

SUPPLY CHAIN STRATEGIES IN EMERGING MARKETS: AN INDIAN PERSPECTIVE

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Abstract

Emerging markets offer huge growth opportunities that cannot afford to be missed out by corporate world. India has a huge potential which is yet to be exploited. The logistics/supply chain experts have not been able to meet the requirement of even urban population successfully so far. This paper focuses on igniting the mind of corporate bigwigs with a aim to address the issues of supply chain strategies holistically. The right approach to supply chain development is fundamental to successful exploitation of these opportunities.

Key words: supply chain strategies, emerging markets

Introduction

India is a developing country where shifting politics, unstable economics, lack of basic infrastructure, and limited application of enterprise management technologies are the norms. In spite of these challenges and pitfalls, it has a huge potential to address the emerging needs of the people and supply chain plays an important role.

One more issue which merits discussion is that the Indian market is to be considered as a sub-continent: serving India is similar to serving a widely diverse market where languages, cultures, habits and consumer preferences are different in every single Indian state. Each state therefore requires a customized approach.

Indian population can be divided into various segments: ultra-rich, rich, upper middle class, middle class, lower middle class, poor on the border line (aspiring to come to middle class) and poor population. Every category has different requirements and intelligent market must cater the requirements

accordingly, which requires a thorough understanding of the local consumption patterns. In addition, prices and products need to be tailored to the taste and wallets of each category or group of categories of the consumers.

1. Challenges for India

1.1. Poor infrastructure

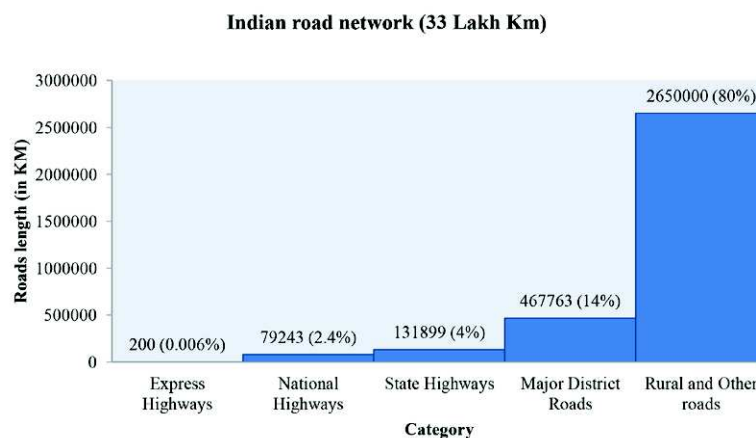
The biggest challenge for India is a poor infrastructure. Infrastructure development is the greatest challenge facing India, if it is to sustain high levels of economic growth. India's position on the world trade map has been growing steadily over the past years. However, the physical infrastructure has not been able to keep up with the country's economic expansion. Transported volumes are climbing rapidly, demand for energy has increased and the communication network is reaching its maximum capacity. Being home to over fifty national highways, the sad state of affairs is that most national highways are just two lanes or even lesser. The design of the highways is a matter of great importance since only properly designed highways can withstand the pressure created by heavy vehicles. Apart from being narrow they are also highly congested since quite a large part of India's freight is carried on these highways.

More can be accomplished if there's better infrastructure and the ability to scale up to get products to the villages. For example, the Food Security Bill that has been passed needs to be implemented. How to get rice and food grains to the villages remains an SCM challenge. There's going to be a huge opportunity once infrastructure bottlenecks are removed. India has the potential to come up as a supply chain centre of excellence for the world. The key infrastructural challenges involve the active role of roads and the Indian road freight industry, railways, ports and shipping, airports and the Indian air freight industry. These, in turn, are supported by power, energy and the ICT-infrastructure. Although the Indian government has been taking steps to improve the country's physical infrastructure; there is still much ground left to cover. Many years of under investment are now taking their toll on the country's competitiveness as India still compares unfavorably to other emerging economies. In addition, structural inefficiencies in the financial system, coupled with the global credit crunch, have left the country with a shortfall of US\$ 1.9 billion in financing key infrastructure project, as a recent study by McKinsey reveals.

Roads are the lifeline of an economy. In India, road transportation accounts for 65 % of freight traffic and 85 % of passenger traffic. India has the second largest road network of the world: it is nearly twice as long as China's and it ranks second only next to the USA (Fig.1-2). However, out of

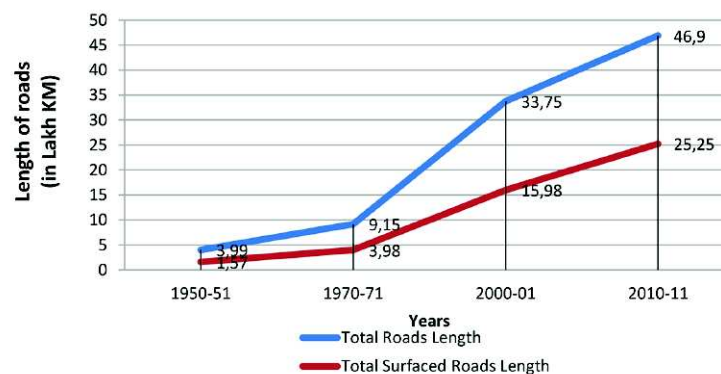
India's 3.3 million km, only 2 % are express highways and less than half the roads are paved. Off the highways, transportation links become very scarce to non-existent. Firms can only use trucks that are smaller than 6 meters (2-axle rigid trucks and smaller).

Figure 1. Status of Indian roads



Source: NHAI, 2015

Figure 2. Progress of Indian roads



Source: Basic road statistics of India, 2012

Access to the interior of the mainland is limited, 72% of the Indian population lives in villages and more than 25% are yet to be connected with roads. Reaching consumer in rural India then becomes a challenge, especially given that this is where the next market potential is expect to come from. So how does a firm get its product to the remote Indian villages?

The Indian road network is not only in very poor shape; it has also reached its designated capacity. This ultimately results in very frequent congestions. The average speed on Indian highways is 30 km per hour, which is three times lower than the average speed on highways in developed countries. The high average daily traffic volumes indicate the urgent need for improvement of the road infrastructure.

Some Indian States have tried to manage road congestions by introducing ‘truck curfews’, which are specific hours during which trucks are not allowed to enter the city limits. Once a vehicle misses the curfews, it is held alongside the roads until the next day when it will get the chance to enter the city limits. Such policies only lead to more delays. To meet the infrastructural need, the National Highways Authority of India (NHAI) launched the National Highways Development Project. This project has three phases, which are meant to upgrade and widen the country’s highway network. The first phase incorporates the development of the Golden Quadrilateral connecting Delhi, Mumbai, Chennai and Kolkata. The second phase involves the development of the North-South and East-West links, which runs from Srinagar to Kanyakumari and from Porbunder to Silchar. The third phase consists of the upgrade of existing national highways.

1.2. Highly fragmented supplier base

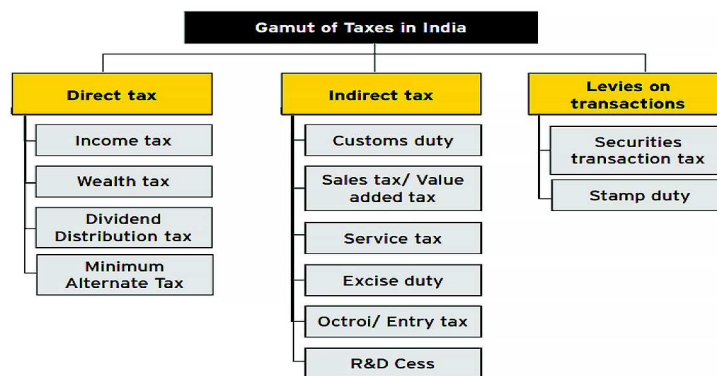
Reaching mass markets effectively will require the development and optimization of dynamic channels especially in the cultural diversification like India. In many emerging markets, outlet penetration is challenging to achieve because of fragmentation. India for example has something in the order of more than 13 million outlets (the US by comparison has fewer than 950,000). As they build a supply chain to take their brands and products into the mainstream of emerging markets, all players must keep this in mind.

1.3. Complex system of taxes and government regulations

Indian taxes and duties are known to be a labyrinth, but they are essential parameters in the optimization of supply chains. Corporate tax treatment in India varies significantly from State to State, as all levels of government have the authority to levy taxes on goods and services. The Federal government levies taxes on income, imports (*Custom duties*), the rendering of services (*Service Tax*) and goods manufactured in India (*Central Value Added Tax or cenVAT*). The State Governments may charge taxes on professions, on property transactions (*Stamp Duty*), the VAT on intra-state sales of goods, the Central Sales Tax (CST) on inter-state sales of goods and the *State Excise*. Local bodies tax properties, *Octroi* when goods enter the city

limits, and the supply and use of utilities. It is presented in Fig.3

Figure 3. Scope of taxes in India



Source: Indian Tax Overview, 2011: 10

1.4. Ineffective usage of information technologies and communication

Prior to 1980s the information flow between functional areas within an organization and between supply chain members organizations were ‘paper’ based. The ‘paper’ based transaction and communication is slow. During this period, information was often over looked as a critical competitive resource because its value to supply chain members was not clearly understood. IT infrastructure capabilities provide a competitive positioning of business initiatives like cycle time reduction, implementation, implementing redesigned cross-functional processes. Three factors have strongly impacted this change in the importance of information. First, satisfying in fact pleasing customer has become something of a corporate obsession. Serving the customer in the best, most efficient and effective manner has become critical. Second information is a crucial factor in the managers’ abilities to reduce inventory and human resource requirement to a competitive level. Third, information flows plays a crucial role in strategic planning.

2. A concept of supply chain management

The supply chain concept is still nascent in India. However, the need for the same, at this stage, is more than ever before because of the challenges unleashed on the competitiveness of the Indian industry by deregulation and globalization. An essential first step in the process is to assess the current supply chain capability and to gauge the current state of supply chain management in the Indian industry. It is true that a beginning has been

made and large number of Indian organizations today are realizing the importance of developing and implementing a comprehensive supply chain strategy – and then linking that strategy to deliver bottom line results.

2.1. Major challenge to adapt existing strategies to the peculiarities of the Indian landscape or design new strategies from scratch, that are entirely adapted to the local conditions

India has a tremendous market potential. It also offers remarkable sourcing opportunities, strong logistics and supply chain processes are necessary in order to support objectives. Need to cope with all the challenges of managing effective supply chains. Emerging markets are hot, today more than ever. While these lower-cost countries were perceived by multinational firms as an opportunity to benefit from labour cost arbitrage in the past, the trend has changed. Next to radical cost reductions, other key forces are also driving multinational corporations towards globalization and emerging markets. These are: new markets and growth opportunities, technological capabilities, and political and macroeconomic incentives. Thus, yesterday's low-cost countries are now becoming tomorrow's new markets and strategic locations to tap into local technologies and know-how. However, emerging markets have their own challenges, ranging from poor physical infrastructure, inexistent distribution channels and a fragmented supplier base to a lack of transparent regulations. This can cause effective time-tested supply chain management practices that work in developed countries, to fail terribly when applied in emerging economies.

Figure 4. Key imperatives



Triple A-rated

It is imperative to achieve a ‘triple A-rated’ supply network -delivering products that are affordable, available, appealing. These are more prominently visible in the economies like India.

Skilled labour

The availability of quality skilled labour, whether in the cities or rural areas, is often in short supply. Companies must cultivate and progressively train to succeed in retaining and growing pools of skilled resources supplemented, where appropriate, by specialist external expertise and input. India need to create a well trained fully skilled manpower pool. Presently, there is huge deficiency in training institutes especially to train skilled manpower.

Supply everybody & everywhere

The rapid urbanization of emerging economies creates ‘instant’ markets that are geographically concentrated. But newly middle class city dwellers are very far from representing the total opportunity. Reaching the still immense rural population is critical to growth and economy.

E-Commerce

Online information sharing increases transparency, visibility, speed and accuracy in material movement across the supply chain. There is an urgent need of E-Commerce logistics for the enterprise to bring efficiency and effectiveness in material delivery to the customer.

Fragmentation

Indian market has a fragmented base wherein there are lots of small to mid size companies and where even the big players have stiff competition. It is because of diversification in culture, habits, tastes etc. It indicates that there are customers for this different type of product. Reaching mass markets effectively will require the development and optimization of dynamic channels.

India is characterized by a fragmented supplier base, with a lot of intermediaries and huge capabilities differences between suppliers. The first top tier suppliers are sophisticated and they can easily compete with their peers in developed markets. They follow world-class practices, possess leading-edge technologies and are up-to-date with the latest management techniques. India has, in fact, the most firms conferred with the Deming Award outside Japan and most of these have been awarded to top tier suppliers. Tier 2 and tier 3 suppliers are often rural and lag far on the top tier.

One size fits one

Success demands awareness that a ‘one size fits all’ approach is unlikely to work and at the same time, close alignment with the needs of individual markets must be based on sustainable cost to serve.

Grow your own talent

There is a need to leverage and mature management experience through ‘on the ground’ involvement. Managers themselves will benefit from personal development and experience gained at the emerging markets sharp end working closely with, and developing their local and regional talent.

Sourcing

Sourcing is defined as the entire set of business processes required to purchase goods and services. In doing so, companies acquire raw materials, components, services, or other resources from suppliers to execute their operations. An organization typically decides to source from an international location when it adds value to its activities in terms of cost, quality, and time or capability. Good sourcing decisions can lead to a significant competitive advantage. First, as firms have reduced vertical integration and as they are increasingly outsourcing the manufacturing of components, today’s share of purchased parts within the cost of goods sold is higher than several decades ago (Chopra, Meindl, 2008: 419). Good sourcing decisions can therefore result in lower costs of goods (or services) sold. Secondly, given the current financial crisis, achieving a low cost structure has become crucial to the survival of numerous firms. Today, many multinational manufacturing firms are looking at India as a high-potential sourcing opportunity. It has a very large number of very competent, English-speaking engineers graduating each year; with labor costs that are often just a fifth of what their peers may cost in developed economies.

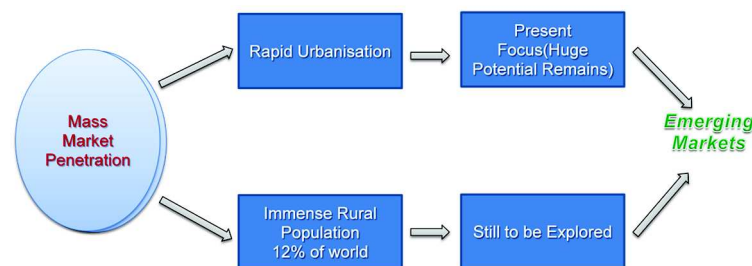
Even the most experienced sourcing professionals will be overwhelmed by the size, the complexity and the diversity of India. “In terms of laws, taxation, languages, cultures and other elements, there exist significant differences among the various states in India. There also are differences among the various business sectors. So sourcing from India actually needs to be translated into sourcing from a particular part of the country. Sourcing from India implies changes in the existing supply chain network: new relationships are built and linked to the existing network, while obsolete relationships must be abandoned. Analyzing a sourcing opportunity merely from a strategic point of view is bound to lead to unexpected outcomes, such as the hidden costs of matching and coordinating processes, and the resources needed to leverage your firm’s competences in order to bring your Indian suppliers up to you expectations. In today’s economy, providing a good

product with the right features is no longer sufficient. Brand image and the way the product is perceived by the end-users are increasingly influencing consumers' behavior. Nike learned this lesson the hard way. The Nike swoosh has often faced criticism for use of child labor, due to production contracts that were given to companies that operate in areas where inadequate regulations and monitoring makes it hard to ascertain that child labor is not used. When sourcing from India, it is therefore crucial to know your suppliers through and through, and to make sure that they comply with all standards and regulations.

Looking for suppliers via web-search, e-mails and phone calls can harm your business, simply because companies that are qualified may not respond; they are often too busy chasing what they consider to be real prospects. Therefore, chances are that the response you may get, comes from a company that is poorly run to get business on their own. Or it may come from some intermediary who does not own any facilities of its own, in which case you would be having no access to the actual sources.

Conclusively, sourcing from India offers many opportunities. However, the challenges are also there. They can be both external (logistics challenges, lack of quality and transparency at the supplier's end,) and internal to the firm (lack of knowledge about India at the corporate level, shortage of local sourcing. However, these obstacles can be overcome, though it often requires creative thinking and local innovations.

Figure 5. Desirable focus

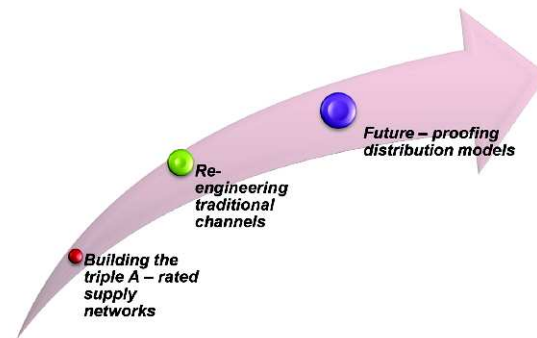


Source: Own study

Presently, the industry and supply chain management is focused on cities and satellites stations and they are yet to explore the huge market awaiting in the rural areas of India. About 72.2% of the population lives in some 638,000 villages and the rest 27.8% in about 5,480 towns and urban agglomerations. It means that approx. 12% of world population is living in rural area of India and this is yet to be tapped by effective and state of art supply chain management/experts.

3. An approach: effective supply chain

It is imperative that India need to develop the right supply chain for success in emerging markets of the future. There are three key areas which are required to be addressed.



Developing a triple A-rated supply chain

The biggest challenge for supply chain emerging markets is to ensure that their product is acceptable to the consumers and at the same time it is acceptable and available . In view of huge fragmentation nature of supply base and ability to purchase product of own choice, clients have unlimited choice from cheap to costly products. However, ultimately what will matter the appeal, affordability and availability (Geldard, 2011).

How should an effectively re-engineered channel perform?

To achieve success, the approach to product portfolio will migrate, from ‘blanket’ to precision, through focus products and ‘must stock’ items supported by well executed promotions. There is no scope of complacency if supremacy is to be achieved in the market.

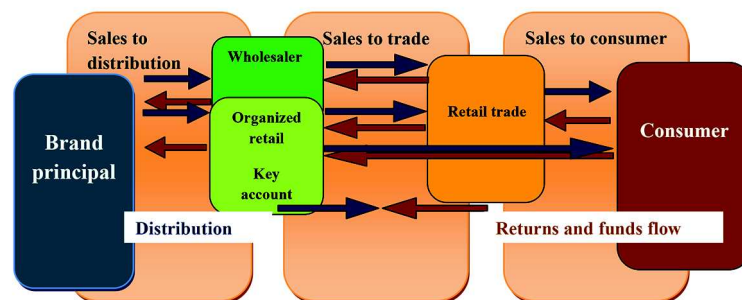
To achieve the mature market levels of supply chain visibility requires radical reappraisal of current system and approaches. Knowledge talent in the system must be captured, interpreted and leveraged as per the local conditions and target market.

To be effective, technology based on fast and transparent communication should be developed for analysing the sales activities and data for clear understanding of market aspects.



Future – proofing distribution model

This begins with selecting the channel options wisely, in order to minimize cost-to-serve and protect margins. It is imperative that supply chain in the emerging market should have last mile visibility. Consumers in the present scenario are in no mood to have uncertainty in delivery



Conclusions

India has a huge growth opportunities but at the same time it has its own challenges. Unlike in the developed economies, plug and play supply chain is unlikely to be successful in India. Planners need to understand the local imperatives and leverage them to their advantages. They also need to have strategy to balance the extent of localisation in order to succeed in these unpredictable and individual unique markets.

For the purpose of EMERGING MARKET strategy in India, we need to consider it being a heterogeneous nation. Each state has its own culture, rules and regulations, languages and preferences for products and services. There is a necessity to integrate the global operations with local supply chain relationship and thereby establish a combined mode of sustainable