Winning in Retail Through Effective Supply Chain Execution

Now that we know what Supply chain management is all about, the next big question could be, 'how one uses this practice or concept to improve both top and bottom line of a business. Any business that manufactures a product or provides a service is inherently reliant on their dedicated and potential customers or consumers to help drive growth. One of the first things those businesses have to do is to conduct a segmentation exercise to identify their market, who their customers are, where they are located, where they shop, their buying patterns and habits amongst others. Armed with this knowledge, which must be sought with their customers' consent, a business then works on tailoring their operating model to service their customers at the most cost-effective rate.

An operating model speaks to the way a business sets up their processes, technologies, roles, assets and structures to deliver on its promises or more specifically, their customers' desires. In driving growth to the top-line, commercial leaders seek out every opportunity to sell the next 'case' or 'item' to their end consumer. To ensure this is possible, plugging the gap between customer desires and product availability requires effective synchronisation of all parts of their operating model. With respect to the bottom-line, business leaders within the commercial organisation, are usually tasked with improving their cost to serve. At a high level, this involves optimising costs of their salesforce, distributor operations, merchandising and logistics in every segment they play in.

Commercial leaders constantly seek for the right place to sell their products. If we focus on retail in Lagos as an example, they have a choice between a limited but growing 'modern trade' segment and a very large 'traditional trade' segment. The nature of the product would generally determine where it can and should be sold. If the product is regarded as a luxury item, a business might decide that it wants to maintain a certain standard or clientele, hence, only make its products available in a particular class of retail store. If the product is regarded as an everyday consumer good, the business may decide to increase numerical distribution of their products in both modern and traditional trade, hence pushing for more 'availability'.

As shopper lifestyle and buying preferences change, the business would also need to make their products available via their target shoppers' preference. This could be over the phone or via the internet. This way, they would cater for every customer shopping preference and increase their ability to grow their top-line. Businesses offering their products virtually have to pay particular attention to the accuracy of the information which is provided virtually. For example, if I chose to buy an item and opt for purchasing this virtually (over the internet), I would browse through an online catalogue which would show me what exists, the quantity available and the corresponding prices. After a few moments, I make my decision on what item to purchase and proceed to payment or place my order (if given the option to pay upon delivery). Once my order has been placed, my expectation is that the item(s) which I ordered will be delivered when the retailer advises as the expected delivery date or better still, when I requested. If the retailer fails to deliver on my expectations and attributes this failure due to inaccurate information on their website, this would highly lead to a 'lost sale' and potentially 9 or 10 further lost sales. This goes on the premise of the historical saying, 'if a customer goes into a store and does not see the item they wanted to purchase, on average they pass this information on to 9 or 10 other potential customers; this not only results in that lost customer but a potential further 10 for that business'. This is an example of where inappropriate demand and inventory management leads to lost sales, an issue which could have been easily avoided with the right practices being applied.

A similar issue could occur when a manufacturer aims to introduce a new product into the market. There are several steps involved in this process from getting customers involved in the new product ideation/creation phase, to getting the final product to the market. A key element which needs to be done right is demand forecasting for the new product to be introduced. Forecast too much and you're left with excess inventory of stock which may quickly become 'slow or no movers' and create an unwanted 'hole' in the coffers (impacting the bottom-line); forecast too little and you're left reeling with the loss of the potential sales uplift which would have the business shareholders smiling all the way to the bank.

Due to the nature of the market environment in Nigeria, several players within the consumer goods space rely on channel partners to get their products to end consumers. As mentioned above, businesses would generally conduct a segmentation exercise to determine 'who to serve' and 'how best to serve'. This would mean that channel partners become an extension of a consumer goods company for service delivery to customers and consumers. Through those partners, they set standards and rules of engagement to ensure their brand value is maintained and the desired customer experience is delivered. Depending on the operating arrangements between channel partners and consumer goods (CGS) players, these channel partners could help in conducting customer relationship management (CRM) activities to help the CGS players better tailor their offerings in the market. This also helps with better synchronisation with their suppliers. CGS players, with better knowledge and information on their customers' are better placed to relevant better information to their suppliers on quantities of materials required to meet customer demand.

As CGS players generally manage a large pool of suppliers for different materials, they would also need to conduct supplier relationship management (SRM) activities to build, strengthen and secure their supply of the appropriate quality and quantity to service customer demand. Procuring a near accurate quantity of materials to meet the demand requirement is half of the battle won. The materials still need to go through a production process before they are in a position to be made ready for delivery. Getting the products (in their finished state) out to the market before the customer walks into the retail store or places an order online differentiates the winners from the laggards.

Changing our perspective to the channel partner or retailer, these businesses may look out for which CGS player provides value added services e.g. reverse logistics, to help free up warehouse space within their operations. For example, if a retail outlet has a choice to make between stocking brands sold by two different beverage companies, they would most likely use competitive parameters to aid this decision. If one however offered to pick bottles from the retailer or channel partners' premises whilst the other did not offer this service, all other things being equal, the retailer would most likely prefer to stock more products sold by the company offering reverse logistics services. This extra service provided, could determine which of the 2 beverage companies fared better in retail.

There are several elements that need to be brought together to give any business a chance to succeed in any market. A key point to note is that if a business does not have the right information to procure goods and deliver them when and where required whilst also forging the right relationships with channel partners and offering differentiated services, that business is more likely to have to settle with chasing a leading pack.

Gomes is the Practice Lead at KAG Advisory, a Business & Supply Chain Consulting Firm.