Rakuten
SUPER LOGISTICS

How Distributed Fulfillment Can Help Your Ecommerce Business

Distributed fulfillment is a simple idea that can make a huge difference for online merchants: Put inventory and fulfillment centers closer to customers to reduce transit.

This simple concept is the model that enterprise ecommerce companies such as Amazon and Walmart use to deliver fast and affordable shipping to online shoppers.
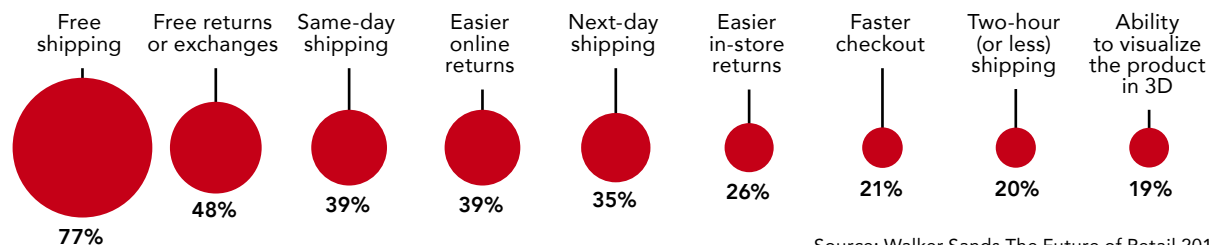
As you evaluate whether it's the right time for your ecommerce company to take advantage of distributed fulfillment, consider four key factors.

• Price and delivery speed are competitive advantages, when optimized.
• In-house fulfillment costs can be difficult to estimate and harder to mitigate.
• Quick, error-free fulfillment encourages return customers and increases customer satisfaction.
• Managing distributed inventory is relatively easy with proper software in place.

PRICE AND DELIVERY SPEED

Shipping ecommerce orders from multiple locations near the largest population centers can give your ecommerce business two advantages over fulfilling orders from a single location: lower shipping costs and faster delivery times.

Online Purchase Drivers

Free shipping	Free returns or exchanges	Same-day shipping	Easier online returns	Next-day shipping	Easier in-store returns	Faster checkout	Two-hour (or less) shipping	Ability to visualize the product in 3D
77%	48%	39%	39%	35%	26%	21%	20%	19%

Source: Walker Sands The Future of Retail 2019

These advantages mean your company can offer free or low-cost shipping that arrives at your customer's doorstep in one or two days. This is significant because free and fast shipping can drive ecommerce sales.

"While so much has changed in retail over the past several years, the convenience of free and fast shipping remains the key to increased online purchases," according to a 2019 Walker Sands Communications report.

Some 77 percent of the 1,600 American consumers that Walker Sands surveyed said free shipping motivated them to make a purchase.

These findings are consistent with dozens of other surveys, which have shown that fast, free shipping will help close ecommerce sales.

Consider this scenario. The table at the right shows the published UPS retail ground shipping rates for a five-pound package destined for an address in Los Angeles, California. Each example has a different origin to demonstrate the cost savings possible with distributed fulfillment.

ORIGIN	DESTINATION	RATE
Cranbury, NJ 08512	Los Angeles, CA 90001	$19.13
Henderson, NV 89014	Los Angeles, CA 90001	$10.98
Los Angeles, CA 90005	Los Angeles, CA 90001	$10.28

Having products close to the customer reduces actual shipping costs. For example, if your business had a single a fulfillment center in, Cranbury, New Jersey, it would spend almost $9 more to service a customer in Southern California.

What's more, shipping from New Jersey could take four business days via ground, compared to one or two days from either Nevada or California.

These two competitive advantages — low shipping costs and fast delivery — are the result of placing fulfillment centers near large populations.

Rakuten Super Logistics utilizes 12 strategically located fulfillment centers in nine cities throughout the U.S. to reach 98 percent of American shoppers within two days via ground shipping.

Fulfillment Centers: Rakuten Super Logistics
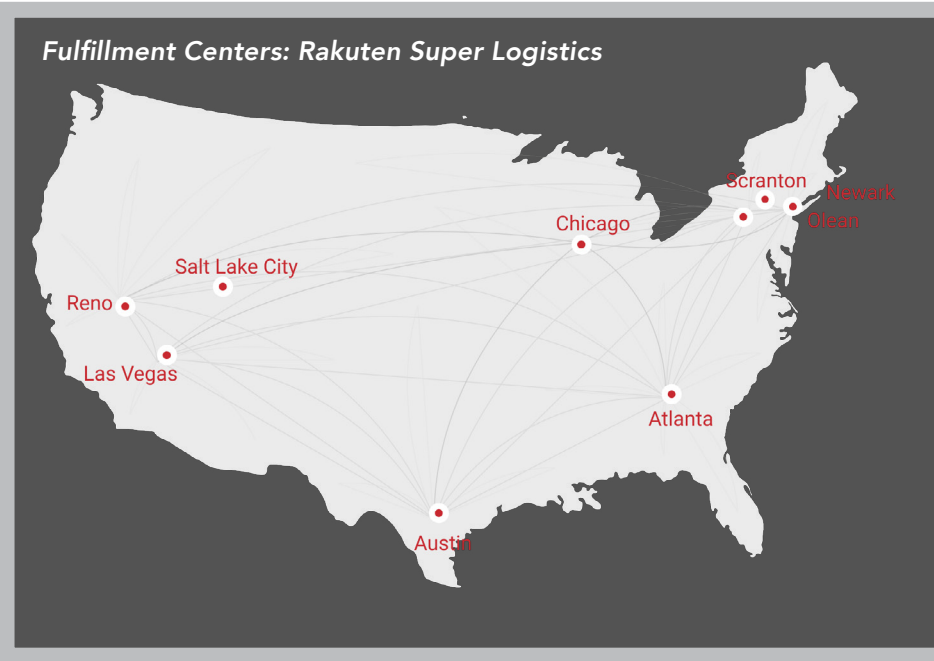
When you can use ground shipping over expedited shipping for fast delivery, your company's average per-item shipping cost will be significantly lower — this is possible with distributed inventory.

Relatively less expensive shipping and closer proximity to your customers will make your company more competitive.

FULFILLMENT COSTS

Many ecommerce businesses have found that outsourcing fulfillment to a third-party logistics provider also reduces fulfillment costs, not just shipping expense.

Some businesses choose a strategy that utilizes both methods of fulfillment. These businesses maintain a warehouse of their own and employ a 3PL to add strategic fulfillment locations. There can be a snag, however, when merchants don't track or estimate all of the related costs with their in-house fulfillment. Those businesses often have an unrealistic idea of their per-item fulfillment expense.

At a basic level, consider labor, warehousing or storage, equipment, supplies, and shipping.

For example, if your business pays its warehouse staff $20 per hour, and a picker can process 10 orders per hour, the company is investing approximately $2.00 in labor per order shipped. If your warehouse has more sophisticated pick-and-pack systems in place and is able to complete 15 orders per hour, the cost would be $1.33.

Your business pays for its warehouse. You can estimate how much this is per order by comparing your lease payment to your monthly order volume.

Let's assume shipment volumes of 10,000 and 20,000 orders per month and a lease of $10,000 per month. This would compute to warehouse expenses of $1.00 and $.50 (50 cents), respectively.

Your fulfillment operations also have costs associated with conveyor systems, forklifts, or other equipment. Thus there is a need for a per-order equipment estimate.

Each order fulfilled needs to be put in a box or a bag. It may have packing materials to protect it, and may require a label or several labels on each package. Boxes, packing materials, and labels cost money.

Finally, estimate an average, per-order cost of shipping. For an estimate, you could take everything your company paid UPS, FedEx, or other carriers during a given period and divide that amount by the number of orders shipped for the same time.

Finally, add up all expenses for an average overall fulfillment cost per order.

VOLUME	LABOR	STORAGE	EQUIPMENT	SUPPLIES	SHIPPING	OVERALL
10,000	$2.00	$1.00	$0.50	$1.50	$7.20	$12.20
20,000	$1.33	$0.50	$0.75	$1.25	$7.35	$11.18

This example calculated the per order cost at each step, but you could have started with your company's total labor costs, total storage costs, total equipment costs, and total supply costs for a particular period and divided by the total number of orders shipped during that same time.

Regardless of the approach, have this estimate in hand to make a good decision about distributed fulfillment.

RETURN CUSTOMERS

Customer service is not just about making a customer feel better when a mistake has been made. Rather, exceptional customer service is about avoiding mistakes altogether.
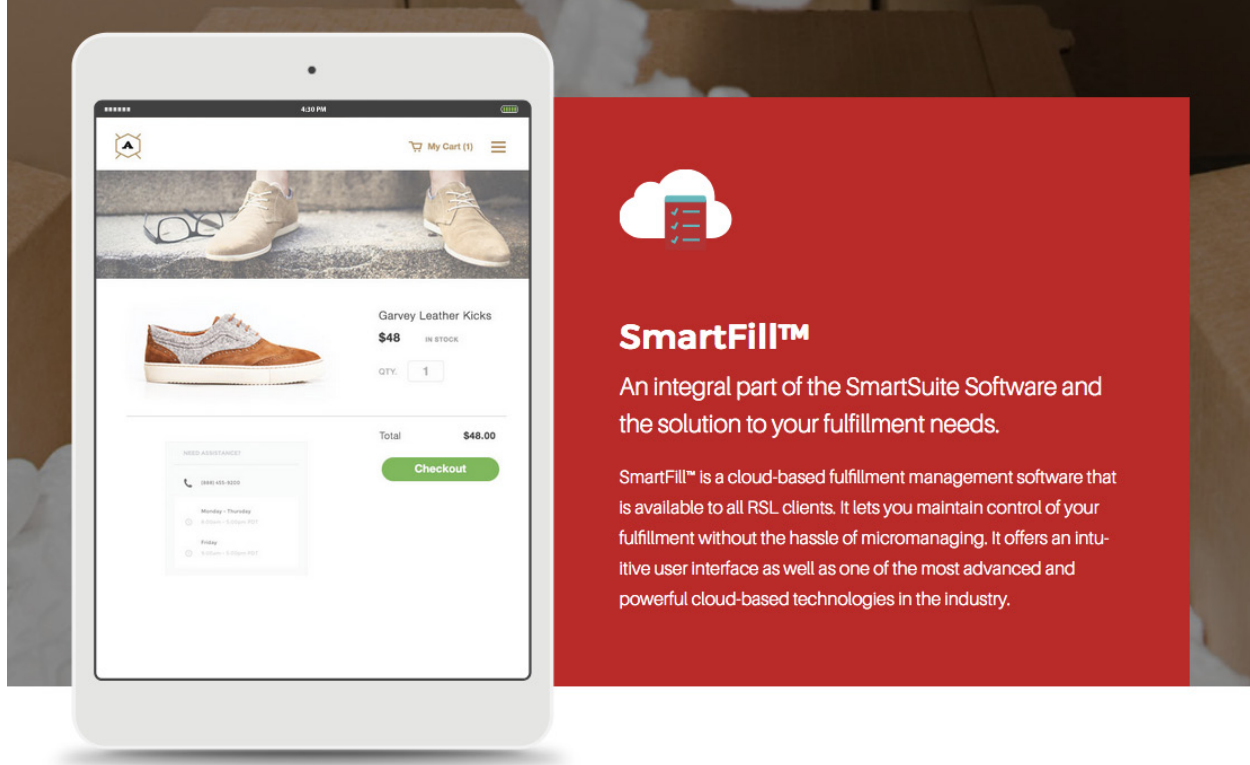
When your company quickly and accurately delivers ecommerce orders at a low cost to customers, it is fostering return customers.

Test this with your own operation. Review customer service interactions. How many contacts have your representatives received related to order status? How does this change when an order takes longer than expected to arrive?

Statistics show that about one-third of online shoppers will contact a store's customer service department if an order is running just one day later than expected.

Distributed fulfillment centers help ensure customer shipments always arrive on time.

When most orders arrive in one or two days, your customers have little reason for concern. It translates into a better shopping experience and more reason to buy again.

SmartFill™

An integral part of the SmartSuite Software and the solution to your fulfillment needs.

SmartFill™ is a cloud-based fulfillment management software that is available to all RSL clients. It lets you maintain control of your fulfillment without the hassle of micromanaging. It offers an intuitive user interface as well as one of the most advanced and powerful cloud-based technologies in the industry.

MANAGING INVENTORY

Managing inventory in a distributed network of fulfillment centers may seem daunting. But, frankly, it is simple with the proper software.

Order management platforms — such as Rakuten Super Logistics' SmartFill — make assigning orders to a particular facility as easy as shipping from a single location.

The biggest question merchants face with distributed fulfillment is inventory allocation. How many units of a given item should your business stock at each location?

Here are three strategies to tackle this question:

- **Even distribution.** If it doesn't have historical order data, your company could simply distribute inventory evenly among various fulfillment locations. As orders come in, you could simply replenish the inventory at each location.

- **Uneven distribution.** Another option for businesses without order history is to distribute the inventory unevenly based on market knowledge. For example, if your ecommerce business carries bicycles, it may sell more in warm-weather spots such as California or Florida than in, say, Minnesota.

- **Data-driven distribution.** The third approach is to use order history. Plot orders for a particular product by delivery location, and use what you learn to seed the warehouses in your distributed fulfillment network. If 50 percent of sales come from Phoenix, you would presumably want to put about half of your company's inventory nearby.

Rakuten Super Logistics can help with inventory analysis and provide recommendations for inventory placement.

ABOUT RAKUTEN SUPER LOGISTICS

Founded in 2001, Rakuten Super Logistics is a leader in ecommerce order fulfillment, assisting leading ecommerce retailers to increase speed of delivery, improve order accuracy, decrease shipping costs, and increase customer satisfaction. RSL's cloud-based fulfillment platform for order and inventory management features integration with popular ecommerce platforms and automatic order importing from online marketplaces, including Amazon, Magento, Walmart Marketplace, and Shopify. RSL's 2-Day Delivery Network of wholly owned and operated fulfillment centers allows for 1-2 day delivery via ground shipping to 98 percent of the U.S.

For more, please visit RakutenSL.com.

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