

A white paper about: **Logistics for physical stores**

E-commerce is becoming increasingly integrated into retail business (and vice versa), and is set to become a natural part of this environment in step with the changing role of the retail outlet itself. This means that issues affecting Logistics for physical stores are becoming increasingly important in the context of the Supply Chain. This white paper focuses on the problems and opportunities this entails for traditional retailers and e-retailers.



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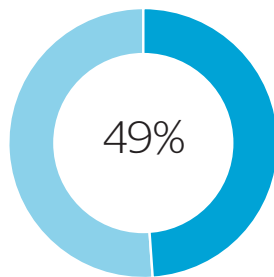
Product availability:
Assuming a new perspective on the Supply Chain

Visibility:
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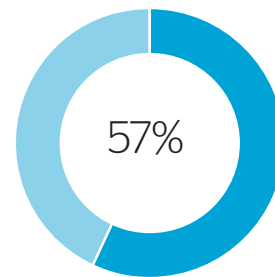
Customer insight:
The driving force for an efficient Supply Chain

Logistics for physical stores: The rapid pace of change is making new demands on the Supply Chain

E-commerce is developing at record speed and accounting for an ever-larger share of total commerce. In step with this development, stores are taking on a progressively new and more complex role. E-commerce is becoming increasingly integrated into retail business (and vice versa), and is set to become a natural part of this environment. More and more stores are developing in the direction of Click & Collect. A key issue is therefore how the work of in-store staff should be distributed between customer interaction and logistics tasks. In parallel with this, brand owners and wholesalers are looking to new technology to provide new solutions and interfaces for adding value closer to the customer. All these changes are resulting in Logistics for physical stores taking on an increasingly prominent role in the Supply Chain.



Half the customers have utilized Click & Collect in recent months.



More than half of those who did so experienced problems in this context.

Source: JDA & Centiro Customer Pulse 2017

Everything is defined by the consumers

Broader range. Faster deliveries. Greater transparency. More convenience. Reduced loyalty. Consumers are now rapidly changing the rules of the game for all traditional retailers and e-retailers who want to run a successful business. This increase in consumer power is giving rise to all kinds of new demands that have to be addressed at various levels in companies - especially with regard to issues related to logistics. Surveys have shown that deliveries of goods purchased via e-commerce solutions and the in-store experience have a direct impact on SCI/NPS (Satisfied Customer Index/Net Promoter Score). This means that logistics can no longer be viewed purely as a transport service. It constitutes a key part of the consumer experience. As such, it is a mission-critical element and an increasingly important competitive advantage and criterion for success.

“The customer is always right”

The battle to live up to - and deliver on the basis of - the increasingly advanced terms demanded by consumers is making new and more stringent demands on how companies work with their Supply Chain. This has to be reconstructed step by step, and swiftly, so that it matches a world in a constant state of change. Such modification and adaptation can only be based on insight into how customers act today - and, above all, how they are likely to act in the future. The traditional internal silo thinking within the company is now history. All work within the Supply Chain must be based on an outside in perspective deriving from the motto that “the customer is always right,” and all departments must work with the same target scenario.

It has to do with organizing the logistical set-up to ensure it is consumer-driven. Especially important areas to focus on include product availability,

ensuring the opportunity for visibility throughout the delivery process, how Logistics for physical stores are organized, and the capacity to benefit from and act on customer insight. This white paper focuses specifically on Logistics for physical stores. The problems and opportunities in other areas are examined in separate white papers.

A new retail outlet is taking shape

The retail outlet holds a special position in the Supply Chain as it offers the opportunity for personal contact and interaction. The physical store is still the primary choice for most purchases. According to the Omnico survey known as the Retail Gap Barometer, fully 42 percent of consumers prefer this option. A report from the World Economic Forum predicts that the physical store will be the channel that contributes the biggest revenues for the majority of retail companies until at least 2026. It is important to take this as the starting point, and not to be blinded by the rapid development of e-commerce and the increasingly blurred line between online and in-store sales.

However, there can be no doubt that the store must adapt successively and swiftly to a new role. From conventionally simply being a place where consumers come to buy their goods, the store is increasingly serving as a distribution channel for e-commerce and thus as a platform for engaging, generating experiences and interaction. It is an important part of the omnichannel concept that is built on recognizing that customers today no longer see any difference between making their purchases via physical or online channels. The store must handle its conventional assignments – although in a new way – while taking on a new role in step with Click & Collect progressively establishing itself as a concept. The store is also increasingly becoming a site of inspiration for future online purchases.

This expanded service has an impact on capital binding, premises costs and, in particular, the flow and work in the actual store. Companies and suppliers have to establish a new approach to integrating the physical store into the Supply Chain.

Eight Logistics for physical stores scenarios

The store of the future must thus be viewed in a broader perspective than the traditional one. It is not just a place where you choose and collect a product. It is a physical meeting place where sales staff and buyers interact. The store may thus be the most important part of the Supply Chain. It leads to a number of critical questions:

“How can we make best use of the store space?”
“What role are the in-store staff to play?”
“How can we match the customer’s expected experience of his/her visit to the store?”

The following section of this report sets out a number of scenarios concerning the important role Logistics for physical stores will come to play in the Supply Chain, how stores are likely to develop, and the challenges this will lead to over the coming years.

SCENARIO 1:

Optimization of current resources

In order to secure sales and boost customer satisfaction, it is essential to ensure that the right products are “on the shelves.” This is absolutely fundamental and requires frequent restocking to keep pace with sales in the store. If a product is not available “on the shelf” when a customer visits the store, this will likely translate into a missed sale – unless the staff can convince the customer to make a different choice. The obvious risk is that you will end up with a customer who is not completely satisfied. This is a statement that seems self-evident and simple – but which in practice features numerous complex and complicating dimensions with regard to the rapidly changing role of both the store and the people who staff it.

From a broader perspective, it has to do with the physical layout the store needs in the long and the short term, in step with e-commerce becoming increasingly integrated into the business. The objective is for the store to have as large a sales surface as possible in relation to the rent costs, and thus to offer optimal exposure of the products. Added to this, the store is increasingly being developed into a place where people go to try out/touch/ask for advice about the goods – before ordering them online either in the store or when they return home.

This demands space, which is at odds with the need of the store to integrate a large “stockroom” or to function as a regional warehouse for e-commerce activities. The question of how large the “stockroom” needs to be is therefore crucial. Minimizing the stock surface maximizes the sales-promotion function of the store premises. At the same time, availability of the items has to match customers’ requirements. A small “stockroom” will therefore make increasing demands on a higher degree of refinement in the preceding section of the Supply Chain.

SCENARIO 2:

Prioritization of the store staff’s resources

Linked to this is the question of how much time the store staff need to devote to stock-related issues – handling in the form of unpacking, repacking, price labelling and alarm application, inventorying goods and restocking shelves.

They must simultaneously deal with e-commerce tasks in the form of hand-overs under Click & Collect schemes, and functioning as the delivering store in the e-commerce flow. All these tasks steal time from interacting with customers.

And all these demands must be met in one way

or another. The question is: how and by whom? In the short term, individual stores can certainly take care of the situation. For example, deliveries can be dealt with through assistance from local/regional warehouses or another nearby store, which will make it possible to keep in-store stocks down. Partners can be commissioned to handle tasks such as checking, restocking and hanging up items in stores, and extra staff can be allocated as required. The stores can set up consignment warehouses (i.e. where the supplier owns the goods) to allow the goods flow to be shifted outside the store through direct deliveries, via e-commerce, to the customers.

**SCENARIO 3:
Suppliers/partners take over tasks in the store**

A major challenge regarding the work in stores in the future is to unburden staff from some of the logistics work on site. There are several ways to do this.

One way is to establish closer working relationships with logistics providers, or with other partners in the sales chain. The higher the level of technical maturity, the greater the conditions for establishing a flexible logistics flow in such working relationships. This form of partnership is likely to become increasingly common, which will naturally make demands on establishing a culture of collaboration. This must be based on everyone involved having the capacity to see the big picture rather than their own, narrower, situation.

Suppliers of products or logistics can also be brought in to carry out a part of the logistics work before delivery to the store, or actually in the store itself. Such a distribution of labor creates better conditions for the store staff to focus on their core activities: customer contact, advice and sales. All to the benefit of the customers. Different solutions can be implemented for transferring responsibility

for ensuring that products are always available to customers directly to the suppliers.

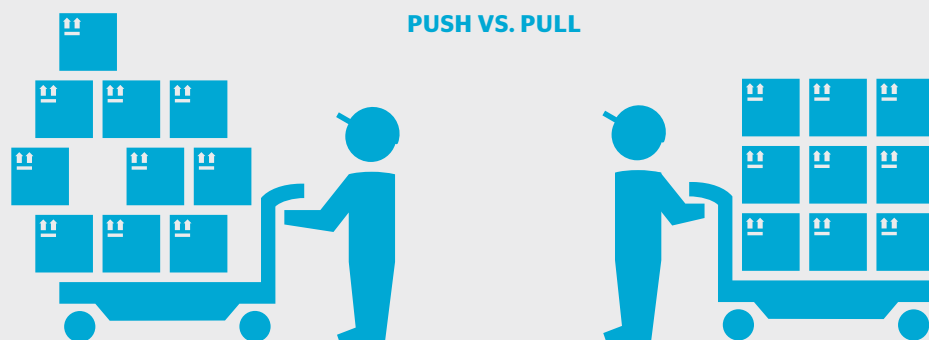
Another step is to focus more clearly on the actual goods supply by inducing suppliers to develop and fine-tune the logistics flow. This may improve availability and thus in-store sales without having to expand the store stockroom on site. In its extended form, a working relationship of this kind may entail transferring full responsibility for products, restocking and stock management to the supplier. No own stock facility - either at a central location or in the store itself!

Having the logistics provider take over responsibility for parts of the goods flow may make it possible to reduce the total run-through times for products, purchase-related administration and invoicing, for example. Goods supply will thus become more "consumption controlled" (pull), which is positive from the perspective of sustainability (see the image below).

**SCENARIO 4:
Minimizing logistics work in the store**

One key issue is how to minimize the actual logistics work in the store itself without compromising customer benefit. Here, it is a question of saving money, cutting lead times and keeping customers satisfied.

Customers must, of course, be offered as wide an assortment as possible. But it is impossible to find room for all products in the store - only at the supplier's facility. These products can, in turn, be consolidated at the premises of the logistics supplier prior to delivery. One approach is known as Cross Docking, which entails consolidating goods that come directly from the supplier and from your own warehouse before making delivery to a given store or customer. Another option is Drop Shipping, which involves having goods delivered



"We manufacture everything we can"

- Estimated production
- Assumed consumption
- Large volumes
- Large stocks
- Waste
- Unplanned input
- Poor communication

"We manufacture what's needed, when it's needed"

- Exact production
- Actual consumption
- Small volumes
- Small stocks
- Minimal waste
- Planned input
- Good communication

directly from the supplier to a store or customer. It is important to build up an overview – and maintain control – of these flows so as to be able to present the end customer with a clear picture.

In some cases, it is possible to eliminate consolidation completely in warehouses or stores. This generally applies to customer-specific products made to order. These products are delivered directly to the customer (ideally just-in-time), where delivery can take the form of shared transports with other products.

This helps minimize logistics work throughout the flow. The products can also be prepared for the store (by the logistics supplier or another specialist) before they are shipped to stores, so that they quickly become saleable and are easy to display or label in stores.

SCENARIO 5: Handling the return flow in the store

Customers rarely think in terms of delivery channels and sales locations. They generally take the approach of “what’s simplest and most flexible for me?” The omnichannel approach is founded on this simple fact. One consequence is that the store is increasingly becoming a natural place for customers to return goods they have purchased – irrespective of whether the product was purchased in that particular store, in a different store or online. Customers do not differentiate; they always choose the easiest and most convenient way for themselves.

One in ten consumers returns goods every month (E-commerce in the Nordic region, Six-month report 2017). With such a high incidence of returns, a crucial issue is how stores interact with and accommodate customers looking to return goods.

“How do you provide information about returns?”
“Is there a special returns counter?”
“How is the paperwork handled?”
“Is the refund process simple?”

Customers must experience the process as smooth and problem-free, given that returns are common and therefore constitute a part of the purchase experience. If the customer experiences a professional reception in the store with regard to the returns process, it is likely that he/she will remain a customer and come back as a customer. It is a loyalty and brand issue. (*Lönsamma kunder returnerar* [Profitable customers return], Handelsrådet, Daniel Hellström, Lund University and Stefan Karlsson, Oriflame).

From an internal perspective, there must be a secure inventory management process to handle returned items, ensuring that they quickly appear in the right channels and can thus be made saleable again – or offered at a discount or discarded.

A returned item must not be left lying around “gathering dust” because no one in the store knows how to deal with it. Reduced run-through times for returned items means reduced capital binding for products in stock. Efficient handling of returns is a win-win for everyone.

SCENARIO 6: Click & Collect and the challenges it poses

The previously described scenario is becoming increasingly relevant in step with more and more stores developing in the direction of Click & Collect. Such stores offer consumers the option of visiting the chain’s own outlets to collect and/or return items bought and paid for via the internet. At the same time as it is naturally desirable to have staff devote more focus to customers in the store, Click & Collect inevitably causes an increase in logistics work on site. After all, the store has to function as a combined showroom, collection point and stockroom, while the staff tasks will thus become more fragmented – in roughly the same way as the conventional way of working in a store.

The decision to introduce Click & Collect must therefore always be made on the basis of careful analysis. Above all, the layout of the store has a critical role to play in generating an effective flow for distributing goods and accepting returns. It is also important to ensure sufficient stockroom space for deliveries, which goes against the usual trend.

Customers must experience the process for collecting and returning goods as smooth and professional. Notification must be provided seamlessly in all channels. When customers arrive in the store, it must be easy for them to find their way around. The labelling and scanning of the deliveries must be carried out in such a way that staff can quickly find the customer’s parcel.

All this means that staff must be trained in taking on a new role to some extent: Click & Collect opens up opportunities for added sales given that the flow of visitors to the store will increase.

At the overarching level, the following questions must be asked: How are sales measured in an omnichannel structure? Who receives the revenues from e-commerce? And how do you set up a bonus structure?

SCENARIO 7: New technology opens up greater opportunities for the retail sector

The Internet of Things has already had an impact on – and will continue to change – the retail sector. Forecasts indicate that different forms of IoT tools, in combination with the internet, may actually contribute more than USD 14 trillion to the global economy by 2030 (Accenture: The Internet of Things – Revolutionizing the Retail Industry).

A great deal is happening in this area, but it is

still in its infancy and in the project phase. A study from Zebra Technology (Reinventing Retail: 2017 Retail Vision Study) predicts that as early as 2021, 75 percent of stores will be able to use AI (Artificial Intelligence) to enter into dialogue with customers (via their connected smartphones) as soon as they step through the door. By gaining insight into the purchasing patterns and history of specific customers, stores will be able to present relevant offers in a relevant manner. Through the use of NFC (Near Field Communication) tags, it is possible to send information and customized messages about products customers are interested in directly to them via their mobile/smartphones. Stores will thus have unparalleled opportunities to personalize customers' experiences during their visits.

VR (Virtual Reality) will make it possible to apply additional dimensions to the store visit and to reinforce the experience around the products. Using VR glasses, for example, consumers can be virtually transported to the environment where they will be using the product(s) in question. For example, it may involve testing a new pair of running shoes on a woodland trail, or steering a mountain bike through challenging terrain.

AR (Augmented Reality) can also be used to amplify reality. Changing rooms can be fitted with digital mirrors loaded with technology. They can

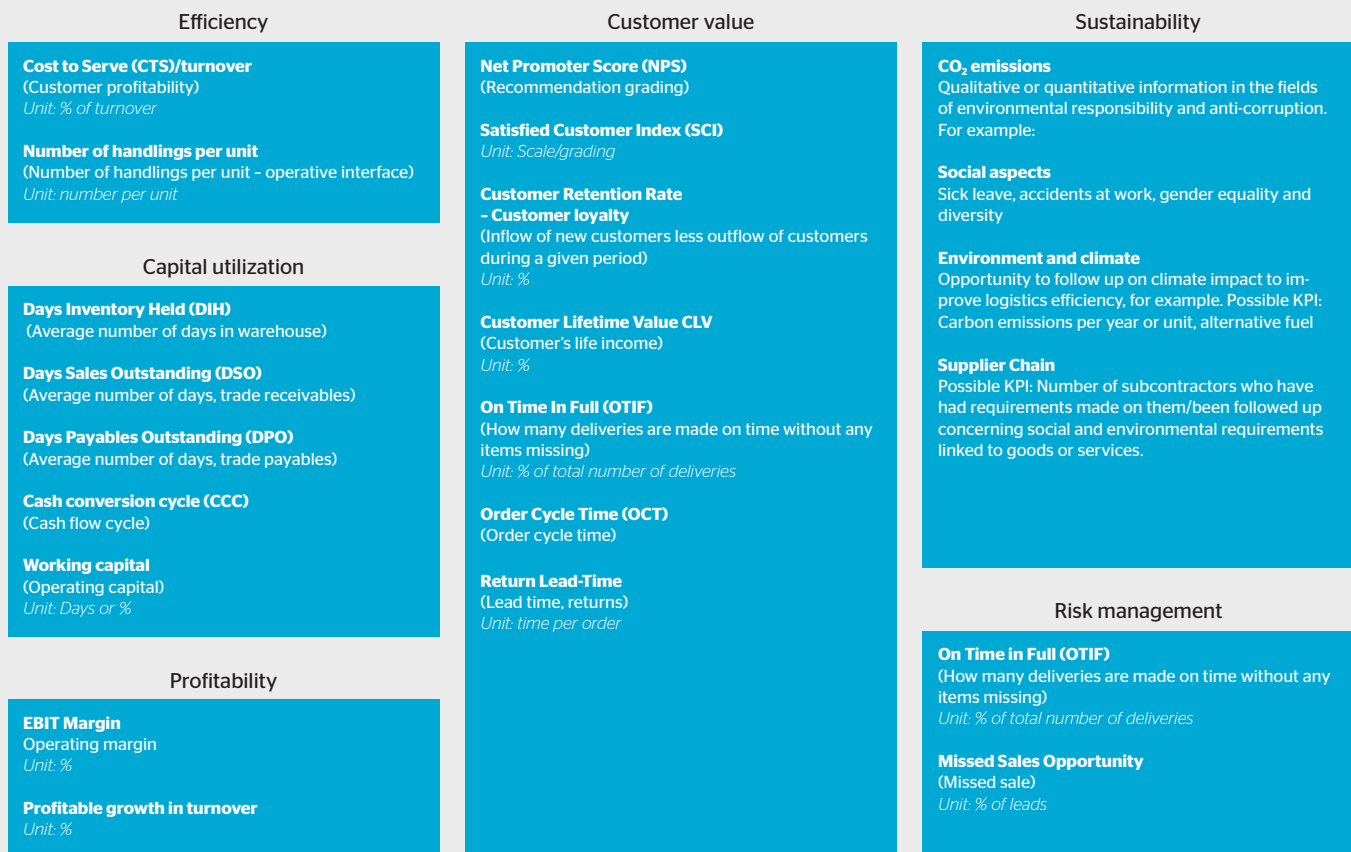
Technology	Current maturity	Time to full maturity
Internet of Things	50%	2-5 years
Self-operating vehicles/drones	25%	6-10 years
Artificial intelligence	50%	2-5 years
Robots	75%	2-5 years
Digital traceability	75%	2-5 years
AR/VR	75%	2-5 years

Source: Accenture/World Economic Forum analysis.

"Current maturity" and "Time to full maturity" for a number of different technologies used in Logistics for physical stores.

then serve as style consultants and size guides. They can also provide tips about products that match the items the customer is trying on. The idea here is to boost relevance and generate additional sales.

Thanks to the new technology, products can become trackable and improve the control stores have over their stock levels. This may, for example, involve the use of automated warnings of low stock levels. Store robots may soon be used to carry out chores that are currently staff and time-intensive. Strategically positioned sensors and cameras can be used to identify which products are tried on be-



By using KPIs actively in different areas, companies can proactively develop their Supply Chain. The summary shows the most important measurements within different disciplines.

fore being purchased/discarded. This is important information as regards placement of the different products in the store.

Digital signs and shelf-edge labels linked to the store's price management system allow stores to adjust prices in real time. Smart lighting and heat regulation can be used to adjust the in-store climate to ensure a more energy-efficient operation. And the stores of the future will not have a physical, staffed check-out line. Instead, they will have digital check-outs integrated into the shopping process.

SCENARIO 8: KPIs to become extremely important as management tools

Actively using KPIs (Key Performance Indicators) lays down conditions for clarifying how the Supply Chain is functioning in relation to the stated goals. This is important in many areas - especially with regard to Logistics for physical stores.

However, KPIs are not reserved exclusively for logistics staff; they constitute a management issue

that demands consensus at the highest corporate level. Using them properly helps avoid sub-optimization and reaching misleading conclusions at the function level. On the basis of this platform, KPIs can be formulated that make it possible to track developments within the most important areas. KPIs also send out clear signals about when changes have to be made, allowing companies to operate proactively and develop their Supply Chain so that it aligns with customers' expectations.

Which KPIs should a company use? There is naturally no "one size fits all" answer to this question; it has to be answered individually. The section on page 6 presents a summary of the different measurements that can be introduced to measure performance in different disciplines. What is important is to make sure KPIs are used in a professional manner. They should be introduced at a pace adapted to the development taking place in the Supply Chain. Action and measurements must go hand in hand.

Summary:

A new kind of store is being born. From conventionally being a place where consumers come to buy their goods, the store is increasingly serving as a distribution channel and a platform for generating customer experiences and engagement through interaction on site. Companies need to take a strategic position on this.

One fundamental requirement that remains unchanged, however, is that the products customers are asking for must actually be there "on the shelf." That said, new ways must be sought for handling the frequent restocking operations in the store. Staff should, after all, devote maximum time to interacting with customers rather than to stock-related issues. There is also the matter of layout. The traditional "stockroom" stole valu-

able space from sales. The solution is often to be found in different types of partnerships. There are different ways for suppliers and partners to simplify the flow and prepare goods before they reach the store.

One key question that more and more companies must ask themselves is how they are to deal with Click & Collect and handle the flow of returns in the stores. This will largely define how the stores of the future are built up. The Internet of Things has already had an impact on - and will continue to change - the retail sector. The trend is clear: the store of the future must be connected. Technology will come to play a key role in boosting the customer experience.

Sources

Over and above the sources cited in the text, the following specialists have contributed input:

Arne Andersson,
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Management Consultant - Supply Chain Excellence,
PostNord Insight

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