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By mastering logistics, it took on the regional brands successfully



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The Collaborative Enterprise

How companies can create more value by working with other players

VIKAS KAUL

If you were to walk into the business books section in a bookstore, you are unlikely to escape titles that predict the 'end' of everything—*The End of Strategy*, *The End of Marketing*, *Managing Chaos*, *Complexity in Business* and so on. The world has changed—for better, if you are a consumer, but perhaps, for worse, if you are a CEO.

Much of the difficulty has to do with increasing volatility in the environment. A little more surfing in the same bookstore will give you an idea on what to do about it. There are books that talk of winning by collaborating—*Collaborative Enterprise*, *Collaborative Advantage*, *The Extended Enterprise*...

These books make a simple point: As volatility in the busi-

ness environment increases, companies that find newer and better ways to collaborate with their partners will have a better chance of surviving—and thriving. This is so because the ability to respond to change is often determined by the behaviour of the network rather than any one player in the network. If your supplier is not geared for quick changes in production schedules, there is only so much flexibility you can build into your systems.

Companies that understand this principle are able to build value consistently today. They can be defined as collaborative enterprises, which work with their suppliers, customers and service providers to create new value propositions continuously. In the examples chosen in this story, you will find instances of how such collaborative enterprises function.



PAWAN JAIN
Chairman & MD, Safexpress Pvt. Ltd.

AN ERA OF COALITIONS

We all know how Indian politics has changed in the last decade: those who want to be in power today have 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 how to create networks of partners.

The new mantra for corporate success, it seems, is a simple one: build upon your core strengths, and partner with others who can do the rest of the work better than you. Your IT services provider, your Logistics provider, they are all your partners and if you want to make the best use of them, you will need to see them differently. Conventional wisdom

has it that you get the best out of your vendors by pitting one against the other. That is only partly true. New wisdom says that you get the best out of your vendors by partnering them. Not all vendors will be ready to see themselves as their customer's long-term partners, with common interests. So you need to choose them wisely. Apart from the cover story on collaborative enterprises, this issue has interesting logistics

experiences of two outstanding companies (IKEA and ITC), the supply chain dynamics of a complex industry (footwear), the nuances of handling fragile stocks and management learnings from wars. As you can see, in response to your demands, we have been enlarging the ambit of this magazine. I hope you will find it useful.

Pawan Jain

FROM EFFICIENCY TO EFFECTIVENESS—The Collaborative Roadmap

Manufacturing Efficiency

(1960s-1980s): The first business collaboration started with auto component manufacturing outsourcing. Japanese car-makers pioneered vendor-OEM collaboration, to manufacture high quality auto parts at lower costs. By 1980s, suppliers (in auto and semiconductor industry) grew big, and developed substantial R&D capability.



Business Efficiency

(1990s): With collaboration framework for product design and manufacturing firmly established, attention shifted to other business processes. Information sharing emerged as the key enabler of business process efficiency. Suppliers, vendors and partners were wired using new IT tools (EDI, ERP, SCM, Web Services.)



Business Effectiveness

(2000s): In an increasingly turbulent business environment, focus has shifted from cost optimization to value creation. Collaboration efforts also focus more towards finding newer ways of making the value chain grow. A new set of collaborators has arrived on the scene—IT and logistics service providers. The first signs of collaborating with the customer are also visible now.



Enhancing the product proposition: When LG wanted to enter the premium segment—with plasma TVs and projection systems—it faced a peculiar limitation. While its large screen TVs (projection TVs and plasma TVs) had the features to hold their own in a high-performance segment, LG had little credibility in selling high-end audio and home theatre systems.

Niche players like Bose, Onkyo and B&W dominate this market. Also, buyers in this segment prefer to put together a system choosing each component (A/V receiver, speakers, DVD players, TVs) from the best-of-breed players—so selling a complete home theater system does not work. So LG has allied itself with two highly respected makers of audio systems, Onkyo and B&W.

It has created a premium retail chain, X-Canvas Studio, through which all three brands are sold. Advertising and promotions are done together by the three brands. Also, customers buying a home theatre system from these three makers deal with a single interface for after-sales service.

LG is targeting Rs 100-crore sales through X-Canvas Studio this year—a task that would have been impossible to achieve if LG were to do it alone.

Regaining cost competitiveness: A study of the auto industry by Jeffrey H Dyer, author of *Collaborative Advantage*, shows companies that collaborate with their suppliers (Toyota, Chrysler) consistently outperformed companies (GM, Ford) that got their suppliers to compete. Bajaj Auto used this principle well as it entered the motorbikes market, where it faced the market leader and price warrior, Hero Honda.

Bajaj launched Boxer—which was Rs 7,000-8,000 cheaper than the bikes of Hero Honda. To achieve such a low price, Bajaj had to rework the way it dealt with its suppliers. It drastically cut down the number of suppliers, from 855 to 200. Instead of getting suppliers to

compete with each other for business, it started working with a single supplier for each component. Bajaj gave volumes to its suppliers that helped the latter cut costs. Result: Components, such as the front suspension fork which cost Rs 2,400, now costs Rs 1,400.

Today, Boxer is one of the lowest cost bikes in the world. Last year, the company sold nearly a million bikes, putting it in the second spot behind Hero Honda.

Reinvigorating growth: In the FMCG industry, the key to profitability lies in squeezing out costs from the supply chain, and managing demand effectively. But with a million-strong retail universe, any significant changes are beyond the scope of one single company. So last year, around 20 companies such as HLL, P&G, Godrej, Marico, Nestle, Foodworld and some logistics solutions providers came together to launch an Efficient Consumer Response (ECR) initiative. ECR aims to streamline the supply chain and serve consumers better and faster—at lower costs. Companies will share their supply chain infrastructure so that real-time information can be exchanged between suppliers, manufacturers, logistics companies and distributors, without adding to costs. So far, companies have had to invest in setting up their own warehouses or paying Clearing & Forwarding Agents who maintain these warehouses but add no value. Abroad, hardly any company invests in warehousing infrastructure.

Right now, pilots are on to test the feasibility of various other ideas like shared warehousing that will make up this ECR system. In countries like the US, where ECR has been implemented, inventory levels and stock-outs have come down by a staggering 50%!

In each of the above cases, companies have found new possibilities for creating value. And this has become possible only through collaborative thinking—by aligning with partners in their ecosystem. ■

S & OP

A key characteristic of a collaborative environment is transparency of information so that everyone has a fair chance to know, and appropriately deal with available information. The Sales and Operations Planning (S&OP) solution for supply chain management by Manugistics creates a collaborative environment for people across various departments.

The solution establishes total inventory levels and manufacturing outputs required to fulfill customer orders and meet planned demand. Using it, supply and demand chains can be viewed through customized aspects—by product, geography, channels,



etc. It automatically detects mismatches between demand and supply.

The price of the S&OP solution ranges from half a million to a million dollars depending on the size of operations and business complexity. Implementation time is about 3-6 months and the IT support required is mainly an IT person who would facilitate data cleansing, data collection and data integration to the host system.

Ashish Pujari, Vice President, South East Asia, Sales & Operations, Manugistics says, “S&OP gives a good handle on planning demand and inventory. It essentially benefits the customer at four levels: right time, right place, right product and right price.”

Reckitt Benckiser, Bausch & Lomb and GlaxoSmithKline are a few companies that have implemented this solution. Pujari says that companies have witnessed a dramatic improvement—of about 30-40%—in their demand forecasting, and inventory reduction of 20-30% across their supply chain. ■

MEASURING SUPPLY CHAIN PERFORMANCE

Align measures with objectives: Companies have many supply chain aims, which involve trade-offs—the most basic one is between efficiency and flexibility. For optimization, keep in mind the market and the product. Innovative products need flexible chains to handle uncertain demand, mature products need efficient chains to keep costs low. Choose informative metrics: Metrics based on time, cost, efficiency and effective-

ness are crucial. *Time* can be measured based on fulfillment and replenishment lead-time, cash-to-cash time or inspections per hour. *Cost* metrics are based on labour cost per unit, maintenance cost per machine etc. Indirect costs should be converted to direct costs (useful in managing supply chains) through activity-based costing. *Efficiency* measured should reflect how effectively inventory (days-on-hand and time-in-process), capacity (work

performed per unit) and capital (RoI, RoE, cash turnover ratio) are utilized in the chain. Measuring *effectiveness* is important—it speaks about the result. Customer retention is the best means of measuring this metric.



How ITC ate competition's lunch

By mastering logistics, ITC took on the regional brands and created the largest *atta* brand

In just one-and-a-half years, the foods division of ITC has achieved what HLL with all its retail might on the grocery shelves couldn't—topple Shaktibhog as the number one *atta* brand in the country. ITC's *Aashirvaad atta*, with monthly sales of around 8,500 tonnes, now leads the pack in the branded *atta* segment.

Considering that three years back, ITC had virtually no presence in the packaged foods business, it is an incredible achievement. The company, which started its foods foray with the modest ambition of exporting ready-to-eat Indian foods overseas, changed gears two-odd years back.

First came the Kitchens of India, the ready-to-eat brand with a range of exquisite Indian cuisine drawn from three of ITC's popular restaurants—the Bukhara, the Dakshin and the Dum Pukht—in 2001. The next year came the real thing—a full and comprehensive assault on the domestic food market with the launch of *Aashirvaad* staples such as *atta* and *dal*. Soon its ambitions expanded into the confectionery segment when ITC bought over Mint-O from Candico. The company is now adding more products such as biscuits and chocolates.

It has been an amazing portfolio build-up for a young foods company because when it comes to foods, regional brands in general have had the better of national brands. There is little differentiation possible at the product level. From a product point of view, the only differentiation is in terms of freshness—a factor that contributes heavily to the consumer's quality perceptions.

So the game is played on two fronts: making sure the products are fresh, and ensuring that they are available—always. Balancing these two opposing requirements is what wins the day. In other words, it requires shorter replenishment cycles. This is where regional players have an advantage given their proximity to the end market.

Says Sinchan Banerjee, Manager, Procurement and Logistics, Foods Division, ITC Ltd: "Hygiene is a big issue, you need to keep the transit times as low as possible. You should not be out of stocks but at the same time the stocks should remain fresh. You also have to ensure that stocks past the expiry date do not stay on the shelves." So how did ITC win the day in such a tough market?

Availability: In the beginning, it was about choosing between two different approaches to distribution: a lean or a responsive supply chain. A lean supply chain, with fewer stocks in the pipeline, would mean a better control over product freshness but ITC ran the risk of stock-outs. On the other hand, in a responsive supply chain where it could over-stock to ensure availability, the risk was that if the stocks didn't move in the desired time, freshness would be compromised. "Since we were a new player, we didn't



"Since we were new, we didn't want to lose out on any sales opportunity. Therefore, we opted for a responsive supply chain"

SINCHAN BANERJEE *Manager, Foods Division, ITC Limited*

want to lose out on any sales opportunity. Therefore, we opted to be responsive," says Banerjee.

At the same time, ITC tweaked the system so that freshness was not compromised. The company operates with a maximum inventory of 7-10 days, and keeps some buffer stocks at the distributor level. To ensure against stock-outs, ITC relies on its ability to forecast accurately.

A three-month forecast is generated based on inputs from distributors and the sales team. "Out of this, we treat only the first month forecast as a firm forecast. The remaining two months forecasting is merely indicative and we use it to draw a tentative plan," says Banerjee. This allows for corrections to be made in case of variance.

ITC has a comprehensive MIS system that collects data from manufacturing sites, distributors and partners from over 110 locations on a network of leased lines, ISDN connections, VSATs and even radio links. All this data is aggregated, and the foods division gets detailed sales and stock position on a weekly basis. As a result, while most

FMCG companies operate on a weekly replenishment cycle (for distributors), ITC delivers twice a week.

Freshness: While putting the right quantities in the system is important, there is still a lot that can go wrong with foods. The actual physical condition of the stock needs to be monitored closely. Stale *atta*, or *atta* that acquires a smell from the cargo vessel would be a no-sale. This means monitoring the physical aspects of the supply chain—clean warehouses, clean trucks and retail shelves without outdated stocks.

"There is very little sensitivity in the transportation community about hygiene, which is very important for us. For instance, if a truck that has previously carried fertilizers is used to carry food, the food might get infested," says Banerjee adding, "In case we have even the slightest doubt, we get it washed and fumigated."

The shippers are also held to transit time norms so that the goods are on roads as little time as possible (there are penalties for non-adherence). And when they reach the shelves, the sales team carries regular checks on the expiry dates of the stocks.

Time-definite movement—that is the key to success in foods business. Says Anil Syal, General Manager, Marketing, Safexpress, "It is all about retaining the least inventory on the road and compressing the packaging-to-consumption time to the extent possible." ITC has shown that this is possible, even in a logistically challenging market such as India. ■

—SHIKHA SAROJ

Known to use the knowledge plank for widening logistics and supply chain management

understanding for the industry in general, and some industry verticals specifically, Safexpress has tied up with



apparel and retail industry publisher, Images, to create a novel concept of 'Branding and

Retailing Summit'. It is a platform of sorts for brand owners, retailers, and mall developers to meet, discuss

and brainstorm on issues, problems and the road forward for the industry. The first event of the series, concluded in Kolkata on August 18th, had an illustrious panel of speakers including Harry Friedman, CEO of Friedman

Group (USA); Govind Shrikhande of Shoppers' Stop; Jerold Chagas Pereira of Pyramid; Narayanan of Ebony; Rakesh Biyani of Pantaloon; Sanjay Jhunjhunwala of Turtle amongst others. Anil



Syal of Safexpress also shared his perspective on logistics with the industry veterans. In the next couple of months, the roadshow is going to other cities. Watch out for the action in your city!

ONE SIZE DOES NOT FIT ALL

CHITRA BALASUBRAMANIAM

There was a time when one pair of shoes lasted...well...till it actually wore out. There is a time now when shoes are coordinated with clothes. Fashion dictates style and colour—footwear has become a lifestyle accessory. And this is changing the industry dynamics in significant ways. Says Adarsh Gupta, Executive Director, Liberty Shoes, “With customers becoming fashion conscious, the product life-cycle is getting shorter. Today, it is not more than three months.” This has made the challenges for the industry even more formidable.

There is a rule in the footwear business: unless the shoe fits, there is no sale. So each style of shoe is made in 6-



“With customers becoming fashion conscious, the product life-cycle is getting shorter. Today, it is not more than three months”

ADARSH GUPTA Executive Director, Liberty Shoes

7 sizes. The proliferation of styles has now meant that the larger footwear brands have to manage an average of 2,500 stock-keeping units (SKUs). Given the premium on shelf space, the challenge is to strike a balance between making available all sizes and avoid building up excess inventory.

“In no other industry is there such a parallel. The supply chain should be able to manage this range efficiently and

effectively,” says Vinesh Singh, Vice President, Merchandising, Bata India.

The diagnosis

At a conservative estimate, the footwear industry is valued at about Rs 8,000 crore. It is growing at 15% every year, with the bulk of the market in the mass or mid-price segment (This trend is slated to continue for the next 4-5 years.) Fighting for a slice in this market are homegrown brands like Liberty, Action, Relaxo and Red Tape—and international majors like Bata, Adidas, Reebok and Nike. “The footwear market has around 12 million retailers, out of which nearly 80% are family-owned,” says Vishnu Bhagat, Executive Director, Finance and Operations, Reebok India Company.

Apart from the retail fragmentation, the buying patterns are also a distinctive feature of this business. There are regional disparities. Sales shoot up during Durga Puja in the East while the spike in the North is around Diwali. Gupta says, “Seventy percent of the sales take place in the first three months of the season, the balance 30% is usually cleared through discount sales.”

The other important factor is the freshness of the product. Says K V S Unni, COO of Planet Sports, a lifestyle retail major which operates a chain of 22 self-owned outlets: “There should be freshness in the stock and the store. The merchandise should hold the interest of the customer.”

Given these variations, timely delivery to the retailer assumes tremendous significance. The number of days to squeeze out the maximum sales from a style is fairly limited. Delays in the delivery cycle increase the working capital needs of the manufacturer. The credit period is tabulated from the date of receipt of goods by the party. So if the credit period is 30 days, then a 15-day delivery will translate into a 45-day credit period.

The cumulative impact of all these factors: an inventory pipeline of about three months at the retail end. With style changes happening frequently, clearing end-of-season inventory means discounting price as well as the brand.

The prescription

To begin with, marketers are shifting from a push-based system to a pull-based system. Production schedules have been made reactive to changes in the marketplace. Though forecasts are made 6-8 months in advance, they are reviewed and production schedules are frozen only 15 days in advance.

The distribution system, factory-warehouse-distributor-showrooms/retailers, is working at reducing lead times in the supply of merchandise. This is possible only if information of sales—style-wise, colour-wise and size-wise—is available, at every point. And if the information



“Our reporting systems tell us exactly what is selling and what is not. Replenishments take place strictly on that basis”

VINESH SINGH VP, Merchandising, Bata India

does not flow accurately, there is an inventory build-up of out-of-fashion shoes. It results in blocking of working capital, and takes up premium shelf space.

When there is dead stock of a particular style on the retailers’ shelves, an across-the-board decision is taken whether to offer a reduction sale. Some players recall the stock and dispose it off through ‘sale’ at factory outlets while some use an end-of-the-season reduction sale.

At the other end, tracking offtake levels at the retail points is becoming a key supply chain management priority. Bata has implemented a retail MIS system that uses a mix of online and 15-day reporting for production planning and inventory control. An online system ensures that every sale is reported immediately. In a 15-day reporting cycle, a stock-in-hand statement for every style, colour-wise and size-wise is sent. It gives a clear picture of what has been sold, what is in hand and what needs to be replenished. Says Singh, “The reporting system tells me exactly what is being sold, where, and what is not doing well. Replenishments take place strictly on that basis. [By doing this], we are looking at improving our inventory turnover by at least 20% this year.”

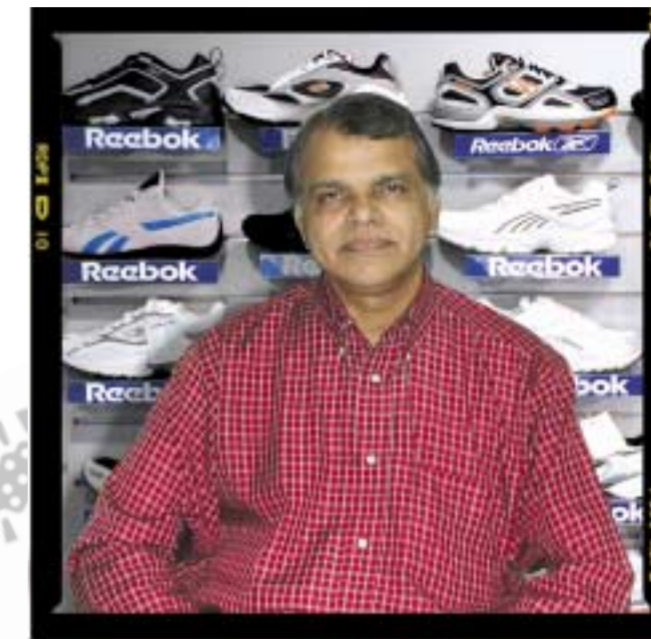
Liberty has also put in place a software package that

The footwear industry knows that the best way to cut down costs is to make information move faster. But they have yet to figure out how to make it happen

tracks stocks and sales for stores with a turnover of over Rs 1 crore a year. It helps in making timely deliveries. The forecasting and production planning is done on the basis of information on past sales and ready-stock position, the advance orders and the reading of the market.

But for marketers who import and sell, like Reebok, Planet Sports and Adidas, the emphasis lies elsewhere. Planet Sports has to place orders six months in advance, and then hold another three months of imported stocks in inventory. The retail chain is focusing on accelerating the replenishment cycle between the stores and its warehouse. Deliveries happen on an auto-replenishment mode, enabled by an ERP solution that makes the stock position online. The system is geared to handle even two deliveries in a day—necessitated during the peak sales seasons. Says Unni, “There has been a 30% reduction in our inventories as a result. Forecasting is accurate with a low variance of 10%.”

Reebok has focused on streamlining processes, reduce order times and lead times so that goods leave within 24 hours of receiving the order. To do this, it has gradually moved away from traditional stock reporting methods. “We have launched a system of integrating our distribu-



“There has been a 30% reduction in our inventories as a result of the online system. Forecasting is also accurate”

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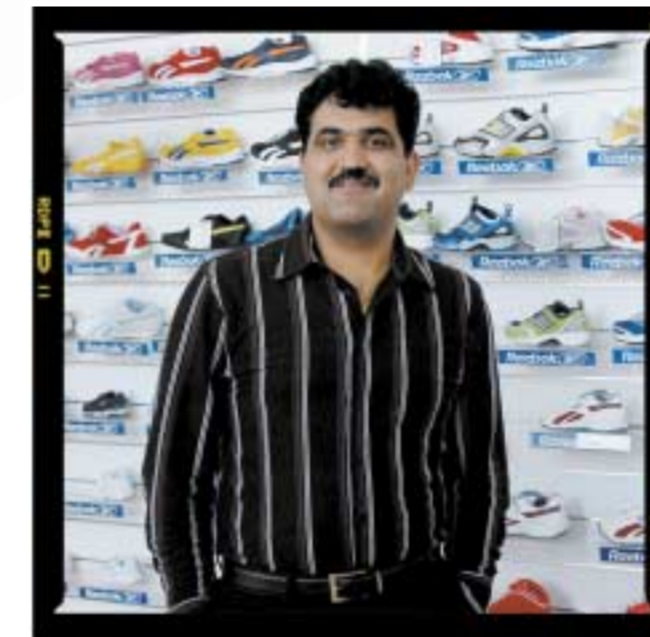
tors and key customers to enable them to order online through our website. They can also access the stock position and order accordingly,” says Vishnu Bhagat of Reebok.

Follow-through

Despite all these initiatives, the problem is that the bulk of the retail segment is fragmented. Mom-and-pop outlets are yet to understand the benefits of information flows. Also, this part of the retail chain operates in a price-sensitive segment, where transparency in declaring sales is avoided using loopholes in sales tax and excise laws. As Gupta says, “They only see the immediate tangible expenses and are unable to see the intangible benefits arising out of such a network.”

Moving such a segment to online reporting will be tough. Says Singh of Bata, “The biggest challenge in the future is to integrate the entire retail chain using an online system, enabling daily reporting.” Introduction of bar codes will help capture this information more seamlessly, but the returns on such costly technology tools are going to be tough to justify.

“The industry has been operating on a push-based model, and there has been no replenishment model. Now,



“We have shifted from selling what is produced to producing what can sell. This has doubled our inventory turnover”

VISHNU BHAGAT Executive Director, Reebok India

JUST DO IT

In 2000, things went horribly wrong with Nike—after spending nearly \$400 million on technology, the world’s leading shoemaker found it was churning out the wrong shoes by the thousands. It lost 20% in market capitalization, \$100 million in sales, and a lot of pride. The last one hurt the most.

So if Nike couldn’t make it work, what chance is there that Indian firms operating in a highly fragmented, diverse market can put technology to some real use? Should they abandon all efforts to get some sanity into a completely disorganised market?

They should know that Nike itself hasn’t abandoned the idea because it believes there is no other way to run its complex business. In fact, it is precisely because there are 120,000 SKUs and retail outlets spread over 100 countries that Nike needs such a technology-driven system.

Therefore, the question is how to get things right. A few lessons Nike learnt are useful:

Rule 1: Don’t try to second-guess the market. Nike tried playing the prediction game using the i2 demand planner. Now it has just put speed into the system using SAP that passes on orders and invoices—reflecting real demand—quickly.

Rule 2: Go slow. Nike’s SAP effort is being rolled out slowly and gradually, geography by geography—perhaps showing the way for Indian companies.

Rule 3: Train, train, train more. Even a sophisticated company like Nike found inadequate training to be a stumbling block. It now ensures that until employees are fully trained, they don’t get to use the system.

Rule 4: Collaborate. Sharing information with customers, retailers, distributors and manufacturers is what keeps Nike fighting fit and lean. It allows Nike to pick up trends faster.

the focus on active replenishment is emerging,” says Anil Syal, General Manager, Marketing, Safexpress. Responding to Liberty’s Adarsh Gupta’s concern, Syal says, “It would be prudent for companies to invest a bit, and get faster transportation ensuring prompt deliveries to retailers. This will reduce inventory on road from 15 days to 3-4 days and keep the latter happy.”

The problems facing the players in the industry are similar though the solutions adopted might vary, reiterating the age-old industry adage—one size definitely does not fit all.

The standards-setting body for collaboration, forecasting and planning supply chain operations in the US, Voluntary Inter-industry Commerce Standards (VICS) Association, believes that transportation is



the big missing link in bringing about collaboration between manufacturers and logistics companies. VICS is pushing the idea of Collaborative Transportation Management (CTM) that brings together

supply chain trading partners with a common objective of sharing information, risks and profits.

There are three phases to CTM: *Strategic Phase* details steps to be performed, data to be shared and how information

will be communicated; *Tactical Phase* begins with an order and shipment forecast

to help parties anticipate shipping volumes; *Operational Phase* is where logistics processes are



determined and orders are planned into shipments. Once implemented, this is how

CTM will impact key transportation processes. Procurement: Currently, shippers

contract for transportation capacity annually by sending Request For Quotes (RFQ).

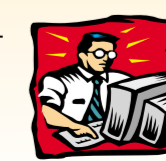
Soon this system will become automated. Transporters will summarize their transportation history and feed this data



in a predefined RFQ template. Selected carriers, on receiving RFQ (automatically) will prepare rate tables and submit these (again, automatically). Planning: In the future, online marketplaces will give

shippers complete visibility in to the transportation chain. For instance, companies would be able to see if there is any unused capacity on any route that can be had cheaply. These marketplaces would make it possible for

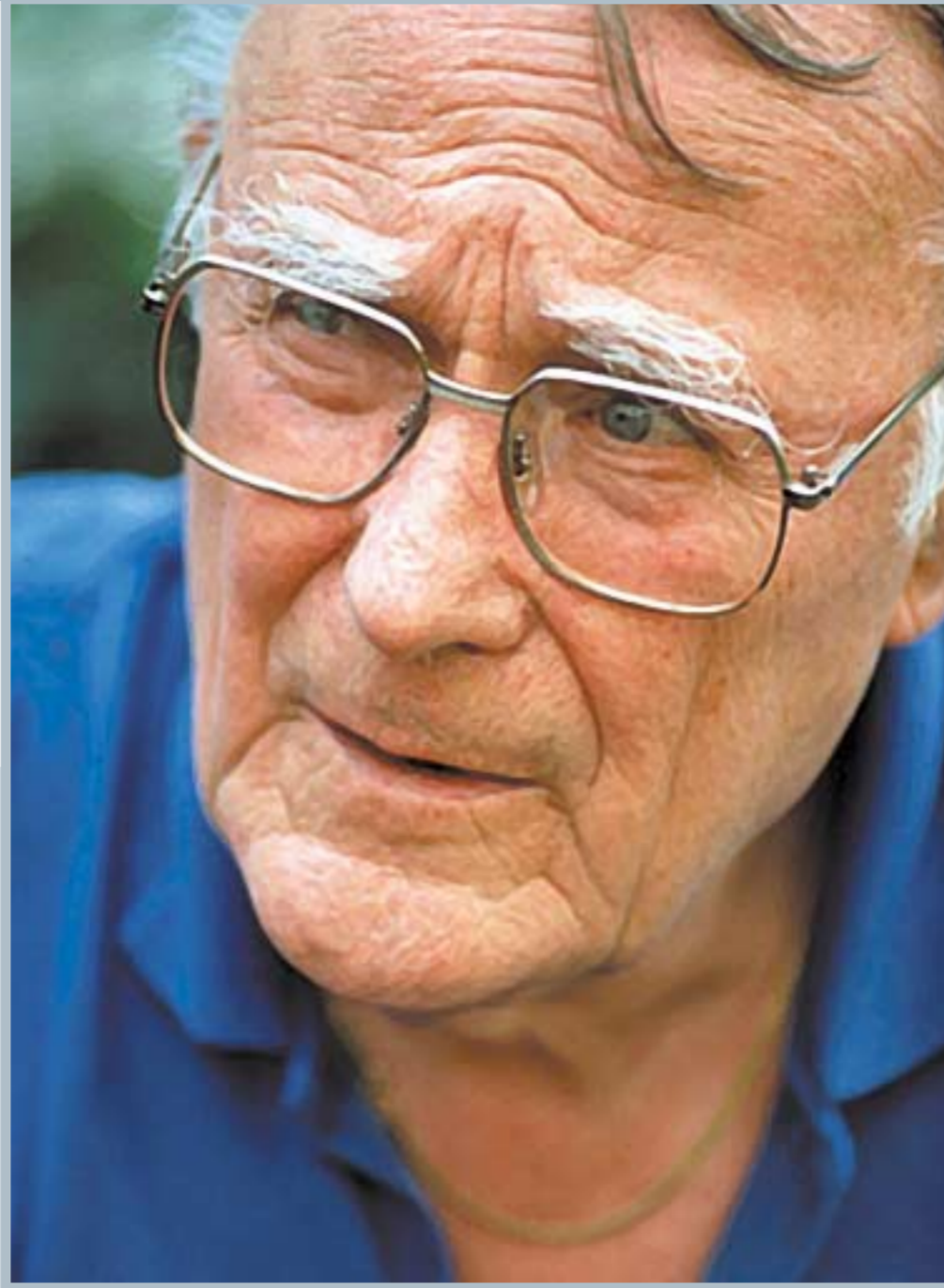
shippers to submit bids and generate shipment options. Execution management: This network would pass on tenders to carriers which if declined is automatically tendered to the next preferred carrier until accepted.



Settlement: In self-billing, the shipper pays the carrier without an invoice being generated as both parties can get the accurate rate from the contract.

EurIKEA!

Furniture giant IKEA's founder Ingvar Kamprad found a way to combine good style with low cost. The trick lies in logistics!



A young boy from Sweden figured out at an early age that he could buy matches in bulk from Stockholm and sell them at a reasonable price and make profits for himself. A born entrepreneur, he invested the profits and started dealing in Christmas decorations, pens and pencils. At the age of 17, his father rewarded him for doing well in school. He invested the reward in founding what is today one of the largest, most successful private companies in the world. It has more than 190 stores in 30 countries, employs over 85,000 people and generates annual sales of over Euro 12.3 billion. The boy is Ingvar Kamprad—who made headlines in early 2004 when *Veckans Affärer*, a Swedish business magazine, claimed that he had dethroned Bill Gates, to become the world's richest man.

The company he founded is IKEA—a name created from his initials (I.K.), and the first letters of the farm (Elmtaryd) and the village (Agunnaryd) he grew up in. Over the years, IKEA has become the most recognized furniture brand in the world. What makes it such a big hit with customers is its proposition of good style at low cost. To achieve that, IKEA has moulded some novel principles in its operating model. Since IKEA distributes globally—over 10,000 articles shipped from 2,000 suppliers to more than 190 outlets in about 30 countries—improving logistics is of key importance. IKEA keeps the route between the supplier and the customer as simple as possible. To this end, it keeps the product designs simple so that the customer can assemble the furniture at home. This do-it-at-home eliminates links in the value chain that do not add any value. IKEA also understands that its direct suppliers have their sub-suppliers and if they don't perform optimally, it will adversely affect the entire supply chain. Its trading offices receive centrally generated requirements, which they are expected to fulfill from their individual supply networks. To make this local fulfillment process work smoothly, IKEA has been divided into four parts—each operating as an internal market. IKEA of Sweden functions as the headquarter. Each unit is split into different business areas in accordance with different product lines (sofas,

dining furniture, office furniture etc.) In this internal market, the Business Area Manager of, let's say sofas, commissions a product through a project team comprising a designer, technician and product developer. The price is decided first—by taking into account the materials, processing and logistics costs. 'Istra'—the marketing decision-maker sets up a competitive tender to decide in which country the product would be made. The trading areas, which are IKEA's supply chain management divisions in each geography handling purchase, logistics and supplier support, pitch in for the bid. They collaborate with the manufacturers to supply at the best price—which should beat or match the already decided price. This system is competitive, but with a slight bias towards the local/regional producer. If a product is to be sold in Eastern Europe, the trading area manager will help a Polish unit try and meet the targeted price by helping to coordinate with other suppliers in the region. Only if the product cannot be delivered at the targeted price—which includes the logistics costs as well—by the local/regional vendor, is it sourced from elsewhere. The supply chain management division acts as the interface between the headquarters and the supplier. The purchaser will regularly review the supply contract, the technical staff will help with improvements on design, the support section will advise on IT and logistics and the

transport manager will book the best price for transporting goods. To shorten lead times gradually, IKEA has suppliers who either start supplying goods based on a long but fixed-time delivery basis or will be given over 4 weeks notice of a 4-week window within which he must deliver. Over a period of time, IKEA then helps the supplier reach a point where the 4-plus-4 process can be stopped. Then the system moves to a point where the retail stores deal directly with the factories. By this stage, lead times are down from weeks to days, cutting logistics costs while ensuring high availability. To save space in containers, IKEA packs the furniture in flat-pack boxes and any incidents where goods are damaged are photographed so that the mistake is never repeated again. A highly organized hub-and-spoke distribution system allows IKEA to keep minimum order quantities—so that a carton, rather than a pallet, can be dispatched to the distribution center where loads are consolidated before being shipped as containers. At IKEA, nothing is expensive—including Kamprad's lifestyle! He is 78 now and has, what most would call, quirky mannerisms—he hugs his co-workers, always flies economy class, takes public transport, uses his pensioners' card and prefers IKEA canteen food to pricey restaurants. ■

—SHIKHA SAROJ



War Time Stories...

...for those who manage logistics in corporations

"Logistics make up as much as nine-tenths of the business of war"—MARTIN VAN CREVELD, MILITARY HISTORIAN. Circa 336 BC: When Philip of Macedon, was assassinated, his heir and son, Alexander set out to avenge his killing. But his target, Persia, was far away from Macedonia. Valour alone would not have sufficed. Alexander's 35,000-man army had to be fed and nourished throughout the gruelling journey and the grim wars. So he took a route that was never too far away from the sea—his navy carried 30-day rations. Only when his army was away from the sea, would his soldiers carry 10-day supplies. Traveling light this way allowed his army to march 19.5 miles every day. Even the timing of his attack on Persia was influenced by the logistics of food supply. Alexander attacked just before the harvest, when the Persian food stock was at its lowest. By the time the war was over and won, it was harvest time, and the victorious but weary soldiers could stock up once again. This superbly planned approach was the key to Alexander's string of victories across Asia. Circa 1991: During Operation Desert Storm (Gulf War I), the US Army showed once again that it was logistics that won the war. Lieutenant-General William G Pagonis' 22nd Support Command moved almost 500,000 soldiers and seven million tons of supplies halfway around the world in a few months! It was this orchestration of men and machines at such a massive scale that completely overwhelmed the enemy in no time. By achieving this feat, Pagonis and his team charted

out new rules in the art and science of logistics management. The book, *Moving Mountains: Lessons in Leadership and Logistics from the Gulf War* is written by General Pagonis, in which he shares invaluable insights. General Pagonis writes about logistical problem-solving and stresses the importance of time management, task delegation and open communication across hierarchies. In the book, he suggests the secret of logistics is to never lose sight of who the customer is, and that through logistics, people can really manoeuvre to gain competitive edge. September 9/11: Pagonis' wartime experience was unexpectedly put to test at Sears Roebuck & Co. (He had joined the company as Executive Vice President, Logistics, in 1993 after leaving the army.) With bridges, tunnels and airports being closed for days, retailers could lose serious money. Thanks to Pagonis, Sears was well-prepared. It could track, on that day, where each company truck was; which trucks had custom clearance problems; and which stores, roads and tunnels were closed. Even though Fed-Ex was grounded for three days, it did not stop Sears from delivering the goods. He says major supply chain disruptions can be avoided by setting up a disaster operations center to handle emergency situations, and training people to run the same. You must get all the facts, not overreact and finally, really listen to your team members, he says. In the book, he says that when it comes to logistics, while systems are essential, communication across all levels is a must. ■

—SHIKHA SAROJ

Logistics Know-how



Supply Chain Excellence: A Handbook for Dramatic Improvement Using the SCOR Model

—By Peter Bolstorff, Robert Rosenbaum

This book describes the powerful, cross-industry Supply Chain Operations Reference (SCOR) model in detail. According to this model, SCM can be defined in terms of the following: *Plan*—assess supply resources, plan inventory and rough-cut capacity. *Source*—receive, inspect and authorize payments for raw materials and finished goods. *Make*—receive material, manufacture and release products. *Deliver*—generate quotes, maintain customer/product/price database, execute warehouse processes and manage transportation. *Return*—scheduling, inspecting, verifying defective products and replacing them. This is a must read for any supply chain enthusiast.

Modeling the Supply Chain

—By Jeremy F. Shapiro

How can data and modeling systems help companies improve the management of their supply chains? According to Jeremy Shapiro, CEO of an SCM software company, Slim Technologies, having transactional data needn't necessarily mean better managerial decisions. He shows how optimization model, when properly applied, can create accurate models that have practical utility.

Essentials of Supply Chain Management

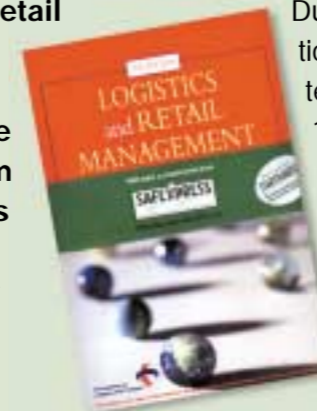
—by Michael H Hugos

The author, Michael Hugos, CIO of a \$6.8 billion distribution company, Network Service Company, explains in very simple terms the difference between traditional logistics and supply chain. The former is about all activities occurring within a single organization, while the latter refers to a network of companies that work together to deliver products in the market. Illustrative real world examples, details about how to develop pragmatic supply chain performance make this book a must have.



Logistics and Retail Management: Insights into Current Practice and Trends from Leading Experts

—By John Fernie and Leigh Sparks



During the 1980s, managing logistics was all about contracting and technology investments. In the 1990s, retailers focused on areas such as Just-In-Time deliveries and constant stock replenishment. Customer relationship became important for retailers

and this was strengthened through loyalty cards and better service levels. Written by university professors, this book tracks the evolution of retail logistics. Sprinkled with invaluable insights from practitioners of retail logistics, it is a must-have for supply chain enthusiasts.

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AMR Research has predicted that the supply chain applications market will have its first return to growth in several years—it will grow 5% from \$5.24 billion in 2003 to \$5.5 billion in 2004. Demand-



based supply networks and RFID will be the focus of new investments. According to an online advisory service, insightexec, the focus has moved from cost-cutting and asset utilization to

innovation and creating the ability to capitalize on the variability of demand. Enterprises that are supply chain management-savvy are leveraging their technology capabilities to meet competition; they have more growth channels;

and they generate bigger shareholder value. Supply chain trends such as collaboration and outsourcing have made it important for applications to allow for transparency in business. The AMR



research indicated that those ERP vendors with strong and maturing supply chain packages are likely to have a revenue growth of 11%, and will consolidate their earlier gains in the marketshare.

Handle with care

A few commonsense rules for those who have to deal with fragile goods

Delivering sophisticated medical equipment such as MRI machines worth several crores of rupees involves a big risk. These machines are filled with helium gas, which can leak if the equipment is packed or lifted around improperly. To check against this, an indicator is attached on the outside of all boxes. If there is danger that the gas will leak, the indicator turns orange from green. It gradually turns red if the equipment is actually damaged, and if it turns black, the equipment is termed as unusable.

Welcome to the challenges of fragile goods handling! A task made even more formidable by the condition of Indian roads, and the amateur handling skills of transporters. Says Anoop Khandelwal, Director, Operations, Hewlett Packard India, "In India, the problem of having damaged goods is higher not only because of lack of awareness but also because of a lack of respect for goods." Also, his experience has been that goods are worse off during air transport in India as intra-airport movement on pallets is low and accountability is poor. On road, the transporter is more accountable having signed service level agreements, which can go up to the extent of compensating for damaged goods, he says.

Adds the logistics head of another leading computer multinational in India, "Warehouses in India are not well-equipped to handle the goods." Operating in this environment, the logistics of fragile goods is a different game altogether—a combination of commonsense rules, and strict adherence to guidelines. A few companies, in collaboration with professional logistics service providers, have learnt to minimize damage to fragile goods in-transit. Here is how.

Warehouse basics: Nearly 80% of the damage happens during loading and unloading at the warehouse. And the route planning in India is such that it involves several rounds of loading and unloading. This is due to the geographical layout of the country, which requires a hub-and-spoke system. So goods coming in from satellite towns like Jalandhar (spoke) and headed for Cochin, are first aggregated at Delhi (a hub) and then shipped to Bangalore, the hub closest to Cochin. From this hub, desegregation happens, and the consignments for all spokes including Cochin are dispatched.



Cross-docking, loading, unloading—all this means that the package is lifted and moved around several times. While doing this, the chances of damage are higher if there is a mismatch between the warehouse floor level and the truck floor level. If there is parity, then trolleys, forklifts etc. can be wheeled in and out of the truck smoothly, and chances of goods dropping from height and getting damaged are eliminated. Professional logistics service providers like Safexpress ensure that their warehouse platforms are built at exactly the same height as the floor of the truck.

Monitor and minimise manual handling:

"People in India don't realize the criticality of what they are handling (that's drivers and workers in warehouses)," says Prasad Jategaonkar, Deputy Manager for Logistics at Philips Medical Systems.

There is a way in which warehouse movements can be monitored and controlled more rigorously. Hewlett Packard warehouses follow the Technology Asset Protection

Association (TAPA) benchmark for their warehouses layout. The TAPA organisation recognizes best practices in high-security, complete

logistics services. This includes a closed circuit TV set-up, motion detectors,

access alarms and so on. Outside the warehouses, there is little that can be done when the goods are in-transit. Of course, logistics service providers like Safexpress have 100% containerized trucks and vans (with an IICL Level 5 rating which is the highest rating for all-weather proof travel on roads and rails), but fragile goods handling needs more.

Technology to the rescue: Companies that sell sophisticated equipment like Carl Zeiss, HP, Xerox and Philips attach tilt meters outside the boxes. These machines are sent in boxes with tip-and-tell indicators that show probable damage to goods. The indicator turns red if the box tilts more than 20 degrees. "If the tilt meter is red, the customer can reject the goods even if there is no actual damage," says Pravin Bastian, Manager, Logistics and Quality, Carl Zeiss India.

In the end, it is a matter of following a few simple rules. As one computer multinational says, their damage rate in India is only 0.1%. But then, the game is really about not losing anything.

—SHIKHA SAROJ



S. R. SHARDA
Executive Director, Safexpress Private Limited

This is not in response to a question, but let me share some details about a talk between a senior executive of a large retail chain (selling garments, cosmetics, home and kitchen essentials), and myself.

It is a large-format chain having about four stores each in North, South and West India. The outbound distribution is close to nil. The entire value chain is hinged upon the inbound shipments from various suppliers, across India. Each outlet has a back-up warehouse in each city. Receipts from major vendors are made

directly to these city warehouses. Imported merchandise and supplies from other vendors are sent to a central warehouse in Mumbai.

This operational model has some issues, which I raised during the discussion.

- Multiple warehouses mean high cost of administration (manpower, rentals, insurance).
- It also means higher inventory holding cost.
- Inventory in multiple warehouses means that perishable and saleable inventory is locked.

To tackle these issues, I suggested having a regional warehouse in each region. From each

of these regional warehouses, stocks will reach the outlets overnight, just as it happens presently. These warehouses will receive inventory from large vendors on a 40:60 ratio—40% direct to outlets, 60% to the warehouse. These warehouses will replenish/replace at the outlet level daily, resulting in outlets having more display area. *(You can enhance this play by reducing your cumulative regional purchase by some percentage points at the regional warehouse, and by reducing the chances of end-of-season sales for left-out inventories at the outlets).*

Fast Track is a quarterly magazine on management, with a special emphasis on supply-chain issues, brought to you by Safexpress Private Ltd. The magazine is committed to promoting business agility. Fast Track reaches out to CEOs, finance heads and logistics heads of companies. We would be happy to take on-board issues related to supply-chain that you might be facing.

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