

Understanding and analysing how next retail ltd (next) delivers its logistics



1. 1 Introduction

This report is based on understanding and analysing how Next Retail Ltd (Next) conceives, supports and delivers its logistics and the supply of its products. Next is an international company based in the UK that offers quality fashion clothes and accessories for men, women and children and home ware. It is a subsidiary of Next Plc which is listed on the London Stock Exchange. Next Plc's total revenue was £3. 4b in 2010 and profit before tax was £505 million (Appendix 1).

While Next Retail is present in over 500 stores in the UK and Eire, it manufactures its products outside Europe. For international companies like this, logistics and supply chain management is an important factor in the success of their businesses.

This report will describe and analyse Next's logistics and supply chain strategies. It will also attempt to understand the rationale behind these strategies and whether they have been successful. Based on the report findings, recommendations will be made.

The sources of information for this report will be mostly secondary; they will include the company website, company reports, economic reports, journals and textbooks. It is expected that a thorough analysis of this information will be sufficient to produce a high quality report.

1. 2 The nature of logistics.

There are several definitions of logistics depending on the nature of the organisation (Rushton et al 2006). For some, it is the management of all

activities which facilitates movement and the co-ordination of supply and demand in the creation of time and place utility (Heskett et al 1973 cited in Rushton et al). Rushton himself defined it as “ the efficient transfer of goods from the source of supply through the place of manufacture to the point of consumption in a cost effective way whilst providing an acceptable service to the customer” (Rushton et al 2006). It can be broken down into two major components materials management and physical distribution (figure 1. 1). The two components can be further broken down into transport, warehousing, inventory, packaging and information of goods and services.

The way that each company makes its decisions on the various aspects of logistics management is a function of many things such as the nature of products or services it offers, the countries in which it sources its materials and sells its products, the international and local laws and regulations, the type of customers it targets, resources available etc.

Figure 1. 1. A comprehensive diagram of logistics (Rushton et al 2006).

2. 1 Supply chain strategies

Supply chain strategies are different from supply management. They define how the supply chain should operate in order to be competitive. It is a process that has to be repeated in order to measure the cost benefits of the operational components (UPS 2005). Supply chain management, on the other hand, is the “ management of upstream and downstream relationships with suppliers and customers to deliver superior customer value at less cost to the supply chain as a whole” (Christopher 2004).

Supply chain strategies depend on the company's corporate strategies which are the blue print for what the company wants to achieve (Mangan et al 2008). The figure below shows how the logistic and supply management strategies depend indirectly on the corporate strategy and directly on the business unit strategy.

Figure 2. 1 The link between SCM Strategy and Corporate Strategy (Mangan et al 2008).

According to Mangan et al (2008), there are two major types of supply chain strategies; the lean and the agile strategies. With lean strategies, the emphasis is on reducing and if possible eliminating waste in the production of the goods and services e. g. there is no time lag in the factory and the products are ready 'just in time' for use. This strategy depends on having all the resources and information necessary for production and distribution; it also depends on being able to predict customer demands so that there is no waste of products.

The agile strategy pioneered by Christopher (2003) is borne of the fact that when there is high volatility in the demand and production process, it is not always possible to have accurate resources and predict customer demands. The agile strategy helps the business to be able to cope with any demands made on it by embarking on mass production and differentiation.

Both lean and agile strategies are not mutually exclusive and businesses can choose to use both of them for products with different lead times, product cycles and customer demands.

Next's supply chain strategies

Next's primary objective is to deliver sustainable long term growth in earnings per share and its business strategies to achieve these include:

Improve its product ranges

Increase the number of its customers and their average spend.

Improve product sourcing, reduce cost and manage stock levels efficiently (Next 2011).

The dominant buying behaviour of Next's customers is not always predictable because the fashion market is characterised by high volatility, low predictability and high impulse purchasing (Christopher et al 2004). Fashion stores used to change their stock only twice a year, with up to eight fashion seasons in a year, the stores have to constantly change their stock. In fact, fashion trends have been observed to last for only six to eight weeks (Collins 2003). This leads to complications in the supply chain for most fashion companies. The consequent volatility requires an agile supply strategy.

Mass customisation is one key technique in the agile strategy. This involves mass production of the business' products but configuring them slightly so that there are some variations in the products. The customers then have different products to choose from even though the products are essentially the same. Next adopts this strategy by offering mass produced clothes in variety of colours, sizes and styles to accommodate the differences in its customers' tastes (Next 2011).

On the other hand, as seen from its business strategies, there is a strong desire to reduce cost and manage stock levels efficiently. This corresponds to the lean supply strategy which eliminates wastes and increases efficiency. Next handles its inventory management accurately with the use of sound IT systems (NEXT Annual Report 2010). This ensures that there is a good balance between having additional products at hand and the risk of not having them when the customers need them (Gourdin 2000).

Its warehousing and distribution operations are constantly reviewed to maintain efficiency and reduce risks such as physical property damage, reduce fabric waste, warehouse breakdowns, capacity shortages etc. Care is also taken to make sure that the products are transported to the retail stores on time (Next 2010 Annual Report). As a result of this, in 2010, the company was able to increase gross profit margin by 0.5% through reduction in warehousing and distribution costs (Figure 2. 2).

Figure 2. 2. Next Plc's profit margins in 2010.

Logistic Service providers (LSPs)

LSPs are companies who handle other companies' transport and distribution networks. Recognising the cost-effective prospects in international transport and logistics entails dedication and resources (Rushton et al 2008). Thus, many businesses outsource the transportation of raw materials and finished products to LSPs and focus on their own core competences to save resources and increase profits (Mangan et al 2008). Some companies, on the other hand, provide its own transportation and distribution services. While some

others come together as agencies to organise their logistics needs, thereby getting the services at cheaper rates (Mangan et al 2008).

Some LSPs also provide integrated logistics services and act as a one stop shop for companies. They are called third-party logistics companies (3PLs) or even fourth-party logistics companies (4PLs). They provide transportation, warehousing and packaging and distribution for other businesses. Examples of such companies are DHL, Kuehne and Nagel Logistics. Choosing the right LSP depends on several factors including the services provided, the geographical location, costs, speed, services needed, LSP's history etc (Mangan et al 2008).

Next Plc falls under the categories of company who provides its own logistics services. It boasts of over 20 years of transporting, warehousing and distribution and has invested over £66 million on its network over the past few years (Stanton 2007). Next Plc considers itself so experienced in these functions that it is now offers 3PL services to other retail businesses with 100 to 150 stores under the umbrella of Ventura Network Distribution (Stanton 2007).

The company has two major networks; primary retail and two man network (Ventura 2009). Primary Retail: which comprises of 8 sites, 800 staff, depot space of about 1 million feet, warehousing space of about 5 million feet and over 200 vehicles.

Two Man Network: this comprises of 11 sites, 220 staff and about 150 vehicles. In addition, it also offers the mail order fulfilment services (Ventura 2009).

<https://assignbuster.com/understanding-and-analysing-how-next-retail-ltd-next-delivers-its-logistics/>

Ventura is doing well with a profit of £6m in 2010; an increase of £1m from the previous year (Next 2010 Annual Report). More growth is expected in the coming year.

3. Procurement and Outsourcing

Procurement is the process of buying and acquiring the materials and services needed for a business. The materials and services procured by businesses will vary according to each business' needs. A business like Next that sells clothing and accessories will need to buy fabric, sewing equipment, labour skilled in sewing and manufacturing clothes while a business who sells processed foods will need the food ingredients, the cooking equipment and skilled cooks.

The art of procurement is increasingly more complex because of the differences in the cost and quality of materials and services across the world. In order to remain competitive, companies have to buy their materials from areas with greatest value for money and so save on costs of production. International regulations on buying and selling across the world also mean that businesses need to factor in laws, custom and excise duties when choosing where to buy their materials. The “ identification of right source of supply, purchasing right quantity, right quality, at the right time and at the right prices are important elements of procurement functions” (Saxena 2009).

Procurement can be direct and indirect. Direct procurement is applicable to manufacturing companies since they need to buy raw materials and equipment for their goods. Indirect procurement is applicable to all

companies since it focus on the purchases of company facilities that are necessary to run the company such as labour, marketing, buildings/offices, office supplies etc.

As with many other non-core business functions, some companies decide to outsource the procurement function to specialised companies that deal with this. For instance, they might engage recruitment agencies to fill a vacant position within their companies instead of spending time sifting through many CV and conducting interviews.

Next Plc has several subsidiaries, one of which is called Next Sourcing Limited (NSL). NSL handles its procurement and sourcing operations. It is present in China, India, Hong Kong, Romania, Sri Lanka, Turkey and the UK. Its function is to design its fashion clothes, source the necessary materials, buy these materials and maintain the quality of the company's products (Next 2011). This subsidiary is doing well and last year recorded a profit of £35. 7m. However, with increasing competition from external suppliers, it is expected that profits will drop to about £30m in the present year (Next 2010 Annual Report).

For its indirect procurement, Next uses its subsidiary Ventura to handle all its customer service requirements and it offers this service to business who engage its service. This service is very important because increasing customer satisfaction is the output of good logistics (Gourdin 2000). At the moment, Next has 6 call centres in the UK, another one in India and employs over 7, 000 employees (Next 2011).

In addition, the company also recruits its own staff through its websites and advertisements on job sites like Indeed. co. uk which lead the applicants back to the Next website.

4. 1 Conclusion

Logistics is especially important to international companies. It involves how the company sources its products, manufactures, transports and stores them. The strategies embarked on by the company are a function of its business objectives and strategies. Next is determined to be profitable by increasing the demand of its products and reducing costs. Therefore, it uses a combination of both the lean and agile supply strategies to manage its logistics and supply chain.

Next has created subsidiary companies to manage the different components of its logistics and supply chain. It is evident that the company wants to have total control over its business. In addition, it has commercialised these subsidiary companies and offers their services to other businesses, thereby increasing its revenue. Next has been quite profitable including the subsidiary companies that manage its logistics and supply chain. However, according to its 2010 annual report, the profits from Next Sourcing Ltd is likely to see a decline in the following year as a result of competition from external suppliers.

4. 2 Recommendations

Based on the findings of this report, the following recommendations have been made:

It might be necessary for Next to outsource some of its logistics functions to independent companies so that it can focus on its core competencies which are to provide quality fashion clothing and software. At the moment, in trying to do so many things, the company might be losing the expertise and focus they need to build their brand and make even more profit. For instance, because of the large number of employees needed for the company and its subsidiaries, Next can outsource its recruitment functions to recruitment agencies.

If the profits from NSL start to fall as predicted, it can also consider outsourcing this function. It is necessary for the company to realise that outsourcing procurement does not necessarily mean that it loses total control of its sourcing and buying processes. It could still have a department in charge of this function but work with third parties to ensure that it uses the expertise necessary for competitive advantage. The department can monitor the procurement process so that Next can be assured of its quality.

5. References and Bibliography

Christopher M., (2003). Creating Agile Supply Chains. In: J. Gattorna, ed. 2003. Gower Handbook of Supply Chain Management. 5th edition; Gower Publishing Ltd. 283 – 291.

Christopher M. (2004) Logistics and Supply Chain Management: Creating Value – Adding Networks. 3rd ed; Financial Times/ Prentice Hall.

Christopher M, Lawson R. & Peck H. (2004). Creating agile supply chains in the fashion industry. International Journal of Retail and Distribution Management. Vol 32(8) 367 – 376

<https://assignbuster.com/understanding-and-analysing-how-next-retail-ltd-next-delivers-its-logistics/>

Collins J. L. (2003). Threads: Gender, Labor and Power in the Global Apparel Industry. 2nd ed; University of Chicago Press.

Frazelle E. (2001). Supply Chain Strategy: The Logistics of Supply Chain Management. McGraw-Hill Professional.

Gourdin K. (2000). Global Logistics Management: A Competitive Advantage for the New Millennium. Wiley-Blackwell.

Mahadevan B. (2009). Operation Management: Theory and Practice. Prentice Hall College Div

Mangan J, Lalwani C & Butcher T. (2008). Global Logistics and Supply Chain Management.

John Wiley & Sons

Next (2010). Annual Report. [Online]. Available at: <http://www.nextplc.co.uk/nextplc/financialinfo/reportsresults/2009/jan10/jan10-c.pdf> Accessed 02 March 2011.

Next (2011). Next – About us. [Online]. Available at: <http://www.nextplc.co.uk/nextplc/aboutnext> Accessed 02 March 2011.

Saxena J. (2009). Production and Operations Management. McGraw Hill Education

Stanton J. (2007) Next Goes into Third Party Logistics. [Online]. Available at: <http://www.roadtransport.com/Articles/2007/10/31/128885/Next-goes-into-third-party-logistics.htm> . Accessed 12 March 2011.

<https://assignbuster.com/understanding-and-analysing-how-next-retail-ltd-next-delivers-its-logistics/>

Ventura (2009). Ventura Distribution Network – [Online]. Available at:
<http://www.venturadistribution.co.uk/default.asp>. Accessed 10 March
2011.