



**OrderStorm White Paper
January 2009**

How to Run a Profitable Drop Ship Program Online

The popularity of drop shipping has grown significantly over the last decade with the proliferation of retail stores online. Drop shipping is a best practice in just-in-time supply chain management where the retailer does not keep any merchandise in stock. Instead, customer orders are sent to either the manufacturer or to a wholesaler that then ships the items directly to the customer. Drop shipping is commonly used by catalog, mail order, and internet retail businesses to offer the customer a wide variety of items without making an investment in inventory.

Drop shipping is good business for manufacturers, distributors and retailers. Suppliers concentrate on manufacturing and shipping, while the retailer concentrates on sales and customer service – each to his/her own talents. Duplication of effort in the supply chain is reduced along with related costs as only one member in the chain needs to ‘pick, pack and ship’. Drop shipping is also good for the consumer as savings in warehousing and shipping costs can be passed on by the retailer.

Automating the Drop Ship Process to Increase Profits

Automating an online drop ship program using e-commerce software can turn even low margins and small dollar items into real profits. Full end-to-end automation of the various drop shipping functions should include the following items.

- Formal purchase orders (POs) go out to suppliers in real time as orders come in.
- Suppliers provide shipping information, actual shipping cost and tracking numbers back to the retailer as orders are fulfilled.
- Customers receive automatic shipping notices.
- Suppliers are prompted for status on aging orders.
- Amount owed to each supplier for the pay period is automatically calculated.

Using e-commerce software that automates the drop shipping process makes the program easy for the retailer to manage - without automation the customer service and order management staff must be much larger. A retailer can spend money on automation once or can spend it on people ongoing. Software is much easier to manage than people as there is no hiring and firing, no vacations, sick days or medical plan to manage. Using automated e-commerce software for drop shipping will maximize the retailer’s profits.

E-commerce software with drop ship automation also makes it easy on suppliers. Suppliers get a list of open orders; a running account of amounts owed and payments made plus reports on how much of what item the retailer is selling for them. Automation makes the entire process paperless and transparent.



Once a product in the shopping cart is linked to a supplier, the purchase orders for that product can go out automatically. Any technical questions can go to the supplier just as easily.

Additional Considerations for the Retailer

Suppliers should want to drop ship for your store. Why should a supplier drop ship for you? Combining various suppliers' product lines produces synergy in any retail business plus you can carry their complete line. In a stocking model, a retailer must choose which products will sell the best. With a drop ship model, the retailer can carry all of a supplier's products without concern for inventory turns. In the case of a manufacturer, you will also be promoting their brand name which is very important to smaller or newer companies.

You have choices with credit card processing. Should you authorize and capture immediately or authorize only and capture after shipment? For items that are shipped within 48 hours, authorize and capture can be a fully automated process using drop shipping software.

As with many business decisions, the choice to run a drop ship program does have its pitfalls and risks. Credit card fraud, returns, damaged goods, and backorders are all more complicated than running your own warehouse as each supplier will have its own policies.

Backorders can be minimized by integrating your shopping cart with your supplier's inventory availability software. This helps avoid both backorders and order cancellations based on lack of inventory. Your e-commerce provider can provide this integration for you as an extra service.