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Why Publishers Outsource

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As a publisher and as a business leader, you have to be able to delegate certain tasks in order to keep your perspective and generate ideas to grow the business. This is true even if you run a small publishing house. However, when you don't have the talent in-house, the question becomes, should you hire or should you outsource? Many publishers, large and small, are finding great benefits to outsourcing fulfillment services.

There are six primary reasons to outsource order fulfillment services:

1. Organizationally Driven Reasons

By focusing on what they do best, a publishing house can enhance the overall effectiveness of the organization. Typically, publishers are great at developing content and managing the editorial process. Managing fulfillment services seems to be a secondary thought, and not many publishers can claim to be experts at warehousing.

The real questions to ask are:

- *Do you really want to be an expert warehousing company or a great publisher?*
- *Which skill sets will make you a successful publisher?*

As you develop the book publishing services, it will be necessary to increase flexibility in order to meet the ever-changing business environment. The retail book trade is continuously asking for books to be handled in a different manner so the retailer can increase sales or make their operations more efficient.

By outsourcing the order fulfillment, transforming the organization becomes achievable. Many publishers who focus on warehouse fulfillment are operationally driven. But, when order fulfillment is outsourced, the publisher can redirect their focus from operations to sales. Many of these publishers find that being sales and marketing driven results in greater success and adds to their bottom line.

Outsourcing book fulfillment is an excellent method for improving customer service offerings, increasing customer satisfaction and shareholder value. When a publisher can deal with an expert in the warehousing industry, such as Ware-Pak, it will improve the customer's satisfaction with the organization.

2. Improvement Driven Reasons

Here are the major questions to consider:

- *As a publisher, how do you improve your operational performance?*
- *Do you have a warehousing industry viewpoint for operational expectations?*
- *Do you regularly send people for warehousing efficiency training?*
- *Is the organization more interested in developing great content or in fulfillment service excellence?*

By outsourcing fulfillment services, you can obtain expertise, skills and technologies that your company does not already have. Many publishers do not have the volume of activity to recruit top talent inside the warehouse. When capital budgets are limited, it is often difficult to determine where to spend your technology dollars. You may need to sacrifice the ability to invest in a state of the art warehouse management system.



Within an organization, different divisions often compete for limited resources and management time. This can decrease the amount of time your organization has to dedicate to offering best in class warehousing services. Another challenge publishers may face due to limited resources is whether or not to hire a key executive to manage the warehouse because there is uncertainty of whether or not those salary dollars could have a higher impact on the business if they were allocated differently.

Outsourcing fulfillment services can improve risk management for the company. Part of risk management is diversification. When your warehouse facility is in a different location, you are decreasing your risk for fire and other acts of God. You are also increasing other factors, such as pools for selection of employees and access to the market.

Outsourcing can also help inspire innovative ideas. It can help you find answers to tough questions: Does your organization continually improve its warehousing function? Is your mission to be the best warehousing company available? Do your managers wake up in the middle of the night thinking about how they can improve your warehouse?

A relationship with a superior third party fulfillment service partner, will improve your credibility and your image. We all want the ability to do business with successful partners. When you associate yourself with an industry leader, such as Ware-Pak, you are positioning your company as a quality business.

3. Financially Driven Reasons

Outsourcing fulfillment services allows you to reduce your investments in assets such as buildings and equipment, which will help free up those dollars for other purposes. It often helps to stop and think about whether you are better off with a building or with the development of additional titles for sale; whether

you want to make your money selling books or as a landlord. Another important question to consider is: Are you charging your warehouse market rates or is your publishing division carrying the expense of the warehouse?

Let's be honest, the publishing industry is in a state of rapid change. Most publishers have suffered during this economic downturn and many have lost as much as 30% of their revenue. Publishers who have their own warehouse have found how difficult it can be to reduce the expenses of owning and running a fulfillment center.

The single largest cost for a fulfillment operation is the cost of the facility and the second highest is the labor costs of running the warehouse. When your business is down 30%, you simply cannot cut the rent by that amount, and in many cases, it is nearly impossible to reduce the costs of labor. Many of the publishers I have spoken with tell me it is necessary to outsource because it allows them to change their fixed cost of warehousing into a variable cost. By outsourcing the fulfillment operation, as orders decrease, the warehouse costs are reduced as well.

As we move ahead and customer demand switches to an electronic format, e-books and e-ink are going to reduce the demand for printed books. Those who own their own warehouse will find it extremely difficult to reduce costs if you have the fixed costs of a warehouse on your hands. Our industry is changing and it is hard to predict what the demand will be in one or two years, let alone five or 10 years. Outsourcing your fulfillment operation now will allow you to take advantage of the changing industry and reap the rewards of selling more books electronically.

One additional item to consider is the equipment in the warehouse. You will want to know if it is being utilized to its fullest extent. Take a look at all the differ-



ent pieces of equipment that has accumulated over the years, and determine what equipment you still have. For example, do you really utilize that shrink-wrap machine, or the forklifts? If so, how many hours per day are they being used? Know how many hand-jacks you have in the warehouse, as well as mailing systems and packing material machines. You may be able to generate some additional cash by transferring these under-utilized assets to a third party fulfillment provider.

4. Revenue Driven Reasons

When it comes to revenue, there are really three main benefits to publishers who outsource warehousing and fulfillment:

1 **Gaining market access and business opportunities through the provider's network.**

As a publisher you may want to ask yourself these three questions: Does your warehouse assist in selling more books? What markets do you actively sell to? What markets do you need help with?

2 **Expansion can be accelerated by tapping into the provider's developed capacity processes and systems.**

When a publisher experiences growth, warehouse space can become an issue. The ability to process orders in a timely manner can hinder that growth. Whether it is sales of one million, five million, ten million or twenty million items, publishers should know the capacity their systems can handle.

3 **Sales and production capacity can expand during periods when expansion could not otherwise be financed.**

As a business runs its cycle, different departments will put pressure on the investment

capital that is available. By outsourcing warehousing, all available capital can be devoted to the development of quality books.

5. Cost Driven Reasons

When publishers outsource, they experience the ability to reduce costs due to a superior provider's performance and the provider's lower cost structure. Typically, a publisher who performs their own warehousing function is paying a premium of 20% to 30% for this service. This does not even take into account the savings that a third party warehouse can achieve by combining the shipping activity of 50 or 100 different publishers in order to reduce overall shipping charges.

Turn Fixed Costs Into Variable Costs

One of the most difficult areas in business is the change fixed costs into variable costs.

For example:

If you own your own warehouse, and orders for the day are down, can your labor costs be reduced? Probably not. You cannot simply tell your employees to go home. They still expect to be paid for 40 hours each week. In this case, what typically happens, is that someone will find some type of make shift work for them to do. The employee stays busy, but the cost per order just increased.

If you reduce inventory levels will your rent go down? No, it is also a fixed cost. Your employees will not manage the inventory as aggressively as they should because there are no real benefits to the organization.

6. Employee Driven Reasons

Give employees a stronger career path. You should consider whether or not most of your warehouse employees are promotable to the publishing side of



the business. If there is no possibility of promotion, what types of employee can you attract for the warehouse operation?

Increase commitment and energy to non-core areas.

As a warehousing company, Ware-Pak focuses solely on warehousing. Each day, our job is to figure out how to provide publishers with the highest levels of service at the most economical cost.

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