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MASTER'S THESIS
ON THE TOPIC:
«Drop-shipping – new revolutionary trading»

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ЗАТВЕРДЖУЮ

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_____ В.М.Боронос
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ЗАВДАННЯ

до магістерської роботи

Студент(-ка) групи РІ.м - 91 Науково-навчального інституту фінансів, економіки і менеджменту імені Олега Балацького спеціальності 076 – Підприємництво, торгівля та біржова діяльність
Волошина Інесса Валеріївна

Тема роботи: Drop-shipping – new revolutionary trading

Затверджено наказом по СумДУ № _____ від " ____ " _____ 20 ____ р.

Термін здачі студентом завершеної роботи " ____ " _____ 20 ____ р.

Вихідні дані до роботи: materials of statistical reporting, instructions and regulations, materials of monographs, periodicals, textbooks and manuals, data of financial statements, organizations and institutions, etc.

Зміст основної частини роботи (перелік питань, що підлягають розробці):

Дата видачі завдання: " ____ " _____ 20 ____ р.

Керівник магістерської роботи: доц. Похилько С.В. _____

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(підпис студента)

ESSAY

Graduate work: 36 p, 4 figures, 1 tables, 58 sources.

The aim of the graduation work is to study the theoretical foundations and economic essence of the analysis financial activity of Drop-shipping. The object of study - the results of financial and economic activities of developed commercial enterprise and methods of its complex financial analysis state. Developing the new strategies approaching consumers and selling the products, trends assessment of its functionalities.

The first section tells about the history of the drop-shipping, when it begun and how it was operating while there is no internet available for public. Also, these parts defines the importance of the online store as a separate market segment; its positive impact in the world and rapid growth. The global drop-shipping market size will show the opportunity for those who are planning to improve their life style and become the owner of the business.

The second and third sections about drop-shipping development; identifying purpose and objectives; how to target the right segment; analysis of prospects of a drop-shipping business; sources of suppliers and products; marketing methods; selection of payment systems; selection of electronic trading platform. All these aspects are important in developing the online business.

The fourth section analysis of results of activity; advantages and disadvantages of drop-shipping; identification of relevant indicators, on the basis of which conclusions are made about the financial condition of the e-commerce; impact of COVID-19 and what happened to consumer behavior towards online shopping.

DROP-SHIPPING. E-COMMERCE. DOMESTIC AND INTERNATIONAL DROP-SHIPPING. ADVANTAGES AND DISADVANTAGES OF DROP-SHIPPING. INTERNET MARKETING, DIGITAL MARKETING. ONLINE SALES. E-COMMERCE PLATFORMS. TARGET SEGMENTS. PRODUCTS. PAYMENT.

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INTRODUCTION

Relevance of the topic of the thesis. Electronic commerce (internet commerce or online retail) has a little over two decades of intensive development. Compared to the period of development of other sectors of the economy, this is a very short period of time. Currently, e-commerce is one of the main areas of digitalization of the economy.

Electronic commerce is usually classified according to the composition of its participants into a number of sectors. The main ones are usually considered: Business-to-Business (B2B); Business-to-Consumer or Business-to-Client (B2C); Consumer-to-Consumer (C2C) or Peer-to-Peer (P2P). It also considers the relationship between business and consumers with government and other authorities that regulate electronic commerce.

The most popular form of e-commerce is the B2C sectors. This form of e-commerce, eliminating geographical differentiation and increasing the availability of goods for most consumers, equalizes their opportunities. It is available anywhere, anytime.

One of the fast growing e-commerce method is the Drop-shipping. Worldwide known Amazon, the e-commerce giant, has been using the drop-shipping business model since 2011. Its drop shipping products reportedly accounted for 34% of sales that year alone. The benefit of this model is that the seed capital, stock and storage are not required. Online store sells the product to consumers, but the product moves directly from the wholesaler to the end consumer.

[1]

The article will also examine the global practice of regulating the collection of tax and other payments in the framework of cross-border electronic trade in goods, both in the B2C segment and in the B2B segment.

There is another very important moment in running drop-shipping business and all businesses - is Marketing. The e-commerce is listed as the only trillion-dollar industry that is keep growing in digits on yearly basis. There are potential sales that can take advantage. This innovative concept of direct delivery brings flexibility and time efficiency because you do not have to physically store inventory or visit the store as a buyer, and you just pay when you make a sale or buy.

There are 12-24 million online stores in the world, but only 650,000 bring in more than \$ 1,000 in annual sales. Since building the websites become easier for everyone, the market is became very competitive. Every drop-shipping business owner has to protect his business and

make sure it is successful. The growth of e-commerce is absolutely astonishing and it is not going to slow down any time soon. [2]

In this article, we will focus on how to build your drop-shipping business, on marketing strategies, techniques and tools to halt competition. Whether you need to bring new customers to your store, motivate existing traffic for conversions, or support the loyalty of previous customers, there are new innovative marketing strategies to build up more sales and uphold a successful shipping business.

The main purpose of the study is to identify the source of the beginning of drop-shipping; to understand what is the global market place and size it took over by now – report overview; highlight the main advantages and disadvantages of the drop-shipping; impact of Covid-19 on digital consumer behavior; to analyze the key factors for the successful implementation of Drop-shipping development within the framework of the problem of interaction between management, company employees and the external environment.

The object of the research is the process of introducing the Drop-shipping business development.

The subjects of the research is the Drop-shipping development process, profitability, advantages and disadvantages, future of drop-shipping.

Work structure. The main part of master thesis consists of three sections. Will define the importance of the online store as a separate market segment; Drop-shipping development; purpose and objectives; analysis of prospects of a drop-shipping business; identifying sources of suppliers and products; marketing methods; selection of payment systems; selection of electronic trading platforms; analysis of results of activity; analysis profitability; identification of relevant indicators, on the basis of which conclusions are made about the financial condition of the e-commerce and recommendations on how to improve its further activities.

The factual basis of the work is the fundamental concepts and hypotheses considered in classical works on economic theory, research of modern domestic and foreign economists on the problems of integrated management of enterprise resources.

The actual basis of the work is the materials of periodicals, materials of the financial reporting of the business. This work about the most booming commercial trading via internet – Drop-shipping. It is not really new type of trade but was forgotten for some time in earliest of XXI.

1 CONCEPT OF DROP-SHIPPING

1.1 The fundamentals of drop-shipping

Prior to understanding the procedure and analysis, we will go through the history of Drop-shipping, how it was initially operating, who were the key “players” and what were the trading commodities.

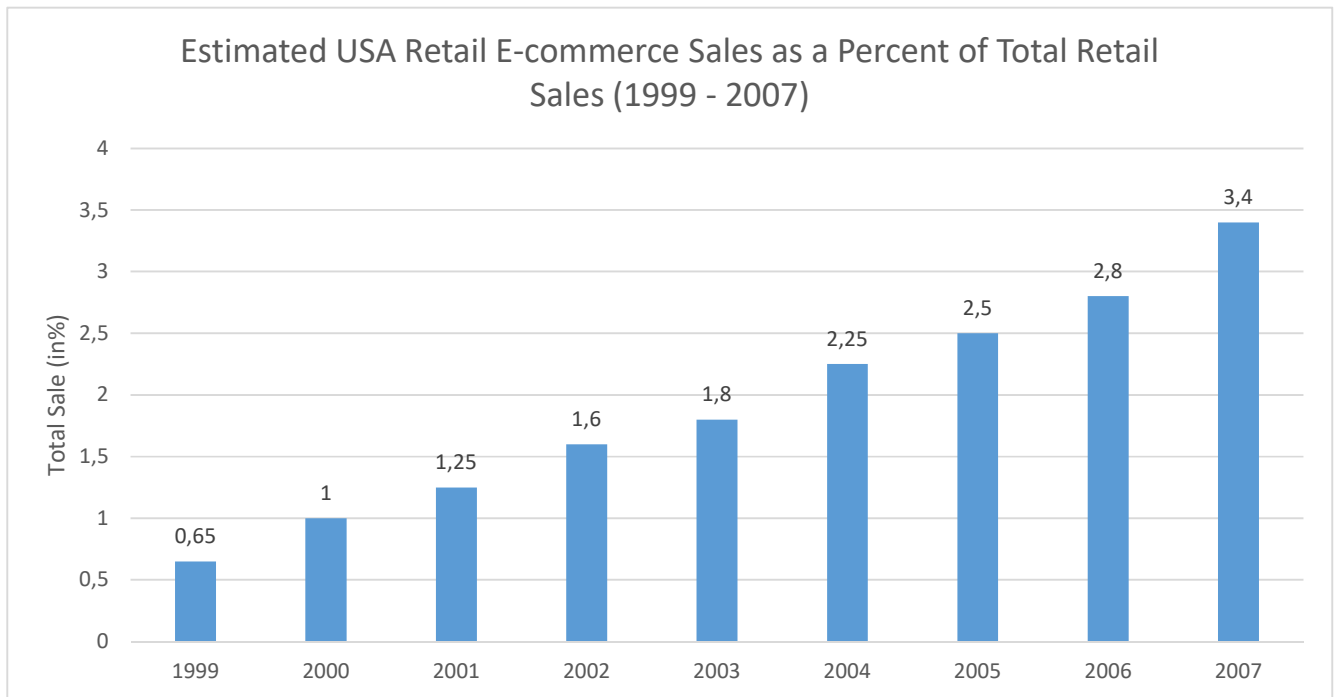
“Drop-shipping” means direct deliveries. Drop-shipping is when an intermediary sales goods which belong to someone else on his behalf, and then delivered by supplier directly to the buyer.

It is generally agreed that drop-shipping has begun in earlier XX in USA. The first who described this method of e-commerce in 1927 in the book “Principals of Marketing” were American marketers H. Maynard, W. Weidler and T. Beckman. [3]

The business was based on underdeveloped communications. The drop-shippers had an information about the sources of goods and prices. As they were among potential clients, they had no difficulty in finding buyers. The drop-shippers had neither storages, not initial funds. Their business was developed by having a desk, chair, typewriter, and telephone. The business was growing even the intermediates were facing complications. Mainly it was unpredictable product delivering time and lately the wholesalers start including the drop-shipping service as part of their services. [4, 5]

In 1960 development and implementation of technical communications influenced the significant decrease in the drop-shipping service. It opened the door for consumers to be able to order products directly from manufacturers and suppliers. In 1991 when internet became available for commercial use, it created more competition. In 1990th the business became tougher due to cost raise from US drop-shippers as a result of increased shipping requirements. By end of 90th lots of online stores went bankrupt as they couldn't sustain.

The fast growth of e-commerce sales had begun from 2000 when both sellers and buyers realized the advantages of electronic commerce. (Pic 1.1) [6]



Picture 1.1 - Fast growing retail e-commerce sales from 1999 to 2007

*compiled by the author based on [7]

The intermediaries found the solution to simplify the process, reduce the delivery timing, reduce purchase prices and increase the profit. Firstly, it turned from B2B to B2C business; secondly, the product purchased on their websites would be delivered to the buyer directly from the supplier.

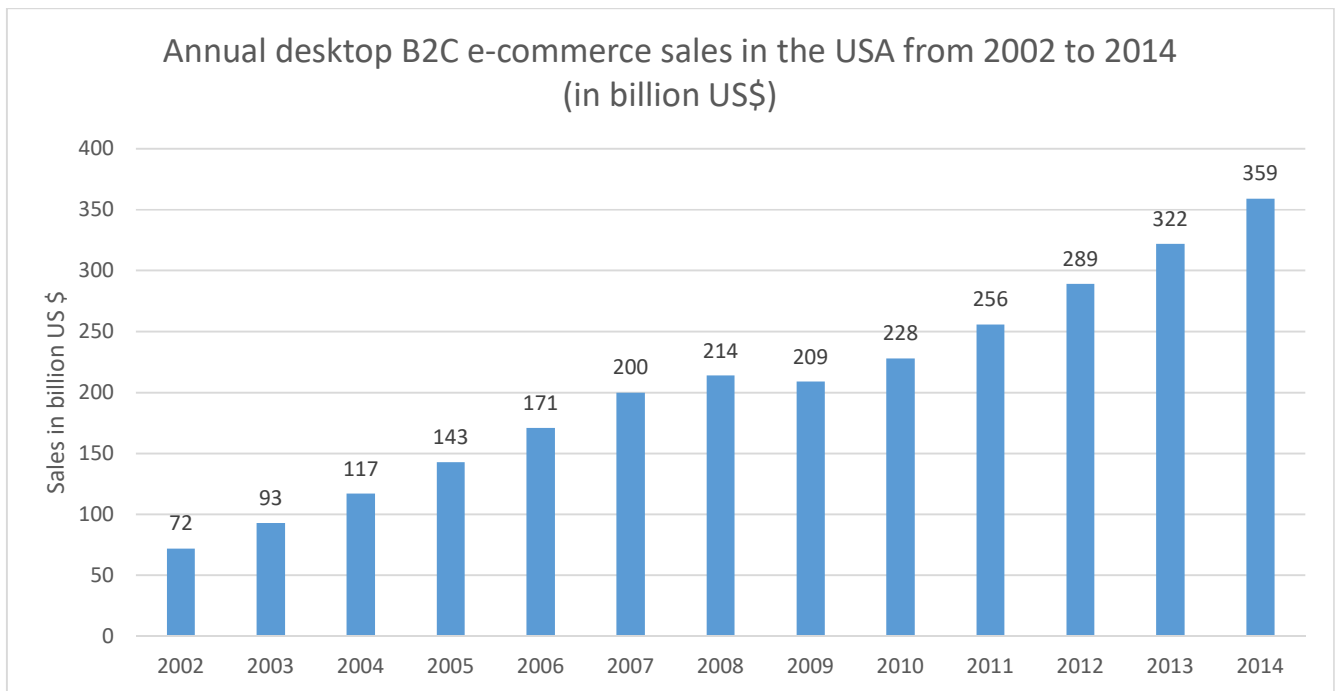
The Drop-shipping model in following steps:

1. Customer places order – pays you retails price (for instance 200 US\$),
2. Drop-shipper keeps profit (50 US\$),
3. Drop-shipper forward order to the supplier and pay wholesale price (150 US\$),
4. Supplier ships the product directly to the customer.

This is how in 2002 was born drop-shipping company “Doba” [8]. They were leaders of e-commerce in USA. Ten years later their online catalog had 1,447,353 items for sale in 1500 categories, almost 8,000 brands from 165 different suppliers. However, the downturn of this business is a very tiny profit. Therefore, drop-shipping started collaborating with China. Both countries had mutual benefits. At first, the difference between the purchase price and selling

price to end users was significant; secondly, it helped Chinese product to go globally, outside of their local market. Nowadays China's drop-shipping industry the most advanced in the world. [9]

In the graph below we can see the significant grows. (Pic 1.2)



Picture 1.2 - Fast growing retail e-commerce sales from 2002 to 2014 (in billion US dollars)

*compiled by the author based on [10]

1.2 The essence, features and types of drop-shipping activities

The essence of drop-shipping is to collaborate with a manufacturer and find consumers for their goods and services. The drop-shipper promotes the manufacturer's commodity on their websites, managing all the marketing strategies and takes orders from purchasers. Then the drop-shipper finalizes the transaction and receives payment for the cost of the goods.

To cooperate with a drop-shipper and use their services can only manufacturers who fall under the following criteria:

- manufacturers who do not sell their own goods by themselves;
- manufacturers who are not engaged in the sale of their own goods in any territorial or within industry sector or any another market;
- wholesale intermediaries who distribute commodities through a system of dealers and drop-shippers. [11]

Drop-shipping is divided into four types:

- 1 Product reselling;
- 2 Business extensions;
- 3 Product creation;
- 4 Print on demand.

Product reselling. This type is used most often. It is the easiest way of doing business. Drop-shipper finds ready products from various sources and start selling it on his online shop. It is important to understand the segment that will be targeted and know the product. This is what helps buyers will benefit from easy way of finding needed product and purchase without hesitation.

Since this type of drop-shipping is more common, it makes more difficult to find and hold clients. This require unique and creative marketing ideas which will give higher chances to be successful in this type of drop-shipping.

Business extensions. This type is convenient for those businesses who are planning to expand their online business. They can choose any person or organization that can do drop-shipping for them.

Many retail stores are willing to present their products or services online but maybe don't have time to manage it, lack of knowledge or funds as it requires different skills and need to involve social digital marketing professionals. This is where this type of drop-shipping takes its place. Drop-shippers are collaborating with these stores to promote their products and services online. Every time a drop-shipping business receives an order, it forwards the request to the retail shop and asks them to ship the product to the shopper. This type of drop-shipping business is convenient for rural areas where retails shop don't have easy access or not interested in spending time and finance as it takes lots of effort. In this case the drop-shipper will agree on an exclusivity from supplier.

Print on demand. Recently it has become popular to have prints such as texts, pictures, logos on T-shirts, mags, bags, pens and other thing. For instance, jewelry shop would like to

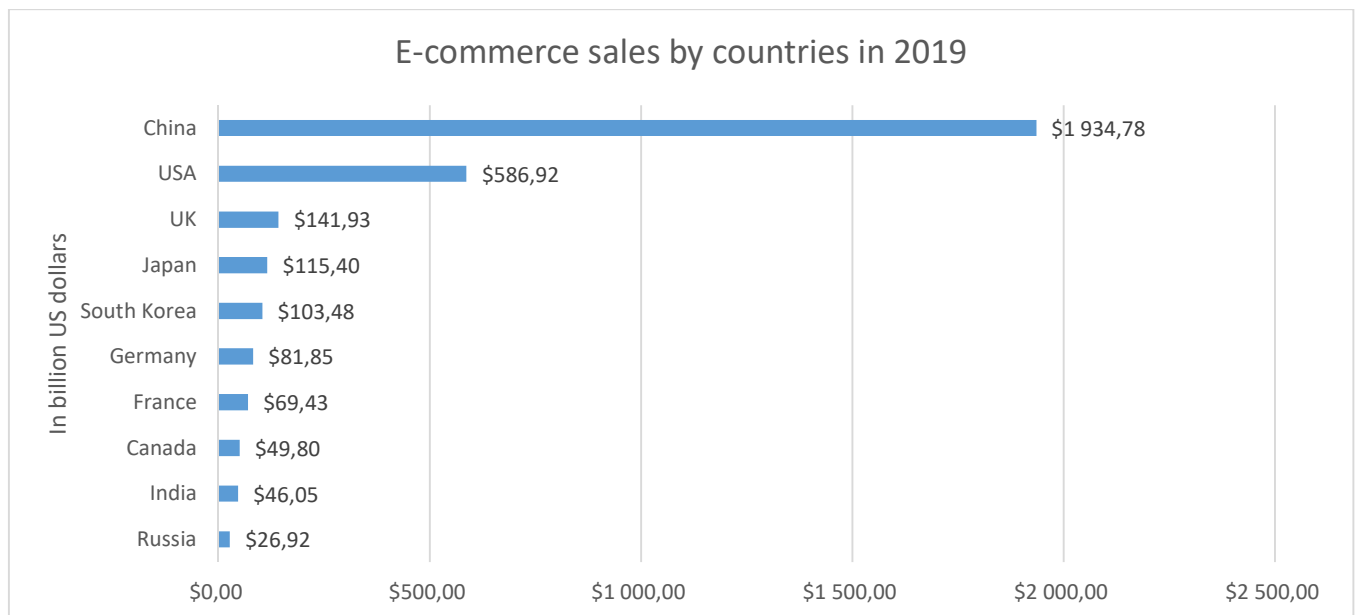
increase their awareness by gifting clients with the customized wrapping bags or mags with printed brand name and logo on it. So this model of drop-shipping works on demand and selling custom made products.

Product creation. This type of drop-shipping is challenging and requires creativity. Creating new products by mixing existing ones can be tough and involves a certain level of imaginativeness. Despite, another common product you can invent a selection of products that are effective to acquire together. For example, full set for shower such as shower gel, soap, shampoo, hair conditioner, washcloth and bathrobe. Very important to remember, that when combining few products in one, it is better to order from the same supplier because if it is from different, the products will arrive to end consumer in different timing. [12, 13]

2 THE GLOBAL DROP-SHIPING MARKET SIZE

The Drop-shipping market was valued at US\$ 162.44 billion in 2019 and is forecasted to reach US\$ 591.77 billion by 2027; it is expected to grow at a CAGR of 18.3% during the forecast period.

Accordingly to Oberlo report China is taking more than half of all global e-commerce sales. It is \$ 1.934 trillion e-commerce market represents 54.7 percent of total global e-commerce sales and exceeds the combined size of the next nine in the top ten e-commerce markets. (Pic 2.1) [14]



Picture 2.1 - The Global E-commerce size by 2019

*compiled by the author based on [14]

An increased interest in purchasing online shows positive impact on growth of the drop-shipping businesses. New smartphones have large amount of mobile applications that make the online shopping easier and convenient. Consequently, the growth in demand for drop-shipping services is mainly driven by the growth of the e-commerce industry.

The significant increase in investment from key players in the e-commerce industry has come as a result of the number of buyers choosing online shopping platforms. For example, according to the United Nations Conference on Trade and Development (UNCTAD), the

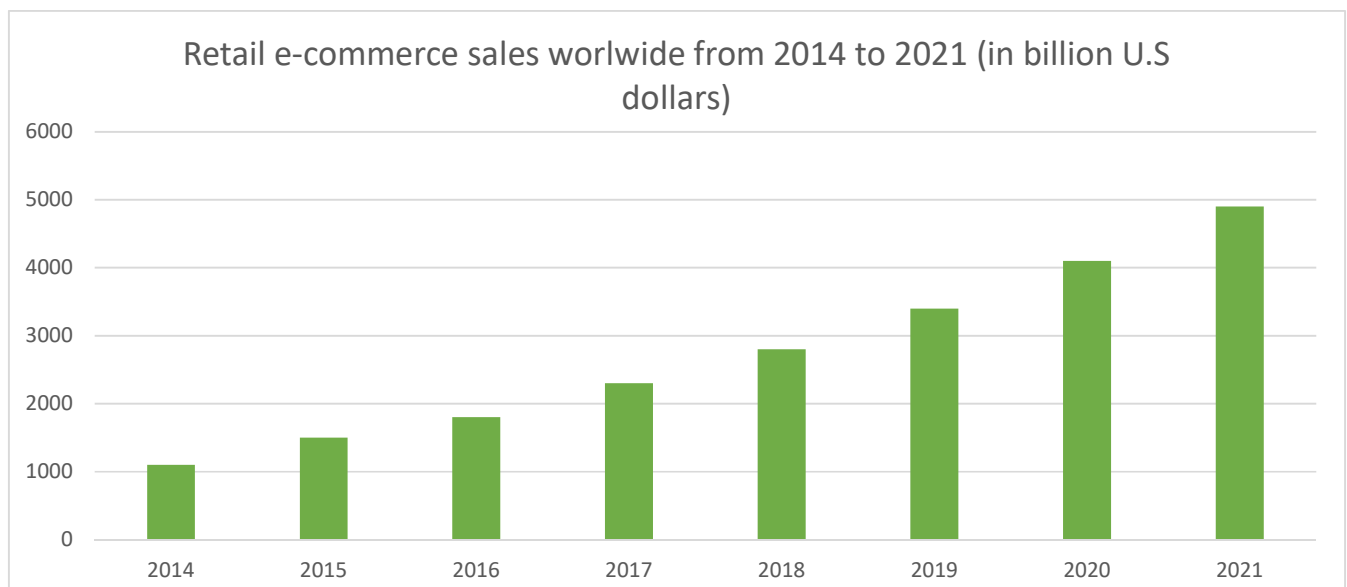
number of online shoppers worldwide was 1,078 million in 2015 and reached 1,342 million in 2017.

As an example, the e-commerce market in the Asia-Pacific region had steady growth over the past few years. The growing market was motivated by increased net income and preference for online shopping. According to the Ministry of Commerce and Industry of the Government of India, India's e-commerce market was valued at US \$ 38.5 billion in 2017 and is expected to reach US \$ 200.0 billion by 2026, with a CAGR of 51.0%. [15]

There are few more facts on e-commerce retails:

- The top 3 online stores' revenue was about 100 billion US\$ in 2017;
- In 2016 online shopping became one of the most popular online activities worldwide but it depends on the region;
- Desktop PCs and mobile devices are the most popular devices for placing online shopping orders.

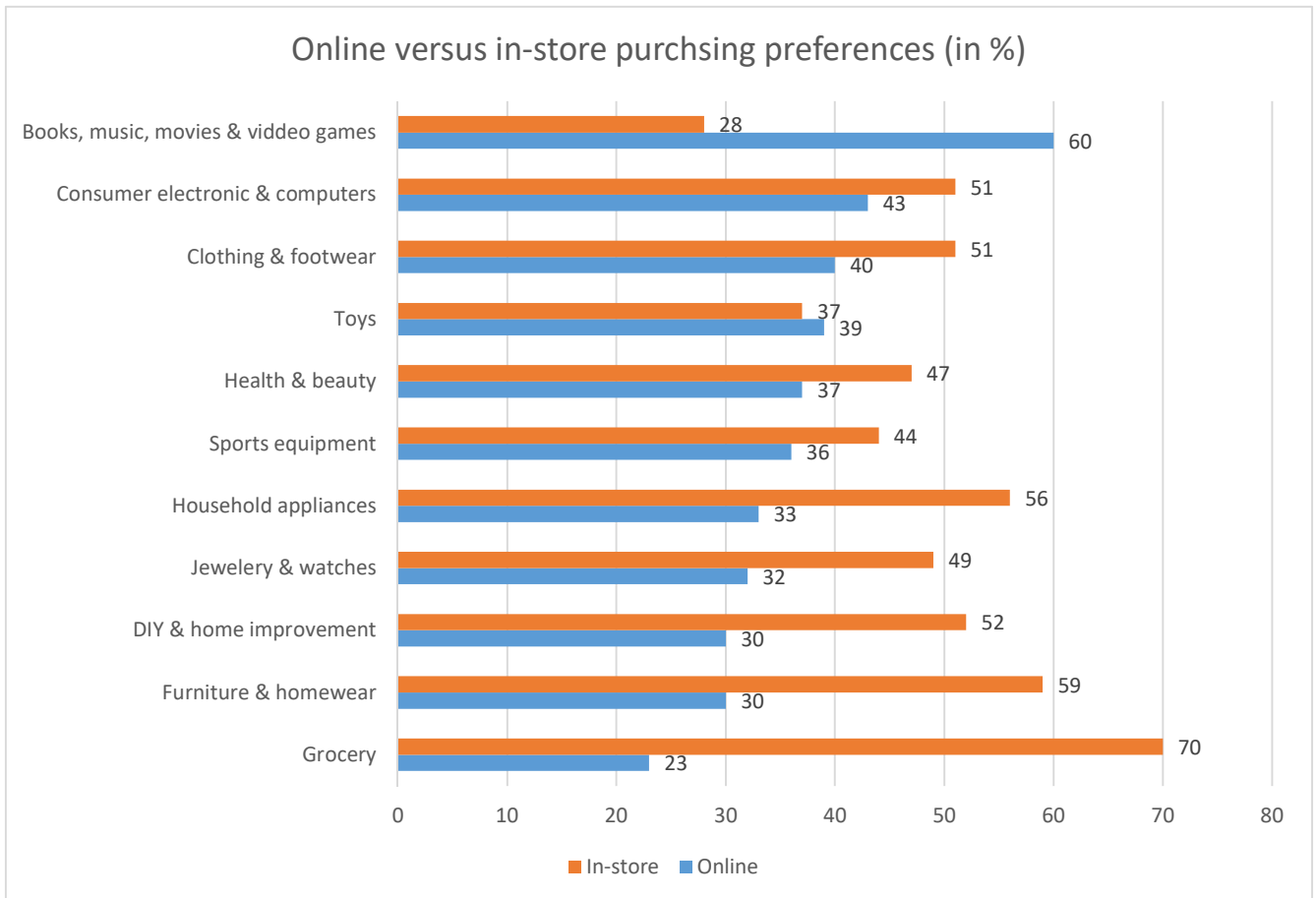
As buying or selling via internet became really comfortable, e-commerce sales are growing each year and here is statistics on retail e-commerce sales worldwide from 2014 to 2021. (Pic 2.2) [7]



Picture 2.2 – The Global E-commerce size by 2021

*compiled by the author based on [16]

According to a study published by PwC (audit and assurance, consulting and tax services <https://www.pwc.com/>), in the next chart we can see a clear picture which products are preferred to buy online, and which are preferred to purchase in a store. (Pic 2.3)



Picture 2.3 – Where do we buy what?

*based on a survey of 24,471 respondent from 29 countries, 2017

*compiled by the author based on [17]

Accordingly to the chart above we can see that in-store shopping is prevailing for the products which need to be tested (electronics), put on and try (clothing), health and beauty. Whereas book movies in 3.5 times online shopping is prevailing as it is not required to be seen before purchasing. The reason in-store is more preferred is more trusted as you can see what you are buying. Also it is easier to exchange or refund in case of failure, for example, of electrical equipment.

3 DROP-SHIPPING DEVELOPMENT

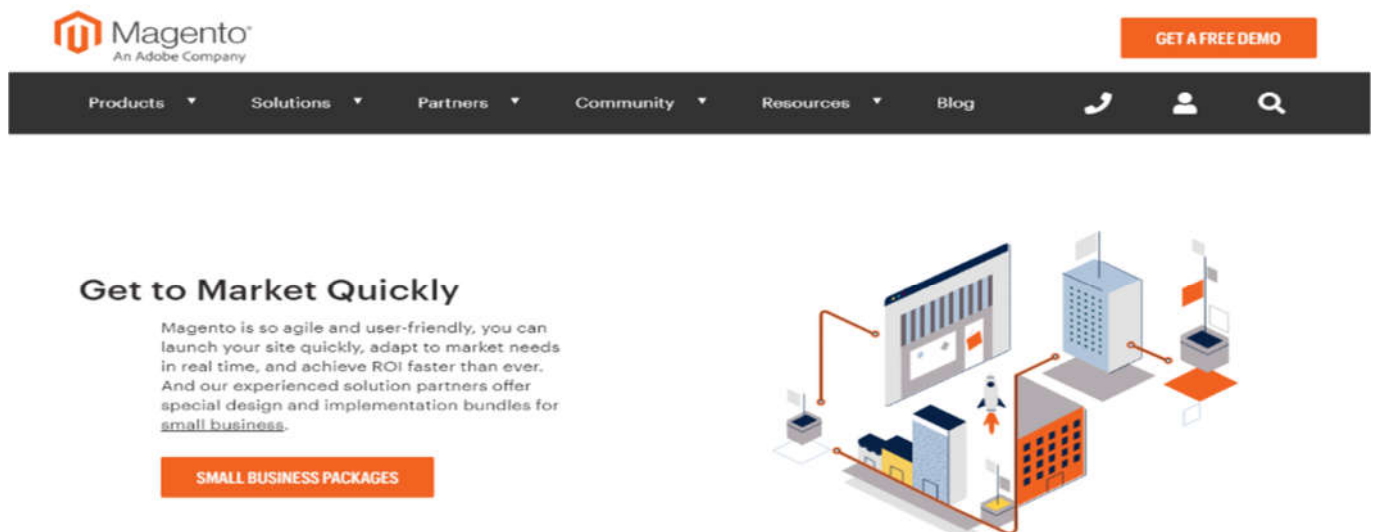
3.1 E-commerce platforms

Drop-shipping is a wonderful opportunity to enter the entrepreneurship world. As we already know it doesn't require to store the inventory, no need to spend any money upfront to purchase the products for resale, and not require the additional employees to run the business. When the customer purchases a product from the drop-shipping store, he pays resale price. After that the drop-shipper places the order to supplier or manufacturer and pays whole sale price. The last step, the supplier ships the product directly to the buyer.

This method of e-commerce opens the door for regular income, of course if you manage it correctly and effectively. What is only will be needed is to develop online shop and register an account with a supplier. There are many e-commerce platforms available for drop-shipping business. [17]

Here are some of the top 5:

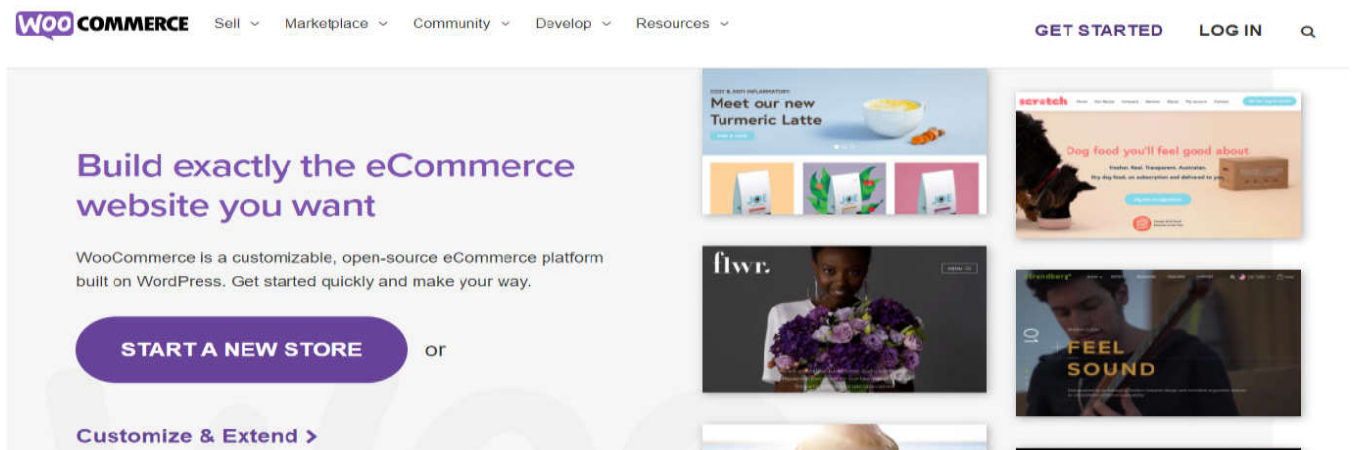
1 Magento provides everything a business needs. The website has fast page load speed, easy checkout, nice product and catalog page, SEO and marketing tools, complete site management, and strong security. (Pic 3.1)



Picture 3.1 - The example of Magento's page

*compiled by the author based on [18]

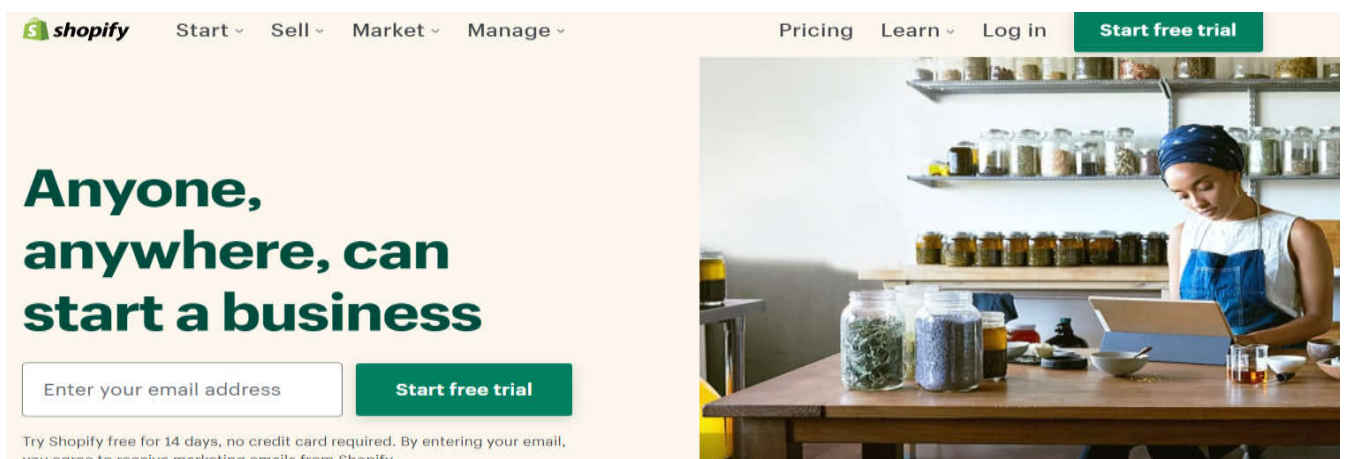
2 WooCommerce. It has very basic functions which are convenient for beginners. WooCommerce has less advanced e-commerce features and it is user-friendly. Despite, this platform is complex to customize and most of its features must be purchased by third-party plugins. (Pic 3.2)



Picture 3.2 - The example of WooCommerce page

*compiled by the author based on [19]

3 Shopify provides a lot of effective features for direct online stores, from theme customization, commodities, orders and client management, credit card payment, multiple taxes, languages and currencies, unlimited hosting, search engine optimization, and more. (Pic 3.3)



Picture 3.3 - The example of Shopify page

*compiled by the author based on [20]

4 OpenCart. Features limitless commodities and divisions, support multiple currencies, combined payment portals, diversified shipping methods, coupon creation for marketing, accessible backup and restore tools, detailed sales report and many more. (Pic 3.4)

The screenshot shows the OpenCart website homepage. At the top, there is a navigation bar with the OpenCart logo on the left and links for FEATURES, DEMO, MARKETPLACE, BLOG, DOWNLOAD, and RESOURCES in the center. On the right side of the navigation bar are buttons for LOGIN and REGISTER. Below the navigation bar is a large blue banner with the text "The best FREE and open-source eCommerce platform" and "Everything you need to create, scale and run your business". There are two buttons: "FREE DOWNLOAD" and "VIEW DEMO". To the right of the text is an image of a laptop displaying the OpenCart dashboard, which includes various charts and a world map. Below the banner is a section titled "Simple to start. Easy to run." with the subtext "Start your free OpenCart eCommerce store now!". This section contains four columns, each with an icon and a title: "Open-Source and Free", "Powerful Store Management", "Extensions and Themes", and "Support You Can Trust". Each column has a brief description of the feature.

Picture 3.4 - The example of OpenCart page
*compiled by the author based on [21]

5 BigCommerce. Provides with all necessary e-commerce features such product's catalog creation, inventory management, marketing tools and more. (Pic 3.5)

The screenshot shows the BigCommerce website homepage. At the top, there is a blue navigation bar with the BigCommerce logo on the left and links for LATEST ARTICLES, EXECUTIVE'S CORNER, and RESOURCES in the center. On the right side of the navigation bar is a button for START YOUR FREE TRIAL. Below the navigation bar is a large white area with the headline "BigCommerce + Spocket Dropshipping Made Easy". Below the headline is the text "Open an online store without the hassle. No inventory, no packaging, no shipping—just profits. For a limited time, enjoy 30 days free on Spocket." and a prominent blue button for START FREE TRIAL. To the right of the text is an image of a woman sitting at a desk with a laptop, with a "Shipping Cart" icon and a laptop screen showing a graph.

Picture 3.5 - The example of BigCommerce page
*compiled by the author based on [22]

3.2 Product selection

Launching online business isn't that easy as it seems like. Prior to opening the online shop, first step should be selection of the niche and product that will go for sale. This is the crucial part. No matter how long you are in the market as entrepreneur, product selection is the painful process.

Why? Because of few reasons. First of all competition is brutal, secondly, the market is saturated with various products, and at last, consumers became very demanding. The most common mistake at this stage is choosing a product based on personal interests or specialties. It defiantly won't work. Targeting the right demographic will help business grow.

Once you decided what categories of products are excellent for a drop-shipping store, you are ahead of the competition and ready to start selling.

For successful and stable growth of drop-shipping, it is important to be aware of latest trends and know what products will be in demand.

The first step in finding the right product is to conduct research which products are in high demand and popularity. There are many resources to get this information. This will help to understand which products are most wanted. These are the products that everyone wants and make up the bulk of online sales.

Next comes targeting the right niche that will help to increase net income. Niche products or services target a specific customer and product category. For example, a custom product, a retro product, electronics, mobile phone accessories, etc. These are items that are more specific and sold for use in a small but profitable market.

The next step is to conduct research of the competitor's product. It is essential to understand their pricing strategy, marketing methods, target market. Find out who their suppliers and sources are. This is very important because if they have exclusivity with suppliers for the same or identical product, it will be nearly impossible to compete with them.

It is also necessary to look for the product with branding potential. Having the drop-shipping business it is difficult create and have your own brand but it is possible. For example, a skin care product. You can take any skin care product and trying to improve its ingredience. Most of the time users like to try new things and will gladly purchase it. Of course, building a brand will require a specific approach to website design, logo design and marketing, but have to be careful and not violate intellectual property law.

Another important step when choosing a product is delivery times. When choosing a supplier, you need to have a clear idea of how quickly the goods will be delivered to the end user. As we mentioned earlier, today's consumers are very demanding and impassionate. They won't be happy if the item arrives in a month or longer, unless it's a cheap item and they're willing to wait. But in these circumstances, the buyer may not come back to you again and find an identical product from another drop-shipper who will deliver the product faster.

And at last is the price. As a result of over saturated market with almost everything you can imagine, the price must be competitive. What does it mean? Buyers will estimate similar products from different drop-shippers and buy the one that is cheaper. However, it won't be a problem if you choose a supplier or close a deal to get the best starting price. This will provide an opportunity to lower the final selling price and attract buyers. [23, 24, 25, 26, 27]

Drop-shipping is mostly based on impulse buying. You are promoting a product on social media, usually through Facebook and Instagram ads, and someone will buy it if they like the product. In fact, anything can be sold if it is shown in the right way.

For a product to sell, it must be:

- Under US\$ 50 and look cute or useful to the viewer. Examples: key chains, toys, jewelry, pet supplies.
- Products should look presentable. The beautiful pictures attract our attention and we are getting trapped. This is why the presentation of goods need to be tempting and eye catching online.
- Respond to buyer's requests. Detailed description play important role in holding the buyer longer on your page. It helps to gain trust which will follow the purchasing process.
- Rare products. These include products that are not usually sold on Amazon. You should be aware that buyers will double check the price on Amazon or other well-known e-commerce stores. So, the products should be difficult to find on well know low cost online stores.
- Should be useful. Shoppers will go even for a little higher price, but only if the products are useful. The promotional videos about the products is a catch and people will definitely buy them.

Find the bestselling drop-shipping products on the trendiest trading platforms will help tools like Product Mafia, Pexda, Thieve, Repick, Angage, Product Research Lab (FB Group), Google Trends, Spocket, etc. These sites provide all the details to drop-shipper which he can use for promoting products. All of these websites also have their own

forums or Facebook communities where vendors can discuss the results of their product campaigns.

What are the best selling products in 2020?

- ✓ Respiratory mask N95.
- ✓ Hand sanitizer
- ✓ Portable mini air conditioner
- ✓ Wireless charger
- ✓ Car Phone Holders
- ✓ Shower filter
- ✓ Neck phone holder
- ✓ Magnetic charging cable
- ✓ Pocket translators
- ✓ Belts for posture correction
- ✓ Waterproof floating cases for phones and tablets

What are the best niches for drop-shipping in 2020?

- ✓ Wireless devices
- ✓ Fitness trackers
- ✓ Dog accessories
- ✓ Anti-stress toys
- ✓ Materials for creativity
- ✓ Sportswear
- ✓ Drones and accessories

Attractive ads and low prices are a hook that will lure viewers to buy a product. And, as soon as they are interested, you tell them the price. The price must be low so they can buy it immediately. [28, 29, 30]

3.3 Identification of target segment

Every entrepreneur should know his client. What are the interests, preferences and priorities of this person? If these questions are answered, it will be easier to understand what the products and services will be the most profitable.

The success of a business lies in its ability to meet customer's needs. The difficulty is that buyers have different preferences and tastes. It is impossible to work with the entire audience of the market, because the "versatility" of the product makes it an average product with average characteristics that no customer completely likes. Therefore, companies strive to find their target audience, which will be most satisfied with the company's product.

The concept of a target market helps to use right marketing strategies. For the B2C industry, target market means a specific group of people to whom you plan to sell the product or service. For the B2B market, the target market segment is the companies you plan to sell your product or service to. It is believed that representatives from the target market should be interested in buying and using your product. The increased interest in the product from the target segment, achieved through a perfect understanding of the needs of the target audience, makes the business more profitable.

If you know your target market and understand exactly who do you want to sell to and who will most often buy your product, then you can create the right ad with a high response, select the most attractive packaging or location for the sales department, endowing the product with the most important properties.

Audience segmentation allows you to better understand potential customers - who they are, where and how they live, whether they have families or pets, whether they like to travel, how they make decisions, etc. This set of characteristics breaks down leads into groups and opens the door for a business to apply a specific marketing strategy that will yield better results than a generalized version for the entire target audience.

How to define your target market:

- 1 Analyze your product or service;
- 2 Study your competitors;
- 3 Define selection criteria;
- 4 Analyze.

1. Analyze the product or service

Take a close look at what you are selling, and understand:

- Who will benefit the most from the offered product and service?
- Will the target customer find more than one benefit in the product?
- What needs does your product or service satisfy?
- What problems does it solve? What difficulties does it avoid?
- Will my target customers solve different problems with my product?
- What demographic, geographic, or behavioral component can this or that advantage be attributed to?

2. Research your competitor

Estimate your competitor to understand how they are positioning their product and who they are selling to. Look at their customer base: are there any unreached market segments that your offering could fill?

3. Choose the criteria by which the segmentation will occur. A target market can be segmented in several different ways. Clients can be categorized according to demographic, geographic and behavioral characteristics.

4. Analyze how to choose a marketing strategy to enter the target market. Is the potential customer's base large enough to keep the product or service afloat? Market research can help understand the target segment better.

3.4 Segment Separation Criteria

There are a huge number of criteria, because each business has its own specifics. However, there are major areas for customer segmentation - geography, demographics, and behavior. Within each direction, you can find a number of criteria by which you can divide the target audience. These criteria are suitable for absolutely any business, be it B2B or B2C.

Geography

For example, it can be categorized by country, region, city, or even individual area - depending on the size of your business. Why it should be so precise? For instance, for a small

store within walking distance in a residential area does not make sense to advertise itself to the whole city. If you plan to work in the northern regions, it is hardly worth opening a beach goods store there.

Traditionally, the following geographical criteria are distinguished:

- Region;
- Type of settlement;
- Locality;
- Population density;
- Population;
- Climate.

Demography

Demographic trends are important because the size of different demographic groups changes over time as a result of economic, cultural and political circumstances. The common variables that are gathered in demographic research include:

- Sex;
- Age;
- Family status;
- Income level;
- Education;
- Employment;
- Occupation;
- Religion;
- Nationality.

Psychographic

This is the most extensive and complex area of segmentation. It assumes separation according to some behavioral characteristics: hobbies, lifestyle, belief system, etc. Segmentation of the target audience in these areas will help to narrow down a more understandable market for which you can create a specific product and have suitable impact. This includes the following criteria:

- Benefits for the client;
- Commitment to the brand;

- Loyalty degree;
- Motives for making a purchase;
- Consumption intensity;
- Readiness to purchase;
- The volume of purchases;
- Budget;
- Terms of purchase;
- Payment method;
- Decision maker;
- Experience, expertise

It is important to target those customers who are most likely will buy the product. In order to segment your market correctly, you need to do a thorough research of the cost of the product. Only then we can say with certainty that one segment receives more benefits than the other, and why this is happening. Such analysis will allow you to correctly position the product and will allow you to strengthen your position in the market and at a deeper level to establish contact with customers. A clear definition of the target market and customer profile is necessary to create relevant content and communicate with potential customers in the same language. [31, 32, 33]

3.5 Search of suppliers

Searching for suppliers and planning cooperation is one of the fundamental questions, the answer to which must be sought at the initial stage of project development. You can search for suppliers in any convenient way: in search engines, in databases and reference books, at exhibitions, conferences, recommendations of colleagues. It is easier to negotiate and interact with large suppliers, since they have established business processes for working with wholesale buyers. Sometimes more favorable delivery terms can be obtained in cooperation with small companies.

Suppliers can be Ukrainian and foreign. For example, very common purchases from China. It is cheaper and the range is larger. But buying from Ukrainian suppliers is safer and

reliable: the goods are already inside the country, checked and certified, there are no customs clearance processes, there is no language and cultural barrier.

If you find a supplier in your city or the nearest city, it's generally ideal. You do not have to wait long for delivery and you can even quickly go to him and meet him personally.

It is beneficial for an entrepreneur to buy products from wholesale distributors. They supply goods at a wholesale price. In opposite, retail distributors sell the product at a retail price, which, in cooperation, deprives the online seller of the margin. Suppliers generally fall into three categories: product manufacturers, authorized distributors, and drop-shippers.

Product manufacturers

These are large, medium and small manufacturers who produce and release the product at the lowest price, but usually sell it in large quantities. Although each niche is different, sometimes you can find a manufacturer selling by the piece. It is easier for a beginner online store owner to work with small companies. It is easier to negotiate with them on the delivery of goods on individual terms. And when working with micro-companies, a store owner can contact the owner or director of a small business and negotiate with him personally.

The disadvantages include the difficulty of finding small manufacturing companies. Very small companies may have problems with product quality or conformity certificates. In addition, a small company may suddenly disappear from the market. In this case, the online store will be responsible for every possible customer claims during the warranty period. Another downturn is the risk of running into an incompetent supplier.

The advantages of working with larger companies are favorable delivery terms. Large suppliers have more opportunities to give a discount or payment plan. Also, large companies rarely have problems with documents and certificates of conformity.

Distributors

An official distributor is a manufacturer's representative selling their products. Working with distributors makes no difference from working with large manufacturing companies. Distributors supply goods on practically the same terms as manufacturers.

It is common practice when distributor sets the MRC (minimum retail cost) according to the manufacturer's instructions below which the product cannot be sold. Small wholesale buyers get a discount from it, which is their earnings of an online store. In this case, price

underbidding is excluded, because the goods will be sold in any store not cheaper than the price indicated by the manufacturer. In such conditions, stores compete with the quality of service, and it is possible to earn an additional mark-up for related products and services.

Drop-shippers

This is an interesting option for promising internet marketers. Drop-shipping suppliers sell products without prepayment. In this case, the online store owner does not purchase a bulk stock of goods. His only responsibility is to attract buyers, receive payments and forward the order further. Delivery is carried out by drop-shipper, but on behalf of the store.

The online store earns a commission. At the same time, the drop-shipper does not spend money on the purchase and storage of products.

Even though the process seems easy, there are many disadvantages:

- Complicated scheme of cooperation. First of all, this applies to foreign drop-shippers, because the site will need to be synchronized with its database. This is not always easy to implement.
- The store's reputation depends on the decency of the drop-shipper.
- Very competitive market.
- Difficulty finding drop-shippers who is selling goods which are in demand. [34]

Examples of companies that offer cooperation on the drop-shipping model in Ukraine include the following portals:

- ✓ TM Vilno. Is a Ukrainian clothing manufacturer that allows you to buy even one piece of cloth at a wholesale price and also takes care of sending the order to the client.
- ✓ Endorphone. Affiliate program from the manufacturer of covers for smartphones Apple.
- ✓ Here is fashionable. A manufacturer of women's and men's clothing, which offers cooperation in a direct delivery system.
- ✓ Tagtekstil. A manufacturer of textile products offering cooperation on a direct sales system (drop-shipping).
- ✓ Opt-toys. A toy warehouse store that works only in wholesale and drop-shipping.
- ✓ Villomi. An actively developing manufacturer of women's shoes offers a minimum order of one pair for drop-shipping. [35]

Unfortunately, so far there are only few high-quality brands in Ukraine (but we strive and try to be better). Imported goods inspire more confidence. Usually the quality of goods from Europe or the USA is high.

Examples of overseas wholesalers:

- [All.biz](#)- a directory of suppliers from all over the world.
- [Esources.co.uk](#)- suppliers from the UK.
- [Goolzi.com](#)- suppliers from France.
- [4wholesaleusa.com](#)- suppliers from the USA.
- [Europages.co.uk](#)- suppliers from Europe.
- [Eurolots.com](#)- suppliers from Europe.
- [Manufacturer.com](#)- suppliers from the USA and other countries.
- [etsy.com](#) – USA largest retail trading platform.

Asian Suppliers:

- [aliexpress.com](#)- by Chinese standards, prices for wholesalers are high here. You can buy the item by the piece as a test; may face difficulties with the exchange and return of goods.
- [Taobao.com](#)- prices are slightly lower than on AliExpress, but still not the best ones. Good for single ordering and trying the product. More focused on the domestic Chinese market.
- [1688.com](#)- a platform specializes in bulk purchases. Prices are lower than the rest and even can order 1 piece or request samples.
- [alibaba.com](#) – has large amount of items but there is a high chance to come across of incompetent suppliers and may face difficulties with the exchange and return of goods.

[36]

Supplier reliability is an essential component of business success and sustainability.

How to recognize fake drop-shipping wholesalers?

Depending on where you are looking, you are likely to come across many "fake" wholesalers. Unfortunately, lawful wholesalers usually don't have extra budget to spend for marketing, therefore it hard to find them. Whereas, reseller's spending money for all possible marketing tools and this is why they appear in researches more often.

What buyer need to pay attention for to spot if the wholesale supplier lawful or not:

They need constant fees

Real wholesalers do not charge their customers a monthly fee for the right to do business and place orders with them. If a provider asks for a monthly membership or service fees, it is most likely illegal. It is important to distinguish between suppliers and supplier directories. Vendor directories are wholesale vendor directories organized by product type or market and audited to ensure that the vendors are complying with the laws. Most directories charge a one-time or recurring fee, so this doesn't indicate that the directory is illegal.

They sell to the public

Any wholesale supplier offering products to the general public at "wholesale prices" is simply a retailer offering overpriced products. To receive a real wholesale price, it is required to create a wholesale account, prove that you are running a legal business, and get approval before placing the first order.

But here are some legal drop-shipping fees you are likely to run into:

Commission per order

Many drop-shippers charge a drop shipping fee per order, which can range from \$ 2 to \$ 5 or more, depending on the size and complexity of the items being delivered. This is the industry standard as the cost of packing and shipping for individual orders is much higher than shipping for bulk orders.

Minimum order sizes

Some wholesalers will have an initial order minimum, which is the lowest amount you must purchase for your first order. They do this in order to filter out storefront sellers who will waste their time on questions and small orders, but will not lead to meaningful business.

If you are drop-shipping, this may cause some complications. For example, what would you do if a vendor has a minimum order of \$ 500 and your average order size is around \$ 100? You don't want to pre-order a \$ 500 product just for the privilege of opening a drop-shipping account.

In this situation, your best bet is to offer the vendor a \$ 500 upfront payment in order to get a credit from them that will apply against your drop shipping orders. This allows you to meet the vendor's minimum purchasing requirements (since you commit to purchase a product worth at least \$ 500) without having to place one large order without any corresponding customer orders.

The search for suppliers is an ongoing process. It is worth revising the list of partners once a year [37, 38, 39, 40, 41, 42]

3.6 Payment system

The main requirement for any online trade is the acceptance of payment for the goods. To do so, it is necessary to connect payment systems that will allow to accept payment from the buyer.

Mostly buyers pay online using non-cash methods. The site owner's task is to arrange options of online payments. Therefore, there are many intermediaries who provide such service.

Below are the types of the Payment Systems:

Online

- Internet banking
- Online wallet
- Mobile banking
- Mobile payment services
- Mobile operator payments
- SMS banking
- NFS payments
- Payment system aggregator

Offline

- Bank terminals
- Instant payment terminals

In daily life, using offline method is accepting payment for the goods is simple and very convenient: you sold the goods and received cash from hand to hand, or you pay with a credit card through the terminal - a cashless payment. In this case, the money goes directly to your account.

On the other hand, the online method, used when trading on the internet. In this case goods are paid directly on the internet. In any country, banks provide such a service without any problems. Payment can be accepted from local buyers on your online store.

How to accept payments on the site

An online store owner has four options:

1. Connect internet-acquiring and accept payments by bank cards. To do so, you need to choose an acquiring bank, make an agreement and open a current account in this bank or choose another. Customers' money after transactions will be credited to the merchant's account.
2. Integrate a module or plug-in to the site for accepting payment to the wallet of a specific electronic payment system (EPS).
3. Connect a payment gateway and arrange through its system acceptance of payments on cards and several EPS. You will have to conclude different agreements with each bank and each system, and install each instrument separately.
4. Integrate a payment aggregator - a universal tool that works on the principle of "all in one". It organizes the acceptance of payments from bank cards (for example, VISA, Mastercard, and other), electronic wallets, mobile accounts, payment terminals, etc. All payments come to the aggregator's account, and only then goes to the seller.

Most of the website and online shops owners are choosing the aggregators for its convenience. The more payment methods an online store offers, the wider the coverage of customers. For example, if the potential buyer is holding Web Money wallets, then he will look for sites and stores where he can pay with WMP and will completely ignore online stores where only credit card payments are available. It has negative impact on getting more valuable shoppers.

Aggregators are universal payment systems for legal entities which offers several payment options. Using the functions of this payment system, the client can deposit funds for orders using:

- bank card;
- electronic money;
- from a mobile account;
- Bank transaction;
- through payment systems (for example, PayPal);

- cryptocurrency;
- Cash (for example, through a terminal).

To choose right payment system(s) for an online store, need to consider the following criteria:

- ✓ Experience and reputation of the payment system.
- ✓ The ability to conclude an agreement remotely, requirements for a legal entity, store website, terms of connection and launch.
- ✓ The amount of the subscription fee, the amount of deductions for each transaction (usually depends on the seller's turnover).
- ✓ Customizing the design of the payment page.
- ✓ Support for multiple currencies, generation of invoices (useful for online stores in social networks), etc.
- ✓ 24/7 technical support available via phone and messengers.
- ✓ Acceptance of payment from as many sources as possible.
- ✓ Refunds processing, checkout service, etc.
- ✓ Features of the merchant's personal account (settings, statistics, manual invoicing, management, etc.).

If the drop-shipper want to trade internationally and accept payments from buyers from all over the world, as well as in foreign currency, than this is a bit complicated. The reason of difficulties is that no all countries of Commonwealth of Independent States (CIS) provide the opportunity to receive money from foreign clients. There are international payment systems that provide acceptance of payments in international trade.

Here are the top 5 list of best international payment gateways:

Table 3.1

Payment Gateways	No. of Countries
PayPal	203
Stripe	25
2checkout	87
Authorize	33
Skrill	40
Apple Pay	24

The most famous and popular is PayPal. This system accepts payments in 25 different worldwide currencies.

The scheme of settlements with foreign clients as following:

1. The online store billing the buyer in the currency of his country.
2. The purchase amount is converted into hryvnia at the exchange rate of the acquiring bank of the seller for the provision of services.
3. Then the purchase amount is once again converted into foreign currency, but already at the issuing bank to be debited from the buyer's card.

It turns out that buyers pay more than the product is worth. Consequently, they get disappointed and go to competitors. That is why the drop-shipping business are prefer to use international internet acquiring. It insures that customers do not lose money on currency conversions. This happens due to the integration of the payment services with acquiring banks around the world. The conversion costs are included in the tariffs for the sellers who are registered with this service.

With Internet acquiring, the payments can be accepted from anywhere in the world through popular payment systems - Visa, Mastercard, Maestro and others. The described different payment methods some are safer and some are faster. It is the speed at which payments received and orders processed. Once payment options are available, you need to figure out which is cheaper and safer for the business and its customers. [43, 44, 45, 46, 47, 48]

3.7 Drop-shipping marketing tools

Since the drop-shipping is an E-Commerce business model, potential customers have various options and choices to buy a product without any restrictions (time, location, currency and et.) from any seller who are selling the identical products and services. Moreover, the hardest part of this business is a price competition. It makes drop-shippers life difficult in reaching clients and make a sale.

Never the less, there marketing tools for drop-shipping businesses too. All those methods are via internet – Social and Digital Marketing.

Prior to run any marketing campaign, the drop-shipper has to identify his target segment as it will help to work out the correct marketing strategies.

Let's disclose some of them:

Social Media – connect with people; helps in market research, promotes brand, generating leads, relationship building, customer service share photos (of product, services, promotions), find and review businesses (competitors), trade goods and shop online and many more.

- Facebook
- Instagram
- LinkedIn
- Twitter
- Snapchat
- YouTube
- Pinterest
- Emailing Marketing
- Content Marketing – stimulates interest in products and services
- Text Messaging
- Using influencers

The promotion of the business determines whether it will be successful or not. Marketing is a tool used to create and sustain demand, relevance, reputation, competition, and more. Without it, the business is more likely will have to shut down due to lack of sales. [49, 50, 51]

4 ANALISIS OF BUSINESS TO BUSINESS TO CONSUMER SALES

4.1 Main advantages and disadvantages of the drop-shipping

Almost as everything the drop-shipping has advantages and disadvantages from the business point of view and customers.

Drop-shipping has several points that prove to be beneficial:

For Vendors:

- ✓ It is easy to set up. Involves only 3 steps - find a supplier, set up your site and start offering products;
- ✓ The cost of setting up business is affordable. All required is to pay the associated costs of running the website;
- ✓ No overhead expenses;
- ✓ Minimum risks;
- ✓ The business can be run from any place. Not required a physical space;
- ✓ Can offer various products assortment;
- ✓ The vendors may be found by customers easily and quickly and these customers can make orders from all over the world. It opens the door even for small shops to the global market.

For Customers:

- ✓ The big database of products and services available online;
- ✓ The users can compare the prices, differences and similar goods;
- ✓ Can make orders from anywhere and any place;
- ✓ The items delivered directly to the door. [52]

The disadvantages of drop-sipping are:

- ✓ Low profit margins. Most of the money goes to supplier;
- ✓ Highly competitive. The small initial capital is required to start a drop-shipping business, it minimizes barriers to entry. Means a lot of competition;
- ✓ No control over supply-chain. If customer complains about the product quality, delivery time or return policies, the drop-shipper has to deal with it. These can be reasons the customers goes to competitors;

- ✓ Legal liability issues. Rare but can happen when supplier illegally is using a trademark logo or intellectual property of another company;
- ✓ Difficult to build a brand. The credit for the work goes to someone else. [53]

4.2 Impact of Covid-19 on drop-shipping businesses

The COVID-19 pandemic has affected drop-shipping companies and suppliers around the world. Some manufacturers, suppliers, supplying companies face disruptions in their activities. This will affect companies around the world, including drop-shipping. This means that it may take longer for the product to be delivered to the consumer.

Online retailers that rely heavily on drop-shipping service providers are already facing challenges following the outbreak. Companies are facing a lot of changes due to the virus. China is an important manufacturing center in world trade, and Chinese manufacturers face production disruptions due to factory closures. However, China itself cannot afford to shut down its factories or be inactive and has announced plans to help affected manufacturers.

Drop-shipping is a business model that relies on efficient production and transportation of goods. The coronavirus affects people in this segment of the business because nearly a third of the world's production comes from China.

Drop-shipping is a popular business model in the e-commerce industry, now accounting for a third of all e-commerce.

Reducing operational costs and marketing expenses and increasing revenues is a top priority for shippers nowadays. One of the ways to save money at the moment is to analyze marketing methods and their results in order to strategically reduce marketing costs. For example, you can temporarily stop add campaigns to save money and reduce potential orders. Additionally, drop-shippers can protect their income by having a small amount of their own inventory that they can use to generate income during a crisis. [54]

The coronavirus pandemic has forced brands to drastically change their 2020 e-commerce strategies to cope with changing consumer behavior. Here are some of the latest statistics:

- ✓ 10% more time spent on mobile;
- ✓ 79% of consumers will continue to spend more conservatively in the coming months;

- ✓ 11% of advertisers expect COVID-19 to significantly impact their ads spending in Q4 2020;
- ✓ 68% of advertisers expect COVID-19 to impact their ads spending into 2021;
- ✓ 62% of consumers shop online more now than before the pandemic;
- ✓ 3.5% less foot traffic in UK stores the week of October 17th [55]

The pandemic crisis has affected the entire world. It not only brings diseases to people but also brought down the economy. About 75% of companies have been affected by the coronavirus as they are closed and unable to operate. Drop-shipping business were drastically affected by this scenario.

The drop-shipping business has already been hit by the coronavirus since the breakout in China in January. Government isolation of Chinese suppliers has led many suppliers to lose sales. Therefore, many of us resorted to contacts with suppliers from other countries, for example the United States.

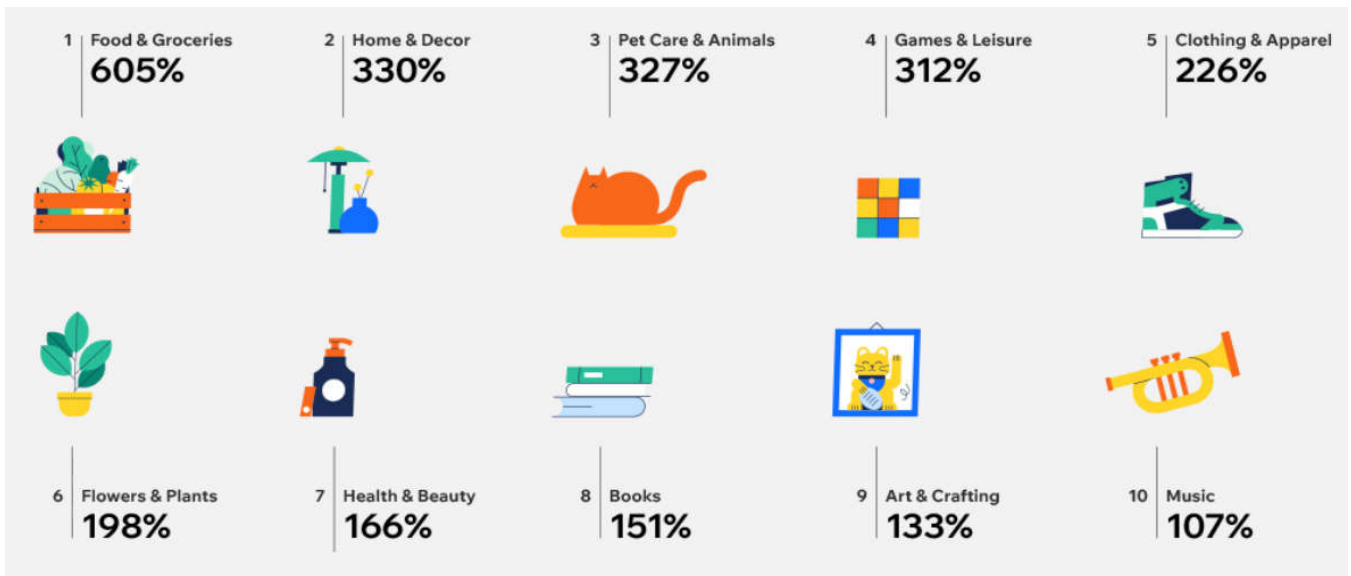
Unfortunately, the situation has worsened and is now affecting the global economy.

4.3 Essentials of digital consumer behavior

The COVID-19 pandemic has had a significant impact on all aspects of daily life, including how people shop and what they do. This period of isolation and uncertainty has led to massive changes in consumer buying behavior overnight, from bulk shopping to online shopping.

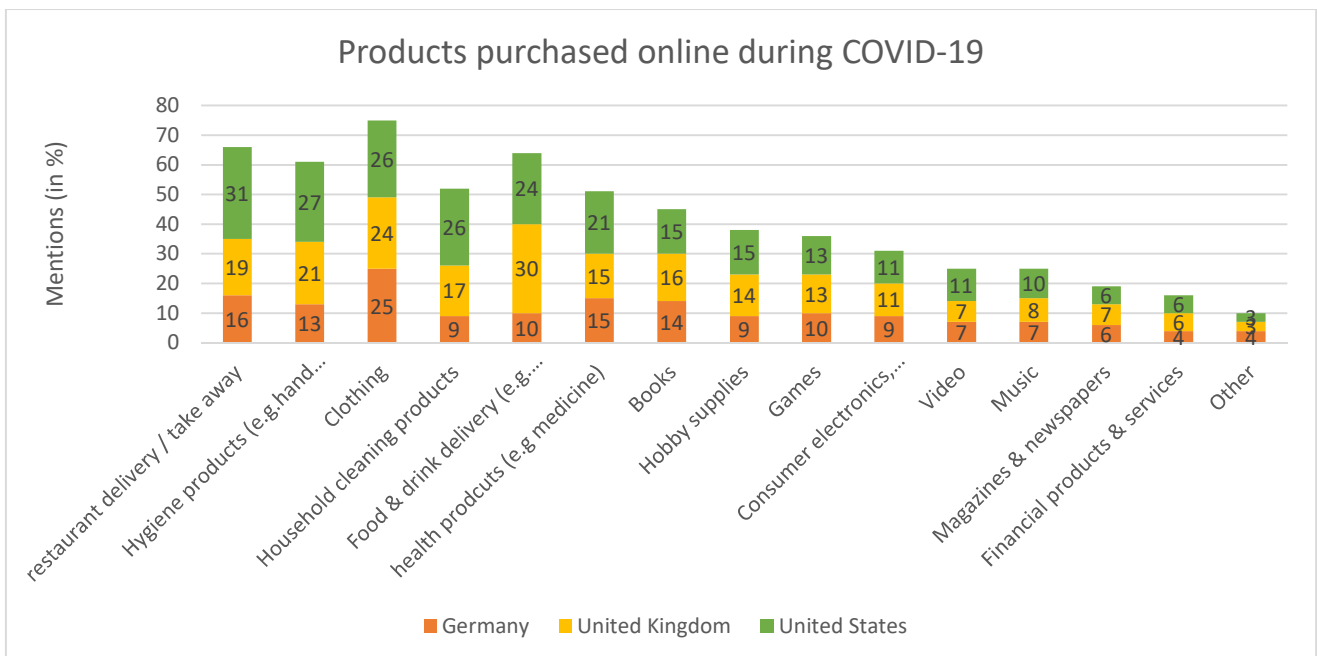
It is estimated that e-commerce will reach US\$ 5 trillion by 2021, especially online shopping gone into hyper-growth. More and more shoppers are moving their consumption online. The companies are adapting to online businesses in order to meet the demand and stay afloat.

More than 500,000 companies around the world already opened their online stores. Compared to January and February 2020, the 10 major e-Commerce product categories all showed growth rates over of 100% in April 2020 and over 600% in the top category. (Pic 4.1)



Picture 4.1 - Wix e-Commerce Growth Report: Top 10 Product Categories during COVID-19
 *compiled by the author based on [56]

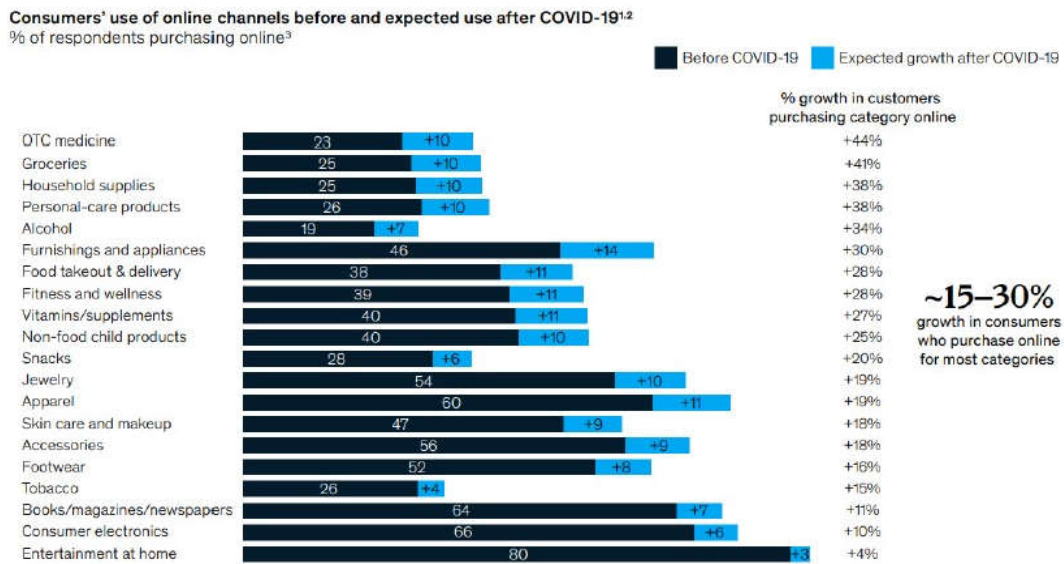
It is predicted the Global e-commerce revenue will see an additional growth rate of 10% in 2020 as a result of COVID-19. Online shopping becoming more convenient for people as it is safe and not required time of going out to the physical shops. In the chart below shows what are the product and services are purchased online the most in 2020. (Pic 4.2)



Picture 4.2 – Products deliberately purchased online in 2020

*compiled by the author based on [57]

Since most of the businesses go digital and people are getting used to shop online, there are expectations of growth in online purchase in post-COVID life. In the chart below shows the predictions of growth. (Pic 4.3)



Picture 4.2 – Consumers’ use of online channels before and expected use after COVID-19
 *compiled by the author based on [58]

CONCLUSION

Over the past few years, e-commerce has matured into an integral part of the global retail structure. As with many other industries, retail has experienced significant changes since the appearance of the Internet, and with the continued digitalization of modern life, consumers from almost all countries are now getting the benefits of online transactions.

As Internet access and distribution grows promptly around the world, the number of digital consumers worldwide extends every year. In 2019, approximately 1.92 billion people acquired goods or services online. In the same year, Internet retail sales globally exceeded \$ 3.5 trillion, and the latest estimates show that e-commerce growth will accelerate even further in the future.

The year 2020 became more advanced Digital ERA. Various reports and statistics show that digital, mobile, and social media have become an essential part of everyday life for people all over the world.

More than 4.5 billion people have been using the internet since the beginning of 2020, while social media users have reached a record of 3.8 billion. Approximately 60% of the world's population is already online, and the latest tendencies indicate that more than half of the world's total population will use social media by the end of this year. Currently, e-commerce is one of the main areas of digitalization of the economy. The most popular form of e-commerce is the B2C sectors. This form of e-commerce, eliminating geographical differentiation and increasing the availability of goods for most consumers, equalizes their opportunities. It is available anywhere, anytime. Drop-shipping is the one of the fast growing e-commerce method. This innovative concept of direct delivery brings flexibility and time efficiency because you do not have to physically store inventory or visit the store as a buyer, and you just pay when you make a sale or buy.

Of course, as any other businesses it is hard to run drop-shipping business in this highly competitive market and time. But there are still lots of benefits for drop-shipping companies to improve their businesses. However, there are more changes and improvements are on the way because it needs to be managed that everyone around the world has decent and equal access to life-changing digital connectivity.

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