Direct Shipping Offers Flexibility and Efficiency, Including for Canada-Bound Shipments

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Introduction

Sometimes the shortest distance between two points really is a straight line. Consider the rise in direct-to-consumer delivery solutions that are taking hold among retailers and manufacturers. While the solutions come in various forms—“drop shipping,” “direct shipping,” and hybrid approaches such as “direct ship vendor (DSV)”—the results are fundamentally the same: Shipments move directly from supplier/manufacturer to end-customer. No extra stops in a retailer’s or wholesaler’s warehouse, or time spent on a store shelf.

The benefits of a straight-line approach can be significant with faster deliveries, enhanced SKU capabilities, and overall logistics efficiency topping the list. Boeing, for example, has developed a proprietary distribution system that allows parts to be shipped to the precise location where they are needed, a critical advantage for the company’s time-sensitive manufacturing and repair processes. Previously, parts would be sent to a centralized processing facility, and then routed for end delivery.

Similarly, retail leader Nordstrom has tweaked its logistics model to allow the “selective use” of drop shipping, through which a select group of vendors ship goods directly to consumers. In a 2022 filing with the Securities and Exchange Commission the company described its use of drop shipping as an “unowned inventory model,” that provides a high degree of flexibility, and helps customers receive their products faster. The "unowned inventory" reference points to the fact that, in a drop ship scenario, retailers never take possession of, or own, the products sold to their customers. Instead, manufacturers and suppliers retain ownership, and oversee fulfillment.

While Nordstrom chooses to selectively use drop shipping services, other companies are rooted in the model. Home furnishings retailer Wayfair, until it began implementing its own internal logistics services, was a textbook example of a drop-ship company. The company has more than 20,000 suppliers and offers more than 40 million products across six websites. To manage the complicated logistics of ensuring fast deliveries to its customers, the retailer relied on a drop ship model, in which vendors maintain ownership of inventory, and oversee fulfillment to Wayfair's customers. According to Digitalcommerce360, the drop ship model allows the retailer to offer its vast assortment of SKUs. "When a shopper clicks to view 'coat racks,' for instance, she can wade through 7,284 results that range from an $11.99 Richelieu classic brass wall hook to a $1,943.28 Axor freestanding coat rack."

While drop shipping still accounts for the majority of Wayfair's shipments, the company has launched an internal logistics service, known as CastleGate. According to Company CEO and Co-Chairman Niraj Shah, roughly 25 perc ent of Wayfair volume was processed through CastleGate at the end of 2022.

A cousin to drop shipping is direct shipping. In a direct shipping situation, a manufacturer or supplier ships directly to its customers. There is no retailer or wholesaler involved. Athletic apparel and sneaker behemoth Nike has embraced a direct shipping model in recent years. In 2017 the company announced a Consumer Direct Offense strategy, in which sales would be focused on direct consumer sales, made through Nike stores, the company's website, and via shopping apps. In doing so, according to Business Insider, "Nike cut ties with thousands of mom-and-pop sporting goods stores and sneaker boutiques." The retailer did maintain relations with leaders including Foot Locker and Dick's, but with reduced product allocations.

The result? In 2023, one analyst told CNBC that direct-to-consumer sales were accounting for 27 per cent of total revenue. "Pre-pandemic that was about 9 per cent," explained Hightower Chief Investment Strategist Stephanie Link, who referred to this surge in DTC sales as "the real story" in Nike's current sales performance. Important to note though, is the "hybrid" nature of Nike's sales approach, with traditional shipments to wholesalers still accounting for the majority of sales.

Niagara Falls, Ontario

The benefits of a “hybrid” approach can be especially helpful for retailers that ship regularly to the Canadian market. This is true for eCommerce fulfillment, parts/ supplies deliveries to manufacturing facilities, deliveries of bulky or heavy SKUs, and just about every other type of shipping scenario. Cross-border shipments arrive directly from the supplier, thereby streamlining the process and avoiding a stop at a Canadian retailer, wholesaler, or centralized processing center.

As the above examples make clear, direct shipping solutions can be found across all business models, business-to-business (B2B) as well as business-to-consumer (B2C). But direct shipping solutions are are not appropriate for every scenario. A retailer or manufacturer will need to carefully consider the logistical implications of shipping direct to customers. How will a DTC strategy benefit your company and customers, and what are the potential downsides? And critically important, what about logistics and shipping considerations?

The following discussion will provide an overview of direct-to-consumer models, with an emphasis on hybrid-based Direct Ship Vendor (DSV) models for businesses with diverse shipping needs. The discussion will also highlight the importance of enlisting an experienced logistics partner to manage a DSV solution. Not every logistics provider has the required capabilities, so it is essential to understand all aspects of the DSV model, before making any commitments or signing any contracts for logistics services.

What is Direct Shipping?

What is Direct Shipping?

Direct shipping is a method of directly shipping goods from the manufacturer to the consumer, circumventing a warehouse or physical store. Any business considering a shift to a direct-to-customer strategy should understand current options, and the differences between each solution. Such an understanding will help a business determine if a direct shipping solution would be beneficial, and the best approach for its particular needs.

To start, following are descriptions of current direct-to-customer shipping models.

Drop Shipping

According to eCommerce platform provider Shopify, drop shipping is a fulfillment model in which a business, usually an online retailer, "doesn't keep the products it sells in stock. Instead, the seller purchases inventory as needed from a third party—usually a wholesaler or manufacturer—to fulfill orders."

When a customer places an order for a particular product—from the retailer's website—the order is immediately transmitted to an appropriate vendor for processing and fulfillment. Although the retailer never touches the inventory, the sale is made through the retailer's site.

Examples of drop shipping ranges from entrepreneurs operating eCommerce sites via platforms such as Shopify, Alibaba, or Amazon, to major retailers selling direct to consumers. According to RetailWire, retailers including Williams-Sonoma, Macy's, Kohl's, BestBuy, Chewy, Target and DSW, along with previously-mentioned Nordstrom and Wayfair, have all adopted drop shipping to help manage online sales. Luxury goods provider Prada, according to RetailBrew, relies on direct-to-consumer channels for 90% of sales. This includes an agreement with Net-a-Porter in which the retailer's products are listed and sold on the high-end eCommerce site. Prada owns and manages the inventory and fulfillment, while Net-a-Porter earns a commission on each sale.

Drop Shipping Benefits

The drop ship model is compelling for many reasons that, as outlined by Shopify, include:

- **Reduced startup/capital costs.** Since drop shipping does not require a business to actually own its inventory, a retailer can significantly reduce operating costs. "With the drop shipping model, you don't have to purchase a product unless you've already made the sale and have been paid by the customer," Shopify's analysis explains. "Without significant upfront inventory investments, it's possible to start drop shipping and become successful with very little money."
- **Flexibility in SKU listings.** Drop shippers are able to adjust their online product listings without having to factor in warehouse space and cost, among other issues. As such, a drop shipper can add new products, or variations of existing products, based on consumer request, or anticipated demand. A shipper can also discontinue any slow-selling SKUs, without having to worry about stockpiles of those products that might be sitting in its warehouse.
- **Flexibility in location.** Shopify also points out that a drop ship-based business can be operated from essentially any location with an internet connection. "As long as you can communicate with suppliers and provide timely service that meets customer expectations, you can run and manage your business."
- **Freedom from fulfillment and logistics responsibilities.** Drop shipping allows retailers to avoid the costly and time-consuming responsibilities of storing, fulfilling, and shipping consumer orders. Some of those responsibilities include:
  - Warehouse management and costs.
  - Order fulfillment, including shipment preparation, packaging, and labeling.
  - Shipment tracking.
  - Returns management.
  - Inventory replenishment.

- **Scalability.** Retailers can quickly adapt to surges in customer orders. However, a drop shipper will need to ensure that its supplier partners have adequate supplies of products and can accommodate peaks in consumer orders.
- **Opportunities for brand building.** Depending on the specifics of its supplier agreements, a drop shipper may be able to use branded packaging materials and include branded inserts in shipments to its customers. This helps the retailer build brand awareness, and foster relationships with customers.

Drop Shipping Downsides

While there are clearly many benefits to drop shipping, the strategy can also have some drawbacks. Following is an overview of some considerations, that must be evaluated in determining if a drop ship-based strategy is appropriate for a retailer's needs.

- **Low profit margins.** While drop shipping offers a low-cost/low-risk business model, retailers are stymied by relatively low profit margins. For one thing, pricing is very competitive, with multiple drop shippers offering identical merchandise. Online retailers must be very cognizant of price-savvy customers who will compare prices, and not hesitate to purchase from a lower-cost provider.
- **Supplier management/Inventory**. A business that relies on multiple suppliers can have difficulty keeping track of which items are in stock. This is because each supplier will have its own inventory management system, with products continually moving among its multiple retail partners. As a result, a drop shipper will have little visibility into each supplier's inventory, let alone into its overall supplier network.
- **Impact on customer experience.** Retailers and manufacturers that choose to list products on a drop ship-based website must consider the possibility of subpar customer experiences. Retailers invest considerable resources in building their brand and will want to ensure that any third-party selling its products will meet its standards for quality and service. By allowing its products to be sold by a third-party, a retailer risks a loss of control, and potentially disappointing its customers.

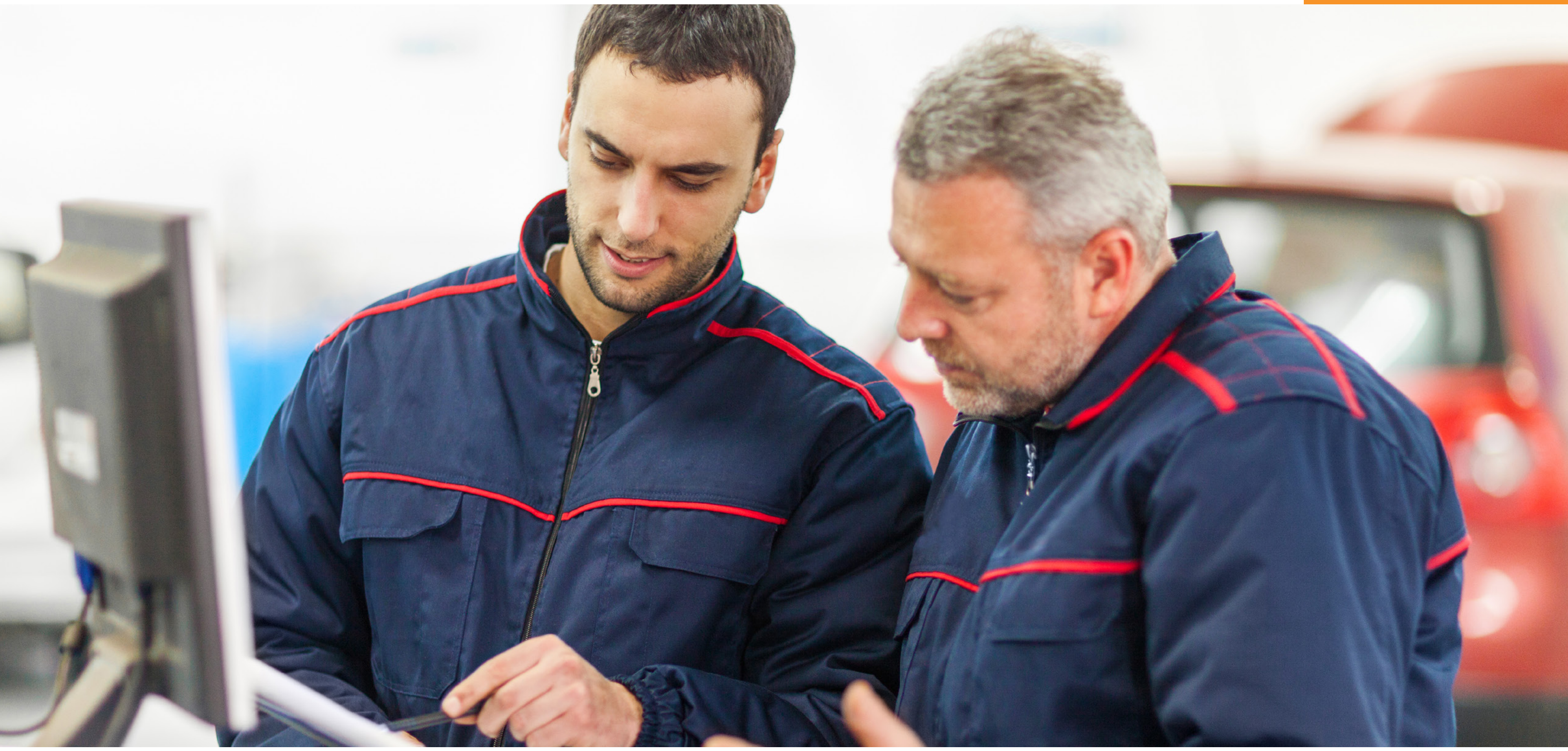
- **Logistics/Shipment efficiency.** While many drop shippers consider freedom from logistics and fulfillment responsibilities to be a benefit, it can also be a disadvantage. Consider this scenario outlined by Shopify: "Let's say a customer places an order for three items, all of which are available only from separate suppliers. You'll incur three separate shipping charges for sending each item to the customer, but it's probably not wise to pass this charge along to the customer. And even when it does make sense to include these charges, automating these drop shipment calculations can be difficult."

  In addition to the unwelcome prospect of having to sacrifice profit in order to pay multiple shipping charges, a drop shipper must enlist a logistics provider, and manage the overall shipping process. This can be an overwhelming task for businesses, many of which reflexively enlist a logistics provider without doing any due diligence. A better approach is to spend the time necessary to research various logistics providers and identify candidates that can provide viable solutions. A few considerations could include:

- Can the logistics provider minimize the need to fulfill orders using multiple shipments?
- Can the provider offer shipping efficiencies such as freight consolidation?
- What about flexibility with regard to scheduling pickups, and ensuring deliveries will meet customer needs?
- What about orders received from the Canadian market? Can the logistics provider ensure on-time, cost-efficient service to that market?

- **Supplier mistakes.** While mistakes can happen regardless of who is in charge, a drop shipper will be blamed for errors made by a supplier. While most consumers will forgive an occasional error, a drop shipper must be on guard against suppliers with high rates of missing/incorrect shipments, improper packaging, and other fulfillment-related mistakes.

With its many benefits—and despite its downsides—drop shipping has become an increasingly popular option. For many, it's a win-win opportunity. Established brands take advantage of opportunities to offer products direct to consumers, while drop shippers expand inventory offerings without having to actually hold inventory for the products they sell. The model is not suitable for all scenarios though, which may be suited to a direct shipping, or hybrid approach, as discussed below.



Direct Shipping

Direct shipping refers to instances in which a manufacturer or supplier ships a product directly to an end consumer, with no physical store or wholesaler involved. "Shipping directly differs from drop shipping, in which goods are sold by a third-party retailer online and shipped by the supplier" explains an overview by AirHouse.

With direct shipping, the analysis continues, products can be sold to customers "without having to secure and maintain a physical retail shop or sell wholesale to retailers." For businesses that already have a physical presence, direct shipping eliminates the need to maintain large inventories of each product, including full arrays of sizing, color, and other product configurations.

Certain companies were designed around a direct shipping model. Warby Parker (eyeglasses), Dollar Shave Club and Harry's (razors), Casper (mattresses), Peloton (indoor bicycles and treadmills), Bonobos (men's apparel), Quip (electric toothbrushes), Farmer's Dog (pet food), and Away (luggage) are among the DTC companies often considered "disruptors" in their brand categories because of their potential "to change or entirely displace existing companies and industries," as defined by Fidelity.

Many B2B companies have also implemented direct shipping strategies, especially as eCommerce has taken hold among business buyers. Market research firm Forrester predicts B2B eCommerce will reach $3 trillion and account for 24 per cent of total B2B sales by 2027. Previously, as reported by Industrial Distribution, B2B eCommerce was valued at $1.7 trillion during 2021, and accounted for 16 per cent of the overall market.

In adopting direct shipping strategies, companies eliminate the traditional role of the distributor, and engage directly with their customers. This, Industrial Distribution analysis notes, can result in enhanced relationships and increased sales, and allow manufacturers to provide products at reduced costs. At the same time though, bypassing a distributor will mean foregoing the many services they provide, including access to retailer networks for product placement, inventory management, and logistics management. Since these are significant benefits, a business will need to carefully weigh all aspects of a direct-to-customer strategy.

Direct Shipping Benefits

- **Expedited fulfillment.** Since products do not pass through a third party, the fulfillment process is much quicker. Products are picked up directly from the manufacturer or supplier and move directly to the end customer. This can be especially helpful for shipments destined for the Canadian market which, depending on the logistics provider, may move directly to the border via a direct linehaul. In many cases, a direct ship solution can help cross-border shipments shave days from their transit cycles, largely by avoiding unneeded distribution center stopovers.
- **Improved customer relations.** Engaging directly with customers offers a significant opportunity for companies to build relationships, gain important feedback and instill loyalty. When Nike announced its Consumer Direct Offense strategy in 2017, the company cited key goals of "moving even closer to the consumer," and "deepening one-to-one connections." Among its core initiatives, the company committed to "cutting the cycle times in half" for product creation and fulfillment.
- **Cost Savings.** Businesses that sell direct to consumers are often able to offer products at reduced prices. This is because, as Dirk Hoerig, co-founder and CEO of commercetools told Forbes, "the DTC model lets brands lower their prices by cutting out the middleman, whether it's a wholesaler or a marketplace, and eliminating associated facilitator costs." Direct shippers can also avoid the costs of brick-and-mortar retail locations, choosing instead to locate products in facilities located in cost-effective geographic areas.
- **Security/Damage.** Direct shipments experience fewer touches than traditional shipments, which reduces the risk of damage and theft.
- **Improved logistics oversight.** Direct shipping allows companies greater control over the logistics process. This includes direct involvement in determining which logistics provider to use, and visibility into the provider's performance.

Consider the example of a U.S. manufacturer that produces parts for charter bus fleets, including fleets located throughout Canada. The manufacturer noticed that parts were regularly arriving in Canada late, and missing delivery targets. The delays had gotten so bad, that one fleet owner was forced to pull some vehicles off the road.

The manufacturer questioned its logistics provider about the delays, only to learn that the company was locked into a rigid pickup and delivery schedule, and unable to offer any relief. Faced with few alternatives, the parts manufacturer took control, and was able to locate an experienced logistics provider that could offer the flexibility and cross-border capabilities that were needed. In fact, its new, "replacement" logistics provider has exceeded the manufacturer's expectations and validated its decision to implement a direct shipping strategy.

Direct Shipping Downsides

- **Shipment Volume/Logistics Efficiencies.** A manufacturer that decides to fill customer orders directly from its own facility may face excessive shipping costs and truck accessibility, depending on volume. Customer orders that are not sufficient to fill an entire truck may necessitate holding a shipment until additional orders are received. This of course will delay delivery, and disappoint customers. If such a scenario is likely, a business should be careful to only offer direct shipping for high-volume SKUs that can mitigate the cost. Another option is to enlist a logistics provider that can offer a consolidation-based solution in which a manufacturer's shipments can be combined with other shipments, and qualify for a reduced shipping rate.
- **Fulfillment/Logistics Responsibilities.** Direct-to-consumer companies assume overall responsibility for fulfillment and shipping. While media reports abound of startup entrepreneurs filling customer orders from garages or living rooms, the task can quickly become overwhelming. Most companies will enlist a logistics company to manage these critical tasks, but a DTC company must determine its policies and practices with regard to shipping practices. This includes, of course, whether to offer free shipping, and how to determine an ideal delivery window. Most DTC companies do not have the resources to match Amazon and Walmart with regard to free and fast deliveries. "I know for a fact that some of them [DTC companies] have regret," Santiago Gallino, professor of operations, information and decision at the University of Pennsylvania's Wharton School of Business told Retail Dive. "Some direct-to-consumer brands have been starting with some very generous policies in terms of delivery and returns because it's a great tool to acquire a customer. But then as you grow, it can become very costly to maintain and to keep that promise."

  As such, a business will need to carefully consider how to handle this situation such that shipping does not become a drain on revenues, but also does not alienate customers.

- **Returns.** Direct shippers will also find themselves on the receiving end of customer returns, since no retailer or distributor will be in place to act as intermediary. This can be especially overwhelming for apparel companies which must contend with consumers who regularly order multiple versions of the same product—a practice known as "bracketing"—with the intention of only keeping one item and returning the others. As reported by Retail Dive, research by Navar found 62 per cent of online consumers admit to being "bracketers"—a 50 per cent increase in just three years.

  A business will need to develop a plan for managing returns. This includes both a customer-focused plan and a logistics strategy.

  - Customer considerations will include whether to offer free returns shipping, include returns materials in the outgoing packaging, and a process for ensuring fast returns processing.
  - Logistics issues will include fundamental considerations including where to store returns, how to process them, and what to do with them. This again is an area that can be managed by an experienced logistics provider. A qualified provider will quickly take control of the entire process and develop a plan for transporting returns to a designated facility, evaluating each return and recommending the most viable option for each product. In many cases, for example, returns are undamaged and can be returned to inventory. Other times a product can be repaired and sold on a secondary market, while in other instances, it makes sense to discard the item.

Hybrid Solution—Direct-Ship Vendor (DSV)

The drop-and-direct ship models serve as the basis for "hybrid" solutions that certain retailers and businesses adapt to fit their specific needs. The "direct-ship vendor" (DSV) model, for example, recognizes that some SKUs can be better managed via an internal fulfillment process, but that other products would benefit from a direct-to-customer strategy. For example, retailers such as Walmart or Target, might find greater efficiency sourcing smaller products internally, while relying on manufacturers or suppliers for direct shipment of larger products such as furniture or tires.

- **Consider Walmart.** The retail giant lists an astonishing 400 million SKUs on its website, sourced from more than 100,000 suppliers. To manage this complex supply chain, explains third-party Walmart supplier manager 8th & Walton, the retailer offers three primary ways to sell and ship. Walmart determines which option each supplier will use. The three selling methods include:
- **Walmart Warehouse Supplier Program.** Online suppliers can be approved to use Walmart warehouses. Products are shipped to a Walmart facility and stored there until sold. Shipping is managed and paid for by Walmart, with products fulfilled directly from the company's facility.
- **Walmart marketplace.** This is essentially a drop shipping option. Vendors—especially smaller vendors—receive approval to list their items on Walmart.com. However, each vendor is responsible for storing its products, and for managing the fulfillment and shipping processes, including covering costs.
- **Drop Ship Vendor Program.** Walmart's drop ship vendor program is available to select vendors that are invited to participate, and that meet rigid program requirements. In general, a business must be a high-volume seller, be a category leader, and maintain established fulfillment and distribution networks. DSV candidates undergo a thorough screening and once approved, can ship products directly to Walmart customers. Products are shipped with a Walmart packing slip, with Walmart covering the shipping costs.

The DSV program provides key benefits to Walmart that include:

- The retailer avoids having to warehouse and manage inventory for certain items. Items considered top candidates for the DSV program include fast sellers that, if located in a traditional warehouse would need frequent replenishment, along with oversized or bulky items including furniture and televisions.
- The vendor assumes responsibility for overseeing fulfillment and logistics, albeit under Walmart's supervision.
- All products are sold under the Walmart brand, with consumers interacting with the retailer directly.

Another example of a hybrid-direct-ship approach is the strategy adopted by Macy's. The retailer, in conjunction with its affiliate Bloomingdales, implemented a "Vendor Direct-to-Consumer" program in 2018 that relies on vendors for direct fulfillment of select products. As described in the program's operating manual: *The Vendor Direct Fulfillment (VDF) program allows the retailer to provide customers with a vast number of products not normally carried by either brick-and-mortar or online stores. The items made available via VDF include odd sizes, unique colors, and secondary assortments.*

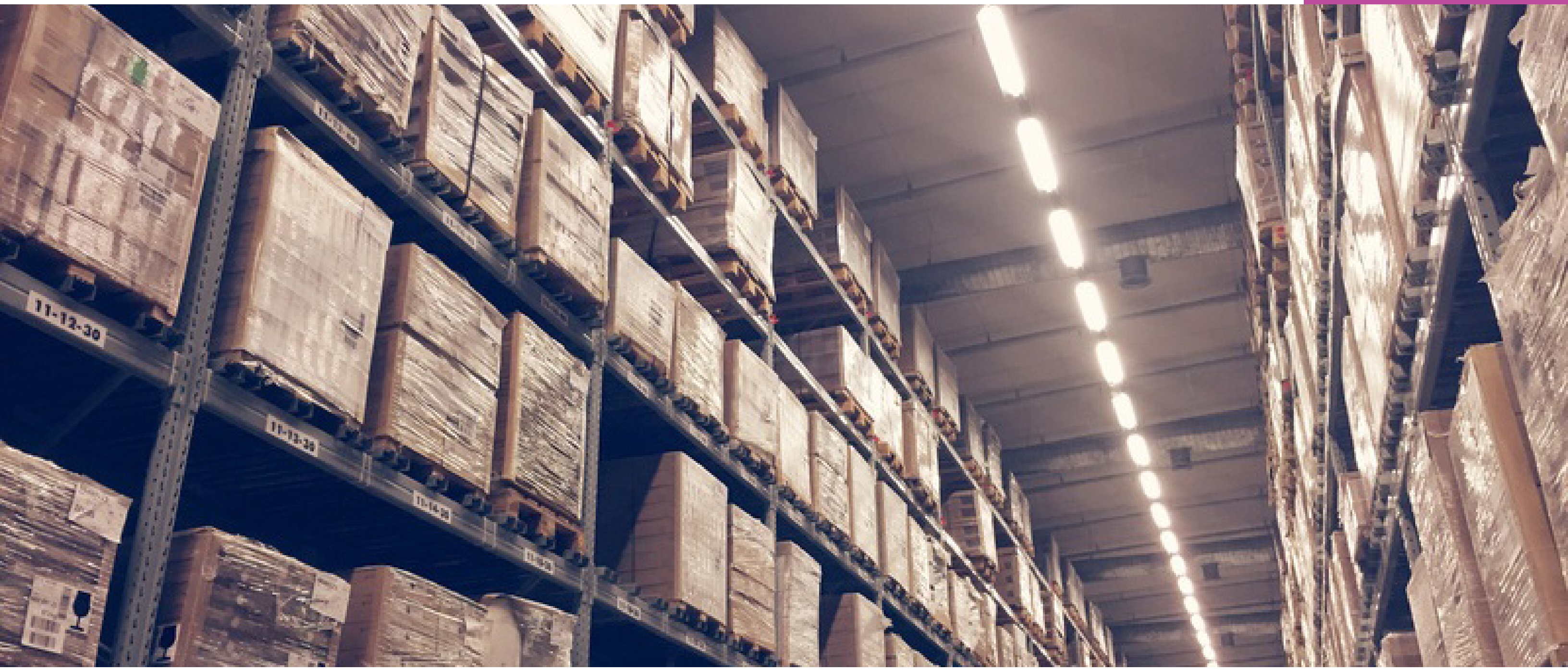
Within the first six months of launching the program, Macy's doubled the number of products offered on its website. By 2020 the number of SKUs managed through the VDF program reached 1 million, and in 2023, the retailer reported that Vendor Direct SKUs accounted for 21 per cent of total sales.

DSV Benefits

As the Macy's and Walmart examples makes clear, hybrid DSV fulfillment models can offer significant benefits which include:

- **Reduced inventory and warehouse costs.** Since the vendor maintains products, a retailer can significantly reduce inventory and associated warehousing costs. Not having to invest in inventory can help a retailer address what has traditionally been one of the biggest pain points—excess inventory that has to be sold at extremely discounted prices.
- **Ability to increase SKU listings.** The DSV model allows retailers to expand website product offerings without having to maintain inventory. The retailer can add items simply by listing them on its website and linking to the appropriate vendor.
- **Greater control over product listings.** In addition to easily adding SKUs, a retailer will have the flexibility to quickly remove slow-moving items that fail to gain traction with consumers. Since the retailer presumably holds no inventory for these items, there is no financial loss, or risk of being left with quantities of unsold merchandise.
- **Faster deliveries to consumers.** The DSV model removes the retailer from the distribution process, which streamlines the delivery cycle. Products move directly from the vendor/supplier to their end-destination, which usually eliminates a stopover at a retailer's distribution center.
- **Facilitated handling for large, agile products.** Retailers that offer products that are large and/or heavy can avoid having to involve themselves in the extra care required to store and ship such products. This is also true for retailers that offer computer equipment, or products that are fragile or require special handling such as temperature-controlled storage, or extra security.
- **Retailer is removed from the fulfillment process.** By allowing a vendor to ship products directly, a retailer can eliminate the added costs and responsibility for managing the fulfillment process. Instead, the process is shifted to the product's vendor, with careful management by a qualified logistics provider.

How does a Direct-Ship Vendor Solution Work?



How does a Direct-Ship Vendor Solution Work?

A direct-ship vendor solution, in which a retailer owns some of its inventory, is essentially a hybrid of a traditional drop-ship model, in which the retailer holds no inventory. In a DSV solution, a retailer only off-loads fulfillment for certain products and vendors.

A "typical" DSV solution would normally follow a fairly straightforward process that includes the following steps:

- Retailer identifies products to list on its website.
- Logistics provider reviews that product listing and determines SKUs and vendors that would benefit from a DSV solution. This includes a careful analysis of each vendor's volume, along with product characteristics to determine whether or not a DSV solution would be cost efficient.
- Logistics provider works with each vendor/supplier to integrate technology systems, create fulfillment infrastructure, and identify optimal shipping strategy.
- Consumer places order.
- Order is immediately transmitted to vendor for fulfillment.
- Logistics provider picks up consumer's shipment and ensures on-time delivery.

Shipments to Canada will include additional consideration that includes:

- Logistics provider will ensure full compliance with all Canada Border Services Agency (CBSA) documentation requirements. All documents will be pre-filed in advance of the shipment's arrival at the border.
- Once in Canada, logistics provider will ensure seamless integration into a Canadian distribution network, and final delivery to Canadian end-destination.

It's easy to see then, while the concept of "direct delivery" would seem to be very straightforward, advance planning and logistics capabilities are integral to successful execution.

DSV Solutions—Special Considerations

While the direct-ship vendor model clearly offers significant benefits and opportunities for retailers, careful consideration must be given to all potential downsides. A few considerations include:

- **Loss of control.** Many retailers are reluctant to relinquish control over any aspect of their operations, especially processes that directly affect customer relationships. By transferring fulfillment to a third party, retailers lose the ability to control inventory, along with fulfillment and shipping processes. As much as removing themselves from these processes can be beneficial, retailers must have confidence its suppliers will fulfill customer orders in a timely manner.
- **Inventory allocation.** Will the vendor be willing to reserve a certain volume of inventory for your customers, or does it operate on a first-come/first-served model? In some instances, unless a retailer can commit to a certain volume, a supplier may be reluctant to allocate stock. This in turn could result in a product being listed on a retailer's website when in fact, it is unavailable. This can be remedied either by:
    - Real-time inventory tracking that will alert consumers when product level is low, or when a product is out of stock.
    - Reaching an agreement with the vendor for specific product allocations.

  Important to note, not even retail giant Amazon is immune to the risk of inventory shortfalls. In its 2022 10-K filing with the Securities and Exchange Commission, the company cited "supplier relationships" as a risk factor. "We do not have long-term arrangements with most of our suppliers to guarantee availability of merchandise, content, components, or services, particular payment terms, or the extension of credit limits. If our current suppliers were to stop selling or licensing merchandise, content, components, or services to us on acceptable terms, or delay delivery..., we may be unable to procure alternatives from other suppliers in a timely and efficient manner and on acceptable terms, or at all."
- **Customer experience.** At a time when customer experience has emerged as a critical competitive differentiator, a retailer must ensure that any supplier entrusted to fulfill customer orders prioritizes customer service, and the need to make good on promises to customers. For example, a retailer that encounters an unexpected glitch in meeting a delivery deadline might aggressively seek out alternatives, included elevating the delivery to express service. But would a supplier share that same sense of urgency?
- **Need for real-time visibility.** Retailers that enlist multiple vendors to fulfill different product offerings will essentially face the need for visibility into each vendor's inventory. This will require integration with each vendor's inventory system, and the ability to post real-time updates to the retailer's website should a product become temporarily unavailable.

- **Consistency of service.** A retailer works hard to develop its "brand," so a customer can expect the same product selection, packaging, pricing and customer service whether buying in-store or online. But once products leave the retailer's chain of custody, there is a heightened risk for a breakdown in quality standards. Will vendor-shipped packages bear the retailer's logo, for example, or the vendor's? Will a vendor be able to meet a retailer's promise of delivery within a specified timeframe, and what types of customer service will be offered?

  Many retailers publish "vendor fulfillment guides," which set clear standards for performance. Walmart, for example, advises that "orders must be shipped in non-branded packaging and can't include materials from any company other than Walmart." Similarly, Best Buy directs that "vendor will package product(s) in a manner that prevents in-transit damage," and that "vendor will comply with all Best Buy branding standards," with all inserts subject to written prior approval. While a fulfillment guide can certainly be an effective way to document a retailer's preferences, it can be difficult to enforce those standards once the retailer is removed from the actual fulfillment process.

- **Last Mile Services.** "Last mile" service refers to the final stages of the delivery process and is regarded as the most critical part of the entire cycle. A customer can look at a tracking status and see that a package is "out for delivery," but still be disappointed should that package take several hours to finally appear. Additional concerns include packages left unprotected in inclement weather, packages that arrive in damaged cartons, and products in need of special services such as installation or that require an inside delivery, among many other considerations.

  Retailers are generally able to control last mile deliveries by enlisting capable logistics providers that understand their priorities and prioritize their delivery requirements. But once the retailer shifts fulfillment to the vendor, there is a risk for a deterioration in last mile services. Which is why a retailer needs to proactively ensure that a vendor's logistics strategy prioritizes guaranteed, high-quality last mile services.

Clearly, a retailer must have eyes wide open in considering whether or not to outsource fulfillment to a vendor. As a retailer considers implementing a DSV model, it quickly becomes apparent that a key factor will be a top-notch logistics strategy. And that, of course, will depend on the choice of logistics partner.

Logistics Efficiency is Vital—Partner with Care!

Logistics Efficiency is Vital—Partner with Care!

A retailer interested in a direct-ship model will need to enlist a logistics provider with the necessary experience, capabilities and experience. As the retailer will soon learn, their logistics provider will be critical to building—and executing—a successful DSV model.

Therefore, a retailer must have full confidence in its choice of logistics provider, and that begins with a thorough review of a company's capabilities before any agreements are signed. Key competencies to look for in a DSV logistics provider include:

- **Comprehensive Management/Coordination Capabilities.** A qualified logistics provider must be able to seamlessly manage shipments from multiple vendors, located in multiple geographic locations. This includes the ability to work with each vendor to oversee a seamless onboarding, determine ideal shipping solutions, oversee fulfillment, provide meticulous recordkeeping and ensure on-time customer deliveries.
- **Flexibility.** An experienced logistics provider must have ready access to the distribution network required for a complex DSV strategy. This includes access to extensive resources that can be easily tapped into and folded into a comprehensive strategy. In many instances this means relying on a non-asset-based provider, that does not own its own fleets or warehouses. Instead, a non-asset provider takes a "big picture" view of available options and identifies the best option for a particular customer. Non-asset providers are generally able to offer more flexible options than providers that are locked-in to using their own vehicles and routes.
- **Broad geographic reach.** Since a DSV solution will have many moving parts, it's essential that a logistics provider is able to guarantee service to a retailer's entire customer base, regardless of location. This means having a comprehensive distribution network throughout the United States, and even coverage for international shipments (see below for an overview of Canadian distribution requirements).

Logistics providers without access to a comprehensive network are often forced to transfer shipments mid-route to another provider. Not only does this add time to an already tight delivery schedule, but it also increases the risk of damage, and loss of visibility.

- **Consolidation Services.** ECommerce shipments, which tend to be small in size and large in volume, are generally ideal beneficiaries of consolidation services. Through consolidation, smaller shipments are combined into one larger unit as a way to reduce freight costs and, if applicable, facilitate the international customs clearance process. As significant as consolidation can be, not every logistics provider has the necessary capabilities, so it's important to determine if a company can provide this service before entering into an agreement.
- **Technology-based.** Technology is critically important to a DSV solution, so a logistics provider must have a high degree of IT capabilities and competence. Among the technology-based services to look for in a logistics partner:
    - Ability to seamlessly integrate with vendor and retailer systems. This will ensure that customer orders are routed to the appropriate vendor, and facilitate all aspects of the fulfillment process including label generation, tracking and reporting.
    - Ability to route and manage customer orders that involve multiple vendors.
    - Real-time updates that reflect inventory status across all vendors.
    - Ability to provide real-time tracking capabilities to consumers.
    - Comprehensive records management.
- **Scalability.** Since many products are subject to demand peaks-and -valleys, it follows that retailers' logistics needs will fluctuate. Make sure your logistics provider recognizes the need for a scalable solution that ensures full coverage during peak demand but will not penalize you during less-busy periods.
- **Innovation.** The direct-ship vendor model is a fairly new concept, that was developed in response to the surge in eCommerce shipments. As eCommerce continues to evolve, so too must logistics capabilities. Therefore, a retailer must be sure to enlist a logistics partner that keeps pace with current technology, and that actively works to identify new and better solutions. You want a partner that is invested in your success and understands that retailers that settle for the status quo will be left behind.
- **Returns Management.** A DSV solution must also recognize the inevitable return of a significant volume of sales, and the importance of having a customer-friendly process in place to ensure a fast, hassle-free process. Make sure your logistics provider has the capability to implement and manage a plan that facilitates the process for customers, but also allows retailers to easily add undamaged products back to inventory.
- **Customer Service.** For a direct-to-customer model to work, your logistics provider must take seriously your commitment to your customers. A good logistics provider will have staff dedicated to your business, who understands your objectives, and who can advise how best to meet those goals. Equally important, that customer service representative must be easily accessible should something go awry, or a last-minute change become necessary.

DSV—Added Efficiency for Canada-Bound Shipments

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The lack of fast, direct cross-border service is often cited as a pain point for U.S. businesses looking to expand to the Canadian market. Shipments can take days longer to reach their Canadian destination than expected. In addition, shipments are often transferred to local carriers once across the border since Canadian carriers generally limit service to a specific geographic region. Sometimes shipments are transferred multiple times, which extends transit time and increases the risk of damage or theft. These logistics-related obstacles present significant challenges for U.S. businesses, putting them at a competitive disadvantage with Canadian companies, and increasing the complexity of operating in the Canadian market.

Which is why, for many cross-border shippers, DSV solutions are ideal. Shipments that move directly from supplier/manufacturer to end-customer eliminate unnecessary stops at retailer stores and/or warehouses, and enjoy a more streamlined, more logical distribution process.

However, logistics are critically important for success in the Canadian market. A U.S. business must ensure its logistics partner has the required capabilities and expertise to execute a DSV solution. As the following overview will make clear, Purolator International has been the preferred choice for many U.S. businesses because of its unique offerings throughout both the United States and Canada.

Purolator International—Extensive Capabilities for Canadian DSV Solutions

A Purolator-managed DSV solution will generally allow Canadian consumers to receive their U.S.-based shipments faster than through a traditional retailer-fulfillment model. Key components of a Purolator-managed DSV solution include:

- U.S. vendors are identified that would benefit from a direct-to-consumer model. This may include vendors that sell hard-to-transport items that may be heavy or bulky, or vendors that sell an especially large volume of goods to a retailer's customers.
- Once appropriate vendors are identified, Purolator works with each to develop an appropriate shipping schedule. Purolator ensures that all vendors meet the retailer's requirements for packaging, labeling and other shipment protocols.
- Each vendor's shipments are picked up by Purolator, consolidated for efficiency, and transported directly to the border. In some instances, shipments arrive at the border on the same day they are picked up.
- Shipments arrive at the border with all documentation pre-filed and pass through customs with minimal delays.
- Shipments are then inducted into Purolator's extensive Canadian distribution network. Once in Canada, shipments are broken down, sorted, and loaded for direct freight or parcel delivery.
- Shipments are delivered directly to the retailer's customers, who may be located anywhere in Canada. Since all shipments are made via Purolator, a retailer can be assured that its high standards for quality and on-time deliveries are maintained.

Purolator—Unmatched Capabilities for U.S. Retailers that Ship to Canada

Purolator leverages its extensive U.S. network with its comprehensive Canadian capabilities to provide seamless management of DSV solutions for Canada-bound shipments.

- Direct service to the Canadian border. Because Purolator International is a non-asset-based company, it has the flexibility to build a logistics solution that best fits a customer's specific needs. This highly customized approach has several important benefits:
    - Shipments travel via linehaul direct to the border, with no additional pickups or distribution center stopovers.
    - Courier and freight shipments are picked up at the same time, consolidated, and then travel on the same truck to the border.
    - In some instances, a Purolator shipment will arrive at the border on the same day it is picked up.
- Consolidation efficiencies. Because of its non-asset status, Purolator International is able to offer significant—and important—consolidation services that include:
    - Ability to pick up freight and courier shipments at the same time, and move combined shipments to the border on the same truck. This can eliminate the requirement by some providers for separate freight and parcel pickups.
    - Consolidated shipments can generally qualify for reduced freight rates.
    - Consolidated shipments pass through customs as a single entry. This can help manage paperwork/filing requirements, and significantly reduce customs processing fees.
- Seamless customs clearance. Prior to pick up, Purolator's service experts ensure that all required customs documentation has been pre-filed with CBSA, and that no information has been overlooked. By taking this extra step, Purolator is able to minimize the risk of a shipment being delayed at the border.
- Affiliation with Canada's largest integrated freight and courier delivery provider. Purolator International is the U.S. subsidiary of Ontario-based Purolator Inc, which is Canada's leading provider of integrated freight and courier delivery services. Through this affiliation, Purolator International has access to one of Canada's most extensive distribution networks, which ensures seamless service to all Canadian provinces and territories.

As this overview makes clear, a well-managed DSV solution can be highly beneficial for a retailer that ships regularly to the Canadian market. But, since logistics are integral to any DSV solution's success, it is essential to ensure that a potential logistics partner has documented experience and capabilities in the Canadian market.

Conclusion

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Although direct-to-consumer solutions date back at least to the late-19th century, when Aaron Montgomery Ward first implemented a process for helping farmers avoid having to pay "middlemen" for supplies, the model has gained in popularity in recent years, with the explosive growth of eCommerce. And the direct-to-consumer model continues to evolve.

Indeed, many companies have found significant success in allowing third parties to directly fulfill customer orders. Others have relied solely on direct sales to customers, while still others find that a hybrid approach works best, in which only select items are fulfilled by vendors.

These different experiences illustrate the need for any company—regardless of size or scope—to carefully consider the pros and cons of a direct-to-consumer fulfillment model. In doing so, a retailer will quickly understand the critical importance of logistics, and flawless execution. Handled with an experienced, capable logistics partner, a direct fulfillment strategy can be a highly effective way to speed deliveries to customers, without the headaches of inventory management and fulfillment.

Integrating a DSV solution is a lot more manageable with an experienced partner like Purolator on your team.

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Resources

Resources

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