



Five Questions Every Growing Online Retailer Must Answer

Part 1: Should we outsource fulfillment or invest in distribution as a core competency?

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The explosive growth of online retailing has created opportunities for many companies. Companies come from different backgrounds, but as they grow and distribution pressures increase sooner or later the following questions need to be answered by all growing online retailers:

1. **Should we outsource fulfillment or invest in distribution as a core competency?**
2. How do we ensure our distribution network maximizes service and flexibility while minimizing operating costs, capital investment and risk?
3. When should we automate and to what level?
4. How can we accelerate fulfillment within our DC?
5. How can we improve DC workforce performance?

In this series we'll explore answers to these questions and others as they relate to growing e-tailers and offer perspective on how companies like yours can enable growth and competitive advantage through distribution.

Part 1: Should we outsource fulfillment or invest in distribution as a competency?

Companies often outsource distribution for good reasons. But if your volume or service requirements are growing significantly it may be time to re-evaluate your distribution strategy to ensure it can handle increased complexity. When does it make sense to outsource and when should you invest in your own distribution infrastructure?

Q: Are there circumstances under which it makes sense to outsource distribution?

A: A well-designed distribution network often includes third party logistics providers (3PLs) as a valuable extension of your distribution capabilities. Companies commonly outsource for a number of reasons:

- to handle excess volume during peak seasons or while planning and building for increased capacity
- to service volume that's too low to justify building the capability internally
- to mitigate risks when entering new markets or channels or when testing a new brand
- the model is such that distribution is not a core competency of the business

In any of the above scenarios, outsourcing can add tremendous value and help with short-term goals. But when the business is growing or reaches certain thresholds of growth you need to re-evaluate the value of outsourcing distribution to a 3PL against investing in your own distribution capabilities.

Q: When does a company need to consider a change in distribution strategy?

A: When significant growth and/or change occurs companies sometimes find themselves with an outsourced operation that no longer meets the needs of the business. A 3PL may have been the best solution at one time, but as costs rise and requirements change you may need to consider investing in your own infrastructure. Do any of these characteristics apply to your business?

- Large or significantly increasing volumes

- High growth projections
- Complex product storage requirements
- New legislative requirements
- Increasing environmental responsibilities

These things signal the need to review your distribution operation and costs for opportunities that drive greater efficiencies and/or cost savings.

Q: Why should I consider investing in distribution as a competency? What are the benefits?

A: Flexibility is key. Often it's customer requirements that drive companies to build their own distribution capabilities. Contracts with 3PLs are generally short-term, and getting shorter to remain competitive. Growing companies don't want to be locked in to contracts over long periods because it limits their flexibility as the business grows. And 3PLs can't afford to be all things to all people so they try to maintain standardized processes and systems to keep costs low. Today's online consumer has high service expectations –speed, customization, real-time communications and a seamless experience are just the beginning. When expectations reach a certain point you may find that you can service your customers more cost effectively with an operation designed specifically for your business.

The benefits of investing in distribution as a core competency include:

- Facility design and systems functionality customized for your business requirements
- Longer business case horizon for capital investment
- Increased flexibility in choosing service providers
- Systems that provide industry or market specific critical information (batch/lot control)
- Reduced risk from contractual obligations
- Tax benefits of depreciating assets

The greatest reason of all for investing in distribution is that it enables the business. The ability to enable growth, improve service and deliver competitive advantage rests on your distribution capabilities. It's the value of being able to share promise your customer same-day shipping, improve order accuracy and reduce returns, and the flexibility to adjust to an unknown future.

Summary

If you are unsure which course of action is right for your growing company, the best way to start is by assessing where you are today as well as where your growth projections will take you in the future. Fortna can help. We offer 60 years of experience in designing and implementing distribution operations, with benchmarking data and analysis tools to guide you.

How can we help?

Fortna helps companies assess their operations, develop a strategy and roadmap for future success and build a business case for investment. If you want to learn more, please ask to speak to one of our Associates.

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Don't miss these other articles in this series:

- *How do we ensure our distribution network maximizes service and flexibility while minimizing operating costs, capital investment and risk?*
- *When should we automate and to what level?*
- *How can we accelerate fulfillment within our DC?*
- *How can we improve DC workforce performance?*

And from our Insights Library:

- *Is Flawed Distribution Investment Holding Your Business Back?*

ABOUT FORTNA

For over 60 years, Fortna has partnered with the world's top brands – companies like J.Crew, Gordmans and Vitamin Shoppe – helping them improve their distribution operations and transform their businesses. Companies with complex distribution operations trust Fortna to help them meet customer promises and competitive challenges profitably. We are a professional services firm built on a promise – we develop a solid business case for change and hold ourselves accountable to those results. Our expertise spans supply chain strategy, distribution center operations, material handling, supply chain systems, organizational excellence and warehouse control software.

