



# DrinkForFood

## To diversify or not to diversify – that is the question

A case study about a seasonal online retail start-up

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## Abstract

This case study is about DrinkForFood – a German start-up. The company sells personalized wines and candles to graduating high school students. A core part of the business is its social impact. For every sold product DrinkForFood donates one meal to a school in Senegal.

The business acquires its target group via mobile instant messaging on WhatsApp and aims to build a close seller-buyer relationship based on trust. As DrinkForFood only has an online presence, this tactic should mitigate the consumer's purchase uncertainty. The company faces the issue of complete seasonal dependence. School graduations in Germany are between May and July - the only period where DrinkForFood can generate revenues. This long off-season hinders the company to grow sustainably.

Hence, the management considers diversifying the company's operations by targeting new markets, customer groups, or extending the product range to decrease the seasonal dependence. However, the implementation of diversification strategies could disrupt DrinkForFood's operations, dilute the brand image and endanger its profitability.

The dissertation includes a Literature Review of relevant theories and topics related to the Case Study's issues like trust, word-of-mouth, seasonality, and revenue diversification. It also offers a Teaching Note to help instructors for in-class discussions of the Case Study, analyzing the implications and challenges of diversification measures and the importance of relationship marketing activities, especially in the context of E-Commerce.

**Title:** "DrinkForFood – To diversify or not to diversify – that is the question"

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## Resumo

Este estudo de caso é sobre a DrinkForFood - uma start-up alemã. A empresa vende vinhos e velas personalizados a estudantes finalistas do ensino secundário. Uma parte essencial do negócio é o seu impacto social. Por cada produto vendido, a DrinkForFood doa uma refeição a uma escola no Senegal.

A empresa adquire o seu grupo-alvo através no WhatsApp e tem como objetivo criar uma relação estreita entre vendedor e comprador. Esta tática deve atenuar a incerteza de compra do consumidor. A empresa enfrenta o problema da dependência sazonal. As formaturas escolares na Alemanha decorrem entre maio e julho - o único período em que a DrinkForFood pode gerar receitas.

Por conseguinte, a direção considera a possibilidade de diversificar as operações da empresa, visando novos mercados, grupos de clientes ou alargando a gama de produtos. No entanto, a implementação de estratégias de diversificação poderia perturbar as operações da DrinkForFood, diluir a imagem da marca e pôr em risco a sua rentabilidade.

A dissertação inclui uma Revisão da Literatura de tópicos relevantes relacionados com as questões do Estudo de Caso, como o boca-a-boca, a sazonalidade e a diversificação das receitas. Também oferece uma Nota de Ensino para ajudar os professores nas discussões em sala de aula, analisando as implicações e os desafios das medidas de diversificação e a importância de marketing relacional.

**Título:** "DrinkForFood – To diversify or not to diversify – that is the question"

**Autor:** Thies Bothur

**Palavras-chave:** Diversificação, Sazonalidade, Fluxos de receitas, aquisição, Confiança, Marketing relacional, Boca-a-boca, Empreendedorismo

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## Table of Contents

<i>Abstract</i> .....	1
<i>Resumo</i> .....	2
<i>Acknowledgements</i> .....	3
<i>List of Exhibits</i> .....	6
<i>List of abbreviations</i> .....	7
<b>1. Case Study</b> .....	<b>8</b>
1.1 First steps .....	9
1.2 The development of DFF .....	10
1.3 Business Model.....	11
1.4 Customer acquisition.....	12
1.5 Logistics & supply chain .....	13
1.6 Cost structure .....	13
1.7 Competition .....	14
1.8 DFF's struggles.....	15
1.9 The next move.....	15
1. Continue as usual .....	15
2. Expanding into new countries .....	16
3. Targeting university graduations.....	16
4. Targeting companies .....	17
5. Extension of the product range .....	17
6. Introduction of an online store.....	17
1.10 The meeting .....	18
<b>2. Literature Review</b> .....	<b>19</b>
2.1 Relationship Marketing.....	19
2.2 Relationship Marketing in the context of E-Commerce.....	20
2.3 Relationship building and the role of communication.....	20
2.3.1 The significance of communication .....	20
2.3.2 The impact of personalized communication through MIM .....	21
2.4 Word-of-mouth communication.....	21
2.5 The role of trust.....	22
2.6 Seasonality and Revenue Diversification.....	24
<b>3. Teaching Note</b> .....	<b>27</b>
3.1 Learning objectives .....	27
3.2 Class Plan .....	27
3.3 Analysis .....	28
<b>4. Conclusion</b> .....	<b>40</b>
<i>Appendices</i> .....	<b>41</b>

<b>Case Exhibits .....</b>	<b>41</b>
<b>Reference List .....</b>	<b>48</b>

**List of Exhibits**

Exhibit 1: Number of selling points 41

Exhibit 2: Number of team members 41

Exhibit 3: Examples of booths with DFF’s wine at a graduation ceremony 42

Exhibit 4: The bottle of wine 43

Exhibit 5: The candle 43

Exhibit 6: Example of a personalized label 44

Exhibit 7: Company logo 44

Exhibit 8: Meals donated so far 45

Exhibit 9: DFF’s two stage selling process 45

Exhibit 10: Projects to which DFF is donating 46

Exhibit 11: DFF’s value proposition for students 47

Exhibit 12: DFF branded wine with personalized labels 47

## List of abbreviations

DFF	DrinkForFood
E-Commerce	Electronic Commerce
E-Learning	Electronic Learning
MIM	Mobile instant messaging
WOM	Word-of-mouth

## 1. Case Study

It was a cold and snowy Monday morning in April 2023 in Lippstadt – a small town in western Germany, relatively close to Dusseldorf – one of Germany’s metropolises. Timo Abt – one of three managing directors at DrinkForFood (DFF) - just entered the office and looked at his tight schedule for the week. The busiest time of the year had just started for the company.

DFF was a German Start-Up, founded in 2017, that sold personalized wine and candles to graduating school classes to create lasting memories of the students’ first degree. As students in Germany graduated between May and July, this represented the only period for DFF to generate revenue in the whole year.

However, that day was kicked-off with a serious business meeting with the other two founders, David Bell and Felix Schroder, – who were close friends that Timo had met back in high school – to discuss the company’s future. It was the first time in the company’s young history that the founders seriously considered expanding its operations by diversifying the revenue streams. This idea could help to reduce the seasonal dependency and to generate sales throughout the year.

Timo was highly in favor of exploring different options during DFF’s off-season like starting to target businesses, universities, or schools in foreign countries. Nevertheless, he also knew that Felix and David were less open to these ideas as they would result in risky operational and organizational changes. The founders had heated discussions about this topic before and did not reach an agreement so far.

Just before the meeting, Timo scrolled through his presentation slides again and hoped that this time he could convince the other founders.

While DFF sold its products to only two schools in 2017, the first year of operations, it significantly grew over the last years (Exhibit 1). In 2022 the company sold 313,540€ of its products to 318 graduating classes in Germany, employing a mix of five working students and part-time workers, in addition to the three founders (Exhibit 2). Due to the seasonality dependence, it did not pay off to hire full-time employees.

Nonetheless, DFF was at a critical decision point: to further grow, Timo considered that it would be inevitable to reduce the seasonality dependence. Should the company take on the risks of exploring further target groups and revenue streams? Or should it continue focusing on increasing the market coverage among German high schools? And would the three founders and friends be able to agree on the future of the company without affecting their friendship? All those issues were in his mind when opening the meeting room door.

## 1.1 First steps

DFF was founded in 2017 after one of the three founders – David – went to his brother’s bachelor graduation party, where the whole class pre-ordered personalized wine as a memory. David immediately thought that it would be a great business opportunity to focus on selling such wines. Therefore, he pitched this idea to his close friends – Timo and Felix – and “DrinkForFood” was born.

All three founders completed their studies in Münster, Germany. Timo (27) did his bachelor’s in business administration and majored in his master’s in management and entrepreneurship. He gained experience in sales and strategy implementation through internships. David (26) also studied business administration in his bachelor’s and afterwards did his master’s in finance. He worked as consultant for a financial service provider for six years which deepened his finance knowledge. Felix (27) studied law and pursued his master’s in law next to working for DFF and working in a law firm.

The business idea was grounded on the fact that students used to have a sweatshirt with their school logo and to go on a vacation after graduation with their school friends, which all served as a memory. However, their parents, grandparents, and close family did not have this. Also, graduating from high school after twelve years was the first relevant degree for German students. Therefore, their families were proud of this achievement and would like to reminisce about this time. Here, DFF responded to this demand through the creation of products that served as a memory for the families.

The company purchased wine in individual bottles from a winemaker, personalized them for each graduating class, and sold them for a profit. The bottles were sent to the students. They set up a booth during their graduation and sold them to their family (Exhibit 3).

DFF offered two products: a bottle of Riesling (Exhibit 4), which was a high-quality white wine. This type of wine was chosen because it was the most consumed wine in Germany. The company also offered candles which should serve as alternative (Exhibit 5). The candle was placed in an upcycled empty wine bottle. Both products had a personalized label for every graduating class, including all names of every graduating student plus the logo and graduation theme (Exhibit 6).

DFF’s motto was to “create lasting memories”. This catchphrase had a second meaning as the company donated 0.5€ to schools in Senegal for every product sold, to ease the accessibility to education for children and to make a “lasting” impact. The 0.5€ equaled one meal for a student. Hence, the name “DFF” because one product sold resulted in one meal for a Senegalese student.

This was reflected in the company's logo with a glass of wine and a loaf of bread (Exhibit 7). It encouraged parents in Senegal to send their children to school. DFF channeled the donation through the German organization "Hilfe Senegal e.V.", committed to improve the local living standards. Over 87,000 meals had been sponsored (Exhibit 8).

*"Our impact to make the world a better place is only marginal but if every company would do a little bit, the world would look very different" – Timo said.*

## **1.2 The development of DFF**

Initially, the founders tried to sell the personalized wines to graduating classes at two schools in their hometown. At one the wines did not sell while at the other parents bought a lot and gave positive feedback. So, the founders decided to continue developing the company. They chose to build the company without outside investment. They only used personal finances and revenues generated by the business, because only little funds were needed for the operations. They had to pay in advance for the first wine, the label, and the shipping to try the idea. However, from then on the business financed itself through sales turnover.

The founders split the tasks according to their expertise. Felix's duties included all legal matters. David took over the back office including procurement, IT, bookkeeping, and general organization. Timo was responsible for front office activities like sales, networking, cooperation's, and managing employees. They decided jointly about company-related matters. However, when there was disagreement, David's opinion counted more because it was his business idea.

One year after its foundation DFF sold to 25 schools and a year later to 100. Consequently, the company got cooperation's with student learning platforms that promoted DFF's business in newsletters. This resulted in another huge boost as in 2020, 222 school classes ordered, which led to a revenue of 251,320€. In 2021 the growth stagnated with 238 schools. This resulted from the Covid-19 pandemic. Nevertheless, the total amount of sold products skyrocketed. As the classes could not organize a graduation party due to the meet-up restrictions, they looked for alternative options that served as a memory. This resulted in an increase in sales up to 341,600€. In 2022 the company managed to grow again and sold to 318 schools. Due to the energy crisis and high inflation less products were bought despite a 30% growth in the number of sales points. Consequently, the revenue dropped to 313,540€. In April 2023, the company had concluded deals with 288 schools and forecasted to sell its products to around 350 schools.

### 1.3 Business Model

The students only served as intermediaries for selling DFF's products (Exhibit 9). The actual target customers were the student's families. This two-stage sales process worked as follows. In the first sales funnel, DFF sold to the students the concept of graduation wine and its social impact – where the class could vote for one of three projects in Senegal (Exhibit 10).

The second sales funnel focused on the family. The students sold DFF's products to their families and functioned as sales representatives. Once the final number of products sold was known, the students transferred the money and DFF received 100% of the sales proceeds. DFF did not pay any commissions to the students, that were happy with the omnipresence of the company's social impact.

*“The donation of money creates a warm glow and gives people a personal satisfaction. We regularly receive the feedback that students and their families are happy to be part of such a project”, Timo stated.*

DFF's value proposition was that the whole process was completely risk-free and effortless for students: DFF took care of everything from design to shipping and the coverage of all costs. This included shipping costs for sending the products and the costs for sending back unsold products. Also, there was no contract concluded between DFF and the classes. This meant that the company sent out its products completely on the basis of trust without a pre-specified minimum number of products that had to be sold. It would be possible that a class sold no single product and sent all back or that a class kept the products or sold them without transferring the proceeds. There was also no minimum order quantity, so DFF would also agree to send out small quantities. The company intentionally took the risk of making a loss at some schools to increase its awareness. At that point, a school had already been convinced of DFF's concept, which was the most difficult part. This made it possible to build a network and to easier sell to that school in the following year, hopefully in larger quantities. Another difficulty was the two-step sales process. First, the students of a graduating class needed to be convinced to sell DFF's products. It was crucial to make them understand that it was absolutely risk-free because they bore no costs. Also, the purpose of the products needed to be clarified. The bottle of wine cost 15€ and hence was expensive from a student's perspective because they could get a similar one for three euros in the supermarket. The price difference was paying for the creation of lasting memories of the last twelve years, which was symbolized through DFF's products. This resulted in another difficulty. DFF was in direct contact with the students and could persuade them to sell its products. Hence, the first sales funnel was directly controlled by DFF. However, the company was not in touch with the target customers – the families. So, DFF only had little

influence over the second sales funnel. Here, DFF was dependent on the students convincing their families to buy the products.

From the company's point of view, it was running a highly risky business model. However, bearing these risks for the customer was part of its unique selling proposition and set them apart from other retailers. The reason was that DFF believed that the students should be confronted neither with a time-consuming process nor with risks of losing money they could spend for their graduation party instead. These services were offered to make the whole procedure as easy and convenient as possible, which should convince the students to work together with DFF (Exhibit 11).

#### **1.4 Customer acquisition**

To create leads, DFF's main acquisition tool was the organisation of two raffles per year in which one school could win the personalized wine. For this, DFF sent out a letter to every school in Germany. In this letter, the company introduced itself and advertised the chance to win the wine. It also included its website where the students had to register with their phone number to enter the raffle. Additionally, the company had cooperation's with E-Learning platforms and student websites. They advertised DFF's raffle in their newsletters. If DFF successfully sold to a school that was acquired through one of its cooperation partners, this partner received a percentage share of the sales.

The goal of these raffles was to get as many contacts from graduating students as possible to expand the school network. Once the students registered on DFF's website, they allowed to be contacted. Hence, every class that did not win was contacted by DFF to convince them of its concept and products to win them as a customer. For this, mobile instant messaging (MIM) was used through the mobile application "WhatsApp". The account manager's responsibility was to inform the student about the product, explain its idea, and persuade the lead. This step was highly important because one additional convinced student represented his whole graduating class, which led to 162 potentially paying customers on average. This figure was based on the average number of students in a class (81) in 2022 with the assumption that both parents attended the graduation. DFF invested a lot of time into the acquisition process, aiming to build a close trust-based buyer-seller relationship with the students through communication on WhatsApp.

## 1.5 Logistics & supply chain

The operational process functioned as follows: Students sent their school logo and a list with all students' names. DFF created a customized label and sent it back as a proposal to the students. Once, the label design was finalized, DFF sent a link with a survey in which the students' families could indicate how many bottles of wine and candles they could imagine buying. The number of products indicated was not binding – it served as an indication for DFF. Based on it, DFF decided how many items were sent to the school.

DFF ordered the personalized labels from its supplying print shop. The print shop directly sent the labels to the winery and placed these labels on the wine. Once labelled, the wine was completely DFF branded. The company's logo was printed on the bottle's neck and on the personalized label. (Exhibit 12). The name and logo of the winery were not visible. However, due to strict German regulations in the food and beverage market, a unique number had to be placed on the label to identify the producer.

The wine bottles were sent out to the school from the winery directly. The wine was always sent out in packages of 18 bottles. This was the maximum number of bottles that could be shipped with the cheapest delivery option. DFF was not directly involved in shipping but covered all shipment costs. However, the winery also sent unlabelled wines plus leftover labels to DFF's warehouse. This was done if there were re-orders due to higher than expected demand. In this case, DFF itself labelled the wine bottles received from the winery and sent out the re-orders. When schools ordered more wine than they sold, the leftover bottles were sent back to DFF's warehouse. The company then replaced the old labels with new ones for another school. For the candles, DFF bought them itself, labelled them, and sent them to the schools in a package with miscellaneous accessories like flyers, stickers, and re-order cards.

DFF did not employ anyone in the warehouse because it was not necessary as the shipping service had a drop-off and pick-up permission for the packages. Usually, one of the founders stopped by the warehouse whenever necessary to prepare new deliveries.

## 1.6 Cost structure

The approximate cost breakdown for a single bottle of wine was as follows: the wine cost 3.7€, the label 0.2€, the donation 0.5€, and packaging and shipping costs were 0.9€. The winery charged 0.3€ for handling costs. There was an estimate of 2.4€ attributed for the fixed costs per bottle. Regarding the candles, DFF purchased one for 8€. The costs for donation, labelling, shipping, and fixed costs remained the same. Handling costs did not apply because DFF

prepared them itself. This resulted in total costs of 8€ for one bottle of wine and 12€ for one candle. As a bottle of wine cost 15€ and one candle 19.5€, the rough profit margins were 7€ and 7.5€. These margins were only achieved if every product sent to the schools was sold. It happened frequently that the students did not manage to sell all products and sent back the leftovers. So, the actual profit margins per product were lower due to additional costs like relabelling and extra shipping costs. For example, 6,000 bottles of wine were sent back in 2022 because demand at some schools ended up lower than expected.

Because the founders financed DFF through bootstrapping, there were no outstanding loans. Profits were invested into further growing the company.

## 1.7 Competition

DFF's competition included every online merchandise store where it was possible to personalize products. So, parents could create and order their own souvenir products online. Other substitute products included personalized cups, clothes, or home decorations. There were hundreds of such online shops, and it was easy for a new company to enter the market. Initial investments were low, and it was easy to buy, personalize, and resell wine bottles and candles. However, DFF set itself apart with its business model.

*“This season we expect to send out wine worth 100.000€ without knowing if we will sell a single bottle. It would be possible that every bottle will be sent back, and we would have to bear the costs. No other company is willing to take this risk, especially not with this customer group. In addition, we stand out with our trust-building acquisition process, our social dimension and our experience. The students and their families claim to especially enjoy helping people in need, which increases their motivation to buy our products”, Timo stated.*

For example, Gradoo tried to copy the idea to sell personalized wines. However, they required a minimum purchase of bottles, did not donate for a good cause, and offered five different wines, which rather overwhelmed students. It did not work out for Gradoo and they stopped offering personalized wines after one year and put their focus back on clothes. Since then, Gradoo became a cooperation partner of DFF.

## 1.8 DFF's struggles

The company expected further growth in 2023.

*“Our products really gained popularity. The feedback from the families is incredibly positive. For them, it's a very emotional moment because it is their children's first degree. These twelve years of school represent the whole growing up process from a child to a young adult. The families truly enjoy a memory of this period”, Timo stated.*

Even though DFF seemed to be a success story, it was still highly dependent on seasonality.

The company generated its whole yearly revenue between May and July.

*“This dependence on only three months is a big issue”, Timo continued. “From January until July, we are working without a break to exploit this short period. However, from August on there is almost nothing to do until the beginning of the new acquisition period in January. This hinders us from growing. For example, we do not hire full-time employees. We only have part-time employees and working students who support us during our busy times. But this is not a solid foundation to develop the business”, he added.*

Consequently, Timo would like to try out diversifying the business.

## 1.9 The next move...

Even though Timo was incredibly busy to prepare DFF's peak sales season, there was not a single day where he did not think about the company's future. What possibilities were there to generate more steady cash flows? Which steps would make sense to develop the business? Timo actually had quite a few ideas in mind:

### 1. Continue as usual

One option was to continue the business as it was and discarding any expansion intents. It would be the least risky option because it would not disrupt the operations. Plus, the risk of a dispute with the other founders would be minimized because they were in favor of this option. Also, there was still potential for growth in the current market.

*“We predict to sell our products to around 350 schools in 2023. There are 3600 high schools in Germany where one class graduates yearly with an average of 81 students per class – leading to a total of 291,600 high school students that could be targeted. Hence, we just cover around 10% of our core market. On average, we realized a revenue of around 1000€ per school, which would lead to potential sales of 3.6 million euros every year. We could focus on penetrating this market first”, Timo thought.*

However, it would not solve the issue of the seasonality dependence as well as the lack of workload after the peak season. Consequently, Timo was not satisfied with the idea of continuing as usual.

## 2. Expanding into new countries

An expansion idea would be to use the same concept in other countries – meaning to target graduating high school classes outside Germany.

*“I think our business could work in other countries. When students graduate after twelve years, their families are proud. I believe that families from other countries would also be interested in buying our products as memory. The operations would still be manageable from our office in Germany. We would need to find a winery in the respective country to offer a popular national wine. The communication with the schools and students is anyway through MIM”, Timo mentioned. Nevertheless, he admitted that “there is still a difficulty to go into other countries. There are language barriers. It is more difficult for an unknown German start-up to build trust with foreign students. It would be risky because there is a good chance of failing. It would make sense to try out our concept in Austria and Switzerland to minimize language difficulties.”*

Austria had 1265 secondary schools<sup>1</sup> while there were 864 schools in Switzerland<sup>2</sup>, leading to a potential market of 2129 secondary schools. In 2020, 89.500 students graduated from Austrian and 112.000 from Swiss secondary schools leading to an average class size of 71 in Austria and 130 in Switzerland<sup>3</sup>. Even though an expansion into other countries increased the overall market, it would only solve the issue of seasonality if graduations abroad happened in different months than in Germany.

## 3. Targeting university graduations

A third possible step was to include university graduation ceremonies in Germany. This idea was appealing to Timo.

*“In my opinion that could be a good move. The concept would be the same. We would not have to change anything in our operations because the products, the country, and the target group (parents of graduating university students) would be the same. This would lead to a more constant cash flow because graduation parties of universities are organized throughout the entire year.”*

Germany had 108 universities which could be targeted<sup>4</sup> and there were around 400.000 students graduating every year from their bachelor's or master's<sup>5</sup>. Hence, the potential market and possible revenues would be even larger than at school graduations. A university had dozens of graduating classes from different study programs. Hence, if DFF successfully sold to one

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<sup>1</sup> European Commission, 2022

<sup>2</sup> Federal Statistical Office, 2023

<sup>3</sup> OECD, 2022

<sup>4</sup> Destatis, 2023

<sup>5</sup> Rudnicka, 2022

university class, there would be a chance to quickly gain popularity at the whole university through word of mouth.

#### **4. Targeting companies**

Another potential target group that came to Timo's mind was companies. The label could be personalized for the firm and the wine could be used for company celebrations, Christmas parties, or as customer gifts. DFF would be able to generate sales throughout the entire year because "firm celebrations, events or customer gifts are not tied to any particular season", Timo said. He continued "especially smaller enterprises who want to support our social projects to market themselves as socially responsible could be a suitable target group. That's why I think targeting them as trial customers makes sense." There were around 360,000 companies considered to be "small" (10-49 employees) in Germany in 2022<sup>6</sup>. Those could be targeted by DFF to start its expansion to sell to businesses.

#### **5. Extension of the product range**

Timo raised the option to offer personalized cups or glasses as well. "The wine and candle can be seen as a home decoration. A cup or a glass could actually be actively used in the daily life while simultaneously serving as a memory." Nevertheless, the introduction of new products would impose a risk because DFF would need find new suppliers and build a new supply chain. For the wine and the candles, DFF could quickly serve demand for new orders because "of our efficient sourcing process based on a very stable relationship with the winery and printing company that supply us." Moreover, the introduction of new products could lead to a decline in demand for wines and candles because the new products might be bought as substitutes and not as additions. Consequently, the extra costs and efforts to introduce new products would not necessarily lead to an increase in revenues.

#### **6. Introduction of an online store**

The last option Timo had in mind was to implement an online store on DFF's website. It would work in a way that one could upload files for the personalized design and order a fixed number of customized products.

*"We could also offer some standardized designs like "Happy Birthday" or "Merry Christmas" that would always be in stock", Timo noted. He added that "such an online shop could be the*

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<sup>6</sup> Statista, 2023

*solution for having a constant revenue stream. It has the potential to serve every target group simultaneously without the need to actively approach and convince them first.”*

Even though Timo was strongly in favor of it, he knew that his two partners were not. They claimed it would be too risky because it would be necessary to have full-time employees in the warehouse that prepared the orders. But, this only made sense if there was enough demand and the shop was used a lot. Otherwise, it could be too costly for DFF.

### **1.10 The meeting**

Timo thoroughly thought through all of these options, so that he could present them to his business partners and friends David and Felix. Which next strategic move would be the best? Was this even the right timing to actively pursue an expansion? Would it make sense to already target new markets and customer groups? Or should DFF focus on growing in its core market to avoid the risks of failing? Timo knew that there were many unknown factors that bore risks. However, he was also aware of the need to generate constant revenues to grow the business and was willing to accept risks. Confident, but also a little bit nervous, Timo stood up from his working spot and went towards the meeting room ready to seriously discuss the company's future.

## 2. Literature Review

The literature review addresses relevant theories and concepts connected to the issues presented in the case. This theoretical background serves as the foundation for the teaching note. The literature review consists of two chapters: The importance of relationship marketing – especially for online retailers – is demonstrated including related topics of communication, trust, and word-of-mouth. Secondly, the issue of seasonality is explored including the implications of revenue diversification.

### 2.1 Relationship Marketing

The term “relationship marketing” was first defined by Berry in 1983 as “attracting, maintaining, and developing relationships with customers” (Berry, 1983). The definition was extended by Grönroos (1990) who mentioned that the goals of both parties – company and customer – should be met so that it benefits both. This was supported by Shani & Chalsani (1992). They agreed that relationship marketing efforts should result in mutual benefits and claimed that long-term relationships and growing a network should be the ultimate goal. In order to establish and keep a long-term relationship with a client, the emphasis on customer service and quality is crucial (Christopher et al., 1995). Morgan & Hunt (1994) stress that cooperation, trust, and shared values are significant to building successful relationships. Therefore, it can be concluded that relationship marketing includes all efforts and activities of a firm to establish and grow successful relationships with customers that are long-lasting and mutually beneficial. However, to secure long-term economic success, customer acquisition – and not only concentrating on retaining customers – is essential because it is natural that clients will be lost and need to be replaced (Hennig-Thurau et al., 2002)

The increasing significance for companies to focus on relationship marketing activities is based on changes in the global marketplace including fierce and global competition, increasingly sophisticated consumers, higher quality demands, growing consumer market fragmentation, technological advancements, and changing customer needs (Kandampully & Duddy, 1999).

Nevertheless, when successfully implementing relationship marketing concepts a company will experience five significant benefits according to Zeithaml & Bitner (1996): 1. Cost reductions 2. Sales increase 3. Greater customer loyalty and value 4. Word-of-mouth advertisement 5. Employee retention.

Especially loyalty and positive word-of-mouth are considered to be the most important effects of relationship marketing. Customer loyalty is defined as repeat purchases from a customer

from the same company due to the firm's relationship marketing activities (Hennig-Thurau et al., 2002) It is proven that keeping existing customers is less expensive than to acquire new ones which positively contributes to a company's profitability (Hennig-Thurau et al., 2002; Berry, 1995).

## **2.2 Relationship Marketing in the context of E-Commerce**

Electronic commerce, or "E-Commerce" includes all trade activities that happen electronically between businesses and their clients including online retailing, electronic payments, and digital trading (Gashema & Alain, 2023). Compared to a physical retail shop, where a potential buyer sees a product, in E-Commerce he has to base his decision solely on the information available on a website (Lee et al., 2018). This represents a risk for the buyer and may discourage him from buying from online companies. Consequently, compared to brick-and-mortar stores, it is harder for online businesses to develop a relationship with customers. However, E-Commerce businesses must focus on growing strong relationships with consumers to attract and keep loyal customers (Palvia, 2009; Verma et al., 2015). Also, a retailer should be customer-centered (Feinberg et al., 2002). That's why online retailers must especially pay attention to customer relationship marketing activities to establish and maintain relationships.

## **2.3 Relationship building and the role of communication**

### **2.3.1 The significance of communication**

Communication can be described as the "formal as well as informal sharing of meaningful and timely information" (Anderson & Narus, 1990). According to Zineldin (2006), businesses must establish long-lasting and high-quality relationships with customers. Communication belongs to the most effective tools for forming stronger relationships because it is based on an exchange that builds trust, resolves issues, gathers feedback, finds new ways to add value, and figures out customer expectations and needs (Morgan & Hunt, 1994; Palmatier et al., 2006; Hennig-Thurau et al., 2002; Gashema & Alain, 2023). This especially applies to online retailers because, without human interaction, communication between customer and seller is crucial to build trust as consumers are hesitant when buying from companies online (Gashema & Alain, 2023; Verma et al., 2015). Moreover, communication reduces customer anxiety, helps them to know what to expect, and familiarizes the customer with the employees (Hennig-Thurau et al., 2002). This can actually lead to social bonds between employees and customers which results in a greater customer commitment towards the company (Hennig-Thurau et al., 2002)

### **2.3.2 The impact of personalized communication through MIM**

Personalization is achieved if a company pays attention to each customer individually. Personalizing communication with customers is an effective strategy to stand out as a company by adding value next to the core product to improve the relationship (Ives & Mason, 1990). Especially information technology advancements offer companies opportunities (Marino & Lo Presti, 2019). Through it, communication with customers can be personalized to bring the business and its products closer to the consumer (Ives & Mason, 1990). Here, MIM becomes relevant as tool for customer relationship management. MIM, usually accessed through mobile applications, connects people by creating real-time communication (Ferraz et al., 2023). Applications like WhatsApp, Facebook Messenger, or WeChat allow users to exchange real-time information through text and voice messages, photos, and videos, resulting in convenience (Marino & Lo Presti, 2018; Ferraz et al., 2023). Paired with its free use and easy accessibility makes MIM the most popular communication channel, particularly among younger generations (Lo Presti et al., 2021). Therefore, these channels help companies to effectively reach their customers fast and to establish personalized communication. Businesses can use MIM platforms to activate customer engagement as they represent “a true and proper touch-point and help businesses to follow the customer journey” which makes them “digital engagement platforms” (Lo Presti et al., 2020; Marino & Lo Presti, 2018). Thus a firm can control the relationship with the customer before, during, and after the transaction (Sotolongo & Copulsky, 2018). Overall, MIM channels provide the opportunity for businesses to connect with customers and to establish closer relationships to familiarize them with the brand (Cao et al., 2021). The personal and individualized nature of MIM makes it similar to face-to-face communication and is the most effective way to directly communicate (Lou et al., 2005). It is specifically relevant for online retailers to create a bond with customers to reduce their uncertainty and to establish trust.

### **2.4 Word-of-mouth communication**

Word-of-mouth (WOM) is defined in the literature as “informal communications directed at other consumers about the ownership, usage, or characteristics of particular goods and services and their sellers” (Westbrook, 1987). According to Verma et al. (2015), word-of-mouth communication was the most important result of relationship marketing activities, strengthened by a study from Nielsen (2021) which found that 89% of consumers trust recommendations and dissuasions from people they know. Personal communication between parties that know each other is regarded as more trustworthy compared to nonpersonal information (Gremler et al.,

2001). This holds true in the context of E-Commerce as 62% of consumers study customer reviews before making a purchase online, and 82% say that this impacts their choice (Benedicktus et al., 2010). Even rather unreliable sources of WOM can significantly affect purchase decisions. Positive information enhances perceptions of trustworthiness and purchase intentions no matter if the brand is well-known or unfamiliar (Benedicktus et al., 2010).

Word-of-mouth behaviour is largely influenced by customer satisfaction (Hennig-Thurau et al., 2002). When a product or service performs better than anticipated, it encourages a client to recommend it. If the customer's expectations are not met, he participates in negative WOM by spreading his negative experience (Hennig-Thurau et al., 2002). Customers typically recommend products to people they are close to (de Matos & Rossi, 2008). Consequently, customers are more likely to recommend a company they assess as trustworthy and which provides added value while they want to protect relatives from companies they feel the opposite about.

Consequently, a satisfied customer spends more money, remains loyal, attracts new customers, and positively contributes to a firm's profitability. However, dissatisfied customers damage companies as they are more likely to switch to competitors and convince others to do the same. A study by Verma et al. (2015) proved this. It showed that positive and negative WOM were correlated to online retail sales, which underlines the urgency of implementing successful relationship marketing activities. This becomes even more significant when considering that unsatisfied customers are more inclined to express their negative opinions compared to satisfied customers sharing their positive experiences (Benedicktus et al., 2010). Hence, part of a company's relationship marketing efforts should entail the encouragement of satisfied customers spreading their positive experiences. This was confirmed by Benouakrim & El Kandoussi (2013) who encourage businesses to focus on customer satisfaction and loyalty because WOM advertising is inexpensive and effective.

## **2.5 The role of trust**

A general definition of trust was developed by Rotter (1967) who said it is "a generalized expectancy held by an individual that the word of another can be relied on". Trust is dependent on the customer's view on a company's credibility, reliability, and integrity (Benouakrim & El Kandoussi, 2013; Morgan & Hunt, 1994; Moorman et al., 1992). So, a company is regarded as trustworthy if it provides reliable and important information and makes decisions in the customer's best interests (Benouakrim & El Kandoussi, 2013). Factors like company size,

communication, reputation, and transaction safety are deciding factors for trust (Lee et al., 2018). Spekman (1988) regards trust as “the cornerstone” of business relationships while Berry (1991) even considers trust “as the single most powerful relationship marketing tool available to a company”. The results of a study by Edelman (2019) underline this importance. 81% of customers worldwide stated they must be able to trust a company. 76% of customers pay attention to a company's advertising and communication if they trust the company, while just 48% of customers who do not fully trust the company do so (Edelman, 2019). This proves that communication and information of a company reach its customers better when they trust the brand. Once trust is established, customers start interacting more with a company's website (Palvia, 2009). Moreover, according to 67% of consumers, a strong company reputation may persuade them to test a product, but if they do not fully trust the brand they will stop purchasing (Edelman, 2019). This is approved by a study from Qualtrics (2023) which found that if a consumer's experience does not match their expectations and they do not fully trust the brand, 65% stop buying from this company. Additionally, if trust is established it reduces consumer uncertainty, vulnerability, and anxiety to purchase (Hennig-Thurau et al., 2002; de Matos & Rossi, 2008). Hence, trust minimizes the perceived risks from a consumer's perspective to buy from a brand. The role of trust becomes even more critical in the context of E-Commerce. Buying online poses the risk of fraud for consumers because they cannot physically see the product and need to rely on the product information provided online, which leads to higher uncertainty and anxiety (Lee et al., 2018; Palvia, 2009). Consequently, when making online purchases customers approach such transactions with caution and if brand trust is missing it deters them from buying (Palvia, 2009). Also, previous studies found online trust to be a significant determinant of consumer's intentions to buy online because it mediates the impact of brand familiarity and strength, website characteristics, and order fulfillment (Bart et al., 2005; Schlosser et al., 2006; Yoon, 2002). If a customer trusts a brand he is more likely to spread positive WOM about his experience which is free advertising (Ranaweera & Prabhu, 2003). Reichheld & Scheffer (2000) stated that “price does not rule the web, trust does” which was supported by various researchers who labelled trust as the “new currency in the internet business environment” (Moodley, 2003; Lu & Swaminathan, 2015; Kayikci, 2019). Thus, it becomes clear that especially online companies need to incorporate trust-building measures with consumers as trust is seen as an essential determinant of a company's success.

## 2.6 Seasonality and Revenue Diversification

Seasonality can be referred to as “temporal imbalance” (Butler, 1994) or “temporal fluctuations” on a daily, weekly, monthly, or yearly basis in a company’s operations (Cooper et al., 2005). Seasonality is described by Manning & Powers (1984) as the unequal distribution of utilization throughout time. This could result in unsustainable resource usage, decreased profit-making potential, and scheduling issues in the administration (Ćorluka, 2019). It causes issues with accessing capital, hiring and retaining full-time employees, generating low returns on investment, which increases operational risk, and issues with excessive facility use (Butler, 2001). The negative effects of seasonality mostly arise during off-peak times, particularly the loss of revenues through inefficient resource and facility use (Sutcliffe & Sinclair, 1980; Manning & Powers, 1984; Williams & Shaw, 1991). Baron (1975) labels these forgone revenues as “seasonal loss” that a seasonal affected business needs to make up for during the peak season(s) to ensure success over the entire year (Murphy, 1985). To counteract seasonality, the literature mainly focuses on diversifying markets and products. Product diversification refers to the creation of new products for novel market niches, whereas market diversification refers to new market niches for new or established products (Ćorluka, 2019). This is also called deseasonalisation which entails attracting multiple customer groups, especially in off-seasons, to generate revenues throughout the year (Candela & Figini, 2010). The idea of diversification was introduced by Markowitz (1952). Due to the law of large numbers, diversification can help to keep actual returns near the amount of projected returns and lower total portfolio volatility for the expected return (Markowitz, 1952). Hence, incorporating several revenue streams decreases a company’s dependence and spreads risk as it is more likely that a shock will only disrupt one source of income than it is to affect all streams (Tuckman & Chang 1991). Therefore, a firm's diversification strategy is a crucial part of its strategic management, and the connection between a firm's diversification strategy and its financial performance is significant. Studies in the strategic management literature by Rumelt (1974, 1982), Montgomery (1982), and Christensen & Montgomery (1981) reveal a systematic relationship between a business's approach to diversification and its economic results. The main reasons for companies to diversify are:

- Corporate growth
- Risk Reduction
- Boost competitiveness
- Maximise resource utilisation and efficiency optimisation

Firstly, the introduction of new products and services or entering new markets contributes to the growth of a firm as it expands its existing operations. Expanding the current business gives a company more exposure and access to a greater pool of potential customers which can increase the consumer's awareness about a company (Bielefeld, 1992; Galaskiewicz, 1990; Guan et al., 2020). This is also in line with Ansoff's (1958) conclusion, which said that an organization has to grow.

Next, through the extension of the business portfolio, diversification enables the reduction of business risks. With several revenue streams, an organization's dependence on each revenue stream including the involved stakeholders (suppliers, customers, etc.) decreases. So, when one income source performs poorly in a diversified business, the overall effect on the company's profitability is less dramatic compared to when a company only has one big revenue stream (Hitt et al., 2006; Kim et al., 1993; Frumkin & Keating, 2011). It is possible to distribute risks across a wider range of goods and services in the event of a business crisis, lowering the risk of business failure (Altman, 1968; Gilbert et al., 1990; Ohlson, 1980). That's why pursuing diversification might decrease financial distress by minimizing financial vulnerability, lowering revenue volatility, and increasing financial autonomy (Chang & Tuckman, 1996; Froelich, 1999; Kingma, 1993; Grønbjerg, 1993; Carroll & Stater, 2008; Mitchell, 2012).

To continue, diversification enables businesses to increase their competitiveness and market influence, and power over their rivals while possibly achieving economies of scale (Caruso, 2022).

Lastly, diversification can improve an organization's efficiency by maximizing the utilization of resources like, physical and human resources, manufacturing capacity, know-how, etc. Better resource sharing and transfer can also benefit the business financially, lowering production and operational costs (Le, 2019).

However, revenue diversification also bears risks and can have negative effects on a company's performance. The implementation of new income sources increases administrative, reporting, monitoring, and communication costs and complexity by coordinating several revenue sources (Frumkin & Keating 2011; Grønbjerg, 1993; Kingma, 1993). This results from a greater number of suppliers, customers, competitors, and a possibly expanded geographic area with new cultures, laws, and characteristics (Carpenter & Sanders, 2004; Sanders & Carpenter, 1998). Consequently, the cost structure might be impacted negatively, and organizational efficiency might suffer and does not improve as mentioned earlier. Additionally, economic sustainability and financial predictability are reduced due to some income streams performance

uncertainty (de los Mozos et al., 2016). A study by Zuckermann (1999) found that companies that focus on a certain area and are leaders in this field are more likely to achieve long-term growth. Thus, revenue concentration has advantages as well because it avoids additional costs and risks.

Overall, revenue diversification has several benefits but it also bears risks. Froelich (1999) regards diversification as a “double-edged sword that comes with higher rewards but also higher risks and complexity”. While operating synergies and less dependence are arguments to opt for diversification, the risk of losing focus and performance unpredictability are disadvantages (Nakano et al., 2004; Guan et al., 2020). Only after carefully weighing the related costs new revenue sources should be explored. A company should consider the need for new partnerships, suppliers, organizational restructuring, if sufficient resources are available, and the effect on the company culture and the existing stakeholders (John & Priest, 2006; Guan et al., 2020). Moreover, the effects of revenue diversification differ with respect to time periods, geographical locations, nations, and corporate characteristics (Bhide, 1990; Matsusaka & Nanda, 2002).

Concludingly, there are several implications from the literature review that can be related to DFF’s case. As DFF is an online business, building relationships and customer trust is inevitable. Especially trust building measures are essential because DFF is a young, small, and unknown company. This rather deters consumers from making purchases. Here, the importance of personalized communication adds value next to the actual product and makes consumers feel appreciated. A satisfied customer is more likely to spread positive WOM about DFF which is free marketing, leveraging the potential to attract customers. Moreover, DFF is a seasonal company. Thus, diversification of either products or markets can be a useful tool to minimize risk, stimulate further growth, and generate stable revenue inflows. There are, however, risks involved when pursuing diversification. That’s why introducing new products or extending markets must be thoroughly developed to benefit from diversification to not harm the business.

### **3. Teaching Note**

#### **3.1 Learning objectives**

This case should help students to develop the following competencies:

1. Analysis of a company's business model dependent on seasonality and various growth strategies, namely the critical assessment of a diversification strategy.
2. The growing importance, especially for online businesses, of relationship marketing activities, customer trust, and word-of-mouth.

#### **3.2 Class Plan**

1. In how far is DFF's business model unique and provides convenience for possible customers? What are its risks/dangers?
2. Why is DFF investing such a lot of effort and time into the customer acquisition process? In how far is it important for the company to establish a close seller-buyer relationship based on trust?
3. What is the significance of word-of-mouth for the company?
4. So far, DFF financed itself through bootstrapping without outside investments. In order to further develop the business, should DFF start looking for external financing? Comment on the advantages and disadvantages of DFF.
5. Comment on the importance of diversification for DFF. What opportunities and obstacles exist if the company diversifies its business?
6. What are the opportunities and risks of each of the six growth strategies mentioned at the end of the case?
7. What are your recommendations for the managers of DFF?

### 3.3 Analysis

1. In how far is DFF's business model unique and provides convenience for possible customers? What are its risks/dangers?

The company sells customized bottles of wine and candles to graduating high school classes that serve as a souvenir of their school time. The target customers are the student's families. The business model stands out because DFF is not in touch with the paying end customer – the families. DFF uses a sales process with two funnels (Exhibit 9). In the first funnel, DFF gets in touch with graduating high school classes and sells the concept of its products and the positive social impact, as for every sold item it donates 0.5€ to schools in Senegal. Social entrepreneurship and collaborating with charities is a fundamental part of DFF's business model. This sets it apart from a traditional online retailer and is a key selling argument in the customer acquisition phase. DFF is able to control the first stage through the direct communication with the school classes. However, in the second funnel, it is the student's responsibility to sell DFF's products. DFF is only able to motivate the students to sell as many products as possible, but ultimately cannot control how much effort and commitment is put into selling. This two-step sales process presents a risk to DFF's business model. The company's revenue generation model is dependent on students selling the products to their families while DFF is not able to actively intervene. Also, this represents the single revenue stream of the company and the only target market. So, DFF is completely dependent that this target market and income stream generating enough turnover to ensure profitability.

To continue, DFF built the whole design and ordering procedure in a way that it is absolutely risk-free for the students. The company takes care of everything. It collaborates with a winery and a printshop which assemble the final product and send it to the schools. This minimizes the effort DFF needs to put into the manufacturing process. Additionally, DFF covers all shipping costs including fees for returning unsold goods. Then, DFF does not conclude a contract with the students, meaning there is no minimum quantity of products the students have to sell. Plus, DFF distributes its products entirely on the grounds of trust. This entails the risk that a class keeps the goods or sells them without transferring the money or might sell no products and return every item. The company would not be able to do anything due to the lack of contractual protection and would bear all costs. Nonetheless, taking these risks is part of DFF's unique selling proposition and distinguishes it from other online businesses. DFF's willingness to adapt to the special characteristics of the target group translates into a competitive advantage. Other

businesses consider this target group rather unattractive and too risky due to their unreliability. These tailored services are provided by DFF to make the process for the students simple and convenient, which should persuade them to collaborate. Because this is a stand-alone criterion no other firm offers, DFF potentially has the whole target market for itself.

The last risk can be referred to DFF's products and choice of target customers. As the company's products are only relevant for school graduations, DFF is tied to their seasonality. Such graduations happen between May and July in Germany, which narrows DFF's possibility to generate revenue down to three months per year. The business is pressured to make enough turnover in a short period to cover the whole year. However, every year a new class graduates from every school, leading to a completely new pool of potential customers entering DFF's target market yearly. Hence, there are new customers in this market every year resulting in new demand, keeping DFF's products relevant.

2. Why is DFF investing such a lot of effort and time into the customer acquisition process? In how far is it important for the company to establish a close seller-buyer relationship based on trust?

First, there is a need to thoroughly explain the purpose of the product to convince the students of the company's mission, so they convince their parents. For instance, a bottle of wine costing 15 euros seems pricey to students because they can purchase a bottle for three euros at the supermarket. However, the products serve as a memory and hence are much more than a simple bottle of wine. For this, the mobile application "WhatsApp" is used for communication, which is convenient and especially used among younger generations. Here, the account manager shares information about the product, describes its purpose, and persuades the lead to sell DFF's products. It is essential to convey that there is zero risk involved because they are not responsible for any charges. The personal and informal communication through WhatsApp builds a bond between the students and DFF. This helps to move the firm closer to the customer to gain the customer's trust and to clear doubts. This is necessary because DFF is an online business, where consumers are careful and hesitant. Personal communication and trust mediate these concerns as the customers know what to expect. Moreover, establishing a close seller-buyer relationship minimizes the risk for DFF to make losses. As DFF sends out its products entirely on the basis of trust without concluding a contract beforehand, there is a chance that the students sell them without passing the proceeds on to DFF. Unsold products are sent back to DFF and the company bears all costs for additional shipping and re-labelling which lowers

the profit margin. Nonetheless, through a trusted relationship between both parties, the customers feel emotionally bonded to DFF which increases their commitment and motivation to sell products. Next, DFF is in touch with the class representatives. If the company manages to acquire them there is a large multiplication effect for the number of products that can possibly be sold. As mentioned in the case, the average number of students per class is 81, leading to potentially 162 paying customers if only the parents are taken into account. Consequently, by successfully acquiring one or two representatives of one graduating class, DFF actually has the opportunity to sell to, on average, 162 customers. DFF is also pressured to make sales and to acquire customers due the dependence on seasonality. The graduation of a class only happens once meaning DFF either successfully acquires a class in a year or, if not, will never be able to acquire this class again. Hence, DFF must invest time to convert leads into customers, even though the relationship between DFF and its customers is only of a short duration. In addition, competition is high because there are dozens of online shops where people can personalize products including wine and candles. Switching costs between these companies do not exist for consumers. But, DFF sets itself apart with its trust-building acquisition process and personal communication, which adds customer value next to the product. Effective acquisition techniques typically result in customers with a greater lifetime value. They are more inclined to interact with the company and to support the brand. This increases the chance that a customer is satisfied and shares positive word-of-mouth.

### 3. What is the significance of word-of-mouth (WOM) for the company?

Word-of-mouth refers to any informal discussions customers have with people about their impressions of a good, which can have a significant impact on their purchasing decisions. WOM is one of the most important outcomes of a successful relationship marketing strategy. For DFF positive WOM is highly relevant. It equals free and effective advertising for the company, which is especially useful for a small and unknown start-up. WOM spreads the word about the company and increases its awareness. This particularly holds true for DFF's target group. High school students are likely to have friends who go to other schools and know students in the class who graduate a year later at their school. Also, parents are likely to know parents who have children going to other schools and tell them about what a great memory DFF's products are. Consequently, WOM provides an opportunity for DFF that its products and concept spread among the target audience. It can even lead to a chain where one person will tell someone else, who will tell another etc. This makes it a lot easier for DFF to acquire

customers because positive WOM from a graduating class spreads awareness among the following graduating class at the same school and thus can be a door opener for DFF. Moreover, people trust the recommendations from people they know. This can ease the acquisition process for the company in case the potential customer already heard about positive experiences from a relative. Ultimately, positive WOM about the company and its offerings reduces anxiety and uncertainty of possible customers to collaborate with DFF. As it is an online business and a small unknown start-up, potential clients are even more hesitant and cautious. Here, WOM can mediate customer uncertainty and suspicion. This is particularly relevant because DFF only has a short time span to overcome that uncertainty in the minds of potential customers.

Overall, WOM is a powerful tool to boost sales, promote products, increase brand awareness, and foster customer loyalty, which also highlights the importance of customer satisfaction. Thus, it is highly significant for DFF and the company should encourage its satisfied customers to spread the word about their pleasant experience.

4. So far, DFF financed itself through bootstrapping without outside investments. In order to further develop the business, should DFF start looking for external financing? Comment on the advantages and disadvantages of DFF.

There are opportunities for DFF when getting an investor. It gives access to more capital, to be invested into marketing, new product development, expansion plans, facilities, or human resources. Consequently, more capital accelerates business growth. Awareness and attention about DFF's business increase because the investor shares this new investment through his communication channels. People are more likely to hear about DFF, which makes it easier to acquire customers and to build credibility. This is particularly useful for a small online start-up. Moreover, it provides the opportunity for networking because an investor is involved in various businesses. Thus, the investor can connect DFF with people who could be relevant in terms of new customers, suppliers, or partnerships. DFF can benefit from the investor's expertise and mentoring as they are usually experienced in business growth. Having an investor also has symbolic means. It shows that DFF has potential because investors are willing to invest their money into the business development and see growth opportunities. Finally, if DFF should decide to diversify its business, investors can be beneficial in supporting the development of an efficient diversification strategy. Investors have the ability to support DFF with necessary resources, market research, expertise, and sufficient funds to increase the probability of a successful diversification.

There are also arguments continuing the business without investors. Looking for investors and convincing them is time-consuming, expensive, and tough. It is possible that the focus on the core business is neglected while meeting with potential investors. Next, without investors, there is no equity dilution. Equity dilution occurs when a business issues shares to investors. Consequently, each holder of shares will have a lower ownership stake in the company if more shares are being held by more people. DFF would give up control over the business, company culture, and how the business is run. Without investors, the founders still own all shares and have full decision-making autonomy. Investors also want to yield a return on their investment, which pressures DFF to reach certain goals set by the investor. Subsequently, it is possible that investors might intervene and want to implement changes in DFF's business model. Investors could possibly assess DFF's operational model as too risky because of the lack of contractual protection. Such changes could endanger DFF's value proposition and unique selling proposition and might lead to converting fewer leads into paying customers.

5. Comment on the importance of diversification for DFF. What opportunities and obstacles exist if the company diversifies its business?

DFF is highly dependent on seasonality because its target market is only relevant between May and July. The other nine months are "seasonal loss" because DFF misses out on generating revenue at this time. So, the firm must make enough turnover in the peak season to cover the whole year.

To combat the seasonality, diversifying the business could be a useful tool. Market or product diversification decreases reliance on seasonality by generating consistent sales. It provides the opportunity to focus on a different market and/or product after the graduations. This is relevant for DFF because there is only a given number of graduating classes in Germany every year. So, there is a maximum revenue generation potential that can be reached rather quickly. It can also be a helpful strategy to reduce risk. If DFF relies on one single market, market fluctuations impact the whole business strongly. With several income streams, risk is spread and the disruption of one source has less severe effects. Also, investors are more inclined to fund a diversified start-up since they see that the company distributes risks leading to a higher success chance, which is helpful if DFF wants to attract outside investment. Diversification also fosters company growth because the operations are expanded. If DFF develops a new business, it can boost consumer awareness through more exposure and access a larger pool of potential customers. By maximizing the use of resources, production capacity, know-how, etc.,

diversification can increase DFF's efficiency and lead to operating synergies. Financially, the company may benefit from improved resource sharing and transfer by reducing production and operating costs, which can lead to economies of scale and scope.

Nevertheless, diversifying into new products, markets, or both would lead to risky investments because it changes DFF's supply chain and operating model. Coordinating several sources of income adds complexity and raises expenditures for administration, reporting, monitoring, communication, research & development, marketing, and distribution. This is due to an increase in the number of suppliers, clients, and competitors and a potentially extended geographic area with new cultures, laws, and traits, which can be a challenge for a start-up. Therefore, diversifying revenue sources may have negative effects on the cost structure, which is rather simple at the moment, and organizational effectiveness may decline rather than increase as previously stated. This is the first time the founders consider diversification, meaning they have no experience in handling such changes, which is another downside that could lead to failure. The company would need to start hiring and finding the right employees to acquire new expertise to handle the transition into the diversified areas. Moreover, it is difficult to predict the performance of new revenue streams, increasing the financial uncertainty. Additionally, there is the risk of losing focus, meaning it is possible that the company neglects its trust and relationship building acquisition, which is part of its value creation and USP of the business model. In this case, DFF would fail to meet the demands of its core customers and market due to an inferior service resulting from diversification. Consequently, if diversification is mismanaged, all business areas – new and old – suffer from a lack of resources and focus. Indeed, the focus on several markets at once makes it more difficult to quickly notice and respond to market changes.

Accordingly, the diversification of DFF's business must be thoroughly developed because it can be directly linked to financial performance. All costs, resources, and effects on organizational structure and stakeholders must be carefully evaluated to find out if additional revenue streams would boost overall revenues.

6. What are the opportunities and risks of each of the six growth strategies mentioned at the end of the case?

1. Continue as usual

If DFF continues focusing on its current market with its current products, it would be the least risky option. The firm focuses on doing what works and proves to be profitable. There is no

disruption of the current operations, meaning there is no need for new human resources, facilities, suppliers, partnerships, technologies, organizational changes, etc. Hence, there is no need for investment. DFF would save time and money which would be needed for market research, product development, and a potential search for investors. Also, DFF only covers around 10% of its core market. Thus, DFF has potential to continue growing in this market. Pursuing a revenue concentration strategy and becoming a leader in one single market can lead to sustainable long-term growth.

However, it does not solve the issue of seasonality. After school graduations are over, DFF would still not have a market to sell to for the remaining year. There is no workload, besides paperwork, because the new acquisition period does not start until January next year. Therefore, it is difficult to build a solid company foundation with full-time employees to establish a company culture with five months of off-season. DFF would also miss out on opportunities to sell to other markets and/or customer groups where the product could be demanded and is forgoing potential revenues. Additionally, there is a high threat of new entrants because entering this market is easy. There are only very few investments needed – DFF financed itself also without external investment due to low costs. Also, buying, customizing, and selling candles, wine or similar products is simple in terms of operations. Consequently, if DFF decides to focus on this market only, they become vulnerable to potential new competitors that take away DFF's market share.

## 2. Expanding into new countries

The second strategy would be market diversification if DFF starts targeting graduating high school classes outside Germany. It would lead to a bigger pool of customers. So, the target market increases, leading to the opportunity to generate more revenue. Also, the target customer is the exact same as in Germany. This leads to the opportunity that the same business and operating model can still be used without the need for alterations. DFF could “copy and paste” its operations for these target markets, which could lead to operating synergies. The communication continues to be via MiM because there is no difference if DFF chats with someone on WhatsApp from Germany or from Austria for instance. Consequently, this strategy is easy to implement and does not need risky and large investment.

Targeting schools outside Germany leads to more potential customers but it most likely does not combat the issue of seasonality. School graduations in other countries are usually also during summer. Although entering other countries would be easy with DFF's business model and cost structure, the same applies to other companies entering these markets, making DFF

vulnerable to competition. Market research still has to be conducted which is time-consuming and costly. Previously, DFF should conduct research to find out if there is demand for its products and if there are similar products and companies. Moreover, it is questionable if it is still profitable for DFF to cover all shipping costs when shipping outside Germany. If it's not, DFF needs to find new suppliers in the new country who are willing to prepare all logistical steps. Otherwise, the operations and the supply chain would be disrupted increasing business risk. Further, it could be a higher burden and more difficult to establish trust and a seller-buyer relationship with customers in foreign countries as a German start-up. Possibly DFF would need to invest even more into the acquisition process to break the ice.

### 3. Targeting university graduations

This strategy is market diversification because DFF would target a new customer group with the same product. The focus would continue to be on Germany. The same advantages as for the second strategy apply here. But there are a few more. Because the geographical focus would be Germany, there is no need for a new supply chain as it could be when expanding into another country. Also, the customer group stays similar because parents are proud when their child graduates from university. Acquiring and doing business with graduating university students could be easier for DFF because they are older, more experienced, and usually more reliable compared to high school graduates. More importantly, university graduations are organized independently from every university and business school. The timing of university graduation ceremonies varies as they are spread out over the entire year. This would actually combat DFF's seasonality issue and provide the opportunity to generate revenues throughout the year.

Regarding the disadvantages, there is not a lot of risk involved because DFF could use the same operating model without the need for changes. However, some market research should be done to find out about possible competitors and similar products. The risk of competition is high because DFF's business model is easy to copy due to its simplicity and low operating costs. Even if DFF enters this market and it does not work out, the consequences for the overall business are marginal.

### 4. Targeting companies

This growth strategy would lead to an extension of DFF's customer group and hence is an opportunity to generate more revenue. What's more, selling to companies, who would use DFF's products for firm events or customer gifts, is not tied to seasonality. Therefore, it would help DFF to decrease its seasonal dependence. Moreover, targeting companies bears a

manageable risk because only few investments are necessary. The product stays the same as well as the suppliers. There is no need to change the operations. Consequently, even if it turns out that companies are not interested in DFF's products, failing in this market would not result in a financial disaster. When targeting companies DFF can use its social impact as an additional selling point. Companies want to show that they are socially responsible and announce such initiatives through their communication channels. By cooperating with DFF, companies could advertise that they support schools in Senegal and contribute to a good cause.

Regarding the negative aspects, DFF would most likely need to modify its acquisition process and communication channels. Negotiating with companies is more formal compared to communicating with high school students. Hence, instead of communication through WhatsApp, more phone calls and personal meetings with company managers need to take place. Also, in this case, DFF would have the risk that other companies enter this market with a similar business model.

#### 5. Extension of the product range

A wider product range appeals to more people. If DFF offers more choices, the chances are higher that every consumer finds a product. It would serve more specific needs. The introduction of new products can help DFF to reach new markets and cover more customer groups. Also, sourcing and personalizing products like cups or bottles is easy and inexpensive. However, offering an extended product range might lead to a decline in demand for wines and candles. Instead of buying a personalized bottle of wine and a newly introduced cup, a customer might only buy a cup. Hence, revenues would not increase if the introduction of new products results in customers buying them as substitutes and not as additions. Then, a new sourcing process would be needed. Currently, DFF collaborates with a printshop that sends the labels to the winery and the winery sends the final product to the customer. This would not work with products that are not wine, so DFF has to establish a new supply chain. This leads to investments into an additional supply chain, new equipment, materials, packaging, etc. that could be higher than the actual gains from introducing new products. It might also lead to supply chain and inventory problems. Another downside is that it could dilute DFF's brand identity. The introduction of too many products might confuse customers and make DFF look like just one of the other hundreds of online merchandise websites. It would also result in the problem that DFF would compete with all the other online shops because the consumer perceives DFF as such a shop, which strongly increases the number of the company's competitors. Thus, there

would be a risk that DFF's value proposition, like the donation and personalized communication, are not realized by consumers and lose importance.

## 6. Introduction of an online store

Nowadays it is easy and inexpensive to open an online store. It is an efficient way to collect customer data. This could be beneficial to identify new markets and/or customer segments. An online shop simplifies the ordering process because people can create a personalized design themselves and upload it without the need for human interaction. So, this is a chance for DFF to get customers without a long acquisition process. The online shop is always accessible which is an opportunity to sell products all year long. However, this is only the case if the product characteristics offered in the shop are customizable and not only fixed designs are available that are subject to seasonality. As an online shop serves all potential customers it enables an easy market access and an opportunity to scale the business quickly.

Nevertheless, implementing an online shop would require DFF to either have the human resources and raw materials to prepare personalized orders or to have reliable partners that do it. A customer support is needed to take care of customer rights and legal matters. But, would it be worth to implement a more costly supply chain for an online shop when it is uncertain how many orders would be received? The risk that DFF only appears to be like another online merchandise shop exists leading to the possibility of brand dilution. If the online shop becomes the main acquisition tool and sales channel, the conversion from leads to paying customers can drop significantly because DFF is not able to build consumer trust and a relationship. DFF would have to deal with a greater pool of competitors, namely all online merchandise shops. This makes it harder to stand out and to convince consumers to buy from DFF, especially when the relationship-building acquisition process is missing.

## 7. What are your recommendations for the managers of DFF?

The overall business objective of DFF is to achieve a sustainable long-term growth to further develop the company. Therefore, DFF's managers should pursue initiatives that contribute to this achievement. The following recommendations for the management of DFF can be derived:

### **1. DFF should tap into targeting university graduations**

This strategy bears almost no risk because DFF does not need to change its current business model. The products would be the same. DFF can keep its supply chain and sourcing process

without the need for modifications. Consequently, the company does not need to look for new suppliers. Also, the geographic region would be the same. The target group is almost identical to graduating high school students because: 1. The end-consumer (parents) are the same 2. The products have the same purpose (memory of the completion of a degree) and 3. The group of people that has to be acquired and convinced (students) is identical. Consequently, DFF could continue operating in the same way. No investment to enter this market is needed and DFF could start reaching out to university students. As university graduations take place all year long, this strategy would counteract the seasonality issue. Plus, DFF can pursue efforts to acquire university students in its off-season to not lose focus on selling to the core market.

## **2. DFF should reach out to companies**

Secondly, DFF should approach companies to find out if there is a demand for DFF's products to, for example, sponsor firm events with personalized wines. This would be attractive for DFF because there is no disruption of operations as the supply chain does not need to be altered and the products remain the same. It could be attractive for DFF as sponsoring company events with wine is not tied to seasonality. DFF could have the opportunity to establish a second "peak-season" when supplying companies with wines for Christmas parties. There is only low risk involved because approaching companies with the current products does not need investment. Such efforts can be pursued in the off-season where DFF can initiate a trial acquisition phase.

## **3. Continue focusing on school graduations**

Lastly, it is recommended to continue focusing on DFF's core market – school graduations. As the company currently supplies around 10% of the market, there is still potential for business growth and revenue generation by covering more of this market.

Overall, the recommendation for the managers of DFF is to stick to its current business model. The cost structure and supply chain are simple and effective and hence are a strength. Consequently, the other options should be disregarded for now because entering new countries, introducing more products, and opening an online shop all disrupt the current operations. There are several risks involved like the need for new suppliers, a new sourcing process, and the danger of brand image dilution. These do not only require resources in the form of investment and time but also lead to uncertainty and financial unpredictability. Hence, DFF should focus on its core strengths – relationship and trust building acquisition, simple and effective supply chain, and a simple cost structure. The three recommended strategies can be managed with the

current operations without the need for modifications. Especially the time in the off-season can be used to pursue efforts to reach out to university students and companies.

## 4. Conclusion

This dissertation presented the case of the German start-up “DrinkForFood” which specializes in selling customized products to the families of graduating high school students. DFF is highly dependent on seasonality because it only sells to high school classes which have their graduation between May and July. To further grow and decrease this dependence, the managing directors considered to expand the current operations by diversifying the revenue streams.

The objective of this Thesis was to present an interesting case of a company by analyzing possible future strategies and making recommendations based on the present challenges. It addresses the risk of seasonal businesses, the opportunities and threats deriving from revenue diversification strategies, and the importance of relationship marketing activities particularly in the context of online retailing.

In the case study, DFF is presented including its history, business model, operations, and challenges. The literature review explains, discusses, and connects relevant existing theories, concepts, and models that are connected to the case. Finally, the teaching note includes the analysis of the case. Specific questions, namely relationship marketing and seasonality, related to the contents of the case and literature review are answered. The questions critically address the challenges and aim to result in possible next steps for the company.

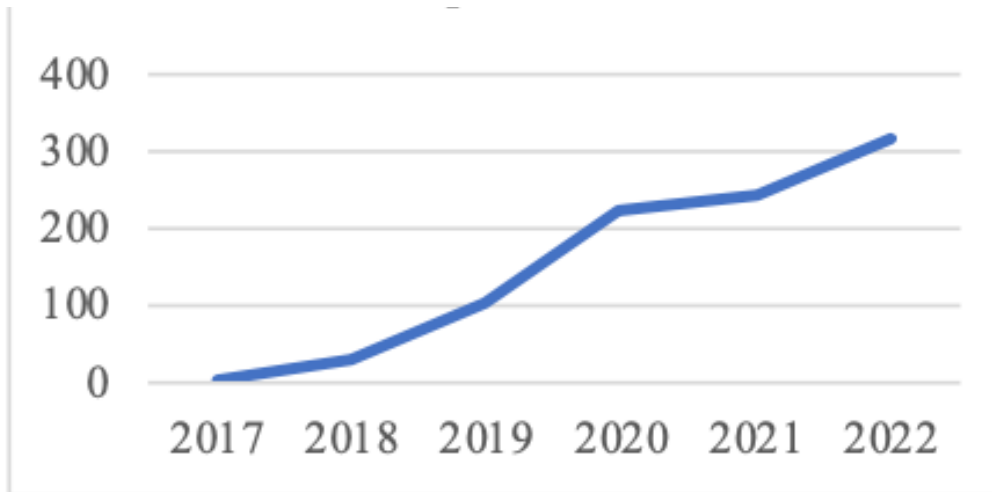
One of the main takeaways is that DFF should continue focusing on its core strengths, its efficient operations, and its simple cost structure when considering further growth strategies. By starting to target university graduations and sponsoring company events, the current business model can be kept. Hence, it is recommended that DFF uses its off-season to approach these target groups.

For further research it would be interesting to accompany and analyze the trial phase of DFF’s efforts to approach the recommended target groups. Based on this a concrete action plan could be developed to decrease the dependence on seasonality. It would also be of interest to see how the company develops in terms of human resources, facilities, and organizational structure if the recommended growth strategies are successful.

## Appendices

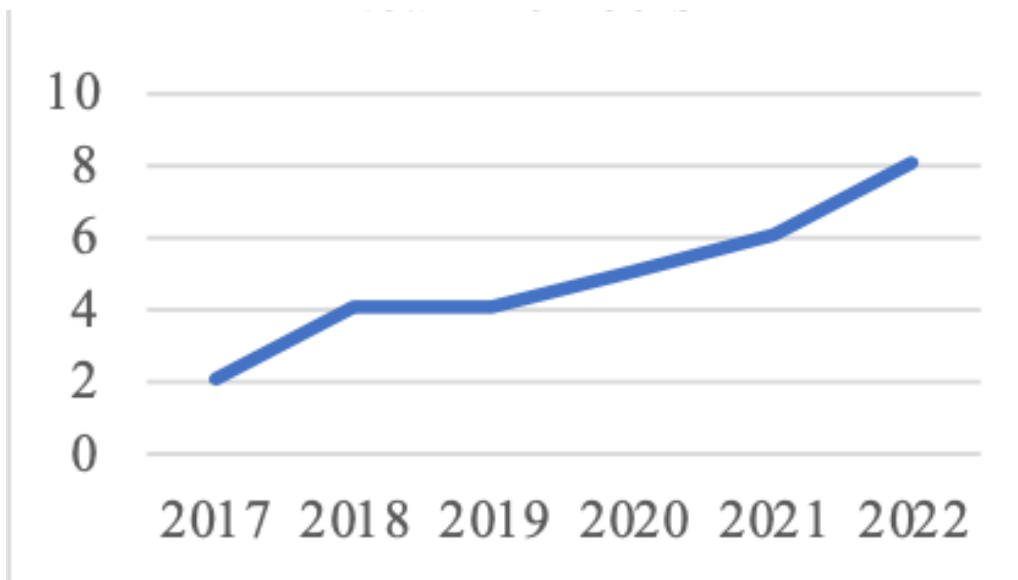
### Case Exhibits

Exhibit 1: Number of selling points



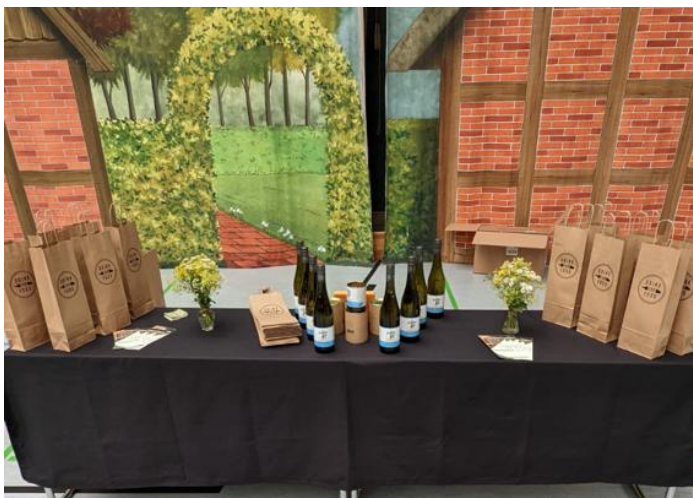
Source: Company information, own illustration

Exhibit 2: Number of team members



Source: Company information, own illustration

Exhibit 3: Examples of booths with DFF's wine at a graduation ceremony



Source: DrinkForFood's website

Exhibit 4: The bottle of wine



Source: DrinkForFood’s website

Exhibit 5: The candle



Source: DrinkForFood’s website

Exhibit 6: Example of a personalized label



Source: DrinkForFood's website

Exhibit 7: Company Logo



Source: DrinkForFood's website

Exhibit 8: Meals donated so far

# 87.156

Meals already donated by you

## Key facts about Hilfe für Senegal e.V.

### 3

MAJOR INVESTMENT AREAS: EDUCATION,  
HEALTH & NUTRITION

### 31

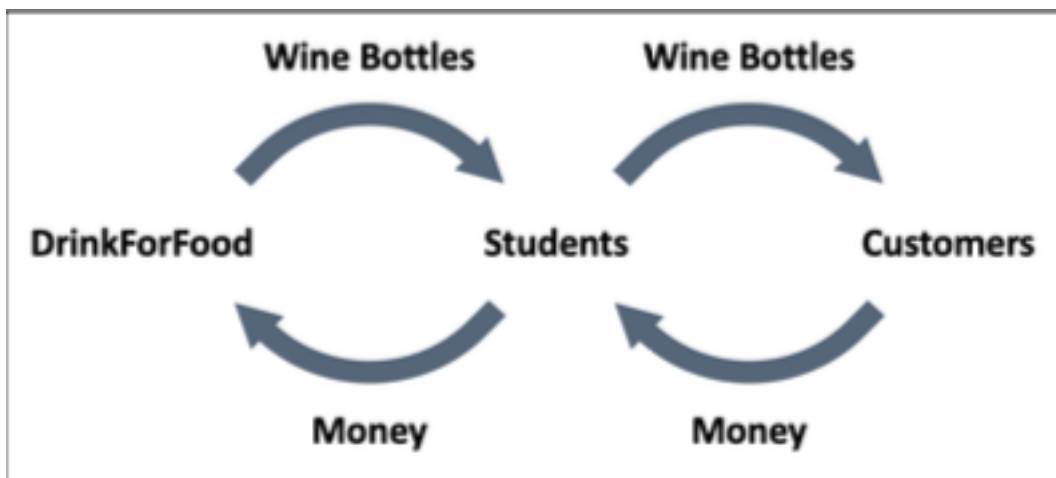
YEARS OF SUPPORT

### 440+

ARRANGED SCHOOL SPONSORSHIPS

Source: DrinkForFood's website

Exhibit 9: DFF's two stage selling process



Source: Company information, own illustration

## Exhibit 10: Projects to which DFF is donating

### **Fruit trees for Thiés**

In more than 30 years of aid work in Senegal, a number of projects have been created with a very good relationship of trust. In some cases, however, these are projects that are not primarily food projects. However, unlike here in Germany, it is common for some of these projects to maintain a small, sometimes somewhat larger garden with vegetables. For example, an infirmary in Touba Toul, which is a complete success: no food project in the first place, but the proceeds from horticulture benefit the patients and caregivers.

With fruit trees for Thiés, we would like to support a number of these projects and hope that the project will bear fruit in many different places. School gardens, infirmaries and orphanages could be places where fruit trees will stand and bloom in the future thanks to the support of DrinkForFood.

### **Primary school in Baback**

For us, eating canteens in schools is nothing new. During the long break, pupils of an all-day school can have lunch in the canteen. The situation is different with schools in Senegal.

A school garden and a well for irrigating different types of fruit and vegetables have already been built for the primary school in Baback. Now we want to offer the local children the opportunity to receive a warm meal. This is because the pupils often come from poor backgrounds, where the money is mainly spent on the education of the children. For example, a hot meal at home is often cancelled. Therefore, we would like to support the primary school together with meals for the children.

### **1,000 sacks of rice for 1,000 families**

Due to the increased drought caused by climate change, which ensures low crop yields, the campaign "1,000 sacks of rice for 1,000 families" was launched. This action is intended to help people directly alleviate the need, so that they have the certainty, at least for a short time, that something to eat will be on the table the next day.

Of course, the Senegalese state's project to strengthen its own agriculture is supported and the rice is bought locally from local producers.

Source: DFF's website

Exhibit 11: DFF's value proposition for students

<h2>No risk</h2> <p>Whether designing, ordering, shipping or selling: We give you everything and take care of everything that is important to you. Your step cash register remains completely unaffected.</p>	<h2>Free returns</h2> <p>Bottles left? No problem! Stick the return stamp on the box, hand it in and send it to the post office. By the way, there is no minimum order quantity with us!</p>	<h2>One bottle = one meal</h2> <p>Why "... ForFood"? For every bottle purchased, a meal is donated to people in need. For this, we work together with a sensational organization that helps on site and can make sure that everything works.</p>
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Source: DrinkForFood's website

Exhibit 12: DFF branded wine with personalized labels



Source: DrinkForFoods website

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