

Micro-fulfillment: Increasing Responsive Fulfillment





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Increasingly, customers expect more than fast, free shipping; they want convenience as well. Customers want to be able to make purchases in stores, purchase online and pick up at stores and have online purchases delivered straight to their door with a seamless, unified experience across digital and physical stores. A survey by the National Retail Foundation found that 75% of consumers surveyed expected speedy, free delivery, even on orders under \$50¹.

While automation is making fulfillment centers more efficient, the demand for free shipping and short order-to-delivery cycles from centrally located hubs can raise transportation costs and erode margins. To meet these expectations, companies must consider micro-fulfillment strategies that reduce the distance between consumers and enable more responsive and profitable fulfillment of online orders. That means redesigning flow paths for a consistent, convenient brand experience while positioning some products closer to their best consumers, which often means placing them in urban areas.

THE MACRO-TRENDS DRIVING MICRO-FULFILLMENT

Companies are enabling micro-fulfillment capabilities to satisfy customer orders closer to demand in response to a shift toward eCommerce, dramatic changes in consumer buying behavior, a dynamic real estate market and shifting labor costs and availability. Micro-fulfillment is not so much a specific type of warehouse or distribution center, but a new way to think about a forward network node in the context of your brand, network and real estate strategy. It is informed by a set of key questions, such as: What are customers expecting? What are the product attributes? What does your inventory look like? What are your service requirements and expectations? What are seasonal demand patterns? And how can you strategically build your network to address these characteristics?

¹ <https://nrf.com/media-center/press-releases/nrf-study-says-more-online-shoppers-want-free-shipping>

CHANGING CONSUMER BEHAVIOR AND SHIFTING LABOR POPULATIONS

In the age of immediate gratification, customers want to be able to buy what they need, exactly when they need it, delivered to where they want it and expect that the inventory will be readily available in the supply chain when they order it.

Over the past few decades, more people have moved into city centers than have moved out to the suburbs and beyond. A study by the University of Michigan Center for Sustainable Systems, predicts that by 2050, 90% of the U.S. population will live in urban areas. The Pew Research Center finds that population growth in rural counties has lagged, growing 3% since 2010, while population growth rose 13% in urban areas and 16% in suburban areas. As a result, labor markets in major distribution hubs—often in rural areas—are largely tapped out, with unemployment at less than 4% in some places.

Micro-fulfillment addresses both these trends. It brings goods closer to dense customer populations and makes fast, free delivery more economical. At the same time, micro-fulfillment centers can take advantage of larger, more diverse labor pools found in urban and suburban areas. With a smaller physical footprint, it's easier to staff a micro-fulfillment center with 25 employees than to find a few hundred employees in a competitive distribution hub region.

REPURPOSING RETAIL

As more people shop online, foot traffic to stores has decreased. Many big brands that invested heavily in physical real estate must now decide what to do with these less-than-profitable storefronts—Ride out the lease? Sell them off? Rent out the space?

Micro-fulfillment allows brands to repurpose portions of their footprint and adds flexibility to handle shifting consumer needs. Companies can convert entire storefronts, or a portion of their back-room space, into mini distribution nodes that supply storefronts, fulfill ship-from-store orders, pick orders for local delivery, or service click and collect orders. These forward nodes can also serve as mixing centers, where they combine products from several banners or third-party suppliers into a single, unified offering close to the customer.



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Storefronts at the edges of urban areas offer the type of real estate ideal for developing in-market services—providing diversity of capabilities needed to satisfy multiple outbound routes, truck delivery and customer pickup and leveraging unused or underutilized space to serve as a local warehouse for temporary or seasonal needs.

In a comprehensive way, micro-fulfillment is the epitome of our modern business environment; a strategy for responsive fulfillment in a time when the business needs scalability and flexibility and customers need instant access to inventory.

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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