Q&A

Designing the right distribution
network for today's marketplace

An executive conversation
with **Perry Belcastro,**
senior vice president of
fulfillment, Saddle Creek
Logistics Services

With record ecommerce growth, skyrocketing parcel costs and unprecedented supply chain disruptions, retailers and brands are looking for every opportunity to optimize fulfillment operations. For many, distribution network configuration can be a target area for improvement. To better understand network optimization, Digital Commerce 360 chatted with Perry Belcastro, senior vice president of fulfillment at Saddle Creek Logistics Services (ranked No. 3 for fulfillment services on our list of Leading Vendors to the Top 1000 E-Retailers).

Why is distribution network configuration so important?

With the right distribution network, you can improve service levels, manage inventory better and reduce transportation costs. As a result, more retailers and brands recognize the need to evaluate their networks and take a more strategic approach to network design. Many are expanding their distribution network to optimize their operations.

What's driving the need for network expansion?

Simply put, it's service and cost. By adding distribution centers (DCs), you can move products closer to your end customers to minimize transit time and cost. For retailers and brands that support both B2B and direct-to-consumer (D2C) fulfillment, it can be helpful to add micro-distribution centers so products can be picked, packed and shipped without causing congestion in stores.

Utilizing multiple DCs can also help to mitigate supply chain risk. Distributing inventory across facilities in different geographic areas instead of housing an entire inventory in a single DC allows for more fulfillment options.

Multiple locations also give you options in a challenging labor market. If labor is particularly tight in one area, you might temporarily shift order volume to another facility to avoid downtime and control costs.

How do you determine your optimal network configuration?

When optimizing your network, consider your company size, product type, number of sales channels and geographic distribution. Be sure to keep your strategic business objectives in mind as well.

If offering fast, free shipping is a priority, for example, you'd want a network that allows you to deliver that service level as cost-effectively as possible. With two or more strategically located DCs, you can reach more than 90% of the U.S. within two business days using ground service.

Many companies opt to have one facility on the East Coast and one on the West Coast or in a central location based on the U.S. population like Ohio, Kentucky or Indiana. A growing number of companies have three or more distribution nodes.

What factors should you consider when selecting a DC site?

Think about the facility's proximity to your end customers, suppliers, manufacturing facilities, ports, major interstates and transportation hubs. Seek out locations with low operational costs and readily available inbound and outbound transportation.

Familiarize yourself with available carrier options in the region. For example, a DC in Dallas gives you access to same-day processing from a wide variety of carriers, while other locations may only offer access to FedEx and UPS. If transit time and cost are a concern, good parcel analytics software can help determine the best locations from which to serve your specific customer base.

It's also important to take labor needs into account. Since a competitive job market can drive up wages and increase your recruiting and retention costs, it may make sense to position facilities in areas where warehouse workers are more readily available.

Many retailers and brands choose to enlist the help of an experienced third-party logistics provider (3PL) because they lack the time, resources and expertise necessary to design the optimal network configuration. However you choose to approach the process, you're likely to realize a significant ROI by optimizing your distribution network.

Saddle Creek
LOGISTICS SERVICES