



HOW TO START A DROPSHIPPING BUSINESS

created by

ecomdash



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INTRODUCTION



WHAT IS DROPSHIPPING?

An arrangement between a business and the manufacturer or distributor of a product the business wishes to sell, in which the manufacturer or distributor (and not the business) ships the product to the business's customers.



One of the most popular ways to get started in the ecommerce industry is with a dropshipping business. Dropshipping is an order fulfillment method in which an ecommerce business doesn't maintain inventory. Rather, when the company sells a product, it purchases it from a third-party supplier who sends it to the customer directly. In other words, the seller never handles the product. The seller only purchases the products that he or she sells as customers place orders.

Dropshipping is an easy business model to start due to its low startup cost. Since inventory doesn't have to be purchased ahead of time, your money is never tied up in stock. While there are some drawbacks to dropshipping, like much of your business being out of your hands (literally), it can be a very lucrative business when it's done right.

There are five basic steps to starting a dropshipping business. This guide goes over those steps to help you join the ecommerce world.



\$1,800

Total average eCommerce spend per customer over the course of the year is estimated to be \$1,800



\$394.86 billion

Sales on the web reached \$394.86 billion in 2016, a 15.6% increase compared with \$341.70 billion in 2015.



\$648 billion

US eCommerce sales are predicted to grow to a massive \$684 billion by 2020.

PROS & CONS

THE PROS



NO STARTUP CAPITAL

Traditional retailers need to buy and store inventory in order to sell to consumers. But dropshippers allow you to offer a full catalog of products with little overhead.



LESS HASSLE INVOLVED

Since you don't have to deal with on-hand inventory, you don't have to handle packing or shipping either.



EXPAND YOUR OFFERINGS

Dropshipping allows you to see if there is a market fit without investing in large amounts of expensive inventory up-front.

THE CONS



MANAGING THE LOGISTICS

Dropshipping logistics can be hard to overcome as your business expands, especially if your supplier relies on multiple warehouses.



LOW BARRIER TO ENTRY

This sounds like a positive, and it is. But because of the low barrier to entry, plenty of other people will be selling the same products, meaning the competition is stiff.



TIGHT PROFIT MARGINS

It's difficult for small businesses to compete on price, and the nature of dropshipping means you aren't selling a unique product. Invest in something that will differentiate your business, like a unique [niche market](#).

STEP ONE: PICK PRODUCTS TO SELL

Deciding on which products to sell is probably the biggest decision you must consider when starting a dropshipping business. You need to find products that have a demand, but not so much competition that you get lost in a crowd of sellers.

TOP PRODUCT CATEGORIES IN DROPSHIPPING:



HEALTH & BEAUTY



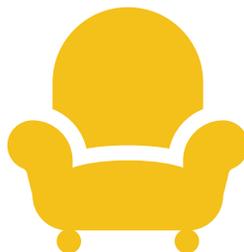
CLOTHING



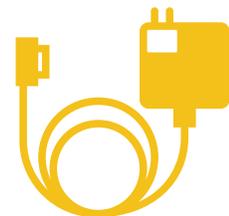
PARTY SUPPLIES



CELL PHONES
& ACCESSORIES



FURNITURE



COMPUTER
ACCESSORIES

Here are some considerations you should explore before deciding what to sell:

PRICE-POINT



You must consider the price-point of the products. What is the profit margin? How many products will you need to sell to be successful? Will you be able to sell the product at competitive, or even lower, prices than your competition? These are all questions that need to be answered before you start selling. Additionally, if you plan to sell high-priced products, keep in mind that buyers who spend a lot usually expect a higher level of customer service. Do you have resources for that?



DEMAND

Is there enough demand for the products you plan to sell? There are some great tools online that can help you determine demand.



GOOGLE KEYWORD PLANNER

Using [Google Keyword Planner](#) will tell you how many people are searching for a product online. It allows you to set the parameters to get a better idea of the search volume for specific keywords related to a product.



GOOGLE TRENDS

This online tool will provide more detailed information about search trends. With [Google Trends](#) you can identify the search volume, popular search terms, the location of people searching for those keywords, and whether the demand for the product fluctuates during the year.

COMPETITION



The best way to analyze the competition is to look at the websites that are organically reaching the top spots in a Google search. Is there a lot of competition? Will you have a difficult time getting products listed in the top results page?

STEP TWO: FIND SUPPLIERS

The second step is to find the suppliers who have the products you want to sell. The strength of your supply chain (the path that a product takes from manufacturing to delivery to a customer) is essential to the success of your business. To better understand the supply chain of dropshipping, you first must understand who all the players are – manufacturers, wholesalers, and retailers.

MANUFACTURERS



Manufacturers are the companies that actually make the product. They do not sell directly to the public. Instead, they sell products in bulk to wholesalers and retailers. For ecommerce retailers, buying directly from the manufacturer is the cheapest way to go, but most require you to buy products in bulk. That means you would have to maintain stock, likely including paying storage fees. Some manufacturers offer a dropshipping program and allow retailers to participate. This would be ideal for retailers selling products with low profit margins.

WHOLESALEERS



Wholesalers purchase products in bulk directly from manufacturers who do not offer a dropship program, increase the price minimally, and then sell to retailers who then sell to the public. Sometimes, wholesalers do have a minimum quantity requirement when you buy from them, but it's typically much smaller than the manufacturer's requirement. Most wholesalers only sell to retailers and not to the public.

RETAILERS



Retailer are those who sell products directly to the public at a markup.

Now that you understand the players, you can begin your search for suppliers. There are a number of ways that you can do this, some more effective than others. The following list shows some of the [strategies for finding suppliers](#), starting with the most effective:



CONTACT THE MANUFACTURER DIRECTLY

If you already know what products to sell, then you can simply contact the manufacturer and request a list of its wholesale distributors. Then, it's just a matter of calling the wholesalers and finding out whether they dropship and how to set up an account with them.



SEARCH ONLINE

This may seem like the most obvious way to find suppliers, as you can find everything on Google. But there are some things to keep in mind as you search.



SEARCH EXTENSIVELY

Wholesalers don't typically do a whole lot of marketing, so you have to really search to find good ones. You may have to go through pages of search results to find what you're looking for.



DON'T JUDGE WHOLESALERS BY THEIR WEBSITES

Wholesalers are also known for having antiquated websites that are poorly designed. Don't let the look of the site deter you from choosing the right wholesaler.



WHOLESALERS DON'T PRACTICE SEO

You have to use a lot of modifiers when searching because wholesalers don't usually pay attention to SEO best practices. Besides using the term "wholesaler" along with the product name, use "distributor," "warehouse," "bulk," "supplier," etc. as you search.



PLACE AN ORDER WITH A COMPETITOR

Depending on the types of products, you may have a hard time locating suppliers. If so, you can place a small order from a competitor who sells the same type of product. When you receive the item, Google the address that it was shipped from to find the supplier. Don't rely on this method – only use it if you have to.



ATTEND A TRADE SHOW

If you can afford to [attend a trade show](#) that features manufacturers and wholesalers who carry the right type of products, you may find that making a personal connection is a great way to find suppliers.



USE DIRECTORIES

You can pay for lists of suppliers from various companies online that are organized by market, product, or niche. Sometimes these directories can be helpful, especially if you want to sell obscure niche products, but be wary of the fees they charge. [Worldwidebrands](#) and [Salehoo](#) are two great directories to try.



84%

84% of online sellers find that establishing a dropship supplier relationship is the #1 roadblock to starting an online business.

\$400

In most cases you should be able to get a dropshipping business up-and-running for less than \$400.

22-33%

22-33% of Internet retailers have adopted dropshipping as their primary method of order fulfillment.

STEP THREE: SET UP YOUR BUSINESS

Now it's time for some administrative work. You'll need to decide on a business structure, obtain an EIN, check to see if you need a business license, and open a business bank account.

DECIDE ON BUSINESS STRUCTURE

You have a few options when you decide on your business structure.

SOLE PROPRIETOR

This type of business structure is ideal for ecommerce business owners who are running their company on their own. Owners must pay taxes from their own income.

PARTNERSHIP

A partnership is much like a sole proprietorship, but is used when two or more people co-own the business.

LIMITED LIABILITY COMPANY

An LLC structure considers business owners members, and it offers personal protection legally and financially.

CORPORATION

A corporate business structure involves shareholders and can issue stock. This type of structure is typically used for large businesses with a higher level of sales.

If you don't choose to operate as an LLC or corporation, the IRS will automatically consider you a sole proprietor. One drawback to choosing a sole proprietorship is that it doesn't protect your personal assets. If ever sued, your personal assets can be seized if the business doesn't have enough money to cover debts.



OBTAIN AN EMPLOYER IDENTIFICATION NUMBER

Every business needs an Employer Identification Number (EIN) even if you are the only employee. It's will help you to open a business checking account and with filing taxes.



CHECK TO SEE IF YOU NEED A BUSINESS LICENSE

Some locations require that ecommerce businesses (even sole proprietorships) obtain a business license or other permit. Check with your city, county, and state governments to see what is required in your area.



OPEN A BUSINESS BANK ACCOUNT

You should run all funds related to the business through a business account. It is never a good idea to comingle personal and business finances.



TRADITIONAL MODEL

vs.

DROPSHIP MODEL

Revenue	
Retail Price	\$115.00
Ship & Handling	\$9.54
<hr/>	
Total Revenue	\$124.54
Cost of Goods Sold	
First Cost	\$50.00
Ship & Handling	\$2.40
Inbound Warehouse Fee	0.80
Warehouse & Stored	0.40
Outbound Warehouse Fee	3.00
Outbound Ship Fee	7.95
CC Fee:	3.16
<hr/>	
Total COGS	\$67.71
Gross Profit	\$56.83
Gross Margin	45.63%

Revenue	
Retail Price	\$115.00
Ship & Handling	\$11.45
<hr/>	
Total Revenue	\$126.45
Cost of Goods Sold	
First Cost	\$50.00
Ship & Handling	\$9.54
<hr/>	
CC Fee:	3.16
<hr/>	
Total COGS	\$62.70
Gross Profit	\$63.75
Gross Margin	50.41%

STEP FOUR: EVALUATE YOUR SALES CHANNELS

You've selected products, secured suppliers, and established your business, it's time to choose platforms and start selling. There are a variety of sales channels available to you. The most obvious starting points are eBay, Amazon, and your own online store. Each has benefits and drawbacks, so you will have to decide which will work best.

Some things to think about as you decide are:



WILL YOU USE MULTIPLE SALES CHANNELS?

Many people start off using only one sales channel, or an online store and one other channel. It may be beneficial to use multiple channels. Better visibility of your products means more revenue. Think about marketplaces and platforms other than eBay and Amazon as well.



WHAT ARE THE FEES INVOLVED WITH SALES CHANNELS?

Be sure that you know the fees involved for each sales channel you are considering. There may be listing fees, percent of sale fees, monthly fees, etc., and they can add up quickly.



HOW WILL YOU LIST YOUR ITEMS?

If you are only using one sales channel, then listing items won't be difficult. However, if you are selling the same products on multiple channels, it can be tedious to list manually. Consider investing in a software solution that simplifies [listing to multiple channels](#). That way when you put a product on one channel, it can list to all of your channels.



HOW WILL YOU PROCESS ORDERS?

Dropshipping simplifies ecommerce businesses significantly, but handling communication with your supplier when products sell can be difficult. Automating [dropshipping management operations](#) will help you do that. With the right system, when a customer makes a purchase, your supplier is automatically notified, and the order is picked, packed, and shipped.

For example, if someone buys a pair of shoes from your Amazon store, the dropshipping software will route that sales order information directly to the supplier. Once the supplier has shipped the shoes, the software will update the shipping and tracking info on Amazon. Dropshipping really becomes a hands-off approach to ecommerce.



3X

Multi-channel shoppers spend 3 times more than single-channel shoppers.



40%

In a supply-chain vendor survey, 40% of respondents said they expect more dropship vendors in 2017.



15-20%

Average dropshipping gross margins are usually in the 15% to 20% range.

STEP FIVE: MARKET YOUR DROPSHIPPING BUSINESS

Now it's time to get the word out about your dropshipping business. There are several strategies you can use to make an online store more visible and to increase traffic to a site. Know that it will likely take some trial and error on your part to determine which strategy, or combination of strategies, is going to work best. The following are a few to get you started.

IMPLEMENT AN SEO STRATEGY

Probably the biggest help for increasing traffic is making sure that potential customers are able to find your store and products when they search online. You need to aim for the top of the search results on Google, because most searchers won't go farther than the first or second page of results to find what they are looking for.

Search engine optimization (SEO) is the process you need to fine-tune the content on a website or product listing to increase the chances of ranking at the top of the search results. SEO involves using relevant keywords in your product descriptions, titles, and other content, so that when a potential customer searches, their search words match up to keywords in your content. You can use free tools like [Google Keyword Planner](#) and [Keyword.io](#) to help identify the keywords to use to list higher in search results. SEO will take time to make significant changes. It is hard and can be expensive for reputable companies.

USE SOCIAL MEDIA

People love to socialize, especially on social media. Smartphones and tablets are never far out of reach and you should capitalize on that. The more you engage with customers, the more success you will have. You can easily gather potential customers by inviting them to like, comment, and share posts on Facebook, Twitter, Instagram, and Pinterest. Also, look for social media groups to join and offer advice/solutions for potential customers.



BUDGET FOR PAY-PER-CLICK ADVERTISING

With pay-per-click (PPC) advertising you can have ads displayed on the search results page during relevant searches. The great thing about PPC is that you only pay for the advertising when a user clicks on your ad.



There are many other marketing options for you to explore – email marketing, running promotions, blogging, and the list goes on. Test different combinations of strategies to see which ones bring you the most success, and then be prepared to reevaluate and tweak those strategies as needed.



YOUR DROPSHIPPING BUSINESS SHOULD BE UP & RUNNING NOW!

It's all about maintenance and growth from this point on. Ecommerce retailing is mastered through experience. As the business grows, you will likely find new methods and ways to tweak operations for better efficiency and increased sales. You will learn to troubleshoot with suppliers, deal with customer service issues, and market your business's brand.

Hopefully, this guide has helped you with starting your dropshipping business.

Happy selling!



ecomdash

ecomdash.com | 704.766.8314 | support@ecomdash.com

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