

Delivery: How Can High Street Retailers Compete with Amazon?

Delivery: I Don't Care How, I Want It Now!



Veruca Salt - "I Want It Now"

For those who don't have children or have not been introduced to the Roald Dahl books or, in particular have not seen the 1970s film classic, Willy Wonka and the Chocolate Factory, Veruca Salt is the stamping, demanding, princess, prima donna.

She shouts out a lyric:-

"And if I don't get the things I am after

I'm going to *scream!*

I want the works,

I want the whole works!

Presents and prizes and sweets
and surprises in all shapes and sizes,

And now!

Don't care how I want it

NOW!


I think all retailers, big or small will increasingly recognise Veruca in the modern day consumer. Unfortunately, some might say, we can't, like Willy Wonka, throw Veruca down the garbage chute and send her away with the Umpa Lumpas. We must respond to her demands, do what she asks, or she will go and buy her chocolate elsewhere.

Delivery - "I Don't Care How, I Want it Now"

Veruca is not alone. The proportion of people who have concerns with delivery which prevented them from shopping online is 57% and 30% of those that do shop online have concerns that the product will not arrive on time (Ofcom 2014). Click and Collect now accounts for 10% of online "deliveries" and will expand as retailers pursue quicker services; Screwfix, for example, is aiming for collections to be available within 10 minutes of order placement.

The recognised market leader in rapid delivery is Shutl. Their fastest recorded delivery time is 13 minutes, but Tom Allason (founder) says most deliveries that are requested for "as soon as possible" arrive in about an hour. Perhaps Veruca will only shop on sites that have the Shutl delivery option? eBay believe it important enough to get the cheque book out - they acquired the business in 2013.

"Delivery is still the single greatest inhibitor to conversion at a retailer's checkout. It's the number-one reason given for not purchasing, beyond price. So solve that and in the short-term you have a competitive advantage." Tom Allason, founder, Shutl.



“Consumers’ expectations only move in one direction,” Tom says. “Today, 0.1% of consumers have had a same-day delivery, so they’re not expecting it and not demanding it. But with the likes of Amazon, Google, eBay and all the biggest retailers in the space making this a priority, you can bet that a lot of consumers are going to experience it – and then expect it. To me, it seems inevitable.”

Tom Allason, Shutl (Raconteur)

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Editor of Internet Retailing, Ian Jindal agrees and highlights through his January Editorial, “We are now ending the first phase of multichannel (where even acknowledging the store estate seemed radical). The current phase of multichannel puts pressure upon the whole retail chain. We want to have more products than ever before, more quickly made available for sale.”

We expect ever-increasing delivery options for those products, allied to real-time store inventory and near-psycho, zero-cost order management and orchestrations. Warehouses need to be lean and cheap, yet also flex without complaint to absorb the pressures of Black Friday and other peaks.

Amazon Primed for Success

Amazon performs superbly in this market. They account for 6% of UK’s online sales and are named as the UK’s number 1 online retailer by the IMRG and as an elite retailer by Internet Retailing in their IRUK2015 report.

The report emphasises Amazon’s delivery capability including same-day and deliver to lockers. It suggests “Amazon has so many delivery options that it is able to compensate in large measure for the fact that it cannot offer store collection”.

How Will High Street Retailers Repond?

How do you get the product from the supplier or from your stock holding in to the hands of the customer, where and when they want it, efficiently?

You could argue “what’s new – this has always been at the core of retail?” The change is that the customer demands new services – Click and Collect, immediate delivery, weekend options and locker drop boxes – and more than ever before “the customer is king” and the industry needs to react accordingly.

So, particularly, for the smaller retailers, it will require innovation and it will involve a culture shift for many, placing delivery at the top of every CEO’s agenda.

Whilst the super-sized mainstream retailers have the economies of scale to adapt to these increasing demands, how will smaller and medium size retailers compete in this dynamic market? How can they offer that same service level and remain price competitive? The stark reality is that by doing nothing, their survival will be at stake – they’ll either go out of business or be swallowed up by larger players.

The problem is how can we flex and scale with limited resource. How can we try and achieve the level of service offered by the likes of Amazon.

The solution, we believe is the application of technology and the successful creation of new partnerships and alliances.



Retail Rule Number One - Don't Make a Promise You Can't Keep?

We believe the success of retailers is dependent on their Supply Chain, this ranges from how they manage their suppliers, warehousing and fulfilment to their logistic and carrier partnerships.

Plus, how can you promise delivery of a product if you do not know exactly what inventory you have and where it is?

Lack of true visibility, accuracy and availability of stock will result in failing to meet the commitments made to the customer and therefore failed delivery and potentially losing the customer and the resulting direct hit to revenue. If you cannot measure your stock across your entire estate, how can you manage it?

Why not make it easier to "deliver" on your promise and place product in warehouses, satellite hubs or stores near to the forecast demand.

Sounds simple - but how will you absorb the unavoidable increase in costs for these facilities. Would you consider passing it on to your customers? I think not and so bang goes your margin.

Perhaps the answer is through partnerships with other retailers and supply chain experts that have storage facilities, hubs, and carrier management capabilities to create a Strategic Delivery Alliance (SDA).

The Strategic Delivery Alliance (SDA)

In this paper, we consider the creation of a Strategic Delivery Alliance (SDA) comprising of two or more like-minded retailers working in collaboration with third party logistics companies (3PLs), warehouse management organisations and supplemented by innovative delivery agencies to create a tech driven answer to the "I want it now" demands of the modern consumer.

Managing Stock Holding in an SDA

The retailer's stock will be held in multiple distributed locations.

Central Warehouse

The retailer will continue to maintain a central warehouse. This is still the most cost effective method of managing stock. Therefore, when a requirement can be met directly from the central warehouse the order management solution will continue to use standard fulfilment processes.

This will be the case for the majority of forecast bulk deliveries to stores or to the "hubs" or when the delivery option selected by the customer can still be satisfied efficiently and within the promised delivery horizon (within 5 working days, etc).

Third Party Logistic (3PL) Hubs

In order to minimise the time between order and delivery we must minimise the distance between product and customer.

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We must therefore consider a distributed model to stock holding with inventory being placed in strategic “hubs” local to predicted customer demand.

The barriers to this approach are obvious; without the economy that comes with scale creating satellite hubs are only available to the very largest retailers.

We believe there is an opportunity for the third party logistic organisation (3PLs) to manage the hubs and inventory on behalf of several retailers within the “strategic alliance” with the cost reduction that comes with the economy of scale.

The 3PLs will be better placed to serve immediate pick up from hub requirements and same day and next day local deliveries to click and collect points, either store or lockers. But the real benefit and **cost saving comes with the hub servicing click and collect requirements to multiple retailers within the SDA located together.** Take any UK retail park as an example, you can throw a blanket over the same retailers (Hobbycraft, Homebase, Halfords etc.) all positioned within a few metres of each other.

Click and Collect Locations

Today's consumer also wants choice – they want to be able to choose when and where to pick up an item. If in a click and collect scenario your stores or pick up points are not convenient for that consumer, perhaps one of the alliance partners is?

Collect+ is a business that works with 5,500 independent retailers that offer their small stores as pickup points for goods bought online from more than 260 retailers, including Marks & Spencer, Topshop, Boden and Asos. Often, consumers buy something extra when they pop in to pick up their parcel.

However, there is a significant section of consumers that voice their concern when picking up parcels from

poorly trained staff or in an environment that does not complement the brand - do you really want to pick up your expensive dress from a corner shop or petrol station?

eBay and Argos partner for Click and Collect as do John Lewis and Waitrose. The John Lewis and Waitrose relationship was first met with reticence by Waitrose, concerned about protecting the brand and the lack of synergy between the two companies' product offering. Initially it was rolled out in only two stores in 2012.

It quickly became a huge success, a great customer experience and has generated additional footfall in the Waitrose stores. **Perhaps this is a blueprint for other organisations to work together.**

Of course with a wider store estate to fulfil for Click and Collect, now in all regions of the country via our SDA, the need to efficiently service these locations from the 3PL hubs in a timely manner (same day and next) becomes a necessity. However, the benefit of the SDA is that we continue to share the cost of the overhead of the 3PL.

Lockers

We believe there is an opportunity for the SDA to have managed locker systems throughout the UK offering a chance [as Robin Phillips, Head of e-commerce at Waitrose, says in the Guardian] “to put the brand on stilts and reach more people.” The SDA can again share the cost of maintaining the locker system in a clean, well lit, safe environment, perhaps with an assistant available, much like the self-service checkouts in store. Maybe move the lockers inside - a shop without the staff? How about vending machines for cross sell opportunities, accessories and add-ons?

The lockers will be supported in the same way as Click and Collect through regional fulfilment locations via the 3PL with the same cost benefits of additional volume going through the 3PL and delivery agents.



Capacity Flexibility

We are already seeing some outlets reach capacity for Click and Collect as locations and shops not designed for pick up struggle having to train staff for different types of service offering and simply not enough shelf space for the packages. Consider how Black Friday overwhelmed some retailers but barely touched others. Perhaps the flexibility of the SDA offers a solution.

As an example, if we understand the limited and finite capacity for click and collect at each location (throttled by resource or storage space). When one business reaches its capacity for a timeslot, the consumer (in the checkout on the retailer's eCommerce website) will easily be able to select the next most convenient retail (SDA) partner.

To illustrate this point: Take business "blue" and "red". Both are in a Strategic Delivery Alliance. Each has its own eCommerce website and each their own retail store.

In this scenario, both stores are located in close proximity, on the same retail park. Each business promotes "next day Click-and-Collect" on their website via a delivery matrix. However, the system understands and reacts to capacity being exceeded within a said timeslot. So if the blue store can no longer take parcels into its limited storage space during a peak period, the red store is offered as an alternative.

This scenario plays to the strengths of the 3PL and delivery companies as their parcel tracking functionality will always give the retailer (and the customer) visibility of where the product is in the delivery chain.

Cost Control

Without controls in place we see a risk that this solution can increase the amount of stock and therefore cost within the system.

The manufacturers and wholesalers are key – the maximum number of products must be available to the customer, but with minimal stock holding. Regular stock top ups are therefore needed into the SDA partner hubs, allowing stock to be readily available, yet managed on a Just in Time (JIT) basis.

Therefore we must use better sales forecasting solutions (we have seen how fast fashion algorithms can be used successfully within the industry –

Zara as an example, are able to deal with demand from any fulfilment location on a daily basis.

As much stock as possible will be retained by the supplier partners (manufacturers and wholesalers), they will only supply enough to meet the short term needs of the SDA hubs. They will top up the SDA stock little and often.

To achieve this level of flexibility will largely be dependent on your suppliers. Can they deliver when they say they deliver in the quantities you require (note that that the new business model may require small but frequent quantities) to your hubs? How do you currently judge your suppliers, what measures do you have in place for supplier control? Do you have effective reporting in place, agreed KPIs and Business Intelligence (BI), with order expediting and supplier alternatives?

Delivery

The larger 3PLs (eg. DHL) have a full delivery network to complement their logistics and inventory management function but the delivery aggregators such as MetaPack could have an important role to play. They are expert in providing shoppers and businesses the best and most efficient delivery experience. The MetaPack platform gives access to over 200 carriers through a single point of integration, offering the SDA model the opportunity to select the carrier on a consignment-by-consignment basis according to package size, geography and service. It also places into the process contingencies for flooding, snow or carrier capacity limitations that on occasion can bring your parcel despatches grinding to a halt.

In time you may even see the retailers invest in their own delivery network, perhaps shared amongst the SDA, removing what many see as the Achilles heel (because of lack of quality control) in the order to delivery cycle.



We have considered how the hubs and 3PLs are positioned to better serve the Click and Collect requirements. But the network also aims to provide a solution to better meet the needs of immediate home delivery.

The delivery networks working from the regional hubs offer better opportunities for same day delivery and with Shutl, within the hour.

Perhaps the delivery networks can work closely with the Crowdsourcing techniques employed by Uber and Instacart to solve the "last mile" delivery problem.

Cross Sell and Upsell

With the SDA in mind let's also learn from the massive growth in online affiliate marketing.

There is the possibility that a member of an SDA promotes another member's product or service via a voucher, in store or online. When redeemed, that affiliate would be rewarded, no different to the referral schemes that are

in place within the ecommerce world. Another revenue opportunity without carrying any additional stock, for a SDA member.

Let's stretch the idea further. In the future we can imagine how such alliances will allow smaller retailers to bring their product and service offerings that complement each other together, particularly online, therefore offering an expansion on the choice being offered to the customer. An SDA will be formed of companies with different product ranges, but with their customer demographics being aligned. We appreciate that this may be difficult, you only have to see examples of organisations within the same group unable to co-exist online (eg. The Co-operative Group).

AND ALL THIS REQUIRES AN I.T. SOLUTION

It's no coincidence that the market leading retailers have come to recognise that to create this "delivery culture", you need to invest significantly in a clear technology strategy.

John Lewis, known for the quality of their customer service, have increased their technology investment from 17% to 37% of their capital expenditure (Retail Week).

10 Core Solutions to Enable Retailers to Compete with Amazon on Delivery

The retail market has changed more in the last 5 years than in the previous 5 decades. We now talk in terms of the “connected” consumer – the “always on” shopper – and “customer centric” retail and although the consumers purchase process is the same today as it has always been (learn, find, purchase, pickup, deliver, service), these activities are performed in massively different and ever changing ways. We’ve listed 10 core components that Maginus has implemented to create an end-to-end technology solution. These core components could be used to enable a Strategic Delivery Alliance (SDA) that unifies eCommerce, Sales, Warehouse and logistics processes.

1. Delivery Matrix

The “brain” of the solution is the Delivery Matrix. It supplies the delivery promise to the customer. In order for the Delivery Matrix to make a promise it understands the availability of product, a matrix of delivery options, delivery locations and addresses.

2. Single View of Inventory

Without a single, accurate view of your stock availability will result in failing to meet delivery commitments made to your customers. Know exactly what you have in each location, view and expedite purchase orders to manage and minimise stock outs and allow intelligent algorithms to analyse available, allocated and on order stock to recommend replenishment.

3. Sales Forecasting by Location

If you agree that the easiest method to meet consumer demands of same-day and next-day delivery, is to place the product as close to the point-of-demand as possible, an accurate sales forecasting module is imperative. The module must understand sales by region, product class and delivery method.

4. Integration

The Strategic Delivery Alliance (SDA) we describe in this white paper relies on several organisations with different systems (let’s assume they will not all be using Maginus) exchanging data securely, fast and reliably. Maginus believe that the integration platform is a **strategic** enterprise-wide resource for any company and has a direct impact upon operational costs and efficiencies. Maginus utilise the iCore Integration Suite to enable a fast and flexible approach to systems integration.

5. Warehousing and Inventory Control

For the retailer or the 3PL having the right Warehouse

Management Software in place will allow you to manage anything from simple stock rooms to sophisticated multi-site warehouse operations. Our inventory management software helps make inventory easier to locate, improves picking accuracy and helps you get products out the door faster.

6. Pick Pack and Logistics

In this white paper we outline the importance of the 3PL and the ability to manage multi company order orchestration through the one system. Maginus has decades of experience implementing systems into complex, logistic organisations providing solutions for pick, pack and despatch from one location for multiple companies.

7. Delivery Aggregation

We believe Delivery Aggregators such as MetaPack have an important part to play in any delivery solution. MetaPack are experts in providing businesses the best and most efficient delivery experience by offering different carrier options based upon package size, geography, and service. Maginus has standard integration into the MetaPack Platform.

8. Point of Sale (POS)

Investment in fantastic functionality offered by online stores and supported by comprehensive back office solutions has often seen the shop POS terminal as the weak link in the omni-channel experience. This has now been solved by Maginus.

Through the terminal or mobile tablet the Shop Assistant has available to them the same complex functionality that the customer has through the website. And the same functionality that the call centre operators have through their CRM system including Delivery Options and Inventory Visibility.

9. Business Intelligence

We recognise that our solution collects a massive amount of a valuable data. In order to see “the wood for the trees” Business Intelligence and graphical representation of data allows managers to explore data, turn it into business insight from which they can make better decisions.

10. Finance and Business Strategy

The goal of every business is to make money. Therefore having the IT solutions in place that allows accurate reporting of the financial reality of an organisation, at both macro and micro level, allows the management team to gain visibility of the business tactics that are working, and those that are not. Agile systems are then required to be able to flex with a change in business strategy – whatever direction that may be.

ABOUT US

Founded in 1992, Maginus has built a solid reputation as a trusted partner for leading multichannel retail, distribution, and eCommerce businesses based upon a successful track record of delivering innovative, technology solutions and providing high quality support, advice and customer service.

WHY MAGINUS?

We believe that Maginus is the only UK organisation able to deliver Enterprise-Level Omnichannel Solutions from a single team of people.

Built up over 20 years, our skills and capabilities stretch from eCommerce, Order Management, Back Office, Call Centre, POS, Hosting to Digital Marketing Services. Our track record in delivering end-to-end solutions within a Business Continuity Framework cannot, and is not, rivalled.

Each and every Maginus colleague is actively encouraged to promote our company values in all their interactions with our customers, partners and with each other.

These include: Integrity, Partnership, Long Term Thinking, Focus and to speak and write in the language of the customer.

WE DELIVER THREE CORE SOLUTIONS:

Microsoft Dynamics AX is our solution for Premium Brand Retailers with complex and multiple sales channels and logistic operations.

Maginus OMS (Order Management Software) for organisations in Wholesale and Distribution or those dependant upon Direct Commerce techniques (Call Centre, Catalogue, Email and Online).

EPIserver Ecommerce for online mid market enterprises seeking a solution for Content Led Commerce or as an integrated component to a Maginus OMS or a Microsoft Dynamics AX implementation.

WE COMPLEMENT OUR CORE SOLUTIONS WITH:

Digital Marketing Expertise and Creative Services from Maginus D&W.

Maginus Managed Services to provide business continuity for all our implementations including hosted, SaaS and on-premise models.

The iCore Integration Suite as the software foundation for all our complex integration requirements.

ZAP Business Intelligence suite for decision support solutions.

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