RetailWeek
September 2018

SUPPLY CHAIN

Planning ahead

How retailers can prepare their logistics for a no-deal Brexit

ALSO INSIDE

- **D2C** Is the rise of brands selling direct to consumers a threat to retailers?
- **Logistics** Retailers take ownership of fulfilment operations in the race to deliver

WHAT'S INSIDE

"A fast, flexible and reliable service is now a need rather than a want and the spotlight is firmly on logistics operations to get it right every time"
Victoria McDermott, Content Marketing Editor

Shifting tides

Traditionally seen as a steady and somewhat staid ship, the supply chain is shaking off its old reputation and fast becoming one of the more progressive and dynamic areas of retail.

Over the past few years, retailers' logistics arms have had to become more nimble than ever before. Many have embraced a total transformation as they work to keep up with rapidly evolving consumer expectations.

A fast, flexible and reliable service is now a need rather than a want and the spotlight is firmly on logistics operations to get it right every time. And it's the delivery, last-mile services and returns procedures that will stick in a customer's mind and ultimately determine whether they choose to shop with that retailer again.

Never has speed been so crucial and the more innovative retailers are increasingly cutting out the middleman by building their own logistics operations. Chinese ecommerce giant JD.com is making huge waves here and made the bold move of buying its own rail freight firm this spring. But just how easy is it for retailers to create their own logistics operations? Is it an overly expensive endeavour with limited upside, or a great way to gain control over one of the costliest and most difficult to manage parts of retail business? See page 13 for our take on it.

Of course, retailers' attempts to meet consumer expectations around speed of delivery could be thwarted if Brexit derails. Since we voted to leave the European Union two years ago, there has been fervent speculation about how it will affect the industry. As a no-deal Brexit looks frighteningly more likely by the day, we examine the key considerations for the supply chain sector on page 8.

Another worry for retailers is the growing number of consumer brands testing out direct-to-consumer channels. On page 10, we take a look at the FMCG brands turning retailers and what this means for the sector.

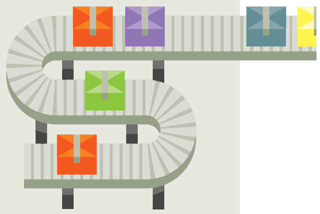
Victoria McDermott, Content Marketing Editor, Retail Week

NEWS
5 All the biggest news from the supply chain world

BREXIT
8 Why preparing for the worst is best when it comes to Brexit

D2C
10 What brands selling direct to consumers means for retailers

LOGISTICS
13 The retailers taking ownership of their fulfilment operations



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NEWS

A round-up of all the latest retail-focused supply chain news

Logistics shake-up as DCs shut

Fulfilment and distribution centres have borne the brunt of future expansion ambitions this year, with major retailers announcing the closure of several warehouses to make way for new hubs.

Over the past three months, Asda, Shop Direct and Marks & Spencer have all revealed plans to close logistics centres, meaning job losses for many.

In July, Asda entered into consultation with more than 260 employees amid plans to shutter one of its fulfilment centres. The supermarket giant is closing its Enfield Home Shopping Centre in North London, which opened only eight years ago.

The warehouse delivers online grocery orders to 4,500 customers a week, but Asda said restrictions on the site meant it was "not able to make the necessary improvements to meet the speed of fulfilment and product ranges that our customers now expect".

As a result, 261 roles are on the line. Asda said it would seek to redeploy affected workers and only make redundancies "as a last resort".

The decision comes after Asda invested heavily in opening two fully automated fulfilment centres in London during the past 18 months. It launched a facility in Heston in July 2017 and a second high-tech site in Dartford earlier this year.

Asda said the two warehouses had created more than 700 jobs, increased its capacity, driven improvements in order accuracy and decreased fulfilment times.

Additionally, in April M&S said it was planning to shut its Hardwick distribution centre near Warrington, Cheshire, where consultations had begun with 450 affected workers. The Hardwick DC and its transport operations are run by XPO Logistics and DHL, which have both started a formal consultation period.

Separately, M&S appointed DHL to run its new Southeast distribution centre in Welham Green, Hertfordshire. The DC will open in 2019, creating 500 jobs.

The changes are part of M&S' five-year transformation programme to become "a faster, more commercial retailer".

Shop Direct revealed in April it is set to close three fulfilment centres, putting nearly 2,000 jobs at risk, as it unveiled plans for a new purpose-built facility. The Littlewoods and Very owner intends to shut down its existing sites at Shaw, Little Hulton and Raven – all in Greater Manchester – in mid-2020 as, it said, they no longer meet the group's future operational ambitions.

The move is expected to affect 1,177 permanent Shop Direct staff and 815 agency workers, with redundancies anticipated.

Shop Direct started work on an automated distribution centre in the East Midlands in May, which is due to be fully operational by 2021. The etailer said the 500,000 sq ft site will enable it to reduce fulfilment times.

Around 500 permanent roles will be created at the new site, plus 200-300 agency roles during peak periods.

SHUTTERSTOCK

Amazon launches entrepreneur scheme to plug delivery shortage

Amazon is offering support to would-be entrepreneurs to help them develop delivery businesses that will fulfil the retailer's growing parcel volumes.

Keeping up with the sheer volume of parcel growth is a huge challenge for Amazon. In its first quarter, sales jumped a whopping 43% to $51bn (£39.3bn).

At a time when there is a shortage in delivery drivers in both the UK and US, hiring enough drivers – be it directly or via its courier partners – to fulfil such volumes is troublesome.

That's why Amazon is trying a different approach. Rather than hiring drivers to work shifts, the online behemoth is seeking would-be entrepreneurs who want to build a business.

For a minimum investment of $10,000 (£ 7,710), people can enrol in Amazon's Delivery Service Partners programme and start a business fulfilling the etailer's orders.

Potential partners – who don't need any previous logistics experience – are vetted by Amazon and, once accepted, they will receive training to learn about the retail giant's shipping operations and will spend time with one of its existing courier firms.

Amazon will offer support to its delivery partners, who can lease branded vans from the retailer. Partners are offered discounts on branded uniforms, fuel and comprehensive insurance that have been pre-negotiated by Amazon.

Each partner can run up to 40 vans and is responsible for recruiting their own drivers. Amazon claims successful delivery partners can make up to $300,000 (£231,360) in profit a year.

The programme launched last week in the US and, if successful, Amazon will look to roll it out across other countries.

SHUTTERSTOCK

HoF's two XPO-run warehouses will remain open in the short term

Mike Ashley offers HoF suppliers loans and seals XPO deal

Mike Ashley has offered loans to House of Fraser (HoF) suppliers left out in the cold and has finally reached a deal with warehouse operator XPO.

Ashley, who had told suppliers that they will "not be paid a penny" of the debts owed to them incurred under Sanpower's ownership, according to fashion title *Drapers*, has offered loans to some struggling suppliers.

The terms of the loans are unknown, but the move is sure to be read by many observers as a cynical one.

Ashley has also come to a deal with XPO, which runs HoF's two warehouses in Wellingborough and Milton Keynes. XPO closed the sites on August 15 after it emerged that Ashley would not be paying it for debts incurred under HoF's previous ownership.

The resulting stalemate has prevented House of Fraser from trading online, with many customers still awaiting refunds for unprocessed orders. The Milton Keynes site will now reopen temporarily, but will close on November 27, resulting in 300 job losses.

House of Fraser's second warehouse in Wellingborough will remain open until at least March. However, it is thought that another 300 job losses are on the cards as it is likely that Ashley will switch all HoF operations to his Sports Direct Shirebrook warehouse.

Alan Costello, organiser at union GMB, said that its members had been "left by the wayside, while XPO and Sports Direct fight like rabid dogs over the bones of House of Fraser".

Supply chain news in brief

AMAZON has expressed interest in buying Homebase stores for its delivery operations.

The etail giant would use the stores as warehouses, it is understood. Homebase plans to shut 42 stores as part of a CVA proposal unveiled last month.

An Amazon swoop on Homebase branches reflects high demand for warehouse space as online and multichannel retail grows.

Homebase stores in urban locations would further strengthen Amazon's last-mile delivery capabilities.

TESCO and **CARREFOUR** have formally agreed their strategic alliance, which will become operational in October.

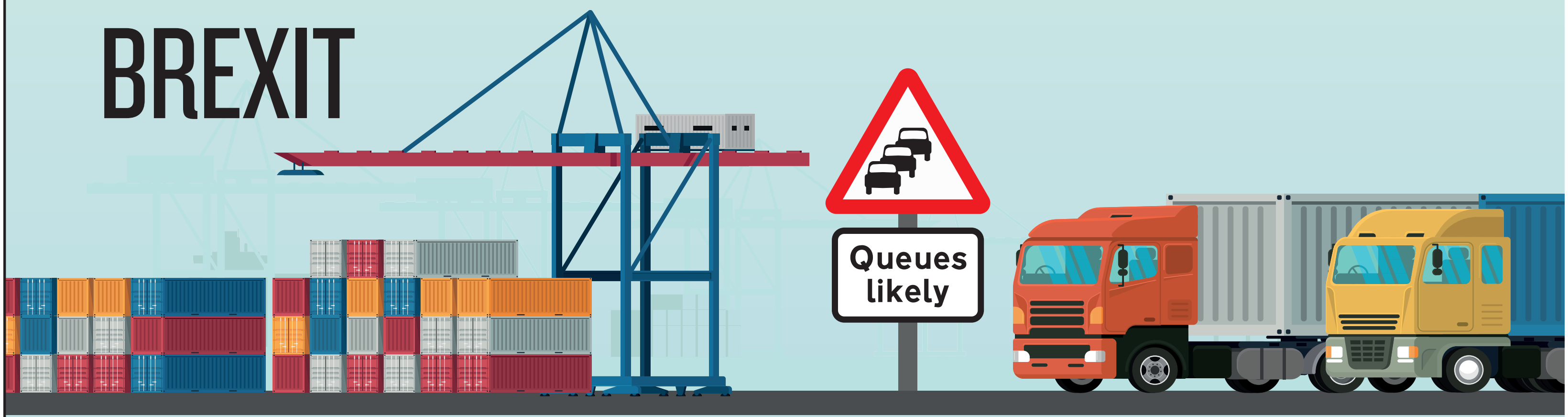
The two grocery giants revealed in July that they were linking up through an arrangement covering "the strategic relationship with global suppliers, the joint purchasing of own-brand products and goods not for resale".

They said in July the agreement would "allow both companies to strengthen their relationships with their suppliers and create significant opportunities for those suppliers. Each company will continue to work with supplier partners at a local and national level."

ASDA chief merchandising officer Jesús Lorente is to leave the Walmart-owned grocer a little over a year after being appointed to the role.

Anthony Hemmerdinger, who joined last November as senior vice-president, retail operations director, will now become senior vice-president of operations, and Asda's logistics and supply functions will report to him. The rest of Asda's commercial functions will report to chief executive Roger Burnley.

The new role reflects the importance of the retailer's end-to-end supply chain, from logistics to stores, as it bids to improve performance further in the run-up to a proposed merger with Sainsbury's.



Preparing for a NO-DEAL BREXIT

"What would be scary," said Asda chief executive Roger Burnley, speaking in July about the possibility of a no-deal Brexit, "is the prospect of any hold-up at the border... You'd be eating into the life of products, with all sorts of implications for waste, for freshness, for quality."

Superdry founder Julian Dunkerton believes the UK's decision to leave the EU is such a mistake that he's putting £1m of his own money behind a campaign for a second referendum or 'people's vote'. He said last month: "It's becoming clear now there is no vision for Brexit and the politicians have made a mess of it. Increasingly, the public knows Brexit is going to be a disaster."

As a rule, retailers are never this direct. But then, Brexit doesn't fit into any rule book, nor precedent. The most disruptive political decision in at least a generation has brought strong feelings and stark statements out from all sides; with six months to go before the deadline for a deal, things are only going to get more intense.

This is hardly a surprise when you consider we still have no idea what sort of deal, if any, the UK will be left with over its border controls, freedom of movement for logistics providers and overseas lorry drivers, the rules governing customs arrangements, tariffs and future trade agreements with non-EU countries. It's a bit of a mess; one that Burnley says could have "very significant consequences" if it's not all worked out.

But is it really possible that food could be left "rotting in ports", with "UK consumers paying considerably more for everyday items" as British Retail Consortium (BRC) chief executive Helen Dickinson warned in July? Or is 'project fear' still at work?

You could be forgiven for thinking there's been nothing more than a lot of sound and fury since June 2016. More than two years on, despite seldom being out of the news, Brexit is still a nebulous concept to most.

> **"It's becoming clear now there is no vision for Brexit and the politicians have made a mess of it"**
> Julian Dunkerton, Superdry

"Even the Brexiteers would say that we are no clearer now as to what it all means than we were back then," says Charles Binks, head of logistics and industrial agency at property consultancy Knight Frank. "It makes it harder to prepare for the contingencies we will all need and the fudges we could be facing."

Deal or no deal?

At the moment, it comes down to the question: deal or no deal? If the UK reaches March 29, 2019, with no deal in place, it will immediately be out of the EU, with no transition, and be bound by World Trade Organisation (WTO) rules, a complex set of regulations by which a number of European countries, including Norway, currently do business with the EU.

Quite what this would mean in practice for retailers is, unsurprisingly, unclear. But David Jinks, head of consumer research at courier brokerage Parcel Hero, says that it would almost certainly mean the cost of cross-border trade would go up.

He says: "This would mean there would be duties to pay and customs invoices to complete for all cross-border items. ParcelHero's report

The UK has six months to secure a deal with the EU or retailers could be facing some logistical headaches on an unprecedented scale. **Ben Cooper** reports

on the impact of a hard Brexit found an average 5% to 9% added to the price of an item in duties (where duties apply, depending on the item), which would presumably be passed on by retailers to consumers."

Jinks adds there would also be increased transport costs, as it would cost logistics firms more to travel into the UK due to tariffs; therefore the UK outside the EU would be a less competitive market for international logistics companies.

Even the Government's own research, leaked to Sky News in February, forecasts retailers' logistics outgoings increasing by some 20%, citing "extra customs checks, added paperwork and diverging regulatory standards" among the extra cost burdens.

And it might not just be costs mounting up – there are genuine fears of lorries getting blocked at border control points as a whole new set of red tape comes into effect.

Writing in June, Freight Transport Association deputy chief executive James Hookham said: "We keep getting told that all food and agricultural exports to the continent and Ireland will be checked at EU ports – but there is nowhere to check them, and the system to check them does not exist."

No wonder Aldi UK is reported to have contacted all of its overseas suppliers in June asking them to help it to "mitigate any negative impacts" from a no-deal Brexit.

And in a survey of 100 retail and etail operations directors carried out in the first quarter of 2018 by WBR Insights and MP Objects, only 1% said they were "feeling positive about Brexit".

Meanwhile, more than one in 10 (11%) of SME retailers may cease trading on the continent altogether, according to the Federation of Small Businesses.

> **"There will be big impacts for grocers and supermarkets, where lead time is important"**
> **Richard Fattal, Zencargo**

Richard Fattal, co-founder and head of growth and product at supply chain insight platform Zencargo – which counts retailers among its client list – says that the impact of a no-deal Brexit will change over the short to medium term, and affect different sectors in different ways.

He says: "There will undoubtedly be a financial and lead-time impact in the short term; this will not be more than a day if things go well, but multiple days if things are bad. There will be big impacts for fashion retailers that source products from Asia, and for grocers and supermarkets, where lead time is important. One day can make a difference."

Which is why so many retailers and industry bodies have lobbied the Government to get a deal done as soon as possible. BRC European and international policy advisor William Bain says: "We've made it clear we want to see a Withdrawal Agreement reached by the end of November, a transition period in which trading and other terms remain the same for around two years, and a final deal that secures zero-tariff, frictionless trade for retailers and consumers."

Planning for the worst

But sometimes it's a case of planning for all eventualities, including what Bain describes as the "worst case scenario" of a no-deal Brexit. Binks says that, while it's hard to prepare for the unknown, there are things that retailers can be doing.

He says: "Whatever happens, we are still a big market for European businesses and retailers. We are going to see some people hedging their bets, including retailers, by putting some of their [logistics] operations in Europe and some in the UK. Operators and 3PLs [third-party logistics] are even looking at alternative ports from the traditional places, including Liverpool and Bristol, as opposed to Dover."

And Fattal says that, in any case, the coming change should be further impetus for retailers to adopt the most modern supply chain technologies available. "Retailers will need to be able to centralise and streamline their purchase order management systems using data," he says. "They will need systems to be able to manage procurement and delivery in one place and they need to be able to get business insights into supplier reliability."

Two years after the referendum, even those remainers who felt they got a raw deal with the vote are sure that a Brexit deal is better than nothing at all. "The enemy of investment," says Binks, "is uncertainty." There is definitely plenty of that around. No wonder retailers are being direct.

D2C

Consumer brands are increasingly testing out direct-to-consumer channels, cutting out retailers in the process. **John Reynolds** asks whether the industry should be worried

Consumer brands HAND OVER THE GOODS

As if retailers didn't have it tough already, they are now facing a growing threat on the competitive landscape: their own suppliers.

Huge FMCG brands are examining selling their wares direct to consumer (D2C), bypassing the tried and tested retail route, largely in an effort to own customers' data. And this has big implications for retailers.

"The trend of brands going D2C is real," says James Canning, co-founder of design and build agency MMT Digital. "While this may work better for subscriptions brands like Nestlé's Nespresso and Unilever's Dollar Shave Club, all the major brands are looking hard at D2C. They are creating direct experiences for customers that retailers can't match."

The rise of D2C

The retail world was rocked late last year when wholesale titan Unilever signed up to a new shopping service to start selling its brands direct to consumers.

At the time, the grocery service, which is designed by tech firm INS, claimed it could slash grocery bills by 30% by allowing suppliers to sell direct to consumers and set their own prices, rather than having to negotiate with grocery retailers.

INS said that any manufacturer would be able to list and sell products on the platform, gain customer feedback and reward loyal shoppers – in the same way the likes of Tesco and Sainsbury's do through their Clubcard and Nectar schemes.

> **"All the major brands are looking hard at D2C. They are creating direct experiences for customers that retailers can't match"**
> **James Canning, MMT Digital**

Unilever also acquired men's grooming subscription brand Dollar Shave Club for $1bn (£774m) in 2016, in the hope D2C will transform its toiletry and personal care sales.

Nike, Nestlé and a raft of start-ups have also stepped up their D2C activity in recent years.

Nike has said it hopes to nearly triple its D2C sales between 2015 and 2020, from $6.6bn (£5.11bn) to $16bn (£12.38bn).

And Nestlé has made a success of selling its Nespresso brand via D2C.

In total, 48% of UK manufacturers are building D2C models, with the overall market expected to grow 5% each year over the next five years, according to research last year from LCP Consulting and The Centre for Logistics and Supply Chain Management.

According to Steve Wilson, vice-president of Capgemini Consulting, there are two principal reasons why brands are channelling investment into D2C.

"The consumer products companies are recognising the power of data. And they want to create a relationship between the end consumer and themselves through data," he says. "If they have a direct channel, they get much, much better data than if they were selling through large retailers."

Wilson says brands can then use the data and insight to better target customers through retail channels.

"The second reason is that retailers only have a fixed amount of physical space and are always under pressure to make that space work harder," he adds. "And if a consumer products company has a wide range, then not all of that range is going to be presented in that store."

He points to the example of air freshener brand Air Wick, which sells D2C fragrances it can't get on retail shelves.

Another advantage of D2C, according to Richard Wilding, professor of supply chain strategy at The Centre for Logistics and Supply Chain Management, is that it gives brands full control over the life of a product up until the moment it reaches a shopper's hands.

He says: "If you have a high-value product that consumers want, by selling it direct

SHUTTERSTOCK, DOLLAR SHAVE CLUB

(Clockwise, from above) Nestlé, Unilever and Nike are among the UK brands and manufacturers that are targeting the D2C model in a big way

you can maximise the value as you have no middleman. Also, you have better control of issues like indoctrination of the product and counterfeiting."

When considering who stands to get the most out of using D2C channels, they would appear to make more sense for start-ups, as getting a listing in a retailer can be expensive. Organic baby food provider Piccolo and confectionery company Love Cocoa are among the start-ups that have found D2C a good fit for their brands. However, the existing production, packaging and shipping infrastructure for FMCG are set up to support retailers, not D2C sales.

Supply chains are not set up to cater for smaller volumes and individual items, with products transported in pallet loads that are organised by volume size and are then tailored to retailers' needs.

Wilson says: "Consumer products companies will have to set up a separate area where they can pack individual products. Sometimes they outsource it and use an online fulfilment company to do the individual packing and shipping, which is very low risk."

48%

of UK manufacturers are building D2C models

Should retailers be worried?

Despite the ongoing competition from consumer brands, the overwhelming consensus is that the industry need not be too fearful of the threat posed by D2C.

Wilson says: "I think grocery retailers will still dominate, because they carry the breadth of the range and no consumer products company is able to meet all these needs."

But he does believe that D2C will grow as a force as a digital subscription channel, such as for the repeated ordering of everyday products including dishwasher tablets.

Wilding urges caution for brands going down the D2C path, pointing out that the pharmaceuticals companies struggled to succeed in selling D2C as setting up their own delivery network was simply too challenging.

With the D2C model, individual items need to be moved from a factory, to a distribution centre, then picked and packed, before being distributed on a case-by-case basis and delivered to an individual person – no mean feat. The supply chain is not an insignificant cog in the retail wheel, and retailers already have in place vast and intricate supply and distribution networks that smaller brands will struggle to mirror.

Retailers have stores located across the globe that can act as mini-distribution centres and they also have the scale and network to manage and carry out millions of orders a week, something that wholesale brands will take decades to match.

So, for the time being, there is no need for retailers to stay awake at night worrying about this particular threat. However, as always, it's best to keep one eye on any impending developments that could disrupt the future of retail.