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The Big Send-Off

To fulfill through an outsourcing partner, first pick and pack the right criteria.

By Paul Demery

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After a promising first year as an online retailer of strings, picks and other parts used to play and maintain guitars, Music Parts Plus stopped the music for several months to replace an in-house fulfillment operation that sent out too many wrong orders.

"We reached $1.2 million in sales our first year, shipping about 200 packages a day," says founder and CEO Dominick Moreo. "But we had an order error rate of close to 10%. That led to a reduction in repeat orders, unhappy customers, and our overall expenses going sky high."

Moreo decided to virtually sweep his in-house fulfillment operation clean, including shutting his warehouse, and seek an outsourcing provider. He checked out a couple, considered them incapable of handling his large number of small items like six-piece sets of guitar picks, and eventually chose Quiet Logistics, a Boston-based fulfillment company that has turned around his order accuracy while receiving and managing inventory in its own warehouse, and picking, packing and shipping orders.

Nearing 100% accuracy

The move has paid off, Moreo says, with orders processed in much higher daily volumes while hitting close to 100% accuracy. "In the past, we did about 250 orders in a day; now we can do 250 orders in one and a half hours," he says. "And our feedback from customers has been 100% positive. It's not just general comments like 'great job;' a big chunk of them say 'good shipping' or 'super fast shipping.'"

Finding the right outsourcing partner for all or part of a retailer's fulfillment needs can make all the difference in a retailer's ability to provide a high level of service while operating efficiently. But how to choose an outsourced vendor is not always easy-and the steps to take and questions to ask are not always apparent.

"It's easy to find outsourced fulfillment that's cheap and ineffective or that's effective and expensive, but it's hard to find something that's both inexpensive and effective," says Marc Tanowitz, a principal with fulfillment consultants Pace Harmon.

But retailers can find good and fairly priced outsourced fulfillment arrangements, he adds, if they identify their needs, such as improving customer service and order-to-delivery times, and review potential fulfillment providers' capabilities before nailing down a contract.

10 key questions

Here are ten questions to ask a prospective provider.

1. What will my fixed and variable costs be?

Retailers operating fulfillment centers must factor in costs of building and maintaining their own warehouses, labor and shipping. Some choose this route to have maximum control over where their inventory is located and how it's handled, but outsourcing offers the ability to pay only for the amount of warehouse capacity and labor required to meet demand.

Retailers must verify the full scope of fees a fulfillment provider charges, experts say. Some charge a percentage of sales volume, but others such as Xpert Fulfillment charge flat per-order and per-item fees, then apply discounts based on volume.

Fulfillment providers may also add fees related to packaging, receiving and storing inventory. "It's important to find partners who can be flexible with you in the financial arrangement," says Dean Arnold, vice president of operations for Kenco Logistic Services. "Some retailers need a variable cost structure while others, usually larger retailers, want a consistent, predictable structure that provides an overall cost savings."

2. Do you back up performance?

Retailers can work out service-level agreements that set discounts based on performance in areas such as order-to-delivery times. Such an agreement, for example, might establish a 5% discount if more than 95% of order-to-delivery times take longer than a certain average within a month, followed by higher discounts in subsequent months, Tanowitz says.

A retailer could also seek terms to create incentives for fulfillment performance related to its most important products-for example, those most popular with customers or with the highest profit margins, he adds.

3. How efficiently do you receive and manage inventory?

To meet fulfillment performance levels, a provider must offer an organized and efficient way to receive and store inventory, and quickly and accurately update a retailer about what new inventory has arrived and what remains from past orders. The fulfillment provider should offer a way to check the retailer's purchase orders against incoming delivery documents for accuracy, and alert the retailer of any discrepancies.

"The time it takes to receive goods on a warehouse dock and place them in warehouse stocking locations can range from hours to days, so retailers should find out the average time this takes at fulfillment partners," says Bob Boylan, president of Xpert Fulfillment.

At the same time, the retailer needs to use this updated inventory data to manage merchandise planning and ensure that it has ordered enough stock to support fulfillment performance targets.

"Much of fulfillment optimization comes from the way you manage inventory," Tanowitz says. "In the current economic environment, the largest issue is figuring out how much inventory to invest in and which stock is worth keeping in large quantities."

4. How fast and accurately do you pick orders?

A retailer should ensure that a fulfillment provider can get orders ready for shipment by a certain time each day so the retailer can meet promised delivery times without resorting to the most costly shipping options. "This is the part that can make or break an e-commerce business," Moreo says.

Music Parts Plus chose Quiet Logistics partly because it uses a robotic picking system that automatically brings inventory to warehouse workers, replacing the need for the workers to find and pick stock for each customer order.

The robotic system from Kiva Systems Inc. uses web services to integrate with Quiet's warehouse management system and Music Parts Plus' Infopia order management system. Kiva robots, which look like small boxes on wheels that fit under portable inventory racks, are designed to operate with the most efficient movement between locations. They deliver an inventory rack to a worker at an assigned packing station.

"The time from the moment we get an order online to the moment we have a package with a shipping label and ready to leave the building can be as little as 14 minutes," Moreo says. "In the past, it could have been 24 to 48 hours."

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