

Chapter 6

DROP SHIPPING

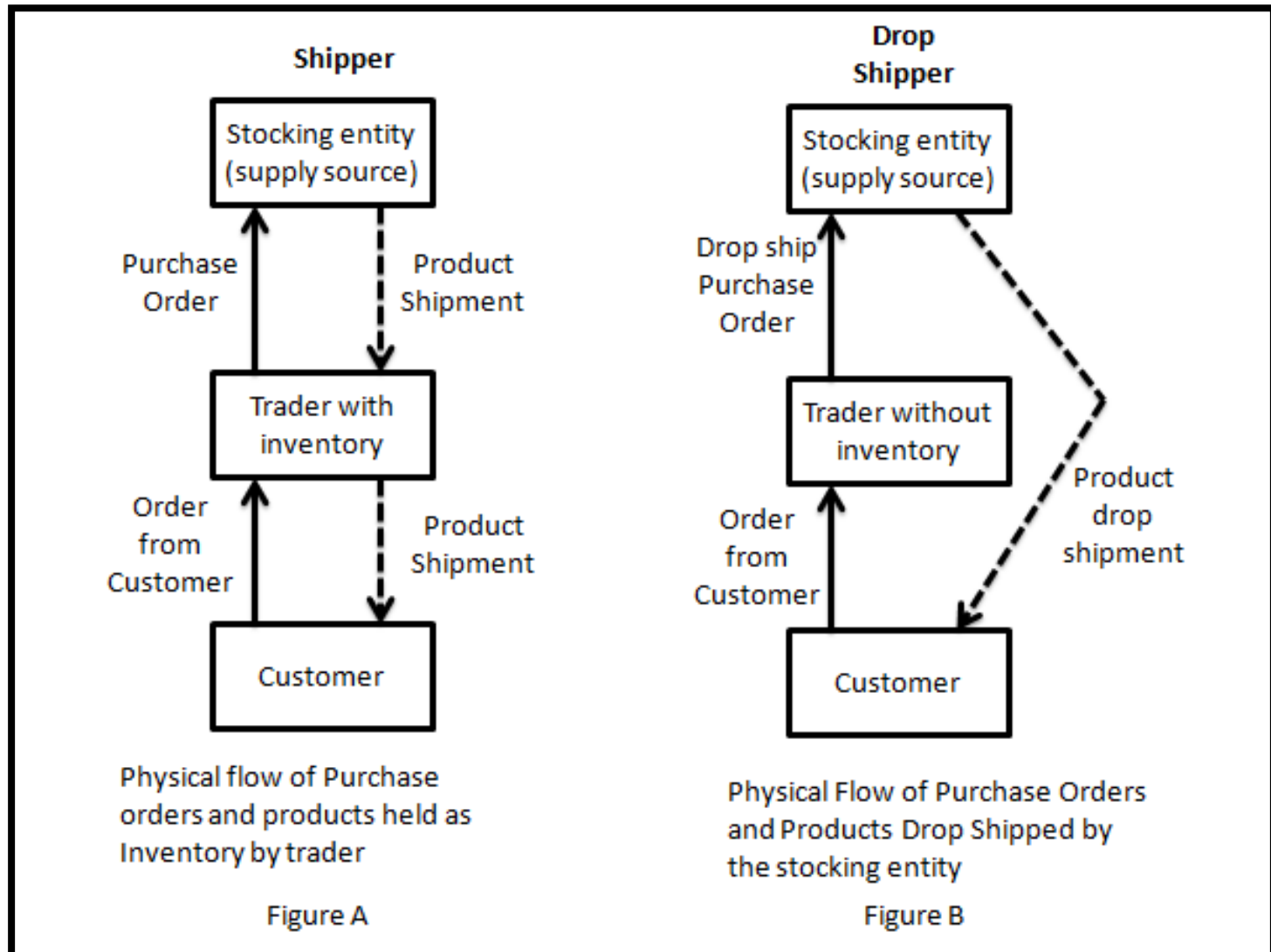
Objectives:

- Drop shipping is a special form of outsourcings; which takes care or complete logistic part from the ecommerce company such that they are free to focus on other aspects of business At the end of this chapter you will understand what drop shipping is and how e-commerce companies can leverage it to maximize their business.

Introduction (1/2)

- Drop shipping is a supply chain management technique in which the retailers does not keep goods in stock, but instead transfers customer orders and shipment details to either the manufacturer or a wholesaler, who then ships the goods directly to the customer.
- For our context the retailers are the E-commerce companies, which are selling products that they actually don't own. They set up an online store that includes a mark-up price, and sell products to clients and forward the order to the drop shipping supplier. Drop shipper, ships the product to the customer on behalf of the E-commerce Company.
- Consider two scenarios
 1. Physical flow of Purchase orders and products held as Inventory by trader (Figure A)
 2. Physical Flow of Purchase Orders and Products Drop Shipped by the stocking entity (Figure B)

Introduction (2/2 Fig.)



Opportunity

- According to a 2009 report from the American Society of Business and Behavioral Sciences, 22-33% of Internet retailers have adopted drop shipping as their primary method of order fulfillment. Forrester reported in 2012 that drop shipping accounted for 34% of products sold in 2011 by e-commerce giant, Amazon.com. That's \$14.2 billion dollars of drop shipped orders from a single e-retailer.
- Drop shipping enables virtual inventory. Virtual inventory allows retailers to sell products and have orders fulfilled without the need to own a warehouse or carry any inventory. Sales are transacted on the retailer's e-commerce site. Orders are then routed to manufacturers or distributors who ship products directly to customers. By tapping into drop ship suppliers, retailers can broaden their offerings to consumers, strengthen their brand, and grow revenues while simultaneously avoiding inventory carrying costs and warehouse expenses.

Benefits

1. Low investment
2. Easy to get started
3. Easy to scale
4. Wide selection of products
5. Flexible Location

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Risks

Drop shipping can be a convenient way for retailers to sell products without having to store them or arrange deliveries, but there are also a number of disadvantages involved in using a drop shipper.

1. Customer Service Time
2. Competition
3. Loss of control
4. Low Profit Margins
5. Possible Inadequate product information
6. Differential Return Policy
7. No Control over Packaging
8. Expectation of Free shipping

Different types of drop shipping for different ecommerce needs

There are various types of drop shipping for Different Types of Ecommerce, depending on areas, situations and needs drop shipping can be a real advantage.

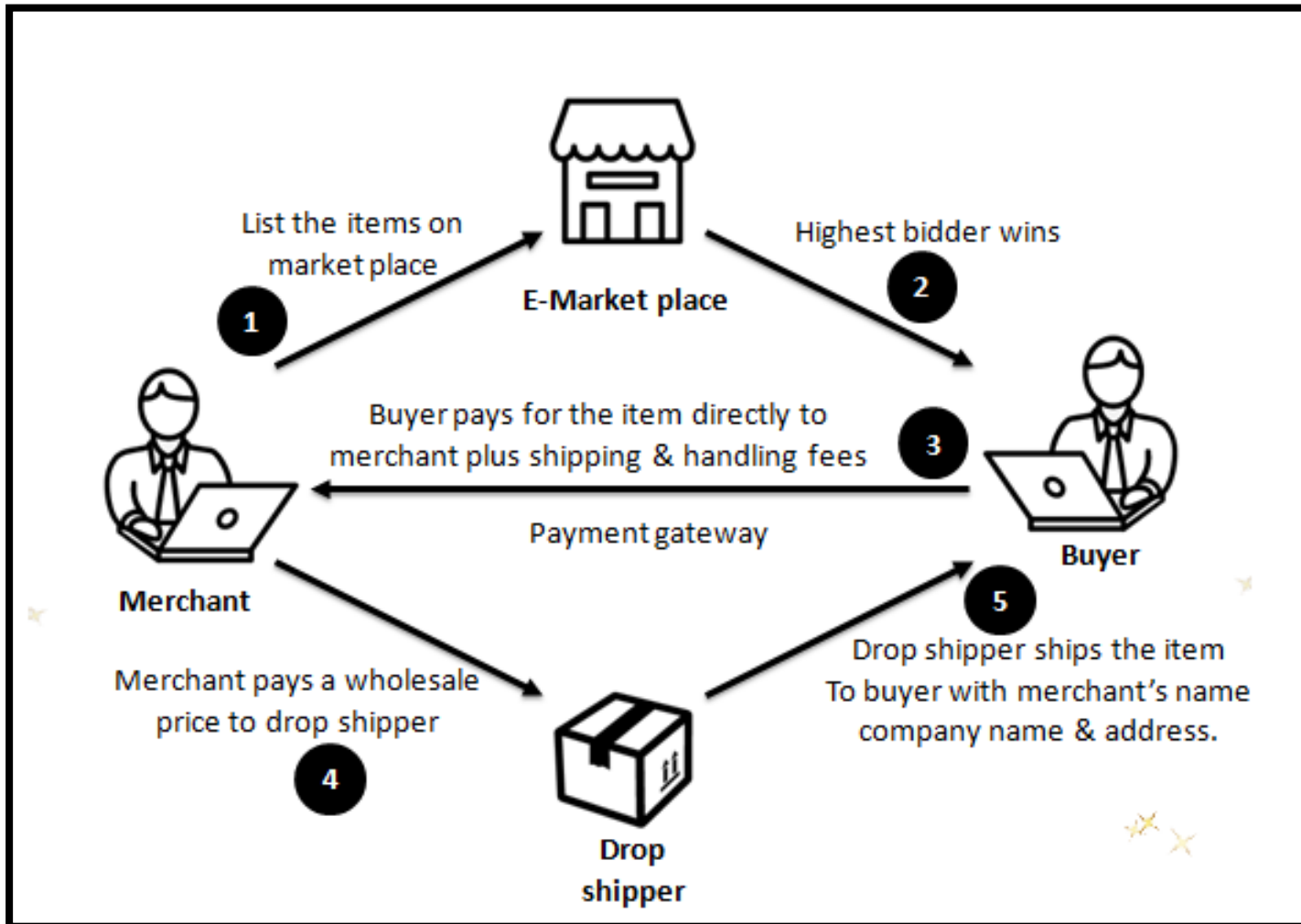
1. Drop Shipping as Business Model.
2. Drop Shipping as a Research Tool
3. Drop Shipping as a Secondary Source of Supply.
4. Drop Shipping for Bulky Items.

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Different types of drop shipping for different ecommerce needs (1/2)

- Drop shipping in online retail marketplace is a remarkable concept, in which anyone can become a vendor and start a business. There is no requirement of having or maintaining the web store or any sort of inventory. Charges to become a merchant and to carry out business on the online retail marketplace are nominal. 60% of all the online merchants use drop shipping.
- Process followed in E-market place:
 1. Merchant lists item on E-Marketplace after cross-check if the items are available with drop shipper.
 2. Buyer shops online from the merchant. Usually buyers make purchase from merchant who is selling at lowest price in the marketplace. Alternatively merchants are looking for buyers who can bid more for their item.
 3. Buyer pays for the item directly to merchant plus shipping & handling fees. Payment could be done through various payment options like net banking, credit card or cash on delivery etc.
 4. Merchant sends instructions to drop shipper to fulfill buyers order, merchant pays wholesale price to drop shipper.
 5. Drop shipper ships the item to buyer with merchant's name company name & address on the package and bills.

Different types of drop shipping for different ecommerce needs (2/2 Fig.)



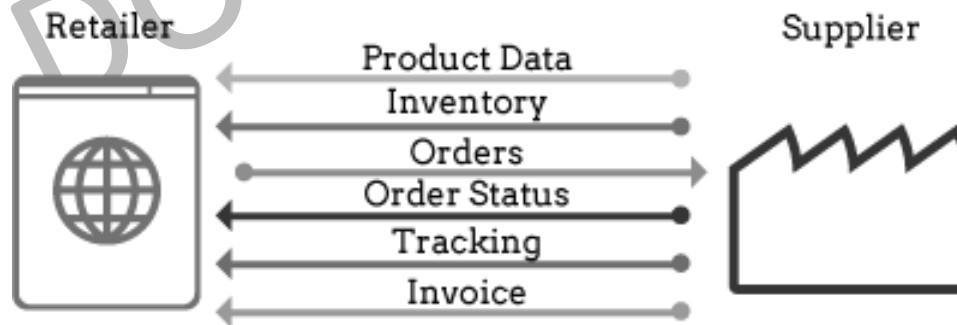
Drop shipping charges

There are two to three potential fees with drop shippers:

- 1. Per Order Fee:** It's common for drop shippers to charge a per-order fee to cover the expense involved with packaging and shipping an individual product. These fees are usually in the Rs.100/- to Rs.300/- range, although it can be higher for items that are extremely large or difficult to process.
- 2. Monthly Fees:** Some drop shippers may charge an ongoing fix monthly fee. Most of the time, this is an indication of a poor quality and/or "fake" drop shipper one should be wary of such drop shipper.
- 3. Purchasing Minimums:** Some drop shippers require a minimum purchase size, either for the first order or on a monthly basis. If one doesn't meet these sales thresholds, they'll charge special a fee. They do this to filter out non-serious business owners who will likely be more trouble than they are worth.

ECOMMERCE DROP SHIPPING STANDARDS

- e-Commerce Drop Shipping Standards (e-DSS) provide a common set of standards and best practices for companies to interact in drop shipping relationships. The initial specifications for e-DSS focus on exchanging data around four main business interactions involved with drop shipping:
 1. Product catalog data and images,
 2. Inventory and pricing updates,
 3. Orders, and
 4. Order updates/tracking.



HOW TO SELECT THE BEST DROP SHIPPING SUPPLIER?

- Finding a good supplier can be a very time-consuming task, Supplier should be such that they will cater to all the needs, understand customers and industry the retailer is operating in.
- There are many Web sites that proclaim that they can drop ship thousands of different products but reality is most drop shipping services don't. if a retailer has smaller offering of products it may indicate that the drop-shipper has real merchandise ready to ship and isn't relying on ordering it from someone else.
- Look out for long lines of distribution. Drop-shippers are often middlemen who are broker for merchandise from several different sources. For example, from other middlemen who buy from brokers (who in turn buy from manufacturers). The line of distribution can get even longer which means that a whole slew of people might make profit on item before retailer even buy it wholesale. If some other retailer gets the product directly from the distributor or from the manufacturer, that competitor can easily beat retailer's target selling price and pocket retailer's profit completely hence always verify with the drop-shipper that they stock the product that retailer sell.
- Many wholesalers perform drop-shipping, look for one who has a good professional track record.

Best Practices (1/2)

1. Place test orders quarterly with the vendors just as one would with their warehouse and evaluate turnaround time, delivery and presentation, error, and the resolution of customer service issues.
2. Pay close attention to the margins. Get all the facts and figures down to hard rupees amounts instead of percentages.
3. Evaluate vendor inventory positions and frequency of communications. Determine if any products should be moved in-house, discontinued, or left as drop-ship but promoted differently or more aggressively
4. Invest in automation retailer really can't do drop-shipping right manually; there is too much at stake. Whether one develops the technology in-house, purchase it from a third party or use an EDI ASP service, automation is key. If using an ASP, make sure the ASP has a portal that even low-tech vendors can use, and mapping capabilities to interface with non-EDI vendors.
5. Take the time to carefully research products before electing to mail them through a secondary shipping service.

Best Practices

1. It's retailer's job to hold vendors accountable. In the end, that may mean enforcing chargeback such as flat rates of Rs.3,000/- to Rs.60,000/-- for late shipments, vendor cancels, shipping errors, missed order changes, or wrong shipping carrier. Chargeback can be the biggest incentive for vendors to stay in compliance. At the same time, chargeback need to be administered judiciously.
2. Retailer who is working solely with one drop shipping networks carries a risk, in case of exigency, fulfillment failure of the drop shipper there is no fall back mechanism.
3. Evaluate vendor inventory positions and frequency of communications. Determine if any products should be moved in-house, discontinued, or left as drop-ship but promoted differently or more aggressively.
4. Challenge and involve the top drop-ship vendors in how one it can collectively improve sales and fulfillment and increase profits.
5. Synchronize SKUs with vendor's Model numbers, Global Trade Item Number (GTINs), specifications, etc. from the start of the relationship. Control and maintain cost changes, limiting changes to once per year. This should be documented in Vendor Compliance Guidelines.

Case Example - Beauty Products - Salon Hive

- Salon Hive was started in December 2008 and began making sales immediately. The site salonhive.com has seen a consistent growth in traffic and sales and is very profitable. All products are drop shipped from reliable suppliers with authentic product. Many of the products are 100% markup with the minimum markup being 15%. The site is also setup to make revenue from affiliate products and Ad revenue from Google AdSense or you own ad network.
- Stats
- URL: www.salonhive.com
Unique visitors/Month: 7,000
Page views/month: 21,000
Monthly Revenue (USD): 6,500
Google Pagerank: 3