

CASE STUDY: ARGOS UK¹

Abstract

Argos is a large retailer selling furniture, appliances and other household goods. The company has a highly integrated supply chain and uses a multi channel approach for sales. Argos can sell its goods through traditional sales channels (retail shops), online (over the Internet), and through telephone orders. It continues integrating its multi-location physical points of sale with the new channels. This approach has been successful, resulting in a rapid increase of total sales and turnover.

Case characteristics	
• Sector focus	Retail
• Business focus	Large firm
• Geographical focus	United Kingdom, Ireland
Case objectives	
• Multi-channel sales strategy	***
• Supply chain integration	***

* = some relevance for case; ***** = high relevance

Background and objectives

Argos was founded in 1973 and is now the UK's leading general merchandise retailer and the UK's leading catalogue store chain with sales of over £3 billion (about 5 billion Euro) in the period between April 2002 and March 2003. Last year its sales grew by 12% and its profit by 17%. It is a non-specialized store, selling a large number of households goods such as furniture, sound & vision, household appliances, home wares, photography, baby products, DIY, garden & pets, sports & leisure, toys & games, office, PC & games, personal care, jewellery & watches.

Argos has a very strong position in some of these markets. It is in fact the first UK retailer for toys and small electrical appliances and a leading store in many other markets including DIY (Do It Yourself) and gardening, consumer electronics and furniture. It also has a significant market share in jewellery and sports equipment. This company is based on a simple idea: combine the comfort and the convenience of home selection via the catalogue with the closeness of high street stores.

¹ This case study was conducted by Databank Consulting, Corso Italia 8, 20122 Milan, Italy.

For advertising, it uses a mixture of different channels such as television, radio, newspapers, magazines and posters, depending on which is the most effective and efficient from time to time. This method of buying goods seems to be very appreciated by the English people. In fact during 2002, Argos received over 2.6 million telephone orders, not including the orders that were placed via the website. Consequently the home delivery service has grown during last years, so much that the delivery of products at home via Argos Direct (the company responsible for the delivery services) increased by 33% and accounts for 18% of all Argos sales.

The company numbers 550 outlets throughout the UK and the Republic of Ireland, and more than 23,000 employees. Argos maintains a broad network of stores and distributes its catalogue to more than two-thirds of all UK households. There is an Argos store within 10 miles for 98% of the UK population. Argos plans to open 35 additional stores within the next three years.

Along with the evolution of information and communication technologies and the enlargement of its business, Argos has made some important changes in its organisation.

Activities

Betting on ICT from the beginnings

Since its beginnings in the 1970s, Argos has been noticed for its innovative use of technology. Computer systems have always had a huge impact on the way Argos functions as a retailer. Argos has used ICT to monitor stock levels, to recognise market trends early and to avoid stock out situations. Their electronic point-of-sale systems (POS) have led to great accuracy in the conduct of financial transactions.

New technologies have had a profound impact on internal communication as well as on the way in which Argos communicates with customers and suppliers. A very important element in this context is the feedback which Argos can collect through its various communication channels. Argos has implemented an innovative system of regular customer feedback sessions in which customers are invited to attend "open evenings" to make suggestions of how services could be further improved. The systematic use of e-mail and Intranets in all stores, distribution centres and head offices since September 2000 has increased the speed and the volume of the two-way-communication.

Multi-channel approach

The business model of Argos is a multi-channel approach: customers are offered different types of outlets for shopping. Prior to the introduction of the new e-channels, the customers could only browse the offer in the catalogue or directly at the store. Now they can browse the offer on their mobile phone, on the Argos website and on television. Customers with access to the Vodafone service can select Argos from the Shopping Menu and, via the main menu, browse the catalogue, check availability reserve in store or pay for home delivery. Argos customers can, since December 1999, place orders and buy goods through their digital television sets. Combined use of different channels is possible, as customers can for example browse and purchase goods from the catalogues and use the "Click & Collect" service via the website.

Fast technological developments and the spread of Internet access in households induced Argos to make an early start in online retailing. The Argos website was launched in 1995 and has been continuously developed since, with many features and services being added. Nearly 10 years later, Argos can be called a pioneer and leader

in e-commerce. With www.Argos.co.uk, the company became UK's number two "Clicks and Bricks" retailer, combining both store based and online sales.

Although the website is widely used and appreciated, online sales presently account for a rather modest share of 5% of total business sales. Argos is taking great care that the website must be very user friendly, and that the services offered have real practical value for customers. For example, the site shows the delivery time for every product offered. Products can be delivered to any address in England or Ireland. Argos is also concerned about online security. They only accept orders that are placed using the Secure Socket Layer (SSL) standard to prevent customers from inadvertently revealing personal information by using insecure connection. During payment, the company asks for the card billing address as an additional security check. No credit or debit card details are stored once the customers order has been processed. Online customers can register to receive an electronic newsletter that informs about special offers and promotional deals. As a matter of principle, there are no differences in products and in promotions between the physical stores and the website.

The customers can check stock availability and reserve goods through the "Ring & Reserve" call centre and the "Text & Take Home" (SMS) services using, respectively, their fixed or their mobile phone. Argos has recently teamed up with Vodafone Live! to give customers the opportunity to view the catalogue on their mobile phone. As with Internet purchases, they can pick up the goods at the store or can make use of the home delivery service. None of these new sales channels are related to any specific warehouses, but are based on the existing Argos infrastructure.

The UPS supply chain management

A major problem for Argos to set up this strategy was to efficiently manage the flow of merchandising from an extensive base of more than 750 suppliers to any of the distribution centres throughout the UK. Argos selected UPS Supply Chain Solutions for this purpose, more specifically a solution called "Nominated Carrier Scheme". This system helps Argos to ensure merchandising is in the right place at the right time.

Prior to the introduction of the Nominated Carrier Scheme, the situation was very tricky and complex, because every supplier has its own transportation system, its specific method of documentation and specific standard industry lead times. The decision was therefore to adopt a single system to assemble all the merchandise from suppliers and have them presented as only one delivery. This supply chain solution by UPS receives, validates and handles consignments from several hundred Argos suppliers. UPS checks that the order is correct, consolidates it with other orders and then sends it to Argos' own distribution centre for the final delivery.

This system works through direct computer links. It electronically validates the merchandise against the Argos orders, confirms that the merchandise is ordered and ensures that delivery occurs at the correct time. The UPS scheme, consolidating goods for delivery in only one lot instead of sending five or six separate loads, offers strong financial and organisational advantages to both Argos and its suppliers. The most important of these benefits are the following:

- Enhanced control of the Argos supply chain. All information about the goods is entered into the system from pickup until the delivery is made. Customers can track the goods virtually live.
- The system reduces the number of Argos trucks on the road, increasing the fill rate by 9% in 2003 as compared to 2001.

- Consolidation of the delivery logistics by ensuring full loads. In cooperation with UPS, Argos logistics manages to deliver its goods in approximately 15,000 (full) vehicle loads per year. The same goods could easily require up to 55,000 loads if a less sophisticated logistics system was used.
- Significant reduction of traffic in the Argos logistics and warehouse areas. This system has been such a success that the Nominated Carrier Scheme now takes care of 35% of all inbound goods Argos in the UK. Moreover, the percentage of inbound goods carried increased from 20% to 25% between 2002 and 2003.

The RETEK supply chain management

In August 2003, Argos decided to delegate the management of the warehouses to Retek Inc. Retek's "Advanced Inventory Planning" solution was expected to optimise the supply chain of Argos. This should improve the in-stock availability and sales while reducing total inventory levels

The "Advanced Inventory Planning" has the goal of optimising order plans and synchronizing supply with consumer demand across multiple channels for improving and maximizing the performance of inventories.

Lessons learned

Argos is a retail company at the forefront in its sector in using ICT systems and e-business solutions. The company has reached a high level of system and process integration both for its supply chain management and for its marketing and sales operations. It offers customers the possibility of making purchases via a number of channels, including the web, the telephone, mobile commerce and television. Regarding logistics, Argos has successfully integrated these channels so that the company has only one warehouse system and does not require parallel infrastructures for specific channels.

Sources and references

- Company information obtained – (Desk research, June 2004)
- Websites of the involved firms (www.argos.co.uk; www.atlasventure.com; www.gus.co.uk; www.investis.com; www.retek.com; www.theretailbulletin.co.uk; www.ups-scs.co.uk; www.unitec.it)

Contact

- *e-Business Watch*, c/o empirica GmbH, Oxfordstr. 2, 53111 Bonn, Germany
info@ebusiness-watch.org
 - European Commission, Enterprise & Industry Directorate General,
entr-ict-e-commerce@cec.eu.int
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