

Should Your Next DC Be in an Urban Shopping Center?





RETAIL IS IN THE MIDST OF THE BIGGEST TRANSFORMATION SINCE THE RISE OF BIG BOX STORES

eCommerce is growing steadily, carving out a larger percentage of retail sales. Last holiday season online orders made up 21% of total retail sales, and this year will be even higher. At the same time, Amazon is setting a high bar for service. With its growing distribution network, the behemoth can offer same day delivery to more than 77 million Americans¹ on millions of products from apparel to auto parts, to office supplies and everything between. Traditional retailers must now figure out how to rationalize and leverage their existing store assets and distribution footprint around this new set of customer expectations.

To remain competitive, companies have tried a number of options:

- Building dedicated eCommerce DCs, warehouse-within-a-warehouse operations, and full-scale omni-channel facilities.
- Using third-party logistics providers and enabling drop-shipping from suppliers.
- Increasing automation and adding labor for short-term scale during peaks.
- Adding ship-from-store capabilities including “buy online, pick-up in-store” and “ship from store to consumer”.

Although these tactics have had some success, they come with a host of inventory, efficiency and profitability challenges. Retailers still find themselves limited in their flexibility and ability to respond quickly to change. And with the labor pool tightening in many key markets, companies must look for additional solutions.

What's needed is a way to serve customers efficiently and cost-effectively, without incurring huge capital expenses or carrying excess inventory. And the solution will have to be flexible and adaptable as the market, and your business grows, contracts, and changes direction.

CAN YOU AFFORD 35 DISTRIBUTION CENTERS?

Amazon's sprawling fulfillment center network allows next day ground shipping to 91% of the US population². To provide that same level of service would require a network of more than 35 DCs, which is simply out of reach for many retailers.

¹ <https://www.bloomberg.com/graphics/2016-amazon-same-day/>

² <https://www.forbes.com/sites/mckinsey/2013/12/18/next-day-shipping-wars-can-retailers-compete-with-amazon/>

Number of distribution centers gives Amazon a significant advantage in average distance shipped versus other players

Population within

- 1 day
- 2 days
- 3 days
- 4+ days



¹ Assumes demand distribution mirrors US population distribution

SOURCE: US Census Bureau

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COULD POP-UP DCS BE THE FUTURE OF RETAIL DISTRIBUTION?

But now there is a new alternative to consider. In addition to your centralized DCs, 3PLs and stores for fulfillment, what if you could pop-up a small distribution operation located closer to customers than you've ever been? These "pop-up DCs" could be designed with the efficiency of a DC, but without the need for a large capital investment or long lead time to implement. You could potentially add 5 or 6 pop-up DCs to your network for less than the cost of a new DC, and in a fraction of the time. This new kind of adaptive network might allow you to:

- Fulfill orders faster to local customers
- Save transportation cost by locating inventory closer to stores and customer's homes
- Test the waters in new geographies before making a big investment
- Quickly decommission facilities that aren't needed
- Drive higher margins



“This is a rapidly deployable, scalable solution that doesn’t require large capex investment and enables responsiveness on a whole new level.”

THERE ARE THREE TRENDS THAT ARE COMING TOGETHER TO MAKE THIS POSSIBLE

First, significant advances in autonomous robots have driven design innovation and increased the productivity of workers doing each-picking distribution. These scalable, autonomous bots don't require a large capex investment, can ramp up quickly, and offer more flexibility than ever.

Second, prime real estate is coming available with attractive rates and flexible lease terms as a result of the significant number of stores closing and shopping center owners seeking new, alternative types of tenants. It's now possible to lease properties near enough to major metros to enable next day or even same-day ground shipping to large numbers of the U.S. population.

And third, new warehouse execution software (WES) is now available to orchestrate all the parts of the solution that need to come together.



ADAPTIVE NETWORK CAPABILITY IS THE NEW COMPETITIVE ADVANTAGE

This is a rapidly deployable, scalable solution that doesn't require large capex investment and enables responsiveness on a whole new level. But how do you decide if these new autonomous bots and pop-up DCs are right for you? The

place to start is not with the technology. The first step is to develop an adaptive network strategy based on the unique needs of your business. Your network strategy should take into account more than order profiles and growth projections, but also include labor requirements, transportation costs, inventory investment and carrying costs, real estate costs and incentives, operating costs and more. Only then are you ready to design the optimal solution, select technology and deploy.

FORTNA CAN HELP

Fortna helps companies develop network strategies that align the business with growth projections and changing market conditions. And while we help evaluate and deploy solutions, we aren't tied to a specific technology or supplier. So we are able to evaluate a wider range of options and develop a solution that provides the best balance of cost and service relative to your organization's appetite for risk and investment.

For more information, contact The Distribution Experts at info@fortna.com.

THE DISTRIBUTION EXPERTS™

Fortna partners with the world's leading brands to transform their distribution operations to keep pace with digital disruption and growth objectives. Known world-wide as the Distribution Experts, we design and deliver intelligent solutions, powered by FortnaWES™ software, to optimize fast, accurate and cost-effective order fulfillment. Our people, innovative approach and proprietary algorithms and tools, ensure optimal operations design and material and information flow. We deliver exceptional value every day to our clients with comprehensive services including network strategy, distribution center operations, material handling automation, supply chain systems and warehouse software design and implementation.

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