

Aligning Fulfillment Operations with Your Changing Channel Mix

Your channel mix, requirements and service demands are changing. Customers no longer think in channels, rather they expect a seamless experience regardless of the channel. Does your fulfillment strategy align with your changing channel mix? Should you manage fulfillment in shared or separate operations? Sometimes you need to think in terms of segments within channels that may be grouped together for optimal results. This article outlines the factors that will guide you to better decision-making.

New Channels, New Challenges

The maturation and rapid growth of eCommerce combined with a flattening in traditional retail/wholesale sales have made way for new approaches to channels, new competitors and new challenges for companies with complex distribution operations:

- **Consumers have come to expect a seamless experience across channels.** They want to buy anywhere, ship anywhere, return anywhere. They move from channel to channel in real-time, demanding more flexibility and better service.
- An **increasing number of order points via social networks, mobile devices, and Web** add more complexity in providing that seamless experience.
- eCommerce has **lowered the cost of entry for companies seeking to enter the direct to consumer (DTC) market.** Newer competitors are entering the market daily. And not being encumbered by existing infrastructure, they are running leaner and more efficiently than their predecessors.
- Wholesale brand owners are seeing **smaller order profiles and more frequent orders** as retailers require store-ready shipments.
- Wholesale brand owners are being forced to compete with **increasingly higher levels of value added services and customer service expectations.** Customer affinity programs, private sales and flash sales are demanding more from distribution operations than ever before.

- Stores can **no longer afford to be out of stock; consumers will find a replacement, buy it, have it shipped for free** and receive shipping confirmation before walking out the door.
- Stores are calling for distribution operations to meet different requirements for launch vs. replenishment activities putting increased pressure on the ability to plan and execute.

Regardless of the channel, it's about getting the right inventory at the right place at the right time. And you have to ask yourself, "What incremental revenue opportunities are we not taking advantage of?"

"Be afraid of our customers, because those are the folks who have the money."

Jeff Bezos, CEO
Amazon

Before you can decide how to respond to these changes and pressures you need to understand the full impact of channel proliferation on your fulfillment operation.

Impact on Operations

As distribution channels proliferate and blend, customer service demands increase. Aligning the business and managing distribution is more challenging than ever before. Have you considered the full impact of these forces on your fulfillment operations?



AREAS OF IMPACT	CHALLENGES
<i>Delivery on Customer Promises & Demands</i>	<ul style="list-style-type: none"> • Fulfillment processes not designed for same-day ship result in costs to expedite (shipping, processing, etc.) • Not meeting customer service expectations in one channel in order to meet the needs of another • Disappointment as customer experience is less than seamless (for example: customer expects to return or exchange goods purchased online to the retail store, which does not carry the SKU) • Frustration arises when customers want to purchase items in a local store that are only available online, or can't find size in store and SKU is not available online
<i>Inventory Planning & Management Complexity</i>	<ul style="list-style-type: none"> • Wrong inventory in the wrong place resulting in markdowns, lost margin or costly transfers • Confusion about inventory ownership and allocation • Multiple versions of the truth vs. a single, consolidated plan for inventory management • Cross channel transfer of inventory becomes especially difficult when each channel is under a separate P&L • Optimization in one channel potentially leads to cannibalization of sales in other channel(s)
<i>People, Process & Technology Challenges</i>	<ul style="list-style-type: none"> • Inability to smooth peaks and valleys or share labor, space and equipment across functional areas inside the four walls • Order profiles require different material handling characteristics across channels (for example: case pick vs. each pick, pack and hold pallets vs. same day shipping of eaches) • Systems and equipment designed for one channel may not meet the service requirements of other channels • Lack of systems integration across channels (Merchandise, Planning, Order Management and Warehouse Management) • Efficient fulfillment processing may not equate to efficient use of labor in stores (e.g.; receiving shipments & replenishing shelf stock)

“Limiting pathways to the customer is competitively disadvantageous. The challenge is keeping up with the evolution, which increasingly requires a wider reach, a broader offering, and more sophisticated IT capabilities.”

Holden Lewis, Managing Director
Senior Equity Research Analyst
BB&T Capital Markets



So, how do you select a fulfillment strategy that is right for your company? The greatest success will come from getting **true business/stakeholder alignment between channels and across operations** (merchants, systems, P&L). Without an **overarching strategy that aligns key metrics with margin contribution**, it will be difficult to keep up with the changes in your customer requirements and channels. When aligned, KPIs, such as Out of Stock %, can be a rallying point for the entire organization and eliminate cross-channel conflicts. From a fulfillment perspective, here are some factors to help decide if you should manage fulfillment of multiple channels in one operation or multiple operations.

Shared Fulfillment Operations

The more **synergies you have across channels and/or segments**, the more likely you are to consolidate operations. Some common synergies include:

- **shared inventory of common SKUs**
- **common order profiles** (item type and quantity)
- **similar service requirements** (same day shipping, etc.)
- **shared suppliers** or supply points
- **shared carriers** (inbound and/or outbound)
- **shared geographic distribution area**
- **cross channel shopping** within your customer base
- **same SKUs** shipped across multiple channels

Common order profiles coupled with the opportunity to share inventory be the single biggest factor driving shared fulfillment operations. Retail Replenishment and eCommerce both require an “each-pick” environment and fast order cycle times. Likewise, certain segments may require immediate access to inventory and speed to site without having to manage assignments, rework and movement. This requires you to look deeper than channels, and really understand the synergies between your channel segments.

Are you experiencing **new business requirements** and **service demands**? Testing the waters in a **new, unproven channel**? Are you looking for a single or **shared inventory pool**? Do you see **volumes shifting between channels** (seasonally or over time)? Are you seeing a trend toward **more “each” picking**? If you answered “Yes” to more than one of these questions, you may want to consider consolidating multi-channel fulfillment under a shared operation.

CASE STUDY: Shared Operations

At one apparel retailer, channel proliferation forced them to change the way they service customers, but helped them find synergies across channels that weren't initially apparent. They found value in a shared service model within a single building. The change is helping them streamline inventory, standardize processes and technology platforms, smooth seasonality peaks and valleys while leveraging labor, space and equipment across channels. The result is that they are able to double key performance metrics, reduce logistics costs and optimize capacity across their network. And best of all they can deliver the right product to the right place at the right time, meeting customer expectations and improving margin.

Separate Fulfillment Operations

The more distinct and unique the requirements across channels the more likely you are to have separate fulfillment operations by channel or segment. It may make sense to group one or more channels or segments while separating others. Also, depending on how companies have “grown-up”, it may not be feasible to restructure the distribution network. For example, the following unique channel characteristics lend themselves to separating operations:

- **Separate inventories** and/or **unique SKUs** across channels
- **Contrasting and/or diverse order profiles**
- **Distinct system requirements**, such as OMS or WMS
- **Contrasting equipment and material handling** requirements
- **Different processes** and inability to share labor
- **Varying shipment lead times** (weekly vs. daily)

Also, if one or more of the following apply, you may want to consider separate operations:

- **Different P&L or inventory ownership across channels or brands**
- **Increased risk in business continuity** (especially in geographies prone to natural disasters)
- **Desire to optimize capabilities/performance by channel** (especially when distribution performance is viewed as a strategic advantage)
- **Need for transportation optimization** and/or to reduce cost per mile



CASE STUDY: Separate Operations

A mature apparel company, with a steady retail channel, a flattening wholesale channel and a fast growing eCommerce business determined separate operations would improve service and have the least impact on business stakeholders – specifically IT. Having different P&Ls, brands and concepts across channels required close alignment and agreed upon business requirements to develop the right strategy. The unique functional and technical capabilities needed for eCommerce dictated keeping those operations separate. This was due to separate execution systems, unique order profile characteristics and material handling requirements and most importantly service demands for this channel. They felt strongly that customer service, driven by distribution, was a core competency and competitive differentiator they could not afford to jeopardize.

Finding the Right Solution

So, how do you decide which fulfillment strategy is best one for your blending channels? Here are several questions to ask yourself to help determine which strategy is best for you:

- **Where are the synergies and differences between channels?**
 - Are retail or wholesale replenishment requirements different from launches or initial floor sets?
 - Do you experience seasonal peaks and valleys that could be leveled off by sharing services across channels or segments?
- **Are you struggling to respond quickly to market demand? Or dealing with excessive mark-downs and out of stocks as a result of allocation problems?**
- **How is the performance of each channel measured?**
 - Is there a key metric that stakeholders rally around?
- **What are the tipping points where you are willing to sacrifice the optimization of one channel for the overall benefit of the organization? How wide is your lens?**
 - Do you need to make trade-offs between higher inventory levels across multiple facilities in order to win the service game?
 - Do you accept a higher distribution cost per unit to mitigate capital investment?

- **What are the impacts of changing business requirements in your channel mix?**
 - Are you trying to integrate a retail channel in a facility that was designed exclusively for a wholesale channel?
 - Are you forced to mitigate long-term leases for a DC that outlived its optimal design before a business case can be made for investment in a new one?
- **Do you have true business/stakeholder alignment between channels with an overarching strategy that drives one consensus plan?**

There are many additional decisions to consider when choosing what type of fulfillment operation is best for your company, but it all starts with a holistic view across the business, channels and segments. Getting stakeholder alignment across channels is a critical first step. Then with an understanding of the full impact of blended channels on your fulfillment operation you can look for synergies and ways to deliver the seamless experience your customers expect.

About Fortna

Fortna is a professional services firm helping companies with complex distribution operations meet customer promises and competitive challenges profitably. 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 and organizational excellence.

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. To learn more, ask to industry experts:

Call: 800-367-8621 (US) or 610-370-8000 (Int'l.)
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