

# ORDER FULFILLMENT

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# ORDER FULFILLMENT

*Defined as the steps involved in receiving, processing and delivering orders to end customers.*

# Understanding The Order Fulfillment Process

## 1. Receiving.

- Before you can fulfill orders from your online sales channels, you need inventory.
- If you choose to fulfill orders in-house, your inventory must be on-hand.
- If you are outsourcing fulfillment, inventory must be sent to the provider that will fulfill on your behalf.

## 2. Inventory storage.

- Inventory storage, also known as warehousing, is the organization and storage of your products.
- Each unique product or SKU must have a separate dedicated storage location.
- For larger operations, this will be on a shelf, in a bin, or on a pallet.
- Proper inventory storage will keep your products secure and protected and help give you visibility into what is available to ship to your customers.

### 3. Order processing.

- Once an order has been submitted, it will get processed.
- These steps involve picking, or the retrieval of items from where they are stored, and packing, or getting the order ready to ship.
- Often a packing slip is used, which notes the quantities and storage locations of each product ordered.
- This may also include instructions on which packing materials to use — boxes, bubble mailers, poly bags, packing tape, bubble wrap, airfill, etc. — or any custom packaging and inserts to create the intended unboxing experience for the end customer.
- Finally, a shipping label must be added to the package.

## 4.Shipping.

- Once the order has been processed and is ready to send, the merchant must get it shipped.
- This may involve a run to the local post office or UPS Store, or having a carrier pick up the orders from the fulfillment location.
- Once the order ships, you should receive tracking info that can be shared with customers to keep them up-to-date with their deliveries.

## 5. Returns processing.

- If a customer returns an order, you must be prepared to process it.
- They may ship it directly back to you or the fulfillment provider where it will be evaluated.
- Depending on the item quality, return reason, and your returns policy, the product can either be restocked as available inventory or disposed of due to malfunction.

# ORDER FULFILLMENT PROCESS

1. Classify inventory
2. Match inventory to storage technology
3. Automate to reduce cost
4. Slot inventory within the storage technology
5. Map processes and workflow to maximize throughput and reduce labor
6. Integrate business systems to maximize visibility



# Benefits of Order Fulfillment Services

- Lower shipping cost.
- Reduce operating cost.
- Extend your reach.
- Improve customer service.
- Harness technology.
- Focus on selling.

# Order Fulfillment Model

## 1. In-house order fulfillment.

- In-house order fulfillment, also known as self-fulfillment, occurs when the merchant completes each step of the fulfillment process internally, without the help of a drop shipper or third-party logistics provider.

### The Self-Fulfillment Model



- **Advantages:**

- It offers 100% control of inventory and the pick, pack, and ship process.
- It can be low-cost when the business is small because you are just paying for shipping (and doing the work yourself).
- Anyone can do it. You don't need any contacts (as long as you have space to store products, address labels, and packing resources such as packing slips).
- For businesses shipping significant volume, negotiated shipping rates through FedEx, UPS, and/or USPS can become a competitive advantage.

- **Disadvantages:**

- It is time-consuming. Packing all of the products yourself will take time. As orders increase, this can take up most of your day.
- It is costly as the business grows and can be very burdensome for a young business. You need the following:
  - Warehouse space.
  - Warehouse equipment.
  - Additional staff.
  - Order fulfillment software requirements.

# Third-party fulfillment.

- When you outsource fulfillment to a 3PL company, they handle the entire fulfillment process for you — from receiving your inventory from your manufacturer to restocking returned products.

## The 3<sup>rd</sup> Party Fulfillment Model



- **Advantages:**

- Inventory can be purchased in bulk in order to improve profit margins.
- No investment is required for warehouse space/real estate, WMS software, or a workforce to pick and pack orders.
- There is an added convenience of outsourcing the process to a trusted professional.
- Shipping discounts can be much better than if you were to negotiate on your own.
  - i.e: Your business ships 5,000 packages per month, but the third-party ecommerce fulfillment company may be handling 150,000 orders per month. They're going to be able to get better shipping rates with FedEx/UPS than you can alone.

- **Disadvantages:**

- Quality can be compromised.
  - You have to do your due diligence: a third-party ecommerce fulfillment company controls your ecommerce businesses' final handoff of value to your customers. In other words, they have the opportunity to make or break your customer satisfaction levels, which affects the lifetime value of these customers on your business.

# Dropshipping.

- Dropshipping means that the merchant never holds the products they sell in their online store; instead, the products are produced, stored, and shipped by the manufacturer.
- When a customer places an order on the merchant's online store, the order is forwarded either manually or automatically to the manufacturer.
- Then, the manufacturer dropships the product directly to the end customer.

## The Drop-Ship Model



- Advantages:
- Easy to start: Dropshippers provide the products and the shipping, so all you need to do is focus on sales.
- Minimal business development: You're leveraging the network of your dropshipper, instead of personally building the relationships with every supplier. Essentially, every new partner allows you to grow by a significantly large number of new products.
- More products, faster: Growth in ecommerce begins with adding more products to your website. Integrating a dropshipper's products with your business is simple and straightforward because all you're doing is supporting the links and learning the prices—not lining up any other part of the logistics. This allows more people to discover you and increases the number of touchpoints by which interested shoppers can encounter your brand.
- Affordable: Low overhead makes dropshipping a great starting place for online retailers. All you do is pay for inventory when a sale is made, so you avoid operational expenses like warehousing. Profitability is not guaranteed, though, which we'll get to in the next section.
- Test before committing: Since you don't incur overhead, you can test out the viability of new markets for existing products anywhere you can establish a drop-shipper service.
- Focus on what you do well: The convenience of a hands-off product fulfillment experience thereby enables businesses to focus on other priorities, which is especially advantageous to new companies.

- Disadvantages:
- No customization: Dropshipping usually means virtually no support for custom products. To achieve this type of support and customization, your dropshipper would have to function as a warehouse. Unfortunately, this is not likely unless their margins on custom products were worth the time and effort — in which case, the margins would likely not make sense for you.
- Lower quality control: Since the seller is removed from the fulfillment process, you're entrusting your brand's reputation to another party — while maintaining accountability. Buyers usually don't think about fulfillment models or dropshippers. If a defective product arrives or there is a miscommunication about the shipment, your customer doesn't want to hear that it was out of your control; all they care about is the overall experience.
- Reduced brand power: Your products are produced by others, so it's more difficult to establish a unique brand. The reduced quality control only increases the risk to your brand.
- Competitive disadvantage: Low barriers to entry mean it's hard to establish a competitive advantage over other businesses. You're competing on price, and that can easily become a losing game.
- Scale: Logistics can become challenging as a business scales up, especially when coordinating with multiple dropshippers.

<https://www.bigcommerce.com/blog/ecommerce-fulfillment/#ecommerce-fulfillment-process-challenges>



The 3PL's staff will complete all tasks of the order fulfillment process within their fulfillment center:

- Receiving.
- Picking.
- Packing.
- Labeling.
- Returns processing.
- Quality control.
- Other specialized projects.

# FULFILLMENT BY AMAZON

- You send your items to Amazon's fulfillment centers to store it.
- After Amazon receives your inventory, you can monitor it through their tracking system.
- The customer orders your items from Amazon or another e-Commerce platform.
- Amazon picks and packs the sold items.
- Amazon ships your items by method chosen by customer and provides them tracking information.
- They provide customer service and return management for items.

# BENEFITS OF USING FULFILLMENT BY AMAZON

- Discounted Shipping Rates
- Customer Service
- Dependable returns policy.
- Multi-Channel Amazon Fulfillment
- Customer Experience
- Vast warehouse network

# COSTS OF USING FULFILLMENT BY AMAZON

- Picking and Packing Your Orders
- Shipping and Handling Your Order
- Customer Service
- Product Returns
- Storage per cubic foot per month

# ADDITIONAL FEES

- Oversized items that have Special Handling Fees per shipment.
- There are additional storage fees for inventory stored for six months or longer.
- Both fulfillment and storage fees increase from October to December.
- Other fees can apply such as prep service fees or fees for processing customer returns in specific categories.
- Clothing items incur an extra \$0.40 per unit.

# Disadvantages

- Sales Tax Compliance
- Long-Term Storage Fees and Managing Inventory
- Preparing Items for Shipment

# HERE ARE SOME TRENDS OBSERVED IMPACTING THE FULFILLMENT LANDSCAPE IN 2019 AND BEYOND:

- Multi-channel sales.
- Mobile orders.
- Product bundles.
- Subscription box services.
- Automation.
- Personalization.
- Fast delivery.
- Rising shipping rates.