



Dropshipping: A Guide to Optimizing Ecommerce

Dropshipping is a viable fulfillment method for retailers of all sizes. It provides a great starting point for small or just-starting retailers and serves a role for larger businesses as well.

In this guide, we'll cover:

- ✚ How dropshipping can work for your business
- ✚ Common dropshipping mistakes to avoid
- ✚ How to get started with dropshipping

INTRODUCTION



Dropshipping—What Is It?

By definition, dropshipping is a form of product fulfillment in which a customer's order is shipped directly from the supplier, as opposed to shipping from a retailer. This model removes the need for a retailer (you) to stock products in a warehouse, which saves a lot of overhead expense.

Dropshipping is used by countless companies, large and small, all over the world. It's a proven, effective model and is also a great strategy for small and/or new retailers to start selling with less up-front capital. Oftentimes, dropshipping suppliers can get better prices from couriers than a small or just-starting online retailer, which means they can pass those savings along to you.

The dropshipping process looks something like this:

- A customer visits your site and finds a product they'd like to buy
- The customer places an order for the product from your store and pays you
- You pass that order information along to your dropshipper, who keeps the products in stock in their warehouse, and pay the wholesale price to the supplier
- The dropshipper packages and ships the product directly to the customer
- You keep the margin between your retail price and the supplier's wholesale price as profit

With this explanation in mind, we'll delve into the factors that make dropshipping successful.

Part 1: It All Starts with Assortment

- a. Understand what your customers are buying
- b. Experiment with your assortment
- c. Merchandise properly

Part 2: Supplier Relationships—Date Before You Marry

- a. Look for good business practices
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- a. It won't make you rich overnight
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- a. Identify a niche
- b. Build a site
- c. Consider a business license
- d. Contact suppliers

Build Your Conversion-Focused Brand

It All Starts with Assortment

Proper assortment is key in the retailing world. It's even been called the most important job of senior retail management. Without the proper assortment of products in your store, you'll lose customers to retailers with a more attractive mix of products.

It will take time to find the right assortment of products for your particular niche. You'll need the items that sell quickly and in large quantities, but you'll also want to make sure you have plenty of long-tail items on hand to bundle with other products.

For traditional retailers, increasing their assortment means taking on more and more products in their warehouse without the guarantee that the products will sell enough to become profitable. With dropshipping, that risk is eliminated and retailers can expand their product assortment with only the cost of digitally onboarding the new products into their catalog.

How do you go about increasing your assortment? Let's go over a few steps.

a. Understand what your customers are buying

The first step in increasing your assortment is looking at what your customers are already buying. Knowing what and when your customers are buying will help you add more relevant products to your catalog.

For new retailers without access to extensive product and purchase data, using Amazon is a good way to find products relevant to your core offering. At the bottom of a product page, Amazon upsells related products under the “Customers Who Bought This Item Also Bought” heading. Search for some of your top-selling products and see what other items are commonly bought along with it.

Let your customers’ buying habits guide your assortment, instead of the other way around. For example, searching for a Canon EOS Rebel T5 on Amazon shows that customers are also frequently buying SD cards, a Canon EOS Rebel T5 for Dummies book, and replacement batteries.



b. Experiment with your assortment

Your assortment should always be evolving, since the wants of consumers are constantly changing. This is where your own expertise comes in. You should be selling in a niche you're knowledgeable about (selling everything and anything is best left to big-box retailers) and you must have insight into your industry. What would you like to see in the marketplace? What do you think others in the industry would like to buy?

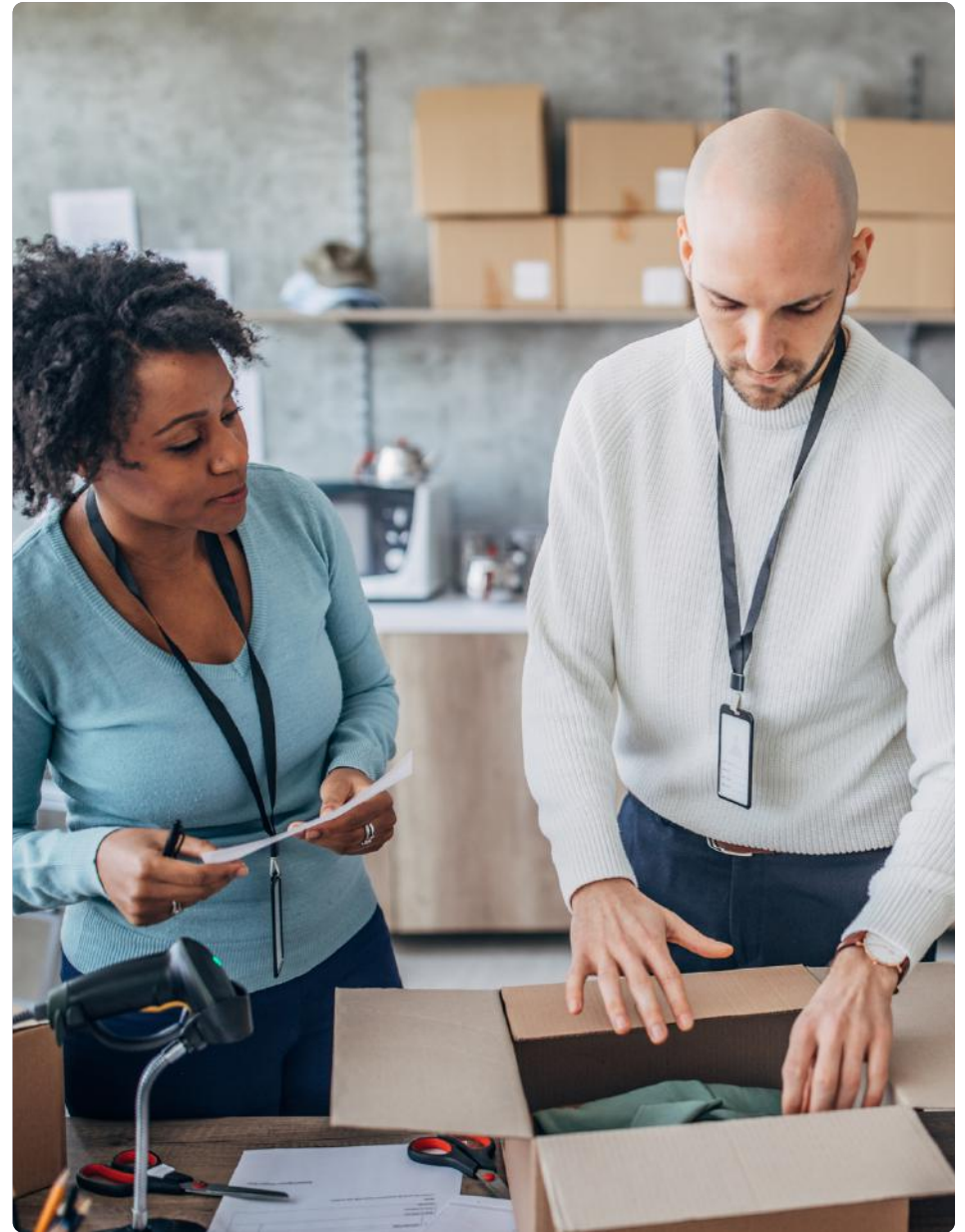
An [article from Harvard Business Review](#) illustrates this point by saying, "Be aware, too, that market research can only tell you so much. But the beauty of the retail business is that managers are consumers too. Ask them to use their own instincts about the different signals that would be sent by different assortments." While you may not have managers, or even other employees for that matter, your opinions on assortment are valid precisely because you're also a consumer.



c. Merchandise properly

Properly merchandising your products is another aspect of assortment management that's important to understand. However, merchandising can have a bit of a learning curve for new or small online retailers.

Merchandising is the process of putting the right product in front of the right customer at the right time. It can be a time-consuming effort, but it's worthwhile. This article from Volusion's blog will walk you through [merchandising basics](#).



Supplier Relationships— Date Before You Marry

For small and just-starting online retailers, a good supplier is very important. A good supplier can help build your ecommerce brand, while a bad supplier is going to make doing business very difficult.

Finding suppliers is easy; a search for “wholesale dropship suppliers” brings up roughly 731,000 results in Google. Finding good suppliers, however, is where the challenge lies. Let’s walk through a couple of things to look out for.



a. Look for good business practices

When you're looking for a good supplier, look for all the hallmarks of a good business. Do they have a real address? Phone number? Give them a call and ask about their operations. See if they have any other current customers you can contact and see how their customer service is.

One quick thing to take note of here: wholesale suppliers are known throughout the industry to have poorly-designed websites. So while looking for a supplier online, you may come across perfectly legitimate companies whose sites look less than legitimate. Don't take it at face value, and do your research before jumping into anything.

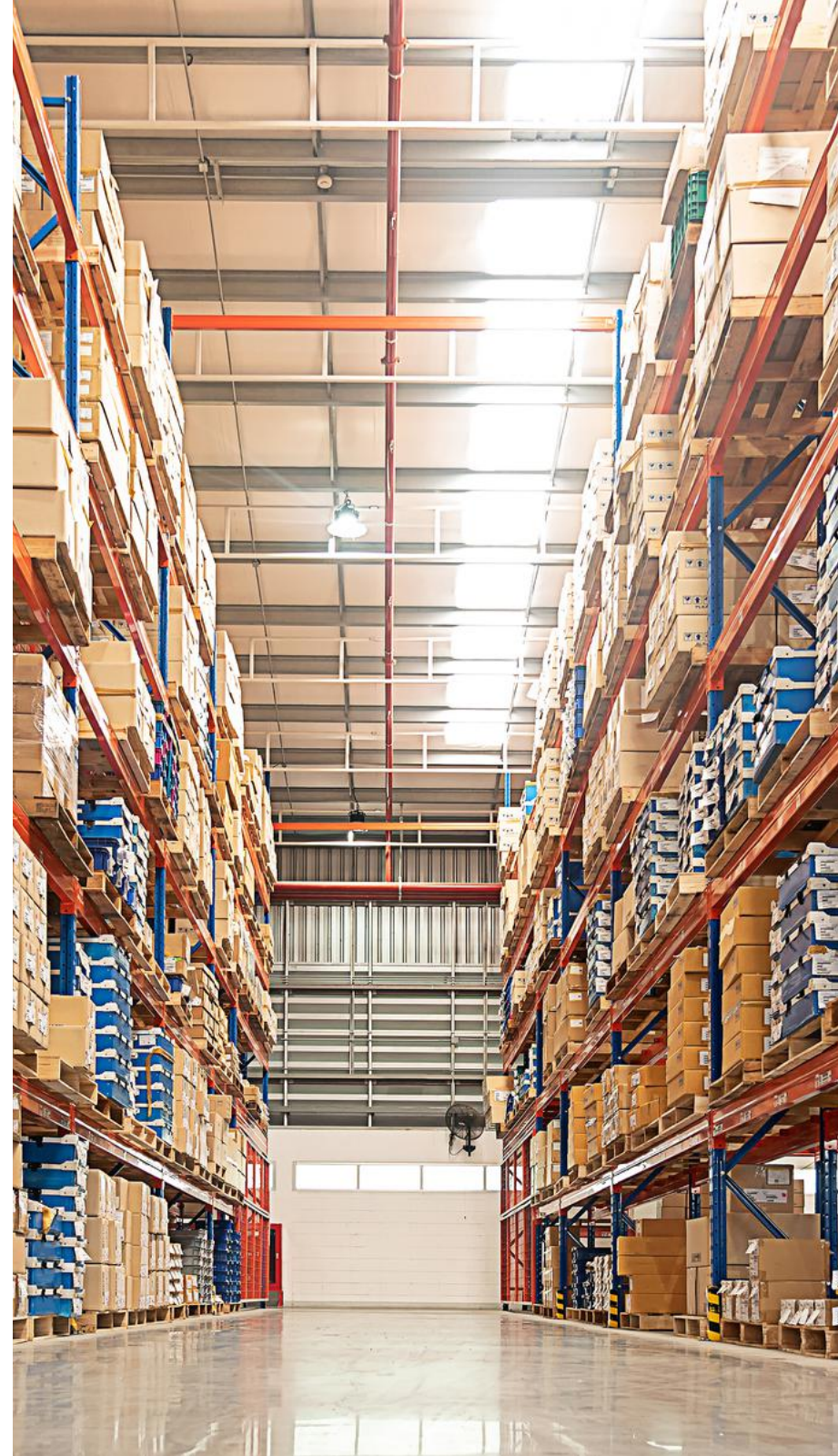
b. Don't sweat drop fees

Some suppliers will charge a "drop fee" in addition to their shipping costs. This is a fee for packaging and shipping single items from a warehouse. Since the supplier in a dropshipping relationship bears the financial risk of warehousing the bulk inventory, they offset that risk in the form of the drop fee. Seeing that a supplier charges a drop fee isn't the sign of a scam or a seedy dropshipper; it's a very common and accepted practice.

Not Just For the Little Guys

While dropshipping is a great method for smaller retailers, it's not exclusive to that area of the retail market. Those who run a larger ecommerce business can (and should) take advantage of the benefits dropshipping has to offer.

We've already gone over how dropshipping is beneficial for larger retailers looking for new suppliers, as well as the benefits it presents for those retailers looking to increase their assortment without any additional overhead. So let's take a look at a couple of other ways larger companies can utilize dropshipping.



a. Market Testing

Rolling out new products can present a business with some different challenges. For most retailers, introducing a new product to their catalog means that they'll be stocking a large amount of the product without any guarantee it will sell.

This is why so many retailers are focused on market testing: gauging customer interest in a product before launching a full-scale rollout will reduce the risk involved in this process.

Dropshipping can help retailers reduce this risk even further. Before buying a bulk amount of the product to ship out from a warehouse, large retailers can instead begin selling new products via dropshipping. If the product sells well, they can move towards a bulk purchase agreement with a supplier and sell the items from their own warehouse, knowing that they'll be able to move the product quickly.

The dropshipping model also gives retailers more options for selling a product throughout its entire life cycle, which leads us to our next point...



b. Seasonal products

Dropshipping provides a great solution for retailers looking to stock and sell more seasonal items. Keeping Christmas lights and Halloween decorations in stock year-round may not be viable for some retailers, and it's not always easy to find storage space for them when the season to sell comes around.

Utilizing a dropship supplier to send your seasonal goods is a great way to provide your customers with these products without finding a spot for them in your warehouse.

Larger retailers can also benefit from the long-tail and brand building benefits dropshipping provides. We go into detail on both of those in the next sections of this guide.



The Long-Tail Solution

The long-tail theory, developed by Chris Anderson, is pretty simple. The theory of long-tail is that “As the costs of production and distribution fall, especially online, there is now less a need to lump products and consumers into one-size-fits-all containers. In an era without the constraints of physical shelf space and other bottlenecks of distribution, narrowly-targeted goods and services can be as economically attractive as mainstream fare.”

Not every product you stock needs to be a big-ticket, top-selling item. Stocking plenty of niche-related products that sell steadily over time is a necessity in today's retail world.

For retailers with limited warehouse space, stocking enough long-tail products to meet demand may not be viable. Dropshipping offers a way for retailers to continue selling the valuable long-tail products they need to while not taking up valuable warehouse space.

Strategic Brand Partnerships

For large, vertically-integrated brand retailers, dropshipping may not seem like a viable option. After all, one of the biggest benefits of doing business as a vertically-integrated brand is the fact that every aspect of product production is owned by the company, lessening costs and ensuring a higher quality of products.

However, we've seen some big vertically-integrated brand retailers utilize dropshipping as a way to create brand partnerships. For example, Apple bought Beats a few years ago, but before then had been selling their headphones in Apple stores. In fact, in 2013, Apple sold over \$1 billion worth of Beats headphones.

This relationship illustrates how large brands can identify other relevant products in their niche and move into a partnership to sell those products. This eliminates the additional cost of a brand producing their own product. You'd be offering a third-party product bundled with one of your own, without the production cost of the new item.

For larger retailers, this kind of a relationship is beneficial for both parties, and you don't have to buy the other company the way that Apple bought Beats. Partnering with other respected brands will increase your own brand's image in the eyes of many consumers.

Dropshipping Pitfalls to Avoid

Dropshipping is a valuable and viable fulfillment method, but that doesn't mean it comes without potential drawbacks. There are some pitfalls in the dropshipping world that you need to anticipate and avoid if you want to have success with it, which we'll cover on the next few pages.



a. Don't compete on price alone

Walmart can afford to sell some of its products at a loss because they sell such a massive volume of other profitable items. As a smaller online retailer, you can't afford to operate on that kind of scale.

Trying to compete in the online world on price alone isn't a viable strategy. Instead, look for other ways to add value to your products through your industry expertise, or packaging items together to reduce total cost.

b. Don't sell what everyone else is selling

Because dropshipping lowers the barrier to entry for many smaller retailers, online marketplaces are full of thousands of less-experienced sellers trying to sell the same products. If you go into business trying to sell the same hot products as everyone else, you'll quickly become frustrated.

When a large number of businesses are selling the same product, that increased competition drives down prices. This means that the only sellers making any kind of a profit on these items are the big-box retailers, and competing with them isn't worth your time as a small or just-starting online retailer.

c. Don't sell what you don't know

For smaller retailers, selling a product you're knowledgeable about is incredibly important. Since you can't always compete with bargain-basement prices, you have to focus on adding value elsewhere in your customer's buying process. When you're knowledgeable about the products you're selling, you have a potentially significant customer service advantage over larger retailers who don't know the product.

d. Don't sell solely in one marketplace

Establishing your own branded retail channel is a critical piece of your growth puzzle in the online retail world. Even so, some items will sell better on Amazon, eBay, or even Facebook. A lot of successful dropship merchants online are cross-channel sellers, with products on their own site as well as other ecommerce marketplaces.

You don't want to miss out on customers who are looking for what you're selling, but don't know that your site exists. Selling on Amazon and eBay is a great way to increase your business' reach.

e. Don't overlook your shipping cost strategy

One study conducted by Amazon found that 46% of customers will abandon their shopping cart if free shipping isn't offered. You may not always be in a position to offer free shipping on all items (i.e., long tail items with a smaller profit margin) but you should at least experiment with shipping rates to try and provide the cheapest options to your customers.

Remember the drop fee we mentioned that some dropship suppliers charge? You don't have to pass that along to your customers in the form of a higher shipping charge; instead, work that fee into the total cost of the product being sold.

What Dropshipping Won't Do For You

While there are a lot of benefits to using dropshipping as a fulfillment method, there are a lot of misconceptions about the effects of using this process. It's important to understand what dropshipping won't do for you that you may be expecting based on one-off success stories you may have heard. Here are a couple of things to keep in mind when deciding whether or not to begin dropshipping for your business.



a. It won't make you rich overnight

Many dropshipping companies are run on nights and weekends, as secondary sources of income for their owners. This means retail businesses that use dropshippers aren't going to get rich overnight.

That's not to say you can't be successful with selling online. Understand that doing so will require time and a big commitment on your part to grow your business, build your brand, and begin winning loyal customers.

b. It won't absolve you of customer service duties

Just because your products are delivered by a third-party supplier doesn't mean you aren't responsible for customer service. Your customers won't know that you utilize dropshipping, and in all reality, they won't care. It's up to you to solve any supplier issues that arise, and to ensure that your customers are satisfied.

Dropshipping can do a lot for online retailers, but it's important to properly understand its limitations so you know what to expect going in.

How to Get Started with Dropshipping

If you're a new or small online retailer looking to utilize dropshipping as a fulfillment method, getting started isn't a complicated process. However, it will take some time and work on your part in order to get things working smoothly. Here are some steps you should take when first starting out.



a. Identify a niche

Knowing which products you're going to sell will determine which dropship suppliers you contact. Therefore, picking a niche in which to sell will help you narrow the choices when looking for a supplier.

We've already discussed the reasons why you, as a small retailer, need to focus your offering in order to get established and profitable. Selling in a niche will establish your ecommerce site as a brand, which you can then build and leverage to expand your business.

b. Build a site

Site building is important, as we've already discussed. Luckily, building a website doesn't require you to be a coding genius. Plenty of software solutions, like [Volusion](#), exist. They'll help you create a good-looking, responsive site without any knowledge of HTML or other programming languages.

c. Consider a business license

When you reach out to contact a potential supplier, having your business license lends more credibility to your query. Additionally, most cities require that a business license be purchased before any official transactions begin. Make sure to check your local laws regarding this step.

d. Contact suppliers

Once your other housekeeping items have been taken care of, you can begin contacting suppliers. There are a number of ways to do this, but the most effective way is to search online for wholesale dropshipping suppliers.

Thoroughly research the companies you come across. Call them, ask questions, and pester their current customers—anything you can do to ensure that the supplier you're considering is worth your time and money. While there's no such thing as a perfect supplier, you should be looking for suppliers who do honest business and demonstrate consistency in getting the products to your customers quickly.

There are companies out there that offer supplier catalogs, or even software, that lists verified suppliers in one location. If you're having trouble finding good suppliers in your niche, it might be worth your time to look at a supplier catalog.

CONCLUSION

Consider Dropshipping Today

Successfully utilizing dropshipping as a fulfillment method is viable for any size of business, but it can especially help small or new online retailers who are looking to get into the game. For most retailers, the affordability and ease of access provided by the dropshipping model can't be beat.

Use this guide when you need a refresher on what dropshipping is, what it can do for your company, and how to successfully use it in a variety of situations.



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