

# Starting Your Online Retail Niche with Drop Shipping

*Practical Methods for Online Business Retailers*

by

**Brad Beiermann, Ph. D.**

Hienote, Inc.

[www.hienotedirectory.com](http://www.hienotedirectory.com)



**Limits of Liability / Disclaimer of Warranty:**

**The author and publishers of this book make no representation or warranties with respect to the accuracy, applicability, fitness, or completeness of the contents of this program. They disclaim any warranties (expressed or implied), merchantability, or fitness for any particular purpose. The author and publishers shall in no event be held liable for any loss or other damages, including but not limited special, incidental, consequential, or other damages. As always, the advice of a competent legal, tax, accounting or other professional should be sought.**

## **VISIT US ONLINE FOR MORE INFORMATION**

<http://www.hienotedirectory.com>

<http://www.hienote.com>

<http://www.dropshipproductdirectory.com>

## **SUBSCRIBE TO OUR NEWSLETTER**

If you would like to learn more about drop shipping or retailing on the Internet, please subscribe to our newsletter:

[http://www.hienotedirectory.com/dropshipping\\_info.htm](http://www.hienotedirectory.com/dropshipping_info.htm)

Copyright 2007. All rights reserved. No part of the material protected by this copyright notice may be reproduced or utilized in any form or by any means, electronic or mechanical including photocopying, recording or by any informational storage and retrieval system, without written permission from the copyright owner. The publishers or author disclaims any personal loss or liability caused by utilization of any information presented herein. Printed in the United States of America.

## Table of Contents

About The Author .....	6
Foreword.....	7
A promise for you .....	7
The Goal of This Book.....	8
Changing Times .....	9
Introduction .....	11
What Have We Learned? .....	13
The Chapters.....	14
The BONUS CHAPTER (Chapter 7) .....	15
Chapter 1. Start with a Simple Plan.....	16
The Importance of a Marketing Plan .....	17
Getting Your Online Retail Business Defined.....	18
Quick Marketing Plan .....	19
Incorporate or Not? .....	21
Avoiding Personal Liability .....	21
Tax Savings.....	22
What Kind of Corporation Do I Need? .....	23
S Corporations .....	24
Limited Liability Companies.....	25
Deciding .....	26
Chapter 2. Understanding Your Online Niche.....	27
Understanding Your Online Niche.....	28
What is a niche?.....	28
The Power of Niche!.....	29
Getting Your Retail Niche Online.....	31
Check Out Some Market Trends.....	32
Differentiate (You can only find it here... ).....	33
Beating the dreaded “Shop-and-Savers”.....	33
Chapter 3. Getting Your Retail Business Online.....	35
Setting up your online store.....	36
Web Hosting.....	36
Domain Names.....	37
Shopping Carts.....	38
Merchant Accounts.....	39
Searching for a Merchant Account .....	41
<i>Setup Fee</i> .....	42
<i>Discount Rate</i> .....	42
<i>Transaction Fee</i> .....	42
<i>Statement Fee</i> .....	42
<i>Monthly Minimum Fee</i> .....	42
<i>Additional Fees</i> .....	42

# Starting Your Online Retail Niche with Drop Shipping

---

The Virtual Terminal .....	43
PayPal.....	44
Your Own Toll Free Numbers.....	44
Press Releases .....	45
Pay Per Click Advertising .....	46
<b>Chapter 4. Finding the Products to sell.....</b>	<b>47</b>
Product Planning and Product Sourcing.....	48
What is wholesale drop shipping?.....	48
How to locate a wholesale drop shipper.....	49
Search Methodologies.....	50
<i>Internet Searches.</i> .....	50
<i>Trade Show Searches.</i> .....	51
<i>Government Embassies.</i> .....	51
Your Search. ....	52
Quick Lessons For Success.....	52
1. Minimum Orders. ....	53
2. Middlemen. ....	53
3. Membership Fees. ....	54
How you spot an authentic drop shipper. ....	54
How to make initial contact with a drop shipper .....	55
Getting a Federal Tax ID or EIN.....	56
Product Pictures.....	57
Product Descriptions .....	57
Product Quality.....	58
Product Packaging.....	59
Tracking .....	60
Out of Stock Issues .....	61
Drop Shipping Fees.....	62
<b>Chapter 5. Finding Your Wholesale Drop Shippers at a Trade Show</b>	<b>63</b>
.....	63
About this Chapter.....	64
Your Search .....	64
Get a Show Brochure .....	66
Inspect the products.....	66
What questions should you ask?.....	68
What Questions might they ask?.....	69
<b>Chapter 6. Profit Tips .....</b>	<b>71</b>
Profit Margin (The Good, The Bad, The Broke).....	72
Some of the Do's and Don'ts (80/20) .....	73
<b>Chapter 7. (BONUS CHAPTER) The Brand Name Myth .....</b>	<b>77</b>
What is the brand name myth?.....	78
Press Release Paralysis .....	78
How Can I Avoid The Brand Name Myth?.....	79
<b>Conclusion .....</b>	<b>80</b>
Other Resources .....	80

## About The Author



**Brad Beiermann, Ph. D.**

Dr. Brad Beiermann brings more than fifteen years of consulting and business experience to Hienote Inc. Dr. Beiermann's studies have covered many facets within e-commerce, new technology, product development, sales, marketing, supply chain and management. He has managed and marketed the implementation of information systems in both wired and wireless internet environments. He has hands-on management experience in a variety of industry verticals including manufacturing, telecom, automotive, healthcare, e-commerce, retail, grocery, government and military. Dr. Beiermann has consulted for many of the top organizations in the world including: Oracle, Pepsi, Quaker Oats, Walgreen's, Illinois Tool Works, Honeywell, Maytag, Baxter and many more.

He has placed a focus on small business e-commerce since its early years on the Web. In addition, he has helped both small and large organizations increase revenues, cut costs, improve service, and maximize productivity. Dr. Beiermann is an authority on using technology to enable winning home business strategies.

Home businesses have learned from Dr. Beiermann how to gain strategic benefits and competitive advantages by implementing solid simplistic business practices and improving their business processes. As a graduate of Southern Illinois University with degrees in Management Information Systems and Manufacturing Systems, his experience in the design and implementation of advanced business management systems, Dr. Beiermann is acclaimed for his thought provoking informative articles and writings.

## Foreword

### **A promise for you**

If you are reading this book, I would like to thank you and make a promise to you. Your time is valuable and should never be wasted. The time you spend reading this book, is time that can never be regained. This book might be free in terms of costing you money, but it is not free in costing you time to read it. Therefore, I would like to promise that this book will NOT be an advertisement for myself, or my company (Hienote, Inc.). In fact, let's get that out of the way right now. My company, Hienote at <http://www.hienotedirectory.com>, offers a directory of wholesale drop shippers who do not require minimum orders. We find many of the wholesale drop shippers at trade shows we attend. Okay, that's my advertisement. Done.

Let's turn our full attention and focus on **YOU**.

You are here to learn. At this point, you are interested in your success and your online business (I hope). So, that is going to be the focus of this book. That is my promise to you.

Another thing I would like to mention is the writing style of this book. I did not want this book to sound like a doctoral dissertation, thesis, or technical manual.

## Starting Your Online Retail Niche with Drop Shipping

---

There are enough difficult things in this world to understand. I did not want this book to be added to that list. As a result, you will not see this book take you on a journey through the forest of technical detail. There are very few formal references made to other publications. I have found many publications about retailing on the Internet, have been quickly outdated. When I read Internet business publications printed before the dot com bust, they are almost comical in their over zealous nature about how the “new Internet economy” will make you instantly rich with just a few lines of computer code. Hind sight has taught us the real lessons of the Internet. Many of the topics covered in this book are from my hands-on experience with them. I want to share the experience and lessons with you.

### **The Goal of This Book**

This book originally started out as a helpful guide about drop shipping for an online retail website. However, as soon as I began writing this book, many other thoughts and questions entered my mind. So, I had to expand it to include those thoughts. Those thoughts included everything you now see in the Table of Contents. There are some thoughts that did not make it into the table of contents and the chapters that follow. I am going to mention some of those thoughts right now. Do you know someone who lost a job and needs an income? Do you know someone who hates their job and would like to quit, but they need the income? Do you know someone who is working for a small paycheck and needs some extra money? Do you know someone who is retired and would like to have extra

## Starting Your Online Retail Niche with Drop Shipping

---

income? Maybe that “someone” in a previous question is you. I speak to people every week who are that “someone.” Many of them have decided to start their own retail business online to get that additional income, or maybe it is their primary income. In any case, they have chosen to embark on the new world of business: The Web. These folks come from many walks of life. Their educations were obtained through our public grade schools, high schools, private schools, colleges and universities. Yet, many are unprepared to properly begin a retail business on the Web. Why? The answer is not going to be covered here in this book. However, there is something everyone of these people share in common. They all share the free will and desire to do it. I believe this is more powerful than any lesson or education a person could receive. The genuine drive to succeed often out weighs anything presented in educational material. As I wrote this book, I wanted it to compliment that drive. I wanted it to act as a catalyst to get you where you want to go with your online Web business. So let’s agree to this deal. You provide the drive. I will help provide the road map. This book will help be the map. I hope it will serve you successfully.

### **Changing Times**

Our economy is changing continuously. It’s scary when I hear economist say, “We really don’t know where it [the economy] is headed.” or, “We are not sure what is going to happen to the labor market and jobs.” As the new world economy continues it’s foothold on the global markets, it is important to stay abreast of what is happening. The Web is no different. It takes continuous study

## Starting Your Online Retail Niche with Drop Shipping

---

to understand how business works on the Web. At times, it can be overwhelming to keep up. Don't despair. There is good news. People are succeeding on the Web. In fact, people are getting *very* wealthy on the Web! Are they computer geniuses? Hardly. As I mentioned before, these folks come from many walks of life. That qualifies them as "anyone." We have now arrived at the point I wanted to make. The point: **ANYONE CAN DO IT.** Anything can be learned. You supply the drive and desire, the lessons will come. That's the first lesson. By you taking the time to read this book, you have passed the first lesson. Congratulations!

Best Wishes,

Brad Beiermann, Ph.D.

## Introduction

## **Introduction**

Without a doubt, one of the best opportunities to earn an income, with your own company came to life when the Internet was opened up to the commercial sector. I can remember a major business publication around 1997 publishing a headline on their front page that read, "The Web Changes Everything." This headline referred to the way business was going to be done now that the commercial Web had arrived. It has become a truly amazing phenomenon for the home based entrepreneur on a shoe string budget. It could not have come at a better time. As many of us working folks have discovered over recent years, a secure guaranteed job is the topic of fictional writers. Without a doubt the labor market is going through new changes and shifts as the national economy becomes evermore globalized. Unfortunately, your daily responsibilities of paying the mortgage, insurance, auto lease, home improvement loans, and tuition costs are not fictional. So, we need some real solutions for making the payments. This has created many in the working class to consider other alternatives outside of their unstable or miserable jobs. Maybe this you or a friend you know. One of the popular alternatives has been leveraging the Web to generate an extra income. There has been a flood of Web hosting services and online tools come on the market to help the most computer illiterate folk setup a second (often primary) income on the web. These services and tools are inexpensive. Actually, downright cheap! You can have an online store with shopping carts, credit card

## Starting Your Online Retail Niche with Drop Shipping

---

processing, custom domain names, toll free numbers, business cards...etc. for about twenty-eight bucks. We will get back to the details. This is a serious bargain when you consider this can get you a real flow of income to pay the non-fiction bills.

### **What Have We Learned?**

Remember not too long ago when everyone was being bombarded by all the dot com hoopla? Remember not too long ago when the whole thing basically tanked as we watched some very silly Internet companies file bankruptcy? While many of these companies folded, some of us received a very good education. We received an education on what does not work on the Web for a business. As more time has passed since the dot com era, some of us also learned about what is working on the Web today. One of the things working nicely on the Web is people starting a small home business based purely on the Web. If this sounds like you, read on. There have been countless niche small businesses recently started on the Web with measurable success. The good news is there is plenty of room for more of these types of businesses to start. In fact, this whole movement has inspired many folks to get on a PC for the first time and learn the ropes. They are discovering the ropes are fairly simple. In fact if you have the following:

1. A pulse
2. Know how to read
3. Can move a mouse
4. The personal drive, and

# Starting Your Online Retail Niche with Drop Shipping

---

5. An ability to focus on getting things done.

You have the ingredients to begin a successful income on the Web.

## **The Chapters**

This book has been divided into seven chapters to help you get started with your online retail opportunities.

Chapter 1 is called “Start with a Simple Plan” and covers the basics of doing a quick marketing plan. So many people start retailing online without thinking about how they will market a product, or even sell it. This chapter will help you get your retail goals started in the right direction. Remember, failing to plan is planning to fail.

Chapter 2 is called “Understanding Your Online Niche.” This is a brief chapter about niche marketing on the Web and getting your retail business differentiated from the online competition. As online retail continues to grow on the Web, you will want to make yourself stand out from the crowd.

In Chapter 3 we cover the basics of “Getting Your Retail Business Online.” We begin to cover Merchant Accounts, Virtual Terminals, PayPal, Web hosting, ISPs, Shopping Carts, Domain Names, Your Own Toll Free Numbers, Press Releases, Advertising, Search Engines, and Search Engine Optimization (SEO).

Chapter 4 is about “Finding the Products to Sell” for your online business. This has been a real jungle for many folks starting their e-commerce retailing. You are going to learn about wholesale suppliers and various drop shipping programs that will fit your retail needs.

## Starting Your Online Retail Niche with Drop Shipping

---

Many online retailers try to find their suppliers via search engines. If you can find your suppliers on a search engine, your competition can also find them. Today, you need to go to the next level in your efforts to stay ahead. In Chapter 5, we discuss a topic rarely covered in online retail: Trade Shows. Chapter 5 is called “Finding Your Wholesale Drop Shippers at a Trade Show.” There are also other alternatives we will cover.

You want your retailing efforts to be profitable. In Chapter 6 we cover “Profit Tips” that you can put to use. If you are new to retailing on the Web, there are some basic customer service issues you should focus on.

### **The BONUS CHAPTER (Chapter 7)**

You will want to read this chapter if you plan on retailing big brand name products on the Web. There are some serious online retailing mistakes being made by beginners (and some experienced e-tailers!) on the Web. There is a “myth” unveiled in this chapter. You will not want to miss this chapter.

## Chapter 1. Start with a Simple Plan

## The Importance of a Marketing Plan

If you are going to be retailing merchandise on the Internet, at the very minimum you will need a marketing plan. Without a plan, you could end up making some costly errors in judgment. There are many people who try to sell merchandise without ever thinking about why someone would buy it from them. Just because you are selling a well know brand such as Ralph Lauren or Rolex, does not mean someone will buy it from you. Even if you are selling the item cheaper than anyone else on the Web, that does not mean someone will buy it from your online store. It is easy to skip the planning stage of an online retail business. Many people skip this step as it takes extra work, or the work might not seem worth the time. **Do not skip this step!** Although it might not seem important at first, it will pay off in the long run. I have had many people contact me about finding products to sell on their website. Sadly, whenever I ask them about how they are planning to market the merchandise, their response was beyond weak.

Here are some of the common responses I have heard:

Response #1: "I plan on selling the items on eBay." (*Okay, great. Does that mean the items will sell on eBay?*)

Response #2: "I am not sure what to sell. I think electronic video games are pretty cool." (*Electronic video games are pretty cool. So what! Why would someone buy them from you?*)

## Starting Your Online Retail Niche with Drop Shipping

---

Response #3: “My friend is retailing stuff on the Web and is making money.”

*(That’s great...for your friend. How are YOU going to make money retailing stuff on the Web?)*

Response #4: “I went to a Web seminar and bought a couple of hosted sites from a hosting company. I am now ready to get products on the site and start earning.”

*(Really? How is that going to happen?)*

Response #5: “MP3 players are a booming market. I would like to start selling them online.” *(They are a certainly a booming market for Apple, Circuit City, Best Buy, Sears, Target, Wal Mart, eBay, KMart and Radio Shack. How are you going to compete?)*

I used to think some of these people knew something that I did not know about. I started to ask them about their marketing plans. I soon realized they were completely lost and had no plan. Do you want to be in the same mindset as these people? I hope your response is a confident “No!”

### **Getting Your Online Retail Business Defined**

Getting your online retail business defined often means asking the right questions. You want to be goal oriented as you explain what you want to achieve online and offline. You might want to start with your personal goals. Then list your business goals. Try to answer some of these questions.

-What do you want to achieve with your business?

-What size of business do you want in terms of earnings?

-Who do you want to include in your business?

## Starting Your Online Retail Niche with Drop Shipping

---

-Describe the quality of service and customer satisfaction you would like to achieve.

-Describe your main competitive advantage?

-How do you see your business helping your customers?

### **Quick Marketing Plan**

A marketing plan does not have to be a complicated document that goes on and on into extreme detail. The plan should answer some basic questions. Questions such as:

What makes your business unique?

Why will your merchandise appeal to customers?

Why would someone buy from you versus your competitor?

What are the primary differences between your company and your competitors?

At first glance, these questions might seem very basic and simple. If you start to think about answering them in *detail*, you will soon find yourself thinking about your business approach from a different perspective. This is good. Some of your future customers will be asking you these questions. A quick marketing plan

outline would have the following questions and facts listed:

1. Describe our best customers:

- a. Revenue level:
- b. Type of business:
- c. Size

2. Where do they come from?

- Local:
- National:
- Tourist:
- Regional:

# Starting Your Online Retail Niche with Drop Shipping

---

International:

3. What do they buy?
  - Product(s)
  - Services
  - Benefits
  
4. How often do they buy? (for one customer)
  - Daily
  - Monthly
  - Weekly
  - Every now and then
  - Other
  
5. How much do they buy?
  - Units
  - Dollars
  
6. How do they buy?
  - Credit
  - Cash
  - Contract
  
7. How did they learn about our online business?
  - Advertising (i.e. publication)
  - Word of mouth
  - Location
  - Internet
  - Direct sales
  - Other (specify)
  
8. What do they think of our business/products/services? (Customer perceptions)
  
9. What do they want to provide (what benefits are they looking for that we can or should provide?)
  
10. How big is our market?
  - Geographically
  - Population
  - Potential customers
  
11. What is our share of that market? (market share)
  
12. How do you want our markets to perceive our business?
  
13. Why do our customers buy from us?

## **Incorporate or Not?**

Incorporating your online retail business has a couple of advantages for you.

Usually an online retail business owner considers incorporating:

- To avoid or limit any personal liability for uninsured business claims
- To save on taxes

## **Avoiding Personal Liability**

One of the nicest attributes of incorporating is the peace of mind that goes with it.

Personally, I do not recommend operating as a sole proprietor. As a sole proprietor, you're generally personally liable for any business debts you incur.

That means your personal credit is on the line. Also, any claims that are made against your business are basically made against you. You want to avoid this type of liability. Again, a sole proprietorship does not give you the level of protection needed.

Now let's look at how a corporation will work for you. If your business is a corporation, and that corporation gets sued, goes bankrupt or otherwise can not meet its financial obligations, the corporation's creditors may be prevented from getting access to your personal assets. In other words the creditors cannot come and take your home, automobile, boat...etc.

However, there are some exceptions.

- If you need a loan for your corporation to other business ventures or expansion, a bank or loan institution may require you to personally

## Starting Your Online Retail Niche with Drop Shipping

---

guarantee loans to your corporation. This can be especially true if the loan is in your early start up stages of the business.

- You can be held personally liable for any unpaid taxes of the corporation.

### **Tax Savings**

Historically, incorporating used to bring a significant amount of savings on income taxes for you as an owner. However, as tax laws changed, the amount saved on corporate taxes dwindled. If you are in your early start up phase of your online retail business, you can still save a whole bunch on your start up expenses when you go to file your business taxes.

Small online retail corporations with taxable incomes of \$75,000 or less are subject to corporation income tax rates of 15% to 25%. Interestingly, the individual income tax rates have been dropping in recent years, making the difference between the corporate and personal tax rates less significant. As a business owner, you can declare your expenses against the earnings to receive tax credits. The government has really loosened the requirements of what can be considered an expense for your business. This is a huge advantage to you in terms of getting tax credits back on your end-of-year tax filings. During the year, be sure to save receipts such as Web hosting expenses, computer expenses, software expenses, travel receipts, phone bills, electric bills...etc. They can all be a tax write-off for your online retail business.

## Starting Your Online Retail Niche with Drop Shipping

---

Some states such as California require a minimum tax payment regardless of the amount of taxable income earned by your corporation. Check with an accountant on the policy within the state you live.

You will need to be recognized as an employee of your corporation. So your corporation for various reasons should pay you a salary. In turn, you will pay individual income tax on that salary. The good news, your corporation will receive a deduction for the salary on its tax return. You will need to include your salary in your taxable income. This advantage of this scenario is it gives you the flexibility to split business income between the corporate taxes and your personal taxes.

This is only an advantage when your online retail business is making more money than you need as disposable income for salary. So, in your early start-up phase you might not have this advantage until you get some online sale momentum. In this case, focus on those business expense tax deductions I mentioned earlier.

Now for the bummer (actually, it's not that bad). Incorporation means more paperwork like tax returns, filing statements, and other forms required by federal, state, county and/or city governments. Hire yourself an accountant to help with the paperwork and electronic filing. It will save you time and money in the long run. Trust me on this one!

### **What Kind of Corporation Do I Need?**

The answer to this question is entirely up to you. Here are the two most popular corporations used by many online retailers.

## **S Corporations**

The S Corporations are designed to allow corporate profits and losses to pass almost straight through the corporate entity to the individual shareholder. The S Corporation gets its name from Subchapter S of the government's Internal Revenue Code. An S corporation has many similarities to a partnership. As a business, the entity itself is a corporation. As for tax purposes, it is treated as an extension of the shareholders.

To obtain S Corporation status, you must file a federal tax election using Form 2553. If you do not feel like messing with this step, have your accountant do this for you. It's fairly simple.

- This is generally available to small corporations with 75 or fewer shareholders.
- There are certain restrictions on the types of shareholders who may own shares in an S Corporation. As an individual starting out, you won't need to be concerned with this tid bit.
- Some U.S. states also recognize the S Corporation status for income tax purposes.

Should you decided to incorporate to limit your personal liability, and if dividing income between your corporation and your personal income would not really save you much in taxes, S Corporation tax status would be beneficial.

Go for the S Corporation in case you have losses in the first year after incorporating. Why? These losses will pass directly through to you, as a

## Starting Your Online Retail Niche with Drop Shipping

---

shareholder, and you can use them to offset other types of income on your individual tax return. This can be a nice arrangement for you.

### **Limited Liability Companies**

The Limited Liability Company (LLC) is the newest form of corporation to evolve. The LLC is similar to the limited partnership corporations. Most states have passed laws allowing the formation of LLCs. An LLC can also provide you with personal protection from business liabilities.

Some of the key areas of an LLC include:

- Protecting the managing owners from personal liability for business debts.
- The LLC does not have a limit on the number of members and the types of members.
- The division of taxable profits and deductible losses can be divided up in any manner the shareholders agree. By contrast, an S Corporation has the division based upon the relative stock ownership percentages of the shareholders.

Profits and losses from LLCs pass directly through to its members for tax purposes. Look into your state taxation laws as some states assess an annual tax on LLCs regardless of profits or losses. You might want to confirm this with an attorney.

### **Deciding**

You might want to consult with your accountant and have them prepare an income tax projection under each scenario and covering different income and loss generation situations. This little exercise could give you a better picture of your tax circumstances with each type of corporation. In the end, this process will help you decide which form of business will be best in your circumstances.

## Chapter 2. Understanding Your Online Niche

## **Understanding Your Online Niche**

I am always amazed at the number of people who call us looking for products to sell without giving any thought on how they will compete against other companies in the market place. Adding to my amazement is how many of these folks end up selling items (i.e. home electronics) I could find at any major retailer, or I could find on thousands of other websites and auctions at a cheaper price. How are they getting customers to buy from them? How are they staying in business? Sadly, many of them are going bust. However, I do find some of them thriving and doing well. So, what are they doing? That's what this chapter is about. This chapter is about finding your online retail niche.

## **What is a niche?**

The dictionary defines a niche as being a recess in a wall or structure. It is basically something different than the rest of its own world. Imagine a sidewalk made of red bricks. Within the sidewalk there is only one yellow brick. Which brick will catch your attention first? Usually, it will be the yellow brick as it clearly sticks out from the rest. The other red bricks cannot hold your attention span as long as the yellow brick because there are so many of them giving off the same appearance – a plain red brick. The yellow brick is still a plain brick. It resides in the same sidewalk as the other bricks. It is made of the same material as the other bricks. It is laid in the same pattern as the other bricks. Yet, it is winning all of our attention. Why? It has a different color. It is yellow. Being yellow is the yellow brick's niche. What if the yellow brick represented your business and the

## Starting Your Online Retail Niche with Drop Shipping

---

red bricks represented other competing businesses? Would that be an advantage? Absolutely! Customers would see you stand out from the rest of the crowd. They could easily see the difference between you and the other businesses. From an opportunity standpoint, this puts you in the driver's seat.

### **The Power of Niche!**

There is an example I would like to share with you about a colleague of mine getting her business into a niche. Jennifer was interested in selling some online travel accessories on her new website. She called me up one day about getting a wholesale supplier of electronic thermal travel mugs. These are the mugs you can plug into a car cigarette lighter, and it keeps the coffee warm. She had decided to sell these mugs without giving it too much thought on how to market them on a website. She had the mugs on the website for about four months without any sales. She had seen the same exact mugs being sold at one of the major retailers for a cheaper price than her advertised list price. As a result, she considered getting rid of the product off of her site since it was hard to beat the price of the major retailer. She received an email about a week later from a company in Europe interested in buying the mugs for a promotional campaign they were going to do. They wanted 125,000 mugs! Jennifer was very excited to say the least. Upon further email exchanges, she learned the mugs would not be needed for another nine months. This would give Jennifer plenty of time to make the arrangements and work through the terms of payment and delivery with them. After a few more email exchanges they requested to have their company

## Starting Your Online Retail Niche with Drop Shipping

---

logo printed on the side. This was something Jennifer did not want to pursue as it really complicated matters. Then another email came with the real bomb. The customer had indicated they had checked with three other online stores and could get the mugs for close to a dollar. Although she was working with an actual wholesale warehouse import distributor in the U.S., her cost was not low enough. Jennifer's cost was about fifty cents higher due to shipping and packaging from the wholesale supplier. The mugs were manufactured in China. The China factory would not do the printing. The deal was starting to look less attractive as the competition was going to beat her on pricing. She needed to differentiate herself from the others. She asked the buyer if the price they had been quoted from other companies included logo printing. In turn, they said no one was offering the printing, and the quotes were for mugs without printing. The buyer said they did not want to mess with having them printed. They wanted to buy them already printed. Jennifer had now discovered a niche in the electronic thermal mug industry. No one was offering electronic thermal mugs with company logos. She checked around on the price of printing the mugs and repackaging. It added another dollar twenty five to the cost. Since no competitor was willing to do the printing, she would be the only quote with fully printed mugs. She now had more than just the price of a mug on her quote. She now had the cost of the mug, ink, print configuration, adhesive, artwork, inspection, packaging, labor, and shipping for her quote. She could distribute the cost of the mug into each one of those items to make the deal look further attractive, and she did! She would make her money on printing. The buyer said they were

## Starting Your Online Retail Niche with Drop Shipping

---

budgeted to pay no more than seven dollars per mug. She had the cost quote of the mugs around six dollars and fifty cents. That included several dollars profit per mug (for 125,000 mugs, you do the profit math!). She told the buyer, "If you buy the mugs from my company with the printed logo, the price of the mugs will be about twenty cents." The buyer (now fixated on price) freaked out on the price of the mugs being four times lower than anyone else. No one was going to come close to that price for mugs. Since Jennifer offered logo printing on electronic thermal mugs, she had become the yellow brick in the sidewalk. That is the true power of a niche business.

### **Getting Your Retail Niche Online**

As a good rule of thumb, first begin to think about the niche that will define your online retail business. Only after you have begun to define your niche should you start to think about the Internet. The Internet is simply a new sales and distribution channel for ordinary businesses. It is a path for carrying out a sound business strategy. It is not a strategy in and of itself. I have seen many first time eBay Store owners mistakenly get led into thinking eBay has provided the Web strategy by simply enabling online auctions as they think, "All I need is a product to sell." Selling on eBay is not a strategy. It is merely a commerce platform to do business on the web. Again, the key focus for you should be to identify the niche and build an online business around it. The Web will merely provide the fulfillment and marketing engine for your business. You should be clearly thinking about *what* you expect your Web site or online store to do for your business idea.

## Starting Your Online Retail Niche with Drop Shipping

---

You will also need to be sure that there is an online market for the product you plan to sell, and there are plenty of buyers online to make your business idea a viable one. There must be a compelling reason for them to want to buy.

Remember, the vast majority of users on the Web are there to find information.

They do not log onto the Web thinking, "I am going to buy something right now."

They will only do this if they have already found the information about the product. Getting them to take the next step in buying the item is the final endeavor of your business. As the third generation Web businesses start to evolve, they can take advantage of the knowledge gained in recent years and build better, more profitable niche businesses. I like what forty three year old self-made billionaire Mark Cuban said on his TV show "The Benefactor." Mark said, "Success can come from anywhere." ...Mark would know!

### **Check Out Some Market Trends**

A good place to look for a possible niche can be in the current market trends.

There are professional firms who specialize in market research, but they are too expensive if you are just starting out. Some of the online news sources like USA

Today and MSN have business sections that commonly identify market trends.

However, I have found the lifestyle sections to be a fabulous source of possible market trends. The lifestyle sections seem to be the first to describe what is really needed in the lives of people. If you can focus on peoples needs, you can find a good niche waiting for you to fill it.

### **Differentiate (You can only find it here...)**

Some of the best niche Web businesses are built around specialty products. Selling specialty products that are hard to buy or can't be bought anywhere else presents a great online retail opportunity. The online-buying niche is likely to be a greater percentage of the total market. You want to get an online store that will give you the "You can only find it here!" advantage.

### **Beating the dreaded "Shop-and-Savers"**

One of the most popular consumer methods of shopping on the Web often involves clicking from site-to-site to find the best buy. Once a consumer has found a product on a particular site, they will often try to find it on other sites for a lower price. I called these consumers the Shop-and-Savers. If they have come to your site and found a product they like, you will want them to stay on your site and buy it. However, this doesn't always happen. Rather, they will go to a search engine and type in the product code or name to see if it appears on another site. Now, what are their odds of finding it on another site? The answer to this question depends on a couple of things.

1. If you have carved out a nice niche of products and drop shippers, these customers could have difficulty finding the products on another site. Again, this is the power of having a niche business online. It can help deter the Shop-and-Savers from going to your competition.
2. However, if you are using a very popular product, and common drop shipper, these customers could find the product on another site fairly easily.

## Starting Your Online Retail Niche with Drop Shipping

---

**TIP:** You can minimize some of the effects of the second one. How? When you add products to your website from a drop shipper, you need to disguise them. You can disguise your products by *not* listing the original product code, model number, or SKU on your site. Many folks will add a product to their site using the original information from the drop shipper. You will want to change this information. How does this help protect your products? When many Shop-and-Savers search the Web for a similar product they will enter the original product code, model number, or SKU from your site into a search engine. If you change any of this information it will make their search efforts a little more difficult. The search engines will not find the products on other sites as the information has been altered. The lazier Shop-and-Savers seem to give up on searching much earlier than the tenacious Shop-and-Savers. You have a better shot at getting the lazy Shop-and-Saver's business using this technique.

Chapter 3. Getting Your Retail Business Online

## **Setting up your online store**

Getting your online store can be one of the most exciting things you experience with your retail business. The latest Web technologies have made setting up an e-commerce site very simple. The popularity of “cookie cutter” e-commerce websites has made it extremely simple for the home based business to setup shop on the Internet. You do not need a background in computer science to have your own e-commerce site up and running within minutes. A small e-commerce site can be a turn-the-key-and-drive experience. Companies such as eBay have made selling on the Web incredibly simple. With an eBay Store, you don't even need to have your own website to retail on the Web! This chapter is going to summarize some of the basics you will need to consider in setting up your own online store.

## **Web Hosting**

One of the most important things making small business e-commerce sites easy to setup are the thousands of e-commerce packages offered by Web hosting providers. What is a Web hosting provider? On the Internet, virtual hosting is the provision of Web server hosting services so that a company (or individual) doesn't have to purchase and maintain its own Web server and connections to the Internet.

## Starting Your Online Retail Niche with Drop Shipping

---

The Web hosting provider is a virtual provider of Internet space for your website content. This service is sometimes simply referred to as “hosting.” Typically, a Web hosting company will provide a customer, who wants a Web site with: domain name registration assistance, multiple domain names that map to the registered domain name, an allocation of file storage and directory setup for the Web site files (HTML and graphic image files), e-mail addresses, and, optionally, Web site creation services. Many hosting providers will provide shopping cart capability, opt-in email tools, site counters, search engine submission, site editing tools, and the list can go on and on. The hosting market has gotten very competitive in recent years. The intense competition in the Web hosting market has resulted in lower prices and more features. You can get a lot of bang for the buck. This has proven to be real benefit to people wanting to get started with their own website. Be sure to shop around as there are so many choices. Sites like webhostmagazine.com and cnet.com are good starting places to find reviews. I would also like to personally recommend website dynamics for affordable web hosting with shopping cart capabilities.

### **Domain Names**

Each website has its own unique address. The address is typically in the form of a name, such as Google.com or eBay.com. It is a unique name that identifies you to all of the other computers on the Internet. When you go to register your website name, you will go through the Internic which is operated by ICANN. The Internic is used so that the other computers on the Internet will know your website exists. Once you are registered, anyone who types

## Starting Your Online Retail Niche with Drop Shipping

---

www.yourcompanyname.com into their Web browser will be taken directly to your website. You might want to consider getting several domain names for the same site. These other names can be used later for advertising and tracking specific traffic to your website. Sites such as TheCounter.com specialize in offering services for tracking how much traffic goes to your site. Today many hosting services include a similar service with their hosted e-commerce packages.

I mentioned ICANN earlier. It stands for the Internet Corporation for Assigned Names and Numbers. It is an internationally organized, non-profit corporation that has responsibility for Internet Protocol (IP) address space allocation, and overall domain name system management for the Internet. In the early years of the Internet, these services were originally performed under a U.S. Government contract by a group called the Internet Assigned Numbers Authority (IANA) and other entities. ICANN now performs the IANA function.

Today, there are many companies (known as "registrars") competing with each other that will assist you with registering your website's name, including GoDaddy.com, Dotster.com, Register.com, Verisign.com and countless others.

### **Shopping Carts**

In order for people to buy products on your website, you will need shopping cart functionality. The shopping cart is a common metaphor (just like the original grocery store shopping cart) for the catalog, or other pages where your customer reads and makes selections on the product they will buy from your site. Typically, the user checks off any products or services that are being ordered and then,

## Starting Your Online Retail Niche with Drop Shipping

---

when finished ordering, indicates that and proceeds to a page where the total order is placed and confirmed. In the early days of e-commerce sites, this required complex programming. This is no longer necessary. Most hosting companies will include a shopping cart with their e-commerce package. The shopping cart will give your Web site the ability to build a catalog and its associated database, and to integrate pages into its site that provide users the ability to shop. Your primary consideration when choosing shopping cart software is whether it will continue to serve your site's needs as its catalog volume of orders grow.

### **Merchant Accounts**

If you want to make money, it is almost mandatory to have a merchant account for your online business. I have seen people try to run their site having only an address for customers to send a check. As soon as they get the merchant account, their sales go up by many magnitudes of order. Why? The answer is simple. The easier you make it for a customer to buy, the more likely they will buy. A merchant account makes it very easy for people to use their credit cards. Here are four reasons why it makes sense to have a merchant account:

1. Credit cards are #1 for online purchases - Credit cards are the number one payment choice for online shoppers. A fairly recent Gallup poll showed that 88% of Internet shoppers use credit cards for their online purchases. That means the majority use credit cards.

## Starting Your Online Retail Niche with Drop Shipping

---

2. Impulse Shoppers - Credit cards catch the impulse shopper, or the emotional shopper. The speed and convenience of shopping with credit cards catches impulse buys on your website. This simply would not happen if you required them to send in a check. Customers that may reconsider a purchase when given too much time to think it over are more likely to buy when the transaction is fast and easy.

3. Customers with credit cards - Credit card shoppers spend more money on average per purchase. The average credit card purchase last year was around \$80 per purchase.

4. Frequent purchases - Credit card shoppers make more frequent purchases than customers who use cash. Businesses can increase profits by taking advantage of growing credit card usage.

Why am I spending so much time trying to make the case of getting merchant account? Because it costs money (usually \$100 to \$300) to get a merchant account. As a result, people avoid getting a merchant account do to this cost. They do not even begin to think about how fast they will get that money back with just a couple of sales. Long term the merchant account will pay itself off thousands of times over.

## **Searching for a Merchant Account**

account, the number of choices can be overwhelming. There are many banks, account providers, and third party resellers who are out to get your business. At a glance, many of them seem to offer the same service at identical pricing. Others seem to offer something completely different in a completely different price zone versus their competitors. How do you decide? Well, there are two very important factors to consider: Cost and Services. Let's take a look at both of these factors in some detail along with what you should expect.

Cost seems to be a big factor for many newbies to e-tailing. More specifically, the initial cost of opening the merchant account. You're in business to make money.

At the same time, cost is likely the foremost thing on your mind. Keep in mind that cost is not the only factor and you will mostly get what you pay for in the long run. Your goal should be to find a merchant account provider that offers the features and services you require at the most reasonable price possible. A merchant account is basically an agreement of trust between parties, you and the provider. The cost of your merchant account is often based on the amount of risk the merchant bank feels they are assuming by accepting your business.

Unfortunately, Internet businesses usually pay higher fees than traditional brick and mortar businesses. Why? There is a greater risk for fraud. The fees for higher transaction amounts are usually higher since they can present a greater risk of loss.

Here are some of the most common costs related to opening and maintaining a

## Starting Your Online Retail Niche with Drop Shipping

---

merchant account. The following fees are typically standard for a merchant account:

**Setup Fee** – This is the one-time cost to begin your service. I might add that this is the one fee that deters many from getting a merchant account initially. The setup fee can range anywhere from free to several hundred dollars. Many folks opt for PayPal initially since there is no setup fee. Don't get confused, PayPal is not a credit card merchant account. We will cover PayPal a little later.

**Discount Rate** - A percentage charged for each transaction amount. This charge is a little higher for Internet businesses, but averages around 2.0%-2.5%.

**Transaction Fee** - Fee charged for the network and computers required to process a transaction. Usually from \$0.20 to \$0.50 per transaction.

**Statement Fee** - This is the cost for processing a monthly statement about your account. This usually runs about \$5 - \$10 per month. These can also be emailed.

**Monthly Minimum Fee** – This is the minimum amount you are charged each month by your provider. It usually runs around \$25-\$30.

### **Additional Fees**

Gateway Fee

Batch Fee or sometimes called Daily Close-out Fee

## Starting Your Online Retail Niche with Drop Shipping

---

Chargeback Fee (Hopefully you don't get any of these!)

Annual Fee

Termination/Cancellation Fees

Foreign Card surcharges (For your overseas customers)

The second major factor consider when shopping for your merchant account is service. There is no shortage of providers out there offering low rates. The low rates are tempting, but ask yourself what level of support you would be getting from these folks. The service and support of your merchant provider are essential to the success of your business. You should follow-up to see what kind of phone support service they will provide.

### **The Virtual Terminal**

As a merchant on the Internet, you should expect to receive orders via phone, fax, mail, and the Web. Your best solution with a merchant account is to get a Virtual Terminal (along with a Real-Time processing solution). This is by far the best route to go. The Virtual Terminal is a secure website where you login and manually type in a customer's credit card information. It can also be setup to automatically process a card when the customer purchases something on your site via the shopping cart. Once the information is submitted by the customer, it is securely processed and funds are then deposited into your bank account within a couple of days. A Virtual Terminal can be accessed securely from any computer

## Starting Your Online Retail Niche with Drop Shipping

---

connected to the Internet. Most all Real-Time processing solutions also come with a Virtual Terminal at little or no additional cost.

### **PayPal**

Your cheapest option for using an online electronic account is PayPal. Many e-commerce site owners start by using PayPal rather than a merchant account due to cost. In short, PayPal is a free service which allows for purchases on your website using funds deducted from a credit card or bank account. When using PayPal, an account is first established free of charge. Your PayPal account is then "linked" to either a credit card and/or a bank account. Once this "link" has been verified by PayPal, a customer can then transfer money from the credit card or bank account into your PayPal account. Customers can make purchases over the Internet by simply paying for goods with their PayPal balance. When a purchase is made, the specified dollar amount is then transferred from the buyer's PayPal account into your PayPal account. To sign up or learn more, click here: <https://www.paypal.com/us/mrb/pal=4AMQWL4C6ERRQ>

### **Your Own Toll Free Numbers**

The price of long distance service has continued to move to rock bottom rates. Long distance will probably be charged the same as a local call at some point in the near future. In fact the next generation of phone calls will be made over the Internet using VoIP (Voice Over Internet Protocol). In the meantime, the price of toll-free service has gotten very cheap. Companies such as GLIS NET Internet (<http://www.glis.net/>) will charge you less than \$0.04 a minute for customers to

## Starting Your Online Retail Niche with Drop Shipping

---

call you on your toll free number. The telecom business is changing rapidly. Keep your eyes and ears open for good deals. There will be more on the way.

### **Press Releases**

Doing a press release about your online business today is still very important.

The purpose of a press release should be to inform the world of your news item.

In this case the news item is about your online Web store. The press release lets the media world know you exist. When you do a press release, try not to use the release as a sales pitch. In other words, your press release should not read like an advertisement. The sheer distribution of the release can get you the desired exposure. Remember, this is a news item you are creating. Your enthusiasm about your online store does not necessarily translate into a newsworthy story.

You need to take the time to think about the reader, and your audience. Consider if someone else would find your story interesting. As you get your new online store running, you should focus your press release on the features of your online store and describe the unique products and services offered by your site. Focus on the things that set you apart from everyone else on the Web. Be sure to give some examples of how your online store satisfies the needs and desires of customers. Talk about the products you offer. If there are other benefits your online store provides, let it be known.

## **Pay Per Click Advertising**

Perhaps one of the easiest ways of getting instant traffic and advertising to your site is by participating in a search engine pay per click advertisement. Ads on AdWords Select are ranked on the page based on a formula of cost-per-click multiplied by the click-through rate which enables an ads rank to improve without costing more. Some of the best known pay per click providers are companies such as Google, Overture, and FindWhat. Some of the features found with a pay per click ad (Google as an example) can be:

- You bid on your ads position in the search engine. It automatically reduces costs to the lowest price needed to maintain position.
- Signup process takes less than 15 minutes and ads go live instantly.
- No minimum monthly spent and no monthly fees.
- Advertisers have the ability to target advertisements to over 225 countries and 6 languages with support for 6 international currencies.
- AdWords Select enables advertisers to specify daily budgets for their campaigns.
- Only bills advertiser after a user clicks on their ad.

## Chapter 4. Finding the Products to sell

## **Product Planning and Product Sourcing**

Perhaps the most asked question by many aspiring online store owners is, “Where can I find the products to sell on my website?” This question is asked time and time again. If you are asking this question, then this chapter is for you. Product planning and product sourcing are key issues for you starting your own online store. You want to sell a particular product, but you would like to know where to find it at wholesale pricing. In addition, you are probably interested in following the stockless retail business model. In stockless retail, you do not have to own a warehouse to stock the product. In other words, you do not need to carry inventory. In this case you will need to locate a product source. This is often referred to as product sourcing. Finding a product source does not have to be a daunting task for you. In fact, the good news is, finding what you need isn't quite the needle-in-a-haystack task it's envisioned to be. Let's now get into the basics you will need to know.

### **What is wholesale drop shipping?**

A wholesale drop shipper is a manufacturer or authorized wholesale distributor who will ship your single item orders directly to your customers. You will put the product pictures on your site at retail and wait for an order. Once you receive an order you will email or call the wholesale drop ship supplier with the customer's order information and they will in turn ship the product directly to your customer. If you do not plan on carrying inventory or setting up warehouses for your retail

## Starting Your Online Retail Niche with Drop Shipping

---

business, then drop shipping can be a key part of your business. Let's briefly describe some of the pros and cons of using wholesale drop shipping.

There are many ways to benefit from drop shipping. Some of the benefits are as follows:

1. You don't carry any inventory
2. You get to set the retail price at whatever you want for huge profits
3. There are no minimum order requirements
4. You pay the wholesaler only after you receive an order

There are some disadvantages to drop shipping. The biggest disadvantages are some of the following:

1. You completely rely on the supplier to send product to your customer on-time
2. Your profit margins are sometimes affected by fluctuations in wholesale pricing.
3. Not all drop shippers have up-to-date supply chain and ERP technology. This means they may not have any ability to track inventory or automate their accounts.

### **How to locate a wholesale drop shipper**

Finding a good drop shipper is critical as there are some drawbacks to drop shipping. If you sell products from a wholesale drop shipper, you are dependent on them to get your products shipped to your customer's on-time. Drop shippers

## Starting Your Online Retail Niche with Drop Shipping

---

are truly a business partner of yours as they handle some of the critical pieces for your online business. Interestingly, not all drop shippers want to work with online businesses. This is particularly true for folks wanting to sell products via online auctions. The most common reason for not wanting to work with online retailers relates to profit erosion and competition from sub-wholesalers.

Finding a good genuine drop shipper takes time, research and plenty of fortitude. While there are no formally published methodologies describing how to find drop shippers, there are several techniques to take note. There are at least three methods proven to be tried and true. We will examine three of them:

1. Internet searches
2. Trade show searches
3. Government Embassies

### **Search Methodologies**

Regardless of the search methodology used, they will all have one thing in common. They require labor intensive research.

***Internet Searches.*** Doing an Internet search for a drop shipper has become one of the most widely used methods of finding a drop shipper. Many folks leverage the search engines to locate a desired product. After finding a specific product, they work their way backwards towards a search for a manufacturer listing the product. The manufacturer can sometimes be found by discovering several retailers selling the same product listing the name of a manufacturer.

## Starting Your Online Retail Niche with Drop Shipping

---

Once the manufacturer is discovered, a phone call can be made to find out about their distribution policies. At this point you can begin discussions to find out information about their drop shipping and business policies.

**Trade Show Searches.** Trade shows happen across the country in many major cities. There are many large shows that feature manufacturers and focus on a particular market segment (i.e. sporting goods, automotive, hardware...etc.). A trade show has the advantage of getting you face-to-face with manufacturers. Trade shows are some of the best ways to meeting a quality drop shipper as you can perform an interview and get the critical information needed for your business. Likewise, it gives your drop shipper a chance to meet you and find out your needs and requirements. We will go further into finding wholesale drop shippers at trade shows in Chapter 5.

**Government Embassies.** Some of the government embassies have become a real opportunity for manufacturers, in other countries seeking to sell their products in the U.S. Many U.S. drop shippers in the import/export business have requested a list of these manufacturers from the embassies. Likewise, you can also get in contact with these same manufacturers to find out their U.S. wholesale distribution centers.

# Starting Your Online Retail Niche with Drop Shipping

---

## **Your Search.**

Regardless of the search methodology you choose, hard work and persistence will get you the desired results. Once you have a couple of successful searches under your belt, you will start to get a little quicker at spotting the authentic drop shippers from the middlemen. In finding an authentic drop shipper, it is important to avoid what I call “The Three M’s of Drop Shipping” What are the three M’s of drop shipping?

1. **(M)**inimum orders
2. **(M)**iddlemen
3. **(M)**embership fees

We are going to examine each one of these to get a better understanding of their meanings, and how they impact you as an Internet retailer.

## **Quick Lessons For Success**

Okay, let’s see:

- You have your website running.
- You can accept payment from customers.
- You have good drop shippers to supply product...or, a least you are thinking you do. How do we know for certain?

## Starting Your Online Retail Niche with Drop Shipping

---

As a quick check, we are going to validate the last bullet by seeing if we avoided the three M's of drop shipping.

**1. Minimum Orders.** An authentic drop shipper does not require you to buy minimum amounts of product to do business with them. An authentic drop shipper will drop ship in single item quantities to your customers. Sometimes, companies require minimum orders because they cannot absorb the cost structure of single item drop shipping. Drop shipping is generally more expensive to do for the supplier. To offset their costs and unload the products, they will require you to order product you do not need. As an online retailer, you will want to avoid this situation.

**2. Middlemen.** This is the classic, unnecessary, middle layer of distribution. Middlemen, as the name implies, are the people in between you and a drop shipper. When you place an order with them, they order product from the actual drop shipper. Take their slice of the profit and have the real drop shipper send the products to your customers. They can also steal your customers as they are getting all of the shipping and contact information from you. At that juncture, they can send whatever they want to your customers such as advertising with lower prices. These folks should be avoided whenever possible. They are taking your additional profits by giving you pricing often close to retail. In some situations, they can also lengthen the delivery time to your customers. Again, you do not want this to happen. You need to ask the correct questions in order to avoid

## Starting Your Online Retail Niche with Drop Shipping

---

these folks. Questions such as, “Are you the manufacturer of the product?” Or, “Do you stock inventory of the products you sell?” are good questions to ask. We even ask folks to arrange a time for us to come visit their warehouse.

**3. Membership Fees.** An authentic single item drop shipper will not require you to pay membership or processing fees. Should you be paying someone to sell their products? No! Beware, they could be a middleman. Avoid any membership fees or dues. An authentic drop shipper does not require membership fees to sell their merchandise. In some cases, we have found that these so-called drop shippers charge membership fees for products that might not be doing well in the market place. The supplier wants to make sure they make money by charging “monthly fees” as they know you will probably be struggling to make money selling their products.

### **How you spot an authentic drop shipper.**

Now that we have an awareness of the three M's to avoid, we can summarize some of the rules and validations for our drop shipper search. Our checklist of rules can begin to look something like the following:

- They will drop ship single item orders without minimum requirements.
- They will not require you to pay any member fees or monthly fees.
- They will offer you true wholesale pricing so you can make a profit.

## Starting Your Online Retail Niche with Drop Shipping

---

- They will not put any of their own promotional materials in with your customer's order.

Once a drop shipper can meet the above criteria there are other logistical items to consider such as the following:

- They will put your company name on the shipping label.
- They will ship in a plain box without any of their company logos or information on the box.
- They will include a plain invoice in with your order without any pricing.

There are other items to consider for an authentic drop shipper validation, but the above lists can get you going in the right direction. Remembering to avoid the three M's that can prevent those costly mistakes in your online retail business.

### **How to make initial contact with a drop shipper**

When it comes time to make that initial contact with an authentic wholesale drop shipper, you will want to be prepared to discuss what you do and why they should be interested in doing business with you. Let them know you are an online business, and you are interested in retailing their items for your online store. Drop shipping programs vary amongst various wholesalers. When you find a drop shipper, you will need to specifically ask them about having them drop shipping for you. Some wholesalers advertise a fee on their website for their **wholesale store accounts**. This is separate from their **drop shipping accounts**. Let them know you are wanting be in their drop shipping program so

## Starting Your Online Retail Niche with Drop Shipping

---

they can waive the fee. It is important to establish a good relationship between you and the wholesale company as they will be a supplier for you.

### **Getting a Federal Tax ID or EIN**

In order to buy from a wholesale drop shipper, you usually need a tax ID number (also called an Employer Identification Number, or EIN). The wholesale drop shipper needs to show proof to the IRS that they can sell to you without charging you a sales tax. However, not all wholesale drop shippers will require a tax ID number. Some will only need to see your reseller certificate which can be obtained through your state government.

To set up a federal tax ID number, you can contact your nearest local IRS field office. Go here: <http://www.irs.gov/localcontacts/> to find your state information.

You can also call the IRS Business and Specialty Tax Hotline at 800-829-4933.

The form you will need to fill out is IRS Form SS-4, and you can download it directly from the SBA Web site here:

<http://www.sba.gov/smallbusinessplanner/index.html>. If you are just starting your online store, you probably do not have employees yet. In this case, businesses without employees, the IRS recommends you label the top of the form SS-4 "For Identification Purposes Only."

## **Product Pictures**

Most wholesale drop shippers have digital pictures of the products they carry. They will either have them on a CD or on a website you can access. However, the picture quality varies. For example, not all drop shippers carry 300dpi photos. If you are going to advertise in printed publications, they will need a photo of at least 300dpi or better. By the way, dpi stands for Dots Per Inch if you are new to this abbreviation. It is a measure of image density. The pictures commonly found on the Web are only 72dpi. They do not need the high density to display in a thumbnail image. In addition, the higher resolution photos require a longer period to download. The 72dpi photos will be fine for your online store. Again, if you need to submit these photos to a magazine, flyer, or other printed media, a 300dpi photo will be preferred.

## **Product Descriptions**

Equally important are the product descriptions along with the photos. The product descriptions should ideally have these key characteristics:

1. Product dimensions
2. Weight (*customers will want to know this for the larger items*)
3. Materials (*i.e. made of rosewood, plastic...etc.*)
4. A brief description of the product itself

## Starting Your Online Retail Niche with Drop Shipping

---

Not all wholesale drop shippers have this information on tap for you to use. If they do not have the descriptions available, ask them about the key characteristics (mentioned above) of the product. The product descriptions are important as you will need them to help describe and market the product on your site. If the product is made with a special process (i.e. hand carved, blown glass...etc.), you will want to mention this in your product description. Also, if the product is made of a special material (i.e. real wood versus plastic imitation) be sure to have this in the description. Since the customer cannot physically touch or inspect the product, the product description will be very important to your online retailing efforts.

### **Product Quality**

No doubt about it, the quality of a product can be very important. You would think quality is a top priority for every customer who buys a product. Interestingly, customers do not specifically ask for quality. They expect it. For many customers it becomes a choice between the *price* and quality. Everyone wants the best for nothing. As customers contact you, they may ask broad questions such as:

How good are these?

Where is this made?

Is it made of real wood?

How long will it last?

What happens if someone drops it?

Is this made of cheap plastic?

## Starting Your Online Retail Niche with Drop Shipping

---

These are questions related to quality. More importantly, they are questions of trust in a product. When you are asked these questions, how will you answer if you have never seen the product yourself? There is only one way to know...get a sample of the product. Try to get a sample of the items you sell. By having a sample, you can inspect the product yourself. Many drop shippers will not give you a free sample. You will need to pay for the sample. The good news is you will be getting the product at wholesale pricing. I know this costs you money, but so does an angry customer who just bought a lemon. Having a sample can help you confidently speak about the product when the customer starts to ask the questions.

### **Product Packaging**

This is perhaps one of the most overlooked areas by many online retailers...and it is not just the new ones I am talking about. A wholesale drop shipper might have a great product for you to sell, but if it arrives to the customer busted up, it is now a piece of junk. Another reason for ordering a sample is to see how the product was packaged for delivery. Check out the sample you order for solid packaging. Some wholesale companies will skimp on the packaging to save labor or materials. Other companies will actually *over* package an item to justify charging a highly padded (*no pun!*) shipping cost. What makes all of this difficult to judge is the lack of standards in shipping. Companies such as UPS, USPS and FedEx have their packaging standards in place only to prevent problems on their end. These standards do not necessarily mean the contents inside will

## Starting Your Online Retail Niche with Drop Shipping

---

arrive in perfect condition. Of course this gives the courier the opportunity to sell you parcel insurance to cover any breakage.

### **Tracking**

Although the drop shipper can send products to your customer, it will be important for you to get a tracking number from them. This is important as you will want to know the delivery status of the order. It is also a good practice to send this information to the customer. They will want to know the status of their order.

There is another reason for tracking the order. If the order were to get lost at the drop shipper's warehouse you would not want to get charged for an order that never shipped. You can bet on your customer calling you later about never receiving an order. If you stay on top of the tracking and delivery, you can avoid the incorrect billing and keep your customers happy. Tracking should be an integral part of your customer service. Some of the larger and more state of the art wholesale companies will have an order fulfillment system or enterprise resource management (ERP) system in place to automatically send you information about the order you placed. However, a vast majority of the drop shippers do not have these systems in place. It will be up to you to keep the communication channel clear about deliveries.

## **Out of Stock Issues**

At some point you can run into an out-of-stock situation with a drop shipper. In other words the drop shipper could be sold out of the items until they make more, or receive product shipments to the warehouse. It is always a good practice to make sure you keep up on the inventory status of your popular items carried by a drop shipper. So far, everything I have mentioned probably sounds like nothing new to some of you. However, let's think about the situation you will encounter with the customer when you inform them of an item being out-of-stock. At this point, many companies respond very differently. This is an opportunity for you to shine. Your focus should be directed towards the customers needs. You might not have an item, and you might not get the sale, but always try to keep the customer. Try not to end the conversation with, "Sorry, we are out-of-stock and don't know when the items will be in, but thanks for calling." You want this customer to come back again. Think about what you can offer the customer in terms of service and getting a good feeling about your business. Being out-of-stock can be a make or break moment for giving the customer good feelings about your business regardless of your inventory status. If you do a good job, they might back order it from you and wait as they like the business relationship you cast upon them. Remember, being out-of-stock does not have to be a negative experience for a customer. Make it a positive one.

### **Drop Shipping Fees**

Occasionally, I have someone contact me about a drop shipper charging them a drop shipping fee of three or five dollars. They are calling me to ask why this fee is being charged in addition to the shipping charge. This is particularly common for wholesale drop shippers who import products from abroad. In nutshell, this is a repackaging fee. The import wholesale drop shipper, or importer, will receive products to their warehouse in large crates or freight bins. If they resell the products in bulk to other retailers, they can ship the products in their original crates to a retailer with a warehouse. If they are going to resell the products to a stockless online retailer, such as your self, the original shipping crate will need to be opened to pull out a single item. Once the item is pulled out of the crate, it will need to be repackaged. The original bulk packaging will not provide enough protection for the individual product. For example, a crate might have its entire contents packed with foam peanuts or packing paper. As the individual item is pulled from the crate, it will no longer have the bulk packaging around it for protection. At this point, the drop shipper will have to spend money and labor to repackage the item for shipment to your customer. This additional repackaging expense is the drop shipping fee. This additional burden on warehousing is why some wholesale companies will not offer a drop shipping service. They might not have the manpower or facilities to accommodate single item orders.

Chapter 5. Finding Your Wholesale Drop Shippers at a Trade Show

## **About this Chapter**

This chapter contains some excerpts from an eBook Hienote offers called “Finding Your Drop Ship Treasure at a Trade Show.” For more information on this e-book, go to this link: <http://www.hienotedirectory.com/eBooks.htm>.

## **Your Search**

Many small online retail business owners are trying to find their suppliers via a search engine. This leaves them with a potential problem. Their business is now strapped to the performance of a search engine. It is a fact that no search engine is capable of covering one-hundred percent of the Web during a routine search. Another fact remains that most people read no further than the first page on a search result. As a result, there are many things being completely missed. To avoid these problems, consider finding your wholesale drop shippers at a trade show. This is certainly the most time consuming and expensive way to find your suppliers. However, it can be one of the most effective ways of finding a supplier. I am going to review a few things you should know about these shows.

When you start searching a show, think about how you want to cover it. Many trade shows will handout brochures listing the exhibitors. If you are lucky, they might even include a map or floor plan of the show. Some shows can cover multiple floors in a building, so the map can come in handy as you go from floor-to-floor. Concentrate on starting with one floor at a time.

## Starting Your Online Retail Niche with Drop Shipping

---

The concept of drop shipping from wholesale companies has been around for many decades. This does not mean the concept of drop shipping is known to every wholesale company you meet. In fact, as we have attended certain trade shows to learn about various wholesale companies many wholesalers are not familiar with how drop shipping works. We often find wholesale companies who offer drop shipping, but do not know the service is referred to as drop shipping. Why? The terms related to "drop shipping" are not standardized. There is no standard for what is known as "drop shipping."

So, often we explain how drop shipping works to wholesale companies we meet at shows. Your experience at the trade show will probably be no different. When you meet a wholesale supplier at a show, ask them about doing drop shipping. You might have to take the time to explain how drop shipping works. They might already be doing this service and may not realize it. They may be referring to the service as something else. We have found this to be particularly true for newer wholesale companies with smaller operations. There is an inherent advantage in attending the trade show: Face-to-face discussions. You can often make a discussion turn into a negotiation for a service a wholesale supplier might not normally offer.

As an example, perhaps the biggest treasure you will find at a trade show are wholesale companies willing to eliminate their minimum order requirements and

## Starting Your Online Retail Niche with Drop Shipping

---

do drop shipping. This might be something they normally do not do. Why would they offer this at a trade show versus a request by phone or email? Many of them really want to attract new accounts while they are at the show. They paid to be there. Leaving the show without any new accounts or leads is not something they want to happen. We have found wholesale suppliers to be much more flexible at a trade show versus dealing over the phone or via email. So, often they will consider waiving credit checks, prepayments, and minimum orders on new customers they meet at the show. By meeting with the wholesale supplier at the show, they might consider doing services for you that you would not normally get by contacting them by phone or email.

### **Get a Show Brochure**

Many shows hand out a guide or brochure that gives some information about each wholesale exhibitor. The guide might even have a layout of the entire show. The layout might be in the form of a map. Be sure to get one of these guides at the trade show. This is going to help you find the wholesale suppliers you will be interested in seeing. I have seen many people attend a show and neglect to carry around the show guide. They sometimes end up floating around the show not really finding anything. Again, be sure to pick up a show guide.

### **Inspect the products**

This is actually the fun part of the show. When you encounter a wholesale exhibitor displaying the products you are interested in retailing, this is your

## Starting Your Online Retail Niche with Drop Shipping

---

opportunity to see the products first hand. Take time to examine the samples they have brought. Ask yourself, “Does this look like something my customers would like to purchase?” Take the time to examine the quality of the product. This is your golden opportunity to actually see the products in person without having to purchase a sample. As an online retailer, it is important to have some knowledge about the products you sell. Yet, many folks who have an online store have never seen the products they sell in person. They most likely have seen a picture with a description, and that is about as far as they go into their product research. All is fine until the day an unhappy customer calls for a refund on their purchase. The customer expected quality, and got a lemon. Sadly, the online store owner ends up learning about their products from their angry customers. By you attending the trade show and seeing, and inspecting the products first hand, you avoid the situation just described.

Some wholesale exhibitors will display a product that might not be available for distribution. Why? They are testing people’s response to the item at the show. This will help them determine if they will put the item into their distribution portfolio. If you find a wholesale supplier doing this, and you are interested in retailing the product online, it is a great opportunity for you to get in early with this product.

## **What questions should you ask?**

Once you find a wholesale exhibitor with the products you are interested in retailing, it's time to learn about the wholesale supplier and their products. More importantly, you will want to know if they have a drop shipping service that meets your needs.

As a good rule of thumb, try to prepare a written list of questions to ask before you go to the show. This avoids you scrambling to remember what you wanted to ask. Here is a possible list of questions to ask a wholesale supplier:

- Do you drop ship your products? (Be prepared to explain how drop shipping works as they may refer to this service by a different name.)
- Will you drop ship products in single quantities to my customers?
- Do you require a minimum order or fee? (If they have a minimum order requirement, ask them if they would be willing to waive the requirement. Be prepared to negotiate the possible terms if you ask this question. Remember, they are there to get a new account.)
- Do you manufacture the products?
- Are these custom made to order?
- Where are the products made?
- Where are you located?
- How do you package the products?

## Starting Your Online Retail Niche with Drop Shipping

---

- Are there any dealer agreements required?
- Do you ship international?
- Will you need our reseller's certificate or number?
- How long have you been in business?
- Do you have a business card?
- Do you have a website?
- Do you take corporate credit card payment?
- Do you offer net 30 terms?
- Do you have electronic pictures available of the products?
- Do you have a product catalog or brochure?
- Do you have a list of suggested retail pricing and wholesale costs?

### **What Questions might they ask?**

Be sure to have your own answers ready for a wholesale supplier. Make sure you have a good verbal description ready to describe your company. It's surprising how many online retailers do not have a good verbal "elevator pitch" about their company. By thinking about this before hand, you will come across in a more professional manner.

Questions a wholesaler may ask you:

- What does your company do?
- What is your role at the company?
- Where are you located?
- Who buys for your company?

## Starting Your Online Retail Niche with Drop Shipping

---

- What type of product are you looking to sell?
- What are your requirements for a supplier?
- Where is your store located? (They do not assume you are an online retailer.)
- Do you have a business card? (Some trade shows may have a barcode on your badge. The wholesale supplier may ask for your badge and scan the barcode.)
- Do you have a website?
- Can we mail you some literature?
- When is the best time to call you?

Chapter 6. Profit Tips

# Starting Your Online Retail Niche with Drop Shipping

---

## Profit Margin (The Good, The Bad, The Broke)

*If you have skipped to this chapter without reading the other chapters, you are too focused on revenue. Watch out!*

If you have been reading the other chapters, please accept my apologies for the prior sentences. There are so many new e-tailers focused on the money making aspect of having an online store, they forget about their most important asset: CUSTOMERS. If you do not have customers your profit will be very easy to calculate. In fact, let's do the calculation now:

Number of Customers =	0
Number of Items Sold =	0
Total Sales Revenue =	\$0.00
<b>Total Profit =</b>	<b>\$0.00</b>

Without a doubt, making money with your store is important. Aside from having fun, it is the main reason you are starting an online store, right? One night flipping through channels I ran across the Suze Orman Show. I heard her state a great priority list for people to follow in their personal and financial management. Here it is:

“People first,  
then money,  
then things.”

## Starting Your Online Retail Niche with Drop Shipping

---

I think this can be followed in business as well. The list would be similar:

Customers are first.

Revenue is second.

Employees are third.

Those of you familiar with the high pressure Fortune 500 sales career paths will recognize their corporate priorities as this:

Revenue is first.

Revenue is second.

Revenue is third.

Okay, okay enough with the corporate jokes 'n jabs...Time is valuable, let's get to the Do's and Don'ts

### **Some of the Do's and Don'ts (80/20)**

The content of this chapter is not about the beginning of its title "Profit." It is about the things that will get you the revenue to make a profit. In short, this chapter is about your top priority: The Customer. It is important...no...CRITICAL that you maintain customer focus. It gets back to having a solid planning stage for your online business. A great rule of thumb is the eighty-twenty rule. The classic

## Starting Your Online Retail Niche with Drop Shipping

---

eighty-twenty rule states that eighty percent of your revenues come from twenty percent of your customers. Likewise this can be applied to your online store strategy.

Eighty percent of your online retail efforts should first start with having a solid marketing strategy and plan in place. The other twenty percent of your efforts should be placed on the other things such as building the site and getting everything working properly. There are many things that a marketing plan can be compared. I like to compare this to a golf swing, a baseball batter's swing, or even travel plan. Without going through the initial thought stage properly, you could end up with about as much focus as a dog chasing butterflies.

I will use the golf swing analogy. The market and business planning stage is similar to the golf swing as the plan helps control where the business is headed. The golfer's swing decides where the ball is headed. After the ball leaves the face of the club, the golfer no longer has control over where the ball is headed. It's important for them to get their swing correct so they can address the ball in the proper direction. If they do not concentrate on the swing, they could slice the ball and miss the fairway or green. Your marketing plan works in a similar fashion. The more time you concentrate on it, the more likely you are to get started in the right direction with your online store. If you read Chapter 1, then you have already been exposed to the quick marketing plan I outlined for you. Spend time doing the quick marketing plan.

## Starting Your Online Retail Niche with Drop Shipping

---

So what are the Do's and Don'ts in this chapter? There is only one Do and Don't.

Here they are...

**Don't** skip doing a marketing plan for your online store

**Do** take as much time as necessary to create a fully comprehensive marketing plan that will keep you focused the customer's needs.

**For website hosting-** I would recommend CityMax.com they offer template style sites with shopping cart capabilities integrated right in.

**Merchant Services-**  I would recommend

<http://www.authorizenet.com> they can get you set up to take credit cards orders or sign up for a PayPal account: It's free to register. Click on the link below to sign up.

<https://www.paypal.com/us/mrb/pal=4AMQWL4C6ERRQ>

**Overture Key Word Search Tool-** This tool will help you discover which key words internet users are typing in and how often, on a monthly basis. This tool is one I use on a regular basis: The Overture Key Word Search Tool. Go here:

<http://inventory.overture.com/d/searchinventory/suggestion/>

**Alexa Marketing Tool-** <http://www.alexa.com>

It is a free marketing tool you can use to find out information about your competitors. Such as their ranking in the search engines and who their site is linking to. You can also use this tool to see where your own site is ranking in the search engines.

**Free business cards:**

## Starting Your Online Retail Niche with Drop Shipping

---

[Vista Print Free Business Cards](#) You can go to Vista print to get free business cards for your company. All you have to do is pay shipping which usually runs around \$5 or \$6. They have a fairly good amount of free designs to choose from. I use them all the time.

Chapter 7. (BONUS CHAPTER) The Brand Name Myth

# Starting Your Online Retail Niche with Drop Shipping

---

This chapter has been included by request.

*I have heard from many customers who have struggled with getting their products press released and recognized by the media. As a result, their advertising efforts suffered. As I spent time reviewing their comments and their online store, I noticed a pattern. All of them were trying to sell products with big brand names. The products had licensed names. It seems that many of them had been convinced, selling big brand name products was the best way to go for an online store. I took time out to write an article about this issue, but never published it. So, here it is. This chapter is actually from that article.*

## **What is the brand name myth?**

Here is a brief description of the brand name myth -- There are countless start-up online retail businesses who have been led to believe they should sell big brand name products as a core product offering for their retail website. After all, most consumers are familiar with big brand names (i.e. Kodak, Bushnell, Sony...etc.) and have grown to trust and follow their favorite brand name products. So, the popular way of thinking suggests that big brand name products are what a new online business should sell. Why? Again, the big brand name products are popular, well known, trusted and carry a name of quality. Unfortunately, this has often resulted in a losing battle for numerous small online businesses. How? In a few words... intense competition, brutal price wars and extreme market saturation. These businesses basically entered into the commodity business without knowing what hit them. Many of them are no longer in business.

## **Press Release Paralysis**

There is one other limiting factor about big brand name products you should know about. The ability to press release a business is greatly limited with big brand name products. Let's take a look at an example.

## Starting Your Online Retail Niche with Drop Shipping

---

Suppose a small start-up online business, plans on selling the latest big brand name cameras as part of their online store. They would like to advertise their new product offering to the world, and get the word out about their online business. A press release is great way of doing this without spending a bunch of money.

However, they quickly find no editor willing to publish their press release. There might be a couple of reasons for the rejection:

- 1) The camera manufacturer might not allow press releases of their licensed name by other parties, or if they do allow a release
- 2) The product has already been press released many times by other companies.

As a result, the product press release is no longer newsworthy.

### **How Can I Avoid The Brand Name Myth?**

Does this example mean you should not sell big brand name products on your site? Your marketing plan will help answer that question. At the very minimum you should at least be aware of the issues portrayed in the example. The Internet retail world presents a much different level of retail challenge versus the traditional brick and mortar retail business. Customers can do comparative shopping on the internet with just a few clicks of the mouse rather than driving around from store to store in their car. So, this means within seconds they can be at a competing retail site looking for similar big brand name products at a cheaper price. There are many techniques and best practices that can be used to keep consumers on your site. One of these best practices involves niche marketing. In niche marketing, you focus on traits that make your business

## Starting Your Online Retail Niche with Drop Shipping

---

unique. This will allow you to get more exposure to your site and can result in more sales. Getting free publicity and press releases about your products is one of the key ways to getting the needed advertising without spending any money upfront. With licensed brand name items you simply cannot do this, which severely paralyzes your marketing efforts. Selling niche based products vs. commodity big brand name products can give you some immunity from the press release paralysis. Always take into consideration the legal licensing restrictions on a big brand name product.

### Conclusion

Remember to be consistent in all your efforts. That is one of the main keys to success. I would like to wish you the best of luck in all your ventures.

Sincerely,

Brad Beiermann, Ph. D.

### Other Resources

If you would like to use the Hienote Drop Ship Product Directory please visit <http://www.hienotedirectory.com> or email [info@hienote.com](mailto:info@hienote.com) for details and we will be happy to help you. Also, please be sure to visit our Articles pages and FAQ pages if you have any questions regarding drop shipping, retailing online, and niche marketing.

- Hienote Staff

<http://www.hienotedirectory.com>