INGRAM MICRO® COMMERCE & LIFECYCLE SERVICES

The Guide to Drop Shipping

Drop ship fulfillment opportunities for retailers and suppliers

The Guide to Drop Shipping was written to examine drop shipping as an increasingly popular fulfillment method and to share information that ecommerce retailers and product suppliers need before deciding to implement a drop shipping operation.

The guide begins with an introduction to the advantages of drop shipping and the subsequent sections address challenges often encountered along the way. Also included are solutions to overcome common obstacles.

Use this guide to make drop shipping a successful strategy for your business.

What's inside

Introduction
7 Advantages of implementing a drop shipping strategy 03

For Retailers
4 Common drop shipping challenges and solutions 04

For Suppliers
4 Common drop shipping challenges and solutions 05

Conclusion 06

Introduction

7 Advantages of implementing a drop shipping strategy

It's increasingly common to read about people quitting corporate jobs in favor of working for themselves. Many of them launch ecommerce businesses that rely on drop shipping to be successful.

There are numerous advantages to leveraging drop ship fulfillment:

Cutting your losses

Drop shipping eliminates the risk of making a bad investment in inventory that doesn't sell. You don't stock product and you don't pay for it until it has sold (after you've been paid).

Scalability

Test products and add new ones quickly. Referencing the previous point, since you're not holding inventory, you can react quickly and scale your business to meet changes in demand.

Lifetime value of customers

With the ability to add new products and expand quickly via drop shipping, existing customers stay engaged and return to see what's new. Costco stores serve as an example of this concept.

Low starting cost

Drop shipping allows you to start selling without heavy initial investment. Since you don't have to buy wholesale or cover the cost of manufacturing your own products, startup costs are relatively low.

Expansion into new markets

Getting product across international borders can be costly and challenging. However, partnering with strategically located suppliers can give you access to the same or similar products and allows you to ship them quickly. This is especially advantageous when testing a new market and can help you validate whether a product is worth importing.

Cost reduction

A cost is associated with every touchpoint in the supply chain. Ocean freight services, port operations, LTL and FTL services and warehouse employees all get added into the Cost of Goods Sold (COGS). Often you will find that a percentage of your product offering would net higher profit margins if it was drop shipped.

Virtually unlimited inventory

One of the main reasons the drop ship industry exists is to help retailers and suppliers combat inventory distortion. Over-stock clearances and out-of-stock shelves are an $800 billion problem. By tapping into product further up the supply chain, you can gain access to virtually unlimited inventory.

For Retailers

4 Common drop shipping challenges and solutions

What makes a drop shipping operation successful for retailers?

From the perspective of a retailer, pure-play or brick-and-mortar, the concept of drop shipping makes a lot of sense.

Although drop shipping is not the one-stop solution that the media makes it out to be, it can provide signficant advantages for retailers.

As with anything profitable, drop shipping takes careful planning and work to be successful. Setting up a website is the easy part. Establishing relationships, living up to customer expectations and scaling a business are more complicated.

Successful ecommerce retailers realize that drop shipping doesn't follow a traditional supplier-retailer model. It more closely resembles a partnership – dependent on system integrations, service level agreements and alignment around business goals.

Strong business owners see common drop shipping challenges quickly and work to overcome obstacles that stand in the way of sales and revenue growth. It's important to note that we're discussing these challenges to raise awareness of them and to demonstrate how to navigate around them.

Challenge 1

Providing a consistent customer experience (from different facilities).

When a package arrives at a customer's doorstep, it is the equivalent of checking out with a cashier in a store. It's the final stage of the transaction and the last thing a shopper remembers.

There are many instances where ecommerce orders are delivered to customers with inconsistencies: in orders involving multiple items, sometimes products arrive at odd itervals and other times they get lost in the mail.

These are a few indicators that a retailer-supplier drop ship partnership is not well integrated or defined.

Solution

As a retailer, investing the time to establish relationships with drop ship suppliers is very important.

Whether you're working with your first drop shipper or your hundredth, you should take the time to familiarize yourself with them and orient them to your expectations.

Make sure that your drop ship suppliers understand that they are the last point of contact with your customers and a positive customer impression is critical to your partnership. This should motivate them to perform well.

Once you've established these relationships, regularly test your processes. It's a standard practice to run quality control tests on shipments into and out of warehouses, so extend the habit to your drop shippers and adjust as needed.

In summary, you are responsible for knowing everything about the customer experience you provide (your customers shouldn't have to tell you about it). Do what you need to do to be confident in the efficiency and quality of your entire fulfillment operation.

Challenge 2

Avoid selling products that aren't actually in stock.

The major players in ecommerce retail are big for a reason.

As expected, they execute standards well, but one element of their success that often flies under the radar is that they provide transparent product information to customers before the checkout process begins. You'll notice that they indicate to shoppers whether items are in- or out-of-stock, and that before clicking "Add to Cart," shoppers can see when a product will arrive.

In addition to providing customers with transparent order information, major ecommerce companies deliver consistently and accuracy.

How do they accomplish this?

Transparency and accuracy are primarily accomplished through solid systems integrations and near real-time updates. Failure to invest in the personnel and tools that keep inventory accuracy between systems high results in an amateur customer experience (e.g., selling products that aren't available) and can quickly destroy any benefits gained by the implementation of a drop ship solution.

Solution

By understanding a supplier's business, you can more accurately assess how often and what type of inventory integrations you need to maintain a high level of satisfaction for your customers (via transparent inventory information and notification of out of stock products). Some useful things to know about your drop shipper include:

- How many and what type of retail channels does the supplier support (B2B, B2C, D2C)? This information can indicate the risk that you'll run out of inventory.
- What type and frequency of inventory updates does the supplier have with all their retailers? This is an indicator of the supplier's technology and the risk that you'll run out of inventory.
- What SLAs can the supplier commit to in terms of getting orders fulfilled and out the door? This indicates the supplier's confidence in their systems and their ability to produce.
- What volume can the supplier manufacture and at what rate can they replenish it? This is an indicator of whether the supplier can handle a big spike in product demand.
- In order to match what major ecommerce retailers offer customers in terms of product availability notifications and estimated shipping times, providing real-time updates should always be the goal. Sometimes they aren't possible, but keeping this information in mind, doing your homework and making positive customer experiences a priority will serve you well.

The bottom line is that customers want to be informed; if you sell them something that you don't actually have, you've failed to keep your promise and likely won't get another chance.

Challenge 3

Other retailers sell the same product from the drop ship supplier.

In the world of drop shipping, it's inevitable that retailers compete with other retailers that are selling the same product, using the same photo and description and offering the same price.

Many drop ship suppliers are aware of this and plan for it by doing the following:

- They provide stock photos and descriptions that make publishing products online easy.
- They control selling prices using Minimum Advertised Pricing (MAP) to ensure a level playing field for all their retail channels (e.g., Apple products are often priced identically across all retail channels, including their own.).

Solution

You can't prevent other retailers from selling the same products you sell, so focus your energy on what you can control. Stand out by marketing the value you provide to customers.

- As a curated commerce retailer (most drop ship retailers fall into this category, recognized or not), make sure to hold true to your product assortment. Can other retailers offer the same selection of products you offer? Can they combine or recommend them in the same way you do?
- Do you offer transparency in the order fulfillment process by giving customers tracking information as early as possible? Can your customers choose to get tracking information through the medium of their choice (email, SMS/text, website, app)? Do you make it easy for customers to get updates on their orders?
- Is customer service your strong point? Do you make returns easy from a policy and a process perspective? Are the returns self-serve and hassle-free?

In the world of drop shipping, you will have competitors with the same products and pricing, but that doesn't mean you can't win – it simply means you have to look outside of the product and price to make the sale. Win with the experience you provide.

Challenge 4

Managing order tracking information, shipping costs and SLAs.

As a retailer building a drop ship supplier network, you'll find that each supplier has unique requirements and best practices. These vary and tend to surface in the following ways:

- With one supplier, it may be ideal to use FedEx. With another, it may be better to use UPS.
- One supplier may require you to ship on their billing accounts (third-party billing). Another may require you to set up your own accounts.
- One supplier may use automated technologies like API, EDI, XML and so forth. Another supplier may manually upload order information into an order management system (OMS).

With so many different scenarios, it can become be very challenging to maintain a consistent experience for your customers.

Solution

When it comes to consistency, let technology reign.

Implement a smart technology layer that functions as a central hub in your supply chain to ensure that SLAs are met and that your customers consistently receive accurate shipping rates and detailed order tracking information.

Regardless of the technology you choose to manage this process, the goals should be the same. (While this advice is neutral and applicable to any partner, a technology layer and custom solutions are exactly what Ingram Micro provides via the Shipwire Platform.)

Your technology solution should:

- Aggregate all tracking information into a single place for your customers. From this location, customers should be able to get updates on all their shipments, regardless of status, carrier or fulfillment center.
- Allow for flexibility and scalability. As you grow your drop ship supplier network, you'll want the ability to integrate via API, EDI, XML and more without slowing down your business.
- Provide a single view of all shipping costs. Expenses like shipping, logistics, freight, etc. tend to be major line items on the budget sheet, which means they can make or break your bottom line. An effective order management system should provide insight into all of your shipping costs, allowing you to identify your true profit margin.

With the right technology solution in place, you'll be able to manage order information accurately, centralize it for your suppliers and communicate it to your customers.

For Product Suppliers

4 Common drop shipping challenges and solutions

Should product suppliers support direct-to-consumer fulfillment in order to sell on retail channels?

In today's world of commerce, the question is not whether suppliers should support D2C fulfillment, but how quickly it can be done.

To keep up with consumer demand for fresh products, major retail channels need product suppliers (be they individuals brands or manufacturers) to drop ship directly to customers on their behalf.

For product suppliers, selling through established retail channels can be a huge advantage. The potential for spikes in sales and distribution can be a revenue game changer.

However, before relationships with big retail channels are possible, product suppliers need to be able to support the specific demands of any given retail partner.

In this section, you'll learn about common drop shipping challenges suppliers face when selling through retail channels. Often, a fulfillment provider is helpful in supporting the technical and demanding requirements that are conditional to the establishment of retail partnerships.

Challenge 1

Bigger retail channels, tougher retail compliance guidelines, higher costs.

It's great to learn that a major retailer like Walmart, Target, Costco or Staples wants to pick up your product, but it can be challenging and costly to build the processes, systems and tools necessary to meet all the retail compliance guidelines that are needed to make the relationship work.

In order to drop ship on behalf of these retailers, you must be able to prove that you can support a list of requirements, including items like retailer-branded packing slips, later same-day shipping cut-off times, EDI connectivity and third-party carrier billing.

It can be costly to set these things up and maintain them, and managing all this eats into the time you need to spend developing your product and business.

Solution

Retail compliance is a unique challenge and has to be taken seriously. Failing to achieve retail compliance results in penalties, can cause your products to be discontinued and can put your retail relationships at risk, so it's important to get it right.

Fortunately, there are options to ensure success.

- Find a strategic fulfillment partner to help you turn this into the profitable sales channel that it should be. Ingram Micro offers support for this through our Sell Thru Retail solution.
- Start by selling through smaller retail channels that have more lenient compliance guidelines.This will allow you to ease into the requirements of retail partnerships and build up your internal processes over time.
- Hire an experienced resource that has a proven track record setting up D2C fulfillment. Plan to invest in the necessary software, warehouse reconfigurations and internal resources and let your resource handle this aspect of your business. Whether this is an option for you will depend significantly on your warehouse set up and business requirements.

Challenge 2

Retailers want to do business with you but don't want to buy products up front.

This dynamic is part of the changing nature of retail business.

Retailers have realized how much inventory distortion* costs them, so they try to minimize the negative side effects and offset their risk as much as possible. Drop ship fulfillment is part of the strategy to accomplish this goal, and from a retailer's perspective it's an attractive option (it's great business to pay for something only after you've collected payment for it).

Financially, it can be challenging for you as a product supplier to support this type of demand, but consider it an opportunity to create profitable relationships.

* Inventory distortion: the $800 billion dollar problem of overstock clearances and out-of-stock shelves.

Solution

Seize the opportunity at hand.

Many product suppliers (your competitors) don't have the ability to support drop ship fulfillment today, but as pressure from retailers mounts, this will change.

More and more suppliers will find ways to support the demands of retailers, and being able to do it earlier than the rest is a key competitive advantage. Recognize it as an chance to expand your product distribution and access consumers that were previously out of reach.

To afford the resources needed to set up a drop ship operation, you may consider charging a premium for products fulfilled via drop shipping (as opposed to wholesale). Also, since retailers carry less risk (they don't pay for inventory in advance) they are typically willing to accept slightly smaller margins on drop ship fulfilled products.

Challenge 3

Maintain accurate inventory levels while selling on many channels.

Inventory accuracy, management and awareness can be the difference between success and failure when setting up a drop ship fulfillment program.

If you're carrying the risk of stocking inventory, you have to keep enough stock to fulfill orders while maintaining finite resources like cash reserves and warehouse space.

You also need systems that keep you acutely informed of inventory at all stages of the manufacturing and fulfillment process. Major retailers often have retail compliance guidelines with SLAs that dictate an order fulfillment rate of >98 percent. That level of accuracy can be challenging to manage manually.

Solution

There are two parts to keeping your inventory levels as accurate as possible.

The first is to get your orders and inventory levels updated in as close to real-time as possible. With integration technologies like APIs and EDI, providing inventory levels on-demand and accepting orders as they are placed is more affordable than ever.

EDI is the technology of choice for most major retailers, and for many it's a business requirement. To support EDI, you can build your own solution our use an EDI provider (the latter is typically more costeffective and there are many options to choose from, including Commerce EDI by Ingram Micro, which is an easy and attractive option for Sell Thru Retail users because it's already integrated into our solution).

The second is to understand, forecast and plan for peak sales on your retail partners' channels (not just the average order volume). This is accomplished by holding enough safety stock or having a rapid manufacturing process that can keep up with peak sales. As you forecast sales, keep in mind that one big retailer can drain all your inventory.

Challenge 4

Meeting different system integration requirements.

Different channels have different system integration requirements. How can you afford to meet the needs of all of them?

This is a great question. Either you can afford to do this or you can't.

If you're in a position to invest in this part of your business, you will have to build out systems and processes to support both the pick and pack facilities (physical space, packaging materials, staffing, IT infrastructure) as well as the software to support all the typical data exchange methods like self-service, batch processes (CSV), EDI or web services (API, XML). This is a lot to put in place, but it is possible with the right resources and budgets in place.

If you are not in a position to build all of this out or don't want to invest in this area, you have to find other means to achieve these goals. Avoiding this altogether puts you at risk of being left behind as your competitors ramp up this part of their businesses.

Solution

Understand the value and importance of integrations and processes to the success of a drop ship fulfillment program.

We have seen many customers start with two or three retail channels and very quickly expand to 10+ channels within weeks. Within a year, they may be selling on 30 to 40 channels.

Merchants who achieve this type of growth are able to do so because they have the technology in place to support virtually every retail channel via any data-exchange method, and they have the fulfillment infrastructure to scale with business demands.

Whether you align with a strategic partner to build out integrations or decide to tackle this in-house, the consensus is that you need to invest in the foundation to support all system integrations.

Conclusion

The total ecommerce market is on pace to be greater than $600 billion worldwide by 2018.

Now more than ever before, consumers are in control and are dictating when, where and how they want their products delivered to them.

To avoid the fates of Circuit City or American Apparel, retailers must support trends in consumer demand and cater to the interests of their unique audiences or else risk losing business to competitors who sell the same products at the same prices. They also they need relationships with product suppliers that can cater to their endless aisle needs.

To increase sales and gain a competitive advantage through retail partnerships, product suppliers (including brands and manufacturers) need to support direct-to-consumer drop shipping and all that goes with it (e.g., data communication methods, compliance guideslines and system integrations).

For more information about data management, order fulfillment technology and drop ship fulfillment, contact us at **info@ingrammicroservices.com**.