



DROPSHIPPING GUIDE: STEPS TO BUILD A SUCCESSFUL BUSINESS DURING COVID?

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INTRODUCTION

Dionna Dorsey wanted to spread the positivity of her community of creative people around through her full-time job - "Dionna Dorsey Design." This idea gave her the push to create a drop-shipping marketplace called [District of Clothing back](#) in 2014.

Dionna started the drop-shipping project as a side hustle back in 2014, and by 2016 she made \$29K extra on her earnings from a full-time job. Now she owns a full-fledged print-on-demand drop shipping firm with a massive user base. A drop-shipping marketplace is a business approach where you only need to pass consumer's orders directly to the suppliers or manufacturers. Then you purchase those items from the supplier and deliver them to the customer. There are no storages or inventories to stock the product. Such an approach is popular among many eCommerce giants like Amazon and eBay. Especially during this pandemic, when physical shopping is losing its charm, drop-shipping is becoming ideal for many businesses. With the restrictions of movements and imposed lockdowns due to multiple waves of COVID19 infections, warehousing is also not that easy. Drop-shipping eliminates the need for inventory and thus remains ideal for businesses looking to grow in the current scenario. With an estimated \$125.45 billion revenue [alone in the US](#) by 2027, the drop-shipping market is on the rise. So, if you are looking to mimic the massive success of giants like Amazon or even create a side hustle like Dionna, here is everything you need to know from the business model and source revenue to the demand analysis and SWOT analysis of the drop-shipping market.

Let's first know what drop shipping is and how this industry is disrupting the eCommerce landscape.

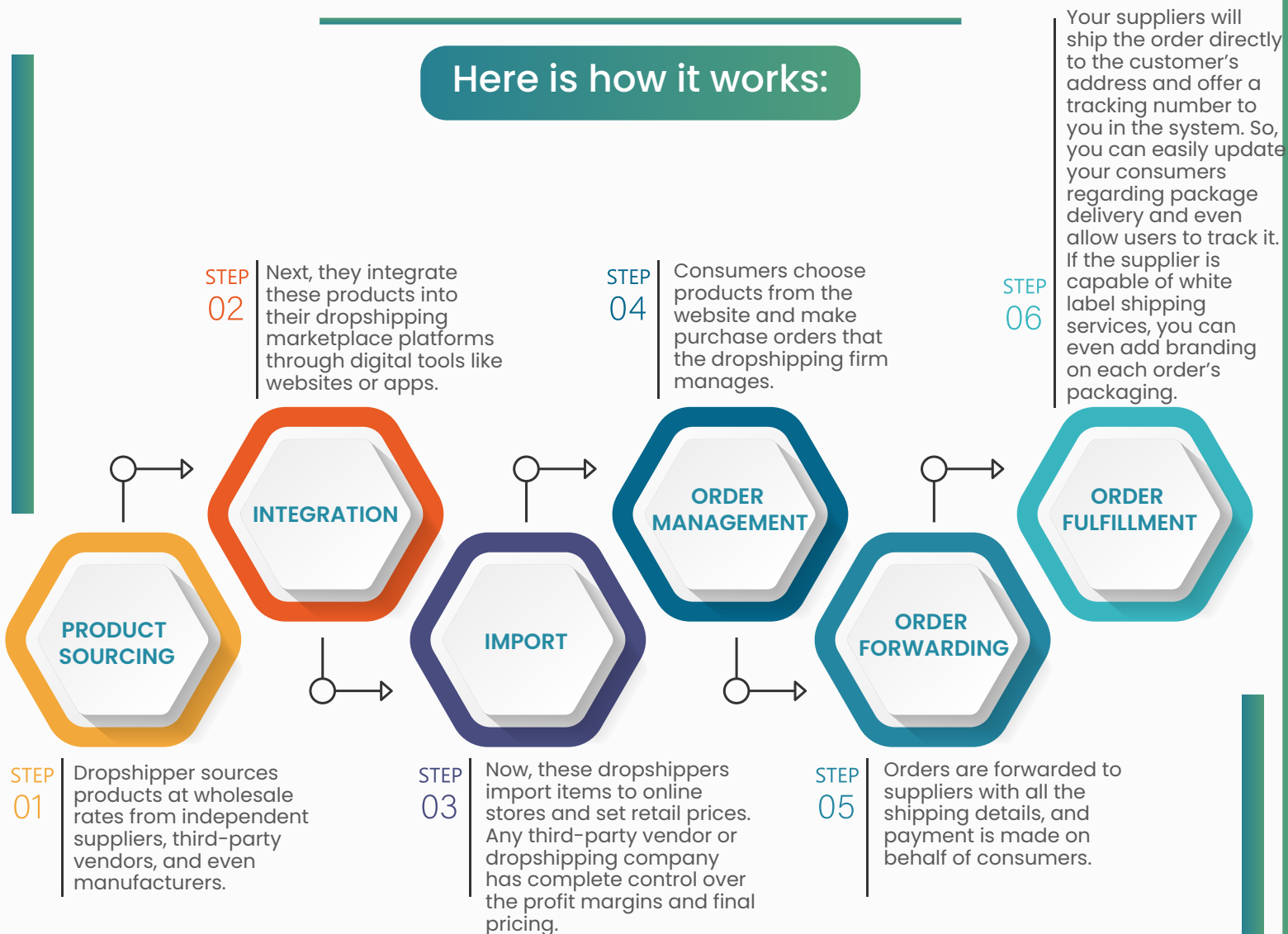
Chapter 1 -

What is Dropshipping?

Dropshipping is a business approach where the product fulfilment does not involve inventory or the activity of keeping the product stock. The items ordered by customers are shipped directly from the manufacturer or wholesale supplier to the customer. Dropshipping company acts as a facilitator that helps the consumers select the products from different categories.

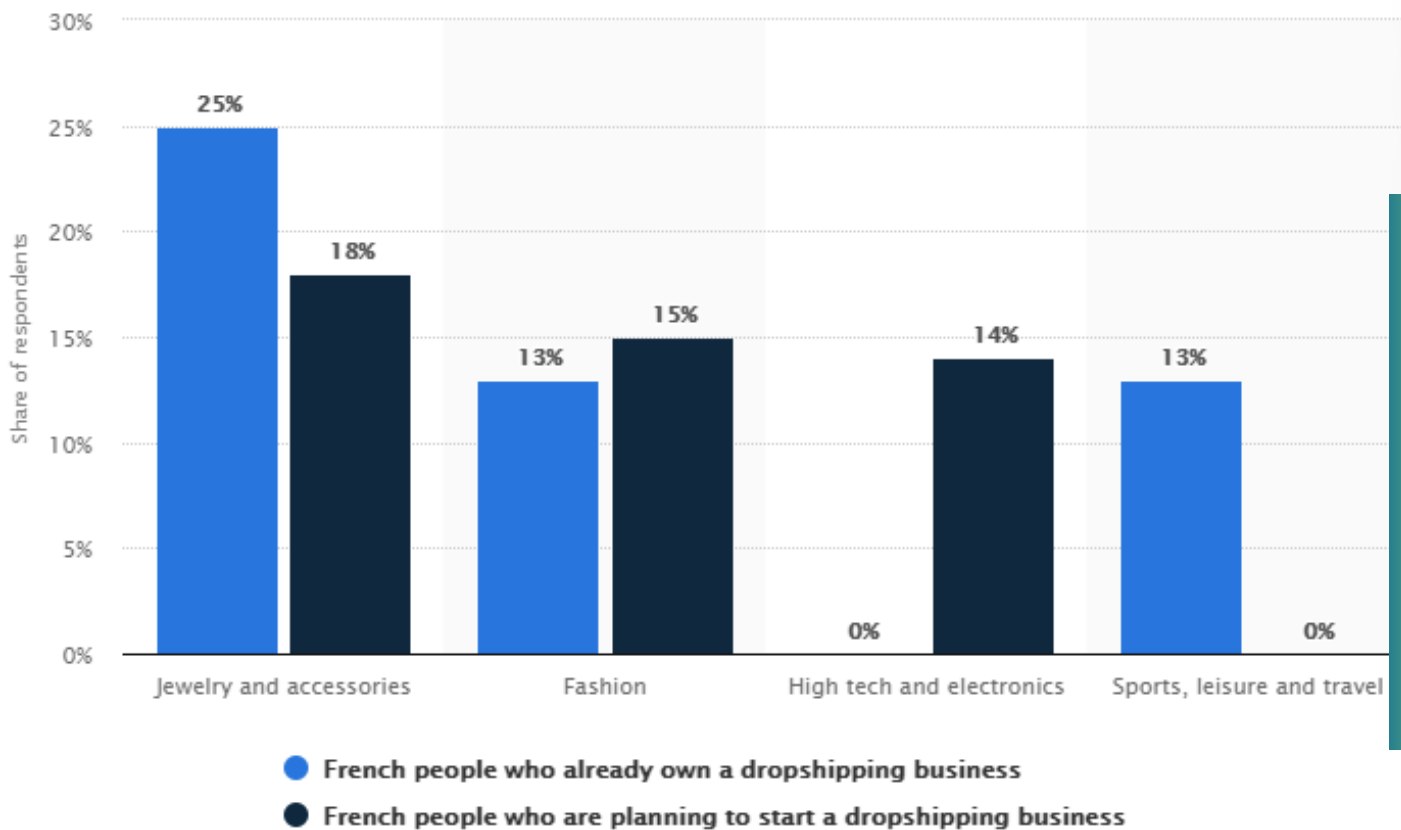
A third-party retailer or drop shipping firm will pass on the order for a product to the supplier for a wholesale price while charging the retail price to the customer. It uses an online platform to facilitate the transaction between the customers and the supplier.

Here is how it works:



Over the years, dropshipping marketplace platforms have garnered attention from many different investors and enterprises looking for higher revenues. Let's look at the industry trends and market value of drop shipping marketplace platforms:





One of the most interesting aspects of the dropshipping market is that almost all eCommerce retailers have tried the model at least once. For example, Amazon, eBay, or even Walmart, all offer some of the products in their listings that are dropshipped. These eCommerce giants dropship bigger brands across different niches, where they act more as facilitators.

Take an example of the iPhone stores on the Amazon marketplace or even the Reebok section in a Walmart app. What makes it an opportunity for other small and medium players in the market is that these eCommerce giants charge more due to inventory costs. At the same time, you can use the dropship model in its entirety to offer more competitive prices

Chapter 2-

Dropshipping- Business Model



With the current predicament of eCommerce businesses and on-demand models dealing with the pandemic situation, dropshipping business offers uniqueness in many ways. It offers flexibility in doing business which is not that easy with other business models as there is a physical interaction in one form or another. The scale of a business can be big or small based on your organisational goals, and there is no limit.

Choosing dropshipping as your core business is a great idea, but you need to understand that the kind of revenue you have in mind may take some time to generate.

However, dropshipping allows businesses to scale up quickly and curb the costs by a considerable margin. So, there is no denying the fact that it seems to be a lucrative prospect. The execution of your business logic and the right tech stack can help you build a successful dropshipping business. Let's now look at some of the critical aspects of this business model.

2.1 Segments of Customers



PLATFORM USERS

Platform Users are the end customers of any dropshipping firms that place the order from different categories of products on the platform. They engage with the platform and pay a retail price of the product on the portal, which may or may not include delivery charges.



VENDORS/SUPPLIERS

Vendors/Suppliers are the sellers that use the platform to showcase their products. However, there is a difference between other marketplace platforms and dropshipping platforms. Here, the sellers don't charge the product's price directly to customers, but the final retail price also includes the profit margin of the dropshipping firm.

2.2 Key Stakeholders

Dropshipping business model makes the inventory element redundant, and that is why there are only two key stakeholders



CUSTOMERS

place the order and pay a retail price that includes the dropshipping firm's commission or cut.



THIRD-PARTY SUPPLIER

delivers the orders directly to the customer's location after receiving orders from the dropshipping firm.

2.3 Key Resources

Online Marketplace Platform– Where consumers can view products and place orders.

AI-based Algorithms– These algorithms calculate the estimated price by adding commission on top of the wholesale price charged by the supplier.

Third-party supplier– delivers the orders directly to the customer's location after receiving orders from the dropshipping firm.

2.4 Key Activities

Any dropshipping firm is involved in two primary activities–



Maintaining value for consumers through the addition of listing from different suppliers and vendors.



Helping different vendors and third-party suppliers to sell their products on the platform and manage orders for them.

2.5 Value Proposition

End Customer–

For every consumer, the value that a dropshipping firm offers is several categories of products in one place, so they don't need to browse different sources for it. A dropshipping model also allows consumers to easily access unique products like designer apparel, special devices, and even customised products from the comfort of their homes.

Supplier/Third-party Vendor–

Every supplier gets a platform to showcase their products and reach new customers. As the volume of platform visitors increases, demand for products increases resulting in higher sales and better revenues.

2.6 Source of Revenue

A dropshipping firm profits by sourcing products at wholesale prices from the suppliers and selling them at retail prices. This price includes every cost incurred by dropshipping firms plus the commission. It covers delivery charge, wholesale price, dropshippers profit, individual expenses, and even payment gateway charges. For example, a dropshipping firm charges around \$20-\$50 for products sourced at a price range of \$1-\$20. So, the final profit margin after excluding all the costs and charges remains anywhere between 40%-70%, which is enough to sustain any dropshipping firm. However, if you have enough financial backing and can afford to sustain at lower profit margins, then keeping the prices more aggressive does help grow your business.



Chapter 3-

Dropshipping- Demand Analysis

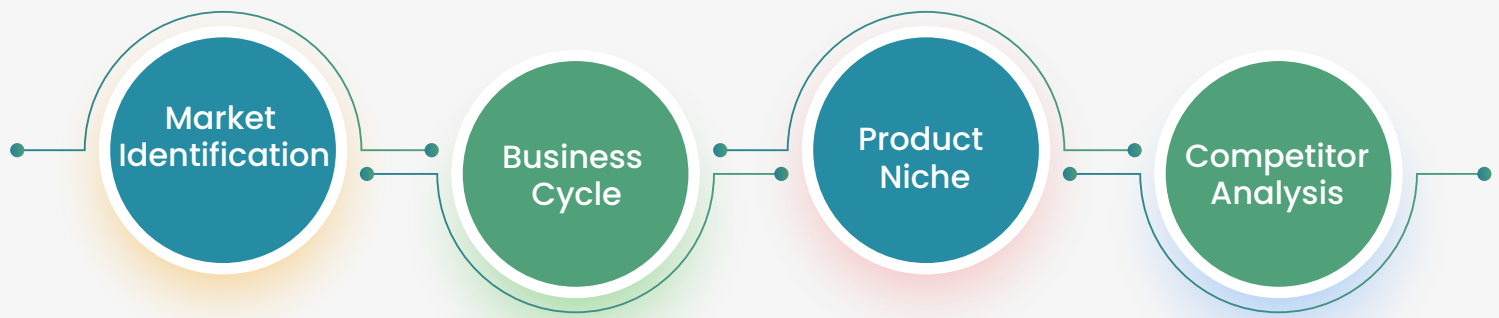


Dropshipping business models have a broad spectrum of niche products listed on a marketplace platform, and that is why demand forecasting is not simple. With more retailers choosing to drop ship products, the market has gained momentum. However, finding the right vendors and suppliers in the initial stages is not easy.

The reason behind this issue is a lack of understanding on what is the consumer's demand from the platform. In the initial phase, dropshipping firms source more vendors to offer products across several categories. Due to the pressure of adding more value for consumers on the platform, many startups tend to source products from unreliable suppliers.

The best way for organizations to handle this problem is by analyzing the demand for products on their platform. From exploring the traffic on your platform to understanding the demand of product categories, demand analysis can help dropshippers improve their revenues.

There are four steps that any dropshipping firm needs to follow for demand analysis.



3.1 Market Identification

Market identification is an activity where you can have an understanding of the current sentiments of customers. It allows a drop shipper to understand the gap between existing offerings and customer's expectations. So, you can fill that void through a reliable dropshipping solution.

Market identification program can include,

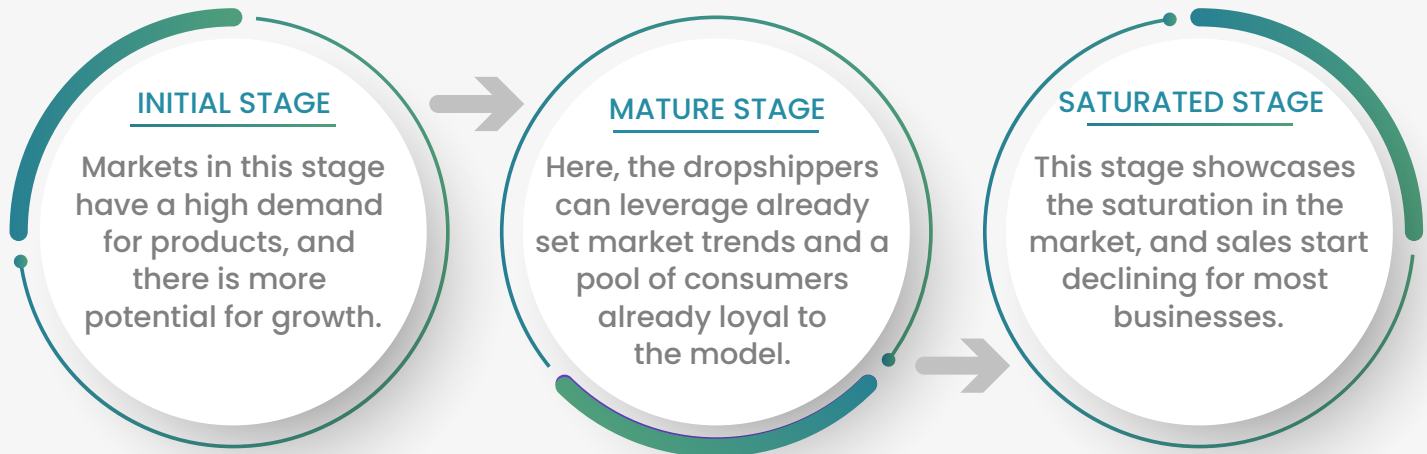


Once you have identified your market, you can then look to identify the business cycle of your model.



3.2 Business Cycle

Once you know the market and its potential, the next thing that should be prioritized is to understand the business cycle. Such an analysis will help you see the phase at which the current market stands in the business cycle—initial, mature, and saturation



When you know at which stage the market is, you can speculate the sales and even demand of customers.

3.3 Product Niche



Finding the niche is essential not only for understanding the customer demand but also for products they prefer. Most dropshippers look to establish their brand in a product niche at the initial stage of the business cycle. It helps them to achieve better sales with customers.

Take an example of the Only **Natural Pet**. It is a marketplace platform for pet owners to find natural food, flea repellants, outdoor gear, and more for their pets. The niche marketplace is a part of the **\$99 billion** pet industry.

3.4 Competitor Analysis

Competitor analysis is essential to dropshipping firms as it helps you understand the pricing structure and customer demand. For example, you can research your competitor and know whether they have a policy for Minimum Advertised Pricing (MAP). If your competitor is following MAP for their marketplace, you can keep the prices competitive and attract more consumers.

At the end of demand analysis, you will have data on three aspects of dropshipping business model



This data will help you formulate a dropshipping business model, which will render great results! Now that you know what dropshipping is, understood the business model, and have an understanding of demand analysis, you need to perform a SWOT analysis. It helps with the identification of all the bottlenecks that can come with the execution of this model.



Chapter 3-

Dropshipping Business Model: A SWOT Analysis



4.1 Strength

Strength analysis will help you understand the good aspects of your business. It enables you to draw essential points useful not only from a business perspective but also for branding your dropshipping business.

Ease of Shopping

Consumers can order products from your online stores without any need for physical interaction with the business.

Worldwide Operations

There is no restriction to the operational capabilities as you can scale your dropshipping business to any country in the world.

Lower Initial Costs

There is no need for a physical setup as the inventory part is redundant with the dropshipping approach.

Online Payments

The ease of multiple payment options can be significant for customers and drop shippers as it reduces the risk of cash crunch.

4.2 Weakness

Weakness identification will help your organization to understand the pitfalls and plan accordingly. It also enables dropshippers to improve their business model and reduce risks.



Once the order is passed on to the supplier, there is no control over it by the dropshipper. From shipping charges to the delivery schedule, everything depends on the supplier.

This depends on the market niche; some suppliers offer personalization, while others don't provide such a facility.

Lack of Control

Consumer Behavior

No Personalization

There is no customer loyalty, and everything depends on the pricing. So, it is hard for dropshipping companies to determine consumer behavior.

4.3 Opportunity

Opportunity analysis will help you understand how you can exploit the dropshipping model for growth.

Max Revenues

With no need for stocking the products, the dropshipping model can be a goldmine for many startups and organizations.

Dropshipping model is growing, and all you need is a roadmap to tap into the market's potential. In the present scenario, online stores are booming due to the pandemic and that is a great opportunity

Growth Road-map

Max. Categories

There is no limit to the type of products you can add to your dropshipping marketplace, and that is an excellent opportunity for any business with higher volumes of sales.

4.4 Threats

These are your red lights on the growth road, so knowing them helps avoid any threat! It enables you to understand the real issues you need to avert for a successful dropshipping business.

Competition

With a global reach, competition is higher, and that is a massive threat for any business looking to exploit dropshipping business model.

Keeping the prices competitive is not easy, and that restricts the profit margin. However, the dropshipping business model is all about volumes, and that is why it's the sales that matter more than margins.

Profit Margin

Compliance & Regulations

There are taxations in many countries applied to online sales, which may dent your margins. Apart from the margins, another critical aspect is the compliance of product delivery norms and other restrictions of goods movement due to pandemic.

CONCLUSION

Dropshipping's business model has its fair share of weaknesses and threats, but its strength outweighs these pitfalls. The bottom line of any business is revenues, and for dropshippers, the primary source is the tech stack with which a user interacts for transactions.

Developing a reliable tech stack will help you improve the user experience and enable improved checkout processes. Better checkouts mean higher sales, and you will never lose on deals.

For enterprises and organizations looking to leverage dropshipping within their eCommerce solutions, integrating a reliable tech stack can open new doors. Even with a situation like the current pandemic forcing the physical interactions to be minimum, a reliable tech-based solution can help your dropshipping business.

So, whatever your requirements, if you are looking to tap into the dropshipping market, Tookan by JungleWorks can help you create a reliable tech stack. It is a smart order management software that allows you to automate your operations, and access every detail of the order in real-time. Want to ace the game of dropshipping, contact Tookan today!

