Keeping a lid on costs

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With retailers experiencing a toxic mix of increasing commodity prices, rising fuel costs and a hike in VAT, the focus for most in 2011 will be on inventory reduction, cost containment and supply chain optimisation.

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Retailers are facing a difficult year in 2011. Following the impact of poor weather on Christmas sales, retail organisations are looking ahead to a year with expected increases in commodity prices, such as cotton and food staples, fuel and UK VAT at 20 per cent. Cuts in public spending may also negatively impact high street sales. So it is little wonder that the key focus for retailers appears to be on cutting costs and optimising the supply chain.
Mark Croxton, vice president of customer support at Aldata, says: "Price increases across raw materials will have a major impact on retailers' supply chains and as a result the cheap imports retailers have enjoyed from the Far East for so long are likely to come to an end.
"These price hikes will mean retailers will have to look at their supply chains more carefully," he says. "If retailers can forecast correctly they will be able to minimise the impact of these variable external events, which push the cost of raw materials up and create a lasting effect on profit margins. Over the past decade many retailers with an inefficient supply chain have gotten away with a lack of forward thinking because of the low cost of raw materials and cheap imports. But now those unable to forecast or who simply don't bother, will struggle."
Tony Dawson, managing director, supply chain solutions - distribution at UPS, identifies two key objectives for retailers at the present time. "All retailers are looking at taking inventory out of their facilities and making their infrastructure work harder," he says. "Within UPS, in 2010, we have seen our consolidated volumes increase by six per cent; so our less than truckload collections increased by six per cent and the order size reduced by 2.5 per cent. Retailers are driving less inventory more often."
Dawson sees "green logistics" as the other key issue. "Reduction of

vehicle miles is high on the agenda and this is driving greater collaboration between retailers and 3PLs - as well as between 3PLs themselves."

UPS runs 13 retail consolidation schemes. "We now have retailers collecting from our customer - their supplier - and bringing inventory into their own DCs, therefore taking away the need for a UPS resource to collect. And also, we are seeing an increase in activity with retailers collecting from our consolidation centre," he says. "We will effect less-than-truck-load collections from suppliers, take it back to a cross dock operation in Derby and then we will give that freight to the retailer."

Dawson offers an example. "Say there is a delivery to an Argos store in Derby. Ordinarily, they would have gone back to Magna Park, but what we do is bring them back to Derby and give them a full load of multi-supplier collections that we have effected, and they will take that inventory back to their own DC. It removes the need for us to make that final mile delivery and it stops the retailer running back empty.

"We collect for a range of retailers when we make a collection from a supplier," says Dawson. "The impact on the supplier of retailers saying they want to go to "little and often" replenishment of their stores is that they have to deal with a number of different collection modes. With a service that caters for multi-retailer merchandise the supplier has minimal effort. We will take it back to the cross dock operation and we will break it down and build it up into a full-truck-load (FTL) - the objective being an FTL out of the supplier and an FTL into the retailer. But you can only achieve this if you have a number of retailers participating across the UK."

Emissions This focus by retailers on transport can be seen to address two key objectives on the agenda - cost reduction and lower carbon emissions.

Sainsbury's is seeing the benefit of rolling out Paragon across its national distribution network. Sixteen depots are now benefiting from ITMS - Sainsbury's integrated transport management system - which integrates Paragon's planning optimisation with telematics to enhance the accuracy and execution of each day's complex transport plans. The system has increased driver productivity by eight per cent, improved empty running by 12 per cent, cut store turnaround times by 15 per cent and increased on-time delivery levels by 17 per cent.

For over three years, Paragon software has been used for daily deliveries from Sainsbury's 19 distribution centres to 527 supermarkets and 276 smaller stores, as well as the allocation of tractors, trailers, rigids and drivers to routes. Now, Sainsbury's is integrating Paragon routeing and scheduling optimiser and fleet controller with Isotrak's active transport management system.

Also, Sainsbury's electronic data interchange re-platforming project

has reached a point where the retailer is preparing to roll out a new EDI platform - Wesupply's OneTime EDI Solution. Sainsbury's announced in a recent letter to their suppliers, that the new service will be rolled out across their supplier community during 2011, starting first with the replacement of their current Kewill web-EDI solution. The new solution will provide an enhanced set of tools where suppliers will be able to achieve greater visibility of the status of their EDI transactions, proactively deal with any potential issues and will include an extensive reporting suite.
A number of retailers are looking at ways of reducing inventory levels. Homebase has been engaged for the past two years in a strategic plan to reduce inventory by £20 million a year to improve cash-flow. Many retailers have attempted similar aims; however few have achieved them so successfully.
Productivity Working with Unipart Logistics, Homebase has made reductions to stock holdings, improved productivity within the supply chain, cut costs and restructured its distribution centre network to bring the financial benefits sought. The company has also improved on-shelf availability in store. Ian Howes, head of distribution at Homebase describes the implications of the reduced stock holding on the company's distribution network: "We now need less warehouse space and because Unipart Logistics has been flexible in being able to accommodate additional ranges from other DCs we have been able to rationalise our network infrastructure."
Unipart Logistics operates the national import centre for Homebase at Cowley on a contract that has been in place since early 2006. As a large proportion of the retailer's product range is sourced from overseas, the smooth and efficient running of the facility is critical to the trading performance of the company.
The success of the relationship between retailer and logistics service provider has seen Unipart Logistics' role grow substantially over the past five years, to a point where it is now responsible for between 30 - 40 per cent of the volume of goods going to Homebase stores. The footprint of the NIC has increased from 160,000 sq ft to 440,000 sq ft over that period as Homebase's confidence in the service provider's ability to deliver has increased and further product ranges have been transferred over.
For certain, green supply chain issues will rise up the agenda for retail organisations and their suppliers in 2011. The big retailers have green programmes in place and are pushing suppliers to work with them in hitting set targets. Many of the large consumer packaged goods manufacturers supplying the supermarkets are leading the way with deploying resources and expertise to tackling issues relating to the carbon footprint of products destined for the supermarket shelves. However, what about the smaller suppliers? According to Dr Paul McNeillis, director, sustainability solutions at PE International: "Retailers are now active in helping smaller

suppliers get to grips with sustainability by encouraging larger suppliers to transfer their knowledge and expertise on sustainability to the smaller suppliers. Retailers are identifying where the knowledge is and arranging for it to be transferred across."

Motivation He says that a large company has the management capacity and resources to understand the risks and rewards of sustainable options - smaller companies just don't have those resources available. He says: "The motivation for this knowledge transfer is often twofold, because if smaller suppliers fail to get to grips with climate change adaptation, energy management or changing environmental regulations they can leave their customers with serious security of supply issues".

McNeillis identifies another key trend. "Retailers that are increasing their share of own-brand products now have greater influence over the environmental impacts of these products. The accountability then lies with the retail brand directly to reduce the impact of their products on the environment," he says. "They have great influence with suppliers right from the design and commissioning phase to collaboratively develop sustainable production practices. Retailers no longer have to say 'how can we influence product sustainability when we are only a few per cent of the volume of this product?' the opportunity is there for them to take control and enhance their own brand."

PE International is working with leading retailers and FMCG companies, using a tool called GaBi - life cycle assessment software - that can be deployed as an interface between design teams and suppliers, so that design teams can choose product options that are more sustainable and have a lower impact on the environment.