

# THE CRITICAL LINK

Excerpts from a study on the changing interplay of Strategy, Supply Chain and Retail Formats

By Vinayak A. Drave, Prof R.R.K. Sharma, Jyoti Kainth

The transition from a pure 'brick and mortar' to 'brick and click' to 'click and click' and now 'omni-channel' mark the dawn of new age Indian retailing. Additionally, the knowledge sharing between various supply chain players is contributing towards building efficient supply chains targeted to reduce associated costs of time, efforts and money. Today's retailers can be visualized as facilitators that offer the virtual market-space for buying and selling to materialise.

Entrepreneurial retailers have started following a holistic approach towards creating value along the supply chain. They have started embracing their role as strategic partners to brands based on relationship building with customers downstream.

## ROLE OF AGENTS IN SILOED STRUCTURE

In a dynamic retail industry where a manufacturer can be a retailer (Zara) or a retailer can warehouse product categories (Walmart), the role of agents seems to be ever evolving. IT enabled solutions have made



integration of platforms possible in retail. This has led to the emergence of 'Siloed Structure', which is a result of integration of two business platforms/models (offline and online) that complement each other and add value to the supply chain. This also helps in capturing value from the exponentially decreasing product life cycles. The scenarios where this integration of platforms can be leveraged are:

1. Brick-and-mortar retailers use the 'brick and click' strategy for

promoting their catalogues online or in forecasting the demand through a number of searches made on the internet. However, they do not deploy this model as an actual platform for selling products. It is adopted to reduce inventory carrying costs where it is not feasible to keep sufficient amount of product variants in the store. The strategy is to provide catalogues online, which can be browsed by potential customers at their convenience. Additionally, simple click technologies can

be leveraged to provide a customised search menu. This helps the offline retailer accurately forecast sales and ensure cost effective procurement of products.

- a. Almost all major brands have their websites loaded with exhaustive information pertaining to the product categories and variants that they carry along with the location details.
  - b. Walmart has big screens with ICT (Information & Communication Technology) enabled platforms at their stores which facilitate effective product search by customers.
2. Brick-and-click retailers use small physical spaces as pick up points or points for returning products, which helps them in maintaining a responsive and agile supply chain. These stores are convenient to reach, and offer fast service to customers. They are different from warehouses as they need not have a fixed location. They can be perceived as flexible structures that can move to achieve network optimization and cost savings with respect to:
- a. Cost of physical space as they are not traditional warehouses. They can be one of the registered seller's physical shop.
  - b. Inventory cost as the product cannot stay for a longer time.

**“SIMPLE CLICK TECHNOLOGIES CAN BE LEVERAGED TO PROVIDE A CUSTOMISED SEARCH MENU. THIS HELPS THE OFFLINE RETAILER TO ACCURATELY FORECAST SALES AND ENSURE COST EFFECTIVE PROCUREMENT OF PRODUCTS”**

- c. Customer service level cost as the shops are located in convenient locations.
- d. Cost of forward and reverse logistics. Examples: Flipkart and Amazon pick-up stores.

#### **SUPPLY CHAIN STRUCTURE**

The dimensions of supply chain structure chosen for this study are:

#### **Formalisation**

Formalisation is about laying down specific rules, instructions and procedures to be followed by everyone in the organization. It aims at achieving production efficiency through monitoring and control, by giving clarity on functional roles and responsibilities. However, high level of formalisation leads to a rigid supply chain structure where the stakeholders are required to follow the norms and the rules of the organisation, which can hinder innovation.

#### **Centralisation**

Centralisation is about concentration of decision making power. The key factor is to decide the degree of information sharing in the supply chain. In decentralisation, there exist multiple decision points which can create flexibility in the supply chain. The degree of centralisation or decentralisation is determined by factors such as the scale of operation, interdependence of work flow, complexity of job, and the physical barrier within the group. The larger the size of the firm, the more is the need for decentralisation.



Source: Generated by Authors

Retail Model \ Dimensions	Brick and Mortar	Brick and Click
Formalization	↓	↑
Centralization	↓	↑
Standardization	↑	↓
Specialization	↓	↑
Flexibility	↓	↑
Complexity of work flow	↑	↓
Synergy	↓	↑

\* ↑ means high degree, and ↓ means low degree

► Findings about supply Chain structure

**Standardisation**

Supply chain standardisation implies following the same procedure, tools and medium of making products available to end user. The degree of standardisation varies across product segments. The procedures are designed for ‘Information Sharing’, ‘Decision-making’, ‘Logistics Management’ and ‘Downstream Distribution’.

**Specialisation**

Specialisation in supply chain entails breaking down the total work to be done into smaller and precise chunks of responsibility that an individual employee has to shoulder. Each employee is trained explicitly to perform the task assigned to him. This is to enhance the proficiency of employees in the designated tasks, which can reduce cost, time and efforts.

**“ IN THE ‘BRICK AND CLICK’ MODEL, OPERATIONS ARE MORE FORMALISED AND FOLLOW A PARTICULAR SET OF NORMS AND RULES. COMMUNICATION IS FORMAL AND INFORMATION SHARING IS LIMITED AND AUTHENTIC.”**

**Complexity of Workflow**

This relates to the degree of differentiation that exists within an organisation. The indicators of the level of workflow complexity are horizontal differentiation (the task performed by the stake holders of the supply chain); vertical differentiation (the number of levels in the hierarchy of supply chain structure) and spatial differentiation (the degree of geographical distance between the stake holders of a supply chain). The degree of complexity differs from organisation to organisation.

**THE SUPPOSITIONS MADE**

Various suppositions were made by authors around brick-and-mortar and brick-and-click retail formats. They were:

1. Brick-and-click retailers have a high degree of formalisation, centralisation and specialisation as compared to brick-and-mortar retailers. They also have a high degree of flexibility, degree of integration and synergy, trust and rational strategy process between supplier and vendor as compared to brick-and-mortar retailers.
2. Brick-and-click retailers have a low degree of standardisation and complexity of workflow as compared to brick-and-mortar retailers.

**OBSERVATIONS MADE**

Inter-organisation alliances are necessary in online retailing because

of dependence on several critical functional areas and technologies, together with the need to eliminate the cost of in-house development and market transactions. Integration of ICT into supply chain supports job specialisation which necessitates recruiting professionals with different skill sets. Uniform distribution of work results in a smooth and efficient supply chain in brick-and-click retail model as compared to the brick-and-mortar retail model.

Outsourcing the non-core activities, i.e., logistics, after-sales services can ensure cost reduction. Also, the supply chain becomes more informative with the intervention of

IT that can help organisations reap the benefits from increased flow of goods, reduced delivery time, and better customer retention. Integrating physical facility with the internet of things can enhance synergy and market demand flexibility. This can positively impact the relationship between retailers and vendors leading to better supply chain performance. Integration in logistics plays an important role as it equips the organisation in better handling the market demand uncertainty.

To summarise, it was found (Figure 1) that in the 'brick and click' model, operations were more formalised and followed a particular set of norms and rules, communi-

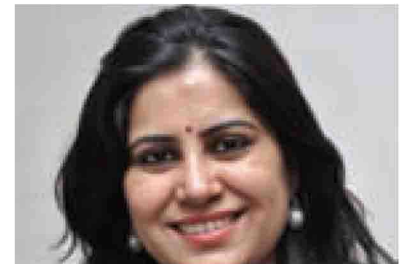
cation was formal and information sharing was limited and authentic. All the functioning was held under standard processing with a formal channel of communication. New technologies like ERP and CRM were introduced in the supply chain. Big players tried to inculcate standardised process in their structure to reduce ambiguity. However, due to constant demand fluctuations, they felt the need to modify their operations processes because of different needs and demand structures emanating from varied geographical regions. It was sensed that the processes need to be evolved towards reaching a profitable process-demand fit. 😊



Vinayak A. Drave is a Ph.D. Research Scholar in Department of Industrial & Management Engineering, Indian Institute of Technology Kanpur. His research interest includes analysing Supply Chain Strategies of various e-commerce players in India. He has published an experiential exercise with Ivey Publishing, featured through Harvard business Publishing. Additionally, he has two research papers and six international conference papers with journals of international repute.



Prof R.R.K. Sharma is a Professor (HAG Scale) in the Department of Industrial and Management Engineering, Indian Institute of Technology, Kanpur, India. He has more than 26 years of teaching experience. His research interest lies in the field of operation research, supply chain management, manufacturing strategy and IT deployment in Industrial Engineering. He is a fellow of IIM Ahmedabad and has published more than 170 articles of international repute and has authored many books.



Dr Jyoti Kainth is an Assistant Professor at IMT Ghaziabad. With over 10 years of teaching experience, she has published more than 60 reading pieces including research papers, case studies and broad audience articles with various publishing houses including Emerald, Ivey Publishing, CEOWORLD, Business World, Business Today, Economic Times and Indian Management. She is an avid learner and administrator of innovative pedagogies in Management studies.