

WHITEPAPER

# An inside look at dropshipping

A competitive differentiator in retail

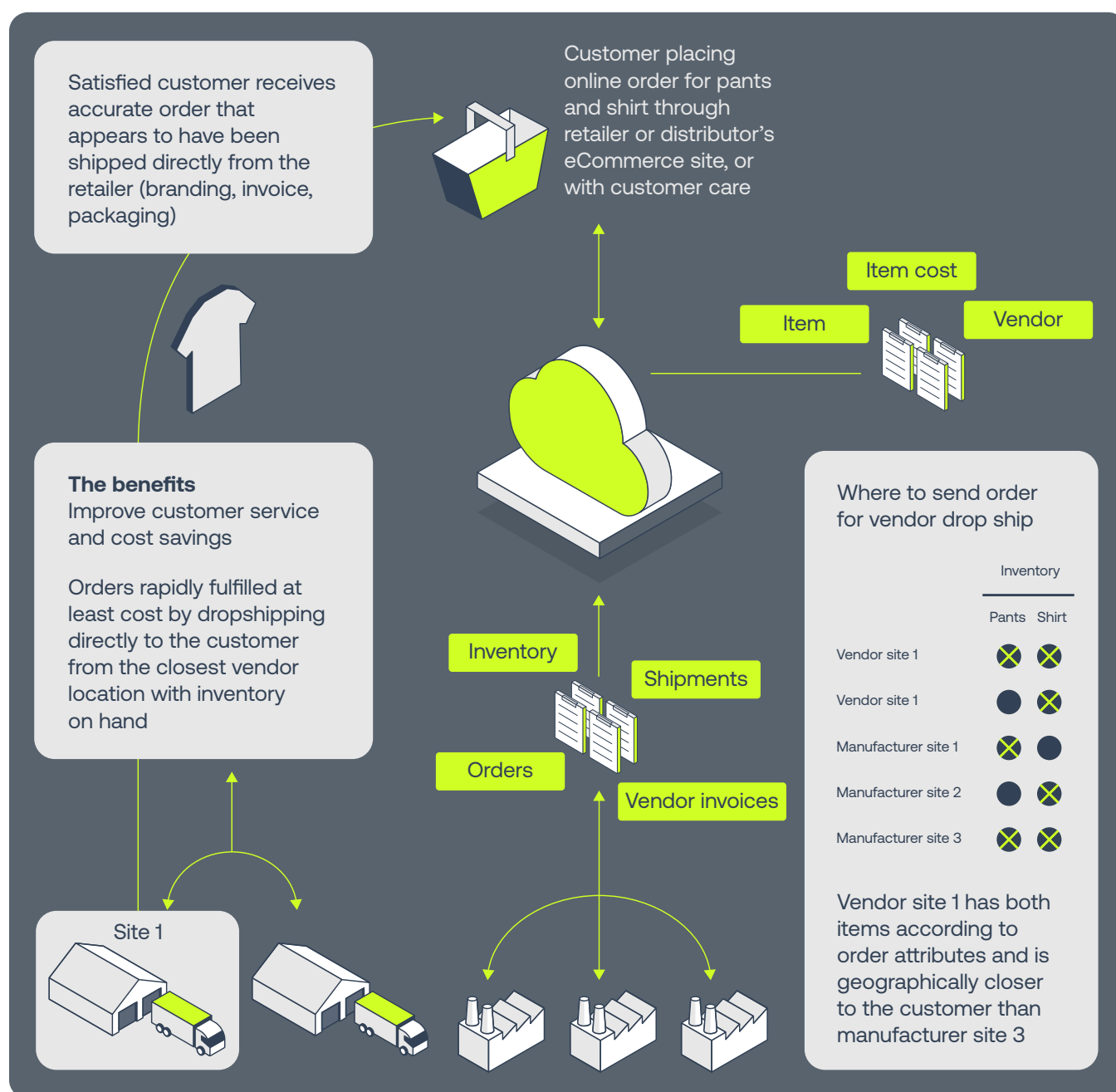
# Introduction

Improving customer service and increasing sales—the two top priorities for omnichannel 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 dropshipping strategy. Providing multiple fulfillment options increases convenience for shoppers while remaining affordable. When implemented the right way, this is a win-win scenario for retailers and distributors. Dropshipping increases item assortment, and in turn sales, without requiring additional capital investments in inventory.

# Dropshipping defined

Dropshipping 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 eCommerce 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.

## How dropshipping works



# Dropshipping benefits

For omnichannel retailers and distributors looking for an effective way to increase their item assortment and drive sales with very little additional expense, dropshipping offers four major benefits.

## 1. Dropshipping increases 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 eCommerce site when companies expand item assortment by leveraging supplier inventory.

Thus, the top benefit of a dropshipping 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. Dropshipping circumvents the need for added inventory carrying costs

Another top benefit of dropshipping is that retailers and distributors are able to offer and sell more products 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 dropshipped 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.

Consumers want a broad product assortment offering with the flexibility of fast and easy shipping

71%

of consumers shop online at least once per month<sup>1</sup>

55%

of consumers shop/research products in a store or catalog and then purchase online<sup>1</sup>

67%

of consumers indicate the ability to order products from inventory across stores, online and mobile is an important factor when choosing a retailer<sup>1</sup>

76%

of consumers indicate that a broad product assortment is an important factor when choosing where to shop online<sup>1</sup>

39%

of consumers indicate next-day delivery is an important factor in determining where they shop online

## Retailers benefit from the ability to offer more products without incurring inventory carrying costs

87%

of retailers experienced increased revenue through dropshipping<sup>2</sup>

23%

of online orders are fulfilled via dropshipping<sup>3</sup>

33%

of online stores use a dropship fulfillment model<sup>4</sup>

84%

of retailers experience improved customer service after the adoption of dropshipping<sup>2</sup>

50%

of retailers plan to pilot or increase vendor dropship programs in 2020<sup>1</sup>

### 3. Dropshipping drives sales and profitability

Offering more inventory means more chances to entice a prospective customer to buy. By utilizing a dropshipping strategy, eCommerce 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. Dropshipping accelerates order processing and improves order cycle times

An ancillary benefit of dropshipping 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; 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.

# Overcoming the challenges of dropshipping

The benefits of dropshipping are certainly enticing, however, it is important to note that there are associated challenges as well. The chief reason why dropshipping 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 trading partner management (TPM) solution can readily integrate 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 dropshipping strategy. By using cloud-based technology, the time to integrate and time to value is significantly diminished.

Another challenge to dropshipping 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 dropshipping partners in order to maintain a level of brand consistency.

Dropshipping 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 omnichannel retailers and distributors, the benefits of dropshipping outweigh the challenges. A well-executed dropshipping 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. Dropshipping also requires a communications and onboarding strategy for participating vendors. While dropshipping 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.

### Why Infios?

Whether a business is considering a dropshipping strategy or ways to improve its omnichannel operations, Infios is here to help. Infios provides integrated cloud-

based order management system (OMS), EDI/TPM and web portal functionality to deliver seamless data exchange and technology integration with trading partners. Infios can help its customers implement an optimal vendor dropship strategy—in a matter of months.

Infios not only provides cloud-based, omnichannel customer engagement software solutions on a single platform, the team also brings deep retail and supply chain consulting expertise to help its customers determine the best path forward.

See how Infios's Order Management System can help your business drive top-line and bottom-line growth.

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