

Amazon FBA or Dropshipping: Which one is right for you?

There are two approaches to selling online namely Amazon FBA and Dropshipping. You need to decide whether to go for Amazon FBA or Dropshipping. Both of these approaches have unique features and limitations also. Read this article to know which one is right for you, Amazon FBA or Dropshipping.

Amazon FBA

FBA which stands for Fulfilment by Amazon is a service that allows you to sell your products on the platforms of Amazon while Amazon takes care of the logistics of fulfillment, including picking, packing, and shipping your goods from their fulfillment centers to the customers.

For your day-to-day business operations, you have to just pay small fees to Amazon and they will handle all the logistical aspects of your business. This will allow you to focus your energy on upgrading your business particularly letting your brand grow.

What happens is this:

1. The inventory of goods is shared by a seller to Amazon Fulfillment Centre.
2. Amazon receives the products, sorts them, and then stores them.
3. The customer puts an order for your product.
4. After the order is placed, Amazon picks it, packs it then ships it to the customer.
5. Customer service is taken care of by Amazon, including the return policy.

One thing that you should note is that you are utilizing the power of Amazon when it comes to making sales, it's convenient and you won't have to contend with any Post Office queues or fights with bubble wrap and sellotape!

However, you should be ready with:

1. **Your products.** Based upon the rigorous research you should know what to sell to your customers and then source it to Amazon FBA.
2. **Updated inventory.** Always keep your stock inventory updated. You should ensure your stocks are replenished from time to time.
3. **Product lists with the best marketing strategy.** Amazon is huge but you will still need to write effective product listings and titles and market your products so that people can find them.

Benefits of Amazon FBA

You can benefit from Amazon's Reputation The trust in Amazon is universal. Products ordered by people are delivered, they know this. If the product is not up to standard, they know they can return it. In making their decision, whether to buy a product or not, this plays a huge role. The reputation of Amazon precedes it and you will certainly benefit from that.

- **Lightning Service**

Amazon can provide a superfast service. The online system of Amazon includes features like fast processing and dispatching. For this reason, they can ship products to your customers faster than you may be able to.

- **Better Appearances and Visibility**

Using Amazon FBA will give you better visibility and your products will appear frequently in search results. Products from sellers not using FBA have items listed by total price (price of the product plus shipping costs). However, as an FBA seller, you will have your items listed by price only thus making it one of the first items in the search results.

- **Chances of Securing a Buy Box**

The Amazon Buy Box is the big 'Add to Basket' button displayed on all product listings on Amazon. As a seller, if both you and Amazon are selling a similar product, they will always have the Buy Box, of course, they will! However, by using Amazon FBA you can still compete. FBA is one of the variables Amazon likes to see within your shipping methods, so this makes it highly likely that you will win the buy box on your other product listings. Being listed in the Buy Box is a major benefit in the marketplace because there will be 20 or more sellers that will be offering the same products.

- **Reduced Overheads**

Resources and overheads for storage, employees, and administration are reduced once you have Amazon FBA and you will be able to focus on selling more products and boosting your profits!

- **Run Your Business Anywhere**

You can be anywhere in the world and keep doing business. Amazon FBA will handle all your orders 24/7. You will not require dealing with customers more often. For example, if a buyer has an issue with their order, they can contact the customer service department at Amazon, rather than needing to deal with it. This saves you valuable time, stress, and frustration and you will not need to speak with customers directly.

Costs of Amazon FBA

- **Hard to know your Inventory**

The quantity of products would not guarantee your products should be sold as fast as you think. Therefore, it becomes difficult to know about your inventory, particularly what you require and what you have to increase, especially when it is stored in the fulfillment centers. If your products go out of stock, then Amazon will reduce visibility leading to lower sales. It can be hard to know what you have remaining to fulfill the demand of your customer.

- **Amazon FBA costs Money**

Of course, they do charge fees. Just like you, their sole aim is to make money. They do charge both storage fees and fulfillment fees. Storage fees can mount up if your stock is not selling as quickly as you would like. To minimize your Amazon storage fees you will need to make sure your stock moves quickly. You will also need to make sure that your products are still profitable after taking into account your FBA fees.

Fees are for picking and packing, monthly storage fees, long-term fees, and order fulfillment fees. This means you will have to pay based on how much inventory you store, for how long, etc. In addition, you have to make sure that these fees are cost-effective for your business or you can end up at a loss.

Amazon has Requirements

Before sending the products to fulfillment centers Amazon requires you to follow their ASIN/UPC system. You need to pack and label your products individually and all this should be done before shipping them to Amazon, if not it can be challenging.

After knowing the costs and benefits of Amazon FBA we will try to compare it to dropshipping. This will help us in deciding whether to choose between Amazon FBA or Dropshipping.

Dropshipping

Like Amazon FBA Dropshipping is also a retail fulfillment method. However, in this, a store does not keep the products it sells in stock. On the contrary, the items are purchased from a third

party and shipped directly to the customer. Consequently, the seller does not handle the product directly.

The main point of distinguishing between dropshipping and Amazon FBA is the seller does not require to stock or own an inventory. He or she purchases from a third party and sells it forward.

Dropshipping works like this:

1. Your customer places an order using his phone or any other device.
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Benefits of Dropshipping

- **Less Capital**

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Whereas in Amazon FBA the overheads are reduced, in dropshipping the overheads run very low. Many successful dropshipping businesses are home-based that require not more than a laptop and few recurring expenses to operate. With your growth, the profits are going to increase.

- **Flexible on Location**

Dropshipping can be run from anywhere. You just require an internet connection. If you can communicate with the customer and the supplier easily, you can run the business and manage it easily. This makes dropshipping easy.

- **Wide Range of Products to Sell**

Since you do not have to pre-purchase the items you sell, you can offer an array of trending products to your potential customers. If suppliers stock an item, you can list it for sale on your online store at no additional cost.

- **Easier to Test**

If you want to launch a new store, dropshipping is a beneficial fulfillment method. As well as business owners looking to test the appetite of customers for additional product categories, e.g., accessories or wholly new product lines would benefit from this method.

Costs of Dropshipping

- **Less Control on the Market**

The benefits are before you, however, as a dropshipper, you may lack control over how the product is marketed online. Dropshipping cannot give you control over the product. The supplier does the branding and designing. Suppliers can make changes for you but that will also depend on your order, particularly the quantity.

- **Low Margins**

This is the biggest disadvantage of the dropshipping method. Specifically, there is competition by other dropshippers. You should know it is not just you, who is opting for dropshipping, there

are others also. This means you will have to adjust your profit margin, and for that, you might go to rock bottom. Likewise, your shipping costs will also depend on your competition.

- **Inventory Issues**

If you stock all your products, it is comparatively simple to keep track of which items are in and out of stock. However, when you are obtaining from numerous warehouses, which are also fulfilling orders for other merchants, inventory can change daily.

Conclusion

Now that you are aware of the difference between Amazon FBA and Dropshipping, as well as the costs and benefits of both methods of online business. You can compare the information and find what suits you. The good news is that with some careful planning and consideration, most of these hurdles can be resolved and need not prevent you from building a thriving, profitable business

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