

Analysis: Amazon has become the flag-bearer in fulfilment

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Thanks to the Japanese principle of Kaizen, retail giant Amazon sets the bar in delivery at its Hemel Hempstead fulfilment centre.

[Amazon](#) has transformed UK retail since it launched in this country back in 1998. The retail Goliath has become a category-killer in everything from entertainment to electricals and has played a big role in the growth of online shopping among UK consumers.

Another way that Amazon has helped transform UK retail is through its slick fulfilment practice. Amazon was a pioneer of super-speedy delivery and a seemingly unending list of fulfilment choices – whether fast, slow or picked up from your local [Co-op](#).

Amazon has become the flag-bearer in fulfilment by sticking to one golden principle, according to director of UK operations Catherine McDermott: giving customers what they want.

It is an ethos that runs throughout Amazon's operations. McDermott says the retailer constantly seeks to make things better for the customer. And for her that means faster and with fewer errors. Amazon has adopted the Japanese principle of Kaizen – continuous improvement – to help it achieve its aim.

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“The intention is always to get it to the customer perfectly, so everything we do is starting backwards from that,” McDermott explains. “You’re always striving to close the gap between what you do and perfection. That thought about constantly making this better is what drives the entire operation.

“That problem-solving and innovation permeates the entire organisation. We’re expected as Amazonians to ask: how do I do this better for the customer?”

That problem-solving is evident when Retail Week visits Amazon’s fulfilment centre in Hemel Hempstead, Hertfordshire. In fact, the retailer has designated ‘problem-solvers’ roaming the shed to help its pickers and packers rectify any issues.

Accurate inventory

Amazon operates a traffic lights system. If packers are running out of cardboard for example, an amber light flashes and a problem-solver will replenish them. A red light means they are facing a more serious issue.

Red light issues are collated and Amazon runs Kaizen workshops for staff to determine the root cause of the problem and how to eliminate it. There were 100 such workshops last year.

“We’re trying to make the process as easy as possible for our associates and when there are problems, to make those problems very visible so we can go and fix them,” she adds.

The Hemel Hempstead fulfilment centre, which opened about 18 months ago, may be the smallest in Amazon’s growing network of warehouses but, at 460,000 sq ft, it is still the size of six football pitches.

During peak last Christmas, a vehicle left the warehouse packed with gifts every two minutes – Amazon had 4.1 million orders on its busiest day on December 2 last year.

One might question just how efficient the operation is when first faced with the bizarre mix of products packed tightly into storage areas where toothpaste sits next to a topiary ball, which is alongside DVDs of the latest Hollywood blockbuster. But there’s method in the seeming madness, insists McDermott.

“The method is the size,” she says. “What we’re trying to do is to maximise the store density and the chance that if you’ve ordered more than one thing, to find it co-located and to minimise the distance our pickers have to walk.”

McDermott insists that randomly spreading SKUs around the distribution centre does just that. “If there’s one of everything dotted around, rather than always being in one place then there will be less distance to travel,” she says.

The process of sorting products by size starts as soon as Amazon takes delivery of stock. When sorted, products are scanned and checked at one of 100 ‘receive stations’ and then put on a conveyor system to be stored in the enormous storage area. Amazon’s central system identifies where there is storage space but it is up to staff to determine where to put specific products.

Shelves are colour-coded – another way to make employees' jobs easier, according to McDermott – and when products are placed on them they are scanned so the system knows exactly where they are.

“The fundamental thing for us is quality,” explains McDermott. “We are focused on making sure we get it right for our customers and a key part of that is making sure that the inventory is accurate on the shelves and there is nothing that is damaged.”

Forever seeking improvement

So-called ‘amnesty totes’ are spread throughout the warehouse where staff can place items that are not in their designated homes. That reduces the risk of them being put back on incorrect shelves, which could result in a customer getting the wrong order.

There are similar damaged goods carts for any products that pickers and packers find to be broken. When a picker receives an order to collect, the system works out the most efficient route to do so and a handheld scanner acts as a ‘sat nav’ to direct them towards the items. The picker is also informed which colour-coded shelf the item is on.

Picked items are then sent to the pick line, where they are scanned. The system tells staff which sized box or envelope to place the item in.

“One of the things that is really important to our customers is not getting a large box with a small single item in it and a load of packaging that they don’t need,” says McDermott.

“The computer already knows the dimensions of every single item that we’ve got and it will calculate the right size of packaging.”

In line with Kaizen principles, if the packer is unable to use the suggested packaging, it is logged and the team looks at why the problem has occurred.

The final check is applied at the so-called ‘SLAM line’ – that stands for ship, label, apply manifest – where the parcel is labelled for the first time.

The labelling machine knows how much the order should weigh. If there is any discrepancy, the parcel is sent to the problem-solvers, who ensure it is correct.

When packaged and labelled the parcel is sent to one of Amazon’s many carriers, including its own Amazon Logistics. The retailer launched the delivery service last year and it includes a number of small delivery stations across the UK. It is set to open a further four stations this year.

It is understood that Sunday delivery – which Amazon launched earlier this year – and same-day delivery are fulfilled using its in-house courier.

McDermott says: “Amazon Logistics is becoming increasingly important to us. That’s very exciting as we’re doing our own deliveries to customers. We’re in seven delivery centres across the UK. Having that visibility of the last mile is important to us.”

Time is of the essence during the fulfillment process and Amazon takes its duty to the customer so seriously that if a product doesn’t make it out of the warehouse within a certain time, the operations team is expected to call the regional director and explain what went wrong.

“We’ve made a promise to the customer and we’ll do anything to keep that promise,” says McDermott. However, luckily for its senior managers the process usually runs to schedule. “My regional directors do get to sleep most nights,” laughs McDermott.

For a retailer with as many delivery options as Amazon, from Prime to next-day to standard, that is no mean feat.

However, McDermott and her operations team are dealing with a bar that is constantly being raised in terms of customer experience. Last year Amazon launched same-day delivery in the UK and this week founder Jeff Bezos told shareholders that it is already testing its futuristic delivery drones in the US.

McDermott believes use of these devices will become a reality: “My guess is that it will be less far-off than we think, just because of the rate at which Amazon moves.”

She observes the drone concept is typical of Amazon’s ethos. “We’re constantly looking for better ways to do things,” she emphasises.

All eyes will be on the trials as Amazon once again seeks to transform the retail landscape with another step forward in fulfilment.

Amazon’s ‘virtuous circle’

Amazon’s warehouses store not only the retailer’s own stock but third-party product as well. Almost 40% of products sold globally on Amazon’s sites come from third-party sellers, who have the option of using the retail giant’s slick fulfilment offer.

Amazon founder Jeff Bezos firmly believes in the “virtuous circle” that the marketplace model creates. He thinks lots of sellers bring lots of selection, which in turn brings throngs of customers. That leads to even more sellers keen to sign up. The wide array of sellers also brings healthy price competition.

Sellers who opt to use Amazon’s fulfilment service send their stock to its warehouse, where the retailer stores, picks, packs and sends it for a fee.

Director of UK operations Catherine McDermott says third-party product is treated in the same way as Amazon’s own and, in fact, her team can’t distinguish between the two.

Chris Poad, director of merchant services at Amazon, says its expertise can allow business owners to focus on their strengths. “We are a platform that allows start-ups and high street brands to access customers to allow them to focus on the things that they’re good at, such as new product ideas and sourcing. The rest of it is taken care of by Amazon,” he says.

Poad says the number of sellers using Fulfilment by Amazon (FBA) has jumped 70% year on year in the UK.

He insists that they sell more when they choose its fulfilment service because they can take advantage of all of its shipping methods, including Prime – for which members pay £79 a year for unlimited next-day delivery.

He explains: "Often shoppers search for products and refine it to those that are eligible for Prime. Whether you're a high street brand or a start-up, getting access to those Prime sellers is one reason to use FBA."

Link: <http://www.retail-week.com/>