



## Why Outsource Fulfillment Services?

Outsourcing is on the rise in large, mid-sized, and even small companies. Businesses that seek to concentrate their focus on their core competencies—on the activities that their customers care about most and that they do best—are increasingly exploiting the flexibility, expertise, and innovation of specialized firms that can handle individual activities or entire processes that fall furthest from their core. Fulfillment is a key support activity where outsourcing makes sense.

Cost savings is still the main reason why businesses outsource functions, according to a 2002 study by Accenture, a global consulting company. Capital savings and reductions in operating costs have consistently ranked as one of the top three reasons companies give for outsourcing.

Fulfillment is one area where cost savings can certainly be realized. By outsourcing this function to a world-class provider, the company benefits from the use of cutting-edge technology on an as-needed basis without the capital investment or risk. Less efficient and less productive in-house fulfillment systems are replaced with the high quality and performance standards of a company whose whole focus is continual process improvement and cost reduction.

When comparing in-house vs. outsourced fulfillment, it is important to calculate the true cost of providing the service. Staff and budgets to support an in-house system (such as accounting and human resources) may cross many internal departments, so those costs may not be directly associated with fulfillment. Other intangibles, such as opportunities lost due to fulfillment glitches and the taxing of internal IT resources, make calculating the true cost nearly impossible. When fulfillment is outsourced, a business achieves a more accurate and true accounting of the cost of fulfillment transactions.

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One of the top three contract furniture manufacturers in the United States relied on a low-tech warehouse management system for a key sales support activity, getting its wood and fabric samples out to furniture dealers. The system literally depended on warehouse workers knowing where items were stored and how much inventory was on hand. It took so long to get an order out that the sales representatives marked most orders “rush.”

When this function was outsourced to a firm with a warehouse management system that included an efficiently configured racking system, the company discovered that their savings went beyond the initial drop in direct costs. Additional savings were realized when efficient inventory control prevented costly under- and overstocking of items, and the reduction in turnaround time renewed the sales force’s faith in the distribution system.

But companies today are beginning to look beyond the bottom line to the strategic possibilities outsourcing offers, particularly in the fulfillment area. Smart managers recognize that outsourcing for strategic benefits—like the flexibility, expertise, and innovation that a world-class fulfillment provider can bring to the table—yields more value to a company than short-term outsourcing strictly for cost savings alone. The demand for a quick return on investment often leads companies to miss opportunities to position themselves to gain greater future benefits.

### ***Flexibility***

Fulfillment services provide a critical and time-sensitive link between an organization and its distributors, dealers, and clients. When this link doesn’t work at a world-class level, the organization’s reputation is put at risk.

Most companies’ fulfillment requirements cycle through peaks and valleys. For example, client-direct fulfillment campaigns may increase the number of orders exponentially while quickly depleting the quantities of an item available. Corporate systems are not

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usually designed to respond efficiently to these fluctuations. They are often staffed for peak volume, even during slow periods, so personnel and facility costs remain fixed.

The flexibility to handle these shifts in demand is a hallmark of an outsourcing solution. Fixed costs become variable because the company is only billed for the amount of space and labor it needs in a given month. When a company's fulfillment demands increase, even for short periods, the fulfillment provider often has at the ready the technology and processes required long before an in-house operation could gear up.

A common example is when a manufacturing company's literature fulfillment is handled by the company's parts distribution center. Extra space and personnel must be dedicated to handle the literature portion of the operation, even when there is no activity. Outsourcing literature fulfillment allows the company to redirect those resources to parts distribution, its primary income generator.

### **Expertise**

In a rapidly changing business world where being first is everything, outsourcing gives a company an edge by tapping it into worldwide knowledge bases, technological investments, and the accumulated learning and training that no single business can attain on its own in non-core functions. The expertise gained by the outsourcing provider through its experience working with a broad range of clients facing similar challenges is immediately available to the new client, providing a competitive advantage.

The outsourcing consultant is part of the team that should be included in the planning stages of any new venture, such as a product launch. By understanding the goals of the effort, the outsourcing provider can be proactive with fulfillment initiatives to help ensure its success.

A major manufacturer of automotive components found that utilizing an expert in literature fulfillment helped identify several

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ways to streamline operations. As a result of the collaboration, new customer relationship websites were developed, and the company's print vendors were managed differently. The company realized a 34 percent reduction in print production costs and a \$1 million savings in customer literature fulfillment costs over three years.

### **Innovation**

When a fulfillment supplier's technological and systems depth is partnered with the needs and market insights of a particular business, innovation results. A value-added bonus of fulfillment outsourcing is the creative potential unleashed in the exchange between the two organizations. Innovations in the fulfillment function often result in efficiencies, such as reducing product delivery and client response time, which are passed along as cost savings to the client.

A medical device manufacturer wanted to consolidate fulfillment suppliers that handled direct, single shipments of its health care products to consumers. Government regulatory issues and patient privacy concerns dictated that an outside supplier needed to handle this activity, but the company had not developed the necessary processes to administer the program. The company selected a fulfillment provider that already had strong process management skills and state-of-the-art facilities and systems. Together they came up with a whole new way of handling these shipments in a timely, cost-efficient manner.

### **Summary**

Outsourcing fulfillment to a world-class provider allows a business to keep its focus on what it does best. When this important support function is outsourced to a world-class provider, the buyer receives the best that outsourcing has to offer: the highest quality service at the lowest possible cost, state-of-the-art systems, maximum flexibility, greater depth of knowledge, and continual innovation.

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