

## **Transformation in the fulfilment industry – a new benchmarking approach shows tactical thinking may be the key to success.**

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Providing outsourced e-business supply chain services is a dynamic, competitive business. A three year investigation focusing on benchmarking Australian and UK businesses provides insights into how competitive advantage can be gained in aggressive supply chain markets with a mainly tactical view.

The findings are surprising. Not only does a reactive approach provide competitive advantage, but it can change the industry it is working in. It's counter-intuitive, it's against general business teachings, but it's happening!

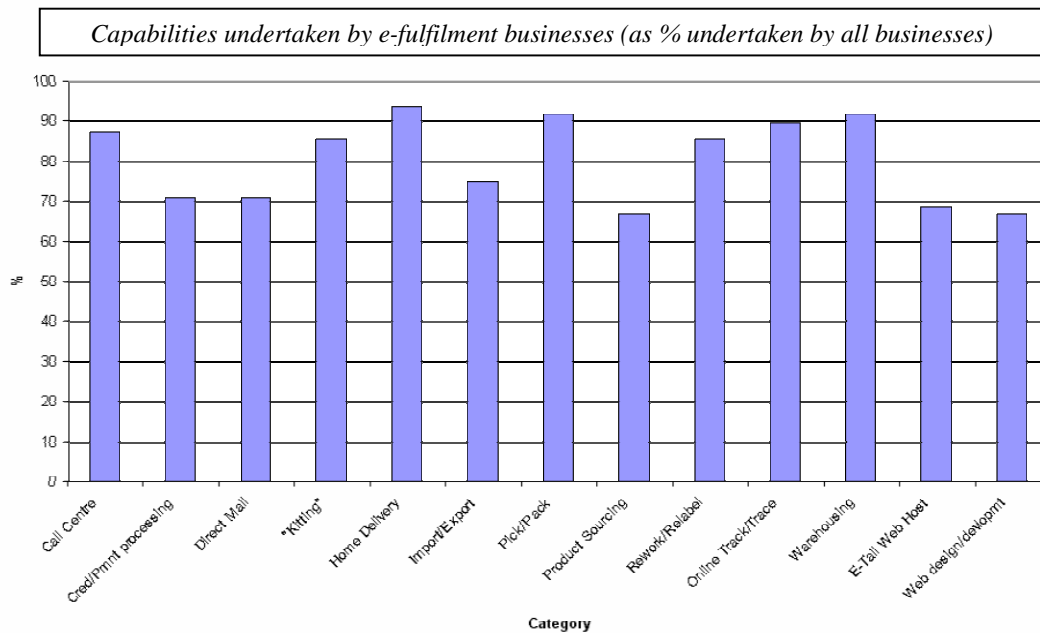
### **Some background to fulfilment in the e-economy**

Outsourced fulfilment providers (OFPs) are adept at meeting needs right across the value chain of client businesses. An OFP specialist may now have the capacity to provide infrastructure which includes managing raw material supplier relationships, warehousing, delivering finished goods to customers, accepting and managing payment plans, and even managing call centre sales campaigns. It appears they are limited only by their capability to undertake an operation, and that in turn is directly related to the fulfilment company's portfolio of capabilities, assets and skills, and the willingness of customers to buy those services.

The e-economy has also created a huge new group of willing customers, online retailers, who are very amenable to outsourcing relationships. In servicing these needs OFPs have seen that direct sales opportunities can be gained by leveraging and modifying existing capabilities and developing new ones. In so doing these businesses have developed distinct characteristics prompting the term "e-fulfilment providers" to describe them.

Ironically, or is it simply to be expected, as the e-economy dominates and online opportunities become the norm, e-fulfilment has also become more and more mainstream, and it is now valid to ask whether traditional fulfilment will exist at all in the near future. In describing themselves many online-focussed e-fulfilment businesses have dropped the "e" as recognition that e-fulfilment is now becoming "the" fulfilment. For this reason, the terms OFP and e-fulfilment provider are used interchangeably here.

It is evident that viable OFPs may be best defined by their *capabilities*. At present there are 13 of them that represent the majority of OFP services offered (see below) and include web design, consulting and other services not previously associated with supply chain.



However, these capabilities are not static. They are transforming, morphing, built on the back of existing skills and assets. This transformation is not indefinite, and there is strong evidence of a standard set of capabilities emerging to replace traditional capabilities offered by the logistics and transport industries from which most of these organisations are derived. Organisations are reducing the number and variability of the capabilities they offer, specialising in a smaller portfolio of capabilities proven to be more successful in the OFP’s particular market space.

As an industry the data shows a state change, a metamorphosis from an “old” state to a “new” one, which carries with it an inevitable conclusion; traditional fulfilment will become obsolete as all those traditional providers develop capabilities to meet the reality of the e-economy.

### **Revenue transactions, and the emergence of hunters and farmers**

The findings also show OFPs clearly fall into two categories based on the number of core capabilities they possess. General operators (GOs) have many, and often almost all 13 core capabilities, while specialist operators (SOs) have less than 6, and often just a few. GOs appear to operate across the whole market, aiming to attract revenue based on their ability to provide a wide range, and potentially a complete outsource solution, of a potential e-business client’s fulfilment needs. They achieve this revenue through direct sales, tenders and other general “revenue transactions”.

SOs possess fewer capabilities because they focus on a group of dominant customers they rely on for the bulk of their revenue. Such relationships are tightly bound and the OFP must bring maximum efficiency and alignment to the outsource solution for such customers. While there are less revenue transactions in this group, each one is over a longer term and is more significant to the OFP.

While GOs are intent on creating a unique selling proposition to assist them in their “hunter” roles, SOs, being more “farmers”, with significant existing customer relationships they wish to

nurture, are more focused on adapting and making their capabilities more effective for their customers.

When it comes to planning, OFPs have long term development (strategic) plans, but they more often operate on a tactical level which drives creation of many of the capabilities they offer. For many, particularly the GOs, speed, flexibility and responsiveness of innovation and expansion of their portfolio of capabilities are critical factors in competition.

It is arguable that these tactical sales responses are a major, perhaps *the* major, driver underlying transformation of capabilities.

Inevitably, as the GO hunters successfully acquire valuable clients as outsource partners (or market niches), they fill their existing capacity with services to these organisations. They therefore make a transition to farmers, and to SOs. Without further dramatic innovative changes in the future, the industry can be expected to move more to an SO focus, and the approach to efficiency over innovation implied.

### **OFPs are transforming their customers**

OFPs also impact the nature of their customers! They provide a means for e-businesses to achieve rapid maturity of their supply chains. By supplying a large range of capabilities in a tightly outsourced environment, even new e-businesses can benefit from the already-mature portfolio offered by the OFPs.

This intimate connection between e-fulfilment providers and e-businesses, and it works both ways, must be a fundamental shaper of the outsourced supply chain market for e-commerce, with OFPs allowing e-businesses to concentrate on a narrow core set of (non-supply chain) capabilities, while still allowing it to offer sophisticated services at a high level of maturity. OFPs for their part have used this value to customers to become pervasive outsourcers with loyal customer bases and tight integration, and to achieve the growth and stability benefits that result.

Thanks in significant part to OFPs, e-businesses are on a fast track to maturity. And because of the e-business' desire to create instant maturity in their supply chain, OFPs have a dynamic and growing market where innovation can be rewarded with sales. In such an environment it is definitely natural, and arguably appropriate, that OFPs have a highly tactical view of their businesses. In other words, there is likely to be an interaction between OFPs and their customers; the former developing new capabilities to meet the needs of the latter, and the latter developing its capabilities significantly faster because of the former.

### **How e-fulfilment companies evolve to prepare for the future**

How in particular are these capabilities transforming? Because businesses generally operate in a rational manner transformations are clearly not random but a considered response to market and other forces, and constrained by other factors.

The study points to a coordinated approach by OFPs in which their management teams respond to immediate business opportunities and leverage their business capabilities accordingly.

The way OFPs respond to revenue transactions drives decisions which are important as tactical revenue responses, with each event an important catalyst for response by the e-fulfilment provider. Such transactions generate action events in which the OFP must decide the value and nature of the response.

Prior to a revenue-creating transaction opportunity an e-fulfilment provider has an inventory of capabilities from which it will draw resources, assets and skills that will enhance its prospects of

making a sale. Thus it will aim to derive new capabilities from existing ones if it is beneficial (profitable) to do so.

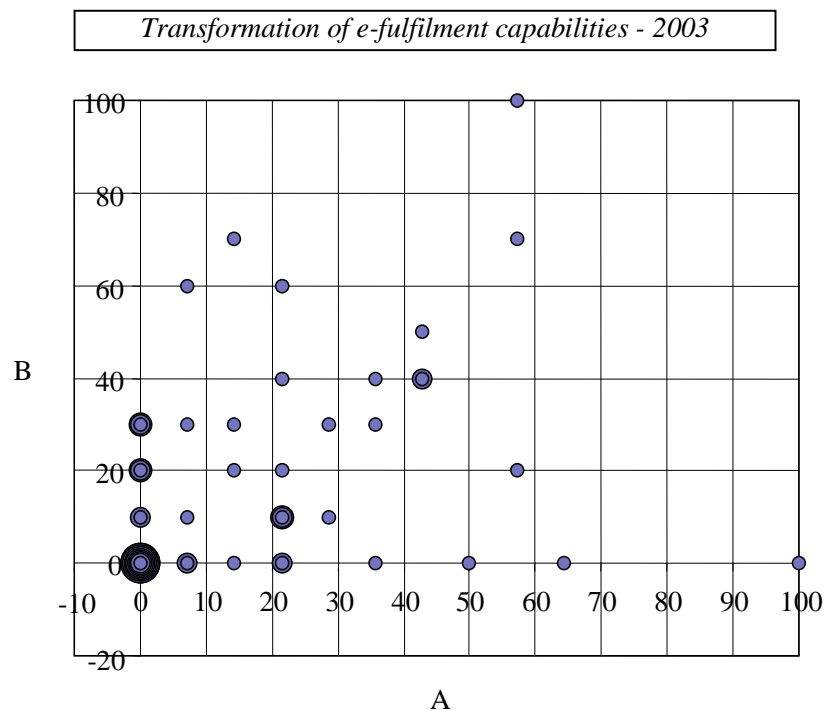
Over a number of revenue transactions an OFP's overall inventory of capabilities will evolve. New capabilities will appear while less viable ones will be flushed out and their assets re-used elsewhere. In an open market place where competition is aggressive, although this will result in differentiation of each business, it will also likely lead to businesses developing capabilities inventories that have a family resemblance.

### **Benchmarking transformation, and implications for success**

Transformation is how an OFP responds to future opportunities, and how transaction by transaction, it gains competitive advantage. Measuring it and comparing it with the competition is clearly a valuable priority.

An index developed as part of this research can achieve this. Using simple questionnaires and measures it is possible to compare how much an OFP has transformed its capabilities from those of traditional fulfilment service providers. This is done across 2 measures; customer-facing capabilities (the A dimension) and supplier-facing capabilities (the B dimension). A value of 0 indicates the business is operating totally traditionally, while a value of 100 indicates it is operating at a massive level of transformation.

The figure below shows how this looks for a specific year for all companies in the research sample. Each company is a single dot, and large dots indicate multiple companies on a particular point.



OFPs, in placing themselves in the “transformation space” using this benchmark should not be concerned about the absolute values of their transformation indices, but more importantly, whether they are appropriate for their business operation. Are they farmers where capabilities are meshed to dominant customers’ needs, or hunters, where they must compete for new customers? In particular, especially for hunters, what are their direct competitors’ indices?

### **The way ahead**

So it can be seen that transformations in e-fulfilment points to a new approach to outsourced supply chain provision. Capabilities are the key, and the vehicle for gaining and maintaining competitive advantage.

Transforming each capability to assist in the tactical activities of hunting for new customers or farming existing ones provides a successful strategy in the dynamic e-business environment where technology and innovation provide new capabilities to beat the competition.

Depending on how an OFP is positioned within the market, its degree of transformation is an important early indicator of its potential to outperform its competitors. Paradoxically, this tactical responsiveness shows signs of finding a new equilibrium as e-businesses mature. Even previously avid hunters, having captured customers using innovative solutions, by consolidating and improving their products to ensure their relationships with customers are cemented and deliver best-practice solutions, become farmers.

Innovation will likely continue and provide fertile opportunities to create new capabilities by leveraging existing traditional ones, but there is also evidence that this pace will relax. Those new capabilities will become absorbed into the business, and a new portfolio of capabilities will emerge as the norm. The focus will then move to improving efficiency, and more long term plans to drive acquisition, consolidations and capital projects.

The short innovation window for tactical benefit will close and it is important that companies be well placed for competitive advantage when it does.