Drop-shipping is a supply chain management technique in which the retailer does not keep goods in stock, but instead transfers customer orders and shipment details to either the manufacturer or a wholesaler, who then ships the goods directly to the customer. As in all retail businesses, the retailers make their profit on the difference between the wholesale and retail price.

Many sellers on online auction sites, such as eBay, also drop ship. Often, a seller will list an item as new and ship the item directly from the wholesaler to the highest bidder. The seller profits from the difference between the winning bid and the wholesale price, minus any selling and merchant fees from the auction site. A seller is permitted to list items that are currently not in his/her own possession, provided that he/she follows eBay's policy on presale items.

Two significant benefits of drop shipping are the elimination of upfront inventory and a positive cash-flow cycle. A positive cash flow cycle occurs because the seller is paid when the purchase is made. The seller usually pays the wholesaler using a credit card or credit terms. Therefore, there is a period of time in which the seller has the customer's money, but has not yet paid the wholesaler.

Drop shipping also eliminates some duplication of effort, since only one warehouse will pick, pack and ship the product. This approach can reduce total inventory management and shipping costs. These cost reductions can subsequently reduce the price to the consumer.

As in any business, some risks are involved in drop shipping. For example, back ordering may occur when a seller places a shipment request with a wholesaler, but the product is sold out. Back ordering may be accompanied by a long wait for a shipment while the wholesaler waits for new products, which may reflect badly on the
retailer. A good wholesaler will keep retailers updated, but it is the business owner's job to be aware of the quantities that the wholesaler has available.

Drop shipping has also featured prominently in some Internet-based home business scams. Scam artists will promote drop shipping as a lucrative "work from home opportunity." The victim who buys into this scam will be sold a list of businesses from which drop-shipment orders can be placed. These businesses may not be wholesalers, but other businesses or individuals acting as middlemen between retailers and wholesalers, with no product of their own to sell. These middlemen often charge prices that leave little profit margin for the victim, and require a regular fee for the retailer's usage of their services.