RetailWeek
January 2017

SUPPLY CHAIN

Cutting-edge collaboration

How to make supply chain relationships work for you

- **Delivery race** Personalisation is the next big thing in the fulfilment war
- **Peak demand** Why retailers are refining their reverse logistics to manage returns

WHAT'S INSIDE

"The next logical step in improving the delivery options offered to shoppers is personalisation and that's where the industry is heading in 2017"

Laura Heywood, Head of Commercial Operations

A more personal approach to fulfilment

In 2016 it's fair to say most retailers took a blanket approach to delivery. Cut-off times for next-day delivery are emblazoned across retail websites – order by 8pm, 9pm, even midnight for leaders such as Next, New Look and House of Fraser, and get your items the next day.

The next logical step in improving the delivery options offered to shoppers is personalisation and that's where the industry is heading in 2017.

In this supplement kicking off the New Year, *Retail Week* explores the vital ways personalised delivery is gaining traction across the retail sector as leading retailers provide smarter delivery choices based on not only delivery address, but what products are purchased, the capacity of carriers and even whether they're delivering to a high-value customer.

We ask how cutting-edge software will personalise delivery and substantially improve the customer experience this year and beyond on page 10. We also explore what successes retailers are having with a more personal approach to their fulfilment operations.

Meanwhile, with Black Friday 2016 still fresh in retailers' minds, we turn our attention to how to improve reverse logistics in a peak-dominated cycle on page 14.

Returning product to the supply chain quickly and accurately has never been more challenging, not least thanks to the rise of a fresh wave of high-peak events, such as Black Friday and Cyber Monday.

Given estimates that suggest 5 million parcels purchased on Black Friday alone were returns, it's certainly fair to say this is an ever-increasing headache for the sector. Not only did retailers have to cope with an additional 50% of daily returns volumes during the week immediately following Black Friday, they also had to deal with a rise in volumes of returns during the rest of the peak trading period.

Retail Week looks at how retailers are creating optimised reverse logistics platforms that are not only cost-effective for typical demand but that can also cope with the inevitable deluge of returns, especially in fashion, after the peak buying moments.

Finally, on page 21 collaboration is under discussion as we reveal how to make sure supply chain partnerships work for you.

It is often talked about how much progress there has been towards companies collaborating as they work together to share vehicles, warehousing and staff – but what are the pros and cons?

We question whether the current economic uncertainty and potential pressure on retailers' costs will help to stimulate interest in the idea, and who you should collaborate with.

Find out these answers and more as we approach a wealth of retail supply chain professionals for their expert views and recommendations.

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SUPPLY CHAIN

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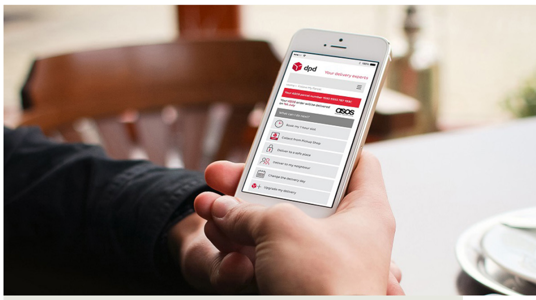
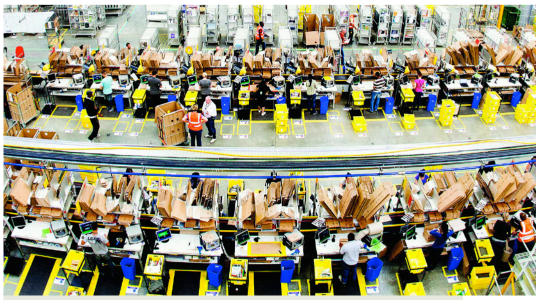




NEWS

Keep bang up to date with breaking supply chain news, plus all the latest on recent warehouse deals and the vital facts and figures you can't afford to miss

Industry snapshot

Urgent demand

The UK big-box warehouse market is struggling to keep up with "insatiable" demand from online retailers, according to adviser Savills.

Online retailers now account for **one third** of the 34 million sq ft **big-box warehouse** market in the UK

Up to **45%** of current **logistics demand** is from retailers, with Amazon accounting for more than a quarter of total take-up in 2016

This represents **82%** of take-up specifically by online retailers

Supply of **warehouse space** has **fallen** by **71%** since 2009 and is now 27 million sq ft, enough for more than 14 months

Only 1,600 acres of **land remained** available and primed for development in the **Southeast** at the end of 2016

2021

As a result, there remains just over **five years'** worth of deliverable stock in the region

Government needed to tackle challenges in logistics sector

A congested transport system, lack of skilled workers and Britain's land constraints all need resolving if the UK's logistics sector is to meet the growing consumer demand, according to City law firm Addleshaw Goddard.

Its report, *How Soon is Now? The Future of Logistics*, said the rise in ecommerce and increasing growth in parcel delivery is putting extra pressure on supply chains and starting to cut into the third-party logistics (3PL) sector's profit margins.

Pressures are coming from a labour skills gap, as the road haulage sector faces a shortfall of 60,000 drivers, and an ageing work force, which Brexit could worsen. Congestion on the road and rail system is also causing delays to deliveries, which can see operators incur late-delivery fees. A shortfall in space for warehousing is also driving up rents, forcing some operators to move to cheaper and less well connected sites.

The report sets out 12 suggestions it wants the Government to include as part of its new industrial strategy to address these growing problems. The proposals include designating land for industrial space; providing grant funding to stimulate industrial development; greater investment in road and rail freight capacity and action to tackle the haulage and construction skills gap.

However, the report does forecast that advances in transport technology could start to ease the burden for operators, such as greener technology reducing vehicle noise so urban logistics sites could be incorporated into mixed-use developments.

Warehouses

Screwfix is to take a 562,000 sq ft purpose-built Staffordshire warehouse at Prologis Park Fradley. The deal with US giant Prologis and its joint venture partner Wittington Investments (Developments) means the £52.7m development will be forward-funded by a subsidiary of Tritax Big Box REIT.

The **Kingfisher** subsidiary is expanding its distribution base to meet the needs of its growing store network.

Prologis Park Fradley is in an established industrial area, next to the A38 north of Lichfield and close to the M42, M6, M6 Toll and M1 motorways.

Work to create 180,000 sq ft of new, cross-dock distribution warehousing and office space at DP World London Gateway Logistics Park is under way.

This is the second and final phase of the DP World London Gateway Logistics Centre. Phase One is 207,000 sq ft of warehouse and office space and was completed in early 2015.

The two separate developments total 387,000 sq ft at the centre. Phase Two, which will be available for occupation from May 2017, comprises 155,000 sq ft of warehouse accommodation, plus 10,000 sq ft of conjoined office space.

The 3 million sq ft second phase of Verdion's iPort development in Doncaster is expected to begin in the first quarter of 2017. The Phase II, £500m scheme includes plots for two units, each of 1 million sq ft.

Fellowes, **Amazon CEVA** and **Lidl** have taken space at iPort within Phase One. More than 2 million sq ft has now been committed. Verdion is developing the scheme on a 337-acre site in Rossington, Doncaster.

Supply chain news

Retail logistics group Wincanton has won a four-year distribution contract with Swedish furniture giant **Ikea**. Wincanton will support two new distribution centres for Ikea in London.

The firm will lease and fit-out the warehouses on Ikea's behalf with a combined space of 500,000 sq ft.

Wincanton said it will also provide "operational development and support of the two new distribution centres, which are intended to support the retailer's multichannel distribution growth strategy".

Grocer **Lidl** is to take 187,000 sq ft at DP World's London Gateway and will begin operating out of the distribution facility from February.

Lidl will occupy the warehouse areas of the logistics centre, which became vacant last year. Lidl head of warehouse expansion Adrienne Howells said: "As we push forward with our UK expansion plans, we continue to strengthen our core infrastructure in order to support our new and existing stores up and down the country. We are, therefore, pleased to have found a viable facility at DP World London Gateway Logistics Park that meets our current distribution requirements."

Recently, Lidl revealed it would take a 628,000 sq ft depot on a 35-acre site at Verdion's £500m iPort scheme, Yorkshire.

Online furniture retailer **The Cotswold Company** has renewed its contract with Snapfulfil for a further two years.

The company originally implemented the Snapfulfil Cloud WMS in 2014, resulting in efficiency improvements, including a 50% improvement in goods in dock to stock times, a 46% reduction in item pick times and a 7.5% increase in inventory accuracy.

Snapfulfil has also allowed The Cotswold Company to introduce regular cycle counting, removing the need for an annual shutdown for stock taking.

Logistics group Menzies Distribution has won a new contract with **WHSmith** to provide final mile trunk delivery services to more than 1,200 stores nationwide.

The initial three-year retail contract, reported to be Menzies Distribution's largest to date, is already up and running having been successfully transferred over from the previous supplier, Wincanton.

The partnership means that Menzies Distribution will operate from the three WHSmith Distribution Centres – Birmingham, Swindon and Dunstable – as well as delivering to the stationery retailer's stores from its own depot network.

It also extends Menzies Distribution's existing relationship with WHSmith providing retail logistics in the North of England and Scotland.

Paul McCourt, managing director of Menzies Distribution, said: "This is a very significant milestone in our journey to establish Menzies Distribution as a serious player in the UK's retail logistics market."

Battle over deliveries gets PERSONAL

Personalisation is becoming the next big thing in the delivery war as multichannel retailers take a more personal approach to fulfilment. **Lindsay Clarke** explores what successes they're having and how

Last summer, New Look launched an online delivery option that allows customers to select their preferred day and specific one-hour slot to receive their goods.

Although some supermarkets offer similar personalised delivery options, the fashion retailer, which operates 584 stores in the UK, claims it is the first in its market to go live with such a service. Since then, New Look's foray into personalising deliveries is bearing fruit.

Dan Monaghan, managing director of group operations for the retailer, says measures of return on investment per order, rates of denial of delivery and customer satisfaction have all been positive. "In all the direct measures of ROI, we've seen good double-digit growth."

The service was developed with next-day delivery specialist DPD and is called Precise. Online-only retailer Asos also uses the service.

Although initial ROI measures have been positive, New Look views the necessary investment in operations and back-end technology (see box) in broader terms than the simple impact on sales, margins or customer satisfaction.

"Loyalty and brand reputation are two important things when we look at delivery," Monaghan explains. "Then you start thinking differently about margin versus marketing spend. Marketing spend is now much more than just traditional and digital media. That is why the DPD Precise marketing is on our customer emails and in stores. It is a tool we can use to drive people to the website.

"We are seeing delivery more and more as a reason for people to come and shop with us. In terms of investment, it is far more margin-efficient than product promotion."

As such, personalisation of the delivery offer will not end with next-day or a named hour. Groups of customers are likely to see an offer based on their spending or profit history with the retailer, Monaghan says. "The industry is already moving in that direction."

In the future, retailers could base delivery options on individual customer history, rather than a segment of customer, he adds. "Instead of treating people as a group, you treat them as individuals. What you see on the website, in the delivery options, in emails, in marketing and promotions will all depend on that customer data."

"Loyalty and brand reputation are two important things when we look at delivery"
Dan Monaghan, New Look

However, Monaghan points out the data analysis to produce such tailored delivery offers is enormous. "We are not ready for that yet," he believes.

Competition intensifies

New Look may be one of the leaders in personalising deliveries in the UK, but it is not alone. Toby Paxton, retail operations practice partner with Deloitte, says personalising delivery has been a battleground for retailers for more than a year, and competition will intensify during 2017.

"Customers are making choices of who they shop with based on fulfilment, and retailers have to be available to them or they will shop elsewhere if they don't like the price for delivery or other parameters that are important," he says.

Consumers are already getting used to being treated differently by retailers according to how they shop because of the way online promotions work, he adds.

Tailoring deliveries to their behaviour is the next logical step, Paxton believes.

"Personalisation is inevitable. Retailers will think about it in all dimensions of business, whether that's pricing and promotion or the delivery proposition they offer."

New Look: how we personalise deliveries and what (might) come next

New Look's personalised delivery option, dubbed Precise, launched in August 2016. Close collaboration with its delivery partner gave the retailer time to prepare.

Dan Monaghan, managing director of group operations, says customers were telling the retailer they wanted more choice and convenience in delivery. "We have got to make sure that there are no barriers. Supermarkets are now offering a choice of slots as standard. It is only natural that people get used to it and want the same from us."

The fashion retailer partnered with delivery firm DPD to plan the project well in advance, he says. "We met with the chief executive regularly to thrash out ideas. We discussed what is important to us and what might go into the service offering. Because we had these conversations a year ago, we had time to prepare."

New Look had to develop its IT systems so it could give DPD the data it needed to make the service offer a reality. "The key change was we have to provide data earlier to DPD for Precise to work for next-day delivery. Customers can choose when they want the delivery from the night before so the speed of messaging back to DPD needed to be quicker," Monaghan says.

New Look's method for building its IT, called agile development in technical parlance, helped to speed up the process, he adds. "It did require some process and operations change, but it was not technically that complex. Our IT is always evolving.

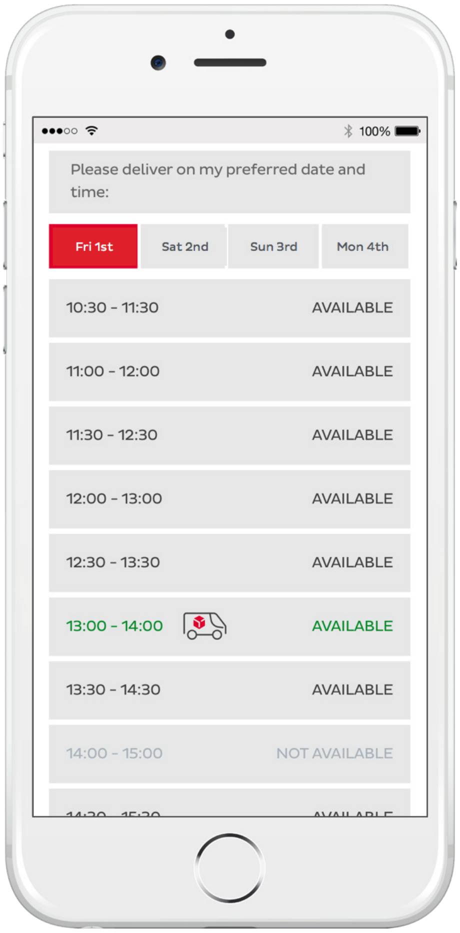
"With the market changing so rapidly, you have got to be able to change IT quickly. The same as in websites or apps, you have to have an agile delivery model."

New Look is considering developing personalised deliveries based on customer loyalty and behaviour. It could also tailor the offer according to demand on the delivery network, to prevent high costs or poor performance during demand surges such as Black Friday.

"Supermarkets already do it. You see a different price by hour for different slots to balance out the delivery network. The challenge we have got is delivery is free if you spend more than £75, and we also offer a £9.99 annual delivery pass, so a high proportion of our customers don't pay for delivery anyway."

Another approach might be to offer customers dynamic discounts for accepting delivery later than usual during times of peak demand.

"Everything is possible," Monaghan believes.



"Customers are making choices of who they shop with based on fulfilment"

Toby Paxton, Deloitte

Although the subject of personalised delivery is moving to the top of the strategic agenda for many retailers, they are also aware of the costs involved in a more flexible model, Paxton adds. "There is a corresponding profitability issue. We are seeing major investment in operations to take on this challenge. There is a huge investment in warehouse management and automation.

"As online shopping grows, so does its propensity to erode profit, but look at what retailers are doing with analytics and wider data sets. If they can apply predictive analytics to optimising price mark-downs and inventory, it is not too much of leap to apply the same precision to fulfilment costs and look to optimise them around individual customers or key demographic groups of profitable customers."

However, retail organisations will need to understand the true cost of serving the customer in complex supply chains with multiple delivery options. "Retailers never really understand this – the true cost to fulfilling an order in store or online. This relies on retailers getting to grips with a wide range of data. Once they have that data, the analytics are there today to come up with models that can predict whether the cost will be offset by spending on other items, or not."

As a result, the people who understand the data and supply chains in more detail are becoming increasingly important in retail businesses, Paxton believes. "Supply chain is now sexy. Operations and IT in these areas are more central to retail decision-making than ever before."

Delivery dissatisfaction

It is easy to see why. A survey of 3,589 consumers in the US, UK, France, Germany, Spain, the Netherlands and Italy found 45% had abandoned a basket on a retailer or brand manufacturer's website because of unsatisfactory or unavailable delivery options.

PERSONALISATION

Four ways to personalise deliveries

1 SHOPPER

Stuart Higgins, retail partner at supply chain consultancy LCP, says: "The advent of big data means retailers are able to collect and collate information about customers' buying patterns and profitability that enable insight into which customers are valuable and which are not.

"That can be taken forward and applied to the delivery offer."

2 LOCATION

Some retailers, such as Amazon, already personalise delivery to location, by offering same-day delivery only within certain regions.

However, location could provide a more nuanced segmentation of customers based on ease of access and even population demographic.

Patrick Gallagher, group chief executive of On the Dot, a CitySprint brand, says: "Down the road, you might have Rightmove saying what delivery offers are available from the main retailers with the postcode. It could add value to the area."

3 PRODUCT TYPE

Different products create different demands on delivery. Supermarkets, in particular, may attempt to keep costs down by splitting customer baskets where data shows later delivery on certain items will be acceptable to customers, says Jason Shorrock, vice president of retail strategy at software firm JDA.

4 CARRIER CAPACITY

Aware of the strain on margins, retailers could create flexible pricing for premium delivery slots as a way of smoothing out demand and avoiding high costs during peak periods, Shorrock says.

Retailers could also offer customers product discounts for accepting free deliveries later than usual when demand is exceptionally high.

Asos and New Look both use DPD's service, Precise, for their delivery options

Meanwhile, 43% of consumers said that, following a negative delivery experience, they would not return to that retailer within a month. And 38% said they would be likely to never shop with that retailer again, according to the research from MetaPack, a provider of hosted software that links retailers to 400 carriers and 4,000 delivery services worldwide.

But Kees de Vos, MetaPack chief product and marketing officer, says retailers find there are challenges in combining data about product margins, operational costs and customer behaviour in order to produce more personalised, and profitable, delivery options.

"Where it gets interesting is when retailers ask about the margin they can make each basket and what it will cost to have it shipped," he says.

"Combining this information with historic customer data can help understand whether lower margins is worthwhile to keep profitable customers," he says.

"From our perspective, it is not that complex – we can optimise on data streams from basket content, product origin and cost, and customer information, and then create business rules to flow from there.

"The big challenge for retailers is to get a good view of customers and getting that data right, from both online and offline behaviour. As with so much else in retail, once you have got the single view of the customer cracked, you can work with it and move forward," de Vos says.

Personalisation is a buzzword consuming ecommerce. But retailers with both online and offline operations are beginning to understand what it means for deliveries, as customer expectations climb ever higher.

Success will depend on getting to grips with data, not just from ecommerce interactions, but from deep within operations and supply chain, as well as understanding customers' in-store purchasing patterns. The race is on to deliver.

Amazon offers same-day delivery to certain regions

RETURNS

Retailers are refining their strategies and optimising their reverse logistics to manage both typical demand and the inevitable deluge of returns at peak. **Mark Faithfull** reports

To sell AND BACK

Reverse logistics – retail's equivalent of what goes up must come down – has become a huge headache for the industry.

Not only do retailers have to handle anywhere between 25% to 40% of returns from online sales, but the peak times of year are matched by an immediate aftermath of returns volumes, meaning capacity has to be created to deal cost-effectively with huge spikes.

Supply chain specialist LCP Consulting estimates that about 5 million parcels purchased on Black Friday were returned, representing an additional 50% of daily returns volumes during the week immediately following Black Friday.

That gave retailers less than a month before Christmas to get shoppers to return unwanted Black Friday items as quickly as possible and get that stock back into stores or online for festive shoppers to buy.

£60BN
Estimated cost of returns to UK retailers last year

It has led LCP to speculate that Black Friday may gradually be spurned by a growing number of UK retailers, disillusioned with prospects of the event ever being profitable.

Tony Mannix, chief executive of logistics specialist Clipper, says: "Three weeks after Black Friday, retailers were estimated to be sitting on £600m of unprocessed returns. That's a problem for them, but also upsets customers waiting for their money to be credited back to them."

Speed has become everything. The faster products – most notably fashion items – go back into the value chain, the more of their inherent worth they retain. The quicker that products are reassigned, the sooner shoppers have the money back in their pockets, providing them with reassurance and, importantly, the cash to go out and spend all over again.

However, to achieve an optimised supply chain for reverse logistics requires everything from wider adoption of click-and-collect

An estimated 18 million sq ft of new warehouse space is needed to meet demand

and increased warehouse space to specialist button-sewing teams and at-collection fitting rooms.

Demand for space

Warehouse space is certainly at a premium. An estimated 18 million sq ft of new warehouse space is needed to meet the soaring demand for online retail, parcel delivery and logistics companies, with the demand for space also being driven by returns, which cost UK retailers an estimated £60bn last year. However, the UK is facing a shortfall of space, with only 3.5 million sq ft of warehousing set to be built this year.

Aggressive acquisition of warehouses by retailers such as Amazon has eaten into property supply in the UK, with vacancy rates nationwide at a low of less than 4%.

Law firm Addleshaw Goddard's recent report *How Soon is Now? The Future of logistics* (see page 4), urges local authorities to set aside land for industrial use to help meet this demand. It goes on to suggest that some declining out-of-town retail parks could be turned into urban logistics hubs.

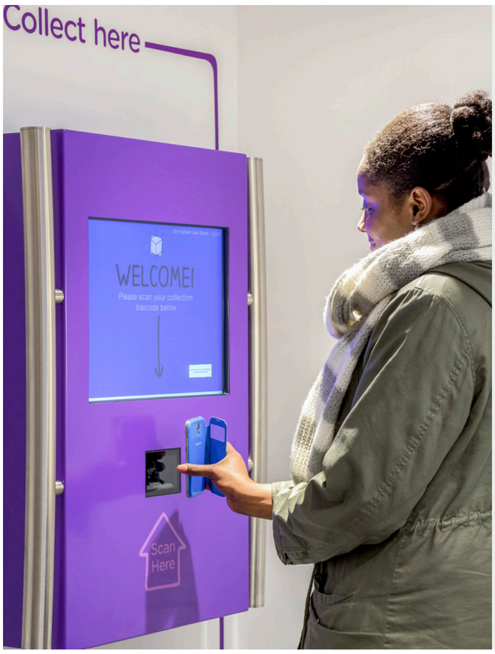
Jonathan Powling, partner at Addleshaw Goddard, says: "A lack of new development and an overhang of inactivity since the recession have caused growing supply-demand imbalance. This is pushing up rents and making industrial far more attractive to institutional investors.

"Ecommerce growth and an increased global flow of goods are big drivers of change.

5 MILLION
The number of parcels purchased on Black Friday that were returned

But if we fail to deliver new employment space, then the stark reality is that some retailers will not be able to expand their online operations and others will be forced to significantly raise delivery charges to meet the increased costs of warehousing. This will ultimately affect consumer choice and value."

Ian Worboys, chief executive at logistics property owner P3, says of the impending space shortfall: "In Britain, shoppers generally return about 7% of what they buy from physical stores. When you look at online shopping, returns are far higher – 40% for fashion and 27% overall. As a result, a huge amount of extra space is needed. This



Reverse logistics: driving returns via drop-off points

"Returns are a big part of our business model and making it easy for the customer and the retailer is increasingly important," says Tim Robinson, chief executive of collection store chain Doddle.

"As part of this, we do have changing rooms in a number of our parcel shops, which means shoppers – especially younger customers who have ordered multiple sizes of the same item – can try and return straight away. We have noticed this particularly with shoes and all of our stores have shoe mirrors."

The advantage for the retailer is that they get pre-return advice immediately for replenishment, so, for example, they know whether the product is damaged or not, as this may dictate the location to which it is returned.

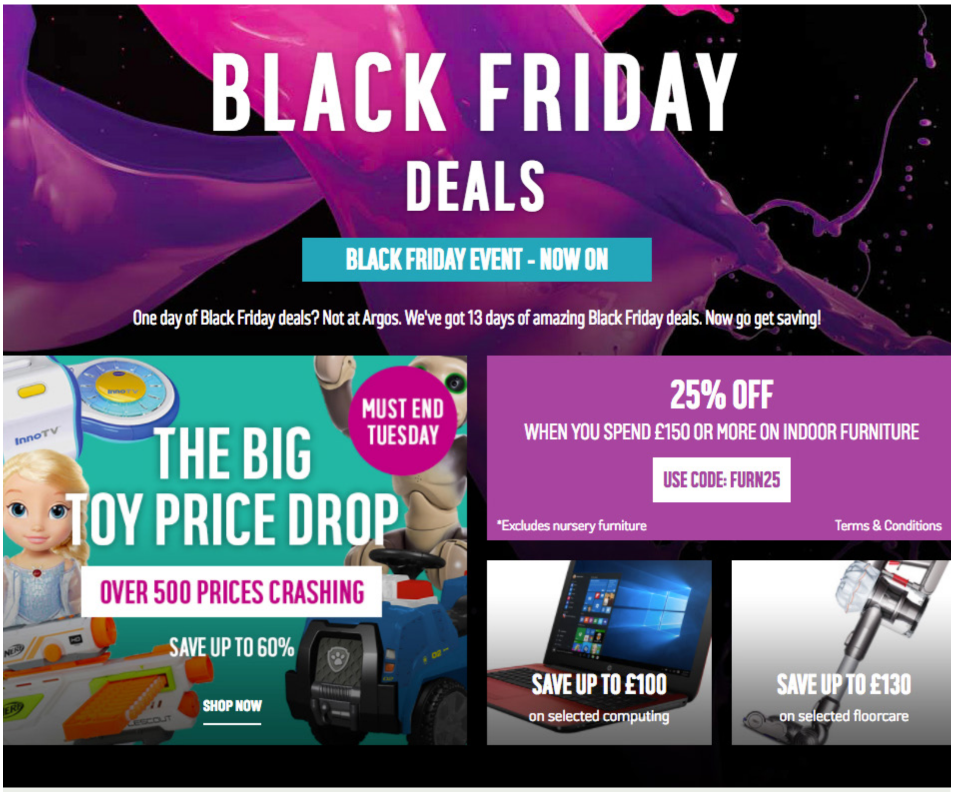
Often the customer has 28 days to return something – a lost window of opportunity to return the product to the cycle, which can be mitigated by the ease of return at the point of collection.

"At peak times, the methodology does change," says Robinson. "With Asos, Clipper normally consolidates returns in the South to a facility in north London daily, then everything goes to Crewe in bulk. At peak times like Christmas, we have two drop-offs and pick-ups."

Customers can also use self-service kiosks in our shops, where they scan the barcode and then simply hand over at the counter.

"This means that they are not queuing with people picking items up," he points out. "Personally, in 2017 I think we'll see customers receiving their money back on returns at the first touchpoint in our outlet.

"We're getting closer and closer to replicating high street returns, which is the ultimate challenge for the sector."



> **"Optimising reverse logistics is now business critical"**
> **Tony Mannix, Clipper**

distribution to residential addresses just didn't exist in any previous cycle. From last mile to delivery from airports to inner-city hubs, we're seeing a whole range of new solutions emerging."

Retailer headache

For retailers, the major issue is that reverse logistics has very different characteristics compared with outbound distribution.

Kevin Mofid, head of industrial research at property management firm Savills, points out that "in-bound logistics is very different compared with store-bound logistics" because, rather than being ordered, the multiple returns from customers makes it very chaotic. He adds that "the job for retailers is trying to apply some order to it and there isn't a single methodology or system". "It's a tough one and no one is doing it in a uniform way," he says.

According to Mofid, what's clear is that more warehouse space is being taken up to manage the issue, and the inbound and outbound processes are often being kept in separate facilities. "Companies like Clipper and iForce are really leading the way in this. For example, Clipper has a dedicated returns facility in Germany, which consolidates its European returns for John Lewis. That creates the critical mass to make it cost-effective to return the merchandise to the UK," he says.

Mofid believes that the largest retailers are simply absorbing the requirements into their own footprints, while others are using third parties. "One size does not fit all," he says.

Other retailers are seeing click-and-collect as the answer to reducing the problems caused by returns.

Like Robinson at Doddle (see box, page 16), Clipper's Mannix sees a lot of potential in click-and-collect for both sales and returns. "For online sales, around 25% are returned because the customer feels they don't suit them and about a third because they don't fit. In a store sale, these are far lower returns issues because the customer tries them on," he says. "So, with click-and-collect and fitting rooms, the customer can receive sales assistant help – getting the staff to interact and do their traditional job – but also the convenience encourages the customer to return the product very quickly.

"It's also a great way to rejuvenate high streets and we'll be rolling out a service for local centres this year," he concludes.

Optimising platforms during peak

Despite the steep spikes during the annual calendar, high-demand peaks do at least give retailers and logistics specialists fair warning that returns will dramatically increase and to what likely extent, thanks to historical trend data.

"You do have the advantage of predictability as you can see what's going out, which gives you an indication of what might come back – typically between 25% and 40% for fashion. So a busy sales week means you can prepare for the returns, although of course what you can't control is the speed of return from the customer," says Tony Mannix, chief executive at logistics specialist Clipper.

"Optimising reverse logistics is now business critical – the retailer wants to get the product back into the value chain as quickly as possible; the customer wants their account credited so they can spend again. For that reason, reverse logistics has become a 24/7 business."

Black Friday surge

Black Friday is perhaps the most acute of the spikes. Because of the significant number of discounts in a limited time frame, many people make impulse purchases, or buy with the attitude that unwanted items can be easily returned, leading to a considerable surge in those that must be managed.

In 2015, Clipper dealt with in the region of a 500% uplift in return volumes handled after the 'Cyber Weekend,' compared with a typical weekend.

Consumers also increasingly make retailer choices based on a slick returns operation. Whereas in previous years, Black Friday has caught out some retailers, in 2016 many retailers turned the one-day 'event' into a week-long promotions period, helping to spread risk and potentially protect margin.

"We do anything we can to get that value back into the system, whether it's sewing buttons on in the returns centre, repairs, dry cleaning, anything that means the product can be sent out again as new, correctly packaged," says Mannix.

"It's a massive challenge and it makes great staff training essential. At our mixed retail centres we can centralise these repair services, but you need people who really understand how the retailer packages and presents their products, to ensure that a product sent again does not become another return."

As an example, the company has been working with John Lewis to service Waitrose stores used for click-and-collect of John Lewis orders, where it provides a next-day service.

"The products travel through a network similar to the parcel delivery companies and we've knitted deliveries and returns together, squeezing the turnaround time," says Mannix. "There is no doubt that reverse logistics is very busy, with lots of activity. At peak times there are things we can do, such as shift staff in mixed-customer centres towards the highest activity levels, but it is essential to maintain chronology, process in the right sequence and track orders."

COLLABORATE

Economic uncertainty and pressure on retailers' costs is helping to stimulate interest in collaborative relationships. **Simon Jack** reports

Making supply chain relationships work for you

Greater supply chain collaboration has long been an aim for retailers but is not always easy to achieve. Now, volatile market conditions, the desire to cut costs and retailers' environmental commitments are reinforcing the need to work more effectively with logistics providers, suppliers and even other retailers.

All of this comes at a time when there is pressure on available resources, with a 35,000 shortfall in the number of lorry drivers, and, according to commercial property firm Savills, a 71% drop in large-scale warehouse space since 2009.

B&Q is among those developing collaborative relationships. It has created a 'One Team' strategy in which it works collaboratively with its warehousing supplier Wincanton and its transport supplier XPO Logistics. This has resulted in a reduction in the number of vehicles in its fleet, leading to cost savings, higher productivity and environmental benefits.

55%
of grocery retailers and manufacturers believe sharing transport is the top way to reduce road miles
Source: ECR UK

The collaboration with B&Q is so pioneering that, for the first time, the Bis Henderson Third Party Logistics Provider of the Year accolade in the Hermes Retail Week Supply Chain Awards 2016 was awarded jointly to Wincanton and XPO Logistics for its One Team approach. By having two winners for the first time, the judges hoped it would encourage the supply chain sector to think about third-party logistics (3PLs) and retailer partnerships in an entirely new way.

Kevin Bennett, B&Q's director of store distribution, says there will be further opportunities for collaboration in the future: "Previously, these opportunities would have been approached from various sides and perspectives but now the approach will be far more integrated." The company believes that, looking forward, there will also be increasing scope for working with other retailers.

"A large majority of B&Q's trailers are white or black and this deliberate lack of branding allows for more collaboration opportunities. We have loaned fleets, including drivers, to supermarkets and other retailers – capitalising on their peak Christmas trading period during our off-peak season," Bennett says.

Collaboration benefits

Maximising the use of all resources is important in cutting costs. The Entertainer achieves this by allowing its provider, again XPO Logistics, to use spare warehousing and transport capacity for its other clients with different trading patterns.

The Entertainer logistics director Steve Williams explains: "We have a very distinct peak trading period between October and December and some XPO clients have an

COLLABORATE

opposite peak to ours, so we use some of their transport fleet capacity during our peak and they use our resources during their peak."

The Entertainer owns the warehouse space, equipment and transport fleet, which XPO manages on its behalf, and both companies share any extra revenue that is created.

Sharing revenue is also a feature of John Lewis's relationship with Clipper Logistics with whom it has created a 50/50 joint venture to offer other retailers a click-and-collect service – this emerged from an operation to deliver online John Lewis orders for collection in Waitrose stores.

3PLs can often act as a focal point for collaboration by bringing different clients together. Michael George, director of logistics at Debenhams, comments: "3PLs are very well-placed to share resources, and retailers will make use of multi-user sites where a host of different customers use the same facility to share overhead costs."

Retailers such as Asda share transport fleets

However, more specific collaboration is difficult, he says, because retailers become reliant on each other to provide sufficient volumes to make the operation cost-effective and face the issue of whose service is protected first if there are any problems.

"The idea is something most supply chain professionals are open to, but the execution is often more complicated," he says.

Working closely with product suppliers can also help to create savings and this is an approach used by Asda. Along with internal initiatives, it has saved £255m over the past nine years, including a £35m saving in 2016.

Asda senior director of transport Chris Hall says: "We have arrangements in place to share transport fleets, which takes miles off the roads and ultimately drives down the price of logistics."

36%
identify collaborative distribution networks as the second biggest opportunity to reduce road miles
Source: ECR UK

Sometimes particular parts of an operation lend themselves to sharing resources, for example, deliveries to outlying areas. Pets at Home uses spare capacity available on Boots vehicles being operated by DHL in northern Scotland to serve its Oban store and Booker vehicles to serve Aberystwyth.

The company, which operates a mixture of in-house and outsourced transport, also works closely with its 3PLs. For example, it has an agreement with Downton to allow its vehicles to be used in the day for other clients once they have delivered to Pets at Home stores, the majority of which take deliveries out-of-hours. Pets at Home head of distribution Terry Siddle explains: "Service to the stores is our number-one priority, but if there are other opportunities to improve efficiency we will look at them."

Such attitudes are likely to become more and more widespread over the next few years as retailers search for innovative ways to cut costs and improve performance.

3PLs: maximising opportunities

3PLs are often in a strong position to make collaboration happen because of their wide customer bases.

Liam McElroy, managing director of retail and consumer at Wincanton, says: "We have a transparent vision of our customers' networks that allows us to see where the opportunities are and to execute them," he says.

McElroy says this can include identifying spare warehouse space, which could be let out to other companies. Similarly, transport can be shared, either by companies with different delivery patterns during the day or different seasonal peaks.

Clipper Logistics believes that shared-user facilities, which allow costs to spread across different companies and resources to be switched around, can foster a collaborative approach.

Clipper transport operations director Richard Ball says: "By sharing the workforce, companies can benefit from increased flexibility, shared expertise and best practice and collaborative innovation."

According to Ball, it is vital to look at the supply chain as a whole when working with others. "If you collaborate at one point of the supply chain, but not at others, this stands to hold back the progress that you could be making," he says.

DHL managing director of retail John Boulter believes that there are significant financial benefits from sharing vehicles. This is particularly important in keeping costs down when making smaller deliveries to convenience outlets and when satisfying the need for next-day delivery for click-and-collect.

"Collaborative logistics has definitely increased in popularity over the past few years. In part this is thanks to more sophisticated IT systems that allow us to optimise loads and networks, but also because of the financial imperative," he says.

Pros and cons of sharing vehicles

One of the biggest opportunities for collaboration is to reduce the amount of vehicles that are not fully utilised once they have delivered to the store. According to the Department for Transport, 29% of all lorries on the road are empty.

But there are issues that need to be resolved before vehicles can be successfully shared. Maintaining the right service levels to the stores, particularly during peak periods when the shared operation might come under strain, is vital.

Neil Adcock, consulting partner of Bis Henderson, says: "There is always a question around service levels, particularly if you're a smaller company sharing resources with a larger retailer."

Many collaboration initiatives involve retailers working with 3PLs, suppliers and non-competing retailers. However, Professor Richard Wilding from Cranfield School of Management says retailers could also gain benefits from collaborating with competitors. "When it comes to moving products around, retailers might conclude they are not really competing," he says.

However, a change in attitude is sometimes needed before progress can be made and trust needs to be built up between companies over time. "Many firms find it a challenge to collaborate internally, let alone externally," he says.

LCP Consulting retail partner Stuart Higgins says even building closer links with suppliers can be difficult. "Usually you have two individual businesses maximising their own position, which makes it difficult to break down barriers – it is ingrained behaviour."

Collaboration between retailers could make sense when deliveries are made to densely populated urban areas, using multi-user sites on the edge of cities. But Higgins says: "I think that would be down to legislation or a tax on deliveries, rather than as part of an efficiency push."