INCREFF
Incredible Efficiency

EBOOK

Gateway to enormous logistics cost savings and faster deliveries

WHAT IS THE HYPE AROUND REGIONAL UTILIZATION?

This ebook covers insights on :

- How distributed warehousing helps in building supply chain resilience and cost-effectiveness?
- How to intelligently split inventory across a network of warehouses?
- How technology can help you build intelligence to achieve higher regional utilization?

..and much more

What is Regional Utilization (RU) and the hype around it?

Fulfillment of a **fraction of the total demand** from the nearest warehouse, or from the **second nearest warehouse** in case of capacity constraints of the first one.

Higher regional utilization results in **better visibility** and **higher conversion** on online marketplaces, **faster deliveries**, significant saving on logistic costs & lower rate of returns.

How distributed warehousing helps in building supply chain resilience and cost-effectiveness?

Supply Chain Resilience :

During pandemic times like today, **brands have started thinking** about their business model, product market fit, discounting, warehousing, supply chain and distribution strategy.

Looking from 2016/17 lens, order to delivery timelines were 5-6 days & brands served through a single central warehouse, fast forward to 2020, the **order to delivery time has reduced to 2-3 days.** This has been possible due to **distributed warehousing.**

During the pandemic, brands experienced a lot of challenges; shutting of stores, lockdown, reduction in supplies, etc. and a lot changed. Brands that had **resilient supply chains** were able to adapt fast, so the realization is that supply chains need to be flexible and **you need to have multiple regional warehouses** to respond to the consumer demand faster.

Cost Effectiveness:

Today **the biggest cost** of operating in ecommerce marketplaces or the company own websites is the **logistics cost**. It varies from **roughly 13-22%** of your sales basis, your regional utilization, average selling prices. Brands have experienced that **if RU is improved by 10%**, there's an average EBIT margin **saving up to 1%**, which is huge. In a wafer thin environment this industry operates in, **this 1% margin is huge** & can be invested in other activities like marketing, etc. This is only possible through **distributed warehousing.**

The **incremental cost** you will incur in setting up this new regional warehouse **will be lesser than** the additional logistic costs that you are incurring due to **poor RU.**

Consumers need instant gratification and super faster deliveries. This leads in **increased conversion,** higher sales and looking at it from a 360 degree perspective, **the savings is much more than 1% EBIT margin.**

What is the right time to go for distributed warehousing from single warehousing?

- **If you are a dotcom business or running a commission+logistics** commercial structure with a marketplace start thinking about **distributed warehousing** as a 10% improvement in RU will lead to **1% EBIT margin improvement**
- **If you have set up a warehouse with 99.5% SLA & a 99.85% fulfilment,** you have reached a maximum efficient & success with this warehouse, you now need to start thinking of **opening a new regional warehouse**
- **If your regional utilization has hit a roof of ~25-30% month on month,** start thinking about multi-warehousing

- If you are **incurring excessive l**ogistics cost, shipping cost, high delivery time, you must shift to distributed warehousing

- **If you have a commission-only commercial structure with a marketplace you feel there is no need for multi-warehousing** since you are not bearing logistic costs but other than savings on logistic costs, better RU results in increase in sales due to **better regional visibility & faster deliveries**. E.g. Amazon search page refreshes search results based on the location you choose. This is because they have experienced **2x higher conversion for retailers that provide faster deliveries.** So not just the bottom of the funnel but the top of the funnel also gets optimized due to distributed warehousing methodology. Many brands are still doing single warehousing but as businesses scale, from a profitability perspective they must switch to multi-warehousing

What is the minimum inventory when a new warehouse should be opened?

The warehousing model has changed completely, now there is no more requirement of a big physical space, getting racks, hiring people. Like we have SaaS, we now have WaaS, warehousing can be done on a per-piece basis. So not to think about massive costs or do you have a scale or not but about improving RU for faster deliveries and not get stuck due to logistical issues.

Warehousing should not be thought of from a physical structure point of view. Starting from small, you may incur Rs 8/10 per piece cost but overall benefits are much more. There is an increase in sell-thru and a reduction in logistics cost. So these both ads up to your top line and bottom line.

Cost Savings : There are **savings of 1-1.5% in EBIT margin** for brands due to logistics cost savings but there is a lot of scope for more growth. A number of **regions have not been explored by brands** e.g. east. And a lot of brands have **not made their way there from a warehousing & service perspective.**

Contingency : Pandemic taught resilience of supply chain is necessary. RU will bring contingency as a by-product.

How critical is RU?

RU is not fancy jargon anymore, it is the reality of life. It will enable you to reach customers faster. It is the necessity of the day. Looking at it from 3 angles :

Customer : if we try to analyze the Indian ecommerce consumer buying pattern, **instant gratification and impulse buying are huge.** While offline we have touch and feel, and instant gratification, **for online it means faster turnaround time**. A lot of brands have started omni-channel to increase the speed of reach to the consumer, there is goodness in fast reach. There is a **direct strong correlation** between shortening turnaround time, faster deliveries and consumer happiness index. **Every shortening of 24 hrs** turnaround time leads to **2-3% increase in NPS** correlates to a **10% increase in customer satisfaction** score.

Why are many brands not intelligently splitting inventory across multiple warehouses?

Inventory distribution is not scientific right now. 2-3 months ago people were happy to see online sales growth and **not feeling the need for another warehouse**, now it's competitive online. While the data may give us a different story e.g. there's more demand from Delhi and less from North East, so open a warehouse in Delhi and not in North East. But that is **very limited data to base your analysis** on since you were hardly present in the North East. Hence **there is a lack of sufficient data to take the right scientific approach.**

What can be considered a good RU range?

Right now with the current situation for a **fast** fashion retailer, **a 50%+ RU is good,** for a **core** fashion brand, **a ~75% RU is good**. A healthy equilibrium needs to hit between **inventory carrying costs and RU**, which will give more data points and insights to decide what approach to take on further. For **fast fashion 50-60% is fine** but for **FMCG, groceries, etc 100% is essential**, it is not even RU for groceries, it needs to be the same city fulfillment.

However, **if you are below 25%** then there is definitely something wrong. **It means you are way off the place from where your demand is concentrated** and 90% of your deliveries are at a national cost. **Location is then your problem, not demand.**

How do brands do inventory allocation to different warehouses?

If a brand is more **strong in core or NOOS** then the allocation can be done **from historical data**, but for **fast fashion brands** where numerous new styles are launched every season, **historical data is not useful** for demand forecasting. For new styles, **you need a smart tech partner** that can help you amalgamate **historical sales data,** deep dive analysis on granular **product attributes data** and a regional understanding of **upcoming trends.**

For **fast fashion** brands, RU of **50-60% is good**, for a **core fashion** brand **~75% RU** is good.

For stock distribution to a regional warehouse, depending on capacity, while **core styles** may have **a 30-60 days replenishment** cycle, it can be **90-120 days for high width categories**. Every brand is trying to reduce the replenishment cycle from months to weeks.

If product width is high and depth is low, how challenging is distribution to multiple warehouses?

In the ecommerce business a lot is driven by **old season merchandise** (OSM), and this **OSM is mostly in cut sizes,** so cut sizes, with more width and less depth, **will end up predicting the wrong** regional demand for your different warehouses **if you don't have the right tech partner**. The tech partner can help you analyze demand basis, historical data, product attributes, and upcoming trends.

The inventory pipeline is also **not unlimited** and **will not be uninterrupted** replenishments from the factory. If you only have 10 pieces and you distribute them randomly then you will not gain enough. Same thing with **cut sizes**. You should **work at splitting the inventory** right. What has worked is based on **Pareto analysis**, long-tail products will remain at the central warehouse and the top 30-40 % will be mostly cores & inventory with good depth & higher Rate of Sale (RoS) should go to the other regional warehouses.

In case of **new product launches**, you should **distribute to multiple** warehouses, giving each style a chance to become a bestseller. **Use data points** to enrich your data and don't make decisions on a hunch. For **new season launches**, distribute based on **historical product attributes data** and let technology play an important role. **Use technology to learn** from the history of other brands, portals, similar product categories, similar set of product attributes. All this will help.

How technology can help achieve higher regional utilization (RU)?

The important basis of the technology is the amount of data that can be analyzed and used for RU determination. If they look at their **own data** to determine trends then **they will miss on a lot** of other valuable information. E.g. if I don't go to the east, I will not know much about it. **Technology can help us build that intelligence** on the basis of a lot of data and history across brands.

Technology can give **recommendations on forward demand** basis your supply chain capability.

Remove human decision-making errors. As humans, we will veto some decisions so we need to let the algorithm decide. **Let the algorithm give recommendations**, let it run live without manual intervention for 2-3 months without making arbitrary decisions, **technology will give the right go-to-market speed**, faster decision-making ability. Everything needs to be data-driven for the business **to reach higher RU and scale.**

Questions & Answers

Handling inventory returns & reconciliation is a big pain, can RU help in return management and making return products live quickly?

Yes! Inventory redeployment is going to **be faster with higher RU** and sales will be higher. Earlier returns processing took **45-60 days,** now that has reduced by **nearly 40%.** It will not impact reconciliation much as it depends on how strong the processes are built across the warehouses and does not depend on RU.

We have seen RU can take care of fast fashion brands, will it help brands that are highly core in nature?

100%. Core is limited width means limited risk. You have an uninterrupted supply means you have quick sourcing, everything has a 25%+ sell-thru each month.
70%+ RU is a benchmark here.

What is the difference in conversion when order to delivery time is 4-5 days vs 3 days?

As businesses expand and technology improves, **it will reduce further from 3 days**. This will get better. As discussed earlier, brands have experienced **a 10-15% basis point improvement** in conversion with **24hrs reduction in delivery time**.

Can we also target lower days of inventory holding with multi-warehousing and RU?

Yes for bestsellers. With RU it all depends on what you are distributing. If your RU is for **bestsellers**, your inventory turns will **increase**.

Predictive algorithms are a way to go. It's imperative to have patience and give technology time to understand data. **Let your data mature**. The days of inventory will **start reducing** in your system for all your products.

Challenges in distributed warehousing for products with higher width & lower depth.

If width is higher and cut sizes are higher then RU is difficult. Basically, there's an **inverse relation** between RU and cut sizes. From now on **MS Excel will bottom out** & we really **need to use technology to predict** fresh products, same as fast fashion.

How to ensure inventory holding does not go up with a new warehouse

Technology can help in setting the right constraints, ensuring **sending top 30% bestsellers**. Aim is to **achieve higher turns** & lower inventory holdings cost at **a national level**.

Are there any technology platforms that are helping brands achieve higher RU?

Increff IRIS RU is working with many brands to increase RU. It is a long process where we get to learn more with time but **with Increff we have started seeing results from Day 1**.

Post pandemic with the rising share of ecommerce revenue, will it create a greater need for multi-warehousing?

Yes absolutely, earlier a business which was a 2% of overall company's turnover, there was not much focus on profitability, but now this 2% is between 20-40%, it will make or break the company's financial. Hence now each and every line item needs to be looked at and logistics is very important. With an increase in scale, not going for multi-warehousing will be wrong. Multi-warehousing is unavoidable now. It plays a greater role in the larger scheme of things.

A lot of decision-making is done on an Excel basis, how does that need to change?

Excel captures limited data and there are **limitations on the codes** that can be put in it for analysis. So basically, with the amount of data and the logic to analyze that data, **Excel is just to watch the data** and **you need a tool to analyze** that data. Also, now we need to do a **multi-dimensional analysis** of large data going into granularity to every store, attribute and product level, **which is difficult and time-consuming on Excel.**

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Thank You

For queries, write to us at :

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