An Amware Viewpoint

Amazon: Great Sales Channel, Poor Fulfillment Strategy

5 Limitations of Fulfillment By Amazon that E-tailers Must Understand

Fulfillment By Amazon (FBA) operates a huge fulfillment network that stores, picks, packs, and ships products sold on Amazon.com and other online channels, and provides follow-on customer service.

Amazon sellers are not obligated to use Amazon's fulfillment service, but about half do because they're busy entrepreneurs who save time by buying a bundled service. And hey, it's Amazon.

But just because Amazon is a great sales channel does not make it a great fulfillment strategy. Online sellers need to go into any relationship with FBA with their eyes WIDE open.

FBA is bigger than other fulfillment providers and may ship faster than some, but it may not be the best choice for companies that want to manage the brand experience, preserve margin, and quickly adapt fulfillment processes to meet changing requirements.

This paper hits on 5 FBA limitations that should be considered before pressing the BUY button.

1. Inability to Customize

Amazon has made a strategic choice to run FBA as a high-efficiency, low-touch solution. They've built a machine – for storage, data exchange, order processing and shipping – and they want that machine to spit out as many products as possible with the least amount of fuss and bother.

You are fitting into their box.

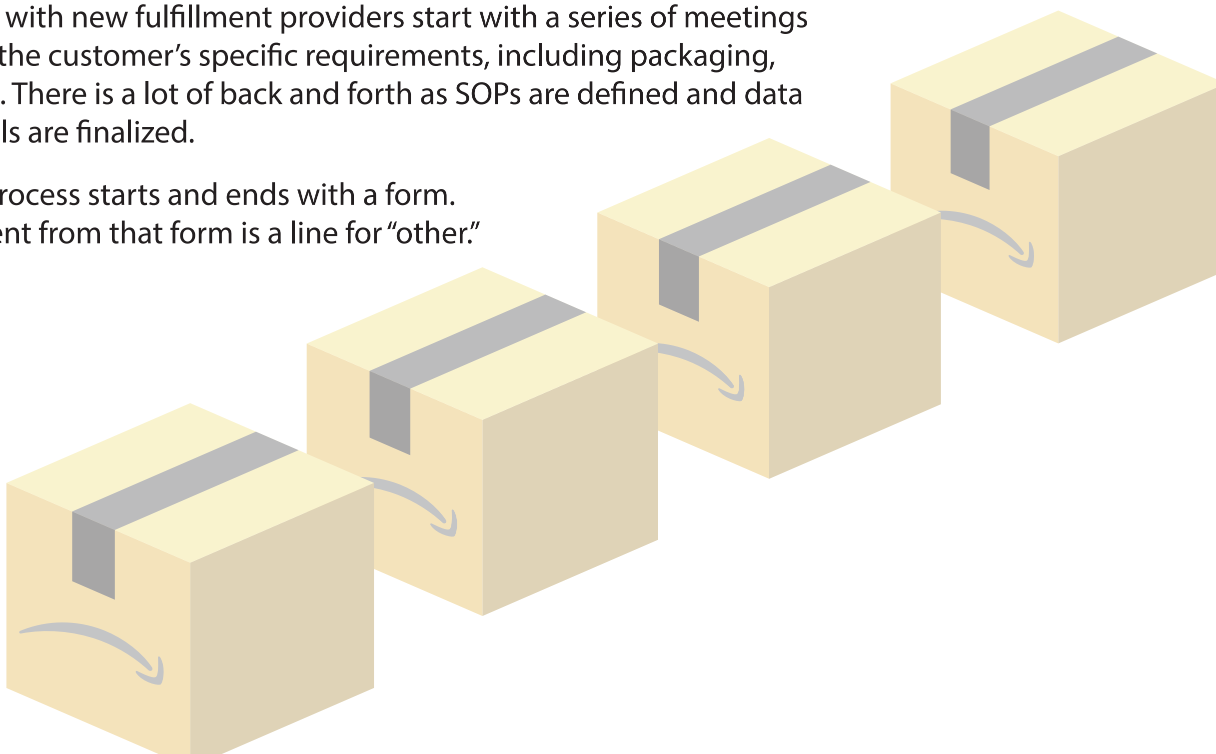
But here's the thing about most growing e-tailers: they don't want to give up control. They want to sit down and review their fulfillment requirements and gain a good understanding of exactly what happens after their customer clicks the Buy Now button.

Call that hand holding, call it touchy-feely, call it whatever, this is not an FBA strength. You will choose from a limited number of menu options, all meant to ensure that the machine keeps churning without disruption. And there's no "hold the onions" with this menu. It's have it ***our way***.

Think about choosing a daycare provider for your son or daughter. You may have heard great things about a local provider, but that doesn't mean you're happy to drop off your child on day one with no discussion about their individual wants and needs.

Most engagements with new fulfillment providers start with a series of meetings designed to define the customer's specific requirements, including packaging, kitting and labeling. There is a lot of back and forth as SOPs are defined and data integration protocols are finalized.

FBA's onboarding process starts and ends with a form.
Conspicuously absent from that form is a line for "other."



2. High Costs

In most industries, low-touch means low-cost. Not with FBA, where storage rates and other charges make it hard to preserve margin.

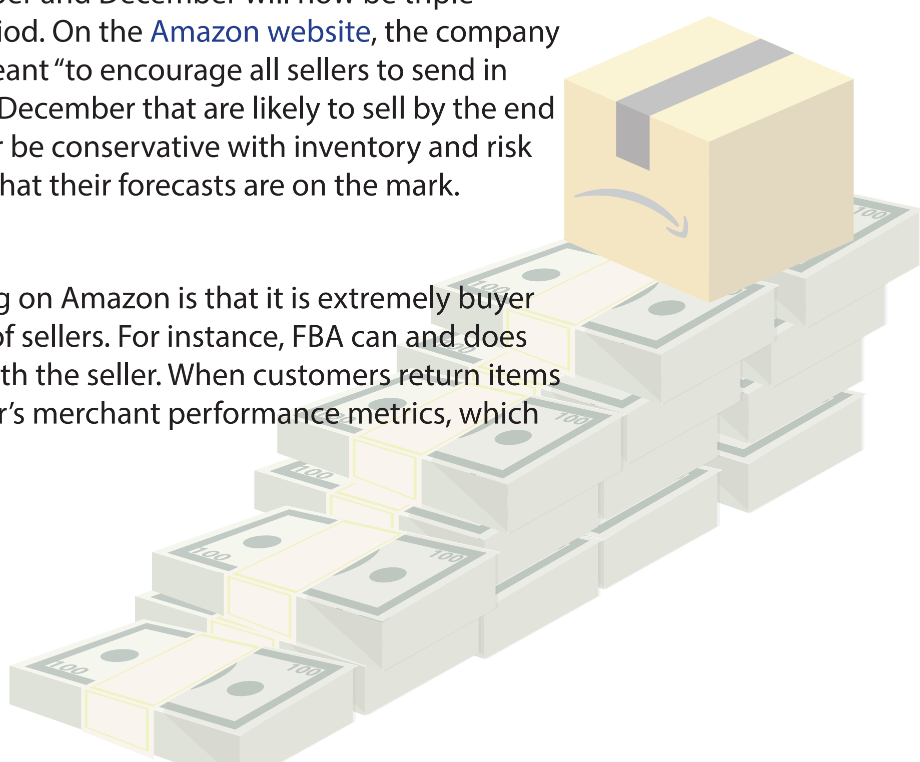
Amazon does a great job of leveraging its massive and beautifully efficient sales channel to feed a not-so-efficient fulfillment business. Here's what to watch out for.

- **High storage rates.**
  Amazon operates a huge, highly mechanized network of leased warehouses – over 70 million square feet of space – that wasn't cheap to build, and isn't cheap to operate. Amazon needs to recoup these costs with rates that might surprise the average customer expecting economies of scale. To benchmark pricing against other fulfillment providers, check out Amazon's online storage price sheet.

  "We were surprised at the overall cost of FBA's service, which was higher than what we could get from other national fulfillment companies that were much smaller in scale," says B.K. Boreyko, CEO of direct sales company, Vemma Nutrition.

- **Storage rates that increase during November and December.**
  Amazon storage rates during November and December will now be triple previous rates during this holiday period. On the Amazon website, the company explains that the pricing change is meant "to encourage all sellers to send in and store products in November and December that are likely to sell by the end of (the year)." So sellers need to either be conservative with inventory and risk losing holiday sales or take a chance that their forecasts are on the mark.

- **Policies that are not seller-friendly.**
  One reason that people love shopping on Amazon is that it is extremely buyer friendly – sometimes at the expense of sellers. For instance, FBA can and does grant refunds with no consultation with the seller. When customers return items to FBA, this negatively impacts a seller's merchant performance metrics, which in turn impacts future sales.



3. Poor brand experience

At that moment of truth when your package arrives at the door, you want the customer's excitement and anticipation to be associated with your brand. When FBA ships your product, it is shipped in an Amazon box. The customer experience is around Amazon.

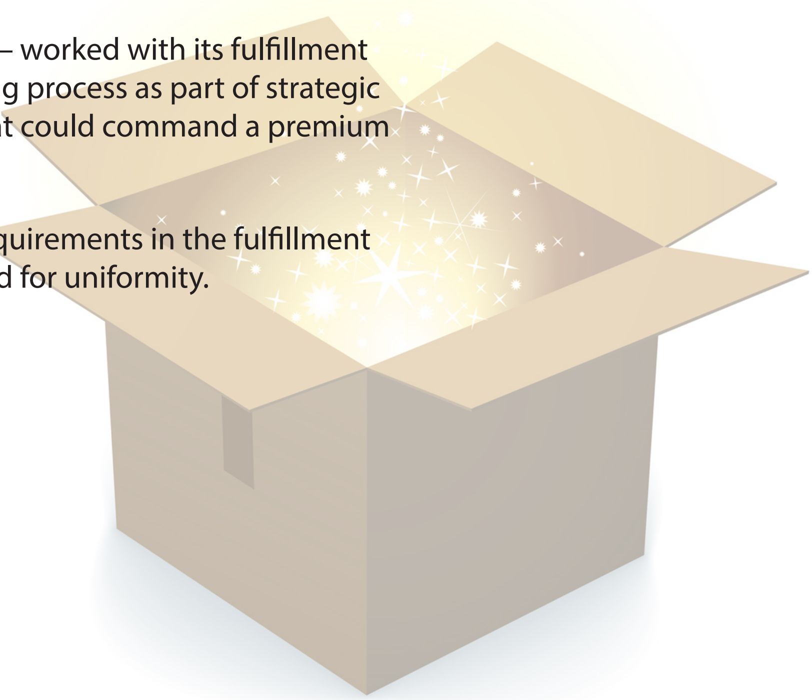
If you are selling through multiple channels, including Amazon, FBA does give you the option of shipping in blank "brand neutral" boxes. But, strangely, you'll pay an additional fee of $1.00 per shipment (as of this writing) for this service. In other words, **you're paying FBA extra to be *generic*.**

What's inside the box can also impact the brand experience, so many e-tailers carefully engineer the packing process, right down to the type of filler material used, custom inserts, and how the items are placed in the box. FBA won't support that level of customization since it slows down the machine. Therefore, FBA is not the best choice for companies that care about a branded presentation.

For one fashion company, the fulfillment process is carefully engineered, from box type, color and construction to the placement of labels and paperwork inside. A photo of the product being sold is included on each packing slip, and staff members at the company's fulfillment partner even wear gloves to avoid fingerprints on boxes.

Another company – a fast-growing nutrition firm – worked with its fulfillment provider to completely revamp its product packing process as part of strategic initiative to position itself as a premium brand that could command a premium price.

Such branding initiatives often include unique requirements in the fulfillment process, therefore are inconsistent with FBA's need for uniformity.



Comparing FBA to Other National Fulfillment Companies

Comment	Fulfillment by Amazon	Buying Criteria	National Fulfillment Company	Comment
161 active logistics facilities of various types in the U.S. alone		**Fulfillment locations**	✓	Strategic national fulfillment centers but cannot match FBA's reach
Both have strong quality records	✓	**Fulfillment quality**	✓	Both have strong quality records
Relatively high order and storage charges		**Fulfillment costs**	✓	Can be significantly cheaper – compare with published FBA rates
Forced free shipping if customer is Amazon Prime		**Parcel delivery costs**	✓	Flexible solution can look at alternates to parcel
Rigid adherence to chosen services and process		**Customization**	✓	Highly flexible processes based on shipper requirements
Very little customization possible during the pack-out process		**Brand experience**	✓	Maximum control through customer-defined packing processes
Sales and fulfillment through single partner	✓	**Integrated sales & fulfillment**		Don't provide a commerce platform
Amazon CSRs with no knowledge of your specific products		**Customer Service**	✓	Dedicated CSRs with strong knowledge of your products
Strong systems infrastructure, but little customization possible		**Systems**	✓	Highly flexible with ability to customize system to your needs
Similar use of the tracking systems of major parcel carriers	✓	**Shipment tracking**	✓	Similar use of the tracking systems of major parcel carriers
Focused on B2C fulfillment only		**Multi-channel support**	✓	Possible to find fulfillment company adept at both B2C & B2B
Known entity, proven in the market	✓	**Reduce risk**		Due diligence is required to vet potential partners

4. Lack of Responsiveness to Smaller Customers

FBA is not structured to respond to unplanned special requests. In order to maximize efficiency, services are pre-determined and relationships are more contractual. "Orders that come in by X time will be shipped by Y." Crystal clear expectations are set and the FBA machine is built to deliver on the company's contractual promises. But the process is rigid.

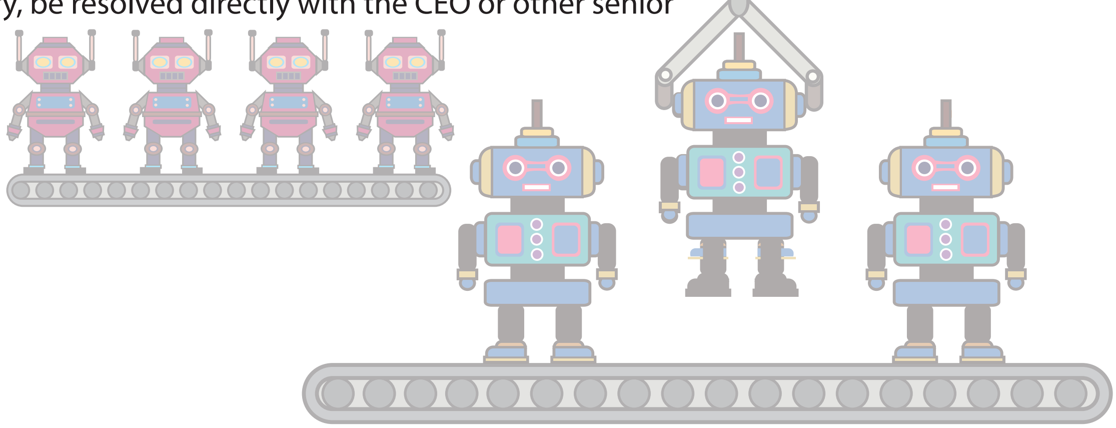
Here's the problem. For many businesses, regardless of how well they plan, exceptions arise. For smaller e-tailers with changing requirements, an inflexible fulfillment capability can hamper growth and customer service.

Here's a real-world example. To respond quickly to a large and unplanned customer order, a direct sales company readied a truckload of nutrition drinks to send to its outsourced fulfillment warehouse. The delivery was not planned and would arrive the same day after hours. A call to the warehouse alerted the fulfillment company to this emergency request and immediate steps were taken to receive the products and schedule order processing.

Try doing that with FBA. The request would most likely go through 4 to 5 people before ultimately getting to the right person at the warehouse. By that time, it would likely be too late. And certainly any requests outside the bounds of the contract would involve an upcharge.

Most national fulfillment companies have dedicated customer service representatives assigned to even the smallest accounts. Contacts get to know each other on a first name basis and CSRs develop a thorough knowledge of the product and any unique fulfillment requirements.

Should problems arise that require direct contact with FBA, you will speak to a lower level associate in customer service. In contrast, issues with smaller fulfillment companies can, if necessary, be resolved directly with the CEO or other senior executives.



5. Inability to Service Multiple Channels

Many companies sell through both retail and consumer direct channels. But FBA is not designed to handle pallets and bulk deliveries to retailers. FBA does talk about “multi-channel” fulfillment in its marketing material, but this refers to online B2C sales channels beyond Amazon.com.

If you use FBA for consumer orders, you would need to bring in another partner to service your retail channels, or handle it yourself. Either way, it adds complexity to your supply chain and more of an administrative burden to program managers.

The most efficient approach to true multi-channel fulfillment is to fulfill all channels from the same inventory pool. That means partnering with a fulfillment company that is equally adept at B2C and B2B fulfillment. The advantages?

- Reduction of inventory based on co-location of B2C and B2B inventory
- Reduction in physical infrastructure costs associated with separate B2C and B2B facilities
- Knowledge of re-tailer routing requirements to avoid costly chargeback penalties (for companies that supply large retailers)
- Single WMS system that flexibly handles the unique storage and shipment requirements of both B2C and retail channels

If you ship only to consumers, then these issues would be moot. But most growing e-tailers dream of expanding into specialty and mass retail as their products gain traction. And all brick and mortar retailers now understand the importance of selling online and offering customers an omni-channel buying experience.

You’ll want a fulfillment solution that can address your current and future need to serve multiple channels.

FBA: Huge and Highly Efficient, But Not Flexible

Fulfillment By Amazon is the world's fastest growing fulfillment company for a reason. It has a huge and efficient distribution infrastructure and, because of this size and Amazon's incredible brand equity in the market, shippers view FBA as a low-risk choice (Hey, how could they fire me for choosing Amazon to do our fulfillment?).

But the flexibility that Amazon offers through its sales channel does not necessarily translate to its fulfillment arm. For that reason, FBA may not be the best choice for companies with custom requirements that are looking to work hand-in-hand with a fulfillment partner to jointly define processes for picking, packing and shipping orders. For these companies, there are many fulfillment providers that can offer flexible, scalable pick and pack solutions at costs that can match or beat FBA.