



Planning for Success

**A Best Practice Guide to
Internet Fulfilment**





INTRODUCTION

Every point at which customers interact with your supply chain contributes to their perception of your company. This extends from the product information contained on your web site, through to the delivery of goods at the customer's door.

There is nothing new about being judged by supply chain performance. But in the realm of internet fulfilment, existing competitive pressure has been compounded by the new breed of dot.coms making an all-or-nothing dash for success. It seems that just about everyone is racing to make his mark in e-commerce and, with so many companies promising the earth, customer expectations are growing by the day.

This best practice guide from LIS, a leader in warehouse management systems and one of the world's fastest-growing supply chain execution companies, offers advice to established businesses making the move to selling online. It highlights areas that should be considered early in the planning process – long before a web store has opened for business – and suggests practical steps that will contribute to the creation of a flexible, scalable and, above all, reliable fulfilment infrastructure. The guide applies LIS' proven experience in helping companies build loyalty and market share in e-business, and helps companies anticipate many of the challenges they will face.



The guide covers five topics that have been recognised as potential problem areas if not addressed as part of a company's online strategy. They are:

1. Customer interaction with the supply chain;
2. Order handling;
3. Accuracy and transparency;
4. Coping with success;
5. Managing returns.

If these areas are considered at an early stage in the planning process, they offer the business a way of creating real competitive advantage.

1. CUSTOMER INTERACTION WITH THE SUPPLY CHAIN

The internet brings many benefits to the way that customers deal with your company. It allows them to access information more easily than before, to opt for self service and to buy from you across a wide geographic area. The drawback of this can be that it exposes your supply chain to new demands and an unprecedented level of scrutiny. Not only will the internet change the requirements placed on your supply chain, but it will also ensure that they continue to change, as your business grows and evolves.

Flexibility and customer-focus are key

Here are just some examples of issues you are likely to face:

- ◆ The online order profile, and even the identities of customers themselves, are likely to differ from those seen in your existing business. Make sure that your distribution centre, delivery fleet and IT systems are optimised for your e-business offering. For example, if your supply chain is geared towards delivering to stores, it will most likely be set up to deal with pallet loads or container boxes, rather than single items for end users. This will probably require you to change the way your warehouse operates. Using existing facilities and systems with a few adaptations may get you up and running quickly, but as the business grows, disappointed customers will jeopardise the long-term viability of the business.
- ◆ Speed of delivery will become an increasingly important differentiator. Your industry norm may be three weeks, in which case one week delivery could be a world beater. But why not go for gold? Same day dispatch for next day delivery should be possible for all stocked items and many assemble-to-order products. After all, if you can cope with a day's worth of demand in a day, why not cope with it on the same day?
- ◆ Remember that your web site will be a 24/7 operation. If you currently pick orders 5 days a week, then on Monday you will have to cope with all orders taken on Friday night, Saturday and Sunday. In a business-to-business environment this may not be an issue, but for a business-to-consumer site it could be crucial.
- ◆ Ensure that your entire range is available from the web site. Retailers who offer only a small selection of products risk upsetting customers who are forced to visit a store to get the items they need. And consider boosting the appeal of your online offering by integrating with appropriate partners to broaden your portfolio of products.
- ◆ Make sure that online cataloguing is comprehensive and accurate – if people can't find what they want, they will go elsewhere. In the big world of online shopping, they may not make it back.
- ◆ Whether or not you aim to beat traditional retailers on price, online customers expect value for money. This is particularly so when you are targeting consumers. In many product categories they will expect lower prices online – in others, they will look for low-cost or free delivery. Where volumes are high and margins low, look for supply chain solutions that will help control costs.





- ◆ Examine how the supply chain can help differentiate your company's web presence from its competitors. For example, in order to get goods to the customer as fast as possible, can you assemble to order, rather than wait until you have enough orders for a batch?
- ◆ Test and re-test the order handling process in order to ensure that it will foster repeat business. Use research or focus groups to examine its success and measure your performance in this area against what your competitors achieve.
- ◆ Relatively few customers really need to track the status of their goods through the ordering and delivery process (especially if you offer and achieve next day service), but they still value transparency. Providing order status information on the web site reassures customers that they are in control of the transaction right up to delivery. And allowing customers to track their orders online has the added benefit of bringing them back to your web site and building all-important loyalty.
- ◆ Pass customer service responses back into your supply chain, to ensure that all staff understand customer requirements. Distribution centre workers as well as fulfilment processes must be able to adapt to changing customer expectations – this is more easily achieved if customer needs are widely understood and responsibility for meeting them is shared.

2. ORDER HANDLING

Taking into account existing business processes and software systems, consider how best to physically fulfil orders. In the broadest terms, there are four options, with many factors dictating which one (or what combination) is the most appropriate. They are:

- 1 To establish a dedicated e-fulfilment warehouse. This may be best in the long term, but calls for the greatest investment of time and capital up front.
- 2 To hold stock at existing distribution centres. This solution can be implemented rapidly, but physical facilities, processes, labour and IT infrastructure will struggle to cope as business grows.
- 3 To use a third party logistics provider to manage the e-fulfilment operation. This can be put in place quickly, and costs will only grow as sales increase. As well as allowing you to 'buy in' specialist expertise, opting to use a 3PL provider makes it easier to deal with the natural peaks and troughs of the business.
- 4 To get your suppliers to deliver direct. Drop shipping can be cost effective, but is only suited to certain product types, such as furniture, and calls for an even greater degree of supply chain integration than if fulfilment is handled in-house.



For the first two of these options, there is an additional choice to make: whether to use your own delivery fleet, a dedicated third party fleet, one or more parcel carriers, or a combination of all three. The preferred solution will depend very much on your business environment. Whichever is most appropriate, it should be fully integrated with other parts of your supply chain, such as your warehouse management system.

A number of points should be borne in mind, no matter what mechanism you select for fulfilment:

- ◆ Aim to deliver to people when they are in! Home delivery is often requested by consumers who lead busy lives – those that tend not to be at home between 8am and 7pm. If evening delivery is not viable, look at workplace deliveries as an alternative. Making your customer trek to a parcel sorting office to collect his purchase does little to ensure his loyalty. If you use convenience stores or filling stations as drop-off points where customers can collect, retain visibility and control over the stock right up until the point where the customer collects it.
- ◆ When building the back office infrastructure for your online presence, anticipate new user interface technologies such as WAP and PDAs. In the b2b environment, be prepared to integrate with trading exchanges and vertical industry portals.
- ◆ Offer value added services. When selling to business customers, all the services that you offer off-line – such as specialist packaging or order presentation – should still be available for orders taken over the web. Build these services into your systems – do not use workarounds for the few customers that demand them. By building your solution with value added services in mind, you gain competitive advantage by being in a position to offer them to *all* customers.

3. ACCURACY AND TRANSPARENCY

The internet puts the customer in control. This can threaten many businesses that are slow to change, but it also offers a chance for others to excel. Provided stock accuracy and visibility are seen as priorities, there is no reason why any business – existing or new – cannot use available technology to meet these three customer-focused needs:

- 1 Give online shoppers access to real-time and accurate inventory data. Customers quickly find out if you don't actually know whether you have stock or not. They expect a traditional retailer to have such information and are intolerant of e-tailers that do not. If you accept orders when you don't have inventory, or don't know it's about to arrive, don't expect repeat business.
- 2 Offer lead times and delivery times that are properly directed by your supply chain software. Customers can buy online in an instant. They do not understand statements like 'We plan to ship within 72 hours' or 'Please allow 7 days for delivery'. If you can ship from stock, say so. If there will be

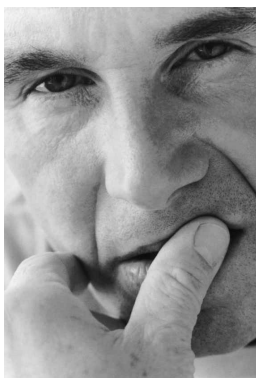
a delay, quantify it. In some industry sectors, business customers benefit from deliveries 5 times per day. How will you cope with such demands? It is better to work out how to do it when planning your e-business strategy, and then offer it before your competitors do.

- 3 When a customer orders via the web site, the order should be fed directly to the WMS so that the goods can be picked in real time. The quicker you can pick your customers' orders accurately, the more efficient your operation will be and the higher the level of customer satisfaction you will achieve.

4. COPING WITH SUCCESS

The problems of the early dot.coms in meeting peak demand – such as at Christmas – have been well documented. Some have never fully recovered from the negative publicity and consumer backlash that they experienced. For an existing business going online, with an established brand name and customer base, the risk is even greater. The entire internet fulfilment system – physical assets, IT infrastructure, staffing and processes, must be designed with flexibility and scalability in mind. Some pointers:

- ◆ If demand is higher than expected, make sure you have the flexibility to pick a day's order intake in a day. This may mean that you need alternative sources of supply in order to meet customer expectations. Rather than delay or turn business away, some organisations respond to excess demand by outsourcing the overflow orders, sometimes even to their competitors. This is perfectly viable for a growing business, provided the customer is not aware that a third party is undertaking the fulfilment. With modern supply chain solutions, other companies can be brought into the fulfilment process without the customer's knowledge, while still leaving you with full control over your customer's experience.
- ◆ If you outsource to another party in this way, you remain accountable to your customer for that party's standards of service throughout the supply chain. You must be in a position to ensure that any purchase orders are processed immediately and automatically. Any administration required (such as approval procedures for exceptionally high value orders) should not negatively affect the customer's experience.
- ◆ Customers will judge you, often very critically, by your ability to match up to the statements you make on your web site about the availability of products and your delivery timescales. Don't forget that real-time stock information for you means an efficient and easy to run operation, but for the customer it creates an expectation of honesty, integrity and basic competence in running a fulfilment operation.



5. MANAGING RETURNS



Apart from catalogue retailers, few existing businesses are fully prepared for the flood of returns that can be generated by their new online business. In some categories, the returns rate can exceed 40%. The nature of the problem can best be illustrated by an example. In a traditional clothing store, a customer will often take two or three garments into a dressing room, before buying the one that fits and returning the others to the rack. This is considered normal, and retailers have managed to cope with it. Online, the equivalent is to order three items and return two. In an environment built for shipping goods out, returns to the warehouse are almost always dealt with as an exception. This is no longer possible when returns rates are in double digits, so logistics processes must be established to handle the two-way flow of goods.

Research shows that internet customers expect returns to be handled more efficiently than orders made via other channels. This is largely due to the high expectations set by dot.coms that have sought to establish market share by making efficient and low-cost order processing their USP.

Many organisations, notably those in the consumer sector, offer alternative channels for returning goods. Rather than just sending returns back through the post, people may order from a web site but want to return goods via a store. Check the viability of this strategy early on in the development of your venture – market pressures may force you to adopt it later on.

Ensure you can track returned items every step of the way, regardless of the channel. And make sure that this information interfaces with your financial systems. Customers are unlikely to stay loyal if they have not received a refund more than a day or two after the goods have been returned.

IN SUMMARY



Customer service expectations are higher online than elsewhere. Despite the head start gained by dot.com start-ups, big brands are also likely to succeed online in the long term, partly because they already enjoy consumer trust.

To make promises to your customers, you must have accurate data. To keep those promises you will need strong systems and processes.

For any company involved in e-business, poor management of the supply chain represents a threat. But smart use of the supply chain can give control and visibility of inventory and can create almost limitless opportunities for collaboration with other companies. The supply chain can be a key customer service differentiator, provided it has been fully considered at an early stage in the planning process.

ABOUT LIS

LIS is an established global provider of supply chain execution solutions, offering products and services that support flexible and innovative supply chain strategies and embrace internet technologies. Central to the LIS product line are the company's fully integrated warehouse management and transport management software systems. These products address the challenges of the modern supply chain, including those of e-commerce fulfilment, by improving visibility and integration between a company, its suppliers, customers and business partners.



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