



**SIMPLIFYING YOUR
DISTRIBUTION CHAIN** by
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Simplifying *Your* Distribution Chain

A courier-run logistics system can help establish a "seamless" link between manufacturer and store.

by Richard D.B. Talbot



From major department stores to trendy boutiques, Canadian retailers are struggling to cope with the demands of increasingly fickle consumers. The challenge is to switch product sourcing geographically for price advantage and quickly replenish "hot" selling items, while squeezing every excess dollar from the logistics chain.

We are all familiar with the leading-edge techniques that Wal-Mart uses to meet these challenges. How can Canadian retailers, particularly smaller ones, replicate these sophisticated systems?

One solution is to out-source the logistics chain to a third-party operator. Wal-Mart chose Tibbett & Britten to set up and operate its logistics chain when they arrived in Canada. But while out-sourcing to specialist logistics corporations is a solutions for major retailers, it is clearly beyond the financial capability of most smaller retailers.

Retailers around the world must source their goods from a wide range of countries. These problems become particularly acute when retailers seek to expand outside their home countries, especially when they move overseas.

That challenge triggered our interest in pursuing economical out-sourcing for Canadian retailers. Coincidentally, the solution came directly from our experience with setting up a logistics system for the Harrod's store at Toronto's terminal 3 where we worked with Peter Tilby. Peter Tilby later joined DHL Worldwide Express in Hong Kong as regional director of marketing for Asia. His role was to reposition the business from its traditional international document courier strengths to that of a full-service provider of global express airfreight and distribution/logistics services. The world's retailers were the target of this expansion.

For the past ten years DHL has been at the leading edge of out-sourced logistics chains for retailers around the world. Its current clients include The Gap, Nike, Liz Claiborne, Reebok and Harrod's as well as many smaller retailers. It has grown dramatically in the U.S., Europe, Australia and Asia. Today, fully loaded DHL chartered 747's leave Hong Kong weekly to supply individual U.S. retail chains. The products range from jeans, silk fashions and computers to chocolates and seafood.

The international courier option uses an apparently expensive mode of transportation. So why is it becoming so popular with retailers? Because the increased speed and simplification of the logistics process dramatically reduce overall costs. A major American jeans retailer recently cut its 150 weeks of stock from factory to store to just 40 weeks by utilising DHL's system. The result is significant savings in capital and operating costs as well as quicker reaction time to changing customer demands. In another case, a Taiwanese retailer was able

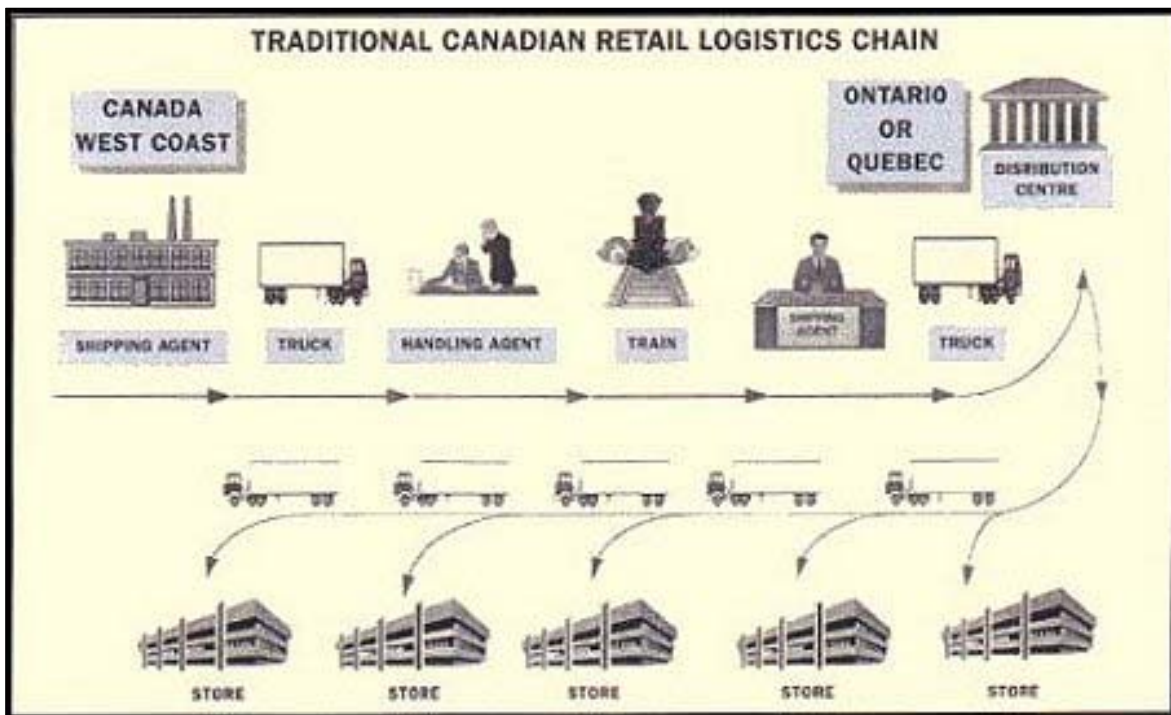
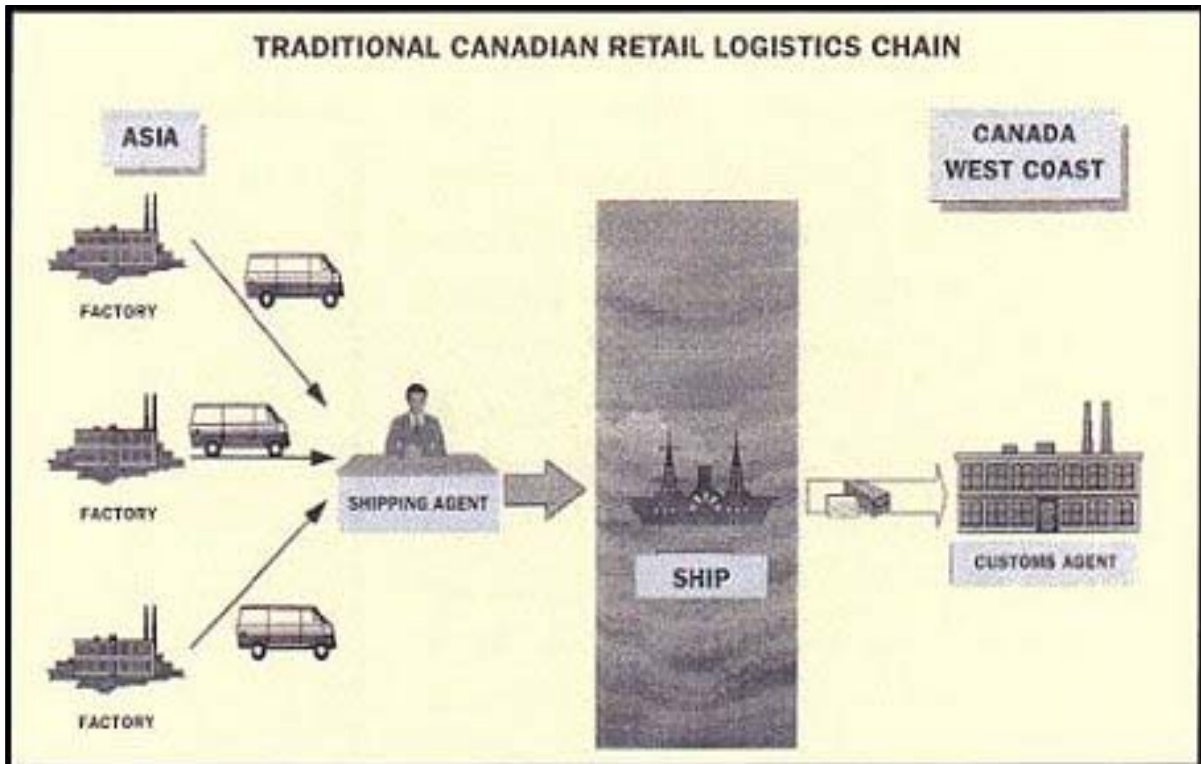


Figure 1

to enter the Japanese market without incurring the traditional high cost of acquiring or building distribution centres.

Can Canadian retailers achieve the same savings? As seen in figures 1 and 2, the traditional pattern for logistics shipments from Asian factories to Canadian retailers involves a large number of different shipping companies, handling agents, customs agents, trucking companies, railways, etc. This creates tremendous potential for shipments errors, delays and other costs. Typically, the



shipment must be ordered months in advance, then trucked to the selected consolidation port. There are waits until shipments from other factories make it economically viable to fill a container package. The goods are then shipped by sea to Vancouver where they are handled by customs clearing agents who transfer them by truck to the nearest rail head. The goods are then transported by rail to a distribution centre in Toronto or Montreal where they are sorted, bilingually labeled, price tagged and packaged for delivery to stores. Most of the handling costs are incurred at Canadian labour rates and, in many cases, the same goods that traveled from Vancouver to Toronto or Montreal are trucked right back to Vancouver!

Figure 2

The traditional Canadian logistics chain results in a lengthy lag between ordering from the factory and delivery to the store. This in turn results in increased capital costs, operating costs, inventory "in the pipeline", "what if" inventory in the distribution centre and stores and inevitably, stock-outs or post-season discount sales.

I remember touring a major department store's distribution centre in Montreal and finding an unopened shipment that had been there for at least a year! It looked more like a museum than a distribution centre. Compare this with Wal-Mart's approach, where goods move from one side of the Brampton distribution centre onto trucks bound for stores within 24 hours. Yet some senior logistics executives take the position that "this is the way we've shipped goods for more

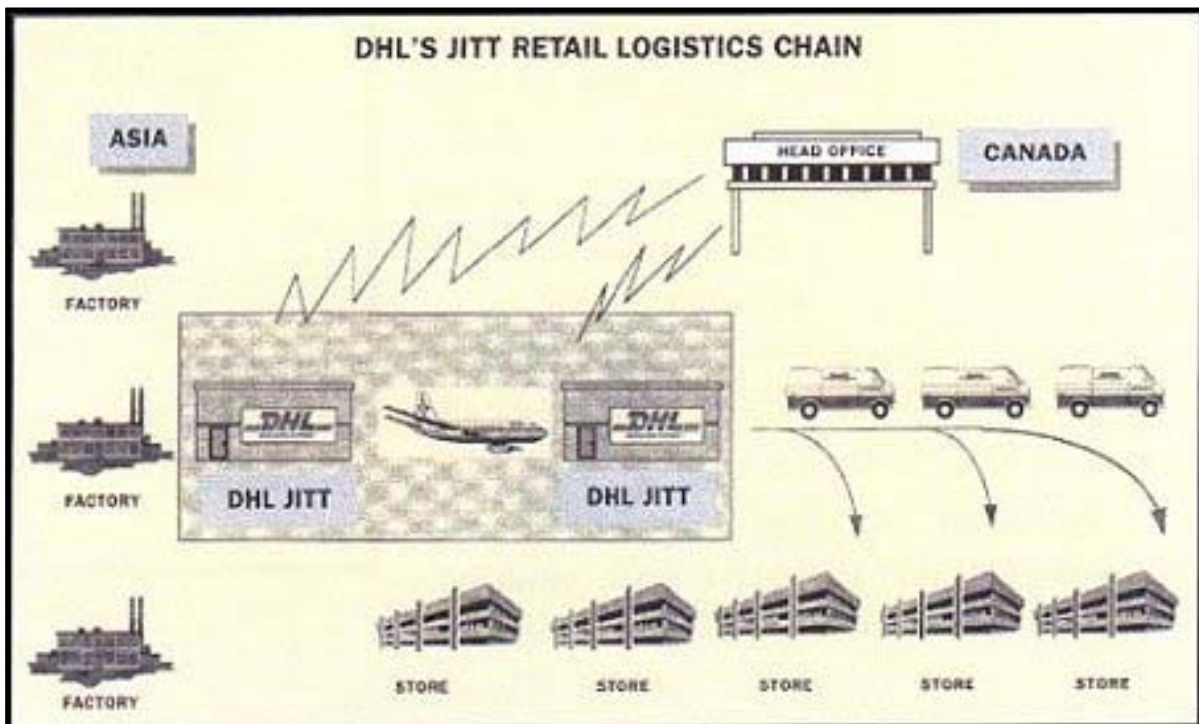
than a century and we don't intend to change now"!

At Wal-Mart, instant cross-docking is the name of the game. If any product stays at the centre for longer than 72 hours, immediate remedial action is taken. The ultimate goal is to scrap the distribution centre completely and have a "seamless" link between manufacturer and store. This is what a courier-run logistics system can achieve.

Compare the traditional Canadian logistics chain in Figures 1 and 2 with DHL's JITT concept in Figure 3. The order is placed directly with the factory electronically through an in-house computer directly on-line with DHL's world-wide network. The goods are bilingually labeled, price tagged and packaged for the store floor done in Asia (either by the factory or by DHL) at significantly lower costs than those in Canada. DHL then collects them from the factory and from that time until they arrive at the store, DHL is responsible for transportation, customs clearance, sorting, etc. Nothing passes through the distribution centre except electronic inventory records for each step of the process. In other words, the traditional distribution centre is replaced by the computer.

The added cost of air freight is more than offset by the overall savings in capital costs and handling; retailers also avoid stock-outs and seasonal discount sales. Sophisticated retailers have seized this opportunity, including one major Canadian department store.

Figure 3



The JITT system benefits small retailers who want to do their own buying in order to have the niche products they need to stand out from their competitors. Courier logistics allow them to avoid central buying agencies and regain control of their logistics system.

An Australian retailer that specialises in fashion accessories adopted this system when it expanded into Canada and the U.S. The company plans to close its distribution centres in Asia, Australia and North America, which will more than offset the traditional costs of air freight. There is another equally significant advantage. As the owner remarked, "by switching to DHL I can concentrate on my job as a retail chain owner and there are no geographical constraints as to where I can expand."

Richard Talbot is the President & Chief Executive Office of Talbot Consultants International Inc. Canada's leading independent international retail and retail development consulting firm with offices in Toronto and New York. Their Geographic Information Systems Division specialises in customer tracking and mapping, target marketing, advertising strategies, sales forecasting and store location and store network strategies

