

## SUPPLY CHAIN INSIGHTS

# THE CARE AND FEEDING OF YOUR HIGH-GROWTH BOX BUSINESS

### A Story

An entrepreneur (we'll call her Susan) started a business in her garage. The model was simple. She would send a box of specially curated items to a select group of people each month. Susan always included unique items, special packaging and a personalized note in each box. Her customers loved the products and the personal touch.

Word of mouth and grassroots marketing soon boosted Susan's subscriber numbers to 100, then to 1,000. Success!

As her business flourished, Susan realized she had outgrown her garage. Boxes were everywhere. She was spending too much time packaging and not enough time curating. It was time to move on to something that would better accommodate the growing needs of her business. That



something was a warehouse, conveniently located just 20 miles from her house (we'll call it The Warehouse).

The Warehouse was exactly what Susan needed at this point in her business. It gave her space, peace of mind, and room to grow. Soon Susan's business had 10,000 subscribers. Then it passed one million subscribers and the future seemed limitless.

Not true, however. Susan's business actually did have a limit – its supply chain. As the company continued to scale, The Warehouse couldn't keep up. More orders were coming in than going out. Many orders left the warehouse with the wrong items in the boxes. Returns skyrocketed, and with them, costs.

Susan's customers became frustrated. Some of them unsubscribed while others took to social media to voice their complaints.

Susan realized that the only thing limiting her future was her inadequate supply chain. The Warehouse had been a great solution when her company first began to grow, but it could no longer fill the needs of her company today, and certainly not in the future.

Susan reviewed her options, and understood she had two choices: Build her own fulfillment center – expensive and not her company's core competency. Or partner with a leading third-party logistics service provider (3PL) to deliver the scale and capacity she needed to grow. Profitably.

But Susan worried that she would lose control of her "baby" if she went to a large 3PL. She needed concrete reassurance this would not happen. Assurance that a large 3PL would value her business, and treat it and her customers the way she'd always treated both.

For successful subscription retail entrepreneurs, Susan's story is all too familiar.

Your goal is growth. But growth can be a double-edged sword if you're not prepared for it.

The fact is, it is difficult to get the "back end" of the business – the supply chain – right and remain profitable. And if the pace of growth outstrips the capacity of the supply chain, the result is rising costs, service breakdowns, dissatisfied customers and, ultimately, constrained growth.

Thus, the ability to scale the "back end" of the business while delivering what the customer wants, profitably, delivers benefits to the business, among them:

- Growth combined with proactive cost control
- Best-in-class customer service
- Inventory optimization
- Fulfillment innovation

Ultimately, your profitability depends on being able to scale fulfillment simply and confidently. A 3PL partnership can help enable growth, but still, the decision to partner or not can be a difficult one. This is the case for companies looking to move their operation from in-house for the first time and for companies considering a move from an existing warehouse operation.

For high-growth subscription companies facing this decision, here are five major impacts a smart 3PL partnership can have on the business:

**1. Flexible capacity.** As a subscription company, you're spared much of the volatility in demand other e-commerce companies experience. But you do have to be prepared for sustained growth, which can come in sudden spurts when, for example, that holiday marketing campaign gets big results or your service is featured in a high-profile magazine. A 3PL gives you the opportunity to take advantage of a shared-use network that allows you to move delivery closer to customers while minimizing infrastructure costs. These networks also provide the flexibility to absorb significant growth within the network. If you reach the scale where you need a dedicated network, a 3PL has the e-commerce and supply chain experience to design a dedicated network that effectively optimizes customer service and costs.

**2. Minimize complexity and reduce costs.** Managing costs in fulfillment, inventory, warehousing, packaging and transportation is often the biggest challenge for high-growth box businesses. Mainly because the business is often personalized and uniquely curated. Traditional retailers can automate warehousing and shipping into repeatable processes to bring down costs, but this isn't necessarily an option for box retailers with swings in product sourcing and assortment every month. Add to this the personalization element – sometimes with as many as 17 different "touches" – and costs can spiral out of control fast.

A 3PL partnership brings experience in process development and optimization that can translate into a "plug-and-play" approach to running your supply chain that minimizes complexity and reduces costs. This would include the development of a platform of core standardized and easily replicated solutions to meet your supply chain needs, augmented with standardized "bolt-ons" tailored to meet your unique requirements. An experienced 3PL will facilitate a process orientation to gather all of this information and to determine the right approach.

So, you get the best of both worlds – standardization plus customization. And the simplicity of this approach delivers the kind of flexibility you need to adjust on the fly. You get out of the business of constantly creating "one-off" solutions to customer needs and business dynamics. But you don't lose the personalization that has made your business what it is.

**3. Leverage emerging technologies.** With The Warehouse, one of your biggest problems is not knowing what's going on – meaning poor visibility. If you can't see what's happening with your supply chain, you can't manage it – much less get out ahead to anticipate your future needs.

Robust data analytics capabilities, plus the latest supply chain execution solutions are critical to growth. There is also the opportunity to turn supply chain information into insights for you and your business. You should always have a clear picture – real-time – of customers, flows, order volumes, cost savings and improvement opportunities, and predictive business models. The right partner will also be making continued investments in emerging technologies, such as AI and robotics, to ensure you can leverage these technologies without making those investments yourself.

- 4. Enhanced service levels.** Your customers are demanding. They expect accurate orders, customized product selections, on-time delivery, and an easy return process. Get any of these wrong, and a customer may defect. An established and experienced 3PL can guarantee both reliability and accuracy. Particularly, the ability to manage order detail needs – no matter how detailed and complex. Technology is a big factor here as well. The larger the operation becomes, the more automation is required to keep it not just reliable and accurate, but also efficient.
  
- 5. Access to capital.** To move past mid-sized, your business requires more robust supply chain infrastructure. This requires access to capital. Unlike The Warehouse, leading 3PLs have the financial resources to invest in facilities, people, technologies, real estate and other infrastructure on behalf of their customers – all necessary for rapid scalability. Thus, the 3PL partnership can solve your capital constraint issue, allowing you to leverage their buying power to meet your needs as you evolve.

#### **Making the right choice**

While there may be other issues to consider when making the decision to move from a local or regional 3PL (or even to move from your own in-house operation) to a leading, national/global 3PL partnership, these five business impacts should provide a useful guide to the process. The rewards of making the right choice go directly to the heart of what you want for your business – growing it profitably, and confidently.