

Right Supply Chain Solutions in Horeca

A DEEP DIVE INTO INNOVATIONS IN OPERATIONS BY SHRIDHAR UPADHYAY, CHIEF SUPPLY CHAIN OFFICER, GATI



As per the India food service report published by the National Restaurant Association of India, the Restaurant sector is valued at \$46.46 billion and is expected to grow to \$75 billion by 2021, with Compound annual growth rate of 10 percent. The report states that the share of organized market is 33 percent and in terms of market segments, Quick Service Restaurants (QSR) and Casual Dine-in formats account for 74 percent of the total market, while Cafés make up 12 percent, and Fine Dining, Pub Bars Clubs & Lounges (PBCL) comprise the rest.

While the Supply Chain Management approach is well established in sectors like manufacturing, the concept of Supply chain collaboration with logistics service providers has few takers within the hospitality sector. In fact, a recent survey at a global hospitality expo shows that only one in five respondents reported using logistics providers to assist them in managing their costs. This, despite supply chain being crucial to the very heart of hospitality, the SERVICE factor. With domestic hospitality industry experiencing a slowdown of sorts, the pressure on overall margins is leading hoteliers to focus on stringent cost-cutting measures, from hotel menu reengineering to use of energy-saving light bulbs. While such actions offer short-term respite, transforming supply chain practices offer longer-term operational efficiencies and consequent financial benefits.

Gati, through its association with a leading hotel chain over the past, we have demonstrated that supply chain partnerships can drive meaningful business benefits. In the process, Gati has broken new ground by pioneering this model successfully in India and has progressed from a traditional express distribution provider to an end-to-end supply chain partner for our client.

The Challenge

The client was directly involved in procurement, inventory management and logistics, and each hotel was individually

responsible for ordering supplies and storing inventory. Lead time uncertainties and runaway expenses at the admin level due to replication of effort were adding to the cost and complexity of managing that side of the business. It was becoming increasingly clear that decentralized management of this function was becoming too expensive and replenishment was still unreliable, despite the number of people involved in this function.

Issues that were a result of inconsistent inventory planning such as high levels of inventory and frequent stock outs abounded. The other key problem area was that to meet the supplier's minimum order quantity, the hotels had to order several months of inventory and bear the cost of storing all of that excess product rather than ordering according to their actual consumption patterns.

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The Solution

The foremost consideration that made such a partnership possible was that the client understood that in order to focus more on the core competency of their business and make customer experiences more memorable, they would have to outsource the procurement and delivery of all their products, the regular and uninterrupted supply of which is critical to ensure that customers check out of the hotel with smile on their faces.

With a view to reduce this complexity, Gati

interposed itself between the vendors and the hotels, providing a one stop shop for ordering and holding inventory, and dispatching it to all the hotels. Our vision was to optimize our ordering strategy so that we hold exactly the right amount of product to service all hotels, while balancing our storage and transportation costs to minimize the total logistics expenditure. Through this, our aim was to insulate the hotels from the supply side entirely, eliminating supply bottlenecks and chances that guests will walk away disappointed when a product is out of stock.

Based on forecast data provided by all the properties, Gati develops inventory plans, and then sources materials from the approved vendors in bulk. We then store the material in warehouses strategically located close to hotel clusters in the major cities and towns, and dispatch them to hotels based on agreed delivery frequencies—enabling optimized inventory levels within the supply chain, improved delivery lead times, more inventory turns, and reduced ordering and holding costs.

Keeping the Market potential and challenges in mind GATI has developed an integrated model which includes Distributor, Forecasting, Order Management, Logistics (first mile and Last mile) and Quality Warehouse Handling. GATI will do an End to End Service - right from taking FSSAI License for warehousing, Vendor Identification for Procurement, and Coordinating with HORECA customers for order consolidation, Placing Orders with vendors, Inventory Planning and Managing the Health and Safety Standards of Warehousing and Inventory Ownership.

The Benefits

We are now more than a year into the operations, and our collaborative approach has shown positive results in the major supply chain pain points. There has been

a consistent improvement in the fill rate to the hotel properties, by a cumulative 25%. Also, though forecasts can never be a 100% accurate, we have imparted continuous training on the demand forecasting process to the hotels which has resulted in reduction in the percentage forecast error by half and the leading hotels are now running at forecast accuracy above 70%.

- Centralized warehousing system that helped reduce delivery lead time to hotels
- Simplified ordering system and a single point of contact for procurement
- Reduced working capital as a result of reduction in excess inventory buffer at hotels
- Improved service level, reduced inventory in the supply chain and reduced logistic costs
- Improved inventory rotation at centralized warehouse as well as at hotels
- Streamlined ordering pattern by building inventory visibility across our warehouses
- Common pool of inventory that enabled better fill rates to hotels with variable demand and meet exceptional demand for fast movers

Conclusion

India has remained a preferred tourist



destination for global travellers, which has been prompting a greater push by domestic and foreign hospitality brands to increase their presence in the country, especially in preferred destinations. There is already a high level of competition in the current structure, where chains are fighting to increase occupancy. The race will be ultimately decided by who manages to build a competitive edge within their operations and improve profitability.

As in our case, gradual decline in overall inventory levels with increasing sales value depicts better use of working capital and more inventory turns, hence helping drive the overall costs in the hotel supply chain. In short, better management of

flow of goods, information between the supply chain activities and collaboration with logistics providers should be viewed as tactics for achieving competitive advantage in hospitality industry.

Gati is a leader in end to end supply chain solutions, and has a number of service offerings such as Express Distribution, Warehousing Solutions, M-VATS (Bulk Load, Point to Point), Cold Chain Solution, E-commerce Logistics, Fulfilment Services, Freight Forwarding, and Trading Solutions. Gati serves the top leading organizations across FMCG, Auto, Textile, Engineering, Pharma, IT, Retail, Electrical Electronics among others. For more information and updates, please visit the website www.gati.com or write to businessenquiry@gati.com.

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