

# Mastering the Back End

Modular kitchens is primarily a retail business, and logistics play a significant role in ensuring efficiency and cost margins in its operations



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India has been ranked as the third most attractive nation for retail investment among 30 emerging markets by the US-based global management consulting firm AT Kearney in its 9<sup>th</sup> annual global retail development index (GRDI) 2010. Also, as per the India Retail Report 2011, total retail sales are set to gallop, benefiting both consumers and businesses across sectors.

The modular kitchen market in India is still at a nascent stage, but with tremendous growth potential. According to industry experts, the modular kitchens market in India currently stands at around ₹1,500 crore, with Indian readymade kitchens currently being sold at the rate of 10,000 units per month. The increasing number of nuclear families, rising disposable incomes, affordability, and easy budget, will drive awareness levels and demand for a modular kitchen. This demand is already growing at the rate of 40% per annum.

## Logistic Imperatives

The competitive retail scenario, rapidly changing consumer preferences, diversified retail formats, as well as retail stores spread far and wide, are some of the factors contributing to the increased need for efficiency in logistics.

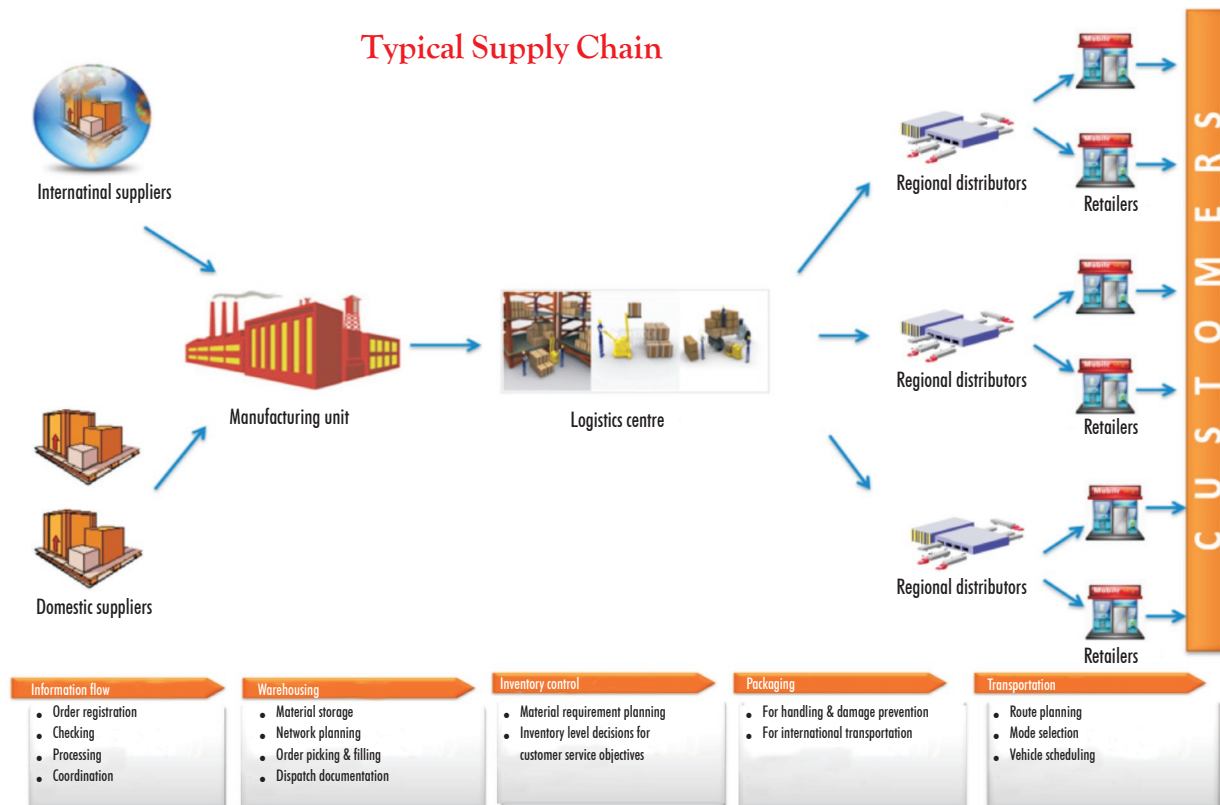
Logistics involves managing the flow of merchandise as well as information related to the movement of goods. Logistics and supply chain enable an organised player to move or store products more effectively. Efficient logistics management

not only prevents vehicles from needlessly transferring goods back and forth, but also frees up storage space for more productive use.

In the modular kitchen industry, logistics is the process of managing the flow of merchandise from the source of supply to the customer. It incorporates physically moving the goods from one location to another (location may be distribution center, warehouse, store or manufacturer); and stocking the needed quantities at these locations and managing the entire process (refer *Typical Supply Chain*).

Currently, retail logistics is a holistic concept that involves coordinating many important processes like inbound and outbound transportation, warehousing, packaging and labeling, inventory management, quality checking, reverse logistics, etc. These processes and activities of retail logistics are aimed at making sure that the shelves in a retail front-end store are never vacant, and are filled with the right products at the right time and at the right place.

It is also important that retail logistics increases operational efficiencies to allow retailers run a viable operation. The main objective of logistics management is to reduce inventory holding costs and improve profits. Retail logistics entails more than mere trucking and distributing goods. For without good information about sales and insight into customers needs, the finest distribution center and transport capabilities are likely to send the wrong thing to the wrong place at the wrong time.



### Strong Back End

Retailers realise that knowing what is selling and what is not can improve the inventory processes. Inventory is the biggest cost factor, and if not managed well it can also be the biggest drain. That's why retailers and their trading partners today set store by the inventory process and its impact. Effective SCM enables:

- Realistic ordering lead time: Suppliers are not surprised by the next order. Retailers respond better to demand spikes, minimise forced markdowns and avoid obsolete inventory costs.
- Averting problems: Stores easily identify potential stock-outs and request replenishment before the inventory drops to zero. Deciding to de-list or replace a product is easier.
- Facilitating resource planning & allocation: Product forecasts and supply schedules are easily converted to perform space planning, establish staffing needs and organising inbound/outbound shipments. Financial experts can plan cash flow and analyse margins into the future.

This is how retailers can successfully achieve the four Rs of supply chain management - Right time, Right place, Right price, and Right quantity – and reap the advantages of:

- Sustained inventory reduction by as much as 60% for both buyer & seller
- Improved forecast accuracy by as much as 30%
- Enhanced store shelf stock rates by as much as 8%
- Increased sales by as much as 20%
- Reduced logistics costs by as much as 4%

### Challenges

Any business that depends largely on its retail infrastructure is faced with the following challenges:

- Providing best service at least cost: Choosing consumer durables like furniture/home appliances/kitchen accessories etc for the home is a very personal experience, often involving considerable investment in time and household budget. It is understandable that customers demand the highest levels of quality and service. They expect wide selection, products that can be treated or

customised on demand, fast accurate delivery, and the ability to refuse or return goods easily. So, the challenge facing retailers is providing this level of service cost-effectively, while managing behind-the-scene operational issues like rapidly changing product lines, easily damaged inventory, and high labour and other overhead costs.

- **Rising costs:** Higher volume means higher costs. Without improving business processes, retailers will see labour and other costs rise proportionate to revenues. The efficiencies that should come with a growing business will not materialise.
- **Handling returns:** In retail, returns are inevitable. Like In furniture retail, returns are especially difficult to manage. But when order preparation and delivery are inaccurate or hard to control, the volume of returns can be unnecessarily high. Unfortunately, returns are often treated as exceptions in a busy warehouse, set aside to deal with later rather than handled as a normal part of doing business. Thus, expensive inventory is left unavailable for resale.
- **Poor inventory visibility & accuracy:** Whether due to inadequate systems, high labour turnover, or product complexity, most retailers suffer from unacceptably low inventory accuracy. Operators waste time looking for items stored in the wrong place or missing from inventory altogether. Customers are sold items that are not in stock due to lack of visibility into the warehouse. At least once each year revenue generating activities stop while operations are shut down for physical inventory counts.
- **Poor use of space & equipment:** Businesses that lack complete, real time visibility of inventory compensate for uncertainty by inflating safety stock. Retailers who cannot restock based on rapid analysis of sales patterns are unable to store fast moving items in the most accessible areas. Those who cannot pick orders and load trucks according to optimised delivery schedules slow deliveries while wasting equipment and fuel.

“Operational excellence is the hallmark of a good supply chain. It distinguishes the successful retail operation from the mediocre.”

“The cliché of ‘getting the right product to the right place at the right time and at the right price’ is increasingly significant, given the challenge that constant demographic changes present.”

- **Inefficient processes:** In the kitchen industry, basic tasks such as picking orders, assembling sets and cross-docking shipments can be complicated. The cost to the bottom line from inefficiencies and errors in these processes, as well as from reduced customer satisfaction, can be significant. Given all of these challenges, it’s not surprising that customer service can take a back seat to the day-to-day operational realities of running a furniture distribution center. At the least, there is often tension between being 100% customer focused and getting the job done efficiently and cost-effectively.

Successful retailers will have to implement more sophisticated buying techniques along with associated supply chain planning technology to optimise their inventory levels. After all, consumer is the king, and the goal of retail logistics is to work consistently towards achieving optimum consumer satisfaction, which is possible only through efficient logistics.

However, this points to a need for third-party logistics providers to step in and provide the more sophisticated distribution and technology capabilities they have at their disposal.

Third party logistics (3PL) partners provide specialised supply chain solution services to address the retail industry’s pain points. In this typical model, the 3PL partner steps in to take care of the client’s entire supply chain, beginning from conceptualisation to implementation of the plan, which includes services like consultancy, distribution center management, transportation, cross docking, reverse logistics, collaborative planning, forecasting and replenishment etc. Also, through value added services like bar coding/RFID and quality checks, clients get good results and visibility with a bird’s eye view of the supply chain, and unlock value in terms of inventory agility and cost control. It allows them to focus on their core competency. ■