

# DO YOU REALLY NEED TO OWN YOUR WAREHOUSE?

## UNDERSTANDING THE BENEFITS OF VARIABLE COST FULFILLMENT

BROUGHT TO YOU  
BY



**Red Stag**  
FULFILLMENT

What's one of the most significant risks for a company budget dominated by fixed costs?

**Generating the revenue to pay those fixed costs every month.**

When the majority of your costs, such as fulfillment, are fixed, you've got to sell enough of your products every month to pay them all. You need more to break even, which can add a burden to your sales and marketing teams. When sales teams have a bad month or something happens beyond their control, like inventory delays due to COVID-19, you're at risk.

***“This risk and revenue calculus is essential.”***

This risk and revenue calculus is essential, especially as your business starts to outgrow fulfillment in a garage or needs a second warehouse across the country. Once you're too big, you've got to jump to a much larger location without any room in-between. Moving to a variable cost model for your fulfillment can eliminate many of those potential fixed costs, such as leasing space and paying for equipment, letting you keep more of the revenue you generate each month.

Fulfillment strategies offer a mix of cash flow opportunities and risk mitigation, depending on how you structure your operations. Companies can [outsource to 3PLs entirely](#), letting a partner's team serve the entire country for any order. Or you can approach a hybrid model where your existing warehouse serves local customers and partner fulfillment centers fill orders when they can offer reduced costs or faster options.

If you're considering ways to reduce risks related to fixed costs and improve your eCommerce business's cash flow, there are a few critical things to consider.





## WHAT DOES VARIABLE COST FULFILLMENT MEAN?

A variable cost model means you pay for a service as you use it. Most companies are familiar with this for things like their marketing and software stack, where you pay per user or per ad. You likely shifted from fixed to variable costs when you replaced a PBX phone system with a unified contact tool supporting calls, chats, and more. Variable costs are also typical for outsourced labor, whether that's the approach Uber takes to delivery drivers or an accountant you only see at tax time.

Variable cost business models work well for small and mid-sized businesses both as the operator and the customer. They allow you to enter into a market with lower capital costs and serve customers in a niche. Having a laser-like focus enables the service to provide tailored offerings that deliver what you need and aren't paying for anything more or less. Niche service providers and their customers get cost advantages that can be maintained as they both grow.

For variable cost fulfillment, you pay for labor, storage, and order fulfillment as you use it. Having more orders increases your costs. If an eCommerce company faces a challenge, such as problems with your manufacturer, costs decline as you sell less inventory.

*Fulfillment services present a potential savings and expansion tool for eCommerce companies compared to the total expense for finding, leasing, and maintaining additional warehouses.*





# 7 CASHFLOW BENEFITS OF PARTNERING WITH A VARIABLE COST PROVIDER



## 1. BUDGET EASILY WHEN YOU PAY FOR WHAT YOU NEED AND USE

A core worry about moving to variable-cost services is that your budget becomes harder to predict. Thankfully, when shifting your warehouse and fulfillment costs from fixed to variable pricing with Red Stag Fulfillment, you not only get costs that are easy to estimate, but you're more likely to have the revenue on hand to pay for what you need.

We offer specific, defined prices for receiving your inventory, storing it, and for [pick and pack services](#). You'll be able to calculate your monthly costs quickly based on your current inventory level, inbound shipments, and the orders you fill. The biggest variable for most companies is the total fulfillment cost, which increases or decreases based on your usage.

So, when you have a good month and are selling more products, you know you're generating revenue to meet your fulfillment expenses. When things slow down, you're spending less on fulfillment and can even lower your restocking levels to minimize any inbound shipment costs.

***By being transparent in our contracts and pricing structure, your team can accurately estimate and forecast costs using just inventory and order data.***





## 2. REDUCE CURRENT CAPITAL EXPENDITURES

***Move to a region like Los Angeles, and you're looking at more than \$10 million just in rent for your own facility.***

The easiest savings for most companies to quantify when they work with a variable cost partner is that you no longer have to rent your own warehouse location. You're paying just for the square footage that products take up, not for loading docks and doors, aisles, high ceilings, breakrooms, and everything else a warehouse needs — and not even needing to worry about fire suppression, parking lot maintenance, or OSHA requirements.

For warehouse space, the average U.S. cost is \$6.34 per square foot. A typical [eCommerce fulfillment warehouse](#) is 180,000 sq ft. That's more than \$1.14 million in rent for the warehouse space before you fill it up with people, products, equipment, and IT infrastructure.

There are still millions more in costs required to run that facility and meet customer needs.

Handing your fulfillment off to a company like Red Stag Fulfillment helps you reduce expenditures and can minimize overall cash flow risks. When something like an economic downturn hits — such as a housing crisis that drives down the need for expensive furniture — you'll have shifted your costs to avoid taking a hit.





### 3. OPTIMIZE CAPITAL INVESTMENT WHILE EXPANDING NATIONWIDE

Increasing your fulfillment locations around the U.S. makes it easier to [reach more customers within the two-day window](#) they demand while avoiding cost-prohibitive shipping speeds. If your warehouse is on one coast and you ship to customers on the other, you know exactly how painful those two-day order prices can be.

Managing your warehouse in a new location comes with millions in CapEx as we just discussed. What if instead you could shift that capital in business growth and put it toward sales and marketing or expanding into a new product area.

Relying on a Red Stag warehouse for [East Coast](#) or [West Coast](#) fulfillment would allow you to avoid all of the infrastructure costs associated with a new location and reinvest that in what your company needs. You'll also get access to our carrier relationships to get the best rates for these regional customers. Plus, if demand fades, you're able to easily shift away from a region without long-term leases and contracts that continue to drive down revenue.

***How much could you expand if you freed up \$10 million?***



*7 Reasons Variable Cost Fulfillment Can Make Sense for ECommerce Businesses*

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#### 4. SCALE UP OR DOWN INSTANTLY

***Red Stag Fulfillment can offer you more shelf space across multiple warehouses to restock and ensure you have the inventory to meet customer demand.***

Working with a variable cost fulfillment partner enables you to instantly scale your inventory space, order fulfillment, and inventory management as you need.

When you have a month of strong sales, you have instantaneous access to increased labor, pick and pack, and carrier shipping. There's no need to pre-plan, run out to buy more boxes and filler, or pay overtime to get your orders out the door. And if you sustain that growth, companies like Red Stag Fulfillment can offer you more shelf space across multiple warehouses to restock and ensure you have the inventory to meet customer demand.

If you face seasonal demand or a short-term slump, costs scale down alongside utilization. So, you're not paying for excess labor or for materials you can't use. Storage pricing is strictly based on your inventory, allowing you to lower stock levels and not have to pay for empty space. This can be especially helpful in the summer and winter months, where you're not having to pay to heat or cool empty shelves and racks.

Pay for what you need and always have available space to grow into when the time is right.





## 5. OPTIMIZE CAPITAL INVESTMENT WHILE EXPANDING NATIONWIDE

Employees come with other considerations beyond the wages they earn for their shifts in your warehouse. They require additional support personnel from team leaders to HR experts to help manage their daily actions, monitor performance metrics, and ensure that everyone receives their proper benefits and pay. When someone misses work, you need people to cover shifts and others to monitor absences.

***You won't need to hire or manage more staff as your fulfillment grows.***

Every warehouse member requires training on general safety practices and pick-and-pack activities, as well as refreshers on how to use your equipment. They'll need picking equipment like mobile barcode scanners, carts, and forklifts, while you're stocking packing stations completely, cleaning communal spaces, and so on.

Working with a variable cost fulfillment company removes many of these costs and considerations from your business. Not only will your partner have their own staff, but they have additional team members to meet your demand fluctuations.

Just like your eCommerce business is the expert on its products, companies like Red Stag are masters of fulfillment. This means we put our energy and funds into the right investments and research to make the process more efficient and cost-effective, allowing you to meet the higher demands and tighter shipping times that your customers have. With us, you'll also get access to leading IT and analytics support, ensuring your order and inventory management tools are operating correctly. Plus, you get help making the most of the data your software provides, generating a better understanding of customers and unlocking potential revenue growth opportunities.







## 6. AVOID MAINTENANCE AND OTHER RECURRING COSTS

***Avoid these surprise expenses and their regularly scheduled brethren by working with a fulfillment company.***

Running your own fixed-cost warehouse requires investments beyond people. By outsourcing fulfillment to a variable cost partner, you're streamlining payments and costs, avoiding both standard and surprise recurring costs related to your equipment.

Everything will break one day, and for eCommerce companies, it feels like things tend to fall apart when you need them most. This is true from your hand trucks and mobile scanners to printers and PCs used for packaging. If a scale breaks or becomes inaccurate because of overuse, for example, then you could end up paying higher shipping costs than required.

If an accident cracks the radiator or damages the transmission of your forklift, you could be out \$2000-\$4000, and that's on top of all the maintenance required by law and needed to keep it running efficiently.

You get to avoid these surprise expenses and their regularly scheduled brethren by working with a fulfillment company you pay based on the services they perform.

## 7. BECOME MORE RELIABLE FOR YOUR CUSTOMERS

It's one of the most common benefits companies see when switching to a done-for-you fulfillment service from a 3PL like Red Stag. The gains can seem indirect, but there are a few avenues to consider.

First, you're putting fulfillment in the hands of professionals who back their service with price, accuracy, and other [guarantees](#). When they exceed industry benchmarks, such as offering [99.997% order shipped accuracy](#) compared to industry averages around 75%, your customers get a more reliable delivery experience. Correct and on-time orders improve your relationship and raise satisfaction levels, improving your chances of landing a recurring customer.

You're also able to reduce some customer service costs when you have a reliable partner. On-time, accurate orders reduce questions that your agents answer on order status, tracking numbers, and problem resolution. Agents instead can focus on helping customers find the perfect product, increasing a sales order, or taking care of advanced needs. Integrating with a 3PL also makes it easier to automate email delivery of order statuses and tracking numbers.

The best part is that you get all the credit. Customers don't see or interact with 3PLs like Red Stag, so you're the only face of their order. When your partner gets everything right, customers see it as you are getting everything right. And nothing beats a satisfied customer.

***Better operations translate to a better relationship with your customers.***





## RESPONDING TO EXTERNAL PRESSURES: COVID-19 AND BEYOND

The COVID-19 pandemic and subsequent supply chain shocks in 2020 and 2021 have made nearly every eCommerce company re-evaluate its operations. You've got an unprecedented opportunity, but risks to your business have scaled accordingly. Today's eCommerce companies need to be flexible to respond to the market when times are good or when things outside your control strike.

Working with a 3PL like Red Stag Fulfillment allows you to scale up or down at a moment's notice. If orders boom and you become the hot new trend after sourdough starter kits, we'll expand inventory levels and allocated staff to get orders out the door as fast as they come into your system. Your only supply chain concern is having your manufacturers ramp up production to meet soaring demand.

When the opposite happens, your business can instantly cut pick and pack costs while scaling back your inbound shipments. You stay protected while the market evens itself out, ready to reemerge when your customers come back. And your smaller order volume still gets filled, allowing you to reward loyal fans.

COVID-19 took the eCommerce space and the rest of the world by surprise. Lingering uncertainty around imports and other freight means it makes sense for eCommerce brands to look for ways to protect themselves.

*Red Stag gives your bottom line a buffer by removing recurring, fixed costs, allowing you to pay for just what you need.*







## DISCOVER HOW MUCH YOU CAN SAVE BEFORE THE NEXT MOMENTOUS SHIFT

***We might discover a way to significantly reduce your costs while offering a better experience.***

Shifting fulfillment strategies need firm numbers if leadership is going to give the buy-in you need. So, you deserve to come with actual costs in hand, making it easy to compare directly against what you face today. Red Stag Fulfillment's experts are available to help you figure out if shifting fulfillment strategies makes sense for your company.

Together, we'll review your costs and ensure you've got the complete picture for current fulfillment, plus discuss where you might save with us or another 3PL. We're optimized to help many eCommerce companies, but if we're not a perfect match, we'll point you in the direction of someone else that might be.

So, if you're looking for a new fulfillment provider or just want to learn more about how you can best manage fulfillment during your next growth phase, we'd love to talk with you. Together, we might discover a way to significantly reduce your costs while offering a better experience for customers.





# LET RED STAG FULFILLMENT HELP YOU FIND YOUR FULFILLMENT HAPPY PLACE

To grow your eCommerce company, you need two things in a logistics provider:

- a) A good match with your business model, and
- b) An excellent fulfillment company.

Red Stag Fulfillment isn't the right match for every eCommerce business. However, if you are a good fit for our 3PL services, **Red Stag provides industry-leading fulfillment that can help your business thrive.**

If you're looking for a new fulfillment provider or if you just have questions about onboarding, we'd love to [talk with you](#). We're here to help.

**[GET STARTED TODAY](#)**



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