



Creating Brighter Solutions

Direct Despatch: A question of balance

Direct Despatch (also commonly referred to as 'Drop Ship') is an important weapon in the armoury for retailers that want greater flexibility over order management, says Evan Puzey, Chief Marketing Officer, of Kewill.



One of the fundamental challenges facing a successful retailer in any market, particularly in a downturn, is how fast they can turn inventory into cash. The retailers that performed well after an otherwise poor Christmas in 2008 demonstrated that they could afford to offer their customers the best possible prices and yet still manage their costs for profit.

Among the many strategies employed by retailers to convert stock into cash is Direct Despatch. Widely employed by small to medium size catalogue retailers that want to limit the amount of cash they have tied up in stock, the model is becoming popular with larger retailers, across stores and ecommerce platforms.

Retailers would once have been concerned, and rightly so, about losing control in the Direct Despatch world; companies with strong, well-established brand names are reluctant to hand stock management and fulfilment to suppliers without demonstrable evidence that this can be handled effectively with no erosion to reputation. Moreover, the shared systems and processes to ensure that an order was fulfilled to the satisfaction of the customer, simply once did not exist.

In fact, now that customer service is recognised as even more critical during a recession, and encouraging the customer to spend is harder than ever, one would not expect Direct Despatch to find favour. And yet, more and more retailers are either considering Direct Despatch, trialling it or rolling it out for certain categories. Why is this?

The cost savings alone do not justify this trend towards Direct Despatch. There are other dynamics at work. First of all, the very companies with strong brand names are recognising that online retailing lends itself to Direct Despatch. Unlike stores, web sites can display and demonstrate much broader and deeper ranges – be it sofas in every fabric and colour, bulky items such as garden sheds, fashion brands with their homewares extensions, and goods offered by partners that have not been scheduled for stocking in the store for that particular season.

From there, some retailers are even expanding store ranges, by using kiosks to display non-stock items in an attractive way for either ordering on line, in store, or for viewing for subsequent ordering through store staff.

While the front end is relatively simple to build and display, it is the logistics that offer retailers the biggest challenge, and yet the systems and processes to enable orders to be fulfilled by the supplier can now make this process simple and secure, as well as guaranteeing the promise that retailers make to their customers.

In moving to Direct Despatch, retailers have two major areas to consider – the reengineering of processes and redeployment of staff from warehouse to Direct Despatch. Most tend to take this step by step; they will pick a particular area of their business where Direct Despatch can make an immediate impact and use the lessons to apply to subsequent implementations.

Retailers must also commission the best possible systems to manage the order fulfilment process. In this, major breakthroughs have been made in the last 10 years. Existing EDI networks have now developed to the point where retailers and suppliers operate as partners within an intimate community, where stock management, orders, promotions, pricing and labelling and returns can be managed with a large degree of automation, backed by alerts to ensure that exceptions can be ironed out before they impact the customer.

These systems can also impose a single version of the truth across all channels to market – store, Internet, mail order – so that it is the customer order that is managing the way that the retailer and the supplier's supply chain reacts.

Direct Despatch brings benefits to all parties. Customers are offered a wider selection of goods delivered through the channel or channels that suit them best and response is rapid. Risk is dramatically reduced for the retailer, who no longer has cash tied up in stock that he may not be able to sell – although some retailers will do deals with suppliers to ring

fence a certain volume of stock so that they know that customer demand can always be met. For the supplier, they can increase their market reach and build a network for fulfilment that will make them more attractive to other retailers they are hoping to sign up.

Both the retailer and the supplier have greater visibility of orders and stock by using an automated Direct Despatch system; this enables them to forecast activity much more accurately by analysing previous performance, monitor current activity and plan promotional activity much more quickly to meet market opportunities.

Is Direct Despatch too good to be true? Of course not; there are trade offs, in terms of control over stock levels and the risks attached with working with a third party, but if these are properly understood from the outset, then they can be built into the process; returns for instance, that can present a major headache to retailers, can be built into the order process so that margins are not eroded.

It is also not a panacea, tempting as it is to suggest that retailers could in time quit warehousing altogether. It is in the balance that growth and profitability lie and it is the systems now available and proving their worth globally, that will help retailers to decide where this balance lies.

More Information

If you would like to understand how Kewill can help your direct despatch business model, please contact us using the details below.

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