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Final Thesis

Dropshipping: sustainability, determinants and horizons of the business model in the Italian market

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Abstract

The research revolves around the analysis of the world and nature of the dropshipping phenomenon, its applicability and sustainability, taking the Italian market as a reference. To reach the aforementioned objective, the following research questions were identified: what are the main determinants of dropshipping and how to frame it as a business model? How can economic, social, and environmental sustainability be integrated in the dropshipping business and how can them be assessed?

To do this the research start from a general definition of the business model, which identifies its characteristic aspects, comparing them with that of "traditional e-commerce", so as to first provide a definition useful for the subsequent discussion. We will then proceed by attempting to frame the current state of e-commerce and dropshipping in Italy and the rest of the world, on the basis of adequate and consistent data. Once these references have been provided, the central question the research wishes to answer concerns the actual sustainability of dropshipping as a business model; with the ultimate aim of answering this question, it will proceed analyzing the various aspects of this phenomenon previously identified as characterizing features. A subsequent part will therefore be devoted to understanding to what extent and in what form the determinants identified for dropshipping can be considered sustainable or not, and to what extent it is possible to intervene in this respect, given the current context. In the final part of the study, we will then attempt to relate what we have previously investigated specifically to the Italian market, investigating companies that have made dropshipping their hallmark, to understand all the challenges they have faced and the successes they have achieved thanks to their choice. We will then compare the findings in the field of sustainability to obtain a more truthful and up-to-date picture of the phenomenon.

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Introduction

The present research will analyse dropshipping as a phenomenon within the broader world of e-commerce. The study takes as its reference the current panorama of online commerce in Italy, aiming for two different assessments regarding driving factors and sustainability. The topic, which is scarcely dealt with in literature and sector studies, was of interest to me due to the peculiarity of the model and the intrinsic simplicity it brings in being able to start an online business (Turban *et al.*, 2018). From the perspective of the digital revolution and the omnichannel approach that more and more companies are pursuing, it seemed to me to be an extremely interesting and valid topic to delve into, all the more so given the widespread lack of notion on this subject in Italy. Many entrepreneurs worldwide have based their success on dropshipping, take for example Ben Francis who at just 19 years old was able to start his own business, Gym Shark, which over the years has turned into a $1 billion fitness wear brand (McKeveer, 2021).

From this interest, the present research began, with the stated objectives of evaluating the determinants of the dropshipping model and assessing its sustainability. The following research questions were established in order to accomplish the aforementioned goals: what are the primary factors that determine dropshipping, and how can it be framed as a business model? How can economic, social, and environmental sustainability be integrated in the dropshipping business and how can them be assessed?

The research method used first required a search for information from books, white papers, industry reports, journals, specialist articles and university texts necessary to provide the basis for the study and framing of the matter. The material read online was retrieved through search engines such as Google Scholar, specialised portals such as Elsevier and ResearchGate, and the University Digital Library (BDA) of the Ca' Foscari University of Venice. By doing so, it was possible to trace back data and information on dropshipping, trying to arrive at a coherent overall picture of the dropshipping business model on which to further research and find answers to the questions posed. Sources for the Italian market are not extensive, so there remains considerable ground for future research and investigation.

For the interviews presented in the last chapter, the semi-structured method was used.

A number of candidate companies deemed useful in the analysis for the purposes of the discussion were sought out and selected. Subsequently, a semi-structured interview was administered. A main outline defined by the interviewer was proposed and followed, which highlighted the topics covered in order to obtain useful answers for the topics of the research. The questions asked were aimed at expanding, deepening, refuting, or disproving the data available. The interviewer, in agreement with the interviewee, then reserved the freedom to develop certain topics that arose spontaneously during the course of the interview, in the manner and under the circumstances deemed most appropriate for the purposes of the research. The statements thus obtained were then subsequently elaborated and presented in the arrangement proposed in the text.

The research begins with a chapter that defines the business model, putting together numerous contribution from the literature. Describe the characteristics of dropshipping, contrast them with "conventional e-commerce," and include statistics to back up these claims. The second chapter will then try to define dropshipping as a business model by organising the numerous facets of this phenomenon, to drive its distinguishing characteristics in many respects. Therefore, a third chapter will be devoted to figuring out whether or not dropshipping determinants are sustainable and how much one can do to intervene in this regard, both in the short and long-term. Several tools and solutions are presented and evaluated, with specific regard to the Italian market. The final chapter will provide two case studies, elaborated from contributions on the subject, gathered from two different Italian dropshipping businesses, and will examine the sustainable behaviours or aims, making comparisons to what was previously found out.

Finally, the conclusions that emerged from this paper regarding the investigated questions will be presented. What have been identified as determinants for the dropshipping model are explained: choice of supplier, logistics management, and cost and revenue structure. In addition, the considerations arrived at regarding the sphere of sustainability are set forth. Feasibility, type and number of proposed solutions and the time horizons on which to act. All this is complemented by the evaluations obtained as part of the interviews that were held.

Chapter 1

E-commerce and Dropshipping defined

The first chapter will act as an introduction to the addressed discipline. It will lay the groundwork for the answers to the questions I have posed, and the discussion that will be articulating in the continuation of the research. The chapter opens with a paragraph in which the formal definitions of e-business, e-commerce and dropshipping are provided, based on analysis of existing literature. Continues with a section presenting the main data on the global e-commerce market, followed by an in-depth look at the effects of the Covid-19 pandemic which was deemed necessary given the impact of the emergency on consumption. The following paragraph builds on the previous one by presenting up-to-date figures on e-commerce trends in Italy. Finally, in the last paragraph of the chapter, data on the dropshipping phenomenon are presented and analysed. In the latter three chapters, the study follows the same form of exposition, as far as possible on the basis of the available and retrieved data.

1.1   A formal definition of E-business, E-commerce and Dropshipping

People might refer to online commerce as e-commerce or e-business, yet they are not the same thing. We can define e-business as any type of business activity organized and conducted online, empowered by digital technologies, while at the same time minimizing the need for traditional business infrastructure. Useful definitions can be found in Turban *et al.* (2018), Chaffey *et al.* (2019) and Laudon and Traver (2021). In general e-commerce is thought instead to be the buying and selling conducted online throughout a website. E-commerce can be said to be a subset of e-business.

The difference is clearer when we resort to practical examples: we have companies like Amazon or Alibaba, which definitely fall under the e-business umbrella, both are born, active and deeply embedded into the online environment. They cannot be imagined apart from this context. Both even practice electronical commerce even if it is not their only activity and source of revenue. Yet e-commerce is not reserved to e-businesses

only, examples such as Decathlon or Ikea have fully operational e-commerce platforms while still owning their brick-and-mortar stores. From this you can get how e-commerce is just a branch of e-businesses in general, but it is not only prerogative of the latter. There is no agreement in the discipline on what the boundaries and differences between these terms clearly are. A precise and complete definition of the term e-business is beyond the scope of this research, so only a hint is given here of a meaning considered acceptable for the continuation of the discussion. Thus, as far as e-business is concerned, reference will be made to the previously given definition, while the definition of e-commerce is left to the next part of the paragraph, which seeks to establish a fixed point in the different proposals of various authors, providing a definition useful in the continuation of the discussion of the topic.

E-commerce definition appears narrower than that of e-business, despite this it opens for many interpretations and nuances. Many different definitions of e-commerce can be found through literature, written by researchers, practitioner and managers of different backgrounds and experiences, notably: Zwass (1996), Minoli and Minoli (1997), Kalakota and Whinston (1997), Treese and Stewart (2003), Plunkett (2010), Turban *et al.* (2018), Chaffey *et al.* (2019) and Laudon and Traver (2021) (refer to *Table 1.1* for complete definition by each author).

All definitions agree on e-commerce being "technology enabled" while giving different interpretation about which technology is relevant for this kind of business. Telephone lines, computer networks, Internet, are just some of those mentioned. Even if many of these definitions are temporally outdated and refer to now outmoded technologies, but still remain valid in their core. Also, this multiplicity can be easily explained if you think about the fast-paced evolution that defines the technological and digital sector, especially when considering that some of the mentioned definitions (*Tab. 1.1*) date back to the end of the XX century. The evolution of Web technologies since then has been radical and unforeseeable, that is also why newest definitions of e-commerce now only mention this aspect with more generic phrases like "electronically mediated" (Chaffey *et al.* 2019) or "digitally enabled" (Laudon *et al.* 2021). Nowadays, e-commerce has reached a stage in which is hard to encompass all the tools and technologies being used in one straightforward definition, therefore this choice is to be welcomed, both in view of the rapid technological progress mentioned, and in order to pursue greater simplicity and flexibility in defining the phenomenon.

Another key part of the definition on which scholars and managers agreed through time is about the boundaries of what should be classified as e-commerce. At the beginning it was quite hard to give a clear definition of which processes were involved in such a business. Note in this respect the contributions (*Figure 1.1*) of Vladimir Zwass (1996) and Kalakota and Whinston (1997) in their respective works. With particular regard to Kalakota and Whinston (1997) definition, it should be noted how they went as out as giving four different sub-definition for the term, to better cope with its breadth and different perspectives:

- *Communications perspective*: electronic commerce is the delivery of information, products/services, or payments via telephone lines, computer networks, or any other means.
- *Business perspective*: electronic commerce is the application of technology toward the automation of business transactions and workflows.
- *Service perspective*: electronic commerce is a tool that addresses the desires of firms, consumers, and management to cut to cut service costs while improving the quality of goods and increasing the speed of service delivery.
- *Online perspective*: electronic commerce provides the capability of buying and selling products and information on the Internet and other online services.

Partly the struggle of defining the limits of e-commerce can still be traced back to the aforementioned ongoing evolution of the online spaces where e-commerce was taking

Table 1.1 Most prominent e-commerce definitions found in the literature.

Author	Year	Definition
Zwass, V.	1996	"[...] the sharing of business information, maintaining business relationships, and the conducting business transactions by means of telecommunications networks"
Minoli, D. and Minoli, E.	1997	"Electronic commerce is the symbiotic integration of communications, data management, and security capabilities to allow business applications within different organizations to automatically exchange information related to the sale of goods and services."
Kalakota, R. and Whinston, A. B.	1997	"Depending on whom you ask electronic commerce has different definitions: from a communications perspective, electronic commerce is the delivery of information, products/services, or payments via telephone lines, computer networks, or any other means."

Author	Year	Definition
Winfield Treese, G. and Stewart, L. C.	2003	"[...] the use of the global Internet for purchase and sale of goods and services, including service and support after the sale. The Internet may be an efficient mechanism for advertising and distributing product information, but our focus is on enabling complete business transactions."
Plunkett, J. W.	2010	"The use of online, Internet-based sales methods. The phrase is used to describe both business-to-consumer and business-to-business sales."
Turban, E. *et al.*	2018	"Electronic commerce (EC) refers to using the Internet and other networks (e.g., intranets) to purchase, sell, transport, or trade data, goods, or services."
Chaffey D., *et al.*	2019	"[...] e-commerce can be considered as all electronically mediated transactions between an organization and any third party it deals with."
Laudon, K. C. and Guercio Traver, C.	2020	"More formally, e-commerce can be defined as digitally enabled commercial transactions between and among organizations and individuals. [...] Digitally enabled transactions include all transactions mediated by digital technology."

Source: author's elaboration, references mentioned in the text.

place. New processes and enabling technologies sprouted almost every day, allowing companies to bring online new parts of their operation, dealing with customers, suppliers and all other stakeholders in new ways.

The other motive can be attributed to the choice of adopting new terms, such as e-business or digital business, to refer to the bigger view of e-commerce as a complex phenomenon, encompassing not only retailing, but all the companies (both B2C and B2B) born, organized and active online. Although somebody might argue, the direction taken by authors in simplifying definitions in recent years is to be welcome. This gives not only the opportunity to a wider audience of readers to approach e-commerce in a more informed and scientific way (making texts and essays of wide interest more user-friendly), but also an easier entry point to a field in which the past has proven that practical up to date knowledge is more important and durable than any terminology.

As far as the follow up of this research is concerned, a similar decision will be taken. The company managerial and organisational structure, with its possible functions and divisions, go beyond the vision that one wishes to borrow here of e-commerce as the

mere exercise of online buying and selling activities (including post sale activities) limited to the website on which they take place and its management. To cope with the wide range of stores present on the Web, different e-commerce categorizations are possible. The most noteworthy method to categorized e-commerce is based on the actors involved in the transaction (*Table 1.2*) (Vietri and Cappellotto (2015), Laudon and Traver (2021)) being them consumers, businesses or also governments in some instances (see Chaffey et al. (2019) and Turban et al. (2018)).

Business-to-Consumer (B2C) e-commerce are the easiest to run into for online users and the most significant category as far as this research is concerned. These website are used by firms to interact with possible buyers and provide for the sale of retail goods, travels, financial assets and many other forms of goods or services. Examples include Alibaba.com, Amazon.com or JD.com. According to Laudon and Traver (2021) data projections suggest over 10% of annual growth for the years to come, noting how retail e-commerce (still a small part of B2C transactions) has increased of 4,4 percentage points (passing from 13,6% in 2019 to 18% in 2020), also thanks to the pandemic outbreak.

Business-to-Business (B2B) refers to transactions carried over by two different companies. This category is the largest type of e-commerce, according to Turban *et al*. (2018) today it accounts for about 85% of total electronic commerce volume, with almost $27 trillion in value (Laudon and Traver, 2021). Note how this data is also partially explained by a generally higher value of the transactions between companies, which involve more expensive goods and services or higher volumes of them.

In Consumer-to-Consumer (C2C) e-commerce consumers transact directly with other consumer as them, that is why this form is also known as peer-to-peer or person-to-person (P2P) (Chaffey *et al*., 2019). This kind of e-commerce impose the presence of a platform provider, which host the platform and works as a facilitator to allow the transactions between consumers. This relationship leads to the generation of a profit also for the site acting in this role. Notorious examples are eBay and Vinted.

Consumer-to-Business (C2B) is not as common as the other categories. In this specification, e-commerce acts as a bridge for consumers selling goods and services to organizations. Finally, it should be noted that some of these classifications include governments as a possible type of player, opening up new possible definitions of categories that extend those analyzed so far (Turban *et al*. (2018), Chaffey *et al*. (2019)).

Table 1.2 Summary of e-commerce categorization based on actors involved in the transaction.

FROM: Supplier of content/service

		Consumer	*Business*	*Government*
TO: Consumer of content/service	*Consumer*	**Consumer-to-Consumer (C2C)** • Peer-to-Peer transactions • Blog and communities • Product recommendations • Social networks	**Business-to-Consumer (B2C)** • Transactional • Relationship-building • Brand developement • Media owner • Comparison intermediary	**Government-to-Consumer (G2C)** • National Government transactional • National Government information • Local gov, services
	Business	**Consumer-to-Business (C2B)** • Consumer feedback • Communities • Campaigns	**Business-to-Business (B2B)** • Transactional • Relationship-building • Media owned • B2B marketplaces	**Government-to-Business (G2B)** • Government services and transactions • Legal regulations
	Government	**Consumer-to-Government (C2G)** • Feedback to Government • Pressure groups	**Business-to-Government (B2G)** • Feedback to government business and NGOs	**Government-to-Government (G2G)** • Inter-government services • Exchange of information

Source: adapted from Chaffey et al. (2019).

Authors thought to acknowledge all those government and public entities providing digital services and online government functions.

Another classification for e-commerce activities is based on where the transactions take place overall. Setti (2020) and Vietri and Cappellotto (2015) made a distinguish between direct and indirect electronical commerce applications. In the category of direct e-commerce fall all those websites which conclude the sale process completely online, with no physical transactions. This includes all e-commerce selling services or intangible goods (for example e-books). Indirect e-commerce is all the e-commerce in which product delivery is necessary to consider the transaction correctly accomplished.

This analysis on terms was necessary in order to clarify, firstly, the terminology that will be used in the course of the text, and secondly, as a starting point and fundamental basis for the definition of dropshipping as a business model within the world of e-commerce, which will then be the subject of in-depth study in the continuation of this research. The dropshipping model is relatively under-researched in the literature (as pointed out also by Netessine and Rudi in their paper (2000)), so it is hoped that this in-depth study will also serve as a basis for those who wish to explore the discipline further in future

contributions. Dropshipping can be defined as a particular form of e-commerce in which the seller does not stock, nor ship the physical items he sells. Resulting in what Netessine and Rudi (2000) define as a "disintermediation of information flow and physical goods flow". As a result, when an order is received on the store, the merchant receives money for it and proceeds to forward the commission to its supplier (called dropshipper) who is in charge of shipping the purchased items to the customer. Scheel (1990) define the seller as a "limited-function middleman", as he does not have a real ownership over the sold goods and does not stock any inventory. In the present search we depart from such classification operated from Scheel, that, although authoritative, turns out partially antiquated and highly limiting of the role covered from the e-tailer inside the relationship of dropshipping, and that is here reported only in order to clarify ulteriorly the working of the investigated phenomenon. It is difficult to give more than a few examples of definition from the literature. Nevertheless, all authors seem to agree on the use of the terminology (see *Table 1.3* below). From this definition (referred to as

Table 1.3 Most prominent dropshipping definitions found in the literature.

Author	Year	Definition
Scheel, N. T.	1990	"Drop shipping is a marketing function where physical possession of goods bypasses a middleman, while title flows through all those concerned. The function of drop shipping involves both the middleman who initiates the drop ship order and the stocking entity that provides dop shipping services by filling the order for the middleman."
Netessine, S. and Rudi, N.	2006	"[...] drop-shipping, or consumer-direct fulfillment, the practice whereby the wholesaler stocks and owns the product and ships it directly to customers at the retailer's request."
Vietri, D. and Cappellotto, G.	2015	"[...] allows to sell tangible products without the seller actually having them in stock. The technique consists of agreeing with one or more suppliers (including foreign suppliers) who, after being notified of the sale by the merchant, pack and ship the products to the final customer."*
Turban, E. *et al.*	2018	"Drop-shipping is a form of pure-play e-commerce where a business sells products that they do not stock or ship. Instead, after the order is placed, the company directs a third-party drop-shipper to pull the item from their warehouse and ship it to the customer."

*NOTE: Translated from the original in Italian

Source: author's elaboration, references mentioned in the text.

the basis for the subsequent discussion), we learn how dropshipping can be considered a sub-category of the broader e-commerce. It is a practice, a business model on which many store owners choose to base their business. Dropshipping by its very nature is practiced mainly by B2C e-commerce stores. This is due to the complexity of establishing such relationships with other business partners. A client company is unlikely to accept this method from a possible partner, preferring to establish an intermediate step. Nonetheless, very low entry barriers and relatively easy set-up of operations, make dropshipping an attractive alternative (Turban *et al.*, 2018).

Precisely these characteristics of dropshipping more than others allow for speculative solutions by some players. The simplicity of setting up such a store and the low capital required can lead to an arbitrage[1] phenomenon whereby some e-tailers sell low-cost products (mainly from low-cost markets), with little or no customer service, in order to make as much profit as possible by exploiting the low wholesale prices at which they can obtain the goods. Over time this practice has gained traction and is fuelled by the same suppliers who find fertile ground to sell their goods on sites such as Aliexpress, Doba or Wholesale Central (just to name a few). A blossoming of plug-ins and updates has made it easy to integrate these portals with online shops, making it even faster and smoother to create a dropshipping store. While most of these shops are often unsuccessful or fail to generate even one sale, some have succeeded, becoming launching pads for thriving businesses. Further emphasis will also be given to this practice in the course of the text, as part of the analysis itself is to verify its actual sustainability, especially in the long term, and its possible implementation in the Italian e-commerce scenario.

A further specification of dropshipping worth to be mentioned is that of print-on-demand (POD). This fulfilment model sees the seller relying on the services of third-party companies to set up a clothing brand. Companies of such a kind offer varied catalogues of clothing and accessories, which can be customised by the e-tailer to their liking, and then sold directly on their own website. As in dropshipping, the print-on-demand model also requires the vendor to pay only after a customer has placed an order, generally it does not require a minimum number of orders for production and delivery times are faster than most traditional dropshippers. Printful, Teelaunch, Printify, CustomCat and GoDaddy are some notorious names in this industry. The

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[1] In economics, it is the practice of buying a good on one market and reselling it on another market, exploiting price differences in order to make a profit. It is particularly successful when, due to information asymmetries or differences in bargaining power, the buyer cannot access the same source as the seller.

various services are differentiated by catalogues, quality, prices, shipping options and types of print, allowing anyone to find the most suitable option for their business. All of them offer integration via simple plug-ins to the main e-commerce platforms, allowing direct order placement and related payments. Surely from this first overview managing a dropshipping store logistics seems apparently an easy task, yet the main strenght of this business model can also turn into its biggest risk factor for store managers. Returns and refunds, supplier reliability, orders tracking, and delivery times are just some of the risks to be faced. Another intricacy for those willing to practice dropshipping come from the really high competition to be faced in the e-com market. Stores like these are generally exploit lack of transparency with the end customer. This exposes them to a more difficult approach to competition, together with lower margins tend to lead owners to favour alternative solutions. The aforementioned are just some of the complexities that will be explored in the next chapter, where the dropshipping model will be assessed in more detail.

In my opinion the low regard found in the literature regarding dropshipping can be explained in two different ways. First one being the scarce attractiveness dropshipping generate, being considered for its characteristics (rightly or wrongly will be assessed further ahead in the text) as an inferior and flawed form of e-commerce. There is no doubt, as existing data (see *Paragraph 1.4*) show, that dropshipping account for way lower values than other forms of e-commerce, thus explaining the modest consideration it receives. In general, few authors and practitioners invest time and resources to investigate this business model. The second reason is partially linked to the previous one. As it does not arouse sufficient interest, many books or report simply avoid distinguishing dropshipping from traditional online commerce. A great part of the discipline regarding e-commerce can be simply translated onto dropshipping, with few needs of adaptation despite its different nature. Thus, is clear how very few takes effort to provide more detailed analysis and information regarding this phenomenon.

Contrary to the definition of e-commerce given earlier in the paragraph, about dropshipping, from the buyer perspective nothing changes, yet a distinction must be made concerning the seller side. It cannot be said that dropshipping is limited at and taking place just on the seller website. It would be a limitative vision. The prerogative of the business model to outsource logistic management to the chosen supplier (or suppliers if there are more of them) also lead to the opening of the boundaries of the

owned website. This process takes place in the back end[2], but the store needs to interact and exchange information with the supplier. A correct interaction can be achieved through many options, resorting to appropriate programming or easy to use plugins[3] for the more rudimental applications. A subtle distinction, but one that leads to an increased number of aspects for the manager to deal with.

1.2   E-commerce data and statistics worldwide

The following paragraph is going to be devoted to a broad and exhaustive exposition of data that are deemed to form the basis for further analysis in the following chapters and the natural continuation of the previous section. Starting from general data about volumes, revenues, and growth in the e-commerce industry a space is then going to be dedicated to delving into mobile commerce, payments, and shipping data. Please be note that from this point on, the research and the data presented within it will only refer to B2C e-commerce, unless otherwise specified.

According to a report by Insider Intelligence (Cramer-Flood *et al*., 2022) the global amount of retail e-commerce sales is estimated to be more than $4,9 trillion in 2021 (+14,3% YoY), expected to grow up to $5,5 trillion this year and as far as $7,4 trillion by 2025. An increase close to 50% in this 4 years span (*Figure* 1.1). These are huge numbers corresponding to almost 19% of total retail sales worldwide (topping to more than $25 trillion), with forecasts for 2025 pointing towards a share of 23,6% total retail sales worldwide.

Estimates are, as expected, uncertain, yet they do provide for a scale of reference when talking about e-commerce, giving a glimpse of the magnitude this industry has reached. Keep in mind also that these figures, despite their value and accuracy, fail to represent the distributional variations of e-commerce usage across different countries. More than 80% of Internet users buy online in Europe, yet when looking at least developed countries this percentage can drop as low as 10% in some of them (UNCTAD, 2021). Asia-Pacific market dominates online shopping. Over 63% of the total share, corresponding to more than $2,4 trillion. China alone generates over $2 trillion, for a

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[2] In software engineering the term (also referred as *backend* or *back end*) refer to the hidden data layer of software and apps, that allow them to work as intended and cannot be seen or accessed by regular users.
[3] Also known as add-ons, they are ready to use software components which allow to add specific functionalities to existing programs, software, or app.

total share of 48% of the market. North America follows with $749 billion, then Europe, Latina America, and MEA[4] (Cramer-Flood *et al.*, 2022). According to UNCTAD (2021) B2C E-commerce Index ranking in 2020, eight out of top ten spots are hold by European countries. Switzerland (95,9), Netherlands (95,8) and Denmark (94,5) occupy the first three position in the ranking. As noted in the report itself, despite China and the US being the World's largest B2C e-commerce markets, they rank just 55th and 12th respectively in the list. This can be partly explained by the fact that the index does not take into account the huge scale of the two markets and also because both are outperformed by other countries when resorting to relative comparisons. Even being partly defective as explained, the B2C E-commerce Index by UNCTAD still holds value when benchmarking similar countries, especially for Europe.

Focusing on Europe we can clearly see how the number of consumers increased steadily in the past few years: 455 million in 2020 reaching up to 480 million in the past year (Casaleggio Associati, 2021). The Coronavirus pandemic explain just a part of this growth, the trend was already in place and the outbreak of the disease just accelerated it. In 2020 alone, one out of five European enterprises sold items online, "[...] amounting to 18% of total turnover of companies that employ 10 or more people" state report from the European Commission (2021). In six years, from 2015 to 2020, the percentage of SMEs[5] resorting to e-commerce rose of 1,9 percentage points (from 15,6% to 17,5%). The turnover these companies realized from electronic commerce also increased, passing from 9,6% in 2015 to 11,7% in 2020.

In the surveyed markets of the European Union, the average sales per person per month according to Postnord (2021) is about €116. The Netherlands ranks in first for percentage of internet users that bought goods or services online during 2020 (54%). Then we find Denmark with a percentage of almost 90% of the total users shopping on the Web. Germany and Norway tied at the third spot with 87%, however it has to be noted that Germany is the country with the highest population between the ones just mentioned. Its result therefore has to be weighted differently if we consider how proportionally this percentage corresponds to a much higher number of buyers (Lone *et al.*, 2021).

The situation is a bit different if we look at the estimated average spend per person per

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[4] Middle East and Africa.
[5] Small and medium-sized businesses are those described in EU guideline 2003/361 on the basis of employee headcount and turnover (or balance sheet total)

Figure 1.1 Retail e-commerce sales worldwide 2020-2025.
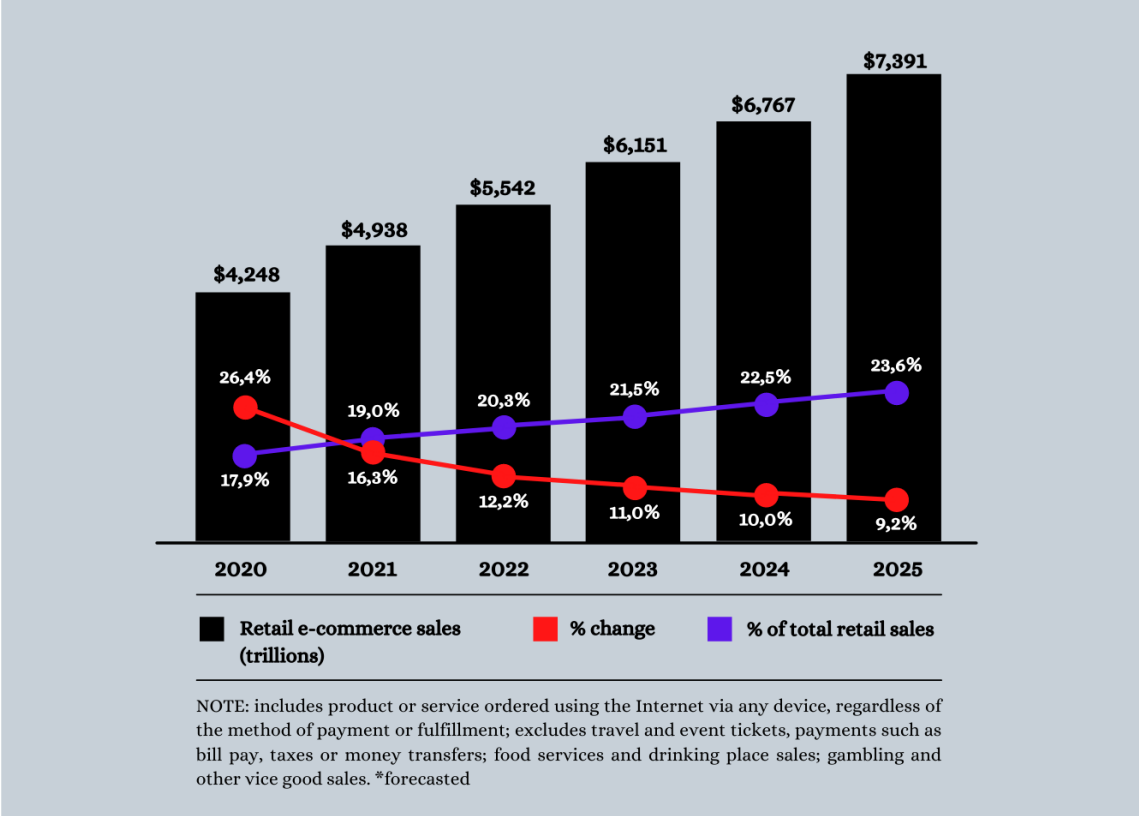
year. On the basis of this statistic, Norway is in first place with an average of €2.916 annually followed by Denmark (€2.364 per year) and the UK (€2.316 per year) (Postnord, 2021). In its report, Postnord (2021) also provide figure regarding European consumers most favourite items categories. Ranking at the top spot as most favourite items we have clothes and footwear with a total of 175 million online consumers during last year. Home electronics come in second with 117 million online consumers in Europe, followed by books and audiobooks which account for almost 109 million. Just short cosmetics with 99 million consumers and groceries with 86 million in 2021.

With a fast diffusion of mobile devices, mobile-commerce (also defined as m-commerce[6]) has been a major trend ever since and according to major analysists it is driving the growth of the whole e-commerce segment (the subject will be further elaborated in *Paragraph 2.3.1*). Figures regarding this aspect of online trading should therefore also be examined here, especially since it is to be considered of fundamental

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[6] It is the performance of online trading activities that are initiated and/or concluded through the use of a mobile device of any kind.

importance in the context of dropshipping, as further discussed ahead into the text. In 2021 mobile commerce share exceeded that of desktop e-commerce, and the value of transactions from mobile devices surpasses half (reaching 52% to be precise) of the total e-commerce spend and expected to hit 59% quota by 2025 (FIS, 2022). Recent estimates showed m-commerce accounting for 73% of total e-commerce sales worldwide, representing a total amount close to $3.5 trillion in 2021. The numbers are impressive, even more so if we think about the huge growth from 2016 when it was worth 52,4% of total e-commerce sales, in just 5 years mobile witnessed a growth of 20,6 percentage points (Porcelli, 2021).

According to FIS (2022) survey over the past year across European countries, the country showing a higher adoption of m-commerce was Italy, with 58% of total e-commerce sales concluded on a mobile device. Just after come Denmark (53%) and Spain (51%). There are multiple factors behind this phenomenon, in his article on Forbes, Marc Porcelli (2021) singles out two in particular. First one being the still growing number of mobile users, with a total of 5.22 billion unique users as of 2021 (about 80% of them has access to internet connectivity) there is still much unexploited potential, and as users grow bigger so will do mobile shopping. The second reason he accounts for this trend is the convenience it assures for the end users. Transactions are becoming more and more frictionless, thanks also to tools such as one-click checkouts and buy button being integrated on major social platform, which allow even seamless buying experience.

Another important aspect to take into account for the proper functioning of e-commerce activities are payment methods. Over time many new possibilities are emerging, for example even cryptocurrencies are becoming more and more accepted as a mean of payment following the recent crypto fashion. The payments preferences are slowly shifting towards e-wallets[7] and Buy Now Pay Later (BNPL) options[8]. In 2021 digital wallets accounted for 48,6% of e-commerce transaction value worldwide being the most used payment methods, just over the amount $2.6 trillion. These figures are set to increase reaching a total share of 52,5% transaction value in 2025 (FIS, 2022). Cards still hold in the higher used transaction tools with credit cards coming in second position

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[7] Also referred as digital wallets, they are online services allowing one party to make transactions online with another party, by using money stored in the wallet or acting as a gateway for debit/credit cards.

[8] Online money-lending tools, usually integrated directly into sellers' websites, allowing customers to pay in instalments (commonly involves four equal instalments spread out over a period of six weeks).

between global e-com payment methods with a share of 21% (projected to decline to 19% by 2025), followed by debit card at 13%. Unexpectedly bank transfers come next. This payment method still holds a solid 7,4% of total value in 2021, and even though it is going to decrease to 6,2% in the next years, its absolute growth will reach $516 billion. Finally, is worth to mention even BNPL tools, which are proliferating globally. Klarna, Afterpay and PayPal qualify as market leaders in this segment, worth 2,9% of global e-com transaction value in 2021 (FIS, 2022).

As far as Europe is concerned, according to survey on online consumers credit and debit cards are still the most used payment methods to this day. The former account for 25% of the total, the latter 17%. A still very high total share, again set to decrease by 2025 (FIS, 2022). Countries such as United Kingdom (58%), France (58%) and Spain (54%) show the higher figures in this regard (Postnord, 2021). Preferences on payment methods vary quite substantially between different countries, reflecting parameters such as the average age of the population and their financial culture. Even so we can say that e-wallets can be considered the second most favourite payment methods according to European consumers, with a total share of 27% (FIS, 2022). In some countries like Germany, they appear to be preferred even to card transactions (50% against 17%).

The last noteworthy aspect mentioned in the paragraph regards shipping preferences and trends. Speaking about deliveries there are three aspects that a client takes into account when buying online: costs, place of delivery and estimated times to receive the package. In its survey, Postnord (2021) compared the three features, discovering how for European customers delivery costs are still the first aspect to pay attention to when evaluating a delivery. The three countries whose consumers most weigh this variable are: Italy (71% of respondents), Poland (69%) and Spain (67%). Notoriously not among the richest countries in the continent, this might have influenced on respondents' choice. Surprisingly fast deliveries are not what matter the most between the two remaining variables, with online shopper more concerned to be in charge of choosing were to receive their order than the actual delivery time.

The reason for this might be that in recent times, the rise of e-commerce giants (like Amazon) has set the bar very high, and most customers now take short delivery times for granted. This in reinforced by other data from the same report, explaining how the vast majority of consumers in all EU countries expect their orders to be delivered in 3-5 days, followed by an even lower expectation of 1-2 days, especially in some countries

such as the Netherlands (30% of respondents). Consumers do not worry too much about delivery time because they tend to be confident it will be quick. A joint report by Amsterdam University of Applied Sciences & Ecommerce Europe (Lone *et al.*, 2021) shows how the majority (68%) of e-com shops in EU-27 does not offer next-day delivery as an option for their customers.

The same report also shows how only bigger web shops tend to provide for faster delivery options. Only 21% of e-stores with less than 500.000 visitors per year offer next-day delivery, and even less (just 3%) offer same-day deliveries as an option, against 70% and 56% for e-commerce with more than 200 million visitors. For what pertain the place of delivery, home delivery is still the choice to go for. It accounts for the most share between the possible choices in most countries, both with and without signature requirement. Outliers are northern countries like Norway (44%) and Sweden (31%), showing a higher preference for mailboxes and Finland, which is the only country in which parcel machine[9] prevail (34% of the total) (Postnord, 2021).

1.2.1 E-commerce after Covid-19

Before going further, we would like to devote a small paragraph here to reporting and analyzing the consequences of the Covid-19 pandemic on the world of e-commerce. There is no doubt that the outbreak, occurred in the beginning of 2020, have posed serious challenges for society and economy as a whole. The disease drastically reshaped everyday life for millions of people, determining new and unprecedented scenarios in every sector, disrupting the supply chain, and causing numerous challenges for managers all over the world (Sodero *et al.*, 2021; Bikau, 2020). This is especially true for all those dropshipping stores that rely exclusively (or predominantly) on foreign suppliers, Chinese ones in particular. The country, the place of origin of the disease, has suffered a lowered capacity for order fulfillment due to the outbreak in January and the following months (Bikau, 2020).

A considerable increasing trend and interest in dropshipping can be shown by analyzing Google Trends data on how frequently the search phrase "dropshipping" is entered in comparison to the entire number of searches made over a period of time in the previous

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[9] Special high-tech lockers open 24/7 where one can retrieve a parcel by entering a secret code, usually received by SMS or e-mail

five years. Dropshipping significantly increased in popularity between March 2020 and May 2020 during the Pandemic COVID-19 timeframe. It could be a result of the economic crisis, in which many individuals have lost their jobs and are searching for alternative means of making money or because of the more flexible working conditions. The two top nations with the greatest interest in dropshipping are Malaysia and Indonesia, who are followed by Ukraine.

Consumers attitude towards online shopping also changed from the start of the sanitary emergency. A multitude of people found themselves locked into their homes with little chances to go out for long periods of time, thus having to increasingly resolve to e-commerce, boosting the growth of the industry more and faster than anticipated. The trend was no news, yet the pandemic surely helped to forge ahead (Setti, 2020). During the first six months of 2021 web traffic grew of about 8% from the same period of the previous year, and increased of a solid 18% compared to the same period in 2019 in pre-pandemic scenario (Lone *et al.*, 2021). Looking at month-by-month growth figure the fluctuating nature of e-commerce growth in Covid-19 era becomes quite clear.

The first quarantines released in March 2020 were matched by a drop in average web traffic, indicating uncertainty for the ongoing period. Starting from April 2020 onwards the numbers started to raise again, boosted by limited access to physical stores. Smaller peaks also at the beginning of 2021, when many countries were in lockdown once again. Taking Italy as an example, before the crisis online sales contributed to 30% of companies total sales, specifically about 28% through marketplaces and 6% on owned websites (Casaleggio Associati, 2021).

Impact of the pandemic on e-commerce varied greatly depending on the industry. Notably Ecommerce Europe's (Lone *et al.*, 2021) report illustrate how groceries and pet food witnessed the biggest yearly growth, with a +30% on the web traffic from previous year. This can be easily explained thinking about lockdowns and safety measures which obliged people to stay inside for very long periods, many people in this context felt safer to shop online and avoid physical stores because of the virus. Food is a basic need and consumption in this respect cannot be postponed. Home & Garden comes in second hitting a plus 27% (possibly because of the high amount of free time), followed by entertainment media (books, music, films and games registered +25%) .

The effects left by this historical event will without a doubt shape the future trajectories of the e-commerce sector, accelerating the existing trends. Interviewed about the

displacements caused by the pandemic, Postnord' (2021) survey report how European consumers reacted differently to the new e-shopping habits. In some countries like Germany, Belgium and the Netherlands the majority of the respondents expected to reduce their online expenses after the emergency pass. Other countries, like Italy, Spain and Poland are more positive about these effects enduring over time. Possibly this has to be with the fact that these countries showed lower level of online expenses before the Covid-19 outbreak, and this occurrence might have just helped to fill in the existing gap. Italy, which was hard hit by the pandemic, was able to benefit from the boost to online trade much more than other countries. The first year of the health emergency, with the repeated lockdown, personal and the multinational e-commerce giants that increasingly turned their attention to the country supported the strong change in e-commerce adoption (J. P. Morgan, 2022). The same insight emerges from Adyen's report (2022), produced in collaboration with KPMG, which shows how Covid-19 has accelerated the digital transformation of brands.

Roberto Liscia of Netcomm, interviewed as part of the 2021 European E-commerce Report by Amsterdam University of Applied Sciences and Ecommerce Europe (Lone et al., 2021), is also of the same opinion, stating that many consumers rediscover to appreciate the online shopping experience. During the first two months of the crisis, Italian consumers who shopped online increased by 2 million to 27 million online shoppers. (Lone et al., 2021). In Italy, too, the effects manifested themselves differently depending on the sector.

The travel sector for example lost a significant 57% of sales, for obvious reasons this was the industry most affected by the consequences of the virus. Others, on the other hand, prospered, such as FMCG[10] and food, which experienced strong sales growth (around 70% growth in sales of food and grocery products). Logistics players, despite the increased turnover due to increased shipments, also experienced significant management challenges in coping with the consistent increase in demand (Lone et al., 2021).

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[10] Fast-moving consumer goods are all those goods (tending to be low-cost) that are sold quickly, with a low shelf-life.

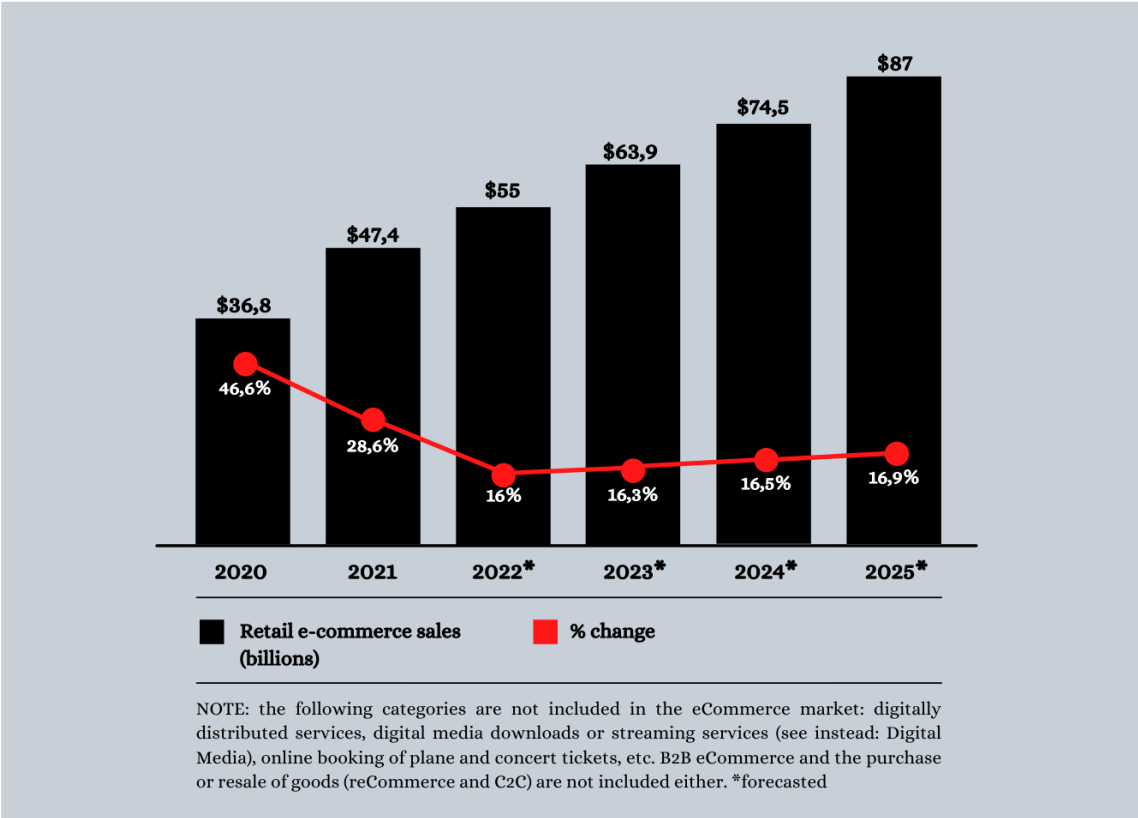## 1.3   E-commerce data and statistics regarding Italy

Borrowing from *Paragraph 1.2* the expositive structure, this paragraph aims to present relevant and updated data on the state of e-commerce in Italy. Possible differences and further elaboration will be reported at the end of the above-mentioned outline, in order to provide a clear and coherent structure for the reader to easily navigate through the presented data and recall them if needed.

The Italian business reality is well captured by the current scenario of the e-commerce market, which reflects its prerogatives. Many small players, often managed by a single person, scramble to find a place in the narrow spaces left by the large e-commerce companies that dominate the scene (Vietri and Cappellotto, 2015). According to Statista (2021a) the total revenue of retailing B2C e-commerce in Italy was about €47,4 billion in 2021, the previous year was close to €36,8 billion. A 28,6% YoY growth, which marks a setback compared to the +46,6% growth registered in 2019, yet continuing the positive ongoing trend. The driving effect of the pandemic will decline as early as this year and then settle at an average growth rate of around 16%. Figures are projected to grow again; total revenues will reach a total of about €87 billion by 2025 (see *Figure 1.2*). When evaluating Italy on the basis of the B2C E-commerce Index (UNCTAD, 2021) it qualifies just 29th, despite being the third largest economy in Europe its e-commerce market is not up to date yet. It scores an evaluation of 81,8, with a growth of +0,2 point from the previous report, moving up from the 36th position of the 2019 ranking. The country still lags behind in term of in terms of internet access and especially cyber security. In their latest report, Ecommerce Europe (Lone *et al.*, 2021) reports Eurostat figures according to which just 54% of internet users in Italy bought goods or services online in 2020, a value showing a growth rate of 14,28 percentage points on the previous year, yet very low compared to the figures of other European countries. The average expenditure is estimated at €134 per person on a monthly basis (€1.608 per year) (Postnord, 2021).

Casaleggio Associati (2021) in its analysis report data from InfoCamere, showing that in 2020 about 10.467 (6.968 the previous year) new companies were registered into the Trade register under the ATECO code 47.91.1[11] for online commerce, a growth of about 50% from 2019. Is also worth to remember that before Covid-19 SMEs selling on propri-

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[11] Code classifying economic activities in Italy. Code 47.91.1 identifies activities engaged in retail commerce of any product over the Internet.

Figure 1.2 Retail e-commerce sales in Italy 2020-2025

NOTE: the following categories are not included in the eCommerce market: digitally distributed services, digital media downloads or streaming services (see instead: Digital Media), online booking of plane and concert tickets, etc. B2B eCommerce and the purchase or resale of goods (reCommerce and C2C) are not included either. *forecasted

Source: author's elaboration on Statista (2021a).

-ietary website were 9%, growing up to 17,2% (+8,2%) by the end of 2020. Lots of SMEs opted for selling through social media or other channels, up to 27,8%.

With reference to the analysis conducted by Postnord (2021), we see that the preferred product type among Italians in 2020 was *Clothing and footwear*, with 58% of e-commerce consumers who have made purchases from this category. Just after we find *Home electronics* with 49% and then *Books and media* at 45%. Looking at Casaleggio Associati's report (2021) showing the turnover for the same period, the situation differs significantly clearly showing the change due to the effects of Covid-19, with tourism drastically reduced over the total. In 2020 *Leisure time* totalled up to 48% of e-commerce turnover in Italy. Partly held back by the entertainment sector, which determined an increase of +12% compared to +21% the previous year. *Multi-product stores*[12] and *Travel* follow, respectively with 21% and 11%. As already mentioned, being

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[12] I chose to adapt the original term, as a literal translation would have created confusion as in e-commerce the term *Shopping mall* can be referred to online shopping locations where many stores present their catalogues.

the EU country with the highest percentage of m-com sales as percentage of e-com sales (FIS, 2022), this branch of online commerce is particularly relevant for the Italian market. Mobile commerce is definitely preferred to desktop commerce, last year alone it accounted for more than half of e-com sales in the country (58%), for a total close to $27 billion. This figure is forecasted to grow as high as $52 billion by 2025. According to the survey carried out by Postnord (2021), in Italy in 2021 close to 82% of respondents stated to have made purchases with a mobile phone in the past year.

With regard to payment methods Italy is still quite holding to cards. In 2021 the total amount of credit, debit and prepaid cards add up to 43% of the total e-commerce transactions. Despite this the country is following the latest market trends, digital wallets are slowly taking the lead, reaching a share of 34% last year, 4% for the newest BNPL tools. The third place is occupied by bank transfer, which account for 15% of the sales still granting a sense of security and reliability that many consumers find hard to relinquish (FIS, 2022).

Finally, on the subject of shipping, Italy's number one concern is by far the costs. 71% of the people interviewed by Postnord (2021) stated this as an important feature regarding deliveries. The choice of the place of delivery comes after it (55%) and last fast delivery options (47%). When ordering online most of Italian consumers chose home as their favourite spot to receive their package. 47% opted for home delivery with signature requirement, 40% for home delivery without signature. Only other alternative worth to mention is the 5% of the respondents who stated service point collection as their viable option (Postnord, 2021).

Regarding fast deliveries in Postnord (2021) analysis emerged how 68% of e-commerce consumers in the country expect to receive their orders in 3-5 days, 11% between 1-2 days. Also 30% of the sample declared to be willing to pay €3 extra for a faster delivery. No wonder that logistics solutions are among the top investment targets for many Italian e-commerce companies. It has always been, and rightly so, a key aspect of an e-store's competitive advantage and perceived customer value. Interviewed by Casaleggio Associati (2021), 14% of the people for example stated free shipping and returns as an aim for their investments, now offered by just 18% of the surveyed companies.
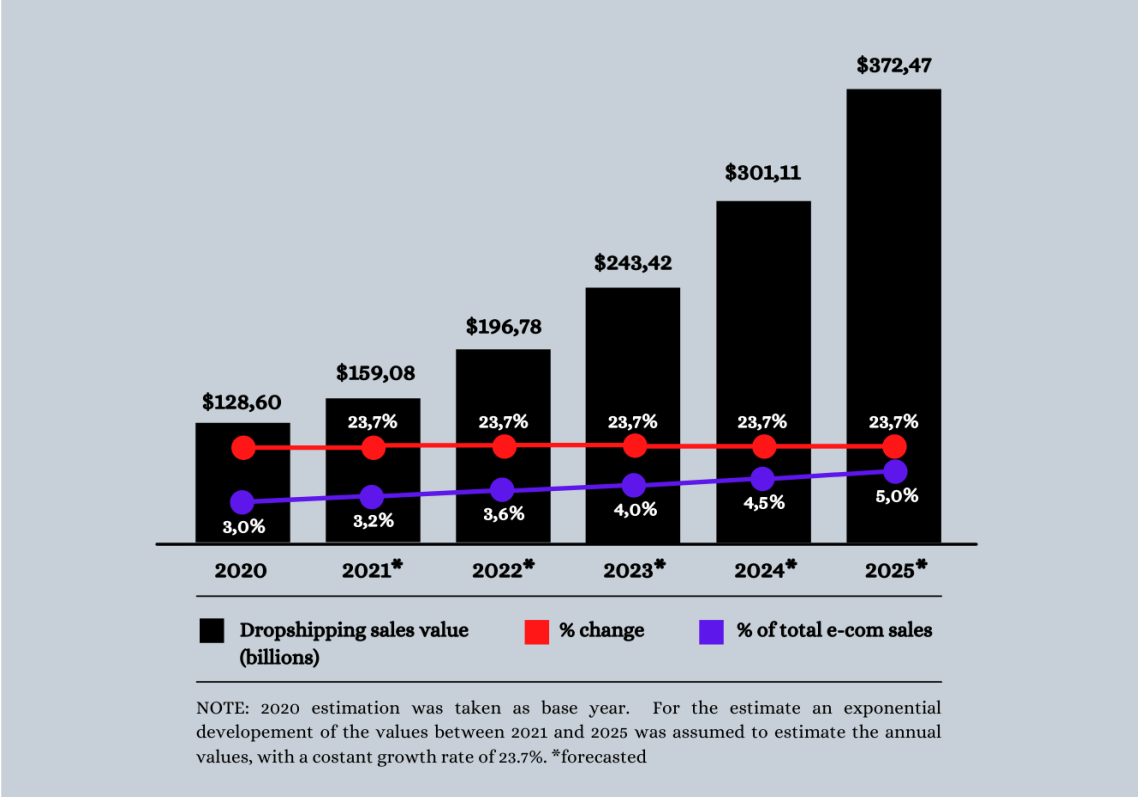
1.4 Dropshipping data and statistics

Finding data on this business model is complex: firstly because, as already mentioned, it is not central to sector studies and scientific literature, and secondly because part of the data is "lost" by ending up aggregated to general statistics on e-commerce trends, which tend not to make a distinction for dropshipping. Yet, similarly to what was done in the previous paragraphs, the following segment of the discussion will present available data and insights about dropshipping, trying to follow as close as possible the outline from the previous paragraphs for greater uniformity of analysis.

As per 2020 dropshipping sales amounted to $128,6 billions, accounting roughly for 3% of the total e-com retail sales all over the world. These figures are modest but growing and are set to reach an estimated value of $372.47 billion in 2025, reaching a total of 5% of global e-commerce turnover. Data depicted in the graph (*Figure 1.3*) clearly show how dropshipping value is just a minimal fraction of the total e-commerce revenue worldwide. A small phenomenon, but nevertheless showing a growing trend in the five-year period between 2020 and 2025. However, the growth rate resulting from the data provided by Statista (2021b) is constant (an increase of approximately 23.7% per year) and not very relevant, as the model simply assumes an exponential development of values to estimate the annual growth figures for the sector.

Setting up a dropshipping store, as already mentioned, is mainly based on the use of e-commerce platforms. These platforms provide ready-to-use, easily customisable stores that significantly lower the costs and time needed to get a business up and running and are therefore one of the key components of dropshipping. Market leader in this sector is Shopify, which with its unique proposition, cheap prices, and ease of use in 2021 account for one fifth of the total market share (Statista, 2021c). In the field of dropshipping, Shopify outperforms all other players on every continent (Statista, 2021d). The figures for 2021 expressed in number of dropshipped products, show an overwhelming lead for the American continent, whose total reaches over 1.8 million products sold through Shopify, while more modest numbers are recorded for competitors Oberlo (approximately 32,000) and Spocket (approximately 3,000). This is followed in order by Europe, with a total of over 463,000 products sold through Shopify, Oceania (248,561), Asia (193,832) and finally Africa (35,067).

Despite figures, a breakdown of Shopify's market volume shows the majority of products (92,9%) sold through the platform are sold through 'manual' sites (Statista, 2021e).

Figure 1.3 Dropshipping sales worldwide 2020-2025

$372,47

$301,11

$243,42

$196,78

$159,08

$128,60   23,7%   23,7%   23,7%   23,7%   23,7%

3,0%   3,2%   3,6%   4,0%   4,5%   5,0%

2020   2021*   2022*   2023*   2024*   2025*

■ Dropshipping sales value (billions)   ■ % change   ■ % of total e-com sales

NOTE: 2020 estimation was taken as base year. For the estimate an exponential developement of the values between 2021 and 2025 was assumed to estimate the annual values, with a costant growth rate of 23.7%. *forecasted

Source: author's elaboration on Statista (2021b) and Cramer-Flood *et al.* (2022).

Looking at the values for shops, we can see that 87.2% operate in manual mode, selling from their own warehouse or physical shop. As for pure dropshipping, it performed by 7.77% of the total shops, while the remaining 5% operates under a print-on-demand model.

About the geographical origin of dropshipping stores, it was considered useful to also evaluate the data on shops using the Oberlo and Spocket platforms. This data confirms the findings of the previous analysis, which in both cases shows an American dominance in the sector. Most of the dropshipping stores in the world operate from here. As for Oberlo, 69.2% of stores are based in America, after comes Europe with 20.3% of stores. Oceania (4.6%), Asia (3.8%) and Africa (2.1%) follow (Statista, 2021f).

The data for Spocket are based on a much smaller sample, but still broadly confirm the findings. The United States has the highest number of dropshipping stores in its territory, with a percentage that in this case exceeds 90% (Statista, 2021g).

Chapter 2
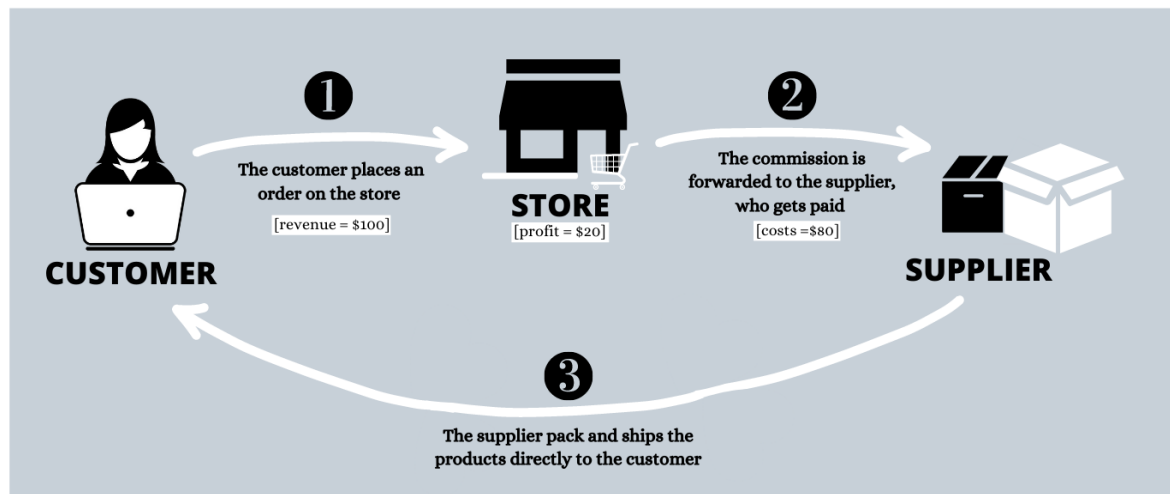
Analysis, functioning and logics of a dropshipping store

The chapter open upon a brief overview of dropshipping, assessed in its main characteristics, also via a SWOT analysis and a Business Model Canva. For the breakdown that will develop over the rest of the chapter a simple and straightforward approach was chosen, analysing uniqueness and criticalities of this business model in its various respects. In order we will start with the supplier choice and his evaluation, followed by a study of the actual e-store and its functioning (including branding and advertising of the items sold), and finally an explanation of logistics management. At the end, a paragraph will be dedicated to the legislation regulating this practice in Italy, trying to provide an analysis as complete as possible of the phenomenon and its determinants.

2.1 An introductory analysis of the dropshipping model

As stated in *Paragraph 1.2*, the analysis is going to develop around e-commerce stores, operating in a business-to-consumer (B2C) retail environment in Italy and using dropshipping as their only fulfilment method. Anything different than that will be properly pointed out and explained. It should also be borne in mind that the study will primarily focus on the retailer side, only going into detail on what the dynamics illustrated entail from a different perspective when deemed necessary. Such choices were made both not to weigh down the research too much, and to produce an analysis as coherent as possible with the interviews later exhibited.

Previously defined as a form of e-commerce in which the seller does not stock, nor ship the physical items he sells (see the scheme in *Figure 2.1*), we will now go into depth in this definition, analysing the pros and cons of such a choice for e-tailers. First and foremost, it has to be noticed how the adoption of dropshipping give birth to "a supply chain structure [...] in which the retailer is primarily concerned with customer acquisiti-

Figure 2.1 How a dropshipping store works.

① The customer places an
order on the store
[revenue = $100]

STORE
[profit = $20]

② The commission is
forwarded to the supplier,
who gets paid
[costs =$80]

CUSTOMER

SUPPLIER

③
The supplier pack and ships the
products directly to the customer

Source: author's elaboration.

-on, and the wholesaler takes care of inventory and fulfilment." (Netessine and Rudi, 2000). Marketing and operations functions being performed by separate entities obviously determine completely different advantages and drawbacks. The major and most evident advantage a retailer gains from switching to dropshipping is the lack of inventory. Having no inventory to manage implicate a huge amount of cost savings from inventory management (Gao *et al.*, 2021; Mehra *et al.*, 2018; Turban *et al.*, 2018; Gallino and Moreno, 2014; Feng *et al.*, 2011). Stocks cost money. Having an in-house inventory presuppose a cost for the premises where it is located. Moreover handling, accounting, safety, insurance are all other costs that have to be taken into account, making it burdensome to maintain supplies in one's own warehouse. Finally, a further category of non-operating costs is identified in the so-called risk costs, which include all those costs resulting from a loss of inventory value over time. They include, for example, shrinkage[13] and obsolescence costs[14].

Netessine and Rudi (2000) point out how small businesses will benefit from this also in the form of a decrease in large up-front inventory investments (also stated by Kim, Montreuil and Klibi in their 2022 article on the European Journal of Operational Research), which typically constitute the greatest barrier to entry to this type of sector.

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[13] Loss of products between the time of purchase from suppliers and the time of sale. It may be caused by administrative errors, vendor fraud, theft, damages due to transport or occurring during storage.
[14] Costs attributable to products that are past their sell-by date or unsaleable because they are obsolete (typical examples are consumer electronics or items with new packaging).

Not having to bear inventory costs determine a simpler start up process for people willing to open an e-commerce. In the Italian business context, which is largely composed of SMEs, this is undoubtedly a strong point in favour of this practice. Taking advantage of the dropshipping model can certainly provide a chance for more retailers to start their own business without large initial investment costs (Turban *et al.*, 2018). There are already realities of this kind in the country, acting as a beacon for other initiatives, which could fit well into the Italian economic fabric, establishing relations with the many producers present (especially with regard to the excellence of Made in Italy). A fitting example is that of Bottega Sicana, which on its e-commerce sells typical Sicilian gastronomic delicacies in dropshipping, directly from local artisans.

Still linked to the lack of an own warehouse, dropshipping also grants the opportunity to the willing managers to introduce more products into their offering (Ma *et al.*, 2017; Gan *et al.* 2010). Maybe not the first benefit one would think of when choosing to switch to dropshipping, yet it grants a great opportunity both for small and bigger players. Even partial dropshipping retailers use this alternative quite commonly to cope with the need to keep up with the competition, or simply expand into new market segments that they would otherwise not be able to serve properly. A famous example is Amazon, resorting to dropshipping for cell phones, computers, and non-bestselling books (Ayanso *et al.*, 2006). The choice of expanding one's own product lines or introducing new ones should be weighed against the branding and the type of store managed.

A further, undoubted advantage comes from the better cash flow management that dropshipping supply chain provides (Turban *et al.*, 2018). Since customers pay for their items when they place an order, and yet retailers usually settle thier accounts with suppliers once a month (depending on the contract or the kind of agreement they signed), this determines an excess of funds for the store (Khouja, 2001). A store can thus allocate these exceeding assets as it deems to best suit its needs. A greater flexibility that can sure come in handy, especially for smaller or upstarting businesses.

Finally, dropshipping as a model allow people to afford a commercial initiative more easily, not requiring owning a warehouse we could define this kind of e-commerce as more "inclusive". In addition to the very low initial investment, the ability to work remotely, wherever you want, with just a computer and an Internet connection allows many more people to try to start a business. In a way, by promoting a democratisation of the sector, no longer the preserve of large companies or entrepreneurs capable of

investing large amounts of capital to meet the necessary requirements. Suppliers and wholesalers can enable people from all over Italy to pursue their ideas online. Clearly, negative aspects also arise from these dynamics. The disintermediation of information flow and physical goods flow described by Netessine and Rudi (2000) result in a loss of control by the e-tailer, who is therefore aware of and willing to exchange this lesser autonomy in favour of his suppliers, for the advantages produced by dropshipping. The loss of control hits both inventory and logistics management (Turban *et al*., 2018). These aspects under dropshipping arrangement are generally responsibility of the supplier, whereas the seller primary concern is now shifted towards customer acquisition and sales funnel[15] optimization. Giving up the control over supplies, store managers accept a bargain to access to a wholesaler (or more of them) greater contractual power and his supposedly bigger product catalog, receiving wholesale prices on a big array of goods, having thus the chance to set up his operations for cheap (Gan *et al*., 2010).

Having to rely on the dropshipper also for the fulfilment and logistics management phase is not really a bad thing per se, but it can become so if the relationship is weak or not properly defined (contracts and policies of various kinds are necessary to regulate the relationship with the partner in the proper manner) (Gan *et al*., 2010). The choice of letting the wholesaler manage also this aspect is up to the two parts involved, that could arrange for a different solution and resolve to an agreed commercial carrier in order to get a better service quality. In Italy, shippers who are among the largest players in the market include: *PosteItaliane* Group, Nexive, TNT, Citypost, BRT, GLS, UPS and DHL (AGCOM, 2020). There are many alternatives for Italian entrepreneurs to identify the one that best meets their own and their business partner's needs.

Obvious consequences of these choices concern return and refunds. Given the fact that orders are not processed directly by the seller, managing complaints can become quite difficult (Turban *et al*., 2018), depending on the length of the supply chain and the contractual conditions with supplier and carrier. Most of the time when shipping, suppliers indicate the e-shop address as the address on the parcel (Gan *et al*., 2010), both for branding reasons and because they do not want package to be returned at their plants. It will then be up to the retailer to settle the situation with possible refunds, replacements, and returns. The management of this whole part is quite problematic,

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[15] It is a consumer-centred model that illustrates the customer's journey towards buying a product by visualising it through a funnel. Although the funnel metaphor is often considered limiting, the model is useful for tracking prospects as they move through sales stages.

even more so if the e-tailer does not have a space to temporarily store the goods. The problem is exacerbated by the phenomenon of order fragmentation (Jimenez G. *et al.*, 2019; Khouja, 2001), which occurs when you refer to several suppliers and a customer orders products from different warehouses, resulting in a division of the order into several packages (which could be even shipped with different carriers).

Still talking about logistics, another problem that could arise is long delivery times (Feng *et al.*, 2011; Khouja, 2001). In spite of the reduction of intermediate steps along the supply chain (as shipment takes place directly from the manufacturer's warehouse), the loss of control over shipments means that the quality of service often drops dramatically. Suppliers might have more clients to manage, and (especially smaller ones) will fatigue in granting a high-quality service. In addition, they will very often look for the cheapest shipping solutions available to increase their own margins (if not differently settled). This problem can be particularly limiting for those who rely on foreign suppliers. Most of these are located in America or Asia. While average shipping times from America to Italy are still reasonable sometimes, products arriving from Asia are very often subject to long waiting times before reaching our country. This will result in longer lead times that very few customers are willing to tolerate. This is a crucial factor for Italian entrepreneurs when considering a foreign dropshipper.

Finally, another disadvantage of selling online via dropshipping is related to the low profit margin which tend to characterize this practice. Even getting wholesaler prices from its suppliers, a seller might find itself with a reduced profit for the benefit of the dropshipper (Witkowski *et al.*, 2020; Turban *et al.*, 2018; Park, 2016; Netessine and Rudi, 2004). At a first sight, dropshipping reduce costs should determine a great boost to the margins of an e-tailer, yet all the expenses for customer acquisition have to be factored in. Advertising contribute to a great portion in the cost of a product, especially in dropshipping.

2.1.1 Dropshipping assesment through SWOT analysis

Results of a SWOT analysis performed on a generic dropshipping store will now be reported, respecting the specifications made at the beginning of the paragraph regarding the type of business considered. According to the framework both internal and external factors are assessed, pointing out current strengths and weaknesses of a dropshipping

store and its future opportunities and threats, to assess its potential. The evaluation presented in *Table 2.1* does not purport to be an exhaustive analysis, however, it does represent a good overview of the scenario that characterises this type of online store.

Starting from the strengths identified in the analysis, it should first be pointed out that some of them have already been analysed in the previous introductory paragraph. It was therefore decided not to go back on them now, but to leave them to be further explored in depth in the following paragraphs. It is also clear that many of the factors considered can be regarded as a general prerogative of an e-commerce store and not necessarily of the dropshipping model. A graphical distinction on factors considered unique to the dropshipping phenomenon was made (they are presented in bold in *Table 2.1*).

Many of the strengths such as not needing a proprietary warehouse, the low initial investment requirement, and an easier start-up process, fall under the umbrella of all the factors that characterize the dropshipping business model as one that is easy to adopt. This arrangement is potentially more attractive to small companies prevalent in the Italian market, because of the low resources and effort required in setting up operat-

Table 2.1 Dropshipping store SWOT analysis

SWOT analysis

Strenghts	Weaknessess
• **No warehouse needed** • **Better cash flow management** • **Exploit wholesale partners' network** • **Low initial investment** • **Easy start-up process** • Lower inventory and shipping costs • Shorter supply chain • No time constraints • Easier to target marketing efforts • Chance to have a wide products offer	• **Low control over fulfillment process** • **Difficult handling of returns and refunds** • **Harder to assess goods in terms of quality** • **Order fragmentation** • Struggle for customer acquisition • Hard customer retention • Technical issues • Long delivery time • High advertising expenses • Website maintenance costs
Opportunities	**Threats**
• **Increase in dropshipping service providers** • **Development of platforms and integration possibilities** • Fast growing industry • Changing trends • Ubiquity of the Web • Easy, cheap access to the Internet • Untapped market potential • Easier expansion process • Low information cost • Establish a presence in a niche market • Penetration rate of Internet rising	• **Dishonest suppliers (breaking contractual agreements)** • **Competition with own suppliers** • **Evolution of governmental regulations and taxation** • Highly competitive sector • Security breaches • No geographical boundaries • Growing concerns about privacy issues • Long-term planning blindness

*The points in the list in bold indicate factors that are considered unique or highly characterising for the model of a dropshipping store.

Source: author's elaboration.

-ions. Certainly, an e-shop that relies on an external supplier for services of this kind will be able to take advantage of the wide availability of products and the ubiquity of the latter's network. Leveraging these factors can enable even smoother growth and ease in establishing a global presence.

Just as the choice to outsource one's operations brings innumerable strengths, there is also a downside. Certainly, relegating the management of fulfilment and logistics completely to a dropshipper leads to a loss of control in the product journey. Yet, these drawbacks can be resolved or mitigated by the establishment of appropriate contractual links between the two parties. While the difficulty in acquiring customers is a well-known problem for purely online businesses, as are the high advertising costs that result, a weakness of dropshipping concerns the greater difficulty in retaining customers once they have been acquired. Very often such stores pursue very bland branding strategies. This is partly because of the difficulty (except through appropriate contractual solutions) to customise products or packaging with their own logos. The lack of such a feature makes it harder to get repeated purchases or to increase the brand's online reputation through spontaneous actions. Finally, operating online exposes the business to additional weaknesses such as being vulnerable to technical problems or having to deal with the maintenance of the site, either by oneself or by a qualified professional.

Over the years dropshipping has gained traction as a practice also in Italy. This has led to the emergence of more and more specialised service providers and suppliers willing to establish such contracts with their customers. The global growth in the sector has seen the emergence of new specialised platforms, software upgrades and easy plug-ins to simplify this practice and introduce new practical solutions. From the SWOT assessment, the opportunities for a dropshipping store are clearly linked to the performance of the e-commerce industry. The ubiquity of the web is becoming more and more total and the increase in Internet penetration rates (especially in technologically backward countries) brings with it a large number of new customers to target. As seen in *Paragraph 1.3*, the capacity for expansion is high also in Italy, with more and more consumers turning to online commerce, also thanks to the momentum provided by the pandemic.

The analysis concludes with the identified threats. If, like already affirmed in the previous chapter (see *Paragraph 1.1*), dropshipping can sometimes lead to dishonest or extremely borderline behaviours by the seller, the same may be said so about suppliers.

This can hinder e-tailers in several ways: for example, by omitting branding from the vendor's packages, by prioritizing shipments made for other customers, or simply by violating (above all when aided by great geographic distance) existing contracts. This is all in the most serious and overt cases, but in any case, the relationship with the supplier exposes the side for the emergence of direct competition with the same (Antonacci, 2018), which could even decide to terminate the relationship.

Furthermore, other critical points emerge if we consider the current context in which Italian companies operate. The evolution of the sector is constant and under everyone's eyes, including the regulatory authorities. Future changes in the legislation or in the taxation could break the balances that allow dropshipping to survive as a practice also in Italy. A highly delicate point in this sense is that relating to the privacy of customers, which already in recent years with the introduction at European level of the GDPR[16] has undergone significant changes and may be destined to change again.

2.1.2 Dropshipping assessment through Business Model Canva

In order to conclude the introductory analysis carried out so far, it was deemed useful to develop a further technical analysis by creating a Business Model Canvas[17], again relating to the generic dropshipping store referred to so far. The proposed visual model provides a quick overview of the constituent elements of such an activity, helping to identify the dynamics that bind them together and the relationships between the various stakeholders involved.

Even given the simpler supply chain of dropshipping stores, there are still several important partners for a shop to work properly in all its respects (see *Table 2.2*). Most of these significant collaborators are somewhat involved in the IT management of the e-shop. Several providers are needed, undoubtedly, the platform on which to build the store, the dropshipper and the dropshipping integrator[18] are the partners to pay most attention to when choosing. The alternatives are manifold, allowing e-tailers to range according to their needs, budget, and degree of expertise in the sector. Among e-

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[16] General Data Protection Regulation (officially Regulation (EU) No. 2016/679) is a regulation concerning the processing of personal data and the privacy of European citizens, inside and outside the Union.
[17] Is a strategic management template, initially proposed in 2005 by Alexander Osterwalder, and used to define and visualise a business model through its main constituent elements.
[18] A system integrator specialised in dropshipping services. has the task of bringing together component subsystems into a whole and ensuring they function properly together.

commerce platforms, Shopify is the market leader (Statista, 2021d), but there is no shortage of alternatives, starting with Adobe Commerce (formerly known as Magento), the more technical and professional service offered by Adobe. Other providers include names such as Wix, BigCommerce, Prestashop, Squarespace and WooCommerce.

There are many dropshippers to rely on and it is impossible to list them all here. When choosing, as well as the products they are looking for, e-tailers should also bear in mind that some of them operate worldwide, such as Aliexpress, CJ Dropshipping, Doba or Wholesale Central. Others are only active in specific countries, for example in Italy we have suppliers such as Bazarissimo and PrezzoOK. Or other like Tera Group, Scontolo, Mediatoys or Di Candia. Finally, when looking at dropshipping system integrators Oberlo and Spocket are among the first names that come to mind. Alternatives include Wholesale2B, Inventory Source and CROV.

Operating online, it is clear that even the key resources of such a business (shown in the canvas in *Table 2.2*) are fundamentally linked to this sphere of the activity. These include the owned website, the fulfilment data transmission system (which ensures that an order is correctly forwarded to the supplier), the payment gateway and even the IT technicians who grant that everything always works properly. The core activities that an e-shop conducts are like those carried out by a physical shop. Procurement, marketing, advertising, and merchandising. However, the ways of achieving them are different, and based on a further activity that is facilitated and amplified by the potential of the Web: data collection. The Internet makes it possible to collect customer analytics, which will then be used for all the strategic and operational choices made within the company. In Italy, the collection and handling of this data is protected by the aforementioned GDPR (Regulation (EU) No. *2016/679*), which imposes stricter rules than in non-European countries.

The value proposition of a dropshipping store is similar to that of a traditional e-shop. Unlike other types of shops, a dropshipping store generally relies on a low-price value proposition. This occurs despite the mark-up compared to the generic wholesale price (in practice, the difference in wholesale prices is between 10-20%) due to the dropshipping service, which shifts the risk and burden of inventory and fulfilment to the supplier (Netessine and Rudi, 2006). Thanks to the prices it can obtain from its suppliers, it can still manage to maintain prices low, working on obtaining larger sales volumes. One-way sellers often do this is to specialise in a very narrow and particular ni-

Table 2.2 Dropshipping store Business Model Canvas

Business Model Canvas

KEY PARTNERS	KEY ACTIVITIES	VALUE PROPOSITIONS	CUSTOMER RELATIONSHIPS	CUSTOMER SEGMENTS
- E-commerce platforms (Shopify, Adobe Commerce, Wix, Prestashop...) - Dropshippers (Aliexpress, Doba, CROV, CJ Dropshipping, Wholesale Central...) - Dropshipping integrators (Oberlo, Spocket, Dropified...) - Payment service provider (Paypal, Stripe, Amazon Pay, Apple Pay...) - Web hosting providers (Hostinger, Bluehost...) - Domain name registrars (GoDaddy, Hostgator...) - E-mail marketing platforms (Mailchimp, HubSpot, Mailjet...)	- Merchandising - e-Procurement (sourcing goods and finding trustworthy suppliers) - Marketing and Advertising (customer acquisition) - Tracking analytics (website improvement and customer segmentation) - Branding **KEY RESOURCES** - Online store (built on the chosen e-commerce platform) - Fulfillment data transmission system - IT technicians - Payment gateway - Brand	- 24/7 online store (providing customers with the products they are looking for) - No ads (usually no banners are displayed in this kind of shops) - Cheap prices (exploits the competitiveness of its supply chain for a cheaper alternative) - Niche markets (chance to operate in underserved niche markets)	- Ease of use - Fast shopping experience (3-clicks rule and fast checkout) - Basic support services (to be more cost efficient provide just simple or automated assistance) - Recommendation system **CHANNELS** - All device supported (responsive web design) - Online advertising - Social media - Email marketing - Chatbot assistant	- Micro segmentation (especially when operating in niche markets) - Website usage (segmentation based on purchasing habits) - Macro segmentation (useful for ad targeting, based on location, demo- and psychogrphic)

COST STRUCTURE	REVENUE STREAMS
- Economies of scale (deriving from the exploitation of wholesaler networks) - Extensive outsourcing (pay dropshippers for products and shipping expenses) - Lean cost structure (no expensive resources) -Low initial investment - Fixed costs (salaries)	- Average checkout value (fixed list pricing) - Payments through selected gateway - Discounts/promotions for special events (Christmas, Black Friday, Cyber Monday, Easter...)

Source: author's elaboration.

-che, carving out a larger market share than they could get when competing with the big marketplaces. Often an e-tailer may even choose to specialise to the point of selling a single product and build its store around this.

Ease of use and fast checkout process are essential to accompany the user along his or her customer journey with us. In doing so, dropshipping stores often choose to sacrifice other services, such as after-sales support, with a view to containing costs. Chatbots and FAQs are useful tools to reduce management costs in these cases, while leaving more direct contacts for when needs require it, so as not to disappoint the customer.

As can be imagined, these relationships take place through multiple online channels. First and foremost, the e-shop, which must be characterised by a responsive design (or RWD, Responsive WEB Design), capable of adapting to each device on which it is displayed, to easily intercept all types of customers. Obviously on the marketing side, the company will then be active on various channels such as e-mail marketing, social media, and online advertising, to increase its awareness and brand reputation, so as to broaden its customer base, perhaps trying to retain some of them and lead them to repeated purchases (depending also on the type of product one wants to sell) on its website.

As far as Italy is concerned, according to the respondents in the latest Blogmeter report (2021) the most used social media is YouTube (90%). Followed on the podium by Facebook (87%) and Instagram (80%, up from the previous year). Lower down, but growing strongly, is TikTok (41%), the favourite of young people. It is therefore on these platforms that e-stores should direct their promotional efforts, choosing the most suitable ones, in line with their target market. As with the main activities, segmentation is also facilitated by the online environment. A great deal of data can be obtained from advertising campaigns and the shop itself, which can be used to profile customers for a variety of purposes.

The low costs of dropshipping arrangements have already been mentioned, and the Business Model Canvas (*Table 2.2*) helps here to better visualise this feature. In addition to low initial investment, we find a lean cost structure, with no particularly expensive resources required and low fixed costs (mainly related to wages). A dropshipping store exploits economies of scale and the advantages of outsourcing logistics procedures to its trading partner. This is done at the cost of a strong economic dependence on the dropshipper, who becomes the main catalyst for the cash outflows required to pay for the goods. Another variable cost component is related to advertising expenses. We conclude our analysis by pointing out that the e-shop has no other source of income than sales. It is possible to choose to introduce advertising banners on one's own site but given the lower traffic that these types of sites receive, this could easily be counterproductive. Various strategies and incentives, such as up-selling[19] and cross-selling[20] are very useful to increase the average checkout value.

2.2   The supply chain and choice of suppliers

This paragraph opens the analysis of the dropshipping model. We start the outline at the very beginning of the supply chain: suppliers. The choice of the supplier is fundamental. Many other store-related decisions follow from this choice. As the core on which operations in the dropshipping model is based, the decision on which supplier to turn to is decisive and can alone determine the success or failure of the business. This strategic

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[19] Sales technique in which the customer is pushed to buy more expensive items, upgrades, or other add-ons in order to increase the total sale that can be made from the individual.
[20] Sales technique in which the customer is encouraged to buy complementary or supposed complementary items, to increase the turnover from a specific order and/or to better retain a customer.

decision is made in the early stages of the activity and is subject to many factors, which have to be assessed and weighed according to the business idea to be set up. Among the variables to be considered: the location of the dropshipper, its reliability, the size of the catalogue provided, prices, dropshipping expertise, the willingness to establish regular relationships through a contract, the quality of the assistance and support services offered, the investment in technology and system integration, delivery times, return and refund policies and many other variables (Antonacci, 2018), some of which will be explored further in this chapter.

Dropshipping leads in the vast majority of cases to dealing with wholesalers. Therefore, it is important, while carrying out an initial screening, to be able to distinguish legitimate dropshippers, to understand who to contact. Most of the players in the markets are mainly middleman, is not properly a problem to work with them, but a e-tailer should keep in mind this could expose him to higher costs, slower deliveries, or an unnecessary complication of the supply chain, which could be avoided by going directly to the source dropshipper. It is necessary here to make a distinction between dropshippers and dropshipping directories[21], the latter by their nature asking for a one-off or ongoing subscription for the selection and verification service offered.

An assessment concerning suppliers should be made on the type of suppliers to be used. Obviously, the partner must be willing to cooperate on the basis of the dropshipping model, but it is not compulsory to turn only to dropshippers. This clearly depends very much on the sector in which the company operates. The choices on the type of supplier are varied in this respect. In pursuit of its vision, the manager of an e-shop might decide to go directly to local producers and establish a contractual relationship with them whereby (under the proper conditions) they commit to supplying their products to the seller on a dropshipping basis. This can be a very valid option in Italy, which is dotted with many local realities, which if properly convinced can become a source of specific and excellent products. The search for suppliers should therefore not be forcefully online, even though this is usually the preferred channel for establishing supplier relationships. Remember the aforementioned case of Bottega Sicana (*Paragraph 2.1*), winning idea that guarantees product freshness and craftsmanship through dropshipping.

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[21] Website with a cataloguing structure containing references to other verified and reliable sites. A dropshipping directory can include lists of suppliers, merchants, and products, linking the parties involved in a commercial exchange.

In addition to generalist e-commerce wholesalers, a seller might rely on a dropshipper specialised in a peculiar type of market. Either geographically (to better serve a given country or region) or in terms of products offered (e.g., a wholesaler specialising in sports equipment, or fishing gear). An example in Italy is Dropshipping 1Style, a dropshipping supply website of the homonymous 1Style, a retailer specialising in beauty and body care products. Another case is that of Runner, an Italian company operating in the ICT sector as a distributor of IT and technology products. The company has 60 employees, 3000 customers and a sales volume of around 800,000 items sold per year. The choice to focus on a niche needs to be made at an early stage when defining the business, and if this is the chosen strategy, turning to a specialist supplier can be crucial to success.

Large dropshippers are perhaps the most common choice: they guarantee reliability, large catalogues, and good prices. If this is the decision you take, it is useful in your search to turn to a dropshipping directory, looking for the most suitable supplier for the product you are looking for, in order to ensure the best possible service. Examples in this respect are the previously mentioned Bazarissimo, and PrezzoOK, Italian dropshippers with very extensive catalogues available to their customers. Both require a registration and service activation request, also to facilitate the integration of the catalogue with the customer (or part of it) via CSV[22] files. Specifically, Bazarissimo offers its dropshipping service on a subscription basis, providing for the payment of a monthly plan (divided into two different price brackets) to make use of its catalogue. This is a common practice (Rutigliano, 2017), while others offer dropshipping by charging for it on individual items.

If the desired direction is that of a multi-product e-commerce, there are certain cautions to be taken when considering this choice, and along with it the choice of supplier. Possessing a large catalogue allows you to serve a wider slice of the market: whether you are talking about several products belonging to the same niche, or whether you have products from different categories for sale. This theoretically leads to an increase in sales possibilities, intercepting more prospects. Yet, flooding one's store with products opens the door to a diametrically opposite scenario. In his book, the US psychologist Barry Schwartz (2004) illustrates how having too many choices can be bad for the

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[22] An acronym for comma-separated values, it is a text file format used for importing and exporting tables of data from electronic leaves or databases. Each row of the table is represented by a line of text, which in turn is divided into columns by a separator character.

consumer, who will feel paralysed by them. An excess of options leads to high frustration, and this leads to more shop abandonments (and thus fewer sales). The author does not imply that choice is per se wrong, but that as the number of available choices increases, the decision-making process becomes more complicated (driven by multiple factors, which would be unnecessarily complex to mention here), and that the downsides outweigh the autonomy, control, and liberation the choice brings to people. From this point on, choice no longer liberates, but debilitates (Schwartz, 2004)

According to Khouja (2001), another thing to keep in mind when selling multiple products is that dropshipping has important implications regarding the handling of products that are commonly ordered together. If there is a shortage of certain products, an order that includes one or more of these products may be lost because the customer does not want multiple deliveries or is not willing to wait for a restock. Even if the customers were willing to accept multiple deliveries, this would mean two things: a reduction in profit due to higher shipping costs and an increase in delivery time due to delivery fragmentation (Feng *et al*., 2011). Therefore, it is necessary to consider these iteration effects between products by constantly analysing order data and the products frequently paired by customers in their purchases. This may be useful to request special precautions from the supplier regarding a given type of goods, to ask for stricter contractual conditions in relation to the same, or to order a small quantity to be kept in stock (in case a warehouse is available) to avoid shortages.

Uncertainty in demand and the challenges that arise along the supply chain while attempting to meet this uncertain demand are the root of many issues along the dropshipping supply chain (Turban *et al*., 2018). Furthermore, the interaction effects described above suggest that grouping products on the basis of client orders helps to improve profits. Grouping assures co-ordination between products so that the sale of a high-margin product is not lost due to shortages of other products, thus ensuring increased profits (Khouja, 2001).

Having reached this point, a further question to be answered concerns the reliance on one or more suppliers. Both choices have advantages and must be weighed up against the specifics of the individual shop, with no single correct answer. By using a single dropshipper e-tailers will have less difficulty in managing the flow of goods and they will only refer to him for any complexities or problems in the supply chain. This will also allow us to establish more solid and reliable relationships, especially if the collaboration

lasts for a long time. Typically, multiple suppliers are used when the size of the business is large, volumes require greater logistical efforts (which a single supplier may not be able to cope with) or the supply chain needs multiple supply lines to avoid an interruption in e-commerce operations, should problems occur. Another valid reason that can lead to this choice is to expand the catalogue offered or more simply to find different products, which perhaps one has not been able to obtain through a single supplier. Certainly, on an operational level this would complicate management, bringing greater complexity to the handling of shipments, and related returns and refunds (where applicable). A specific issue which is linked to a supply chain characterised by multiple dropshippers is that already mentioned of order fragmentation (Khouja, 2001). This fragmentation increases shipping costs for the e-tailer and frustrates the customer who sees his order delivered at different times. A complication that does not satisfy either party.

Under dropshipping the entire supply chain benefits from the risk-pooling[23] effect brought about by the simultaneous presence of inventory for multiple retailers at the same dropshipper warehouse (Netessine and Rudi, 2006; Feng *et al.*, 2011; Kim *et al.*, 2022). In this perspective also economies of scale in transportation are possible, in cases in which the wholesaler serves multiple retailers. According to Netessine and Rudi's (2006) research, when the number of e-tailers is significantly large, the benefits of risk-pooling make dropshipping to be preferred to the traditional channel, both for retailers and wholesalers (especially for the two segments of books and electronic products).

An hurdle that arises from choosing a supplier, if the supplier is based abroad, is that of having to establish and maintain relationships with people from an unfamiliar cultural background from our own. At a managerial level, this is a well-known issue that often arises for companies working with international partners. In addition to the obvious cultural, political, religious, social, and educational differences, this complexity also and above all arises at the communication level. Diverse cultures communicate differently. The context of the message, non-verbal language, personal space, and time management are just some of the aspects to consider when dealing with partners of different nationalities from our own. Fortunately, the problem of language in contemporary

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[23] A phenomenon related to supply chain management whereby the variability of demand is reduced as the centralisation of stocks in a single warehouse increase. The stock will have a consumption closer to the average due to the compensation determined by the many customers: the increase in demand from one customer may correspond to the decrease in demand from another. This provides economic benefits by decreasing safety stock and optimising inventory management.

society is greatly mitigated, both by the widespread use of English in the work environment and by the development of increasingly advanced enabling technologies that allow easy communication (both written and non-written) even between people who do not speak the same language. All of this helps to ease the difficulties faced in intercultural communication. Although not central to the choice, these are also aspects to consider when deciding on the suppliers we will rely for our business.

2.2.1 Literature review on dropshipping contracts

The final part of this section now contains a literature review, which exposes and explains some contractual forms that can be applied in the case of dropshipping supply chains (full overview in *Table 2.3*). This is intended to provide more insights into the topic and show how one can appropriately regulate one's relationship with one's supplier once the supplier selection process has been concluded. Establishing lasting relationships with one's designated supplier is essential for the prosperity and sustainability of the business initiative. Inadequate accounting procedures hurt each partner's ability to compete by halting the flow of goods and services as well as slowing cash flow along the supply chain (Turban *et al.*, 2018). For dropshippers, this makes no difference.

Once concluded initial evaluations, one will need to contact the identified suppliers and, having assessed their availability, enter into negotiations to draw up a solid contract. For the handling of the legal aspects, it is advisable to contact a professional, but drawing up the contract as efficiently and conveniently as possible is the task of both parties. If there is no interest in a long-standing collaboration, or if one of the parties has significantly greater bargaining power, and a greater or lesser degree of collaboration and integration will be agreed upon. It is generally the suppliers who hold the most bargaining power, as they are responsible for both maintaining inventory and fulfilling orders; therefore, they prefer retailers to make the first move towards creating an agreement (Shi *et al.*, 2020).

It is a well-known and widespread concept in the literature that the necessary condition for a dropshipping contract to be optimal (in a decentralised supply chain) is that it guarantees the coordination of the supply chain. The parties only maximise their profit if the total system profit is maximised. (Gan *et al.*, 2010) This phase of contract drafting is

Table 2.3 Most prominent dropshipping contracts found in the literature

Author	Year	Contract Type
Tsay, A. A.	1999	Quantity Flexibility Contract
Eppen, G. D. and Iyer, A. V.	1997	Backup Agreements with commitment commits to given quantity of items for the season
Netessine, S. and Rudi, N.	2000	Simple scheme characterised by reciprocal compensation (subsidies) of the two parties
Durango-Cohen, E. J. and Yano, C. A.	2006	Forecast-Commitment Contract
Gan, X., Sethi, S. and Zhou, J.	2010	Commitment-penalty Contract designed for dropshipping supply chains
Feng, L., Yuijian, T. and Xiaolong, G.	2011	Quantity Discount Contract for the optimization of dropshipping supply chains

Source: author's elaboration, references mentioned in the text.

especially relevant if you decide to contact your suppliers independently, without using a directory or relying on large market players (which impose standardised contractual conditions that are difficult to negotiate). In their contribution, Netessine and Rudi (2000) propose a simple contractual scheme to achieve coordination, characterised by reciprocal compensation of the two parties (supplier and vendor). According to this type of contract, the wholesaler subsidises part of the customer acquisition expenses of the seller, the e-tailer in turn partially compensates the supplier for the inventory burden. The two authors also exemplify how these subsidies can be implemented, e.g., by producing reports or databases for the benefit of their customers (thus without a direct disbursement of money to them), or by providing them with useful assets for marketing activities (graphics, catalogues, photos, etc.).

A different proposal is that of Tsay (1999), who expounds on the operation of a minimum purchase commitment contract. The author suggests the adoption of such a contract in which the retailer estimates a purchase quantity for a given period, the supplier then commits to production, and the seller makes the purchase based on updated information on demand. He considers a quantity flexibility contract, which combines the retailer's commitment to buy no less than a given percentage threshold and the supplier's guarantee to deliver up to a given percentage above the threshold.

Another important contract type is penalty, several authors in the literature have resorted to this model. Eppen and Iyer (1997) for example studied 'backup agreements', contracts in which the buyer commits to purchase a given amount for the season. A fraction of the goods is delivered by the dropshipper before the start of the selling season, the retailer can then order up to the agreed remaining units but pays a penalty for each individual unit he decides not to purchase any more. This is in fact a way for the supplier to partially protect itself against unsold goods and excess demand.

Durango-Cohen and Yano (2006) study a forecast-commitment contract in which the customer provides an estimate of the quantities required, the supplier bases the production effort on this forecast and the customer's minimum order is given by a function of the forecast and supplier's production committed quantities.

In their paper Gan, Sethi and Zhou (2010) propose a commitment-penalty contract designed and studied for dropshipping supply chains. The contractual problem between the parties is studied and solved in both an asymmetric demand information and a full information scenario. In the latter case, the contract ensures that the supplier produces a quantity equal to the supply chain's optimal production quantity and that the supply chain is efficiently co-ordinated and in balance. In the case of asymmetric demand information, it is explained how the dropshipper can provide a menu of commitment-penalty contracts, such that the retailer "truthfully reveals" his demand information.

Feng, together with his colleagues Yuijian and Xiaolong from the University of Science and Technology of China, in their article published in Information Engineering and Electronic Business (2011), present a quantity discount contract for the optimization of dropshipping supply chains in a decentralised scenario (in which supplier and retailer make decisions independent of each other, based on their profit functions). In such a contractual form, the retailer gets a discount based on how much goods he buys from the manufacturer. The greater the quantity, the lower the price paid. The authors (Feng *et al.*, 2011) explain how this contract must be supplemented by delivery reliability compensation to achieve a mechanism that ensures supply chain coordination.

These are some of the models in the literature, it may be that in the case of a lack of bargaining power on the part of the e-tailer (especially if the business has only just started or is in the start-up phase), the latter must initially submit to the contractual conditions imposed by the supplier, before renegotiating to extract a more advantageous agreement.

2.3 Structure and functionalities of the online store

In this section, we will explore the choices concerning the online management of the business, analysing all the decisions, and the accompanying complexities, concerning the e-shop. A brief introductory analysis will set out the pros and cons of choosing between proprietary sites and platforms, providing a quick overview of the main solutions on the market. This is followed by a more practical part relating to the actual realization of the website, concluding with a focus paragraph on m-commerce and social commerce, and how to exploit the trends in support of dropshipping stores.

A first node is the choice between a proprietary store, developed by a professional programmer and under complete control of the company; and a platform, offering 'ready-to-use' e-commerce specific solutions. There are just two choices for owners here, and the most important thing is how much programming experience and time they or their team have (Laudon and Traver, 2021). On the one hand, the proprietary site requires a certainly greater economic effort and intent to set up. The costs are many: software, domain, hosting, design, extensions, SSL certificates to name but a few (Setti, 2020). On the other hand, the increased complexity and expense in the start-up phase would be offset by the complete control over the final result. Ownership of the site allows it to be reviewed and retouched at any time in the smallest detail (Laudon and Traver, 2021) and ensures complete control over the information and data collected (the information flow would remain totally in the hands of the company).

Clearly, making a website is not within everyone's reach, so if you opt for this option and you do not have the necessary knowledge, you will have to turn to professionals who can do the work for you, on your instructions. There are now numerous organisations providing this kind of service in Italy as well, and there is a wide range of offers to decide where to turn according to one's resources and requirements. From a study standpoint is not easy to define the cost of setting up an e-shop from scratch. This is because there are many different solutions and prices vary greatly, depending on who we choose to turn to, the total number of pages that need to be created, and the type of outcome and functionality that we want to achieve. Prices can start from a few hundred or thousands euros up to several tens (or even hundreds) of thousands for the biggest websites (Rutigliano, 2017).

The alternative solution is, as mentioned, to use a platform offering e-commerce services. It is simpler, quicker, and generally more affordable resorting to an e-

commerce software platform service than to construct your own website (Laudon and Traver, 2021; Turban *et al.*, 2018). The dropshipping business model can be utilized in various commerce platforms, but the idea is to choose the platform that best meets the criteria set by the store owner. Most are based on pay-as-you-go models, with a monthly fee that varies according to the plan (and thus the functionalities) chosen. These ecosystems tend to propose standard templates and themes for e-commerce sites (Laudon and Traver, 2021; Oprescu, 2019; Turban *et al.*, 2018), from which it is then possible to customise and make the project more unique. The degree of customisation varies from platform to platform, as does its simplicity. Some offer a very direct and simple approach (such as Shopify) that allows you to radically change the appearance in a few simple steps. Others are more complex to master, and specific results and features may also require some writing of the site code. In any case, this possibility is always present, so the user will be able to stop at the basic customisation, or if required, go deeper even on the programming side.

Another feature that makes the choice of these services extremely attractive is that they offer not only the website, but also a whole series of related services, ranging from simple hosting to customised consultancy. In this respect, the pros are obviously related to the much lower start-up costs, which can be as low as a few tens of euros in some cases. The speed and simplicity of the set-up are undoubtedly other valid reasons for turning to this choice (Laudon and Traver, 2021; Turban *et al.*, 2018). The whole process is terribly simple (hence much of the success of these platforms), the whole procedure can be completed in a matter of hours, depending on the number of products in the catalogue and the general size of the site.

Some doubts that may arise relate to the possibility for companies offering the service to have access to all the data relating to the e-store and the low differentiation that this type of platform entails. In fact, by limiting oneself to the basic options offered, the result will be a store that tends to be anonymous in terms of design, quite limited in terms of user experience, and may not precisely match the needs of the business (Turban *et al.*, 2018).

At the level of site architecture, what is valid for an e-commerce store is also relevant for a dropshipping store. If one chooses to rely on a platform, much of the design work has already been done upstream, and developers have simplified the choices to be made by guiding users through predefined templates that reflect the widespread characteristics

of an e-shop. However, some of the basics of a site's architecture must be understood by the manager (Laudon and Traver, 2021), to better analyse the strengths and weaknesses of his business and to seek optimization of what already exists. The basis of the structure of a dropshipping site (see *Figure 2.2*), like that of an e-commerce and any website in general, starts from building the information architecture (Chaffey *et al.*, 2019), which is the organization and division of content. We will have to think about how to organise the navigation of our e-shop, and how to structure features, pages, and categories. Overall navigation must be intuitive, simple, and fast (Laudon and Traver, 2021; Setti, 2020; Oprescu, 2019; Hasan and Abuelrub, 2011; Flavián *et al.*, 2006). The goal is to help the prospect navigate the store (get from point A to point B and complete a purchase).

Useful rules for this purpose are, for example, visually differentiating navigation elements according to their importance (to guide the customer along his or her journey within the site), or not making the navigation too broad or too deep (would lead users to get lost among the pages without finding what they are looking for, only ending up generating frustration and eventually the abandonment of the session). To arrive at the creation of a working layout and structure for our dropshipping store, it is advisable to work step by step, using prototypes, improving them, and integrating what we learn from the feedback.

The Homepage must provide clear navigation directions, arouse, and maintain the visitor's interest in the site, enticing them to discover more, as purchases do not finalise on the homepage. Examples of information the customer might look for include: who you are, what you sell, why they should buy from you (USP[24]). Or links that direct them to the most visited and popular categories and products. Other pages that must be easily accessible from the home page are those relating to contacts (email, telephone, etc.), FAQ (to guide the customer should the need arise) and pages relating to store policies (Helander and Khalid, 2000). These indications must then be contextualised to the uniqueness of the individual dropshipping store, but they tend to be always valid. Categories must help the customer to easily guide him to what he is looking for. Reasons for this vary from store to store, depending on the type of items sold and the number of products in the catalogue. You should understand customer journey (Chaffey *et al*. 2019) and name categories based on it; consider also including thematic categories and resour-

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[24] Unique Selling Proposition is one (or more) factor that differentiates our product from our competitors. It is the reason why customers should choose us when making a purchase.

Figure 2.2 Basic dropshipping store infrastructure
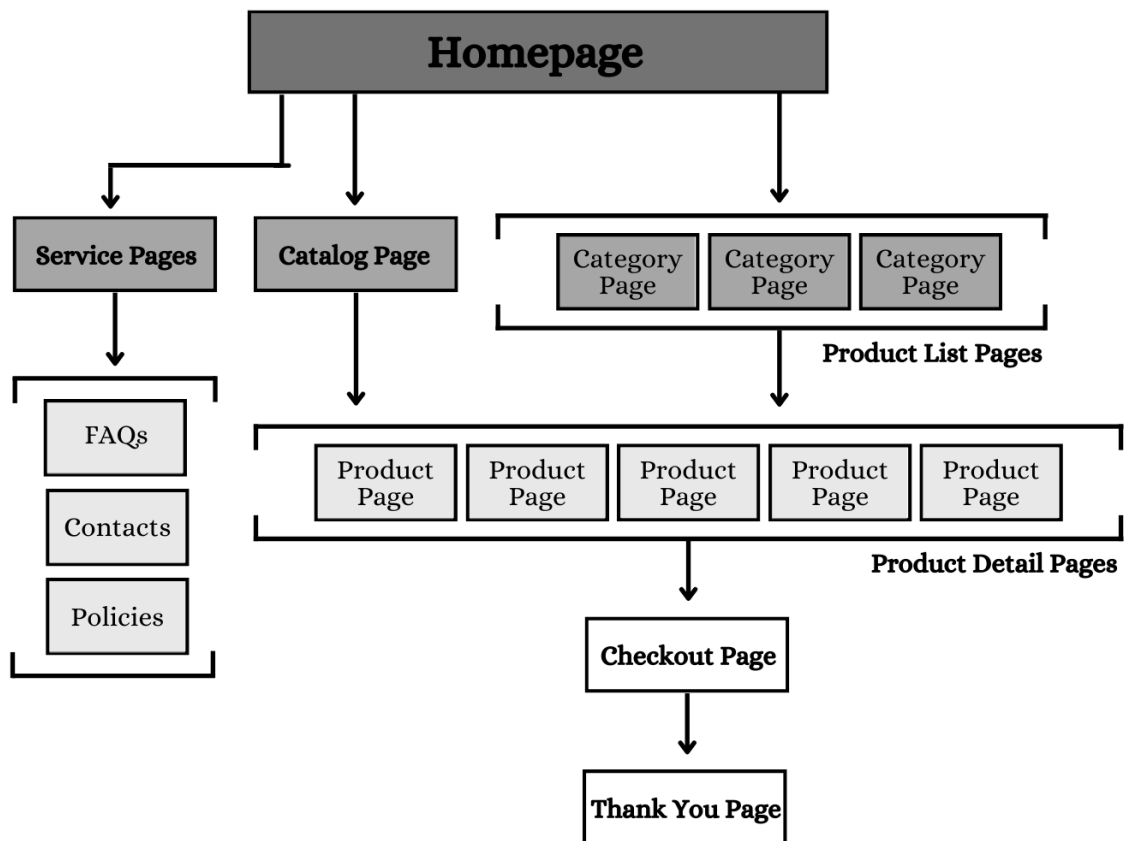
Source: author's elaboration.

-ces in the main navigation. We can identify two different types of category page: Intermediary category pages and Product list category pages (or PLP in short). Intermediary category pages present subcategories as their primary content. Showing the entire list of products for a top-level category often won't make sense, as the list will simply be too long or generic (e.g., "Women's clothing"). Thus, Intermediary category pages are used whenever further navigation or scope definition is needed before it makes sense to display a list of products to the user. When users land on an intermediary category page, they exhibit much of the same behaviour as they do when landing on the homepage (they try to infer the category taxonomy, the breadth of the particular category, and which path will suit them best). Product list category pages effectively dictates product presentation and provides the pathway to the right (or wrong) product page. Filtering is essential, to empower the user to take a large generic product list and narrow it down to a small manageable selection of products that is

uniquely tailored to their needs and interests. Filters and a search function goal is to help the potential customer to see as exact a result as possible and do it as quick as possible (Oprescu, 2019). For this purpose, a few things are kept in mind when designing filters. By allowing filtering in different ways, it should always be possible to see the criteria of the filtered results, to see how many results would remain after filtering according to the selected criteria and to be able to quickly delete the selected filter criteria. Finally, always allow users to combine multiple filter options of the same filter type and thus ensure the paths of filtering and sorting are prominent and unambiguous (to avoid confusion). In addition to generic filters such as price, relevance, reviews; filters should be designed according to the characteristics of the products we have for sale. For example, if we sell dog accessories and toys, it might be useful to allow the customer to filter items according to the size of their dog. If we sell products from many different brands, it might be useful to include a filter for the various brands.

The product page (or PDP, Product Detail Page) is one of the most important pages of the entire dropshipping store, as it is where the purchase begins. A well-structured product page must show what the product looks like, tell what it feels like, and lead the prospect to believe they necessarily need it. The product pages are varied, but a few core elements can be identified, which are usually always applied, and include: gallery or product photos, product overview (including title, price, features, CTA[25] and customization options), product description, social proof[26] elements (including review and ratings), suggestions (for up-sell and cross-sell) and interaction for any help or guidance needed.

Not being able to try a product at the time of purchase is one of the most complex factors for online trade. Therefore, showing the product at its best is very important (Vietri and Cappellotto, 2015). Simple images have been taken over from carousels. They allow the items to be displayed and the advantages of ownership to be explained in a more consistent manner. Carousels can create desire for the article by showing videos, images, or gifs (with at least 8 looks). They should load fast and include media regarding the pure product or displaying it in context and lifestyle situations. Other ideas could be to show the variants of the product (if any), show how or what it is made of (Vietri and

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[25] Call To Action, is a marketing term for an instruction, an invitation, a prompt for action to the audience. Written to provoke an immediate response, CTAs can be intended to elicit different types of reactions.
[26] It represents a phenomenon whereby social recognition of a brand leads to more purchases. It takes the form of reviews, existing customers, media coverage and more.

Cappellotto, 2015). The actual conversion takes place on the checkout page, which is of crucial importance and must therefore be given special attention in design and programming. The customer must feel isolated, secure, and guided to quickly conclude the purchase (Liu and Arnett, 2000). A good checkout page must make it intuitive going through all the phases and let the user know at all times in which step of the purchasing process he or she is (Vietri and Cappellotto, 2015).

With regard to checkout, special attention must be paid to the payment method. Choices have to be made regarding both the types of payments to be offered and the gateway to be adopted (Setti, 2020). For the former, in Italy it is bank cards and e-wallets that are the mainstay (for details see *Paragraph 1.4*). These payments must be among those offered. Further reasoning in this regard must be made on the basis of the type of product sold and the target group to which the dropshipping store is aimed. For example, the older strata of the population are still overly attached to cash payment and wary of online shopping. If they fall into our target group, it might be smart to include a cash on delivery option among the proposed payment methods.

Since payment is only made after the items have reached their destination, this method of payment enables the consumer to assume fewer risks. However, since one must be there and have the money at home when the delivery takes place, difficulties could emerge. Since no upfront payment is required with this method of payment, the merchant can dispatch the products right away (Setti, 2020). The cost of mailing the items in Italy cash on delivery ranges from 3 to 5 Euro, and the merchant typically adds this fee to the total cost of the goods plus the standard shipping fees (in which case it is possible to charge this higher amount for the payment service) (Setti, 2020).

As far as the payment gateway is concerned, the choices on the Italian market are varied. PayPal is the leader in this respect, with a 65.2% market share, followed by Stripe (23.3%). The remaining market share is pulverised among various other players, worth mentioning are Amazon Pay (2.5%), Braintree (1.9%) and Klarna (0.6%) (Statista, 2022). When choosing, the quality of the service, the contractual conditions (some providers may withhold payments for longer or shorter periods or require special verifications) and the fees charged should be assessed. Moreover, as the Casaleggio Associati report (2022) shows, the millennial fringe has started to adopt as an alternative payment method various Buy-Now-Pay-Later (BNPL) services, which without special authorisation processes and warranties allow purchases to be paid in

instalments (even for small amounts). The Swedish company Klarna is the market leader also in Italy, but there are alternative offers such as those of Cofidis and Soisy.

2.3.1 Exploiting m-commerce and social commerce trends in dropshipping

M-commerce is a pivotal phenomenon in the recent evolution of the Italian e-commerce environment (as already pointed out in *Paragraph 1.3)*. The country ranks first in Europe in terms of percentage of m-com sales (FIS, 2022). The strong growth of mobile advertising is proof of this, if proof were needed, accounting for over 70% of all digital advertising expenditure (Laudon and Traver, 2021). Differences between countries remain, especially with regard to age. Older people tend to shop from mobile less than other age groups (most over the age of 65 do not do so at all). This will change over time. The generational change will favour the gradual emergence of new generations of digitally experienced seniors in the coming years (Postnord, 2021). This paragraph takes a slight in-depth look at the trend's relevance to dropshipping store management, posing a few thoughts in this regard. It is therefore essential for a company to be prepared, and to have mobile channels as a customer touch point, in order to fully intercept demand.

M-commerce can take various forms: mobile websites, apps, landing pages, social commerce features. For the sake of simplicity, we will limit our considerations mostly to the mobile store, leaving aside the other alternatives just mentioned. This choice is made both to streamline the discussion and not to deviate too much from the focus of the research, which here only intends to provide the reader with a basic overview of the phenomenon. Furthermore, it should also be considered that options such as the development of a proprietary app are not for the benefit of SMEs. Building an app is the most expensive route to a mobile presence. More programming knowledge and resources are needed to create an app (Laudon and Traver, 2021; Vietri and Cappellotto, 2015), and even if some SMEs had the economic resources to realise it, would then not be sufficiently successful in terms of usage.

To be competitive in the marketplace, a dropshipping store, like any e-commerce iteration, must feature a mobile version of its site. Responsive design has now become standard in order to compete in the industry (Chaffey *et al.*, 2019; Vietri and Cappellotto, 2015). For the mobile optimisation of an online shopping site, it is not enough to adapt it

to the required resolution, but a series of more or less important measures are required to make it pleasant, fluid, and fast to use via a touchscreen. The interface must be redesigned, or at least adapted (Laudon and Traver, 2021). In this you are greatly helped if you resort to an ecommerce platform instead of programming your own site. All services on the market automatically adapt the desktop interface also for mobile devices, maintaining features and aesthetic choices (such as the chosen theme for example). The search bar should be easily accessible and always in sight, as should the navigation menu. One can think about reducing animations and hiding some of the content when not needed (leaving the user the option to interact with it via tap if interested).

This not only simplifies the UX[27], but also speeds up the site. Fast loading is crucial from mobile, even more so than from desktop, speed matters to shoppers. Other arrangements are to avoid over-invasive pop-ups, which could make navigation impossible from small screens. A further incentive (also relevant for the desktop version) is an auto-complete feature. When purchasing, this is a considerable form of help and stimulus; automatically suggesting personal information to users will speed up the transaction and reduce shopping cart abandonments. Finally, it should be noted how all this work is also useful from an SEO[28] perspective (Antonacci, 2018; Isone, 2017). Google has been indexing results with priority given to content for mobile devices (Google, 2022), consequently, taking care of and perfecting your dropshipping store from this point of view is more relevant than ever.

From mobile commerce, the phenomenon of social commerce has developed and is gaining traction. The two phenomena are closely linked due to the nature and use of social media (Turban *et al*., 2018; Vietri and Cappellotto, 2015). Devices now accompany us throughout the day, and it is common practice to spend part of our time browsing the feeds of the various social networks we are subscribed to. Italian consumers make no difference. Companies know this very well, and the numbers prove them right. The trend is no longer just a trend. If well implemented we are talking about a whole different paradigm for dropshipping and e-commerce in general, which varies in business goals, customers connection, and system interaction (Huang and Benyoucef, 2013).

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[27] User Experience or UX is a term used to encompass all experiential, affective, sense-making and value attribution aspects associated to user's interaction with a product, service, or system.
[28] Search Engine Optimization is the set of activities and best practices (on- and off-site) aimed at improving the indexation and ranking of a website in search engine results.

In 2020 social e-commerce generated revenues of $90 billion worldwide (Laudon and Traver, 2021). The use of messaging services such as Facebook Messenger, WhatsApp, and Snapchat continues to grow. Among the apps considered most useful and effective by Italian companies are Instagram (37%), which takes first place overtaking WhatsApp Business (27%) and Facebook (26%). This is followed by YouTube (8%), LinkedIn (7%), Pinterest (5%), Twitter (3%) and WeChat (2%) (Casaleggio Associati, 2022). As helpful for conversions as for brand awareness. Respondents interviewed by Casaleggio Associati (2022) for their annual report on the state of e-commerce in Italy said 55% discover brands through social media. Two out of five consumers make initial contact by interacting with branded content on one of the company's social channels and 78% of respondents are also likely to buy after positive online interaction (Casaleggio Associati, 2022).

Social commerce builds on the desire of people to buy from trusted sellers. We tend to trust more someone we can see, with whom we can associate a face and with whom we can even interact, as if they were our friend (Murdoch *et al.*, 2022a; Turban *et al.*, 2018). This is the strength of social commerce. It is also so effective because it is increasingly holistic: it integrates social functions and seamless transactions, all on one platform (Murdoch *et al.*, 2022a; Turban *et al.*, 2018). Brands, influencers, and individuals interact for an engaging shopping experience. As is evident from what has been stated above, the subject of trust in online purchasing is undoubtedly an important issue for consumers. However, all the trust that customers are seeking can easily be replicated (Turban *et al.*, 2018), at least at the facade level, by means of murky gimmicks. For instance, it is very easy for any dropshipping shop, even the smallest one, pretending to be widely followed and liked by various customers. Fake reviews or bought followers are a very common problem on major online networks (Turban *et al.*, 2018). Acquiring social proof in a deceitful manner like this is as easy as it can be, and many people do not have the means to notice and protect themselves from these scams to their disadvantage (Turban *et al.*, 2018).

Despite the not very transparent environment, which allows borderline realities or outright scams against consumers to thrive, as mentioned, social media is a very interesting environment to get noticed. Here it is possible to use relatively low-cost forms of advertising, as they are extremely and easily adaptable to the needs of the individual dropshipping store. A small, upstart shop can choose to publish ads restricted

to its target audience and comfortably set a daily budget that makes it possible to immediately realise the cost impact these may have. Furthermore, not far from the squares represented by the big creators and influencers, a multitude of micro-influencers exist and thrive. This can be extremely useful in reaching one's clients. Generally, these accounts, with a smaller number of followers, charge lower fees for providing product or service sponsorships, thus making influencer marketing affordable even for small internet businesses.

As important as it is, exploiting these platforms for your own dropshipping store can be more complex than it appears. Competition is high, technologies and processes evolve quickly, so it is necessary to stay ahead of the game. Only a quarter of companies in Italy are satisfied with the impact they have made on sales through social. The remaining 75% consider their performance and ROI unsatisfactory or difficult (Casaleggio Associati, 2022). Choosing the best path to market is fundamental. Some expedients have to be taken. First of all, managers of dropshipping stores should consider their target consumers. Engagement models and route to follow have to be chosen according to this. Notice how to this day the vast majority of the consumers (72%) fall into the less mature segments, not too experienced with social commerce (Murdoch *et al.*, 2022b). Implementing social features on the website or commerce features on their social channels, guiding customer to understand their functioning could be a good idea in this regard (Huang and Benyoucef, 2013).

Another idea could be to offer discounts to involve less mature customers into the social buying experience and nurture them (Murdoch *et al.*, 2022b). Due to its fast-paced and ever-changing nature, the idea of slowly introducing oneself in this context is useful both for the company, which avoids taking unnecessary risks and wasting resources; and for the buyers, who will gradually get to know the new social possibilities.

At the e-shop level, a whole series of features can be considered foundational to social commerce and help to enhance interaction and a sense of community: user's identity, recent purchase history, favourite products and many more (Huang and Benyoucef, 2013). At the level of interaction between users, a system could be included that connects consumers with the same interests, as well as allowing them to write reviews and share photos of their purchases with other customers and make them interact with the content through 'like' and 'share' buttons (Huang and Benyoucef, 2013).

At the level of social platforms, a dropshipping store can resort to various gimmicks. A

few are mentioned. Undoubtedly publishing 'shoppable posts', the value of which is not limited to mere interaction and lead generation but can also go as far as actual conversion by integrating purchase buttons for the goods displayed. If the brand is developed to a sufficient level, it might also be useful to use a referral programme, which can further stimulate the rush to purchase by exploiting the visibility of some influencers (Murdoch *et al.*, 2022b). To see more recent and niche trends, one possibility is to exploit live (on platforms where available) to show products and sell them live, similar to an infomercial. Very fashionable in China, it is now also coming to Europe and the US (Casaleggio Associati, 2022).

2.4 Branding, Marketing and Advertising

This section will delve into the branding, marketing, and advertising practices for a store. Emerging as another key determinants in dropshipping. It is intended here to provide an overview of what are the unique approaches to these matters in relation to this particular business model. It will be seen how much of the current practice is in line with a traditional e-commerce store, albeit with slight differences and caveats to consider when selling via a dropshipper.

The literature is unanimous in establishing the importance of branding for companies, products, and services. The benefits of mastering this practice are manifold: both for the consumer and for the company itself. Brands are a form of (intangible) capital that is slowly built up over time and then remains as an asset within the company. Brands grow along with the business, they develop with it (Keller, 2013; Kapferer, 2008). They help in competition, especially when we are talking about products similar to our own. Owning and using a brand on one's own products allows one to increase the perceived value for the consumer, thus being able to obtain a higher price premium and increasing the company's market share (Kapferer, 2008). With regard to the consumer, Kupferer (2008) states in his book how the consumer also benefits from the relationship with a brand. Among the benefits provided are *practicality*, namely being able to save time in case of repeated purchases; *guarantee*, which is the ability to expect constant quality; or even the sense of *continuity*, derived from establishing and continuing a relationship over time. Benefits both technical and practical, as well as pleasure for the person. When we speak of branding there are many and various aspects that contribute to its

development and growth. Developing brand awareness is no easy feat, especially when starting from scratch, but fortunately there are many points to exploit in this regard. Strictly speaking, we can identify the so-called brand elements, which include: logo, logotype, colours, images, slogans, pay-offs, animations, jingles, and a series of elements that make up the identity and differentiation of a brand (Keller, 2013; Kapferer, 2008). However, a brand is not limited to this, but also incorporates a series of values, attributes, and purposes, which it incorporates and wants to convey. A series of meanings beyond mere aesthetic recognisability concur in constructing its meaning (Chaffey *et al.*, 2019; Keller, 2013; Kapferer, 2008).

We would like to pay particular attention to two other factors that contribute to branding, which are important in view of the operation of a dropshipping store: the quality of the products and their price. In the case of dropshipping, price is very important as it is doubly linked to the agreements with the chosen dropshippers; as a non-manufacturing company, choices in this respect will be limited. There is no possibility to work on any level on the containment of production costs, as this is in the hands of others, and the only advantages to be gained are in the purchasing and contracting phase with the supplier. This means that decisions concerning the selling price of items are partially anchored in this supply logic. The fact remains that for some product categories, generally those that are highly fungible, buyers do not pay attention to the brand name when they go to purchase the product anyway (Kapferer, 2008). Moreover, production, especially for that fringe of stores described above (see *Paragraph* 1.1), which exploits the opacity of supply with arbitrage behaviour, is generally located in countries with cheap labour. The products sold will thus be obtained at advantageous prices but will be of extremely low quality, and quality aspects also play a role in the consumer's perception of the brand.

Always thinking along these lines, we can well see that such choices can be counterproductive in terms of customer loyalty. A customer who is not satisfied with the quality of the goods received is unlikely to turn up for a second purchase. However, the logic of this specific type of dropshipping store is to exploit the customer base that succeeds in intercepting. Very often their operators are aware that they will not stand the test of use of the product, and therefore try to maximise the value of the individual conversion. We can therefore speak from a certain point of view of an impossibility to acquire customer loyalty, or rather a very high rate of difficulty to fulfil this objective.

A step further, after the creation of a store and the start of the dropshipping business, is that of private labelling. Selling the goods produced by the dropshipper and branding them. This is an important step in the e-shop developement. Going from selling unbranded products to selling with one's own brand (albeit products made by third parties) can be an extremely important turning point for an online shop.

The brand serves the function of reducing the risk perceived by the customer, and thus it becomes valuable when such a risk exists and is perceived by the consumer (Keller, 2013; Kapferer, 2008). The risk in question can be of various types: economic, functional, social, psychological, physical. In any case, the perception of such risk is greater as the price of the item or the repercussions that the product may generate in the buyer increase (Kapferer, 2008). Therefore, it is the essential task of external signals to highlight the qualities and promises of these opaque products, conveying greater security and stimulating clients to purchase. A reputable brand is one of these signalling mechanisms, together with the price, quality marks, guarantees and packaging of the product itself (Kapferer, 2008). Packaging in the dropshipping perspective is another cornerstone for developing a brand. At a relatively low cost, it is possible to arrange with suppliers and obtain not only a product with one's own brand name on it, but also special packaging, designed to integrate the brand image even when the buyer receives and unboxes the goods. A small detail, which helps to convey the brand.

The consumer often has no knowledge with respect to the origin of the goods, and the seller can exploit this information asymmetry to his own advantage (in a more or less subtle way). This leads to a distorted view in which the brand serves as a mere marketing tool in the service of the manager, who resorts to it as a means to potentially obtain more sales and increase revenues from the dropshipping business. In this sense, one can speak of 'ephemeral branding', in which the brand does not really convey values and meanings but serves more as a decoy to lure consumers into one's networks.

Clearly this just expressed is a generalisation, but it is useful to understand the use that many dropshipping e-shops make of branding. On the other hand, we certainly have virtuous examples where the practice takes on a positive role, for the customer and for the company. Enabling, as already explained, that next step for the business, which could in the case of long-term success also lead to a development of the business into a more structured and solid form. Building a recognised and valued brand can act as a strong springboard, and elevate the activity above direct competition, allowing dropshipping

businesses to thrive, enjoying the competitive advantage gained. When it comes to marketing, the considerations in dropshipping are numerous. Again, many are borrowed from generic e-commerce management, but others are specific to the business model and its peculiarities. We will now proceed to analyse the main expedients and some specific tools available to dropshippers. Anyone approaching the world of marketing immediately becomes aware of its vastness, therefore it is impossible to provide a unique path or method, but as always, we will examine the uniqueness of dropshipping marketing while maintaining a general and approachable perspective for anyone who chooses to engage with it.

In the vast panorama of channels through which one can address his or her audience, one must first of all be aware of the target audience and choose a platform or method that will resonate with his or her audience in the most suitable manner. This, however, should not be a necessary source of constraints, but can be understood as a creative drive to experiment, not to deprive oneself of any opportunity. After careful and in-depth analysis and planning (Setti, 2020; Chaffey *et al.*, 2019; Turban *et al.*, 2018), the manager will choose the channels he deems most suitable, being able, nonetheless, to experiment with different strategies and approaches depending on the situation, allowing the customer to be hit on several fronts. In this creative spiral, however, an underlying consistency must be kept in mind, which must act as a red thread and connect the overall marketing choices of the dropshipping initiative. In this way, it will be possible to generate real interest and value for the consumer and avoid confusion. Moreover, in the beginning, especially if a large, dedicated team is not available, it will be better to focus on a few directions in order not to waste valuable efforts and resources needlessly.

With this in mind for dropshipping, visual platforms work very well. Pinterest and Instagram are good examples where it is possible to catch customers' attention with the products we sell, as there are numerous ways to present the items. Mobile consumption has overtaken desktop consumption in recent years (see *Paragraph 1.2*). This means that many of those viewing your ad will do so while on the move. Therefore, they may not be able to hear the audio components. Thus, strong text and image components are essential to the success of the advertisement. It is however a good idea for anyone to pay your attention to the most popular marketing channels such as Facebook, Instagram, and Google Ads. It may take time to understand in detail how to exploit these tools, but

the pay-off is very high. Creating advertising campaigns can be an expensive undertaking. The goal of each campaign is to have a return on investment that can cover the cost of each campaign through the sales generated by the promotions. A simple idea to determine the direction of a campaign is to conduct A/B testing. The practice of A/B testing is based on running two (or more) versions of the same ad, which are launched and tracked simultaneously (Laudon and Traver, 2021; Vietri and Cappellotto, 2015). This allows us to check which alternative performs better, based on several factors that we will use to differentiate them. This approach is also a great way to evaluate metrics and determine if there is room for improvement before a full launch. Monitoring is the basis of marketing. No one should implement strategies for their dropshipping site without the ability to track and control results. Without a follow-up, it is easy to go off the track and even waste considerable amounts of money without getting results.

Among the many marketing techniques, we have already mentioned up-selling and cross-selling. These practices are, by their very nature, extremely successful in dropshipping. Working generally with low margins, it becomes essential to be able to maximise CLV[29]. The cost of acquiring new customers is much higher than increasing conversions (through up- and cross-selling) of customers you already have, especially if they are recurring customers. In all major e-commerce platforms, it is easily possible to integrate these functionalities via apps and plug-ins. This is done by offering recommended products to customers (that we think will appeal to them, or that we think will increase our margins) before checkout. This system works particularly well with complementary products, so we can think about what these might be and go and recommend them to the customer at the time of purchase. Having the customer already made the decision to buy will make it easier to increase the conversion value.

Actual customer conversion tends to be difficult. Even in the most thriving ecommerce shops, the number of visitors is not comparable to the number of actual customers, who represent only a small percentage. This poses a challenge to dropshipping merchants since traffic is incredibly hard to get. Retargeting addresses this exact difficulty. Through retargeting marketing practices, people are tragedized who have previously visited the site, but did not complete the checkout. Retargeting can be carried out either through normal ads, or through messaging applications (SMS, WhatsApp, etc.) that re-contact the

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[29] Customer Lifetime Value is an indicator that measures predictable profits based on our past relationship with the customer and his past shopping behaviour.

potential customer, reminding them to complete their purchase or stimulating them by means of special levers. When a customer gets as far as the checkout page, they are an interested buyer. This means that sending relevant abandoned cart notifications can be incredibly effective at getting the customer to return and complete the sale.

The practice of retargeting is obviously very interesting in many respects, but if the abandonment rate of the dropshipping store is very high, the operator will have to ask questions as to why this happens. There are many factors that can cause cart abandonment. Among others: having too many steps during the checkout process, not offering enough information, or having delivery costs that are too high. By streamlining the checkout process with short and easy could make a big difference.

Speaking of traffic to our site, an excellent practice that has now become somewhat of a standard for the online business industry (and beyond) is Search Engine Optimization (or SEO). Without going into too much detail about this practice, suffice it to say that SEO is the optimisation of a website for search engines (Laudon and Traver, 2021; Turban *et al.*, 2018; Antonacci, 2018; Isone, 2017). This involves a series of adjustments and refinements that lead to very long-lasting effects in the indexation of a dropshipping store. It tends to work with a much longer time horizon (Isone, 2017) than other forms of marketing, but the results can be extremely impactful. When we talk about SEO, we distinguish on a macro level between on- and off-page optimisation:

– *On-page SEO*: optimisation of dropshipping store for users and search engine indexing (polishing title tags, product page content, internal links, URLs, etc.).
– *Off-page SEO*: actions that occur outside the store's boundaries but still impact the store's ranking (backlinks, brand mentions, etc.).

If we consider a dropshipping context to be merely consumption-oriented and always looking for the latest trend to offer the customer, the practice of SEO loses relevance. Time horizons shrink enormously and tend not to favour its application, which we can consider less essential than a typical e-commerce activity. It is not uncommon for start-up dropshippers to spend large sums on advertising. In the beginning for such a business, it is essential to get noticed, even when referring to just the Italian market it is not an easy task.

One marketing practice that can be handled without too much effort and expenses by even one person is e-mail marketing (Laudon and Traver, 2021; Turban *et al.*, 2018).

The set of sales techniques that are substantiated through the e-mail channel. Using online platforms such as Mailchimp, Constant Contact, SendinBlue, HubSpot, it is possible to realise e-mail campaigns, newsletters or retargeting very easily (Vietri and Cappellotto, 2015). You can use the templates provided or create your own layouts from scratch, adapting them in detail to your needs. With the right email marketing tool, you can also create custom email lists based on your customers' past actions, allowing to segment easily (Laudon and Traver, 2021; Turban *et al.*, 2018). These tools are very useful in many ways. For example, as mentioned above, they can help you build a newsletter that keeps the brand presence alive in the consumer's mind, provides them with hints and tips, or informs them about promotions and discounts. All with the ultimate intention of bringing them to the store. Email marketing is thus another highly effective dropshipping marketing strategy that offers a great return on investment (Turban *et al.*, 2018).

2.5 Forward and backward distribution

The following section aims to address the logistics management of a dropshipping store, analysing what are the peculiarities and challenges that due to the nature of the business the manager has to face, both in forward and backward distribution. As will be seen, there are many complexities that require an assessment by the e-tailer, and in the vast majority of cases these arise precisely from the peculiar nature of the underlying supply chain. A general overview of the dropshipping logistics chain, already presented earlier in this section, will be covered before going into detail on some considerations. Among the issues to which more attention will be devoted: the handling of returns and refunds, reliability and speed of shipments, and free shipping.

Partly already presented in *Paragraph 2.2*, the supply chain is at the heart of dropshipping, and one of its main determinants. From its organisation stem the major advantages of the model, but also its main limitations. In this, dropshipping has the advantage of not having to jeopardise operational and economic efficiencies in areas such as order picking and delivery, which leads to increases in costs and conversely revenues, saving to accomplish this integration effort (Lim and Winkenbach, 2019). The way it works is for the chosen supplier to ship the product directly to the end customer, eliminating intermediate steps. This apparent simplification of the supply chain is,

however, accompanied by a series of impediments often due to the difficulty for the customer to identify a clear and direct channel of reference if he encounters difficulties with his order, and for the vendor to have to set up and manage all the backward distribution processes without having the delivery phase directly in charge. This may not seem particularly relevant at first glance, but it becomes extremely problematic and generates complexities when the order does not go as it should, and the reverse distribution sequence has to be activated. In the case of returns, refunds, or goods exchanges, as we shall see, the inconveniences are manifold for all parties involved (Kawa, 2017).

One may be inclined to assume that both the seller and the dropshipper may adopt a selfish behaviour and not be concerned about the problems raised. While this may tend to be true for dropshippers, who in light of their bargaining power can pass the resulting burdens to the e-tailer relying on them, the same is not true for the seller. The seller finds himself as the centre of these complications and with a number of problems to be coped with. Moreover, regardless, anyone running a business, must ensure that his entire supply chain is always functioning and in good health. If any difficulties arise, the end customer will go to him, and he will have to be able to interact with those who handle logistics for him and be able to handle orders for his customers.

Sticking to the model used so far as a reference, a purely B2C e-shop which makes dropshipping its sole method of supply will, as mentioned above, also have to confront the difficulties in terms of logistics arising from the choice of outsourcing the fulfilment process. As in the case of the choice of supplier, the considerations made before (*Paragraph 2.2*) mostly apply to the choice of carrier. Vietri and Cappellotto state that "every time the merchant ships, he effectively loses control over the quality of the service he offers to the customer" (2015), illustrating how in reality, however, it is always the merchant who is held responsible for the shipment by the customer, who attributes to him the role of mere 'operational arm' of the seller. The appropriate laws also lend credence to this notion in Italy. According to Article 63 of the Consumer Code (*D.lgs* n. 206/2005), the risk of loss of or damage to the goods for causes outside of the seller's control is only transferred to the buyer when that person, or a third party hired by him, really gets physical possession of the goods (Setti, 2020).

And indeed, it is precisely the choice of supplier that is often contextual and extremely important for distribution. In almost all cases, it is in fact the dropshipper who directly

takes care of logistics on behalf of the online shop owner. For instance, in the event of a company engaging local producers with whom it undertakes its dropshipping activity, logistics management could be more easily structured in accordance with them. To try to obtain a service tailored to their needs, they can also rely on several carriers in organising their logistics (Vietri and Cappellotto, 2015). Some of the couriers active on the Italian market have already been mentioned in *Paragraph 2.1*, but in general, the choices multiply when going down to the level of particular areas, making the range of choices quite wide. The evaluation will therefore have to take into account not only the variables purely related to logistics, such as shipment prices, delivery speed, tracking possibilities; but also, more general parameters relating to the reliability of the supplier as a business partner overall. This therefore also further complicates the choice of supplier by having to consider the conditions and variables that would affect distribution.

If we take the two Italian platforms Bazarissimo and PrezzoOK as an example, we see that both offer a service that also handles the logistics of orders coming out of their warehouses. In the case of Bazarissimo, products are shipped (not included in the sales price of individual items) from their warehouses in the EU, allowing delivery times to be kept at a minimum. The company has then opted for variable pricing, defined according to the weight of the parcel and the country of destination. Bazarissimo allows shipping either by express courier, the choice of which varies according to the customer's area, or by Posta1 for stickers. PrezzoOK similarly does not rely on a single carrier but varies the selected couriers, with insured and traceable shipments that are in no way referable to the company as they do not contain any advertising, flyer, tape, or sales documentation bearing the company's name.

Venturing now into more detail, let us imagine a situation in which, after receiving their order, the customer is dissatisfied with it for some undefined reason and wants to return it. It is in this occurrence, and in all others involving a return of the goods by the consumer, that the management problems related to the dropshipping model arise. While this practice works very well in the case of forward distribution, the same cannot be said for backward distribution. Customers who wish to return an item to an online shop must first obtain authorization, pack the item(s), pay for shipping (if not covered by the retailer), and then wait for the credit to appear on their selected payment method. The vendor, who must then unpack, examine the paperwork, and resell the item

(typically at a loss) is not pleased, and neither is the buyer (Turban *et al.*, 2018). When an item has to go backwards, a number of problems are encountered, mainly due to the lack of warehouse ownership. In dropshipping, the issue of returns is particularly crucial since it can influence whether a customer decides to make a purchase by allowing them to return an item with clear procedures, minimal charges, or none at all (Netcomm, 2018). In general, providing an effective return policy, such as easy returns, increases the merchant's credibility. Like other logistical considerations, returns are also crucial to customer satisfaction, thus a return, which initially presents a challenge for both the client and the retailer, can really deepen their relationship if it is resolved (Netcomm, 2018). Should a seller have to handle a return, he has various solutions at his disposal, depending on what was previously agreed with his dropshipper.

A first option is for the goods to be returned directly by the customer to the warehouse of the supplier or wholesaler which the seller is relying on. In practice, this is often impossible, for various reasons. Firstly, in the absence of information on the origin of the goods (purposely concealed during shipment), the customer would have to turn to us to return the parcel. Secondly, especially in the case of non-domestic or even non-EU suppliers, it is very complicated, costly and time consuming to have the parcel delivered with the returned goods. These problems, in addition to the possible brand damage one would be exposed to make this route unfeasible for the vendor, despite the fact that it is generally the standard for 'traditional e-commerce'.

Since it is not possible to have the customer send the goods himself, it will be necessary to set up a return system with an intermediate step, which will have to pass through the seller himself, or, to streamline procedures, through the carrier (whom the e-tailer would have to contact in any case to organise the shipment). A return service can be set up, which, in agreement with the selected carrier, provides for pick-up directly at the customer's home (or at storage points if applicable), and then sends the parcel to the supplier. Otherwise, a store can provide its own address where to forward the parcels and then take charge itself of the return to the dropshipper. This second option could save money by trying to group the returns in massive shipments, but it would create problems in terms of timing (actually lengthening the goods journey) and would nullify the advantage of having no warehouse, having to provide one for storing the returns.

To simplify this hurdle as much as possible, we have seen how it is possible to arrange with a forwarding agent for the handling of returns, or in very rare cases even with your

own dropshipper. To reduce difficulties and cut costs, some companies do not provide for returns on goods sold via dropshipping, effectively depriving the customer of this possibility. Or they make it complicated to request, discouraging the consumer to the extent that he or she is more likely to gives up. A change from no return facilitation to return facilitation services, according to many e-commerce managers, might even increase the frequency of returns relative to the number of orders.

Withdrawal is a consumer right in Italy. It is a civil matter that is governed by D.lgs. n. 206/2005's (Consumer Code) Articles 52 and further, as well as its successor, D.lgs. n. 21/2014. Except under extremely limited circumstances, failure to uphold this commitment may not give rise to a criminal offense but may result in a civil lawsuit from the party who was injured. It is specifically stated that the consumer has the right to cancel any distance contract within 14 calendar days, free of charge and without giving a reason (from the acquisition of physical possession of the product) (Setti, 2020). In order to fully assess the product's nature, attributes, and functionality, it also creates the chance for the customer to use it before exercising the withdrawal. The right of return always goes hand in hand with the right of withdrawal, serving as its functional justification. Depending on how the sale was verified (invoice, receipt, or absence of a document), the refund will thereafter be more or less complicated (Setti, 2020). Thus, in Italy is not possible not to provide for returns. In some instances, it is instead the sellers, who, in the interests of providing a better service to their customers and avoiding all mentioned difficulties, waive the return of goods, directly providing a refund or a replacement item if the customer wishes so.

After reviewing the logistical management of returns, a further complicating factor emerges in the issuing of refunds following the return request. Refunds, in fact, are only issued upon receipt of the goods for better handling. This leads to several inconveniences. The first, originated by the fact that the goods will not reach the seller directly, the need to wait for feedback from the wholesaler before issuing the amount due. Secondly, this causes the time frame to proceed to reimbursement to be enormously protracted, causing further inconvenience to the customer. Finally, since contracts with the supplier are also regulated from the point of view of payment and settlement (as seen in *Paragraph 2.2*), having to also consider the issuance of reimbursements complicates the financial management of the business.

Finally, following up on what has emerged concerning returns and refunds, a further

situation which can lead to problems in processing is that of replacements. Should a customer receive an item but want for a valid reason to replace it with other goods instead of requesting a refund, all the distribution difficulties that arise in the event of a return would certainly arise. However, what might seem on the surface as simple as an exchange of goods is actually complicated by certain peculiarities of dropshipping. Considering the absence of a warehouse of one's own, one immediately realises how the e-tailer must always refer this kind of resource to his supplier. Only the wholesaler or manufacturer managing the stock is able to process this type of request, knowing the availability of products in stock. A barrier would emerge if the supplier no longer had the item in stock and could in no way obtain it. In this eventuality it would be necessary to issue a refund to the purchaser, with all the problems already emerged above.

When discussing logistics in the world of dropshipping, we have seen how it represents one of the most challenging factors in running this kind of business. Other aspects concerning distribution that need to be inquired into are the issues of shipping times (in the various options offered to the customer) and free delivery. Both issues are discussed here, although by their nature they can also be considered contextual to dropshipping store marketing decisions. Being customer leverage factors that can make a difference if properly implemented, their evaluation should not be limited to the mere management of inbound and outbound logistics. As noted earlier in the discussion (see *Paragraph 1.3* for data on this subject), free shipping is a topic very important to Italian consumers. In the country, a survey by Casaleggio Associati (2021) found that free shipping and free returns are also on the list of the highest priority investments for companies in this sector. The new annual version of the report shows that in Italy, 1 in 5 merchants offer free shipping, although this is often linked to some condition (see examples below) (Casaleggio Associati, 2022). Consumer-level data, on the other hand, comes to us from the Netcomm report (2018), which measured how in Italy around 70 per cent of orders in 2017 were placed without shipping costs being charged to the customer.

There are several aspects to be taken into account when considering this. First of all, a monetary rationale has to be made to determine the feasibility and convenience of this approach on the basis of the cost and revenue structure. Starting with the various products and their pricing, it must be determined whether it is possible to offer free shipping and under what conditions, in order to avoid eroding the markup too much. It is possible to think about offering this service when various conditions are met: for

example, a certain order threshold, the purchase of certain products (perhaps those that generate higher revenue for the e-shop), or even at certain times of the year (typically during holidays to boost sales). Other options are to guarantee free shipping with a given payment method (to facilitate financial management), on the first purchase or after the first purchase (again to entice purchase) (Vietri and Cappellotto, 2015). Finally, if economically feasible, one can opt to always guarantee free delivery to the customer. This obviously has positive branding implications and is a good incentive to purchase. If implemented and managed with intelligence, free shipping is a powerful marketing tool (Vietri and Cappellotto, 2015). Also, the cost incurred by the dropshipping store can be reintegrated by increasing prices to include (fully or partially) the cost of transportation. In general, the most cost-effective choice, barring special shipping conditions (specific to certain product sectors), is to act to cancel out shipping costs in the customer's perception (Netcomm, 2018).

In parallel with this, a choice can also be made regarding returns. Here, too, it is possible to provide the service for free, for a fee, or even to limit free of charge to specific return conditions. Yet, it is important to keep in mind that returns have a high handling cost because, in addition to the cost of transportation, they frequently necessitate reconditioning of the packaging as well as a specific receipt and inspection procedure in the warehouse (Netcomm, 2018).

The second mentioned and increasingly decisive aspect is the timing of shipments (Turban *et al.*, 2018), which also appears among the most relevant factors surveyed by Netcomm (2018). More than half of the experts and insiders who collaborated on the analysis believe that this factor will remain the service element most demanded by customers (Netcomm, 2018). This has always been a worry for e-commerce operators, as one of the most difficult gaps to overcome compared to the immediacy of the physical shop (Setti, 2020). Over time, thanks to online retail giants such as Amazon, JD and Alibaba, the bar has been raised enormously, even going so far as to offer same-day delivery. Looking at Italian dropshipping businesses, such timescales are realistically unattainable, but competition should not be based on the services offered by these huge companies. Nevertheless, customers have undoubtedly become more demanding (see *Paragraphs 1.2* and *1.3*). As seen from the graph below (*Figure 2.3*), the typical delivery time for an online purchase in Italy is 3.9 days. About 70% of purchases are delivered within four days, with three to four days being the most typical time frame.

Figure 2.3 Average e-commerce delivery times in Italy
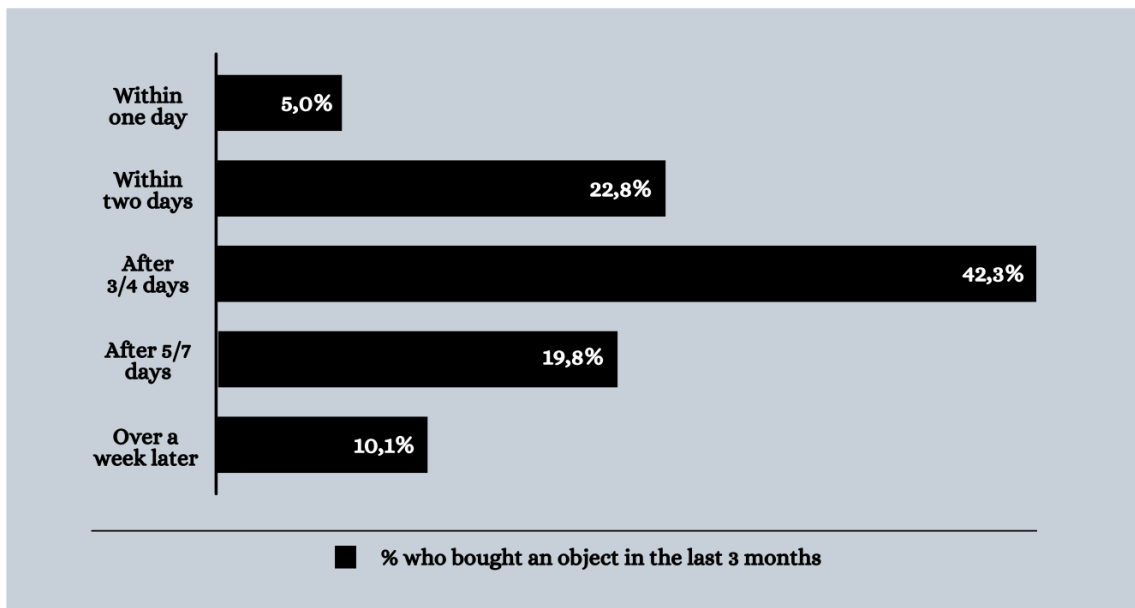
Source: author's elaboration on Netcomm (2018).

The Peninsula's average delivery time is consistent, with the Islands being the only place where it is slower (4.5 days). Fast deliveries (within two days) are, however, substantially more common in the northern regions and occur 50% more frequently there than in the south and on the islands (Netcomm, 2018). Casaleggio Associati's latest annual report (2022) shows that in Italy, the average shipping price is around 8€. A relatively high value, but necessary to finance the growing consumer demand for fast deliveries, which also leads to cost increases.

Taking this into consideration, it becomes evident that the operators of a dropshipping store must also question themselves on this issue. Offering quick delivery options is not always feasible, and for the reasons already stated, it does not always depend on the seller. In a dropshipping regime, it is the agreements made with suppliers that also define the timing and mode of delivery. In the case of obtaining supplies from dropshippers outside Italy or the EU, however, it is impossible to obtain fast delivery unless you spend very significant sums, completely hindering any profit. Often, in fact, national or low-cost postal services are used in these cases, resulting in very long lead times. The possibility of providing various shipping options should therefore also be evaluated with one's business partners to assess its feasibility.

Additionally, it should be remembered that a deadline for the delivery of the goods has

now been established as a result of the changes made to the Consumer Code by D.lgs. n. 21/2014. In fact, Article 61 of the Consumer Code states that the seller must deliver the goods to the consumer without undue delay and, at the latest, within 30 days of the day the contract was concluded, unless otherwise specified in the contract. If the deadline is missed, the seller is required to complete delivery within a reasonable extension of time. Only if this second deadline is missed may the decision be made to cancel the order and pay damages (Setti, 2020). Given the incredibly long delivery timeframes just described above, dropshipping business owners should pay close attention to this restriction, especially if they choose to import goods through dropshippers outside the EU.

2.6 Civil and fiscal outlines for dropshipping

The chapter closes with a section devoted to an analysis of the civil and fiscal regulations in force in Italy concerning dropshipping. In this case, the legislation in effect does not explicitly refer to dropshipping, but to general forms of online commerce. However, what follows is obviously also valid in the particular case studied. First, the basic classification of e-commerce is exposed, after the relevant legislation will be presented, then the dropshipping phenomenon will be framed within it, followed by minimum information and obligations to which the merchant must adhere. The paragraph closes with some more specific considerations regarding e-commerce costs and payments. Given the enormous size of the subject matter introduced here, we have opted for an expository structure that will allow a dropshipping store to be quickly framed within the Italian civil and fiscal system, leaving it to the reader's sensibilities to delve into specific topics.

E-commerce differs depending on the method of delivery of the commodity or service being transacted, distinguishing between direct and indirect e-commerce, as was already seen at the outset of the research (*Paragraph 1.1*). To determine the appropriate legal, fiscal, and accounting treatment of transactions, the nature of e-commerce must be determined. Dropshipping is to be considered indirect e-commerce under Italian law and falls under the second classification. The order and presumably the payment are placed online, but the products are delivered physically to the buyer's address (Setti, 2020). In general, all tangible commodities with regular delivery methods fall under the umbrella of indirect electronic commerce (for example carriers) (Setti, 2020; Vietri and

Cappellotto, 2015). The merchant provides the product catalog, delivery details, and prices on the website. The buyer places the order electronically, yet traditional channels are used to deliver the physical items to their homes. Relevant rules on e-commerce are contained in both EU and Italian national legislation and specifically:

– Vienna Convention of 1980 (ratified by Italy with Law n. 765 of 1985): this convention concerns the international sale of movable goods

– Directive No. 2000/31/EC: European Directive on Electronic Commerce

– *D.lgs* n. 70/2003: implementation of Directive 2000/31/EC

– *D.lgs* n. 206/2005: the so-called Consumer Code

– *D.lgs* n. 82/2005: Digital Administration Code

– *D.lgs* n. 196/2003: Personal Data Protection Code, the so-called Privacy Code

Additionally, beginning of May 25, 2018, all EU member states must put into practice the new European Regulation No. 2016/679 (often known as the GDPR) on the protection of personal data (Setti, 2020). Understanding the EU matrix of rules of national law is crucial because it not only makes it possible to comprehend the underlying logic of the provisions it contains, but also because EU case law has long recognized that every European citizen has a right to proper transposition by the Member State and a corresponding protection of damages in the event that the Member State violates EU law. The aforementioned is thus equally applicable to dropshipping, particularly for a subject wanting to sell from Italy to other nations, both inside and outside the EU (Setti, 2020). Precise prerequisites must be met in order to engage in e-commerce activities (Setti, 2020):

– Moral requirement - Art. 71 of *D.lgs.* n. 59/2010 and subsequent amendments

– Professional requirement (only in the case of the sale of foodstuffs or the professional requirement (only in the case of the sale of foodstuffs or the serving of food and drinks) - Art. 71 of *D.lgs.* n. 59/2010 and subsequent amendments

The former refers to the absence of previous convictions of various kinds, which undermine the perceived morality of the individual who is therefore precluded from engaging in online activities. While the professional requirements are more of a technical nature and refer to the possession of skills and knowledge deemed necessary by the legislator to exercise the given type of activity. The procedure to be followed for

organizational as well as administrative/fiscal purposes is of utmost importance when one desires to move through with the launching of a dropshipping website. There are several administrative requirements to be fulfilled when starting the business (see *Table 1.6* for full requirements list).

The first step is to select the legal form that best suits your activity. After deciding on the legal structure for one's dropshipping business, one needs go through a number of administrative procedures to notify the tax authorities or other relevant authorities of the operation. To do this, you must submit the *Comunicazione Unica di Impresa* (also known as *ComUnica*), which also includes additional documents of a fiscal character, like the company start-up form saved for the *Agenzia delle Entrate* to open a VAT number (Setti, 2020). The civil law definition of commercial activity, as outlined by Art. 2195 of the Civil Code, encompasses the dropshipping activity carried out in the context of indirect e-commerce. This is the activity of business owners engaging in an intermediary role in the flow of goods, specifically in the case of dropshipping. Once one has chosen their legal structure (sole proprietorship, partnership, or corporation) based on their needs and structural requirements, they must proceed with the presentation of the *ComUnica* to complete the paperwork for the beginning, alteration, or termination of their business activity, whether they are operating as an individual or a corporation (Setti, 2020). *ComUnica* consists of the following documents:

– *ComUnica* Model (so called *C.U.I.*)
– Model for the Companies Register (so called *R.I.*)
– Form for the *Agenzia delle Entrate* (so-called A.E. - Form AA7 or AA9)
– Forms for *INPS*
– Forms for *INAIL*
– *SCIA* for *SUAP* (where applicable)
– Models for the Ministry of Labour

Please be aware that the model for the application for registration in the Companies' Register, the declaration for VAT/tax code purposes, and for registration in the Register of Craftsmen must all be submitted within 30 days of the start of the activity (see *Table 1.6*). In contrast, registration reports for *INAIL* must be submitted concurrently with the beginning of the activity; nevertheless, for *INPS*, if personnel are engaged, the deadline for submission is the 16th day of the following month. For special authorizations

required for the launch of certain activities under special laws, additional deadlines are specified (Setti, 2020).

The Italian law mandates that the website, in whatever form, thus dropshipping makes no exception, must have the following minimal information once the domain name has been obtained (recalling what is advised in *Paragraph 2.3*) (Setti, 2020):

- The VAT number must be stated (under Article 35(1) of Presidential Decree No. 633/1972) on the website's home page and in all contracts and correspondence, including emails that are created by or otherwise connected to the website.

- Additional details on joint stock companies are provided below (see also paragraph 7 of Article 2250 of the Civil Code): registered office, company registry office, registration number; capital actually paid up; the business's current stage of liquidation; and, if applicable, the firm's position as a sole shareholder.

As can be observed, one of the prerequisites for the practice of dropshipping is that the seller opens a VAT account. The country of destination of the goods must be taken into consideration while managing VAT for online sales. As an example, a dropshipping busi-

Table 2.4 Main administrative requirements for dropshipping stores

Requirement	Timing	Where
SCIA	At the start of the activity	SUAP
Entry in the Companies Register	Within 30 days	CCIAA
Opening of VAT account	Within 30 days	Office of the Agenzia delle Entrate
INPS registration	Within 30 days (with employees due on the 16th of the following month)	INPS Head Office
INAIL registration*	At the start of the activity	INAIL Head Office
Establishment of accounting records	At the start of the activity	

*NOTE: In the case of commercial enterprises only if employees are hired

Source: author's elaboration on Setti (2020).

-ness based in Italy will have to handle its VAT duties differently depending on the destination countries and the volume of its sales. Generally, in this scenario, the merchant is not required to send a bill to private customers with addresses in both Italy and the EU, unless the buyer makes a special request (Setti, 2020). If sales (even to private individuals) surpass specific thresholds established by the Member States or by the merchant at their discretion, it is a distinct problem in terms of VAT withholding and territoriality. In these situations, there is a requirement to open a fiscal representation, a direct VAT identification in the EU country, or to open a VAT permanent establishment for sales in EU countries above the protection criteria. It is possible to keep Italian VAT territoriality if sales are below the thresholds. For the majority of small to medium-sized dropshipping operations, these instances do not exist because the thresholds are frequently not met (Setti, 2020).

Without getting into the details of the costs associated with the setup and upkeep of a dropshipping business (already explained in *Paragraph 2.3*), we would like to take this opportunity to briefly examine their management from a statutory and fiscal point of view. The accounting for and recording in the financial statements of the costs expended for the realization of corporate Internet websites is not now specifically addressed in civil law rules or national accounting standards. Similar to this, there is no explicit provision in the tax code regarding the costs associated with building corporate websites being deductible. Consequently, one must confirm the objective of the business website in order to properly allocate these types of costs for accounting and tax purposes (Setti, 2020).

In the case of the solely B2C dropshipping store that we have looked at, the configuration of the website is one that is meant to advance the company's commercial endeavours. The applicable expenditures in this case should be viewed as delayed charges. Therefore, the implementation expenditures should be included in the balance sheet's assets under item BI3 - Industrial Patent and Intellectual Property Rights. For direct taxation purposes, however, Article 103(1) *TUIR* states that the amortization of the cost of use of such intellectual works is deductible up to a maximum of 50% of the cost itself (Setti, 2020).

The costs of maintaining and running the store must also be considered when planning a dropshipping activity, in addition to the expenditures of setting up the website. For the purposes of financial statements, these expenses must be expensed in accordance with

Italian legislation in the income statement of the year in which they are incurred (item B7 - Costs for services). While these costs are completely deductible throughout the financial year for direct taxes reasons. Such expenses are fully deductible for VAT purposes (or partially deductible, for example, if the company has a pro-rata deduction) (Setti, 2020).

It is vital to specify the form of payment permitted to the consumer at the time of purchase among the general clauses/conditions of the contract, as required by the Consumer Code. Every e-commerce merchant should consider the following four key factors when deciding on the preferred payment method:

– the ease of use of the payment system and security for the consumer
– the consumer-payment method relationship (for example the consumer's confidence in the payment method)
– the popularity of the payment system
– the total cost per transaction (for example the various commission charges incurred, both by the user and by the merchant)

The seller must provide a variety of payment options to prospective buyers in order for the dropshipping store to be more appealing to users. It should be noted that according to Article 62 of the Consumer Code on the subject of payment instruments, suppliers are not permitted to charge customers fees for using particular payment instruments or fees that go above and beyond those borne by the trader (this is typically the case with the cash on delivery payment method; see *Paragraph* 2.3) (Setti, 2020).

Chapter 3

Economic, social and environmental sustainability of Italian dropshipping

This third chapter, building on what has been established and analysed in the previous sections, aims at evaluating the short- and long-term sustainability of a dropshipping store in Italy. In continuity with the previously considered paradigm, the objective is to assess the economic, social, and environmental sustainability of a business according to the dimensions of the Triple Bottom Line, establishing congruent variables to help evaluation and providing feasible solutions. The structure of the chapter opens on an introductory section explaining the logics behind the sustainability assessment of a store. Then it articulates into three main paragraphs, one for each of the three aforementioned elements, which will be explored in depth considering the short- and long-term dropshipping scenario in the Italian online commerce sector. For each of the variables considered, solutions and considerations related to the particular context analysed are provided.

3.1 Definition of a sustainability evaluation methodology

The present research sets itself the task, not only of framing the dropshipping phenomenon in the panorama of e-commerce in the Italian market, but also of providing an assessment of its sustainability. As the numbers of the sector grow, so do the concerns about its sustainability (Casaleggio Associati, 2022; Siragusa *et al.*, 2020; Olah *et al.*, 2018; Aji and Sutikno, 2015). Joeri Groenewoud of Asendia, interviewed in the context of the Global 2021 Ecommerce Report by RetailX (2021) stated that the growing awareness of sustainability will have a major impact and will radically transform the way e-commerce operates. Despite the lesser attention given in the literature to the dropshipping phenomenon, it is also being impacted and can benefit from it. This assessment builds on the above and aims to evaluate the various founding characteristics of a dropshipping business according to the principles of the Triple

Bottom Line (abbreviated to TBL), also following on managerial interest for sustainable development, which gathered traction in both literature and practices. TBL is here assumed as a base for the assessment methodology evaluating financial, social, and environmental effects of a firm's policies and actions that determine its viability as a sustainable organization (Elkington, 1997).

TBL is an accounting framework with three parts: social, environmental (or ecological) and financial. Organizations do adopt the Triple Bottom Line framework to evaluate their performance in a broader perspective to create greater business value, not just limited to the mere economic dimension. This model therefore does not limit itself to a simple concept of environmental sustainability but expands it, encompassing all aspects impacted and impacting the life of a company. The TBL standard encloses a broader sustainability perspective, which can be described as a continued development or growth, without significant deterioration of the environment and depletion of natural resources on which human well-being depends. Sustainability is meeting the needs of the present without compromising the ability of future generations to fulfill their needs.

In making this kind of assessment, fundamental concepts of responsibility come into play. As with other aspects of corporate life, think for example of security management, it is also necessary to be able to assess the impacts of one's choices (or non-choices) and identify centres of responsibility in this regard (Jackson *et al.*, 2011; Goel, 2010). Sustainability addresses the concept of liability as much as accountability. The former is the responsibility for the consequences of one's acts or omissions, enforceable by civil remedy (damages) or criminal punishment. Whereas accountability is the obligation of an individual or organization to account for its activities, accept responsibility for them, and to disclose the results in a transparent manner.

In 2014, European Directive 2014/95/EU (also called the Non-Financial Reporting Directive or NFRD) made mandatory for European companies bigger than 500 people to draft a non-financial report issued annually, including facts and figures about social practices whitin the business. The report is mainly for internal communication and is not intended for the vast majority of consumers. We can imagine that in almost all the cases we have considered, this rule does not apply. However, it is nevertheless interesting to point out its existence, as a reminder of the direction taken by the legislator, who considered it his duty to make companies more responsible for sustainable development. For a dropshipping store as we have intended, it is very

unlikely that the 500-employee threshold will be reached, however, the drawing up of this type of balance sheet can still be carried out for one's own use. Most stores in Italy fall into the category of SMEs, the management of sustainability and the related managerial challenges are in this respect different from those of large companies, and this must be taken into account when assessing and choosing the consequent actions. Small and medium-sized enterprises (SMEs) are a foundational part of the Italian economy and have a significant impact on community dynamics, employment, and wealth creation (SDA Bocconi Sustainability Lab, 2021).

The importance of SMEs to the economy and society, as well as their substantial involvement in global and national value chains, make them even more crucial to the sustainability agenda. In fact, SMEs significantly improve the value chains in which they participate in terms of sustainability. According to SDA Bocconi Sustainability Lab (2021), SMEs must embrace the sustainability transition in order to gain and keep access to resources and economic possibilities in the following areas:

- – Stakeholders and partnerships
- – Certified supply chains and global markets
- – Dedicated funding for the sustainable transition
- – Sustainable finance and better financial conditions
- – Better competencies and talents

The following considerations will be made referring to the generic B2C dropshipping store used thus far as a reference. Specific observations and insights will be exposed whenever deemed appropriate, leaving then to the last chapter the in-depth assessment of sustainability, through extract from the interviews carried out consistently with the analysed environment. The rationale behind the analysis is (in line with CSR[30] principles) to assess the three areas of impact mentioned in the short and long term (Jackson *et al.*, 2011): establishing the current level of effectiveness, getting a picture of the strengths and weaknesses of the organization, and finally suggesting improvements, laying down standards for future performance. This type of impact assessment can have more or less broad perspectives depending, as already mentioned, on the time horizon considered, but also on the level at which the analysis is conducted (local, national,

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[30] Corporate Social Responsibility (CSR) is the deliberate inclusion of public interest into corporate decision making. A company's sense of responsibility towards the community and environment (both ecological and social) in which it operates

regional, sectoral, international) or the timing of the analysis itself (ex-ante, during, ex-post). Such evaluations must then be made in relation to the specific company and its context. From what has just been stated and as also reiterated by various authors (SDA Bocconi Sustainability Lab, 2021; Olah *et al.*, 2018; Jackson *et al.*, 2011) in their respective works, it is not possible to establish a single framework that is the same for all analysable realities.

As mentioned, a proper sustainability analysis cannot be limited to the environmental perspective alone. It must examine economic, environmental, and social impacts in equal measure, identifying synergies and trade-offs across domains (Olah *et al.*, 2018; Onyali, 2014; Goel, 2010). Positive or negative externalities may occur, and these must also be weighed up. This need to give equal attention to the three spheres and adequate attention to the longer-term is one of the main difficulties managers are faced with. Companies in order to develop properly should strike a balance between their behaviour and the three facets of e-commerce sustainability (Olah *et al.*, 2018). Other complexities include assigning monetary values to environmental and social assets for comparisons, exposing trade-offs in the three domains on an equivalent basis or reconciling conflicts between the different aims and external stakeholders (Jackson *et al.*, 2011).

Having understood the rationale, guidelines, and complexities to be addressed, we will now propose some valuable variables and useful tools for a sustainability analysis in dropshipping, for all of the three assessed dimensions (see *Figure 3.1*). These will also be later used as a base to address the proposed interviews. Economic performance for a dropshipping initiative includes factors that are typically included in a company's annual financial report as well as others like: market capitalization to book value ratio, expenditures on human resources and R&D, wages and benefits paid, and cost and location of outsourced goods and services (Goel, 2010). Economic factors should be those that affect the bottom line and the flow of funds. Management might consider issues related to earnings or spending, taxation, the economic environment, employment, and business diversity. Evaluated variables in detail include (*Figure 3.1*):

- – Start-up costs
- – Profit
- – Business stability
- – Financial resilience

– Long-term viability

– Return on Investment

– Growth

The amount of energy used and its source, resource and material utilization, emissions, effluents and waste management, land use, and habitat management are instead examples of environmental performance parameters (Onyali, 2014; Goel, 2010). Environmental factors ought to monitor natural resources and show how they could affect their viability. Organizations could better determine the effects a project or policy would have on the area if long-term trends were known for each of the environmental variables. One might be inclined to think that these variables relate more to manufacturing companies, but as we shall see, environmental variables are also central in the e-commerce sector, albeit without direct production processes involved. Environmental variables, together with those of a social nature, are the dimensions that most lend themselves to a broad analysis that is not limited to organisational boundaries. Variables evaluated include (*Figure 3.1*):

– Energy consumption reduction

– Clean energy procurement

– CO_2 compensation

– Efficient use of resources

– Waste reduction

– Recycling practices

Finally, the topic of social performance focuses on interactions between a community and an organization. It covers topics like customer satisfaction, employee relations, child labour, health and safety, wage to cost of living ratio, non-discrimination (Onyali, 2014; Goel, 2010), and education. The following examples are just a tiny sample of the social dimensions that might be considered by Italian entrepreneurs as social variables to evaluate for a dropshipping activity (*Figure 3.1*):

– Brand reputation

– Privacy

– Security and data protection

– Wages

- Workplace conditions
- Equal opportunities
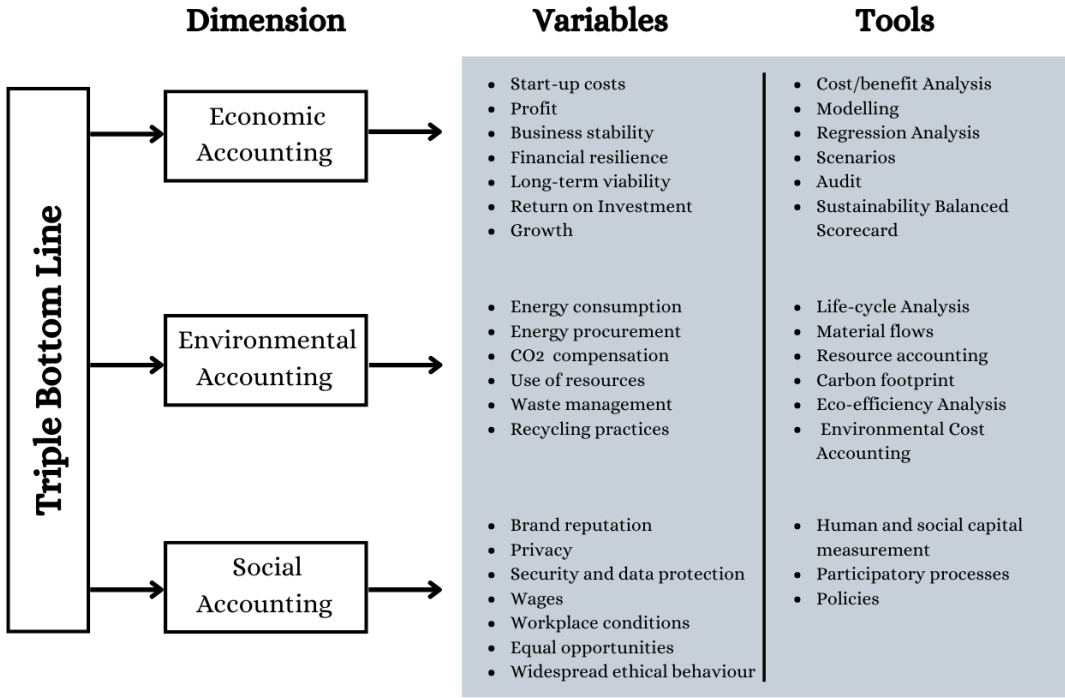- Widespread ethical behaviour

This kind of analysis tends to be qualitative in nature, as seen above, however, the aim is also to translate this kind of evaluation into effective quantitative reporting, which must be understandable and accessible to all the various stakeholders (Jackson et al., 2011). Any information intended to empower customers must be both thorough and easily available. This means that activities aimed at educating customers must take into account the possibility of overloading and compelled information streams that, in reality, provide no information at all (Ecommerce Europe, 2021).

As mentioned, there is no need for reporting in our case, but we can use the same guidelines to construct our examination. One of the simplest strategies to run a more sustainable business is transparency (Arora, 2019) . You may inspire both current and potential customers by implementing sustainable measures. A series of analyses, which can be carried out at various levels, for all guidelines investigated come to our aid in this regard. Examples of the main sustainability assessment tools may include (*Figure 3.1*):

- Economic: Cost/benefit Analysis, modelling, regressions, scenarios, audit, Sustainability Balanced Scorecard
- Environmental: Life-cycle Analysis, material flows, resource accounting, footprint, Eco-efficiency Analysis, Environmental Cost Accounting
- Social: human and social capital measurement, participatory processes, policies

After this general overview, it is worth noting that generally from the analysis of what are the focuses of SMEs, it emerges that there is a preponderant emphasis on economic and environmental structures of the companies sustainability measurements (Malesios *et al.*, 2020). There is a clear indication that companies of this size, as it may be mostly the case with Italian dropshipping stores, tends to neglect the third cornerstone of sustainability. This is partly explained by the fact that the number of employees is minimal. Hence, they will exert less pressure on the management, and at the same time the latter is less inclined to value their concerns in its judgement. The perception of social practices as capital-intensive is another factor. SMEs place a strong emphasis on their financial performance as they are not required to issue sustainability reports to re-

Figure 3.1 Main variables and assessment tools for a dropshipping TBL analysis

Dimension	Variables	Tools
Economic Accounting	• Start-up costs • Profit • Business stability • Financial resilience • Long-term viability • Return on Investment • Growth	• Cost/benefit Analysis • Modelling • Regression Analysis • Scenarios • Audit • Sustainability Balanced Scorecard
Environmental Accounting	• Energy consumption • Energy procurement • CO_2 compensation • Use of resources • Waste management • Recycling practices	• Life-cycle Analysis • Material flows • Resource accounting • Carbon footprint • Eco-efficiency Analysis • Environmental Cost Accounting
Social Accounting	• Brand reputation • Privacy • Security and data protection • Wages • Workplace conditions • Equal opportunities • Widespread ethical behaviour	• Human and social capital measurement • Participatory processes • Policies

(Dimensions derive from **Triple Bottom Line**)

Source: author's elaboration, references mentioned in the text.

-gulators (Malesios *et al.*, 2020). Overall, dropshipping with sustainability concerns may result in a short-term increase in operating costs, but a mid- to long-term decrease in operating costs and a long-term shift to innovation will follow. Innovation can take the form of new technology, goods, services, and procedures. In this perspective, an analysis is therefore very important to understand the criticalities and positivities of what is in place, allowing intervention at several levels, with varying timeframes and different commitments.

At the end of this introductory paragraph on sustainability analysis, we would like to point out that all the measures anticipated and subsequently investigated are indeed valid if properly implemented, without being exaggerated or falsely claimed, in the phenomenon known as greenwashing (Szabo and Webster, 2020). Greenwashing is the practice of deceiving customers about a company's environmental policies or the advantages of a product or service for the environment (Szabo and Webster, 2020). While the term was created with green issues in mind, such a behaviour is widespread and not limited to environmental practices. Greenwashing is also easily practised in dropshipping, and unfortunately, it is not always easy for consumers to realise this.

Companies must stop making false claims and misleading ads, particularly when it comes to "green" goods and services. By taking this measure, consumers' perceptions of danger and uncertainty about green products will be reduced (Aji and Sutikno, 2015). Dropshipping stores that have been "greenwashed" or that make unsubstantiated claims could be found at one end. Stores on the other end of the spectrum might make legitimate claims that are supported by particular data, like third-party certifications or company histories (Szabo and Webster, 2020). Consumers benefit from enhanced product information openness when shopping online (Ecommerce Europe, 2021). This is how sustainability policies should be implemented, adhering to a principle of transparency, bringing real value on the economic, environmental, and social levels. To conclude, it should be mentioned here how all the aforementioned elements can open up prospects for improvement beyond the dimension in which they are defined. Bring short and long-term benefits for the brand associated with the business in question. A dropshipping store operator as seen (*Paragraph 2.4*) can benefit enormously from branding practices, for a wide range of reasons. Decisions regarding economic, environmental, and social sustainability, due to the growing importance of the subject, can be an important boost to the image. Building a store on the principles of TBL can bring undoubted benefits for brand equity, even for Italian dropshipping realities.

3.2 Economic sustainability

Roberto Liscia, interviewed for the 2021 European E-commerce Report by Amsterdam University of Applied Sciences and Ecommerce Europe, stated sustainability is now a top value for Italian e-shoppers, and this is influencing their behaviours such as the selection of products and online retailers (Lone *et al.*, 2021). Dropshipping should be no less. The first dimension to be assessed in this regard is the economic one, partially covered in the previous chapters. It is obviously the dimension that a manger is most inclined to pay attention to (Malesios *et al.*, 2020), but the logic of TBL aims to disrupt the paradigm whereby the economic evaluation of a business is the only one that needs to be paid attention to. Retailers' main goals are to maximise their economic benefits and produce profits and income. This can be accomplished by making any necessary trade-offs that benefit society, the environment, and the economy overall (Olah *et al.*, 2018). For those running a dropshipping store, the challenge therefore lies in going beyond the classic

view, incorporating broader parameters and considerations (see *Figure 3.2*), and evaluating different criteria (Onyali, 2014). The variables proposed below will help to assess the economic dimension (winking at social and environmental considerations) both in the short and long term. Among the strengths of dropshipping as a model is undoubtedly that of low start-up costs (see *Paragraph 2.1.1*). Among the costs, we can distinguish between those of an administrative nature, for the start-up of the business (such as VAT registration) and structural costs, necessary to build the online architecture (software, domain, hosting, design, extensions, SSL certificates) (Setti, 2020). If one has an office as a location for his/her business, then rent and utility costs must also be factored in. On the other hand, due to the peculiarity of dropshipping, there are no costs associated with the purchase of stock and warehouse upkeep. Although complicated an overall assessment is necessary (SDA Bocconi Sustainability Lab, 2021), considering all variable aspects in this regard. There is no doubt that this type of activity is characterised by a lower start-up cost compared to traditional e-commerce, which makes undertaking this economic initiative much more sustainable even for those without large amounts of capital. Yet, because dropshipping still involves the cost of establishing software and hardware (typically a sunk cost) for example, which must still be taken into account in the early stage, it is not automatically guaranteed that it will generate a profit (Olah *et al.*, 2018).

Going into more detail, an assessment of the sustainability of a dropshipping store (as well as any other business), cannot disregard the cost-benefit analysis and the determination of the profit derived from the business. This is undoubtedly one of the most important measures to assess the health and viability of dropshipping businesses in both the short and long term. Costs and revenues from the products sold should certainly be considered. Evaluate margins, price/quality ratio and customer perception. Can selling the given product lead to consistent and lasting revenues? Is the business scalable to larger volumes? Is it a seasonal product or tied to specific anniversaries? How large is the market for this item? What could the average receipt be? How many orders will be needed per month/year? (Vazzoler, 2019) These are all questions that need to be asked beyond a simple numerical evaluation. Cost measures akin to the principles of TBL can also be incorporated in this sense, the manager must ask himself whether the costs of his products do not hide something else and bring negative externalities to the environment and the community. This should also be considered

when assessing the prices of our items. This type of analysis must also be undertaken at higher levels, evaluating the cost/revenue ratio for reverse logistics for example. Or the day-to-day management of the business itself: does it generate more than what it spends? If we find negative answers then the dropshipping business may not be sustainable or may not be sustainable as it is currently conceived.

The approach determined by the Triple Bottom Line leads, on the environmental side, to the pursuit of reduced consumption as we shall see. This in concert can also have an effect on economic management, for example reducing expenses related to energy, materials, and waste management (Onyali, 2014). Italian companies can save money over time by implementing a sustainable business plan that uses reusable packaging and energy-efficient supplies. Packaging made of plastic is not only bad for the environment but also highly expensive to recycle. Precisely reducing the material used and using sustainable and recyclable packaging and products are among the main initiatives taken by e-commerce in Italy (Casaleggio Associati, 2022).

Although it should not be the main driver towards the adoption of a sustainable policy, it is worth remembering that including this broad spectrum of concerns in dropshipping can also bring benefits in the short-term from a fiscal point of view, through allowances and exemptions. Adopting sustainability helps with various financial rewards in addition to complying with regulations. Governments at the state and local levels may provide a variety of financial rewards for engaging in eco-friendly activities. In the case of Italy, from 17 November 2022 it will be possible for companies to apply for incentives under the Green New Deal. Among others, support is foreseen for decarbonisation projects, reduction in the use of plastics and replacement with alternative materials or adaptation and mitigation of risks on the ground from climate change (MISE, 2022).

Regression analysis is another very useful technique in the study of economics. For determining the effects of the variations put into play, this analysis technique that estimates the connection between a dependent variable and one or more explanatory factors is highly helpful. In particular, in light of potential new variables that could be introduced and measured in accordance with the Triple Bottom Line, regression analysis makes it feasible to describe the relationship between the selected variables and anticipate economic values based on the model.

As already explained, all possible time horizons must be considered for an accurate study. Sustainability-related concerns in dropshipping might increase operating costs in

the near term, but they will decrease in the long run. From this point of view, if we look at the economic data, it is good to make assessments on the stability of the business and its long-term viability (SDA Bocconi Sustainability Lab, 2021). In this case, to evaluate a dropshipping store, one can resort to the use of scenarios in order to weigh up the long-term performance of the business, the impacts of one's choices and how they may play out in the future. Since this kind of analysis is not necessarily quantitative, it can also lend itself well to considerations of social and environmental initiatives undertaken by the merchant. In this perspective TBL helps reduce strategic and operational risks (Onyali, 2014). Sustainability can be viewed as a successful strategy for Italian dropshipping businesses to maintain their competitiveness and draw and keep more customers in online markets. Additionally, it will reduce resource utilization and expenses while improving operational performance, efficiency, and effectiveness (Olah *et al.*, 2018).

Especially in the case of a very generic or unbranded store, longer time horizon considerations are very important. For this kind of dropshipping store, competition is high. This type of evaluation can help to integrate a competitor/market analysis, to determine the number and behaviour of competitors. A rival might steal the product, images, videos or even (more or less explicitly) copy the entire online store. This type of opportunistic behaviour is not all that uncommon among those who try to exploit dropshipping on an extemporary basis to try to make quick financial returns. It is from this that the vendor must protect himself.

Another useful variable for evaluation is the growth rate. Considerations in this regard can be made in both the short and long term, making it useful to assess changes over several horizons. This tends to be an important variable in any business, but in the case of a dropshipping store, there are certain considerations to be made about it, which stem from the nature of dropshipping itself. Growth is undoubtedly a positive process for a business, but it comes with an increase in complexity that needs to be managed. If you do not have the skills or do not know how to adapt, you risk losing control of your business venture. This in dropshipping is more relevant in light of the fact that the entire production and logistical phase is outsourced to the chosen dropshipper. A manager may think that enlarging one's market or share is always the best choice (and with due consideration it is), but this needs to be evaluated in relation to the relationship with our supplier. Can production cope with increased demand? Will increasing volume lead to q-

Figure 3.2 Proposed tools/solution for dropshipping economic sustainability
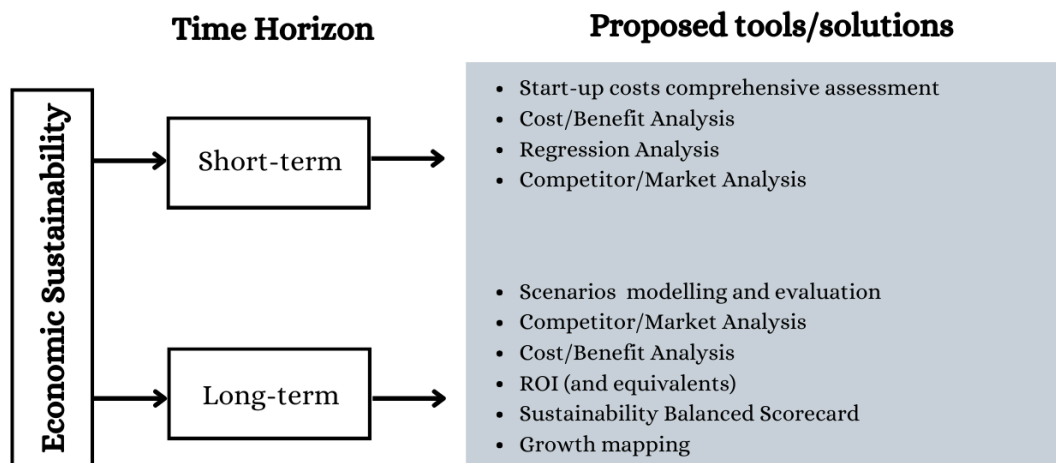
Source: author's elaboration, references mentioned in the text.

-uality losses? Is the cash flow sustainable? What about costs? Sudden overgrowth can lead to scaling complexities that are best to be assessed not to be caught unprepared. Mapping growth can therefore be as important as growth itself for a dropshipping activity. Incorporating such considerations is very important when evaluating the sustainability of a store.

Because of its adaptability and simplicity, Return on Investment (ROI) is a widely used metric. In essence, ROI[31] serves as a basic indicator of an investment's profitability. In the case of a sustainability assessment, ROI can be used as a tool to assess the cost-effectiveness of adopting a given measure. The ROI also lends itself to comparing different alternatives with each other, allowing managers of dropshipping stores to eliminate alternatives or select the best options in order to pursue sustainability. ROI can help to assess not only economic, but also environmental and social dimensions initiatives. Note that ROI does not account for time passing or the holding duration, which means it may not account for opportunity costs of using the money elsewhere.

What has been discussed so far can to a large extent be integrated to achieve a more detailed analysis of the dropshipping initiative by means of a Balanced Scorecard (BSC). BSC is a performance statistic used to pinpoint and enhance different internal business processes and the results they have on the outside. The four key business metrics that

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[31] Return on Investment (ROI) is obtained dividing an investment's net profit (or loss) by its initial cost or outlay. It is expressed as a percentage.

are measured by the balanced scorecard are learning and growth, business operations, clients, and finances (Poureisa *et al.*, 2013; Figge *et al.*, 2002). All related by a cause-effect relation. BSCs give dropshipping businesses the chance to merge data into a single report, provide information on service and quality in addition to financial performance, and aid in efficiency improvements (Poureisa *et al.*, 2013; Figge *et al.*, 2002).

The BSC presents itself as a broad-perspective analysis tool, perfect for evaluating a dropshipping store sustainability strategy in a comprehensive manner, over several time horizons and in accordance with the principles of the Triple Bottom Line. It is easy to see how this tool is suitable for the evaluation of all three considered areas (and is an excellent example of ESG[32]-linked tools suggested by Bocconi Sustainability Lab (2021)). The BSC's capacity to incorporate the three facets of sustainability, as expressed by Figge (*et al.*, 2002), opens up the possibility of incorporating the management of social and environmental factors into dropshipping management. Figge, Hahn, Schaltegger and Wagner (2002) in their joint paper, collected contribution from various authors and identified three ways to integrate environmental and social issues into the BSC:

- Social and environmental factors can be included in the four existing conventional perspectives
- It is possible to provide a different perspective that takes social and environmental factors into account
- It is possible to create a specialised environmental and/or social scorecard

In the first recommendation, lagging and leading indicators, targets, and measures are developed for each of the four viewpoints by integrating the relevant strategic core elements or performance drivers. They automatically integrate into its cause-and-effect relationships and form a crucial component of the traditional Scorecard (Figge *et al.*, 2002). Yet, the logic of the BSC remains mostly in the realm of economics across all four of its common views. For instance, the primary indicator, "market share," would have an environmentally conscious dimension for a dropshipping company targeting the environmental client sector. Additionally, the environmental component would be present in the leading signal "product features" (Figge *et al.*, 2002). In order to incorporate strategically important environmental and social factors from outside the

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[32] The environmental, social, and corporate governance (ESG) framework was created to be incorporated into a company's enterprise value strategy. When the corporate goal of creating shareholder value is broadened to encompass sustainability-related risks and opportunities, value is created.

market system that would not be reflected in the conventional four viewpoints, a second alternative may be to extend the basic BSC framework by adding an additional perspective (Figge *et al.*, 2002). This new focus should replicate the structure of the other areas, the cause-effect relationships and fit appropriately into the existing hierarchical structure (Figge *et al.*, 2002). The last option is to create a so-called Sustainability Balanced Scorecard (SBSC). The derived scorecard discussed in this section is based on an existing BSC system and is primarily used to coordinate, organize, and further differentiate the environmental and social aspects after the two approaches discussed above have determined their strategic relevance and position in the cause-and-effect chains. A derived environmental/social scorecard is not, therefore, a stand-alone replacement for integration (Figge *et al.*, 2002), but should be viewed by Italian entrepreneurs wishing to tackle sustainability concerns as a mean to help them in their task.

3.3 Environmental sustainability

The second dimension to be evaluated according to the TBL framework is the environmental one. Customers' concerns about purchasing green items are growing as they become more conscious of global warming. As a result, decreasing a company's carbon footprint can draw in a lot more clients even in dropshipping. Over time, this area is becoming increasingly central (Mangiaracina *et al.*, 2016; Trimi and Park, 2013), also in light of the ongoing climate crisis. The environmental sustainability of sales is proving to be important, and in Italy more than in other countries it has found an important sensitivity on customers' side. Eight out of ten companies among the ones surveyed by Casaleggio Associati (2022) state that they have ongoing activities with respect to sustainability goals. Thus, an assessment in this sense must be made for a dropshipping business too (see *Figure 3.3*).

Despite not having a direct production function, and completely outsourcing logistics management, these factors must be evaluated (possibly in concert with its stakeholders) to determine the environmental impact and work to reduce it, along the whole supply chain. At first glance, it might seem difficult to identify key aspects to tackle, but all activities performed online also have their own environmental impact. Often much higher than what is perceived. Energy procurement, shipping and packaging, supplier

production processes, or web hosting, are just some of the critical issues for a dropshipping store. For online trade, all the more so if we think of dropshipping in certain forms, the greatest impact stems from transport activities (Siragusa, et al., 2020). Some data on the environmental impact of dropshipping comes from the Life Cycle Analysis (LCA) model proposed by Patricia van Loon (*et al.*, 2015) in her paper. The study shows that an e-tailer that adopts dropshipping from a supplier through a parcel delivery network shows lower total CO_2 emissions than traditional e-commerce. The difference is not large, but nevertheless present. As expected it is fully attributable to the outsourcing of warehouse processes. In fact, there is a substantial decrease in emissions related to the fulfilment centre and the manufacturer's operations.

Other interesting insights for assessing the environmental impact of a dropshipping store come from the analysis by Mangiaracina (et al., 2016), later reused and expanded in the paper by Siragusa (et al., 2020). The proposed model quantifies CO_2 emissions at various stages of the online sales process. It should be noted that this model, unlike van Loon's one (Van Loon *et al.*, 2015), is based on traditional types of e-commerce, but the results obtained by the authors are still believed to be relevant for a comparison between various industries, and to help identify the most critical sales stages for intervention. We can indeed expect the reported values to deviate for a dropshipping business, but given the base of e-commerce structure, the most relevant phases will be identical.

Considering the fashion, consumer electronics and books industries, in all cases the transport and logistics phases ("Order picking and assembly" and "Delivery") were the most impactful in the entire sales process. Contrary to what one might expect, a margin for action in this regard is present. Italy ranks first in Europe in terms of percentage of e-shoppers willing to pay a price premium for more eco-friendly delivery (35% according to Postnord 2021 survey). A very interesting fact for Italian dropshippers. The "Pre-sale and sale" activities, on the other hand, which are mainly computer-led, typically have a negligible impact (always below 0.80%) (Siragusa *et al.*, 2020; Mangiaracina *et al.*, 2016). Differences can be noted in the post-sale phase, which produces high quantities of CO_2 in the case of the fashion industry (which by its nature is more plagued by returns and refunds), proving to be a very polluting component of a store's processes (Siragusa *et al.*, 2020; Mangiaracina *et al.*, 2016).

It must be noted that among the main adversities for Italian dropshipping stores in

evaluating and adopting sustainable behaviour can be the aversion of one's stakeholders, the dropshippers in our specific case. This barrier becomes all the more overwhelming the greater the bargaining power of the dropshipper against the company. Especially for small companies, it will be practically impossible to obtain data or agreements on green initiatives with their suppliers. Furthermore, in the case of non-domestic suppliers, the influence is practically non-existent, and in any case it would be very difficult, if not impossible, for a dropshipping company based in Italy to evaluate any commitments made by its foreign partners.

Another very interesting study is the one conducted by Weber, Koomey and Matthews (2009) for Microsoft and Intel. The study evaluates the primary energy consumption and the amount of CO2 produced for an online sale of a music CD. The study is particularly detail oriented and takes into account variables such as: delivery packaging, air and road transportation impact, warehouse energy, data centre energy, computer energy, CD and case production (Weber *et al.*, 2010). Again, the research is based on traditional e-commerce, but the comparison between shipment by road and air transport is deemed to be worth mentioning for driving useful insights. In the case of dropshipping, it is not uncommon for parcels from foreign suppliers to arrive by air (especially when distances are very long). The results of the study show that there is an imbalance of consumption towards the air solution. The impact of transport by air is greater both in terms of grams of CO_2 emitted and in terms of energy usage (Weber *et al.*, 2010). As suggested by SDA Bocconi Sustainability Lab (2021) in its paper with ESG-linked private procurement, this factor can be taken into account when choosing a dropshipper. A merchant might consider obtaining a slightly lower margin by opting for an Italian supplier or one that is based in a country closer to him, in order to reduce the impact of transport by not having the goods shipped to his customers by air.

In the same study by van Loon (*et al.*, 2015) mentioned before, the cart size emerged as another highly impacting factor. Indeed, this proved to be a decisive variable in contributing to the climate change potential also in dropshipping. The delivery of items that are not part of a bigger basket is less desirable than fulfilment methods that can mix many products into a single delivery, because larger orders are occasionally split into separate consignments to speed up delivery (Van Loon *et al.*, 2015). This brings us back to the already mentioned (see *Paragraphs 2.1* and *2.2*) phenomenon of order fragmentation, which predictably increases the environmental impact and CO_2

emissions of dropshipping. The data gathered in van Loon' study (Van Loon *et al.*, 2015) show that dropshipping is the least carbon intensive method for single-product orders, while its performance decreases as the cart size increases. Also note how the environmental impact per item fulfilled varies inversely with basket size regardless of the fulfilment method (Van Loon *et al.*, 2015).

As seen the biggest part of the environmental impact stems from the operations of the dropshippers we choose to rely on. In a broader perspective, we also have to take this into account when assessing sustainability. Another big issue to tackle is that of electricity consumption and its procurement. In dropshipping, there is a general and widespread lack of transparency on electricity consumption and greenhouse emission data by IT suppliers. The non-governmental environmental organization Greenpeace (2021) found that CO_2 emissions from China's internet industry are rising quickly. The situation does not improve in the short term, the amount of energy required by China's internet industry is anticipated to rise by two thirds between 2019 and 2023. In 2018, 73% of China's internet data centers were coal-powered. Just two Chinese IT firms reported using more than 3% renewable energy in 2020. (Greenpeace, 2021). The largest independent data center operator in China, GDS, and China's largest digital behemoth, Alibaba, have not yet made commitments to use only renewable energy or to be carbon neutral. This is extremely relevant as Alibaba Group owns AliExpress, the main supplier for many dropshipping businesses.

The outsourcing of logistics envisaged by dropshipping also requires the merchant to take this into account and analyse how it is handled by its partners, aiming for proper cooperation on the matter (SDA Bocconi Sustainability Lab, 2021; Vachon and Klassen, 2006). The carbon footprint can be used to assess emissions as a whole. This tool allows for a multi-level (product, service, company) analysis to assess CO_2 emissions, in order to evaluate the reduction and scope for action.

The entire production structure deserves a major mention. Generally, the choice of outsourcing for this kind of store is dictated by the desire to source low-priced products from other markets and resell them in a kind of arbitrage scheme. It tends to be the case that what is produced in low-cost producer countries hardly meets widespread labour and environmental standards. Very often it is this lack of rules and these forms of exploitation that dictate the lower price of dropshipped goods. Particular attention can be paid in this respect to the choice of environmentally aware partners (SDA Bocconi

Sustainability Lab, 2021), who employ sustainable processes and materials in full or at least in part. This can result in an increase in product costs, leading to an economic trade-off (due to reduced margins) and a social trade-off (if the increased costs are then passed on to the consumer), which as we have seen (*Paragraph 3.1*) is however one of the intrinsic difficulties of sustainability assessments and choices.

The long-term goal of implementing green manufacturing (SDA Bocconi Sustainability Lab, 2021) is to eliminate the production of harmful substances or provide provisions for the creation of goods that consume the fewest amount of materials possible (Trimi and Park, 2013). Green supply chain management has also been embraced through eco-design (by selecting products with low environmental impact throughout their whole life cycle) or green purchasing (by working with suppliers that offer eco-friendly materials and services) (Malesios et al., 2020; Trimi and Park, 2013).

In the continuous debate regarding sustainability in e-commerce, the problem of packing has been at the forefront (Ecommerce Europe, 2021). Especially in the case of overseas dropshippers, a big impact comes from plastic and polystyrene packaging, which contribute to the negative impacts of the dropshipping business on the environment. When adequate packaging is used, greenhouse gas emissions will decrease, which will help to slow global warming (Olah *et al.*, 2018). Avoiding unnecessary packaging is another way to go for Italian companies, useful to the store not only from the environmental but also from the financial point of view (Ecommerce Europe, 2021). When determining the best environmentally friendly way to package a product, measures to reduce packaging in retail must take into account numerous trade-offs (costs, brand, weight, protection, etc.), as well as the actual control that dropshipping businesses have over their dropshipper (Ecommerce Europe, 2021). The entire supply chain must work together to improve the sustainability of packaging, and packaging should be evaluated in terms of its overall net environmental impact (Ecommerce Europe, 2021).

A useful tool for assessing actions and impact from this perspective is life-cycle analysis, as also revealed by the studies already mentioned. Otherwise, a material flow analysis can help determine origin and use at the production level of materials, so as to bring supply and use to a more sustainable dimension. With this in mind new solutions to simplify access to these information are derived from digital tools (particularly those implemented directly in the e-store). Examples include "sustainability filters" and the

Figure 3.3 Proposed tools/solution for dropshipping environmental sustainability
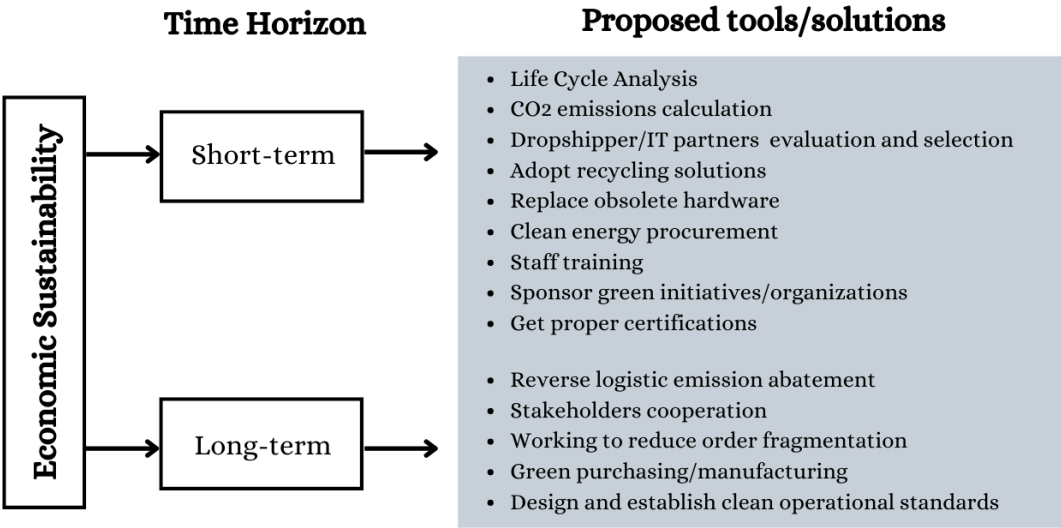
Source: author's elaboration, references mentioned in the text.

use of data to disseminate information about the lifecycle of the product throughout the whole dropshipping store (Ecommerce Europe, 2021). Consumers can benefit from having the correct information, at the right time, in a layered fashion, thanks to digital tools.

On his side, the seller has fewer direct burdens and factors to pay attention to. Since his business is conducted entirely online he may not even need an office if it is run individually. If, on the other hand, an office is necessary, some aspects to pay attention to are again, energy procurement (SDA Bocconi Sustainability Lab, 2021), use of electricity, and management of (little) waste. For SMEs waste management methods that emphasize reducing, recycling, and using less energy are prioritized among those that aim to reduce greenhouse gas emissions and pollutants (Malesios *et al.*, 2020; Trimi and Park, 2013). Resource and energy efficiency could be attained with reference to dropshipping by replacing obsolete hardware. It's possible to start by replacing the company's outdated technological equipment (Malesios *et al.*, 2020; Trimi and Park, 2013) and in return for this initial investment there will be a decrease in consumption and in concert with costs, impacting both the economic and environmental spheres of TBL.

Another solution, applicable in the short term, that a store can adopt in terms of energy impact is to choose an energy supplier that offers contracts with energy coming entirely from renewable sources (Trimi and Park, 2013). In Italy, several suppliers have

responded to this market need over time by proposing ad hoc contracts such as Enel, NeN or Sorgenia to name some. Other general workable recommendations include offering staff training on environmental issues (SDA Bocconi Sustainability Lab, 2021; Olah *et al.*, 2018) and establishing standard operating procedures for environmental and energy audits. It's also a good idea to have designated personnel in charge of the business' environmental management initiatives (Malesios *et al.*, 2020). All of these things support the development of an environmentally conscious culture within the dropshipping activity itself. In the short-term environmental actions aimed at informing policymakers, the general public, and customers about a dropshipping business's environmental performance could include disclosing environmental sustainability reports (through their website or pertinent channels), sponsoring public green initiatives or organizations, or asking customers for their opinions on sustainability ideas (Malesios *et al.*, 2020; Arora, 2019). There are several organisations active in this field in Italy as well, and they often also provide flexible solutions to companies to support their work.

Additionally, smaller businesses have not given accreditation the same attention as larger ones. This includes more conventional certifications like ISO[33] standards, as well as more specific certifications for sustainability. The high cost of certifications, which big businesses can more readily manage, is one factor in this (Malesios *et al.*, 2020), yet it remains a possible path to follow (Ecommerce Europe, 2021; Trimi and Park, 2013) even for suppliers evaluation (SDA Bocconi Sustainability Lab, 2021; Vachon and Klassen, 2006). In Italy, data from the *Istituto Superiore per la Protezione e la Ricerca Ambientale* show that the numbers of certifications in the country are steadily increasing (ISPRA, 2021). Among the certificates proposed and monitored are the EU Ecolabel mark (voluntary European Union eco-label, governed by Regulation (EC) No. 66/2010) or the UNI-EN-ISO 14001 certificate (indicator referring to company sites with an environmental management system that complies with the regulations). Data on registrations in the EMAS[34] register is also provided. The total number of registrations reached 2,067 as of 30 June 2021. The number of organisations on the EMAS register net of deletions and suspensions is 1,029. This figure confirms the sign of recovery

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[33] International Organization for Standardization (ISO) is a global association of national standards organizations. It develops standards and certifications to which companies can voluntarily adhere.

[34] Eco-Management and Audit Scheme (EMAS) is a scheme that can be joined voluntarily by companies and organisations, both public and private, based within or outside the European Community, that wish to commit themselves to assessing and improving their environmental performance.

compared to 2018, with a 6.6% growth in new EMAS certificates issued (ISPRA, 2021). Finally, it should be noted how all the proposed measures, given the increasing centrality of the issue of environmental sustainability (Mangiaracina *et al.*, 2016; Trimi and Park, 2013), contribute to enhancing the reputation of the brand. Customers need to be informed of the concerns of dropshipping. Inform your customers about the value of eco-friendly activities and the long-term effects of green e-commerce (Arora, 2019). This aspect, the importance of which has already been expressed (see *Paragraph 2.4*), also has cascading repercussions on TBL from a social point of view (which will be assessed in the next section). As already mentioned, the effects derived from actions (*Figure 3.3*) with a view to sustainability are often interconnected between the various areas, bringing benefits across the whole dropshipping business.

3.4 Social sustainability

The social component of sustainability is explored in this section. As mentioned earlier when reviewing the ideas of Malesios, De, Moursellas, Dey and Evangelinos (2020), this is undoubtedly of the three areas the most complex to assess and act upon for Italian dropshipping companies. Not least because of the difficulty often encountered in quantifying social welfare values. Nevertheless, it is just as important as the alters, and perhaps in some respects, even more important than economic and environmental variables in the dropshipping sector. We will also see here, as with environmental sustainability, how important stakeholder engagement and collaboration is (SDA Bocconi Sustainability Lab, 2021). Again, this aspect is exacerbated by the outsourcing dynamics typical of dropshipping.

The major objective of a dropshipping firm should be to satisfy the client by fostering a relationship of trust between the merchant and the buyer. This is important to the study because it generates social capital as a result of the consumer trust that results. When asked about success factors Roberto Liscia of Netcomm (Lone *et al.*, 2021) identifies precisely excellent experience for customers as a strength. This calls for not just providing top-notch goods and services but also having a top-notch relationship with customers (Lone *et al.*, 2021). Italian dropshipping businesses should invest their income in bettering themselves and developing value-enhancing procedures rather than keeping all of the profit. Once more, a trade-off is being made here: foregoing immediate

financial advantage for a long-term sustainable dropshipping venture. With customers in mind, there are various measures that can be implemented (see *Figure 3.4* for a c) with a view to sustainability, and equally various tools that the manager can use to pursue this goal.

The shift to a more socially sustainable e-commerce business depends on consumers (Ecommerce Europe, 2021). To contribute to this area of the Triple Bottom Line, all those measures related to backward distribution already mentioned in *Paragraph 2.5* are certainly useful. Free, simple, and fast returns contribute greatly to a pleasant user experience in the dropshipping store. Obviously, the implementation of such measures also has a number of impacts on the economic side, which has already explained will have to be duly evaluated. In general, providing logistical varied and flexible alternatives for both delivery and return/refund is certainly a good starting point. Also, adopting cutting-edge technology to guarantee that customers enjoy their online shopping experience and that retailer websites are reliable, which will promote customer loyalty rather than mistrust (Olah *et al.*, 2018).

A first socially relevant aspect that has become of high interest to customers is that of privacy and the handling of their data. As of 2018, the European regulations on the subject (as already introduced in *Paragraph 2.6*) establish that in Italy, as in any other member states, users will be protected according to the GDPR regulations (Setti, 2020). The recent European regulation (Regulation (EU) No. 2016/679) establishes various rights for citizens, and various rules on the subject that organisations must comply with. Even realities operating through dropshipping must comply with the regulations contained therein, so it is highly advisable to consult a privacy consultant. Many times, in fact, especially in small and medium-sized realities, it happens that something is overlooked, even (and especially) if one relies on external partners for the management of information technology. It is necessary to present the terms and conditions of service, the privacy policy and to have a clearly visible cookie policy. Rules that are legally necessary for Italian companies, but at the same time help to create a greater sense of security in the customer who decides to turn to us.

It has also been extensively advocated to give back to the community (*Figure 3.4*) where one lives and works (for instance, by supporting charitable organisations, philanthropic endeavours, and social issues) (Malesios *et al.*, 2020). Getting health and safety certificates is another way to promote social sustainability (Malesios et al., 2020). The
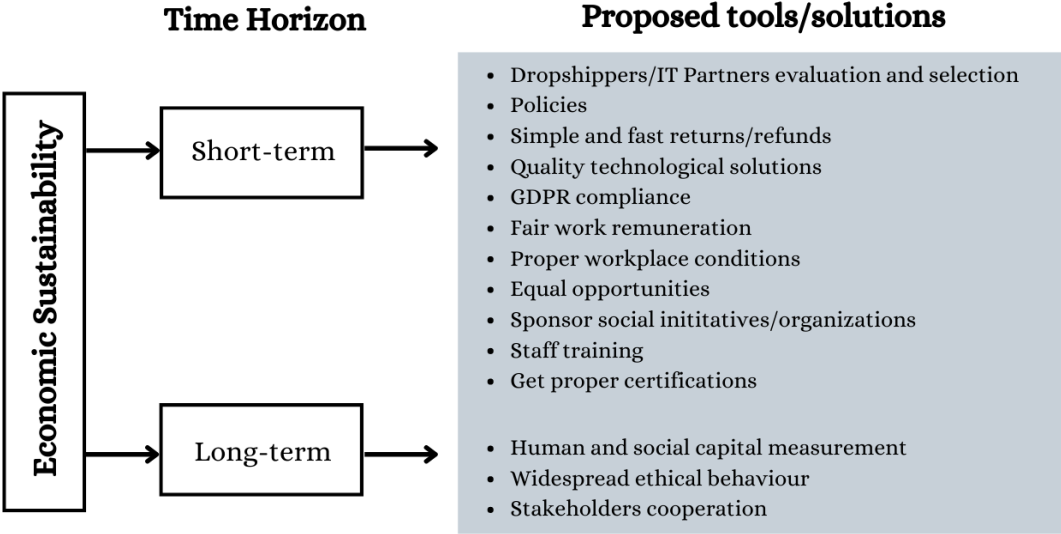
idea already seen for the environmental dimension in the previous section (*Paragraph 3.3*) returns here in a social perspective. There are certifications of various kinds, but here again the problem already encountered of their elevated cost, which tends to cut out small and medium-sized stores. One could decide to operate under the guidelines of such standards anyway and only obtain certification at a later stage, with a longer-term horizon.

The return from such policies can be measured both quantitatively, with an eye to economic objective measures such as the growth in profit, market share, turnover and return on investment (ROE) (Malesios *et al.*, 2020). Or resort to more objective measures as mentioned above, such as evaluations concerning the company's image to customers and general public (Malesios et al., 2020) or assessing how we are perceived by our very own employees (if relevant). All evaluations that fall under the concept of ESG tools and evaluations also proposed by the Bocconi Sustainability Lab (2021).

Looking inside a dropshipping company, surely one aspect strongly impacted by social sustainability is the lives of its employees. Extremely small companies may be operating under the complete control of the merchant, but as the company grows in size, the employment of workers is indispensable. Hence, the protection of their welfare becomes a central issue for the internal social strategy of the store organisation. If we think about the type of activity dropshipping is, a large part of the typical tasks of an employee will take place in front of a computer screen. So it is precisely in this direction that a number of managerial decisions can be substantiated. In the short term, a trivial as well as useful action can be the provision of hardware for carrying out the task (with an eye on consumption as explained in *Paragraph 3.3*). Implementation and standardization of health and safety policies and practices, the provision for the well-being and proper working conditions of the employees (Malesios *et al.*, 2020) and providing proper training to employees are also good examples of social sustainability initiatives (SDA Bocconi Sustainability Lab, 2021; Malesios *et al.*, 2020).

The time horizons here are to be assessed according to the importance of the proposed measures (*Figure 3.4*) and the possible complexities in their management. Other solutions, again of a generic nature, may include contributions for means of transportation (if employees are expected to be in the office) (SDA Bocconi Sustainability Lab, 2021), the establishment of spaces for employees to relax during breaks, or agreements with restaurants or bars (e.g., those close to one's own premises).

Figure 3.4 Proposed tools/solution for dropshipping social sustainability

Time Horizon

Proposed tools/solutions

Economic Sustainability

Short-term
- Dropshippers/IT Partners evaluation and selection
- Policies
- Simple and fast returns/refunds
- Quality technological solutions
- GDPR compliance
- Fair work remuneration
- Proper workplace conditions
- Equal opportunities
- Sponsor social inititatives/organizations
- Staff training
- Get proper certifications

Long-term
- Human and social capital measurement
- Widespread ethical behaviour
- Stakeholders cooperation

Source: author's elaboration, references mentioned in the text.

In the context created by the Covid-19 pandemic (for more information and data about this topic see *Paragraph 1.2.1*), smart working has become increasingly relevant. Well-being practices can in this respect involve more hours from home or provide ergonomic supports for correct posture even at home. Most of the actions just mentioned (*Figure 3.4*) are suitable both for small dropshipping companies, but also for their bigger partners. Good labour relations, moral conduct, flexible work schedules, a diverse workforce, and the availability of employee perks are a few other examples (SDA Bocconi Sustainability Lab, 2021; Malesios *et al*., 2020).

As already explained for the environmental dimension (see *Paragraph 3.3*), it is very complicated and costly to enforce and monitor the implementation of such practices at one's dropshippers. Simpler and more feasible even in the short term is instead an assessment of present or future stakeholders, being able to incorporate social dynamics in the choice of a supplier more in line with one's sustainable aspirations (SDA Bocconi Sustainability Lab, 2021). When we look at the practice of dropshipping, it is often common to source from suppliers in countries that employ cheap labour. Often the way costs are kept low stems from the lack of any protection or interest in the welfare of their employees. In a broader perspective, this is extremely relevant for achieving a state of sustainability also in this area of TBL.

Certainly, social factors can and should therefore be an indicator to be evaluated when

choosing suppliers, along with everything else already expressed. One can therefore choose to orient towards partners that adopt correct policies (SDA Bocconi Sustainability Lab, 2021), guaranteeing welfare and fair remuneration for their workers. Looking back at the internal perspective, payroll is certainly a further point of action with regard to the social comfort of its direct employees.

Before closing this chapter, one last quick mention is made of all those illicit and exploitative forms of dropshipping. Taking the aforementioned as an example of malpractice and mismanagement sustainability. Borderline realities, resembling a commercial arbitrage, make the practice of dropshipping unsustainable. These forms of trade aim for a quick and lavish return, sacrificing any form of interest in safeguarding the needs of future generations. A sustainable development perspective for Italian dropshipping ventures as seen is theoretically possible, it is of course up to the sensitivity of individuals to decide how much and how to pursue it.

Chapter 4

Italian dropshipping: the cases of Fifty and Bottega Sicana

This fourth and final chapter will present two interviews, which made it possible to relate what was investigated concerning dropshipping in Italy to actual business realities in the country. The case studies are based on interviews conducted with representatives of the individual companies analysed. The individuals were subjected to a semi-structured interview, allowing them to elaborate on the questions of the research. While at the same time leaving time to develop topics that arose spontaneously in the course of the interviews, in the manner and under the circumstances deemed most appropriate for the purposes of the research. The interviews of *Fifty S.r.l.* and *Bottega Sicana* are equally structured, as far as possible in terms of the answers obtained and the discussion which developed. The respective paragraphs open with an introductory overview and a company profile. This is followed by an account of the interview conducted for each of them, spaced out with the author's considerations in relation to what was seen in the previous chapters.

4.1 The case of Fifty S.r.l.

Francesco Gatti Badoer, owner of Fifty S.r.l., entered the e-commerce sector after years of experience as a buyer and purchasing manager. He worked mainly in the fashion and clothing industry, employed by companies such as *Gruppo PAM S.p.A*, *Idea Holding* and *Gruppo Poli S.p.A.* This experience will help him in his own dropshipping venture. In 2009 he founded Fifty S.r.l. a pure e-commerce company, located in Mestre, right outside Venice. It started out as a B2C store operating exclusively in dropshipping, working with suppliers that Mr. Badoer brought with him from his previous profession. The entrepreneur proceeded to contact them one by one in order to set up his idea: being able to work without a warehouse. As seen, this is one of the fundamental advantages of dropshipping, from an economic, financial and space point of view Mr. Badoer saw the

advantage of not having its own warehouse. An anachronistic idea at the time in Italy, which initially led to him being taken for a fool Remember that the context in which he moved was completely different from the present one. Light years behind today if we think about the evolution of e-commerce. Certainly, his previous work experience helped him a lot, not only in finding partners to work with initially, but also in the skills on product selection, acquired in his experience as a buyer. Definitely the interviewee did not have great difficulties in this assessment, compared to someone starting from scratch. This may seem a minor detail, but we have also seen in the previous chapter (*Paragraph 3.2*) how very often one of the skills required of dropshipping store managers is precisely the ability to carefully evaluate what they decide to offer for sale.

Initially, the company was born as a container of various sites, wanting to try to be present with as many businesses as possible in the Italian e-commerce scene. The company started with a single generalist site (today evolved into lacasa.it), and as the business developed it branched into specialised e-shops in various sectors. A peculiar path, far from evaluations and best practices emerged through the research (see *Paragraph 2.1* and *2.2*). This frantic change of industry and the success achieved regardless of these choices can perhaps be explained in light of the different scenario in which Mr. Badoer started his enterprise. Different times that undoubtedly allowed for more experimentation, given the smaller number of competitors in Italy, in the years in which Fifty was born. Then a choice due in time, necessary to adapt to the displacement produced by Amazon's outburst also on Italian soil.

Overtime Fifty has also worked for external clients *Roncato Valigeria* and *Compagnia del Viaggio Valigeria*, opening and managing dropshipping website for the aforementioned companies, and still continues to provide dropshipping services to third parties. Nowadays 80% of the turnover is concentrated in the pet industry. This seemingly syncopated change of various businesses over 13 years is actually explained by the entry and proliferation of Amazon as a player, making it effectively impossible to compete with a generalist site. In light of this evolution of the Italian e-commerce landscape, Fifty had to reinvent itself over time and Mr. Badoer succeeded very well. He has now found his niche in the high-end pet industry. Through its MyPetInfinity brand (on mypetinfinity.it), Fifty S.r.l. distributes products in various categories for pets such as clothing, accessories, food, or toys, exporting them to 14 EU and non-EU countries. Among the brands handled are Buddy Pet Food, Milk&Pepper, *Nina Venezia* (Fifty's

cosmetics and beauty brand dedicated to the pet sector), Eye Envy, Play, Dog Diggin, Anju and *Dolci Impronte*. *Dolci Impronte* is another entrepreneurial project of Badoer, who produces handmade *patisserie* for dogs in his workshop in the province of *Modena*. One step further the private labelling envisaged in *Paragraph 2.4*. With its *Dolci Impronte* and *Nina Venezia* brands, Fifty S.r.l has found a way to meet the needs of its customers while generating new margins for the long-term economic sustainability of the business. Owning its own brands allows production control that is completely absent in dropshipping, creates new challenges (omitted here so as not to divert from the discussion) and new possibilities to expand its customer base and awareness.

Today, Fifty has evolved, and as a small company it has had to adapt to new market logics over time. Operating also outside Italy, in order to keep up with the new market logics, a part of the stock is now managed internally, while a part remains in dropshipping (around 65% of the company's volumes). An evolution from pure to partial dropshipping, setting up an actual warehouse. This change in the company's business model provides a negative answer to what may be doubts about the long-term viability of dropshipping. If anything, the choice to create one's own brands, mentioned above, is also a sign of the long-term difficulty that companies may face in dropshipping alone. From the interview, Mr. Badoer makes it clear that this decision was indispensable in order to achieve a more considerable volume of business (Fifty has an annual turnover of around half a million euros).

This change inevitably brought about a change in Fifty's structure and operations too. When an order is received, the company takes care of the waybills internally. Once it has received information on the size and weight of the parcel from the dropshipper, choose the most suitable courier offering the lowest price according to the destination of the goods from among the three couriers it works with (Bartolini, DHL and FedEx). It then proceeds to forward the documents to the supplier, who then proceeds with the shipment. This method partially simplifies relations with the supplier, simplifies cash flow and reduces loss of control. Fifty's choice not to completely outsource order management allows it to maintain greater control over this part of the value chain, which also (highlighted in the research in *Paragraph 2.5*) would have caused major complications.

In the case of mixed orders (for products coming from different warehouses), management becomes more complicated, and Fifty opts for grouping of the orders of

Figure 4.1 Web pages of lacasa.it, mypetinfinity.it and dolcimpronte.it
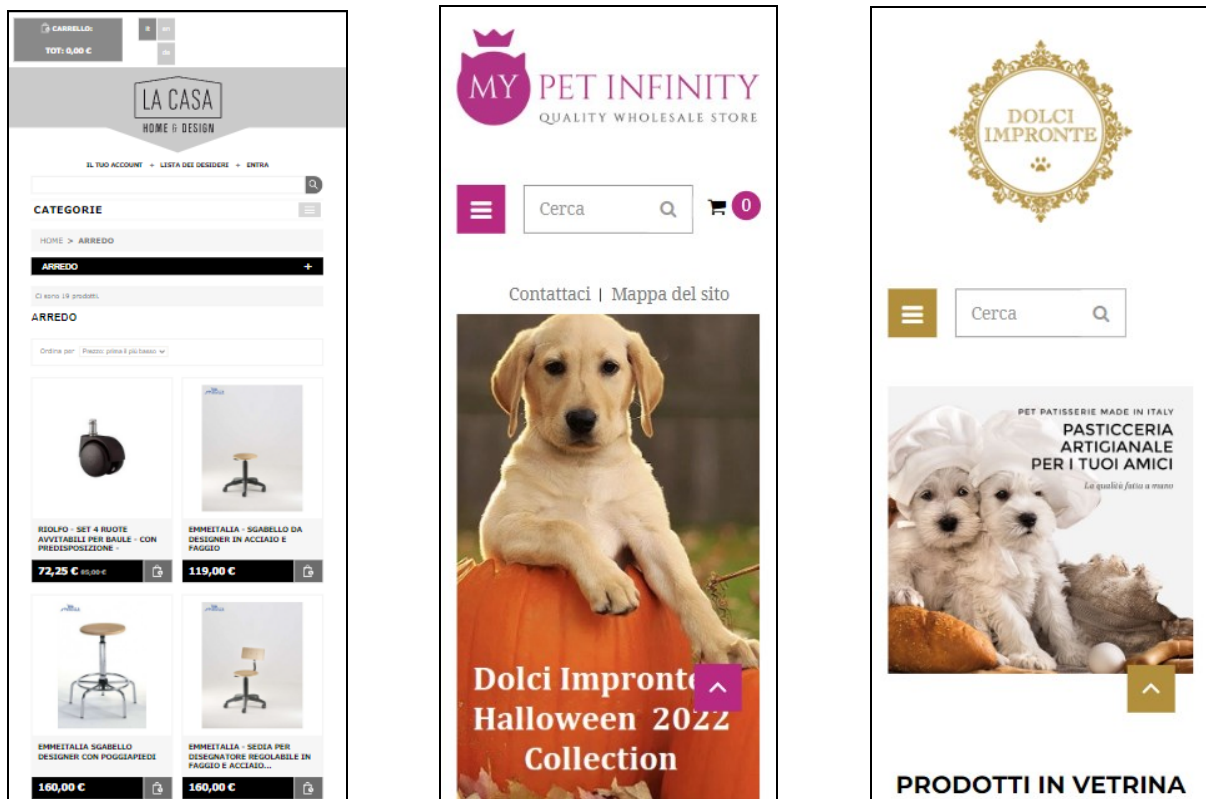
Source: lacasa.it, mypetinfinity.it and dolcimpronte.it

individual customers, and then sends the packages weekly to its dropshippers. These will complete the single packages by adding the missing dropshipped goods and then proceed with the shipment as seen before. Grouping brings considerable savings on transport costs. In addition to monetary savings that are useful in view of operations and economic viability in the short term, the decision to bundle orders also brings undoubted improvements from an environmental point of view, helping to reduce the emissions generated when transporting items. In explaining the logistical functioning of Fifty's business, the interviewee explains how this would be unthinkable if he had to turn to foreign suppliers. In his view, the time, complexity, and reduced profits would not make the company sustainable and profitable. To turn to foreign suppliers for shipping is unthinkable for him.

On his choice of dropshipping, the owner of Fifty S.r.l. clearly explains how the idea of being able to free himself of the burden of warehouse management was one of the essential points in the decision for him. When he started many suppliers in Italy were not ready for this kind of approach, he had to educate them, and the company's expertise grew with them. Improvising with those who do not know how to move can be catastop-

-hic. Training not an end in itself then. This has benefited the short-term sustainability of Mr. Badoer's company economically, but in the medium and long-term the dropshippers and collaborators have also enjoyed an increase in social and financial well-being as Fifty's dropshipping business prospered. A supplier can produce at the time of the order or already have stock of the required products in his warehouse, then prepare the goods and ship them. Over time, many dropshippers have begun to charge the merchant. No longer complete outsourcing of the cost, therefore, but picking and handling charges can be applied, reducing the final margins. Even the cardboard itself used for packaging can be charged to the vendor.

When approaching a supplier Fifty establishes a whole series of contractual parameters in its own and the supplier's interests, trying to combine the needs of both. The interviewee explains how in practice; however, it is then difficult to check that the conditions are met when dealing with suppliers from various parts of Italy. The control is carried out by Fifty at the end of the product journey, monitoring the reactions of its customers after the purchase, assessing the quality of packaging and goods they receive. Fifty bases its choice of dropshippers primarily on customer requirements, trying over the years to orient itself where its customers wanted it. Obviously, other factors such as quality, cost, speed (which Mr. Badoer considers essential) are also evaluated. In this he remembers how it is the seller who loses his face if something goes wrong. After an analysis of these criteria, a visit to the company itself is also carried out. Great control is carried out above all on the shipping part, (e.g. packaging, shipping costs), where the bulk of the costs impact, and where the supplier must be accurately addressed. Over time order history prove to be crucial as part of this evaluation. For example, fifty is currently working with one of its suppliers, considering reducing the volume of boxes used for shipping. An evaluation of the order history showed that by simply lowering the boxes by 3 cm (from the standard version now in use, to a customised one) saves on the box itself and on shipping costs, with no impact on the end customer.

When questioned on the topic of sustainability, Mr. Badoer brought interesting insights and evidence of Fifty's approach in this regard. For the entrepreneur, the evolution of e-commerce and its ever-widening adoption has had a very important impact on environmental sustainability. Previously, carriers transported goods in one truck to several shops, whereas the increase in volume over the last 10 years has increased the number of packages and at the same time the number of vehicles in circulation. With

volume comes increased space requirements and consequently increased costs (monetary and energy) for all the value chain. Another aspect that the interviewee raises concerns packaging. He gives the example with one of his own products, dog biscuits from MyPetInfinity. Fifty receives the biscuits in boxes of 24 packs from the manufacturer and therefore has to unpack and repackage them when the customer places the order. This can mean that he potentially has to handle 24 packs in turn. Consuming 24 cartons for packaging and needing 24 separate shipments to deliver them all. Often, as anticipated, existing relationships do not give a say in packaging.

He goes on to explain how all this has a big impact in terms of consumption of paper, tapes, electricity, people. In this sense, he looks positively at some of Amazon's decisions (to adopt electric vehicles for example), without, however, concealing what remains a huge problem. Considerations regarding packaging overwhelmingly impact the sphere of environmental (and to a lesser extent financial) sustainability of dropshipping. The arguments set forth by Mr. Badoer are broadly agreeable, and highlight how sometimes SMEs in Italy, while aware of the problems, put them on the back burner because of the excessive costs of some solutions, in order to prioritize their margins. Almost all packaging is also available in recyclable versions, but the prices are absolutely prohibitive for small businesses like Fifty. In addition, some of them are impractical and "invasive" from customers point of view (e.g., chips, paper), leading to filling the dumpster with garbage and causing frustration in the consumer.

Another point raised concerns the increase in deliveries when the customer is not at home and is therefore unable to receive the parcel. This has major logistical costs and causes delays and frustration for all parties involved. Another problem he mentions is that already analysed of order fragmentation, the owner of Fifty also highlights the complexities this brings from a management point of view for the vendor, but also from an environmental point of view. Order fragmentation is exacerbated when the distances between suppliers are considerable. Reasoning in this regard, partially captures and expands on what emerged from the research (*Paragraph 2.5)*. Fifty's owner produces an Excellent example of how these factors can affect both customer satisfaction, but also the business operation itself.

During the years, Fifty has been committed to recycling packaging cartons, even producing a special ribbon that signalled to the customer that the packaging itself was recycled, and therefore deliberately ugly and badly cut (the company currently

continues to recycle as much as possible). At the same time, he urges customers not to print invoices or order deliveries, to avoid unnecessary paper consumption when not needed. It also continues to cut packaging where possible to fit the size of the product, reducing costs and use of resources, at the cost of more time needed to pack the goods. All these initiatives have been widely appreciated by both B2B and B2C customers.

Mr. Badoer ends his reflection with a note of slight bitterness, stating that over time he has realised that dropshipping is not sustainable in the long run on many levels, hoping that over time it will turn towards other paths, which he admits he cannot imagine at the moment. A very difficult paradigm shift from his point of view, given the comfort and habit in which we have sunk.

Overall, the discussion proved stimulating and full of insights for the study being carried out. From all the considerations and explanations that emerged in the chat with the owner of Fifty S.r.l., it is clear how over the years the company has, in its own small way, tried to pursue sustainability practices within the limits of its ambitions and capabilities. It can be said that even if not perfectly virtuous, the effort expended is there and it is not minimal. The interview and subsequent analysis revealed how many initiatives or tools useful for business sustainability are employed even unconsciously. Although in the area of sustainability Fifty is not solidly structured it is an excellent example of an Italian dropshipping business that has been thriving for several years now. Badoer's company with its adaptations and evolutions has carved a space for itself in its niche, securing the trust of its customers, both B2B and B2C.

4.2 The case of Bottega Sicana

Bottega Sicana is an Italian e-commerce company that sells typical regional products from Sicily across Italy and Europe on their store at bottegasicana.com. The company runs its business entirely through the dropshipping model, relying on selected local suppliers to sell their products online. A model as unique as it is successful, born 6 years ago from an idea of Fabio La Cognata and his brother Vincenzo, who together developed this family project. *Bottega Sicana* is a family-owned business, in which various members of the La Cognata family are involved at various management and operational levels. The idea for the project came after the death of their father. To remember him and pay homage to his legacy, the whole family got together, and keeping faith with their

origins (his father had a business in the food sector) gave life to this dropshipping business. Combining a series of transversal knowledge, has allowed them to put together a functional team, enabling them to manage almost everything internally and generate value for the market in a completely unique way. Mr. Fabio, in addition to being owner and e-commerce manager at Bottega Sicana, also does consulting and training for *ScuolaEcommerce*, through which he has also worked as a lecturer for *Corriere della Sera*.

Bottega Sicana as mentioned sells in dropshipping and works with small businesses (many of which family owned as they are) and local realities in Sicily, from which it procures. Many of these have a limited and seasonal production. The types of products covered are numerous. On the savoury side, the range includes cured meats, cheeses, preserves, olives, pasta, and flours. Among the desserts: cannoli, chocolate, biscuits, nougats, jams, and creams. Bottega Sicana also sells drinks including wines, soft drinks, and beers. Mr. Fabio explains how Bottega Sicana's sales are very much influenced by seasonality. The company is at its peak between the months of November and March, handling large volumes around the holidays (Christmas and Easter above all). As mentioned the company sells its products in Italy (its main market), but also in some European countries such as France, Germany, and Belgium. Sales to the United Kingdom were interrupted after Brexit, and the company is working to re-establish the service in that market as well. In this regard, Mr. Fabio outlines the company's desire to move towards greater internationalization, a path of growth that he says is still too little pursued by the firm.

Living in different parts of Italy, and in some cases also running other businesses, the members of the Bottega Sicana team work entirely online. Fabio explains how they do almost all their work remotely, seeing each other a few times during the year, on holidays and vacations, and taking advantage of these situations for face-to-face meetings. With regard to operability, both brothers are involved in assessing and intercepting product demands from the market. It is then Vincenzo La Cognata (who acts as commercial manager as well as owner) who search the territory for producers who meet his needs and target, but at the same time fall within the company's own philosophy of quality, typicality and tradition (a kind of evaluation that certainly falls under social selection criteria, as mentioned in *Paragraph 3.4*). Having acquired a new producer to collaborate with, his products are catalogued and loaded into the shop's cat-

Figure 4.1 Web pages of bottegasicana.com
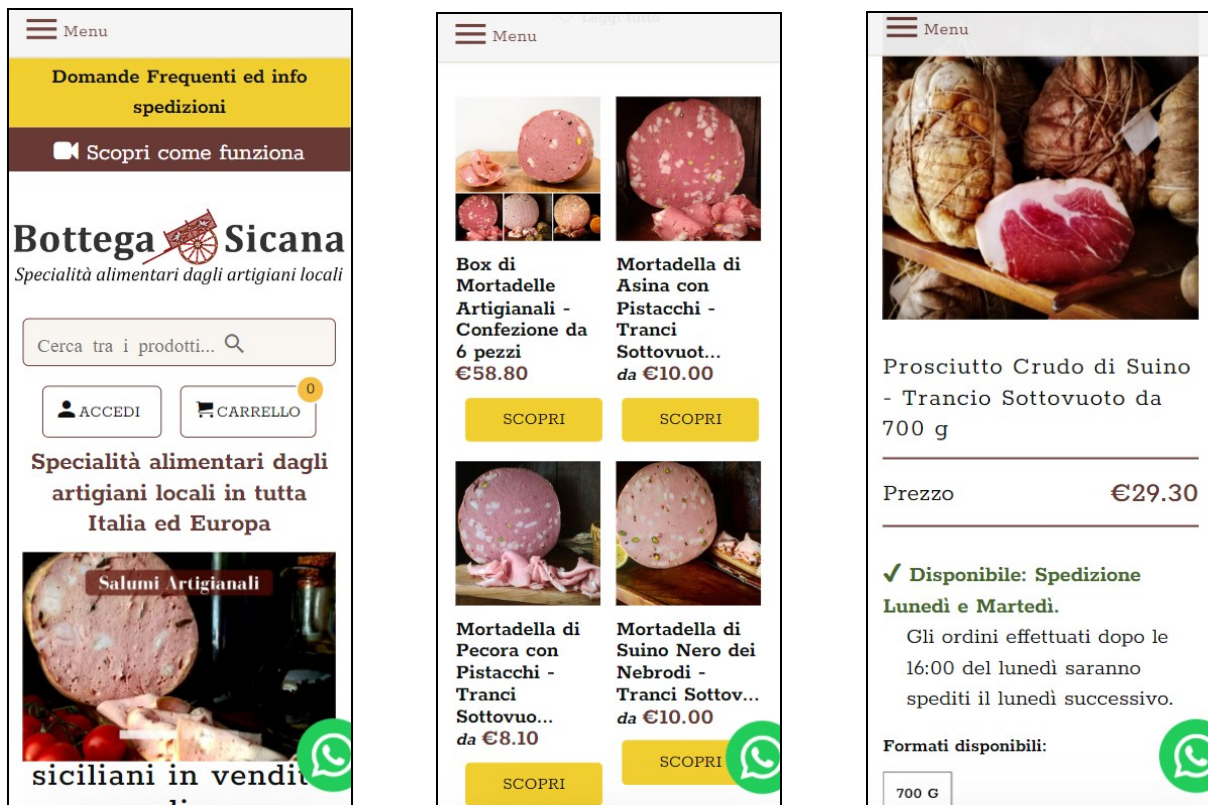
Source: bottegasicana.com

-alogue. Bottega Sicana then takes care of everything that comes next. The company's primary responsibilities are managing marketing initiatives and advertising campaigns. These are mainly conducted through three channels: Facebook Ads, Google Ads and e-mail marketing. The interviewee explains how much of the traffic currently comes from the latter two sources. Facebook numbers have dropped drastically, but thanks to the collection of e-mails carried out directly by Bottega Sicana, the company has a large database for its promotional initiatives. The channels used by the company are among the most common for an online shop (identified in more detail in *Paragraph 2.4*). In particular, Facebook is in second place in Blogmeter's chart of the most used social networks in Italy. Moreover, it is the first choice of respondents to gather stimuli and ideas for purchases (Blogmeter, 2021). Despite the lowering traffic, the in-house Facebook Ads platform, it is certainly a great way for Bottega Sicana to target its customer base (mostly over 40s), which falls into the main bracket of the social network users.

Bottega Sicana also takes care of shipping. Once the orders are received, they are forwarded to the corresponding suppliers on a daily basis, and these respond with the

package details (weight, volume, etc.) on the same day. The team then proceeds to prepare the waybills, forwarding them to the carriers, who pick up the goods the following day. Bottega Sicana currently works with different couriers, mainly *PosteItaliane*, DHL and GLS. While it handles bulkier shipments thanks to a contract with *Passalacuqa & C. S.r.l.* (a smaller Italian shipping company). Depending on the destination of the items, they select the carrier with the best pricing. However, Fabio La Cognata explains this is not a fixed choice, but they try to vary in order to obtain the best conditions following market adjustments. This approach, which Fifty S.r.l. also uses as seen in the previous paragraph, helps to partially streamline cash flow, supplier interactions, and loss of control. Bottega Sicana chose not to outsource order administration, which also (highlighted in the research in *Paragraph 2.5*) would have resulted in significant issues, allowing it to maintain better control over this area of the value chain.

For shipments, the store identifies two macro-groups of products: dry and fresh. During summer, when temperatures rise, to maintain the quality and organoleptic characteristics of this second category, Bottega Sicana uses polystyrene packaging and dry ice. All shipments are grouped by specific supplier. This is somewhat of a limitation of Bottega Sicana's dropshipping regime. Having several product categories, shipped by many different producers from various locations in Sicily, the complexities of order fragmentation (see *Paragraphs 2.1* and *2.2*) are omnipresent. To try to overcome these complexities, the Bottega Sicana team devised and implemented a system for customers to purchase from only one supplier. Through a set of plug-ins for up-selling and cross-selling implemented on the store, the company tries to steer the consumption of its customers to reduce logistic difficulties. A very special approach to the problem, which brought an interesting solution. The idea of using up- and cross-selling in this way also brings with it all the advantages already mentioned (Section 2.4) for these practices: increased CLV, the possibility of reducing the costs of acquiring new customers, and increased profitability. An excellent prospect also for the economic tenability of the business.

Because of its target market, Bottega Sicana has chosen to provide cash on delivery as one of its payment options. A form of payment that is increasingly falling into disuse nowadays, but which in Italy is still relevant among the over-40 age group, which the company serves. Mr. Fabio explains how in some periods the turnover from cash on

delivery reaches up to 20% of the company's total. The figures in Section 1.3 concerning online payments in Italy do not indicate cash on delivery among the main solutions. However, to adapt to the needs of its customers, the company also offers this method with reasonable success. From the point of view of internal management, this choice is not as uncontroversial as it appears on the surface: in addition to be forced to use couriers who provide this service, the seller faces a number of financial complications (e.g., delays in the settlement) which can burden cash flow management.

Consumer satisfaction and perceived value is very important to the company. Mr. La Cognata explains how their choice to offer a full satisfaction guarantee is a key to their success. "With food there are always problems" he says, hence the desire to provide timely assistance consistent with the quality of the products offered. The entrepreneur says it is speed that makes the difference and also makes customer care a competitive advantage for Bottega Sicana. In his own words "People don't get angry when you make mistakes, they get angry when you don't listen"; many times, in spite of problems, thanks to the customer care team's ability to solve them efficiently and in a very short time, customers still leave top marks. This kind of policy, attention and simplification of customer complaints are good examples of short-term social sustainability tools (*Paragraph 3.4*). Useful measures to increase value proposition for the buyers.

The choice of dropshipping as a business model stems from Mr Fabio's previous experience. His aforementioned expertise in e-commerce led the company to opt for this particular scheme. Asked about the difficulties arising from this choice, the interviewee recalled all the particular limitations of dropshipping. He then identified two major obstacles that the company has come up against. The first is the almost total lack of initial reception from customers towards their dropshipping sales model. At the start-up of the business, it was complicated to make customers understand the rationale and advantages behind this choice. For many, the above-average shipping costs were a major barrier. Working with communication (through videos and content for the welcome newsletter), the Bottega Sicana team was able over time to intelligently explain the value their idea generates, justifying these costs.

The second obstacle during business development was the suppliers. None of Bottega Sicana's partner manufacturers had any idea how dropshipping worked, and they were not equipped and trained to enter such mechanisms. Now once a potential dropshipper is identified, he is presented with a contract, with which to formalize the working

relationship. The *ad hoc* contract that the company administers took a year and a half of study and evaluation. After the start-up of the business, the entrepreneurs gathered limitations, criticalities but also advantages, and worked out a contractual model that could satisfy both parties involved, and which is still applied today. Over time, the introduction of the contract has contributed to a vast improvement in the relationship with producers and day-to-day operations. In both cases, on the one hand with a tailor-made contract, and on the other hand with newsletters and information materials, the company nurtured its stakeholders. The dropshipping model after initial resistance proved successful and profitable. This is fully in line with social sustainability practices (*Paragraph 3.4*), guaranteeing value in the short term not only for Bottega Sicana but also for its customers and suppliers, also determining economic prosperity for this business idea.

In the second part of the interview, in addition to what has already emerged in this regard the entrepreneur was asked questions regarding sustainability, in line with the principles of TBL (as briefly explained in *Paragraph 3.1*). The advantage of having no stock, resulting from the choice of dropshipping, allows the company to have very low fixed costs at all times. Mr. Fabio explains how this is essential especially in the summer period to ensure the economic viability of the business. With reduced orders and lower profitability, too high fixed costs could mean that the business cannot be sustained during that period. Clearly from an environmental point of view, this is a major advantage as well, as it shortens the supply chain and allows savings in costs, fuel, vehicles, and utilities, which would be accompanied by the management of an additional warehouse to store the products received from local producers. Also, looking at waste, the absence of a warehouse also makes it possible to avoid wastage of perishable or expiring products, a complexity typical of the food industry, which is not always easy to eliminate. Obviously we are talking here about a shift of the burden onto the producer, rather than an outright cancellation. However, those who produce products for Bottega Sicana are generally small local businesses, who given the low quantities are more aware of where these end up and are more careful about waste (also given the fewer resources potentially available). This scenario offers possible areas for improvement that the company could work on in concert with its dropshippers, both from an environmental and social standpoint.

Finally, Mr. La Cognata looks to the future, and when asked about possible areas in

which Bottega Sicana could improve its sustainable commitment, he looks at the packaging of its products. The company has set up an internal development and discussion along these lines. It wants to move towards standardized and branded packaging made of recycled materials and completely sustainable. A bottleneck in this respect comes from some of the suppliers, who do not always comply with packaging guidelines, and the entrepreneur fears an investment in this direction may prove disappointing if not used correctly once implemented. Furthermore, another complication arises from the trade sector in which the firm operates. As mentioned, when dealing with perishable foodstuffs, it is inevitable to have to comply with certain shipping constraints (think of the packaging mentioned above), which allow the organoleptic integrity of the product to be safeguarded, but at the cost of a greater impact on the environment. Bottega Sicana is therefore working to find the right trade-off in this regard, so as to create added value in this aspect as well. As also emerged from the interview with Fifty S.r.l., packaging is one of the points on which it can be easiest to act. It is possible to intervene achieving great results in terms of sustainability, both in costs reductions and in decreased environmental impact.

Bottega Sicana has been able to exploit a clever idea by creating a market niche of its own. All of the ideas and arguments that came up in the conversation with its e-commerce manager showed how many efforts or technologies that are helpful for business sustainability are used, sometimes even inadvertently by the firm. The particular sector in which the company operates, its main strength and distinguishing feature (along with its dropshipping business model), is well suited to initiatives aimed at raising awareness and reducing waste or enhancing the value of local products. Although at the present time Bottega Sicana is not well-structured in terms of sustainability, some positive initiatives are already in place, and Mr. La Cognata outlined what is the direction for future improvement.

Conclusions

Now a fundamental element of global commerce, we have analysed how e-commerce has gained further momentum from the Covid-19 pandemic. The emergency has led to a paradigm shift, anticipating trends already underway in the industry. With this in mind, dropshipping has also been positively impacted, benefiting in consumption drives, and changing consumer attitudes. Against this framework, the present research investigated the phenomenon from the perspective of its adoption in the Italian market, putting a lens on future horizons and sustainability. The study revolves around two pivotal questions: what are the main determinants of dropshipping and how to frame it as a business model? How can economic, social, and environmental sustainability be integrated in the dropshipping business and how can these aspects be assessed?

The study found some limitations in retrieving data from the literature or databases. The uniqueness and low diffusion of dropshipping in Italy made it difficult to find up-to-date data in this regard, partially limiting the overview of the sector presented in the first chapter of the research. Yet, both research questions were further addressed through direct interviews with Italian dropshipping companies. The interviews made it possible to establish examples on what had been investigated, allowing aspects that had remained in the background to be explored in depth and providing insights and perspectives for future investigations.

The first question was answered by analysing the dropshipping online trade model along its entire supply chain: starting with the supplier and ending with after-sales service management. Defining and framing the dropshipping model in the Italian e-commerce landscape was also essential for the second part of the study. The analysis revealed how the choice of one's supplier, and of one's stakeholders in a broader perspective, is fundamental to the business. Many stages of the supply chain are outsourced or managed in conjunction with the dropshipper. Its input is also crucial at many points in the value chain to provide customers with a quality product. It is therefore essential to intelligently choose a partner that meets the requirements as best as possible, and to build a lasting relationship with him. Establishing trust and a solid partnership is indispensable for overcoming the shortcomings in the dropshipping model resulting from the loss of control that the manager and the company undergo

with this choice. To assist in this crucial phase, a number of contractual forms proposed in the literature were presented. Without prejudicing the need for a dropshipping business to adapt these contractual forms to its own uniqueness and needs. Other elements such as e-shop architecture, branding or advertising, although relevant, emerge as less impactful in comparison. In part, this is due to the considerable technical advances, which have paved the way for competition in this respect. It is now easier even for small companies to present themselves on the market with a store that is beautiful, functional, and up to date. Two other key factors for dropshipping were found to be logistics management (especially backward logistic) and the cost and revenue structure of the business. Although logistics is a very important aspect of almost any form of commerce, in the case of dropshipping its specificities revealed in the study, highlighted how after-sales services for returns, refunds and replacements become a very strong point of pain. The outsourcing typical of the model exposes it to increased logistical difficulties, order fragmentation, weak control and complex management of returns and replacements. This qualifies them as a subject of utmost attention for the manager, as a potential reason why customers may prefer more traditional e-commerce realities. Italian consumers on a par with others, attach great importance to these elements, which cannot therefore be overlooked, especially in the light of the criticalities revealed in this respect by the analysis.

With regard to the cost and revenue structure, the examination of the subject matter showed that for every form of commerce it is a fundamental point on which the entire short- and long-term viability of the business rests. The apparent simplicity of the dropshipping model can be misleading on this aspect. A manager of a dropshipping store must be able to assess his choices in this perspective beforehand and afterwards. Aspects such as economies of scale, lean cost structure or low initial investment costs may be positive drivers in this respect. While scaling complexities, extensive outsourcing and cash flow management represent the main source of challenges.

The second big theme of sustainability finds fulfilment in the investigation in the third chapter. Given the current attention and the ongoing climate crisis, I felt it was important and I wanted to include this perspective in the research. In particular, what I wanted to answer was whether the Italian dropshipping companies could actually integrate sustainability considerations within them and how they could achieve this. The perspective chosen is broad and evaluates the three dimensions of economic,

environmental, and social sustainability, in line with the principles of the Triple Bottom Line (as set out in *Paragraph 3.1*). The analysis revealed that specific solutions exist for each of the dimensions investigated, with different intervention horizons and levels of feasibility. It also emerged how each area envisages tools and arrangements that can be adopted or can also benefit the other two. This reflects expectations, as by referring to a broad concept of sustainability, it is clear that some of the proposed tools may have an impact on more than one aspect of dropshipping. What is proposed constitutes more of an exemplification and implementation of the principles outlined, rather than an exhaustive list of tools. Such a cataloguing would in any case be futile and never complete, as each company is then free to respond to the challenges of sustainability in the ways and timescales that best suit its sector and business.

Of the three dimensions analysed for the sphere of sustainability, it is noticeable that the largest number of proposed solutions fall within the short-term initiatives. In my opinion, this is easily explained by thinking about the determinants of dropshipping as a business model. The outsourcing of production and logistical processes makes it difficult (if not impossible) to intervene in that perspective, which is where interventions require longer time spans and more resources. Among the various types of sustainability, consistent with the literature analysed, it can be seen that the number of proposals is numerically greater in the case of environmental and economic sustainability. A possible explanation stems from the aforementioned difficulty of assessing and quantifying impacts and actions in the sphere of social sustainability. Furthermore, it is expected that small or medium-sized Italian dropshipping companies, such as the companies under study, tend to neglect this aspect also due to the low number of employees, first pressure group in this respect. It can finally be determined, also supported by the results of the interviews conducted, how the proposed solutions (with some exceptions) can be easily implemented by a dropshipping company in the Italian market. Among the sustainability tools and proposed actions, those considered most feasible and useful for the Italian market are listed, also in light of what emerged in the interviews conducted. For the economic sphere they number cost/benefit analysis and partners evaluation and selection (also cardinal for all other spheres of sustainability). For environmental sustainability the following stand out: replacement of obsolete hardware, adoption of recycling solutions, reduction of order fragmentation and reverse logistic emission abatement. Finally, with reference to the social welfare of stakeholders we shall mention

ad hoc policies, fast and quality assistance, staff training and stakeholders cooperation.. Despite the fact that considerable differences (sector, market, target group, operations, organisation, etc.) make a direct comparison between the two interviewed companies impossible, it is nevertheless worthwhile to draw some observations on what emerged (presented in *Paragraphs 4.1* and *4.2*). The two case studies for the most part meet the expectations prior to the investigation, and also reflect what emerged from the literature study, with some definable differences. In both cases we are talking about SMEs, as expected propensity for sustainability interventions and instruments characterized by a short deployment horizon is higher. This is undoubtedly due to a different corporate mentality (generally more focused on profit and prosperity in the short term) and reduced investment capability (which limits margins for trade-offs). Called upon to implement actions towards a more sustainable operation and development, Bottega Sicana and Fifty obviously have to cope with more limited resources, which narrow their intervention horizons.

The peculiarities of the two companies interviewed are also reflected in their different approaches to sustainability. In general, for Fifty, the sociality component is less relevant from a sustainability perspective, but this is different for Bottega Sicana, given its business model based on territorial realities. In both cases, however, low internal focus on the issue of social welfare, is due to the small size of the companies (in the case of Bottega Sicana it is even more relevant since it is a family business). Given the small size, there is no internal push or pressure from employees, nor is there a real group to be held accountable in this regard. In both cases criteria are applied in the selection of their dropshippers. More strictly economic in the case of Fifty S.r.l. and partially more devoted to the philosophy of typicality and territoriality in the case of Bottega Sicana. In both cases, packaging emerged as a primary area for intervention. This is not surprising, as in the light of the dropshipping regime, is one of the aspects on which companies can intervene with major impacts on both the environmental and economic spheres. In addition, an intervention for packaging can tend to be considered small-scale, as such expenditures are in any case essential to the normal operations of the company.

Overall, the conversations were fruitful and insightful for the research. Over the years, Fifty S.r.l. has made an effort to pursue sustainable business practises within the bounds of its goals and resources. Even if the effort is not entirely virtuous, it is present and not insignificant. By carving out a distinct market niche for itself, Bottega Sicana has been

able to capitalise on a creative idea. The industry in which the company operates, may be well suited to campaigns aimed at increasing awareness, cutting waste, or elevating the value of regional goods. The interviews and subsequent analysis showed how many strategies or tools beneficial for business sustainability are used by both organisations, oftentimes without even being aware of it. In the end, both companies are good examples of growing Italian dropshipping activities, while not being well-structured in the field of sustainability and relying in this respect solely on the sensitivity of the men who manage them

In conclusion, the importance of e-commerce in its entirety certainly remits inputs for future research even on dropshipping. It is hoped that the analysis can serve as a starting point for further analysis of the dropshipping practice in Italy. Numerical evidence would be very useful for future insights in this regard. From the perspective of sustainability greater emphasis can be placed in the research about innovative solutions in dropshipping for the three dimensions of TBL, assessment of the costs derived from the adoption of such practices, or also an evaluation, supported by first hand data of the effects of these practices on Italian companies.

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