

## CHAPTER 4 PERFORMANCE ENHANCING DISTRIBUTION PRACTICES

### 4.1 Summary Of Findings

The interviews revealed that both the manufacturer and the retailer consider distribution management as an important part of their business. Both recognise that the Malaysian grocery industry is a 'push system' that leads to high inventory and other inefficiencies as mentioned in Chapter 3.4. While distribution management may be slightly more urgent for the retailer, both recognise the challenges and potential from this aspect of their business. In the interviews, respondents from both parties returned an affirmative response to cut the present order lead time from an average of 7 days to 2/3 days within the next two years.

It would appear that it is impossible for retailers and manufacturers to have strong successes without sound strategies. This has thus led to the development of distribution management concept such as the Efficient Consumer Response (ECR) where industry players work together on supply chain management to address inefficiencies in the distribution system in a bid to meet customers' changing expectations. The challenge is for the retailer to achieve the benefits of enhanced service level from the manufacturer towards efficient product replenishment (including full orders, response time and delivery frequency), at lower total logistic cost.

Industry executives consider supply chain management and information technology as important challenges with the greatest potential for competitive advantages. Issues related to these areas will define the industry in the coming years.

### 4.2 ECR As a Distribution Management Strategy

Efficient consumer response (ECR) originated in the US as a result of direct threats from alternative store formats and their supply chains which highlighted

major inefficiencies within the retail outlets and its supply chain (Kurt Salmon Associates, 1993).

There is lesson to be learnt from the likes of Walmart. In the US, the retail industry wake-up call came in the early 90's when consumers got sick and tired of paying excessively high prices. Consumers saw wide swings between promotion and shelf pricing brought on by aggressive promotions among competing retailers that further undermined consumer's trust in the brand and the retailer which led to declining loyalty. Consumers were conditioned to be promotional shoppers which led to further decline of the brand and store loyalty. Walmart understood the waste in the system and they understood the consumer. By creating superior logistics and cash flow management, Walmart was able to sell national brands averagely 6-8% below the traditional grocery trade. Walmart went on to become a \$100 billion company in 1996, in large part through building of consumer loyalty and trust through their reliable low prices and superior management of the supply chain.

In order to survive, US grocery industry leaders took an initiative to study on how to improve the performance of the grocery supply chains. As a result of their study, the ECR initiative was established and the term " efficient consumer response" was first introduced at the US Food Marketing Institute Conference in 1993 (Robins, 1994).

The ECR initiative is concerned with transforming the grocery supply chain from a "push system" to a "pull" system, where trading partners form new alliance relationships and the replenishment of store products initiated by point of sales data. ECR, also known as supply chain management (SCM) is about getting products to the consumers at the right time and at a competitive cost. It involves building close trading relationships across the supply chain, then using appropriate replenishment, logistics, merchandising and enabling technologies to deliver service and quality to the end user, that is the consumer. At the heart of

SCM is an efficient and effective distribution system. The intention is to remove unnecessary cost from the grocery distribution system and to make it more responsive to consumer demand. SCM requires distributors and suppliers to focus jointly on the efficiency of the total grocery chain rather than the efficiency of individual components. At the same time, SCM aims to achieve a reduction of total costs, inventories and physical assets and an improvement in consumer choice, satisfaction and service. The goal of ECR is therefore to take out of the supply chain, costs which do not add consumer value (Robins, 1994).

To achieve efficiencies in the supply chain, ECR requires the following major business initiatives (De Roulet, 1993):

- Continuous replenishment programme (CRP);
- Computer assisted ordering (CAO);
- Flow-through distribution (cross docking);
- Integrated electronic data interchange (EDI);
- Category management;
- Activity-based costing (ABC).

A brief on each of the above is outlined as follows.

#### *Continuous Replenishment Programme (CRP)*

Continuous replenishment, usually managed by the manufacturer, is a programme used to control and monitor the movement of goods from manufacturer to the warehouse/distributors. CRP involves the manufacturer (rather than the retailer's warehouse) taking responsibility for replenishing the warehouse inventory, with the buyer supplying actual warehouse inventory withdrawal data and data on individual line items to the manufacturer (Cross, 1993). Successful CRP implementation is dependent on effective trade relations, requiring shared business practices and information systems that rely heavily on EDI.

### *Computer Assisted Ordering (CAO)*

Computer assisted ordering covers the second half of the overall inventory supply chain - the movement of goods from the warehouse/distribution centre to the retail store. The aim of CAO is to generate store replenishment orders automatically, with minimal management intervention, based on such things as current and historical point of sale scan data, delivery data and sales forecasts.

The benefits of CAO have been identified as labour savings and dependability, warehouse and shipping improvements and inventory reduction (Garry, 1994a). Traditionally, stores have based their orders on the re-order clerk manually inspecting store shelves and scanning the shelf-tag barcodes for those items with limited stock on the shelf (Anderson, 1996). The re-order amount entered by the clerk is based on the actual shelf amount and the ideal shelf quantity. The re-order clerk is not in a position to take into account point of sale data, inventory which has already been scheduled for delivery or likely future trends based on forecasting. Integrated CAO systems are designed to minimise and even eliminate these problems (John K. Harris, Paula M.C. Swatman, Sherah Kurnia, 1999).

### *Flow-Through Distribution (Cross-Docking)*

According to Garry (1994b), the purpose of flow-through distribution is to hasten the flow of products from the supplier to the retail store by reducing storage and handling of products at the distribution centre or warehouse. It involves the breaking down of pallets at the distribution centre, reassembling them for store delivery and then shipping them to the retail store without ever storing the product in the warehouse.

This requires significant investment in technologies such as EDI, bar-coding and scanning of pallets and cases; standardisation of pallet sizes and warehouse

design changes such as lower ceilings and less racking. The key EDI transaction required for cross-docking is the shipping notice to inform the distributor of the merchandise that is about to arrive. The automation of the warehouse inventory management system using barcodes means that inaccuracies can be eliminated.

### *Integrated Electronic Data Interchange (EDI)*

EDI is computer to computer communication of structured, formatted messages based on international standards, using electronic transmission media with no manual intervention (Brawn, 1989; Swatman1993). EDI is needed to easily communicate and manage orders, deliveries, invoices and payments. EDI allows business partners to exchange vast amount of information with great speed and accuracy.

EDI is viewed as the essential effective enabler of the ECR management strategy because it focuses on achieving integration across organisational functions and between organisations (Swatman, 1993) in the grocery supply chain. It has the capability to transform the way the supply chain responds and interacts with consumers by the creation of a timely, accurate and paperless flow of information by relying on EDI.

### *Category Management*

The term category management first appeared in 1987 (Smith, 1993) when certain organisations, such as Procter & Gamble (Matthews, 1995), began moving from "brand" management to management by "category". Category management has evolved to mean a process that involves managing product categories as business units and customising them on a store-by-store basis to satisfy consumer demands.

A category is a group of products having a common consumer end use (Hofler,

1996) and includes such things as household cleaners, health and beauty care products, dairy and frozen foods, paper products etc. Category management allows the category manager to operate a category like a business so as to identify optimal product mix; and to stock each store with specific products that demographic and point of sale information indicates customers wish to purchase.

Category management is supported by EDI and bar code applications (Kurnia, S., Snauder, D. and Swatman, P.M.C., 1998).

### *Activity-Based Costing (ABC)*

Activity-based costing provides the cost and operating information necessary to support innovative management improvement initiatives such as ECR. The focus of ABC is on accurate information about the true cost of products, services, processes, activities, distribution channels, customer segments, contracts and projects (Miller, 1996). ABC supplies information about profits (where the money is being made) rather than about costs.

Traditional accounting systems use gross`margin calculations that spread operating costs across all products based on unit purchase price regardless of the actual value chain (Porter, 1985) through which the product passes.

ABC focuses management's attention on controlling the source of costs, decisions that create activities, rather than squeezing budgets. Therefore ABC as part of ECR can increase the profitability of the supply chain by removing or reducing those cost activities that do not add value. This cannot be done with traditional systems because they do not reflect costs accurately.

Developing countries with high inefficiencies in the distribution system, such as Malaysia, will need to adopt SCM concepts in order to remain competitive, especially with the entry of foreign industry players from matured markets.