

Scoping report

# **Wholesaling and Distribution in New Zealand**

Prepared for

**Retail Institute**

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## **Contents**

**Page 3 - Summary**

**Page 5 - Aim and definitions**

**Page 6 - Methodology**

**Page 10 - Culture of wholesaling and distribution**

**Page 13 - Description of wholesaling and distribution**

**Page 21 - Training**

**Page 25 - Recommendations**

**Page 28 - Appendix 1 – Interview format**

**Page 30 - Appendix 2 – ITOs and training providers mentioned in interviews**

**Page 32 - Appendix 3 – CONFIDENTIAL – Contributing businesses**

## Summary

**There is a large, untapped market of businesses that perform wholesale activities and do not use an Industry Training Organisation.**

**There is an immediate opportunity for the Retail Institute to involve itself in providing training support for distribution centre floor staff. Distribution centre floor staff represent a market of about 2000+ within centres operated by major retailers (eg, supermarkets) and retailer/importers. This total expands at peak times and is at least matched by staff working in 3PL providers and other distribution specialists.**

**This report identifies four potential markets for the Retail Institute:**

- **Distribution centre floor staff in major retailers and retailer/importers**
- **Distribution centre management**
- **Marketing staff in major retailers and retailer/importers**
- **Marketing staff in other wholesalers**

**These form four steps in a sequence, as each step builds RITO credibility and prepares work for the next step.**

### Other findings

A professional search found very little published material analysing or summarising wholesaling in New Zealand. Wholesaling businesses do not see themselves as forming a homogeneous, united sector. Rather, they identify vertically within their industry, and have closer ties to their suppliers and clients than then do with other wholesaling businesses.

**Wholesaling, distribution and marketing** are activities conducted by businesses within many different industries. Marketing, sales and planning are seen as a separate activity to distribution and make up the main activity in many wholesaling businesses.

**Wholesaling** businesses tend to describe themselves as being in the same industry as their suppliers and clients – ie, the businesses are structured vertically (unlike Statistics NZ's horizontal definitions). This self-description is based on the business culture. The intellectual capital in wholesaling businesses lies in specific product knowledge and client contacts rather than generic wholesaling skills. Career paths are more likely to involve movement up and down through an industry than between wholesalers.

This natural alignment with vertical industries means we cannot assume wholesaling businesses will see the Retail Institute as the natural ITO for their needs.

**Distribution** is spread between two main industry groups. The transport industry is made up of trucking firms, distribution specialists and 3PL providers. Large retailers are the biggest importers in New Zealand and have brought much of their distribution role in-house.

Distribution has two distinct markets for skills and training. Basic skills include those used by drivers and distribution centre floor staff. These workers receive basic machine and safety training, training is standardised, and there are large numbers of workers in these roles. Distribution management is more diverse and personalised. There is also a wide range of training providers, including overseas universities.

**Marketing** is seen as a separate activity to distribution. This is in part due to the physical separation of marketing staff and the goods they are selling, especially with the use of 3PL providers.

**Wholesaling and marketing** are fractured training markets. This is caused by businesses' vertical identification, as well as by the highly personalised nature of defining training needs. Again, there are many different training providers including overseas universities.

**Overall**, ITOs have made little penetration into wholesaling businesses. A large proportion of these businesses haven't heard of ITOs. Some have, but don't see any advantage in using them. A minority have existing relationships with an ITO. Some already use the Retail Institute.

The spread of wholesaling across many industries, combined with the low sign-up to ITOs, gives the Retail Institute an opportunity to attract a large number of businesses. This will mean convincing these businesses they want to use an ITO; presenting a practical service for them; and being prepared to work through other ITOs should the business decide another ITO provides a better fit to the industry.

The abilities to work with other ITOs, and to include temporary/casual/contract staff, will be essential to future-proof the Retail Institute's services. This protects the ITO against the predictable trends of continued distribution out-sourcing and risk spreading. And if that doesn't happen, you can always sell the services directly.

## Aim

*To systematically scope the best way forward for the Retail Institute to most effectively help to meet the skill development needs of the Wholesale and Distribution industry to create and facilitate robust career pathway training programmes for its employees.*

The fundamental goal of this research was to explore New Zealand's Wholesale Trade Sector as measured and defined by Statistics New Zealand.

On talking to businesses involved it rapidly became obvious that the 120,000 workers and 20,000 businesses are not a unified group and do not see themselves as forming a single industry. It also became clear that any marketing or services targeted at this group must match its self-perception, rather than a statistician's definitions.

While government statistics describe a broad (horizontal) wholesale industry, the businesses involved align themselves vertically. People who sell construction materials align with other construction businesses. People who sell agricultural supplies see themselves as part of the agriculture industry.

Throughout this research, these vertical links proved stronger than any statistical definitions for measuring economic contribution.

For this reason, this report treats wholesaling, distribution and marketing as three activities performed by a range of industries, and looks at the training needs of businesses performing these activities.

## Definitions

**Wholesaling** – the activity of providing goods and materials to businesses for processing into other goods or on-selling. This activity occurs in many industries. Two of the most important activities in wholesaling businesses are distribution and marketing.

**Distribution** – the activity of storing and moving goods at any stage between production and the end user. Distribution includes devanning and picking & packing. Distribution is largely carried out by specialist businesses (trucking firms, Third Party Logistics – aka 3PL – providers). Large retail/import businesses also own some of their own distribution system.

**Marketing** – the activities of taking orders, making sales, advertising, building brand recognition, purchasing merchandising and sales forecasting. This activity occurs in many industries. Marketing is the main activity in some wholesaling businesses but is widely seen as distinctly different to distribution.

## Methodology

Research was conducted in three ways:

- A literature search for published industry overviews
- Statistical analysis using Statistics New Zealand data, especially census data
- Interviews with wholesalers, importers, manufacturers, retailers and logistics industry experts

### Literature search

Research started by looking for previously published reports and overviews of wholesaling and distribution in New Zealand. We commissioned a professional researcher from Wellington Public Library to look for reports for Government Ministers, published academic research (eg, MBA theses); summaries for investors, etc.

The result was a resounding silence. The search found no published summaries or analyses of New Zealand wholesaling. There were some industry reports which simply republished official statistics at the most basic level. Most wholesaling references were about the electricity wholesaling system, with a few small business articles about wholesale insurance and finance services.

### Official statistics

Official government statistics regularly record economic activity, including the contribution made by different economic sectors. This includes the contribution made by wholesaling.

Census data also record the number of businesses, workers and self-employed working in each sector. This data is sorted into different levels of detail, including industry sub-sectors and detailed (ie, five digit) occupation codes.

There is some published analysis of the official economic and census data for the wholesale sector, but it isn't at a very detailed level. The Retail Institute's own statistical analysis is by far the most detailed work done on the wholesaling sector in New Zealand.

As census data is gathered to a consistent format over a long period, it allows analysis of different industry trends. For example, a comparison of five-digit occupation codes from the 2001 and 2006 censuses shows the number of technical reps in the wholesale sector increased by 52%, compared to an increase of 88% across all economic sectors. This compares with no increase in wholesale sales reps, but a 15% increase in sales reps across all sectors.

On the face of it, this kind of detailed data can reveal all sorts of specific cross-matches and micro-trends over time. However, the industry interviews (see below) suggest Statistics NZ material must be used with care.

It is clear that the categories used by official statisticians are not the categories used within businesses to describe themselves and measure performance. For example, several businesses were asked about the roles of their technical and sales reps, in an attempt to gather more information

about the trend indicated in census data. The response was blank looks and confusion. The wholesaling businesses I spoke to made no distinction between technical and sales reps and couldn't understand the question.

For obvious reasons, government analysis must use categories and terms that are consistent from census to census and year to year. But wholesaling and distribution are dynamic activities and there is no guarantee that the roles performed in 2006 will be comparable with the roles performed by the same business in 1986.

Statistics NZ data is excellent for big-picture analysis, recording geographical distribution and tracking changes over time, but care must be taken before using the data at the finest levels of detail, and it must be acknowledged that the government analysis does not use the same language, terms and categories that business uses.

## **Interviews**

The third stage of research involved interviews with participating businesses and with businesses and organisations that could provide a wide overview.

Participating businesses completed a formal, structured interview to a set question list. This meant all interviewees answered the same questions, which provided a compromise between a questionnaire and an informal interview. Most interviews were done face to face and took from 20 minutes to an hour.

The interviews were completed with a good cross-section of businesses, including major retailers/importers, traditional wholesalers, direct-to-customer retailers, and businesses that use 3PL providers. We included two construction industry wholesalers to get some perspective of business that supply non-retail goods, and one manufacturer/exporter.

These businesses were:

- **Brittain Wynyard** – Traditional wholesaler (sports goods), importer, uses 3PL, innovative technology, training for product knowledge.
- **Citizen Watches** – Traditional wholesaler, importer, own warehouse, no training.
- **Ezibuy** – Retailer with stores, mail order and webstore. Importer. New DC “largest in NZ”. Broad training includes personal development.
- **Farmers** – National department store chain, importer, one distribution centre, multilingual workforce.
- **Fisher & Paykel** – Wholesaler, importer, manufacturer, exporter. Delivers products and parts to stores and direct to consumers on behalf of retailers. Also delivers and installs bulk lots for property developers etc. Receives imports. Structured training across the business.
- **Foodstuffs Wellington** – Supermarket operator, operates three DCs, training matrix defines required skills.
- **Forman Building Systems** – Importer, supplier to construction industry, decentralised logistics, part of Fletcher Construction.
- **Healtheries** – Wholesaler, importer and manufacturer. Distributes direct to retailer. Combines 3PL with its own distribution infrastructure.

- **Mico Metals** – Wholesaler, importer, construction materials, uses Retail Institute for distribution training delivered by Crop & Food.
- **Mitre10** – Hardware cooperative, importer, uses 3PL, extensive training, uses RITO.
- **Progressive Enterprises** – Major national supermarket operator, complex supply web with large modern DCs, some in-house training.
- **Reckitt Benckiser** – Wholesaler, importer. Uses 3PL. Distributes to supermarkets and pharmacy distributors. International ownership reflected in career paths. Individual training programmes for marketing, sales and management staff.
- **Torpedo7** – Retailer/importer, webstore only, customers in NZ and Australia, very fast growing, using leading technology, building DC in Hamilton.
- **The Warehouse** – Bulk retailer, importer, DC operator, in-house training.

Less-structured interviews were completed with a range of logistics experts and industry lobby groups. These were less formal and allowed the experts to tell us about their areas of interest. This group included a stock management/forecasting software provider, a logistics consultant and distribution centre designer, the Retailers' Association, the Importers' Institute, and the National Distribution Union.

Finally, six short interviews were made with personal contacts who are working in wholesaling and distribution, or who have recently left the industry. These gave a good understanding of the issues facing contractors, reps and similar grass-roots workers.

Thanks are due to all those businesses and people who gave their time to this project at the busiest time of the year.

### **Research bias**

All research is biased to some extent and this must be acknowledged at the outset. In this case, the obvious bias comes from the interviewees – while we approached them, they had to agree to be interviewed and so are effectively self-selected. This is acceptable as Retail Institute clients are also self-selected. The interviewees gave their time because they were experiencing skill shortages, are interested in staff training, or were interested in assisting the Retail Institute. These are the same motivations for signing up with the Retail Institute.

There is a strong Auckland emphasis, and ideally research would have included a visit to Christchurch. But Auckland is certainly the centre of wholesaling and distribution, several interviewees operate South Island distribution systems, and Wellington, Palmerston North and Hamilton businesses were included.

Another bias came in the research timing. Most of the interviews were done in November and December, the two busiest months for wholesaling and distribution activities. This meant we missed the 'training season' of March to October, but we did get to witness the system at its seasonal employment peak.

Finally, other research methods were considered and rejected. Questionnaires could have been sent to a larger sample of businesses but were unlikely to have been returned before Christmas, if at all. Focus groups were also rejected due to the unsuitability of the season and the bias that comes from

filling a room with businesses competitors and expecting forthright objective answers. Every interviewee commented that parts of the question list were commercially sensitive, and it was calculated to be more effective to meet them in person on their own territory.

Overall I am happy that the interviews provided detailed and accurate information from a representative cross-section of participating businesses.

## **Culture of wholesaling and distribution**

### **Vertical, not horizontal**

At the beginning of this project, the intention was to research New Zealand's wholesale industry. The goal was to mine detail from the Statistics NZ data, and talk to participating businesses to put a face on our wholesale industry.

It soon became apparent that business sees wholesaling as an activity and not as an industry sector.

There are four principal factors demonstrating this vertical alignment:

- Fortunes of their clients
- Businesses associates
- Intellectual capital and career paths
- Industry training organisations

### **Clients**

For obvious reasons, a business' fortunes reflect the fortunes of its clients. An obvious current example is the dairy industry. Businesses supplying equipment, materials and cows to dairy farms are enjoying the benefits of the current strong dairy prices. The fortunes and orientation of these businesses has more in common with their clients than it does with other wholesaling businesses (eg, a liquor wholesaler in Wellington).

### **Business associates**

Many businesses join organisations that include their suppliers, clients and close competitors. Examples from the interviews include Reckitt Benckiser, which supplies health and sanitation products to pharmacies and supermarkets, and is a member of the Packaging Accord, Food and Grocery Council, pharmacy industry groups and the Employers' and Manufacturer's Association. Forman Building Systems is a member of the Interior Systems Association. Citizen Watches is a member of jewellers' and watchmakers' organisations. All these businesses are classic wholesalers, but they associate vertically within their industry.

No organisation represents wholesalers as a group. The Retailers Association includes some wholesaling businesses, but these have joined as members of (vertically aligned) trade groups that have been absorbed into the Association. There is no wholesalers sub-group within the Retailers Association.

### **Intellectual capital and career paths**

The intellectual capital in many wholesaling businesses is product knowledge, knowledge of what clients want from the products, and client contacts. This specific knowledge is more important than generic wholesaling skills.

This is true for businesses and individuals, and is reflected in career paths. Wholesaling businesses typically look to clients or suppliers when recruiting staff, especially sales staff. Career paths frequently stay within a particular industry, but may move between different steps in the distribution process.

The interviews with wholesale and distribution workers demonstrated this career path. While one described his career as being in generic sales, the other five all described their career as within a specific industry.

A rep selling imported beer, wines and spirits said he worked in hospitality and specifically denied he worked in a broad wholesaling industry. He believed his main skills were specific product knowledge and his personal contacts in Wellington bars, cafes and restaurants. He saw career progression towards managing a bar, rather than in wholesaling an unrelated product.

### **Industry Training Organisations**

The spread of wholesaling activities across different industries is reflected in the different ITOs used by wholesaling businesses. Of the 14 businesses interviewed, 10 do not use an ITO with distribution staff. The other four are spread over seven ITOs including the Retail Institute. See Appendix 3 for a list of ITOs and training providers mentioned in interviews.

### **Implications for Retail Institute**

Overall, wholesaling businesses are aligned vertically in different industries, and not horizontally as described by Statistics New Zealand.

This is probably one reason why the literature review drew a blank – there are no published overviews of a wholesaling industry because wholesaling activity is spread across many industries.

It is unrealistic to see the 120,000 workers in Statistics NZ's wholesale category as a large, untapped market for the Retail Institute. Many of these workers will identify themselves with another industry, and it isn't safe to assume that their employer hasn't already formed relationships with another Industry Training Organisation.

All wholesaling and distribution standards should be designed from the outset so they can be delivered by a range of ITOs. The Retail Institute can then use other ITOs as clients to access this cross-industry audience.

### **Differences between wholesaling, distribution and marketing**

Wholesaling activities can be divided into distribution and marketing. Distribution is the physical sorting, storage and movement of goods. Marketing determines where the goods go, in what quantities, and what they cost.

Many wholesaling businesses are outsourcing the distribution role to Third Party Logistics (3PL) providers. This removes a lot of the capital cost as well as the need for an in-house logistics department. Distribution activities are largely performed in two industries – transport and retailing.

Even those major retailer/importer businesses that operate distribution centres outsource part of their logistics, typically trucking.

Marketing, including sales, purchasing and forecasting, is treated as a distinct activity, not as part of distribution. For many wholesaling businesses, marketing is the primary activity, especially if a 3PL provider is used.

This separation is often physical as well as organisational. In The Warehouse, for example, the planning and merchandising staff are on the North Shore and the distribution centres are in South Auckland. Farmers operates two buildings on the same road in East Tamaki, with planning and merchandising staff in the administration building, while the DC is next door behind a barbed wire fence.

At the beginning of this project I suspected this separation was due to the qualification requirements of the different roles. Marketing degrees are now common, and it's natural to include marketing graduates as part of the marketing branch.

I now believe the division has more to do with the way goods are handled. If a business uses a 3PL provider it may never touch the goods it sells. In these wholesaling businesses staff may not see or touch their products until they visit client's stores. They are more likely to be handling display materials than stock. The core skills in these businesses will be selling and developing relationships – marketing rather than distribution.

One FMCG wholesaler explicitly said it wasn't interested in distribution because it paid a 3PL to worry about that. Distribution is not a role for this business – the core skills are in marketing and brand building. This was a bold statement – there isn't much business if the goods are not on the shelves – but it is probably typical of the underlying sentiment behind many New Zealand wholesaling businesses, especially those that are branches of an international organisation with no local production.

### **Implications for Retail Institute**

The growing use of 3PL represents a challenge to the Retail Institute. It means distribution activities are moving from the retail industry to the transport industry. The Retail Institute needs to work with Tranzqual to best meet the needs of employers.

The Retail Institute can protect itself against this trend, and future economic changes, by developing services can be provided by, and sold to, other ITOs.

## **Description of wholesaling and distribution**

The structure of wholesaling and distribution is changing at present. The move toward 3PL means wholesalers can outsource many distribution costs, including training staff. It also means smaller importers and exporters can benefit from economies of scale, including the benefits of having access to large, well-trained distribution workforce.

However, the biggest importers in New Zealand are the large retail chains. Not only do they own and operate big distribution centres, they also operate long and continuous logistics paths, from offices in China to New Zealand stores, or even direct to your letterbox.

### **Supply web**

Getting goods to New Zealand stores and customers is the last step in a long logistics route. The paths goods take to reach users look more like a supply web than a supply chain.

One of the simplest paths uncovered in the interviews is that taken by Ezibuy's products. Goods come from China, are processed through Ezibuy's distribution centre and are sent to customers or Ezibuy stores. All Ezibuy goods pass through the distribution centre.

All other businesses have routes that are more complex. An importer/wholesaler will be sending goods to retailers' distribution centres; to retailers' stores; and possibly directly to consumers. Stores will be supplied directly from some suppliers and may also be receiving goods from a distribution centre.

Some businesses run decentralised supply webs, where goods are delivered to the closest store and moved between stores as necessary. This is found in some construction supply businesses stocking bulky goods such as timber and concrete fixtures. Goods of this nature are also likely to be delivered directly from the manufacturer to the building site, with the wholesaler acting as a broker.

Flexibility is one of the most obvious features of distribution. Retailing has fixed hours, fixed locations and a focused stock range in each business. By comparison, importers and wholesalers seem to be far more flexible and likely to come up with different supply/finance/delivery deals to suit different customers.

One role for importers is to absorb risk for retailers, by holding and owning stock until it is needed by retailers. Importers say there is some value in this role and large retailer/importers are sourcing stock from smaller importers.

### **China's dominance**

China is our main source of imported consumer goods. In terms of value of imports, China was second behind Australia in 2007. Australia's exports are led by raw materials and motor vehicles. China's exports are led by finished consumer goods including clothing and electronic goods.

Chinese goods are typically shipped to New Zealand in containers. They may be shipped directly or travel via Singapore. They are unlikely to come through Australia due to space restrictions on Trans-Tasman shipping. Goods shipped directly from China will reach Auckland wharves in 10-14 days.

Importers are watching a trend for store picking from China. This is seeing exporters packing containers with mixed consignments for delivery direct to the store. This outsources distribution centre costs (land and labour) to China. To date the volumes needed have been too big for this to have much appeal for New Zealand importers – it is more suited to massive importers like Walmart.

Direct delivery to stores may catch on here, but there will always be a need for a local reservoir of stock for overnight replenishment. Importers see this as the main role of their industry – providing a local reserve of stock that can be delivered just in time.

Other services may be outsourced upstream to China, however. While it's impractical to do store picking and packing so far away, services such as placing clothes on hangers, or sorting goods into bundles of different sizes and colours, may move from local distribution centres to China.

### **New Zealand is not part of Australia**

New Zealand stores are not directly supplied from Australian distribution centres. Space is tight on trans-Tasman container ships, and Australia's distribution industry has higher labour costs and is more highly unionised than here in New Zealand.

At present, there is a surplus of distribution centre space in Melbourne, but these factors are likely to make it unattractive for New Zealand business to move distribution services to take advantage of the glut.

One connection is the movement of labour. Staff with distribution centre experience have been moving to Australia last year as part of a broader emigration trend. The higher labour costs that deter employers are attracting workers and contributing to our present skills shortage.

### **Just in time**

A major trend in retailing logistics is the need to keep as much stock as possible on the sales floor. Faced with the high rents demanded in Newmarket, Lambton Quay or a Westfield mall, retailers must maximise sales space at the cost of in-store storage space.

This means storing stock off-site and requires frequent, accurate replenishments.

In many cases, these replenishments are made directly from distribution centres and 3PL providers in Auckland. Overnight deliveries cover the North Island. A secondary distribution centre in Christchurch may be used to resupply South Island stores overnight.

This means peak periods for distribution closely match the peak periods for retailers. This past Christmas saw distribution centres still busy a few days before Christmas. It also means there is little spare stock in the pipeline. Imports' spokesman Daniel Silva pointed out the reliance on frequent deliveries goes right up the supply web to production in China. He believes this leaves us more vulnerable than ever to any industrial action on the waterfront, as there are usually about two weeks worth of some supplies in the country.

## Geography

Distribution in New Zealand is firmly based in South Auckland. The concentration of major distribution centres in South Auckland is a national resource. The majority of the imported goods sold in New Zealand will pass through a South Auckland facility before reaching the end user. This is true of goods imported by retailers themselves as well as those brought in by wholesalers or by third party providers.

The most important suburbs for distribution are East Tamaki, Mount Wellington, Mangere, Penrose, Mount Smart, Wiri, Manukau, Kirkbride/Ihumatao (north of airport) and Highbrook (new development between East Tamaki and Otara).

Importers cited several reasons why the national logistics hub has developed in South Auckland. They include:

- In the largest urban area
- Cheap land
- Cheap labour
- Direct access to imports (and exports) via Ports of Auckland's inland ports at East Tamaki and Wiri
- Close to Auckland airport
- Transport hub in largest city and with access to main highway south
- Cooperative local authority – Manukau City Council

Businesses with a centralised distribution system typically operate a major distribution centre in South Auckland and a secondary centre in Christchurch. The Auckland centre will receive imports and service all of the North Island. The Christchurch centre receives goods from the Auckland centre and redistributes them around the South Island.

Goods will be transported by road from the distribution centres to individual stores. This will be dedicated truck lots going directly to each store if there is enough stock to fill a truck. Otherwise, goods may be reprocessed into store lots before final delivery.

Road transport is almost always provided by a contracted transport business. Goods that are resorted locally will be delivered to stores by courier. In the major retailers visited during research a delivery was scheduled for every store every day – this may have filled more than one truck for the largest stores.

Distribution to the South Island from Auckland will also be by road and rail ferry, often with no rehandling on the way.

Secondary transport hubs include:

- Albany – cheap land and close to Auckland, but on the wrong side of the harbour bridge for reliable port access and national distribution.
- Hamilton – Cheap land. Good access to Auckland and the rest of North Island.

- Tauranga – close to Auckland and well located to reach majority of population. Large port, but off main highways. May be shortage of cheap labour.
- Palmerston North – cheap land, good access to southern North Island including Wellington. Cheap labour available from students, but this market is seasonal and is less available at Christmas peak. Labour shortages predicted as distribution expands here.
- Christchurch – servicing South Island, minor imports through Lyttleton.

Four of the businesses interviewed distributed around the country from a single centre. Citizen Watches uses couriers to send small, high-value packages from its Newmarket warehouse around the country.

Farmers has recently closed a South Island distribution centre and now supplies all stores from Auckland. Some stock, especially whiteware and furniture, is delivered direct to customers from manufacturer/importers.

The other two were Torpedo7 (Hamilton) and Ezibuy (Palmerston North). Both have a strong direct-to-customer business – Ezibuy also has shops but Torpedo7 does not. Both also have large Australian markets and service these, direct-to-customer, from Hamilton and Palmerston North.

### **Inside a typical distribution centre**

A representative example of a New Zealand distribution centre would be in South Auckland and cover up to 50,000m<sup>2</sup> (five hectares).

It's prime role is unpacking ("devanning") containers of goods imported from China, sorting and storing the goods in the warehouse, then compiling the goods into orders required for individual stores and packing these into trucks or containers ("picking and packing"). The store orders will be prepared by the chain's marketing and merchandising department, which is located away from the distribution centre in the chain's head office.

At least one truck is sent to each store most weekdays.

Staff numbers will vary through the year, with peaking generally from October to March, with the biggest peak in December before Christmas. Staff numbers are flexible due to a large proportion of temporary staff employed through one temp agency.

The off-peak period (autumn and winter) is called the training season by some of the HR managers interviewed. They plan to get training completed by late spring so all staff can be working as the summer peak develops.

It is also interesting to note that census data, compiled in March, will be at the end of the summer season and so will not reflect employment in distribution at its peak. Staff numbers can probably increase by a half during the peak.

There are three levels of staff working at our representative distribution centre – management, directly-employed floor staff, and temps.

The management team is relatively small at 10-30. Some managers will work in shifts at peak times, when the centre itself operates two shifts.

The second tier is the floor staff who are directly employed by the retailer. This core of floor workers stays on year-round and fills the day shift. It may add up to less than half of the total floor staff employed at the peak. This group is quite possibly unionised and, regardless of union membership, is probably on an employment agreement that recognises training and experience. Therefore each worker's training will be to a formal framework and be recorded.

This group of workers will be paid somewhere between \$14/hr and \$20/hr depending on the employer and the role. The key skills will include:

- machine operation (including barcode/RFID/voice picking systems)
- literacy, numeracy and workplace communications
- understanding in-house labelling, codes, jargon and work flows
- OSH requirements including daily warm-up stretches, and safety equipment & clothing
- Punctuality.

There are three roles within our floor staff. Most staff are team members, not responsible for other staff. Team leaders are responsible for a team of 3-6 team members, and supervisors are responsible for several teams and 6-24 staff. Teams are semi-permanent and may be arranged along family lines or groups of workers with the same first language. The team ethic is strong and encouraged by employers.

Team leaders and supervisors will have additional training with some emphasis on leadership, discipline and employment law.

The third tier is the temporary staff employed by the contract agency, which may have its own office on site. This group outnumbers employed floor staff at peak seasons and fills out the early or late shift. (Some interviewed businesses run an early shift starting at about 5.30am and overlapping with the day shift. Others run a day shift/night shift with no overlap).

The temporary staff are on or close to minimum wage and may have to provide their own safety boots and hi-visibility vest. Training will initially cover the basic essentials such as OSH and induction training. However, temporary staff are seen as prospects for direct employment and in many ways temporary employment is a probationary period, which can last from six to 52 weeks depending on the employer. Few, if any, of the directly employed floor staff have been employed without starting as temps first. Workers who aspire to direct employment may receive extra training and responsibilities during their probationary period – this is not guaranteed to result in extra pay.

All floor staff, both direct and temp, live near the distribution centre – nobody travels far for minimum wage when employment is at a record high.

In South Auckland, this means distribution centre floor staff are dominated by Pacific Islanders and immigrants, largely from East and South Asia. Staff shortages were common during the research period (late 2007). Staff are often recruited (to the temp agency) by word of mouth or through family connections. Floor teams may be formed along family lines and the team ethic is strong and encouraged by employers.

In Palmerston North the temp pool is largely filled by university students. The growth of distribution work in Palmerston North is expected to suffer labour shortages in the future, especially over the

December peak when post-exam scarflies prefer other activities to staying in Palmy and working a night shift.

Our representative distribution centre also has strong security. This may include razor wire or electric fences, bag searches for everybody leaving the site and constant TV surveillance. Desirable goods, eg, i-pods, may be kept in an extra secure part of the centre with restricted access.

It is also likely that at least one other business will operate from the centre. This could include:

- an office for the temp agency,
- a forklift and machinery contractor providing equipment, maintenance and training
- a cafeteria operator
- a leased container crane with operators and maintenance facilities
- a local administration office for the transport contractor.

### **Recent History**

Wholesaling in New Zealand (and most of the world) has undergone major structural changes in the past 20 years. It has moved from selling local and imported goods to importing and distributing goods while building brand recognition with retailers and customers.

Take the example of a hypothetical FMCG business over the past two decades:

1980s – A locally-owned business has production facilities in Auckland and other parts of the country, possibly a conglomeration of older regional brands. Some manufacturing is outsourced to other local manufacturers. Completed goods are stored at the Auckland factory and delivered to stores in the company's trucks.

1990s – International company buys New Zealand business and closes old production facilities. Goods are now imported and marketed under international labels. Manufacturing staff are laid off and marketing staff cut as the New Zealand office is run as a branch from Australia or Asia. The old factory building is now used as an office and warehouse, possibly retaining the original warehouse staff.

2000s – The business has moved away from the old factory to a purpose-built office park in suburban Auckland. The distribution role has also moved to dedicated logistics premises in South Auckland – this could be run directly or operated by a 3PL provider. Marketing staff numbers have increased in recognition of New Zealand's unique marketing and compliance environment. A large part of the business' role is to promote its brands to supermarket chains and support this with advertising campaigns to boost customer recognition. Head office staff will not see their products except for samples, but they do stock and deliver merchandising material. The distribution role has been contracted to a recognised international transport and courier firm in a deal struck overseas between the transporter's and wholesaler's international offices. Distribution to supermarkets may be direct to stores or to the supermarket distribution centre, depending on the nature of the product and the deal struck between the wholesaler and the supermarket.

## **Self-employment**

Government statistics for wholesaling indicate a significant proportion of self-employed people (one-person businesses) working in the wholesale sector. They indicate 44% of people working in wholesaling are self-employed. This is considerably less than the 61% self-employed across all industry sectors.

Obviously some of these will be genuine one-person businesses including entrepreneurial importers sourcing goods, finding customers and leaving the rest to 3PL providers. But a major part of it will be the army of self-employed contactors who are a crucial part of the supply web.

Contract drivers in FMCG/route trade are the obvious example. Despite the branded vehicles and uniforms, most drivers are self-employed franchisees, so in statistical terms a contract driver is a one-person business.

Another obvious example is supermarket demonstrators. The friendly people offering you a piece of cheese while you shop are not employed by the supermarket, and often are not employed by the cheese maker. Many are temps or casual workers employed by agencies, and so are effectively self-employed.

In the strictest terms, self-employment can apply to all the contract drivers employed in FMCG distribution, and perhaps to the hundreds of temps working in distribution centres at peak times.

The Retail Institute may wish to bring contractors under its wing, and can do so through the client companies rather than having to trace and contact many small businesses. The skills involved are clearly distribution skills and the worker may well want to have them recognised. The real question will be the willingness of the contracting company. Most businesses that outsource do so to keep costs down, and this will include a desire to reduce training responsibilities and pass costs on to contractors.

## **Future trend – DC vs 3PL vs www**

The current trend is clearly towards getting out of distribution and leaving that to a 3PL provider. This is most obvious in medium and large importers, leaving in-house distribution to the largest retailer/importers.

But there are some indications that this trend could be reversed in the future. Distribution centre technology is getting cheaper and this will make it more economic to operate a smaller, modern and private distribution centre in-house.

Some interviewed businesses suggested problems with using a 3PL provider. They felt the rapid growth in 3PL had left providers operating at their limit, both in management skills and capacity. This is causing service to drop and raising suggestions that the costs of using a 3PL are relatively high. Specialist wholesalers (eg, fashion) face the choice of using a generalist 3PL which may not handle their product as desired, or using a specialist 3PL that probably serves their competitors as too.

Another trend is for the growth in web-based businesses. Two interviewees – Ezibuy and Torpedo7 – make on-line sales. Both have modern distribution centres in regional towns. Both distribute all over the country and into Australia from one centre, direct to customer's doors. This model suggests that in future it may be more important for a retailer to have a good website and a well-located distribution centre, than to have well-located stores.

## **Training**

There is an active record of training in wholesaling. Training comes from a very wide range of providers and involves a surprisingly wide range of ITOs.

There are two distinctly different approaches to training in wholesaling and distribution. Distribution centre floor staff get standardised training in large numbers, while management and marketing staff get much more personalised training from a wide range of providers.

### **Distribution centre floor staff**

As noted above, all distribution centre floor staff must get basic training in safety, machine operation and in-house systems. The large number of staff involved, and the flexibility of shifts, etc, means all staff employed in the same role must have the same skills.

Although all employers provide training and record individual training histories, the way training is delivered varies across employers. Some have (or are developing) a detailed structured framework with in-house training specialists, while others rely on mentoring by workmates and assessment by supervisors.

All staff within one role are expected to complete the same training modules. There are too many staff, performing the same activities, to develop personalised training paths. This uniformity is another advantage for the Retail Institute.

Apart from the basic induction training, specific training is provided as floor staff follow a predictable career path. Temporary staff progress to permanent staff and may receive more detailed training, either before or after the transition depending on in-house policies. Similarly, team members with potential may be trained to be able to apply for a team leader position, or they may be promoted and given training then.

In any case, employers already have defined career paths and training requirements for distribution centre staff. In some cases, it may be a simple matter to match these to Retail Institute standards. In other, employers' existing standards could provide the basis for industry-wide standards.

### **Distribution centre training needs**

There was a great deal of consistency in the training needs raised during the interviews.

All distribution centre operators are experiencing skills shortages as well as a staff shortages (ie, in staff numbers).

Particularly in South Auckland, there is a widespread need for training at the most basic level. This is almost a 'pre-training' training and should aim to give staff the confidence and skills to take on specific training.

Businesses spoke of the need of very basic training in literacy, numeracy, workplace communications, punctuality and basic computer use.

This need was commonly mentioned in South Auckland distribution centres. English is often a second (or third) language for floor staff. Immigrant workers may have little or no experience in a New Zealand workplace.

Other common requirements were for basic site safety training, and safe lifting/pre-work warm up routines.

Team members will need training at L1-2. Training needs have already been defined and the training is constantly being provided, with in-house assessment and recording. Common team member skills include machine operation (fork hoist etc.), understanding the product code/bar code/RFID systems, and devanning and picking skills.

Team leaders and supervisors will also require more workplace communication training, basic leadership skills, reporting output according to in-house requirements, and basic employment law for disciplinary matters. This will be at L2-4.

Again, training for team leaders and supervisors has already been defined, and there is probably more development at this level than for team members.

There is wide agreement on how the industry wants training to be delivered. Hands-on training in the workplace is preferred, perhaps supported by classroom training delivered in the workplace. Computer-based courses, or unsupported book-based courses, are seen as being theoretical, unattractive to staff, and unlikely to be completed.

## **Marketing and management**

By comparison with distribution staff, training for marketing staff and management is fractured and personalised.

Training goals are often negotiated with individual staff members during annual performance and development reviews.

Many of these non-distribution businesses haven't heard of Industry Training Organisations. Training is highly personalised, and two workers in the same role working from the same office may have quite different qualifications. Businesses use many different training providers and do not seem to care if the training fits into any NZQA framework – it is far more important that the training is effective and produces a more profitable worker. International businesses, with mobile staff, show little regard for NZQA recognition.

There is also a wide range of training providers used for these markets. They range from proprietary training system providers such as Human Synergistics and the Knowledge Gym, through tertiary training (technology institutes, universities, NZ Institute of Management), to overseas universities including Monash and Harvard.

## **Attitudes to ITOs**

Several of the participating businesses had never heard of the ITO system. This includes businesses that are actively training their staff.

Others had heard of ITOs but didn't use them, or didn't use them for distribution staff, or didn't use them anymore. These businesses do not see an advantage in using ITOs and prefer to deal directly with training providers. Alternatively, they would like to work with an ITO that can provide a comprehensive service that takes up little of their time. This would include the ITO acting as the training provider or at least organising the training provider.

The interviews uncovered an unexpectedly wide range of ITOs working in wholesaling and distribution. These included PAMPITO, ETITO, and Print NZ ITO. While one of the purposes of the project was to explore the role of Tranzqual, none of the interviewed businesses mentioned this ITO when asked.

The variety of ITOs involved in wholesaling and distribution is more evidence of the range of industries involved in wholesaling, distribution and marketing activities. It is also a result of businesses having a choice about which ITO they hire. There were some surprising matches, both favouring RITO and counting against it. For example, a typical wholesaler, importing and producing goods for retailers is signed to PAMPITO and may be reluctant to sign with another. On the other hand, Mico Metals supplies the construction industry, but uses the Retail Institute and would like to continue to do so.

## **Attitudes to Retail Institute**

Wholesalers who do choose to work with an ITO cannot be assumed to choose the Retail Institute. Some are already working with other ITOs. Since most wholesale businesses align their industry vertically, many will look towards the ITO that serves their industry.

Businesses that want to work with an ITO probably are already doing so. Even those businesses that fit squarely into the traditional definition of wholesaler – selling goods to retailers to on-sell to consumers – have found and used other ITOs.

Several interviewees made comments about service received from the Retail Institute. In all cases, they asked for service to be improved, or said RITO service was not competitive with service from other ITOs.

This was a specific question in the formal interview – see Appendix 2.

Areas for improvement include:

- More frequent client contact, or better response to requests for contact, meeting, etc.
- Lower cost per staff member – this cost RITO The Warehouse contract.
- Offering a more comprehensive service – other ITOs can provide training materials and organise training providers

- Offer a simpler service - fewer forms to fill out, or being able to complete paperwork in one session.

In an environment where some businesses see all ITOs as a luxury, there is an opinion in industry that the Retail Institute has been especially academic or theoretical and has less practical benefit than competing ITOs.

### **Opportunity for Retail Institute**

The spread of wholesaling across many industries, combined with the low sign-up to ITOs, gives the Retail Institute an opportunity to attract a large number of businesses.

It will first be necessary to overcome doubts about the value of ITOs themselves. This can only be achieved by offering an easy to use service that meets the business' practical training needs.

Given the spread of industries involved, the Retail Institute must be prepared for these potential clients choosing to work with another ITO. Ideally they will choose the Retail Institute, but if not, RITO should be able to provide services via another ITO.

## Recommendations

The recommendations identify four potential markets for the Retail Institute:

- Distribution centre floor staff in major retailers and retailer/importers
- Distribution centre management
- Marketing staff in major retailers and retailer/importers
- Marketing staff in other wholesalers

These form four steps in a sequence, as each step builds RITO credibility and prepares work for the next step.

### Immediate goal

#### Distribution floor staff in major retailers and retailer/importers

##### Levels 1-4

The Retail Institute has a large and immediate market among distribution centre staff. All staff are being trained and employers are widely reporting skill shortages.

Distribution centre floor staff represent a market of about 2000+ within centres operated by major retailers (eg, supermarkets) and retailer/importers. This total expands at peak times and is at least matched by staff working in 3PL providers and other distribution specialists.

Training needs are relatively simple. Training is usually standardised and uniform within each employer. Distribution floor staff are usually allocated within a small number of roles. The basic team member role will account for more than half of the floor staff in a distribution centre – a large market with basic training needs.

Retail distribution centres are already training all staff. At the most basic level, staff cannot enter the centre floor without getting basic safety instruction and in-house systems induction training. This training must be recorded and signed off to meet basic OSH and ACC requirements. This basic infrastructure can form the basis for recording Retail Institute standards.

Retailers' centres are a natural market for the Retail Institute. Some of the chains are already working with the ITO, or have in the past. As retailers, they will recognise the Retail Institute as the logical ITO for their business.

This does not make them a soft choice for the Retail Institute. As already noted in this report, retailers are some of the biggest importers in New Zealand, and are operating cutting-edge distribution technology. They are operating some of the biggest distribution centres in the country. Working with these businesses gives the Retail Institute an excellent opportunity to demonstrate its competence to distribution businesses that don't align themselves with the wholesale/distribution sector.

Training standards and services should be designed so they can be sold to and delivered by other ITOs. Standards developed for retailers' distribution centres will also be suitable for distribution centres operated by 3PLs and other transport specialists. They should also have relevance to other businesses performing distribution activities, such as manufacturers and exporters (eg, Fisher & Paykel).

Temporary staff shouldn't be forgotten. Temp/casual/contract staff already form the majority of distribution centre staff at peak times. To make the most of the market, the ITO services should be available for these staff and be marketed in ways that make centre operators want to involve as many workers as possible. In the present climate, addressing skills shortages is a widespread problem. In times of higher unemployment, getting the most out of a smaller work force may appeal to employers.

In short, there's a big market, with agreement on what training is needed and how it should be delivered. The course contents have already been defined, the infrastructure for assessing and recording training is already there, and the largest operators are retailers. This work will continue with or without the Retail Institute. There is also the opportunity to on-sell this work to other ITOs.

## **Short-Term Goal**

### **Distribution centre management**

#### **Levels 4-7**

This goal has many of the advantages of the first goal, but has a smaller market of about 200+.

Distribution centre management staff are in short supply. Several operators spoke of the need to build management skills as businesses increase in size. This demand has been met in part by importing experience, but this is an expensive and temporary solution.

The training needs for distribution centre management have already been defined. There is a wider range of providers used, including overseas universities (eg, Monash and Harvard). As with floor staff, the basic work on defining career paths and training frameworks has already been done by the industry. The Retail Institute can use this to determine training standards and content.

As with the first goal, these standards will have a wider market in 3PL providers and other distribution specialists. Standards should be developed so they can be provided to other ITOs.

## **Medium-Term Goal**

### **Marketing staff in major retailers and retail/importers**

#### **Levels 3-7**

The medium-term goal is to take advantage of the client relationships developed during the first two steps.

One of the big challenges in extending services into the marketing side of wholesaling is the personalised training and career paths and the consequent wide range of training providers.

This challenge will be addressed in part by working with major retailers and retail/importers. By the time this stage is commenced, good relationships will have been built between these businesses and the Retail Institute. It will also be advantageous because these businesses are large employers. This means RITO will have a significant market, and career paths are better defined and longer than in smaller businesses.

Roles and skills to be addressed in this stage will include marketing, managing client relationships, merchandising, sales forecasting, commercial law and a wide range of management roles.

Potential outside markets include medium retail chains, which can be addressed within RITO. Expanding the market for this stage takes us into stage four.

## **Long Term Goal**

### **Marketing staff in other (non-retailing) wholesalers**

#### **Levels 3-7**

Addressing training standards in non-retailing wholesalers will present a real challenge for the Retail Institute.

This group has personalised training and career paths and uses a wide range of providers. It also has little commitment to using Retail Institutes and will probably be sceptical about their value.

These challenges can be overcome by demonstrating the Retail Institute's commitment and capability through the first three goals. Many of the non-distributing wholesalers are suppliers for major retailers and retail/importers retailers. They will be able to see the value of using the Retail Institute through their clients' experience.

Standards will be similar to those developed in stage three. The main difference will be working with many more businesses with smaller staff numbers working in each client.

This fourth stage opens the door to the large untapped market of businesses that perform wholesale activities and do not use an ITO. Flexibility will be essential at this stage, especially the ability to sell services to other ITOs.

## **Appendix 1 Interview format**

The Retail Institute offers assessments and standards for the in-store side of retailing, with a small offering for the distribution side of the business. It wants to expand into the wholesale and distribution side, and work with retailers and wholesalers to address training needs and skills shortages.

To do this we need to learn as much as we can about the distribution and wholesale part of the industry, including roles contracted out to third parties.

My main topics of interest are:

### **Size and shape of your distribution system**

How do products reach your stores – directly from your distribution centres, from retailers DCs, other routes?

What determines the delivery path for different products?

When do retailers assume ownership for products – collection from supplier/delivery to DC/delivery to shop/other?

How many distribution centres do you operate and how do they relate to each other – e.g., are distribution centres sending goods to each other?

How many stores are you supplying? Do you supply consumers directly?

### **Staff**

How many staff work in your distribution system – including sales and marketing, technical reps, monitoring deliveries and administering goods in storage?

Do you use contractors or agencies to provide distribution staff – in what number and in what roles?

Where do you recruit sales, technical and distribution staff? What skills, experience and qualifications do you look for?

When staff leave, do they typically stay in distribution? Are there common career paths for different roles?

What systems do you operate to ensure individual staff have specific job skills, e.g., fork lift operation, hazardous materials handling? How do you record skills and training of each staff member?

What in-house certificates and qualifications are offered?

### **Skills shortages and training**

Are you currently experiencing any areas of staff shortages or skill shortages?

Of your current staff, how many are currently receiving job-related training?

Have any of your staff been assessed for any RITO standards?

RITO distribution standards?

Other ITO standards?

Do you use external providers? Do you use proprietary training providers, e.g., software providers?

### **Future of skills development**

What is your opinion of RITO service experienced to date?

How does it compare with other ITOs?

How could it improve?

What training and assessment delivery systems would you like to use in future?

### **Extending our research**

Can you recommend major suppliers/clients who also operate significant distribution systems?

### **Other comments**

Anything else you want to cover is welcome.

## Appendix 2 ITOs and training providers mentioned in interviews

Interviewee	ITO	Training providers
<b>Brittain Wynyard</b>	None	David Forman (sales)
<b>Citizen</b>	None	None
<b>Ezibuy</b>	Retail Institute ETITO	Human Synergetics Knowledge Gym University of Otago Harvard
<b>Farmers</b>	None	SAP Crown (forklift)
<b>Fisher &amp; Paykel</b>	None for distribution staff	FP Scale in-house training Mentoring only for distribution
<b>Forman Building Systems</b>	None (Installers use BCITO 'intensively')	David Forman (sales) Others organised through Fletcher Building
<b>GS1</b>	Print ITO	GS1 – bar codes and RFID
<b>Healtheries</b>	PAMPITO (literacy training)	ITAT (pharmacy quals) RT Forkhoists EMA ACC Auckland University Knowledge Gym
<b>Mico Metals</b>	Retail Institute	Crop & Food NZ Production Inventory Control Cert. EMA Massey University
<b>Mitre10</b>	Retail Institute Horticulture ITO	Suppliers Mitre10 College of Retailing Cardinal Solutions Robertson Group M.A.P. (stock management, finance)
<b>Progressive</b>	None	Crown (forklift)

<b>Reckitt Benckiser</b>	None	Nelson-Marlborough Polytechnic Sadler & Associates Food & Grocery Council 'multitude of external providers' inc some in Australia ACNielsen Apollo Training Site Safe Robertson Group
<b>Torpedo7</b>	None	None
<b>The Warehouse</b>	None (Has used Retail Institute in past)	Forklift provider In-house