

An Inside Look at Drop Shipping

A Competitive Differentiator in Retail



Drop shipping offers many benefits for omni-channel retailers and distributors looking for an effective way to expand business and drive sales with little additional expense.

Improving customer service and increasing sales – the two top priorities for omni-channel leaders – sound simple but are made difficult by complex networks, processes and technology. Among the innovative ways retail and distribution executives can achieve both goals is by strategically implementing a drop shipping strategy. Providing multiple shipping options increases convenience for shoppers while remaining affordable. When implemented the right way, this is a win-win scenario for retailers and distributors; drop shipping increases item assortment, and in turn sales, without requiring additional capital investments in inventory.

Drop Shipping Defined

Drop shipping occurs when retailers or distributors directly utilize supplier and third party inventory to

fulfill customer orders. This allows companies to increase their online item assortment to improve e-commerce sales for retailers, distributors and their trading partners. Products ordered are directly shipped to the customer from a supplier's location; the retailer or distributor never receives or handles the product. (See Figure 1 on page 3.)

Drop Shipping Benefits

For omni-channel retailers and distributors looking for an effective way to expand business and drive sales with very little additional expense, drop shipping offers four major benefits.

1. Drop shipping can increase customer satisfaction

There is nothing more critical to retail health than customer satisfaction and loyalty. Shoppers are

more likely to find exactly what they are looking for on a retailer or distributor's e-commerce site when companies expand item assortment by leveraging supplier inventory. Thus, the top benefit of a drop shipping strategy is that it increases purchase options for the consumer, thereby impacting customer satisfaction and brand loyalty. In addition to expanding item assortment, the way products are delivered can also increase customer satisfaction. Transit and order fulfillment time to the customer is often reduced when orders are shipped directly from third party supplier and vendor distribution centers (DCs).

2. Drop shipping circumvents the need for added inventory carrying costs

Another top benefit of drop shipping is that retailers and distributors are able to offer and sell more products (for example, 10,000 SKUs) without having to purchase, store or ship the inventory. Item assortment can also be expanded for fringe/slow-moving SKUs without increasing inventory working capital costs. New items and markets can be tested without increasing cash outlay for inventory. And items that are very expensive in nature can be drop shipped from suppliers, enabling retailers to sell more high-end items without taking on higher costs.

In short, the ability to avoid costly inventory carrying expenses while increasing sales directly benefits the bottom line. For small and mid-sized retailers looking to expand product offerings and drive additional sales, this is especially beneficial.

3. Drop shipping drives sales and profitability

Offering more inventory means more chances to entice a prospective customer to buy. By utilizing a drop shipping strategy, e-commerce retailers can exponentially grow their inventory levels and sales opportunities. To ensure the products listed for sale are truly relevant to a retailer or distributor's customer base, inventory increases can happen steadily over time as testing occurs. As products are purchased, retailers learn valuable information about their customer demand that informs future product offerings.



For example, if an apparel retailer adds accessories such as jewelry and shoes to its inventory from a vendor and those sell well, the retailer may decide to offer similar accessories from other third party vendors to offer customers more variety.

4. Drop shipping can accelerate order processing and improve order cycle times

An ancillary benefit of drop shipping is that it can often accelerate order processing, which is good for the customer and the retailer or distributor. This can occur when a third party vendor has a DC that is closer to a customer than the retailer's DC or store. Of course, sometimes a vendor's DC or store is not closer and in those instances, faster order processing cannot be achieved. In order to ensure order processing is achieved within a retailer's standard shipping time frame and customer service timetables, the vendor's network of DCs and stores should be analyzed before a retailer decides to sell that vendor's products.

Advanced EDI and trading partner management (TPM) solutions include integrated order routing and orchestration and can determine the optimal fulfillment location.

How Drop Shipping Works

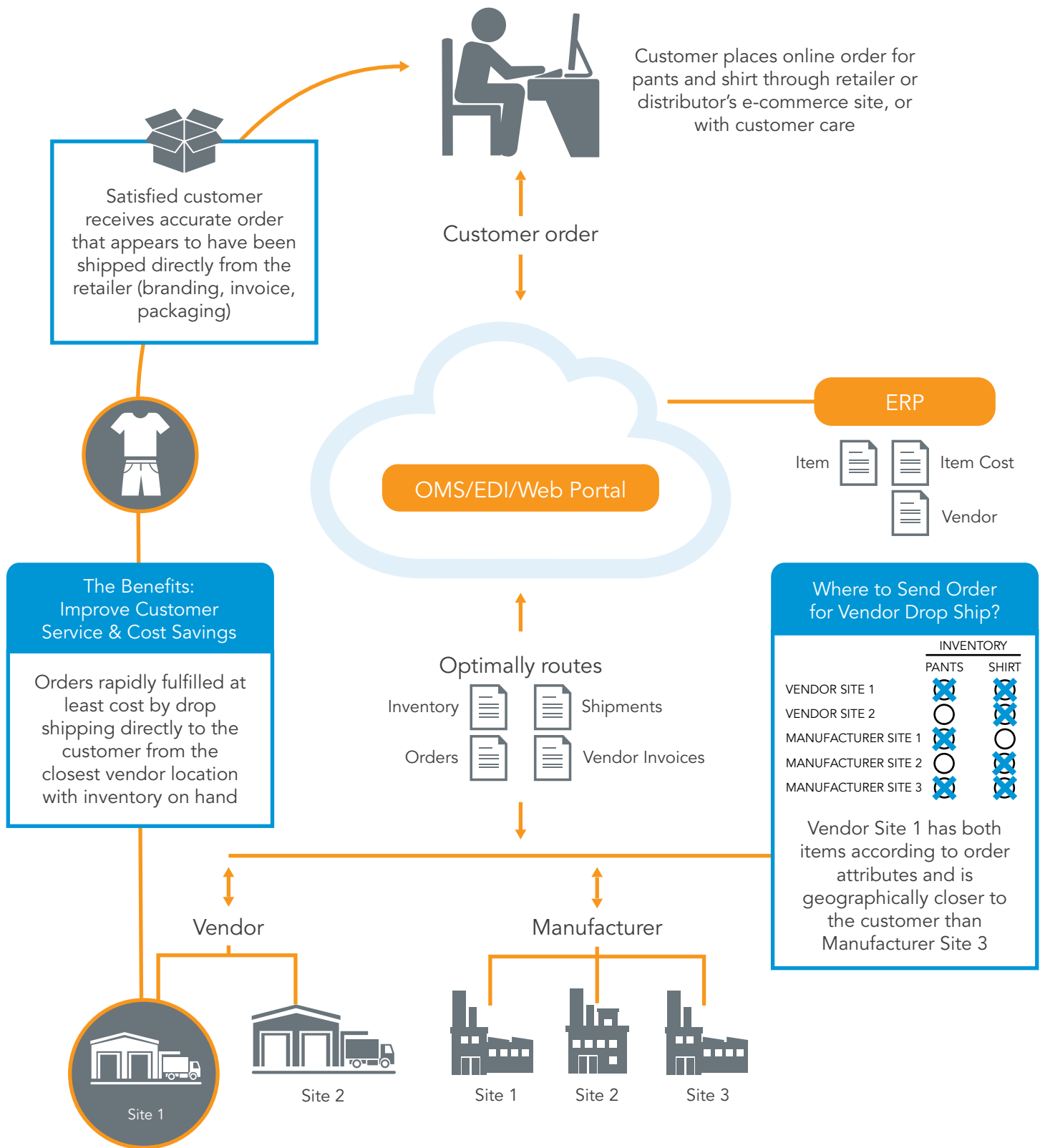


Figure 1: How Drop Shipping Works

Overcoming the Challenges of Drop Shipping

The benefits of drop shipping are certainly enticing, however, it is important to note that there are associated challenges as well. The chief reason why drop shipping has not become more mainstream is that, until recently, there has not been a single technology platform to readily support the required visibility and data exchange among trading partners and their many locations.

For example, a large vendor that requires electronic data interchange (EDI) integration may need to work with a smaller supplier that is not EDI capable. A single platform, cloud-based TPM solution readily integrates with a retailer or distributor's existing technology and enables the rapid onboarding of trading partners and seamless data exchange. The solution helps manage vendors of all sizes in order to implement a drop shipping strategy. By using cloud-based technology, the time to integrate and time to value is significantly diminished.

Another challenge can be item packaging. Customers may question the authenticity of products if the order packaging differs from the retailer or distributor's brand. It often makes sense for retailers to strategically provide certain packaging items – perhaps branded stickers or tissue paper, for example – to drop shipping partners in order to maintain a level of brand consistency.

Drop shipping creates visibility requirements for retailers and distributors at the vendor level to ensure vendor compliance and the ability to manage service level agreements (SLAs). Retailers and distributors need to see when a vendor accepts an order or when a vendor changes the shipping date, a line, or the exception for an order. The right solution can help manage the exceptions and provide visibility to order status.

Conclusion

For many omni-channel retailers and distributors, the benefits of drop shipping outweigh the challenges. A well-executed drop shipping strategy offers an important opportunity to build deeper customer loyalty and increase sales. To get started, leaders must review customer expectations and buying behavior and then determine the right enabling technology. Drop shipping also requires a communications and onboarding strategy for participating vendors. While drop shipping is not for every retailer or distributor, it does provide an opportunity to differentiate from the competition, bolster brand awareness, increase item assortment and sales, and provide better customer service.

We're Here to Help

If you are considering a drop shipping strategy or ways to improve your omni-channel operations, let's have a conversation. enVista provides integrated cloud-based order management (OMS), EDI/trading partner management and web portal functionality to deliver seamless data exchange and technology integration with trading partners. We can help you implement an optimal vendor drop ship strategy – in a matter of months.

enVista not only provides cloud-based, omni-channel customer engagement software solutions on a single platform, we also bring deep retail and supply chain consulting expertise to help you determine the best path forward. Our consultants can help you assess your operations, improve processes and develop optimal strategies to improve the customer experience.

**Consulting and solutions delivery is in our DNA.
Let's have a conversation.™**

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