The Role of Supply Chain Leadership in Retail Institutions’ Performance: The Case of Nakumatt Holdings Limited, Kenya

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Abstract
This paper is part of a study that sought to establish the important role supply chain leadership plays in retail institutions’ performance. The study was based on Nakumatt Holdings limited, a leading retail outlet in Kenya with a growing presence in larger East African region. Nakumatt has in place requisite process guidelines and technology to drive its agenda, giving the leadership sound basis for decision making. Even then, Study shows that cutting edge technology is just part of the ingredients to success. This study contributes to our knowledge on retail performance by presenting the key role leadership plays in driving successful retail investments through employing professional well trained personnel, relationship management, cost control, customer oriented service and adoption of proactive approach to industry challenges, engaging all personnel so that they may also receive equal appreciation of business requirement thus enabling participation in decision making at different levels.

Keywords: leadership, Effectiveness, Supply Chain Management, retail, Nakumatt

1. Introduction
John and Suzanne Fernie writing back in 2003 sought to illuminate the concept of retailing. They observed that retailing impacts upon our lives; we all shop albeit with different levels of enthusiasm. Economic significance of the sector cannot be underestimated; the sector makes great contribution to the Gross Domestic product (GDP) of countries and employs a large number of people. Moreover, retail organizations are no longer small-scale family-run concerns but powerful multinational corporations.

The vision of entrepreneurs such as, Sam Walton (Wal-Mart) and Jack Cohen (Tesco), have transformed retail markets. Wal-Mart is the largest corporation in the world, (Howard, 2001) employing nearly 1 million associates; Tesco, the largest UK company, (Dragun and Knight, 2001), employs 260 000 people. Other large retail outlets worth mentioning here include, Dixons, a company which has grown from a single photography shop in 1937 to Europe’s leading electrical retailer, (McGurr, 2002).

Because of the high profile nature of retail corporations and their key management executives, the sector is prominent in the media. Sometimes retailing becomes controversial. Governments act to ensure that a balance is struck between stimulating retail business yet protecting the consumer from anti-competitive practices and adverse environmental impacts of new developments (Suzanne et al, 2003).

Purchasing for resale while having much in common with other types of buying, also has some major differences. Buyers in other sectors of the economy can learn much from studying some of the good practices found in the retail sector. Buyers in major retail organisations such as Marks and Spencer, Tesco’s are likely to be far more involved with their supply chains and customers than in other sectors (Baily et al. 1998)
1.1 Statement of the Problem
Over the last ten years, the retail industry has experienced major transitions. The growth of e-commerce has created both new competition and a new selling channel for retailers. Retailers have changed how residents shop. Notable is the all under one roof concept exhibited by large retailers in the country including Nakumatt, Uchumi and Tusks’ hyper stores. Sourcing for products and the distribution structure of retail trade has also changed significantly (Harris and Thomas, 2006). Interesting to note how, power has shifted to retailers who increasingly drive prices, dictate products, and wield negotiating clout (Kumar, 2005).

During the same period of time, supply chain management (SCM) has experienced its own renaissance. According to Gibson (2005), SCM has emerged from its cost-focused, operational roots to become a more integrative discipline that involves both strategy and processes, influences other functions, and facilitates cross-organization collaboration. As a result, executives view SCM as an essential tool to compete in ever-changing, intensely contested markets and chart their organizations’ future course (Manrodt et al., 2005).

In many respects, the multi trillion dollars U.S. retail sector has led the SCM revolution. Vendor managed inventory, continuous replenishment, and automatic identification are a few supply chain (SC) innovations championed by the retail industry (National Retail Federation, 2005). Retailers recognize the importance of SC optimization for building customer loyalty as well as controlling costs during the current period of flat or declining sales.

Despite the compelling link between Supply Chain Management (SCM) and retailing, few studies have addressed it. Much of today’s SCM research continues to be general in nature or manufacturing centric. As a result, the retail industry’s Supply Chain (SC) leadership role, impact, and trends are largely under-studied. Rigorous research aimed at assessing the role of SC leadership has not to the best knowledge of the current researcher been conducted in the retail sector in Kenya. The proposed study therefore investigates the influence of SC leadership on performance in retail institutions using Nakumatt holdings as the case study.

1.2 Objectives of the Study
The paper seeks to assess the effect of supply chain leadership on the performance of retail institutions.

2. Literature Review
2.1 Scope of Retail Supply Chain
Retail supply chain management encompasses aspects of retail marketing, retail buying and retail logistics. (John Fernie et al., 2003). A supply chain is that network of organisations that are involved, through upstream and downstream linkages, in the different processes and activities that produce value in the form of products and services in the hands of the ultimate customer or consumer (Rogers, et al., 1990). A company’s suppliers have their own suppliers, and often our direct customers are not the ultimate consumers (Baily, et al., 1998).

Supply chain management sees the various buyers and sellers as being part of a continuum, and recognizes the benefit to be derived from attempting to take a strategic and integrated view of the chain rather than focusing on the individual links and thereby sub-optimizing; the focus of managerial attention is not just the individual company or organization, but the interactions between the series of organisations which constitute the chain, notes Baily.

2.1.1 Retail Buying
Lysons (2006) observes that in most organizations, purchasing is a support rather than primary activity such as supply management, logistics or materials management. In retail organisations however, buying is a critical factor and satisfies the criteria for a core competence.

According to Baily (1998), most large retailers are organized in broadly the same way. In smaller organisations and department stores, the buyer may be responsible for selecting, buying and certain merchandising functions as well. He notes that, the majority of the larger organisations, buying is centralized. Tesco for instance employs hundreds of buyers backed by teams of agronomists, technologists, quality controllers and researchers. “Buying is the glamour job in retailing” says Baily. With the ever increasing store sizes, there’s a growing need to fill them up. The pressure is on the buyers to come up with more innovative and up-market ‘niche’ products.
2.1.2 Retail Logistics

According to Crompton et al. (2001), Logistics is the process of managing both the movement and storage of goods and materials from the source to the point of ultimate consumption and associated information flow. Having the correct inventory in-store is a challenge retailers face on a daily basis. We find that most retailers struggle to get an accurate view of the level of their stocks, whether that be on-shelf or in their backrooms (Daudelin, 2001).

The relationship between SCM and logistics is well summarized by the UK institute of Logistics and transport: The institute is of the view that, management of logistics makes possible the optimized flow and positioning of goods, materials, information and all resources of an enterprise. The supply chain is the flow of materials through procurement, manufacture, distribution, sales and disposal, together with the associated transport and storage.

2.1.3 Retail Marketing

Marketing scholars and practitioners have increasingly become interested in understanding the extent to which various marketing actions affect performance. There is a rising concern that failure to demonstrate the impact of marketing could not only weaken the influence of the marketing function, but also challenge its credibility (Webster, et al 2005).

Kotler (2003), Companies must balance their communication expenditures among the following communication vehicles; advertising, public relations, trade and sales promotions, consumer promotions; direct marketing even marketing and internal employee communications. Companies are increasingly moving their brand building budgets to public relations, direct marketing, event marketing and employee training.

In examining the effects from promotional efforts, scholars are increasingly pointing to the value of understanding their long-term impact (Srivastava and Fahey, 1998). Research has shown that marketing promotion generates high cumulative effects on brand choice and purchase quantity (Mela, and Gupta 1999) and on category incidence (Gupta, and Wittink 2003).

2.2 Supply Chain Organization Structure

As Drucker (1968) emphasized, good organization structure of itself will not ensure good performance; capable, well-motivated people are essential to make the organization function. However, a poor organization structure makes good performance impossible, no matter how good the individual managers may be. A reasonable question to ask at this point should be, where should purchasing be in the retail organization?

David (1998) attempts to answer the question by advancing the view that, in some cases the function may not be significant, and will be placed in a subordinate position in the hierarchy. The converse is true when the size of purchase expenditure relative to corporate turnover is such that a very senior executive is appointed to control the function, or when key supplies emanate from volatile markets, or when the proportion of the cost of a product which is bought in is significant.

Cavinato (1992) suggests that, increasingly, organisations are moving away from defined departments and issues such as centralization and decentralization, to whom purchasing should report, and the title of the most senior purchasing officer are of less consequence now than in the past.

2.3 Supply Chain Strategy

Johnson and Scholes (2002), define strategy as the direction and scope of an organization over the long term which achieves advantage for the organization through its configuration of resources within a changing environment and to fulfil stakeholder expectations. Strategic purchasing refers to the linking of purchasing to corporate or business strategies, (Carr and Smeltzer, 1997).

Closely linked to strategy is the concept of tactics. Lysons (2006), observes that tactics- sometimes termed ‘operational planning’- are short term decisions made in response to changing circumstances so as to make the best use of currently available resources to achieve limited goals. Tactical plans relate to functional areas such as finance, purchasing, production and marketing and have shorter timeframes than strategic plans.

Quinn (2003) points out that what appears to be a tactic to the chief executive may be a strategy to the marketing head. Clearly, tactical and operational behaviour must support the strategic approach selected (Baily 1998).
For example if the aim of the strategy is to set up a range of dedicated suppliers; suppliers who are the sole source for particular item, it would be in bad faith for buyers to seek quotations from other supplier during the period of agreement.

Baily (1998), notes that the key criteria in the development of effective purchasing strategies should focus on areas of greatest potential in terms of contribution; exploit the competitive advantage available to the buying company as a consequence of its particular mix of resources; emphasize creative management in use of those resources vis-a-vis competition (buyers or sellers).

### 2.4 Supply Chain Operations and Performance

In much of the literature relating to purchasing, the measures of performance which are discussed primarily relate to operational activities (Baily 1998). According to Lysons (2003), organisations, functions, processes and the people concerned may be efficient but not effective - being the lowest-cost producer of products or services that no one wants is efficient but not effective and, as Kydos (1991) observes, nothing is more wasteful than doing with greater efficiency that which is totally unnecessary.

Lysons (2003) defines performance evaluation as the quantitative or qualitative assessment over a given time towards the achievement of corporate or operational goals and objectives relating to purchasing economies, efficiency and effectiveness.

According to Baily (1998), common areas of performance evaluation are: operational purchasing, co-ordination with other functions, purchasing organization and system, budget performance, creative performance, policy development, planning and forecasting.

Davis (1993) suggests a number of actions that can be used to improve supply chain performance and reduce vulnerability to demand uncertainty in both products and processes. For products, these actions include the use of standard components and sub-assemblies, lower tolerances, fewer product offerings and the production of a generic product. For processes, typical actions may be to reward suppliers’ performance, subcontract, inbound freight handling, remove bottlenecks, introduce self-managed work teams and devise improved forecasting techniques.

### 2.5 Supply Chain Trends and Challenges

Globally, forward-thinking retailers are redefining the way they do business with their customers and their suppliers, adopting innovative ideas to respond to market trends and developing new channels to meet consumer shopping preferences, many of which are being brought about by shifting lifestyles (Microsoft, 2007).

Microsoft (2007) in the report on the state of retail supply chain management, observes that, given the pressures to keep costs low and service high, most retailers will choose to make supply chain modifications rather than fall victim to increased competition.

SCM executives are not shying away from market obstacles. They are actively engaged in attacking problems head on and widely believe that a well-prepared SC allows retailers to cope with current business challenges.

### 2.6 Supply Chain Best Practices

According to analysts, Wal-Mart was able to achieve leadership status in the retail industry because of its efficient supply chain management practices. ‘Supply chain is about moving the right items to the right customer at the right time by the most efficient means. No one does that better than Wal-Mart’ (Daudelin, 2001)

The key to retail success is finding ways to attract and build profitable relationships with customers. Retail outlet and its industry partners’ should adapt solutions help them better understand customer needs and trends in the marketplace while simultaneously helping enable employees to improve customer interactions at every stage of a transaction. Ultimately, enabling retailers to deliver shopping experiences that delight customers create loyalty and ensure repeat business (Syson, 1992).

### 3. Research Methodology

#### 3.1 Research Design

Research design is a master plan specifying the methods and procedures for collecting and analyzing the needed information (Zikmund, 2003). The research design for this study was a descriptive one.
A descriptive research is a conclusive research that aims to describe phenomena associated with a subject population or to estimate proportions of population that have certain characteristics. According to Cooper and Schindler (2003) such studies provide answers to the questions of who, what, how, why and where of given subject.

3.2 Target Population
The study targeted sixty (60) respondents both in management, and supervisory roles who typically participate in decision making albeit at different degrees, also considered was a small group of general workers with substantial years of service. An equal appreciation of gender balance was observed. Trochim (2001) recommended at least fifty (50) observations, in this case sixty, indicating that sample size was adequate. Out of these, fifty responded to the survey representing a response rate of 83.3%.

3.3 Data Collection Methods
The data was collected using a set of instruments; questionnaires, interviews and observation. Secondary sources; typically company news letters from the retail outlet supplemented the aforementioned instruments. Primary data was gathered by use of Likert five scale questions and interviews. Questionnaires were self-administered to the respective retail outlet managers with primary responsibility for SCM, logistics, transportation and or distribution while interviews were used on target participant who typically hold the title of senior managers.

3.4 Data Analysis
This is the whole process that starts immediately after data collection and ends at the point of interpretation of the process results (Trochim, 2002). Data was analyzed with the aid of a computer software program; SPSS 17, Microsoft Excel 2007.

4. Results and Discussions
4.1 Response Rate
The study covered a sample of 60 Nakumatt employees drawn from different stores across Nairobi. Out of 60 questionnaires sent out to the employees 50 (83.3 percent) were filled and returned which was considered sufficient for the study. The respondents sampled were distributed in different outlets within Nairobi. Prestige outlet because of its proximity and response rate, had majority (60 percent) of the sample while the other outlets shared (40 percent).

4.2 The Scope of Retail Supply Chain Leadership in Nakumatt
In retail organizations, buying is a critical factor and satisfies the criteria for a core competence. As such researcher sought to illuminate this important role as well as logistics and marketing.

4.2.1 Employees’ Perception on the Buying Process
The findings indicate a perception index of 37.6 percent on buying. Only 13 percent of the respondents said Nakumatt employs specialist buyers, this index should raise a flag and efforts should be put to enhance this. Results further show that buying is highly centralized; only up to 33 percent of respondents can attest to the branch’s participation in the buying process. It should be noted that where branches carry out buying, it’s only for perishable commodities. Procuring merchandise directly from manufactures at 73 percent gives price leverage.

4.2.2 Employees’ Perception on the Company’s Logistics Operations
On the retail logistics operations at Nakumatt, an average perception index of 75 percent was recorded. All the respondents (100 percent) agreed that there was a well laid out distribution network strategy executed using different channels. Whereas 3rd party logistics providers are also engaged, 87 percent of respondents support the venture especially for perishable fast moving items which are delivered by respective vendors directly to the stores.

While a number of respondents are of the view that the retail giant still has some room for technology advancement; 13% to be precise, Nakumatt is clearly ahead with its cutting edge inventory and general retail outlet management technology from oracle; this is well illustrated at 83 percent.
Centralized distribution centers have worked for global giants like Wal-Mart. 80 percent of respondents attest to efficacy of the same at Nakumatt. In its pursuit for fresh deliveries especially on food items, the FIFO concept seem to ensure clients get merchandise in the best state as evidenced by general internal consensus of 94 percent.

4.2.3 Employees’ Perceptions on Influence of Marketing Promotion on Brand Equity

Nakumatt has a dedicated marketing department which was of much assistance to the researcher. The results indicate that marketing promotion efforts have created brand knowledge to the target customer with 89% yes. Those who responded negatively were of the opinion that the retail chain could still do more in advertisements. 83% (eighty three) percent of respondents agree that there is a balance in use of the various commodity communication avenues.

The retail giant is bypassing traditional channels and marketing directly to their customers through cell phones, text messaging, instant messaging, online click-throughs, and one-to-one personalization. The study shows that marketing promotion generates high cumulative effects on brand choice and purchase quantity as evidenced by the overall high index of 79 percent.

4.3 The Position of SC Leadership in the Firm’s Organization Structure

To better understand the value of Supply Chain leadership to retail organizations, the survey questions focused on roles and responsibilities.

4.3.1. Respondents’ Views on key Role Distribution in the Organization

The study indicates that traditional issues related to store order fulfillment continue to dominate Supply Chain activity. Distribution center operations, transportation, inventory management, and store replenishment are key SC responsibilities.

Management of inbound deliveries is shared with 3rd party logistics service providers accounting for cumulative 10 percent. Participants report that they have created very strong ties at the store level and are helping merchants leverage SC when negotiating purchases. Most importantly, SC leadership is being recognized as a key driver of the company’s success.

4.4 Strategic Focus of Supply Chain Leadership

The research further sought to investigate the strategic focus of the retail Supply Chain (SC) leadership. Interview and survey questions explored the SC capabilities retailers utilize today, as well as those being developed for the future. Results show that although the respondents gave a number of varying perceived capabilities and strategic focus, they tend to converge on cost control, stock control; especially in-stock on high value items, customer service, executive engagement and support of revenue growth.

4.4.1 Participants’ Perception on the Level of Investment to Strategy

Study results indicate an equal feeling towards Supply Chain (SC) leadership strategic focus with a perception index of 48.4 percent. The respondents (80 percent) are in consensus for SC process improvement suggestive that the retail giant needed to improve on a products portfolio and service delivery. The leap in process improvement investment reflects retailers’ desire to improve SC efficiency. The emphasis on staff development and technology further emphasize this point. Investment in new or retrofitted facilities is a lesser priority by comparison.

4.5 Retail Outlet Performance

The researcher went ahead to seek answers on the retail giant’s focus on performance improvement initiatives. Although the retailer creates Supply Chain (SC) scorecards and calculate perfect order metrics, a paltry six (6) percent of respondents reported that they are actively involved in performance benchmarking activities. The link between SC leadership contributions and company profitability was also analysed. The findings suggest that retail SC performance is solid but must continue to improve, given the current industry challenges.

4.5.1 Key Retail Outlet Performance Indicators

Researcher intended to establish the view of the respondents regarding key performance indicators vis-à-vis achievement of set goals. An average perception index of 82 percent was recorded. Using the perception index, these results are very solid, suggesting that employees of the retail giant are at par with internal goals and industry targets. Leading areas on performance are arguably, timely delivery (thus reads the tag line; “you need it we’ve got it”), order fill rate and in stock availability at 96%, 95% and 94% respectively.
4.6 Supply Chain Trends and Challenges in the Retail Sector

The research interview revealed a mirage of challenges working against the SC leadership; these include but are not limited to: volatile fuel prices, foreign currency value fluctuations, cost of imports especially due to piracy, eroding consumer confidence, supply chain capacity constraints, the infamous global credit crisis, tax issues; key tax issues for retail and consumer goods companies span both direct and indirect taxes (e.g. VAT and excise duties). The increasing onus of compliance, risk and CSR also presents new tax challenges.

Given the relatively high levels of staff turnover, the issues of recruitment, staff retention and skills also pose another challenge. Proliferation of low price convenience stores within residential areas cannot be underestimated. Transport network congestions, is another pertinent challenge.

The study shows that retail industry faces challenges similar to those in other industries. What's different is that they combine together to put a great deal of pressure on retailers in today's modern economy. With a fast-paced society and faster-paced technological changes, customers want new, different, and customized goods now, and they're not willing to wait.

The economic environment and less than robust consumer spending has prompted SC leadership to act decisively. When asked how they are coping with the challenge of eroding consumer confidence, response is that the retail giant like its peers is making drastic asset investment reductions.

5. Conclusions

Supply Chain leadership has long played a critical role in the success of retailers. In light of the current economic cycle, the need for effective Supply Chain capabilities and engagement is more pronounced. Retailers must closely manage the total cost of global procurement, streamline inventories, and keep transportation expenses in check without hurting product availability or customer service.

The increased upstream and downstream engagement of leadership will help retailers address their current and ongoing challenges. This positive development is made possible by breaking down silos and maintaining top management support for Supply Chain leadership initiatives.

Cost control and the drive for greater efficiency remains a point of emphasis for the participants. The value-add for retail Supply Chain leadership appears to be finding the right mix of capabilities that allows the firm to provide the necessary level of customer service for a diminishing cost.

Supply Chain leaders diligently manage product flowing through multiple pipelines to stores. Both costs and service goals must be monitored and improved to support corporate profitability. While the retailer is succeeding on many fronts, opportunities exist to improve inventory turns, return on assets, and demand-driven fulfilment.

The retail outlet is actively engaged in attacking problems head on and widely believes that a well-prepared leadership allows it to cope with current business challenges. SC agility and flexibility are keys to conquering volatility.

From the study, SC leadership pointed out fuel cost as one of the challenges, thus given the increased cost of fuel, drivers, work-hour regulations, and congested transport networks, attention needs to be paid to transporting goods more efficiently from suppliers’ warehouses and retail distribution centres to stores, or even to customers. Due to the fact that some percentage of respondents feel that there is no real balance in the use of various commodity communication avenues, one key investment the retailer is likely to make is in areas that will help improve visibility of products in the supply chain and allow real-time, accurate information to be easily accessed and shared collaboratively with all parties within the chain.
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