

# The challenge of complexity

The development of omni-channel retail is dramatically increasing the complexity of logistics systems. So we challenged a group of leading logisticians to explain how they are mastering this complexity, at a round table sponsored by Honeywell.

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**F**ulfilment and logistics is increasingly fast-moving with the world around it shrinking – and there is a huge challenge to be faced by those involved in final mile.

In fact, Peter Ward, who has just taken over as CEO of the UK Warehousing Association, compared the changes going on now to that of an industrial revolution.

“These changes are exponential,” he said. “There has been no change anywhere on this scale since the nineties, when we first started using some of the technology that Mr Gates gave us – technology that we now take for granted,” he added. “But this is bigger than that.”

Logistics networks had been designed over the past 25-30 years around pallet distribution,” said Ward. “This focus on palletised distribution may leave businesses unfit for purpose going forward: it does not cater for the flexibility and agility of the contemporary consumer approach of little and often, which requires high velocity speed to market.”

Edge of town and in town fulfilment centres are replacing the old larger centres, which targeted the economies of scale model, and Ward sees this as where pressure is going to be most exerted.

Darrel Williams regional director of Northern Europe and South Africa for Honeywell’s Vocollect Solutions, said that in this new environment no piece of infrastructure or technology would be the be all and end all, as it perhaps once was with distribution centres. Instead these pieces all need to perform together.

“They all have to work in harmony for the system to work,” said Williams. “Whether this is dark stores or delivery trucks.”

But how does technology play a part in this. How does it improve the efficiency of the workforce?

Craig Wheeler, operations director for

feelunique.com, believes there’s a tendency to focus on the big retailers, but in the modern world there are smaller retailers that are well-equipped for the modern way of retailing.

“We are all about quick turnover, get it in, get it out,” said Wheeler. “We have worked with Rakatan, which in the Japanese market has all been about small quantities, which is in then straight back out.”

How does a firm like feelunique.com compete with an Amazon or an eBay?

“Hold a lot in the area it specialises in,” said Wheeler. “It has challenged warehouse operations. We are looking at an international operation now, and how we manage 25,000 SKUs in two locations will be an additional challenge.”

Omni-channel for e-tailers going into retail is an entirely different proposition to retailers going into e-tail, said Wheeler.

“For us, it’s all about how we make our retail stores profitable,” he said. “Using our e-tail presence to drive this, and drive the retail behaviour is core, and it allows us to be flexible.”

Figleaves, now 15 years old, is finding itself up against increasing competition as more and more retailers enter the online sphere – its sphere. And

Will Longmuir, the lingerie and underwear retailer’s head of operations noted that it currently operates out of a single warehouse.

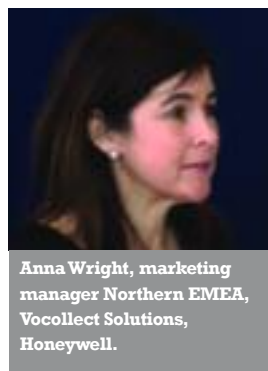
“This feeds the whole world,” he said. “30 per cent unbranded, 70 per cent branded – and we feed it little and often. We store them in the same building, and some are picked, some are non-picked.”

According to Longmuir, Figleaves is looking to develop a greater understanding of its client base, and in turn learn more about customer relation management. Through the knowledge gained, it will seek to enhance its omni-channel offering.

“We are working harder on consumer expectation,” he said. “Experience for the consumer is not just about



## Meet the panelists





the product, it is the whole thing. Delivery is vital, and the options that they [the customers] have got."

A few years ago, Figleaves had significantly more delivery options, but the feedback it received indicated that it had too many options. Now, according to Longmuir, the firm uses just two providers: DHL for international and Royal Mail for national.

"90 per cent of people just want to know when their purchase will be delivered," said Wheeler. "Despite many within the industry suggesting that what they want is a variety of options – this is a lot of marketing noise, and a lot of noise from delivery firms that now have lots of space and lots of trucks."

Philip Eaves head of logistics development, food, at Marks & Spencer, said that across the industry companies are competing on service levels but, as with Wheeler, questions whether there is a need for this competition.

#### Additional costs

"Do customers really want this service, or are we just heaping additional costs upon ourselves," asked Eaves. "I think we are just driving operational complexity and additional cost into our operations – the customer would be content without multiple delivery options."

Speaking of the pandemonium that surrounds Black Friday and Cyber Monday, Wheeler said that retailers need to take responsibility for these promotional tools, and the spikes that they force upon the supply chain.

"Retailers collectively broke the supply chain by making promises to their consumers that could not be fulfilled," he said. "Any that claim they didn't know what would happen, I just don't believe. We put a lot of

volume in there and we all knew we'd shift it."

Chris Heslop head of EMEA marketing at Honeywell's Vocollect Solutions, backs Wheeler's view that consumers would be happy with just knowing when their purchase will be delivered. According to a recent Honeywell survey, 40 per cent of consumers would be happy to pay more for convenience – namely, when and where it would be delivered.

Consumers specify their delivery requirements around convenience, according to Richard Brodrick, supply chain manager at Harvey Nichols. Doing this allows them to manage their time effectively, and Brodrick believes that e-tail should exist to support the retail platform.

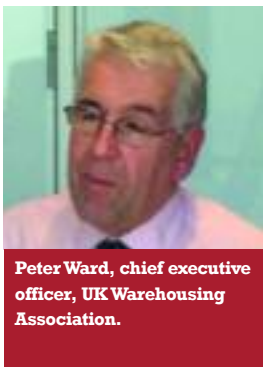
"It drives footfall for click and collect, click and try, and, importantly, it drives people in store," he said. "Delivery and returns should be how the customer wants it, and where they want it – whether by Doodle, taxi or carrier pigeon."

Retailers, said Brodrick, need to be an enabler to these customer whims, with Wheeler agreeing. Ward questioned whether or not the customer would pay for these services.

"There will be early adopters," responded Brodrick. "And the other retailers will look up at what these players are doing and decide whether it is a space they should be in."

According to Ward, however, the logistics industry would say that aside from the anomalies of Black Friday and Cyber Monday, it is not volume that will break the system but the price that people are prepared to pay. The retailers, he said, have squeezed 3PLs dry, to the point that Ward believes leaves the

90 per cent of people just want to know when their purchase will be delivered.



**Peter Ward, chief executive officer, UK Warehousing Association.**



**Darrel Williams, regional director, Northern Europe and South Africa, Vocollect Solutions, Honeywell.**



**Tony Penman, logistics specialist, Vertu Corporation.**



**Craig Wheeler, operations director, feelunique.com.**

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industry unsustainable in its current form with not just tight but a total shortfall of margins.

"Retailers can sit here and say 'do this, do that, give the customer whatever they want,' that's fine, but are retailers prepared to pay? Are customers prepared to pay? Because the logistics industry cannot afford to fund this," he added.

While price is important when it comes to choosing a logistics firm, Brodrick noted that Harvey Nichols asks its shortlist whether or not they are making enough of a margin.

"This is because, while we may get a great deal in years one, two and three, when our 3PL goes bust in year four, we are in trouble," said Brodrick. "We cannot put all our eggs in this one basket knowing that it is running unsustainably – but I disagree with this view that retailers are driving away the margins and killing off the 3PLs."

Citing City Link, Wheeler questioned whether carriers have in fact killed their own market.

"I do not have to negotiate particularly hard with a carrier to get a good rate," he said. "Carriers drop their costs themselves: how do these low rates continue to exist in the market if they're unsustainable? I was not haggling these deals out, I was being given them."

Williams asked whether, with all this in mind, perhaps there is a need to alter routes to market, and alter the manufacturing stage to suit? He put to the attendees whether or not they have had experience of having to change their whole business "timeline" fundamentally.

Tony Penman, logistics specialist at high-end mobile phone manufacturer Vertu, said that initially his company was an in-store proposition.

"Our product was all about having the customer touch and feel our product," he said. "Now we've moved to e-commerce. It's all done online."

Wheeler said that you cannot offer online and in-store propositions separately.

"You have to offer them both together, not in silos," he said. "Because the former would lead to cross-pollination and cross-management of stock. You have to be geared up to tackle this, and for this you need one unified approach."

### Unified approach

"We supply a lot of beauticians and salons, and the beauty brands are asking about reengineering their business. You need to be mindful of your supplier because you cannot go out of stock now – this is what e-commerce has done for us."

"Even now," said Brodrick, "when stock is manufactured there is still an allocation aspect, with some stock going in store and some going online."

Eaves sees it as systemically difficult to manage, with different areas of the business simultaneously upgrading, this hampers visibility across the chain. He describes it as a "massive challenge" to get all the systems used across the business aligned.

"Stock management is a challenge," said Eaves. "And we certainly haven't managed to overcome it."

The Christmas returns process proved particularly troublesome for retailers this year, as stated by Fingleaves' Will Longmuir who noted that they were getting returns before Christmas.

"This clogged up our warehouse as we were not prepared for the level of returns we received over the Christmas period," said Longmuir.



"Returns are usually low in December, with a small spike in January/February with people returning gifts."

In addition to this, Fingleaves was facing the extended returns period.

"Shoppers see it at a cheaper price," he said. "So they'll demand it at their price or they'll send it back."

Returns after a flash sale will be made seven to ten days later.

Brodrick sees the returns process as a major hurdle, noting that it is not sustainable for the retailer to pay for the customer's return.

He, however, believes that if there is a store close to them, consumers will "vote with their feet" and return to store.

"From an e-commerce perspective," said Wheeler, "customer acquisition is a big expense and you are not going to lose a customer for the price of a return, so we'll take the hit on that because a customer that has a good returns experience is a customer that we retain."

"And with all this in mind," asked Williams, "have there been any recent adoptions or developments that you're thinking of changing – or are there any developments that you've identified as the way forward?"

### Confused

For Wheeler, mechanisation is the way forward. However, this is by no means a one-size-fits-all option, with Brodrick noting that such a system would not suit Harvey Nichols.

"Automation really would not work for us," said Brodrick. "There is too much variety – the system would find itself confused by the consumer's basket: four bottles of red wine, a white dress and a bottle of perfume, how would I automate for that? How would I get that into a single basket?"

There was consensus that automation is only suited to retailers selling specialist products.

"In terms of flexibility," said Eaves, "people do not know whether the best way is people, robots, mechanisation or automation."

Wheeler of feelunique.com believes that with the right system and right provider you can get a modifiable option.

For Williams the solution, which should come as no surprise, is people.

"Systems are going to improve, but I believe in people and people making the customer happy in the end," he said, asking how the attendees have implemented solutions based around people, and how they pick.

Longmuir said that Fingleaves "people-picks" use both barcode scanners and screen but added that a bit of automation would provide great assistance as Fingleaves' operation is spread over two floors.

"Some sort of belt or lift system would make getting it upstairs faster," he said.

"As with Fingleaves, Harvey Nichols has a similar approach," said Brodrick. "All branded product comes in, every piece is quality checked and a swing tag and security tag is attached. From there it is put away to a location, some products are separated dependent on fit."

"These are all low-level six foot locations. They are barcode scanned, depending on which customer, we have to remove a security tag – this may be helped with RFID. Picking wise, same as we do in store. Packaging is wrapped in tissue and then placed in a gift box and sent out to a customer."

