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Unveiling the Potential**



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Dropshipping Strategies in Luxury and Fashion Retail - Unveiling the Potential

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Abstract

Purpose: Dropshipping, a supply chain management model where the retailer does not keep goods in stock but instead transfers customer orders and shipment details to either the manufacturer, another retailer, or a wholesaler who then ships the goods directly to the customer, has gained significant traction in various industries. However, its application in luxury and fashion retail remains unexplored. This study aims to investigate the potential of dropshipping strategies within the context of luxury and fashion retail, analyzing its benefits, challenges, and implications for businesses operating in this sector.

Methodology: This research employs a comprehensive review of existing literature, case studies, and industry trends to gather insights into dropshipping practices in luxury and fashion retail.

Findings: Our analysis reveals that dropshipping offers promising opportunities for luxury and fashion retailers to enhance operational efficiency, expand market reach, and provide exceptional customer experiences. Challenges such as maintaining brand reputation and managing supplier relationships are identified and discussed.

Unique contribution to theory policy and practice: This paper contributes to the existing literature by shedding light on the application of dropshipping in the luxury and fashion retail sector. It provides practical recommendations for retailers to leverage dropshipping effectively, thereby advancing both theoretical understanding and practical implications for industry stakeholders and policymakers.

Keywords: *Dropshipping, Luxury and Fashion Retail, Wholesaler, E-Commerce*



I. Introduction

The luxury and fashion retail industry are characterized by rapid changes in consumer preferences, evolving market dynamics, and fierce competition. In this context, traditional retail models face challenges in meeting the demands of today's discerning consumers while maintaining profitability.

The eCommerce sector is rapidly ingraining itself into the daily lives of people worldwide, progressively claiming a larger portion of the retail market with each passing year. Projections indicate that by 2024, eCommerce will represent 21.8% of the global retail industry. In 2020 alone, over 2 billion individuals engaged in online purchasing, generating a staggering \$4.2 trillion in sales [1].

The allure of dropshipping lies in its requirement for minimal initial investment, making it increasingly popular among online sellers. Statistics reveal that in 2021, 27% of eCommerce retailers embraced dropshipping as a lucrative avenue for online trade. However, opting for dropshipping entails relinquishing a significant degree of control over product selection, shipping, and fulfillment processes. Consequently, establishing a robust partnership with a reliable supplier is imperative for drop shippers, fostering mutual trust and a seamless working relationship [1].

Dropshipping is emerging as a viable alternative, offering retailers the opportunity to streamline operations, minimize inventory risk, and capitalize on a wider range of products without substantial upfront investment. This paper explores the implications of adopting dropshipping strategies in luxury and fashion retail, shedding light on its potential to revolutionize the industry.

II. Literature

A. History: Dropshipping initially emerged in the 1960s and 70s alongside the rise of mail-order companies utilizing catalogues. These catalogues, received via mail, showcased a variety of items that customers could directly order by phone, with deliveries made to their doorstep. Major players like JCPenney & Sears capitalized on this method, finding significant profitability. However, as their businesses expanded, they faced challenges in meeting increasing customer demands efficiently.

The 1990s witnessed the advent of dropshipping amidst the burgeoning popularity of the internet. This era saw the rise of the 'dot com' bubble, characterized by the emergence of online stores making ambitious promises to investors. One notable example, Pets.com, attracted substantial investment

but failed to turn a profit, leading to the collapse of many similar ventures by 2001 due to unsustainable practices, including expensive shipping costs from USA drop shippers.

In the 2000s, amid the fallout of the dot com bubble, companies like Amazon and eBay thrived, revolutionizing online selling by providing platforms for individuals to reach customers without the need for complex store setups or expensive advertising. This shift was particularly advantageous for dropshipping, as it significantly lowered the barriers to entry, making it accessible to a wider range of sellers.

The period from 2010 to 2018 marked a transformative phase for dropshipping, notably with the emergence of AliExpress, Shopify, and Oberlo. AliExpress simplified the process of working with Chinese suppliers, overcoming previous barriers such as language and cultural differences, while offering cost-effective solutions. Shopify and Oberlo further streamlined the creation of ecommerce stores and facilitated semi-automated dropshipping setups, culminating in Shopify's acquisition of Oberlo in 2017.

Figure 1: The History of Dropshipping

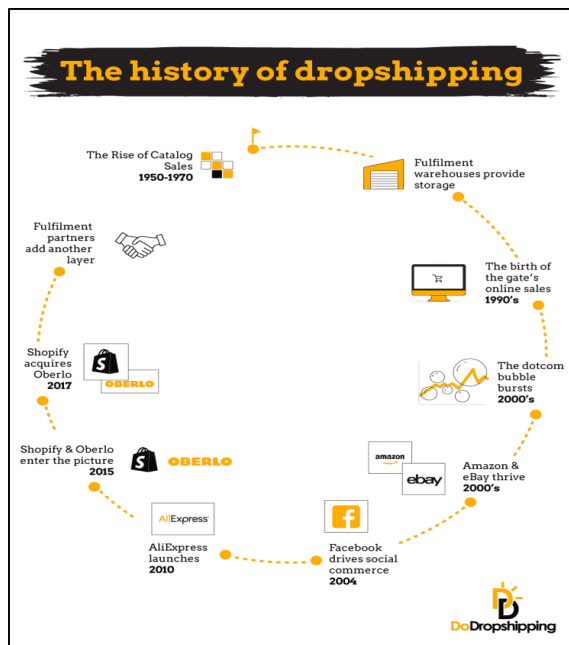


Image Source [2]

B. Definition and Conceptual Framework: In essence, the dropshipping model entails running a store without stocking inventory. Instead, products are sourced from third-party suppliers like wholesalers or manufacturers, who then directly ship them to customers. This eliminates the need for inventory management and product handling by the seller. This model is particularly attractive to entrepreneurs, especially newcomers, as it doesn't require opening a physical store, translating to lower initial investments. Essentially acting as a middleman, a drop shipper can establish a sustainable business with just a laptop, leveraging the convenience and flexibility of online commerce.

A symbiotic relationship exists between an online retailer and a supplier in dropshipping. The retailer forwards customer orders to the supplier, who then handles packaging and shipping directly to the end customer under the retailer's name. Virtually any product can be drop shipped, with some of the most lucrative categories including beauty and health products, drones, jewelry, pet supplies, tech gadgets, and more. To ensure profitability in dropshipping, it's crucial to secure reliable suppliers and target the right audience through effective marketing strategies. This approach

enables profit margins ranging from 15% to 45%, with some luxury items yielding margins as high as 100%.

Figure 2: Dropshipping working model.



Image Source [3]

Dropshipping involves a tripartite relationship between the retailer, supplier, and customer. The retailer acts as the intermediary, marketing and selling products without physically handling inventory. Instead, orders are forwarded to suppliers or manufacturers who fulfill them directly to the end consumer. In the context of luxury and fashion retail, this model presents unique opportunities and challenges due to the industry's specific requirements and consumer expectations.

C. Dropshipping Strategies in Luxury and Fashion Retail: Implementing dropshipping strategies in luxury and fashion retail requires careful planning and execution to ensure alignment with brand positioning, quality standards, and customer expectations. Here are several dropshipping strategies tailored specifically for the luxury and fashion retail sector.

Curated Partner Network

Develop a curated network of suppliers, manufacturers, and distributors that align with the brand's aesthetic, quality standards, and values. Select partners who specialize in luxury and fashion products, ensuring authenticity, craftsmanship, and brand integrity.

Exclusive Collaborations

Forge exclusive collaborations with designers, brands, and artisans to create unique collections and limited-edition releases. Collaborative dropshipping arrangements enable retailers to offer differentiated products that resonate with discerning consumers and drive excitement and demand.

Personalized Product Curation

Leverage data analytics and consumer insights to curate personalized product assortments tailored to individual preferences, style profiles, and purchase history. Implement dynamic merchandising algorithms and recommendation engines to showcase relevant products and inspire discovery, fostering a personalized shopping experience.

Seamless Integration

Integrate dropshipping processes seamlessly into existing e-commerce platforms, order management systems, and inventory management tools. Invest in robust technology infrastructure and API integrations to facilitate real-time inventory updates, order tracking, and communication with suppliers, ensuring transparency and efficiency throughout the supply chain.

Brand Partnerships and Licensing

Collaborate with complementary brands, influencers, and celebrities to co-create exclusive collections and licensed merchandise. Strategic partnerships amplify brand visibility, attract new audiences, and reinforce brand positioning, while dropshipping enables efficient order fulfillment and distribution to capitalize on demand.

White-Label and Private Label Programs

Explore white-label and private label programs to develop custom-branded products and accessories exclusive to the retailer [9]. Collaborate closely with suppliers to design, manufacture, and package products that reflect the brand's aesthetic and quality standards, offering unique value propositions and fostering brand loyalty.

Virtual Inventory and Pre-Orders

Utilize virtual inventory and pre-order mechanisms to gauge demand, minimize stock risk, and optimize inventory turnover. Display upcoming releases and pre-order opportunities to generate anticipation and secure sales before products are physically available, leveraging dropshipping to fulfill orders promptly upon release [10].

Experiential Retail Initiatives

Enhance the shopping experience through experiential retail initiatives, such as pop-up shops, trunk shows, and immersive brand activations. Collaborate with suppliers to provide on-site product demonstrations, customization services, and exclusive offerings, leveraging dropshipping to fulfill orders directly from the event venue.

Sustainable and Ethical Sourcing

Prioritize sustainable and ethical sourcing practices in partnership with suppliers committed to environmental stewardship, fair labor standards, and responsible production methods. Communicate transparently with consumers about the brand's commitment to sustainability and social responsibility, leveraging dropshipping to trace product origins and minimize environmental impact.

Continuous Optimization and Innovation

Continuously monitor performance metrics, customer feedback, and market trends to identify opportunities for optimization and innovation. Experiment with new dropshipping models, technologies, and partnerships to stay ahead of competitors, adapt to evolving consumer preferences, and deliver exceptional value across the luxury and fashion retail ecosystem.

By implementing these dropshipping strategies tailored to the unique needs and challenges of the luxury and fashion retail sector, retailers can unlock new growth opportunities, enhance brand differentiation, and elevate the overall shopping experience for their discerning clientele.

D. Challenges and Considerations:

Quality Control and Brand Reputation

Maintaining quality control and upholding brand reputation are paramount in luxury and fashion retail. However, relinquishing control over order fulfillment to third-party suppliers raises concerns about product authenticity, consistency, and presentation. Luxury retailers must establish stringent quality assurance protocols and partner with reputable suppliers to ensure that products meet the brand's standards and customer expectations [8].

Inventory Management and Stock Availability

While dropshipping eliminates the need for inventory storage, retailers must still effectively manage product availability and stock levels to prevent stockouts, backorders, and fulfillment delays. Close collaboration with suppliers, real-time inventory monitoring, and demand forecasting tools are essential to optimize inventory management and ensure a seamless customer experience [8].

Margin Compression and Pricing Dynamics

Dropshipping may lead to margin compression due to additional costs incurred in supplier fees, shipping charges, and transactional overheads. Luxury retailers must carefully evaluate pricing strategies to maintain profitability while remaining competitive in the market [8]. This requires a thorough understanding of cost structures, pricing elasticity, and value proposition to justify premium prices and sustain long-term profitability.

Customer Experience and Satisfaction

In luxury and fashion retail, customer experience plays a pivotal role in driving brand loyalty and repeat business. Dropshipping introduces complexities in order fulfillment, shipping times, and customer service interactions, which can impact the overall customer experience. Luxury retailers must prioritize transparency, communication, and responsiveness to address customer inquiries, resolve issues promptly, and deliver a personalized, memorable shopping experience that reflects the brand's values and identity [8].

E. Benefits of Dropshipping in Luxury and Fashion Retail: Expanded Product Assortment

Dropshipping enables retailers to offer a broader range of products without the need for extensive warehousing or inventory investment. For luxury and fashion retailers, this translates into the ability to display a diverse selection of brands, styles, and designs, catering to the diverse preferences of their target audience [6].

Reduced Inventory Risk

Traditional retail models often involve substantial investments in inventory, leading to significant financial risk if products fail to sell or become obsolete. Dropshipping mitigates this risk by

eliminating the need for upfront inventory investment, allowing retailers to operate with lower overhead costs and better adapt to fluctuations in demand [7].

Enhanced Operational Efficiency

By outsourcing order fulfillment to suppliers or manufacturers, luxury and fashion retailers can streamline their operations and focus on core competencies such as marketing, customer service, and brand management [6]. This not only improves efficiency but also enables retailers to allocate resources more strategically, driving overall business growth.

Global Market Reach

Dropshipping facilitates seamless order fulfillment and shipping, enabling retailers to reach customers beyond their geographic limitations [6]. In the luxury and fashion sector, this opens opportunities to tap into new markets, expand brand presence, and engage with a diverse customer base on a global scale.

IV. Case Studies and Best Practices

i) **ASOS plc, Scaling Global Operations with Dropshipping:** ASOS, a leading online fashion retailer, leverages dropshipping to expand its product assortment and reach a global audience. By partnering with a network of third-party suppliers, ASOS offers a diverse selection of fashion brands and styles, catering to the preferences of its international customer base. Through strategic inventory management and logistics optimization, ASOS delivers a seamless shopping experience characterized by choice, convenience, and reliability [4].

ii) **Farfetch, Curating Luxury Experiences through Dropshipping:** Farfetch, an online marketplace for luxury fashion, adopts a dropshipping model to curate exclusive collections and collaborations from boutique partners worldwide. By integrating with suppliers' inventory systems and leveraging advanced technology platforms, Farfetch provides customers with access to a curated selection of luxury products, personalized recommendations, and immersive shopping experiences [5]. Through continuous innovation and strategic partnerships, Farfetch redefines luxury retailing, blending digital and physical touchpoints to create meaningful connections with discerning consumers.

V. Conclusion

The adoption of dropshipping strategies in luxury and fashion retail has profound implications for industry stakeholders, including retailers, suppliers, and consumers. As technology continues to evolve and consumer behaviors shift, the landscape of retailing will undergo further transformation, presenting both challenges and opportunities for innovation and growth. To capitalize on the potential of dropshipping, luxury and fashion retailers must embrace digitalization, foster collaborative relationships with suppliers, and prioritize customer-centricity in their business strategies. By leveraging data analytics, artificial intelligence, and omnichannel integration, retailers can unlock new insights, optimize operational efficiencies, and deliver exceptional experiences that resonate with today's empowered consumers.

In conclusion, dropshipping represents a promising avenue for luxury and fashion retailers to reimagine their business models, expand market reach, and enhance customer experiences. While challenges exist in terms of quality control, inventory management, and pricing dynamics, the benefits of dropshipping outweigh the risks for retailers willing to embrace innovation and adapt to changing market dynamics. By adopting a strategic approach to dropshipping and leveraging technology-enabled solutions, luxury and fashion retailers can position themselves for sustained success in an increasingly competitive and dynamic retail landscape.

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