

# Setting up an Internet Business? Consider Drop Shipping

By June Campbell

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You've tried affiliate programs, but you'd like higher profits and more control over your business. You don't have your own products and you don't want to manage an inventory. Drop shipping might be your answer.

Mail order businesses have used drop-shipping arrangements successfully for decades. While this method of order fulfillment is not yet well known on the Internet, the potential is excellent.

It works like this.

You set up a drop shipping account with a manufacturer or wholesaler. Next, you generate orders for their products, establishing the retail price yourself. When an order is placed, you forward the sale information to the supplier. The supplier fulfills the order, sending it to the customer with your business name on the label. You remit the wholesale price of the item to the supplier.

The benefits are obvious. You keep no inventory and, since you set your own selling price, you are likely to make higher profits than you would make as an affiliate. You might, in fact, set up your own affiliate program and enlist affiliates to market your merchandise.

Drop shipping arrangements also give you the ability to establish small, low-cost web sites that are targeted to niche markets. These little sites also make it easy for you to test and promote various products. If a product doesn't sell well online, it's an easy matter to remove the web site -- or leave it up, since costs are low.

Consider the following:

## You Need a Legal Business Entity

To operate a drop shipping business, you must be a legitimately registered business. In the US, you will need a State Tax ID number. Residents of other countries must determine the requirements in their locale.

## Sales Taxes

US residents are responsible for collecting taxes from their own state and from the state of the drop shipper (if applicable). In some states, gross sales must be reported to the state and county for business licenses. Residents of other countries will need to check local requirements for taxation and reporting.

### Your Internet Store

You will need a web site, shopping cart software, and a means of processing financial transactions. In most cases, this means having a Merchant Account. Typically, when a customer makes a purchase, you handle the transaction via credit card, then forward the order to the supplier for fulfillment. You, in turn, pay the supplier for the item via credit card transaction. You might arrange payment by individual item or by a net 30 invoice.

### Research your Drop Shipping Company

Do your homework and research the company before you sign contracts. Here are some questions to ask:

\* Is the company a manufacturer or wholesaler? Some businesses offering drop shipping arrangements are resellers. They have set up accounts with drop shipping companies. You, in turn, will be reselling for them. You will make better profits if you set up your own drop shipping account directly with a supplier rather than with a reseller.

\* Does the drop shipper charge you an account setup fee or a monthly fee based on monthly traffic counts or some other criteria? Most (not all) companies charging a set up fee are resellers. If there is a set up fee, is it in exchange for a value-added service such as access to an admin web site or specially printed labels for your company's orders?

\* What does the company charge for shipping and handling? If the cost is too high, your customers will abandon their shopping carts if they think the expense is out of line.

### Your Product Mix

A web site selling a narrowly defined range of products will be easier to administer, and easier to promote than a site containing an array of products. For example, a site selling lady's sportswear will be more attractive to search engines than a site selling men's, women's and children's clothing of all descriptions.

And finally, choose items that are neither too inexpensive nor too heavy. Experienced drop shippers say that products of over \$20 and under 70 pounds work best. If you want to sell lower priced items, group them together in a package and sell the package. The shipping costs will appear to be more reasonable. Alternatively, promote products that carry similar shipping costs, or that will not add to the shipping cost.

And lastly, much success in your new business!

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