

Becoming an e-tailer entails CAREFUL RISK ASSESSMENT

Experienced eBay trainer, **Nerada Stern**, continues her insightful series on how to negotiate the shoals of purchasing local and imported products for selling through eBay or on the broader internet.

THE NUMBER ONE question I get asked by entrepreneurs keen to develop eBay businesses is about sourcing products: where can I buy small quantities to fit my budget; how do I buy from wholesalers; what products can I sell that don't require a big storage space; should I import directly from China; and how can I sell products without actually having inventory (drop-shipping)?

Approach traditional suppliers for large and small bulk orders

Ordering items from local wholesalers either directly or at trade exhibitions sounds simple enough, but is often overlooked by new e-tailers. Trade exhibitions allow buyers the opportunity to explore a very broad range of products, and discuss them in detail with exhibitors without any pressure to buy or place orders immediately.

The clear advantage of purchasing items already in Australia is that e-tailers do not need to deal with the complex legal and tax requirements involved in importing items or potential shipping problems that may occur. If there are any problems with the stock it is far easier to obtain a refund and claim warranties.

Hayden May, veteran e-tailer and proprietor of several product-specific websites including www.motivational-posters.com.au, makes a point of using only Australian suppliers, ensuring that he can establish and maintain face-to-face contact. "I know the people are real, they'll do what I ask and provide the service I'm after."



Toni Bramley, seller of cosmetics on eBay

Beware of wholesale lists and drop-shipping lists

Increasingly buyers are turning to the internet for easy ways to source products. Not surprisingly, a whole industry of rogue traders flogging wholesale and drop-shipping directories has evolved. There are now thousands of lists floating around the internet promising easy ways to make money, but it is the people creating the lists, not the people buying them who profit. The old rule applies: if it sounds too good to be true, it probably is. There are no shortcuts in hunting down products that are in demand.

"The answer is persistence," says Toni Bramley [userID `all_things_lady_like`] one

of Australia's largest sellers of cosmetics on eBay. "Don't pay for wholesale lists – they are a total waste of time." Shane Leon Gard, mobile phone accessories and online entertainment entrepreneur (www.onyaphone.com) agrees. "You can't hope to have profitable sales buying a public list that others have obtained for the same price and ultimately selling identical items to the same marketplace."

Search eBay to see what products buyers want

Brendan Elias [userID `electronicssurpluswarehouse`] buys directly from factories in China but still uses eBay first for product ideas and lifecycle. Elias looks at eBay listings from non-professional sellers selling single new items or second-hand items to get ideas of items that would be worth sourcing and selling commercially. He currently specialises in All Terrain Vehicles (ATVs) and pocket bikes but warns "don't delude yourself with products which have ended their product cycle. A couple of years ago aluminium scooters were selling for \$150. Now they sell at the Bondi Market for \$30. If you were buying aluminium scooters now for resale, you could be making a loss."

Gard treats eBay like the stock market. "I follow certain products that I'm interested in to find out how many of an item a particular seller sells a day, give them my own rating and then come back at random and compare their sales. Gard comments that he always comes back to eBay when looking for new products ►

whether for his Perth-based bricks and mortar mobile phone accessories store, or his website, because of the integrity of the eBay feedback system.

Network through eBay

For Bramley, eBay is a great networking source. Bramley got her start buying small bulk lots of cosmetics on eBay.com, the American eBay site, for resale on the eBay Australia site. A nail technician and makeup artist by training, Bramley bought 200,000 nail tips at \$1 per thousand. "It was a big gamble to lose my \$200 and friends thought I was crazy." Fortunately, they sold rapidly, and she hasn't looked back.

She still buys products on eBay as a way of making contact with potential suppliers. Recently she purchased 100 lots of Jessica Simpson lip-gloss as a trial product. Being a small order, she paid airfreight to ensure the goods arrived quickly. Once she sees how sales go she knows who to contact for future product supplies. "Buying on eBay offers lower profit than direct importing, but it is a low risk way of trying products in my store."

While it is eBay policy that if an item is listed for sale on eBay it cannot be sold offline, once there is a relationship between buyer and seller there is no prohibition on them contacting each other directly in the future. Elias adds "three years ago no one was selling digital pedometers on eBay. I realised it would be great to sell the item commercially, and found a seller selling small volumes on eBay who didn't know how to market them. I bought one from him, and after that I paid him to buy a large quantity of the pedometers for me from Canada, and they were a huge success for me."

Buying bulk lots on eBay is seen as safer than other methods of direct importing especially when buying from sellers who are part of the PayPal Buyer Protection Program. At any one time there are 93 million eBay listings worldwide – that is a lot of widgets. Most bulk lots are listed under the Business/Industrial category, which is growing exponentially as businesses increasingly use eBay as a key distribution channel.

Be persistent in looking for suppliers

Finding suppliers requires patience and persistence. "I never find suppliers overnight" says Bramley. Many of her leads come from joining up eBay and internet mailing lists, and searching through email newsletters from surplus warehouses in the US for products. "I get onto everyone's mailing lists. There'll be a lot of junk, maybe only 10% of it is good, but I find great deals from surplus warehouses in the US who have the buying power to offer branded cosmetics at lower prices than the Australian licensed distributors. But you have to be prepared to put up with spam... it literally takes hours and hours to search through stuff."

Bramley comments that making contact with potential suppliers involves basic networking principles. "Email is fine for making initial contact, but it is very important for me to stay up one night per fortnight and make telephone contact with suppliers."

As it is difficult to forecast how product range and business focus may change over time, Bramley recommends using a notebook specifically to record details of potential suppliers. Even if you don't proceed immediately, keeping a log can be a real time-saver later. "I just wish I had kept records of all the contacts I had developed from the start. Contacts not relevant two years ago would be so helpful now."

Buy small test lots

While there is often a lot of pressure to buy large quantities, it is often possible to negotiate much smaller volumes as well as obtain sample stock. Bramley discovered that giving away samples of a new kind of nail file from Pakistan that she was exploring, as part of plans to import and brand her own line of beauty accessories, gave her invaluable market research.

The product testers reported that after the third use, the sample item no longer worked. Without the testing, it could have been a costly mistake both financially and in terms of reputation.

Search internet databases

Scouring Google and internet databases like IndiaMart, Alibaba.com and DHgate.com can provide excellent leads for items that can be imported directly from manufacturers overseas. The tedium of going through website after website is outweighed by exhilaration when you finally locate a supplier with products, pictures (photos) and pricing who really seems to understand your needs as an overseas buyer.

Bramley adds "I am selling Revlon, Cover Girl and L'Oreal cosmetics on eBay cheaper than pharmacies can buy them wholesale from the Australian distributor." But direct importing is not for the faint-hearted. "I have been burnt, things haven't arrived or they are not as described," says Bramley. "It is vital to check the reputation of the seller. Using PayPal is fantastic, and I insure everything, especially when I am ▶



Brendan Elias



Shane Leon Gard

bringing in lots of several thousand dollars at a time.”

Test potential suppliers

There is no foolproof way to check whether an overseas supplier is genuine. Before handing over hard-earned cash, Elias recommends reading all communications from the potential supplier thoroughly and critically. Thoroughly ask questions to avoid any misunderstanding, and if the responses fudge around the issue, or do not really answer the questions, then it is wiser not to proceed with that supplier.

Brendan Elias points out that there are fraudsters who advertise on internet databases with links to fake websites that when checked do not work properly. “Investigate their website, click through the links, and if the supplier doesn’t have a working website then you should be suspicious.”

When Shane Leon Gard is looking into a potential overseas supplier he will cut and paste their business name into Google together with the words ‘scam’ and ‘fake’. The search results are often very revealing. Gard also looks for phone numbers and physical addresses on websites for clues about suppliers’ authenticity.

Elias believes that speaking the local language is a critical success factor. If you don’t have the language skills it is better to arrange someone who can ask the questions for you, rather than relying on the overseas supplier to communicate effectively in English. “A small expense here could save you thousands later,” he says.

Gard says that it is important to be a good letter writer and that persistence and good presentation are often needed to get responses to email queries. “Suppliers take you more seriously if you have a professional sounding email address rather than a generic email address such as hotmail, and a website designed by a professional, otherwise Chinese companies may not even respond to emails.”

Even after being satisfied with a sample shipment it is still advisable to use the services of an import agent if you can’t physically visit the supplier to view the contents of an order before it is shipped to Australia. There are countless anecdotes of buyers relying purely on sample stock being defrauded on larger shipments.

Consider drop-shipping cautiously

Drop-shipping involves placing orders for items after receiving payment, and delivery directly to the end customer without the seller ever seeing the item. It is an increasingly popular way to contain storage, handling and other inventory expenses as well as delivery times. On eBay this is called a pre-sale listing, and there are strict rules about how such items are promoted to buyers.

May is a keen advocate of drop-shipping over holding stock. May buys every item he promotes through drop-shipping arrangements. He warns that the creeping cost of holding stock is ultimately disastrous for companies of any size. “If you don’t move the merchandise today your fixed costs will increase.”

May prefers suppliers who provide catalogues in online form rather than those that hand out hardcopy brochures. “If they have a catalogue with data in a spreadsheet and good quality digital photos I can have the product on online in five minutes but if I have to download all the products and details from a ▶

TEN PRODUCT SOURCING TIPS

1. Use eBay to find potential suppliers and establish contacts
2. Think creatively about upcoming lifestyle trends and customer needs rather than resorting to already popular products that may be nearing the end of their life cycle
3. Be patient and persistent in searching for suppliers who effectively answer your questions, and don’t be tempted to compromise on product quality.
4. Check supplier authenticity through, telephone contact and comprehensive website testing in addition to email correspondence
5. If buying unbranded products, thoroughly test a sample before buying a bulk order
6. Negotiate with suppliers to buy smaller volume than advertised
7. Keep a separate notebook of potential suppliers and contact details
8. Get familiar with wholesale jargon
9. Check restrictions on eBay under help rules and policies
10. Seek advice from Customs and legal advisers about import restrictions

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website it takes too much time" he says. Drop-shipping is not without risks. May works hard to manage the expectations of the customers and suppliers especially regarding turn-around times.

Elias bases his success on controlling distribution and product as much as possible. "It's all a question of quality control. I don't want to put the quality of items I am selling in the hands of drop-shippers. On eBay, people buy based on my feedback rating; my reputation is everything. I don't want other companies to control how my customers see me in terms of post, the quality of the item, and any delays."

Observe legal requirements

Elias warns, "don't take action before thoroughly researching". This research includes the applicable taxes and any restrictions on imports. "It may seem obvious but it is important to check out applicable Customs duties before you buy. There can be exorbitant duties on clothing, textiles and footwear."

"If you don't check out before proceeding you might end up making a loss. You can't base business decisions on something that involves evading taxes." Gard adds you have to be careful of distribution rights if you're dealing with brand name products.

Seemingly harmless items may in fact require a permit to be imported into the country. Even worse, the items may be a prohibited import and not allowed into the country in any circumstances. "If you arrange for goods to be brought into Australia, then by law you are regarded as the importer of those goods, and when those goods arrive in Australia, they will be subject to Customs controls which can include product seizure and fines" according to the Customs Australia website (www.customs.gov.au). While it is not a requirement, it is recommended that importers use the services of a customs broker to complete customs import entries and related clearance formalities.

Create uncontested market space

Successful e-tailers are not in competition with each other. Rather than relying on stale second-hand lists, successful e-tailers tap into their creativity, interests and experience to produce their own treasure trail. They do their own rigorous research to find bulk quantities of the products buyers want. Then using networking principles they develop and maintain strong personal connections with potential suppliers, and are extremely thorough in ensuring all expectations are met. ●



Nerada Stern is the lead trainer for inDemand, one of the largest providers of eBay training nationally. Nerada welcomes questions from readers.

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