Preparing for Next Generation Cross Border E-Commerce

The e-commerce landscape is changing rapidly. Amazon recently acquired Whole Foods to gain access to the Food retailing, Alibaba signed a deal with Singpost for E-commerce activities in South East Asia and this year's online sales of Singles Day in China was substantially bigger than Black Friday and Cyber Monday combined. On the store front, many retailers have been shutting down stores as a result of declining sales due to the shift towards digital. This shift will be accelerated by the disruptive generation of millenniums who have grown up in the digital era and will drive consumer behavior in the near future.

Both brand owners and retailers need to understand these dynamics and prepare themselves for a next generation cross border e-commerce.

THE E-COMMERCE DILEMMA: GROWTH VS PROFITABILITY

Customers expect choice in delivery options, fast delivery, time defined slots and a guaranteed delivery date. This causes a typical dilemma for retailers and brand owners to offer a fast, convenient and cost-effective delivery.

Profitability is one of the key e-Commerce challenges for retailers and brand-owners due to:

1. High delivery costs due to increasing pressure on final mile (i.e. speed, location, flexibility)
2. High returns costs as customers expect free returns
3. Increased fulfillment complexity due to piling up inventory, increase in SKU's and inventory required closer to demand especially in seasonal fashion products
4. High IT investments to accommodate full visibility across channels at all inventory locations and to enable services like track and trace
5. Not one size fits all due to complex financial (i.e. tax), legislation (i.e. labor laws) and cultural (i.e. language) landscape across Europe and APAC

The DNA of pure online players versus retailers and brand owners towards profitability can be totally different. As the focus of the pure online players has been to build the platform and gain market share, other retailers that originated from brick and mortar business and brand owners have adopted a slow(er) pace of the online business and seen this as an extension of the brand or a shop in an online environment. Within the supply chain and logistics community this is reflected as well in terms of focus on Operational excellence (hence cost per unit) versus a revenue driven mindset to lock in the customer and offering a variety of service offerings to make shopping for the consumer as convenient as possible. There is no single answer how your company needs to set up the supply chain and logistics fulfilment network but it rather be aligned with the corporate objectives and initiatives.

FRAMEWORK FOR SUPPLY CHAIN AND LOGISTICS DECISION MAKING

In order to develop and communicate the impacts of (cross) border e-commerce and the shift towards omni channel retail, Logistics and Supply Chain professionals need to be pro-active and support the organization in a cross functional modus.

The visual below shows a framework of elements that need to be assessed when defining and rolling out strategies as each element can have a significant impact on the topline and on the cost per unit.

1. Channel assortment – offering the same offering on-line as off line, exclusive product range for certain sales channels. This also includes packaging types (rainbow sets, assortments versus singles)
2. Inventory management – having a single pool of inventory across sales channels (wholesale, retail, e-commerce), a segregated pool of inventory per channel and business rules for (cross) allocation decisions
3. Delivery options- covering the type of delivery or pick up, whether delivery is free or paid and the speed of fulfillment and delivery
4. Fulfillment and storage which is highlighted in more detail in the next section
5. Last mile delivery and pick up
6. Return options
7. Reverse logistics network

Source: DHL, adjusted by BCI
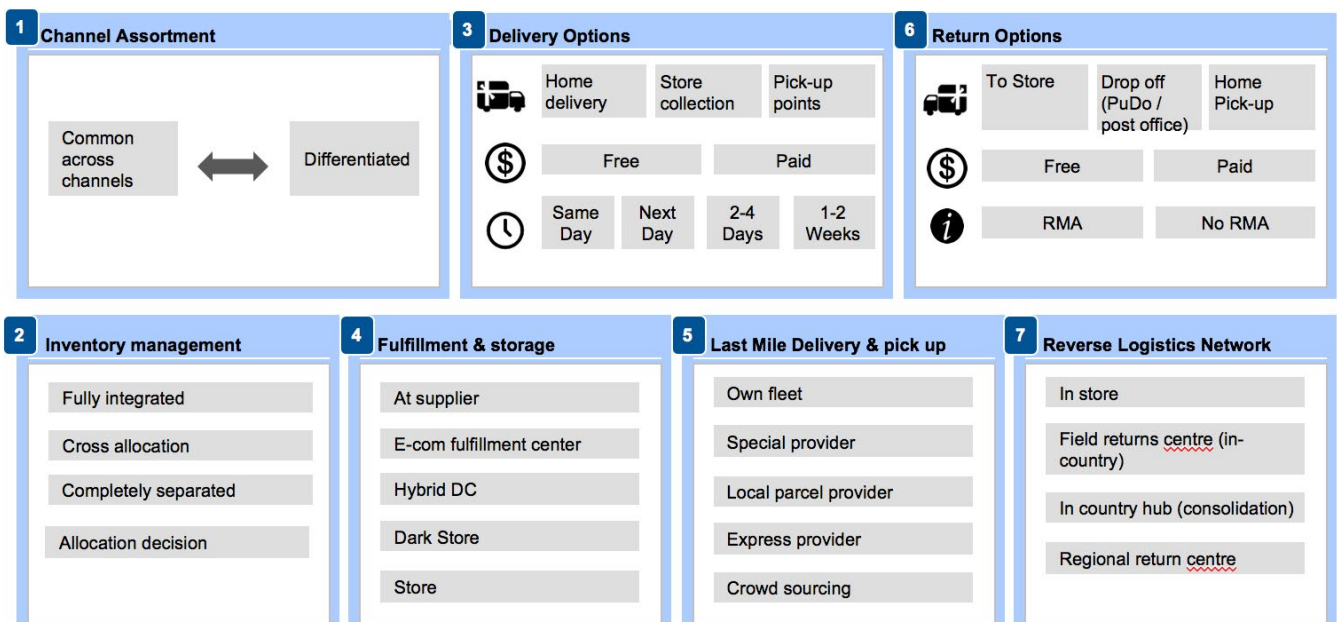
THE AMAZON EFFECT – RAISING **THE** **BAR** **FOR** **ALL** **OTHER** **COMPANIES** **IN** BOTH B2B AS THE **B2C ARENA**

Amazon has steadily raised the bar from a shopping and delivery experience. Due to the introduction of Prime subscription, Scheduled delivery, Prime now (1-2 hour delivery), Prime same day delivery, consumers in part of the world can have access to a very large assortment at zero or limited upcharges for same or next day delivery.

Due to introductions such as Alexa and Dash, the ease of adding products to the shopping basked has increased with the intent to lock in the consumer into a single e-commerce platform.

As we are all consumers, we take these shopping and delivery experiences into our professional world and start to ask why certain things are not possible or take so long compared to an on-line shopping experience at for instance Amazon. Take for instance the time to set up a new EDI connection with a supplier.

Not only Retailers and Brand Owners need to ask themselves what the next generation e-commerce will mean for them but also companies operating today in the B2B arena. For instance Consumer Packed Goods (CPG) companies will need to pro-actively ask themselves questions like:
• What if a significant portion of the business would shift to on-line?
• What would be the implication?
• Are we prepared for such change?

INTERNATIONAL **E-COMMERCE:** **CROSS** **BORDER** **E-COMMERCE** **GROWING FAST**

APAC is the world's biggest and fastest growing B2C E-commerce region with growth rates close to 30%. E-tailers such as Amazon, Alibaba and Lazada are expected to have the highest e-commerce growth in the next 5 years in ASEAN. In Europe, e-commerce is forecasted at 16% in 2017 whereas the US will grow at a pace of 12% (source McKinsey).
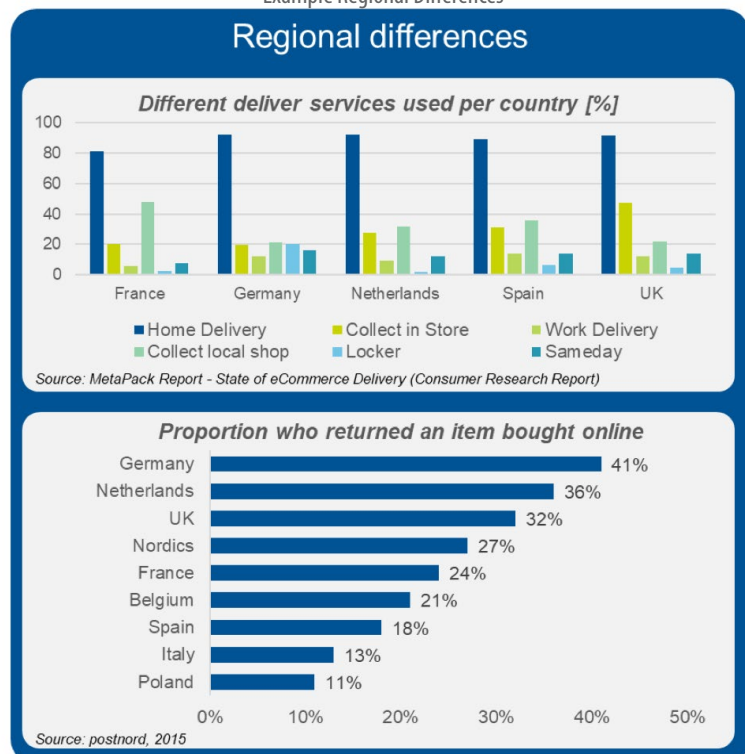
Cross border e-commerce is important and growing fast at a pace of double the domestic e-commerce growth. The current cross-border e-com trade represents approx. 20% of all online shopping in which Fashion (Clothes Shoes, Accessories) is the top-grossing cross-border category.

However, Cross-border e-com is different from local e-com as local fulfillment presence in all countries is expensive and unnecessary to meet customer requested delivery time. The key challenge is that every country has its own online environment with dominant logistic and transport partners and infrastructure, consumer preferences and consumer regulations that differ by country.

Key elements for a successful cross-border e-commerce model include:
• Website in local language
• Displaying prices in local currency
• Offering country specific online payment, delivery and return options. In Europe and APAC the delivery methods by market are different from a home delivery, collect at retail store or a collect at a pick up point. The carrier landscape is different in the European markets and across APAC. This is also applicable for the Returns network. See the insert on regional differences in delivery services and returns in Europe.
• Offering landed prices to the consumer including VAT, duties and potential additional surcharges
• Applying a Business model linked towards E-commerce buying and shopping behavior (i.e. the dominance of platforms in APAC which are fragmented by country such as Lazada, Tmall, JD versus the B2C model where the brand owner sells through their brand.com website)

Example Regional Differences

Regional differences

Different deliver services used per country [%]

Home Delivery — Collect in Store — Work Delivery — Collect local shop — Locker — Sameday

Source: MetaPack Report - State of eCommerce Delivery (Consumer Research Report)

Proportion who returned an item bought online

Country	%
Germany	41%
Netherlands	36%
UK	32%
Nordics	27%
France	24%
Belgium	21%
Spain	18%
Italy	13%
Poland	11%

Source: postnord, 2015

NEXT GENERATION DISTRIBUTION NETWORKS- MIGRATING TOWARDS HYBRID NETWORKS WITH FULL INVENTORY VISIBILITY

Next generation distribution networks will be hybrid networks designed to cater for different products, sales channels and geographies (i.e. metropolitan versus rural areas).

The typical current distribution network consists of a Central DC in a country or region often combined with DC operations for store retail and wholesale in close proximity.

The ability to route flows in a dynamic sequence will be key for competitive performance in next generation e-commerce. This requires full inventory visibility at SKU level throughout the network and hence a fully integrated inventory management set up.

Next generation Fulfilment and routing options will need to include beyond the traditional flows: drop shipping ex vendor to the customer (e.g. bulky products), store fulfillment for an e-com order to avoid mark downs in store and enable fast delivery, replenishment from/to
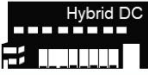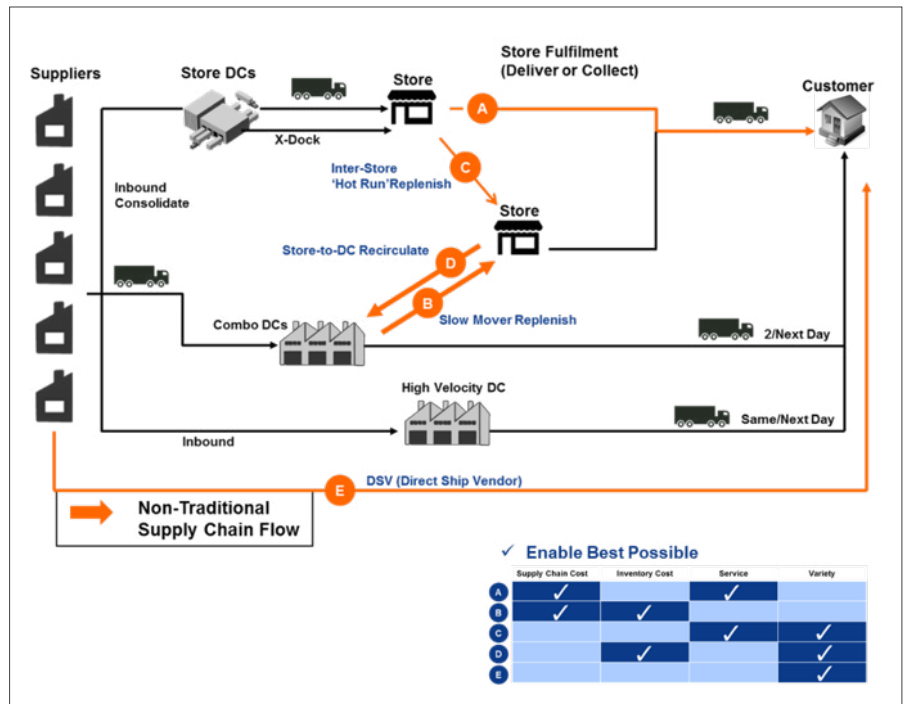

Source: AT Kearney, adjusted by BCI

stores and replenishment from the combination Retail/E-com DC to stores for fast replenishment of for instance slow movers. The visual above illustrates how such network can look like including the focus of each of the flows from a cost, variety, service or inventory holding perspective.

These hybrid networks will allow retailers and brand owners to migrate closer to the consumer: fast when it

needs to be fast – same day or next day enablement by means of either click & collect or store fulfillment or metro rapid fulfillment centers for specific geographies and product ranges. This will increase profitability by unlocking the inventory in the entire network to allow the sale at full price rather than at a discounted price. The table below shows several fulfillment options and their applicability.

Table: Choice of fulfillment options depends on the targeted service levels and intended channel integration

Fulfillment at	Supplier	Hybrid DC	E-commerce FC	Store	Dark Store
Description	"Drop shipment" – supplier fulfills the order	Same DC used for e-fulfillment and store replenishment	Centralized dedicated facility for online orders	Leverage store inventory & personnel to fulfill online orders	High-velocity facilities for e-fulfillment near city limits
Benefits	• Low end-to-end cost • Reduced chance of damage/loss	• Inventory synergies across channels • Economy of scale	• Optimized location for on-line channel needs • High automation possibility	• Inventory synergies across channels • Upselling opportunity	• Lower cost compared to store
Points to Consider	• Complex coordination with suppliers • Supplier controls fulfillment & customer experience	• Need to enable "eaches" picking	• Additional infrastructure • Inventory duplication across channels	• High picking cost of store personnel • May cripple store efficiency	• Additional infrastructure • Inventory duplication across channels
Service	• 1-2 weeks	• 2-4 days	• 2-4 days	• Next day • Same day	• Next day • Same day

Source: DHL, adjusted by BCI

AREA	POOR 1	2	AVERAGE 3	4	BEST IN CLASS 5
Delivery predictability	No time slot provided	Day is predicted	Part of the day is predicted (e.g. Morning, afternoon, evening)	Timeslot of delivery is restricted to a specified 2 hour window	Timeslot of delivery is restricted to a specified 1 hour window
Last mile solutions / delivery orchestration	One service offering focused on either speed or costs		One service offering focused on speed and costs		High variety of service offerings
In flight options	No alternative delivery address possible	PuDo / Depot or different address	PuDo / Depot and different address with notification of delivery	Saturday / Sunday delivery upgrade	Combination: dynamic booking
Delivery options	1 delivery attempt, customer action required in case not successful	Multiple delivery attempts, in case not successful customer pick up at depot		Proactively managed delivery time	Purchases from various e-stores are collected for customers at a secure location and delivered in one batch
Carrier management and number of carriers	No options, one carrier	Limited offering with one carrier for all services	Extensive offering, one carrier per service offering	Extensive offering, various carriers per offering	New service offerings
Carrier flexibility	Carrier rates and contracts managed in spreadsheets, no database for carrier KPI reporting		Fixed contracts and flexible systems: high costs to on-board new carriers and service providers		Easy on boarding of new carriers and service providers: delivery management platform that integrates carriers and delivery
Track and Trace	No status notifications	Passive communication to customer	Active communication with single option	Proactive communication with various options	Advanced and extensive communication
Carrier invoicing	Manual invoicing process by carrier		Electronic invoicing		Self billing: fully automated credits to carriers based on IoD

Several retailers have started to implement ship from store. In the US due to the typical size of back rooms this is easier than in Europe or APAC given the small backroom operations. Some of the key challenges for store fulfillment include the inventory accuracy at the store, minimum inventory threshold settings of required in store inventory, training of sales associates in logistics execution and enabling the IT within a retailer to make this happen (integration of POS with an ERP/WMS with Distributed Order Management functionality to allocate and route the e-commerce orders through the network).

NEXT GENERATION E-COMMERCE: ARE YOU READY?
In order to assess the current position and the readiness for next generation e-commerce, BCI developed a Maturity Framework in five distinct areas: Customer Experience, Customer Service, DC Operations, Technology and Transport/Delivery.
This maturity framework with over 100 indicators, supports clients in understanding the current capability in a transparent way and facilitates the discussion on what is best in class in next generation e-commerce and the readiness. Clients can use the maturity grid as a self-assessment tool in which various stakeholders from different disciplines including clients can conduct the evaluation.

Application of this next generation e-commerce framework will allow the company to clearly define the readiness for next generation e-commerce, path forward, align the e-commerce set up with the corporate strategies and ambitions including the prioritization of the required initiatives to make step changes into next generation E-commerce. Ask yourself the question: Are you ready for next generation e-commerce?

The visual above illustrates one of the maturity grids.

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Patrick Haex is Managing Partner at BCI Global and has overall responsibility of the world wide supply chain consulting and implementation practice. In his role, Patrick is actively involved and overseeing many client engagements in the area of International Expansion including E-commerce and setting up the best value chain to support the geographical markets and related channels, supply chain strategy, supply chain network design, make versus buy decisions, S&OP, Transport Optimization and Implementation. Patrick has supported many Retailers and brand owners in their Cross Border e-commerce strategy and related implementations. Clients include for instance Amazon, A&F, H&M, Michael Kors, Hasbro, Tory Burch, Kate Spade, SC-Johnson, Unilever, VF, KidKraft to name a few.

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