

Dawson

DIALOGUE

■ *Shared Delivery* “The Route to Lower Costs and Improved Customer Service” - *Part Two*

Introduction

In part one of this discussion we outlined the concept of *Shared Delivery*, considered its physical application and describe some of the cost savings generated through such an arrangement. In Part Two, we will discuss further cost-saving and revenue-generating benefits of *Shared Delivery*, as well as the IT applications that can be used to streamline the process and enhance the network's value.

If you have not received Part One of the discussion, please ring Dawson Consulting on 03 9326 7577 to order your free copy.

Shared Delivery - More Services, More Value

Lets explore more thoroughly what will happen at the store level under a *Shared Delivery* arrangement. Under existing procedures, delivery drivers drop product off to the store, get a signature for the receipt of the goods and then drive off to do their next delivery. Lets assume this is a process that takes approximately 5 minutes per drop. The core function is performed, but it doesn't add value to the store visit.

Under a *Shared Delivery* arrangement however, procedures and activities would be markedly different. The product delivery would be undertaken, and then a range of value-adding services would be incorporated into the visit. Merchandising, point-of-sale delivery and setup, shelf replenishment, stock taking, order processing etc are some of the key services that would be offered. And whilst this will increase the time spent at each location, the functions executed will provide fiscal and customer service benefits that far outweigh the perceived cost minimisation of short delivery periods. This approach facilitates a more 'profitable relationship' with your customers as it encourages increased sales and reduces the unit cost of delivery. See the diagram on page 2 (Figure 4).

DAWSON DIALOGUE

- Assists business executives' awareness of critical logistics and supply chain management issues.



CHRIS GARSCHAGEN

In July 1990, Chris Garschagen joined a number of colleagues to establish Dawson Consulting. As Finance Director, and Managing Partner, Chris is responsible for providing strategic direction and tactical planning within the consultancy.

His expertise include supply chain strategy development, transport fleet operations and selections, fleet scheduling, and project management.

His qualifications include:

- The Royal Society of Arts Examinations Board Certificate of Professional Competence Management Training (University of Aston, Birmingham U.K. 1978).
- Member - Logistics Council of Australia.

Figure 4



Revised Costs of *Shared Delivery* Arrangement

Obviously the model shown in above will add cost to the network originally shown in Figure 3. Spending approximately 15 minutes at each outlet will require additional vehicles to service the customer base and increase labor expenditure. Therefore we need to calculate the cost of providing these value added services.

The cost of the extra vehicles required (approximately 10), the investment in technology and increased support services costs would result in a network operation cost of approximately \$4.56 million. This reduces the savings of the proposed *Shared Delivery* arrangement from 28% to 9%. However, these additional services will create other revenue-based advantages.

Firstly, because of the additional services provided (outlined in detail below), store operators will generally buy more product from those suppliers involved in a *Shared Delivery* arrangement. Continuing our sales volume example, this could realistically increase unit sales from 1.25 million to 1.5 million throughout the network. This results in a per unit delivery cost of \$3.04, still \$1.96 cheaper than the network shown in Figure 2 (see Part 1) .

This model (Figure 4) is made even more attractive when you consider the inherent value in the network you're creating. Value such as a reduced need for specialist merchandising teams, the brand loyalty established with customers, and perhaps most importantly, the ability to 'sell' the network you've created to other companies. With a network that fosters customer loyalty whilst increasing the

volume of sales to each customers, other non-competing companies will want to access such a network – and pay a fee for the privilege. This will not only turn a pure cost function (transport) into a revenue generating activity, but actually provide balance sheet value.

Store Operator Benefits

Having established the valuable network creation of a *Shared Delivery* arrangement, lets look at the specific services and the benefits they can provide for store operators. Benefits that will build barriers to entry for other suppliers not delivering the same level of service.

Shelf Replenishment

Whilst at the store, drivers can take extra time to replenish the racks, shelves etc with the product they are distributing. This service is likely to be appreciated by store operators and thus build brand loyalty for the products they distribute. Through the replenishment process, drivers can neatly arrange new stock and collect old or unwanted stock.

Promotional Merchandising and Point of Sale Assistance

Companies will often run competitions, provide giveaways, organise scratch-and-win games etc, all of which require in-store displays. Furthermore, there may be specific information or associated prizes that store operators need to know about in order to support the competition. Purely from a cost reduction point of view, delivery drivers are in the best position to provide this merchandising service. All they require is a directive from the manufacturer in terms of the information they should supply and instructions as to how the display boards should be erected.

Thus the question becomes, 'Why shouldn't the drivers provide merchandising support?' It not only creates an additional revenue stream for those operating the network, but creates a value added service to attract new customers. From the perspective of the company actually supplying the products, a *Shared Delivery* service provider will undertake 'value added' services at a comparatively lower cost.

Order Taking and Sales reporting

The execution of these services is relevant for the section below 'Informational Aspects of *Shared Delivery*', but can also be discussed in the physical sense. With the use of information technology, the delivery driver can take orders directly from the store operator without them needing to contact the sales department. And as there will be greater frequency of deliveries, this will enable store operators to more accurately plan their expenditure. Furthermore, with the use of IT, the delivery driver can provide store operators with sales history that will aid them in demand forecasting. This will be particularly useful in industries that have seasonal demand fluctuations.

Informational Aspects of *Shared Delivery*

Shared Delivery arrangements offer significant gains in terms of cost reduction and enhanced customer service (as has been explained in the body of the paper). But with the application of technology, a *Shared Delivery* arrangement can make further improvements on many levels. What is often required to achieve these gains is the use of PDETs (Portable Data Entry Terminals). PDETs are a hardware device that can store large amounts of data in a portable format.

The information that is recorded on these PDETs in the course of delivery is later uploaded to each company's business system for inventory adjustments and accounts receivable information. The profile of each customer is also updated, and here is where we begin to recognise the power of the information being collected and collated on a daily basis. It provides purchasing statistics, but allows for much more in terms of win/win (supplier/vendor) information.

With the aid of this technology, retail management information can be used to improve operations for both suppliers and store owners. On the supplier side, accurate information can be collected that records the success of certain promotional efforts whether it be giveaways, buy one get one free deals, sweepstake competitions etc. This data will then help guide the marketing and advertising strategies of these companies to ensure they receive an ROI on their promotional budget.

On the vendor side there is equally valuable information to be gained. With sufficient historical information available, customers can be supplied with purchasing statistics that will enable more accurate demand forecasting. For example, if suppliers can see that storeowners are under-estimating their demand for a particular time of the year, they can provide them with statistics that

'With the aid of this technology, retail management information can be used to improve operations for both suppliers and store owners.'

illustrates the previous year's demand. Vendors can also be supplied with information that accurately documents the particular color, flavor etc within each product that sell better than other colors, flavors etc. In fact, vendors can be supplied with more useful information under a *Shared Delivery* arrangement than any other existing information medium. This 'on-tap' reporting will not only take the guess work out of retail store management, but will also enable vendors to manage their store more profitability.

Imperative of Improved Delivery – the Augmented Product

With most companies wanting to broaden their market penetration, the need to differentiate their product offering is paramount. Thus companies must look at better, more meaningful ways to augment their product beyond its core offering.

Pricing has only a limited ability to do this, as competitive forces have traditionally compelled suppliers to sell their products at approximately the same price. Potato chip company A will sell their 50 gram bags to store operators at often the same price as potato chip company B sells theirs.

Similarly with product quality, there is an expectation that both company A and company B will provide store operators with products of high quality. Colors, shapes, flavors etc of competing products will be different, but the inherent quality of the products will not dramatically vary.

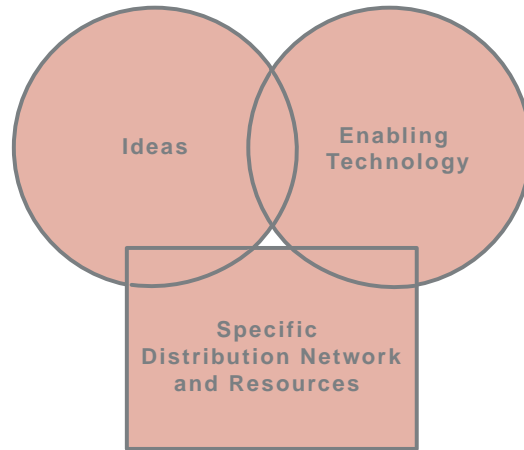
Thus it is the logistics service that each company provides to support their products that can most effectively differentiate one product from another in terms of store operator buying preference. If you aid the store operator in running an efficient, well-controlled and visually appealing retail outlet, then the products you supply will be chosen in preference to companies merely performing the core function of product delivery. This is the essence of product augmentation, and it is a concept that will become increasingly important even within low-value high-volume markets.

Execution

Most companies recognise the benefits of a *Shared Delivery* arrangement, but implementing the concept often poses a series of problems. Consider Figure 5 over the page.

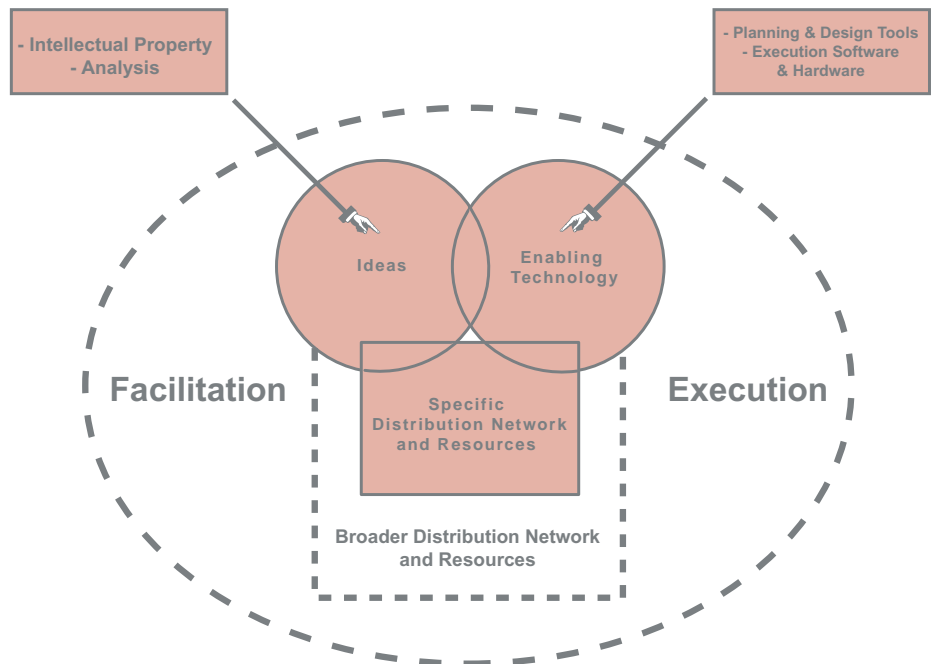
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Figure 5



Many companies will approach a *Shared Delivery* arrangement with significant resources and capabilities across these three areas: Ideas, Enabling Technology and their own Distribution Network and Resources. Given this, it would seem that the successful implementation of such a concept is achievable. Experience, however, contradicts such an argument. Consider the diagram below.

Figure 6



What is generally needed to co-ordinate the planning and implementation of a *Shared Delivery* arrangement is a facilitator. This facilitator will be responsible for coordinating the operating parameters of such an arrangement and must therefore be independent. In particular, the facilitator will be responsible for converting ideas into execution, ensuring all parties receive the widespread benefits of a *Shared Delivery* arrangement. The facilitator will also be responsible for sourcing and installing the necessary IT platforms to support such an arrangement.

Finally, the facilitator will also have to decide upon the optimal make-up of the arrangement in terms of transport resources required. This will involve the assessment of all participating companies' existing fleet and any necessary purchases or divestments. It may also include the use of distribution channels beyond the companies involved to establish the most efficient and effective network design.

Conclusion

In conclusion, the implementation of a *Shared Delivery* arrangement is both viable and commercially rewarding. The technology available will enhance the network and ensure the benefits realised by suppliers and vendors will create significant competitive advantages. The question is, which companies will enjoy the greatest leverage by establishing the arrangement first?

- About Dawson Consulting -

Dawson Consulting is Australasia's largest consultancy specialising in logistics and supply chain management. We assist companies of all sizes to improve the performance of their supply chain and generate a greater return on capital items and financial resources employed.

Having worked with literally hundreds of national and multinational companies across sectors including automotive, banking, communications and technology, food and beverage, government, manufacturing, mining and resources, pharmaceutical and retail, we have the knowledge and expertise to improve the performance of your supply chain.

Our understanding of current concepts and the innovative application of logistics management is treated as a given, not an advantage. What differentiates the Dawson Consulting approach from our competitor's offering is four fold:

- A solid commitment to developing and harnessing cutting edge technology that delivers true value to our clients;
- An emphasis on implementation that ensures the recommendations we make are both practical and realistic;
- A large pool of specialist talent that ensures Dawson Consulting can match the consultant's expertise with the needs of each client;
- A team orientated approach that involves client staff in the development of alternatives and the formulation of recommendations.

The unparalleled depth and breadth of Dawson Consulting's experience and technical know-how supports our 'application vs theory' approach. Identifying areas for improvement is only the beginning. We insist on being accountable for our recommendations by implementing the changes we prescribe.

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- Services We Offer -

Our knowledgeable and experienced consultants provide expert advice in the following areas:

- Supply Chain Strategy Development
 - Network Development
 - Marketing Channel Design
- Customer Service Policies
- Inventory Policy and Management
- Supply Chain Information Technology
- Purchasing and Supply Management
- Warehouse and Distribution Centre Operations
 - Distribution Centre Audit
 - Design and Layout
 - Information Technology
 - Simulation
- Transport Operations
- Inbound Logistics
- Freight Management
- Logistics Process Redesign
 - Process Mapping
 - Process Redesign
 - Implementation
 - Supplier Customer Partnerships
- Market Research & Surveying
- Recruitment Services
 - Executive Search & Selection
 - Outplacement
- Outsourcing

Consultants utilise proprietary methodologies and logistics modeling software to aid in their recommendations. A continuing investment in these support tools ensures that recommendations are made with regard to the latest available technology.

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