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HOW TO DEAL SUPPLY CHAIN ISSUES & RISING FBA FEES

INSIGHTS FOR THE SMB AMAZON
SELLER FROM AN AGGREGATOR

amazon.com

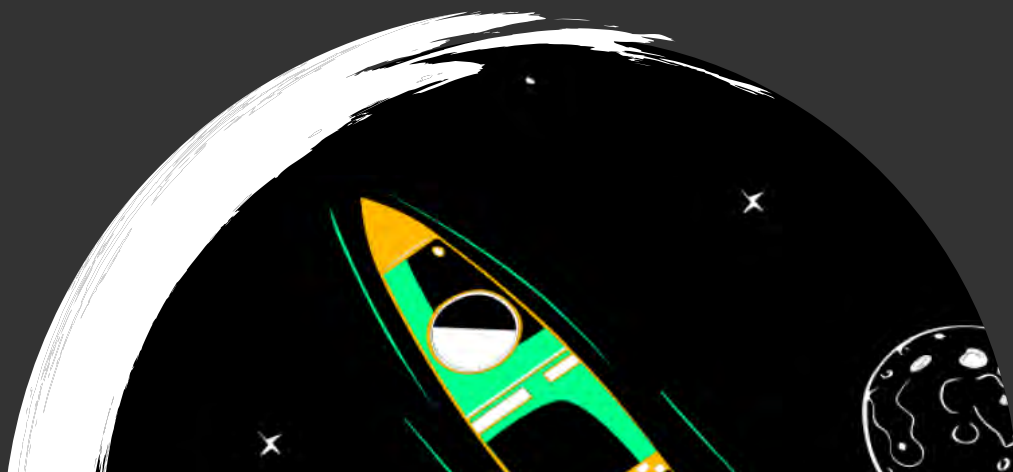


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INTRODUCTION

In this ebook, we'll examine the factors that led to the supply chain disruptions and discuss strategies on how you as an Amazon seller can
DEAL WITH THEM.

In 2021, the majority of Amazon businesses reported having trouble with their supply chains. This included 74% of small first and third-party Amazon enterprises, 93% of eCommerce brand management companies, and 94% of big firms selling their products on Amazon.



HOW TO DEAL

01 Understanding the Cause

- 1.1 The Pandemic & it's Ripple Effects
- 1.2 The Port Congestion
- 1.3 The Inflation
- 1.4 Amazon's rising FBA Fees

02 Overcoming the Disruptions

- 2.1 The Increasing Challenges
- 2.2 Raised FBA Fees

SUMMARY & REFERENCES

01

UNDERSTANDING The Cause

In 2021, 30% of Amazon sellers claimed that the supply chain issues had cost them over \$10,000 in sales. The current supply chain issues are not confined to one industry. How did we get here? There are four major reasons why these issues occurred.



1.1 The Pandemic and it's Ripple Effects

How can we talk about the supply chain disruption without talking about the pandemic? Supply chain issues can be dated back to the pandemic's early beginnings.

The Container Shortage Crisis

The pandemic also caused a major container shortage crisis around the world. When COVID-19 led to a global lockdown, China opened its economy faster than the US and Europe. However, the shipping containers that China needed to export its manufactured products were still located in those two places. As a result, there was a shortage of shipping containers. To accommodate the enormous demand, new containers were made. However, the cost of the materials used to make these containers came at a high price which in turn increased shipping costs.

Unexpected Surge in Demand

Early on in the pandemic, a dramatic but temporary decline in demand caused many businesses to reduce their inventories and production. But soon after, the demand for products reached all-time highs. Since the Covid-19 pandemic, online purchases have increased by almost 30%. Sales by third-party sellers on Amazon increased by 47.5% in 2020.

However, the rapid increase in demand was causing businesses to struggle to keep up. Many suppliers reduced their operations as a result of the pandemic, and employees were calling in sick which resulted in a labor shortage. This, in turn, led to the delay in the delivery of products.

China Shutting Down Its Major Ports

The COVID-19 pandemic both widened already existing supply chain vulnerabilities and created new ones. Our global supply network depends heavily on Asia's manufacturing sector, particularly China. When the pandemic initially affected factories in China, it started a chain reaction that impacted the entire supply chain. China's zero-tolerance approach toward Covid-19 caused it to shut down its major ports. This closure led to a shortage of imported products around the world and impacted Amazon sellers that had their suppliers located there.



1.2 The Port Congestion

Another factor that caused the current supply chain crisis is port congestion. When things move properly at the ocean ports across the world, businesses get their products delivered on time and customers receive their products in a predictable, dependable way. The majority of the time, these efficiently functioning transportation networks are not impacted by a single supply chain interruption. But when you throw in a global pandemic, required port closures, and a labor shortage, you have a "perfect storm" that throws the supply chain into a loop.

Port congestion occurs when a ship arrives at the port but the port is already at capacity. Ships can either call in at a neighboring port or line up and wait for their turn to get a slot at the port. While this procedure normally goes without a hitch, the pandemic and other unavoidable events have derailed otherwise well-laid preparations. There were delays in loading and unloading due to labor shortages which caused congested ships in ports. Due to port congestions, there was a steep increase in shipping costs. The price of shipping went up from \$1.60 per unit to \$8.00 per unit.



1.3 The Inflation

Disruptions to the supply chain have also been brought on by inflation. When prices rise, the supply chain gets impacted the most since you will have to pay more for products and services that you require to run at every level. COVID-19 was the most obvious offender that caused inflation which in turn impacted the supply chain.

Another contender for the cause of inflation that impacted the supply chain is the rise in gas prices. Fuel prices have been rising as a result of the Ukraine crisis. Logistics expenses are greatly influenced by fuel prices. An increase in fuel prices caused an increase in transportation and freight costs that disrupted the entire supply chain.

Inflation has had a major impact on Amazon sellers as well. Chinese sellers have multiplied as a result of inflation, taking advantage of Amazon's price wars. These Chinese sellers attempt to outcompete their rivals by pricing their products much lower than those of the latter. Since most sellers on Amazon cannot keep up with these price wars, we have seen a significant seller fallout in recent times. If sellers continue to do nothing, this pattern will persist.



1.4 Amazon's Rising FBA Fees

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Fulfillment Fees

Amazon increased its fees by an average of 8% in January 2022. The fee varied according to a product's size and weight. Small standard items saw a rise of 8%, large standard items saw an increase of 2–8% depending on the sales category, and some larger items saw an increase of up to 12%. Along with these fee adjustments in January, Amazon also introduced a 5% fulfillment fee on April 28, 2022, to reflect inflation and rising fuel prices.

Storage Fees

The monthly storage fees charged by Amazon also saw some modifications. Off-peak monthly inventory storage costs are now \$0.08 for standard-size products and \$0.05 for oversize products per cubic foot. In addition, Amazon also introduced a fee for long-term storage. A new "aged inventory surcharge" was introduced for products that are stored in Amazon's fulfillment facilities for 271–365 days. It used to cost nothing extra to store items during that time period, but now it costs \$1.50 per cubic foot extra, roughly tripling the cost of storage.

Removal and Disposal Order Fees

Disposal and removal fees witnessed some of the highest price hikes. These costs have gone up by almost 70%. Although it might seem like a lot, Amazon's formula for calculating removal and disposal order fees has also changed.

02

OVERCOMING

The Disruptions

The supply chain disruptions raised two questions in the mind of Amazon sellers:

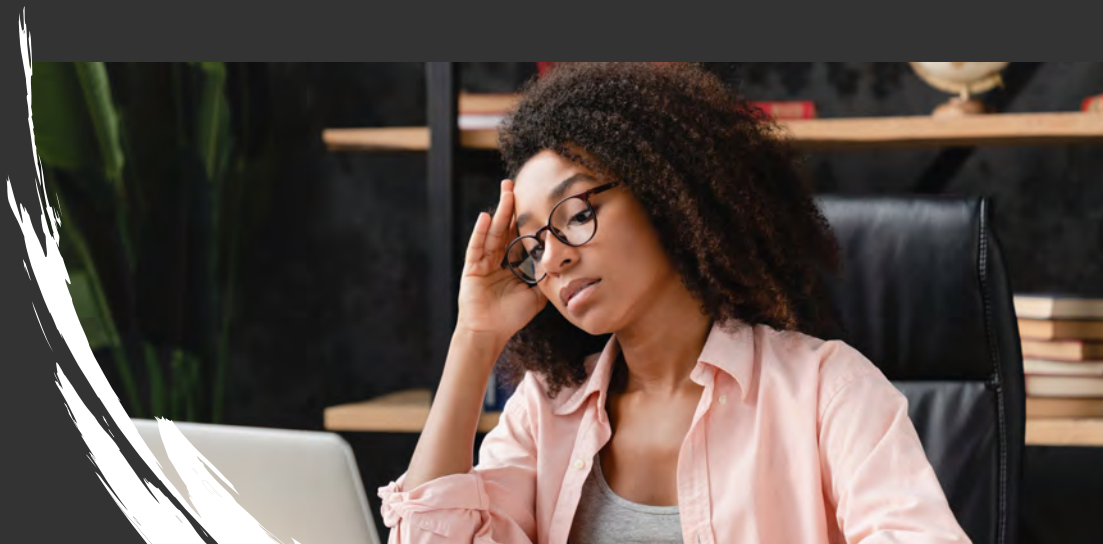
2.1 How to handle rising supply chain costs, delays, inventory shortages, and other related problems.

2.2 How to deal with the rising FBA fees.

With proper planning and execution, Amazon sellers can quickly mitigate these problems without affecting their profits. Let's see how you can do that.

2.1 The Increasing Challenges

The pandemic, inflation, and other variables have caused a number of problems for Amazon sellers, including inventory shortages, delays in customers receiving their orders, rising prices, and many others. You can do the following things to resolve these problems:



Action Step

Order In Advance

Ordering products in advance is the first step to securing your supply chain and ensuring that you always have products in hand in case there's a delay. But because of the issues with the global supply chain, purchasing products is becoming more and more expensive.

Increasing purchases may seem like a counterproductive strategy to reduce the high cost of items, but doing so could actually save you a lot of money. By placing a single bulk order, you can reduce the number of shipments necessary, which will help with the high shipping costs we currently face. As a result, the average delivery cost for each item will go down. Ordering in advance can help maintain a safety stock to help prevent stockouts.

Tips on How To Handle This:

You need to make sure you always have enough stock, as going out of stock has a major effect on the Amazon algorithm and your IPI.

The only challenge here is finding the cash to buy a lot of products at once. Since most sellers space out their orders, they might not have enough cash on hand to cover these larger shipments. To overcome this issue, you can use solutions like 8fig and Amazon Lending.

8fig is a growth platform that offers flexible, equity-free funding tools for eCommerce business owners. On the other hand, the Amazon Lending program is a program where Amazon provides qualified sellers with short-term business loans so they can fund additional inventory.

Action Step

Do Not Rely on One Supplier Alone

When the pandemic arrived, Amazon sellers with suppliers overseas suffered much more than those with local suppliers. They came to understand that having just one supplier limited their ability to change course. A lot of them experienced delays that lasted months longer than anyone had anticipated.

If you don't diversify your supplier relationships, you will be in trouble if your only supplier suddenly goes out of business.

This will make it difficult for you to deliver products to your customer. Instead, you need to make sure that you have a selection of suppliers all over especially regionally so that you can have better control. If you can, get out of China and instead locate suppliers in US and Mexico. Suppliers headquartered in the United States can typically get merchandise out the door more quickly.

By collaborating with nearby suppliers, you can increase the speed at which products arrive at your location and decrease the possibility of delivery delays. As you approach closer to your source, you will also lower the travel distance for your product which in turn will reduce the lead time for shipping. This is particularly helpful, especially considering the congested freight ports throughout the world.

Tips on How To Handle This:

Action Step

Know When To Ship

Shipping is a major factor that can increase your expenses. During this period when shipping costs are high, you have to minimize unnecessary expenses as much as possible. The best strategy to lower your shipping costs is to understand and know when to ship goods. Make sure that you avoid shipping products in Q3 and the beginning of Q4 when shipping is most expensive.



Action Step

Find A Reliable 3PL

The current state of the supply chain is fundamentally unstable. You need to be able to adapt in order to be on top of the ever-changing market.

One method to do this is to locate a 3PL. Because these companies have access to so many warehouses and ports, you do not have to rely on just one shipping location. If there is ever a delay at one warehouse or port, a reliable 3PL business can quickly swap to another one, ensuring that your shipment is not held up for too long. 3PLs are best to use if you have extra products on hand that you wish to send to Amazon in case there is a spike in demand.

Tips on How To Handle This:

By using a 3PL, you can focus more on your core competencies while minimizing or even doing away with the need to spend money on technology, transportation, and warehouse space for logistics operations.

3PLs can also warn companies about potentially costly and hazardous supply chain mistakes. They also allow you to ship more effectively and eliminate the need for expensive air shipping, which will lower your margins.

Action Step

Negotiate Or Find New Suppliers

Although switching suppliers may seem challenging, it is important given how expensive shipping is. Before settling on a supplier, make sure that you compare several different ones to see which will provide you the most value for your money

If you do not want to search for a new supplier, you can try different ways to negotiate with your current supplier. If you find a better bargain with another supplier and decide to switch, let your current shipping provider know. They might give you better a deal

Action Step

Anticipate Demand & Stay Updated

If you want to be able to stay in business during the current scenario, you must be able to foresee the demand for your products. You can use various forecasting software to do this. These softwares monitor patterns and use data to produce forecasts.

When organizing your inventory, take into account these suggestions. Determine how much inventory you need to meet the demand of your target market. Instead of focusing only on recent sales, make plans for potential future ones as well. Make sure you have a 12-month production plan but be flexible to make changes when necessary. Having this plan will help you secure your supply chain.

Tips on How To Handle This:

Another way to secure your supply chain is by being aware of what is going on and remaining updated. Weather conditions, economic variables, and politics all have an impact on supply chains.

Keep up to date on news that may affect your products. If you can predict a potential shortage, you can take the necessary action. Of course, you won't always be able to foresee all potential disruptions. However, by staying current on developments, you can avoid these issues.



Action Step

Consider Using Some of Amazon's Programs

SUBSCRIBE AND SAVE

The uncertainty of future sales has recently been a key source of concern for sellers. Subscribe and Save is a great method to retain consumers and increase recurring revenue for Amazon sellers who sell consumable or single-use products.

You can offer your customers the option of automatically making new purchases for your products using Amazon's subscription model. Enrolling in Subscribe and Save can give you a guaranteed way to lock in future sales while remaining competitive in the market.

Tips on How To Handle This:

The benefit of this subscription function is that it allows users to "set it and forget it" when it comes to choosing a product to buy. Their products just appear at their door; they don't need to recall what brand they ordered from or where to obtain it.

AMAZON LOGISTICS

is a unique same-day delivery shipping service designed to work hand in hand with some of the most well-known carriers, including UPS, USPS, and FedEx. There are several advantages to using Amazon Logistics.

It will be helpful when there is a high volume of shipments and when delivery services are backed up and inefficient. Amazon Logistics will keep up with demand, prevent overcrowding in warehouses, and ensure that your product is delivered to the customer.



2.2 Raised FBA Fees

Although a rise in the FBA fees may seem intimidating, there's no reason it should hurt your company. To make sure you continue to profit, here are a few things you can do:



Action Step

Use Tight, Compact Packaging

FBA fees are calculated depending on the characteristics of a product such as its weight and dimensions. The higher the weight or dimension of your ASIN, the higher the FBA cost will be. You will save a tonne of money on Amazon FBA fees and guarantee good profit margins if you can keep your product's weight and dimensions under control and in the lowest tier possible. If your product exceeds the oversize dimensions, the average FBA fee is raised by 33%. One way to reduce your product dimensions is by using tight and compact packaging.

Large bulky boxes not only add to the dimension and weight of your product but also eat at your profits. To get below the dimensions, try folding your products or shaving off extra centimeters of packaging.

Tips on How To Handle This:

Action Step

Remove Unnecessary Elements

Another factor to lower your FBA fees is by checking for anything insubstantial on the package of your product.

Amazon makes it clear that every product stored in their warehouse is scanned using highly accurate scanners. Despite using sophisticated measurement methods, Amazon's readings may vary significantly between scans. This may occur for a variety of causes, such as air bubbles in packaged products or protruding tape.

No matter how insignificant it may seem, try to keep anything from jutting out because if it blocks a laser, it will add to your cost. The extra length of a small piece of tape will add to your dimensions. This can push your product into a higher size tier even though it can be remedied by pressing the tape down or cutting it.



Action Step

Discover The Small & Light Program

Amazon Small and Lights program is a free, 3-5 business day delivery program that allows you to compete with major brands by offering inexpensive products while maintaining a high standard of customer service. The only drawback of this program is that it only accepts items that are brand-new, have dimensions of 18 x 14 x 8 inches or less, weigh no more than 3 lb, and cost no more than \$10. But however, if your products fall under this category, this program is something that you should consider.

The biggest advantage of the program is reduced fulfillment fees and free promotions. When a consumer buys two or more units of a product that is \$5, they are provided a 5% discount.

Tips on How To Handle This:

Amazon will pay for the discount, and nothing will be charged to you. In essence, they are providing cost-free product marketing that doesn't affect your revenue. Your bottom line will benefit greatly from using the Small and Light Program. Additionally, it extends your audience considerably and offers all of the advantages of FBA.

Action Step

Create Combo Packs

Since Amazon charges a fulfillment fee for each item you want to store, grouping inexpensive items together and selling them as a single combo unit can save costs. Selling items in packs is advantageous since you only pay fees for one item. It's a smart move that will help you to deal with the additional fulfillment fees.



Action Step

Take Unfulfillable Stock Out of Fulfillment Centers

When customers return items, Amazon inspects them and determines whether or not they can be resold. Unfulfillable products are ones that are not in a condition that allows for resale. They will remain in the fulfillment center and you will be charged storage fees if you don't get rid of them. To see whether you have any unfulfillable inventory, run an Inventory Health report in Seller Central and look at the "Total unsellable quantity" column.

If you have any unsold merchandise, you can decide whether to have it destroyed or given back to you. You can also consider using Amazon's FBA Grade and Resell and FBA Liquidations programs.

Tips on How To Handle This:

These two programs both strive to give returned and unsold products new value. Instead of getting rid of your excess or obsolete stock, you can use these programs to sell them. In addition to saving storage fees, you'll be able to recover some value from your non-saleable products. You can reinvest and redistribute these funds into new products that you wish to launch.

Action Step

Increase Your Price

Of course, you might have to raise your prices if your costs go up in order to make sure that your profit margins are at the level you want them to be. Make sure that you keep up with your rivals' pricing, and if you see others increasing their prices, don't be hesitant to do the same.

Before increasing prices, make sure your product is displayed in the most alluring way possible. The ASIN product listing page serves as your Amazon visibility shelf when you are selling online. If your product stands out, you can charge more for them while still making a profit despite the increased FBA cost.

Action Step

Optimize Your Marketing Strategy

Regularly optimizing your marketing strategy and product listings will boost performance. If your products are selling well, you won't notice the charge increase as much. You'll be making a profit despite the rise in FBA fees.

You can improve even your best-selling products. To ensure that your products continue to sell, you can use strategies like A/B testing, paying attention to customer feedback, and cultivating connections with current consumers. By focusing on your branding, you can grow your audience, attract new customers and manage the increase in FBA fees.

Tips on
How To
Handle
This:



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SUMMARY

It could take years to fix the supply chain crisis. The best way for Amazon sellers to navigate this unstable market is to adapt and implement new strategies rather than waiting for things to change.

Being an Amazon FBA seller during a supply chain crisis might be overwhelming, but with the right tactics, you can continue to grow and make money.

REFERENCES

This included 74% of small first and third-party Amazon enterprises, 93% of eCommerce brand management companies, and 94% of big firms selling their products on Amazon.
<https://www.junglescout.com/blog/supply-chain-disruptions/>

In 2021, 30% of Amazon sellers claimed that the supply chain issues had cost them over \$10,000 in sales.
<https://www.junglescout.com/amazon-seller-report/>

Since the Covid-19 pandemic, online purchases have increased by almost 30%.
<https://www.cnbc.com/2021/02/19/e-commerce-surged-during-covid-groceries-sporting-goods-top-gainers-.html>

Sales by third-party sellers on Amazon increased by 47.5% in 2020.
<https://www.practicalecommerce.com/everything-to-know-about-amazon-marketplace-sellers>

The price of shipping went up from \$1.60 per unit to \$8.00 per unit.
<https://www.junglescout.com/blog/supply-chain-disruptions/>

In 2021, US-based sellers on Amazon sold more than 3.8 billion products. That works up to 7,400 products every minute
<https://assets.aboutamazon.com/9b/84/05cb2fc14da18e4574a5132f675a/amazon-smb-report-2021.pdf>

Amazon stated that since the outbreak of the pandemic, it has spent more than \$15 billion on expansion projects.
<https://profitwhales.com/archives/articles/amazon-fee-changes>

According to Amazon, it opened more than 350 additional fulfillment centers, sorting centers, regional air hubs, and delivery stations in the US.
<https://www.hingeglobal.com/blog/breaking-news/amazon-fba-and-disposal-fee-increases/>

During the pandemic, they hired more than 628,000 people and raised the pay to \$18 per hour.
https://sellercentral.amazon.com/gp/help/external/G201411300?language=en_US

Amazon increased its fees by an average of 8% in January 2022. Small standard items saw a rise of 8%, large standard items saw an increase of 2–8% depending on the sales category, and some larger items saw an increase of up to 12%.

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Along with these fee adjustments in January, Amazon also introduced a 5% fulfillment fee on April 28, 2022, to reflect inflation and rising fuel prices.

<https://www.reuters.com/technology/amazon-charge-merchants-5-surcharge-fulfillment-services-fuel-costs-rise-2022-04-13/>

Off-peak monthly inventory storage costs are now \$0.08 for standard-size products and \$0.05 for oversized products per cubic foot.

<https://www.sellersnap.io/amazon-fee-changes-2022-significant-updates/>

On May 15, 2022, a brand-new "aged inventory surcharge" was introduced for products that are in Amazon's fulfillment centers for 271 to 365 days. It used to cost nothing extra to store items during that time period, but now it costs \$1.50 per cubic foot extra, roughly tripling the cost of storage.

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<https://blog.bobsledmarketing.com/blog/fba-fees-2022-changes>