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To accelerate its distribution processes, Urban Outfitters brought outsourced logistics into its new Reno distribution center. The result: Faster turnaround times and lower operating costs.

Good distribution is always in fashion

By **Bob Trebilcock**, Editor at Large

AS A RETAILER, URBAN OUTFITTERS MADE ITS NAME with apparel, accessories and home and dorm furnishings for college students and young adults that sometimes went against the grain. That includes books with titles like “101 Things to Do Before You’re Old and Boring” and “Hillary is my Homegirl” T-shirts.

UO, as it’s known to its fans, is taking that same against-the-grain approach to distribution with a new 175,500 square-foot facility in Reno, Nev. At a time when many retailers and manufacturers are outsourcing order fulfillment and logistics operations to third-party logistics providers (3PLs), Urban Outfitters ended a long-standing 3PL relationship to bring its western distribution operations back in-house.

Why the change? “The simple answer is that we outgrew the 3PL relationship,” says Ken McKinney, Urban’s director of distribution. The longer answer is that as Urban has expanded its stores and brands, it needed to

accelerate its supply chain. That was best done in-house, says McKinney.

Working with a supply chain engineering and consulting firm (St. Onge, 717-840-8181, www.stonge.com), Urban Outfitters designed a facility that handles inventory that can be crossdocked directly to stores or another UO DC, as well as inventory that will be stored and delivered to stores later.

The flexible facility features a high-speed conveyor and sliding shoe sortation system as well as a pack-to-light system, where associates pick inventory from a conveyor directly into a shipping carton, for filling orders from back stock. The facility averages 100,000

units a day and has shipped as many as 600,000 in a week.

Even though the DC has been live for less than a year, the new operation is already delivering results: a 30% reduction in the operating cost per unit and a 40% improvement in turn time.

What’s more, with room to expand to 429,000 square feet, Urban’s western operations have room to grow. That is aligned with the retailer’s growth plans, which include the addition of up to 50 stores in 2008.

A growing chain

Founded in 1970 and headquartered in Philadelphia, Urban Outfitters began

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Ken McKinney, director of distribution, says Urban Outfitters' new 175,500 square foot distribution center in Reno will service stores on the West Coast

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More than 90% of Urban's inventory is crossdocked by conveyor through the facility when it arrives.

as a single store—"The Free People's Store"—selling hip fashions and household items. Today, the company generates more than \$1.5 billion in sales and operates three distinct retail brands in North America and Europe:

- With 108 stores, Urban Outfitters targets 18- to 25-year-old men and women with apparel and fashion accessories, as well as home goods and furnishings for dorm rooms and apartments.

- Anthropologie, a chain with more

Store replenishment is directed by a put-to-light system, where associates take inventory from a conveyor and put it in shipping containers.



After product is packed (see below), it travels by conveyor to a sliding shoe sortation system.

than 100 stores, targets upscale women in their 30s and 40s with fashion-forward clothing and home furnishings.

- Free People, the most recent brand with 14 stores, features funky fashions for 20-something women.

In addition to the Reno DC, Urban services stores in the East and Midwest from Gap, Pa., and ships direct-to-consumer and wholesale distribution customers from Trenton, S.C.

The chain is growing aggressively. "We have announced publicly that we intend to grow the business by 20% in the future," says McKinney. "That will include opening more retail stores for our existing brands, but it could also include



The sortation system sends packages to a shipping area, where cartons will be staged for delivery.

creating new concepts and new brands."

In fact, that growth was the primary motivator to build a new DC in Reno. "We had reached a point where we had enough growth to justify an investment in our own facility," says McKinney.

Bringing it home

Urban opened its first DC in Reno with a 3PL in 1998. Working with a 3PL was supposed to be an interim solution. "When we decided to expand into California, we weren't sure if we needed a second DC, and we weren't sure if that DC should be in Nevada or California," says McKinney. "Rather than build our own facility, we decided to stick our toe in the water and work with a 3PL on a month-to-month basis."

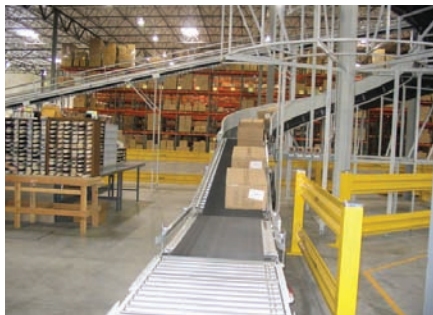
A few months turned into nine years. "At least once a year, I'd revisit the issue and ask at what point do we do it ourselves," says McKinney. "Their costs were very reasonable. And because our volume was variable, a 3PL was able to flex the number of employees working on our account up or down according to the season."

What changed was a combination of growth and the limitations of a 3PL relationship.

A month-to-month agreement meant either party could walk from the relation-



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Cartons travel overhead by conveyor, then are sorted to a put-to-light packing area or to shipping.

ship easily. It also meant the 3PL was reluctant to invest in automation. “They did a very good job with manual processes,” says McKinney, “but we were now looking for more material handling sophistication.”

Urban also wanted to change the methodology behind its distribution processes. In the then scheme, product arriving on the eastern seaboard from India was distributed to stores across the chain from Pennsylvania while product arriving on the West Coast from Asia was distributed from Reno. “Instead of having each DC process some inventory to every store in the chain, we wanted to be able to cull off the portion of inventory from India going west and send that to Reno, and cull off the portion of the inventory going east from Asia and send that to Gap.” That called for more crossdocking.

Simultaneously, the corporation had launched a “concept-to-market” initiative. “We were evaluating our supply chain from the time a product is

conceived until it ends up with a customer, and looking for ways to compress that whole end-to-end process,” says McKinney. His job was to focus on the time when a product hits the port until it reaches the point-of-sale counter in a store. “I knew we’d have more opportunities to compress that cycle if we—instead of a third party—were in control of all our facilities.”


Room to innovate

The system Urban Outfitters implemented is designed for speed, according to McKinney. While the facility includes a dense, narrow-aisle storage area, 90% of the material that comes in will go right out the door. Only about 10% will go into storage. A high-speed conveyor and sortation system speeds crossdocked material directly to the shipping docks, or sorts it to packing modules where associates are directed by a pack-to-light operation.

Items are picked from a conveyor and then placed into shipping cartons identified with an individual store. “We want to make the presentation of merchandise to the stores easy, so we don’t mix women’s clothing with men’s clothing and we don’t mix apparel with home goods in the same carton,” says McKinney. And while the facility handles orders for all three brands, packing lanes are segregated by a store brand and type. An associate packing for Urban Outfitters doesn’t pack for Anthropologie or Free People in the same lane.

Since going live last year, McKinney says the operation is proving success-

ful. “Our most important metrics are our operating cost per unit and our turn time,” says McKinney. “Even though we manned the facility with a new staff, our operating cost per unit has gone down by 30% and our turn time has improved by 40%.”

McKinney believes they can improve on both of those metrics. “In 2008, we’ll be implementing a warehouse management system in our retail store distribution centers,” says McKinney, who adds that Urban has a WMS at its South Carolina facility. “That’s going to provide us with a better inventory locator system for our back stock, and will require our vendors to place a scan-able UCC128 label on all inbound cartons. Both of these enhancements are going to make us more efficient.” 

System suppliers

SYSTEM DESIGN AND INTEGRATION:

St. Onge Company, 717-840-8181, www.stongec.com

PUT TO LIGHT: AL Systems, 973-586-8500, www.alsystemsinc.com

CONVEYOR AND SORTATION: Dematic, 877-725-7500, www.dematic.us

LIFT TRUCKS AND WALKIES: Raymond, 607-656-2311, www.raymondcorp.com

STORAGE RACK: Interlake, 630-245-8906, www.interlake.com

ERP AND INVENTORY MANAGEMENT:

Island Pacific, 949-476-2212, www.islandpacific.com

WAREHOUSE MANAGEMENT SYSTEM:

Manhattan Associates, 770-955-7070, www.manh.com (Going live in 2008).