Kurt Salmon

Positioning Your Delivery Network for Peak Season Success

For nearly every retailer, the fourth quarter is easily the most critical and pressure-packed quarter of the year. Sales performance is scrutinized, customer service is publicized, and the leaders use strong fourth quarters to further distance themselves from the competition and differentiate their respective brands.

Fourth quarter sales spikes are especially prominent in the e-commerce realm. Retailers' Q4 online sales make up a significant portion of their yearly online sales: from Amazon (36%) to Macy's (33%) to Kohl's (44%) to The Gap (31%).

And as online sales grow—Forrester Research predicts they will increase 62% by 2016—volume will only continue to increase.

As a result, many retailers are feeling heightened pressure in Q4 to get orders to customers quickly and cost-effectively while maintaining the highest level of customer satisfaction.

To meet the growing need in Q4 without overspending on distribution costs, leading retailers are taking a holistic approach to capacity planning for peak season. There are three key variables involved in the planning process: projected volume, facility capacity and service expectations.

1. Projected volume

First, it's important to understand how much volume a retailer may need to handle during peak season. Volume can be projected based on the number of units and orders a retailer currently handles, incorporating larger industry trends and specific customer insights. Factor in units per order, value-added services, promised delivery dates and corresponding shipping services to most accurately forecast unit and order volume growth.

2. Facility capacity

After determining projected volume, the next step is determining a facility's capacity. There are two different considerations when it comes to capacity: storage and throughput. Start with an examination of the space and storage available in a distribution center, and then determine the number of shifts a retailer can financially support during peak season and the number of hours per day the facility will be operational. Factor down this calculated number approximately 10% to 20% to reach an accurate estimate of capacity.

3. Service expectations

Oftentimes during the holiday season, retailers promise faster delivery speeds or free shipping, but it's essential to ensure that a retailer can actually deliver against these promises. Based on service expectations, determine which shipping methods and carriers are needed to get orders to customers on time given facility processing rates and feasible throughput.

Of course, all shipping decisions also need to keep profitability in mind. If a given shipping promotion is sapping margins without being offset by increasing sales or customer loyalty, it may warrant a second look.

The combination of these three factors—projected volume, facility capacity and service expectations—should form the foundation in planning for peak season while ensuring the distribution center will meet a retailer's needs throughout the year. If the math does not work out, one or more of the components need to be adjusted.

As an example, a $5.7 billion upscale lifestyle retailer and wholesaler realized that it did not have sufficient capacity to meet forecasted growth, so the company embarked on an examination of four pick-and-pack design solutions—manual, unit sortation, put to light/put to store and goods to person—to identify the option that afforded the most flexibility. The resulting choice improved throughput by 40% while reducing labor costs by more than 30%, which saves the organization over $860,000 annually and enables easy and efficient responses to changes in demand.

Once the equation is set and the plan is in place, it needs to be tested before peak season. Even for mature systems, volume or stress testing is crucial to ensure that the plan leaves little chance for failure and that managers know how to react to issues which may arise.

One department store retailer tests its plan each year by slowly ramping up volume across test days in August and September, simulating higher and higher volumes until reaching full peak testing in October. By focusing on key metrics like hourly processing capacity, direct labor productivity, equipment utilization and order profile demands, the retailer is able to quickly identify which elements of its plans are working and which need to change. In 2011, the retailer met customer satisfaction levels and reduced its split shipments so dramatically that it realized an ROI of over 100% on its systems and staffing changes.

With the current trend of double-digit growth in online sales, and increases in Q4 volume specifically, any peak plan will have to be readdressed—and retested—year after year. Leading retailers have their plan in place by the end of Q2 and use Q3 for testing, revising and implementing the plan, including hiring and training, before the Q4 rush arrives. ❖

SUCCESSFUL PEAK DESIGN

VOLUME

- Units
- Orders

CAPACITY

- Labor
- Equipment
- Storage

SERVICE

- SLAs
- Shipment prioritization

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Kurt Salmon is the leading global management consulting firm specializing in the retail and consumer products industry. We leverage our unparalleled industry expertise to help business leaders make strategic, operational and technology decisions that achieve tangible and meaningful results. For more information, go to www.kurtsalmon.com.