Ready or Not: Omnichannel Fulfillment & Distribution

Omnichannel is the new black. Recognizing that omnichannel shoppers buy and spend more, are more loyal and are here to stay, companies of all kinds are jumping on the bandwagon — striving to sell their products wherever and whenever their customers are shopping.

In doing so, they find themselves faced with heightened customer expectations — for product and availability information, delivery and return options, and seamless service. Accommodating these expectations is no simple feat, but it is an increasingly critical competitive differentiator.

To better understand how companies are handling omnichannel fulfillment and distribution today and planning for the future, Saddle Creek engaged Peerless Research Group to conduct an online survey of Logistics Management readers, including manufacturers, retailers, ecommerce companies, wholesalers and distributors, in November 2017.

The resulting study is based on survey responses from those industry professionals who are personally involved in the evaluation, operation, recommendation or purchase of omnichannel order fulfillment and/or distribution solutions for their organizations.
Survey respondents include C-level executives, corporate management, and warehouse, logistics and distribution management from a wide variety of industries. While no single industry accounts for more than 20 percent of the total responses, food and beverage, chemicals/pharmaceuticals, and apparel and accessories are most highly represented.

Respondents’ companies range in size from less than $50 million (27.3 percent) to $2.5 billion (15.6 percent) in estimated revenue in 2017. Their primary job functions are C-level executives (12.8 percent), corporate management (26.9 percent) and warehouse, logistics and distribution management (38.5 percent).

This report explores the current state of the omnichannel supply chain, top challenges, industry trends, the role of technology, use of outsourcing and more.

**Omnichannel fulfillment today**

Survey responses help to establish a view of the current omnichannel landscape.

Approximately 44 percent of respondents say their primary customers are business-to-business (B2B), 14 percent sell business-to-consumer (B2C), and 42 percent sell both B2B and B2C.

They utilize a variety of sales channels, including brick-and-mortar stores, ecommerce channels, catalogs, direct-selling/multi-level marketing and third-party marketplaces. Over half of respondents (51.1 percent) sell through brick-and-mortar stores — either their own or their customers’. Even more (59.3 percent) sell through their own or their customers’ ecommerce channels, evidence of the global surge in ecommerce sales.
Today, order fulfillment is fairly centralized with 40.7 percent of respondents saying they use a single distribution center that fulfills orders for all sales channels. Another 35.8 percent say they use multiple distribution centers, with each primarily serving a specific geographic area or sales channel. Just 23.5 percent use multiple distribution centers with the source of fulfillment determined by business rules for the order (i.e., speed of delivery, cost of delivery, etc.)

Performance assessment

How well are omnichannel operations working today? The report card is fairly positive – although there is room for improvement.

Approximately 53 percent rated the performance of their current fulfillment operations as “excellent” or “very good.” At the other end of the spectrum, 12.6 percent rate their operations as “fair” or “poor.”

When asked which aspects of their order fulfillment and distribution operations they’d like to improve, order-processing speed and inventory availability/visibility topped the list for 46.2 percent of respondents. Reporting and analysis were close behind with 41 percent. Returns management (37.2 percent) and transportation (34.6 percent) rounded out the top five.

“Companies are recognizing that traditional order fulfillment and distribution simply won’t cut it,” says Perry Belcastro, vice president, fulfillment, Saddle Creek Logistics Services. “Omnichannel requires a significantly more complex supply chain to deliver the seamless service, visibility and speed that today’s consumers expect.”
Top challenges

Of course, establishing a more sophisticated supply chain isn’t easy. Omnichannel poses a host of potential challenges related to order management, fulfillment and distribution, and respondents say they are experiencing many of them.

**Transportation-related issues** such as delivery time and cost topped the list of challenges for nearly half (48.1 percent) of respondents. Increasing consumer expectations for fast and free shipping are likely a major contributing factor here — both in B2C and B2B environments.

“To help address this issue, many companies expand their distribution networks to move products closer to the customer,” Belcastro points out. “With strategically located DCs, they can reach more than 99 percent of the U.S. within two business days via ground service – thereby achieving competitive customer service using economy shipping options.” Rate negotiation, planned shipping volume and zone skipping to specific sortation hubs can also be helpful, he says.

**Inventory management across multiple facilities** was a close second to transportation issues with 46.8 percent of respondents. As companies move toward a multi-site distribution model, they’re likely realizing a need for better visibility and real-time information.

A robust order management system (OMS) can provide enterprise-wide visibility, the ability to pull from multiple fulfillment sources and accurate, real-time information about product availability, order status and shipment tracking, Belcastro says.

**Order processing issues** (i.e., accuracy, turnaround) trouble 43 percent of respondents. The high volume of individual, small-parcel orders can overwhelm traditional fulfillment operations, and escalating expectations for faster deliveries adds pressure to fill orders faster.

Custom engineered processes and methodologies like Lean Six Sigma can help to improve efficiency, cost-effectiveness and order accuracy. Automated fulfillment and material handling solutions also help to improve velocity.

**Scalability to accommodate growth/ﬂuctuations** is a significant concern for 41.8 percent of respondents. As sales volume increases — or ebbs and flows with business fluctuations — companies struggle to manage changing needs for space and staffing.

In this case, Belcastro suggests utilizing a third-party provider with flexible resources (space, staffing and equipment) to handle the peaks and valleys without a major overhead investment.
Interestingly, just 26.6 percent of respondents said **profitability** was one of their top challenges. It is likely that respondents feel they have other more pressing issues rather than that they’re achieving real omnichannel profitability. In a 2017 JDA survey of retail CEOs, only 10 percent of respondents said they were able to make a profit while fulfilling omnichannel demand.

In fact, the Saddle Creek study finds that more than half of companies (53.2 percent) have experienced an increase in fulfillment costs in the past year.

The biggest factor contributing to the increase? An overwhelming majority of respondents (69 percent) point to shipping costs. Demand for free shipping and, often, free returns can take a toll on transportation budgets. Labor costs aren’t far behind – cited by 64.3 percent of respondents. This stands to reason since ecommerce fulfillment tends to be more labor intensive than traditional fulfillment operations.

“Controlling costs is always a priority,” Belcastro says. “It is important to explore every option to improve processes and increase efficiency throughout the omnichannel supply chain.”

69% of respondents say shipping costs are the biggest factor contributing to increased fulfillment costs.
Where omnichannel is headed

Omnichannel continues to evolve. The survey identifies a number of trends that are helping to shape the practice.

Ecommerce sales growth
Ecommerce is exploding for omnichannel companies, and survey data supports this. Thirty-seven percent of respondents say they will be adding ecommerce sales channels for their customers in the next two years while 26.1 percent plan to leverage their customers’ ecommerce channel. Another 20.2 percent plan to utilize third-party marketplaces like Amazon or eBay.

Surprisingly, approximately 30 percent of respondents plan to add brick-and-mortar sales channels within two years. Like Amazon, companies may be attempting to give consumers the opportunity to experience their products in physical stores where they can touch and feel the merchandise.

Along with these changes, omnichannel companies anticipate a modest shift in their revenue stream in the next 24 months. Currently, respondents say 17 percent of their revenue comes from ecommerce channels — their own or their customers’. In the next 24 months, they anticipate that figure will rise to 21 percent. While this number may sound conservative, it’s important to keep in mind the profitability challenges mentioned earlier and the fact that ecommerce sales accounted for just 8.9 percent of total retail sales in 2017, according to the U.S. Dept. of Commerce.

“Many companies are struggling to deliver an omnichannel experience efficiently and affordably,” Belcastro acknowledges. “They lack the resources, processes and expertise necessary to meet escalating customer expectations without breaking the bank.”

Trend toward multiple DCs
A major change in order fulfillment may be looming, the survey suggests. Within two years, the number of companies using “multiple DCs with the source of fulfillment determined by business rules for the order” will more than double – up from 23.5 percent to 49.4 percent. Another 28.4 percent will use “multiple DCs, with each primarily serving a specific geographic area or sales channel.” Just 22.2 percent of respondents plan to use a “single distribution center that fulfills orders for all sales channels” (down from the current 40.7 percent).

“The data confirms what we’re seeing anecdotally,” says Belcastro. “There’s clearly a growing shift toward a more customer-focused, multi-site distribution model. Companies are strategically expanding their number of DCs with a goal of getting closer to the end customer, moving products through the supply chain faster and minimizing transportation costs.”
More store involvement

Respondents anticipate that brick-and-mortar stores will become much more involved with ecommerce orders in the next two years. Buy-online-pickup-in-store (BOPIS) will increase from 28.8 percent today to 33.8 percent. Buy-online-ship-from-store is expected to grow even more – from 28.8 percent to 36.8 percent. Ordering in store and shipping to customer is also expected to increase – from 35 percent to 42.7 percent. Traditional buying and picking up in store is expected to drop from the current 46.3 percent to 33.8 percent.

The challenge, of course, is that order fulfillment can be challenging for already-taxed retail stores. They often lack the space, time and resources to pick, pack and ship a high volume of individual orders.

Increasing velocity

When asked what they expect to be the most significant change in order fulfillment operations or shipping practices in the next two years, the majority of respondents focused on issues related to supply chain velocity. Some of the most frequent answers to this open-ended question centered around speed to customer, technology and automation, same-day delivery and faster order turnaround:

- “Faster to market for e-commerce”
- “Automation and technology implementation”
- “On-time delivery to omnichannel”
- “Establishing a process to streamline the order fulfillment landscape”

“Omnichannel has significantly increased the speed of commerce,” Belcastro notes. “Companies are actively seeking ways to process and deliver orders more efficiently to satisfy customers’ escalating expectations.”
The role of technology

For optimal effectiveness, today’s omnichannel supply chains require sophisticated technology in order to provide real-time information, optimize inventory, ensure seamless service and offer a variety of delivery options.

Companies use a range of technology solutions to support their order fulfillment operations – from forecasting/demand planning (60.5 percent) to inventory management solutions (55.6 percent) to order management systems (45.7 percent).

Even with these systems in place, 27.8 percent of respondents say that “technology limitations” are one of their top challenges related to order management, fulfillment and distribution.

When asked to cite specific challenges, one respondent reported being challenged with the “ability for one system to manage inventory across the network (DC, retail).” Another said, “Shuttle systems will be required to meet growing need, but ROI is very tough due to excessive cost.” Yet another said they need “tailor-made solutions both mechanically and with software to handle our growth in e-commerce order fulfillment and inventory storage.”

Clearly, there’s opportunity for improvement. Historically, the logistics industry has been slow to adopt to new technologies, but incorporating sophisticated systems is critical to help companies move their omnichannel operations forward.

“A robust omnichannel technology solution can help to address many of the problem areas identified in our survey,” Belcastro says. “Visibility, inventory management across multiple locations, order-processing speed, reporting and analysis, seamless services... all of these challenges are rooted in technology.

It is a sticking point, however, as many companies are reluctant to make the required overhead investment or lack time or internal expertise to manage and stay abreast of ever-changing technology. In this case, Belcastro recommends seeking a third-party partner to shoulder the burden.
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Outsourcing practices

A growing number of companies appear to recognize that the increasing weight of omnichannel operations is too much to bear on their own. Over a third of respondents (35.9 percent) currently use a 3PL, and an additional 12.8 percent say they plan to use or consider using a 3PL in the next 12 months.

What are the driving factors for outsourcing? Respondents offered a litany of reasons why outsourcing offers value, including:

- “Adds flexibility and scalability”
- “We don’t have a good inventory management system”
- “Speed of delivery and cost reductions”
- “Being seasonal, it enabled us to reduce staff due to improved processes”
- “Additional capacity to assist with sales growth”
- “Able to concentrate time and effort to other more critical parts of the business”
- “Lack of expertise in house”

Those who are opting not to outsource offer a range of reasons, including having sufficient in-house resources and expertise, concern over outsourcing costs and the small size/scope of their operations.

Many of those companies that do use a 3PL to handle order fulfillment and distribution give their 3PLs high marks, with 57.2 percent saying their provider’s performance is “excellent” or “very good.” Others say there’s room for improvement, as 17.8 percent report “fair” or “poor” performance.

Those who are disappointed in their provider say they’d most like to see better on-time shipment rates (60 percent). Other opportunities for improvement include order accuracy, order cycle times, proper documentation, customer experience and fulfillment costs.

“It is important to seek out a qualified provider with the resources you need, experience in omnichannel fulfillment, proven processes and a commitment to continuous improvement,” Belcastro advises. “Doing your homework up front can help you avoid potential service failures and maintain the integrity of your brand.”
Moving forward

Omnichannel practices are still relatively new and constantly evolving. It is safe to assume that the future holds continued growth in ecommerce sales volume, expansion into additional sales channels and a focus on providing timely, cost-effective, customer-focused service. To succeed in this dynamic environment, it will be important to continually reevaluate order fulfillment and distribution operations to identify opportunities for improvement, as customers’ expectations for service will only continue to escalate.

An experienced third-party partner can be a valuable partner for companies as they strive to overcome today’s omnichannel challenges — and tomorrow’s.

About Saddle Creek Logistics Services

We specialize in designing and delivering omnichannel logistics solutions for manufacturers, retailers and ecommerce companies. Our approach is solution based and data driven, leveraging the most advanced operational methods and sophisticated technologies.

Clients utilize our warehousing, fulfillment and transportation services as stand-alone offerings or as part of an integrated logistics solution. They have access to our nationwide network of strategic locations totaling nearly 18 million square feet of warehouse space. We’re committed to delivering the speed, service and scalability our clients need to compete in today’s omnichannel marketplace.

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