



## **Should You Offer Drop-Ship Service?**

Many distributors and some manufacturers are gaining experience in direct-to-customer shipping, in which orders are filled directly from the source without recourse to a middleman. The Internet has accelerated this trend, and Dell Computer, with its phenomenal sales of \$13 billion, provides the most successful example.

Drop-ship services are gaining popularity, too. In this model, the manufacturer still ships goods directly to the end customer, but relies on partners to market, sell and take orders.

### **For Some, a Competitive Advantage**

For some products, especially those with wide consumer appeal, a manufacturer's offer to drop-ship can provide real value to its wholesale customers and make the manufacturer more attractive than its competition.

Consider a printer who supplies a publisher. For many years the printer has taken newly printed books off the press, stacked them onto a pallet, loaded them into a truck and sent them to the publisher, who sold them to its customers.

Now the printer offers to drop-ship — that is, to take on the publisher's order fulfillment functions. This shift eliminates a significant transport cost (the printer-to-publisher leg). It also relieves the publisher of the expense of inventory and shipping operations. This printer may have earned more future work than another who relies upon traditional shipping methods.

Meanwhile, the publisher continues its sales, marketing and

customer service functions. The end customer may never know a drop-ship arrangement was in play.

### **More Channels, More Sales**

But wait — why bring in a drop-ship middleman at all? Why not go with direct-to-customer shipping?

The answer is marketing. A manufacturer's drop-ship partners, in the aggregate, may be able to tap more channels and a broader market than the manufacturer itself can. Depending on these intermediaries' penetration of their markets, they may be able to reach many more buyers.

A drop-ship arrangement essentially constitutes a redivision of labor. The manufacturer takes over fulfillment, while its drop-ship partner covers marketing and related tasks. Such a trade may not be an even swap, of course, and the parties must construct a deal that resolves the new benefits and expenses that accrue to each.

### **Retail Shipping: A Different Animal**

Manufacturers considering either drop-ship or direct-to-customer operations must think through new challenges.

It's one thing to ship wholesale: Take an order, run a lot, load a truck. But are you ready to organize a pick-and-pack operation that ships to large numbers of individual customers every day? Will you use different carriers and let the customer choose? If these functions are new to you, headaches may lurk.

Your inventory situation will change, too. You'll need more space, of course. And inventory is harder to plan when you're shipping retail — you really don't know when these items will move.

Will the game be worth the candle? Will the benefits justify the new expenses? The answers to these questions can be found by thorough analysis.

*If you'd like to explore drop-ship or direct-to-customer services more fully, we can help you size up the costs and advantages of each.*

