



## How To Drop Ship Your Products

*Increase the viability and profitability of your vendor program with drop shipping*

Brought to you by:

**Lisa Otto**  
Boutique Up! Daily

You may already know how valuable a drop shipping program can be in selling your product to stores. Or, maybe you've heard the term 'drop shipping' but aren't quite sure how it applies to you. The intention of this guide is to show you, not only the value a drop shipping value can add to your business and bottom line, but the steps needed to implement a successful program.

With the state of the current economy, retailers all across the country are turning to vendors who drop ship vs. writing wholesale orders. Why not ensure that your business is in line with this retail shift and take advantage of being in front of the retailers who are looking for vendors with a solid drop shipping program?

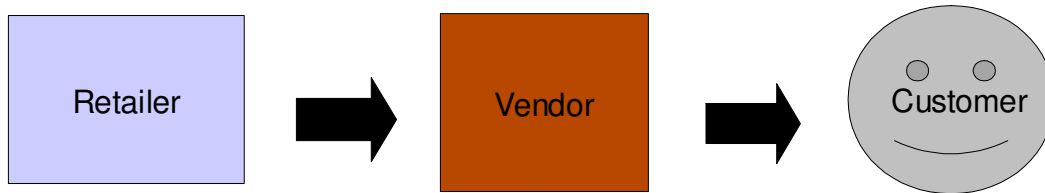
This guide is written in simple question and answer format, with expanded explanations and examples of important need-to-know information along the way.

Remember, if you have any questions about anything that you read in this guide, or need some advice on starting your own drop shipping program, I can always be reached at [lisa@boutiqueup.com](mailto:lisa@boutiqueup.com) to assist you.

**\*\*Please Note\*\*** Throughout this guide you will see the term DS used for 'drop shipping'.

## What Is Drop Shipping?

Drop Shipping is a term applied to the process of a retailer selling a product which he doesn't actually keep on physical inventory. Instead the retailer takes orders for a product which the vendor then ships directly to the customer.



### The retailer:

- Gains permission to use the vendor's product pictures and information to promote the product on their retail site, though they never purchase physical product. Instead, DS allows them to offer 'virtual inventory'. There is no minimum purchase or automatic restocking required.
- Negotiates to earn a percentage of each product sale.
- Takes orders for the product and relays order to the vendor for product packaging and shipment to the customer.

### The product vendor:

- Allows the retailer to use your product information to promote the item for sale on their retail website/store.
- Allows the retailer to take a percentage of profits.
- Ships the product directly to the customer.

While the process seems simple there are many variables to consider and work out before making your product available via a DS program.

## How Do I Price My Items for Drop Shipping?

Because, ultimately, money and selling more product are the main reasons you're entering into DS, you need to make it profitable for both you and the retailer while still maintaining a reasonable MSRP for consumers.

DS programs typically follow a 50% above wholesale format. You should have a wholesale price set for your product before you even consider doing DS.

Here is how to determine your wholesale price: (hypothetical example of product pricing)

Simple formula for wholesale pricing:  $\text{cost to manufacture} \times 2 = \text{wholesale} \times 2 = \text{retail}$ . So, if something costs you \$2.50 to make then the wholesale price is \$5.00 and the retail price is \$10.00.

You should always factor in total production costs when figuring your wholesale pricing. Total production costs can include insurance, inflation coverage, pay for your time or employees time in handling product, etc... Take a close look at how much it *really* costs you to produce your product, and take it from there.

Your item costs \$3.00 to manufacture

You've added a \$1.00 inflation coverage on your item

You've added \$2.00 per product to pay yourself

You've added \$1.00 for liability/insurance coverage per product

Total cost to you per product: \$7.00

Double it: Your wholesale cost is \$14.00

Double it: Your retail (MSRP) cost is \$28.00

Wholesale pricing is largely determined by your industry and product, and what the market will tolerate. As with the above example, a retailer has to be able to sell the product for at least \$28.00 or pricing will have to be reconsidered. Always be sure to research products similar to yours to see how you can compare/compete in pricing. And always be sure that you are getting paid something for *your* time.

## So, how does this work into DS pricing?

You've decided that your wholesale cost is \$14.00 and that retail on your product will tolerate \$28.00. When you offer your product to retailers via DS, you are going to offer them the product at \$14.00. This essentially becomes the amount *you will make* from each item the retailer sells. You should have solid footing on your wholesale cost and product development costs, because in the end, you need to be paid fairly for your own product.

Now if you were simply selling your product to a retailer at wholesale, this would be about the end of your product pricing. But, DS also includes other financial issues that must be addressed. This includes:

- Drop Shipping Fees
- Shipping Fees

### **What are the Extra Fees I Should Consider for My DS Program?**

As a vendor supplying product via DS, you are responsible for shipping the ordered product directly to the customer. This means that you will incur packaging costs, including your time to package and ship each product. To cover your costs of shipping materials (not the cost of postage-we'll cover that in a bit), you need to add a 'Drop Shipping Fee' to the amount retailers pay to offer your product for sale.

Typically, DS fees are anywhere from \$1.00-\$5.00 per product and can vary greatly based on what you are selling.

Think about what that DS fee can cover:

- ~You are warehousing your own product-not the retailer. You can implement a warehouse fee.
- ~Your packaging material costs, like boxes, tissue paper, packing peanuts, etc
- ~Labels, business cards, promotional materials included in each package, etc
- ~Your physical time to package and send-off each order
- ~Any decorative trims that you use to dress each package
- ~Printer ink and depreciation/use of your equipment

So now that you have determined the DS fee you need to charge to cover packaging costs, you will need to add that into your DS plan.

Retailer wholesale cost: \$14.00 per product  
DS fee: \$ 3.00 per product

## Shipping Costs:

The matter of who pays for the customer's shipping cost can vary from retailer to retailer, but the general rule of thumb is that the retailer is responsible for charging the customer shipping. It is easiest if you figure a flat rate shipping cost for every product that you ship. For example, if you know one product costs you \$6.00 to ship, then you can charge the retailer \$6.00 for every order, and add that into your DS plan.

Retailer wholesale cost:	\$14.00 per product
DS fee:	\$ 3.00 per product
Shipping fee:	\$ 6.00 per product

The retailer will pass the shipping fee directly along to the customer. However, you will need to be flexible with retailers when multiple products are purchased and how you will adjust flat rate shipping. Don't overcharge retailers on shipping costs. If you know your product costs \$6.00 to ship, it's not advisable to charge the retailer \$8.00. This will only cut in the retailer's bottom line and make your DS deal less inviting since you are already charging a DS fee to cover shipping materials and related expenses.

Now that you have the financial aspects of your DS plan, you have something to present to retailers when negotiating a DS contract. I say negotiating because retailers are different, and though you have a solid plan, it won't be a one-size-fits-all plan for every store you approach. Be flexible, yet know when you simply can't adjust to a retailer's request.

Now your DS figures look like this:

Retailer wholesale cost:	\$14.00 per product
DS fee:	\$ 3.00 per product
Shipping fee:	\$ 6.00 per product

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Total cost:	\$ 23.00 per product (YOUR FEES FOR EACH ITEM SOLD)
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This end number is what you should expect to be paid for each item the retailer sells (assuming the items you allow the retailer to carry are priced the same). You have received wholesale cost for your item, a DS fee and shipping costs to ship the product to the customer.

As you can see, the retailer will not profit at 50% above wholesale due to drop shipping fees if he prices your product at \$28.00 MSRP for resale. This is acceptable, and expected, since the retailer is not carrying your physical inventory or writing a minimum purchase order. Starting with wholesale pricing gives you the option of being flexible if a retailer asks for slightly different terms and the ability to see how much financial wiggle-room you have as well. Some retailers are happy to only make a few dollars above wholesale for each product sold, especially if he carries a lot of virtual inventory in his store. In the end, you need to determine what is most profitable for you, and worth your time and effort.

## **How Do I Recoup My Fees For Each Item the Retailer Sells?**

How you are paid can vary from retailer to retailer. Some may request to pay you monthly or weekly. Some may pay you after each sale. If you feel strongly about a payment schedule add it into your DS program contract, clearly stated, and make sure the retailer understands what you are expecting in forms of payment.

A retailer may pay you via Paypal, a business check or credit card. As well, some larger retailers carry a company credit card which they expect YOU to charge after each sale. For instance, say a customer makes a purchase from the retailer and you ship the product. The retailer may provide you with a credit card number-to keep on file in many cases-and simply ask that you charge their card for your fees.

In order to do this, you will need to be able to process credit cards through a merchant or Paypal account (which you should have set up if you are a product seller anyway). Keeping a retailer's company credit card allows you to bill for each product-and get paid-before you ship the item to the customer. This ensures that you receive immediate payment for your goods and time without waiting for the retailer to pay you, or running the risk of a retailer who is a slow or non-payer.

An alternative to this is to bill the retailer upon each order and insist that you be paid for each item before you ship the product. This can be done with a simple transfer of funds via Paypal and no credit card is required.

When creating your payment terms, be specific and clear about your expectations, including how you will handle late payments from the retailer, overcharges, refunds and non-payment.

## **Who Handles Refunds, Exchanges or Unhappy Customers?**

Issues related to refunds and exchanges are likely to vary from retailer to retailer. Generally if a refund needs to be given due to damaged or unsatisfactory merchandise, you will be responsible for the refund. If the refund is due to retailer error or other issue related to the retailer, than you should not be liable for the refund.

A few reasons you are responsible for refunds:

- Unsatisfactory merchandise
- Incorrect merchandise delivered
- Late or lost delivery (that shipping insurance does not cover)
- Merchandise that does not live up to it's warranty (ie, falls apart after washing, noticeable flaws with use, etc...)

Reasons you should not be liable for refunds:

- Customers unpleasant experience a retailer
- Retailer error or misrepresentation of a product
- Shipping damage or errors that are covered under postal insurance

Customer service should almost always be handled by the retailer who is representing your products. Because of this, the line of communication between you and the retailer must always be open. The retailer will need to know when you have shipped an item, by what carrier you sent it, any product substitutions or back-orders, delay in product shipping and other key information.

Additionally, if a customer is requesting an exchange of a product, you will need to be prepared for the additional packaging, time and shipping costs associated with an exchange. Be upfront with the retailer about whether or not you will accept exchanges, and who will be responsible for the costs involved.

Back-ordered, discontinued or replaced merchandise can pose problems for a retailer. Because they rely on presenting consumers with exact information about a product, you must keep each retailer you work with informed of any changes in your products status. If you no longer expect to carry a current product in the future, will be replacing your product with a new one or are experiencing lead-time issues with your products manufacturing, be upfront and timely in letting retailers know so they can adjust inventory accordingly.

### **What About Brand Identification & Private Labeling?**

The topic of brand identification can be tricky and you'll need to decide how important your business brand is versus how badly you simply want to expand your product to the retail market.

Some retailers who sell drop ship products do not want another business' brand on the items they offer for sale. This means that they may not want your business tags on the merchandise you offer them, or your logo or packaging materials used for shipping the product. To seem as an exclusive company, the retailer may ask instead that you use their logo and packaging materials. While this doesn't happen often, it is best to be prepared in case a retailer approaches you about brand identification.

If your business brand is very important to you and you are focusing more on growing your brand than simply selling your product, you'll want to keep your brand identification on your product and not enter into a DS agreement with a retailer who is asking you not to. If you are driving your brand forward or have plans of adding additional products to your own branded line it doesn't make sense to allow anyone else to sell your product as their own.



However, if you are more concerned with selling products and bringing in some profit to your business, then allowing a brand transfer can be appealing to you. If you choose to allow a retailer to place their brand and business logo materials on your product, you need a very clear contract about this. In fact, you will likely want to have an attorney involved to craft a rock-solid contract about how a retailer may use your product and display as their own, how and when you can ask the retailer to stop doing so, and any specifics involved.

Never sign anything related to your product brand without a qualified attorney going over everything with you. There would be nothing worse than inadvertently turning over your product or brand to someone else!

### **Private Labeling**

A simpler solution to the topic of brand identification is private labeling. Say a retailer wants to carry lip gloss but doesn't have the resources to produce it themselves. They may approach you about carrying the lip gloss you manufacture but with their logo on the label instead of yours. This allows the retailer to sell their own brand of lip gloss without having to actually make it in-house. This is called private labeling.

You may choose to produce a product for another company or retailer and add their logo/tags and branded material to the product as private labeling. And, if you do, you may charge a private labeling fee. Additionally, the retailer will be responsible for supplying you with all of their labeling and branded materials for packaging and shipping. Private Labeling offers up an entirely separate business contract-one you should likely have an attorney involved in. But it can offer a great way to sell more product and increase your profits if your company brand is not at the forefront of your business plan.

### **No-compete Clause:**

A benefit to you if branding is important for your business, is asking the retailer for a no-compete clause. This would ensure that the retailer does not sell another item closely related to yours, or the exact same as yours, but made by a different company.

For instance, if you sell minky baby blankets you may ask the retailer to no-compete minky baby blankets from another company. This would allow that your brand, of that type of blanket, is the only one offered on the retailer's site.

While some retailers may not agree to this, you should certainly ask them to consider it if you feel strongly about it. However, don't only ask, show them *why* they should consider it.

- Do you have record high sales for that particular item?
- Did you receive beneficial press that would warrant people to look for your item, hence driving buyers to the retailer's store?
- Is your product well-known enough (or does it have the potential of becoming widely known) so you can assure the retailer of good sales?

## **Ok, I'm Ready to Start My Drop Shipping Program! Can We Recap?**

Below you will find a sample drop shipping contract which you can use to help form your own. Because DS can add so many new profitable outlets for selling your product, you really should give it careful consideration and work out drop shipping agreements with retailers that offer long-term relationships. Once your basic DS plan is worked out, you have a working proposal with which to approach a variety of retailers and start selling!

### **Your Responsibilities As a Vendor:**

To have an easy, long-term working relationship with retailers, you have a responsibility to provide clear DS policies. Some of the key points you are responsible for are:

- Pricing
- Product availability
- Lead time (how long will each item take to produce upon order?)
- Prompt shipping
- Correct billing and responsibility for informing the retailer of price changes ahead of time
- Guaranteeing product integrity and quality at all times
- Prompt and open communication with all retailers with whom you contract
- Notifying retailers of any changes that take effect to the DS contract

### **The Retailer's Responsibility to You:**

- Abiding by the terms of the DS contract
- Correct representation of your item in their store/website
- Correct billing
- Exemplary customer service as to reduce the potential for problems for you with unhappy customers/poor customer service
- Prompt and open communication with you about any store or policy changes that directly impact you
- Providing you with packaging materials if appropriate for brand identification

### **The main benefits of starting a DS program:**

*For the Vendor:*

- ✓ Wide range of retailer possibilities from which to sell product
- ✓ Increases brand exposure through wider outlet of retail sales
- ✓ Ability to keep cash coming in during slow retail sales
- ✓

*For the Retailer:*

- ✓ Can add inventory without having to write an expensive wholesale order
- ✓ Can work with a larger number of vendors and designers, even on a limited budget
- ✓ No increase in insurance costs due to the lack of physical inventory
- ✓ Ability to keep cash coming in during slow retail sales
- ✓

*The drawbacks of starting a DS program for vendors are:*

- x Lack of wholesale ordering means you're not getting a large payment upfront for your time and products.
- x Working with slow or non-paying retailers
- x Working with retailers who do not respect your product brand as much as you do

### **Sample Drop Shipping Contract: (Below)**

(Be sure to work in whatever works for you! Copy and paste into your word processing browser and personalize to your company and needs.)

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## Drop Shipping Contract for (your business)

This Drop Shipping Agreement (hereinafter, the "Agreement"), effective as of , is made and entered into by and between (insert your business name) (hereinafter "Wholesaler"), and (hereinafter, "Retailer").

Retailer wishes to sell and promote the products offered by the Wholesaler on their web site located at (<http://> )and agrees to give all sales and/or orders resulting from the previously mentioned products solely to Wholesaler without question or reservation.

**Term:** Retailer and Wholesaler agree that the term of the Agreement shall commence on it's above written effective date and shall continue for a period of 6 months, and for as long thereafter as it is mutually agreed between Retailer and Wholesaler.

**Cancellation:** If Retailer or Wholesaler is not satisfied with the program defined by this agreement, and the results thereof, either party may terminate this agreement by providing thirty (30) days written notice to the other aforementioned party.

**Wholesaler's Role:** Wholesaler will provide product fulfillment for all sales obtained by Retailer in regards to any images of products supplied by Wholesaler. Wholesaler is not involved in the actual transaction between the Retailer and the Customer. Wholesaler is not the agent of either the Retailer or the Customer. Wholesaler retains all rights to all images of products provided and retains the right to prohibit the use of any and all images provided. Retailer may not use any of the images contained within the provided photos for any other purpose other than to gain sales, which will be given to the Wholesaler. Retailer may not use any images provided in any other medium than the specified website without prior written consent of Wholesaler. Wholesaler's manufacturing facility shall be transparent in the shipping process (i.e. each package sent to the Customer will appear to have come from the Retailer directly).

**Billing:** Retailer's credit card information must be provided to Wholesaler before this contract can become valid. At the end of each business day the Retailer's credit card will be charged for the orders placed that day. Items will not be shipped until the credit card payment has cleared the Wholesaler's merchant account (usually a 24-hour turn around time).

**Fees and Charges:** Wholesaler will provide Retailer with a detailed listing of all items shown in the photos along with, but not limited to, the price they will be charged for each item, shipping amounts and any and all other charges which may be due in affiliation with each item. Wholesaler will also provide Retailer with the suggested retail price but not does not promise or suggest those prices to be the best price for Retailer's web site.

Retailer will pay all fees and charges incurred with each item shipped by the Wholesaler directly to the Customer. The price the Retailer charges for each item will be left solely to the Retailer's discretion. **The Drop Shipping Fee is \$2.00 per item.**

**Sales and Tax:** Retailer agrees that it is the sole responsibility of Retailer to collect, report and remit all taxes to the correct tax authority for all business transactions, sales or revenue stemming from the sales of the Wholesaler's products. Retailer further agrees that Wholesaler is not obligated to determine whether a sales tax applies and is not responsible to collect, report or remit any tax information arising from any transaction involving the images or photos provided.

**Return policy:** Wholesaler will provide a 5-day return policy during which a Customer may return an item that is undamaged, unworn, with tags still attached (at their own expense). Wholesaler will also provide a return/refund policy for any damaged or defective items as long as any claims are placed within the agreed upon 5 days of the item being received. Wholesaler will not provide any policy for any claims placed on an item after 5 days of being received.

**Bad address:** Wholesaler will charge the retailer any and all fees associated with a bad address provided. If the apartment/suite number is not included or a bad postal code is provided and reshipping is required, there will be a re-shipping charge equal to the original shipping charge added to the Retailer's account. There will be a 25% restocking fee for all packages returned to Wholesaler because of a bad address being supplied.

**Responsibility:** Wholesaler is in no way responsible or liable for the success of the Retailer's website, the accuracy, or legality of its content and operation. Further, the Retailer has independently evaluated the desirability of participating in the Wholesaler's Drop Ship Program and is not relying on any representation, guarantee or statement other than set forth in this agreement.

**Right to Modify:** Wholesaler retains the right to modify this agreement at any time. Changes will not be retroactive. If any modification is unacceptable to the Retailer, the recourse will be termination of the Retailer's participation in the Wholesaler's Drop Ship Program. Continued participation will constitute acceptance of the modifications.

**Non-Payment:** Non-payment by Retailer will result in immediate removal from Wholesaler's Drop Ship Program. Legal action will be taken if any payment reaches 30 days past due. Wholesaler is not responsible for any payment problems between the Retailer and the Customer.

**Severability:** If any provisions or sections of this agreement shall be deemed unlawful, void or for any reason unenforceable, then that provision or section shall be deemed severed from these terms and conditions and shall not affect the validity and enforceability of any remaining provisions.

**VOID IF ALTERED**

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**Retailer Information:**

Company Name:  
Street Address:  
City, State, ZIP:  
Phone Number:  
Fax Number:  
Email Address:  
Company Representative:  
Title:  
Signature:  
Date:

**Wholesaler Information: (*Your business information and signature*)**

Company Name:  
Street Address:  
City, State, ZIP:  
Phone Number:  
Fax Number:  
Email Address:  
Company Representative:  
Title:  
Signature:  
Date:

I hope you've found this ebook helpful to you as you prepare to offer your products for drop shipping, and I wish you the best of luck with your business.

Remember, if you're not already a member, you'll want to join Boutique Up! Daily. BUD (as we affectionately call it) is your premier resource for finding retailers who are looking for new products via wholesale or dropshipping. As well, we have listings from sellers, like you, who have great things to offer retailers.

You can find the BUD community at <http://www.boutiqueup.com>. You'll also find business resources, like ebooks on creating the perfect pitch letter, eClasses, press release writing services and business copy writing services, as well.

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