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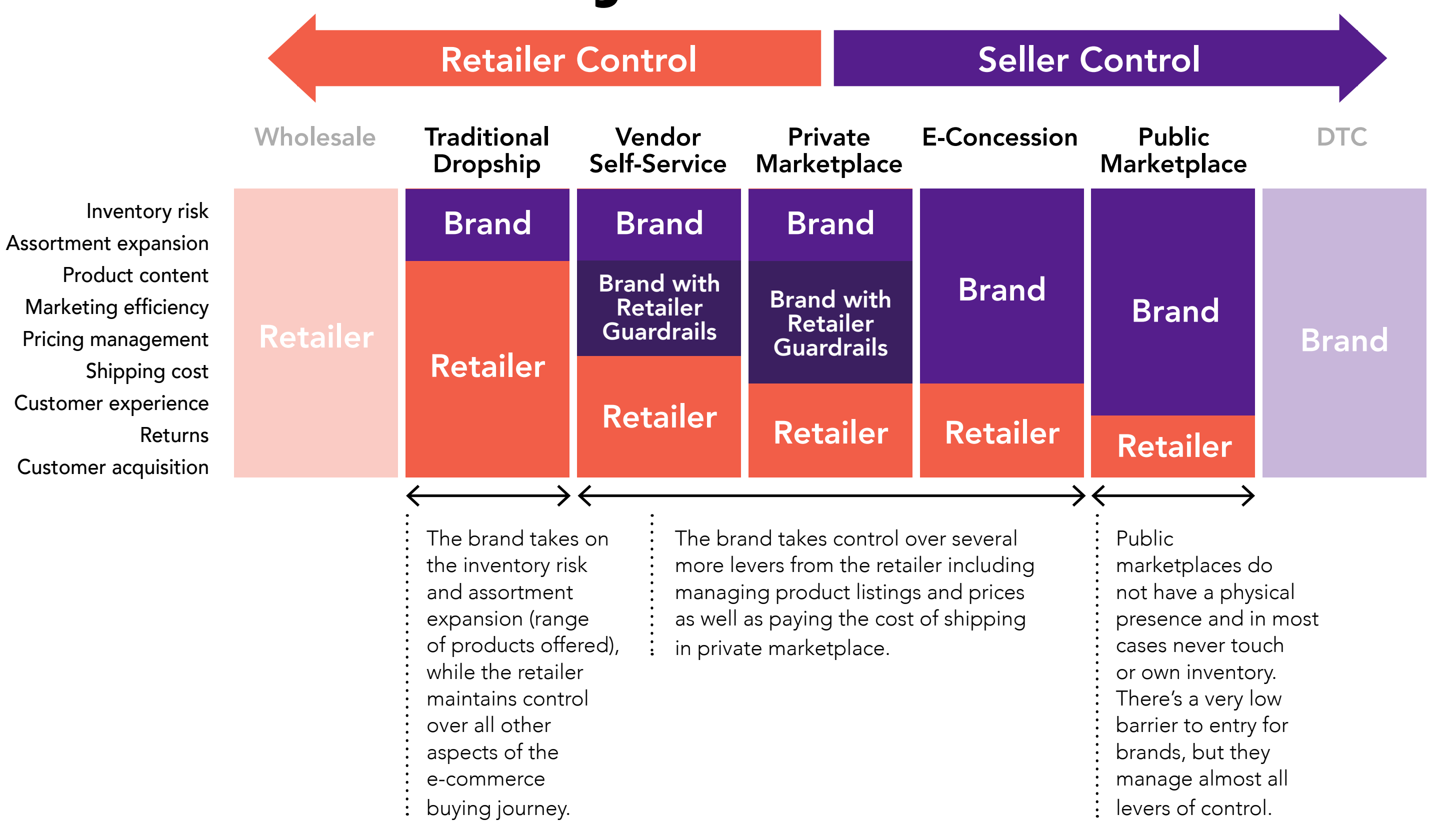
How Retailers Can Drive Growth with Dropship and Private Marketplace

With the global e-commerce market expected to grow at a compounded annual growth rate of 8.99% in the United States and 9.09% in Europe from 2024 to 2030, it's clear there is no time for retailers to slow down. Consumers have higher standards when it comes to shopping online than ever before, and 83% of shoppers visit two or more sites before making a purchase. So, how are the best retailers capitalizing on this growth and winning the e-commerce game today? Third-party (3P) commerce.

3P commerce offers several different options for retailers. How can retailers find the best model(s) that align with their business strategy to manage unowned inventory while balancing risk? We'll dive deeper into two of the 3P business models. But first, let's look at the entire e-commerce landscape to better understand how retailing has changed over the last two decades.

How retailer and brand relationships change in 3P business models



Historically, retail was traditional brick-and-mortar, which relied on wholesale and purchasing of inventory in bulk. The rise of the internet and e-commerce in the late 1990s and early 2000s allowed brands a lower barrier to entry to attract shoppers by offering direct-to-consumer shopping experiences through their own websites, providing them access to reach even more consumers.

Depending on the 3P model, there are different levers of control between the retailer and the brand. As seen in the chart on the previous page, who controls these elements is shifted between the retailer and the brand depending on the 3P model. These levers of control include:

- Inventory risk: Who holds and manages inventory
- Assortment expansion: Adding new products and categories
- Product content and listing attributes: Product image, title, description, etc.
- Who sets the product prices
- Who pays the cost of shipping
- Who manages customer care and returns

Types of 3P business models

With **traditional dropship,** the brand takes on the inventory risk and assortment expansion, while the retailer maintains control over all other aspects of the e-commerce buying journey.

Moving into the **vendor self-service** and **private marketplace** models, the brand takes control over several more of those levers from the retailer. This includes managing the product listings and prices as well as paying the cost of shipping in a private marketplace. A private marketplace is a retail business model that allows select, invited sellers to join and sell goods to a consumer on a retailer's website.

Public marketplaces (eBay, Etsy, etc.) are for the most part platform businesses. They do not have a physical presence and serve primarily as a destination to connect buyers and sellers and in most cases, never touch or own inventory. There's a very low barrier to entry for brands, but they manage almost all levers of control.

As retailers navigate the e-commerce landscape today, they are figuring out how to include these newer 3P models in their business strategy. Now, we'll dive deeper into two of the most common models: **dropship and private marketplace.**

What is Dropship?

With dropship, the retailer doesn't hold or manage inventory of the products they sell. Instead, they partner with a supplier or brand that stocks inventory and ships products directly to customers on their behalf.

Here's an overview of what happens when a dropship product is purchased from a retailer's website:

DROPSHIP

1. **Customer purchases from retailer**
   Customer buys product from the retailer's website. In this scenario, customers are usually unaware that a 3P supplier will be packing and shipping their purchase.

2. **Retailer sends purchase order to supplier via Rithum**
   The retailer forwards the order and a purchase order (PO) to the supplier. This is typically done through a commerce platform like Rithum.

3. **Supplier ships to customer**
   The retailer forwards the order and a PO to the supplier, typically through a commerce platform like Rithum.

4. **Supplier invoices retailer**
   The supplier invoices the retailer for the PO.

The main benefits of a dropship retail model are:

- **Increased flexibility** to easily add new products and suppliers.
- **Reduced financial risk** since retailers only pay for products they sell.
- **No inventory management,** reducing the complexity of stock management and storage costs.

Despite the many benefits of a dropship program, there are some challenges as well:

- **Lower profit margins** than owned inventory since retailers aren't buying in bulk.
- **Less control of the customer experience** with inventory and shipping managed by suppliers.
- **Operating costs remain high** to find products, negotiate contracts and manage customer support.

These challenges have paved the way for the popularity of private marketplaces.

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What are Private Marketplaces?

The private marketplace business model, sometimes referred to as a curated marketplace, is a retail business model that allows select, invited sellers to join and sell goods to a consumer on a retailer's website.

Here's an overview of what happens when a private marketplace product is purchased from a retailer's website:

PRIVATE MARKETPLACE

1. **Customer purchases from retailer**
   Customer buys product from the retailer's website. These items are typically marked indicating they are sold by a 3P seller.

2. **Retailer sends PO to supplier via Rithum**
   The retailer sends the supplier a sales order. This is typically done through a commerce platform like Rithum.

3. **Supplier ships to customer**
   The supplier packages and ships the product directly to the customer. The supplier covers the shipping cost.

4. **Order is journaled in settlement report**
   No further action is needed from the supplier. Once they've provided tracking information, the retailer's commission is calculated and deducted from the final sale amount. The amount owed to the supplier is journaled in the settlement report.

The main benefits of a private marketplace retail model are:

- **Delegate costly operating activities** required in a dropship model to suppliers including merchandising, pricing, shipping costs, customer support and returns.
- **Increased scalability** with the option to set global seller terms and conditions, eliminating the need for individual supplier negotiations.
- **Test new vendors and products** outside of the typical product catalog to better understand customer appetite for new categories.

Although the private marketplace retail model addresses many of the challenges faced in the dropship retail model, it's not without its own challenges:

- **Retailers pass along a larger percentage of their final sale** by only taking a commission of a marketplace sale; retailer commissions are generally around 15-20%.
- **It's common to see increased shipping restrictions** or more shipping methods because suppliers pay for shipping in the marketplace model. This has the potential to deter buyers.
- **Dependence on established supplier relationships** can impact the quality and reliability of product offerings.

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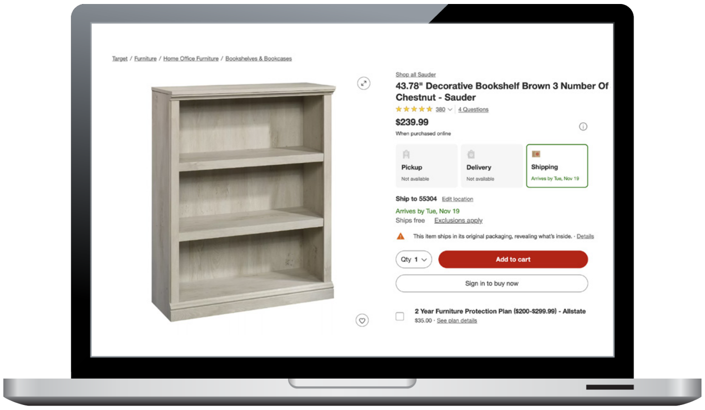
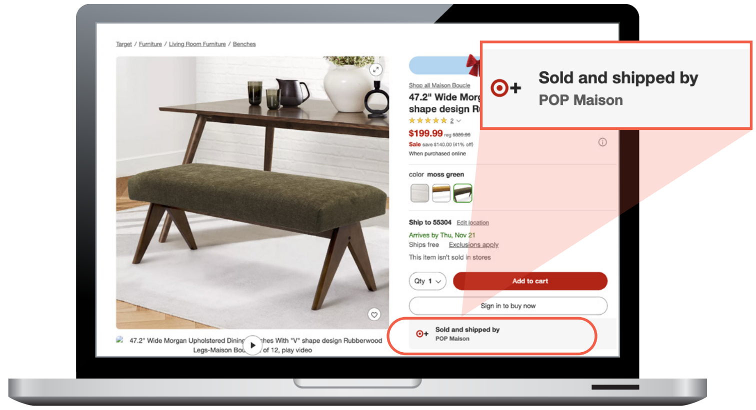
Dropship vs. Private Marketplace examples

DROPSHIP



Dropship items are generally indistinguishable from a retailer's owned inventory

PRIVATE MARKETPLACE



Retailers usually note in some way that the item is a marketplace item or is sold and shipped by a 3P seller

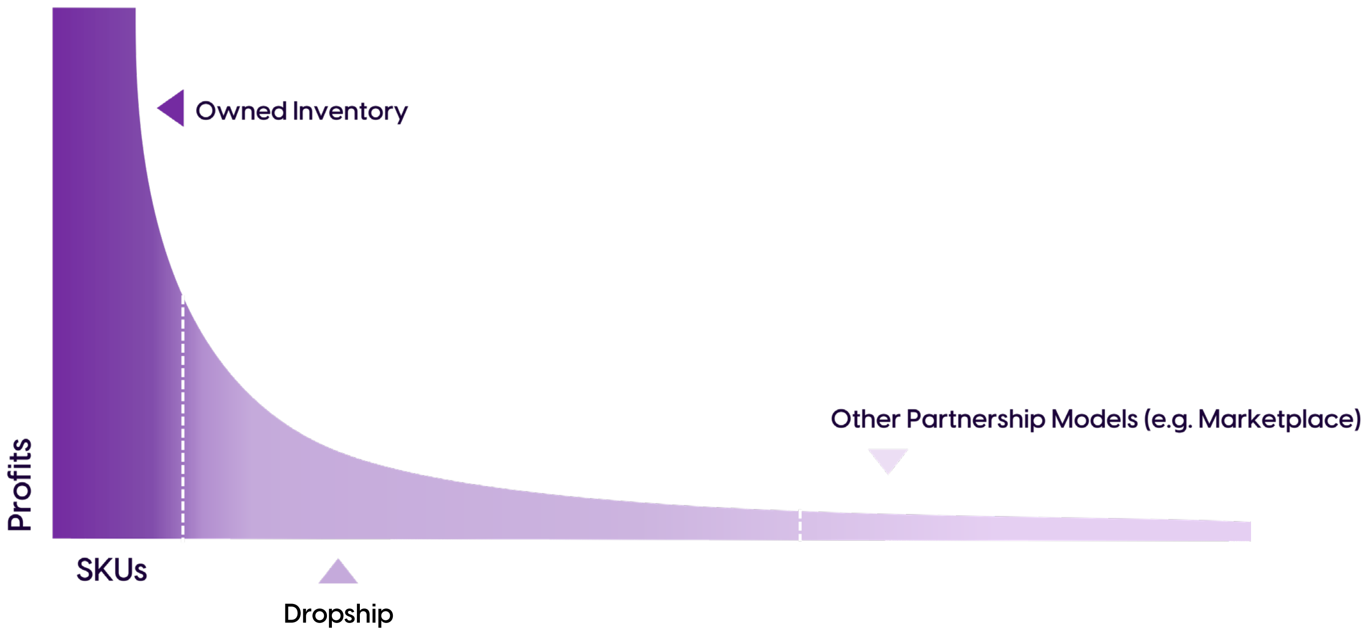
Which model is right for your business? (Hint, it's probably both.)

The benefit of dropship and private marketplace retail models are it's not an either/or decision. You can effectively – and efficiently – appeal to consumers shopping online by using both models. Leveraging dropship is a great way to start building out your 3P selling program to offer a wider variety of products without having to take on the risks associated with purchasing and stocking inventory. High-performing dropship products can then be promoted to your wholesale model, increasing your profit margins.

Private marketplace is a natural next step to continue expanding your 3P selling program because it helps test new vendors and new products. If you want to test a new category outside of your current catalog, a private marketplace model is a low-risk way to gauge customer appetite. Products that perform well can be promoted to your dropship program.

How to efficiently scale

Success with the long-tail requires more automated tools combined with engagement from key brands to efficiently scale



Leverage a unified platform to manage both dropship and private marketplace

Even if you're not quite ready to explore a private marketplace model, it's key to consider the importance of leveraging a single, unified platform to manage both dropship and private marketplace. Some of the many benefits of a unified marketplace and dropship model include the ability to lower costs, increase margins and provide flexibility to optimize assortments and relationships with sellers.

Through a single integration and set of tools, you can readily move sellers, assortments or individual products to the optimal model desired to achieve profitability goals. You will have the freedom to test and learn, expand assortments or support brands in the model they prefer while providing the guardrails and data necessary to manage performance and customer experience.

Why Rithum?

If you're ready to capitalize on the growing e-commerce market and deliver a best-in-class shopping experience to your customers, Rithum will be your strategic partner every step of the way. Rithum's all-in-one solution supports any partnership model no matter what stage of 3P commerce selling your business is exploring.

With access to an unrivaled network of suppliers, platform simplicity and rich insights that drive additional GMV, our technology can help you launch and manage any dropship or private marketplace model. But we don't stop there. We provide the tools and technology to drive more traffic to your retail site, manage product feeds across hundreds of ad destinations, make large-scale changes to product data at a moment's notice and much more. A single platform helps you grow your product selection, improve sales, increase profits – all while minimizing risk.

Ready to learn more?
Reach out to our team today.

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