



## Distribution and Fulfillment Strategies

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**Canada**

Plan your fulfillment strategy before you get your first international order.

## Determining Your Distribution Model by Volume

Before launching your e-commerce site, you should plan out how you'll ship your products to customers and fulfill the sale. There are a variety of factors to consider when selecting the right shipping system, so that your customer orders arrive on time and in one piece. The first step in this process is to consider the anticipated volume of orders. Volume, to a great extent, will determine the best way to process your customer's orders.

### Low Volume Distribution

If you anticipate a low volume of sales initially (1 to 3 orders a day), your distribution process should be fairly easy:

- Hand-address labels
- Make a daily post office run to mail each purchase\*  
(\*Note: International shipments require more due diligence)

### Medium Volume Distribution

If you think you'll be shipping more than 5 orders a day, you should seriously consider:

- Purchasing a label printer.
- Purchasing a postage meter to automatically weigh and generate postage stamps
- Starting an account with a shipping company to pick up your orders daily
- Consider a customs broker

### High Volume Distribution

If you will be handling more than 25 orders a day, it's a good idea to look at more advanced shipping options. You may wish to integrate a high-volume model like drop shipping, or you may wish to outsource your shipping to a third party altogether. If your volume is especially high (hundreds of orders a day), you may need to have warehouse space from which to stock and ship.

Be sure to offer your customers a variety of shipping options.

## Choosing a Carrier

There are a variety of carriers that can provide ground or air delivery services for your products. Shop around to see which carrier offers dependable services at a competitive price. Regardless of your carrier of choice, be sure to offer your customers a variety of shipping options, including ground (less expensive) or faster delivery (3-day or overnight delivery).

## Choosing the Best Shipping Model

The next critical decision you have to make for your e-commerce site is which shipping model will work best for your small business. There are three widely used e-commerce shipping models – the drop shipping, inventory, and fulfillment house models. Each has its advantages and disadvantages, and you may find that one model may be more appropriate than the others based on your marketing strategy and product offering.

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### Drop Shipping Model

With drop shipping, all product handling and shipping is done by the manufacturer. Orders made by customers are relayed to the manufacturer, thereby relieving the e-commerce operator from the hassle of processing and shipping orders. The drop shipping model, while very popular, does have key advantages and disadvantages:

- Low or non-existent inventory costs
- Extremely fast and efficient
- Manufacturer coordinates fairly complicated international documentation and exporting requirements
- Lower profit margins (usually in the single digits)
- Delayed customer purchases if the manufacturer has low stock

### Inventory Model

With the inventory model, you store your inventory in your own warehouse and ship goods as you receive orders. An EDI (electronic data interchange) system may help streamline your logistics. Advantages and disadvantages of this model include:

- Fast turnaround for each order
- Improved customer service if something goes wrong during shipping
- Better profit margins for each good sold
- Higher capital risks for goods that don't sell and sit on the shelves

## Fulfillment House

The fulfillment house model involves outsourcing virtually all of the work to a third-party fulfillment house that will not only oversee shipping and handling, but will also take customer orders, provide customer support, and in some instances, oversee your e-commerce site. Advantages and disadvantages of this model include:

- Very efficient for products with high margins
- Very inefficient and high risk for low-margin products
- Success of site will depend on success and quality of the fulfillment house

## Inventory Control Management Systems

If you're running a high-volume e-commerce site, you may want to invest in an inventory control management system (ICS). There is a large selection of software-based systems in the market to help you process your orders and monitor product inventory levels efficiently. More advanced systems will provide inventory data analysis, flagging increasing inventory demand, trends, and lagging inventory.

Most inventory control management systems will allow you to:

- Display an up-to-the-second count of all inventory
- Create work orders
- Create packing lists
- Review daily, weekly, or monthly transactions
- Automatically flag lagging inventory or goods that are low in stock
- Use eFax.com, a service that allows you to receive and send faxes via e-mail

Inventory control management systems can also generate inventory reports that:

- List sales and profit margins of individual products
- Create pie or bar charts to display sales and profit margins

## Client vs Network-Based Inventory Control Systems (ICS)

Network-based inventory control systems are far more powerful than a client-based ICS. While a client-based system can only be accessed by one user at a time, a networked-based ICS can be accessed by many people at the same time. A network-based ICS enables you to integrate controls between your head office and your inventory warehouse. For example, some inventory management systems can enter or scan stock barcodes, a very handy feature that would be used extensively in warehouses. Network-based inventory systems can also allow you to better streamline your business by delegating inventory monitoring responsibilities to other individuals in your business. Again, much like the shipping model you select, your choice of an inventory control management system will be influenced by the kind of e-business you have, the kinds of goods you ship, and the volume of sales you either have or anticipate having.

## Packing and Getting Your Product out the Door

There are some important things you'll need to consider when shipping your product. It is important to have a good understanding of appropriate packaging, labeling, and documentation.

### Proper Packaging

Given that your product order could travel hundreds or even thousands of kilometres, there are some important packaging rules to follow to ensure your shipment arrives in one piece:

- The shipment should be in a very strong or reinforced container
- Avoid unnecessarily large containers – they increase shipping expenses
- Place heavy objects on the bottom, light objects on top
- Product should be braced and weight evenly distributed
- Include moisture-resistant fillers like Styrofoam pellets
- Properly label which end is up
- Palletize for efficiency and use straps or shrink wrap for extra protection
- Security is an issue, so you shouldn't mark the outside of the container with info that would make the package attractive to thieves
- Ensure proper labelling and placards for regulated goods

It is important to have a good understanding of appropriate packaging, labeling, and documentation.

Securing your shipping package is of little use if you don't properly label what you're shipping. Following these points will ensure that your shipment isn't misdirected:

- If possible, use a printer to generate your labels
- If handwritten, write with large letters, preferably with moisture-proof ink
- Place and heavily secure the label where the package is opened (usually on top)

## Documentation

A commonly used shipping strategy is to apply the label to the front of the envelope containing the product invoices and receipts, instead of sticking the documents inside the container. You may wish to include additional promotional material or a personalized thank-you letter to the customer.

## Shipping to International Destinations

Shipping to international destinations can be a complex process with many rules and regulations. International shipping often requires special documentation, and consular, port, and handling fees. If you do choose to export products by yourself, there are packaging and documentation procedures that need to be followed.

## Labelling

If you do not label your products appropriately, there is a very high chance that your shipment will be delayed or worse, confiscated. Using waterproof ink, remember to label your container with:

- A shipper's mark
- Declarations, including country of origin, port of entry, and container weight and size
- Clearly displayed caution messages (fragile, this side up, etc.)
- Clear indication of whether the shipment contains hazardous materials
- "Made in Canada" must also be permanently marked on all US-bound goods and packaging\*

\*Keep in mind as well that each country has its own unique labelling requirements.

Shipping to international destinations can be a complex process with many rules and regulations.

## Documentation

Improper documentation may result in your shipment being seized by Customs and monetary penalties. Depending on where you're shipping, there are many documents that may need to be prepared, including:

- A Consular Invoice, which is a document that describes the good as well as its value
- A Certificate of Origin, which indicates the product's origin
- An Export License, or General Export Permit, which authorizes the export of goods, and special "controlled" goods, to certain countries
- An Export Packing List (some countries require a detailed description of shipments)
- An Insurance Certificate, which protects the purchaser if the shipment is lost or damaged
- An Export Declaration (B13A)
- Additional requirements may be required by the country to which you are exporting

Improper documentation may result in your shipment being seized by Customs.

## Freight Forwarders

You may consider using a freight forwarder, a company that is very familiar with shipping costs, rules, and regulations and help get your products to their destination. Using the services of a freight forwarder can come at a steep price, so it's a good idea to research freight forwarding costs before accepting international orders. You may ultimately find that the costs associated with long distance shipping prevent you from selling your products internationally, especially if your margins for each sale are thin.

## What if Something Goes Wrong?

Shipping an order does carry certain obligations and protections for consumers. It is important that you become familiar with the basic buyer and seller rights in the event that a shipped good is damaged or lost. You should also consult with your freight forwarder.

Look into the basic rights of the seller and the buyer in the event of a damaged or lost shipment.

## Your Shipping Rights

When you send your product out the door, you'll be depending on a third-party carrier to get your package to the customer. It is imperative that you research major carriers' policies (i.e., the "fine print" that outlines the terms and conditions on the Bill of Lading) to see what they offer for compensation in the event that a package is damaged or misplaced. Most reputable carriers offer the following to its customers:

- 100% refund of credit to the shipper if the package is not delivered
- Partial or full refund if the package is not delivered on time

## Your Customer's Rights

While it is frustrating when a package gets lost during shipment, it is generally a good business policy to either replace the damaged good or refund the customer's money. You may, however, place the onus of responsibility on the carrier by including a "Damage" or "Lost Goods" clause in your company's Terms of Sale. Under such a clause, the onus will be placed on the customer to recoup their money from the carrier. Such a policy, however, tends to be business unfriendly. Consider lost or damaged goods during shipping an unfortunate cost of doing business.

## Returns and Warranties

You should offer your customers substantive return and warranty protection to cover lost or damaged goods. Ensure that you provide your customers with a detailed outline of your policies, usually contained in a "shipping policy" or "return policy" document. It is also a good idea to have these policies in separate, easy-to-find pages on your website. Standard return policies include:

- For damaged shipments, offer customers at least 14 days after delivery to return goods
- For "dead on arrival" goods that don't work after being opened, offer at least 14 days
- Products produced by another manufacturer should be covered by warranty

## Quality Assurance and Consumer Protections

Without question, your site will succeed (or fail) based on how well you serve your customers. Here are some quality assurance strategies to consider when you launch your e-commerce site.

### Order Modification

In some instances, your customers may wish to change their order before shipping. Ensure that each customer order has a unique identifier like an order number that the customer can use later through your website to change their order (such as product, delivery date, etc.).

### Backorders

There may be instances where some of your products may not be in stock. It is important that you offer your customers the opportunity to place an order in anticipation of the product being available for shipment in the future. It is generally good practice to only charge the customer when the product becomes available for shipping.

### Order Status

There are a variety of ways to offer your customers a way of tracking their order shipment. You may want to integrate some simple options in order to improve your customer service:

- Automatically email the customer a shipping tracking number after the purchase is made
- Give links to shipping carrier pages where the tracking number can be entered
- Offer the customer email support to help them track their order
- Offer the customer a toll-free number where they can call to find out the status of their order

## Shipping Insurance

To offer yourself (and your customers) protection, you may want to take out shipping insurance. Such insurance usually covers loss, damage, or delay of cargo. There are different types of insurance, however, so make sure you know what your insurance policy covers. Depending on what type of transport you use, the risks and costs will vary. International shipping, as you might expect, is more expensive than domestic insurance. Usually you purchase shipping insurance through the carrier, and it covers 110% of the stated value of the good, as well as the shipping costs.

## Additional Resources

There is a great deal of information available to anyone who wants to find out more about strategic channel intermediaries, Incoterms, duties, international warehousing, and other tips at the export resources below:

- Export Link ([www.exportlink.ca](http://www.exportlink.ca))
- Exportsource ([www.exportsource.ca](http://www.exportsource.ca))
- US Regulations for Canadian Exporters ([http://www.cbisc.org/alberta/content/canadian\\_exporters.pdf](http://www.cbisc.org/alberta/content/canadian_exporters.pdf))
- Export Documentation and Procedures ([http://www.cbisc.org/alberta/content/7\\_easy\\_steps.pdf](http://www.cbisc.org/alberta/content/7_easy_steps.pdf))
- World Customs Organization ([www.wcoomd.org](http://www.wcoomd.org))
- Canadian Trade Commissioner Service ([www.infoexport.gc.ca/shipping/menu-e.htm](http://www.infoexport.gc.ca/shipping/menu-e.htm))
- Canadian Society of Customs Brokers ([www.cscb.ca](http://www.cscb.ca))
- Canadian International Freight Forwarders Association ([www.ciffa.com](http://www.ciffa.com))
- Canadian Institute of Traffic and Transportation ([www.citt.ca](http://www.citt.ca))
- International Chamber of Commerce ([www.iccwbo.org](http://www.iccwbo.org))

## Contact Us

The Alberta E-Future Centre, a service initiative of The Business Link, is your first stop for e-business information in Alberta. We offer free, impartial, and easy-to-understand e-business advice and information for small and medium-sized businesses. Our goal is to help entrepreneurs make more informed decisions as they adapt to technological change. If you have any questions, we are only a visit, click or a call away!

### The Business Link's Alberta E-Future Centre

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