Using Logistics to Win in a Multi-Channel Retail World

The Increased Importance of Transportation and Logistics Management in Improving Multichannel Companies’ Profitability and Supply Chain Efficiency

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February, 2006
Your boss walks into your office and shuts the door. He sits down. He looks worried and a little uneasy. “Our executive management committee just finished meeting with our board. It seems we need to tighten our logistics operations,” he announces, tilting back in his chair. “We know we definitely need to reduce costs, but without sacrificing our service. Your new job is to figure out how — where to direct our focus, which initiatives to dust off the shelves, what must be expanded, where the new efficiencies are. We, or rather you, need to overhaul the entire logistics function of this company.” He holds your gaze for a second, nods twice to be sure you understand, and leaves the door wide open.
Executive Summary

Operating across three channels — retail, catalog and Internet — creates complex logistical scenarios. Store consumers want in-stock product, while catalog and Web shoppers want to have their orders shipped same-day and to be able to track their order status in real time. The more efficiently and seamlessly these operations take place, inside the warehouse, with vendors and at stores, the faster the turnaround times. There are other important benefits as well — increased visibility of incoming shipments, reduced shipping costs, better customer service and more room for continued growth.

The ongoing challenge for multichannel retailers is to combine back-end operations and logistics in order to present the consumer with a consistent customer experience, whether in-store, online, or at the point of merchandise delivery. Many businesses forge ahead without even developing an operations and transportation plan. But multichannel retailers must partner with logistics vendors to optimize the flow of goods into and out of the warehouse, reduce overhead expenses and minimize costs. What's needed is more communication among marketing, merchandising and management — working in concert with vendors — to fine-tune the process. From a logistics standpoint, the catalog and e-commerce channels of retailing require efficiencies in terms of picking orders the same day or within 24 hours and also require efficiencies with regard to cost-effective outbound transportation. Typically, in businesses with more than one warehouse, these operations functions are mirrored for both warehouses. Figure 1 illustrates such a multichannel business network.

This white paper details logistics network functions and relevant solutions that are available for multichannel businesses, while demonstrating several actions a company can take immediately to make its supply chain operate at peak effectiveness. The introduction provides a high-level view of the areas in which logistics plays a significant role in a multichannel retail operation and describes common, related cost trade-offs. "Four Key Logistics Goals" — increased efficiency, improved customer service, increased sales, building relationships — outline a strategy to optimize multichannel retail logistics management. The goals are illustrated with tested best practices used in operations departments in areas including vendor compliance, managing back orders and returns and building vendor relationships. A final section gives specific examples of logistics solutions in such areas as inbound and outbound logistics, IT and merchandising that can help multichannel retailers to achieve optimum supply chain efficiencies.
I. Introduction

The Council of Supply Chain Management Professionals defines logistics management as “that part of Supply Chain Management that plans, implements and controls the efficient, effective forward and reverse flow and storage of goods, services and related information between the point of origin and the point of consumption in order to meet customers’ requirements.” Logistics, an integral part of the supply chain and logistics networks, systems and management of these operations have become increasingly more complex and in multichannel businesses, logistics management is now responsible to plan for, implement and control:

- Inbound merchandise from offshore and domestic vendors to the warehouse.
- Replenishment of stores by both warehouse operations and vendors.
- Cross-docking merchandise to stores or directly to the pack line for direct back orders.
- Outbound small package delivery through zone skipping or vendor drop-shipping.
- Reverse logistics for single customer returns or to consolidate returns.
- Other logistics requirements including warehouse-to-warehouse transfers, store-to-store transfers and retail store “sends” directly to the customer.
- Multi-warehouse logistics, including warehouse-to-warehouse transfers, vendor receipts and in sophisticated multi-warehouse operations, reception of vendor shipments at the warehouse closest to the vendor and distribution of the inventory to the warehouses and stores.

Multichannel operations increase competition for sales and customers. Such companies as Cabela’s, Harry & David and Coldwater Creek are examples of traditional direct marketers who make substantial investments in store retailing. But since the dot-com revolution of the late 1990s, most retailers have also entered the e-commerce environment, pushing their operations into the arena of logistics and fulfillment of small-order, pick, pack and ship. Many traditional direct marketers’ sales are more than 40 percent e-commerce in origin. Such operations must continually add functions that reflect the different channels’ requirements.

Most direct marketers and retail companies focus on the customer. They realize that it’s more important for a shopper to experience good customer service than to pinpoint which channel the customer uses to shop. A recent study says that 66 percent of consumers shop in all three channels — online, catalog and in-store, yet only 33 percent of merchants offer a consistent customer experience across all channels. Here is one point at which logistics plays a crucial role.

Retail stores want more frequent deliveries so that products are in stock a higher percentage of the time, in part because of the limited backroom space of most specialty stores. In other words, multichannel companies’ supply chains are dynamic and constantly changing and to remain competitive, operations management must invest in continual process improvement.

Benchmark studies conducted by F. Curtis Barry & Company have concluded that shipping costs for retail and direct sales is significant, equaling or exceeding the internal warehouse processing costs for many companies. Figure 2 (on next page) summarizes this data, the range of data values and the cost per order. (For comparative purposes, the cost of shipping has been left out of the total warehouse costs because including it has a tendency to distort comparisons between businesses.) “Total warehouse costs” here includes direct labor, indirect labor, occupancy costs and packaging materials. As the figure demonstrates, logistics influence efficiencies, operating costs, gross margin, service levels and sales.
II. Four Key Logistics Goals

For the supply chain to be effective in a multichannel operation, it is necessary for management to meet the following four goals:

1. Increased efficiency
2. Improved customer service
3. Increased sales
4. Improved relationships

Each of these goals is presented below in terms of definitive and specific objectives required within an operation and with best practices to help achieve those objectives.

1. Increased Efficiency

To increase efficiency, a company must develop cost-effective transportation rates while reducing its overhead, total inventory and overall cost-per-order processing. Warehouse operations, including processes, layout and flow, can be positively effected by closely working with your transportation provider. Establish a two-way relationship with your transportation carrier to frequently share best practices, issues and opportunities. Conversely, disjointed transportation flow ties up space on the receiving dock. For example, if a product doesn’t meet specifications, it must be double-handled, possibly repackaged, stored and shipped back to the source. This process uses extra labor and space. Additionally, lack of a reliable delivery time requires the retailer to carry more inventories, which decreases inventory turns and increases costs for the added storage space.

Ways to improve logistical efficiencies might include:

- Work toward having value-added services like packaging, marking and quality inspections performed by the vendor. This improves the chance of catching errors at the source and source-based services speed product flow through the warehouse.
• Build transportation integrally into the warehouse process and layout and avoid making it an afterthought. Consider inbound and outbound conveyances, queuing up shipments by carrier and the capability to pull orders later in the day to increase customer service.

• Determine that carriers are able to accommodate business demands, depending on product type and turnaround time. For example, some multichannel retailers have carriers come into the center to help load trucks, while other retailers have an in-house USPS post office for shipping.

• Consider whether facilities issues could affect your operation. For instance, limited delivery door access can force companies to rely on their carrier to move a loaded trailer and replace it with an empty one. During peak order shipment periods, this causes down time and an interruption to the workflow when there’s no empty trailer ready to load. Additional loading doors could solve this issue.

Vendor compliance
Vendor compliance is at the heart of efficient supply chain management. To achieve vendor compliance, it is necessary to determine what company policies and procedures will be when dealing with vendors. Simply defined, vendor compliance means that product arrives from a vendor in proper condition and is delivered in the agreed-upon manner. In addition to product quality, some vendor compliance standards include: packaging and shipping requirements, advanced shipping notices, master-case and inner-case sizes, case labeling, product packaging and polybag specifications, accounting and paperwork requirements, logistics requirements and routing guides, scheduling appointments and statistical sampling requirements, to name only a few.

The proactive step of instituting a charge-back policy should be clearly stated in a vendor compliance manual, with the support from senior management. Retailers would rather have receipts arrive on time and be compliant than deal with the hassle of collecting charge-backs. But it’s necessary to put financial penalties for non-compliance into effect. Without setting these standards, a warehouse will have to absorb repackaging and re-labeling costs. And without compliance policies and enforcement, it’s difficult to implement more advanced systems of cross-docking, ASNs, just-in-time inventory, source marking and ticketing, or radio frequency identification.

Regaining control over the retail supply chain
Traditionally, vendors, rather than retailers, have controlled inbound freight decisions. This practice costs retailers a premium of 20 percent to 60 percent above actual transportation costs, according to industry estimates. But today, more retailers are taking control of inbound freight, which in turn enables them to influence their economies of scale and negotiating power to reduce costs. This is not an easy transition to make, when you consider the number of documents, parties, languages and currencies involved in global sourcing. But the benefits are numerous — lower costs, improved visibility of the inbound goods in transit and the ability to schedule receipts. On the domestic side, controlling inbound logistics costs is another opportunity for multichannel retailers. Not only do large retailers gain efficiencies, but smaller retailers reap benefits, too. DiversDirect, an eight-store retailer with online and catalog operations, was able to increase its gross margins 0.7 percent by consolidating freight shipments among its vendors (for more on DiversDirect, see “Case Studies”).

Another major advantage of controlling inbound freight is the ability to combine inbound, outbound and reverse logistics to get higher discounts. This always needs to be balanced with the issue of putting all your transportation eggs in one basket. Carriers have areas of strength and weakness. Select vendors for their strengths. Approximately one-third of companies are using multiple carriers — a growing trend.

2. Improved Customer Service
In direct marketing enterprises, fulfillment operations are in partnership with marketing and merchandising. This
partnership is like a three-legged stool — without all three legs the stool cannot stand. Fulfillment operations' inbound and outbound transportation is key to delivering marketing's promise to the customer to get the shipment delivered on time and in good condition.

In direct marketing, customer service must be balanced with costs. First is the cost to acquire a customer, which stands at $10 to $25, depending on the efficiency of the prospecting. This figure includes catalog and other marketing costs, as well as the cost of non-responses. In many businesses, 50 to 70 percent of all first-time buyers do not purchase a second time. Most direct businesses need a customer to purchase two or three times to break even.

The second cost element to consider is the high cost of being on back order. Hundreds of customer studies show that in most direct businesses it costs between $7 and $12 to process one back-ordered unit of merchandise.

Figure 3 shows the breakdown of back-order costs for a small direct business. If this business had 200,000 orders with 400,000 units — and back orders were calculated at 20 percent — then 40,000 back-ordered units would occur. At $7.37 per unit, back orders would cost this direct marketer $294,800. More importantly, the numbers don't include hidden costs for the buyers' time to accelerate back orders, air freight to bring stock in faster, or a loss of customer good will. Permanently losing a customer because of poor service has the highest cost.

The third type of cost element is the erosion of gross demand by customer returns and customer and company cancellations. Figure 4 shows typical return rates by category. The higher the fashion nature of the product, the higher the return rate tends to be. Sized or tailored fashion products have higher returns.

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**Figure 3: Back-order Costs**

<table>
<thead>
<tr>
<th>Cost Item</th>
<th>Cost ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contact Center rep and phone line costs</td>
<td>$0.87</td>
</tr>
<tr>
<td>Pick/pack/ship labor costs</td>
<td>$0.58</td>
</tr>
<tr>
<td>Outbound transportation costs</td>
<td>$3.50</td>
</tr>
<tr>
<td>Packing and shipping supplies (second shipment)</td>
<td>$1.05</td>
</tr>
<tr>
<td>Back order notification and postage</td>
<td>$0.50</td>
</tr>
<tr>
<td>Cancellation—contact center and phone line costs</td>
<td>$0.87</td>
</tr>
<tr>
<td><strong>Total cost of back-ordered unit of merchandise</strong></td>
<td><strong>$7.37</strong></td>
</tr>
</tbody>
</table>

Costs not included:
- Prospecting, marketing costs; merchandising; administrative overhead; costs of return from late shipment; lost margins; added expedited transportation costs; potential loss of customer

Source: F. Curtis Barry & Company

The third type of cost element is the erosion of gross demand by customer returns and customer and company cancellations. Figure 4 shows typical return rates by category. The higher the fashion nature of the product, the higher the return rate tends to be. Sized or tailored fashion products have higher returns.

**Figure 4: Selected Return Rates by Merchandise Category**

<table>
<thead>
<tr>
<th>Merchandise Category</th>
<th>Return Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business products</td>
<td>1-5%</td>
</tr>
<tr>
<td>Hard-goods gifts</td>
<td>5-9%</td>
</tr>
<tr>
<td>Home décor</td>
<td>5-10%</td>
</tr>
<tr>
<td>High-tech products</td>
<td>5-20%</td>
</tr>
<tr>
<td>Casual apparel</td>
<td>10-20%</td>
</tr>
<tr>
<td>Shoes</td>
<td>10-30%</td>
</tr>
<tr>
<td>Fitted apparel</td>
<td>20-30%</td>
</tr>
<tr>
<td>High-fashion apparel</td>
<td>25-40%</td>
</tr>
</tbody>
</table>

Returns
Returns also cost far more than orders to process and in many businesses, only one-third of the returns are
exchanges. Cost of processing a return includes:

- Original cost of order processing (which is $3 to $6 in most direct business) including indirect and direct labor, credit card processing fees, occupancy costs and phone lines.
- Prospecting costs to acquire the customer.
- Cost to process returns and refurbishing items, including indirect and direct labor, occupancy costs.
- Loss of shipping and handling revenue if refunded from outbound or inbound transaction.
- Loss of gross margin.
- Potential loss of customer if shopping or return processing experience is not suitable.

For high-return categories and businesses, reverse logistics services typically allow customers to send returns into the pipeline closest to their location, either at home or via a retail outlet. The reverse logistics provider should offer systems that provide visibility into goods being returned in advance of receipt in the retailer’s distribution center. This will not only allow the merchant to schedule resources accordingly, but it will also give the merchant an estimate of return goods that will be available to fill new customer orders. Additionally, some retailers start the refund or credit process when customer returns have been received.

Another aspect of costs is cancellations. Industry standard for excellent customer service puts cancellations as a percent of demand at 2 percent or less. However, for apparel direct marketers it is not unusual for cancellations to be between 4 and 8 percent, since business must be based on estimations. There is no historical selling data for apparel because of the high percentage of new product. New products can run 50 to 75 percent, four seasons annually — that’s simply the nature of the apparel industry. Catalogs with fewer new products, or with categories that have a higher ability to be reordered, have lower cancellation rates. Business-to-business cancellation rates may be less than 1 percent to several percent; home décor rates may be from 1 to 3 percent.

Obviously, the speed of getting resalable returns back into inventory availability and the reduction of costs of returns can greatly affect profitability. Leading retailers acknowledge returns as part of the cost of doing business and include a convenient return process as part of the customer experience.

On the inbound side, shaving several weeks off receiving can save some of the back-order costs and reduce loss of customers. This is where a potential problem with global sourcing lies. Most direct marketers are unable to reorder except in large quantities. Receipts are generally not planned in multiple shipments because of the minimum purchases required.

Increases in supply chain efficiency can reduce inventory levels and out-of-stocks. For example, take the radio frequency identification (RFID) used at Wal-Mart. Wal-Mart’s use of RFID is early in its implementation, but results are already impressive. According to Linda Dillman, Wal-Mart’s chief information officer, using radio-frequency identification has reduced out-of-stock merchandise by 16 percent at participating stores, while improving customer service during the past 12 months. The concentration has been in higher-priced, faster-moving product. Additionally, Dillman says, the company can restock RFID-tagged items three times faster than non-tagged items. Wal-Mart has only implemented RFID with about 130 vendors, using 5.4 million tags in the past year, and approximately 1,000 stores are ready to receive RFID product. The company expects to have added 200 more suppliers by January 2006.

Getting efficient inbound logistics systems and vendor compliance in place is the first priority. While RFID is in the future for most companies, others need to implement solutions that optimize supply chain efficiency today.

### 3. Increased Sales

How can inbound and outbound logistics and transportation help a retailer’s sales? Several opportunities exist for improving service, and those in turn, can be used to marketing’s advantage. Look at inbound and outbound
freight as separate operations with separate requirements, as described in Figure 1. Bundle the volumes wherever possible with your carriers, but recognize the differences between the channels.

Inbound logistics
With direct promotions and advertised retail product, maintaining on-time and in-stock position is a must. Sales potentially could be lost without an available, reliable source of merchandise. Because it's difficult to project sales, you need to get product quickly and safely into the logistics pipeline. Product damage from inbound transportation can seriously affect product availability, and without product you can sell, profits decline.

Begin by tracking what you have coming inbound, where it is and when it will be delivered. Import and assemble containers of priority product, since delivery by air freight is costly and may exceed the margin of low-priced product. Be aware that direct channels are subject to the FTC's 30/60 day rule: Direct marketers must notify customers of a possible delay in receiving and, as a result, outbound shipment, or cancel their orders entirely. In addition, warehouses are increasingly becoming the "back room" for specialty store operations in the multichannel retailing environment. If you don't have product that can be moved quickly into a retail outlet, you can miss the sale.

As companies become leaner, transportation becomes even more important to meeting sales goals. Plus, there's a difference between merchandising stores and catalog promotions. Retail customers may substitute another product for what they originally came in to purchase, but in direct promotions the customer is very negative toward substitution. That's why many catalogs adopt charge-backs for late delivery, back orders incurred and substituted product.

Outbound logistics
The logistics of delivering to the customer can affect sales if the customer's expectations are not met, for example, with the late delivery of a gift, or a damaged or poor appearance of product upon arrival. If the customer doesn't want the product that arrives, returns increase the cost of operation.

Conversely, logistics can factor into a company's marketing plan if transportation costs are under control. According to BizRate Research, 79 percent percent of e-commerce companies were planning to offer free shipping and handling. For the first time in three holiday seasons, L.L. Bean offered free shipping on all orders. Free shipping has proven to increase sales and average order. Most marketers don't want to give up this source of revenue, or offer it only to their best customers or higher-average order buyers. If your company's transportation costs are out of control, you're going to be less willing to offer shipping promotions.

4. Building Relationships
True two-way collaboration between retailer and carrier is key to the success of overall logistics execution. Measures of success are: total cost, time in transit and responsiveness of the carrier representative.

The single-carrier versus multi-carrier philosophy is one of the primary issues that need to be addressed with regard to carrier relations. Using one carrier allows a higher aggregate volume of shipments, which can result in lower negotiated rates. The downside is total dependence on one carrier and the resulting possible problems if there is a carrier service interruption. Both issues should be weighed carefully.

A good relationship between the retailer and the carrier representative is vital to making the activity work. Inevitably there will be issues that must be addressed. Trust and a positive attitude can influence how those issues are resolved. Most vendors can meet the technical needs of their business; the difference can be how relationships affect business. It's always more than a matter of cost that breeds success.

Merchandisers have the initial primary relationship with vendors in many retail and direct marketing organizations. In re-buying merchandise, this relationship is often delegated to inventory planning or
purchasing. In most companies, changes are required in vendor logistics to acquire the blessing of the merchandisers and to achieve vendor compliance. Additionally, gross margin and freight-in are often goals of the merchandising department and the buyers — standards upon which performance objectives and bonuses are evaluated. Obviously, increases in efficiency that yield savings will win partners.

Use a structured approach to comparing vendors. When soliciting bids, make sure the retailer should give carriers as much information about its business requirements as possible. Throughout the bidding process, and later when working with carrier partners, retailers should follow these guidelines:

- Stay involved with the process.
- Verify results and reports.
- Audit bills.
- Consider the total costs of transportation in your analysis and reviews.
- Keep options open and treat carrier contracts and relationships as dynamic and evolving — not like a fixed three-year arrangement.

In direct retailing businesses, the purchasing and inventory control functions have responsibility for analyzing inventory requirements, purchasing and purchase-order writing, receipt-planning, vendor communication, routing deliveries, improving back orders, coordinating required receipts to prevent back orders and stock-outs. They are generally good partners with fulfillment in enforcing vendor compliance. In multichannel and multi-warehouse operations, the purchasing and inventory control departments have the prime responsibility to balance or level inventory between channels, warehouses and stores to optimize sales and profitability.

Information technology

Systems implications abound for integrating partner systems, implementing supply chain improvements and managing necessary IT resources. Hundreds of vendors sell software systems to streamline the supply and logistics process — an indication of the complex requirements for controlling the management of logistics. Many IT vendors deal with market niches, while others deal more generally with logistics overall. Among the functions addressed by these vendors are:

- Manifesting and rate shopping plus integrated load and yard management.
- Inbound transportation management and freight auditing.
- ASN/EDI.
- Inbound and outbound product tracking.
- Transportation procurement.
- Purchase order management.
- Transportation planning and execution and routing guide management.
- Carrier management.
- Enterprise-wide approach to supply chain.

The IT department is the hub of managing and controlling your company’s information resources. It’s important to investigate current state-of-the-art systems and invest in those that will add value to your operation. Develop an IT partnership to revitalize your supply chain systems.

III. Transportation and Logistics Solutions

Determining how a company is going to transport product through the supply chain from the source to the customer is a complex challenge. It is more crucial than in the past, due to global sourcing and the multichannel nature of retailing. Multichannel retailers must depend on relationships with trusted vendors for inbound and
outbound logistics as well as for handling merchandise returns. Refer to Figure 1 for illustrative purposes.

Inbound logistics
On the domestic front, retailers controlling inbound logistics will work with vendors to coordinate the most effective transportation methods to move merchandise from their vendors' DCs to retailers' DC or stores. Depending on dollar value, inventory turns, dimensions and other factors, the retailer may choose between truckload (TL), less-than-truckload (LTL), parcel ground, or parcel express transportation options.

Leading retail customers tell us that domestic inbound transportation is estimated at 2 to 4 percent of the cost of goods sold (COGS). For global merchandising, the costs are higher. Overseas product sourcing gives the merchant a more effective way to compete on price and to earn larger gross margins. There is competitive pressure on gross margin, since many businesses today import more than 70 percent of their products. Retailers that import products generally have an initial markup 10 to 15 points higher than those for domestically sourced products. This is allowable due to the lower cost of sourcing merchandise overseas. The initial markup is necessary to offset the expenses of buying trips, customs duties, agents' fees and freight costs. Yet these merchants still seem to maintain higher gross margins, despite all the added expense. For example, multichannel retailer Levenger, which sells high-end office furnishings through its catalog, Web site and retail stores, has been buying more of its product from Asia over the last few years. As its international sourcing increased, the company worked to obtain more cost-effective rates on its inbound freight shipments. (For more on Levenger, see “Case Studies.”)

But global sourcing also increases the layers of operations complexity. Globalization requires companies to file more than 30 documents and interface to over 20 parties — including customs, carriers, freight forwarders and banks. Additionally, these transactions require multiple currencies and languages and are conducted across multiple time zones. There also is a trend toward networks supported by multiple distribution centers. With the rising cost of freight, a single warehouse on one coast adds significant shipping and handling costs to customer orders delivered to the other coast. Adding to this pressure is the competitive need to deliver products within two days at competitive rates. This is especially important for business-to-business sellers who compete with local distributors. Efficient logistics help to build their market share.

Convert your vendors from freight-paid to freight-collect. In this connection, FedEx offers a Vendor Enablement Program (VEP) and Inbound Consignee status as inbound logistic solutions for retailers. For example, CompUSA saved $1 million per year in inbound logistics costs as a result of consolidating inbound logistics. DiversDirect increased its gross margins by 0.7 percent as a result of an Inbound Consignee program.

Outbound logistics
Seventy percent of retailers source their merchandise from overseas. The trade-off decision is a lead-time versus transportation cost decision. Faster lead-time solutions influence air imports and parcel-facilitated transportation to ship merchandise from overseas to retail stores in three to four days. Longer lead time and more cost-efficient solutions prompt ocean containers, ground parcel and LTL transportation to ship merchandise in 22 to 28 days. For example, outdoor marketer Timberland, which sources much of its product offshore, recently began taking advantage of scanning technology by implementing a process of scanning items as they are packed at the factories in Asia and then having the information transmitted back to the U.S. (See “Case Studies” for more detail.)

In addition, having access to a full portfolio of outbound transportation services could ideally align well with your customer segments. An assortment of one- to two-day services for your “A” customers, with one- to five-day ground services to your “B” customers and a possible longer lead-time, lower-cost service for your “C” customer segment could be an interesting discussion with your Merchandising and Segmentation group.

Overseas labeling
Retailers leveraging offshore inbound logistics solutions can allocate merchandise to individual stores by sending an allocation file to FedEx at the point of overseas origin. This international inbound service offers the advantage of clearing customs as one shipment (Air Express or Ocean Container) and then injecting the shipment into the FedEx network through FedEx Express®, FedEx Ground®, or FedEx Freight®. Retailers may direct delivery to individual retail stores and bypass their DCs to reduce time-to-market for their merchandise.

FedEx offers FedEx International Priority DirectDistribution®, FedEx Trade Networks Ocean-Ground Distribution® and FedEx Trade Networks Air-Ground DistributionSM. The retailer 7-Eleven has taken advantage of FedEx Trade Networks Ocean-Ground Distribution. For its holiday replenishment program, the company increased its merchandise gross margins by 5.5 percent as a result of a FedEx solution.

Multiple-vendor consolidation
Retailers managing an efficient supply chain coordinate their inbound logistics to consolidate transportation from multiple vendors. As a result of careful planning and forecasting, retailers consolidate shipments originating in nearby vendors’ DCs to reduce total transportation cost per unit.

Direct-to-store vendor shipments are commonplace for specialty store chains. Retailers who manage a collaborative supply chain with open vendor communication have their shipments sent directly from vendors to retailer stores, bypassing the retailer’s DC. As a result, inventory carrying cost (ICC) is drastically reduced, due to less handling at the DC, less labor and resources and less possibility of theft and damage. FedEx offers FedEx® Third Party Consignee as a solution.

Catalog and e-commerce orders
Retailers fulfilling consumer orders need to offer an array of transportation options, and FedEx offers a variety of outbound logistics solutions for domestic customer shipping of catalog and e-commerce orders, from express (overnight or two-day), to residential delivery (one-to-five-day and lead-time service with a specialized network for residential consumers), to FedEx SmartPost®, which features a longer lead time, lower-cost service, a five-to-nine-day lead time and uses the U.S. Postal Service for final delivery with FedEx Home Delivery® service.

International customer shipping
Most retailers see international sales as their largest opportunity for growth. Internet Retailer magazine recently published a list of the biggest hurdles for retailers to do business overseas. The difficulty of shipping merchandise was identified by 42 percent of retailers as their No. 1 hurdle in doing more business internationally. Overall, 20 percent of retailers’ international orders are abandoned due to lack of total landed cost (cost of shipping + cost of shipping + custom, duties and taxes).

FedEx offers Total Landed Cost solutions such as FedEx® Global Regulatory Trade Services for large retailers and FedEx® Global Trade Manager for smaller-sized retailers. These services can take a retailer’s SKU and match it to the harmonized tariff system code to estimate custom duties and taxes. Integrating FedEx Global Trade Manager into a retailer’s call center operations or Web site, allows the retailer to quote total landed cost to the consumer, providing a more convenient customer experience.

Transport consolidation and zone-skipping
Retailers who wish to reduce their transportation costs can use a zone-skipping program in which parcels are shipped part of the way to their destination by the shipper and then dropped at a carrier’s facility or hub to complete delivery. On average, retailers who use zone-skipping can reduce transportation costs per unit by double-digit numbers. However, there is a trade-off in the lack of parcel visibility on the front leg of the zone-skip.

FedEx Ground and/or FedEx Freight services can be used to bypass hubs and stations, which reduces overall zone and translates into lower transportation costs per unit. These services are used when a retailer has a high density of shipments or stores located in a concentrated area or region, thus allowing for greater rates of
truckload build. These solutions are also appropriate for shipments from warehouses to stores, or when vendors drop-ship orders directly to the customer.

**Reverse logistics**
Reverse logistics services include returns from individual customers, consolidated aggregated returns, return-to-vendor items from warehouses and the seasonal return of merchandise from stores to warehouses. FedEx offers a variety of returns solutions, including preprinted labels, which are generally sent with an outbound shipment or shipped out by the consumer to the return merchant, or electronic return labels, which provide ease of use and better tools for retailers to control their return processes. Some of the benefits of using electronic return labels are the ability to print an outbound and return label at the same time, maintaining a shipping history of all return shipments, increased return shipment visibility through the FedEx InSight® service and precise customer reference (including RMA) number availability for tracking and invoicing. Electronic labels are sent by secure e-mail directly to the return shipper without exposing the retailer’s account information. The return shipper prints labels from its own printer, places the labels on the packages and drops off or requests pickup for the shipment. FedEx also offers a driver-delivered label option that combines the delivery of labels with the pickup function so consumers don’t have to create a label or drop off the package.

FedEx can support retail store operations by “sends” of individual customer shipments purchased in-store, by shipping merchandise purchased in-store directly out of the warehouse and by handling inter-store transfers to balance stock levels. In addition, the FedEx Shipment Integrity Program provides a unique shipment identifier to help prevent and analyze the cause of split shipments in order to reduce the chance that a retailer with a product release or store opening might not receive items for a particular event.

The FedEx Ground Multiweight® service option optimizes moving multiple packages from one location to the same destination on the same day. It allows multiple packages collectively weighing 200 lbs. or more to be rated as one shipment. This option requires no palletizing, shrinkwrapping, staging or segregation. The shipment is rated both as individual packages and as a single shipment and the customer pays the lower shipping rate.

**Multi-warehouse logistics solutions**
More sophisticated multi-warehouse operations are receiving vendor shipments at the warehouse closest to the vendor and then distribute the inventory to the warehouses and stores. Retailers can utilize transportation visibility tools to know when their shipments will arrive and for WISMO calls, reduce call-center minutes. FedEx InSight is a Web-based management tool that allows customers to view real-time status of their inbound, outbound and third-party shipments without a tracking number. Using account numbers and/or company name and address, it provides status information about their shipments in multiple languages, so customers can more effectively manage their supply chain processes. FedEx InSight also provides proactive notification via e-mail, Internet, or wireless devices, for critical shipping events like clearance delays and delivery attempts — and then suggests recommended actions to accelerate delivery.

**IV. Conclusion**

The competition is fierce in the multichannel retailing environment. A business that hopes to grow and prosper requires a comprehensive logistics and transportation strategy, executed flawlessly. The dilemma for management lies in trying to meet consumers’ growing expectations while keeping costs in check. In response to these issues of multichannel growth, more and more carriers are branching out to offer logistics services. Those businesses that work to build successful relationships with logistics and transportation vendors will find that their efforts lead to improved customer service and profitability. It’s not an easy task, but it is certainly one that’s achievable with the tools and technology available today.

After all, you could have answers to your boss’ request …
About the authors

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Appendix

Case Studies
The following case studies illustrate how improving logistics management also improves customer service, reduces costs and increases the profitability of today’s retail businesses. Please visit http://retail.fedex.com to view these case studies.

DiversDirect - With an eight-store retail operation, catalog and Web sales, DiversDirect had dozens of vendors to manage. Inbound freight scheduling posed serious challenges. This multichannel retailer needed flexible shipping services to keep costs in check, while allowing it to meet its customers’ demands for last-minute, pre-vacation, diving-gear orders. Developing an inbound logistics initiative, a successful consolidation of inbound shipments, simplified invoice processing and increased gross margin by 0.7 percent. Plus, FedEx InSight allowed DiversDirect to track inbound shipments — making it easier to staff its receiving function more efficiently.

Levenger - a seller of “tools for serious readers” through catalog, Web and retail stores, Levenger is working with FedEx to use its outbound transportation volume, with the goal of obtaining more cost-effective rates on inbound freight shipments. Levenger has experienced an increase in imported products over the past years as its percentage of goods sourced from Asia has climbed to about 70 percent, previously sourced domestically. FedEx Freight provides discounted rates on inbound vendor shipments and delivery of furniture to Levenger’s residential and business customers.

Timberland - Apparel and footwear marketer Timberland sources 90 percent of its products from Asia, according to ARC Advisory Group. Timberland’s goal was to improve visibility of inbound shipments, amounting to 3,000 containers a year into the U.S. alone. To accomplish this, the company implemented a “scan and pack” process to scan items as they are packed at the factories. The information is transmitted to Timberland in near-real time via a portal. Shipment-related information, including container numbers and packing lists, is also sent electronically to FedEx — streamlining the previously paper-driven process.