



## Taking Logistics to the Maxx

TK Maxx is a retailing phenomenon and one of the fastest growing High Street outlets in the UK today. It is an off-price retailer selling designer and high street labels in womenswear, menswear, childrenswear, home, gifts, jewellery and accessories at up to 60% below the recommended retail price. Established in the UK in 1994 with the opening of the first store in Bristol, there are now over 200 stores nationwide, including the Republic of Ireland with over 14,000 employees. The company is also expanding into Germany with the opening of five stores this autumn.

TK Maxx takes a uniquely flexible approach to procurement. Free of planning restrictions and deadlines, TK Maxx buyers can buy as and when they spot fantastic deals. They buy as close to season or need as they dare in order to benefit from the best deals. Buying close to need also allows TK Maxx to be smarter about trends, respond to customer needs and to sell exactly what they want when they want it. This makes for a truly vibrant product range that reacts very quickly to changes in public taste and along with daily deliveries to stores, ensures customers will always see something new and different every time they visit. Each store carries over 50,000 items in stock at any one time and typically has 10,000 new items arriving every week: and with over 4,000 suppliers, it's an approach that needs precise management.

TK Maxx plans to quadruple the size of business in the UK and Ireland by 2015 and to add 1,000 people to the workforce by 2010. To support such ambitious growth, TK Maxx asked leading European supply chain specialists Total Logistics to develop a new distribution strategy that would deliver the scale needed while preserving its traditionally nimble and opportunistic approach to buying. The key issues facing TK Maxx will be familiar to any retailer – the need to

cut costs as a percentage of sales, the need to move goods through the supply chain faster and fight off competitive pressure from other retailers on the High Street. There is also the universal issue of managing the tremendous pre-Christmas period that starts every September and peaks in November and December. Underpinning the TK Maxx business model is the proven ability to maintain ultra-short lead times on procurement – that is, buying the goods and getting them in-store for sale within the same week. This has to be traded off against maximising labour efficiency, space and transport resources without compromising supply chain flexibility.

### National network

Four national processing centres (PCs) in Stoke-on-Trent, Wakefield, Walsall and Milton Keynes employing 1,800 people, plus two regional logistics centres (LCs) serve the UK stores, along with additional hubs in Scotland and Ireland. Innovatively, TK Maxx runs its store planning operations by satellite – over a Very Small Aperture Terminal (VSAT) network that links head office, distribution and stores in real-time.

Product is sourced internationally by the buying team and then sent to the PCs for checking, unpacking, allocation to stores and ticketing. It

then moves to the LCs to be sorted and consolidated by store before being shipped out. When the stores take receipt, products are sorted by department and then unpacked for security tagging and size cubing.

To pave the way for growth, TK Maxx needed to understand the number, format, location and size of future distribution facilities required along with which operational processes should take place and where. That is when they sought out Total Logistics, external specialists able to take an independent and supplier-neutral view of how to proceed most effectively.

Alan Porte is TK Maxx's senior vice president of distribution services, responsible for worldwide imports, inbound/outbound store distribution and supply chain technology infrastructure. "TK Maxx sits right in the middle of a very competitive market space. The consumer price point is critically important to our success and we needed to explore precisely how we could optimise the supply chain to enhance our competitive and efficiency edge. For that we needed robust data interpretation for 'pressure testing' the existing business model, enabling us to relate accurately the state of the business today to how we want it to be in the future."



## Recalibrating for growth

To support this growth, TK Maxx asked Total Logistics to develop a distribution strategy to optimise the structure of the future network. Time was also a significant factor – the strategy had to be scoped out within 12 weeks to fit with TK Maxx’s decision timetable.

“A large part of TK Maxx’s costs were incurred with the very labour and space intensive pre-retailing activities, some of which were undertaken in the stores. The best location and processing methods for these activities needed to be carefully considered,” explained Kenneth Porte of Total Logistics. Another key challenge was to build consensus from the many key stakeholders in the business, including the buyers, stores, distribution and senior management both in the UK and the US. This was particularly important bearing in mind Total Logistics’ ultimate recommendations to transfer some processes from the stores to central processing facilities that involved the moving of associated budgets, control and responsibility.

Said Porte: “The existing strategy of separating PCs and LCs has given us considerable flexibility as the business has grown, but the current size and locations of the PCs and LCs were not ideal in terms of labour and space cost. The focus of the Total Logistics’ study was to determine the number, size and location of new facilities required to meet the forecast growth. It needed to lay out a clear path for migrating away from the existing network and processes to the new ones, while taking account of seasonal pressures without adversely affecting the year on year profitability of the business”. Seven phases of activity over the three month project would take TK Maxx from assessment and theory to the start of implementation – from data gathering and workshops through to the intricacies of planning, modelling and network selection.

## Scenario modelling

The process modelling and logistics network modelling phases were run in parallel to meet the required timescales. Spreadsheet models used within each phase were developed to allow the seamless exchange of information through each successive examination of options. Both the modelling exercises included assessments of best-in-class processing and handling techniques. Porte was impressed with the depth of options the modelling delivered: “Importantly, the Total Logistics approach let us question the data and run a number of ‘what if...?’ scenarios. It’s so much easier to make an informed decision if you can eliminate the less effective alternatives quickly and accurately. We were able to run capacity and process analytics that solved the supply chain design and control issues in a virtual environment. The result was being able to take key decisions early – and know that those decisions would work as intended when the time came”.

With implementation underway, Porte is clear about the benefits: “The results are three-fold: primarily we can serve the store network more frequently and more accurately plus we’ve cut our inventory at store and processing centre level that frees up cash for the business. Just as important though is the confidence such nimbleness gives to our 170 buyers. They know that distribution can deliver against pretty much any buying decision they make – quickly and reliably – and this reinforces the freedom we give them to trust their own decisions and their sense of what our customers are looking for.”

The new TK Maxx supply chain replaces the LCs with smaller, shared-user cross-docking centres operated by DHL that are nearer the stores, allowing for faster throughput of

product at a lower cost. For example, the Hammersmith, London branch is one of the company’s ‘hi-frequency’ stores and it can now take 21 deliveries every week: this gives the store team real precision when it comes to stocking what they sell instead of selling what they stock. The sortation of store totes is undertaken in the PCs using automated equipment.

## Bottom line benefits

Feedback from the TK Maxx teams around the UK and Northern Ireland has been good – says Porte: “Retailers are used to change, and here our people are used to change as well as fast growth. We feel that Total Logistics has given us a superior view of the entire business that makes our retailing capabilities even keener. Their modelling capabilities allowed us to test the strategy against a wide range of business sensitivities before we went live – and that’s invaluable”. The successful project has had some important softer benefits too, not least in improving awareness across the business of just how critical an efficient supply chain is. According to Porte, the independent assessment and challenge to existing ideas as to how product should be handled, stored and distributed has prompted valuable debate as well as embedding the newly-acquired modelling skills within the TK Maxx project team.

“We were looking for a partner who could understand our business, provide practical advice, communicate this to our management team and reduce the risk to the business. We found this in Total Logistics. They have worked with us to develop a 10-year strategy in line with our business objectives and have created a decisive road map to achieve this. “It’s a strategy that will deliver cost savings in excess of 5% of distribution costs and significant service improvements to stores”.