

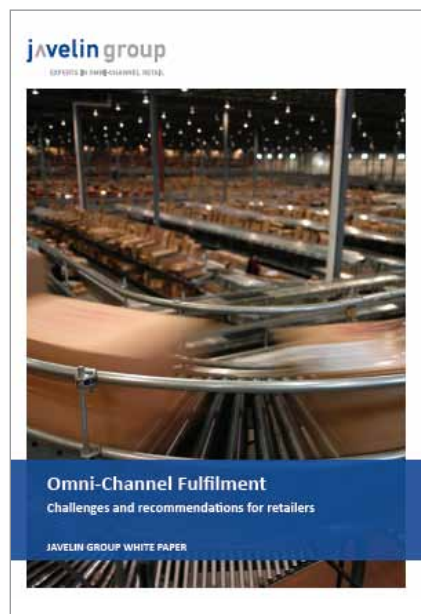
Omni-Channel Fulfilment

Challenges and recommendations for retailers

JAVELIN GROUP WHITE PAPER

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Omni-Channel Fulfilment

Challenges and recommendations for retailers

With the continued growth of ecommerce, and the increasing integration of direct and store channels, omni-channel fulfilment is becoming a major challenge for many retailers.

Each Christmas, there are significant failures by well-known brand names, with one managing director describing the impact of the recent Christmas peak on his fulfilment operations as 'being caught with our trousers down'.

This paper explores the current world of omni-channel fulfilment, how operations are evolving, and recommends actions for senior management over the next 12-24 months.

SUMMARY

In this paper we examine the business context of omni-channel fulfilment. We recognise the remarkable growth of ecommerce, and developments in range, channel shift, seasonality, delivery and international. We investigate the wide range of fulfilment models currently used by leading UK retailers, and explore the challenges which retailers now face, to ensure their fulfilment operations meet the demands of their customers. We conclude with seven omni-channel fulfilment recommendations for retailers:

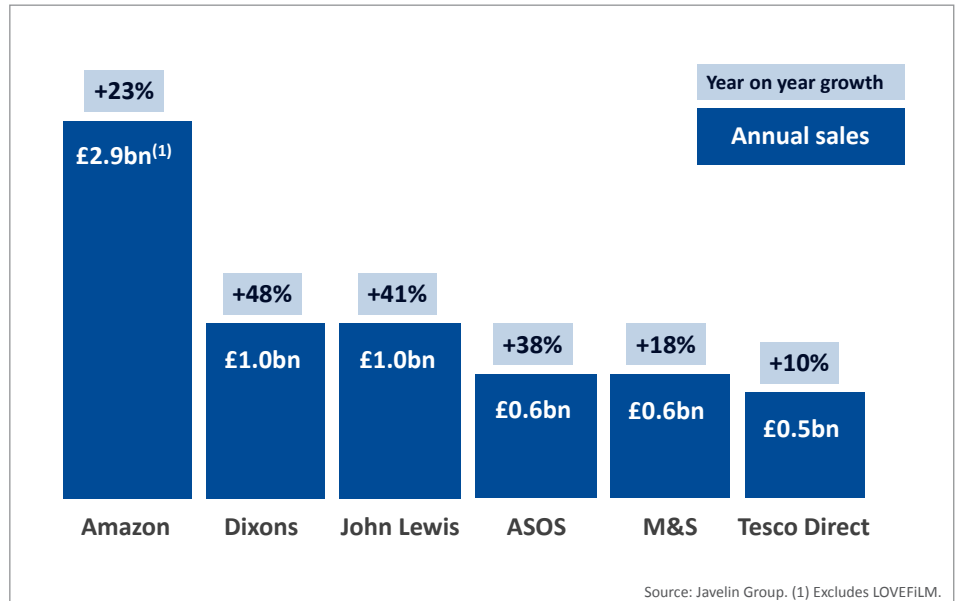
- 1 Optimise current operation
- 2 Develop a capacity planning model
- 3 Adopt a flexible approach to meet peak demand
- 4 Integrate store and online distribution
- 5 Use outsourcing effectively
- 6 Consider automation
- 7 Optimise international fulfilment

With the rapid and significant growth of ecommerce, and the integration of shopping channels, omni-channel fulfilment is now a challenge for many retailers.

BUSINESS CONTEXT

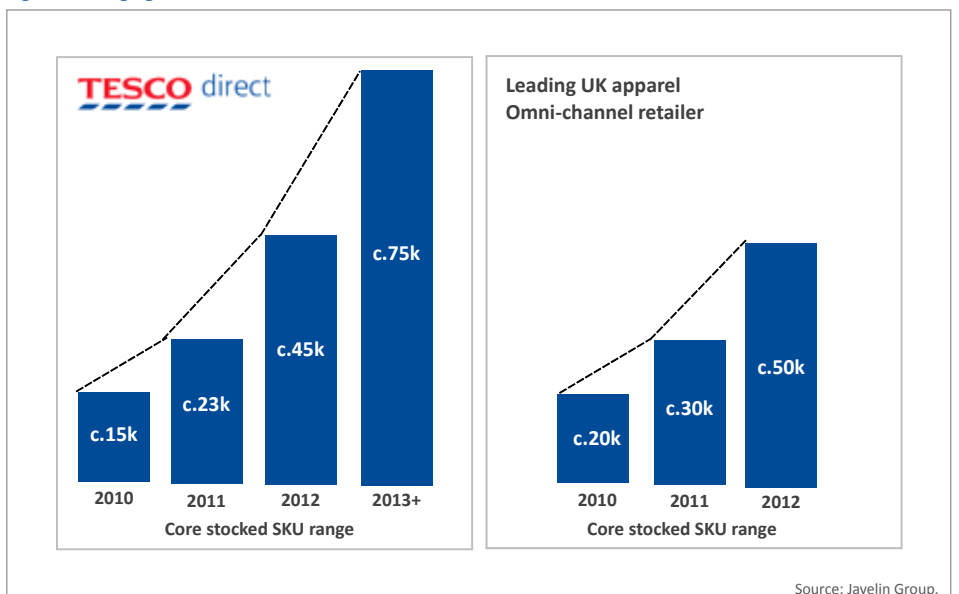
eCommerce in the UK is now very large and growing rapidly (Figure 1). For example, annual online sales of John Lewis are £1.0bn (25% of total sales) and up 41% year on year. Marks & Spencer's ecommerce sales are £0.6bn, up 18% year on year, and ASOS's are £0.6bn and up 38% year on year. For smaller retailers, growth of over 100% year on year is common.

Figure 1: Selected retailers' ecommerce sales and growth



In addition to the increased volume, many ecommerce businesses are growing by extending their range (Figure 2), with drop ship (supplier direct) operations managed alongside a growth of stocked range. New Look, for example, which is all own label in-store, now stocks in excess of 150 brands as online-only buys.

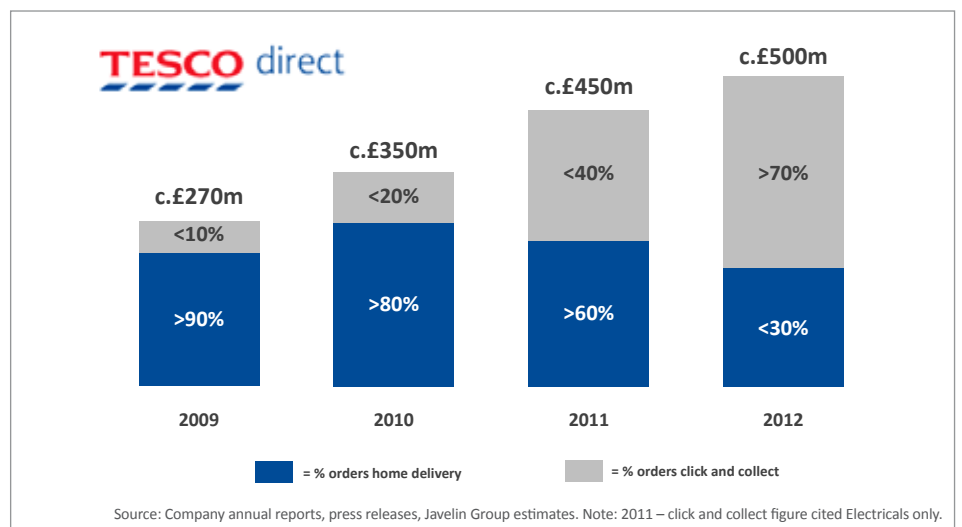
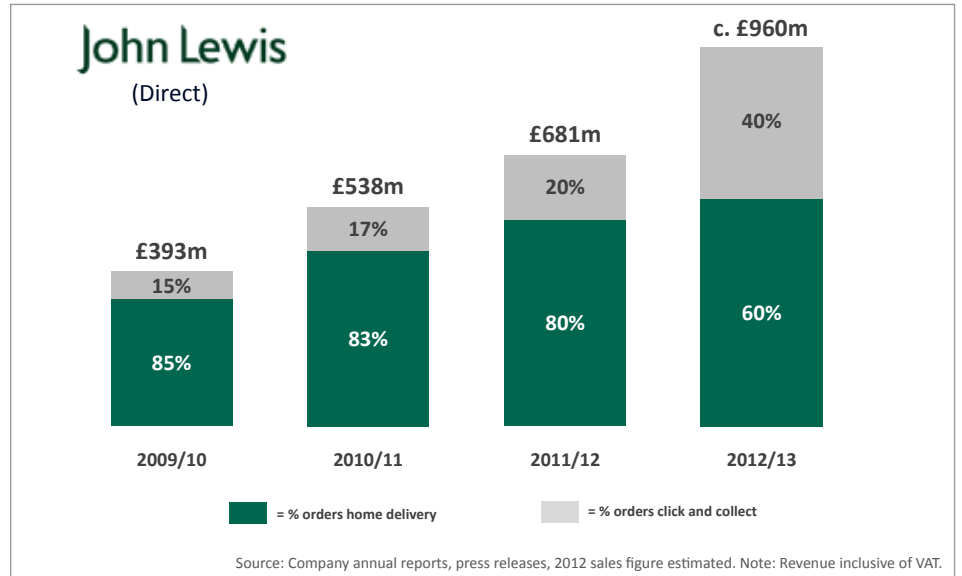
Figure 2: Range growth



Order profiles are changing for many retailers, with free delivery leading to lower order values and fewer items per order.

A large part of ecommerce growth can be attributed to channel shift. Sales are moving from the store channel to ecommerce, and within ecommerce they are shifting from home delivery to click and collect (Figure 3).

Figure 3: Channel shift



The seasonality of ecommerce is also changing. More frequent sales with customers ordering closer to Christmas is leading to a more ‘spiky’ demand profile, with peak day sales now typically a large multiple of average day sales. One well-known US fashion retailer achieved 6.3% of its annual total online sales on a single day: ‘Cyber Monday’, and Amazon UK hired more than 10,000 seasonal employees across eight UK fulfilment centres to prepare for Monday 3rd December, which was expected to be the busiest day in the history of Amazon.co.uk.

Order profiles are also changing for many retailers, with the introduction of free delivery leading to a lower order value and fewer items per order. This in turn leads to an increased number of orders for a given level of turnover.

Many retailers are now offering an increased choice of delivery services, using multiple carriers. Delivery options include standard, express (next day), same day and 90 minute delivery (with pick from store or within easy reach of the fulfilment centre), nominated day, and timed and evening deliveries. Retailers are also competing on order cut off times for next day delivery, with Next recently running a TV campaign for its 'order by 9pm for next day delivery' service.

Figure 4: Delivery services offered by leading online retailers.

RETAILER	Cut off time	Standard	Next day	Named day	Evening	Same day	Time slots	Click and collect
Next	9pm	N	Y	Y	Y	Y	Y	Y
ASOS	7pm	Y	Y	Y	Y	N	N	Y
Dixons	7pm	Y	Y	Y	Y	N	Y	Y
John Lewis	7pm	Y	Y	Y	N	N	Y	Y
M&S	7pm	Y	Y	Y	N	N	N	Y
Amazon	6pm	Y	Y	N	Y	Y	N	Y
Aurora	4pm	Y	Y	Y	Y	Y	Y	Y
Tesco	3pm	Y	Y	Y	N	N	Y	Y

Many retailers are now offering an increased choice of delivery services, including overseas, using multiple carriers.

Most of the larger UK retailers now deliver internationally, and these deliveries are growing as a proportion of overall sales. The international deliveries differ from UK ones and have their own despatch notes, packaging and labelling requirements, and separate carriers with various cut-off times. Some of the online and catalogue specialists (e.g. Boden, ASOS, Wiggle) are already selling more overseas than in the UK (Figure 5).

Figure 5: Retailers with overseas sales greater than the UK.



The leading UK retailers use a broad range of fulfilment models, including in-house and third party suppliers, with a mix of FCs and DCs.

CURRENT FULFILMENT MODELS

There is no standard way of organising fulfilment operations amongst the major retailers. The legacy store distribution network, product handling characteristics, scale of business, speed of growth and business preferences have led to the use of multiple fulfilment models.

Tesco non-food splits clothing and home, and uses multiple fulfilment operations: Clipper, CEVA and in-house. **ASOS** has a single fulfilment centre (FC) in Barnsley, run by Unipart. **John Lewis** has no fewer than five different fulfilment routes, a mix of outsource and in-house, including deliveries using its store-based fleet. **Next** uses extensive automation in its Yorkshire warehousing, while **Argos** has a regional fulfilment operation, with north and south FCs. **Aurora** and **Debenhams** have led the way with store picking alongside the FC, enabling better availability and therefore increased online sales. **Marks & Spencer** is moving to a new, single, integrated, and highly automated FC, while **Amazon** has eight fulfilment centres across the UK, with regional stocking of fast-moving items.

Multi-channel retailers typically use their DC networks to supply separate FCs as if they are a store, although this model is beginning to break down as ecommerce volumes become a higher proportion of sales, and retailers are forced to rethink their network strategies.



The huge growth of click and collect is forcing retailers to use their store transport and distribution network to fulfil orders.

CHALLENGES FOR RETAILERS

1 Growth and channel shift

- Peak scalability is undoubtedly the biggest challenge for omni-channel fulfilment. It is extremely difficult to recruit and train enough temporary colleagues in a high volume operation. Scaling from 100 people to 250 people is many times easier than scaling from 1000 people to 2,500 people.
- The rapid increase in SKUs, which are often slow moving, has a big impact on the size and design of the pick-face. Keeping the picking operation efficient, and managing the increased storage, requires significant changes to layout and picking processes.



- Alongside rising ecommerce volumes are (typically) declining store volumes, and therefore spare capacity in DCs. Using this spare capacity by integrating ecommerce fulfilment with store DCs has several advantages, but needs to be carefully planned, as the operational metrics and requirements are quite different.

Store DCs have been optimised for store deliveries, with product flows often relying on cross-dock techniques to reduce the number of SKUs stocked in the DC, and with ratio packs or multi-packs used to aggregate pick quantities. Product is delivered in store-ready format, often without packaging and/or on a hanger, and with security and price tags. Product returns are typically only carried out at season end.

eCommerce FCs, on the other hand, typically need to store large ranges of product with many SKUs having very low inventory levels. The pick quantities are usually single and product needs to have adequate protection. Goods on hangers with security and price tags often need to be converted back into a suitable direct-ready format. Product returns from customers are an everyday occurrence and need to be a key competence.

- The huge growth of click and collect is forcing retailers to use their store transport and distribution network to fulfil orders, but they often struggle with frequency of delivery, timeliness, parcel tracking and back of store handling.

‘One view of stock’, which includes pick from store alongside inventory everywhere, is a major opportunity for fashion and department store retailers.

2 Availability

- ‘One view of stock’, which includes pick from store alongside inventory everywhere, is a major opportunity for fashion and department store retailers. The concept of having all the stock (from stores, DCs and FCs) available to view and sell online is very powerful. Most fashion businesses struggle to get true availability at SKU demand level above 70%, but pick from store alongside inventory everywhere can raise this to over 80%.

Debenhams has recently announced that increased availability, as a result of access to store inventory, has increased online sales by 8.5%. This is an enormous driver of both online and store sales, as the increased online sales through the store can raise the grading of a store, allowing the store to carry a wider range of stock. However, managing this requires sophisticated order routing and management systems, and very good operations management within the store environment.

- The other major driver of availability is upstream supply chain visibility of stock (sometimes called available to promise) and the capability to take orders for stock which will arrive shortly but is not physically at the DC. For many retailers this level of operational visibility is not currently realistic, but undoubtedly a major sales opportunity.

3 Multiple service offerings

- The increased range of delivery services, including international, adds significant complexity to the fulfilment operation. Retailers need to meet multiple carrier time cut-offs, many with short deadlines, and therefore manage multiple batches of orders through the fulfilment operation.



Developing a capacity planning model for a new DC, FC, or integrated DC and FC, is an essential first step in managing the medium-term future.

RECOMMENDATIONS FOR RETAILERS

Faced with these challenges, we recommend seven steps:

1 Optimise current operation

In a typical omni-channel fulfilment operation, significant enhancements in throughput, storage, and productivity can be implemented quickly, in days and weeks rather than months. These usually include changes to colleague scheduling, pallet racking, shelf and SKU container design and use, shelf replenishment timing and management, and reporting. This work will typically result in operational KPIs improvement of 10% - 20%.

2 Develop a capacity planning model

Developing a capacity planning model for a new DC, FC, or integrated DC and FC, is an essential first step in managing the medium-term future.

Good quality capacity planning also needs to cope with uncertainty and changes. For example, volumes for many online retailers have grown much faster than expected, storage requirements can change rapidly as the mix of flat and hanging garments change, and stock holding expectations can change as sourcing and ranges change.



3 Adopt a flexible approach to meet peak demand

Most retailers do not want to carry the cost of a fulfilment operation whose scale is only used on a handful of days each year, and therefore during peak periods (e.g. Sales) retailers will typically suspend express services and extend out the standard delivery timescale to seven days or more. Many businesses are resistant to this, as understanding these benefits can be difficult. Using the capacity model (above), extended to show cost impact to quantify the £m savings and impact on the P&L, is an important factor in persuading the wider business to adopt this approach.

Integrating ecommerce fulfilment with the store distribution network leads to significant benefits, and needs the full support of the buying, merchandising, supply chain, logistics and technology teams.

4 Integrate store and online distribution

Integrating ecommerce fulfilment with the store distribution network leads to significant benefits, including:

- Shared bulk stock to allow later allocation of stock, and therefore better availability of stock across both stores and online, and a reduction of the warehouse footprint
- Reduced transport costs for click and collect
- Improved use of DC capacity as sales shift online
- Enhanced scalability and productivity through shared labour pool

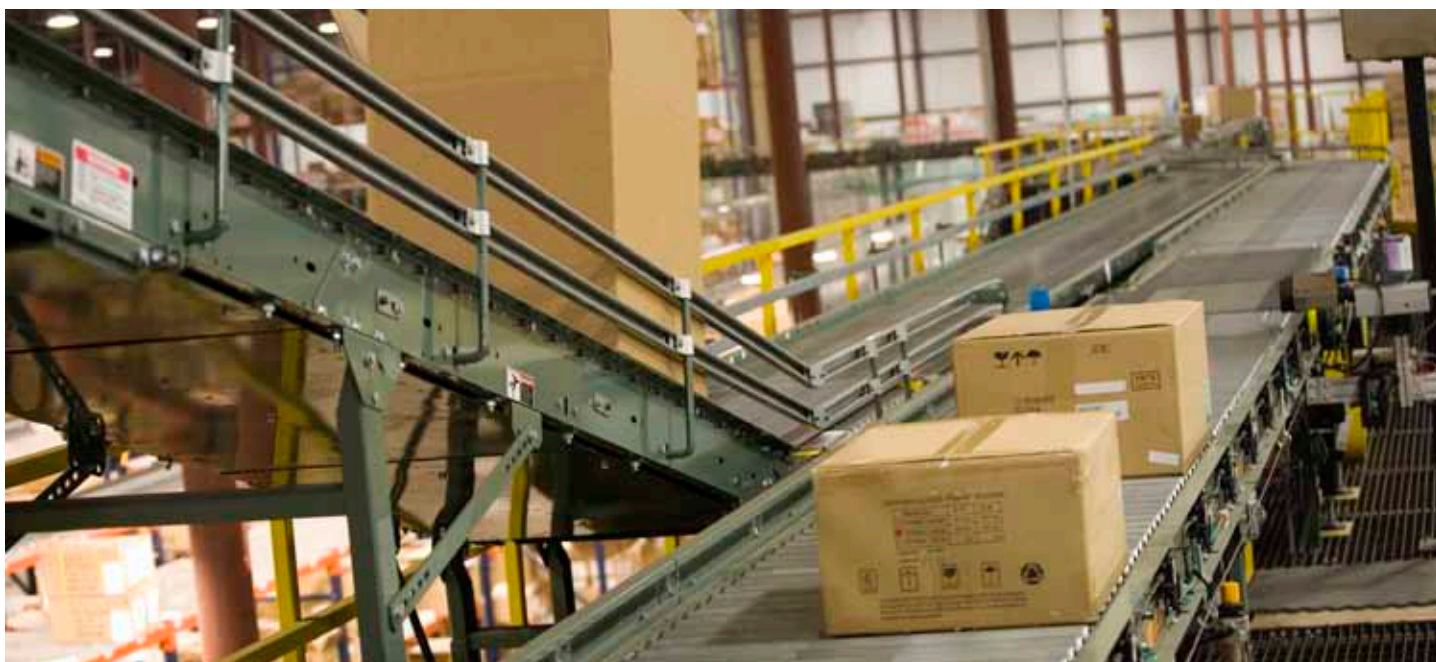
It is particularly suited to retailers who already single pick items for their stores. However, this project needs an end-to-end view across the whole supply chain, and needs the full support of the buying, merchandising, supply chain, logistics and technology teams.

5 Use outsourcing effectively

The decision between outsourced fulfilment suppliers and in-house is not a straightforward one. Broadly speaking, the advantages of outsourcing are speed to market, flexibility for growth (including lower capital expenditure), and ready-made people skills and systems. The disadvantages are the additional margin of a third party, the length of contract demanded by suppliers, and the difficulty of integrating outsourced suppliers with in-house operations.

6 Consider automation

The big question of FC automation is now being considered by many retailers. The benefits of automation for retailers with fulfilment sales above £250m are very compelling. These include the efficient use of space, the ability to scale the throughput without adding large numbers of people, and the option to keep the operation under one roof. Productivity gains are an added bonus.





Typical automation solutions are:

- High density bulk storage (mini-loads or shuttles)
- Outbound parcel sortation
- Pick to pack sortation
- Goods to man picking
- Automated bagging and packing

The major concern for many retailers is the inherent loss of flexibility that automation entails. In particular, the concerns over range expansion, a change of handling type and format, and a change of the order and returns profile can limit the effectiveness of automation. But again, good capacity planning, with allowance for future flexibility, will allay these concerns.

UK retailers are increasingly interested in China and India, with both markets offering huge growth potential.

7 Optimise international fulfilment

Many retailers start international deliveries with a single carrier. However, as volumes grow, there are major cost and service benefits from using multiple carriers, who specialise in certain regions and countries. There are also some aggregators in the market, who can be very useful in the management of multiple carriers.

Europe fulfilment operations can usually be managed from a single FC, but as international global sales grow some retailers are considering the use of local distribution centres in major markets further afield, such as the USA and Australia.

The steps to local fulfilment operation are typically:

- 1 A local returns address
- 2 Local returns processing and outbound fulfilment of local orders using good quality return stock
- 3 Bulk pick and ship of stock from a UK DC to the local FC for cross docking
- 4 Local stock holding of fast moving products

Managing this is not easy, and the costs and benefits of local stockholding need a clear-headed view. Splitting stock is very expensive, and has cash, availability and markdown issues, and is not always easy to evaluate.

UK retailers are increasingly interested in China and India, with both markets offering huge growth potential, but there are major challenges to doing business and both countries typically need some local stock holding. Good local partners are also essential to success.





ABOUT JAVELIN GROUP

Javelin Group is Europe's leading specialist retail and ecommerce consultancy with 150+ professionals based in London and Paris, and works with many of the region's largest retailers. Clients include most of the UK's top 20 retailers and many large companies across Europe.

We are Europe's most experienced advisor in omni-channel fulfilment and we have helped more than 40 retailers and brands develop their fulfilment operations over the last 15 years. Fulfilment clients include ASOS, M&S, Waitrose, Clarks, Debenhams, Wiggle, Tesco and Disney in the UK, as well as Karstadt, Albert Heijn, V&D and Bestseller in continental Europe.

For more information please visit our website www.javelingroup.com.

If you would like to meet us for an exploratory discussion of your omni-channel fulfilment operations, please contact Will Treasure, who leads our fulfilment team:

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