Quite a few companies have realized the importance of developing distinct supply chain strategies that are aligned with business strategies. This helps them capture cross-enterprise opportunities that not only generate cost and capital efficiencies, but also help drive top-line opportunities. However, in India the idea of letting the supply chain enter the corporate boardroom still seems somewhat alien to many.

Organizations have always been tinkering with their supply chains in the hope of identifying/quantifying improvements and transforming their operations across the chain right from suppliers to the ultimate customer so as to achieve true strategic change and competitive advantage.

With the advent of the drive towards supply chain efficiency, the early nineties witnessed the move towards accelerating the flow of goods and services by integrating elements of logistics, manufacturing and marketing into cross-functional inter-organizational processes. The key strategic intent of this move was to "get there first". Organizations went after improving the efficiency of product flows from the production of raw materials all the way through to the marketplace where finished goods were delivered to the final consumer.

However, it’s only in the recent years that organizations have realized the importance of strategizing on their supply chains. A key contributing factor has been the fact that modern supply chains are no longer simple linear chains or a confluence of different processes constantly pushed for optimization. They’ve morphed into complex networks where there is a constant exchange of products and information between different nodes, both within and outside the network that links departments, organizations and even industries.

“The scope of supply chain for organizations has expanded in recent years. Now they've started saying that our supply chain does not end when our product goes out of the company door, but it ends only when the product reaches the final customer,” says Ramesh Srinivas, executive director, KPMG.

Today irrespective of whether the company owns the physical elements of the supply chain or only a part of it, or none at all, any issue that has a bearing on customer fulfillment is becoming organization’s supply chain responsibility. The challenge is to identify the critical components of the supply chain—internal or external—which need to be planned, monitored and executed upon.

**WHAT IS A GOOD SUPPLY CHAIN STRATEGY?**

There can never be a single one-size-fits-all supply chain strategy. It tends to vary from company to company (sometimes a single company might even have multiple supply chain strategies).
strategies). However, a good supply chain strategy can broadly be defined as one that aligns well with a company’s business strategy.

Dell is a classic example of aligning a business strategy with a supply chain strategy. In the late 80’s and early 1990’s Dell’s business strategy was differentiation through low cost, speed of delivery, and customer service. The primary channel for sales was from customers to call centers. However, with the emergence of the Internet, the company began to feel the need for greater differentiation. Hence, it began to formally integrate operational components (logistics, manufacturing, distribution, inventory management) and developed a supply chain strategy that focused at driving costs out of the supply chain while being extremely attentive to customer service at the same time.

While externally Dell worked with suppliers to help control costs and improve customer service, its retail direct strategy entails direct order processing from the customers, building computers to given specification, and delivering it in a matter of days. To support this model, Dell asked its suppliers to keep inventories within 15 minutes of the manufacturing locations. Every two hours, the factory planning system sends out a computerized message to suppliers detailing what parts the plant needs. That means there is almost no inventory of parts or products in the factory.

The made-to-order strategy has not only given Dell a significant working capital advantage, but also allowed it to get to the customer before the competition does.

**INDIA**

Yet, despite this apparent relation, in India the idea of letting the supply chain enter the corporate boardroom still seems somewhat alien to many. While no one questions the criticality of SCM, there aren’t too many companies which treat SCM in a strategic light.

Says Devangshu Dutta, chief executive, Third Eyesight, “Supply chains, for most companies, is largely a support function, rather than a board-level or C-level strategy function. However, in those companies where supply chain (outward, inward or both) can be the difference between success and failure, the supply chain function is now beginning to report to the CEO, and is being seen as a strategic function. These include products (such as fresh farm produce or quick service restaurants) where proprietary supply chains can support product differentiation or significantly impact margins.”

Most Indian companies approach supply chains tactically than strategically. Many of them don’t realize the demerits of a tactical approach. A tactical supply chain strategy lacks the long-term vision and is not best suited for achieving the corporate objectives of the organization.

“The nature of modern trade is such that there are multiple stakeholders in a typical supply chain. A strategic supply chain philosophy helps bring all the stakeholders present throughout the chain, right from sourcing through to distribution in sync with the principal company. Here they all share a common objective, which reduces anomalies in the supply chain and equip the company to cater to changing market dynamics more efficiently. While a tactical approach may help the organization come up with a quick-fix solution to a temporary problem, it does not prepare them for the long-haul,” opines Jasjit S. Sethi, CEO, TCI Supply Chain Solutions.

Given these incentives, one often wonders why supply chain managers don’t do the rounds of the corporate meeting rooms as often as they should or have a greater say in the scheme of things.

Having said this, not all companies tend to keep their supply chain ‘guy’ out of the boardroom. There are those who realize the importance of letting SCM personnel in and hear what they have to say on strategic issues.

“Supply chain is one of the most critical factors in the success or failure of any organization. One can have the best of products at most competitive price points but if the product can’t make it to the right customer at the right time, then organization suffers. Hence, in our case this is a matter which is discussed at the top and the supply chain head is part of the critical decision-making process and is such that supply chains teams are in constant touch with the market where they get exposed to new opportunities, emerging technologies, new business avenues, making them an excellent preliminary source for refining strategic ideas.”

**OUTSOURCING – PRECURSOR TO A STRATEGIC SUPPLY CHAIN**

Outsourcing the supply chain or portions of it has become an increasingly popular strategy in the last few years. It is common among organizations globally to evaluate opportunities to outsource non-core functions. The logic behind outsourcing is rather simple, if someone else can do it faster, better, cheaper, then why not outsource and focus more resources on the core competencies.

However, the trend hasn’t truly caught on in India just yet. Most Indian organizations still rely on their in-house “expertise” to manage the supply chains. But for once, Indian user organizations don’t need to be blamed for the slow pace of adoption of supply chain outsourcing. They don’t seem to have too many inhibitions about bringing in external partners in the supply chains. If
anything, it’s the dearth of capable service providers that could be held responsible for slow adoption rates.

According to Girish Bhave, GM, SCM, Raymond Ltd, “The problem is more with the maturity of the service providers in the country. Barring a very few exceptions, the vast majority of supply chain and logistics service providers in the country lacks the necessary expertise to cater to the needs of the users. They can not deal with user organizations as their equal partners, take ownership of the supply chain and manage it for the users.”

Concurring with Bhave’s views Goel says, “As a company, we firmly believe in outsourcing, however, the industry needs to catch up with us and needs to evolve before supply chains can be outsourced here in India.”

Thus, it comes as no surprise then that currently only a few companies dare to outsource and that too not the entire supply chains but only parts of it. Component such as logistics, warehousing or distribution are usually outsourced the most. In India outsourcing is still largely transaction driven rather than process driven and hence manufacturing or supplier management and other processes don’t usually get outsourced.

**STRATEGIC SERVICE PROVIDERS**

However, with user organizations getting ready to embrace outsourcing, it might not take too long for the status quo to change.

Third Eyesight’s Dutta says, “More and more Indian companies are looking at outsourcing as a viable and feasible option—this is far removed from the earlier approach of complete ownership and vertical integration. Certainly, as outsourcing becomes more formal, structured and strategic, service providers and suppliers are being seen as “partners” who need to not just understand the supply chain strategy, but possibly even contribute to developing the strategy in the first place.”

In fact, it’s already happening, albeit slowly. Increasingly, there are instances of companies outsourcing their supply chain operations to external third party service providers.

Sethi says, “Currently there are a few accounts for which we as service providers manage almost the entire supply chains of the customers. For instance, for one of our clients from the automotive sector, we at one of their plants manage the inbound logistics, the line feeding, the outbound operations, and even provide spare parts to them. We’ve got our people and resources dedicated for that facility. We keep a constant tab on everything. Absolute secrecy is maintained at all times, no

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**The Six Principles of Strategic Positioning**

To establish and maintain a distinctive strategic positioning, a company needs to follow six fundamental principles.

First, it must start with the right goal: superior long-term return on investment. Only by grounding strategy in sustained profitability with real economic value be generated. Economic value is generated only when customers are ready to pay a price for a product or service that exceeds the cost of producing it. When goals are defined in terms of volume or market share leadership, with profits assumed to follow, poor strategies often result. The same is true when strategies are set to respond to the perceived desires of investors.

Second, a company’s strategy must enable it to deliver a value proposition, or set of benefits, different from those that competitors offer. Strategy, then, is neither a quest for the universally best way of competing nor an effort to do all things to every customer. It defines a way of competing that delivers unique value in a particular set of uses or for a particular set of customers.

Third, strategy needs to be reflected in a distinctive value chain. To establish a sustainable competitive advantage, a company must perform different activities that rivals or perform similar activities in different ways. A company must configure that way it conducts manufacturing, logistics, service delivery, marketing, human resource management, and so on differently from rivals and tailored to its unique value proposition. If a company focuses on adopting best practices, it will end up performing most activities similarly to competitors, making it hard to gain an advantage.

Fourth, robust strategies involve trade-offs. A company must abandon or forge some product features, services or activities in order to be unique to others. Such trade-offs, in the product and in the value chain, are what makes a company truly distinctive. When improvements in the product or in the value chain do not require trade-offs, they often become new best practices that are imitated because competitors can do so with no sacrifice to their existing ways of competing. Trying to be all things to all customers almost guarantees that a company will lack any advantage.

Fifth, strategy defines how all the elements of what a company does fit together. A strategy involves making choices throughout the value chain that are interdependent; all a company’s activities must be mutually reinforcing. A company’s product design, for example, should reinforce its approach to the manufacturing process, and both should leverage the way it conducts after-sales service. Fit not only increases competitive advantage but also makes a strategy harder to imitate. Rivals can copy one activity or product feature fairly easily, but will have much more difficulty duplicating a whole system of competing. Without fit, discrete improvements in manufacturing, marketing, or distribution are quickly matched.

Finally strategy involves continuity of direction. A company must define a distinctive value proposition that it will stand for, even if that means forgoing certain opportunities. Without continuity of direction, it is difficult for companies to develop unique skills and assets or build strong reputation with customers. Frequent corporate “reinvention,” then, is usually a sign of poor strategic thinking and a route to mediocrity. Continuous improvement is a necessity, but it must always be guided by a strategic direction.

Supply Chain Strategies

According to Sethi, partnering with external parties on the supply chain in many ways is a better option because in such relationships performance of the supply chain can be relied on and measured. “Many a times it is easier to have KPIs with a third party than it is within one’s own organization because the concept of internal customer never really evolved in India. However, when you have a contractual agreement with a third party, it is important to establish KPIs that specify the minimum service standards that the service provider must meet during the tenure of contract,” he further added.

MNC TWEAKS

Today India is home to a number of Fortune 500 companies and global MNCs. Regardless of whether they have been here for decades, just come in,
Supply Chain Strategies

Points You Can’t Forget

- **Understand “The” supply chain**
  A thorough understanding of the development of supply chain and logistics is a prerequisite to formulating any supply chain strategy. While this holds true for any advanced supply chain activity, it has special significance in the case of SCS. Strategy by its very nature is fairly complicated, adding the supply chain component increases the complexity to a completely different level.

- **Understand “Your” supply chain**
  Every company’s supply chain is unique. Strategically positioning your supply chain with your overall business model requires a good understanding the unique characteristics - good or bad - of your supply chain. Otherwise, you will find yourself repeatedly running into dark corners while executing your plans. Worse still, you could end up missing critical parts that should have been the key differentiators in your strategy.

- **Top Gun’s baby**
  This might sound too farfetched, but it’s true. Companies’ where CEOs realize the potential gain from adopting supply chain strategies are the ones to firm up their plans in this crucial area. For the rest it will be the same old tale of “lack of initiative on the part of the senior guys”.

- **Measure, or be blinded forever**
  The old adage that you can’t manage what you can’t measure is very apt for the supply chain. Strategies have to reply on manageable parameters to be effective, and the sooner you start deciding and diligently measuring these parameters, the better are your chances of being satisfied with your “supply chain strategy”.

- **Get out of the “India is a tough market” mode**
  India is a tough market; everyone knows this bit. But a lot of senior executives seem to have created a comfort zone for themselves by blaming everything on the “toughness” of the market. Staying miles away from this mentality is the best way out. Ensure that such a comment does not seep into any of the your meetings. Will be tough, but it will go a long way in bringing that much required change in attitude.

- **The “this is how it works in India” trap**
  This is a bigger plague that we can possibly explain. Everybody knows about this. And practically most of us have used at some point. It makes sense at a lot of places, and helps when you use it to identify what needs to be localized to Indian needs. Or what Indian aspects need to be rectified and can possibly turned into the global way. But it becomes a huge headache when it is used in the wrong context, typically to justify problems that arise because of short-sight.

- **The rise of 3PL**
  Complete outsourcing of transportation, warehousing and other logistics activities to a single logistics service provider is still not very predominant. But this will increasingly be the case because in an environment as complicated as India, the service provider will need more space to stay profitable. But being the single point for all logistics related activities, these LSPs will be in a position to wriggle out more efficiencies from their customers’ supply chains.

- **Low on assets, high on sophistication**
  Increasingly, the key differentiator will be the ability of the service provider to understand supply chains and deliver results. This will provide opportunities for a select group of LSP with lower assets, but more sensitivity to the requirements of the customers to turn into that much sought after single-window service provider.

- **Warehouses will do more than just provide value added services**
  While warehouses will eventually offer more value added services such as consolidation, deconsolidation, packaging, repackaging, labeling, etc. they will also have to be used to carry out other activities such as final assembly, testing, disassemble, repair, recycling, etc. This will help companies’ better service the varied product demand across various regions/states in the country.

Some questions to ask before embarking on strategic Supply Chain initiatives:

- How has your distribution landscape changed over the past five years?
- How have the customer preferences changed in the same time frame?
- How geared were you to identify these customer changes?
- Is there something that your supply chain could have done to help you better cater to the changing needs of the customer?
- Can you measure the results of the incremental changes being made to the supply chain?
- How much can your company invest in supply chains over the next three years?
- What is the cost of holding your current inventory —direct and indirect?
- Do you use rigorous calculations to get these values?
or are preparing for it, all have quickly realized the importance of localizing their supply chains for India.

“Most multinationals have had to adopt supply chain strategies unique to the Indian market because replicating their global supply chains could have resulted in utter failure if not total disaster,” says Dutta, “Indian market opportunities are very different. They are fragmented with often significantly lower revenue per unit than in most developed economies. Cost structures here differ significantly than in other economies and the infrastructure is nothing like what these MNCs have back home.”

As a result, a lot of global companies operating in India have begun subscribing to a theory of global planning and local execution.

Nivea, one of the world’s biggest skin care product manufacturers has adopted a strategy which resembles this trend, here in India. Though Nivea products have always been present on the shelves of Indian retailers, till about two years ago the company didn’t have a direct presence in the country. Even today almost 80 percent of Nivea products are imported into the country. Some of its products are, however, manufactured locally through third party contract manufacturers. For this, it sources and imports the essential raw material, components and the packaging material and provides them to the third party manufacturers.

The company operates a total of 13 warehouses in the country, a slightly higher number by the European standards. It has to do this to compensate for the highly fragmented nature of the market. Also, India is perhaps the only country where it continues to manufacture and offer its legacy talcum powder because of where it continues to manufacture and offer its legacy talcum powder because of the consumer demand.

Giving his two cents on supply chain changes, K. Parmeshwaran, head, supply chain, Nivea India says, “Most of the FMCG and CPG companies in India are reworking their supply chains both inward as well as outward to a great extent. A lot of companies who’ve been here longer have already optimized sourcing and manufacturing part of their supply chain to a great extent and now are trying to optimize the demand side of the supply chain. FMCG companies are now trying to understand the secondary and tertiary demand and they are trying to invest heavily in infrastructure and IP and get insights into understanding product reach and customers.”

Dell’s supply chain model is yet another example of this trend. Bulk of Dell’s supply chain practices are decided globally, but in terms of how they actually do the distribution in a specific country is decided locally. They are free to set up warehouses, create their own networks and distribution channels and not follow any preset norms.

Commenting on the trend, KPMG’s Srinivas says, “Global organizations are constantly stressed to achieve objectives such as customer and market responsiveness, reduced-time-to-market, low cost, high quality, which forces them to innovate new supply chain models and resolve bottlenecks. This model provides flexibility for organizations to try out different supply chain combinations and see which one works out the best.”

Some of those companies who’ve been in India for a while have adapted very well to the local scenario and have worked different supply chain models than their global ones. As far as tweaking the supply chains are concerned different companies bring in different measures to tweak their supply chains.

Companies such as McDonald’s have had to create supply chains from scratch before they could open their first outlet in India. They had to do this so that they could provide the consistency and quick service that end-customers would expect from McDonald’s anywhere in the world.

**NESTLE INDIA**

Despite being an outsider, Nestle in India seems just as Indian as any other FMCG company of native roots. It is present everywhere so much so that no matter where you go in India, you can never be too far away from a Maggi, a Nescafe, Kitkat or a Polo. The credit of course goes to the incredible supply chain network that Nestle has established.

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**The Strategic Givens: Assumptions of Modern Strategy**

It’s helpful to overtly identify and understand the broad assumptions that underlie your strategy, to know what the basic cornerstones of your paradigm are. Here are five useful indicative assumptions for the modern business world.

1. **Today the rate of change is exponential, not incremental.** This is a crucial starting-point. Things are changing at a fast-forward, willy-nilly pace. This makes it very difficult to use conventional modes of thought, measurement, or planning. Often things don’t build up or add up, they just explode to a new level.
2. **Things will never “get back to normal”—this is normal!** The so-called glory days of the bygone past have gone. And they won’t be back. So, the new Thoughtware says, “Get over it! Get used to it! This is normal from now on!”
3. **Plan as we may, the future has plans of its own.** Because exponential change is here to stay, we have to look down the road with a 20/20 vision, focusing on the next 20 minutes and the next 20 years simultaneously. The bad news is that the number of senior executives and the key managers who possess 20/20 vision is minimal. The good news is that these are learnable cognitive skills that a few training programs can teach you.
4. **Organizations that learn how to learn, ask the right questions at the right time, and find out how to find the answers will thrive to a global economy.** Astute organizational strategists know that an organization’s verbs will supplant its nouns, that is, diverse methods and responsive processes will be more powerful than tried-and-true facts and off-the-shelf systems. And asking the right questions at the right time will determine the most sustainable and viable solutions.
5. **The productive organizations that will excel will be ones that value flexibility, diversity, integrity, co-operation, and innovation.** It’s no longer sufficient to add value to products; we have to add values into both the process and the product. Customers, creditors, consumers, and our conscience now require it.

*Source: Page 93, Business The Ultimate Resource, 2002*
Supply Chain Strategies

in all the years it’s been present in the fragmented Indian market.

The company has always laid considerable thrust on operational efficiency; improving product availability and visibility. To this end it has continuously focused on improving the supply chain to reduce wastage, improve efficiencies and provide consumers with fresh stocks all the time.

Some of the key supply chain priorities for the company are reduction in the finished goods inventory pipeline to improve freshness of stocks and lower working capital, control on distribution costs through innovative measures and reduction in obsolescence of materials.

ACER INDIA

One of the world’s leading branded PC vendors Acer hasn’t taken too long to move up the ladder and become one of the top selling brands in the Indian subcontinent. Acer doesn’t have any manufacturing facilities in the country and relies solely on its distribution capabilities to compete with other vendors in the country. Company’s Indian operations are “Acer Global operations modified to meet the needs of Indian requirements”. Acer facilitates quick turn around time to its customers and fresh technology by using just-in-time inventory (JIT).

“One of the critical success factors in any outsourcing model is identification of partners as per needs. More often than not we fail when we are not able to define very specific requirements. Once these are defined, identification of right partner with long term commitment is important. We should also be able to ensure that the business model we are offering is extremely viable for the partner. If not sooner or later either partner will start cutting corners or will reduce the service level or ultimately collapse,” says Goel.

For Implementing an Effective Change Program

DO

✓ Appreciate the depth of employees’ resistance to change. Plan for resistance and cost it in terms of additional training and communications.

✓ Select priorities for change instead of attempting to address everything at once.

✓ Plan to deliver early tangible results and publicize successes to build momentum and support.

✓ Involve employees at every stage of designing and implementing change.

✓ Make sure top management sponsors and is fully committed to the agreed implementation.

DON’T

✗ Don’t get lost in detail or lose sight of the version: real change often comes through a simple breakthrough.

✗ Don’t skimp on resources for training or communications.

INDIAN COMPANIES BUILDING GLOBAL SUPPLY CHAINS

Lately, there have been reports of Indian companies experimenting with a new kind of supply chain strategy. While some of the world’s leading companies are flocking to India to exploit its low cost sourcing and manufacturing capabilities, Indian companies are increasingly looking outwards and scouring foreign markets for the same.

Case in point, Tata Motors has been reported to have been purchasing automotive components from places like Malaysia, China, South Africa and Thailand in the last few years. It’s also been sourcing steel from countries including Russia, China, Belarus, Japan, and South Korea. It’s rationale, building a ‘global supply chain’.

While Tata Motors is busy building itself a global supply chain, component manufacturer Bharat Forge claims to have already built one such chain for itself. The company says that its global supply chain wherein all its procurement is presently coordinated through its Germany based global purchase manager.

And the trend is not limited to one or two verticals, but Indian companies from across verticals are emulating the global supply chain strategy. Steel giants like Tata Steel and Ispat have been reported to purchase coal from places such as South Africa, Nigeria and Mozambique to run their Indian plants, whereas FMCG firm Emami is known to source critical chemical ingredients from US and Spain. Tiles manufacturer Nitco already has a contract manufacturing agreement with a China based manufacturing company and Tata Group’s consumer electronics retail arm, Croma’s sourcing is handled by its Australian partner.

These instances bear a clear testimony to the fact that across sectors, companies are making concerted efforts to reshape their supply chains and trying to discover global supply chain partners whether it be procurement or manufacturing. It is interesting to notice that their choices aren’t always driven only by low cost, but these companies are increasingly basing their decisions on factors such as quality, efficiency, geographical proximity, etc.

One of the primary reasons for Indian firms opting global supply chain model is their growing global footprint. In the last few years there have been numerous acquisitions made by Indian companies. This in turn has exposed them to global supply chain partners. It makes sense for them to consolidate their purchasing and manufacturing practices and develop a global supply chain.

GEAR UP FOR CHANGE

It is quite obvious that quite a few companies are increasingly realizing the importance of developing distinct supply chain strategies that are in alignment with their overall business strategies. Many have even managed to get a grip on the strategies. What now remains is to go ahead with the required execution, a task that will place huge change management pressures from all parties involved—in particular the supply chain heads.