

What is the Difference Between Distribution Centers and Fulfillment Centers?

Kelly Reed, EVP
Dale Harmelink, EVP

– Tompkins International

TOMPKINS
SUPPLY CHAIN
CONSORTIUM

2013 Supply Chain Leadership Forum

Reinventing
Supply Chains

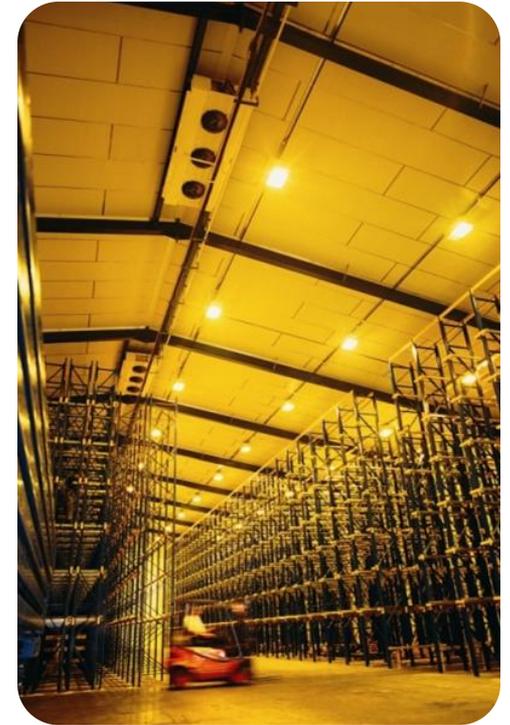
Atlanta, Georgia

August 26-28, 2013



Topics of Discussion

- Facility Descriptions
- E-Commerce Growth
- Strategies to Compete and Thrive
- Considerations for E-Commerce
- Improving Order Fulfillment
- Design Considerations
- Best Practice Design Principles
- Conclusions
- Discussion Points





Facility Descriptions

Distribution Center (DC): A warehouse facility stocked with finished goods to be redistributed to retailers, wholesalers, or directly to consumers. Generally thought of as demand-driven.

- Thousands to millions of stock-keeping units (SKUs)
- Pallet and case quantities
- Variety of packaging methods including pallets, totes, etc.
- Short orders are filled on next order



Facility Descriptions

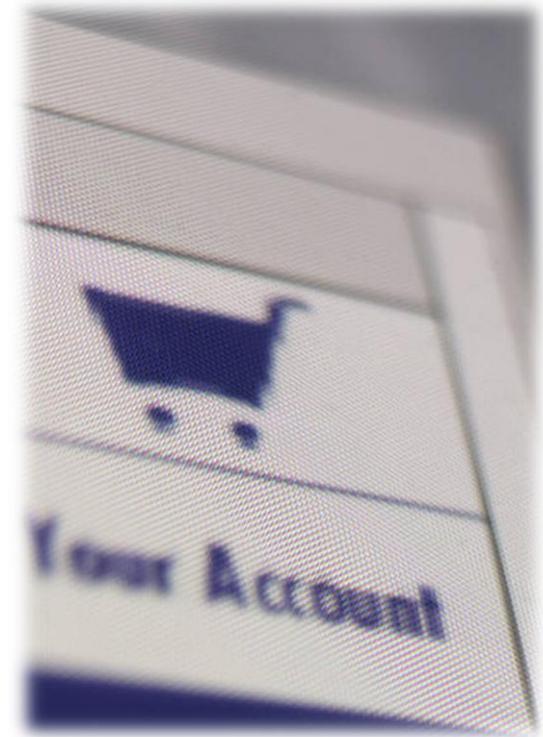
Fulfillment Center (FC): A warehouse facility focused on order fulfillment in which the company fulfills their obligation to send a person a finished good. Typically refers to services of store: orders received, packaged, and shipped to end consumers.

- Thousands to millions of SKUs
- Individual piece pick and small parcel
- Packaging in shipping containers like corrugated boxes and part presentation
- Short orders are a disappointment to consumers



E-Commerce Growth

- Double-digit increase
 - 16% increase in 2012 to sales of \$224.3B
 - Still only 5% of all retail sales
 - Expected to nearly double by 2017
- Good news and bad news
- Uncertainty of the future





Strategies to Compete and Thrive

- Consumers have many options
- Fierce competition
- Better service, selection, and prices expected by consumers
- Right order fulfillment strategies



Considerations for E-Commerce

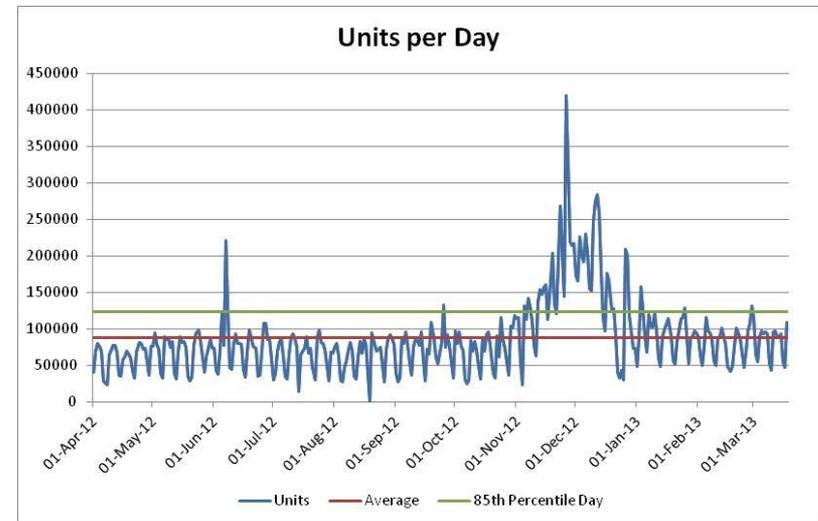
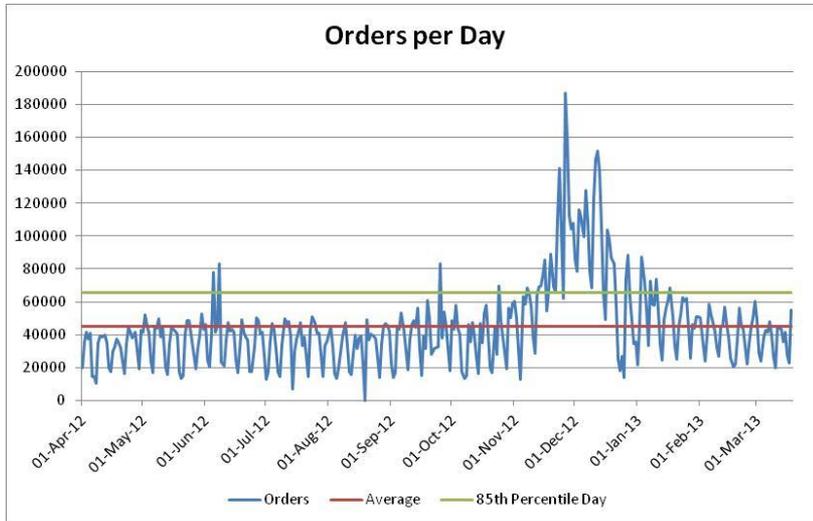
- Order and shipment size
 - Smaller orders
 - Different units of measure (each vs. full case or pallet)
 - Packaging and presentation
- Endless aisle
 - More SKUs than are available in stores
 - Faster SKU growth
 - Direct from FC or drop shipped
- Store order fulfillment
 - Using stores in the fulfillment process
 - Providing the consumer with a common experience
- Use of lockers for fulfillment





Considerations for E-Commerce

- Peak shipping days are more intense and more concentrated



- Nov. 1 to Dec. 20 is peak season
 - Black Friday to Cyber Monday peak days
- Volume exceeds 4 to 5+ times average shipping volume



Improving Order Fulfillment

- Strategy before structure
 - Business strategy drives fulfillment network structure.
- Customized strategy that includes:
 - Target markets
 - Products
 - Services
 - Value proposition
 - Capabilities needed to deliver products and services to your target markets



Design Considerations

- Plan the network of FCs, DCs, forward FCs, and so on.
- Make decisions about doing fulfillment internally or outsourcing.
- Determine whether to do fulfillment in-store replenishment DCs or open separate dedicated FCs.





Best Practice Design Principles

- Develop flexible solutions for shorter time horizons.
- Plan for same-day order fulfillment.
- Automation is not a guaranteed solution at high volumes.
- Fulfillment process consists of multiple flows to optimize productivity and efficiency.
- Packaging is the throttle for the entire fulfillment process.

Conclusions

- Everyone's strategy will be different, which will lead to different fulfillment solutions.
- There is no single right or wrong answer.
- Start with your business strategy as a guide.
- Apply best practices in FC design to meet objective and achieve excellence internally and in the eyes of the consumer.





Discussion Points

- What strategies are you using to deal with the difference between DCs and FCs?
- Are your strategies and tactics evolving over time, and if so, how quickly?
- Does your company's management team have an understanding of the differences in distribution networks and the requirements placed on the supply chain?
- Other comments and questions?