

## CHAPTER 1.0 INTRODUCTION

### 1.1 Significance Of The Distribution System

At the retail level, increasing competition for often no-growth markets has emerged from a variety of non-traditional grocery operators such as mass merchandisers, pharmacy chains and cash & carry outlets. The many channels have led retail operators and suppliers alike to re-evaluate every stage of the distribution system in search of cost reduction and profit enhancement opportunities in response to increasingly demanding consumers, the shifting competitive environment and rapidly changing technologies. There is clearly a need to look at the inefficiencies within the grocery industry supply chain that have led to excessive inventory and unnecessary costs within the traditional supply chain.

### 1.2 Objectives Of This Study

This study is to describe the structure of the Malaysian distributive trade, in particular the grocery distribution system, reviews channel inefficiencies, highlight the fundamental differences with other distribution systems established in developed countries such as in the United States and to discuss the logistics challenges facing Malaysian managers in the new millennium. The scope of this study is necessarily confined to the manufacturer's downstream distribution activities i.e. the movement of fast moving consumer goods from the manufacturer, through the distribution network and finally onto the display shelf in the retail outlet. The study will focus on a major component of the distribution trade, that is the order fulfilment process. Order fulfilment is central to supply chain management, which attempts to eliminate unneeded and redundant costs from grocery distribution channels. As such, an understanding of the current order fulfilment practices and expectations regarding how they will change in the future will make an important contribution to both the retailer and supplier, in their efforts to make their distribution systems, more responsive and efficient.

The general plan of this study is to first describe the characteristics of the grocery distribution system in Malaysia. Attempts are made to answer the following questions:

1. What are the characteristics of the grocery distribution system in Malaysia?
2. Why is the distribution system important?
3. How different is the Malaysian distribution system when compared with that present in a developed country such as the United States?
4. What are the inefficiencies present in the Malaysian distribution system? What are the causes?
5. What are the performance enhancing distribution practices that retailers and suppliers can adopt?

It is estimated that at least half of the average retail prices of goods in Malaysia are currently absorbed in distribution costs. From the point of view of the economy and society as a whole, more effort put into discovering better ways of distributing products will be worthwhile.

### 1.3 Research Methodology

For the purpose of this study, primary data was collected from a combination of senior executive interviews and circulation of standard questionnaire on key elements of supply chain management to such personnel for their input. Personal interviews were conducted with senior executives from 3 leading Fast Moving Consumer Goods (FMCG) manufacturers and 3 leading mass merchandisers/retailers for their insights into the retail distribution system. Thus the views expressed in this study capture the directions, both current and projected on distribution management, of the key industry players within the Malaysian consumer goods industry. Secondary data which were mostly statistics, were taken from various public publications.

## 1.4 Standard Questionnaire Employed In The Interviews Of Key Personnel

During the course of the interview, interviewees were asked a series of questions on current distribution practices, order fulfilment issues and how they expected to meet the industry challenges ahead. These are detailed in Appendix A (Manufacturer) and Appendix B (Retailer). Rather than confined interviewees to just the pre-defined questions and answers, the conversation was allowed to flow to encourage further insights and wider perspectives on related issues.

## 1.5 Definition of Terminology

### *Distributive Trade*

The definitions employed in this study are taken mostly from the "Survey of Wholesale and Retail Trade and Catering, Malaysia, 1993." While the following definitions are wide in scope, the study here is confined to areas directly related to the grocery industry. The wholesale and retail trade are collectively referred to as the distributive trade.

### *Wholesale Trade*

Wholesale trade is defined in the survey as:

"the resale (sale without transformation) of new and used goods to retailers, to industrial, commercial, institutional or professional users; or to other wholesalers; or acting as agents or brokers in buying merchandise for, or selling merchandise to, such persons or companies. The principal types of businesses included are merchant wholesalers (who take title to the goods they sell), industrial distributors, exporters, importers and co-operative buying associations, sales branches and sales offices (but not retail stores). Also included are merchandise and commodity brokers, commission merchants, agents, assemblers, buyers and co-operative associations engaged in the marketing of farm products.

Wholesalers frequently physically assemble, sort and grade goods in large lots, break bulk, re-pack, re-distribute in smaller lots, e.g. pharmaceutical; store, refrigerate, deliver and install goods, and engage in sales promotion for their customers and label design."

### *Retail Trade*

Retail trade is defined in the survey as:

"the resale (sale without transformation ) of new and used goods to the general public, for personal or household consumption and utilisation, by shops, department stores, stalls, mail-order houses, hawkers and peddlers, consumer co-operatives, auction houses, etc. Most retailers take title to the goods they sell, but some act as agents for a principal and sell either on consignment or on a commission basis."

### *Distribution System*

Distribution system as defined by one authority is:

"the logistic management of resources and assets across the supply chain, to ensure that the physical flow of products meets the defined service level requirements throughout the supply chain. The supply chain is made up of the material supplier, the facilitating transporter, manufacturer, warehousing facility, distributor and the retailer."

The concentration of this study will however, only be on the manufacturer's downstream logistic activities.

## 1.6 Organisation Of This Study

It is perhaps useful to provide a brief outline of the chapters here. Chapter 1 provides an overview of the issue, objective and rationale of the study. Research

methodology and the definition of the various terms used are also covered in Chapter 1. Chapter 2 reviews the literature and previous work done on distribution. Chapter 3 details the structure of supply distribution in Malaysia and the inefficiencies within the present distribution system, which form the core of this study. Chapter 4 presents a summary of the findings and introduces Efficient Consumer Response (ECR) as a performance enhancing distribution practice to tackle inefficiencies in the supply chain. Chapter 5 presents the developments in grocery distribution in Malaysia and the impact arising thereof to the distribution system. Chapter 6 presents the conclusion and recommendations for further development of ECR in Malaysia and of further research in the area of distribution management.