



Inventory Estimation and Why I Use FBA

Purpose

The purpose of this lesson is to provide you with details on inventory purchasing and order fulfillment, then to explain why I use "*Fulfillment by Amazon*" (FBA) and how exactly that works.

Inventory Overview

Here are a few things to think about when estimating your inventory:

- **Depends on supplier** – how much inventory you can order initially, what sort of discounts you get, what options are available, etc. are all factors dependent on your supplier. If you drop-ship products, for example, you won't need to carry any inventory. Some companies will private-label products for a quantity of 1, while others won't private-label at all or require large quantity orders (e.g. 500, 1000).

You may also want to check with multiple suppliers. If you're selling a branded product that you are drop-shipping or wholesaling, you may have fewer options, but if you're selling a product that has multiple suppliers, you want to check which ones have the best options (pricing, order quantity, shipping rates, etc.).

- **Minimize your risk** – if your inventory doesn't sell, the money you spent on that inventory is wasted. Therefore, you want to be sensible about what products you purchase as well as how much of those products you intend to buy.

For example, if you have a product with an expiry date, you won't be able to sell the product past the expiry date, so any remaining inventory is lost money. Also, if you buy a lot of inventory for nonsensical products that don't sell, you've basically thrown away your money on useless inventory. Choose sensibly and buy in sensible quantities to help minimize your risk.

- **Focus on a small number of products (initially)** – this will help you establish your inventory systems, your re-ordering systems, your order processing systems, etc. Having 1 to 3 products initially will help you easily manage these systems, and at the same time you will be learning how to avoid having too much inventory for products that are not selling well and how to respond effectively to products that are selling well (e.g. re-ordering inventory).

Initial Order

When estimating your initial order, here are some things to consider:

- **Affordability** – the first question you should be asking is how much can you afford? If you don't have enough money to buy a significant amount of inventory or would need



to engage in a risky money management scheme to do so (e.g. mortgage your house), you may want to forego an opportunity. Opportunities present themselves often, so waiting until you can reasonably afford to buy inventory is highly recommended.

- **Quantity** – when first starting out, it's probably best to purchase between 10-20 units of your product (depending on price). This will give you enough inventory that, if it sells, you can make some money, but if it doesn't sell, you won't be stuck with too much inventory.
- **Discounts** – you may not be eligible for quantity discounts right now, or you may not hit the discount quantity level when purchasing in lower quantities, but it is still good to look into these as you may discover that buying a little more quantity entitles you to a discount. It may also help in planning future purchasing quantities for products that are selling really well as both cost and risk may be reduced for higher inventory levels.
- **Partnering** – if you know someone else that is selling the same product, you may consider partnering with them when purchasing inventory in order to hit the discount quantity levels without carrying the inventory all by yourself.

Fulfillment

There are a lot of things involved in fulfilling orders:

- Purchasing shipping supplies.
- Receiving inventory (bulk orders).
- Printing packing slips and shipping labels for individual orders (can be done via Amazon and could be assigned to an outsourcer).
- Ensuring correctness of order about to be shipped (inventory, quantity, packing slip, shipping label, etc.).
- Shipping orders out (hoping the shipping company doesn't mess up the delivery).
- Re-shipping failed shipments – whether because of the shipping company, fulfillment team, or yourself, when a product fails to reach the customer, you need to reship another order of the same product (assuming you have it or have enough of it) for the sake of customer service and your Amazon seller rating.

Why I Use FBA

It is because of these things that *Fulfillment by Amazon* (FBA) is an attractive, highly recommended alternative and one I have begun to almost exclusively use. With FBA, bulk shipments that you order from your supplier can be shipped directly (if the supplier will do so) or forwarded on by you to Amazon. Amazon will then take care of the rest - order processing, all customer service issues related to shipments (e.g. if shipping fails, Amazon is responsible to take care of it), shipping costs, etc. It turns out to be a win-win situation, with the benefits to



you being reduced fulfillment costs, no need for a warehouse or to carry inventory in your home, and so on.

Fulfillment by Amazon

Here are a few details to help you gain an overview of how FBA works:

- **Amazon listing** – in order to use FBA, the product has to be listed on Amazon. It can be an existing product or some product you are listing yourself, such as a *Private Label* or *Wholesale* product.
- **Mark listing as 'FBA'** – through your seller's dashboard, you can mark a product on your seller's list as FBA by checking the "Fulfilled by Amazon" setting. When first adding a product to your seller's list, you'll actually see this option as part of the process.
- **Replenish inventory** – once an item is marked for FBA, you need to make certain the item has sufficient inventory for orders to be fulfilled. When you are ready to send or replenish inventory at Amazon, you find the listing on the list in your seller's dashboard and click "Send/replenish inventory".
- **Prepare paperwork** – once you click "Send/replenish inventory", Amazon will ask how many you want to send to them. You then print the packing slip and shipping label. The packing slip goes inside the shipping box and the shipping label is attached to the outside of the box. If your supplier is able to ship directly to Amazon, send them the packing slip and shipping label. Otherwise, handle the placement of the packing slip and shipping label yourself.
- **Ship the inventory** – once all that has been done, have the supplier ship the inventory directly to Amazon or, if it has already been shipped to you, send it to Amazon yourself.

Now that this has all been completed, Amazon will process all the orders that come through and pay you your portion of the sales every 14 days.

Managing Inventory

The means for managing your inventory is as follows:

- **Watch within Seller Central** – when logged into your dashboard, you'll see a notification area where Amazon indicates when inventory is out of stock, etc. You can also check the listing on your seller's list to see what the inventory levels are at and respond accordingly.
- **Consider re-stock period** – don't wait until the last minute to re-stock low inventory. Estimate the re-stock point according to how fast the product is selling and how quickly you are able to replenish inventory. If your supplier is able to ship directly to Amazon, you may only need to budget 3-4 business days to replenish the stock, but if the supplier first ships to you, it could take as much as 5-10 business days to get inventory from the



supplier to Amazon. Any waiting period for inventory is potential lost sales, which could be significant for fast-selling products, so be sure to budget accordingly.

- **Promote non-sellers** – if a product is not selling, you can do a promotion to help get rid of any remaining inventory and then choose not to sell that product anymore. To promote, you can drop the price on the product (either temporarily or permanently), offer discounts, etc.

Product Selection

Here are a few tips on product selection:

- **Grow slowly** – if selling *Private Label* or *Wholesale* products, you don't want to start out trying to sell a huge number of products all at once. You want to start out in a very controlled manner, making certain you're getting the inventory on time, it's being sent to Amazon on time, your products listed on Amazon are selling well (ones that are not are being rid of), etc. Start out with 1-3 products and really learn and fine-tune the processes involved and once you have that, you can begin looking for other products to sell.
- **Watch the "more" factor** – having more products to manage means more potential inventory sitting unsold. The more you do this, the better you'll get at determining which products will sell and which ones won't.
- **But ... increase is fastest** – there can be trouble in growing your product selection. That is expected, and so growing slowly helps reduce the amount of trouble you experience. However, the fastest way to make more money is by increasing your production selection. The more you sell, the more money you make, but there is also more risk involved with tying up cash and potentially listing products that don't sell. So, do start out slowly but do plan to grow your production selection.

Conclusion

By now you should have a clearer idea of how to manage your inventory, handle fulfillment, and see the great value of "*Fulfillment by Amazon*". You should see the sense in:

- **Starting out small** – to learn the processes involved.
- **Growing slowly** – to reduce problems and risk, as well as keep money from being tied up in unsold inventory.
- **Planning to grow** – do start out slowly but DO plan to grow your production selection.

By following these tips and using FBA to manage order fulfillment, you'll be well on your way in building a successful business.



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Money Machine Training Guide
