Aligning Order and Fulfillment Channels

June 2013

Sponsored by: Honeywell

Conducted by: PRG Peerless Research Group

On behalf of: Logistics Management

Introduction

The Internet, along with advances in e-commerce, mobile technology, social media and wireless networks, has revolutionized the art of buying and selling. It wasn't too long ago that a consumer had to physically drive to a store to purchase an item and have it in hand. With Internet access on a smart phone, today's consumer can purchase anything, anywhere, anytime and it would then be delivered to him.

This "anything, anytime, anywhere" mentality might be a boon to the consumer, but it has inevitably introduced layers of complexities to order fulfillment operations. In a recent study sponsored by Honeywell Scanning & Mobility and conducted by Peerless Research Group on behalf of Logistics Management and Supply Chain Management Review, more sophisticated customer demands are pushing today's logistics and supply chain managers to fulfill more orders faster and at lower costs. The processing and management of the orders themselves have gotten more complicated as each selling channel produces different order profiles, requiring a variety of channel-specific order picking approaches. Instead of fulfillment for just one channel, managers are adopting multi-channel distribution strategies that may span multiple facilities. As the number of facilities increase, real-time visibility into inventory becomes even more essential for order fulfillment success.

We surveyed 469 managers of supply chains and distribution operations across a broad range of industries to examine the current state of order fulfillment and distribution and to investigate how multiple market channels are impacting the processing of orders. Respondents are primarily from manufacturing industries (50%), retail (15%), and high technology (10%). A wide array of business sizes is also well represented: 31% are employed with smaller companies (under $100M in annual revenues), 38% are from mid-sized firms ($100M - $999.9M), and 31% work in larger corporations ($1B or more). Twenty percent of respondents serve primarily end-consumers (B2C), while 40 percent provide B2B products and solutions; and another 40 percent cater to both B2C and B2B.

"The biggest change we've made to our fulfillment operations over the past few years is to have more of a customer focus on delivery times and reduce inventory across our end to end supply chain operations."

Director of Materials Management; Pharmaceuticals; $2.5B + in annual revenues

The state of order fulfillment: Faster and more efficient

The mission of an order fulfillment center is the efficient assembly and timely shipment of the perfect order. Product, labor, equipment and operating systems must all come together in support of this mission. As customer demands increase, however, managers find themselves challenged by a number of issues. On top of most everyone's list is the need to "fulfill more orders, faster and at lower costs". This is a particularly critical requirement when dealing with today's highly demanding e-commerce customer who frequently expects immediate gratification and nothing less than next-day service. Today's fulfillment operation must not only react as quickly as possible to process these types of orders faster, but must do so with tighter distribution budgets.

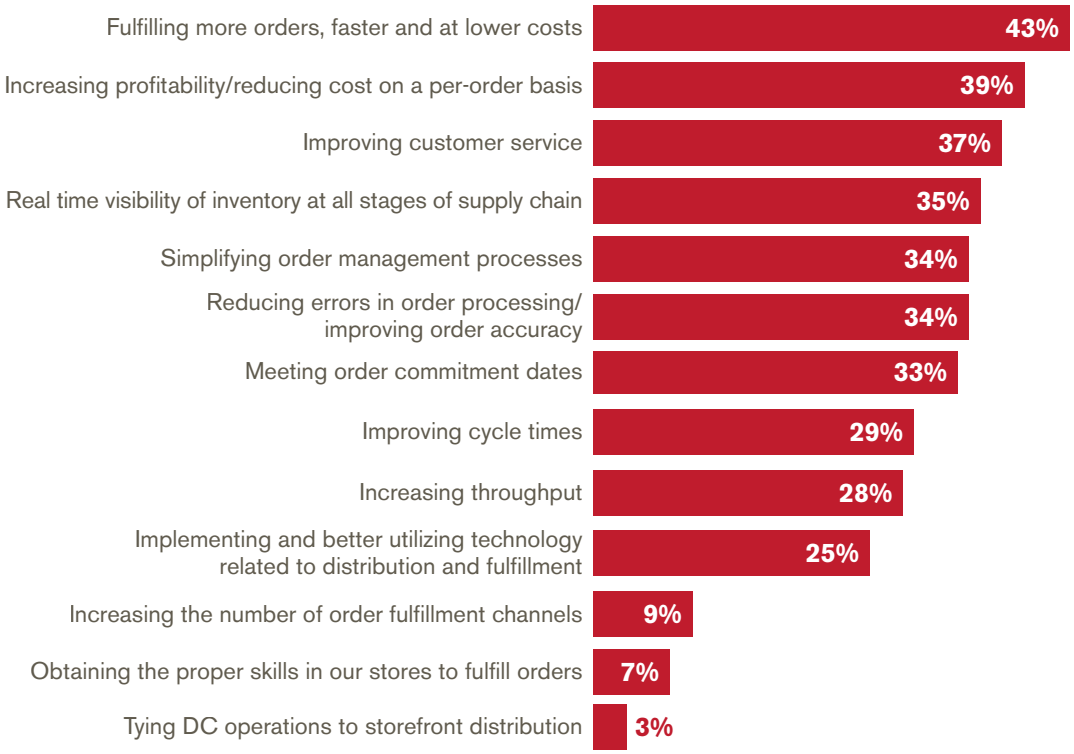
"We are updating our databases so that when purchases are made at the storefront, the inventory is automatically updated in real time."

—Director of Distribution; Computers & Electronics: $2.5B+

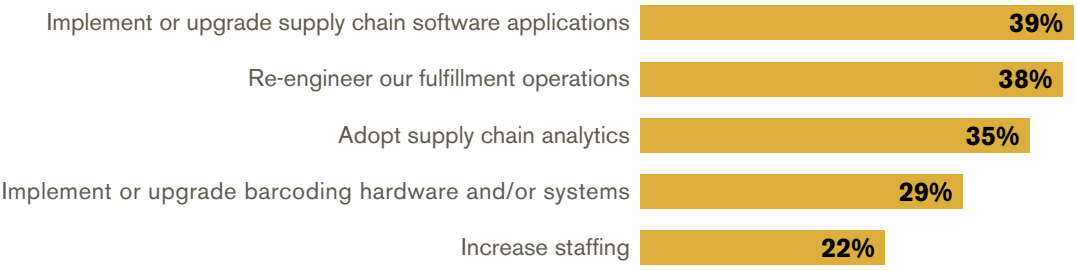
It is surprising to note that the issue of least concern to today's logistics managers is that of "tying DC operations with storefront distribution". This is being overlooked by today's managers, who may be thinking of the DC and the store as two distinct silos of operation. To create the leaner, more agile supply chain of the future, companies must operate a centralized inventory, fulfillment, and merchandising planning system that has fulfillment operations in the DC fully synchronized with a store's demand patterns.

So how are they stepping up to the challenge of faster, more efficient fulfillment? Most are "implementing or upgrading their supply chain software applications". These applications automate previously paper-based and batched exchange of information to allow for more accurate, real-time, end-to-end visibility. Others are "re-engineering their operations", introducing hardware and process solutions that increase throughput while lowering

Order management, fulfillment and distribution issues businesses face

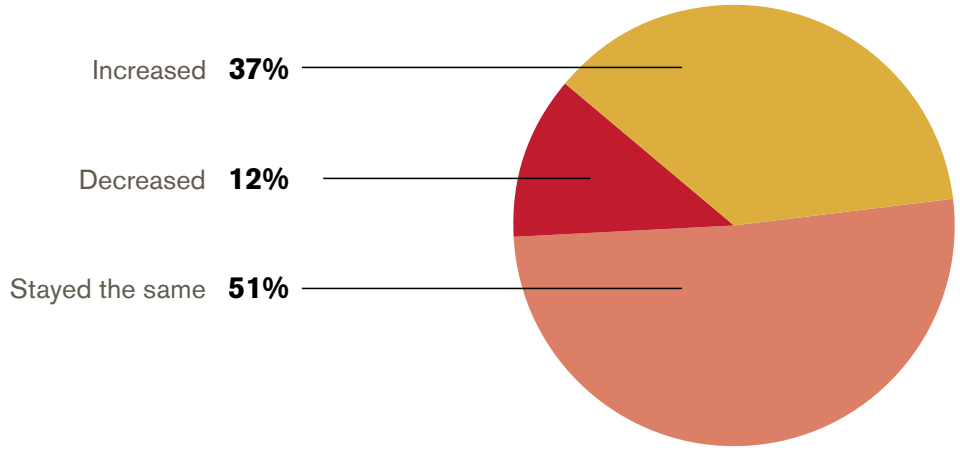


Strategies for addressing major distribution and/or order fulfillment challenges

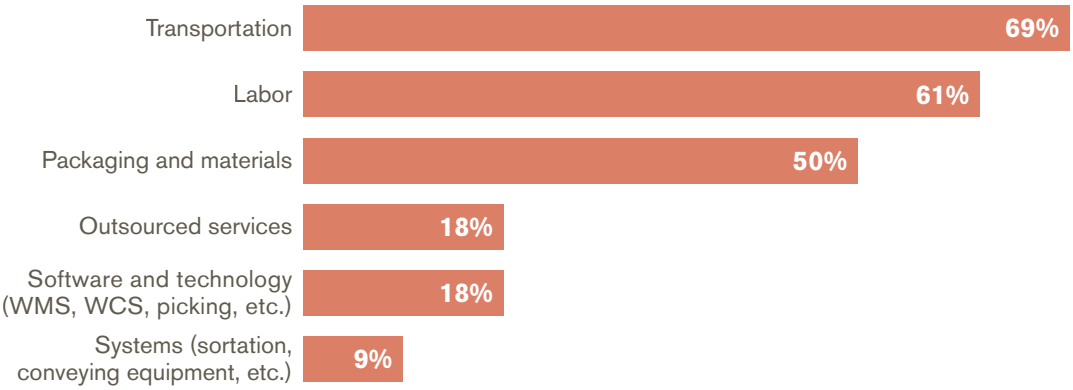


costs. Some re-engineering examples may include the use of wireless, paperless picking and scanning devices using radio frequency (RF) technology for real–time tracking of orders, batch picking strategies and the use of conveyors and other forms of automation. Finally, some are "leveraging supply chain analytics" —taking a deeper look at their entire network, including inbound and outbound transportation strategies, such that inventory can be optimally located on nodes that will increase speed to the customer while minimizing transportation and facility costs. Minimizing transportation costs remains a high priority. When taking a closer look at order fulfillment costs over the past year, most managers have kept costs steady, but over a third have seen costs increase.

Costs to fulfill orders over the last year



Areas in which fulfillment costs have increased



Most managers (69%) attribute these increases to higher transportation costs. In particular, as fuel costs continue to rise and costs on a per-order basis go up, companies are driven to continuously find more cost-efficient solutions to speed products to customers.

Selling on multiple channels

Despite the latest technological advances, being able to talk to a company representative continues to be the basic – and most common - requirement. When asked what selling channels they currently provide, internal sales ranks highest (61%).

However, e-commerce continues to gain ground as a common sales channel -- 40 percent of those we surveyed market products via their website.

So integral is the ability for a company to do e-commerce that others (14%) – perhaps too small or technically challenged - have latched on to

"We have increased our drop ship rate to our end consumer business. This is mostly e-business driven."

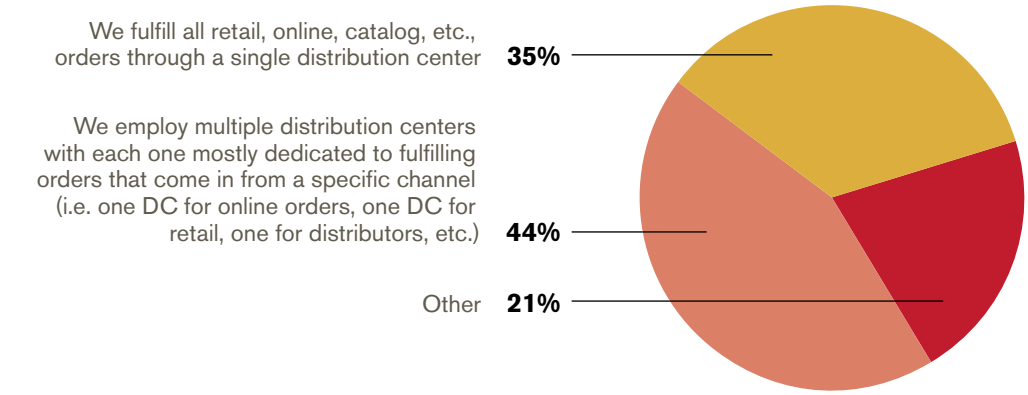
—Vice President; Wholesale; $2.5B+

specialized third party logistics providers (3PLs) to fulfill their orders. E-tail infrastructures offered by online giants such as Amazon and eBay are prime examples.

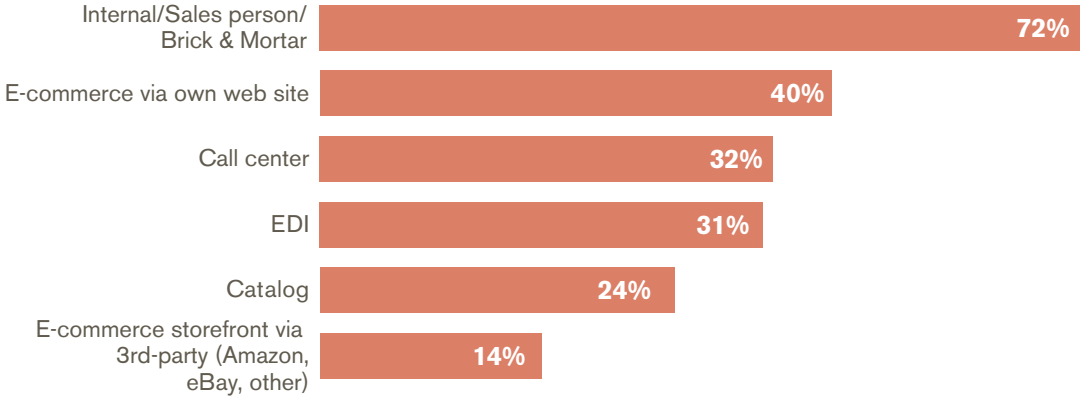
Dissecting the multi-channel distribution strategy

While these multiple selling channels may have enhanced the customers' buying experience, it has presented new challenges to traditional supply chains, particularly those previously built for only one channel. The survey shows that four out of ten operations (42%) are setting up multi-channel distribution strategies with facilities that are able to fulfill orders from different sales channels.

Current distribution models in place



Selling channels curently providing



How are they doing it? One-third of these businesses are processing multi-channel orders through a single DC. These environments are set up with separate picking operations specific for a channel but replenished from a common inventory. The more popular option however has multi-channel orders fulfilled over multiple DCs. Each DC may be dedicated to processing orders for a specific channel, i.e. one DC for retail, one for wholesale and another one for online orders. Other strategies do not fit either blueprint and involve a hybrid approach, utilizing multiple DCs to fulfill orders from multiple selling channels , or relying on a 3PL for order fulfillment.

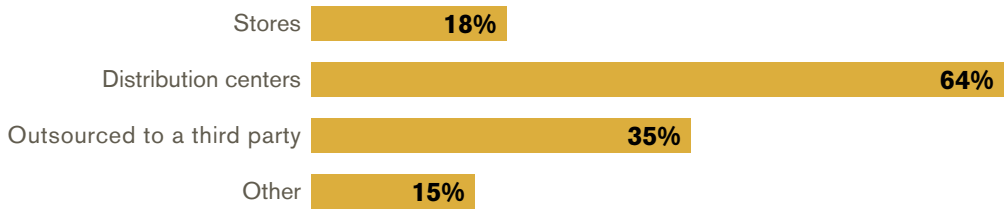
What is gaining greater attention is the use of the store for the fulfillment of orders. Fulfilling e-commerce orders at brick-and-mortar stores can most cost-effectively support next-day shipment by processing and shipping the order from the store that's closest to the customer and essentially treating the store as mini-fulfillment centers.

"We obtain verbal confirmations prior to project start up, confirming dates for deliveries with a week padding to make sure items arrive before scheduled to add to real-time schedules."

—Director of Logistics; Retail; $500M-$1B

For traditional DCs, adding e-commerce to the fold can be daunting. Roughly one-third (35%) turn to outside help by using 3PLs with e-commerce fulfillment experience. Another reason for outsourcing may be to provide faster fulfillment to distant customers. Companies also outsource when service level requirements cannot be cost-effectively met by the current distribution network infrastructure.

Outlets use for fulfillment



In some instances, companies have specific tasks that they want to outsource. Top on the list of tasks that are typically outsourced is inventory management. DCs with limited storage space find themselves bursting at the seams; outsourcing inventory helps relieve this issue. Keeping inventory with a 3PL until it is actually needed at a plant or DC will also defer all the costs associated with carrying that inventory if companies had to store it in their own DCs.

Tasks outsourcing/Plan to outsourse to 3PLs

Software and hardware investments in multi-channel distribution

As part of continuous improvement efforts with order taking, fulfillment and shipping, multi-channel operations plan to invest primarily in software technology (WMS, WCS, picking, etc.) and automation (picking technologies, sortation, handheld devices, etc.).

"All orders entered on website must be reviewed by a CSR before fulfillment; inventory is sometimes allocated differently for web orders versus phoned-in orders."

—Procurement Manager; Automotive Equipment; $100M - $250M

"We employ multiple distribution centers with each one mostly dedicated to fulfilling orders that come in from a specific channel (i.e. one DC for online orders, one DC for retail, one for distributors, etc.). We are seeing an increase in B2C order volume and smaller order profiles."

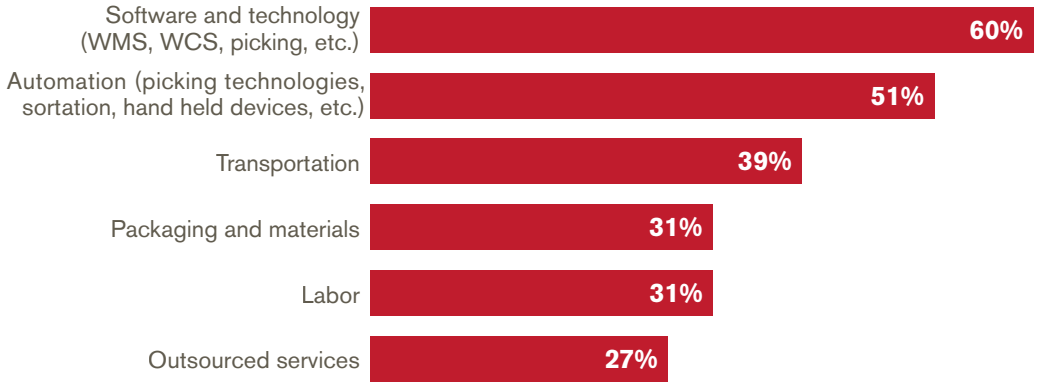
—VP Supply Chain Operations; Retail; $2.5B+

"Using a 3PL saves us money and helps us to reach markets that we cannot get to from our manufacturing-based DC."

—Director of Supply Chain Operations; Food & Beverage; $250M - $500M

Investing in the proper software and hardware is especially critical in multi-channel operations where there can be a whole menagerie of channel-specific operational processes, systems and equipment designed for the different order profiles of the different channels, and where shifts in demand can cause short-term spikes as well as long-term migration from one type of order to another. For example, retail distribution in response to specific ads and promotions are typically "pushed" with multiple lines per order using put-to-store strategies or pack-and-hold operations with full pallets and cases. In contrast, e-commerce direct-to-consumer orders are typically only 1 to 2 lines per order with smaller units being batch-picked into totes or shipping boxes placed on custom picking carts. In many fulfillment operations, mobile scanning technology provides great strides in achieving lower order cycle times at reasonable costs.

Areas of fulfillment targeted for investment

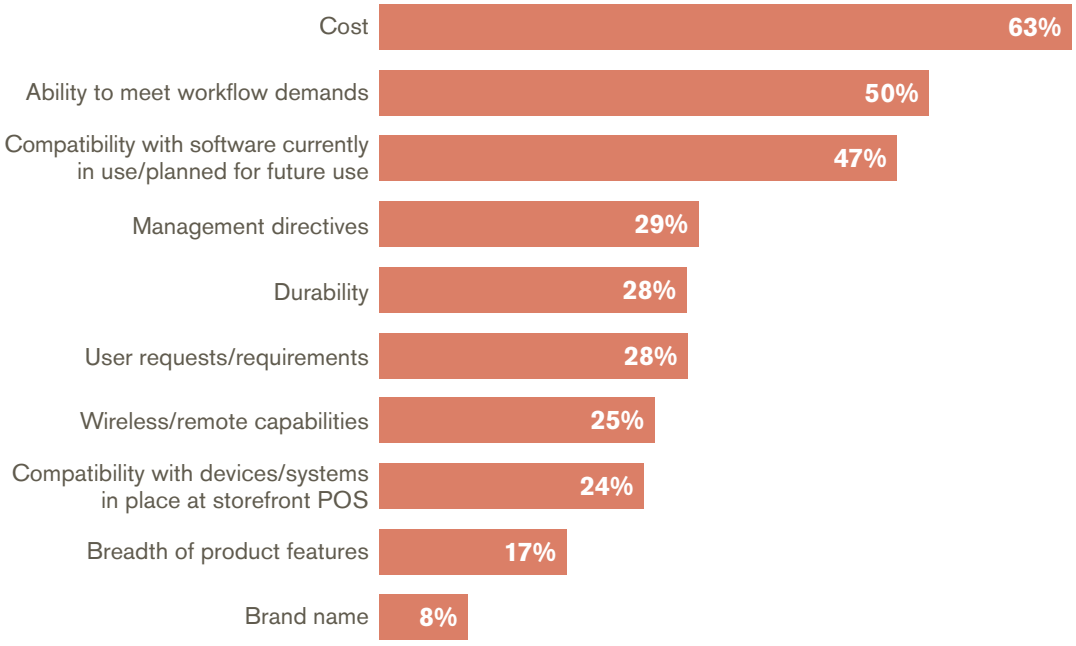


"We have upgraded our electronic order placement and bar code shipping confirmation methods to ensure accurate order processing and uphold customer satisfaction levels."

—Director of Supply Chain Operations; Communications Equipment; $2.5B+

Cost remains the number one decision driver for adopting hardware for use in multi-channel operations. Clearly, the savings and benefits derived from deploying the technology needs to justify the cost of the investment. Other major drivers for adoption include "the ability for the hardware to meet workflow demands" and the need for "compatibility with the software being used". In contrast, "brand name" is the least important criteria driving hardware adoption.

Key considerations when adopting hardware for fulfillment and distribution environments

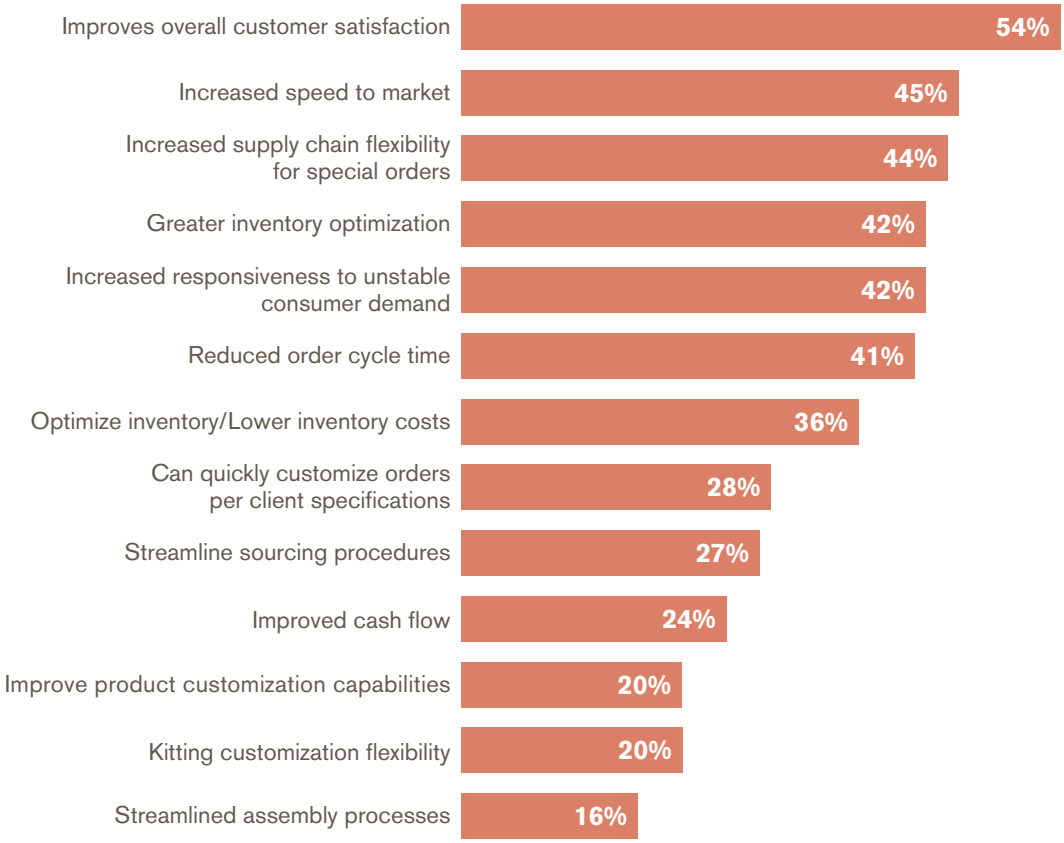


Benefits and pain points

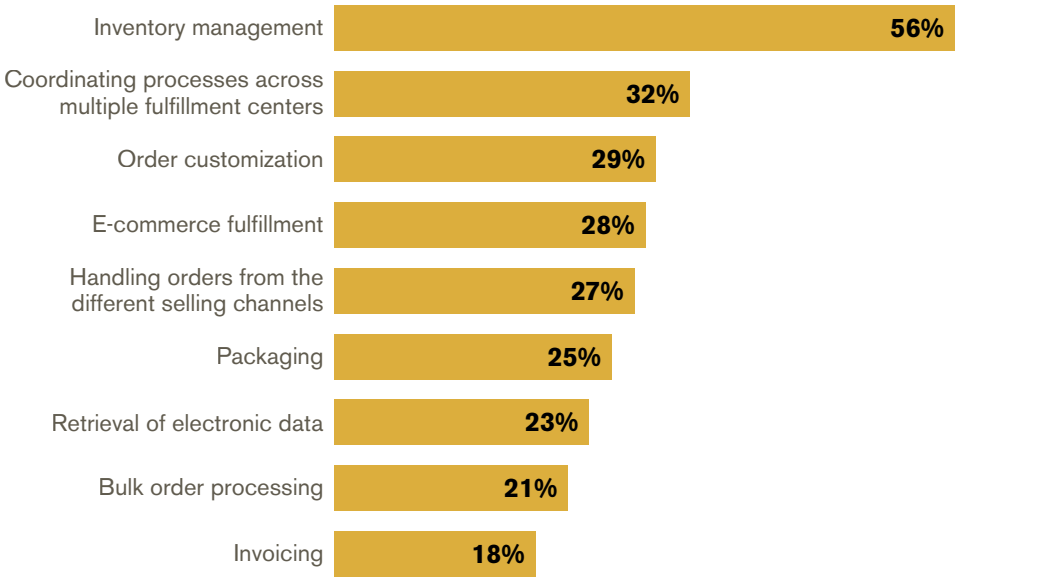
No matter how they approach it, companies are realizing a number of benefits from a multi-channel distribution strategy. Most common are (1) improved customer satisfaction and (2) increased speed to market. Both are particularly important when dealing with today's multi-channel consumer.

When asked to point out the pain points of multiple fulfillment operations, the study identifies one of the most critical areas that need improvement is inventory management. This becomes especially troublesome when inventory is lean and both retail and e-tail are sharing inventory across multiple DCs. Which channel gets priority? Which DC would it be most cost-effective to drop that order and still provide the service level promised? Fortunately, a number of software systems can assist companies in coordinating multiple fulfillment processes across a number of facilities. The key continues to be the need for inventory visibility across the entire supply chain in order to make the most effective inventory allocation decisions.

Benefits through employing a multi-channel distribution strategy



Aspects of fulfillment and distribution operations looking to improve



Summary

Using mobile applications on smart phones and tablets, today's consumers are able to compare prices and read product reviews while on the move. To service this new omni-channel consumer, retailers are stepping up and flowing product information across multiple channels to capture customers' attention and make the sale.

Logistics managers must also step up and process more orders more efficiently and at lower costs. Most are adopting multiple order fulfillment and distribution strategies for each selling channel. Most are employing multiple DCs, each with channel-specific picking subsystems. While they may at times outsource specific tasks for order fulfillment, most are planning to handle order fulfillment and distribution task in-house. Inventory management and end-to-end visibility of this inventory are both at the forefront of many managers' concerns as they determine the most cost-effective way to allocate inventory to the proper channels.

Methodology

This research was conducted by Peerless Research Group (PRG) on behalf of *Logistics Management* magazine for Honeywell International, Inc. This study was executed in April/May, 2013, and was administered over the Internet among subscribers to *Logistics Managemen*t.

Respondents were qualified for being involved in the management of their organization's supply chain fulfillment operations.

Respondents are predominantly top corporate executives, directors of Supply Chain operations, and top logistics and DC managers.

About Honeywell

Honeywell Scanning & Mobility is uniquely positioned to support the end-to-end needs of enterprises undertaking a multichannel fulfillment initiative, with innovative point-of-sale products that empower the store associate; mobile computers trusted by some of the world's largest logistics and delivery operations; and deep expertise within distribution centers that traces back to the first AIDC devices deployed in a warehouse. Together with our global network of software and implementation partners, Honeywell can help ensure that your multichannel fulfillment initiative shows immediate ROI. To learn more, please visit honeywellaidc.com or call 1-800-782-4263 to connect with a member of our team in your local area.

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