

## Making the Delivery

12/26/05

I am trying to get my new business up and running. What is the best way to ship and store my products with minimal up-front fees? Today's question comes from a new entrepreneur, who sells products to consumers. He gets his clients through a combination of selling, networking and word of mouth, supplemented with a small catalog, and a growing presence over the internet.

As the amount of goods you have to ship grows, from what you and your family can pack in the evening, you know the business is starting to take hold. Now, it's time to think about how to get more efficient and hold down costs. Inventory management and shipping methods are two great places to focus.

Things you might want to consider include the pros and cons of self warehousing. You may also look at your distributor for support. Of course, there are fulfillment houses, which will drop ship for you. And, if you are doing the shipping yourself, you want to carefully select a shipper.

If you are going to self warehouse, that is, keep it at home, in your store, or in a storage locker, you have the advantages and disadvantage of doing it yourself. You have total control of your goods, and can set and enforce your own requirements for recordkeeping. You can quickly respond to

customer requests, informing the customer of what you have on hand. You are also likely to be more in touch with what you will need to order. Be sure to stay on top of back orders – if customers have to wait too long, they may cancel and go elsewhere.

You probably want some kind of a computerized inventory tracking system, and point of sale system, that you can log in orders, and check inventory out when you pack it. As the business grows, there will be too much to do to keep on top of it manually. If you aren't sure what a point of sale system is, interview computer installation companies that specialize in providing those types of systems.

Most businesses waste money by ordering things they don't sell, and then letting them sit around instead of returning them to the distributor. If you buy it, have a plan to sell it. Up-selling customers is a great way to get rid of products that start to sit around too long. When someone calls to place an order, tell them you have a special on what you want to get rid of. Put your excess goods on ebay auction, and use that to attract new customers.

Be careful to stay out of the trap of buying inventory based on what you personally like. It is your customers who you are in business to serve. I have seen way too many businesses get in

over their heads with inventory, because they bought something that seemed like a good idea, but customers had no interest in buying. Ask customers what they are looking for. Place small orders to start, and only order quantities when you know you can move the volume. Remember, you only want to build up inventory on the best selling items.

Try to find local distributors you can order from, and supplement that with distributors who can get products out on a moment's notice, for a minimal shipping charge. You can minimize your inventory carrying costs if you can buy products the day before shipment. Remember to include the cost of shipping from the distributor to you, when calculating your base cost for the product. Be sure to calculate your selling cost to insure you have at least a 25% to 33% gross profit, after inventory, shipping to you and to the customers, and the cost of anyone who helps you handle the goods.

You may be able to save on your costs, by staying out of the shipping business altogether. Find a fulfillment house that will accept your goods, hold them, and box them up, and ship them to the customer as you send over requests. This keeps you virtual, and focused on order taking and customer development, which should be your primary job.

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If you are going to try a fulfillment house, be sure to check around. There are lots of different offers, quality is a factor, and so is reliability. You don't want your customers receiving the wrong goods, a week late, in a broken box. Check references on the fulfillment houses you are considering, and start with a trial to see how they do. Periodically check with your customers, to see how the orders are received, if they are accurate, on time, and in perfect condition.

Fulfillment houses can offer a variety of services. They can pull, pick and pack your goods. They can report on inventory. Some will assemble products and handle customer service inquiries and re-order requests. Compare fees, as some will charge per order, some will have a monthly service charge, and there are usually volume discounts.

Focus on selecting a low cost way to ship. Shipping costs can eat into your profits, if you aren't careful. One way to handle shipping costs is to quote them separately from the price of your product. This is what every major catalog sales company does. Just think of the last order you received from Amazon – they quoted the price of the book, and then added shipping on after you were done with the total order.

When it comes to shipping, you have to consider speed and cost. The US Postal Service is cheaper

when delivering express packages (\$3.50 for the 1<sup>st</sup> lb, \$3.95 flat rate envelope). The drawback is USPS priority mail has a 2-3 day delivery time and delivery verification costs more.

Some customers may want a quick ship option. If they are in a rush and willing to pay for it, give it to them. Just be sure to charge for the service, both the extra cost shippers cost and the time and effort it took for you to prioritize their order.

Looking for a good book? Try *Start and Run a Profitable Retail Business* by Jim Dion and Ted Topping.

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