Preparing for tomorrow's supply chain

This is the third in a four-part series on the future of retail's supply chain. To read more on this topic visit Retail-week.com/SupplyChain

Expanding across borders in 2017 and beyond

In part three of our 'Preparing for tomorrow's supply chain' series, **Jon Severs** reveals the top five ways retailers can create a seamless multichannel business on a global scale

If you want to know what a successful supply chain set-up looks like for an international business, you don't have to look much further than Primark, according to leading retail analysts.

The value retailer has seen its international sales soar by over 150% over the past five years to an estimated £3bn, Retail Week Prospect data shows.

According to John Bason, finance director of parent company Associated British Foods, Primark's "responsive supply chain" is key to riding out unpredictable weather patterns and shifts in customer behaviour in the 11 global markets in which it operates.

But, of course, nothing is ever as simple as it sounds. So, according to the experts, what are the areas retailers need to be prioritising when expanding abroad?

1. Get the mindset right

"One of the big challenges of globalisation is that it can be the UK business that is doing international on the side, so they are structured as a UK business," says Paul Martin, UK head of retail at KPMG.

Where retailers are truly successful as international businesses is when they think as global organisations, Martin believes.

What this means is that, rather than having a UK hub from which everything is run, you need a completely agnostic view of the supply chain. When individual countries have their own facilities and stock, they can go to any one of those countries from manufacturers and move between countries as needed.

Getting that right should be retailers' first priority. So how do they do that?

2. Look for a bespoke solution

Unsurprisingly, there is no single model to ensure expansion success. The big multichannel retailers such as Amazon tend to opt for multiple distribution centres. Martin says that, combined with accurate technology, this gives them greater flexibility.

"[Amazon] will invest ahead of the curve in distribution centres," he explains. "They know exactly where the stock sits within their ecosystem and they are very quick at moving it around. You will often order something on Amazon and it may come from another Amazon country.

"It enables them to hold a much more reduced amount of stock than other retailers. If they know they can get it from France or Spain if they need to, they do not need to hold as much of it in the UK. One of the biggest costs for retailers is stock-holding."

Lidl adopts a similar model by investing in distribution centres in advance and 'hangs' stores off that centre. At the start, the distribution centre is under-utilised, but as the stores expand, the company is able to scale up distribution, too.

For Dorota Stoinska, spokesperson for Ikea purchasing, decisions about where to locate production facilities are taken very carefully at the retailer. "[We take] conscious decisions about the location of the production – close to sales markets or close to raw material sources," she says.

The opposite approach is that taken by UK dancewear specialist International Dance Supplies (IDS). For them, what works best is a central hub at headquarters from which products are distributed around the world.

It's something that quite a few clothing retailers do, particularly when they have a fledgling presence in overseas markets.

3. Start small and work up

This is a mantra all retailers looking to expand abroad would be wise to take heed of.

"If you are going into a market and you are testing the market, it is quite a good thing to use a third-party supplier," advises Martin.

"Those agencies are going to be increasingly important," adds Ray Gaul, vice president of research and analytics at Kantar Retail.

> **"When retailers seek international expansion, they need a logistics partner who has a global network and local expertise"**
> **Robert Berger, Kerry Logistics**

"They do everything; property development for the retailers, manage the staff, manage the stock, distribution – what they do not do is design of the stores, visual merchandising and marketing."

Successful logistics service providers help retailers "enhance their supply chain efficiency, reduce overall costs and improve response time to market" by offering highly customised supply chain solutions, Gaul says.

They also play a vital role in "dealing with trade disputes, quota issues, customs and quarantine procedures, ever-changing trade and tax policies and emergency measures," according to Robert Berger, executive director of Kerry Logistics (Hong Kong). "When retailers seek international expansion, they need a logistics partner who has a global network and local expertise to sort out the best logistics solutions when products land in a new market," he adds.

Using a third-party supplier is certainly a safer way to start than extensive capital investment, and when they become more established, retailers can move to have their own teams in place.

"Depending on the market, the retailer may look to buy out the distributor over time," explains Gaul. "For the first three or four years you establish the brand, then over time when the business is built up, you buy the distributor."

4. Be careful when it comes to returns

"Simply applying the returns process that has worked in the UK won't wash once you leave these shores," says Andy Richley, marketing manager at software specialists Khaos Control.

One of the biggest pitfalls that UK multichannel retailers experience when expanding into the United States, for example, is the unexpectedly high cost of processing and handling returns.

"Consumer rights in the US mean that returns must be paid for by the retailer," Richley explains. "That means that if a customer from Connecticut is returning an item to you in the UK, then you will have to foot the bill.

"This often leads to multichannel retailers selling into the States choosing to simply refund and write off returns, rather than worry about getting goods back."

5. Be wary of 'unseen' challenges

These come in various forms. For example, Martin warns of large capital investments in more volatile countries where the risk of having to write off that asset might be high.

Retailers must also be aware of the unpredictable impact of natural disasters and humanitarian crises, such as the ongoing influx of migrants moving into south-eastern Europe and recent terrorist attacks, leading to supply chain delays and a need to reassess inventory strategies in the future.

There are also political issues around Brexit that need consideration, Martin explains. "You could end up paying a tariff to get things into the UK, a tariff to then send it to a customer in the EU, then a tariff if that customer sends it back to the UK," he says.

Due to this triple tariff, Martin believes it's vital that retailers set up regional distribution centres. Technology can also be a major concern. Different countries are at different stages of technological development and so a desire to get a clear sight of stock and supply chain can be thwarted when using a third-party logistics provider unless you are careful.

Gaul says retailers therefore have to insist partners use the technology they specify.

For retailers still unsure of the urgency of getting every single priority above absolutely right, just consider the implications when you don't.

Time and time again, retailers' plans to expand and dominate in international markets have resulted in failure a few years later.

Think about these well-known brands: Tesco ditched its US venture Fresh and Easy in 2013, and Kingfisher sold a controlling stake in B&Q China in 2014 after failing to gain traction there. Don't be one of them.

Osborne Clarke

Jeroen Lub, partner, The Netherlands, Osborne Clarke

"As businesses increasingly eye up cross-border expansion, the saying 'think globally, act locally' has never been more important.

"Traditional supply chains have focused on local distribution arrangements, but today's complex international supply chains revolve around global trade compliance, ecommerce and multi-jurisdictional consumer regulations.

"European laws are adapting to address the interconnected and interdependent supply chain landscape. For example, the roll-out of the Digital Single Market strategy seeks to harmonise consumer laws across Europe, but there are wider variations, such as those in the US, that need careful consideration.

"Growing a worldwide omnichannel offering will require businesses to navigate these varying regulations, and this needs care.

"In the EU, we've seen increasing enforcement against retailers where consumer laws, such as the Consumer Rights Directive, have been breached over the past year, so anyone expanding cross-border needs to understand the markets they're entering."