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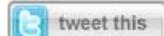
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What Every Merchant Should Know About Outsourcing Order-Fulfillment

By Ina Steiner
EcommerceBytes.com

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Today's small retailers are increasingly outsourcing the storage and fulfillment of their inventory so they can focus on product-sourcing, marketing and other areas they do best. We spoke to Nate Gilmore, Vice President of Marketing and Business Development at Shipwire Fulfillment, to find out when is the best time to outsource fulfillment and what you should look for when seeking a fulfillment partner.

Shipwire Fulfillment handles the storage, the packing, the shipping and other logistical details for online retailers from warehouses in the U.S., Canada and Europe, and Nate oversees channel development and developer network for the company.



EcommerceBytes: To begin with, what is a fulfillment house?

Nate Gilmore: You may recognize them by a few different names - outsourced warehouse, distribution center, outsourced fulfillment or even 3PL (third Party Logistics) - but, they all have the same fundamental purpose; to store your inventory and ship product to your customers as you receive orders. I would add - quickly, efficiently and without error.

Taking this concept further, you can add multiple geographically distant warehouses to create a "warehouse distribution network." For example, multiple warehouses in the U.S. on the East and West Coast or add international locations in big markets like Canada, UK, Europe, etc. This is how the big retailers and product companies store inventory: Take orders nationwide or from multiple countries and then ship the order from the warehouse closest to the buyer.

The obvious benefit of more warehouses spread around the world is faster delivery times to buyers, at less cost and with less customs hassles on a per order basis. This should be coupled with a business having transparency into their inventory with some intelligence around geographic order volume and demand.

EcommerceBytes: Why would an online merchant outsource storage and shipping and use a fulfillment network?

Nate Gilmore: If you take a step back and think about it, you'll realize that shipping has always been outsourced. Once the package leaves the warehouse or business, UPS, FedEx, US Postal Service or Canada Post, handle the delivery.

What is new, is how easy it has gotten to plug into an outsourced warehouse, and with web services, merchants now get real-time transparency into their inventory levels.

Here are a few of the most common justifications that ecommerce merchants choose for outsourcing fulfillment:



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- Focus on your core - Online merchant's strength and expertise is in marketing, sales and product-sourcing, not in shipping and fulfillment. Outsourcing order packaging and shipping allows retailers to focus on growth.
- Eliminate a capital cost and employee overhead - Building out and maintaining a warehouse is expensive when you factor in lease, build-out, security, software, pallet jacks and forklifts if you need them - not to mention employee staffing for peak shipping seasons and labor hassles. Outsourcing turns your warehouse costs into a predictable variable cost-per-order.
- Reduce shipping costs and lower product price points - Leveraging a warehouse distribution network means you are storing product closer to end-buyers - cutting the distance of the final product shipment. In doing so, you create a shorter "last mile," the most expensive part on a per shipment basis. Sure you have to freight inventory a little further; but keep in mind that bulk shipping is much cheaper than parcel shipping. Some merchants argue "but, the buyer pays for shipping." Yes, but, you have to have a compelling retail price including shipping to get them to buy. If you market "free shipping" then you are saving yourself costs.
- Efficiency and scale on demand - Outsourcing allows a business to scale up and down without having to hire employees, build out additional warehouse space or spend funds on infrastructure. For ecommerce merchants that experience seasonal fluctuations, this is a major benefit. In our volatile economy, this on-demand scalability also facilitates risk-free growth.
- Reach new markets - Reach customers in international markets with your products and get them to buy by offering local shipping rates, local delivery times and cut your risks by offering local returns processing.

EcommerceBytes: Why not just rent or purchase a warehouse?

Nate Gilmore: If you are custom manufacturing every order or want to invest in real estate then there may be an argument for buying a warehouse. I urge small businesses to consider the reality of this: When you sign a warehouse lease, you are taking a chunk of your operating cash and committing it to the facility, infrastructure, systems and staffing - whether your product sells or not. If you're like most entrepreneurs, the warehouse is probably not the best use of your time; the business probably needs you selling and growing the business.

The alternative, outsourced warehousing, allows you to invest your capital into sales, marketing and inventory. Investing in your asset (your business), not managing a liability (your warehouse).

While it may make sense for some sellers to rent or buy a warehouse, if you have the option to avoid these bills, why not invest your capital into sales, inventory and marketing?

EcommerceBytes: What if I already own or rent a warehouse?

Nate Gilmore: Renting or owning a warehouse and outsourcing warehouse operations need not be mutually exclusive. I encounter many merchants that are already in a facility. Outsourcing is something they should still consider. Maybe their warehouse is full and they want some overflow capacity or want to outsource their holiday peak shipping? Perhaps they want to expand beyond their local market or internationally with some key products? If the merchant has thousands of different products in their catalog, they can consider moving some inventory closer to distant buyers. Just because you have a facility, doesn't mean you shouldn't look and understand the benefits of outsourcing.

EcommerceBytes: When is a good time to think about outsourcing order fulfillment?

Nate Gilmore: There are many points in a business' lifecycle when outsourcing order fulfillment can enter and provide a boost:

- Growth stages - It's important for companies to be prepared to handle increased sales volume, without skipping a beat and without having to focus on facility build-outs.
- Cost-cutting stages - Every company is looking at costs and overhead and trying to trim the excesses. Outsourcing is a great way to turn a capital expenditure into a variable cost.

- International growth - Expanding sales overseas can be much easier and less risky if you leverage an outsourced warehouse. You can quickly test a market and act like a local seller - local shipping rates, delivery times and returns processing. You don't need to make a big capital investment or take the time to hire and deal with warehouse employees.
- Gain Shipping cost savings - Want to pass along that "Free Shipping" offer to customers? In doing so you are now building the shipping cost into your product retail cost, so you need to lower the per item shipping cost by storing product closer to buyers. The [Shipwire website](#) has a shipping cost calculator that demonstrates the savings of time and money if you use multiple warehouses.
- High volume sales - Got some best sellers? Maybe 10% of your product catalog is fast moving product that generates 70-80% of your volume. Look to outsource the fulfillment for the best sellers.

EcommerceBytes: Are you seeing a difference in the use of outsource order fulfillment in light of the recession?

Nate Gilmore: Absolutely- we're seeing a marked increase in interest and customers. Cash is king in this market and merchants have access to less of it. So they need to intelligently deploy their cash into sales and inventory. Which means they don't want to sink money into a liability like a warehouse lease, especially if they are a new or growing business. Outsourcing order fulfillment allows them to plow scarce capital into their business and only pay for product shipping when the products sell. It's a grow on-demand model that is extremely beneficial for businesses in a downturn.

EcommerceBytes: How do merchants get started outsourcing fulfillment and what should they look for?

Nate Gilmore: In general, look for a partner you trust and talk to them up-front about your needs. Here are a few other considerations:

- Try before you buy. Get a free trial and send them some sample inventory and ship it.
- Transparent pricing. You are trying to get away from long-term agreements and hidden costs. Watch out for long contracts, commitments or minimums.
- Look for multiple warehouses in major markets where you may grow like the U.S., Canada and Europe. A single warehouse won't scale and will not offer you the flexibility to expand and keep your shipping costs down.
- If you sell online, your fulfillment provider should have a fulfillment software platform that you can just plug into your Web store, eBay, Amazon, etc. Get a free trial and make sure your business can plug into the fulfillment provider's access to these services before you send inventory.
- Great customer support and knowledge. You are paying for the "neck to wring" if there is a problem and you want the benefit of smart people to help your business.

You can learn more about Shipwire and get a free trial at Shipwire.com/trial.

About the author:

Ina Steiner is Editor of EcommerceBytes Insider, AuctionBytes.com and author of "Turn eBay Data Into Dollars" (McGraw-Hill 2006). If you have story ideas, comments or questions, send them to ina@auctionbytes.com.

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