

UNIFIED COMMERCE

# Advanced Sourcing Strategies

Optimize your omnichannel fulfillment



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## Summary

# Introduction

Markets are changing more rapidly than ever. As a result, your sourcing strategies must adapt too. And quickly. Omnichannel fulfillment is no longer optional.

Click and Collect is standard (with curbside pick up the latest “must have”), and Ship from Store is catching on fast. In part, this is just the natural evolution of ecommerce. But it’s also being driven by the recent massive shifts in both consumer demand and distribution capacity. Regardless of the driver, the important question is: How do you adapt your sourcing strategies to match?

How do you move inventory that’s stuck in stores? How do you ship more orders when your Distribution Center capacity has been reduced? How will you meet peak season demand in the future?

## Store Fulfillment

Store fulfillment gives you a great

way to solve these challenges. But omnichannel fulfillment is not without its pitfalls. Most notably, downward pressure on margins.

## 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 maximize profits? Flexibility in your sourcing strategy is key.

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



# Sourcing Strategies

Here are some ways to approach omnichannel sourcing—some standard, some more advanced—and which fulfillment rules are used to support them.

# 01

## Prevent Out Of Stocks 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. But 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:

- **Source from the location with the most inventory**

Which is good. But it can be misleading. This might mean you're sourcing from a high throughput store that just received a replenishment order. So, you might want to balance that by with the rule:

- **Source from the location has the lowest sell through rate**

That way you'll keep more inventory in locations where it's more likely to sell, an increase revenue at stores with lower sell through rates.



# 02

## 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**

But if there is more than one nearby location that could process the order you may also want to factor in labor availability and consider:

- **Number of 'open' orders at the store that still need to be picked and packed.**

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 prioritize a:

- **3PL over your store network, or a**
- **Store over a DSV**



# 03

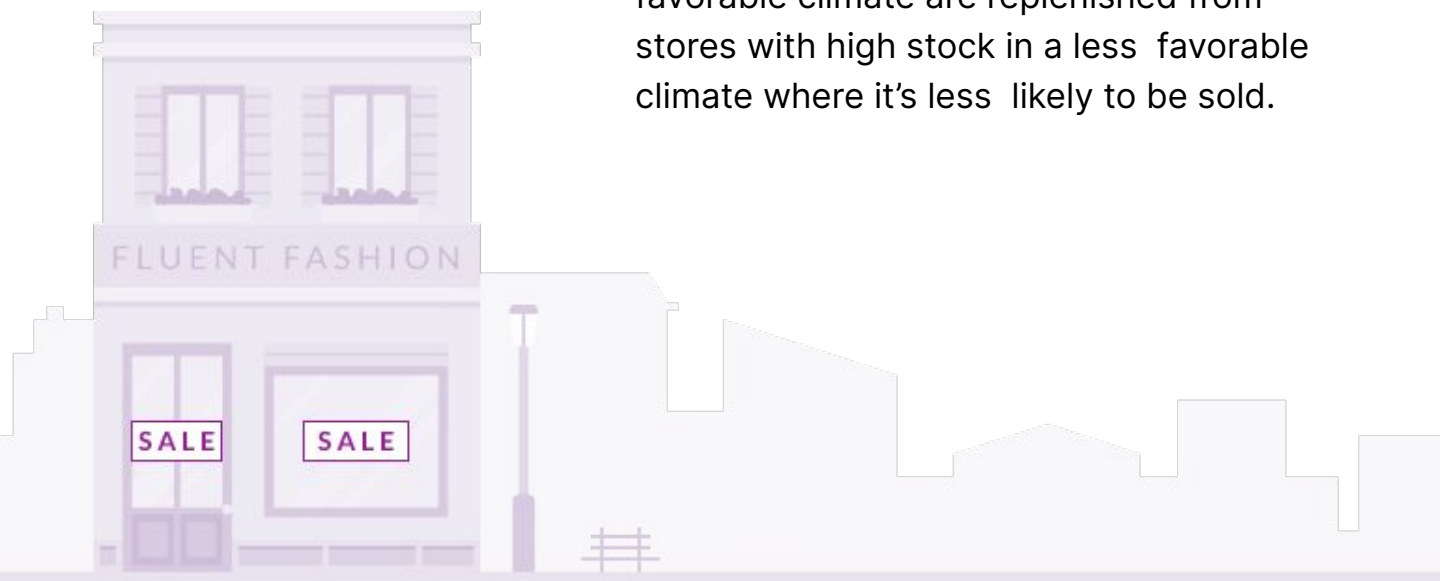
## Reduce Markdowns

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

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

And the priority of each will vary based on your business and potentially the inventory type (e.g., seasonal inventory) as well.

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 favorable climate are replenished from stores with high stock in a less favorable climate where it's less likely to be sold.



# 04

## Protect The In-Store Experience

Some organizations use their flagship stores as fulfillment 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 organizations choose to:

- **Set higher buffer levels for flagship stores**
- **Or source from non-flagship stores**

In addition, some organizations 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...



# Protect The In-Store Experience Continued



## Ideal Stock Level

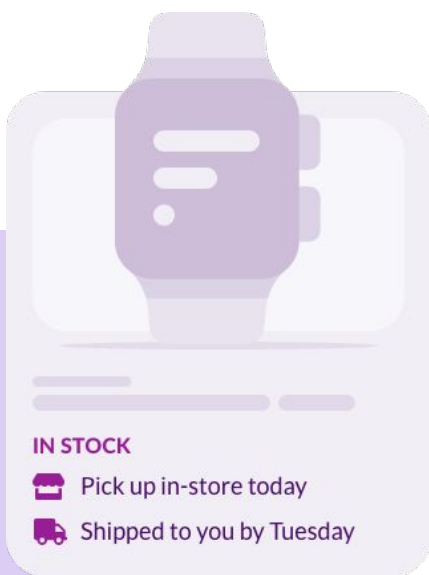
Say Store A and Store B both have a buffer stock level of 5 units for a particular item. If the quantity goes below 5 units they will be considered 'out of stock' for online orders. But their 'ideal stock quantities' might be different.

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. 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 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.

# Protect The In-Store Experience Continued



## 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 fulfillment type** (e.g., a maximum of 20 ship from store orders per day)
- **Prioritization 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 customer**
- **Number of orders waiting for pickup by carrier**

That way stores receive a manageable flow

## Protect The In-Store Experience Continued

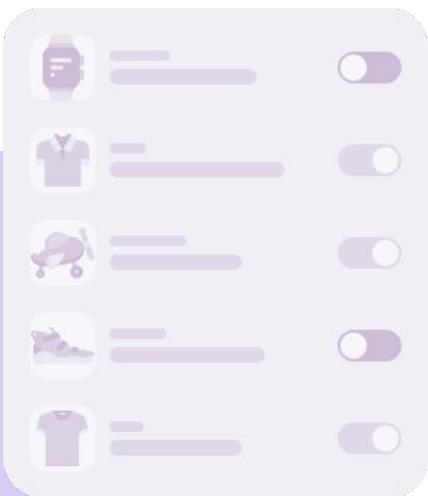
of orders, and staff still have time to service their in-store customers. However, it's also important that the prioritization of these rules can be changed quickly. For example, it is not uncommon during peak shopping season for a retailer to:

- **'Turn off' Ship from Store, or**
- **'Turn off' Click and Collect**

Disabling store fulfillment 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 maximizing 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 minimize returns) it's also important you have the ability to quickly:

- **Make a product unavailable, or**
- **Make a product category unavailable.**



# 05

## Maximize 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 as well. You may want to restrict availability of inventory to customers based on their loyalty status. This can be achieved in different ways.

### VIPs Only

Only VIP customers can order certain products online.

### 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.

### 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



# Maximize Revenue From High Value Customers Continued

upsell and cross sell to increase the value of the sale.

## Fast Track Fulfillment For VIPs

In addition, you may want to fast track the fulfillment 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)
- **Fulfill VIP orders from designated 'VIP service' stores**
- **Fulfill VIP orders from locations where expedited shipping is readily available**



# 06

## 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 fulfillment is more efficient you'll want to make sure 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



## Reduce Delivery Costs Continued

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:

- **Minimize 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 or bulky items, 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)
- **Source location and destination** (e.g., city, regional)



## Reduce Delivery Costs Continued

Sometimes, the most cost-effective delivery method may be to split an order, so a lightweight 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 minimize delivery costs. Recommended Items could also update dynamically if the customer chose a different size or color combination.



# 07

## Minimize 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 fulfillment essential. As a result some stores that are used as fulfillment 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 minimize labor inefficiencies. For example, you might prioritize 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 prioritize:

- **Order consolidation in DCs rather than stores.**



# 08

## 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, instead you might want to:

- **Ship from DC over store if a product has a certain attribute**



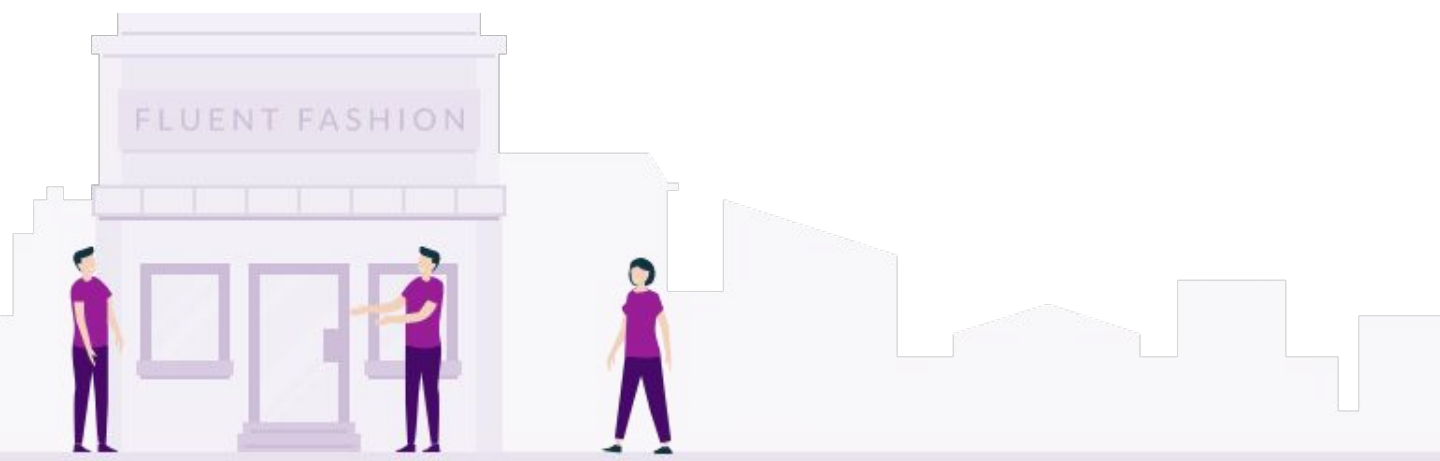
# 09

## 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 items**
- **High value items**

and offer them for in-store pickup or purchase only—where your sales staff will have more opportunities to cross sell/upsell the customer on additional merchandise.



# 10

## Ship From Stores With Thin Inventory

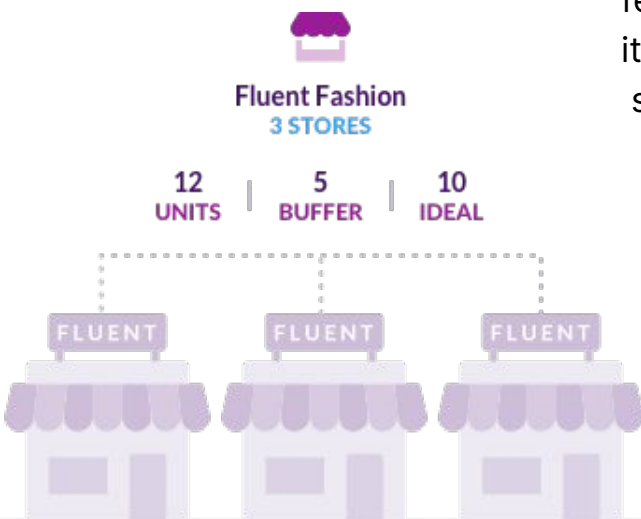
If you have thin inventory—meaning you carry only a small number of units of each item in any given store—Ship from Store can be a challenge. **How can you set a buffer or safety stock level of 2 units if you only carry 2 units per store?** That's where inventory pooling comes in. Rather than set a buffer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



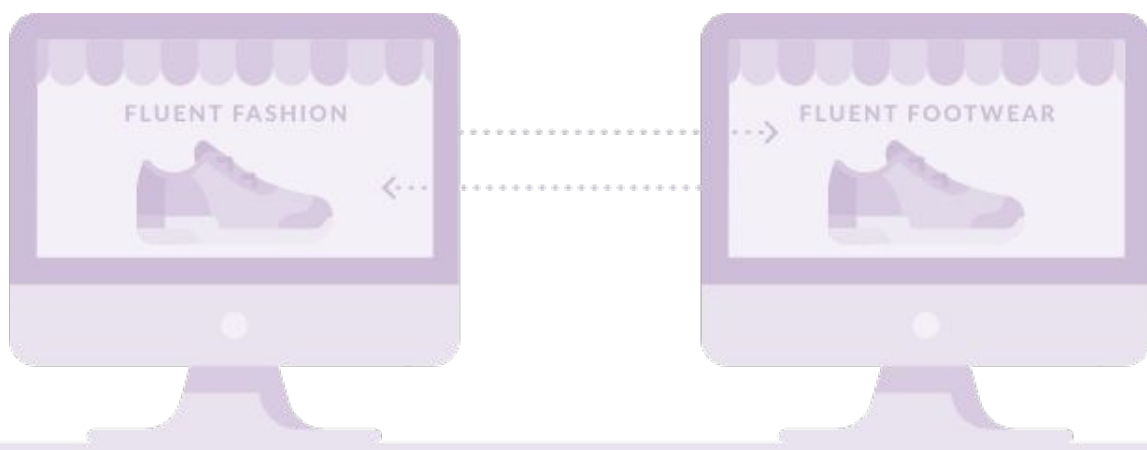
# 11

## 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 ecommerce storefronts.

Some online stores might have more popular products than others. But if all your storefronts can access the same product catalog 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 fulfill orders from another**



# 12

## Maximize Flexibility

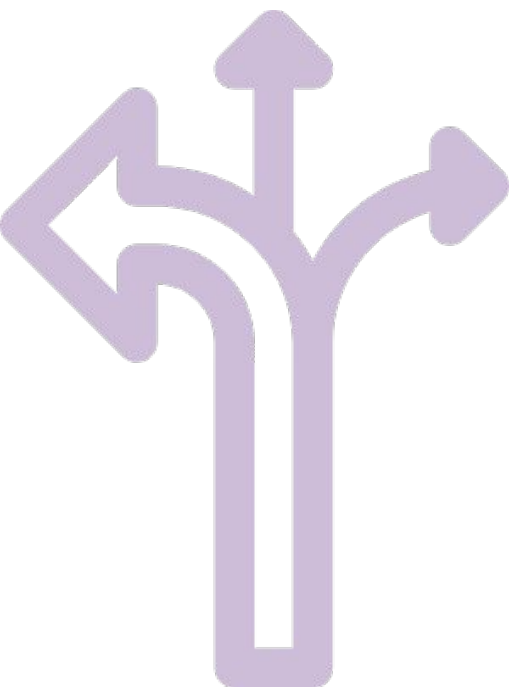
This strategy is a little bit different. It's not based on individual sourcing rules, but rather how you structure information.

Your data, such as inventory availability across locations and networks of locations, and the way your rules are organized, 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 can you:

- **Change a sourcing rule**
- **Change the prioritization 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 organizations 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.

# 13

## 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 customize sourcing rules and fulfillment 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.

HELLO HOLA ZDRAVSTVUYTE OL  
BONJOUR CIAO GUTEN TAG GODDAG  
GOEDENDAG YASSAS MERHABA  
SHALOM GOD DAG NAMASTENI

# 14

## Global Expansion Or Business Continuity Using Regional Fulfillment Hubs

This strategy involves setting up a fulfillment 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 fulfill 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 fulfillment hub approach are that it lets you test demand in a new market before setting up a distribution network.

Regional fulfillment hubs can also be used to ensure business continuity. If one hub



## Global Expansion Or Business Continuity Using Regional Fulfillment Hubs Continued

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 centralized processing**

This way you'll use the most efficient labor for processing customs forms for shipments across global borders.



# Summary

Every organization 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 omnichannel distribution requires a flexible system. One that allows you to tweak your sourcing rules easily. This is where Fluent Order Management shines.

## Fluent Order Management

Fluent Order Management is a distributed order management



## Summary Cont.

platform that seamlessly connects with your ecommerce platform. It's logical data structure and flexible fulfillment processes have been specifically designed to provide you with the flexibility you need to support advanced sourcing strategies.

It lets you organize your fulfillment and collection locations into networks. You can build fulfillment rules based on custom product, location or networks attributes, and prioritize those rules in a way that fits your business. What's more, you can fine tune those rules over time.

That way you can react quickly as consumer demand and preferences

change, provide a premium customer experience, and most importantly, maximize the margin on every order.



# Ready to advance your inventory strategy?

To learn how Fluent Order Management can help you optimize your sourcing and fulfillment, request a demo today.

**Get a Demo**

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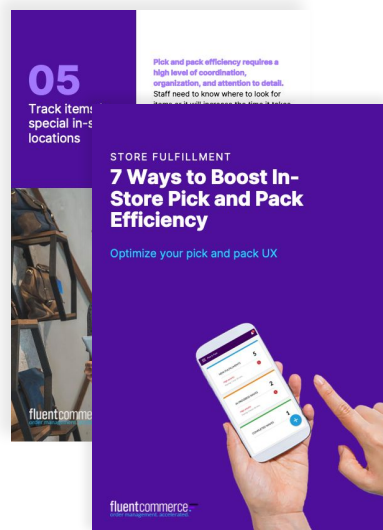
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## ABOUT Fluent Commerce

Fluent Commerce is a global software company focused on distributed order management for omnichannel retail. Fluent Order Management is a cloud native, fully managed and highly flexible platform. It includes the essential components for unified, headless commerce: Distributed order management, in-store pick and pack, inventory & location management, customer service, fulfillment optimization and reporting. This enables retailers and brands to enhance all their customer touchpoints whilst increasing their profit on every order.

For more information visit  
<https://fluentcommerce.com>

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