

A MARKET REPORT FROM TRANSALIS



HAS DROPSHIPPING FINALLY COME OF AGE?

Find out how some of the UK's biggest brands are overcoming dropship challenges to speed up deliveries and optimise their supply chain

INCLUDING A CASE STUDY ON

simplehuman

Foreword

The use of e-commerce is skyrocketing. Well over half of all consumers already begin their product research online. And there's no sign the trend will slow down any time soon.

If you work in retail, you know that everything revolves around keeping the customer happy. They want the product they ordered to be with them tomorrow, if not before.

While you may have your own warehousing capability for storing, picking and despatching stock, you're just as likely to have an expanding list of suppliers who can ship direct to the customer.

“Some of the UK’s best-loved retail brands are turning on dropship to try to gain a competitive edge.”

This fast-growing delivery option, dropship, is great for e-commerce orders. For retailers, it means you don't have to worry about managing a warehouse or incurring additional carriage and fulfillment costs. Some of the UK's best-loved retail brands are turning on dropship to gain a competitive edge.

But here's the rub: like any other aspect of your business, it's important to ensure you are making a return on investment. To do that, you must avoid the risk of letting customers down through poor service. In short, you need continual oversight of what's happening on your behalf.

Without that confidence, it could be a recipe for disaster for both your bottom line and your brand's reputation.

Aniello Sabatino, co-founder and joint Managing Director, Transalis



The dropship conundrum

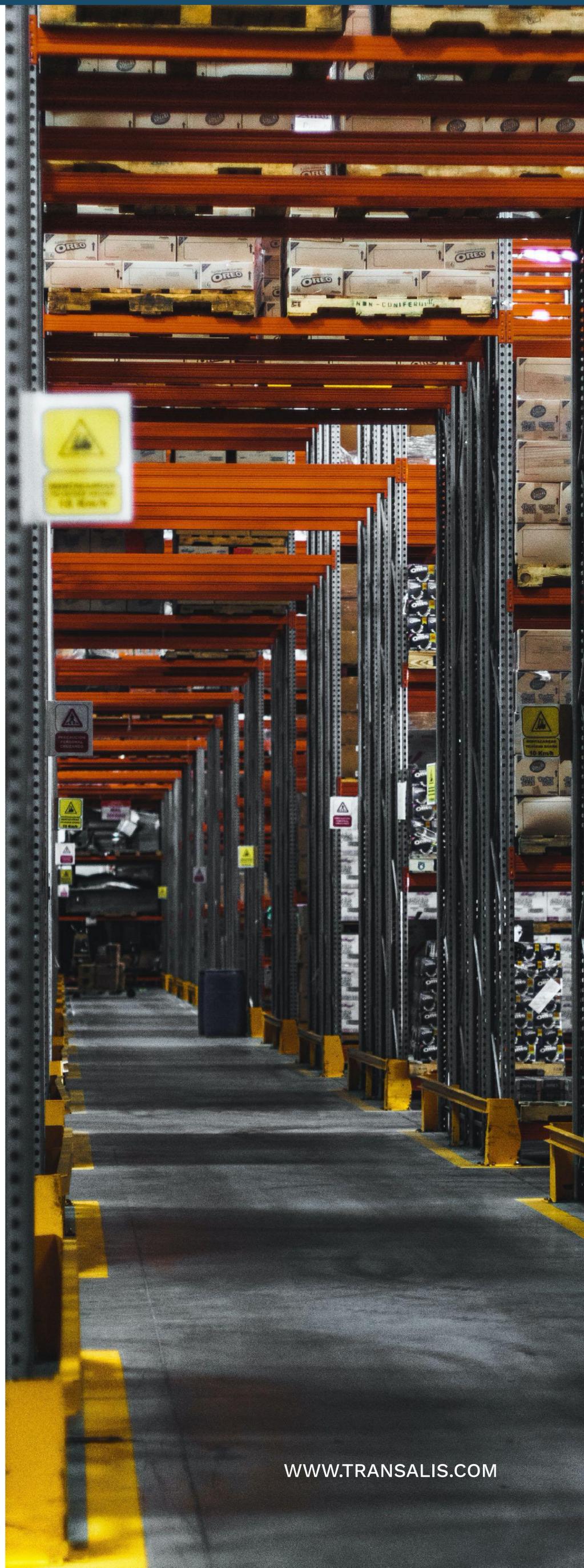
Dropship is a mode of fulfilment where the seller doesn't design the products, store them, or have control over production. The seller simply takes the order from the buyer and relays it to the manufacturer, who ships the goods directly to the consumer.

The model has become associated with low-cost entry to the market.

Inexperienced start-ups, would-be internet entrepreneurs and niche manufacturers have all tried it, with varying success. The pitfalls include low-profit margins and the risk of unscrupulous suppliers sending out sub-standard products and knock-off brands.

For retailers concerned with protecting their brand, a host of checks and balances must be put in place to create and maintain a successful dropship relationship. You are depending on the supplier to act as an extension of your business. The customer doesn't care how you organise delivery, they just want their delivery as quickly and with as little hassle as possible.

“You are depending on the supplier to act as an extension of your business.”



FACTFILE: THE IMPORTANCE OF DROPSHIP TO E-COMMERCE

£2.6 trillion - global value of e-commerce sales in 2019 (Source: Statistica).

£64.5 billion worth of sales via dropship in the US alone in 2017.

23% of all online sales from that year were fulfilled via dropship.

A 2019 study by Lehigh University in Pennsylvania shows:

— **88%** of retailers say dropship is inevitable for long-term success.

— **84%** have improved customer service via dropship.

— **71%** of manufacturers say systems integration has improved dropship relationships with retailers.

You are effectively handing over control of the delivery process to your manufacturer or supplier but ultimately, it's still you who has to face the music if something goes wrong. Typical customer-facing problems include out-of-stock items, late delivery, the wrong item sent, incorrect addresses, damaged goods, and so on. And behind the scenes, you will need to marry up tracking codes and mismatched documentation, all of which can add to the potential muddle, making financial records tricky to reconcile.

“There must be a high level of trust and co-operation between the retailer and its suppliers for dropshipping to work”

All parties must have real-time transparency across the entire process. But get it right and it can be mutually beneficial for all parties.

Why dropshipping has become integral for many large retailers?

Managed properly, the introduction of dropshipping to your supply chain can help you test new products, mitigate risks and manage market fluctuations – all with the peace of mind of knowing that the right orders are going to the right customers at the right time.

It's an ideal way to meet the wide range of product choices and delivery channels demanded by today's consumer.

“To make dropshipping work the retailer and manufacturer need to work far more closely together to plan a strategy that benefits both parties.”

No-one wants to be behind the curve. Already many larger retailers and manufacturers are introducing dropshipping as a component of their fulfilment strategy: a flexible approach to customer orders, which enables them to remain agile in times of peak demand.

But managing such a co-dependent and symbiotic relationship between the retailer, manufacturer and customer requires technology that allows all parties to share information in real-time, across multiple businesses and systems. The retailer must retain oversight and control across the entire supply chain – after all, it's their reputation on the line if service levels dip.



Why one-stop dropship needs one-stop system integration?

Up until now, the retailer's line of sight on quality control to prevent dropship problems has generally been limited. One of the most common challenges to achieving a successful retailer-manufacturer relationship is making sure your respective IT systems can speak to each other.

You may feel you already have more than enough systems and processes to oversee, so if you've been tasked with integrating dropship into your order fulfilment, that's just one more headache to consider.

But it doesn't need to be that way. The closer retailers and suppliers can align electronically, the more transparent and efficient the supply chain becomes... and the more headaches avoided!



The four pillars of successful dropshipping

Many of the problems associated with dropship come down to a lack of investment and planning. There are four pillars that any business considering introducing dropshipping to their fulfilment strategy should carefully consider:

1.

SHARED GOALS:

Talk to your existing dropship manufacturers and create a model of supply chain management that works for both of you. Conduct due diligence on new manufacturers and make sure they share the same business ethics as you.

3.

MAKE IT FLEXIBLE:

To enable you to manage fast-changing market fluctuations, ensure the order fulfilment processes you agree with your dropship manufacturers can step up to the mark. Make sure they have the ability to meet peaks of demand.

2.

SEAMLESS COMMUNICATION:

Dropship fulfilment relies on the manufacturer being connected at all times, with the ability to manage multiple discrete orders from consumers rather than bulk orders from the retailer or distributor. This means the IT systems involved must be able to fully integrate and process hundreds or even thousands of individual orders seamlessly and quickly.

4.

TRUST:

Once your reputation is gone, it's difficult to get it back. Best to treat your dropshipping manufacturers as close partners, not suppliers. They hold the reputation of your company in their hands, so you need to trust them implicitly.

Advantages for retailers

- **TOE IN THE WATER.** Ability to test new products before committing to bulk purchases that need warehousing
- **STATE OF FLUX.** Helps deal with unpredictable demand – a back-up dropship supplier means you can avoid the need to overstock in your warehouse with any sudden peaks in consumer demand
- **CONTINGENCY.** If your warehouse is out of action for any reason, you can still fulfil pre-made orders by dropshipping products from elsewhere
- **PRODUCT CARE.** Big, heavy, fragile or high-value products all require special storage and care. The same goes for those that need to be kept frozen or are light-sensitive. Dropship means you can avoid excessive storage costs, heavy transport charges or additional security measures, passing on these responsibilities to the manufacturer

Considerations for Retailers:

- **LACK OF EXCLUSIVITY:** You are unlikely to have an exclusive deal with

your dropship manufacturer. They will tend to have a network of distributors, meaning that, with a little research, customers may be able to buy the exact same thing somewhere else, possibly cheaper.

- **CEDING CONTROL:** Remember that with dropship you are at the mercy of your manufacturer. You have no control of the customer experience, though you will still have to manage customer expectations if something goes wrong.

Advantages for manufacturers

- Increased profit margins
- Ability to test the popularity of new product ranges direct to consumers without relying on bulk orders from the retailer
- Potentially opens-up new seller networks
- Opportunity to build a relationship directly with customers

ON TIME, EVERY TIME

The story of how
simplehuman
successfully manages thousands of
dropship orders every day

Making customers happy by sending out the products they order on time, every time is a top priority for both retailers and manufacturers.

Fast, efficient and accurate delivery enriches the customer experience increases brand loyalty and market growth in what is today a highly volatile retail environment built on ever-tightening margins.

“Proof that with superb, robust automation in place, retailers can truly rely on their wholesale or DSV partners to support profit margins, market presence and enhanced customer service.”

The supply chain behind an e-commerce business can involve a wholesale trading relationship, where the manufacturer bulk delivers to the retailer’s warehouse, or, increasingly, dropshipping, where stock is only shipped by the manufacturer once the sale has gone through.

A prime example of retail relationships working successfully on both fronts is clear at simplehuman UK, the multi-

award-winning designer and manufacturer of smart home products.

The company’s experience is relevant for any industry sector – from electronics to clothing to food and drink – where a manufacturer is seeking to grow trading partners at pace while staying streamlined.

It also shows how, with the right supplier relationships, retailers of all sizes can make their margins, please their customers and build their brands.

Key to this win, win situation is the optimisation of behind-the-scenes service delivery processes, in this case through a digital trading platform incorporating electronic data interchange, or EDI. The watchwords are ease of use, speed and accuracy.



THE BACKGROUND:

A SPIRIT OF INNOVATION

Founded in the US in 2000, with its UK subsidiary opening in 2003, simplehuman has reinvented tools for efficient living to elevate everyday life through design and innovation. With more than 250 patented products, simplehuman has pioneered the smart home category with its international award-winning bins, sensor mirrors, and kitchen and bath accessories that push the boundaries of intuitive user experience and function.

simplehuman UK's distribution network features leading retail brands, online stores, catalogues and bricks-and-mortar shops. This complex mix of routes to market – not an uncommon scenario in many sectors – requires careful management and a continual eye on process improvement.

To satisfy orders from across the network, simplehuman UK was until 2018 relying on a Windows-based EDI system. It was designed to enable staff at the company head office to share data, integrate it with internal systems and automate processes such as extracting information from paper and pdf. The idea was to save on the costs of manually processing sales orders, invoices, shipping notes, despatch advice, workflow reports and other essential paperwork.



THE CHALLENGE:

HOW TO MOVE TO THE NEXT LEVEL

While EDI had certainly supported company growth over the years, by 2018 the need for more process improvement and scalability was clear. The incumbent solution required too much staff time to start an order process and manage inbound and outbound files. It was also difficult to validate transactions in the event of queries.

While a great way to introduce new products to market – especially for an innovator brand such as simplehuman UK – the dropshipping side was particularly labour intensive, typically involving the physical keying in of single sales orders, not always cost-effective to store and ship. With thousands of product orders coming in from different retailers, all requiring acknowledgement, release and despatch, the logistics and cost pressures were becoming increasingly formidable.

simplehuman UK turned to its integration specialist Ian Tofield, an IT industry professional with previous experience at brands such as the shoe

retailer Clarks and financial services giant Legal & General.

“A manufacturer that supplies a retailer will typically have a tricky balance to strike,” says Ian.

“They need to guarantee regular income for both parties and have the ability to innovate and extend their product range pending market demand. Whether you are looking at a wholesale or dropshipping relationship, any retailer will need its suppliers to support their ability to sell in the marketplace. That goes for both the high street and online. simplehuman UK has accounting relationships with lots of big-name brands, as well as smaller outlets.

The customer doesn't know or care if the retailer is using a wholesale or dropship supplier – they just want the product they order in their hands as soon as possible. Behind the scenes, dropshipping can complement a wholesale trading relationship and there are benefits if you get it right, but it is exceedingly labour intensive unless you automate.”

Scoping the challenge that simplehuman UK faced, Ian found that, despite EDI, staff were still having to manually download files from trading partner portals. There were other manual tasks involved in acknowledging orders, providing tracking numbers for despatch and filling out the required fields in automatic shipping notices or ASNs. Another drawback was that outbound orders could only be processed during office hours. Any order made after 5pm on a Friday would have to wait until the following Monday morning for attention.

“Dropshipping was killing the order handling process at first,” Ian recalls. “The logistics of managing orders manually and the physical keying in of information in an e-commerce environment was a growing challenge. In the time I was scoping this, we received 4,039 orders. Each one needed to be acknowledged, released and sent on its way, some 8,000 transactions in all. We were inundated with orders and it was becoming a nightmare.”

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Ian recommended that simplehuman UK explore a managed service solution – a digital trading platform incorporating EDI – to automate the order process. Given the wide range of processes and IT capabilities among the distributor network, a central question in the procurement exercise was whether or not an outsourced provider could enable simplehuman UK to connect to any data format using any connectivity method. The preferred partner would also have to guarantee a flexible working approach, ready access to data held in the service, and HMRC compliance for EDI invoicing. Any new infrastructure would also have to integrate with simplehuman UK's existing back-office system, Sage 200 Extra.

THE SOLUTION: AUTOMATION FOR BOTH WHOLESALE AND DROPSHIPPING

The winner in the competitive procurement exercise was UK-based Transalis, whose cloud-based digital trading platform was already underpinning billions of pounds' worth of order processing by companies and organisations around the world.

“Transalis allowed simplehuman UK to define the interface files and mapping documents to support each integration. They really made it easy.”

“They met all our set criteria,” explains Ian. “And they outshone the others in terms of their work ethic and culture. We knew we could grow an open working relationship with them. As soon as the contract was signed in April 2018, they started working on a series of integrations. Crucially, they listened. Once I

had done my analysis, they allowed simplehuman UK to define the interface files and mapping documents to support each integration. They really made it easy. For example, as simplehuman UK were using Asana as an in-house project management tool, Transalis were more than happy to keep it as part of building and communicating about the solution. They had the confidence and ability to do that.”

Ian remembers the initial pressures as the project got underway. “Whereas I knew the previous EDI solution was not going to aid the growth of simplehuman UK in the medium to long term, we still had to work hard to prove we had a way forward. IT projects with third-party developers do have a reputation for slipping sometimes, especially when there are a number of separate developments on the go at the same time. I needed to prove what I was doing very quickly to show the business that this was how it was going to work.”

Ian worked with Transalis to agree the basic processes for integration with accountancy software so that data could be inputted and extracted smoothly. Transalis then made the technical changes required for the overall infrastructure build and EDI messaging.

"The Transalis team were brilliant," says Ian. "Within just eight weeks, they'd successfully on-boarded superhuman's biggest wholesale trading partner, and have now extended this to 52 connected partner accounts so far."

Within eight weeks, simplehuman UK's biggest wholesale trading partner was the first to be successfully on board with the new solution. Once the wholesale model was shown to work, the next step was to automate the dropshipping side and so make efficiencies there. Success would help to position simplehuman UK as a recognised dropship vendor, or DSV, in the market. Again, Transalis were able to accommodate a third-party CRM system that simplehuman UK was using so that more DSV orders could be connected automatically.



THE OUTCOME:

A STRONGER PLATFORM FOR BUSINESS GROWTH

After the first wholesale partner was on board, ten further partners – a mix of wholesale and DSV relationships – were added over the following year, extending to 52 connected accounts so far.

“It’s a rock-solid and stable solution with an absolutely minuscule error rate, less than 1%”

The new solution has fully automated a range of e-commerce data processes, both inbound and outbound and in both wholesale and DSV relationships. They include order acknowledgement, despatch advice, invoicing and inventory. Outbound files can be processed 24/7 any day of the year rather than just within office hours. A robust system of validation is now in place with simplehuman UK better able to manage partner pricing and carton quantities while avoiding any risk of order duplication.

Ian says: “To give some context to the connected accounts, when I started work at simplehuman UK there were six active accounts, sending and receiving data via their Windows-based Freeway interface. Now we have an automated system that works for big and small retailers and partners. In my experience, some businesses think they are using EDI properly when in truth they are not. Thankfully, simplehuman UK now has a different level of automation and operation throughout its entire process. Since the solution was implemented, it has successfully underpinned millions of pounds' worth of orders from across the distribution network. Everything about our processes has been simplified from a customer relationship point of view. We have had no major connectivity issues. It's a rock-solid and stable solution with an absolutely minuscule error rate, less than 1%.”

“Outbound files can be processed 24/7 any day of the year rather than just within office hours.”

THE BENEFITS: COST AND TIME SAVINGS

simplehuman UK has identified a wide range of benefits from the new solution, both within the organisation and when connecting with trading partners. Here are just some:

Faster turnaround: By avoiding manual processes, simplehuman is making a time saving on the handling of each transaction involved in an order. Since the solution was implemented, there have been more than 12,800 orders from different retailers requiring around 27,000 discrete transactions, each transaction faster than the equivalent manual process.

A better customer experience: When an order is received, it is picked, packed and despatched the same day, even if there is a sudden influx of orders. This supports both the manufacturer-retailer relationship and the ultimate customer experience.

Avoiding pointless orders: Built-in inventory files automatically stop the fulfilment process if the product is out of stock.

24/7 cover: Thanks to continual processing there is no longer a need to key in on a Monday morning what has been ordered since 5pm on a Friday. Inventory files for trading partners are automatically sent out multiple times a day and at the weekend.

Lead-time management: If a retailer needs to have the lead-time extended for order fulfilment, the system can automatically scale to fit the new requirement.

Flexibility: Wholesale and DSV orders can be split out easily to meet the different requirements of retailers.

Template for different verticals and sectors: Any business keen to develop DSV capabilities, whether from the retail or manufacturing point of view, can benefit from automation in this way. This includes small and medium-sized businesses working in, for example, apparel, electronics or food and beverages, as well as bigger retail

brands. Senior decision-makers, including operations, finance and IT managers, can expect to make significant cost and time savings through an equivalent automation solution from Transalis.

“We have successfully automated whole processes that had previously been run manually, freeing up precious time.”

REFLECTION: A SUCCESSFUL IMPLEMENTATION

Summarising the project, Ian says: **“Together with Transalis we have successfully automated whole processes that had previously been run manually, freeing up precious time. This is a perfect case study for many manufacturers in different sectors seeking to engage with a wholesale distribution network or operate as a DSV and go direct to consumer.**

“This is a perfect example for many manufacturers in different sectors seeking to engage with a wholesale distribution network or operate as a DSV and go direct to consumer.

“For retailers, it’s proof that with superb, robust automation in place you can truly rely on your wholesale or DSV partners to support your margins, market presence and customer service. This is a solution that works. It’s scalable, easy to use and it delivers.”

Reflecting on his experience of working with Transalis, Ian adds: “I love the working relationship with them. Their background knowledge, experience and willingness to be flexible have made this project a success. Aside from the technical aspects of file translation and so on, they understand trading relationships and the world of business including the distinct requirements of dropshipping as opposed to wholesale warehousing.

They have done everything we’ve wanted. They have embraced everything we have put their way and shown confidence that a solution could be found all the way through. You can’t ask any more than that from a service provider.”

“This has been the most exciting work I’ve done in my career, being able to apply my industry knowledge to help build a beautiful system.”



SUMMARY

Any business keen to develop dropship capabilities, whether from the retail or manufacturing point of view, can benefit from automation in a similar way to simplehuman UK.

This includes small and medium-sized businesses working in, for example, apparel, electronics or food and beverages, as well as bigger retail brands.

Senior decision-makers, including operations, finance and IT managers, can expect to make significant cost and time savings through an equivalent automation solution.

Dropship success is dependent on a good retailer-manufacturer partnership. That means excellent communication and reporting between everyone involved, all supported by a robust IT solution that enables 360° real-time insight of stock, orders, invoices and other essential information.

“Electronic data interchange, or EDI, is the glue that underpins dropship success.”

ISN'T IT TIME YOU MADE THE CHANGE?

Contact Transalis for a no-obligation free process review and you could be trading electronically within days.

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