

OUTSTANDING OUTSOURCING

Guide to Successfully Contracting Out Your Order Fulfillment



INTRODUCTION:

Order fulfillment isn't sexy. It's not a part of your business that will wow colleagues or deliver C-Suite stories you can dine out on. It is, however, fundamentally important to your success.

Whether you're the owner of a growing business, picking orders in-house, or a fully established operation in need of a new solution, changing anything in your order fulfillment is a big decision.

Outsourcing the task to a new provider is especially involved, requiring a lot of consideration to find a company who will be not just a service provider, but an active partner in your order fulfillment.

There are some things that even an owner with daily involvement in the operational side of the business cannot anticipate, or information to which he or she has no access. Managing cargo movements and ensuring timely fulfillment is a full-time job for any growing business, which is why so many owners turn to a third-party for assistance.

It makes sense to take the time to carefully choose the right fulfillment partner. Accept from the outset that this can be a long process and you will be trusting a third party with one of your most valuable functions, one that directly impacts customer satisfaction and therefore your brand.

As with any major business decision, there are crucial factors to take into account.

That's why we wrote this guide and we hope that you find it helpful as you embark on the next step of your order fulfillment adventure. We would welcome the chance to be a resource, even if we are not the appropriate provider for your needs.

To make it easier to use at any stage of outsourcing your order fulfillment, we define three distinct sections to answer these key questions:

- When is it time to outsource your order fulfillment?
- How do you start your search for the right service provider?
- What's the best way to transition to working with your chosen provider?



SECTION 1:

SHOULD YOU OUTSOURCE?

How to Know When It's Time to Choose - or Change - Your Fulfillment Provider



How much is your time worth? None of us get more than 24 hours in a day, but you'd be surprised how many owners undervalue this limited resource.

We see all kinds of great products whose founders prefer to ship direct to consumer, but fail to consider all aspects of their operation before taking the plunge. Outsourcing your order fulfillment can be the best decision you will ever make for your company to grow, but you need to time it right.

For some, the question is whether or not to outsource order fulfillment after handling it in-house for many years. It can be tough to let go of such a fundamental service element, but the reality of rapid expansion means that every growing business must consider the benefits at some point.

Services in the order fulfillment industry are divided into three distinct sectors, all of which are showing strong signs of growth. According to a 2015 report by IBISWorld, the breakdown currently looks like this:

- *Storage services: 45%*
- *Order processing services: 40%*
- *Other (such as value-added services, like assembly and packaging): 15%*

Some or all of these will be on the table when you consider a third party provider.

Let's be blunt: order fulfillment directly impacts how customers view your brand. Low quality service limits your brand reputation, so ask these five questions before outsourcing order fulfillment:

- 1) Does the value of the product(s) you ship hold up after you factor in fulfillment costs?
- 2) Is your order forecasting accurate enough to confidently predict increased volume?
- 3) Are you spending too much time managing everyday order issues?
- 4) When do you expect your next peak order period?
- 5) Are you correctly valuing the time you spend on order fulfillment?



Let's take a closer look at each of these questions:

How does product value hold up after you factor in fulfillment?



The low-value item you can successfully ship from your own storage space at a profit might not seem like such a rock star product by the time you build in external fulfillment and shipping costs.

Of course, there are wider cost savings that arise from outsourcing your fulfillment, such as improved tracking and more time for you to focus on other business areas, but you will want to have a firm handle on how much of your margin is left after you factor in fulfillment.

Are your order forecasts accurate?



When you have confidence that you know what's coming up, you can have confidence in bringing in a third-party fulfillment provider to help you handle that increased volume.

If you have no such forecasts, or if you lack confidence in your projections, it's worth spending some time understanding future demand before committing to an expanded fulfillment plan.

Is your order fulfillment driving you crazy?



We accept it, not everyone adores order fulfillment as much as us! Sometimes the decision to outsource is made simply because you cannot stand the daily routine of grinding out shipments. Therefore, your customer experience and your sanity could be at risk if you opt not to outsource.

This is admittedly more of an emotional consideration, but there can be very real business repercussions if you don't dedicate sufficient time and attention to fulfillment, so this one stands as an important question to ask yourself.

How long until you expect your next order peak?



You need to allow a certain amount of lead time to research, select and start up with a new service provider. This is especially true in order fulfillment. You probably don't want to be handling that integration process while also trying to get a spike in orders out of the door.

Plan your outsourcing well in advance, building in extra lead time or holding off until the time is right. After another hectic peak, you'll probably be all the more eager to offload those duties anyway!

What is your time worth?

Too many owners forget to factor in the time they spend on order fulfillment. Bringing on the right fulfillment partner doesn't just mean you have fulfillment expertise on tap, it also frees up your expertise and unique skills to focus on other business-critical matters. If you have other pressing matters to attend to, finding the right fulfillment provider could indirectly help you to address them.



Something else to keep in mind: finding a partner in order fulfillment can inspire strategic improvement (even if we do say so ourselves!)

The experts know where to look to eliminate waste in the supply chain and reduce key fulfillment costs like labor and shipping. Accessing this expertise as your business grows helps to streamline your operation and avoid costly fulfillment errors along the way.

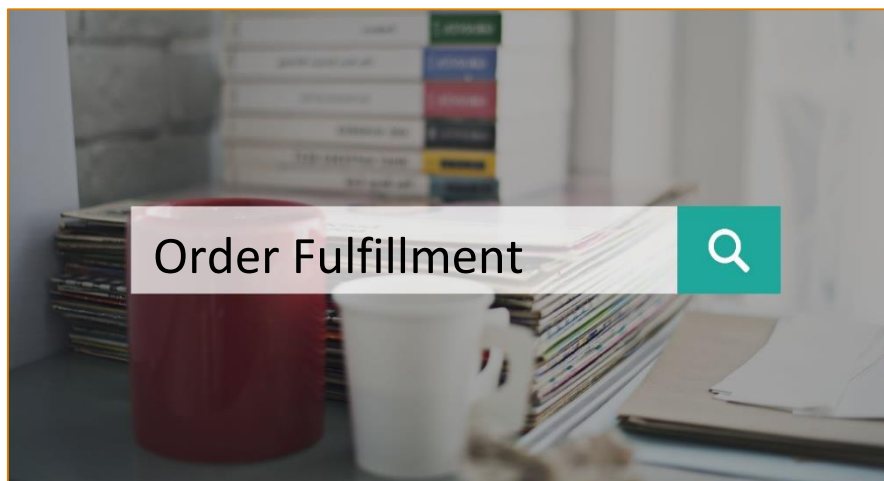
If your answers to all of these questions point towards outsourcing your order fulfillment, you'll find you have a whole new list of questions unique to your business that you now need to answer.

That's what we'll cover in the next section, as we begin to look for the third party provider who can take your fulfillment to the next level.

SECTION 2:

STARTING YOUR SEARCH

First and foremost, if anyone tells you that they offer 100% on-time, accurate order fulfillment, run! You have just met a pathological liar, or someone who does not understand the numbers underlying their own business.



Without being too self-serving, you should probably consider outsourced order fulfillment from day one. That does **not** mean you should outsource day one.

You should have a short- and medium-term plan for executing fulfillment once you can no longer justify your time and attention to it. It's vital to carefully consider how you are currently spending your time and where your attentions should be directed in the future.

Try thinking three, six, and twelve months down the line, then extend that to a second year. Where would you like to be at each of those milestones and how does it change your perspective on handling fulfillment yourself? If your forecasts for growth are strong and the thought of filling orders in-house when you have a sales spike is daunting, start to plan today for that eventuality.

Remember that it can take up to six weeks to integrate with a new fulfillment provider and many months to run through the selection process that precedes implementation. Much like selecting a spouse, this is not a decision you want to rush. Get the groundwork started now and your business will be in a much better position to outsource order fulfillment when the need arises.

What Questions Should I Ask a Potential Fulfillment Provider?

Having decided to outsource your order fulfillment, next you need to plan what you'll be asking prospective fulfillment providers. Here's where the real work begins...

Because of the depth of the partnership that you'll need to forge with a company that executes a significant portion of your supply chain, it's a lot easier if you get the decision right the first time around!

Spending extra time to obtain information from prospective fulfillment partners at the outset is far more efficient than having to change providers every year or two because the fit isn't quite right.

During the decision-making process you'll undoubtedly read a great deal of marketing materials, watch impressive presentations, and learn a lot about the past successes of prospective fulfillment providers. Where the rubber really meets the road, however, is when the time comes to ask your own questions.



These are some of the key questions we recommend you add to your list to ask a prospective fulfillment partner:

1. HOW LONG HAVE YOU BEEN IN OPERATION?

Like a fine wine, the best fulfillment companies get better as the years go by. Age isn't the only sign of trustworthiness and a capable provider, but it's always good to know that a provider has a proven infrastructure and established relationships in the industry. The answer to this question helps you to frame the rest of the discussion.

2. WHAT IS YOUR CORE BUSINESS PHILOSOPHY?

Beyond all the service details and industry experience, you also want a supplier who does business in a way that aligns with your own company's culture. This helps to minimize friction as you build the relationship, as well as giving you a deeper insight into what values the company holds. If for example you are a luxury brand with exquisite customer presentation expectations, you should get that on the table first, to confirm your potential partner has an offering which will meet your standards.

3. WHAT STORAGE, PACKAGING AND ASSEMBLY OPTIONS DO YOU OFFER?

You want your service provider to have an efficient order fulfillment system already in operation, preferably with minimal adjustment requirements to accommodate your business. While the ability to provide customized services may be important to you – you don't want to ship a luxury product in a Tyvek bag, after all - the majority of the operation should be standardized. This lowers the potential for disruptions and means you can scale more easily. Remember to ask about building in some slack for excess storage and short-notice surges in fulfillment volumes. Again, you don't want this to be the norm, but it's good to know that some capacity exists to flex up to satisfy unexpected bursts of demand.

4. WHAT CUSTOM SERVICES DO YOU RECOMMEND FOR MY BUSINESS?

Possibly the most important part of your fulfillment partnership is having confidence that your provider has a firm grasp on your business requirements. If they're able to make appropriate recommendations about how to best serve your customers via supply chain improvements, it's a good sign that they'll be a valuable partner. This also helps you to understand any limitations to the service a fulfillment provider might have, as discussions around customization tend to dig into the details of what can and can't be done.

5. WHO ARE YOUR TRUSTED SUPPLIERS?

Just as your fulfillment provider will be an extension of your business, the companies to whom they contract out their services are an extension of theirs – it's not called supply chain management for nothing! While you won't necessarily have direct contact with these deeper organizations, you should know who they are and research their reputation. Who a potential provider trusts says a lot about their business priorities, such as whether they focus on keeping costs low or are willing to pay more for quality of service.

6. WHAT OPERATIONAL CHALLENGES DO YOU ANTICIPATE?

This question (or one like that) will flip the script on question 4, requiring the provider to think on their feet and anticipate any challenges that might arise from your evolving supply chain requirements. It also provides an opportunity for you to both get on the same page, as you and they have likely already worked out (or seen before) where these bottlenecks will arise. If the provider raises them, all the better, but even if you have to coax them, their solution(s) will help you to decide if they'll make a good operational partner.

7. WHAT PROFESSIONAL ASSOCIATIONS AND ACCREDITATIONS DO YOU HOLD?

Most of your confidence will come from earlier answers and the quality of client references, but verification from trusted business associations can also be valuable. Some may even provide more information about the logistics provider in question, which can help to reduce the amount of time you need to spend researching for yourself. Some registrations and accreditations like FDA status and local health registrations are not optional for some businesses – make sure your provider has what you need in this area.

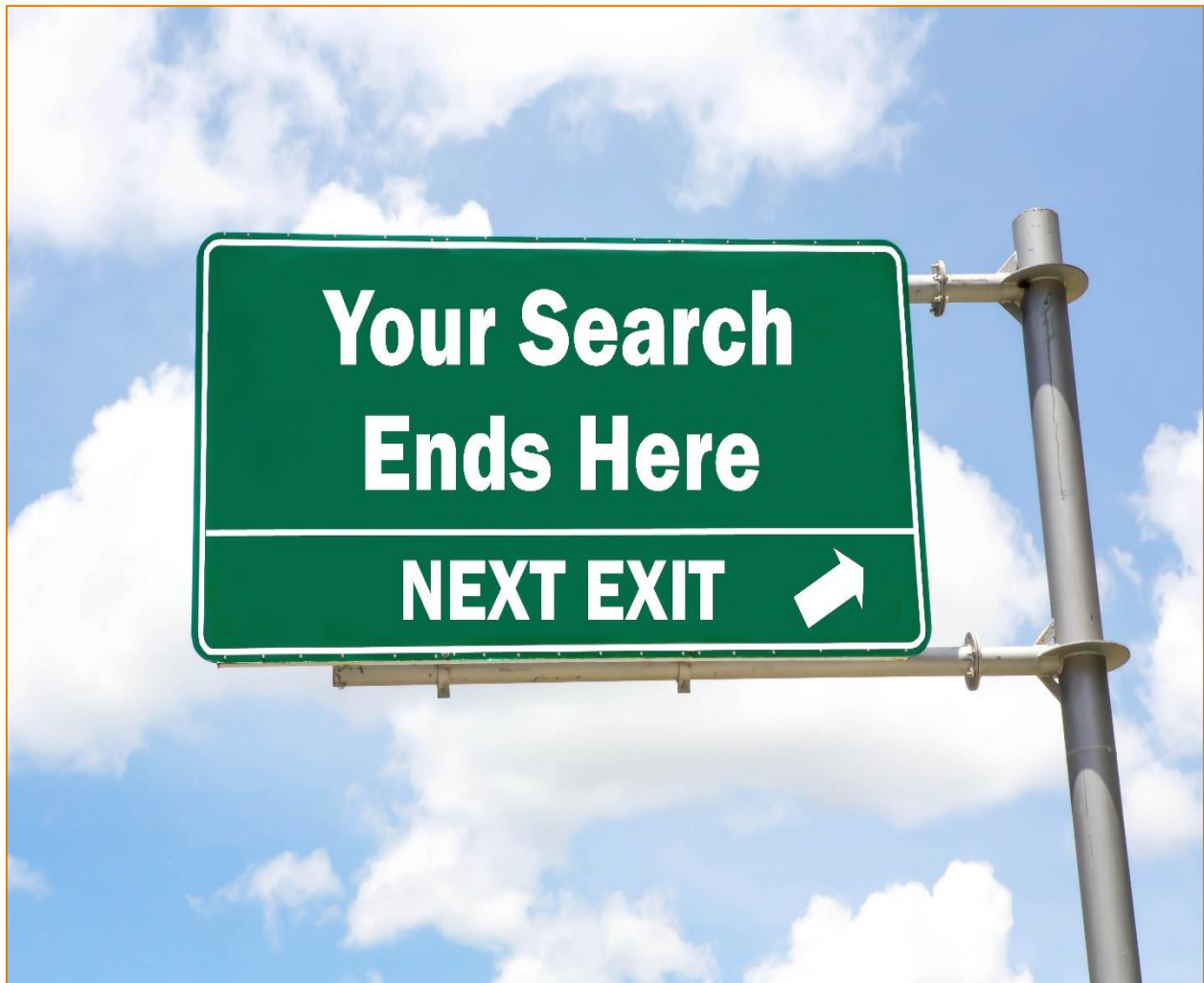
8. CAN YOU PROVIDE REFERENCES FROM CLIENTS WITH A SIMILAR BUSINESS?

A final (and crucial) check is, as with any interview process, to ask for references. Although any satisfied clients that you can talk to are helpful, the most valuable are those in a similar field to your own, or those who have similar types of supply chain requirements. By this point you should be able to list any concerns you have about a potential fulfillment provider, so take the opportunity to ask these satisfied clients if they have encountered similar worries. While you might not get all the answers you need, the alternative perspective from someone on your side of the relationship can go a long way to informing your decision.

It's important to note that these questions are primarily intended to establish rapport and provide a starting point for further research.

For the former, you want to feel comfortable that the company you'll be dealing with on a daily basis understands your business, its needs, and will be easy to work with.

On the latter, you'll need to verify claims of success and operational ability. Try to talk to past and existing clients of the company, where available, and check on associated suppliers. Any deeper research and verification that you can secure will make you more comfortable that the claims your prospective fulfillment partners make are valid.



SECTION 3:

MAKE YOUR CHOICE AND PLAN FOR TRANSITION

After weeks weighing up the various qualities of potential providers, you'll come to a close understanding of what your most important considerations are in your search for the right fulfillment partner. Areas that you thought would be crucial at the outset may have faded somewhat, while other elements of your search criteria have probably jumped to the top of the list.

In any case, what you should have left is a handful of potential service partners who check most – or all – of your boxes and now need to be separated so that you can make your final decision.



At this point, it's time to get specific. By now, you should have a good idea of the performance levels that you expect from the next iteration of your order fulfillment. Translate those expectations into quantifiable goals that your remaining service providers must commit to if they intend to win your business.

These key performance indicators (KPIs) will set the service levels that define a successful fulfillment partner for your company. Any of those on your shortlist who can't (or won't) sign up to your requirements can now be dropped, as you already know they'll fall short of your expectations.

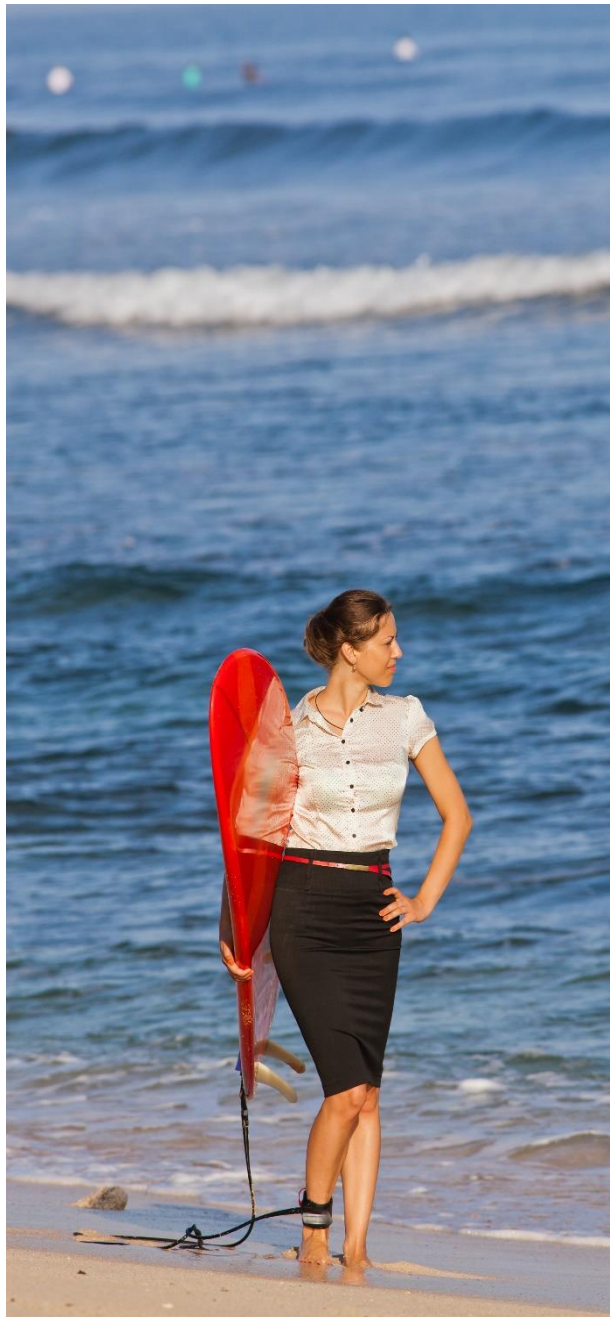
Those that remain will need to be whittled down to one by more qualitative criteria.

In the end, if you still have several providers to choose from, it's time to get down to your gut feeling. Ask yourself who inspires the most confidence after your interactions. Which one do you communicate best with? Who has given the best indication that they will communicate clearly and be the best fit for your organization, in a cultural sense?

All of these qualities and more should coalesce together into a fulfillment partner who you know understands your industry and has a passion to take your business to the next level.

If you still get that feeling from more than one potential provider, congratulations! It's likely that any who meet all of your criteria after an extensive search will be a safe set of hands for your brand.

Ensuring a Smooth Transition:



When a customer places an order, the real work is yet to come. It's the same when you select your service provider, which is followed by a period that can make or break the success of your decision to outsource.

The transition to your new service should be a smooth ride, one in which their experience will be invaluable. That being said, there are still elements that you will want to own and manage.

Think of it like going surfing: you'll always consider the instructor's advice, but you're the one who's going to be riding the wave!

Drafting a custom onboarding plan with your new partner offers the best of both worlds. It facilitates exchanges between key stakeholders, catalyzes discussion of ideas for your optimal fulfillment solution, and most importantly should bring everyone on to the same page as you integrate operations.



A successful onboarding plan/process should include some or all of the following elements:

- Scope of work and service level agreements (SOWs & SLAs)
- Required onboarding documents
- A description of the current business set-up, including:
 - Customer/retailer location(s)
 - Product type, lines and SKUs
 - Customer requirements (for example: labeling & routing)
- EDI requirements
- Current vendor requirements
- Inbound and outbound inventory planning
- Agreed packaging and shipping solutions
- Volume forecasts
- Any hazmat requirements
- Training requirements
- Schedule for all of the above and proposed "go live" date

With the right fulfillment partner selected and a transition plan in place, your business is primed to deliver a superior ordering experience for your customers.

Capacity operates under the tagline '*Fulfillment Delivered*' because we understand the importance of integrating with our clients and fully satisfying their customers. Order fulfillment plays a pivotal role in developing brand reputation, which is why selecting a suitable third party provider is such a large and complex process.



We hope this guide helps you understand when the time is right to outsource your order fulfillment and welcome any questions you have on the subject.

Visit us at www.capacityllc.com to learn more, or call one of our fulfillment experts on 732-745-7770 (select option 3).