Accelerating Fulfillment:

What is Your Strategy for Speed?

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Everyone thinks they need speed, but how do you know that investing in faster fulfillment is right for your business? It has to tie back to your fundamental business strategy.

There are three levels of your strategy at which to consider the influence of speed:

1. Overall Business Strategy (What are the requirements around speed?)
2. Distribution Strategy (Where can you reduce time in transportation, inventory and other strategies that influence distribution?)
3. Distribution Center Strategy (How do you speed up fulfillment within the four walls of the DC without losing accuracy and increasing cost?)

Business Strategy

At the highest level of your strategy, you need to understand the requirements around speed. Clients often come to us with questions like, “my customers want next-day delivery, what is it going to cost me to deliver that?” And the short answer is, “it depends.” How much faster do things have to be to remain competitive? In general, eCommerce has shifted customer expectations so that next day delivery is becoming the norm. But certain channels and perhaps some customers may not need that level of service. You have to figure out if and where speed applies to your business.

Figure out your real service requirements. And if the requirements are same-day/next day, you have to ask “what’s the benefit of delivering that level of service?” or conversely, “what’s the cost of not accelerating fulfillment?” The answer should be focused on financial performance or profitability. For example, many companies that offer free shipping with orders over a certain dollar value look to increase the average order value for higher margin in order to offset shipping costs. Likewise, some companies that offer faster fulfillment view the investment as a defensive strategy against increased competition for customer mind share and look for an offset in order volume, margin, transportation savings, or some other competitive advantage.

Questions to Ask About Business Strategy:

1. What do your customers expect?

It’s important to distinguish between what a customer says they want and what they are willing to pay for. And keep in mind that different customers may have different service expectations. Do your wholesale customers need the same level of service as your direct-to-consumer channel? Are there different levels of customers even within a single channel that you need to service uniquely? Are some retail customers willing to accept a discount in exchange for longer lead time while others will pay a premium for the value of just-in-time replenishment?

At the end of the day, speed costs money. A recent study by Booz & Company found that $5 shipping is the limit of what most customers are willing to pay for next day service. When you apply this to your unique business model, you have a very different service level at which you can operate profitability if your average unit selling price is $10, compared to a company that has an average unit price of $100.

2. What type of business are you?

A brand owner should think differently than a wholesale company. Brand owners have value in the brand itself, and therefore, can compete differently. Compared to the retail store that carries those brands, these companies may not need to compete on speed because they own the brand. But if service is your value proposition, you need to be able to deliver the product the customer wants quickly and cost effectively to remain competitive. Is service defined as an advantage for your company? What does your average unit sale look like in terms of value and margin? Pure play eCommerce companies will often offer free shipping because they are willing to take that cost out of margin to get the business. How much margin do you have to invest to satisfy the customer and get that strategic advantage?

3. What's your competitive situation?

Companies often struggle to understand the effect Amazon and others have had on customers' expectations around next-day/same-day delivery compared with their willingness to pay for it. Based on financial analysis, it would appear that Amazon is less focused on profitability and more concerned about service, which is why companies struggle to compete against them. Currently, very few companies are actually doing same-day delivery. Amazon may be pursuing it as part of a strategy to drive competitors out of the market. Some time ago, Walmart did a pilot of same-day delivery and only 8% of consumers took advantage of it. You have to understand what your customers truly value and what they are really willing to pay for.

Using Speed for Competitive Advantage

Industrial distributor MSC thought BIG about how they could use speed as a competitive advantage and change the game in their industry. They looked at the investment over a 10 year horizon versus a 2-year simple payback approach. The business case was driven by enabling growth – "how can we grow our business by 2X or 3X?" They also looked at how they significantly reduce costs while enabling service and growth. By implementing automation and re-designing their processes for more parallel processing, they were able to reduce cycle time to less than 30 minutes and service 2.5 times the volume with the same number of associates. The changes allowed them to offer the latest order cut-off time in their industry and back their next-day delivery promise with a money-back guarantee. That's using speed as a competitive advantage.

Distribution Strategy

If speed is the right answer for your business, the next level at which to consider the impact of speed is where your network, transportation, inventory and other strategies support distribution. You want to look for ways to squeeze time out of the distribution process, but you also want to be certain that you aren't just speeding up your DC to lose that time to a transportation strategy that is not aligned along the same goals or an inventory strategy that doesn't support just-in-time ordering.

Questions to Ask About Distribution Strategy

1. Does your network strategy support speed? Do you have the right number of DCs? How are they positioned in proximity to your customer base? You may not be positioned like Amazon is with DCs within 100 miles of most major metro areas. You may only have one DC, but do you know what percentage of your customers fall within a one-day delivery radius of your DC(s)?

2. Does your transportation strategy offer the right access to both customers and networks? Do you have accessibility to carriers and their networks (hubs) to enable later pick-up and later order cut-off times? Which modes of transportation will you use to service customers and can you easily shift modes as needed to meet service requirements? Can you take advantage of zone-skipping or pre-sortation for parcel shipments? And can you negotiate later pull times with carriers to help shave time off order-to-delivery cycles for your customers? What about better rates to find cost savings to fund improvements to speed?

3. Where do you need to place inventory for maximum flexibility and responsiveness to demand? When you are trying to accelerate fulfillment, where you place inventory becomes a strategic decision. You need forecast and demand planning down to the consumer level in some cases. But that kind of accuracy comes at a cost. Often safety stock in the DC has to increase to guarantee speed and meet variability of demand. There are lots of impacts to inventory sharing, slotting of inventory in the DC and how inventory gets allocated when channels share inventory. You need robust inventory deployment tools to determine where and how much of each SKU to place in each DC. And consider the impact of decisions such as:
    - Will you do direct shipments from suppliers that are located closer to customers?
    - How will you handle substitutions? If you have more than one DC, can you systemically locate and deploy inventory currently in other DCs or locations? Sophisticated distributed order management software is often required to do this.
    - In the case of split shipments, how do you handle orders seamlessly for the customer so that they get both shipments at the same time? And how do you allocate double shipping costs?

And there are ripple effects felt across the business. Your marketing strategy may include promotions like free next-day shipping on direct-to-consumer orders before considering the operational impacts of that. Does your omni-channel strategy allow you to use stores as distribution nodes? Do you have the inventory visibility across channels to take advantage of ship-from-store strategies?

Distribution Center Strategy (inside the 4 walls)

And finally, when you know that speed is the service edge you need to enable your business and you have the strategies in place to support it, then it's time to look at the ways you can speed up fulfillment within the four walls of the DC. You want to look at work content, wasted time, and opportunities for lean practices to reduce the amount of time between receipt of orders and shipping.

Within the DC, the goal has always been to reduce processing time. These are the basic principles of lean: less travel + fewer touches = less cost. But to speed up fulfillment, you may actually have to add "good touches" to your processes. An example of a good touch might be parallel processing (e.g., a zone pick or pick and consolidate) to reduce overall cycle time. This reduces the time it takes orders to travel across zones and can cut as much as 75% of the cycle time.

Depending on the industry and channel, you may need different approaches. If you are trying to speed up retail shipments, you typically look at technology-based solutions (systems to batch pick better, print and apply, etc.) that will make the operation more productive and yield speed benefits. But there are times when a manual process is the fastest way. For example, an eCommerce operation often requires more manual processing because of higher peak throughput. In this case, the fastest way is through simple systems that can handle high volume, not systems and equipment that have throughput constraints. Automation technologies such as sortation and print and apply fix speed at a certain rate, which may not allow you the flexibility to meet demand during peak times.

Questions to Ask About DC Strategy

1. **Where are the tradeoffs between speed and productivity?**
   Sometimes speed and productivity are linked, but other times they work against each other. There are some things you can implement to get productivity, but not necessarily speed. For example, using print and apply technology to label cartons doesn't mean you will get them out faster, just that you won't need as much labor. To process orders faster, you might simply apply more labor to get it out faster than a single print and apply line. To get 30-minute order turn, you may need to have twice as many associates parallel picking than if they had longer time to fill orders and a highly efficient batch-pick process. (Link to article #2 for more on this)

2. **What are the upstream processes that impact speed?**
   Upstream processes like order processing, credit check, and order release all factor into overall order-to-deliver cycle. Look for ways you can speed up those processes through systems. Can you systemically release orders based on customer requirements (e.g., free shipping orders released later than orders with a next-day service requirement)? Can Merchandising share information about product sets and coordinates so that items that are likely to be ordered together are slotted together in the DC, reducing travel time?

3. **What is the true cost of speed?**
   When calculating the true cost of speed, you must consider inbound cost, inside the four-walls cost and delivery cost to come up with a comprehensive picture. In some cases, speed makes sense for some parts of the business and not others. Where you have a broad array of different SKU characteristics, it may help to identify the cost at the department and/or category level which can drive decisions around speed too. Guaranteed next-day delivery will have more margin impact on furniture items than sweaters.

4. **Do all channels require the same level of service?**
   Things can get quite muddy for omni-channel retailers trying to service multiple channels within the same facility. Your channels may have different service requirements. Sometimes it's not the whole DC that needs to accelerate fulfillment. You may need multiple fulfillment engines operating at different speeds based on your channel requirements.

Do You Have a Need for Speed?

A faster cycle time operation is usually the more expensive one. But if speed is defined as a competitive advantage for your company, you may need to spend more to get that strategic advantage. Before you invest:

1. Get alignment on the customers' real service requirements, the financial benefits of faster service and constraints that impact decisions around speed.

2. Perform data analysis to understand where there are trade-offs between cost and service. Don't start with technologies and processes until you fully understand volume and throughput requirements, SKU velocity and affinity and seasonal peaks.

3. Apply that understanding to develop a solution that meets your service requirements at optimal cost within your constraints.

Fortna Can Help

Fortna helps companies gain alignment on service requirements and the financial benefits of accelerating fulfillment. Our operations design methodology starts with what is driving the business and considers the planning parameters including service level requirements. We use our Fortna DC Design Suite tools to model data based on past history and future projections. And we apply that understanding to develop a solution to meet service requirements at the lowest possible cost.

Don't miss these other articles on our website:

- ***Speed is Today's Game Changer: How to Fine Tune your DC for Faster Fulfillment***
- ***Accelerating Fulfillment Requires Balance: The Benefits and Impacts of Same-Day Fulfillment***
- ***Accelerating Fulfillment for Competitive Advantage***

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