INDIA'S LEADING LOGISTICS MAGAZINE
www.logisticsweek.com

LOG.INDIA

December 2010 | Vol. 4 — No.4

₹100

Mission Replenish

GCPL supply-chain's replenishment model holds many takeaways for peer companies. And the man in the thick of the action is Rakesh Sinha, COO (Marketing & Operations), Godrej Consumer Products Ltd. (GCPL) >>

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Delivering the Goods

Godrej Consumer Products supply-chain has adopted replenishment philosophy like first nature – a story that has many takeaways for Indian consumer goods companies. And the man in the thick of the action is Rakesh Sinha, Chief Operating Officer (Marketing & Operations), GCPL.
Aanand Pandey **reports.**

If you are an FMCG supply-chain buff, then Godrej Consumer Products (GCPL) is where the action is at the moment. The reason: Godrej group has been on a drive to consolidate its consumer portfolio, moving in the last few years to combine the operational synergies and scale of its consumer brands – in an effort to make the best of the breakneck FMCG growth, and to take on the big boys of the business, here and abroad.

On October 14, the GCPL board approved the merger of GCPL and GHPL (Godrej Household Products Limited, erstwhile Godrej Sara Lee). Now, the unified entity, GCPL, will sell GHPL's *GoodKnight* and *Hit* brands, along with its own – *Cinthol, Godrej No. 1, Expert, Ezee, Fairglow, Jet,* and *Snuggy* and others. The merger has been made formal now, but operationally, GCPL and GHPL have been sharing resources – marketing and supply-chain, for quite some time.

To add to the action, GCPL has been on a global shopping spree during the last few years, adding multinational legacy to its supply-chain know-how. Beginning with the UK's Keyline Brands in 2005, GCPL has acquired several consumer brands – in Asia (Megasari), Africa (Rapidol, Kinky and Tura) and Latin America (Issue and Argencos).

Clearly, GCPL, and notably its supply-chain function, has had a busy outing and the man in the thick of the action is Rakesh Sinha, Chief Operating Officer (Marketing and Operations), GCPL.

With his prolific resume boasting of a gallery of mission-critical operational roles and coveted qualifications, Sinha could just be the right man to steer GCPL's supply-chain – at a time when Godrej is

DR RAKESH KUMAR SINHA
Chief Operating Officer
(Marketing & Operations)
Godrej Consumer Products Ltd.

Photos: Vikram Barwal

poised for a major phase-shift in the FMCG world.

The Man Who'd Move Things

Sinha and GCPL go a long way back. An alumnus of Institute of Technology, Banaras Hindu University (BHU), Sinha did his post-graduation in Industrial Management from NITIE, Mumbai, at a time when management was not yet a fad. He joined Godrej Soaps as a management trainee in 1980, straight from NITIE through campus placement. This year, he completed thirty years at Godrej.

A keen observer of people and processes - it's only natural that strategic planning is close to Rakesh Sinha's heart.

When asked about his long innings with one company, a feat rare in the corporate world, he reels off a host of reasons, "Their (Godrej's) values match with mine – straight dealing, honesty, freedom to work, freedom to experiment. One can do a lot of innovative things. It's a professional company which also gives emphasis to entrepreneurship."

Enterprising people influence a company's processes in positive ways, he believes: "Entrepreneurs take risks, if the risks pay off, great, otherwise there's always some learning in the process."

A keen observer of people and processes – it's only natural that strategic planning is close to Sinha's heart. During the initial years with Godrej, Sinha added ICWA (The Institute of Cost and Works Accountants of India) and CFA (Chartered Financial Analysts) programs to his armory to round up his strategy acumen, "Having a background in operations and finance is good for strategic planning," he fills us in.

He got his big break in strategy in 1988 when he was asked to shape formal strategic planning for the Godrej Group.

The following years would be the time when the Godrej management would strengthen its FMCG arm. From 1993 to 1996, Godrej Industries (then Godrej Soaps) had a joint venture with Proctor & Gamble – Godrej manufactured the soaps and P&G marketed them. That was the time Sinha took on the additional role of handling Godrej's side of the supply-chain. While at it, true to his style, Sinha obtained a Doctorate in supply-chain management from IIT Bombay in 1996. Apparently he was the first in India to do a doctorate in the discipline.

However, there was one critical supply-chain function left that he had to sink his teeth into – Information Technology (IT). His chance came in mid-1990 when he was asked to lead IT function for Godrej Soaps and associate companies (now collectively called Godrej Industries).

That was also the time when the company's Enterprise Resource Planning (ERP) system came into being. Fortuitously, Sinha led the project. The company chose MFG/PRO for its ERP.

"One reason for choosing MFG/PRO was its decentralized structure," Sinha recounts. Decentralized, to beat Internet connectivity issues so that each factory, each branch and each CFA could operate the ERP on its own.

However, implementing such a system, would be a road beset with challenges. For one, it required a mindset change. Also, such a project always runs the risk of seeing a lot of cost and time overruns.

This is when Sinha turned to Godrej's feted entrepreneurial way. Normally, companies use a good number of consultants' billable hours for ERP implementation. Sinha used the consultants – Accenture India – only for the first site which was the manufacturing plant in Vikhroli, Mumbai, and entrusted implementation at other sites to his own people. The approach not only saved money, but the project was completed, says Sinha, in record time.

"We did it in a big bang approach, across 128 sites of the group in a matter of about two years – we went live on all the applications simultaneously, right from materials to finance to sales," he recalls.

The next logical progression was to connect with major distributors, suppliers, and retailers on a real-time basis to reduce lead times, increase order accuracy, better quality of service and overall, and profit margins.

Beginning in 1999 with a pilot project, GCPL in a phased manner linked all its major distributors together through a middleware christened as *Sampark*. At the distributor's side of the link, GCPL customized and installed an ERP solution developed by a Chennai-based firm, BOTREE.

The idea was to have periodic sales and stock data fed to BOTREE, and the data in turn would be processed by both the CFAs and GCPL to decide the order level for the ensuing period.

GCPL Supply Chain: Highlights

Net Sales (FY2010)	₹2041 crore
Marketed Products	Cinthol, Godrej No. 1, Expert, Ezee, Fairglow, Jet, Snuggy, Protekt and others. GoodKnight and HIT (GHPL)
Number of Direct Distributors	1,200
No. of SKUs (GCPL & GHPL)	400
Inventory Turn Ratio (GCPL & GHPL)	10
Number of road transporters engaged	20
Technology Providers	SAP, MFG/PRO, BOTREE, IBM, HP, WIPRO
Consultants	Accenture, Eliyahu M Goldratt (of Theory of Constraints fame)

Subsequently, the company used the same architecture to connect to suppliers and called it *Sahayog*. Through it, suppliers can see on GCPL's ERP site information such as purchase orders, whether GCPL has received their trucks, and whether the supplies have passed the quality checks. GCPL uses information gathered on *Sahayog* to decide the quantity to be produced at its manufacturing plants.

Similarly, *Sampoorna*, a more recent project, is meant to help GCPL gather data from retailers.

The company ERP was MFG/PRO as recently as 2007, when GCPL switched to SAP.

Constraints, Mother Of Innovation

Unbeknown to many in the industry, GCPL is the only FMCG concern in India to implement a replenishment model based on Eliyahu M Goldratt's Theory of Constraints (TOC).

"Five years ago, we switched to a complete replenishment model. That's when we partnered with Dr Goldratt," Sinha informs. Goldratt was looking to work with only one FMCG company in India, and he picked GCPL from a list of ten FMCG companies that had applied. "Perhaps it was the mindset of the management that made Dr Goldratt choose us over others. Mindset is very important for companies who are required to give away forecasting and work with replenishment," Sinha reasons.

In simple terms, the Theory of Constraints seeks to identify and empower the bottleneck in a supply system to ensure smooth replenishment. According to Goldratt, the main bottleneck for FMCG companies is the marketplace. And the main ways to empower the bottleneck are to increase and fulfill the consumer demand. As per Goldratt's estimate, a remarkable 50 percent of the demand generated by FMCGs in India gets lost because of non-availability.

"To fulfill the potential market, one has to be super efficient. It also means that all the marketing inputs – advertising and other means – will give us double the inputs if our products are made available to meet the total demand generated," says Sinha.

He stresses that a complete replenishment model depends on the information flow in the supply-chain. And the information flow has to be on a daily basis. "One can no longer look at weekly distributor sales or weekly production schedules. Everything has to be made dynamic on a daily basis," he says.

GCPI works with CFAs to optimize stacking patterns to reduce operational warehouse space.

Everyday, till midnight, GCPL collects sales and stock data from its distributors through the IT network. This information flow continues till midnight. Then from midnight to about 4 AM, the company runs the replenishment engine that tells the former which and how much stock needs to be supplied between particular nodes in the chain. And what and how much stock needs to be manufactured.

Not only does the daily processing of information keep inventory costs low, it saves costs on several fronts as well. "For instance, if we see that a downstream node needs two or three trucks a day, it means some of the products can bypass the hub. That brings down the cost, because some products can travel a shorter route, say, from plant warehouse to a CFA directly. Secondly you save on storage, loading and unloading costs for these products," he says.

What about demand forecasting? As is understood, a replenishment model has no place for forecasting demand. So has GCPL done away with it altogether?

Some forecasting is done -- for instance, for *Ezee* liquid detergents which do better during the winters or Cinthol Talcum Powder that do well during the summers – but that is only to see market trends. The superefficient replenishment engine leaves no scope for forecasting. "We relook at the system everyday – so we have our finger on the pulse of the market to see how different SKUs are moving across different geographies, at each of the distributors'," says Sinha.

GCPL about 1,200 direct distributors across the country of which Class-A distributors (business of

₹10 lakh and more) comprise about 30 percent of the total strength, Class B (₹10 to 5 lakh) and Class C (less than ₹5 lakh) distributors comprise the rest.

Between GCPL and GHPL, the total numbers of SKUs handled are 400 in number.

The Way Chips Fall

GCPL supply-chain follows the hub-and-spoke model, but does constant reviews to make supply lines linear wherever required. "Hub and spoke, because we want to service each node on a daily basis. Unless we consolidate the products at the hub, there won't be enough stock to service the downstream node on a daily basis. And we don't want to sacrifice the daily services. That's part of the replenishment philosophy," Sinha says.

"But if a particular depot does well, we will even bypass the hub and send across the material directly," he adds.

In terms of the flow of goods, GCPL factories supply to the plant warehouse (a plant warehouse or PWH

> **Unless we consolidate** the products at the hub, **there** won't be **enough stock** to service the downstream node on a daily basis. **And we don't want to** sacrifice the daily service. ”

could be inside the factory). Goods move from the plant warehouse to regional warehouses (RWHS), thereon to the CFAs, distributors, and to retailers. For the small towns, GCPL has an alternate model.

There, CFAs supply to super-stockists who in turn supply to sub-stockists. The latter are located in small towns, and so they service the local retailers. This model is followed in order to increase the depth of distribution because sub-stockists can typically service the retailers on a daily basis.

These sub-stockists number more than 6,000 and cover all the towns in India (as per the census), except some towns in the Northeast and Jammu and Kashmir which are not accessible. These sub-stockists also cover the nearby villages, about 10 to 12 villages on an average. The more remote villages are covered by vans that make a trip once in 15 days and supply to the local retailers.

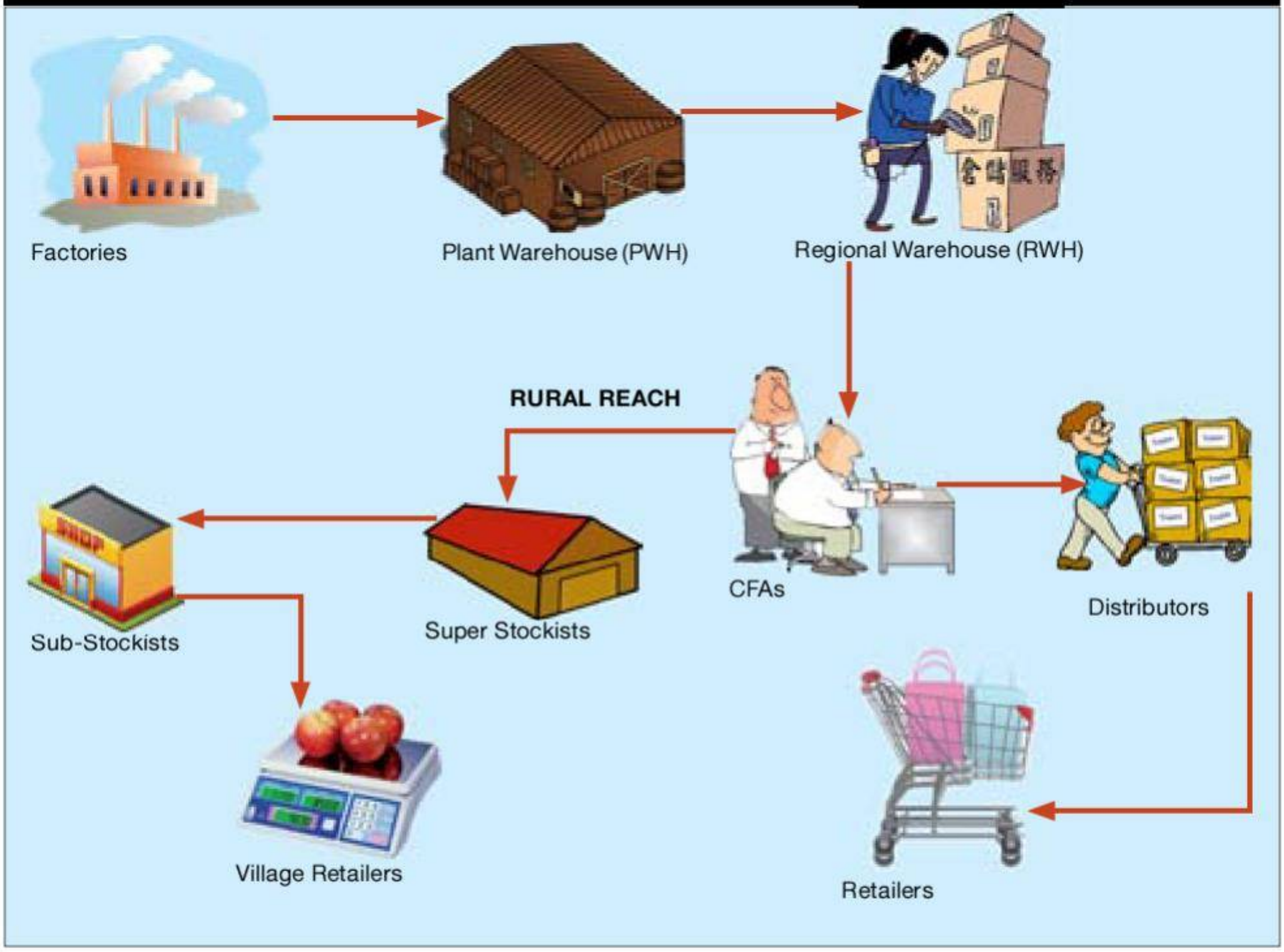
"The rural growth has been faster than the urban growth. Now about 42 percent of our sales come from the rural areas, which used to be 32 percent when we started our replenishment model five years ago," states Sinha proudly.

For moving goods, GCPL, much like other FMCG companies, relies mainly on road transport, except for routes like Punjab-Hyderabad where trains are cheaper, or for moving goods to or from the Northeast where roads are chancy. The good part is that the company regularly evaluates railways versus road-transport rates for every route, and opts for the mode that is cheaper. "It works well because road transporters know we have an alternative. When we started using railways, the road transporters also brought down their rates," he says.

Not A Penny More

Speaking of cost savings in supply-chain, Sinha says cost-efficiency is not separate from the system itself. However, being proactive helps. GCPL works closely with select vendors to improve quality of supplies, delivery standards and improve their cost of production as part of its partnership philosophy –

GCPL's Flow of Goods



followed ever since it adopted Total Quality Management. Sinha cites an example, "Companies ask vendors to comply with their product specifications, but vendors may have their own set of specifications to keep supply costs down. Cost saving here is a three-way street – between the vendor, the procurement and manufacturing department, and the R&D (Research and Development). The specification of a product must be tailor-made for the least cost. That's called the total cost of ownership."

On the manufacturing side, focusing on quality is more paying than is normally understood. "A learning has been that every time we improve quality, the costs come down," he says.

Every step of quality improvement makes the process more cost effective. The opportunities are endless as each process could have its own variation.

For instance, reducing the variability of output in the manufacturing of soaps has immense cost benefits. Process control is the key. "It is the Six Sigma approach," he explains, "in soaps, minimizing variation in factors such as product weight, moisture, fragrance and the color, from one soap to another brings the costs down. Every step of quality improvement makes the process more cost effective. The opportunities are endless because each process could have its own variation."

For inventory cost-control, in his experience, replenishment approach is second to none. "We have seen the benefits in the last five years, where every time we improve availability of our products, the inventory actually comes down. And if there is lower inventory, we can reduce costs."

When it comes to freight movement costs, GCPL regularly holds reverse auctions, where it asks on an average six to ten transporters – overall, the company works with about 20 main transporters across the country – to bid online for a consignment.

At the warehouse level, GCPL work with CFAs – the latter manage the warehouse – to optimize stacking patterns in order to reduce operational warehouse space and also to ensure first-in-first-out (FIFO).

"We are also piloting some advanced stacking and racking systems for using them in areas where the rentals are high. In such areas, it makes sense to go in for vertical storage," he says, "while in areas where rentals are low, it doesn't make sense to opt for vertical stacking. That would also require palletization, which would be an additional cost. It's a question of looking at saving any additional cost we may incur."

Stacking doesn't come cheap for an FMCG company. For example, boxes carrying GCPL soaps and insecticides typically weigh 15 kg each, so each pallet could weigh around 1.5 ton, which means high stacking and handling costs. "Only when palletizing makes sense for vertical storage, we go in for vertical stacking," he says.

Consumer product companies are big on automated warehouses. GCPL has similar plans. But like many companies in the sector, it is waiting for GST (Goods and Services Tax) to happen to put big bucks into large-scale automation. Sinha concedes, "To some extent, we are waiting for GST, then we could go for automation at some warehouses with full speed. Right now, we have some pilots in the works."

Go Green, Spend Less

GCPL encourages the warehouse owners – the CFAs—to use natural lighting. That not only saves costs, it brings down the carbon footprint as well.

Thankfully, GCPL warehouses produce no effluents because of the type of the business. But the company puts a tight leash on forklift use – it has done away with diesel forklifts over those operated by battery.

Takeaways From Abroad

About key learnings from GCPL's international acquisitions, Sinha says, "Where we get the first-cut benefits is sourcing – strategic sourcing of raw materials, packaging material, that's where we have had some savings. For example, if the same item is supplied to Indonesia (Megasari) as is to (GCPL) India, we can negotiate with suppliers to reduce the rates due to increased volumes."

Overall, there are many takeaways from international acquisitions since modern trade or organized retail is more pervasive overseas than in India. In countries like Argentina or Indonesia, modern trade could comprise anywhere between 30 to 90 percent of the retail ecosystem, whereas it is a meager five percent in India. "So the modern trade management – dealing with a chain of stores and being able to negotiate with store chains, ensuring the efficacy of promotions, how to do a midcourse correction if the plan is not going well, or how to step it up if it is doing very well – these are some very good learnings we have got from our acquisitions in South Africa and Argentina," he says.

And it shows. Driven by international acquisitions, improving market conditions at home, deeper rural reach and all of it backed by its supply-chain robustness, GCPL is posting some remarkable growth. In the second quarter of FY2011 ending September 30, the company posted a whopping 66 percent growth in net sales year-on-year, much higher than industry average. From what appears, it's a sign of things to come.