ECOMMERCE

OUT-OF-THE-BOX OPERATIONS

From: Tipalti
5 Next-Generation Supplier Strategies for Lean, Growing Internet Retailers

How fast can you get to $100M in sales? If you’re already at $100M, how fast can you get to $500M? Ecommerce is all about speed and execution. With thinning margins and significant competition from all over the internet, winning in ecommerce means you need to carve out a loyal buying audience while repeatedly and efficiently delivering unique goods.

There are plenty of industry resources on building ecommerce businesses that focus on the front-end customer experience and driving marketing and conversions. However, there are rarely discussions around the operational side of the business. That’s a shame because a streamlined back-end operation can dramatically affect ecommerce business models and their ability to make strategic decisions.
This playbook covers **five unique strategies** ecommerce companies can employ to address specific operational challenges that inhibit their growth. It’s organized in terms of challenges and plays/action items to address those challenges.
Operational Business Goals

Before we look at individual challenges, let's lay out what organizational goals can be addressed as part of the supplier management process. Operations play a critical part working with suppliers and they affect the organization's ability to execute effectively.

This playbook covers the following goals:

- **Grow**
  - To quickly expand the business and become a relevant ecommerce name.

- **Stay Lean**
  - Keep improving operations without impacting profitability and cash.

- **Manage Complexity**
  - Grow effectively in the face of changing global supplier and financial dynamics.

- **Reduce Risk**
  - Limit exposure to audits and fraud when working with suppliers.

- **Be Data Driven**
  - Gain visibility into supplier-related activity to drive strategic decisions.

- **Keep Relationships**
  - Deepen rapport with suppliers to improve working relations and status.
Highlighting the Supplier Process

Several processes are involved in the supplier relationship. Often, these processes span multiple areas of the organization, but, in truth, are part of the same experience for the supplier. As such, the more cohesive that experience is, the better the supplier experience.

**Onboarding**
Collecting relationship information (contacts, product and price books, payment details, tax forms, etc.).

**Invoices**
Accepting, keying-in, approval routing, and tracking inbound invoices from the supplier.

**Payment**
Remitting payment (in various methods) to the supplier, including addressing payment issues.

**Delivery\Fulfillment**
Accepting and tracking products into inventory or for direct shipment to customer.

**Orders**
Process and mechanisms for ordering products from the supplier.

**Compliance**
Routine reconciliation (financial close) and reporting needed to ensure books are in order and liabilities are understood.

**Communication**
Notifying suppliers of invoice and payment status, including year-end statements, etc.

**Reporting**
Routine reconciliation (financial close) and other reporting needed to ensure books are in order and liabilities are understood.
Maintaining capital efficiency is vital to scaling ecommerce businesses. Ecommerce businesses cannot simply charge more to offset costs. The market is too competitive. Buyers are always just a few search terms away from identifying the best price. Margins tend to be thinner in any case, so the real efficiency of an operation is how well it can fulfill orders at volume. From getting goods from the supplier into the hands of customers, that entire exchange needs to operate with as little overhead as possible.

Investing in technology offers two very key benefits: streamlined operations and becoming more data-driven. These factors help drive costs lower while enabling the operational staff to better measure activities and determine value. Technology investments should be considered across the entire operational stack including fulfillment, customer relations management, warehouse management, inventory, supplier management, AR/AP, and enterprise resource planning.

- Determine whether to build in-house, outsource, or develop a hybrid system
- Before adding headcount, determine if technology solutions exist
- Identify technology that will scale with growth and adapt to change

**Action Items**

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**KPIs**

- Initial cost comparisons for developing and managing of in-house/outsource technologies
- Determine payback period for technology
- Throughput vs. headcount and expense increases
Increasing the number of quality suppliers, particularly in a global space, can be an enormous undertaking for smaller, mid-sized ecommerce companies. The natural inclination is to limit supplier relationships so they can be managed properly. But the only way to gain access to more diverse products and build a following is to cast as wide a net as possible.

Create a reputation and process to bring on unique, quality suppliers that match the buying audience. Suppliers talk to each other. It’s important to understand what stops them from working with your business or why they choose a different distribution path.

**Action Items**
- Seek out new suppliers, including globally
- Negotiate attractive terms
- Streamline onboarding and handoff processes
- Improve communication processes

**KPIs**
- Reduced supplier churn
- Increased revenue tied to new products
- Reduced operational costs in supplier relations
- New suppliers organically ask to join

**Business Goals**

**Operational Processes Affected**
Minimize Financial Risks

Play: Control the Money

As the “coordinator” between consumers and suppliers, the risks in ecommerce lie in where things can go wrong. Inventory not arriving or getting the wrong products so orders can’t be fulfilled hurt the customer relationship. Returns and chargebacks affect revenue. Matching supplier shipments with payments relies on a certain amount of diligence to data and the ability to flexibly adjust payments. And of course, there are the basic financial controls that are necessary to eliminate internal and external fraud.

Nearly all risks have a financial component and that’s where you need to focus on. For example, wiring funds to a supplier overseas has an immediate impact. A one-decimal-point typo or sending to the wrong account can be an expensive headache to recover from. It might also not be recoverable, depending on the situation. It’s also embarrassing, but it happens. Focus on adding a layer of visibility into how these systems manage funds. In other words, follow the money and create the necessary audit trail points that indicate how money is released. This can reduce the risk of duplicate or questionable payments.
Fulfillment may be the least breathtaking department that ecommerce businesses must contend with, but it’s probably the most important. That’s because it scales linearly with your growth. The industry standard says it typically costs about three to five dollars to get an order out the door. This includes the packaging, the human capital involved, the rent, the supervisors, etc. As the ecommerce industry matures, there are interesting ways that the business model has evolved, but there are few disruptors in fulfillment operations.

Technologies that aid in fulfillment (e.g. applying shipping labels, packing labels, sorting our packages) can automate numerous processes. They can even encourage reimagining what type of sales models are possible (e.g. subscription, drop ship, flash sales, pick and pack), and optimize their costs accordingly. Of course, that requires a nimble staff that can master all the varied conditions and a system that can flexibly handle varied inventory and supplier relationships.

Regardless of sales model, there are great resource and financial benefits from having products enter your warehouse and go out the very same day.

**ACTION ITEMS**
- Optimize picking processes for each item
- Determine best timing for varied delivery processes and volumes
- Identify resource schedules and align to delivery timing
- Incentivize suppliers to support specific fulfillment models (drop ship, flash, etc.)

**KPIs**
- Reduced cost-per-order
- Improved inventory turnover
- Increased labor efficiencies
- Increased range of products
- Improved supplier communications

**Business Goals**

**Operational Processes Affected**
Challenge #5

Scale Tactical Operations

Play: Create Culture of Productivity Improvement

The only measure for improvement that ecommerce companies need to focus on is productivity. Why? Almost every other area of growth can be addressed with more money. For example, you can always spend more on ads to drive more engagement and ultimately more sales. You can always rent out more warehouse space to hold more goods. You can always reduce the profit margin to undercut another seller. But when it comes to truly improving those areas, adding money is not scalable and can get companies into serious trouble.

Improving the productivity of areas that are generally outside core competencies is often easier. They usually involve the work that most people don’t like doing or that no one is a true “expert” in so, having those areas buttoned down with auditable processes make it easier. Those changes also tend to not affect the core processes in a deep way, minimizing distractions and performance risk to the business. Yet collectively, they can be difference makers in the overall execution and the ability for the business to grow. On the supplier management side (depending on the ecommerce business model), “untouchable” processes may be hiring, procurement/curation, ordering, fulfillment, and customer service. But just about anything else can be done outside or augmented with technology.

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<th>ACTION ITEMS</th>
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<td>- Start by finding scalable processes outside core competencies</td>
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<td>- Establish best practices for processes not core to the operation</td>
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<td>- Identify ways to quickly deploy new processes</td>
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<th>Overnight Air Delivery</th>
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<td>KPIS</td>
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<td>- Achieved more productivity per staff</td>
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<td>- Reduced negative impact of changes</td>
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<td>- Improved overall operational quality</td>
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<td>- Reduced time spent on addressing complexity</td>
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Business Goals

Operational Processes Affected
Tech Stack Needs

No effort to improve ecommerce operations is complete without looking at technology’s role to optimize various processes. After all, if software is just smart re-engineering of an automated repeatable process, leveraging software to solve complex problems add greater scalability. When looking at each challenge, be mindful of some important objectives when defining and developing the “tech stack.”

End-to-end / Holistic
Can you minimize the gaps from one system to another? Can you ensure robust integration to remove situations where manual effort is required?

Scalable
Do the technical components allow you to grow and meet business goals? Can it handle increased volumes and complexities as “throughput” increases?

Building (In/Out)
What parts are so vital and unique to the organization that it makes sense to build in-house? What parts of the process can be outsourced, while ensuring best practices? Do you fully understand the value of outsourced operations vs. internally built systems? Can those systems be integrated?
Additional Ecommerce Resources

TechValidate Survey on AP Supplier Payments

The Cost of Supplier Payment Errors to Your Organization

How Touch of Modern Grew 10x w/o Hiring AP

Get a Personal Tour of Tipalti’s Supplier Payment Automation Platform

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