

# E-Fulfillment Trends Report



This report explores best practices, common challenges and emerging trends in e-fulfillment nationwide.



## Overview

E-commerce has made an indelible mark on today's marketplace. More and more consumers are embracing online shopping, and this change in their buying habits is having a significant impact on the face of retail nationwide. U.S. e-retail sales are expected to grow by 10% a year to \$279 billion by 2015, accounting for 11% of all retail sales, according to Forrester Research Inc.

It comes as no surprise, then, that this growth is affecting how companies go to market. In order to capture this market segment, many retailers are adding or expanding their online sales. At the same time, many web-only companies are expanding through retail channels. As a result, there is a distinct trend toward multi-channel retailing — offering customers a variety of ways to buy products such as in store, via catalog and online.

These changes in the retail environment are having a tremendous impact — not only on shoppers' experiences, but also on the supply chain as we know it. Companies are challenged to deliver the perfect order every time. They are also expected to provide a consistent brand experience from channel to channel — whether customers are shopping in a store, by phone or on a pc.

Never has order fulfillment been such a critical business function. To accommodate growing complexity, the practice now requires sophisticated processes, state-of-the-art resources, and an in-depth understanding of the channels in play. From the moment the online order is placed to when it is picked, packed and shipped, every step in the process must be handled efficiently, consistently and cost-effectively.

To help characterize today's new e-fulfillment environment, Saddle Creek Logistics Services conducted an online survey of industry professionals. A total of 160 surveys were completed in September and October 2011, making this research statistically valid. The following report is based on responses from these retailers, distributors and manufacturers who are personally involved with or have influence over e-fulfillment functions at their companies.

The report looks closely at the current state of e-fulfillment — who are today's practitioners, what are their top priorities, how are they managing e-fulfillment operations, and what changes are on the horizon?

## E-Fulfillment Practitioner Profile

Survey respondents come from a variety of industries and market sectors, with retail being the predominant source (80.6%). While manufacturers and distributors also incorporate e-fulfillment in their operations, retailers clearly are leveraging the practice as another channel to reach their customers. Their companies handle a broad range of products — from apparel/textiles to games/sporting goods/toys to health and personal care. Respondents most often market their products to consumers (55.6%) or businesses and consumers (41.3%). Just a few (3.1%) target businesses exclusively.

Respondents' companies range in size from less than \$1 million to more than \$1 billion in annual revenue. The majority of responses came from smaller companies, with 64.4% having less than \$10 million in revenue. The prevalence of smaller companies is not surprising. The relatively low barrier to entry for e-commerce makes the channel especially appealing for entrepreneurial activity.

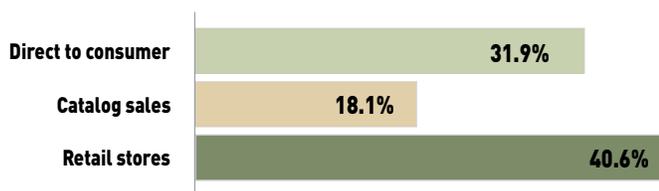
Many companies are just getting started with e-fulfillment, with 31.3% having three years experience or less. The majority of respondents are from companies that have significant experience in incorporating e-fulfillment in their operations. In fact, 43.2% have between four and 10 years of experience, while 25% have more than 10 years of experience. This level of seniority indicates that e-commerce is a well-established practice, even though its visibility has escalated in just the past few years due to rapid growth.

Respondents' geographic distribution is evenly divided between national (43.1%) and international (42.5%) distribution, with a handful of companies limited to regional or local distribution (14.4%).

### Sales Channels Used

While this study focuses on respondents who use e-commerce, many use other sales channels as well, including retail stores (40.6%), direct to consumer (31.9%), and catalogs (18.1%) — helping to confirm multi-channel retailing as a growing trend. The majority of all respondents (56.87%) use more than one channel, and 25% actually use all three in addition to e-commerce.

#### Sales channels used in addition to e-commerce



In terms of order fulfillment, a multi-channel environment is distinctly different from an exclusively e-commerce environment in a number of ways. For example, retail orders may involve shipping full pallets of product to arrive within a one- to two-week delivery window while a consumer order might consist of delivering a single item wrapped in a custom package within two to three days. Other variables include product attributes, order size, branding, customization, inventory practices, order tracking needs, transit times, returns, customer service and more.

### Number of Distribution Centers

Most respondents (64.4%) report that their companies have a single distribution center, but 21.3% have two to four distribution nodes, and 14.4% have more than five.

Company size, geographic reach and sales channels can influence the choice of a multi- or single-node strategy, according to Jeff Jones, vice president, Saddle Creek Logistics Services. Companies shipping internationally are somewhat more likely than those shipping nationally to have a single distribution center (64.7%, compared to 56.5%). Likewise, large retailers who are shipping pallet-loads of product – and paying the freight – may prefer a single distribution point to take advantage of efficiencies for inbound international freight.

Smaller retailers and companies shipping directly to consumers, on the other hand, are more likely to seek out multiple points of distribution to keep product inventory closer to the customer, thereby reducing transit time and cost. It is important to find the optimal arrangement that fits a company's average order size, inventory levels, and delivery time frame.

### Fulfillment services

Most respondents report using a variety of fulfillment services. In addition to basic order fulfillment services, the top five services utilized include: e-commerce website development and hosting (77.5%), returns processing (65.6%), order processing systems integration (58.8%), inventory management and replenishment (53.1%), and call center/customer service (50.6%).

"The data points to the growing complexity of the order fulfillment process," says Jones. "Today, e-fulfillment has evolved to a level of sophistication that requires carefully planned processes, scalable operations, state-of-the-art systems, efficient transportation and superior customer service."

## E-Fulfillment Challenges

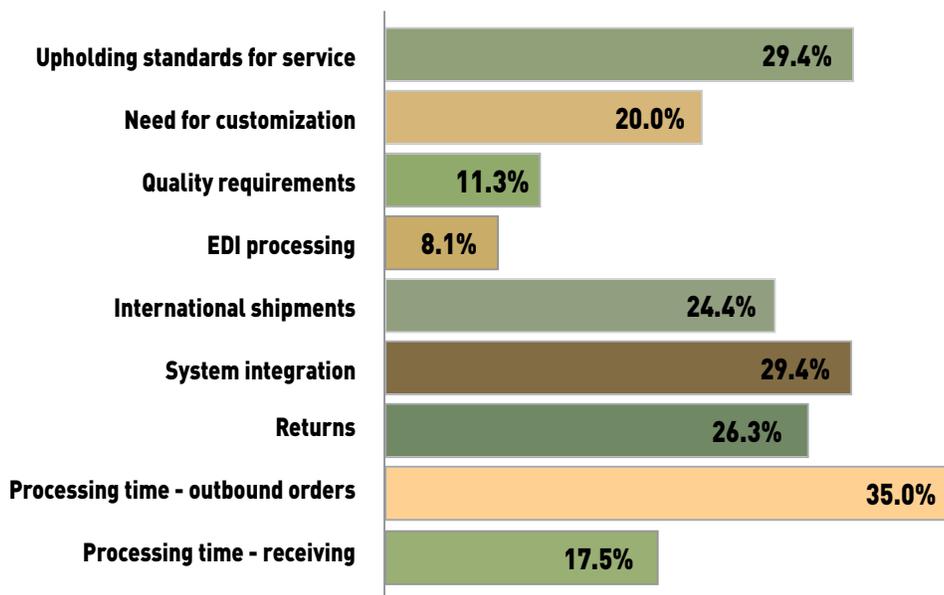
As a result of this increased complexity and high expectations for consistently error-free orders, achieving effective order fulfillment can be challenging for many companies. In fact, respondents identified a number of areas of difficulty. Processing time for outbound orders (35%), system integration (29.4%), and upholding service standards (29.4%) head the list of challenges.

Clearly, efficiency is top of mind for respondents. Their customers have come to expect extremely efficient turnaround of their orders. Delivery within two to three days, if not overnight, is the standard expectation for consumers, but getting products to market quickly is also important for brick-and-mortar retailers. To meet expectations for service excellence, order processing and transportation functions must operate at peak efficiency. Automated processes and integrated information systems play a critical role in those functions; however, state-of-the-art technology requires a substantial overhead investment.

Expansion into new channels can be particularly challenging as well. Retailers must learn the fine points of online customer service and the customization required to ship individual consumer orders instead of pallet loads of product, for example. E-commerce companies may be taxed by compliance issues and EDI and struggle with large order sizes when selling to major retailers.

“Moving into a new channel typically requires a new perspective,” Jones explains. “Retail and consumer sales are very different animals. What works well in one environment may not translate effectively to the other. It is important to understand the unique needs of each environment.”

Biggest e-fulfillment challenges



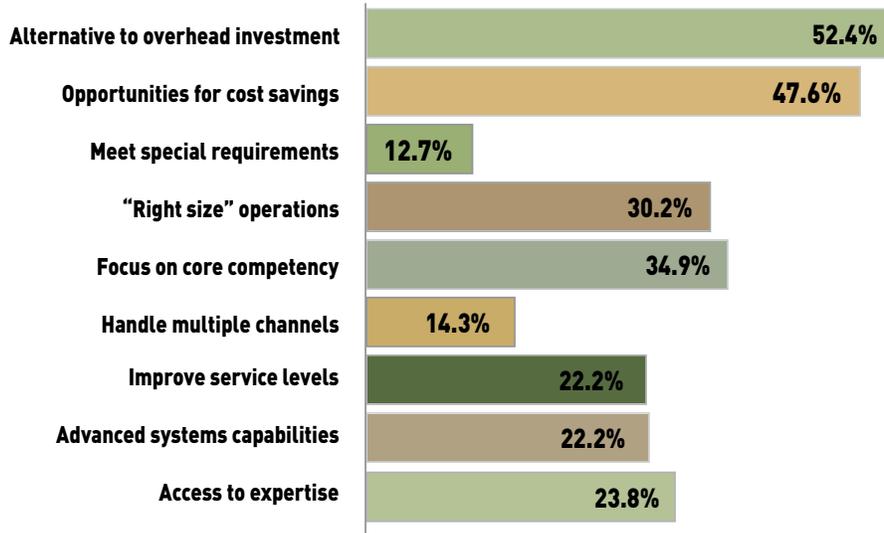
## Finding Value in Outsourcing

To manage their fulfillment operations effectively and to remain focused on their own core competencies, many companies turn to third-party providers. In fact, 39.4% of respondents outsource some or all of their e-fulfillment operations. Overall, respondents who outsource are quite satisfied with their third-party fulfillment provider (68.2%), rating them 4 or 5 on a five-point scale.

From this level of satisfaction, it is clear that fulfillment outsourcing provides value. The most widely mentioned advantages were “alternative to investment in overhead/infrastructure” and “opportunities for cost savings,” but respondents acknowledged a number of distinct advantages:

- *Minimize overhead/infrastructure* – Conveniently located state-of-the-art facilities are essential for fulfillment operations of any size. Of those respondents who outsource some or all of their e-fulfillment function, 52.4% appreciate the opportunity to access these resources without the associated overhead investment.
- *Reduce costs* – Whether it is through process-related improvements, enhanced automation, or controlled warehousing and transportation costs, outsourcing can help companies to realize cost savings. Nearly half of respondents (47.6%) who outsource see this as one of the biggest advantages of doing so.
- *Focus on core competency* – For many companies, e-fulfillment requires an intensity of focus that distracts from their commitment to core competencies. Fulfillment outsourcing can offer an effective alternative, say 34.9% of those who outsource.

### Biggest advantages of outsourcing



### Currently Outsourcing

- *Ability to “right size”* – The ebb and flow of business, seasonal products, and other considerations can be a challenge in terms of staffing and space. Third parties have the resources and experience to take such fluctuations in stride and grow along with their business. For 30.2% of respondents, this flexibility is a clear advantage to outsourcing.
- *Advanced technology* – Robust and flexible systems are essential for effective fulfillment, and 22.2% say that third-party providers are valued resources in this area. They often offer more sophisticated systems and extensive expertise. For added convenience, some providers offer pre-integrated shopping cart solutions to minimize or eliminate programming.

In addition to the advantages noted by survey responses, Jones suggests several other ways in which third-party providers deliver value:

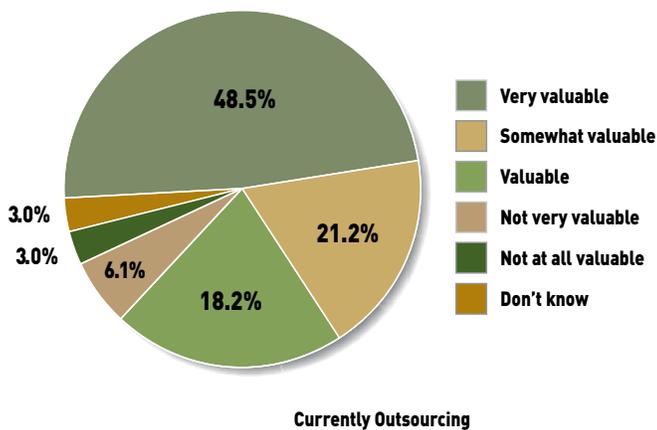
- *Network of locations* – Companies can typically choose from multiple locations when selecting a third-party distribution center. They can analyze shipping patterns and weigh transit times against inventory carrying costs to determine the optimal DC location(s).
- *Better order processing times* – Respondents who outsource view the processing time for outbound orders as less of a challenge than those who handle fulfillment in-house. Only 28.6% of those who outsource fulfillment include processing time for outbound orders among their top three challenges, compared to 39.2% of those who handle fulfillment internally. This suggests that third-party providers can help to minimize this challenge — possibly through improved processes or enhanced technology and automation.
- *Transportation services* – Third-party providers can help to coordinate small parcel, LTL, LCL and container shipments. Leveraging freight discounts can help customers to reduce inbound and outbound freight costs. Real-time track and trace and ship notification emails can help to ensure visibility of shipments.
- *Value-added capabilities* – “One-stop shopping” is another advantage of outsourcing. Streamlined third-party solutions can include a variety of integrated services — from packaging and light assembly to bar-coding and labeling to cross-docking and pool consolidation.

## Outsourcing in a Multi-Channel Environment

Approximately half (52.4%) of survey respondents who outsource use a third-party fulfillment company that distributes orders across multiple sales channels. Two thirds of these respondents (66.7%) rate this capability as “very valuable” or “somewhat valuable.”

Full-service third-party providers who are capable of handling e-commerce and multi-channel fulfillment can be a valuable resource. In addition to handling a variety of needs under one roof, they also have expertise and understanding of the unique needs of both consumer and retail fulfillment — from EDI and retail compliance to contact centers and returns. They’re also well positioned to help companies manage growth, perhaps expanding from a small in-house operation with online order sizes of one to three units to a facility that can accommodate orders of 30,000 units for a big-box retailer.

Value of distribution across multiple channels



## Outsourcing in Practice

The significant value proposition of e-fulfillment outsourcing justifies a closer look at outsourcing in practice.

Of those respondents who outsource some or all of their e-fulfillment operations, 39.7% outsource exclusively, while 60.3% use a combination of external and in-house resources. Those who outsource just a portion of their fulfillment needs may seek assistance with a particular segment of their product line, such as seasonal products, bulky items requiring excessive warehouse space or returns.

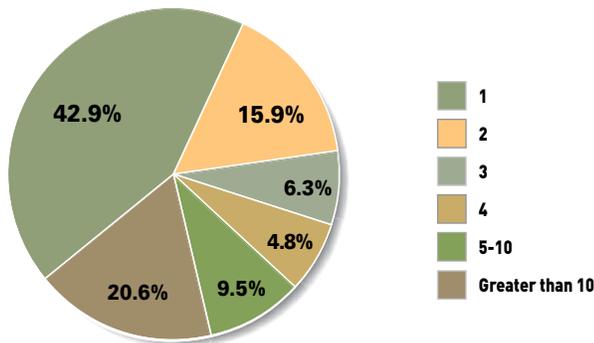
“Smaller companies may turn over their entire fulfillment operations to a third party, but larger companies may outsource select items, at least initially,” says Jones. “This gives them a chance to test the waters and determine the optimal fulfillment solution.”

The services most often used by those who outsource mirror those of respondents at large. In addition to basic order fulfillment, e-commerce website development and hosting (50.8%), returns processing (30.2%) and order processing systems integration (30.2%) are most commonly used.

Company size does seem to play a role in outsourcing. The majority of companies with \$10 to \$50 million in annual revenue (80%) tend to handle fulfillment in-house. However, for companies with annual revenues ranging from \$50 million to \$1 billion that have higher volumes of product to handle, 50% or more outsource some or all of their fulfillment. This suggests that smaller companies try to handle their fulfillment function internally but recognize a need for assistance as they grow.

Companies that outsource are somewhat more likely to distribute internationally (47.6%) than companies that handle e-fulfillment in-house (39.2%). These companies may wish to avoid the intricacies of complying with international regulations, transportation and paperwork.

Number of distribution centers



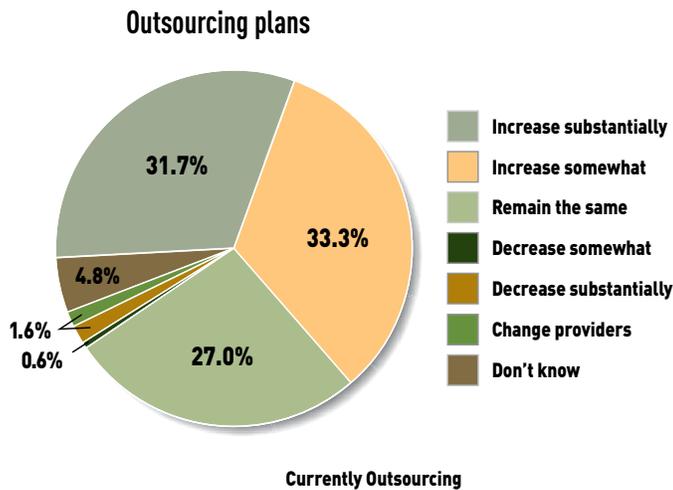
Currently Outsourcing

The biggest difference between those who outsource some or all of the e-fulfillment and those who do not is the number of distribution nodes. The vast majority of those who handle e-fulfillment in-house (78.4%) have a single distribution node in comparison with 42.9% of those who outsource who have a single DC. In fact, 20.6% of those who outsource have 10 or more distribution nodes. It appears that these companies are taking advantage of third-party networks.

### Outsourcing trends

Fulfillment outsourcing is definitely a growing trend — particularly for e-commerce companies. Of those who outsource, 65% say that they anticipate that their e-fulfillment outsourcing will increase substantially or somewhat in the next 12 to 24 months. The additional volume will be handled by a current partner for 56.1% of respondents, while 24.4% will seek a new partner and just 9.8% will handle it internally.

“Bottom line, effective fulfillment will be vital for business success. It is important to give your company every advantage,” says Jones. “More and more companies are realizing the value that third-party providers can offer — in terms of counsel and expertise as well as depth of capabilities.”



## E-Fulfillment Outlook

E-fulfillment is developing and changing quickly to keep up with the growth of e-commerce. In the near term, companies will need to address several important supply chain issues:

- *Freight costs* – As fuel costs rise and demand increases for free or low-cost shipping, companies will be challenged to control the cost of shipping as a percentage of total supply chain cost. They will need to seek out freight discounts and identify other opportunities to minimize transportation costs – either on their own or with the help of a third party.
- *Information technology* – Moving forward, the ability to connect with customers will continue to increase in importance. Finding ways to make shopping convenient for mobile users will be critical. This will require an infrastructure and integrated systems that help unify information across inventory, order management, promotions, merchandising, and distribution systems.
- *Pricing pressure* – As companies are being squeezed on margins and forced to compete with major e-commerce forces such as Amazon and E-bay, they will need to identify new ways to do things more efficiently and cost effectively. It will be important to find creative solutions in order to remain competitive.

To find solutions, companies will need to develop expertise and resources internally or seek outside assistance. Third-party provider's integrated logistics capabilities, advanced technology and collective buying power put them in a good position to provide counsel.

"It is important to look at e-fulfillment as a holistic process — with warehouse and inventory management, information systems, freight management and customer service working together," Jones explains. "This makes it easier to see the big picture and find creative solutions. An experienced third-party provider is often in a better position to do that."

## In Summary

Providing effective order fulfillment in an e-commerce environment proves challenging for many companies. The practice has evolved to a level of sophistication that requires carefully planned processes, scalable operations, state-of-the-art systems, and efficient transportation — all of which require extensive expertise and resources that can divert attention away from core competencies. Many companies recognize that they can better control costs, accommodate business growth, and ensure service excellence by outsourcing some or all of their fulfillment needs.

### About Saddle Creek Logistics Services

This research was sponsored by Saddle Creek Logistics Services. As a third-party logistics company, Saddle Creek leverages its broad array of capabilities – including warehousing, transportation, packaging and fulfillment– to provide integrated solutions in support of our customers’ business objectives.

For more information, visit [sclogistics.com/fulfillment](https://sclogistics.com/fulfillment) • 888-878-1177.