

Direct to Store Shipping:

Can it deliver **on time** and **cut costs?**

BY JULIA KUZELJEVICH



Retailers who are looking to fine-tune delivery times and cut transport costs could soon be turning en masse to an increasingly trendy option in logistics: the direct to store (DTS) delivery model.

While not universally suited to all SKUs, the model offers considerable advantages to retailers in an era of shrinking FTL capacity and rising fuel costs.

Direct to store distribution in effect bypasses the distribution centre entirely, unloading the contents of a container at a deconsolidation facility near a port of entry, and from that point heading straight to a store.

At the Supply Chain and Logistics Canada's recent annual conference, a panel of experts, moderated by RSM Richter management consultant Eric Matusiak, discussed the DTS model's potential and proven benefits and challenges.

Low cost country sourcing has added links, costs and complexity to the supply chain, said Ryan Persad, national manager of global supply chain services with Purolator Courier Ltd., and specific issues have emerged like bunker fuel increases.

Many of Canada's major retailers, meanwhile, are facing increased dwell times at Western ports, unpredictable rail service

during winter months, shrinking FTL capacity and rising fuel costs for inland transportation.

DTS modeling is a solution that can take several directions, said Jim Bookbinder, professor at the department of management sciences at the University of Waterloo.

"Making shipment consolidation decisions along the lines of direct to store can be analogous to cross-docking. It's a process of which SKUs are more suitable for direct shipment."

It's also a question of geographic split and distribution of the product, added Persad.

There has been a shift of buying power to Western Canada, so moving product off a container to an East Coast facility and back out west doesn't make sense.

"There are many different variables, based on what you're trying to send," he said. "Your fuel surcharges from a DC bypass can result in less (overall cost)."

According to Michael Scott, senior director of Logistics for The Source by Circuit City, if a company has no DC's in Western Canada, a direct to store option can prove most beneficial.

"Due to congestion at ports for the past couple of months, it has been 12 days before we see a container from Vancouver and then add up to six days to get product out," he said.

Scott projected that going direct to store would reduce time to market by up to 10 days for the Western Canada stores, reduce spatial requirements for both DC and stores, reduce expensive express and expedited courier costs on the heaviest, bulkiest, and fastest moving SKU's, improve in-stock position of these SKU's at the store level without the need to overstock, and improve the contribution margin of these SKU's.

Impressive promises, but how is the actual delivery?

Scott said he is starting to ship more by courier as the courier fuel surcharge comes in at less than an LTL fuel surcharge. He will

even ship out from Vancouver to all stores in the country by courier.

"We're finding that the savings are advantageous versus bringing a container into Barrie and shipping out by courier," Scott said.

The Source by Circuit City has a spread of 62 stores in British Columbia, 49 in Alberta and 12 in Saskatchewan.

Scott presented a scenario in which, using direct to store shipping vs. shipping through the company's Barrie, Ont., headquarters for distribution, netted a savings of \$1,433 and an arrival time in the company's B.C., Alberta and Saskatchewan stores a minimum of seven days quicker than through the Barrie DC.

"Many Eastern-based retailers say costs are 25-30% higher to operate a DC in the west of Canada, and that they would prefer to optimize their transportation first," Scott said.

He said that The Source by Circuit City's "home theatre in a box" product, for example, is something that lends itself ideally to the direct to store process, as does a container shipment with one or two different SKU contents.

In terms of ease and flexibility of drop off and visibility, Scott said he uses a "one to show, one to go" model that offers a 25-store regional visibility with a returns path to the Barrie, Ont. headquarters.

"Once you save time in the supply chain you have days to play with to leverage and expand the window of opportunity at the port," Persad said.

"The benefits of direct to store outweigh any minor disadvantages in service failure. The time savings allow for recovery of any potential service issues," he added.

Direct to store does present some challenges in the supply chain on the communication and coordination side, especially at the store level.

"There is a lot of follow-through," said Scott, who noted, however, the benefit of a

reduction in inventory turns.

"It's getting harder and harder to hire warehouse staff. DTS is one method of easing this issue."

Where will the process evolve to from here?

For now, says Scott, the DTS process he employs remains a sort of manual, Excel spreadsheet-based, low-cost operation, but he predicted that up to 18% of his company's distribution could soon be handled through DTS, which would necessitate some longer-term planning. For example, in the case of consolidating in Asia and shipping to store, "it will probably evolve to that but the current model is meeting demand as they go along. That model would need longer forecasting and a bigger team." Scott says.

The DTS option definitely changes the interplay, noted Bookbinder, between transportation costs and inventory costs.

"Inventory costs are going to be a little less important," he said. "The benefits to direct ship may be more favourable than they might have been," he said.

In terms of future growth of DTS, Bookbinder said this will largely depend on whether companies will continue to source as much overseas, the state of the Canadian dollar and the cost of fuel.

"Quantifying these would help forecast the rise of DTS. For example, it could double in the case of a Canadian dollar that remains at current levels, with fuel at \$1.50/litre and in the case of increased sourcing from China." CT&L



Features Editor Julia Kuzeljevich has been writing about supply chain issues for seven years. Her meticulously researched articles have garnered several Canadian Business Press Award nominations.