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 and ecommerce 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.

According to *Logistics Management*'s November 2020 Warehouse/DC Operations study, the number of buildings in DC networks is on the upswing – with 46 percent of respondents having three or more buildings, up from 36 percent in 2019. In addition, 17 percent of companies with plans for DC expansion intend to add more buildings in their network.

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.

> The benefits of finding the optimal DC network are controlling costs and providing faster service/deliveries. That's important for omnichannel and ecommerce, but also for any logistics operations that need to serve multiple geographic locations.
>
> **Tom Patterson**
> Executive Vice President, Saddle Creek

When choosing a geographic location that is best for warehousing and distribution 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," explains Tom Patterson, Executive Vice President of Operations at Saddle Creek. "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:

- Designing solutions to handle an increase in SKUs and a 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
- Incorporating automation and robotics when the business case warrants

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.

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, Patterson says.

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."

> 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.

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. Vacancy rates for industrial properties are near an all-time low. 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, 53 percent of respondents in the 2020 *Logistics Management* survey said attracting and retaining an hourly workforce is their top industry challenge. And as the labor shortage drives 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 and other variables 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 have 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 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 3PL 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 efficiency and reduce waste on an on-going basis. What's more, 88 percent of shippers say that using a 3PL has helped to improve service to their end customers, according to the 2021 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, cost savings and customer service.

Case Study: Expanding Company Footprint

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, optimize transportation costs and drive service excellence.

Saddle Creek executed the reconfiguration in less than six months. The new network helps Talking Rain to improve inventory visibility, support postponement strategies and streamline its supply chain.

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!

3010 Saddle Creek Road
Lakeland, FL 33801

Sales: 888-878-1177
Main: 863-665-0966

sales@sclogistics.com
sclogistics.com