

ANALYSIS



Robots, wage wars and the race for space

Becky Waller-Davies takes a look at three of the biggest issues set to transform warehousing over the next 18 months

Every part of a logistics network needs to work harder than ever before, as the shift to online spending continues.

Long gone are the days when a warehouse was more or less a storage shed, with goods shipped to stores on a set rota. Now businesses as diverse as Asos, John Lewis and Ocado are investing hundreds of millions in a bid to win spend and future-proof their businesses.

But that investment comes against a backdrop of many retailers struggling to cope with the changes afoot in consumer spending habits and a market vulnerable to Brexit headwinds.

With policy decisions around Brexit still unclear, the retail warehousing industry will need to be quick to adapt to changes that come its way. In a climate of uncertainty, keeping ahead of the market is now more crucial than ever.

Labour shortage

The warehousing industry is facing an approaching labour shortage, with the Brexit vote intensifying a natural ebb in the workforce. "A lot of large retailers have a very high

percentage of eastern European labour – we're talking 50% plus," says independent supply chain director Michael George. "That started when the border opened up [in 2004] and the market has got used to that."

However, the Brexit vote has led to less migration from eastern Europe, while the fall in the value of the pound has meant any money immigrants send home is worth 15% less, making working in the UK less attractive.

These dynamics, coupled with the fact most eastern European economies have performed well since their entry into the EU, mean that the flow of eastern European labour is due to shrink. As it makes up such a large part of the total workforce, it could well spell a labour shortage across the industry.

The pay gap between warehouse and shopfloor workers has also closed slightly. There used to be a £1 to £1.50 differential between the two wages, but owing to the introduction of the national living wage boosting shopfloor wages, that gap has diminished.

This labour shortage will be particularly difficult to tackle during peak, which requires extra temporary staff.

"The pay rates at Christmas would have been higher than ever before," says George. "You need to secure labour at the same time everyone else does and that can lead to pay wars. In three years' time we may need to start paying £11 to £12 at that time of year."

Automation and robotics

While automation is not uncommon, it is not yet in use across the entire sector. Over the next 18 months, however, that will change, with automation becoming the norm for most large retailers.

Asos, John Lewis and Screwfix have all invested in automation technology.

John Lewis' Magna Park distribution centre, the second part of which opened in September 2016, features a hanging garment system, which is capable of sorting 5,000 products an hour and saves workers from having to cover miles of the warehouse on foot every day. It was the result of £150m investment and a decade of planning.

Despite most of the larger retailers developing some automated capability over the next 18 months, however, the vast majority will choose not to automate to 100% capacity. Instead, they will use technology to replace the extra labour needed at peak and avoid any shortage of warehouse workers.

Discover more about retail's
supply-chain trends
Retail-Week.com/SupplyChain



John Lewis' Magna Park warehouse



Ocado's Andover warehouse
(and below)



Costs for automated and robotic equipment are coming down at the same time as retailers are having to pay more to attract labour

**Phil Streatfield,
Bearing Point**

Robotics is the next natural step after automation, with businesses such as Ocado investing. Its 'hive' – a vast three-storey block comprising hundreds of plastic boxes of groceries – is staffed by hundreds of robots. The robots – called 'the swarm' – work collaboratively as bees would in a hive, shifting boxes together.

At the moment, Ocado still employs humans to bag the groceries, but that is set to change. Engineers are currently working on developing a robotic hand that can handle delicate items such as fruit.

Innovation like this comes at a price – Ocado has earmarked £210m capital expenditure just for the coming year. The expected shortfall of labour is also helping to drive the take-up of automation and robotics.

"Capital costs for automated and robotic equipment are coming down at the same time as retailers are having to pay more to attract labour," says supply chain consultancy Bearing Point's senior board adviser, Phil Streatfield.

"It makes the economics of investing in this technology better."

Developers are looking into inner-city office space, car parks and retail parks as solutions to a warehouse space shortage.

Running out of space

Warehouse occupancy rates now are at their highest in years, thanks to fast-growing e-tail businesses and the continued shift to online spending.

However, the rate of growth is now so high that the industry is in danger of running out of space in just over two years, says property firm Savills. According to its most recent report on the issue, published in May 2017, just 6% of warehousing is vacant.

"When the last financial crisis hit, there was a glut of commercial property and so building stopped," says Streatfield. "However, we are

now getting to a situation where pressures in the supply chain mean that the capacity in the property market is highly utilised and the available space is falling."

While developers that sat on land banks during the financial downturn are now set to begin building again, there is doubt as to whether this will be enough. The 6% vacancy figure equates to 28.6 million sq ft of warehousing, and Savills estimates that just 4.4 million sq ft is in the development pipeline.

According to a report by Deutsche Bank in December, both e-tailers and logistics companies are vying for the same type of space. The high demand could see both out-of-town and inner-city properties being redeveloped as warehousing space.

The report suggested that property as diverse as inner-city office space, car parks and retail parks could be used as warehouse space, especially as demand for last-hour logistics grows.

One example of a business already doing this is Tritax, a real-estate investment trust which specialises in logistics. Last summer, Tritax bought a power station near Dartford, which it is now set to convert into 1.7 million sq ft of distribution centre space. Once finished, it will be one of the largest distribution centres inside the M25. **RW**