Scaling Distribution to Support Growth

Presented by:
Commonwealth Supply Chain Advisors
A FAMILIAR STORY

The ABC Company, with annual revenues of approximately $150M, has experienced significant growth over the past five years.

During the organizations annual meeting, R&D provides an analysis on a new widget that market research shows will create a significant growth channel that will lead to a conservative CAGR of 75% over the next three years.
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Excited about the possibilities, the CEO excitedly asks the team how they can push sales to drive the growth to higher levels, to take advantage of the new market position that this widget will provide.

The excitement in the room grows as manufacturing states that capacity isn’t an issue. The sales team has groundbreaking ideas on how to commercialize the product and sell to the greater market.
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However, the excitement wanes when discussing how and where the product will be distributed, as the company is already struggling to meet customer SLAs due to challenges within the distribution network.

The challenge is significant and needs to be solved quickly to take advantage of the sales channel.
DISTRIBUTION STRATEGY

1) Does the organization want Distribution and Fulfillment to be a core competency?

2) Does the organization want to tie up capital in Distribution?

3) Is the organization willing to invest in the talent to support world class Distribution operations?

IF THE ANSWER TO ANY OF THESE THREE IS....
USING A 3PL DISTRIBUTION PARTNER

ADVANTAGES

• More quickly setup a first class distribution network, including capital (physical, technology, people)
• Experience of a large organization with a core competency in Distribution
• Access to true subject matter experts
• Staff to drive continuous improvement and find efficiencies within operations and network
• Commercial arrangement can be flexible – Pass Through, Cost Plus, Fixed/Variable, Variable – to fit the needs of your organization
• Reduce risks to your organization related to people – cost, human resources, etc.

CHALLENGES

• Finding the right mix of best price and cultural fit can be challenging
• 3PL may want to locate operations in geographic area that is best for them, not your network
• While soft savings will be experienced, it's generally as, or more, expensive than in-house operations
• Turnover in account leadership based on the 3PLs need for placing of talent
• Term agreements can be hard to leave once integrated
• Flexibility can be difficult – scope changes often require additional cost, agreements, and time
INTERNAL OPERATIONS

Talent

Time

Analytics

Target Capacity

DATA

OVER 80%
SPACE: CAPACITY AN ISSUE?

- Productivity in the warehouse decreases, despite no change in profile
- Accidents/Occurrences increase in warehouse
- Turnover with tenured staff
- Detention charges begin to occur regularly due to long driver wait time on dock
- Back orders on inventory that has been delivered to warehouse
  - Not systemically put away to location in warehouse
- Net inventory accuracy declines
  - Both lost/found inventory
  - Inventory write-offs increase
- Customer complaints increase
  - Order Accuracy
  - On-time in Full
  - On-time Delivery
- Increase in charge-backs from retailers
SPACE: FIXES

SHORT TERM

• Dispose of excess and obsolete inventory
• On-site rental equipment such as trailers
• Off-site storage location
• Utilize local 3PL/Public warehouse
• Utilize share program

LONG TERM

• Re-layout current facility
• Open new facility in strategic location
• Utilize mature 3PL
• Invest in local capital
  • Many times requires short term assistance
• Level set inventory minimum, on-hand quantity requirements
Where is my customer base?
A. Manufacturing?
B. Port of Entry?
C. End Customer
What are my service level requirements?

A. Inbound/Outbound transit times meet need?
B. Carriers/Mode of Transportation readily available
What are my cost going to be in potential locations?

A. Transportation
B. Space
C. People
D. Taxes (inventory, other business)
### Consultant
- Extensive knowledge of multiple strategies
- Large network of resources
- Ability to quickly determine best strategy
- Focus on the best holistic solution
- Provides support in implementation strategy
- Charges based upon per hour billing

### Integrator
- Teams that can support process from solution to completion
- Boots on the ground management
- Strong at specific solutions
- Partnerships with key vendors
- Commercial support – single point of billing for all activities
- Charges margin on product and support

### MHE
- Manufacturer of technologies to support distribution strategies
- Often focused on a single technology or two that is well-designed for specific needs
- Charges margin on product and support
GROWTH SUPPORT

Consultant

- Extensive knowledge of multiple strategies
- Large network of resources
- Ability to quickly determine best strategy
- Focus on the best holistic solution
- Provides support in implementing strategy
- Charges based upon per hour billing

- Can provide multi-area expertise in many disciplines (Network Analysis and Design, Transportation Studies, Inventory Analysis, DC Design, MHE design, Outsourcing Analysis and Strategy, RFP support, Project Management, Implementation)
- Terrific resource for long term strategy and planning while having the ability help with short term, fast decisions
- Sounding board for Proof of Concept
- Ability to remain open to the best solution – not tied to specific vendors and/or technologies
  - Purchases for solution do not flow through
- Work with both Integrators and MHE vendors
GROWTH SUPPORT

Integrator

- Teams that can support process from solution to completion
- Boots on the ground management
- Strong at specific solutions
- Partnerships with key vendors
- Commercial support – single point of billing for all activities
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- Can provide end to end solution for a project, from design through commissioning
  - Internal consulting resources are available and generally task/function focuses
- Terrific resource for implementing designs and ensuring original assumptions/concepts are viable
- Single point of contact for multiple technologies simplifies the process
- Single point of billing
- Tied to specific vendors although vendor contacts may be broad
- Often times better at implementing specific solutions in specific geographic regions
- Work most often with MHE Vendors
GROWTH SUPPORT

MHE

• Manufacturer of technologies to support distribution strategies
• Often focused on a single technology or two that is well designed for specific needs
• Charges margin on product and support

• Manufacturer of technology specific to a function/task
  • Internal consultants assist in ensuring that the technology is appropriate for customer use
• At times can be both an Integrator and Manufacturer
• Singular focus on specific technologies allow for better design and functionality of systems
• Ability to integrate with multiple systems and technologies
  • Usually through the support of an Integrator
• Works most often with Integrators
KEY TAKEAWAYS

• Define organization’s distribution strategy

• Ensure the network is fully understood

• Utilize the correct partners – both internal and external
Additional Resources

Commonwealth’s Resource Library is full of resources on supply chain strategy and warehouse design/optimization. Go to www.commonwealth-sca.com to access:

- **White Paper**: Five Ways to Meet the Challenges of E-Commerce Distribution
- **Presentation**: Beating Murphy’s Law When Introducing Distribution Center Technology
- **White Paper**: The Picking Playbook
- **White Paper**: The Packing Playbook
- **White Paper**: Distribution Center Design Series — Part I: Developing a Storage Design Tool
- **White Paper**: Distribution Center Design Series — Part II: Developing a Throughput Design Tool and Determining a Pick Strategy
- **White Paper**: How to Choose the Right WMS - Part I: Distribution Center Process Optimization
- **White Paper**: The Ultimate WMS Preparation Guidebook
- **White Paper**: Selecting the Right WMS
- **White Paper**: Six Tips to Avoid a Failed WMS Implementation
Thank You

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