

Outsourcing to Optimize Subscription Box Fulfillment



Subscription box businesses are booming. Today, there are at least [18.5 million subscription box shoppers in the U.S.](#) They're getting everything from beauty products to gourmet foods to pet supplies delivered to their mailboxes on a regular basis.

Over the past five years, the subscription commerce economy has had a 17 percent compound annual growth rate (CAGR). And many subscription businesses have experienced high demand during the coronavirus pandemic. In fact, [23 percent of consumers recently signed up](#) for a subscription box or program, a March 2020 Klaviyo survey reveals.

The growth trend is likely to continue as the business model is particularly popular with younger generations. Ninety percent of Gen Z shoppers and 70 percent of millennials use subscription services, the SUBTA report shows.

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Source: Subscription Trade Association (SUBTA) 2019 Annual Report

Challenging Business Model

With an estimated 7,000 subscription companies in the world today, shoppers have a wide array of boxes from which to choose. Once primarily the domain of small start-ups, the subscription business model is catching on with megabrands like Nike and retail giants like Walmart, Target and Amazon. Needless to say, the market is competitive.

The business model poses other challenges as well. Demand for a personalized experience, unpredictable growth patterns, peak-order-processing, and slim profit margins are common pain points. The monthly

cycle of inventory management, order fulfillment and transportation can be grueling. High shipping costs, tight delivery windows and international shipments further complicate operations.

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5 Reasons to Outsource Subscription Fulfillment

Many subscription box companies have determined that outsourcing fulfillment to an experienced provider can help to overcome many of these challenges. This report explores five of the biggest benefits of outsourcing.

1. SCALABILITY/FLEXIBILITY

The boom in subscription box sales has caused many companies to experience explosive growth — practically overnight. Storing and receiving the influx of products can quickly become a challenge. And with little historical sales data, predicting demand from month to month can be difficult, so it is hard to gauge how much space will be needed. A fulfillment provider with flexible resources can scale space to accommodate both growth and fluctuations.

Subscription companies typically have periods of intense volume due to their monthly (or quarterly) delivery cycle. Adjusting labor and space to suit these dramatic peaks and valleys can be very challenging. Paying for space and staffing to accommodate the highest volume each month when operations are only at capacity for one week can be very expensive. Fulfillment providers can balance the variations because they work with multiple customers.

2. CUSTOMIZATION

A personalized experience is a top priority. In fact, it is the [most important reason for subscribing](#), 28 percent of curated box subscribers say. As a result, many companies allow customers to [pick and choose the contents of their subscription](#) to suit their personal tastes. While curated boxes are popular, they are very labor-intensive, requiring significant product customization within a tight timeframe.

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3. ADVANCED TECHNOLOGY

As business grows, increasing operational velocity and efficiency is critical. Subscription companies require systems that can grow with them. Sophisticated warehouse management systems (WMS) and order management systems (OMS) can streamline receiving, order management and inventory control while improving visibility, traceability and quality. In addition to software, material handling equipment such as conveyors, scanners and label applicators increase speed and accuracy while reducing labor for moving components and finished goods.

Technology solutions like these can be expensive to implement and require frequent updates. Outsourcing to a provider with state-of-the-art systems and automation in place allows companies to avoid unnecessary overhead yet benefit from the latest technology.

4. PARCEL MANAGEMENT

Subscription customers expect value and convenience. Since most subscription companies have slim margins, they need to keep a close eye on expenses. [Shipping costs](#) are typically higher than production costs, so this is an important area to evaluate.



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Experienced fulfillment providers select shipping methods that align with subscription costs and customer expectations. For example, they may utilize a more economical postal service instead of standard ground to minimize expenses. Shipments from a strategically located distribution center can typically reach 70 percent of customers in two days via ground. When multiple distribution centers are used, 90 percent can be reached via two-day ground service, helping to both improve service and reduce transportation costs.

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Third-party providers also work with multiple shipping companies and can leverage their buying power to negotiate competitive rates. Planning shipping volume and zone skipping to specific sortation hubs can further help to control costs.

Coordinating the timing of deliveries can also be important for subscription companies. When contents of each month's box are promoted extensively in social media, arrival dates must be carefully synchronized. A fulfillment partner can coordinate deliveries according to customer location so that subscribers in different parts of the country receive their orders at approximately the same time.

5. ECOMMERCE SUPPORT

As they grow, many subscription box companies find that subscribers want to supplement their monthly boxes with full-size versions of previous samples or other products in the line. [Adding an ecommerce platform on their website](#) enables them to meet this demand and generate additional revenue.

Ecommerce orders require operational adjustments, however. Third-party providers with experience in

ecommerce fulfillment will be prepared to handle the need for multiple order profiles, higher inventory volume, faster order processing and delivery, and higher return volume.

Is Fulfillment Outsourcing Right for Your Business?

Since the subscription-box model has a number of unique nuances not seen in other retail arenas, fulfillment outsourcing can be valuable — particularly once order volume reaches 5,000 orders a month. At that point, handling fulfillment can tax in-house resources and divert attention from a subscription company's core competency.

[Fulfillment providers](#) who have experience working with subscription companies can be a valuable resource. Successful providers will have an efficient start-up process that includes thoughtful pre-planning and proven processes. They are also likely to have expertise in handling multiple sales channels, including ecommerce.

Subscription companies should consider fulfillment outsourcing if they want to accommodate business growth, improve service levels, minimize overhead, control costs and focus on their core competency.



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Subscription Fulfillment in Action for IPSY

Every month, millions of ipsy members eagerly await the arrival of distinctive pink mailers packed with beauty products. Just like clockwork, subscription Glam Bags (and new Glam Bags Plus) appear in their mailboxes along with items ordered via ipsy's ecommerce channel.

ipsy counts on Saddle Creek to fulfill every order from its distribution centers in Charlotte, N.C., and Fort Worth, Texas. Subscriptions are personalized to suit subscriber preferences, so Saddle Creek creates numerous product combinations during a peak period each month. Shipments are synchronized to arrive in mailboxes across the country at approximately the same time to coincide with social media promotions.



The business has grown dramatically since the two companies began working together in 2012. The beauty subscription leader values the partnership and how Saddle Creek brings together the people, processes, tools and technologies required to keep subscribers satisfied.

About Saddle Creek Logistics Services

Saddle Creek is an omnichannel supply chain solutions company providing a variety of integrated logistics services, including fulfillment, warehousing and transportation. We help subscription-based businesses, retailers, ecommerce companies and manufacturers get products where they need to be quickly, cost-effectively and seamlessly.

Learn how our solution-based, data-driven approach can help to meet your specific business goals.

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
- Systems Integration
- Business Delivery
- Continuous Improvement

Want more information? Get in touch with us!



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