

THE DIRECT-TO- CONSUMER JOURNEY FROM THE FIRST ORDER THROUGH AUTOMATION

ATTITUDE IS AS IMPORTANT AS CAPABILITIES

A research report from SPS Commerce



EXECUTIVE SUMMARY

DIRECT-TO-CONSUMER, OR DROP SHIPPING, EXPERTISE IS BEST DELIVERED BY THE INDIVIDUALS WHO LIVE IT EVERY DAY.

They tackle the complexities and shortened delivery cycles of this model because it grows their business. These suppliers are able to sell through retailers that otherwise wouldn't carry their product.

If you ask any drop-ship supplier, they can recall their first direct-to-consumer order and the anxiety they felt. They can tell you how they prepared, what they'd do different and which investments were worth it.

In late 2018, SPS Commerce asked more than 100 of its experienced drop-ship customers about their first orders, as well as how they've evolved and automated their drop-ship fulfillment since that time. Their responses were insightful and showed that success depends not only on your operations but also on your attitude. This research report captures their advice to those just starting the journey or at a turning point and considering how to automate.

DROP SHIPPING BRINGS NEW BUSINESS

Direct-to-consumer orders, often called drop-ship orders, have been used by retailers for almost a decade as a means to extend their product lines without taking possession of inventory. For suppliers, this e-commerce model opens numerous new sales channels but requires their operations to evolve to meet new shipping and inventory requirements, from basic shipments to white glove deliveries.

Drop shipping has become a billion-dollar business and one that suppliers and retailers are embracing in 2019 and beyond. Within retail, drop shipping is becoming a significant channel for retailers and vendors alike.

In November 2018, SPS Commerce conducted a research study to identify how vendors approached, prepared for, and automated for their first order and beyond. The online survey included 146 respondents from North America that were validated as suppliers actively fulfilling drop-ship orders in 2018. Survey respondents were offered an incentive to participate.

The survey reflects that most respondents have more than three years of experience, a timeframe that aligns with when major retailers including Amazon, Target and Walmart started more actively using direct-to-consumer ordering. SPS Commerce saw a dramatic rise in drop ship orders on its network at the time with double-digit growth each year.

WHAT IS YOUR ROLE?



Figure 1: Respondent Roles

WHAT PERCENTAGE OF YOUR SALES ARE DIRECT-TO-CONSUMER ORDERS?

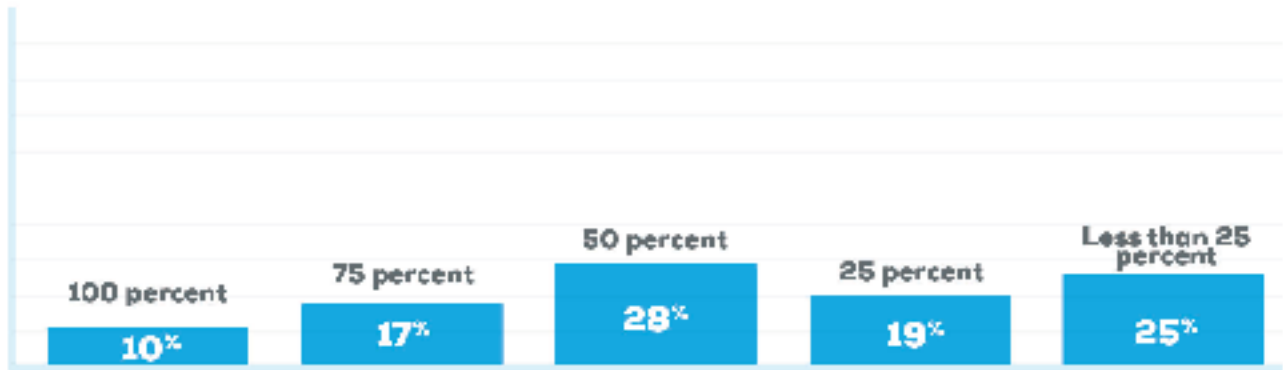


Figure 2: Percentage of Business

WHEN DID YOU SHIP YOUR FIRST DIRECT-TO-CONSUMER ORDER FROM A MAJOR RETAILER?

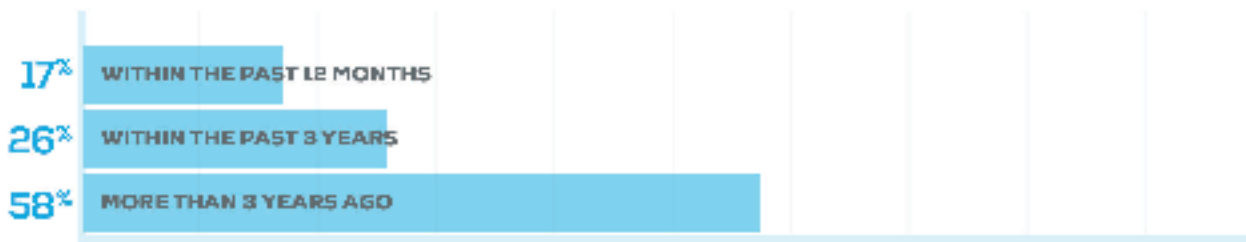


Figure 3: Respondent Drop-Ship Experience

MINDSET MATTERS

When looking at drop shipping, suppliers are clearly of two different mindsets. The first sees this model as a growth opportunity that will drive new business. They are likely more proactive in their adoption of the processes and technology to embrace this model. Alternatively, the other half remains less enthusiastic and sees direct-to-consumer as the natural course of doing business in retail.

Within this report, data will show that the mindset with which a vendor approaches drop shipping can have dramatic results on its growth and efficiencies.

HOW DO YOU VIEW DIRECT-TO-CONSUMER (OR DROP SHIPPING)?

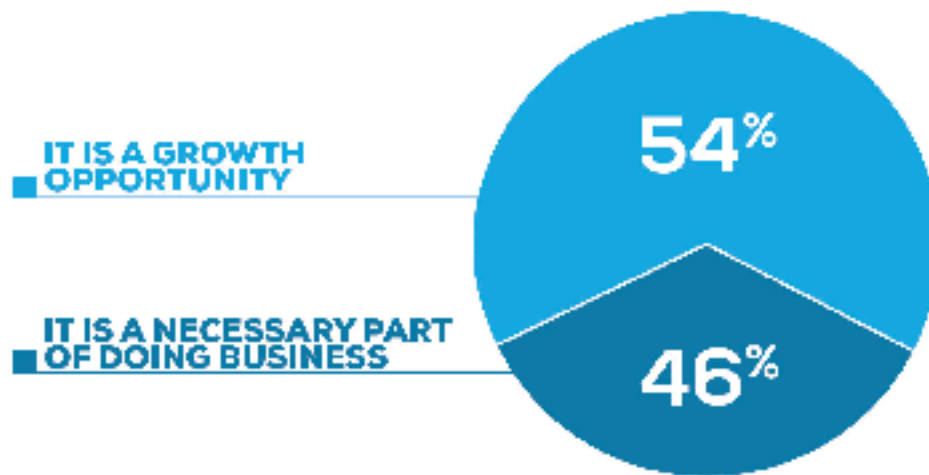


Figure 4: Mindset of Drop Shippers

IT ALL STARTS WITH THE FIRST ORDER

Every new retailer-supplier relationship marches towards its first major milestone, the first order. Fulfilling this order correctly and according to a retailer's requirements sets the relationship on the right course for a long-term partnership.

Sixty-eight percent of surveyed vendors indicated that they received their first drop-ship order immediately or within a week of establishing a formal, or contractual, relationship with the retailer. This demonstrates that when retailers sign with a drop-ship vendor, the vendor's item information needs to be e-commerce-ready and the vendor needs to be able to manage a direct-to-consumer order immediately.

Vendors that saw drop ship as a growth opportunity were 12 percent more likely to receive their first order within a week. This indicates a higher likelihood that they were prepared and the retailer felt confident in their capabilities, so moved quickly.

Drop-ship orders require the supplier to execute all fulfillment functions without direct oversight from the retailer. The supplier's delivery timeframe, packaging and communications can either strengthen or taint the end consumer's experience. If the vendor isn't ready, the retailer may hold off on orders until they have greater confidence that their customer will be treated with the same degree of care.

Most suppliers received their first order from a national (40%) or large online retailer (36%), with other orders coming from regional or other retail types.

HOW LONG AFTER SIGNING WITH THIS RETAILER DID YOU RECEIVE AN ONLINE, SHIP-TO-CONSUMER ORDER?

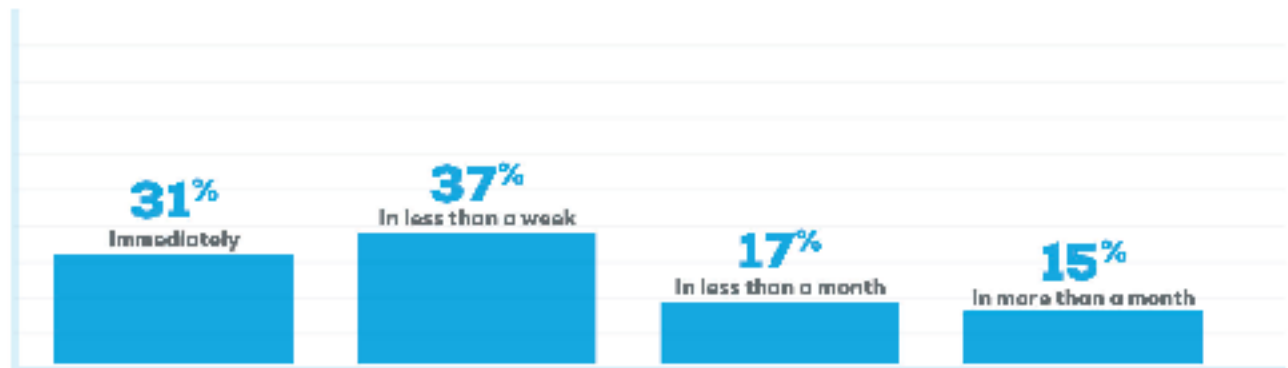


Figure 5: Timing of First Order

WHAT TYPE OF RETAILER SENT YOUR FIRST DIRECT-TO-CONSUMER ORDER?

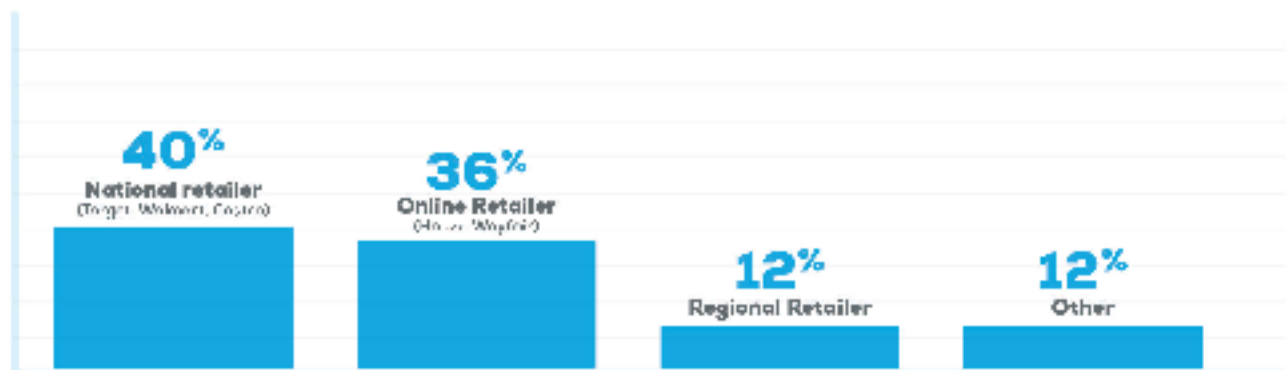


Figure 6: Source of First Drop-Ship Order

HOW DID YOUR COMPANY PREPARE TO SHIP ORDERS DIRECTLY TO CONSUMERS?

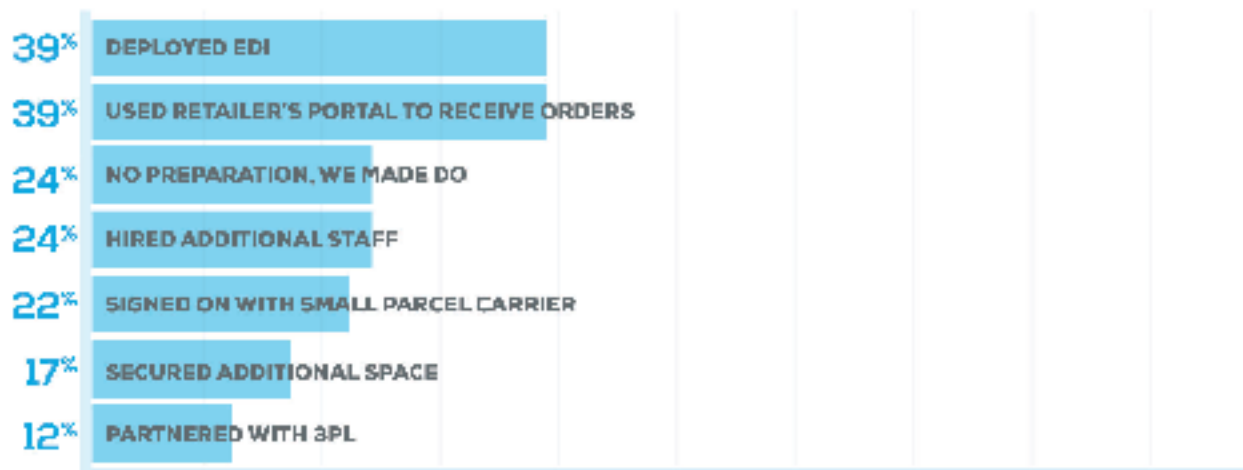


Figure 7: Preparation for First Order

PREPARATION FOR THE FIRST ORDER

Each vendor prepares differently for change, but two options scored high: deploying EDI (39 percent) and using a retailer's portal (39 percent). Drop shippers are more recently turning to EDI as major retailers are closing their portals and/or suppliers are finding that consolidating orders across their retail customers into a single process is more manageable and eliminates the risk of missing an order.

Suppliers deployed options that addressed the intake of orders but were less prepared for the actual picking and packing of orders as hiring additional staff (24 percent), signing on with a parcel carrier (22 percent) and using a 3PL (12 percent) were not ranked as high.

Surprisingly, almost a quarter of respondents made no initial changes to their operations to accommodate drop-ship orders.

During the early days of being a drop shipper, two challenges rose to the top for more than half of the suppliers surveyed: providing frequent inventory updates to retailers (31 percent) and understanding a retailer's trading requirements (25 percent). These complexities are often a barrier to entry for suppliers. Without inventory management systems in place and internal experts on trading requirements, vendors are more likely to secure external support to address these needs in the short-term, often using systems, consultants or a combination.

WHAT WAS THE MOST TROUBLESOME PART OF YOUR EARLY DAYS OF DIRECT-TO-CONSUMER ORDER FULFILLMENT?

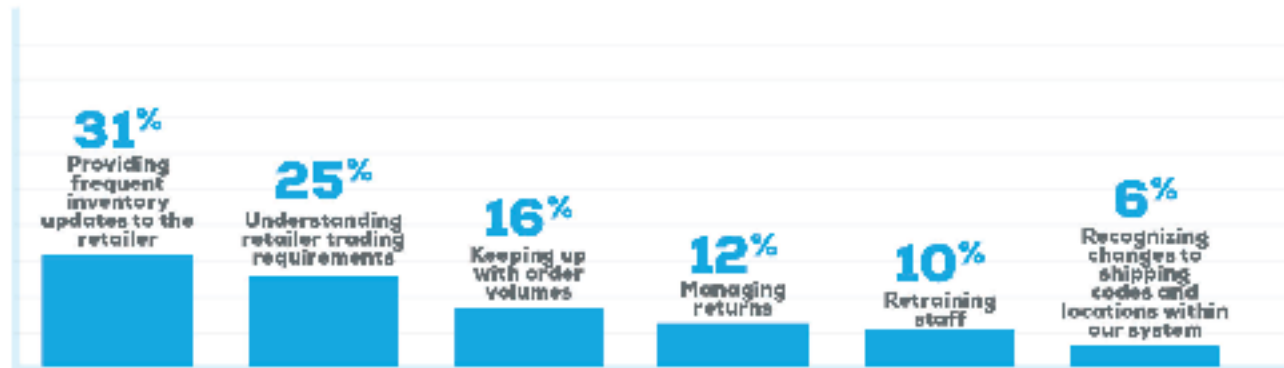


Figure 8: Initial Drop-Ship Challenges

WHAT TRIGGERED YOUR COMPANY TO AUTOMATE ITS DIRECT-TO-CONSUMER FULFILLMENT OPERATIONS?



Figure 9: Automation Triggers

AUTOMATING THE DROP-SHIP PROCESS

Deciding when to automate is difficult. It usually is triggered by order volumes increasing to a level where manual order entry become unmanageable. However, the survey results identified a different viewpoint: 48 percent of respondents noted that they automated in preparation for growth. With online orders use the drop-ship model and online shopping increasing each year, preplanning is well-supported.

The second most common reason for automation was signing with a retailer with complex requirements (38 percent). These requirements likely include hourly inventory updates, immediate order acknowledgements, short shipping windows, branded

packaging and labeling, and relaying of tracking information. Each retailer is different, and many require 10 or more communications for a single drop-ship order. Automation ensures that all orders are complying with the retailer's demands.

After deciding automation is needed, the next question is likely "where" to automate and "when." The survey indicates that suppliers invested in ways to automate their biggest challenges: inventory updates (51 percent) and complex requirements (45 percent).

Investments reap different rewards, but the survey respondents chose investing in EDI (39 percent) and improved inventory management (37 percent) as their top performers.

IF YOU WERE SHIPPING YOUR FIRST CONSUMER ORDER TODAY, WHAT WOULD YOU DO DIFFERENTLY?

(SURVEY RESPONDENTS' ADVICE)

"We would probably have a little more inventory built up for safety stock."

"Check different couriers' rates."

"Start with hiring a 3PL right off the bat. Work to train our existing DC staff to accommodate the tight timeline requirements for drop shipping. Bring all drop-ship customers onto EDI."

"Go completely paperless."

"Confirm drop-ship address, as sometimes client enters incorrectly."

"Have a different process for labeling and managing inventory."

"Be more prepared on the customer service side to process returns."

"Allow more time for data set up. Have the inventory feed from our ERP fully integrated with EDI platform as to avoid daily manual inventory adjustments."

"Make better preparations before receipt of the first order."

Motivation Dictates Your Automation

By [Michelle Davidson](#), Wholesale Distribution Industry Principal, Oracle NetSuite

Helping companies achieve transformative results using the NetSuite industry-leading business management software suite.

Considering when to automate drop-ship operations comes down to one question: what is your motivation? For many entrepreneurs it is to grow a company to a predetermined size and sell, whereas others want to see how far their leadership can take the company. Both models are prevalent in today's economy and are highly successful, given the right people and product.

Regardless of your path, the right start is critical. When thinking about automation, I liken it to raising children. The end game is for them to become productive adults based on a solid education, and it all starts with preschool. These early years influence how easily they transition and succeed until they receive their cap and gown. We want the best path for our children, not one filled with stops and starts that make it more difficult and less attainable. Your plan for your business should choose the smoothest path to most easily attain your goal.

It's important for companies to start well (or transition early in their growth), embracing the solutions and partners that have successfully led others across these same stages. This is especially true as a new drop ship

supplier where every customer counts. A missed order is more than a mistake, it can create disloyalty and harm your relationship with your retail customer.

Best practices, like those built into NetSuite's [SuiteSuccess](#), shepherd businesses through their growth phases and provide the right tools and guidance just when they need it. For example, drop-ship suppliers need to first address about how to receive their orders (likely via EDI), then they usually need to define how to prioritize orders (e.g., Amazon Fulfillment vs other e-commerce retailers), and later they may want to expand globally and need to manage different currencies. Often the exact path is unknown but the ability to pivot quickly and take advantage of opportunities is priceless.

My advice to you, based on working alongside many wholesale distribution and manufacturing customers, is to start with your motivation in mind. Make the investment to provide your company with the drop-ship systems and support it will need to realize your version of success. You'll make each transition easier, lessen the distraction of swapping out solutions when opportunities arise, and retain your focus on growing the business.

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HOW HAVE YOU STRENGTHENED YOUR DIRECT-TO-CONSUMER ORDER FULFILLMENT CAPABILITIES?

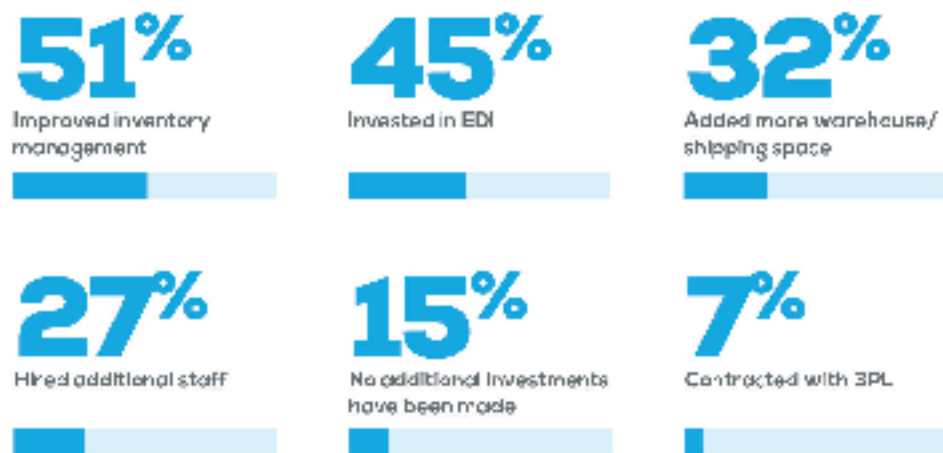


Figure 10: Most Successful Changes

WHAT HAVE BEEN YOUR BEST INVESTMENTS IN RELATION TO IMPROVING YOUR CAPABILITIES?



Figure 11: Best Drop-Ship Investments

ENLISTING A 3PL

Brands often use a third-party logistics provider (3PL) to manage inventory and ship direct-to-consumer orders on their behalf. Forty eight percent of respondents using a 3PL were using them before adopting drop ship. Likely this was a 3PL that was servicing other aspects of their business, such as shipping to retailer distribution centers, and they simply expanded the relationship.

Notably, 30 percent of vendors using a 3PL engaged a 3PL within the first month of doing drop-ship. This aligns directly with the quick action required when starting drop-ship and expecting orders to commence in just a few days. Overall, 80x percent of companies who engaged the dropship services of 3PL did so within 30 days or less of their first order.

The typical 3PL offers a variety of services and is likely connected to most EDI networks to support their customers. The majority of brands are using a 3PL's core services of picking and shipping orders (35 percent) and visibility to these orders (23 percent).

Returns management was three percent of respondents, likely indicating that returns were being managed by the retailer or the vendor's manufacturing site directly. Consumers often send returns from drop-ship orders to the supplier without involving the retailer. This is efficient for the consumer, but suppliers need to consider how they will alert their retail customer that they have received the return so refunds can be granted, and vendor credits or retailer deductions reflect these exchanges.

WHEN DID YOU BEGIN USING A 3PL FOR YOUR DIRECT-TO-CONSUMER ORDER FULFILLMENT, RELATIVE TO YOUR FIRST DIRECT-TO-CONSUMER ORDER?

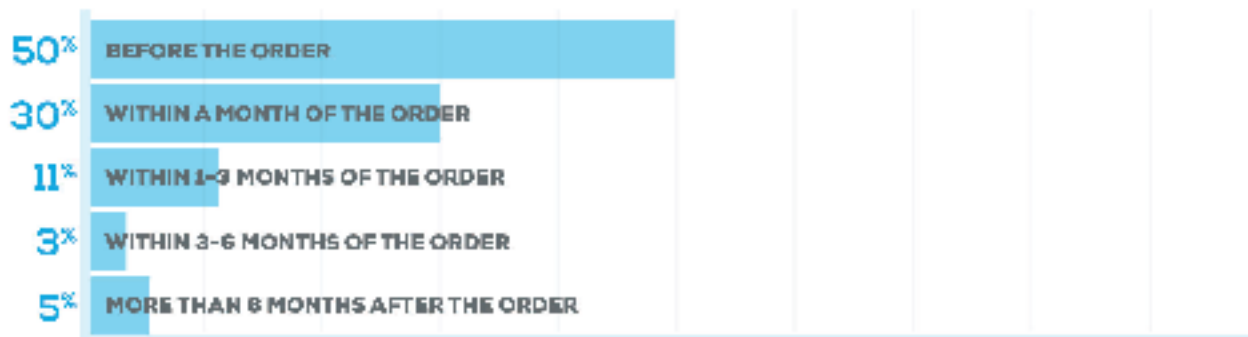


Figure 12: Timeline for Using a 3PL

THE DIRECT-TO-CONSUMER JOURNEY FROM THE FIRST ORDER THROUGH AUTOMATION

Contracting with a 3PL is most likely completed prior to or within a month of a supplier's first drop-ship order. Suppliers look to two sources, their EDI provider, in this case an SPS Commerce referral (45 percent) or their peers (39 percent) to refer them to a qualified 3PL. Word of mouth outperforms a 3PL's sales teams and online presence.

INFLUENCING YOUR DROP SHIPPING SUCCESS

This report began with identifying two mindsets taken by drop-ship vendors: one that saw this model as a growth opportunity (54 percent) and one that saw it as a necessary course of doing business (46 percent). This attitude played a key role in their stress levels, confidence and how quickly they added new drop-ship business and/or grew within their existing retailer base.

WHAT WAS MOST IMPORTANT TO YOU IN SELECTING A 3PL?

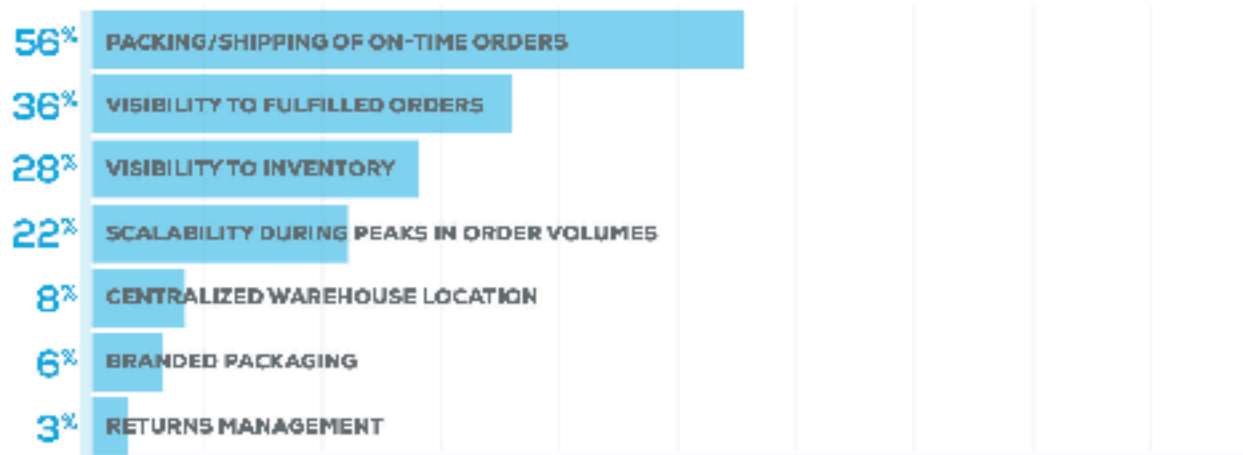


Figure 13: Criteria for Selecting a 3PL

IF YOU USE A 3PL FOR DIRECT-TO-CONSUMER ORDER FULFILLMENT, HOW DID YOU FIND THEM?



Figure 14: Finding the Right 3PL

Key Items to Consider When Forming a Returns Strategy

By: Jenny Nguyen, Partner Marketing Manager, [ShipStation](#)

Returns are a common hurdle for e-commerce retailers, especially in the drop shipping arena in which products are shipped out via suppliers. Though businesses may prefer not to think about returns and their associated costs, it is clear that modern consumers shop with return policies in mind. [UPS research](#) shows 66% of customers report checking return policies before making a purchase.

KEY ITEMS TO CONSIDER WHEN FORMING A RETURNS STRATEGY

Not all retailers should follow the same returns policy. The policy you decide upon should take into account the volume of your business, the number of suppliers you use, and their policies.

MANAGING RETURNS AT SCALE

Merchants typically start to see a bottleneck in their returns process at monthly shipment volumes of 30,000 to 40,000 shipments. At this volume, the merchant's number of product and brand offerings begins to pose a challenge of scale. This is the right time to consider changing your returns process. [CNBC](#) reports that return rates for e-commerce can be up to 30%, which translates to 9,000 to 12,000 items being returned to you per month.

SUPPLIER RETURN POLICIES

Whether you're using one supplier or 10, it pays to know the [returns policy](#) for all of them. Suppliers vary in their

restocking fees, periods of return after sale, return shipping fees, mistake order exceptions, and processes for handling returns. [Salebo](#) provides a useful guide on creating a returns policy based on your supplier return policies.

RETURN PORTALS

When you're working with higher volumes, the logistics of sending your products back to multiple suppliers can be confusing. Having multiple [branded return portals](#)—one that corresponds to each of your trading partners—will help to offload some of this complexity. To ease the heavy lifting of coding different branded portals, shipping platforms like ShipStation offer the ability to create a variety of [branded return portals](#) in one account.

AUTOMATION RULES

At a small or large scale, drop shipping returns can be made easier with [automation rules](#). Make sure your shipping platform has the ability to automate the return address if it is different than the shipping address. This allows for more flexibility whether you decide to have the products returned to you or to another return address at the trading partner's request. In addition, the ability to automate the return label for every outbound order or frequently returned SKUs is a beneficial feature to optimize your workflow as well.

It is important to note that return strategies and policies will look different for each merchant depending on who your trading partners are, the shipping platform you use, and the scale at which you are operating.

HOW HAS YOUR BUSINESS GROWN SINCE TAKING ONLINE CONSUMER ORDERS FROM A RETAILER?

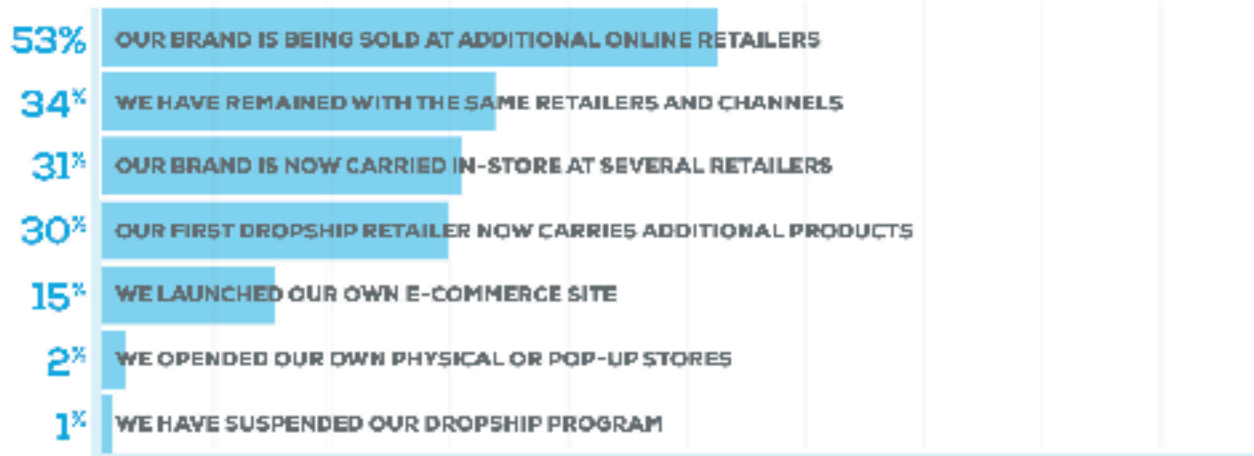


Figure 15: Growth Since Drop Shipping

Overall, approximately two-thirds of suppliers have grown since embracing the drop-ship order model with less than one percent of respondents suspending their program. Most are selling their products online or combined with in-store sales, as well as selling more SKUs through e-commerce channels overall. Those suppliers viewing drop-ship as a growth opportunity reported adding new retailers 12 percent more than those who did not.

Stress is part of retail, especially for suppliers who have seasonal products or see a significant lift in sales during the holidays. Adopting a new strategy, like direct-to-consumer, is also quite stressful. There are many unknowns as far as the number of orders to forecast and hold inventory for, as well as the operational nuances to ensure timely and accurate shipping of all orders.

Suppliers indicated an average stress level of 3.01 out of 5 (1 being no stress, 5 being highly stressed) during this time.

Since their first order, suppliers have become more at ease with the execution of their drop ship programs, dropping from 3.1 to 2.14 in their stress levels.

Those with a growth mindset had a stress level at the time of their first order of 2.86 out of 5, whereas the other suppliers self-reported their level at 3.15 out of 5. Both groups were above the midpoint (2.5) and felt stress, but the growth suppliers were seven percent above the midpoint, versus the others who were 13 percent above, or almost twice their peers.

THE DIRECT-TO-CONSUMER JOURNEY FROM THE FIRST ORDER THROUGH AUTOMATION

HOW STRESSFUL WAS THIS TIME FOR YOU?



Figure 16: Initial Stress Level of Drop Shippers

HOW STRESSED ARE YOU TODAY ABOUT YOUR DROPSHIP PROGRAM?



Figure 17: Stress Level of Experienced Drop Shippers

HOW CONFIDENT ARE YOU ABOUT YOUR DIRECT-TO-CONSUMER ORDER FULFILLMENT CAPABILITIES?

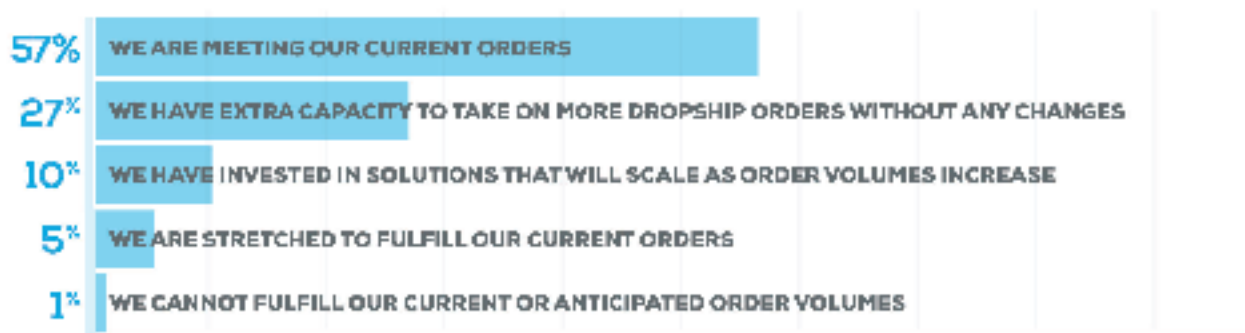


Figure 18: Confidence in Drop-Ship Capabilities

THE DIRECT-TO-CONSUMER JOURNEY FROM THE FIRST ORDER THROUGH AUTOMATION

GROWING CONFIDENCE

With most respondents having more than three years of drop-ship experience, it's not surprising that they are feeling more confident about their capabilities, automation, and staff's ability to service the drop ship channel. Ninety-four percent reported that they are meeting their current needs, have extra capacity to take on more drop-ship orders or have scalable operations that will support growth.

WHAT IS ONE PIECE OF ADVICE YOU WOULD GIVE TO ENTREPRENEURS CONSIDERING THEIR FIRST DIRECT-TO-CONSUMER AGREEMENT WITH A MAJOR RETAILER?

"Be sure you have the inventory, staff and technology in place to support same-day shipments."

"Do not be afraid to ask questions about anything, no matter how small it may seem. There is no question that is too silly or doesn't matter. You want this to be beneficial for you and the retailer."

"Understand the complexities and extra labor and effort that is required to fulfill orders."

"Be prepared for high and low selling points, there are times when you can't keep your stock in your inventory, as well as times when seems like nobody's buying anything at all"

"Retailers always insist on more information than is relevant while setting up dropship. It feels arduous but devote the time and it'll be worth it."

"Hire a 3PL initially to manage service level expectations before trying to overwhelm your own DC."

"If you've got a great product, make sure you have a lot of inventory on hand."

"Do your homework regarding EDI, carriers and your retailer's requirements."

"Make sure each department in your organization that is impacted by direct-to-consumer is on-board & prepared. Also run test orders & iron out any kinks before going live."

"Understand all the shipping, labeling and coding for each retailer."

"Use EDI and automate as much as possible!"

"Charge a handling fee!"

"Put yourself in the customer's shoes and picture how you would like the order process to go. Then do it even better."

"Build in packing and shipping costs to the pricing. Research the order and fulfillment process. EDI or a portal is the best for order processing."

"Make sure your suppliers/ licensors have granted you rights to distribute through those channels."

"Make sure you have the margins to accommodate unplanned costs (mis-shipments, marketing fees, charge-backs.) Take your time during negotiations and be sure you know exactly what it will cost your company to fulfill orders via a big-box retailer."

SUMMARY

Drop-ship suppliers are gaining new business by adopting this model, but most learned a lot along the way (see their advice on page 9). The survey uncovered the following themes for any brand thinking of doing drop shipping:

- 1. Prepare immediately as drop-ship orders happen quickly after signing with a retailer.**
- 2. Automate to manage order volumes and complexities.**
- 3. Consider a 3PL to provide scale.**
- 4. Recognize drop shipping as a growth opportunity for your business.**

The final information that was apparent throughout the survey was that experienced drop-ship suppliers are willing to offer advice and share their experiences. They strongly encourage the adoption of drop shipping and believe in its impact on their future growth.

ABOUT SPS COMMERCE

SPS Commerce perfects the power of trading partner relationships with the industry's most broadly adopted, retail cloud services platform. As a leader in cloud-based supply chain management solutions, we provide proven integrations and comprehensive retail performance analytics to thousands of customers worldwide. SPS Commerce has achieved 72 consecutive quarters of revenue growth and is headquartered in Minneapolis. For additional information, please contact SPS Commerce at 866-245-8100 or visit www.spscommerce.com.

Customer Support

By: Megan Miller, Partner Marketing, [ShipStation](#)

ShipStation®

Your customers are vital to your company's continued success. Today's online shoppers have thousands of choices for similar products. Top customer service sets your business apart from the competition. When you go above and beyond to meet your customers' needs and solve their problems, the value you provide keeps your existing customers engaged and brings new prospects to your door. For drop-ship suppliers, there is a prime opportunity to [excel in customer service](#).

QUALITY CUSTOMER SUPPORT INCREASES YOUR BOTTOM LINE

Building brand and customer loyalty is an essential part of growing your business. In today's market, merchants can't afford to lose a customer due to a lack of expertise. This means that your customer support team must know the basics of all the brands you offer and understand the relationships with all your suppliers in order to be able to connect your customers with the right line of support. Acquiring a new customer, according to Hufly, can cost [five times](#) more than retaining an existing customer. By emphasizing quality customer support, your company benefits from improved retention rates and increased revenue.

CUSTOMER SERVICE IS YOUR NEW ADVERTISING STRATEGY

Loyal customers are also invaluable to your company's marketing efforts. Would you rather purchase a product from an unfamiliar brand or one that was personally recommended to you by a friend? Those who experience good customer service, according to Zendesk, are [87% likely](#) to share their good experience with others. It is clear that word-of-mouth advertising is priceless.

"A brand for a company is like a reputation for a person. You earn reputation by trying to do hard things well."

—Jeff Bezos

Making the extra investment in customer service will always be worth your company's time and effort.

AN INDUSTRY-EXPERT EXAMPLE

ShipStation's customer service is a common highlight in the testimonials of satisfied customers. Kevin Callahan, CTO of Maggie Louise Confections, says, "Every touchpoint I've had with the ShipStation team has been great. Our account managers are great. We're able to reach out to the ShipStation team and work with them so they can audit our shipping process, they can suggest best practices."

In particular, speed and attentiveness take a high priority in ShipStation's multi-channel approach to customer service. Nik Hawks, co-owner of Paleo Treats reports, "All of our support interactions from live chat to email to on the phone have been really easy. All of our problems get solved very quickly."

An exceptional customer support team is always ready to solve problems and offer advice on best practices. To see an example of how to educate prospects and customers on the value your customer support team provides, check out [ShipStation's Ecommerce Success Experts](#) page.

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