

## 2018 Distribution Network Trends Report

Today, more than ever, companies are looking for ways to improve service levels, better manage inventory and reduce transportation costs. It's no accident, then, that both B2B and B2C businesses are taking a more strategic approach to network configuration. Distribution networks play a critical role in the supply chain.

### Finding the Optimal Configuration

Every company will have its own ideal DC network configuration based on company size, type, variety of sales channels, geographic distribution, etc. For example, omnichannel companies are more likely to have more DCs because they can provide faster, more cost-effective service when they're in their customers' backyard.

The design and management of these networks should be assessed on an on-going basis. The network is likely to change over time as the business grows and evolves.

To determine the ideal number of distribution centers for a business, it's important to consider a variety of factors including order volume, product characteristics, reverse logistics needs and acceptable transit times. Data analysis and modeling can be valuable in the decision process.

Today, as more companies move toward an omnichannel environment (or simply need to accommodate sales growth and market expansion), they opt for multi-node networks that put products closer to their customers.

In fact, Saddle Creek's recent survey of omnichannel companies reveals a significant trend toward a multi-site distribution model. Within two years, 77.8 percent of omnichannel companies plan to use multiple DCs, the study shows. The number of companies using multiple DCs "with the source of fulfillment

determined by business rules for the order" will climb from 23.5 percent to 49.4 percent while another 28.4 percent will use multiple DCs "with each primarily serving a specific geographic area or sales channel."

### Selecting Strategic Locations

When it comes to site selection, low operational costs and readily available inbound/outbound transportation should be key considerations. It also can be helpful to consider proximity to customers, sourcing, manufacturing, ports, major Interstates, etc.

Depending on how many nodes are required, Chicago Consulting's 10 Best Warehouse Networks list identifies strategic DC locations based on the lowest possible transit lead-times to customers in the U.S.

“ The benefits of finding the optimal DC network are controlling costs and providing faster service/deliveries. That's important for the burgeoning omnichannel marketplace, but also for any logistics operations that need to serve multiple geographic locations.

#### Tom Patterson

Senior Vice President, Transportation Services

When choosing a geographic location that is best for warehouse facilities, it is important to keep in mind unique business objectives.

"For example, if fast, free shipping is a service priority, strategically located DCs make it possible to reach more than 90 percent of the U.S. within two business days via ground service," Patterson says. "That helps



you meet consumers' expectations for delivery speed while significantly reducing your transportation costs."

### Fine-Tuning Operations

DC location is not the only consideration when it comes to network design. There are ample opportunities for improvement related to warehousing, transportation and general operations.

### Warehousing Best Practices

"We're seeing logistics clients becoming more strategic in how they utilize space and assets," says Patterson. "Changes at the warehouse level can lead to a significant improvement in the bottom line."

Common warehouse improvements include:

- › Solution Design
- › Designing facilities to handle increase in SKUs and variety of order profiles under one roof (multi-level storage, racking systems, etc.)
- › Adding small-parcel shipping lines and stations
- › Adding "slow-moving" or "bulky item" sections to the DC
- › Custom engineering warehouse processes

“ Companies find that cross-docking allows them to take costs out of their supply chains and accelerate the velocity of inventory, so they can get their products to market more quickly and economically,

In addition to facility improvements, Patterson says companies are also incorporating strategies such as cross-docking – the practice of receiving product and shipping it out the same day or overnight without putting it into storage.

Postponement strategies can also play a role in network optimization. From embroidering t-shirts to

creating rainbow packs to making minor mechanical alterations, many companies choose to customize products late in the production cycle.

Positioning value-added services as close to the customer as possible allows companies to delay product configuration until the last possible moment. That allows them to be more responsive to customer demand, speed time to market and avoid the cost of carrying and managing a heavy volume of safety stock, Patterson explains.

### Transportation Management

"Companies continue to look for creative solutions to help control transportation costs," says Patterson. He cites an example of a manufacturer that was regularly shipping between its warehouses coast to coast. "By using intermodal instead of truck, they cut costs by 42 percent. For another client, changing packaging and product design helped to increase freight density and, thereby, lower freight costs."

As mentioned earlier, the multi-site distribution model helps to address growing demand for fast, free shipping. Other transportation strategies include:

- › Transportation routing
- › Negotiating rate changes and fuel surcharges
- › Shipment consolidation
- › Leveraging postal work-share options (i.e., presorting and drop-shipping)
- › Planned shipping volume
- › Zone skipping to specific sortation hubs
- › Reducing frequency of deliveries
- › Shipping direct from vendor
- › Increasing use of intermodal

Patterson notes that changes in transportation are often more attractive for companies to implement because they can have a direct, immediate impact on the bottom line.



## Common Challenges

While the ROI for network reconfiguration can be significant, distribution model changes can be challenging and costly to implement for a number of reasons.

- 1. Space:** Warehouse space is at a premium today, thanks to the rise of ecommerce. The 2017 national industrial vacancy rate was about 5 percent for all product types, according to industry analysts. Needless to say, that's driving up the cost of quality space in prime locations.
- 2. Staffing:** Even if affordable space is available, it can be difficult to find – and keep – dependable, skilled warehouse workers. In fact, the average turnover rate for warehouse workers is 36 percent, according to the U.S. Bureau of Labor Statistics. And with the labor shortage driving up median wage rates, labor costs can represent as much as 50 to 70 percent of the average company's warehousing budget.
- 3. Inconsistent Order Volume:** Business fluctuations, forecasting challenges, seasonal promotions can be difficult to plan for – in terms of both space and staffing. To prevent potential service failures or delivery delays, you must be prepared for peak volume even when there is a lull in the action. Paying for idle space and hands can take a serious impact on profitability.
- 4. Technology:** A multi-site network requires more sophisticated technology. Companies need to have the ability to see inventory across all channels. It is also critical to determine which fulfillment source to pull from to ensure the fastest and most affordable service. While a robust OMS can accommodate these needs, a state-of-the-art system can be costly to implement and maintain. WMS and TMS systems, demand-planning software and fulfillment automation are other valuable but costly technology investments.
- 5. Lack of Expertise:** For many companies, fulfillment and logistics are not core competencies, and the

problem is compounded when multiple facilities are involved. As a result, the need to focus on these practices often diverts attention from business-critical functions such as brand-building and strategic planning.

## Taking Advantage of Outsourcing

To overcome barriers like these, many companies turn to third-party providers. Experience and understanding of best practices allow 3PLs to offer strategic counsel and recommend the best network configuration to meet current and future needs.

**Shared space gives companies a creative way to enhance operations while increasing flexibility and controlling costs.**

Often, companies take advantage of a shared-space warehousing environment in which a third-party provider manages multiple-client operations in a single facility with room for expansion.

"Shared space gives companies a creative way to enhance operations while increasing flexibility and controlling costs," Patterson explains. "It allows them to accommodate the ebb and flow of their business and adapt more quickly to changes in the marketplace. Not only do clients avoid the fixed cost of leasing more space than they need on an on-going basis – they also save on operating, personnel and other management by sharing those costs with others."

With a distribution network already established and staff in place, a third-party provider offers the ability to select DC locations that are closer to your customers, reducing transit times and controlling shipping costs without adding to your overhead expenses. In many cases, a 3PL usually can open a new DC to meet your specific needs.

A third-party provider will invest in the latest technology, so you don't have to – from advanced



solutions such as OMS, WMS and TMS to automated fulfillment and material handling solutions.

In addition, an experienced 3PLs third-party provider will pay careful attention to solution design and utilize proven processes to keep your logistics operations running smoothly. They'll incorporate continuous improvement initiatives to improve and reduce waste on an on-going basis. In fact, 73 percent of 3PL users

say that 3PLs provide new and innovative ways to improve logistics effectiveness, according to the 2018 Third-Party Logistics Study.

As companies continue to refine their distribution network design and management for optimal performance, they're wise to explore the advantages that third-party providers can offer – convenience, flexibility, efficiency, visibility and cost savings.

### Case Study: Expanding Company Footprint

**SPARKLING**  
**ICE**

The overnight success of Sparkling ICE® demanded a supply chain overhaul. Rapid growth strained Talking Rain's limited distribution network, and dramatic seasonal fluctuations made it challenging to accommodate space needs. The beverage producer recognized an immediate need for a scalable solution on a national level.

Saddle Creek played a key role in configuring the distribution network for Talking Rain, supporting the company's expansion to a national footprint. The 3PL identified strategic locations across the country that put the beverage producer's inventory close to end customers, optimized transportation costs and drove service level excellence.

The new network helps Talking Rain to improve inventory visibility, support postponement strategies and streamline its supply chain. Saddle Creek executed the reconfiguration in less than six months and now manages more than one million square feet of food-grade warehouse space.

### 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.

### Service Excellence

Since 1966, we've been driven by strong core values and a keen sense of entrepreneurial responsiveness.

We optimize performance by focusing on key areas:

- › Solution Design
- › Business Delivery
- › Systems Integration
- › Continuous Improvement

Want more information? Get in touch with us!



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