

An e-commerce manager's
guide to Vendor Direct
fulfillment to drive better
customer experience



The COVID-19 pandemic has resulted in a fundamental shift in consumer buying behavior, leading to a phenomenal increase in digital interactions. E-commerce sales and industry experts are predicting that this change will be permanent and is here to stay.

As a result, there is enormous pressure on the supply chain to fulfill online orders. Last-mile execution of fulfilling so many e-commerce orders via parcel carriers is very expensive due to the lack of in-house logistics infrastructure, high order volumes, and the frequency of delivery trips made. To counter this, retailers are rapidly scaling up their digital platforms and building new capabilities to service these online orders by adopting various fulfillment modes such as store pickups, curbside deliveries, urban micro-fulfillment centers, and vendor direct fulfillment.

This whitepaper will explore how retailers can efficiently manage their e-commerce supply chain using the Vendor Direct fulfillment model.



COVID-19 has catalyzed unprecedented changes in the way businesses will need to operate, and it has fundamentally changed the way consumers shop. There is a dramatic shift in the consumer buying journey, moving away from physical brick-and-mortar stores to online websites & apps. A McKinsey report indicates the US digital commerce market penetration witnessed a jump from 15% to 35% in just one quarter during the lockdown period. Some organizations have even reported that they are witnessing their 3-year projections of growth mostly via their e-commerce channels right now.

Shoppers are scaling back on discretionary spending and focusing more on affordability. Consumers who were already shopping online have expanded their purchasing to include essential items such as groceries, health and personal care, beauty and household items, pet supplies, and baby products.

In addition to consumers expanding their online purchases, new users have been forced into shopping online for the first time in record numbers. Scarcity and non-availability of products drove customers to try different brands and new products which they didn't previously use.

This sudden shift from brick-and-mortar retail to online and the spike in demand for e-commerce purchases has put tremendous pressure on retailers and consumer brands, creating issues across marketing, operations, and supply chain functions.

Industry experts say when new users try online shopping, they tend to continue to purchase online rather than go back to buying from brick-and-mortar retail stores. And so, businesses are rapidly scaling up their digital capabilities to provide flexible business models like live streaming, rental, and subscription models to drive engagement and conversion.

Physical distancing and lockdown mandates have compelled retailers, large and small, to accelerate their omnichannel initiatives, which have become table stakes now. Most retailers who have an online and physical presence have accelerated the rollouts of curbside pickups and omnichannel fulfillment. Some retailers have created micro fulfillment centers in metro areas by converting a part of their stores to enable faster delivery and fulfillment.

The skewed and unpredictable nature of demand has led to high inventory misalignment and uncontrollable out-of-stock issues. The lack of co-ordination between retailers and their sources of supply to address these demand spikes has resulted in many lost sales opportunities.

The lack of transparency in the supply chain exposed the interdependencies of the multi-tier supplier relationships. It compounded the problems in determining the alternative sources of supply, as many of the vendors have either closed or are no longer in a position to meet the demand.

This also resulted in a significant increase in third-party (3P) seller activity. With many 3P sellers taking advantage of spikes in demand, there is a resultant cost escalation in the last mile delivery execution.

With many retailers having only tier 1 supplier visibility and not having invested in building direct fulfillment capabilities, fulfillment has largely been reliant on 3P parcel carriers and, hence, face challenges to get their products to consumers.

Vendor Direct fulfillment – a virtual warehouse model for e-commerce markets



Vendor Direct is a fulfillment method where the vendor ships the items to the customer directly on behalf of the online retailer with whom the customer placed the order. This type of fulfillment enables the implementation of an inventory-less sales model or a virtual warehouse model where retailers need not own inventory or warehouses to sell and fulfill orders. The sales orders are captured online on the website and the orders are routed to vendors or distributors who will ship products directly to customers. The vendor direct model deals with orders from thousands of customers being shipped to thousands of customer locations. Orchestrating these singles orders is more complex than bulk POs, where single orders with thousands of line items are shipped to few warehouses.

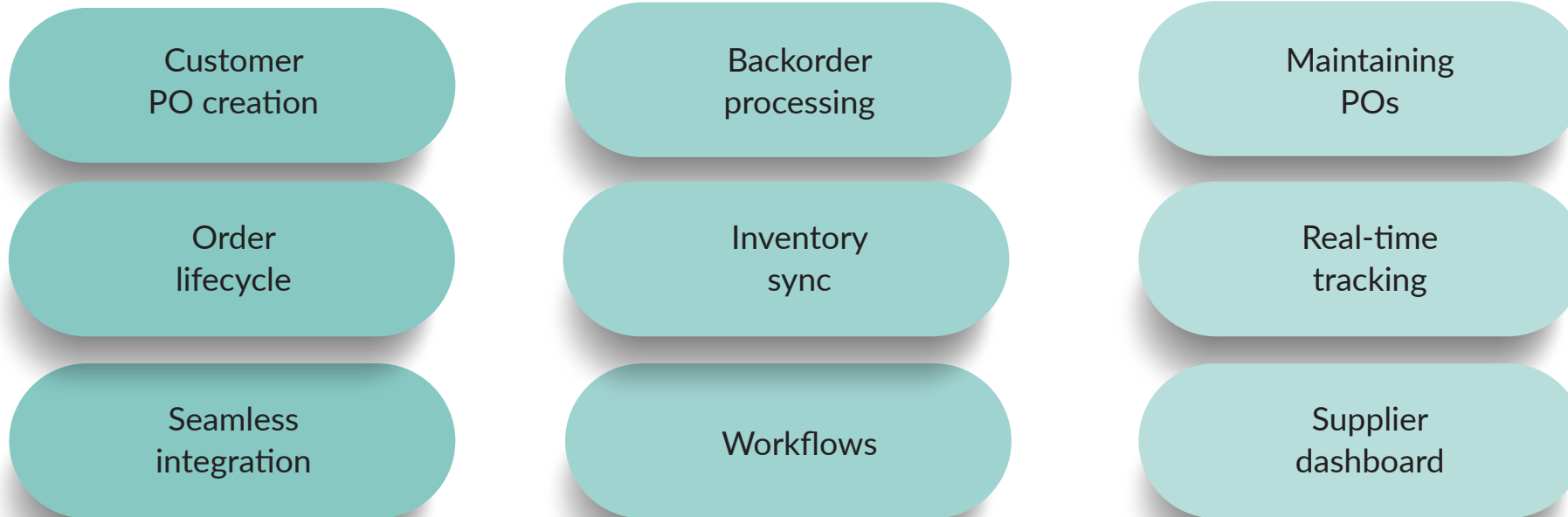
What makes this fulfillment model powerful is that it helps drive top and bottom-line growth, diversify and de-risk the supply chain, drive efficiencies in fulfillment, and help exceed customer expectations.

Let us see how.

From an ROI perspective, the vendor direct model eliminates the need for the online retailer to stock and own the inventory sold on the website. The risks and the operating costs involved in managing the inventory, such as receiving, stocking, fulfillment, inventory carrying costs, and insurance costs, are removed from the equation.

At the same time, the end customer gets a seamless experience, fully aligned with the retailer's brand because the vendor is required to adhere to the branding and packaging guidelines while shipping out the product.

Vendor Direct fulfillment addresses the supply chain issues faced by the e-commerce markets by establishing a supply-on-demand framework. Let us look at some of the building blocks for the successful execution of Vendor Direct fulfillment.



Customer PO creation

Automate the sales orders from the online website to create a customer PO & transmit in real-time to vendors, based on the proximity of customer destination address, fulfillment location, and the availability to promise supplied by the vendor.

Backorder processing

When a vendor indicates the non-availability of an item in stock and provides the website with an expected availability date, a rule engine can be put to work for creating backorders so that the website can continue receiving orders from customers. These orders could be communicated to the vendors as backorders either one-to-one (one PO per customer order) or one-to-many (consolidating multiple orders received from multiple customers). The shipment date for the customer can be configured based on AI-enabled intelligent automated preconfigured rules such as expected delivery date (# of days) and adding the transit time required to deliver the order to the customer location.

Maintaining POs

Ability to maintain customer POs with the flexibility to update cost, delivery address, and cancel a PO, receive vendor updates on PO acknowledgment and receive ASN/Invoice upon shipment completion from the vendors.

Order cycle

Ability to provide comprehensive order fulfillment management so that the order status can be viewed at any point in the lifecycle of a customer order, right from receipt of the order in the website, creation of the PO and acknowledgment from the supplier network, carrier tracking & delivery process to the customer to returns processing and reverse logistics tracking of the item back to the vendor location.

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Inventory sync

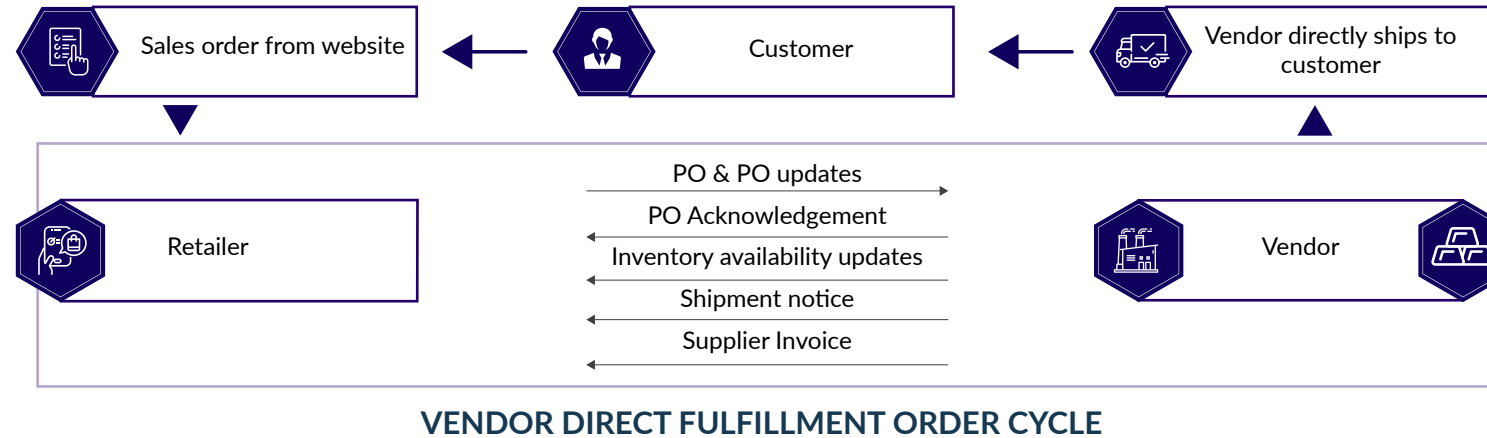
The vendor direct fulfillment must have the capability to synchronize inventory from multiple vendor locations in near or real-time, where availability to promise & estimate shipping dates are published in advance by the vendors enabling customers to look at the item's availability at the point of purchase and place orders. This will help minimize costly backorder processing and reduce lost sales opportunities and eliminate customer disappointment.

Real-time tracking

Real-time carrier tracking capabilities involve visibility of the products from carrier pickup at the supplier location, up to the delivery to the customer. Real-time tracking capabilities also enable access to shipping status, automating the order status updates to the customer, resulting in reduced call center queries.

Seamless integration and workflows

While almost all retailers have well-designed, intricate integration details of their front-end catalog applications with the online transaction systems, addressing the integration of the supplier systems with their own becomes a critical requirement to handle the vendor direct model. Retailers need a flexible integration platform to enable seamless data exchange between their systems and their supplier network to eliminate the challenges of integration posed by data movement between systems across multiple formats. Enabling all involved parties to transmit, as well as receive, data in multiple data formats such as flat files, Excel spreadsheets, XML, EDI, and API web services allows the supplier networks to extend the value of their existing legacy systems and not having to make new technology investments.



Supplier dashboard

The quality and fulfillment performance of vendors presents a continuing challenge to retailers. Evaluating the performance of vendors in the supplier network partners and measuring them against key metrics such as order fill rate, order acknowledgments, ship time, percentage of returns or backorders, will help retailers monitor and apply adherence on agreed SLAs to manage customer expectations and improve satisfaction

The key imperatives required for a successful Vendor Direct model are:

- **Integrated supply chain**

While the front-end & catalog and transacting applications within retailer ecosystems are well integrated, integration of supplier systems with downstream supply chains is critical and needs to be addressed. Many suppliers' internal systems, such as their accounting, warehouses, and transportation, are also not inter-connected. Access to availability of accurate, location-aware, and up-to-date product inventory data and the capability to display this information in real-time at the point of purchase (e.g., the retailer's e-commerce website), enabled by a standardized set of extensible APIs, is critical to the success of the vendor direct model.

- **Control inventory and fulfillment costs**

Retailers need to establish an inventory and fulfillment model that balances customer experience and profitability, as physical stocking of all products within their premises isn't practical and is capital intensive. The vendor direct model allows retailers to expand assortment, adjust product offerings and eliminate inventory handling and warehousing costs in a virtual warehousing model, which helps meet customer expectations and market demands.

- **Address legacy system challenges**

Legacy systems exist with retailers as well as their suppliers. While several retailers have set priority initiatives to streamline the connections, many suppliers are unable to adapt to these systems and lack in-house IT capabilities. These disparate systems, compounded with performance & integration challenges, must be addressed to manage coordination quickly and reliably with multiple parties.

- **Reverse logistics support for returns processing**

Enabling suppliers to manage their own returns eliminates handling costs for the retailer. The last mile execution systems managing these processes must provide complete visibility and control over the process

- **Enable vendor exchange with ready or pre-built technology infrastructure**

To support the vendor direct model, e-commerce retailers must establish stronger trade partnerships with:

- Agile, universal, pre-built connection kits that eliminate costly development time
- Streamlined workflow configurations and business rules enforcement for all participants in the supplier network
- Faster data transmission and speedy onboarding of new vendors and product catalogs and establish stronger trade partnerships

Conclusion

As global events such as COVID-19 increase the urgency of digital transformation for retailers, the adoption of supply chain best practices for order fulfillment and last-mile execution will continue to accelerate. With increased pressure from competition and continuing cost escalation on the last mile delivery front, retailers must look at alternate efficient and cost-effective options to get their products to their customers.

Vendor Direct fulfillment addresses the supply chain issues faced by the e-commerce markets by establishing a supply-on-demand framework.

The key requirement towards the successful execution of the vendor direct fulfillment is to provide a comprehensive platform that integrates trading partners to enable near or real-time information sharing, bi-directional visibility, consolidation and synchronization of orders and inventory availability, transmission and receipt of data across various formats, a comprehensive view of the order status across its lifecycle, real-time carrier tracking abilities and returns processing.

Vendor Direct definitely accelerates the process of unifying the e-commerce operations by defining the requirements for supply-chain integration and virtual warehouse model. The broad selection offerings, capital efficiency, and reduced risks in inventory handling and shipping provide retailers avenues to meet continually increasing customer expectations.



About Author

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Arroon Arunachalaiah works as a Product Leader in the digital supply chain space for the retail & consumer services industry vertical in Zensar Technologies. He has 20+ years of experience in handling multidimensional roles across Product management, business consulting, and digital transformation. He has worked with several global retailers helping them in the areas of business transformation, solution design, and package evaluation in the areas of omnichannel enablement, customer experience, digital commerce, and business intelligence.

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