Vendor Drop-Ship Integration

A guide to successfully incorporating vendor drop-ship order processing

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Introduction - Reach Beyond Your Grasp

What if you could offer your customers thousands of new product offerings without taking inventory of a single item? What if you could do that seamlessly and still provide an outstanding level of customer support?

You would have a revenue stream from orders that didn't require picking or packing. You would be selling products that never required a close out because they were never in your warehouse. You would be able to offer your customers a much wider array of product choices than what you have on your floor. Most importantly, you would be able to significantly increase revenue without adding a penny to your cost of inventory ownership.

The purpose of this white paper is to give you an overview of drop-shipping products from vendor inventory, and to introduce you to some important concepts to consider when planning drop-ship integration. After reading this paper, you should have a better understanding of the system design and data flow for an integrated drop-ship software solution. With an understanding of how drop-shipping works with your retail system, you should be better able to evaluate the effectiveness of software designed to make your drop-ship debut profitable and sustainable.

What is Drop-shipping?

Drop-shipping is the process of having the manufacturer directly fulfill orders placed on your eCommerce site. Vendors supply available to sell (ATS) inventory updates that can be sent to a retail channel. Online retailers generate orders for these products, the orders are processed by the retailer, and then a purchase order (PO) with the customer's shipping information is sent to the vendor. The vendor then sends the order directly to the customer and notifies the retailer of shipment.

Why Drop-ship?

Vendor

- Increases sales revenue by extending placement of products.
- Increases brand visibility and awareness by providing more offerings on participating retailer's websites.
- Provides retailer's with a "no strings attached" method of selling discontinued or past season inventory
- Gives the vendor some control over data flow and data exchange.

Retailer

- Extends eCommerce product assortments and availability of "the right product at the right time".
- Enables Brick-and -mortars to expand inventory with no additional shelf space.
- Accelerated order fulfillment and increased customer satisfaction
- Efficiencies/cost savings by not picking and packing – increases profitability.

Getting Started

Drop-shipping begins with identifying participating vendors. Check with your sales representative to determine if the manufacturers of the products they represent offer this as an option. Thousands of vendors participate in drop-ship programs; Retail Backbone has completed successful integrations with over 60 different vendors for their various clients with additional vendors coming online every year.

Once you have found one or more participating vendors, the initial steps with that vendor include: agreeing to terms regarding shipping carrier, shipping costs and returns, optionally providing sample "branding" documentation for returns and packing slips and then finally, "building" the vendor's catalog in your system.

After you have established the vendor's catalog in your point of sale (POS) and/or eCommerce systems and added the images and product descriptions necessary to display these products online (i.e. "built the catalog"), the next step is to be able to import the vendor's ATS inventory so you can represent what the vendor has available to sell. These inventory levels will be added to your own on-hand inventory and pushed out to your eCommerce site.

ATS in the Mix

As with all things related to data interchange, ATS comes in a variety of formats and transport mechanisms. For instance, vendors may provide ATS data via simple comma separated value (CSV) files. These files can be automatically transmitted via File Transfer Protocol (FTP) or the same file format may be chosen but transported via Email. Some vendors prefer to do all data exchange with standardized EDI transaction sets, while still others expose their ATS and other interchange functionality with more complex interfaces provided via Web services.

Retail Backbone is flexible enough to support retailers in vendor drop-ship integrations using just about any combination of transport methodology and data format. For instance, Retail Backbone supports ATS via 846 EDI, CSV files or Web services. Data processing can be done from a file received via FTP, email or directly "over the wire" by HTTP.

Inventory out, Orders in

Customers place orders directly on your website or other channel (e.g. Amazon) and the order data flows back down to a processing point that creates a purchase order (PO) for items that need to be filled directly from a vendor's inventory. This step is the most technically challenging part of the process and again, requires a great deal of flexibility.

Software that can interchange data in a variety of formats using a variety of transport mechanisms is important because no two vendors have an identical set up. Additionally, the software applying the logic to create a PO needs to adapt to your specific business requirements.

For instance, you may decide that a PO should never be created if you are able to fulfill that order from your store/warehouse inventory. Or you may decide that you don't want to deplete your own inventory if the vendor can ship directly to your customer.

Retail Backbone provides their clients with a broad set of solutions to tackle most implementation scenarios. Each solution can be customized to accommodate the specific requirements of new vendors or custom fitted to your specific business requirements.

The PO Pipeline

When a customer order is processed for an item that must be filled from vendor inventory, a drop-ship purchase order is generated in Retail Backbone. Additional job steps can then "pipeline" the PO process to call vendor specific modules that format and transmit the POs according to the vendor's requirements.

In some instances, the PO created in the database is transformed into a flat file first. The format of the flat file will depend on the vendor. Files can be pipe delimited, CSV or sometimes slightly more complex EDI compliant purchase orders. In most instances, when a flat file is created it is transported via FTP to either a value added network (VAN) or to the vendor directly.

Some vendors prefer to just receive their POs in the body of emails. Other vendors have set up advanced web service gateways that allow for immediate, bi-directional data flow.

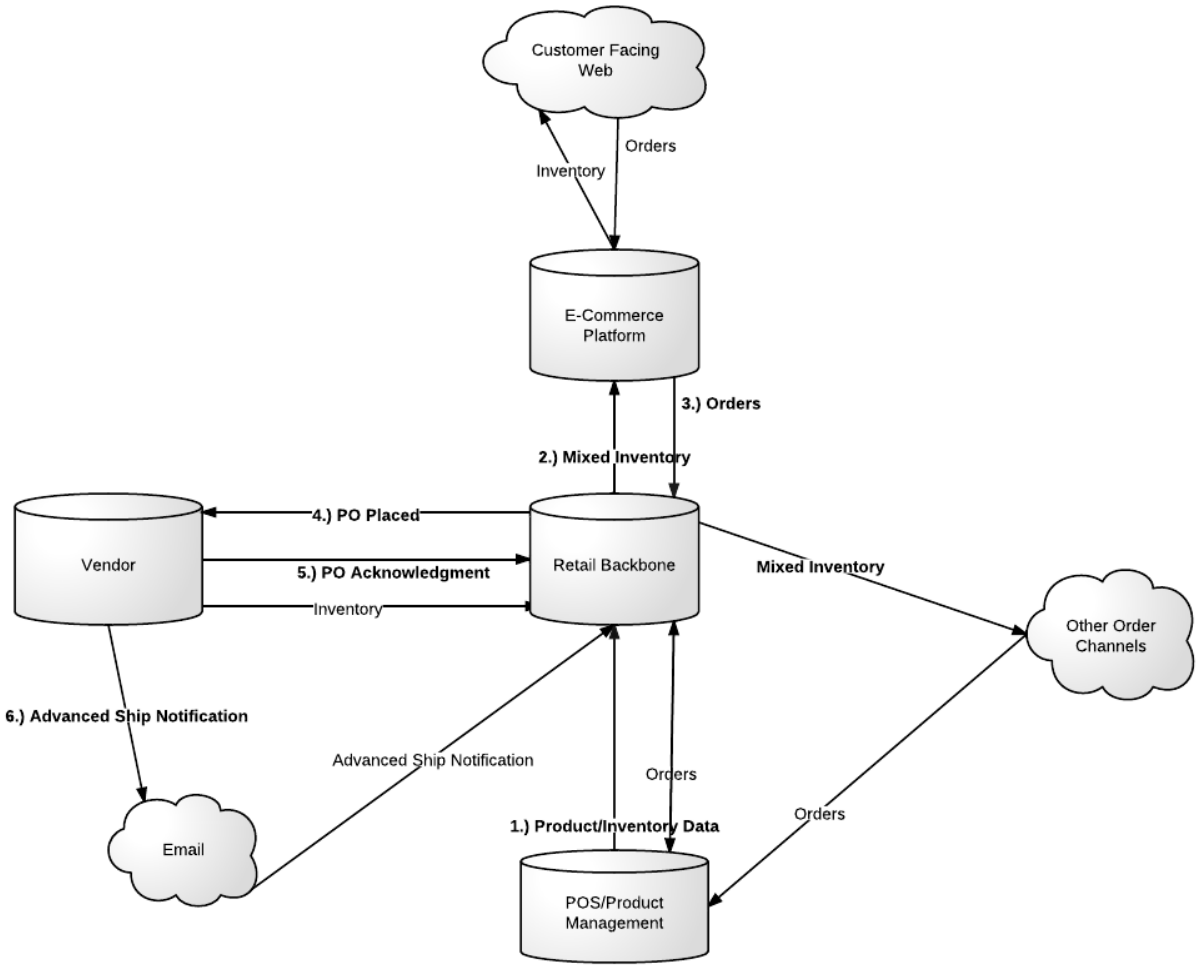
PO in the Wild

Once a PO is placed with a vendor, acknowledgement that the order has been received is captured whenever possible. When the order ships, advanced ship notification (ASN), i.e. tracking information and/or order status, is captured and applied to the order. From this point, the order can be settled and the customer can be notified with an order status update including shipment tracking information.

Summary of Steps

1.) Identify participating vendor(s), agree to terms, optionally submit shipping documents and build the vendor's catalog in your product management system and POS system.
2.) Capture the vendor's inventory data and add this data to the mix of inventory you are already sending out to your channels.
3.) Processes orders and coordinate order information allowing for latency from different sources. Create purchase orders based upon specific business requirements.
4.) Format the PO specific to the vendor's requirements. Transmit the PO data in the correct format and gather receipt acknowledgement whenever possible.
5.) Gather PO shipping notification and update the customer with tracking information.

Figure 1 - Drop-ship Integration, Sample Data Flow



In the diagram above, the following steps are taking place:

1.) Product information and inventory flows from your system to Retail Backbone. This allows Retail Backbone to determine which products from the vendor's catalog are live on your website and allows Retail Backbone to match against inventory when orders come in.

2.) ATS is processed from the vendor and pushed out to the Web along with store inventory levels. Vendor inventory going out can be controlled by you. For instance, you might decide not to push out vendor inventory unless the vendor has more than 5 units available (to avoid over-selling).

3.) Order data flows back down to Retail Backbone. The order information can come from a variety of sources. It can be run through your system first. It can come from the e-Commerce platform directly or directly from other channels such as Amazon.

4.) Retail Backbone coordinates order information and creates POs based upon your preferred logic. POs are created and stored in the database; they are then formatted and transmitted to meet vendor specifications.

5.) Whenever possible, PO acknowledgement is gathered. POs that have been submitted and confirmed by vendors can be viewed through the Retail Backbone interface.

6.) ASN is captured, in this case via Email. At this point, an order update can be imported from Retail Backbone which will trigger an email to send tracking and product information to the customer.

Software Considerations

Now that you have a better understanding of what drop-shipping and vendor inventory integration is, here are some important things to consider when you are choosing a software system to help with this endeavor.

1.) Has the company providing the software done this before? Going with a company that has experience will lower your costs and get you where you need to be more quickly. Retail Backbone has provided successful drop-ship integrations for roughly 60 vendors. For more information about this, contact info@retailbackbone.com .

2.) Is the system facilitating the drop-ship integration scalable and flexible with regard to data transport and exchange? For example, Retail Backbone transmits data by Email, HTTP, FTP or VPN. Retail Backbone does data exchange with Web services, EDI transaction sets or via good old fashioned flat files.

3.) Can the software system you select conform to your business requirements? For instance, you might have multiple order channels with order information flowing at different times. Or perhaps you have disparate POS and warehouse management systems (WMS). Integrating with Retail Backbone means leveraging existing code and experience in a solution that can be customized to fit your needs.

4.) Are there any contingency plans in place in case something goes wrong? Ask the company you are partnering with about their level of customer support and find out how technical support is handled.

Summary

Drop-shipping, the process of having vendors directly fulfill orders from their inventory, offers numerous benefits for both the vendor and the retailer. If done correctly, drop-shipping will provide an excellent additional revenue stream and give your customers a wider variety of products to choose from on your site (and in your stores).

Since drop-shipping involves the combined efforts of several separate software systems and organizations, it is important to select a software solution and solution provider that can offer experience and flexibility. The software provider should be able to provide a system that can grow and fit the needs of your specific requirements.

About Retail Backbone

Retail Backbone is Web based software designed for the retail industry. It is an Enterprise Resource Planning application containing modules for order processing and fulfillment, product management, supply chain management, sales reporting, marketing and many other features.

Not "just software", the main value proposition of Retail Backbone is functioning as part of an enterprise application integration **(EAI)** framework: software, services and expertise combined to get disparate systems working together to decrease costs and increase revenue. If you are retailer who needs help managing your inventory, products, order fulfillment or supply chain, talk to us, we can help.