



The Future of Online Fashion Retail

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A case study of Zalando SE

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-- *SPINE* --

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List of Abbreviations & Acronyms

Abbreviation	Explanation
DACH – region	Germany, Austria & Switzerland
E-business	Electronic business
E-commerce	Electronic commerce
E-loyalty	Online customer loyalty
EU	European Union
GDPR	General Data Protection Regulation
GDP	Gross Domestic Product
IT	Information Technology
M-commerce	Mobile electronic commerce
SE	Societas Europaea
SVP	Senior Vice President
UK	United Kingdom

Summary [POR]

Este caso pedagógico trata a Zalando SE, um retalhista online de moda, alemão. Esta empresa tem uma visão muito aplicada na inovação e na conveniência para o utilizador, os seus principais valores de negócio. Com vista à liderança, a empresa procura melhorar a experiência digital dos seus clientes.

Análises qualitativas e quantitativas foram adotadas de forma a obter uma compreensão holística da indústria Europeia de comércio de moda online, bem como do histórico de negócio e desempenho da Zalando. Numa segunda etapa, tendências do setor e fatores chave de sucesso foram analisados e classificados, sendo alinhados com os pontos fortes da empresa e respetivo modelo de negócio de modo a responder à questão principal deste caso (*Como pode a Zalando SE alavancar o seu posicionamento de mercado e progresso tecnológico de forma a tornar-se o retalhista de moda online número um da Europa?*).

O caso demonstra que o mercado de moda online passa por uma profunda alteração, evoluindo de um setor cuja oferta é determinada pelos retalhistas, para um novo paradigma onde a oferta é ditada pelos consumidores. A Zalando precisa compreender que o futuro e-consumidor deseja desempenhar um papel ativo na relação com as marcas que segue. Para os consumidores, a Zalando deverá tornar-se um ávido consultor no que toca ao retalho online, que oferece um conjunto holístico de serviços, entre os quais o marketing, logística, desenvolvimento do negócio. Assim, e com esta abordagem de duas vias, a vantagem competitiva, sustentável, e a longo prazo poderá, efetivamente, ser alcançada.

Keywords: Economia de Negócios, Diversificação, Inovação, Mudança Tecnológica

JEL Classification System: M31 Marketing; M21 Business Economics; O33 Technological Change

Summary [ENG]

The pedagogical case study at hand pivots on Zalando SE, a German online retailer for fashion and accessories, that put innovation and user experience at the core of its business values. In pursuit of European market leadership, Zalando looks at improving the customers' digital experience through implementing technological features of the next generation.

Qualitative and quantitative analyses, which included the online fashion retail market and Zalando's business performance, were applied in order to gain a holistic understanding of the European e-commerce industry. In a second step, industry trends and critical success factors were analysed and ranked. To answer the guiding question of this case study (*How can Zalando SE leverage on its strong market position and technological progress in order to become Europe's number one online fashion retailer?*), future trends and critical success factors are paired with Zalando's strengths, core values and business model.

The case resolution shows that the online retail market is undergoing a shift from a sector where offerings are decided by its merchants to one with offerings dictated by consumers. The tech-savvy e-commerce consumers demand to play an active role in building the consumer-brand-relationship. For consumers, Zalando should become the go-to stylist offering sophisticated fashion products and services through its digital as well as physical channels. For partners and suppliers, Zalando should develop into the go-to advisor for online retail by providing a holistic spectrum of services, such as marketing, logistics and, business development. With this two-track approach, long-term sustainable competitive advantage can be achieved.

Keywords: business economics, diversification, innovation, technological change

JEL Classification System: M21 Business Economics; O33 Technological Change

I. Introduction

This pedagogical case study is designed to serve as a learning tool for business students and entrepreneurs, especially managers, who are pursuing an interest in e-commerce. Its application shifts the focus from lecture-based classroom-activities to a student-centred methodology that elevates in-class-dynamics (Yin, 2011). Before reading, it is essential to understand that this paper involves data and information for both roles known from a classroom-environment: 1.) student(s) and 2.) lecturer(s) or teacher(s). In this pedagogical case study, the lecturer acts as a mentor and host to guide students to come up with their own solutions. The role of the student, on the other hand, is to evaluate data, apply knowledge from different fields of business analysis in combination with information and analytical tools. The main goal is to formulate a feasible answer statement to the guiding question:

“How can Zalando SE leverage on its strong market position and technological progress in order to become Europe’s number one online fashion retailer?”

In total, the paper at hand is subdivided in three areas:

- i.) THE CASE: The subsequent part of this paper presents the case itself. It is a story based on data organized by themes and designed to give students first insights into the online retail industry and Zalando. Moreover, it will familiarize students with the problem at hand, and offer a helpful register of appendices, which can be consulted when solving the case study. Finally, there is the list of questions that will support finding a well-grounded answer to the central problem. This section is going to be made known to both students and lecturers.
- ii.) THE PEDAGOGICAL NOTE: The second part, the pedagogical note, is going to be made available to lecturers only since it contains solutions that revisers of this case study are asked to elaborate by themselves. Here, the target group and pedagogical objectives are disclosed, followed by a literature review on a.) online business and b.) digital brands. It follows a presentation of tools that support solving this case study, made up of analytical tools, an animation plan and animation questions. Last but not least, a written and visual resolution of the case study can be found.
- iii.) MANAGERIAL IMPLICATIONS: The author rounds this paper off with a last chapter about managerial implications for Zalando SE’s management team. Following this action plan will help Zalando to stay competitive and advance its business performance over the upcoming decade.

1.1. Problem Presentation

This case study addresses two central bottlenecks:

- 1) A lack of practical and up-to-date materials relating to strategic advice on how to gain sustainable competitive advantage in online retail.***

There is plenty of academic work done on the e-commerce sector and digital brand building. However, there is very little literature that holistically illuminates the industry of online retail and offers strategic advice. Most literature deals with individual components that led to growth, such as managerial perspectives, critical success factors or technological pioneering. It is common for these articles and studies to be based on primary research and presented in scientific journals or academic books – offering findings and topics for future research but failing to provide a practical and educational edge for students, entrepreneurs as well as employers and employees. For instance, Srinivasan, Anderson and Ponnayolu (2002) investigated what drives customer loyalty in an online setting, using data from over 1.000 online customers to support their findings. Turban et al. (2006) took a step toward focusing all research and knowledge in their academic book ‘Electronic Commerce – A Managerial Perspective’. It needs to be mentioned that this book was published more than twelve years ago. In addition, the literature available is mainly based on a brands success stories illustrating what an enterprise did right in the past. This case study will turn the perspective around and offer room for sophisticated predictions for what an online retailer will need to do in the future to stay relevant for consumers.

Over the past 15 years, heaps of developments and shifts in technological and commercial industries have led to significant change in the e-commerce sector. In 2006, Shopify – one of the most popular e-commerce platforms today (Carmody, 2018) – was still in the start-up phase of business. Instagram or Pinterest were not yet launched; today, these two social media platforms represent a great marketing resource for both, B2B and B2C oriented businesses (Saravanakumar and SuganthaLakshmi, 2012). Furthermore, the Web 3.0 was just born. Internet users began to receive more opportunities to shape the information, available online and pitch it to other users more effectively. Other prominent Web 3.0 - developments are the mobile internet, accumulation and analysis of big data as well as the social web – these three components significantly contributed to the establishment of new, digitally driven business practices. (Aghaei, Nematbakhsh and Farsani, 2012)

2) *A promising future for the e-commerce industry*

It appears rather ironic that business professionals, researchers and public authorities predict the e-commerce business to rise within the next few years but there is little being done in terms of producing educational materials to support knowledge transfer and eventually foster sustainable growth of this sector. For instance, industry analysts forecast e-commerce fashion revenues in Europe to grow from 96.5 billion Euro (revenues in 2018) to 154 billion Euro by 2022. (see: Appendix 2.4.1)

Cadieux and Heyn (2018, p. 1) claim that Zalando “is one of the platforms around which the online fashion sector has coalesced.” Therefore, this case study illustrates how the German fashion e-commerce giant Zalando SE managed to develop itself from an unknown start-up to one of the most popular online fashion platforms in Europe, operating in 17 different countries.

II. Case

2.1 Data organized by themes

It is the beginning of January 2019. The old year has been seen off and the New Year warmly welcomed. The start of a new year always brings along new exciting projects, tasks and 365 days to reach one's personal as well as professional aims. Especially for Philipp Erler, Senior Vice President (SVP) Digital Experience at Zalando SE, 2019 is going to be a very exciting one! About a year ago, he moved from Berlin (Germany) to Lisbon (Portugal) in order to facilitate the opening and development of Zalando's third international Tech Hub. The past year was mainly used to hire the right pool of talent, to get a foothold in Portugal's capital and to establish project plans, communication channels as well as to optimize new operating cycles. During the upcoming year, he and his team will begin to work on the overall goal behind the new Zalando Tech Hub in Lisbon to become 'the operating system of the fashion world!' (Zalando SE, 2018)

Philipp loves to commute to work by train. The trip gives him valuable time to think about the days ahead and prioritize tasks and projects that will need his attention the most. However, during this morning's commute, his thoughts are entirely focused on the upcoming team meeting. Members of the managing board, company advisors, the senior tech-team and other important stakeholders will attend the meeting in order to discuss the overall strategic directives for him and his team in Lisbon. Philipp was assigned to give an introduction presenting valuable information and statistics about the industry and company. Following that, all attendees of the meeting will process his introduction in order to come up with well-grounded strategic directives for the next few years. The guiding question for this meeting is "How can we leverage our strong market position and technological progress in order to become Europe's number one online fashion retailer?"

Price wars and short technology lifecycles constrain online business to constant innovation that asks for big investments and are relentlessly edging out organisations that are unable to keep up with changing customer demands and operational standards. Philipp is well aware that the audience expects him, as the SVP Digital Experience, to have done a thorough research on all factors that might bring Zalando SE closer to its intended market leadership. If Philipp wants to succeed in bringing the company closer to its vision, he knows that he needs to build a solid knowledge foundation within the audience to be then able to create meaningful outputs together. He decides to approach his preparation for the meeting as he was taught in

business school: ‘First, we need to become fully aware of our business environment in order to understand what capabilities our organisation has. Then we need to understand the trends and developments, which are highly likely to shape the future of online fashion retail. Once this groundwork is done, we can go ahead and turn our findings and knowledge into sophisticated ideas and strategies.’ He turns on his tablet and begins his research.

2.1.1 E-commerce & Online Fashion Retail



Figure 1- Fashion Retail Europe – Revenue forecasts in million Euro
Source: (Bohnhoff, 2016)

In previous years, the e-commerce industry gained significant momentum and hence, importance in the eyes of entrepreneurs, investors and stakeholders. Continuous growth in terms of market volume, revenue opportunities and new companies penetrating the

industry predominantly mark the latest statistics. While worldwide e-commerce retail sales were around 1.1 trillion Euro in 2014, this number more than doubled by 2018, reaching over 2.5 trillion Euro. Experts forecast this trend to keep on increasing. Sophisticated forecasts predict that by 2022, global e-commerce sales in retail will amount 4.3 trillion Euro. (Statista, 2019). Especially the segments of bags and accessories, shoes as well as clothing are predicted to accumulate revenues of over 120 million Euro by 2021. (see: Appendix 2.3.2 a. and b.)

When investigating the general state of the European economy, Philipp consults Eurostat (2018 a.), where he finds that the growth rate for the Gross Domestic Product (GDP) of the European Economic Area is developing positively. Since 1996, the annual growth rate averaged 1.8%. Germany (21% of the total European GDP), the United Kingdom (15% of the total European GDP) and France (15% of the total European GDP) are the biggest economies within the European Area. A healthy and growing economy makes a solid foundation for business development and innovation as it is often paired with business growth and new employment opportunities. This in turn, leads to higher incomes per household, empowering consumers to spend their money rather than saving it. Taking a closer look at the European

fashion sector, Philipp learns that experts put it amongst the biggest and most attractive consumer markets due to its enormous turnover, which was above 420 billion Euro in 2016 (Zalando SE, 2018).

Furthermore and as illustrated in Figure 2, the United Kingdom, Germany and France are amongst the biggest e-commerce markets worldwide. On a European level, experts predict Germany, the United Kingdom and Italy to remain the most

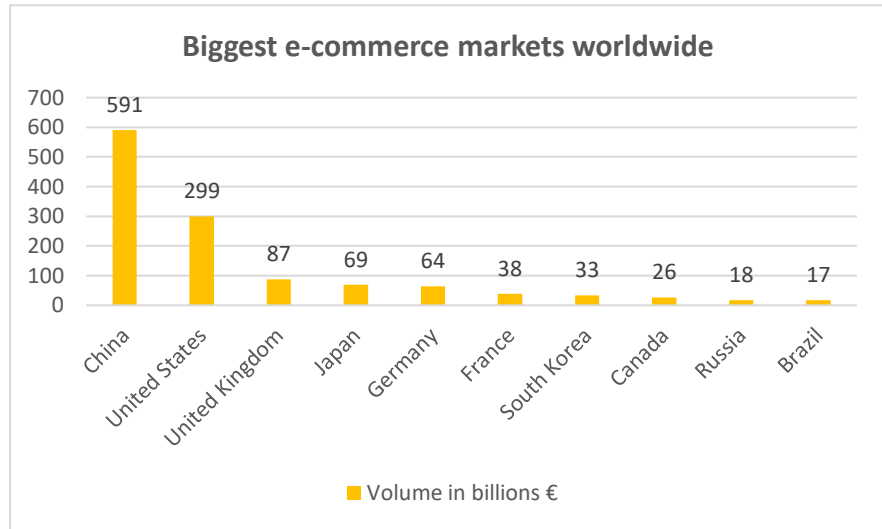


Figure 2 - Biggest e-commerce markets worldwide
Source: (Statista, 2018; cited in Orendorff, 2018, p. 18)

attractive in terms of market value until 2022 (Statista, 2018 a.). Finally, yet importantly, it is worthwhile to take the GDP growth rates of Malta, Poland, Latvia, Hungary and Slovenia into account. These Eastern European countries list the highest growing economies among all member states in 2018 and might turn into attractive markets if this positive trend can be kept up. (Eurostat, 2018 a.).

It is Philipp Erler’s job to make sure that Zalando manages to stay competitive and relevant in the eyes of European consumers in this rapidly evolving industry. The good news is that the European Commission regulates its policy with strong emphasis on digitalisation and the advancement of new technologies. In April 2016, members of the European Parliament began working on a project named ‘Industrie 4.0’, which deals with the “use of policy instruments, financial support, coordination and legislative powers to trigger further public and private investments in all industrial sectors and create the framework conditions for the digital industry revolution” (European Commission, 2018). For instance, there are more than 3,000 funding programs, which European digital companies can apply for. (Lommer, 2016) Next to these attractive funding and support initiatives, Philipp is pleased to read about the European Central Bank’s decision to retain its patronizing course by maintaining the benchmark for the refinancing rate at 0.0% (Eurostat, 2018 b.). In addition, affluent private investors support many of those online retailers, who are able to perform on a competitive level. It is affirming to know

that politics and banks support digitalization and technological progress when one aims at fusing online fashion retail and technological advancement.

Although support is greatly available, Philipp also realizes that he and his team need to be careful when tapping into new markets or launching state-of-the-art technologies. There is an army of online retailers competing for market share. (Niemeier, Zocchi and Catena., 2013) Smolinski (2013; cited in Terbeck, 2014, p. 35) comments that “innovations in e-business [and e-commerce] are extremely easy to copy” because everything in the online world is freely programmable. On top of this, there is a skyscraping homogeneity of products and services offered in online retail, which makes it challenging to stand out to consumers. Differentiation by product availability, price, convenience, the level of satisfaction as well as trust between an online merchant and its customers display the few components that can increase customer loyalty and hence, cater for recurring revenues. Furthermore, profit margins in e-commerce tend to be rather low. This makes economies of scale as well as efficient business strategies and processes defining foundations for success. (Schneider, 2013; cited in Terbeck, 2014)

Zalando’s advantage is its strong reputation across different European markets, big customer base and enormous network of suppliers and partners. Philipp wants to avoid price wars no matter what the cost and realizes another time, how important it is to occupy a vanguard position in technological innovation in order to increase customer satisfaction and loyalty by means of offering a first-class customer experience in this highly competitive industry. A big and loyal customer base is what will keep retailers in business in the coming decades. There are online business models evolving which facilitate cutting out retailers as intermediaries. Customers order directly at the manufacturer, who delivers the order straight to the end-consumer. This process is called ‘disintermediation’ (Qu, Mao and Zhou, 2017). Disintermediation and very low barriers of entry into the e-commerce sector illustrate potential threats that Philipp and his team must brace against. (Chui et al., 2013)

2.1.2 Online Shoppers & Suppliers

Investigating in the current state of the online consumer environment, Philipp is interested in learning about the age, gender and income distribution in this industry. A survey conducted by Statista (2018 b.) reveals that most e-commerce consumers are aged between 25 and 54 years old. In 2017, round about 48% of users were male whilst 52% were female. In

terms of income distribution, no significant deviations were measured: Approximately 70% of all consumers came from the high or medium income segment. (see: Appendix 2.3.3. a. and b.)

Whilst researching, Philipp also regularly comes across academic papers and articles published by business journals, which proclaim drastic changes in the digital consumer- and supplier-landscape. Digging deeper into this subject, he begins to understand that the lifestyle and predominant habits of a generation reflect in the consumer landscape and, -behaviour. Rapid technological progress significantly changed online consumer behaviour over the course of the past decades. There is a tremendous increase in consumer demand for “convenience, personalization, corporate social responsibility, and resource efficiency.” (Barthel, 2013; cited in Terbeck, 2014, p. 33) Fair pricing, transparency, a personalized sales approach as well as a unique and convenient brand experience represent the main pillars for building long-term relationships and a loyal customer base (Terbeck, 2014). Nowadays, more than 85% of the European population has direct access to the Internet (Eurostat, 2018 c.). It constantly connects consumers with the online world. Smartphones and other mobile devices enable individuals to interact in a digital society whenever and wherever they want. In particular, this means:

- a.) Data and information can be recorded, shared and analysed in real-time
- b.) Customers enjoy a broad pool of information, companies and products to choose from since geographical barriers do not matter in an online environment
- c.) Companies can reach customers via the Internet and make smarter business decisions using precise data analytics in order to base strategies and actions on data collected from actual consumers and customers

Taking all of this into account, Philipp discerns a clear power shift from sellers to buyers, which is changing the way online enterprises, including Zalando, will need to manage and market their business in order to stay competitive. Business experts talk about ‘always-informed prosumers’ instead of ‘consumers’, who dominate the online business environment. ‘Prosumer’ describes an empowered customer who proactively demands a say in the manufacturing and consumption processes. The non-existence of geographical boundaries severely lowers the switching costs of switching brands and merchants for buyers. (Ritzer and Jurgenson, 2010) This is aggravated by the fact that price transparency, product homogeneity as well as an immense pool of information, which is easily and freely accessible via the Internet, increases the high bargaining power of buyers and forces manufacturers, retailers and suppliers to carefully listen to and act upon the prosumers’ wants and needs. (Tian, Zhang and Guan,

2013) However, just as the Internet gives consumers the power to search and compare different products, offers and retailers, it also works in favour for retailers, who can reach suppliers from all over the world and negotiate good deals and agreements. Philipp notes that it should be one of the future core tasks to accommodate these prosumers and turn them into loyal customers. Zalando's wide network of suppliers, advisors and partners will definitely be beneficial for this (Zalando SE, 2018).

When he first started learning about all the present marketing and sales opportunities that came with the advent of the Internet, a feeling of ease overcame him. 'With real-time data collection and numerous ways to digitally reach consumers in the market, gaining and securing market share in the future will be an easy thing to do!' Yet, shortly afterwards, his vigour was lessened due to an article published by the European Union (EU). Since Zalando almost exclusively operates in digital commerce, data privacy represents a very important field the company needs to pay attention to. Since May 2018, all European businesses are liable to a new statute called the General Data Protection Regulation (GDPR). On top of the new GDPR, every European member state's government builds its own data privacy laws. This makes the GDPR a highly relevant influence that can easily alter consumers' rights and thus, force European companies to change business practices. (Beacham, 2018) For instance, the GDPR states that online customers always need to be able to review and delete all personal information that a company might have on file. Additionally, this data can only be forwarded to third parties under strict regulations. The use of online business tools, like Google Analytics or Facebook's Business Manager, that offer meaningful and well-organised insights in real-time into any individual's behaviour, need to be publicly mentioned when used. In other words: the user/business must unequivocally inform visitors about why, when and how personal data is collected, stored and used for business purposes. As this law is still fresh, adjustments and adaptations are very likely to occur in the coming years.

2.1.3 Outlook: Trends shaping the future of online retail

Finally, yet importantly, Philipp attempts to get a glimpse into the future of online fashion retail by looking at the contemporary technological environment, industry forecasts and current trends influencing the sector.

It is evident that the online and offline worlds keep on merging. The Internet of Things capacitates organisations to offer consumers an incredibly personalised experience at any given time and place. Thanks to an immense amount of digital information being continuously collected, stored and analysed, online stores and marketplaces such as Zalando can get to know their consumer base better than ever before. The product of this collected information is corporate data-driven strategies, precisely aimed at individual online consumers' preferences and demands. Evidence is at hand: personalized newsletters, smartly targeted online campaigns, user accounts filled with personal information as well as an overall online experience, supported by sophisticated programming using algorithms, is steering what type of online environment is presented to each and every individual. (Mohr, 2013; cited in Terbeck, 2014) Speed, touch and

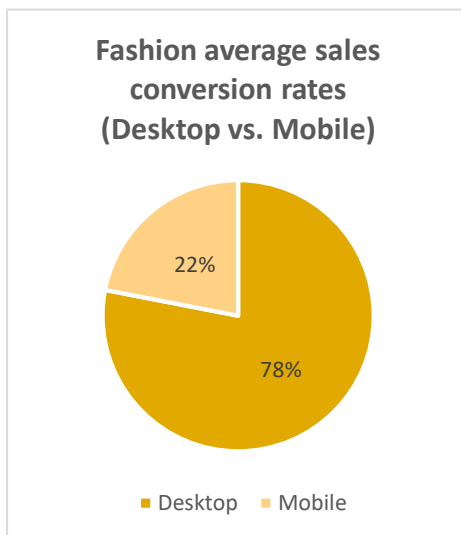


Figure 3 - Average Sales Conversion Rates in Online Fashion Retail
Source: (Statista, 2018 b.)

gesture-based interface control is increasing convenience in use of mobile technology. In 2018, nearly one fourth of all sales conversions in online fashion already happened on a mobile device.

Resulting from this increase in mobile online activity is a growing e-commerce market and new opportunities to generate revenues via mobile sales. (Peltonen et al., 2018) In fact, experts determined 237.50 Euro as the average revenue per user, who spends his/her money buying fashion goods online, in 2018. By 2022, this average is predicted to rise up to 264.80 Euro.

In sum, online fashion retail is expected to continue growing in terms of revenues, market share and profitability. In his notebook, Philipp underlines that the ability to keep up with the fast pace of technological progress will represent the alpha and omega for securing sustainable competitive advantage in online retail. Right next to it, he writes down, 'for this very reason, Zalando needs to occupy a vanguard position in technological innovation.' He is well aware that a growing market also entails growth in competition as

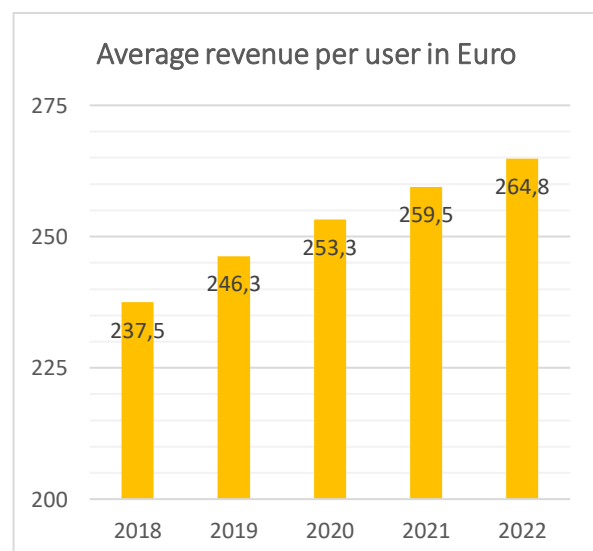


Figure 4 - Average revenue per user
Source: (Statista, 2018; cited in Orendorff, 2018, p. 4)

businesses discover new income streams. In order to stay competitive in this ever evolving technological landscape, Zalando must be able to remain relevant to prosumers, who tend to change their shopping behaviour quickly.

Not yet entirely satisfied with his findings, Philipp decides to add a scientific edge to his research. He is curious to see what information he can withdraw from statistics and scientific publications, journals or magazines available online. The first headline that greets him is that ‘Mobile devices will become the established platform for online shopping!’ Online retailers need to ensure a flawless shopping experience on mobile devices. Virtual assistants such as Apple’s Siri or Samsung’s Bixby are going to become trusted decision aids, which will ease up the mobile shopping adventure for consumers. (Turban et al., 2017) The article speaks about the ongoing confluence of online and offline environments that brings up a high probability for people to abandon shopping in malls or supermarkets and instead opt for online trade. (Terbeck, 2014)

He also finds a scientific paper from Yaqoob et al. (2016), who evaluated a trend that applies to all business channels and will become highly important for online retail in order to perpetuate competitive advantage in the market. Their analysis of socio-cultural forces revealed that the market demands a personalised offering based on an individual’s social- and shopping-behaviour. Micro-segmentation of customers, tailored touch points, and dynamic pricing can hardly be met without big data capabilities. When this data is interpreted correctly, significant optimization of marketing- and sales-processes based on real-time statistics can drastically boost buying desire and purchase rates. This empowers online businesses to personalize the consumer’s shopping experience across all business domains, regardless of the device, operating system or registration utilized by the user.

Furthermore, he has designs on the importance of state-of-the-art 3D printing technologies and the consequent evolvement of printing devices. Printers that are more powerful will improve prototyping, production as well as the logistical management of goods since manufacturing and shipping can be managed on-demand. On top of that, micro-factories developing new products and mould-breaking entrepreneurial opportunities will emerge with eased-up production possibilities. (Pandian and Belavek, 2016)

Another major trend are emerging omnichannel retailing strategies: The proceeding acceptance of technology amongst modern society, 3D printing technologies, growing big data pools and the advent of mobile electronic commerce (m-commerce) will help companies

successfully establish omnichannel strategies. Philipp realizes that the idea of establishing an omnichannel approach in an online retail environment is a rather new concept. In 2013, the first academic and scientific papers about omnichannel retailing were published and hence, academics, business experts as well as managers still find themselves in the process of figuring out how to set up seamless omnichannel retailing. To re-describe, omnichannel retailing refers to the elimination of all barriers between the online shop, the physical store, the mobile app of a brand and all other platforms, which offer a physical or digital touchpoint for customers to interact with a brand or a store. This means that the customer will always have the same brand-experience regardless of the channel one chose to interact. (Souiden, Ladhari and Chiadmi, 2018)

A deeper insight into trends that significantly affected the performance of e-commerce businesses can be obtained in Appendix 2.3.4.

2.1.4 Zalando SE

a.) History

In 2008, David Schneider and Robert Gentz founded Zalando in Berlin. Back then, the online shop exclusively offered shoes to German consumers and was able to gain significant market share due to its innovative service-standards. There was no online retailer before, where customers could order products and return these within 100 days after delivery for free. Circa one year after foundation, the young start-up already added the Austrian market to its operating area and enhanced its sales proposition with different types of fashion products, abandoning the shoe-niche. (Zalando, 2018 a.)

By the end of 2010, Zalando became a market leader in online shoe-sales but was not able to operate in the black, yet. The financial statement for that fiscal year shows a loss of about 20 million Euro. As of 2011, Zalando serves Swiss customers as well. Furthermore, big marketing-investments for the same year become apparent when looking into the online shop's annual accounts. Zalando became known for very brash TV ads but the management team decided to slow down expenditure on advertising in 2012 because the start-up still did not manage to leave the red, nearly 60 million Euro were registered in losses in 2011. Moreover, Zalando opened its first physical store in Berlin in 2012 - The Zalando Outlet Store. (Zalando, 2018 b.)

In the following years, the organisation begins to get on track. However, costly investments, big developments and high losses still mark Zalando's business performance in 2012. By this time, the 100-days-free-return-policy began to turn into a major pain point for Zalando as it had to deal with around 50% of ordered products being returned. The annual loss increased by over 30 million Euro so that the organisation's bookkeepers had to register a total loss of 92 million Euro at the end of 2012. (Zalando, 2018 a.) On the contrary, Zalando made great investments in the development of its online and offline infrastructure. New depots were built and existing ones extended. Markets such as Poland, Denmark, Spain, Sweden and four more were penetrated and the city of Dortmund became Zalando's first tech-hub, where engineers and programmers work on research and development of the software used to operate the online shop. In sum, 2012 was the year Zalando decided to rethink its vision and bring together fashion retail and technological stride. In the fiscal year 2013, Zalando achieved a turnover of 1.8 billion Euro; compared to a turnover of slightly more than half a billion Euro in 2011, the online shop could more than triple its turnover in just two years.

Since 2014, Zalando operates as a European stock corporation with company stocks being traded at the European stock exchange. Zalando went from Zalando GmbH to Zalando AG to Zalando SE in just one year. This change of the company's legal status was necessary in order to serve different European markets without running into legal bottlenecks. In addition, the stock market listing illustrated a very important source of income for the German online retailer: About 605 million Euro were sold in stocks; equivalent to 11% of all shares the company issued. This splendid start at the stock market gave another boost to the overall valuation of Zalando. In 2014, experts valued Zalando SE at 6 billion Euro. (Zalando, 2018 b.). With fresh money earned in 2014, Zalando began to invest in technological development, public relations and business expansion. Two new Tech-Hubs were opened, one in Dublin (Ireland) and one in Helsinki (Finland).

In spring 2016, Zalando commenced building the "Zalando Campus" in Berlin – two seven-storey buildings with space for 5,000 employees. Only in the first half of the fiscal year 2016, the fashion retailer tripled its EBIT up to more than 80 million Euros, while increasing revenues by 25% - compared to the first half of 2015. On top of this, the enterprise kept its high-investment-course in the following years. In 2017, more than 60 million Euro were added to the investment capital, bringing the investment pool up to 244 million Euro. Zalando's sound performance at the stock exchange is attracting new shareholders and investors. From 2015 until 2018, the stock value doubled, which brought in liquidity. Yet, one will see a significant

drop in stock value after July 2018. This is due to the fact that the corporation’s advisory board gave permission to buy back shares to the management board. (see: Appendix 2.3.5)



*Image 1 - Zalando Markets (Map) |
Source: (Zalando SE, 2018)*

Looking at the business development in 2018, Zalando diversified its product portfolio by adding cosmetic products to its online inventory and opened its first physical cosmetics retail unit in Berlin. Beyond that, Zalando keeps on expanding its operating area on a yearly basis. In 2018, Ireland and The Czech Republic became part of the online shop’s area of distribution. Nowadays, consumers from 17 European countries can order at Zalando. The product portfolio consists of round about 2,000 different fashion brands with some of these being private labels.

(Zalando SE, 2018) Only in the second quarter of 2018, a turnover of 1.33 billion Euro was recorded, leaving a profit of more than 94 million Euro. At this moment in time, the fashion retail giant counts over 23 million active users and is valued at over 6 billion Euro (YCharts, 2019).

b.) Business Model and Strategy

Zalando’s mission is to offer its customers a “one-stop convenient shopping experience with an extensive selection of fashion articles including shoes, apparel and accessories, [for women, men and children,] with free delivery and returns.” (Zalando SE, 2018, p. 79) The overall vision for the online retail platform is to become “the operating system of the fashion world, [offering] multiple ways of integrating numerous fashion contributors and stakeholders, catering to their specific needs” (Zalando SE, 2018, p. 82). The German enterprise puts fashion, technology and operations at the heart of its strategy in order to create a disruptive business model. As highlighted in its latest Annual Report (Zalando SE, 2018, p. 85), the overall strategic direction is to “[r]eimagine fashion for the good of all”. This strategic direction is blanketed

Purpose	do.areas	Impact visions
Reimagine fashion for the good of all	 do.GROW	Provide a workplace for the future and impact the future of work.
	 do.KNOW	Contribute to a more sustainable fashion industry.
	 do.PROTECT	Decouple our environmental footprint from our economic growth.
	 do.CONNECT	Reimagine how corporates contribute to societal challenges.

Table 1 - Zalando do.STRATEGY | Source: (Zalando SE, 2018)

under the umbrella term ‘do.STRATEGY’. Over the next years, Zalando is keen on securing and further developing its strong market position as customers’ go-to fashion companion and brands’ most trusted partner (Zalando SE, 2018). Therefore, the online retailer offers a diverse assortment of brands, including fast-fashion and global brands as well as private labels and local brands. Furthermore, members of the ‘Zalando Lounge’ - a digital platform created in order to extend the business offering to registered customers - can avail themselves to additional discounts and special offers. In addition to the Zalando Lounge, there is also the shopping service ‘Zalon by Zalando’, which was initiated as an add-on to the company’s service portfolio. Through www.zalon.de, consumers have the opportunity to get in touch with professional stylists and fashion advisors, who are eager to give fashion-advice based on individual preferences and needs in real-time interaction. (Detzel, Mahle and Paetzmann, 2016)



Figure 5 - Zalando Revenue Segments 2017 | Source: (Zalando SE, 2018)

Zalando SE generates its revenues through three already established business fields, which focus on trade with physical goods: (1) online shop, (2) Off-price product distribution and (3) zLabels. Four new service-based business fields are being

developed at this moment in time. (see: Appendix 2.3.6) The biggest business field is the online fashion store, which is available to consumers from 17 different European markets. In addition,

brick-and-mortar outlets in Berlin, Cologne and Frankfurt function as extra sales channels for excess inventory. Germany, Austria and Switzerland, a.k.a. the DACH-region, represent the biggest revenue segments (see: Figure 5).

For the purpose of stemming the gigantic logistical complexity of buying in goods from almost 2,000 brands and delivering these to customers from all over Europe, Zalando set up five centrally located fulfilment centres in Germany with extra order processing centres abroad. Additionally, three Zalando Tech Hubs in Europe provide the online fashion retail the right resources to use technology for



Image 2 - Zalando Fulfillment Centres & Tech Hubs | Source: (Zalando, 2019 b.)

the enhancement of the customer experience and therewith, foster future competitiveness by providing state-of-the-art innovations for all online shops operated by Zalando SE. (Zalando SE, 2018)

In terms of Zalando's corporate and strategic route, the enterprise's C-level management puts a lot of emphasis on the integration of fashion, operations and online technology, in order to deliver its value proposition to suppliers, fashion brands and customers (see: Appendix 2.3.8). Future investments shall focus on three crucial areas: (1) customer proposition, (2) supplier proposition and (3) digital as well as physical infrastructure (see: Appendix 2.3.9). In doing so, digitalisation and new technologies depict the prime drawing cards, as they connect all players of the whole fashion ecosystems: consumers, brands, manufacturers, service providers, stylists, and basically every other entity that blends into the modern fashion industry. More to the point, new possibilities for co-creating value and the development of more efficient methods to invest in, manufacture and consume fashion illustrate the corporation's strategic focus for the future. (Zalando SE, 2018).

c.) Market Position & Competition

In a broader sense, Zalando’s competitor landscape encompasses all online as well as offline retailers that sell fashion to European customers. This chapter investigates exclusively those competitors, who stand in direct competition with the German fashion retailer. For this purpose, only e-commerce retailers that offer similar products and have an akin value proposition are taken into account.

Zalando positions its brand as Europe’s most fashionable tech company, putting innovation and the convenience for the user at its core. The fashion marketplace enjoys nearly 90% brand awareness on average amongst consumers in those countries, where the online store launched operations before 2012. In those markets penetrated after 2012, brand awareness is also strong: an average of 75% of consumers indicate that they are familiar with Zalando. (Strotmann, 2014) The three most important direct competitors of Zalando are: (1) YOOX NET-A-PROTER Group, which is an online fashion retailer based in Italy; (2) ASOS, a UK-based online shop focusing on fashion- and beauty-products and (3) About You, a subsidiary of the German Otto Group that sells apparel, shoes and accessories exclusively online. Additionally, Amazon.com should not be left out of the equation when talking about competition for e-commerce companies that operate on an international scale. The U.S.-based e-commerce giant is by far the biggest, most valuable and most popular e-commerce platform. Although Amazon.com does not solely focus on fashion- or beauty-products, these goods become increasingly sought after by Amazon’s customers and thus, represent a growing business domain in terms of turnover and profit for Amazon.com. (Müller, 2017)

	Zalando	YOOX	ASOS	About You	Amazon
<i>Site visits</i>	2,563.5 m.	842.0 m.	1,669.0 m.	48.0 m	36,962.0 m.
<i>Mobile visit share</i>	70.7 %	51 %	70.3 %	70.0 %	76 %
<i>Active Customers</i>	23.1 m.	3.1 m.	12.4 m.	3.8 m.	310.0 m.
<i>Number of Orders</i>	90.5 m.	9.5 m.	49.6 m.	-	1,001.0 m.
<i>Average basket size</i>	64.50 €	328.00 €	81.30 €	-	41.78 €

Table 2 - Zalando vs. Competition – Key Performance Indicators

Sources: (Amazon, 2018; ASOS plc, 2018; Otto, 2018; YOOX NET-A-PORTER GROUP S.P.A., 2018; Zalando SE, 2018)

When looking for other competitors from the e-commerce sector, the US-based online marketplace eBay and China-based Alibaba Group illustrate well-developed online retail sites that have managed to build up a substantial customer base and rank amongst the best examples of success in e-commerce. (Pajović, 2018) For visualization, appendix 2.3.10 and 2.3.11 exemplify the German enterprise's market power when compared to its direct competitors and Amazon.



Figure 6 - Zalando Competition Environment

2.2 Problem Summary

Philipp's research revealed that technological as well as socio-cultural factors play a very important role for the present and future of e-commerce. With an ever-accelerating and progressing technological advancement, consumer behaviour and -needs quickly take on new standards and are likely to keep on changing as technological breakthroughs will further fuse the physical and digital commercial environments. Zalando managed to establish itself as one of the most valuable online fashion brands throughout Europe. The future challenge will be to compete with huge international enterprises such as Amazon.com, ASOS or the Otto Group in order to become Europe's first-choice fashion platform.

Therefore it is of paramount importance for Philipp Erler and his team to elaborate sophisticated strategies for Zalando SE to stay relevant for consumers while being susceptible to increasing competition, technological progress or other factors such as disintermediation, for instance.

2.3 Appendix

2.3.1 Forecasted revenues for the e-commerce fashion industry

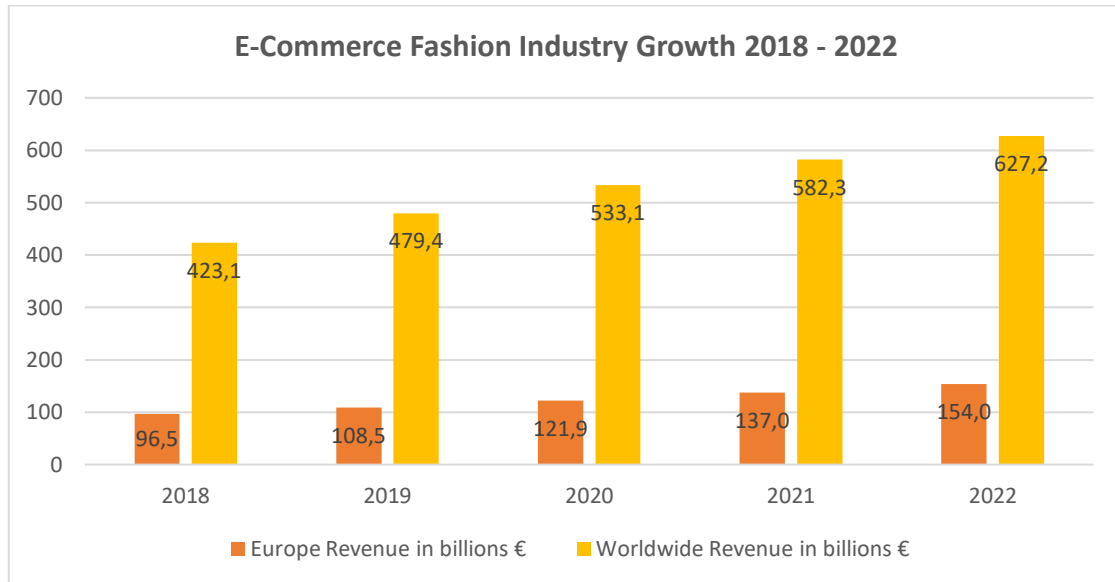


Figure 7 - Revenue Forecasts | Source: (Statista, 2018; cited in Orendorff, 2018, p. 2)

2.3.2 European Fashion Retail – Revenue Forecasts

a.) European fashion retail: revenue forecasts in million Euro

	2016	2017	2018	2019	2020	2021	Total Change
Bags & Accessories	11.310	12.706	14.320	16.071	17.894	19.324	+ 70.9 %
Shoes	16.740	18.198	19.799	21.470	23.145	24.655	+ 47.2 %
Clothing	48.266	54.125	60.590	67.320	74.037	79.645	+ 65.0 %
Total	76.316	85.029	94.709	104.861	115.076	123.624	+ 61.0 %

Table 4 - Revenue forecasts fashion retail by category | Source: (Bohnhoff, 2016)

b.) European fashion retail: revenue forecasts per capita in Euro

	2016	2021	Change
Bags & Accessories	86,74	105,11	+ 21.2 %
Shoes	118,00	130,51	+ 10.6 %
Clothing	282,43	332,89	+ 17.9 %

Table 5 - Revenue forecasts fashion retail categories per capita | Source: (Bohnhoff, 2016)

2.3.3 E-commerce user demographics

a.) European fashion retail: User income groups

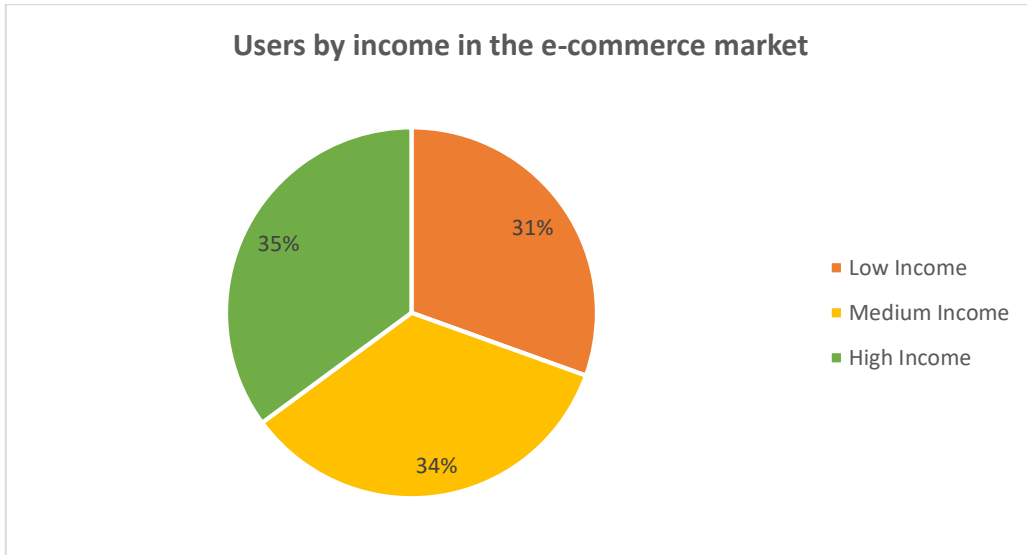


Figure 8 - E-commerce users by income | Source: (Statista, 2018 b.)

b.) European fashion retail: User age groups

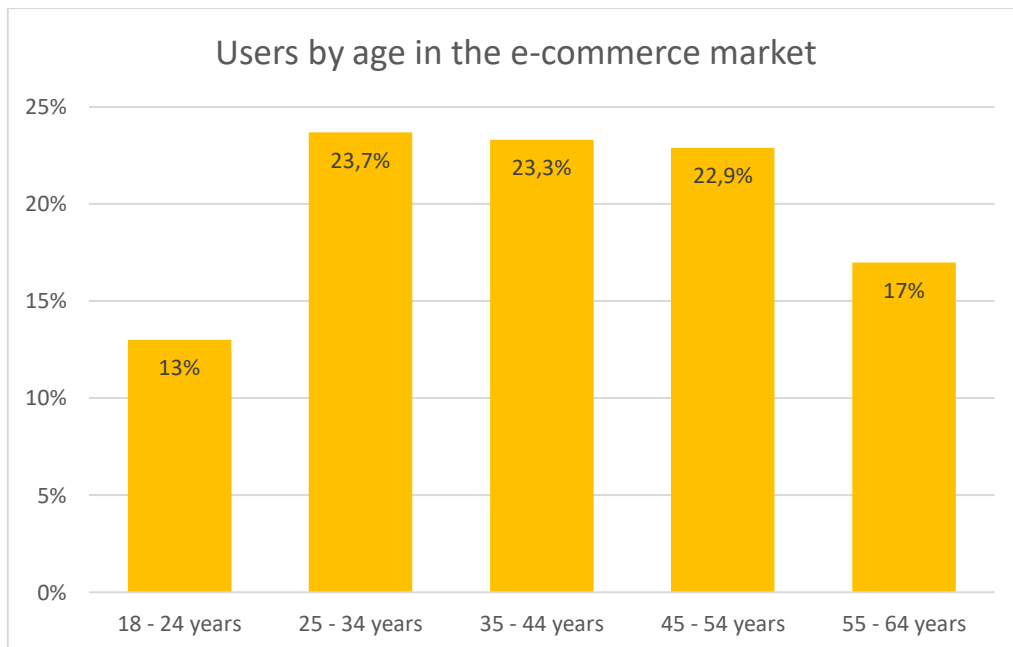


Figure 9 - E-commerce users by age | Source: (Statista, 2018 b.)

2.3.4 Looking back at 2018 so far, how much have the following trends impacted your e-commerce business?

(1 = low impact | 10 = very high impact)

Mobile obsessed	7.4 / 10
Platform first	7.0 / 10
Start-up thinking	6.7 / 10
Getting personal	6.4 / 10
Sustainability credibility	6.2 / 10
Predictability / unpredictable	5.8 / 10
Asian trailblazers	5.6 / 10
Globalisation reboot	5.6 / 10
Off-price deception	5.4 / 10
AI gets real	4.7 / 10

Table 6 - Trends impacting e-commerce business in 2018 | Source: (Amed et al., 2019)

2.3.5 Zalando – Share Price Development (2015 – 2019)



Image 3 - Zalando Share Price Development | Source: (Zalando, 2019 a.)

2.3.6 Zalando SE – Business Fields

Established	Emerging
<p style="text-align: center;"><u><i>Fashion Store</i></u></p> <ul style="list-style-type: none"> ▶ Online Shops in 17 different European markets tailored to local customers' needs ▶ Products: Shoes, Clothing & Accessories ▶ Offering almost 2,000 international brands 	<p style="text-align: center;"><u><i>Zalon</i></u></p> <ul style="list-style-type: none"> ▶ Style advice service: Customers can get advice and inspiration from stylists ▶ Platform that connects freelance stylists and customers
<p style="text-align: center;"><u><i>Off-Price</i></u></p> <ul style="list-style-type: none"> ▶ Sale of previous season's assortments ▶ Zalando Lounge: Registered members get access to exclusive sales campaigns and discounts ▶ Outlet Shops in Berlin, Cologne, Frankfurt am Main, Leipzig & Hamburg 	<p style="text-align: center;"><u><i>Zalando Fulfilment Solutions</i></u></p> <ul style="list-style-type: none"> ▶ Offering in-house logistics capabilities to external partners
<p style="text-align: center;"><u><i>zLabels</i></u></p> <ul style="list-style-type: none"> ▶ 15 private labels ▶ Assortment encompasses shoes, apparel and accessories for women, men & children 	<p style="text-align: center;"><u><i>Zalando Marketing Services</i></u></p> <ul style="list-style-type: none"> ▶ Personalised marketing solutions for brand partners
	<p style="text-align: center;"><u><i>Zalando Partner Solutions</i></u></p> <ul style="list-style-type: none"> ▶ Help other players from the industry (i.e. brands, manufactures or retailers) to become successful in the digital world

Table 7 - Zalando Business Fields | Source: (Zalando SE, 2018)

2.3.7 Zalando SE: Financial Results 2016 by Segment (in Euro m)

		DACH	Rest of Europe	Other
Revenue	<i>2016</i>	1,813.8	1,570.2	255.1
	<i>2017</i>	2,145.6	1,973.6	369.9
EBIT	<i>2016</i>	221.4	- 6.2	- 8.1
	<i>2017</i>	175.6	9.6	2.5

Table 8 - Zalando Financial Results 2016 by segments | Source: (Zalando SE, 2018)

2.3.8 Zalando SE: Value Proposition to customers, fashion brands and suppliers

Customers	Fashion Brands & Suppliers
<ul style="list-style-type: none"> ▶ Offering an up-to-date, unique, and comprehensive assortment of in-season fashion merchandise ▶ Building the most fashion-competent destination via discovery and inspiration, catalogue curation, as well as content and selection freshness ▶ Providing unique and vivid storytelling behind trends, brands, and products ▶ Delivering an unmatched level of personalization and relevance ▶ Offering a smooth, better-than-offline experience: the most convenient way to discover, check-out, pay, receive, and return fashion items 	<ul style="list-style-type: none"> ▶ Providing technology and operations infrastructure that enables brands and retailers to optimize results across the entire value chain (e.g. through more accurate sales forecasts, insights into customer buying behaviour, targeted advertising, and smart fulfilment services) ▶ Empowering brands to present themselves in a brand equity accretive, engaging way and enabling them to localize their content in every single country in which we operate ▶ Granting brands access to a vibrant fashion ecosystem where they can connect, create, and share value with different fashion stakeholders ▶ Offering instant access to the European fashion market through our unprecedented customer reach across Europe

Table 9 - Zalando Value Proposition | Source: (Zalando SE, 2018)

2.3.9 Zalando SE: Strategic Investment Areas

Investment in Customer Proposition	<ul style="list-style-type: none"> ▶ Assortment ▶ Convenience ▶ Brand ▶ Multiple Channels/Apps/Devices
Investment in Supplier Proposition	<ul style="list-style-type: none"> ▶ Wholesale solutions ▶ Partner program ▶ Off-price solutions ▶ Digital services ▶ Fulfilment services
Investment in Supporting Infrastructure	<ul style="list-style-type: none"> ▶ Technology ▶ Operations

Table 10 - Zalando Strategic Investment Areas | Source: (Zalando SE, 2018)

2.3.10 Zalando vs. YOOX vs. ASOS vs. About You vs. Amazon – Key Performance Indicators 2017

	Zalando	YOOX	ASOS	About You	Amazon
<i>Site visits</i>	2,563.5 m.	842.0 m.	1,669.0 m.	48.0 m	36,962.0 m.
<i>Mobile visit share</i>	70.7 %	51 %	70.3 %	70 %	76 %
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<i>Average basket size</i>	64.50 €	328.00 €	81.30 €	-	41.78 €

Table 11 - Zalando vs. Competition – Key Performance Indicators

Sources: (Amazon, 2018; ASOS plc, 2018; Otto, 2018; YOOX NET-A-PORTER GROUP S.P.A., 2018; Zalando SE, 2018)

2.3.11 Zalando vs. YOOX vs. ASOS vs. About You vs. Amazon – Operational & Financial Results 2017 (in € m.)

	Zalando	YOOX	ASOS	About You (Otto Group)	Amazon
<i>Revenue</i>	4,489.0	2,091.0	2,165.2	7,880.0	156,176.1
<i>Net income</i>	105.1	51.2	27.6	519.1	3,033.0
<i>EBITDA</i>	246.4	169.2	137.4	750.0	21,872.4
<i>EBITDA (as % of revenue)</i>	5.5	8.1	6.3	9.5	14.0
<i>Net Working Capital</i>	- 62.4	20.9	27.1	- 579.0	1,598.1
<i>Total Cash Flow</i>	94.8	- 26.2	- 14.6	167.6	16,182.55

Table 12 - Zalando vs. Competition – Operational & Financial Results

Sources: (Amazon, 2018; ASOS plc, 2018; Otto, 2018; YOOX NET-A-PORTER GROUP S.P.A., 2018; Zalando SE, 2018)

2.3.12 Zalando SE: Key Performance Indicators 2016/2017

	2016	2017	Change
<i>Site visits</i>	1,991.6 m.	2,563.5 m.	28.7 %
<i>Mobile visit share</i>	65.6 %	70.7 %	5.1 %
<i>Active Customers</i>	19.9 m.	23.1 m.	16.2 %
<i>Number of Orders</i>	69.2 m.	90.5 m.	30.8 %
<i>Average orders per active customer</i>	3.5	3.9	12.6 %
<i>Average basket size</i>	66.6 €	64.5 €	- 3.2 %

Table 13 - Zalando – Key Performance Indicators | Source: (Zalando SE, 2018)

2.3.13 Zalando SE: Operational & Financial Results 2016/2017 (in € m.)

	2016	2017	Change
<i>Revenue</i>	3,639.0	4,489.0	23.4 %
<i>EBITDA</i>	255.3	246.4	- 3.5 %
<i>EBITDA</i> <i>(as % of revenue)</i>	7.0	5.5	- 1.5 %
<i>NWC</i>	- 127.6	- 62.4	- 51.1 %
<i>Cash Flow from</i> <i>operating activities</i>	275.8	193.7	- 29.8 %
<i>Cash Flow from</i> <i>investing activities</i>	- 277.1	- 88.3	- 68.1 %

Table 14 - Zalando – Operational & Financial Results | Source: (Zalando SE, 2018)

2.3.14 Zalando SE: Cost Structure 2013 – 2017 (as % of revenue)

	2013	2014	2015	2016	2017
<i>Cost of Sales</i>	59.4	56.7	54.9	55.8	56.4
<i>Fulfilment</i> <i>Costs</i>	24.1	22.5	25.9	23.3	26.0
<i>Marketing</i> <i>Costs</i>	17.6	13.4	11.9	10.3	8.1
<i>Administrative</i> <i>Expenses</i>	6.0	4.9	4.4	5.3	5.4

Table 15 - Zalando – Cost Structure 2013 - 2017 | Source: (Zalando SE, 2018)

2.3.15 - European Overview of the Top Marketplaces



Image 4 - European Overview of the Top Marketplaces | Source: (Lone, Khelladi and Packiarajah, 2019)

2.3.16 – History: European B2C e-commerce market value development 2013 – 2018

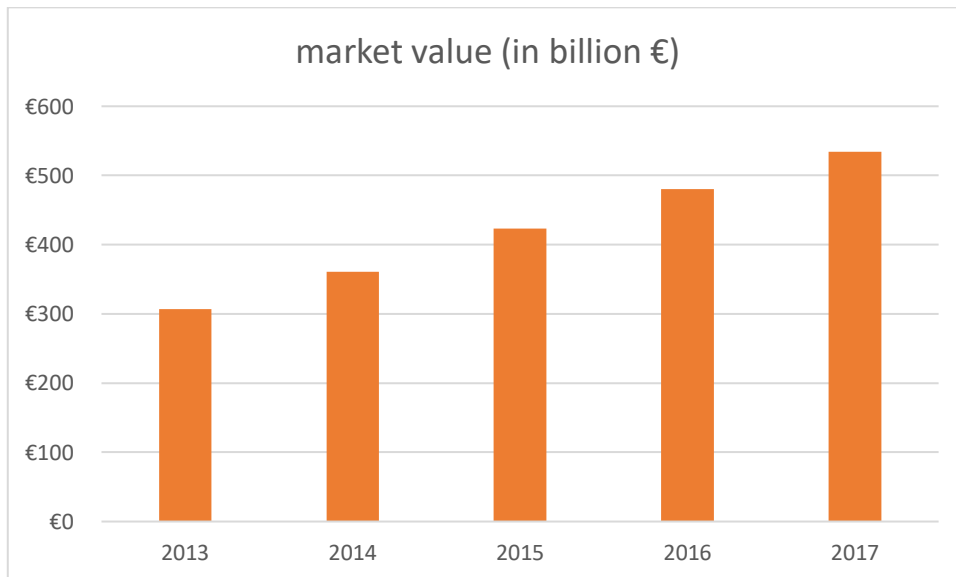


Figure 10 - Europe B2C e-commerce market value | Source: (Lone, Khelladi and Packiarajah, 2019)

2.3.17 - European Overview of the Top Marketplaces

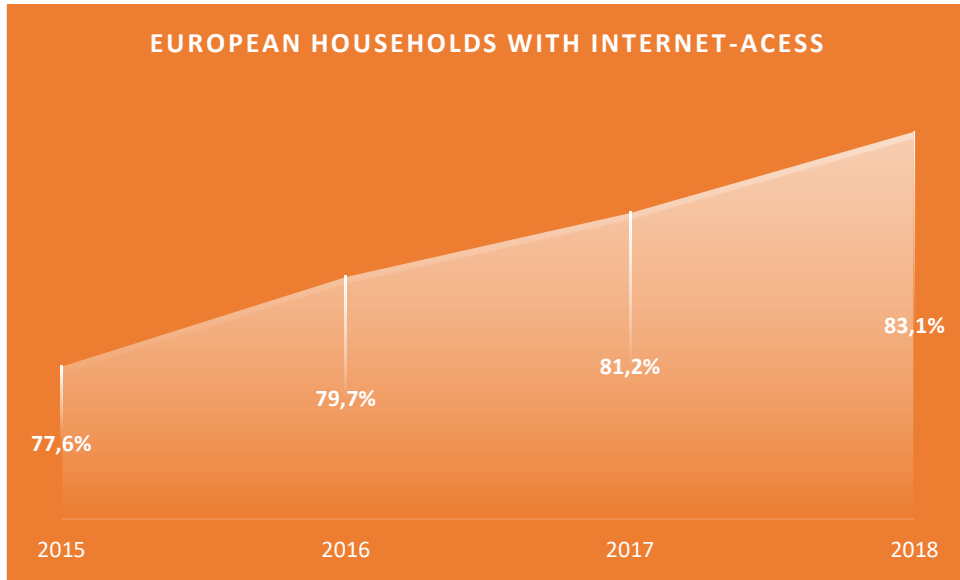


Figure 11 - European Households with Internet-access | Source: (Lone, Khelladi and Packiarajah, 2019)

2.3.18 – Size of e-commerce markets by European region

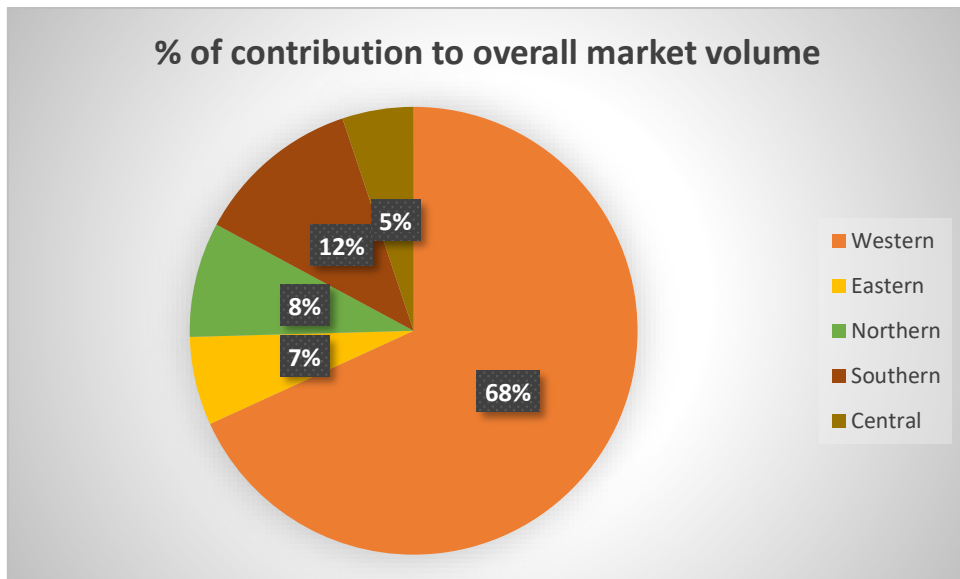


Figure 12 - Size of e-commerce markets by European region | Source: (Lone, Khelladi and Packiarajah, 2019)

2.3.19 – Household consumption expenditure on clothing and footwear in the European Union in 2016 (in million €)

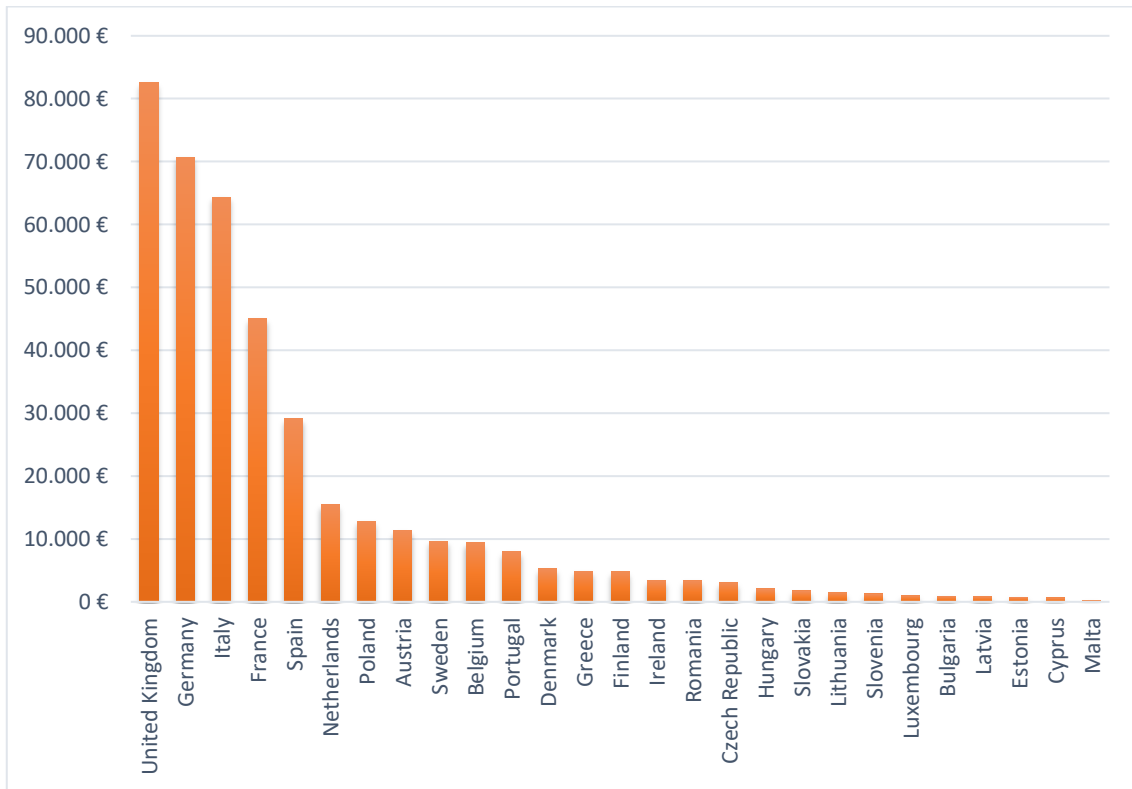


Figure 13 - Household consumption expenditure on clothing and footwear in the European Union in 2016, by country

| Source: (Statista, 2018 c.)

2.3.20 – Turnover from retail sale of clothing in specialized stores in the European Union from 2008 to 2015 (in million €)

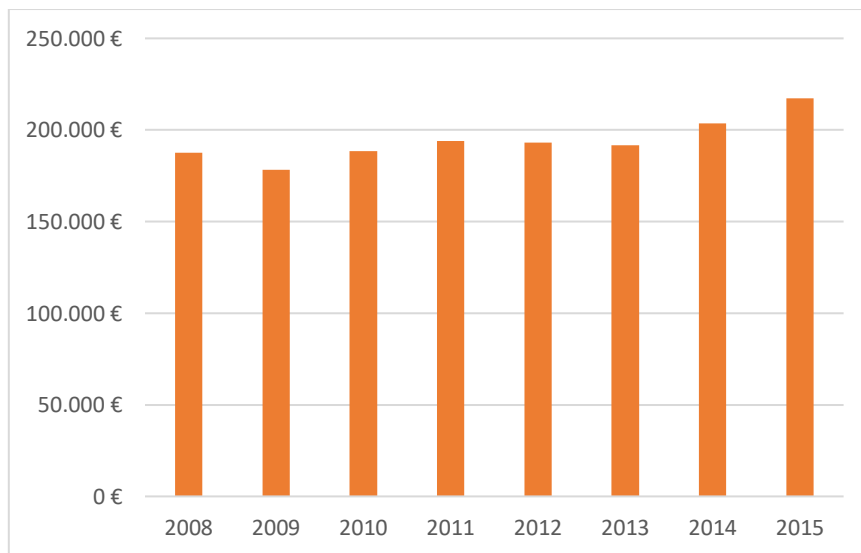


Figure 14 - Turnover from retail sale of clothing in specialized stores in the European Union from 2008 to 2015

| Source: (Statista, 2018 c.)

2.3.21 – Turnover from retail sale of clothing in specialized stores in Europe in 2015, by country (in million €)

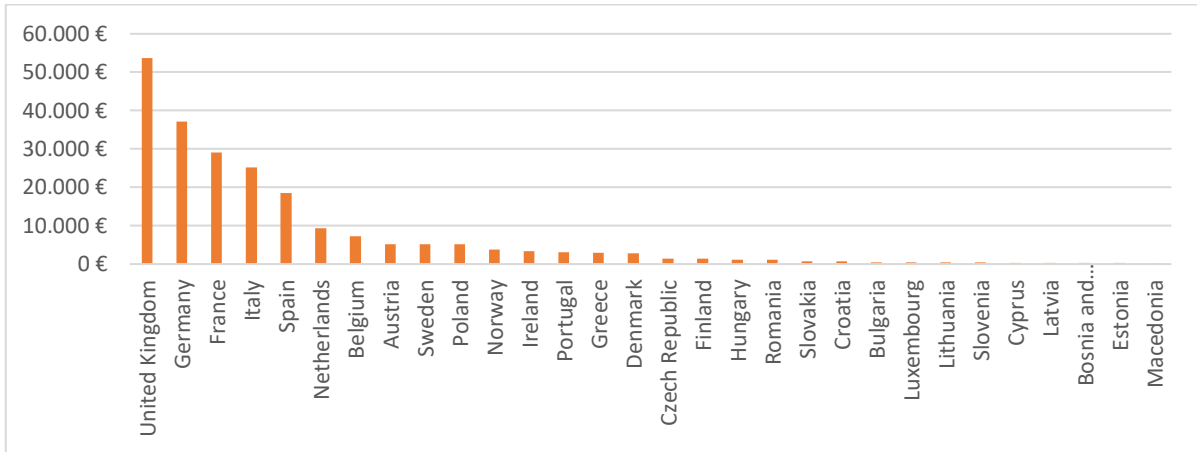


Figure 15 - Turnover from retail sale of clothing in specialized stores in Europe in 2015 | Source: (Statista, 2018 c.)

2.3.22 – Educational level of European online shoppers in 2017

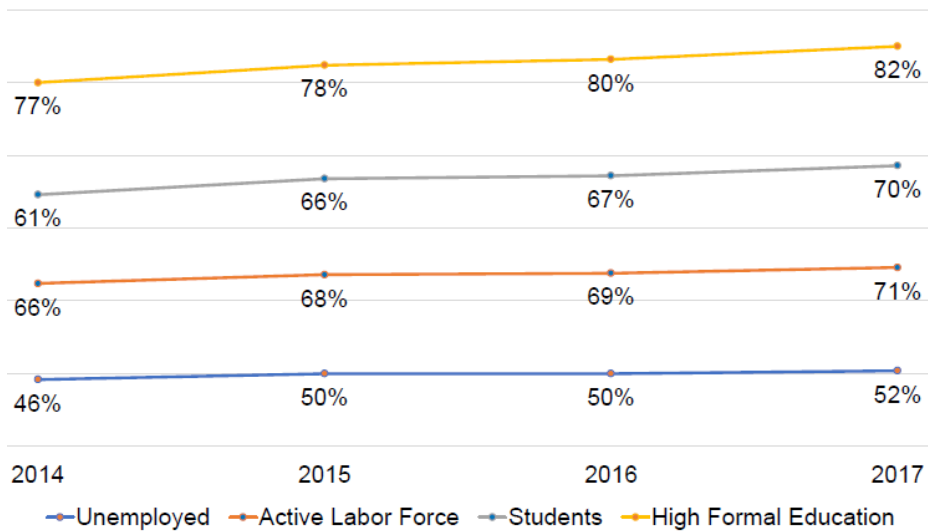


Figure 16 - Online Shoppers Europe: Educational level 2017 | Source: (Lone, Khelladi and Packiarajah, 2019)

2.3.23 – Zalando Supply Chain

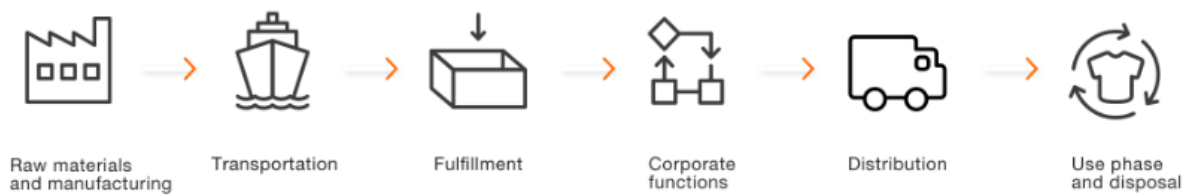


Image 5 - Zalando Supply Chain | Source: (Zalando SE, 2018)

2.4 Questions

In order to meet the target of the case and all pedagogical objectives, students are asked to answer the following set of questions:

- (1) What are the major factors that help explain Zalando's intra-European success?
- (2) Conduct a situation and trend analysis based on Zalando's current strategic principles, needs and potentials.
- (3) According to your understanding of the e-commerce industry, compile a list of critical success factors for the online retail sector. Briefly explain every listed factor.
- (4) Based on your previous answers and the information given in the case study, explore how Zalando's future in the e-commerce industry might look like and come up with recommendations to stay competitive.
- (5) In conclusion with all findings of this case study, provide a sophisticated answer to the guiding question:

▶ ***How can Zalando SE leverage on its strong market position and technological progress in order to become Europe's number one online fashion retailer?***

III. Pedagogical Note

3.1 Target of the case

Primarily, this case study is developed for undergraduate and master students from the areas of Business Administration, (international) Management and/or Marketing, who have an interest in broadening their knowledge and horizons in the fields of e-commerce, technology and digital brand building as well as management. Additionally, entrepreneurs and organisations, which are engaged in e-business, can make use of this case study in order to elevate business intelligence and learn about practicable ways to increase competitiveness through modern technologies.

3.2 Pedagogical Objectives

Foremost, the case study at hand is issued to provide strategic recommendations based on real data and trends for an established e-commerce shop like Zalando. While solving the case study, students should strive for the following pedagogical objectives:

- (1) Understand the business environment of European e-commerce organisations.
- (2) Deepen their understanding of the (European) e-commerce sector by means of a thorough and in-depth analysis of the industry and company under study.
- (3) Learn about the effects, importance and benefits of modern technologies for business performance and the development of sustainable competitive advantage.
- (4) Groom students to become aware of the predominant connections between e-commerce, online consumer behaviour and technological progress.
- (5) Provide a paradigm on how to successfully launch, grow and maintain a well-performing online shop.
- (6) Advance analytical and critical capabilities of students for business diagnosis, problem solving skills as well as creativity.

3.3 Literature Review

A thorough review of existent literature familiarizes the lecturer - or whomever is in charge of leading the case study - with important theoretical foundations and terms of the guiding topic. It acts as a demonstration of the established theories used in the subject area and exposes how these are interrelated. Within the following chapter, different concepts and definitions related to online business and digital brands are presented and discussed.

3.3.1 Online Business

a. E-commerce & e-business management

The first part of the literature clarifies all necessary terms and building blocks with regard to e-commerce and e-business before illuminating the reader about the difference between e-commerce and e-business. In a second step, a closer look at the digital consumer environment is taken to understand how online consumers are wired.

According to Chaffey (2015), e-business, and consequently the management of it, becomes part of a firm's managerial spectrum as soon as a company decides to go digital. This undertaking could range from creating a simple website to the integration of sophisticated Information Technology (IT) Systems based on Artificial Intelligence or even robotics. The goal is to foster competitive advantage and optimize processes. From an internal business perspective, all departments need to adapt to doing business online in order to meet new demands related to effective supply chain management, human resources management, marketing and sales, manufacturing, product development and all other processes and activities of the value chain.

Napier et al. (2001) elaborated on a list of strategic advantages for companies that make the move into digital. Next to reducing costs, digital trade opens up access to a variety of different markets that a company would not have been able to penetrate when exclusively using offline channels. On the other hand, buyers can make use of a wider assortment of available products and services. Furthermore, digital communication channels can be utilised for strengthening contacts to different stakeholders and consequently enhance business intelligence, which, in turn, can be used for product and service optimization. In a digital business environment, revenues are generated independently from factors like location and time. This equals sales opportunities for all players. (Chaudhury and Kuilboer, 2002, cited in Grandon and Pearson, 2004)

Before further perusing the e-commerce and e-business environment, it is crucial to understand the difference between e-commerce and e-business. However, as this digital sector is still rather young (first transactions in e-commerce took place only in 1995), opinions and definitions tend to differ strongly. The defining variable or moot point is the role of commercial transactions taking place in an online business environment. In effect, Kalakota and Robinson (2003) argue that e-commerce is part of the bigger e-business environment and hence, should be treated and managed as a separate component. Others, such as Rayport and Jaworski (2003) claim that there is no need to distinguish between e-business and e-commerce at all because it all deals with digital transactions of any sort. In order to guarantee consistency, this paper follows the definition from Kalakota and Robinson, who assume determined e-business and e-commerce being two different branches of digital business.

E-business	E-commerce
The digital enabling of transactions and processes within a firm, involving information systems under the control of the firm. It does not include commercial transaction or exchanges, which involve an interchange of value between a firm's internal and external business environment.	The digital enabling of transaction and processes that cross a firm's internal boundaries and generate revenue.

Table 16 - Definitions: E-business & E-commerce | Source: (Laudon and Traver, 2017)

As one can see, these two definitions blend together at the stage where internal business systems reach customers or suppliers. Figure nine visualizes these differences and touch points:

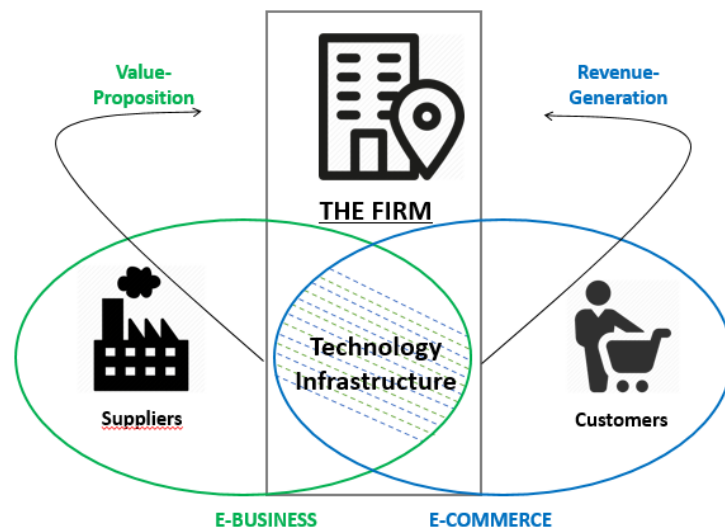


Figure 17 - Difference between E-business & E-commerce

With respect to Qu, Mao and Zhou (2017), there are three technological platforms or building blocks underlying e-commerce:

1. *The Internet*

The Internet is the network that connects different computers, mobile devices and users through a wide network of digital features such as research, e-mail and instant messaging, entertainment (music, video, or news), document transfer, shopping and all other digital touchpoints.

2. *The Web*

Also known as the World Wide Web, this information system runs on the digital infrastructure that was born together with the advent of the Internet. It offers access to all web pages in existence. Search engines such as Google for example, index these web pages and facilitate finding the right information in within this digital web of information.

3. *The Mobile Platform & Apps*

The Mobile Platform and with it the deployment of Apps, is the latest development within the Internet infrastructure. It grants users access to the Internet from different mobile devices like smartphones, smart-watches, tables or laptops. According to Eurostat (2018 d.), more than 65% of European citizens, who access the Internet, regularly use a mobile device to do so. This statistic makes clear that mobile platforms are already very popular amongst users of the Internet.

b. *Online Consumer Behaviour*

As explained in the chapter above, enterprises began to generate revenues online with the derivative of the World Wide Web. Additionally, new possibilities for analysing and learning about consumer behaviour in a digital marketplace emerged. Statisticians declare the online world as an important component of daily life, which strongly influences people's behaviour. The numbers speak for themselves - more than 85% of the European population used the Internet on a daily basis in 2018. The trend points toward further growth because Internet usage amongst the teenage population is even higher. (Eurostat, 2018 c.) Hence,

businesses should adapt their practices and methods to a new audience that consumes content and information online (Aghaei, Nematbahsh and Farsani, 2012).

Yet, before getting down to business regarding common behavioural patterns of consumers in an online environment, it is important to understand why consumers choose the online channel in the first place and what convinces them to purchase. The following matrix presents the main advantages consumers see in e-commerce and a ranking of the most influential components that may turn an online shopper into a customer:

Rank	Advantages of online shopping	Decision to purchase online
1	Availability of product information	Lower prices
2	Online payment	Security
3	Convenience / Shop from home	Guarantees & warranties
4	Easy accessibility	Delivery time
5	Flexibility / Shop 24/7	Reputation of company/seller
6	Wider variety of products available	Better product information available
7	Social media influence	Privacy of the information

Table 17 - Why consumers choose the online channel | Source: (Shanthi and Kannaiah, 2015)

Advancement of technological platforms accelerates the merger of commercial offline and online environments. With more interaction and business taking place online, more behavioural data is being gathered too. Companies that learn to harvest this data and transform it into knowledge can achieve high performing marketing campaigns, tailored to consumers' most urgent needs and wants as well as achieve great competitive advantage in the industry. The Internet is a timeless and portable system, so processes can happen simultaneously and dateless. Hence, consumers can be targeted and acquired at any given place anytime. With regard to elevated targeting opportunities in an online environment, smartphones and tables are the most used access points to the Internet and that social networks such as Instagram or Facebook occupy a significant share of an individual's online activity. (Niranjanamurthy et al., 2013) According to Zickuhr and Smith (2012), who conducted a thorough study on differences between digital societies: The more time users spend online, becoming more comfortable and familiar with internet features and services, the more services they are likely to explore.

However, Rowley (2004) underlines that more commercial messages than ever reach customers today, the online audience becomes fussier and appreciates tailor-made content. The information presented needs to be timely and relevant or it will be ignored.

Zhou and Dong (2014) underline that business ethics cannot be neglected in an online environment, either. Businesses need to pay attention to using customer information morally. Unethical business behaviour puts the public brand image and reputation at risk. For example, news of an inappropriate data usage can spread as fast as all other online communication.

Finally, Laudon and Traver (2017, p. 339) state that “(t)argeted advertising based on behavioural tracking leads to growing privacy awareness and fears” within online customer segments from all industries and sectors. Trust is one of the most important factors when it comes to both customer-acquisition as well as retention. (Zhou and Dong, 2014) Online customer loyalty (e-loyalty) is defined as the “perceived loyalty of customers towards websites and their intention to visit the same website [...]” again (Bhaskar and Kumar, 2016, p. 6). The more loyal customers are to an e-commerce website, the more likely they are to purchase from the same website, rather than from a different one. Generally speaking, online consumers undergo the same five stages in their decision process before making a purchase:

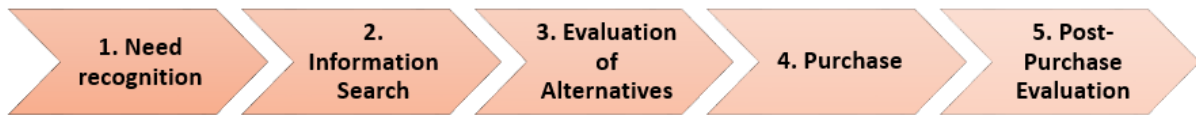


Figure 18 - Online Consumer Decision Making Process | Source: (Karimi, 2013)

Within this five-stage model (see: Figure 14), there are three categories of variables that can affect an online consumer’s purchase decision:

(1) Background demographics

- ▶ Culture
- ▶ Social norms
- ▶ Demographics and geography
- ▶ Psychological factors

A company has no control in minimizing the risk of these factors detaining consumers from purchasing online.

(2) *Intervening Factors*

- ▶ Brand and marketing communications – stimuli
- ▶ Firm's capabilities and resources
- ▶ Website and mobile platform features
- ▶ Consumers skills
- ▶ Product characteristics
- ▶ Purchasing attitudes
- ▶ Perceived behavioural control
- ▶ Social networks

Here, a company holds a significant share of control in minimizing the risk of these factors detaining consumers from purchasing online.

(3) *Clickstream behaviour*

This online behaviour refers to the digital footprint that consumers leave as they move through the Web. Here, a company holds only some share of control in minimizing the risk of these factors detaining consumers from purchasing online

Besides, Bhaskar and Kumar (2016) introduce three levels of online interaction between customers and brands:

(1) *Passive Interaction*

The most basic form of online customer interaction is where the customer solely consumes the content presented online and experiences a brand through digital advertising, through social media networks or electronic word-of-mouth.

(2) *Co-Creation (Active interaction)*

Co-creative brand interaction implies that the customer pro- or re-actively influences public brand associations and perceived quality. Social media platforms, blogs and other websites, where the customer has a chance to speak in public about his/her opinion on the brand, are common grounds for customer experience and loyalty-formation.

(3) *Independency*

A state of independency is reached when a customer decides to launch his/her own brand based on a similar brand manifestation. This is how rival brands are launched.

3.3.2 Digital Brands

After learning about the possibilities that came up for businesses through the progression of the Internet, this chapter will educate the reader about common practices in digital brand building, taking a holistic approach that covers themes like user experience and customer loyalty as well as digital marketing communications. Olins (2008; cited in Wheeler, 2018) emphasizes the importance of brands ranging from large corporations to small and medium-sized enterprises. On an ever-increasing number of corporate balance sheets, brand equity, or brand value-evaluation, can be found. Often times, this value is “much greater than the corporation’s tangible assets” (Olins, 2008; cited in Wheeler, 2018, p. 2). This shows that a brand and its value must be measured, evaluated and managed consistently. A strong brand can give a lot of value to an organisation and makes up a great deal of the corporate reputation. The American Marketing Association (2017) established one of the most popular definitions of a brand:

“A name, term, design, symbol, or any other feature that identifies one seller’s good or service as distinct from those of other sellers. The legal term for brand is trademark. A brand may identify one item, a family of items, or all items of that seller. If used for the firm as a whole, the preferred term is trade name.”

a.) Brand Building

Zablocki, Schlegelmilch and Schant (2017) realized that the traditional business environment is currently in a phase of change. This entails also changes for brands and brand managers. Quinton (2013; cited in Zablocki, Schlegelmilch and Schant, 2017) describes that in traditional brand management processes, a company was fully in control of the publicly illustrated brand image. Today, customers have more opportunities to publicly express their opinion and experiences with brands through blogs, social media profiles or public reviews. Thus, the brand is not only being shaped by the enterprise that owns it but also by its customers and the online community. Digital brand building takes places as a shared experience between the online audience and the brand manager rather than a one-way-approach from corporation down to consumer. As a result, brand equity should always be defined as customer-based brand equity. According to Keller (1993; cited in Jayasuriya et al., 2018, p. 32), brand equity is made up by two components - brand awareness and brand image. Brand awareness describes the extent to which an individual is able to tell a particular brand apart from other brands based on

his or her familiarity with the brand and the brand’s recall value. The brand image represents the associations, values and other perceptions that the public holds. Furthermore, a brand image needs to be measured with two factors: a.) brand association (*What do customers associate to a brand?*) and b.) perceived brand quality (*Customers’ overall impression of the products and services linked to a certain brand*). Aaker (1991; cited in in Jayasuriya et al., 2018, p. 32) found one more guiding driver of brand equity - brand loyalty. In sum, there are four dimensions adding value to a brand:

$$\underline{\text{Brand Awareness} + \text{Brand Association} + \text{Perceived Quality} + \text{Brand Loyalty} = \text{Brand Equity}}$$

b.) Digital Marketing Communications

According to Allen and Fjermestad (2001), digital brand and marketing communications in the e-commerce sector concern the 4P’s of the marketing mix: product, price, place and promotion. Evans and Wurster (1999; cited in Allen and Fjermestad, 2001) point out the importance for digital businesses to carefully and strategically develop a customized digital marketing mix and integrate it in consideration of different dynamics than those that prevail offline. Factors such as reach, data, and time force rethinking of marketing strategies designed for online use. Digital brand or marketing communications involve the promotion of products and services by means of digital sales and distribution channels. The goal is to reach the online audience in a personal, relevant and timely manner through cost-effective campaigns in order to direct traffic to a certain website, sales page or social media account. To achieve this, there are multiple digital marketing and distribution channels available:

Internet Channels	Mobile Channels	Other
<ul style="list-style-type: none"> ▶ Social Networks ▶ Blogs & RSS ▶ Digital ads ▶ E-Mail 	<ul style="list-style-type: none"> ▶ Mobile Apps ▶ Mobile Ads ▶ SMS 	<ul style="list-style-type: none"> ▶ Interactive TV channels ▶ Interactive displays

Table 18 - Digital Marketing & Distribution Channels | Source: (Umrez, 2014)

If a company successfully creates a sophisticated marketing campaign that is thoroughly tailored to a digital implementation strategy, effective segmentation, targeting and position, this will boost the campaign’s performance and positively affect sales. (Umrez, 2014)

Keller (2016), who measured the power and potential of integrated marketing communication campaigns, found eight main objectives that companies should pursue by means of digital marketing communications:

1. *Create and manage brand awareness*
2. *Display brand personality*
3. *Present detailed information*
4. *Connect products and audience*
5. *Elicit emotions*
6. *Inspire action*
7. *Build trust amongst audience*
8. *Instil customer loyalty*

Moreover, Akhavan (2012) and later also Keller (2016) put out three types of online content that a digital business should take into account since all three content-types impact the reach of communication objectives:

- i. *Paid content (e.g.: Google Ads, Social Media Ad Campaigns, affiliate marketing)*
- ii. *Owned content (e.g.: own website, in-house apps, social media pages, blogs, etc.)*
- iii. *Earned content: (e.g.: online Word-of-Mouth, digital press releases, etc.)*

Hereby, paid and owned content management represent the two most important fields for digital businesses since earned content is very hard to initiate, predict and manage. Concerning the first two content-types, managers have direct control over the content design and are responsible for making decision as well as ensuring that the campaign stays on track. As the circumstances require, individual ads, messages and media can be reworked in order to increase campaign performance and attract more customers. In terms of earned content, there is no control over the message.

Analysing big sets of data opens up possibilities to gain a better understanding as well as first-hand insights on an organisation's customer environment. The first step is to determine which data is valuable – for instance, structured or unstructured data; or both - and thus, worth collecting. The data needs to contain the right amount and type of information in order to draw substantiated conclusions and improve ad campaign performance. Then, different analytical tools and processes need to be applied under constant control and evaluation. With regard to Bedgood (2015, p. 16), “to better understand customer insights”, “to improve the supply chain” and “to power campaigns and promotions” represent the three most common use cases for big

data in digital marketing and brand building. An important result of data-driven marketing strategies is an optimized and tailored user experience - the campaign's audience receive highly personalized content that address their needs and do not irritate the overall online experience.

To conclude, the more data a company is able to efficiently analyse and interpret, the more precisely it can create a favourable user experience, hence, foster customer loyalty, and increase customer retention. That, in turn, helps again to increase the amount of available data.

3.4 Presentation of analytical tools

This section of the pedagogical note enlightens about the different analytical approaches and tools that need to be applied in order to answer the guiding questions of this case study (see: Chapter 2.4) and thus, meet the pedagogical objectives set in Chapter 3.2. After a thorough analysis, students will be well equipped to come up with a sophisticated argumentation for the central problem: *'How can Zalando SE leverage on its strong market position and technological progress in order to become Europe's number one online fashion retailer?'*

Generally speaking, it is expected to apply a two-sided approach using quantitative and qualitative data-analysis, which is supported by established frameworks and analytical tools. All data and findings are grounded on secondary research. Students are not expected to conduct primary research in order to solve the case because all necessary information can be obtained through the case itself and additional desk research.

a.) Quantitative Analysis

The quantitative part of the study provides analytical insights into Europe's (fashion) e-commerce sector and the company under study: Zalando SE. It will help to soundly understand Zalando's internal and external business environment from a numerical perspective. The analysis can be subdivided into two main sets of secondary data:

Industry-related data (Fashion e-commerce)	Company-related data (Zalando SE)
<ul style="list-style-type: none"> ▶ Revenue streams ▶ Consumer & product segments ▶ Consumer behaviour 	<ul style="list-style-type: none"> ▶ KPI performance ▶ Financial Performance & Revenue segments ▶ Competitor performance

Table 19 - Designated outcomes from quantitative analysis

To fill these data sets with up-to-date as well as accurate input, the following sources of information play an essential role:

- i. Data and reports published by Zalando SE (i.e.: annual- and performance-reports)
- ii. Annual reports published by main competitors (Amazon.com Inc. ASOS plc, Otto- and YOOX NET-A-PORTER Groups)
- iii. Statista – An online portal that accumulates data from different trusted sources from the economic sector.
- iv. Eurostat – The official European Statistical Office that is primarily responsible for providing up-to-date statistical information on different themes related to Europe’s economic, socio-cultural, technological and environmental developments.

b.) Qualitative Analysis

The qualitative part offers further insights into Europe’s (fashion) e-commerce sector and Zalando in order to reinforce the case study analysis and resulting recommendations. It completes students’ foundation of knowledge. As one will see, it will be impossible to solve the case study by leaving either the quantitative or qualitative dimension out. Naturally, the same two main sets of secondary data (see: above) apply here as well. However, different insights can be gained when exerting a qualitative approach based on the reviewed literature:

Industry-related information (Fashion e-commerce)	Company-related information (Zalando SE)
<ul style="list-style-type: none"> ▶ Macro- & Meso-environment ▶ Consumer behaviour ▶ Supplier environment ▶ Industry trends 	<ul style="list-style-type: none"> ▶ History, Mission and Vision ▶ Business model ▶ Strategic focus & Positioning ▶ Competition

Table 20 - Designated outcomes from qualitative analysis

To fill these data sets with up-to-date as well as accurate input, the following sources of information play an essential role:

- i. Data and reports published by Zalando SE and its main competitors that facilitate a deep analysis of the organisation under study (i.e.: annual- and performance-reports)
- ii. Consumer behaviour – Analysis
- iii. Industry trends - Analysis
- iv. Reviewed literature on the subject

c.) Main frameworks & analytical directive

It follows a list of recommended frameworks that are well suited to support the elaboration of meaningful and valuable outcomes. It is also strongly suggested to apply additional desk research in order to broaden one's understanding on these frameworks:

- i. PEST Analysis
- ii. Industry Analysis
- iii. Trend observation and trend analysis
- iv. Trend extrapolation and operationalization

d.) Summary

Taking everything that was mentioned in this chapter into consideration, it becomes evident that a sophisticated answer to the guiding problem statement can only be found if a purposeful procedure is applied. The procedure model below visualises how the case, its research questions (see: Chapter 2.4), additional research and the answers to the research questions form a solid body of knowledge for answering the guiding question:

How can Zalando SE leverage on its strong market position and technological progress in order to become Europe's number one online fashion retailer?



Figure 19 - Visualisation of analytical process behind the case study

3.5 Animation Plan

<i>Session</i>	<i>Objectives</i>	<i>Action Plan</i>	<i>Time</i>
1 / 4	<p>a) Develop students' curiosity and interested for the case study</p> <p>b) Familiarize students with the main terms & topics of the case study</p> <p>c) Clarify preliminary questions</p>	<ul style="list-style-type: none"> ▶ HOST: Open session with a short YouTube-video from Samsung (<i>Title: Samsung Galaxy: The Future</i>) in order to make the following point: "Technologies are changing our present and future. Many people and companies (like Samsung) wonder, how our future might look." Link: www.youtube.com/watch?v=ajD2WZioOOc ▶ HOST: Head to animation questions (see: Chapter 3.6) to open discussion and motivate students ▶ HOST: Presentation of the case study and its goals. Play YouTube-video (<i>Title: Zalando corporate video: One day at Zalando Working at Zalando</i>) to introduce the company under study Link: https://www.youtube.com/watch?v=6SSWUjceRG4 ▶ HOST: Distribution of the case study ▶ HOST: Creation of work groups and presentation of schedule and assignments (Recommended group size: 3 – 4 students) ▶ Time for questions from students 	60 Min.
Out of Session	<p>a) Familiarization with case study assignment, Zalando and the e-commerce sector</p> <p>b) Comprehension and assessment of total workload</p> <p>c) SMART agenda</p> <p>d) Answer Q1</p>	<ul style="list-style-type: none"> ▶ Individual case study reading, diagnosis and comprehension ▶ Initial case study analysis and group discussion / division of areas of responsibility ▶ Develop SMART agenda showing who is going to do what, when and how. ▶ In written form, answer Q1 (apply additional research, if needed) 	120 Min.
2 / 4	<p>a) Presentation of SMART agenda</p>	<ul style="list-style-type: none"> ▶ Discuss of the case's contents & appendix ▶ Short presentation of SMART agenda by each group 	60 Min.

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	<p>b) Discuss answers to Q1 c) Start up Q2</p>	<ul style="list-style-type: none"> ▶ Discuss the e-commerce industry ▶ Discuss Zalando, its business model and strategy ▶ Discuss Zalando’s competitors ▶ Discussion of findings related to Q1 ▶ Present Q2 & Q3 (make sure all students understand what they are expected to do) 	
Out of Session	a) Answer Q2 & Q3	<ul style="list-style-type: none"> ▶ Deep case study analysis and discussion by the group ▶ In written form, answer Q2 (apply additional research, if needed) ▶ In written form, answer Q3 	120 Min.
3 / 4	<p>a) Discuss answers to Q2 & Q3 b) Start up Q4 & Q5</p>	<ul style="list-style-type: none"> ▶ Discussion of approach to Q2, analytical tools and frameworks used as well as main findings related to Q2 ▶ Discussion of findings related to Q3 ▶ Present Q4 & Q5 (make sure all students understand what they are expected to do) 	60 Min.
Out of Session	<p>a) Answer Q4 & Q5 b) Prepare final presentation: 20 – 25 Min. / Group c) Prepare handout summing up the main findings of the case study assignment & answer the central question</p>	<ul style="list-style-type: none"> ▶ Deep case study analysis and discussion by the group ▶ In written form, answer Q4 (apply additional research, if needed) ▶ In written form, answer Q5 (apply additional research, if needed) ▶ Develop and prepare final presentation that shows all findings related to Q1 – Q5 and the final answer to the central question: How can Zalando SE leverage on its strong market position and technological progress in order to become Europe’s number one online fashion retailer? (presentation should be prepared professionally in PowerPoint or any similar tool) 	120 Min.
4 / 4	a) Case resolution presentation & discussion	<ul style="list-style-type: none"> ▶ 30 Min. per group: case resolution presentation & handing in Group Report ▶ Questions and final class discussion → Summary of what has been learned by solving the case study ▶ HOST: Round off case study 	
Out of Session	a) Grading of case study	<ul style="list-style-type: none"> ▶ HOST: Case Resolution Report (40%) + Presentation (40%) + Participation (20%) ▶ Grading case resolution: Q1 (15%) + Q2 (30%) + Q3 (15%) + Q4 (20%) + Q5 (20%) 	

Table 21 - Animation Plan

3.6 Animation Questions

The set of animation questions presented below is designed to actuate an in-class discussion in order to ignite the students' interest for the field of e-commerce and the company under study. Furthermore, these questions will help the host (i.e. teacher of the class or manager) gain a first indication of the level of interest and motivation for working on this case study. Last but not least, comprehension questions can be clarified, if necessary. It is recommended to use these questions during the start-up-phase (1st session) of the case study. The following questions are arranged in a funnel-esque structure, starting with more general and easier questions and ending with questions that require a little bit of background knowledge and experience with e-commerce or Zalando.

- ▶ Who has ever purchased a fashion product online?
 - ▶ Where did you buy it and why did you choose online over going to a fashion retailer?

- ▶ Who knows what e-commerce is and how would you define it?

- ▶ What e-commerce shops are you familiar with?

- ▶ What are the most important factors of an online shop's value proposition for you?

- ▶ In your opinion, how important are technologies for the progress of e-commerce sectors? Please justify your answer.

- ▶ How do you envision the future of online shopping?

- ▶ Have you ever heard of Zalando? Or did you maybe even have some touchpoints with the online store?
 - ▶ What did you buy and how was your experience with Zalando?
 - ▶ Would you buy from Zalando again and if so, why?

3.7 Case Resolution

3.7.1 Question 1

- ▶ *What are the major factors that help explain Zalando's intra-European success?*

Zalando's success can be linked to several different factors and strategic moves that the organisation underwent since its foundation in 2008. Yet, before listing what Zalando's management team contributed to the brand's success, it is worth mentioning that the entire e-commerce industry gained significant momentum over the last decade. Due to improved connectivity, better algorithms and more consumers beginning to trust in e-commerce, Zalando was able to set itself apart from its competition and grow. One could say that Zalando's founders perfectly met consumers' needs by linking online fashion retail and technology. (see: Chapter 2.1.1)

In order to holistically understand how Zalando was able to grow and outperform competition over the last decade, one must go back into the year of its founding. In 2008, the start-up began operating in the online shoe retail niche, offering innovative service standards. The crucial selling point was the 100-days-free-return policy, which consumers had not seen before. By means of this service, the online shop was able to win consumers' trust and make buying shoes online very convenient. This, paired with highly memorable marketing campaigns, which included brash TV ads and a catchy slogan, met early adopters' curiosity and led to first sales as well as interest from the public. (see: Chapter 2.1.4 a.) Furthermore, Zalando went international very quick after its launch. Already in 2009, the Austrian market was penetrated, followed by Switzerland in 2011 and 14 more over the next eight years. Rapid internationalisation helped Zalando to prove its business model and attract investors. Whilst entering new markets, the start-up realized the potential of bringing together fashion retail and technological stride and thus, abandoned its operations in the shoe niche in order to enhance the sales proposition by different fashion products, such as shirts, jackets and basically everything else that one would find in a physical fashion store. In fact, diversification was put at the core of the organisation's strategic direction, which supported constant innovation and kept Zalando an attractive company not only for fashion consumers but also for investors and the overall public. (see: Chapter 2.1.4 a)

Despite the Berlin-based start up's international success and escalating revenues, Zalando had to deal with a vast number of returns. The fiscal year of 2012 registered a return rate of round about 50%. The fashion retailer's unique 100-days-free-return policy began to

turn from blessing into curse. Yet, the opening of the first Zalando Outlet Store in Berlin helped to bridle this problem. This meant that all returned items did not need to be sold, packed and shipped twice, anymore. Since 2012, all returns are collected and sold through the Zalando Outlet Store – Zalando’s first offline sales channel.

In 2014, the first round of Zalando stocks was issued. Round about 605 million Euro were sold in stocks; adequate to 11% of all shares the company issued. This yielded an overall company valuation of 6 billion Euro and endowed Zalando with the needed liquidity to advance as the share price and thus the company valuation kept rising. (see: Chapter 2.1.4 a. and Appendix 2.3.5) On the contrary, the enterprise was able to reduce marketing costs and cost of sales significantly whilst growing in nearly all Key Performance Indicators (KPIs) such as year-over-year site visits, active customers, number of orders and the average order number per active customers. (see: Appendices 2.3.12 and 2.3.14) Last but not least, Zalando’s ample and professional network of suppliers, business advisors as well as investors qualified the company to win considerable market shares through its state-of-the-art online shopping platform (see: Chapter 2.1.2).

To conclude, the founders of Zalando managed to seize a big, international customer base and enormous network of suppliers and other business partners by means of bringing together online fashion retail and technology through big investments into tech, PR as well as business development. Additionally, quick internationalisation and entering the European stock exchange kept Zalando on the path of success and were conducive to the company’s climb toward market leadership. Another major success factor was and still is the courage to diversify. The start-up began its operations in the online shoe retail niche, expanded into online fashion retail and extended into various business fields related to fashion retail. As illustrated in appendix 2.3.8, Zalando keeps on developing new products and services for European fashion consumers, offering a unique value proposition to customers, fashion brands as well as suppliers.

3.7.2 Question 2

- *Conduct a situation and trend analysis based on Zalando’s current strategic principles, needs and potentials.*

The subsequent situation and trend analyses will be executed through the application of different analytical frameworks. In a funnel-esque structure, different levels of Zalando’s business environment will be analysed, resulting in a holistic picture of Zalando’s entire business field. Based on the information provided in the case, a PEST-analysis will be conducted in order to become acquainted with the macro-environment that Zalando is exposed to. In a second step, an eclectic industry analysis will narrow the focus from the macro-environment closer toward the circumvent industry, namely online fashion retail. This examination consists of a series of different studies: market-, supplier-, customer- and competitor-focused. The final part of this question requires the implementation of a trend analysis. Secondary research based on the qualitative information, which will be sourced from the case, is the chosen method to compile a register of the most important trends shaping the future of online retail.

PEST-Analysis

P The case offers information about the political environment that Zalando is
O subject to. Hereinafter, the most important political drivers will be presented. Before
L going into detail, it must be stressed that Zalando is based in Germany but operates on a
I European level (SVP Operations Zalando D. Schroeder, 2016; cited in Zalando
T Magazine, 2016). The abbreviation SE stands for ‘Societas Europaea’ and indicates that
I Zalando is registered as a stock corporation in the EU and in the European economic
C zone. Thus, the political status quo needs to be elaborated based on European regulations.

A
L In Chapter 2.1.1, it is mentioned that the European Commission puts strong emphasis on digitalisation and the advancement of new technologies for the future development of the overall economy. The program “Industrie 4.0” umbrellas this aspiration. There are more than 3,000 political funding programs available for start-ups but also for already established corporations that shall support a quick build-out of the digital sector. Moreover, the European Central Bank keeps the benchmark for the refinancing rate at 0.0% (see: Chapter 2.1.1). This offers more supportive tailwinds from

the political environment as political assistance and money seems to be available for leaders of intra-European innovation and digitalisation.

On the other hand, there are also new rules and regulations that digital enterprises have to follow. One example would be the General Data Protection Regulation (GDPR). Currently, online security and data privacy represent two major fields that the European legislation is regulating. The latest GDPR was only released in May 2018 and is designed to regulate what type of information online businesses may collect from their customers, if and under which circumstances these businesses are allowed to share customer data with third parties, how customers need to be kept informed about what data a business secures, etc. Because this legislation is still rather young, adjustments and adaptations are very likely to occur within the next years. Thus, business managers are advised to stay up-to-date with future changes and new publications emerging from the political field.

E In terms of the economic macro-environment defining the European e-commerce
C industry, experts seem to hold an auspicious opinion regarding the present and the future.
O First of all, an increasing GDP of the European Economic Area paves the way for
N business growth since a healthy and growing economy supplies businesses with
O appealing growth prospects and consumers with the financial strength to invest and
M spend their money. In 2017, the GDP of Europe is at 17 trillion Euro and increasing. In
I terms of e-commerce sales, these amounted up to 2.5 trillion Euro in the fiscal year of
C 2018. Experts foretell further growth for the next years, as well. Appendix 2.3.16 shows
the positive development of the B2C e-commerce market value over the past 6 years.
Moreover, unemployment is decreasing throughout Europe, which gives more
consumers the power to spend money. (Lone, Khelladi and Packiarajah, 2019) In 2018,
the European e-commerce sector makes up more than 22% of all e-commerce revenues.
This puts it amongst the biggest e-commerce industries worldwide. Especially the e-
commerce economies of Germany, the United Kingdom (UK) and France strongly
contribute to this growth (see: Chapter 2.1.1 – Figure 2). On top of this, the European
fashion industry lists amongst the biggest consumer markets worldwide, accumulating a
total turnover of 240 billion Euro in 2016. Germany, the UK, Italy and France make up
the body of the best performing European industries. Malta, Poland, Latvia, Hungary

and Slovenia are amongst the fastest growing economies and hence, might develop into attractive markets over the next years. (see: Chapter 2.1.1)

As one can see in Appendix 2.3.15, Aliexpress, eBay and Amazon are the most popular e-commerce merchants across Europe.



Image 6 - A European Overview of the Top Marketplaces | Source: (Lone, Khelladi and Packiarajah, 2019)

To sum up, one can say that both, the European e-commerce industry as well as the European fashion industry seem to offer fertile grounds for business success. There are already high-performing consumer markets such as Germany or the UK. In addition, smaller economies such as Malta or Slovenia are on the up at this moment in time and have the potential to turn into lucrative target- or supply-markets over the next years. Yet on the other hand, it also needs to be mentioned that the case offers a couple of warning labels regarding the e-commerce and online retail:

As one can read in the introductory paragraph to Chapter 2.1, price wars are common in online retail due to a very high concentration of very similar products and an army of online retailers fighting to acquire digital consumers. In consumers' eyes, it is hard to stand out as an online retailer, if brand awareness or loyalty are not pivotal factors of the buying behaviour. This forces many online vendors to reduce their sales prices. Consequently, turnover and profit margins decrease as well. Insolvency becomes more likely.

S This sub-chapter of the PEST-analysis revolves around the main drivers that
O shape today’s society. Generally speaking, a society’s lifestyle and habits primarily
C direct and define the consumer landscape from a socio-cultural perspective (see: Chapter
I 2.1.2). Companies need to understand how consumers shop and adapt their business
O operations to be able to accommodate customer demands. When speaking about the
| overall wealth of European consumer markets, one can say that European buyers are well
C off and willing to spend their income. (see: Chapter 2.1)

U
L One of the most prominent socio-cultural developments for the e-commerce
T industry is the rapid technological advancement of this era. Over the last decades, it made
U every day-use-of-technology an inherent part of many people’s lives. The online and
R offline worlds are merging into a hybrid environment. (see: Chapter 2.1.3) Nowadays,
A the Internet constantly connects consumers through the online world. Smartphones and
L other new devices enable individuals to interact in a digital society whenever- and
wherever they want. Barthel (2013; cited in Terbeck, 2014, p. 33) stresses a tremendous
increase in user demand for “convenience, personalization, corporate social
responsibility, and resource efficiency” (see: Chapter 2.1.3). Nowadays, over 85% of all
Europeans have direct access to the Internet and are connected to it constantly (see:
Chapter 2.1.2). As one can see in Figures 20 and 21, 70% of e-commerce consumers
make up the high or medium income segment. When measured against age, the majority
of consumers are between 25 and 54 years old.

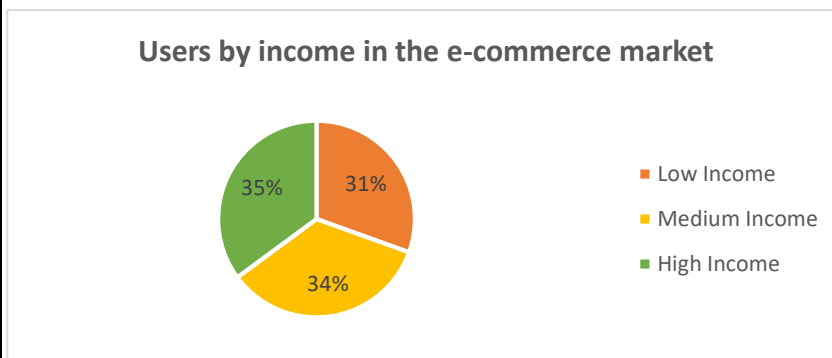


Figure 20
E-commerce users by
income
Source: (Statista, 2018 b.)

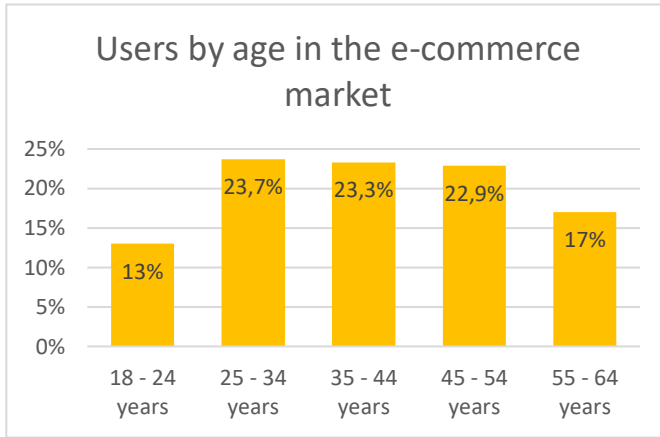


Figure 21

E-commerce users by age

Source: (Statista, 2018 b.)

In 2018, nearly one fourth of all online sales conversions happened on a mobile platform. Resulting from this increase in

mobile online activity of European users is a growing e-commerce market and new opportunities to generate revenues via mobile sales. Consumers enjoy a broad pool of information sources, vendors, products and services they can choose from. Geographical borders have no power in an online world because modern trade routes stretch over the entire globe. (see: Chapter 2.1.2)

To sub-conclude, online consumer behaviour and technological progress stand in a close relationship with each other. Online buying behaviour of European citizens can change rapidly in connection with the latest developments in tech as personalization, customization and transparency turn into important factors for a pleasant shopping experience. Ritzer and Jurgenson (2010) rename e-commerce consumers as ‘prosumers’ due to their high proactivity in the manufacturing- and consumption-processes. These prosumers request very personalized and customizable processes and products.

T As the chapter above pointed out, it is evident that the online and offline worlds
E are merging. The Internet and World Wide Web capacitate organisations to offer
C European consumers an incredibly personalised experience at any given time and place.
N Within the first decades of the 21st century, countless digital connections were
Q established all over the globe. Computers, smartphones, tablets, wearables or any other
L digital device that can be connected to the Internet are the nodes of these digital
Q connections. Thanks to that, immense amounts of data can be collected, stored and
G analysed. Online stores and marketplaces can get to know their consumer base better
I than ever before. The product of this knowledge are corporate data-driven strategies,
C precisely aimed at individual online consumers’ preferences and demands. Evidence is

A at hand: personalized newsletters, targeted online campaigns, user accounts filled with
L personal information as well as an overall online experience, supported by sophisticated programming using algorithms, is steering what online environment is presented to each and every individual. (see: Chapter 2.1.2) In addition, the rising availability of Internet-access for European households fosters the growth of data pools that companies can harvest for information.

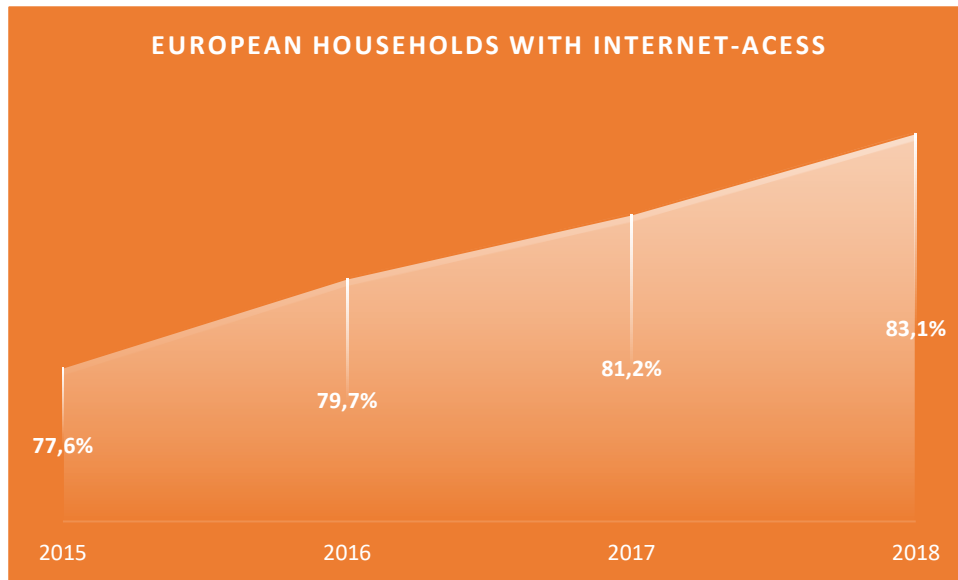


Figure 22 - European Households with Internet-access | Source: (Lone, Khelladi and Packiarajah, 2019)

On the contrary, short technology lifecycles keep innovators and businesses on their toes. Innovation in e-business and e-commerce happens fast and is easy to replicate since digital features and applications are freely programmable. All one needs is the right workforce and set of skills. (see: Chapter 2.1.1) This makes efforts in Research and Development (R&D) crucial for online businesses working in tech. Furthermore, there is always a risk connected to being the first mover in innovation. The consumer can still reject an invention that is great in the eyes of the innovator. For this reason, smart and deliberate advancing are the alpha and omega in the technological macro-environment that surrounds online enterprises such as Zalando. (see: Chapter 2.1.2)

Industry Analysis

The subsequent industry analysis consists of four parts. First of all, the market place, which is the European online fashion retail sector, will be examined. Secondly, the demand- and supply-channels of this market will be described and characterised. Finally, yet importantly, a competition analysis will be conducted.

Market Place:

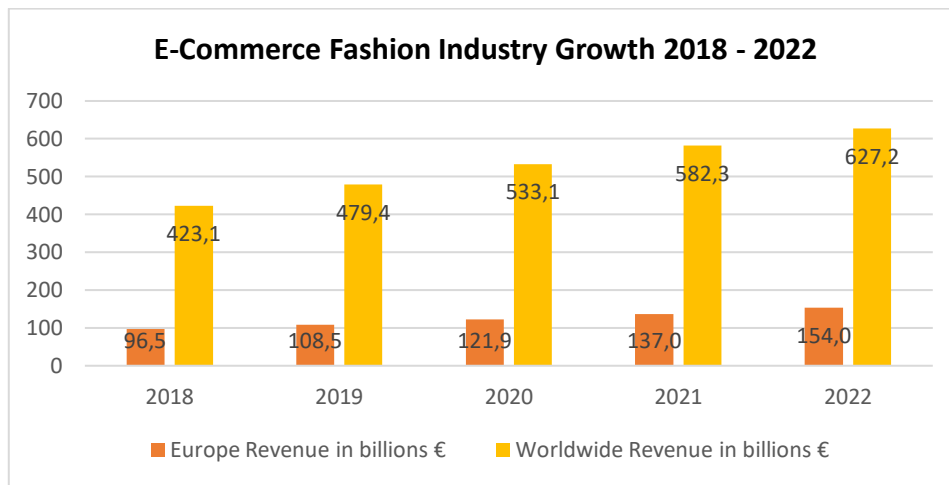


Figure 23 - Revenue Forecasts | Source: (Statista, 2018; cited in Orendorff, 2018, p. 2)

European fashion retail: revenue forecasts in million Euro

	2016	2017	2018	2019	2020	2021	Total Change
<i>Bags & Accessories</i>	11.310	12.706	14.320	16.071	17.894	19.324	+ 70.9 %
<i>Shoes</i>	16.740	18.198	19.799	21.470	23.145	24.655	+ 47.2 %
<i>Clothing</i>	48.266	54.125	60.590	67.320	74.037	79.645	+ 65.0 %
<i>Total</i>	76.316	85.029	94.709	104.861	115.076	123.624	+ 61.0 %

Table 22 - Revenue forecasts fashion retail by category | Source: (Bohnhoff, 2016)

As we can learn from Figure 19 and Table 22 (see: Appendices 2.3.1 and 2.3.2), the European online fashion retail market counted nearly 100 billion Euro in revenues in 2018 and is expected to grow by an average of round about 15 billion Euro per year until 2022. The product segments of bags, accessories, clothing and shoes are expected to grow between 47% and 70% in terms of revenues until 2021. Driving this growth are four noteworthy global developments:

- Expanding European and global markets
- Increasing online access and smartphone penetration
- Emerging middle-classes with disposable income
- Innovating technologies that foster the growth of experiential e-commerce

(Orendorff, 2018)

The bottom line is that nowadays, Europe is home to the most profitable markets for clothing and apparel worldwide. While the Western region clearly performs best, the Eastern European region has registered the highest growth (28%) in terms of market value over the past six years. Markets such as Russia, Slovenia or Poland emerge as a major force with a bright outlook for growth and development. Besides, the Southern markets such as Portugal, Italy or Malta are predicted to become more attractive for online fashion retail over the next decade. (Lone, Khelladi and Packiarajah, 2019) According to an industry evaluation put together by Statista (2018 c.), Germany’s clothing industry ranks highest in terms of market value, followed by the UK, France and Italy. By 2022, the apparel market in the UK is anticipated to overtake Germany as forecasts predict a slow down in German fashion sales. Besides, girl’s and women’s apparel sales make up the biggest share of overall revenue – around 38 percent of the entire market’s revenues. In 2018, the market value of ‘Apparel and Footwear’ in Western Europe reached over 325 billion Euro. From all 28 EU member states, household expenditures on textile and clothing amounted up to 511 billion Euro in 2017. (see Appendix 2.3.19 until 2.3.21)

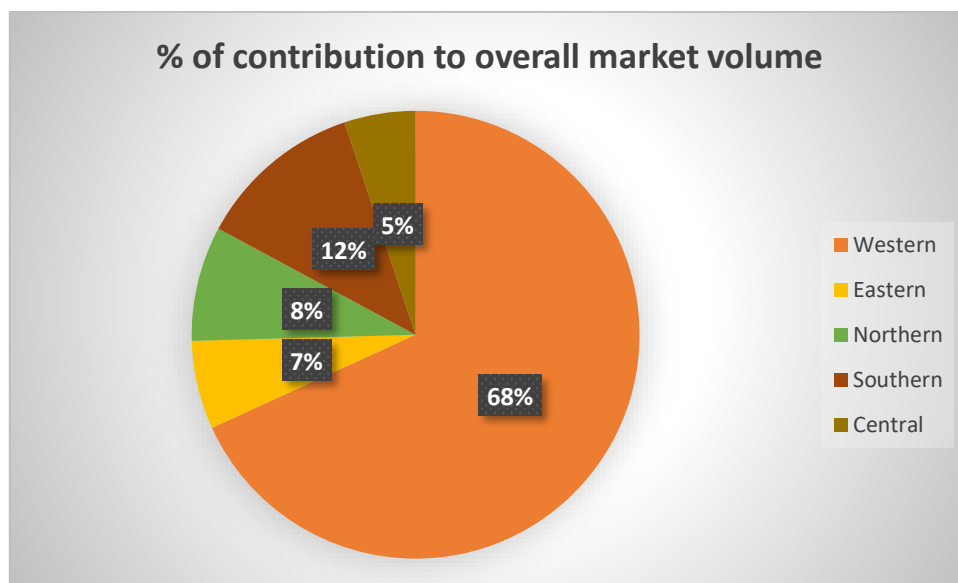


Figure 24 - Size of e-commerce markets by European region | Source: (Lone, Khelladi and Packiarajah, 2019)

Supply Analysis:

Online businesses have a very wide field of possible suppliers to choose from. Through the Internet, suppliers from all over the world can be compared and easily contracted by online retailers. Moreover, global trade agreements and well-established logistical networks add meaningful appeal to suppliers from Asia, who can manufacture fashion and apparel at much lower costs than European suppliers could, for instance. Thus, companies can ponder important decision values such as pricing, delivery time or extra services before adding a new supplier into their network.

Nonetheless, it is vital to also understand that the performance of an online business is strongly linked to the performance of its supply network. More particularly, a supplier's responsibility and reliability depict a crucial part of the trust-relationship between online retailers and consumers. In order to establish strong brand-trust and loyalty, suppliers are obliged to fulfil their services to e-commerce businesses as agreed. (Große Holtforth, 2013; cited in Terbeck, 2014) For instance, if an order does not arrive within the promoted period, the consumer is very likely purchase from another online retailer next time. (see: Chapter 2.1.2) Beyond that, suppliers have to have a certain degree of flexibility and openness toward innovation. Retailers are in direct contact with the market. Ergo, they are amongst the first ones to learn about new trends in consumer needs. Commonly, this knowledge is used to improve the product- as well as service-portfolio. Thus, suppliers, who have the means to quickly adjust their products and services to the changing consumption behaviour, needs and wants of consumers, the market and technological revolutions, can put themselves into a popular position in the eyes of retailers.

Zalando's supply chain consists of six phases. Image seven depicts each different step between the fashioning of raw materials and the point of disposal. Ensuring good quality and sustainability are the two most important criteria of the supply chain. (Zalando SE, 2018)

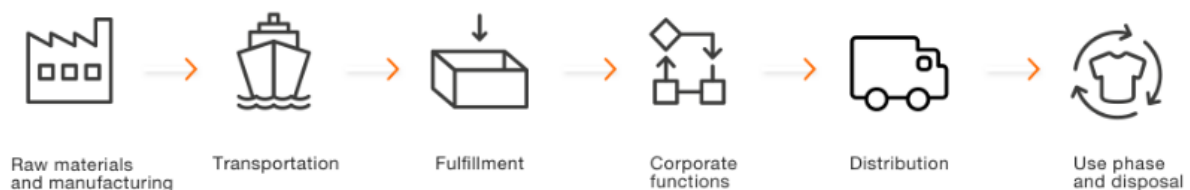


Image 7 - Zalando Supply Chain | Source: (Zalando SE, 2018)

Firstly, Zalando receives fashion products from third-party brands such as Adidas, Timberland or Vans or their private labels, for instance. These goods are transported and stored at one of the European fulfilment centres. Once a customer ordered something through Zalando’s web shop, internal functions, which include all operational activities that supplement the supply chain – such as marketing, sales, customer service and IT - make sure that the right distribution processes are put into motion. Distribution partners deliver the products to the customer as quickly as possible.

As one can see, operating an online fashion shop on a European level involves setting up a strong and wide logistical network and supply chain. As one of Europe’s biggest online fashion retailers, Zalando works together with suppliers in many different areas of business:

- ▶ Key material supplier
- ▶ Packing & delivery suppliers
- ▶ Affiliate merchants
- ▶ Payment service providers
- ▶ And other service suppliers such as stylists, bloggers, etc.

Zalando ensures continuous monitoring and improvement of its supply chain by means of the ‘do.STRATEGY’. (see: Chapter 2.1.4 b.)

Purpose	do.areas	Impact visions
Reimagine fashion for the good of all	 do.GROW	Provide a workplace for the future and impact the future of work.
	 do.KNOW	Contribute to a more sustainable fashion industry.
	 do.PROTECT	Decouple our environmental footprint from our economic growth.
	 do.CONNECT	Reimagine how corporates contribute to societal challenges.

Table 23 - Zalando do.STRATEGY | Source: (Zalando SE, 2018)

Demand Analysis:

The European economic area holds a total population of 742.45 million people. 76.5% of these people have Internet access in 2018. In 2019, the number of potential customers in fashion is around 1 billion. By 2020, this number is expected to have further grown by 20%. Another major advantage that heavily contributes to the golden forecasts for the European e-commerce fashion market is the demographic structure of the consumer landscape: The majority of today's e-commerce and fashion consumers is between 16 and 34 years of age, earning mid- or high-class incomes. Appendix 2.3.22 shows that in Europe, students and the highly educated shop online more regularly than people from the active labour force or the unemployed. Over the next years, this tech-savvy consumer group is going to grow into a generation that is already used to shopping online and that wants to explore new consumption experiences. (Orendorff, 2018) Regarding the gender distribution, female shoppers make up the bigger group with round about 58%. 42% of all consumers are male. (Statista, 2018 b.)

As illustrated by Table 24, European fashion consumers are expected to spend on average 17% more in 2021 than back in 2016. The product segments of bags, accessories and clothing will see the biggest rise in revenues per capita. This observation can be linked to the findings from the macro-environment. The PEST-Analysis found that unemployment rates in Europe are decreasing whilst buying power and consumers' readiness to spend money is increasing.

European fashion retail: revenue forecasts per capita in Euro

	2016	2021	Change
<i>Bags & Accessories</i>	86,74	105,11	+ 21.2 %
<i>Shoes</i>	118,00	130,51	+ 10.6 %
<i>Clothing</i>	282,43	332,89	+ 17.9 %

Table 24 - Revenue forecasts fashion retail categories per capita | Source: (Bohnhoff, 2016)

Moreover, one needs to look at prominent consumption patterns represented amongst consumers in the digital fashion industry in order to understand how these consumers can be reached. After all, marketing expenditures can only pay off when placed within sight of potential customers. When comparing the attractiveness of different digital channels in relation to fashion and apparel marketing, the results show that Instagram is far and away the most popular platform for consumers to interact with fashion brands or stores. Apparel brands are recording an average of 19% in yearly follower growth. (TrackMaven, 2017; cited in Orendorff,

2018) Outstandingly powerful Instagram marketing strategies mix product-content with mainstream-influencer - and micro-influencer – marketing in order to create awareness and simultaneously deliver social proof.

In 2018, experts determined 237.50 Euro as the average revenue per user, who spent money buying fashion goods online. By 2022, this average is predicted to rise to 264.80 Euro. (see: Chapter 2.1.3) Moreover, digital information travels around the globe within seconds. Always-informed consumers receive the latest news nearly in real-time and can easily express their opinion online. Hence, fair pricing, transparency, a personalized approach as well as convenient brand experience represent the main pillars for building long-term relationships with customers. Additionally, it is worth looking at which transaction and payment methods European consumers prefer when ordering goods online. The top five payment service providers are made up of online payment operators and credit card organisations:

Payment Service Provider	Popularity in 2017
PayPal	72,2%
VISA	54,0%
MasterCard	48,3%
American Express	15,2%
Maestro	13,0%

Table 25 - Top 5 of payment methods per European country

| Source: (Ecommerce News Europe, 2018)

Competition Analysis:

The case presents Zalando’s competition landscape divided in two fields. The three most important direct competitors, which operate in online fashion retail, are: (1) YOOX NET-A-PROTER Group, which is an online fashion retailer based in Italy; (2) ASOS, a UK-based online shop focusing on fashion- and beauty-products and (3) About You, a subsidiary of the German Otto Group that sells apparel, shoes and accessories exclusively online. On the other hand, there are competitors from the wider e-commerce field. These competitors do not solely focus on online fashion retail but offer a big variety of products and services to consumers. Amazon.com, eBay as well as the Alibaba Group cannot be left out of the equation when talking about competition for e-commerce companies that operate on an international scale. (see: Chapter 2.1.4 c.) Generally speaking, one can say that 40% of all online revenues were

generated by the 1,000 top performing online shops. Smaller shops have to deal with fierce competition and tough price dumping in order to stay competitive. (Holtmann, 2016)

As one can see in appendix 2.3.10, Zalando outperforms its three direct competitors from the online fashion retail industry in most of all important KPIs. Over 23 million active customers made round about 90 million orders at Zalando in the fiscal year of 2017. ASOS, in comparison, registered only half the amount of orders. This is not very surprising, as ASOS also only counts half the number of active customers. However, the average basket size of ASOS is a KPI that Zalando was not able to outperform in 2017. Per order, ASOS was able to generate 16.80 Euro more than Zalando. When extrapolating this number up to 90 million orders, Zalando would have earned 1.5 billion Euro more in turnover. Furthermore, it is interesting to learn that although Amazon has more than 10 times the amount of active customers, orders and site visits, Amazon has the highest share of mobile visits. Thus, it is advisable to work on a seamless mobile experience. (see: Appendices 2.3.10 and 2.3.11)

Trend Analysis

Throughout the previous chapters, it became evident that if online companies want to hold up long-term competitive advantage, they have to stay up-to-date regarding trends and developments in this sector. Based on the accumulated learning of the macro- and meso-environment of Zalando and the presentation of current trends and their rated impact on e-commerce business, which one can find in Appendix 2.3.4, this chapter lists a set of trends that are expected to have a crucial impact on the e-commerce sector. As elaborated above, the ability to keep up with the fast pace of technological progress is the key to competitive advantage in online retail. For this very reason, online retail shops need to occupy a vanguard position in technological innovation. The following list depicts a ranking of the most important industry trends for Zalando.

1) **Big Data Analytics**

The strength and potential of big data analytics across all business channels will become highly important for online retail in order to perpetuate competitive advantage in the market. The analysis of socio-cultural forces revealed that the market demands a personalised offering based on an individual's social- and shopping-behaviour. "Micro-segmentation of customers,

tailored touch points, and dynamic pricing can hardly be met without big data capabilities” (see: Chapter 2.1.3, p. 11). When this data is interpreted correctly, significant optimization of marketing- and sales-processes based on real-time statistics can drastically boost buying desire and purchase rates. This empowers online businesses to personalize the consumer’s shopping experience across all business domains, regardless of the device, operating system or registration utilized by the user.

2) **Mobile Commerce**

In addition, the growing importance of m-commerce will change the pitch of online trade. Turban et al. (2017) note that mobile devices will become the established platform for online shopping. Online retailers need to ensure a flawless shopping experience on mobile devices. Besides, virtual assistants such as Apple’s Siri or Samsung’s Bixby are going to become trusted decision aids, which will ease up the mobile shopping adventure for consumers. Appendix 2.3.10 shows that at this moment in time, the biggest online retailers already register an average of round about 68% mobile visits to their stores.

3) **3D-Printing Technology**

Hereafter ranks the evolution and improvement of 3D printing technologies and - devices. Printers that are more powerful will improve prototyping, production and the logistical management of goods since manufacturing and shipping can be managed on-demand. On top of that, micro-factories developing new products and mould-breaking entrepreneurial opportunities will emerge with eased-up production possibilities. As a matter of course, this can foster disintermediation as well as vertical integration (see: Chapter 2.1.1).

4) **Omnichannel Retailing**

One finding of the forerun PEST-Analysis is that changes in society’s lifestyle represent one of the most influential factors dictating what new technologies will evolve and become groundbreaking for online businesses. Another major trend, which can be described as the product of trends and developments presented above, are emerging omnichannel retailing strategies. The proceeding technology acceptance of society, 3D printing technologies, growing

big data pools and the advent of m-commerce will help companies successfully establish omnichannel strategies in a hybrid world. To recap, omnichannel retailing refers to the elimination of all barriers between the online shop, the physical store, the mobile app of a brand and all other platforms, which offer a physical or digital touchpoint for customers to interact with a brand or a store. This means that the customer will always have the same brand- or purchase-experience, independent of the channel one chose to interact.

3.7.3 Question 3

- ▶ *According to your understanding of the e-commerce industry, compile a list of critical success factors for the online retail sector. Briefly explain every listed factor.*

When optimizing a business' strategy, focusing on critical success factors of the industry will positively affect customer satisfaction-, trust- and loyalty-statistics of a particular brand or shop. This results in an increase in new customers; it assures returning customers and lessens the risk of having to reduce sales prices in order to keep orders up. (Loureiro, 2014)

In relation to this, another factor worth considering is the age of the online retail sector - it was born only in the 1990s (Hussung, 2016). Hence, it is an industry that has not even been around for 30 years. This is why consumers will need more time until they have reached a similar level of trust as they have in traditional brick and mortar stores, which have been around for more than a century. In addition, security and privacy of customer information illustrate two topics that need to be managed professionally in order to build up relationship between online shops and consumers. Within the case and based on the answers to the first two questions, numerous critical success factors for the online retail sector can be determined. It follows a register of the five most important success factors together with a short description of each.

1) **Innovation**

As learned in the case study, the ability to keep up with the high pace of technological progress and hence, constantly innovate in order to keep pace with ever-changing consumers' needs, represent the alpha and omega for online retailers. Modern technologies ease up life and are becoming an integrated part of the European society's day-to-day. Entrepreneurs who want to be amongst the most successful in the online retail sector need to be able to operate in a socio-cultural environment that is driven by technological stride.

2) **Price**

High price-sensitivity of consumers is another factor that describes the online retail sector. There is a plethora of retailers who offer the same or very similar products to consumers. The World Wide Web makes it very easy to compare prices from different vendors with just a few clicks. Price wars represent daily business in online retail. Especially young enterprises, which have not build up a strong base of customer satisfaction, loyalty and trust, can only

compete by price. Consequently, sales margins and purchase prices have to be negotiated very carefully.

3) **Customer Service & Purchase Convenience**

Online retail is all about convenience. The easier it is for a shopper to navigate through an online shop, select goods and finally go through the checkout process, the lower the number of abandoned shopping carts, or to put it another way: the higher the conversion rates. A great service portfolio and well-executed customer service can boost conversions, too. Offers such as free shipping or customer-friendly return policies add value in terms of convenience and increase persuasive power of an online shop or sales page.

4) **Product availability**

If customers will find a product unavailable or perceive the estimated delivery time as ‘too long’, there would be nothing hindering them from abandoning the online shop in order to search for that product somewhere else. This could be either in a different online shop or even in a brick and mortar store.

5) **Economies of scale**

Since profit margins in e-commerce tend to be rather low, it is important to scale fast and efficiently. Otherwise, the costs of running and growing the business might lead to bankruptcy. This is why a well-planned scaling strategy should build the base for every online retailer.

3.7.4 Question 4

- ▶ *Based on your previous answers and the information given in the case study, explore how Zalando’s future in the e-commerce industry might look like and come up with recommendations to stay competitive.*

Chapter 2.4.1 c. (p. 17) elucidates about the current positioning and competition of Zalando:

“Zalando positions its brand as Europe’s most fashionable tech company, putting innovation and the convenience for the user at its core. The fashion marketplace enjoys nearly 90% brand awareness on average amongst consumers in those countries, where the online store launched operations before 2012. In those markets penetrated after 2012, brand awareness is strong, too: An average of 75% of consumers indicate that they are familiar with Zalando.”

Moreover, appendices 2.3.6 and 2.3.9 can be used for gaining a better understanding about the strategic tack of Zalando. Here, once can see that Zalando operates within three already established business fields:

- 1.) *The international Online Fashion Store,*
- 2.) *The Off-Price field that is effectuated through the outlet shops and exclusive bargains to registered members, as well as*
- 3.) *zLabels, the company’s own fashion brands.*

Besides, four emerging service fields are in the works:

- 1.) *Zalon – a style advice service,*
- 2.) *Zalando Fulfilment Solutions,*
- 3.) *Zalando Marketing Services,* and
- 4.) *Zalando Partner Solutions,* which is being brought to live in order to help other players from the industry to become successful in a digital business environment.

Three strategic investment areas are put up in order to facilitate growth over the next years: 1.) *Investments in Customer Propositions,* 2.) *Investments in Supplier Proposition* and 3.) *Investments in Supporting Infrastructure,* such as Technology and Operations.

In sum, Zalando is focused on developing and diversifying its service portfolio, putting innovation and usability at its core. With the online retailer’s positioning and high brand awareness all across Europe in mind, the next step in the exploration

process is to pair industry trends with the company's overall strategic directive, whilst having critical success factors as well as the current state of the business environment in mind. In the subsequent part, strategic ideas based on the foregone trend analysis are compiled:

Big Data
Analytics

The knowledge gained through data analysis and evaluation can be very useful for the optimization of all three established business fields. On top of that, it can also meaningfully help building up emerging fields such as the style advice service Zalon, Zalando Marketing Services and Zalando Partner Solutions. When translating this trend into the three strategic investment areas (see: Appendix 2.3.9), it becomes clear that big data analytics play a highly significant role for the development of the *supporting infrastructure*. It is a technology-based trend that will help Zalando understand its customers and suppliers' needs better based on first-hand data. The following scenarios become tangible:

a.) Customer Proposition

As learned in the PEST-Analysis above, e-commerce consumers highly value convenience when shopping. Being able to understand who your customers are will enable Zalando to professionally and more precisely gauge an individual customer's wants and needs. Hence, the assortment of products can be optimized and precise targeting methods applied as micro-segmentation of the customer-portfolio will allow for accurate targeting of new customers and also increase an existing customer's lifetime value.

b.) Supplier Proposition

Naturally, Zalando's Marketing Services, Zalon, the Partner Solutions and all three established business fields cannot be successful if Zalando ignores consulting big data analytics. The gained knowledge shall be utilized in order to help suppliers and brand partners optimize their businesses. For instance, data analysis could extrapolate new target groups for Zalando. Feeding all gathered information into the supplier network will facilitate the

	<p>development and production of suitable fashion products based on what the market demands.</p>
<p><u>Mobile Commerce</u></p>	<p>In second place, question two revealed m-commerce as a trend that is already strongly represented in the industry. Nevertheless, industry experts accredit a lot of importance to this trend, as it is greatly convenient for a customer to shop from his or her mobile devices. Correspondingly, it also raises new opportunities for Zalando to increase conversion rates.</p> <p>In practice, Zalando already established a platform that is optimized for mobile usage as well as various user-friendly apps such as the Zalando App, Zalando Lounge – Shopping Club, Zalando Wardrobe, Zalon and basically every other service that one can find amongst the fashion-tech giant’s business portfolio (Zalando, 2019). Seen from this angle, the enterprise is already well forearmed for the growth of m-commerce. It is of paramount importance to further optimize the usability of these apps. Big data analytics will improve the product and service offering and therewith mobile conversion rates. Furthermore, it is recommended to fuse all existing Zalando apps into one comprehensive mobile application so that a Zalando client will not need to download and set up multiple different apps to interact with the brand.</p>
<p><u>3D-Printing Technology</u></p>	<p>When thinking about how Zalando could utilize improved 3D-Printing Technologies for its business growth and market leadership, one major enhancement would be the elimination of delivery periods. Not only from a customer perspective, but also from a supplier perspective, pursuing the aim of strengthening critical success factors such as innovativeness of the company, price, convenience, product availability and therewith customers’ as well as suppliers’ levels of satisfaction, trust and loyalty (see: Answer Question 3).</p> <p>In the field, Zalando should use 3D-Printing Technologies for the purpose of printing fashion goods and accessories on demand. For instance,</p>

once a customer ordered a certain product, Zalando could pay its suppliers ‘per print’ or for a licence to print products on behalf of brands. Big and crowded warehouses will not be a costly problem anymore. Taking this idea a step further into a reality where convenience-seeking prosumers prefer to buy fully personalized fashion goods, one could come up with a scenario where only information and licences are traded between supplier, retailer and end consumer. For example, once 3D-Printing Technologies have been made ready for the mass market; most consumers will have a printer at home. In this scenario, the customer would order a pair of new pants via Zalando and receive a print-file in exchange for money. Without waiting for the delivery or maybe even receiving an out-of-stock notification, the customer can print the pants at home in their preferred colour and size. Another idea would be to move up vertically in the supply chain. Zalando could manufacture and sell ‘ink’ for 3D printers that has been especially developed for the printing of fashion products.

Omnichannel
Retailing

Another finding of the forerun PEST-Analysis is that changes in society’s lifestyle represent one of the most influential factors dictating what new technologies will evolve into and become groundbreaking for online businesses. The fourth trend are emerging omnichannel retailing strategies. The proceeding technology acceptance of society, 3D printing technologies, growing big data pools and the advent of m-commerce should all be coupled and united under Zalando’s strong brand.

In practice, this means putting more corporate IT-budget into marketing in order to create sort of a hybrid department made up of IT- as well as marketing-experts. Here, the first step will be to utilize a wide amount of customer data from various sources like social channels, sensor-Data or geospatial-Data. Deep analytics will facilitate the generation of meaningful insights and empower managers to make wiser decisions. As a result, micro-segmented consumers can be reached with the right messages on their preferred or mostly-used channel, for example Facebook or Email. Possible outcomes will be higher cross- and up-sell conversions or increased

foot traffic to brick-and-mortar stores. Other advantages will be that sales representatives will have the necessary information at hand in order to deliver excellent customer service and that inventory planning will become more accurate. More accuracy in inventory planning decreases costs. Lastly, business value across the entire enterprise and all of its departments will rise due to more knowledge and information available.

3.7.5 Question 5

- ▶ ***How can Zalando SE leverage on its strong market position and technological progress in order to become Europe’s number one online fashion retailer?***

To put it crudely, one can say that Zalando managed to establish economic value in keeping up with the times. As illustrated by Figure 15, economic value is currently moving from a service-based industry toward experiences. If Zalando wants to remain successful in adding value to e-commerce consumers, the online retailer needs to realize where the economic value of the modern era lies and how it will develop.

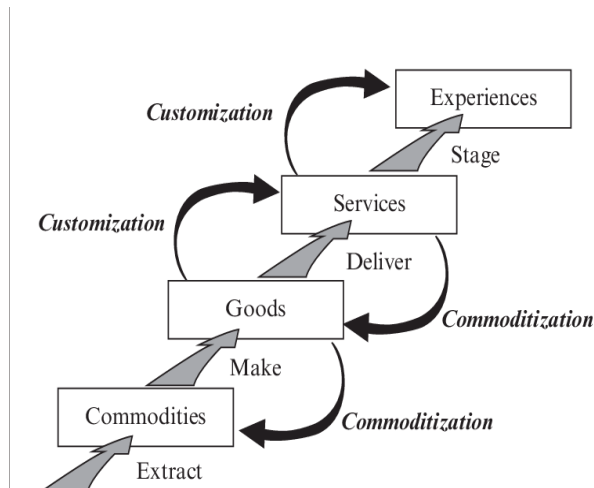


Image 8 - The Progression of Economic Value

| Source: (Pine II and Gilmore, 2013)

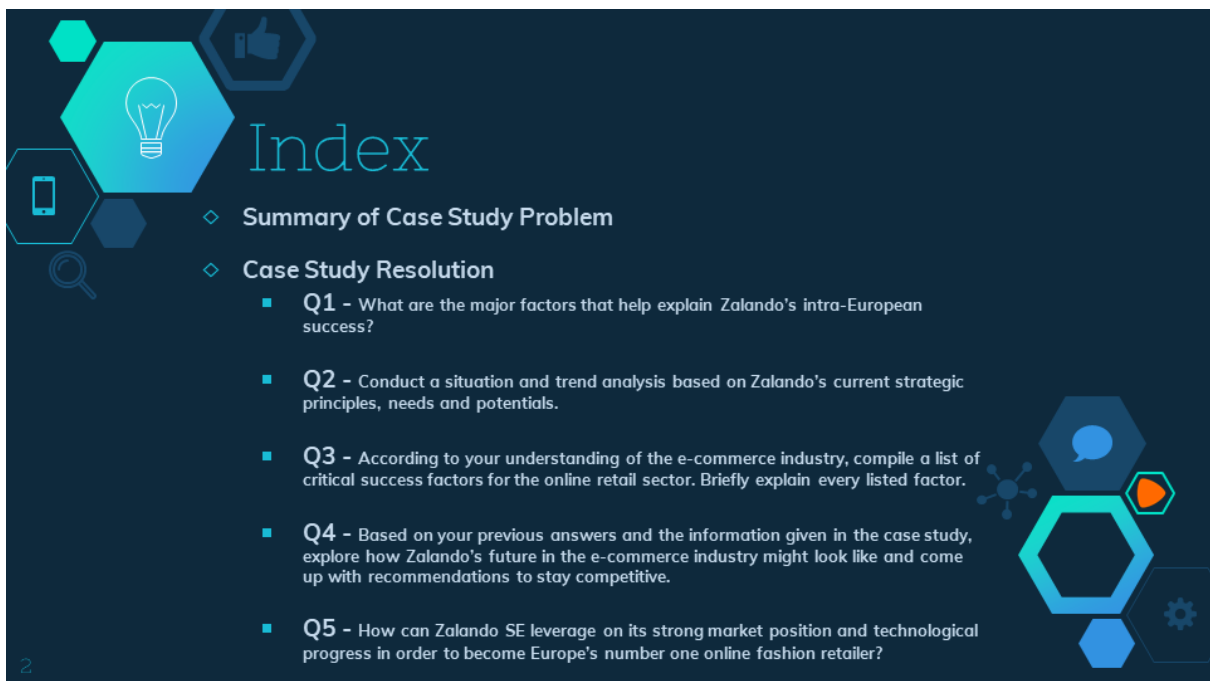
As learned through the treatment of the case, innovation, diversification and rapid internationalisation played a vital role in Zalando’s development since the company’s foundation back in 2008. Keeping this focus up, whilst putting technological progress and the consumer at the heart of all strategic business decisions, will keep the fashion-tech giant on the right track of growth and success. In 2008, Zalando attracted customers by means of its innovative service standards, like the 100-days-free-return policy. In order to take the company to the next level, Zalando has to answer the question ‘How can we create a brand experience that will add value to consumers?’ Resting upon the findings presented in the forerun case resolution, the following recommendations for Zalando are set up in order to answer the guiding question:

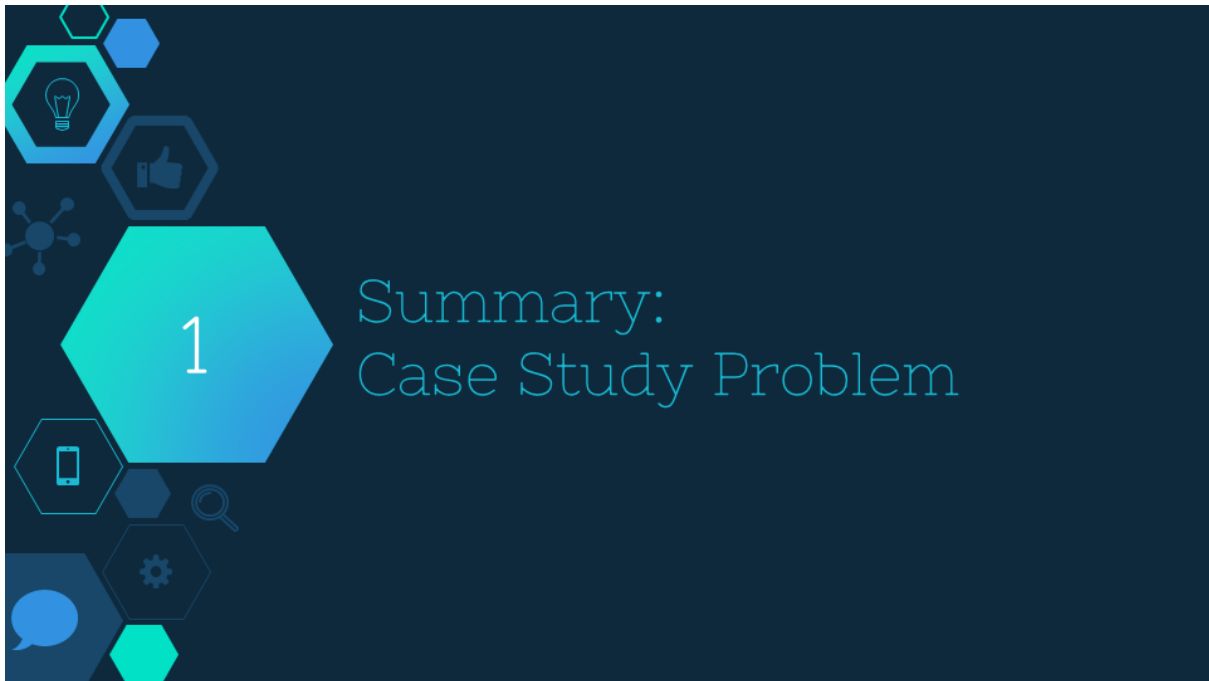
- ▶ According to the economic prognosis, revenue opportunities of products from the clothing- as well as bags- and accessories-segments will increase the most over the next years due to a higher demand on the market. In order to accommodate the e-commerce prosumers demands, Zalando can work on an in-house, user-friendly online tool, which customers use to design personalized fashion goods.
- ▶ France, Italy, Germany and the UK are amongst the most profitable e-commerce and online retail markets in Europe. Thus, Zalando is advised to invest in marketing and brand awareness in order to establish market leadership. Moreover, Malta, Poland,


Latvia, Hungary and Slovenia are the fastest growing economies of Europe and have the potential to develop into attractive consumer markets in the coming years. Conforming to Zalando's quick internationalisation, early penetration of these markets can secure early market leadership.

- ▶ In order to boost the average basket value per purchase, Zalando will need to offer its clients attractive cross- and up-sell propositions. This is why a strategic focus on establishing an omnichannel experience is crucial. The better Zalando understands its client base, the better suitable products and services it can present to buyers. The result will be higher average order values.
- ▶ As mentioned in the answer to Question 4, Big Data Analysis, m-commerce as well as 3D-Printing Technologies are influential industry trends. These trends can be used to develop a unique and marketable 'Zalando Experience'. The application of micro-segmentation, a flawless performance on current and future mobile devices as well as the integration of 3D-Printing into Zalando's business operations depict enticing room for innovation.
- ▶ Finally, Zalando has to realize that the e-commerce consumer of the future wants to play an active role in the consumer-brand-relationship. Thus, Zalando will need to create a brand experience that the organisation designs together with the customers. An idea would be to fuse all established and emerging business fields (see: Appendix 2.3.6) into two uniform sectors - one that creates value for customers (B2C) and the other one creates value for partners and suppliers (B2B). For consumers, Zalando should become the go-to stylist offering sophisticated fashion- and style-advice through digital as well as physical channels. For partners and suppliers, Zalando should develop into the go-to advisor when it comes to online retail, providing a holistic spectrum of services such as marketing, logistics, business development, and all other areas of interest.

3.8 Resolution Presentation








2 Case Study Resolution



Q1:
What are the major factors that help explain Zalando's intra-European success?



- E-Commerce industry gained significant momentum & became a very attractive industry
- ❖ due to: technological progress & changes in consumers' needs, in favour of convenience, personalization, corporate social responsibility, & resource efficiency
- Innovative service standards introduced by Zalando back in 2008
- Catchy marketing campaigns
- Rapid internationalisation & extension of product portfolio
- Focus on innovation & consumer needs
- Adaptation of strategic pivots in due course of time
- Issue of IPO for more liquidity
- Big investments into tech, marketing as well as business development

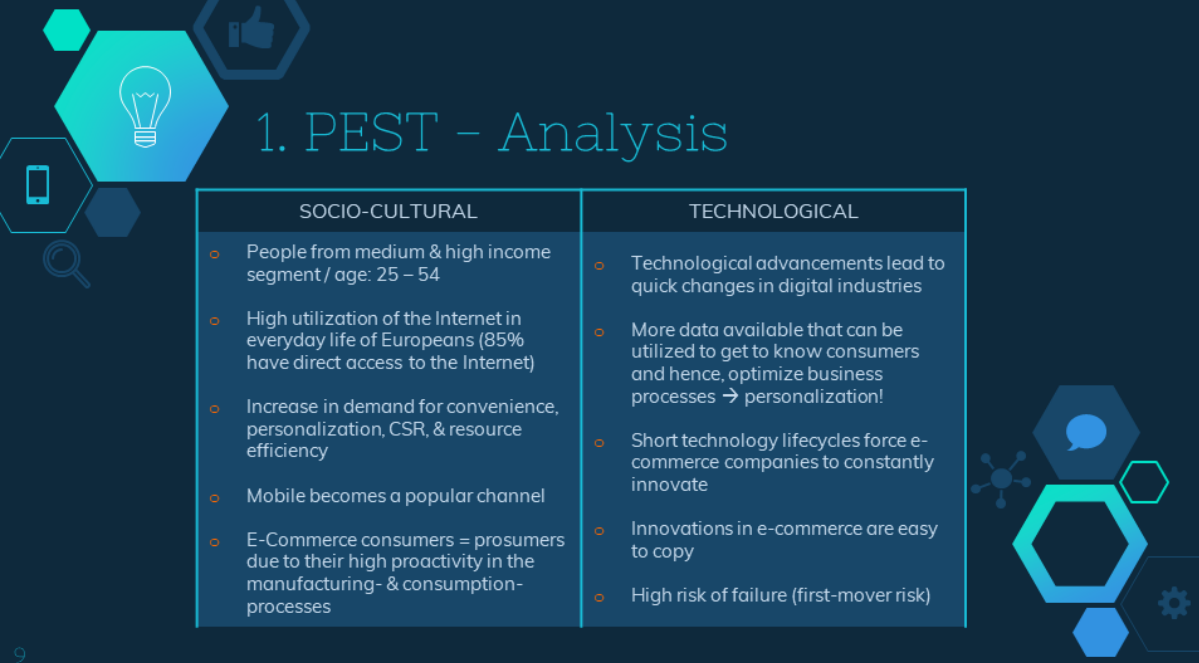
6



1. PEST - Analysis

POLITICAL	ECONOMIC
<ul style="list-style-type: none">European Commission favours digitalisation i.e.: Industrie 4.0 program, cheap loans & funding programsNew laws & regulations for digital businesses (GDPR)	<ul style="list-style-type: none">Strong & healthy economies in the WestGrowth forecasts for European GDP and Eastern as well as Southern regionsDecreasing unemploymentAmazon, eBay & Aliexpress are most popular e-commerce merchantsPrice wars due to army of online retailers

8



1. PEST – Analysis

SOCIO-CULTURAL	TECHNOLOGICAL
<ul style="list-style-type: none">○ People from medium & high income segment / age: 25 – 54○ High utilization of the Internet in everyday life of Europeans (85% have direct access to the Internet)○ Increase in demand for convenience, personalization, CSR, & resource efficiency○ Mobile becomes a popular channel○ E-Commerce consumers = prosumers due to their high proactivity in the manufacturing- & consumption-processes	<ul style="list-style-type: none">○ Technological advancements lead to quick changes in digital industries○ More data available that can be utilized to get to know consumers and hence, optimize business processes → personalization!○ Short technology lifecycles force e-commerce companies to constantly innovate○ Innovations in e-commerce are easy to copy○ High risk of failure (first-mover risk)

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2. Market Analysis

Market Place

- European online fashion retail
- ~ 100 billion € revenue in 2018 / girl's & women's apparel sales make up the biggest share of overall revenue
- Western Europe is home to the most profitable markets for clothing & apparel worldwide / Eastern & Southern Europe record strong developments
 - Mature markets: Germany, UK, France
 - Best growing markets: Poland, Portugal, Malta, Russia, Slovenia
- Further growth forecasted

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2. Market Analysis

Supply & Demand Analysis

SUPPLY	DEMAND
<ul style="list-style-type: none"> Global trade agreements & well-established logistical networks give online retailers boundless opportunities for contracting suppliers Need to be very reliable and able to adjust to changing consumer needs Zalando's supply chain: 6 steps do.STRATEGY to ensure continuous improvement of quality, sustainability & CSR 	<ul style="list-style-type: none"> Number of European Online Shoppers in 2019: About 1 billion (further growth expected) 2018, Average revenue / user: 237.50€ 16 – 34 years old / Mid – high income class / Students or highly educated people / Tech-savvy Gender distribution: 58% female vs. 42% male Fruitful forecasts for demand of products from the following segments: bags, accessories and clothing fair pricing, transparency, a personalized approach & a good brand experience represent the main pillars for building long-term relationships with customers

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2. Market Analysis

Competitors

1. ASOS	2. YOOX-NET-A-PORTER	3. AboutYou (Otto Group)
<ul style="list-style-type: none"> 1.6 bn. Site Visits 12.4 m. Active Users 49.6m Orders 81.30€ Aver. Basket Size 	<ul style="list-style-type: none"> 842 m. Site Visits 3.1 m. Active Users 9.5 m. Orders 328.00€ Aver. Basket Size 	<ul style="list-style-type: none"> 48 m. Site Visits 3.8 m. Active Users ? Orders ? € Aver. Basket Size
		

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2. Market Analysis Trends

1 – Big Data Analytics

2 – Mobile Commerce

3 – 3D Printing

4 – Omnichannel Retailing

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Q3: According to your understanding of the e-commerce industry, compile a list of critical success factors for the online retail sector. Briefly explain every listed factor.

INNOVATION
The ability to keep up with the high pace of technological progress and hence, constantly innovate in order to keep pace with ever-changing consumers' needs represent the alpha and omega for online retailers

PRICE
High price-sensitivity of consumers as well as price wars represent daily business for many online retailers.

CUSTOMER SERVICE & PURCHASE CONVENIENCE
Online retail is all about convenience. The easier the navigation through the store, the better the services offered, the more likely are consumers going to pick "you".

PRODUCT AVAILABILITY
If a customer will find a product unavailable or perceive the estimated delivery time as too long, there is nothing that would hinder him/her from abandoning the online shop in order to search for that product somewhere else.

SATISFACTION, LOYALTY & TRUST
These three elements from the consumer-brand relationship represent the few factors that increase an online shop's customer base, assure returning customers and keep the shop out of price wars.

ECONOMIES OF SCALE
Since profit margins in e-commerce tend to be rather low, it is really important to scale fast and efficiently. This is why a well-planned scaling strategy should build the base for every online retailer.

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Q4: Explore how Zalando's future in the e-commerce industry might look like and come up with recommendations to stay competitive.



15

1: Use Big Data Analytics to apply a data-driven and holistic optimization of established as well as emerging business fields.



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2:

Create one catholic app that connects customers with all Zalando products and services.

- Fashion & Accessories
- Member Lounge
- Shopping Club
- Zalor Style Advice
- Wardrobe
- Fleek Influencer Styles

17



3: Make full use of 3D printing technologies in order to save costs and time whilst personalising the customer experience.

#techstyle

18



4: With the power of the digital era, ensure an omnichannel retailing experience for customers.

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Q5: How can Zalando SE leverage on its strong market position & technological progress to become Europe's No. 1 Online Fashion Retailer?

- a.) Invest in brand awareness and market leadership for the markets of France, Italy, Germany and the UK
Look at Malta, Poland, Latvia, Hungary and Slovenia and enter quick when these developed into attractive markets
- b.) The product segments "Clothing", "Bags", and "Accessories" are expected to grow in demand. Improve offering based on consumers' needs.
- c.) Innovate based on current market trends and keep rapid internationalisation, diversification and disruption at the heart of the enterprise's strategic course.
- d.) Create opportunities for customers to become part of the production- and design-processes
- e.) Fuse B2B & B2C – business fields in order to create a unique value proposition for customers and suppliers.
- f.) Up average order value by optimizing cross- and up-sell propositions

 **By creating a consumer-centred, omnichannel Zalando retail experience!**

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IV. Managerial Implications

Since the turn of the millennium, ‘Digitalisation’ became a term that spread across many industries. Digitalisation revolutionised businesses and even forced conversant enterprises, which were not able to keep up with the digital progress, out of competition. Blockbuster Inc., Nokia or Abercrombie & Fitch are just three out of many examples of big enterprises who failed to innovate.

On the other hand, one can say that digitalisation and the underlying technological progress brought around fruitful grounds for new industries and organisations. Amongst many other, one will find the online retail industry as one of the e-commerce products of this digital era. When taking a closer look at online fashion retail, industry analysts forecast worldwide e-commerce fashion revenues to grow by 48% - from 423 billion Euro in 2018 to 627 billion Euro in 2022. This entails an increase from 96.5 billion Euro in 2018 to 154 billion Euro in 2022, only for the European e-commerce fashion market. (Statista, 2018; cited in Orendorff, 2018, p. 2) Especially the product segments of shoes, clothing, bags and accessories are expected to grow by more than 60% in terms of revenue in the next five years (Bohnhoff, 2016).

Taking all of this into account, it becomes clear that even companies such as Zalando, which was able to occupy a strong position in several European markets, cannot mark time and rest on its laurels. Technological progress happens fast and keeps on capturing more and more importance and usage in people’s consumption behaviour. (Terbeck, 2014) Therefore, usable innovations, which are based on technological progress and consumer behaviour, represent a crucial task for all digital enterprises if these want to stay relevant and develop their market power. It follows a series of guidelines that will help managers to prevent slimming business performance due to a lack of innovation.

- Make service- and experience-orientated decisions that will set the company and its brands apart from competitors and create an extraordinary brand-experience for consumers.

- Apply deep analysis of structured and unstructured data in order to obtain real-life and accurate insights into all groups of customers. Business decisions should be based on the results of this deep analysis.

- Innovate based on important trends from the industry and keep an eye on critical success factors.
- Build up a brand in collaboration with different stakeholders. One that enjoys customers' trust.
- Do not neglect the growth of small European economies. Mature markets such as France or Germany are already saturated and provide little room for growth. Up and coming economies such as Portugal or Poland, for instance, can become very attractive of the next years due to great spending power of consumers and little competition.
- Act morally and ethically. Data privacy and security depict highly important topics for e-commerce consumers.

In conclusion, one can say that the main challenge for managers and entrepreneurs from the field of online fashion retail will be to create a good brand experience for consumers and all other stakeholders. Companies like Zalando became successful because of innovative concepts and did not fear breaking industry standards and setting new thresholds. Moving forward, keeping this spirit alive will enable digital organisations to amaze consumers and turn them into loyal customers. This is pivotal for all e-commerce businesses aiming for market leadership.

"Innovation distinguishes between a leader and a follower."

- Steve Jobs -

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