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**A PRACTICAL EXPLORATION OF THE DROP-SHIPPING BUSINESS
MODEL IN E-COMMERCE: TWO CASE STUDIES**

FINAL YEAR PROJECT

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**FACULTAT D'ECONOMIA i EMPRESA
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1. TITLE, SUMMARY AND KEYWORDS

Title: A practical exploration of the Drop-shipping business model in e-commerce: two case studies

Summary: This paper aims to present the emerging business model of Drop-shipping and to analyze it through two real case studies, thereby discovering its main benefits and weaknesses.

To achieve this, the reader will first be put into context by explaining different aspects such as its characteristics, its history, its advantages and disadvantages, the marketing implications and the differences with the traditional e-commerce model.

Secondly, as a practical part of this work, two businesses based on this model will be promoted through different channels during the Black Friday and Cyber Monday 2020 campaigns. One of these has already been operating since April 2020, and the other has been created at the same time as this project. Afterwards, the revenue of each business will be presented and the net profit margin will be calculated.

Finally, the conclusion of the project will be made based on the analysis and study carried out, taking into account the following factors: the investment made, the time involved and the results obtained in the two case studies.

Keywords: Drop-shipping, promotion, case studies.

TÍTOL, RESUM I PARAULES CLAU

Títol: Una exploració pràctica del model de negoci de Drop-shipping en el comerç electrònic: dos casos d'estudi

Resum: Aquest treball pretén presentar el model de negoci emergent de Drop-shipping i analitzar-mitjançant dos casos reals pràctics, descobrint així els seus principals beneficis i punts dèbils.

Per aconseguir-ho, primer es situarà al lector en context mitjançant l'explicació diferents aspectes com les característiques, la història, els seus avantatges i desavantatges, les implicacions del màrqueting i les diferències amb el model tradicional de comerç electrònic.

Segon, com a part pràctica d'aquest treball s'ha de fer la promoció mitjançant canals diferents de dos negocis basats en aquest model, durant el període de les campanyes de Black Friday i Cyber Monday de 2020. Un d'aquests ja s'ha estat operant des d'abril de 2020 , i l'altre ha estat creat al mateix temps que s'ha dut a terme aquest projecte. Després, es presentaran els ingressos de cada negoci i es calcularà el marge de benefici net.

Finalment, es realitzarà la conclusió el projecte basat en l'anàlisi i l'estudi efectuat, tenint en compte els següents factors: la inversió realitzada, el temps invertit i els resultats obtinguts en els dos casos pràctics.

Paraules clau: Drop-shipping, promoció, casos pràctics.

TÍTULO, RESUMEN Y PALABRAS CLAVE

Título: Una exploración práctica del modelo de negocio de Drop-shipping en el comercio electrónico: dos casos de estudio

Resumen: Este trabajo pretende presentar el modelo de negocio emergente de Drop-shipping y analizarlo mediante dos casos reales prácticos, descubriendo así sus beneficios principales y sus puntos débiles.

Para lograrlo, primero se situará al lector en contexto mediante la explicación diferentes aspectos como sus características, su historia, sus ventajas y desventajas, las implicaciones del marketing y las diferencias con el modelo tradicional de comercio electrónico.

Segundo, como parte práctica de este trabajo se realizará la promoción mediante canales diferentes de dos negocios basados en este modelo, durante el período de las campañas de Black Friday y Cyber Monday de 2020. Uno de estos ya se ha estado operando desde abril de 2020, y el otro ha sido creado a la vez que se ha realizado este proyecto. Después, se presentarán los ingresos de cada negocio y se calculará el margen de beneficio neto.

Finalmente, se realizará la conclusión del proyecto basado en el análisis y el estudio efectuado, teniendo en cuenta los siguientes factores: la inversión realizada, el tiempo invertido y los resultados obtenidos en los dos casos prácticos.

Palabras clave: Drop-shipping, promoción, casos prácticos.

2. PRESENTATION

Personal justification: New technologies have always piqued my curiosity since I was a child. Looking for ways to start my own business four years ago, I discovered what would become my passion nowadays. E-commerce brings together everything I love, i.e. business with digital technology, allowing for a wide range of opportunities to expand around the world. In this business model there are no borders, a company that is born in the garage of a house in the most remote village, can become a multinational in a short time, with the right steps.

In a few months, I found myself immersed in the world of Drop-shipping, a branch within e-commerce, that allows you to start a business with a very small amount of investment, which was a key factor as I had no savings in those days. This is the fact that led me to study more this business model for months and finally start trying out various online businesses. One of these online businesses, a clothing brand, turned out to be successful, which has helped me save and invest part of that money in creating more businesses and look for more opportunities.

Going from dog products to swimsuits in the summer, my goal has always been to find the most desired and popular products of the moment, build a brand based exclusively on them, segment and advertise it to the right audience, and finally, get sales from all over the world.

Practical justification: Other than that, I believe that e-commerce is the future of the economy and that it is upcoming and gaining positions among all business models, and more so in the days we are living in. Also, I think it's important to innovate and look for ways to adapt to the times we are in since we are living in a very volatile environment. We must also keep in mind that today's customer seeks comfort and ease in their purchasing processes, such as not moving from home and shopping with a single click, having their package delivered right in front of their door.

Academic justification: Looking back, I can see that most of the subjects I have taken in my degree have its small influence in this project, but among them, I would highlight: Fundamentals and Strategic Marketing Management, as well as Strategic Management. All of these contain topics that captivated me, from Customer Behavior to Market Segmentation and culminating in Branding and, in general, the adaptation of the traditional business to new technologies. These have really helped me put everything I learned into practice and work in a way that otherwise I could not have done.

Moreover, I think that this topic is very well suited for an academic study because throughout the degree there has been a lot of emphases on the importance of the latest technologies, which is a reality that will end up affecting not only entrepreneurship but all sectors; from the way traditional transactions are done, such as shopping at a local shop, to doctor's visits. Overall, we have been taught to leave traditional ways behind and value the digital integration.

In fact, this subject is becoming more popular in academic studies. This has been seen because in order to carry out this project Google Scholar studies, referenced in the bibliography of this project, have been consulted.

It is for all this that when choosing the topic for the Final Year Project, I decided to present this model that, although is gradually becoming more popular, is unknown to many people.

Competences: In terms of competences, it is necessary to highlight several of them.

As specific competences, it has been worked on the search for, analysis and interpretation of quantitative and qualitative information, the ability to know the nature and functioning of a company and the analysis of business cases.

As transversal competences, autonomous work with responsibility and the communication of information in a clear way in specific fields have been carried out.

As core competences, defining and developing the academic and professional project, advanced communication, information and knowledge management and the use of information technologies stand out.

3. INTRODUCTION

We are all part of the era of globalization and new technologies. It's no secret that online activity has grown dramatically over the last few years. The evolution of business, then, has had no choice but to adapt and evolve along with this globalization. (Manyika, Lund, Bughin, Woetzel, Stamenov & Dhingra, 2016)

E-commerce, or electronic commerce, was born in early 1970. This way of business has become very popular and is on the rise nowadays. Its popularity is partly due to the great benefits that come associated with it and that the traditional way of commerce does not have. The advantages are two folded: while customers can buy from home 24 hours a day and 365 days a year while having an internet connection, sellers can access the global market and cut the many costs that come with having a physical business. (Miva, 2011; Shopify, n.d. b)

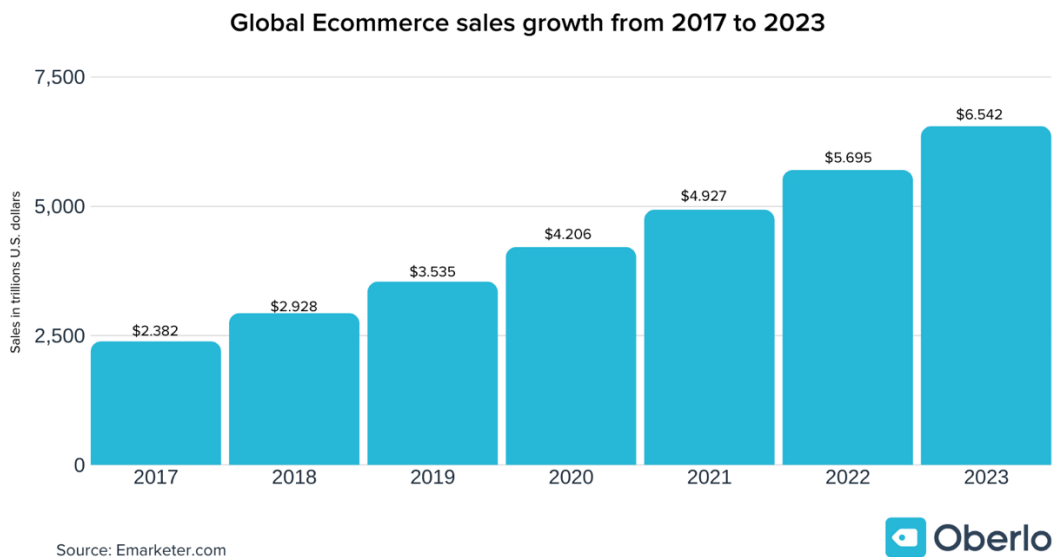


Figure 1. Global Ecommerce sales growth from 2017 to 2023. Source: Oberlo.

Retrieved from <https://www.oberlo.com/statistics/global-ecommerce-sales>

E-commerce is expected to encounter significant growth in the upcoming years, as it can be seen in figure 1. This is reasonable since, in the digital age in which we live, the Internet and social media are part of our lives and, therefore, many of the advances in the world nowadays are developing thanks to this globalization.

Within E-commerce, there are many business formats, one of them being Drop-shipping. This model is very different from the others and comes with many benefits that these others do not have.

Therefore, the aim of this paper will be to explain this emerging model and illustrate it with two real-life case studies undertaken by the author of this project. Therefore, its main strengths and weak points will be discovered.

To achieve this, the project will have the following structure:

- Theoretical section: In this first part, the concept, relevance and types of e-commerce will be presented. Then, more specific factors of drop-shipping will be introduced, especially: its origins, its advantages and disadvantages and the involvement of marketing. Finally, the differences between this model of e-commerce and the others will be summarised in a table.
- Practical case studies: Two real businesses will be introduced and promoted, one that already exists and another that will be created from scratch, during the Black Friday sales season in November of 2020. To do so, the following structure will be followed for each business: first, the characteristics and the target market will be presented; second, the features of the promotion will be detailed and, finally, the results will be presented.
- Conclusions: Finally, a conclusion will be drawn based on the study previously done and the experiences encountered in the two real-life cases. To help with the analysis the following factors will be taken into account: the investment, profits and time spent.

4. THEORETICAL SECTION

4.1. E-commerce

E-commerce, also known as electronic commerce or internet commerce, refers to the buying and selling of goods or services via the Internet, and the transfer of money and data to execute these transactions. (Shopify, n.d.b)

New consumer needs, fuelled by the current COVID-19 crisis, have emerged and rely on digital technologies. Because of the variations of the pandemic waves, new measures such as another quarantine could happen overnight. Now, more than ever, customers want to be able to order and pay for a product from home and have it delivered to their door. Or, in the case of a service, to be able to request, modify or cancel an appointment from the website, and to have up-to-date information at all times on the measures to be followed and whether or not the service is temporarily closed.

Some existing electronic companies, such as Amazon or Alibaba, have benefited from this crisis thanks to these new necessities, while businesses that were mainly physically-based have lost out the most. (The Financial Times, 2020)

In fact, Amazon has been the fastest-growing giant since the first wave of coronavirus. By mid-2020, the company's market capitalization had grown by \$570 billion, totalling \$1.49 trillion of net worth. Moreover, at the same time, the stock has increased by more than 60% and trading at around \$3,000 per share. (Klebnikov, 2020)

That is, the companies that have gained the most are those that are most adapted to these needs. They offer products at home, with the possibility of buying them from home at any time of the day and any day of the year. That's why it is important to have an alternative to physical commerce, in order to reduce the possible damages if there is a contingency.

In fact, these needs come before the pandemic and, therefore, will stay after it. People are demanding more and more commodity as time goes by, to do everything from home, at any time and without having to move. This is becoming possible through new technologies and new companies that are surfacing and are practising digital integration.

For these reasons, e-commerce is a reality that is becoming more popular and essential over time. This is why there are so many expectations of massive growth in the coming years.

4.1.1. Types of e-commerce based on the fulfilment method

Fulfilment in business refers to the process of receiving, packaging and shipping orders. (Entrepreneur, n.d.)

There are different e-commerce models depending on the method of fulfilment businesses use:

- In-House order fulfilment: This section groups together businesses that can fulfil their packages themselves without needing the help of a third party. These are usually small businesses that have small volumes of orders. (Nailwal, 2020)
- Third-party fulfilment: This section groups together businesses that are unable to fulfil their parcels themselves, as they have a large volume of orders. Therefore, they outsource this section to a third party. (Nailwal, 2020)
- Drop-shipping: This last section groups together businesses that neither manufacture nor stock their products. Instead, they sell products from suppliers at a higher market price and sell them directly to customers. In other words, when they receive an order, the shop buys the product from the supplier and provides the supplier with the customer's address so that they can send it directly to the customer. (Nailwal, 2020)

4.2. Drop-shipping

4.2.1. Process

As mentioned before, the process of fulfilment for the Drop-shipping model is different from the others.

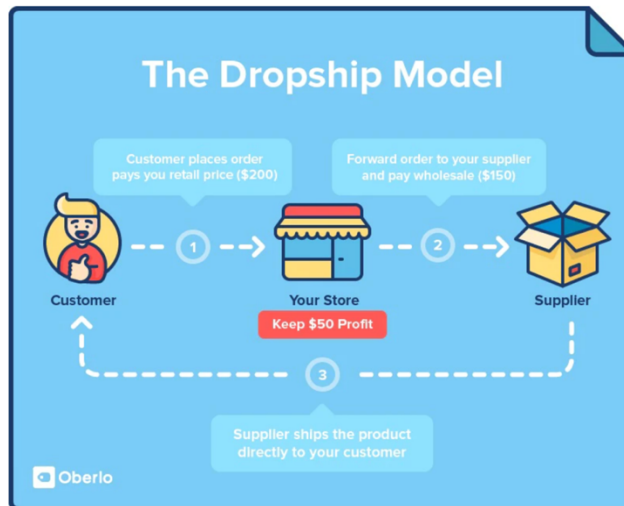


Figure 2. The Drop-shipping Model. Source: Oberlo. Retrieved from: <https://www.oberlo.com/blog/how-to-start-a-dropshipping-business>

As shown in figure 2, the process is the following:

- Firstly, the drop-shipping store receives an order and the money from the customer.
- Secondly, the store buys the product from the supplier and fulfils the order with the customer's data.
- Finally, the supplier ships the product directly to the customer. Therefore, the store keeps the profit between the retail price it has assigned for its products and the price of the supplier.

4.2.2. History

Many studies explain the origins of this concept, and, surprisingly, it goes back much further before the existence of the internet, around 1960. (Beca, 2020)

It all started with department stores selling their stock via catalogues that were sent by post to every home. Then, customers would order what they wanted from home, and the stores would send a worker to deliver it to their homes. Some companies took the opportunity and selected products from these department stores that they thought would sell better, and made a catalogue themselves, without having stock, and did the same procedure of sending the magazines to all the houses. The only difference is that

when the customers ordered a product, the company would order it from the department store and send it directly to the customer. (Beca, 2020)

Thus, the concept of drop-shipping was born. After that, when the web was created in the 90s, this business model was also transferred there, until it became what it is today. (Beca, 2020)

4.2.3. Advantages and disadvantages

This business model has become popular in the last few years and is used all over the world for its many opportunities. Among these, there are the following:

- Anyone can start a drop-shipping business. Only minimal knowledge of the internet and the creation and control of the website and social networks is required. Besides, the overall costs are relatively low.
- No large investment is required. In fact, the only investment that needs to be done is: the monthly subscription of the website platform, the domain, and marketing, which depending on the channel used will be a bigger or lower cost. In addition, start-up equipment is needed in order to set up the business. This can be either a computer or a mobile phone, which almost everyone already has. (Ferreira, 2021b)
- There are no schedules or rules, the business can be managed anywhere and anytime with an internet connection. (Ferreira, 2021b)
- Low risk. If a business fails, the only loss will be the initial investment. Unlike other businesses, drop-shipping does not handle stock, so there will never be any lost inventory. (Ferreira, 2021b)
- Great variety of suppliers on the internet, which means that basically any product can be found. (Ferreira, 2021b)

Although it may seem easy, this business also comes with some drawbacks, such as:

- The delivery times usually take long. This makes the conversion rate lower, as the costumers don't want to wait for long to receive their order. The reason for this is that many of the suppliers are from Asian countries, so delivery times are much longer. For example, average delivery times from these countries are 15 to 35 days.

- No control over the quality of the products. As the store does not keep stock nor ever sees the products, it can't control its quality, which most of the times result to be low. (Nailwal, 2020)
- Mistakes from the suppliers. Sometimes, suppliers do not have up-to-date information on their page and some products appear available and are actually sold out. That is, when ordering the product is first accepted, and after a while it is cancelled, which causes problems since the drop-shipping business has already charged the amount to the customer. Therefore, the business will have to spend time trying to solve the problem with the supplier or, if there is no solution, make a refund. (Ferreira, 2021b)

4.2.4. Marketing implications

Marketing is the process of promoting products or services, such as market research and advertising. (Murray, n.d.)

These two topics can be found and explained in this business model.

4.2.4.1. Market research

When running or creating a business based on this model, one crucial point is to know who the brand's audience is. This is necessary to know how to filter the target market for the promotions.

In most promotional channels, such as Facebook and Instagram ads, it is asked for three characteristics in order to target the market: location, demographics and interests. This is in the brand's interest to ensure that its promotions reach the desired customers, i.e. potential customers.

In addition, having defined the audience helps to know what image and what type of marketing will mostly attract the clients.

In short, the more a business knows about its audience for its products, the more it can refine the promotion. This helps reach the public that can actually become potential customers and, therefore, get more sales.

4.2.4.2. Advertising

Marketing is a key part when a brand wants to make itself known or gain market share. One of the ways to achieve this is through advertising. There are many methods in drop-shipping, but the most popular are discussed below.

4.2.4.2.1. Social media ads

The first one is advertisements on social media. The cheapest and most widely used are Facebook and Google Ads. These allow to first filter the audience, select a publication to promote or create one from scratch, and determine the daily budget and duration of the ad.

A fundamental factor is to adjust the advertisements to the audience. For example, if the audience is young the ads would have a modern look. That is, to adapt the image of the business to the target market

4.2.4.2.2. Boosters

Another method that is commonly used is including boosters on the website. These elements aim to create a sense of urgency in the customers, making them buy the product. These extensions can be found on almost any website platform and are generally free or at very low cost.

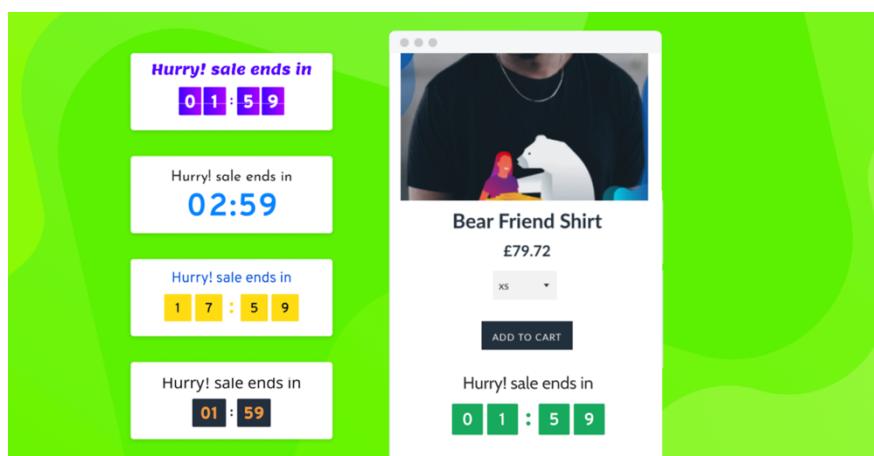


Figure 3. Urgency countdown timer. Source: Conversion Bear. Retrieved from: <https://apps.shopify.com/product-countdown-timer-1>

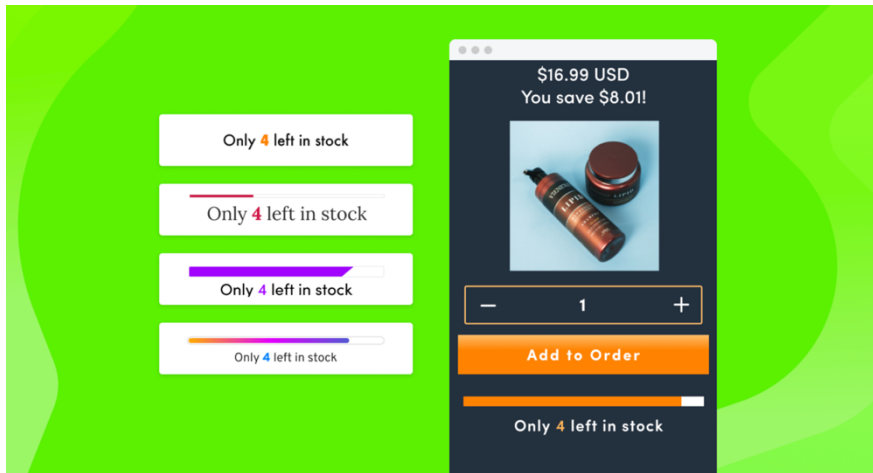


Figure 4. Urgency countdown timer. Source: Conversion Bear. Retrieved from: <https://apps.shopify.com/product-countdown-timer-1>

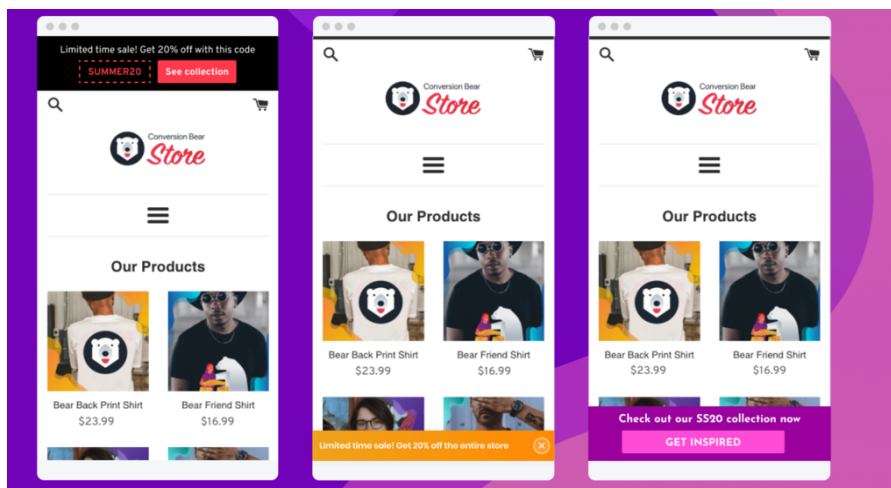


Figure 5. Discount announcement bar. Source: Conversion Bear. Retrieved from: <https://apps.shopify.com/announcement-bar-6>

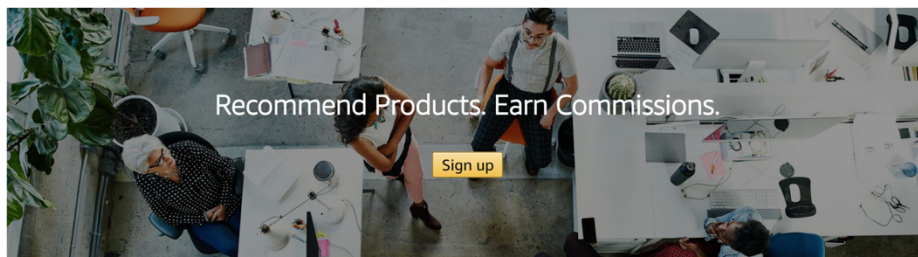
In figures 3, 4 and 5 there's an example of these type of boosters.

Figures 3 and 4 show an emergency countdown. This is normally a banner created on the web site where a countdown is shown, showing the time remaining for the promotion to end or the leftover stock of that product.

Figure 5 shows a discount announcement bar. This is a bar that is normally placed on the home page, either at the top or bottom, where the business can advertise any offers that are being made at that time, usually temporary discounts.

4.2.4.2.3. Affiliate marketing

Finally, many of them also use affiliate marketing. That is, a type of marketing that involves the customers in the process of promotion. Anyone, with certain requirements or not, depending on the conditions of the business, promotes the products through their social networks. This is done by offering a discount to their followers, in exchange for an incentive from the brand, either free products or commissions, or in the case of influencers, the company pays them a certain amount for the promotion. This technique is becoming more and more famous and is being used even by multinational brands.



Amazon Associates - Amazon's affiliate marketing program

Welcome to one of the largest affiliate marketing programs in the world. The Amazon Associates Program helps content creators, publishers and bloggers monetize their traffic. With millions of products and programs available on Amazon, associates use easy link-building tools to direct their audience to their recommendations, and earn from qualifying purchases and programs.

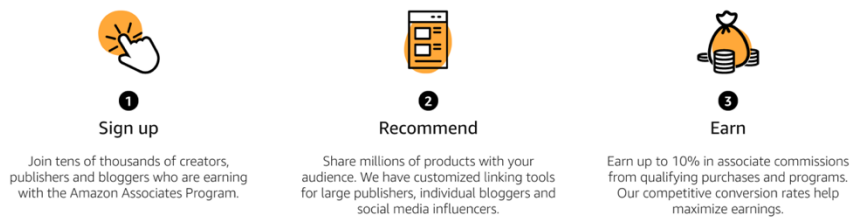


Figure 6. Amazon' affiliate program. Source: Amazon Associates. Retrieved from:

<https://affiliate-program.amazon.com/>

Frequently Asked Questions

How does the Associates Program work?

You can share products and available programs on Amazon with your audience through customized linking tools and earn money on qualifying purchases and customer actions like signing up for a free trial program. [Learn more.](#)

How do I qualify for this program?

Bloggers, publishers and content creators with a qualifying website or mobile app can participate in this program. [Learn more.](#)

If you are an influencer with an established social media following, [learn about the Amazon Influencer Program.](#)

How do I earn in this program?

You earn from qualifying purchases and programs through the traffic you drive to Amazon. Commission income for qualifying purchases and programs differ based on product category. [Learn more.](#)

How do I sign up to the program?

Sign up to the program [here.](#)

We will review your application and approve it if you meet the qualifying criteria. [Learn more.](#)

Figure 7. Amazon' affiliate program. Source: Amazon Associates. Retrieved from:

<https://affiliate-program.amazon.com/>

Figure 6 shows the Amazon affiliate program. This one, in particular, offers 10% commission to the public who want to recommend products from their website through referral links.

However, not everyone can join this program, as certain conditions have to be met, such as being a blogger or a content creator with an existing platform to share their content. Besides, as can be seen in figure 7, Amazon has a special program for social media influencers.

With this technique, the business achieves to drive more traffic to the business' website and consequently generate more revenue. That is, it helps cost-effectively reach a wider audience.

4.3. Differences between Drop-shipping and other Fulfilment e-commerce

Having studied the characteristics of drop-shipping and other e-commerce models, these are summarized in the following table to highlight the differences.

	Drop-shipping	Other Fulfilment e-commerce
Initial investment	<p>A very small amount. The initial investment necessary is usually:</p> <ul style="list-style-type: none"> • Cost of the website (annual domain and monthly platform subscription) • Equipment used to manage the business (normally a computer or even mobile phone) 	<p>Bigger costs. The initial investment necessary is usually:</p> <ul style="list-style-type: none"> • Cost of the website (annual domain and monthly platform subscription) • Equipment used to manage the business (normally a computer or even mobile phone) • Stock • Space location for the inventory • Cost of manufacturing, if the store manufactures its own

		<p>products</p> <ul style="list-style-type: none"> • If needed, the cost of outsourcing the process of fulfilment
Shipping times	The supplier can be located anywhere in the world, so delivery times are usually longer.	The business can choose the shipping methods and times, so they are usually much shorter.
Quality	By not having the stock, the business cannot control the quality of the products nor of the packaging, so it tends to be lower.	The business controls the quality of the products and the process of the fulfilment.
Customer service	The customer service is more null. Not having the product or having power over the shipment or the location of the order means the company does not have as much power to deal with customer problems.	Customer service is usually good.
Risk	The risk is lower because if the business fails, only the investments made in the website and the equipment will be lost.	The risk is greater. In case of failure, apart from losing the investments mentioned above, the business will also be left with even an amount of wasted stock.
Time spent	Lower. The time is only spent on finding suppliers, designing and administering the website and sending the customer's details to the supplier.	Bigger. Time is spent on product design (if designed by the business), product manufacturing (if manufactured by the business itself) and website design and administration and product fulfilment.

Table 1. Differences between Drop-shipping and other Fulfilment e-commerce.

<https://www.shiprocket.in/blog/ecommerce-fulfillment-models/>

5. PRACTICAL SECTION: CASE STUDIES

5.1. Introduction

In this practical part two drop-shipping companies will be presented. The first one has already been operating since April 2020 and the second one has been created at the same time as this project has been carried out. As mentioned above, the products of both companies will be promoted during Cyber Monday and Black Monday campaigns, exactly from the 19th to the 30th of November 2020. To do so, different techniques and channels will be tested for the promotion of both businesses.

It should be noted that in order to carry out these activities, the person in charge of this project is registered as self-employed and pays the corresponding quarterly taxes.

In addition, it should be stressed that the initial investment for both businesses has been: the cost of the first month's subscription to the website platform, being 24.53€ at Shopify Inc., and the cost of the first year of the website domain, which has been 4.75€. No investment in equipment has been needed as the two businesses have been created and managed using the mobile phone and computer already owned.

The aim of this part is to be able to explain and illustrate this model in more depth and, as a consequence, to take these two experiences in order to conclude the analysis in a more accurate way.

Each case study will follow the following structure:

- **Business presentation:** In this first section the business' characteristics will be presented.
- **Target market:** In this part the target market of each business will be defined, based on location, demographics and audience interests.
- **Promotion channel:** Two different promotion channels will be used. The first one will use its target to find the promotion channel that fits the best with it and the second one will use an emerging social network that has become extremely popular in 2020.
- **Promotion:** In this section, the techniques, the content and the investment will be determined.
- **Results:** Finally, the results obtained will be presented in the form of a profit breakdown, and the net profit margin will be calculated.

5.2. Case Study I: Sinner Rocks

5.2.1. Business presentation

Sinner Rocks is a young women's fashion drop-shipping company created in April of 2020. It initially started as a swimwear business but then it expanded its variety of products and converted to a clothing and accessories company.



Figure 8. Case Study I: Logo. Own elaboration.



Figure 9. Case Study I: Sindy black vest. Source: Sinner Rocks. Retrieved from: <https://sinnerocks.com/collections/chalecos/products/sindy-vest>

The brand seeks to follow the latest trends. For example, in figure 9 is shown a product that is very popular nowadays and that Sinner Rocks is already selling. In addition, new products are released every month so that the audience never loses interest and keep returning to the page.

It also seeks to be an affordable company for everyone. It follows a strategy of price differentiation to try to get a comparative advantage over its competitors the market prices that are put into the products are around the double of the original price. For this reason, suppliers with low prices but good ratings are sought after. That is, if a

supplier's blouse cost 8€, Sinner Rocks bases the market price for its customers on 16€. For these reasons, the average retail prices of this business are affordable, between 10€ to 20€, and a good profit margin can be maintained.

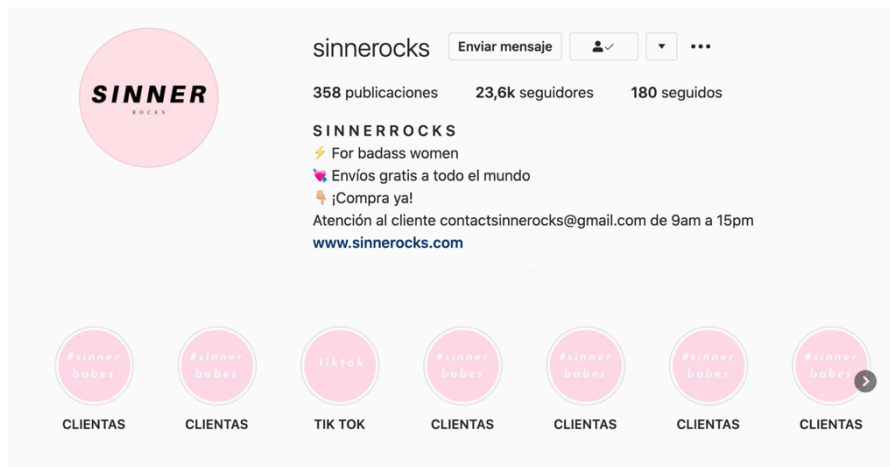


Figure 10. Case Study I: Sinner Rocks' Instagram. Source: Instagram. Retrieved from: <https://www.instagram.com/sinnerocks/>

This company has focused its internet presence on Instagram, which already has a platform of 23.000 followers, as it can be seen in figure 10. That is, it already has previous publications and an existing audience.

In order to help with the popularity on Instagram, the firm not only posts product photos but also inspirational or fashionable photos that are popular. On the one hand, this gives the brand the image it wants to be associated with, a young and trendy company. On the other hand, the engagement of the account improves, as the public interacts and likes the publications more and, as a consequence, it reaches more people through the Explorer section of Instagram.

Even though the brand is focusing on the Spanish market, the website (<http://www.sinnerocks.com>) and Instagram can be seen by everyone, which means that the brand and the products can be discovered and shopped by anyone anywhere. Because of this, the website has a translator into 10 of the main languages spoken in the world, including Spanish, English and French, and a converter for the main world currencies, including Euro, Pound and Dollars.

5.2.2. Target market

The audience has been defined according to the characteristics that are requested by most ad platforms: interests they may have in common, location and demographics.

As for the interests of the customers, it has been chosen the most popular online shops, which have a similar style to the brand. The interests that potential customers of Sinner Rocks may have in common are: fashion, online shopping, Bohoo, Nasty Gal, Zara, Revolve, Bershka, Missguided, OhPolly, FashionNova.

For the demographics, it has been possible to consult the audience statistics that the brand already has on the Instagram platform.

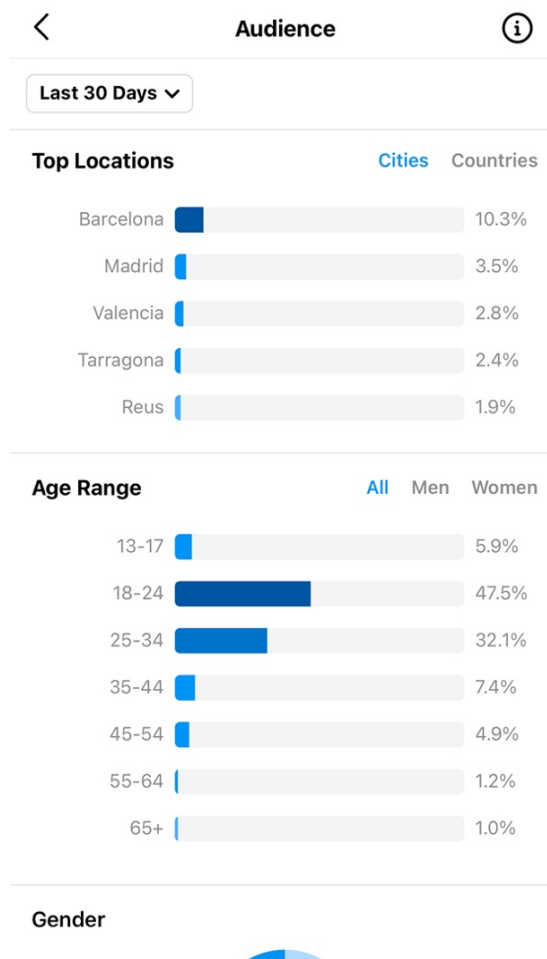


Figure 11. Case Study I: Instagram audience. Source: Instagram. Retrieved from: <https://www.instagram.com/sinnerocks/>

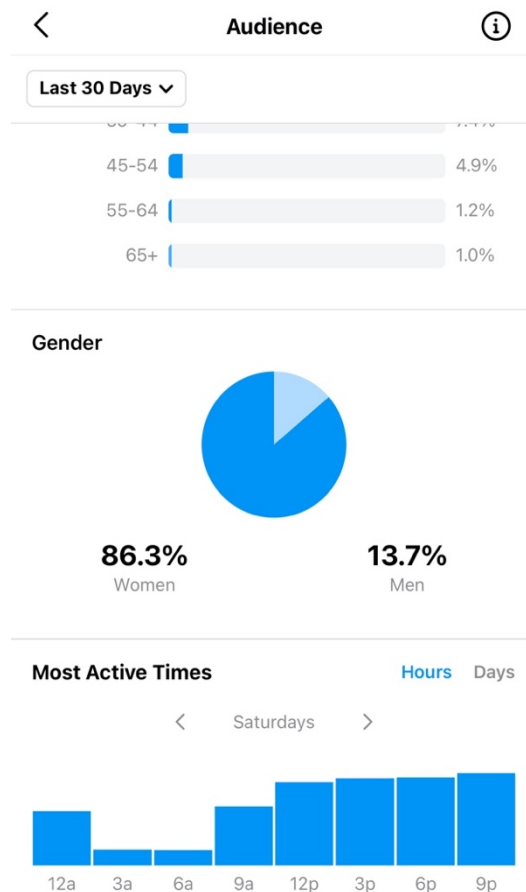


Figure 12. Case Study I: Instagram audience. Source: Instagram. Retrieved from: <https://www.instagram.com/sinnerocks/>

As can be seen in figure 11, the locations where the brand is most popular is Spain and the most popular ages are from 18 to 34. Even so, it has been decided to keep the brand's target wide, from 16 to 30 years old, since as it has been said before it is a brand with young clothes.

Finally, as it is a women's fashion store, the gender is female.

Having analyzed the characteristics of the business and its social media's audience, the brand's target can then be defined:

- **Age range:** 16-30.
- **Gender:** 100% female, 0% male.
- **Common interests:** Fashion, online shopping, Bohoo, Nasty Gal, Zara, Revolve, Bershka, Missguided, OhPolly, FashionNova.
- **Location:** Spain.

5.2.3. Promotion channel

Until now, the brand has been mainly promoted through Instagram.

Referrer source	Referrer name	Visitors	Sessions
Summary		157,290	184,497
Social	Instagram	58,333	91,796
Direct	N/A	26,624	69,538
Search	Google	16,732	20,572

Figure 13. Case Study I: Top 3 sessions by referrer, 2020. <http://shopify.com>

As it can be seen in figure 13, 49,8% of the total number of sessions of the website came from Instagram alone, 37,7% came from the public who entered the website address directly via the Internet, 11,1% who entered by searching for it on Google, while the remaining 1,4% came from other referrers. That is, most sessions have been through this social network.

However, in order to do the promotion with a tight budget, there has been some doubt between Facebook and Instagram Ads. Therefore, in order to truly find the best promotion channel, it has been found a study of 2020, which filtered the different social media's users by age, sex and demographics.

The data of Instagram's users is shown on figures 14 and 15, while the data of Facebook's users is shown in figures 16 and 17.

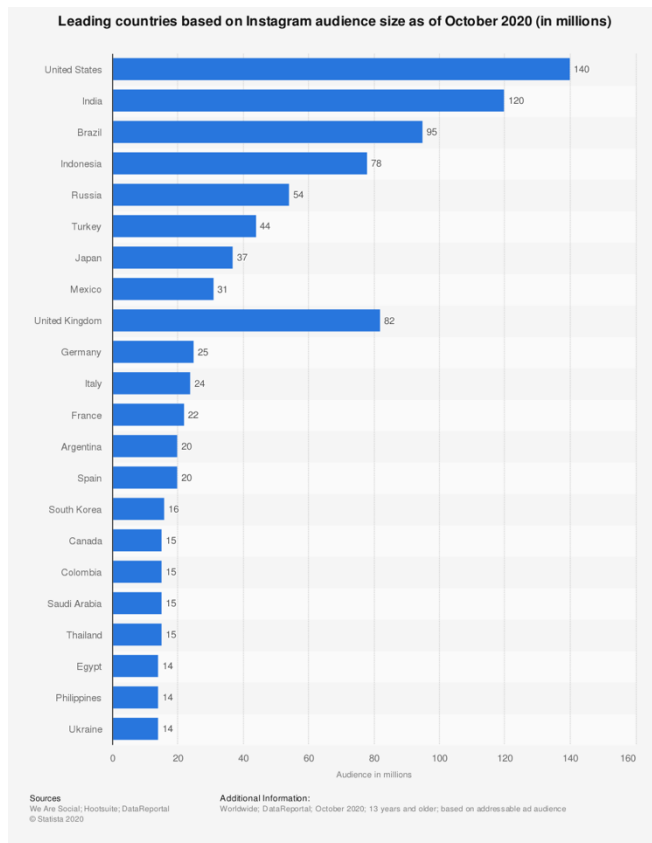


Figure 14. Instagram audience as of October 2020. Source: We Are Social, Hootsuite, Data Reportal & Statista. Retrieved from: <https://sproutsocial.com/insights/new-social-media-demographics/>

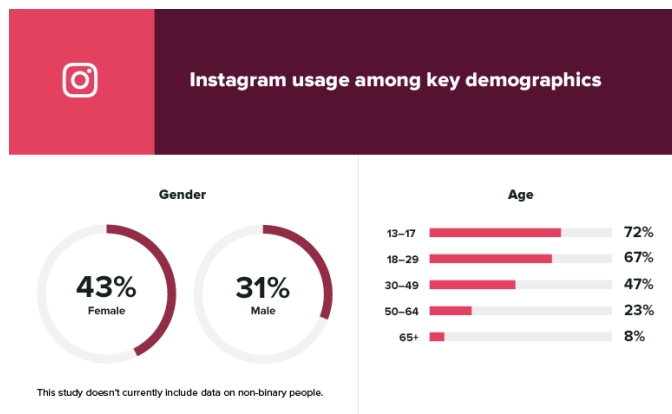


Figure 15. Instagram audience as of October 2020. Source: pewrsr.ch/2P0uyRs. Retrieved. Retrieved from: <https://sproutsocial.com/insights/new-social-media-demographics/>

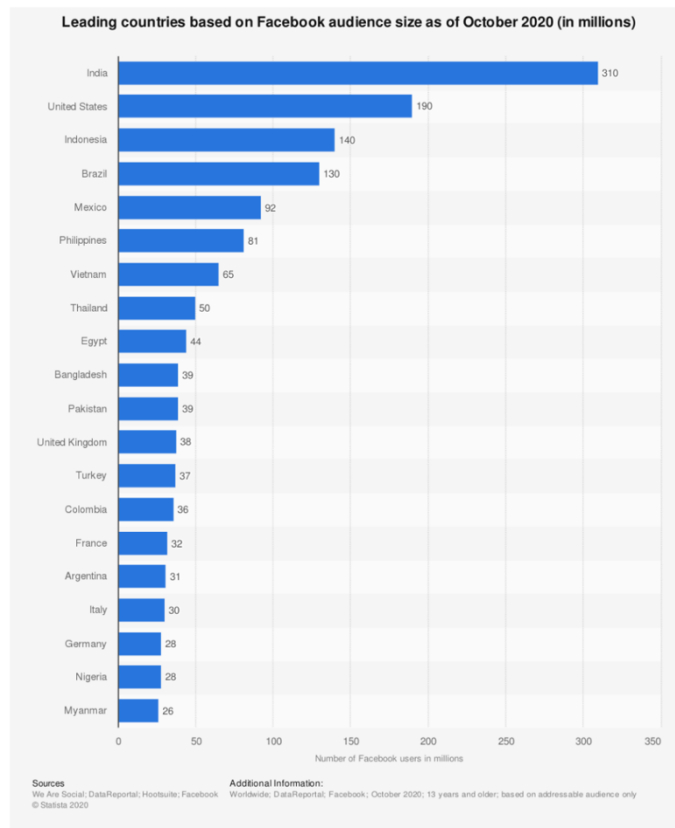


Figure 16. Facebook audience as of October 2020. Source: We Are Social, Hootsuite, Data Reportal & Statista. Retrieved from: <https://sproutsocial.com/insights/new-social-media-demographics/>

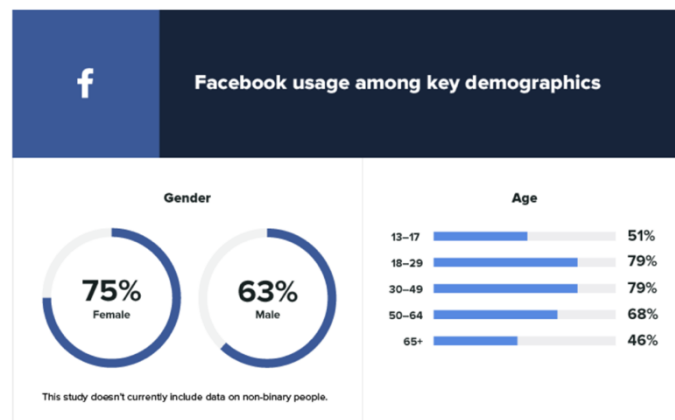





Figure 17. Facebook audience as of October 2020. Source: pewrsr.ch/2P0uyRs. Retrieved from: <https://sproutsocial.com/insights/new-social-media-demographics/>

Seeing this, it has been decided to do the promotion via Instagram, as it is a popular social network among young people and is also widely used in Spain.

5.2.4. Promotion strategy

5.2.4.1. Promotion strategy used to date

The promotion strategy that Sinner Rocks has been following since its opening until now is affiliate marketing.

 <h4>How does it work?</h4> <p>It's very easy! All you have to do is follow the 4 simple steps to become a Sinner Rocks ambassador:</p> <ol style="list-style-type: none">1. Join the affiliate program by registering on this page.2. Within 24-48h a customised discount code will be created for you to promote.3. Drive targeted traffic to the Sinner Rocks site through your social networks (Instagram stories, posts... promoting the code we have created for you)4. Generate sales and earn rewards with commissions of up to 8% per sale! Be sure to read the program terms and conditions to ensure that your affiliate activity follows Sinner Rocks' branding guidelines.	 <h4>Why join us?</h4> <p>Besides the fact that we are an incredible brand, joining the Sinner Rocks program has its benefits. In particular:</p> <ol style="list-style-type: none">1. Get free products (to choose from) for every three sales.2. Opportunities to manage exclusive agreements with Sinner Rocks.3. A selection of fun and exciting templates, constantly updated, that you can use in your social networks to promote your discount code.4. Continuous affiliate updates with trends, tips, news and the latest offers.5. Track results and optimise your activity to maximise your profits.	 <h4>Join the programme!</h4> <p>To ensure that you have read all the information needed to get started and prove that you are a suitable ambassador, please read our terms and conditions.</p> <p>Once you've been accepted as an ambassador for Sinner Rocks, you can start earning commissions immediately.</p> <p>Sign up now!</p>
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Join Now

Figure 18. Case Study I: Affiliate program details. Source: Goaffpro. Retrieved from: <https://sinnerocks.goaffpro.com/>

The business has a portal, where all the details of the affiliate program are explained, as it can be seen in figure 18.

In this case, the program offers anyone the opportunity to be an ambassador for the brand. This means that anyone registers on the brand's affiliate portal, receives a 15% discount code personalized with their Instagram username (e.g. MARIAMARTÍ) so that they can share with their followers on their social networks. Every time someone uses this code to buy something on the website a notification reaches the affiliates, and every time they reach three sales, they are sent a product of their choice totally free.

There are no requirements in order to be an ambassador of the brand, anyone can be an ambassador.

Promotion through this method is very easy for the affiliates. In the portal, each ambassador has the statistics of their sales numbers, as well as a section with creative,

where the brand uploads templates so that the ambassador only has to download the photo, upload it to their social networks and write their discount code for their followers.

This way of marketing is what has worked for Sinner Rocks over these last months, winning over 600 ambassadors in the last few months and making the profits increase. It's a win-win situation, the brand gains promotion from a multitude of people while affiliates gain free products.

5.2.4.2. Promotion strategy that will be used

For the promotion, it has been decided to create a 30% discount code, which has been posted from the 19th to the 30th of November on the existing Instagram profile through posts and stories. Furthermore, one of these posts has been advertised through Instagram Ads with a total budget of 16€, from the 27th to the 30th.

It has been decided to offer a general discount code of 30%. The reason is that it is a higher discount than normally offered and, apart from that, with the very low prices on offer, the final amount to be paid is even more affordable. This has been decided in order to get the attention of the customers, but still make a profit.



Figure 19. Case Study I: Ad for Black Friday. Source: Own development.

Figure 19 shows the publication that has been created to promote the offer.

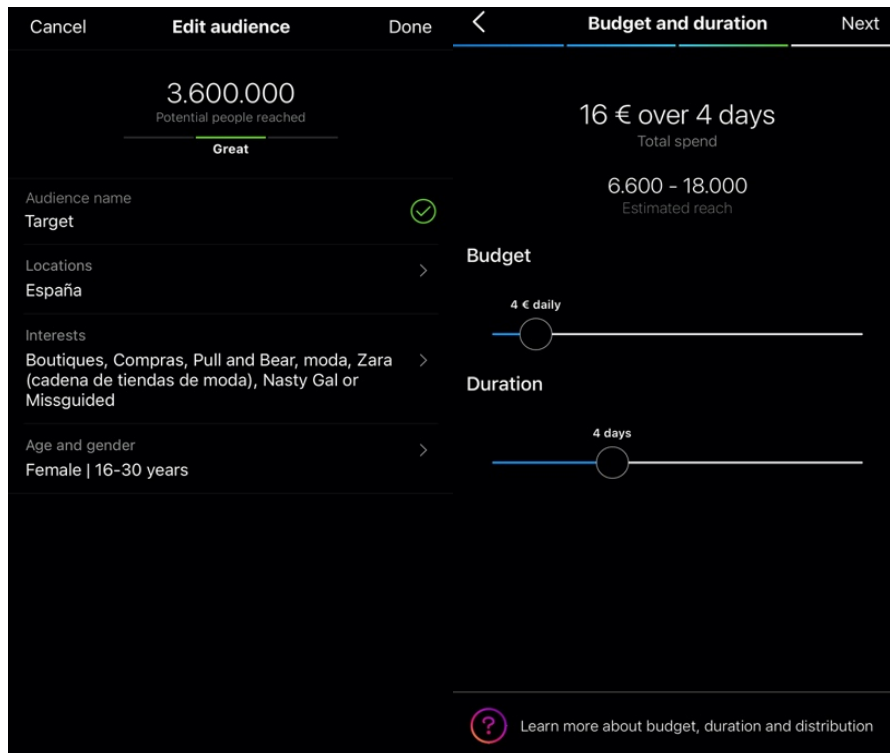


Figure 20. Case Study I: Segmentation through Instagram Ads. Source: Instagram Ads.
Retrieved from: <https://www.instagram.com/sinnerocks/>

Then, the creation of the advertisement has been carried out with the target that has been predefined.

The ad leads customers to the Sinner Rocks website so they can make their purchases. In addition, the budget has been divided in such a way that it was 4€ per day during the four days the promotion was running. As it can be seen, the final estimated reach with the defined budget is between 6.600 and 18.000 people.

5.2.5. Results

The insights of the promoted publication have been the following.

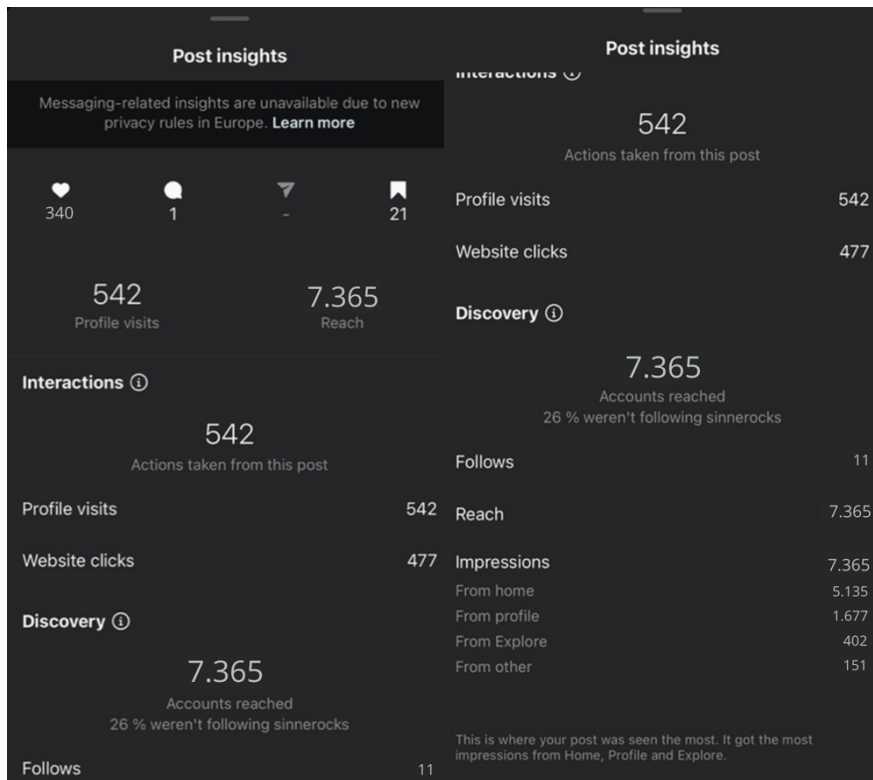


Figure 21. Case Study I: Insights of the Instagram ad. Source: Instagram. Retrieved from: <https://www.instagram.com/sinnerocks/>

It has reached 7.365 accounts, 542 profile visits and 477 website visits. That is, 6,5% of the accounts reached visited the website. In addition, 340 people liked the publication and 21 saved it.

This has led to the following results in sales.

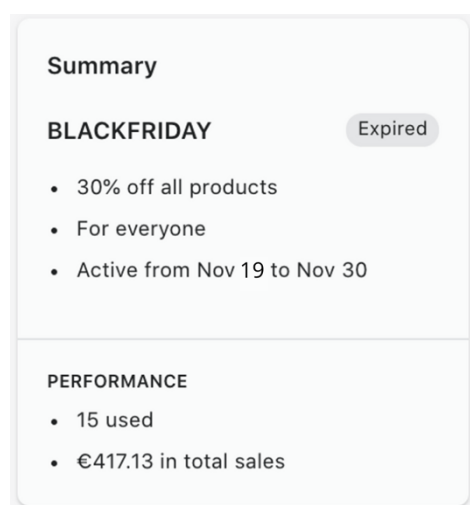


Figure 22. Case Study I: Results from the promotion. Source: Shopify. Retrieved from: <http://www.shopify.com>

As can be seen in figure 22, the discount code has been used 15 times, resulting in a total revenue of 417,13€.

5.2.5.1. Profit breakdown

In order to really see the profit, a breakdown of the costs and earnings has been presented in table 2.

	Profit breakdown
Sales revenue	417,13€
(-) Product costs	230,85€
(-) Initial investment costs	29,28€
(-) Promotion costs	16€
Profit	141€

Table 2. Case Study I: Profit breakdown. Own elaboration based on the data obtained from this study.

The final benefits after extracting all the costs that have been found during the process have been of 141€.

In addition, to be able to see the profitability of the business, the net profit margin has been calculated. The net profit margin is a ratio that allows us to see the profitability of a business through the relationship between profit and sales. This means it allows us to see the capacity of the business to convert income into profit. (Westreicher, n.d.)

	Formula	Result
Net profit margin	$(\text{Net Income}/\text{Revenue}) * 100$	33,80%

Table 3. Case Study I: Net profit margin. Own elaboration based on the data obtained from this study.

Sinner Rocks' net profit margin is 33,80%. This can be interpreted as a high amount, which means that the products have been priced fairly correct and that there has been good control of costs, as it has managed to cover the investments made and still make profit.

5.3. Case Study II: iNano

5.3.1. Business presentation

iNano is designed to be a business that, unlike the previous, focuses on one product: a disinfectant spray. It has been chosen because it is an innovative product that meets the actual needs given by the crisis and the covid-19 measures.

inano.

Figure 23. Case Study II: Logo. Own elaboration



Figure 24. Case Study II: Products. Source: iNano. Retrieved from:
<https://www.myinano.com>

As it can be seen in figure 24, iNano is a mini spray that comes in four colours: white, green, pink and yellow. This comes with a charger and has a small size to make it easy to carry around. Inside the transparent capsule, the customer must put liquid disinfectant or, as an alternative, a mixture of 70° alcohol and water.

This business seeks to offer a functional and affordable product to the entire public. The cost of the product is 4,80€ and the market price is of 9,90€.

Unlike the other business, this is a business created from scratch for this project. Therefore, it does not have any previous existing social networking platform.

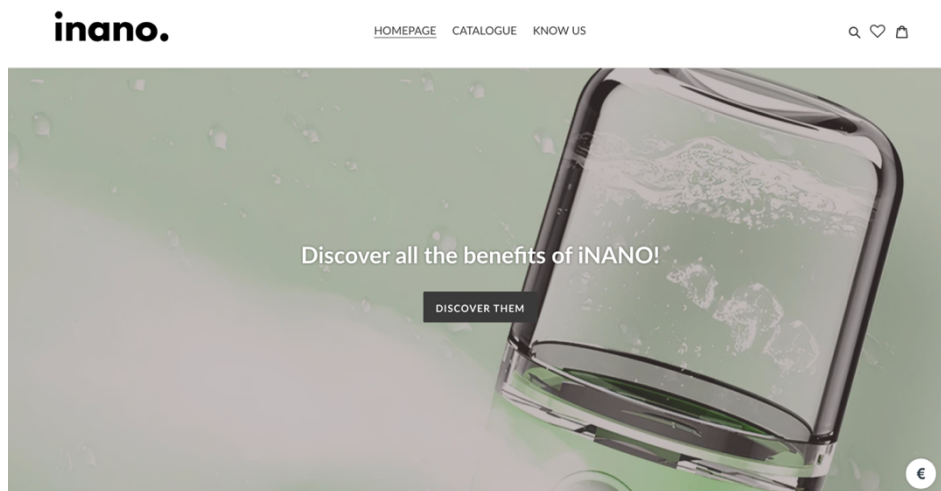


Figure 25. Case Study II: iNano's website. Source: iNano. Retrieved from: <https://www.myinano.com>

The business seeks to give a fresh, professional and clean image. That is why the website, as seen in figure 25, has been created with a simple and functional design so that it is understood and easy to control by everyone. The website also has a translator into 10 of the main languages spoken in the world and a converter for the main world currencies.

In addition to being able to buy the product through the website, an explanation of the benefits of the product has also been incorporated in a section called 'Know us'. The objective of this is to encourage customers to buy the product.

5.3.2. Target market

This product has no direct competition, as there is no product on the market right now with the same structure and function. Therefore, the interests that potential iNano customers could have are: disinfectant, covid19, masks and hydroalcoholic gel.

The demographics on which iNano has focused are Spanish-speaking audience, as the content on the promotional channel has been created in Spanish. Unlike the other business, the product is unisex. It is also not based on any specific age; it is a product for everyone. However, as a base age, it has been limited to 60, which is believed to be a good limit for the public who use and buy things on the internet.

Having established the characteristics of the business, the brand's target can then be defined:

- **Age range:** 16-60.
- **Gender:** 50% female, 50% male.
- **Common interests:** disinfectant, covid19, masks, hydroalcoholic gel.
- **Location:** Spanish-speaking audience.

5.3.3. Promotion channel

As determined previously, each business has used a different promotional channel.

In the search of a popular way to do publicity, it has been found that TikTok has been one of the top fastest-growing apps in 2020. This social media has over 800 million users worldwide and is actually the most downloaded app in the App Store. Some statistics to highlight are that their users use the app an average 52 minutes per day and that in 2018 there were more than 1 billion videos watched every day. (Mohsin, 2020)

The advantage of this app is that it is free to download and use, and that anyone can make a video that goes viral and is seen by millions of people from all over the world. For this reason, businesses have taken advantage and established their presence on TikTok, and because of videos that have gone viral, they have achieved an enormous increase in their sales. (Bump, 2020)

For these reasons, it has been decided to use this popular social media network to try to reach a large audience. It is also a good free promotional alternative to the channel seen in the first case study.

5.3.4. Promotion strategy

The promotion strategy that has been pursued is the following.

Although it has been said that no stock is needed for drop-shipping, one product has been bought from the supplier to be able to create videos and upload them to TikTok. It should be noted that this cost is counted as an initial investment and not as a

promotion cost, since the promotion itself has no cost. In other words, uploading videos to the application does not involve any cost, it is free of charge.

A total of 6 videos have been created and posted, from the 19th to the 30th of November of 2020, promoting the product and showing its features and utility.



Figure 26. Case Study II: iNano announcement bar discount booster. Source: iNano.

Retrieved from: <https://www.myinano.com>

INANO pink

€ 9.90 ~~€ 17.90~~ OFFER

ADD TO CART

♡ ADD TO FAVORITES

Hurry up! The offer ends in

09:17

Only 12 units in stock

Figure 27. Case Study II: iNano's urgency countdown booster. Source: iNano.

Retrieved from: <https://www.myinano.com>

Additionally, as can be seen in figures 26 and 27, some boosters have been used to create a sense of urgency in the shopper, with the aim of increasing sales.

5.3.5. Results

Through this way of promoting a product, the following results have been achieved.

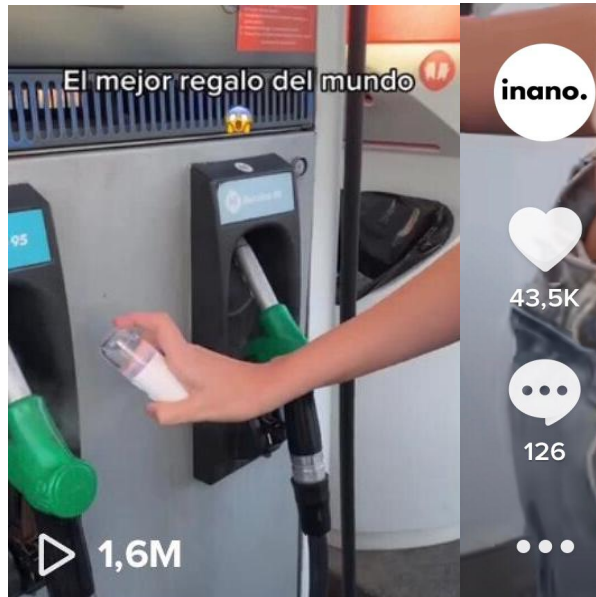


Figure 28. Case Study II: Insights of Tiktok video. Source: TikTok. Retrieved from: <https://www.tiktok.com/@my.inano/video/6896856847131725057>

On the one hand, the first video created has gone viral. It has achieved more than 1.6 million visits, more than 43.500 likes and 126 comments; while the other videos together reunited a total of 1.200 likes.



Figure 29. Case Study II: iNano's TikTok profile after promotion. Source: TikTok. Retrieved from: <https://www.tiktok.com/@my.inano>

This has caused the iNano account to grow from 0 to more than 2.000 followers and to get a total of 44.700 likes.

This has led to the following results in sales.

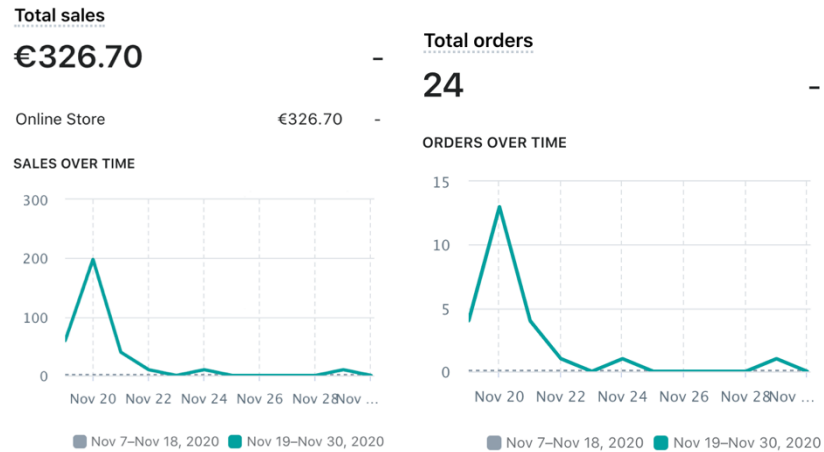


Figure 30. Case Study II: Results from the promotion. Source: Shopify. Retrieved from: <http://www.shopify.com>

From the 19th to the 30th of November a total of 24 orders have been placed, which translates into total sales of 326,70€.

5.3.5.1. Profit breakdown

The profit breakdown of the Case Study II has been presented on the following table.

	Profit breakdown
Sales revenue	326,70€
(-) Product costs	158,40€
(-) Initial investment costs	34,08€
(-) Promotion costs	0€
Profit	134,22€

Table 4. Case Study II: Profit breakdown. Own elaboration based on the data obtained from this study.

The final profit after extracting all the costs have been of 134,22€ in the period of the 19th to the 30th of November of 2020.

The net profit margin has been calculated in the next table.

	Formula	Result
Net profit margin	$(\text{Net Income}/\text{Revenue}) * 100$	41,08%

Table 5. Case Study II: Net profit margin. Own elaboration based on the data obtained from this study.

iNano's net profit margin is 41,08%. The business, like the previous one, has been able to cover costs and still make a profit.

5.3.6. Update

The update of the promotion must be done in this case because, after a month without uploading any more content, the account has continued to grow on its own.



Figure 31. Case Study II: Insights of iNano's video after the promotion. Source: TikTok.

Retrieved from: <https://www.tiktok.com/@my.inano/video/6896856847131725057>

The first video has grown to 2.4 million views and more than 53.700 likes. In addition, the account has managed to grow to a total of more than 57.600 likes and 2.900 followers.

As it has reached more people, sales have also increased.



Figure 32. Case Study II: Sales after the study. Source: Shopify. Retrieved from: <https://www.shopify.com>

There have been 13 more orders during the month of December of 2020. Sales, then, have risen to 504,90€ of sales.

In other words, it should be borne in mind that this promotional channel has no limits and can continue to reach millions of people for months after the content has been uploaded.

6. CONCLUSIONS

The objective of this work must be stressed again: to explain and determine the strengths and weaknesses of the drop-shipping business model. By conducting two real cases in different ways, various conclusions have been reached, which are going to be explained below.

First, the following three factors of each case study have to be summarised: the initial investment, the cost of promotion, the time spent and the final profits.

	Case Study I	Case Study II
Initial investment	29,28€	34,08€
Cost of promotion	16€	0€
Time invested	5h	8h
Final profit	141€	134,22€

Table 6. Comparison between Case Study I and Case Study II. Own elaboration based on this study's data.

It must be taken into account that the first case study, apart from having a pre-existing public to the study, also made an investment in promotion. On the other hand, case study two, apart from having been created from scratch for this study, no investment was made in promotion but instead, a social network was used to take advantage of its popularity and exploit the product's capabilities. In other words, in total more was invested in the first study.

As for the time spent, since the first case study already existed before the study, more time was saved than the second one, from which the website and the social network had to be created from scratch. This time includes the creation of the content for the promotion, and the completion of customer orders, i.e. ordering from the supplier.

Finally, the final results must be taken into account. On the one hand, the first case study, Sinner Rocks, achieved a net profit of 141€. On the other hand, the second case study, iNano, achieved 134,22€.

If the two businesses are compared, it can be determined that the second form of promotion has a lot of potential if it is done in the right way, because even without a pre-existing audience, the second business has achieved almost the same benefits as

the first one. It is an alternative way to traditional promotion, as the first case, and a way to reach a large audience with zero investment in advertising.

In addition, the study revealed points that would have improved the outcome of both cases.

On the one hand, in the first case, if a larger budget was available, different advertisements could have been made and promoted in order to test and improve the chances of one being more successful than the others.

On the other hand, if no budget is available for promotion, a good option is the one carried out in case study II. However, in order to try to improve the results, more videos should be created to have more chances of one becoming popular and reaching a wider audience, so as to increase sales.

Through the research conducted, a number of benefits and weaknesses have been identified. On the one hand, the first ones have been:

- Profits around 140€ in both cases with investing less than 50€ in each one.
- The risk is very low. If any of the two businesses had failed, no stock of either clothing or disinfectants would have been lost, only the low investments mentioned above.
- The wide variety of products that can be found from suppliers. In this case, it has been possible to find and sell two very different products: clothing and sprays.
- Cut costs in general that other e-commerce companies do have, the biggest one being stock maintenance. The only costs encountered were those of the website and the promotion. Yet, as we have seen, there are free promotional alternatives.
- The ease and short time needed to manage this type of business compared to the others. The cases could be completed in less than 10 hours each and all managed from home.

On the other hand, the second ones are:

- Difficult customer service and little control in the shipping process and the quality of the products. Every day many customers contacted asking where their parcel is, and the only information that can be given is the average

delivery time that the suppliers say. Also, coming from far away countries, there are several problems like customs or taxes.

- Long delivery time. With this, many complaints from customers come in.

In addition, two factors have been discovered to ensure that this model is carried out in the right way and, therefore, has a better chance of success.

On the one hand, in order to correctly carry out any activity based on this model, the delivery conditions on the website must be well established and the customers' doubts must be solved.

On the other hand, it should be known how to choose the right product to drop-ship, one that meets the current needs of customers. For example, in the first case the product is clothing, which is a timeless necessity, and in the second one is disinfectant sprayer, which meets actual needs.

In addition, the promotion has to be done the right way, having first studied the audience and knowing what kind of promotion will attract them. Also, the drop-shipper should be up-to-date at all times and take advantage of what is popular at the moment. For example, in the second case the promotion has been done through a social network that is currently booming and that is free of charge.

In conclusion, it has been possible to demonstrate that this business model is a great opportunity for those people who do not have sufficient resources or capital or would like to start a business in an easy and almost risk-free way. It is a model that offers many benefits, but it is important to know how to carry it out taking into account the factors mentioned above that have been found in this project.

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