Universidade Católica Portuguesa

Master Thesis

- The Get Big Fast as a Business Model in E-Commerce -

A case study of Zalando

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Lisbon, September 1st 2014

Sincerely,

Ana Catarina Morgado

Abstract

Title: The Get Big Fast as a Business Model in E-Commerce – A case study of Zalando

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The purpose of this thesis is to identify the properties of the internet that help e-commerce companies to growth so much and so fast, along with the analysis of the Get Big Fast strategy. Such strategy exploits online business activities based on first mover advantage, allowing incumbents to preempt competition by gaining market share as fast as possible and generate positive feedbacks. This qualitative research is a case-study of Zalando, an online fashion retailer. Though initially specialized in footwear, the firm quickly broadened its product portfolio, expanded into new markets and acquired millions of clients, becoming the Europe's market leader. Hence, this study investigates to what extent Zalando has followed the Get Big Fast principles, based on data provenient from five interviews and multiple secondary sources.

The findings indicate that certain properties of the internet stimulate the scalability of business operations, such as: 1) Mediating Technology 2) Information Density 3) Universal Standards 4) Distribution Channel 5) Infinite Virtual Capacity and 6) Global Reach. Moreover, it was found that Zalando has actually pursued the Get Big Fast strategy by being an early mover in the market, applying three out of four common tactics to gain market share (capacity expansion, heavy advertising and formation of strategic alliances), following product and market development strategies and generating four positive feedbacks (economies of scale, learning effects, network effects and accumulation of complementary assets). Nevertheless, some limitations exist, including an extensive scope of research, limited amount of interviews conducted via Skype and a generalization problem.

Key words: E-Commerce, Online Retail, Get Big Fast, E-Commerce Growth Strategies, Product Line Expansion, Geographical Expansion, Zalando.

Resumo

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O propósito desta tese é indentificar as propriedades da Internet que ajudam as empresas de comércio electrónico a crescer tanto e tão rápido, juntamente com a análise da estratégia *Get Big Fast*. Esta estratégia explora a actividade económica online baseada em *first mover advantage,* permindo aos incumbentes antecipar os seus rivais através da rápida conquista de quota de mercado e da produção de *feedbacks* positivos. Este estudo qualitativo é um caso de estudo sobre a Zalando, uma loja virtual de moda. Apesar de ser inicialmente especializada em calçado, a empresa alargou rapidamente o seu portofolio de produtos, expandiu-se para novos mercados e adquiriu milhões de clientes, tornando-se no líder de mercado Europeu. Portanto, esta tese investiga em que medida a Zalando segiu os princípios Get Big Fast, de acordo com informação recolhida em cinco entrevistas e múltiplas fontes secundárias.

Os resultados indicam que certas propriedades da Internet estimulam a expansibilidade do comércio online, tais como: 1) Tecnologia Mediadora 2) Densidade de Informação 3) Normas Universais 4) Canal de Distribuição 5) Capacidade Virtual Infinita 6) Alcance Global. Além disso, verificou-se que a Zalando seguiu efectivamente uma estratégia *Get Big Fast* por ser pioneira no mercado, aplicar três de quatro tácticas comuns destinadas à conquista de quota de mercado (expansão de capacidade, forte investimento publicitário e formação de alianças estratégicas), seguir estratégias de desenvolvimento de produtos e mercados e gerar quatro *feedbacks* positivos (economias de escala, efeitos de aprendizagem, efeitos de rede e acumulação de activos complementares). Contudo, existem algumas limitações, tais como o extenso âmbito de investigação, o número limitado de entrevistas realizadas por Skype e um problema de generelização.

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1.0 Introduction

Since the latter half of the 20th century that society has been witnessing the rising of a global digital age, due both to the general improvement in the standard of living and economic growth in emerging countries and to the spread of digital technologies such as the internet (Manyika et al. 2014). According to Afuah and Tucci (2003, 12), the internet is defined as a “vast collection of networks of computers that are interconnected both physically and through their ability to encode and decode certain specialized communications protocols called the Internet Protocol (IP) and the Transmission Control Protocol (TCP)”, in which a *protocol* represents the exchange of data among computers. This generalization of internet access and inherent computer massification have substantially impacted the entertainment and working habits in the modern society (Anderson and Rainie 2012), the dynamics of international trade and economic growth (Mathews, Healy, and Wickramasekera 2012). In fact, individuals and enterprises have been directing a significant and increasing amount of business online, establishing the internet as a crucial retail channel (Pérez-Hernández and Sánchez-Mangas 2011; Teo 2002) for commercial transactions of consumer goods and services, which constitutes the basis of the concept of electronic retailing, also known as online retailing (Varley and Rafiq 2004). As a result, at the present time electronic retail represents the fastest growing retail channel. It is continuously expanding in terms of reach and market size, increasing its customer base and penetration rate in several product categories (Traver and Laudon 2012).

Alongside some business sectors, such as telecommunication, banking and insurance, the retail industry has also changed significantly with the exponential growth of internet access and the development of electronic commerce (Grewal and Levy 2009; Sahney 2008; Walsh and Godfrey 2000). Several challenges have been posed to traditional retailers, as many brick-and-mortar stores are striving to survive in a fast-paced world in which consumers are becoming increasingly acquainted with online shopping techniques. As a matter of fact, the internet has drastically transformed the concept of shopping, enabling consumers to enjoy wider product variety (Chen and Leteney 2000; Levin, Levin, and Heath 2003), more convenient (Kuan-Pin and Dholakia 2003; Monsuwé, Dellaert, and de Ruyter 2004; Rohm and Swaminathan 2004), time saving and stress free (Wolfinbarger and Gilly 2001) shopping experience when purchasing on the internet, since the online store is open 24 hours a day, 7 days a week and provides home delivery options. Moreover, e-commerce as empowered the final consumer allowing for easy comparison of product features and prices (Rezabakhsh et al. 2006). Therefore, retailers have to assume a distinct value proposition, fully understand consumer behavior and reinvent the shopping experience in order to enhance customer satisfaction and loyalty (Haynes and Taylor 2006; Wolfinbarger and Gilly 2001).

Nowadays, e-retailers operate in an increasingly competitive environment which results in the pursue of aggressive expansion strategies in order to survive and generate profits, as the key to survival lies in rapidly expanding market size (Chakrabarti and Scholnick 2002). Hence, this paper aims to explore how and why e-commerce companies, specifically online retailers, are able to grow so much and so fast, achieving high growth rates in considerably short time periods. In this context, particular emphasis will be given to the Get Big Fast strategy, a concept firstly introduced by Jeff Bezos, founder and CEO of Amazon.com (Spector 2000). According to Kirsch and Goldfarb (2008), the Get Big Fast is a concept that emerges as the favorite strategic option to exploit electronic commerce, being commonly undertaken by product and market development techniques. Following its principles, firms aim to scale quickly and capitalize on first mover advantage in order to conquer market share, preempt competitors and establish market dominance as fast as possible (Afuah and Tucci 2003). By doing so, firms strive to achieve a favorable positioning in consumers' mind and secure long-term returns.

1.1 Purpose of the study

Over the years, research has been made regarding the outlines and characteristics of E-commerce (Chaffey 2011; Kling and Palmer 1997; Reynolds, Cuthbertson, and Bell 2004; Traver and Laudon 2012) and the online retail format (Doherty and Ellis-Chadwick 2010; Pavitt 1997). In addition, several authors have explored internet company's growth strategies such as product and market expansion techniques (Ansoff 1957; Etgar and Rachman-Moore 2010; Filson 2004; Proctor 2000), the stages of online growth (Ashworth et al. 2006), the internationalization process of retailers (Dawson 1994; Robles 2002; Salmon and Tordjman 2002; Yadong, John Hongxin, and Jianjun 2005), as well as the required success factors in online business industry (Feindt, Jeffcoate, and Chappell 2002; Lee 2001; Minjeong, Jung-Hwan, and Sharron 2006; Sahney 2008). However, there has been little research specifically focused on the Get Big Fast phenomenon, as existing literature lacks empirical validation and does not provide an integrated perspective of its origins, drivers, tactics, and positive and negative feedbacks. Resulting from the need to obtain in-depth insight about this concept, this paper aims to contribute with empirical support in this area of research.

The purpose of this study is to identify the properties of the internet which boost the scalability of online business activities, as well as to investigate the main drivers, tactics and consequences inherent to the adoption of one particular online expansion strategy - the Get Big Fast. This is done through literature review and a case study of Zalando, assessing to what extent the online retailer has pursued the Get Big Fast principles. Zalando is a German-based online merchant which has undertaken a successful rapid expansion strategy, being founded in October 2008 by Robert Gentz and David Schneider. The firm has delivered unprecedented growth through product and market development strategies, as it currently offers more than 150.000 items for women, men and kids, ranging from shoes to clothing and further fashion accessories. In fact, Zalando has expanded operations to 14 European countries, acquiring 13.5 million active customers and generating annual sales over 1 billion euros since 2012 (Wauters 2014a). So, Zalando is a particularly interesting exemplar of fast growing e-commerce companies, becoming Europe's market leader in the online fashion industry only four years after being founded (Kinnevik 2013). By developing a case study about Zalando, this thesis seeks to understand how the theoretical foundations supporting the Get Big Fast strategy are applied, in practice, to a real business case.

1.2 Research Questions

In line with the stated purpose of the paper, the research questions are as follows:

a) *How does internet capability enable E-Commerce Companies to quickly expand their core business activities?*
b) *To what extent did Zalando follow the Get Big Fast strategy? Which competitive advantages and challenges resulted from Zalando's rapid market size expansion?*

This study addresses these questions with the aim of contributing positively to literature and management practice, offering a comprehensive and complete revision of the Get Big Fast strategy while clarifying Zalando's growing process on the Web.

1.3 Structure of the Thesis

In order to provide an answer to the research questions previously described, this paper starts, firstly, with an overview of relevant literature, illustrating the characteristics of the online retailing industry and defining crucial theoretical concepts and frameworks regarding e-commerce, the online business model and the Get Big Fast strategy. Secondly, the research methodology describes the data collection procedures and introduces the Get Big Fast framework, which groundings are based on a revision and compilation of previous research, so that the theoretical principles of the Get Big Fast strategy are compared with the case firm and its empirical application is proved. Thirdly, and since this paper is designed as a case study, Zalando's business model, positioning in the market and respective expansion strategy are discussed and the Get Big Fast framework is employed, assessing the fit of Zalando's expansion strategy into the Get Big Fast domain. Finally, the study is concluded with a summary of the main research findings, giving notice of possible investigation limitations and suggesting interesting topics for future analysis.

2.0 Online Apparel Retail Industry

In this chapter, an assessment of the online retailing industry is presented. By taking an initial approach on the global industry and then focusing on the European market, key aspects of this sector are explored: growth potential over time, changes in consumer shopping habits, benefits and disadvantages of online shopping and the strategic challenges faced by current retailers.

2.1 The Global Context

Worldwide, the amount of households and enterprises having access to broadband internet (Ottens 2006) and utilizing this channel to undertake commercial transactions has been growing exponentially over the last decade (Anderson and Rainie 2012; Sahney 2008). As a result, the global online retail industry has registered $631.7 billion of revenues in 2012, which corresponds to a compound annual growth rate (CAGR) of 18.6% in the period 2008 - 2012 (appendix 1). In the future, this growing tendency is expected to continue, driven by the digitalization process of emerging economies. Hence, by the end of 2017, the global online retail sector will be valued in $1248.7 billion (MarketLine 2013), forecasting a CAGR of 14.6% from 2012 to 2017 (appendix 2). In detail, America and Europe contributed, respectively, with 37.9% and 36.5% of the worldwide online retail industry value (appendix 3). In the United States alone, e-commerce sales for the first quarter of 2014 achieved $71.2 billion, increasing 15% from the same quarter of 2013 (U.S. Census Bureau 2014) and accounting for as much as 8% of the overall retail sales (Bell, Jeonghye, and Lodish 2012).

According to Ben-Shabat, Moriarty, and Nilforoushan (2013) the most purchased product category in B2C E-Commerce globally is electronics and appliances, immediately followed by apparel (appendix 4). These findings puzzlingly contradict previous statements that consumers were unlikely to purchase shoes and clothing items online due to the inability to touch, feel and assess garments' fitting, which are required to be tried on properly in a dressing room (Citrin et al. 2003; Grewal, Iyer, and Levy 2004; Levin, Levin, and Heath 2003; Nagaty 2010). There is no doubt that B2C E-Commerce apparel sales are thriving on a global scale, since in 2013 more than one third of all internet users around the globe have already purchased or intended to purchase clothes online. Indeed, the internet has become a key research tool to be aware of novelties and compare product features, whether the actual purchase is made online or offline (Zhilin and Minjoon 2008).

2.2 The European Context

E-commerce is one of the fastest growing markets in Europe. According to Gill (2013), European online retail sales will record nearly €191 billion by 2017, in comparison with €112 billion in 2012, which represents a robust 11% Compound Annual Growth Rate over the next years. In addition, online apparel shopping is becoming increasingly popular since the share of individuals purchasing clothes, shoes and sports goods online has escalated in 2012, reaching over 20% of all internet users (YStats 2013).

There are significant differences among the European countries. In online retail, Germany, United Kingdom and France alone account for the biggest markets (appendix 5), representing nearly 80% of the total European online sales (Center for Retail Research 2013). In fact, in Germany, apparel is the largest product category sold online, having grown a third in terms of sales in 2012 and recording several billion euros of revenue. However, according to Reuters (2013), it is Spain, Poland and The Netherlands that are expected to growth faster, while Norway and Sweden have the highest expenditure per capita. In addition, there is a significant discrepancy between Northern and Southern countries in Europe, stated Mintel European retail analyst John Mercer, since the Spanish, Greek, Portuguese and Italian levels of engagement online are far behind those of Germany and UK. This idea of contrast between Southern and Northern Europe is carried forward by Gill (2013), suggesting that the Northern countries are entering a new competitive phase driven by high rivalry in the market segment, where efficiency and innovation are key to survive, while Southern countries are experiencing the fastest growth rates in the near future.

2.3 The Competitive Landscape

Despite favorable market growth, online retail is characterized by increasing competition levels (Balasubramanian 1998; Haynes and Taylor 2006; Sampson 2008). The large amount of existing rivals in the sector results from low switching costs, easy price comparison and few entry barriers, on the grounds of low fixed costs which facilitate new players' entry (MarketLine 2013). In addition to fierce competition among pure players, substitutes exist in the form of traditional bricks-and-mortar store. In this context, a clear distinction between the three main retail formats must be made. On one hand, there are bricks-and-mortar retailers which operate exclusively on a physical store. On the other hand, two types of internet retailing emerge: pure online retailers, who lack a traditional storefront and operate only through the internet, and clicks-and-mortar stores, which utilize the internet as a complementary retail channel to the physical store itself, developing a multichannel approach (Ashworth et al. 2006; Grewal, Iyer, and Levy 2004; Kim, Nam, and Stimpert 2004). Thus, sometimes the offline shopping experience is preferred in detriment of the online format, as consumers express concerns regarding apparel sizing and fit issues (Citrin et al. 2003) as well as security and privacy policies in e-commerce (Bramall, Schoefer, and McKechnie 2004).

2.4 Changes in Consumer Behavior

Following the technologic developments taking place since the late 90's, consumers have become increasingly familiar with online shopping and its associated benefits, enjoying time saving purchase methods (Wolfinbarger and Gilly 2001), relative lower prices (Brynjolfsson and Smith 2000), wider variety of products available (Chen and Leteney 2000), quick and easy access to information which allow the easy comparison of product's features and prices (Levin, Levin, and Heath 2003), as well as efficiency and convenience (Gehrt and Yan 2004; Kuan-Pin and Dholakia 2003; Monsuwé, Dellaert, and de Ruyter 2004; Rohm and Swaminathan 2004; Wolfinbarger and Gilly 2001). This is only possible due to properties of the internet that enable the online store to be open 24 hours a day, 7 days a week. Indeed, online shopping offers added value to time-pressured consumers who can shop anytime, either from home or the office, avoiding traffic, crowds and queues in the moment of purchase. Fast check out and home delivery options also provide additional comfort to the client.

Consequentially, shoppers' attitudes and buying habits have changed significantly as they have become more demanding, shopping when and where they want. In fact, consumers both in developed and emerging countries are more digitally empowered than ever before

(Brynjolfsson and Smith 2000; Randi 2001). Experts suggest that internet enhances consumer power by increasing market transparency and reducing information asymmetries (Afuah and Tucci 2003), by enabling consumers to group together and exert influence on prices (Rezabakhsh et al. 2006) and also by lowering search costs for product information, which in turn tends to diminish transaction costs dramatically (Sampson 2008; Wolfinbarger and Gilly 2001).

2.5 Implications for Traditional Retail: The Shift towards the Online Store

There is an inflection point taking place in the retailing industry. It has become increasingly competitive over the past 20 years, due to the high number of players and continuous customer empowerment. But traditional retailers are facing also another kind of threat - the online store. The high growth of online sales is estimated to significantly reduce the market for conventional stores. Since internet shopping represents already more than 5% of domestic retail in Europe, the continued growth of online retailers will be materialized at the expense of traditional ones (Center for Retail Research 2013). As a matter of fact, the threat posed by online retailers, such as Amazon and E-Bay, have been gaining market share and shrinking most brick-and-mortar profit margins, taking advantage of a slow shift from high street stores to the internet.

How can traditional retailers survive in such a highly competitive market? Two alternative, yet complementary, solutions have been proposed. The first one relates to the enhancement the shopping experience in conventional stores in order to keep competitive in the market place (Duncan Robinson, Rigby, and Pickard 2013; Walsh and Godfrey 2000). Pavitt (1997) advices retailers to adopt a customer-driven strategy, rethinking the moment of purchase as a source of entertainment, joy and social experience, which may explain why large retailers, such as Tesco, have been implementing restaurants and coffee shops in their stores. This is in line with the reasoning of Lee and Tan (2003), who concluded that online retail is unlikely to completely outcompete brick-and-mortar stores in all product categories. They explain that traditional retailers can take advantage of their physical presence to commercialize high risk purchases, improve service quality and reinvent the overall shopping experience. The second viable solution introduces the rising of the multichannel approach. Nowadays, many high street retailers have already embraced the internet as a valid distribution channel, capitalizing on their brand name and tangible assets, complementing the current offer in physical stores while also enabling customers to appreciate a stress free shopping experience online

(Rangaswamy and Van Bruggen 2005; Tse 2007). Additionally, research has found that traditional retailers who adopt electronic commerce tend to enhance customer service, boost conversion rates and improve brand name exposure (Doherty and Ellis-Chadwick 2010).

3.0 E-Commerce, Literature Review

In this section, an overview of the concepts, theories and findings published by accredited researchers regarding e-commerce, aggressive expansion strategies and the Get Big Fast phenomenon is provided. These themes constitute the underlying basis of this study, so it is relevant to accurately present, explore, discuss and review existing literature.

3.1 The concept of E-Commerce

First and foremost it is necessary to specify the underlying technologies inherent to e-commerce: the Internet and the World Wide Web (WWW). As previously described, the internet is a global network of computer networks based on identical standards. Though created in 1982, it was not until the 1990s that internet access reached a worldwide scale (Abbate 2000), linking individuals and exchanging data through the use of digital devices (DiMaggio et al. 2001). In this context, the World Wide Web is the most utilized service operating on the internet platform. On the Web, individuals have access to millions of Web pages designed in HTML (Hyper Text Markup Language) indicated by virtual search engines such as Google and Yahoo! (Traver and Laudon 2012).

Hence, in 1995 emerged the notion of electronic commerce, also known as e-commerce, being a disruptive technology which transformed perpetually the retailing industry. Several definitions of the concept of e-commerce exist in literature. For instance, Williams (2001) suggests that e-commerce relates to any commercial transaction of goods and services undertaken through a computer-mediated network, which includes the buying and/or selling process between and among individuals and enterprises. Traver and Laudon reinforce this idea (2012, 49), defining e-commerce as “the use of the Internet and the World Wide Web (WWW) to transact business”. However, Chaffey (2011) extends this reasoning and includes also non-financial transactions, such as customer questions and requests for additional information, as part of e-commerce. He argues that e-commerce should comprehend *all* electronic transactions, not just financial electronic transactions between firms and clients. In this context, a further analysis is made by Mesenbourg (2001), who clearly distinguishes the notion of electronic commerce from electronic business. According to the author, e-commerce relates to the value of products and services commercialized through an electronic communications network, whereas e-business is generally described as any activity conducted online by a business organization.

3.1.1 Online Businesses: Clicks-and-Mortar versus Pure Players

Alongside the concept of e-commerce emerges the notion of online retailing, which also consists on the sale of consumer goods through the internet (Varley and Rafiq 2004). Hence, this paper will mainly focus on transactional e-commerce websites, such as the retail website itself, that enable the sale and purchase of items online. As mentioned earlier, there are two types of online businesses: clicks-and-mortar and pure players. The former run business online and offline, developing a multichannel approach as retailers augment their land-based business through the offer of a wider product selection on the Web, just has Nike and Zara have done (Min and Wolfinbarger 2005). These are commonly named clicks-and-mortar or clicks-and-bricks stores. The latter relate to pure online retailers, also known as pure players or virtual merchants, who lack physical presence in the market and operate exclusively online (Ashworth et al. 2006; Grewal, Iyer, and Levy 2004; Kim, Nam, and Stimpert 2004). Sounding examples include well-known e-commerce giants like Amazon.com and eBay.

Further differences exist among the two online retail formats, as pure players enjoy specific advantages over clicks-and-mortar stores and vice-versa. Firstly, store location does not represent a key success factor for pure players. These firms lack physical presence and, consequently, are not charged for costs associated with establishing and maintaining a conventional shop. Virtual merchants bear only the costs of designing and keeping its website operational, which can cost between US$15-25 million per year (Barsh, Crawford, and Grosso 2000). In addition, in comparison with a traditional store, the virtual merchant is able to provide a wider variety of products across several distinct categories, since it is not constrained by the availability and cost of floor space (Srinivasan, Anderson, and Ponnavolu 2002). Secondly, most pure players do not possess any tangible inventory because orders are sent directly to the supplier and then shipped to the final client. This generates cost savings associated with storage space and inventory risk costs (Varley and Rafiq 2004). Nevertheless, for e-tailers carrying physical inventory such savings are reduced due to warehousing, shelving, packaging and shipping expenses (Mariotti and Sgobbi 2001). Thirdly, virtual merchants are expected to effectively manage order fulfillment infrastructures and home deliveries, which raises the need to develop efficient operations and logistics systems in order to assure customers that orders are delivered on time (Varley and Rafiq 2004). Therefore, Sampson (2008) concludes that both operational costs and capital requirements favor the virtual merchant. This is in conformity with Pavitt (1997), who stresses that online retailers can take advantage of lower operating costs to enhance profit margins. The author explains that, since webpages cost just a small fraction of the necessary investments to run a physical store (only 5% to be more precise), the margins earned by the online retailer are expected to be as much as three times higher than the ones earned by the traditional store.

However, clicks-and-mortar retailers reveal particular benefits over the online store, such as previously established customer base, access to distribution networks (Min and Wolfinbarger 2005), customized human contact through sales person and significantly lower cost on after-sales service, including returns (Grewal, Iyer, and Levy 2004). Moreover, virtual merchants face the additional challenge of building online operations and brand name recognition from scratch (Kim, Nam, and Stimpert 2004; Traver and Laudon 2012). Brand name and trust levels developed by bricks-and-mortar business are relevant when diversifying operations online, as they leverage brand reputation to further product lines without additional costs since reliability has been established in advance through the physical store (Gehrt and Yan 2004; Min and Wolfinbarger 2005). Likewise, Grewal, Iyer and Levy (2004) reinforce the importance of credibility online due to the impossibility of pre-purchase trial. Moreover, brand reputation is also expected to reduce customer acquisition costs online (Min and Wolfinbarger 2005). These costs may ascend to US$50–100 (Barsh, Crawford, and Grosso 2000) derived from heavy investment in customer conversion rates, exceeding the customer acquisition costs for store-based retailers (Reichheld and Schefter 2000).

3.2 The Properties of the Internet

The understanding of internet’s major characteristics is crucial to analyze how e-commerce companies are able to scale activities so quickly and over long geographical distances, so many scholars have identified and explored core properties of the internet (Afuah and Tucci 2003; Kim, Nam, and Stimpert 2004; Lee 2001; Pyle 1996; Traver and Laudon 2012; Vijayasarathy and Tyler 1997). These are: 1) Mediating Technology, connecting information systems and enabling independent parties to communicate and interact freely, regardless of time and distance constrains 2) Information Density, enhancing information detail, accuracy, and timing 3) Universality, based on global common standards 4) Network Economies of Scale, since the value of a network is positively correlated with the amount of members involved in it and larger networks tend to acquire new connections faster 5) Distribution Channel, conveying products, services and information to the target audience through the use of newsletters, social network, search engines etc 6) Infinite Virtual Capacity, providing a wide variety of items online in terms of product sizes, colors, brands, formats etc 7) Information Asymmetry Shrinker, fomenting information transparency in commercial transactions 8) Transaction-Cost Reducer, since quick and easy access to the internet lowers the costs associated with information search, negotiation and monitoring of transactions 9) Global Reach, enabling effective cross cultural and intercontinental transactions.

This immediate global coverage assumes particular relevance for the purpose of this paper, since it enables online retailers to exploit the limitless scalability of the internet to expand activities and reach a wider geographic scope (Kim, Nam, and Stimpert 2004). By overcoming physical boundaries, they have the possibility to enlarge its customer base and boost sales revenue (Grewal, Iyer, and Levy 2004). E-commerce can double or even triple the online market size due to the capability of the internet to serve millions of customers simultaneously, who can shop online anytime and anywhere (Afuah and Tucci 2003), meaning that there is enough potential to expand online activities (Barua et al. 2001). At the limit, the potential market size for pure players is an approximation of the internet users worldwide, which is superior to 2 billion people. However, the supremacy of virtual merchants has been criticized by other authors. Though acknowledging the exponential growth of internet retailing, Doherty and Ellis-Chadwick (2010) believe that pure players are unlikely to overpower traditional retailers. Likewise, Keen et al. (2004, 685) argues that “fears that the internet will take over the retail arena seem, at least at this point in time, overblown and exaggerated”. A possible explanation is that some customer segments are using the internet as an information search tool, but not actually shopping online due to security and trust concerns (Weltevreden 2007; Zhilin and Minjoon 2008).

Other studies in the field have reinforced the idea that pure players are shaping the retailing industry, enjoying a more favorable cost structure than their offline competitors, as well as improved efficiency levels. In fact, pure players benefit from lower set up costs (Latcovich and Smith 2001), as well as lower property and stock-keeping costs (Chen and Leteney 2000) derived from the absence of a physical store which generates cost savings associated with rent, maintenance, electricity and sales staff payroll among others (Pavitt 1997). Operational and administrative costs are significantly reduced as well, due to smaller sales force, digitalization of information and less frequent data errors (Barua et al. 2001). Moreover, as running a Website does not require heavy investment in physical storefronts, the market entry costs tend to be substantially lower. Hence, cheap and easy to maintain websites coupled with the informatization of data contribute to increasing efficiency levels as the firm consumes fewer resources (Chaffey and White 2011; Srinivasan, Anderson, and Ponnavolu 2002).

3.2.1 The Internet as an Enabler to Scaling E-Commerce Activities

The growth of online activities is driven not only by the possibility to enlarge customer base, on the grounds of geographic expansion without financial constraints, but also by cost minimization (Mariotti and Sgobbi 2001). The internet offers unprecedented business growth. It enables a conventional store to double its product assortment without doubling sales staff, since additional websites are attached at marginal cost (Sampson 2008). Likewise, clients have easy access to domestic and international websites, meaning that online retailers do not bear the costs associated with Foreign Direct Investment when entering new geographical markets, in contrast with their offline competitors (Chakrabarti and Scholnick 2002). So, virtual merchants, enabled by internet capability, are not constrained by tangible barriers when crossing international borders and are not charged for the establishment of physical presence abroad, which can represent relevant entry barriers (Yadong, John Hongxin, and Jianjun 2005).

In this context, growing literature on the concept of internet and its influence on the firm's internationalization process has emerged. Freund and Weinhold (2004) suggest that the internet enhances information and knowledge sharing, which in turn stimulates foreign-market expansion. Additionally, research has found that internet promotes international trade, including market penetration and market development approaches. The former relates to increasing usage rates from the current customer base, while the latter is associated with the acquisition of new customers in new markets (Mathews, Healy, and Wickramasekera 2012). This idea is taken further by Yadong, John Hongxin, and Jianjun (2005) who argues that internet not only promotes foreign-market expansion, but it also enables a faster internationalization rate due to three unique characteristics of e-commerce companies: 1) lower costs in international coordination and communication 2) disintermediation 3) easy information sharing between suppliers and customers.

Literature seems to agree upon the fact that internet enables a larger scale of operations by allowing previous constrained enterprises to quickly expand their networks and productive capacity. Thus, the concept of scalability emerges as a key success factor in e-commerce (Datta et al. 2003). Sandino and Giachetti (2001, 1) define scalability as “the capability of a system to process an increasing workload or to increase its capacity at the minimum cost and without decreasing its performance below the threshold of customer expectation”. In line with Datta et al. (2003) the authors explain that scalability is crucial in online retail business due to the exponential growth in demand that a virtual store may experience. Nevertheless, scalability is not infinite. Though research has been made on the field of e-commerce companies’ growth potential (Eisenmann 2006; Feindt, Jeffcoate, and Chappell 2002; Mariotti and Sgobbi 2001), few have focused on its growth limitations. One author that has analyzed this topic is Kutcher et al. (2014), who suggests that companies may encounter limits to growth as the adoption curve reaches an end. This tipping point is usually materialized in market saturation, slower customer acquisition rates, fading lifetime value of new clients and declining partners’ participation.

3.3 The Online Business Model

The online business model is based on the unique features of the internet and the World Wide Web. Early literature defines a business model on three fronts: 1) “as an architecture for product, service and information flows” 2) “as a description of the potential benefits for the various business actors” 3) “as a description of the sources of revenue” (Timmers 1998, 4). The concept was further developed by Afuah and Tucci (2003), who describe the online business model as the structure that exploits the properties of the internet in order to generate profit.

Previous research has identified 8 key elements required in the design of business models: 1) Value Proposition, how a firm’s offer addresses customer needs 2) Revenue Model, how to earn money (e.g. commission-based, advertising, markup, subscription etc) 3) Market Opportunity, which market to serve 4) Competitive Environment 5) Competitive Advantage 6) Market Strategy 7) Organizational structure and 8) Management Team (Ghosh 1997). Some of these perspectives are illustrated in appendix 6. However, few authors have proposed a detailed analysis, as Ghosh (1997) ignores customer relationship dynamics and Gordijn, Akkermans, and Van Vliet (2000) focus exclusively on the value creation process in a partner network. Hamel (2000) addresses this gap and provides a complete business model approach, including product scope, mission and differentiation strategy, fulfillment, stakeholder focus and revenue generation among others.

More specifically, Sorescu et al. (2011, 4) define a retail business model as a "well-specified system of interdependent structures, activities, and processes that serves as a firm's organizing logic for value creation (for its customers) and value appropriation (for itself and its partners)", explaining that retailers can appropriate value through operational efficiency, operational effectiveness and customer lock-in, and that retailers can also provide value to the final consumer by enhancing customer effectiveness and customer engagement. The authors further argue that a retail business model relies on the interconnection of three distinct factors: 1) Retailing Format, the manner in which retailing activities are organized and performed, 2) Retailing Activities such as purchasing, stocking, displaying and exchanging products and services necessary to stimulate the shopping experience and 3) Governance of different entities that participate in the execution of retailing activities, such as retailer's partners and suppliers.

It is precisely in the choice of the retail format, the selection of the interface structure in which retailing activities take place, that the concept of e-commerce emerges. Hence, the online business model can be interpreted as an organization of retailing activities in which different models derive from the retailer's strategic choices regarding pricing, distribution channel, supply chain management and positioning (Grewal, Iyer, and Levy 2004). Timmers (1998) elaborates a two-dimensional model, based on innovation and integration of functions, to identify eleven types of e-business models: 1) E-shop 2) E-procurement 3) E-auction 4) E-mall 5) Third party marketplace 6) Virtual communities 7) Value-chain service provider 8) Value-chain integrators 9) Collaboration platforms 10) Information brokerage 11) Trust and other services (appendix 7). Nevertheless, the lack of a standard classification in literature has been criticized by Dubosson-Torbay, Osterwalder, and Pigneur (2002), who introduce a multidimensional classification model for e-business models (including user role, pricing, customization etc), contrasting with the regular two-dimensional model.

Though several online business models have been identified, this paper will focus mainly on the e-shop, also known as virtual merchant. As previously mentioned, such merchants operate exclusively online, meaning that marketing campaigns, product orders and respective payments take place on the web. Hence, the online business model relies on selling products and services directly to the final consumer through the use of the internet (Varley and Rafiq 2004). Usually, the revenue model is materialized into a predefined commission for intermediaries or a mark-up earned for each unit sold online, and either low-cost or differentiation strategies are pursued in order to survive in a highly competitive industry (Haynes and Taylor 2006; Sampson 2008). Finally, the value proposition for the final consumer is translated into a wide product variety (Chen and Leteney 2000), quick and easy access to information (Levin, Levin, and Heath 2003) and great convenience (Gehrt and Yan 2004; Monsuwé, Dellaert, and de Ruyter 2004; Wolfinbarger and Gilly 2001).

3.4 The Get Big Fast Strategy

In the 1900's, the concept of Get Big Fast emerged with Amazon's exponential growth strategy (Spector 2000), achieving high sales growth, superior brand awareness, large customer base and sustainable profits in a short period of time. This way, Jeff Bezos, founder and CEO of Amazon.com, introduced the Get Big Fast as the ideal strategy to exploit the online business model, based on potential first mover advantages and rapid expansion towards market-share dominance (Kirsch and Goldfarb 2008). First-mover advantages are triggered by initial asymmetries in the market and refer to pioneering enterprises' capability to earn abnormal profits resulting from their competitive head start over competitors (Lieberman and Montgomery 1988). In this context, several authors (Kalyanaram and Urban 1992; Lambkin 1988; Robinson and Fornell 1985) found that first movers tend to gain higher market share in comparison with later entrants, on the grounds of significant sales advantages. More specifically, recent research has proved that first movers pursuing the Get Big Fast strategy are able to dominate the market (Oliva, Sterman, and Giese 2003). Early entrants have the possibility to establish a favorable positioning in the marketplace before competitors do, acquiring customers first and preempting rivals who struggle to conquer market-share, which in turn contributes to earn superior rents (Eisenmann 2006). Additionally, Afuah and Tucci (2003) suggest that first mover advantages are optimized in the presence of brand loyalty and network effects.

Further definitions of the concept of Get Big Fast exist in literature, all agreeing upon the fact that the Get Big Fast strategy prioritizes growth over budget. Reid (1997) refers to this approach as a technique to growth at any cost, so that firms claim as much market share as possible before later entrants. This is in line with Sterman et al. (2007, 683), who defines Get Big Fast as the process of "rapidly expanding capacity and cutting prices to gain market share advantage and exploit positive feedbacks faster than rivals”. Moreover, these positive feedbacks (economies of scale, learning effects, network effects and accumulation of complementary assets) are believed to constitute sources of competitive advantage (Fudenberg and Tirole 2000; Shapiro and Varian 1998). In fact, firms facing such positive feedbacks are encouraged to follow aggressive expansion strategies, growing as fast as possible and outcompeting their rivals (Eisenmann 2006). Consequentially, aggressive strategies promote both aggregate demand and firm’s market share, which in turn reinforces the positive feedbacks previously acknowledged.

Successful examples of firms pursuing aggressive strategies have been recorded in industries with robust learning effects, such as synthetic fibers and chemicals (Lieberman 1984; Shaw and Shaw 1984), as well as visible network effects and complementary assets. Recently, the Get Big fast strategy has been effective for e-business such as Yahoo!, Facebook, Google, YouTube and eBay apart from Amazon, which constructed scalable and profitable business models faster than ever before (Kirsch and Goldfarb 2008). However, these cases are not common.

Although investors and capital markets had been fostering aggressive expansion strategies from 1994 to 2001, providing access to inexpensive capital, many online startups later discovered that fast growth and size are not sufficient conditions to ensure sustainable profits. As a result, successive internet business failed and market value collapses, generating the Demise of Dot.com Retailers (Sawyer, Cooperstein, and Lee 2000). Analysts explain that this phenomenon was caused not only by a speculative bubble but also by firm’s inability to fund continuous losses derived from low pricing, significant investments in infrastructure and heavy advertising which were employed to promote growth (Oliva, Sterman, and Giese 2003; Sawyer, Cooperstein, and Lee 2000). Likewise, over timer, the increasing number of players following aggressive expansion strategies may erode profit margins and dilute market share of early movers (Bakos 2001; Sterman et al. 2007). So, if all players pursue the Get Big Fast strategy, none will reach the necessary scale in order to benefit from positive feedbacks and superior returns, and many will be forced to exit the market (Oliva, Sterman, and Giese 2003).

The Get Big Fast strategy has been object of criticism in literature (Cardozo et al. 1993; Kirsch and Goldfarb 2008; Rachleff 2013) as it does not represent the best strategic option for all internet startups and there are profitable market opportunities online to be explored by adopting niche strategies on a modest scale. Further authors (Eisenmann 2006) argue that immediate expansion into new products and markets should be preceded by the establishment of a solid customer base and stable cash-inflows in the home market.

3.4.1 The Importance of Market Share, Revenue Growth and Profitability

The online retailing industry is characterized by fierce competition, squeezing operating margins, and e-tailers are lead to pursue aggressive expansion strategies, such as the Get Big Fast, in order to keep competitive (Chakrabarti and Scholnick 2002). In fact, trade globalization and worldwide web coverage have facilitated the creation of a winner-takes-all phenomenon favoring the market leader, as e-commerce companies are able to conquer entire business sectors as scaling has become imperative (Freathy 2003; Sampson 2008). Hence, e-tailers in winner-takes-all markets are motivated to follow fast growth strategies when the exploitation of increasing returns to scale is possible (Eisenmann 2006). The relevance of market share is illustrated by (Rothschild 1990, 181): “by slashing prices below costs, winning the biggest share of industry volume, and accelerating its cost erosion, a company can get permanently ahead of the pack and build an unchallengeable long-term cost advantage”. Furthermore, recent studies propose a specific threshold for market share dominance. Oliva, Sterman, and Giese (2003) suggest that market shares superior to 50% usually lead to market dominance, whereas Sterman et al. (2007) argue that aggressive strategies are usually set on a minimum threshold of 80% market share. In this context, Kutcher et al. (2014) address the importance of growth by stating that revenue growth has a positive correlation with long-term success, earnings and market-capitalization gains. So, fast growing firms are not only surviving but also delivering outstanding performance.

Nevertheless, revenue growth does not guarantee long-term profits and economic viability. The Get Big Fast requires substantial capital to invest in infrastructure, customer acquisition, brand equity and low pricing to scale the business (Sawyer, Cooperstein, and Lee 2000), which originates negative cash-flows in the short term. Large losses are expected and rational for the firm as long as financial markets recompense the Get Big Fast strategy. But, as investors become unwilling to provide further access to capital, firms suffer from liquidity shortage and are forced to reduce costs. Hence, after an initial growth stage, the organization undertakes a strategic shift towards profitability (Oliva, Sterman, and Giese 2003).

3.4.2 Tactics for Market Dominance

Common tactics employed to pursue the Get Big Fast strategy, achieving superior returns supporting early and large players, include: 1) Low Pricing 2) Expanded Capacity 3) Heavy Advertising and 4) Alliances Formation with suppliers and/or other retailers (Oliva, Sterman, and Giese 2003; Sterman et al. 2007).

Firstly, price significantly influences consumer purchase probability as informed and price-sensitive individuals prefer to shop at stores setting the lowest prices (Varian 1980), and, eventually, higher quantities are bought to store for future consumption (Stiglitz and Salop 1982). So, though retailers collect a smaller profit margin per unit, sacrificing short-run earnings, this fact is outweighed by the prospects of higher sales volume and maximized present value of future profits. Other studies have also found that low pricing allows greater market penetration (Afuah and Tucci 2003) and deters new players entry (Fudenberg and Tirole 2000), assisting e-tailers to conquer market share.

Secondly, capacity constitutes another key entry deterring variable as it represents a substantial and irreversible commitment. Early literature (Spence 1977) suggests that existing firms prevent new players entrance by setting an industry output large enough to satisfy most part of demand, causing residual demand to be, at the limit, approximately zero and generating no profit potential for other players. In other words, excess capacity allows incumbents to inflate production levels and reduce prices, maximizing their profits at the expense of new entrant’s returns.

Thirdly, pure players invest substantially in advertising to create brand awareness, to inform about the characteristics of a given product and service, to establish a favorable positioning of the brand in the consumer’s mind and to encourage the act of purchase (Clow and Baack 2012). Nevertheless, the authors explain that advertising is only a promotional tool included in the firm’s overall marketing mix. Therefore, heavy advertising is preceded by significant investment in marketing, assisting the virtual merchant to attract traffic to the online store, build a loyal customer base, differentiate products and services, as well as to raise brand awareness and create brand reputation (Yadong, John Hongxin, and Jianjun 2005). Indeed, credibility of both retailers and brands assume particular relevance online to generate customer value and boost revenue stream, since it lowers the perceived risk of purchase, reduces search costs and develops a favorable perception of the company (Erdem, Swait, and

Louviere 2002; Lee and Tan 2003). Other marketing techniques effective at lowering perceived risk are free trial, free delivery or money-back guarantee (Akaah and Korgaonkar 1988).

Finally, strategic alliances are defined as voluntary arrangements among two entities, which cooperate and combine the necessary resources in the development of products and services for mutual benefit (Gulati 1998; Wen-Long and Jasmine Yi-Hsuan 2006). As reported by Kogut (1991), drivers of alliance formation are lower transaction costs, quest for market share and acquisition of critical knowledge. Likewise, lower costs, reduced competition and resource’s complementarity are mentioned by Badaracco (1991). Thus, such ties are crucial for startups’ survival and competitiveness in the market place.

3.4.3 Positive Feedbacks

Recent research (Sterman 2000; Sterman et al. 2007) identifies four positive feedbacks resulting from a Get Big Fast strategy: 1) Economies of Scale, 2) Learning Effects 3) Network Effects and 4) Accumulation of Complementary Assets, which are translated into sources of competitive advantage (Fudenberg and Tirole 2000; Shapiro and Varian 1998). Oliva, Sterman, and Giese (2003) illustrate this process (appendix 8), explaining that *reinforcing investment loops* fuel firm’s growth through continuous investment in brand reputation, appropriateness of server infrastructure (safety and reliability) and service infrastructure (fast delivery and customer support). Hence, the invested capital generates superior returns due to the firm’s attractiveness and better performance.

The first positive feedback relates to economies of scale, which are characterized as decreasing average cost of production as the firm’s output rate increases (Lee 2001; Spence 1981), and usually occur in inventory management, warehousing, transport and distribution, server requirements, customer service and administrative expenses (Oliva, Sterman, and Giese 2003). In fact, e-business scaling operations can not only take advantage of lower unit costs but also spread fixed costs along a greater customer base (Lee 2001). Consequentially, entry barriers are raised through a more favorable cost structure (Spence 1981).

Firms are also provided with costs savings provenient from learning effects. Pindyck and Rubinfeld (2009) describes this concept as the phenomenon of decreasing unitary costs of production as a result of cumulative work experience, as individuals get familiar with production and management process over time. Learning effects are translated into efficiency gains because the same inputs produce greater amounts of output. However, as reported by Mellahi and Johnson (2000), it is also important to ensure that the benefits form accumulated experience and learning are retained by the organization. By doing so, experience gained from learning curves can also protect early entrants and large players from rivals by providing not only substantial cost advantages, but also by building entry barriers (Lieberman and Montgomery 1988; Spence 1981). Results are enhanced if economies of scale and learning effects take place simultaneously.

The third positive feedback is associated with network effects, also known as network externalities, which also possess a preemptive role (Fudenberg and Tirole 2000). Network effects exist whenever the benefit provided by a given product or service is positively correlated with the number of its members, meaning that large networks provide higher value to its users (Katz and Shapiro 1994; Lee 2001). These are particularly powerful effects on the web, usually materialized in user generated content and word-of-mouth (Chevalier and Mayzlin 2006; Forman, Ghose, and Wiesenfeld 2008; Gligorijevic 2011; Oliva, Sterman, and Giese 2003). Research has found that online retailers can profit from customer-to-customer interactions, improving brand reputation and enlarging its customer base as satisfied clients share information about their experiences with relatives and friends (Bell, Jeonghye, and Lodish 2012; Dellarocas 2003). As Lee (2001) emphasizes, virtual marketers should exploit network externalities to establish a critical mass. In fact, positive word-of-mouth (WOM), coupled with unprecedented scale information, acts as an effective and inexpensive method for acquiring and retaining clients, generating rapid revenue growth (Sterman et al. 2007). However, the same holds true in spreading negative WOM, which can severely damage firms' brand equity.

Lastly, complementary assets are the key resources, capabilities or technologies required to the profitable commercialization on innovations (Teece 1986). Apart from the firm's know how, the author enumerates specific competencies which may as well be necessary, such as manufacturing, distribution channels, service, technologies, and after-sales support, including customer service and problem resolution. Further researchers argue that complementary assets can also include market power, experience, customer base, brand recognition, marketing (Rothaermel 2001) capital and human resources (Steinfield, Adelaar, and Lai 2002). Additionally, Teece (1986) concludes that, to access incumbent's complementary assets, innovators engage either in contractual forms or total integrations, and such ties are also beneficial to incumbents themselves, approaching technological change by inter-firm collaboration (Rothaermel 2001).

3.4.4 Negative Feedbacks

Many e-commerce companies pursuing the Get Big Fast strategy have failed despite the existence of increasing returns. Recent research (Chen and Leteney 2000; Oliva, Sterman, and Giese 2003) revealed that such an aggressive strategy can generate a set of negative feedbacks leading to service quality erosion. Fast growing firms may experience difficulties at managing and fulfilling the growing number of orders, as well as delivery delays, capacity shortages and stock-outs, leading to a drop in service quality levels. In these cases, an insufficient server infrastructure to support the increasing amount of online visitors and orders jeopardizes website's performance (appendix 9). Likewise, an inadequate service infrastructure damages the overall shopping experience, causing unsatisfied customers to switch to competitors and poor firm valuation by the capital markets. Therefore, the same positive feedbacks which previously fostered growth can turn into vicious cycles and continuously erode firm's attractiveness, as customers, investors, employees, suppliers and other stakeholders lose trust in the company, leading to a downfall trend and exit (Oliva, Sterman, and Giese 2003).

3.4.5 Boundary Conditions

In spite of recording some unsuccessful examples, the Get Big Fast can be an optimal strategy under two conditions. Firstly, it requires the presence of at least one positive feedback. Secondly, profits depend on whether the firm has scaled activities up to the point where *reinforcing investment loops* become significant. Just by growing long enough will firms' benefit from positive feedbacks creating increasing returns. It is also important to ensure access to capital, covering losses from low pricing and marketing expenses, as well as to maintain high service quality to meet customer expectations (Oliva, Sterman, and Giese 2003).

3.5 The Ansoff's Matrix

The Ansoff's matrix assumes particular relevance in this study. Formulated by Igor Ansoff in 1957, this framework relies on different combinations of existing and new products/services with existing and new market options (Richardson and Evans 2007) to deliver four growth strategies: 1) Market Penetration 2) Market Development 3) Product Development 4) Diversification (appendix 10).

Firstly, according to Ansoff (1957), a market penetration strategy focuses on increasing market share through the offer of current products or services to an existing market. The aim is to increase usage rates in terms of frequency and quantity. Hence, new product applications are often suggested and advertised on the media (Proctor 2000), and promotional programs are set to boost sales. Secondly, market development is defined as the geographical expansion into a new region or country, but organizations can also growth by identifying new market segments for their current offer (Ansoff 1957). In so doing, the same expertise, skills and technology are utilized, exploiting potential synergies. Thirdly, product development relates to the commercialization of new products to current market segments (Ansoff 1957). The definition of product novelty is broad, including improvements in existing products (new features, quality level, etc), product line extension, repositioning, new category entries and innovation (Proctor 2000). New products are developed either to substitute or complement existing offers or to meet consumer's demands, but it constitutes a risky approach due to heavy investment in R&D. Finally, the author describes diversification as the simultaneous offer of new products to new market segments. Being driven by excess capacity, technological obsolescence and risk diversification, diversification is the most risky alternative (Pleshko and Heiens 2008), requiring organizational changes, specific skills and new facilities. In addition, this strategy is often undertaken through organic growth, joint-ventures, alliances, franchise, licensing or mergers and acquisitions (Lynch 2009).

Though the framework has received general acceptance in the strategic management field and has been widely used in the organizational context, Ansoff has been criticized on the grounds of inadequate planning process to handle turbulence and rapid changes (Mintzberg 1991), as well as the limited view of the framework. In fact, extended versions of the well-known product-market matrix have been proposed by Meyer and Roberts (1988), Pavia (1990) and recently by Pleshko and Heiens (2008), who agree that the framework must be revised.

3.6 E-Commerce Growth Strategies

Growth strategies in internet retailing are mainly undertaken by the expansion across product lines, expansion into new geographical markets, or a combination of both (Pleshko and Heiens 2008), resembling the strategic choices present in Ansoff's matrix (appendix 11).

3.6.1 Product Line Expansion

Having described product line expansion as the commercialization of goods in new product categories, retailers must define the width and depth of their product mix (Etgar and Rachman-Moore 2010). According to Ailawadi and Keller (2004), stores offering a product mix characterized by narrow width but extended depth are defined as “specialists” or “category killers”, focusing only on one product category such as apparel, toys or food. In contrast, other retailers provide goods across numerous product families, being acknowledged as “generalists”. Some authors (Chakrabarti and Scholnick 2002; Min and Wolfinbarger 2005) analyzed the advantages of both approaches, concluding that generalists enjoy higher sales volume by leveraging brand reputation, website design, maintenance and fulfillment capabilities (e.g. warehousing) across several product categories without incurring in additional costs. Yet, the adoption of a niche focus enable specialists to earn higher profit margins.

3.6.2 Geographical Expansion

Another common strategy is to offer products and services beyond national borders, expanding operations into foreign markets (e.g. internationalization) (Chakrabarti and Scholnick 2002). In a recent study, Etgar and Rachman-Moore (2010) explored and compared two international retail expansion strategies: proximate-markets-only and global strategy. On one hand, the former relates to scaling operations into geographical areas situated close to the retailer’s home market. Such strategy lowers the risk associated with the internationalization process as proximate markets share similar culture, demographic features and consumer preferences (Bell, Jeonghye, and Lodish 2012). Further, it has been found that the proximate-markets-only strategy usually precedes the expansion into more distant areas (Freathy 2003). On the other hand, generalist retailers take more advantage of a global strategy, establishing commercial activities in more distant and dissimilar regions. By managing distinct product categories, generalists develop operational and marketing skills required to run business on a multinational context, such as planning, coordination of activities and procedures as well as monitoring and control mechanisms (Etgar and Rachman-Moore 2010).

Nevertheless, literature about online growth strategies agrees upon the importance of tailored e-commerce services, as Chaffey (2011) emphasizes the need to adapt the website design and product marketing mix to markets revealing differences in terms of language, currency, culture, product needs and consumers' preferences. These findings are in line with Dawson (1994), who defends that retailers should provide a great local user experience, adapting management practices to the cultural and social dimensions of the host country.

4.0 Research Methodology

This section describes the methods utilized throughout this study in order to address the research questions previously stated. More specifically, the guidelines of the research process are explained, data collection techniques are outlined and the validity and credibility of the findings are assessed in this chapter.

4.1 Research Scope

Having defined the general outlook of this thesis as the online retail industry and assuming a Business-to-Consumer (B2C) approach, the analytical scope is narrowed by its case-study nature. This case study is about Zalando, a pure-play online retailer founded in 2008, in Germany, and specialized in selling shoes, apparel and other fashion accessories. In this context, the choice of Zalando was based on the remarkable growth that the firm achieved, expanding into 15 European countries (Germany, Austria, Netherlands, France, Italy, UK, Switzerland, Sweden, Belgium, Luxembourg, Spain, Denmark, Finland, Poland and Norway), establishing a multinational customer base and being the fastest European e-commerce company to earn one billion euros in net sales. Having become the market leader in only four years after being founded (Kinnevik 2013), Zalando entitles itself as an interesting business case to explore the application of aggressive expansion strategies on the web. Therefore, this study is particularly focused on Zalando, having the European market as its geographical scope and the period comprised between 2008 and 2014 as its time frame (since Zalando's foundation date).

4.2 Research Strategy and Design

Since our aim is to analyze the drivers inherent to the scalability of electronic businesses and to assess to what extent did Zalando pursued the Get Big Fast strategy, the appropriate research strategy for this thesis is believed to be a qualitative data analysis following a case-study design.

According to Kumar (2011), qualitative research methods are usually employed to explain and obtain in-depth understanding of a given phenomenon or event, rather than confirming or quantifying. Qualitative methods are particularly suitable for this study on the grounds of their descriptive and inductive nature (Bryman and Bell 2011), since many concepts covered are not easily quantified and the notion of Get Big Fast is not widely explored in literature, raising the need for a flexible approach. In addition, the Get Big Fast framework proposed in this thesis was built from existing literature and previous studies about the topic, requiring a structured and detailed examination of information in order to fully comprehend the theoretical concepts. This process of data categorization is also as indicator of the presence of a qualitative study (Bryman and Bell 2011; Maxwell 1998).

Given the purpose at hands and its qualitative nature, this study is designed as a single case study. As reported by Creswell (1998) and Eisenhardt (1989) a case study is an empirical investigation that explores a certain phenomenon or event in a real-life setting, allowing the researcher to have a more holistic perspective of the subject in question. More specifically, Benbasat, Goldstein, and Mead (1987) suggested that case studies are often used to address research questions formulated with *how* and *why*, resembling the core of this paper. As previously mentioned, the aim of the thesis is to contribute to existing literature by providing a comprehensive and complete perspective of the Get Big Fast concept and exploring Zalando’s expansion strategies into new markets and product categories. Thus, the appropriateness of a case study design is justified as this study investigates how the theoretical principles underlying the Get Big Fast strategy are applied in a real organizational context.

4.3 Data Collection

Bryman and Bell (2011) describe data collection as the process of gathering information required to infer valid and credible conclusions. The authors further distinguish between primary and secondary sources of data, explaining that the former relates to the collection of data obtained from a first-hand experience by the researcher himself/herself, whereas the later refers to data previously gathered by third parties for other purposes. In this thesis, the main source of primary data are semi-structured interviews, which is to be complemented with secondary data such as research articles, books, corporate publications, press releases (e.g. Financial Times), as well as consultancy reports, published market research, trade associations, government statistics (e.g. Eurostat) and other international institutions (e.g. Reuters, Bloomberg).

Nevertheless, proper data collection requires the access to multiple sources of evidence, the development of a case study database as well as a chain of evidence (Yin 2009). Firstly, multiple sources of evidence are crucial to ensure accuracy, validity and generality of the findings in this study, as well as to reduce the risks and biases derived from using only one source of evidence (Maxwell 1998). This collection of information from diverse methods and sources, present in this study, is a common procedure known as *Triangulation* (Denzin 1970). Secondly, building a case study database enables further researchers to easily access the data in question and reassure the credibility of the study (Yin 2009). This illustrates the importance of properly organizing and categorizing information in folders, a procedure undertaken in the elaboration of this paper. Finally, maintaining a chain of evidence allows further analysts to trace the author's reasoning and proceed with the findings proposed in this study. In order to comply with the chain of evidence's principles (Yin 2009), the transparency and reliability of this thesis are guaranteed as all the sources have been properly cited.

4.3.1 Interviews

Interviews are crucial in the case study's development (Yin 2009), enabling the researcher to have a broader perspective of a specific phenomenon or event by comparing and categorizing the information gathered in distinct interviews. More specifically, five semi-structured interviews were conducted based on a guideline previously made, clearly stating the nature and objective of the study (Berg 2009), as well as listing questions in a logical sequential order. Nevertheless, it was necessary to create two distinct guidelines since both firms and online shoppers were interviewed (appendix 12 and 13), as well as to adapt the guidelines to interviews related with Zalando itself and other online retailers.

Semi-structured interviews not only ensure that key issues are addressed, including a list of questions to explore, but also allow for a certain degree of flexibility through the presence of open-ended questions and the possibility to ask follow-up questions (Bryman and Bell 2011). Thus, the interviewee is free to mention new and relevant insights, avoiding the exclusion of crucial information from the data collection process. Below, a brief description of each informant is provided, ensuring the transparency and credibility of this study:

Tomasz Mazur

The first interview was held on 3rd May, 2014, with Tomasz Mazur, who collaborates with Zalando as Manager Retail Merchandising in Berlin, Germany. Tomasz started his career at

Zalando as Manager of Product Innovations in 2012. The aim of this meeting was to fully understand the drivers and consequences inherent to Zalando's expansion strategy online, as well as its current challenges.

Filipa Costa Neto

The second interview was performed on 30th May of the current year with Filipa Costa Neto, managing director at Chic by Choice in Lisbon, Portugal. Chic by Choice is an online rental store specialized in designers' dresses, currently operating in 15 European countries. Being also the founder of a Style in a Box, in 2012, Filipa Neto provided valuable insights regarding the online apparel retailing industry and consumer behavior.

Kelly Wolske

The third interview was scheduled for the 3rd of June with Kelly Wolske, Senior Trainer in Zappos' in Customer Service Department since 2008, in Las Vegas, Nevada, United States of America. Similarly to Zalando, Zappos is a retailer dedicated to selling shoes, handbags, clothing and other fashion accessories to women, men and kids on the web, recording fast growth since its foundation, in 1999, through a strong focus on customer service and product selection (Zappos 2014). Originally founded by Nick Swinmurn, Zappos has recently become a subsidiary of Amazon.com, being the parent company responsible for managing fulfillment centers and warehousing activities. Since Zalando's business model was inspired in Zappos (Wauters 2014b), this interview was relevant to have an outlook of the online retail market and also to assess Zappos' expansion process in the United States of America.

Katrin Stetter and Stephanie Morgner

The fourth and fifth interviews were performed with Katrin Stetter on the 27th of June, and with Stephanie Morgner on 21st of July. Both informants are business students from the University of Mannheim, in Germany, who regularly shop at Zalando. In addition to the data collected with corporate informants, interviewing Zalando's clients in its core market allowed for a more complete overview of the customer shopping experience, customer service, returns policy and key points of differentiation from competitors.

Since the informants were geographically spread throughout the globe (Germany, Portugal and United States of America) while the author of this thesis was residing in Norway, the interviews were conducted via Skype in order to overcome physical distance. Although Skype enables “face-to-face” interaction online, being a very practical and accessible tool nowadays, it also poses some limitations to be aware of. According to Bertrand and Bourdeau (2010), informants may feel uncomfortable and embarrassed in front of a camera, and physical presence is still considered to be a key element in building trust between the interviewer and the interviewee.

4.4 Structure of the Get Big Fast Framework

Defining a conceptual framework as a set concepts, propositions and theories that support research, Maxwell (1998, 223) further explains that a conceptual framework “incorporates pieces that are borrowed from elsewhere, but the structure, the overall coherence, is something that you build, not something tha exists ready-made”. This way, the author of this thesis has constructed a framework based on an accurate and careful review of past literature and existing research regarding the Get Big Fast strategy (Oliva, Sterman, and Giese 2003; Sterman et al. 2007), as previously discussed in chapter 3, providing a comprehensive perspective of the phenomenon in question.

This conceptual framework summarizes the common tactics employed when pursuing the Get Big Fast strategy (low pricing, expanded capacity, significant marketing expenditure and formation of strategic alliances), the main positive feedbacks which result from such strategy (economies of scale, learning effects, network effects and accumulation of complementary assets) and the ultimate goals that e-commerce companies strive to achieve when following the Get Big Fast principles, conquering as much market share as possible on an initial stage in order to maximize profits in the medium/long term. In addition, it also illustrates how most aggressive expansion strategies are undertaken on an online context, be it through product development, market development or diversification techniques, matching the findings from recent literature regarding online growth strategies (Chakrabarti and Scholnick 2002; Etgar and Rachman-Moore 2010; Pleshko and Heiens 2008) with the Ansoff’s Matrix (Ansoff 1957).

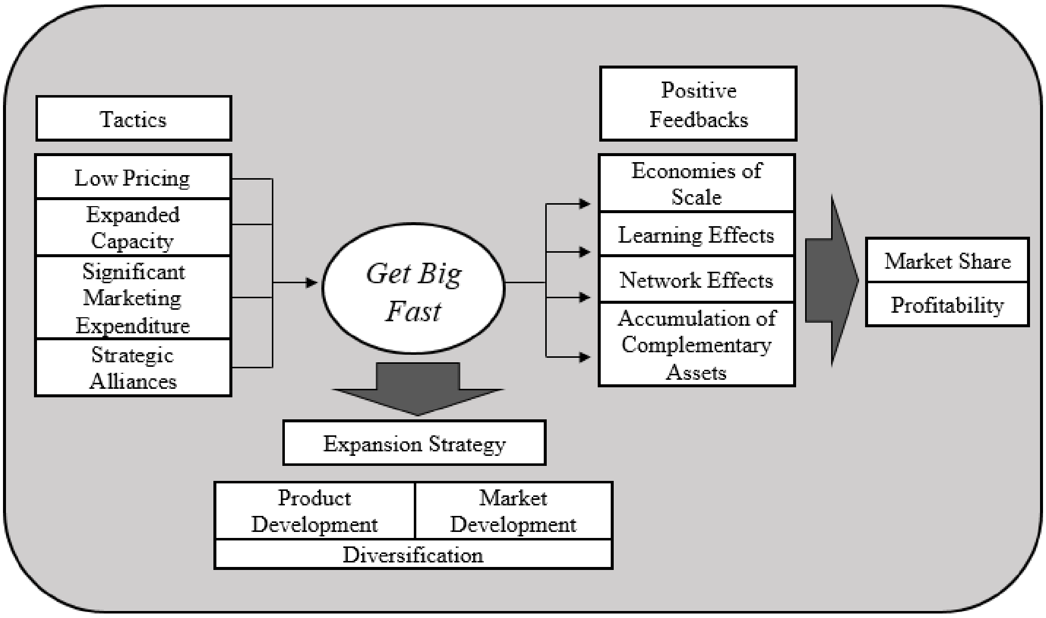

Figure 1

Source: Created by the author (2014)

Built on strong theoretical background, this diagram is employed to assess whether the German-based online retailer Zalando has pursued an aggressive expansion strategy that matches the Get Big Fast principles, providing in-depth understanding of the empirical application of the Get Big Fast. Hence, after a brief illustration of the Amazon case, describing the origins of the Get Big Fast concept during the 1990's, this conceptual framework will be applied in order to address the second research question present in this thesis - *To what extent did Zalando follow the Get Big Fast strategy? Which competitive advantages and challenges resulted from Zalando's rapid market size expansion?* - serving as an analytical guideline to evaluate whether Zalando fits or not into the Get Big Fast domain.

4.5 Research Quality

The veracity of the findings and research design utilized in this study are assessed on four main criteria: construct validity, internal validity, external validity and reliability (Yin 2009).

4.5.1 Construct Validity

The first criterion is construct validity, which refers to the appropriate identification of operational measures regarding the concepts present in the analysis (Yin 2009). The author argues that case studies often lack an appropriate operational set of measures and that subject judgment is present in the data collection process. A common solution to overcome this problem is to use the triangulation technique (Denzin 1970). Thus, the utilization of multiple sources of information, leading to multiple measures of the same event, contributes positively to the construct validity of this thesis.

4.5.2 Internal Validity

The second criterion relates to the credibility of causal relationships between two or more variables (Bryman and Bell 2011), and can be ensured by explanation-building, creating logic models as well as addressing conflicting explanations (Andrade 2009). Nevertheless, as reported by Yin (2009), internal validity is mostly associated with quantitative studies rather than with descriptive analysis. Therefore, internal validity does not represent a particular issue in this study.

4.5.3 External Validity

The third criterion is external validity, which is associated with the notion of generalization. In other words, external validity assess to what extent the findings of a given study are replicable and applicable beyond its immediate social setting (Bryman and Bell 2011; Kumar 2011; Yin 2009). This problem is inherent to most qualitative studies, which are often designed as case studies or utilize small samples. In this thesis, a significant amount of the data collected relates to Zalando itself and the findings are organizational specific. In addition, though it would be beneficial to conduct more in-depth interviews about Zalando, absorbing a wide range of ideas, extraordinary circumstances (Zalando's preparedness to an Initial Public Offering in the near future) did not allow the firm to disclose further information. All in all, the validity of this study is satisfactory, yet, its case-study specific nature coupled with a lack of resources evidentiate a generalization issue.

4.5.4 Reliability

Finally, reliability evaluates if the study was accurately and honestly conducted, yielding the same results whenever repeated by further researchers (Saunders, Lewis, and Thornhill 2009; Yin 2009). According to Andrade (2009), the development of a case study database is a common tactic used in qualitative analysis to enhance reliability, minimizing biases and organizing information throughout the research process. This way, the author of this thesis has kept a close record of the research methods and procedures followed in data collection of both primary and secondary sources of data. Hence, transparency and reliability aspects have been properly addressed.

5.0 Business Case: Amazon.com

In this section, the origins and growing process of Amazon are presented, explaining how a virtual bookstore has taken advantage of the properties of the internet to quickly scale business activities and become the world's largest online retailer. Thus, Amazon.com is believed to be the first and most successful exemplar of the Get Big Fast strategy.

5.1 The Roots of the Get Big Fast Mantra

Amazon.com is a pure play online retailer founded by its current CEO, Jeff Bezos, in July 1995 and listed on Nasdaq since May 1997, having its headquarters located in Washington, United States (Amazon.com 2013). Though initially positioned as a virtual bookstore, being the first company to sell books online, Amazon.com has quickly expanded its geographical reach and product offer, disrupting and dominating the online market (Filson 2004). As stated by Mellahi and Johnson (2000), first mover advantage has allowed Amazon.com to create high brand recognition worldwide, build a large customer base, gain market share and establish market leadership, setting the overall industry standards.

Recognizing the potential of the internet to revolutionize the traditional way of shopping, Jeff Bezos believed that firms' survival was depended on their capacity to scale and build a large customer base (Traver and Laudon 2012). In contrast with a physical store, websites are inexpensive to design and maintain, most consumers are already connected to the internet and a significant amount of costs are fixed (Chaffey and White 2011; Srinivasan, Anderson, and Ponnavolu 2002). Consequentially, the e-tailer would be able to generate positive cash flows by receiving upfront, covering operational costs and investing in marketing, fulfillment centers, product features and customer service (Amazon.com 2013). These were considered strategic investments in order to build brand recognition and capitalize on what Bezos believed to be the three key success factors online: competitive prices, wide product selection and convenience, which was later translated into user friendly shopping platforms, fast delivery and user generated content such as customer reviews (Traver and Laudon 2012). In addition, by keeping record of past purchasing patterns, Amazon was allowed to offer tailored products and address the specific needs and preferences of its clients, boosting sales through cross-selling techniques. Hence, Bezos argued that there were online efficiencies to be exploited by growing as fast as possible (Spector 2000).

Back in 1995, Amazon's website was registering 2.200 visitors per day, but such figures soon became irrelevant as the north-American e-tailer reached 80.000 visitors per day by 1997, and net sales exceeded even the most optimist projections (Spector 2000). Meanwhile, press releases from the New York Times and the Wall Street Journal referring to Amazon's innovative business model boosted the firm's brand awareness and reputation in the retail sector. Kirsch and Goldfarb (2008) believe that media coverage has leveraged Amazon's exponential growth by attracting new customers and generating a *buzz* around the firm. These, in turn, allowed Amazon to have access to critical resources and establish its legitimacy in the market. More specifically, it enabled access to venture capital due to investor's trust and willingness to finance the firm (e.g. Kleiner). Eric Dillon, early investor and financial advisor at Amazon, describes this situation as a tipping point, when "we stopped talking about profits and we started talking about dominating the market (…) we started to realize that this thing was much bigger than we ever thought and that we were the market leader and we were going to do whatever it takes to retain our position" (Spector 2000, 96). The aim was to conquer market share straightaway in order to ensure revenue in the future, before potential rivals understood the phenomenon taking place. In fact, Amazon had a new strategic focus, a new mantra called "Get Big Fast" in which sales volume, not profits, were the value drivers. Rapid growth soon became a target, as stated by Dillon: "we were going to do anything and everything to dominate our market. The sky was the limit" (Spector 2000, 103).

5.2 Amazon's Growth Strategies

Following the Get Big Fast strategy, Amazon has expanded into new markets and new product categories (Chakrabarti and Scholnick 2002; Sampson 2008). On one hand, geographical expansion started in 1998 when Amazon acquired the British and German virtual bookshops and created Amazon.co.uk and Amazon.de, respectively. Today, the firm has developed independent websites for Australia, Brazil, Canada, China, France, Germany, India, Italy, Japan, Mexico, Spain and United Kingdom, apart from the United States, shipping products to more than 100 countries worldwide (Amazon.com 2013). In their annual report (2013), Amazon stresses the importance of international trade to generate profits, planning to expand further to markets where it has operating experience and first-mover advantages. On the other hand, product line expansion has also occurred in 1998, by diversifying the offer of books into music, consumer electronics, computers, video, games and even apparel, shoes, groceries, furniture, jewelry and toys (Oliva, Sterman, and Giese 2003; Traver and Laudon 2012). Although some of these projects failed, music, video, electronics, games and toys proved to be profitable product lines (Filson 2004), currently representing more than half of the firm's sales revenue (Chakrabarti and Scholnick 2002).

Besides extending its own product assortment, Amazon has established strategic partnerships with many enterprises (e.g. Toys'R'Us and Target), including its own competitors, since such an arrangement fosters benefits for both parties: partners are allowed to sell their products through Amazon's platform, being provided with warehousing, fulfillment services and customer technologies while Amazon benefits from enlarging customer base and enhancing brand image (Varnelis 2008), helping the final consumer to find what he/she is looking for even if it is not on Amazon's website. Thus, Amazon has successfully become the largest online retailer in the globe (Rueter 2014).

In accordance with the Get Big Fast principles previously described, Amazon's current strategy relies on sales volume maximization, materialized in free shipping, shorter delivery time (sometimes even providing same-day deliveries) and greater product selection (Traver and Laudon 2012). Furthermore, the online retailer has been focused on quick international expansion, which includes increasing product selection and scaling infrastructure to support the core business activities (Amazon.com 2013). Growing sales volume and increasing number of orders require additional fulfillment and warehouse capabilities, leading the firm to invest significantly in supply chain management and fulfillment strategies in order to maintain customer service quality as the company grows (Spector 2000). Amazon has already 96 fulfillment centers worldwide, from which 54 are located in the USA (Amazon.com 2013), but the e-tailer is continuously investing in shifting inventory closer to urban areas in order to provide cost-efficient home deliveries. As a matter of fact, Amazon's expenditures on fulfillment facilities rose 29% in the last quarter of 2013, totalizing $2.92 billion (Rueter 2014).

5.3 Financial Performance Analysis

Only four years after being founded, Amazon.com recorded $2.6 billion sales, employed 7.500 people, acquired millions of customers and achieved worldwide brand recognition as a result of spending hundreds of millions of dollars in marketing and advertising campaigns. More specifically, the firm registered a 155% annual compound growth rate, growing much faster than the industry average, and obtained a market capitalization of nearly $30 billion (Spector 2000).

However, Amazon's stocks depreciated significantly after 2000 due to continuous operating losses (Oliva, Sterman, and Giese 2003). Such huge losses derived from heavy investment in inventory, fulfillment centers, warehousing, advertising (marketing expenses have tripled, ascending to $90 million), and expensive free delivery programs provided to the final consumer (Spector 2000; Varnelis 2008). Although revenues continued to grow an exponential rate, and Jeff Bezos perceived losses as a natural consequence of pursuing a fast growth strategy, that would pay off in the future, Amazon was spending more on customer satisfaction than what it charged in return (Sampson 2008). All of these factors have led to a major strategic shift towards profitability in 2001, as the firm focused on income-generating tactics and cost reduction policies, cutting costs particularly in marketing. As a result, Amazon was able to produce profits in the fourth quarters of 2001 and 2002 (appendix 14), corresponding to peak demand at Christmas, but it was not until 2003, meaning 8 years after being founded, that the company started to generate profits on a sustainable way (Oliva, Sterman, and Giese 2003; Sampson 2008).

Nowadays, sales revenue recorded a 22% growth rate, amounting to $74.45 billion in 2013. Likewise, net income levels were improved, totalizing $239 million in 2013 in contrast with $93 million in 2012 (Rueter 2014). Therefore, Amazon emerges as the first and most successful case of the Get Big Fast strategy (Kirsch and Goldfarb 2008), taking advantage of the internet as a mean to scale retailing activities and exploiting first mover advantages in the online book market (Oliva, Sterman, and Giese 2003; Sampson 2008). This is in line with the reasoning of Chakrabarti and Scholnick (2002), who argue that the firm's reputation in the e-commerce industry results not only from first mover advantages, but also from a strong focus on customer service and effective brand building efforts.

All in all, Amazon has clearly established its dominance and leadership in the e-commerce industry, becoming an e-store where shoppers can find much more than books, but (almost) anything available in the market (Afuah and Tucci 2003). Yet, Bezos is aware of the current challenges that the company is facing, as he stresses the importance of managing growth effectively in order to avoid damages on brand reputation and lower customer service quality (Spector 2000), resembling the negative feedbacks previously mentioned in section 3.4.

6.0 Case Study: Zalando

This chapter is structured in two main parts. Firstly, a description of Zalando's positioning in the market, business model, supply chain management, marketing mix and expansion process is presented, introducing the firm to the reader. Secondly, the Get Big Fast framework, as presented in section 4.4, is applied in order to assess the match between Zalando's growth strategy and the Get Big Fast principles. Finally, after summarizing the main findings of this study, future challenges associated with the firm's rapid growth and profitability are outlined.

6.1 The Origins of Business

One interesting case of thrilling success regarding the European online retail industry is Zalando (appendix 15). The firm was founded in October, 2008, by Robert Gentz and David Schneider under the original name of Ifansho, having its headquarters located in Berlin, Germany (Wauters 2014b). Back then, Gentz and Schneider founded Zalando together with Rocket Internet, the startup incubator of Samwer Brothers (early investors in Facebook and Groupon). Rocket Internet assists startups at establishing themselves in the market place, hiring personnel and contributing with marketing expertise, management skills, website design and search engine optimization (Winter 2012). In fact, Rocket Internet has developed strong competences in the internationalization process of online retailing activities, since it has supported the expansion strategy of several virtual merchants such Zappos, already presented in section 4.3.1. In that sense, Zalando was initially inspired by the North American online retailer, being launched as a Zappos clone and following its early footsteps (Phillips 2013; Wauters 2014b). The incubator had reproduced similar fonts, colors and the overall design of Zalando's website (Winter 2012). However, though both e-tailers were originally specialized in selling footwear, Zalando targeted a very distinct audience - the fragmented European market - as its founders believed in the existence of an unfulfilled gap regarding e-commerce in this region (appendix 16).

The German-based online retailer had defined its starting point as the footwear industry. Yet, nowadays, the firm employs more than 5.000 employees and has expanded its activities beyond German borders into other fourteen European countries: Austria, Switzerland, France, Belgium, The Netherlands, Italy, Spain, Poland, Sweden, Denmark, Finland, Norway, UK, and, recently, Luxembourg. Alongside its geographical expansion, Zalando has quickly owned the footwear segment and has significantly diversified its product portfolio into other categories such as handbags, clothing and further fashion accessories, sports, beauty and lifestyle products online (Zalando 2013a).

Zalando has positioned itself as a young, dynamic and high potential startup and has become the Europe's leading online retailer by offering an extensive product selection for women, men and kids, which ranges from popular high street brands to highly sought-after designer labels. As a matter of fact, the firm provides a product span of more than 150.000 items over 1.500 distinct international brands (Zalando 2013b), such as Diesel, Guess, Lacoste, United Colors of Benetton, Ugg, Converse, Calvin Klein, Adidas, Desigual, Nike, Puma, Tommy Hilfiger, Guess, Geox, Lacoste, Levi's, Pepe Jeans, Roxy, Esprit and Timberland. Therefore, Zalando's product assortment has expanded into four main areas: Zalando Sports, Zalando Kids, Zalando Beauty and Zalando Lounge (an exclusive shopping club offering top fashion brands and designer clothes with as much as 70% discount, only for registered members).[1]

Below is provided a chronology of events, summarizing Zalando's history since its foundation in 2008.

	Month	Event
2008	Nov	• Increase array of brands available • Product development: bags
	Oct	• Product assortment consists only in shoes from selected brands • Zalando's foundation in Berlin, Germany

	Month	Event
2009	Nov	• Grade A in customer satisfaction and service by the German rating standard service (TÜV).
	Sept	• 1st Television advertisement on MTV, NTV and Pro7
	Jul	• New office in Berlin, four times larger
	Apr	• Market development: Austria • Increase array of brands available • Product development: apparel

[1] Zalando Lounge is not yet available in all 15 European markets where Zalando operates.

	Month	Event
2010	Dec	• Market development: France
	Sep	• Market development: The Netherlands
	Ago	• New office in Prenzlauer Berg, Germany
	Jun	• Zalando Sports offers performance shoes, clothing and equipment • Zalando Beauty offers body care products
	Apr	• Zalando Lounge offers luxury brands at fair prices in Germany in Austria
	Feb	• Product development: clothing for men • Launch of Zalando Fashion Blog
	Jan	• Product development: children's shoes • Social Media: Facebook and Twitter

	Month	Event
2011	Dec	• Product development: Home
	Sep	• Launch of Zalando Magazine
	Oct	• Market Development: Switzerland • Launch of Zalando Lounge in Belgium • Construction of new warehouse in Erfurt
	Jul	• New warehouse in Brieselang
	Jun	• Launch of Zalando Lounge in The Netherlands
	Apr	• Market development: UK
	Mar	• Market development: Italy • Launch of Zalando Lounge in France

	Month	Event
2012	Dec	• German Marketing Award • Opening of fulfillment center in Erfurt • Launch of Zalando Mobile app
	Sep	• Market Development: Poland
	Aug	• Market Development: Norway
	Jul	• Market Development: Finland and Denmark
	Mai	• Cooperation with Kaviar Gauche • Market Development: Spain
	Apr	• Market Development: Sweden and Belgium
	Mar	• Launch of Zalando Collection

	Month	Event
2013	Nov	• Market Development: Luxembourg
	Mar	• Launch of Zalando Lounge in Denmark and Sweden
	Feb	• Zalando announces reaching break-even in core region and doubling net sales up to 1.15 billion EUR

Table 1

Source: Zalando (2013a)

6.2 Shareholder and Corporate Governance Structure

Since 2008, the firm's Management Board is constituted by Robert Gentz, David Schneider and Rubin Ritter, being Robert Gentz the current Chairman, President and Chief Executive Officer at Zalando. Nonetheless, Zalando's shareholder structure has been changing. Besides Rocket Internet, which gradually diluted its two-thirds holding in favor of new investors who came on board, the ownership of the company is held by other investment firms. Nowadays, Zalando's largest shareholder is AB Kinnevik, a Swedish investment firm which owns a 38% stake at the company, followed by the Samwers Brothers with 20% of shares, and Anders Holch Povlsen, a Danish businessman who holds a significant 10% stake at Zalando. Other investors at Zalando include Digital Sky Technologies, also known as DST Global (8%), Holtzbrinck Ventures (8%) and Tengelmann Ventures (6%), as well as J.P. Morgan Asset Management, Quadrant Capital, Ontario Teachers' Pension Plan fund as well as Putnam (Hofmann 2013; Wauters 2014b).

In December 2013, Zalando's legal form was modified from a German limited liability company (GmbH) to a private German stock corporation (AG). Hence, Zalando would be known as Zalando AG, adapting its corporate governance structure to a bigger and more complex organization (Wauters 2014b). Many interpreted this change as a possible prelude for an Initial Public Offering (IPO), although Zalando did not confirm it yet. In addition, recently in May 2014, Zalando's legal form was altered once again into a Societas Europaea (SE). Thus, the firm is currently referred to as Zalando SE, reinforcing its corporate governance structure and reflecting a dynamic international approach (Zalando 2014b), as Rubin Ritter, Managing Director at Zalando, states "Zalando is a European company. We operate in 15 European markets and generate over half of our revenues outside of Germany, while our team is becoming more and more international. Now, we have a legal form that fits".

This transformation into an SE results in two main changes. Firstly, Zalando SE will continue to be governed by its Management Board in addition to a Supervisory Board composed by the Chairman Cristina Mayville Stenbeck, Deputy Chairperson Lorenzo Grabau, Lothar Lanz, Anders Holch Povlsen, Kai-Uwe Ricke and Alexander Samwer. Secondly, three employee representatives are to be appointed to the Supervisory Board, ensuring an internal perspective in board meetings. They are Christine de Wendel, country team in France, Christoph Stark, responsible for logistics, and Benjamin Krümel, a fashion buyer (Zalando 2014b).

6.3. Positioning and Strategic Goals

The virtual merchant is currently positioned at the forefront of the online apparel industry in Europe, aiming to become an even stronger player in this market. More specifically, Zalando's strategic goal is to be the preferred online shop in terms of shoes and apparel in each of the European countries where business operations are established. This idea is further developed by David Schneider, Zalando's Founder and Managing Director, who stresses the importance of long-term growth for the company: "our goal is to keep focus on the best fashion offer, the most advanced technology and proprietary logistic infrastructure enabling fast delivery and excellent service. We do not only want to grow fast, but also to become better in what we deliver to our customers" (Zalando 2013b). Thus, Zalando has been able to meet its strategic goals and be positioned as market leader due to a strong focus on customer service, unique service mix, wide variety of products as well as operational excellence.

First and foremost, the offer of an excellent customer service has long been at the heart of Zalando's business philosophy. For the firm, it is crucial to obtain an integrated perspective of their clients throughout all phases of the customer life cycle. In other words, it is of the utmost importance to manage communication and customer relations online, from acquisition to loyalty programs, without excluding after-sales service. Therefore, the e-tailer ensures that specific service quality dimensions are properly meet, such as consistency, reliability, empathy, and responsiveness (Vlasich 2012), having created a free customer service hotline, email and FAQ (Frequently Asked Questions) section on their website.

Secondly, Zalando provides an attractive and unique service mix to its customers, including free shipping, free returns and a 100 day return policy, contributing towards an easy, secure and stress-free shopping experience online. As recommended by Minjeong, Jung-Hwan, and Sharron (2006), virtual merchants should provide free shipping services to its clients in order to attract new customers to the online shop and encourage the act of purchase. Hence, altogether, such policies are effective at minimizing customers' concerns and risk aversion levels, which in turn improves conversion rates and, consequentially, sales. The firm takes this commitment even further by allowing multiple payment methods (PayPal, Visa, Maestro and MasterCard) and providing a package tracking number, which enables the customer to have access to the order current status, enhancing transparency and trust. This way, Zalando's value proposition relies heavily on user friendly platforms which reinforce confidence and comfort in the moment of purchase.

Thirdly, the German-based online retailer provides a wide selection of products and brands available for sale on its website, in an effort to meet its customer's needs and preferences regardless of their gender, age or background, as Thienel, Zalando's UK Country Head, explains: "the extensive range includes all the latest shoes and fashions for women, men and children, sportswear as well as beauty and living products. All these factors make up the perfect and hassle-free shopping experience" (Phillips 2013). This is also confirmed by two customers interviewed in the present study, who reveal that free delivery coupled with the offer of a wide range of products and brands constitute the two main reasons why they shop so often at Zalando. One person states that "Zalando actually displays a broad product portfolio, carrying almost every item that designers and brands offer in a given season, whereas other online stores only carry a selected fraction of the whole season's collection", and another person says that "I tried Zalando because I needed a dress for a wedding and could not find one in the stores for weeks. I liked the variety of brands and dresses they had". Zalando's product line expansion from shoe to apparel, as well as into other product categories, will be examined in detail in section 6.7.1.

Finally, quick and efficient supply chain operations assume particular relevance online, in order to manage customer orders in periods of peak demand (e.g. Christmas), ensure fast deliveries (sometimes even same-day delivery), avoid delays and maintain high customer satisfaction levels. In fact, minimized delivery times constitute a competitive advantage in relation to traditional retailers, enabling the final consumer to enjoy (almost) immediate gratification from online shopping. Hence, Zalando's logistic system and operational excellence will be carefully analyzed in section 6.5.

6.4 The Business Model

Zalando differs significantly from traditional stores and other multichannel retailers, since it is a pure player with no physical presence in the market place. As previously mentioned, the online business model goes beyond the traditional activities of procuring, stocking and exchanging products, since pure players operate exclusively on a virtual platform, selling products directly to the final consumer via internet. According to Varnelis (2008), online retailers like Zalando are an integrated system organized in two distinct spheres: the virtual flow of information and the physical exchange of goods. The first sphere takes place through the internet, on a digital platform where customer orders are processed and registered on data servers. The second sphere relates to the tangible set of distributors and fulfillment centers, where products are stored and dispatched for delivery. This is a less visible manifestation of online retail to the general public, particularly in comparison with the activities of traditional retailers who have a physical storefront.

Hence, the items available for sale are displayed on Zalando's website, where online shoppers can easily search for information, add items to cart and eventually make a purchase (appendix 17). Though Zalando targets mainly women, it also provides a wide range of products for men and kids, being important to highlight that all the shoes, clothes and accessories displayed online actually constitute Zalando's inventory, making of the firm a virtual intermediary supplied by clothing manufactures and designers. Whenever a customer places an order, Zalando receives an electronic notification with an accurate description of the item in question (units, colors and size) and dispatches the good, proceeding to its collection on Zalando's warehouses in Germany (Wauters 2014b), packaging and delivering it from this central logistic network to the client's address, through its transportation and distribution partners (such as DHL, PostNord among others). Such shipping activities include both postage and returns of goods, requiring three 8 hour shifts to guarantee overnight deliveries, which results in a costly practice usually reflected in the price charged to final consumer (Li 2012). Similarly, customer service, marketing campaigns, and payments also take place online, unless customer relationships are held over the telephone through its free customer service hotline. Therefore, Zalando's business model is based on an effective integration of fashion, information technology and operational excellence (Wauters 2014a).

As a pure player, consumer retail product sales constitute Zalando's revenue model. In practice, income is generated by a predefined mark-up earned for each unit sold online. This markup refers to a percentage of the retail price charged to the final consumer, representing the value added in sales rather than in the production process. Positive mark-ups are often associated with distribution efficiency, marketing capability and distinct positioning in the market, explaining the reason why Zalando follows a differentiation strategy. Nevertheless, Zalando's main cost drivers are related with marketing, warehousing and fulfillment centers, human resources as well as information technology (IT).

Finally, the value proposition for the final consumer is clear on the retailer's website, as it provides its customers with a great variety of products and famous brands online, home delivery, free shipping, free returns and a 100 day return policy, enabling the client to enjoy a convenient and stress free shopping experience. In addition, Zalando strives to ensure the fastest delivery and the best customer service to all its clients, as it is constantly optimizing logistic systems in order to manage an increasing amount of orders and ensure that goods are dispatched as quickly as possible (Wauters 2014b).

6.5 Logistics and Operations Management

E-commerce companies acknowledge the importance of fully integrate the retail website with the physical exchange of products, involving supply-chain and inventory management (Chen and Leteney 2000; Varnelis 2008). In fact, Zalando's physical presence is only symbolized through its headquarters in Berlin, as well as its fulfillment centers and distribution networks. It is precisely in the fulfillment center that the entire supply chain process takes place: receiving the merchandise from suppliers, sorting, storing, packaging and dispatching of goods, and, eventually, also managing possible returns. This means that order fulfillment activities must be efficient and streamlined in order to ensure that all requests are meet (Colliers International 2012). In appendix 18, it is illustrated how a fulfillment center is typically organized into distinct sections.

In 2008, Zalando did not operate any fulfillment center yet. Back then, shoes were packed and dispatched from the cellar in the office. Nevertheless, by November of the same year, sales raised in volume and product portfolio was extended, leading the firm to restructure their logistic system and rethink their operations management to be able to respond to the increasing amount of orders placed online. Nowadays, Zalando possesses two fulfillment centers located in central areas in Germany[2]. Apart from Großbeeren, Zalando operates facilities in Brieselang and Erfurt and is planning to open a new warehouse in Mönchengladbach (appendix 19 and 20), totalizing a combined capacity of more than 250.000 sqm. It is from such facilities that Zalando supplies its inventory and delivers orders to the 15 European markets where it has expanded operations (Wauters 2014b).

Between 2012 and 2013, Zalando raised a significant amount of capital to invest in in-house logistics competence, building two new fulfillment centers in Germany and doubling its warehouse capacity in order to improve convenience and meet increasing demand (Guinebault 2012). The first warehouse was built in Erfur, a €170 million investment built in ten months, employing nearly one thousand people and occupying 120.000 square meters. On the grounds of its dimensions, this warehouse constitutes the biggest e-commerce facility existing in Europe, known by many as "Europe's largest wardrobe" (Knight 2012), as Rubin Ritter, Head of Zalando, states: "we are proud that in less than a year, we could build a logistics center of this magnitude". At the moment, this facility has reached its full capacity, processing and dispatching nearly 100.000 different items throughout Europe (Knight 2012). Another indicator of Zalando's aggressive expansion strategy is the recent development of a second logistic center in Mönchengladbach, west of Germany. This warehouse is presently under construction and is expected to be completed in September 2014, assuming roughly the same capacity and dimensions as the facility operated in Erfurt (Henoch 2013).

The fulfillment centers located in Erfurt and Mönchengladbach will define a solid distribution network to process orders coming from Belgium, Spain, Finland, Denmark, Poland and Norway, and evidentiate the remarkable growth of the online startup (Colliers International 2012). In fact, in the future, such logistic centers are expected to serve all the European countries in which Zalando operates, as explained by David Schroeder, Head of MyBrands Zalando eLogistics: "these new warehouses are being integrated into an efficient logistics network with which we can serve our customers even more quickly and efficiently in 14 European countries" (Guinebault 2012). In line with these findings, recent studies suggest that as a virtual merchant grows, the need to ensure fast and reliable deliveries to the client tends to become key success factor (Jones Lang LaSalle 2013).

[2] Please note that the first fulfillment center, build in 2010 and located in Großbeeren, is not operated or owned by Zalando.

Zalando is continuously optimizing its logistic system in order to guarantee that merchandise is shipped as quickly and reliably as possible. Since such highly-automated fulfillment facilities are located in the center of Europe, in Germany, Zalando is able to ensure timely and cost efficient deliveries to its customers spread around Europe, sometimes even shipping orders on the same day (Lazarev 2013; Wauters 2014b). This is congruent with Sorescu et al. (2011) and Spector (2000) findings that centralized distribution networks enhance efficiency levels. More specifically, Spector (2000) adds that e-commerce companies benefit from managing inventory from a centralized location and low-overhead operation, which results into capital efficiencies. For Zalando, such favorable cash-flow pattern derives not only from receiving up-front from its clients and remunerating its suppliers in arrears (Sampson 2008), similar to other retailers, but also from leasing property and buildings to limit capital expenditure, leasing a total area superior to 260.000 square meters from Goodman (Henoch 2013). As a matter of fact, an efficient logistic system is critical for Zalando's performance in the market, enabling the online retailer to meet an increasing amount of orders and maintain high levels of customer satisfaction. Hence, logistics have become one of Zalando's core strengths as David Schröder, Manager of MyBrands Zalando eLogistics, concludes: "Zalando is tracing a successful growth pattern internationally. We and our investors are convinced that logistics prove to be one of our core competences" (Hunstig 2012).

Furthermore, Zalando has insourced warehousing operations, striving to control and improve supply chain management and, at the moment, the e-tailer manages more than 80% of whole fulfillment activities in-house, shifting from outsource to a proprietary logistics network (Jones Lang LaSalle 2013; Kinnevik 2013; Lazarev 2013). Zalando grew and accumulated experience from experts, such as product managers, process managers and software engineers, in developing highly complex IT systems for its website. This resulted in the creation of its own logistics system, known as Zalos (Zalando Logistic System)[3], which constitutes one subsystem of the firm's internal platform, ZEOS (Zalando E-Commerce Operating System) and has become crucial for the firm's superior performance as David Schroeder explains: "having our own logistics with processes and a custom-built inventory management system has become an essential key factor for the success of our company" (Guinebault 2012). In

[3] Zalando Logistics System is utilized in all fulfillment centers: Großbeeren, Brieselang, Erfurt and soon in Mönchengladbach as well (Wauters 2014a).

addition, each one of this subsystems are scalable, supporting the firm in its growth strategy (Lazarev 2013).

Nevertheless, Zalando also relies on external parties who are responsible for the distribution and transport of goods from the fulfillment centers in Germany to the clients' home. In fact, the online retailer possesses more than 12 logistic partners, ranging from the world's largest shipment and logistic companies to local distributors which operate in specific European countries. The latter assumes particular relevance in improving customer service, as Michael Lindskog, Head of the Nordic Region, mentions: "our customers must have confidence in our logistics partner. That's why we choose local logistics partners. In addition, our logistics supplier must be able to support us by reliably delivering our packages to our customers. (…) This (e-commerce strong growth) means that a smoothly functioning partnership with the right transport partner is an essential and unavoidable part of Zalando's value proposition" (Postnord 2012). This is also supported by other employee at Zalando, interviewed in the present study, who states that each country-specific website is associated with a distinct distribution partner on the grounds of significant regional differences in Europe. Therefore, Zalando has established partnerships with several entities in order to properly assist each domestic market in Europe, such as Hermes (serving Austria and UK), PostNord AB (serving Finland and Norway), Posten AB (Sweden),Post Danmark A/S (Denmark), So Colissimo (France), UPS (Italy), DHL (Germany), FedEx (Poland), Die Post (Switzerland), PostNL (Netherland), Bpost (Belgium and Luxembourg) and most recently, since August 2013, with Celeritas (Wauters 2014a). Celeritas is responsible for the distribution of merchandising in Spain, allowing customers to collect and return the goods wherever they find more convenient to do so, be it at home, at the office, or in one of the 1.400 Celeritas points of contact spread throughout the country.

6.6 Information Technology

According to Phillips (2013), Zalando develops and manages in-house all the activities related to marketing, information technology (IT) and customer service (appendix 21). More specifically, significant investments were made in the field of IT in order to enhance convenience and promptly adjust operational processes to address customers' demands. Similarly to logistics, IT represents one of the firm's core competences. Zalando's Technology department, also located in Berlin, is comprised by more than 400 individuals allocated to different areas, such as engineering, product management and quality assurance.

The IT department is responsible for the creation and maintenance of most technology utilized by the firm, including the website itself, mobile commerce and logistic software previously described in section 6.5. The tech team is also in charge of developing specific interfaces used by other specialty departments inside Zalando, like purchasing and content creation (Wauters 2014a). Complementing such interfaces created in-house, Zalando also utilizes open-source technologies (e.g. Linux, Java, PostgreSQL, Hadoop), as well as widely distributed tools, frameworks, databases, search engines and scripting languages to run its operations (Wauters 2014a).

Nevertheless, like any other enterprise, Zalando outsources too. The firm's growth has generated large volumes of data regarding both supply and demand side, as Zalando currently operates all the supply-chain activities, from payment to fulfillment in-house (Zalando 2014a). On one hand, each customer can place several orders and choose from distinct payment methods. On the other hand, each order must be picked, dispatched, tracked, delivered and, sometimes, returned. So, communication and internal processes become an increasingly complex task as the business scales, since all this information must be carefully analyzed and evaluated. The firm requires appropriate data management systems regarding products, stock, orders, clients and deliveries in order to ensure that customer service is not jeopardized (Vlasich 2012). Hence, Zalando utilizes software provided by third parties whenever it does not possess the necessary skills to develop it internally, benefiting from their experience and expertise. More specifically, the e-tailer resorts to external service providers, such as Exasol and Emarsys.

Exasol emerges as a business analytics service provider who assists Zalando through the effective integration of Business Intelligence solutions into the firm's existing IT infrastructure. The EXASolution 4.0 provides a high-performance database that is able to analyze information in real time and expand with increasing amounts of data as long as an additional server is implemented, as Zalando's Business Intelligence Manager, Eric von Czapiewski, states: "in addition to the performance of the system, we were also sold on its high level of scalability. Trial versions working with data volumes that we expect to reach in around two years showed that EXASolution will easily grow with the data" (Exasol 2012). In use since December 2011, the new database management solution runs on standard HP hardware and is responsible for all evaluations of SAP Business Objects that Zalando utilizes as a front-end. Furthermore, contrasting with other solutions available in the market, EXASolution occupies only one third of memory usage, freeing space for the operating system (Exasol 2012). As a result, Zalando is now capable of quickly adapt its product offer and marketing mix to consumer's needs and demands, which improves sales revenues, and business processes were optimized as complex queries are processed in a shorter amount of time, as mentioned by Eric von Czapiewski "EXASolution has contributed to a clear improvement in performance. Analyses that previously took 10 minutes are now finished in 10 seconds". In addition, the digitalization of data, easier access to key information and better coordination between different areas enable a faster decision-making process among specialty departments (Exasol 2012).

Similarly, Emarsys addresses newsletter sending issues regarding direct marketing at Zalando Lounge's. Due to the large number of members at Zalando Lounge and the different customization features (images, links etc) each email could have up to 400 personalizations, which allied to slow data import would generate substantial delays in sending the newsletters to the users, sometimes even hours (Emarsys 2012). Thus, Emarsys is a digital marketing technology provider which offers automation solutions for customizing millions of emails without compromising efficiency. Martin Rost, Chief Marketing Officer at Zalando-Lounge, explains that the collaboration with emarsys has certainly enhanced the firm performance: "we have achieved a double-digit increase of conversion rates for our daily newsletter. We are also really impressed by the excellent service of the emarsys support team who were always available to assist us, even at weekends and after office hours" (Emarsys 2012). Therefore, Emarsys Broadcast ensures the timely delivery of emails, shortening data import time by 90% and boosting sending speed up to 500%, enabling Zalando-Lounge to send as much as 1.2 million emails per hour. In addition, faster import times foster a prompt response to possible human errors, since the entities in question are automatically notified. This, coupled with the fact that product offers present in the newsletter are tailored to meet the specific preferences of a given client, has doubled the number of registered members and stimulated sales growth (Emarsys 2012).

6.7 Zalando's Marketing Mix

According to Hanna, Rohm, and Crittenden (2011), the modern consumer is utilizing digital media not only for online research but also to discover, follow and provide feedback to retailers. That said, marketers must focus both on capturing attention and creating engagement between the brand and the target audience, which requires a fully integrated marketing communication strategy, combining traditional advertising techniques with the advantages of online social media. The authors further explain that, while traditional media involves a trade-off between reach and engagement, social media allows marketers to exploit the properties of the internet and achive global reach without sacrificing engagement and loyalty.

Aware of the potential benefits of digital technologies and the rewards of an integrated marketing strategy, Zalando has defined a clever and truly effective marketing mix structure, engaging in a costly multichannel offensive in order to position its webpage as the place to go for all items in fashion (Li 2012). The e-tailer has been exploiting the benefits associated with cross-media formats through the combination of both online and offline formats, as well as advertising on television and publishing its own magazine. As a matter of fact, the launch of an offline business concept for three days in Berlin, in March 2012, was completely revolutionary. It was the first time that online retailer has ever launched its own brand, also named Zalando, having unique clothing items designed by Bernadett Penkov (Vlasich 2012). It is common to testify traditional retailers who launch an online shopping platform in order to keep competitive in the market place, embracing a multichannel approach (Rangaswamy and Van Bruggen 2005; Tse 2007), but very seldom does it happens otherwise. For the German-based online retailer, selling of its own brand in a physical store (pop-up-store) has definitely triggered brand awareness and reinforced the perception of freshness and innovativeness associated with the brand itself.

In addition to several TV commercials emphasizing the “scream for joy” slogan, Zalando distributes a quarterly fashion magazine in Germany, Austria, Switzerland, France and The Netherlands, providing fashion news, product information about new collections as well as style advice to all readers and fans (appendix 22). This kind of publication is extremely useful not only to strengthen customer relationships but also to give credibility to the online store (Phillips 2013). The fashion e-tailer also issues an online magazine named “News & Styles”, a joint production of internal editors, fashion bloggers, journalists and celebrities, in which “Zalando provides high quality editorial content, offering styling advice and on-trend fashion inspiration” as explained by Thienel, Zalando’s UK Country Head (Phillips 2013).

By acknowledging the importance of social media platforms nowadays, Zalando also possesses its own Mobile Application, Facebook, Twitter, Instagram, Pinterest and YouTube accounts. The firm utilizes these highly sought-after communication channels to provide its customers with the latest trends and novelties, regular fashion updates, news about the company and most recent promotions, while reflecting the youthful culture of the company itself. However, Zalando carefully manages its marketing communication plan in order to guarantee a consistent social media strategy throughout Europe (Phillips 2013). The use of international Facebook and Instagram accounts assumes particular relevance. Registering more than 710.000 “likes” on its Facebook page and 28.000 followers on Instagram, Zalando is successfully utilizing social media to engage customers, interact with them on a regular basis and increase brand awareness (Phillips 2013). This is congruent with recent studies (Doherty and Ellis-Chadwick 2010) which highlight the increasing influence of social networking (e.g. Facebook) on individuals’ online shopping behavior.

These social media platforms can be accessed either by a personal computer or mobile devices, such as smartphones and tablets. As reported by Andre (2014), nearly 50% of online shoppers assume to use their smartphones when purchasing items and services over the internet, meaning that retailers might be assisting to a new shopping pattern, characterized by growing mobile usage. The e-tailer has responded to this latent trend in the market by providing all its clients, across 15 European countries, with Zalando App since December 2012, a mobile application suitable both for Android and iOS devices. As a matter of fact, this has been a fruitful transition into the mobile era as Zalando is recording as much as 35% of total web traffic generated from mobile devices, at the year-end 2013 (Zalando 2014a).

Furthermore, Zalando operates an affiliate partner programme with other retailers, already available in all 15 European markets (appendix 23). According to Zalando’s webpage, such programme allows third party retailers to register in the affiliate network and become publishers, integrating Zalando’s advertising media on their own website in the form of banners, text links or product data. Such partnership is actually beneficial for both entities. On one hand, Zalando is able to spread its market reach by promoting its brand on other retailer’s websites, as online shoppers searching for related fashion items are able to look and eventually click on the banner, being redirected to Zalando’s platform. On the other hand, publishers earn 8% commission for each referred purchase made from their website, receiving their share of profits within 45 days after receipt of the order[4]. Moreover, publishers are

[4] Zalando is responsible for confirming orders and amending transactions.

provided with sales support and advice from Zalando and top sellers are awarded with extra commission over sales.

As reported by Kim, Nam, and Stimpert (2004) and Traver and Laudon (2012), online retailers, particularly new players in the market, often face the challenge of establishing brand recognition from scratch, which may justify Zalando's strong focus on marketing so far. Nevertheless, such investment option has proved fruitful as Zalando has already achieved nearly 90% brand awareness in its core markets including Germany, The Netherlands, France, Italy, Austria and Switzerland. More specifically, the pure player has recorded as much as 95% brand awareness in Germany, positioning itself as the second most popular brand recalled by German people, just behind Volkswagen (appendix 24). This merit was not overlooked by the European E-commerce Awards in Barcelona, in 2012, awarding Zalando with the first prize on the grounds of its exceptional capability of adapting payment methods, distribution and marketing campaigns to each local market. Hence, the German-based online retailer was considered as the "Best Cross-Border Webshop" outcompeting worldwide known brands such as H&M, Asos or even Amazon (Zalando 2012c).

6.8 Zalando's Growth Strategies

As previously mentioned in chapter 3.6, and in accordance with the Ansoff's Matrix (appendix 10), online growth strategies are usually undertaken by expansion across product lines, expansion into new markets or even diversification (Pleshko and Heiens 2008). More specifically, Cardozo et al. (1993) argues that product-market strategies contribute substantially to the firm's growth, proving that enterprises which enlarged their product portfolio and geographical scope grew more than the ones that focused exclusively on their original product offer and market. Therefore, in this section, an accurate description of Zalando's rapid growth through product and market development strategies will be provided.

6.8.1 Product Development: Product Line Expansion

Although Zalando was originally designed as an online footwear retailer, selling a wide range of boots, sandals, trainers, heels and so on, the firm has gradually expanded into related and unrelated product categories. In November 2008, the e-tailer enlarged its product assortment into handbags, followed by an expansion to clothing in April 2009, including dresses, jackets, shirts, jeans, skirts etc. In the first quarter of 2010, men's clothing and kids' footwear also became part of Zalando's product offer, proceeded by product line expansion into sports equipment for running, fitness, outdoor, football, tennis, cycling, basketball, etc) and beauty (body care products) in June of the same year (Zalando 2013a). Later, in December 2011, Zalando launched another product category, inaugurating the home department through the offer of household accessories online, and in March of the following year Zalando created its own in-house fashion collection designed by Bernadett Pinkov (Phillips 2013). Furthermore, in September 2012, the e-tailer announced plans to extend its menswear portfolio, adding new brands such as Floris van Bommel, Superdry and Common People and improving Zalando Collection by a men's line comprising classic shirts, footwear, jackets and bags. David Schneider, Founder and Manager of Zalando, highlighted that "the launch of the men's line is another important step in the expansion of the Zalando Collection" (Hunstig 2012). Thus, its product assortment became composed not only by third party brands but also by Zalando Collection itself, as well as its independent brands, comprising private labels like Kiomi and Zign. Such in-house brands are extremely advantageous for the e-tailer's financial performance, boosting profit margins since they are only available for sale on Zalando's official website, in contrast with other third party brands (Hofmann 2013). Additionally, Zalando's product assortment also includes a partnership program with other fashion retailers, as explained later in chapter 6.10.

In less than four years, Zalando has evolved from an online startup to one of the largest European online retailers, providing more than 150.000 distinct products for women, men, teenagers and kids, over 1.500 different brands. According to its founders, a wide selection of brands and products online is crucial to enhance Zalando's unique service mix (chapter 6.3), as David Schneider states: "to keep growing (…) we continue to improve our offer by extending our brand portfolio to an incomparably international selection along all categories in fashion, shoes and sports" (Zalando 2013b). This is in line with the reasoning of Thienel, cited in Phillips (2013), who argues that "we want to continue to offer all our customers the best possible online shopping experience in terms of brand selection and service". In fact, the offer of multiple product categories beyond its core category not only boosts sales revenue per client, allowing Zalando to cross-merchandise and to up-trade (Dawson 2012), but also diversifies the sources of income. At the moment, Zalando already attributes more than half of its annual income to the sale of non-footwear items, as the sale of clothing items has been superior to the sale of shoes since 2013 (Zalando 2014a).

Nevertheless, Zalando has closed the beauty division and discontinued the home department on its official website, decelerating product line expansion into unrelated product categories. This fact has been approached in the interviews conducted, stressing Zalando's focus on its current online departments: shoes, clothing, sportswear, accessories as well as premium and items at discount. Therefore, there is supporting evidence that Zalando has been redirecting its product development approach by narrowing width and extending depth of its product assortment. This is congruent with Ailawadi and Keller (2004) definition of a "category killer", which characterizes Zalando as an online retailer highly specialized in selling fashion and apparel.

6.8.2 Market Development: Geographical Expansion

Resulting from its early success in Germany, Zalando initiated its internationalization process with the Austrian market, in April 2009, proceeded by The Netherlands, in September 2010, and France, in December 2010. The following year Zalando broadened its geographical scope into Italy, in March, United Kingdom, in April, and Switzerland, in October 2011 (appendix 25). Nevertheless, the major market expansion has not occurred until 2012, when Zalando already owned 4% market share of the mature footwear market in Germany (Kinnevik 2013). Back then, the German-based online retailer has set foot into seven new countries: Sweden and Belgium in April, Spain in May, Finland and Denmark in July, Norway in August and Poland in September (Zalando 2013a). Finally, in the last quarter of 2013, Zalando has only expanded operations in Luxembourg (Bruttini 2013). In agreement with previous studies (Etgar and Rachman-Moore 2010), which explored distinct internationalization strategies, it can be argued that Zalando pursued a proximate-markets-only strategy, since the e-tailer has gradually expanded operations into other European countries close to its home market (Germany), sharing similar culture, values and consumer preferences (Bell, Jeonghye, and Lodish 2012).

The massive investment in scaling operations in other foreign markets has paid off. For instance, in France, Zalando surpassed its biggest competitor, Sarenza, in only 15 months of existence and investing only a fraction of the rival's budget in marketing campaigns (e.g. Zalando's sponsorship of "The Voice" on the TF1 channel), making of France the e-tailer's third largest market, following Germany and The Netherlands. According to My Media's website, Zalando was able to attract nearly 5 million new visitors to its website on a monthly basis, in comparison with only 3 million for Sarenza and Spartoo. Similarly, in Spain, Zalando's unique service mix (free delivery, free returns and a 100 day return policy) coupled with its integral translation to Spanish triggered e-commerce sales on an unparalleled scale in the country (Barquero 2013). From 2012 to 2013, the e-tailer has grown 100 % in web traffic and recorded Internet Marketing Effectiveness, a key performance indicator utilized in online retail, superior to Adolfodominguez.com and close to the retail empires of Zara.com and Elcorteingles.es (Barquero 2013). Hence, Zalando has been focusing on establishing its online presence in Europe, growing and expanding operations into new markets since 2009, as Robert Gentz states "by launching shops in several new countries we have now established a broad footprint. This will be the basis for Zalando's growth for the years to come" (Zalando 2013b).

However, online retailers should strive to ensure a consistent shopping experience and address customer needs while scaling activities. According to Phillips (2013), Zalando has been effective at managing the specificities of different market segments due to the responsiveness and flexibility of its web development team. As the firm grows, both in terms of product and geographical scope, new websites are required to run business abroad. In Europe, it is imperative to create distinct websites attending to the particular characteristics of each nation. Thus, Zalando designed 15 country-specific webpages in 12 languages and 7 distinct currencies, interiorizing cultural differences while sustaining its global strategy. By doing so, the e-tailer is able to provide a tailored customer service in each market where it operates. Once more, this is consistent with previous research (Završnik 2007), suggesting that retailers must be acquainted with the social and cultural dynamics of each market before expanding business activities abroad. Therefore, the development of country-specific websites is important to meet customer's purchasing habits and expectations.

Such aggressive market expansion strategy has proved successful, as Zalando not only invested heavily in geographical expansion but also in building new capabilities to ensure sustainable structures and boost customer satisfaction. As cited in Phillips (2013), Thienel says that "Zalando's offers perfectly curated services to meet the needs and wants of the customers in those countries. The success that Zalando has had in the key markets outside of Germany has proven this strategy," adding that "this growth is the product of strong structures, that we continue to invest in, and a consistent marketing strategy." As a result, in the year-end 2013, Zalando attracted over 300 million visitors to its website, becoming the most visited fashion webpage in Europe (Zalando 2014a). From a total of 300 million web visitors, the e-tailer has built a large and solid customer base which consists of nearly 13.5 million active customers, growing exponentially from the 2.5 million previously registered in 2011 (appendix 26). In fact, international expansion has allowed Zalando to exploit the full potential of e-commerce in Europe, as the majority of annual sales are already generated from other regions apart from Germany (Dawson 2012).

Nonetheless, Zalando's rapid geographical expansion process has not progressed without challenges. It is relevant to mention that the e-tailer has drastically slowed down its pace of internationalization from 2012 to 2013 and is currently backing off in the United Kingdom due to fierce competition from Asos, the largest online fashion retailer in the country, listed on the London Stock Exchange (Shanley 2013). This has been confirmed by an employee at Zalando, in Germany, who highlighted that Asos has assumed clear leadership in the UK, making it harder for other players to strive in this particular country not only because the UK constitutes a very different market from the rest of Europe, in terms of preferred brands and styles, but also because Asos has been able to provide an excellent shopping experience and same-day delivery through overnight shipping. Thus, it can be argued that Zalando is currently focusing on establishing its presence on the European markets where it is already present, as explained by the founder Rober Gentz "we do not focus on that market (UK) because it is an extremely different market from continental Europe (…) as long as we do not see very good (performance) in UK, we would not focus that much on getting that market. It is quite hard to compete if you are a new entrant coming from continental Europe" (Shanley 2013). This is in line with recent studies (Filson 2004), which found that foreign market expansion can sometimes lead firms to reduce value on the grounds of high entry costs, insufficient demand as well as the management team's lack of expertise regarding the new markets in question.

6.9 Financial Performance Analysis

The Rocket Internet-incubated startup has revealed exponential growth, progressing from an annual revenue of 6 million to nearly 2 billion euros in just six years of existence (Wauters 2014a). According to the firm's preliminary figures, in 2011, Zalando more than tripled its net sales in comparison with 2010, reaching 510 million euros (appendix 27 and 28). Later, in 2012, the e-tailer generated a turnover of more than 1.15 billion euros, doubling the net sales recorded in the previous year. In fact, in only four years after being founded, Zalando became the leading online fashion retailer in Europe as well as the fastest growing European firm to achieve and surpass the threshold of 1 billion euros in net sales (Kinnevik 2013). This outstanding performance is noted by Rubin Ritter, who says that “these results prove our expansions into other categories and markets have been successful and that our investments in these areas pay off” (Zalando 2012a). In 2013, net sales registered 1.76 billion euros, growing more than 50% in spite of increasing rivalry in the European clothing retail industry. In absolute terms, revenue growth was superior to 600 million euros, similarly to 2012 (Kinnevik 2014). Such unprecedented growth is attributed not only to aggressive expansion in Zalando’s core markets, referred to as the DACH region comprised by Germany, Austria, and Switzerland, but also from market expansion into new seven countries in 2012, reinforcing Zalando’s leading position in Europe (Zalando 2013b). By doing so, the virtual merchant was able to foster demand and sustain market share in all regions where it has expanded to. As a matter of fact, Zalando continued to outpace the industry growth average, as high double-digit net sales growth were registered in all the 15 European countries where it operates (Kinnevik 2014).

Recently, in the first quarter of 2014, Zalando generated revenues of 501 million euros, which accounts for an increase of 35% in comparison with the first quarter of 2013. For the same period, income originated in the DACH region grew from 223 to 284 million euros, representing an annual growth rate of 27% (Zalando 2014c). Additionally, the EBIT margin has also improved from minus 7.2% in 2012 to 6.5% in 2013, consisting on an overall increase of 0.7%, mainly driven by greater fulfillment productivity regarding distribution issues, mitigated by the completion of Zalando’s warehouse in Erfurt, and higher marketing efficiency which lowered customer acquisition costs (appendix 29). Rubin Ritter, Managing Director at Zalando, further comments on the results achieved by saying that “the improvement in the first quarter underlines our plan to take a significant step towards, but not quite reaching, EBIT breakeven at group level for the full year 2014” (Zalando 2014c).

As a matter of fact, since the Demise of Dot.com Retailers in late 1990’s, no other German online startup has grown as quickly as Zalando or received as much investment and seed capital. According to Oliva, Sterman, and Giese (2003), e-tailers following aggressive expansion strategies must ensure access to capital to fund growth, which is precisely the case of Zalando as the Berlin-based e-commerce giant has received a total amount of 600 million euros of venture capital from supportive shareholders and investors, with the purpose of building brand image and expanding operations into new European markets (Drupa 2013).

In 2012, the e-commerce giant has demonstrated its aptitude to combine a solid revenue growth with sustained path towards profitability. More specifically, only 4 years after being founded, Zalando achieved the break-even (EBIT) in its most established region, the DACH region, which accounts for the majority of generated income (Kinnevik 2013). Having reached the point at which revenue cover expenses, Zalando has been investing in its internationalization process, product assortment, in-house logistic systems as well as information technology, as confirmed by Rubin Ritter: “the fact that we reached break-even in our core region already in our fourth year proves the success of our business model and has encouraged us to invest even faster into building leadership in the international markets” (Zalando 2013b).

However, though recent studies (Kutcher et al. 2014) have found a strong positive correlation between sales growth and long-term success, earnings, as well as a favorable market capitalization, the German-based online retailer is still registering operating losses (appendix 29), which ascended to €90 million euros in 2012 from a value of €60 million euros in 2011 (Knight 2013). Some factors justify the reason why negative EBIT margins persist. Firstly, late summer and warm winter documented in 2013 have lead fashion retailers to lower prices by pressuring margins, in an effort to boost demand. Secondly, Zalando’s rapid growth strategy required large investments in new fulfillment centers and technology, in order to scale business operations quickly while offering the best shopping experience (Kinnevik 2014). Thirdly, growing in size and reach has proven costly for the online retailer, whose strong internationalization process resulted in additional costs for launching business abroad, which in turn generated a negative EBIT margin of approximately minus 8% in 2012 and minus 12% in 2011 (Fibre2Fashion 2013). Finally, heavy marketing expenses associated with the development of Search Engine Marketing and Search Engine Optimization tools, as well as aggressive advertising campaigns on program sponsorships (e.g. Germany’s Next Top Model) and TV commercials, mainly in the DACH region, have also impacted Zalando’s cost structure (Knight 2013; Li 2012; Shanley 2013). Hence, Dawson (2012) concludes that massive investment in growth, materialized in terms of rapid market expansion, aggressive marketing, free delivery, fulfillment and IT, has all contributed to rise operating costs significantly, and, consequentially, originate EBIT margins inferior to 0%.

In this context, Rubin Ritter explains that negative gross margins were anticipated by the management team and do not dilute the potential for future profits in the near future: “set-up costs are taken into account and part of our strategy for all market entries. The important part is that we see a positive margin trend in all regions as customers are loyal and efficiency is improved" clarifies Rubin Ritter. Moreover, he adds that the firm is well capitalized to fuel future growth: "in 2012, we further increased Zalando's equity ratio to more than 50% from 39% back in 2011. We follow a fast growth path, and always have countered this with a conservative balance sheet" (Zalando 2013b).

Nevertheless, in addition to marketing, warehousing and shipping expenses, the e-tailer reveals another relevant cost driver: returns (Li 2012). Usually, virtual merchants have to manage product changes and returns resulting from fitting issues reported by the final consumer. As previously mentioned, fitting problems occur more often when purchasing an item online due to the inability to touch, feel and try on garments before product acquisition (Citrin et al. 2003; Grewal, Iyer, and Levy 2004; Levin, Levin, and Heath 2003; Nagaty 2010). Thus, it is not surprising that the average return rate in the online fashion industry is up to 40% (Li 2012), though Zalando's average return rate has been slightly superior, recording as much as 50% return rate on the grounds of a convenient and free return policy offered to the client (Kinnevik 2014; Knight 2013; Shanley 2013).

6.10 Empirical Application of the Get Big Fast Framework

Recent research (Lierow, Sarrat, and Janssen 2013) has found that e-commerce companies are not only developing at a faster pace but are also becoming larger in size and reach. According to the authors, worldwide web coverage coupled with the generalization of online shopping habits have allowed pure players like Zalando to gain substantial market share. Actually, Zalando has quickly evolved from an Berlin-based startup specialized in selling women footwear over the internet, to become the market leader in the European online fashion retail industry (Vlasich 2012). By having taken only four years after its foundation to grow into the largest standalone pure online fashion retailer in Europe, Zalando emerges as possible exemplar of the application of the Get Big Fast strategy in a real, recent, and dynamic business context. Thus, the empirical application of the Get Big Fast framework, presented in section 4.4, will be conducted in this section, assessing to what extent Zalando has followed the Get Big Fast strategy, starting by verifying the existence of first mover advantages, identifying which tactics and strategies were pursued, and finalizing by evaluating the resulting positive feedbacks.

6.10.1 First Mover Advantage

As previously mentioned, the Get Big Fast concept refers to the favorite strategic option to capitalize on the fast-growing e-commerce market (Kirsch and Goldfarb 2008). Firms pursuing such an aggressive growth strategy aim to scale business operations as fast as possible before competitors do, exploiting first mover advantages in order to gain market share and preempt potential rivals (Afuah and Tucci 2003). Hence, rapid growth emerges as the key to ensure survival and sustainable profits in e-commerce.

Some prior research has found that first movers following the Get Big Fast strategy are likely to dominate a given market segment (Oliva, Sterman, and Giese 2003), as early entrants are allowed to anticipate competitor’s strategic moves and establish a favorable positioning in the marketplace, building a solid customer base and settling the foundations for long-term returns (Eisenmann 2006). In addition, several scholars (Kalyanaram and Urban 1992; Lambkin 1988; Robinson and Fornell 1985) concluded that first movers tend to obtain higher market share due to significant and enduring sales advantages.

This has been confirmed by a Manager at Zalando during the interview process, who acknowledged not only the existence of a promising market opportunity for online fashion retailing in Europe, since the online store is open 24/7 and provides a convenient shopping experience to busy consumers, but also the presence of first mover advantage: “there was no leader in the European online apparel retail industry, which helped Zalando to scale. Indeed, first mover advantage exist. If one gets to be the leader as fast as possible, it is easier to sustain that position later on. The biggest player can do whatever it wants, as the leader has already an established position”. So, one can infer that in its early years, Zalando has benefited from first mover advantage while pursuing its aggressive expansion strategy, being able to establish its brand name and gain high market share in the European online retail industry. Therefore, the existence of first mover advantages constituted an important starting point to scale business operations and fully exploit the competitive advantages derived from the Get Big Fast strategy.

6.10.2 Tactics for Market Dominance

As previously discussed in chapter 3.4.2, recent studies on the Get Big Fast phenomenon have identified four main tactics commonly utilized by e-commerce companies which pursue such an aggressive growth strategy: 1) Low Pricing 2) Expanded Capacity 3) Heavy Advertising and 4) Formation of Strategic Alliances (Oliva, Sterman, and Giese 2003; Sterman et al. 2007). That said, the purpose of the present chapter is to assess which of these four main tactics have been employed by Zalando itself in its scaling process.

Low pricing

Although Zalando commercializes products for sale up to 60% discount and continues to expand Zalando Lounge throughout Europe, most part of its product assortment is set at a regular price, as confirmed not only by a client interviewed in the present study but also by Rubin Ritter himself: “while the higher discounts put pressure on margins, we continued investing to satisfy our customers, while ensuring we have the right infrastructure in place for future growth” (Zalando 2014a). As a matter of fact, e-commerce companies do not always offer the lowest prices. For instance, Amazon itself charges a 10% premium on the books sold online (Bakos 2001) meaning that, on average, total prices tend to be lower on the traditional book store due to expensive shipping costs (Clay et al. 2002). Hence, the fact that Zalando sets an identical, or even superior, fare to the recommended retail price for a given item seems to contradict what would be expected according to the Get Big Fast principles, since low pricing techniques are proved to stimulate market penetration, attracting price-sensitive consumers to the online shop and boosting sales volume (Afuah and Tucci 2003; Varian 1980).

However, research has found that cost leaders can actually increase price competition and erode the firm’s credibility (Peter, Erica, and Kathy 2000; Porter 2001). Thus, online retailers can utilize the properties of the internet to foster product differentiation and avoid competing exclusively on price (Bakos 2001). Following the reasoning of Souitaris and Balabanis (2007), who argue that virtual merchants should pursue differentiation strategies in detriment of cost leadership in order to achieve higher performance and enhance customer satisfaction. Several authors identified distinct differentiation factors in which virtual merchants can distinguish themselves from competitors: customer service, marketing and advertising, brand image, reliability, website design, wide product variety, product features, user generated content (e.g. customer reviews), convenience, loyalty programs, customized online experience, perceived quality and value for money, as well as fast delivery and information security (Bhatnagar and Ghose 2004; Clay et al. 2002; Gligorijevic 2011; Kim, Nam, and Stimpert 2004; Porter 2001; Souitaris and Balabanis 2007). Additionally, recent studies have also found that, though relevant, price is not the most important attribute for web shoppers, as customer loyalty is more strongly associated with a pleasant shopping experience, security and the proper fulfillment of consumer's needs and demands (Bhatnagar and Ghose 2004; Kim, Nam, and Stimpert 2004; Latcovich and Smith 2001). Indeed, online shoppers are willing to pay a premium in the presence of other attributes such greater convenience (Reichheld and Schefter 2000) as well as higher reliability and brand reputation, which assume particular importance in e-commerce transactions due to the lack of physical contact between sellers and buyers (Clay et al. 2002).

Thus, Zalando is able to set a moderate pricing rather than low pricing tactic without compromising its aggressive expansion strategy in the European market. In fact, one should not disregard the application of the Get Big Fast principles in this particular case since Amazon itself, the pioneer of the Get Big Fast strategy, has been setting moderate prices coupled with a differentiation strategy since its early years (Oliva, Sterman, and Giese 2003). Likewise, the German-based online retailer has been building a large customer base and increasing net sales on an annual basis by following a differentiated approach based on excellent customer service, extensive product assortment, effective marketing and service mix, comprising free deliveries, free returns and a 100 day return policy.

Expanded capacity

Zalando has been investing significantly in capacity expansion by building bigger facilities and warehouses in Germany in order to accommodate larger professional teams and meet huge demand. On one hand, Zalando has relocated its office twice. Firstly in July 2009, Zalando moved to a new administrative center located in the center of Berlin, a space four times larger than the previous one to include the whole IT department. Later, in August 2010, the office was relocated again to Prenzlauer Berg, near Berlin (Zalando 2013a). The size of teams grew considerably in a short amount of time due to the inclusion of 150 new programmers, which lead the firm to move to a larger office as acknowledged by Christoph Lange, Chief Product Officer at Zalando: “this (current office) is getting too small. In the new office, we will have more space and will have more areas with sofas where people can sit together and exchange ideas” (Cruz and Rahn 2013). On the other hand, the e-commerce giant has also been investing substantially in building new fulfillment centers, doubling the total warehouse capacity and streamlining logistic systems in order to cope with the increasing amount of orders, enhance customer service and foster future growth (Kinnevik 2014).

In fact, Zalando's exponential growth online has been reflected in larger sales and data volumes, as its data warehouse has grown five-fold since 2010. Hence, and as stated before in section 6.5, between 2012 and 2013 Zalando has invested heavily in the development two new fulfillment centers in Germany, located in Erfurt and Mönchengladbach, in addition to its existing warehouse in Brieselang (appendix 19 and 20). Erfurt's fulfillment center represented a €170 million investment and was declared the biggest e-commerce facility existing in Europe (Knight 2012), being part of Zalando's continuous focus on the optimization of supply chain activities and logistics infrastructure, as Rubin Ritter comments: "we're taking it step by step and we're in it or the long haul. If we were looking for a quick sale, we wouldn't be investing over €100 million in a new distribution center" (Wiesmann 2012). Likewise, the inauguration of a second fulfillment center located in Mönchengladbach enabled Zalando to totalize a combined capacity of more than 250.000 square meters and support the stocking and distribution of merchandise to all 15 countries in which the e-tailer operates (Henoch 2013).

In line with these findings, recent studies suggest that virtual growth strategies must be complemented by the correspondent expansion of the physical logistic network, meaning that large online retailers tend to invest in bigger, more technological and more sophisticated logistics infrastructures in order to enhance efficiency levels regarding the management of orders, stocks, deliveries and returns (Filson 2004; Varnelis 2008). As a matter of fact, the expansion of distribution centers enables the retailers to serve more customers, reduce shipping time and ensure faster and more reliable deliveries, which emerge as a key success factor when retailers grow in size (Jones Lang LaSalle 2013).

Therefore, Zalando's significant and irreversible commitment in building infrastructure seems to approximate its aggressive expansion strategy to the Get Big Fast principles, preempting later entrants by satisfying most part of the existing demand in the market, in agreement with early literature (Spence 1977). Heavy investment in two new fulfillment centers in 2012 and 2013, coupled with successive relocations to larger offices in Germany, clearly illustrate the e-tailer's focus on capacity expansion and reassures the utilization of this tactic to scale business operations in the European market.

Significant Marketing Expenditure

As previously stated in section 3.4.2, advertising is only one of many promotional tools utilized in the firm's marketing mix (Clow and Baack 2012), so, in the present study, Zalando's advertising campaigns are assessed as part of its integrated marketing communication plan. That said, the German-based online retailer focus both on online and offline marketing techniques in order to raise brand awareness, establish market presence and engage the final consumer (Phillips 2013). Its marketing communication strategy offers a coherent image of the company through many different channels, such as television, print, digital and mobile media as well as an affiliate partner program. More specifically, Zalando recognizes the importance of online marketing nowadays by developing its own Mobile Application and managing Zalando's official Facebook page, Twitter, Instagram, Pinterest and YouTube accounts. In addition, Zalando invests massively in TV commercials, quarterly fashion magazine and catchy online banners (Dawson 2012), many of which are published through its affiliate partner program with other retailers, as previously mentioned in chapter 6.7. Hence, the e-tailer's monthly expenditure on marketing reaches double digit millions of euros, having spent over 90 million euros in advertising in 2011 alone, far superior to the marketing budget practiced by other players in the market (Dawson 2012; Drupa 2013).

Nonetheless, significant investments in marketing have enabled Zalando to build brand awareness and a large customer base. More specifically, in 2013, Zalando reached nearly 75% brand awareness in its new markets and registered as much as 90% brand awareness in more established markets comprising Germany, The Netherlands, France, Italy, Austria and Switzerland (Kinnevik 2014). In fact, never has a brand name been pushed so aggressively in such a short amount of time, recording an outstanding figure of 95% brand awareness in Germany, which clearly illustrates the brand popularity in its home market (appendix 23). With regard to its customer base, Zalando acquired nearly 13.5 million active customers in the first quarter of 2014, growing from 10.3 million registered at the year-end 2013 (Zalando 2014c). Such an exponential growth results from the e-tailer's strategy of acquiring as much customers as possible at or below their target cost per acquisition, not defining a strict marketing budget *a priori* as primacy is given to the creation of a large customer base (Fox 2013), in agreement with the Get Big Fast principles. According to the managing director of a virtual fashion boutique interviewed in this study, the acquisition cost per client in the online retailing industry is actually very high, being usually underestimated. Yet, Rubin Ritter advances that Zalando is on the verge of spending less per euro of sales to attract new clients, duet to more streamlined distribution processes (Zalando 2014c) and improved marketing efficiency, since the total marketing expenditure as a percentage of sales has been decreasing (Kinnevik 2014).

These findings only confirm what has been previously suggested by other scholars (Clow and Baack 2012; Latcovich and Smith 2001), who argue that advertising is mainly driven by retailers aim to enhance brand awareness, being widely recognized by potential customers. Additionally, Yadong, John Hongxin, and Jianjun (2005) suggests that e-commerce companies are able to attract more traffic to their website and lower uncertainty associated with online shopping through the continuous development of marketing capability. In this context, Zalando's strong focus on marketing is also consistent with the recent research (Erdem, Swait, and Louviere 2002; Kim, Nam, and Stimpert 2004; Traver and Laudon 2012; Yadong, John Hongxin, and Jianjun 2005), whose authors argue that online retailers' efforts to build a favorable brand name and reputation in an early stage is of the utmost importance to reassure customers of the firm's reliability and credibility, which in turn lowers the perceived risk of purchase, reduces search costs and fosters a more favorable perception by the general public. Other effective marketing techniques to lower risk aversion include a wide product portfolio composed of well-known brands (Lee and Tan 2003), as well as free delivery and money-back guarantee (Akaah and Korgaonkar 1988), which are all employed by Zalando. By doing so, online retailers are able to lower uncertainty and convert more visitors in active customers, boosting sales volume over time (Doherty and Ellis-Chadwick 2009).

Thus, Zalando's heavy investment in marketing has allowed the company to be known in the fashion industry and achieve high brand awareness in record time, while differentiating itself from competition and building a large customer base throughout Europe. In fact, positive brand associations and loyal customers help to protect the retailer's market share in the future. This is congruent with the Get Big Fast strategy, where significant expenditure in marketing and advertising constitute a tactic frequently employed by virtual merchants.

Strategic Alliances

Finally, the last tactic commonly exercised in the Get Big Fast strategy is the formation of strategic alliances with other retailers and suppliers (Oliva, Sterman, and Giese 2003; Sterman et al. 2007). In this context, and in addition to the established long-term partnerships with local logistic partners (chapter 6.5) and external service providers such as Exasol and Emarsys (chapter 6.6), Zalando has been building strategic partnerships with more than 1.500 international brands which compose its online product portfolio (Kinnevik 2014).

Nevertheless, the most evident example of the formation of strategic alliances between Zalando and other entities may be its affiliate programme with other retailers. In addition to the functionalities of its affiliate partner program illustrated in section 6.7, where Zalando advertises directly on third party vendor’s websites, the e-commerce giant has also made its website available to other merchants, enabling third parties to commercialize shoes, clothes and fashion accessories through Zalando’s webpage, by launching Zalando’s partner program in 2011. Though it is only available in Germany and Austria, Zalando is planning to expand such programme to The Netherlands, Italy, UK, France, Spain and Switzerland (E-commerce Facts 2011).

In fact, Zalando’s partner programme adds value to all parties involved, since registered retailers embrace an additional channel to promote their product line, taking advantage of Zalando’s brand recognition in the European market, while Zalando is able to complement its product assortment through the inclusion of more brands and styles, boosting sales volume and profits by charging a 20% commission per sale. Recently, Zalando and Tradebyte, an expert e-commerce solutions, have been collaborating to connect selected retailers and distributors to Zalando’s partner platform, meaning that, in the near future, both merchants and suppliers will be able to sell their products through the interface of Tradebyte. This is proven to be advantageous due to TB.One software, which enriches product information and automatically makes it available via the integrated interface, while allowing the centralized management of orders and stocks (Internet Retailer 2012). However, some conditions and obligations are imposed as well. On one hand, third parties are required to provide free shipping, offer 100-day return policy, prove logistics expertise and ensure a favorable and accurate presentation of their products online. On the other hand, Zalando is responsible for ensuring exceptional customer service, as well as processing orders and the respective payments. (E-commerce Facts 2011).

Therefore, the formation of strategic alliances with brands and other third party retailers through the partner program have allowed Zalando to further expand its product portfolio and improve the availability of existing items by connecting further merchants, which positively impacted the purchasing quota and enhanced Zalando’s online offer. This is corroborated by

Dorothee Seedorf, Head of Affiliate Marketing at Zalando, who states that "with an extensive product portfolio, a user friendly shop navigation, and attractive publisher payouts, we look forward to positioning ourselves as a strong player within the online retail industry" (Chaikin 2011). Likewise, Philipp Metzler, Manager of the Zalando platform, affirms that "Zalando platform represents a three-fold win-win situation for us: we are increasing availability and turnover, partners increase their reach and the end-customer enjoys more choice and faster deliveries" (Internet Retailer 2012).

This is supported by previous researchers (Lee and Tan 2003), who suggest that consumers are more likely to shop online in websites carrying well-known brands. Likewise, further authors (Levin, Levin, and Heath 2003) found that the alliances between online and offline brands are beneficial for both parties. More specifically, online-offline brand alliances foster both assimilation (Levin and Levin 2000) and complementarity effects (Levin, Levin, and Heath 2003), enhancing overall brand image through the association of positive attributes from both entities.

Hence, one can testify the existence of voluntary agreements between international brands and other third party retailers with Zalando, combining the necessary resources, such as distribution channel, products, brand recognition, and expertise, in order to achieve a mutual benefit: enhance competitiveness in the European market. Such voluntary arrangements for a major cause while maintaining organizational independence are known, precisely, as strategic alliances in the business field (Gulati 1998; Wen-Long and Jasmine Yi-Hsuan 2006). So, Zalando's strategic alliances are in conformity with the Get Big Fast principles, enabling the e-tailer to further expand its product portfolio and improve the availability of existing products through the collaboration with other fashion retailers, which in turn strengthens Zalando's positioning in the market.

All in all, it can be argued that, apart from low pricing, the remaining three tactics commonly employed in the pursue of the Get Big Fast strategy were present in Zalando's aggressive expansion strategy. The German-based online retailer has effectively employed moderate pricing techniques coupled with heavy investment in capacity expansion, aggressive marketing and advertising and effective strategic alliances, which altogether constitute a strong indicative that Zalando may actually be following the Get Big Fast strategy. Correspondingly, this is acknowledged by experts who believe that Zalando's remarkable growth resulted from a continuous investment in scaling operations, particularly in the development of logistic systems and operational excellence, marketing capability, IT and strategic partnerships (Kinnevik 2014). Likewise, during the interviewing process, one Manager at Zalando has also reinforced the idea that marketing, logistics and IT are mostly developed by the company itself.

6.10.3 E-Commerce Growth Strategies

Having identified which tactics the e-commerce giant employed in pursuing its aggressive expansion strategy, the present section is entitled to assess how such expansion has occurred over time. As mentioned above in section 3.6, literature suggests that e-commerce companies usually growth by product line expansion, geographical market expansion or both (Cardozo et al. 1993; Pleshko and Heiens 2008), in conformity with the growth strategies illustrated in the Ansoff's Matrix (appendix 10 and 11). According to the author (Ansoff 1957), product development is defined as the commercialization of new products to current market segments, whereas market development is described as the geographical expansion into new regions while offering the same product assortment. These findings are congruent with Zalando's fast growth strategy which has been materialized precisely in product line and geographical market expansion, corresponding, respectively, to product development and market development strategies according to the Ansoff's Matrix. Product development strategy is expressed through the quick expansion in Zalando's product line from woman footwear into handbags, fashion accessories, clothing, sports equipment and household decoration, offering more than 1.500 brands in addition to its own fashion collection and private labels. Furthermore, the German-based online retailer has broadened its target audience, providing a wide selection of products not only for women but also for men, kids and teenagers. Likewise, market development strategy was revealed by the vertiginous expansion of Zalando's geographical scope beyond German borders, launching its website in Austria, The Netherlands, France, Italy, United Kingdom, Switzerland, Sweden, Belgium, Spain, Finland, Denmark, Norway, Poland and Luxembourg (Zalando 2013a).

Hence, since its foundation in 2008, Zalando has expanded its business operations into 14 distinct countries, extended significantly its product line, generated increasingly net sales on an annual basis, leveraged a large customer base and accumulated more than 300 million web visitors, establishing itself as the most popular fashion website in Europe (Zalando 2014a). Robert Cousin, Managing Diretor at J.P. Morgan Asset Management, a large investor in

Zalando, comments on the firm's achievements so far: "the company has quickly established itself as a leading online fashion retailer in Europe. We are impressed with Zalando's large and growing customer base as well as the breadth of products offered on the company's e-commerce platform. Zalando's worldclass fulfillment resources and dedication to superior customer service should enable the company to expand upon its leading market position". Additionally, Christopher Evison, Chief Investment Officer at Quadrant Capital, other large investor in Zalando, observes: "with innovation, operational excellence and a commitment to high customer satisfaction, Zalando has built a strong brand in a remarkably short period of time" (Zalando 2012b).

6.10.4 Positive Feedbacks

As mentioned above in chapter 3.4.3, literature about fast growth strategies in the online retailing industry recognizes four principal positive feedbacks which usually result from pursuing the Get Big Fast strategy:1) Economies of Scale 2) Learning Effects 3) Network Effects and 4) Accumulation of Complementary Assets (Sterman 2000; Sterman et al. 2007). Thus, the intent of the present section is to evaluate if such positive feedbacks occurred as a consequence from Zalando aggressive expansion in the European market.

Economies of Scale

Recent studies showed that economies of scale are not only present in Zalando (Wauters 2014a) but are common in the online retail industry, proceeding market expansion initiatives. In spite of the absence of quantitative data, the interviews conducted revealed that Zalando enjoys economies of scale regarding inventory, warehousing, general and administrative expenses, utilization of the online platform and customer support. In addition, Zalando reveals considerably lower transportation costs, as one of the informants employed at the company mentions that "since Zalando is responsible for shipping merchandise, it is also responsible for covering such costs. Yet, dispatching and shipping thousands of packages everyday results in significant costs to support, which would not be possible to afford by a smaller enterprise but are affordable for such a huge company like Zalando" and another informant also confirmed that "economies of scale are relevant in terms of transport and distribution, particularly regarding shipping expenses and price per packaging. As the quantity of transactions increases, we (virtual merchants) are able to get lower prices and better deals from our distribution partners".

These findings are in line with research (Lee 2001; Neches et al. 1994), supporting the existence of crucial economies of scale in e-commerce. Economies of scale are characterized by decreasing average costs of production as a result from increasing output rates (Lee 2001; Spence 1981), being observed predominantly in large and early players in the market (Robinson and Fornell 1985; Urban et al. 1986). Further authors argue that economies of scale are translated in improved efficiencies and/or cost reductions in terms of inventory management, warehousing, transport and distribution, server requirements, customer service and administrative expenses (Oliva, Sterman, and Giese 2003), just as reflected in the case of Zalando. More specifically, since the e-tailers's cost structure is severely affected by increasing shipping and handling costs (Grewal, Iyer, and Levy 2004), a reduction in such transportation costs, derived from the increasing amount of orders dispatched and delivered to the final consumer, assumes the utmost importance to preempt competition. This way, a more favorable cost structure raises entry barriers and protects the incumbent's market share from new entrants (Lee 2001; Spence 1981). Hence, Zalando provides clear evidence of the presence of the first positive feedback mentioned in literature – economies of scale.

Learning Effects

The second positive feedback relates to learning effects, also known as productivity experience curve, previously defined by Pindyck and Rubinfeld (2009) in chapter 3.4.3. The authors state that learning effects are present when unitary costs of production decrease and overall efficiency improves as a consequence of cumulative work experience, which maximizes the production of outputs by minimizing the consumption of inputs. In other words, learning effects are characterized by the improvement in employees' productivity through task repetition. As a new employee progresses in the learning curve, he/she requires gradually less time and attention to perform the same activity.

Our informant at Zalando reckons the existence of relevant learning effects regarding employee's skills and performance in the company. He explains that Zalando has become more efficient over time, as personnel learned and mastered the necessary processes, systems and tasks to execute in the firm, ranging from developing digital marketing and social media campaigns, to measuring web traffic and conversion rates, handling customer queries, registering sales, processing orders, managing product deliveries and returns, etc. These gains in efficiency have also been mentioned by another informant, who recognizes the presence of a steep learning curve in two dimensions: 1) Logistics and Operations and 2) Customer

Service. In the case of the former, the informant states that “regarding the distribution and transport of packages, the learning curve is actually more than half. We are now more agile at labelling, packaging and dispatching merchandise, as this whole set of procedures is automatized over time”. In the case of the latter, she adds that “in the beginning we did not provided such an accurate size guide table or fully acknowledged differences in body types and shapes, but we evolved and, nowadays, the company has definitely a more comprehensive understanding of its customer’s needs and wants”.

This is consistent with Bell, Mengüç, and Widing (2010) findings that salesperson’s learning progress (e.g. development of job-related skills and knowledge through experience and repetition) is positively correlated with organizational learning itself (e.g. firm’s capacity to capitalize on new ideas and shared understanding), which in turn enhances the retail store performance. Further authors claim that causal ambiguity, derived from the tacit and complex nature of organizational learning, is translated into a competitive advantage to the company since it is very hard to replicate (Reed and DeFillippi 1990). Additionally, Benner and Tushman (2003) and Mizik and Jacobson (2003), as cited in Oh, Teo, and Sambamurthy (2012), state that organizational learning capabilities have a positive impact on the firm’s exploitation and exploration competences. On one hand, exploitative competence is reflected on the firm’s ability to exploit customer data and cross-channel synergies in order to save costs, differentiate the product offer and customize the shopping experience. On the other hand, explorative competence is reproduced on the ability to launch new marketing campaigns, manage customer service and quickly adapt to changes and uncertainties in the market. Similarly, other studies have found that retailer learning derives from the acquisition of knowledge about consumers through successive interactions, informing virtual merchants about clients’ preferences. Consequentially, e-tailers are able to customize product offering and enhance overall shopping experience, increasing customer satisfaction and loyalty (Zhang, Agarwal, and Lucas 2011).

Thus, one can also verify the presence of learning effects, particularly regarding efficiency gains from continuous improvement in employees’ skills and competences over time. This way, the validation of the second positive feedback approximates Zalando’s expansion strategy of the Get Big Fast strategy.

Network Effects

Some prior research (Katz and Shapiro 1994; Lee 2001) found that network effects occur when the increasing number of users of a given product or service results in higher added value for the parties involved. In e-commerce, network effects are mainly translated in user generated content (e.g. customer reviews) and word-of-mouth (Chevalier and Mayzlin 2006; Forman, Ghose, and Wiesenfeld 2008; Gligorijevic 2011; Oliva, Sterman, and Giese 2003). In fact, virtual merchants are able to foster meaningful customer interactions, enhance brand name, and build a loyal customer base, by allowing satisfied clients to share information and recommend their experiences with relatives and friends through social media networks like Facebook (Bell, Jeonghye, and Lodish 2012; Dellarocas 2003; Hanna, Rohm, and Crittenden 2011). Additionally, there is evidence that positive word-of-mouth (e.g. referrals) significantly influences product perception, customer attitude and decision making (Brown, Broderick, and Lee 2007). As a result, strong word-of mouth stimulates new customer acquisition at a higher rate than traditional advertising techniques (Trusov, Bucklin, and Pauwels 2009), assisting retailers to achieve a critical mass of customers (Shapiro and Varian 1998), accelerating growth and boosting sales volume as peak in orders is higher and reached sooner (appendix 30).

The existence of network effects driven by Zalando's expansion strategy has been confirmed not only by Wauters (2014a), but also by our interviewees, as one of the informants currently collaborating with Zalando mentioned that "although there are no network effects concerning user generated content, since the website itself is not designed as a social platform, there are network effects regarding word-of-mouth". Moreover, according to a Manager Director in Portugal, positive network externalities are frequently present in the online fashion retailing industry, as online growth is mainly driven by customer-to-customer referrals, word-of-mouth, as well customer loyalty and fidelization. The importance of word-of-mouth and customer loyalty was also acknowledged by a Zappos North American employee: "75% of purchases are made from returning customers, whereas the remaining 25% are made from new clients. From this share of 25% new clients, nearly 40% consist of friends and family members from a current customer of ours, while the rest was mainly acquired through social media platforms like Facebook, Instagram and Twitter".

Therefore, the existence of network effects derived from Zalando's rapid growth strategy is proved, constituting the third positive feedback in the Get Big Fast framework. Despite lacking user generated content on its website, positive network externalities are reflected in the form of word-of-mouth related to the online shopping experience at Zalando. In agreement with the Get Big Fast principles, word-of-mouth can act as an effective technique to foster customer acquisition, customer retention and revenue growth (Sterman et al. 2007).

Accumulation of Complementary Assets

Teece (1986) suggests that complementary assets refer to the key resources, capabilities or technologies that support the company at successfully exploit and commercialize a given innovation in the market. The author proceeds and enumerates specific competencies that constitute common complementary assets in an organizational context, like manufacturing, transportation and distribution channels, service, technologies, as well as after-sales support. Further scholars argue that complementary assets may also include market power, experience, loyal customer base, brand reputation and marketing capabilities (Rothaermel 2001), in addition to capital and human resources (Steinfield, Adelaar, and Lai 2002).

This has been confirmed during the interviewing process, as our main point of contact in Zalando clearly recognizes the existence of complementary assets in terms of marketing, brand name, human resources, transportation and information technology, highlighting the particular importance of marketing as the strongest core competence at the firm, which specializes in the use of online marketing techniques such as search engine optimization, web business analytics, content, etc. As a new player in the market, Zalando focused on building brand recognition by investing substantially in an integrated marketing communication strategy comprising not only online but also offline and mobile marketing techniques. Consequentially, and as discussed earlier in chapter 6, the e-tailer obtained over 90% brand awareness in its core markets (appendix 24). Furthermore, Zalando also allocates significant resources in the development and management of in-house logistic systems, IT (Kinnevik 2014) and customer service (Phillips 2013), in which human resources play a crucial role to maintain high customer satisfaction and promptly address client's concerns and demands. In terms of transportation, Zalando relies on contract based relationships with several country-specific logistic partners, who effectively distribute merchandise from Zalando's fulfillment centers in Germany to the clients' home (e.g. DHL, FedEx, Hermes, PostNord AB, UPS, etc).

Marketing, transportation and distribution are also identified as complementary assets in Zappos, the North-American online retailer in which Zalando business model was inspired by, as another person mentions that "with respect to transportation and distribution, Zappo's partnership with UPS enabled us to growth further, ensuring that we have our orders delivered. Likewise, size matters in marketing. We got our name out there, we got clients and we got them to come back as they perceive how easy it is to use the platform and get the product. In fact, getting bigger provided us with more control and more efficient marketing, as Zappos enjoys a larger reach and broader impact from each message sent".

Thus, one can argue that the fourth and last positive feedback is also present at Zalando, since the accumulation of complementary assets is materialized in terms of human resources, transportation, IT, brand name and marketing competences. This way, all the four main positive feedbacks previously illustrated in the Get Big Fast framework were evidentiated as a result from Zalando's aggressive expansion strategy.

As a result, the analysis conducted led the author of this thesis to conclude that Zalando has, indeed, pursued one specific aggressive expansion strategy, the Get Big Fast strategy, resembling the growth process of the e-commerce giant Amazon.com. Based on the literature review presented in section 3, coupled with primary and secondary data collected about the case study of Zalando, one could conclude that the German-based online retailer has actually employed three out of four main tactics mentioned in literature (expanded capacity, significant marketing expenditure and formation of strategic alliances), has followed two of the most common growth strategies in e-commerce (product and market development) and has noticed the impact of all four positive feedbacks that result from pursuing the Get Big Fast strategy (economies of scale, learning effects, network effects and accumulation of complementary assets). This is graphically illustrated in the Get Big Fast framework, applied to the specific case of Zalando, as presented below.

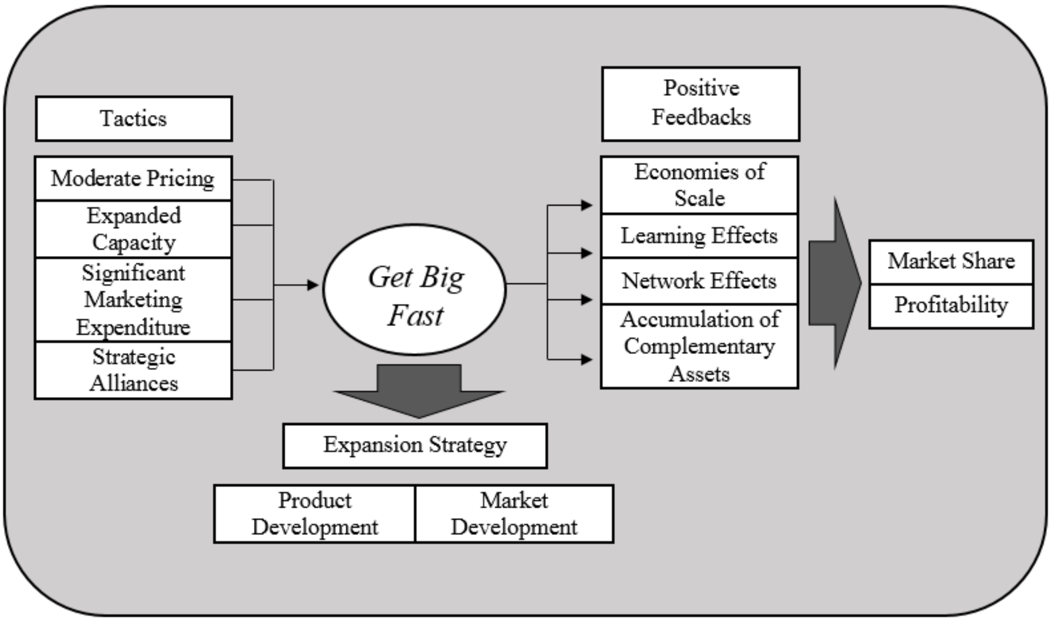

Figure 2

Source: Created by the author (2014)

Moreover, data analysis found that Zalando has benefited from first mover advantages which enabled the e-tailer to gain market share and establish itself as the market leader in the European fashion market, under the Get Big Fast principles. Following such principles, Zalando has quickly scaled operations, evolving from an online startup in Berlin towards becoming the Europe's largest online fashion shop. Through the creation of brand awareness and a favorable positioning in consumers' mind, coupled with an attractive service mix, excellent operations management and marketing, Zalando was able to build a large customer base in only few years of existence, securing long-term returns before other rivals enter the market. Hence, in accordance with research, the e-tailer was able to preempt competition by gaining market share as fast as possible (Afuah and Tucci 2003; Reid 1997).

6.11 Future Challenges

6.11.1 Profitability

The Berlin-based e-commerce giant Zalando has achieved success by practically all performance measures in retail. According to Grewal, Iyer, and Levy (2004), retail performance indicators comprise sales growth., customer acquisition and profitability. That said, although Zalando has been effectively accomplishing the first two indicators, as well as improving its EBIT margin on an annual basis (appendix 29), the e-tailer is still loss-making, compromising economic performance and future viability.

Such losses are usually verified by virtual merchants at an initial growth stage. In the case of Zalando, negative profits are mainly attributed to the Get Big Fast strategy itself. As Dawson (2012) explains, Zalando's rapid growth-oriented nature has been squeezing profit margins as a result from heavy marketing expenditures (e.g. TV commercials and sponsorships), quick expansion into new European markets, large investments in efficient logistic systems and capacity expansion (e.g. new fulfillment centers in Erfurt and Mönchengladbach). This is in line with previous research, suggesting that negative cash-flows are derived from substantial capital requirements to invest in infrastructure and customer acquisition (Sawyer, Cooperstein, and Lee 2000) as well as marketing and brand equity in order to signal quality and enhance brand awareness (Latcovich and Smith 2001; Oliva, Sterman, and Giese 2003). Moreover, Zalando offers an attractive and convenient service mix to the final consumer, providing free shipping, free returns and money-back guarantee to all clients. Yet, such policies are particularly costly for the firm itself, which registers an average rate of return of 50% (Kinnevik 2014; Knight 2013; Shanley 2013). Hence, Zalando not being profitable has been acknowledged as a natural consequence from an aggressive expansion strategy, as stated by Christodoulos Chaviaras, Barclays analyst: "it seems Zalando follows a similar approach to Amazon: they focus more on growing sales rather than profits" (Shanley 2013). Likewise, Gerrit Heinemann, specialist in online retail at Niederrhein technical university, perceives negative profits as unavoidable too: "as a rule, it takes six or seven years before e-commerce startups begin to make a profit" (Dawson 2012). Similarly, founders and managers at Zalando believe that large capital requirements are necessary in order to secure in long-term growth and collect superior returns in the future, as confirmed by Ritter "no one invests in long-term projects such as our fulfillment centers, if they're only looking for a quick buck or two" (Dawson 2012).

Nevertheless, there is some pressure on Zalando to start generating profits. As previously mentioned in chapter 3.4.1, literature suggests that large losses are justified just for as long as financial markets reward the Get Big Fast strategy. Yet, if venture capitalists become reluctant to invest further, e-tailers become unable to keep funding growth, suffering from liquidity shortage and being lead to shift their strategic focus towards profitability (Oliva, Sterman, and Giese 2003). The author of this thesis believes that this is precisely the case of Zalando at the moment.

As rumors about a potential IPO circulate, extra pressure is added to Zalando to become attractive to potential investors and generate profits in addition to strong revenue growth, as described by one banker "Zalando has great potential to become a successful IPO candidate, but in a first step the company must show it can make money" (Shanley 2013). According to (Hofmann 2013), the firm is actually “slimming down”. Though Zalando has not yet confirmed whether it is going public or not, some strategic moves indicate that a clear inflection point occurred in 2013, as the firm has been shifting its strategic focus towards profitability. More specifically, the goals settled for 2014 comprehend already a main focus on the profitability of the DACH region, including Germany, Austria, and Switzerland (Shanley 2013). Furthermore, Zalando radically reduced its internationalization speed into new markets from 2012 to 2013, closed its beauty division and discontinued its home department online, saving costs and decelerating both geographic and product line expansion. This is illustrated by one Manager at Zalando, who clearly distinguishes two different phases in the firm’s development: an initial stage focused on rapid growth and a second stage with emphasis on profitability. He clarifies that “this growth phase is dying over. Just by looking at the website, we can see that Zalando closed both beauty and home sections. Moreover, last year, Zalando has not launched operations into several new markets as it did the year before. So, we are not only growing, we are changing. Zalando is now focused into becoming profitable”.

Hence, following the Get Big Fast principles, Zalando has already become the market leader in Europe but has not yet achieved profitability, which constitutes the ultimate goal of the Get Big Fast strategy in the long run. Some measures have already been adopted by the enterprise to cut costs and stimulate profit margins, as discussed during the interviewing process, like decelerating market expansion, diminishing the number of new employees admitted per year and reducing marketing expenses. The latter has been particularly explored in literature, as Latcovich and Smith (2001) found that the economic viability of e-commerce companies is often dependent on the reduction of advertising-to-sales ratios. Nevertheless, the following subsections are supposed to provide further strategic advice about how to enhance profitability at Zalando.

6.11.2 Return Policy

Return management poses a significant challenge for e-commerce companies. In spite of strong revenue growth, many virtual merchants are prevented from generating profits due to high return rates. According to Ramanathan (2011), average return rates are normally higher in the online retail industry than in brick-and-mortar stores. In fact, most virtual merchants register a 40% rate of return (Li 2012), a figure mostly justified by the nature of e-commerce itself, as products are ordered online without the possibility of being felt, touched and tried out (Citrin et al. 2003; Grewal, Iyer, and Levy 2004; Levin, Levin, and Heath 2003; Nagaty 2010). This prevents many clients from making an accurate decision, which often leads to fitting problems and arises the need to return and exchange the good.

Though Zalando recognizes that returns are inevitably part of its business model, the e-tailer records an average return rate of 50% (Kinnevik 2014; Knight 2013; Shanley 2013), which results in considerable high costs of returns for the firm. This is due not only to the reasons mentioned above, but also to Zalando's free shipping and free return policies as integrant parts of an unique service mix. Since the act of return items is completely free of charge and simple to undertake, the risk of purchase is significantly lowered, creating strong incentives for clients to order the same item in two or three different sizes at once, trying on the garment at home and then return the ones which do not fit properly. During the interview process, clients reaffirmed that most items are returned either because they are too big or too small, too loose or too tight, to fit properly and look as good as they expected. One informant states that "it was really convenient to order different brands and different sizes at once and be able to try it on at home" and another person explains that "Zalando handles returns quite fast and professionally, and you get the money back really fast. In fact, returning items is actually a very simple task: the item is delivered in the same box where it was sent from. You just have to fill in a return label when dispatching it by post".

Therefore, the reduction of return rates assumes the utmost importance for Zalando at the present moment, in order to minimize costs and enhance profitability in the near future. This is illustrated by Christian Schulze, marketing professor at the Frankfurt School of Finance and Management, who argues that "handling returns in a smart way and trying to convince customers to behave in a way that is still profitable for the company is going to be the main thing that Zalando has to focus on in the future" and reinforces the idea that "getting better at managing returns is a good way to improve profitability" (Cruz and Rahn 2013).

The German-based online retailer has already adopted some measures to help the online shopper to find shoes and clothes of the right size and dimension. For instance, Zalando presents accurate pictures and descriptions of the products available for sale. In addition, in its website, the e-tailer provides a detailed size guide in the form of straightforward tables for men, women and kids, across several product categories: shoes, outerwear, shirts, underwear, trousers, suits, gloves and even belts. This way, customers are able to identify their correct size, from XS to 4XL, according to their body shape and measures in terms of bust, waist, hips and chest (appendix 31).

Nevertheless, there are other solutions available in the market which may constitute worthwhile options to explore. Firstly, there is evidence that some online retailers, like Shoefitr, are providing their customers with a detailed 360-degree perspective of their product assortment through 3D-scanning techniques (Harkin 2014). Secondly, the concept of virtual changing rooms is emerging in e-commerce. For instance, eBay acquired PhiSix, a company responsible for the development of technology which converts pictures of clothes and shoes into 3D models suitable to be virtually tried on by a 3D avatar (appendix 32). This avatar is build based on the customer's body measures, providing the client with a precise idea of how the garment in question would look like on their own body (Velazco 2014). Likewise, the online startup Virtusize created a virtual fitting room solution which is already being implemented by Asos (Harkin 2014). According to Peder Stubert, co-founder of Virtusize, "users create an account with Virtusize and they can either measure an existing item they have or they can use an item they have previously bought on the site in order to compare fit". Hence, with this solution, it is possible to significantly improve the online shopping experience irrespective of body measurement information.

Other solutions were suggested by an employee at Zappos, since the North-American online retailer has also been focusing on the reduction of its average return rate, falling from a previous value of 35% to 32% registered this year. According to our informant, Zappos has adopted two distinct measures: video descriptions and user generated content. In the case of the former, she explained that "video descriptions are ideal to show the size and scale of a given item. For instance, it is easier to perceive the dimension of a handbag by seeing it being used by a woman, providing a better perception of scale by comparison with the women's stature". In the case of the latter, she added that "customer reviews are particularly effective at creating awareness and boosting confidence at the moment of purchase". Hence, such measures could also be implemented and employed by Zalando in order to successfully reduce the rate of return and create a more favorable cost structure. This is in line with the findings of

Haynes and Taylor (2006), who argue that site content and user postings (e.g. customer reviews) are critical to enhance the customer shopping experience. According to the authors, readers are generally better informed, while posters tend to enjoy a sense of self-gratification by publishing their opinions and recommendations on the web. Hence, online retailers are able to boost sales and profits, due to the impact of positive customer reviews (Ben-Shabat, Moriarty, and Nilforoushan 2013) coupled with a more satisfying shopping experience (Mummalaneni 2005).

6.11.3 Customer Loyalty

Customer loyalty emerges as a second key path towards profitability. In accordance with Srinivasan, Anderson, and Ponnavolu (2002, 42) definition of e-loyalty as “a customer’s favorable attitude toward the e-retailer that results in repeat buying behavior”. Several authors suggest that e-commerce companies can benefit from building a loyal customer base, as devoted customers tend to repeat purchases and increase order size with the same retailer, which in turn improves sales volume and profits (Butcher, Sparks, and O'Callaghan 2001; Chow and Holden 1997). Additionally, Oliver (1999) reinforces the importance of e-loyalty since the acquisition costs of a new client are considerably high in comparison with costs of customer retention. Therefore, though Zalando has already built a large customer base, comprising roughly 13.5 million people, it is imperative to ensure customer retention and loyalty over time.

Some useful techniques that could effectively enhance online customer loyalty, and were not yet explored by the German-based online retailer, include the creation of an online chat with a customer service representative and the establishment of a points system program. In the case of the former, a live support chat would certainly enhance the effectiveness and availability of Zalando’s customer support department, enabling the e-tailer to immediately address clients’ queries. As a matter of fact, currently, Zalando only provides its customers with email addresses and helpline as a form of contact and both are proved to be insufficient at promptly serving client’s demands: email responses take some days to be sent and the helpline, though free of charge, is not fully available 24/7. Hence, online chat emerges as a powerful tactic to ensure customer satisfaction and stimulate e-loyalty (Ramanathan 2011), have been already implemented by other e-commerce giants like Amazon.com. This is also supported by recent research, illustrating the relevance of contact interactivity between online retailers and their clients to build trust and customer loyalty (Srinivasan, Anderson, and Ponnavolu 2002). In the case of the later, Lewis (2004) argues that retailers can actually incentive customers to buy more frequently, and/or in larger quantities, by rewarding them based on cumulative purchasing over time. This way, such benefits can be translated in a points system, which purpose is to reward frequent buyers with special discounts or vouchers to be used on the next purchase, at Zalando's website. The underlying idea is that growing expenditure on the retailer's website is associated with increasing points earned by the client, who, at each purchase, can either accumulate points or convert them into benefits of some sort (e.g. discount, promotional voucher). Other customer loyalty programs may include, for example, free gifts and coupons, which are also believed to have a significant impact on customer loyalty, and, consequently, on retailer's profitability (Suh and Yi 2012).

7.0 Conclusion

The aim of this thesis was to examine how and why e-commerce companies can achieve exponential growth rates in very short time periods. In this context, the purpose of this study was to identify which properties of the internet stimulate the scalability of online businesses, as well as to explore the main drivers, tactics and consequences inherent to the Get Big Fast strategy. More specifically, an in-depth analysis of Zalando was undertaken in order to discover to what extent did the German-based online retailer pursued the Get Big Fast strategy.

The internet and the concept of e-commerce have definitely revolutionized the retail industry along with consumer shopping habits. In fact, e-commerce companies have been growing at a faster pace and steadily increasing in size and reach. The findings show that e-tailers build their online business models to exploit specific properties of the internet: 1) Mediating Technology, strengthening interaction between the client and the firm 2) Information Density, having easy access to market research data 3) Universal Standards 4) Distribution Channel, supporting orders and deliveries of goods over the web 5) Infinite Virtual Capacity, having no restrictions on floor space to expose their product assortment and 6) Global Reach, serving millions of customers simultaneously. Thus, the internet raises unparalleled opportunities for scaling business, in a way that traditional retail cannot match, allowing online retailers to overcome physical boundaries and enlarge their customer base abroad, enhance customer relationships, extend product lines and improve cost structure by suppressing the need to invest in physical stores and sales staff.

With regards to rapid growth strategies online, the Get Big Fast concept emerged as the preferred strategic choice to exploit the potential of online business models, based on first mover advantages and aggressive expansion techniques. Such first mover advantages favor early entrants and large players by preemptively acquiring customers and developing cost advantages derived from network and learning effects. Hence, the Get Big Fast strategy requires significant investment in rapid growth, so that firms gain market share as fast as possible in order to outcompete later entrants and benefit from increasing returns to scale. By doing so, the e-tailer builds positional advantage towards market leadership.

In order to assess the application of the Get Big Fast strategy on the particular case of Zalando, this paper provides a comprehensive and complete revision of the concept through the presentation of the Get Big Fast framework, contributing to theoretical and empirical understanding on the matter.

Further, the findings of the present study indicate that Zalando has indeed pursued the Get Big Fast strategy, taking advantage of the properties of the internet mentioned above to quickly scale business operations. In just four years after its foundation, Zalando has quickly evolved from an online startup specialized in selling shoes to become the Europe's market leader in online fashion. Key drivers underlying Zalando's successful expansion strategy include a strong focus on customer service, unique service mix, IT, operational excellence as well as heavy investments in marketing and product development**.** Therefore, the rising star of the German online market expanded operations into 15 countries and broadened its product assortment into more than 150.000 products over 1.500 brands, holding a customer base of 13.5 million people, registering exponential annual growth rates and scoring 90% in brand awareness in its core market. In agreement with the Get Big Fast principles, Zalando benefited from first mover advantages and effectively employed three out of four tactics usually utilized to conquer market share. Though there is no evidence of low pricing practices, Zalando invested significantly in capacity expansion, aggressive marketing and formation of strategic alliances. Additionally, Zalando followed both product and market development strategies and manifested the existence of all four positive feedbacks derived from pursuing the Get Big Fast strategy: economies of scale, learning effects, network effects and accumulation of complementary assets, which constitute important sources of competitive advantage for the company. Therefore, empirical evidence is congruent with the theoretical framework. Nevertheless, profitability still poses a major strategic challenge for Zalando, since its cost structure has been severely impacted by large expenses in marketing, capacity expansion, geographical expansion and high return rates.

Prior to discussing future research, one must consider some research limitations.

7.1 Research Limitations

The current study has several limitations that must be discussed. The first limitation is related to its extensive scope, including the analysis of online growth strategies, the definition of the Get Big Fast concept, its tactics and feedbacks. The author of this thesis reckons that the adoption of a less extensive perspective could produce more in-depth insights regarding Zalando's expansion process in the European market. Yet, a broad perspective is believed to be adequate to investigate the research questions.

Secondly, the limited number of interviews conducted with managers at Zalando exclude from data collection other points of view in the organization. Although a larger amount of interviews would add value to the study, it was particularly difficult to contact the firm due to its preparedness to an IPO, which did not allow managers and employees to disclose information. Moreover, physical distance and practical issues lead the interviews to be conducted via Skype rather than in person, arising some limitations from videoconferencing, such as participant's embarrassment in front of the camera and the need of physical presence to build trust between interviewer and interviewee (Bertrand and Bourdeau 2010).

Finally, qualitative research is limited in its ability to extrapolate results and infer general conclusions from its findings (Bryman and Bell 2011). Likewise, this investigation assumed a particular focus on the online retail industry, more specifically on the expansion process of Zalando, meaning that findings are highly firm specific. With regards to external validity, the findings provide most value to Zalando itself, being difficult to generalize to other settings.

7.2 Suggestions for Future Research

Thought the present study provides a revised and comprehensive perspective of the Get Big Fast concept, some suggestions for future research are proposed.

Firstly, research could be directed towards testing the Get Big Fast framework in new contexts. This thesis analyzed the online apparel industry in Europe, so further research ought to examine other online-based industries in other markets. This way, it would be interesting to verify the existence of the Get Big Fast strategy in other product categories sold over the web (e.g. groceries, luxury, furniture and homeware), service oriented websites (e.g. e-banking, e-insurance and travel) and even in other startups incubated by the Samwer Brothers, like Zalando itself. The research questions addressed in this study can also be applied to other types of e-commerce besides B2C (Business-to-Consumer) transactions, including B2B (Business-to-Business) and C2C (Consumer-to-Consumer).

Secondly, future research could be conducted to explore how competition can impact both market share and profitability of firms pursuing the Get Big Fast strategy. This thesis focused upon the Get Big Fast concept given the assumption that firms benefit from first mover advantages. Nonetheless, low switching costs and few entry barriers in e-commerce have been increasing competition levels, threatening the sustainability of incumbents. Therefore, further research should 1) Assess the viability of the Get Big Fast strategy if early movers are already established in the market 2) Assess the viability of the Get Big Fast strategy if later entrants establish their presence in the market and threaten the position of market leader and 3) Evaluate Zalando's capability of sustaining its early mover advantage as new players enter in the European market.

Hence, there is still large scope for ongoing research to explore the Get Big Fast strategy on several perspectives and, therefore, enhance our understanding about this particular concept.

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9.0 Appendices

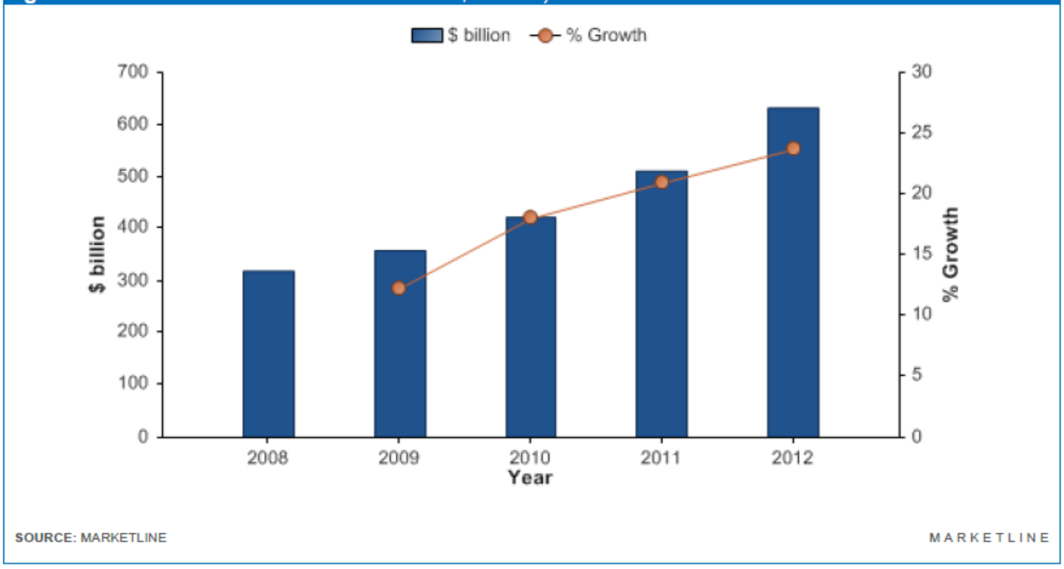
9.1 Appendix 1 – Global Online Retail Sector Value

Table 1: Global online retail sector value: $ billion, 2008–12

Year	$ billion	€ billion	% Growth
2008	319.1	248.2	
2009	358.1	278.6	12.2%
2010	422.5	328.7	18.0%
2011	510.9	397.4	20.9%
2012	631.7	491.4	23.7%
CAGR: 2008–12			18.6%

SOURCE: MARKETLINE MARKETLINE

Figure 1: Global online retail sector value: $ billion, 2008–12



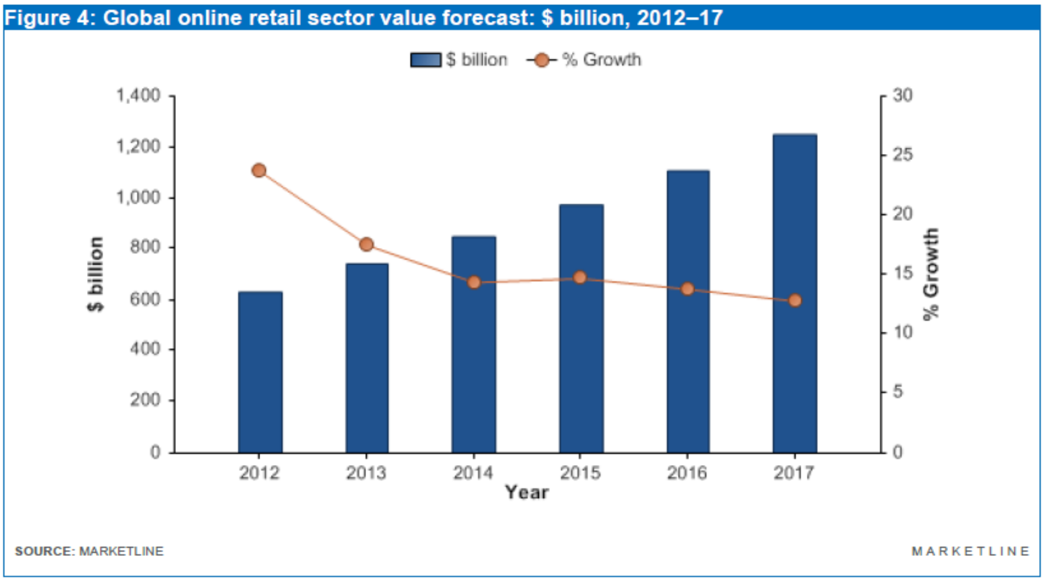
Source: MarketLine (2013)

9.2 Appendix 2 – Global Online Retail Sector Value Forecast

Table 4: Global online retail sector value forecast: $ billion, 2012–17

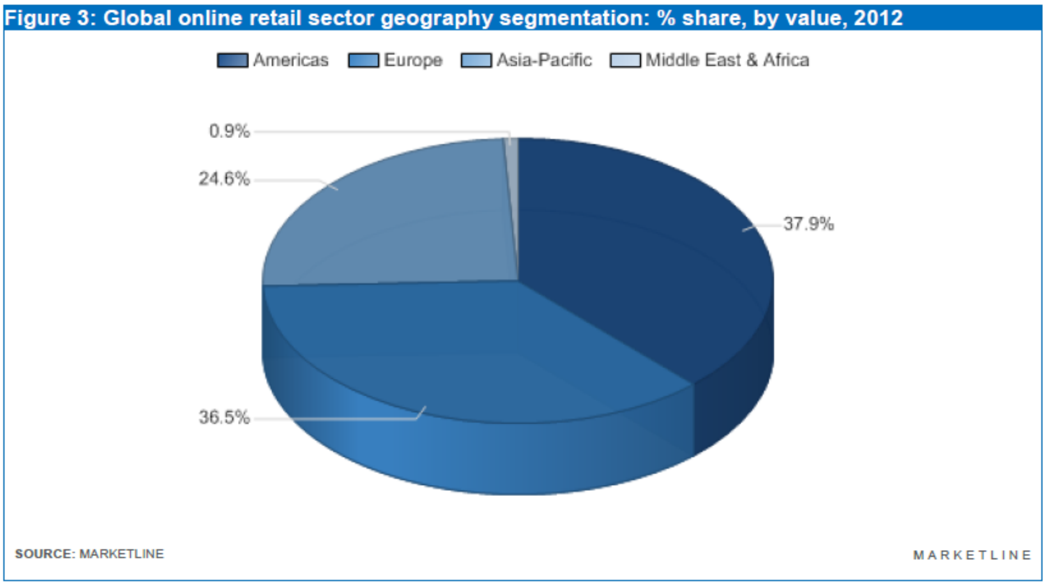
Year	$ billion	€ billion	% Growth
2012	6 1.7	491.4	23.7%
2013	742.1	577.2	17.5%
2014	848.6	660.1	14.3%
2015	973.1	756.9	14.7%
2016	1,107.2	861.2	13.8%
2017	1,248.7	971.3	12.8%
CAGR: 2012–17			14.6%

SOURCE: MARKETLINE MARKETLINE



Source: MarketLine (2013)

9.3 Appendix 3 – Global Online Retail Sector: Geography Segmentation



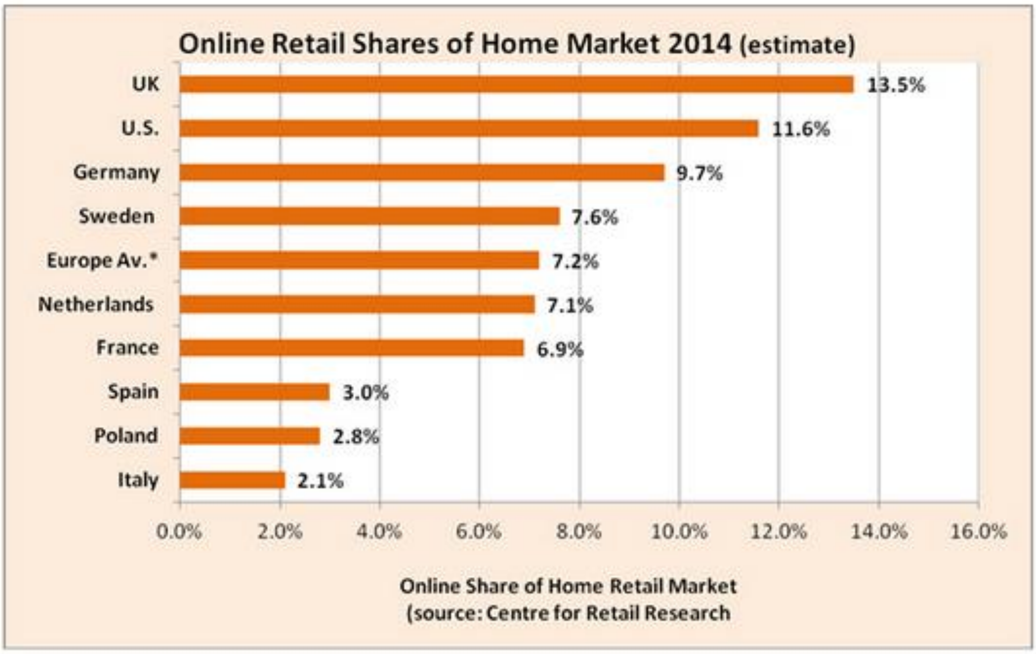
Source: MarketLine (2013)

9.4 Appendix 4 – Online Retail Sales Category

Region	Country	Consumer electronics and appliances	Apparel	Media, toys, and games	Food and drink	Furniture and homeware	Beauty and personal care	Home improve-ment and home care	Other[1]
World	World	25%	19%	12%	5%	4%	3%	2%	30%
North America	United States	21%	18%	13%	3%	4%	2%	1%	39%
Asia	China	52%	27%	3%	1%	1%	6%	0%	10%
	Japan	21%	18%	13%	12%	6%	6%	2%	22%
	South Korea	13%	12%	6%	3%	2%	3%	1%	59%
Western Europe	France	22%	16%	13%	11%	2%	4%	1%	31%
	Germany	27%	32%	16%	2%	7%	2%	2%	11%
	United Kingdom	10%	18%	20%	14%	4%	2%	2%	30%
Latin America	Argentina	31%	3%	4%	15%	2%	2%	1%	42%
	Brazil	50%	6%	10%	3%	2%	4%	1%	23%
	Chile	28%	1%	1%	9%	1%	2%	3%	54%
Eastern Europe	Russia	31%	21%	10%	3%	7%	3%	9%	16%
	Slovakia	35%	13%	3%	3%	1%	1%	0%	43%
	Turkey	22%	2%	9%	1%	3%	2%	2%	60%
Middle East	United Arab Emirates	83%	2%	3%	0%	0%	0%	0%	12%

Source: Ben-Shabat, Moriarty, and Nilforoushan (2013)

9.5 Appendix 5 – Online Retail Shares of Home Market 2014



Source: Center for Retail Research (2013)

9.6 Appendix 6 – Perspectives on Business Models

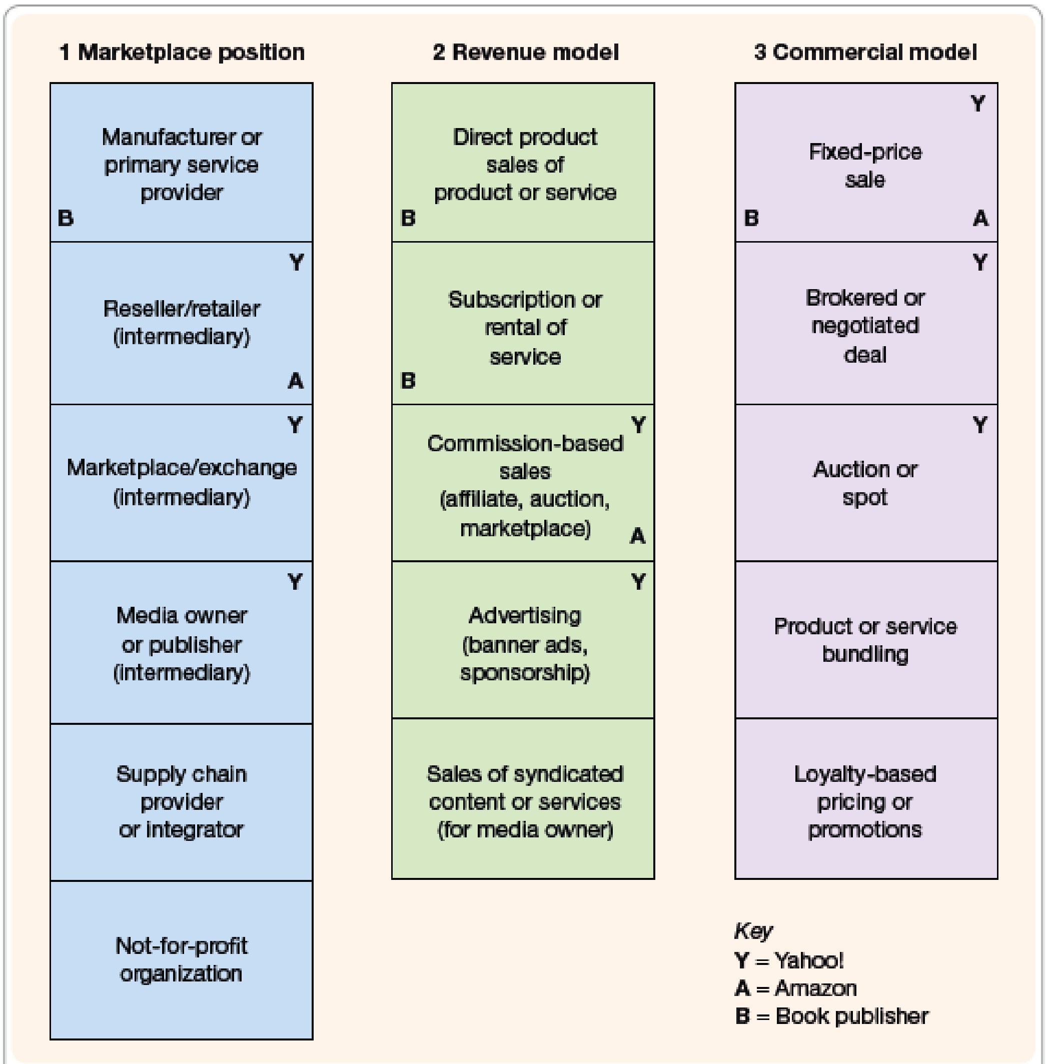


Figure 2.11 Alternative perspectives on business models

Source: Chaffey (2011)

9.7 Appendix 7 – Classification of Internet Business Models

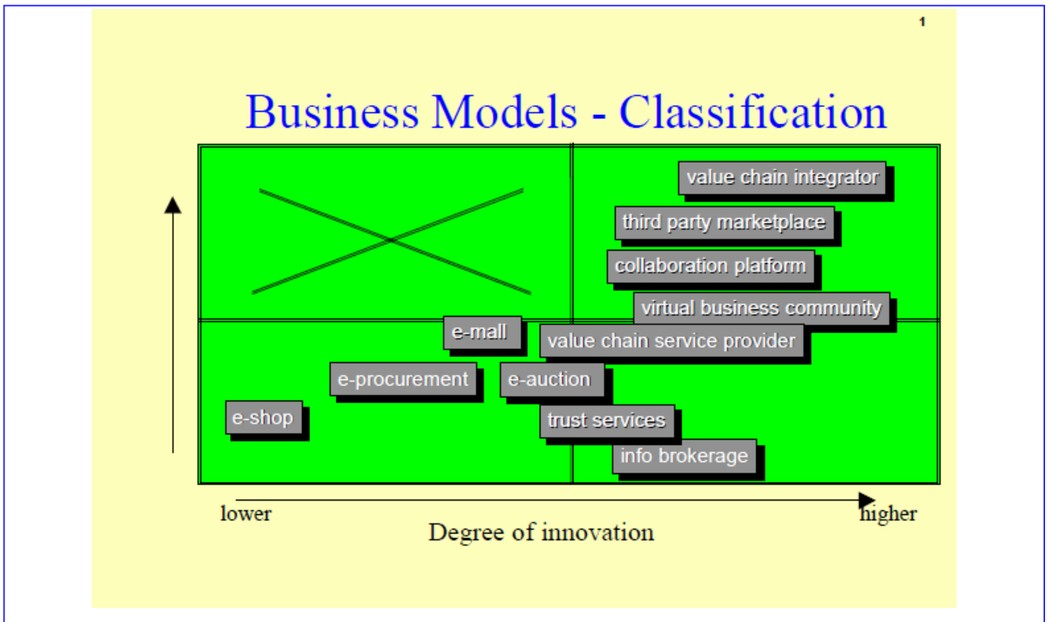
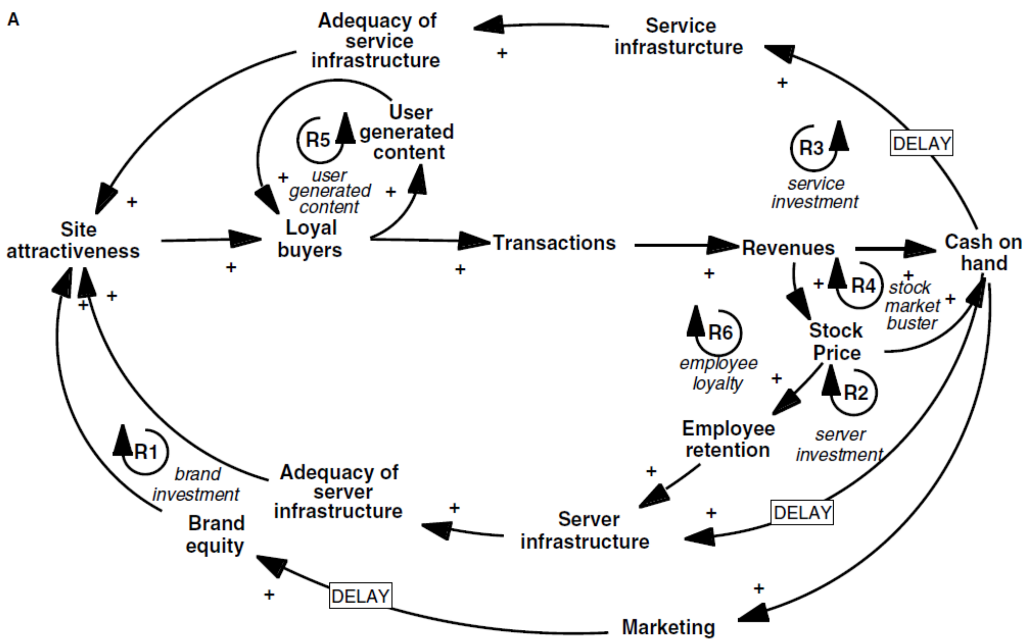


Figure 3 Classification of Internet business models

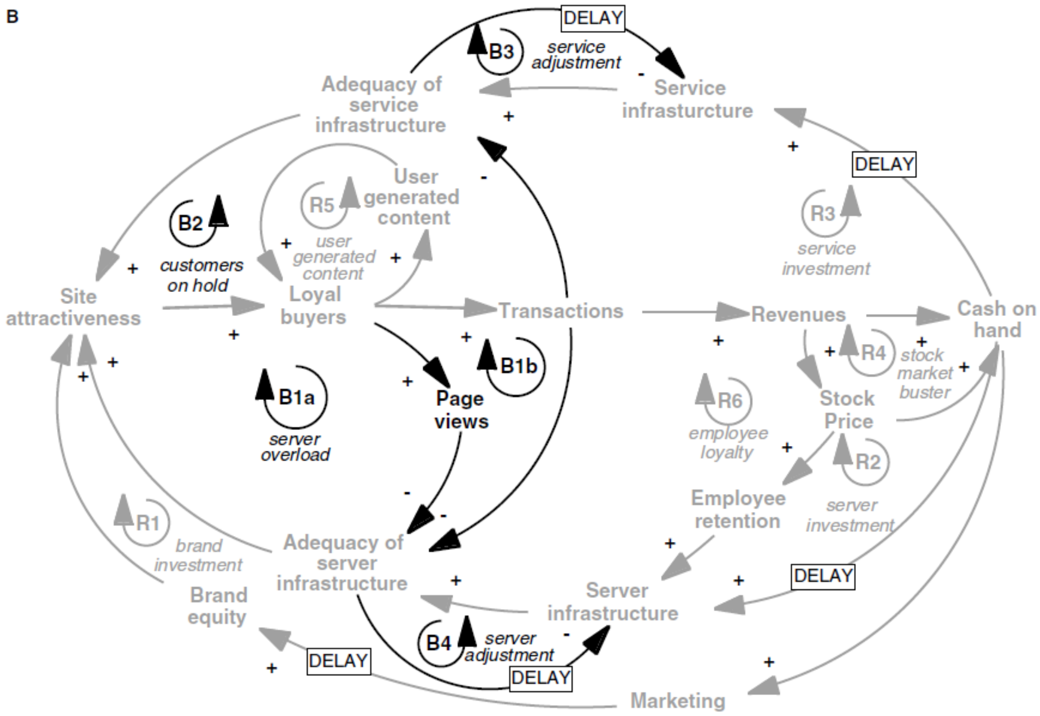
Source: Timmers (1998)

9.8 Appendix 8 – Positive Feedbacks underlying Increasing Returns



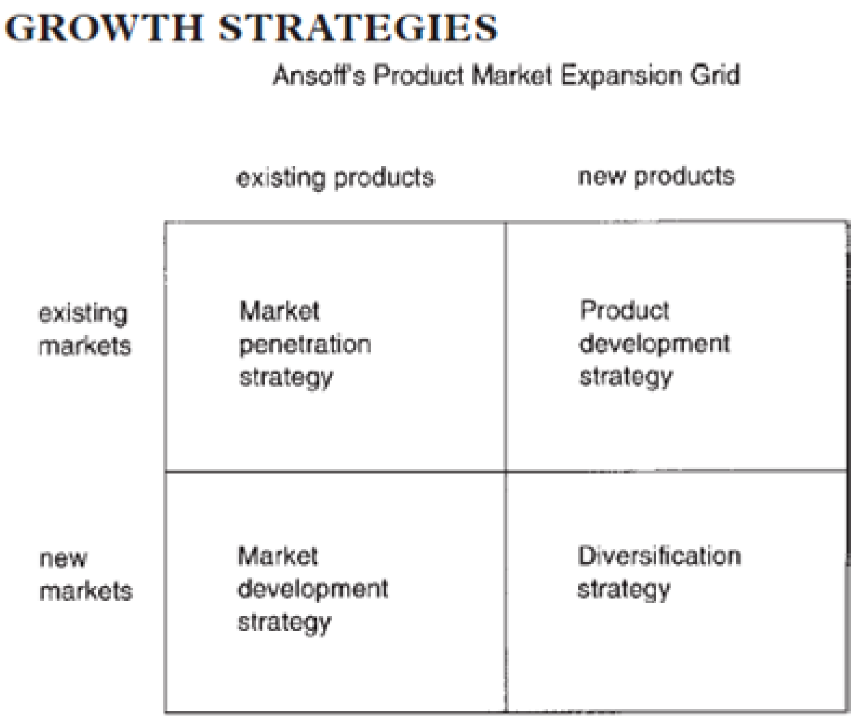
Source: Oliva, Sterman, and Giese (2003)

9.9 Appendix 9 – Negative Feedbacks constraining Growth



Source: Oliva, Sterman, and Giese (2003)

9.10 Appendix 10 – The Ansoff's Matrix



	existing products	new products
existing markets	Market penetration strategy	Product development strategy
new markets	Market development strategy	Diversification strategy

Source: Ansoff (1957) adapted from Proctor (2000)

9.11 Appendix 11 – E-Commerce Growth Strategies

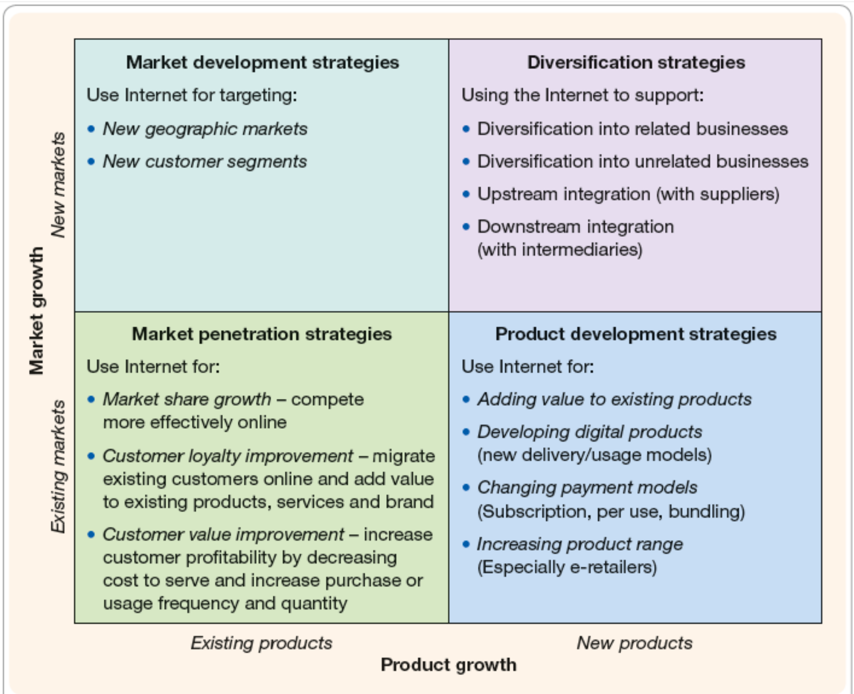


Figure 5.19 Using the Internet to support different growth strategies

Source: Chaffey (2011)

9.12 Appendix 12 – Interview Guide for Companies

I am an international Master Student from Católica Lisbon School of Business and Economics, currently attending the Double Degree programme with BI Norwegian Business School, in the field of Strategy.

This study seeks to understand how and why e-commerce companies (ECC) are able to grow so much and so fast, achieving high growth rates in considerably short time periods. More specifically, the underlying motivation for this study lies on exploring the scalability inherent to online business as well as the essence of Zalando's expansion strategy, since it is already the market leader only four years after being founded, delivering unprecedented growth through product and market development strategies.

The following interview constitutes an essential part of this thesis' research methodology, enabling me to address the research questions properly by having a deeper and clearer understanding of the online retail industry.

1. Personal Data

Name	
Position	
Date	
Country	

2. General Insighst about Zalando

- How has internet helped Zalando to quickly expand its core business activities?
    - no need to invest in a physical store
    - infinite virtual capacity
    - global reach
    - lower cost in international coordination and communication

- How would you characterize Zalando´s business model?

- What are Zalando’s strategic goals and its present strategy?
    - Is the firm aiming to growth further, conquering market share and expanding its product line, or is it already the market leader and shifted the strategic focus towards profitability?
    - What are Zalando’s next steps?

3. The Get Big Fast Strategy

- Which of the following tactics did/does the firm employ in pursuing its expansion strategy? Please indicate the employment of each tactic by typing “***Yes***” or “***No***” and, if “***Yes***”, explain and describe the use of the tactic in question.

Tactics	Yes or No	Description
Low Pricing		
Expand Capacity		
Significant Maketing expenditures		
Strategic Alliances		

- Which of the following positive feedbacks occur in the company as a result from its expansion strategy and scaling activities? Please indicate the existence of each item by typing "***Yes***" or "***No***" and, if "***Yes***", explain the incidence of the item in question.

Positive Feedbacks	Yes or No	Description
Economies of Scale		
Inventory/Warehousing		
General Administrative Expenses		
Product Selection		
Server Requirements		
Customer Support		
Others	Which?	
Network effects		
User Generated Content		
Site Popularity		
Word-of-Mouth		
Others	Which?	
Learning curves		
Workers´ Skills		
Others	Which?	
Accumulation of Complementary Assets		
Marketing and Sales		
Human Resources		
Brand name		
Office Space		
Transportation		
Information Technology		
Others	Which?	

4. **Concluding Remarks**

- What are the main challenges that the company is facing as a result of an aggressive expansion strategy?
    - Service quality erosion

- Do you have any further comments regarding this topic?

This is the end of the interview. Thank you very much for your collaboration.
Source: Created by the author (2014)

9.13 Appendix 13 – Interview Guide for Consumers

I am an international Master Student from Católica Lisbon School of Business and Economics, currently attending the Double Degree programme with BI Norwegian Business School, in the field of Strategy.

This study seeks to understand how and why e-commerce companies (ECC) are able to grow so much and so fast, achieving high growth rates in considerably short time periods. More specifically, the underlying motivation for this study lies on exploring the scalability inherent to online business as well as the essence of Zalando's expansion strategy. Hence, your cooperation as a client of Zalando will provide valuable insights to assess the evolution of customer shopping experience and key points of differentiation from other online stores.

The following interview constitutes an essential part of this thesis' research methodology, enabling me to address the research questions properly by having a deeper and clearer understanding of the online retail industry.

1. **Personal Data**

Name	
Occupation	
Date	
Country	

2. General Assessment of Consumer Profile

- How have you become acquainted with Zalando?
    - Friends and relatives
    - TV commercial
    - Social media: Facebook, Twitter, Instagram, etc

- How often do you shop online at Zalando?

3. Shopping Experience

- What do you like the most and the least about shopping at Zalando?
    - Free shipping/Free delivery/Free returns
    - Product Assortment and Selection of Brands
    - Easy and secure shopping experience
    - Pricing
    - Customer Service

- Do you shop at other online retailers apart from Zalando? If so, why?
    - Wider product/brand selection
    - Accurate product description and/or customer reviews
    - Outfit suggestions and customized recommendations
    - Lower prices
    - Faster delivery

- How do you classify Zalando's shopping experience over time?

4. Concluding remarks

- Have you ever returned an item? If so, why?
    - Fitting issues
    - Wrong colour or dimensions
    - Damages and imperfections

- How satisfied were you with Zalando's return policies and processes?

This is the end of the interview. Thank you very much for your collaboration.

Source: Created by the author (2014)

9.14 Appendix 14 – Amazon’s Annual Revenues and Net Income

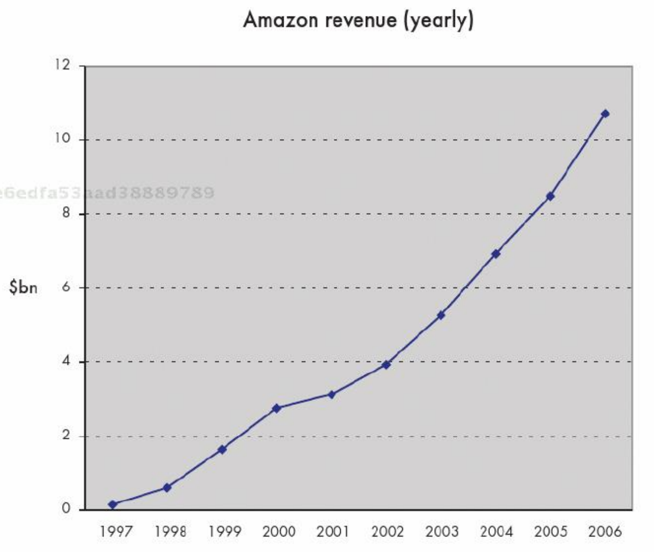


FIGURE 3.1

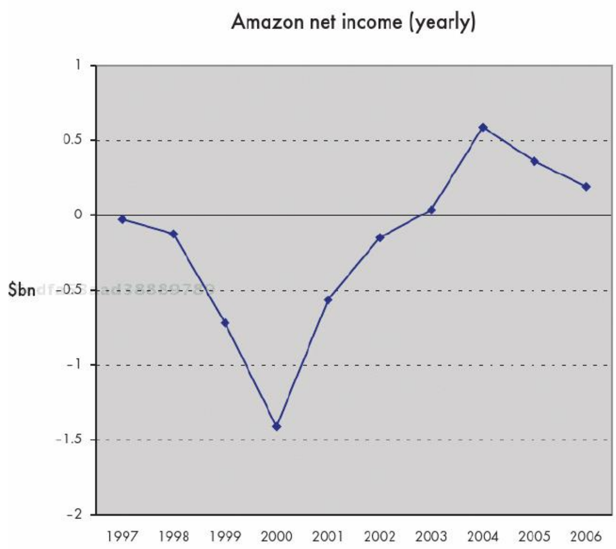


FIGURE 3.2

Source: Sampson (2008)

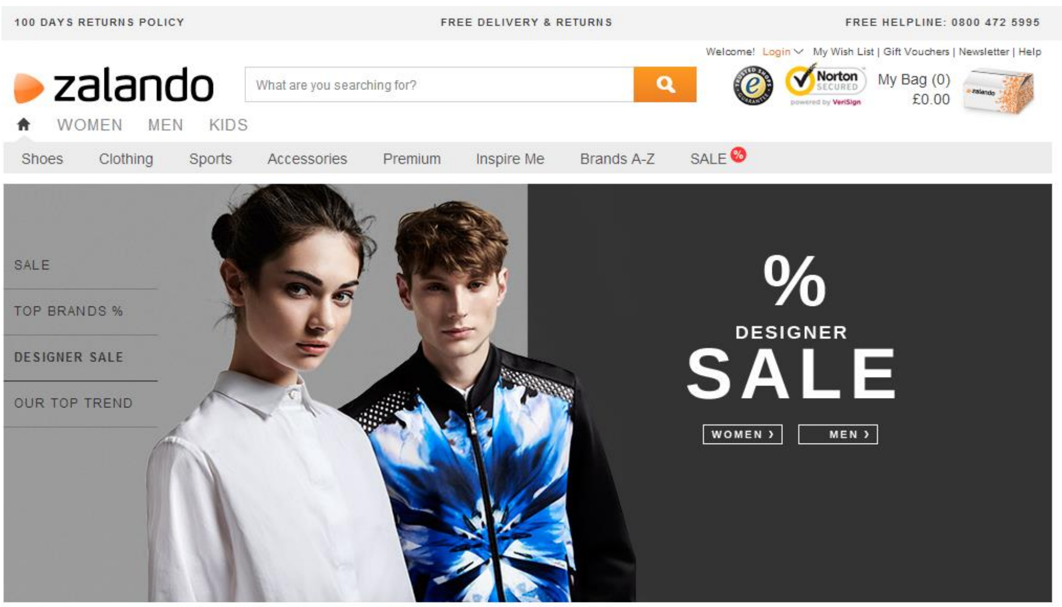
9.15 Appendix 15 – Zalando Logo

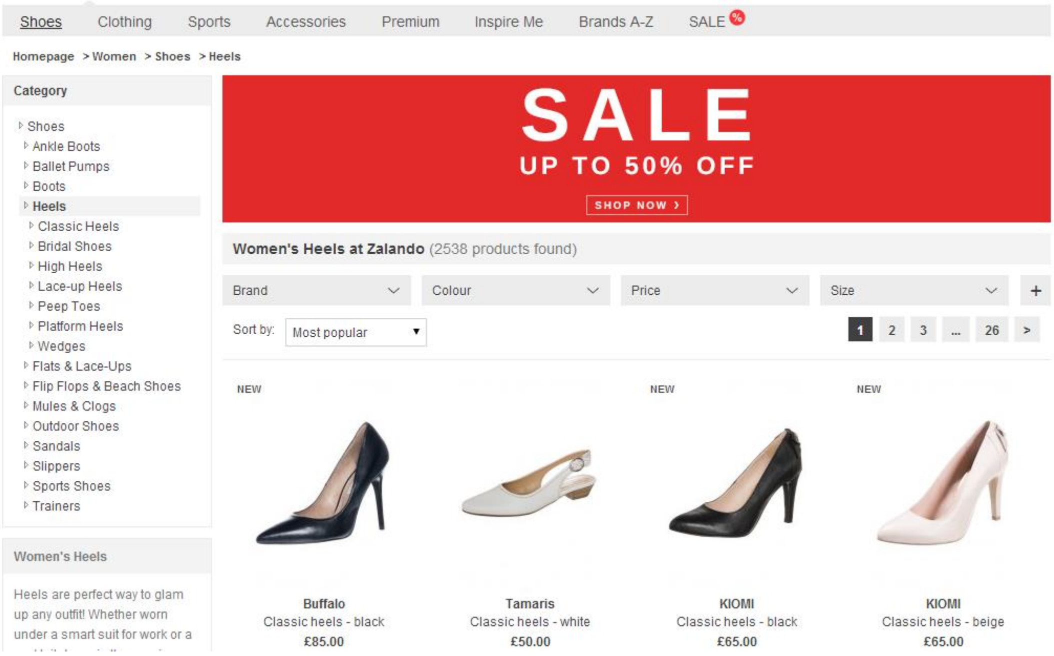
Source: Screenshot of Zalando’s Web page

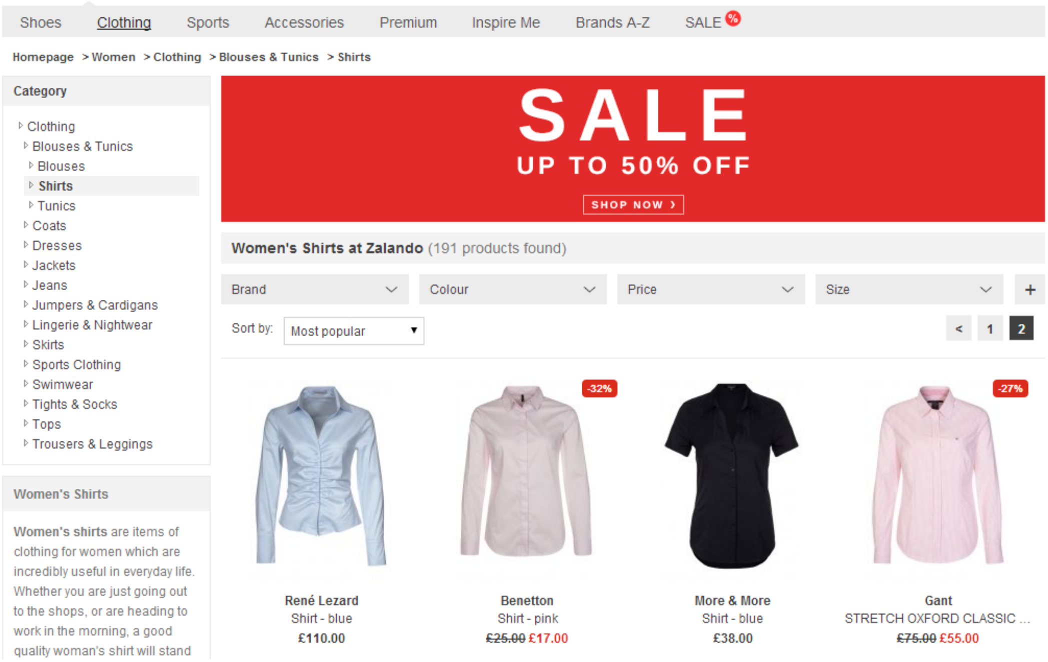
9.16 Appendix 16 – Online Fashion Market Opportunity

Source: Wauters (2014a)

9.17 Appendix 17 – Zalando Website

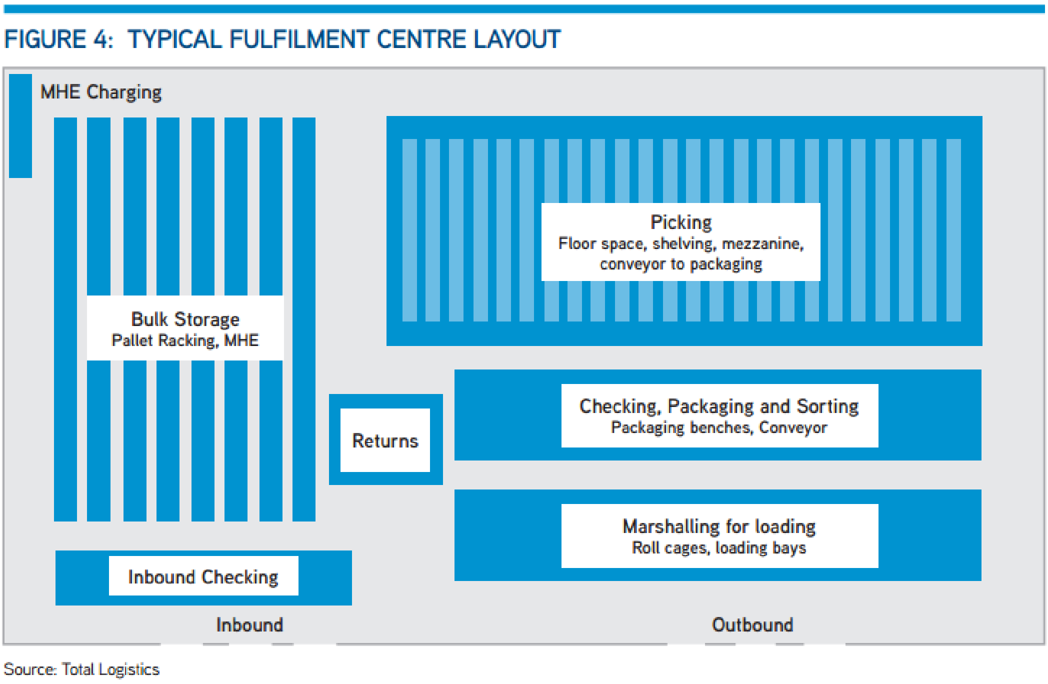






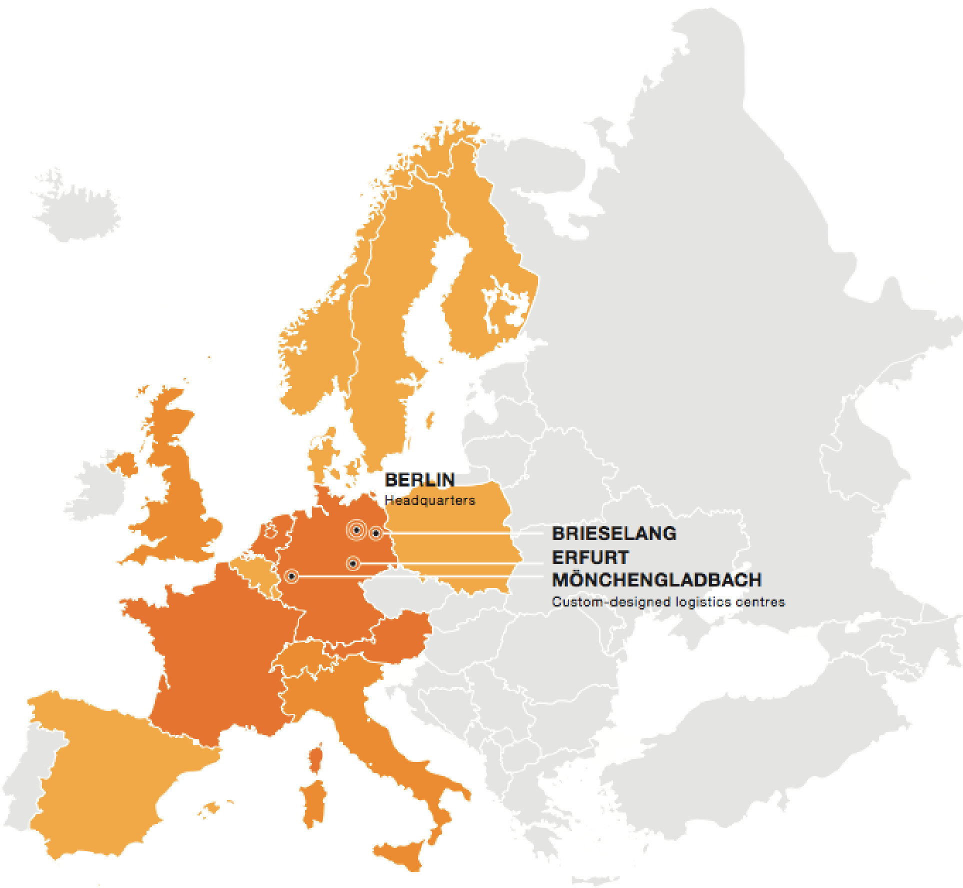
Source: Screenshot of Zalando's Web page

9.18 Appendix 18 – Typical Fulfillment Center Layout



Source: Colliers International (2012)

9.19 Appendix 19 – Location of Zalando's Fulfillment Centers



Source: Wauters (2014b)

9.20 Appendix 20 – Zalando's Investment in Fulfillment Centers

Source: Kinnevik (2013)

9.21 Appendix 21 – Technology Platform

Source: Wauters (2014a)

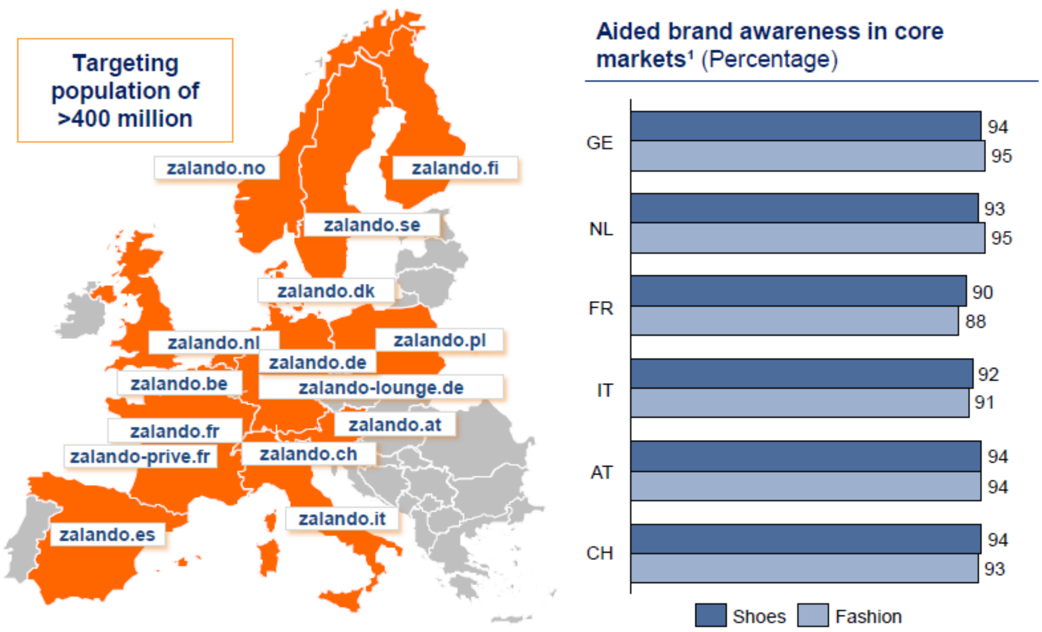
9.22 Appendix 22 – Zalando Magazine

Source: Vlasich (2012)

9.23 Appendix 23 – Zalando Affiliate Partner Programme

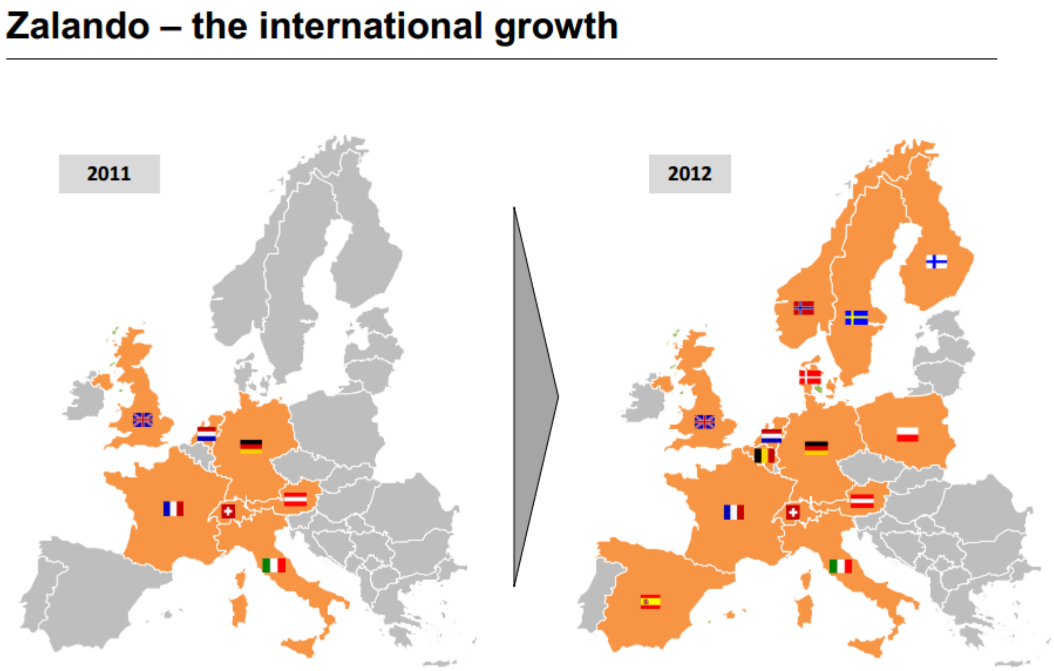
Source: Screenshot of Zalando's Web page

9.24 Appendix 24 – Brand Awareness in January 2013



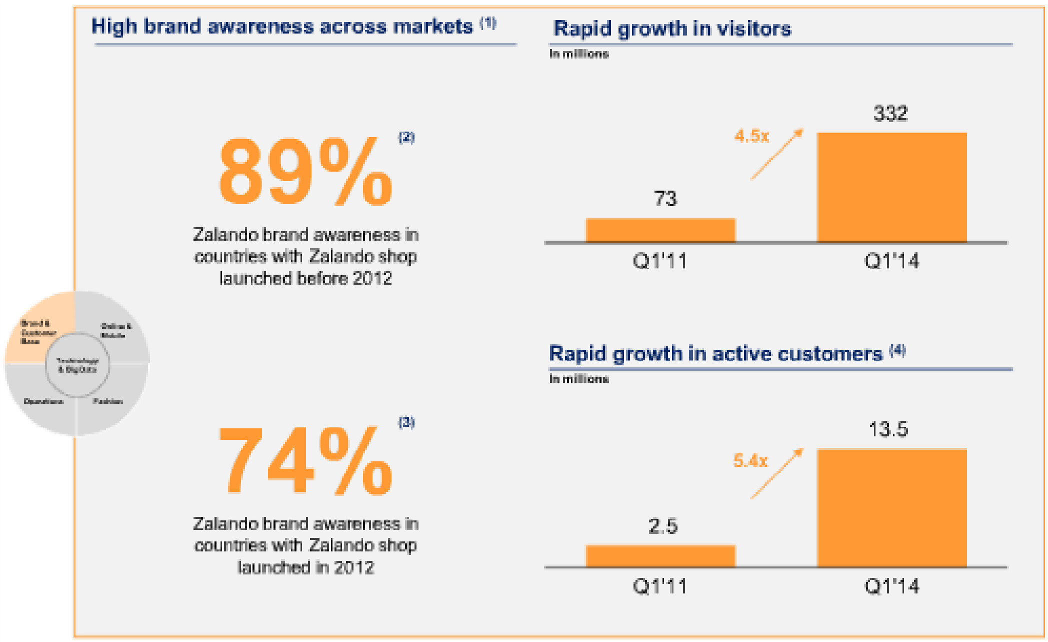
Source: Kinnevik (2013)

9.25 Appendix 25 – Path to International Growth



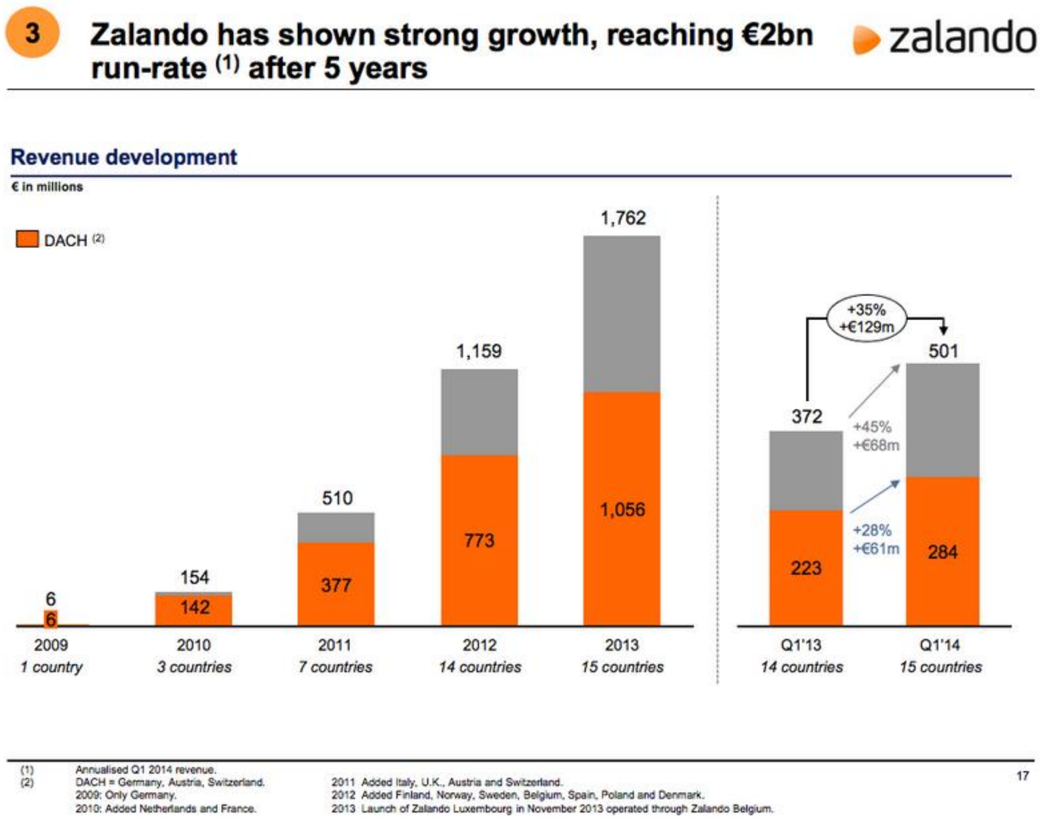
Source: Bruttini (2013)

9.26 Appendix 26 – Online Visitors and Active Customers



Source: Wauters (2014a)

9.27 Appendix 27 – Annual Net Sales Development in Zalando



Source: Wauters (2014a)

9.28 Appendix 28 – Quarterly Net Sales Development in Zalando

Table 1: Zalando Group - Net Sales Development

	Q1	Q2	Q3	Q4	FY
FY 2012					
Total net sales (€m)	214	257	284	404	1,159
Thereof: DACH[1] region net sales (€m)	155	179	189	250	773
Countries (#)	7	10	14	14	14
FY 2013					
Total net sales (€m)	372	437	404	550	1,762
Thereof: DACH[1] region net sales (€m)	223	268	243	323	1,056
Countries (#)	14	14	14	15[2]	15[2]
Year-on-year growth					
Total net sales growth (%)	74	70	42	36	52
DACH[2] region net sales growth (%)	44	50	29	29	37

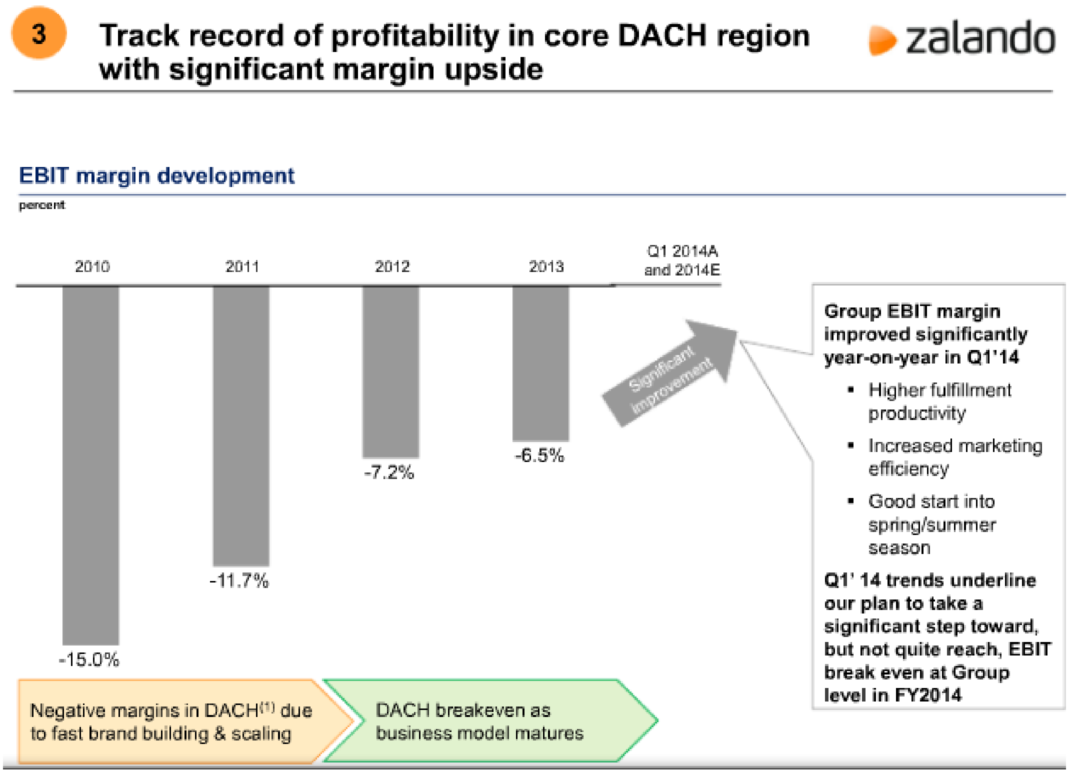
Note: Provided 2013 financials are preliminary, unaudited figures.

[1] DACH region is comprised of Germany, Austria, and Switzerland.

[2] Launch of Zalando Luxembourg in November 2013 operated through Zalando Belgium shop.

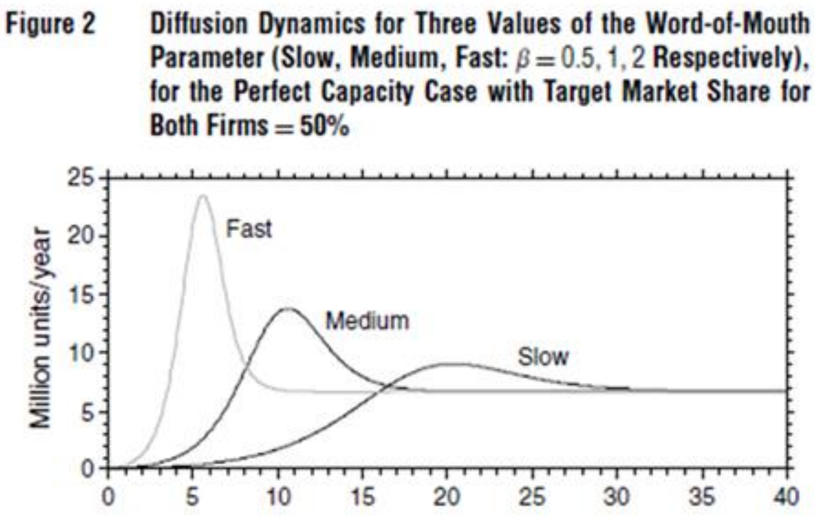
Source: Zalando (2014a)

9.29 Appendix 29 – EBIT margin development in Zalando



Source: Wauters (2014a)

9.30 Appendix 30 – Word-of-Mouth Dynamics



Source: Sterman et al. (2007)

9.31 Appendix 31 – Size Guide Exemplar

Men Suits

Information to measure

Sizes and measurements can vary depending on manufacturer, brand and style.

1.Bust
Measure around the fullest part of your bust.

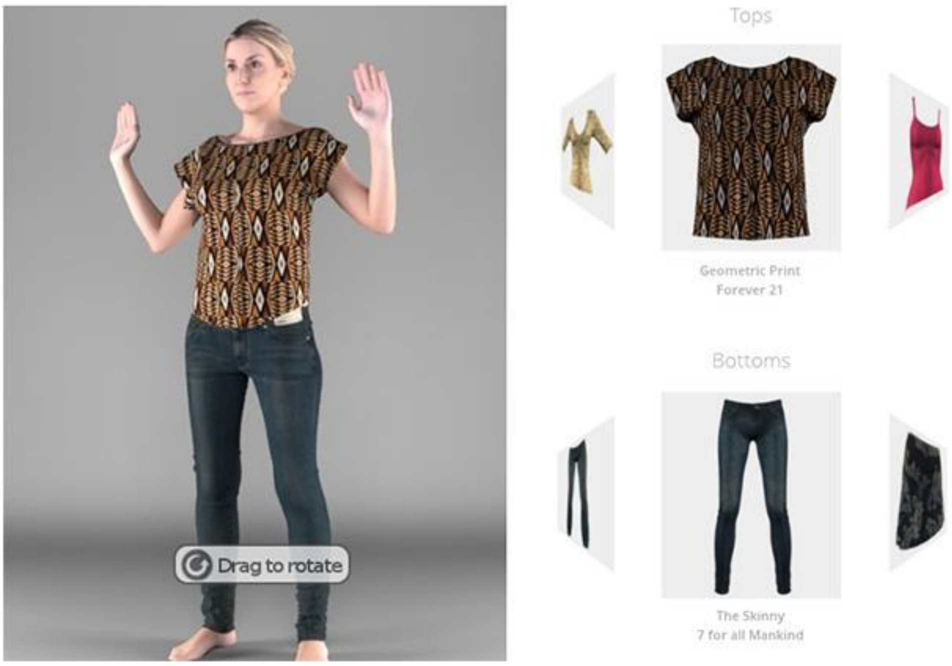
2.Waist
Measure around natural waistline.

Sizing Guide: Men Suits

International Size	Manufacture	Manufacture (short)	Manufacture (long)	Chest measurement (inch)	Hip measurement (inch)
XS	44	22	88	33.9 - 35	29.5 - 30.7
S	46	23	90	35.4 - 36.6	31.1 32.3
M	48	24	94	37 - 38.2	32.7 33.9
M/L	50	25	98	38.6 - 39.8	34.3 - 35.4
L	52	26	102	40.2 - 41.7	35.8 - 37
XL	54	27	106	42.1 - 42.9	37.4 - 39
XXL	56	28	110	43.3 - 44.5	39.4 - 40.9
3XL	58	29	114	44.9 - 46.1	41.3 - 47.2
4XL	60	30	118	46.5 - 47.6	47.6 - 51.2

Source: Screenshot of Zalando's Web page

9.32 Appendix 32 – Virtual Changing Room



Source: Velazco (2014)

10.0 Preliminary Thesis Report

Ana Catarina Morgado
ID: 0959040

BI Norwegian Business School

Preliminary Thesis Report

Zalando, from Shoe to Fashion

A European online retailer hit built upon product and market development strategy.

Hand-in date:
14.01.2014

Campus:
BI Oslo

Examination code and name:
GRA 19003 Preliminary Thesis Report

Programme:
Double Degree with Católica Lisbon
Master of Science in Business

Supervisor:
Debbie Harrison

TABLE OF CONTENTS

INTRODUCTION

Since the latter half of the 20th century that society has been witnessing the rising of a global digital age, due to computer massification, digital record and the unprecedented capability of purchasing products and services online. The latter implies significant challenges for retailers and consumer goods firms. Nowadays, many brick-and-mortar retailers are striving to survive in a fast-paced world as consumers are becoming acquainted with online shopping. In fact, the internet has changed the concept of shopping forever, making the purchasing act less stressful, more convenient and time saving. So, retailers have to assume a distinct value proposition, understand their customers and reinvent the shopping experience.

One company that has done this exceptionally well is Zalando, a German-based online retailer for shoes and fashion, founded in 2008, which is already leader in its market segment. This way, two research questions arise *A) What are the critical success factors necessary to be a leader in the online fashion retail industry? How did Zalando deliver unprecedented growth through a product and market development strategy? B) Has Zalando developed a sustainable competitive advantage?*

The purpose of this thesis is, therefore, to identify Zalando's sources of sustainable competitive advantage, to explore the processes by which the firm became the market leader only four years after being founded, and also to analyze how Zalando will keep differentiating itself from competitors in the future (see appendix 1).

To provide an answer to the questions previously described, this master thesis will, firstly, analyze the characteristics of online retail worldwide, followed by a more detailed approach in terms of product category (apparel) and geographical scope (Europe). In this context, changes in consumer behavior and the strategic shift towards the online store will also be assessed. Secondly, Zalando's case study will take place, presenting the firm and understanding how its expansion strategy was successfully implemented both in terms of product and market development. In addition, research is to be made on how Zalando keeps competitive in an ever-changing market: careful analysis of the critical success factors to run a business online and the assessment of its sources of sustainable competitive advantage. Finally, some comments will be made on the behalf of Zalando's exponential growth and its possible hazards, as well as what are Zalando's next strategic steps.

I. LITERATURE REVIEW

"*Personal experience is the basis of all real literature*" (George Lewis)

I.I SUSTAINABLE COMPETITIVE ADVANTAGE

First and foremost it is necessary to deeply understand the meaning of Sustainable Competitive Advantage, a central concept in Strategic Management. Hofer and Schendel (1978) define sustainable competitive advantage as "the unique position that an organization develops in relation to competitors that allows it to outperform them consistently". So, competitive advantage relates to the firm's ability, generated by its resources and attributes, to not only ensure its survival in the market place, but also to produce above-normal rents and enhance its efficiency and effectiveness levels in ways that other firms cannot (Lynch 2009). In fact, this superior performance is usually one of the firm's main strategic goals.

However, in order to prolong this competitive advantage over time it is necessary to guarantee that the firm's resources and value-creating processes cannot be easily replicated or imitated by its competitors in the future (Barney, 1991). This means that competitive advantage is only sustainable if it can be maintained over a significant amount of time.

Moreover, research has been made about the firm's main sources of sustainable competitive advantage. Barney (1991) claims that firms stand sustainable competitive advantage through the implementation of strategies and processes that exploit internal strengths and market opportunities while, at the same time, minimize the hazards of environmental threats and internal weaknesses. In this context, there are some unique competences which enable the firm to acquire sustainable competitive advantage, such as knowledge and information flow, know-how skills, experience, innovation capability (Lowson 2002), capital resources (Williamson 1975), corporate entrepreneurship (Covin and Miles 1999), vertical integration, synergies, differentiation or low-cost positioning as well as organizational culture and leadership (Lynch 2009, 147). In addition, human resources can also be a potential source of sustainable competitive advantage due to the presence of highly trained and skilled personnel in the organization (Becker 1964).

I.II ANSOFF'S MATRIX

Ansoff's matrix constitutes the most important framework to be utilized throughout this thesis. Formulated in 1957, it is still widely used nowadays as an analytical tool for firms to consider their growth options. In detail, this framework generates distinct strategic directions open to any business, based on different combinations of new products and services, and existing or new market options (Richardson and Evans 2007). So, there are four basic growth alternatives illustrated in this framework - market penetration, market development, product development, or diversification (see appendix 2).

I.II.I Market Penetration

First of all, a market penetration strategy focuses on increasing market share through the offer of current products and/or services to an existing market. The pursuit of this strategy commonly involves efforts to increase consumer's usage rates in terms of quantity or frequency of use. In this sense, new applications of the product are often suggested and advertised on the media, based on market research studies (Proctor 2000, 239). Other tactics include the conversion non-users and the attraction of customers from competition, by the design of promotions, effective marketing communication (advertising), and even loyalty programs. At the end, the goal is to enhance purchase intention levels.

I.II.II Market Development

The concept of market development can be defined as a regional or international change, as one launches operations into other countries. Likewise, the targeting of new market segments is also considered as market development, which can be found through the use of several segmentation variables such as user profile (user/non-user), usage rate (frequency level), and distribution channels. In fact, organizations can growth by identifying new market segments for their current product and/or service offer. More often than not, geographical expansion strategies are successfully implemented with only small, incremental changes. Whenever the same expertise, skills and technology are needed, there are potential synergies that can be exploited, resulting in less costly investments and operational costs. Nevertheless, a careful market analysis is always required in order to identify profitable, significant and sustainable segments (Proctor 2000, 241).

I.II.III Product Development

The third growth strategy relates to the development of new products to be sold in current markets. The definition of what a new product is can be broad enough as to include improvements in existing products (new features, different quality levels etc), extension of the existing product line, product repositioning, new category entries and, obviously, product innovation itself (Proctor 2000, 241). In this context, Theodore Levitt (2004) has mentioned the importance of innovation due to three major trends in the market: unpredictable customer preferences, competition intensification and technological advances. Therefore, new products are essentially developed either to substitute or complement existing offers or to serve new market demands, having a positive contribution at boosting sales growth. However, product development constitutes the riskier approach of all the three strategies mentioned so far, since profits levels are initially hurt by research, development and launching costs.

I.II.IV Diversification

Finally, diversification involves the production of new products for new market segments, simultaneously. This is the reason why differs substantially from all the three previous strategies, since it requires the development of new skills and new facilities. Moreover, diversification often results in significant physical and organizational changes in the business structure, abandoning past operational patterns and traditions. Therefore, it represents the most risky alternative present in the Ansoff's Matrix.

So what is the reasoning behind it? There are several reasons driving firms into diversification such as excess capacity utilization, technological obsolescence and growth rates to be met. In addition, diversification is also useful to manage risk distribution and improve stability levels under uncertainty, since the spread of business activities prevents sales from declining as low as they did before (Ansoff, 1957).

The implementation of a diversification strategy can be done through organic growth, joint-ventures, strategic alliances or even mergers & acquisitions (M&A). However, not all diversification strategies are the same as there are related and unrelated diversification types. The former takes place whenever the new business has substantial commonalities with the firm's core business, such as common distribution channels, marketing, production processes, R&D, infrastructures, operating systems and so on. This way, there is potential towards the creation of significant economies of scale and synergies based on exchange of skills and resources (Proctor 2000, 254-255). By contrast, in unrelated diversification there are no synergies, as the firm moves into business areas without prior experience. This might result in severe hazards and unnecessary risks for the firm, which may lose focus on its core business and have difficulties at running the new business. Nevertheless, unrelated diversification is mainly driven by larger and/or more stable cash-inflows than they would be otherwise.

I.III PORTER'S GENERIC STRATEGIES

In 1985, Michael Porter, bridges the concepts of source of competitive advantage and the competitive scope of the target customers to define the three generic strategies of cost leadership, differentiation and focus (also known as niche) that any business can undertake (see appendix 3). At the time, this idea was at the forefront of strategic thinking, and it still plays a crucial role nowadays regarding the conceptualization of strategic options. In addition, Porter (1985) states that profit levels are above or below the industry average depending on the firm's positioning, and that every business is required to adopt one of these three basic strategies in order to gain and sustain competitive advantage. So, organizations must choose a given target scope and type of competitive advantage to obtain, since trying to be "all things to all people" usually leads to failure. As Porter (1985) mentions, there are severe hazards for those who are "stuck in the middle", engaging in every basic strategy but failing to successfully achieve any of them, because "it competes at a disadvantage because the cost leader, differentiators or focuser will be better positioned to compete in any segment. Such a firm will be much less profitable than rivals".

A further explanation of each one of these strategies is provided by Richard Lynch in his book "Strategic Management" (2009, 303-306).

I.III.I Low-Cost Leadership

Low-cost leaders gain competitive advantage by reducing costs at every point of the value chain, exploiting all sources of cost advantage regarding procurement of raw materials, manufacturing processes, operational efficiency, product delivery etc (Dess and Davis 1984). Therefore, they usually provide standard and regular products, priced according to the average price of the market. One example of low-cost leader is the restaurant chain McDonald's.

I.III.II Differentiation

Here the concept of market segmentation is crucial, as differentiated firms are able to meet properly the needs and demands of specific segments in the market, resulting in differences on customers' perceptions of value and willingness to pay. In order to produce unique products, firms often incur into extra-costs (i.e. advertising, top-quality materials) in order to build brand reputation and are able to charge premium prices, that is, prices higher than the average price in the market. In this context, BMW and Mercedes are good examples.

I.III.III Focus Strategy

The essence of the last generic strategy relates to the exploitation of a narrow target's differences from the overall industry. In other words, the niche firm specializes on a specific segment or group of segments in the market place and gains competitive advantage by offering products and/or services especially tailored for that niche. Examples of niche companies include Ferrari and Rolls-Royce. In a later development of his theory, Porter states that firms can undertake focus strategies either through differentiation or cost leadership. So, by targeting a particular customer segment, to the exclusion of others, focus strategies generate profits higher than the industry average, either by charging a premium for top quality or by low-priced products with high sales volume.

II. ONLINE APPAREL RETAIL INDUSTRY

*"This is not simply about a move online but a change in the nature of shopping" (*Alex Morton, Head of Housing, Planning & Urban Policy, UK)

II.I. THE GLOBAL CONTEXT

According to the Global Clothing B2C E-Commerce Report 2013 published by the Hamburg-based secondary market research company yStats.com, the most purchased product category in B2C E-Commerce globally is clothing. The same conclusion is drawn from other two statistical entities, Forrester and NRF Index, as one can see in appendix 4. These findings puzzlingly contradict previous statements that shoppers were unlikely to purchase clothing items online since those required to be tried on properly in a dress room. There is no doubt that B2C E-Commerce apparel sales are thriving worldwide, as in 2013 alone more than one third of all Internet users around the globe have already purchased or intended to purchase clothes online. Indeed, the Internet has become a crucial research tool to be aware of novelties and compare product features, whether the actual purchase is made online or not.

II.II. THE EUROPEAN CONTEXT

E-commerce is one of the fastest growing markets in Europe. According to Forrester, European online retail sales will reach nearly €191 billion by 2017, in comparison with €112 billion in 2012, which reflects a robust 11% CAGR (Compound Annual Growth Rate) over the next five years. In addition, online apparel shopping is becoming increasingly popular since the share of individuals purchasing clothes and sports goods online has escalated in

2012, reaching over 20% of all internet users, as stated in the Global Clothing B2C E-Commerce Report 2013.

Relevant to mention there are significant differences among the European countries. Regarding online retail, Germany, United Kingdom and France alone account for the biggest markets, representing nearly 70% of the total European online sales (see appendix 5). In fact, in Germany, apparel is the largest product category sold online, having grown a third in terms of sales in 2012 and recorded several EUR billions of revenue. Nevertheless, according to Reuters, it is Spain, Poland and the Netherlands that are expected to growth faster while Norway and Sweden have the highest online per-capita expenditure.

In addition, "There is a big North-South divide in e-commerce in Europe" stated Mintel European retail analyst John Mercer, since the Spanish, Greek, Portuguese and Italian levels of participation online are far behind those of Germany and UK. This idea of contrast between Southern and Northern Europe is carried forward in the European Online Retail Forecast 2012 to 2017, by Forrester. Experts claim that the Northern countries are entering a new competitive phase driven by high rivalry in the market segment, where efficiency and innovation are key to survive, while Southern countries are experiencing the fastest growth rates, particularly Spain and Italy over the next five years.

II.III. CHANGES IN CONSUMER BEHAVIOR

Consumers both in developed and emerging countries are more digitally empowered than ever before, states PricewaterhouseCoopers on the article “Retail and Consumer Industry Insights*”*. Because of recent technologic developments, consumers enjoy the benefits of online shopping, such as time saving purchase methods, wider variety of products, easy comparison and research of product’s features and prices, relative lower prices and convenience (Chiang 2003; Monsuwé 2004) due to the fast check out, availability 24/7, no queues and home delivery options.

This idea is supported by further research since consumer’s attitude toward the internet predicts the use of internet for product information search (Kim and Park 2005; Bakos 2001) due to greater convenience and accessibility Klein (1998). In the particular of apparel’s product category, Yoh et al. (2003) claim that the attitude towards shopping clothing online is strongly influenced by purchase intention via internet.

In PwC's Global Retail and Consumer practice, more than 15.000 shoppers in 15 different countries participated in a survey (2013 Total Retail Survey) in order to understand consumer shopping patterns and the usage rate of distinct channels. As one can see in appendix 6, there is a clear downward tendency regarding shopping in-store while the online shopping via PC has been spreading dramatically, as 30% of the inquiries reveal to buy more online. Consequentially, consumers' attitudes have changed significantly as they have become more demanding, shopping what they want, where they want and when they want.

II.IV. IMPLICATIONS FOR TRADITIONAL RETAIL

There is an inflection point taking place in the retailing industry. It has become increasingly competitive over the past 20 years, due to the high number of players in the market and customer empowerment (regarding lower switching costs and higher information flow). Nowadays, the customer has easy access to most products and services, so "the issue for retailers is making people come to your stores" says Neil Saunders, managing director at Conlumino, a retail consultancy. But traditional retailers are facing also another kind of threat, the online store. Indeed, online retailers have been shrinking most brick-and-mortar profit margins in Europe, taking advantage of a slow shift from high street stores to the Internet.

So how can traditional retailers survive in such a highly competitive market? The answer might be in the Financial Times' article "UK high street struggles to adapt in retail race" published in September 2013, where Alex Morton announces a shift in the overall nature of shopping. In his words "a trip to the shops is increasingly about enhancing the shopping experience and successful retail chains destinations offer just that" which explains why mass retailers, such as Tesco, have started to implement coffee shops, restaurants and even beauty salons in their establishments.

III. ZALANDO

"We are proud of the remarkable achievements we made. Zalando is a true European success story"

(Robert Gentz, Zalando´s Founder and Managing Director)

One interesting case study of thrilling success within the European online retail market is the case of Zalando (see appendix 7). The company was founded in October, 2008, by Robert Gentz and David Schneider under the initial name of Ifansho, having its headquarters in

Berlin. Back then, Gentz and Schneider founded Zalando together with the Samwers' start-up incubator Rocket Internet GmBbH, which diluted its two-thirds holding to 50% as new investors came aboard. These days, the firm's shareholders (besides Rocket) are Tengelmann Ventures, Holtzbrinck Ventures, Kinnevik, and DST Global.

But why was Zalando founded in the first place? On the article entitled "Building an Online Retail Hit from the Shoes Up", Power Retail provides the answer. The company was founded to fulfil a gap in the European online market. Being initially inspired by the North American online retailer Zappos, Zalando was also specialized in sale of footwear, in spite of targeting a distinct audience: the fragmented European market. This way, the German online footwear industry defined Zalando's starting point.

Nowadays, the firm employs nearly 4000 employees and has expanded its activities beyond German borders into other thirteen European countries: Austria, Switzerland, France, Belgium, the Netherlands, Italy, Spain, Poland, Sweden, Denmark, Finland, Norway and UK.

Alongside its geographical expansion, Zalando has quickly owned the footwear segment and has spread its product portfolio significantly, as the firm is currently Europe's leading online retailer in selling shoes, clothing and other fashion accessories, sports and lifestyle products online. According to Zalando's Corporate Website, its extensive selection for women, men and kids ranges from high street brands to highly sought-after designer labels, having a product span more than 150.000 items over 1.500 distinct international brands, such as Diesel, Guess, Lacoste, United Colors of Benetton, Ugg, Converse, Calvin Klein, Adidas, Nike, Tommy Hilfiger, Espirit and Timberland. Therefore, Zalando's product assortement has expanded into four new areas: Zalando Sports, Zalando Kids, Zalando Beauty and Zalando Lounge (an exclusive shopping club for registered customers).

III.I. CHRONOLOGY OF EVENTS

See appendix 8 for a graphic chronological representation of Zalando's history.

	Month	Event
2008	Nov	• Increase array of brands available • Product development: bags
	Oct	• Zalando's Foundation in Berlin, Germany • Product assortment consists only on shoes from selected brands

Year	Month	Event
2009	Nov	• Grade A in customer satisfaction and service by the German rating standard service (TÜV).
	Sept	• 1st Television advertisement on MTV, NTV and Pro7
	Jul	• New office in Berlin, four times larger
	Apr	• Market development: Austria • Increase array of brands available • Product development: fashion and apparel

Year	Month	Event
2010	Dec	• Market development: France
	Sep	• Market development: the Netherlands
	Jun	• Zalando Sports offers performance shoes, clothing and equipment
	Mai	• Zalando Beauty offers body care products
	Apr	• Zalando Lounge offers luxury brands at fair prices
	Feb	• Product development: clothing for men and women • Launch of Zalando Fashion Blog
	Jan	• Product development: children's shoes • Social Media: Facebook and Twitter

Year	Month	Event
2011	Dec	• Product development: Home
	Sep	• Launch of Zalando's Magazine
	Oct	• Market Development: Switzerland • Construction of new warehouse in Erfurt starts
	Jul	• New warehouse in Brieselang
	Apr	• Market development: UK
	Mar	• Market development: Italy

Year	Month	Event
2012	Dec	• German Marketing Award • Opening of fulfillment center in Erfurt • Launch of Zalando Mobile app
	Sep	• Market Development: Poland
	Aug	• Market Development: Norway
	Jul	• Market Development: Finland and Denmark
	Mai	• Cooperation with Kaviar Gauche • Market Development: Spain
	Apr	• Market Development: Sweden and Belgium
	Mar	• Launch of Zalando Collection

Year	Month	Event
2013	Feb	• Zalando reaches break-even in core region • Zalando doubles net sales up to 1.15 billion EUR • Launch of Zalando Lounge in Finland

Source: Zalando's Offical Website

III.II. ZALANDO'S E-COMMERCE STRATEGY

III.II.I Positioning and Goals

Zalando is currently positioned at the forefront of the online apparel industry in Europe, aiming to become an even stronger player within this market segment. In addition, the firm's strategic goal is to be the preferred online shop regarding shoes and fashion in each of the European countries where business operations are established, as mentioned in "Fashion E-tailer Zalando sales skyrocket 125% in 2012", an article published last year by Fibre2Fashion, a B2B platform operating in the global textile and apparel industry. This idea is further developed by David Schneider, Zalando's Founder and Managing Director, who states "Our goal is to keep focus on the best fashion offer, the most advanced technology and proprietary logistic infrastructure enabling fast delivery and excellent service. We do not only want to grow fast, but also to become better in what we deliver to our customers".

III.II.II Growth Drivers

The German-based online retailer has been able to meet its strategic goals and be positioned as market leader based on three main growth drivers 1) excellent customer service, 2) unique service mix and 3) wide range of products and brands available.

First and foremost, the offer of excellent customer service has long been at the heart of Zalando's business philosophy. For instance, Zalando has proceeded to the tailoring of its Website for each specific country where the firm operates, in order to better target its offer regarding the European market.

Secondly, the unique service mix that the firm provides also complements this idea, as Philipp Thienel, Zalando's UK Country Head, explains: "the unique service mix includes free shipping and delivery, free returns, a 30 day return guarantee and a free customer service hotline". Altogether, these policies are effective in lowering customers' risk aversion levels and improving conversion rates as it turns online shopping at Zalando's Website into an easy, secure and stress-free experience. The firm takes this commitment even further by offering different payment methods (PayPal, Visa and MasterCard) and providing a package tracking number, which enables the customer to have access to the order current status, without any conditions and brakes to the purchase. This way, Zalando value proposition relies heavily on user friendly platforms which reinforce confidence and comfort in the moment of purchase.

Finally, the previous aspects are enhanced through the offer of a great selection of brands and products, including not only items at discount but also the latest shoes and fashions for women, men and children, as well as sportswear, home and beauty products. As David Schneider, Zalando's Founder and Managing Director, says: "to keep growing (…) we continue to improve our offer by extending our brand portfolio to an incomparably international selection along all categories in fashion, shoes and sports. We broadened our in-house designed labels, and engaged more shops in the partner program adding to a better availability and broader selection".

III.III. ZALANDO'S MARKETING MIX

Zalando has defined a clever and truly effective marketing mix structure, combining both online and offline formats, as well as advertising on television and publishing its own magazine (see appendix 9). As a matter of fact, the launch of an offline business concept for three days in Berlin, in March 2012, was completely revolutionary. It was the first time that online retailer has ever launched its own brand, named after the label itself, being designed by Bernadett Penkov. It is common to testify traditional retailers who launch an online shopping platform in order to keep competitive in the market place, but very seldom does this happens otherwise. To Zalando, the selling of its own brand in a physical store (particularly a Pop-up-

Store) has definitely triggered brand awareness and reinforced the perception of freshness and innovativeness associated with the brand itself.

In addition, Zalando issues a quarterly fashion magazine, where fashion news, product information and style advice are provided to all readers and fans. This kind of publication is extremely useful not only to strengthen customer relationships but also to lend credibility to the online store. The fashion E-tailer also produces an online magazine named “News & Styles”, with which “Zalando provides high quality editorial content, offering styling advice and on-trend fashion inspiration” explains Thienel, Zalando’s UK Country Head.

III.III.I Social Media Channels

According to the “Global Survey of Online Shoppers” published by PricewaterhouseCoopers in 2013, nearly 60% of all participants revealed to use social media to follow, discover and give feedback to retailers and well-known brands. Therefore, in addition to the website, Zalando issues news on its own fashion blog, Instagram, Mobile App, Facebook and Twitter accounts, recognizing the importance and potential of social media nowadays. The firm utilizes these sought-after communication channels to provide customers with current fashion trends, product updates, news about the company and latest promotions, while reflecting the youthful culture of the company itself. The use of international Facebook and Twitter accounts assumes particular relevance as it helps Zalando to successfully engage customers, interact with them on a regular basis and increase brand awareness.

IV. RESEARCH METHODOLOGY

"The important thing is that you never stop questioning. Curiosity has its own reason for existing" (Albert Einstein)

IV.I. THE CHOICE OF ZALANDO

Having defined the general theme of this thesis as the online apparel retail industry, the choice of a particular company was necessary in order to specialize the analytical scope of thesis itself. In this context, the choice of Zalando was obvious. As previously mentioned, Zalando is currently Europe’s leading online retailer in selling shoes and fashion, providing a product span of more than 150.000 items over 1.500 international brands.

In financial terms, the online fashion retailer recorded €1.15 billion net sales in 2012 alone, which represents more than double of its sales volume in 2011 (125% growth rate). According to article "Fashion E-tailer Zalando sales skyrocket 125% in 2012*"*, published last year by Fibre2Fashion, this growth is justified by the rising demand in all existing markets and the geographical expansion into seven new markets in 2012, extending the Zalando's reach up to fourteen countries overall. While keeping investing in new markets and product assortment, alongside proprietary logistics and IT, Zalando was also able to reach the break-even point (EBIT) in its core region composed of Germany, Austria and Switzerland (the so called *DACH* region). So, Zalando has definitely proved its capability to combine high growth rates with a consistent path to profitability. As a matter of fact, Zalando is the fastest European firm to ever to reach over one billion EUR in net sales, only four years after being founded. In addition, Zalando has already achieved 95% brand awareness, positioning itself as the second most popular brand recalled by Germans, just behind Volkswagen.

This merit was not overlooked by the European E-commerce Awards in Barcelona, awarding Zalando with the first prize in 2012. As mentioned in "Fashion retailer Zalando bags European E-commerce award", an article published by Fibre2Fashion, Zalando was considered as the "Best Cross-Border Webshop" outcompeting worldwide known brands such as H&M, Asos or even Amazon. The judges justified the decision by saying that "Zalando makes the customers in their target markets feel they are shopping with a local brand. They research very well and adapt to the markets from many perspectives, including payment, distribution and marketing".

For all this reasons, Zalando entitles itself as a worthwhile successful business case which deserves to be carefully analyzed and explained.

IV.II. DATA COLLECTION

Data collection relates to the process of gathering and measuring information in a systematic way, in order to infer valid and realistic conclusions of the matter at hands. In other words, it is from data collection and research methodology that one is able to address the research questions previously stated. In this thesis, both qualitative and quantitative data will be present (see appendix 10). In the case of the former, primary data will be gathered through the realization of an individual interview with Zalando's Product Manager, depending on the interviewee availability. The purpose of this interview is to assess the firm's perceptions of the online retail market as well as its own sources of competitive advantage. Therefore, the interview will be mainly structured with open-ended questions such as "*Is Zalando concerned about current and/or future competitors? How does Zalando differentiate itself in such a highly competitive industry? What are the company's sources of sustainable competitive advantage?*" In this context, the possibility of conduction of a focus group experience will also be considered.

In addition, qualitative secondary data will also be accurately selected from credible entities such as online research articles, business journals, press releases, and even from Zalando's annual reports. By doing so, one has access to what has been previously investigated, recorded and communicated about Zalando's history and strategic planning.

In the case of the latter, quantitative primary data will be mainly gathered through the execution of a survey by questionnaire in BI Norwegian Business School, involving preferably both genders and a wider age range as possible. Nevertheless, it is expected beforehand an age concentration around 18-25 years old, which may constitute a limitation to this study. The sample size is expected to include nearly 50 individuals and the survey format will include mainly closed-ended questions, which are more feasible to compute and interpret statically. The purpose of this survey is to deepen the understanding of the online consumer behavior among the Norwegian population, as well as their perception of Zalando's value proposition. Some examples of questions present in the survey are: "*How often do you shop online? What motivates you to shop online? And what discourages you from shopping online? Have you ever shopped at Zalando? What did you like the most?*"

Finally, secondary data will be mainly based on certified international statistical entities which relate to the online apparel retail industry. Examples include Reuters, Forrester, Power Retail and Internet Retailer, among others. The importance of having access to credible and factual data is crucial in order to infer proper conclusions in this study.

V. TIMELINE PLAN

"A goal without a plan is just a wish" (Antoine de Saint-Exupery)

Timelines are important for mapping and planning in advance different activities and investigation stages, providing an illustration of what will be done and when. This thesis timeline is divided in the two semesters that concern the academic year, including not only what has already been done (1st semester) but also what is going to be done (2nd Semester).

Master 1st Semester – Fall 2013					
Monthly Task Execution	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
Phase I **Master Thesis Theme**					
Industry and Company Definition					
Formulation of Research Questions					
Research Design and Methodology					
Phase II **Assessment of Industry's and Firm's Current State**					
Scoping and Information Gathering (Online Retail)					
Scoping and Information Gathering (Online Apparel Retail)					
Evaluation of Shift in Consumer Behavior					
Zalando's Historical Background					
Zalando's Product and Market Development					
Deliverables		Thesis Registration			

Master 2nd Semester – Spring 2014						
Monthly Task Execution	**Jan**	**Fev**	**Ma**	**Apr**	**Mai**	**Jun**
Phase III **Development of Research Methods**						
Survey Design and Approval						
Survey Execution						
Interview Design and Approval						
Zalando's Product Manager Interview						
Focus Group execution						
Primary Data Collection and Analysis						
Phase IV **Conclusions and Recommendations**						
Identify Zalando's Sources of Sustainable Competitive Advantage						
Success factors for Product and Market Development						
Identification of Potential Threats						
Assessment of Future Challenges and Opportunities						
Safety Buffer						
Deliverables	Preliminary Thesis Report				Final Thesis Report	

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APPENDIX

Appendix 1: Thesis Analytical Scope

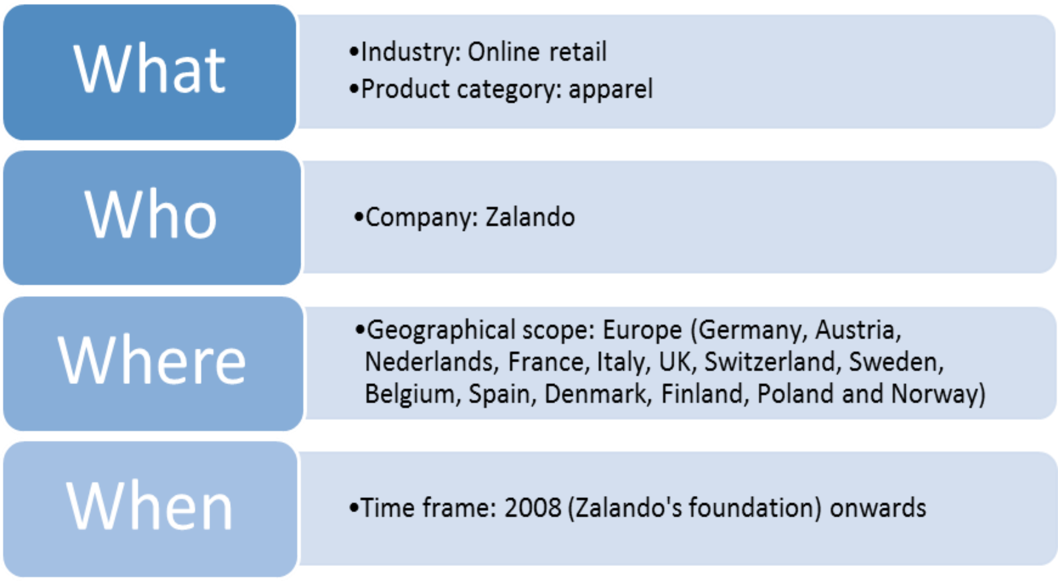


Diagram 1

Appendix 2: Ansoff's Matrix

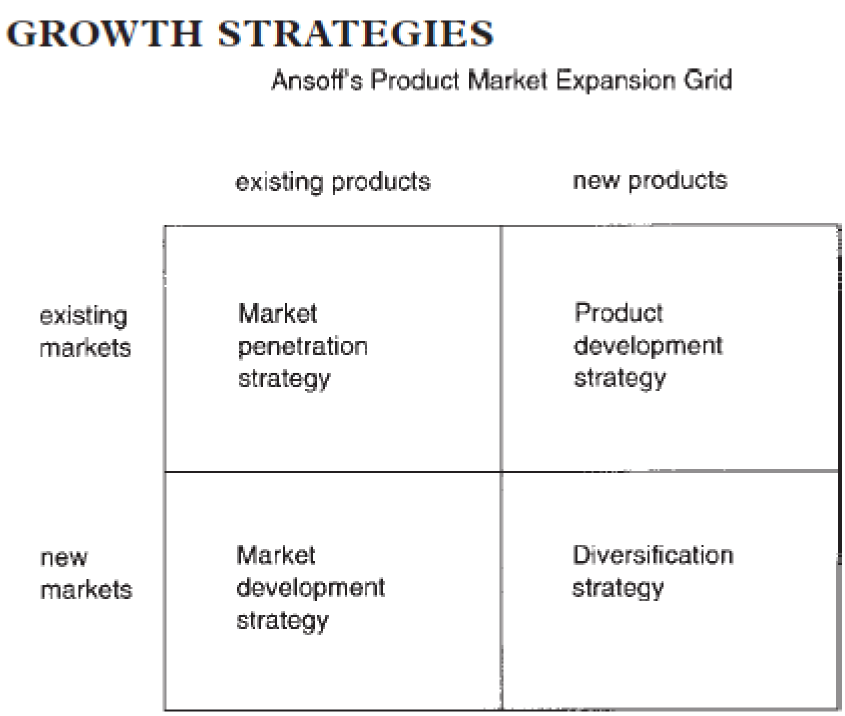


Figure 12.1 **Ansoff matrix**

Framework 1

Source: Proctor, Tony. 2000. *Ansoff's Product Market Expansion Grid*. Strategic Marketing. Page 239

Appendix 3: Porter's Generic Strategies

		Competitive Advantage	
		Lower Cost	Differentiation
Competitive Scope	Broad Target	Cost Leadership	Differentiation
	Narrow Target	Cost Focus	Focused Differentiation

Framework 2

Source: Porter, Michael. 1985. *Competitive Advantage: Creating and Sustaining Superior Performance*. NY: The Free Press. Page 12

Appendix 4: Best Selling Internet Products

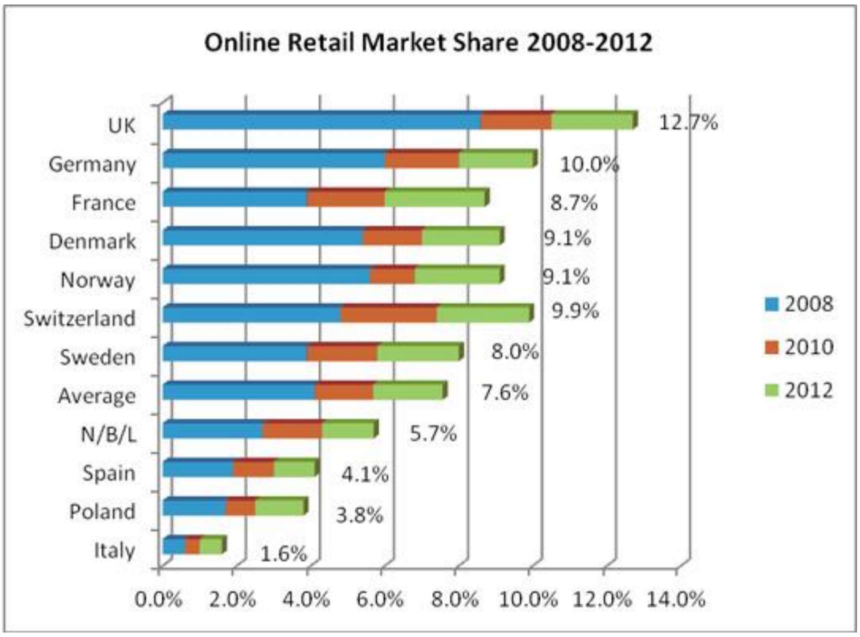
Rank	Rank of Best Selling Internet Products
1	Women's Apparel
2	Books
3	Computer Hardware
4	Computer Software
5	Apparel
6	Toys / Video Games
7	Videos DVD's
8	Health and Beauty
9	Consumer Electronics
10	Music
11	Jewelry
12	Office Supplies
13	Linens / Home Decor
14	Flowers
15	Sporting Goods
16	Footwear
17	Small Appliances
18	Tools and Garden
20	Gifts

Table 1

Source: StatisticBrain. 2014. http://www.statisticbrain.com/top-selling-internet-items/

Statistic Validation: NRF Index. Forrester Research

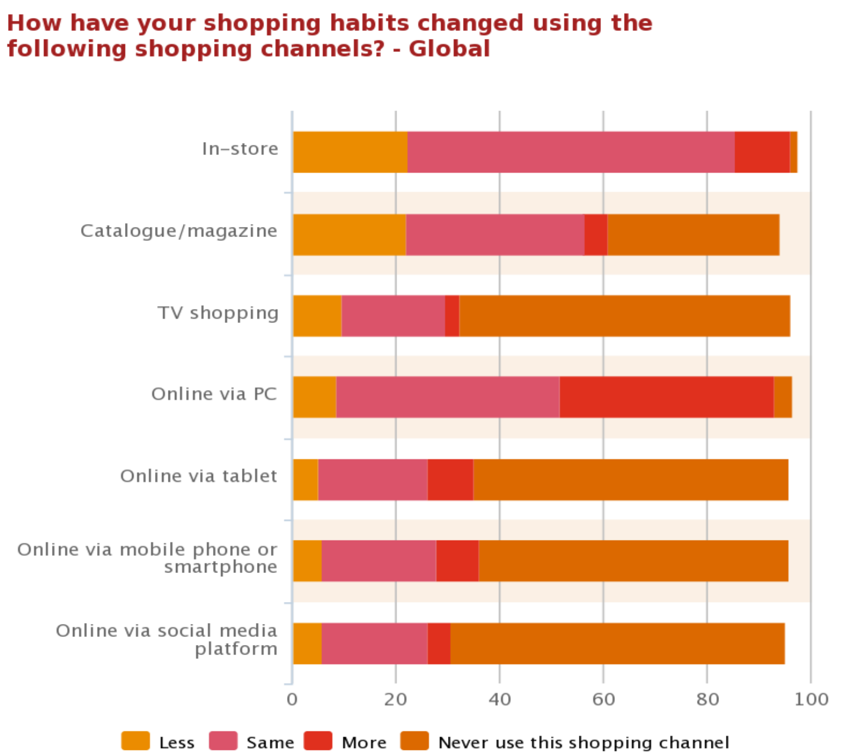
Appendix 5: Online Retail Market Share 2008-2012



Graphic 1

Source: Centre for Retail Research. 2012. "Online Retailing: Britain and Europe 2012" Accessed October, 2013. http://www.retailresearch.org/onlineretailing.php

Appendix 6: PricewaterhouseCoopers´ Total Retail Survey 2013



Graphic 2

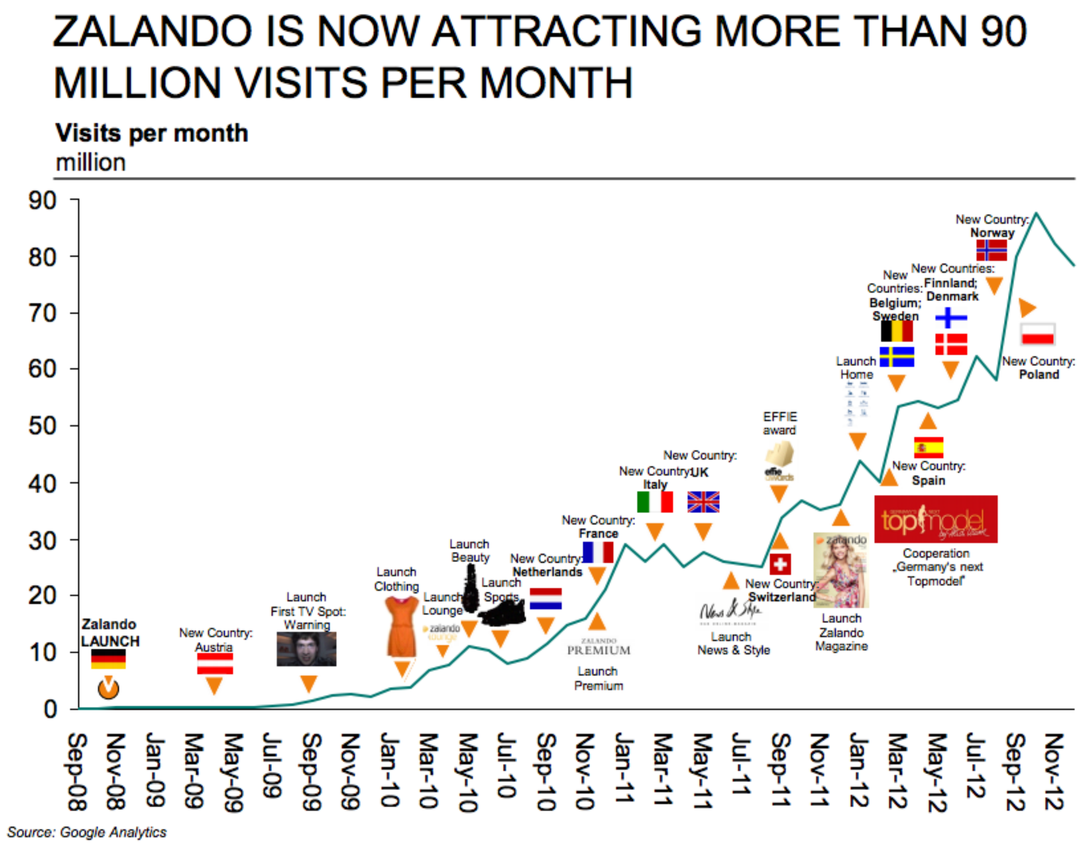
Source: PricewaterhouseCoopers. 2013. "2013 Total Retail Survey: Shopping channels are just the beginning".

Appendix 7: Zalando's Logo

Figure 1

Source: Screenshot of Zalando's Web page (www.zalando.com)

Appendix 8: Graphic Chronology of Events



Graphic 3

Source: http://newepeople.blogspot.no/2013/06/the-100-biggest-retailers-accounted-for.html

Appendix 9: Zalando's Magazine

Figures 2 and 3: Exemplars of Zalando's Magazines issued in 2012

Appendix 10: Thesis Data Collection Structure

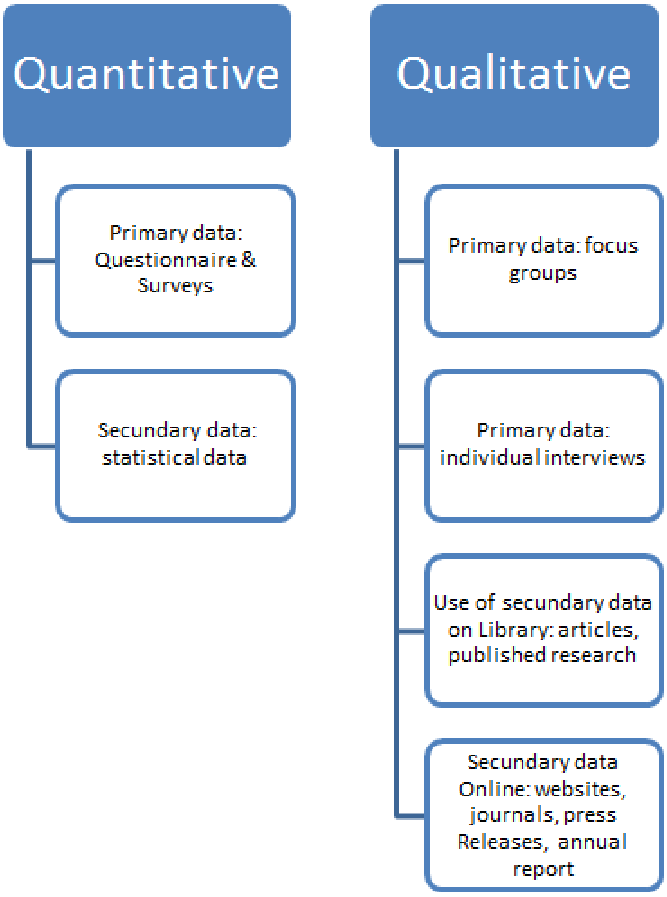


Diagram 2