



Build relationships with stakeholders to cut supply chain costs

By JANICE HUNT

Efficient and effective supply chain management is often a bafflingly challenging aspect of running a convenience store (C-store). It provokes more sad head shaking and vitriolic finger pointing than just about any other aspect – and yet, as more than one industry boffin was quick to point out, it should be very simple.

High cost supply chain

After all, the single aim of all participants in the supply chain is to ensure that product is sold. As Michael H. Hugos says in his book, *The Essentials of Supply Chain Management*, "The goal of supply chain management is to increase sales of goods and services to the final, end use customer while at the same time reducing both inventory and operating expenses."

But the process of getting stock from the manufacturer to the convenience store has been for decades, and remains, plagued by high costs and fraught with issues.

Pockets of progress

Pockets of progress are being made, notes Jean Mundhoss, Sasol's national convenience manager, rather cautiously. But there are still many obstacles to overcome, which need to involve compromise, collaboration, and relationship building with every 'link' in the chain, before the supply chain to convenience stores can be deemed successful.

Ray Maingard, regional operations manager with Caltex Freshstop, puts it like this. "It's all about all stakeholders optimising sales – whether it is the franchisor, retailer, wholesaler, or supplier. The objective remains the same." He says it is possible to achieve big sales in a small store format. It takes careful planning, attention to detail, and management. The store's stock room must be carefully stocked and managed to ensure those off-putting out-of-stock gaps on shelves just don't happen. It's not easy though.

He says the challenges that suppliers face are the small quantities to be delivered. "A six-ton truck costs R860 000 to buy. It's expensive to run. Delivery of small quantities to many different outlets is clearly not cost-effective."

But the fact is that the convenience store sector is worth in the region of R12 billion per year and manufacturers and suppliers just cannot afford to ignore it.

Supplier grudges

Ever outspoken C-store consultant, Jocelyn Daly is quick to lambaste suppliers for their lackadaisical treatment of the C-store sector and for seeing these stores as 'grudge drop-offs'. It's an attitude that is hurting potential growth for retailers and suppliers, she states, and the ultimate loser is the customer.

She says she firmly believes there should be penalties in place against suppliers for each time they either short deliver (frequent occurrence) or deliver incorrect product against an order – (which she says is virtually 100% of the time for most suppliers). "Newspapers and magazine distributors are particularly bad – and if you can't find your favourite magazine in a forecourt store, it's not the fault of the



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retailer. They are lumped with what is left in the truck, regardless of what they need to keep their customers coming back into their stores."

The elements contributing to this unhappy status quo include franchisor head offices that are "far too concerned with rebates based on 'fictitious' volumes – with little or no innovation or performance criteria in place." Imagine how much more the franchisors could earn for each short or incorrect delivery, points out Daly, but better still, imagine the growth if they both got this part right? "Another factor is that C-stores have a major problem enforcing correct deliveries. They sit with empty shelves and need them filled, regardless of whether they receive their correct order or the right quantities.

"And the supplier wins regardless. They just drop off all excess stock at these small drops. Our customers lose out each and every time," she adds.

Collaboration is key

Maingard agrees that collaboration is key to the improvement of supply chain efficiencies in the convenience store sector. He notes that this is borne out by the fact that some suppliers are getting it right – by keeping the lines of communication wide open between themselves and the small

retailers, understanding their challenges, and openly discussing their issues. One such company is Coca-Cola, which he says is an example of how to manage the supply chain to small stores. They arrive on a given day, they take an order and place it electronically, and stock arrives on a given day.

Getting it very wrong, says Maingard, is Simba. "There is no collaboration with C-stores. They simply fill their trucks with product of their own choosing and they go out on the road with reps who then decide what to put into the stores. By the time they reach the small C-stores at 4pm or so, they simply unload stock, regardless of whether it's what the store needs or not. It's a classic case of how not to do it," he says vehemently. "They are ignoring this channel at their peril. They are not the only brand and as it is, in the past they had 80% of facings in forecourt stores. Now they are probably down to about 40%." Interestingly, Maingard was not the only person in the C-store sector who mentioned Simba's lack of collaboration in its approach to sales through C-stores.

Limitations

Maingard is convinced that if suppliers and convenience stores make a concerted effort to truly understand the limitations faced



Various players in the C-store sector have mentioned Simba's lack of collaboration in its approach to sales through C-stores. This has resulted in its facings dropping from 80% to about 40%.



Smooth delivery of groceries is not a major headache for C-store operators as they represent about 3-5% of total sales and can be bought at local cash & carry outlets if necessary.

by each other and their respective business models, the industry would be a step closer to overcoming some of the inefficiencies and challenges that seem to be accepted as the norm, rather than dealt with.

Limitations in convenience stores include limited storage space, safety of stock, expensive real estate, the need for owners to be hands-on in the stores to ensure smooth running of the store, loss of trained staff, and many other issues. Among suppliers' limitations include issues such as the cost of breaking bulk and delivering small quantities, administrative costs, running promotions with different companies at different times, the cost of accessing outlying areas, and many more.

No one has the monopoly on battling with challenges, but it is certainly evident that suppliers hold the most power when it comes to facing and overcoming the challenges.

While Maingard is convinced that the biggest difference to supply chain efficiencies in the convenience store sector must necessarily be made by suppliers, he does concede that there are steps that small stores could make to make it more palatable for manufacturers to deal with them – such as possibly adjusting their stock to see better depth of range rather than width of range in some instances. Of course, there are some products that require depth and width – such as cigarettes – and that there are other products where customers are brand loyal, such as dairy.

franchisee or buying group agreement that a C-store might have, it is not compelled to buy from a specified source or supplier. This means that buying groups cannot provide guarantees to suppliers or distributors what stock will be ordered by the franchisees or members, making it difficult for suppliers and distributors to achieve critical mass with orders.

Sasol faces challenges

Sasol has 250 forecourt stores nationally, 220 of which are Sasol Delight outlets. Distribution to these stores is primarily through drop shipment as Sasol doesn't have distribution facilities. This leaves them dependent on a third party distribution,



Sasol must rely on third party distribution to its 250 forecourt stores nationally as it doesn't have its own distribution facilities. This poses challenges from time to time.

He states that the only way that improvements will be seen in this supply chain is through improved relationships among the stakeholders. This is a rallying call that comes up again and again in discussions about this topic.

Costs – and the need to contain them collaboratively – remain the biggest challenge in managing the supply chain of stock to C-stores. Estimates are that the cost factor for distribution to franchisees could be as high as 18-20% per case. It's extremely inefficient. And regardless of any

which poses challenges from time to time, says Mundhoss. Sasol has about 200 key suppliers – from regional to national – on its system, and about 3 000 active line items.

Most forecourt product sales fall into the five Cs – cold drinks, chips, chocolate, cigarettes, and cellphone airtime. These are the product sectors that cause the most headaches in the supply chain to convenience stores. "Groceries are not a problem. They represent about 3-5% of total sales and can be bought at local cash and carry outlets, if necessary," he says.

Economies of scale

Mohamed Carrim, GM of retail at Sasol, says there are some distribution companies that are getting it right in delivering stock from manufacturers to convenience stores. They are working together with stakeholders and achieving economies of scale. But it has not been plain sailing at any stage of the process. "These big distribution companies tend to be contracted to manufacturers to distribute stock to retailers throughout the country, or on a regional basis. Some have been buying up smaller regional wholesalers to improve their national footprint. But still, it's a costly business delivering small quantities to small stores in outlying areas and in fact, these companies have to constantly re-assess their systems and strategies to ensure they remain profitable."

Transport pressures

In the 2011 Consumer Goods Council conference, Terrence Brown, senior manager with Accenture Management Consulting, addressed the issue of transport as a key operative in the supply chain. He pointed out that, in general, South African companies hold too much inventory, and that supply and demand are out of kilter. This sees too much product on the road and South Africa allowing itself to be hugely dependent on fuel, which is a major risk. "South African companies are under huge cost reduction pressures – and logistics and transport account for a high percentage of these costs."

Among his recommendations, he suggests partnering with service providers and customers to identify opportunities to implement win-win solutions to save. "The real win-win efficiency improvement opportunities need not be the expensive and capital intensive opportunities, but those in which time can be optimised. Remove wasted time, and everyone wins," he adds.

Sasol's wishlist

Sasol has a wishlist of initiatives that it believes would improve the process for all players in the supply chain. The first is simple – a pre-ordering system for its franchisees with all suppliers.

Another initiative that they believe could alleviate the pressures of the challenges facing all stakeholders is an integrated system featuring a hub that would see more industry-wide co-operation in the interests of containing costs. The idea would be 'a one stop shop' to enable convenience stores to order once, buy once, pay once, and receive once. This would improve their efficiencies dramatically; reducing cash purchases, cutting down back office administration, and enable them to benefit from economies of scale.

South African retailers are facing higher and higher fuel costs, toll fees, and new competition in the shape of Walmart which has optimised its distribution systems to exceptional standards. The integrated system would, of course, necessarily have

to be managed by the manufacturers. "If the different stakeholders work together, it could work," says Carrim, acknowledging that it would not be without its complications, such as monitoring buying when one group has a promotion and the others don't. But the sophistication of information technology today could bypass those and other issues with some ease.

Sasol's Carrim and Mundhoss both anticipate that the future of supply chain management will see migration to bigger groups – creating more opportunity for cost-effective distribution of stock. But a lot of ground will have to be covered before that takes effect.

They maintain that suppliers should reposition and invest in systems that will improve the efficiencies of the distribution of their product to convenience store shelves and are also often reluctant to reward franchises when they make a significant investment in systems.

Investing in relationships

Having said that, it's not fair to generalise too much and Mundhoss points out that their biggest role as a franchisor is to facilitate the relationships between suppliers and retailers – relationships that can determine the success or failure of a store. She says Sasol works hard to build strong relationships with suppliers, from which their franchisees will then benefit with competitive pricing, good promotions, and efficient delivery. Part of the strength of their organisation, they say, is the transparency of their relationships with their franchisees and suppliers. They work together in an effort to find more cost-effective solutions for the supply chain process.



Take Coca-Cola as a good example of how to manage the supply chain to small stores: they arrive on a given day, they take an order and place it electronically, and stock arrives on a given day.





South African companies generally hold too much inventory, with supply and demand out of kilter. This sees too much product on the road and South Africa allowing itself to be hugely dependent on fuel, which is a major risk.

But the responsibility for the success of these relationships rests with the retailers, as well as with the supplier and the franchisor. The store owners are encouraged to make use of the advantages that these nurtured relationships have gleaned for them, placing their orders with the suppliers on the preferred suppliers' list, and managing and monitoring stock levels as far as possible.



Too many suppliers simply fill their trucks with product of their own choosing and go out on the road with reps who then decide what to put into the stores. This can often result in out-of-stocks in-store.



The biggest role of a franchisor is to facilitate the relationships between suppliers and retailers – relationships that can determine the success or failure of a store.

Last word

Daly, however, has the last word. "To the suppliers to this industry and to the franchisors – work on putting performance criteria in place. That will keep your customers coming back again and again to the C-stores because they will know that what they are looking for will be there." It's that simple!



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