

# Research on FMCG Logistics Management

## —An Example of Yili Group

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**Abstract.** Nowadays, in the whole world of economic globalization, modern logistics has grown into a full of vitality and enormous development in emerging industries, which makes it become the foundation and source of enterprises to build competitive advantage. The level of logistics development has become the measure of a country's comprehensive national strength and an important indicator of the quality of economic operation and management of social organizations efficiency. This paper explains the current situation of logistics management in FMCG, its main characteristics and development trend. According to the analysis of current status of logistics management system of Yili Group, especially the analysis of logistics the challenges and opportunities in logistics management of Yili Group with other domestic dairy companies, this paper finds out the existing problems in the logistics management system. In accordance with the management system of domestic outstanding enterprises in the development of the logistics, it puts forward some reference model for the development of logistics management of Yili Group.

### Introduction

With the rapid development of China's economy, people's living standards have been greatly improved, and FMCG sales scale is also increasing year by year, which is showing a good growth trend and also a vast market space. If enterprises want to possess market presence, it must provide better quality to consumers with more choices, higher value and lower price. Therefore, logistics management system with high efficiency is a great competitive advantage for FMCG enterprises' distribution as well as an important means to improve the level of profit, and it is also crucial for FMCG enterprise to survive and develop.

### Characteristics of FMCG

FMCG refers to the products that are with short turn, low value and easy consumption, whose Consumers are of a wide base and high frequency, hence most of them are the necessities of life. As a result of the purchase of high frequency, the consumer is familiar with these products and will purchase without careful comparison and repeated selection, which belongs to Habit Buying.

**Convenience.** Brand loyalty of FMCG is not so high, consumers can easily buy different brands of similar products. Sometimes consumers even choose to buy something nearby instead of buying a certain product, and it is likely to form driven buying behavior.

**Seasonal.** Many fast consumer goods consumption is seasonal, which means it varies in different seasons, such as holiday products will reach a great demand only before the arrival of the festival. For example: there is a great market demand in Valentines Day for roses and chocolates; there are great changes in the market demand in the Lantern Festival for Yuanxiao.

**Periodic.** FMCG products are basically of low unit value, which belongs to the necessities of people's daily life, so the consumption is of short period.

**Necessary.** FMCG is the daily necessities, which focuses on meeting people's basic needs, so it is easily influenced by packaging and store atmosphere.

## Current Situation of Logistics Management of Yili Group

**Procurement.** Since 2010, Yili Group introduced a electronic procurement management system, established a unified group of suppliers to access and review system, and accumulated some experience by the application of all kinds of material procurement in the pricing process in electronic procurement. In 2012, the department of liquid milk as the leading logistics management department wants to focus more on electronic procurement logistics. In depth exchanges and demand analysis three times before and after, it finally determined the deepening application of Yili Group of electronic procurement, namely Yili electronic procurement project with two objectives: Group logistics services of electronic procurement management will focus on protecting the logistics carrier management and cost procurement pricing details. Based on Logistics Management Department, the Ministry of information and a mining collaboration through the project team, Yili Group established its e-procurement platform smoothly in February 2013 to achieve a comprehensive understanding of the existing group of logistics suppliers.

**Transportation.** The transportation line of Yili Group includes marine transport, railway container, road transport, rail and sea transport as well as parcel shipping. In order to reduce the cost of enterprises and improve the logistics efficiency, Yili Group adopts the operation mode of TPL(third party logistics) through strict bidding and selection. The main products are liquid milk, cold drinks and milk, Yili adopted two kinds of transportation. One is from the factory direct delivery to the customer, the other is in the focus of the layout of city warehouse by meeting the needs of small and medium customers. For example, Yili sets up warehouse in Wuhan and makes transportation through warehouse to reach to the customer's position by railway transit or road delivery.

**Distribution.** At present, Yili group has three major business operations in the country, and several regions, 30 manufacturer and 5000 agents and dealers accordingly. Yili group will directly face all of its major customers, distributors, molecular companies. For example, the orders of these large customers can directly reach to the region, and then the order should be assigned to the corresponding molecular company from the district headquarters in accordance with the content.

**Inventory.** Yili hopes to build a integrated warehouse nationwide, and realize the reasonable allocation of warehousing goods. An effective method in inventory management is the current ABC classification system. Moreover, Yili Group also purchases new computers to be placed in their positions, so that each can operate in the system, and realize the monitoring data in real time. At present, Yili managers can see the system from the total amount of each commodity and quantity distribution of all department inventory for each commodity, as well as the stock of ABC classification in various regions, the stock of each commodity ABC classification, each kind of goods safety stock and each batch of goods shelf life management.

## Problems of Yili's Logistics Management

**Lack of security in electronic platform.** From the beginning of 2010, Yili Group adopted the electronic procurement platform with parts of online bidding, bidding, negotiation, and other ways to purchase. Although the operation of the electronic procurement platform effectively reduces the cost of resources like the time of saving, but the security of network transactions is relatively low, and it is difficult to obtain the trust of each other. For Yili Group, the purchase of materials and services is huge, and now there are many online fishing sites, a lot of money was cheated. So there is a certain risk to the huge trade fair on Internet.

**Few cold chain transportation vehicles.** As a matter of fact, the number of cold chain facilities in our country is very small, and the development and distribution are uneven. There are only 40,000 refrigerated cars in China now, while 200,000 cars in United States and 160,000 cars in Japan. This problem seriously restricts the development of China's cold chain transportation market. According to a survey, there are more than 20% food decayed because of bad logistics condition in the process of transportation in our country every year like fruit, vegetables and other agricultural products in picking, transportation, storage and logistics sectors. In order to reduce

perishable product loss in transport process, and improve the cold chain transportation has become a pressing matter of the moment.

**Difficult distribution.** The product of the dairy industry has a short shelf life and low value, so it is very high for inventory configuration, transportation distribution and channel management. Secondly, due to the differences and sales of regional products, logistics service providers are easy to obtain return orders. These decisions of the dairy enterprises must reduce the intermediate link of transport channels, as soon as possible to put the products into the retail terminal, so there will be some management contradictions. For Yili Group is no exception, Yili Group in the country's marketing network more, caused a lot of scattered, heavy. And due to the differences between the sales and operating modes of the original different areas, and now it is necessary to synthesize a relatively unified and fixed pattern, which is not a standard operation can not run at all. For example, some of the sales of personal black box problems, which will be replaced in transparent sales management system. For the cooler sales, Erie is specifically in the retail point of the freezer, and the special distribution team directly to the products to the cooler. Although this way of sales can save a number of distribution links, but we can not see that before.

**Poor distribution storage equipment.** Most of Yili' products are frozen and fresh food, and time sensitivity is very strong in stock management. Because the shelf life of dairy products is relatively short, the dependence on the warehouse is very strong, with the rapid mass distribution of enterprises, and the loss of the product is due to the loss, and the cost of distribution is increased. Liquid milk products include 4 categories: 1 is the expiration of 48 hours of goods, 2 is the expiration date of the 7-day goods, 3 is the expiration of 14 days of goods, 4 is the product of one year. There is also a big difference between the products of the different shelf life and the way of business processing. The expiration date of the milk powder is one year or two years, the product is a wide variety of products, and the different product shelf life has increased the complexity of enterprise management. The loss to Yili Group has reached more than 100 million Yuan per year for the loss of the product.

### **Suggestions to Improve Yili's Logistics Management**

**To improve the accuracy of the identity of transactions.** Electronic procurement is a modern procurement transaction based on the network, which is a non-meeting online transaction initiated by the purchasing party. Now the network transaction involves large amounts of money, so security becomes the biggest problem that the enterprises should face at the moment. At the same time, we should pay attention to the reliability of each others' information and establish a strict authentication system. And in the network payment time to strengthen the regulation of the trading platform, to prevent the emergence of fishing sites. On the other hand, to manipulate electronic procurement.

**To increase the investment of refrigerated transportation vehicle.** Because of China's refrigeration hardware equipment shortage, such as Yili Group of large enterprises, also often hear the third party logistics companies complain of refrigeration vehicle resource constraints. The dairy industry has strict requirements on the temperature in the transport also pay attention to the temperature. In this regard, Yili should learn from the Mengniu in the "cow - milk station, milk tanker industry wide" - a series of operation, the low temperature, closed transportation. After leaving the factory, Mengniu uses refrigerated vehicles to ensure low temperature transportation. Yili Group of social resources can assign cold chain transportation resource for effective integration of refrigerated transportation scheduling. And further "grasping" refrigerated transport work, "one hand" to become the embodiment of refrigerated transportation sales strength, for the market to provide timely, safe and efficient service; on the other hand is constantly exploring new refrigerated transport mode between the customer and product of zero distance.

**To improve the scale of transportation.** Yili group is constantly improving the scale of transportation in distribution. The most important thing in logistics is distribution. The new logistics is the distribution, and the first stage of work is to know how many retail stores that sell the Erie dairy, including the core stores, supermarkets, convenience stores, etc. The second stage is to

improve the service of the to the distributors. There is a person who is responsible for a weekly visit to the retail store in charge of the area, including: (1) counting: inventory and record of existing inventory of retail stores. (2) suggesting: according to the inventory of the retail store, the new product is introduced, and the owner is advised to replenish the stock and make a record of the purchase of the owner. (3) displaying: in the inventory of inventory, the top of the new product to the more obvious position, and try to put all the products on the shelf, occupy more positions. At the same time, the poster and other site advertising for reasonable layout. (4) collecting competitive product information: in the process of communicating with the owner or shop assistant, at the same time to understand the trend of competitors, such as the listing of new products, sales promotion and list policy. (5) confirming orders: before leaving the retail store, finally check with the owner to verify that the information that has just been recorded is true. And about the second day distributor to deliver the time, ask the owner to arrange to receive and arrange payment. (6) information summary: every day to visit, the clerk to the day to hear the information to be collected, the Yili dairy retail store purchase demand information to the local points.

**To upgrade dealers' storage equipment.** Because most of Yili' products are frozen and fresh products, time sensitivity is very strong in inventory management. In addition, the shelf life of dairy products is relatively short, and the dependence on the warehouse is very strong, so the whole equipment of warehousing is very important for dairy products. Yili Group should increase investment in low temperature and strict control of the warehouse, at the same time to the Mengniu company, in the retail terminal (small stores, retail stores, wholesale stores, supermarkets). Due to the variability of the market, there is a great use of value to the enterprise, according to the forecast and transfer information. Yili Group could organize some market investigators as well as visitors to the retail stores, to get to know more about the more appropriate, more real market demand, and keep track of it. In stock, Yili can also learn from Lenovo using their typical VMI inventory management mode. The VMI inventory management model has its unique advantages to the traditional inventory management model, and it can be more scientific and reasonable to control the inventory. Its performance is: first, the inventory management power is transferred from the distributor to the supplier, and the order of the corresponding distributor shall be borne by the supplier and streamline the organization structure, which can also reduce inventory management and warehousing costs, and can make artificial tasks automation.

With the rapid development of our socialist market economy, especially the pace of economic globalization, the original logistics management system has become more and more difficult to adapt to the development of various enterprises. The major enterprises should stand in the forefront of logistics management system, and find the logistics management system suitable for their respective enterprises, thus reducing the cost of logistics and improving the yield of enterprises. Optimizing logistics management is a modern enterprise to improve the service level, reduce the operating cost, improve the market reaction, to provide customers with more choices of important ways and methods.

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