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Is this the end of drop shipping from China?

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In the past decade, the drop-shipping business from China has seen incredible success, but is this once-lucrative model soon going to be ancient history? Image credit: Shutterstock. Composite: Haitong Zheng/Jing Daily

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In the past decade, the drop shipping business from China has seen incredible success mainly because of competitive product pricing and low shipping costs and capabilities.

These benefits have helped independent vendors to make a good profit from sourcing and reselling products using Alibaba-owned AliExpress, an online retail service that offers products to international online buyers. This once-lucrative model, however, looks to soon be ancient history.

The profitability and success of the drop-shipping model comes from a price disparity between the products manufactured in the Western Hemisphere and those from China, but also from a shipping-price disparity.

In other words, if the U.S. government **increases tariffs** on Chinese products, or raises shipping rates for packages arriving from China, the whole model becomes noncompetitive. And this is exactly what has happened.

In 2018 President Trump announced that the **United States was pulling out of the intergovernmental body called the Universal Postal Union** after claiming that China has been taking advantage of the U.S.

One year later, UPU announced that it reached a deal with the U.S. and it approved President Trump's request to collect higher fees on packages from international destinations.

The agreement will go into effect on July 1, 2020 and American sellers can expect significantly hiked prices on their products.

Basically, ePacket, a shipping option offered by Chinese and **Hong Kong** merchants when shopping on popular Chinese marketplaces such as AliExpress, will no longer be price competitive and many American independent sellers will, if not go out of business, dramatically lose revenue.

Who will lose?

Alibaba-owned AliExpress, Chinese sellers and Westerner companies who drop ship from China, though, in the end, the biggest loser will be the end consumer who will be forced to pay a higher price for the desired product.

On the other hand, American bricks-and-mortar stores who compete with **ecommerce** Web sites, mom-and-pop businesses who have practically become irrelevant in the digital economy, and ecommerce Web sites will now be able to set their own shipping prices.

But make no mistake, the consumer is the biggest loser, since prices will be dramatically hiked yet offering no additional benefits to the buyer.

Shipping delays are the final knockout

Western vendors who wanted to stockpile products from China before the changes in shipping costs went into effect have been sidetracked by the **COVID-19** crisis.

Since the outbreak, international logistics has been affected, with international courier services and freight discontinued, transportation routes closed, and production facilities remaining in lockdown for months.

Consequently, the standard shipping service offered by most sellers on AliExpress comes with **impressive delays**.

"Some shipping and logistics are experiencing longer waiting times for processing orders," the platform said in a Facebook post.

However, upon closer inspection the "potential delays" are creating serious backlogs. Consumers are complaining on social media that they are waiting months for their packages and the communication with customer care service is reduced to talking to chatbots instead of support agents.

According to *U.S. News & World Report*, buyers lamented that orders were not only taking a long time to arrive but were being automatically renewed, instead of being canceled and refunded.

"It doesn't inspire confidence that they renew your order forever and you can't stop it," said Monika Hendry, who spent about \$10 on a mobile phone holder on Jan. 17 on the site.

On Reddit, a user pointed out that the delay is not a problem considering the COVID-19 outbreak, but he has an issue with "the blatant false advertising" that says, "your orders should arrive in 32 days."

According to him, a company of the size of AliExpress should have the "basic courtesy" to include realistic shipping times. Other users highlight that these lengthy delays have little to do with **COVID-19**, since Chinese sellers on eBay and **Amazon** do not have this problem.

It is worth noting that many Reddit users point out that products ordered in January and February still have not arrived yet, and the guaranteed delivery time is no longer reliable anymore.

On the other hand, drop shippers in the U.S. complain that they offered discount codes and additional perks to their customers who are waiting for orders since February. This is killing their business since customers cancel orders and leave them in the red.

Global drop shipping companies do not have it easier than their American counterparts. The shortage of commercial passenger airlines that also carry the mail, as well as the suspension of mail services in various countries, has affected parcel operations.

For instance, the **U.S. Postal Service has temporarily suspended international mail acceptance** for 112 countries.

Given the current state of affairs, it is safe to say that the current drop shipping business model has been, if not killed by COVID-19, President Trump's tariffs, and changes to shipping rates, seriously damaged.

If companies want to keep their heads above water, they will have to suffer a significant decrease in their profit margins to make up for these issues.

However, the vast majority of small- to mid-sized companies, which make up much of the U.S. economy, will unfortunately have to also suffer significant losses and the very real possibility of going out of business.

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