

Moving fast is not the same as going somewhere

Home shopping is the fastest area of growth in UK retail. Tesco sells almost four times as many groceries on line now as it did five years ago and it is predicted that on-line grocery sales in the UK will increase to at least £5 billion by 2012. Still a small percentage of the forecast total sales of £156 billion, but nevertheless a sizeable customer demand to be fulfilled - and this is just groceries. The total value of Internet sales in 2007 is expected to exceed £40 billion, an average of £1,600 for every one of the 25 million households in the UK. And that's only the average - just imagine what some people are spending on line! And all this ignores the enormous market for business-to-business sales. Is it any wonder that so many companies are trying to develop their e-fulfilment capability. But given the complexity of the problem many are struggling to get it right. The cost-service balance is probably even harder to manage with home deliveries than in any other sector of consumer goods distribution.

So what are the key areas to consider when thinking about e-fulfilment and what are the pitfalls? In this paper we can only give you some pointers but if you use these as the basis of your thinking you will have the foundations for building a sustainable and ultimately profitable e-fulfilment network.

Think about customers

The first thing is not to assume that everyone wants next day delivery. Some might do, but most just want reliability. So ask yourself these questions?

- ↳ Do I need a range of service offers?
- ↳ Should I deliver at weekends or late evenings to find customers at home?
- ↳ Do my customers want a timed delivery such as specified day, choice of a.m./p.m., or even smaller time window?
- ↳ Can some products go through the letterbox, delivered by normal Royal Mail?
- ↳ Will I require a customer signature or will I simply leave the goods "out of sight" with a note in the door?

The cost of failed deliveries can be very high. However, will the savings of not asking for signatures be greater than the inevitable loss of some goods?

You also need to think about how you can calculate the carrier and fulfilment centre costs/benefits of each option and then how much you will charge the customer for delivery. The most important thing is not to promise better than you can deliver. Set realistic expectations with the customer and then by all means exceed them, but never fall short.

“What's happening to my order?” Customers now have increased expectations in tracking the progress of their order. So consider whether or not you will offer this service and, if so, how will you do it in conjunction with your chosen carrier.

Start small, think big, scale fast

Choosing a carrier

Remember that the carriers' drivers are often your only 'customer facing' representatives, so choose carefully.

- ↳ Ensure that the chosen carriers can offer a range of options for charges that will accommodate your varying product range covering large items (perhaps requiring a two-person delivery) and small items.
- ↳ Can they offer timed deliveries?
- ↳ Can they track orders and provide information on delivery status?

You should also consider different charging options. For example, multiple packages to one address or consolidation of multi-part orders to allow you to optimise your fulfilment centre processes. Split deliveries can be a major source of irritation for some customers, so think about where and how consolidation can be managed.

Can you cope with peaks?

Peaks are a fact of life in the retail sector and in recent years there has been a trend towards shorter and steeper peak trading. To a large extent this can be attributed to the customer expectations that the Internet has generated. Customers, have no interest in how difficult it is to get the products to their door, so what is the problem with ordering on 23rd December and expecting delivery on 24th?

So think about how you ensure flexibility in your logistics operations, to be able to gear up to the peak demand without the high cost of expensive equipment standing idle for large parts of the year. Or, perish the thought, do you offer a reduced service level to your customers?

- ↳ Do your staffing structures or employment contracts offer the flexibility to absorb at least some of the seasonal increases in demand by working longer hours or introducing additional shifts?
- ↳ Are there any actions that you can take to reduce or remove certain activities during the peak periods, in order to smooth the workload? For example is there any value added packaging that can be done in advance of the peak period.

- ↳ Are there opportunities to outsource some activities at peak?

The way that you handle peak volumes can have a significant effect on operating costs and customer service so give it plenty of attention.

Manage range and orders

The problems of rapid growth

Both a dream and a cause of sleepless nights - rapid growth requires careful planning in order to avoid suffering the equally rapid contraction that can result from a failure in the supply chain. Aggressive growth targets can demand a high investment, yet forecasts are often flawed, especially when developing new business opportunities.

So consider: -

- ↳ Using third party resources, which can be managed flexibly;
- ↳ Planning investment in phases by considering 'step-changes' that will be triggered by the achievement of critical volumes.

Also, how will the product mix change? Will there be uneven growth across the range and will new products place different demands upon operations? And most importantly, ensure that your processes are robust and will withstand the pressures that rapid growth will place on them.

Increasing choice means changing products

Managing your range change is critical to service performance. The Internet has opened up such a wide range of customer choice that the need continually to 'refresh' the offer has increased enormously - and not just in traditional 'fashion' markets. If there is a significant product churn, failure to run-down or clear the replaced lines quickly will result in significant extra pick-face or storage location requirements. This will result in major re-location of products within the fulfilment centre. So think about your strategy to deal with this.

- ↳ Do you reduce stocks prior to the end of range and risk unavailability?
- ↳ Do you maintain full stock cover and risk write-off?
- ↳ Will you make your stock availability visible on-line?
- ↳ Do you continue to sell-through the discontinued lines, perhaps at a discount, and incur the costs associated with a significant, although temporary, increase in the product range?

- 🔄 Do you attempt to maintain the same service-level offer on discontinued lines, subject to availability?

A further problem is the change in physical sizes from season to season. For example, the effects of more bulky clothing items in the Autumn/Winter, or large volumes of garden furniture in the summer must be recognised when planning the operating processes and storage facilities. Fulfilment centre facilities need to be designed to offer flexibility in the use of space from one season to the next.

The best things come in small packages...

Managing your orders

The characteristics of e-fulfillment orders are the small quantities (typically one or two items per order) and the need for packing. Picking and packing are usually the most labour-intensive part of the fulfilment process so think about how you might consolidate orders during picking to improve productivity. Whether you consolidate multiple-line orders for delivery in one parcel, or despatch each item separately, the efficiency of these areas can be improved by planning the optimum position for each product within the fulfilment centre.

Identifying 'associated' products (items that are frequently bought together) and wherever practicable, locating them close together in the fulfilment centre can improve picking efficiency and enable easier consolidation of multi-part orders. Also, the creation of pick zones and positioning products according to the frequency of demand, can significantly reduce travel distances and consequent order-fulfilment times.

Pack sizing can reduce costs

Wherever possible, demand that your suppliers adequately package product for individual item picks in order to minimise the despatch-packaging requirement and associated time and cost at the fulfilment centre. Your suppliers may not have considered the fact that products will not be distributed in the pack quantities that they might supply for retail outlets, especially if they are a new supplier to the home-shopping sector. It is in the interests of both supplier and retailer to ensure that adequate individual protective packaging is applied during manufacture, in order to enable minimum additional handling in the packing area of the fulfilment centre.

Customers WILL send things back

Returns from customers are a major area of labour-cost and space-consumption. Returns in excess of 40% have been experienced for some product types. Of course it depends on your service offer and conditions of sale but the increasing customer expectation is for a "no questions asked" returns policy, at least within a specified time period.

Poor returns management can lead to a considerable write-off of stock, substantial labour costs and space constraints in warehouse facilities.

Efficiency is intelligent laziness

So how can these detrimental effects be mitigated?

- ↳ Can suppliers packaging standards help to protect the product, yet still allow inspection by your customer?
- ↳ Do you provide re-usable outer packaging for use by the customer in the event of a return?
- ↳ Do you provide returns labels and instructions for your customers?
- ↳ Can your suppliers re-process your returns?
- ↳ Can you find alternative outlets for your returns?

High levels of returns will remain a fact of life for e-fulfilment businesses and it is an area, which can generate high costs. So don't treat this reverse logistics as secondary to the customer supply. They are both part and parcel of the overall fulfilment operation and should be given equal attention.

Software Systems

And yes, finally, we get to the question of IT and software. Hated by many but nevertheless we all need it. Of course this subject requires a paper of its own and we can only just touch on it here, but the importance of selecting the right software to drive your business cannot be over stated.

The software required to manage an e-fulfilment operation can be quite different to that required for other businesses, so to make the right choice you must fully understand your business requirements. This means analysing those requirements in detail and then preparing full and concise specifications, which can be interpreted as processes. The specifications will take into account all the issues we have addressed in this paper, and many more. If you get them wrong you will end up with high costs, poor service and a struggling e-fulfilment operation.

Go and get e-fulfilled!

There is much, much more to a successful e-fulfilment operation that we can possibly cover in this paper. But if you are just starting down the road it will help you think about the issues and perhaps help you to avoid some of the problems. If you are already involved in an e-fulfilment operation you will no doubt be aware of many of the points we

have raised here. Perhaps you are still experiencing difficulties and, if so, we hope that this paper will give you food for thought. The pace and growth in this market is enormous and the potential for failure is huge. Standing still is not an option.

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"It is not the strongest of the species that survive nor the most intelligent, but the ones most responsive to change"

Charles Darwin