Introduction to Supply Chains in E-commerce

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Introduction

Supply chains in e-commerce go through three fundamental stages that must be followed and their requirements completed to achieve the associated benefits. These stages are the supply stage, storage stage, and shipping and delivery stage. We will discuss them in detail in this guide due to their importance in e-commerce. They are as follows:

Supply Stage

It is one of the most important supply chains for an e-commerce store. It involves selecting the store, the supplier, transportation mechanisms, purchasing methods, and the quality of the supplied product. Among these e-commerce stores are:

- An e-commerce store that imports products from abroad and targets a specific segment.

- An e-commerce store that manufactures and sells products by ordering raw materials from abroad.

The supply process varies from one store to another, but we will focus on the process of importing from abroad and understanding the essentials of selecting the appropriate supplier. We need to ensure the process goes smoothly through these steps:

Steps of the Supply Process:

Define Import Objectives

When considering importing a product from abroad, conduct thorough research in the local market to ensure the product is not available domestically and sold at a wholesale price comparable to the product cost after accounting for international transportation, taxes, and customs clearance.

Negotiate with Multiple Suppliers

It's natural to find multiple suppliers for a single product, but each supplier differs in certain characteristics. These could include responsiveness, production speed, and high reliability. Also, create a list of backup suppliers to mitigate high risks in case the quantity depletes without another supplier.

Sign a Contract with the Supplier

Building a professional business relationship with the supplier is important. Finalize the deal by signing a contract that outlines payment and transportation policies to protect your rights. These deals can be executed through electronic signatures. You can refer to this guide for information about **contract types and commonly used terms.**

Define the Product and Goods to be Imported

Defining the name and size of the product is not enough; all specifications and standards related to the product must be specified, considering the requirements of the Saudi Standards, Metrology, and Quality Organization and relevant authorities to avoid damage and delays in customs clearance.

Supply Stage

Choose a Shipping Method
There are many options for shipping products from abroad. Third-party companies can receive goods from the supplier, ensure product safety, make payments on your behalf, and ship the products to you.

Professional Communication
Ensure all communication is conducted through the official email of the company, not personal emails, to provide a sense of trust and commitment to your business. Use terms that indicate you represent a company, not an individual.

Making Supply-Related Decisions:

There are business concepts used when importing goods from abroad. Whether you are a business owner or an e-commerce store, it is essential to understand some concepts to avoid unexpected risks and costs and to establish a supply chain for your business:

1. Order Processing Time for Shipment
This is a crucial time during which the supplier needs to manufacture the required quantity of the product and prepare it for shipping.

2. Specified Deadline for Order Preparation
Additional time is provided to avoid delays in product manufacturing and to reduce risk in your supply chain.

3. Delivery Time
This is the time required for the supplier or shipping company to deliver the goods to a specific station between countries.

4. Specified Delivery Deadline
The commitment to the necessary time for delivering the order from the supplier or shipping company to a specific station.

5. Effective Communication
Commonly seen on wholesale selling websites like Alibaba as "RESPONSE RATE," this response rate is highly important. It's crucial to avoid poorly responsive suppliers.

6. Supplier Experience
Visible on renowned wholesale websites under the "EXPERIENCE" section. The more experience and reliability, the lower the risk.

Supply Stage

Key Global Business Websites:

We present some globally renowned websites for importing products and contracting with international suppliers:

Alibaba Group: A Chinese private sector company that generates revenue through its online business activities, including search engines, online payment services, wholesale, and retail.

IndiaMART: The largest online marketplace in India and the second-largest B2B marketplace in the world after Alibaba. It was launched in 2014.

DHgate: A platform that allows importers from all around the world to purchase small quantities of Chinese goods at wholesale prices, including electronics and clothing. The website offers over 30 million products in 227 countries.

Global Sources is known for the quality of products it offers from various industries. Many Chinese companies invest significant amounts of money to establish themselves as trusted entities on the platform.
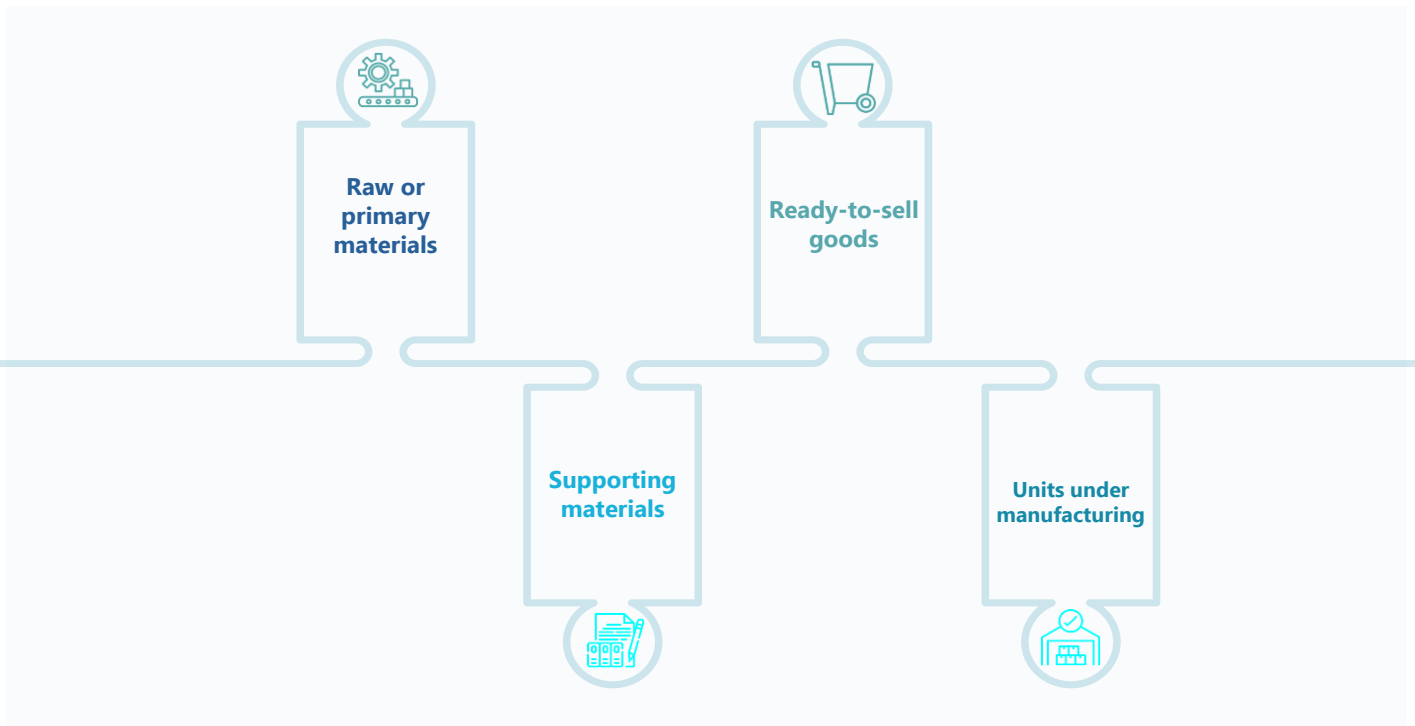
Storage Stage

There is no doubt that storage is one of the most important stages in the supply chain of an e-commerce store. Most stores focus on converting sales points into order fulfillment and call them Fulfillment Centers. As a result, the costs associated with these operations are usually lower than the costs of similar operations at point-of-sale or retail.

Storage Stage

Inventory Components:

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Raw or
primary
materials

Ready-to-sell
goods

Supporting
materials

Units under
manufacturing
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Making Storage-Related Decisions

For e-commerce store owners, making the right decision in this area is challenging, as inventory typically accounts for %50 of the company's total capital. Therefore, one may wonder whether to store products under the main store activities or to outsource this to a third-party company. For example, a specialized company in storage and order preparation for e-commerce stores conducted a real comparison for an online store. It used to establish its own storage and packaging facility instead of outsourcing this process to another company.

The study revealed that the total cost per month for 6000 orders was 74,700 SAR in the processing and packaging centers of the company, whereas the cost would be 110,000 SAR if done in a separate facility owned by the company. This means a cost of 12.45 SAR per order in the company's packaging centers and 18.3 SAR in the store's packaging and processing center, indicating a potential %33 operational savings.

Storage Stage

Differences are illustrated as follows:

Handling Storage with Your Team:

Disadvantages
1. High capital costs like systems and labor
2. Higher shipping costs compared to specialized companies
3. Difficulty in controlling shipping and delivery companies

Advantages
1. Better for complex and customized products.
2. Lower cost for store owners (for less than 50 orders)
3. Full control over terms and conditions

Outsourcing Storage to a Specialized Company:

Disadvantages
1. Higher cost during low sales periods
2. Minimum storage space occupancy requirement
3. Use of their own systems

Advantages
1. Lower cost for medium and large establishments
2. Lower shipping and delivery costs
3. Ability to use multiple shipping and delivery companies

Shipping and Delivery Stage

There are two types of delivery: outside the city or state, and within the region or city where the store operates. Often, stores need both types as their customers could be from different regions and countries. Therefore, they require large companies capable of shipping and delivering to any city or country where the store's customers are located, in addition to offering local delivery within the same city. Speed can be achieved by contracting both internal and external companies to ensure same-day delivery.

If you find a company that can handle both aspects, it's much better, as it simplifies communication, interaction, and periodic bill settlement between you and the company. Dealing with a single reliable entity that offers integrated services is better than dealing with multiple entities.

★ Dealing with the Delivery Company Easily:

- Interaction with the company should be easy, preferably through an electronic platform with simple steps. An online gateway is crucial for order creation and tracking 7/24 throughout the year to save time. Make sure the tracking service is available through the electronic platform.

- The company should have the technological infrastructure that allows electronic integration with your store through an Application Programming Interface (API). This enables you to utilize the delivery company's services and inquire about all necessary information through electronic integration only.

★ Cash on Delivery Service:

The option of cash on delivery gives customers a sense of trust and allows them to inspect the product before making payment. It also indicates the delivery company's dedication. This option is favored by all stores and users

Shipping and Delivery Stage

Customer Service:

Providing exceptional customer service by the delivery company is important and sensitive for your store. The delivery company represents you to your customers. Therefore, their service needs to be professional and reflect well on you. Customer service benefits not only your customers but also you as a store or client of the company.

Delivery Speed:

Choosing a delivery company for your store based on its speed in performing tasks is crucial. Delivery speed varies among companies, some being timely while others are slower.

Consistency and Excellence:

Sustaining good performance is harder than achieving it once. Since consistency is crucial for success, you should consider how consistent the company is in delivering excellent service.

Delivery Costs:

When choosing a delivery company for your store, consider the price differences between different companies.

Feedback from Previous Customers of the Delivery Company:

One of the most important factors in choosing a delivery company is knowing the opinions of previous customers. Why did they choose this particular company? Did the company deliver on time or were there delays? It's beneficial to see numerous positive reviews of the company, as this indicates the company's culture, respect for its customers, and commitment to agreements.

Return Process After Delivery:

Store owners must ensure that a return service is available, as returns might be requested after a sale. Therefore, a plan should be in place for handling returns.

These mentioned aspects are fundamental considerations. Ensuring that the choice of your delivery company contributes to the success of your website is crucial. Therefore, be cautious when selecting a company that helps you ensure the product's safe delivery, easy access, and preservation.