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Omni-Channel Home Delivery ***Success***

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Omni-Channel Home Delivery *Success*

Omni-channel home delivery strategies and technologies have exploded on a global basis in recent years. There are numerous examples of leading retailers (and others) driving revenue, reducing costs and achieving differentiated customer service. During this time I have been able to engage with these retailers and other industry leaders to distill some of the best practices in the market that can truly change a retailer's performance. This document captures that thinking.

A number of market leaders have taken different approaches to Omni-channel home delivery and the results are incredibly encouraging as they move their supply chains from the back office to the front office. However, most retailers have a lot of catching up to do, so the opportunity is clearly still there for those who dare to change their supply chain "attitude". This discussion goes beyond the supply chain itself to the revenue producing side of the business. Being able to engage the folks who own the customer and revenue in the discussion is critical to a differentiated strategy and dramatic results.

Some of the strategies discussed in this document are relatively straightforward and others are truly counterintuitive and require significant thought. For many retailers, these strategies can deliver significant value now. However, I would be remiss to point out that Omni-channel home delivery is a fast moving journey and that many of today's best practices will be tomorrow's "table stakes." There is more to come and no retailer can rest on even its most recent accomplishments.

The document is broken down into a number of areas starting with strategies, moves into more tactical approaches that can add value to customer and the retailer at the same time and finally ends with some predictions on the future of Omni-channel Home Delivery. As you read the rest of the document, it is important to keep in mind that traditional supply chain thinking can be challenged and with amazing results. The fact that your company hasn't done that doesn't mean that it can't change. It just needs the kinds of concrete examples that are provided here to get your company's attention.

Welcome to the Customer Facing Supply Chain

Many companies are turning to their supply chain for competitive differentiation. You know that this is true when you start seeing commercials and sales pitches promoting supply chain capabilities. However, the difference we're now experiencing is that companies are exposing their supply chains directly to their customers with capabilities that are intended to benefit the customer as opposed to just themselves. What makes this strategy more interesting is that the customer and company benefit at the same time. Welcome to the age of the customer-facing supply chain.

The notion of the customer-facing supply chain occurred to me when I had a chance to see what two companies, Woolworths and US LBM, are doing with mobile apps used by their customers that are powered by their supply chain systems. In both cases, their supply chain and supply chain technology have become part of the "front office" helping them make their selling proposition more compelling and sticky.

Woolworths, the Australian retail powerhouse, has a **30 second commercial** that sums up their entire proposition for online grocery and home delivery. In this commercial, they do a phenomenally simple job of demonstrating how easy and seamlessly it is to order and get groceries delivered. Behind the scenes from a delivery perspective, delivery appointment booking and real-time delivery tracking are all part of the customer-facing apps. What's interesting is how they engage the customer post-ordering. When customers book an order they have 3-hour delivery slots, but when the orders are to be delivered, the slot narrows to 30 minutes and the customer is notified of the tighter time window. In addition, they have a simple real-time "ETA" button that the customers can use to determine exactly when their delivery will arrive. When you evaluate their results, there is an interesting mix that says they have dramatically improved their customer satisfaction. Online revenue is up over 50%, yet the number of customer calls to the call center had been cut in half! Their customers no longer wonder where their deliveries are.

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US LBM is the 13th largest building products distributor in the US. This **video** shows how they are benefiting their customers and themselves (full disclosure: US LBM and Descartes created this for an award submission). US LBM built an application to improve contractor productivity that is tightly tied to their real-time supply chain systems. If you didn't know it, construction is a highly dynamic business with most of the ordering and delivery happening in less than 24 hours. The challenge for US LBM's contractor customers is that they are always on the go and need to know exactly when their material is arriving to efficiently schedule their crews. The benefits of improved visibility to the contractors are obvious, but equally US LBM benefitted from it as well with a 35%

Click on an item below

Welcome to the Customer Facing Supply Chain *(cont'd)*

improvement in on-time delivery for many of their locations, while cutting costs by over 10% and turning around trucks 30% faster.

So what do these two companies have in common? Yes, they have operational excellence. More importantly, they have moved from an internal to a customer facing supply chains focus, providing the customers with the supply chain information they need to make their lives or jobs better. Both companies took some risk to expose the supply chain processes and information directly to the customer. If they are not performing well and don't have the right data at the right time, the customers know it instantly. However, the results are compelling.

> Both companies took some risk to expose the supply chain processes and information directly to the customer.

While the opportunity to use the supply chain as a competitive weapon is big, the implications for the kinds of supply chain technologies required are as well. Several times, I mentioned the need for information to be delivered in real-time, and that the information itself has to be created in real-time. Yet, it's amazing to see who many supply chains try to operate in real-time, but their systems cannot. The best people and process alone will not get the job done when you need to share actionable information with your customers. The technology measuring stick is very simple. If your supply chain systems are still living in a "batch" world and don't include real-time GPS updates, then it's likely that instead of being enablers, your technology is an inhibitor to achieving the customer facing supply chain.

Making your supply chain part of the "front office" can unlock value for your customer and your own company. However, the greatest challenge to getting there may come from your existing supply chain systems' capabilities.

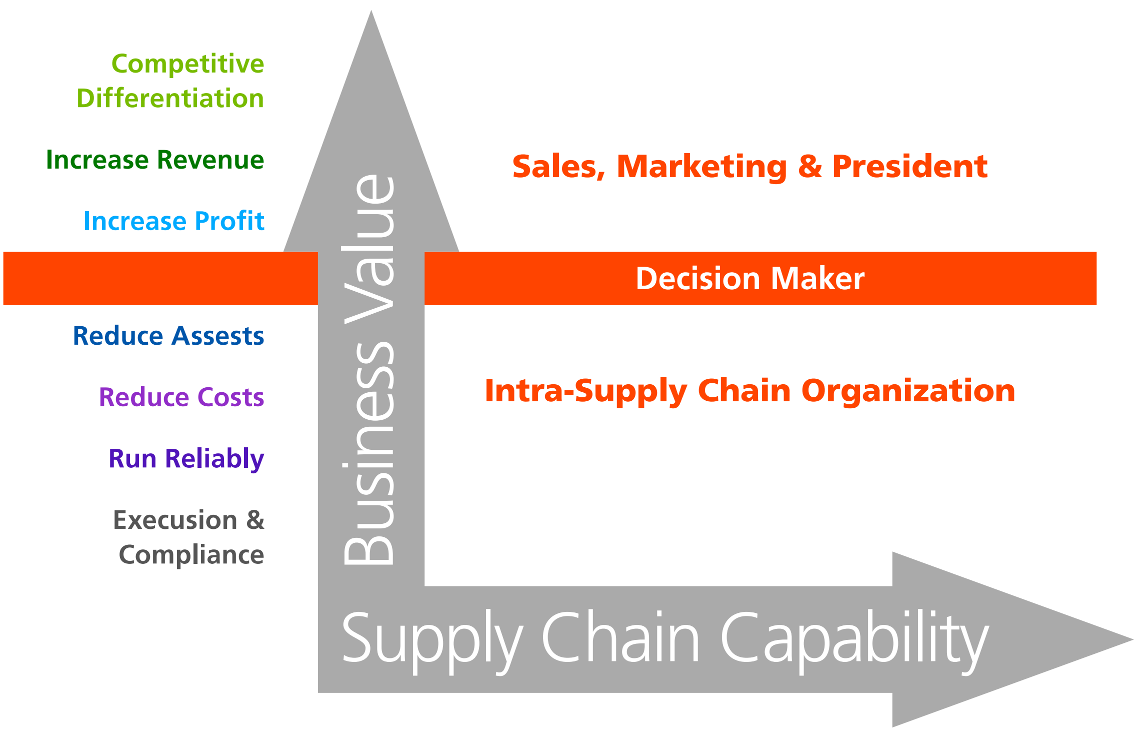
Game Changing Supply Chain Strategies Involve the Revenue Guys

How do you know if your company has a “game changing” supply chain strategy? It’s really simple. Are the folks in your company responsible for revenue part of it? Do they put your supply chain capabilities in front of the customer as a differentiator? Are they counting on your supply chain capabilities to grow the top line or crush the competition? There is a “glass ceiling for greatness” in supply chain strategies, but most supply chain executives don’t know that it exists.

If you ask any self-respecting supply chain executive, he or she will say that their supply chain is strategic to their company’s success. But, it’s highly likely that the supply chain strategy is inward as opposed to outward focused. That’s easy to figure out too. Is the supply chain an afterthought for the “top line” and profit folks? It supply chain the “get it done” organization? I actually heard that saying from a marketing executive at a leading consumer package goods company.

If you look at the following chart you will see the “glass ceiling for greatness” for supply chain strategy. It hits when the discussion turns from cost, compliance and service to revenue, profit and competitive differentiation. Cost and asset reduction, compliance and service reliability improvement strategies are all things that the supply chain organization can do without anyone else’s involvement and is a given. When you get to the top line/profit/competitive differentiation side it takes active buy-in and sponsorship from the people responsible for revenue, profit and the customer which are usually the head of sales, COO or president.

Figure 1: Glass Ceiling for Supply Chain Greatness

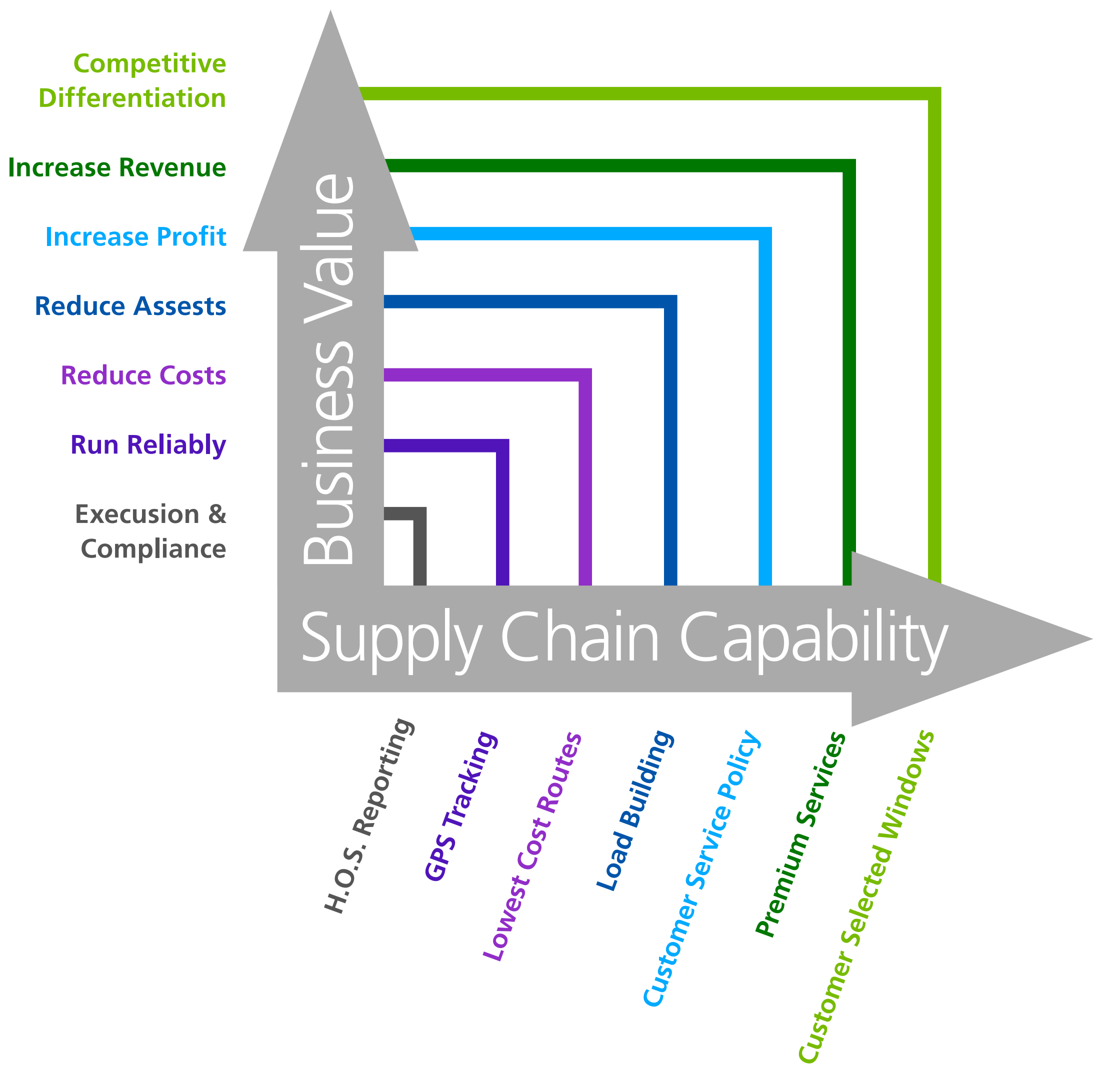


Game Changing Supply Chain Strategies Involve the Revenue Guys *(cont'd)*

There are numerous and substantial opportunities for supply chain executives to make a difference in a company's success and this has been going on for quite a long time. But sadly, they don't happen enough because supply chain executives fail to sell the vision outside of their organization. Here are two successful examples of game changing supply chain strategies.

The first is John Lewis Partnership. John Lewis took what too many retailers consider to be mundane and a cost center – home delivery, and made it customer facing as part of their omni-channel retailing strategy. Instead of the traditional approach of taking the order and later figuring out how to deliver it, John Lewis engaged the customer at the point of sale – on the web and in the store. The result was that they took their top line for value added home delivery services up 500% AND improved their profitability by providing delivery choice with premium pricing for service for their customers. The following chart is an example of how to map home delivery capability to supply chain greatness.

Figure 2: Home Delivery Strategy Delivery Example



Game Changing Supply Chain Strategies Involve the Revenue Guys *(cont'd)*

The second is Herman Miller in the 1990s. In the late 1960s, Herman Miller invented the modular office or better known today as the "Dilbert cube". Herman Miller had an epiphany; they decided that their product was as good as any on the market, but not the point of differentiation. The office furniture market at that time was defined by unreliable service and lengthy lead times. Instead, they believed that they could sell much more if they dramatically focused on reducing lead times (75%+ decrease), while automating order capture for convenience and accuracy to improve reliability. It all started with product configuration that happened right in front of the customer that was tied directly into a factory designed to turn out the order in a couple of days, not weeks. Their mantra became "MacMiller", just like Mac Donald's, fast and good enough. In Herman Miller's case, this division grew its revenue 10X over a 6 year period while NOT fundamentally changing the product.

What is amazing is that the original game changing idea for both companies came from the supply chain organization, not the sales organization or president. If you are a supply chain executive you have to ask yourself a hard question. What can your organization do to deliver game changing results and have you convinced the revenue guys to do it?

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Don't Wait for the Inevitable in Omni-Channel Retailing

Macro trends such as changes in demographics shape and impact the future of supply chains and supply chain performance. Many of these macro trends are right in front of us. But, we don't respond to them until the pain from these shifts is woefully obvious and there is less ability to make a difference. Omni-channel retailing is one of those macro trends.

We hosted a conference in London on Omni-channel retailing where LCP Consulting presented some of the findings of a study of over 150 retail executives in the US and UK. One of the most poignant points was that, as more retailers adopt Omni-channel retailing and move to a greater percentage of online business, their margins will actually decline. At the same time, they also stated that "bricks and clicks" retailers really had no choice. It's the proverbial "in between a rock and hard place".

LCP: Omni-channel Margin Analysis Example:

		Today			5 Years' Time		
Sales Channel	Net Margin	Channel Mix	Sales (£m)	Margin (£m)	Channel Mix	Sales (£m)	Margin (£m)
In Store	10%	80%	400	40	50%	250	25
Click & Collect	7%	10%	50	3.5	25%	125	8.75
Home Delivery	5%	10%	50	2.5	25%	125	6.25
			500	9.2%		500	8.0%

Source: LCP Consulting (www.lcpconsulting.com)

The implicit implication behind this analysis is that retail supply chains are optimized for the store and out of balance driving costs. They must dramatically change to protect operating margins and help avoid the commoditization that on-line shopping can bring. This "perfect storm" in retailing is an excellent opportunity to raise the level of discussion to the C-level of the importance of the supply chain to a retailer's overall health and success. Most importantly, it points to the sense of urgency that must be put into investing in supply chain capability now, not when the balance of revenue has shifted. Let's face it, most retail executives don't come out of the supply chain world and struggle with understanding supply chain investment, costs and complexities. However, they do get margin erosion and especially that the inevitable shift to more on-line sales that they are pushing will drive lower margins. Here's the chance to tie the supply chain cause to one of the most important macro level issues facing retailers.

The challenge in having the Omni-channel and margin discussion is not to turn it into cost reduction only exercise. Yes, you need to get your supply chain costs down, but you cannot forget the need to improve service and more importantly use service to drive product sales and generate incremental services-based revenues. The supply chain is one of the few places in an online business where you can make a measurable

Don't Wait for the Inevitable in Omni-Channel Retailing *(cont'd)*

difference to the customer. There are enough examples now to show that purchase price has become "table stakes" and customers will pay for additional value-added services and increase their loyalty to those retailers that deliver with excellence.

For the manufacturers and distributors that supply retailers, the Omni-channel phenomena should also be a wake-up call. The pressure on retailer margins will get more intense as they sell more on-line. The goal is not to get in the same cost reduction trap (e.g. product pricing). Instead the opportunity is to look at your own supply chain to see how you can lower the cost of the retailer's supply chain, improve their service and help value-added services.

Supply chain flexibility, speed, retail ready product and information visibility are key enablers for retailers as less of their sales will be delivered through traditional store channels. The ability to inject your product further into the retailers supply chain and directly to the customer will help retailers cut out network costs and delivery times. For example, next day and same day will put tremendous pressure on retailers to be more reactive, but carry as little inventory as possible. Retail ready labeling will be critical to streamline goods through the network at any point and information visibility critical to ensuring reliable operations and greater flexibility.

Omni-channel retailing is a global trend that is changing how retailers and their supply chains operate.

Omni-channel retailing is a global trend that is changing how retailers and their supply chains operate. Its impact on margins provides an excellent platform for taking the importance of the supply to the highest levels within a retailer and a competitive advantage for the manufacturers and distributors that can help make their retailers perform better.

The problem is not the problem. The problem is your attitude about the problem.*

When I heard this saying, I thought it so profoundly related to one of the core challenges to supply chain excellence - an inflexible mindset. Too often in supply chain management we are bounded by our approach to supply chain problems, not the problems themselves.

For example, one of the greatest challenges in supply chain management is to get beyond a focus on cost reduction and instead focus on revenue generation. If you are a supply chain executive, you struggle to have that discussion with the rest of the executive team. One retailer I know took a different approach to describing their metrics to get their point across.

The challenge that the retailer had was to be able to justify the value-added services it wanted to offer because they would reduce the number of deliveries it made on any given route. The general thinking was that the fleet productivity would be dramatically impacted and there was no way to relate that to the incremental revenue from the value added services. The problem the retailer had was that it was applying traditional metrics and "attitude" to a new business opportunity. Metrics like "cost per mile" and "deliveries per route" were built to address delivery operations as a cost, not a revenue generator. Fleet productivity is only one point of the overall financial picture.

The problem the retailer had was that it was applying traditional metrics and "attitude" to a new business opportunity.

This retailer had an "attitude" adjustment about its approach to metrics and changed to a "cost per minute" calculation for its delivery resources. That way it could compare the incremental revenue for the value-added services against the time-based cost it took to deliver the services. In this case, the retailer was able to determine that depending upon the mix of products and value-added services, it could make more money with fewer stops on a route as opposed to a lot of stops that contained no value-added services and lower margin products. Once they understood this relationship, they started to understand how their delivery operations could help drive revenue and profit.

Another interesting example of attitude change is a retailer, **Sleepy's**, who implemented tighter time window booking. The traditional thinking for delivery windows is the wider the better in terms of delivery operations productivity. However, this retailer found out that it was experiencing a high number of failed deliveries because its customers were not at home. Failed deliveries can be a margin killer. Think about this for a minute. If you give someone an all day window, there is a high likelihood that at some point they won't be home during that day and Murphy's law would

The problem is not the problem. The problem is your attitude about the problem. *(cont'd)*

clearly predict that's when your driver arrives. A tighter time window provides more certainty to the customer and allows them to better manage their day. Sleepy's also dynamically allocates delivery capacity to make the delivery when the customer buys the mattress to make sure it can make the delivery. Since moving to this approach, Sleepy's has been able to improve its delivery success rate by 4.5% and reduce product damage due to excess handling.

I am sure we have all seen examples where bad supply chain "attitudes" kept a company or project from being all it could be. It's not easy to get beyond what we know from past experience to best frame solutions to supply chain problems. However, supply chain strategies, tactics and technology are constantly evolving and if there were ever a place to change attitude, it is here.

The saying "The problem is not the problem. The problem is your attitude about the problem." has been mysteriously attributed to Captain Jack Sparrow in "The Pirates of the Caribbean" movie series.

Home Delivery Success Starts at the Order

Home delivery continues to be top of mind for most retailers. Keeping retailers from moving taking full advantage of the opportunity it presents is the perceived additional cost associated with home delivery. "Perceived" is the right word, because home delivery doesn't have to be as costly, but re-thinking of the home delivery appointment scheduling process needs to take place. The greatest impact on home delivery is right at the point of order. Here are three strategies from retailers around the globe to consider, whether you own a fleet or using third parties to deliver your goods.

Steer the customer to the delivery times you want them to take. Low cost delivery routes are the ones with the greatest "delivery density". Instead of taking orders and then determining how to get them delivered, offer the consumer delivery option times that are more favorable to you. UK retailers, such as Ocado, even go as far as posting "green" or environmentally-friendly delivery times (aka the green truck on their websites). A green truck is simply one that will already be in your area on a particular day and time, reducing carbon emissions – and operating costs. It is amazing how many of their customers gladly "do their part" for the environment and lower Ocado's operating costs.

Upsell premium, expedited or tighter time windows and value-added services. There's lots of hype about home delivery having to be free. With time becoming the new currency for many busy consumers, free may only need apply to "standard" all day home delivery windows, but not necessarily for deliveries at noon or 6pm, in 1 hour time windows or same day. In addition, for many products, there are installation, removal and other value-added services that can be upsold. UK retailer John Lewis put millions of dollars on the top line by adopting all of these approaches.

Instead of taking orders and then determining how to get them delivered, offer the consumer delivery option times that are more favorable to you.

Omni-channel retailing needs Omni-channel delivery. Put delivery appointment scheduling in the order process of your store point of sale, website, call center, etc. retail channels and bring deliveries together in a unified delivery appointment scheduling solution. This will not only improve delivery density (helping to lower retailers' operating costs), it allows for consistent delivery performance and consumer experience across all selling channels. US retailer Sleepy's has integrated the same delivery appointment scheduling solution into its point of sale system and web store. Tesco Korea (aka Home Plus) built "virtual stores" in subways where customers shop using QR codes in a cell phone app that is tied into their delivery appointment scheduling system.

While fully exploiting home delivery is still a "big step" for many retailers, there are numerous examples throughout the world where retailers have turned traditional delivery appointment scheduling strategies and practices upside down, resulting in reduced costs, increased revenue and enhanced customer service.

The Last Mile is the Last Word

There is a lot of emphasis in retail on customer experience on the web or in- store, but the "rubber meets the road" for customer experience during the delivery process. It's the last thing the customers remember about their shopping experience. There is nothing like a personal experience to drive home this point. In my case, it's about a really bad home delivery experience, but for the folks reading this post it could be about ANY bad delivery experience. Here's the story.

My wife bought an appliance from an unnamed leading retailer. As part of the purchase, the retailer was supposed to deliver the appliance on a specific day, uncrate it, put it in a specific location in our house and plug it in to make sure it worked. Well, the retailer's third-party delivery agent didn't show up on the desired date, dropped off the appliance on pallet in the middle of my garage, told my college-age son they were not responsible for the installation, and left.

You have to know my wife to know that she wasn't going to accept that kind of poor performance for one second. She called the retailer and complained. The delivery agent was then instructed to finish the job. After they failed twice to show up as promised, my wife called the delivery agent and complained. The comment from the delivery agent was "well, the driver can't find the product to deliver" – we already had it, and "there was no 'paperwork' to authorize them to come and finish the job". So, she called the store manager and complained vehemently. He said he would pay us $300 to do it ourselves – we said no, and then he had 2 store employees come to our house and spend 5 minutes installing the appliance and testing it. This whole saga played out over a week. This was a national retailer and the third party agent is one of the larger ones specializing in home delivery.

…as a retailer, you need to have proof-of-delivery and post-delivery processes and supporting technology to ensure the job you expected gets done and to the level you expected.

Do you think my wife will buy another appliance from this retailer? Not a chance. Considering that we are about to tear apart our kitchen, these folks just lost $1,000s in revenue. So how did this all go so wrong? This retailer is still treating home delivery as a necessary evil, the delivery agent isn't adequately training its people and neither is using technology to enforce the right processes and desired behavior.

I work with many of the retailers around the globe on home delivery and the winners take full ownership of the delivery whether they have their own fleet or outsource their delivery. This means that, as a retailer, you need to have proof-of-delivery and post-delivery processes and supporting technology to ensure the job you expected gets done and to the level you expected. For example, where were the pictures that showed the unit was delivered and installed? Where was the call-out, text or email after the delivery that asked us if the installation was to our satisfaction? I could just go on and on about what was missing in this case.

The Last Mile is the Last Word *(cont'd)*

In addition, retailers need to integrate their fulfillment systems with the delivery agent and the ownership of the delivery process needs to be seamless. There should have been clear instructions on the installation as part of the delivery manifest and then, when it doesn't happen correctly, provide feedback on what to go back and complete. In this case, the third party agent had no clue what to do every time and then threw it back to the retailer. Where was the accountability? What is in the contract to enforce quality work? It was pretty obvious that this retailer shopped for the lowest cost delivery agent, didn't put any rigor into the agent's processes or capabilities, nor invest in technology and integration to make this look like "one company".

Similarly, home delivery agents need to invest in the processes, technology and people to support their operations. Home delivery agents are supposed to be the experts. That's why retailers hire them. There is no reason not to offer the same technology I mention above to your retail customers. Who better to provide the best-in-class processes to retailers because of your experience working across multiple retailers? Most importantly, don't go cheap on the drivers you hire, and make sure train them and provide a career path. These folks are the real value creators in your business. Retailers - it's really easy to tell if your agent actually takes this point seriously - just look at their driver turnover rate.

> Home delivery agents are supposed to be the experts. That's why retailers hire them.

With all the energy retailers put in attracting customers like my wife, why do they waste the opportunity to have her be a customer for life by failing to grasp the significance of the delivery and installation? What is clear is that price is no longer the differentiator? I just got back from the UK where this is playing out much faster than North America. John Lewis Partnership, probably one of world's best retailers in terms of home delivery innovation, had 13% growth in 2013 while the rest of the UK market went backward by 6%. Their customer loyalty is legendary. I heard the same story from one of the leading office supply companies in North America. Delivery is their top rated customer experience and their financial results are strong. You figure it out. This lesson can apply to any industry.

Amazon Home Delivery: Its' About Choice, not Same-Day Delivery

Amazon's size and market aggressiveness is certainly one of the forces that is "stirring the pot" on same-day delivery, but as the post on the "StorefrontBacktalk" blog states "of those Amazon shoppers who saw that [same-day] icon and then made the purchase, most of them ended up not using same-day delivery, opting instead for next-day". Choice will be the real differentiator for consumers and retailers.

Certainly, there are big city markets where density can support same-day home delivery and products where immediacy is paramount to selling success – flowers and Asian restaurants have always fit this model. Now, there are many other retailers with products trying to compete in a similar way.

However, for many items, same-day delivery doesn't make sense for the consumer and doesn't give the retailer the opportunity to maximize its revenue. The products that typically fall into this category are fresh foods, and larger or more complex, products where the consumer has to "make room" for the new items or require installation/removal services. In the UK grocery home delivery market for example, which is one of the most mature in the world, consumers don't buy today and expect delivery today. Instead, they plan on Tuesday for delivery of goods they need delivered on Thursday for the weekend. For retailers that want to sell specialized installation services or add-on products on top of a new TV or gas range, they need trained resources for their upsell opportunity. The last thing that retailer can afford is to use some local delivery guy who is immediately available, but not qualified to install a gas range, only to find out the next day that the consumer's house went up in flames. I personally rejected over $500 worth of add-on products and services when an unnamed consumer electronics retailer had 2 incompetent driver/installers show up and screw up the installation.

Choice will be the real differentiator for consumers and retailers.

Clearly, Amazon is helping to lead the home delivery revolution in the US and same day delivery is certainly today's hype. But, what consumers really want is choice. What retailers need to do is to offer choice while not "losing their shirt" and have the opportunity to increase revenue through value-added services and premium delivery time offerings.

Did Amazon Just Blink?

In the game of delivery chicken, Amazon is raised the price of one of its cornerstone delivery strategies, Amazon Prime from $79 to as high as $119 per year. Prime has been a success for Amazon as it certainly helped drive product sales. However, the previous price and relatively unrestricted delivery constraints also appear to have impacted margins. The lesson for all logistics-intensive companies is that, sooner or later, free or highly subsidized delivery-based growth strategies give way to the most fundamental economic theory – profit matters.

As much as anyone in the retail market, Amazon has been sacrificing margin for growth and achieved impressive numbers. I'm sure we all know people who are Prime members and buy "everything" they can on Amazon, knowing that they delivery charge is "free" once they paid their yearly Prime fee. And that success is now a problem for Amazon.

Many retail and distribution companies have been closely following Amazon's and others' rise and their forays into new supply chain and pricing models over the last 5+ years such as Prime. Here's my take on what we could see in the next 5 years in delivery.

Is "free" dead? Free really isn't the right term, it should be called "highly subsidized". Supply chain leaders at major retailers I know have long wondered how long this level of delivery subsidy could go on. Amazon, Google, Walmart and others have been chasing this paradigm heavily for the last several years. I believe we are at an inflection point and can expect less "free" and more delivery segmentation pricing and service levels to help maintain or grow margins. FYI, increased delivery service segmentation pricing is also taking place in the B2B markets as they face similar delivery and profitability pressures.

As much as anyone in the retail market, Amazon has been sacrificing margin for growth and achieved impressive numbers.

Are burying delivery costs a good thing? Delivery is as much a value proposition for customers as the products that are getting delivered. Amazon simplified, but may have actually over-simplified, delivery pricing. When you read the reports of Amazon customers on the proposed Amazon Prime price increase, some say they don't care if it goes up because they know that this is a ridiculous deal and others say they will leave because they think it is unfair. What is really at issue is that neither of them respects the value of delivery because it has been bundled away. Standalone delivery pricing and service levels will become more prominent again.

What do customers really want? It's simple - pricing and service choice. As I mentioned before (**Amazon Home Delivery: Its' About Choice, not Same Day Delivery**), when Amazon shared the results in a limited trial of same-day delivery they sold a lot more goods, but hardly anyone took the same-day option. Customers accept a simple and logical view of delivery pricing. During the buying cycle, customers need a simple way to understand their delivery options and the prices associated with them and

Did Amazon Just Blink? *(cont'd)*

then make their own choice. I believe that based upon the experience of other retail markets around the world, that there is way too much hype in the retail market over same-/next-day delivery versus choice. Retailers are in danger of blindly chasing an expensive delivery scenario that may or may not be true. The focus in Omni-channel will shift from selling to delivery to provide customers with more choices that are also profitable for retailers.

Amazon's change to Prime pricing presents retail- and distribution-intensive companies with an opportunity to step back on their own strategies. I believe that we will see folks like Amazon continue to be innovative with new delivery models that improve service, but keep a closer eye on their impact on bottom line performance.

Managing Your Brand in a "Drop-Ship" World

Retailers and distributors are increasingly turning to drop shipping to increase the number of products they offer, minimize the inventory they carry, and reduce order cycle times. While drop shipping (sending goods directly from the supplier to the customer), has been going on for quite a while, it's now getting into more sophisticated product areas -- such as furniture, appliances, and building products – in which the complexity of the order/manufacture/delivery/installation processes makes simple delivery tracking ineffective. Drop shipping is an attractive proposition, but it also puts the customer service proposition into the supplier's hands. Without visibility into the complete customer order-to-delivery cycle, retailers and distributors run the risk of brand damage.

A number of factors make managing drop shipping complex products different. The delivery process for more complex products doesn't stop at the door step. Instead, installation, removal, touch up, etc. are all part of the customer expectation, so service quality at the customer is critical. Coordination for custom products (such as furniture fabric), can involve synchronization of materials for suppliers. Most importantly, customers need to know when the goods will show up. Since it is highly unlikely that customers know that the goods are coming from the supplier instead of the retailer/distributor; close coordination and visibility into the progress of the order is critical.

> It's amazing how many companies still manage this process with spreadsheets and a phone.

It's amazing how many companies still manage this process with spreadsheets and a phone. This approach does not provide the insight needed to manage exceptions as they occur. Nor will it scale as the business grows. Considering the number of key events that need to be tracked for each order line item, it doesn't take a lot of business before there are hundreds of thousands of data points each month to sort through. In addition, data integration with suppliers needs to move from manual to automated processes just to keep up with the volume and free key resources to focus on value-adding activities.

Here are seven keys to drop-shipping success:

1. **Choose milestones** that can be used as control points. Start with the most basic set of milestones. The tendency is to try to capture as much data as possible, but most companies struggle getting it all from their suppliers and don't necessarily know what they will do with it all. Recommended milestones for drop shipping are:
   1) customer order date and promised delivery time frame;
   2) order acknowledgement;
   3) order confirmation;
   4) manufacture/critical material status;
   5) advanced ship notice;
   6) out for delivery; and
   7) proof of delivery.

Managing Your Brand in a "Drop-Ship" World *(cont'd)*

2. **Implement actionable and periodic performance reporting.** The organization will use actionable reporting to control the drop-shipping process. Actionable reporting focuses on exceptions and critical statuses. For example, actionable reporting should track response times by suppliers, not just milestone details. If a customer order is sent to a supplier, the supplier should have a limited time window to respond confirming the order. Actionable reporting should be exception-based to allow resources to focus on the few items that need attention. Performance reporting takes a longer term view (week/month/year-to-date) to track the supplier's performance consistency and whether it is trending better or worse and should be used as part of the supplier improvement program.

3. **Set supplier status updates** to the "clock speed" of the order life cycle (see previous blog post). It's important to understand the cadence of updates needed to control a drop ship program and that faster- and slower-moving goods can have different clock speeds. For example, if the goods are fast moving and the order-to-delivery cycle is three days, then, status updates need to come in hours and throughout the day. It's impossible to adequately control fast-moving goods if the data comes in a batch update at the end of the day.

4. **Insist on comprehensive proof of delivery.** An electronic update stating that the goods were delivered isn't good enough. Complex products require electronic signatures and pictures to minimize customer claims and verify that suppliers are getting the job done correctly and in a consistent manner with the retailer/distributor's service proposition.

5. **Ensure that the supplier has a quality delivery program.** Don't assume anything here, even for large well-known brand name manufacturers. Delivery performance and supporting technology vary widely. Many manufacturers focus on low cost as opposed to delivery service quality. Extensive use of third parties, which is not bad in itself, makes the supply chain even more complex to control. Make sure to evaluate the manufacturer's or its LSP's driver retention, training, and technology capabilities to make sure they can consistently deliver and electronically document at the level commensurate with the customer service strategy.

6. **Don't let the information get stuck in supply chain operations.** Immediately share it with suppliers. It will help them understand what they are really providing. Once satisfied with the quality of the data, share it with the customer service organization and, ultimately, with customers. For complex goods and especially those with longer lead times, the "where's my stuff" question comes up frequently. There is no reason not to automate this process and turn it into a value-added service for customers, as opposed to a potential frustration. This can also improve the productivity of the call center and sales organizations.

Managing Your Brand in a "Drop-Ship" World *(cont'd)*

7. **Use technology to automate and disseminate.** Two of the biggest challenges are collecting data and data quality. Logistics networks are well-suited for automating this work because drop shipping is a multi-party process and networks operate in real time as opposed to traditional store-and-forward EDI VANs. Implement a visibility solution that can model the supply chain milestones and has the flexibility to change as more is learned about the drop-ship supply chain. Visibility solutions effectively link the statuses of the lifecycle of an order and provide the basis for reporting. Because establishing visibility into drop ship activities requires data sharing across the parties, choose cloud-based solutions.

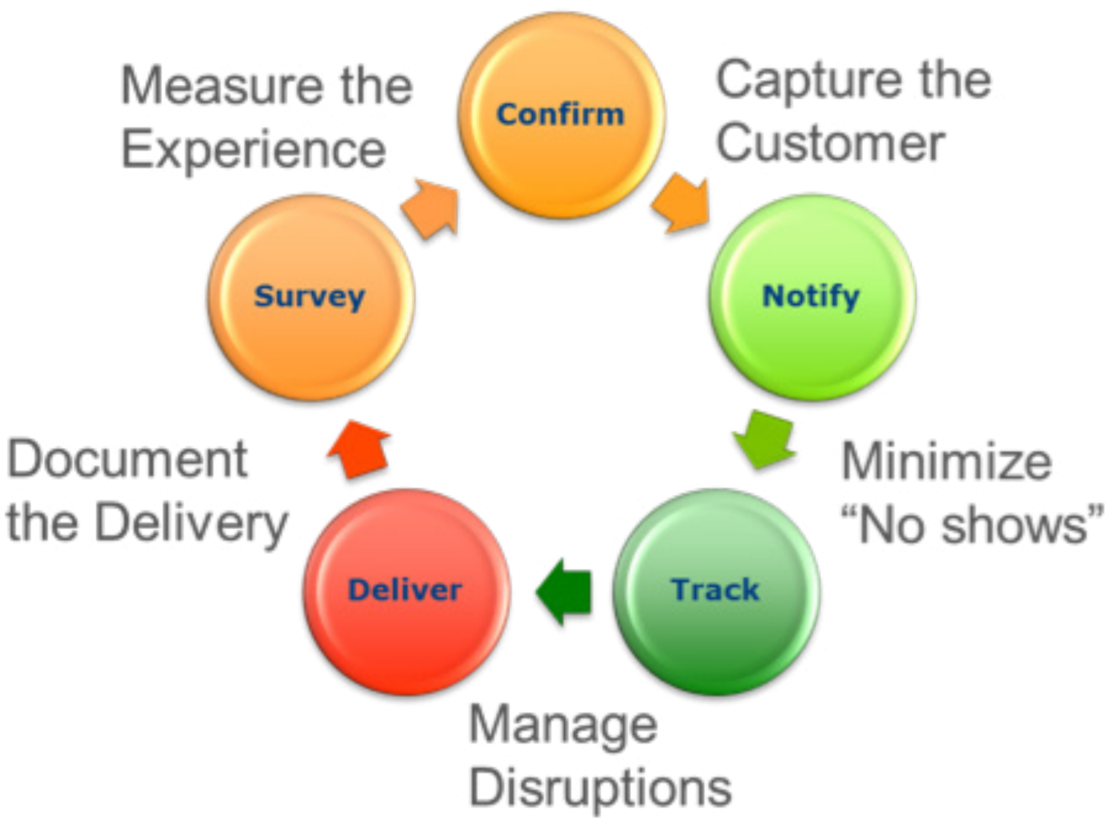
Drop shipping provides a compelling way to expand a retailer's or distributor's market reach. However, without effective visibility tools in place to capture statuses and provide actionable insight in real time, retailers and distributors are "flying blind" with respect to their supplier's delivery performance impact on the most valuable thing they own – their brand.

Using Supply Chain Information to Create a Closed-Loop Customer Experience

Consumers want to engage with retailers more than ever and this presents and excellent opportunity for supply chains to add value to the overall customer experience and minimize costs. While delivery performance is paramount, interacting with the consumer via supply chain information is critical to maximizing the customer experience. In **Welcome to the Customer Facing Supply Chain**, I wrote how Woolworths in Australia is engaging customers to drive growth and cut call center volume. There is a definite strategy to what they and other Omni-channel home delivery leaders are doing – using supply chain information interactively with the customer to create a closed-loop customer experience.

This strategy goes beyond the traditional delivery process, starting when the consumer is ordering and ending after the delivery was made. The pervasiveness of smart phones, real-time systems and GPS-enabled technology make engaging the customer during the order lifecycle easier and more compelling than ever. There are five basic steps in the customer order lifecycle where supply chain information plays an important part of the overall customer experience. This approach applies even if your delivery processes are outsourced. The five key steps are broken down in the following diagram.

Figure 1: Supply Chain Information in the Customer Order Lifecycle



Using Supply Chain Information to Create a Closed-Loop Customer Experience *(cont'd)*

Step 1: Delivery Appointment Confirmation. Customers want to know when their goods will arrive and increasingly they are expecting tighter time windows. With today's higher expectations, it is not unusual that potential customers will pass up retailers that fail to provide definitive time windows during the buying process. Equally, this is also an opportunity to set expectations for the customer to minimize failed deliveries, such as the successes that **Sleepy's** has been able to achieve with this strategy.

Step 2: Scheduled Delivery Notification. As a concept, scheduled delivery notification has been around for quite a while – even though far too many companies still do not do it. The new thinking is that scheduled delivery notifications need to be more granular and provide a tighter delivery window. Best in class is now less than 30 minutes for a scheduled delivery. Again, this increases customer satisfaction and reduces failed deliveries as the customer, for example, knows which 30 minutes of the 3 hour originally promised widow their goods will show up.

Step 3: Delivery Tracking. Delivery progress tracking again is not new, but new variations have been popularized by companies, like Uber. that show the car on the map and the real-time estimated-time-of-arrival (ETA). Anyone living in a large city knows that delays are inevitable and customers are somewhat forgiving if you let them know that the delivery will be late and by how much. Simple approaches to delivery progress tracking like "left the DC" notification are no longer considered valuable by customers.

Step 4: Document the Delivery. Getting the goods to there at the right time is only half the battle. Instead, what occurs at the stop may be the difference between keeping and losing the customer, so tracking what happens via signatures, pictures, scans, etc. is critical to the customer and you. As we all know, some deliveries don't go well whether it is, for example, an incomplete order, damaged goods or it won't fit into the customer's home. It's also critical to capture that your driver was at their door (through a picture) in the case where the customer was not home. Providing that information immediately after the delivery helps verify what exactly did happen for the customer to minimize claims and even fraud, or that you will charge them for the second attempt after a failed delivery.

Step 5: Survey to Measure the Delivery Experience. The best time to gage the success or failure of the delivery is right after it happens and is fresh in the customer's mind. Most customers appreciate participating and the fact that you make an attempt to engage them can help improve their perception of your overall customer service. Some companies do it as part of the delivery process while others wait until the driver is gone. If the actual buyer is not home during the delivery then the best approach is the post-delivery survey.

Using Supply Chain Information to Create a Closed-Loop Customer Experience *(cont'd)*

Supply chain and related technology advances are making the closed loop customer engagement strategy more possible than ever. Delivery booking and optimization technologies used during the ordering process provide the customer with the tight time windows they expect. GPS-enabled tracking tied to real-time location and dispatching systems provide up-to-the-minute status and ETA calculation. Smartphones. with scanning, signature and picture capture and flexible forms, capture what happens at the customer's location. Bringing this all together for the customer is notifications technology that itself has gone "Omni-channel". It is now possible to interact with the customer through a variety of mediums, including text messaging, mobile or web applications and automated voice.

Any organizations still thinking that providing supply chain information to customers in real-time is a "nice to have" are kidding themselves. The value is clearly being demonstrated every day and the technology is available now to cost-effectively make the supply chain a critical part of the customer experience. Indeed, it is amazing, when I talk to leading retailers and distributors, how often I learn about new ways for engaging customers through supply chain information. This is one area where we are clearly early in the journey to the customer facing supply chain.

Any organizations still thinking that providing supply chain information to customers in real-time is a "nice to have" are kidding themselves.

Supply Chain Technology That is Changing On-Line Grocery

Technology has been helping to enable on-line grocery supply chains for over 10 years. However the original model relegated the supply chain to a background operation. With an increasingly saturated on-line market, offering differentiated services and making money have become critical success factors. To better compete, leading grocers and other retailers are making their supply chains and in particular supply chain technology part of the total customer experience, starting at the order and ending after the goods are delivered. Interestingly, this approach not only benefits the consumer, also helps the retailer drive down their own costs and improve productivity. The strategies and technologies for better leveraging home delivery are rapidly advancing across the globe. Here are three great examples of how retailers are using technology to make their supply chains customer facing.

One of the biggest challenges retailers is creating delivery density that helps drive down delivery costs by lowering the number of miles driven to serve each consumer. The best place to increase delivery density is when the consumer is ordering. Rather than using static delivery slots, dynamic delivery appointment scheduling technology provides consumers with delivery windows that take into account orders already in the system and the costs of the delivery options unique to that customer. The retailer can chose which options to present to the customer to help increase delivery density, improving productivity and reducing costs. Ocado, an on-line grocer in the UK, takes this a step further by highlighting potential delivery times that have already have deliveries planned in that area. These times are positioned as ecologically friendly since they are close to other deliveries and consume less fuel. A significant number of customers choose them to help the environment, but they are also helping to lower Ocado's delivery costs.

The strategies and technologies for better leveraging home delivery are rapidly advancing across the globe.

Dynamic delivery scheduling also provides an opportunity to drive incremental revenue through premium delivery windows and value-added services. Retailers such as John Lewis in the UK offer their customers during the buying process, multiple delivery widow options (e.g. 7 hour, 4 hour and 2 hour) at the same time and price them accordingly. In addition, installations for items such as large screen TVs are "one click" options that consumers can easily choose before they check out. The result is that John Lewis has added millions of dollars to their top line as consumers select premium delivery windows and incremental services.

Woolworths, the Australian retail giant, has a [30 second commercial] that sums up their entire proposition for online grocery and home delivery. In this commercial, they do a phenomenally simple job of demonstrating how easy and seamlessly it is to order and deliver groceries. Delivery appointment booking and real-time delivery

Supply Chain Technology That is Changing On-Line Grocery *(cont'd)*

tracking are all part of the customer-facing apps. However, most interesting is how they engage the customer post-ordering. When customers book an order they have 3-hour delivery slots, but when the orders are to be delivered, the slot narrows to 30 minutes and the customer is notified of the tighter time window. In addition, they have a simple real-time "ETA" button that the customers can use to determine exactly when their delivery will arrive. Their results are an interesting mix that shows they have dramatically improved their customer satisfaction. Online revenue is up over 50%, yet the number of customer calls to the call center had been cut in half! Their customers no longer wonder where their deliveries are.

Home delivery strategies and technologies are still rapidly evolving. However, it is clear that leading retailers across the globe are using technology to make their supply chain part of the "front office" to unlock value for their customers and their own company.

Technology Enabling Holiday Delivery Success

The shift to online retailing over the last five years finally caught up and overran US-wide delivery capacity during last year's holiday season. According to Forrester Research, online retail sales will grow by an additional 60% over the next five years. This kind of sea change has stretched the ability of physical networks to keep up and the shortage of drivers had further exacerbated this situation. Instead, technology has become more important to meeting retailers' holiday delivery challenges by helping to improve the productivity of existing resources and offer a greater array of delivery services being demanded by consumers.

One of the unique challenges of holiday shopping is the large spike in volume of business for most retailers. Peak season, as it is often called, can represent a significant percentage of a retailer's annual revenue. This puts tremendous pressure on retailers' delivery operations. The same can be said for the third-party logistics providers offering delivery services for retailers. While minimizing costs is important in delivery operations, at this time of year maximizing productivity is more important as the inability to serve consumers when they demand it can result in lost and non-recoverable sales.

According to Forrester Research, online retail sales will grow by an additional 60% over the next five years.

One solution to these challenges is route optimization technology. Route optimization technology can provide up to a 15% increase in delivery operations productivity by creating the best combination of routes and deliveries that minimize the miles per delivery and total miles driven. Instead of adding to a delivery fleet, which can represent a significant investment commitment that is only used during a limited time of year, route optimization technology finds the combination of orders and routes that are not possible for a planner or dispatcher to manually plan. If a delivery operation has 20 trucks in their fleet, for example, route optimization technology can add to the capacity of up to an additional 3 vehicles.

Maximizing delivery productivity during the holiday season also requires flawless execution. Optimized plans provide a great start but, without some way of managing driver performance in route, the results do not always manifest themselves when drivers vary from those plans. This is especially true if temporary drivers are hired during the holiday season and do not have all of the training and experience of the day-to-day operators. Work-flow based mobile logistics applications and turn-by-turn navigation improve delivery consistency and at-the-stop consumer satisfaction. An important by product of capturing execution information is the ability to compare plan versus actual performance to see how route optimization and execution productivity can be further improved. In addition, critical proof-of-delivery (POD) information can be electronically captured to reduce paperwork and, more importantly, reduce billing cycle time and

Technology Enabling Holiday Delivery Success *(cont'd)*

accelerate revenue recognition. The finance organization can be a direct beneficiary of delivery operations using POD technology as they are equally stretched during the holiday season.

The explosion of low-cost, GPS-enabled smart phone technology is allowing delivery operations to gain a better handle on their delivery performance in real-time and provides additional benefits to their consumers. GPS-enabled tracking allows delivery operations managers to know what their drivers are dong in-route. When combined with smart dispatching capability, delivery estimated-time-of-arrival (ETA) can be constantly calculated and, when a driver deviates from the plan, delivery operations management can be immediately notified. Giving that same real-time delivery status information to consumers can improve service and reduce call center volumes. Woolworths, the leading grocer in Australia, added a simple ETA button to its consumer mobile app and reduced calls to its call center by 50% even though its sales volume was doubling at the same time. Another productivity killing event is a failed delivery because the consumer is not at home. By combining automated notifications technology with real-time delivery status, consumers can be better reminded that a delivery is going to take place and get ongoing updates of delivery progress to limit the number of failed deliveries.

GPS-enabled tracking allows delivery operations managers to know what their drivers are dong in-route.

The increasing trend of consumers demanding greater choice of delivery options and value-added services with the products is more apparent during the holiday season. One way technology is helping to address this challenge is by making delivery appointment booking and value-added services attachment part of the buying process. By making delivery operations "consumer facing", retailers can provide differentiated services, improve revenue and minimize costs. Retailers such as John Lewis in the UK offer their consumers multiple delivery widow options (e.g. 7 hour, 4 hour and 2 hour) at the same time and price them accordingly. In addition, installations for items such as large screen TVs are "one click" options that consumers can easily choose before they check out. The result is that John Lewis has added millions of dollars to their top line as consumers select premium delivery windows and incremental services. Same and next day deliveries require close integration between the delivery appointment booking system and GPS tracking of the delivery vehicles. In the case of same-day delivery, real-time communications and tracking of delivery vehicles is critical as they are in constant motion, delivering to consumer homes and picking up goods at retail distribution centers and stores.

One positive effect of the holiday season buying spike is that the increased delivery volume can help improve delivery density, lowering the number of miles driven to

Technology Enabling Holiday Delivery Success *(cont'd)*

serve each consumer. However, retailers can do more to improve delivery density using delivery appointment scheduling technology that provides options during the buying process that help increase delivery density improving productivity and reducing costs. Ocado, a grocer in the UK, highlights delivery times during the ordering process for consumers that have already have deliveries planned in that area. These times are positioned as ecologically friendly since they are close to other deliveries and consume less fuel. A significant number of customers choose them to help the environment, but they are also helping to lower Ocado's delivery costs.

Increasing consumer delivery expectations, increased pressure on minimizing delivery costs and rising holiday delivery volumes as consumers buy more on line are making technology more critical to success of retailer delivery operations. Technology is helping to drive the productivity that is paramount during the holiday season as home delivery demand continues to out strip the available delivery resources. In addition, technology is helping delivery operations become more reliable and streamline the cash-to-cash cycle. However, retailers can look to technology to not only help them deliver more with less, but also to grow sales and provide services that differentiate themselves from their competition. Delivery technology is helping to transition delivery from a back office operation to one that is consumer facing and highly valued by consumers and retail management.

Home Delivery Excellence Predictions Through 2017

Home delivery will be experiencing significant transformation over the next few years as more retailers enhance their capabilities and market leaders look for new ways to differentiate. Many of those trends will be the results of new and evolving home delivery strategies and technologies. However, a number of them will come from the growing pains of current last mile delivery methods, capacity constraints and technology. I have identified 6 areas where we can expect to see significant change.

1. **Omni-modal versus multi-modal distribution.** The term "Omni" is hot in the retail market as retailers look to optimize and create a unified selling front to consumers whether they are in store, on line, on their smart phone. The notion of multi-modal distribution – the optimization of deliveries across the delivery modes has been around for a long time, but for most distribution intensive companies it has been limited to simple mode selection (e.g. size and weight). Instead, omni-modal takes the process a step deeper looking for the counter intuitive delivery combinations to squeeze out more efficiency and great customer service. For example, a retailer has a customer who orders a large item for delivery next Wednesday, but the same customer buys smaller items this weekend. The traditional multi-modal approach would have two deliveries, one on the "white glove" service and the other through a small package carrier. Why not merge the 2 together and eliminate the parcel delivery cost? That's the approach omni-modal distribution takes.

2. **Execution, execution, execution.** The push for next and same day delivery will continue to drive many retail markets. This pressure will dictate that supply chains be much more streamlined and responsive. Hence the focus will be on execution-based processes and technologies that reduce supply chain cycle times. The real innovators will drag their supply chain partners into this exercise as much of the critical path for increased supply chain speed and responsiveness is relate to partner performance and integration. That brings me to the next point.

3. **Supply chain injection.** In the quest for greater speed and responsiveness, tiers in the supply chain will be skipped. The challenge for many distribution intensive companies is that their supply chains were optimized for lower cost and not necessarily responsiveness. Leading supply chain operators will fully engage their supply chain partners, evaluate more dynamic transportation strategies, information sharing and labeling that makes suppliers REALLY look as if they are a natural part of the supply chain, not a "bolt on". LSPs offering related services will have to up their integration competency with their shippers in 2014 to meet this challenge.

4. **Fleet is back.** After years of eliminating them, shippers will turn to fleets (private or dedicated) to improve their customer service performance and as a hedge against the increasing commercial driver shortage. Supply chain innovators will take this a step further, focusing on driver training and delivery service competency. Don't be

Home Delivery Excellence Predictions Through 2017 *(cont'd)*

surprised to see these innovators pay their drivers MORE and use routing and mobile technology to get the level of service and competency that they need to compete. Similarly, leading specialist carriers will adopt many of the same tactics to improve their service levels and productivity in an effort to differentiate.

5. **Android apps with smart real-time back-end systems.** Sorry promoters of iOS and Microsoft, the debate is over, but the innovation has just started and it's not only about the phone. While 2013 was a tipping point for the use of consumer grade devices, 2014 will saw many more commercial grade solutions appear. Consumer devices proved that as an operating system, Android could handle logistics problems, but necessarily provide the reliability and batter life. Android device pricing will continue to decline, spurring greater adoption. While mobile devices will be more prevalent, there will also be an increase in sophisticated "back end" applications that create real-time closed loop control systems for mobile workers. Same day delivery will be a great example of where there will be an explosion of smart applications to maximize driver productivity and customer service.

6. **Data Security.** The increasing adoption of cloud based solutions, the NSA surveillance and now a number of retailers' highly publicized breaches will accelerate the focus on securing the supply chain data. Data is the life blood of modern supply chains and ensuring that it cannot be compromised is critical business operations. However, data security will be a balancing act for enterprises as they continue the trend to integrate supply chain partners. The knee-jerk reaction will be to severely restrict access, but leading supply chains operators and related cloud solution providers will focus on technologies that drive deeper levels of security (e.g. encryption), but still facilitate collaboration.

Not since the late 1990s has supply chain performance as a competitive weapon been addressed at the board level in so many companies. The trend in home delivery for reinvention and reassessment of traditional practices will continue to accelerate for the next several years. These will be exciting times for retailers as they seek to differentiate themselves. However, the greatest challenge retailers face will be to keeping pace with emerging home delivery strategies and technologies as today's best practices will be tomorrow's basic requirements.