



## Logistics Association of Australia Ltd

### BUSINESS TO CONSUMER e-COMMERCE: LOGISTICAL CHALLENGES

The following is the fourth in the series of excellent articles from Emma Stringer, winner of the Logistics Development Award 1999 sponsored by CHEP Australia and supported by Morgan & Banks.

During my visit to the US last year, I visited Procter and Gamble and analysed their latest e-commerce developments. Like many other firms, Procter and Gamble have recognised the need to jump on the e-comm band wagon. In fact, unlike the other firms that I visited, Procter and Gamble had the view that they wanted to be one of the first to do so, in order to meet the demands of their customers and keep abreast of their competitors.

Procter and Gamble have adopted an interesting approach to meet the e-commerce business-to-consumer challenge. While recognising that there was a great demand to sell their products over the internet, Procter and Gamble recognised that the method in which they do so could either make or break the success of the challenge.

After researching their target groups, Procter and Gamble realised that customers were demanding a single point on the internet for buying their products. For example, someone wishing to buy detergent would not want to go to a detergent site to purchase their detergent, the customer wanted to go to a supermarket site and purchase all of their groceries, including detergent from the same site. While it could have been much easier for Procter and Gamble to sell products from their home pages, they realised that customers were not demanding this – they still wanted to have the supermarket experience, and while Procter and Gamble sell a wide range of products, it's not a supermarket's worth!

So, to achieve their goal of selling products over the internet from sites such as supermarkets, Procter and Gamble recognised the need to establish internet sales sites with members of their supply chain.

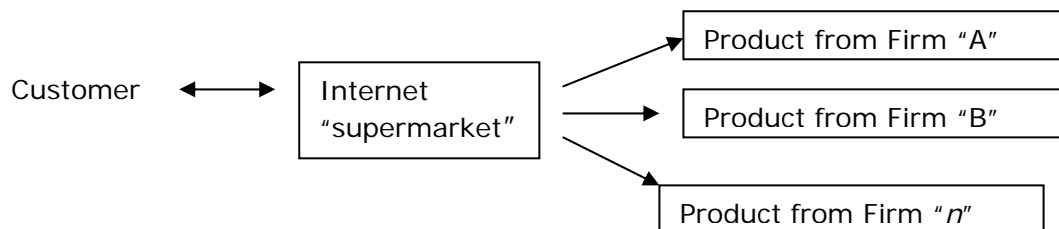
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#### **Procter and Gamble: The firm**

Procter and Gamble has a revenue of \$ 40 billion / year. They aim to provide products in the mid-high quality range, with the best price in that group. Procter and Gamble view technology as their key to competitive pricing in this quality range. Their product range of consumables, from Tide detergent to Pringles chips. Procter and Gamble are keeping away from perishables, but do have products in the juice market.

### **Procter and Gamble and e-commerce**

Procter and Gamble's use of the internet for consumer direct e-commerce is interesting. Procter and Gamble are not interested in selling their products on their own web sites. In fact, they don't. They believe that their customers want to buy the product in mass with other products they buy – i.e. they want to buy all of their groceries at once. As a result, Procter and Gamble are developing these sites directly with their retailers.



*Above: Procter & Gamble concluded that their customers want to purchase all groceries from a single site*

Procter and Gamble claim they have a global e-commerce strategy, consisting of a North American and a European team. These people act like a consulting group to retailers in their supply chain, except Procter and Gamble do not charge fees. They go to their retailers and try to help them set up the e-commerce facilities and the supply chain in order to enable internet sales. Procter and Gamble see this cooperation as being mutually benefiting.

Of a large manufacturer, Procter and Gamble have the biggest consumer direct team in the world. They assist their retailer with all aspects of the consumer direct e-commerce, even if it directly has nothing to do with Procter and Gamble. For example, they help organise things in the cool chain (for anything that is not kept at ambient temperature).

### **The logistical difference with internet sales**

One key concept that has to be acknowledged is that a grocery store is very different from an internet site. An internet site introduces a new set of dynamics, emphasis is placed on different things.

There is a potential for this e-commerce to cost less than supermarket – not Distribution Centre to store, less inventory, and it's cheaper to run a Distribution Centre than a supermarket. With these higher margins, personalisation and value can be added to the product. This e-commerce model also leans towards perfect Distribution Requirements Planning, because there are less channels, and less middle-men, and demand is more predictable.

Yet this all depends on volume – a high volume is needed to make it viable. Because of this, internet purchasing is starting up in only small, populated areas at a time. Currently online shopping for groceries is concentrating on small areas to establish efficiencies

Procter and Gamble hope that by the year 2007, 15% of their consumer base will use the internet for purchasing Procter and Gamble products. This will represent \$60-\$85 billion in revenue, quite an amazing figure, which is presented with several advantages and logistical challenges.

### **Advantages of using the internet**

- ☑ Decreased costs: cheaper to run distribution centre than supermarket
- ☑ Exploiting their recognised brand-names
- ☑ access to marketing information
- ☑ opportunity to sell small demand and customised products

Procter and Gamble believe they are favoured in consumer's use of the internet for purchasing their product because consumers who use the internet buy recognised brand names, which is a strength of Procter and Gamble. Using the internet to sell their product also appeals to Procter and Gamble because the firm can track the customer movements through the site – including the track that the customer follows and the time they spend on each page. Also, Procter and Gamble want to ensure their customers can buy the products how they want to, so if they want to buy it on the internet, they can.

It also provides Procter and Gamble with a good opportunity to sell their small demand products, such as premature baby nappies, which only special stores would previously stock because of the product's low demand.

Similar to low demand products, Procter and Gamble also gets the opportunity to sell customised products eg. the consumer is asked specific questions about the food they like and then they get their own coffee blend. This is also the same for their "reflect.com" internet site (subsidiary of Procter and Gamble), which asks questions about your complexion and then designs your own skin care product in a bottle labelled for you.

### **Challenges for Procter and Gamble**

Firms and customers have been slow to get into e-commerce because it is a totally different way of doing things and it takes away retailers own store sales. Procter and Gamble have found that the best way of storing inventory for the internet site demand is with Dedicated DC's designed solely for that. Using the supermarket has not worked because they are often out of stock.

Cross docks have been another successful variation of this model. This model was not very efficient in logistics and also not cost effective. They also tried customer pick-up at the supermarket of the internet order, but this was inconvenient to the customer. For most of these supply chain models used for e-commerce, the customer has to be home.

Customers are not willing to pay more for a product that they buy on the internet. Even delivery has to be free. The consumers see the most important criteria of the product they buy is quality. Amazingly, retailers are achieving this, even in perishables and fruit. The number one seller on the retailer's sites are bananas! And 40-50% of the products that are sold on the internet sites are perishable products.

Another important factor is that drivers have to personalise the service. They are the only human contact the consumer has with Procter and Gamble, so it has to be very good. Procter and Gamble thinks that currently, internet personalisation service in general is weak. For example, if you are a gardener, mail service is not personal. Another example is that one retailer were giving free Halloween treats in the shopping baskets this weekend. You can even buy and get deliveries on Sundays.

IT is very complex to support all these processes. Procter and Gamble are also consulting retailers on these choices: Procter and Gamble give them a list of good choices (more than one) for retailers for each area, such as WMS, TMS, Customer Relationship Management.

There is a potential for this e-commerce to cost less than supermarket – not DC to store, less inventory, and it's cheaper to run a DC than a supermarket. With these higher margins, personalisation can be added to the product (more value-added). This e-commerce model, also leans towards perfect Distribution Requirements Planning, because there are less channels, and less middle-men, and demand is more predictable. Yet this all depends on volume – a high volume is needed to make it viable. Because of this, internet purchasing is starting up in only small, populated areas at a time.

Procter and Gamble have developed tools to help firms to establish their internet sales operations. One of these is a financial model, to help retailers identify what it costs them to do internet selling. The retailer can put in their own constraints to make it specific. With this tool, the retailers can figure out the break-even point, minimum order sizes and so on.

Procter and Gamble have also developed a process simulation tool to identify bottlenecks and so on. This can be combined with the financial modelling tool to show how much the identified inefficiencies are costing.

Another of Procter and Gamble's challenges is to build synergy in consumer direct supply chain management. Each firm is doing its own little project, Procter and Gamble are keen to establish a standard and efficiencies across the supply chain.

Some present problems they have in the Consumer Direct area is that shopping is mainly done by females, computer use is mainly by males, and the e-commerce solution for females is designed by males.

Current challenges:

- Achieving concentricity in scalability, process and consumer
- customer has to be home to receive the delivery
- customers demand personalised service
- must maintain quality
- complex IT required

Procter and Gamble are one step ahead of the other firms I saw during my visit to the US. When Procter and Gamble see a need for technology, they are quick to work on the project, but slow to roll-it out (they like to test it in one small area first). The firm creates innovations quickly, yet monitors their progress and risk carefully.

One step ahead ...

Many other firms that I visited seemed to be struggling with ERP's or meeting demand, or getting their supply chain partners to use EDI. Procter and Gamble are the next step on, they have implemented SAP, have standardised processes, used technology to communicate throughout the entire supply chain. Procter and Gamble are now looking to enhance the technology in the supply chain by helping all parties set up, even if it is not all directly related to them Procter and Gamble (eg cold chain). This is true supply chain collaboration, and they are seeing the logistical advantages.

If you would like any more information about any of the issues I have raised in this article, I would be happy to help. You can email me at: [emmastringer@hotmail.com](mailto:emmastringer@hotmail.com)