



E-Fulfillment Study: Actions to Address Customer-Driven Complexity

Introduction

Managing order fulfillment operations in the age of e-commerce means coping with all aspects of “more” for the customer. More as in more single-line orders, more special packaging, and especially more when it comes to quicker, faster delivery options. Online customers increasingly expect to be able to choose next-day or even same-day delivery options. Many expect a free delivery option with the assumption that their goods will show up reliably in a matter of days. These heightened needs add complexity to fulfillment and logistics operations.

While e-commerce requires extensive piece picking to fill orders, the complexities involved reach far beyond the forward pick areas of distribution centers (DCs). To begin with, there is increased complexity in managing inventories across a DC network to be able to meet demand without running up costs. DCs need to be able do things like cross-dock goods, keep forward pick areas replenished, and perform pick, pack and ship tasks quickly and accurately while holding down costs. Customer expectations around delivery windows also add complexity to finding the right mix of transportation modes and parcel delivery services to meet order commitments at lowest possible cost.

In a sense, the toughest “more” in e-fulfillment is more complexity in its various forms. Organizations need to have systems and resources in place to be able thrive in the face of complexity, whether it’s directly within their own network, by leveraging a third-party logistics (3PL) partner, or a mix of both internal and external capabilities. Nearly every company talks about being customer-driven, but without the right mix of logistics capabilities to support e-commerce, customer satisfaction will suffer.

To better understand how companies are handling the challenges resulting from the rapid growth and complexities of e-commerce, and subsequent actions organizations are taking, Peerless Research Group (PRG), on behalf of Logistics Management and Ryder System, Inc., surveyed 144 corporate, supply chain, distribution center and logistics executives. The survey reveals that not only are respondents under pressure to get more orders out the door faster at lower cost, they are dealing with increased customer service expectations. As a result, respondents say their focus is to improve on capabilities including inventory management, re-engineering fulfillment operations, and upgrading equipment, systems, and analytics.

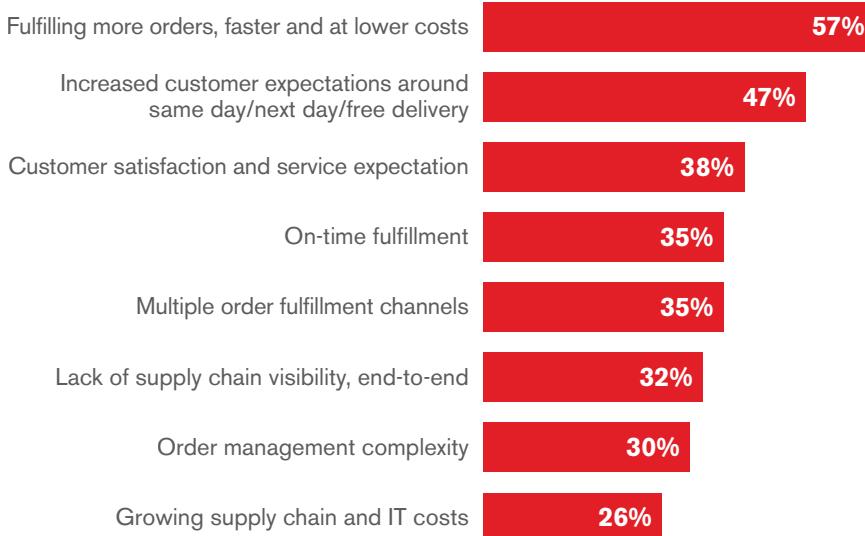
When it comes to use of 3PLs, such as Ryder, the survey found that half of respondents either currently use a 3PL or are evaluating doing so. The survey also reveals that the two top benefits companies seek to gain from 3PLs are increased customer satisfaction, and improvement in on-time delivery.

Top Challenges

Fulfilling more orders, more rapidly and at a lower cost is the main challenge organizations currently deal with in their fulfillment and distribution operations. Not surprisingly, companies are additionally focused on maintaining and boosting customer satisfaction levels by offering such amenities as free and speedy delivery on orders, and meeting fulfillment timelines. (Figure 1)

Figure 1

Organizations' top order management, fulfillment and distribution challenges



"The largest change we've experienced over the last few years is volume. We have increased our volume by 40%. This is well above forecast. Most orders are same day, e-commerce orders and have no visibility, which makes this increase in volume difficult to manage."

— Logistics, Distribution Manager/HVAC Manufacturer/\$2.5B - \$5B in revenues

Because of the challenges, companies are looking for ways to fulfill orders faster, increase visibility, and raise customer satisfaction. Fully recognizing these roadblocks along the path to operating a highly efficient operation, these obstacles are the main priorities that managers will look to address in the upcoming months. (Figure 2)

Figure 2

Most pressing issues organizations will address during the next 12 months



"We are moving from an e-commerce focus to an order fulfillment approach that provides the right product in the right place at the right time."

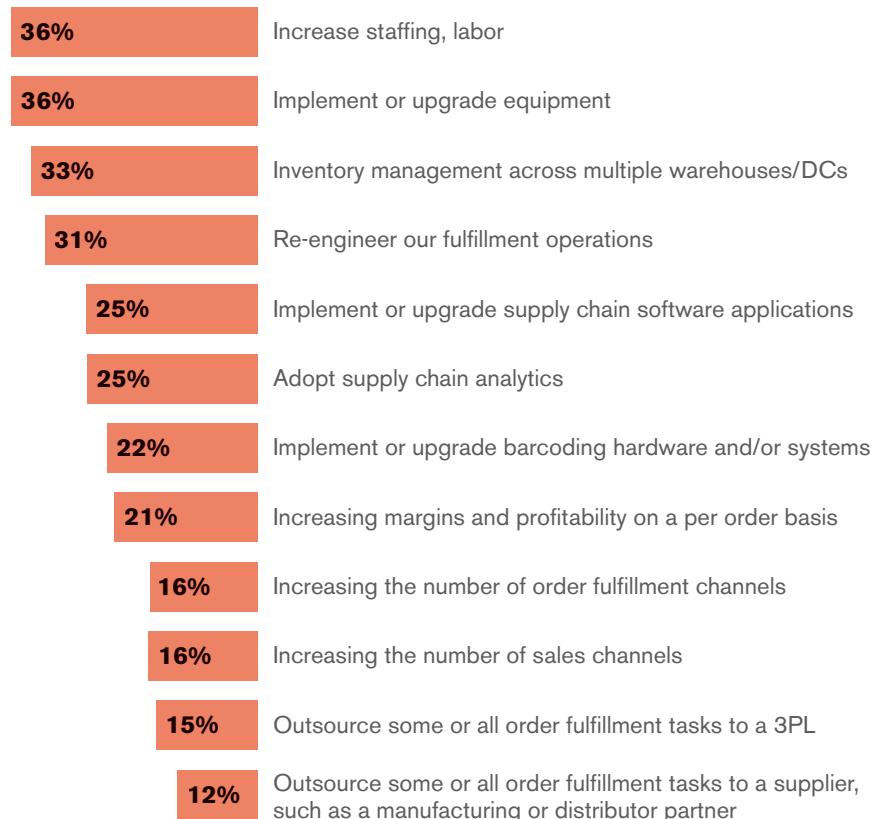
— Corporate Manager/Food & Beverage Manufacturing/\$1B - \$2.5B

Actions respondents are taking to improve fulfillment operations include increasing staffing, adopting or upgrading automation and technology, improving inventory and order processing management across multiple DCs, along with overhauling current fulfillment operations. (Figure 3)

However, implementing improvements can be costly and time consuming. Companies today often need to quickly flex their capacity or improve on their fulfillment capabilities, making it wise to think in term of “time to benefit” with any investment. While equipment and system providers may be able to offer fairly rapid payback, DC operations increasingly struggle to find and retain enough hourly labor.

Figure 3

Actions organizations are taking to address major distribution and/or order fulfillment challenges



“There are projects underway for modernizing sales and fulfillment aspects of our business which will hopefully result in more efficient and cost effective operations. These will then hopefully translate to more satisfied customers.”

— Logistics, Distribution Manager/Electrical Equipment Manufacturing/\$50M-\$100M

“We now have all 3 DC’s using either voice activated WMS, or hand help/on person scanning abilities. This speeds up order fulfillment and gives greater inventory visibility.”

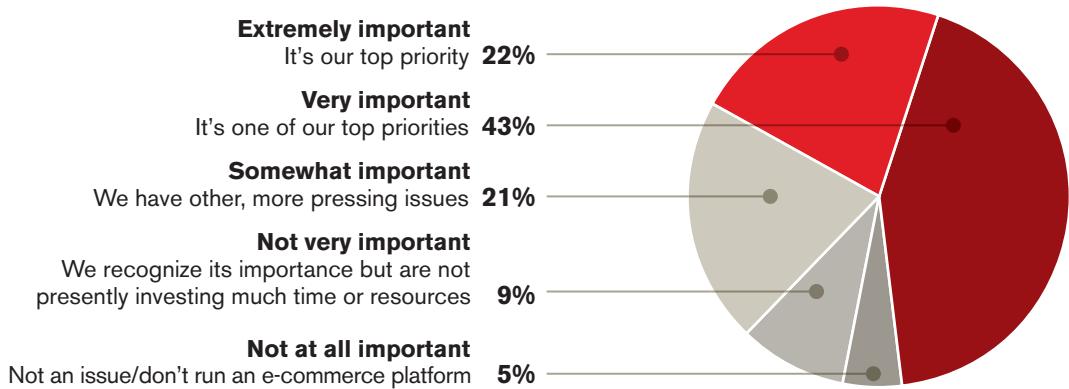
— Logistics, Distribution Manager/Athletic Equipment Distribution/\$250M-\$500M

Importance of E-commerce

Nearly two-thirds (65%) of the managers surveyed say their e-commerce business is a priority for their organization. (Figure 4)

Figure 4

Extent to which e-commerce is important to organizations

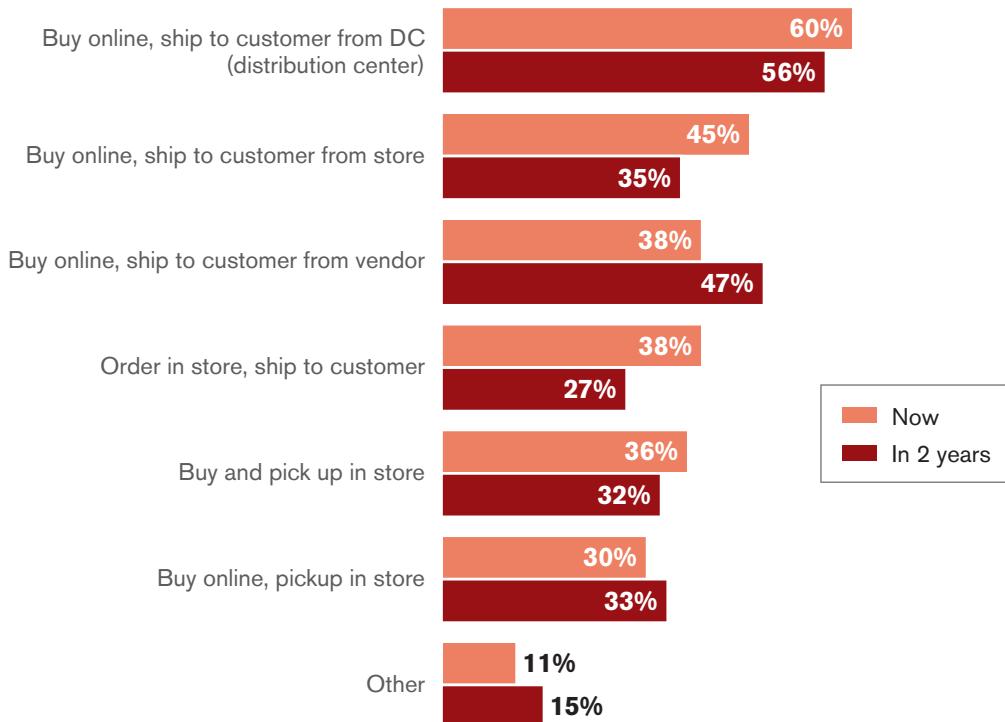


To underscore the value of their e-commerce program, the majority of organizations' customers purchase goods online. Typically, orders are fulfilled from a distribution center(s), from a store, or shipped direct from the vendor to the customer. However, a transformation is anticipated. In the upcoming years, businesses will depend more on vendors to fulfill customer orders. This typically takes the form of "drop shipments" from suppliers either directly to a customer or to a DC to be consolidated with other items in an order. This presents customers with more product choice while minimizing inventory holding costs for the seller but tends to add complexity in areas including synchronization of deliveries, transportation planning, and shipment visibility.

For about one-third of the companies, their retail outlets will continue to drive sales as well as serve as the pick-up point. The sales/fulfillment model of orders being taken in stores and then subsequently shipped to customers is likely to be less conventional in the upcoming years. (Figure 5)

Figure 5

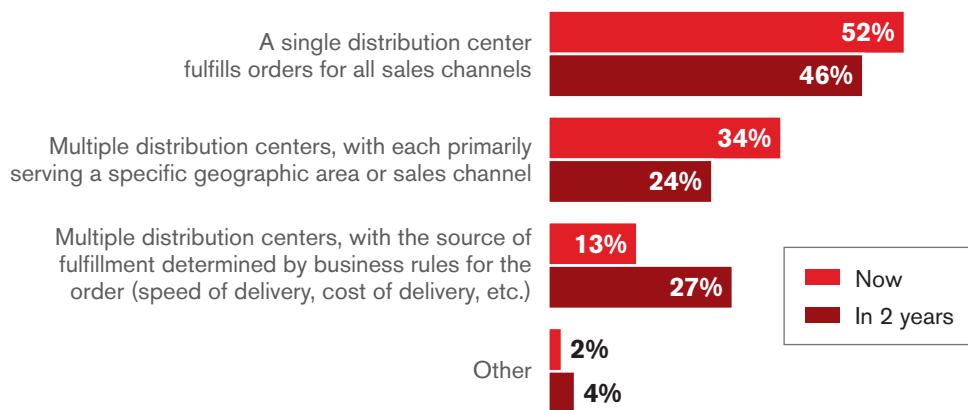
Organizations' common order processing methods today/in 2 years



Currently, the majority of companies surveyed (52%) rely on a single distribution facility to meet orders coming in from all sales channels. Additionally, one-third (34%) use multiple DCs with each supporting specific criteria such as a sales channel, geographic region, etc. However, over the next two years, the model for many is expected to evolve. Respondents foresee more use of multiple DCs, with the source of fulfillment governed by business rules that assess impacts such as delivery speed and cost. (Figure 6) While this model offers speed and flexibility in serving multiple channels from various points in a DC network, it tends to require more sophisticated capabilities around distributed order management, inventory allocation, as well as efficient processes for multichannel order picking and replenishment.

Figure 6

Organizations' order fulfillment model today/in 2 years



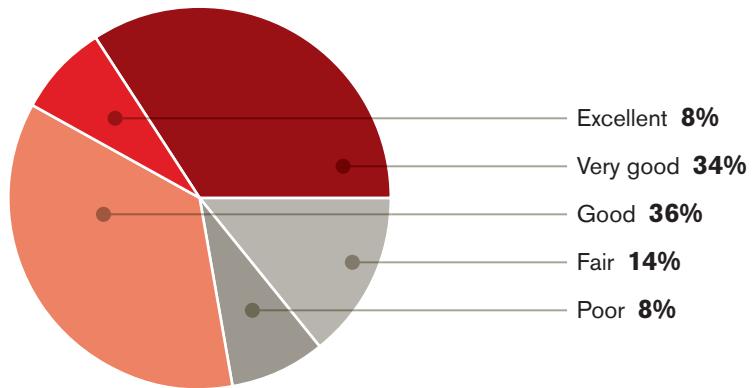
"We are implementing a strategy where we will have multiple co-packers and company plants producing e-commerce orders."

— Logistics, Distribution Manager/Food & Beverage Manufacturer/\$20B+

Regardless of how organizations are handling the fulfillment for online orders, results are mixed on the level of success. While more than four out of ten (42%) boast their fulfillment operation is excellent or very good, well over one-half (58%) maintain their process, to some degree, is in need of improvement. (Figure 7)

Figure 7

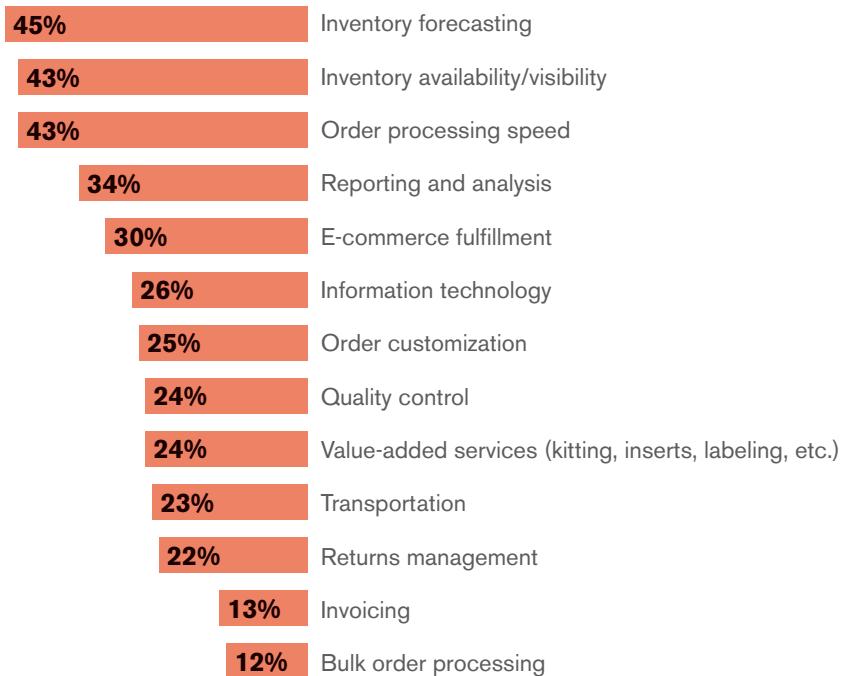
Evaluation of current fulfillment operations regarding your e-commerce business



Most notably, respondents say facets needing improvement are mostly in the areas of stock management and inventory forecasting, as well as having the capability to more expeditiously process orders. Many other aspects such as reporting and analysis, fulfillment, technology and applications, customization and other value-added services are among the other solutions and tasks necessitating change. (Figure 8)

Figure 8

Aspects of e-fulfillment and distribution operations companies would you like to improve



Customers are becoming more demanding and want their orders delivered right away; consequently, businesses are motivated to stay one step ahead. Accommodations mostly involve faster delivery, particularly on local orders, and better tracking of shipments to help set delivery expectations. (Figure 9)

Figure 9

Customers are asking from you today that they weren't two years ago



"We are better able to service our customers because we know what to have on hand. Customer choices are varied and having the right items and quantities is a challenge, especially with an overseas manufacturer."

— Logistics, Distribution Manager/Wholesale/<50M

Additionally, companies are now offering a breadth of shipping services such as overnight delivery and same day shipping, provided the order is placed with sufficient time to process. And, for esteemed customers, discounted or free shipping may also be afforded.

In the future, special treatment such as same day shipping by a specific time along with same day delivery on local orders are services businesses are inclined to offer in the upcoming months. (Figure 10)

Figure 10

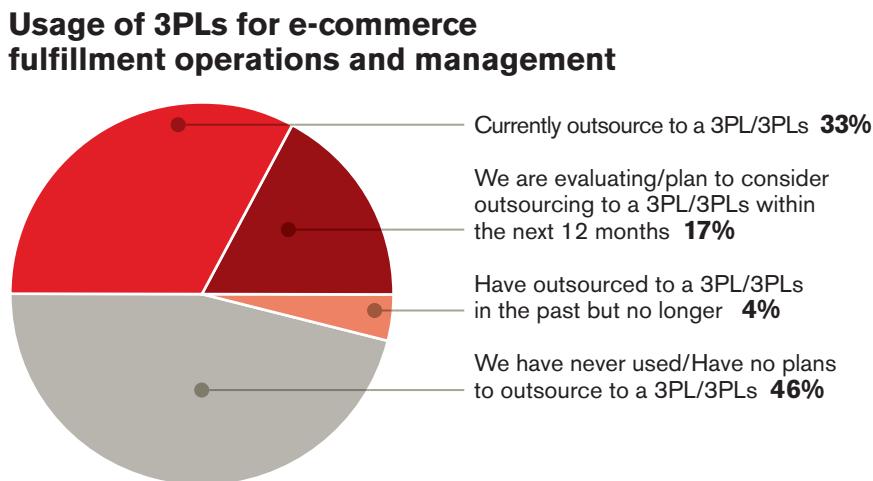
Shipping services now offer/ Will consider or offer within the next 24 months



3PL Usage and Benefits

One half of the companies surveyed either currently use or plan to use 3PLs for their e-commerce management and fulfillment operations. (Figure 11)

Figure 11



Interestingly, while one-half do not see the benefits provided through a 3PL, those who are using or evaluating outside providers feel otherwise. Those managing fulfillment operations are realizing or expecting that problems they've had with their e-commerce operation will be overcome. Customer service improves, promised delivery schedules are met, and inventory levels and demand forecasting are more precise and yield important cost savings. (Figure 12)

Figure 12

Benefits realizing/hoping to gain as a result of having a 3PL manage e-commerce fulfillment operations



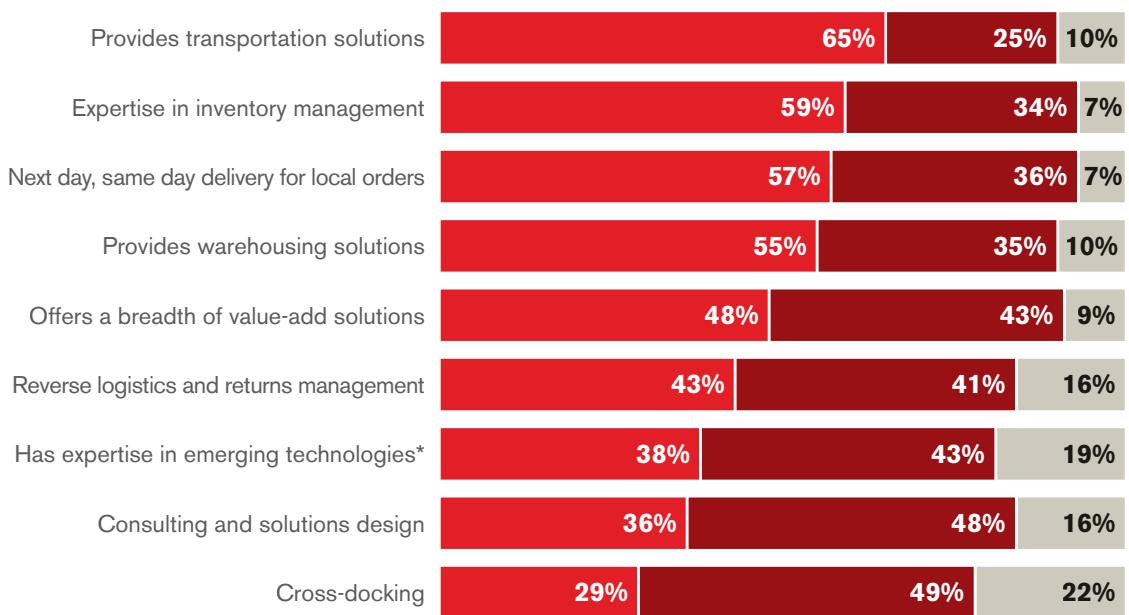
"Our 3PLs are getting product to the customer in a timely manner, and have the ability to better track shipments."

— Supply Chain Manager/Pet supplies E-tailer/<\$50M

Businesses looking to outsource their e-commerce fulfillment are searching for a 3PL that can offer those services and solutions most commonly requested by customers and can provide those distribution and fulfillment activities businesses are looking to improve. A 3PL would likely end up on a companies' short list if they provide dependable transportation solutions (e.g., multiple modes available, from carriers with excellent on-time performance), offer expeditious delivery on local orders, provide expertise in managing inventory and distribution center activities, handle reverse logistics management, and is able to deliver a range of value-add services. (Figure 13)

Figure 13

Characteristics/features considered important when evaluating a 3PL for e-commerce fulfillment tasks



* e.g. blockchain, drones, sensors, Internet of Things (IoT), supply chain visibility, robotics/automation, etc.

■ Highly important ■ Somewhat important ■ Not very/Not at all important

Conclusions

While e-commerce success requires innovative marketing, promotions, and an effective online presence, some of the toughest challenges are in the post-purchase fulfillment processes that need to happen in the DC network and among logistics partners. As this study reaffirms, the e-fulfillment challenge isn't just about having more small orders that need to be processed quickly, but also giving the customer more delivery options and following through on those commitments—all while controlling costs. There are many customer-driven complexities to deal with, from how you manage inventory, to how you select and manage transportation options, to how you re-engineer fulfillment processes within DCs.

The study offers encouraging findings about the ability to meet these challenges. For one, many companies are taking actions such as improving inventory management, and upgrading equipment, systems and analytics. Second, half of respondents are either already tapping 3PLs for services or are evaluating doing so. The study also confirms that many organizations expect that fulfillment processes will continue to evolve. The study did find many respondents rate their e-fulfillment capabilities highly, but a majority (58%) only rank themselves as "good" or lower on e-fulfillment, suggesting there is room for improvement.

Meeting these various e-fulfillment challenges requires more than simply scaling up the old way of doing things. As the study indicates, while adding more labor is one thing organizations are doing, so are improvements to inventory forecasting, inventory visibility, and reporting and analytics. Interestingly, when respondents turn to 3PLs for help with fulfillment, the leading objective isn't cost control—the two leading goals are achieving a greater level of speed and customer satisfaction. Taking on the challenges of e-fulfillment isn't a simple issue, but it's encouraging that many respondents are taking improvement actions, and recognize that change is necessary to further adapt their fulfillment capabilities to meet customer expectations.

Methodology

This research was conducted by Peerless Research Group on behalf of *Logistics Management* for **Ryder System, Inc.** This study was executed in August/September 2018, and was administered over the Internet among subscribers to *Logistics Management*.

Respondents were prequalified for being involved in decisions related to their organization's distribution and order fulfillment solutions and services.

The findings are based on information collected among 144 logistics executives employed in manufacturing, retail, e-tail or wholesale. Manufacturing industries include food and beverage, chemicals and pharmaceuticals, industrial machinery, and automotives and parts, etc. Companies of all sizes are represented in the study with 20 percent of respondents working for companies reporting \$1 billion or more in annual revenues

About Ryder

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