

The role of logistics task on retail food companies in Egypt

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Keywords

Retail food companies, Egypt, Logistics, Retail Convenience, Distribution Center and Warehouse

Abstract

The growth in the consumer food retail companies in 2008 and 2009 was primarily due to continued Egyptian population growth, relatively strong economic growth despite the global downturn in 2009, and the presence of new international and domestic retail companies. Changes in consumer lifestyle, as Egyptian consumers become more westernized in their work hours and eating habits, along with the presence of more women in the workforce, contributed to increased retail and food service sales. The economic climate will further improve as the global economic crisis is resolved, breathing new life into the ever growing Egyptian market.

While the global financial crisis has reduced the growth rate in the catering business in Egypt by about 15-20%, retail sales have increased by the same proportion due to the expansion of international chains, variety of products offered and an increase in the level of income and brand advertising. The food retail sector in Egypt continues its rapid development. More hypermarkets and supermarkets are sprouting in suburban Cairo and Alexandria in addition to more supermarket chains establishing a position in the rest of the governorates, primarily the Red Sea resort area. Carrefour (France) now operates 6 stores and has a plan to open 18 new stores over the next 5 years including 16 small express stores. Makro Cash and Carry (the local brand of the Dutch Metro chain) expects to open two outlets in 2010. The local Metro supermarket chain has 39 branches now and its affiliated class B and C food chain "KheirZaman", operates 21 branches.

Introduction

New entries in the market were led by multinational players. Consumers' lifestyles changed and they started to be more prone to spend than save. This affected the market positively and brought high growth, which encouraged international companies to enter the Egyptian market. Thanks to the large number of shopping centers, which are frequently visited by shoppers, foreign companies could find ideal retail areas with little risk. The U.S., France, Germany, Italy, Switzerland, Greece, Holland, Denmark, Thailand and China are the dominant suppliers of consumer-ready food products to Egypt. The introduction of hypermarkets (store area of more than 5,000 square meters), supermarkets (more than 450 square meters), and mini markets (more than 150 square meters) is helping to re-shape the retail industry as well as the shopping habits of customers. One of the biggest challenges to expansion is the limited availability of shelf space. Hypermarkets need a large plot of land for sufficient retail space and storage area and large parking lots which is not available in Central Cairo. However, land is available in the rapidly developing suburban areas. Sales of packaged food and consumer foodservice in 2010 has increased due to the increase in GDP and the good economic conditions; thus contributing to the growth in retailing. While GDP increased 7.2% in 2009, the economy turned in a relatively respectable 4.7% growth in 2009, thanks in part to government economic stimulus efforts. GDP growth is forecast in the range of 4.5 to 5% in 2010. Socio-demographic factors were also very favorable to retailing, with population growth of 2% over 2009. Home delivery service is becoming very popular among the large retailers. The objective of the

delivery service is to create customer loyalty while also providing convenience. Some of the retailers charge an extra small fee for delivery. It is becoming a big business in Egypt since it is convenient for customers with Cairo's infamous heavy traffic and also contributes in hiring many young people.

Research Importance

In order to scope the research of the topic, authors need to make a clear focus and limitation to keep the study and research within the specific research structure. The study scope is limited by focusing on Retail food companies & Convenience Stores in Egypt. Furthermore this research, mostly focus on the Logistics process from Distribution Center and its stores. Moreover, the authors specifically frame the research between Distribution Center (DC) and the store. The process between DC and stores are discussed in details. The selected case study is a convenience store chain, Retail food companies in Egypt; therefore it may mainly reflect norms and practices considerably within the firm's environment. On top of that, the convenience store management policies on certain areas normally differ at each location since they are tightly tied to local customer needs.

Research objectives

The purpose of this research is to, from retailing industry and retailing convenience store's perspective, identifies and describe how task logistics support to retail stores its retail convenience business focusing on several aspects; strategic fits, distribution and IT, which support Retail food company's activities.

Research Methodology

The study is considered as qualitative -case study. Data is collected from the Interviews with several parties involve with retail convenience industry in Egypt .Secondary data is retrieved from the information system, research and reports, publication sources as well as internet sources. Lastly, data analysis is followed by the literature chapter.

Research Problem

This study is focusing on only retailing industry and retailing convenience stores' perspective in Egypt. Retailing and distribution are concerned with product availability and retailers must be concerned with the flows of product and information into and through their companies in order to make products available to consumers (Spark, 1998). According to Fernie and Sparks (1998), it had been revolutionary in the 1980s in the history of the task logistics support to retail stores.

The first step changed in managing the logistics function; retailers moved from direct store deliveries (DSD) to centralization of stock at regional distribution centers (RDCs) (Lawrence Christensen - cited in Fernie& Sparks, 1998). Fernie and Spark (1998) state that technologies and IT were developed to facilitate logistical efficiencies in the distribution network and those technologies were either material handling (composite distribution, unitization) or of and IT nature which can improve the flow of information through the logistics chain. Gattorna and Walters (1996) also mention that communication and information management are essential if decision making is effective. Therefore technology and IT are important.

The concern in retail and distribution are with the structure and logistics, management channels (Cooper, 2009; Boowersox and Cooper, 2006; Gattorna&Walters, 2007 - cited in Fernie& Sparks, 2008).The logistics management task is concerned with the element of distribution mix (for example storage facilities and communication, etc), which have to be integrated fir successful retail distribution. The author will study and focus on the mentioned

information which surely affects retail business (in this research which is retail convenience business) in one way or another.

Frame of reference

Based on various sources of literature concerning competitive advantage and strategic fits, distribution related to marketing and retail, distribution centers and warehousing, and information system apply in retail store.

The logistics task

Retailing and logistics are concerned with product availability. Many have described this as 'getting the right products to the right place at the right time' (eg Fisher, Raman and McClelland, 2000). Unfortunately, however, that description does not do justice to the amount of effort that has to go into a logistics supply system and the multitude of ways that the supply systems can go wrong. The very simplicity of the statement suggests logistics is an easy process. The real trick, however, is making logistics look easy, day in and day out, whilst reacting to a volatile and changing consumer demand.

Table 3.1 Components of the 'logistics mix'

Component	Description
Storage Facilities	These might be warehouses or distribution centers or simply the stock rooms of retail store. Retailers manage these facilities to enable them to keep stock in anticipation of, or to react to, demand for products. Increasingly, some centers are run 'stock-less' and act as sortation hubs
Inventory	All retailers hold stock to some extent. The question for retailers is the amount of stock or inventory (finished products or component parts) that has to be held for each product and the location of this stock to meet demand changes
Transportation	Most products have to be transported in some way at some stage of their journey from production to consumption. Retailers therefore have to manage a transport operation that might involve different forms of transport, different sizes of vehicles and different scheduling availability of drivers, vehicles and even store access.
Unitization and Packaging	Consumers generally buy products in small quantities. They sometimes make purchase decisions based on product looks and packaging. Retailers are deeply concerned to get products that are easy to handle in logistics terms, don't cost too much to package or handle, yet retain their selling ability on shelves. Secondary and transit packaging can be a cost to the supply chain and is increasingly replaced by returnable handling systems where possible. Unitization is combined with standardization to provide order to the handling of products.
Communications	Communications to get products to where we want them, it is necessary to have information, about both demand and supply, but also about volumes, stock, prices and movements. Retailers have thus become increasingly concerned with being able to capture data at appropriate points in the supply and demand system and, most importantly, to use that information to have a more efficient and effective logistics operation.

The logistics management task is therefore concerned with managing the components of the 'logistics mix'. Table 1 identifies five components. It should be clear that all of these elements are interlinked. If a retailer gets good data on demand from its checkout system, then the scheduling of transport and the level of stock holding become more straightforward. If the level

of inventory can be reduced, then perhaps fewer warehouses are needed. If communications and transport can be highly effectively linked, then perhaps a retailer can move from putting stock away in a warehouse to running a distribution center that sorts products for immediate store delivery, i.e. approaching a 'just-in-time' system.

Summarizing, the logistics task can be described (Christopher, 1998: 4) as: 'The process of strategically managing the procurement, movement and storage of materials, parts and finished inventory (and the related information flows) through the organisation and its marketing channels in such a way that current and future profitability are maximised through the cost effective fulfilment of orders.' As retailers have begun to embrace this logistics approach and examine their supply chains, many have realized that, to carry out logistics properly, there has to be a transformation of approach and operations. It is to this we now turn.

Convenience Stores

Egyptian consumers are beginning to expect cleanliness, quality and a wider variety of products. Consumers are currently asking for convenience and shopping at supermarkets is becoming a leisure activity. Consumers depend less on neighborhood grocery and convenience stores except for last minute spur of the moment food needs. In the suburbs and less developed areas of Egypt, grocery and convenience stores still play an important role in the retail business. Retailing is highly fragmented; largely dominated by single-outlet operations in the largest retailing formats, including independent grocers, food specialists and leisure and personal goods retailers. The biggest share of the retail market is still held by traditional stores and it will take a long time before supermarkets will acquire a dominant position. It is estimated that 90-95% of the food outlets can be categorized as small grocery stores. Supermarkets account for no more than 5% of the outlets. There are currently around 140,000 small grocery outlets of which only 10,000-12,000 are equipped with freezers; there are no more than 550 outlets that could be categorized as supermarkets, included in this count are the hypermarkets and the medium-sized supermarkets. The rapid growth of the supermarket sector is hindered by the fact that a large part of the population still lives in poverty and is unable to buy products in the more expensive supermarkets. Sales through modern convenience stores grew steadily in 2009. Their number is increasing. Their total number reached 224 units. Most of them have a sit-in space, which is generally popular with young people, thereby increasing product purchase. The continuous development in new residential areas and roads and the increase number of car owners have contributed in these developments. Convenience stores are more important in the new residential areas and on the main highways. Hot weather has helped in the increasing number of these stores especially on the highways. The majority of the new established units are very modern, air-conditioned, and offer high quality products and services.

Producer  **Consumer:**

The shortest, simplest distribution channels for consumer goods involves no middlemen

Producer  **Retailer**  **Consumer:**

Goods ship directly from manufacturers and agricultural producers to large retailers.

Producer  **Wholesaler**  **Retailer**  **Consumer:**

If there is a traditional channel for consumer goods, this is the one normal way. The small retailers and manufacturers by the thousand find this channel the only economically feasible choice.

Producer  **Agent**  **Retailer**  **Consumer:**

Instead of using wholesaler, many producers prefer to rely on agent middlemen to reach the retail market, especially in large-scale retailers.

Producer → **Agent** → **Wholesaler** → **Retailer** → **Consumer:**

To reach small retailers, producers often use agent middlemen, who in turn call on Whole salers that sell to large retail chains/or small retail store. After designing a channel, next thing that firms must consider is, on the intensity of distribution which means how middlemen will be used at the wholesale and retail level in a particular territory (Etzel et al., 2004). In accordance with Etzel et al., (2004), there are three degrees of intensity.



Figure 1: The intensity-of-distribution Continuum

Source: Etzel, Walker and Stanton (2009)

Intensive distribution

In intensive distribution producers sell their products or services through each available store in the market where consumers might reasonably look for the products or services by projecting the ultimately consumers demand satisfaction from convenience goods immediately, and they will not adjourn purchases to find a particular brand (Etzel et al., 2004). In the intensive distribution is commonly needed for convenience products and as well Gattorna and Walters (1996) states that it is usual to use intensive distribution with, for instance, everyday use products (such as food, newspaper, basic stationery items, etc.), and it also obtains for consumable industrial products such as abrasives, lubricants, drill bits, etc. Moreover, they mention that the objective of the vendors are to offer convenient ,which mean local and easily obtainable, availability for the reason that the pattern of purchasing is typically short-term with end user maintaining low or nil inventories.

ADVANTAGES	CHALLENGES
Out of 80 million Egyptians, about 15 million can afford to purchase imported food products.	Lack of product availability and limited income. Egyptian import regulations such as Halal requirement slaughtering for beef and poultry, and labeling requirements are too stringent.
Products perceived as both Western and new-to-market have a wide appeal to Egyptians. U.S. products are perceived as "high quality."	With the growing size of supermarket chains, the desire to introduce a broad array and new-to-market products is strengthening.
Expansion of the number of supermarket chains. International companies interested in the Egyptian market include, Carrefour, Makro Cash and Carry Egypt (opens in 2009).	With the growing size of supermarket chains, the desire to introduce a broad array and new-to-market products is strengthening.

Logistics Activities

Logistics activities in focus of the thesis are from DC to the stores. Many activities are involved in and between DC. The flows in dash box represent the working flows within a distribution center. As suggested in the next figure, the overall process is shown, on top of that,

two types of the process in a distribution center of Retail food companies can be divided to inbound and outbound activities.

Distribution Center Management

The successful cases of Egyptian Retail food companies in the role of supply chain management where the linkage of each player in the chain are synchronously organized through the use of distribution system and information system in the network. The key to deliver prior product and service lie in the value information from tracking and tracing of sales which enable the short replenishment cycle time for each store, the market analysis and the accuracy of operation in a real time manner. (Nabajyoti, 2011, and The Nation Newspapers, 2014)

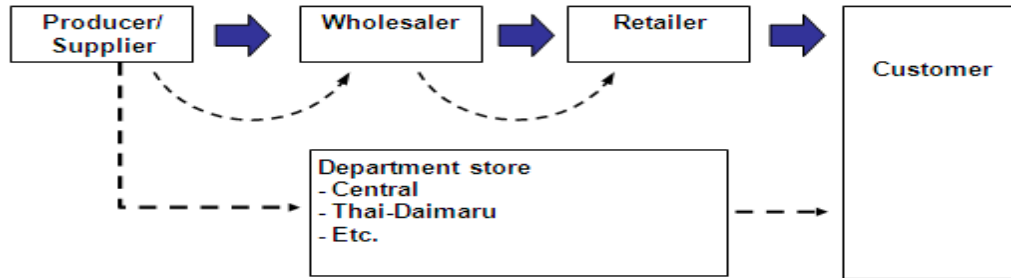


Figure 2: Stage 2: Producer/Supplier have the most bargaining power. Adapted from Department of Business Development, 2011.

Distribution Channels

Importers either sell their products to wholesalers who distribute food products to retail outlets, or sell directly to retailers. There are some supermarkets chains, namely Carrefour, Metro, Fathalla, and Oscar that import food products directly. Carrefour buys some of its meat from a private processing plant which imports live animals and sells imported beef cuts at their stores. There are over 30 food companies that import processed food from U.S. and deliver it to the different supermarkets and hypermarkets.

Distribution channels for Food, alcoholic beverages and confectionery:

Food	-Hypermarkets and supermarkets - Large grocery stores - Medium and small grocery stores - -- Hotels and Restaurants
Alcoholic Beverages	Hotels - - Restaurants with a license for Alcoholic -beverages Liquor shops (very limited)-
Confectionery	-Hypermarkets and supermarkets -Large grocery stores - Medium and small grocery stores -Petro/gas/service stations Kiosks Pastry shops

4.9.4 Distribution Center

In the very first era of operating chain convenience stores with only the couple of hundreds of stores, Egyptian Retail food companies employed direct shipments from the suppliers to its stores. The lack of efficiency in transportation process by the suppliers negatively caused sales opportunity

Conclusion

This research aims to investigate and describe how, Egyptian Retail food companies managed and operated its retail convenience business in several aspects; strategic fits, distribution and IT, which support the Egyptian Retail food company's activities and how they contribute the competitive advantages to the firm as mention in the purpose. The case study is employed to give an example of a retail convenience store business and its operation linkages, internally and externally.

The companies experienced distribution difficulties at the beginning of business. Poor performance came primarily from the lack of collaborative operations from each connection in supply chain. While retailing is the gate way to the consumption point, it is referred to as market channel to the goods. The defects in logistics and distribution activities are putting overall chain performance down, let alone retail firm itself. To cope with this, the supply chain needs coordinated strategies. Framing the business strategy to shape up working tactics throughout the chain is a must. The retailer determines its strategy, and draws the cooperating actions and inter-firm strategy further to others member of the chain; as to succeed in business implementation. , Egyptian Retail food company's case, the companies uses differentiation strategy to market itself. The differentiations inconvenience, in term of location, operating hours, products and services availability - even some special products such as ready to eat food and dairy products - are used to boost up sales. Moreover, differ in store location, demand pattern, space limitation, and perishable goods need a quick response to demand.

Challengingly, the company must concentrate on the responsiveness throughout the supply chain up and downstream. However, the responsiveness cannot be done with the proper amount of effectiveness and efficiency operations that ensure a reliable and dependable supply chain. The operations and distribution are delivered cohesively.

Accordingly, firm seeks to manage its logistics chain to determine the chain strategy by utilization of the members' capabilities through combinations and joint development programs as seen in product development program, the bridges of technologies, and collaborative functions. Combinations of capabilities would yield a healthy performance. Of course, these logistics management perspective require data sharing, trust, mutual benefits and collaborative operations to facilitate the flows of information, and physical product as well financial flows. Put in another word, logistics flows must be achieved in order to gain the 'synergies' in logistics operation.

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