

## Role of E-Commerce in Reducing Operational Cost

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### ABSTRACT

As an e-commerce business owner, it is important to understand the impact of e-commerce on operational costs. E-commerce has transformed the way businesses operate, making it easier for businesses to reach customers and sell their products online. In this article, I will discuss the role of e-commerce in reducing operational costs and how it can help businesses maximise their profits.

### Introduction to E-commerce and Operational Costs

E-commerce has become an essential part of the business world. It enables businesses to sell their products and services online, reaching customers from all over the world. However, e-commerce also comes with its own set of costs. Operational costs are the expenses that a business incurs in order to keep its operations running smoothly. These costs can include salaries, rent, utilities, and other expenses that are necessary to keep the business running.

### What are Transaction Costs in E-commerce?

Transaction costs refer to the expenses that are incurred during the process of buying and selling products online. These costs can include shipping fees, credit card processing fees, and other expenses that are incurred during the transaction process. Transaction costs can be a significant expense for e-commerce businesses, especially for those that sell high volumes of products.

### Impact of E-commerce on Operational Costs

E-commerce has a significant impact on operational costs. One of the main advantages of e-commerce is that it enables businesses to operate with lower overhead costs. E-commerce businesses do not need to maintain a physical storefront, which can significantly reduce rent and utility costs. Additionally, e-commerce businesses can operate with a smaller staff, further reducing labour costs.

### How E-commerce Helps to Reduce Costs?

E-commerce can help businesses reduce costs in a number of ways. First, e-commerce enables businesses to operate with lower overhead costs, as previously mentioned. Second, e-commerce allows businesses to automate many of their processes, reducing the need for manual labour. This can include automating order processing, inventory management, and shipping.

Third, e-commerce enables businesses to reach a larger audience, which can lead to increased sales and revenue. This increased revenue can help offset some of the costs associated with e-commerce. Additionally, e-commerce can help businesses reduce their marketing costs, as they can use targeted advertising to reach specific audiences.

### Reducing Transaction Costs with E-commerce

E-commerce can also help businesses reduce their transaction costs. For example, businesses can negotiate lower credit card processing fees by processing a higher volume of transactions. Additionally, businesses can use

third-party logistics providers to reduce their shipping costs. These providers can negotiate lower shipping rates based on the volume of packages that they ship.

### Examples of E-commerce Reducing Operational Costs

There are many examples of e-commerce businesses that have successfully reduced their operational costs. For example, Amazon has been able to reduce its operational costs by using automation to streamline its processes. Additionally, Zappos has been able to reduce its shipping costs by using a third-party logistics provider.

### Advantages of E-commerce in Reducing Operational Costs

There are many advantages to using e-commerce to reduce operational costs. First, e-commerce enables businesses to operate with lower overhead costs, which can result in significant savings. Second, e-commerce allows businesses to automate many of their processes, reducing the need for manual labour. This can lead to increased efficiency and productivity.

Third, e-commerce enables businesses to reach a larger audience, which can lead to increased sales and revenue. Fourth, e-commerce can help businesses reduce their marketing costs, as they can use targeted advertising to reach specific audiences.

### How to Reduce Operational Costs in an E-commerce Company?

There are several ways that e-commerce businesses can reduce their operational costs. First, they can use automation to streamline their processes and reduce the need for manual labour. This can include automating order processing, inventory management, and shipping.

Second, e-commerce businesses can negotiate lower fees with their suppliers and service providers. For example, they can negotiate lower credit card processing fees by processing a higher volume of transactions. Additionally, they can negotiate lower shipping rates with third-party logistics providers.

Third, e-commerce businesses can use targeted advertising to reach specific audiences, which can help them reduce their marketing costs. They can also use social media to engage with their customers and build brand loyalty.

### The Role of E-commerce in Reducing Operational Costs

The role of e-commerce in reducing operational costs cannot be overstated. E-commerce enables businesses to operate with lower overhead costs, automate many of their processes, and reach a larger audience. Additionally, e-commerce enables businesses to reduce their transaction costs by negotiating lower fees and using third-party logistics providers.

By reducing their operational costs, e-commerce businesses can maximise their profits and reinvest in their businesses.

They can use the savings to improve their products and services, expand their operations, or invest in new technologies.

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**KEYWORDS:** *E-commerce, business, operational, cost, transaction*

## INTRODUCTION

Before you can start with business cost reduction, you need to first identify what your business costs are and which of those expenses have room for improvement. This may seem like a tricky task at first glance, but it's simply a matter of following the right steps.

First off, you'll want to list out all of your e-commerce business's operating expenses and provide details including what the expenses are, how much they cost, the value they bring back to your business (ROI), how long you've been paying those expenses, and any other relevant information.[1,2,3]

Once you've completed the list of your business's operating expenses, you'll want to then prioritize them in order to determine whether how necessary they are for the successful operation of your business. One of the easiest ways to measure the necessity of your business's operating costs is to measure the ROI for each expense. With those ROI values listed, you can get a better idea of where you should look for opportunities to make business cost reductions.

If you have business expenses that you identify as 'nice-to-haves' (low ROI's), you'll definitely want to find ways to reduce those costs and perhaps even consider doing away with them completely. For those expenses that you deem to be more necessary (higher ROI's), you should still start working on developing cost reduction strategies (see more on that below).

This cost reduction strategy makes the very top of the list for obvious reasons. "Trimming the fat" can go a long way after all! If you have any operating expenses that aren't entirely necessary for the viability of your business, they should be placed as a lower priority and only kept in the budget if there's room after the more important expenses are covered.

Unnecessary services could include things like hosting weekly happy hours or having office yoga lessons once a month. While they're definitely nice to have and can help build team solidarity, they still aren't crucial to the survival of your business.[4,5,6]

Avoid the mistake of just 'getting by' with products and services that are simply 'good enough'. High-quality items and high-quality customer support won't only help reduce returns, refunds, and dissatisfied customers – they'll also help with your goals for operational cost reduction. It may cost your business a bit more time, attention, and money in the short-term, but it will help save you more money in the long run.

Over time if you're able to prove to your suppliers that you're a strong seller, you can gradually build a closer and more reliable relationship with them. But that relationship works as a two-way road; suppliers need your business as much as you need their services.

Use your history as an efficient e-commerce store as a bargaining chip to negotiate for better prices from your suppliers. At the end of the day, they don't want to lose your business (particularly if you're good at selling their products!). There's nothing wrong with using your expertise as part of your operational cost reduction strategy.

If cost reduction is what you're aiming for, dropshipping is one of the best ways to go about it. Since dropshippers don't actually store any inventory themselves, they save a ton of money that would otherwise be spent on owning, running, and maintaining a warehouse (or even several warehouses).

In a more general sense, dropshipping is a favored e-commerce model because it has very low overhead costs compared to other types of e-commerce businesses, a limitless number of products you can potentially sell, and lots of flexibility when it comes to management.

## DISCUSSION

Having an e-commerce advertising strategy in place to bring in more customers should almost certainly rank as high-priority on your list of business expenses. But maintaining an effective marketing strategy doesn't have to run up against your plans for business cost reduction!

There are two e-commerce marketing strategies that we recommend also including in your list of cost reduction strategies: SEO (search engine optimization) and email marketing campaigns. We're not just saying that either – SEO and email marketing campaigns are both staples of Become's marketing strategy.[7,8,9]

Why? Because SEO is completely free and is proven to be more effective than pay-per-click advertising in search engines. And because email marketing consistently ranks as the most cost-effective type of online marketing with a median ROI of 122%.

Cost reduction can actually go hand-in-hand with reducing your business's carbon footprint. Naturally, e-commerce businesses are more sustainable than many (if not most) offline businesses just by virtue of the fact that they use fewer utilities, take up less space, and create much less waste.

Those differences also have a direct impact on the number and size of expenses that your business pays – so what can you do green your business even more? Start investing in appliances that are designed to be more energy-efficient. Even better, save electricity by not only turning off appliances when you log off at night but actually unplugging computers and other machines if possible. Use natural lighting if your workspace allows for it.

Do you currently have a small business cybersecurity plan? If not, you should take into consideration the fact that the average cost of a cyber attack on a small business comes out to be roughly \$35,000. Implementing a cybersecurity plan could end up saving you a significant amount of time, stress, and money.

On the other hand, if you already have a cybersecurity plan in place, it's still possible to incorporate cost reduction into that plan. See what sort of price negotiations can be made with cyber security service providers; educate employees on how to take cybersecurity into their own hands; back up your data on a regular basis so as to avoid major losses if there ever is a system breach.[10,11,12]

## RESULTS

Operational cost reduction can be done by employing the power of technology. That doesn't necessarily mean firing employees and replacing them with robots. In contrast, you can give your team members a real upper hand by providing them with advanced tools to help streamline their work.

You can integrate automation to help reduce online shopping cart abandonment, respond to reviews, organize customer support tickets, and much more. Automation as a cost reduction strategy can also help maintain that high-quality customer service mentioned earlier on the list.

Running an online business means that you can outsource a great number of items on your list of business expenses. Much (if not most) of the time, outsourcing services will be cheaper than keeping an employee on payroll to fill a role that only needs filling on an occasional basis. Curious which services your e-commerce business can outsource?

### Here are just a few examples:

- Bookkeeping
- HR
- Customer service
- IT
- Lead generation
- Payroll processing[13,14,15]

Saving money is always a nice thing – who doesn't like an extra buck here and there? But that's not the bottom line for businesses using cost reduction strategies. Indeed, the real goal of business cost reduction is to increase your business profit so that you can continue growing your business and stay ahead of the competition. The best way to do this is to track all your business profits and expenses using a tool like BeProfit for example.

Reducing costs will help you increase your business's revenue, put more money into lead generation, reduce your business's pricing strategy, and more.

All-in-all, operational cost reduction will give you more fuel to keep the engine of your business running at full capacity. It's a self-reinforcing cycle where cost reductions save you money that you can then use to grow your business bigger and stronger so you can make even more money, and on and on. Put these cost reduction strategies to work today and start building a more successful e-commerce business[16,17,18]

## CONCLUSION

Operating costs in an ecommerce business are the day-to-day expenses of keeping things up and running. These costs are called 'overheads,' and they vary from brand to brand and industry to industry.

In an ecommerce business, the primary operational expense is the cost of goods sold (COGS). But beyond that are other extra expenses, such as:

- Utilities
- Website hosting and maintenance costs
- Shipping costs
- Inventory management
- Asset and equipment maintenance
- Marketing and advertising
- Labor costs
- Employee pensions, insurance, and other perks
- Taxes
- SaaS subscription services[19,20,21]

Managing these basic ecommerce business expenses can certainly have a learning curve. As the business grows, your overhead costs will change.

Variables like the cost of shipping, which can rise or fall depending on external factors, need to be closely monitored. It's certainly something I've struggled with in the last few years.

For example, during COVID, the shutdowns of factories in Bangladesh—which is a huge manufacturing base for textiles—caused significant supply chain disruptions for Acme Hats.

While there are some costs you can't avoid, there are several places you optimize your spending to reduce your overhead and drive more revenue. Let's look at five ways to do that.

### 5 Tips for how to reduce operating expenses in business

Running a business involves several processes and activities—thus, cost-cutting isn't an easily definable activity.

You need a combination of strategies and steps to optimize your business operating costs. Implementing cost-saving strategies will boost your business profits.

Here are a few ways to get started.[22,23]

#### 1. Automation of routine tasks

Automating business tasks means reducing the time spent performing repetitive things. But beyond saving time, automating tasks can also:

- Allow your staff to spend time on more important responsibilities
- Improve the efficiency of your team
- Reduce the risk of human error during rote tasks

You can automate many routine tasks. Optimizing how you receive orders is a big time saver for ecommerce businesses.

From when the customer places an order to when they receive it, there are many moving pieces that can be automated with triggers for order confirmation, fulfillment, tracking, and more.

With the automation tools like Brightpearl, you can automate order fulfillment processes like payment and order confirmation, warehousing, shipping, and accounting.

That's just scratching the surface. There's a lot more you can and should automate.

I would recommend automating certain customer service functions, for example. With the emergence of advanced AI chatbots, you'll be able to handle most customer inquiries freeing your team to handle only the most complex issues.

Inventory management and ecommerce marketing efforts like customer segmentation and email marketing should also be automated.

Automation reduces your workload and streamlines customer support activities.

You can use various technologies to automate routine tasks in your ecommerce business. Here are some useful tools to consider:

- Inventory management systems, such as Katana and Zoho Inventory
- Email marketing platforms like ConvertKit, GetResponse, and MailChimp
- Customer service platforms like Zendesk, Freshdesk, and Hootsuite
- Ecommerce CRM such as HubSpot, Salesforce, and Klaviyo

Many of these are available as apps for ecommerce platforms like Shopify, BigCommerce, and Adobe Commerce, seamlessly integrating to create more efficient workflows across all parts of your business.

As a first step, I recommend you create a list of routine tasks you can automate. Then, create your tech stack list and research all the possible solutions.

Select tools with a good reputation in the industry and are backed by factual performance data, positive reviews, or other forms of social proof.

You'll also want tools that integrate with your existing platforms.

## 2. Telecommuting

Renting a physical office space is expensive. You need to pay for office utilities, cover transport for full-time employees, and manage extra day-to-day expenses.

Shutting down your physical office and letting team members work from home is an option that can save you thousands of dollars.

According to Global Work Analytics, nearly six out of ten employers slashed operating costs by going remote. That's to say, telecommuting is very effective for cutting costs.[24,25]

More so, telecommuting allows your employees to work from home.

As a result, they skip the commute time and invest their energy and extra time in the job, which translates to more productivity.

If it makes sense for your company, start by ditching the office space and investing in collaboration and communication technologies like Slack.

This will help kick off remote working for your ecommerce business.

Mathew Gattozzi saves money by communicating with clients and employees about ongoing projects via Slack.

He maintains a channel for different teams/goals. For example, he has several channels for client relations and separate channels for internal communications to manage different projects with his team.

Ditching the office means you can hire remote employees.

That can reduce your operational costs and increase your labor pool. For these reasons, building out a remote team can make sense.

It's certainly something that works well for me.

However, it won't make sense for every business. Or, indeed, every part of the business. Working remotely might work for the senior leadership team and people in the marketing department.

However, your warehouse staff still needs to turn to the premises daily. Otherwise, your goods won't be created or delivered.

## 3. Outsource non-essential business functions

You might want to explore outsourcing non-essential business functions in your ecommerce brand, especially as you grow.

The roles you outsource will depend on the skills of your core staff.

For example, at Acme, we're great at logistics and customer service. However, I don't have anyone on the team with experience running paid ads.

Ecommerce marketing is essential.

You need people who are on top of the latest trends, experts in their field, good at visualizing data, and top-notch at interpreting trends. Hiring people like this yourself requires a significant investment.

Outsourcing your marketing needs can provide a good return on investment, free up your time, and boost sales in the short to medium term.

You might want to bring these functions in-house over the longer term, though, so you have more control over things.

Advertising isn't the only non-essential thing ecommerce businesses can outsource. You can outsource inventory, sales, human resources, website design, etc.

At Acme Hat Co, I outsource various functions to agencies. For example, I contacted a web developer when I needed a new sales page.

At this stage, I don't need a full-time web developer on my staff. It just didn't make sense.

Alternatively, you could use an app like Shogun Page Builder to quickly create stunning landing pages without hiring a developer.

I also have a virtual assistant to manage some internal admin and finance tasks that I want off my plate.

Again, reduce operating expenses by subcontracting non-essential tasks to skilled freelancers and industry experts.

Letting them handle specific tasks can minimize the financial load on your ecommerce business. You just budget for project, part-time, or hour-rated rates.

## 4. Encourage multi-vendor bids

Researching and letting multiple vendors bid for projects can help you cut costs.

For example, if you're sourcing a supplier that can provide customized embroidered hats for an online store or an event, you can ask vendors to provide quotes.

Getting numerous quotes lets you quickly compare their prices to make the best decision.[26]

Implementing multiple-vendor bids is simple. First, create a bid specifying your project's requirements and the expected cost. Then send to multiple vendors for quotes.

When vendors send their quotes, analyze each one and proceed with the vendor that meets the requirements and budget of your project.

Price isn't the only factor to consider, of course.

You want a vendor that delivers the products you need promptly. The quality of the goods or services being delivered is also important.

Once you've found a vendor you like, order a test sample.

The test sample is a chance for you to check how fast they deliver the goods and the quality of the product and packaging.

If things aren't up to the quality standards that you expect, go with another vendor, even if they are more expensive.

You can incorporate this approach into your ecommerce business.

Create a multi-vendor bidding system and use various quotes to choose a vendor. When done right, this strategy should help you reduce certain costs.

### Timely bill payments

Paying your bills late incurs interest, penalties, and extra charges. Timely payment of bills helps you avoid these unnecessary expenses.

The best part is—most vendors will offer you bonuses and discounts when you pay your bills on time, which is an easy and effective way to save money.

MYND Fintech, for example, offers early invoice discounts for vendors and ecommerce businesses using their services.

That way, buyers can:

- Reduce the cost of sales and services
- Mitigate risks of a disrupted supply chain
- Strengthen buyer-supplier relationships

Along with reducing operating costs, timely bill payments keep your ecommerce business out of the risk of bad debt, which could affect your credit score.

Boost your profit margins with smart cost-cutting strategies

Reducing operating costs in your ecommerce business can improve your financial performance. Booming sales alone won't cut it.

You must keep an eye on your daily business expenses to stay successful. There are many ways to reduce costs, but take note of these five to get your business on the right track.

Strive to automate routine tasks such as lead-call services, accounting, inventory, and marketing.

Consider telecommuting. Working remotely saves you the cost of a physical workstation, transportation, and utility bills.

Plus, your employees feel more free and flexible to operate.

Additionally, outsource non-essential functions so you can focus on the core areas of your business. For example, advertising, website design, and maintenance tasks should leave your plate.

Meanwhile, while outsourcing, ensure to encourage bidding amongst vendors. This will save you an extra cent without compromising the quality of work.

Finally, pay attention to your bills. It's best to pay bills timely, so you don't accrue extra charges.

These simple strategies should help you reduce operational costs in your ecommerce business, helping you see more profits in the long term.[26]

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