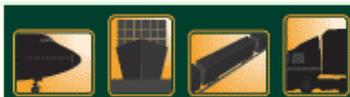


Challenges in E-fulfilment



MULTIMODAL 2013

NEC BIRMINGHAM • 23-25 APRIL 2013

April 2013

What Sets Ti Apart?

- Globally recognised and trusted brand
- Over ten years of knowledge delivery to global manufacturers, retailers, banks, consultancies, shipping lines and logistics providers
- Industry experienced researchers, analysts and associates
- Global research centre based in UK; offices in Atlanta (USA) and Hong Kong
- Full product portfolio: Research reports, bespoke consulting, knowledge portal, M&A, conferences/training, interactive dashboard, unique web-based intelligence portals
- On-going and comprehensive programmes of primary research
- Access to more than 25,000 senior logisticians through Logistics Briefings database
- Advisors to World Economic Forum, World Bank, UN and European Commission



E-Commerce Experience



Identifying the key trends impacting the warehousing requirements for e-retailing companies in a number of global markets (including Europe, the US and China).



An analysis of the UK e-fulfilment market, focusing on identifying the strategies that pure play e-retailers and multi-channel retailers adopt when developing their on-line operations. Including a survey among UK e-retailers and logistics providers.



European Multi-Channel Retailer – Identifying the strengths and weaknesses of the competition in the home delivery segment of the UK CEP sector.



- North American E-commerce Report
- Asia Pacific E-commerce Report
- European E-commerce Report



Shift in Consumer Purchasing

- Retail sales in many markets have been sluggish whilst internet retailing has grown rapidly (10%-25% CAGR in developed markets and far higher in emerging markets - around 75% a year in China).
- Online shopping now accounts for almost a fifth of all purchases in developed markets. M&S (15%) and John Lewis (25%).
- Internet retailing is still in its infancy and there are no signs of this rapid growth slowing. According to Goldman Sachs, the global e-commerce market could be worth around \$1 trillion by the end of the year.

B2C Ecommerce Sales in Western Europe, by Country, 2010-2015

billions

	2010	2011	2012	2013	2014	2015	CAGR
UK	\$91.5	\$102.0	\$113.0	\$123.4	\$134.1	\$143.6	9.4%
Germany	\$33.7	\$37.7	\$42.0	\$46.3	\$49.9	\$53.5	9.7%
France	\$25.4	\$28.5	\$32.0	\$35.5	\$38.7	\$41.8	10.5%
Spain	\$12.3	\$15.0	\$17.8	\$20.7	\$23.6	\$26.4	16.5%
Italy	\$9.4	\$12.4	\$15.5	\$19.0	\$22.9	\$26.7	23.3%
Other	\$36.6	\$39.7	\$44.1	\$46.7	\$49.0	\$51.6	7.1%
Western Europe	\$208.8	\$235.2	\$264.4	\$291.6	\$318.1	\$343.5	10.5%

Note: includes travel, digital downloads and event tickets; excludes online gaming; numbers may not add up to total due to rounding
Source: eMarketer, July 2011

Changing Operational Approach

- However, the market is enduring a number of growing pains and the shift in consumer attitude requires a change in approach from the logistics players.
- Pure internet traders have had an advantage in developing purpose designed facilities. Existing sales and e-commerce purchases may conflict with current systems and these companies must either adapt existing logistics systems and facilities to meet these new demands or create new ones to accommodate the move to multi-channel retailing.
- E-retailing fulfilment is far more labour intensive than handling caged or palletised goods. Labour costs are often a significant factor for e-retailing operations and labour rates can determine decisions regarding mechanisation and also e-fulfilment centre location.
- It is too early in the development of this segment of the e-retail market for a 'one size fits all' approach to e-fulfilment centre design to have been developed and adopted.



E-Fulfilment Premises

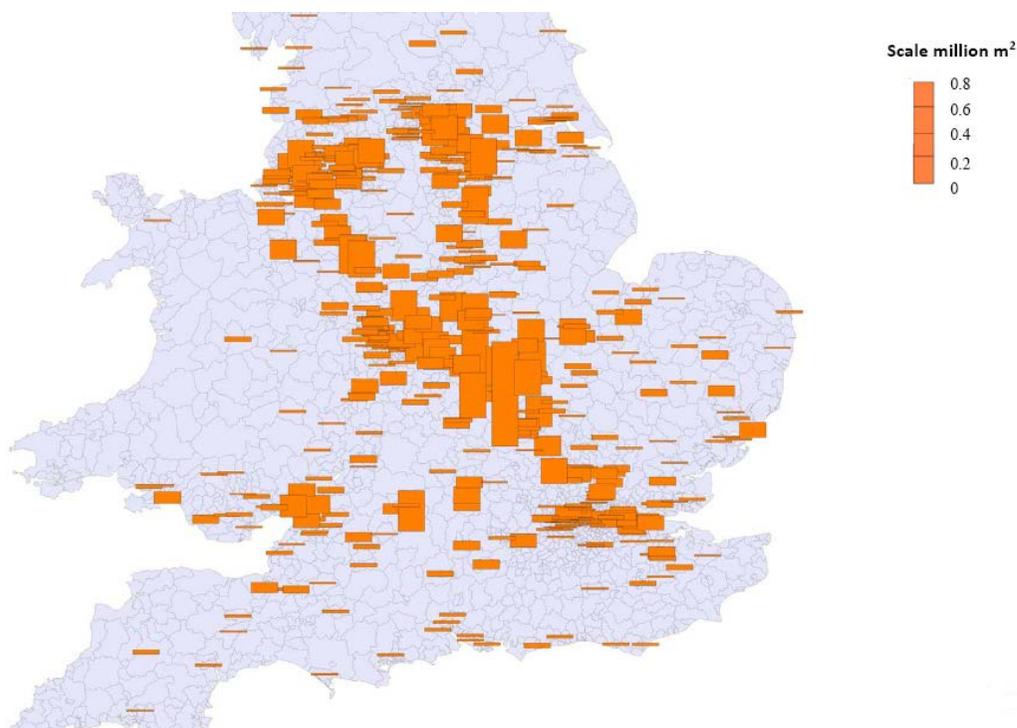
- There is no current 'blue-print' for the optimum e-fulfilment centre design. Different retailers adopt very different strategies.
- Companies such as Amazon have developed unique systems that are capable of handling extremely large volumes of different types of products (ranging from relatively small in size to larger goods).
- Smaller businesses will carry out fulfilment in their retail premises until the volume makes this unmanageable. Many small logistics providers and mail fulfilment firms now offer e-fulfilment, typically in general warehouse premises used for other aspects of the business.
- A number of multi-channel operators have developed dedicated e-fulfilment centres, once online sales volumes have become large enough.
- Others have adopted a strategy of keeping e-retail volumes and traditional store volumes together, either as an opportunity to utilise spare capacity or due to minimal advantage in separating channels.



E-Fulfilment Centre Locations

- Historically, companies have sited distribution centres centrally, in the Midlands, or in a number of regional locations. This may not be appropriate for e-fulfilment solutions.

Location of Traditional Distribution Centres



Source: MDS Transmodal



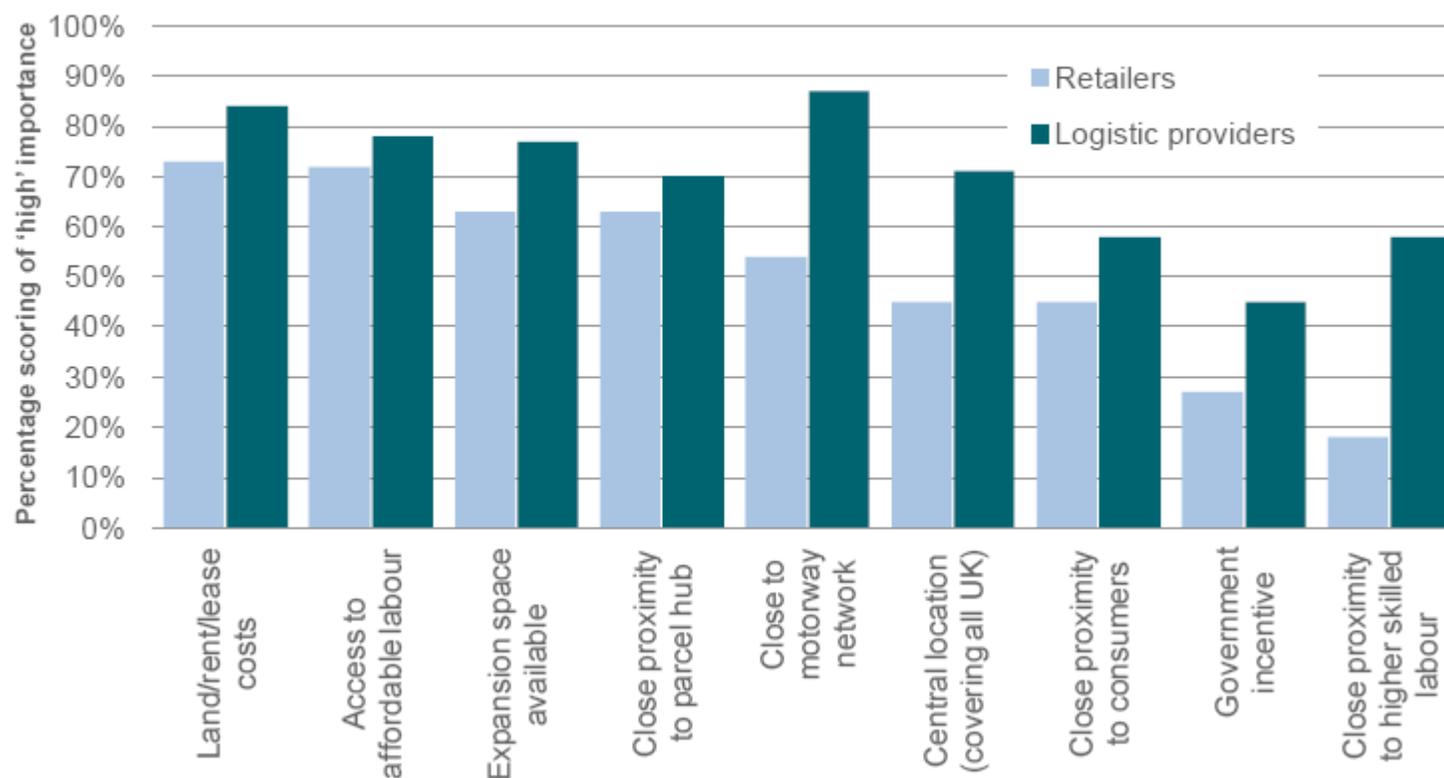
E-Fulfilment Centre Locations

- The key factors affecting the location of e-commerce facilities are stated to be:
 - Relationship with Existing Retail Distribution Systems – Capacity, availability of stock and minimising duplication of inventory.
 - Labour - Availability of an affordable and willing labour force.
 - Proximity to Suppliers – The closer to the supplier[s] the more flexibility and the lower the inbound supply chain cost.
 - Local Support – Some local authorities have provided assistance to retailers to set up e-fulfilment centres in their area. If these ‘incentives’ outweigh the cost to line-haul goods to a delivery partner then they can represent an attractive option for retailers.
- Location to Last Mile Delivery Partners?
 - Locating an e-fulfilment centre in close proximity to an express company’s central hub. Not essential as goods can be line-hauled to these facilities with relative ease. Developing a site too close to one particular express company may result in the e-retailer becoming tied to that partner.



E-Fulfilment Centre Locations

What factors are most important for locating an e-tailing distribution centre?



Graph source: Transport Intelligence / Savills



E-Fulfilment Strategies

- The strategies adopted by e-retailers varies enormously.
- Based more on individual organisations' specific needs rather than a perceived 'best practise' approach.
- E-fulfilment strategy involves decisions such as:
 - Whether to manage e-fulfilment in-house or to outsource to a 3PL
 - Where to site facilities
 - The optimum size and the specification of facilities
 - Whether to use capacity in existing distribution centres or to develop dedicated e-commerce facilities
 - Whether to operate a single centre (reducing inventory and other property costs) or a network of facilities, being closer to the end customer.
- Many internal and external factors impact on decisions made. Only time will tell whether any patterns will emerge regarding e-fulfilment distribution centres or whether a fragmented approach will continue to be the norm.



E-Fulfilment Strategies - Examples

John Lewis

- Operates a mix of its own e-fulfilment, the use of iForce (facility in Redditch) and DTS (for hanging garments).
- Strategy of limiting duplication of stock. Distribution centres hold different products, segmented by category.
- The main centre comprises a 750,000 sq. ft. warehouse at Milton Keynes (Magna Park).
- Fulfilment is a hybrid model with both store distribution and direct distribution handled on the same sites.

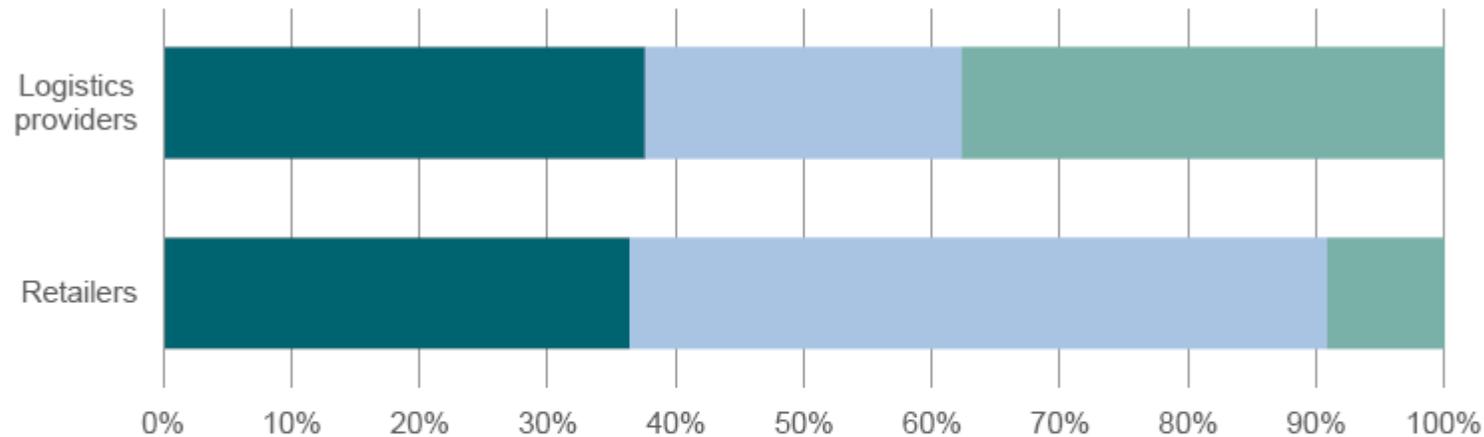
M&S

- Operates from a national distribution centre, for slow moving items, and a number of regional distribution centres for faster selling items.
- All facilities managed in-house.
- Construction of a new national distribution centre, based at Castle Donington (900,000 sq. ft.), for both slow moving store items and online purchases. Comprises a single pick operation (for both slow moving store items and e-commerce sales).



E-Fulfilment Strategies

How will the distribution model change?



- Development of single centralised UK facilities (serving both physical stores and internet sales)
- Development of centralised UK e-fulfilment centres
- Existing physical store distribution networks to stay the same and development of a network of local internet fulfilment centres



3PLs

- To date, a number of 3PLs appear to assume that multi-channel retailers will use outsourced logistics services as a matter of course. A strategy which is proving risky - an analysis of the top 20 e-retailers in the UK has identified that 18 of these operate their e-fulfilment centres in-house.
- The systems needed for e-retail operations are different from those in traditional retail businesses. Many 3PLs have not invested in developing solutions for e-fulfilment clients, relying on existing systems.
- It is too early yet to establish whether e-retailers will choose in-house management of distribution centres, as opposed to outsourcing. Many may consider this function as being core to their business function, others may decide to keep control due to the non-tailored approach by some 3PLs.
- A number of small, specialist, companies have identified these deficiencies and have designed systems specifically targeted at the unique demands of internet retailers.



Research Findings

E-tailing & the impact on distribution warehouses

April 2013



SUMMARY

■ E-tailing continues to grow at pace within the UK, with record percentages of total retail sales now coming from online. To combat this change, the traditional "high street" retailers are being forced to reconfigure their supply chains to cater for this new era of multi-channel retailing.

■ This report identifies the current and future trends in e-tailing and how the inevitable changes will impact upon the distribution warehouse sector and its future growth.

■ Savills commissioned Transport Intelligence to undertake an in-depth analysis of the online retail sector, including face-to-face interviews

with retailers to understand issues including the points at which retailers are "triggered" into expanding their warehouse facilities, as well as, their preferences both in terms of location and configuration of the space.

■ From the research and analysis, Savills believe that warehouse take-up, by retailers only, will total 50 million sq ft over the next five years and that is 21% up on take up in the last five years. 13 million sq ft of this future take-up will be within e-tailing specific property, driven by online sales.

■ With specific needs from retailers and a shortage of stock, there will be a bias towards more pre-letting in

the UK and an increased reliance on development sites.

■ This paper summarises a larger and more comprehensive report from the interviews and the survey. Hence the bullet point style of this overview. To obtain a copy of the full report, please contact Richard Sullivan or Steven Lang.

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 "E-tailing will help drive a new era of demand for warehouse space... although one size will not fit all" Richard Sullivan, National Head of Industrial & Logistics

Contact Transport Intelligence

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