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Global Supply Chain News: Think Best in Market, Not World Class, in Developing Markets, WalMart's Gary Maxwell Says

Culture, Talent, Infrastructure and more Should All Impact Supply Chain Design; Some Competitors Over-Automating?

SCDigest Editorial Staff

When trying to penetrate developing and emerging markets, think "Best in Market," not "World Class."

That was a key component of the message from **Gary Maxwell**, Sr. Vice President of International Supply Chain, the Day 1 keynote speaker at last week's CSCMP annual conference in Chicago. (See CSCMP Full Review and Comment.)

Wal-Mart operators under a wide variety of store banners across the globe, usually as a result of Wal-Mart acquiring a local chain or developing some other ownership arrangement. For example, WalMart Mexico is a separate company with majority ownership by WalMart Stores Inc. In India, WalMart operates in a 50-50 joint venture with a local retail, and in effect franchises its stores to that company.

All told, WalMart has some 50 different international banners, and operates at least 140 global distribution centers.

Just as in the US market, WalMart's international supply chain is very cost focused.

"You can't give the consumer anywhere every day low prices without having every day low costs," Maxwell told the audience.

But, Maxwell said, that doesn't mean replicating Walmart's US supply chain everywhere it goes.

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First, Maxwell noted that differences in the retail environment alone dictate unique supply chain approaches. For example, while WalMart's US stores are 100,000 to 200,000 square feet, in Puerto Rico it stores age just 20,000 square feet – and perhaps just 1000 square feet in Costa Rico.

Then there are a myriad of other factors that dictate the kind of supporting supply chain you can and should build in each market, Maxwell said. Those factors include the cost of land and labor, logistics infrastructure, local supply chain talent available, transportation modes and sophistication, political and economic risks, etc.

The level of available talent is especially important, Maxwell noted.

"When you first start out in a country, the talent often isn't there," he said.

"Part of it is an asset allocation decision," Maxwell

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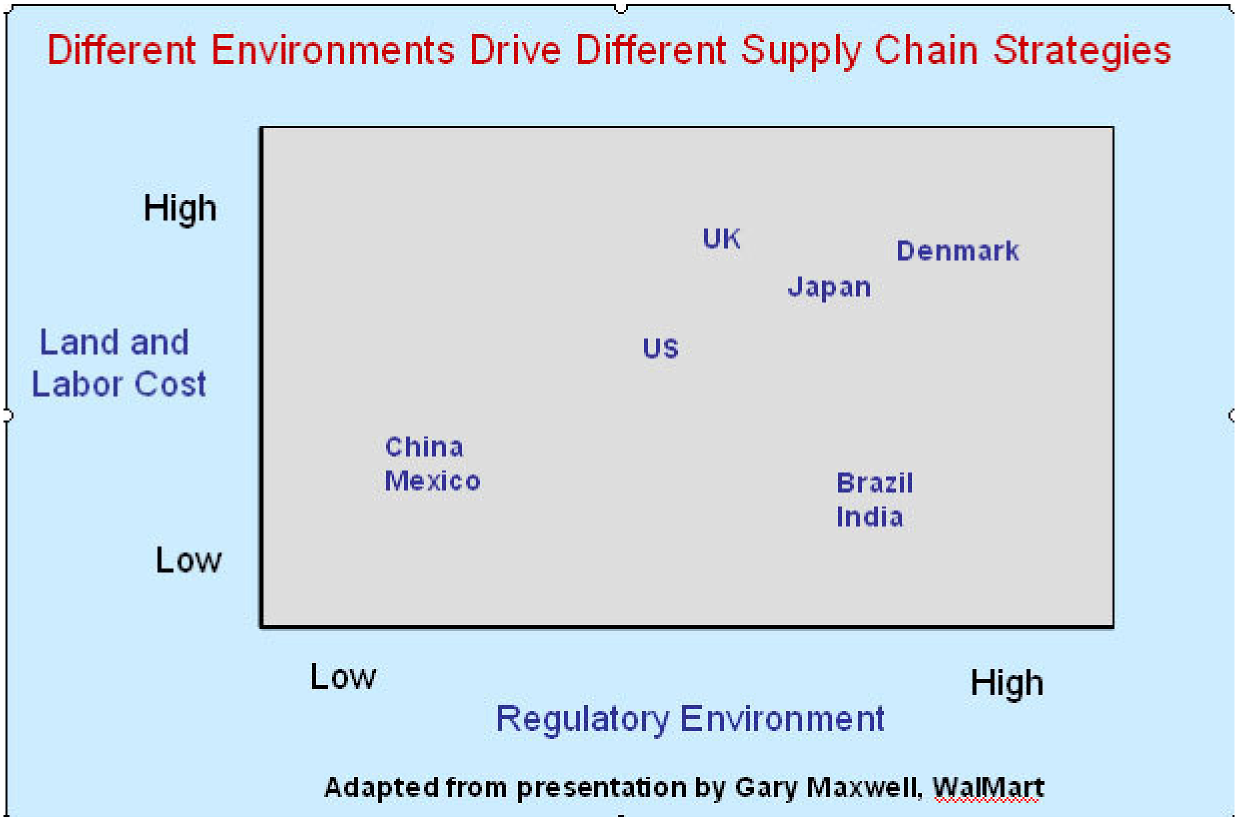

noted. "If there are greater risks in a country, we want to lower capital investment there," for example by building more traditional, lower cost distribution centers.

Plotting Countries by Maturity

Maxwell says WalMart uses a simple model to position where a country is in its overall economic evolution.

- Emerging stage: e.g., India
- High growth: e.g., Brazil
- Mature: e.g., US
- "Redefinition": e.g., Japan`

Other analyses are also useful, such as comparing countries by land/labor costs and its overall regulatory environment.

The regulatory environment can be very complex and drive supply chain decisions, Maxwell noted. For example, in India there are taxes levied whenever a product crosses state lines, a scenario that may cause a company to build more DCs that serve just a single state than to build fewer but then incur the tax in cross state goods movement.

On the other hand, some European countries have regulations regarding how many pounds a DC operator can lift per day, how much they can reach over their heads, etc.

"You can afford more automation in those countries, Maxwell said.

In the end, Maxwell says companies need to build local

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supply chains that are "Best in Market," not "World Class." That simply means optimizing the supply chain to best fit all the dynamics around individual countries, their culture, costs and maturity.

He suggested that some WalMart competitors were too focused on bringing supply chain practices and automation from their developed markets into some of these emerging countries.

"It can be very expensive for those markets," Maxwell said. "The customer can't afford it."