



Drop Shipping eBook

What's the Deal with Drop Shipping?

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What is Drop Shipping?

To put it simply, drop shipping is a retail fulfillment method where you don't keep the products you sell in stock. Instead, you partner with a wholesale supplier that stocks its own inventory, eliminating your need for a warehouse – so Johnny gets his playroom back! You advertise the products for sale, and when an order comes in, you simply send the order and shipment details to your supplier, and they ship it directly to your customer. That's it! You never see or handle the product, yet you reap the benefits of the sale.

Can it get any better? Actually, it can. With "private label shipping" you can ship from your wholesaler using a return address label and invoice customized to your eCommerce store. So your customer doesn't even know you're drop shipping. The customer doesn't need to know you're a startup just trying to make it in the eCommerce business or a retailer that's just trying to better manage the finances of the business. That's part of the beauty of the eCommerce world; *objects in the web may appear larger than they really are.*



More Benefits of Drop Shipping

As if the benefits listed above aren't enough reason to consider drop shipping - no initial inventory investment, no shipping hassles, and of course being perceived as an established operation - there are a number of other reasons you should consider drop shipping:

You Don't Need Loads of Money: This is probably the biggest benefit of the drop ship model – the ability to launch an eCommerce store without having to invest thousands of dollars in inventory up front. In traditional retail models, a huge chunk of your money is tied up in inventory, but with drop shipping, you don't purchase a product until you make a sale and the customer has paid. Better yet, if you are selling time-sensitive products, it's not your loss if the products expire, or simply go out of style, since it's not your personal inventory.

Minimal Financial Risk Involved: Not sure what business line to get into and afraid of losing your life's savings? With drop shipping, you can start a business and test the waters with very little risk since you're not buying the inventory upfront – if the product doesn't sell, you never have to buy it from the supplier. This model makes testing new product lines easy!

No Shipping Supplies or Account Necessary: This is another area of savings. You don't have to buy any packaging materials or even have a shipping account for that matter – your supplier handles all of this for you.

Mobility: Looking to take a vacation but don't have anyone to cover the business for you? Not a problem. With all the physical fulfillment issues handled, you can operate your business from just about anywhere with an internet connection.

“That Was Easy!”: Not only is it easy to get your eCommerce store up and running fairly inexpensively, but you eliminate the other hassles associated with stocking inventory – managing or paying for a warehouse, tracking inventory for accounting purposes, handling returns and inbound shipments, continually ordering product and managing stock levels, and more.

Scalability: In a traditional retail model, if business doubles that usually means more work for you or that you have to hire help. By leveraging a drop ship model, the processing of the additional orders falls on your suppliers. You may have some additional work, but overall, you can expand your business relatively easy with fewer growing pains.

It's a Trusted Model: The whole drop shipping concept seems too good to be true, right? – but it's not. Plenty of online stores, even major retailers like Sears, use drop shipping to offer a wider selection of products to their customers without having to deal with increased inventory hassles.

More Time to Focus On What Matters: Since the fulfillment side of the business is being handled by your supplier, you can focus more time and resources on revenue-producing activities like marketing, advertising and product research in an effort to drive sales!

And How Do I Find a Drop Shipper?

If you already know what products you want to sell, contacting the original manufacturer is the easiest way to find qualified wholesale suppliers. Not all suppliers are willing to drop ship, but this is a good starting point.

Another way to research drop ship suppliers is to invest in a directory. Be cautious, though. Don't just choose a directory on price only. Look into the reputation of the drop shipper. There are a number of reputable websites available that can provide you with a list of resources to get started with drop shipping.¹

Yet another tool that can be effective in finding a drop shipper is Google. There are a few things to keep in mind if this is the route you choose:

Do An Extensive Search: Wholesale suppliers are notoriously bad at SEO and marketing, and usually aren't going to pop up on the first page of Google for a term like "product 'X' wholesaler." This means you'll likely have to dig through tons of search results – potentially hundreds – before finding the right one.

"Don't Judge A Book by Its Cover": Wholesale suppliers also tend to have outdated, late '90s-style websites. But don't let a poor website design scare you off, as it's not necessarily an indicator of quality. In fact, many of the better, legitimate wholesalers out there actually have some pretty scary looking homepages.

Use Lots of Search Modifiers: Remember, since wholesalers are known for poor SEO efforts, you may need to try searching in more ways than just "product 'X' wholesaler". Try using other modifiers such as "distributor", "reseller", "bulk", "warehouse" and "supplier."

Don't Get Fooled - How to Spot a Fake Drop Shipper

When doing your research, make sure you know the difference between a legitimate wholesaler and a retail store posing as a wholesale supplier so you know who the 'knock offs' are. A true wholesaler buys directly from the manufacturer, allowing them to offer you significantly better pricing.

However, depending on which search method you choose, your results may be cluttered with a bunch of "fake" wholesalers simply because they do a better job at marketing themselves. Exercise caution and keep these 'red flags' in mind when determining if the wholesaler is legit or not:

Ongoing Fees – A legitimate wholesaler doesn't require a membership or monthly service fee to do business with them. Fees are charged on a per order basis.

They Sell to the Public – Any wholesale supplier that sells to the general public at "wholesale prices" is a "fake". A true wholesaler will require you to apply for an account, usually providing your EIN to prove you are a legitimate business, and must approve your application prior to placing your first order.

¹ <http://www.practicalecommerce.com/articles/3853-10-Drop-Shipping-Resources>

How Do I Know If I've Chosen a Good Supplier?

In the drop ship method, your supplier plays a critical role in your operations. After all, they are responsible for the fulfillment process and you want to ensure things run smoothly so customers are happy.

But how do you know if the supplier you chose is reliable? There's no sure way to tell until you start working with them, however here are some indicators that you are on the right track:

Industry / Product Expertise: Choose a supplier with a knowledgeable sales staff who knows and understands their product lines and industry. This will be very helpful to you when writing product descriptions and providing customer service, especially if you launching a store in an industry you're not familiar with.

Dedicated Service Reps: This is for your benefit. A good supplier will assign you an individual service representative to work with on placing orders, and resolving issues should any arise.

Ability to Receive Email Orders: Some suppliers still require you to call in orders, which means you have to be mindful of working hours and what time zone your supplier is located in versus where you are. Ideally, you want a supplier that allows you to place orders via email, this way you can place orders at your convenience.

Centrally Located: If your focus is on selling in the United States, it's useful to choose a supplier who is located somewhere in the middle rather than East vs. West coast. This way you can consistently promise faster delivery times, and perhaps save on shipping costs.

In addition to taking the above into consideration, you may even want to do some small test orders to see firsthand how the supplier operates. By doing a test, you can see how orders are handled, how quickly they ship out and inspect the quality of the packing job to see what your customer will experience should you choose that supplier.

Once you establish your eCommerce presence, you can follow up on orders with Customer Satisfaction surveys to keep track of the quality and timeliness of the drop shipped products. Use these results to continually monitor the quality of service provided by your supplier to determine whether it makes sense to continue the relationship or seek additional supplier(s).

Are There Any Drawbacks to Drop Shipping?

Despite all the benefits and ease associated with drop shipping, it isn't eCommerce nirvana. Like all models, it has its pluses and minuses, but with proper planning these issues can be managed and you can run a successful drop shipping business. Some drawbacks to be aware of are:

Lack of Control: Because you're not the one shipping the products, you do lose some control over shipping times and packaging processes.

Inventory Outages: It's not your personal inventory, and you may not be the only one your supplier is working with, so you run the risk that your supplier runs out of a product. However, this is easy to mitigate by working with multiple suppliers with overlapping product lines. It goes back to the old saying, "don't put all your eggs in one basket".

Fees Associated with Drop Shipping: Your supplier will charge you a handling fee for each order, which will add to your expenses. However it's usually minimal in comparison to what it would cost you to stock, house and ship products yourself.

No Bulk Discounts: You can't take advantage of discounts for buying in bulk upfront. This is the trade-off for the supplier bearing the cost and risk of managing the inventory.

Everybody Wants a Piece of the Action: Unfortunately, drop shipping isn't a novel idea and products that can be drop shipped lead to a lot of competition. The key to succeeding in a drop ship business model is not to get caught up in price wars with your competition that will lead to diminished profit margins. Instead, you'll need to offer value in a different way, like offering stellar customer service, top-notch product education, or extensive product selection. This is where the time savings benefit comes into play, leaving you more time to focus on what matters – revenue-producing activities and positioning yourself ahead of the competition.

It's Hard to Sell a Product You've Never Seen: Or at least it used to be, but in today's world you can become a product expert through online search. When choosing products to sell, it's useful if the manufacture has a detailed website to allow you to become intimately familiar with the product line without ever having touched a physical item. Remember, one of the ways to differentiate your website from a competitor is to provide value through detailed descriptions rather than get involved in a price war.

Closing Thoughts on Drop Shipping

So is a drop ship model the secret to overnight success in the eCommerce world? It's not that simple. Positive results still comes with all of the necessary ingredients to running a successful business. The drop shipping method does provide an alternative and easy way to get started, or expand your current product offering, all while leveraging other people's capital without having to dip into your own pocket, but there's still work involved. In the end, the key to your online success will come down to the time you invest in the quality of your website, marketing and customer service.

Now that you know the deal with drop shipping, both positive and negative, it's up to you to decide if it's a fulfillment method you want to explore or not.

About Dydacomp

Dydacomp provides essential order, inventory and customer management solutions to growing multichannel retailers that integrate easily with eCommerce platforms to drive efficiency, productivity, insight and growth. Dydacomp's proven on premise & cloud-based solutions enable small to medium sized retail & fulfillment businesses to grow faster by expanding their eCommerce presence & automating back office operations to manage critical aspects of their business: multichannel order management; inventory visibility & control across multiple channels; drop ship management; rapid, reliable order fulfillment; customer management; integration with Magento, eBay & more.

Freestyle Commerce is Dydacomp's latest cloud-based innovation. Freestyle is tightly integrated with third-party eCommerce software Magento, providing users with the smartest order management dashboards for the always up-to-date business insight they need to grow sales.

Over 2,000 multichannel merchants already rely on Dydacomp's Freestyle Commerce, Multichannel Order Manager (M.O.M.) and SiteLINK solutions to automate their back office operations and drive business growth. Dydacomp's clients engage over a million shoppers daily, generating nearly 10 million in gross merchandise sales every day. For more information, visit www.dydacomp.com and follow us on Twitter @dydacomp.