

Unified commerce

Advanced Sourcing Strategies

Optimise your omni channel fulfilment

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Introduction

Summary

01

Store fulfilment

Store fulfilment is a great introduction to solving these challenges. But omni channel Fulfilment is not without its pitfalls. Most notably, downward pressure on margins.

02

Margins matter

Your ability to extract maximum value from each order is more important than ever. But how do you extract more value? How do you tweak your sourcing strategy, so it provides the incremental improvements you need to maximise profits? Flexibility in your sourcing strategy is key.

Let's take a deep dive into some sourcing strategies.

Sourcing Strategy

It's important that your sourcing strategies adapt to the ever-Changing market. Here are a few ways to approach omni channel sourcing – some standard, some more advanced – and which Fulfilment rules are used to support them.

Prevent out of stock online

The first step in the prevention of stock outs is to **set a buffer or safety stock level**. This is a quantity below which an item will show as 'out of stock' online, even though you may still have a few units left. In addition to buffers, there are other steps you can take to reduce out of stocks. You can have your business logic look at the inventory level in each location and **source from the location with the most inventory**. This is good but can be misleading.

It might mean you're sourcing from a high throughput store that just received a replenishment order. If this is the case, you might want to balance that out and **source from the location that has the lowest sell-through rate**. That way you'll keep more inventory in locations where it's more likely to sell, and increase revenue at stores with lower sell-through rates.

Deliver faster

When your primary goal is fast delivery, distance is key. In this case it's usually best to **ship from the location closest to the customer**. However, if there is more than one nearby location that could process the order, you may also want to factor in labour availability and **consider the number of 'open' orders at the store** that still need to be picked and packed.

You should also consider that the closest location may be a 3PL or Drop Ship Vendor (DSV). In this case, you'll need to factor in whether you want to **prioritize a 3PL over your store network, or a store over a DSV**.

Reduce markdowns

To reduce markdowns, you'll want to consider several factors that will require prioritisation. Specifically, whether you want to source from the location with the:

- Highest in-store markdowns
- Most inventory
- Lowest sell-through rate
- Oldest inventory

The priority of each of these factors will also vary based on your business and potentially the inventory type (e.g., seasonal inventory).

Speaking of seasonal inventory, when the sale of that inventory is weather dependent, it's also worth considering replenishing stores via store transfer. This is when stores with low stock in a more favourable climate are replenished from stores with high stock in a less favourable climate where it's less likely to be sold.

Protect the in-store experience

Some organizations use their flagship stores as fulfilment hubs and have dedicated staff for pick and pack activities. But for those who don't, protecting the in-store experience for customers is important. As a result, some organisations choose to either **set higher buffer levels for flagship stores, or source from non-flagship stores.**

In addition, some organisations don't just use buffer levels – the level below which an item at that location will be considered 'out of stock' for online orders – but an 'ideal stock quantity' for that location as well. And this ideal stock level may vary by location.

Let's look at how that works...

01

Ideal Stock Level

Say Store A and Store B both have a buffer stock level of 5 units for a particular item. If the quantity goes below 5 units, they will be considered 'out of stock' for online orders. But their 'ideal stock quantities' might be different.

Store A is a high-volume store – its ideal quantity for that item is at least 15 units. Whereas the ideal quantity for Store B is 10 units. So, if Store A has 12 units and Store B has 11, an order will be sourced from store B. This is because it is one unit above its ideal stock level whereas Store A is 3 units below. In short, the order will be sourced from the store with the biggest surplus above the ideal stock level for that item.

However, if Store A had a large replenishment order that was in transit and would arrive by the time the order had to be shipped (to meet the customer's desired delivery date), the order might be sourced from in-transit inventory even though it had not yet arrived at Store A.

02

Store Capacity Management

Another key way to protect the in-store experience is store capacity management. This type of sourcing rule lets you limit the number of Click and Collect and/or Ship from Store orders sent to a store based on:

- Total orders per day (e.g., a maximum of 50 orders sent to each store per day)
- Total orders per day by fulfilment type (e.g., a maximum of 20 ship from store orders per day)
- Prioritisation of Click and Collect over Ship from Store (e.g., once the store has a certain number of open orders, only send Click and Collect orders to that store, not Ship from Store orders)
- Number of open orders (waiting to be picked and packed) at the store
- Number of orders waiting for pickup by the customer
- Number of orders waiting for pickup by the carrier

That way stores receive a manageable flow of orders, and staff still have time to service their in-store customers. However, it's also important to note that the prioritisation of these rules can be changed quickly. For example, it is not uncommon during peak shopping season for a retailer to 'turn off' Ship from Store, or **'turn off' Click and Collect**.

Disabling store fulfilment can be done at the store level (blacklist the store) or across a network of stores. This way store staff are not overwhelmed by orders and can focus on maximising sales to in-store customers. And while we're talking about making things unavailable, this same flexibility applies to products too.

Think about what happens when you have a product quality issue. To protect your customers from a poor experience (and to minimise returns) it's also important you have the ability to **quickly make a product unavailable, or to make a product category unavailable**.

Maximise revenue from high value customers

A key consideration for this strategy is protecting the in-store experience so store staff have more time to service your best customers, as described above. But there is another consideration as well. You may want to restrict availability of inventory to customers based on their loyalty status. This can be achieved in different ways.

01

VIPs Only

One way of restricting availability is by making sure that only VIP customers can order certain products online.

02

Larger Inventory Pools for VIPs

While any customer can order an item while inventory is above a certain level, once it drops below that level, only VIPs can order it.

03

Only offer Click & Collect (not Home Delivery) for High Demand Items

This can be especially effective for limited edition items that are highly coveted. And it gives your store staff an opportunity to up sell and cross-sell to increase the value of the sale.

04

Fast Track Fulfilment for VIPs

In addition, you may want to fast track the fulfilment of orders from your most loyal customers to ensure you keep their loyalty and repeat business. Options for this may include:

- Pick and pack orders for VIP customers before other orders (so they're ready for pickup or delivery faster)
- Fulfil VIP orders from designated 'VIP service' stores
- Fulfil VIP orders from locations where expedited shipping is readily available

Reduce delivery costs

A common way to reduce delivery costs is to **ship from the closest in-stock location to the customer**. While this is a good base approach, there are other factors to consider. For example, what if the closest location is a store, but there is also a DC nearby? Given DC fulfilment is more efficient, you'll want to make sure that you ship from the DC over **the store if the two in-stock locations are within a similar distance from the customer**.

But what if there is a closer location that's expecting a new shipment of inventory that will arrive in time to meet the customer's expectations? Then you'll want to **source the order from a location based on future stock availability**.

You also need to consider split shipments. While they can help get items to a customer faster, and eliminate the need for order consolidation, they're still not great for margins. You're paying to deliver twice. So, it's important to balance speed and profitability by using rules to **minimise split shipments, and/or set a minimum order value for split shipments**.

In addition, if you have special, pre-negotiated contract rates with carriers for certain types of items (e.g., oversized, bulky items or high volume items) you'll want to specify rules for which carrier can be used for shipping certain items based on **product attributes (e.g., bulky items, high volume products) and source location and destination (e.g., city, regional)**.

Sometimes, the most cost-effective delivery method may be to split an order, so a light-weight item is shipped via standard carrier, and the bulky item is shipped via special carrier. Lastly, you may also want to consider how your online merchandising strategy impacts delivery costs.

For example, think about cross selling on the Product Detail Page. Imagine if the only 'Recommended Items' you displayed on that page were ones that could be sourced from the same location as the primary item. In effect, **you would be merchandising to reduce split shipments** and therefore minimise delivery costs. Recommended Items could also update dynamically if the customer chose a different size or colour combination.

Minimise labor costs

It's no secret that using store staff to pick and pack orders isn't very efficient. Yet the benefits of faster delivery and leveraging store inventory for online orders make store fulfilment essential. As a result, some stores that are used as fulfilment hubs have dedicated pickers and packers. Others have set up Dark Stores that act as mini DCs. The trick is to find the right balance for your business, and make sure your sourcing rules help minimise labour inefficiencies. For example, you might prioritise sourcing from:

- DC over stores if they are within a certain distance of each other
- Dark Stores over regular stores
- Hub stores over non-hub stores
- DSVs over own network
- 3PLs over own network

Further, if order consolidation is part of your business model, you might also prioritise order consolidation in DCs rather than stores.

Reduce losses due to damaged shipments

While Ship from Store is great in general, not all items ship well. Some are prone to breakage, especially if they're not packaged correctly. This can be due to insufficient training in how to package items, or lack of access to the right packaging materials. So, one way to reduce losses due to damage in transit is to restrict which items can be shipped from store based on product attributes, such as:

- Fragile items (e.g., glassware)
- Oversized items (if appropriate packaging materials are not available)
- High value items
- Or, if complete restriction doesn't work for you and a product has a certain attribute, you might instead want to **ship from DC over store**.

Increase store traffic

Popular items can boost online sales, but sometimes it's not the most profitable way to sell them. Instead, you may choose to restrict which items can be shipped to home based on product attributes, such as **high demand and high value items**. You can choose to offer these items for in-store pickup or purchase only, where your sales staff will have more opportunities to cross sell/up sell the customer on additional merchandise.

Ship from stores with thin inventory

If you have thin inventory – meaning you carry only a small number of units of each item in any given store – Ship from Store can be a challenge. How can you set a buffer or safety stock level of 2 units if you only carry 2 units per store? That's where inventory pooling comes in. Rather than set a buffer level per location, you set buffer/safety stock levels across a network of locations.

How does this work?

Say you have 5 stores in a region. Each carries 2 units of a particular item. So, you have 10 total units across all the stores in that region. While you can't set a buffer level of 2 units at each store, you can set a buffer level of 2 units (or more) across the group of stores.

That way, when an order comes in, you'll feel confident that you can ship the item from at least one of those stores without having to cancel an order.

Cross-brand merchandising

Recently we've seen big shifts in consumer demand. Some product categories have been particularly popular, which can present both challenges and opportunities if you have multiple e-commerce store fronts.

Some online stores might have more popular products than others. But if all your store fronts can access the same product catalogue and inventory data, you have a unique opportunity. You can merchandise high demand products from one online store to another and **use sourcing rules from one online store to fulfil orders from another.**

Maximise flexibility

This strategy is a little bit different. It's not based on individual sourcing rules, but rather how you structure information.

Your data, such as inventory availability across locations and networks of locations, and the way your rules are organised, needs to be set up in a way that's modular and easy to change.

So, rather than looking at individual sourcing rules, flexibility requires you to ask key questions, such as how quickly you can:

- Change a sourcing rule
- Change the prioritisation of rules
- Add and remove locations from sourcing consideration
- Create new networks of locations that your sourcing rules can access
- Add custom attributes to products or locations that can be used in your sourcing rules
- Adjust safety stock
- Exclude products or categories
- Start selling in a new market or channel
- Start shipping from a new store

As market conditions change, your ability to adapt quickly will be an essential competitive differentiator. You need sourcing flexibility.

Global Sourcing

When organisations first start to ship globally, they typically ship all orders from their home country. But as the business expands, that often changes. Here are two approaches to global sourcing.

In-country business unit autonomy

With this strategy, you **source all orders from a location in the same country in which the order was placed**. This allows in-country business units to customise sourcing rules and fulfilment logic based on local consumer preferences and provide a differentiated experience that can give them a competitive advantage.

One key benefit to this approach is that it eliminates the need for cross-border shipping and returns. This simplifies operations and provides faster delivery for an optimal customer experience. It also reduces the cost of delivery.

Global expansion or business continuity using regional fulfilment hubs

This strategy involves setting up a fulfilment hub in key geographic regions so you can **source orders from the regional hub closest to where the order was placed**.

As new markets are entered, the regional hub can be used to fulfil orders from the new country until a local presence is established, at which point, you may **ship from an in-country store to reduce costs and speed delivery**.

The benefits of the fulfilment hub approach are that it lets you test demand in a new market before setting up a distribution network.

Regional fulfilment hubs can also be used to ensure business continuity. If one hub has to close (e.g., due to a power outage or other event), orders can be automatically sourced from the next closest regional hub, as all hubs are set up to support international shipments. The downside to this approach is the increased delivery time and complexity associated with customs processing, and cross border returns.

Another consideration is that if items for global orders must be sourced from stores outside the destination country, you may want to **transfer items from stores to DC for centralised processing**. This way you'll use the most efficient labour for processing customs forms for shipments across global borders.

Summary

Every organisation is unique. The sourcing strategies that make sense for your business will depend on the products you sell, their price points, and the markets you serve. There is no one size fits all approach. But without a doubt, it's important you get it right. A poor sourcing strategy puts profits at risk. So, you need to take every step you can to improve the margin on each order. This may include shipping from the closest location to the customer, the most efficient location, or the one that will provide the best experience for your high value customers. As we've seen, there are many options. And you need flexibility in your sourcing strategy too.

Some strategies will yield big results. Others will be smaller. But to stay competitive, you'll need to embrace them all. What's more, you'll want to fine tune your sourcing logic over time. At the end of the day, every incremental improvement counts. This means successful omni channel distribution requires a flexible system – one that allows you to tweak your sourcing rules easily. This is where we can help you in collaboration with one of our partners.

Do you need help?

At Emakina, we understand how important it is for your business to offer the best customer experience and our goal is to delight clients' users at every step of their buying journey. Want to upgrade your Order Management? Our teams are ready to help you level up.

Our experienced OM experts can help you set up, implement and advise on a profitable omni channel order management process. Whether you're taking your first steps or are already familiar, our teams would love to support you.

[Visit our Order Management service page](#)

About Emakina, the User Agency

Emakina is a digital agency with global reach. It is part of Emakina Group, an EPAM Systems Inc. (NYSE: EPAM) company. Its technology and marketing experts work with customers to develop high performance marketing and creative solutions for business challenges, from cutting-edge applications, websites, and eCommerce projects to impactful content and campaigns.

As the ambassadors for users, Emakina places the user's requirements and expectations at the heart of every digital experience. This approach offers the agency's customers and their brands a privileged relationship with consumers of the digital age. Learn more at www.emakina.com.

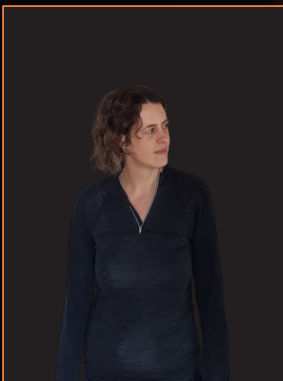


EMAKINA
AN EPAM COMPANY

Advanced Sourcing Strategies

Team up with our Order Management experts to start designing the shopping experience your users dream of.

Start your journey with us.



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