

E-commerce: pioneering is allowed but mistakes are not



E-commerce has a major impact on logistics activities, as various retailers have already found out for themselves. The problem is, when it comes to the optimal logistics set-up, there are currently more questions than answers. Joke Vink, senior consultant at Groenewout, claims that retailers face a dilemma: they must sometimes be pioneers of logistics solutions, but they may not make any mistakes. If they do, customers will punish them immediately.

Can anyone still be in any doubt about the impact of e-commerce on the retail sector? Online sales rose by an impressive 22 percent in 2015. The total value of products sold through webshops amounts to 8.41 billion euros. Retailers who want to gain a share of that market will have to adapt their business strategy accordingly, as most of them have already realized.

However, a different business strategy also implies a different logistics strategy. The underlying function of logistics doesn't change, of course; goods must still be transported from A to B. But e-commerce is influencing the way in which that is done and the volumes and frequencies involved. While the number of orders is indeed rising, the number of lines per order is decreasing considerably. Lead times are getting shorter as a result of late cut-off times and fast deliveries.

Importance of quality

The huge importance of quality is perhaps the biggest change to affect retailers' logistics strategy. In a traditional retail operation, the store softens the blow of any mistakes made at the distribution center. If a truck arrives late at a store, the only people kept waiting are the shelf-stackers. If a certain product is missing from a delivery, nine out of ten shoppers will buy an alternative instead.

These kind of mistakes can be fatal in an e-commerce operation. A late or incomplete delivery has a direct impact on the customer experience, which is why an e-commerce operation calls for different types of employees than a traditional retail operation. During order picking and packing, the focus should be on quality rather than quantity. That requires employees with a high degree of customer focus.

Fluctuating order flow

So what is the precise impact of e-commerce on internal logistics? The answer is, in addition to the changing order pattern, a tremendously fluctuating order flow. The number of orders varies day by day and sometimes hour by hour. If marketing sends out a newsletter at four in the afternoon, that will directly influence the number of orders. If a competitor raises the price of a popular item, the number of orders will shoot up the very same day.

Unlike in a traditional operation, retailers cannot adjust volumes to smoothen peaks. After all, the customer is king and nowadays expects speed. Retailers can do little

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more than their best to anticipate and scale up rapidly to deal with peaks in the order flow.

That requires good alignment with marketing when it comes to promotional activities, but also close collaboration with the temping agency to build up a flexible layer of workers.

Inventory reliability

Another change relates to inventory management. For retailers who are continuing in the traditional manner, growth in the number of sales channels is increasing their stock levels and hence putting increasing pressure on their working capital. Furthermore, because the turnover is spread across more sales channels, the inventory risk is also higher.

The only way for retailers to limit the negative effects is to look holistically at the total supply chain inventory – including suppliers' stock – instead of managing inventory separately for each link in the chain. To achieve that, all the links must be able to share inventory information, plus the reliability of the information must of course be improved.

Inourced or outsourced fulfillment

In terms of sales channels, online platforms such as Amazon, Alibaba and Bol.com are expected to account for approximately 40 percent of the total online revenue by 2020. Companies that don't join these platforms will miss out on lucrative sales opportunities. However, the real question is whether these platforms should also handle the order fulfillment. Amazon and Bol.com offer the opportunity, but they also charge steeply for it. So insourcing might appear to be the best option, but that means an increase in the number of order flows, each with their own characteristics.

Another approach is to leave the fulfillment to the supplier, but not all suppliers are equally well equipped to deal with drop shipments. If they need to hire in a third party to do so, that will incur extra costs and introduce 'interference' into the chain. With respect to the fluctuating order flows and the importance of quality, the insource approach seems the best – and in case of sufficient scale also the cheapest – option. It enables companies to remain agile and make the right decision in each situation.

Quality vs. speed

Needless to say, e-commerce impacts not only on the internal logistics but also on deliveries. While the demand for same-day delivery is increasing, it is still relatively small. More important for now is service quality and delivering on promises. That calls for a reliable logistics operation and good delivery partners who partially fulfill the role of store employees. It's no coincidence that a player like Coolblue has now decided to do some of its deliveries itself.

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Furthermore, customers like to have a choice. They want to be able to opt for same-day delivery when they need something quickly, but also to select a delivery window or to pick up from a chosen location when they want more flexibility in when their order will arrive. Significant developments are the growth in the number of collection options and in the initiatives to deploy local, often independent, couriers for the last mile.

Struggling to tackle delivery issues

Many retailers are still struggling to tackle delivery issues. The challenges begin in the packing process which is often given too little thought. This leads to many breakages and defects and hence high repair costs, especially in the case of international shipments. The result: dissatisfied customers who will think twice about placing another online order.

A second challenge for retailers relates to the combination of their online and offline operations. Concepts such as 'click & collect' or 'click & reserve', in which store employees are involved in logistics tasks such as order picking and packing, are attracting a lot of attention. However, the results have been mixed in practice. Most store employees are primarily focused on the retail operation, so it can be hard to convince them to suddenly give priority to an anonymous customer who has ordered something online.

Free delivery or not?

The costs of deliveries and returns are a final topic of discussion. Should they be passed on to the customer or not? The current industry standard seems to be free delivery and free returns, but customers are well aware that this part of the process costs money. The growth in the number of delivery options may well silence this debate. Parcels will still be delivered for free, but only if customers place no extra demands on the service. Anyone who wants to choose their preferred delivery option or delivery window will have to pay for it.

Last but not least, e-commerce also has an impact on automation systems. The existing IT systems will have to be connected together to be able to share information about orders and inventory levels across all sales channels. In the distribution center mechanization can be a way of reducing the logistics costs providing that the mechanization solution is flexible and scalable.

Pioneering without mistakes

Right now, there are clearly more questions about the consequences of e-commerce for the logistics operation than there are answers. As yet, the best logistics strategy and the best practices can't be found in any textbook. Setting up an effective logistics operation demands a lot of pioneering and good collaboration with partners such as packaging suppliers, warehouse designers and transport companies.

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If you have an e-commerce operation, the advice is: don't just do what other e-commerce companies are doing, because the risk of failure is too high. Instead, analyze your own situation. Examine your company strategy, your customers' expectations and the implications for your logistics strategy. That should build the basis for the design of your internal and external logistics operation.

Remember too that flexibility and speed are crucial. It is essential to be agile enough to respond quickly whenever necessary, especially because there are more questions than answers for now. As mentioned, pioneering is allowed but mistakes are not. If your chosen logistics strategy doesn't work, you must be able to rapidly adapt your approach accordingly.

More information

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