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DROPSHIPPING: AN UNEXPLORED E-BUSINESS MODEL AND ITS  
PONDERED VALUE IN CHILE

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## **Abstract**

In a globalized world, the advance of the new technologies is growing exponentially and this brings new challenges and opportunities to the traditional concept of business. E-commerce is the term born to describe these new kinds of business, that everyday trade more and more through a digital media than through the traditional store made of bricks. Therefore, this research is focused to present one of these traditional business models that was adapted to the e-commerce context, this model is known as dropshipping and has benefited immensely from the advance in communications through internet, although in Chile it is still a relatively unknown topic, thus this study is limited to Chile and to perform an evaluation of its advantages and drawbacks through the crossing of information obtained from marketing theories, methodological research tools and previously published research that are used as base.

Keywords: Dropshipping, E-commerce, Business Model, Evaluation.

## **Resumen**

En un mundo globalizado, el avance de las nuevas tecnologías crece a un ritmo exponencial y esto trae consigo nuevos desafíos y oportunidades al concepto tradicional de negocio. El comercio electrónico es un término que fue creado para describir estos nuevos tipos de negocios, los cuales cada día comercializan más y más a través de medio digitales que por medio de las tiendas físicas tradicionales. Por lo tanto, esta investigación está enfocada en presentar uno de estos modelos tradicionales de negocio que fue adaptado al contexto del comercio electrónico, y es conocido como “Dropshipping” o triangulación de envíos, el cual se ha beneficiado enormemente del avance de las comunicaciones por internet, pero que en Chile sigue siendo un tema desconocido para muchos, por lo tanto el estudio está limitado a Chile y realiza una evaluación de sus ventajas y desventajas a través del cruce de información obtenida en por medio de teorías de marketing, herramientas de investigación metodológica e investigaciones previas sobre el tema que sirvieron como base.

Palabras clave: Dropshipping, Comercio Electrónico, Modelo de Negocios, Evaluación.

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## **Introduction**

In the globalized world, the internet has become a powerful tool for every company, it allows businesses to communicate more efficiently with customers, generate new clients and even find a wider range of suppliers world-wide, which could translate to a greater bargain power and a reduction of product cost.

The benefits of the internet are widely known, yet online businesses are still seen as untrustworthy and are growing slowly as people adapt to new technologies. Nowadays, entrepreneurs mix the best of traditional business and the internet, promoting their physical products or services through massive social medias but with advertisements directed to specific groups. This kind of business is grouped as part of the term E-commerce. Hindle (2012) defines that “Ecommerce embraces all the ways of transacting business via electronic data. But it is most closely identified with commerce transacted over the internet.” (p.69). According to his work, e-commerce brought a paradigm shift on how business is done and “overturn old rules about time, space and price” (p.69).

### **The Problem**

Dropshipping is a business method that began in the world with the expansion of internet; in Chile, it is a relatively new concept, mainly because of the lack of knowledge that Chileans have about the new technologies and the necessary steps to start a company based on a dropshipping model.

### **General Objective**

- Evaluate the advantages and drawbacks of dropshipping

### **Specific Objectives**

- Identify the types of e-commerce businesses
- Explain a dropshipping model
- Describe the necessary steps to start a dropshipping company in Chile
- Analyze the structure of a dropshipping model and the current state of the art in Chile

### **Research Questions**

The research is limited to an analysis of a dropshipping model applied to small or individual companies looking to start a complete e-commerce business in Chile. Therefore, based on the objectives, background, and limitations the following research questions are formulated as:

Why is it necessary to know about dropshipping? ¿Why now?

Which are the advantages and disadvantages of using this selling method?

How does dropshipping work?

How does dropshipping compare to a traditional store business?

### **Justification**

As a business student and passionate about computer technology, I found fascinating how businesses have always moved along with the development of new technologies, since its beginnings as the simple act of trade in form of barter to what we know today, where trade can be done through just digital data. It cannot be ignored that in a globalized world, the internet has become an essential part of our daily living, especially for those born within the internet and computer boom; therefore, it becomes necessary that business in Chile keep up the tendency of moving along with new technologies, only in the recent years the online trade know as e-commerce has become a relevant and recognizable force in Chile, but mainly for retails companies and it is still necessary to keep up with the research of traditional businesses methods that could capitalize on the advance of technology and become new forms of doing business.

## **Theoretical Framework**

The chapter introduces the current framework in which e-commerce businesses develop in Chile to deliver a background of the dropshipping topic. Then, theories of business and commerce are used to refer to the classification of businesses, this in a modern scenario that includes the topic of e-commerce as part of the classification.

In the middle of the chapter, dropshipping as a term and process is explained using actual documental guidelines as template to detail the necessary steps required to use a dropshipping model. The foregoing continuous with a presentation of marketing theories that are referred as part of the beginning planning to support a start-up business.

The last part of the chapter presents the current research about the e-commerce and dropshipping topic, both in the foreign market and the Chilean market, that shows how the dropshipping model is being used abroad in more advance projects and that in Chile is just beginning.

## **Methodological Framework**

This chapter describes the research process used to obtain information and results. It begins with the use of marketing theories in order to obtain the context in which a dropshipping business will develop, this data is supported through a mix research of qualitative and quantitative data such as a survey and an interview that would produce empirical information about the topic.

The results of the above, together with the theoretical framework and the current research of the state of the art provides the necessary information to answer the questions of this work and comply with its objectives.

## **Chapter I: Theoretical Framework**

### **Background**

E-commerce is not an unknown topic in Chile, even though only in the last decade it has grown stronger in the mind of consumers. According to the Santiago Chamber of Commerce (SCC), “Online sales in Chile surpassed their projections of US\$ 2.820 million in 2016, reaching nearly three and a half million buyers.” (Ecommerceday, 2017). Marcos Pueyrredon, President of eCommerce Institute, said:

“Chile is shaping as one of the countries with more stable growth on internet business. With experienced users on online purchases that demand companies to improve their ecommerce to provide better experiences to their clients in the purchase of goods or services. (...)” (Ecommerceday, 2017).

Nevertheless, the growth of e-commerce in Chile is focused mainly in big retail companies, according to the Digital Economic Centre of the SCC (Santiago Chamber of Commerce), less than the 5% of small and micro companies are present in online sales channels. In the words of Rodolfo Sánchez (eEconomistaAmerica, 2016), e-commerce is not something new, is a tendency that has been growing exponentially since its boom in 2008; however, it is worrying that being 2016, are still SMEs (Small and Medium Enterprises) that do not notice the importance of having an online store and focus their effort only in the traditional sales channels. Especially when the SCC informs that the purchases through e-commerce raised to 20% in annual terms during 2016, which is the equivalent to 10 times more than the purchases done through the traditional commerce.

The SCC estimate that roughly 4,5 million of consumers purchase through the internet in Chile, this represents the 25% of the population and considering that the access to internet reaches almost 80% of population, it is possible to assume that it is an industry that will keep growing (Santiago Chamber of Commerce, 2016). According to the SCC, Chile is leader on eCommerce in Latin America, as shown on Table 1:

POSICIÓN 2016	POSICIÓN 2014	PAÍS	ÍNDICE 2016	B2C (MMU\$)	B2C/Consumo (%)	Crecimiento B2C (%)	% Compradores (población)
1	2	UK	73,6	193,0	10	25	77
2	1	EEUU	72,6	648,6	5	18	66
3	11	CHINA	72,1	899,1	21	41	44
4	7	COREA DEL SUR	69,2	54,0	8	27	62
5	6	FINLANDIA	69,1	15,0	12	11	79
6	4	NORUEGA	68,2	16,3	10	4	79
7	5	DINAMARCA	67,3	17,0	12	17	81
8	3	SUECIA	66,8	15,5	7	15	76
9	8	HOLANDA	64,4	18,9	6	14	80
10	9	CANADÁ	63,7	43,5	5	11	60
11	10	AUSTRALIA	63,2	20,7	3	9	70
12	12	ALEMANIA	61,8	74,0	4	11	78
13	14	JAPÓN	61,3	124,4	5	8	61
14	13	FRANCIA	60,7	79,1	6	22	71
15	15	ESPAÑA	56,1	17,9	3	13	68
16	16	ITALIA	46,6	14,7	1	14	59
17	18	CHILE	43,3	2,8	2	21	25
18	17	RUSIA	42,7	21,6	3	6	48
19	22	ARGENTINA	41,8	8,9	2	25	39
20	20	BRASIL	41,4	22,0	2	7	28
21	23	INDIA	38,1	44,7	4	54	13
22	19	MÉXICO	37,3	16,8	2	22	19
23	21	INDONESIA	35,4	5,3	1	44	10

*Table 1. Source: SCC (Santiago Chamber of Commerce, 2016)*

“Table 1 is not based on the size of the market, it is composed by 15 variables grouped in 6 categories: satisfaction of the demand, use of eCommerce in companies, access to payment methods, logistic capability, mobile commerce potential and performance of the B2C market.” (Santiago Chamber of Commerce, 2016).

Then, it becomes clear that Chile has the necessary structure for business based in e-commerce and there is a growing demand of consumers that understand how they work. Nevertheless, it still seems that small retails are not taking full advantage of internet as an intermediate for business, this represents a loss of opportunity if the final objective for a company is to obtain profits and increase their margins.

### **Types of E-commerce Models**

There are different e-commerce business models that a company can develop to start a business on the internet, it does not matter whether the company was born on the internet or if it is already positioned in a business model, transition from one model to another is always possible to keep prospering. Choosing an e-commerce model will depend on the core competencies of the company, the current state of the marketplace and its ability to shift to a new marketplace.

In the paper “*Managing in the Marketplace*” (Rayport & Sviokla, 1994) the marketplace is defined as the traditional physical location where the buyer and seller interact, whereas the marketplace is the elimination of the physical transaction, relying on “an information and communication based electronic exchange environment” (Rayport & Sviokla, 1994). The marketplace coexists with the marketplace, but as technologies advance the marketplace environment will dominate, as it can be noticed in the growth of e-commerce. Therefore, in e-commerce one must adapt the physical product to information, the face to face context to an electronic communication and the physical infrastructure to an online database.

In order to classify the types of e-commerce, it is important to determinate the main basis and the purpose of classifying them into types. If those concepts are not clear, one run the risk of classifying over small details that do not deliver useful information. “The two parameters of classifying e-commerce businesses that make the most sense are: depending on the Type of Goods sold or the Nature of the Participants” (Joshi & Dumbre, 2017).

#### **Classification based on the type of goods.**

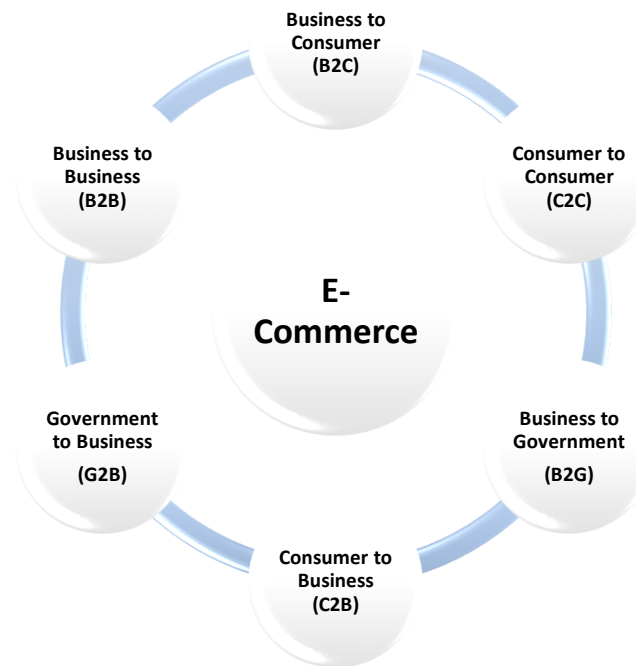
E-commerce business classified by the type of goods sold are divided into three categories: physical goods, digital goods and services, this kind of sorting delivers valuable information that can be used e.g. to develop a new marketing plan or the use of a different distribution channel since it is not the same logistic to sell a book, an e-book or a subscription to a reading place.

#### **Classification based on the nature of participants.**

This is the most common parameter used to classify e-commerce business, where usually the main participants are business, consumers and the government; however, the factors to categorize might vary depending on the theory used.

The main categories of e-commerce are represented in the FigureN°1:

Figure N°1: Types of E-commerce. Source: *Ecommerce: Formulation of Strategy* (Plant, 2001)



### **Business to Consumer (B2C).**

B2C is described by Robert Plant (Plant, 2001, p.23) as the transaction of businesses serving end consumers with products and/or services in a marketplace. However, B2C in e-commerce seeks the elimination of the need for physical stores and considers any transaction between a company and an individual over the internet, meaning not only online retailers but also services such as online banking, travel services, auction pages and online information.

The category of B2C started with the traditional *bricks and mortar* term which means a physical store where one can physically enter to see, touch, and purchase goods. Then, with the arrival of internet and its benefits, the term evolved to *clicks and mortar*, this term describes the traditional physical companies that include a website, offering the possibility of fast online transactions or a traditional face to face service.

### **Consumer to Business (C2B).**

In contrast with the traditional B2C model, “C2B refers to an electronic commerce in which consumers (any individual) offers product and/or services to businesses” (Joshi & Dumbre, 2017). This model allows businesses to benefit from the willingness of consumers to contribute data,

marketing or requirements that they can fulfil, meanwhile consumers might profit from revenues, discounts or customized products.

This type of e-commerce has become rather popular nowadays alongside the growth of YouTube and Blogs, it allows the *youtuber* or *blogger* to promote the products or services of a company in exchange of free products to use in reviews, revenues for every successful sale or even direct discounts to the consumers that arrive to the company sales page through their YouTube channel or Blog and the company obtains a target marketing and the knowledge of what the consumers require of them creating a bidirectional network in their commercial relationship.

### **Business to Business (B2B).**

B2B is a business model based in the creation of transactions among commercial entities. Plant (Plant, 2001 p.24) explains that the basic form of a B2B model is where a wholesaler offers its goods (raw materials, produced parts, or finished goods) or services to a retailer and the retailer resells the goods to a final consumer.

In this basic model, the wholesaler does not relate with the final consumer, so it is not possible to speak about a B2B2C, where it is required a sophisticated chain of value from the manufacturer to the retailer and finally to the consumer, meaning that the businesses are working along to a final objective.

An advance form of B2B in e-commerce is a *Hub*, commonly known as B2B portal, “this are websites that offers to business the possibility to trade goods and services online in a huge platform, the sites vary depending of the industry and commodities they are focused” (p.24), in fewer words is an online marketplace where businesses can access to discounts for large quantities of goods, specialized goods or online auctions of machinery for example.

### **Consumer to Consumer (C2C).**

The type of model describes the transaction between individual consumers, the physical form of this model would involve barter, announces in local billboards or newspaper ads where an individual seller would offer its products to reach an individual buyer.

“In the e-commerce scenario, C2C refers to an online platform that provides the necessary mechanism to perform a transaction among its clients” (Joshi & Dumbre, 2017). This meaning,

that a consumer has the opportunity to purchase or sell goods from/to another consumer and the platform only serves as an intermediate in exchange of a commission or revenue from ads.

### **Business to Government (B2G)**

This type of model, a variation of a B2B model and often used by the same companies, target the government to sell their goods and services. A company that functions in a B2B and B2G model often sells generic supplies required by both (e.g. office supplies, groceries or printing services), so it sells to other companies and to the government through a combined portal (e.g. [www.mercadopublico.cl](http://www.mercadopublico.cl) in Chile) as an electronic procurement system (Plant, 2001, p.27).

A dedicated B2G business will focus on satisfy a specific requirement of the government, which typically means a prenegotiated contract for large quantities of money and time where the rivalry of the market will vary depending of the industry. The government as a public entity, has to tender its purchases, so they would set a requirement list in a specialized website (using a G2B model), where they would detail the products/services, conditions and obligations that an offering business has to comply in order to adjudicate the contract.

### **Government to Business (G2B)**

“G2B describes any relationship between the government and business, where the initiative comes from the government. This model covers both, the marketplace and the marketspace, since there is a transaction of physical documents, money, information and a communication” (p.27). The e-commerce in the government is present nowadays more than ever, for the reason that most of their transactions can be done digitally such as the tax system, foreign trade permits, patents and their e-procurement system as explained in the B2G model.

### **Start-up E-commerce Models**

There are different methods that one can follow to start a new business related to e-commerce, choosing one will depend on several factors, for instance: the initial capital required, the risk aversion or the control of the products that one expect to have.

In E-commerce exists three types of business that one can start with: Dropshipping, Wholesale and Manufacturing (Larson, 2016).

The basic form of a business starts with a Dropshipping model, this model is based on direct shipping to the end customer from the manufacturer's storage, allowing companies to decrease their product and logistic costs without requiring a great investment, so it becomes the perfect choice for people starting in e-commerce and do not want to incur in bigger risks.

Then, the next step for an e-commerce business is one based in a Wholesale model, this consist in buying products in bulk directly from a producer or supplier that offers discounts for large quantities to later resell them at a higher price. This model represents a small risk; however, bigger than the dropshipping model, mostly because is required a higher investment to purchase a large enough quantity of products in order to obtain a better price and later is necessary a storage place to kept the products meanwhile they are being sold.

Finally, the most demanding e-commerce business is a Manufacturing model, because it consists in having a third company in charge of making a product specially for you, meaning that a large upfront investment is required and the risk of not being able to sell the inventory could result in losing the whole investment. Nevertheless, this higher risk also comes with a bigger profitability, for the reason that outsourcing the manufactured products translate into a lower product cost and higher margins, especially if the manufacturer is from overseas with cheap workforce.

Depending on the target market, the type of product and the reasons indicated before, the correct model is going to be determined. Knowing the advantages and disadvantages of each one becomes imperative in order to adjust the selling strategy of the business. Since dropshipping is the starting point in e-commerce, it will be the model described in deep during this work.

### **The Dropshipping Model**

Dropshipping is a redesign of the traditional retail model based in e-commerce, it was first introduced by some catalogue companies in the 20<sup>th</sup> century and now is used extensively by e-retailers (Gan, Sethi , & Zhou, 2010). This model of direct shipping (consumer direct fulfilment) has been used even before the growth of the e-commerce business, mainly by companies selling bulky products such as lumber, iron and petroleum, but nowadays with the advances in information technology, dropshipping has become a popular sales method for online retailers as a way to fulfil their customer orders, since it allows them to expand their product lines without increasing their inventory or warehouse cost (Gan et al., 2010, p.4).

## Dropshipping as a process.

Dropshipping as a process might look similar to a traditional e-commerce business because both includes, in a very general picture, a consumer, a retailer and a supplier. The key difference is that dropshipping avoids the necessity of a physical place, that would mean additional expenses of warehouse and storage, and in the meantime, it does not take the responsibility of receiving the goods from the supplier to later have to ship them to the end consumer.

The dropshipping process follow different stages starting with the placing of an order and finishing with the satisfactory delivery of the required product. The processes can be seen in the figure N°2.



Figure N°2: Dropshipping Process. Source: E-Commerce Industry Spotlight (Johnson, 2017).

The complete process, synthesized and adapted from “The ultimate guide to dropshipping” (Hayes & Youderia, 2013) is:

- I. First, a consumer selects and purchase a product from a dropshipping company (retailer) through its website or portal. The dropshipping company is usually in the same country, thus the payment is done with local money and includes tax.
- II. Then, the dropshipping company will receive the requirement for the product and the payment. Depending of the level of technology it uses, the company (retailer) might have to purchase manually the product from the dropshipper portal (the most common case) or it could have an interconnected system that places the order directly on the dropshipper portal. The dropshipping company only acts as a sort of intermediary between the end

consumer and the manufacturer or producer, the latter never interacts directly with the end consumer.

- III. Next, the dropshipper receives the purchase order and the dropshipping company uses the consumer's money to confirm the payment, which usually is done through an international digital payment method such as PayPal, which is the simplest and more accepted one, even though nowadays, it is also possible to pay with cryptocurrency (Bitcoin and Ethereum being the most used ones), this has the advantage that does not pay currency exchange and service fees.
- IV. After that, the dropshipper prepares the shipment using the end consumer's address. The package will only have this destination address and the return address of the dropshipping company, unless the dropshipper offers a special packaging service (paid as an extra) that add the brand of the dropshipping company. In any case, the package will never have anything that makes reference to the dropshipper. "Despite its critical role in the ordering and fulfilment process, the dropshipper is completely invisible to the end consumer" (Hayes & Youderia, 2013, p.11).
- V. Later, when the order is shipped and depending of the type of transport, a tracking number might be issued, which will be given to the dropshipping company and this one will inform the end consumer about it and the status of his order. The delivery time will vary depending of the region that the dropshipper is, dropshippers within the country can even deliver in the same day or the next business day, even though most of the time the dropshippers will be from abroad the continent, being mainly from Asia because of the cheaper costs they offer. A shipment from abroad can take up to 30 days if a sea freight is used, this being one of the main disadvantages of dropshipping.
- VI. Once the product has cleared customs; paid -if applies- customs duties, rates, and taxes (Import Customs Procedures In Chile, 2017), it will be received by the end consumer. The dropshipping company's profit will be the difference between the product's selling price and the total product cost, this includes the product base cost, the transport and all the fees it might had incurred.
- VII. Finally, if the consumer has satisfactory received the product, the process will be completed. In the case that there is a problem with the product, the dropshipping company will have to answer and be in charge of requiring a reshipping, refund or warranty with the dropshipper, this could be one the major problems with the dropshipping model if the

dropshipper does not take responsibility, meaning that the dropshipping company will have to assume the cost.

Finding a dropshipper is also one of the difficult task, there are thousands of companies that claim to be dropshippers but might be resellers or intermediaries from real dropshippers, taking profit from an already narrow margin. Portals such as Alibaba (annex 1) and Doba (annex 2) are well done attractive websites that work as intermediaries connecting producers and businesses in exchange of a fee. Other dropshippers might charge joining fees before being able to order from their website (annex 3) or even fees for every purchase, these fees would only reduce the potential margin and should be avoid.

Hayes and Youderia (p.13-14) recommend those dropshippers that require a free account and a business verification before being able to access their wholesale discounts because this would assure that is not just an intermediary offering normal prices as wholesale prices.

Dropshippers that work directly with dropshipping companies often have websites that are really basic in design (annex 4) and are not easily found in the first results of google said Hayes and Youderia (p.15-16).

Lastly, research of the market is fundamental before starting a business, especially one based on dropshipping that requires these tools to evaluate the environment in order to assess the advantages and drawbacks of this model. Thus, this evaluation is based on tools from traditional marketing theories as well as new e-marketing and e-commerce management theories.

### **Marketing in e-Business**

Dropshipping can be a simple and efficient business project to start with if used correctly, since it offers a direct method, with low risk and that requires only a small investment to generate profits but it is not a perfect model, its viability will always be given by the capacity of the people in charge of making decisions. In order to minimize the risk, it becomes necessary, as in any business, to evaluate the factors that affect a start-up and make it desirable, this can be done performing a study of the environment, the industry and finally a research of the market, focusing in which are the best products to sell, the target market and the selection of suppliers.

“Pure online business models, such as dropshipping, have the e-business strategy in their core, in the corporate strategy, and the physical channels are used only as support to main value creating

processes. The strategic approach of the company should be continuous innovation and focus on reinvention of the business processes and value creating activities in order to gain the first movers advantage that yields temporary competitive advantage” (Strniště).

### **Strategic planning.**

The term strategic planning, known in the 1960s as long-range planning, has coined several names along the years but most of them are used to describe the same, “This means strategic planning looks at the chain of cause and effect consequences over time of an actual or intended decisions that a manager is going to make” (Steiner, 2010, p.13). Then strategic planning aims to describe the necessary steps to achieve a proposed goal, even though, Steiner (p.16) emphasizes that these steps are not definitive, they should be adjusted constantly in order to take advantage of knowledge about the changing environment. Based in this, internet features become the main factor of change to be considered in the develop of a strategy.

Chaston (Chaston, 2001) explains that deciding on which markets to target through digital channels to generate value is a key strategic consideration for e-commerce strategy in the same way as it is key to marketing strategy. Managers of e-business strategy have to decide whether to use new technologies to change the scope of their business to address new markets and new products.

The scan of both type of business start with an analysis of the macro environment, meaning current and emerging macro trends that are external and relevant for the company, such as the political, economic, social and technological factors (PEST Analysis) or the more complete variant that include the environment and legal factor (PESTEL Analysis) (Marketing Theories – PESTEL Analysis, s.f).

Then, an analysis of the industry environment is necessary to assess the level of competitive intensity in the market; therefore, the attractiveness of an industry, this can be done using Porter’s five forces (Porter, The Five Competitive Forces that Shape Strategy, 2008) and Chaffey (Chaffey, 2011) new approach to these forces as tools to analyze the competition within the industry, identifying the current or emerging trends in the industry that are or may become relevant for the company to later decide a strategy to face these forces.

## **PESTEL framework.**

As stated before, PESTEL stands for Political, Economic, Social, Technological, Environmental and Legal framework, which is used to analyze the external marketing environment that has an impact on a company, not only in the traditional macro environment but also in the e-marketplace.

All of the factors the PESTEL analysis focuses on have direct or non-direct influence on the e-commerce (new technologies, adoption of internet, disposable income, etc.). The outcome of the analysis presents the overall picture of the economy within which the company is framed (Strniště).

In Chaffey's words (Chaffey, 2011) for each factor a new issue raises in the e-commerce context, requiring a constant scan of the environment since the introduction of new technologies affect how quickly a factor tend to vary, especially in the social and technological factors.

The political factors refer to what degree a government interferes with the economy, meaning that variables such as the trade regulations, tax policies and entry mode regulations have an impact on businesses and free market. Businesses need to consider these variables in order to adjust their marketing strategy before expanding into new regions, as in the case of a dropshipping business, that should consider the control that might exist over internet and the international relationship with the countries of possible suppliers.

Economic factors impact directly on how a company does business and its possible profits in the present and future, which can be altered by the inflation rates, for example. These variables can be divided into macro-economic and micro-economic, depending if are variables depending of the government like the interest rate or variables from the people such as their disposable income or spend tendencies. This factor can affect directly the profitability of a dropshipping business, considering that the product cost oscillates with the exchange rate.

Social factors reflect into which variables of the society could affect the business and how they are changing in time, these elements help to identify how the market demographic might be affected by the business or products. For instance, the consumer's internet usage and the rapid variation on tendencies are elements that should be considered in a e-business.

Technological factors influence directly on e-commerce business and how people connect with them. It is a factor that changes quickly and constantly, shaping society and tendencies.

Technological advancements offer new ways of producing and distributing product and services, as well as the possibility to reach new and specific markets.

Environmental factors have become important for the majority only in the recent years because of climate change and the increase in the social awareness of people, they affect not only large companies of a specific business but nowadays, consumers demand more ethical, sustainable and reusable products and would care if a company has a track of their carbon footprint or a recycling procedure, rewarding companies that have a positive impact in the environment with their preference.

Legal factors refer to all the variables that could affect a business from the legal and regulatory perspective in the region it plans on doing business. In global business, it becomes necessary to know the legal aspect from all the countries involved and the legal aspects that a e-business has to comply in order to avoid illegalities that could cost the business.

The main variables of every PESTEL factor are indicated in the figure N°3:

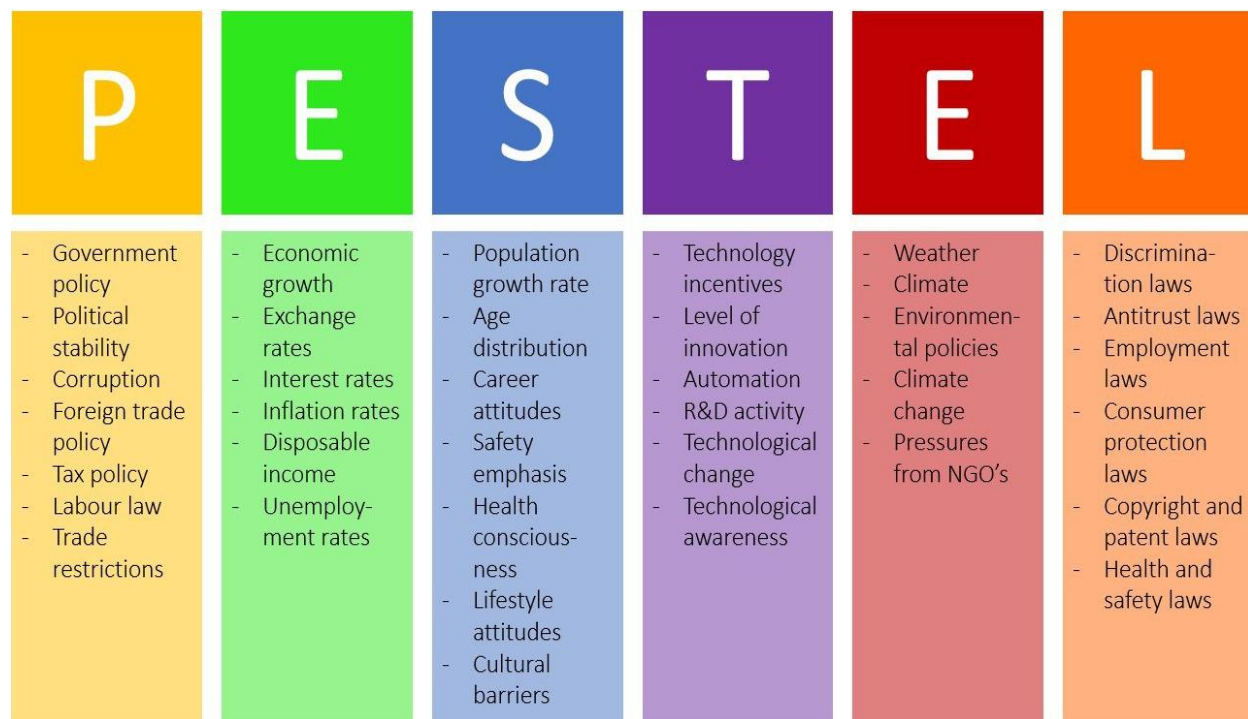


Figure N°3: Variables in the PESTEL Analysis. Source: (Marin Muñoz, 2017)

“Remember, there are many factors other than these which can have an effect on business success. The evaluation is a one-to-one process. Each company should do it for themselves and find the

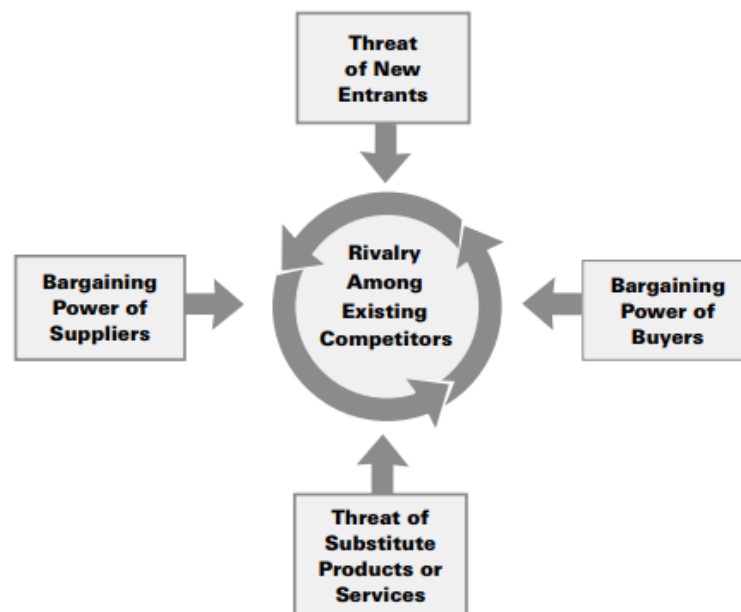
key drivers of change. You must identify the factors which have strategic and competitive consequences” (An Overview of the PESTEL Framework, 2015).

The factors of the analysis reflect the main variables over a business and should be seen as a whole in order to create proper strategies and take managerial decisions. Chaffey emphasize (Chaffey, 2011) that the above should be considered especially in an e-commerce context where a business that do not monitor these macro factors, or that does not respond adequately to them will not remain competitive.

### **Porter’s five forces on the e-business era.**

Porter’s five forces framework is a marketing tool published by professor Michael Porter in 1979 (Porter, How Competitive Forces Shape Strategy, 1979) and is used to analyze the industry’s competitiveness through the identification of five forces represented in the figure N°4.

Figure N°4. Source: The Five Forces That Shape Industry Competition (Porter, 2008, p.27)



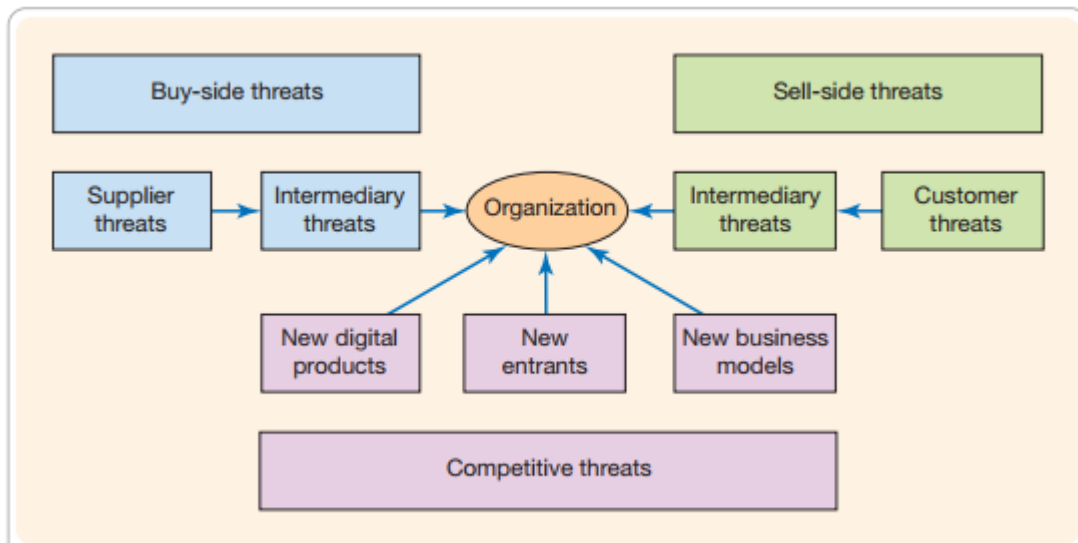
HARVARD BUSINESS REVIEW • JANUARY 2008

“This traditional model still provides a valid framework for reviewing threats arising in the e-business era. It is instructive to assess how the internet may change the competitive environment”

(Chaffey, 2011). In this new scenario, Chaffey (p.278) propose an altered Porter's five forces framework (Figure N°5) to emphasize the competitive threats applied to e-business models. This adapted framework should be used to analyze the environment in which a dropshipping business would develop in order to consider the negative effects that the forces can have on the industry attractiveness.

Chaffey support Porter's idea, that dividing the industry in these forces and analyzing the magnitude of each one delivers a better understanding of the competitive degree that is present in an industry, therefore a more certain appreciation of its attractiveness, but Chaffey's framework "differentiate in the distinction between competitive threats from intermediaries (or partners) on the buy-side and sell-side" (Chaffey, 2011, p.277).

Figure N°5: Competitive Threats Acting on the e-Business



Source: E-Business and E-Commerce Management (2011)

The threats from Porter are review to later present the adaption of these in the framework proposed by Chaffey.

**Threat of new entrants** refers to the potential entry of companies that trade the same products or services. If companies can enter easily into a market, then the intensity of the competition rise. Porter (Porter, 2008, p.26) explains that this brings a rivalry to gain market share, putting pressure over companies, therefore it affect their prices, costs, the rate of investment necessary to compete and would put a cap on the potential profit of an industry.

**Threat of substitutes** refers to potential companies that produce alternative products or services but that have the same or similar function as an industry's product and might become an indirect competitor. Porter explains that substitutes are always present and "If an industry does not distance itself from substitutes through product performance, marketing, or other means, it will suffer in terms of profitability— and often growth potential" (p.31). The threat of substitutes is low when the business in the industry offers a better price-quality ratio, there is a high cost of switching to substitutes or the brand is in the minds of consumers giving it a preferentiality over others.

**Rivalry among existing competitors**, the main force described by Porter because refers to the competition, that takes many different forms, among companies that offer the same products in the same industry, thus the more competitors the greater is the rivalry for the market share and narrower the profitability of an industry, especially in slow growth markets. "The degree to which rivalry drives down an industry's profit potential depends, first, on the intensity with which companies compete and, second, on the basis on which they compete." (p.32), meaning that strategies based just in price often result in the loss of profitability and they should be accompanied by market segmentation or preferably compete in other dimensions rather than price.

In the e-business context, the three forces mentioned above are referred as part of the competitive threats group composed by new e-commerce entrants, new digital products and new business models. From the perspective of a dropshipping business as the organization, the threat of new entrants would be other dropshipping companies trying to enter the same industry, the threat of new digital products occur in industries where digital product fulfilment can occur over the internet (e-books for example) and the threat of new business models considers both, existing companies and new ones that might develop new methods of e-business within internet to compete in the industry, as it happened to traditional e-commerce in relationship with dropshipping.

In both frameworks the threats depends on the entry barriers that might exist and the retaliation from companies inside the industry that one could expect. "The challenge is to find ways to surmount the entry barriers without nullifying, through heavy investment, the profitability of participating in the industry" (Porter, 2008, p.29)

**Bargaining power of suppliers**, in the traditional framework considers that the fewer supplier exist, greater would be their bargaining power because of the limited amount of raw materials being offered. An industry that has fewer supplies substitutes or a high switch cost of supplier

gives to this one a better position to negotiate, in consequence suppliers would be able to raise their prices or dictate their conditions at will. The analysis of this force, allows a business to anticipate and formulate strategies to reduce the bargaining power of suppliers and obtain a greater control over them, for example the decision of using a backward vertical integration strategy to produce the required supplies.

The buy-side threats concept of Chaffey (Chaffey, 2011) consider Porter's power of suppliers but adds the power of intermediaries. The power of intermediaries refers to the relationship of business to business exchanges, so in a dropshipping business this would mean the cost of integrating with a dropshipper through an interconnected system causing a possible switch cost.

**Bargaining power of buyers**, this force in the traditional framework refers to the negotiation capability that buyers have over the companies of an industry, as with suppliers' power, the fewer buyers in an industry, the greater their bargaining power because of the low demand of products, giving them a position to demand better prices or conditions. "Buyers are powerful if they have negotiating leverage relative to industry participants, especially if they are price sensitive, using their clout primarily to pressure price reductions" (Porter, 2008, p.39).

In the sell-side threats context, the power of buyers considers the internet and knowledge of consumers as tools used to evaluate products and compare prices, reducing the barriers to swap to another supplier. Chaffey (p.29) adds the power of intermediaries in this force and refers to partners or distributors as sale channels, in the dropshipping business the distributor is the same dropshipper but the sales channel is the marketplace used to promote the products and should be considered as a force that could affect how the business reach its consumers.

### **Positioning in the Marketplace.**

Once the forces are analyzed, the rivalry degree is determined and the segments to target have been identified, one should prepare a strategy to position the business, Porter (p.35) explains that positioning the company is a defense against competitive forces or finding where they are weaker, therefore he proposed generic strategies to penetrate the market and allow a business to face the five forces, accomplishing a sustainable strategic advantage against the competitors.

These strategies are: cost leadership strategy, differentiation strategy or focus strategy. The figure N°6 exemplify Porter's generic strategies.

“In e-commerce, one needs to define how to best position their online services relative to competitors according to four main variables: product quality, service quality, price and fulfilment time” (Chaston, 2001). These variables complement to Porter’s generic strategies theory as it considers that pure e-business models, such as dropshipping, should focus on achieving these variables to position an e-business in the online marketplace.

Figure: N°6. Source: Porter’s Generic Strategies (Ahmed, 2014).

<i>Target/Market Scope</i>	<i>Advantage</i>	
	<i>Low Cost</i>	<i>Product/Service Uniqueness</i>
<i>Broad (Industry Wide)</i>	Cost Leadership Strategy	Differentiation Strategy
<i>Narrow (Market Segment)</i>	Focus Strategy (low cost)	Focus Strategy (differentiation)

**Cost leadership strategy** is used when the company has a deep knowledge of its chain of value in order to identify the parts of the chain that should be improved to achieve an efficient process to lower its operation and product cost, that would traduce into a lower price for its consumer, making it a more attractive company than competitors. Chaston’s price performance excellence strategy is similar to Porter’s strategy but focus on “using the facilities of the internet to offer favorable pricing to loyal customers or to reduce price where demand is low” (Chaffey, 2011, p.303). One should consider that price is one of the main drivers in a dropshipping business, the access to lower product and no inventory costs provides an advantage over traditional e-commerce business.

**Differentiation strategy** means that a business offers a product or service with unique attributes that are unmatched by competitors and valued by consumers more than the price.

Differentiation can come from different sources, such as brand design, technology, customer service or reputation of the company. This strategy requires a hard to imitate difference, which translate to a strong development of products, marketing and added value. In Chaston's product performance excellence, this strategy is enhanced by providing online product customization. In dropshipping, products can come from different dropshippers since the dropshipping business is not restricted by one supplier, therefore this e-business can have access an immense product variation.

**Focus strategy** is using one of the above strategies (low cost or differentiation) but directed to a specific segment within the target market, adopting a strategy that is developed to satisfy a precise need of the chosen segment. This strategy means that the business is not trying to be a cost or differentiation leader in the industry, but a leader in the segment that is satisfying.

The focus strategy is not referred by Chaston but he adds the strategy of transactional excellence and a relationship excellence.

“The first is based in offering transactional excellence through combining pricing information with dynamic availability information on products listing number in stock, number on order and when expected. And the second offers personalization features to enable customers to review sales order history and place repeat orders” (p.303).

Chaffey (p.303) explains that Chaston's strategies differentiate from Porter's strategies because they are not mutually exclusive but rather prerequisites in a successful e-business since a consumer will judge on all four.

Plant (Plant, 2001), also considers that strategies should not be exclusive, but differentiate from the above indicating that price is not as important as brand and service, which are the attributes necessary to success online.

### **State of the Dropshipping Art**

The dropshipping model, as stated in the beginning of this work, is not a recent model and has been being used for decades, the difference is how in the recent years has complemented with the new technologies to be relevant and an attractive model again.

In the last three years, the e-commerce and mainly the dropshipping model has been used in several business theses as an alternative to the traditional supply chain and to complement of what is known about it.

In this case, three theses and a report are going to be referred to present the current research of the topic. Two of the theses are from abroad and present the dropshipping model as part of a business plan for a no traditional e-commerce based company. The third thesis is about a traditional e-commerce business plan based in Chile, meanwhile the report is done by a ministry of the Chilean government to issue the e-commerce in Chile.

### **The state of the dropshipping abroad**

In 2016 Olga Anisimova published her M.Sc.'s thesis about the “design of a distribution network: analysis of dropshipping process in a case company” (Anisimova & Pukkila-Palmunen), that approached the dropshipping from the logistic theory, focused in the distribution network design as a significant factor in a supply chain design, limiting it to the dropshipping scenario. The case company she uses will consider the dropshipping model for deliveries of specific spare part, such as” heavy or hazardous goods, urgent shipments or deliveries which aim to reduce cost of transportation” (p.9). This is an unexplored topic for dropshipping and proves that this model can be adapted to transport and handle deliveries that have a high cost impact. “Concluding that the weakest part of the process is communication flow, that has an influence in transparency and accuracy of the process” (p.79).

In the same year, Elan Amir Gibb publishes his work “Dropshipping LED Lights E-commerce Business Plan” (Amir Gibb & Dr. Chao-Hsien), that is focus in “analyzing the indoor-growth environment in the United States, and laying out a concrete plan on how to start a profitable business using a dropshipping business model”. The work states the relevancy that dropshipping, as an e-commerce business model, has gained in the last years and writes, in general words, about the benefits that this model has, basing the limitations of them in the marketing and promotion of the business.

It also analyzes the financial drawbacks that the model has, presenting that its profitability is at the long range if the initial investment is limited, this idea reaffirms the model that Anisimova proposed, in which a company uses a higher amount of resources to use dropshipping for deliveries that generate great margins.

Amir Gibb, also writes about using the dropshipping model as the core of his business in order to compete in the industry of high-end LED lighting for indoor plant and vegetable growing, which require expensive products but that delivers very high margin, this reason being the critical factor for a small internet company (p.7).

### **The state of the dropshipping in Chile**

In Chile dropshipping is still a relatively unknown topic, only in the last decade the “e-commerce” term has come to light to be recognized as a necessary important factor for every business.

Retail companies are the main e-commerce traders in Chile, therefore the national consumers service of Chile (Servicio Nacional al Consumidor – SERNAC), published in 2014 a study about the e-commerce term called “Estudio Descriptivo de E-commerce en Chile y Análisis de Reclamos ante SERNAC” (SERNAC), that aimed to study the quality of service provided by e-commerce businesses and analyze the current market evolution of e-commerce in Chile.

This study does not mention the dropshipping model and focus mainly in the relationship between click and mortar companies and consumers, but it recognizes the development of businesses alongside the new technologies and delivers a market frame of the main target consumers.

The last reference is presented in 2016 by Chacano Peña (Chacano Peña & Díaz Rodenas) in his work, in which prepares and evaluate a project to expand a current business that trades South Korean products using the dropshipping model as core of its supply chain.

In this work, he presents a marketing plan directed to consumers of the Korean wave “K-pop”, to develop and position an online platform titled “Kamza, using dropshipping as a model for his project and evaluating it from the financial aspect.

The conclusions he developed in his work indicated that the business based in a dropshipping model, is a risky project because of the high market rivalry, the exchange rate variation and the necessity of strategic agreements with suppliers, besides that, it would require initial funding from the government.

## **Chapter II: Methodological Framework**

The methodological framework of this work aims to describe the different methodology, tools and frameworks used to obtain information in order to analyze and present it as part of a business guideline that can be used for a dropshipping company as it considers the necessary marketing perspective in terms of strategy, the knowledge of consumers about the topic and the experience of an e-commerce user.

### **Documental Research**

The first step is collecting current data through a documental research to diagnose and evaluate the macro environment of the industry, the competitive intensity in it as well as the potential attractiveness and finally the micro environment of the business, these elements based in the marketing theories presented in the theoretical framework.

The PESTEL framework will be used first to analyze the macro factors that have an impact on a business and mainly on a dropshipping start-up. In this case it will focus in Chile as the industry and a brief mention of its relationship with China, which is considered the country where the most dropshippers operate and with the lowest prices as the manufacture are from China too. Then, Porter's five forces will be used to diagnose the competitive intensity within e-commerce and dropshipping businesses in Chile.

### **Quantitative Research**

For the second step a quantitative research is selected in order to obtain data through a survey and collect information of the Chilean market, mainly about their perception and attitudes towards e-commerce, and their knowledge of dropshipping as a process.

#### **Survey process.**

The survey is directed to people from the age of 18 and above and that is located in the central zone of Chile, besides the above it is open to everyone and will be shared from person to person. The survey language will be in Spanish to assure the understanding of everyone and is going to be developed using google forms to simplify the sharing and collection process. The results, will be shown in form of graphs that are also provided by google forms.

The survey content was prepared to later be evaluated in a qualitative method by experts that judged the items of the survey and its capacity to provide the information that is required. Two experts were chosen, one from the area of business administration and the other from the area of culture and social sciences, both of them have knowledge of management, marketing segmentation and e-commerce models. The survey's questions were discussed with both of them in order to validate the sections and avoid the unnecessary ones that did not contribute to the purpose.

### **Survey body**

The survey consists of thirteen questions divided in seven sections, from which the surveyed could answer only six or four sections depending of their answers.

1. The first section consists of three questions about general characteristics of the surveyed, the first two are multiple choice and the last one is a short answer text.
  - i. Gender
  - ii. Age range
  - iii. Current city
  
2. The second section consists of two multiple choice questions about internet purchases and depending of the answer it would follow to section three or section four.
  - i. Have you ever made an online purchase?
  - ii. If the above answer is yes. With which frequency do you purchase online?
  
3. Section three consists of two questions about the payment method of internet purchases and would follow section two only if the surveyed answer was affirmative before.
  - i. When you purchase online. Which payment method do you use mainly? (choose 2).
  - ii. The payment method chosen is mainly due to (choose 2):
  
4. Section four consist of the person's opinion about how relevant the following reasons are for not purchasing online. This section come only if the answer in section 2 is "no".
  - i. Lack of security (about personal data, the money or that the product might not arrive)
  - ii. Preference for purchases in person
  - iii. Waiting time for the products
  - iv. Lack of understanding of online purchases

- v. Lack of an online payment method
5. Section five consist of two multiple choice grid questions about the purchasing portals the surveyed uses and its opinion about attributes of purchasing portals.
- i. With which frequency do you purchase from the following portals?
    - a. Online retail stores
    - b. National websites of trade
    - c. International websites
    - d. Social networks
  - ii. In your opinion, qualify the relevancy of the following attributes of the purchasing portals:
    - a. Its security
    - b. It is in Spanish
    - c. It is attractive and easy to navigate
    - d. It has a physical office
    - e. It offers credit
6. Section six consists of two checkbox questions about the person's online purchasing preferences.
- i. Which are the categories that you purchase with more frequency on internet?
  - ii. When online purchasing, do you care mainly about (select 2);
    - a. Price
    - b. Quality
    - c. Delivery time
    - d. Exclusiveness
    - e. Access to international products
7. Section seven is the last question and consist in the knowledge of the term dropshipping and if they know how it works.
- i. Have you ever heard about the term "Dropshipping"?

The purpose of the survey is to complement the marketing data of the first section and develop possible strategies for a business start-up based in the dropshipping model. The survey design, as is going to be seen by the surveyed, is in the Annex N°5.

### **Qualitative Research**

For the third and last step a specific and precise qualitative research is performed in order to collect empirical data through the opinion of a Chilean e-commerce trader that has knowledge of the dropshipping process.

This research is done using a short non-structured interview about his perception of the e-commerce in Chile and a comparative of the advantages and disadvantages of the dropshipping model in relationship with the traditional e-commerce model that he had found and also the difficulties that a business might expect in the Chilean market.

The interview is directed to specific topics related to e-commerce, dropshipping and the business models the interviewed currently uses. The topics to be discussed are detailed as follows:

- Experience as an e-commerce business owner
- The current e-commerce model being used
- The dropshipping as a possible business model

### **Chapter III: Results**

This chapter observes the study done using the marketing theories through research of the contemporary macro and micro environment, as well as using the information obtained from the poll as complement of the whole picture.

Later is aim to present the results of the interview with an e-commerce trader as empirical data to finally propose a coherent presentation of the dropshipping idea, the advantages and disadvantages found.

#### **PESTEL Results**

As state before the PESTEL framework is used to analyze the macro factors that a company would be affected in Chile. In general, the analysis shows a positive macro-environment to start a company based in e-commerce and there are no complications for a dropshipping relationship with a company from China. The detailed results for every factor are the following:

##### **Political factors.**

Chile and China started their relationship in 1970, being Chile the first South American country to establish diplomatic relations with China. In 2005 a Free Trade Agreement was sign and began to rule on October 2006 (Tratado de Libre Comercio Chile - China, s.f.). Octavio Errazuriz (Errázuriz Guilisasti, 2006) writes that China is a strategic market because of their commercial and economic growth potential and should be a priority partner to Chile, which is limited to raw materials such as copper and wood. “A large part of the increase in Chile’s exports to Asia is a result of Asia’s copper consumption,” said Erik Haindl, a senior member of the economics department at Universidad San Sebastián (Hetterich, 2010).

The commercial exchange between Chile and China has growth four times in the last 10 years because of the FTA, the imports from China rise up to US\$14.800 million in 2016 and in April 2017, Chile and China started to negotiate an expansion of the FTA that would include areas such as e-commerce, services, competence, environmental issues, public purchases among others (DIRECON, 2017).

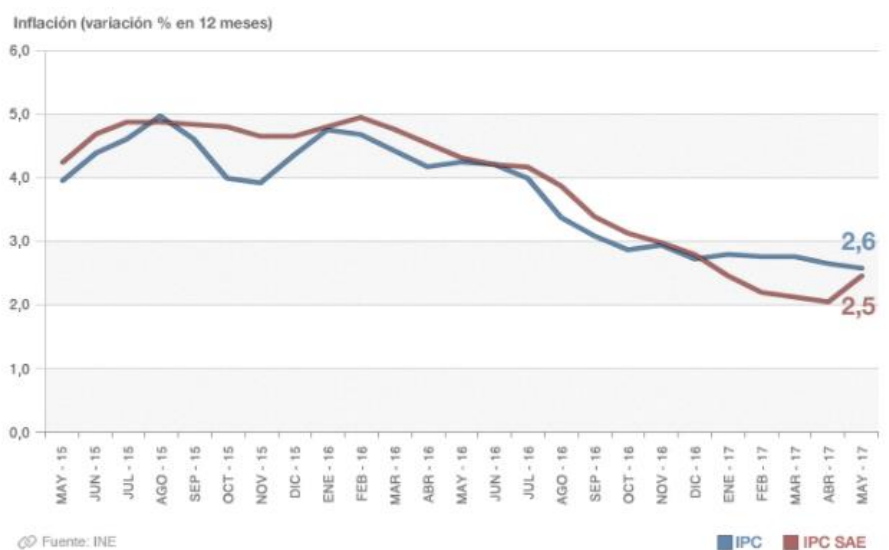
Chile in the last decades has been one of the fastest growing economies in Latin America, even though this growth has deaccelerated due to the copper’s price, having a strong impact over the

private investment and exports (Banco Mundial, 2017). Still, the country risk is at its minimum level in the last three years (Minería Chilena, 2017), proving that Chile is a safe and trustworthy country to establish business.

**Economic factors.**

Chile is the leader of Latin America in e-commerce with sales that reached the US\$ 3.074 million in 2016 and a projected grow of 20% for this year, reaching the US\$ 3.700 million (Publometro, 2017).

Chile has a strong and stable economic model, that is affected greatly by the variations on the copper’s price. Product of the drops in the commodity price and global factors is that the International Monetary Fund (IMF) projected a real gross domestic product growth (annual percent change) of only 1.4% in 2017 and 2.8% in 2018, with a projected inflation rate variation of 2.3% (International Monetary Fund, 2017) that is similar to the current inflation variation rate in Chile as seen in the graph N°1.



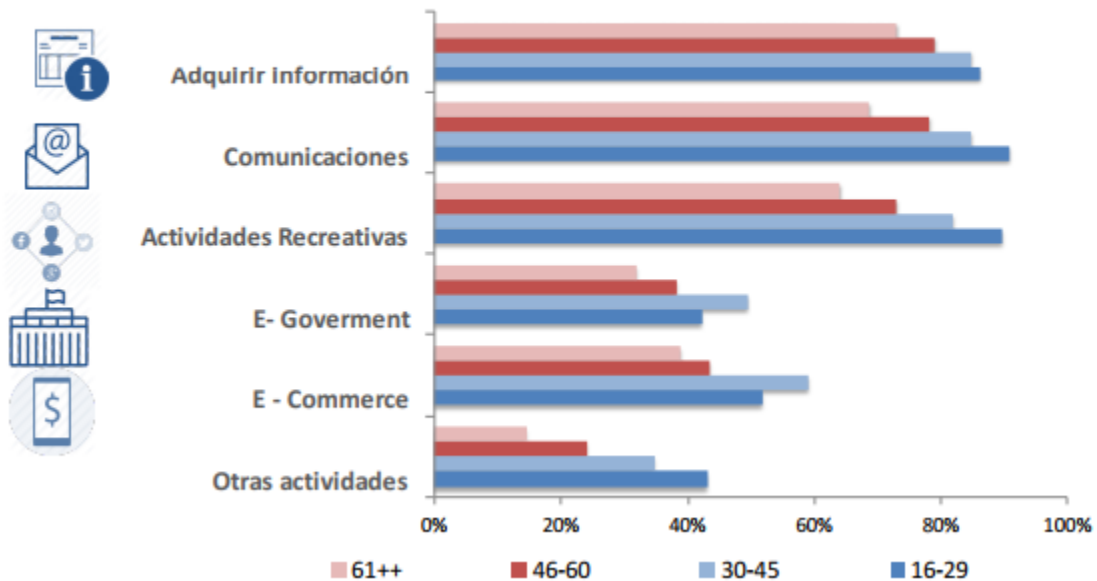
Graph N°1. Inflation rate (percentage variation in 12 months). Source: INE

Regardless of these drawbacks in Chile’s economy, the unemployment has remained under the 7% during the year and is currently at 6.6% (Banco Central de Chile, 2017), which supports a consumer attitude.

## Social factors.

In Chile the internet is mainly used to communicate, acquire information and for educational purposes, the most intensive users are young people between 16 to 29 years old but the main users of e-commerce are between 30 and 45 years old (SUBTEL, 2016) as in shown in the graph N°2.

### Usos de Internet en el hogar por edad



Graph N°2. “Uses of Internet in the Home per Age” (SUBTEL, 2016)

In terms of internet usage by gender, there is a huge digital gender gap to the detriment of women, affecting mainly elder women of any educational or economic level being under the internet usage of men as show in a study of the National Consumer Service in 2014 (SERNAC). Chile has an intensive use of internet not only in hours, which is an average of 19,5 hours per user being the fifth place in Latin America, but also in quantity and diversity of content.

The study of the National Consumer Service (p.8) shows that the main category bought through internet is electronic items, mainly televisions, which also the main item sold by physical stores.

### **Technological factors.**

Technology tendencies have grown at an exponential rate in Chile, in 2015 the users of internet represented the 76% of the total population, from this percentage the 68% of people over 15 years old declared to be permanent internet users, connecting to it mainly from Smartphones and Notebooks, by that time the internet coverage reached the 96% of the territory (SUBTEL, 2016).

The Chilean e-commerce has a continuous growth in the use of mobiles to access to its portals, currently 56% of the visits and 15% of the transactions are done through smartphones (Publimetro, 2017).

The online payment methods are still restricted in Chile because currently exist a monopoly that controls the payment network associated to banks, Visa and Mastercard, which are connected to Transbank as the operator. There are alternatives such as digital payment methods (PayPal and Cryptocurrency), which still requires an online payment system, and direct bank transfer but that is not seen as trusty as using cards though WebPay, which is operated by Transbank (Mercados, 2016).

### **Environmental factors.**

The environment in Chile is rather diverse because of its geography, which might become an inconvenient if is intended to reach extreme zones, increasing greatly the transportation cost of products. It is also important to consider that in Santiago, where most of the population lives, has a vehicle restriction since 1990 that is applied to vehicles without a catalytic converter during April to September and depending of the contamination level it could include all the vehicles (Conicyt, 2010), meaning that if deliveries are done by the same company, it would require to invest in a modern vehicle.

### **Legal factors.**

The constitution of a new company is a relatively simple process in Chile and now it can be done completely through internet in most of the cases, this was introduced under the legal framework of the Chilean Law N° 20.659 looking for a simpler and cost-free process. This also facilitates the acquisition and registration of a web domain, a brand name and copyright protection for it.

Consumer's protection laws and rights are taken care by the national consumer service (SERNAC), which is part of the ministry of economy, development and tourism. Through the SERNAC

platform consumer's complaints are received. Statistics of this service indicates that over 50% of the complaints received in the first semester of 2013 and 2014 were directed to companies that offers percentage discounts in form of coupons and retail companies that have an online trade platform.

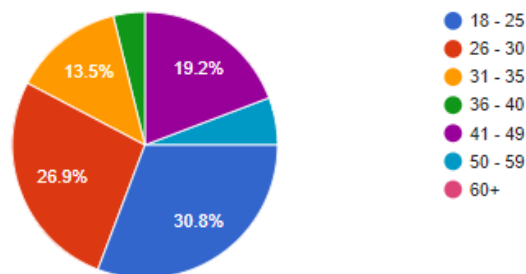
## Survey Results

The survey was performed to a total of 52 persons that live mainly in the city of Valparaíso and Santiago, their gender was a proportion of 50% male and 50% female. The age of the surveyed is between 18 and 59 years old (graph N° 3), being the most part of the group considered as young adults.

Graph N° 3: Age-range Distribution

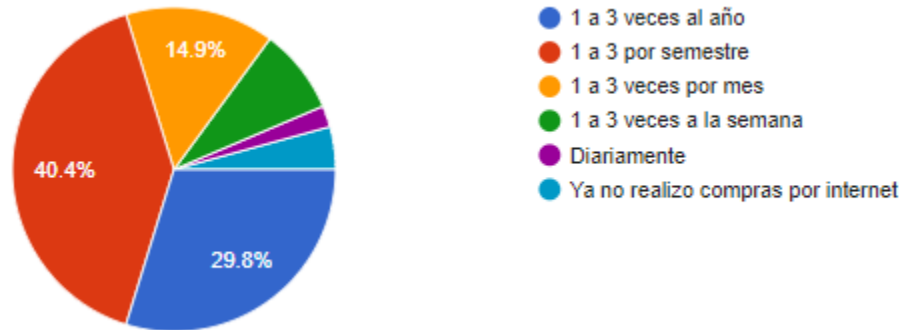
¿Cuál es tu rango de edad?

52 responses



From the total of the surveyed, 47 persons (90.4%) said that had purchase through internet, as it can be seen in the graph N° 4, most of them purchase with a relative high frequency and only 2 persons said that they do not purchase through Internet anymore.

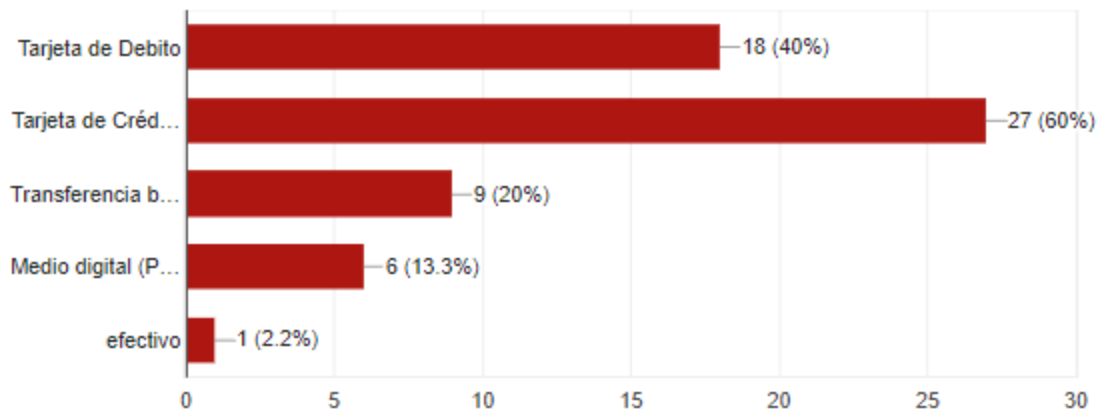
Graph N° 4: Purchase Frequency



The main reasons given by the 7 persons (that do not purchase through internet or that do not do it anymore) to avoid this activity is the lack of security that they perceive, followed closely by the preference of purchasing face to face and in a minor measure that they do not like to wait for the products. It is important to mention that the group that felt that the lack of security in the online purchases, as a major factor to not do them, is between the age of 50 to 59 years old, then the secondary factor is differentiated by gender, where women said that they preferred face to face purchases and men that they did not want to wait for the products.

The main payment methods chosen are credit card followed by debit cards (graph N°5), which adjust to the consumer's perspective in Chile that has an easy access to bank or retail products, the major reasons given to use these methods are the ease of payment, the security and the no availability of another payment method. From these results, one could say that most of the surveyed do not know about the digital payment methods, because these methods can work with credit cards to offer an easier payment experience, working as an alternative to pay and with the same level of security.

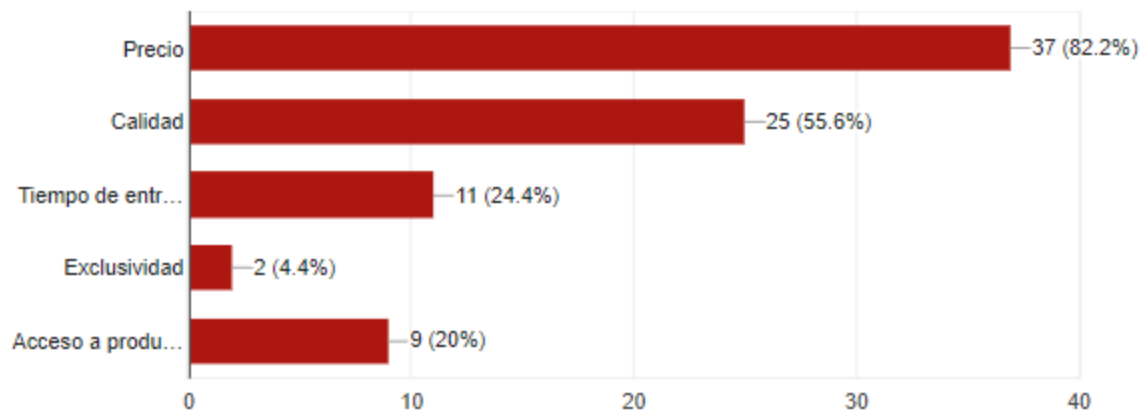
Graph N° 5: Preferred Payment Methods



From the purchasing portals preferred by the surveyed, most of them declared to buy often from national and international websites, and sometimes from the website of retailers. The most relevant attribute indicated by them about the portals was security, followed by the attractiveness and language of the portal.

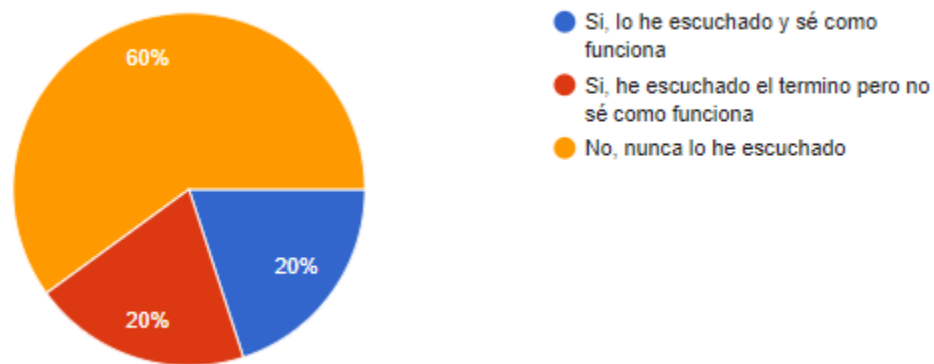
The surveyed declared that they buy mostly sport/dressing clothes, followed by electronic products, and in the same level phone accessories and beauty products. Then, when they purchase online they consider that price is the main attribute to considerate, as seen in the graph N°6. Based on this, dropshipping highlights as a model to bring products at a low cost, but it should also consider the quality as the next main attribute, opening a gap to not focus in trading a lot small margin product but a reduce line of products of higher quality and cheaper price than the competence, which is an unlikely scenario if we compete in the same product line than retail companies.

Graph N° 6: Preferred Attributes



The last part of the survey looked forward to assess the level of knowledge about the term “dropshipping” and includes the 52 surveyed persons distributed in three groups, as seen in the graph N°7, this result shows evidence that most people have not heard of it, which was the expected and yet 20 persons have heard of it and more surprisingly 10 of them know what is about. The last group was composed from people between the age of 25 to 35 years old, which is the age of the group considerate as “millennials” and that had access to Internet and lived along its development into new communication technologies. It is considered that this should be the target market, people that is used to e-commerce and is not afraid of purchasing products online.

Graph N° 7: Dropshipping Knowledge Level



## **Porter's and Chaffey's Forces Results**

The information for the forces was complemented with the evaluation of the PESTEL framework and the survey results, which are used to evaluate the competitive intensity in the Chilean industry and its attractiveness. With this evaluation is concluded that the forces together increase immensely the competitive intensity within the e-commerce industry, leading to the idea of trading products that are not present or are difficult to obtain in the local market. The detailed results for every force are the following:

### **Threats of new entrants**

Chile has become a very attractive platform for e-commerce, with an increase in the entry of new e-businesses, mainly because of the commercial agreements it possess with foreign countries and the latest social tendencies, which gives its attractiveness to this market as explained in the PESTEL analysis. This analysis shows that there are no major entry barriers to start a e-business in Chile, therefore the threat of new entrants is high, not only to businesses based in a dropshipping model but to e-commerce businesses in general.

### **Bargaining power of suppliers and intermediaries**

This force will depend mostly in the required product, but in most cases the bargaining power that suppliers have in a dropshipping business model is rather low, the reason is that there are many dropshippers to choose from and there is almost no switch cost unless an EDI (Electronic Data Interchange) system is introduced. Regardless of the exposed before, negotiation power that a good rated dropshipper has, will be higher that the majority of dropshippers, as they would not offer their best prices just right away but expect a few purchases to know if they are dealing with a serious dropshipping company. The recommendation is always search for serious dropshippers, stablish a long-time relationship and use popular intermediary systems to keep the switch cost low.

### **Bargaining power of buyers and intermediaries**

As with the supplier's negotiation power, this force depends mostly in the product that the business will trade, even though the market of buyers in Chile is increasing every year with the new generations and online purchases are becoming a normal activity, the price sensitivity of consumers is increasing, since they can quote in different portals in instants and choose the best offers without restriction. The intermediaries do not represent a major threat because of the

existence of many service providers to be used as channels. Under both ideas the negotiation power from the buyer-side should be considered as medium-high.

### **Threat of substitutes and digital products**

The threat of this force is quite high, as stated before traditional retailers companies in Chile use a mix model (e-commerce and physical stores) to sell their products and they currently possess the most of the market share in both models, they are businesses with a high level of resources, investment and variety of products with competitive prices. In addition, when is considered that most of the elder people prefer to purchase face to face and obtain their products immediately or that young people prefer to obtain digital products instead of physical ones when is possible, the threat becomes even bigger.

### **Rivalry among existing competitors**

The competitive rivalry among competitors is also quite high for a business that uses a dropshipping model, even though websites that use a dropshipping model in Chile are almost inexistent, the websites that use a similar model to offer a marketplace, such as “Mercado Libre” or “Linio” are very popular among the consumers and with an already brand position in the market. The rivalry rises when the independent e-business that operate through their own websites or social networks are included, regardless of the factor that they might keep physical inventories, because they efforts will focus also in the online sales.

### **Interview Answers**

The interview was performed on September 9<sup>th</sup> with subject 1 (Subject 1, 2017), who has a business based completely on e-commerce, that specializes in selling smartphone’s spare parts brought from abroad, mainly China.

His business operates through a marketplace, the main portal being Mercado Libre Chile, that allows him to promote his products to all the users by a small fee depending of the level of promotion being used and a selling fee for every successful trade. This portal offers him the possibility of giving multiple payment methods and credit to his buyers and even a transport system for deliveries if requires.

The operation system consists in buying the spare parts from different suppliers abroad and keep them as inventory until a sale is concreted through the portal, later he ships the product to the

buyer's address and once received, the buyer qualifies the product and the portal transfer the money to the seller.

The subject explains that is a relatively simple process based on a Consumer to Consumer e-commerce because but that requires a knowledge of the products and the target market, his low prices, diversity of products and quick delivery gives him an advantage over the competence, because sometimes even specialized smartphones stores do not trade or have the spare parts that his buyers require; thus, it is a very profitable business, he said.

Once consulted about using a dropshipping model, he explains that he considered in one moment but that in the end it was not to his liking. The subject explains that his buyers most of the time require the spare parts in a short time and even if buyers would be willing to wait in order to obtain a better price, it could become a big problem if by any chance a buyer receive a defective or different product that the one he required, meaning more waiting time or directly the loss of the sale. Fernando remarks that in this scenario, he would be blamed by his buyers, meanwhile he tries to find a solution with the dropshipper, which could affect his reputation as a seller, so he prefers to trade products that are checked by him personally and differentiate by offering his good service and expertise to the interested in buying.

## **Chapter IV: Conclusion and Discussion**

The final chapter aims to answer the research questions and approach the objectives in order to prove if the problem is addressed correctly. This is done using a crossing of information from the theoretical framework and the results obtained from the research.

First, the documental research shows that e-commerce, as a growing market in Chile is already in the focus of many big companies and should be used as a powerful advantage for new business. In this context is necessary to know about the dropshipping model since it can be considered as an alternative to traditional businesses that require an elevated initial investment as well as an inventory and storage system.

Then, based in e-commerce theories, a dropshipping business can be grouped as a B2C model type because the consumer does not relate with the dropshipper and the dropshipping business does not interact with the product (only in a refund scenario).

It can be observed that the structure of a dropshipping company is composed by three main participants: the dropshipper, the dropshipping business and the consumer. This model works in seven simple steps to trade goods, starting with a click in the marketplace being used and finishing with the satisfactory delivery of the product.

Later, the survey shows a possible target market for a dropshipping business, but that the drawbacks of the model such as delivery time and perception of security can be considered as important variables by the consumers, especially the elderly consumers that tend to be more reticent to use the internet to purchase products. It should also be considered that in any target market the security is the main concern, this threat should be taken care of by offering assurance and guarantees that the consumer's money, products and personal data can be secure.

Next, the marketing tools used to evaluate the market show that there are not inconveniences to start a e-business in Chile at first but it should be based on a strategy to overcome the high competitiveness in which it might operate, in this case dropshipping has an advantage over other e-business models because it can achieve a price and product differentiation strategy easily.

After that, the interview shows the perspective that the dropshipping model is not adaptable to all the industries and that the delivery time added to a possible shipping error from the dropshipper

can result not just in the loss of profit but also of a consumer for good, then keeping inventories can be seen more as an advantage in this scenario, even if it increases the costs.

Finally, the above along with the research of different published works leads to the idea that the benefits from the dropshipping model could barely surpass the disadvantages and only if a proper strategy is developed in order to face the market situation.

This work should be considered as an entry point to the dropshipping business model, that can serve as a guideline to initiate a start-up based in it or to expand a current traditional store. Regardless the above, this study still requires a specialized research of the product lines that could benefit more of the dropshipping. It is also recommended a practical implementation in the Chilean market to study its evolution and reception from the local consumers.

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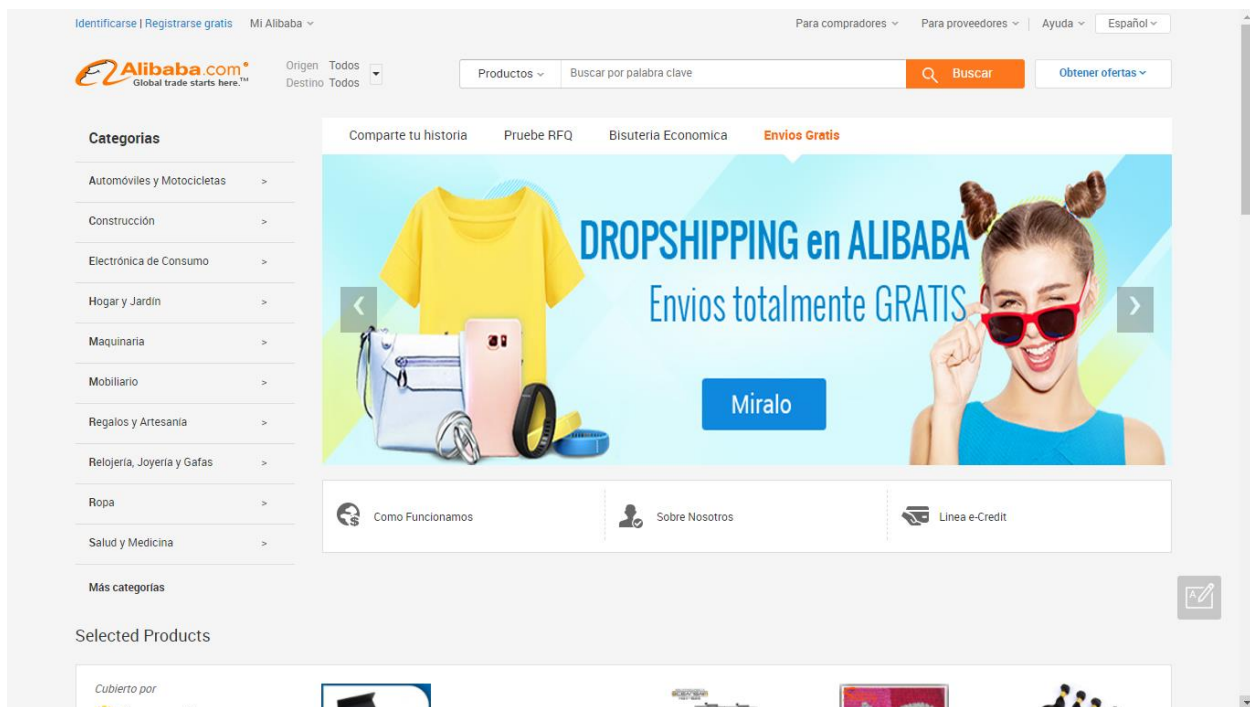
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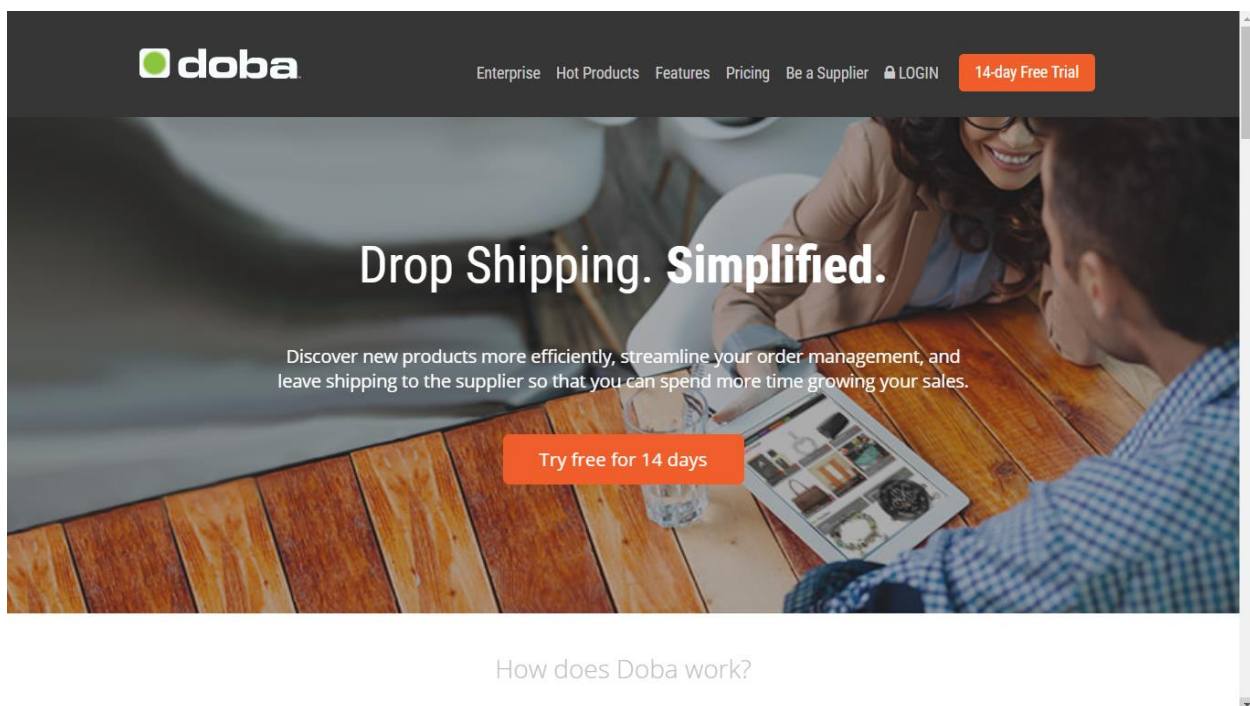
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## Appendix

Annex N°1. Alibaba website



## Annex N°2. Doba website



Annex N°3. ATS Distribution website, once a popular dropshipper from the UK but that required a joining fee before being able to order goods.

**ATS DISTRIBUTION .CO.UK** TRADE ONLY

Login | Open New Account | login or open an account to view our trade prices

HOME | noticeboard | my account | contact us | site help | dropshipping

- Christmas >
- Pet Accessories >
- Electronic >
- Home and Garden >
- Gadgets >
- PC & Games Console >
- Baby Care >
- Fashion >
- Office & Stationery >
- Personal Care >
- Sport & Leisure >
- Toys & Games >
- Cables & Connectors >

**Dropshipping**  
We delivery directly to your customer

**ATS**

**Standard Account**  
We delivery directly to your address

Wholesale and DropShipping of over 4,500 Consumer Products to anywhere within the UK, open a Dropship or Wholesale account today to view our prices.

**WHOLESALE**

**Wholesale Account:**  
Only £45 minimum order for next day delivery to you on 1,000's of lines, maximum delivery charge of £7.95

**DROPSHIPPING**

**Dropship Account:**  
No minimum order, you can order a single unit of anything to go anywhere in the UK, postage is based on

**WEBSITES**

**Website Account:**  
We can supply you with a ready to go, full featured website, fully populated and updated automatically, for

**Account Types**  
Wholesale and Dropship accounts.

**Your own Website**  
Fully loaded, for only £9.99/mth.

**Product Feeds**  
Feeds in csv and XML  
Images on Disk

**CSV & Xml Feeds and downloads available**  
[CLICK HERE](#)

**Your own Website Fully Loaded**  
Only £79  
[CLICK HERE](#)

[Back InStock](#) [View All](#)

Rotastak Small Animal Exercise Ball  
(Toyrific) Beauty Set 12 Piece (Ages 3+)  
(Boredom Breaker) Small Animal Glitter Exercise Ball  
(HALTI) Training Lead (Large)

Annex N°4. Drop Shipping Online website is currently working and has no joining fee but requires a registration before placing an order.

The screenshot shows the DSO website homepage. At the top left is the DSO logo with the URL dropshiponline.co.uk. The main banner features the text "DropShip" in large, colorful letters, followed by "websites are now ready for distribution" and "Websites free for Members". Below this are three buttons: "eBay Seller Solution", "Amazon Seller Solution", and "osCommerce Website Solution". A central text block explains that DSO products are listed on eBay and Amazon, and that the selling process is automated. To the right, a "login" form is visible with fields for email and password. On the left, a "categories" menu lists various product types like "Back In Stock", "Beetle Parts", "Cars", etc. At the bottom, there is a "search" bar and a "Multichannel osCommerce" button.

**DropShip**  
websites are now ready for distribution  
**Websites free for Members**

**eBay Seller Solution**  
All the DSO products are at wholesale prices and listed on eBay with all their pictures and descriptions. Run an efficient eBay business using our Seller listing tools. Receive orders back to your site and send them to us with just on click.

**Amazon Seller Solution**  
The genius behind this automated selling Manager is the way that allows you to list and sell your products through Amazon and any sites that can be linked to your website. All orders placed on Amazon come back to your site and simply send them to us with a click of a button.

**osCommerce Website Solution**  
It's completely automated. You'll be amazed just how easy we've made it for you.

**Multichannel osCommerce**

[Please click here for more info](#)

**categories**

- Back In Stock
- Beetle Parts
- Beetles
- Cars
- Jaguar XF
- Manufacturers
- New Products
- Out of Stock
- XF Repairs
- XF Service
- Generator Spares
- Generators
- Pressure Washers
- Auto Care
- Building and DIY
- Camping, Caravans
- Christmas
- Clearance
- Electronics
- End of Line
- Gardening
- Giftware
- Health and Beauty
- Household
- Leisure
- Mobile Accessories
- Pest Control
- Pets Corner
- Post and Packing
- Smokers Delights
- Toys
- Travel and Holiday
- Water Dispensers

**search**

Use keywords to find the product you are looking for.  
**Advanced Search**

**information**

**items**

0 items

**currencies**

UK Pound

**login**

EMAIL  
PASSWORD  
 login

**best sellers**

- BERGEN Professional Timing Locking Kit for VAC vehicles BER3168
- Trade Quality 800amp 6 Meter Long Professional Jump Leads AU283
- Hi Vis Clear Safety Face Mask Shield Visor with Head Band Open Close Flip Up SF013
- Industrial quality 10Pc Reciprocating Saw Blade Set Wood Metal Universal Shank PA074
- Professional Trade Quality 5 Piece Brass Air Quick Connect Coupler Set AT085

## Annex N°5. Survey composition

Page 1: Personal data

### Datos Personales

Sexo \*

- Femenino
- Masculino

¿Cuál es tu rango de edad? \*

- 18 - 25
- 26 - 30
- 31 - 35
- 36 - 40
- 41 - 49
- 50 - 59
- 60+

¿En qué ciudad vives? \*

Primera letra mayúscula y sin tilde. Ejemplo: Valparaiso

Your answer

---

Page 2: Internet Purchases. Depending of the answer will follow page 3 or page 4.

## Compras por Internet

Se refiere a toda compra realizada a través de portales electrónicos, ya sea de tiendas de retails ([ripley.cl](http://ripley.cl), [falabella.cl](http://falabella.cl), [paris.cl](http://paris.cl)) u otros ([mercadolibre.cl](http://mercadolibre.cl), [yapo.cl](http://yapo.cl), [aliexpress.com](http://aliexpress.com), [ebay.com](http://ebay.com), [amazon.com](http://amazon.com), etc).

¿Ha realizado alguna vez una compra por Internet? \*

- Si
- No

Si la respuesta anterior es afirmativa ¿Con qué frecuencia realiza compras por Internet?

- 1 a 3 veces al año
- 1 a 3 por semestre
- 1 a 3 veces por mes
- 1 a 3 veces a la semana
- Diariamente
- Ya no realizo compras por internet

## Métodos de Pago

Quando compra por Internet ¿Qué sistema de pago utiliza principalmente?

Seleccione como máximo 2 casillas

- Tarjeta de Debito
- Tarjeta de Crédito de bancos o retail (Visa, Mastercard, Falabella Lider, otro)
- Transferencia bancaria
- Medio digital (Paypal, Khipu, Criptomoneda)
- Other: \_\_\_\_\_

El método de pago elegido se debe principalmente a:

Seleccione como máximo 2 casillas

- Seguridad
- Facilidad de pago
- Es el único medio que me permite el portal donde compro
- Es el único medio que dispongo para realizar pagos
- Other: \_\_\_\_\_

## Portales de Compra

Quando realiza compras por Internet ¿Dónde las realiza?

	Nunca	A veces	Regularmente	La mayoría de las veces	Siempre
Tiendas de retail online (Falabella, Ripley, Paris, etc)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Sitios nacionales de intercambio (mercadolibre, yapo, etc.)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Sitios internacionales (Ebay, Amazon, Aliexpress, etc.)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Redes sociales (Facebook, instagram, etc.)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Según su opinión, califique la importancia de los siguientes atributos de los portales donde compra

	No es importante	Poco importante	Importante	Muy importante
Seguridad (datos personales, del dinero o de que el producto llegue)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
El portal esta en español	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
El portal es agradable y fácil de navegar	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Cuenta con una oficina física	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Ofrece compras en cuotas	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

## Preferencia de compras

¿Cuáles son las categorías que compra con mayor frecuencia por Internet?

Puede marcar más de una casilla

- Electrónica (TV, smartphones, Computadores)
- Electrodomésticos
- Accesorios para smartphones
- Ropa deportiva o de vestir
- Cosméticos, perfumería o artículos de belleza
- Música o instrumentos musicales
- Ferretería
- Abarrotes (Comida, gaseosas, bebidas alcohólicas)
- Accesorios para mascota
- Other: \_\_\_\_\_

Al comprar por Internet a usted le importa principalmente

Seleccione solo 2 casillas

- Precio
- Calidad
- Tiempo de entrega
- Exclusividad
- Acceso a productos internacionales

Page 4: If the person has never purchase a product online or does not do it anymore will be directed to this page.

### Según su opinión, indique cuanto influyen las siguientes razones para no realizar compras por Internet

	No es importante / No aplica	Poco importante	Algo importante	Muy importante / Aplica
Falta de seguridad (datos personales, del dinero o de que el producto no llegue)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Prefiero las compras en persona	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
No me gusta esperar por los productos	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
No entiendo las compras por internet	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
No dispongo de un medio de pago para realizar compras por internet	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Si su razón no se encuentra especificada arriba, favor indiquela:

Your answer \_\_\_\_\_