



OVERVIEW

Starting a drop shipping operation or buying a technology service to automate and scale an existing drop ship business requires thorough planning. This high level guide will cover the key areas to address in your planning. The more planning and preparation you do before hand will result in a more successful and efficient launch with your drop ship solution program – and that means faster time to market!

Before you dive into planning remember that because of the distributed nature of the drop-shipping model, you need to consider the impact on both your systems and vendor relationships. Using drop shipping, you will need to have a much tighter relationship with your vendors and their systems than you would in a traditional supply chain. For example:

- Instead of integrating with a single repository of inventory, each vendor will be a source of inventory, so you will need up to date visibility between your organization and theirs.
- To ensure good customer service, your vendors will need to be able to accept electronic orders and provide timely status updates directly to your systems.
- Because your e-commerce website will now have products from multiple vendors and locations, you will need to be able to take a “consumer” order and break it up into multiple “vendor” orders and in turn, consolidate order status updates back into a single consumer view.
- Because you are jointly serving the end consumer, you need to figure out a Service Level Agreement to govern your relationship and that deals with items like, Acknowledgement & Shipping time frames, customer service expectations, returns process, etc).

Here are the high level areas to address and which you should do before selecting a drop ship / data integration provider because you want to make sure they can handle your requirements.

- ✓ Initial vendors, capabilities & target vendor growth in your first year
- ✓ Service Level Agreements with your vendors
- ✓ Back office Systems, work flow requirements and internal resources
- ✓ Revenue, strategic value and pricing models



VENDOR OUTREACH AND CAPABILITIES ASSESSMENT

Identifying and on-boarding vendors for a drop shipping program is different than traditional bulk purchasing relationships. Because there is no “commit to buy”, the lack of financial incentive can affect the willingness of the vendor to spend time and money to meet your compliance needs. This is why on boarding vendors can be the longest and most frustrating process of getting a drop ship program live and scaling. To prevent this, it is important to get a clear understanding of your vendor’s capabilities. Here are some steps to help you through this:

- 1) **Decide** who your key vendors are that you want to initially on board and test before you scale, identify 10 -20 vendors.
- 2) **Reach out** and make sure they are willing to participate in your drop ship program.
- 3) **Discuss** File Processes: Once you’ve have vendors ready to work with you, you need to let them know your timing and ask what technical capabilities they have to support drop ship orders. These are the core processes any vendor needs to be able to support:
 - a. Provide you **product catalog** data
 - b. Provide you accurate **inventory** data
 - c. Be able to get and process **purchase orders**
 - d. Be able to provide you **order status**
 - e. Be able to provide you **tracking** information
- 4) **Methods / Formats:** You need to pair each one of the above processes up with a method. Here are the options, from simplest and least costly to complicated/most costly for you:
 - a. Portal / spreadsheet
 - b. Flat file over FTP (.csv, tab, etc)
 - c. EDI over FTP
 - d. APIs
 - e. EDI over VAN or AS2

When possible, it will behoove you to start with a less expensive way to automate a vendor, as this is usually a fee that you will incur from solutions offering vendor enablement. We suggest getting your semi and sophisticated vendors on Flat file over FTP. It’s a great starting option because it is less timely and expensive to manage and can be run as frequently as every 5 minutes. An exception to this rule would be to use an API for inventory updates if your order volume will be very high.



VENDOR SERVICE LEVEL AGREEMENT

With drop shipping, keep in mind that your vendors are partners in your customers shopping experience. As such, there are a number of items you need to reach an agreement on to make sure the shopping experience is seamless. Here is a list of some basic responsibilities you will need to come to an agreement on with your vendors.

- **File Formats:** Each of the file processes above contain it's own set of requirements that have to be agreed upon between you and the vendor. For Example:
 - What format can their catalog be generated in? Do you have required item fields, and can they meet all your required fields? How will they give you images? Can they provide a URL in the product spreadsheet?
 - Will you do product acquisition outside of the drop ship solution
- **Frequency:** Having a clear understanding of how often you need each file process updated is important, as the ecommerce experience you are providing to your customer is partly reliant on those updates. Inventory and Order Acknowledgement will be the most frequent.
- **Vendor Compliance:** What metrics will you and your vendor use to monitor vendor compliance. Some common ones are: Fill Rate, Shipping speed, Order Acknowledgement and Order Processing times.
- **Shipping:** Are you going to have your vendors ship on your account or theirs? What shipping methods will you approve? Do you have a custom packing slip they need to include?
- **Returns:** How should you and your vendors handle returns?
- **Customer Service:** Mostly likely your bigger vendors are supporting many retailers in a drop ship format, so they will have their own customer service support levels. Be sure you know what these are.
- **Invoice:** You have to reconcile drop ship orders with actual costs that include true shipping costs.

It is important that whatever message you create to encourage vendors to participate in your drop shipping program is maintain consistently through out the organization. This will ensure that not only your organization will understand the importance of the program for your business, but it will also impact the adoption by your vendors. If a vendor is receiving mixed messages about why and how they are to do business with you, it will slow down vendor on-boarding. In addition, if there is a misunderstanding of expectations it can ultimately adversely affect your end-customer experience.



BACK OFFICE SYSTEMS, WORK FLOWS & RESOURCES

Adding drop ship vendors to your operations means you are basically adding some virtual pick, pack and ship warehouses to your store and physical warehouses. Before selecting a drop shipping solution you should evaluate and make sure you have the right back office systems in place as well as the technical resources to support this. Most commonly these are an Order Management System and eCommerce system and perhaps a Financial System. If your all ready operating as an omni-channel retailer, chances are your systems can.

With systems in place, you also need to consider specific workflows you need to support for managing a drop shipping solution. For example,

- How do you want to collect product data and do you have a process for editing the data?
- Do you want vendors to self select which of your taxonomy levels their data should be listed in?
- How do you want to handle order routing if you have vendors that are holding the same inventory?
- Are you pushing product catalogs to just on website, multiple sites, marketplaces?

Its important that you have internal IT resources to support your current systems and the drop ship solution you choose.

ROI & STRATEGIC VALUE

There are a number of strategic reasons to run a drop ship operations and it is important the stake holders are in agreement on what the strategic value drop shipping will be for your organization to help calculate the ROI a drop shipping solution will provide.

Testing Product. One way of enticing vendors to participate in your drop ship program is to use it as a method for evaluating new vendors and products. If there is a path from being a drop ship vendor to a stocking vendor, many of your trading partners will invest time and resources they might not otherwise be willing to spend initially. And, your organization derives value from stocking items that have a history of sales on your website, so you can be more accurate with placing “bets” on items.

Competition & Product Assortment. With companies like Amazon, Walmart, and Wayfair offering huge selections of products, retailers are finding it imperative to offer a complete selection of skus (color & size variances for example) as a way to “save a sale” and remain competitive with big marketplaces.



Pricing Models. When you can understand your key requirements, your vendor requirements, the potential in house cost to do this and the estimated revenue and strategic value your organization will derive from creating a drop shipping operation, then you will be in a place to evaluate which software company offers the best ROI for you.

Solution Vendors offer different types of pricing. Some Drop ship solution vendors charge both a upfront fee and then a license & monthly per order fee AND also charge your suppliers a per order and connection fee. The per order fees on the retailer side are worth noting, because in some cases, while they let you start with a little less investment upfront, your drop shipping operating expense will always be tied to revenue, so you can't minimize operating expense as a % of revenue by driving more order through put. The supplier side fees are worth noting, because unless you have a ton of leverage, suppliers don't like to pay connection and per order fees. Often times they will put those expenses back into the wholesale cost to you. When you roll out a solution that has no supplier side fees, you increase their willingness to do business with you AND leave room to negotiate better wholesale pricing.

CONCLUSION

To buy and implement the right drop shipping solution for your organization you need to know both your organizations requirements / capabilities as well as your vendors. Once you have that, choose a solution that not only meets your requirements and budget but also does not penalize your vendors.