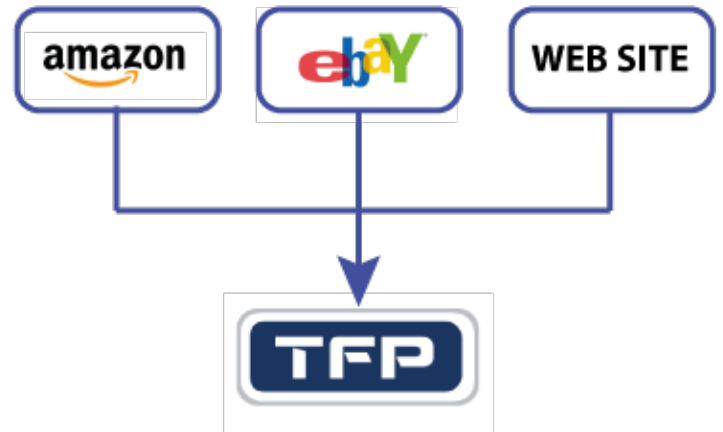


## The opportunity

The modern economy and the dawn of the internet age has radically shifted the way people work. The effects of the technological shift to this new interconnected world are many. One is the rise of the home run business. More people than ever are doing it on their own. The internet allows a small home run business to sell products globally and to reach that global customer base at a very low cost of entry. Selling platforms such as e-Bay and Amazon have only made this process even more accessible and affordable. Similarly, many more established SMEs are finding they can market their products further afield.



There comes a time when a successful home run business outgrows the nest and needs to find warehousing space. While a home office is a simple enough addition to a house, once the spare room and garage are full of product, there is normally no option other than to outsource warehousing and logistics to a third party. A growing, more established business will often face the same problem. The purchasing of a dedicated warehouse that one runs oneself can be beyond the risk appetite for small business owners and the savvy among them will realise it requires a completely different skill set to run a logistics operation than to run a web-based business. As such, finding the right out-sourced logistic partner is vital.

## Feel the fear

The big fear is that the new warehousing partner will mess up hard-won customer loyalty. When someone else is responsible for picking, packing and shipping your product there is inevitably going to be some trepidation. Will they care enough? Will they know the product well enough to spot picking errors? Will they know the quirks of packing that mean the product arrives safely? Will they work the extra hours to make sure it gets out on time? All these little details matter and the small business owner, while they operate a home warehouse, will have complete control. Once the business requires a third party, that control is lost and it is often a terrifying prospect.

The fear is well placed. The e-Bay and Amazon seller forums are brimming with tales of shoddy services from logistics partners. Many businesses lose customers and revenue due to the poor service of their fulfilment partners. Customers are far harder to acquire than they are to lose and, with so much competition only a click away, today's internet consumer is a fickle beast. So, the choice of fulfilment partner is an important decision that requires careful deliberation.

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## Options

One option is the “big boys”. There are some very large organisations that will take care of all your logistics. This could be services from the large couriers or from the large on-line selling platforms. This sounds tempting and for many it is the right option and works well. For others, however, the very notion of trusting everything to a huge faceless megacorp sends a chill down their spine.



***Is big really beautiful for your small business?***

For businesses that have nurtured their customer base and provided excellent customer service, the idea that a multi-billion dollar company is going to care about their £150,000 turnover e-commerce start-up is clearly absurd. This is not to say they don't care about their customers, they clearly do and no business gets to a large size without caring for its customers, but the level of care in any enterprise will be proportional to the value of the customer. As such it is completely unreasonable to expect large third-party fulfilment providers to give the same level of care as one would give oneself.

The temptation to use the large fulfilment companies is that they have huge economies of scale and scope. They have invested in the latest technology, have super slick modern, robot operated warehouses and all the other gizmos and gadgets that money can buy. The scale of economies often means their prices are very good and their scope means they can deliver anywhere and anytime. However, what is found by many customers is that the very things that make these large companies highly competitive on price is what makes them lack in other areas. Their sheer size means the personal touch is lacking.

The other option is to use a small independent warehousing company. But, again, the small business forums are full of poor reviews about smaller operations. More often these reports of poor experiences are from businesses that sell higher care products. By this I mean products that either have a high value, complex shipping or packing needs or that are technical in nature. Simple commodities are easy to pick, pack and ship correctly but higher care products often prove difficult. Getting order fulfilment right for this “high care” market segment requires a specific business strategy that is rarely pursued in the fulfilment sector.

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## Value propositions

In their New York Times bestselling book "The Discipline of Market Leaders" Michael Treacy and Fred Wierseman laid out an argument that all leading companies pursue one of three broad strategies.

**Operational excellence** – here the business will have a very slick operation making dealing with the business easy and efficient. They may not have the most innovative product but due to a focus on running a highly efficient operation, the product can be delivered cheaper than the competition or faster or with less hassle, or all three.

**Product leadership** – here the business will focus on having a cutting-edge product. Their product or service will offer features and benefits over and above competitors. The business may well charge a premium for their products.

**Customer intimacy** - here the business will focus on a bespoke service tailored to each customer's needs. Their entire business model is about meeting the unique needs of each customer. The initial cost of services may seem higher when compared to "like for like" services offered by competitors, but the overall cost might be lower in the long run as the close, tailor-made service cuts down errors and improves overall efficiency.



## What about operational excellence?

Most large players in the fulfilment business will opt for operational excellence combined with some product leadership. So, for example, Amazon really does have an operationally excellent business with the latest computerised warehouses and integration with e-commerce platforms. Another part of this strategy is to have huge scales of economy that, through good IT, integrate and thus result in a cost advantage. This strategy requires a large investment and it is certainly not one that any small player like TFP could hope to match. There is no point in a small warehousing outfit trying to "out Amazon" Amazon in terms of operational excellence.

## What about product leadership?

It is difficult to see how a warehousing and fulfilment company can leverage a superior product. What the customer wants is a product that is picked, packed and delivered accurately and quickly. Most decent fulfilment houses will be able to achieve all of this. There will be some room for improvement, but it is unlikely that new technology or working methods are likely to produce enough of a competitive advantage for the smaller player.

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## What about customer intimacy?

The Fulfilment People (TFP) focuses instead on the customer intimacy competitive strategy. This is not to say TFP don't care about being operationally efficient or offering new products and services. Pursuing one strategy does not mean one neglects the other aspects. But the competitive advantage TFP carves out for itself is that they get very close to their customers. The aim is to become their warehousing department, indistinguishable from their own staff. This strategy resonates with a specific niche of the overall market, namely, the "high care" segment as discussed above.

## What does this mean?

It is all very well saying the words "we are very close to our customers" but, let's face it, every business says those words regardless of whether this is truly the case or not. So, what does distinguish a truly customer-focused business from one that is not? Perhaps this is best illustrated with some day-to-day examples from real life.

**Packing problems** – the warehouse notices that the standard proposed packing on one new product line is likely to mean damage in transit. This is noticed before any product is sent out and communicated to the customer. The packing is then changed prior to any breakages occurring - this can only happen if the product and customer is understood.

**Post code problems** – a large mass delivery project is due to be shipped to a list of some 4000 customers. It is noticed that the post code on the delivery list provided didn't match the town. This was spotted before the potential disaster took place and was tracked down to an excel alignment error. The delivery addresses were corrected. This is down to the human touch. An operationally excellent company that had an automated shipping system may well process such a spread sheet of addresses quickly by computer up-load but they would have all gone to the wrong addresses!

**Similar looking product problems** – for an industrial components seller many products look very similar. Often the product may be physically the same size and shape but just in a different grade of stainless steel. These seemingly superficial differences can, of course, be hugely significant to the customer. A simple phone call to double check can mean the difference between disaster or not. This relies on warehousing staff who actually understand the customer's product and who have the lines of communication to double check if something doesn't look right.

## Flexibility

At the end of the day customer-intimate companies will tailor their services to what the customer wants. This tailoring comes through a deep knowledge of how each customer works. What this means is that different customers will be dealt with in a way specific to their business. Now, obviously, some core processes and systems will be common to all customers but there will be significant customisation of the service to suit each need.

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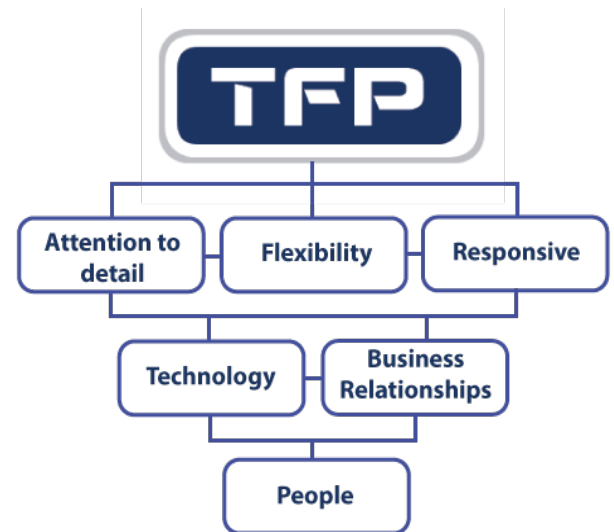
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This level of flexibility is impossible if one is pursuing a strategy of operational excellence. In such businesses each last inch of efficiency has been squeezed out of the service. This can be great for cost savings, but it often comes at the expense of flexibility. Typically, the service will be great and very low cost in such companies, but it will be a one size fits all. Customisation is difficult because in doing so the processes and systems that have been so honed must be changed and that change simply does not fit with this strategy.

## The long and the short of it

What a "closeness to the customer" competitive strategy really means is that the out-sourced warehouse will "act as if" it is part of the customer company. It is all about fostering a genuine culture of care and attention. This can only really happen if the number of customers is relatively small. Honest communication is required coupled with a flexible approach to business. This flexibility needs to be tempered by the knowledge of what works.

"Success" is not simply a question of doing whatever the customer thinks they want. We offer something far more valuable than that. TFP offer collaboration, where our expertise in fulfilment melds with the customers knowledge of their business. Both knowledge sets are used to create a tailored service that best meets the business needs. Success results from a genuine partnership - this is how businesses pursuing a "customer intimacy" strategy can compete with much larger players.



## Culture and people

This strategy is not easy to implement. Many businesses will say fine words in their mission statement about being close to their customers, or customers being king, or some other phrases dreamt up by a marketing department. But words are just words. It's easy to make up some words that sound great to the customer audience and it's almost as easy to convince oneself that they are a true reflection of the organisation. The reality, though, is that a genuine "closeness to the customer" strategy needs to be in the very DNA of the business if it is to work.

At the end of the day, it comes down to a business culture that really embeds this strategy in all employees. A strong investment in quality people who will stick around is a necessity. It's hard to get close to a customer if staff are continually leaving and being replaced. It's equally difficult to maintain the necessary strong culture with a high staff turnover. So, investing in and developing one's staff so they are in it for the long haul is an absolute must for any company choosing to compete in this way.

At TFP this means we have personal development plans for all our staff. PDPs are not something we implement for only senior management, developing people is very

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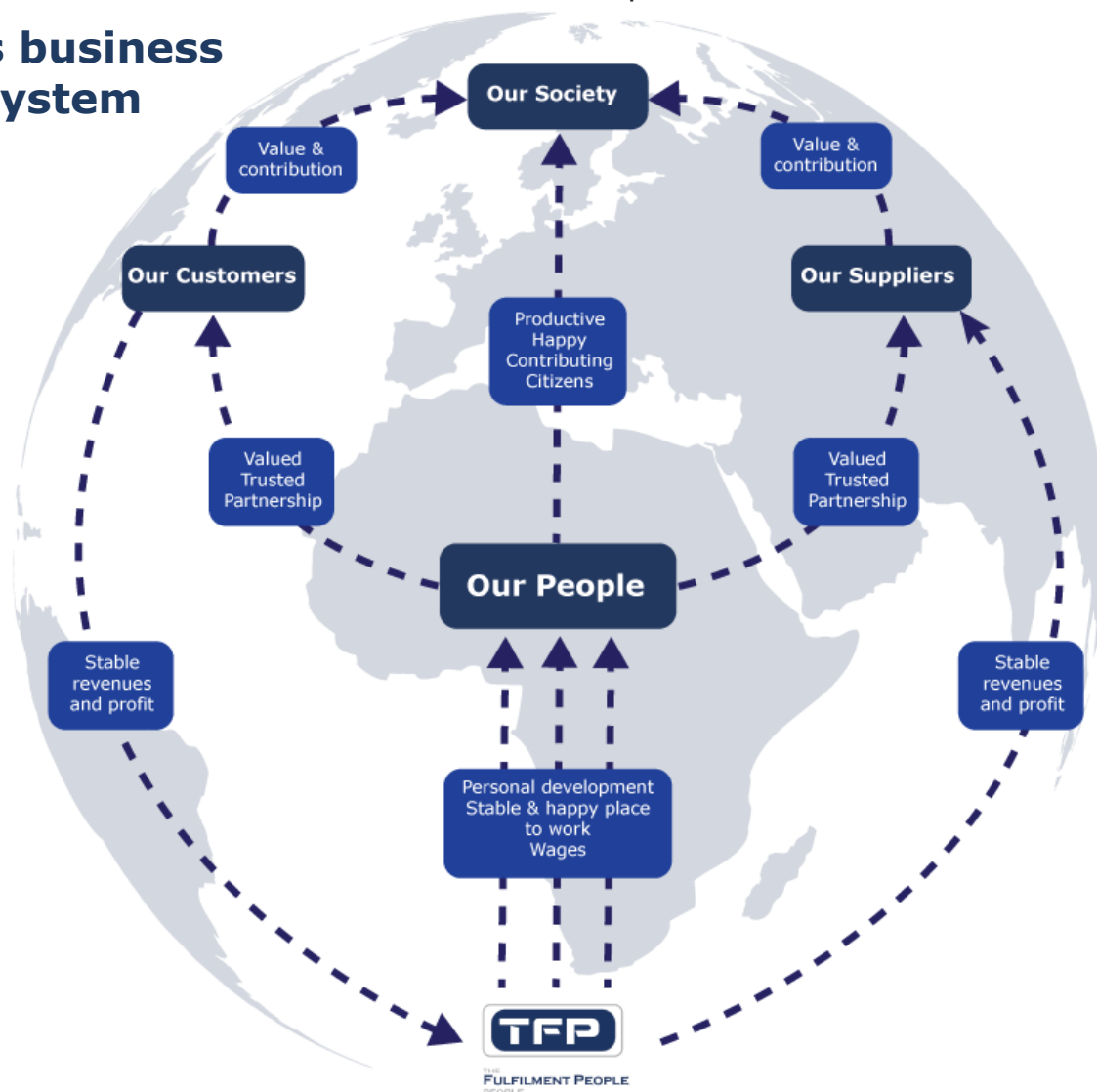
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much part of our business culture. This continual investment in people gives us three key benefits: firstly, our employees become more capable and skilled over time, secondly our employees tend to stick around far longer than the industry average and finally our employee engagement is far higher than for similar companies. When we employ people that have worked at other warehousing operations they are always surprised at how differently TFP treats its staff. This difference in how we treat our people is the "secret sauce" that allows us to deploy the "closeness to the customer" strategy. It's all about our people, hence, why we are The Fulfilment People.

None of this is easy. It takes time, commitment, resources and most off all strong leadership and total dedication to the strategy at the highest level. This is why Treacy and Wierseman titled their book "The Discipline of Market Leaders". For that is what is requires, discipline. This means being selective on customers, very selective on employees and having an unerring faith that investing in people will deliver a competitive edge over the long run.

The strategy can be very rewarding but if it's just fine words conjured up in a marketing department then the whole thing is an illusion and will crumble at the first hurdle. If, however, this strategy is implemented from the top, if it is brought into by every employee, if it is in the very DNA of the business then it can yield excellent results. This is how we choose to compete.

## TFP's business eco system



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