

A brave new world



The UK supermarket sector is in a state of flux with margins under pressure like never before and their logistics networks are no exception, says **Andrew Don**

Grocery retailing used to be simple: employees arrived on the shop floor with minimal qualifications, they did their time stacking shelves and on the checkout and, if they worked hard and had a modicum of talent, they moved into management and might even make the board.

Supermarkets were run on instinct. The instant data that is commonplace today and that is so crucial to making decisions from calculating the best routes from supplier to DC to maximising load efficiencies was out of reach.

The industry structure was simple, too. A supermarket was a shop of up to 20,000ft² and anything bigger was a superstore. Convenience stores were an American phenomenon, the

discount sector was relatively tame compared with today's continental invaders and, as for online shopping, it belonged with time travel – in the world of sci-fi.

Today the big grocery retailers are under siege from without as well as within. Internet shopping, including click and collect, mobile technology, convenience retailing, the phenomenal rise of Aldi and Lidl, along with savvy shoppers, have turned grocery retailing and distribution into a science in which information technology is king.

Revolution at all levels

The revolution is happening at all levels, including in logistics: the talk at the Institute of Grocery Distribution's (IGD) supply chain conference last November focused on the way

in which the supermarkets were looking to cut billions from their supply chain costs, including their logistics and distribution functions.

The buzzword was collaboration – how to cut waste from the process and how co-operation could help – a brave new world that required a new way of thinking in an industry that has traditionally been averse to sharing its trade secrets.

Costs have historically been driven up in the grocery sector because of the desire for fully dedicated DCs and secondary distribution fleets.

Chris Sturnam, chief executive of the Food Storage and Distribution Federation, says: "The big issue is that retailers guard their brands diligently and the thought of having a Sainsbury's vehicle delivering to a Tesco store whether it is owned by Sainsbury's, or one of their contractors, is anathema."

Challenge

Richard Jones, IGD senior business analyst, supply chain, says that from a retailer perspective, there is no doubt that cutting costs from the end-to-end supply chain is a significant challenge.

This is heightened by retailers needing to focus on availability in-store, while also increasing their capability to service growth channels, particularly online and convenience, he says.

"Efficiencies come from having greater clarity on the location of stock across the total network, which can eliminate double handling and avoidable miles deploying stock."

Jones says that, for example, retailers are increasingly collecting products sourced internationally direct from source rather than shipping them via a network of agents and importers before delivery into a UK DC.

Retailers are also looking at how network requirements vary with changes in seasonal demand and are building in network flexibility to accommodate this.

"This means that the location of individual items of stock can vary across the year to maintain operational efficiencies," Jones says. "Stock is being consolidated in fewer, centralised locations and only moved when there is demand. This again reduces the chance that stock has to be returned or relocated."

Another dynamic is increased usage of back-hauling and front-hauling, with retailers and suppliers using their own vehicles to collect and deliver from each other as necessary.

"Another way to help maintain full vehicles across the supply chain is the use of consolidation sites. These depots enable suppliers to deliver to retailers in economic quantities, while also allowing retailers to draw full loads into their network," he says.

Availability a priority

Jones points out that availability is always a priority for retailers so they will continue to maintain full control of their logistics operations, but will increasingly look for ways to reduce total miles travelled and increase utilisation.

"This will be achieved by retailers and suppliers working together on a day-to-day basis to share capacity. This means jointly planning flows to identify where movements in the chain are not adding value and co-operating when developing their strategic plans to create more efficient physical networks," he says.

Kellogg's and Kimberly-Clark were reported

to have saved 7% of transportation costs in the space of just 12 months, and reduced carbon emissions by 370 tonnes, as a result of horizontal collaboration.

Asda has collaborated with three competing manufacturers and a third-party logistics provider to merge transport operations in a project said to have dramatically improved supply chain responsiveness and on-shelf availability, without creating extra costs.

Sleeping with the enemy

Martin Atkinson, head of Norbert Dentressangle's food business unit, says collaboration increasingly involves "sleeping with the enemy", requiring a new level of openness and trust between companies that do not make natural bedfellows.

"We are finding more and more that supermarkets are looking for a collaborative approach," says Atkinson. "They have taken to their mind that they don't want to run a truck and they say these are the routes, which ones fit with you and can you quote for them. They are very happy to take out their own lanes and hand them over."

It is a change in the way they do things, rather than just trying to get services cheaper. "They are saying 'this is what we do as a network. Can you get involved in that network with us?'"

"Supermarkets benefit when they can see other people's lanes and they can take vehicles off the road and pay a lower price. One vehicle might do several supermarkets' distribution before returning to base. You can drop into a

supermarket DC, you could deliver there, you could do a store delivery off the back of that and you might do a collection as well. The traditional model was you would do a delivery and then you might have to run empty to do a collection," he says.

Atkinson thinks the next five years will see an increasing number of collaborative approaches and they will probably be more structured: "You will see every day an integration between maybe third-party systems and the retailer systems so you will see a dynamic picture."

Atkinson believes retailers will run smaller fleets and they will adopt more strategic partnerships to keep costs down. "Everyone has to be more open-minded about what happens today and not next year or the year after because things evolve," he says.

He says logistics providers are no longer pure handlers of product, but creators of value and those who share customers must also be prepared to share information, ideas and best practices to deliver improvements.

A state of flux

Steven Mitchell, director of the industrial team at commercial property specialist Colliers CRE, whose clients include Asda, the Co-op, Ocado and Lidl, believes the industry will find it hard to share distribution because of secrecy and non-co-operation.

"There is too much vested interest and investment at stake," he says. "The jury's out on what will happen next because all mainstream supermarkets are in a state of flux as

they reorganise their retail portfolios. The way the market is moving will create some interesting changes in distribution networks.

"Most of the mainstream supermarkets have mature supply chains set up to serve conventional bricks and mortar. They will now deliver to smaller units on high streets probably with 7.5-tonne vehicles rather than artics and more deliveries from dedicated picking centres. There's not a one-size-fits-all kind of solution yet because they all have to find their feet."

Mitchell says there will be a shake-out of regional DCs and over a period large warehouses will become less relevant. ■

BARRIERS TO COLLABORATION

- **Technical:** UK retailers use different platforms for delivering products into store making planning any share delivery mechanism difficult
- **Commercial:** no standard commercial model for how the carriage of another's product should be managed
- **Store flexibility:** morning deliveries are the norm – creating a peak period in terms of store deliveries and warehouse processes and, ultimately, inbound transportation into retail distribution centres
- **Delivery processes:** vary widely among retailers, including levels of delivery checking, documentation, returns and value-added services at point of delivery
- **Focus and resources:** many big retailers and suppliers do not have teams in place to look at collaborative transport opportunities.

Source: IGD



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