

DROPSHIPPING IN ROMANIA, OPPORTUNITY OR ILLUSION

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Abstract

Dropshipping means online trading through a supplier that delivers on behalf of your company. The supplier is the one who handles all the physical activities, respectively storage, warehousing, packaging and delivery. The selling company only has to deal with the actual sale of the products, the creation of an online store, the conception of a brand and the promotion. Thinking about the Romanian market, in the context in which companies like Amazon or similar are not yet active, one may fall to the conclusion that dropshipping in Romania could be a huge opportunity. By dropshipping you can introduce new products on the local Romanian market and you can experience a new business model that does not involve as many risks as traditional business models.

In this paper, our main goal was to identify a business model for the Romanian market, one that involves multiple advantages, such as:

- *Less spending with a lower risk.*
- *An easy and cheap way to start a business*
- *There is no financial experience and expertise is required.*
- *You can keep in check your business quite easily.*
- *You can build a real brand through a relatively safe method, with limited risks.*

As for methodologies, I used the SWOT analysis, wanting to find out whether this type of business fits the Romanian economic climate. The research conclusions highlighted the undisputed opportunities of dropshipping, but also the fact that there is a feeling of distrust in this type of business, given the fact that in Romania it is at the beginning of the road.

Key words: *Dropshipping, Distribution, Supplier, Marketing*

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1. Introduction

One of the pioneering writers on dropshipping delivery as a marketing function was Nicholas T. Scheel (1990), who defined that in the past, the term drop shipping was used to describe the inventory that physically bypasses a limited-function broker that initiated the ship delivery order and is shipped directly to the broker's customer by a manufacturer or storage entity.

Dropshipping is a way of doing commerce in which a company does not stock the products it sells. When a store sells an item, it buys it from another company that ships it straight to the customer. The initial seller does not manipulate the product in any way. Mark Hayes, Andrew Youderian(2013).

This is the biggest difference between dropshipping and the standard retail model, in that the retailer does not stock or hold an inventory.

Dropshipping has recently become an increasingly popular logistics approach for online retailers nowadays. The main reason? It makes the need for storage obsolete - a costly and tedious effort that needs careful storage of inventory, not taking into account an entire series of other manual tasks, such as picking, packaging, shipping and many other. Tara Johnson(2019)

What is Dropshipping?

In dropshipping, customers receive products through online transactions. When a customer purchases a product from your online store, they are in fact buying from a manufacturer, which you resell it for a higher profit margin. The cost you charge the buyer is an outcome of the price you paid for the item, shipping, advertising and profit fees. Aaron Kiely (2018)

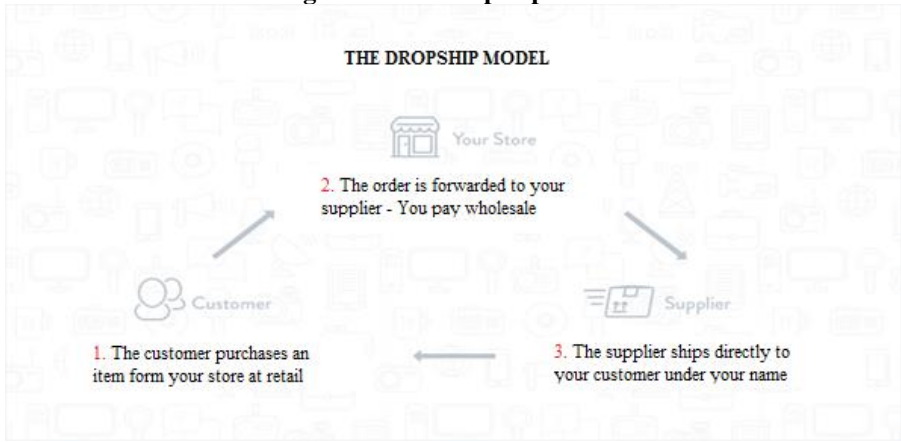
The advantages of dropshipping are as follow: less equity than in case of other businesses, the fact that this type of business is easy to start, the business can be managed from anywhere in the world, the wide range of products for sale that are available, the fact that it is easier to test and scale.

One of the biggest benefits for drop-shipping is that we can start a web-based commerce store without to invest a large amount in advance. Mark Hayes and Andrew Youderian (2013)

”A company that is using dropshipping is a lot easier to copy and start up than a company that carries and ships its own stock”. (Jason Hawk , 2016)

Among the disadvantages of dropshipping we can point out low margins, inventory problems, transport-related complexities, vendor errors, limited product customization and branding and high competition.

Figure 1. The Dropship Model



Source: (<https://www.salehoo.com/blog/how-to-start-a-drop-shipping-business-in-5-easy-steps>)

2. Theoretical background

2.1. Dropshipping Stages

The year 2020 represents a year of significant growth of this successful e-commerce model, named Dropshipping.

The real history of dropshipping shows us some interesting stages, which can justify the importance of the phenomenon, but also things that attest to a certain risk.

The 60's and 70's: The advent of Dropshipping before the Internet age.

The first manifestation of Dropshipping began in the 60's and 70's, when mail order companies used order catalogues in their relationship with end consumers.

You could order items directly from the catalogue by phone, a reliable, easy and very agreed way by the clients of those times.

Many examples of famous American companies, and not only, as JCPenney & Sears, Wal Mart, have successfully used this method that turned out to be a very profitable one. They observed that as the volume of products sold increased, so did a problem occurred, the problem of managing an increasing number of orders, orders that could no longer meet the increased demand from customers.

As a solution, they identified the option of developing goods warehouses specially designed to accelerate this process and to manage the entire flow of logistics operations, similar to what Amazon now calls (FBA) - Fulfilment By Amazon warehouses.

Their main objective was to store massive quantities of products in bulk, to handle it properly and to entry it in a very well-developed accounting management, obviously and to subsequently deliver it to the final customer.

90's-2000s: Dropshipping and the Internet

Mail order companies have turned into "e-commerce" stores. And online shopping has been introduced to the general public. Of course, the public was initially reluctant about this new sales model, and people did not trust at all to make available their personal data related to the bank credit card, but over time, more and more people began to accept this new "virtual" way of purchasing items.

Along with the introduction of more people to the online shopping phenomenon, confidence in this type of business has grown, and implicitly dropshipping has grown and came to be embraced by many companies around the world.

These online stores have convinced investors that they will make huge profits from this new "thing" called e-Commerce and directed millions of dollars into this business.

2000s-2010s: Amazon.com and eBay.com

Now, you could list your items on their website, by making only a store page, promoting yourself with the help of tools provided by the famous platforms, benefiting from the famous FBA system of Amazon, practically already having a contoured and well-organized business. You only need goodwill and of course efficient documentation, but last but not least the surprise product - WOW.

For dropshipping, this turned out to be a massive opportunity, because, in the past, it used to be very expensive to use dropshippers.

This was the case because dropshippers in the US used to charge a lot of money for their items, but they also had to spend a huge amount during the phases of store development and advertising. Until the Facebook ads became available in 2007, the only other real solution to advertisement was Google Ads, which was (and still is) very expensive.

2010's-2020's: Alibaba, Aliexpress, Shopify and Oberlo, Salehoo, BigBuy, etc.

We can call 2010 as the year when the dropshipping method has changed significantly and for a very long time.

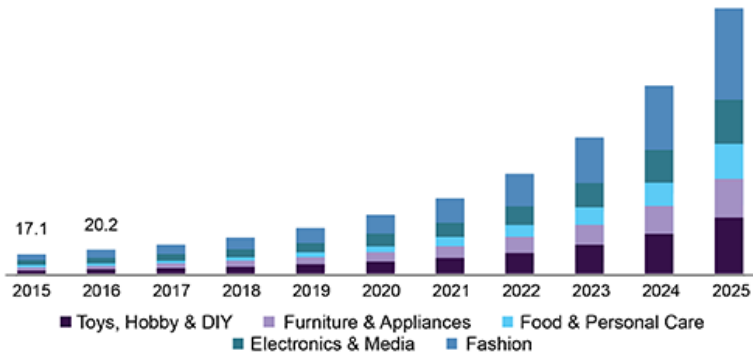
Previously, working with Chinese dropshippers proved very complicated, because of their lack of commitment, because of the cultural and language barrier, which is why most of the individual dropshippers chose to do business with US dropshippers. This changed in 2010, when Alibaba launched AliExpress. On this platform, individuals and legal entities were able to purchase items from Chinese manufacturers and dropshippers. They found it to be as simple as buying an item from a common online store using a common payment, practically encouraging customers to try out this option.

It took down language and cultural barriers and transformed the whole process by making it even easier than working with US suppliers - with the added benefit of being MUCH cheaper! However, we must also mention certain disadvantages, such as the rather long delivery time, up to 30-40 days, in the situation of the maritime transport as a means of delivery, but also quite high customs duties for certain destination countries.

In addition, Shopify came into being during this time, which allowed for the setting up of an e-commerce store in a much easier fashion. Later on, in 2015, Oberlo emerged: a Shopify-type app that can turn Shopify stores into Aliexpress semi-automatic dropshipping online stores. The app proved to be so successful that in Shopify decided to take action and actually bought Oberlo and further integrated the app two years later, in 2017.

Salehoo, another example of a brokering site platform, which facilitates contact with various dropshippers.

Figure 2. Pacific Dropshipping market size, by product, 2015-2025 (USD Billion)



Source:(<https://www.grandviewresearch.com/industry-analysis/dropshipping-market>)

2.2. Dropshipping in Romania

In Romania, after a thorough online analysis, it is found that there are not enough options for electronic inventory purchase through Dropshipping, as warehousing companies with physical inventory holders, few in number, who have tried and are trying this business model, either they had trouble in finding and identifying potential customers, or they do not have enough experience to fully take advantage of this type of business, or they find themselves in the situation of not having enough financial capital. Therefore, I will bring into discussion only the established physical inventory holding warehouses, respectively multinational companies, with experience in this field (BigBuy Europe, Ali Express China).

Suppose we want to start such an online business with a fiscal headquarters in Romania and we intend to commercialize products using the format of dropshipping in Romania, and we would like to know what are the steps:

1. Incorporation of a legal entity, SRL (limited liability company) PFA (registered sole trader);
2. Purchase of an internet domain and the related hosting;
3. Creating an online store, by using local or international platforms;
4. Documentation in order to identify products. We present you below the list of places to find products for Dropship: Oberlo, Alibaba, Salehoo, Dropified, Dropship.me, Dropship Direct, Modalyst, AliDropship,

Printful, World Wide Brands, Wholesale Central, Doba, Spocket, Sunrise Wholesale;

There are, of course, dropshippers, bulk warehouse companies or even small or large producers, which are not listed on the aforementioned channels, which prefer to promote itself individually, separately, just in order to pay various fees or commissions to those brokering platforms.

For a Romanian company, which by means of an online store wants to choose the option of a bulk warehouse that delivers under a dropship system directly to customers in Romania, I would mention BigBuy Europe, from Spain, an innovative platform that has a mega warehouse, with tens of thousands of products in stock, with hundreds of categories, etc.

Deliveries are services included in dropshipping, with you having the opportunity of adding your name, company image and information, so that your customers can associate your ecommerce with their orders. You can also take advantage of their integrated connectivity solutions and sell on emarket places like Rakuten, Amazon, Cdiscount or Ebay.

BigBuy is a supplier for dropshippers that has very advantageous fees for deliveries throughout all of Europe. They use a large number of shipping agencies like TNT, UPS, Feddex, DHL, GLS, etc. They offer a complete dropshipping solution: a complete store, synchronized with BigBuy. (<https://www.bigbuy.eu/ro/dropshipping>)

The second option would be the small or large dropshipper manufacturer reseller.

The advantages of collaborating with BigBuy Europe:

1. Wide range of products and categories;
2. Ease of importing the product catalogue in your own online store;
3. Brand awareness;
4. Freedom to sell other product ranges, there are no restrictions;
5. The advantage of not paying customs duties and/or excises, the dropshipper being located in the EU-Spain;

The disadvantages of this collaboration are:

1. Relatively high price of the product range;
2. Impossibility to make our own brand;
3. Fee and subscriptions with a relatively high cost (monthly subscription starting from 69 Euro/month, single registration fee of 90 Euro, etc.);
4. High competition in terms of products with a well-known brand;
5. The price of transport to the final customer is high;

6. Very small profit margin (10 – 30%).

3. Research Methodology

The content of this paper is based on a marketing research carried out by combining the in office research with the SWOT Analysis method.

In the end, I chose to analyse the opportunity of such a business on the Romanian e-commerce market, using a swot analysis.

As we well know, SWOT is an acronym used for four descriptive indicators of a business: Strengths, Weaknesses, Opportunities, Threats. A SWOT is the first step in developing the idea. In order to have a clear look at what you want to develop as a business potential.

SWOT is a technique for evaluating and identifying the performance, competition, risk and potential of an overall business, such as dropshipping, in our particular situation, applied in Romania.

Next, we will look into what each of the four elements implies and, also, provide a series of examples so as to better cement our understanding of what is a SWOT analysis and how efficient it can prove in the process of a better assessment of a dropshipping business.

Questions we can ask in the Swot analysis:

Strengths

Q: What are the advantages of dropshipping over other models of e-commerce business?

A: Very small start-up equity, non-existence of physical stock, lack of shipping cost in certain situations, flexibility of the business venue being practically an e-commerce one, non-existent rent and salary costs, etc.

Q: What unique services does Dropshipping offer?

A: Varied product range with possible free services – eg. Shipping, 24-hour a day assistance

Q: Can dropshipping be a business that guarantees success on the Romanian profile market?

A: It depends on the entrepreneur, the type of product we launch, the way we promote ourselves, how much we invest in promotion.

Q: Where is the most profitable dropshipping? Why?

A: If we are discussing about costs, it is without doubt the most profitable. You will find that the following costs just do not exist: physical stock, payment of rents related to spaces necessary for carrying out the commercial activity, payment of employees' salaries, payment of spaces &

physical stores taxes, etc. Also, a great advantage is the possibility of companies that do not operate in dropshipping to test new ranges of products or new products, without having an additional purchase cost.

Weaknesses

Q: What skills or resources do you lack?

A: Lack of experience of the entrepreneur in the online environment; Lack of seriousness of the dropshipper, contractual terms that will not be observed; Dependence on external sources that do not belong to you (product stock, transport fleet, etc.)

Q: How much does it cost to invest initially?

A: The cost is different from one dropshipper to another, from a brokering platform that will put you in touch with various dropshippers to another similar platform, depending on how much you are willing to invest in marketing, etc. A start-up cost can start from a minimum of 1000 Euro.

Q: Is there anything you feel you are failing at?

A: For the Romanian market with a dropship profile, I consider that a possible collaboration with dropshippers from outside the EU (eg - USA, Asia, etc.) can be a failure, for various reasons (high customs duties and excises, high transport fees, distrust in suppliers, strong competition)

Opportunities

Q: What can you improve?

A: By scaling our business in an easier way, we can have a much better picture. It is possible to use a range of products with a very wide variety, as opposed to a physical stock, in which we are conditioned by our space and auxiliary expenses.

Q: What external conditions can help you reach your goal?

A: Identifying unlimited possibilities in order to find new products and/or product ranges, the internet facilitating a borderless exploration; Import from the EU, through very well-known and serious dropshippers, who keep their promises.

Q: Are there any new audience segments you could reach?

A: By dropshipping, we can approach more than one local market, we can reach the whole national market.

Q: Is there any technology you could use to improve your business?

A: There are special plugins and connectors, provided by certain dropshippers, which help us to import a catalogue of thousands of products in our online store, with just one click away (ex BigBUY Europe)

Threats:

Q: Are there external conditions that could prove to alter your performance or progress?

A: Performance can be affected by very high customs duties and excises; The cost of shipment being affected by changes in the price of fuel; New restrictive legislation regarding the dropshipping policy;

Q: What's happening in your industry?

A: There is an exponential growth in the demand for new products and services, amid the Covid 19 pandemic, which has led to a growth in the Dropshipping industry.

Q: What are the situations that can change in the economy that could affect your business?

A: By closing different sectors of activity, due to the Covid 19 measures, the purchasing power of the population will decrease, which will lead to a decrease in the demand for non-essential products and services. New local taxes and duties applied to online commerce.

Q: Are there any new competitors in your market?

A: Obviously there are competitors, either direct or indirect, but this aspect can be considered constructive; it can be combated by what we offer to the consumer, by the uniqueness of our product, entrepreneurial experience, etc.

4. Conclusions

Following an in-depth analysis, the dropshipping market in Romania can be considered one at the beginning of the road, that still has a long way to go until it can be considered a mature one, considering that Romania ranks 26th out of 28 countries in the EU regarding the DESI (Digital Economic and Society Index Study, 2020).

Romanian companies have just discovered Dropshipping, which can be a opportunity for small entrepreneurs, who do not have consistent start-up budgets for a business, who also have to take into account that they need to provide a niche product or else they will not be able to compete with the big players like Aliexpress or Ebay. It can also be considered an opportunity for medium or large companies, which already operate in the e-commerce sector, like vivre.ro and vidaxl.ro, the two biggest dropshippers in Romania, through ways of testing new products/product ranges.

During the last year, due to the pandemic restrictions that have been imposed by authorities, there have been observed a series of changes in

consumer behaviour, like the shift in paying methods from cash on delivery to card payments, which have doubled in 2020 compared to 2019, reaching more than 60% in urban areas. Another change in behaviour is the increased usage of ecommerce shopping platforms that have seen their sales increase by more than 30% in 2020 compared to 2019, to a figure of 5.6 bln euros. (www.dcnews.ro/florinel-chis-armo-despre-tendintele-in-comertul-electronic-care-sunt-dispozitivele-preferate_798699.html) (www.gpec.ro)

I would also suggest to contact and collaborate with partners inside the EU, at least in case of small companies, without the access to corporation-levels financial budgets and, in this way, the possibility to avoid very high international risks an unstable legislative environment, high customs duties and excise duties on imports, unreliable partners that can be found very difficult to hold accountable from a legal perspective, very long delivery time.

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