

Joining the dots on the way to the warehouse of the future

Will we need warehouses in the future - and if so what will they look like? That was the question we posed to a panel of experts at our round table sponsored by Honeywell.

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Is there a warehouse of the future? It's a provocative title, according to Honeywell Vocollect Solutions regional director for Northern Europe and Southern Africa Darrel Williams. Perhaps more pertinent a question is not whether this warehouse will exist, but in what form will it exist? Will it be in its traditional guise or will it be much changed, perhaps broken down into smaller constituent parts better suited to service the smaller store fronts that contemporary shoppers appear to be growing ever more favourable of as they move away from larger out of town stores.

"In the last 15 years there has been a change in the role of the distribution centre, and an evolution of business," said Williams. "These changes have blurred the steps along the supply chain, and what we are seeking is an understanding of how to bring the whole chain back into view."

When John Lewis purchased buy.com ten years ago, its online business was something of an afterthought in the development of a ten-year plan, which would see the retailer add ten new department stores to its existing 26.

The view was that, at its peak, John Lewis online would bring in the same as a single department store, perhaps equating for up to five per cent of the business. This minimal view seems somewhat ridiculous when looking at it with the gift of hindsight.

"Fairly small aspirations have grown," said John Munnelly head of operations, Magna Park Campus, at John Lewis. "And today our online service represents 30 per cent of the total John Lewis business. Looking forward, I'm intrigued to see where the customer proposition will take us next."

This explosion in online necessitated a change in the retailer's distribution network. And from this change emerged a large semi-automated warehouse.

"Even when this warehouse was being conceived it was still with the mind-set of branch replenishment, as opposed to fulfilling omni channel needs," said Munnelly. "As time went on we realised the sheer

growth of online and adapted the design to make it as multi purpose as possible."

Had John Lewis failed to recognise this changing face of retail, it could have ended up with a "monster" warehouse in Milton Keynes capable of replenishing its stores nationwide, but ill equipped to serve its vital online customers.

As Munnelly said, there is a curiosity and intrigue as to where the customer proposition will take retailers next. Ever changing and more sophisticated customer requirements are heaping pressure on retailers to develop their business. And this pressure is being felt all along the supply chain.

"It's not just about the warehouse," said Munnelly. "It's about the dots that put together make up the entire supply chain."

While this is undoubtedly true, it starts at the warehouse, and the question posed is what the warehouse of the future will look like? As Williams said: "What is a warehouse these days? Warehouse of the future - it's a provocative idea, and the onset of omni channel has blurred the footsteps in between the process."

Jonathan Pilbro, DHL Supply Chain's vice president of beauty, said that while it's possible to automate a single box, the real challenge is for retailers to open up all the stockpots that they have and to make these accessible in the same way warehouses are accessible.

"Ease of access for all stock, and the ability to judge where best to pick stock from is something retailers truly need to consider," said Pilbro. "This is a fundamental issue for UK retail as a whole as the systems available cannot do this yet."

Pilbro added that the shift in consumer habits is impacting how retailers and their partners assess long-term investments: "this is a key dilemma."

Had John Lewis not understood the burgeoning online market, there'd be that previous mentioned issue of an oversized warehouse unsuitable for its evolved business model.

In addressing the idea of warehouse of the future you

Meet the panelists



Chris Heslop, head of EMEA marketing, Honeywell Vocollect Solutions.



John Munnelly, head of operations Magna Park, John Lewis.



Chris Sturman, CEO, Food Storage and Distribution Federation.



Darrel Williams, regional director, Honeywell Vocollect Solutions.



Jonathan Pilbro, vice president beauty, DHL Supply Chain.



It's not just about the warehouse. It's about the dots that put together make up the entire supply chain.

have to address the idea of consumer of the future, according to Peter Styne, head of operations of The Wine Society. Styne claims that the contemporary consumer is living something of a lie.

"This is because the idea of telling a store when to deliver, and to do it for free is not sustainable. To cater for this, the warehouse of the future needs to be flexible. It needs to be low cost, and low cost equals automation."

Styne's issue though lies in the limitations of automation. "Automation likes providing answers to a single problem, the moment you change this problem you can end up with a warehouse that is fundamentally useless. So, it's about building in flexibility and keeping it low cost. How do you do this?"

"You have to start with the consumer," he said. "It's all about educating the consumer, perhaps. But this is a generation of consumers that have been educated by the supermarkets' online businesses, and if the online offerings of Tesco can provide these services, why can't other online retailers?"

Pilbro points to a policy employed by Next: "Next provides a limited range of options, and it charges for it," he said. "Despite this, customers are apparently happy with the service."

Pilbro believes Next's success lies in the failings of other online retailers: "It's become very process obsessed with a number of online stores: who has the best machine?" he said. "An organisation focused on its back office forgets its brand."

This obsession with convenience and speed, according to Pilbro, leads to a lack of consideration to having products people want to buy. And this of course leads to talk of Apple.

"Apple controls the behaviour of its consumers," said Williams. "Consumers expect an annual Apple product launch and that's it. But others are seeing change far more frequently."

Munnely believes this frequency of stock turnaround is challenging the traditional warehouse model of holding products until they sell. Atty Hussein

director of retail and operations Fortnum & Mason, said the department store has outgrown its distribution centre.

"This distribution centre is only four years old, and our 3PL is having trouble as we are being told we don't have room for returned stock," said Hussein. "So strategies are changing. We are being told to sell out this stock, even it means using mid-season sales, which are far from our tradition."

Munnely notes that in-store stock accuracy is certainly an area that needs addressing, as well as assessing where the best place to fulfil a sale from is – reverting to the idea motioned by Pilbro of having multiple stock-pots from which to access stock. However, he does acknowledge that it is not feasible to just dispatch of warehouses: "Most of these are on long leases," he added.

Returns

As Pilbro points out, stock does not just go out, it also comes back. Chris Sturman, chief executive of FSDF, and Chris Heslop, head of EMEA marketing at Honeywell Vocollect Solutions, noted that this is especially true of the younger demographic of customers that purchase goods, in particular clothes, with the attitude of "try before you buy".

"Stores like ASOS have to turn around returns very quickly," Pilbro said. "People will purchase goods on credit cards, and then return them and these people cannot shop again until they've had the money repaid to their credit cards."

Shop Direct is an even bigger example of this, with the company not only providing the goods for customers to purchase but also the credit facilities with which to purchase them.

"These guys are at the stage where they will credit the customer when the customer tells them that the



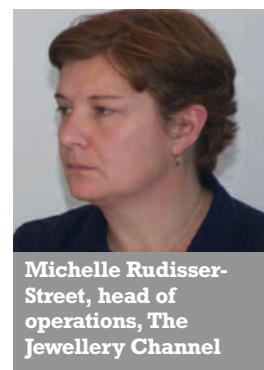
Atty Hussein, director of retail and operations, Fortnum & Mason.



Brodie McMillan, logistics director, Whitbread.



Peter Styne, head of operations, The Wine Society.



Michelle Rudisser-Street, head of operations, The Jewellery Channel.



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item is being returned, rather than waiting until the item is actually received by the returns centre," said Pilbro. "The thought being that it is worth it for the two per cent that abuse the system."

Michelle Rudisser-Street, The Jewellery Channel TV's head of operations, noted that returns are very much a reality that needs to be considered when discussing the concept of future warehousing, adding that this element of the business as a 24 hours a day, seven days a week service is also a reality.

Munnely added: "Returns are a necessary evil."

"There is a lot of scope for returns," said Pilbro. "But as far as returns are concerned, this is not an issue for the warehouse of the future; this is about getting to grips with what's on hand at the moment."

Street said what's most needed is an analysis of what the customer wants. She adds that for this, you need to obtain data from which you can work out both what your customers want, and more importantly, what they need. Distinguishing between the two is vital, if they need something a paid-for next day service should be made available to accommodate them, and if they are seeking free delivery the five-day turnaround should be sufficient.

"We do everything online, so we have one distribution centre and we have to deliver," said Street. "But the benefit of having a store, means you can deliver it to stores."

Street notes the rising reality of partnerships between e-tailers and high street stores.

"ASOS for instance is looking at buddying up with high street stores," she said. "We have looked at this. But this comes to customer profile, so we need to have the data to work out which is the best store to buddy up with. Do our customers want to be collecting their products from Boots or Tesco?"

Pilbro, while not against Street's suggestions, hinted that retailers may be reticent to follow her advice: "It is brave to say you are going to charge for a service that others, including your competition, are providing for free."

Fresher than fresh

Logistics director of Whitbread, Brodie McMillan, notes that his firm uses a third party logistics provider for its warehousing and distribution.

"This means that they therefore have to decide if they wish to develop their food service business and in turn make the necessary investment in automation so that we as a customer get some of the benefit. If they decide not to it then falls to us to look at making that investment."

Despite Whitbread being the second largest food service behind McDonalds in the UK, with the third

largest half its size, McMillan says it is "small fry" in comparison to the likes of John Lewis.

"We have upsized our operation from running out of one single dedicated warehouse to two to cater for our Costa business – I personally believe we need to increase this yet again and add a third warehouse to the operation," he said.

But the key warehousing problem for Whitbread is working out how it can cater for the fresher than fresh food its customers expect.

"Our needs to expand and add a third warehouse is partly down to the volume we are dealing with, but primarily it is because 42 per cent of our product is delivered in a just in time process," said McMillan. "You simply will not get a fresh sandwich from a central depot within six hours. When it comes to the buyers you need to look at more than one manufacturer. You need to look at several, and order quantity."

Whitbread's activities are not just restricted to the UK, it has an international business, particularly with the hotels it operates, and McMillan noted that the firm opens a new branch of Costa Coffee every day somewhere in the world.

"But actually making sure the hotels have everything in on opening leads to a supply chain challenge," he said. "What we need to consider is how do we link everything together? We really are at this formative stage of trying to work out how we do this."

McMillan believes that when you dig down into it, it is the supplier that has set the minimum order quantity since time immemorial.

"The buyer has been happy with this system as it offers an easy life, and this is a system that has grown up into the norm and now we are looking into this aspect of the business more and more," he said. "One area in particular that we are assessing is uniforms. We have to consider uniforms, and people coming in all different shapes and sizes – the hanging garment industry is not something I want to look into again."

This aspect of differing shapes and sizes is a key argument against automation, with Williams noting that he fails to see "a one size fits all scenario".

Munnely said: "As much as it isn't a one size fits all option – we are all very different businesses – the more joined up the dots are, the better, the more efficient we can be, and the greater intelligence we have regarding the systems. Some things have never been assessed in detail before, and we are now doing that: sweating the assets from start to finish."

While Pilbro thinks automation is still some way off, others question whether the current climate is one in which it is worth taking a risk on automation, with Sturman questioning the logic behind Ocado's major investment in automation.

"Has Ocado made any money yet with the levels of automation they put in?" he said. "They must have incredibly long pockets."

"Where are interest rates going?" asked Styne. This is an area that needs to be considered: "Automation is all about big quantities, but if interest rates go down automation is superfluous as we all return to low stock levels because we cannot afford the high quantities."

For Pilbro, whatever the climate, the more pressing need – which leads to his belief that automation is not a priority yet – is joining the supply chain up, and making stock and decision making more informed.

"Once we have sufficient certainty, that's when we can begin to consider automation as a significant component," said Pilbro. "But it would be strange to launch straight into this without building blocks."



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