Overcoming India's Planning Challenges

A CLOSER LOOK AT SUPPLY CHAIN RISK IN INDIA

Tata motors' long-awaited ultracheap car the Nano went on sale this April, but buyers won't be able to take delivery of the $2,000 vehicle until the summer, at the earliest. Violent protests from farmers forced Tata to relocate the manufacturing site of the Nano, causing delays and higher costs. The company's travails underline the risks associated with doing business in India without being thoroughly prepared. We asked Professor N Viswanadham, Executive Director of the Centre for Global Logistics and Manufacturing Strategies, at the ISB, about the supply chain risks that companies need to be aware of in a country that still offers huge opportunities for growth.

Why was Tata's original plant location derailed?

We are dealing with supply chain risk in an emerging market. Usual supply chain folks talk about risk mitigation strategies for supplier failures, quality compliance, truck failures, delivery delays, et cetera. In an emerging market such as India, where the workforce is moving from agriculture to manufacturing, and state and central governments are under pressure to industrialise the nation to create wealth for the country and jobs for its people, there is a need to convert agricultural land into industrial sites.

Generally, state governments, to attract the companies into their territory, would acquire the land from the farmers and sell or lease it to the companies. In the Tata case, the company has an excellent product, the 1-lakh car, and the world was waiting for its launch. Tata chose a site with good backward and forward (supply chain) linkages and accepted an offer from the West Bengal government to locate its plant along with its suppliers near Kolkata. The West Bengal government wants to industrialise its state and has to convert agricultural land into industrial land. The farmers who initially agreed to part with their land changed their minds and said that they could not part with their ancestral property and their lifeline unless they received a higher price. Tata had to leave Singur, lost a lot of money, and missed the deadline (for production of the Nano). It had to dismantle its excellent supply chain infrastructure and move elsewhere.

One encounters situations where everyone is right. In emerging markets, industry needs to be sensitive to societal issues during the planning stages of projects. In the literature, these so-called wicked problems require soft management skills of negotiation, incentivisation,et cetera. Problems of this kind are faced by all countries and arise during the planning stages. The big lesson then is to do the due diligence and have the agreement and titles of the land in hand before starting such projects and to be sensitive to the societal angles during the supply chain infrastructure planning.

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What other political risk factors should foreign companies know about?

When a foreign company enters India perhaps through FDI (foreign direct investment), it deals with the state and national governments at different levels. For example, the FDI clearance either as a green field or joint venture is given by the central government. But operational issues, such as land allocation and labour problems, are the concern of the state government.

pop stores need, everything from personal hygiene items and food to motor bikes. In effect, a Costco-type distribution centre that is not product-oriented. The needs of the population would determine the size of the distribution centre. I liken it to a refrigerator at home, which stocks all the items you need.

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Where would the distribution centres (DCs) be located?

They should be located on the path of goods flow. India is connecting its big cities with freight corridors, and by 2012, the infrastructure will be ready. At present, the planning of distribution networks is not very efficient, which creates risk. For example, when an item moves from one state to another, there is value-added tax to pay. As a result, DC location is not necessarily optimal based on logistics; it is often based on how you move goods and avoid the value-added tax.

In summary, Indian industry has not yet come to grips with how to plan and operate its product supply chains to meet the needs of the country's diverse population (i.e., low, middle, and high income), while avoiding tensions with its stakeholders. Companies need to realize that there are management issues specific to emerging markets that require soft skills to resolve beyond automated enterprise resource planning, customer relationship management, and warehouse management system solutions. While it is easy to blame emerging countries and their people for these societal problems, corporations are also responsible for providing customised solutions for each region or country, rather than riding on automated solutions that were successful elsewhere. Emerging markets need new strategies, new designs, new products, new industries in new locations, new distribution, and retail strategies producing high-quality goods at affordable prices for the young (the age of half of India is below 25 years) and rural (65 percent of the population live in rural areas) customers who dominate the market.

This article appeared in MIT- CTL Supply Chain Strategy, a newsletter from the MIT Centre for Transportation and Logistics, May 2009, Volume 5, Number 5. For newsletter website refer- www.MIT-CTLsupplychainstrategy.com

Delays in approvals are common. Sometimes the political parties in the state and central government are different and this can create tensions. The societal risk really depends on the industry vertical and the kind of influence it has on the business of local players, job losses particularly for SME (small to medium enterprises) workers, environment, large-scale displacement of people, et cetera.

For example, in the case of organised retail and whole-salers, whether foreign or Indian, there was significant opposition from the local merchants. What was at stake was 12 million mom-and-pop stores and 30 million jobs. One needs to assess such risks carefully. Due diligence is key. Talk to various people and don't rely on just one or two contacts. Companies, such as the cement manufacturer Cemex, spend two or three months in the country before making an acquisition.

How do companies in India evaluate supply chain risk?

The common types of supply chain risk analysis such as those described in Professor Yossi Sheffi's book (The Resilient Overcoming India's Planning Challenges Enterprise) are not generally carried out by companies in India. There do not seem to be any systematic attempts at risk mitigation. For example, in Bombay, the financial capital of India, heavy rains in June and July often cause plant closings and power disruptions. But I do not see the kind of analysis that would indicate to companies how much product they might lose or what mechanisms they can use to keep production levels up. Supplier quality is another risk area that I do not see analysed or addressed.

What other types of supply chain risks are common?

Public-sector strikes are one example. Also delays at ports because trade facilitation processes are not stream-lined as in other countries such as Singapore. The ports are usually owned by the government and are not technically sophisticated. There could be corruption in customs at various levels. Basically you have to wait at the port until your cargo is checked and loaded, and, of course, such delays can affect the levels of safety stock you need. But I have not seen attempts to evaluate risks such as these and prepare for them in advance.

What about broader considerations, such as the challenges of designing a supply chain for a country as large and diverse as India? This is a multilayered country; there are three or four Indias in terms of supply chain for the lower, middle, and upper classes. There are 800 million people who earn less than two dollars a day in India. At the same time, there is huge growth potential. For example, even during the down-turn, the telecommunications market is expanding. Over the last four months, it has added 50 million customers.

The biggest risk I see in India today is bad planning. Government planners often fail to recognise that there has to be more than one supply chain and to plan need appropriately. It is a mistake to try to imitate companies such as Wal-Mart or other large distribution and retail giants. Most new retail giants in India have come up with big, product oriented distribution centres. We see that they are in trouble. One has to recognise that it is a different world here in India and you need different strategies. In the United States, retail is a $4 trillion industry; in India, organized retail is more like a $40 billion industry. We just don't have the same scale.

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Take, for example, a midlevel town in India with about 2 million people. These towns are typically served by small mom-and-pop stores. There is not the scale to build supply chains oriented toward product types such as white goods and fast-moving consumer goods, so you have to keep inventory at various points.

You have done some research to identify more efficient distribution networks. Can you briefly describe some of your findings?

What I am suggesting is to have people, or market-oriented supply chains. In other words, distribution centres that store all of the products that mom-and-