Outsourcing to a Third Party Fulfillment Provider

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Introduction

- Third party distribution has been a fixture of the publishing landscape for decades. CoVid-19 and the supply chain crisis has accelerated interest in this alternative to the traditional distribution model.
- The definition of Third-Party Distribution is situational and depends on the individual publisher.
- At minimum, third party distribution includes order picking, packing, and shipment.
- Depending on the publisher's needs the portfolio of Third-Party Fulfillment Services can include:
    - Sales & Marketing Services
    - Order to Cash & Customer Service
    - Pick / Pack / Ship
    - Book Manufacturing

Why the Increased Interest?

- Traditional distribution model (i.e.- publisher managed warehouse) involves significant fixed costs and a predictable level of activity to support full cost absorption.
- CoVid-19 changed the rules – many changes are permanent, and the degree of change remains to be seen:
  - Amazon's temporary exit of the business of books
  - Acceleration of marketplace relationships as an alternative to Amazon
  - Publisher focus on cultivating B2C relationships with their readers - with the associated benefits.
  - Increased interest in digital delivery /e-books (Three Year Theory)

Why the Increased Interest (continued) ?

- Outsourcing provides undeniable cash management advantages.
- Outsourcing makes bolt-on of acquired properties easier as service expansion cost is typically absorbed by the provider.
- Businesses with outsourced services (i.e. - fulfillment and technology) are viewed as more attractive acquisition and merger candidates.
- When combined with a co-located manufacturing, the upside of outsourcing increases significantly, allowing the publisher to accelerate transition from a Print First – Sell Later to Sell First – Print Later inventory models, shorten the end-to-end supply chain, and reduce investment in standing inventory because of shorter manufacturing lead times.

Post Pandemic Considerations

- Availability and retention of labor & labor costs
- Increased Energy Costs
- Impact of inflation on revenue reliability
- Rising interest rates
- Uncertain Channel Relationships
- Freight costs & schedule
- Supply chain vulnerability
  - Paper cost and supply
  - Manufacturing Capacity
  - Growing interest in on-shoring manufacturing

Traditional Fulfillment vs. Outsourced Model

Traditional

- Fixed real estate cost
- On-going investment in technology
- Staff Costs
- High fixed costs
- Recruiting Challenges
- Uncertain cost recovery
- Modest economies of scale
- Unpredictable Costs
- Burns Cash

Outsourced

- No real estate
- No technology investment
- No staff costs
- Pay as you go fees
- Time in process opportunities
- Significant economies of scale
- Predictable cost depending on model used.
- Conserves publisher cash

Outsourcing Considerations

- Outsourcing not without risk. The degree of risk is a function of the breadth of activities outsourced.
- Timing is crucial.
- Requires careful transition planning, dedicated publisher resources and clear communication of expectations to your provider.
- There are one-time costs (cash & non-cash) associated with moving from owned to outsourced:
  - Inventory Transfer (Freight)
  - Inventory write-off if reserves are inadequate
  - Severance
  - Write-off of unamortized capital investment
- Consider the cultural impact on the organization

Partial List of Outsourcing Providers

Company	Services
B&T Publishers Services	Full Service
Books International	O2C / PPS / Book Mfg.
Cengage	O2C / PPS
Chicago Distribution Services	Full Service
Hachette	Sales / O2C / PPS
Hopkins Fulfillment Services	O2C / PPS / Book Mfg.
Ingram	Full Service
Independent Publishers Group	Full Service
Lakeside Books	O2C / PPS / Book Mfg.
Long Leaf	Full Service
Maple Logistics	O2C / PPS / Book Mfg.
NBN	Full Service
Norton	Sales / O2C / PPS
Penguin Random House	Sales / O2C / PPS
Simon & Schuster	Sales / O2C / PPS
TriLiteral	O2C / PPS / Book Mfg.
University of Toronto Press	Full Service

Full Service = Sales & Marketing /O2C / PPS / Book Mfg.
O2C = Order to Cash / Customer Service
PPS = Pick / Pack / Ship

Managing in Inflationary Environment

- Tune up your financial warning systems. Identify the KPI’s that will identify a crisis in the making.
- Don’t extrapolate 2021. Channel partner behavior is not in the publishers’ favor and inflation will compel consumers to be more mindful of their spending.
- Maximize cash conservation and generation.
- Lay out potential downside scenarios and the necessary countermeasures in advance.
- While the AAP reports 2021 as a banner year for the book business – there are clear signs that things are changing.

Closing Thoughts

- Focus on your organization's core competencies. Is warehousing one of them?
- Think long term – do fulfillment services fit your strategic direction?
- Make sure you understand the provider's business model
  - Is it service or sales based? What's included & more important - what's not?
  - Do not make your selection solely on arithmetic! Qualitative considerations are critical
- Customer relationships are valuable – especially as more publishers build B2C capabilities. Consider retaining O2C capabilities.
- Even if already outsourced, periodically test the waters and examine alternatives as your contract renewal date approaches.
- Fulfillment organizations facing cost pressures with labor, packing materials, energy, transportation and infrastructure investment
- Remember what happened to the printers and paper mills!

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