

Logistics and supply-chain management

What is supply chain management?

Supply chain management (or SCM) involves overseeing the [movement](#) of all the materials, [finished goods](#), and processes that come together to get products to customers. This includes every supply chain function, from production to last-mile delivery.



Supply chain management (SCM) vs. supply chains

Supply chain

A supply chain is a system focused on moving a product or service from supplier to customer.

This system is made up of a few key elements:

- Resources – [raw materials](#), finished products, wholesale inventory, and information

- Processes – operational functions such as [inventory putaway](#), order picking, and shipping
- Stakeholders – suppliers, manufacturers, 3PLs, carriers, etc.

In an ecommerce business's supply chain, different stakeholders work together to exchange resources and perform operational functions, with the shared goal of obtaining products and transporting them to customers.

For example, say an ecommerce business makes and sells scented candles. This business's supply chain consists of sourcing raw materials like wax, wicks, and glass containers from suppliers, creating the final products, fulfilling orders, and shipping orders from their warehouse to a customer's doorstep via carrier partners.

Supply chain management

Supply chain management is monitoring and optimizing *how* a product moves through the supply chain.

- **Logistics is an activity within the supply chain.**
- **Supply chain management is a way to link major business processes within and across companies into a high-performance business model that drives competitive advantage.**
- **Logistics refers to the movement, storage, and flow of goods, services and information inside and outside the organization.**

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How does SCM work?

Ecommerce businesses have a different supply chain compared to brick and mortar retailers. Instead of having products shipped to a retail location, products are stored in an [ecommerce warehouse](#) and shipped directly to consumers. Here's an overview of what the ecommerce supply chain looks like:

1. Planning

Good supply chain management begins with accurate demand forecasting. Demand planning allows you to anticipate changes in volume and ensure orders are placed at the right time so that you always have just the right amount of inventory.

If you don't correctly estimate how much demand there will be for each SKU, you may stock out (leading to backorders and dissatisfied customers) or end up with too much stock (inflating your holding costs).

To get the best demand forecasts possible, study historical sales data for past patterns that may repeat themselves. You should also factor in trends, seasonality, and geographical values or needs, as these can also affect demand.

Implementing an [inventory management system](#) (or IMS) can make it easier to track and analyze this data over time.

2. Sourcing and manufacturing

Next, your business must manage procurement – in other words, how and when you obtain the products you'll sell.

Find a supplier

The first stakeholder in the supply chain (other than your business) is the manufacturer. Though it will depend on the types of products you sell, you'll need to find a supplier that can manufacture your product in a safe, cost-efficient, and timely manner.

Here are some questions to ask when evaluating potential suppliers:

- Where are the raw materials coming from?
- If your manufacturer is overseas, have you ever evaluated the shipping savings of a closer-to-home supplier?
- Can your goods be made closer to home?
- Have you looked at diversifying your suppliers to have other sites as backups for risk management in the event that a factory shuts down?
- Can you [cut costs and production lead times](#)?
- Does your supplier know when products need to be reordered?
- Can your manufacturer further package or build your products to reduce the need for [kitting and assembly](#) in the fulfillment center?

Having risk management built into your supply chain at times like the COVID-19 pandemic are more important than ever.

Arrange for inventory transportation

You must then coordinate with your manufacturer on how your product(s) or raw materials will be transported. If you have multiple warehouses, you need to ensure that the right amount of inventory reaches each specific warehouse and the proper documentation is included with the [freight shipments](#).

Demand planning allows you to anticipate changes in volume and ensure orders are placed at the right time so that you never run out of inventory and also don't have

money tied up in excess inventory. An [inventory management](#) system can help manage this.

3. Fulfillment

After inventory is transported from the supplier or manufacturer and arrives at the ecommerce brand's warehouse or fulfillment center, the next supply chain stage is fulfillment.

Receive and store inventory

Once inventory is received at a fulfillment center, it must be properly stored. Each [SKU](#) needs its own unique storage spot for accurate and fast retrieval (e.g., a red shirt that is available in S, M, L, XL, and XXL will require five separate storage locations).

Process orders

The next phases of the supply chain are triggered when an order comes through from one of a business's sales channels. Whether it is an ecommerce platform, [social channel](#), or dropshipping order, the merchant's order management system must confirm the order and route it to a warehouse or fulfillment center.

Some 3PLs, like ShipBob, integrate directly with a business's ecommerce store to automatically process orders. They may even automatically assign those orders to be fulfilled in the fulfillment center closest to the order's final destination to minimize shipping times and costs.

Pick and pack orders

Once an order is confirmed, the items in that order must be retrieved from storage. This process, called picking, is usually done by hand but optimized for accuracy and efficiency using [barcode scanners](#), pick list generation, and other [automations](#).

Picked items are then transferred to packing stations, where they are placed inside a box or [poly mailer](#). Businesses may choose to customize their packaging to delight customers or advertise their brand – though this can add complications and slow operations.

4. Delivery

Packed orders must then be delivered to end customers.

Selecting a carrier

Merchants will need to select a carrier partner to ship their packages. Different carriers will offer different services and rates, and some may be more reliable than others. In evaluating your options, you will need to decide what qualities are most important to your shipping strategy.

While customers expect fast shipping, it is not always affordable. With a logistics partner to strategically distribute inventory and negotiate bulk discounts on your behalf, your brand can achieve fast shipping at a good price.

Prepare orders for shipping

Next, merchants need to get their packages into the carrier's hands. If you fulfill orders yourself, this may involve multiple trips to the post office. When you outsource fulfillment and shipping to a 3PL, they will coordinate with carriers to hand off packages for you.

Last-mile delivery

From there, couriers will deliver packages to the end customer. Carriers might use multiple different modes of transportation, but [ground transportation](#) is the most common method of doorstep delivery.

Make sure you choose a carrier that you trust to keep packages in good condition, as damage in transit still reflects poorly on your brand.

5. Returns

Even after customers get their orders, they may decide to return items. Your brand should have business processes in place to [manage returns](#), as well as to determine which items are restockable and which are not