

October 2023

# THREE KEYS TO A SUCCESSFUL DROP SHIPPING PROGRAM

Online retailers increasingly are turning to drop shipping to expand their selection without tying up lots of cash. Here are three strategies that help merchants satisfy ever-more-demanding online shoppers without adding a lot of operational expense.

A custom report for

**ESSENDANT™**

From the editors of

**DIGITAL** 360  
COMMERCE



# WHAT TO LOOK FOR IN A DROP SHIP PARTNER

What makes shoppers choose one online retailer over the other? The answers might surprise you.

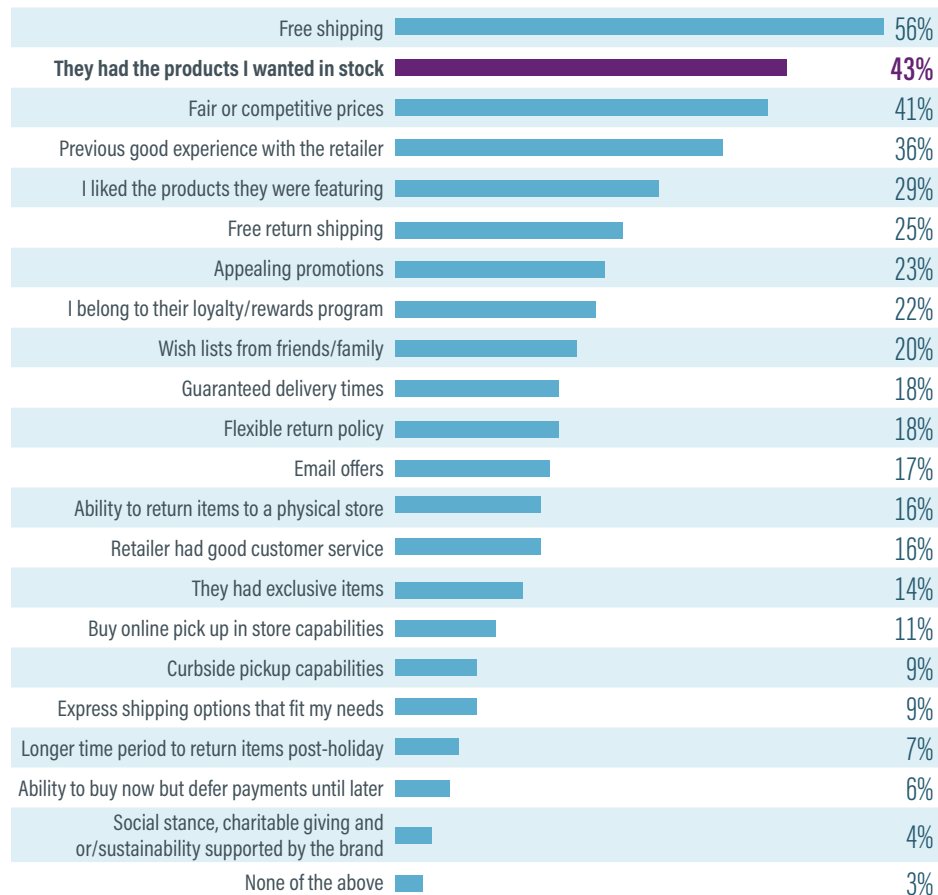
Digital Commerce 360 asked 1,023 consumers in January 2023 which factors most influenced their decisions where to shop online during the just-concluded holiday season and free shipping was the No. 1. choice. That's no surprise as everyone loves free shipping.

But look at the No. 2 choice in the nearby chart. It's not price or previous experience with the retailer. Those were the third and fourth choices. The second most important factor in determining where shoppers purchased was: "They had the products I wanted in stock."

That underscores the importance of wide selection for retailers and consumer brands selling online. Let's face it: Amazon, with more than 300 million SKUs in its inventory, has become "the Everything Store" that founder Jeff Bezos envisioned. Consumers expect they can go there, find what they want at a reasonable price and have it shipped to them quickly.

## WHAT MADE YOU CHOOSE TO SHOP WITH SPECIFIC RETAILERS OVER THE HOLIDAYS?

Please select all that apply.



Every other retailer and brand are challenged to meet those consumer expectations.

Some of the largest retailers—such as Walmart, Target, Macy’s, and Kroger—are expanding their selection by inviting other merchants to sell on their ecommerce sites. But managing hundreds or thousands of outside sellers, and ensuring they offer your customers the level of service you aim for, is beyond the capabilities of most retailers. This isn’t only a challenge for large retailers but for all online retailers.

They need to find another way to expand selection, while ensuring customer satisfaction. Increasingly, online retailers are turning to drop shipping to accomplish this goal.

With drop shipping, retailers take orders on their websites for merchandise they do not own or hold in their own warehouses. They pass the orders on to suppliers—either manufacturers, wholesalers, distributors, or third-party logistic providers—who ship the order to the consumer.

This allows online-only retailers to sell without ever owning merchandise or operating a warehouse: All that can be outsourced to a drop ship partner. Even for large brick-and-mortar retailers that stock lots of products in their stores, drop shipping can be a cost-effective way to expand selection to complementary products and test out new items with little risk.

For marketplace sellers, drop shipping is a way to expand selection, including of infrequently purchased long-tail items, without tying up capital in slow-moving inventory. This is an important tactic for many sellers on marketplaces like Amazon—and with the right partner they can offer the coveted Prime shipping badge without purchasing lots of inventory to store in Fulfillment by Amazon warehouses.

Given the pressure to expand online selection and compete with behemoths like Amazon and Walmart, it’s no surprise that spending on drop shipping services in North America is projected to increase at a compound annual growth rate of 23.5% from 2023 to 2030, according to market research firm Grand View Research.

Retailers evaluating drop ship companies will want evidence they can serve customers well, delivering goods on time. Those are the obvious questions to ask.

But there are some more nuanced questions for drop ship vendors that are crucial because the answers can make or break the success of a retailer’s drop ship program. They are:

- Do you have a wide selection of the name-brand products my customers want?
- Can you deliver products in the most cost-effective way, with the speed online shoppers have come to expect and ensure they will arrive intact?
- Can you seamlessly feed into my ecommerce platform the up-to-date descriptions, images and videos, and customer reviews about products that drive conversion?

In other words, retailers want to know that orders fulfilled by outside companies won’t disappoint

their customers and that operating the drop ship program—including getting the product information to populate compelling product pages—won't require a lot of manual work and oversight that erases any profits from merchandise sold this way.

This report will look at each of those crucial requirements of a drop shipping program and show how they can be addressed successfully.

## 1. OFFERING THE PRODUCTS CUSTOMERS WANT

Drop shipping is all about increasing selection. And that means a drop ship partner must be able to offer a wide variety of merchandise that retailers can sell on their websites.

But shoppers don't want just any product. If someone likes Crest toothpaste, then they will keep looking if a retailer only offers a generic brand, because that's all the drop shipper has access to. In fact, 78% of consumers say name brands are at least “somewhat important,” according to a March 2023 survey by Sifted, a provider of shipping software.

But big manufacturers—like Procter & Gamble, the maker of Crest—typically only do business with a limited number of large retailers and distributors. Retailers will want to look for drop ship providers with relationships with leading consumer goods manufacturers. Among those is Essendant, a major distributor that for years has done business with such big consumer goods makers as P&G, Colgate-Palmolive, Kimberly-Clark, and Georgia Pacific.

A drop ship partner with strong relationships with manufacturers can ensure that client retailers get access to in-demand goods at competitive prices.

An experienced drop shipper also can offer merchandising expertise in a category that an omnichannel retailer may be adding for the first time. In a case like that, the retailer may not have buyers and merchandisers with expertise in that line of goods, and the drop shipper can fill the gap by providing advice on selection and quantities based on its experience in that category.

That kind of expertise is especially useful for smaller web-only retailers and marketplace sellers. If they

have a merchandising team, it's likely to be small. A drop ship partner like Essendant that's been selling certain categories of goods for a long time can provide invaluable advice for these smaller clients.

Essendant also leverages its relationships with manufacturers to offer large retailers exclusive products. In one case, it facilitated the production of a shelving product exclusively for a large brick-and-mortar retailer. The product was packaged for sale in stores as well as online and was so successful the retailer placed a large order for shipment to its outlets in China.

### **Merchandising assistance**

A large, well-established drop ship partner also can bring valuable expertise acquired through serving many retailers of all types, including large omnichannel retailers, web-only merchants, and marketplace sellers.

Long-established distributors have extensive data about sales patterns in the product categories that they specialize in. They know that “people who bought this also bought that” and can provide those insights to retailer clients.

In some cases, that may mean pointing out that a retailer is lacking an item often purchased with a product it's selling. For example, a client of Essendant was offering cardboard cups but not the matching lids, and Essendant pointed out this opportunity to increase sales of a related product.

Similarly, the drop ship partner can bring expertise on how to effectively sell products in its deepest categories. Essendant, for example, demonstrated to a large retail chain that moving ink and toner above the fold on a computer printer product page resulted in a high percentage of buyers also purchasing the accessories.

Finally, a drop ship partner can also help with marketing. For instance, Essendant fulfillment centers can apply a retailer's logo to the outside of boxes and include inserts that encourage customers to return to the shopper's websites to purchase again. That's particularly valuable when the order is placed on an online marketplace, as the buyer may not be familiar with the retailer's own website.

A partner with lots of ecommerce experience can improve a retailer's online sales in many ways.

## 2. OPTIMIZED FULFILLMENT

Consumers have been trained—by Amazon and big competitors trying to match its free and fast delivery—to expect their web orders to arrive quickly. In fact, 29% of online shoppers surveyed in August 2023 by Digital Commerce 360 and Bizrate Insights said they had abandoned a shopping cart within the previous six months because the products would not arrive in time, up from 19% in the same survey a year earlier.

That makes it essential that retailers find drop ship partners that can fulfill orders quickly throughout the U.S.

Essendant operates a network of distribution centers that handle drop ship orders and can deliver retailers' online orders the next day to 98% of the U.S. population.

Retailers evaluating potential drop ship partners will also want to look for several other capabilities.

A drop shipper should have relationships with a wide range of delivery services—not just national carriers like UPS, FedEx, and USPS, but also regional delivery services, couriers, and LTL (less-than-truckload) carriers for larger orders. That will allow it to select the fastest and most cost-effective way to fulfill each order.

A drop shipper should also have technology that can examine each order to determine how to minimize the number of boxes shipped, which saves the retailer money and improves the customer experience. An order with multiple items may be collected at the end of the picking and packing process, then combined into a single box. The drop ship partner's system should also ensure that the box selected does not incur additional charges for being too heavy or bulky.

To operate most effectively, a logistics provider also needs deep knowledge about inventory trends for the

product categories it offers. That includes knowing in which parts of the country a particular product will be in demand and when. That enables the provider to distribute inventory effectively among its warehouses, a prerequisite for ensuing fast delivery at the lowest cost.

Essendant's product expertise includes knowledge about which of the over 40,000 SKUs it carries are most often damaged in transit. The company then takes extra steps to protect them, such as by enclosing delicate picture frames in bubble wrap.

A sure way to disappoint shoppers is to deliver them damaged goods, and an experienced drop ship provider will make every effort to prevent that from happening.

#### A big benefit for marketplace sellers

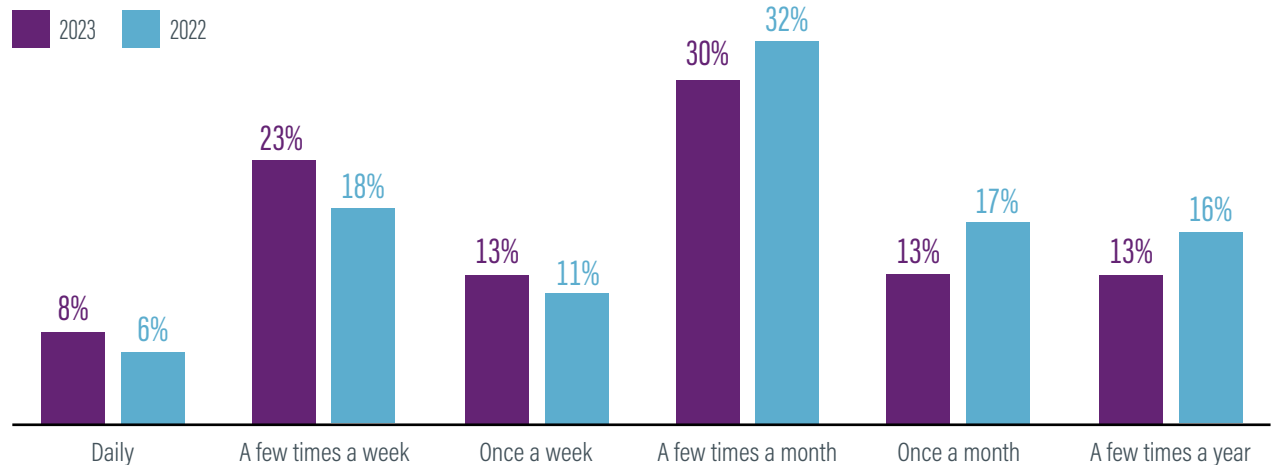
For many online retailers selling direct to consumer, a major consideration is the ability of drop ship suppliers to satisfy customers placing orders on online marketplaces, which now account for more than half of online purchases.

77% of online shoppers surveyed in May 2023 by Digital Commerce 360 and Bizrate Insights said they shopped on online marketplaces at least monthly. It's no surprise then that 58% of the Top 1000 online

retailers in North America by web revenue sell on at least one marketplace, with Amazon by far the most popular, according to Digital Commerce 360.

### THREE-QUARTERS OF ONLINE SHOPPERS BUY AT LEAST MONTHLY ON MARKETPLACES

How often do you buy from marketplaces such as Amazon, eBay, and Etsy?



Source: Digital Commerce 360/Bizrate Insights surveys of online shoppers, May 2023 and May 2022

And that means sellers must satisfy the many Amazon Prime members who expect free and fast shipping. As of early 2023, 167 million U.S. consumers were members of Amazon Prime, according to market research firm Consumer Intelligence Research Partners. CIRP says those shoppers account for 71% of Amazon orders. Given that many Prime members will only buy from merchants offering free Prime shipping, winning that Prime badge is a requirement for success on Amazon.

There are a variety of ways an Amazon seller can qualify for the Prime designation. Many outsource fulfillment to Fulfillment by Amazon, but that means buying enough merchandise to store products at several FBA warehouses and paying storage fees on slow-moving goods.

Or they can qualify for what Amazon calls Seller Fulfilled Prime, in which the seller handles delivery and meets Amazon's exacting standards. That means not only shipping fast, but also complying with

Amazon requirements for turning around orders quickly, providing Amazon regular updates and offering easy returns. That's a tall order for many smaller merchants.

A third alternative is to turn over Amazon fulfillment to a drop ship partner that qualifies for Seller Fulfilled Prime. That allows the seller to offer Prime shipping without the expense of buying and storing goods with FBA or of investing in the kind of sophisticated fulfillment infrastructure necessary to guarantee delivery within one or two days.

What's more, a drop ship provider with many distribution centers and carrier relationships can ship at the lowest possible price, enabling the seller to keep its prices low. Low price is key on the highly competitive Amazon marketplace, as price is a major factor in determining which seller wins the coveted Buy Box that allows shoppers to immediately purchase items they search for.

### Meeting ESG mandates

Another factor, especially for larger retailers and brands, is the need to satisfy the growing number of investors that consider environmental, social and governance factors, or ESG, when deciding which company's stock to buy.

A larger retailer's carbon footprint includes the emissions produced by suppliers and fulfillment partners, which makes the efficiency of drop shippers an important consideration. A drop ship provider with a nationwide warehouse network will be closer to the end customer, minimizing the distance vehicles travel when delivering an order and the resulting carbon emissions. Consolidating several items into a single box similarly reduces the number of delivery trips and environmental impact.

Retailers seeking to satisfy ESG requirements also look for partners that pursue other socially desirable goals. Essendant, for example, makes a conscious effort to hire disabled people, veterans and previously

incarcerated individuals, as well as members of other underrepresented groups for suitable work in its distribution centers. That's the kind of policy that appeals to ESG investors.

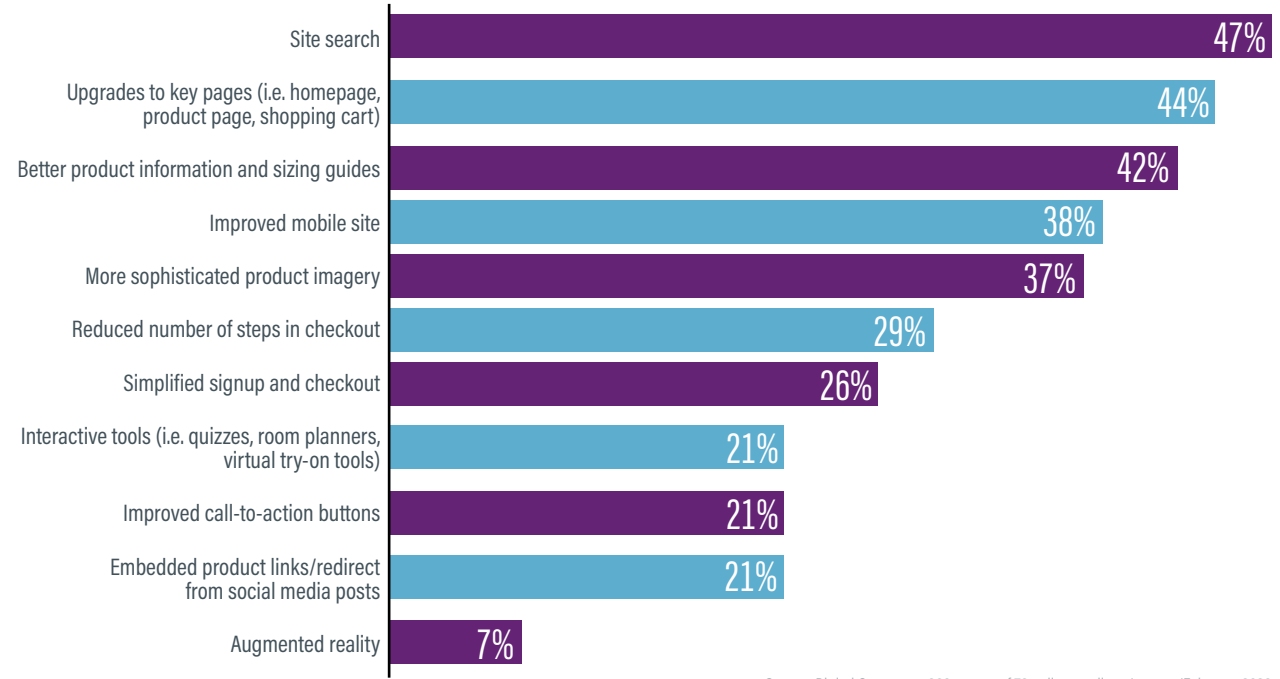
### 3. PROVIDING PRODUCT INFORMATION THAT DRIVES CONVERSION

With only 2.8% of visits to the ecommerce sites of North America's 1,000 leading online retailers leading to a sale, according to Digital Commerce 360, improving conversion is a perennial goal of online retailers. And, as an early 2023 retailer survey by Digital Commerce 360 showed, they know that among the keys to boosting conversion are improved product pages, product information and imagery.

When online retailers purchase merchandise from suppliers, they can collaborate directly with suppliers to get the product information, images and videos that make a consumer more likely to hit the Buy button. But working with a drop ship partner puts another company in between the retailer and

### HOW IMPORTANT HAVE INVESTMENTS IN EACH OF THE FOLLOWING ON-SITE TACTICS BEEN WHEN IT COMES TO IMPROVING YOUR ONLINE CONVERSION RATE?

Percentage of retailers saying "Very important"



Source: Digital Commerce 360 survey of 73 online retailers, January/February 2023



supplier, and that often results in the retailer not getting all the conversion-driving assets it needs.

One of the crucial, and not always well understood, roles of drop ship suppliers is to ensure that online retailer clients get the up-to-date product information, specifications and imagery shoppers expect to see on product detail pages.

Retailers will want to evaluate whether a drop ship partner has content standards in place that require suppliers to provide item descriptions, images and bullet points detailing a product's key features. Top drop shippers offer scorecards that rate the quality of content for each product and show where it can be improved.

The ideal drop ship service provider will offer in-house expertise in the categories of interest to the retailer client. Those internal experts will have deep understanding of the category and of the content that's crucial for driving sales of these products and an awareness of current trends that are important for driving purchase decisions.

For example, some states are regulating certain ingredients and materials. In some cases, buyers may have restrictions or preferences for product manufacturers that meet certain requirements, such as for women-owned businesses, merchandise "made in USA," environmentally friendly "green" products or other criteria.

Such information can be crucial for some buyers. Leading drop shippers will provide all this information. 31% of consumers prioritize shopping with businesses owned by women, according to a 2023 survey by research firm CivicScience, and 65% at least sometimes make it a point to buy products "Made in USA", according to a separate survey by Morning Consult.

### **The right technology for the job**

Keeping all that information up to date and distributing it to retailer websites in an automated way requires a strong product information management system, or PIM. A PIM allows manufacturers to feed in the latest product data for transmission to retailers' ecommerce systems.

There are other forms of content that drive conversion for many buyers. High on that list is customer reviews. Some drop shippers partner with reviews aggregators that allow publication of reviews collected from many sources to show up on a retailer's product page.

Drop shippers can also provide what is known as A+ content that gives prospective buyers even more information about a product. This includes video, 3D product views, copy that overlays images and more. The most capable drop shippers have existing integrations with established ecommerce platforms to facilitate distribution of this information with minimal work on the retailer's side, as well as the ability to support custom integrations with proprietary platforms.

For different consumers different information will lead them to make a purchase. The strongest drop ship suppliers ensure their retailer clients get all the data they need about all the products they offer to maximize conversion.

# CONCLUSION

## A STRONG DROP SHIP PARTNER LEVELS THE PLAYING FIELD

Few retailers have the resources to compete with giants like Amazon and Walmart. What a strong drop ship provider can do is provide the product assortment, extensive fulfillment network and technology expertise that enables other merchants to provide online shoppers with the kind of selection and delivery experience they have come to expect.

Some capabilities will be crucial for retailers of all types. They include:

- The ability to offer a broad selection of products from leading manufacturers.
- A nationwide network of distribution centers, with on-hand inventory, that can deliver online orders quickly and at the lowest cost.
- Relationships with many kinds of carriers to ensure each order is shipped in the optimal manner.

- Detailed product information so that online retailers can present each product in the most appealing way.
- The ability to combine multiple items into a single box, minimizing delivery cost and maximizing customer satisfaction.

Other capabilities will be especially important for certain kinds of retailers. For example:

- Large omnichannel retailers will benefit from a drop ship partner's relationships with many manufacturers, and its expertise and recommendations in categories that the retailer has not previously sold.
- Online-only retailers need a provider with end-to-end capabilities, allowing the e-retailer to sell from its own website without the cost of

acquiring merchandise, operating warehouses, or managing fulfillment relationships.

- Marketplace sellers can boost sales and cut costs by working with a drop ship provider that meet each marketplace's requirements for offering shoppers the most favorable shipping terms, thus boosting sales.

Most consumers now shop online regularly and expect the high level of service they receive from the most advanced online retailers. To succeed, other retailers will have to provide comparable service and selection, but they don't have to do it on their own. The right drop ship partner can provide the fulfillment infrastructure and technology so that retailers can focus on effective marketing and providing the high level of product and service that keeps customers coming back.

## ABOUT ESSENDANT

Essendant is a distribution company that provides wholesale distribution and fulfillment services to resellers and manufacturers, helping them expand their paths to growth, improve their customer experience, and optimize their supply chain to meet the demands of commerce today. Essendant empowers customers with best-in-class distribution capabilities for accurate and timely delivery anywhere in the U.S., system integrations that enable commerce from point of sale to delivery, and a broad product assortment stocked for optimal distribution throughout its network. With 100 years of experience, Essendant fuels growth for over 10K customers including independent resellers, retailers, B2B distributors, and eCommerce businesses, ranging from startups to multinational corporations. For more information on Essendant, visit [www.essendant.com](http://www.essendant.com).

The logo for Essendant, featuring the word "ESSENDANT" in a bold, blue, sans-serif font. The letter "A" is stylized with a light blue triangle pointing upwards, and a trademark symbol (TM) is located at the top right of the word.