



# E-FULFILMENT – Learning from Europe / UK for competitive advantage in South Africa: A Synopsis

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## Introduction

Europe, and especially the UK, has experienced an explosion in e-commerce during the past 10-20 years. This has placed stress and importance on quality fulfilment of customer orders and the associated returns in certain sectors. Lessons have certainly been learned and improvements / developments continue to be made in a never-ending quest for improved efficiency and effectiveness.

This paper and the associated slide presentation looks at both food and non-food e-fulfilment and raises several key issues and themes that might benefit companies in South Africa as they either start out on or are forced to participate in the e- and m-economies.

However, in looking back in recent history or seeking to copy others, care must be taken to ensure sufficient local tailoring of options is undertaken to ensure a fit-for-purpose solution is derived. This paper attempts to offer information and food for thought that might prove to be useful as your business plans for e-commerce over the next decade develop.

## Context

Clearly, there are significant differences between Europe / UK and South Africa. Some of the major ones that affect e-commerce planning are:

- Internet usage and especially smart phone coverage
- E-commerce adoption and penetration driving customer experiences
- Payment methods
- Transport infrastructure and geographical scale
- Labour availability

Despite the obvious differences, there are other areas where there is a closer similarity, such as the growth of mobile technologies and solutions such as Click and Collect

Even the top 10 European e-tailers are seeing marked differences in terms of annual growth, driven mainly by strong competition between each other via speed and customer service.

## UK Retail – Food and Non-Food

We are in the middle of an m-commerce revolution in the UK and Europe and, arguably, South Africa. From analysis, it appears that every ten years there is some form of retail paradigm shift, dating back to the 1950s, with e-commerce from c2000-2010 now increasingly being superseded by m-commerce. Grocery or Food E-Retail has seen huge growth in the UK since Tesco started the ball rolling back around 1996. Since then there have been several step changes driven again by customer expectations and efficiencies. This is continuing to change with new companies and models being introduced.

In the UK, this evolution has produced an environment with seven long working days, ever tighter delivery time slots and free deliveries. This is the result of a staged development of service models, each building on its predecessors.

The rise of the grocery discounters, such as Lidl and Aldi continues in terms of store retailing. These companies, however, are not yet showing on the e-fulfilment radar. This is due to their smaller range sizes and smaller stores, but never say never when it comes to e-retailing and do not be surprised if they come up with some model in the near future. Food is also witnessing the rise of e-food specialists

offering a range of niche services and products, which are gaining wide acceptance, especially in the larger urban areas.

Non-food has a separate series of challenges in addition to those of food. Smaller, parcels sized deliveries are again seeing service being driven by consumer choice, convenience, communications and cost. Late cut-off times today for delivery tomorrow to most postcodes in the UK is now the norm and increasingly same day deliveries to larger urban areas with say a 2-3pm cut off for delivery up until 11.30pm the same day. This is being driven mainly by Amazon and is placing great stress on more traditional fulfilment networks, justifying major capital spends by some players.

This need for speed is driving much shorter order cycle times in the distribution centres, resulting in greater use of technology investments as it is not possible to rely on labour alone to handle such volumes during a relatively short period of each day.

Larger item (2-Person) deliveries are also now being undertaken on a seven days week and late evening basis. This sector brings its own challenges due to the physical sizes of most products. Long lead times from often the Far East and poor forecasting resulting in inventory issues and hence costly total warehousing space.

Certain established retailers have left it late to enter the e-commerce space, choosing instead to be late adopters and watch how the markets develop. They are now playing catch up and see 33%+ of future sales coming from this channel soon. As a result, they are having to make major network changes, systems changes and investments in total if they are not to be left behind in the race for consumer share of wallet.

More recent models have included the rapid rise of Click & Collect, which offers important synergies with retail fulfilment operations as well as driving store footfalls plus Pick Up Drop Off (PUDO) models where long hours of availability and large numbers of available locations are key to its success.

One of the major issues facing non-food and especially sectors such as fashion clothing is returns.

Customers expect to be able to return unwanted goods for free, often selecting too many deliberately and retaining only one or two. Speedy processing makes sense from a working capital perspective as well as crediting customers quickly for them to re-spend with the same supplier.

After 20 or so years, the major UK / European e-tailers still face some considerable challenges, mainly around consumer / customer attraction and retention plus business profitability. There is a focus on market share and beating the competition, often at the cost of true business profitability.

### **What does this mean for South African companies?**

There is a myriad of lessons and experiences of other to consider. Deciding whether to adopt a more cautious approach or be aggressive and so offer better customer service is an important decision to be made. The timing of such decisions is also key as often investment lead times can be measured in months or years, so predicting when and how to jump in can be difficult to judge.

What today does increasingly offer is the use of proven technologies to address issues such as labour reliability and availability as well as rapid increases in volumes. Some of these technologies were not

available when the more established companies started out with e-fulfilment, so should not be ignored when planning for the future.

Arguably, the larger urban areas represent good starting positions due to the sheer geographic size of the country. In non-food especially, having a sensible and competitive policy for returns management is essential for profitability reasons and understanding the fulfilment consequences of marketing ideas and initiatives, as ever, requires brand and total business alignment.

## Amazon

No talk or discussion on e-commerce can ignore the huge impact that the inexorable growth of companies like Amazon is having. Global growth continues unabated and, arguably, it is only a matter of time before Amazon or another arrives here. The total model is changing the ways consumers purchase, be that Alexis or the wider Market Place model resulting in a huge choice, convenience and speed of delivery, which others are struggling to compete with.

Amazon fulfilment centres also employ hundreds of people and can affect all local labour markets irrespective of whether those local companies are in e-commerce or not.

Amazon is also not the only threat. Companies such as Alibaba and JD.com are indeed larger players by some way.

## Summary

To conclude, I would like to suggest five key success factors for you to consider as your plans for e- or m-commerce develop or grow:

1. Consider technology and how it makes your total customer proposition more competitive. Front end such as web sites must be easy to use. Mobile procurement must be instantaneous and easy to use. This is where significant investments have been made first but the back-end logistics systems and technologies tend to be left until later, which can result in sub-optimal service
2. Control total stock or inventory before it kills you
3. All aspects of after-sales service, ranging from policies to consumer communication should be at least competitive if not better. Attracting consumers is difficult, losing them is easy and re-attracting them is doubly difficult
4. Select delivery partners carefully. They will be representing your company with the final deliveries
5. Finally, always look ahead in terms of growth and the need for expansion or change as the lead times for such can be considerable and if not made can see performance suffer.

Thank You

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**David Bingham** has over 25 years of supply chain consulting, IT and project management experience. David has designed, developed and implemented logistics and supply chain solutions for many clients across a range of industry sectors. He has international experience, including USA, Europe and the Far East, where he has worked for retailers, wholesalers and manufacturing companies. David brings a pragmatic approach to solutions, based on his operational and full P&L roles as well as his broad consulting background.