

RETAILING

THE INCONVENIENT TRUTH
OF RETAIL'S NEW FOCUS

Retailers are shifting their focus away from out of town super-centres to more local stores in the middle of towns and shopping centres. And indications are that we may well be at the beginning of a 'Convenience shopping' revolution. But what are the implications for the retail supply chain? PAUL BROOKS looks to a lean solution.

Retailing in the UK is going through a change that will have a profound effect on the way that suppliers deliver goods and services to customers: a shift towards convenience.

Instead of opening more large format, out-of-town stores stocking a wide range of goods in various categories, retailers are developing strategies that involve operating more local stores in the middle of towns and in shopping centres.

Not only will these convenience stores be closer to where customers live and work, but they are likely to better reflect the needs of the people who shop in them. Retailers will also want to use local stores to support sales across a variety of channels. For instance, providing a base for new services such as the pick-up and return of goods that have been ordered online, over the telephone or by catalogue.

The change is already under way. Tesco's Express stores are one example of the trend towards convenience shopping, while Argos with its 'Click and Collect' scheme and Woolworths' 'In Store Collection or Home Delivery' has pioneered in-store collection for customers who buy online. Woolworths reported that during peak trading nine per cent of its business was online.

Driving consumer behaviour

With some towns boasting a convenience store for every 2,500 inhabitants, high quality low cost convenience shopping is beginning to drive consumer behaviour. Experts see this move as part of a retail cycle that results in a format change every 20 to 25 years. We may be just at the beginning of a revolution in our shopping habits that will be accelerated by environmental considerations and made possible by smart use of IT.

The big questions for logistics managers are 'how much is it going to cost to deliver on this promise and what changes will I have to make to my network?' To help find some of the answers, Unipart is working in collaboration with Dan Jones, chairman of the Lean Enterprise Academy. We wanted to find out how the lean principles that were pioneered in manufacturing could be applied

across the supply chain to reduce the cost of servicing the new style convenience shopping.

The work builds on Jones' ground breaking book *Lean Solutions*, written with Jim Womack. In the book Jones and Womack argue that although consumers are surrounded by a plethora of products, the process of obtaining and using these products causes them frustration and disappointment.

'The problem is neither that companies don't care nor that the people trying to fix our broken products are inept,' say the authors. 'Rather, it's that few companies today see consumption as a process – a series of linked goods and services, all of which must occur seamlessly for the consumer to be satisfied. Buying a home computer, for example, involves researching, purchasing, integrating, maintaining, upgrading, and, ultimately, replacing it.'

One reassuring answer we have come up with is that it is not necessarily more expensive to service the multi-drop networks that will be needed to support the new style of retailing; provided you can keep vehicles full. To do that will call for retailers to collaborate on delivery networks. And since few retailers will have uniform coverage, they will have to work with different partners in different localities.

At present, out-of-town delivery costs can range from €12 to €22 per pallet compared with €37 or more for some convenience stores. However if Tesco can get their local deliveries down to under €18 they are going to be much more effective than other competing cage networks.

However, restrictions in towns on when you can deliver and the vehicle sizes that you can use will make convenience networks very different from those based on traditional 44 tonne vehicles trundling between distribution centres and stores.

To begin with the number of drops is likely to be

up from three or four per vehicle to between eight and ten. Similarly, the number of stores serviced by an individual regional distribution centre is likely to go up significantly from an average 60 stores to several hundred. The trick is to determine where the tipping point between a solution dedicated to one format and the other lies; is it 15 per cent, or maybe higher at 25 per cent?

Although most stores groups have cracked shelf availability, there are still problems with stocking for promotions and the last fifty metres from the stockroom to the shelf. Of course for convenience the stock room is not such an issue, but there will be additional costs at the distribution centre in aligning the outbound elements; breaking down large consignments into the smaller quantities required.

'Retail ready' packaging

Some distribution centres are already capable of picking down to single product formats. Retailers are also redesigning supply chains to cater for so-called 'retail ready' packaging, reducing handling and decanting within centres and stores.

Collection and return points will also have to handle the reverse logistics involved in sending back unwanted or faulty goods; given that systems are now so integrated, and visibility much better, getting products back to the main centres should not be too hard. Disposing of them in a low cost and effective manner is now the key. Electricals are already covered by the WEEE regulations which insist that manufacturers recycle discarded items.

But the biggest impact of technology is likely to be in the area of store ranging. Firms such as Tesco that have solid data on their customers through loyalty cards will be able to stock outlets to match the customers that use them. Up to 30 per cent of goods in a store could be geared to the tastes of consumers in a particular locality.

These changes are not likely to happen overnight, so although companies such as Boots and John

Lewis, which have invested in large, automated centres and are trunking longer distances as a result, may appear to be going against the tide, it could be 20 years before their centres are obsolete. And in the meantime we may even go back to rapid replenishment; stocked ranges close to customers, but let's not despair; supply chains tend to be reorganised every five to seven years in any case.

One thing is certain, the key to containing the logistics costs involved in moving to a convenience model is to have people, processes and services working together to deliver a seamless service.

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