



whose **job** is it
anyway?

After spending the past decade pushing their suppliers to provide value-added services like putting tickets on the merchandise, retailers are beginning to wonder if they should bring those tasks back into their own DCs.

THE CONVENTIONAL WISDOM AMONG RETAILERS says that when merchandise arrives at a store, it should be ready to roll—right onto the selling floor, that is. For more than a decade now, retailers have been asking suppliers and in many cases, the manufacturer, to provide so-called “value added” services—adding size and price tags, putting garments on hangers and otherwise packaging shipments to allow goods to flow right through the retailers’ distribution centers and out to the stores.

But now some retailers are questioning whether they’re giving up too much control of their own inventory when they push those services upstream. “The larger players have realized they were giving up flexibility,” says Patrick Eidemiller, vice president of consulting services for SDI Industries, a consultant and material handling systems integrator.

The latest thinking has it that in times like these, with the economy bumping along the bottom, nothing counts more than agility. The longer you can wait to make a decision on a product—which store it will be sent to, what kind of packaging it will have—the better off you’ll be. Though the retail industry has yet to reach anything resembling a consensus on where that work should get done, several players are stepping back and looking at their options.

Winds of ware(s)

If retailers do begin taking back these tasks in significant numbers, the story, in some ways, will have come full circle. “Prior to 1990, value-added services were a function of the retailer,” Joseph Giudice told the audience during a panel discussion at last month’s National Retail Federation Big Show in New York. In the old days, retailers did the ticket-

ing, size sorting and other steps needed to make goods floor ready at their own DCs or at the stores, said Giudice, who is vice president of distribution and logistics for Liz Claiborne. (That \$4 billion fashion design firm’s products are sold at more than 26,000 locations around the world.) “The wholesalers’ biggest responsibility was the quality of product, which was shipped in bulk.”

That began to change early in the 1990s. “Retailers wanted to operate cross-dock facilities,” Giudice said. “They wanted goods to shoot through the supply chain and onto the floor as fast as possible. The [prep] work was pushed back on suppliers like Liz Claiborne and we pushed a lot of it back on the factory.” Typically, wholesalers took on responsibilities such as standard packaging, application of UCC-128 bar-code labels, advance shipment notification and quality control. Factories became responsible for size tags, standard hangers and floor-ready packaging.

But today things are changing again. “We’re moving away from product services to information services,” Giudice reports. “Retailers are requiring more information—particularly automated information flowing through the product side and the logistics side—as they shorten the shipping windows. In the meantime, cycle time reduction continues to be very important. The longer you can wait to make a decision on product, the faster we can react and the better off we’ll be. We’ll have fewer markdowns and be more profitable.”

Taking the controls

That desire to postpone decisions regarding how goods will be allocated to stores until the last minute is leading some retailers to re-evaluate who should have charge of

the value-added services. And many are deciding it makes sense to bring back more of those services into their own DCs.

One of those companies is J.C. Penney. The retail giant is currently working with SDI to develop a network of 14 new distribution centers, known as store support centers. Though suppliers will still be responsible for many of the value-added services, J.C. Penney decided to invest in the DCs at least in part because it wanted to regain control of when and where products are distributed. Each of the new DCs will serve 100 to 200 stores in the J.C. Penney chain of more than 1,000 stores.

A big part of the new network's attraction is that J.C. Penney can postpone allocating goods to stores until very late in the process. Vendors ship goods to the facilities in bulk. While most will be pre-allocated for particular stores, merchandise can be earmarked for particular stores very quickly in the highly automated facilities. As SDI's Eidemiller puts it, "They can change on a dime."

One size doesn't fit all

Though some retailers wax enthusiastic about the value of bringing these services back in house, not everyone has taken up that banner. "What we're seeing depends on the retailer," Eidemiller says. "Certain players are moving strongly that way and others are moving harder to make vendors do it."

The "let's get the vendors to do it" camp includes Goody's Family Clothing Inc., a \$1.2 billion retail chain based in Knoxville, Tenn., that operates 330 stores in 18 Southern and Midwestern states. "We're pushing services back up the supply chain to move more expeditiously through the DC," reports Mike Bryant, vice president of distribution and logistics for the chain.

Goody's operates one distribution center in Knoxville and a newer facility in Russellville, Ark. Bryant says that roughly a third of the inbound cartons arriving at the DCs are pre-marked for specific stores. Vendors apply the UCC-128 labels and provide the DCs with advance shipment notices. "We try to drive as much of the service as possible to the manufacturer or whoever we bought [the merchandise] from," he says. At this point, 90 percent of the goods coming through the DCs are pre-ticketed, while 100 percent of its private-label products (about a quarter of all the goods) are pre-ticketed.

The Russellville facility, which opened in January 2001, is a highly automated building that uses a sortation system and barcode readers to move inbound goods to the

correct location quickly. "We put the emphasis on the receiving," Bryant says. "When a person puts a carton on the conveyor, it does not touch the ground until it hits shipping."

On demand

Not surprisingly, this trend has forced some rather sweeping changes on manufacturers. "Ten years ago, we would ship to a large DC and be done with it," says John Forbes, vice president of operations and administration for Citizen Watch Co. of America, the world's largest watch manufacturer. "Today, many shipments move directly to customers' stores, and we make it completely floor ready." That trend began with the biggest retailers, he says, but now even the smallest stores are demanding those services.

As a result of demands for value-added services like tagging and specialized packaging, Citizen has had to make some big alterations to its own distribution system, Forbes says. "The lot size in manufacturing is very large with a long leadtime. Retailers want shipments on short notice. The packaging is tailored for them. More importantly, what they order is configured for them. We can't do that at the factory with a leadtime of three to four months."

Forbes reports that he has been able to work with customers to simplify their demands on his network. For example, he says, Citizen has persuaded customers to accept a standard label. "We had close to 25 configurations," he

Menlo gets slice of Nike Golf's business

Manufacturers, wholesalers and retailers may not think anyone can provide value-added services on a par with their own, but some enterprising companies are out to prove them wrong. Third-party contract logistics providers (3PLs), which have from the outset touted their assembly and information services, want the world to know that 3PLs represent another link in the supply chain where value can be added.

Take Menlo Worldwide Logistics, a major 3PL, which recently ironed out a pair of service agreements with Nike Golf. Under those agreements, Menlo will provide a number of distribution services for the Nike division, which introduced its first golf clubs last year.

The first agreement calls for Menlo to manage the assembly of built-to-order golf clubs at Nike's custom fitting and assembly center in Tigard, Ore., in addition to providing distribution services. Those services include component inventory management and finished-goods export.

Under the second agreement, Menlo is staffing a 234,000-square-foot distribution center in Memphis, Tenn., where it will manage the North American distribution of Nike Golf apparel and accessories. Should these agreements work out according to plan, Menlo hopes to find itself in a fair way of obtaining a bigger share of the lucrative value-added services market.

says. “We’ve gotten it down to one. That’s done a lot to speed up the process.”

Though retailers’ efforts to push value-added services upstream have forced managers like Forbes to scramble and created consternation among many retail suppliers, who see it as an attempt to push costs onto them, many recognize that it’s not necessarily a bad thing. “Though it started with the customer trying to save costs and trying to cut complexity by pushing it back through the supply chain,” Giudice says, “wholesalers and manufacturers are realizing that there are also benefits—reduced inventory and reduced markdowns. If you start with the premise that the price of entry is the right product, then logistics sophistication, IT sophistication and the proper technology can be a competitive advantage.”

Mixing it up

Then there are the retailers that want to have it both ways—pushing some value-added tasks further up the supply chain, while taking back control of others. One of those is Footstar, a \$2.4 billion company that operates Just for Feet and Footaction retail stores and 6,500 licensed footwear departments in other stores. What Footstar has found, says Jim DeVeau, senior vice president of logistics, is that different business segments require different business models.

For regular footwear products, DeVeau is making every effort to move more of the value-added functions back toward manufacturers overseas. “We can do things a lot cheaper in Asia than in the United States,” he says. “We do prepacking to get store ready in Asia now. One of the things we’re looking at down the road is floor-ready displays.” The ability to push more value-added tasks back to the source, he says, only awaits implementation of World Trade Organization regulations on ownership and partnerships.

But the story is entirely different where fast-moving popular athletic footwear from suppliers like Nike and Adidas is concerned. “In the athletic business, when there’s a hot product,” DeVeau says, “they only make a certain amount of select products that are designed to sell out quickly. The key to competing in this market is who can ‘out-logistics’ the other person. We want to take control further upstream to get goods to the stores faster.” □