

PEAK IN A PANDEMIC:

REMOVING BOUNDARIES TO DELIVER A SUCCESSFUL HOLIDAY SEASON

Will Heywood (00:09):

Welcome to “All Business. No Boundaries”, a collection of conversations by DHL Supply Chain, the North American leader in contract logistics. I’m your host, Will Heywood. This is a place for in-depth discussions on the supply chain challenges that keep you up at night. We’re breaking beyond the boundaries that limit your supply chain. Let’s dive in. Today’s episode is “Peak in a Pandemic: Removing Boundaries to Deliver a Successful Holiday Season.” Let me introduce my guest, Kraig Foreman, President of E-commerce at DHL Supply Chain. Welcome, Kraig.

Kraig Foreman (00:40):

Thanks, Will. Thanks for having me, looking forward to the conversation.

Will Heywood (00:42):

Good, and Larry Landtiser is Senior Director of Operations also in DHL Supply Chain’s E-commerce organization. Larry, I’m happy to have you and thanks for making the time.

Larry Landtiser (00:52):

Absolutely, Will, looking forward to it.

Will Heywood (00:53):

Okay, great. So, Kraig, I’d like to start with you, just on the basics. So, how do you define peak season? And maybe I’d like to answer that question in the context of, you know, historical brick and mortar retailing.

Kraig Foreman (01:06):

I think before I just jump into that, Will, I think it’s probably worth just talking a little bit about peak season and E-commerce, and what it means to DHL. Most of the audience may not know this, I know you’re aware of this Will, but DHL has just recently, the supply chain organization in North America, has just recently made some organizational changes, due to the importance of this aspect and this topic that we’re discussing here, E-commerce. I understand the importance of it for our business, but also for the industry as a whole has decided to split off our E-commerce and multichannel omni-channel businesses into a separate business unit and sector to focus on that for the success of our customers and our potential customers. I’m privileged enough to be leading that new business unit and sector. Larry is part of that team as well. The reason why I call that out is because it is things like peak season that makes this business different and unique and the success that we need to have and that our customers in the industry need to have is extremely important. So, having people focus on that and nothing but that, can be the difference in such a challenging environment. This year isn’t going to be any different. In fact, it is likely going to be heightened materially, which kind of brings me into what peak season is to us. There are many different spikes that happen during the course of the year, but in the E-commerce industry and business, peak season, is traditionally the time from Thanksgiving to the shipping cutoff or parcel prior to the Christmas holidays. It’s that time frame, that is an extreme volume surge in the industry and in the marketplace from consumers, that all retailers and online sellers are experiencing the same time, which makes the infrastructure and capacity demands, and the people demands escalated two at a time, like no other in the business during the course of the year and create such a competitive environment. That’s where it’s very, very important to win. If you compare that to the traditional retail, traditional retail, being the concept of you ship a bunch of inventory forward, deployed into stores and allow the consumers to go and pick their own orders and buy their own stuff

and take it home with them. In the world of E-commerce, we have eliminated all that work activity and taking the consumer behavior when they click on the website at home or on their app, it directly brings that work content to us in our fulfillment centers to try and achieve. That work is just continuing to scale in size and nature, from the consumer behavior. It takes a certain amount of stress on infrastructure and on capability, when you're competing against others, they're trying to do the same thing, but it's also a time of year for retailers that because of that stress and the amount of sales that happen, it makes their financial year, and therefore they cannot afford to not be successful at that time frame. We, as DHL Supply Chain's fulfillment partner, filling those orders for them, enabling that success for them is extremely important. So, failure is not an option. Failure not being an option means that we live and breathe peak season all year round with everything that we do, the way that we design operations, the way we design buildings, our operating philosophy, how we project plan in many different facets to be ready for peak season. We take 10 to 11 months a year to plan for it, and one to two months to execute it. We work on it all year long.

Will Heywood (04:20):

Good. Thank you for that. Larry, I wondered if you might help us understand the scale of the challenge, maybe with some statistics and numbers, and first from the demand standpoint, I mean, what kind of increase are you seeing from a volume through the sites during the peak season? And then, you know, from an operational standpoint, what does that mean in terms of number of people you're bringing into sites, operating hours, any of the things that, you know, we need to bring to bear as a business to deliver successfully?

Larry Landtiser (04:47):

Sure. Typically, when we're talking about peak season, you're talking about anywhere from a five to one, to a twelve to one ratio of your normal business and from a head count perspective, that can mean anywhere from a couple hundred to a couple thousand people that you need to bring into your building in your operations for that peak season time of the year. When we talk about peak season, you know, it really is a yearlong process. And as quickly as we try to take a peak season down in January, we're trying to get those lessons learned in that February, March time frame, and the planning begins for the next peak season. The amount of detail that has to go into a peak season plan, when you're trying to scale a business by that ten to one ratio, twelve to one ratio, with that many people that you're bringing in, could mean also that you're going from a simple one to two day operation, during the week, to a seven day operation in that peak time frame. With that, you are competing against all these other retailers and E-Commerce businesses that are also trying to go after the same type of volume and the same type of people that we are, and so really there's a high level of focus on, really a couple key segments that we utilize to be sure that we're able to execute that strategy. There's an HR strategy around, you know, labor and how many people that we need, the market that we're dealing with, any type of market constraints or conditions that would make us have to do anything different to make sure that we're attracting the right people into our business. There's an execution component around our operational and production strategies, how we're going to actually operate moving from, you know, for instance, a one to two shift operation to a three shift operation, and an engineering capacity, like Kraig said, where you're looking at, how am I going to scale a business from five to one or ten to one, and make sure that I'm doing all these things from a conceptual standpoint or rate of flow, to be sure that that facility is prepped and ready to go and able to execute for that customer.

Will Heywood (06:54):

Good. So say more about the HR side. I mean, it sounds to me like a big challenge to attract and onboard and you know, effectively train short term workforce. How does that play out in your operations?

Larry Landtiser (07:07):

We will still try to bring in those associates that we're going to have support us in executing a peak season strategy. They're going to receive all the same levels of training that our full time associates that are in those buildings year round. What we try to do, is try to create an opportunity for them to come in and learn specific parts of the operation, where they can impact us the greatest, without having to learn the whole business. It requires the same level of complexity, that the normal associate would get, but we're able to break this up and to understand, associates coming into the building, where they're going to have breaks, or they're going to eat their lunch. All of those components have to come into a plan, to be sure that we're bringing in the right amount of associates each week, and measuring their level of effectiveness in the building, in order for them to give us the greatest impact.

Kraig Foreman (08:02):

I think, Will, it's probably worth just outlining that when Larry's talking about these plans, they're being done, and these plans are being detailed at every single one of our peak season operations, but when you accumulate that impact across our E-Commerce sites in the U.S., we're talking about bringing on eight to ten thousand people for that period of time. That's the coordinated effort of making sure that we are doing the right things to train individuals, to give them confidence in what they're doing, and capability in what they're doing, giving them a good experience and associate experience that's positive, that makes them want to come back every year and making sure that our brand is strong for associates to be compelled to apply and want to be a part of what we're doing for these seasonal opportunities. That's taken years of work to make sure that that reputation and capability is out there. Every year, we have to work extra hard to make sure that we do not lose the momentum on that strength of brand on the seasonal recruiting.

Will Heywood (09:03):

So you do get a lot of repeat workers coming in?

Kraig Foreman (09:08):

We do. It varies by market, by building, by size of workforce. But, you know, we can see 40 to 50 percent of our seasonal teams returning year on year.

Will Heywood (09:19):

The increase of I think you said about nine thousand. What's the base operation headcount?

Kraig Foreman (09:27):

That's probably off of a base of around six thousand. We're going up another eight to ten thousand. So, we're more than doubling our workforce during that time frame in our heavy E-commerce peak season operations.

Will Heywood (09:37):

Larry, can you explain, your view on the difference between peak season and other parts of the calendar year, where there may be volume spikes, like back to school is going to be coming up here, how are those things similar and different?

Larry Landtiser (09:53):

We'll call them a promotion or an event. They could be anywhere around, back to school, as you said, or they could be around a holiday or a warehouse sale. Typically, what we see there, is they are just a smaller influx of volume into the building, you know, two to one or three to one ratio and typically for a shorter period of time. I think the other piece around that, that's important is they're not during peak season, so resources are generally more available during that time frame, which allow us to, you know, readily bring people into the building for a shorter period of time. That could be a labor share opportunity within our own campuses, you know, and get through those promotions, which typically are not testing the facility and the engineering and the buildings, like a peak season does.

Will Heywood (10:39):

Got it. Got it. Kraig, we've talked a lot about building capacity with labor. I wondered if you had any comments on how DHL is thinking about capacity through automation and automating technologies. We had an episode earlier in the series with Adrian Kumar about digitalization. I just wonder how that plays out to accommodate peak volumes.

Kraig Foreman (11:03):

Yeah, that's a, that's a great topic because it's a real focus and strategy for us to continue to enhance because there's been so much evolution over the last year to two years on this digitization opportunity compared to what we've historically dealt with, in my view. If you go back, you know, five to ten years ago, it was always focused on building infrastructure that bolts down, that allows you to meet your expected growth needs on that peak day. And you're building sorters and conveyors and a lot of mechanization to enable that to happen. We've really evolved since then. The technology, where it's going, is going to allow us to continue to evolve. There's so much more intelligence out there from a systemic standpoint between warehouse execution systems and different flow systems that are out there, coupled with AMR technology. All of which really means that there's the ability to flex more effectively with different tools, with a lower headcount than our traditional operating solu-

tions, which really makes peak season an increased viable opportunity. The timing is important because peak seasons are getting more peaky, and having this technology come and help offset that consumer behavior impact that's happening, and the service level impacts that are happening, is extremely important. So, we're doing a lot of work right now with different AMR concepts, such as locus that you would have heard Adrian talk about in the previous podcast, along with different systemic technology. We're trying out and working on pilots for a lot of future technology, which I won't talk about at this point in time, but again is groundbreaking and going to be changing our industry and our operating approach as we know it today. I think the last thing I would bring into it is the enhancement and capability that we've brought into the business for peak planning and peak execution around analytics. Analytics have become a very large component for what we're doing, whether that be in our planning process, in our forecasting of impacts to operational components and to predictive analytics on what we can expect to happen across profile. A lot of those different elements allow us to be more prepared and even to react when we're seeing business come in, that may be different than what we thought, you know, our analytics team can tear that apart pretty quick and really give us the DNA of what we're dealing with to be able to react quickly, and all those are game changing when it comes to technology and thought process on how we become smarter on the way that we approach these peak seasons.

Will Heywood (13:33):

So could either of you provide an example or two of where analytics or automation has really delivered some benefits, either most recent peak season or what you're expecting for this coming year?

Kraig Foreman (13:46):

Yeah, I can give a series of different examples of where analytics has helped us in our HR strategy, where we're able to do more predictive analytics on the success of where we obtain people in what specific markets and what specific zip codes, and what advertising tranches are making the most impact and predicting what that will do as we're moving forward. We're also using analytics on forecasting skew impacts, associated with consumer behavior, on our customer's offerings, and what that will do within the time of day, that offerings are being made and what our profile shift will be in preparation and predicting what that profile ship will be, allowing us to prepare for the change of throughput processing that we're going to need to be doing at different points in time of promotional activity. Those are all things from an analytics standpoint that are simplistic examples to share, automation continues to be a big factor for us and simplistic user interface, so anything that we can bring in that allows training to be faster and more effective for our associates, that are especially our seasonal associates, in a simplified work content, which, you know, are simple things like where we run locus, you know, we can flex up at peak season with additional robots at a higher rate than we need to our associates, and those associates that we do need to bring on the training uptime on a locus bot to learn how to pick, when they're dealing with a tablet on the robot, telling them what to do in whatever language we want the robot to engage them with, just really changes the game for our readiness of associates and how many associates need to be impacted by a scaling of volume.

Will Heywood (15:30):

I'm curious about that and maybe Larry, Locus or some other technology that makes sense and supports Kraig's point. Can you explain how our workforce uses these technologies? I think that the user interfaces are simpler than they were a number of years ago, but I wondered if you could just maybe give an example of a technology that you've been able to implement and train a workforce on in a pretty efficient way.

Larry Landtiser (15:55):

I think Locus is a really good example, you know, in a lot of our E-commerce operations, typically associates would be picking or pulling equipment in order to fill that equipment into a tote, for example. You know, we don't look at technology and our associates don't look at technology as anything other than trying to assist them and helping them make their job easier. When you take locus as an example, when an associate has to pull a cart for eight hours or has to turn into corners for eight hours, number one, it's creating a fatigue factor for them. And number two, it makes the area a bit less unsafe. So, we can take those components and add technology like locus that allow them to be at the right spot for instance, in peak season. When we talk about peak season, when we bring in new associates into a building, you know, again, we're trying to bring in a couple thousand associates and get them into a building and be effective. When you're talking about some of our facilities that are extremely large and have a mapping sequence that could be in the thousands. If I have a robot that can go straight to the location that they need to be to, I'm making their job more simple. So, when you take it from that perspective, take the safety opportunities with locus and take the fatigue factor out, it really is something that just assists the associate, which in the end makes them more efficient for us.

Will Heywood (17:15):

Yeah. That harkens back to an earlier podcast we had with Adrian, where he was talking about the various applications of automation technology, and it sounds like it's certainly a play for the peak challenge. This year is going to be different, COVID-19 is a reality that we're all trying to find our way through. I'm interested in knowing how you guys are talking to your customers about peak season, within the context of COVID, what you think you can plan for versus what you think you can't, how the control dynamics are perhaps changed this year. Kraig, I'll start with you.

Kraig Foreman (17:46):

I'll take the first crack at that. I think this is everything that's on our minds, and everything that's keeping us up at night, at this point in time of 2020. Not just the pandemic and how we're managing our way through it today, but it's the pandemic and how we're going to manage our way through peak season. Every year, we work very closely with our customers on forecast and planning for peak season. There's always an element of science, and an element of crystal ball that goes into that forecast because consumer behavior, E-commerce you are directly impacted by consumer behavior every minute of every day. That's just the reality of the way that this infrastructure is created, and this phenomenon has been created. At peak season, it's no different. It's very heightened, and that's where the crystal ball aspect of trying to predict what a consumer is going to do comes into play. I would say, you know, you may be 70 percent science and 30 science crystal ball every year, as you're building that forecast out for peak season. This year, I think we're inverting that ratio materially. I think that we have no idea what consumer behavior is going to do to things. We do know that E-Commerce sales are going to grow. Who are they going to be growing with? Where's it going to be growing? Are they going to be ordering on black Friday? Are they going to be waiting until later, are they going to get what they want? Are the stores going to get any sales at all, or are people going to be starting to go back to stores at that point in time. There's so much unknown. Then, you couple that whole consumer behavior, unknown crystal ball impact with what we're dealing with, in these fulfillment operations across the country, not just DHL, everybody is dealing with across the country, to protect and keep our associates and our team members safe. You know, with the COVID-19 restrictions of social distancing, and doing that when you're attempting to take your workforce by 200 percent or 300 percent into your building, you still have to maintain social distancing. You still have to look at the health and safety of your associates and how are we going to create that capacity? So, that's something that we can control. So, that's where a lot of our focus is, is on how we maintain a very safe environment for our people at the highest capacity that we can get the facilities ready to. That goes into our planning process and a process for peak, that we've dealt with in the past, but this is just a more heightened approach that we need to take with more specific challenges in faculty,

Will Heywood (20:10):

To go a bit further. Larry we've kept all of our buildings open throughout the pandemic, and we've put in a lot of different practices for worker safety and the like, what have we learned in the course of that experience, as you think about scaling for the second half of the year?

Larry Landtiser (20:24):

Yeah. You know, it's no different than when everybody goes to the store today or the marketplace or anything, you know, those same components of what we've put in are what's worked around how we're setting up our break rooms, how we're setting up our pack stations. You go back to what, you know, Kraig talked about a bit earlier around number one, you know, peak season is for the majority of our retailers will make or break their financial year. But number two, we've, we've built all of these buildings out for peak season. So, now when you talk about that, that infrastructure that you've built is no longer capable of supporting the peak season execution that we need to do this year, with the pandemic. It's forced us to already have to have made some adjustments within our facilities to allow for the proper social distancing and keeping our associates safe. That same mentality is what we're bringing into our peak season planning, and as we said with it being a yearlong process, we're right in the middle of understanding what we have to do to execute because our customers depend on peak season execution. I think, more than ever this year, the HR components of a peak season and the operational components of the peak season are going to be consistent with how we plan our execution strategy, but more this year, facilities and engineering is playing a bigger role with not only how we are going to create that social distancing, the things that we need to do to procure the proper facility set up now so that we can get it into place before peak.

Will Heywood (21:54):

Yeah. Challenging times, and I wish you best of luck with all of that. Just to kind of close this out here. I know we've talked a lot about peak, but. Kraig, you've got the title of President of E-commerce. So, I'd like to talk about that market in general. I mean, it's been growing at about a 15 to 20 percent clip for over a decade now. What's your prediction? Will that kind of growth trajectory stay the same? Do you see it accelerating? Decelerating? How do you see things playing out?

Kraig Foreman (22:20):

There's no question in my mind that we're going to see rapid acceleration right now, you know, depending on what numbers you want to look at, if you were to exclude carbine and gasoline and such. E-commerce right now is about 15 percent of retail sales, growing every year, it's taking over about 2 percent of the market with that growth rate, that's taking place, which most people are projecting that a third of all retail sales will be E-commerce based by the end of this decade, somewhere around the end of this decade. I think that's going to explode a great deal. I believe that we will be at that a third of all retail sales by 2025. Part of that is going to be fact that retail stores are going to decline in total sales, but most of those models that shows us getting to a third of sales by 2030, showed anywhere from a zero to a 2 percent increase in retail store sales, while E-commerce was continuing in that 10 to 15 percent range.

Kraig Foreman (23:17):

I think the reality of the model is now going to change and start showing a negative decline on retail stores, while E-Commerce has a more aggressive 20 percent growth rate over the next couple of years, and very quickly you get to a third by 2025 and even 40 percent by the end of the decade, or over 40% by the end of the decade. I think that's the reality that we're going to start to face and see, which makes this a very exciting, yet extremely challenging space to be in, to make sure that all of our retailers are in a position to handle that course of change that's about to take place, in an intelligent way, with a strong roadmap for future success.

Will Heywood (23:53):

So, Larry having a key operational lead role in that context, how does that general picture make you feel overall?

Larry Landtiser (24:00):

We're excited. I mean, to be honest, when you talk about peak seasons and the fast paced execution that we do, these types of things are what excites us and why we're in this sector, and with DHL. What we're faced with right now is how quick can we react? We're seeing that even today in some of the customers that we're helping now, they need us not only to execute for them, but they need the execution now. So, more than ever, we're leaning on the expertise of our, of our team. We've got an extremely talented group of people in our sector and more than ever, they're all being pushed in ways that are forcing us to get a bit uncomfortable, but at the end of the day, we're, we're continuing to execute and we're all ready for the challenge.

Will Heywood (24:44):

Excellent. Well, I want to thank you both for joining me today. I really enjoyed this conversation.

Kraig Foreman (24:50):

Great. Thanks for having us, Will. Appreciate it.

Larry Landtiser (24:52):

Yeah. Thank you.

Will Heywood (24:53):

Yeah, you bet. If you enjoyed today's conversation, please share it with a friend. You can find us online at logistics.dhl.com. Follow us on LinkedIn and Twitter @DHL supply chain. If you would like to continue the conversation or leave feedback about the episode, please do drop us a line.