Bridging the Gap: The Role of Retail 3PLs in the Journey to "Shopping Redefined"



Port Logistics Group

Everyone recognizes that the retail industry is in the midst of a phenomenal transition driven by always-on digital consumers who are molding the shopping experience to fit their lifestyles. They expect speed, convenience, multiple product choices and ease of use. They want to shop whenever, wherever and however they choose and demand fast delivery and no-hassle returns. And while they may not recognize it yet, they want all of this delivered in a seamless, consistent brand experience.

On the demand side this shift has happened very quickly, mirroring the explosion in digital and mobile devices. And it continues to accelerate. According to the U.S. Department of Commerce, online sales grew more than three times as quickly as total retail sales in the second quarter of 2014. While the long term implications of that growth curve can hardly be overestimated, it's important to remember that these sales still represent only 6 percent of all retail business. As retailers invest millions on electronic storefronts and order management technology to capture digital customers, they also must continue to stock distribution centers and replenish their brick-and-mortar network.

The problem is that the traditional store-centered supply chain, which works so well for larger orders and case picking, is not well equipped to handle the very different and more complex picking, packing and transportation requirements of B2C. This was a manageable problem when online sales were still a novelty. Volumes were small enough for most retailers to operate two separate supply chains with separate inventories – one for replenishment of traditional warehouses and stores and one to fulfill digital orders. Now, with B2C rapidly gaining momentum, retailers are faced with the monumental task of revamping their physical supply chains and rethinking their fulfillment strategies around omni-channel sales.

This issue is reflected in the growing importance that retailers give to these issues in the 2014 Retail Benchmarking Report, Omni-Challenge 2014: Double Trouble, recently released by Retail Systems Research. "Retailers are growing concerned about the inefficiencies created by attaching a digital selling environment to an operational model that was built with one physical selling environment – the store – in mind," the report says.



The top fulfillment concern expressed by surveyed retailers is how to enable cross-channel transactions, such as allowing a customer to buy an item online and return it to a store. Along with a perceived general need to improve operational execution, the other issue most cited is the inability to allocate inventory in one channel to fulfill an order from another channel.

These concerns emphasize the need for true visibility across a retailer's entire inventory as well as cross-channel integration of order and fulfillment systems – changes that will help retailers become as channel agnostic as their customers. As the RSR Benchmarking study concludes: For consumers, it's just shopping, redefined.

Getting to that point will be a journey requiring significant investments in technology, integration, and process improvement -- and it will take time. While laying the groundwork for this eventual B2B/B2C convergence, retailers need interim strategies that will maximize sales and optimize service for all their customers.

Retail 3PLs are uniquely positioned to help retail customers bridge this gap. Here is why:

- Retail 3PLs typically have robust WMS solutions that provide a single view of inventory and enable order fulfillment from a single system, regardless of where the inventory is physically located.
- They have significant experience connecting to multiple customer order systems, a critical skill as new eCommerce order platforms must co-exist with traditional ERP and legacy order systems.
- They use proven techniques for optimizing the accuracy and speed of "each" picking within existing national DC networks.
- Retail 3PLs already handle both B2B and B2C operations and have the flexibility to manage high-volume case picking and transloading alongside B2C fulfillment.
- Retail 3PLs have a flexible, cross-trained workforce that reacts quickly to new surges and peaks created by channel-specific sales strategies; and their extensive "value-add" capabilities easily transfer from retail services (kitting, packaging, displays) to direct-to-consumer services (gift wrapping, relabeling, special packaging).
- They understand returns processing and can scale up to meet the higher return rates of eCommerce channels.

Inventory Visibility

Nothing is more important to successful omni-channel fulfillment than a single view of inventory. Chuck Feldman, director of warehouse systems solutions at Port Logistics Group, notes that retailers in the past have depended on two separate inventories to fulfill tradi-

tional and online channels. “If a retailer had 100 blue shirts in inventory, it might allocate 75 to one channel and 25 to the other,” he says. “If this allocation proved to be wrong, it was impossible to move the inventory quickly enough to capture the sale.” With a virtual warehouse, a retailer can let the market dictate how those 100 blue shirts are allocated. This doesn’t mean that companies don’t think about probable allocations, he says, “but if they are wrong, it only takes a stroke on the keyboard to move the inventory.”

Virtual inventory systems only work if the 360-degree view of inventory they provide is accurate, and accuracy requires a joint effort between the 3PL and the retailer. It is important, for example, “for retailers to have one systemic SKU for each product that is offered both online and in the store,” says Lou Riccitelli, vice president of East Coast operations at PLG. Retailers often have two or more SKUs for the same product – a holdover from the days of separate channel-specific supply chains, he says, and with more and more products being offered online “it’s important to set this up right in the beginning.”

Even the most accurate inventory data can be undermined by multiple and unintegrated order systems, however. This is where a lot of retailers, which have had to quickly develop eCommerce front-end capabilities, run into problems. “Many retailers have built electronic storefronts themselves or used one of the popular online store platforms,” says Greg Morello, chief marketing officer at PLG. “These storefronts typically operate as new, stand-alone demand points that may not be connected to the primary ERP or order management system. “

Retail 3PLs, on the other hand, are experts at connecting to a diverse set of demand generators, from sophisticated ERPs to legacy systems across many customers, and even many divisions within customers, Morello says. “For a 3PL like Port Logistics Group, a new web platform is simply a new demand point. Our systems are designed to take input from these disparate systems, create a standard pick order, check for product availability and send accurate, real-time inventory information back to the customer.”

Optimized Fulfillment

Once an order has been accepted and dropped to a 3PL warehouse, actual fulfillment begins – a critical process that must be optimized for speed and efficiency. Retail 3PLs like PLG, which already are picking customized assortments for store replenishment, have a leg up on the “each” picking required for most online orders. Even so, some additional capabilities are needed



for a full B2C operation, says Sarah Drazetic, chief people officer and vice president of engineering at PLG. “On our orders for retail and wholesale customers, we usually have two to three days from the time an order is dropped to when we have to get it out the door,” she says, “but that is shortened for B2C orders. These usually have to be picked, packed and shipped within 24 to 48 hours.”

Additionally, wholesale or retail orders typically have more units per SKU and per order, Drazetic says. “A typical store order may consist of 36 units across three SKUs, whereas a typical B2C order may have the same three SKUs, but only one of each.” The problem, she notes, is that, unless picking modifications are made, “it takes us the same amount of time to pick the B2C order.”

“About 55 percent of the cost involved in picking is travel time – time spent moving around the warehouse from one pick location to another,” Drazetic says. “So what we try to do is set up our picking areas in a way that minimizes travel time.”

This means being smart about storage and slotting policies, says Feldman. “Putting fast movers in front and slow movers in back, and grouping items that often are ordered together are two methods that we use to reduce travel time. Understanding a client’s products and order patterns is critical to getting the right floor layout,” he says. “We spend a lot of time optimizing our slotting to minimize travel and that delivers a lot of efficiency.”

Picking efficiency also impacts the ability to meet very tight turnaround times on B2C orders. “Two-day delivery used to be standard for internet orders,” says Feldman. “Now consumers want to be able to place an online order before 4:00 in the afternoon – or even 7:00 p.m. in some cases –- and still get the product delivered the next day.” To help meet this demand, Federal Express and UPS have extended their cutoff time for next-day delivery from 6:00 PM to 10:00 PM, Feldman notes. “This demand for speed will only increase, which means picking and packing have to be fast and flawless.”

This rule applies even to complex orders, where items physically reside in different locations. PLG has developed an innovative process for merging goods from different warehouses into a single order that has to be processed in less than a day. “We designed a pull wall with lighted cubbies,” explains Drazetic. “Each part of the order is scanned as it comes in and directed to

the cubby assigned to that order. The order is released to packing only when all items have arrived." This system allows the warehouse to marry different line items up very quickly – "in less than half the time it would take on a wholly manual basis," she says.

Perfect Packing

Another area where 3PLs can add substantial value to B2C orders is in packing. "Many retailers want to add special marketing messages, special packaging or gift wrapping to B2C orders," says Feldman. Being able to do this well and with a lot of flexibility is important to fulfillment operations. "A customer may make a quick decision to put a coupon in every online order for the next month, and we can handle that," he says. "We turn these programs around very quickly."

Special packaging often is part of a retailer's strategy to give online consumers a consistent brand experience and the same level of personalized service they would receive in a store, says Drazetic. "They may want to use special tissue paper or nicer cartons. A packer has to be able to see and understand these requirements and pack and wrap based on individual customer requests." PLG not only provides special training to its packers, but it cross trains employees "so we can pull people off other jobs and into packing when there is a heavy influx of orders."

In all operations, the ability to staff up for surges is an important advantage of 3PLs, says Feldman. "For holiday promotions, for example, we have access to a lot of staff and can scale up for increased demand in a relatively short period of time. It is very hard for retailers to do that with their own warehouse."

"It also is difficult for retailers to handle the high percentage of product returns that accompany online sales – a rate that can be many times the return rate at stores," says PLG's Morello. "Particularly when buying apparel, shoppers are using their home as a dressing room, ordering multiple items to try on and returning those that fail to flatter or fit."

This raises the stakes for returns processing because retailers need to get these goods back into inventory as quickly as possible. "Handling returns used to involve just the receipt, sorting and disposition of returned goods based on customer direction," says Morello. "Now, retailers want merchandise inspected, repackaged, and returned to active inventory in first-quality condition as quickly as possible." Retail 3PLs like PLG have existing quality inspection and repackaging operations to serve this return channel, he notes. "Leveraging this expertise can help retailers ensure they have every opportunity to re-sell all returns as first quality merchandise."

A robust returns process, infrastructure designed to handle the complex demands of B2C picking and packing, a cross-trained workforce that flexes with shifting demand, and proven competencies around "value-add" and customization – these strengths provide a strong and reliable bridge ready to help retailers transition from a store-centered supply chain to one fully aligned with "shopping redefined."

Port Logistics Group

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