

# How To Minimize Backorder Costs During a Furniture Supply Shortage

By [Michael Premo](#) | April 14th, 2021



Furniture retailers know that lead times are getting longer as the COVID-19 pandemic and shipping container scarcity continue to affect global logistics. These delays stretch across all categories and force everyone in the industry, even quick-ship retailers, to adjust their timelines.

## Furniture Industry Forecast

Today, the furniture industry is facing a significant problem with supply. Due to COVID-19 protocols as mandated by health departments and government regulators, the workforce has been reduced worldwide in most manufacturing and processing facilities for raw materials. To make matters worse, demand for raw materials is up across all of the major sectors of the economy.

- **Vendor / Other Financing**

With lead times three-to-six months out, each transaction purchased through credit accrues more interest than past transactions.

There's another problem—furniture is sitting in warehouses waiting to be shipped. There is a worldwide shortage of shipping containers.

- **Global Shortage of Shipping Containers**

The costs for shipping containers and ground transportation have skyrocketed to almost [triple that of their pre-pandemic numbers](#). The delay is due to [China's trade imbalance](#), where for every container that returns, three are sent out. Shipping combined with longer lead times cuts into your margins.

Finally, before the pandemic, most companies had developed processes that optimized their supply chain. During the first few months, demand for furniture was low, but that's changed. Demand continues to grow back to pre-pandemic levels, and it's expected to rise to an [annual growth rate of 2.6%](#).

- **Customer Experience**

Items on backorder disrupt the whole customer experience. Most point of sale systems can't handle these complex transactions, which could result in fewer sales. Offering backorder sales was never a great option, but it's become a necessity.

## Minimizing Backorder Costs

Backorder costs range from direct to indirect. Items purchased on credit carry interest and have direct costs associated with a backorder. Other problems with backorders can affect customer service and your ability to complete a transaction. Here are some tips on what you can do to overcome or lessen the effect of these costs:

### 1. Increase Efficiencies

It's time to perform a technology audit. There are emerging technologies that provide you with the data you need to transform your back-office operations. [Advanced technologies](#) can reduce inventory shrink and in-store management. Automation will also play a big part in reducing time spent on menial tasks, which gives you and your employees more time to focus on what matters. Through the data you collect, you can make better forecasts and schedule labor to meet demand.

### 2. Offer Personalization

Personalization improves the overall [customer experience](#), which leads to loyalty and brand advocacy. Your customers don't want to be treated as part of a group of people. They want to feel like an individual with specific likes and dislikes. They want to receive recommendations that are relevant to them on a personal level. The styles and colors of furniture on the showroom floor aren't always the ones they want. Finding new ways for your salespeople to show alternatives is a great way to personalize the experience.

### 3. More Communication

With orders taking up to six months for delivery, you want to stay in close contact with your customers. You can send them [text and email updates](#) at regular intervals. This will give them realistic expectations and reduce purchase anxiety or even remorse.

### 4. Indirect Spending

Indirect costs on goods and services that are not-for-resale average about 10 to 15 percent of your total sales. To reduce these costs, you can increase visibility on purchases, incentivize employees to cut costs, and consolidate vendors for better pricing.

## Looking Ahead

The shortage of shipping containers has happened before, just not as severe as the current one. To stay competitive, you need to stay on top of your supply chain and adjust your inventory.

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