



# Why Outsource Your Direct-to-Customer eCommerce Channel?





To better focus on their core competencies, more and more manufacturers recognize that outsourcing is an effective and economical way to manage their **direct-to-customer (D2C) eCommerce channel**. The trend is visible in mega-billion dollar companies as well as early stage companies with more limited resources.





## Successful Online Selling Depends on Logistics

While traditional retail sales have remained flat, online sales have experienced steady double digit growth over the past few years. These figures promise a rich market for online companies, yet many are unprepared to meet the demands of this growth. As eCommerce sales increase so can the cost and complexity of effectively managing the online channel. Forrester Research, a leading technology and market research company, conducted a survey of eCommerce companies and identified global distribution, rising customer expectations, fulfillment costs, and the logistics of moving large volumes of small parcels as the major challenges facing the industry. “The eCommerce boom risks being halted by logistics chaos,” the report indicates.

### Consider these statistics:

- More than half of eCommerce companies lose money on each order.
- Manufacturers who start their D2C channel by developing an in-house program typically end up with costs in excess of 38-40% of their gross margin.
- One in every five orders is delivered late according to the customer's expectations.
- 35% of all companies expect to see increased export sales as a result of eCommerce.
- 41% of companies see fulfillment as a barrier to eCommerce growth.

### An effective and economical solution

It is highly recommended that organizations considering outsourcing run the numbers to determine exactly what they can save. In order to gain economies of scale, Forrester Research advises that mid-sized eCommerce companies (average of 1,000 orders per day) outsource their order management, logistics and fulfillment services. When online merchants use an outsourcing partner they have the ability to share back office systems, warehouse space, and human resources with other companies, typically allowing orders to be fulfilled for less than 10 percent of revenue.

### Some of the benefits of outsourcing are that it allows companies to:

- Increase profitability and improve gross margins by sharing infrastructure costs
- Concentrate resources on growing your business by eliminating non-core functions
- Reduce logistics and shipping costs by leveraging 3PLs
- Enhance customer service levels through access to the latest technology
- Lower information technology (IT) investment and support costs with a SaaS model

The opportunity to reduce costs and increase profitability has convinced many companies to outsource their direct-to-customer channel even when their sales volume is sufficient to cover the expense of running the operation in-house.

*“Forrester Research advises that mid-sized eCommerce companies (average of 1,000 orders per day) outsource their order management, logistics and fulfillment services.”*



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## REASONS TO OUTSOURCE

1. Gain Access to Specialized Expertise
2. Reduce Operating Costs
3. Focus on Your Core Competencies
4. Flexibility to Match Your D2C Strategy
5. Accelerate Time to Market
6. Preserve Capital
7. Reduce Risks
8. Eliminate Administrative Headaches
9. Scale on Demand
10. Increase Customer Service Levels

### 1. Gain Access to Specialized Expertise

The number-one reason why companies choose to outsource their online D2C channel is to gain access to a team of experts who specialize in eCommerce, supply chain optimization and fulfillment. Launching or expanding a successful D2C operation is a complex process that is the result of extensive investments in technology, methodologies and people. You need a fully optimized order management system, complete IT infrastructure, warehousing and inventory management, back office program management, order fulfillment, and a broad range of e-marketing services. You could build facilities, buy equipment, and hire and train IT specialists and a warehouse full of people, or you could outsource to a company that provides all these people already seasoned with many years of hard-won experience. If you want to eliminate the learning curve, outsourcing to a team of experts is the best way to ensure that your eCommerce business will be running smoothly from day one.

### 2. Reduce Operating Costs

Outsourcing reduces operating costs and lowers overhead so that you can use your resources to grow your business, not just sustain it. Manufacturers who launch their D2C channel in-house normally incur higher research, development, deployment and operational expenses, all of which are passed on to the customer. An outside provider often has lower labor costs, lower cost of materials and lower overhead due to greater economies of scale and other advantages based on specialization, and they are able to pass these cost savings along to their clients. Furthermore, partnering with an outsourcing company that has a network of fulfillment centers that are in closer proximity to your customers allows you to significantly reduce shipping costs, increasing your profit margin on each order.

### 3. Focus on Your Core Competencies

One of the key benefits of outsourcing is that allows you to focus your time and energy on growing your business while an outside provider makes your life easier by managing the logistics of your online D2C channel. Every organization has limits on the resources available to it. Outsourcing your non-core functions enables you to accelerate your business growth and success by investing in the areas of your company that offer the greatest competitive advantage. Finances, time, energy and people are all directed towards growing your company and becoming the best at what you really do, while leaving peripheral tasks to an outsourcing partner. Focusing on your core business functions and striving to provide the best service to your customers is critical to staying competitive in any eCommerce business.



*“As volumes increase and customer expectations grow, the pressure on a company’s delivery mechanisms will build to a point where goods will arrive late and customers will be lost. Companies must have a robust fulfillment strategy or die.”*

- Etienne de Longvilliers, Global E-Business Director, DHL

#### 4. Flexibility to Match your D2C Strategy

Every company's eCommerce business objectives are different, and every company has a different strategy for how it wants its D2C channel to work. Outsourcing provides companies with flexibility that would not be possible if they managed their D2C channel in-house because it offers them the ability to pick and choose the services and solutions they need to meet their specific D2C solution requirements. Furthermore, when a company outsources, they gain access to a network of fulfillment centers which gives them the flexibility to optimize the delivery of customer orders by utilizing one or multiple distribution points. This warehouse flexibility eliminates capacity constraints and allows companies to easily scale on demand.

#### 5. Accelerate Time to Market

If you outsource your D2C channel, you can get it up and running in a fraction of the time than it would take to hire, train, and /or reorganize an internal team for the same endeavor. Most companies that outsource want to hit the ground running in a matter of weeks, not months. Outsourcing to a team of experts who already have all the pieces in place will speed time to market and eliminate the learning curve so that you can enjoy a faster return on investment. Accelerating time to market can mean the difference between success and failure for your online channel.

#### 6. Preserve Capital

From a financial perspective, the most significant benefit of outsourcing is that your company does not have to make capital investments in infrastructure. Building a D2C business in-house requires enormous investments in technology, personnel, and physical space. Such investments are risky because there's no guarantee that revenue will cover the upfront expenses. When you outsource, you can say goodbye to capital expenditures, lease payments, payrolls, and dozens of other expenses and related administrative headaches. You do not have to find warehouses or train and manage a warehouse staff. The outsourcing partner you work with will be managing tasks, bills and staff so that you are able to focus your time and resources on growing your business.

#### 7. Reduce Risks

Another benefit of outsourcing is that it significantly reduces the risk born by a single company since an outsourcing provider can spread risks such as demand variability and capital investments over multiple companies. Furthermore, the transactional cost model of an outsourced solution provides companies with a predictable business model that eliminates risk by giving companies the ability to plan.

#### 8. Eliminate Administrative Headaches

An outsourced, managed services solution offers you the best of both worlds – you enjoy the benefits of owning your eCommerce channel, the customer relationship and the product margins without having the responsibility and headaches associated with building, operating and managing the operations and back office infrastructure. There's a lot to be said for the peace of mind that outsourcing eCommerce services and fulfillment can bring to a business owner or manager. No headaches or hassles: you're free to focus on running a profitable business.

#### 9. Scale on Demand

Outsourcing allows companies to scale on demand without having to hire and train employees, build out additional warehouse space or spend funds on infrastructure. This is a major benefit since all online retailers experience seasonal fluctuations. Outsourcing partners are prepared to manage a temporary or permanent increase or decrease in sales since they invest in significant operating scale to accommodate planned and unexpected shopping peaks and growth needs. Partnering with an outsourcing provider that has multiple distribution centers allows companies



to gain access to additional warehouse facilities without making significant investments in capital – they can easily scale up or back on warehouse space depending on market demand. In our volatile economy, this on-demand scalability facilitates risk-free growth.

## 10. Increase Customer Service Levels

Outsourcing your D2C channel delivers tangible benefits to your customers beyond cost savings. An outsourcing partner can provide integrated services that draw on time-tested strengths in quality fulfillment, customer service, and technology execution which boost shipment and order accuracy. Integrating automation with warehouse and inventory management systems minimizes stock shortages and backorders, shortens order picking and delivery times. To maintain customer loyalty, you must deliver the right products with a consistent customer experience—when and where the customer wants them. This requires a seamless, end-to-end, D2C operation which can be complex and costly. Working with an experienced partner who has warehouse infrastructures, workflow and management systems, and experienced teams set in place to achieve optimal efficiency will ensure that your company delivers the highest possible customer service and quality at the lowest possible cost. Partnering with an outsourcing provider that has multiple distribution center increases customer service levels by shortening the order delivery time. More accurate order processing, higher quality customer service, and expedited delivery are all factors which drive happy customers to repeat purchases and friend referrals.

*According to a recent study, US online retail sales reached \$155 billion in 2009 and are projected to grow to \$250 billion by 2014.*

- Internet Retailer

## Common Concerns about Outsourcing

- **Lack of visibility and control.** Outsourcing does not mean giving up control or ownership of your eCommerce channel. Premier providers have web-based systems that offer full visibility into your back office warehousing and order fulfillment operations. In many cases, companies have greater visibility and control when they use an outsourcing provider since in-house solutions typically do not provide the same levels of operational visibility. Outsourcing allows you to enjoy the benefits of owning your eCommerce channel, the customer relationship and the product margins without having the responsibility and headaches associated with building and running the operations and back office infrastructure.
- **How do I ensure high levels of quality and customer service are being delivered?** Leading outsourcing providers have a rigorous SLA with a guaranteed uptime of 99.9% which ensures that your eCommerce platform is running smoothly. Furthermore, they have sophisticated platforms that consolidate information related to orders, catalogs, inventory, and customer activities in one place so you can view, download, and analyze real-time data 24/7. This up-to-the-minute visibility ensures that your orders are being processed in a timely manner and that excellent levels of customer service are being delivered.
- **How do I know if my data is safe?** Premier outsourcing providers have systems in place with state-of-the-art tools to protect against external security attacks. Look for an outsourcing provider who is PCI compliant, has a SAS 70 compliant data center, and is audited for ironclad security and network reliability. Premier providers have integrity controls to defend your information from accidental or malicious destruction, redundant data storage, internal anti-virus protection and external firewalls. Make sure your outsourcing vendor will meet your requirements in critical areas related to infrastructure security (firewalls, access controls, data encryption, etc.) as well as those that are human resource related (non-disclosure agreements, etc.).
- **Why should I outsource if I already have a warehouse(s) and staff in place?** D2C fulfillment requires more than a physical building—it requires that you have sophisticated systems and operational processes in place that can efficiently handle a high velocity of



small parcels. Unlike shipments of wholesale orders, a D2C warehouse needs to be set up to handle small packages, pick and pack individual orders rather than bulk orders, as well as same-day delivery. Outside experts spend all of their time working in their area of expertise which enables them to stay more current, work more rapidly, know the best ways to do things, have the best equipment, and provide better performance, often at a lower price and within a shorter timeframe. In addition, when you outsource you have access to a network of multiple warehouses, giving you the flexibility add more warehouse space as you grow.

- **Won't I lose some of my profit margin if I outsource?** Research has shown that the most compelling reason why manufacturers decide to establish a D2C sales channel is to improve their gross margins by eliminating the middleman (i.e. distributor or reseller). The problem with many outsourced models is that the solution provider sells your products through a branded online store that they develop and manage. Their business model is based on taking a percentage of the sale to cover infrastructure and operational costs. Unfortunately, this is exactly what you wanted to avoid in the first place. What started out as an initiative to establish a direct channel to your customers ends up with just another distributor sharing in your profit. This can be avoided by partnering with an outsourcing provider that uses a transactional pricing model which allows you to retain control of your customer relationship and profit margin.

## Jagged Peak Delivers the Ultimate Outsourced Solution for Profitable eCommerce

### TotalCommerce™: An Outsourced End-to-End Solution

Jagged Peak's TotalCommerce outsourced solution includes everything you need to quickly and cost-effectively launch a fully operational, best practices eCommerce business in less than 60 days. And that includes everything – a fully optimized online store(s), order management software, complete IT infrastructure, warehousing and inventory management, optimized order fulfillment, back office program management and a broad range of e-marketing services.

As a trusted leader in eCommerce solutions, **you can rely on Jagged Peak to handle all the details.** We understand that you need to control your eCommerce channels, your customer relationships and your product margins. We've designed TotalCommerce to allow you to retain that control without having the responsibility and headaches associated with building, operating and maintaining a back office eCommerce infrastructure.

### A World-Class Infrastructure That Can Save You Millions

When you run your D2C channel on Jagged Peak's infrastructure, you can forego the capital investments and ongoing overhead that come with building and maintaining an in-house solution. Gain access to:

- An enterprise class eCommerce platform with 99.9% uptime
- Same day order processing
- Automated least cost routing and a multi-point distribution network of warehouses which delivers perfect orders next day to over 93% of US households — at ground rates
- Access to 5,000,000 square feet of warehouse space in 14 locations across North America alone
- Industry best order accuracy rating (99.6%)
- Comprehensive and configurable solutions that scale to meet a wide range of business and budget needs





With all these benefits at your fingertips, can you afford to miss the opportunity?

For more information on the benefits of outsourcing,  
or to arrange a strategic assessment, contact Jagged Peak

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## About Jagged Peak

Jagged Peak is a global provider of enterprise class eCommerce and supply chain solutions. With over a decade of experience in developing enterprise class eCommerce and supply chain solutions, Jagged Peak has helped clients across the globe build and manage their online businesses, from front-end customer-facing web sites to back-end order management, warehousing, and fulfillment. Our company was formed with a clear vision: to provide innovative, high quality solutions that enable our clients to deliver service excellence to their customers. We specialize in meeting the needs of manufacturers wanting to establish a direct to consumer sales channel, large companies wanting a world-class eCommerce solution, and online retailers looking to upgrade to a superior eCommerce platform. At Jagged Peak, we are passionate about customer service. Our commitment to our clients, world-class technology, robust product capabilities, and the value our solutions offer has earned us the respect and repeat business of many of the world's premier manufacturers and consumer brand companies.

i Mastering Commerce Logistics, Forrester Research, August 1999.  
<http://www.forrester.com/ER/Research/Report/Summary/0,1338,7736,FF.html>

iii Global E-commerce Report , DHL, 2000.  
<http://wap.dhl.com/masterclass/download/ecommerce.pdf>

iii Ibid.

iv Ibid.

v Ibid.

vi Ibid.

vii Mastering Commerce Logistics, Forrester Research, August 1999.  
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