Collaborate and consolidate

Retailers could reduce excess inventory and improve their bottom lines.

With 2014 growth of 3.1 percent, U.S. business logistics is now a $1.45 trillion industry, according to the Lombard, Ill.-based Council of Supply Chain Management Professionals (CSCMP). Statistics come from the CSCMP's 26th annual "State of Logistics Report," revealed in the association's June 24 edition of *Supply Chain* (Quarterly).

CSCMP reports that 2014 was the best year for logistics since 2007, crediting falling unemployment, low-to-moderate inflation, declining oil prices and modest increases in real net income and household net worth.

The cost of operating the nation's business logistics system amounted to approximately 8.3 percent of its gross domestic product, according to the report.

Trends with traction

Retailers must always think about how to improve their margins, and excess inventory has a significantly negative impact on those margins. Excess inventory is usually the unwanted result of having to purchase a "minimum order" so that the retailer can get a price low enough to compete effectively in the marketplace.

More than a decade ago, "the world's largest retailer figured out it could reduce its unwanted and unnecessary inventory levels by establishing collaborative consolidation programs with a third-party logistics provider (3PL) and its small- to mid-size consumer packaged goods (CPG) supplier community," recounts Colby Beland, vice president of sales and marketing for Santa Monica, Calif.-based CaseStack Inc.

Instead of having minimum order quantities in place for each supplier, the retailer created consolidation programs, which allowed it to eliminate minimum order quantities and move to weekly replenishment and smaller, more frequent orders, Beland explains.

"By leveraging consolidation, it allowed (the retailer) to get full-truckload pricing from the smallest supplier, even though they were ordering sometimes in single-case quantities," he says.

Consolidation solved two problems: It significantly reduced inventory-carrying costs and freed up warehouse capacity so more product could be handled without the need to build additional distribution centers.

Other retailers are just now beginning to realize the benefits of collaborative consolidation, says Beland, who predicts that significantly more retailers will bring consolidation programs into their supply chains to ultimately help improve their bottom lines.

Trends on the horizon

Competitive pressures between traditional brick-and-mortar stores and online retailers will continue, Beland says.

"The lines are more blurry than they have ever been, and the emergence of the ominchannel will continue to be driven rapidly by consumer expectations and demands for new delivery and pickup requirements," Beland adds.

The retail world is at a point that hasn't been seen in decades in this industry, Beland says. "The speed at which change and competition are coming into the market is forcing retailers to spend countless hours trying to determine what the correct 'go-forward' strategy is. Everyone knows the customer expectations and competitive pressures are changing, but it is still too early to tell what strategy will be the winning strategy."

Collaborative consolidation programs, Beland asserts, could improve retailer margins and buy them time to determine winning strategies. — *D. Cvetan*