

## Preparing for The New Economy: Does Your Fulfillment Operation Meet Today's Challenge?



### Considerations for Outsourcing Fulfillment to a Third-Party Supplier

This paper examines the challenges of managing in-house fulfillment operations in today's volatile business climate. Supply-and-demand ratios are in constant flux -- making it difficult to predict inventories and manpower requirements, while also keeping capitalized investments to a minimum. Utilizing third-party firms to absorb the peaks and valleys can improve financial performance and provide a comfortable level of control and visibility to the entire process.

## Executive Summary

As industries emerge from the recent global recession, many companies are experiencing significant changes in the way they go to market. Seasonal fluctuations, shrinking retail shelf space, and constantly-shifting consumer preferences make it difficult to get products to market efficiently or effectively. In addition, underutilized warehouse space, idle employees, and increasing costs are taking a bite out of profit margins.

In 2000, U.S. album sales surpassed 943 million and generated \$13 billion in annual revenue for the industry. By 2009, this figure dropped by 54.6%. The same downward slope has occurred with videos and DVD's.

--Nielsen SoundScan

As digital delivery becomes a large part of the music and video landscape, the paradigm of entertainment distribution has changed irrevocably. The rationale for investing in bricks-and-mortar, a popular decision a decade ago, may no longer make the same economic sense. And “time” has become the new currency... and is far too scarce to divert from critical activities like developing new products or growing market share. As a result, decision makers are exploring new options to improve organizational performance – and strengthen the balance sheet – by outsourcing some or all of their fulfillment operation.

## Case in Point: Company Shifts from In-house to Third-Party

Given today’s environment, there are good reasons to consider outsourcing, but only in cases where vendors share the organization’s philosophy about accountability, flexibility and customer focus. Below is an actual profile of a company that chose to convert its in-house operation to third-party:

<b>Company:</b> a leading North American marketer of music and video entertainment
<b>Core Strategy:</b> Revenue growth and share expansion by continually being first to market
<b>Solution:</b> Partnered closely with AmericDirect to develop and implement a customized fulfillment system that supports their unique business model and goals
<b>Rationale for Decision:</b> <i>“Our expertise is NOT in managing people and warehouses. For us to go back into distribution...it would impede us...and not even sure it would be cheaper.” – VP and COO</i>
<b>Outcome:</b> For the past nine years, this company has been the #1 independently distributed label in North America in their category; segment leader

## Step 1: Assess Your Cost Flexibility (Fixed vs. Variable)

The new economy has forced companies to take a good look at how they do business today, where they can trim their costs, and how to re-dedicate themselves to growing the business.

Fixed costs for an in-house fulfillment operation refers to all costs associated with the building, systems, equipment, human resources and their maintenance. The ability to effectively and consistently cover these costs can be challenging, especially with fluctuating order volume. Long term, the balance sheet can become overcapitalized, with funds tied up in more assets than appropriate given the current volume of business.

When calculating the true cost of running an operation, coupled with managing the cash flow to pay for these costs, some companies decide to re-evaluate their core business. They ask themselves tough questions ... “*Should handling our own products be a key role for us today?*”

Moving to a variable cost model (third-party fulfillment) can help cash flow dramatically. Your costs are based on actual transactions only ... on a “per click” basis. In other words, you are only charged for what you need picked, and when. By shifting from a fixed cost model to a variable cost, a company can better absorb shifts in demand, while also re-directing important resources of money, time and people into pursuits that make the company grow.

“By outsourcing, I can focus my team’s resources on other things...knowing that if we have a fire, we can retool quickly. I don’t need to adhere to strict timelines or divert my attention from what’s most important.”

--AmericDirect Customer

Finally, financial flexibility affords companies a key competitive advantage in the new economy. Rather than managing capitalized assets on the balance sheet, cash resources can be redirected toward more strategic investments like penetrating new markets, expanding market share and delighting customers better than anyone else.

## Step 2: Identify Gaps and Opportunities

Given the startup costs and ongoing investment required for do-it-yourself fulfillment, companies may find it difficult to calculate a realistic ROI for the operation. Part of weighing the pros and cons of outsourcing is developing a list of necessary equipment, systems, people and

facilities...budget needed to purchase and maintain it...and day-to-day expenses (and financing) to keep it running.

Our proven analysis methods help companies identify gaps and opportunities and decide whether to manage their own fulfillment...or outsource it to a trusted partner. **Simply call or email us for a copy of our ROI Analysis Worksheet.**

## Step 3: Choose The Right Vendor

Many companies find it challenging to manage an internal fulfillment organization; it can be a significant investment that requires a tremendous amount of expertise. By outsourcing to a firm with scalable equipment, systems and manpower, it's possible to maintain stringent internal requirements without handling physical product or managing people.

When partnering with the right vendor, outsourcing doesn't have to mean "shoehorning" the business into someone else's model. It doesn't have to mean losing control or quality, either.

**"It's faster to market. Our fulfillment programs can be initiated more rapidly by third-party vendors as they already have the appropriate facilities and technical knowledge."**

**--AmericDirect Customer**

### ***Conduct a Search***

Successful outsourcing means trusting someone else to deliver the same – or better – results than currently achieved in-house.

**First**, consider what make your in-house operation special... from your philosophy to your deliverable output. You will want those same characteristics in a partnering supplier too.

**Second**, identify firms that offer overseeing capability with customized, integrated and fully-accessible systems. Be sure they possess the same strong service and customer care values that you have built your business upon. Make certain quality is built into every process: manual, automatic and electronic.


**Third,** tour their facility and test their system responsiveness— whether you have multiple distribution channels or constantly-changing deadlines, be sure to test the most critical part of your business on them.

**Fourth,** during the visit, pay close attention to the size and condition of the warehouse. Is it spotless and secure? Well organized? Get a feel for the attitude of the workers. Do they seem happy, busy and engaged? Watch an order being processed from start to finish. Can pickers walk directly to the requested item on the shelves? Are computers on the warehouse floor updated immediately when inventory moves? Everything should flow quickly and smoothly, and nothing should appear idle or stalled.

**Fifth,** finalizing the vendor candidate takes thorough research – including in-depth conversations with those entrusted to architect and manage your transaction flow and other critical activities. Do they have a well-staged plan to move your inventory and initiate work? Does their system allow for you to oversee all transactions and inventory? What other capabilities to they provide to ensure accuracy, visibility and success?

**Most importantly, does the supplier’s philosophy and capabilities align well with your needs?**

Finally, use this checklist as a guide for making your final decision:

	<b>Does the vendor provide:</b>
	A broad portfolio of fully-integrated, scalable services?
	Real-time online systems to track orders, inventory levels and returns?
	100%, round-the-clock visibility into the system?
	Fully-customized reporting?
	Flexibility to handle your multiple sales channels? (Consumer, retail, wholesale)
	High level control standards and processes?
	Staged inventory for minimal business disruption?
	Consistency and reliability, no matter where orders originate?
	Strategic sourcing partnerships for top quality and value?
	Returns processing in the same facility?
	System and human flexibility to replicate customer business models?

## Conclusion

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By outsourcing fulfillment operations to a third-party partner, companies can avoid limitations of geography, systems, people, space and more. This is not an easy decision; significant investment (financial and emotional) is often made to managing the operation in-house. As a result, critical back-end functions are best entrusted to vendors that understand and align with customers' values, expectations and strategies.

**“Our vendor helps make us more successful. It’s invaluable. They consistently provide quality product and superior customer service that we can, in turn, give back to our customers.”**

--AmericDirect Customer

Third-party suppliers offer companies the flexibility, equipment, systems and expertise to accommodate peaks and valleys in the business cycle. In an environment of increased competition, commoditization, price pressure and revenue volatility, outsourcing some or all of the fulfillment operation can deliver significant improvements to both the balance sheet and profit-and-loss statements. You can shift your management paradigm and...

- Stop worrying about the day-to-day logistics
- Leave the hiring and people management to an expert
- Reduce risk of large capital investments and their ongoing maintenance
- Receive high-quality, responsive handling of all your physical products so you can turn your attention to your “true core” business

## About AmericDirect

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AmericDirect offers a portfolio of exceptional services for independent multi-media companies of all sizes. Since 1987, the company has built a reputation for reliability, responsiveness, speed and honesty. From procurement and packaging to fulfillment and inventory management, our services are flexible...flawless...and focused on your success.

***For a complimentary analysis of the ROI on your fulfillment operation, visit our website ([www.americdirect.com](http://www.americdirect.com)) or call 1-800-903-1770.***