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Should I Drop Ship?

Before you ask yourself this question, you need to fully understand what drop shipping is all about. The short explanation is drop shipping is a service manufacturers and wholesale distributor suppliers offer that let entrepreneurs sell products by the piece without having to stock the goods in their own warehouses. You as a drop shipping retail site really become an advertising funnel where thru your marketing efforts, drive customers to your site, sell the products and then rely on another source to get the goods safely to your customers. The distributor who has the warehouse full of goods relies not only on you to funnel orders but several different sites to send orders. This way if the distributor gets several orders from different web sites each day, the distributor has the economies of scale to operate their warehousing.

A good drop shipping distributor places a label or packing slip on the box with your website name for the shipping address and ships it directly to your customer by the piece. This way the drop shipper remains invisible to your customer and this makes your business appear larger than it really is.

Obviously the profit you make is the difference between the cost of goods to the drop shipper and the price you charge the customer on your website. Several advantages help you hold onto this profit and these include:

- Lower overhead - The cost of warehousing and shipping one product at a time can be costly if the turnover of your products is slow. Your supplier has the advantage of processing hundreds of orders a day to cover their overhead expense.
- No inventory investment - Because you don't pay your supplier until your customer pays you, you always have the cash to buy inventory.
- No order minimums - Because your orders are based on your customers orders, drop shipping lets you buy just in time inventory that is shipped just in time to your customer.
- Product testing - You can introduce new categories of goods or new products to your site without having to expend cash for inventory, so keep testing different niche goods until you find a product line that can add real volume to your site.

- Larger product assortment - Many bigger items are physically difficult to stock, so you can offer big ticket items like appliances or furniture that if you ran a normal business would never be part of your product mix.
- Marketing emphasize - Because you are not spending time buying, receiving and counting your inventory as well as packaging and printing shipping labels, you can spend your time marketing and promoting your site and providing better and faster customer service to keep your current customers as well as finding more.

Having a retail site drop shipping goods from other resources is a good business model for an entrepreneur that lacks the financial resources or space to buy products by the case or pallet. Whereas the upfront costs to operate a website that drop ships is minimal, the profit margin will be less than if you housed the goods yourself. The disadvantages of running a website that drop ships include:

- Smaller profit margins - Never lose sight that you are buying one item at a time. Buying by the case or pallet of product gives you the additional discounts of bulk buying, so the selling and buying by the piece naturally is higher. Most suppliers also have a drop ship fee which is to cover the additional material and packaging costs as well as the extra labor it takes to package and ship an individual item.
- Highly competitive - There are several other e-merchants doing the exact same thing selling virtual inventory from a similar group of drop ship suppliers. This could become a marketing headache as well as a competitive pricing headache.
- Delivery issues - This is one issue that separates the good and bad drop ship suppliers. If your supplier is backed up and slow when filling your orders or does a bad job in packaging them, because your customer only knows you as the supplier, this drop shipper will cost you business. Test each of your suppliers out by placing an order with them yourself to see how they handle your account.

The best model to take advantage of drop shipper suppliers is when you are running your own e-commerce site. If you do not already have your own site, there are several companies like Yahoo stores that have easy to operate sites which can be built in no time. Because there are thousands of products available and several top notch distribution companies providing a drop shipping service, by running your own e-commerce site, you can pick and choose the products and suppliers featured on your site without having to worry about the inventory expense. Once you have put together your supplier network, your biggest expense will be the marketing of your site. "Build it and they will come" is a movie fantasy and does not happen in Internet marketing. Marketing your site on the Internet is an entire topic covered in another of our white papers.

Return to:

