

Ultimate Guide to Consignment and Consignee: What | Who | Benefits



What is Consignment

Consignment is the act of **consigning**, the act of giving over to another person or agent's charge, custody or care of any material or goods **but retaining legal ownership** until the material or goods are sold. It generally involves two parties: Consignor and Consignee. Wikipedia has always had the right and simplified definition. But, for argument sake, let us give it a try.

The most common example is of supermarkets. Owners or manufacturers manufacture goods and send it with the shops to sell them. But, the manufacturers have the legal ownership of the products until they are sold out by the shop. Also with the

advancement of technology, consignment examples are not just limited to offline shops or supermarkets but to online trading as well. Sites like ebay, Alibaba Express, Amazon all are great examples of how consignment is being established between two parties.

Who is a Consignee?

Consignee is the person or the party that receives the goods (consignment) from the owner of the goods. This person then stores it on display at his shop for selling purposes. The consignee does not have ownership of the goods but acts as the custodian or the designated receiver of goods, till the goods are sold off to a buyer.

Other Terms Related to Consignment

Let us get familiar with other terms involved while talking about consignment and consignee. So, when someone mentions any of these terms the next time you are in a public meeting, you know exactly what to expect and how to participate.

1. Consignor

Consignor is a person or party that has complete ownership of the goods or material. They send their goods to the consignee for sale, resale, or transfer purpose. Though, the entire time, the goods are with the consignee, the complete ownership is with the consignor until the goods are sold off to the buyer.

2. Consignment Contract

This is a legal document prepared between the consignor and the consignee where the consignor gives permission to the consignee to sell, resalte, transfer, or store their goods. Also, they mention that the consignor will possess whole ownership of the goods while the consignee will act as the custodian of the same. There are various other terms and conditions related to the fees, charges, damages, and others.

3. Consignment Percentage

Generally, the consignment percentage differs from company to company also it depends on the type of goods. But, normally it is a 60:40 ratio. Where 60% goes to the seller (consignor) and 40% is for the retailer (consignee).

4. Consignment Letter Format

The consignment letter is a piece of legal document which clearly specifies the goods, terms, and conditions for both the parties. Upon successful agreement of both the parties, the business can be carried out smoothly. The minimum requirements or details that the consignment letter should have, are as follows:

- a. Name and Address of the Consignor
- b. Name and Address of the Consignee
- c. Name of the Goods or Products
- d. Selling Price and Consignor Percentage
- e. Terms and Conditions of the Consignment
- f. Return Policy or Warranty Policies (If any)

Example of a Consignment

Raymond is the owner of bedding and curtain sets. He has entered into a consignment agreement with Thomas, a home furnishings shop owner. As per the consignment rules, Raymond still holds the right and ownership to the bedding and curtain sets, while Thomas is the custodian or receiver of the said goods. Till the time, these goods are sold to the end users or the buyers, the goods will stay with Thomas. Upon successful transaction, Thomas will give the proceeds to Raymond and keep its fees or percentage as the agreement.

Features of a Consignment

Consignment is a relationship between the consignor and the consignee. To understand the relationship between them in a better manner, let us point out each of the features separately.

1. Relationship between the Parties

In a Consignment, there is **NO** buyer or seller relationship. There are only two parties and they are known as **Consignor** and **Consignee**.

2. Ownership and Damages of the Goods

In a Consignment, the **ownership** of the goods are with the **Consignor** and not the Consignee. Now, we already have established that. But, what more? Any kind of **losses or damages** will be **borne** by the **consignor** as the goods are still within their rights and ownership.

For eg.: Mike (consignor) sent 500 pieces of mobile phones to John (consignee). Due to any reason, it may be during transit, or damaged goods or weather conditions, the mobile phones get damaged. These losses will be borne by the consignor and not the consignee. Thus, all damages due to unforeseen circumstances and without the involvement or fault of the consignee, will be borne by the consignor.

3. Consignee Fees or Commission

As the consignor is the seller, for any sale that is made by the consignee, he will receive fees or commissions from the consignor for every sale. Usually, the commission will be capped at 40%. But again, the fees and commissions differ from companies and types of products.

4. Return of Damaged or Unsold Goods

In a Consignment, the damaged goods or even unsold goods will be **returned** back to the **consignor**. This is because the consignor still owns the sole ownership of the goods and the consignee is only the custodian or the means to sell the goods.

5. No burden to the Consignee

In a Consignment, the consignee has no burden or compulsion to sell the goods. He can return the goods back to the consignor at any given time. The consignor, too, cannot deny receiving the goods as the goods are still his responsibility. As opposed to the buyer-seller relationship, when a buyer (retailer) buys goods from the seller (manufacturer or wholesaler), he cannot return the goods back to them as the buyer has already purchased them. But, in this case, the consignee can always return the goods as he has not received the ownership of the goods, which is still owned by the Consignor.

6. Expenses Related of the Goods

In a Consignment, all the expenses related to the goods are borne by the consignor. This includes the transportation cost and manufacturing cost and any other costs incurred during the preparation or transportation of goods.

7. Invoice and Account Statement

In a Consignment, in order to maintain transparency, the consignor sends an invoice to the consignee for all the goods he has sent to the consignee. And, in return, the consignee sends an account statement for the goods that he sold.

Benefits of a Consignment

Consignment being a relationship between two parties, the consignor and consignee, the benefits are also distributed for both parties. This way, the consignment agreement is much more successful as both the parties benefit from them.

Consignor

1. Sell products through Experienced Parties

The consignor gets an opportunity to sell his products through a well established and experienced person or shop. This way, his probability of success increases much higher rather than selling it through a small firm or probably through himself as well. Now imagine, the consignor is a new business firm in the market who wants to sell his customized shoes. But, being a new brand, not all end users will show faith in his products. If the same shoes are sold through an established and experienced consignee, then the value and popularity of his products will increase.

2. Save Inventory Cost and Space for their Products

As a consignor, who can either be a manufacturer or a wholesaler, the most worrisome aspect is related to storage space and costs. Most of the time, the expenses are widely divided into these factors. Specially, if they are first-time or new in business. While carrying out a consignment relationship, these problems or worries are sorted. The manufacturer or wholesaler doesn't need to stock his goods in a warehouse, he sends it directly to the consignee. This way, the consignor saves a lot of money by not investing in a warehouse.

3. Introduce New Products

As a consignor, you always want to experiment with your product line. You may also want to expand and invest in new products. Instead of manufacturing in bulk and selling it off without being certain of the success or profits, or even if it will be appreciated by the audience. You can always try the consignment method. This way, you can experiment by sending the products to the consignee, who will try selling it off. The consignor will get a better idea if his products are receiving appreciation or not. Also, the consignor will not have to invest highly in the product or selling costs.

As a consignor, they can enjoy the benefits of their products, also at the same time, the consignee too is nicely benefited from the consignment agreement.

Consignee

1. Pay what you Sell

As a Consignee, you only have to pay for the products that you sell. Thus, the Consignee is not burdened or over-burdened by thinking that he has to recover all the costs involved while purchasing these goods. For example, Rob (consignor) sends 500 pieces of bags worth \$10,000 to Bob (consignee). As Bob has not paid a single penny towards these goods, he is not under pressure to recover the costs. Thus, he will pay Rob only for the goods that he could sell off to the end users.

2. Higher Returns on the Products

The Consignee is not liable to pay for any expenses incurred towards the manufacturing or the transportation of goods. Thus, the profit that he earns by selling the Consignor's goods, those go directly to the profits and there are hardly any deductions towards that. As a shop seller, you definitely have to deduct monthly expenses, transportation costs, and other costs related to the products. But, as a consignee, they don't have to deduct such costs, as the goods costs are covered by the consignor. Remember, we had discussed, the consignor still owns the ownership of the goods while the consignee is the custodian, till the goods are sold off.

3. Brighter and Better Display

As a Consignee, you need to attract the customers. To do that, you need to display the products effectively and efficiently. The display of the products should be your first point of contact with your customers. Thus, shop owners are always very particular about their products, display, and keep changing them frequently for a better appearance. In a consignment, the Consignor does not keep products with themselves, they immediately ship them out to the Consignee. This way, the consignee has a lot of options to choose from the stock. They can mix and match, show off some colors, regularly change their displays, or even add discounts on old stock and highlight the new stock in the process.

Conclusion

Consignment is a great way of starting a business and getting good returns out of it. Moreover, it is not too complex to understand and the supply chain is fairly easy. Transparency is again important and consignment business provides a great deal of transparency. Just make sure, the consignment agreement is always clear and favors both the parties, to make your business life easier.! As easy it is to understand a concept, it can get equally difficult in the practical world, why not, talk to an expert. Get in touch with [Orderhive](#) and understand everything you need to know. Also, you will get much more clarity on how it affects your business, inventory, [shipping](#), and managing [orders](#).

References

[What is Consignment](#)

[Know more about Consignment and Examples of Consignment](#)

[Difference between Consignor and Consignee](#)

[Consignment Agreement Format](#)

[What is a fair Consignment Percentage](#)

[Advantages and Disadvantages of Consignment](#)

[Example of Consignment Sales](#)