



# Stirring the Pot

## Good, Bad, or Indifferent

Last year I had the opportunity to work on a couple of distribution strategy projects for mid-sized manufacturers. These projects required that I draw on many different areas of expertise gained over the past 25 years, because they involved:

1. Understanding Total Fulfillment Costs for many options
2. Quantifying the “Recovery” revenue associated with each
3. Establishing a price structure that reflected cost and incented order behavior
4. Developing Customer Pickup programs
5. Determining the appropriate role for redistribution
6. Writing Order Policies which helped control Fulfillment Costs



Sales and Marketing often want to be indifferent and "let customers order however they want to," while Finance, Operations and Supply Chain prefer some methods over others.

My clients, like many manufacturers, had a variety of existing and potential methods for fulfilling orders, but were unsure which to encourage and which to discourage. As I worked through the projects, my methodology morphed into a framework which I'm calling **Fulfillment Optimization**. My thinking goes like this:

- Every manufacturer has 5-10 Fulfillment Methods by which product moves from plants to distributors
  - For simplicity's sake, they include:
    - Shipments
      - Small
      - Medium
      - Large
    - Customer Pickups
      - Small
      - Medium
      - Large
    - Redistribution
  - "Small, Medium, Large" can be defined by the data, or we can use existing bracket definitions
  - Fulfillment Methods can be further classified by Plant vs. DC, specific DC's, etc.

- Each Fulfillment Method has 3 important characteristics:
  1. The Volume flowing through it
  2. The Fulfillment Cost associated with it, possibly including
    - Order Management
    - Deployment
    - Warehousing
    - Customer Freight
  3. The Recovery Revenue built into bracket pricing or the FOB plus freight matrix
    - (Fulfillment Cost less Recovery Revenue = Net Fulfillment Cost)
  
- Sales and Marketing often want to be indifferent and “let customers order however they want to,” while Finance, Operations and Supply Chain prefer some methods over others
  - ***And typically, prices and policies do not reflect fulfillment costs, meaning the company cannot be “financially indifferent!”***

**So What?**

Analyzing and understanding costs, revenues and volume for each Fulfillment Method reveals opportunities to reduce costs and improve profit by pulling the proper Price Structure, Policy and Program levers.

Manufacturers can choose whether they want to incent certain order types while discouraging others, or create a system which will make them truly financially indifferent no matter how customers choose to order.

Committing to and implementing these changes requires a shared understanding of the situation across Supply Chain, Sales, Operations, Finance, and Marketing. We think the Fulfillment Optimization program makes all of this possible, but would like to know what YOU think!

If you have comments, criticisms or questions about any of this just [click here](#) to let me know.

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