



10 ways to optimize split shipments

Reduce 'out of control' shipping costs and increase margins



Ship from Store is a good thing, right? It lets you make more stock available online. Say 'yes' to an order more often. Ship from a location closer to the customer so you can deliver faster. What's more, shorter distances mean lower delivery costs, don't they? Then why are your costs going up?

Out of control shipping costs

It turns out, you're splitting way too many orders with no checks and balances. No rules to ensure profitable delivery. Suddenly 'omnichannel fulfillment' got really expensive. If your split shipment rate hits 1.8, your average shipping costs per order almost doubles. Let's take a look at the math.

Number of Orders per year:	1,000,000
Average Shipping Costs per order:	\$5.00
Split Shipment Rate:	1.8
Total Shipping Costs:	\$9,000,000
Average shipping cost per order:	\$9 (almost double the \$5 before split shipments)

Eroding margins

Meanwhile, increased shipping costs eat into your margins.

Average margin on a single shipment

Average order value:	\$50
Average margin:	50%
Average margin amount:	\$25
Average shipping cost per order:	\$9
Average margin after shipping:	\$16 [\$25 - \$9]
Average margin after shipping (%):	32% (8% less than the 40% it would have been if shipping was only \$5 per order)



Ouch! What's more, if you ship from just 100 locations, for every split shipment there are 4,950 potential ways to fulfill each order ([see how that's calculated](#)). That's a lot! But it also means there are a lot of ways to optimize those splits.... if you have the right tools. However, many organizations don't. Why not? Because the problem crept up on them...slowly. Let's take a look at a typical journey.

An online selling journey

The early years of online selling

Number of fulfillment locations: 1

You start to sell online and ship from just one Distribution Center. Life is simple. An order comes in, it gets sent to the DC, and you ship it out.

The middle years

Number of fulfillment locations: 2-3

Online sales are growing. You now ship from two distribution centers, and a 3PL.

To route orders to the location closest to the customer, someone in IT, let's call him Jim, writes some code to sit between your online storefront and your ERP.

The growth years

Number of fulfillment locations: 3-5

Online sales are growing more. You add another 3PL and you now handle international shipments.

To route orders to the best location based on the country being shipped to, Jim writes some more custom code that sits between your online storefront and your ERP.

The store fulfillment years

Number of fulfillment locations: 100-1,000

To meet the demands of the omnichannel customer, you start using stores to fulfill online orders. At first you just do Buy Online Pickup In-Store (BOPIS), otherwise known as Click and Collect. But then you add Ship from Store.

To route orders to the closest location to the customer, Jim and his colleague Annie write even more custom code that sits between your online storefront and your ERP. Then they extend it so that a single order could be split into two shipments, both routed to the location closest to the customer. And they put in some logic so that an order had to be over a certain value to qualify for a split shipment. More code determines when you should use regional carriers instead of national carriers for each shipment. The list goes on.

But then.... Jim and Annie leave your company.



The Spaghetti Code Dilemma

It's a story as old as time... well... code at least. Someone writes something custom, they keep adding new features. But it's not documented. And no one else really knows how it works. In fact, they're afraid that if they touch it something might break. So they don't. Which is ok for a while, because only a small percentage of your business is online. Until...

Ecommerce exploded. Digital demand rose rapidly and suddenly you found yourself shipping more orders from stores than ever before. Which is great, except your split shipment rate increased from 1.2 to 1.8 which meant delivery costs skyrocketed. But why?

Stale inventory data and store capacity

The biggest culprits are the rate you're able to sync inventory data, only using simple safety stock controls, and not factoring store capacity for fulfilling online orders into your fulfillment logic. Let's break it down:

- **Rate of inventory data sync** - When ecommerce volumes are low, overnight batch updates and a single safety stock level across all items can be 'good enough'. But if you rely on overnight batches, then by mid afternoon your inventory data is many hours old. The more orders you ship from stores, the more problematic that becomes. This leads to higher order rejection rates and ultimately more split shipments.
- **Very simple inventory controls** - If you only set a single safety stock level across all items, or by fulfillment location, it can impact split shipments in two ways:



- **Safety stock level too low** - If your level is set too low for a fast moving SKU, you can end up routing an order to a location where it's not in stock, and it gets rejected. Initially you thought you could fulfill the order from a single location, but it turns out you can't.
- **Safety stock level too high** - If your safety stock level is set too high across all SKUs, to prevent overselling, it can inadvertently increase split shipments. Why? Because, you might actually have all items in an order in a single fulfillment location if they are lower velocity SKUs, but because of your high safety stock level, they're not available to the online channel.
- **Not factoring in store capacity** - When checking if all items are available from a single location, it's important to take into account how many open orders the store still needs to process. Otherwise, if the store gets overwhelmed, they'll start rejecting orders. This can result in more split shipments if all items aren't available in a single location elsewhere.

The result? A higher order rejection will cause your fill rate to drop. This means your logistics department won't be happy, and neither will your CFO.

So what's the solution? Let's look at 10 ways to optimize split shipments. **Three** focused on inventory availability management and **seven** on sourcing rules.



Optimized real-time inventory data



Better safety stock management



Intelligent order sourcing

Advanced inventory availability to reduce split shipments

The tool market leaders use to orchestrate orders is a distributed order management system (OMS). It sits between your commerce platform and other digital channels, and your backend systems (ERP, Point of Sale, Warehouse Management System (WMS), etc.) and it will help you reduce split shipments in three key ways.

- 1. Optimized real-time inventory data:** The first step in optimizing split shipments is getting your inventory data right. This means moving beyond slow overnight bulk batch updates, towards more frequent, highly optimized updates (particularly for high velocity SKUs), and ultimately real-time live event streaming.
- 2. Better safety stock management:** You also need to get more control over your safety stock. When you ship lots of orders from stores, it's important to factor in SKU velocity—both online and offline—at a specific location, and setting safety stock at the SKU location level. That way you'll maximize the opportunity to sell all your stock without overselling, and fulfill all items from a single location more often.
- 3. Intelligent order sourcing:** An OMS gives you more control over your order sourcing and orchestration. This means when calculating whether an order needs to be split, you can factor in other criteria. For example, store capacity criteria like 'maximum number of open orders' or 'total online orders'. The benefit? It will reduce the likelihood of an unexpected split, and help reduce your order rejection rate.



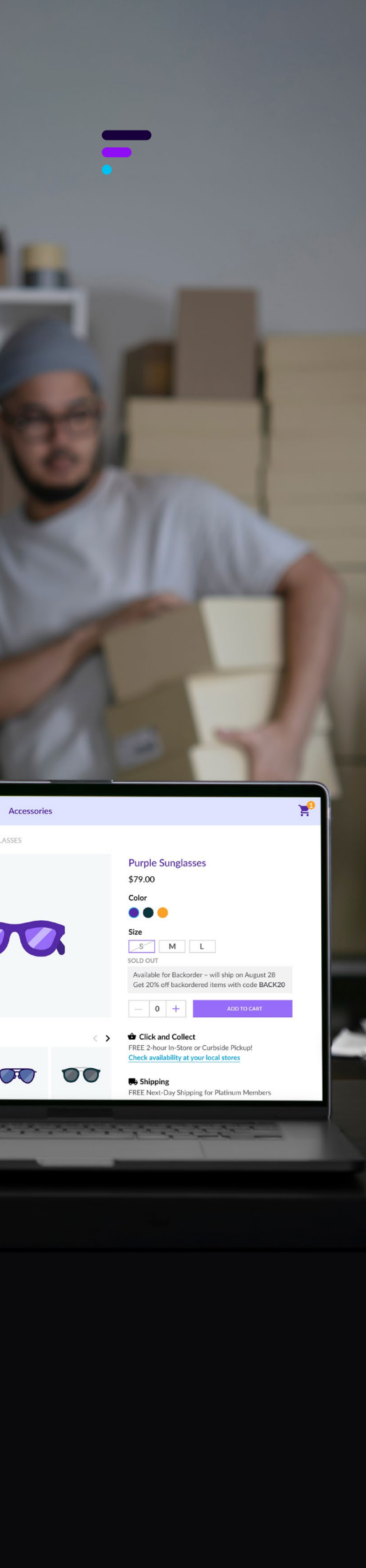
But while reducing split shipments is the ultimate goal, when you do have to split an order, it's important you optimize the way it's split so you can maximize margins.

Fulfillment optimization to increase margins

Earlier we mentioned that if you ship from just 100 locations, for every split shipment there are 4,950 potential ways to fulfill each order. Which is a lot! But it also means there's a big opportunity to extract the maximum margin from every order using sourcing rules.

This is where a flexible OMS shines. Not only will it provide 'out of the box' sourcing rules, but you can also create new ones to fit your business. Imagine how much value you could get from every order if you had control over which rules are used, and the priority of each, including:

- 4. Distance-based sourcing:** Source orders from the location closest to the customer, which can reduce shipping time and cost.
- 5. Inventory-based sourcing:** Sources orders from the store that has the inventory available to fulfill the order. This can help retailers move inventory and reduce stockouts.
- 6. Capacity-based sourcing:** Source orders from the store that has the labor capacity to fulfill the order. This helps you balance workload and avoid overburdening any one store.
- 7. SKU Velocity-based sourcing:** Sources orders from the store that has the highest likelihood of a markdown for that SKU.



8. **Priority-based sourcing:** Source orders based on their priority, with higher-priority orders being fulfilled by stores that have the best order processing times, or lowest order rejection rate.
9. **Cost-based sourcing:** Source orders based on the cost of fulfillment, taking into account the shipping costs, handling fees, and other costs associated with fulfilling the order from each store.
10. **Seasonality-based sourcing:** Source orders based on the seasonality of the product being ordered and from the store where the item will be 'out of season' the fastest.

Using sourcing rules like these, you can optimize your ship from store operations to improve fulfillment efficiency, reduce shipping costs, and enhance the customer experience.

Break free from the shackles of custom ERP code

Split shipments are inevitable. And the benefits—allowing for more stock available online, shipping faster to customers—are clear. But if you don't take the steps now to optimize your split shipments, your shipping costs will continue to increase while your margins decrease. If the custom code written on top of your ERP is holding you back, the time to act is now. A modern order management system, like **Fluent Order Management**, can help.

Imagine: you have accurate inventory data across all your systems and locations. Which means you could fine-tune your safety stock and use advance sourcing



rules to optimize split shipments. What would the positive impact be on your:

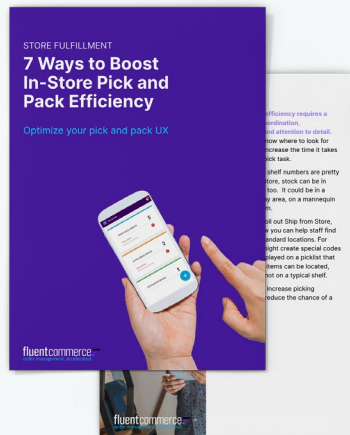
- Fill rate?
- Order rejection rate?
- Canceled order rate?
- Average shipping cost per order?
- Inventory turns?
- Inventory carrying costs?
- Overall margins?

And overall, how would that help close the gap between demand—orders received—and revenue? You don't have to imagine with Fluent Order Management, which will give you:

- Inventory data accuracy
- Full control over safety stock, and
- The ability to use advanced sourcing logic to optimize your split shipments.

A modern order management system will empower your business to both reduce costs and increase margins. What are you waiting for?

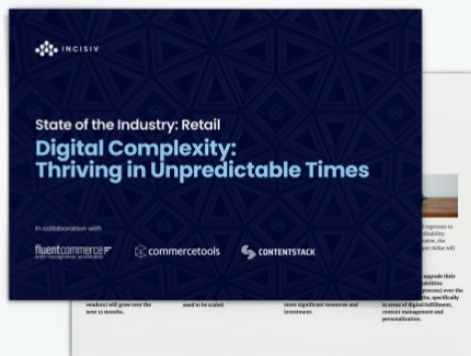
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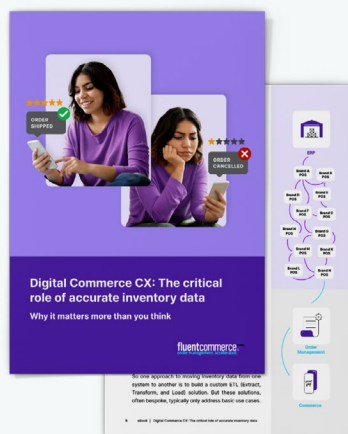
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Need to reduce your shipping costs and increase margins?

Yes, tell me how!

