What Is Backorder In E-Commerce And Its Best Practices

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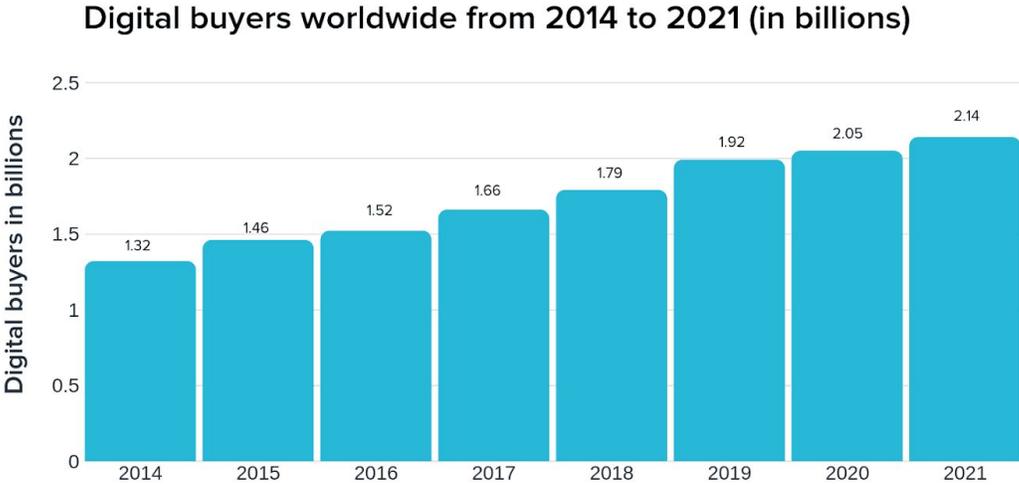
FROM ORDERHIVE

What is Backorder?

A backorder is an order which you assure to fulfill despite not having the concerned item in the inventory. The promise includes a shipping date until which your customer agrees to wait. For instance, you are selling a product, and you get orders from three different customers. You only have seven items in stock while they want four items each. Under this situation, you cannot fulfill only one order and let the other three walk away disappointed, thus losing them to the competition. Instead, sending one item to each of them and assuring them that their remaining order will be fulfilled soon is a better option. This is known as back-ordering, and it is a prevalent practice in the e-commerce industry.

Customers also initiate backorders in many cases. For instance, if someone wants a huge quantity of chocolates on Christmas, they might order them at the end. They will prefer

the order to be fulfilled on the 23rd of December, automatically translating to a backorder since you might have the required quantity for seasonal demands. This is an area where preordering falls into the backordering zone. With the number of online shoppers estimated to reach 2 billion in 2020, this situation is likely to become more common.

Digital buyers worldwide from 2014 to 2021 (in billions)

Year	Digital buyers in billions
2014	1.32
2015	1.46
2016	1.52
2017	1.66
2018	1.79
2019	1.92
2020	2.05
2021	2.14

Source: Statista.com

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Reasons For Generating Backorders

For any organization, backordering pressurizes its supply chain and tests its responsiveness. It may occur due to a lack of control over parameters controlling the production process. Thus, the problem can arise at any stage of the production/ supply cycle. However, we are listing down the three most common reasons here for your ready reference:

- **Unprecedented Surges In Demand**

In many cases, it is difficult to accurately predict the surges in demand despite sophisticated sales forecasting. They are inevitable, and hence, online stores rely on predefined strategies to encash them optimally. However, for demand surges, your marketing, too, can be a probable reason. Endorsements like affiliate marketing or influencer marketing can trigger sudden requirements for your products, so keeping your marketing activities in tune with the supply chain is equally crucial to maintain optimal inventory levels.

- **Lack Of Inventory Control**

If a firm doesn't have proper stock levels or it can't keep track of the inventory movement, blunders are bound to happen. The number of SKUs is increasing for each online store, and the trends are changing faster than ever. Under such circumstances, it is necessary to use a proper [inventory management system](#) to optimize the operations. It ensures that you have excellent visibility of your inventory and don't mistakenly commit any item only to find out discrepancies.

- **Improper Vendor Management**

Not having enough options for sourcing goods or improper vendor management programs can become a significant reason for backordering. For instance, if your vendor fails to supply the items as per the schedule, you will have to manage backordering in a chaotic manner in spite of no change in the demand patterns. Your customers, too, are likely to look out for other suppliers as the product will be available at all your competitors. There are estimatedly 12-24 million online stores in the world.

Branding Troubles Of Backorders

It is well known that e-commerce buyers are impulsive buyers as they carry the "Now Or Never" persona. Thus, convincing them for the extra weighting period is difficult, and communication plays a crucial role here. You should reach out to them regarding the possible delay over a phone call or email. Assuring them of delivering the pending order improves your odds of keeping them away from competitors. Failing to do so can land you in many troubles since online shoppers are very vocal about their experiences with the brands.

Online shopping is often associated with FOMO and instant gratification. If you are dealing with backorders, your brand value is both your biggest advantage and risk area.

In the worst-case scenario, when they start proactively publicizing the shortcoming, you should graciously handle the matter. Not addressing the complaints on social media platforms may not help win back the concerned client, but it will surely do the damage control. When other people look at those interactions, your firm will look responsible enough to be trusted upon. You could turn an adversary into an opportunity in this manner.

How To Manage Backorders: Tools And Best Practices

For the online store, these are the three most important measures for managing backorders:

1. It is necessary to record these orders separately as back ordered items. Your customers should also be made aware of the same while confirming their purchase.
2. Coordination with the suppliers.
3. Setting reorder points with respect to the lead time is mandatory to ensure the feasibility of your sales.

Usually, a separate landing page is provided where the customers can conveniently order the items which take more than average time to deliver. You should mention the estimated delivery schedule and notify us about any changes as soon as possible. In case of delay, it is necessary to acknowledge the same to the customers over an email. Keeping them in the loop can help contain any escalations.

You can also make provisions for shipping the products in batches if the customer is reselling the item. But, billing them right away isn't always a good idea. In case you fail to deliver on time, not charging the customer in advance automatically deescalates the situation, which otherwise is bound to take an ugly form.

Follow-ups are both necessary for such transactions and imperative to client relationship management. In case the delay surpasses the estimated timeline, telling your customers that they can avail a refund helps build trust and eases their frustration.

Using Order Management Software

When your firm is selling multiple products over various geographies, managing backorders becomes very complicated. Spreadsheets can't do the job in such cases, making the use of an Order Management System imperative to success. This also eases out the problems of managing logistics.

Cloud-based [order management software](#) systems enable comprehensive sales forecasting. They help analyze the changes in demand patterns. Moreover, calculating the agility of your supply chain agility aids in estimating your responses to the demand fluctuations. Planning for sudden surges and setting up coordination protocols for logistics partners effectively manage backorders. You can also plan out your inventory levels based on these aspects. You shall also include the provisions for alternate suppliers whenever possible.

All of these best practices give you an idea of how to commit your stock and regarding the correspondences with your customers. For inventory management purposes, the stock value of these items becomes negative. With the help of a dedicated software solution, you can also coordinate the awaited stock replenishments. Synchronizing the committed sales and pipeline inventory is another benefit of cloud-based solutions. The probabilistic modeling also helps cut down the backordering penalty costs for unplanned events while for finely tuned supply chains, this results in handsome savings.

Vendor/ Suppliers Agreements For Preventing The Bullwhip Effect

Vendor/ Supplier agreements can help you to a great extent in keeping your bottom line in a healthy state. The clauses on pricing and delivery terms for urgent orders make the picture clear for you so that you don't overcommit. These agreements also provide

convenience to your suppliers since both of you know your liabilities and benefits beforehand. If possible, you should also include your logistics partners to streamline the processes as much as possible. When you receive the products from your supplier/ vendor, your software should automatically start the shipping cycle, which also includes dropshipping.

To safeguard against the bullwhip effect in your supply chain, sharing of sales forecasts needs to be done with precaution. Telling your sources about rising demand for an item can lead to overproduction, while declining demands lead to underproduction. This is due to the fact that the suppliers at each stage increase their production in anticipation or decrease it. This increment/ decrement usually amplifies way out of indicated proportion, which results in bullwhip effect. Thus, for an organization, communicating with its suppliers is as significant as reaching out to the clients.

Dropshipping

The back ordered items are considered as goods pre-sold to the respective customers and are delivered promptly. Companies can also drop-ship the products depending upon their understanding with the suppliers. This is especially advisable if the value of your products isn't too high. Customers tend to wait for more expensive items and hurry for relatively inexpensive ones. For instance, the products imported through seaways may have lead times as long as 2-3 months. Proprietary products fall into this category. Thus, the customers, too, are more lenient in such cases. It is preferable to have local alternatives, though.

Dropshipping also increases the speed of fulfillment, which is significant to improving customer experience. If a particular item is sold in huge volumes and shortage occurs, you should also use recourse extensively. In such cases, the typical purchase cycle is

bypassed. Thus, using spreadsheets instead of proper software can turn things clumsy. However, this situation is comparatively better in B2B channels as compared to the B2C sales.

Summing Up

Backordering may be negatively perceived in terms of management, but it is an indicator of your brand value. It sends out a message of your dominance in the market and that your customers will prefer waiting for your product rather than buying a similar one from your competitors. Thus, striking the right balance between your customers' eagerness to wait for you and getting frustrated due to waiting too much is a delicate yet crucial process for every eCommerce business.

With the help of proper tools and best practices, you can manage such situations and efficiently meet the market demands. We hope that you find this article on backorders useful for your organization.

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