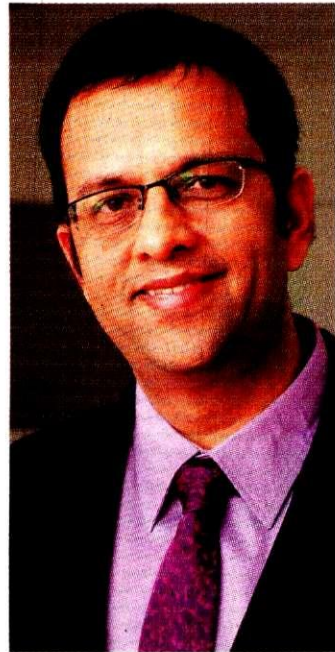


The Z E R



Hemant Bakshi



The FMCG behemoth Hindustan Unilever is in the midst of reconfiguring its massive distribution setup. What's the plan?

Priyanka Sangani

ZERO, OVER THE PAST one year, has come to be an important number for Hindustan Unilever (HUL). Zero is the amount of inventory the company's distributors currently hold in Mumbai, and the amount of inventory that distributors in the 42 major urban centres will hold over the next few months. Zero is also the percentage of stock damaged in transit from the company depots to the retailers in Mumbai. Given that both these statistics are a rarity — if not a completely anomaly — not only in India but also globally, it's not surprising that the company is happy about hitting zero with such regularity.

The zero statistics are a result of a brand new distribution strategy that the Rs 13,700 crore company is in the process of rolling out. Hemant Bakshi, ED-sales and marketing, HUL says that the 'Go To Market' (GTM) initiative was born out of a range of factors. "The marketplace, as we know it, is changing with the evolution of modern trade. As a result, the throughput from general trade is going down in certain markets, affecting the distributor's business. Alongside, the country is also at an inflection point and we realised that we needed to design the next generation distribution model which could serve the business a few years from now," says Bakshi.

The company carried out an exercise to ascertain how consumers — and the retail landscape — will evolve by 2013 and narrowed it down to a few key insights. There will be a hybrid trade landscape where both traditional and modern retail will co-exist, though having experienced modern retail, consumers will start expecting more from their neighbourhood grocery stores. For the company, the margins between the so-far-well-defined urban and rural markets will become a blur, and product categories like deodorants, which are almost non-existent today, will be a significant part of business. And perhaps most importantly, the way technology will be used in business will be vastly different.

Using these insights, the company first piloted the GTM initiative in Mumbai in January 2008, with technology as the cornerstone. All HUL salesmen now use handheld terminals on which they book replenishment orders from retailers. Once they come back to the distributor, this data is synced in with the system at HUL. Accordingly, the next day, the clearing and forwarding agent (C&FA) sends out the required stocks to the respective distributors who in turn pass it on to the retailers. As a result, from being in a position of holding a warehouse full of stocks, distributors now hold zero inventory.

Once the distributors realised the benefits of the system — elimination of costs and far higher efficiency — they were quick to come onboard and invest in the required technology. "What we have done is taken the cost out of the back-end and invested it in the front-end," says Bakshi, adding that it has also led to other gains not anticipated while planning the initiative, like zero damages in transit.

For the consumer too, as a result of the increased efficiency, the likelihood of finding the required product in the shop when they visit it increases. Given that at any given time any store would stock not more than 80 of the 650 stock-keeping units (SKUs) HUL has, it is quite an achievement.

When implementing this system in Mumbai, the company also decided to move from a numeric to a value-weighted distribution model. "Rather than focusing only on the width of the distribution, we mapped all the retail outlets in the city and, for each product, identified outlets across formats where we wanted about 80% of our sales to come from and are working at improving the quality of in-store execution in these," says Bakshi. Having done this, the respective distributors for those areas set up channels with the retailer with each distributor having separate teams for each store format.

The company is also moving to a single distributor per store model, a breakaway from the past, where distribution was fragmented based on categories and a single store would interact with multiple HUL vendors. Once the company was satisfied with the results in Mumbai, it decided to implement this across 42 cities with populations of over eight lakh each. These cities contribute about half of HUL's urban business. "At present we won't be rolling it out to other cities as it's critical that the C&FAs be within a 24-hour radius of the stores. As and when the infrastructure in the country develops, we will implement it in other cities," says Bakshi.

India, he says, is where all the next-gen thinking on distribution takes place at Unilever (for emerging and hybrid markets) and over time, GTM too would be exported to other hybrid trade markets. Bakshi is tight-lipped about the cost savings through this venture, saying that the strategy is aimed at boosting growth rather than cutting down on costs. "We believe that because of the innovations, we will be able to grow more at the same cost," says Bakshi. In terms of investments, a large chunk has gone into the upgradation of technology and people skills.

For the Mumbai experiment, HUL had tied up with Mahindra Logistics to handle the back-end, but this will not be continued in the other markets. "We believe that the capabilities of servicing reside largely with our distributors. Rather than outsource, we need to help build in knowledge and science in the way they work," says Bakshi.

Going ahead, he says that the potential provided by the data collected is immense: "We have been told that the quality of the data collected by our 9000 salesmen is at par with the best globally. It can be used to improve the overall shopping experience for the consumers as well. For instance, using this data it is possible to determine: what variant of a shampoo, in what pack size, would sell at a particular store, and can be stocked accordingly. It would also be possible to predict what new products would work in certain stores and these can be introduced accordingly. "While so far we run promotions across outlets, this gives us an opportunity to mass customise our initiatives on a store-to-store basis," say Bakshi.

Eventually it is about making sure that the company's brands have the best chance of succeeding. "If there was one store in the country and we wanted to give our brands the greatest chance for success what would we do and how would we do it? This is what we are creating a template for, and this is what we will try and implement in the future," he says. This is what the company calls a 'Perfect Store' and the idea is to build a million of them.

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