholesalers who then sold to retailers at discounted prices.

"The industry is shifting from a push-led distribution to a pull system, where forecasting is driven by what the last stop in the chain—the retailer—wants," says Advait Bakshi,

an industry veteran who has worked in companies such as Kellogg's and Cadbury.

Channel-based distribution

A more radical shift companies are experimenting with is a move towards channel-based distribution management. So far, all distribution strategies have been worked out according to product categories—detergents, cosmetics, personal care. Now, the distribution universe is being segmented by the type of retailer.

Key Accounts: These are large grocery chains such as Subhiksha and Foodworld.

A-class Outlets: These are large neighbourhood stores with sales of over Rs 30,000 per month.

B-Class & Kiosks: The smaller shops and the kirana shops. These are serviced through the existing set up.

In key accounts, companies such as HLL try to negotiate for up to 50% of total shelf space for their products. For this, the retailer gets an additional 3-5% of sales. In return, a person is dedicated to service the client, with stocks replenished three times a week. Gillette also has distributors specially appointed to deal with these outlets.

In A-class outlets, HLL is experimenting with the idea of servicing them through a sort of super-stockist, C&FA and stockist merged into one. This way, servicing and stocking practices, tailored to the requirements of these outlets, can be controlled better.

A large retail store in Goa had monthly sales of Rs 9 lakh. Inventory levels were high, around 27 days. Analysis of its inventory showed only 500 out of the 6,000 SKUs stocked were fast-moving, accounting for

75% of sales. It set different stocking norms for the two categories, and negotiated for faster replenishment with the distributors for the fast-moving items. In nine months, sales shot up to Rs 21 lakh a month and inventory levels were down to 13 days.

Kumar of Gillette feels such segmentation makes sense because the drivers for each channel are different. In departmental stores, consumers can shop at leisure, pick up the stuff and read about the product. Optimising shelf-space is the key. In large outlets, the consumer is attracted by the pull created by advertising. For the smallest outlets, trust and saleability are the most important.

The emergence of large store chains (Foodworld, Subhiksha etc), which today account for 8-12% of a company's sales, is making companies shift towards a channel-based approach. But not every FMCG major has altered its approach.

Marico, for instance, has worked out that servicing key accounts and large outlets only requires more frequent servicing and higher discounting norms. Whether this

strategy will hold as its key accounts volumes grow remains to be seen. In the next few years, the share of key account sales is expected to go up to 25% of the total sales of FMCG companies.

Professionalising Outsourcing

Although much of distribution is outsourced—stocking is done by the C&FA and the distributors who outsource transportation to trucking firms—the performance metrics have not been in place. Now, as companies seek ways to make their distribution chain more responsive, delivery norms are being put in place.

Gillette used to give 10-day credit to its distributors. But if the distributor got stocks on the 9th day of the delivery cycle, he hardly got any credit. Gillette put a deterrent and remuneration scheme for its C&FAs: deliver within a specified time and get a bonus or else there is a penalty. The move, inspired by Dominos Pizza delivery norms (if delivery is later than 30 minutes, the customer gets a discount) is called Dominos Delivery.

For high-value items such as specialty batteries where stocking volumes are lower but value and margins are higher, Gillette uses the services of a leading logistics service provider to switch inventory between a higher demand to a lower demand area.

"A combination of such steps has improved the accuracy of on-time shipment from 70% to 90% while transit times have reduced by 10%," says Kumar. Result: Inventory in the system has gone down by around 25%.

Just over a year back, Marico operated on a monthly planning cycle. It has now cut it down to 10 days. Every 10th day, the plan is reviewed. To make sure physical distribution keeps pace with planning cycles, Marico has adopted ven-



PRIORITY

In the last issue, we reported how vendor-managed inventory as a practice was gaining ground, especially in the automotive industry. The next stage of evolution on that path leads to collabora-



tion, planning, forecasting and replenishment (CPFR). It is an open, neutral, business process standard for value chain partners to coordinate on purchasing, production planning,

demand forecasting, and inventory management. It is about openly sharing information so that there is full visibility in the demand and supply chain. CPFR is an ambitious idea. Wal-Mart pioneered it in

1996 with Warner Lambert, but it is still very early days. Only about 500 companies are implementing it globally, and even they are all at pilot stages. CPFR isn't very costly (it runs on



some decision support technology tools). What is required, however, is a huge mindset change in senior management to move the corporate culture towards collaboration.

Lean Mean Machine

Toyota Motor Company, the firm that changed the world of manufacturing, and with it introduced the idea of just-in-time (JIT)



Its manufacturing practices have spawned numerous management tomes including *The Machine that Changed the World*, not to mention several consulting firms. A whole lot of manufacturing vocabulary—lean production, Kanban, just-in-time, Kaizen—owes its origin to this company.

In fact, so well-made are its cars that one Englishman deliberately banged his car to destroy it because his wife—perfectly happy with their trouble-free decade-old car—wouldn't let him buy a new one.

Not surprisingly, this \$126 billion carmaker has toppled the mighty Ford from No 2 slot and is now gunning for General Motors, currently the world's largest automaker.

Yes...it is the Toyota Motor Company. And the car the Englishman had lost his wits with? Toyota Corolla—the single biggest selling model in automobile history.

While lessons from Dell or Wal-Mart (featured in these pages earlier) have been hard to put to practice, numerous firms have seen their productivity shoot up following the famed Toyota Production System or TPS. A large auto-parts manufacturer, Freudenberg-NOK, credits TPS with reducing its defect rate from 2,000 parts per million to less than 50, cutting quality control costs by 60%, slashing work-in-process inventory by 80%, and improving labor productivity by 25% annually.

Toyota's lean dose is a mix of HR philosophy (such as the oft-quoted example of every worker having the power to stop the assembly line), and supply chain management, the latter inspired by American supermarkets!

Ironically, the idea of making cars struck Toyota's founder Kiichiro Toyoda when he toured the Ford plant. And many of the ideas that led Taiichi Ohno to create the famed TPS came from Henry Ford!

Ohno, credited with establishing TPS, was impressed by stock replenishments practices in supermarkets (in the US). If grocery could be delivered to the mart as soon as it got sold, then why should it be any different in manufacturing, he thought.

Translated into auto-speak, it meant keeping just enough stock of components to keep the assembly line running.

Thus was born the practice of delivering components to the assembly line as and when they were needed or just in time (JIT). From being a quarterly ritual, production planning became a weekly exercise. Despite its huge operations—6.78 million cars in 2002-03, Toyota manages to turn inventory 13-plus times in a year.

Another mindset he attacked was the adversarial relationship most OEMs (carmakers) had with their suppliers. The established thinking was that getting all of them to fight for business would fetch the lowest price. They ignored the cost of refereeing these fights.

Quality suffered too. Much of quality assurance had to be corrective in nature. And many companies, particularly the American ones, were still making at least half of the components in-house in the 1980s.

Toyota chose to partner with vendors. It set cost targets, and suppliers were identified after rigorous quality verification. Much of Toyota's quality control, therefore, was preventive in nature. It chose the vendor who would deliver quality at prices set by Toyota. This was coupled with aggressive outsourcing. The result: Toyota won No 1 spot in 9 out of 13 categories it entered in the highly-respected J D Power consumer survey recently.

Today, these practices are more or less the norm in the industry.

Yet, catching up with Toyota has been a losing battle, at least for American biggies. A study shows that the

Japanese carmaker makes almost twice the number of cars per employee per year (25.59) compared with its American rivals.

It's not hard to see why. Toyota has been overturning practices in the smallest of areas. While other automakers get their vendors to deliver the components, Toyota does it on its own. The company usually keeps its supplier network in vicinity. This reduces the cost as Toyota, by virtue of having to pick up multiple components from various vendors, gets to use its transportation assets fully.

Besides, since the sequencing of collection is as per requirement, there is little need to sort components at the plant for assembly—the component collection mirrors assembly line needs.

On the shop floor too, simple but effective methods abound. At one engine plant, a red traffic cone is used to indicate whether material is currently needed or not.

If Toyota had an Achilles heel, it was IT. It was the last of the big automakers to web-enable its vendors. But then it moved fast enough to become the first to create an online exchange for after-market parts.

Combine this with the shortest product development cycles in the industry as well as the ability to churn out more models per square feet of production capacity than anybody else and Toyota's march to No 1 status has an air of inevitability about it.

—VIKAS KAUL

CEO Agenda

Must-know tips for business leaders in boom times

The leading indicators we featured in these pages in the previous issue have held true. As the new financial year begins, the feel-good factor appears to be the dominant theme. In such times, what must CEOs do? What else but keep the good times rolling!

No easy task when market expectations are sky-high and the stakeholders are pushing competing agendas. Some want to cash in on the immediate opportunities, some believe this is the right time to make new strategic forays.

The CEOs' agenda, however, shouldn't undergo dramatic changes just as the mood of the economy does. The CEO must drive growth but without surrendering vision to market pressures.

Some clues on how he can do that.

According to General Motors Chairman and CEO, Rick Wagoner, business leaders must take responsibility for driving growth. He sites what GM did post September 11 when automobile sales came to a screeching halt.

GM could either accept the inevitable, shut plants, lay off employees... or deal with it head-on. Wagoner launched a "Keep America Rolling" campaign which offered auto financing with zero-percent interest.

It was a big risk, but the initiative helped GM improve its market share for two successive years for the first time in 25 years. Former Vice Chairman of the Federal Reserve Alan Binder described the initiative as a "privatized economic stimulus policy—wonderfully timed, well-targeted and effective."

The other way of pursuing growth is by exploring "strategic adjacencies", advises Chris Zook, head, Global Strategy Practice, Bain & Company. Although most diversifications come under the adjacencies umbrella—3 out of 4 such efforts fail. Those that succeed bring big benefits.

How do you figure out what you are venturing into is really adjacent? According to Zook, it is not a matter of intuition. CEOs can measure the "number of steps from the core" by looking at the key areas where an adjacency overlaps with the core, such as target customers, the

channel, the infrastructure, a key brand or shared technology. Some CEOs will invest only in adjacencies that are one step away from the core, and restrict their companies to moves that vary only a single parameter at a time—geography, for instance, or channels.

And if you can repeat your success, nothing like it. Take Nike and Reebok. Both made sports shoes. Nike was much smaller than Reebok over a decade ago. Today, Reebok's market value is one-eighth of Nike's.

How? Nike figured out how to manage adjacency moves, refined it and applied it to one sport after another—from basketball to volleyball to tennis and golf. The formula also involved a product sequence—shoes to soft goods to hard goods—and it had an overlay of celebrity endorsements and brand building.

Good times bring their own pressures: to satisfy financial analysts and company boards who start wondering why the company isn't growing as fast as the fastest or why it doesn't have the market capitalization of the richest.

Former CEO, Medtronic, Bill George suggests not yielding to such pressures. They come in the way of building strong, resilient companies. Focusing on "maximizing shareholder value" is not the be-all and end-all of management. It never creates lasting value for the long-term, he writes (in a column in the *Chief Executive* magazine). It doesn't motivate employees to provide customers with innovative products and superior service.

So which shareholders should you listen to? He says most vocal of them are the speculators, the hedge funds and the day-traders.

Should you listen to them? Or should you heed the securities analysts, who aren't shareholders at all and make most of their money generating stories to create trades?

George's prescription: Pursue your mission with passion. Talk to your employees and customers as much as you can. Stick to your value system whatever be the temptation.

Business Leaders must take responsibility for driving growth

Explore "strategic adjacencies" for diversification

Do what you believe in, not what the analysts want

Putting New Ideas to Work

There's no one-time strategy to thrive in business. You need to continuously innovate to stay ahead of the pack. Unless you are always on the edge, never self-satisfied, you cannot challenge your team for continuous improvement. And innovation is the source of mutation in the DNA of a company that is essential to survival in a changing environment. How do you inspire innovation in your business? Management consultant Peter Duncan talks about all this.

<http://www.leadervalues.com/Themes/detail2.asp?Category=Themes&Section=Innovation&Subject=How%20to%20Put%20Yourself%20Out%20of%20Business>

CEOs expending their energies on improving efficiency and performance often end up as tough managers, and not as leaders. Along with putting pressures on employees to perform, they should be starting bold, new initiatives (some of which could even fail) to inspire and empower creative outlook. Read about the *Lateral Leader* who can create a climate of creativity by inspiring people to have the confidence to take risks and teach them techniques that help think creatively.

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

Not all innovations pay high dividends. Some could actually be big blunders that cannot be undone. So, should you castigate the person who committed the mistake? Not at all. How do you deal with a staff member who has gone wrong? Yamaha Motor Company held an exhibition on products that hadn't worked! Management consultant Byron Kalies says valuing your mistakes could be the right thing to do. "If you really, truly want your staff to be creative, motivated and happy, tell them you want them to make mistakes."

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

Sometimes you may want to clip innovative ideas brewing in your organisation. If you want to crush creativity in your organisation and eliminate all the unnecessary bother of innovation, here are ten steps that are guaranteed to succeed!

<http://www.innovationtools.com/Articles/EnterpriseDetails.asp?a=119>



What differentiates a really effective supply chain from the rest? Three things, according to the *Strategy & Business* journal.

The policies should be in place. Supply chain is all



about dealing with functional conflicts: lots of stock to maximise revenue or steady-state production with long lead times to optimise capacity utilisation. Trade-offs need to be

made continuously. *Functional teams have conflicting interests.* If inventory builds up, should the plant be shut down, or should one offer discounts? A platform to resolve such choices is essential.

Collaborative planning, forecasting and replenishment tools also help. *Cross-functional teams are mandatory.* The organisation needs a process orientation that cuts across func-



tions. ERP tools are the black boxes expected to do the integration but they create a 'garbage in, garbage out' result. It needs to be aided through a team that has transactional controls.

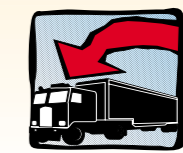
A manufacturing-marketing company spends anywhere between 5-35% of sales on logistics, spread across a number of processes.



Purchasing, transportation and inventory management. ● Manufacturing: production planning, machine scheduling. ● Outbound logistics: Order booking process, distribu-

tion management, transportation and warehouse management systems. Outsourcing these could make supply chain more responsive and cost-efficient. In India, outsourcing in transportation has been

widely adopted, now warehouse management outsourcing is also gaining traction. However, inventory management, order-booking and distribution, is yet to be outsourced to a third-



party specialist in a big way. Without that, the mega logistics challenge to reduce logistics costs from about 13% of GDP to international norms of 7-9% of GDP—will be a tough one to tackle.

Losing Cool Over Inventory

Blue Star has stopped dealers from directly booking orders to factory. It is proving effective!

It is an interesting paradox. Last year, senior executives at Blue Star Limited approved a new distribution model that would react to the changing demand patterns faster than the existing one. What they did was stop direct bookings from the dealers. Dealers could now place their orders only through Blue Star's sales team.

One would imagine that a factory picking orders directly from the market would make for a dynamic and responsive supply chain. But here, the linkages between the two were being severed.

In a sense, what prompted the Blue Star team to take this step was also a paradox: direct linkages between manufacturing and the sales points was creating the classic 'bull-whip effect'. Demand fluctuations were getting magnified as it moved up the supply chain, leading to excess production and inventory. By 2002, BlueStar's pipeline was choking with almost a month's costly inventory of airconditioners. Operating profits fell from 8.7% in 2000 to 6.1% in 2003.

All this while the market for airconditioners was becoming fiercely competitive. With new players like LG and Samsung, the choices had proliferated while prices kept coming down. In such a situation, to win over a customer, you had to have the right product, at the right place, at the right time. Blue Star's supply chain management wasn't up to this task.

The answer Blue Star found is brilliant—and daring. "We have switched from a forecasting-led model to a postponement-led model," says Abhijit Chaudhuri, Senior GM, Materials & Logistics, Blue Star. What this really means is that instead of making the product and sending the stocks onwards, the system has been reconfigured now—to wait, sense the actual demand, and then release stocks accordingly.

It is a daring approach, because a delay in delivery to the dealer or customer would

mean lost sale, especially during peak seasons, and especially when you are up against aggressive competitors.

And yet the solution is brilliant in its simplicity. So far, stocks from the factory were being sent to the dealers directly. What Blue Star has done now is create a 'super mother warehouse' at the factory itself. This is the point where all the manufactured airconditioners are held. It supplies to the four mother warehouses in Mumbai, Delhi, Kolkata and Chennai, all of which hold identical stocks. These, in turn, release stocks to the 24 branch warehouses across the country.

The important point is that stocks from mother warehouse to the branch warehouse are sent only against an actual booking from the dealer. So except for holding some stocks of fast moving SKUs, these local warehouses are just pass-through points in the system. (The maximum distance between the local and the mother warehouse is less than 400 kilometers, so deliveries can be done in a day.)

Having put this hub-and-spoke system in place, the key challenge then was to work out a throughput rate across the chain, and the rules on which it would operate. Blue Star has implemented a dispatch plan that works on a four-week basis—one week fixed and three weeks rolling. The fun begins now.

Suppose, in one market, model A is stocked in warehouse 1. But the latest sales report shows model B is selling fast, which is available in plenty in warehouse 2. What the commercial manager—Blue Star's chief logistics officer of sorts—does is switch the *allotment* of model B stocks from warehouse 2 to warehouse 1 in week 3. This is easily done because the physical stock for week 3 is still sitting in the mother warehouse. So the dispatch plan for week 3 can be changed easily.

In this postponed dispatch system, you can move your stocks from a region of lower demand to higher demand quickly, and cost-effectively. So far, Blue Star has been able to halve the response time—from dealer's requisitioning to delivery. How this system copes during the peak season will be tested for the first time this summer. Last year, Blue Star sold 70,000 units of nearly 50 different types.

"From a push to a pull system, our sales team also has to make that transition. So far, they have sold on the basis of actual availability of stocks in their warehouse. When they don't see the stock, they will think, 'Can I really commit to the dealer,'" says Sanjay Jain, Deputy GM, Customer Service, Blue Star.

The challenge now is to ensure a seamless flow of actual stocks. "Going forward, we want to outsource primary, secondary and tertiary movement of goods. We will focus on planning and integration," says Abhijit Chaudhuri. Warehousing management has already been outsourced.

The next one year is going to be crucial, as Blue Star sets its innovative ideas into practice.

—NITIN SRIVASTAVA



JAGDEEP LUTHRA
Vice-President, Safexpress Private Limited

Q. We are a consumer electronics company with several manufacturing units across the country. To reach the retail points we move the products from our plant to five regional warehouses from where they are shipped to depots and onward to distributors. How can we reduce our inventory levels, currently at 45 days?

A. It is apparent that you are following a time-tested system, with which the organization is comfortable but this, as stated by you has come at the cost of higher inventories. Though this

would require a detailed mapping for a complete solution, the following changes should help:

- Revamp the supply chain by moving products directly to the depots, by-passing the regional warehouses. This would mean a faster chain with lower freight and Inventory holding costs.
- Next, trigger the orders from the distributor level directly to regional warehouses and get prepared for sending staggered supplies directly from the plants to the distributors, by-passing the depots. This would reduce the cycle further.
- Then club and consolidate in transit so that if

the distributor places an order for five products from five plants and in different quantities, the shipments should be orchestrated such that it reaches the distributor almost the same day. Your service provider should do a reverse calculation and move shipments based upon different transit times to ensure arrival the same day.

- This way, the distributor gets to consolidate while in transit without using intermediate warehouses and your products are delivered near consumption points with lower inventory holding and freight cost.

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.