AMWARE
SCALABLE FULFILLMENT

An Amware Viewpoint

5 Reasons Why eCommerce Supply Chains Fail

(And how to avoid these missteps)

If you're part of an eCommerce company that's been operating for more than 18 months, congratulations! You're bucking the odds and have made it farther than 80% of your contemporaries, according to Bloomberg.

But what keeps established online sellers from turning their businesses into true revenue and profit machines?

One major reason is a lack of focus on the supply chain, specifically product fulfillment operations – that invisible and relatively un-sexy function that makes sure customer orders get shipped out accurately and on time.

How important is getting back-end fulfillment right? Ask Amazon.

In 2015, the company spent $13.41 billion on its distribution infrastructure (yes, billion with a B). That's fully 13 percent of its $104.8 billion in total operating expenses that year.

But Amazon is the exception. Many more eCommerce companies get fulfillment wrong instead of right, often repeating the same kinds of mistakes. In this paper, we'll examine the common causes of eCommerce supply chain failures and equip you with the knowledge to avoid these pitfalls.

Pitfall #1: Failure to Launch Properly

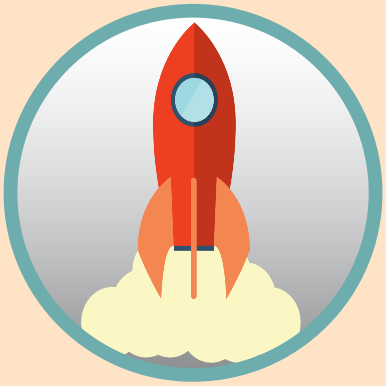
To most eCommerce companies, the company launch mainly involves demand creation – aggressive marketing to drive traffic and a sexy website to convert prospects and collect money. Too little focus is aimed at order fulfillment. And that's a problem.

Fulfillment operations are all about the details, whether they are handled by an internal team or an outside third party fulfillment company (3PL). If the person responsible for fulfillment doesn't show you a milestone calendar and a multi-page spreadsheet with hundreds of action steps, that's a red flag.

You don't need to be familiar with every last detail of the fulfillment launch plan. You do, however, need to feel confident you've got people on the team who are thinking through these essential details and protecting the investments you've made in marketing and sales.

Sadly, failure to carefully plan for product distribution is an Achilles heel that holds back many great product ideas. The entrepreneurs behind eCommerce companies tend to focus on attracting investors, building a team and creating demand, while back end fulfillment tasks get pushed down the priority list.

Ships need captains to chart a course and lead. But they also need good engines and capable people in the engine room if the ship wants to move. Don't ignore fulfillment operations – the engine room of your eCommerce business.



Tips to Launch Successfully

Have a dedicated project manager.
This should not be someone who works on this initiative part time in addition to his "day job."

Task your best people with trying to "break" your process.
Think about all the things the system is supposed to do – flag incomplete addresses, deny orders for out-of-stock items – and then try and trick the system into processing a faulty order. You don't want to identify these glitches with "live" orders.

Choose your 3PL wisely.
If you're not an expert in fulfillment operations, it makes sense to hire someone that is. But vet them carefully. Talk to references and demand to see evidence and examples that project implementation processes are in place.

Pitfall #2: Failure to Build a Scalable Infrastructure

Lack of scale can bite you in a number of ways. Here are some real-world examples:

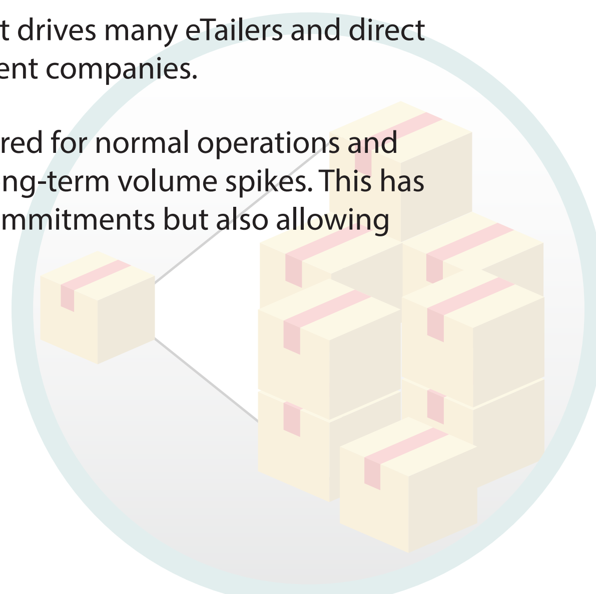
- **You can overbuild.**
  An energy drink company made aggressive assumptions about demand for its product and sunk millions of investors' dollars into building fulfillment operations to handle this future volume. Unfortunately, sales were well below forecast and the company folded under its debt.

- **You can underbuild.**
  A clothing marketer started in the owner's basement, which served as both company headquarters and fulfillment center. When the product began to gain traction thanks to some good PR, the company was slow to react and order-to-delivery time went from 3 days to 16 days. Customers shared their disappointment on social media and the company lost hundreds of otherwise happy customers, and potentially thousands of future customers.

- **You can build for an average.**
  A jewelry company had a smooth fulfillment operation but failed to anticipate a 35% spike in orders just prior to the holidays. With no contingency plan in place, orders were delivered after the holidays, disappointing customers and slowing company growth by 10 percent.

The unpredictability of eCommerce ventures is what drives many eTailers and direct selling companies to outsource to 3rd party fulfillment companies.

The right 3PL can provide the space and labor required for normal operations and can easily expand to accommodate short-term or long-term volume spikes. This has the dual benefit of maintaining customer service commitments but also allowing fulfillment costs to parallel your revenue stream.



Pitfall #3: Setting Unrealistic Expectations

Operations professionals are under immense pressure to simultaneously satisfy the needs of customers as well as the demands of their finance team and/or C-suite. Quite often, the pressure of the latter will lead to demands that may be, shall we say, unreasonable.

In this situation, the most important word to remember is "no."

Here's a real-world example. The CEO of a growing marketer of jewelry and other accessories wanted to move fulfillment operations from the Southeast to Dallas. The strategy was questionable and the timeline aggressive, but the eTailer's 3PL continued to move forward to please the determined CEO. In the end, major issues surfaced with inventory and order accuracy at the new facility and the planned move was cut short (as was the CEO's employment).

Who was to blame? The aggressive CEO? We don't think so.

In this case, the 3PL is the operations expert. The boss understood what he wanted to do and why, but the 3PL understood the HOW. It knew the transition timeline was aggressive but, in an effort to please a new customer, the 3PL failed this customer by not saying "STOP" early on.

eTailers should not make promises that its operations team can't keep. Make sure your expectations for order processing, warehousing and delivery times are realistic and that everyone, especially those delivering on those promises, buys in.

Pitfall #4: Poorly-Defined Outsourcing Agreements

Why do outsourcing agreements, of any kind, fail? According to The Outsourcing Center, it's because the buyer's expectations were not clear up front.

This is very relevant in the eCommerce space since so many eTailers rely on outside fulfillment partners.

A carefully constructed Scope of Work (SOW) document is the place to start. As the following SOW outline shows, the document is really meant to answer key questions about the project.

- **Overview.**
  What is the purpose and objective of the project? What are the roles and responsibilities of client and service provider?

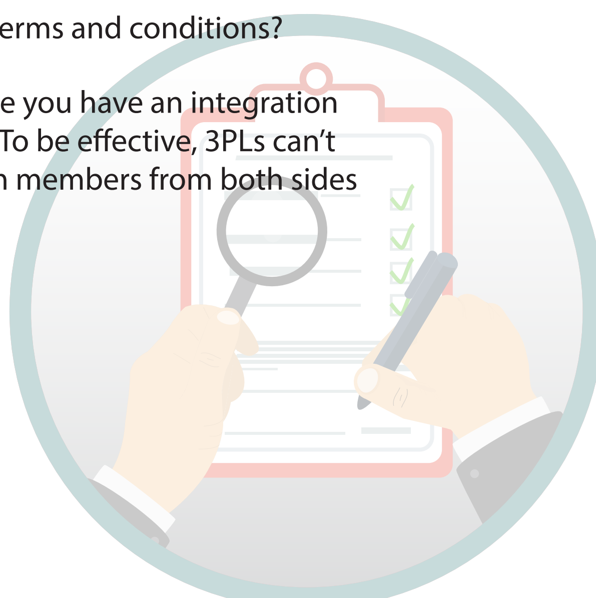
- **Deliverables.**
  What are the performance expectations and target metrics?

- **Costs.**
  How much will it cost? What things might result in changes to these costs?

- **Schedule.**
  When will it all happen? What are the milestone dates?

- **Project management.**
  What are the payment arrangements and legal terms and conditions?

Once a SOW is developed and agreed upon, make sure you have an integration team to facilitate alignment between the companies. To be effective, 3PLs can't execute FOR you, they must do it WITH you, with team members from both sides working hand in hand as one integrated team.



Pitfall #5: Unstated Cost Responsibility with Fulfillment Partners

Like anything else, partnerships are easy when things go well, but what happens when they don't?

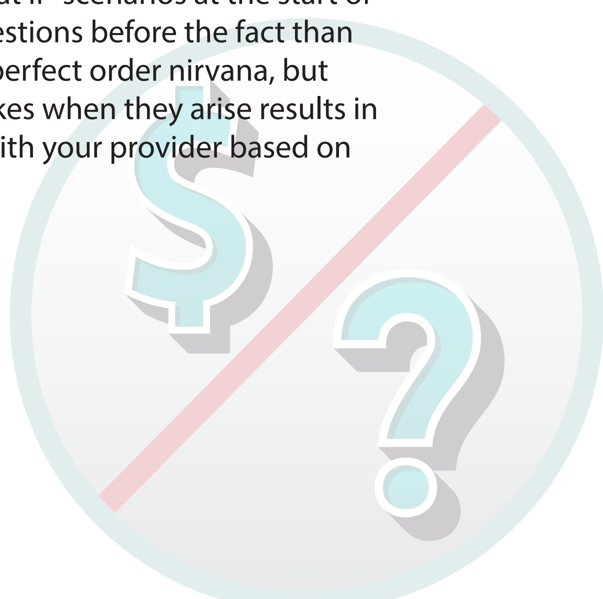
Experienced 3PL fulfillment companies have checks in place to consistently deliver a very high level of shipping accuracy and performance. But any provider that promises perfection is lying. The reality is that 99.5% performance still equates to 500 problem orders if you're shipping out 100,000 orders per month. For each type of problem:

- Who owns it?
- What actions will be taken to remediate the problem?
- Who is liable financially?

If these questions are not answered up front, small failures can trigger finger pointing sessions where the 3PL cites a stellar performance record that regularly exceeds agreed upon metrics, while the client cites letters and social posts from unhappy customers.

The right approach is to sit down with your fulfillment partner BEFORE orders start flowing and ask the tough questions related to every type of potential failure.

Clearly, no one wants to think about these messy "what if" scenarios at the start of a relationship. But it's far better to deal with these questions before the fact than when emotions are high. You will never reach 100% perfect order nirvana, but having clear alignment about how to deal with mistakes when they arise results in fast action to fix problems and a better relationship with your provider based on open, honest, transparent communication.



A tightly run fulfillment operation may not be sexy, but it can make you look awfully good

While the eCommerce industry is exciting and potentially very lucrative, it's becoming more and more evident that the success or failure of your company hinges on its relatively un-sexy supply chain.

Can your product be produced, shipped, and delivered to the customer quickly and in excellent condition, almost without fail?

If the answer is "yes," you're likely on the path to success, assuming you've got a product the market wants.

If the answer is "no," determine if any of the common pitfalls cited in this paper apply to your company and take steps to address them.

ABOUT AMWARE
Amware Fulfillment helps fast-growing companies scale fulfillment operations through every stage of their growth cycle. Amware operates warehouses across the country for 1-3 day delivery to 98% of the U.S.

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