

Future Group to cut shrinkage in FMCG, food to nil

Is doubling supply chain division's capacities by 2016 across categories; about 98% of goods at its stores would pass through the division

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Kishore Biyani-led Future Group is embarking on a huge exercise of achieving 100% fill rate across its Big Bazaar and Food Bazaar stores and reducing shrinkage level in FMCG and foods businesses to almost zero.

Future Supply Chain Solutions Ltd, its supply chain division, is going full throttle on investments in back-end and supply chain infrastructure to achieve this.

Almost 98% of goods across Future Group's stores will now pass through the division, which is looking to double capacities by 2016 across foods, apparel, general merchandise, electronics and other categories.

The division that has been investing an average of ₹80-90 crore a year since its inception in 2007 will increase investment to ₹150 crore a year as it aims to reach \$1 billion turnover in 4-5 years and make the retail supply chain robust, Anshuman Singh, managing director and chief executive offi-

cer, Future Supply Chain Solutions Ltd said.

It will achieve this if it simultaneously doubles capacity from 6 million sq ft to 12 million sq ft.

"The problem arises when you run large stores like Big Bazaars and the when the stores start reaching maturity. A Big Bazaar store receives 50 trucks per day and unlike the western world where the stores are outside the city with large back-end warehouses, here there are no back-end warehouses. Receiving goods becomes a challenge," Singh said.

The company's newly operational 100,000 sq ft FMCG and foods distribution centre in Bhiwandi, Mumbai with an investment of ₹30 crore will handle goods worth ₹600 crore every year in FMCG, staples, fruits and vegetables.

The centre will be a single point of collection, assessment, and delivery for supplies to store shelves across the city. The company will launch eight more similar distribution centres in locations such as Delhi, Bangalore, Pune, Hyder-

► Pantaloon Retail

Share price on BSE in ₹



abad and Chennai this year.

Fill rate refers to the inventory ability at retail stores to meet customers' demands, and is estimated to be at 60-70% on industry level. Industry shrinkage (stock lost in transit, customer or employee theft) in FMCG and foods business is estimated to be around 2% of sales.

"When you become large in size and your throughput increases, the traditional methods will start failing, your fill rates to the customers will start dropping and that is when you need technology, automation, infrastructure, system,



processes, know-how and expertise," Singh said. To cut shrinkage, Singh said the company has imported roll cages (cage for cartons carrying the supplies) from Israel, Britain and China that will lock goods and load them on trucks.

Singh said huge investments have been made in technology, even at individual level where each worker at the centre is given a ₹60,000 worth WiFi enabled handheld scanners. Then there is investment on tracking logistics in real-time through GPS-enabled trucks. It has also deployed 'Put to Light' - a light directed sortation

system across its distribution centres in the country in addition to 5-6 other software applications to improve efficiency.

The company receives close to 30% of its business from FMCG, electronics and apparel companies outside the Future Group. Going forward, this contribution is likely to inch up to 50% as the company starts servicing newer players in categories of pharmaceuticals, consumer products and auto components.

Singh said the company is in talks with some retailers whom it could start servicing supply chain solutions to in both apparel and foods business. "There are retailers who may not be able to invest as much in back-end infrastructure but who could share our warehouses and we could take care of their supply chain," he said.

As the scale and functions expands, the business is also increasingly becoming capital intensive. To maintain steady investments in contract logistics business, the company is looking

at raise close to ₹1,000 crore early next year through a combination of debt and equity. "We will also look at private equity infusion early next year," Singh said. The firm may also look at listing the entity next year when it has crossed ₹1,000 crore turnover. This year it is likely to do a turnover of ₹600 crore, he said. Private equity firm Li & Fung Group that has a 26% stake in Future Supply Chain Solutions has so far invested \$30 million in the business since 2009.

The company has four lines of businesses - contract logistics, express transportation, international logistics, and brand distribution. Singh said the company is now implementing learnings from its highly efficient apparel distribution centres to food and FMCG business, which it sees as its next leg of growth. "Investments are large but it will be paid back by removal of back-end cost in the store itself, reduction in shrinkage, improvement in fill rate and increase in sales, all put together it will be much huge," he said.