

# Retooling Your Fulfillment Network to Stay Competitive

*HOW MERCHANTS MEET TODAY'S HEIGHTENED SHOPPER EXPECTATIONS*

BY **Brian Kelly**

**M**illennials and their following generational cohorts are dominating the U.S. labor force, according to U.S. Census Bureau data. As of 2017, 56 million millennials were working or looking for work. That's more than the 53 million Gen Xers or 41 million baby boomers. And now, older post-millennials (Gen Z) are entering the workforce. Last year, 9 million post-millennials began their working lives. What do these two generations want from retailers? Well, they want the world, and they want it now.

Ever since Amazon introduced Prime in 2005, offering free two-day shipping in the lower 48, it's left everyone else chasing after them. This is what millennials and those following after expect from their ecommerce experience.

Rod Sides, Vice Chairman and U.S. Retail and Distribution Leader for Deloitte, said millennials are setting the definition of what fast delivery means. "It always comes back to the millennial mindset that as a group they want what they want, and they want it immediately," said Sides. "Also, millennials are not spending as much time looking for a deal as they are looking for instant gratification."

If you're not able to offer guaranteed two-day delivery on just about everything you sell, it could come back to bite you — in a very public manner. Eoin Comerford, GM of Outdoor at Walmart eCommerce and CEO at Moosejaw Mountaineering, explained millen-



nials were "definitely more likely" to share a bad shipping experience in social media, compared to other demographic groups. "They know the power of social and are not afraid to use it," he said.

To be successful in today's business environment, retailers need to be able to meet customers' demands for an enhanced delivery experience. That means offering the most rapid shipping methods, free, unlimited returns and same-day delivery (if at all possible). Transparency and communication with real-time delivery tracking and notification options are also key factors for making younger shoppers happy with the shipping and delivery experience.

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One way to get to the point where you can reliably offer your customers this level of service is to fine-tune your fulfillment network strategy.

## Here's What You're Up Against

Amazon has 385 active facilities in its U.S. fulfillment network, with another 35 planned, totaling more than 140 billion square feet of active floor space. It operates 1 million square-foot-plus mega FCs as well as smaller sortation centers, returns processing operations and outsourced fulfillment.

In the U.S., Amazon's network of sortation centers is designed to increase its control over the last mile. Parcels are sorted by ZIP code and inducted into local post offices for final delivery.

Now as a result most everyone expects orders to show up on their doorstep shortly after they're placed, somehow by magic and a click, putting increased pressure on retail and ecommerce executives to re-think their fulfillment approach.

## Network Strategies to Fight Back

"Due mainly to the booming ecommerce market and subscription services, order profiles have evolved to smaller, more frequent ones that require more picking," explains Brian Barry, President of F. Curtis Barry & Company. "Customer expectations for faster, free, or even same-day shipping continue to skyrocket as

the number of returns increase concurrently. All of which creates a greater need for more distribution centers and a greater call for the warehouse labor that was already increasingly hard to hire."

In response to that need, there's an ongoing fulfillment shift to smaller regional FCs vs. large centralized DCs. "Companies typically start with a coastal fulfillment strategy to service a high percentage of their market in a short delivery window," said Kirk Anderson, Vice President of North American Sales for WMS provider Snapfulfil. "Then they expand to add additional facilities in the central U.S. to keep their inventory position and SLA level high, to the point where they can deliver product within 1-2 days of order to as close to 100% of their customers as possible."

At the base of any restructuring of fulfillment networks is the question: How do your customers want to receive their products? "This is where a cloud-based WMS can become quite disruptive, including for subscription or continuity programs," said Chris Anton, Executive Vice President and Head of Global Sales for Snapfulfil.

Snapfulfil client Petflow negotiated with FedEx to send full truckloads from its facility in New Jersey to Chicago, where they have a large concentration of customers. Once there, Petflow can break a pallet and close orders by 4 p.m. Delivery drivers arrive in Chicago the next day, so customers are getting their first order within two days. After that, the customer receives a new delivery every three weeks if they've opted into the continuity program. "This is how ecommerce companies and retailers can compete against Amazon and do so cost effectively," Anton said.

Chris Groseclose, Chief Fulfillment Officer for electronics seller Crutchfield Corp., said his company just bit the bullet and now offers an array of delivery options.

"You compete as best as you can without running yourself broke," Groseclose said. "We do two-day free shipping as a line-item price. Close to the center, order by 5 p.m. EST and we ship same day, and we've been same-day shipping since 1974. We do next-day delivery around our center, but we are coast-to-coast two-day shipping. It was a cost add for us, but we have found we have a better closed sale ratio.

Groseclose said the increase in sales has covered the increase in cost. "At some level we sell products that overlap big boxes and Amazon, and we have to remain competitive," he said.



At Crutchfield, UPS is its primary last-mile provider. “We also use the U.S. Postal Service’s Priority Mail,” Groseclose said. “Prior to December 2018 that was our main delivery option. We gained a day going to UPS. We tell our customers upfront what their delivery date is.”

The company also does business “cautiously” with Amazon, Groseclose said. “We participate with Seller Fulfilled Prime,” he said. “We used to sell exclusively on Amazon, but we severed that relationship. If you turn your whole business over to them it can be a double-edged sword.”

## Fulfillment Capabilities Enabled by Cloud-Based WMS

Many companies are looking to implement new technologies, and reevaluating older ones in an effort to meet rising demands.

For example, technology can help companies make better use of packing stations. A WMS provides visibility into data to determine optimal station locations and which items should go to which stations. It also maintains order details, eliminating paper-based tracking and providing a second set of eyes to ensure accuracy.

For companies struggling to meet shopper expectations for deeper visibility and more speed, a cloud-based WMS can help them stay abreast of inventory levels and order status. It provides accurate, real-time

information before and after the sale, helping companies better optimize FC processes to increase shipping speed.

A WMS can also help you address the desire of younger shoppers for a wide range of product options by more accurately forecasting demand. With deeper insight into purchase patterns and trends, retailers can better prepare for shifting demand and offer a greater variety of SKUs.

To optimize handling of a wider product range, a WMS can enable a continuous flow of orders through the FC, rather than a traditional wave-based system that produces batches of orders for an entire shift or portion of a shift, explains Anton. “It’s a very effective way to group and distribute work, and make sure priority orders get out the door within hours vs. days,” he said.

A modern WMS can also offer significant value-added services by simplifying and standardizing processes. This includes helping a company look at order classes and profiles, and using a rules engine to gain efficiency through standardized processes.

Many warehouse managers find they can surmount the challenges presented by a marketplace of demanding younger consumers with a Tier 1 WMS capable of handling automated material handling systems and data collection.

Crutchfield is constantly optimizing its systems to meet customer demands, Groseclose said. He knows efficient execution of core fulfillment tasks is critical to making the last mile count. Also, higher delivery expectations call for streamlined picking and packing processes, getting goods out the door and on the road quicker.

“We use automation to reduce labor and improve efficiency, and we’re adding a call center right now,” Groseclose explains. “We use intelligent pick modules, conveyors and hand-held scanners. We have a smart pick process, and we’re consistently reengineering to get down to the least number of steps.”

Crutchfield’s FC runs an 80/20 fast pick/slow pick ratio, based on item velocity, and uses an automated case sealer. “We use biodegradable materials, doing the bare minimum packing with an eye on ecological responsibility,” Groseclose said. “And we’re looking at expanding, including a consideration of using robots for efficiency gains. We’re always open to looking and testing.”

Since many warehouses were designed to ship by pallets and cases to retail, they need to look at re-vamping strategies and technologies for ecommerce and direct to customer. This starts by evaluating how a given facility utilizes its space. Optimizing slotting and racking processes can help companies manage greater inventory, reduce picking time and meet two-day shipping demands. A WMS can provide deeper visibility into space utilization, helping design teams create optimal pick paths to maximize productivity and efficiency.

## What happens next?

If a company chooses to expand and build out new distribution and fulfillment centers, a cloud-based WMS solution may be the right choice to grow with.

"We had a cosmetics company client go live in the Netherlands, a week later go live in Mexico, and six months later in Hong Kong to support a global rollout," Anton said. "We didn't have to transport a platoon of consultants to either the Netherlands or Mexico; we just set up the data within the WMS, with required importing rules, and any site-specific tweaks or mods. After that they relied on the built-in predictive analytics to determine the right mix of inventory to service customers in a given geography. The key is to populate the WMS with good data, and to implement optimized processes."

Acquiring or building new facilities may not always be the right move for companies seeking to meet higher expectations, so they need to weigh their network expansion options, including partnering with FBA or a 3PL. Curt Barry, Founder and Chairman of F. Curtis Barry & Co., said ecommerce sellers are missing some key steps when considering expansion of physical capabilities.

***You compete as best as you can without running yourself broke.***

***– Chris Groseclose, Chief Fulfillment Officer, Crutchfield Corp.***

"The first question to ask is 'Why am I doing this?' Barry explains. "And then the following questions must be addressed, such as, 'Am I losing sales to Amazon? And what value do I put on this? Can I pick up 5% more sales from opening a new center? Is the time to customer a guaranteed time I can now offer? How long will shipping take?' Ground may take 8-10 days from a new location, and customers may not want to pay for expedited shipping. So, what's the real cost of shipping?"

Barry cautions that all new centers come at a large capital cost, and low unemployment is driving up the cost of labor. "If you're opening a center more than 35 miles from your current location, you'll need to hire a completely new workforce, including higher levels of management for that new location," he said.

So, is building centers closer to customers worth the expense? It may be for some, but for other companies it may be wiser to optimize existing facilities and farm some work out to a fulfillment or logistics partner. Warehouse space is the largest cost of a fulfillment operation behind labor. Expenses like outside storage and expanded footprints can often be avoided when maximizing the current space by implementing a cloud-based WMS.

Faced with generational cohorts that require higher service levels than ever before requires a major re-tooling and rethinking of how a fulfillment network is set up. In the ecommerce era, companies need to explore ways to drive greater efficiencies by increasing the reach of their distribution network, redesigning processes and making technology investments like a tier 1 WMS.

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