

Merchandise handling – from the factory gate right up to the stock room – requires collaboration and communication throughout the supply chain, as well as within the store environment itself. Ineffective stock ordering, poor merchandise management and a disrupted logistics system all contribute to the end result: out of stocks on shelf and an unhappy customer. *Wholesale Business* spoke to a number of retailers and experts in the supply chain field to see how things can be improved.

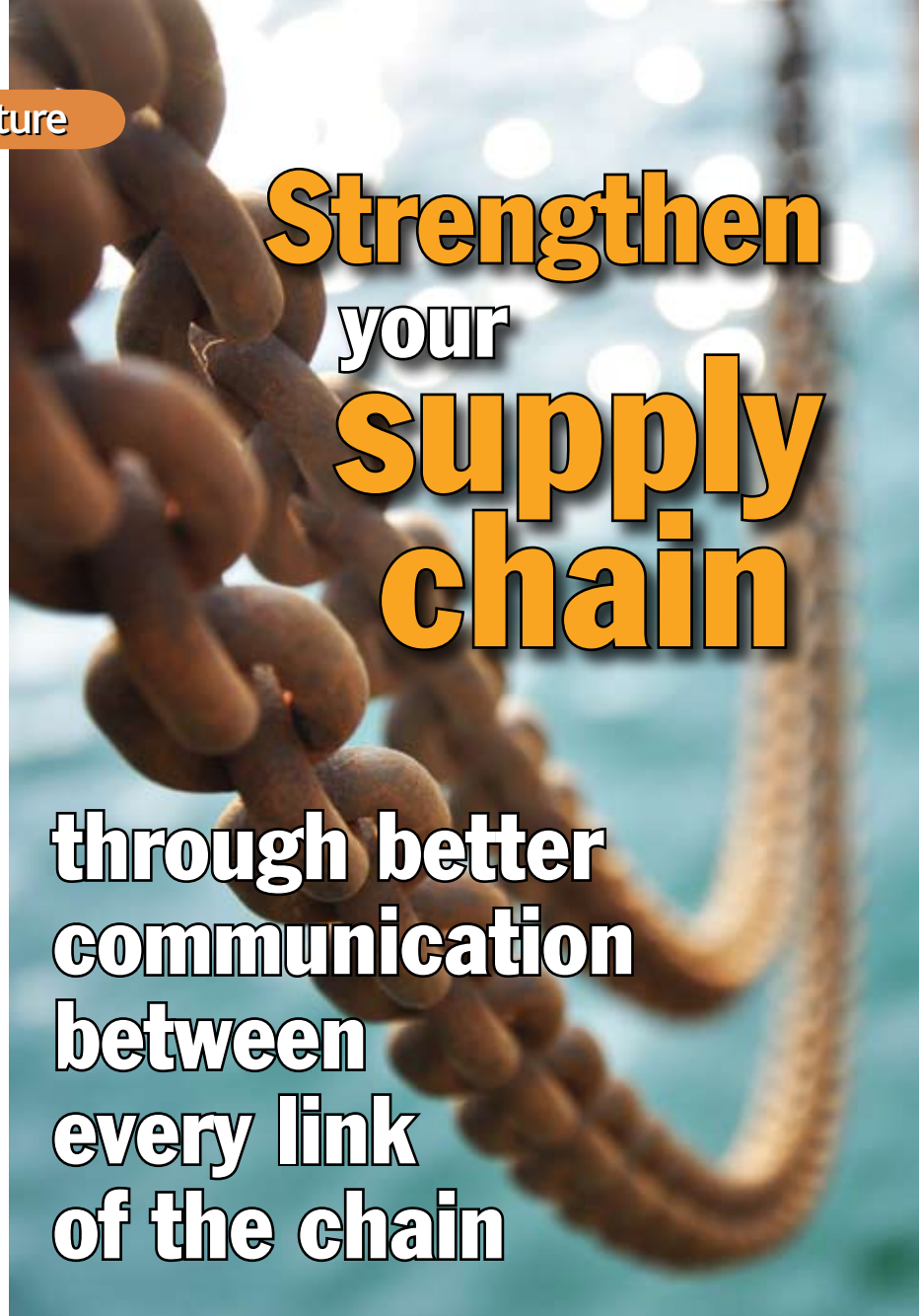
By LAURA DURHAM

Centralised distribution a must

International retail groups have well-established supply chain networks with central distribution centres in place. In South Africa, however, we have been slow on the uptake and now, with the arrival of Walmart on to our shores, retailers are being forced to fast forward their move to central distribution.

"Centralised distribution in South Africa is in its infancy with local companies scrambling to put in place these strategies," comments Dale Good, MD of GLS Supply Chain Equipment.

For wholesalers, this Walmart threat to the supply chain is not as apparent as they are essentially distribution centres themselves. For example, Hikma Marketing managed to fill a gap in the supply chain between wholesalers and the growing independent trade by opening a 30 000m² DC a few years ago. Being able to move nearly a million tons of products a year is proof of a successful strategy.



Strengthen your supply chain

through better communication between every link of the chain

"Metcash also uses its Trade Centres and Metro stores as 'stock holding' centres for its banner group members who benefit from group buying power of 30-40 promotional lines at the best possible price. Of course, retail customers also shop these stores but there is always the quantity and bulk offering available for traders and owners of spaza shops owners and shebeens. As part of the Metro banner group, members are not obligated to buy from Metro but buying those items on promotion does give them the power to fight off local competition.

The Kit Kat Group, with cash & carry stores in Pretoria and Soweto, benefit greatly from having their own 15 000m² DC in Pretoria. Although not every supplier delivers to the Pretoria DC, it holds around 35 days stock and effectively services each store. By being in control of your own stock, retailers do not have to worry about out-

of-stocks that might happen because of a problem on the supplier's side.

"Where centralised distribution has been achieved there are savings in this environment of anything from 5%-7% of supply chain costs. However to get this right there are a number of key factors, needed to be 100% right," says Good. These factors include: store operating procedures, equipment management (a key factors in returnable packaging solutions), store configurations and centralised replenishment etc.

"These have traditionally not been very strong focus areas for South African retailers and stores have acted very autonomously," he adds.

The need for communication and collaboration between all players is clearly essential for merchandise handling efficiencies to improve like they should.

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Merchandise handling feature

Taking control of merchandising

Another way to better control stock in-store is to handle all merchandising yourself.

Having supplier merchandisers in-store is often disruptive for customers and there is the risk of theft, incorrect shelf facings and their product taking up extra shelf space than was allotted. Good agrees, saying retailers need to focus on 'fixing' the business model within the front end of the supply chain.

"Supply chain efficiency is the measure of getting the right product to the right place at the right time at the least cost," says Wayne Labs in his article in *Food Engineering* magazine¹.

"Unlike European and other international retail markets, the suppliers in this country are the merchandisers of their own products. This is a very expensive and resources intensive area of the supply chain," Good says. Rather adopt a policy that eliminates these merchandisers in order to be in total control of your stock, as well as qualify from merchandising allowances from suppliers

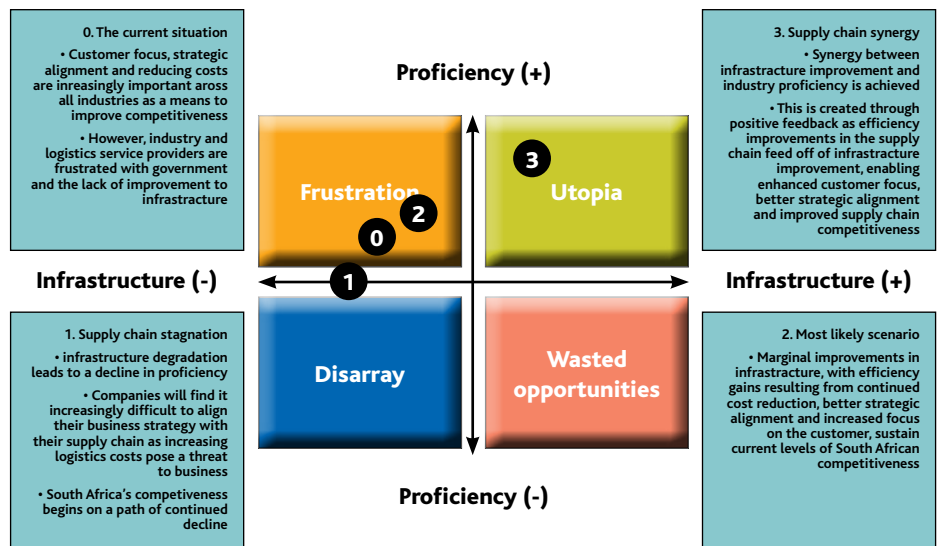
"Massive gains can be made by retailers controlling how and what is merchandised in each store. In other words controlling and getting your last 100m right will drive massive savings throughout the entire supply chain," states Good.

Walmart will provide key suppliers with infrastructure to ensure the continuity of their business and thus mitigate the risk of failed supply to their operations

Increasing service levels and improving collaboration within the supply chain is not an issue limited to the FMCG industry. In the 2011 supplychainforesight survey², whose results have just been published, the main objective for the SA supply chain is "increasing service levels to customers".

"This is the start of the Walmart effect perhaps," comments Johan Dekker, head of solution development at Barloworld Logistics. "Walmart is now approaching suppliers with a more collaborative attitude, to the extent that they will provide key suppliers with infrastructure to ensure the continuity of their business and thus mitigate the risk of failed supply to their operations," he says.

The scenario gameboard will be used to contextualise possible scenarios for the supply chain industry



Source: Supplychainforesight 2011 report



Wholesalers essentially act as a DC for their trader customers. It is therefore vital that shelves are fully stocked with large quantities to keep up with the daily demand.



Being in control of your stock at every level is important for an efficient system. Kit Kat opened a 15 000m² distribution centre in Pretoria in 2007 to service its cash & carry stores around Pretoria and Soweto.

According to the survey's respondents from all levels and sectors that utilise a supply chain, effective planning and forecasting tools, as well as reducing waste and inefficiencies within the supply chain, are the two biggest challenges for the next year.

Going green

Of course, energy savings and going green have become popular mantras in recent years, not least in the supply chain where energy costs are huge. The link that needs particular focus is the cold chain. James Cummings of Barpro Storage SA says South

Africans have a lot to learn from the British. They faced an energy shock in 2003/04 when electricity prices tripled so they were forced to look at how they were operating their refrigeration. They made an enormous saving from doing just one thing: limiting the cold room to one door. That way, minimal energy is lost when staff enter or leave.

Too many of our cold rooms, however, have doors left wide open, hence the expensive energy bill at the end of the month. Energy efficient lighting also reduces costs and even better are those systems that turn off a section's light when it is empty.

Going on to racking, Cummings says that mobile racking doubles the number of pallets that can fit in a cold store, therefore reducing energy costs per pallet. "A revolution is taking place and we don't even realise it. The realities are starting and we need to get to grips with changing our mindset regarding energy efficiency," he says.

The supplychainforesights survey supports Cummings' comment about us not realising the revolution afoot. 50% of respondents were either fully unaware of their company's emission reduction targets or says their company has no target at all. Yet this is one of the biggest factors in Walmart's business strategy.

Looking ahead

"Supply chain efficiency must ensure that it upholds the promise to the customer while eliminating non-value add or waste in the process," explains Jim Stollberg, HK Systems vice president of strategy and business development in Labs' article.

"While processors want to measure their own supply chain efficiency, it's often the customer who ultimately judges them," says Labs.

Therefore, in order to ensure the efficiency of the front-end of the supply chain (with product on shelf at all times), efficiencies need to be put in place at every single link of the supply chain.

¹'Supply Chain Efficiency Starts at the Top', Wayne Labs, Food Engineering News, September 2010

²2011 supplychainforesight 'Evolving strategies – Competing supply chains in emerging economies', sponsored by Barloworld Logistics