



# STARTING OR EXPANDING A DROP SHIP PROGRAM

## SYNOPSIS:

More and more retailers and suppliers today are adding drop shipping as a fulfillment method. Also sometimes referred to as direct-to-consumer, drop shipping is essentially when a supplier, vendor or brand ships an online order on behalf of a retailer. The retailer never has physical possession of the product, and the consumer never knows the difference.

Drop shipping programs take careful collaboration, communication and trust between businesses. This episode explores what it takes to start a drop shipping program, as well as offers tips for expanding existing drop shipping programs.

## ON THIS EPISODE:



**Host: Kristin Ploetz, Senior Manager for Customer Success, SPS Commerce**

Kristin is a results-oriented leader with over 20 years of experience developing, motivating, and directing high-performing teams, while managing multi-million dollar programs. She has extensive experience in building customer partnerships for Fortune 100 level clients with a proven track record of achieving results. Previous to her time at SPS Commerce, she worked in director roles at Digital River and Knoa Software.



**Guest: Bekki Windsperger, Senior Customer Strategist, SPS Commerce**

Bekki Windsperger is a Consumer Product Goods (CPG) industry expert with more than 30 years of experience in developing and supporting Business to Business (B2B) integration, with a focus on optimizing and automating Supply Chain and Item Management business processes. Before she came to SPS Commerce, she held positions at Supervalu, Pillsbury and Best Buy. In 2017, she was named as a Supply & Demand Chain Executive “Pro to Know.”



**Kristin Ploetz (KP):** Welcome to the Mastering the Retail Game podcast from SPS Commerce, where we explore the new rules of retail and provide real-world advice on how to win by learning from your peers and industry experts.

I'm Kristin Ploetz, your host for today's podcast. In this episode, we'll be talking about the importance of having a drop ship program. Drop ship is also known as a direct-to-consumer order model. Drop ship is used when a vendor or brand fulfills an online order on behalf of a retailer and ships directly to the consumer.

Since the product is sent directly from the vendor, the retailer does not maintain the inventory or ever have possession of the physical product during the order cycle.

When the consumer receives the order, it looks like it came directly from the retailer with their own branding. When this is executed well, a drop ship capable vendor is a superstar in the eyes of a retailer while remaining behind the scenes to the consumer.

Today we'll focus on the key factors to consider when adding or expanding this capability for retailers and vendors. A successful drop ship program requires careful collaboration, communication and trust between businesses. As both an avid online consumer and supply chain professional, this topic is very close to my heart, so I'm excited to be talking about it today.

**"A successful drop ship program requires careful collaboration, communication and trust between businesses."**

Joining me is my colleague Bekki Windsperger, who is a Senior Customer Strategist at SPS Commerce. Bekki is a Consumer Product Goods industry expert with more than 30 years of experience and she's here to share her experience and expertise in mastering a drop ship program. She previously held positions at a national grocery retailer, national electronics retailer and an international food manufacturer before she came to SPS.

Her expertise ranges a wide variety of areas such as developing and supporting business to business system integrations, item management systems and processes, and optimizing and automating supply chain. In 2017, Bekki was recognized as a pro to know in her field. Welcome to the Podcast, Bekki, and thanks for joining us today.

**Bekki Windsperger (BW):** Thank you Kristin.



**KP:** In the introduction, I briefly touched on what drop ship is, but now we'll unpack that and go into the details. Becky, let's start with why retailers are pursuing drop ship as a fulfillment option and the need to find the vendors who are drop ship capable.

**BW:** First, and this one is probably the most important, is that more and more consumers are making purchases online and the retailers want to be that go-to site. As their online sales grow, retailers are looking for vendors to help fulfill the volume of orders in a timely manner to meet the customer's experience. Another component to add in drop ship capabilities is the ability to expand the product assortment without the added cost and risk of carrying inventory. If the consumer's standing in a retailer's store and likes a product, but wants it in a different color, the retailer can now save the sale with the option to ship directly to the consumer's home. And along those same lines, retailers are much more likely to test a new category on their website as there is lower risk, lower cost and lower effort to offering these new products online versus in store. If the offering's a hit, the retailer may consider stocking the products on their store shelves as well.

**"As their online sales grow, retailers are looking for vendors to help fulfill the volume of orders in a timely manner to meet the customer's experience."**

**KP:** So what you're saying is it costs less because I don't have to carry that inventory and I can take the risk of expanding my offering digitally because I don't have to buy it all. That's great. It sounds like there's a lot of benefits to the retailer. What are the benefits for the vendor to invest and offer drop ship as a fulfillment option?

**BW:** Well, when you think about it, a lot of what I talked about from the retailer perspective really applies to the vendors as well. It allows the supplier to expose the retailer's customers to more of their catalog. It can open relationships with new retailers, and realistically it should drive additional sales. Retailers are seeking drop ship vendors out, so just having that capability already in place gives the supplier a leg up on their competition that may not be offering drop ship. And then once the suppliers master drop shipping for one retailer, they can expand that capability with additional retailers with just some minor modifications. So proven drop ship program with statistics to back it up are a major selling point for retailers looking for drop ship vendors.



**BW:** And then once a drop ship competency is built out, it opens the possibility to join marketplaces, build out direct to consumer sales channels, but of course, this requires operational excellence. You don't want to expose yourself to the customer until you know what you're doing. So those are the most common benefits to both retailers and suppliers, but there could be more depending on the company's long-term strategy.

**KP:** Okay. You mentioned that retailers are looking for drop ship vendors. How do they most commonly source those vendors with drop ship capabilities and then start the relationship?

**BW:** What we normally see is the retailer looks at expanding the assortment with their current vendor community. They'll start carrying every model in every color and every size online while still just keeping the top selling skews in their stores. Otherwise, the retailer finds new vendors through trade shows, conferences, or even through third party sourcing companies that align retailers with vendors, and capabilities, and product lines, kind of like a match.com.

**KP:** Oh, great. And does it work both ways? Do vendors typically use the same method to let retailers know about their drop ship capabilities?

**"You really need to look at the drop ship vendor as an extension of your brand because in the end the consumer is going to hold the retailer accountable for their order experience."**

**BW:** Yes. A lot of what you talked about from the retailer's perspective also applies to the vendor. Drop ship vendors that are already working with a retailer have an in. When they want to expand they may just reach out to retailers and say, "Are you looking at doing drop ship? We have the capability. Do you want to move forward?" Otherwise, they do attend the same trade shows and conferences and so by advertising it they just make a visibility through that. And then of course the third party sourcing is always another option.

**KP:** Okay, so focusing on the retailer for a moment, what is important for the retailer to consider when they're evaluating a vendor for a drop ship relationship?

**BW:** You really need to look at the drop ship vendor as an extension of your brand because in the end the consumer is going to hold the retailer accountable for their order experience. A retailer must have confidence that the vendor will be able to provide a consistent branded experience to the consumer. So here are some things to take into consideration.



**BW:** First, confirm the vendor has the capability to fully support a drop ship order model with automation. It just can't grow in a sustained drop ship without automation of information being exchanged.

Secondly, the retailer has to know the vendor can provide visibility to current inventory sales of products that oversold. Kristen, have you ever ordered something online to only be told days later that it would not be fulfilled? I know that I had, and it put a bad taste in my mouth, and I've been hesitant to order from that retailer again.

**KP:** Oh, agreed. And anybody who's ordered something during Black Friday and then later told they couldn't have the item because it was out of stock knows what that's like as well. My own experience has gone both bad and good but when I've worked with a good e-tailer, I now have the expectation of that full automation where I understand and know the status of my shipment the entire way right up to the point where it arrives at my doorstep. So anybody who's providing less than that, I have no confidence in buying from.

**BW:** I agree with you there. And last, they should define upfront how returns are going to be handled with the vendors. So if a consumer buys a product and they don't like it and they return it, what do you do with it? Does it go back to your store? Do you have it shipped to the vendor? All that needs to be defined upfront and it has to be part of the agreement between the vendor and the retailer. Nobody wants returns, but they're a reality.

**KP:** Okay. What should the vendor be considering when they set up their drop ship programs?

**BW:** Automation is probably going to be the help for all of this. Theoretically you can do drop ship without automation but there's a great risk. What happens if you get a hundred orders in five minutes? You've got a risk of missing an order, or risk of manual errors by manually keying the data, and if you want to do it for the most important retailers, it's required to consistently hit their strict turnaround times at all phases of the order. So manual processes will slow that down. Fundamentally, you need to have the right people, process and systems in place to fully support your retailer's requirements.

**KP:** Let's go back to sourcing for just a moment. When a retailer has found a vendor that they do want to work with for drop ship, what is the next step to formally establish that agreement and the relationship?

**"Theoretically you can do drop ship without automation but there's a great risk. What happens if you get a hundred orders in five minutes?"**



**BW:** You really have to have specific requirements defined for drop ship and that needs to be communicated as either part of a master agreement or a vendor guide. Sharing your compliance and having that well documented is important. It may just be an amendment to a contract with the current vendor, but however you need to consider that there might be different terms and pricing may vary for drop ship, so that needs to be part of the updated agreement.

**KP: Okay. From a retailer perspective, what details are the most important when preparing to expand my product assortment for drop ship?**

**BW:** Well, first off, you need to have a clearly defined process for capturing and storing item data. It's important to consider what data you require to set up the item in your system to order, but also what data is important to drive the end consumer to complete the purchase. And this can be challenging if the retailer expands into new categories that require different or new attributes you're not familiar with.

Next, they need to review both the quality and quantity of data that their vendors can provide. For example, product images are often one area where the quality can be a challenge. You may find that smaller suppliers may have nothing more than an iPhone image, which may not meet your quality standards for your website.

Often suppliers are unable to meet your full data requirements. Some just haven't caught up to the demand of their item data, or they may not have a central repository, which would make it difficult for them to access the information and to keep you up to date.

**KP: Okay. So understandably, the quality digital content for each product is critical to being able to sell to your consumer. What happens when a retailer finds a vendor they want to work with, but the vendor can't provide the quality digital content that's required for their product lines?**

**BW:** So if the vendor can't provide it, the retailer should consider staffing in the intentional workload they would need to do to mine the data themselves. There's third party providers that can do much of that work for the retailer or the vendor, but it certainly isn't cheap. Overall, it's probably most important to be reasonable what you're asking for and the more you ask for the likelihood of delays to provide the data increases, which can mean lost days of sales.

**"It's probably most important to be reasonable what you're asking for and the more you ask for the likelihood of delays to provide the data increases, which can mean last days of sales."**



**KP:** I can really see that from both sides, at least in my own experience as a consumer. I recently was price shopping a piece of furniture online and the best site that I viewed had multiple pictures, the full set of dimensions, information about the materials, and I could confirm exactly what I wanted. And even though that wasn't the lowest price, I bought that because I had high confidence that it met exactly what I was looking for and then avoided that risk of having to return it.

**BW:** Absolutely. I certainly agree with you there.

**KP:** So once a vendor's live and ready to drop ship, what needs to be in place to ensure production runs efficiently?

**"How do they take in orders? How does that product flow currently? And how will that change for drop ship so that they can build up drop ship and continue to improve the process?"**

**BW:** So there are four things. Monitor, monitor, monitor and measure. So you need to be able identify how you will monitor and manage vendor compliance. What systems do you have in place to provide this visibility? You also need to have people and a process in place to work with your vendors to resolve the errors quickly to avoid losing customers.

**KP:** Well, clearly monitoring is important and I would agree with that. What advice do you have for vendors who want to take a step forward toward adding drop ship to their capabilities?

**BW:** So if the vendor's just getting started, they need to get ahead of it by following the process all the way through their warehouse. How do they take in orders? How does that product flow currently? And how will that change for drop ship so that they can build up drop ship and continue to improve the process? They have to ensure that communications with the retailer's on point and timely. So if there're going to be delays or an order can't be fulfilled, the retailer needs to know to keep the consumer informed.

Automating this through electronic communication such as EDI can streamline the communication significantly and that ties into the next piece of advice, which is to find a way to automate your inventory updates for your retailers. Timeliness of this information is critical, especially during peak seasons, as you mentioned, Black Friday. So we're seeing some retailers moving from a daily fee to even hourly or more often during the holidays.



**BW:** And last, it includes item data. Retailers need those details for their product pages and the more complete the information, the more likely consumers have the necessary information to make the purchase. They're not touching and feeling the product so that's got to be available for that on the website so that they know what it looks like, whether it has buttons, zippers, whatever, to ensure that they know what the product is when they make the purchase and that they get what they ordered, which eliminates or reduces returns.

**KP:** Well anybody who's done shopping on Black Friday can certainly appreciate the importance of inventory awareness if you've ever tried to purchase something on a great deal and then found out there was nothing left. So you've made it very clear that monitoring is critical to success. If the vendor's already doing drop ship, what should they be monitoring to identify where they need to improve?

**BW:** They should be working to evolve their drop shipping program to be better and faster because E-commerce is just not standing still. Timelines are getting shorter with next day deliveries and in some cases same day delivery is becoming the norm.

So look at your data, track your performance to help identify where fixes or changes can improve the process to move faster and become more accurate. What are your fill rates? Are you shipping on time? Are you experiencing more returns than usual? And if so, what are the reasons? So the consistent monitoring helps identify the issues so they can continue to tweak the system and people and processes so they can perform better going forward.

In the end, demand for drop ship will continue to grow and it can be a win, win, win situation all around. Retailer's able to offer up more products, which should attract sales. Supplier gets more of their catalog and the retailers' assortment and may establish new relationships and drive sales. And the consumer gets what they want when they want it.

**KP:** Great advice on all the areas of drop ship order model. Becky, this has been a great conversation with valuable information, not only about the importance of drop ship, but also the key aspects of getting started and improving operations. Thank you so much for visiting with us and sharing your expertise.

**BW:** You're welcome.

**KP:** Thanks for listening to this episode of Mastering the Retail Game. You can read transcripts of this podcast, review show notes and listen to other episodes by visiting [spscommerce.com/podcast](https://spscommerce.com/podcast) or by subscribing through most major podcast streaming services. Join us on the next episode of Mastering the Retail Game for more tips on how to win in the new retail environment. Until then, this is Kristin Ploetz signing off.

"In the end, demand for drop ship will continue to grow and it can be a win, win, win situation all around."