

# Setting up Dropship for Amazon - April 15, 2020

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## Cartograph Insights

We help CPG brands build sustainable Amazon businesses

We have recently helped dozens of brands think through Dropship programs to serve Amazon. Faced with changing retail dynamics and consumer behavior in light of COVID, many brands have shifted resources to eCommerce. This surge has overburdened Amazon's supply chain, creating challenges with stocking, ship times, and even quality concerns, making dropship even more important.

This paper outlines our recommendations for setting up Dropship for Amazon. While Amazon's fulfillment network typically has faster delivery and higher margin for brands, setting up the right dropship operation with the right product sizes and assortments, box types, and ship times can often serve as a viable alternative.

## How Dropship works operationally (Fulfillment By Merchant, on Seller Central)

- Amazon sends you every order with the address to your API integration or email.
- The order is picked and packed. Most brands pay a 3PL for pick, pack, packaging and labeling. Target cost: \$2-5.
- The label is printed, and product is shipped to the consumer. Shipping is usually through UPS or FedEx ground, typically with 2-4 day shipping. Target cost: \$7-10.

## Dropship Margin Structure

- Your only fee to Amazon is a fixed 15% referral fee, plus any ads you may run
- As opposed to FBA, brands must procure the box/mailler, pack and label the order, and pay for shipping.
- For most brands, this is done through a 3PL. Most 3PLs will offer simple solutions (box and standard ship rates) so push them to brainstorm solutions, get creative, and reduce cost.

Example Dropship P&L			
SELLER CENTRAL - Fulfilled by Merchant (FBM)			
Category	Value	%	Notes
Current Retail Price	\$24.99		Retail price determined by brand
Amazon selling fee	\$3.75	15%	Fixed fee to sell on Seller Central
COGS	\$3.75		
<b>Product Margin</b>	<b>\$17.49</b>	<b>70.0%</b>	
FBA fulfillment / labeling fees	\$0.00	0%	No fulfillment fees paid to Amazon
Returns and refunds	\$0.37	1.5%	Count on having to pay for some returns
PPC & Promos	\$2.50	10.0%	Voluntary: Coupons, ads, and promotions
Packaging materials cost	\$2.00	8.0%	Box, label, any other kitting
Pick and pack fee	\$2.00	8.0%	Charged by most 3PLs - covers labor
Shipping cost	\$8.00	32.0%	Shipping usually paid to UPS or FedEx
<b>Net Profit</b>	<b>\$2.62</b>	<b>10.5%</b>	

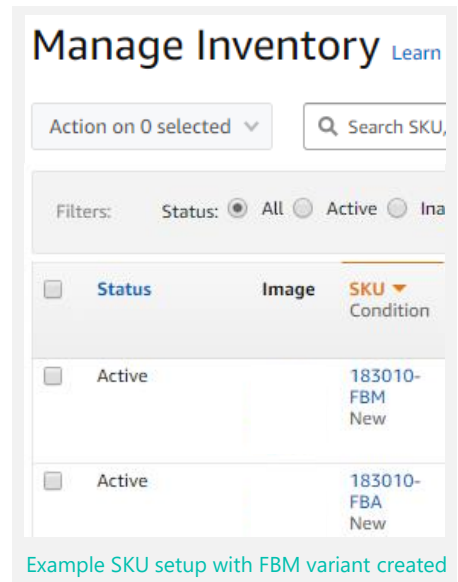
Dropship P&L: An "ideal case" P&L with average costs brands should expect with Dropship.

## Optimizing Your Margin

- **Find affordable shipping:** You can choose the delivery speed, so avoid 2<sup>nd</sup> Day Air. Explore USPS or FedEx Flat Rate options with your 3PL. These options get product to most customers within 1-3 days at a \$7-8 cost for most CPG item sizes. Standard FedEx or UPS rates often have hefty surcharges for residential deliveries and fuel.
- **Optimize your packages: Think "small or large"**  
**Small:** What can you fit into a flat rate package or a soft mailer? Can you break cases/caddies and put products in an envelope or bag? This will also reduce box costs at your 3PL.  
**Large:** Consider selling cases of product – reduces repack fees and can absorb more fees with higher total basket size.
- **"Free" shipping:** We generally recommend offering free shipping on Amazon, as this converts better than having customers pay for shipping. However, you do pay the 15% selling fee if you include shipping in cost.

## Setting Dropship Up In Amazon

- We recommend copying your FBA listings and creating a separate "SKU-FBM" variant in your catalog (rather than convert a listing). In Seller Central: FBA inventory >> Edit >> Copy Listing.
- Another benefit of doing it this way is that when FBA reopens to new shipments, you can keep your dropship listings open while your FBA inventory is inbound.
- This will clone your item details to a new listing. Under Offer >> Seller SKU, append "-FBM" to the SKU name. This will make the data much easier to organize and track.
- Under Offer >> Fulfillment Channel, just change the Fulfillment Channel method to "I will ship this item myself".



## Other Items to Consider

- **Keep a close eye on your performance metrics.** Amazon is very strict in enforcing their SLAs (e.g., ship confirm windows) and will quickly suspend your dropship privileges if you don't maintain a good scorecard. Note that you can control a lot of these timelines via settings through shipping templates in Seller Central.
- We strongly recommend an **API integration on Seller Central** to automate order data between Amazon and your warehouse. This eliminates labor and reduces the risk of human error. A common easy-to-use solution is ShipStation.
- Seller Fulfilled Prime used to be a way to ship Prime on Dropship but is no longer accepting new registrations.
- Vendor Central brands can use **Amazon's Vendor Central Dropship** program. It requires an EDI (not API) integration and uses your program terms. You set an invoice cost, and Amazon sends a paid UPS label. It's more complex to set up but lets brands offer Prime Shipping. We know this channel well: reach out to us if you're exploring this option.

## Perishables

- Dropship is the only viable option to ship perishables through Amazon's core ".com" platform. We have recently spoken with many brands exploring opening this business. It mirrors the above logic, with a couple variations:
  - 3PL must have cold-chain capabilities and storage, with insulated coolers / mailers, ice packs, and 2-day shipping
  - Push for insulated mailers with ice packs if possible, as shipping will be cheaper and may fit in flat rate boxes
  - We recommend shipping only on Monday & Tuesday, so products don't sit on a porch over the weekend
  - Steady state, having multiple nodes (e.g. East, West, Midwest) allows for cheaper shipping across the US

While Amazon's fulfillment network will likely recover in the coming months, growing consumer acceptance of eCommerce in general will continue to increase the viability of higher dollar price dropship businesses. The value of the Prime badge could even be slightly diminished. Investment in dropship strategy will likely have powerful return long-term.

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We'd love to hear from you! If you'd like more information, please reach out at [contact@gocartograph.com](mailto:contact@gocartograph.com).

### ABOUT CARTOGRAPH

Cartograph is an eCommerce focused agency that helps food brands sell their products on Amazon. Their mission is to help brands grow products that are better for people and the planet. They support brands with strategy, pricing, SEO, advertising, and operations and logistics. Cartograph is based in Austin, TX.