

ЕКОНОМІЧНІ НАУКИ

UDC 339

ADVANTAGES AND DISADVANTAGES OF DROP-SHIPPING

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According to today's tendency, we can assume that numerous e-commerce retailers prefer to use drop-shipping to satisfy demand. Retailers simply forward clients' orders to provider who sends the order straight to the clients, which all expenses were paid in advance. Aim of the paper is to outline pros and cons of drop-shipping in the new century. Consequently, in descriptive literature analysis, pros and cons of drop-shipping were studied, main aspects were likened in order to come up with conclusion of drop-shipping.

Keywords: drop-shipping, e-commerce, e-retailer.

Introduction. Since internet has become more and more wide, drop-shipping also became former business model for start-ups and small businesses. Drop-shipping is determined in the marketing literature as «a marketing function where physical ownership of goods sold sidesteps intermediaries, while the name through all the parties concerned. The function of drop-shipping includes both the retailer who proceeds the drop ship order and the supplying entity that provides drop-shipping services by filling the order for the e-tailor» (Scheel 1990).

Nowadays technology gave Drop-shipping new opportunities that now drop-shipping moved from traditional business to online business. Old retail fulfilment process changed to online and more competitive advantages against traditional methods.

One of the pioneer writer about drop-shipping as a marketing function Scheel (1990) defined that in the past, the term drop shipment has been used to describe inventory that physically bypasses a limited-function middleman who initiated the drop ship order and is shipped directly to the customer of the middleman by a manufacturer or stocking entity. Moreover, before many marketing books described drop shipping with limited potential.

However, with the innovation in internet industry, real-time data-integration is willingly accessible at a low price (Netessine & Rudi 2001). The mix of the physical idea of drop shipping with the data combination made conceivable by the Internet settle the issues that earlier limited the implementation of drop shipping.

Scientific problem. Nowadays Majority of new e-commerce, which use drop shipping as main process of fulfilment, they faces everyday new challenges and opportunities. This development raise a question, what is the main advantages and disadvantages of drop-shipping in 21st century.

Object of the work. Advantages and Disadvantages of Drop-shipping.

Aim of the work is to define pros and cons of drop-shipping in the new century.

Logical structure of the work. The article signify the theoretical analysis of the scientific issues, which includes the overview of pros and cons of drop-shipping business model, highlighting main noticeable features of model. Article concludes with conclusions.

Methods and techniques. In this article, as a methodology were used descriptive literature review. A descriptive literature review simply defines the significant Advantages and Disadvantages of Drop-shipping in new century. Descriptive review stresses on revealing an understandable design from the current literature (Guzzo et al., 1987). Consequently, in descriptive literature analysis, pros and cons of drop-shipping were studied, main aspects were likened in order to come up with conclusion of drop-shipping.

ADVANTAGE OF DROP-SHIPPING

According to Sehgal (2012), online retail store deals are predicted to keep on accounting for a significant share of total retail deals, with online sales estimated to develop from 7% of general retail deals in 2011 to near 9 per cent by 2016.

The Internet has also presented a few new business methods that improve traditional business models, including Digital marketing (e.g., affiliate marketing), online auctions, for which the Internet provides efficient platforms with fewer geographic boundaries, and drop-shipping (Yu et al., 2017).

Schneider (2011) notes that firms are keen on electronic business in light of the fact that, just, it can help build benefits. Every one of the upsides of electronic trade for organizations can be summarised in one statement: e-business can build deals and decreasing expenses. There are several benefits from Drop-shipping:

Less investment is needed – Undoubtedly, the greatest benefit to drop-shipping is that it is possible to start a web based commerce store without investing a large number of dollars in stock in advance (Hayes and Youderian, 2013). Traditional way, retailers have needed to find investment just for obtaining stocks. With the drop-shipping model, you do not need to buy an item, at least you officially made the transaction and have been paid by the client. Without major prominent stocks, it is possible to begin an effective drop-shipping commerce with a little amount of money.

Positive cash flow – Pierce (2014) illuminated that since the customer pays you before the product is delivered, you will have a positive cash flow cycle. Many people use their credit card and take advantage of the credit card float period so they will not use their cash. If you develop a good

relationship with a supplier, some will delay your payment by 30 days to 90 days.

Flexibility in location – Drop-shipping should be possible from anyplace, insofar as you have access to the network (Hawk 2016). You simply should have the capacity to interact with your clients and your providers, and that indicates you can keep tracking and managing your drop-shipping business from anywhere. At the same time as entrepreneurs who is selling physical products made use of drop shipping services to allow location independence (Daniel, et al., 2014).

Clark & Douglas (2010) in the research mentioned that there are various factors that support the thought of having the capacity to work in any place, especially for those organizations offering IT or different administrations or who can make utilization of a system of different organizations to embrace key business capacities. The capacity to address feelings of social and expert seclusion by means of online media, for example, proficient and social networking, likewise imply that organizations are not forced to be near physical social or professional networks.

Product variety – Waksman (2016) described that Drop-shipping permits businesses to offer an assortment of various sorts of items. Firms are not stuck to one item sort due to limited income. This keeps their clients satisfied and returning to purchase more items. At last, having the alternative to offer an assortment of items can help to business generate more profit.

Reduces risk – According B2B company Quality Trade (2016), Drop-shipping additionally decreases the dangers required with beginning up a business or venturing into another market, as though things do not work out, you are not left with a huge number of items in your distribution centre which later you need to offer cheap price.

Managing imbalance demand – Mathien and Suresh (2015) published that since retailers cannot predict demand with assurance, they should hold inventory to cover the unpredictability in demand. Retailers with smaller request must keep in substantial amounts and have higher conveying costs. As client demands fluctuates at the retailer level, it turns out to be further beneficial for retailers with minor requests not to hold physical items. It is expected that the decrease in retailer stock expenses brought by drop shipping will make up for the higher expenses at the provider level.

Private labelling – Markus (2017) has mentioned that rapid growing of drop-shipping business in all-worldwide, which gives the chance to use private label products as part of their portfolio. Private labelling in drop shipping has five significant benefits:

Higher control of production – relying upon e-retailer's agreement with a manufacturer, they can have changeable degrees of control over item quality, fixings, materials, and design.

Control pricing – because of firms impact over item fabricating, they get the chance to decide item cost and set high margin.

Control branding – since private label will be e-retailer own brand, they have the right to say how, when and where products will be promoted.

Staying nimble – With low limitations and the capacity to settle on choices rapidly, small retailers

have the benefit of utilizing private name items to react to market trend and demands.

Higher customer loyalty – successful private label products gives chance to e-retailers, to create high customer loyalty and boost brand awareness for other retailer.

Customization and personalization – According to Mathien and Suresh (2015), «the ability to aggregate inventories and postpone product customization is a significant advantage in drop-shipping model». Arora et al., (2008) noted that Customization is the point at which the consumer proactively determines at least one components of his or her marketing mix (Fig. 1).

In many mass markets, organizations are facing prediction problems. From one viewpoint, consumers are requesting that their orders be satisfied always rapidly. Then again, they are requesting extremely customized products and services. Indeed, even without trying to customize their items, most organizations have thought that it was hard to satisfy orders quickly and at an acceptable cost.

Personalization is the point at which the firm decides (Fig.1), usually in view of already collected consumer information, what marketing methods, campaigns and approaches are reasonable for the person (Arora et al., 2008). The practical benefits of personalization lie in more prominent consumer loyalty and higher benefits.

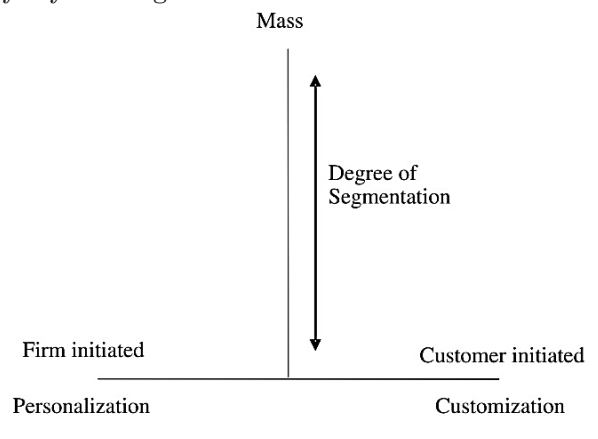


Fig. 1. Understanding personalization and customization

Source: Arora et al., 2008

For instance, Malthouse and Elsner (2006) said «In a field test that personalizing the copy used in a book offer increases response rates significantly».

The significant advantage to drop shipping is that it offers low start-up costs and the capacity to offer a huge choice of items without acquiring stock upfront and dealing with that stock. Drop shipping can likewise be an extraordinary instrument to help expand your stock and test items since it is just simply a question of adding the new item to your online store.

DISADVANTAGE OF DROP-SHIPING

Drop shipping can be a great for launching commerce model; however, it is not without disadvantages and weaknesses. Wilson (2000) noted that despite pros of drop shipping, many e-retailers have discovered that drop shipping should not use only for satisfying customer request. Some of the most prominent cons of this commerce model include:

High prices – Some of the time the cost for items from a drop shipping business will be higher than the retail cost of those same items sold in mass promoting chains. It is just a question of financial aspects (Granai 2008). The provider puts cash in item, stores it, keeps up the distribution centre, staff and brings about every one of the costs important to make accessible an item that you can get one piece at any given moment. That is costly, and e-retailer pay the costs.

High competition – Malnik (2017) mentioned that Drop-shipping has a low entry portfolio, which implies many other individuals will offer similar items. This makes more competition and makes it harder to have competitive advantages as a new business. On the off chance, that supplier can sell the same product to other e-retailers which company already is offering. It is truly hard to emerge as an exceptional business when you are quite recently working with drop shippers.

Lack of quality control – At the point when organizations use a drop shipper, there is dependably the potential that quality can go down sharply (Cartwright 2016). It is serious to keep on the quality, rate of refund and return, and different issues with clients, since they are not going to be upset with the drop shipper – they will be angry with company when something turns out badly.

Low margins – Hayes and Youderian (2013) has noted that low margins are the significant drawback to working in an extremely competitive drop-shipping niche. Since it is so easy to begin – and the overhead expenses are so insignificant – numerous shippers will set up shop and offer things at low costs trying to increase income. They have put so little in investment the business, so they can afford to work on low profit.

In an internet business condition, the drop-shipping mode reduces the stock risk from e-retailers. Nonetheless, the drop-shipping mode has bring down profitability as contrasted with the traditional mode (Wang et al., 2014).

Shipping complexities – A notable downside of drop shipping is that a single purchaser order may contain items from various suppliers and thus will be disjointed (Khouja and Stylianou 2009). If organizations work with different suppliers, which mainly all e-retailers do, the items on company website will be traced over a number of various drop shippers. This confuses and increases shipping expenses. (Hayes and Youderian 2013).

If companies can handle these disadvantages, they will have high competitive advantages among competitors. None of any model is perfect, it is question of how organizations accept these threats and change them to opportunities.

Conclusions. · Theoretical analyses helped to summarise the overview of definitions of drop-shipping business model, illuminate advantages and disadvantages of drop shipping

- At present Drop-shipping moved from traditional offline stores to online stores that makes it to be possible from anywhere, insofar as you have access to the network.

- Less investment is the beneficial part of Drop shipping that allows new start-ups and entrepreneurs to enter and launch companies in market.

- Drop shipping can likewise be an extraordinary instrument to help expand your stock and test items since it is just simply a question of adding the new item to your online store.

- Drop shipping has a low entry capital, which involves many other individuals will offer similar items. This makes more competition and makes it harder to have competitive advantages as a new business.

- Shipping still problematic issue for companies, especially when there are more than two supplier of organization.

- In Drop shipping there is the dependably option that quality can go down sharply. It is significantly hard to follow quality of products, rate of refund & return and different issues with clients, since they are not going to be unsatisfied with the supplier – they will show anger to companies.

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ПРЕИМУЩЕСТВА И НЕДОСТАТКИ ДРОПШИППИНГА

Аннотация

Согласно сегодняшней тенденции, мы можем предположить, что многие розничные торговцы электронной коммерции предпочитают использовать дропшиппинг, чтобы удовлетворить спрос. Розничные торговцы просто перенаправляют заказы клиентов поставщику, который отправляет заказ непосредственно клиентам; все расходы оплачиваются заранее. Целью статьи является обрисовать плюсы и минусы дропшиппинга в новом столетии. Следовательно, нами выполнен анализ литературы, изучены плюсы и минусы дропшиппинга, проведено сравнение основных аспектов с целью формирования выводов о дропшиппинге.

Ключевые слова: дропшиппинг, электронная коммерция, розничный электронный торговец.