## 4. E-Commerce

Getting Started

In addition to promoting their brand online, many food companies want to engage in e-commerce, the selling of their products through online channels. Two primary options exist for selling online including through the company's own website or a third-party online retailer (otherwise known as a marketplace). And, within each of these approaches a number of considerations impact how a food business should go to market. For example, if you're selling on your own website, will you use an off-the-shelf shopping cart program or create your own? And, if you're selling through a third-party marketplace site, how will you get your product to the customer?
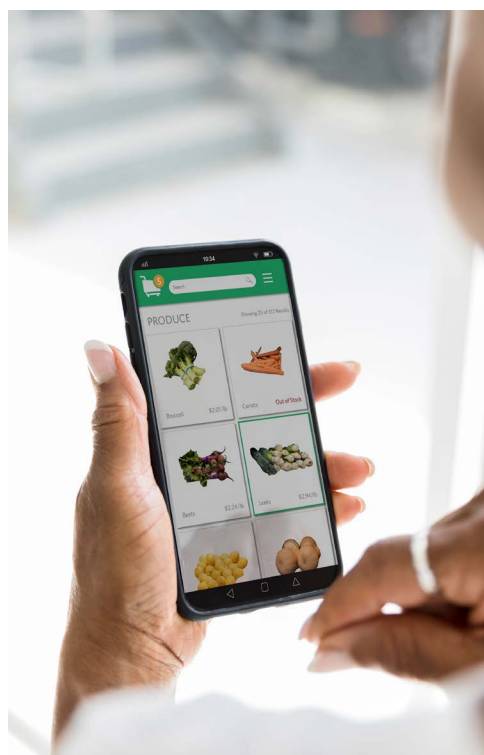
Online Storefront on Your Website

One of the most common ways for businesses to sell their product online is directly through a store front and shopping cart on their own website. In this approach, a food business lists its products, highlights product benefits and sells directly to customers or consumers. If your website is built on a DIY web hosting platform like wix.com or web.com, you can select from several prebuilt storefront apps that interface seamlessly within their structure. If your website is custom built, you can install a similar shopping cart program or build your own.

There are a number of critical considerations in building and maintaining your own storefront including:

PRODUCT ASSORTMENT:

Will you offer your full product line up or only a limited set of products?

QUANTITY REQUIREMENTS:

Setting a minimum purchase amount, based on number of items or a dollar amount, may help ensure online sales are a profitable exercise.

PRICING:

While online sales may enable you to offer customers a lower price than they could find in stores, doing so may offend your retail customers. Consider the risk involved in undercutting these partners. One solution is to offer bundles or sizes not offered at retail to make direct comparisons less likely.

INFORMED DECISIONS:

Think about what information you provide to help customers make a purchase. This might include product description, flavor information, product size, price, benefits, use recommendations, etc.

ENABLING TRANSACTIONS:

To accept credit or debit card payments, your business will need to obtain a merchant account through a credit card processor. The processing company works seamlessly to charge the customer's credit card at the time of order and deliver payment to your bank account. While many of the storefront apps in DIY site builders like wix.com offer merchant accounts, many have higher fees than if you would find an account outside of their system.

DELIVERING THE PRODUCT:

Depending on temperature state or product fragility, this can be a challenging issue to manage. Not only must you consider how you will package and ship the product, but you must also consider who will manage the actual physical work of the fulfillment process. Additionally, consider where the inventory for the storefront is being sourced and how that impacts your total inventory management.

Note that before you engage in any e-commerce strategy, you must make sure that you are properly licensed to do so. For instance, in Minnesota, if you are registered as a cottage foods producer, you are allowed to take orders of your product via e-commerce, but you must deliver the product to the purchaser in person. In other words, you cannot ship the product, even inside state lines. For more details and to get your questions answered, a good resource includes the Minnesota Department of Ag's Food and Feed Safety Division. If you are a registered cottage foods producer, you can learn more here: Cottage Food Law Guidance | Minnesota Department of Agriculture or here: Minnesota Farmers' Market Association — Cottage Foods Law.

Selling through a Third-Party Retailer or Platform

In addition to selling on the business' own website, selling products through a third-party retailer such as amazon.com or shopify.com is a very common path to e-commerce; and the two do not need to be an "either or" choice. Selling through Third-Party retailers has the advantage of reaching additional customers that may not otherwise have exposure to a brand's products, either due to lack of distribution in physical stores, geographic limitations or limited traffic to the brand's own website. However, it also creates additional costs as the online retailer charges for its online space similar to a grocery store. It can also invite increased competition from comparable products.

A number of the same considerations hold for selling through a third-party retailer as do for selling directly through your own website, though there are significant differences. With a third-party retailer, there may be limitations in how many products you can offer or how you can describe and promote your product offering. And you won't need a merchant account as the retailer accepts the payment and transfers money to your business through an ACH transaction. But the logistics of this solution can be more complex as you may need to determine if you or the retailer is performing fulfillment of product for individual orders.

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Third-Party Online Retailers

Third-Party online retailers fall largely into two types of businesses:

First, marketplaces act as a "shopping mall" of sorts in which individual users can sell products, whether through a single listing or a storefront. Online auction sites generally follow the marketplace model, though employing a bid vs flat pricing model.

Second, are online retailers that act similar to brick-and-mortar stores, selecting and selling products. These retailers often serve a specific product category, market niche or geography.

Online Marketplaces

Amazon: As an e-commerce pioneer, Amazon is ubiquitous in its reach and product assortment, which may be both a blessing and a challenge for food businesses. It can provide access to a vast number of customers but accessing them comes with higher costs and can result in high levels of competition, often focused on price.

To sell on this platform, a food business needs to create a Seller Central account from which it manages its Amazon business including adding products and product information, tracking daily sales and other business metrics, making inventory updates and managing payments. To establish the account, a business needs a few key pieces of information they'd likely have for offline work including a bank account and routing number, a chargeable credit card, a government issued national ID, a tax ID and a business phone number.

Amazon has a number of fees to participate on their platform including both fixed monthly account fees and variable fees tied to transactions. The variable fees, known as Category Referral Fees, are a percentage of the total price including shipping and any extra service charges like gift wrapping. For grocery, the CRF are currently 8% or 15% depending on the sales value.

In return, this option provides an opportunity to promote your products in order to move them higher in product rankings and making it more likely your products will appear in users' searches. Sponsored items appear near the top of the search feed and brands where the sponsoring brand appears near the top of the page with multiple products highlighted. In addition to listing and promoting individual items, a food business can also create a storefront on Amazon. This is a multi-page subsite within the site where a business lists all of its items and carries more opportunity for branding than available to items listed singularly.

Once an order is taken, it must be fulfilled — packaged and sent to the buyer. Fulfilling orders on Amazon occurs in one of two ways, Fulfilled by Merchant (FBM) and Fulfilled by Amazon (FBA). In FBM, the food business accepts the order through Amazon and manage all aspects of shipping the product outside the Amazon logistics system. In this case, Amazon never touches the physical inventory. In FBA, the food business ships a quantity of inventory to a warehouse from which Amazon fulfills orders that come through the system. Rather than managing individual transactions and inventory, the food business needs to only ensure that the Amazon warehouse has adequate stock, similar to how they would with a brick-and-mortar wholesaler or retailer. FBA allows products to participate in Amazon Prime. However, the program comes with several fees including for inventory storage, order fulfillment, managing returns, fees for resolving items not received by Amazon in a format that makes it easy for them to fulfill to the customer and disposal fees for unsold product.

Note, refrigerated and frozen products are not allowed within the FBA structure. Also, perishable items such as fruit, vegetables or meats may be prohibited at certain times of year due to temperatures expected in the FBA warehouse system.

It's important for a food business to consider the tradeoffs of the two approaches. There is certainly a value to the pick, pack and ship offered by FBA in terms of ease and ability to participate in Prime. However, if the business' product sales are low or the business can ship inexpensively themselves then FBM may be preferred.

You should use Fulfilled by Merchant if...

- You want more control over your customers.

- You have excellent customer service practices in place.

- The products you sell are oversized or heavy.

- You already have logistics in place.

- You're able to mitigate the expenses involved in fulfilling your own products.

- Your inventory turns over slowly.

You should use Fulfilled by Amazon if...

- The products you sell are small and lightweight.

- You're okay surrendering control of your customers to Amazon.

- You want Amazon to handle your customer service.

- Your inventory turns over quickly.

- You do not have logistics in place.

- Your expenses would be higher if you fulfilled your own products.

Other Marketplaces from Leading Brick-and-Mortar Retailers

Similar to Amazon, leading brick and mortar retailers have created their own marketplaces, including Walmart Marketplace, Target and Albertsons Marketplace. All operate on similar models to Amazon, featuring a vast product portfolio, in fact, carrying an assortment well beyond what they sell in their stores. It's also worth noting the behind-the-scenes operations of these marketplaces are distinct from the store websites that offer online sale of the products carried in store. Notably, selling through a marketplace does not necessarily create a path to selling in their physical stores. Exploring other brick and mortar retailers that have created similar marketplaces is a potential path to expanding geographic distribution for food brands. UNFI, the leading wholesale distributor, also recently launched an online marketplace that is open to retailers and non-profits, but not to consumers.

Rangeme

Rangeme.com is a unique marketplace that allows manufacturers to present their products to leading national and regional retailers. The manufacturer creates a product page that highlights much of the same information that might typically go into a sales presentation (brand story, product assortment, suggested price, promotions, etc). Buyers are able to search and view the listings as they search for new items to add to their assortment. While there is no actual commerce that takes place on the site, manufacturers can leverage a premium membership to submit their products directly to retailers for review.

Etsy

With a focus on handmade, artisan goods, Etsy offers a unique opportunity for cottage or artisan food brands. Similar to other marketplaces, food companies can create a product offering and sell product directly to consumers through the platform. Distribution is arranged directly between buyer and seller in a fulfilled by merchant model. It's worth noting the presence of food items is relatively small on Etsy, though it may represent a good opportunity for gourmet or artisanal brands consistent with the hard and soft goods typically offered on the site.

eBay

Sitting somewhere between Amazon and Facebook Marketplace, eBay also offers a viable platform for food companies to sell online. While originally an auction site, eBay sellers can offer single items or offer multiple products in its portfolio and do so at fixed prices. While the system does not allow for storefronts, users can easily search for all listings from a given company. eBay provides for electronic payment, though shipment occurs through a fulfilled by merchant model.

Facebook Marketplace

Despite the ubiquity of Facebook as a social media site, its marketplace is limited in its food offerings. Facebook Marketplace is largely driven by a rummage sale model for selling used goods. As such, food offerings are limited. A food company could use the platform to access local buyers and take payment or linking them to a website for the actual purchase. In either case delivery would be coordinated directly with the buyer.

Category-Specific Retailers

Webstaurantstore.com

For those targeting the food service segment, Webstaurantstore.com brings the offerings of a broad line food service distributor online. This site is truly an online retailer vs a marketplace meaning they control their assortment. Further, they inventory and fulfill most items offered on their site.

Foodservicedirect.com

Foodservicedirect.com bills itself as a marketplace offering foodservice items under both fulfillment models. It will stock fast-turning items and let slower turning items be shipped in a fulfilled by merchant model.

Not surprisingly, other platforms exist including some focused on specialty markets such as bakersauthority.com and bulkapothecary.com which both focus on the ingredients market. Food businesses with a unique customer base are encouraged to search for marketplaces that serve their specific niche.

Local/Regional Online Commerce Opportunities

Outside of selling on one of the large online marketplaces or through your own website, a number of unique e-commerce opportunities for small food businesses exist. Many of these could be categorized as category-specific online retailers, though many of their models are somewhat unique.

Barn2Door.com

Barn2Door is an online storefront for farmers to sell products directly to consumers or restaurants. The service operates on a monthly fee schedule based on transactions and provides an interface that can be embedded and linked to your website.

Harvie.com

Harvie is a customized crop share platform that allows farmers and consumers to connect through a traditional farm share model, but with the added value of allowing consumers to customize their purchase — both in volume and types of products. The platform offers packaging and logistics consultation to make delivery easier for producers.

Food4All.com

Food4All is an online storefront for farmers to sell products directly to consumers and restaurant customers. It provides a basic interface to list products and maintain inventory. While there is no monthly subscription fee, the seller will pay a small per item and royalty fee.

GoForager.com

Forager is a marketplace concept intended to connect local farmers to buyers. Rather than just a retailer, Forager allows sellers to also search buyers and their staff will make connections between buyers and sellers (though they do not act as a middle man).

GrazeCart.com

GrazeCart is a web platform and shopping cart for farmers and other sellers of perishable products. The interface allows for both unit and weight-based transactions as well as setting customer pick up locations or selling via shipment.

OpenFoodNetwork.net

Open Food Network provides both an online marketplace as well as open-source shopping cart software for food companies and growers. The company is global in nature but has local networks throughout the country.

Shopping Cart Systems

Unless you're selling through an online merchant or retailer, conducting e-commerce requires a storefront and a shopping cart system. While most DIY web builders offer multiple shopping carts, there are two platforms worth highlighting.

Shopify is a hosted e-commerce website builder that allows businesses to create an online storefront from several customizable templates. Whereas a service like web.com or wix.com offers a DIY solution for creating a content-driven website, Shopify offers a similar approach for those businesses looking for an e-commerce approach. The platform is global in nature with more than 800,000 businesses worldwide, many of them small and medium sized companies.

Various pricing tiers are available with higher priced tiers offering additional reporting, lower credit card processing fees, discounted shipping and integration options. While the platform offers credit card processing services, companies are free to use an outside system. The platform also offers the ability to be used as a brick-and-mortar point-of-sale system.

Shopify provides for integration into multiple online environments, including social media channels like Pinterest, Facebook and Instagram, as well as other retail platforms like eBay, Amazon or Walmart Marketplace. If you already have an existing website for your company, Shopify can integrate into your site.

While Shopify provides the ordering platform, discounted shipping rates with preferred vendors and can coordinate inventory levels between multiple online channels, it does not offer fulfillment services. The individual company is responsible for the actual physical inventory and for coordinating the shipment of goods to customers either through Shopify's preferred vendors or through a separate service.

Shopify offers a few different marketing and promotion options, like audience targeting (built in blog and Search Engine Optimization), campaign creation (promoting products through email marketing, Google Smart Shopping & Facebook Ads), marketing automation (marketing apps for download to boost awareness, drive sales, and email customers), and analytical tracking and performance metrics accumulated across all channels and campaigns.

WooCommerce is a free, open-source shopping cart plug-in on the WordPress platform. It's notable for its ubiquity as it powers nearly 30% of all online storefronts. Many of its features are similar to Shopify in that it provides a storefront, shopping cart, payment management, label printing, preferred shipping partners and the ability to support online marketing.

While WooCommerce is a plug-in, a food business without an existing website can begin developing its e-commerce efforts directly through WooCommerce. In essence, the program simultaneously helps the user create a WooCommerce storefront on a WordPress site.

As a free plug-in, there are no costs tied directly to WooCommerce. However, the food business will still need to pay domain hosting fees for its WordPress site and for its credit card processing.

Shopping Cart Considerations

In addition to Shopify and WooCommerce, sites like BigCommerce and 3dCart are routinely cited as leading platforms for small business. Whichever platform a food business chooses to use, it should consider a number of key issues:

- Does the program offer an e-commerce site or just a shopping cart?

- Will it integrate with social platforms or the company's website to make selling on multiple platforms easier?

- What are the design capabilities or limitations?

- How are payments processed? Does it have a dedicated merchant account provider, or can the food business use one of its choosing?

- What are the costs? Look for monthly fees and per transaction fees.

Other Online Resources

- **Frank & Ernest:** Frank & Ernest is a Minnesota-based online farmers market where growers and small food companies can sell their product. They operate on an online order and pickup model.

- **NearestYou.com:** NearestYou is a digital mapping and brand marketing platform. Primarily it provides a product locator tool that integrates into a food company website, but can also be leveraged for tastings and event maps, and trade association member directories.

- **CSAware.com:** CSAware.com is a software platform specifically designed to manage ordering, membership, delivery scheduling and payment for CSAs.

- **Minnesotacooks.org:** A program of Minnesota Farmers Union, Minnesota Cooks provides a database of Minnesota artisan and farm products in two different formats. The site does not execute commerce but redirects users to company websites.

- **Minnesota Grown:** A long-standing program, Minnesota Grown offers a website that redirects users to other company websites including CSAs, farmers markets and individual companies.

4. E-Commerce

Third-Party Logistics Considerations

Regardless of the platform you choose, selling your product online is only part of the challenge. Similar to brick-and-mortar, creating and managing your distribution model is a critical piece of the business. In the offline world, food businesses may make deliveries directly to customers or deliver larger quantities to wholesalers. The online world can be a bit more complex and offers additional options. There are multiple touchpoints, and your business may use any combination of them.

Typical Brick and Mortar Distribution Model

Manufacturer > Warehouse (Either onsite or 3rd party) > Wholesaler (May be multiple locations) > Retailer(s) > Consumer

In a traditional distribution model, the sale and product follow a linear path with each point in the chain ordering or purchasing and taking physical possession of a product.

Online Distribution Model

Manufacturer > Warehouse (Either onsite or 3rd party) > Pick & Pack Order > Shipper (FedEx, UPS, etc.) > Consumer

Order sent to warehouse for fulfillment < Consumer placed order < Online Retailer/ Ecommerce Site

In the e-commerce world, product is positioned at a warehouse ready for purchase, but doesn't typically move until a consumer visits a website and makes a purchase. At that point, the order is transmitted to the warehouse and fulfillment of the order begins. This warehouse could be owned by the manufacturer, an online retailer or third-party logistics company contracted by the manufacturer.

Generally, three primary models exist for fulfillment of e-commerce orders: fulfillment by the retailer, self-fulfillment and third-party fulfillment.

Fulfillment by Retailer:

In this model, the retailer is fully in control similar to how a brick-and-mortar retailer would operate. It takes the order from the consumer and fulfills it from the inventory it holds in a process largely transparent to the manufacturer. The food manufacturer provides case or pallet quantities to the online retailer's warehouse in a sale or consignment model. Fulfilled by Amazon is a common example of this model.

Self-Fulfillment:

In a self-fulfillment model, the manufacturer ships or delivers product directly to its customers. This may feature delivery by company employees or may leverage shipping resources like UPS, FedEx, USPS or even couriers. In this model, the manufacturer is responsible for storing product, picking orders, preparing for shipment and either delivering the product or getting shipment to the delivery service.
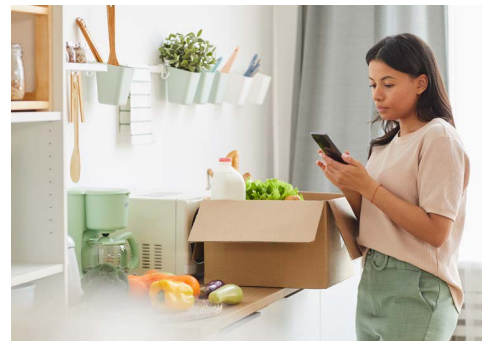

Items to consider are:

- Delivery can be an efficient and cost-effective option for small businesses and ones with local clientele.

- Consider your products temperature state — shipping through mail services require shipping on dry ice, driving increased packaging costs, both the packaging and the labor to assemble.

- Consider when time spent assembling, packaging and shipping products through self-fulfillment would be better spent doing other tasks that grow your business.

- Shipping cost on a per-piece can be high. Consider purchase minimums to offset.

- Larger volumes may dictate a move from a mail or courier service to a common carrier that can handle palletized product.

Third-party Fulfillment:

In third-party fulfillment, the food company relies on another company for fulfillment of its orders to the customer. This may include a warehouse or wholesaler shipping product to retailers or may be a retailer shipping product directly to consumers. In this model, the food manufacturer commonly ships multiple case or pallet quantities to the fulfillment provider who subsequently ships smaller volumes to customers further along the value chain.

Items to consider are:

- Confirm ability to manage temperature state, volume or fragility of your product.

- Need to manage total inventory to the fulfillment company; they will manage in front of consumers.

- Typically, a cost-efficient approach that allows a food company to focus on other activities.

- Additional layer of distribution may lengthen time in the logistics chain, reducing shelf life available to customer or consumer.

- Will pay for storage and shipping services.

A look at Amazon's Models

Amazon provides two different distribution/fulfillment models: Fulfilled by Merchant (FBM) and Fulfilled by Amazon (FBA). These two models are examples of self-fulfillment and third-party fulfillment and are replicated to some degree by other online shopping environments.

Fulfilled by Amazon: In Fulfilled by Amazon, the food company lists its product for sale on Amazon, either as a single item, a company page or storefront. When someone orders a product, Amazon accepts the order and fulfills it from inventory in its warehouse/under its control. In this model, the food company ships multi-case or pallet quantities to an Amazon warehouse. Amazon manages the inventory available on its site and provides prompt delivery. Items to consider include:

- Food company needs to ensure Amazon has inventory.

- Can provide path to free shipping as products can be bundled with items from other companies.

- Does not handle refrigerated or frozen products.

- Amazon charges fees for storage of product and handling of fulfillment in addition to its normal commission.

Fulfilled by Merchant: In a Fulfilled by Merchant model, the food company appears nearly identical to shoppers on the Amazon website. The only difference being a small notation from who the product is sold and fulfilled. However, when a customer purchases a product, the order is sent directly to the food company who is then responsible for fulfilling the order from inventory at a location of the food company's control. Items to consider are:

- Company must balance Amazon inventory among others and address any out of stocks rapidly.

- Allows for distribution of refrigerated or frozen products.

- May challenge free shipping opportunities.

- May be lower cost approach depending on company storage and shipping cost structure.

Third-Party Logistics Alternatives

A wide array of third-party logistics options too extensive to list here exist for Minnesota food businesses. Food businesses can conduct an online search using terms like "3PL", "Third-Party logistics" or "pick and pack services" to find suitable alternatives. In many cases, these service providers are warehouses that offer pick and pack fulfillment services to their clients. They may be an individual warehouse or part of a large national network like PDM or Americold Logistics. The manufacturer will send goods in pallet or case quantities for the warehouse to send out in unit quantities.

Highlighting Two Unique Solutions

Cygnus is a 3PL system owned by Minnesota food company Schwan's. This service offers frozen food businesses a turnkey logistics system. Upon establishing an account, the food business sends inventory to Cygnus who in turn distributes among its 10 nationwide distribution centers. Once an order is received, Cygnus fulfills the order–picking, packing and shipping to the customer. The service seamlessly integrates with the food business' online sales platform so the interaction between customer order and shipment is seamless.

ShipBob is a shipping and fulfillment service targeted directly to helping e-commerce stores. Similar to most 3PLs, ShipBob stores manufacturer inventory at one of its warehouses and then picks and packs customer orders transferred to them from online sites. Rather than coming from a warehousing approach, ShipBob is a technology company that offers integration with leading online retail platforms to make sales and shipping more seamless.

AURI is dedicated to helping small food businesses and entrepreneurs grow. We encourage you to check out our series of helpful guides on topics including pricing, packaging, shelf life testing and more at www.auri.org/guides/focus/food/