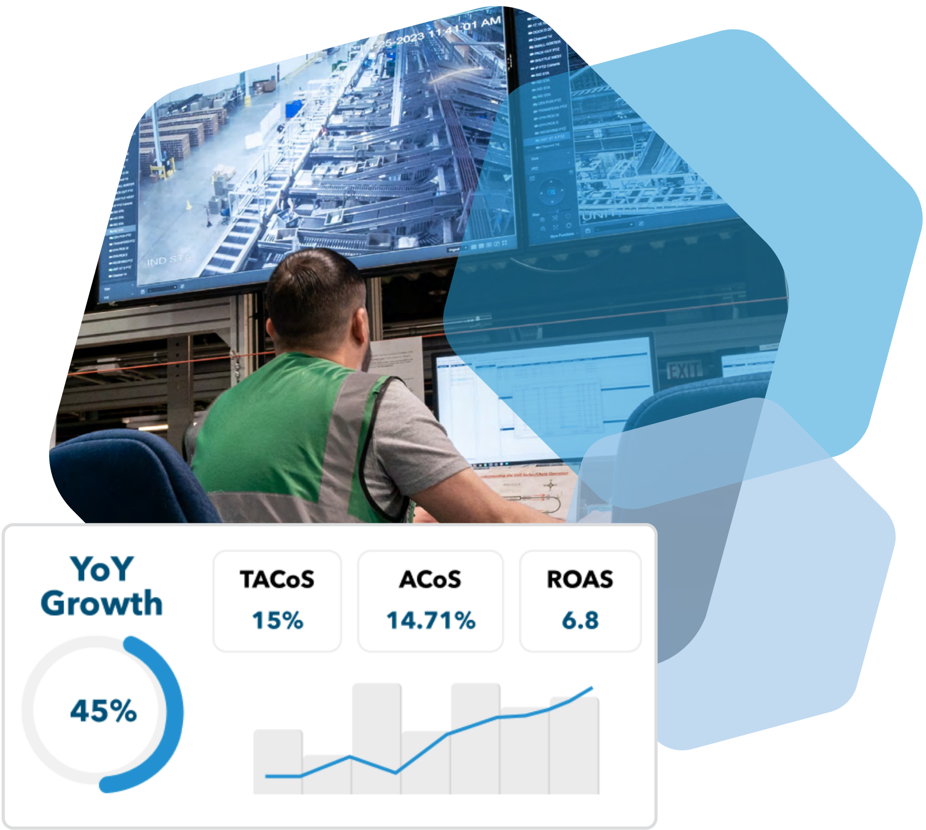
WHITE PAPER

Streamlining commerce operations with a dedicated fulfillment site takeover



Unified Commerce. Delivered.

Streamlining commerce operations with a dedicated fulfillment site takeover

As recently as a few decades ago, the services performed by 3PLs of today functioned autonomously: Retailers handling shipments were responsible for overseeing their logistics and supply chain operations. Today, many brands continue to take control over their operations for many reasons, the most notable being the ability to control the customer experience and maximize brand profitability.

The dramatic rise in ecommerce, accelerated by the pandemic, triggered significant disruptions in the supply chain causing more merchants to seek greater control over their product distribution channels. The effects were far-reaching as retailers battled challenges with inventory supply and demand, rising costs, jammed ports and inflation while consumer demand called for reduced shipping costs, quicker delivery times and an enhanced customer experience.

As brands scrambled to address these bottlenecks with a self-serve fulfillment solution, they saw their profits evaporate. Throughout this transformation, mounting in-house fulfillment burdens hampered scalability and damaged brand loyalty, driving the need for solutions to help businesses brace for the supply disruptions that more than doubled from 2019 to 2021. Retailers have since responded with innovative fulfillment and logistics restructuring, exploring solutions like micro fulfillment centers, BOPIS (buy online pickup in-store), domestic manufacturing and dedicated warehouses for self-fulfillment. While many of these supply chain solutions are still utilized today to help diversify and facilitate faster and smoother post-purchase operations, dedicated fulfillment has become a bigger challenge; rising real estate pressure and decreased customer demand have damaged profitability. Moreover, the traditional 3PL model has adapted and evolved to tackle supply chain issues, implementing the tools, services and technology to provide a dedicated fulfillment offering without the traditional risks.

Dedicated fulfillment comes at a cost

While dedicated fulfillment offers benefits – primarily complete control over post-purchase operations – it often comes at a high cost. Brands become overinvested, draining resources, and pulling focus from core operations. This can lead to financial pressures, unmet forecasts and reduced business, leaving merchants with too much exposure and unused assets. Variable labor needs also pose issues. In an already unstable labor market, brands can earn a poor reputation mismanaging fulfillment employees.

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The Challenge:

Identifying and optimizing fulfillment needs

Prominent brands in the retail industry were convinced that by investing in and managing their own supply chains they would be able to better streamline costs and expedite product delivery to meet customer expectations. They also felt they could create a stable supply chain, futureproofing against disruptions.

Self-fulfillment leads to lease, labor and tech challenges

Self-fulfillment can lead to various challenges, including issues with lease, labor, technology and compliance. Managing the end-to-end fulfillment process requires the ability to seamlessly navigate the industry's complexities and periods of turbulence in the retail marketplace. Additionally, brands must be prepared to handle high and sustained return volumes, inventory management, shipping costs fluctuations, labor shortages, changing regulations and more.

For some brands, the challenges of self-fulfillment begin to outweigh the benefits and projected value of having direct oversight and the ability to leverage brand-building opportunities. Even if elements of self-fulfillment were working, overall, operations could potentially be more flexible.

Lease challenges

Self-fulfillment means absorbing the costs of the lease itself in addition to daily operations. When empty space or no more need for a full warehouse occurs, it becomes a significant liability. The effect on a business's books and financial statements can deter investors, hindering the ability to gain access to other investment needs, capital and more. This financial bottleneck has far-reaching implications, weighing heavily on business decisions and strategies and slowing or barring growth.

Managing a warehouse involves a variety of fixed costs; the cost of leasing or renting the building, insurance, utilities, property taxes, equipment, security, etc. Even a minuscule 12,000 square foot micro fulfillment center can carry expenses of at least $5 million, and that is before fixed costs come into play.

The liability of a lease can drive brands to seek more flexible arrangements and fulfillment solutions.

Managing the end-to-end fulfillment process requires the ability to seamlessly navigate the industry's complexities and periods of turbulence in the retail marketplace.

Labor challenges

Recruiting and keeping qualified fulfillment workers is a leading industry challenge. In a 2023 survey, 57% of supply chain executives stated hiring and retaining qualified workers was the year's greatest challenge and 56% struggled with ongoing talent shortages. According to an analysis by of the U.S. Chamber of Commerce, "Even if every unemployed person with experience in the durable goods manufacturing industry were employed, the industry would fill only around 75% of the vacant jobs," the report states.

Labor management in fulfillment is challenging. It takes significant time and resources. Brands can affect their entire annual budget if something goes wrong. For example, if they over hire and do not adjust quickly. Other difficulties include:

- **Labor is variable in fulfillment:** Scheduling labor is based on changing needs. For instance, in the retail industry, the peak periods for sales in November and December and the high number of returns post-holiday in January require more labor, oftentimes temporary.
- **Labor shortages:** Finding skilled workers across all points of the supply-chain continuum is difficult, creating gaps. It affects all areas, from picking orders to delivery. Although technology can fill some of those gaps, it cannot account for all. The industry must apply human skills development strategies.
- **High turnover:** Fulfillment centers experience high turnover. In response, more resources are used to train new employees and work to build a culture that inspires retention.

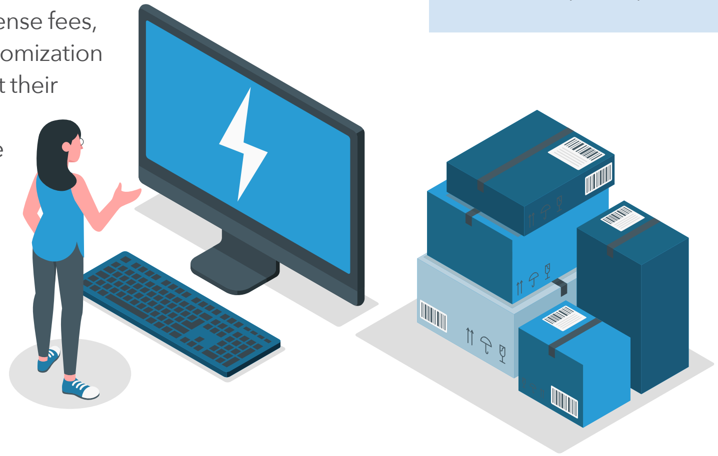
Coupled with an already stressed supply chain, the high cost of labor and ongoing talent demand incurs serious issues for retailers and distributors. It is a detriment to the fulfillment process; and to the merchants and their ability to manufacture, move and deliver products.

Technology challenges

Investment in technology is critical to ongoing fulfillment center operations. Today's fulfillment tech stacks not only help fill labor gaps but are vital for business visibility and obtaining real-time, accurate data that drives operational and inventory decision-making.

Maintaining and building out tech requires ample investment of resources, and it must feature integrations, which are the connective tissues between the OMS (order management system), WMS (warehouse management system) and TMS (transportation management system) and business software, ensuring that brands gain a comprehensive view into their entire operation.

Failure to invest creates inventory and logistical challenges. Technology limitations also lead to operational issues, which impacts the fulfillment process, ultimately leading to customer dissatisfaction. Cost is often the primary challenge. A WMS alone requires paying for initial setup, yearly upgrades, license fees, maintenance fees and customization fees if a business builds out their own system. However, brands also fail to compete when they lack modern technology, automations and features that streamline.



Compliance challenges

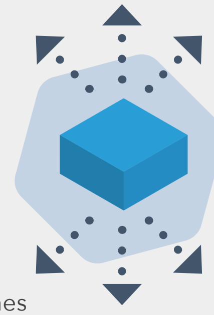
Businesses must navigate a dynamic landscape of supply chain compliance more than at any time in history. To manage compliance requirements effectively, brands need access to the information, and the knowledge and ability to interpret it. Additionally, it is essential to maintain awareness of upcoming and rapidly emerging requirements.

Fulfillment centers must remain compliant for safety and stay apprised of environmental regulations, data security, trade rules and many product integrity requirements, all while meeting stakeholder expectations.

The need for a flexible solution

Businesses that invested in dedicated fulfillment sites find themselves severely affected or limited by one or more of these challenges. They seek an effective, flexible solution to address their lease, labor, technology or the entire fulfillment site.

A dedicated site fulfillment takeover



A **"dedicated fulfillment site takeover"** refers to a strategic business initiative in which a 3PL assumes control and management of a specific retailer's distribution site(s). The 3PL can take over the entire fulfillment process or some of it; including labor management, order processing, inventory management, packing and shipping, within their designated facility. The 3PL can also take on the liability for the facility including the building lease, Material Handling Equipment (MHE), and other fixed assets. This approach streamlines and optimizes their supply chain and enhances operational efficiencies, all while reducing fixed overhead to maximize brand profitability. Technology is another large potential takeover, replacing existing WMS/OMS with the 3PL's. There is material level of investment required to build out and/or purchase software to support a robust and scalable omnichannel OMS and WMS, thus ongoing upgrades, and maintenance. Partnership with a provider who can provide the tech solution allows brands to reallocate time and capital to other growth tactics.

Finding a solution in Cart.com

Businesses driven to work with Cart.com saved costs, reduced risk and experienced revenue growth. Takeovers are flexible, allowing organizations to shift liability in one or more key areas: Lease, labor, technology. They also gained Cart.com's expertise, helping them make decisions, improve strategies and increase cost savings.

Save on costs

Financial liability is a key driver for a dedicated fulfillment site takeover. With Cart.com's help, brands:

- **Improve processes:** Utilize Cart.com's knowledge and expertise and bring in innovative technology and automation.
- **Leverage purchasing power and procurement:** Bring in new MHE purchasing power and procurement, providing a better opportunity than direct.
- **Gain lease flexibility:** Fill unused space to reduce occupancy costs.
- **Improve labor management:** Optimize full-time to temp associate ratios. Establish a balanced leadership team.
- **Leverage transportation management services:** Utilize Cart.com's relationships to build strong partnerships and secure savings.

Reduce risk

Whether financial or operational risk, a dedicated site fulfillment takeover insulates brands, and:

- **Guarantees a transactional rate structure:** A fixed rate for each transaction or unit shipped, regardless of order volume fluctuations, offering predictability in fulfillment costs, making budgeting easier.
- **Reduces capital investment:** You do not have to directly fund future.
- **Improves cash flow:** Get liabilities off books (i.e., moving leases, selling, etc.).
- **Frees up management time:** Shift focus back to core competencies, creating peace of mind.
- **Maintains existing relationships:** For example, Cart.com can keep core team, maintaining brand loyalty and closeness with brand and people.
- **Gets assets off books:** Makes businesses more attractive to investors.

Grow revenue

By working with Cart.com, brands obtain:

- **Consistency:** In delivery and processes.
- **Scalability:** The ability to scale easily.
- **Improved customer experience:** Cart.com helps to improve on existing service.
- **Inventory management:** Order accuracy, delivery time and expertise managing challenges, including peak seasons.
- **New products and services:** Providing access to products and services such as value-added, monogramming, labeling, sewing, tailor pack outs, customized packouts and VIP shipments.

Cart.com's expert team helps brands assess the total cost of ownership and create strategies to optimize the takeover experience.

Benefits of a dedicated fulfillment site takeover

Cart.com has a process to ensure that the right people from the right side are involved at the right time in a dedicated fulfillment site takeover. It is an efficient process: It involves financial diligence, tech MHE automation, real estate and labor review, assessing value assets and proposals. It is detailed, and the process can be done in 30-60 days.

Site takeovers: PacSun and JP Outfitters

Recently, Cart.com has taken over warehouse management for two retail operation facilities in Ohio. Originally, one brand came to Cart.com with the desire for specific 3PL services, never even considering a warehouse takeover as an option. What the brands discovered, however, was the huge value in handing over the reins to an experienced 3PL provider.

PACSUN

PacSun site takeover

PacSun, a California-based specialty retailer, approached Cart.com for fulfillment services. The brand was running its own fulfillment operation out of Groveport, Ohio, and shared the warehouse with another popular retailer. However, the second retailer was planning to leave, resulting in 60% of unused space in PacSun's warehouse.

After discussions with Cart.com about the value of a dedicated fulfillment site takeover, PacSun decided to transition management of its Groveport fulfillment facility to Cart.com. The 2 million square foot automated facility, which includes advanced sortation and over 25 miles of conveyance as well as dynamic storage solutions, is the 14th warehouse in Cart.com's nationwide network of omnichannel fulfillment centers. Cart.com is also supporting nationwide fulfillment for the brand.

PacSun's site takeover experience included transitioning all employees over to Cart.com. The timeline was aggressive and occurred right before peak. Cart.com's people team swiftly took action, coming onsite and transitioning all employees, beating the 20-day window by completing almost everything within 14 days.

Rich O'Keeffe, Groveport's Senior Director of Operations, spoke about the experience. "Cart.com's team was amazing. We had daily meetings and full engagement throughout the process." Cart.com offered full visibility and made sure the PacSun team was fully included and participating. "Cart.com gave us max flexibility," O'Keeffe said.

"We are pleased to partner with **Cart.com** and believe its scale, proprietary technologies and operational expertise will enhance our efficiency and increase customer satisfaction."

Russell Bowers
Chief Operating Officer and Chief Financial Officer of PacSun

The J. Peterman Company®

JP Outfitters site takeover

Apparel company JP Outfitters approached Cart.com with the desire for 3PL solutions. The brand looked to optimize warehouse operations but was concerned about potential disruptions and quality issues that often come with switching to inexperienced 3PL providers.

Cart.com proposed a warehouse takeover, giving JP Outfitters the ability to scale without having to scale their own warehouse facility at the same time. With state-of-the-art technology that easily integrates with the brand's existing tech stack, JP Outfitters could relax knowing that they could proceed with fulfillment operations without disruption.

Arnold Cohen, CEO of JP Outfitters explains, "Cart.com came up with a creative solution that gives us the flexibility to grow our business without having to worry about scaling our owned facility ourselves. The company's strong operating culture, expertise and state-of-the-art technology make Cart.com the right partner for us."

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Arnold Cohen
CEO of JP Outfitters

The benefits

Cart.com's approach to dedicate fulfillment site takeovers provides multiple benefits for businesses. Each experience is curated to the brand, creating an experience that meets their needs. Moving forward with Cart.com as a partner provides:

Scalability

A multi-node network and flexible labor makes scaling fulfillment operations simple.

Flexibility

Cart.com tailors each takeover, starting with a deep dive assessment. Cart.com can take over one or all areas and identify where there are opportunities. Insights include operations, productivity, management structure and technology.

Communication & Expertise

Cart.com brings its expertise and communicates throughout the entire process. It is collaborative: creating a symbiotic relationship. Cart.com is invested in brands, their teams and their success.

Technological advancement

Cart.com offers proprietary software, integrations and helps brands leverage modern advancements that increase visibility, boost productivity and drive key business decisions. Migration is done without disruption.

In conclusion

A dedicated fulfillment site takeover gives brands flexibility, and the ability to focus on new initiatives and products, running core competencies and letting experts with decades of experience run fulfillment operations seamlessly. With successful site takeovers completed, Cart.com monitors and celebrates their ongoing success. During 2023's peak season, PacSun's newly transitioned team felt Cart.com's ongoing support.

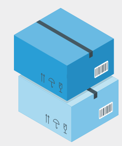
2023 BFCM Recap

118% 

shipped order performance vs. plan

3x 

average increase in shipped units during peak season

55% 

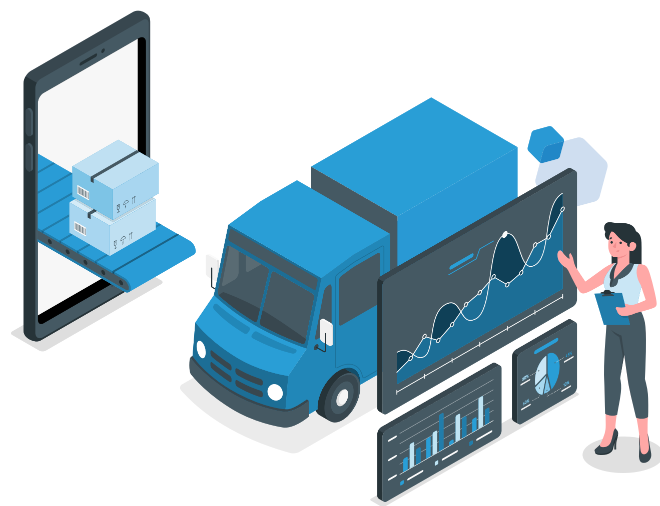
increase in shipped orders YoY

A true win-win relationship

Cart's takeovers exemplify its dedication to continuously making investments that streamline supply chain operations. These facilities are an integral addition to Cart.com's already robust nationwide network, now boasting a total of **7.5 million square feet** across **14 locations** throughout the United States. As Cart.com continually grows and adapts to the dynamic logistics landscape, retailers who choose Cart.com as their 3PL can be confident in the positive impact of these expanded locations and enhanced fulfillment capabilities.

The expansion goes beyond a physical presence, underscoring Cart.com's unwavering commitment to delivering unmatched logistics services that seamlessly align with the ever-changing demands of the market. Brands seeking sustained growth and an optimized fulfillment journey that pleases all stakeholders should strongly consider all options, including a dedicated fulfillment site takeover.

If you want more information about a dedicated fulfillment site takeover, our Cart.com fulfillment specialists are standing by to help. Contact us today.



Cart.com is the leading provider of comprehensive omnichannel commerce and logistics solutions that enable B2C and B2B companies to sell and fulfill anywhere their customers are. The company's enterprise-grade software, services and logistics infrastructure, including its own network of fulfillment and distribution centers, are used by some of the world's most beloved brands and most complex companies to unify commerce operations across channels and drive more efficient growth.