Harnessing Supply Chain Efficiency Through Information Linkages: Case of Multi National Companies and Small Retail Sector in India

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ABSTRACT

The Indian retail industry majorly constitutes of small retailers, comprising of approximately 12 million small shopkeepers and increased competition has made companies understand the significance of this unorganized small retail sector. Most companies feel that coordinating their downstream supply chains is critical for long term growth and sustainability. The paper examines the supply chain coordination amongst retailers, distributors, logistics providers, customers, and major Fast Moving Consumer Goods (FMCG) multi-national companies in India. The findings confirm that supply chain integration, information sharing, and supply chain design are being given proper attention by FMCG companies. They appreciate the strategic value of information sharing for establishing collaborations with the small retailers for effective performance of supply chains. Even in the fragmented, ill-defined, unorganized, and disjointed small retail sector in India, information sharing between supply chain partners is given precedence. Lack of technological infrastructure does not deter MNCs from establishing information linkages with small retailers and harnessing it for supply chain efficiency.

Keywords: Fast Moving Consumer Goods (FMCG) Sector, India, Information Sharing, Small Retailers, Supply Chain Design, Supply Chain Integration

INTRODUCTION

The competitive advantage of a company lies in its appropriate management of relationships with its suppliers, customers and vendors. Globalization and increased competition has driven companies to reengineer their supply chain networks and link them into a web of mutual profitable relationships. The thrust towards supply chains integration and information sharing has increased pressure on supply chain partnerships. Cassivi (2006) posits that the growth of collaborative approach in the global supply chain environment has changed radically with the initiation of the concept of integration and outsourcing. The efficient performance of
supply chains is closely linked to the degree of integration within the supply chain members (Armistead & Mapes, 1993).

In developing countries like India, companies are placing emphasis on integration and coordination between upstream and downstream supply chain members. It means expanding supply chain networks, cultivating, managing and coordinating inter-firm relationships and functions (Malone & Crowston, 1994; Ellram, 1995) for efficient supply chain operations (Lewis & Talalayevsky, 1997). Akkermans, Bogerd, and Vos (1999) postulate that supply chains include different organizations with multiple echelons and thus the challenge for global supply chains is to manage these relationships and cater to customer needs efficiently. The goal of supply chains is to competently fulfill the needs of the customers and contribute to the profitability (Akkermans et al., 1999). In retailing, supply chains have a significant role. Information is considered to be force that can enable companies achieve close coordination and cooperation across supply chain partners. Lee, Padmanabhan, and Whang (1997) and Metters (1997) have discussed about strategic importance of information sharing in reducing inventory costs and bullwhip effect. The bullwhip effect can be substantially reduced with information sharing and availability of point-of-sales data (Croson & Donohue, 2003; Ouyang, 2007). Supply chain can be understood as inter-organizational integration and alignment of business goals strengthened through technology (Lewis & Talalayevsky, 2004).

The Indian retail sector is poised to grow exponentially with organized retailing making inroads into the country. However, small retailers are of crucial importance to companies, as they have much control and reach in the markets being located in the nexus of colonies. The Indian retail industry dominated by small shopkeepers (approximately 12 million) which can be termed as ‘mom and pop’ stores providing employment to about 21 million Indians (Rao, 2006; Rakesh & Khare, 2009). This sector has a good understanding about the market demand and customers’ needs. Developing and nurturing collaborations with the small retailers’ would help companies strengthen their supply chains and improve their profits. This sector cannot be ignored as it constitutes a huge chunk of distribution network ensuring extensive reach and coverage in both urban and rural India. Even though organized retailing is growing and altering the retail landscape, these small retail outlets are critical partners in supply chains. Most Indians, prefer to do their daily grocery shopping from nearby stores. This is the inherent characteristic of Indian consumers, as they prefer to purchase fresh groceries and in small quantities. Small retailers are easy to access, being located in close proximity. FMCG companies in the recent years have tried to extend their reach on these retailers, and the research findings suggest that their endeavors are in the right direction. Lack of technology infrastructure and communication networks has not deterred them in building collaborations with the small Indian retailers. Supply chain integration efforts directed towards managing retailer-supplier relationships would ensure efficiency and profitability. Collaboration and coordination amongst suppliers and company is vital for managing global supply networks (Attaran & Attaran, 2007).

The purpose of our research was to analyze the level of information sharing with suppliers and customers, supply chain design and its affect on supply chain integration. The availability of information about demand patterns, and customer needs can enable supply chain members manage their operations in a synchronized manner (Pontrandolfo, Gosavi, & Okogbua, 2002) and aid in attaining supply chain goals in an efficient manner. We assumed that information sharing would have a positive effect on supply chain design and supply chain integration. Considering the fragmented and unorganized nature of Indian retail sector, the availability of information from small retailers would be as pertinent for the suppliers for planning their distribution strategies as information from the organized retailers. Supply chain efficiencies and performances can be drastically improved with information which would
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