



The Retail Supply Chain

Summary Market Report

- Which supply chain strategies are successfully being implemented by retailers and manufacturers in order to increase flexibility and drive the customer service experience?
- What defines a successful outsourced logistics model and what are suppliers still looking for from their logistics service providers?
- To what extent are key supply chain initiatives among retailers and manufacturers creating competitive advantage?

This initial report sets out to present indicative answers to these questions and find evidence of UK retail sector organisations making substantive strides to embed customer focus and continuous improvement activities into their ways of working.

The Retail Supply Chain

Strategic significance

The strategic significance of the supply chain is clearly understood by retailers and manufacturers, who recognise that the correct supply chain strategy presents a source of competitive advantage:

"We don't have as much buying power as some of our competitors, therefore our supply chain must allow us to compete"
Retailer

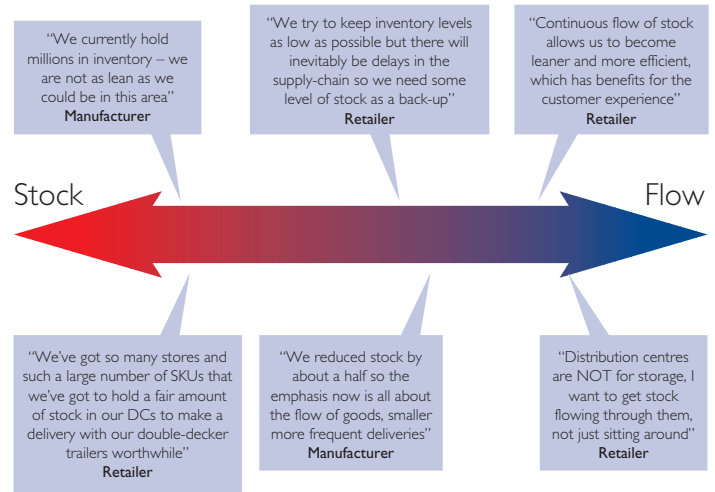
"Logistics has moved very firmly from being seen as a necessary evil to something that can add enormous value when it's working well"
Retailer

"Logistics is definitely about value-add now, but it wasn't always the case"
Manufacturer

The report found that a company's financial performance and its position in the supply chain also has a bearing on organisational strategy, such that most evidence of customer-focused behaviour and decision making is to be found within organisations that are performing well.

However, the reality is that truly focusing on end customer needs requires excellent forecasting or an extremely responsive supply chain. This report reveals a trend of manufacturers successfully working towards increasing product flow, partly as a result of the demand from their retail trade customers.

Among retailers, the grocery sector shows the greatest focus on flow in the supply chain, due to the fast moving nature of their sales and the importance of availability.



The Relative Emphasis on Stock vs. Flow in the supply chain

Level of satisfaction

The level of satisfaction with third party providers tends to reflect the nature of the relationship between client and provider to the extent that, when an outsourced solution is working well:

"We jointly look at improvement initiatives and regard them [the provider] as partners"
Manufacturer

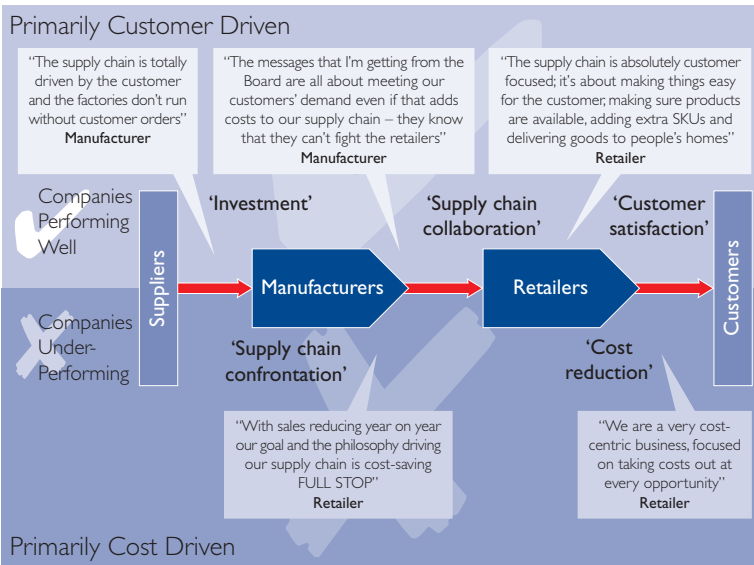
When a provider is proactively providing ideas to meet current and latent needs and a true business partnership is created, the benefits to both parties are very apparent:

"Our relationship with our 3PLs are as close as they can be with a separate business. We have a high level of symbiosis"
Retailer

In contrast, greater levels of dissatisfaction were experienced by clients whose providers do not adopt a partnership approach, but limit the scope of their relationship to the fulfilment of transactional needs:

"they do not add value as we would expect a 3PL to do"
Retailer

Most partnerships appear to have been established as part of a strategy for growth, or one that was focused on cutting costs, but some of these strategies are now being reviewed:



Customer-focused decision making in organisations that are performing well





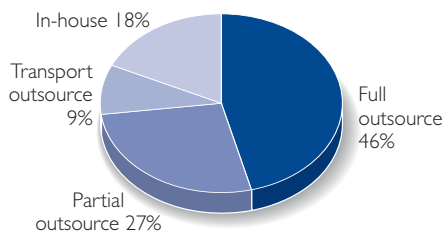
"Our 3PL partners have delivered significant savings over time, however we believe that with our current need for responsiveness, a 3PL model does not give us a sufficient level of control"

Retailer

The challenge now for all 3PL businesses is to find a way of delivering increasing service options and flexibility at ever reducing cost, whilst ensuring that the overall relationship with both manufacturer and retailer remains strong.

Full outsourcing

The preference for full outsourcing of the management and operation of distribution centres as well as transport was high in the report sample group, with 46% of respondents reporting full outsourcing. Partial outsourcing represented 27% and is defined as the outsourcing of some distribution centres as well as transport.



Continuous improvement

The successful outcome of continuous improvement initiatives is significantly influenced by the level of proactive involvement by the logistics provider as well as willingness on both sides to implement a programme. A proactive approach by the 3PL also increases the levels of satisfaction for the client:

"Our logistics providers come to me on a regular basis with a variety of cost saving initiatives that they want to go ahead – they plan and own the whole process from start to finish"

Retailer

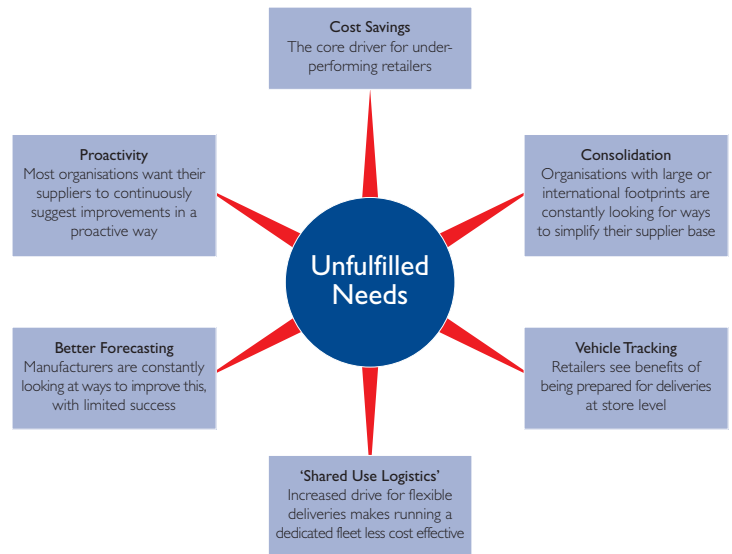
When the 3PL adopts a less proactive approach, the relationship is viewed less positively:

"My suppliers do come to me with initiatives at our quarterly review meetings, but only because I twist their arm! Their view is that there just isn't very much cost saving to be made"

Manufacturer

Unfulfilled Needs

Unfulfilled supply chain needs are often specific to the organisation's position in the supply chain or to the industry sector, but several broad issues are common to many retailers and manufacturers. It is these, amongst others, which represent opportunities for partnerships between retail sector clients and the logistics provider.



Unfulfilled supply chain needs common to many retailers and manufacturers

Lean principles

Retailer and manufacturer understanding of Lean principles and their strategic significance for supply chains varies considerably. Many organisations understand waste removal as a central concept within Lean logistics, though some define waste simply in terms of stock:

"In the context of Lean, waste refers fairly specifically to stock"

Retailer

Others identify it as related to by-products:

"We're currently trying to reduce cardboard wastage. Getting rid of little non value added costs can be as effective as across the board waste reduction initiatives"

Retailer

Some organisations have successfully adopted a holistic view whereby:

"Waste for me is all about reducing the number of touches in the supply chain, double and triple touches really increase cost and waste time"

Retailer

Others have incorporated lean thinking into their own ways of working:

"Lean Logistics is what we refer to as business process improvement, which is taking the waste out of a process, so it's probably very similar"

Manufacturer

Overall the report finds that there is scope for the retail sector to more fully embrace the strategic implications of adopting a lean approach, to create more responsive and agile supply chains and a source of competitive advantage.



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Shared Supply chain issues for Retailers and Manufacturers:

Drivers	Bottom line performance fundamentally drives Supply Chain and Logistics initiatives.
Role of Supply Chain	Supply chains and logistics are now being seen as an area in which organisations can add value and differentiate, not as a cost of sales.
'Waste' Removal	Most organisations are implementing initiatives to remove 'waste' from the supply chain in order to create more efficient processes. However, organisations have different definitions of what 'waste' might entail.
Stock vs Flow	Retailers are becoming less reliant on high levels of stock and becoming less risk adverse, with many organisations trialling stockless or flow-improvement initiatives.
Continuous Improvement	Most organisations strive for continuous improvement, but there is a relatively even split between those who have formal programmes in place and those who do not. Equally though, all client companies want and expect logistics suppliers to proactively come forward with improvement initiatives.
Alignment with End Customer	Although all supply chains are set-up to serve the end customer, there are differing levels of focus on customer needs versus internal efficiency. Organisations which are under-performing tend to look internally for cost-based improvements rather than focusing on higher levels of service.
Partnership	Almost all organisations are seeking logistics providers who provide ideas to meet current and latent needs, although only 26% of the respondents were currently experiencing that level of proactive partnership.
Unfulfilled Needs	Some of the common unfulfilled needs include: further cost savings, supplier proactivity, consolidation of contracts and suppliers, better forecasting systems, shared use logistics and vehicle tracking.

The research from which this summary report is derived was commissioned by Unipart Logistics and undertaken by White Space Insight. The purpose of the research was to deepen the understanding of customer supply chain drivers, logistics models and improvement initiatives, to assist Unipart Logistics in providing optimal solutions for Retailers and Manufacturers.

To conduct the research, interviews were held with major companies from several different areas of retail and manufacturing including some of the following. Respondents included representatives from middle and senior management within supply chain and related business divisions. This report is based on 35 interviews in total.



Unipart Logistics provides logistics and supply chain solutions across a broad range of sectors, including: Retail, Manufacturing, Technology, Aerospace and Automotive customers. Current clients include Boots, Halfords, Homebase, Vodafone, Jessops, 3, Sky and ASOS.com. Core services include warehousing, transport, inventory management, supplier management, service and repair management, information systems, process design and commercial services, which can be combined to provide bespoke solutions for specific clients.

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