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The retail challenge

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Byline:	**Nick Allen**

Complexity is the greatest challenge facing retailers competing for consumer spend in a burgeoning multi-channel environment. But for those that can master it, opportunities abound. By Nick Allen.

Retailers are faced with a rising tide of complexity as consumers look for, and expect, an increasing array of options when it comes to shopping. The dynamics of the high street have changed radically over the past ten years and are broadening out to encompass: online purchasing, catalogues, tele-sales, mobile devices, multiple delivery options, in-store pick-up, ordering at kiosks - as well as a widening choice of means for returning goods.

Fierce competition among retail brands is forcing the pace in terms of service options, all to win over an increasingly fickle and cash-strapped consumer. With the internet creating price transparency on products, competitive advantage is now gained through offering the best service by whatever channel the consumer desires. Of course, this presents an expanding field of complexity for retail businesses, both in terms of IT requirements and the operational means to effect fulfilment. Its impact on the supply chain has yet to be fully realised.

Under these demanding circumstances, how are retailers going to compete to offer the consumer the best price and service at a cost that equates to a reasonable margin? The challenges are many, but then, so are the opportunities.

In particular, internet sales are gaining pace and most of us now use the internet for purchasing Christmas gifts. According to survey results from eDigital Research and IMRG, 71 per cent of us were prepared to do half or more of our shopping online this Christmas.

However, the findings also support current assumptions that price will continue to dominate the online marketplace, as people are prepared to shop around to get the best deals. Competition for business is fierce as the report indicates that 88 per cent of shoppers research and price compare before they buy, with almost a quarter of them researching while in-store or at home via their mobile phones.

But if retailers are going to keep costs under control and retain healthy margins they are going to have to look very carefully at how they manage their supply chains. The rapid evolution of multi-channel retailing has led to fragmented inventories and duplication of supporting infrastructure, hindering integration and a cohesive solution to this complex problem. Maturing channels now offer the potential to consolidate and streamline inventories to offer greater flexibility in responding to consumer needs.

According to Steve Smith, senior vice president EMEA at Manhattan Associates, real-time inventory visibility and the ability to allocate that inventory to the most appropriate channel, in the most cost-effective way, will offer a significant advantage to those with the capability.

The dramatic downturn in consumer spending and the impact of tighter credit conditions on the wider economy over the past 18 months has thrown forecast accuracy completely off-track. Historical, year-on-year analysis of data plays a much lesser part in a dynamic environment - and so building inventory to service forecast demand will no longer be a sound approach for 2010. Businesses will have to adopt more agile processes that are able to respond quickly, in real-time, to changes in demand. But to achieve this, they will first need absolute visibility of inventory across their entire supply network.

Smith sees the process of evolution from "bricks and mortar" to multi-channel retailing as one of the biggest problems facing established large brands. "Moving from a comparatively uncomplicated process of supplying and replenishing high street stores - with some added complexity around special promotions - to an online presence with fulfilment from either a store or a warehouse, be that dedicated or part of an existing facility, creates complexities associated with singles picking, small order volume, the number of deliveries, time limits, availability issues, and so on," says Smith.

"But then when you overlay a catalogue service or perhaps a telephone ordering service - or what most retailers are starting to do now, which is collection in store - it starts overlaying all sorts of delivery complexities that aren't that familiar to the business." He continues: "So for instance, more frequent, multiple deliveries to store may be needed for dot-com order - collect from store."

All this requires Assortment Planning, Forecasting applications and Distributed Order Management capability to determine how best to create availability and fulfil the order at the lowest possible cost. Extended Enterprise Management applications are also used to give visibility as to where products are on the inbound cycle. Has it arrived at the warehouse? Is it about to arrive? Can I offer this product as an "available to promise" part of my inventory availability? These are important ways of exchanging inventory for information - using information to make more intelligent decisions, and so enabling an enhanced service offering to the consumer.

E-tail versus retail

"Historically, retailers used to treat their dot-com business as another store, but it's not another store. It's a very different channel to market," says Smith. "There are a lot of significant differences between an e-tail and traditional retail operation, the obvious one being the single-pick environment."

The complexity of the pick operation for a dot-com operation is quite profound. "Hit rates are much lower - the average hit on a web order is one, so there is a lot of travel involved and the cost of that is quite significant," says Smith. This is driving the trend for a greater use of automation in the picking process, particularly if the product is repeatable - and this can be seen in the music and games industries.

Patrick Wall, chief executive of MetaPack, believes there are two approaches being taken by companies when it comes to moving to multi-channel retailing. Some are taking a tactical approach, whereas others are being more strategic. "There are a lot of retailers that think that collect-at-store presents the largest part of a multi-channel solution, but it's much larger than that. Those looking more strategically realise that's just a small part of the solution," says Wall. "Those likely to be more successful will be those who look beyond incremental changes to their supply chain structure, but think 'what should multi-channel offer a customer?' And once you've created that vision, 'what type of supply chain is needed? What type of systems are needed to support that?"

He believes companies require a "blueprint" for a longer-term programme of say, two to four years, so that the short-term work isn't just tactical, but fits into the long-term goals of the company's multi-channel strategy.

"In a true multi-channel experience the various windows should reflect something very similar," says Wall. "In terms of shopping and ordering, it means providing a means of making the product as tangible as possible, but it also means that the breadth of range that you see online should be available in store too. I should be able to view the extended range and know how the extra ranges can be made available to me. Is this product available in other stores?

"Starting with this vision, this influences how my stockholding is determined, where and at what level, how the pick and pack operation works and then how the delivery to the customer is enabled," Wall explains. However, he warns that established high street retailers could be held back by the complexity of their operations and the constraints of their legacy systems. Progress may be too slow, which could open up the possibility for more nimble competitors to leapfrog them.

There are plenty of opportunities presented by the new channels to market. One interesting development is Direct Ship. Through the internet a retailer can now offer the same quality of service to the customer by co-ordinating delivery direct from a supplier as by holding stock in its own supply chain. This opens up the possibilities of offering a far larger range of products to the consumer. But key to Direct Ship is having good order management systems with full visibility and control of activity across the supply base. Such B2B processes are now catered for on an SaaS basis through companies such as Wesupply and GXS.

There will be a growing demand for outsourcing e-fulfilment to companies that can also offer returns processing from the same facility, as this will drive down costs by enabling a more efficient process for putting returned goods straight back into stock.Direct Ship facilitates range proliferation at no extra cost in inventory holdings, warehousing or dispatch for the retailer, but may lead to a greater number of returns, with all its associated complexity. And dealing with returns is going to become a major focus for multi-channel retailers.

Demanding

Getting the goods to the consumer through multiple channels is demanding enough, but dealing with the returns is quite another challenge entirely. Consumers expect to be able to buy through one channel and return through another, if they so wish. For the retailer, this is where costs could severely erode profits.

In the past, companies were inclined to simply write-off or dispose of returned goods. But now retailers are more aware of the costs of returns as more channels open up for the consumer, returning goods becomes easier and legislation puts pressure on companies to recycle. Managing the returns process properly will play a significant role in improving profitability and importantly, in providing a more competitive service offering to the consumer. Steve Smith of Manhattan Associates believes there could be some surprising initiatives undertaken in this area.

According to Smith, one scheme under consideration by a couple of retailers is to manage the returns process for products purchased from competing retailers. Under the scheme, the innovative retailer would offer a no-quibbles returns policy, handling the whole returns process, regardless of the fact that the branded product was bought elsewhere. The logic behind this adventurous idea being that the service benefit to the customer creates loyalty and captures data on potential customers, outweighing the cost associated with running such a novel returns policy.

Mark Hewitt, chief executive of multi-channel logistics specialists, iForce, sees this developing interest in returns: "There will be a growing demand for outsourcing e-fulfilment to companies that can also offer returns processing from the same facility, as this will drive down costs by enabling a more efficient process for putting returned goods straight back into stock."

Managing returns

The key to managing the returns process efficiently is visibility. Hewitt's company uses in-house developed software, ReSCU, to gain visibility for clients. "From the moment a retailer receives a returned product, credits the customer and records it through the till, that return becomes stock that has a value in the retailer's supply chain," he says. "With the rapid product development programmes in retail, it is vital to process a return as early as possible to gain as much value from it as possible. For example, a television returned to the store may be superseded while it sits there gathering dust for up to eight weeks, so its value will be reduced - even on the second user market. If a retailer cannot see that its stores are just sitting on this stock, waiting until a warehouse is full of returned product before doing anything about it, then it is throwing money down the drain."

Back in July, iForce went live with its service for Sainsbury's new non-food online offering, following the launch of the retailer's new non-food web site. The service iForce provides is said to be a first for the UK fulfilment sector as it combines online fulfilment, online returns and retail returns processing under one roof. Over 8,000 non-food SKUs are handled at a 250,000 sq ft depot in Corby.

The multi-channel returns processing service consolidates returns of non-food products bought from retail stores and online. Using ReSCU, iForce manages the dispersal of the returns via routeing perfect-condition goods straight back to stock in Corby, or the onward sale of raw returns and discounted lines via its Buy-Force platform, which sells single and bulk pallets of all types of customer returns to B2B customers and the general public. iForce also recycles obsolete items in accordance with the WEEE directive to all but eliminate waste going to landfill.

Although complexity is the greatest challenge facing multi-channel retailers, those that are able to embrace the challenge and master the issues at stake will be best positioned to take advantage of the opportunities presented by these new channels to market. Historically retailers used to treat their dot-com business as another store, but it's not another store. It's a very different channel to market.

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