

Available online at <http://www.ijims.com>

ISSN - (Print): 2519 – 7908 ; ISSN - (Electronic): 2348 – 0343

IF:4.335; Index Copernicus (IC) Value: 60.59; UGC Recognized -UGC Journal No.: 47192. 1st July

Role of strategic sourcing for supply chain efficiency and responsiveness in organized retail sector

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Abstract

This paper is focused in discussing the role of strategic sourcing for supply chain efficiency and responsiveness in organized retail sector in Indian settings.

Keywords: supply chain efficiency, responsiveness, organized retail sector

Introduction

The Indian retail industry has emerged as one of the most dynamic and fast-paced industries due to the entry of several new players. It accounts for over 10 per cent of the country's Gross Domestic Product (GDP) and around 8 per cent of the employment. India is the world's fifth-largest global destination in the retail space. Retailing consists of all activities involved in selling goods and services to consumers for their personal, family, or household use. It covers sales of goods ranging from automobiles to apparel and food products, and services ranging from hair cutting to air travel and computer education (Chetan Bajaj et al) Retailing is one of the largest sectors in the global economy. It can also be defined as the timely delivery of goods and services demanded by consumers at prices that are competitive and affordable. (Vidushi Handa, Navneet Grover) Thus retailing can be said to be the interface between the producer and the individual consumer buying for personal consumption. This excludes direct interface between the manufacturers and institutional buyers such as the government and other bulk customers. Retailing is the last link that connects the individual consumers with the manufacturing and distribution chain. A retailer is involved in the act of selling goods to the individual consumer at a margin of profit. (Ms.Sonia).

Market Size

India's retail market is expected to nearly double to US\$ 1 trillion by 2020 from US\$ 600 billion in 2015, driven by income growth, urbanisation and attitudinal shifts. While the overall retail market is expected to grow at 12 per cent per annum, modern trade would expand twice as fast at 20 per cent per annum and traditional trade at 10 per cent (IBEF Report). In India for a long time the corner grocery store was the only choice available to the consumers. With the increasing demand of the customers spurred by changing trends, aspiring needs for variety, the traditional retail gave rise to modern retail format. The traditional food and grocery segment has seen the emergence of supermarkets/grocery chains, convenience stores and hypermarkets.

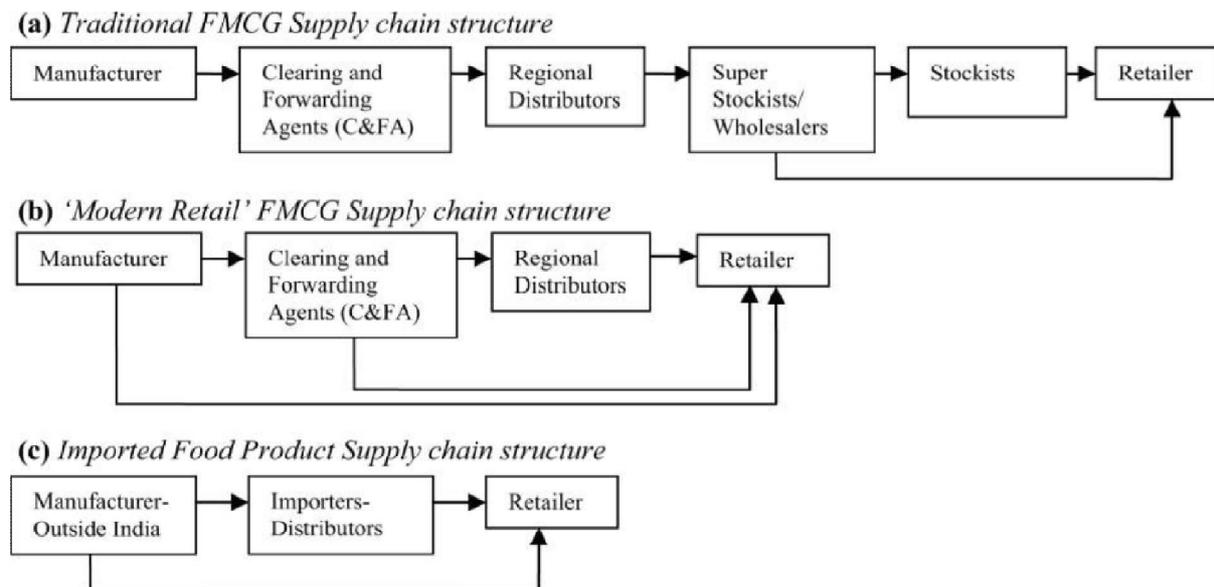
Types of retail industry

The Indian retail industry on the whole is divided into organized and unorganized sectors. Unorganized/Traditional retailing refers to the traditional formats of low-cost retailing, for example, the local kirana shops, owner manned general stores paan/beedi shops, convenience stores, hand cart and pavement vendors, etc. Organized retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate –backed hyper markets and retail chains, and also the privately owned large retail businesses. Organized retailing comprises mainly of modern retailing

with busy shopping malls, multi stored malls and huge complexes that offer a large variety of products in terms of quality, value for money and makes shopping a memorable experience. The retail sector is presently undergoing a transition in India. Previously, customers used to go to kirana Stores to purchases their necessities. This later changed to bigger shops run by one man with a few employees. Here all the work was done manually. Gradually more sophistication seeped into this sector and department stores came into being. Beginning in the mid1990s, however, there was an explosion of shopping malls and plazas where customers interacted with professional and not with just one single person – the owner. An important point here is that customers' requirements are catered to by trained staff. Today, organized retailing has become an experience characterized by comfort, style and speed. It is something that offers a customer more control, convenience and choice along with an experience. Organized retailing is on continuous increase of its market share from the past. Retailing can be categorized as of different sectors like food and grocery, clothing and textiles, consumer durables, footwear, furniture and furnishing, catering services, jewellery and watches, books, music and gifts, mobile handsets and others. (Dr.Shahid Akhter, IftekharEqubal).

Retail supply chain in India

Supply chain is the vital part of Indian retail sector. Traditionally it was comprised of number of channel members vertically and horizontally. Due to evolution in Modern retail supply chain intermediaries have been reduced. A typical structure of Indian retail supply chain is as follows:



Retail business is highly inconsistent and it will vary, based on various factors like demand, climatic conditions, time, promotions, etc. Moreover, retail industry is very dynamic; It has hundreds of suppliers of suppliers and thousands of stock keeping units. In recent times, the retailers are selling their products through different channels to reach their customers. This makes it more complex and poses a challenge to manage the retail business. The most important factor is, only the retailers are in direct contact with customers in the entire supply chain. Hence, the retailers have the responsibility of catering to their customers and achieving an edge over their competitors in the market place. If retailers want to expand their market share and increase the bottom line, it can be achieved by retaining the existing customers by providing a better shopping experience, customer service low price and benefits, besides facilitating easy product availability to loyal customers.

With the enormous growth the retail sector is also facing challenges on the fronts of escalating real estate cost, scarcity of skilled workforce and structured supply of merchandise. One of the most important challenges in organized retail in India is poor supply chain and logistics management. The importance can be understood by the fact that logistics management cost component is as high as 7% to 10% against the global average of 4% to 5% on the total retail price. Therefore the margins in retail sector can be improved by 3% to 5% by just improving supply chain and logistics management. Moreover, the customers are receiving more information about product and they are more particular about brand, product features and price. For this retailers have to stock all product categories to satisfy customers. Due to globalization, the retail industry has been expanding its operation beyond the borders. To increase the efficiency and effectiveness of service, retailers have to collaborate with all the parties concerned and coordinate all the processes in their supply chain. The proper supply chain management is expected to bring benefits like improved inventory management, better planning and forecasting and thereby reducing and providing to the consumers and tiers a better deal and satisfaction. The traditional objective of Supply Chain Management is according to Shapiro (2001) to minimize the total Supply Chain Cost and to meet the given demand. Cutting costs in the Supply chain most likely affect the performance like for example delivery precision and lead-time. It is easier to get a short lead-time by having buffers, but buffers cost and therefore the Supply Chain Cost is increasing. Segerstedt (1999) writes profitability is achieved by the difficult balancing of facility utilisation (high), capital and inventory investments (low) and market services (high). The challenge for a company is to combine the *cost* (establish high facility utilisation, low capital investments) and *performance* (short delivery times, high delivery precision, satisfied customers, short lead times, short days of inventory) and optimise both of them to get the best result for the company. Schary and Skjøtt-Larsen (2001) describe the Supply chain Triangle, which is showing the conflict between cost and performance. The main objective for a company is to provide service to the final customer, but at the same time minimize the cost.

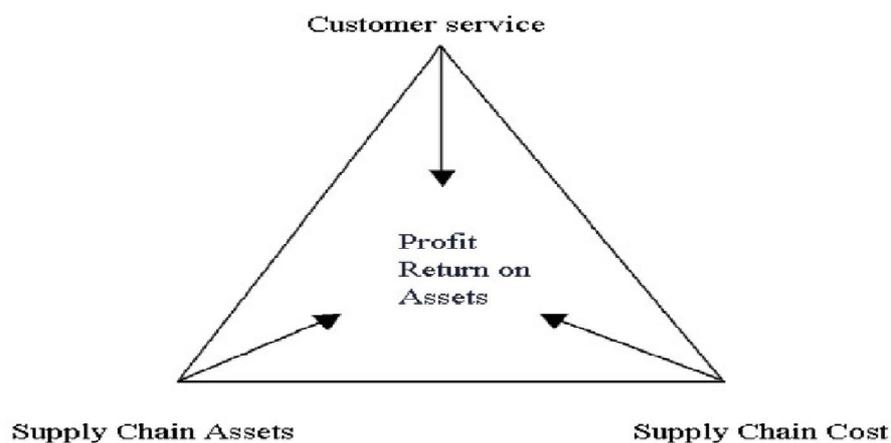


Figure 1.1 The Supply chain Triangle Schary and Skjøtt-Larsen (2001).

The most efficient Supply chain is the one that has the lowest possible cost and at the same time meet the customer's expectations on service like delivery precision and lead-time. My experience from working in the industry is that to achieve both high customer service and low cost is a challenge for companies. The company has to be good in measuring performance and cost to be able to know it they work with the right things in their aim to be more efficient within Supply Chain Management. They also need a good tool or method to evaluate how efficient the Supply chain is

Most retailers have significant savings opportunities in trimming product—and non-product—sourcing spend. While product sourcing costs can be as high as 60% to 70% of sales, non-product sourcing costs (e.g., real estate, fixtures, professional services, marketing and advertising) can be a significant source of savings as well. When it comes to aggressive cost-cutting, follow the lead of Stephen Sadove, chairman and chief executive officer of Saks: From travel to supplies to benefits to marketing to information technology, leave no stone unturned. Kurt Salmon Associates estimates that most retailers can realize between a 2% and 4% reduction in COGS through an aggressive strategic sourcing program centered on negotiating more favorable agreements and improving collaboration with vendors. Benefits can be higher depending on the retailer's sourcing capabilities and willingness to pursue product- and vendor-related savings. But ultimately, for all retailers, minimizing costs across the entire sourcing spend spectrum requires a broad set of capabilities, flexible processes and renewed negotiations with vendors

2. Need and Scope of the Study

According to Gunasekaran, Patel and McGaughey (2004), at the strategic level, SCM is a relatively new and rapidly expanding discipline that is transforming the way for improving organizational competitiveness both in manufacturing and services. The short-term objective of SCM is to increase productivity and reduce inventory and cycle time, while the long-term strategic goal is to increase customer satisfaction, market share and profits for all members of the virtual organization (Tan, 2002; Wisner and Tan, 2000). To realize these objectives, all strategic partners must recognize that the purchasing function, with its boundary-spanning activities, is a crucial link between the sources of supply and the organization itself (Wisner and Tan, 2000). Purchasing/sourcing connects suppliers and buyers closely, which are two of the driving forces of competitiveness in an industry (Porter, 1980). **Walmart's approach to Strategic Sourcing**

In 2010, Walmart announced a big change in their sourcing strategy. They saved billions of dollars by consolidating their global procurement functions and reducing the use of intermediaries in their sourcing process. Till 2010, Walmart which is world's largest importer, relied on intermediaries for bulk of its global sourcing activities, instead of buying it directly from the offshore suppliers. They bought hardly 20% of goods directly from the suppliers. Also the mode of operation was highly decentralized across all the 15 countries where it has its stores.

Eduardo Castro-Wright, the then Vice President of Walmart set a goal for the company to change its sourcing strategy in order to buy 80% of the goods from the manufacturers directly. Also he planned to make the global sourcing process more centralized. By doing this, he intended to eliminate the middlemen in the transaction, thereby avoiding the 5-15% markup introduced by them. The elimination of the markup introduced by the middlemen, helped reduce the cost leading to billions of dollars of savings for Walmart.

To start with, this strategy was implemented for merchandising. They centralized the process by setting up four global merchandising centers for general goods and clothing. Following this they started purchasing fruits and vegetables on a global scale and eliminated the import companies and the agents. One of the milestones in implementing the change in Walmart's sourcing strategy was the acquisition of Asda, the grocery chain in UK by Walmart. Asda had expertise in direct sourcing and Walmart leveraged this expertise across the globe.

This strategy of direct sourcing not only helped Walmart reduce the cost, but also helped in other supply chain activities by improving the efficiency throughout the process. They could now better manage and consolidate the incoming shipments and also gained a better visibility through the entire product lifecycle.

Some of the sourcing strategies that worked for Walmart:

Strategic Vendor Partnerships

Walmart selected the suppliers, who could meet the demand and at the same time offer them the best price for the goods. They then developed strategic relationships with these vendors, by offering them long term and high volume purchases in exchange for lowest possible prices. Furthermore, Walmart constructed communication and relationship networks with their suppliers to improve the material flow. Collaboration was the key to their success.

Cross Docking

Walmart's sourcing strategy is centered around a key inventory tactic called Cross docking. It transfers products directly from inbound trucks to outbound trucks. This saves the storage costs. Suppliers deliver products to Walmart's distribution centers, where those are cross docked and then delivered to the Walmart stores. This process of cross docking lowers the inventory transportation costs and eliminates inefficiencies. This results in savings for the company which are then passed on to the customers in the form of competitive prices.

Technology

Walmart embraced technology to track its inventory and restock the shelves. Technology plays an important role in Walmart's supply chain. It helps them accurately forecast demand, track inventory and manage customer relationships and service response logistics. They were the first ones to implement the bar codes through which store level information was collected and analyzed easily.



As seen above, Walmart has proved to be a leader in strategizing its global sourcing. But the question that arises over here is, does centralizing the procurement process globally, help indeed or does it introduce hidden overheads in the process as a whole?

Literature review-

Strategic purchasing is defined as the process of planning, implementing, controlling, and evaluating highly important purchasing in an effort to meet a firm's goals (Carr and Smeltzer, 2000; Carr and Pearson, 1999 and 2002). In order to compete effectively in the world market, a company must have a network of competent suppliers. Supplier assessment and selection is designed to create and maintain such a network and to improve various supplier capabilities that are necessary for the buying organization to meet its increasing competitive challenges. A firm's ability to produce a quality product at a reasonable cost and in a timely manner is heavily influenced by its suppliers' capabilities, and supplier performance is considered one of the determining factors for the company's success (Krause, Scannell, and Calantone, 2000; Krause, 1997; Tan, Lyman, and Wisner, 2002; Monczka, Trent, and Callahan, 1994; Tan, Handfield, and Krause, 1998; Choi and Hartley, 1996; Shin, Collier, and Wilson, 2000; and Davis, 1993). Consequently, without a competent supplier network, a

firm's ability to compete effectively in the market can be hampered significantly. The results of Vonderembse and Tracey (1999) indicate managers should focus on a set of supplier selection criteria that evaluates suppliers across multiple dimensions including product quality, product performance, and delivery reliability. Effective evaluation and selection of suppliers is considered to be one of the critical responsibilities of purchasing/sourcing managers. The evaluation process often involves the simultaneous consideration of several important supplier performance attributes that include price, delivery lead time, and quality. Increasingly, firms are allocating more resources to their core competencies and encouraging the outsourcing of non-core activities, which increases their reliance and dependence on suppliers. In response to escalating competition, shorter product life cycles, and rapidly changing customer demands, more companies have become concerned and involved with developing long-term supplier capabilities. This increases the importance of effective supplier selection and assessment. Watts and Hahn (1993) showed the importance of formal supplier evaluation to the supplier development process

So by referring the literature review, in this research paper an attempt is made to give role of strategic Sourcing in supply chain efficiency and responsiveness in organized retail sector in a city of Mumbai and Navi Mumbai. The objectives for the study are-

- 1) To study the overall organized retail market scenario in Indian context.
- 2) To study the role of strategic sourcing practices in organised retail supply chain.
- 3) To identify factors of strategic sourcing affecting supply chain efficiency.
- 4) To identify factors of strategic sourcing affecting supply chain responsiveness.

Research Methodology

8.1-Research Design:

The study is **Exploratory, Descriptive and Causal in nature**. The **Exploratory** study of research is used to identify the various factors affecting the supply chain management in selected retail outlets in Mumbai and Navi Mumbai and explored the role, practices and as well as challenges of effective supply chain management. **Descriptive** study is used in analysing the various factors for effective supply chain management. **Causal** study is used in studying the impact of various attributes of supply chain management and supply chain efficiency and responsiveness.

8.2.2-Sample size –From the universe of organized retail outlets (Supermarket group) in Mumbai and Navi Mumbai 85 supermarkets having total square feet area above 500 sq.ft. are selected across all four zones of Mumbai and Navi Mumbai. The sampling method used for the study is non probabilistic convenience sampling method

5. Hypotheses of the study

- 3) Null Hypothesis -There is no association between strategic sourcing and Supply Chain efficiency.
Alternate Hypothesis-There is association between strategic sourcing and Supply Chain efficiency
- 7) Null Hypothesis -There is no association between strategic sourcing and Supply Chain responsiveness.
Alternate Hypothesis There is association between strategic sourcing and Supply Chain responsiveness.

Data collection method

The first stage of data collection was based on an exploratory study which was done by reviewing extensive literature survey to find out the supply chain practices, challenges faced by the retailers and variables of supply chain enablers which are affecting supply chain efficiency and responsiveness. Various Research papers, articles, dissertations, Reference books are used for secondary sources of data collection

In the second stage, the pilot study was conducted by structured interview of 25 selected respondents. The results were then analysed by using the SPSS on the reliability analysis test. All items scores represent an excellent level of agreement since it is considered that scores greater than 0.50 are said to be acceptable (**Bhatti et al., 2012**).

In the third stage of primary data collection for Supply chain enablers information, practices and challenges and as well as for efficiency and responsiveness information the store managers from total 85 supermarkets' store managers are being interviewed by taking prior appointment .All items for efficiency and responsiveness were measured on scales with response option ranging from 1 (No Impact) to 5 (Very strong Impact).

8.4-Questionnaire Design-

Effective questionnaire in a structured format is essential since its quality leads to the success of a research.(**Sundram, Rajagopal, & Bhatti, 2013**), So a structured questionnaire is prepared by consulting to experts in the field on the basis of variables identified in literature review and by doing gap analysis. Content validity depends on how well the researchers create measurement items to cover the domain of the variables being measured (Nunnally, 1978). The evaluation of content validity is a rational judgemental process not open to numerical evaluation. Usual method of ensuring content validity is an extensive review of literature for the choice of the items and getting inputs from the practitioners and academic researchers on the appropriateness, completeness, etc.So experts from the supply chain area are consulted for finalizing the questionnaire for unidimensionality which indicates that all of the items are measuring a single theoretical construct

8.5-Limitations of the study-

The research is being carried out in city of Mumbai and Navi Mumbai so results can not be generalised. The study covers supply chain practices of supermarket group in FMCG category. For in depth analysis the selection was made but further study can be carried on other formats of retail industry like hypermarkets, Departmental stores etc. and even in other categories also.

Data Analysis and Interpretation

Primary data of selected supermarkets' supply chain practices is analysed as follows:

1. Major suppliers -Direct Manufacturers, Distributor / Stockiest, Wholesaler.

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|---------------------|-----------|---------|---------------|--------------------|
| Valid | Direct Manufacturer | 31 | 36.5 | 36.5 | 36.5 |
| | Stockist | 48 | 56.5 | 56.5 | 92.9 |
| | Wholesaler | 6 | 7.1 | 7.1 | 100.0 |
| | Total | 85 | 100.0 | 100.0 | |

Interpretation-From table 1,56%of the retailers(Supermarket owners) have Distributor or stockist as supplier,36.5% have Direct manufacturers as suppliers and only 7.1% have wholesaler as suppliers.

2 . Warehouses - centralized/Decentralized

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|---------------|-----------|---------|---------------|--------------------|
| Valid | Centralized | 60 | 70.6 | 70.6 | 70.6 |
| | Decentralized | 25 | 29.4 | 29.4 | 100.0 |
| | Total | 85 | 100.0 | 100.0 | |

Interpretation -70.6% of retailers have centralized and 29.4% have decentralized warehouses.

H_{3a}. Number of suppliers is having significant impact on lead time

As p value is <.05, H_{3a} is accepted means there is a significant impact of number of suppliers selected and Lead time. Retailers having up to 10 suppliers are found to have lead time less as compared to retailers having 10-30 suppliers.

H_{7a}. There is association between number of suppliers and availability of goods which are demanded

H_{7a} is accepted means there is association between number of suppliers and availability of goods which are demanded. Retailers having up to 10 number of suppliers are found to have very high impact on availability of goods which are demanded than retailers having more than 10 suppliers. H_{7b}. There is association between frequency of communication with suppliers and availability of newly launched goods

H_{7b} is accepted means there is association between frequency of communication with suppliers and availability of newly launched goods. Retailers having frequency of weekly communication with the suppliers are found to have very high impact on availability of newly launched goods.

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