

The Changing Face of Logistics

The impact of technology in the 21st century has been to change our behaviour, and the way we interact with each other. Our new behaviours as consumers have actually created an entirely new logistics regime.

Before we discuss what is changing, I would like to take a brief moment to look at what will not change; the principles of logistics. Broken down into its most fundamental principles, logistics is simply the study of time and motion. When applied to commodities, or even services, the optimum coordination of the three elements of time, motion, and commodity produces efficiencies.

Many years ago, before the establishment of large organisations and supply chains, the attractiveness of efficiencies in logistics were limited. Deployment of defence forces was the first, and at the time the only, serious logistical operations that could benefit from the economies of scale and efficiency that better coordination could bring.

While each efficiency improvement in the smaller supply chain may seem insignificant, when applied to large organisations with large volume movements, the benefits can be enormous. For example, just achieving a 0.1% reduction in supply chain costs may seem like nothing particularly significant, but if this is achieved in a business such as Walmart, with an annual supply chain cost of over USD\$16 billion pa, the benefit will represent USD\$ 16 million pa, which will go straight to the Net Profit bottom line.

Small efficiency gains multiplied by large volume can give an organisation enormous benefit in Customer Service through better in-stock rates and faster speed to market.

Such efficiencies can provide significant savings in Cost of Doing Business (CODB), Cost of Goods Sold (COGS), it can increase the Net Profit, and increase the Return on Investment by enhancing the value of the business and its share price.

By virtue of the benefit of having a better in-stock rate, sales and the market share of the business will increase. By optimising stock flow and reducing held inventory, risk is reduced.

In a small business, the benefits may be limited, but when dealing with larger volumes, the benefits can be immense, and when profit margins are tight, it can even spell the difference between profit and loss, between business success and failure.

The World Today

Another unmovable principle of our reality is this; *our world defies clear definition, the only sure thing is change*. When planning for the future, we can be sure of this one thing only.

Despite how unpleasant the Global Financial Crisis (GFC) has been, it has given us some benefits; by applying enormous pressure to many enterprises it has driven a wealth of new and clever innovation. The slowdown in trade caused by the GFC has accelerated efficiencies, driven inventory reductions and operational cost reductions. The uncertainty in the environment now has created a new agility and flexibility in businesses. Lethargy in the boom times has been replaced with lean ideologies.

Even during the darkest days of the GFC, the total global market has continued to grow, and our “global village” paradigm has become more embedded. The global population continues to grow, there is immense industrial growth particularly from the emerging markets, global trade flourishes with the new upcoming economies of South America, Africa, Asia, and the Middle East, internet penetration is growing exponentially throughout many densely populated countries, while consumer affluence and sophistication are all combining to drive trade volumes up to record highs.

Corporations have continued to evolve and now dominate not only commerce and trade, but also our culture and subconscious behaviours. As these large organisations continue to grow, they accumulate immense pools of wealth, intellect, and alliances, making them a formidable competitor.

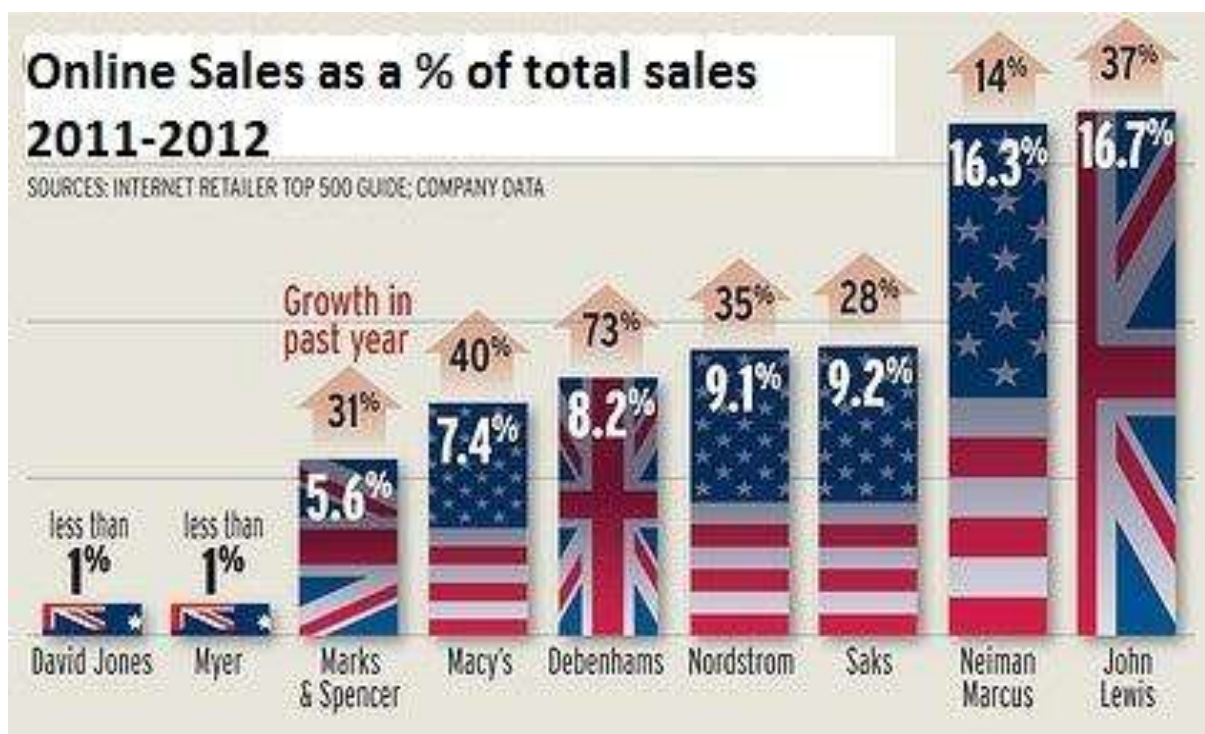
In amongst all of this, there is change, and change brings opportunity.

I believe that one of the biggest areas of change and opportunity is in Consumer Logistics. Here we are witnessing the most dramatic step-change to how business is being conducted that we may ever see in our lifetimes.

Consumer Logistics, or B2C Logistics (Business-to-Consumer), replaces what the consumer used to do; completing the “final mile” of the supply chain directly into the consumer’s home.

Interestingly, while being facilitated by technology, this shift is being driven from the front end; by the consumers themselves. We are seeing enormous changes in the habits and demands of the consumer.

The graph below illustrates the current share of online sales that these well-known retailers are enjoying, and even more impressively, the growth rate of their online sales.



The Shift in Consumerism;

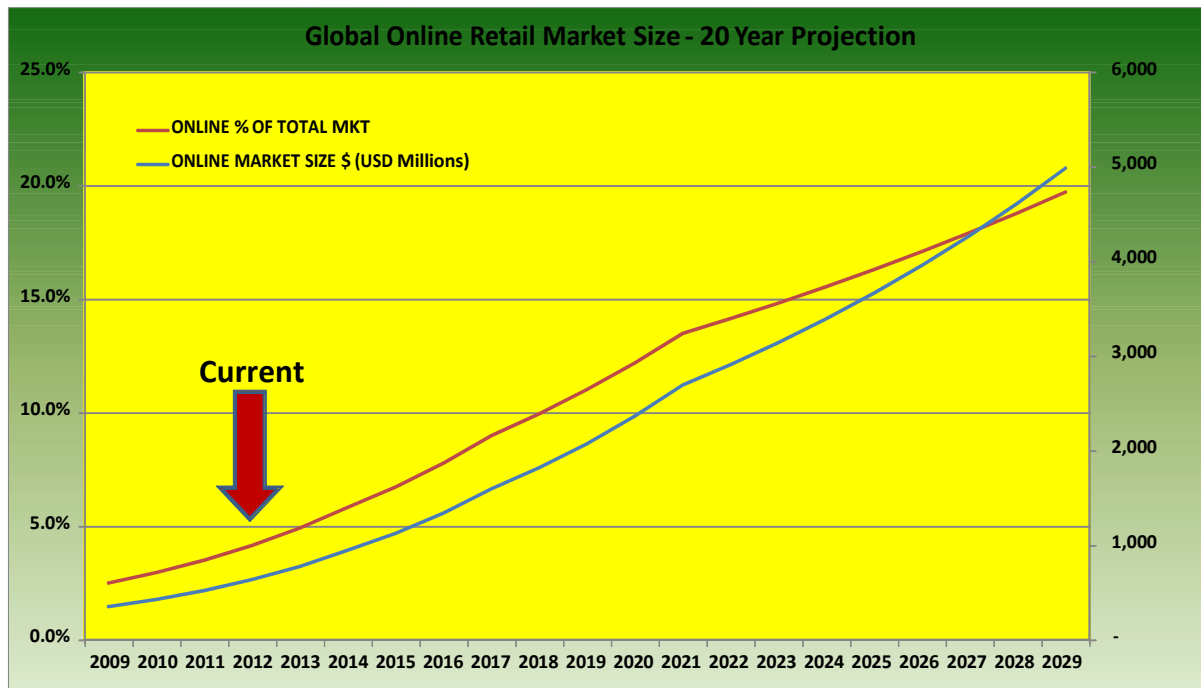
Today's consumer is unlike any we have seen before, even as recently as 10 years ago. The key changes that have occurred can be described as follows;

- **Affluence and sophistication;** the average consumer now has more disposable income, and is more highly educated and informed, with an increased and typically instant access to information whenever desired.
- **Wider range;** the average consumer now demands a much wider range to choose from, expecting to make a selection based on the exact features desired, without compromise. Internet shopping provides virtual access to a vast range of goods with almost unlimited features.
- **Time-poor;** people now spend more time at work on average, but also have more demanding family and social lives. People value their time more highly now, and are shifting to internet shopping as a way of saving time.
- **Best deal;** being so well informed, the average consumer is aware of paying too much, and will shop around for the best deal before purchasing, and the best deals are usually offered on the internet where vendors enjoy significantly reduced operating costs.
- **I want it now;** the modern consumer does not wish to wait unnecessarily, as it is human nature to desire an item the instant the decision is made to purchase it.

New channels have opened up as powerful platforms for marketing and trade;

- **Bricks and Mortar;** physical stores, dating back to as far as when the serpent sold the apple to Eve. Competing pressures on their operating costs are causing shops to now rethink how they do business.
- **TV;** TV has become the most common electronic medium, and the most powerful in influencing consumer decision making. Numerous shopping channels now run 24/7 on most networks.
- **Internet;** now a well embedded channel in our shopping habits, with specialist internet retailers such as Amazon leading the way, and major international retailers surging forwards on the back of significant new investment.
- **Mobile Technology;** expected to surpass the more traditional internet shopping in the years to come as consumers become increasingly mobile.
- **Social platforms;** such as Facebook and Twitter are continually inventing new services, and are expected to penetrate further into marketing and sales to the consumer

The graph below illustrates the anticipated online retail market size over the next 20 years, and its share of the total global retail market.



The change in consumer shopping habits is having an enormous effect on how supply chains must adapt to serve them and compete in the market place. Whilst some well-known retailers and 3PL/Courier businesses are investing in new practices and technologies, it could be argued that no-one is doing it well just yet.

Very suddenly, the features demanded by consumer logistics are becoming apparent, and they are nothing like our old retail logistics.

Typically, Consumer Logistics now features these more demanding disciplines;

- **High transaction numbers/ Single pick items;** instead of picking cartons or pallets, single units must now be picked for each individual consumer. To reach a critical commercial mass, this requires tens of thousands of transactions per day.
- **EDI driven over multiple channels;** with this many transactions, it must be 100% flawlessly interfaced EDI, with no manual intervention. The system must also be capable of dealing with the many platforms and channels both upstream and downstream.
- **Value Added Services (VAS);** packaging and labelling every item is the bare minimum, with an array of new VAS being introduced
- **Continuous pick/ Quick response/ Diminishing lead times;** the consumer wants it now. Lead times are under constant pressure and the happy days of a daily or weekly delivery schedule to a store are over.
- **Wide distribution geography;** distribution can be absolutely anywhere in the world, including war zones and the polar caps.
- **Reverse logistics;** the ugliest term in logistics, the volume of returned items must be checked, validated, sorted, transacted, and putaway. Some retailers have reported return rates of up to 20%.

- **Direct facing/ Retail packaging/ Customer service;** there is no outer carton protecting the consumer's item from dust, dirt, moisture, and rough handling. And there is no primly presented diplomatic retailer between the warehouse operation and the consumer. Handling and attitudes must change.
- **High tech/ Proactive communication and information dissemination;** Consumers expect to be kept informed of the status of their delivery, and may even require interactive feedback to arrange the final delivery or assembly.
- **Live & public feedback/ Scrutiny;** Online "reviews" are the new way to replace the "touch and feel" of appraising the item in the store yourself. And where a salesperson may be somewhat biased, a consumer can be sure the reviews, written by fellow consumers, will provide a better picture of the items performance and its vendors delivery service to them.

The Challenge of Consumer Logistics

Attending to these new demands all at once is a challenge to even the most advanced operation with the most skilled team of logisticians.

The key items that must be addressed can be regarded as the following;

- The ERP System must seamlessly connect and coordinate numerous business and consumer "silos";
 - Retailer "Shopping Basket" (or Client interface if a 3PL)
 - WMS
 - Freight & Distribution management
 - Borders and Destination management
 - Consumer interface (email, sms, facebook, twitter, etc)
 - Returns management
 - Exception management
- Standards will need to be at world's best practice level;
 - ISO compliant and certified
 - Accuracy must be close to perfect
- Hygiene must be at a level acceptable to the most stringently controlled destination
- 24/7 Operations to ensure lead times are always pushed to a minimum, yet seasonality such as the Eids/Christmas/Chinese New Year rush must be handled flawlessly
- Customer Service & Communication must be proactive, efficient, and diplomatic.
- Information Management will require extensive and interactive databases;
 - Customs data per item per destination
 - Extensive Customer data
 - Distribution method options per item per destination
- Cost Reductions will continue to be a focus in this super-competitive market
- Lead Time Reductions will continue to be expected by consumers
- Flexibility and Adaptability will be the foundation upon which the most successful and enduring operators are built.

Consumer Logistics – The Opportunity

To summarise, in addition to complying with the existing disciplines of a logistics operation, there are four areas that, if given particular focus, will position an online retailer/3PL in a strong position of capability and service, these being;

- **IT systems (what it knows, what it does, what you do with it);** the IT system must be the core of the business, it must have flawless connectivity upstream to the retailer and its forecasting/ordering system. It must handle warehouse operations, VAS, returns, freight and distribution, information management of Customers, borders and destinations, and proactive communication to the consumer via multiple channels. It must also competently facilitate the final mile delivery to the consumer (as this is the part that will leave the lasting impression on the consumer, and will determine if your customer returns). The volume of transactions will simply not allow manual transacting.
- **Continuous innovation;** it is a certainty that things will continue to change, the consumer will become increasingly demanding, and the market will become increasingly competitive. Staying ahead of the competition will be the only way to ensure sustainable success. The business must embed a culture of empowerment to its employees to continuously innovate and improve, to encourage, reward, and enjoy change.
- **Agility;** to build an operation based on the needs of today only will ensure that the business is obsolete tomorrow. The structure of the business must be positioned to expect change and be agile enough to flex according to the changing demands.
- **Customer focus;** dealing directly with Customers will require many logistics operators to change their behaviours. In the new world of the demanding consumer, competition is high, and the only way to retain a customer is to continually delight and exceed the customers' expectations.

We are at a brief moment in time where our market is suddenly moving in a new direction. No one is yet the master of this market, and so there is opportunity for anyone with the vision, determination, and courage to seize it and take it to the next level. Interesting days ahead.....