

Out of the Garage

Are you ready to step up to a third party logistics service?

by Tom Welch

John and Kyle had been running mousedriver.com out of their modest apartment for some time. They remember well the day they decided to outsource their warehousing and order fulfillment needs. “We had just received our largest shipment of mousedrivers,” said CEO John Lusk, referring to their computer mouse that was in the shape of a golf club driver head. “We had 25,000 of them. They were stacked in the living room, in the kitchen, even in our bedrooms. Our girlfriends were scared they would be smothered by falling boxes.” When orders would come in, they would clear off the dining room table and start packing and taping. “I think it was constantly carrying boxes down the stairs that finally made us think, there has to be a better way.” “Yeah,” said Kyle, “that and being on a first name basis with the UPS driver. We worried when someone else showed up one week. We thought he might be sick or something.”

That’s when they decided to do what many other ecommerce entrepreneurs have done, outsource it.

Over the last few years, a new and exciting industry has developed that takes the headache out of the back operations for the web retailer. Whether called third party logistics, a fulfillment house or outsourced warehousing and distribution, the result is the same, a more efficient and less expensive option for an internet merchant.

The third party logistics provider receives the merchandise at its warehouse, then stores it on one of its many pallet racks alongside many other products. When an internet site receives an order, it forwards it on to the fulfillment house along with all the shipping information. A person known as a “picker” in the trade, then locates the item in the warehouse and takes it to the packing station where it is packed into the box. A shipping label is attached and it is sent on to the customer by common carrier (usually UPS or USPS) usually that same day. An email notification is sent to both the customer and the merchant where both can track the shipment online using the tracking number provided in the email.

Kent Steffes of Pick Pack Logistics (www.pickpacklogistics.com) runs a third party logistics company in Los Angeles. “Our goal is to provide a seamless experience for both the internet merchant and the customer. Usually the customer doesn’t know we exist, and that is the way we like it.” Also, the cost saving can be enormous for an internet retailer. Says Steffes, “We can almost always save the merchant money. If you are spending more than two hours a day fulfilling your orders, outsourcing is the best option. We want to free you up to do the things that are most important to you, like advertising and marketing your products.”

And the savings can add up. Logistics company's buy packing supplies, such as boxes, tape, peanuts and the like in bulk, thus assuring the lowest possible prices. And since they service many accounts, their labor costs are more efficient.

So what does it cost for this service? The typical fulfillment house has four basic charges. First there is a basic monthly fee for the service that is a flat amount per month. Secondly there is a warehousing fee or a cost to store your product in the warehouse. Costs are based on the amount of space your product takes up and are usually priced by the size of a pallet or 4 feet by 4 feet of space. The third charge is what is called a pick and pack fee, charged on a per shipment basis. For example a typical charge would be \$1.75 per shipment and \$.25 per item "picked". If you ship 500 items per month you would pay \$1,000 for the warehouse to pick, pack and ship to the customer. The fourth charge is a per hour labor charge, usually from \$25 to \$35 per hour, and is charged for any work, such as assembly, kiting, or bagging that you want the warehouse to perform.

But watch out! Some houses try to nickel and dime a merchant by including other hidden charges. "We have seen everything," says Steffes, "Receiving fees, order entry fees, excessive return fees. Some houses even try to make money by marking up the prices they charge for boxes. If your not careful, they can really add up."

Most experts in the field believe you choose a provider with a clear and upfront pricing system. "Everything should be laid out up front," says Karen Williams, a third party logistics consultant. "You should expect to pay a little more than the standard price if you have special fulfillment needs, but for most merchants, the fees should be easily understandable and straightforward."

John and Kyle look back on those early days with a smile. "There is something about living in a sea of cardboard that lights the entrepreneur in me up," says John. Those days are over, John and Kyle have moved on to other products. They even have an office and employees. Do they miss the smell of tape and packing peanuts? "We wouldn't trade the experience for anything," says Kyle. "Then again we wouldn't trade choosing to outsource either." And as for their favorite UPS driver, "He was great. We always invite him whenever we have a company celebration."