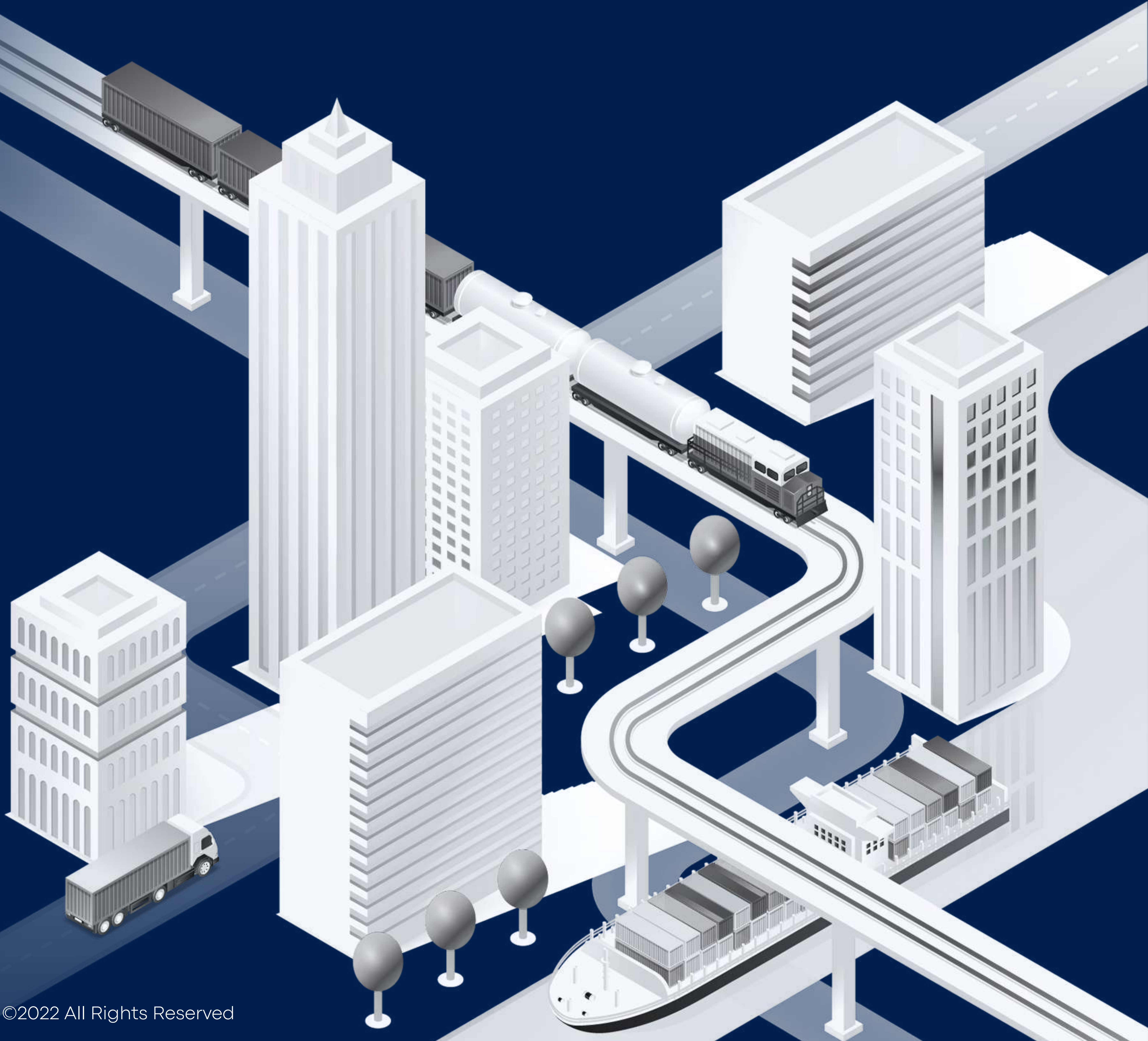




ECOMMERCE CHECKLIST

How to choose a fulfillment center for your store

Learn how to choose the right fulfillment center for your business without losing your mind in the process!





About us

We are an online logistics consulting firm that delivers actionable insights that solve problems, optimise processes and reduce costs. We are located in Hong Kong, a strategic location for any company that is considering expanding internationally.

We are close enough to the manufacturers and fulfilment centers in APAC with the possibility to source and obtain products within 24-48 hours when needed.

We can support your expansion, helping you enter new markets, ship worldwide, reduce costs and sell more. How do we do it, you may wonder. We use a combination of years of knowledge and experience in cross-border e-commerce with the focus on processes optimisation, international expansion and cost reduction.

Your trusted eCommerce partner

- Based in Hong Kong, a Strategic Location in APAC
- Years of Experience in Consulting DTC E-Commerce Brands
- We Test Strategies Ourselves First
- We Have a Network of International Partners
- Ecommerce Expertise
- Logistics and Cross Border Shipping Mastery
- Quality Control and Auditing Solutions in Less Than 72 hours
- Sourcing and Procurement Assistance



Checklist

- Costs
- Proximity of the supplier
- Capacity
- Network
- Local infrastructure
- Value Added Services (VAS)
- Bonded and Non-Bonded facilities
- Security
- Inventory accuracy
- Language barriers
- Handling specialisations



Costs

Before starting the analysis, it is essential to remember that not all the variables in the list need to be present. You can select the ones that are most valuable to your business and focus on just a few of them. Of course, you can still decide to find the right fulfillment center that meets your requirements for all of the above points in the checklist!

First of all, you should understand the costs related to launch the new warehouse, keeping stock, shipping orders but also the cost of shipping the products to build the inventory. This can mean:

- How much does it cost to ship inventory to the warehouse from your factories (in some countries the shipping rates are much higher than others so it's worth estimating them first);
- Storage cost per day, if there is a minimum to be paid per month;
- Is there an order fee in addition to storage costs or picking and packing costs?
- How much will it cost you to use their courier? Would you use yours?
- How much will it cost to pack or run the value-added service you need? For example, put a gift card in each box;
- Are there any unloading costs for incoming stock? if so, how much?
- They can handle returns. If so, how much does it cost?
- What is the price per man hour in case you need it?
- Do they offer packaging supplies? If so, how much do they cost?
- Do they have minimums in terms of orders or storage? If so, how much should you pay if you don't hit the minimum?
- and so on!

Make sure you always have an answer to at least the above questions. They will help you understand how much it costs you to ship 1 order by including all the different variables in it!



Proximity of the supplier

Secondly, you should consider the proximity of your supplier and the ease with which you can transport your stock. Will this variable have a major impact on your business? If so, it is definitely one of the main ones to consider.

An example could be the made-to-order, where you first receive the request from your customers and then start production. In this case, a lot of time is already lost to produce it and the proximity of a fulfillment center / warehouse becomes essential to process the order as soon as possible, avoid long waits and unhappy customers.

In general, below the main points to keep in mind:

- Where exactly is your manufacturer located?
- Where are the options for a nearby fulfillment center in the same country?
- Is there the possibility to start the shipment directly from the manufacturer?
- Is there a good infrastructure between your supplier and the location of your fulfillment center / warehouse?
- How long does it take to produce a batch of stocks?
- How long does it take to ship one / two batches of stock from your manufacturer to the chosen locations?
- Is your manufacturer close to the port or airport? If so, it might be easy to ship anywhere.

Take for example the case of a manufacturer located in China and a fulfillment center located in Hong Kong. Hong Kong city is a special administrative region where you can import freely without any duty or tax (including VAT) to pay. The only exception is for excise duties on alcohol or tobacco. Hong Kong has its own airport but also one of the most important ports of the APAC. That said, it will be very easy to ship internationally from Hong Kong as most of the time the distribution centers are located within a few kilometres from the airport. Transportation from your manufacturer in China to your fulfillment center in Hong Kong can be quite cheap but fast too, where you can only rely on a truck or container to deliver. In addition, you have very trained staff at your disposal, the proximity of the airport from which hundreds of daily flights depart and the port. In this case, it may be more expensive to have a fulfillment center in Hong Kong than in China, but you will have access to various scenarios that only a city like Hong Kong can offer.



Capacity

Third, there is the capacity constraint. This is one of the most important variables considering that, if you start growing, it will be a big problem to get out of a fulfillment center that cannot fully fulfil your orders, without interrupting operations. While many brands decide to opt for a cheaper solution and use very small or dispersed warehouses, it is crucial for the company to have a long-term vision and understand the full potential of your products.

In order to better understand the capacity, you should ask yourself:

- NEVER consider square feet as a whole. If you ask your partner to tell you how big the warehouse is, they will tell you how big it is. How big it is does not mean that the entire space can be used for storage. If you look at the dimensions, you need to consider that a part of the warehouse has been assigned to stock storage, a part has to be left empty to process inbounds, a part is assigned to pick and pack stations, part to return stations and so on;
- Capacity is not just storage allocation, but also outbound. It means how many orders can pack and ship on the same day. Be careful, packing 10,000 orders a day doesn't necessarily mean they're shipped the same day. Some fulfillment centers have multiple shifts during the day. This means they are likely to be able to pack orders from 8am to 1am the next day for a total of 10,000 orders where in reality maybe only half are picked up by couriers at 6pm or 8pm, for example;
- You will hear terms like CBM = cubic meters, most likely you will be charged for storage based on CBMs and the same goes for capacity. There will be a maximum number of CBMs that the warehouse can store on a monthly basis;
- There will also be a maximum number of stock CBMs per inbound that they can handle, a maximum amount of inbound per day (1,2,3 trucks of stock only per day or week). There will be a maximum number of returns or quality checks that they can perform in one day.

Holidays, peak seasons of weather conditions can create capacity problems. They should provide a backup plan on how to manage potential backlogs.

So make sure you know your potential and what you will need, ask the right questions and make the right choice.



Network

Fourth, you need to consider what partner network you can have access to when choosing a specific fulfillment center rather than another.

What does it mean? It means that the fulfillment center should have a partner network that you can use in different areas. In general, the most common complementary services offered are:

- Local Trucks;
- Cross-Border Truckers;
- Freight Forwarders, both Ocean and Air Freight;
- Tax Advisors;
- Couriers (both Express and Postal);
- Custom Clearance Agents and Brokers;
- Consultants;
- Cross-Border Tax Advisors;
- Additional Warehouses Worldwide;
- Packaging Suppliers;
- Other Procurement Services;
- and more!

Sometimes, the fulfillment center may not have many locations available, but there should always be partners you can rely on.

The network variable is one of the most important, as for your career. You want to have the right people around and the right network of people to be successful. It works the same way for a warehouse, you will not have to waste time and worry, if your partner has consequently more partners to rely on in case of need.

You may think that some services or partners are not needed at the moment, but you should imagine the future of your brands and the growth you will experience. When the time comes, it will be too late to adjust in a short period of time.



Local infrastructure

Fifth, there is the local infrastructure. Remember the example above for Hong Kong? This city has the right combination of infrastructure and services on offer.

There are:

- Railways in excellent condition, to support the daily traffic / inbound of goods from China;
- Highways in excellent condition with frequent maintenance, supporting connections with multiple cities in mainland China;
- The airport is right in the city, reachable in 1-2 driving hours maximum. It means you have access to Air Freight quite easily;
- There is the port, which means you have access to Ocean Freight quite easily;
- It is an international hub, with multiple couriers having their office and facilities in the city. There are many choices;
- By having the airport in the city, you have access to faster transit times for your orders;
- The government invests in local infrastructure every year;
- and so on!

Traffic conditions, the presence of a port or an airport make a big difference when it comes to transit times, risk of accident with loss of stock and similar accidents. Especially when the warehouse location is quite remote, it becomes difficult to understand whether the weather conditions accompanied by traffic will also allow the transit of goods to an international channel.

If possible, it is advisable to visit the country and warehouse of your choice before signing the contract so that you can understand the condition of the local infrastructure and which direction your goods will take in or out.



Value Added Services

Sixth, there are Value Added Services. These are also called VAS in the short form. If there's one thing your warehouse should have, it's flexibility. Especially after the e-commerce revolution that Covid-19 has brought with it, it is essential to have flexibility and be able to carry out ad hoc services to satisfy end customers.

Customers have become fussy but also hungry, they know how to compare products and if you don't have a competitive advantage over other brands in the market, you will sink. However, this may not always be the case, but it is still useful to have some flexibility in how orders are handled and the services offered.

VAS are services that are not included in the basic rate offered, but are on request and charged on a case-by-case basis. Some examples of VAS are listed below:

- Barcoding of SKUs;
- Quality Control and Inspection;
- Kitting;
- Bundling;
- Cross-Docking;
- Marketing Materials Inserts;
- Customised Packaging (for Christmas sales for example);
- Labelling;
- Disposal of Goods;
- Palletisation;
- Unloading of Inbounds;
- Re-packing of Goods;
- and more!

Before performing any additional services, the warehouse will notify you of a price. It is always best to clarify in advance how much it would cost to run some of the common VAS so that you can get an idea of how expensive it is. Sometimes it's on VAS that you lose the most money!



Bonded and Non-Bonded facilities

Seventh, there is the type of warehouse / fulfilment centers you could use. This is when we talk about bonded and non-bonded warehouses.

A Bonded Warehouse is a facility that generally belongs to the government but can also be privately held, and is strictly controlled by the local Customs.

This type of warehouse allows you to move the goods in the country without paying duties or taxes since there is no import. The goods are "in transit". It is like a temporary storage for your goods, so you will only pay duties and taxes if you resell them on site. These warehouses allow you to keep stocks without any import with indefinite time limits or up to a few years, depending on the country.

In a nutshell, many companies do not import right away but use the bonded warehouse to ship products to a certain country without the need to pay high amounts of duties and taxes upfront but instead import single units (orders) as soon as they are sold locally and pay duties and taxes at the point of sale. The main reason is mainly due to cash flow, with a "deferred" payment rather than an "advance payment" of duties and taxes, even before selling locally. Generally, bonded warehouses are more expensive with fulfilment rates as it will take longer to import the orders one by one into the market but also because they have advantages that must meet certain requirements to be in place.

A Non Bonded Warehouse, on the other hand, is a private facility where you can store your goods, ship orders and manage returns. Duties and taxes are paid on import and the warehouse will not be able to receive and store your goods unless customs clearance has been taken care of. So, you first import the goods, pay the taxes and then the warehouse can come in and perform the services.

The main points to remember for a Bonded Warehouse:

- Improves Cash Flow;
- Allows You to Re-Export Without Complexity;
- Ideal for Restricted Goods;
- Strategic for International Shipping (re-export)



Security

Eighth, warehouse security is definitely a must. There are several ways to evaluate safety, but the most important points to keep in mind are:

- The presence of CCTV cameras that cover the entire warehouse. No blind spots;
- The presence of a clear training process for new employees;
- The presence of a "control tower";
- The presence of controlled access, such as with a magnetic key;
- The presence of sensors, such as motion detector and glass break detection for windows for example;
- The presence of a control system for the entry and exit of the vehicle, pick up and the like;
- The presence of a strong and secure WMS system;
- The presence of the fire alarm, the fire extinguisher and the evacuation plan;
- The presence of a clear procedure for visitors and guided tours;
- The presence of separate areas for the inbound and outbound of goods;
- The presence of reasonable employee background checks;
- The presence of an employee safety plan;
- The presence of a clear process and training for handling dangerous goods;
- The presence of a security check and assessment from time to time;
- Analyse the crime rate in the surrounding area;
- Analyse how inventory is tracked and how it can ensure accuracy.

In general, ISO certifications are a good starting point for understanding the quality of a warehouse and building trust in customers.

ISO stands for International Organisation for Standardisation. Security does not only mean protection from possible theft of goods, it also incorporates quality.

The most common certification that evaluates quality standards is ISO 9001. As you inquire about security measures, you should also inquire about the ISO certifications that the warehouse holds. If a warehouse does not have an ISO 9001 certification, it means that it does not comply with international standards for quality control and therefore you may want to reconsider the options you have available and the warehouse you want to choose.



Inventory accuracy

Ninth, we have inventory accuracy. How can you make sure that there are no inventory leaks but above all that you have sufficient inventory?

Well, it all comes back to inventory tracking. The most common way to track inventory is to use a barcode. The barcode identifies a specific SKU (and consequently, a specific product, of a certain colour / size / dimension etc.) which must be scanned before shipment to verify its accuracy, if the scanned item matches the barcode associated with the product in the order you are handling then it can be shipped.

Generally, barcode scanners are connected to the WMS (warehouse management system) to build a wall and avoid shipping products that are not the ones ordered (because the barcode is different).

When choosing a warehouse, you should make sure they at least use barcode scanning but also ask them to explain how they process the order. Simply because they require products to have barcodes does not necessarily mean that they actually use them or that there is a barcode-based system / process to ensure inventory accuracy. Inventory accuracy should also apply to entry. It means there should be a clear process to track each input, the units associated and so on. Also, consider the followings:

- The presence of a shrinkage policy. You should have an accuracy target (say 97%), what if there is less accuracy than your target? Is there any compensation? What would be the procedure for requesting a refund? These are some of the questions you should ask your partner;
- The presence of monthly KPIs to track the inventory;
- The presence of inventory counts, at least once a year, generally once every quarter to verify the accuracy of the data available, especially when there are high volumes in and out on a daily basis;
- The presence of KPIs after each count.



Language barriers

Tenth, we need to take into consideration the potential language barrier that may be in place. If your warehouse / fulfilment center is in China, for example, or a non-English-speaking country, it may be difficult to communicate. This means that misunderstandings can occur more frequently than usual.

If you decide to proceed with a warehouse that is in a non-English speaking country, make sure that the proficiency of your main points of contact is above average. When you give instructions in very technical terms, you need to be sure that the other party fully understands what you mean. Sometimes what you imagine in your mind while giving instructions does not exactly match what the other side is imagining and understanding on their side.

Focus on giving instructions in bullet points, with at least one example or image or video to show what you mean. Sometimes making a video of yourself showing what you mean can save you from a disaster!

Handling specialisations

Eleventh, the specialisation of a warehouse. Different products may require different handling, for example for pharmaceuticals or clothing, food and cars. This is a big enough topic to discuss and so we just focus on a few examples to help you choose your partner based on the type of products you sell. For instance:

- If you sell pharmaceuticals, your chosen warehouse must be certified by the local government / official entities to handle those products, support the right temperature (cold chain) and packaging;
- If you are selling clothing, you will most likely need a different warehouse facility where instead of just having shelves, they should have hanging garment racks, speed rails, and slick rail structures for an efficient pick.

Same goes for returns. You should be careful what process is followed when a shirt is returned, for example, and how they handle it.



Presence of international agreements

Twelfth, the presence of international free trade agreements in the place you have considered. This can be thought of as a "Location" variable but it is more than that. It's not just location as a geographic place, local infrastructure development, or proximity to your supplier. It takes into consideration the additional benefits you might get in terms of international trade, duties and taxes for importing in one country over another.

To give you an example, the benefits apply to goods exported / imported to countries that are part of the NAFTA (North American Free Trade Agreement) which provides, among all the benefits, the deferral of duties when the specified requirements are met.

<< To facilitate greater cross-border trade, the United States has reached an agreement with Mexico and Canada to raise their de minimis shipment value levels. Canada will raise its de minimis level for the first time in decades, from C\$20 to C\$40 for taxes. Canada will also provide for duty free shipments up to C\$150. Mexico will continue to provide USD \$50 tax free de minimis and also provide duty free shipments up to the equivalent level of USD \$117. Shipment values up to these levels would enter with minimal formal entry procedures, making it easier for more businesses, especially small- and medium-sized ones, to be a part of cross-border trade. >> informs the Office of the United States Trade Representative.

In a few words, if you import in Canada some goods that then, get sold in the United States, you can apply for duties drawback and just pay them once instead of paying them at the import in Canada and consequently, on the sale to the United States.

Of course, it depends a lot on the case. The example above may or may not apply to your brand, so we suggest you seek out a professional advisor who can guide you through the process based on your situation.



Logistics Base

Contacts

Need help with the logistics or operations for your eCommerce Brand? Click one of the link below and drop us a message!

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