

# Drop Shipping – An uneven playing field

By Kevin Ward, Co-Founder, Global Crafts

*“Drop shipping is a supply chain management technique in which the retailer does not keep goods in stock, but instead transfers customer orders and shipment details to wholesalers, who then ship the goods directly to the customer. The retailers make their profit on the difference between the wholesale and retail price.”* Source: Wikipedia

In the last 10 years, drop-shipping has become the business model of choice for new retailers, as it has many advantages. After all, it reduces their investment in inventory to nothing, it removes their need for the logistics of shipping and storage, and leaves the retailer clear to concentrate on marketing and selling. In some ways, it is merely a development of the division of labor -- let the retailer concentrate on selling, while the wholesaler concentrates on logistics. In theory, this process would increase sales and, thus, increase artisan production - which is ultimately the goal of the fair trade movement. *So why is it so hard to find a drop ship partner in fair trade?*

In the fair trade handicraft sector, the growth in demand for drop shipping has raised many issues. Currently, most fair trade wholesalers simply do not entertain drop-shipping. The question is why and can or should be anything done to enable drop shipping in the fair trade environment.

## Benefits and Challenges

For the retailer, the benefits seem obvious. They need not buy any stock until they sell it, making start up costs comparatively low. Combined with the access to ecommerce online and the savvy retail entrepreneur can open a virtual store on a shoestring. Some negatives for the retailer include having to rely on the wholesaler for logistics. While this transfer of responsibility may on appear to be a considerable advantage, it requires a real partnership based on trust. As it is, the retailer remains the one who will have to refund the unhappy consumer if it all goes wrong.

For the wholesaler, the relationship often seems an unfair burden. The wholesaler absorbs the responsibility for storing stock and for shipping on behalf of the retailer. However, the wholesaler should also see an increase in sales and be charging for these services, often by having a price point above wholesale level, but below retail, and by charging a flat fee for each order or applying a membership fee.

Even given the issues highlighted above, drop shipping seems an ideal system on the surface, where all parties gain something and the artisan producers for whom we all work, gain more sales.

So, what goes wrong?

*Unmotivated Retailers.* Often, retailers who do not invest much in the business do not take on the true responsibility of marketing and selling. Having not invested in merchandise they need to sell, retailers can become content to wait for the sale to occur, leaving the wholesaler “holding the bag” or, in this case, the inventory. In some cases, slow sales may not result from a lack of effort, but a lack of skills among new retailers. Because the costs of entry into drop-ship retailing are so low, a wholesaler may be asked to unfairly hold a novice retailer’s hand, while they try to make the transition to entrepreneur – and more often than not, they do not succeed. Nobody said retail was easy, using drop-shippers or not.

*The Nature of Handmade.* It is relatively easy for conventional companies to send out stock images of a product for retailers to put on their web sites. When the orders arrive, they have hundreds of the same item - mass produced in the same way, in the same place. This situation is obviously not the case with handmade fair trade handicrafts. Even as a wholesaler, it can be very difficult to produce a static catalog, as the designs and product range changes on daily basis. When a potential drop-shipper asks, "can I put those red glass earrings with the swirl in them online," the answer is "do what you want, but please don't expect me to have that exact color and design when you sell them." Inventory can vary widely and, based on the success of many drop-shippers, availability can vary widely, too.

*The Business Model.* For most wholesalers, the business model under which they operate makes individual retail shipping difficult. It takes as long to process a \$25 order as a \$500 order; it takes just as much cost to ship it. It costs more to process the credit card on a \$25 order than to work on a net account with a large, regular customer. In other words, drop-shipping is often cost and effort prohibitive for the wholesaler who is not setup to do so. This is not saying that wholesalers cannot setup correctly for this model, but - without doubt - the wholesale price, will need to change for drop-shipping over regular wholesaling. It is more expensive way to do business for the wholesaler.

*The Scale of the Retailer.* As a wholesaler, we treat each request differently. If a large international organization wants us to drop-ship for them, we say yes! We currently do this for one such organization -- we carry inventory, and we ship for them. We are hoping to expand this arrangement further. A price is negotiated for each item that allows us to carry the burden, while allowing the retail partner to make a profit. When a new retailer comes along with no track record, how can we be expected to make such a commitment, to carry such a burden? We would need to believe that the benefits of doing business with a new retailer will outweigh the costs.

## **The Future**

Drop shipping clearly does have a future, a place, and distinct advantages for everyone; but, the fair trade world needs to create a model that alleviates some of the challenges above.

Retailers need to understand that they cannot expect a true wholesale price. After all, a lot of the burden is now the wholesalers. Retailers need to make a commitment; otherwise the costs of setting up a relationship will fall to the wholesaler, who may see no sales. On the other hand, a wholesaler will need to accept that acting as a drop-shipper requires new skills and responsibilities. This role is not the role of a traditional wholesaler, but of a new type of wholesaler. At this time, this organization does not exist.

In the short term, we will continue to develop imaginative solutions. For example, Global Crafts will ship wholesale orders anywhere and without a minimum order. We do however charge a flat shipping fee which covers some of the burden. In the past, we have tried technological solutions, including producing full copies of our website branded for retailers, but even the setup costs have not proved motivation enough to get the retailer fully engaged in sales. It is perhaps the lack of real tangible sales from these types of programs that leave many wholesalers unwilling to drop-ship for retailers who cannot demonstrate significant sales potential. Drop-shipping will become a must-do only when the retailers demonstrate success and, to date, this has not been the case.