

Is Drop Shipping Right for Your Business?

Drop shipping is an emerging trend in retail and supply chain management. Drop shipping creates a three-way arrangement in which the retailer only handles part of the transaction, leaving the order fulfillment to a wholesaler, distributor or manufacturer. However, in spite of its logistical advantages, **drop shipping isn't for everyone.**

What is Drop Shipping?

Drop shipping is when a retail or online shop receives an order and the product is sent from the distributor, wholesaler or manufacturer directly to the shop's customer (the end consumer). Retail and online shops collect the money from the end consumer and are then invoiced from the distributor.



Benefits of Drop Shipping

There are two main benefits of drop shipping, which is why every retailer should consider it as a viable alternative to their current inventory process. If you have an online store, drop shipping completely eliminates the need for inventory, **saving significant time, money and space.** If you have a retail shop

you can **reduce the amount of inventory** you carry and sell higher priced items without investing the money to have them in the store. The other benefit is quicker delivery. Orders that get shipped directly to the end consumer save time. Orders that have to be shipped to the store first mean a significant delay to the consumer which could lead to a lost sale. These two benefits alone can reduce a lot of the overhead costs that come with starting a business and maintaining it through lean periods.

Disadvantages of Drop Shipping

The savings that come with drop shipping also come at a cost. The physical cost of drop shipping comes in the **decreased margins** that are a result of bringing a third party into every transaction. Some distributors, wholesalers or manufacturers charge an extra drop ship fee on top of the shipping charges. Additionally, a retailer that uses only drop shipping runs the risk of backordered merchandise, which may send customers elsewhere and hurt an online store's satisfactory rating.

Special Considerations

Drop shipping is not a cut-and-dry proposition. It has its perks and its drawbacks, but each retailer must decide whether it's right for them. Below is a partial list of circumstances that would increase or decrease the chances of drop shipping being an ideal solution for a retailer.

When Drop Shipping Works:

- Your business is just starting out
- There is no room to store inventory
- You don't have enough cash flow to support your inventory
- You sell specialized merchandise that is routinely custom ordered
- You want to expand your product offerings without taking up shelf space
- You anticipate a boost in sales and you need help fulfilling orders

When Drop Shipping Fails:

- You contract with an un-reputable wholesaler just to save money
- You have a retail store and your customers expect to bring their goods home right away
- You sell common goods that generally aren't special ordered
- You want to maintain total control over the shipping and order fulfillment process
- You want to make a lot of money on each item sold

Pros and Cons of Drop Shipping

Pro:

- Easy to scale
- Low overhead
- Easy to get started
- Flexible location
- Less capital required

Cons:

- Low margins
- Shipping complexities
- Supplier error
- Inventory issues

The Bottom Line

Drop shipping can work beautifully for those businesses that can take advantage of its flexibility. For a young business, lower than average margins are a small price to pay for not having to handle inventory or make space for unsold products. Bigger businesses can also benefit through offering additional products and fulfilling special orders. As long as the warehouse is legitimate and reputable, drop shipping can be a valuable tool in a company's inventory management system.