

A white paper about: **Product availability**

One directly decisive factor when consumers are deciding whether or not to buy is the availability of the product. Customers today do not differentiate between whether a channel is physical or online. The Supply Chain must therefore apply an omnichannel approach. This white paper looks at the problems and opportunities this entails for traditional retailers and e-retailers.



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Logistics for physical stores:

The rapid pace of change is making new demands on the Supply Chain

Visibility:

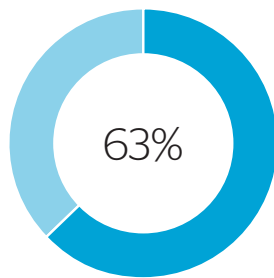
Generating overview and control in the Supply Chain.

Customer insight:

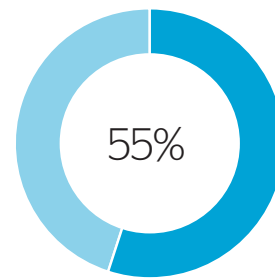
The driving force for an efficient Supply Chain

Product availability: Assuming a new perspective on the Supply Chain

The availability of a product is a directly decisive factor when consumers are deciding whether or not to buy. This applies irrespective of whether they choose to pick the item up in a store, collect it themselves from a service point, or have it delivered to their home. A key strategic priority for commercial players is therefore to develop and organize their Supply Chain setup so that it aligns with customers' wishes and requirements. Customers want choice, efficient solutions and positive experiences. This assumes a new perspective on the Supply Chain. Customers today do not differentiate between whether a channel is physical or online. Therefore, the Supply Chain cannot be channel-specific, but must be completely integrated and based on what is known as an omnichannel approach.



Almost 2/3 of all companies accord high priority to improving and developing their Supply Chain



In this work, more than half are focusing on adapting to the omnichannel concept.

Consumers are on the threshold of their golden age

Over the coming decade, consumers will be offered more choices than at any time in history. According to a report from the World Economic Forum, they can already choose between more than a billion products on the global marketplace - from both conventional and new, dynamic suppliers. Customer demands with regard to individualization, prices and transparency are rising in step with the dramatic increase in the number of products and services. Most importantly of all, perhaps, customers want their purchases to be exciting, inspiring and convenient.

Briefly put, consumers are increasingly acquiring power over the purchasing process. At the same time as the range of choices increases, loyalty to specific suppliers is declining. In order to attract customers, suppliers must therefore act more quickly and more flexibly, be innovative and utilize the new opportunities that technology is opening up.

A new perspective on the Supply Chain

If companies are to live up to - and deliver according to - consumers' increasingly demanding terms, they need to start looking at their Supply Chain setups with new eyes. They have to modify the Supply Chain and adapt it so that it matches the ever-changing world around them, i.e. they have to base it on an outside in perspective founded on consumer preferences rather than on the conventional, opposite and introverted view.

It has to do with organizing the logistical set-up to ensure it is consumer-driven. Important areas to focus on include product availability, ensuring the opportunity for visibility throughout the delivery process, how logistics for physical stores are organized (especially with regard to online sales), and the capacity to benefit from and act on customer insight. This white paper deals with the concept of availability. The problems and opportunities in other areas are examined in separate white papers.

A fully integrated Supply Chain is mission-critical

Those companies that are quickest to realize that the path to success runs through a reconstructed Supply Chain are the ones that will obtain a competitive advantage. The Supply Chain can no longer remain channel-specific; it must instead be completely integrated and based on the omnichannel approach. Customers today do not differentiate between channels when making their purchases. Companies must therefore construct their Supply Chain in such a way that it allows the different channels to function seamlessly vis-à-vis the customers. This is not exclusively a logistics issue; it is a concept that needs to be embraced and applied by the entire company management team.

Conventionally, companies have primarily organized their Supply Chains on the basis of a need to establish control. The Supply Chain has been set up as a static system that largely lives an independent life with its own targets, which are more important than functional and customer-driven goals. The area has therefore been run on the basis of an internal perspective based on stable supplier and customer structures.

This model is becoming increasingly obsolete, however, in step with the rapid globalization of the flow of goods and the need to deliver goods ever-faster, more efficiently and in a more eco-friendly manner - and always on the buyer's terms. Today's - and above all, tomorrow's - Supply Chain must be based on a thoroughly dynamic mindset in all areas. It is a question of getting processes and

flows to function seamlessly and in harmony, both internally and externally. This demands a new dynamic and a new time of flow-oriented logistics (Mats Abrahamsson & Stefan Karlöf: Det dynamiska företaget [The dynamic company]).

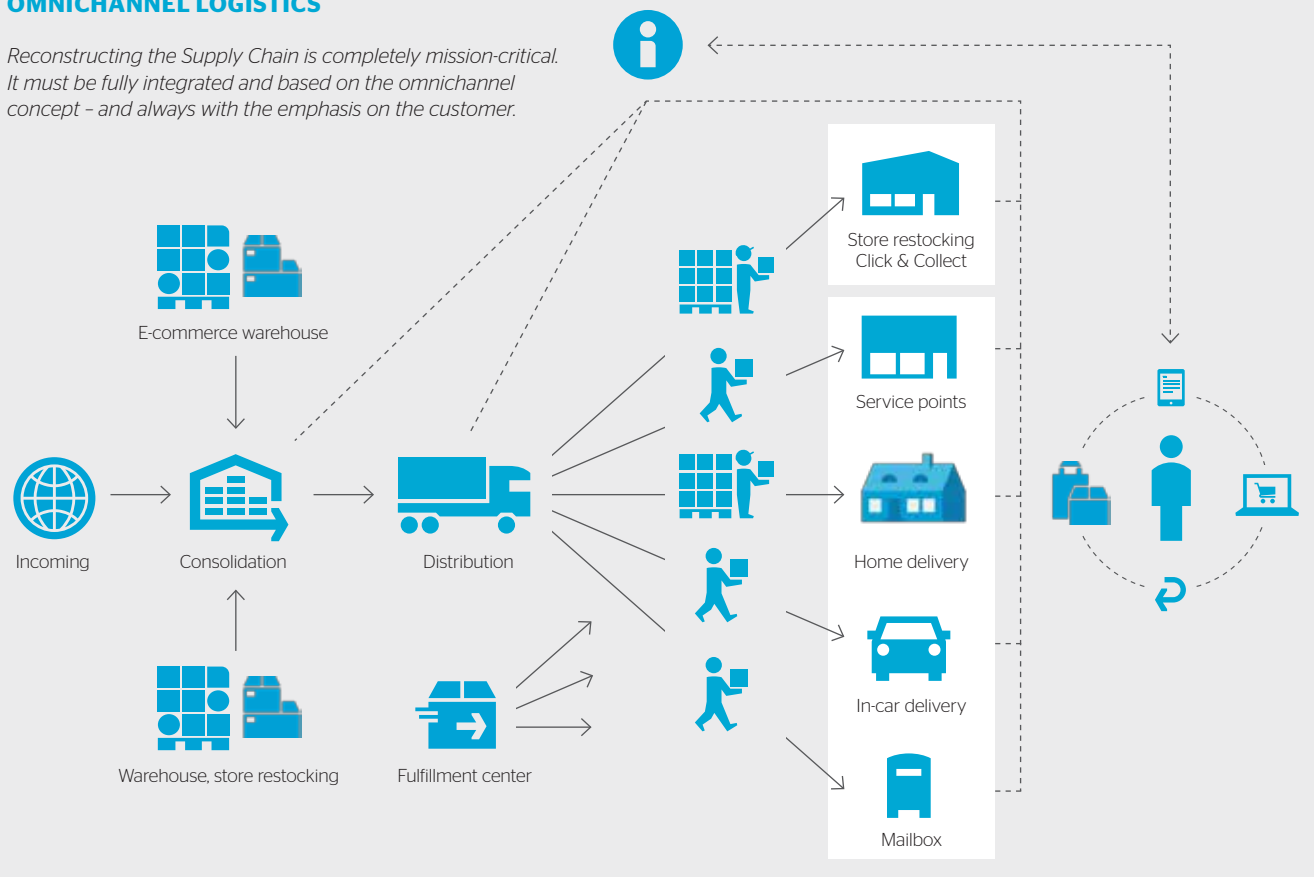
The processes must support all channels

Purchasing, manufacturing and procurement - and thereby inbound deliveries - constitute the starting point for distribution. This has to be carefully planned, with great accuracy in the inflow. Handling on arrival at regional warehouses or the store must be efficient so that the products quickly become available and saleable in order to create conditions for short lead times.

The order process itself must be based on a holistic perspective. Types of order (e.g. orders from corporate customers or consumers), the delivery promise, handling points (warehouse, store, etc.) require orders to be handled in a specific sequence. One consequence of this is that more and more companies are considering whether the supply of products to all channels can be completed from one and the same location. Taking this approach would set up conditions for being able to work with expected, often tight, process times. It will probably also be necessary to establish more holding points (central, regional or local) in order to maintain the increasing availability of products that customers now expect, and to ensure that the company remains competitive.

OMNICHANNEL LOGISTICS

Reconstructing the Supply Chain is completely mission-critical. It must be fully integrated and based on the omnichannel concept - and always with the emphasis on the customer.



Seven challenges in the context of product availability

Conventional commerce and e-commerce are thus facing major challenges to accommodate the rapidly altered customer preferences regarding how goods are purchased and delivered. In Sweden, 38 percent of all purchases of goods (excluding foods) completed already take the form of omnichannel purchases. (Omnichannel, Context 3, 2016 - Trendrapporter från Handelstrender [Trend reports from Commercial Trends].) And the share is rising quickly.

The following section of this report sets out some of the most important challenges in the field of Supply Chain that retail companies - both conventional retailers and e-retailers - are facing now and are likely to encounter in the immediate future. These challenges are both overarching and specific with reference to separate parts of the logistics chain. However, they all point toward one and the same issue: the importance of viewing the Supply Chain as both a strategic and an operational aid to commercial success.

CHALLENGE 1: Establishing a logistics vision

Everything must be done in the right sequence when it comes to developing efficient, long-term logistics solutions. All short cuts have a tendency to be temporary fixes and do not last in the long term. A fully functional Supply Chain can only be based on a clearly established strategy when it comes to product supply. If the strategy is not clear, then the role of logistics in the business will not be clear either. A long-term, successful solution should therefore always be based on the company management initially asking itself a series of important questions, and then applying professional processes to carve out the answers to them in both the short and the long term:

“What logistics solution(s) should we, as a company, be offering existing and potential customers? Can we accept differences in different geographical regions?”

“What product range should we offer our customers? Should store customers have access to the full range, or just parts of it?”

“How should customers be able to take delivery?
Collect in-store? From a service point? Or directly in their homes? How fast? And should we differentiate the level of service on the basis of customer profitability?”

“What demands will this place on our infrastructure with regard to our stores and different types of storage facility?”

A customer promise must then be formulated on the basis of the answers. This, in turn, should manifest in a logistics vision, which must relate to all channels, irrespective of how customers wish to organize their purchases. Consumers want choices, problem-free deliveries and positive experiences. This is where the major challenge is to be found for company management teams who want to make their business a success.

CHALLENGE 2: Creating a strategy for product supply

The availability of a given product is a completely crucial factor when consumers are deciding whether or not to buy. This applies irrespective of whether they choose to pick up their purchase in the store, collect it from a service point themselves, or have it delivered to their home. Short lead times - i.e. the time between the buyer placing an order and holding the chosen item in his/her hand - are accorded great emphasis. Information confirming that the delivery will be made as agreed is also important, as is ensuring that the buyer can track the delivery every step of the way. In addition, customers want it to be simple to complete their purchase, and convenient to arrange delivery in the manner and at the time and place of their choosing.

Taking as the starting point these requirements on availability and insight into how customers act today and are likely to act in the future, the company can draw up its strategy for product supply and the Supply Chain solution. The simplest way to keep customers satisfied - and to boost sales - is to base operations on the old truism that “the customer is always right.”

Objectives must be formulated, particularly with regard to assuring product availability in all relevant channels. Adopting a position on the omnichannel concept - and consistently taking the customer experience as the starting point - are key factors for success.

CHALLENGE 3: Optimizing goods management

Goods management can follow the “push” or the “pull” approach, or a combination of the two (see illustration overleaf). It is important to recognize what the different options involve, and to adapt the Supply Chain to suit the strategy you have chosen.

The “push” philosophy can entail a risk of the supplier having the wrong item in the wrong place when the customer submits an order. This leads to diminished availability - one consequence of which is often a missed sale. The customer is dissatisfied and may well turn to a different supplier, resulting in the loss of a customer. The “pull” strategy gives the company more opportunities to direct the products to where demand is highest, and to points from which it can provide the desired availability.

PUSH VS. PULL



“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

This may be to the customer’s home address, in the store and within a given period.

To bridge potential problems in the field of goods supply - irrespective of the goods management approach chosen - one method involves setting up what is known as a “stock pool” from which supplies can be drawn for all channels. This makes it simpler to maintain an overview in real time, using the stock balance for all holding points.

CHALLENGE 4: Coordinating activities internally

Internal silo thinking should be consigned to history. Different units and departments at the company need to work together unconditionally and speak the same language if the Supply Chain is to function as intended. This naturally makes new demands on close collaboration and cross-boundary thinking. All activities must be coordinated and planned to facilitate the seamless running of goods supply and management.

Marketing activities and the sales range must be synchronized with goods supply, and with the

heads of finance and economy. Goods supply must, in turn, be coordinated and planned to make sure that products are always in place when customers submit orders. In many cases, this may require the involvement of partners and suppliers, which naturally ramps up requirements on planning and collaboration.

One parameter to take into account is that the company’s most important and loyal customers (which are often the most profitable, too) should perhaps be prioritized in a special scheme for presenting the product range and delivery options. This should help ensure continued loyalty.

CHALLENGE 5: Keeping the local warehouses stocked

It is becoming increasingly common to offer customers delivery directly from the store or a regional/local warehouse. This, in turn, requires the company to have a functioning strategy for restocking, and a warehouse solution that makes it possible to keep the customer promise made. The frequency of restocking and transports to the respective hold-

The four biggest obstacles to omnichannel thinking

67%

Shortage of cross-channel customer analyses

48%

Silos in the organization

45%

Poor data quality

45%

Inability to follow customers through the different channels

ing points is often a crucial factor when it comes to product availability. Depending on circumstances, the company could choose to stock the warehouse with smaller quantities more frequently, or with larger quantities at longer intervals.

There are other ways of improving the efficiency of the delivery process: The method chosen affects the need for warehouse space and capital tied up. 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 directly from the supplier to a store or customer. In both cases, it is important to build up an overview - and maintain control - of the product flows so as to be able to present the end customer with a clear image.

If you are to maintain a high level of service with short lead times and elevated product availability, rapid dispatch must be possible. This has consequences on the need for warehouse space and capital binding.

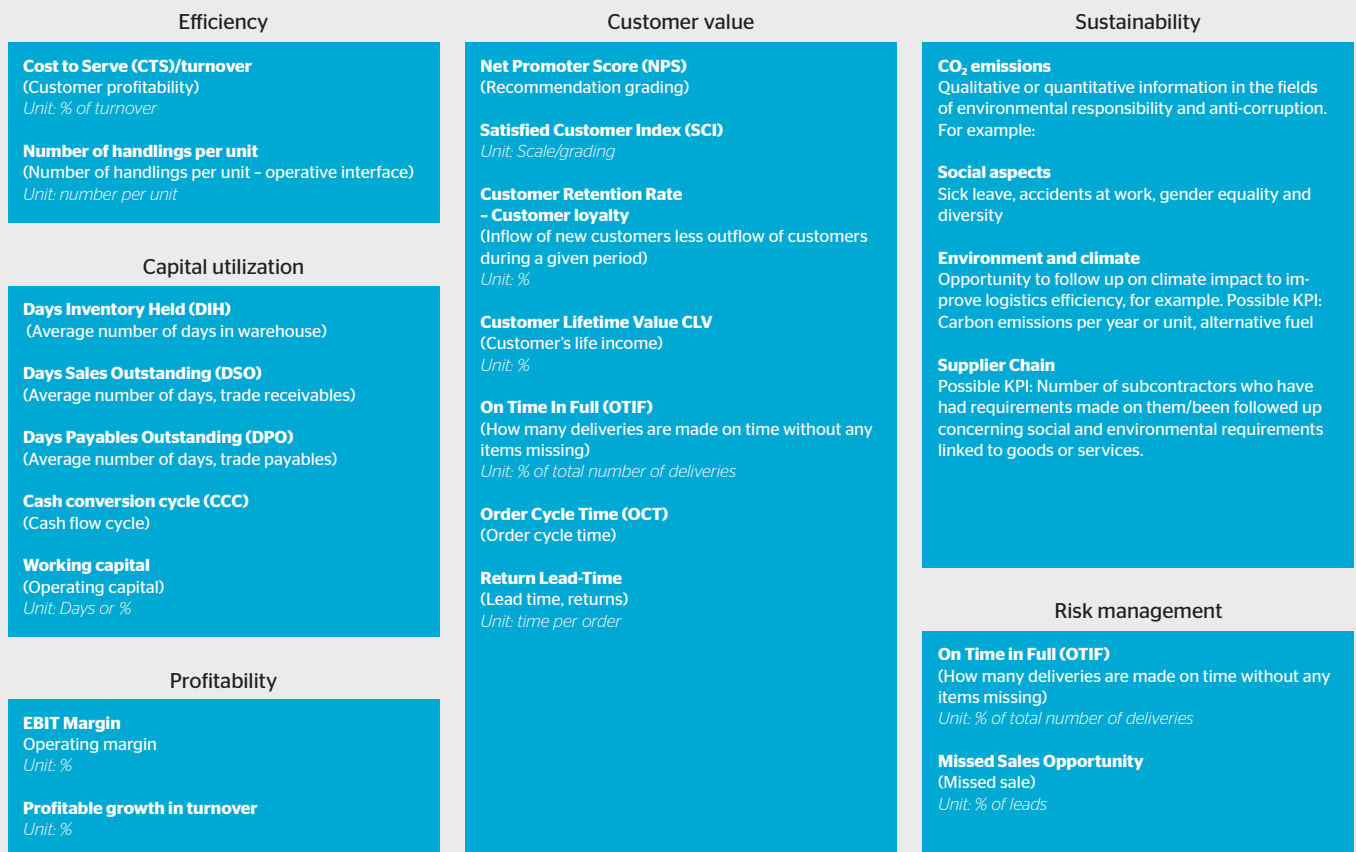
CHALLENGE 6: Handling returns efficiently

When consumers purchase something they seriously want, they are willing to accept minor

complications in the delivery process. However, in cases where they have to return an item and they find the returns process complex and complicated, they quickly run out of patience. One important precondition for ensuring that the consumer enjoys a good purchasing experience is therefore the capacity of the company to handle returns in an efficient, flexible manner. This will make sure that customers come back again. If the customers are met with an efficient process and quickly receive their money back, this will boost customer satisfaction, along with the chance of the same customer making a new purchase.

Customers always have the view that "Ideally, I want to choose what's simplest and most convenient for me." This is precisely the starting point for the omnichannel approach. One consequence is that the store is becoming an increasingly common place for customers to return goods, irrespective of whether they made their original purchase in the store or online. Customers no longer differentiate - they always look for the most convenient solution. This is the important and emotional customer perspective.

The internal perspective is more rational: there must be a separate inventory management process to deal with returned items. They must quickly be displayed in the right channels so that they can become saleable again (or sold at a discount or



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

discarded). The frequency of returns is high - one in ten consumers returns goods every month (E-commerce in the Nordic region, six-month report 2017). Focusing on reducing run-through times for returned goods therefore creates opportunities to reduce capital binding in products in stock.

CHALLENGE 7: Using KPIs as governing instruments

Actively using KPIs (Key Performance Indicators) lays down conditions for clarifying how the Supply Chain is functioning in relation to the stated goals. KPIs send out clear signals about when changes should be made, allowing companies to operate proactively and develop their Supply Chain so that it aligns with customers' expectations.

Companies are often used to measuring the effect of campaign activities in the form of KPIs, so it should be just as self-evident to measure logistics performance in the same way. A fundamental aspect

is an insight about the overarching importance of logistics for product availability and the customer experience. On the basis of this platform, relevant KPIs can be formulated that make it possible to trace developments within the most important areas. This is not reserved exclusively for logistics staff, however, as it is a management issue that demands consensus at the highest corporate level. Using KPIs properly helps avoid sub-optimization and reaching misleading conclusions at function level. 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 summary on the previous page presents examples of different KPIs for measuring performance in different disciplines. They should be introduced at a pace adapted to the development taking place in the Supply Chain. What is important is to make serious use of KPIs as tools for following up the everyday work. Action and measurements must go hand in hand.

Summary:

A successful Supply Chain is founded on the customer's needs. As one business manager put it: "We constantly adapt our Supply Chain and develop it so that it matches - and, ideally, predicts - our customers' wishes. We consider it our most important strategic resource for making a difference for our customers and thus achieving commercial success."

The starting point must always be having the management formulate a customer promise. This is then manifested in the form of a logistics vision. The lead time in the logistics range determines, in turn, which strategy the company is to adopt for product availability. This must relate to all channels, and irrespective of how customers choose to make their purchases.

Product availability is one of the most important keys to success. The starting point for

succeeding in this area is defining a clear product supply strategy, ensuring that it functions seamlessly and making sure that everyone in the organization complies with it. All activities directed toward the customer must be synchronized internally. The customer must never be confronted with the message that a given item is unavailable. This requires optimizing the frequency of restocking and local warehouse solutions. A good purchase experience also involves making sure the consumer encounters an efficient process for handling returns.

In conclusion: Actively using KPIs allows the company to check constantly that the Supply Chain is functioning as it should. KPIs also provide indications of when changes have to be made, and provide an incentive for proactive measures.

Sources

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

Arne Andersson,
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