



Does your Drop Ship or Marketplace Program have the Recipe for Success?

In today's rapidly evolving retail landscape, drop ship and marketplace business models have become essential inventory and fulfillment business strategies to expand product offerings, reach new customers, increase revenue and mitigate financial risks traditionally associated with stocked inventory models. While these virtual fulfillment models seem simple with just a few suppliers, we often see clients underestimating the structure, communication and ongoing optimization needed to implement a high performing, scalable drop ship or marketplace program.

[Red Banks Consulting](#) is an expert in Supplier Direct Fulfillment (SDF) and has been helping dozens of clients build and grow successful programs over the last 20+ years. This white paper outlines the four key pillars that form the foundation of a thriving non-inventory drop ship or marketplace strategy – or as Red Banks Consulting calls it, Supplier Direct Fulfillment (SDF). Whether you are considering launching a new program, revamping an existing one, or looking to optimize your current operations, this white paper (focused on D2C, but can be applied to B2B as well) will provide you with *actionable* insights and *leading practices* to drive success and capture the desired operational and financial outcomes.

We will explore the following foundational areas we have seen to consistently drive successful SDF programs.

- I. Strategy Development & Executive Alignment
- II. Technology Enablement
- III. Supplier Adoption
- IV. Operations & Performance Management

By implementing these four (4) pillars, you are building the foundation for a robust, scalable, and profitable drop ship or marketplace program capable of driving incremental growth, meeting customer expectations and mitigating inventory risks for the organization's digital commerce strategy.

Let's dive into each of these pillars to uncover the strategies and tactics that will set your program apart and position your business for long-term success.



Strategy.

I. Strategy Development & Executive Alignment

Developing a successful drop ship or marketplace strategy begins with a clear vision and strong alignment across your organization. This foundational step sets the tone for the entire program, provides guidance during buildout and optimization, and sets the goals that will drive long-term success.

The first step of developing the SDF strategy is defining the end goal – what is the purpose, and what does success look like. Goals should be specific and align to a financial plan as well as a vision of the customer experience. There are two main SDF program types to consider, Marketplace and Drop Ship. Both SDF operating models are used to offer extended assortments to customers, but which one is more relevant and/or a higher priority for you? Deciding your SDF operating model priorities and where you want to end up will influence all the other foundational pillars that need to be built.

Typical drivers of Marketplace vs. Drop Ship program worth considering:

1. Marketplace:

- *Everything to Everyone model*
 - *High volume of sellers and skus*
 - *Same skus offered by multiple sellers, competing on price and delivery times.*
- *Store within a store model*
 - *Curated, prominent, and niche brands unwilling to sell wholesale.*
- *Low margin category strategy*
 - *Categories that drive traffic, but are margin challenged (e.g. Electronics, toys, etc.).*
- *Lowest productivity SKU strategy*
 - *Leverage suppliers to minimize internal resource effort.*

2. Drop Ship:

- *Assortment Expansion strategy*
 - *Expand into untested categories, products, and/or long tail offerings.*
 - *Test, learn, and make informed inventory decisions.*
 - *High average unit retail, ship alones, lower productivity*
- *Never-Out strategy*
 - *Leverage supplier inventory to cover retailer out of stocks.*
- *High markdown, seasonal risk inventory strategy*
 - *Leverage supplier inventory to chase fast trends and protect against the misses.*

Strategy (continued)

We have consistently found establishing strategic partnerships at the executive level across the organization are also crucial to success of your SDF strategy. Merchandising or the digital commerce team, not IT, typically own and play a leading role in developing the SDF program goals. But getting cross-functional buy in and support from Digital Merchandising, IT, Operations/Logistics, Marketing and Site Experience is essential to short and long-term execution and success.

Internal Strategic Partners:

1. **Merchants:**
 - **Drop Ship:**
 - *Responsible for assortment selection, pricing, and business relationships with suppliers.*
 - *If merchants aren't aligned, assortment adds will be slow or non-existent*
 - **Marketplace:**
 - *Not responsible for assortment or pricing but should retain some oversight of categories.*
 - *If merchants are not aligned, the strategy may be viewed as direct competition.*
2. **Digital Merchandising:**
 - **Drop Ship/Marketplace:**
 - *Responsible for site taxonomy and ensuring added assortment is easily found on the site.*
 - *If the digital merchandising team is not aligned, the site will be un-shoppable.*
3. **Operations/Logistics:**
 - **Drop Ship:**
 - *Responsible for carrier relationships, parcel forecasts, and ship expense budgets.*
 - *If Logistics is not aligned, carrier contracts may risk expense and volume challenges.*
4. **IT:**
 - **Drop Ship/Marketplace:**
 - *Responsible for implementation and maintenance of supporting technology/platform.*
 - *If the IT team is not aligned, the project may not be properly prioritized or evaluated.*
5. **Marketing/Site Experience:**
 - **Marketplace:**
 - *The Site Experience team will be responsible for ensuring the marketplace experience shows up in the manner intended (i.e. how it is integrated into the site), and Marketing will be responsible for telling the story of marketplace and all its benefits to the customer (e.g. broader assortment, pricing, promos, coupons, rewards, etc.).*
 - *If the Site Experience and Marketing teams are not aligned, the customer will be unclear, disengaged, and potentially turned off to the rest of the site.*

Remember, strategy development is not a one-time event but an ongoing process. Regular reviews and adjustments based on market conditions and performance will help keep your program on track.

Technology.

II. Technology Enablement

Selecting and implementing the right technology is crucial for the success of your SDF program. It will provide the foundation for efficient operations, seamless supplier management, and a positive customer experience. Whether you elect to build the platform in-house or enlist the help of a third-party, there are some key points to consider ensuring what is installed is scalable and sustainable.

Key Considerations:

1. Third party versus in-house platform:

In very rare cases will the financials make sense to build in house (Red Banks Consulting almost never recommends an in-house solution). However, to thoroughly evaluate, it is important to consider all necessities of a non-inventory SDF program. It is insufficient to simply compare the cost of transactional technology (orders and inventory). The solution, whether in-house, or third party, must include supplier onboarding processes and testing technology, performance management tools, and a technical support structure available to suppliers and the retailer. All costs, associated with these pieces need to be compared in-house v. third party.

2. Third party platform:

We consistently see 3rd Party solutions as a critical enabler to automating, scaling and managing SDF programs. There are many solutions in the market and most claim to “do it all”, when in reality most “touch on it all”. The SDF solutions may have key focus and maturity points, while lacking other functionality that may or may not be important to the retailer. When evaluating the options, you should consider the following:

- *Is the platform focused on your desired SDF Operating model (Drop Ship or Marketplace)*
- *Strength of retailer & supplier networks in desired merchandising categories.*
- *Does the platform successfully solution the one-to-many need?*
- *Does the platform have robust supplier onboarding and performance, exception management tools?*
- *Does the technology easily integrate into your internal systems (order management, logistics, ERP, etc.)*

Technology is an enabler of your strategy, *not* the strategy itself. Ensure that your technology choices align with your overall business objectives and provide the flexibility to adapt as your program evolves.

while the selection of the “right” SDF solution takes time, investing in a robust and scalable platform will pay dividends in the long run.

Suppliers.

III. Supplier Adoption

Widespread supplier adoption is key to the success of your drop ship or marketplace program. Engaging suppliers effectively will lead to a wider product assortment, better inventory availability, improved customer satisfaction, as well as a timely transition. To ensure the best supplier adoption, leading to the most successful transition, communication is key.

Suppliers are strategic partners in business with retailers in the SDF model. They are not, or should not be, transactional acquaintances. Suppliers need to know what is expected of them, why it matters to the retailer and themselves, how they are supposed to meet those expectations. When the retailer effectively communicates this to their SDF suppliers, they will organize a plan to make it happen. Without this, they will do what they do for others or not do it at all. We advocate around four (4) key supplier communication check points to ensure supplier adoption is successful.

Communication Points:

1. Initial:

- *Email communication from the retailers Chief Merchant summarizing the project, with expected start and end dates, along with high-level next steps to set expectations.*

2. Prep:

- *Conduct a webinar, explaining the strategy, supplier benefits, new program requirements, and timing.*

3. In Process:

- *As suppliers onboard, stay in regular communication. If you see progress slow or stalled – check in with them to see if you can be of assistance.*

4. Final & Post Go Live

- *Communicate the GO LIVE date and be available for any challenges coming about once the supplier is live.*

Effective supplier adoption is an *ongoing process* requiring dedication, clear communication, and a focus on mutual success. By implementing these strategies, you can create a robust network of engaged suppliers who are committed to the success of your dropship or marketplace program.

Your suppliers are essential partners in delivering value to your customers. Investing in strong supplier relationships and providing the necessary support will lead to a more diverse product offering, improved operational efficiency, and ultimately, increased customer satisfaction and revenue growth.



Operations & Program Management.

IV. Operational SOPs & Performance Management

Establishing clear, SDF specific Standard Operating Procedures (SOPs) and implementing corresponding performance management processes within your technology solution systems are crucial for achieving a high-performing, consistent, efficient SDF supplier network.

Suppliers want to perform well but need to understand the retailers' expectations (SDF Playbook), be given the visibility to performance (SDF Scorecards), and have a point of contact to discuss in the moment issues as well as longer term operational strategies (Program Management Org Structure).

Key Elements:

1. SDF Supplier Playbook

- *Develop detailed expectations and SOPs covering all aspects of the program, from supplier onboarding to order fulfillment and returns processing. This needs to address SDF expectations which may differ from stock inventory programs.*
- *Ensure documentation is easily accessible to all relevant parties, including internal teams and suppliers.*

2. SDF Supplier Scorecards:

- *Implement a scorecard system that provides suppliers with visibility to their performance, and update regularly (monthly, quarterly, etc.).*
- *Consider an Incentive program recognizing and rewarding exceptional performance.*

3. SDF Program Management Org. Structure:

- *Build a dedicated Drop Ship/Marketplace team with specific functions concerning onboarding, performance management, and financial health.*
- *Ensure the team has ownership of categories and supplier relationships aligning with the merchant organization.*

By implementing robust operational SOPs and performance management systems, you create a framework for *consistent, high-quality execution* of your Drop Ship or Marketplace program. This not only ensures a positive experience for your customers but also provides clear guidelines and expectations for your suppliers, fostering a culture of continuous improvement and excellence.

The goal is not just to enforce rules, but to create a collaborative environment where both your organization and your suppliers can thrive and grow together.

Summary.

V. Conclusion

As we've explored throughout this white paper, implementing a successful Drop Ship or Marketplace strategy requires a comprehensive approach that address the four (4) key pillars. By laying this foundation, businesses can create a robust, scalable, and profitable drop ship or marketplace SDF program that drives growth, improves customer conversation and mitigates inventory risks. Let's recap the key takeaways:

- I. Develop a well-defined SDF strategy with strong success KPI's and executive alignment.
- II. Select a technology partner that can streamline operations and improve supplier management.
- III. Implement supplier adoption strategies to drive SDF participation and a mutually beneficial relationship.
- IV. Establish clear SDF operational SOPs and performance management systems to drive supplier performance.

As the eCommerce landscape continues to evolve, Drop Ship and Marketplace models offer tremendous opportunities for businesses to expand their product offerings, reach new customers, and increase revenue without the traditional risks associated with inventory management. However, success in this space requires more than just implementing a platform – it demands a holistic approach that considers all aspects of the business ecosystem.



Summary (continued)

As you embark on or continue your Drop Ship/Marketplace journey, remember that expert guidance can be invaluable. [Red Banks Consulting](#) is here to support you every step of the way, from strategy development to implementation and optimization. Our team of experienced professionals has decades of experience in building and operating SDF Programs and can help you navigate the complexities of Drop Ship and Marketplace, ensuring you maximize the potential of these powerful e-commerce models.

[Contact Red Banks Consulting](#) today to learn how we can help you achieve your Drop Ship and Marketplace goals.

About Red Banks Consulting

Red Banks Consulting helps leading retailers and brands enhance their customer experience, internal operations, and top and bottom-line growth. Our services range from strategy & planning, solution selection, and key initiative & technology implementation management. We are an independent, platform-agnostic, full-service consultancy. We provide objective solution recommendations based on our clients' needs. Red Banks Consulting has a specialty service offering for Supplier Direct Fulfillment (Drop Ship and Marketplace). Contact us to learn more.

We help clients define actionable strategies and implement effective solutions that deliver competitive advantage:



Industry knowledge.

Our veteran staff has decades of experience helping retailers and suppliers implement solutions that leverage SDF to incrementally grow online assortments and sales.



Domain expertise.

Our proven SDF methodology and best practices knowledge has enabled us to rapidly bridge the gap between business, process and technology to deliver scalable, effective SDF programs.



Delivery success.

Ideas are only as good as putting them into action. We have helped clients source, onboard & manage thousands SDF suppliers and turn small SDF programs into \$1B+ high-performing businesses.