

# Inventory Management Process: Problems in an Indian Convenience Store

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## EXECUTIVE SUMMARY

*This case captures inventory management process in an Indian convenience store. Unlike retail stores in developed countries, Indian convenience stores are a special format of organized retailing, where retailers open multiple smaller stores in a town instead of one big centralised store. An excellent inventory management process is the key to make such stores perform well. This case describes inventory management problems faced by an Indian convenience store chain and asks students to propose solutions to these problems. This case illustrates how processes realities and their IT solutions differ in an emerging economy. Using inventory management process as an example, this teaching case can introduce students to the process and technological realities in an Indian context and differences between India and the West.*

**Keywords:** *Business Process, Convenience Stores, Hub and Spoke Model, Inventory Management Process, Retail*

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## ORGANISATION BACKGROUND

In India, retail sector has witnessed an unprecedented change and growth in the last 10 years. From small family-owned and unorganized stores to organized and corporate-owned store chains; rise of retail sector in India has been partially fuelled by the rise in middle class population and increase in their purchasing power. With over 15 million retail outlets, India has the highest retail outlets density in the world (Mukherjee & Patel, 2005). Though retail sector is still dominated by traditional mom and pop stores, corporate owned retail chains are fast catching up (Table 1). Multinational corporations such as Wal-Mart, Shoprite, and Tesco are also foraying into Indian retail sector.

This is a story of an Indian convenience store chain, which is a small sized organised retail format in India. Convenience stores are relatively small stores that are easily accessible to the middle class neighbourhood. Traditional Indian retail stores are family owned small shops, with an average size ranging from 100 to 500 square ft, located in the neighbourhood which provides convenient shopping experience to the customers. Given the high traffic congestion and under-developed public transport infrastructure in the country, neighbourhood convenience store is the

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*Table 1. Grocery retailers company shares: percentage value (Euromonitor International, 2009)*

Retailers	2004	2005	2006	2007	2008
Pantaloone Retail India Ltd	0.1	0.2	0.3	0.5	0.9
Spencer's Retail Ltd	-	-	0.1	0.2	0.7
Subhiksha Trading Services Pvt Ltd	0.1	0.1	0.1	0.3	0.6
Aditya Birla Retail Ltd	-	-	-	0.1	0.5
Reliance Retail Ltd	-	-	0.0	0.3	0.5
REI Agro Ltd	-	-	-	0.0	0.2
Mother Dairy Fruit & Vegetable Ltd	0.1	0.1	0.1	0.1	0.1
Others	99.7	99.7	99.3	98.4	96.4
Total	100.0	100.0	100.0	100.0	100.0

most preferred format for the Indian consumers. Hence for organized sector opening multiple convenience stores instead of one large store in a city seems to be a better strategy. As a result, Indian retailers such as Spence's, Aditya Birla and Reliance Retail are opening several such convenience stores so that people don't have to travel long distances for their grocery needs. However, some Indian retailers such as Future Group (with brand stores big bazaar and food bazaar) and Hypercity are focusing on opening up large stores (typically one or two in each town, similar to a Wal-Mart in USA), possibly in an uptown area.

Higher operational efficiency and excellent supply chain management are the success mantra in retail business. Though convenience stores are easily accessible, they cannot charge any premium for that, as Indian middle class consumers are very price sensitive. Due to their smaller size, convenience stores do not have the same procurement aggregations and economy of scope benefits that large format retail stores enjoy. In addition to that convenience stores do not have adequate space to hold stock and hence excellent inventory management and on-demand deliveries are imperative to their survival and success.

## SETTING THE STAGE

There are couple of interesting inventory management problems that retail stores face across the world. Raman, DeHoratius, and Ton (2001) classified them as inventory record inaccuracy and misplaced SKU (stock keeping units) in stores. SKU is a term used to describe uniquely identifiable article (e.g., 75gm soap bar of brand X). However because of its unique characteristics as described below, Indian convenience stores need redefined processes and IT solutions to cope with the following problems

- **Format:** Organized retail sector in western world is only familiar with large format retail chains. Indian organized retail sector is experimenting with large format retail chain and small format convenience store chain. Convenience stores are much smaller in size, with each store developed in an area of around 3000 square feet and having about 4500 stock keeping units (SKU) and average SKU density of 1.5 sku/sq ft. This case discusses the problems faced at convenience store chains.

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