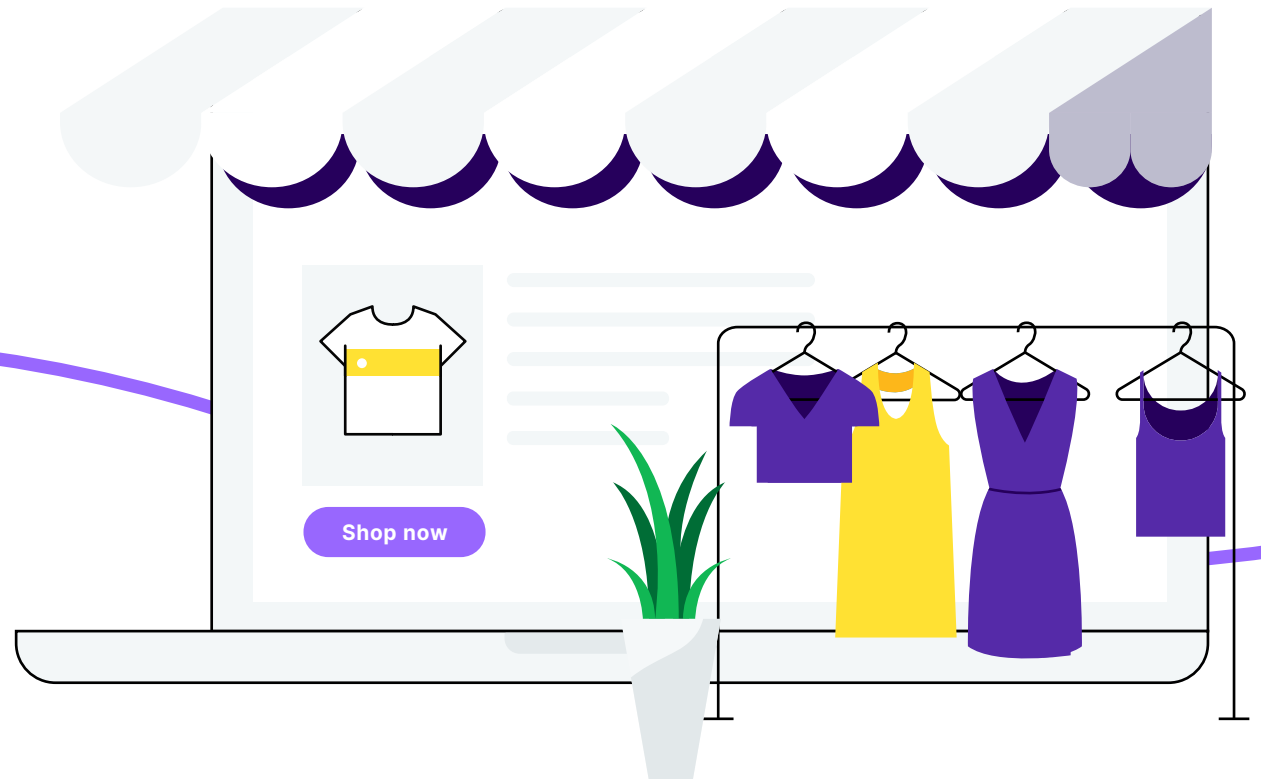


# Top 7 Retail Distribution Models, Explained



## You have products to sell. And customers that want to buy them.

But do you know the best ways to get your products to your customers—in a timely *and* cost-effective way?

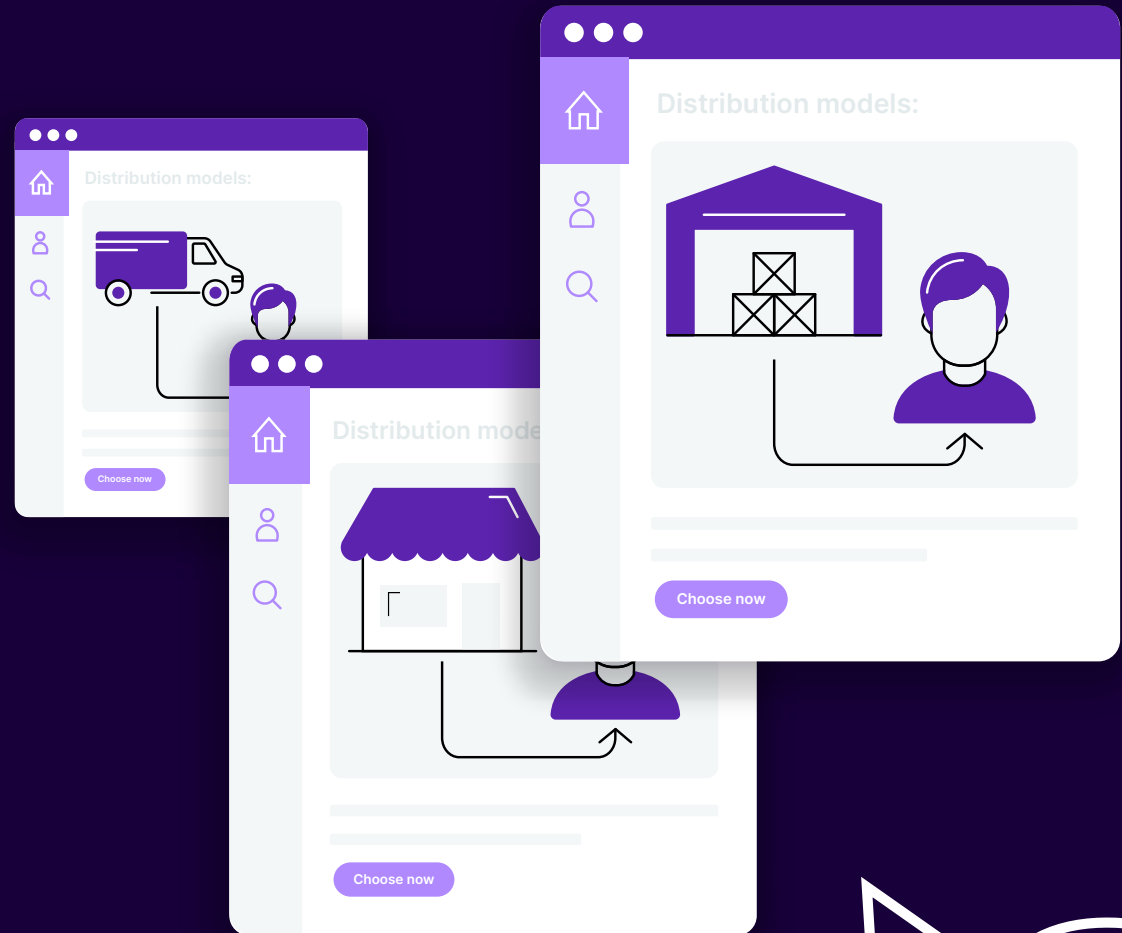
A distribution model is simply a way of getting the products you sell into the hands of customers that purchase them. There are many distribution strategies out there. But whether you sell luxury handbags, apparel, or even hardware, you need to determine what distribution models will work best for your business.

This can be a simple model or one that is more complex, depending on several factors.

### Getting from point A to B

Are your goods coming from Distribution Centers (DCs) or Drop Ship Vendors (DSVs)? Being shipped directly from your store? If so, which store? And does that store have staff dedicated to picking and packing?

Success is more than a good product, great



marketing or a well-designed website. The experience your customers have accounts for much more when it comes to brand loyalty. This includes shipping options and delivery speed. According to a **2021 survey conducted by Fluent Commerce, 70% of U.S. retailers and 63% of U.K. retailers** said that free delivery is an important factor when choosing one retailer over another.

And don't delay. Whether it is a home delivery order or one placed for pickup, consumers want their purchases by the promised date. In the same 2021 survey, **56% of U.S. and 41% of U.K. consumers** surveyed said that they are likely to not shop with a retailer in the future if their order is delayed. *Ouch.*

With so many distribution models, it can be difficult to choose the best one for your business and keep your promises to your customer. Let's explore the top 7 retail distribution models that you may want to consider.

## 01. Ship from a Distribution Center (DC)

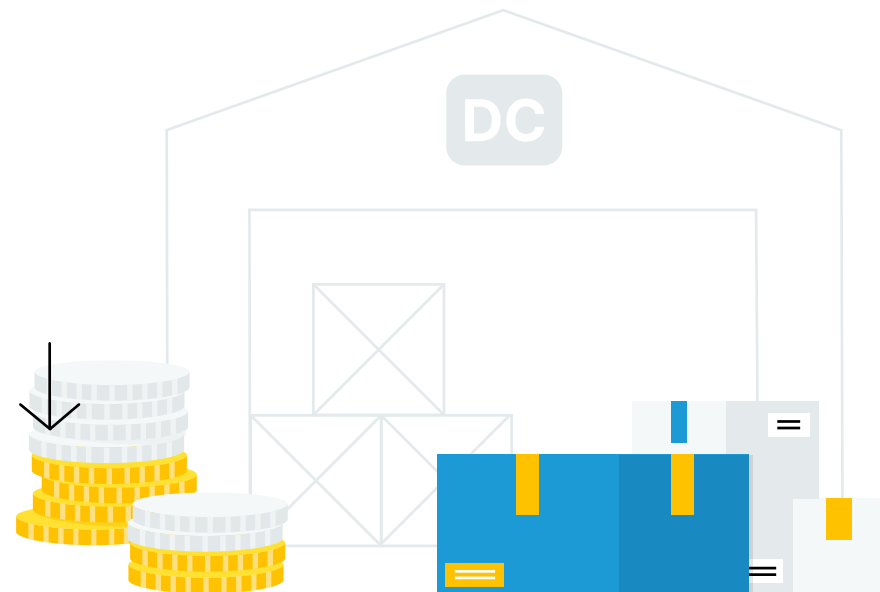
When you only have one distribution center, this is a quick and simple option to get goods out to your customers. With no need to decide on where to ship from, your DC can send out the goods and simply calculate the customer's delivery time based on their zip code.

Or you may have multiple distribution centers. In that case, you need to figure out where the

order will ship from, based on factors such as product availability, distance to the customer, and whether all items in the order are located in the same DC. If not, then you need to consider split shipments.

### Benefits of Shipping from a DC

When you ship from your DCs, you have several key advantages in your shipping strategy. The number 1 advantage? The depth of knowledge and optimization your team has built. But often



more importantly, you have the advantage of shipping in bulk. Options like zone-skipping, where you aggregate volume and inject your packages into 3PL networks closer to the customer, can save you significant money—but only at scale. Utilizing your sunk-cost, optimized warehousing processes makes sense for much of the year. However, you need to make sure you are right-sized in this area. Make sure you are not holding warehouse capacity for the majority of the year—that sits dormant—only for 1-2 weeks per year of high volume shipments.

### Busy seasons, solved

How do you burst-up during peak season? When you look at your fulfillment holistically, you can get an understanding of your entire network's capacity to ship orders. If you utilize your stores and your warehouses—yet still fall short during peak—what are your options? Seasonal facilities and pop-up DCs are a great option to ramp up capacity in the short term, while avoiding associated staffing and carrying costs. The catch? These rely on flexibility, which not all WMS solutions, or Order Management Systems can support. In order to achieve a dynamic

fulfillment network—one that can optimize cost and efficiency together—your solutions need to be able to spin-up as well.

### Flexibility and special orders

Another big benefit when you ship from DCs? The ability to fulfill different types of product sizes. Maybe you sell items that vary widely in size that need to be shipped from the same place but with different carriers. Or require very different types of packing materials. That's not easy to support from a store, but from a DC? No problem.

And how about those specialty orders? Think custom embroidery or engraving. Those require special machines that your stores likely don't have space for. But in your DC? It's easy to enable these value-added services when the order is fulfilled from a distribution center.

## 02. Store to Store Transfer

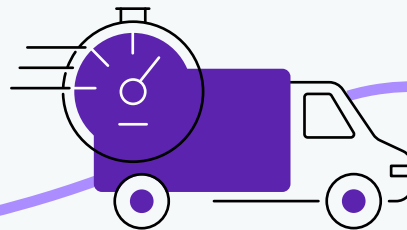
Shipping from a DC offers many benefits. But sometimes, it doesn't make sense and instead you need a Store to Store Transfer.

Let's say a customer places an online order for pickup. The store they want to pick the item up from is out of stock, but another store has it. Great! Instead of triggering a replenishment order from a nearby DC or warehouse, you can instead source the product from that other store to ship it to yours.

Or maybe you are out of stock on a hot product. But other stores in different regions have *too much* of this product in stock. Those stores can transfer the items to you, where they are being sold.

### Benefits of Store to Store Transfer

This is a great model to consider when you need to re-balance your inventory. By enabling stores



to get rid of slow moving product by transferring them to those that need it, you help maximize your sales. And the biggest benefit? Agility.

When stock keeps moving, you avoid stagnant inventory. And, this also helps you control what stock you offer in each store. Not every store can (or should) carry an assortment of every available item. By strategically placing your inventory across stores, and pulling from other locations as needed, you keep customers happy and profits up.

### 03. Ship from Store

Here's another scenario: your customer places an online order. It's available at a store close to them, or a distribution center located much further away. What's the best place to ship it from?

Ship from Store allows you to fulfill online orders directly from a physical store, by shipping those goods from the store to the customer. Why not ship from a DC? If it's too far away, shipping costs increase, as does delivery time. Ship from Store means the order gets to your customer—faster.

Faster delivery is great, but what other benefits are there with Ship from Store?

### Stock Rotation

When you Ship from Store, it allows for a better rotation of your available stock. You can serve nearby customers, but when you use a store (or stores) as fulfillment nodes in your network, you can increase profits. This is especially true at the end of a season when you may need to reduce prices on certain times.

### Reduced reliance on DCs

Utilizing store stock to fulfill orders helps reduce reliance on your DC / warehouse. This also means a smaller assortment needs to be available in your DC / warehouse—thus saving you costs on storage.

But be careful. Labor costs for picking and packing will be higher in a store. As an agile retailer, you need to balance the two to ensure you are taking advantage of Ship from Store where it makes sense. So how do you know which stores are the best to ship from?

## 04. Hub Stores

Enter hub stores. This is where balance comes into play. Your larger, more centrally located stores typically have the highest quantity of products. And have the storage for it. But keep in mind—if you have a hub store as one of your fulfillment nodes, this typically means you need to hire staff dedicated to picking and packing orders.

And just as not all of your stores would be considered a hub store, you also don't need to enable Ship from Store from every store. A select number of stores should be chosen as hub stores. Usually, these stores will



be in strategic geographic locations, and be big enough to store a larger quantity of inventory.

### Faster delivery, boosted sales

Using hub stores as part of your fulfillment strategy helps you get customers their orders faster, since they are typically located closer to customers than DCs. And when you are able to increase your sell through rate, not only can you boost sales but you can also reduce markdowns.

### Reduce out of stocks

And since hub stores are usually the largest, this means you can keep enough stock on hand to fulfill dozens—or even hundreds—of orders. When you use store stock to fulfill online orders, you can reduce out of stocks without the need to carry *more*.

### Pick strategy is important

Your hub stores will likely have dedicated staff for pick and pack needs. Make sure you optimize your pick strategy. What are some ways you can empower staff to pick and pack faster? Let staff pick orders by item, location or even by product category. That reduces travel time. Or, you can flag high priority items—maybe they are almost overdue or they are for your VIP customers—and staff can pick those first. With the right systems and platforms in place, the options are endless.

## 05. Regional Mini DCs

Sometimes it doesn't make sense to fulfill from a large distribution center. Maybe it's because it is not in a central location, which means longer longer shipping times—and thus more expensive. Enter mini DCs.

A 'mini' DC acts as your regional distribution center. Since it is located closer to your customer, they get their package faster. And shipping costs? Those are less costly thanks to the closer proximity to your customer. When an order comes in, it can



be easily routed to the closest mini DC based on your customer's zip code.

### Cater to specific regions

Mini DCs have many of the same benefits of a large DC. But keep in mind since they are smaller, they may have a limited assortment of products. But the products they carry? They'll be more appropriate for regional demand.

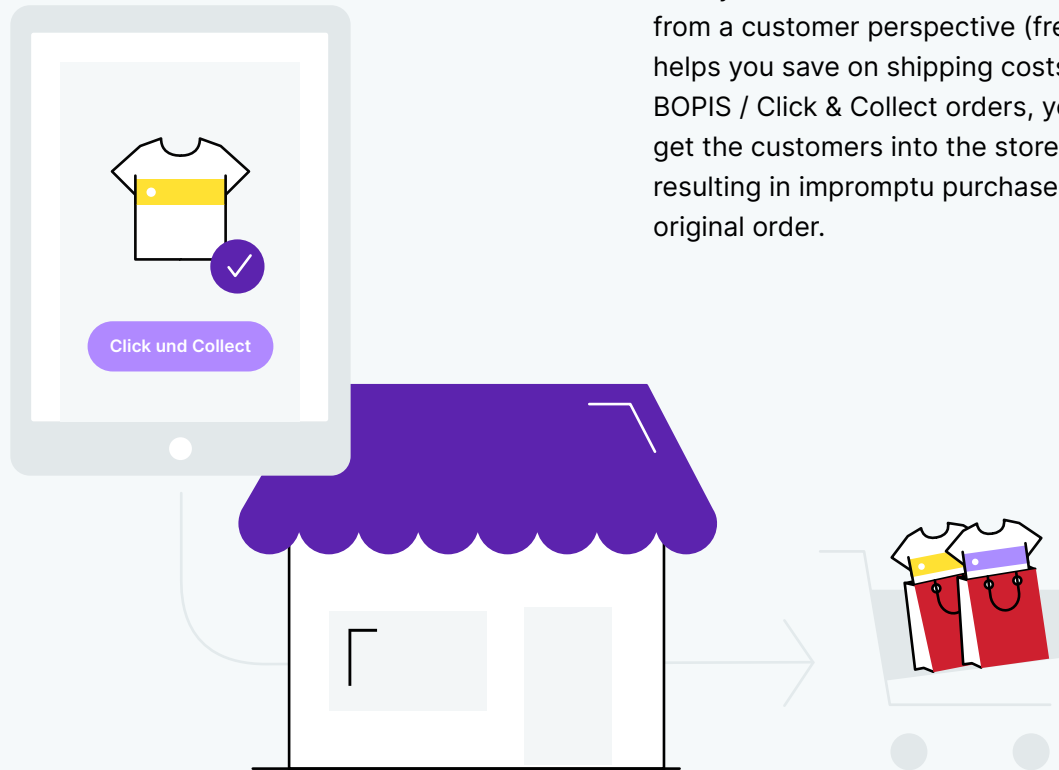
Take a clothing store for example. It's wintertime, and it's snowing up in the northern region. But the southern region is nice and warm and typically doesn't see any snow. Your mini DC up north can have winter coats in stock, while your southern mini DC may instead have bathing suits stocked up.

### Dark stores

Don't forget about the advantages of dark stores. Dark stores can act as mini DCs and expand your fulfillment network. A dark store is one of your retail locations that is not open for in-store shopping. Instead, they exclusively are used to fulfill online orders. Besides expanding where you can fulfill from, you can also increase delivery



capacity and decrease shipping costs. And, dark stores are not constrained by typical retail hours. Orders can be picked overnight, early morning, or whenever works best for your business. Even better? For stores open to the public, you protect the in-store shopping experience for your customers.



## 06. Ship to Store from DC

This distribution model is usually associated with curbside pickup and buy online pickup in store (BOPIS) / Click & Collect orders. When these orders come in, if an item is not in stock in the selected store, it will need to be shipped from your distribution center. It's cost-effective from a customer perspective (free pickup!) and helps you save on shipping costs. As a bonus, for BOPIS / Click & Collect orders, you are able to get the customers into the store, sometimes resulting in impromptu purchases outside of their original order.

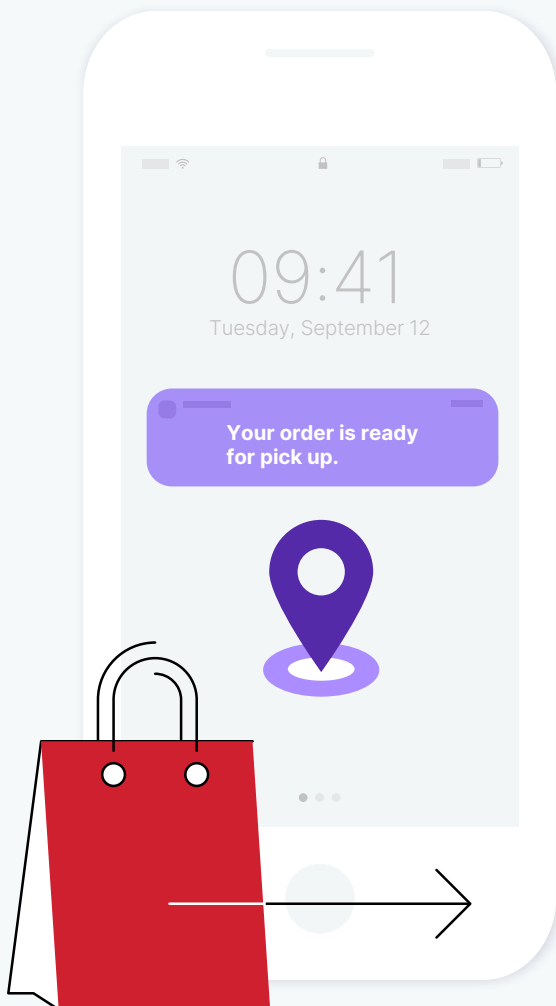
### Benefits of Mini DCs

Besides the cost-savings for customers, retailers will see some great benefits when it comes to this distribution model. Mainly, this comes from leveraging DC-to-store logistics. Your DC is already shipping items to your store for replenishment. So why not utilize the same transportation for these ecommerce orders? This will allow you to reduce costs and simplify the process.

### Keep your customers updated

Nothing is worse than an order in limbo. Consumers want to know where their order is, and when it will be ready for pickup. Make it easy





on your staff—have automation rules in place so your customers will be notified when their order is ready for pickup.

## 07. Drop Ship Vendors

Drop ship vendors, better known as DSVs, are great when you want to extend your range without the need to own—or store—more stock. This fulfillment method involves products being shipped directly from a third party seller, or even the manufacturer / wholesaler. This leaves the logistics to the DSV, and not you. Sounds pretty great, right? If you don't already work with DSVs (or, maybe you do!), make sure you ask **the right questions** as you evaluate all your options.

### Benefits of DSVs: Save space & test new products

Since products are stored with the DSV, this is a great way to offer your customers more products

without sacrificing space in your warehouse or DC. It's also a low-risk way to test new products. With DSVs, some financial models are 'purchase on demand', which means you only pay when your customer places an order. Thanks to this model, you can easily test new products without owning the cost up front.

### Don't forget about the customer experience

Your customers have likely come to expect a certain level of service from you. Do you always have accurate product information? Or do you offer multiple shipping options and timely order notifications? When you work with DSVs, much of this is out of your control. That is where a Service Level Agreement (SLA) comes into play. Having a well-defined SLA that includes any and all necessary details—from order processing speed to returns—will keep headaches at bay in the future.

## Summary

There are many distribution models out there. And you shouldn't stick to just one. You likely will need to employ a mix of these strategies to maximize both profits and consumer satisfaction. Remember, what works in one region, brand or channel may not work in another, and your current strategy is likely to shift in the future. You need to be agile.

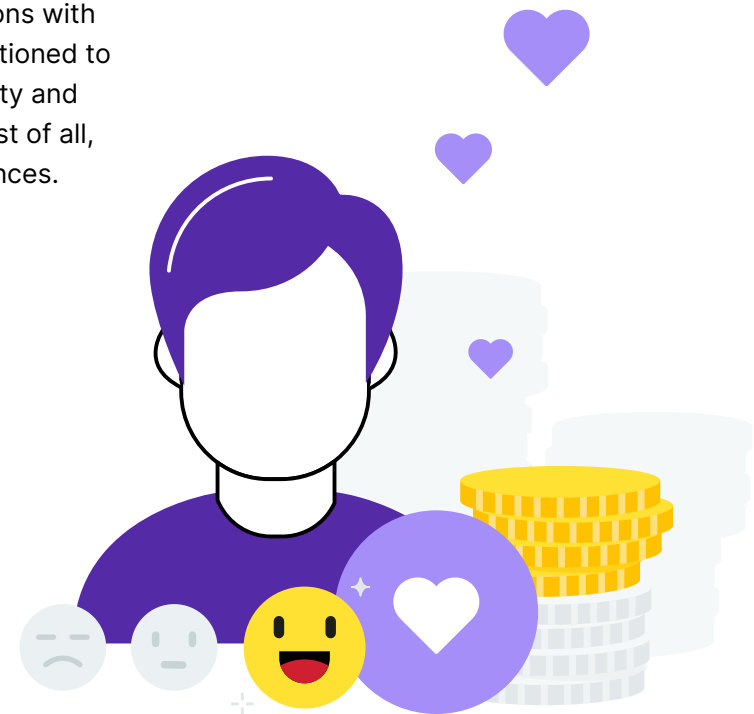
But all of these distribution models have one thing in common: you need the right tech stack in place in order to successfully execute them. Don't let legacy systems get in your way.

### Flexibility is key

Your distribution strategy and fulfillment needs will need to shift and change. But can you do so quickly? A flexible, agile Order Management System (OMS) will allow you to be fluid and adapt to both business and consumers demands—fast—in this ever-changing marketplace.

### Accurate stock is more important than ever

Do you have a near real-time, accurate view of your inventory? Make sure your OMS allows for a single view of inventory, especially if you sell in multiple regions, across multiple channels or divisions. If you want to be successful using these top 7 retail distribution models, this is a critical part of your success. With **Fluent Order Management**, you can do all of this—and more. And when coupled with **Pivotree**, OMS experts driving key implementations with Fluent Commerce, you will be well positioned to get control over all your stock availability and fulfillment operations—quickly. And best of all, you will create great customer experiences.





## About Fluent Commerce:

Fluent Commerce is the leading provider of a cloud-native distributed Order Management System. Designed to enable omnichannel order & inventory management at scale, Fluent Order Management is a fully managed, highly flexible platform that provides the efficiency and agility both businesses and customers' demand.

Learn more: [fluentcommerce.com](https://fluentcommerce.com)

## See it Action!

To learn more about how Fluent Order Management can support all your distribution needs, schedule a demo today.

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Pivotree is a leader in frictionless commerce. Designing, integrating and managing digital platforms in Commerce, Data Management and Supply Chain for over 250 major retail and branded manufacturers globally. Pivotree provides a combination of application support and managed hosting with digital strategy and software implementation services.

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