

CHAPTER 6 CONCLUSION

6.1 Challenges To The Implementation Of ECR In Malaysia

While ECR and technological breakthrough appear to be the routes to follow towards a long term market efficiency, there is need to consider the related issues outlined as follows:

- the traditional adversarial relationship between the manufacturer and the retailer may hamper the building of an open relationship necessary for effective implementation of ECR. Such is the nature of the grocery business where the retailer will always insist on having the best deal in town while the manufacturer does not encourage disparity in prices among trade customers. The manufacturer has the proverbial fear that a concession granted today may turn into a permanent expectation on the part of the customer/retailer, something that the manufacturer can ill afford;
- whether industry players are ready and willing to take on enabling technologies so critical to effective ECR implementation as it involves financial & resource investment and changes to business processes. Most system applications are proprietary in nature, this pose further difficulty in getting the manufacturer and retailer systems aligned to work as one; and
- although EDI is the vehicle that carries important information at great speed and accuracy among trading partners, basic groundwork such as the adoption of EANCOM (international standard product coding system) and EDIFACT (international standard on data format which enables computer to computer communication) have not been effectively implemented in Malaysia. This drawback will affect the benefits of EDI implementation.

6.2 Recommendations For Future Development Of ECR

The Malaysian grocery industry is in danger of losing its competitive position unless it takes seriously the challenges presented by such initiatives as managing the supply chain. Existing retailers need to explore ECR thoroughly to

be as competitive as they can be when the likes of Walmart and Tesco with their well entrenched ECR practices move extensively into the Asian region attracted by the market potential and relaxation of investment restrictions. A recent PriceWaterhouseCoopers study estimates that costs could be cut in the Asian supply chain to the tune of US\$40 billion.

As it is, the Malaysian consumer retail industry is perennially faced with the issue of sinking profitability among vendors and customers and dissatisfied consumers. These are the very issues that ECR addresses.

A quick summary of the local industry (based on conversations with senior executives) shows several areas of inefficiencies that if addressed, can benefit the consumer, the vendor and the retailer/wholesaler. Manifestations of these inefficiencies include:

- 48 hours to generate an order;
- 36 hours to ship an order;
- 3 to 4 times more people involved;
- 70% retail availability;
- 30 days retail inventory;
- 30 days vendor inventory;
- millions of ringgit of disputed accounts;
- non-standardisation of pallet sizes among companies;
- different information format inhibiting useful exchange; and
- different mode of payment.

And the list goes on. However, there is no denying that suppliers and retailers have parallel operations particularly in the areas of logistics, finance and information. With all these in mind, the implementation of ECR best practices proposes to be a logical solution.

The impact of ECR is threefold: increasing consumer value, reducing costs and

building the business. Consumer value grows as product quality, trust, variety and service increase, and as response times and prices decrease. Most consumers and shoppers view 'value' in many different ways. For example, price drives decisions for the purchase of commodity products while quality drives decisions for fresh produce, meat and baby care products. The diversity of value decisions has led to a wide spectrum of products and a variety of store formats. ECR can be applied to increase the value provided to consumers.

By working together, the retailer and manufacturer can translate their offer and brand messages into complementary information. When oriented to specific categories of common interest, joint initiatives become much more effective in drawing target shoppers and consumers.

ECR aims at minimising costs incurred by retailers and manufacturers from activities that add little or no value for consumers and shoppers. Opportunity areas for cost reduction are aplenty: inventory level reduction, inventory shrinkage, costs of placing and serving orders, inventory related costs, ineffective promotions spending, production and delivery reliability, lost sales due to stock outs and maximisation of shelf space.

ECR helps build business by getting the right product, at the right price, at the right place, at the right time – where 'right' is consistently measured from the point of view of the consumer.

Despite the scope for improvements and velocity of change as mentioned in the preceding paragraphs, companies within the grocery industry in Malaysia, even the large ones seem to be slow in preparing to meet these challenges. Despite the interest in ECR, there does not appear to be real commitment to its implementation except among a few organisations.

A handful of the larger companies made up of manufacturers such as Unilever,

Proctor & Gamble, Johnson & Johnson and retailers such as Tops, Cold Storage and the Federation of Malaysian Manufacturers have taken the lead in setting up a Malaysian ECR Board to set changes in motion within the supply chain. These industry players are coming together to work on, amongst others, the operational aspects of SCM, define and review infrastructure standards, specifications, procedures and working on enabling technologies as a tool and technique to realise SCM.

The Malaysian Government also has a role to play in guiding the industry development. The formation of more official associations to monitor the various aspects of the industry and to set standards and technological development will assist the industry's future development.

To garner governmental support, a possible move would be for the Malaysian ECR Board to commission a value chain analysis study among manufacturers and retailers in the grocery industry. The objective is to define the extent and impact of ECR initiatives and define the potential cost savings in the grocery industry. The value chain analysis study should reveal an estimated reduction in consumer prices for the average business in the grocery supply chain to come from elimination of unnecessary operating and inventory costs. The study should reveal and recommend for elimination, activities that serve no valuable purpose for consumers.

ECR makes sense in view of the mounting pressure among trading partners. While the large manufacturers and powerful retailers may encourage ECR, this could pose to be a danger as organisations may become involved only to the extent required by their larger and more powerful trading partners. The full benefits of a strategic approach may then be lost. Although a proactive role by all concerned would be ideal, a more pragmatic approach would be for industry leaders to take the lead and the rest to follow.

For companies to take on ECR, there is need to change the organisational attitudes and activities and to re-align company priorities prompting changes that will support the ECR initiatives. A first step will be an education programme on ECR to be cascaded throughout the organisation. ECR must be recognised as a journey rather than a destination as continuous improvements are to be introduced into the industry.

There are important issues to overcome before ECR initiatives can be truly beneficial, namely:

- mutual trust between suppliers and retailers;
- conflicting priorities;
- lack of information systems;
- senior management commitment;
- willingness and desire for change of business practices/procedures;
- training or development of skills;
- information integrity;
- release or sharing of information between the parties; and
- concerted and joint effort of key industry players.

As the grocery industry becomes increasingly challenging, trading partners must work cohesively together. A time will come when the retailer can no longer make increasing demands on the supplier nor can the supplier thrive without the retailer. As prices are standardised across the country and perhaps eventually across ASEAN and with AFTA coming into the fold, the grocery business must have total efficiency within the industry to form a sustainable competitive edge when powerhouses the likes of Walmart and Tesco move into the local scene. Driving out inefficiencies from the distribution system is a good starting point as it is a critical component of the grocery industry.

6.3 Further Research

This study has provided a framework within which further research into a comparative analysis on distribution management can be carried out within the lower trade (distributors, provision stores or mom & pop shops, the Chinese medical halls and the smaller manufacturers) in Malaysia. Comparisons can also be made with different countries of the world to identify similar trends or deviations and the appropriateness of ECR as a solution. Certainly further study on the ECR features presented here is required to assess the effectiveness of its application within the Malaysian distributive trade.