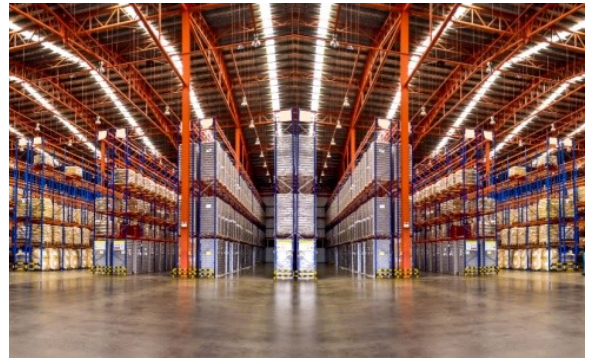


Shipment Success: The Importance of Pre-Contract Qualification in Fulfillment Centers

April 2, 2024

By Mark G. Wendaur, IV



Shipping fulfillment centers play a pivotal role in the third-party logistics ecosystem. These businesses are uniquely positioned as both a warehouse to store products sold on e-commerce sites and a service provider responsible for packing and shipping such products once ordered. This dual role creates unique liabilities and responsibilities for each of these two functions. Appropriate customer and vendor screening is important to complete these functions.

Warehouse Liability and Issues

When a shipping fulfillment center receives customer products for storage and subsequent shipment, it is critical to understand what the products are, together with the creditworthiness of the fulfillment center's customer. Product considerations may include:

1. What products require a temperature-controlled environment?
2. Do the products contain regulated materials that require special handling and storage?
3. What is the packaging of these products when delivered to the fulfillment center warehouse?

Additionally, assessing the customer's creditworthiness upfront helps address accounts receivable issues and prevents scenarios where aging customer inventory occupies valuable rack space due to non-payment or bankruptcy.

Each of these considerations is tied to some aspect of liability and whether the fulfillment center must take special steps to mitigate any such liability. This may include incorporating special charges for mitigation efforts into the service agreement with the customer.

Packing and Shipping Concerns

Similarly, the fulfillment center's packing and shipping side must understand the customer's desired packaging requests and shipping procedures. For example:

1. Does the shipped product contain unique characteristics requiring special packaging materials?
2. Are special freight charges likely to apply?
3. Is the fulfillment center provided with the shipping materials, or is this item being sourced from a third party?

Each of these factors will affect the workflow of the fulfillment center team.

Pre-Contract Qualification of Customers

With the above issues in mind, the fulfillment center must assess whether the customer is a good fit for their business or otherwise contract around any concerns or issues. This decision-making process (and subsequent contract negotiation) will help mitigate issues such as damage to other customer products, unforeseen expenses incurred to the fulfillment center's detriment, delayed shipping issues, or rack space occupied by defunct customers.

Implementing a comprehensive customer screening process will help drive better customer interactions and warehouse efficiency while ensuring that you engage with reliable and legitimate parties. Here is a structured approach that your warehouse can implement to evaluate potential customers:

1. Authorization to Do Business; Background Checks

- - **Documentation Check:** Require potential customers to provide official business registration documents from the appropriate governmental body in their state (or, when dealing with international companies, their country of origin). This verifies their legal existence and is an easy way to confirm whether this customer sells legitimate products accepted by the market. Be cautious of any company unable to provide such documentation, as they may be either undercapitalized or operating as “fly-by-night” entities selling defective or non-compliant products until the market rejects them. Such companies are prone to leaving fulfillment centers with unpaid invoices and obsolete inventory occupying valuable fulfillment center rack space.
 - **Verification with Authorities:** Cross-check the provided documents with relevant authorities or utilize online government databases specifically designed for business verification.
 - **Background Check:** If the account is a significant size, consider a background check to ensure the company has a history of legitimate business operations and payment history. This can include checking for any legal issues or past bankruptcies.
 - **References:** In addition to conducting background checks, consider requesting financial references from banks and other companies that have done business with the potential customer. This provides valuable insights into their financial integrity and payment track record. This is also an important step when negotiating contract terms because the fulfillment center can assert a security interest in the products being stored. Therefore, it is crucial to identify existing lienholders and assess whether they are considering legal action against the customer.

2. Proper Licensing

- - **Licensing Verification:** Ask for copies of relevant licenses if the products use special materials that require specialized care. This same consideration should be given when hiring vendors to handle specialized products. This step is crucial for ensuring compliance with industry regulations and standards, as well as your applicable insurance policies.
 - **Compliance Checks:** Conduct or request audits on compliance with industry-specific regulations and standards. This might include environmental, safety, and other operational standards relevant to the logistics sector.

Implementing the Process

Once you develop a screening and qualification process for customers, implementing that process into your daily workflows is essential. The best way to implement such screening is by creating a digital or paper-based checklist to be reviewed when accepting new customer inquiries.

The process should also be continuous. Customers can change over time, so annual or bi-annual compliance and background checks can help proactively identify payment issues before they begin. Establish a structured procedure for periodic customer

re-evaluation to ensure ongoing compliance with your standards.

Lastly, be sure to maintain detailed records of all checks and verifications carried out. These records serve as vital documentation for audits, compliance checks, and resolving any potential disputes with the customer or third parties.

Conclusion

Implementing these measures will significantly reduce the risk associated with onboarding new customers. Warehouse space is critical for fulfillment center operations, and one of the quickest ways to endanger profits is to have this space occupied by delinquent customer accounts. Remember, the depth of the screening should be proportional to the potential risk and impact the customer might have on the fulfillment center's business operations. For assistance implementing a customer screening process or addressing specific concerns in contracts, feel free to reach out to [Mark Wendaur](#) or [Faith Miros](#).