

Today's Retail Supply Chain Challenges and a Solution

The global supply change evolution has created new challenges that retailers must solve in order to have a lean supply chain. How many of these challenges are you faced with in your supply chain?

Purchasing or merchandising

- Lack of visibility from placement of a purchase order to receiving.
- Inability to cost effectively manage less-than-truckload (LTL) sized inbound purchase order shipments.

Store replenishment

- Having to store inventory in several locations to shorten lead time to store and or customer.
- Imbalance of inventory when multiple distribution centers are stocking the same items.
- Store replenishment arriving from different distribution centers due to the stock imbalances.
- High inventory levels and low inventory turn ratios due to the inability to predict customer demand by product.

Both purchasing and store replenishment

- High stop-off costs imposed by line haul carriers for delivery to multiple distribution centers or store locations.
- Recurring product damage when shipping less-than-truckload.
- No Transportation Management Software to manage consolidation of less-than-truckload and small pack shipments.

Establishing a pool point network can help solve many of these challenges.

Retail supply chain management can be a difficult maze. In the retail world, this maze involves getting product from the right vendors to the right customers, while minimizing inventory levels, warehousing and transportation cost. Retailers must walk the very thin line of having enough inventories to avoid stock outs, while at the same time keeping inventories low enough to minimize carrying costs and respond to ever-changing consumer demands. There is a solution; it is the utilization of pool points for distribution, which is sometimes referred to as cross-docking. Retailers with high and quick flow through may also refer to this type of distribution as mixing centers.

For retailers, the pool point process starts by figuring out where to source the products you want to sell. Many products are being sourced offshore, which require longer lead-times and larger amounts of inventory. The goal can be to have offshore product containerized so it could arrive at a deconsolidation center to be delivered directly to store through the network of pool points. Or on the domestic side, the goal may be to have the vendor pull product and palletize the orders by store so those products could be optimized for store direct delivery through pool points. Think of what the cost savings would be if you could reduce or eliminate the need to carry inventory in your distribution center(s).



● CASE STUDY

“When they came to us, they didn’t know how to manage it.”

A service provider recalls how one customer, a growing retailer, had grown from 5 to 38 stores in one year and was struggling to keep up with product movement. LTL transportation services just did not cut it. They were expensive,

created a lot of damage, and the service was often unreliable. Additionally, many LTL carriers were unable to make inside deliveries to malls, especially where lift gates were required, and were charged extra for these services. This also disqualified regular truckload carriers, as many of the mall locations could not

accept a 53’ trailer. In addition to these challenges, management wanted deliveries made before stores opened so that store staff could focus on store operations.

The solution was to implement a national pool point strategy. Now, product comes from overseas and flows through a single warehouse where it is trans-loaded and palletized. Trucks line haul consolidated product to pool points scattered across the country, where product is cross-docked to smaller delivery trucks. The bobtails are able to make the final deliveries to the stores, primarily in mall locations, where full-sized trucks have difficulty delivering. Pool points have specialized equipment available, and lift gates are standard. Pool points can make every delivery before 8:00 a.m. when the malls open, so the product can be put away and store staff can focus on selling. The network is able to reach any mall in the continental United States before 8:00 a.m., and most of the destinations have standing daily delivery appointments. Today the customer pays the service provider a simple per-pallet charge, including line haul and delivery. A minimal level of mission-critical inventory at each pool point ensures that stores are never stocked out of product.

At present, the service provider manages a network of 67 pool points in North America, with on-time delivery and less than 1% damage. The retailer is nearing 200 stores, and the provider is currently implementing Web-based Technology to further optimize their business. ■



Components of a pool point distribution strategy

A pool point network is a conglomerate of cross-dock operations, which could be a regional third-party warehouse or a regional carrier's cross-dock facility that provides a common set of services and can be linked together via a common technology platform. Each pool point facility provides both pickups and deliveries within a specific territory. Common truckload carriers are utilized to line haul consolidated shipments to the pool points. Often, smaller "mom and pop" operations can provide higher levels of service and offer more competitive pricing than national pool points or warehouses. These loose networks can grow and shrink as necessary, to stay in line with market changes. Unlike traditional Distribution Centers (DC) or Regional Distribution Centers (RDC), pool points are utilized to manage the flow-through of a smaller portion of inventory, and they only service an exclusive portion of a retailer's store network. For instance, your RDC may cover distribution for the entire west coast or perhaps just your Texas stores, while a single pool point may only service your Los Angeles stores and a second and third pool point will service your San Francisco and Houston stores, respectively.

Today's market requires deliveries to shopping malls and even strip malls using bobtail or lift-gate trailers, rather than 48 or 53-ft trailers. Pool points utilize bobtail and 28-foot lift gate vehicles as their standard service, allowing them access to shopping malls, or even strip malls. In addition, most pool points offer up to two weeks free storage for redistribution allowing retailers to "float" some of their inventories.

Purchasing or merchandising challenges

Managing inbound shipments requires a lot more than placing a vendor purchase order because the purchase order does not have enough information for you to manage the shipment effectively. You normally have on the purchase order the date you placed the order, the required date when you expect to receive the shipment, the items, the quantity of each item, and

where you want the products shipped to.

The vendor knows when they can ship the items, what items and quantity can be shipped, where it will ship from, and, most important, the weight, cube, and freight class of each item. Web-based technology has been developed that links the purchase order detail with missing vendor information, providing all the necessary data to manage the inbound shipments in one location. The system has built-in alerts that notify the buyer when the vendor has not responded or if the order will ship short. Once all the information is loaded on the website, it can be electronically extracted into a TMS that will automatically assign a carrier, tender the load, and trace the order until shipment is received complete. This web interface technology provides the procuring team complete visibility from sourcing to receipt of the product.

Once all the information is in the TMS system, for less-than-truckload shipments it is possible to have the pool point collect from several vendors and consolidate into full truckloads. If the pool point is not able to collect enough to fill a truck, then it is possible to have the long haul carrier do a pick of two or more pool points in route to the distribution center. If multiple distribution centers are in the network, the long haul

carrier can do two or more picks from vendors and have two or more drops at distribution centers in route.

If the retailer can shift the replenishment of

store merchandise to the vendor, then the purchase order would reflect all the items destined for each store and request the vendor to palletize by store order. After the carrier picks up the freight and delivers to the pool points, the pallets are sorted by store and loaded on local delivery trucks for delivery. This method of consolidation allows the pool point to consolidate all the freight from various vendors to the store site, eliminating wasted handling and shipping costs and resulting in a very lean supply chain that ultimately saves money.

Typically, retailers provide their vendors with a routing guide and leave the management of that to the vendor. But the vendor will use the carrier that is the easiest for them to work with, not the one who provides the most benefit. Taking charge of your inbound will allow you to manage your operations better because you will know what labor is required to receive shipments and you can analyze vendor cycle time to find ways to reduce your inventory from that vendor.

Store replenishment challenges

The goal for every retailer is to always have the product available at the location when the customer wants to purchase. In order to shorten the store replenishment cycle, many retailers have decided to have multiple stocking locations throughout the United States. This causes the retailers to be

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constantly concerned with inventory: is my product in the right location or do I have the optimal product mix in every location? Many retailers replenish on a forecasting-based inventory utilization system or a “push” inventory philosophy, which may be regionalized but does not consider individual store sales. As a retailer, you need to provide a wide product selection combined with the “right” number of items per store to maximize profits. Overstock and customer returned merchandise at store levels are shipped back the Regional Distribution Center for redistribution, adding costs to your sale and reducing your profit. This imbalance keeps you from effectively managing the inventory.

The pool point solution is to move the entire inventory stock to one or a maximum of two locations and deliver these through pool points. Depending on the locations of the stores and distribution center, most retailers would be able to replenish all stores within five business days maximum. While the general lead time for retailers using multiple stocking distribution centers is three days minimum, the extra time is an excellent trade-off because it results in lower inventory and reduced shipping costs. This pool point solution can solve all the challenges retailers face in store replenishment such as inventory imbalance and utilization, replenishments that arrive from different distribution centers, and the need to reduce inventory and increase inventory turns.

Generally, store managers do not want their personnel involved in receiving and putting away product. They would rather have that time spent on the floor selling. Larger, consolidated shipments made from a pool point or mixing center could be delivered before store hours, which solves the receiving issue. Many store locations do not have dock-high delivery capabilities for full-sized trucks and often require specialized equipment, such as bobtails or lift-gate trucks. They may even require inside deliveries that involve the use of pallet jacks and additional labor. Common LTL or TL carriers are often unwilling or unable to manage these special delivery requirements. Therefore retailers have are forced to find creative solutions to these challenges.

Both purchasing and replenishment challenges.

In addition to the inventory flow, the supply chain must actually manage the freight movements. An unofficial survey of large retailers indicated that less than 1% of them had a Transportation Management System (TMS) to manage their shipping. How can any retailer effectively optimize their freight costs if they do not have the systems to assess their shipping options? In the same survey, retailers without a TMS operated their freight on a routing schedule, with a set group of core

carriers and rates by lane and service, leaving the final transportation decision up to their vendors and thus leaving themselves vulnerable to cost fluctuations. Your vendors may adhere to your routing requests and select the correct carrier but this assumes that the vendor is taking into consideration your business needs and optimizing your freight. Since the vendors’ routing people do not work for the retailer, however, they consider the best interests of their own organization first. They are concerned with filling the purchase order and getting it to the retailers dock by the “required by date” rather than how much money is spent on freight. Many retailers receive multiple LTL shipments from the same vendor in the same week, within a couple of days of each other. The vendor should have held that freight for 24-hours and routed a multiple stop truckload rather than sending two or three LTL shipments.

As mentioned earlier, the pool point can collect LTL shipments from vendors and consolidate them into full truckloads going to distribution centers or direct to the store. Owning or using a TMS system will aid in managing this and reduce operating costs. By consolidating, you will also reduce the number of times the merchandise is handled, which reduces the likelihood of freight damage.

You can negotiate multiple stop charges by long haul carriers by working with the pool point to remove the arriving carrier’s freight within one half hour, thus eliminating the high cost of dropping freight in route.

The goal in network pool points is to help eliminate the challenges of both inbound and outbound shipments. Ideally, web-based technology links the supplier to the purchaser, the carriers and 3PLS to the Supplier, and the pool points to each other and the carriers. A collaborative logistics solution connects the loose network of independent pool points and provides inventory level visibility to the retailer. While it creates a standard communication platform between the retailer, suppliers, and carriers, this platform should also be integrated with a TMS in order to optimize carrier and mode selection and maximize consolidations. A collaborative pool point distribution strategy can be a highly effective solution for a retail network or even for portion of a large-scale retail network.

**For more information
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