

RTG Newsletter

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FROM THE PRINCIPAL'S OFFICE

Well, it's time to wish our retailer friends a prosperous holiday season. We (RTG) go the way you go, so we have a vested interest in your wellbeing.

Long-time associate Frank Dell wrote the article in this. Frank has been working with retailers and wholesale distributors on supply chain issues since long before anyone called it 'supply chain.' This article offers an insight that is consistent with our philosophy regarding the juxtaposition of 'core competency' versus 'outsourcing.' Read on!

Bob Amster - Principal, RTG

Outsourcing Logistics

BY FRANK DELL

There are many good and valid reasons for retailers to outsource their logistics function. Typically, good rationale for outsourcing is lack of expertise and/or management. When logistics is not a core company competency of the retailer, outsourcing is a solution. Insufficient volumes may limit the company's ability to negotiate economical freight rates. A change in the business model from domestic to international buying or selling will increase complexity and thus the need to outsource. Even the inability to hire a workforce may justify outsourcing.

There has always been some form of logistics outsourcing. The logistics outsourcing industry evolved from warehousing and transportation. First there was public followed by contract warehousing. By the very definition of using an outside service for warehousing, you have outsourcing. Some retailers built their own facilities and called them distribution centers. Some they operate themselves and others contract out the facility's operation. For the reasons stated above retailers with more than one distribution center may operate some DCs and outsource other DCs. The key logistics components for retailers are the distribution center and shipment to stores.

Transportation is the movement of product from one location to another. Typically, inbound movement is referred to as

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transportation and outbound movement is referred to as shipping. There are numerous forms of transportation including rail, air, water and land. On land we have truckload, less than truckload, package and pool. Some companies operate their own fleet of trucks, while others outsource both inbound and outbound transportation. In many industries the product vendor or supplier provides inbound transportation. When a retailer operates its own truck fleet, it may perform some of the inbound transportation after delivering to the stores. By picking up merchandise at the vendor location the truck is not traveling empty (deadheading) back to the warehouse. This backhaul practice became legal with the 1980 Transportation Act. It is both a good source of income and excellent equipment utilization.

Logistics is the combination of warehousing/distribution and transportation. The evolution has been from warehousing and transportation to distribution, to logistics and now Supply Chain Management (SCM). The scope of what is included expands with each iteration.

Third Party Logistics (3PL) is the latest industry term. What was a contract warehouse company is now a 3PL provider. Many businesses that provide transportation services now call themselves 3PLs. The intent of the term is to convey a full service provider of all logistic services. Some truck carriers call themselves 3PL by adding a warehouse. Some warehouse operators outsource transportation and call themselves 3PL. The reality is that 3PL firms rarely do all things well. If the 3PL started as a trucking firm, it generally does transportation well, but the other services are weak. This is not necessarily a negative. Some retailers have complex transportation/shipping requirements and less demanding warehouse requirements. The important issue is not be fooled by the term 3PL, but to look for strength and experience.

Moving from a company operated logistics system to outsourcing may or may not result in a cost reduction. A poorly designed logistics system or one with weak management could result in saving and/or improved customer service when transferred to a 3PL. While cost is always important, it should not be the only reason for outsourcing. A superior logistic system can provide a competitive advantage. Wal-Mart is the perfect example of a company where a superior logistics system has provided it a significant competitive advantage. Customer service must be

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equal to or better than the industry norm. On time delivery and complete orders are the basics. Some customers now specify a 2 hour window for deliveries. In the fashion industry every store is to have the merchandise on the same day. Out of stocks only lead to lost sales. As more companies understand these points, the acceptable customer service bar continues to rise. Not achieving the industry norm can be a competitive *disadvantage*.

After rational justification for considering outsourcing, planning is the key to success. The starting point is a realistic forecast of volumes for the next five years. Either wildly optimistic or low ball forecast result in an unsatisfactory working relationship between all parties. For unless the outsourcer can do accurate planning and staffing to handle the expected workload the results will not be what is expected. Clearly identify the work content in a performance matrix. For example all shipments should be made within twenty-four hours of receipt or warehouse shrink must not exceed a specific dollar and unit amount.

One reason some retailers consider outsourcing is the need for good technology. Their systems may be old and not taking advantage of advancements in logistics. The problem here is the technology and people interface between the company and the outsourcing firm. Unless the interface is electronic the result is more work and more errors. One should not be wowed by an outsource firm's technology unless it can be used easily.

The selection process is straight forward. Prepare a Request For Proposal (RFP). Research potential bidders and interview them. Evaluate proposals based on fulfilling all your needs. Narrow the list down by checking references and observing their operations first hand. An experienced logistics person should spend some time in the potential outsourcer's facility. Is the facility clean? Are forklift trucks being driven safely? Are normal procedures being followed? Do workers handle products with care or just throw them on the equipment? Is proper maintenance being performed on mechanized equipment? Note that, in sales presentations, anything is possible and the world will be promised, but it is rarely delivered.

Proper planning for implementation is critical for success. Since the current operation must continue to function until the outsource operation is up and running that means dual work.

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Phase in the product line as the big bang approach rarely works. Expect added cost during the phase in time period. Typical outsourcing agreement is for three to five years. Any new operation takes some time to get up to speed. Six months is a reasonable time for a new operation to be achieving the required performance matrix goals. Months four, five and six should show progressive improvements. Over the course of the contact, a steady state for performance and cost should be achieved. If there are wild swings in performance, all parties must work together to resolve the problems. Learn and don't repeat the same mistakes.

WHAT'S NEW

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We have successfully completed

We have successfully completed two projects to assist in the evaluation and selection of retail software for Ski Market and the American Museum of Natural History. Each of those companies will announce their respective selections.

RS&S

Retail Systems and Services (RS&S) completed support for a major specialty chain (600+ stores) in developing their new planning, assortment planning, store planning, store clustering and allocation processes in preparation for new Advanced Planning systems. RS&S played a role in defining the concepts that are being added to the existing methodologies and processes as the new systems being implemented. RS&S also supported the vendor-retailer System Design Workshops in which the new system methodologies were built around the new processes.

RS&S supported a major Department Store Chain in considering and evaluating various Assortment Planning and Store Clustering systems to meet the new process that were defined earlier.

RS&S is beginning a new project to help a major Autoparts Specialty chain develop their Merchandise Planning process, organization and system approach in preparation for system selection, evaluation and implementation.

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RS&S recently conducted its 16th annual Merchandise Planning seminar held in Orlando at the Disney Boardwalk Resort from Nov 7-9th 2005. The three-day program included over 25 attendees from various retail companies. This year's program included Process Building, Roles/Responsibilities and Organization topics on Day1 and Advanced Planning topics on Days 2-3. Also on Day 3 the main presenter, Terry Donofrio, was joined by several guest speakers including: Barbara Anderson (CAO), Saman Hong (Optimization) and Frank Zarrello (Assortment, Store and Space Planning) for a series of case studies and special topics.

Barbara Anderson

Barbara Anderson recently spoke on "RFID and Forecasting" at International Business Forecasting conference in Florida, on "New Developments in CAO" at RSS in Florida, and will be speaking on "Future Developments in Retail" for Duty Free Council of the Middle East in Dubai. In October 2005, Barbara was quoted in Retail Technology Quarterly on the effect of RFID on forecasting and store processes. Barbara brings a practical eye to these new technologies and how they can best be implemented, what is hype and what is real, why it is important to prepare for new technologies and what promised benefits a retailer can achieve merely by making the preparations - even before installing the technologies!

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