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# **Integrating Forward by Going E-commerce**

## **- A study of the Fashion Industry and the Development Phase of an Internet Establishment -**

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# Abstract

- Title:** Integrating Forward by Going E-commerce- a study of the fashion industry and the development phase of an Internet establishment.
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- Course:** Master Thesis in Strategic Management, 10 credits (15 ECTS)
- Authors:** Karin Dahlgren, Tilda Munke, Markus Thulin
- Advisor:** Per-Hugo Skärvad
- Key Words:** E-commerce, Forward Integration, the Fashion Industry, JaymJay Wear AB, Strategic Considerations
- Purpose:** The purpose of this thesis is to outline an appropriate model in order for companies to successfully act and compete physically as wholesalers at the same time as acting on the virtual market by selling directly to the end consumer.
- Methodology:** The approach of this thesis is hermeneutical and abductive with elements of hypothetically deductive approach. Our research has a qualitative research strategy based on case studies and interviews as well as on secondary data. Interviews were conducted with the case company JaymJay Wear AB as well as with other companies, so called mini cases. The secondary data consists mainly of textbooks, web sites and journals.
- Theoretical Framework:** The theoretical framework is divided into three parts; the *Strategic Management Perspective*, the *E-commerce Field* and *Specific Considerations*.
- Empirical Findings:** Empirical findings are divided into two chapters; one concerning mini cases and the interviews with Bubbleroom, Flare.se, MnO International New Wave Mode AB, Åhléns AB and Emilia af Malmö are presented. The second describes JaymJay Wear AB.
- Conclusions:** This thesis results in a model developed to help companies to act physically as wholesalers at the same time as acting on the virtual market by selling directly to end consumers. The model is developed in two steps; through theory and through empirical findings. Further more, some important considerations i.e. *Organisation, Supply Chain, Relations, Marketing* and *Strategy* are identified and evaluated, as well as the Rich Bitch project.

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# 1. Introduction

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*This chapter begins with a background of the chosen field of study and an introduction to the problem area, which leads to the problem formulation and the purpose of this thesis. Further on, some key definitions and an outline for the thesis is presented.*

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## 1.1. Background

*“Luxury brands could benefit in three ways from having successful (web) sites: the ability to sell to a far wider audience; offering customers the indulgence of convenience; and providing a space in which potential customers can do research and develop desire.” (New Media Age, 2004 p. 27)*

After years of ignoring the internet as being suitable for only mass market brands, marketers of premium products are finally waking up to the opportunities it offers, according to new research. Marketing Agency BLM has found that in 2003, 32 percent of premium brand buyers utilised the Internet for information and to make a purchase, but in 2005 this had increased to 67 percent. Further, this number is expected to grow to 85 percent by 2010. According to BLM, online stores will have a 25 percent share of all retail spending by 2015, as more consumers choose to shop on the web and more companies increase their investment in digital media and electronic commerce. (Marketing Week, 2006 p. 19)

The European Union defines electronic commerce (later e-commerce) as:

*“...any activity which involves enterprises interacting and doing business with customers, with each other or with administrations by electronic means” (Europa – Eurostat, 2006-04-14)*

E-commerce may be among the most important developments in decades, and it certainly has and will have a major impact on businesses. Companies that have not made significant forays into e-commerce need to do so soon. (Epstein, 2004)

Sweden possesses a top position when comparing shopping online with other European countries. The proportion of people in Sweden aging 16-74 who have purchased goods or services for private use on the Internet during the first quarter in 2005 is around 40 percent. For men, the most common product to buy online is travelling related services while women prefer to buy clothes. (Statistics Sweden, 2006)

According to Media Week, many observers believe that it is time for the luxury brand owners to start taking the Internet more seriously, and those who have already done this are now obtaining the benefits and gaining a degree of competitive advantage. Many Luxury brand owners are ignoring the Internet as not being suitable for them because they fear that the luxury brand take damage when sold electronically. (New Media Age, 2004)

However, according to Porter (2001), gaining competitive advantage via the Internet does not require a radically new approach to business; it requires building on the proven principles of effective strategy. Porter argues that:

*“...as all companies embrace Internet technology, the Internet itself will be neutralized as a source of advantage.”* (Porter, 2001 p.78)

Traditional strengths such as unique products, proprietary content, and distinctive physical activities will, as before, be the concept to sustain competitive. The Internet technology can reinforce those advantages but it is unlikely to displace them. (Porter, 2001)

Boo.com, founded in 1998 by the two Swedish entrepreneurs Ernst Malmsten and Kajsa Leander, is an example of an immense e-commerce failure in the fashion industry. Boo.com is a so called e-commerce only intermediary that started their business on the Internet. The liquidating in the 18<sup>th</sup> of May 2000 was one of the first and also the largest e-commerce breakdown during the IT-boom. One reason for the collapse is the fact that the web site was too complex, only 25 percent of those who tried to access actually succeeded (Stockport et al 2001). In contrast to the collapse of Boo.com in year 2000, there are today a couple of smaller firms in Sweden that successfully sell expensive and exclusive clothes on the Internet, for instance the e-commerce only firms Flare.se (Aronsson, DI 2005-10-12) In addition, H&M Rowells was one of the pioneer in the fashion industry that started their Internet store in 1998 and that still are on the market today. (H&M Annual Report, 2003) H&M is an e-commerce able firm that started in the physical market but that also uses e-commerce

Lindex is another e-commerce able firm that is the latest Swedish company announcing to go e-commerce. In a press realise, the CEO, Göran Bille states:

*“E-commerce is and will be even more important in the future for us retailers. It is today almost a demand from our customers”* (Dagens Media, 2006-05-29)

Lindex' Internet store will open in spring 2007. Göran Bille sees the e-commerce investment as a way to let people look at the clothes on the Internet, and also to let people with time or geographical limits to be able to purchase the clothes online. (Dagens Media, 2006-05-29)

When new so called e-commerce only intermediaries are entering the value chain, a disintermediation process is likely to take place. This means, that traditional

intermediaries are being pushed out of the value chain since they are no longer necessary in order to make contact with the consumers. However, Chircu & Kauffman (2000) argues that those traditional intermediaries can stay competitive and regain market shares if they learn to adapt to the new environment. By using the advantage of being established firms with customer relationships at the same time as starting using the Internet to reach a larger base of consumers, those e-commerce able companies can create great advantages compared to e-commerce only companies, according Chircu & Kauffman.

## **1.2. Positioning and Former Research**

The e-commerce field is a rather explored area of subject. A number of authors have tried to find the key factors for successfully entering e-commerce, an issue related to the purpose of this thesis. Most literature relates to the late 20<sup>th</sup> or early 21<sup>st</sup> century. However, recent research that is more linked to the technology today can also be found. In this part, Chaffey (2002), Rayport & Jaworski (2001) and Epstein (2004) are introduced.

In *E-Business and E-Commerce*, Chaffey (2002) give emphasis to management issues when businesses imply to take advantage of the opportunities afforded by e-commerce, and how an e-commerce strategy should be developed. Chaffey argues that introducing new a technology is not all what is required for successfully introducing e-commerce; clearly defined objectives, creating the right culture for change, mix of skills, partnerships and organisational structure are possibly more important. This view is also the focus for Rayport & Jaworski (2001) in their book *E-Commerce*.

Epstein's (2004) *Implementing E-Commerce Strategies* is another example in the field of study. Epstein explores four important characteristics that have to be taken under consideration in order to successfully implement e-commerce; leadership, strategy, structure, and systems. For example, Epstein claims that the leadership has to be strong and dynamic. Epstein also declares that concerning organisational structure, separate business units are an acceptable short term solution but should definitely be integrated over time. Epstein further applies his thoughts on various industries, including the luxury retail industry, where he discusses customer relations, among others topics. The conclusion he reaches is that when this sort of companies enter the e-commerce market, consumer service is a key factor of success.

## **1.3. Problem Discussion**

In the background some more or less successful e-commerce establishments were presented. Those firms consisted of e-commerce only firms, e.g. Boo.com and e-commerce able retailers e.g. H&M. Another group, yet not discussed, is *e-commerce able wholesalers*. Normally, wholesalers are only selling to retailers, in other words;



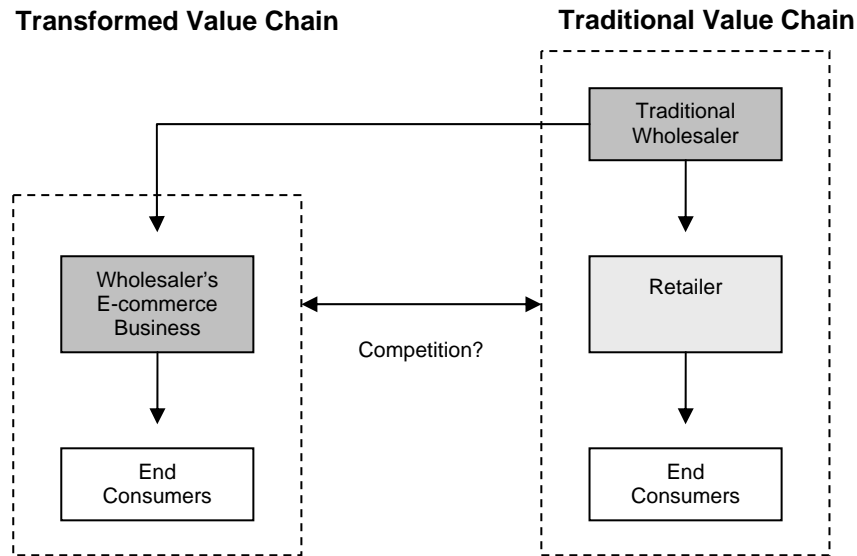
they are operating business-to-business. By starting e-commerce, wholesalers can integrate forward in the value chain and start to sell directly to end consumers.

This kind of e-commerce can be exemplified by JaymJay a wholesaler in the fashion industry, founded in 1997; a company that today only distributes clothes to retailers (B2B). In August 2006, JaymJay will launch its new e-commerce project “Rich Bitch” and will therefore be able to continue as a traditional wholesaler at the same time as acting retailer on the electronic market, and thus also act as a B2C intermediary. Consequently, taking a part of the e-commerce business does not only require taking e-business into consideration, firms also have to evaluate the potential problems and possibilities that may occur when transforming the value chain by integrating forward.

Traditional e-commerce models by e.g. Chaffey (2002), Rayport & Jaworski (2001) and Epstein (2004) are just handling key success factors for e-commerce only and e-commerce able retailers that aims to go e-commerce. However, those models do not appear to explicitly handle the particular consideration of a wholesaler integrating forward and starting e-commerce by selling directly to end consumers.

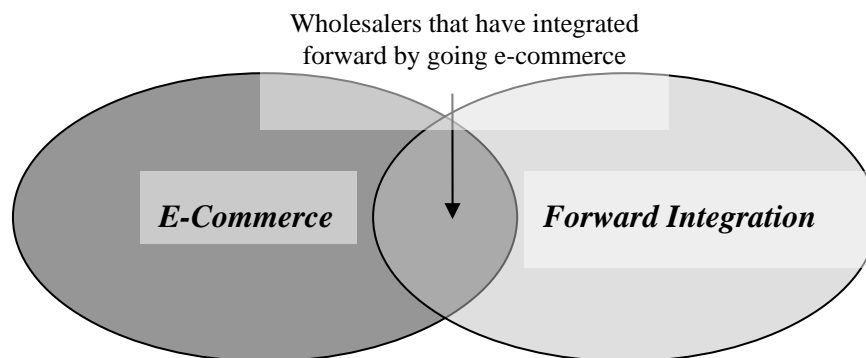
This thesis aims to develop a model that can be useful for wholesalers in the above described situation. The model aims to give the overall picture of the strategic considerations in this kind of situation. The questions below illustrate some enquiries that the authors of this thesis have found of interest to examine:

- What strategic decisions are important to take into consideration to prevent destroying present relations with the retailers? See Figure 1.1.
- How should the traditional business and the e-commerce subsidiary be organised?
- What marketing aspects are crucial when starting e-commerce and also going from B2B operations to B2C?
- How can a wholesaler handle distribution towards end consumers via the Internet?
- What strategic enquiries are essential to consider in order to remain successful and not risking the core business?
- What strategies are suitable to successfully act as a wholesaler and at the same time operating as a B2C virtual store without damaging the traditional business?



**Figure 1.1** Potential competition between the wholesaler’s customers the retailers (Own illustration)

The authors would like to emphasize that both e-commerce enquiries and considerations related to forward integration will be considered in this thesis. This is illustrated in Figure 1.2.



**Figure 1.2** This thesis field of study is in the integrated parts of both circles (Own illustration)

It is the combination of the two fields that makes this thesis unique. The authors have seen wholesalers in the fashion industry that have integrated forward, therefore this industry will be paid special attention to in the thesis and JaymJay will serve as a case company. The methodological approaches will be further discussed in next chapter.

## 1.4. Problem Formulation

What strategic decisions are essential for a traditional wholesaler to take into consideration while establishing on the e-commerce market, when simultaneously changing the value chain by integrating forward?

This problem definition will be examined with focus on the fashion industry and exemplified with the case company JaymJay and its Internet project Rich Bitch.

## 1.5. Purpose

The purpose of this master thesis is to outline an appropriate model in order for companies to successfully act and compete physically as wholesalers at the same time as acting on the virtual market by selling directly to end consumers.

Additionally, by using the model, the authors of this thesis aims to evaluate the strategically directions of JaymJay Wear AB and its Internet project Rich Bitch.

## 1.6. Target Group

This thesis addresses to two main target groups. The first one is students at universities who like to extend their understanding of the subject field of e-commerce and forward integration in the fashion industry. The second target group is companies in the fashion industry as well as other business interested in going e-commerce or related to companies that are. Due to the fact that all intentional readers do not possess the same previous knowledge or qualifications, this thesis aims to explicate the terms and concepts as accurate as possible in order to make the content interesting and utilisable for all.

## 1.7. Definitions

<i>Business-to-business (B2B):</i>	commercial transactions between two firms.
<i>Business-to-consumer (B2C):</i>	commercial transactions between a firm and the end consumer.
<i>Disintermediation:</i>	When a middleman gets pushed out of the value chain, either because the product it provides becomes irrelevant or because other firms are doing the transaction more efficient.
<i>E-commerce:</i>	any activity which involves enterprises interacting by making transactions with customers or with each other by electronic means.
<i>E-commerce-able intermediaries:</i>	middleman conducting business using both traditional methods and e-commerce applications.
<i>E-commerce-only intermediaries:</i>	middleman starting the business in the electronic environment of the Internet that also may operate on the physical market to some extent.
<i>Exclusive clothing:</i>	clothes that most people have limited access to for some reason; either because these only are available e.g. in some regions, or that these are characterised by high prices.
<i>Forward integration:</i>	when an intermediary e.g. a wholesaler starts to sell directly to end consumers in one way or another. It

does not necessarily mean to merge or acquire other firms it can also be done by establishing an e-commerce business.

*Luxury clothing:*

luxury clothing distinguishes of high prices, not to be mixed with exclusive clothing that is more about access, even though luxury items often also are of an exclusive art.

*Retailer:*

middleman that sells directly to end consumers; physically, by mail order or by e-commerce.

*Traditional intermediaries:*

firms that provide matching services for buyers and suppliers only in the physical market.

*Wholesaler:*

an intermediary buying goods from manufacturers and selling in large quantities to retailers who then sell in smaller quantities to the end consumer.

## 1.8. Outline

This outline shortly describes the chapters in this thesis.

1. The *introduction* gives the reader background information of the chosen field of study and some former research related to the thesis. Discussions as well and formulations of the problems will lead to the description of the purpose of this thesis. Important definitions are also explained.
2. *The Methodology* chapter illuminate the theory of science chosen for the study as well as approach and a motivating of these. The chapter also describes a line of action that was taken to work through this thesis. Finally, some critics to the method are presented.
3. A *Theoretical framework* describes literature that will be useful for the analysis. The chapter consists of three main parts; Strategic Management Perspective, the E-commerce field and Specific Considerations.
4. The first of two chapters containing *empirical* information consists of a few so called mini case divided into; e-commerce only, e-commerce able, and traditional intermediaries. The special attention is on the fashion industry but two retailers from the food industry are also described.
5. Further on the authors enhance the description of JaymJay and the e-commerce investment; Rich Bitch, in the second chapter with *empirical* information.
6. The *analysis* is proceeding from the formulated problem and is linking the chosen theories with the empirical findings. Also the analysis is divided into two chapters, mainly as the same manner as the empirical findings. The first chapter consists of two main parts that are based on the theoretical framework and the mini cases. At first the general model is presented, based on the theoretical

framework. In the second section the model is further discussed and developed by looking at the empirical findings from the mini cases.

7. In the second part of *analysis* the case company JaymJay and its Rich Bitch project is evaluated and analysed based on the developed model. Their strategic move is evaluated, and the authors give their recommendations.
8. Finally, the authors present the *results* of this thesis. First the conclusions are divided into two main parts; the general model and JaymJay. Generalization of the conclusions, some critics and further research are also discussed.

## 2. Methodology

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*This chapter describes the methodology used in the study. The methodology is chosen on the basis of that it will contribute to an implementation of the purpose of the report in the best possible way. Approach, method and the form of a case study is described and is followed by a line of action for the thesis. Finally, critics and credibility are presented.*

---

### 2.1. Case Study and Mini Cases

To better understand the stated problem issue, this study is completed with special focus on one company; JaymJay Wear AB. Jacobsen (2002) suggests that a so called *case study* is appropriate when a profound understanding of a phenomenon is required. Jacobsen also states that a case study is characterised by an in-depth study and an analysis of one or several units, therefore a case study, here exemplified by JaymJay, appears to be the appropriate choice for this thesis.

The purpose of this thesis, however, is to develop a model that can be utilised by companies in the specific context of being a traditional wholesaler that aims to integrate forward by establishing on the e-commerce market. To develop a model as described, theories as well as other cases ought to be studied. Therefore, other firms of special interest, so called *mini cases*, also have been investigated.

### 2.2. Level of Ambition

When conducting a thesis it is important to decide upon an agreed level of ambition, not only among the researchers but also to give the reader an idea of what can be expected in the report. There are four different levels a study can reach: (Wallén, 1996)

1. *Explorative study* means to explain a problem's "what, when and how". In short terms, this implies that a survey of a problem and its environment is made.
2. *Descriptive study* intends to decide the characteristics of the research objects. This involves a collection of data as well as placing it in a predefined system.
3. *Explanative study* manages different types of cause and effect relations. This study explains why and how things appear and look the way they do.
4. A *Normative study* is supposed to end up in a proposition for action or shaping new norms. A problem definition that involves a *How*, often aims to reach this

level. Normative studies try to solve a problem with many proposals and answers. The proposals consequences should also be discussed. It is also recommended that the researcher's own position is described since it can affect the results.

This thesis aims to reach somewhere between level three and four. It *explains* a problem; how to establish successfully on the e-commerce market when simultaneously changing the value chain by integrating forward. To solve this problem, a model will be developed throughout the thesis. The presented model is in some way *normative* because it aims to give a proposition or answer to the particular problem. This model will then be applied on the case company JaymJay in order to be able to discuss and evaluate their chosen strategies.

### **2.3. Approach**

There are two main approaches to collect empirical data: *deductive* and *inductive* approach. The combination of these two is called *abduction*, a way of altering between theory and empirical information. (Rienecker, 1997; Holme & Solvang 1997) This thesis is devoted to the abductive approach with distinctive elements of the later described *hypothetically deductive* approach.

In deduction, the researcher begins in the theory and attempts to find evidence in the empirical information that supports the studied theory. The drawback of this method is that the researcher often fails to notice information that he or she does not explicitly look for. (Jacobsen, 2002) A development of this approach, which is partly handling the default of neglected information, is called *hypothetically deductive*. It is built upon former research to make hypothesis that is later tested against the collected data. (Holme & Solvang, 1997)

The opposite of deduction is induction. In an inductive approach, the researcher is supposed to collect data with no expectations at all in order to create new theory from the collected empirical information. (Jacobsen, 2002) In reality, it is nearly impossible for anyone to collect and analyse data completely unprejudiced, (Wallén, 1996) and thus one reason why this approach is deselected.

This thesis is mainly *abductive* in the sense of altering between theory and empirical information. However, the centre of gravity is on what is called the hypothetically deductive approach. First, an in-deep study of theory and former research in the field of strategic management was completed. In addition, the e-commerce field was discovered to get a broader view of the research until today. However, there is no written theory on the examined field that focuses on the distinctive problem definition. Therefore, since it is not possible to be pure deductive, a hypothetically deductive approach is the natural choice.

To obtain the best base for analysis and to be able to build the model, the authors decide to study strategic theory as well as former made implementations in e-commerce, mainly in consumer businesses and preferably in clothing businesses. The first interview with the case company JaymJay was performed nearly without any expectations and therefore this thesis has a total *abductive* approach. The hypothesis that will be developed consists of a model for implementing e-commerce. This model will then be compared to the case company and their strategies when introducing e-commerce.

As described above, some information will be collected in an inductive way. When this is completed it is important to take into consideration that the researchers have former knowledge and experiences in the areas of this thesis theory and literature which they cannot totally disregard from. It is essential to know about this and try to minimise their effect.

## **2.4. Method and Data Collected**

When conducting a survey and selecting appropriate methods there are several dimensions to take into account. A difference between both quantitative and qualitative methods is made as well as between breadth and depth. In addition, these dimensions may be triangulated. Finally, the differences between primary and secondary data are discussed.

### **2.4.1. Qualitative or Quantitative Studies**

When collecting data a distinction between *qualitative* and *quantitative*, generally words respectively numbers, is made. The quantitative method is based on the social reality that can be measured with methods and instruments that gives information in numbers. This information is then analysed with statistical methods. One drawback is that only information that the researcher already has pre knowledge in can be analysed. (Jacobsen, 2002)

Jacobsen further describes the qualitative methods that are the counterpart to quantitative ones. In this case the purpose is to study people's interpretation of the social reality through studying *what they say and what they do*. These methods are more flexible and the respondents can answer with their own words and not through predefined answers. Observations and open interview are frequent in this field.

Further on, Jacobsen argues that different methods suits different purposes. The authors of this thesis have chosen to use qualitative methods exclusively. When briefly describing the differences between the methods above, it is rather obvious why the authors made this choice. It is difficult, if not impossible, to understand strategies without using deep and flexible interviews. As described earlier in this chapter, this



thesis is a form of case studies, and therefore the natural choice is to use qualitative methods.

A qualitative method is often used when the researcher has a hermeneutical way of doing the research (Forskningsmetodik – Kvantitativa och kvalitativa ansatser, 2006), which is the case for the authors of this thesis. In addition, these surveys habitually use inductive approaches. A hermeneutical method involves an interpretation of the collected information, and it is therefore important to have a close relation to the examined object to be able to fully understand it. (Thurén, 1996) Interviews are in some way subjectively interpreted. For that reason, the hermeneutical way of research method is considered as the most appropriate way.

#### 2.4.2. Broad or Deep

This thesis is conducted as a case study that commences with an examination of some mini cases. A case study that examines only one company is the most extreme of a deep research. In this study the authors start quite broad with screening the strategic area for theories and studying the mini cases. Those companies of special interest can in some way be compared to a wider survey than only the extreme of one company. But all things considered, this investigation is deep and not broad. Thurén (1996) explains the importance of going deep when making a case study; it is only possible to examine one company well if the researcher goes deep.

This distinction between *broad* and *deep* surveys is in line with Jacobsen (2002). When performing a broad survey, numerous units, for instance a population, are examined and only a few variables are measured for each unit. The opposite is a deep survey, where the researcher examines a few units while a higher number of variables are measured on each unit. In other words, deep studies give a deep understanding of the examined problem while broad ones give generalising results. The ideal is to have both breadth and depth in a study. However, this often requires a large amount of resources and hence a choice has to be made. (Jacobsen, 2002)

#### 2.4.3. Connection and Triangulation

As discussed earlier in this section as well as in former sections, there are connections between different possible choices. To get a good structure in the methodology it is important that these choices coincide, otherwise the research is not going to deliver a result that succeeds to answer the stated problem issue. (Jacobsen, 2002)

Initially in this thesis, a broad examination of strategic theories is made. In addition, studies of former e-commerce implantations and other strategically important firms are examined. This examination will result in a model with different strategic questions or consequences that a company ought to take into consideration. This model will then be tested on the case company, therefore the authors have some sort of design triangulation when starting broad and ending deep. The triangulation is only a form of design since

the method is not changed; only qualitative methods are used through the whole research.

Thus, both width and depth in the information collection is the ideal situation. Jacobsen (2002) describes the two ways of reaching this without demanding an excessively amount of resources, namely triangulation; to triangulate the method, or the design. The former involves for instance to first make a qualitative research and then use the result to collect relevant quantitative data, and vice versa. When triangulating the design, first a deep design is used, then a broad one, or vice versa. Triangulation is done to receive both sorts of information, even with poor recourses. Usually a combination of both these methods is used, for instance a premier qualitative and deep survey. The next step that follows should be a qualitative and broad survey based on the result of the former one. In this way it is possible to gain approval, or dismissal, for the results received in the deep survey. This thesis uses a form of triangulation design.

It appears that deep interviews are made to collect qualitative information. This is a typical deep research. In contrary, a questionnaire to a large population is a broad research method to collect quantitative data. If this is not the case, satisfactory information will not be received. As described earlier there is also a close connection between a hermeneutical way of making research and quantitative methods.

#### 2.4.4. Primary and Secondary Data

Information is not only divided into qualitative and quantitative, but a distinction is also made between primary and secondary data. Primary data is collected directly from the source and for the first time. In other words, no one has collected the data before and the collection is done for the purpose of the survey which determines the way of collection. Primary data is often received through interviews, observations and questionnaires. Primary data can also be divided into stimuli and non-stimuli data, where stimuli data consists of interviews and non-stimuli of observations. (Andersson, 1998)

Secondary data is characterised by being collected through someone else in the first place and for a different purpose. Ordinary secondary data are for example written texts, earlier researched and stated theories as well as statistical information like annual reports. The main advantages of using secondary data are the convenient method and limited time required to collect it as well as the expected high quality of the data. (Bryman & Bell, 2003)

With the above stated, it is possible to collect six kinds of information, although this thesis only considers two kinds, revealed in Table 2.1 below.

	Primary data		Secondary data
	Stimuli data	Non-stimuli data	
Qualitative data	Unstructured and semi-structured interviews		Written theories, published articles and other information and earlier made case studies
Quantitative data			

**Table 2.1** Types of data collected in this thesis (own illustration)

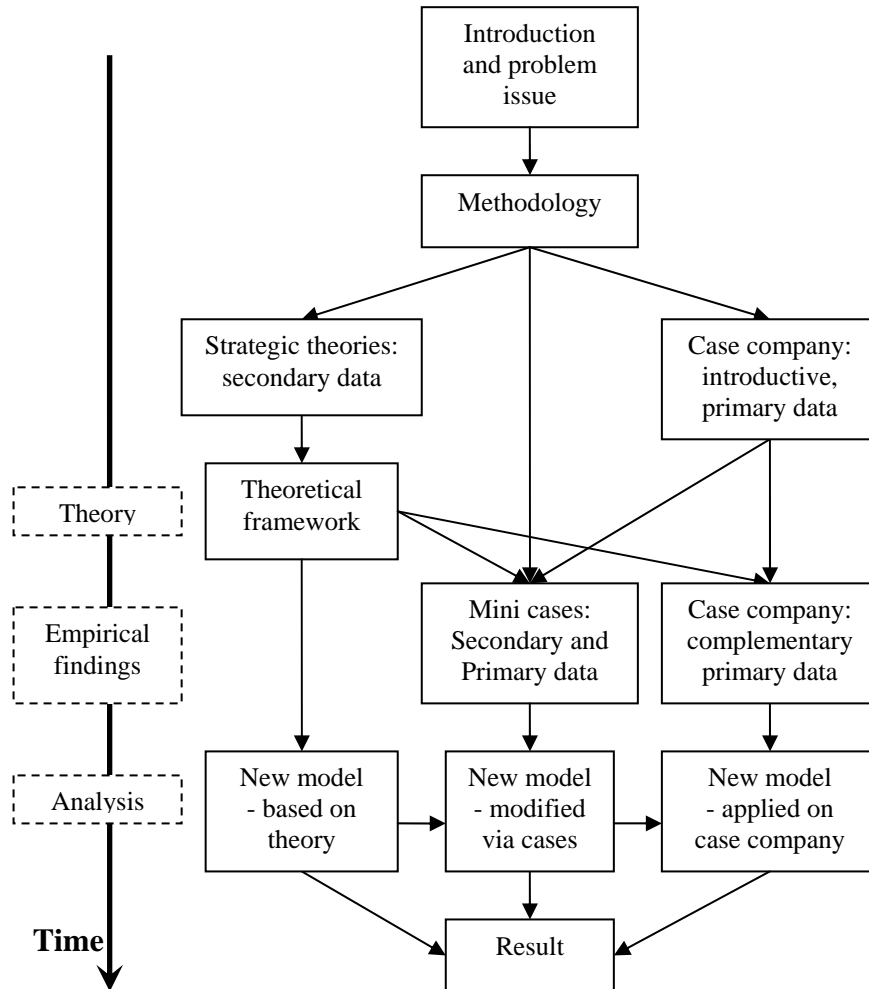
- Primary and qualitative* This information is represented by interviews held with the case company JaymJay as well as with other companies, the so called mini cases.
- Secondary and qualitative* This information consists of all previous written and published theories, as well as other published information; textbooks, electronic resources like web sites as well as journals are the main secondary sources.

How this data is collected is discussed in the next section, Line of Action.

## 2.5. Line of Action

This part intends to explain how the work has progressed from the problem issue towards the conclusions of the thesis. Initially, a model of the work progress is outlined. Thereafter, a deeper discussion of interviews and literature studies will be held.

The research started with a discussion of potential problem areas to investigate, ending up in the stated problem issue and purpose described in the Introduction chapter. Methodological studies followed hereafter and ended up in this planning of the remaining work and the working model shown in Figure 2.1.



**Figure 2.1** The thesis working model (Own illustration)

Initially, an introductory interview was performed at JaymJay to get an overview and insight in their business, customers and competitors. Simultaneously, different strategy theories were examined as well as e-commerce literature in a wide perspective. The latter two parts ended up in a theoretical framework with relevant theories.

On the basis of the theoretical framework and the introductory interview at JaymJay, an interview guide was created. Primary data was collected from different companies that in some sense were of special interest to the thesis, the so called mini cases. Retailers and wholesalers in the fashion industry as well as physical boutiques were interviewed.

The interview guide was also utilised when complementary information was received from JaymJay. On the basis of the mini cases and the theoretical framework, a new model was developed in the analysis in two stages, at first after the theoretical framework and thereafter when the mini cases were completed. The third part of the analysis consists of an analysis of JaymJay and the model as well as a conclusion whether the Rich Bitch project is the right decision or not. Conclusions were then drawn from the analysis and are shown in the result. The result integrates the three parts in the analysis.

### 2.5.1. Interviews and Mini Cases

Four interviews on two different occasions have been performed at the case company JaymJay. The first interview was conducted unstructured to get as much information as possible without leading the respondent. The authors choose to interview the CEO of JaymJay, Marie Clark, in order to get a wide picture of the company in general, as well as the Internet project Rich Bitch in particular.

On the second occasion at JaymJay, the authors made four interviews; with the CEO Marie Clark, with the project manager of the Rich Bitch project Daniel Fernandez, with the media director at JaymJay Jacob Nyemark, and with two respondent from the sales force of JaymJay, namely Caroline Lord and Louise Fransson. This time, more specific issues were discussed, and to conduct desirable information those interviews were semi structured.

Except for interviews with JaymJay, so called *mini cases* have been studied in order to gain as broad conception of the field of subject as possible. The use of mini cases is a way to map out a phenomenon and it contribute to get a broad conception of the situation. Therefore, with the intention of gaining a broad idea fast, it may be valuable to study companies in varied businesses. Consequently, the mini cases in this thesis do not only represent companies in the fashion industry but also two leading companies in the food industry, Bergendahlsgruppen and Tesco, who have been respectively still are on the e-commerce market at the same time as working as traditional stores. Further on, several interviews have been conducted with firms of special interest to this thesis. These interviews were made for various reasons; to decide how and why firms integrate forward and what the key success factors are in the fashion industry as well as when establishing on the e-commerce market. The main reason though, was to either accept or reject the model created after the theoretical framework. First and foremost, B2B wholesalers that have integrated forward by starting e-commerce have been selected. Those were quite few in number and the only fashion company that had the possibility to attend was MnO International. In addition, interviews have been held with *e-commerce only* companies; Bubbleroom and Flare.se, to identify key success factors for e-commerce in general. The *traditional firms* Åhléns and Emilia af Malmö have also been interviewed to get their point of view of the topic of this thesis. In this group one wholesaler in the clothing industry has also been interviewed, namely New Wave Mode AB.

When deciding which persons to interview in the selected firms, knowledge in the firm's strategy and the possible web site, have been considered as important factors. Sometimes, especially in smaller firms, the CEO and/or owner appeared to be the person with the desired information. In other companies, often the larger ones, the market director appeared more appropriate to interview.

Except for JaymJay, all respondents in the mini cases have only been questioned once and by telephone interviews. An exception is Emilia af Malmö, where the interview

were held at the store. Telephone interviews were chosen because of the geographical distance. A drawback when performing telephone interviews is the impossibility to see the reactions to discussions and questions of the respondents.

The same interview guide has been sent to all respondents that are of a similar type and the basic guide can be found in Appendix A. When conducting several interviews as a multiple case study, Bryman & Bell (2003) recommend the researcher to consider using semi structured interviews. When theories further on were studied, an interview guide based on the theoretical model was constructed to maximise the benefits of the interviews. The disadvantage of making structured (or in this case semi structured) interviews is that the questions can lead the respondent in a certain direction. However, this choice was made because of the fact that otherwise, the interviews would probably not gain its purposes.

### 2.5.2. Literature Studies

The literature studies performed are of a secondary form and consist primarily of books, articles and electronic publications. The latter two are of special impact in order to obtain the most accurate information about the field of subject. However, it is also important to be aware of the fact that some of the strategy theories that were developed in the 1980's still have an immense impact today, first and foremost Porter's strategy theories. The authors have discussed possible theory together with their advisor Per-Hugo Skärvad as well as economic doctor Paul Jönsson in order to find relevant and interesting theories, publications and articles. A deeper discussion and explanation is provided in the next chapter, the theoretical framework.

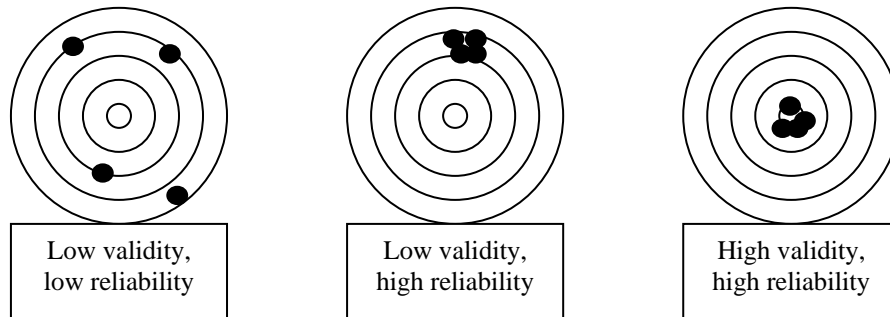
Information about three of the mini cases can be found in chapter four; Boo.com, Tesco and Bergendahlsgruppen's former Internet store Matomera, have been performed through secondary information. Matomera and Boo.com are former e-commerce enterprises, about which a lot has been written. Tesco has been particularly successful and still uses e-commerce. The authors could not get in touch with the former owners of Boo.com, and additionally secondary information appeared to serve the same purpose in this case.

One drawback of using secondary information is the fact that it is written and developed for another purpose and it may perhaps also have been modified subsequent to the collection in order to fit its purpose. With a critical way of reading and analysing, the authors have attempted to study several sources to shape their own objective view.

Because of new problems and issues that have arisen gradually there has been a need to study more literature on occasion.

## 2.6. Credibility

This part looks into three main parts: *validity*, *reliability* and *overall critics* to the thesis and the choices that are made.



**Figure 2.2** Illustration of validity and reliability (Björklund & Paulsson, 2003)

### 2.6.1. Validity

According to Wallén (1996) validity means the survey's ability to measure precisely, appropriate and to avoid systematic errors, see Figure 2.2 above. This is problematical when people are the objects examined, due to the risk that the interviewer or the environment affects the interview object. This phenomenon is called the *interview effect*. Well aware of this, the authors have tried to minimise this eventual effect, especially when conducting interviews performed in person. The authors attempt to as large extent as possible perform the interviews in an undisturbed environment, to have enough time as well as acting in order to not distract the respondent.

Jacobsen (2002) also makes a distinction between inner and outer validity. Inner validity can be to address the right questions to the right people, to use enough indicators to cover a question and to use proper measure instruments. Outer validity is the possibility to anchor the results in a wider perspective, in other words to generalise the result of the research. This thesis aims to develop a model that, at least in some way, can be universal to companies in the field of small consumer companies starting as B2B and establishing e-commerce when starting B2C.

The validity of the secondary sources, first and foremost literature and theories, have been controlled on the basis of the writers acknowledgement and papers' status in the society in general.

### 2.6.2. Reliability

Jacobsen (2002) further describes reliability, which decides how trustworthy a research is. The concept reliability implies that two independent investigations ought to give the same result when the same methods are used and the population is unchanged. The measure instrument is not supposed to give any random errors, see Figure 2.2 above for an illustration. The reliability of interviews depends on how the interviewer interprets

the answers he or she receives. One way that this research has worked to ensure this is the use of standardised interview methods. Further on, answers have been printed down and discussed directly after each interview in order to minimise errors. However, some critics of the chosen methods are presented in the coming paragraph.

### 2.6.3. Critic towards the Methodology and the Thesis in General

Even though the authors aim for as high validity and reliability as possible, some limitations may have affected the research in a negative way. The authors have identified three considerations that should be regarded critically when evaluating the result of this thesis:

- *Telephone interviews:* Some interviews were performed by telephone due to geographical distance. Repeatedly, the respondents were in lack of time and appeared somewhat unfocused. In general the answers from the telephone interviews were shorter and time limits made it difficult to ask resulting questions. Therefore, the authors found it somewhat difficult to obtain the information desired.
- *Language:* This thesis is written in English to make it accessible for a larger audience. However, the author's mother tongue is Swedish and the language issue can cause misinterpretations. The interviews with the respondent's are explicitly done in Swedish and then translated into English, which increases the risk for translation mistakes. However, most interviews serve the purpose of obtaining an understanding of a certain problem, not to give exact answers, which probably limits possible mistakes.
- *The Fashion Industry:* Due to the fact that a very small number of companies have experience of integrating forward while establishing on the e-commerce market, the authors have found it somewhat complicated to get potential respondents to take part of the interviews. Fear of untrustworthiness as well as trade secrets are examples of explanations for dismissing our proposals. Some of the firms that did not want to participate in this study are considered as key respondents, why the empirical findings may have been even better performed if these firms had been involved.



## 3. Theoretical framework

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*This chapter begins with an overview of the chosen theories followed by the theoretical perspective of the thesis. Thereafter, field theories about e-commerce are presented and finally theories to describe different strategic considerations are introduced.*

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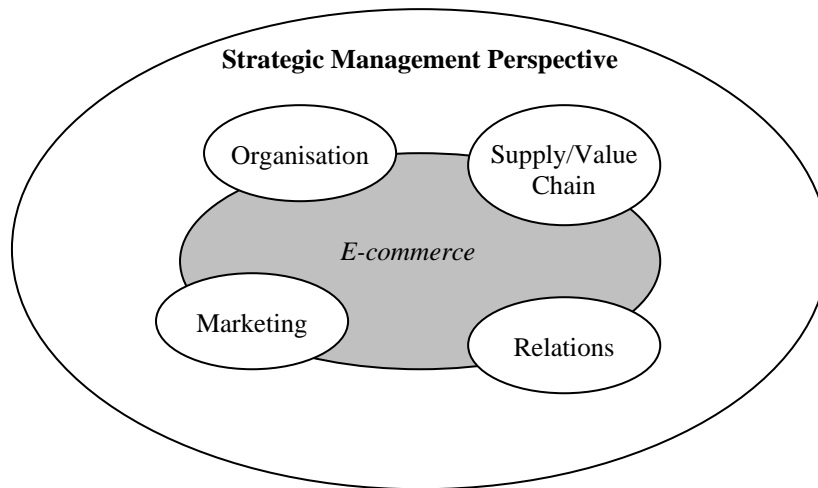
### 3.1. Overview

This theoretical framework consists of theories and literature divided into three parts; the *theoretical perspective*, *e-commerce* and literature to describe *specific strategic considerations*. These three parts are complementary and aim to overlap each other. However, they also serve different purposes. Figure 3.1, is the author's own creation, to illustrate how the different parts partly cover each other.

The theoretical perspective is represented by an outer circle that surrounds the other parts. It aims to initially give the reader a sense for the research field of strategic management as a whole as well as of how the thesis is approached.

The e-commerce field is a smaller field of subject that can be seen as a part inside the strategic management circle. This part gives an overview of some meaningful former research in the field of e-commerce.

The theories selected to describe the specific strategic considerations are chosen in order to be a framework for certain phenomena's organisations and relations; those are more directly related to the general model that the authors aim to develop. Those can be illustrated as small circles inside the Strategic Management perspective and are sometimes overlapping the e-commerce field in some sense. The chosen specific considerations are mainly based on four parts; the Value Chain's primary and secondary activities, Paul Jönsson's Ph.D. thesis (2006) regarding e-commerce, the authors' advisor Per-Hugo Skärvad and also former research. Those chosen specific considerations are shown in Figure 3.1 as small circles between the circles of *e-commerce* and the *strategic management perspective*.



**Figure 3.1** Illustration of studied fields and the build up of the theoretical framework (Own illustration)

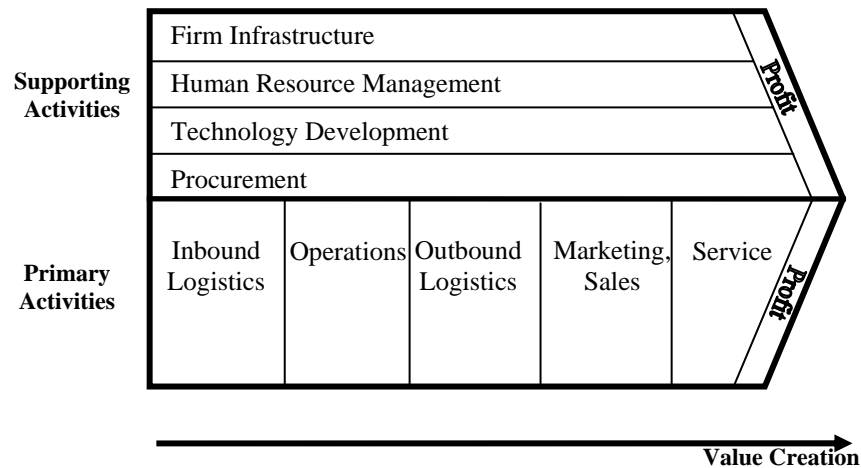
## 3.2. Theoretical Perspective

### 3.2.1. Strategic Management Perspective

This master thesis will result in a model that works as a tool for companies to successfully start e-commerce. By applying a Strategic Management Perspective on this thesis, the main intention of the model, that the authors aims to develop, is to work as a tool in order to help companies to improve their performance. High performance can be measured in different ways. In the strategic management perspective, profit is a common measure. (Porter, 1985) However, an alternative perspective could argue that high performance stands for society welfare or employee satisfaction. Due to the fact that the model approaches companies and most companies' main objective is to make profit (Jönsson, 2006), the strategic management perspective appears to be appropriate in this thesis.

### 3.2.2. Value Creation and Value Capturing

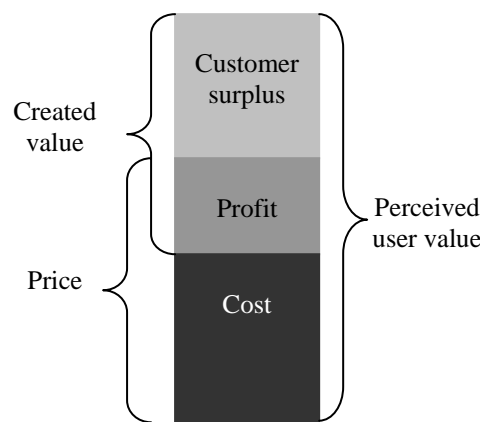
One important aspect in the Strategic Management Perspective is *value creation*. Porter's (1985) Value Chain Model is probably the most frequently used model to explain how companies create value. (Jönsson, 2006) The value chain illustrates, as shown in Figure 3.2 below, the value creation as a set of interdependent activities, both within the firm and with partners. (Porter, 1985)



**Figure 3.2** The Generic Value Chain (Porter, 1985)

Value can be created by decreasing buyer cost or by increasing buyer performance, both directly related to the two generic strategies; low cost and differentiation. The difference between the cost and the perceived value is the created value. (Porter 1980)

However, capturing value is not the same as creating it. The price determines the amount of the created value that will be profit and how much that will be referred to as customer surplus. Firm profit is both about creating value and capturing it. See Figure 3.3.



**Figure 3.3** Customer perceived value divided into its elementary parts (Jönsson, 2006)

The model, that the authors aim to develop, will consequently work as a tool both for creating value and capturing it. This will work as evaluation criteria intended to be used in the development towards the final version of the model. The model will only be useful if it in some way creates and captures value.

### 3.3. The E-Commerce Field

To be able to answer the question why firms use e-commerce at all, some introducing comments ought to be made. It becomes visible that not using e-commerce and the

Internet is becoming a competitive disadvantage in many businesses. Further on, the reason why firms develop their e-commerce at first place is principally because of the cost saving it may offer. Some distribution channel functions can be automated by technology, which is less costly and often also of higher quality. Large and expensive buildings as well as expensive advertisements when connecting with suppliers are avoidable. In addition, Internet stores also enable for an easy and fast change of the prices and product line offered. Further on, information about the company and their products can effortlessly be provided. (Lee & Shu, 2005)

### 3.3.1. Internet as a Complement

Porter (2001a) views Internet as a strategy tool, and he recommends in a Business Week interview that one should approach Internet as follows:

*"... given my product concept and how I try to differentiate myself, how can I use the Internet to make that differentiation stronger?"* (Porter 2001b)

Many of the Internet business pioneers have competed in ways that disobey with the main concepts of a good strategy. Some companies were abandoning their differentiation strategy to sell products on the internet at low costs. Instead of making trade-offs, companies shifted to offer every conceivable product or service. Even though the Internet contributed to some new possibilities, it is still important to have a sustainable strategy, to create real value and to do trade-offs. (Porter 2001a)

Porter (2001a) further argues that there is no need for radically new approaches to business because of the Internet. The previous research on strategy is still useful; low cost and differentiation are still the two main directions of strategy. When all companies implement Internet technology, the Internet itself will be neutralised as a source of advantage. This makes other sources of advantage, e.g. unique products, even more important. (Porter 2001a)

Traditional firms possess the conventional competitive advantage, for instance customer and supplier relations and successful R&D, which the e-commerce only firms may find hard to obtain. Traditional firms must therefore consider internet as a complement, neither as a threat nor as a total solution. They should use it to reinforce traditional competitive advantage and complement existing ways of competition. (Porter 2001a) Utilising the Internet correctly, firms may acquire deeper integration among service, sales, logistics, manufacturing and suppliers. This will improve efficiencies, reduce transaction costs, and reduce inventory. But the real challenge however is to use the Internet to improve a firms competitive advantage (Porter 2001b)

Porter further converses about the Internet in the Business Week interview:

*"I just hope companies will heed the message not to think of this as an operational efficiency tool but as a way to reinforce your own distinctive strategy. That's the*

*way to turn it into an advantage rather than just something you have to do to be in the game.” (Porter 2001b)*

In Porter's earlier research strategic position has been in the spotlight and six different steps has been outlined. Porter (2001a) argues that those steps still are relevant and that the Internet has not changes this fact. The first step is to start with the right goal “superior long term return on investment”, that is the only way to generate real profits. Profits can be earned when customers are willing to pay more for a product or service than the costs of producing it. (Porter 2001a) In the first stage of introducing the new technology, the customer captured 150% of the created value. This means that the customer gained not only the benefits of the technology, but many times also received for example an even lower price. (Porter 2001b)

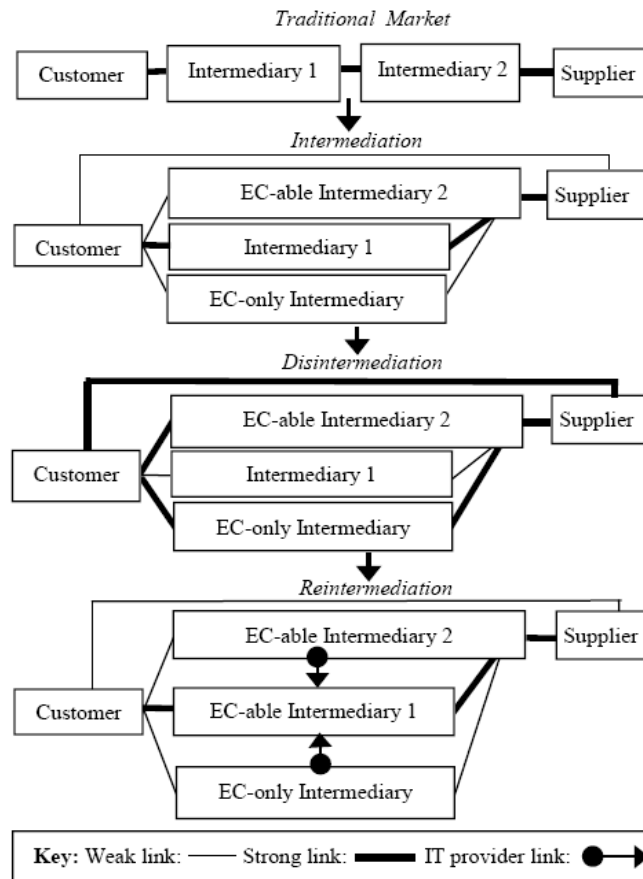
Secondly, the firm must deliver a value proposition that is different from what the competitors are offering. Thirdly, a distinctive value chain must be conducted. A firm must evaluate the way it conducts manufacturing, logistics, service delivery etc. Fourthly, strategies must involve trade-offs, this might mean that a company must abandon for example some customer-categories or refuse to offer some products. Fifthly, the activities should fit together, a set of activities are more sustainable and harder to imitate than just one activity alone. Finally, strategy needs to involve continuity of direction. A firm has to stand for its value proposition even if it means that some opportunities must be forgoing. (Porter 2001a)

To summarise Porter's view, the Internet should neither be seen as a total solution nor be underestimated. It should be used as a complement to reinforce a firm's strategy to achieve sustainable competitive advantage.

### 3.3.2. E-commerce Changing the Value Chain

Chircu & Kauffman (2000a) present an IDR-framework, including *Intermediation*, *Disintermediation* and *Reintermediation*. The framework describes how the Internet or e-commerce is changing the value chain.

Intermediation is the definition of a middleman who “*facilitates transactions between buyers and sellers by providing value-added-services*”. Disintermediation occurs when a middleman is forced out by other firms or when the service it provides becomes irrelevant. Chircu & Kauffman (2000a) argue that the disintermediation will be followed by a reintermediation, which is when a disintermediated firm is able to re-enter the value-added chain that supports buyer and seller transactions. The different stages can be illustrated as in Figure 3.4 below.



**Figure 3.4** IDR-cycle with multiple traditional intermediaries (Chircu & Kaufman, 1999)

Like Porter, Chircu & Kauffman (1999) argue that Information Technology itself does not grant competitive advantage. However, IT in combination with co-specialised assets and structural resources can lead to competitive advantage. Traditional companies have, in the long run, obtained an advantage and the disintermediation will therefore gradually turn into a reintermediation process. There are three causes for this scenario. First, IT systems and other e-commerce innovations have low appropriateness, which means that they are relatively easy to imitate. Second, as mentioned above, traditional firms are owners of co-specialised assets that are hard to imitate. Finally, traditional firms often have advantages due to their economies of scale (Chircu & Kauffman, 1999).

### 3.3.3. E-Commerce Strategies

One of the most important issues to consider is where the centre of gravity will be when a company introduces e-commerce; see 3.3.1 - Internet as a Complement above. According to Fredholm (1999) a decision must be made concerning how far the Internet business should be developed. This is performed in four steps:

*Step one* - before a web site is developed, company names on relevant domains must be protected.

*Step two* - involves a presentation on the Internet. Even the smallest of companies can probably afford to be represented on a web site. Information could be proposed to different stakeholders, e.g. investors, suppliers, customers and employees. Key words that potential customers might search on should be registered in the right place of HTML-code to be discovered.

*Step three* - means to completely share product and service information to customers. It may also contain information about contacts and customer services, although it is not possible to buy products at the actual web site. This step could be compared to a way of marketing channel.

*Step four* - is reached when the company decides to fully implement the possibility to sell products through the Internet. It is important to connect the web site with the company's business system. This can, with other words, be seen as a transaction channel.

Even though this information could be criticised for being old in addition to the fact that all firms has got a web site today, it is still very important to decide whether to offer products on the Internet or to only spread information as well as understanding the differences between the two last steps. Further on, Fredholm (1999) declares the importance of deciding:

- what should be sold on the Internet
- how the marketing mix should be designed
- how customer information should be stored and how customer communication should be organised

De Kare-Silver (1998) discusses different strategies for intermediaries and emphasises the importance of a clear strategy that the company commit to and follows. He states that according to a lot of research, there is much emphasise on clear strategy-making, determining whether you will become successful or not.

Lee and Shu (2005) describe four models of Internet-Enabled Distribution Structures, shown in Figure 3.5 below. The transactional-related functions are labelled "t" and the service-related functions labelled "s". Pros and cons for the respective models are described in Table 3.1.

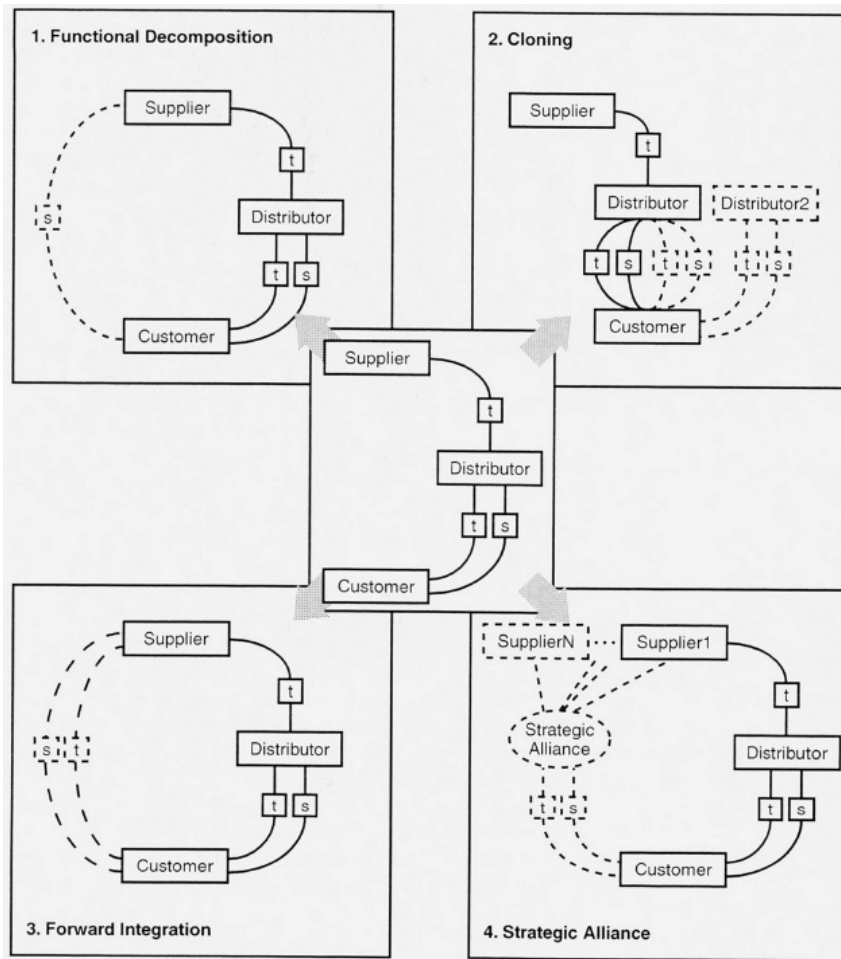


Figure 3.5 Four models of Internet-Enabled Distribution Structures (Lee & Shu, 2005)

	Pros	Cons
Functional decomposition	Complementary channel Avoid costs of new distribution channel Less channel conflict	Cost centre Difficult to measure outcome
Cloning	Experience leveraging Economy of scale Brand name recognition Market expansion	Cross-channel coordination New online distribution challenges New online markets and competitors
Forward integration	Costs savings Better control of distribution	Initial channel setup costs Inexperience with distribution functions Limited name recognition Lack of volume and variety
Strategic industry alliance	Cost savings Volume and variety	Oligopoly markets Alliance coordination costs

Table 3.1 The pros and cons of the four models (Lee & Shu, 2005) (With own modifications)



The only model described deeper here is *Forward Integration*, since it is of special interest in this thesis. As discussed earlier, forward integration involves a supplier (manufacturer or wholesaler) selling directly to end consumers. Pros and cons are discussed: (Lee & Shu, 2005)

*Pros: Cost savings.* The major advantage or reason to integrate forward is to avoid paying fees charged distributors and achieve cost savings for the supplier. The supplier is able to receive a much higher price selling to end consumer compared to retail customers.

*Better control of distribution.* The supplier has an exclusive power in deciding which products should be offered and how they ought to be promoted.

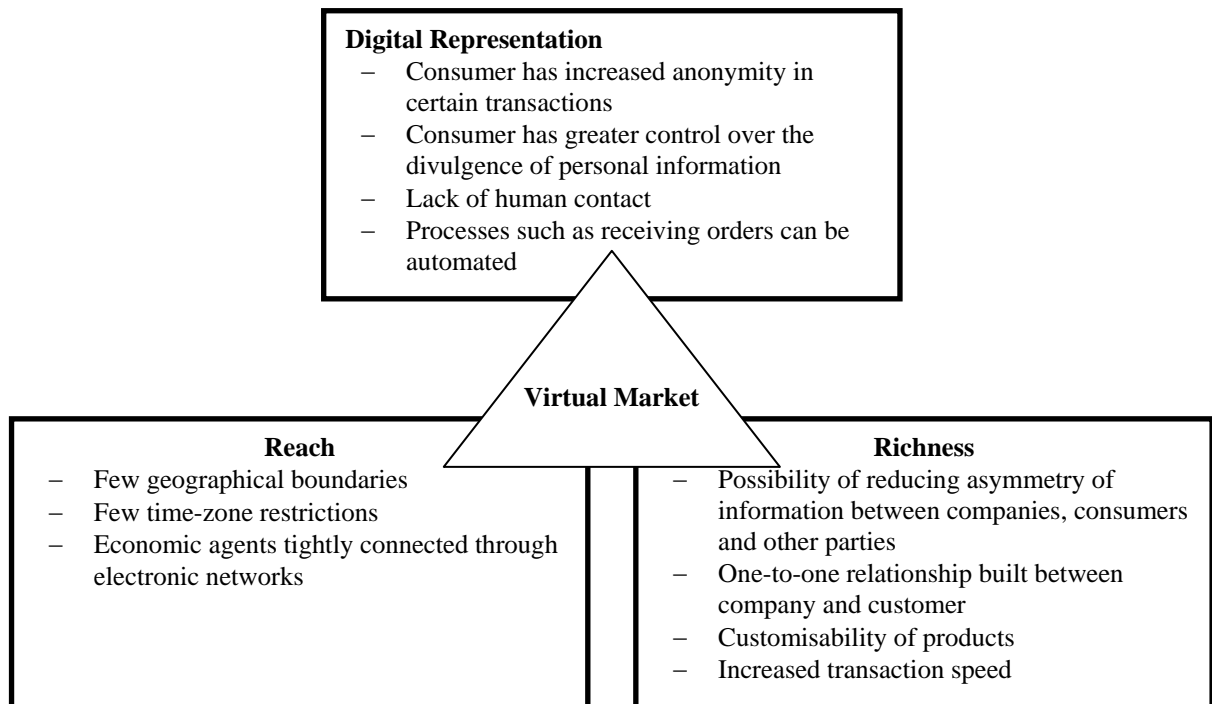
*Cons: Initial channel setup costs.* Initial setup costs for logistics, inventory and the delivery channel may be rather high. Promotion of the channel may require high marketing costs.

*Inexperience with distribution functions.* Since the distribution can be thoroughly different it is often a daunting task for manufacturers or wholesalers to distribute directly to end consumer, e.g. it can require completely different customer relations, and the needs may be different.

*Limited name recognition.* In some businesses, the end consumer recognises the retailer but not the products or manufacturer itself. This may demand great marketing costs.

*Lack of volume and variety.* Occasionally, depending on particular market conditions, the new channel does not generate enough sales to be profitable. This problem is often occurring when the market demands vary, why the company's distributors often offer combining products from other manufacturers.

Amit, Zott and Donlevy (2000) have made research in the e-commerce field by studying best practice in Europe. Figure 3.6 below, they illustrate the characteristics of the virtual market. The Internet enables for information to be both rich as the same time as reaching a large base of potential customers. The digital representation however, represents according to Amit et al some drawbacks that might come with the information technology for example by the increased anonymity.



**Figure 3.6** Characteristics of a Virtual Market (Amit et al, 2000)

Amit et al (2000) introduce two strategies, *efficiency* and *stickiness*, for value creation in e-commerce. Those two strategies are complementing and can be used in combination. Enhancing transaction efficiency includes:

- Strengthen supply chain, e.g. by integrating vertically
- Deliver a range of products and services
- Make the transaction convenient for the customer
- Reduce information asymmetry

Stickiness, which means an increase in transactions volumes, can be created through:

- Reward loyal customers
- Personalise the products and customize the service
- Build virtual communities
- Establish reputation of trust

The purpose of Amit et al's study is to give managers an awareness of the competitive benchmarks that are driving the e-commerce in Europe. At the present time, the study can be seen as a historical summary of how the European company's used Internet a few years ago. This historical information can probably still, in some extent, be usable today even if the technology itself has been largely developed. (Amit et al 2000)

## 3.4. Specific Considerations

### 3.4.1. Organisation

According to Bruzelius & Skärvad (2000), a large amount of literature has been written about organisations. There is also numerous different schools and perspectives. In this part, however, the focus is on one specific organisational aspect; how to organise when having both a maturing business as well as a new emerging one, which in this case refers to e-commerce. Bruzelius & Skärvad describes the main different organisational structures like division respectively functional oriented, matrix organisation and so forth. It is essential for companies to have an appropriate organisational structure.

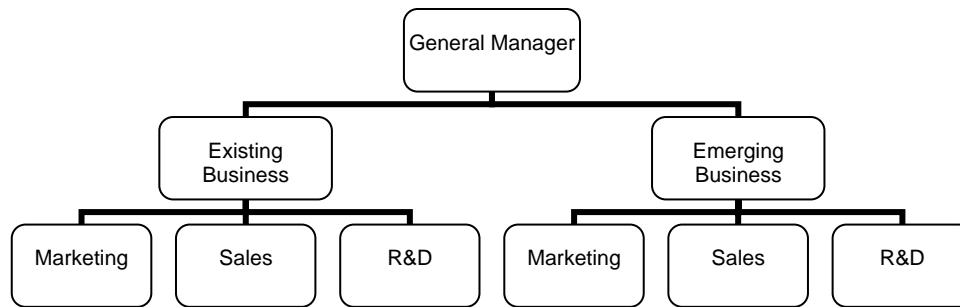
Many companies have experienced the advantages of observing the organisation in terms of processes. Processes are often considered as the procedures where things actually happen. Therefore, by observing processes, the ability to reorganise for improvement of performance increases. (Ljungberg & Larsson, 2001) When an organisation performs changes, it is also important to have some sort of agenda, and Kotter's (1995) eight steps described in his article *Leading Change* may be appropriate to follow:

1. Create a sense of crisis
2. Create an enough powerful change team
3. Create a new vision
4. Communicate the vision or idea
5. Erase obstacles in the way to reach the stated vision
6. Plan and create short term wins
7. Do not call out a victory to soon
8. Anchor the changes in the organisational culture

When a change is made or when a company is developing and creating new businesses it is often an advantage if the organisation is changed in a proper way, one way to do this is by creating something called *The Ambidextrous Organization*:

*“The roman god Janus had two set of eyes – one pair focusing on what lay behind, the other pair on what lay ahead” (O’Reilly & Tushman, 2004, p. 74)*

Another illustration of O’Reilly & Tushman’s (2004) Ambidextrous Organization is shown in Figure 3.7. The aim for an organisation is to be able to focus on both the present and future opportunities. To be able to do this in a satisfying way, the ambidextrous organisation is one solution.



**Figure 3.7** Organisation scheme, Ambidextrous Organisation (O'Reilly & Tushman, 2004)

The main finding in O'Reilly & Tushman's study is that the new exploring business should be separated from the present exploiting. However, the senior teams should be well integrated through common visions and values. By this way they can still make synergies.

To become ambidextrous the management team and the leader needs to be able to see the different needs for both the emerging and for the existing business. Moreover, it is essential that the management act ambidextrous even if the members of the organisation are not ambidextrous themselves. Finally, it is crucial to communicate a compelling vision throughout the members of the firm so that the acts of the management become clear and well understood by the members of the organisation. (O'Reilly & Tushman, 2004) One way to organise when having two different businesses is by separating them but in the same building with walls in between or in a similar manner, something called *focused factories* (typically done with manufacturing units) (Hill, 2000).

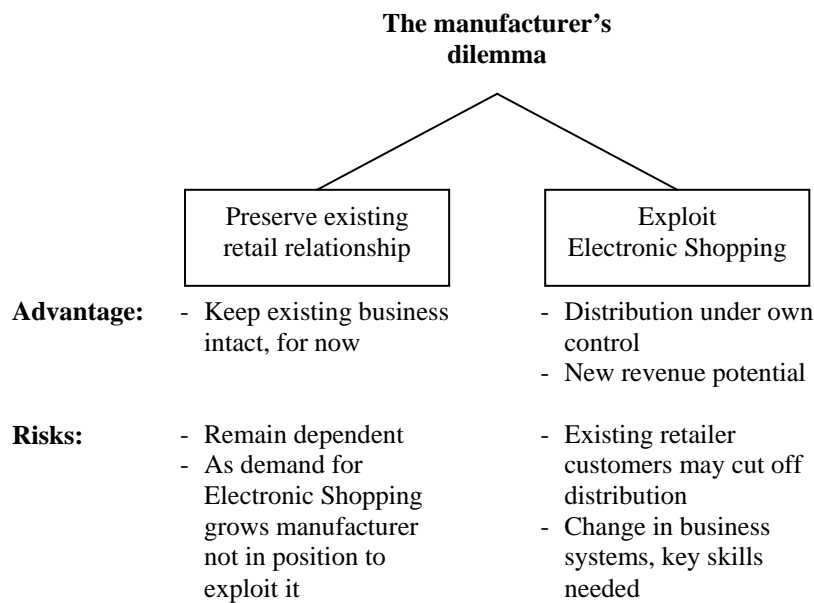
Organisational aspects regarding e-commerce introduction were examined by Epstein (2004). He, amongst others, declares that the leadership must be strong and dynamic. In contrast to the Ambidextrous Organisation described above, Epstein states that separated business units could be accepted when e-commerce is introduced, but the exploiting and emerging business must be integrated over time.

### 3.4.2. Supply Chain and Forward Integration

The possibility to reach end consumers directly via the Internet without the need of a retailer is according to De Kare-Silver (1998) a historical opportunity for manufacturers and suppliers. For the first time they have a choice how to distribute, enabling for breaking the dependence with their retailers. Disintermediation among those who have dominated the supply chain for several decades can take place. Manufacturers and wholesalers can conclude that their business actually favours from letting existing retailers distribute to end consumers; however it is now possible to decide whether to develop their own consumer supply line. (De Kare-Silver, 1998) The reason for companies to sell directly to end consumers is evidently to collect the revenues that retail companies earns today, a rather large sum since the add-on in the retail business often amount to 100-200 percent. (Mattsson, 2002) Dolbeck (2006) has the same view

when he states that companies can keep the total profits instead of sharing them with retailers by selling directly to consumers.

When considering a forward integration, it is of importance to explore which competencies the firm has and what opportunities are available. How is the power balance in the industry? Where do the largest profits occur? Can a firm be sure that the products will be demanded in whatever channel they are distributed through? These are some questions that need to be asked and explored before a choice is made. Manufacturers and suppliers now stand at the crossroad or dilemma described in Figure 3.8. (De Kare-Silver, 1998)



**Figure 3.8** Manufacturers at a Crossroads (De Kare-Silver, 1998)

Historically, the dilemma of integrating forward, and therefore in some sense competing with own customers, has occurred several times. Several firms, among them Procter & Gamble, Sony, Nike, Gillette and IBM to mention a few, have demonstrated that it is possible to manage retail customers successfully while still pursuing your own goal with direct shipments to end consumers. Research and interviews with these successful companies show that their key lies in segmentation. This means to clearly differentiate the value proposition between the different channels. Separate channels exist because they serve different customer needs. The answer is to identify those different needs. There are three segmentation options, which also can be combined, namely: (De Kare-Silver, 1998)

- Product Segmentation
- Territorial Segmentation
- Complementary Segmentation

The first two are probably self explaining, and complementary segmentation means that a new channel could complement the traditional one; it creates a win-win situation for the channels. One example is Coca Cola's vendor machines, which first was criticised

by traditional stores, but since it reach another customer need it actually increased overall Coca Cola sales and everyone could profit.

Eventually, it always comes down to the same question of presented value, the underlying market and channel issues are still the same. De Kare-Silver further describes different strategies for establishing on the e-commerce market. Concerning the centre of gravity of this thesis, those can be summarised in two main points: (De Kare-Silver, 1998)

- A. If a company considers the market to have influence and if it is not able to start e-commerce without the threat of the above stated risks will become devastating, it is preferable to remain on a electronic information based level. One strategy in this field is called *Brand-driven*, which means building the brand. Moreover, the emphasis in on the products, irrespective of what channel that takes care of the distribution.
- B. However, if a high e-commerce potential exists, there are other possible strategies. To maximise the potentials it is best to *directly own* the new channel by yourself. These strategies are somewhat a threat to the existing retail business but they also open up the potential for new revenues.

Logistics and supply chain management are today an important issue for many companies. The competition has become harder and the globalisation has changed the market presumptions. The main objective in a supply chain is to avoid sub optimisation and instead consider the total costs of distributing the products to the end consumers, also called Total Cost of Ownership (TCO). (Mattsson, 2002) Today it is not anymore only the products itself or the price that wins orders. The order winners are often changing in favour of for example short lead time or high delivery precision. (Mattsson, 2002) An order winner is what wins an order. For example, it is not meaningful to have a much lower price if you win the orders on having the shortest lead times. (Hill, 2000)

Triple-A Supply Chain represents a new way of achieving top performing supply chains. Lee (2004) argues that a supply chain should be both agile, adaptive and aligned. Agile supply chains react rapidly to sudden changes in demand or supply, which is especially important in the fashion industry. Zara and H&M are examples of companies with agile supply chains that differentiate themselves from their competitors. However, according to Lee, this is not enough. The supply chain also has to be adaptive over time as the market changes. Adaptive supply chains can anticipate structural changes and are able to react and redesign in order to meet the new situation. Finally, to be top performing the supply chain has to align the interests of all the firms in the supply network. Every member of the chain should a part of the raised profits when the chain is working correctly.

Lee (2004) presents methods to achieve those objectives:

Agility:

- Information sharing with customers and suppliers e.g. by common IT base
- Collaborative relationship with suppliers
- Build inventory buffers of inexpensive key components.
- Have a dependable logistic system and partner
- Have a crises plan

Adaptability:

- Evaluate needs of ultimate customers, not just present customers.
- Create flexible product designs
- Be aware of where the companies products stand in terms of product cycle

Alignment:

- Have free information exchange with customers and vendors
- Clarify roles, task and responsibilities for customers and suppliers
- Share risks, costs and gains of improvement

### 3.4.3. Relations

In this part a relational perspective is presented. In the fashion industry, as well as in many other industries, the business is not only about exchanging goods. Value is also created by knowing the right people, having trustful relations and so forth. (Normann & Ramirez, 1993)

Value from relations is sometimes not taken into consideration in some traditional models and theories. (Jönsson, 2006) One example is Porter's value chain that can be criticised to be sequential and regards value as added. One can argue that regarding firms as having a position in the value chain and transforming inputs to outputs is not adequate due to the fact that the value of relations is not taken into account. In addition, the value in the value chain considered as destroyed when consumed by a customer, which is not the fact in most businesses. (Normann & Ramirez, 1993)

The Stakeholder model is one way to extend the traditional value chain and to view the firm in relation to its context. The foundation in the model strives for organisations to capture the state of equilibrium in relation to its stakeholder groups. To manage this there must be a balance between contribution and awards. In other words, to be successful in the long run, the sum of the contributions that the firm creates must be large enough to give the stakeholder groups satisfier awards. (Bruzelius & Skärvad, 2000)

For most companies, the customers are the most important stakeholder group. (Bruzelius & Skärvad, 2000) In some firms a customer can also be a competitor in some sense. For example; a company can be a customer in one part of the value chain and a competitor in another. Success in this kind of business requires both competitive and cooperative relations simultaneously. The characteristic in a competitive relation is that some have to lose to make another win. It is the opposite in a collaborative relation, which can be seen as a win-win relation. (Lado, Boyd and Hanlon, 1997)

### 3.4.4. Marketing and Profiling

The reader assumes to be familiar with the basics in the marketing field. In this section, the aim is to present a specific marketing and profiling consideration, which is how to manage and profile luxury brands. But first a short presentation of the marketing mix is made, because of the fact that it will be used in the analysis.

The marketing mix is a set of tactical marketing tools that companies can work with to reach their target market in a successful way. Its elements are often referred to as the four P:s, see Table 3.2 below. (Armstrong & Kotler, 2005)

<b>Product</b>	<b>Price</b>	<b>Promotion</b>	<b>Place</b>
Variety	List price	Advertising	Channels
Quality	Discounts	Personal selling	Coverage
Design	Allowances	Sales promotion	Assortment
Features	Payment period	Public relations	Locations
Brand name	Credit terms		Inventory
Packaging			Transportation
Services			Logistics

**Table 3.2** The four P:s (Armstrong & Kotler, 2005) (With own modifications)

Riley & Lacroix (2003) manage issues of the use of Internet for managing luxury brands. The results indicate that using the Internet for managing luxury brands involve both advantages and disadvantages. It also indicates that the Internet as a tool can be used in two different ways; as a tool to sell products (transactions) or as a communication tool.

The advantages of using the Internet for managing luxury brands are that a wider group of customers may buy the desirable brands, instead of depending on physical stores in the bigger cities. Investigations show that the more widely known a certain luxury brand is, the more desirable it gets. To get the brand widely known is certainly not the same as getting everyone owning the brand. In fact, it is more true that; “Luxury brands must be desired by all, but consumed only by the happy few”. (Riley & Lacroix, 2003)

Further on, Riley & Lacroix argue that the Internet enables high expose and awareness but should be used with controlled level of sales. The message in the research is that the Internet is excellent as a communication tool but should be used carefully as a transaction tool. Clothes for instance are about experience, and to purchase without touching and feeling may be difficult. Despite of this there are still some advantages connected with the Internet as a transaction tool for luxury brands. Typically, luxury brands symbolises high costs, low frequency and high differentiation that are favourable for Internet selling.

The Internet can be a useable tool for luxury brands, but it can, if used in the wrong way, also be a grand threat. The luxury items must never become commoditised.



Luxury brands should personalise their products to show their customers that they are customer friendly. Internet do indeed allows this customisation. (Riley & Lacroix, 2003)

Riley & Lacroix's research showed that in general managers are sceptical about going e-commerce. The last three years, however, an increased number of luxury brands have started Internet sites. The main reason for the scepticism is the impossibility of feeling and trying on the garments. Another fear is the problem about the risks of losing the luxury feeling of the brand.

Riley & Lacroix investigated the customer's perspectives of luxury brand web sites (in the year of 2003). The results indicated that the majority of people (22 percent) visiting the web site was looking for information about the brand. 21 percent was looking for information on the product and only 5 percent had visited a luxury brand web site for purchasing. This would be in favour for the previous conclusion of internet as a communication tool for luxury items more than for a selling channel. (Riley & Lacroix 2003)

Epstein (2004) applies his thoughts on various industries, including the luxury retail industry. His conclusion is that when this kind of companies enter the e-commerce market, consumer service is critical. Therefore identification of the needs of the customers as well as available information and liberal return policies are of great importance. Return policies, implying unproblematic possibilities for the customers to return products, are crucial in this business. Another conclusion is that traditional companies have a great advantage because of stronger relationships and consumer loyalty acquired over time. Thus, newcomers often experience difficulties when obtaining new customers in the luxury market.

### **3.5. Critical View of Theories**

It is essential to clarify that chosen theories are affecting the results of this thesis. The theories have been chosen before the most of the empirical data has been collected, implying that there is a risk that the empirical data will be collected to suit the theories (Reinecker et al, 2002). This is, however, a deliberate decision that is in line with the methodological approach of this thesis. In addition, the theoretical framework is quite broad which limits those risks.

Most e-commerce theories are from year 2000 and around. One can argue that more recent theory should be used because the development in the period has been remarkable the last years. There are two reasons why those theories are still useful. Firstly, most literature available is from that time, the field of research had its peak before the IT boom. After the boom bust, many researchers' interest in the field decreased. Secondly, chosen theory are, in most senses, still of interest. Definitions and

key message are still useful even if the context today is different from the context in the early 2000<sup>th</sup>.

## 4. Empirical findings – Mini Cases

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*In this chapter we present some mini case studies of companies that have already gone e-commerce or have some kind of relation to companies who have. Initially an overview of the cases is presented. Thereafter, the empirical findings of the cases will be presented in three parts; e-commerce only companies, e-commerce able companies and traditional companies.*

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### 4.1. Overview

In order to get an idea about the field of subject e.g. the e-commerce fields as well as forward integration, companies in different industries are examined; so called *mini cases*. To obtain a broad and fast conception it may be valuable not only to examine the fashion industry but also other industries where e-commerce has been an evident occurrence. Bergendahlsgruppen in Sweden and Tesco in the UK are both leading actors in the food industry. Bergendahlsgruppen introduced their e-commerce venture Matomera in 1998, an escapade that failed to function, while Tesco on the other hand has succeeded in selling food on the Internet. Both these companies are pioneers in e-commerce and therefore of interest in order to contribute to a varied and broad map out of the field of study. Another pioneer in e-commerce was Boo.com. To discover what went wrong and why they wanted to sell exclusive clothes online, Boo is also an interesting company to investigate.

When selecting appropriate cases, the intention is to cover most of the positions in the value chain; wholesalers as well as retailers are presented. These can be B2B, B2C or both; they may be e-commerce only, e-commerce able or a traditional intermediary. The majority of the cases are as mentioned before represented by firms in the fashion industry. New Wave Mode AB, however, is of special interest for this thesis because it is the largest wholesaler of profile clothes in Sweden that has made a deliberate choice not going e-commerce. Table 4.1 intends to give the reader an overview of the cases' position in the value chain, if they are a B2B company or B2C and if they are using the Internet as a selling channel or not.

		Wholesaler	Retailer	B2B	B2C	Internet site	Internet selling	Physical boutique
E-commerce only	Boo.com	-	Yes	-	Yes	boo.com	Yes	-
	Bubbleroom	-	Yes	-	Yes	bubbleroom.se	Yes	Yes, 2 stores
	Flare.se	-	Yes	-	Yes	flare.se	Yes	-
E-commerce able	Bergendahlsgruppen	Yes	Yes	Yes	Yes	bergendahls.se	-	Yes, 200 stores
	Tesco	-	Yes	-	Yes	tesco.com	Yes	Yes, >2500 stores
	MnO International	Yes	Yes	Yes	Yes	Shopiana.com	Yes	Yes, 1 store
Traditional	New Wave Mode	Yes	-	Yes	-	4yourlogo.com	Yes	-
	Åhléns	-	Yes	-	Yes	-	-	Yes, 83 stores
	Emilia af Malmö	-	Yes	-	Yes	-	-	Yes, 1 store

**Table 4.1** Overview of mini cases (Own illustration)

As described in the methodology, in the smaller firms the CEO or owner has been interviewed whereas in the larger firms, the market director is the one the authors consider to possess the most appropriate information.

The respondents are:

- Svante Tegnér – CEO Bubbleroom
- Cecilia Börjesson – CEO Flare.se
- Mikael Engdahl – CEO MnO International
- Per Lundström – Market Director New Wave Mode
- Stefan Nordquist – Market Director Åhléns
- Barbro Nilsson – Owner Emilia af Malmö

## 4.2. E-commerce Only Intermediaries

### 4.2.1. Boo.com

Boo.com was the first global e-retailer, with brands like Adidas, Puma and North Face. The company was founded by the two friends Ernst Malmsten and Kajsa Leander. Malmsten and Leander started the successful E-commerce business bokus.com, at that time the third largest book-store on the Internet.

After selling bokus.com to the largest media company in Sweden in April 1998, the idea of boo.com came up. The proposition was to have 20 brands available. With offices in London, New York, Stockholm and Munich they intended to serve six countries. 24-hour customer service centre available for customers to call, e-mail or chat with was also planned.

Malmsten and Leander received venture capital from JP Morgan and Benetton and the technology was developed by LM Ericsson. At this time they did not have a large

amount of knowledge about the timing. It was a big challenge; boo.com was intended to have a complex web site with searches on colour, brand, price and style, among other things. “Miss Boo” was a help service to guide the users on the site.

In June 1999 boo.com was occupying 150 people, working in fashionable offices with flat screens and a luxurious image. This was the first launch date set for the web site opening. The number of employees increased to 200 in July, with still no web site launched, and thus no revenues. The marketing budget was on US\$42 million, with advertising almost everywhere possible.

Four launch dates were missed as the web site finally opened in November 1999. However, there were immediate problems with the technology and only 25 percent of those who tried to access the web site actually succeeded. The site was only accessibly with high-speed internet and with the latest internet browser. Macintosh users were not able to access the site at all.

To be able to improve the poor technology, they were obtaining more financial funds. The technology issues were hard to solve and the customers were disappointed. Prices were the same as in physical stores, but the delivering period was quite long, so not many found it useful to buy on the slow web site.

With poor revenues and enormous costs, the failure was a fact. Boo.com was liquidated the 18<sup>th</sup> of May 2000.

Several mistakes were made before and after the launch of boo.com. These mistakes can be summarised in three points:

- Poor technology that only a few people could access
- High spending rate and weak cost management
- Too “big plans” when trying to go from scratch to become a world wide retailer in almost no time at all

(Stockport et al. 2001)

The message on the web site today is, “The Boo’s back” and a statement declaring that a new web site will be launched in spring 2006. (Boo.com, web site)

#### 4.2.2. Bubbleroom

Bubbleroom was founded in 2004. Initially, Bubbleroom only focused on fashionable clothes for young women. However, in the summer of 2005 they commenced marketing both men and women clothing. Bubbleroom’s business concept is to be the leading clothing boutique on the Internet. The range of products is divided into four divisions; Luxury, Fashion, Bags/Shoes/Accessories and Beauty/Cosmetics. (Bubbleroom web site)

According to the CEO, Svante Tegnér, Bubbleroom’s strengths are the following:

- Large register of members
- Good relationship with suppliers
- An established brand
- Experiences

### **Customers, Profiling and Marketing**

Svante Tegnér declares that the company's business concept simply is to sell fashion clothes on the Internet. The target group of customers is both people outside the cities that may have difficulties to shop the brand offered elsewhere, as well as people in the bigger cities with limited time. Tegnér points out mothers as an example. Further on, Tegnér mentions Zoovillage.com and Shopiana.com among the main competitors, but points out that international web sites that sell fashion clothes are competitors as well. Concerning promoting Bubbleroom, Tegnér refer to printed items, radio advertising and internet commercial. Television advertising will eventually be a promotion tool in the future.

### **Suppliers and Value Chain**

Bubbleroom has about 90 suppliers, mainly located in Sweden and Denmark. Respecting the matter concerning suppliers that start selling products directly to the end consumer, Tegnér is not very worried. He claims that some suppliers already are acting retailers, and for Bubbleroom, the phenomenon is not that serious if the selling is kept to a certain extent. However, Tegnér believe that if not, they would maybe consider changing to another supplier.

### **Virtual or Physical Distribution Channel**

Bubbleroom is an Internet-only company. However, they have recently opened two physical stores; one in Stockholm and one in Åre. In addition, during the summer, Bubbleroom has an outlet boutique in Visby. A showroom where customers can pre-book a visit to look at the clothes available on the web site is also planned. These boutiques function as a complement to the online business. According to Tegnér, the advantage Internet boutiques offers compared to physical boutiques is the possibility to easy conduct customer registers to see purchasing behaviours among customers, which is an advantage e.g. when running campaigns. However, a major drawback for online shops is obviously that the customers can not try the clothes on, Tegnér points out. When establishing on the Internet, Tegnér considers promotion as the key success factor.

### **Key Success Factors**

When establishing Bubbleroom on the internet, the strategy was to offer the customers delivery at a rapid pace.

According to Tegnér, key success factors in the fashion industry are the following:

- Well-working logistics and especially a stockroom

- Successful marketing

#### 4.2.3. Flare.se

Flare.se is an e-commerce only firm that started a little more than a year ago. The business is located in Gothenburg and it is run and owned by Cecilia Börjesson. The owner describes the selection of clothes as luxury and exclusive. Flare.se's business concept is to offer consumers designed fashion clothes that for some people could be difficult to get hold of, especially in areas outside Sweden's greatest cities. Börjesson started the business from scratch and has built up her supplier network during the last year, and she emphasises the importance of first supplier contacts. Compared to competitors, Flare.se has chosen to have a more narrow range of products, consisting entirely of very exclusive and expensive clothes.

According to Börjesson, Flare.se's strengths are the following:

- Customer relations; to always be reachable
- Timing; the right time for selling exclusive clothes via the Internet
- Knowledge; about the market and end consumers
- PR-relations; to use different medias as promotion

#### **Customers, Profiling and Marketing**

Flare.se's customers are represented by different segments, although some geographic regions are over-represented which is partly due to the lack of physical boutiques in these areas. Customers originate mainly from Sweden but there are also a significant number of buyers from Denmark and Norway. In line with Flare's expensive and exclusive profile the buyer is supposed to receive a feeling of uniqueness and luxury when purchasing an item. Most of the products offered are unique for Flare.se and Börjesson does not have the attention to sell more commercialised products or accessories. This could undermine the brand image of the web site and the company, Börjesson explains. In addition, the profit on these items is usually lower, she adds.

The marketing budget of Flare.se is close to non-existent as a consequence of scarce resources. Therefore, the focus is on public relations; to be observed in media whenever possible and to make a good impression every time the company is mentioned.

#### **Suppliers and Value Chain**

Flare.se has a short delivery time approximately of 1-2 days. Some products are sold from stock while others are ordered directly from its suppliers. This depends on the delivery time from supplier, which many times unfortunately is quite long, according to Börjesson. Only a small number of ordered products are returned to Flare.se, and these mostly depend on size underestimations. Börjesson considers that communication with the customer minimises these problems.

For wholesalers integrating forward and start selling B2C, Börjesson believes that the main problem will be to understand the circumstances of end consumers. The difference is rather large between selling directly to end consumers compared to retailers, e.g. in buying behaviour, customer needs and communication, distribution and logistics.

### **Virtual or Physical Distribution Channel**

Börjesson has never had the intention to start a physical boutique, mostly due to the high costs associated with that, a more limited customer reach as well as the difficulty to find an individual niche. The visibility is much higher when selling through the Internet.

Many people claim that Internet will cannibalise on the traditional channels, which is not the case according to Börjesson. She does not see any risk by using one channel only, irrespective if it is through the Internet or not. This is due to the fact that some people enjoy purchasing in traditional physical boutiques while others prefer to use the advantages of e-commerce.

### **Key Success Factors**

The main problem for Börjesson was the logistics and distribution of sold merchandise, a vital area in which she did not have enough knowledge at the start.

According to Börjesson, the Key Success Factors in the fashion industry are the following:

- Logistics; high precision and short lead times
- Communication; both with customers and suppliers
- Strategy; to choose a strategy and profile and hold on to it

## **4.3. E-commerce Able Intermediaries**

### **4.3.1. Bergendahlsgruppen AB**

Bergendahlsgruppen is operating in the wholesale- and retail food industry and is a subsidiary to Bergendahl & Son AB, a family-owned group. Bergendahlsgruppen is the fourth biggest food retail company in Sweden with a turnover of six billion SEK. (Bergendahlsgruppen web site)

Matomera, a wholly-owned subsidiary to Bergendahlsgruppen, was founded in 1998 as the first Internet-based food retail store in Sweden and in Europe. The business was focused on the Malmö/Lund region, and the fundamental idea was a rational built stockroom suited for efficient distribution solutions over the Internet. However, the activity ceased to run during 2001. In a press release, the CEO (which he still is) of the Bergendahl Group, Spiros Mylonopoulos (2001) declared that:



*“...we have to realise the fact that the market is not ready for taking advantage of the possibilities that e-commerce implies [...] we hope that the demand arises in the future, and we will then be ready to resume the business”.* (Own translation, Bergendahlsgruppen web site – Matomera)

#### 4.3.2. Tesco

Tesco is a United Kingdom based supermarket chain, the largest in the UK and the fourth largest in the world, with a turnover of more than 500 billion SEK in 2005. Tesco sell groceries all over the world and started an Internet site in 1994. In 1996 they began to sell to end consumers through the Internet site. Tesco deliver food and goods directly from the nearest store, which minimise investments and allow rapid expansion. This concept has been a benchmark for other grocery stores on the Internet. However, the concept has been criticised because of problems with unsatisfied stock levels at smaller stores, which may cause delivering problems. Nevertheless, Tesco’s online business is today the largest in the world. (Tesco – Wikipedia)

Besides selling merchandises, tesco.com is also an information channel for all their products, including food, DVD’s, telecoms, Internet offers, personal finance etc. (Tesco – Wikipedia)

According to Wikström (2002) Tesco’s success depends on several factors, mainly a high-speed web site that is easy to navigate, they have an efficient picking system of goods in their stores, they kept their initial investments small, acted realistically and have increased their offered services in appropriate time when a need is found.

#### 4.3.3. MnO International

MnO International is a Swedish distributor of clothes and accessories on the Scandinavian market. At the start in 1997 it had only one brand; the basketball brand AND 1. None of the two founders had any experience of the fashion business. In the early age of the business the focus was on sport brands which were sold to big sport chains like Stadium and Intersport. Further on, they decided to represent more brands to reach a larger customer base. During 2002 the number of employees at MnO increased to five persons. Since then, the growth has fastened up and today MnO employs close to 70 people and represents approximately 30 brands divided into four separate divisions: High-End, Lifestyle, Street and Sports. (Interview Engdahl) According to Mikael Engdahl, the CEO, MnO is a leading actor within each of these segments and covers all retail customers of importance.

According to Engdahl, MnO’s strengths are the following:

- Wide range of products; a breadth that exists within each of the different divisions
- Size; which makes the company strong at negotiations

- Knowledge; from experiences in the industry

### **Customers, Profiling and Marketing**

Concerning competition within the fashion industry, Engdahl declares that no other actor in the industry has a business as widespread as they do. Therefore, he believes that MnO has no competitors at all regarding the business in whole. However, each of the four divisions meets competition individually. For example, the sport division competes with other sport brands.

MnO has exclusive rights on all the brands they sell. The different divisions have different customer bases, but in general the focus is on customers between the ages of 14 to 35 year old. Marketing of the brands consists of advertisements, sponsoring of basketball games as well as promotion by providing stylists and celebrities with samples.

### **Suppliers and Value Chain**

The number of suppliers that MnO collaborates with is about the same as the number of different brands they have exclusive rights on and the main part of these are positioned in the US and in Europe. Engdahl consider the relationship with the suppliers to work well most of the time. MnO has its own stockroom, and about six employees are working there. When the products arrive to MnO, these are re-packed and sent to the retailer.

### **Virtual or Physical Distribution Channel**

The main focus for MnO is their traditional selling to retailers. However, the web site [www.shopiana.com](http://www.shopiana.com), owned by MnO, is an Internet investment with the intention to sell directly to the end consumers. Shopiana opened the 5<sup>th</sup> of October 2005 and is divided into two parts; Uptown and Downtown. Uptown is for trendy people with brands such as Rock & Republic, Downtown however has a more laid-back style selling e.g. Adidas, Puma and Cheap Monday. Shopiana is a part of Court 44 AB that is a subsidiary to the MnO International Group. Court 44 AB is located in the same office as the parent company.

MnO also has a physical store, Combination, located in Stockholm city.

Regarding successful establishing on the Internet, Engdahl mentions existing structure, where the product already is present, as a way to achieve competitive advantage. If an existing structure is absent, massive marketing is an alternative solution.

### **Key Success Factors**

According to Engdahl, key success factors in the fashion industry are the following:

- To have the right people involved; the employees need to be dedicated to appeal to the right customers.
- Managing the brands correctly; e.g. by putting them in the right context.

## **4.4. Traditional Intermediaries**

### **4.4.1. New Wave Mode AB**

New Wave Group AB is a parent company, which consists of more than 30 companies operating in 12 countries. New Wave Mode AB, a subsidiary company to New Wave Group AB, is the leading wholesaler of profile clothing in Sweden. Marketing and selling are divided between the group and its subsidiaries whereas they have a joint purchasing and finance company. Our respondent, Per Lundström, is Marketing Director at New Wave Mode since 1995.

New Wave Mode is a B2B company and its business concept consists of offering high-quality and self-designed profile clothes to companies and organisations demanding strengthened profile and stronger solidarity within the company. (New Wave web site)

According to Lundström, New Wave Mode's strengths are:

- Good market knowledge; e.g. accomplished by continual customer surveys
- Cost focus and a dynamic approach

#### **Customers, Profiling and Marketing**

The customers are retailers that sell the profile clothes to companies and organisations who are the end consumers. According to Lundström, the competitors to New Wave Mode have become more difficult to identify. Small operators are potential customers as well as large textile wholesalers. New Wave owns all the brands they sell, but are not the ones doing the printing on the clothes. The only form of marketing New Wave Mode utilises is through their sellers.

#### **Suppliers and Value Chain**

New Wave are a stock-keeping wholesaler who sell their products to retailers only. According to Lundström, they will not change this value chain by commencing to sell directly to the customer. One reason to this is that customer relation is better managed by the retailers.

#### **Virtual or Physical Distribution Channel**

4yourlogo.com is owned by Cyberwave AB, a wholly-owned subsidiary to the New Wave Group. The online store represents the whole group, not just New Wave Mode, and it intends to work as a complement to the physical stores. It is not possible to buy directly from the web site, the concept is that you order there but you still have to buy it from the retailers. In other words, 4yourlogo.com is not an Internet shop where New Wave sell directly to the customer, but rather an informative complement for people who for some reason prefer to view the range of products at home. The stores are important since they provide service and the possibility for the customers to see the actual product, as well as discussing printing and other enquiries. Lundström

emphasises that if New Wave would have began to sell through the Internet themselves, the retailers would unquestionably be very upset. Lundström further states that there are many advantages with the Internet; information about products can be obtained fast and easy and the consumer can find information about the retailers. However, Lundström consider it important not to put too big amount of money into an Internet-project without examining whether the consumers are interested in it. Lundström believes that the Internet will have an increased influence on the business in the future. However, he doubts that New Wave will ever start to sell directly to the consumer.

According to Lundström, the key success factor when establishing on the Internet is to have a web page that is easy to navigate; the information searched to needs to be found rapidly.

### **Key Success Factors**

According to Lundström, Key Success Factors in the clothing industry is the following:

- To be focused and to do what the firm is good at.

#### **4.4.2. Åhléns AB**

Åhléns is a wholly owned subsidiary of Axel Johnson PLC and one of the most well known brands in Sweden with 83 stores all over the country and 70 million visitors every year. The operation is focused on four business areas: Fashion, Beauty, Home ware and Media. Åhléns Fashion offers a selection of own-labelled as well as other well known brands to women, men and children. In the 1990s Åhléns began a complete transformation into what would become a modern retail chain of high international standard. All of Åhléns' department stores are gradually being modernised to become attractive department stores of the future and in line with the business concept: *"to be the best chain for modern shopping for the eternally young customer"*. (Åhléns web site)

According to the Market Director, Stefan Nordquist, Åhléns strength is their unique position as the only department chain retailer with multiple stores in Sweden.

### **Customers, Profiling and Marketing**

According to Nordquist, all type of specialised retail traders are competitors to Åhléns. To stay competitive, the company uses a wide mix of marketing methods, including television, printed material, the web site etc.

### **Suppliers and Value Chain**

Åhléns' main suppliers are Up, Å (own label), Wera, Mexx, Esprit and Saint Tropez. The main part of these brands has their own shops and is also sold on the Internet. Nordquist therefore allege that they can not compete on that matter, but rather on the fact that Åhléns is the only chain department store in Sweden that have all the above mentioned brands at one place.

### **Virtual or Physical Distribution Channel**

The current look of the Åhléns web site is about six months old. Between 1996 and 2003, Åhléns were practicing online selling. However, Nordquist claims that it was difficult to handle the logistic processes required and also that the time was not right for the consumers. Nordquist hesitates that Åhléns will go online again in the future, and claims that there exist two different types of consumers, of which one of them will continue to visit and buy from physical stores. Therefore, Nordquist does not see any problem with the fact that it is possible for people to try on clothes at Åhléns and then purchasing online.

### **Key Success Factors**

According to Nordquist, key success factors in the fashion industry are the following:

- Price strategy; choosing a strategy and to differentiate from competitors
- Level of fashion; the importance of having trendy clothes
- Size of store; nice and voluminous stores gives inspiration to the customers

#### **4.4.3. Emilia af Malmö**

Barbro Nilsson started the fashion boutique Emilia af Malmö, situated in the department store Hansakompaniet in Malmö, in 1992. Nilsson describes the boutique as chic and courageous with a wide collection of brands including some unusual ones. The assortment is continuously filled up with new products. Emilia's business concept is to always be able to provide the consumer with a wide range of fashionable clothes and accessories, to be constantly updated and to always be one step ahead of competitors.

### **Customers, Profiling and Marketing**

Regarding the competitiveness for Emilia, Nilsson does not mention any other boutique in particular, but proclaims that all boutiques are competitors. This competition has grown even stronger because of the increased number of fashion stores in Malmö. However, according to Nilsson, this competition is beneficial for all participants involved.

The consumers at Emilia are both high-income earners as well as people with an average income. Nilsson says that these consumers have different manners when shopping; the consumers with more money shop more rarely but for bigger amounts of money, while the other group, often women around an age of 25, shop often but only one or a few articles of clothing at a time.

Nilsson does not use any advertising for her boutique. Instead the good reputation and the word-of-mouth promote and entice consumers. The location for the boutique is also an advantage, since Hansakompaniet is a well-known department store. Some selected customers are also invited twice a year for fashion show and refreshments at the boutique.

### **Virtual or Physical Distribution Channel**

Emilia does not have any selling on the Internet, and according to Nilsson, there are no plans on going online with the argument that good service and personal contact is too important to be ignored.

Despite the fact that several online shops sell the same products, Nilsson has not noticed the competition much, and she claims that “*the customer needs service*” and therefore a physical boutique. The fact that wholesalers, and even suppliers to Emilia, are establishing on the Internet and selling directly to end consumer does not appreciable affect. She assumes that Emilia will survive anyway. One of the disadvantages of the Internet is the lack of possibility to try the clothes on. The risk for physical stores is that people try the clothes in their stores and then order them online. Nilsson says that she has noticed this tendency on the jeans. However, due to the importance of service mentioned above, Nilsson does not see this as a problem.

### **Key Success Factors**

According to Nilsson, Key Success Factors in the fashion industry are the following:

- Finding a niche; to be different and be certain about the purpose of the business
- Constant development; continual progress but without confusing the customer
- High level of service; good service is essential in a physical store
- Fashion knowledge among employees; up-to-date personnel motivate the consumer
- Honesty; integrity towards the customer

## 5. JaymJay and Rich Bitch

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*This chapter commences with some brief facts about the JaymJay Group to give the reader some background information about the context of the Rich Bitch project. History, business concept and core competences are some examples of subjects. Thereafter, the focus will be on the e-commerce business; Rich Bitch. Empirical findings about profile and assortment, target customer, marketing, price strategy, the web site, organisation and strategic aspects are then presented.*

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### 5.1. JaymJay Wear AB – The Group

The JaymJay Group consists of the parent company JaymJay and the subsidiary Rich Bitch. JaymJay is a wholesaler in the fashion industry, selling clothes to retailers in the Nordic countries. They have exclusive right in the Nordic countries on all their collections.

Rich Bitch is a forthcoming Internet project with the purpose to sell clothes to end consumers on the Internet. The web site will be launched during the summer of 2006.

Brief facts about JaymJay:

- *Turnover*                      Approximately 70 million SEK
- *Employees*                      13
- *Agents*<sup>1</sup>                      One in Norway, one in Denmark
- *Customers*                      About 500 retailers in the Nordic countries
- *Starting year*                      1997
- *Head office*                      Located in Landskrona, Sweden
- *Showrooms*                      In Landskrona and Copenhagen
- *Collections*                      Seven for all mankind, Blauer, Hvana, J & Company, Majestic, Missoni Sport, MCQ Alexander McQueen, Paige, Paper Denim, See by Chloé, Sweet Years, True Religion Brand Jeans

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<sup>1</sup> The agents have contracts with JaymJay to sell specified collections to a delimit area (e.g. to Denmark). Except for the fact that they are not employed at JaymJay they work practically in the same way as JaymJay's ordinary sales force. Instead of a salary, they receive a percentage of the profit.

In this chapter, mainly primary information from interviews is presented. There will be statements from the respondents at JaymJay and Rich Bitch representing four different functions:

- The CEO, Marie Clark
- The Web site director, Daniel Fernandez
- The Media Director, Jacob Nyemark
- The sales force, Caroline Lord and Louise Fransson

#### 5.1.1. History of JaymJay

JaymJay was founded in 1997 but the experience of the owners is dated 20 years back in time. Before moving to Sweden, the CEO Marie Clark and her business partner Jim Clark were based in Florens and Milano, where they worked for some of the “big names” in the fashion industry. The contacts made back then are the foundation of JaymJay, and what made the business possible. (Information Brochure JaymJay)

Initially, umbrellas and bags were the main confections at JaymJay (by then called JMJ). These were imported fashionable designers and manufactures in Italy. Gradually, clothes began to take a larger part of the total sales. Krizia was the first collection brought into the product range. In the early 2000<sup>th</sup> designer jeans like Seven for all mankind, Blue Cult and True Religion become very popular, JaymJay had contracts with all three of them and exclusive rights for selling these in the Nordics countries (today no longer Blue Cult). (Clark, 2006-04-10)

In the first phase, the company consisted of only three persons; Marie Clark, Jim Clark and one employee. Today there are about 13 employees in the office in Landskrona, Sweden. The turnover has risen from 1 million SEK the first year, to about 70 millions in 2005. The expansion in both turnover and number of employees has made the company continually change in order to stay competitive. For instance, they have almost fully implemented a new business system that is a lot more up to date and digitalised than the former one. A new showroom in Landskrona and the forthcoming Rich Bitch project are the most recent events resulting from the growth and expansion of the company. (Clark, 2006-04-10)

#### 5.1.2. Business Concept and Core Competence

JaymJay is exclusively working with premium class products. Their mission is to offer brands and collections with the highest level of fashion, products that are unique and sold in carefully selected boutiques. Marie Clark argues that the core competence of JaymJay is their connections in the fashion industry. The network of JaymJay started to grow before JaymJay was even born, particularly among manufactures and designers. It is now, since JaymJay started, gradually developing and it is also consisting of retailers. (Clark, 2006-04-10)



### 5.1.3. JaymJay in Relation to other Wholesalers

Marie Clark argues that JaymJay does not have any competitors, implying that they have monopoly on their brands. They are the only wholesales in the Nordics that are allowed to sell those particular brands and the company was the first actor in the Nordics with such expensive clothes. However, there are other wholesalers in the premium class market that may be considered as competitors. Clark mentions Trendhouse in Copenhagen and MnO International in Stockholm, although these companies do not have as clear niche and not selling as expensive clothes as JaymJay. MnO for instance, has a wider product range in a wider price spectrum. (Clark, 2006-04-10)

## 5.2. The Rich Bitch Project

### 5.2.1. Background

Rich Bitch is, as already mentioned, a subsidiary of JaymJay Group. The company was established some years ago and was until recently a wholesaler like JaymJay. The total portfolio of brands was divided up between the two subsidiaries. Primarily, Rich Bitch had contracts with jeans brands and JaymJay mainly consisted of clothing collections. The separating was primarily a legal issue. Sometimes different brands can not be held inside the same company due to competitive issues. JaymJay and Rich Bitch were at that time theoretically like one company; they were located in the same office and shared a lot of joint customers as well as resources. However, the recent years, all brands and businesses have been transferred to JaymJay, when the issues mentioned before, no longer were a problem. (Clark, 2006-04-10)

In August 2006, Rich Bitch is going to be launched as an e-commerce business. In the beginning, the management of JaymJay was disagreeing whether making Internet a selling channel for exclusive brands or not, believing the market was rather limited. However, when other Internet sites started to demand JaymJay's products, Marie Clark was to some extent changing her mind. If people were purchasing JaymJay's products through other web sites, why could JaymJay not have their own web site? (Clark, 2006-04-10)

### 5.2.2. Profile and Assortment

The profile of Rich Bitch is exclusiveness. The assortment will be carefully selected, only high premium brands will be available and all products are going trough JaymJay. In other words, no clothes will be purchased from other wholesalers. Both men's and women's wear will be supplied. (Clark, 2006-05-22)

In the beginning the assortment will consist of:

- Jeans
- Sample collections
- Unsold items from collections
- One special “Internet collection”
- Accessories (not initially)

All *jeans* brands in JaymJay’s brand portfolio will be supplied through the Rich Bitch channel. However, not all models from every brand will be available. In addition, some jeans models are only sold via Rich Bitch, these are planned to be very exclusive and expensive jeans models that traditional retailers are not able to take into their assortment. (Clark, 2006-05-22)

The sales force of JaymJay uses *sample collections* to show potential customers the clothes before purchasing. Those samples will also be sold through the internet channel. If no retailers have decided to buy a certain item, that particular sample will not be available in any physical store in the Nordic countries. That means that a minority of clothes can be found exclusively on the Rich Bitch web site. The Rich Bitch channel is also a way to sell jeans and clothes that have been *unsold* and left over in the stockroom. This is often the case when JaymJay’s customers have not paid their invoices and thus JaymJay has withdrawn further deliveries of orders. (Clark, 2006-04-10)

The special “*Internet collection*” is from Alexander McQueen and will only be available through the Internet channel and not in any boutique in Sweden. In addition, *accessories* like sunglasses, bags and shoes will be introduced on the web site at a later stage. (Clark, 2006-05-22)

Compared to other web sites that are selling clothes, Clark argues that Rich Bitch is going to be a lot more exclusive. She suggests that other web sites often get a wider audience (e.g. Bubbleroom and Zoovillage) and that Rich Bitch is intended for a smaller segment. Rich Bitch could be seen as more similar to Flare.se and MrsH that the latest year also started e-commerce and not only exists as a physical retailer.

### 5.2.3. Target End Consumers

Marie Clark considers Rich Bitch’s customers to be the same as the end consumer of JaymJay. These are people that demand style, quality and fit of the highest class, but also those looking for a certain life style. The premium class segment is in general aware of the origin of the clothes, where they can be bought and what they stand for. (Information Brochure JaymJay)

Despite of the end consumers that normally buy JaymJay’s products, people that today do not have access to exclusive stores are potential customers for Rich Bitch. In this way it is possible to reach new consumers, for example due to geographical distance to

ordinary physical stores. Rich Bitch tends to serve both male and female consumers, probably aged between 20 and 45. (Clark, 2006-05-22)

#### 5.2.4. Marketing

Marie Clark considers it important to promote Rich Bitch to a relatively large extent. However, it is also important to choose the right marketing channels that are in line with their profile. Marketing will initially occur through advertising in all the large fashion magazines. There will also be a big event in the end of this summer, in relation to the release of the web site. Customers, celebrities and other people that are important for JaymJay will be invited to this glamorous event. (Clark, 2006-04-10)

After the launch of the web site, marketing will probably accrue through banners and ads on the Internet. Where and how are not entirely yet decided. It is very important to find the right places to be seen at on the Internet and where the image can not be harmed. However, advertising will still continue to appear in fashion magazines. (Fernandez, 2006-05-22)

Clark also has an illusion of a form of community on the web site. As follows, customers are able to come with their own suggestions and they also have the ability to start discussions on the web site. At the moment, no loyalty programs are determined. However, Marie has a vision of a “VIP membership” on the site. Special customers can through the VIP room get access to exclusive clothes offered to only a few. A Rich Bitch showroom, where consumers can contemplate as well as trying on the clothes, will also be set up. The showroom will be open for consumers that have made a reservation every Friday afternoon. (Marie Clark, 2006-04-10)

The media and relations director, Jacob Nyremark, argues that despite a large extent of marketing efforts, the power of word-of-mouth is particularly important to consider. He declares;

*“The promotion must reach the right people through the right media at the right time”.* (Nyremark, 2006-05-22)

#### 5.2.5. The Web Site

The logical aspects of the web site are similar to other web sites; it is important that the site is dynamic and easy to navigate on. When products are out of stock, this will automatically be updated on the site and only things available in the stockroom will be visible. Further more, the design is more in line with Rich Bitch overall profile to attract core customers. When designing the web site, the IT-director Daniel Fernandez implies the importance of the first impression. Additionally, the first purchase a person carries out is essential for further purchases, and therefore the design of the web site aims to tempt to the first purchase. (Fernandez, 2006-05-22)

Initially, the web site will contain all the essential functions. However, after some time more functions will be added, e.g. login for the press. There will be continual improvements. Fernandez thinks that the design is a lot more important when selling B2C compared to B2B, where logics regarding order, invoice information etc. are significant. (Fernandez, 2006-05-22)

#### 5.2.6. Price Strategy

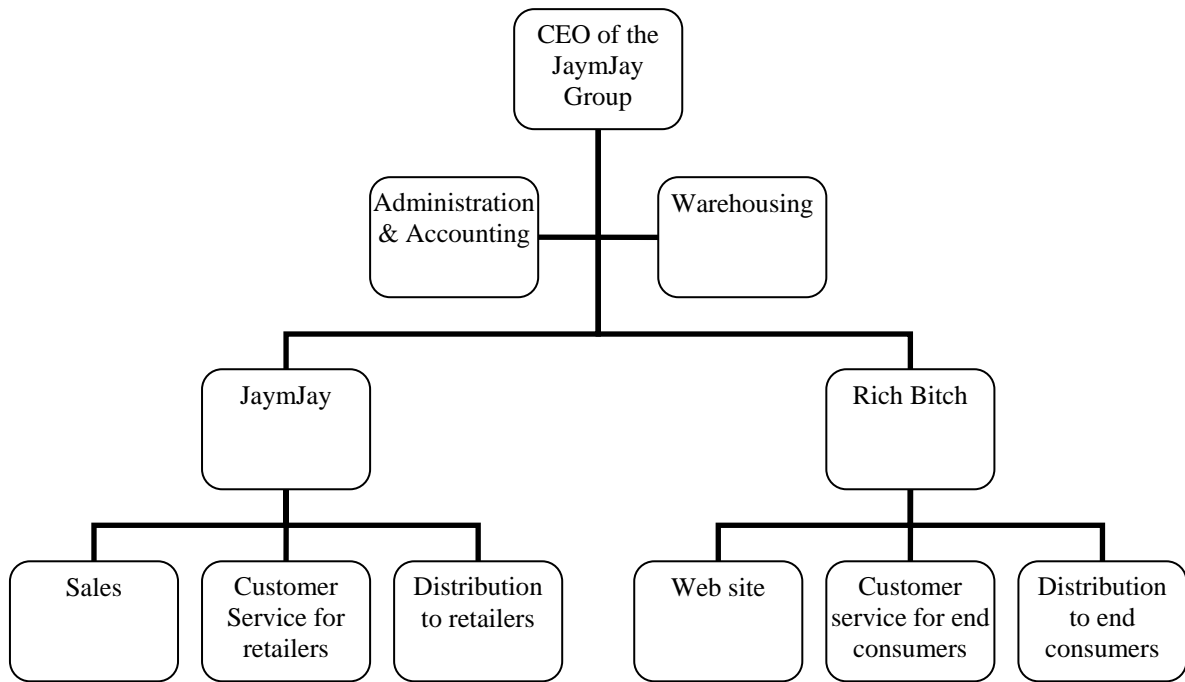
In general, prices on the web site will be equivalent to the recommended prices for the retailers who are selling the same products, e.g. 150-180 percent. The reason for this strategy is to avoid competition with JaymJay's customers, the retailers. The mark up will be higher when selling via Rich Bitch directly to end consumers, because of the fact that one lead is overlooked. However, Clark has not identified the amount of costs when distributing directly to end consumers. (Clark, 2006-05-22)

The Rich Bitch profile is, as mentioned before, exclusiveness. Therefore, Clark does not want to compete with a "low-price" strategy, even though they have the option to. Neither is quantity discount in line with their profile. Instead of discounts, other rewards to loyal customers can be considered, e.g. the before mentioned VIP-room. Prices on the web site will include transport cost. For products less expensive than 500 SEK transport costs will be added. However, Clark states that there will probably not be any products on the site for less than 1500 SEK and therefore not an issue. (Clark, 2006-05-22)

#### 5.2.7. Organisation

The top management of JaymJay has decided to separate Rich Bitch and JaymJay; both legally and physically. Furthermore, Clark can not see any disadvantages with the separation. Instead, she points out the importance of realising that it is two different companies, which also are going to be located in two different offices. (Clark, 2006-05-22)

This decision is based on both external and internal aspects. First and foremost, customers should not get confused. Separated offices with separated customer services are therefore appropriate. Before, Clark was also troubled about the risk of irritations among JaymJay's customers. Today, she does not believe that it will be a significant problem. Clark further states the internal aspect of the organisational structure; there are benefits of practical nature with a separation. It is important not to mix the two businesses; JaymJay is a wholesaler and Rich Bitch is a retailer. Despite of this, parts of the administration are still going to be the same for both companies. Accounting, stockroom and the top management will serve both companies. The Rich Bitch office will handle packaging, distribution and customer service for end consumer and managing the web site. (Clark, 2006-05-22) The organisation is illustrated in Figure 5.1.



**Figure 5.1** Organisation scheme for Rich Bitch and JaymJay (own illustration- Dahlgren, Munke, Thulin, 2006)

Rich Bitch will have its office in Landskrona, not far from JaymJay's. Initially, some employees from JaymJay will be transferred to work halftime at Rich Bitch. One person, also previously working at JaymJay, will be responsible for continuously updating the web site. In the start there will be about 2.5 fulltime employees at Rich Bitch. The employees transferred or half transferred from JaymJay to Rich Bitch have the experience from JaymJay, a big advantage according to Clark. In addition, before knowing the size and growth of Rich Bitch, Clark accentuates the risk of employing new people. (Clark, 2006-04-10)

### 5.2.8. Distribution

Clark emphasises the difference between delivering B2B compared to B2C. Most retailers are professional and have knowledge in the fashion industry as well as being familiar with general legal aspects. She assumes more effort is required to sell directly to end consumers, e.g. because of reclaims and other returns. (Clark, 2006-05-22)

The delivery time from Rich Bitch to end consumers is planned to be about two days. Rich Bitch will probably use Postens express-service in most of the cases. The costs are reasonable and SMS and mail facility gives the consumer the essential service needed. The clothes will be repacked at Rich Bitch in glamorous parcels, which also are in line with the overall profile of Rich Bitch. Rich Bitch will also have a special delivery for extra charge. Customers may receive their clothes within 5 hours in the Öresund-region. It is for instance possible to put an order at 1 am and get the clothes in time for a party in the evening. The ordered clothes will be delivered directly to the door by a well dressed man or woman. A special gift, e.g. chocolate will make the service even more

exclusive. (Clark, 2006-05-22) This service is also a promotion effort that probably will increase the power of mouth. (Nyremark, 2006-05-22)

To make the deliveries work effortlessly, the web site must continually be up to date and out of stock products must directly be annulled. Payments are made with credit cards. (Fernandez, 2006-05-22)

### 5.2.9. Relations

Not harming the core business is an aspect of large importance when starting the Rich Bitch project. The relations with present customers and suppliers are essential to JaymJay. The price strategy of Rich Bitch is one major effort to avoid destroying relations with retailers and therefore risks to loose customers. With the same prices as retailers, the company wishes that there will be no harmed feelings or relations. (Clark, 2006-05-22)

Marie Clark states that perhaps some customers of JaymJay will see Rich Bitch as a threat. However, she does not believe that it will be to a large extent. Both Clark and the sales force at JaymJay agree upon the idea that Rich Bitch as a marketing channel actually can be a good thing for the retailers.

Neither the sales force of JaymJay considers Rich Bitch as a threat to present relations. Lord and Fransson imply that it is very up-to-the-minute to buy clothes on the Internet; today consumers can get hold on clothes that only a few have seen before. With a larger amount of web sites available, traditional retailers today are more used to and also more realistic about the threat from Internet retailers. The sales force of JaymJay has seen an attitude change among retailers and the fear of e-commerce is not that wide spread today. Lord and Fransson do not think that customers of JaymJay will stop purchasing JaymJay's products because of that, although they are aware that there is a risk a minority might do so. Communication with the retailers is extremely important, e.g. to avoid rumours about prices and so forth. (Lord & Fransson, 2006-05-22)

The sales force also notices other possibilities with Rich Bitch, except from new revenues; with high exposure in magazines, the knowledge of the brands will be higher and the parent company JaymJay can also benefit from the profit. Further on, Fransson argues that an other positive thing about the internet investment is that JaymJay will be regarded as a company "in the front" of the development.

### 5.2.10. Strategic Aspects

The reason for why Rich Bitch is established at this point is because the time appeared to be right, according to Clark. As already mentioned consumers today are to a larger extent than before prepared to buy exclusive clothes on the Internet. Additionally, it is an advantage to be a follower instead of the first mover; other e-commerce businesses have gone ahead and showed some well working and less well working examples. The

traditional physical retailers were rather upset when the first e-commerce retailers started their business. However, this has now mostly faded out. The timing is important and now is the right time. (Clark, 2006-05-22)

Marie Clark views Rich Bitch as a complement to JaymJay. Selling to retailers is still the most important business. She also argues that the potential turnover of the project does not need to be that large because of the fact that JaymJay still have reliable revenues. However, Clark notices the possibility of increasing the importance and size of Rich Bitch in the future. Nevertheless, the growth of Rich Bitch will never occur on behalf of JaymJay's expense, although the mark up is higher when the products are sold through Rich Bitch because this could undermine the business of JaymJay. Clark imagines that the two companies will grow at the same pace and that the success of each business is dependent of the other. Rich Bitch is dependent on JaymJay due to the fact that Rich Bitch supplies products that JaymJay have exclusive rights on. However, Rich Bitch is not only about making revenues. Clark states that the purpose of the web site is 50 percent about selling products and 50 percent about promotion for JaymJay's collections and brands. Irrespective of the clothes are sold via Rich Bitch directly or trough the retailers to end consumers, the clothes are initially coming from JaymJay. Therefore, JaymJay can get advantages from Rich Bitch. (Clark, 2006-05-22)

All respondents at JaymJay agreed with the fact that Rich Bitch largest advantage is the high margins arising from forward integration. The volumes do not need to be large to make the business profitable. (Clark; Fernandez; Nyemark; Lord; Fransson, 2006-05-22) The competitive advantage of Rich Bitch compared to other e-commerce competitors is that they have JaymJay behind the venture. The possibility to use all the strengths, competences and resources that JaymJay possess gives a good foundation with an important and reliable supplier. (Clark, 2006-05-22)

One risk is whether the relations with the retailers will be damaged and that the risk for this has been underestimated. (Clark; Nyemark; Lord; Fransson, 2006-05-22) In addition, Nyemark expresses a fear for underestimated turnover and work load. If the demand on the web site will be a lot larger than expected, customer service may be damaged. (Nyemark, 2006-05-22) There are also differences between selling to retailers versus end consumers, differences of which they mostly focus on the legal aspects and issues regarding the distribution. The power balance in the fashion industry is thought to be evenly divided between the different participants since all involved are depending on each other. (Clark, 2006-05-22)

## 6. Analysis – Developing The Model

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*This chapter is divided into two main parts, starting with the general model based on literature and theories. Thereafter, the model will be influenced and updated by empirical findings from the mini cases. Under each of these two parts, there will be an explanation of the development and purpose of the model.*

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### 6.1.1. Development and Purpose of the General Model

The general model is based on the theories and literature studies described in the *theoretical framework*. The purpose of the model at this stage is to illustrate the most important considerations that the top management needs to think about, and take action to when going e-commerce. The model does not only focus on the successfulness of the new e-commerce business, it also aims to be a tool in order to be successful in the new e-commerce business without harming the core business. The strategic consequences are therefore in the spotlight.

Porter's Value Chain serves as starting point when deciding what areas are important and therefore included in the model. The value chain aims to cover all activities of a firm, which is in line with the purpose of the general model. Former research, e.g. Chaffey (2002) and Epstein (2004) has also served as a foundation when building the general model. *Organisational structure, Marketing and Supply Chain* are implicit or explicit a part of the value chain or former e-commerce models.

However, the value chain has some limits because of the fact that it does not cover the value of relations, for instance, which appears to be important to consider when integrating forward and changing the value chain. Therefore, the authors of this thesis have added the dimension called *Relations*. The value of relations is also supported by Paul Jönsson's PhD (2006) in e-business. Relations in this case refer to the relationship with present customers, not the customers related to the Internet site.

Another added dimension is called *Strategy* that neither can be found in the value chain. This dimension is added to get a long-term perspective on the e-commerce establishment.

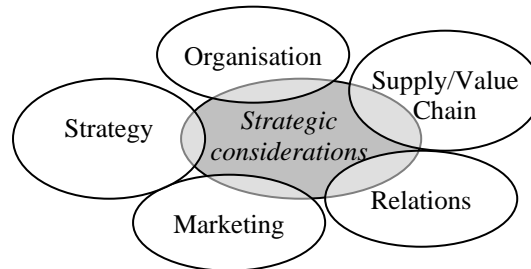
At this stage, the model is rather general and aims to be useful for B2B companies in all industries that are integrating forward by going e-commerce and starts to sell directly to the end consumer. Due to the fact that the model at this stage is explicitly based on theory, it is only a presumption of which considerations that is important. In section 0



the general model will be tested and updated after empirical data is collected and analysed and then also more specific to the fashion industry.

### 6.1.2. The General Model and its Parts

The considerations that the top management ought to contemplate and take action to when going e-commerce are illustrated in Figure 6.1 below.



**Figure 6.1** General model based on literature and theories (own creation)

Changing from being a traditional B2B wholesaler to sell to end consumers is a big change. When, at the same time, going from being a physical wholesaler to start to sell through the Internet makes the change even greater. Experiencing structural changes, it is crucial to consider the *organisational structure*. Different organisational structures are to prefer in different firms, the important thing is to choose one that is suitable for your company and strategy, according to Bruzelius & Skärvad (2000). If not considering the organisational structure when going e-commerce there may involve a risk that the new business will affect other parts of the organisation in a negative way and the development of the new business may be slowed down. One way to organise when having both a maturing business as well as an emerging one is by an ambidextrous organisation (O'Reilly & Tushman, 2004). The two businesses are then separated whereas the top management is well integrated.

There is often a difference between the distribution to other business customers (B2B) compared to end consumers (B2C). Delivery times and return policies are probably different from the traditional business. It is important to consider how the *supply chain* will be affected when going e-commerce and what the power balance looks like. Is there, for instance, a trend in other similar industries that a certain position in the future will be replaced or transformed? Or is there a possibility for companies to take action to change the supply chain by integrating forward?

When going e-commerce by integrating forward there will probably be a change in the competition situation. The customers of a company may be transformed to competitors. The present *relations* need to be reviewed in order to avoid the core business from suffering excessively, e.g. by lost customers.

*Marketing* in B2B is almost never the same as marketing towards end consumers. The four P:s (Kotler & Armstrong, 2002) may be used as an evaluation tool, regarding the product offer, its prices and promotion as well as the place to promote. In this section

the authors have chosen to include the profile and also the communication towards the new customers to the web site (Epstein, 2004), not to confuse with the *relations* to the traditional retail customers of the wholesale business. If marketing luxury products it is important to consider that different marketing methods may be more appropriate (Riley & Lacroix, 2003).

*Strategy* is the final dimension in the model. It is also important to have a long-term perspective on the investment. What is the purpose of the e-commerce business in the long-term? Should it be a complement to the core business or should it gradually replace the core business?

## **6.2. The Model Considering the Mini Cases**

### **6.2.1. Development and Purpose of the Model**

In this section the general model works as a foundation that will be evaluated and updated, through experiences from the smaller case studies. The model will in the end of this chapter be more specific for the fashion industry. By observing experiences from former e-commerce establishments, key success factors that will make the model more correct and also more practical may be identified. The different parts of the model will be analysed one at a time in the following paragraphs based on the general model.

### **6.2.2. Organisation**

The empirical findings did not indicate that any special organisational aspects could be considered to be significant. One reason may be that the empirical data concerning this aspect is rather brief. Additionally, the mini cases are of different sort; some one-person company and some with hundreds of stores, further implying that they are organised very differently. For example, the former e-commerce only company Boo.com built their organisation fast and aggressive, whether Flare.se started to build the company very slowly without any large investments.

Irrespective of what the empirical findings indicated about organisational aspects, the larger and more complex a business is the organisational aspects are becoming increasingly important (Bruzelius & Skärvard, 2002). Regardless of size, the authors of this thesis have found one important organisational aspect to consider for companies integrating forward by starting an e-commerce business; the level of integration of the e-commerce business. There are two main possibilities to organise the e-commerce business and the traditional business; they can be *integrated* or *separated*.

MnO is an example of a company that has integrated forward by establishing e-commerce. Their businesses are located in the same building in Stockholm, including the web site Shopiana. If integrating the business synergy effects may be obtained, for instance by using common administration, locals and stockroom.

Due to the empirical findings, the organisational dimension of the model is not considered to be important in the fashion industry overall. For example, none of the respondents mentioned organisational aspects as any key success factor. In addition, many of the mini cases in this research are rather small and therefore this issue is not of any larger importance. However, in a business of MnO's size this issue is more important and the data concluded that they have chosen to integrate. To summarise, the authors consider the importance as low.

***Importance in the fashion industry: Low***

### 6.2.3. Supply Chain and Forward Integration

The empirical findings (Bubbleroom; Flare.se; Bergendahl; Tesco, 2006) indicate that the logistics are of great importance when selling directly to end consumers on the Internet.

Åhléns is one example of a physical store that was practicing online selling between 1996 and 2003. At that time, the problem with logistics was the main reason why it did not work out as they expected and Åhléns will probably not use the Internet as a selling channel again. The distribution was too different from the usual one to the retail stores; there were not any synergies between the distribution channels.

Flare.se mentioned logistics and distribution as the largest problem when going e-commerce, which partly depended on the long lead times from the suppliers (often depending on the manufacturers). Today, Flare.se attempts to have short delivery periods, 1-2 days for most goods, and Börjesson also argues that well-working logistics indeed is a key success factor, and one of the most important things to consider, when going e-commerce.

The empirical findings are in line with the theoretical research in the field, Mattsson (2002), Lee (2004) and Hill (2002) all emphasised the improved importance of the logistics and distribution as a key success factor that should be used as a competition tool.

The authors of this thesis have identified several reasons for why distribution and short delivery periods are crucial. The characteristics of the virtual market, as Amit, Zott and Donlevy (2000) explains, may be considered as one fundamental explanation. The Internet has led to a higher extent of "reach" with few geographical boundaries. Customers often have more than one site to choose from when purchasing a product, which means higher demand on well-working distribution. Additionally, the richness of the product offer enables reduced information asymmetry and consumers may easily compare delivery periods of the different sites. There are also web sites that have comparing services (e.g. pricerunner) as well as bloggs and grading systems that pushes retailers to keep promised delivery times. Mattson (2002) and Hill (2002) also argues that when the products and prices are similar or often the same, which is the case in the

fashion industry, other characteristics become order winners, in e-commerce businesses logistical aspects are such things.

When considering forward integration, it is important to evaluate the power balance in the industry, according to De Kare-Silver (1998). In the Swedish fashion industry, where the wholesalers often have exclusive rights on the brands they sell (Börjesson; Engdahl, 2006), the power is in the hands of the end consumers who may choose which retailer to go to, and the wholesalers in turn can choose which retailers to sell to (although the retailers have the possibility to cut off distribution). This implies that the delivery precision and period become a lot more important when selling to end consumers compared to the retail customers.

The triple-a supply chain may be one way to make the supply chain both agile, adaptive and align. (Lee, 2004) This may be used in the fashion industry as a whole and especially for the e-commerce only and able. One way to receive agility is to have a small supply with the most demanded clothes as well as having a plan for how to cope with sudden demand and supply changes. In the fashion industry it is also important to react to structural changes (adaptability), and predicting coming trends is considered a key success factor (Emilia af Malmö). Finally, to get the supply chain align, there should be incentives for the whole supply chain to have well-working logistics. The alignment can be rather difficult in the fashion industry due to the fact that, information is rarely shared and the actors in the supply chain is often many and of a small size. Two well known exceptions in this industry that both have Triple-A supply chains are H&M and Zara, but they also control a large part of their supply chain.

When integrating forward there are of course advantages and new potentials, but also risks and threats that must be taken into consideration. These vary from firm to firm and ought to be analysed in a firm's specific environment, see Lee & Shu and De Kare-Silver in the theoretical framework.

### ***Importance in the fashion industry: Very High***

#### **6.2.4. Relations**

In this part, the relations with the traditional retail customers, and how these are affected by a forward integration, are analysed. Relations with end consumers will be analysed in paragraph 6.2.5 about marketing.

The retailers in the mini cases did not explicitly claim to have any problem with wholesalers integrating forward (Bubbleroom, Flare.se, Åhléns, Emilia af Malmö). Both Emilia af Malmö and Bubbleroom already have suppliers that have started their own e-commerce web sites. Consequently, this is not a new phenomenon to them and they do not have any considerable problems with the situation. However, Nilsson at Emilia af Malmö have noticed a group of consumers that use her store as a dressing room, and then purchase the clothes online instead. Bubbleroom adds that the wholesalers must

keep their selling to end consumers to a certain extent, otherwise Bubbleroom and other retailers may consider changing supplier.

Despite the indulgence among the respondents, other retailers may react negatively to such changes in the value chain and therefore one should consider the changes of competition and how it may impact the present relations. Especially wholesalers, arguing that their core competence is their relations, need to anticipate how these will be affected by the e-commerce investment. The present relations need to be reviewed so that the core business do not suffer, i.e. by lost retail customers, when establishing e-commerce and integrating forward. Success in this kind of business requires both *competitive* and *cooperative* relations simultaneously according to Lado et al (1997). One way to do this is making retailers receiving a part of the rewards. Many web site visitors are only looking for information about the clothes without purchasing. The web site may be used as a marketing tool that spreads information about brands that the physical retailers also sell. Retailers can, through others web sites, also get a piece of the cake. Further on, Internet may enhance the exposure of the industry and makes more people interested in fashion. This might help to expand the total market, and there can be a win-win situation.

Finding the way without destroying present relations with the retailers also involves finding the right price level. A further discussion about prices is held in section 6.2.5.

New Wave's web site 4yourlogo.com may be considered as a way to make the stakeholders of the firm, the customer and the retailers, align. It is not possible to buy directly from the web site, the concept is that you order there but you still have to buy it from the retailers that are customers to New Wave. However, this concept is probably easier to obtain in the profile clothing industry compared to the fashion industry and this is therefore of limited usefulness for most of the mini cases.

Indications from the research showed that it is important to consider impact on present relations when integrating forward and going e-commerce. However, if managing the situation correctly, a win-win situation may be created. In the next section, the authors look more closely at marketing related issues to see what strategies that is appropriate and which does not harm the present relations with the retailers.

### ***Importance in the fashion industry: Medium***

#### **6.2.5. Marketing and Profiling**

This section is divided between communication, profiling and Armstrong & Kotler's 4 P:s. All of these parts will be discussed and their level of importance determined.

#### **Communication**

Some of the respondents emphasise the importance of communication towards the customers (Flare.se; Emilia af Malmö). Börjesson at Flare.se also thinks that customer communication is probably the area where wholesalers are likely to fail when starting to

sell B2C, due to the differences between B2B and B2C communication. As mentioned in section 6.2.3 above, the power balance is different in the supplier-customer relationship for a retailer compared to a wholesaler. Because of this the wholesalers that start to integrate forward must be a lot more careful when dealing with end consumers instead of retail customers. Consequently, the communication service is even more important.

As also described in section 6.2.3 above, each clothing item is often priced similar and has the same features wherever it is sold, therefore the communication and service is becoming a competition tool hence the product and price itself cannot be differentiated. It is also hard for newcomers to get new consumers and therefore it is important to deliver a good first impression in the relation. The expression “*First impression lasts*” (Flare.se) is quite significant in this case.

The above statements are also in line with the thoughts of Epstein (2004) among other, and the authors consider the importance of communication in the fashion industry as *high*.

Communication could maybe have been placed under *Product* if seen as a service, but it is placed as an own pillar of *marketing* since the authors wants to emphasise its importance.

### **Profile**

The profile is rather different between the examined mini cases. Among the respondents dedicated to e-commerce; Shopiana and Bubbleroom had the widest profile with both luxury items and more casual clothes. Flare.se, on the other hand, has an exclusive and luxury profile that is more niched.

To be able to reach target customers and not confusing them, it is essential to make trade-offs, in line with Porter’s (1985; 2001) ideas; by selecting what profile to have as well as selecting what is *not* in line with this profile. In physical stores, like Åhléns, a profile can be built upon a wide range of products, so that the customers may pick and mix. However, on the Internet, web site visitors may switch sites with just a couple of mouse clicks. Having a wide range of different brands might not be that great advantage on the Internet compared to in the physical stores and may instead the result in lost focus and an unclear profile. The authors think that eventually, when the e-commerce competition in the fashion industry increases, Porters arguments of making trade-offs and to differentiate will be even more important. The result in the future can be web sites with smaller niches. Web sites that already have a more narrowed profile can have an advantage. Either way, the importance of having a desirable profile is considered as *high* especially in the in the luxury and exclusive segments.

### **Product**

One way of marketing is through the products. The core product, in terms of the actual clothing item, can hardly be differentiated by wholesalers or retailers. The

manufacturing firms are producing it and the items are seldom changed thereafter. However, the extended product, e.g. packaging and service may be a marketing tool for intermediaries. Flare.se, stresses the importance of packaging the products in fancy paper to enhance the feeling of exclusiveness and luxury. It can therefore be stated that it is important to change the extended product to the most possible extent to make the most desirable product as possible when a company starts to distribute directly to end consumers instead of retail customers. This is of even more importance in the luxury and exclusive segments, in line with Riley & Lacroix's (2003) research on luxury brands. When summarising, the importance of the product is *medium*, when a firm integrates forward and start selling to end consumers. If it was not for the packaging feature it would have been low.

### **Price**

The question of price and pricing strategies were mentioned in paragraph 6.2.4 about relations, and was considered as important to think about to not harm the present relations. In this section, the emphasise will be on more general price issues.

When the products are exclusive and the focus is on the luxury segments of fashion, the prices are high and customers purchasing this clothes do it for other reasons than low cost (see also Armstrong & Kotler, 2002). The prices for the retailers in this business are mainly decided by the wholesalers or manufacturers; they recommend a price, and if a retailer sets the price too low without an acceptable reason or if this happens repeatedly, the wholesaler or manufacturer might cut off the deliveries. For different retailers, the prices are the same, at least in the same geographical area. A wholesaler that starts to sell directly to end consumer though, may decide their prices somewhat on their own. However, if the prices are set too low, relations with the traditional retail customers may be harmed and in the worst scenario they can cut off the traditional physical distribution channel, which is not to prefer. (Also see risks with forward integration according to Lee & Shu in the theoretical framework). And accordingly, the prices therefore will be set at the same level as at the competitors. The question of the price is of course of high importance but since the answer seems clear, the importance of the strategic consideration price, is *medium*.

### **Promotion**

Promotion efforts towards the end consumer probably needs to be larger then the B2B marketing. Wholesalers with exclusive rights for their brands in the Nordics are in a stronger position than the retailers that often are only one of many that are selling a certain product. As already mentioned, the wholesalers' bargaining power is also strong due to the fact that they may accept or deny retailers to purchase their products. However, when a wholesaler commences to sell directly to end consumer the power balance is in favour for the consumer and not the wholesaler. Consequently, when going from being only a B2B physical wholesaler to start to sell to final consumers via the Internet one must consider the changing bargain power and therefore how much

marketing that is necessary. Furthermore, the retailers have profound knowledge about the products, the market and the fashion industry in general, something most consumers do not have, which puts another pressure on marketing. However, the reach of the Internet is powerful; everyone in the world with a computer and an Internet connection can see the web site.

Flare.se is one company using the reach of the Internet as almost the only marketing tool, except for Public Relations. Other internet sites e.g. Bubbleroom are putting more effort and resources on marketing; banners, magazines and ads are examples of marketing Medias they use. This is probably a matter of resources and size of the company. What is crucial, according to the respondents, is to be patient and stick to one profile and to always have the determined image towards consumers.

To increase *stickiness* (Amit et al, 2000) it is possible to use loyalty programs and quantity discounts. Loyalty programs are often used to let returning buyers be able to buy the most exclusive clothes. In the fashion industry though, the best way to increase stickiness is to establish a good reputation by always keeping your word, being honest, deliver good service and the products at the promised date.

To summarise, some of the smaller firms have succeeded without too much advertising, although it is easier to come off in the start if at least some resources are laid on promotion. It is likely that a large initial investment on e-commerce needs more promotion, because the sales need to increase faster to pay off the initial investment. The main point to know is that the promotion differs rather much when going from B2B to B2C, the importance of promotion is therefore *medium*.

## **Place**

Since this thesis is about establishing on the Internet the place is somewhat obvious. Differences in the distribution channel when changing from a physical to a virtual are already discussed in section 6.2.3 above. There are of course some natural pros and cons with distributing virtually, which also have been mentioned by the respondents. Pros consist of the possibilities to reach a lot of consumers through the Internet and also share a lot of information about the products (defined as Reach and Richness according to Amit et al, 2000). But there are also drawbacks because the consumers cannot touch, feel and try on the clothes (visual representation, *ibid*).

Amit et al (2000) also emphasise the need of an *efficient* web site, which simplifies the transactions made. The Internet connection today though, consists mainly of broad band, decreasing the main problem that for example Boo.com had in 1999; that their web site was too slow and their customers could not access to the site as they should and wanted. But there are still things to do about the efficiency today; the web site must be easy navigated, transactions must be easy to carry out, information must be in right proportions and easy to find.

Either way, the strategic importance of place is today rather *low*.



***Overall importance in the fashion industry for marketing and profiling:***

- *Communication* High
- *Profiling* High
- *Product* Medium
- *Price* Medium
- *Promotion* Medium
- *Place* Low

**6.2.6. Strategy**

It is important to have a long-term perspective on the investment and it should be decided upon the purpose of the e-commerce business in the long-term; should it be a complement to the core business or should it gradually replace it?

The implementation of e-commerce may have diverse purposes. Four levels were identified in the theory and different levels have attracted different firms. For example Åhléns previously practised the fourth level and used the Internet as a selling channel, but since this was not profitable for them, they are today on level three and use Internet as a communication channel for different stakeholders. It can be stated that it is important to decide what stage that suits the firm and especially to consider if the last step, the transaction channel, is the right step to take.

Riley & Lacroix (2003) argues that the Internet is great as a communication tool but should be used carefully as a transaction tool. Clothes for instance are about experience, and to purchase without touching and feeling may be difficult. However, the authors believe this attitude has changed a bit in favour of e-commerce since 2003, and also confirmed by statistics (Statistics Sweden).

The actors with both a physical boutique and an internet store are probably more likely to use the internet as a communication tool. Especially wholesalers that have exclusive rights on brands in the Nordics are able to do so. Items from a certain brand will be purchased from the wholesaler irrespective of how it is sold to the end consumer; through the Internet channel or through ordinary stores. However, the mark up is a lot higher integrating forward and selling directly to end consumer. Therefore the purpose of the use of e-commerce is for most wholesalers both as a transaction and communication tool.

MnO International's site Shopiana is only a complement to its main business, according to the CEO. The site may be used as a marketing tool to get people aware of and to spread information about their brands. When selling via the Internet channel the margin is higher due to the elimination of retailing handling. However, selling to retailers has the advantages of large volumes and more dependable relations with the retailers. To summarise, the possibility to have the internet site as a complement business is a great advantage for wholesalers with Internet sites compared to e-commerce only companies.

Being both B2B and B2C realises the possibility to get the best from two worlds by selling large dependable volumes to retailers and smaller but high-margin products to end consumers. Selling through both channels also increases the overall awareness of the brands.

Börjesson at Flare.se states that:

*“Many people claim that Internet will cannibalise on the traditional channels.”*

However, Börjesson strongly disagrees with statements like that and argues that there will be room for both Internet stores and traditional boutiques. Nordquist at Åhléns claims that there exist two different types of consumers; those that will continue to visit and purchase products from physical stores and those that are likely to buy products on the Internet.

When going e-commerce by integrating forward there may be a disintermediation process in some sense. The most extreme scenario would be that all retailers get pushed out when wholesalers are going e-commerce. Due to all the interview respondents, and former research, this is totally unlikely to happen. Physical boutiques and Internet stores will share the amount of purchases of the consumers. The retailers still fills an important function by connecting the great number of wholesalers with the legion of end consumers. There will be too many relations if the wholesalers or manufacturers connected directly to all consumers. This is the original idea of a retailer or wholesaler which certainly still is valid.

To sum up the last two sections, the question is how large share each of them will have in the future, both the Internet stores versus physical boutiques and also the retailers versus the wholesalers.

Except for selecting the strategic goal or reason for e-commerce, other general considerations are also important. In line with Porter's theory (2001b) it is essential to differentiate even on the Internet. The Internet itself does not gain competitive advantage.

*“... given my product concept and how I try to differentiate myself, how can I use the Internet to make that differentiation stronger?” (Porter 2001b)*

It is also important to make trade-offs. Porter emphasises this because otherwise you loose your focus and there will always be someone else that is better on one small thing, you can not be best at everything. Many of the respondents also stress the importance of the choice to serve a certain niche or segment to be successful, e.g. Flare.se, Emilia af Malmö. It is therefore important to select a segment that you want to serve and do that properly. Compare profiling in 6.2.5 - Marketing and Profiling.

It is also important to see Internet as a way to enhance the business concept, strategy and the competitive advantage that already exists (Porter, 2001). The failure of Boo.com

can partly be explained by this since they used the Internet as their business concept and not as a complement.

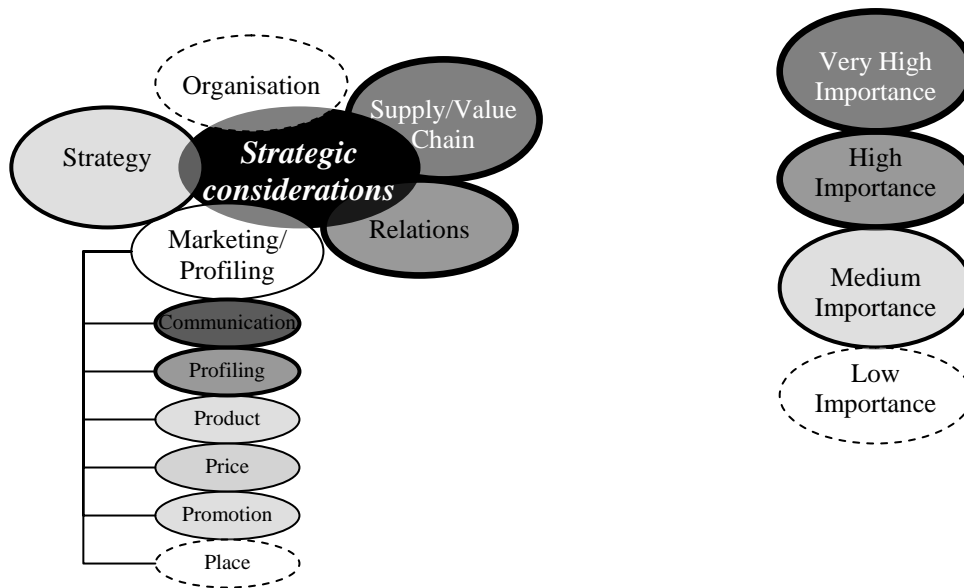
Four different models for Internet-Enabled Distribution Structures were described in the theoretical framework. To sum up it can be stated that the different structures suits different firms. In the fashion industry though, *cloning* and *forward integration* seems to be the most appropriate ones. Forward integration is practiced by MnO International and cloning is tried by Mrs H.

This part about strategy is more about how firms should do and what to think about, not a specific consideration in the same manner as the above described aspects. All of the other aspects are also, more or less, of strategic importance. To think about strategy is always important and may “separate the grain from the chaff” according to De Kare-Silver. Even though strategy is important in the fashion industry as well as in all other industries, the authors have through the empirical findings gained the understanding that a formal strategy plan is not crucial. There are in fact more important considerations to think about than having a clear strategy plan to follow to the last detail, due to the fact that the fashion industry is a dynamic and fast changing industry where decisions often are made rapidly and based on intuition.

***Importance in the fashion industry: Medium***

#### 6.2.7. The Model's Parts in the Fashion Industry

After studying the empirical findings in the mini cases, the study indicates that the level of importance of the different parts or considerations of the model is more or less important. This is illustrated in Figure 6.2 below through bold lines and darker backgrounds in important considerations, as the supply chain for instance. The organisational aspect did not appear to be that important and is therefore illustrated with a dotted line. Relational aspects seem important while the marketing and profiling consideration were divided into communication, profiling and the four P's, since they individually are rather different.



**Figure 6.2** The model applied on the fashion industry (own creation)

To summarise, the most important thing is to understand that there are relatively large differences when selling and distributing to end consumers instead of retail customers. Not only the distribution is different, but also communication, marketing, customer service and customer needs.

## 7. Analysis of JaymJay Wear AB

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*This is a second chapter of analysis where the earlier developed model is used to analyse the case company JaymJay Wear AB and its Rich Bitch project. The chapter consists of the different parts of the model and is thereafter supplemented with a simple calculation scenario for JaymJay and Rich Bitch.*

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### 7.1. Development and Purpose of the Model

In this sector the analyses will go even deeper by looking at *one* company in the fashion industry; JaymJay's Rich Bitch. By this the authors aim to illustrate how a firm can use the model as a tool when establishing e-commerce and integrating forward. The authors evaluate the potential of the Rich Bitch project, using the theoretical framework and the empirical findings from other cases together with our own brain capacity. This section will have the same structure as the previous; the five considerations will be evaluated one by one with special attention on JaymJay and Rich Bitch.

The fifth consideration *Strategy* is a sort of recap and evaluation of the strategic choice to start Rich Bitch. Finally a simple calculation of Rich Bitch's potential is conducted.

### 7.2. Organisation

The top management has decided to separate Rich Bitch from JaymJay. This type of dividing up is, according to O'Reilly & Tushman (2004), the most appropriate when having both a maturing and exploiting business. JaymJay has a well integrated top management due to the fact that Marie Clark is CEO of both businesses and also some administrative units are integrated. That means that some synergies can be gained even if the businesses are mainly separated.

Further on, O'Reilly & Tushman (2004) declare that when separating, the top management can more easily see the needs for both businesses independent of each other. This may be especially important in the beginning of a new project, like Rich Bitch.

However, the potential value of these advantages does not necessarily need to be larger than the potential disadvantages. Two offices means higher costs than one. Additionally, the main stockroom will remain at JaymJay, the Rich Bitch personnel are therefore required to go to JaymJay to pick up ordered products and repack them at Rich

Bitch. They also need to distribute all sorts of accounting items to JaymJay. The only things that will be done at the Rich Bitch office is packaging (but after going to JaymJay for picking it up), updating the web site (can be done anywhere) and the customer service (could be done at JaymJay but with another telephone number). Customers may book a visit at Rich Bitch every Friday and this will also be held at the Rich Bitch office. However, the clothes will be picked up from JaymJay's showroom. All this circumstances are committed with inefficiency and sometimes double costs.

Initially, the authors found it appropriate to separate the two businesses. That is probably way Epstein (2004) argues that the exploiting and emerging business must be integrated over time. Separated business units should only be seen as a short term solution. At an early stage, the Rich Bitch was rather concealed. JaymJay wanted, to an as large extent as possible, not to be seen as they were the same company as Rich Bitch because of the competition with JaymJay's retail customers. The authors believe that this was the most important reason for the separation of JaymJay and Rich Bitch in the beginning. Today, it is not secret anymore. However, the new office has already been rented. Hence, there is a risk that the top management exaggerates the advantages of a separation. The authors suggest that the top management of the JaymJay group look closer at, and tries to calculate, the cost and benefits of integration versus a separation.

The authors notice a possibility of integration of Rich Bitch and JaymJay over time. One way to delimit the disadvantages with integration but still gain the advantages could be to have JaymJay and Rich Bitch in the same building but at different floors, which may be compared to the theories of focused factories (Hill, 2002). MnO International is one example of a company that have separated their e-commerce business Shopiana to some extent, they are located in the same building but at different sections. In this way, a common stockroom could serve both businesses and the administration could be integrated to avoid double costs and inefficiency.

O'Reilly & Tushman (2004) argues that the top management should communicate a compelling vision throughout the members of the firm so that the acts of the senior team become clear and well understood by the members of the organisation. The interviews indicated that the employees of JaymJay were not well informed about Rich Bitch. Especially not the employee's only working with JaymJay, e.g. the sales force. Even employees that were directly related to the Rich Bitch project felt confused and not informed enough about the coming e-commerce business. Also they have not made any explicit change management work, e.g. according to Kotter's eight points. The authors think that a more open communication would facilitate the work with Rich Bitch.

*Suggestions:*

- Consider once again the benefits of a separation versus an integration of the business. Will the benefits really outmanoeuvre the drawbacks? Try to make some sort of calculation of costs and benefits. The authors suggest integration over time, maybe by placing Rich Bitch in an own section at the office.

- More well informed employees would probably gain the work with Rich Bitch. It is also a way to stop rumours among the personnel. One way is to regard Kotter's eight points when changing a business, which does not only concern organisational change but whole businesses as well.

### 7.3. Supply Chain and Forward Integration

The reason why companies start to sell directly to end consumers is of course to bring in the revenues that retail companies obtain today (Mattsson, 2002). This is also the main reason for the forward integration at JaymJay. However, the marketing effect is an important factor for their e-commerce investment as well. Most successful firms have done forward integration by three types of segmentation according to De Kare-Silver (1998). Both territorial and complementary segmentation is recommended to JaymJay. Territorial since they can reach consumers that are not able to visit a regular physical retailer. Complementary since Rich Bitch reaches another customer need and other retailers (the other channel) can earn on the increased knowledge and awareness about the sold brands and fashion in general.

When considering a forward integration, it is important to explore which competencies the firm has and what opportunities that is available. The following questions need to be stressed: (De Kare-Silver, 1998):

- How is the power balance in the industry?
- Where do the largest profits occur?
- Can a firm be sure that the products will be demanded in whatever channel they are distributed through?

In JaymJay's case, the above stated questions have not explicitly laid ground for the decision. The authors have therefore examined the questions. Regarding the power balance, the authors think that wholesalers like JaymJay have the greater power compared to retailers. They can influence the retailers, and reject them to be customers. If the retailers demands JaymJay's brands, they have no other wholesaler to turn to due to the fact that JaymJay have monopoly on their brands. In addition JaymJay have contracts with manufactures of certain brands. Therefore, in the short run, JaymJay are in a great power position. On the other hand, JaymJay's business is highly dependent on relations to the manufactures and therefore vulnerable. If they loose the exclusive contracts with an important brand, their whole business can be threatened. Where the *largest profits occur* is hard to determine, but since the mark up is some 150 → 180 % there are certainly profits to make in the retail lead. Further in, all empirical findings state that there are potential for distributing luxury and exclusive clothes through the Internet today. After examine De Kare-Silver's questions, it seems like the decision to integrate forward is correct.

However, in JaymJay's case, the decision to integrate forward is already made. Lee & Shu (2005) are presenting four disadvantages with integrating forward; *Initial channel setup costs, inexperience with distribution functions, limited name recognition and lack of volume and variety*. The authors have evaluated how JaymJay handles these cons. In our perspective, they do not appear to have done any calculations or cost budgeting; the actual costs of the new office, promotion, employments etc. may be higher than expected. This in relation to lack in sales and profitability can be an expensive combination. On the other hand, in Rich Bitch's case their turnover does not need to be that large due to the fact that Rich Bitch serves as both a transaction channel and marketing channel. Additionally, in the short run, JaymJay is able manage losses from Rich Bitch without any risk for bankruptcy. To some extent, they also give the impression being aware of some differences in distributing B2B versus B2C, for example, they do have knowledge about legal issues and packaging differences. However, other issues such as; demanded service level among customers, customers needs and how the communication is best design, still does not have any answers. Now it seems that this will be done in a trial and error kind of way. Finally, Rich Bitch is managing the limited name recognition by massive promotion; with advertising, release party etc. They may probably be able to rather rapidly make the name Rich Bitch well known. The biggest issue for JaymJay therefore appears to be the *inexperience with distribution functions*.

The delivery period from Rich Bitch to end consumer is supposed to be about two days. Compared to other internet sites this can be seen as a rapid delivery. Only Bubbleroom have faster delivery (one day). Other sites, e.g. Shopiana have 3-7 days. The authors think that Rich Bitch delivering time is correct, but the problem is if they can not stick with it, if for instance the demand gets larger than expected. Hence the products and prices are similar between different retailers the delivery time can preferably be a differentiation tool that can be useful to stay competitive (Mattsson, 2002; Hill, 2002).

In general, the authors think that the distribution decisions are well grounded and seem to be appropriate. Problems that may occur are probably related to the special circumstances of selling directly to end consumers. In addition, it is important to be able to deliver as promised. One way to make the supply chain more reliable is by the Triple-A supply chain. (Lee 2004) The supply chain can become agile by having a dependable logistic partner in combination with having a crises plan for unexpected circumstances. Another thing that Rich Bitch should consider is their adaptability. Because Rich Bitch' products are coming from JaymJay this is actually an issue for the whole JaymJay group. They need to evaluate needs of the ultimate consumer and not just the present retail customers. It is also important, especially in the fashion industry, to be aware of where the different brands stand in terms of product cycle. Finally, what makes the supply chain aligned; clarify roles, task and responsibilities for customers and suppliers. In Rich Bitch case, this can be done through clarified conditions of purchase. It is often



easier to build an aligned supply chain when a company is in control of a larger part of the chain, which is the case of JaymJay and Rich Bitch.

*Suggestions:*

- Make calculations of the cost associated with the investment
- The overall distribution suggestions seem to be appropriate but it would be good to have risk plans for how to handle unexpected demand, returns and problems with the delivery service.
- Realise that there are quite big differences when distributing B2C compared to B2B, it is alright to do this as a trial and error, but then they should be aware of it.

## **7.4. Relations**

As mentioned in the previous part, a disadvantage with integrating forward is that present relations with retailers can be damaged. (De Kare-Silver 1998) The personnel at JaymJay are aware of the risk but do not believe it will become a problem though, and the authors agree. The greatest hysteria about e-commerce has settled and most retailers in the industry have understood that e-commerce is here to stay. Besides, there are wholesalers that have started B2C through the Internet already, e.g. Mno International. It is important though to have a continual dialogue with their traditional retail customers, to avoid misunderstandings and rumours, which the sales force at JaymJay claims to have.

Another important decision made in order to avoid troubles with retail customers leaving JaymJay, is the price strategy. Neither the sales force nor Clark thinks that there will be any problems with customers leaving JaymJay as long as Rich Bitch has the same prices as JaymJay's retailers, and the authors agree upon this as well.

Rich Bitch is competing directly with JaymJay's retail customers. Success in this kind of business requires both competitive and cooperative relations simultaneously (Lado, Boyd, Hanlon, 1997). The authors believe that in the beginning, it is of a large importance to be cooperative. For the present customers of JaymJay, Rich Bitch may be considered as a threat. However, when JaymJay obtains new retail customers continually, these are aware of Rich Bitch from the beginning, and are therefore accepting it when deciding to be JaymJay's customers. In the future there is probably more room for having a more competitive relation to the retailers when appropriate. The cooperative relations in JaymJay's case mainly consist of marketing; both JaymJay and its retail customers benefits from the promotion of the brands which enhance the overall knowledge and awareness of the brands.

The authors think that the sales force of JaymJay is playing an important role, trying to make the retailers seeing Rich Bitch as a positive thing that will gain them rather than destroying them.

*Suggestions:*

- Take advantage of the positive things about Rich Bitch as a marketing channel. Try to make this a win-win situation were both retailers and JaymJay are gaining from the promotion of the brands. Spread this message.
- Do not destroy relations by lowering the prices.

## **7.5. Marketing**

### **Communication**

The authors have argued that JaymJay are in greater power balance compared to its retail customers. Concerning Rich Bitch however, the situation is the opposite since their customers, the end consumers, can choose freely between retailers. Customer communication will in this situation be more important. To remind the reader, the importance of communication in the fashion industry was, as decided, high due to these facts. End consumers have other demands which need to be stressed.

*Suggestions:*

- Evaluate what demands are created since the communication and power balance is different when selling to end consumers instead of retail customers.
- Rich Bitch should have an extensive customer service and also understand customer needs and so on.

### **Product and Profile**

According to Porter, the product offer should be differentiated from others, to gain competitive advantage. When evaluating Rich Bitch's product offers, it is therefore appropriate to start to compare it with other internet sites.

Comparing Rich Bitch with other web sites, most other sites such as Shopiana and Bubbleroom have a larger audience but are not that exclusive. For example, both Shopiana and Bubbleroom have divided their clothes into two parts. Rich Bitch however, only has the part with luxury clothes. The authors consider this a good profile choice since they want to start small and it is in line with the profile of JaymJay as well. It is also important to make trade-offs, you can not be best at everything (Porter, 2001).

Other web sites that serve the same luxury-seeking segment of customers as JaymJay may be exemplified by Flare.se and MrsH. However, Rich Bitch is going to have more models of each brand and also other brands that Flare and MrsH does not have.

Rich Bitch will compete with both *reach* and *richness*. They will reach more potential consumers with their web site, for example people outside the main cities. They will

also compete with richness by offering exclusive products by a one-to-one relationship built between the company and consumer. The authors think that one of Rich Bitch's strength is that they have a wider range of models of each particular brand, compared to e-commerce only competitors, which has a wider range of brands.

By starting a luxury web site that aims to sell directly to customers, some of the exclusiveness of the product might be damaged. (Riley & Lacroix 2003) Clark tries to avoid that happening in different ways; exclusive packaging, desirable web site and by high prices. Riley & Lacroix further argues that selling luxury items via the Internet should be done with controlled level of sales. This is in line with Clarks expectations of the site. The level of sales is more of quality instead of quantity. The authors mean that Rich Bitch is in a good position in this case.

*Suggestions:*

- Continue to position as the most exclusive web site, including letting this be seen at their deliveries, giving an exclusive feeling with fancy packages.
- Make use of the fact that Rich Bitch is offering products that can only be found on the site.

### **Price**

Having an appropriate price strategy is essential; if not enormous consequences may follow. The price must be in line with the overall strategy, it must be positioned with competitors and the present relations must be considered when deciding about suitable price levels. In the fashion industry this has resulted in almost all retailers having the same prices.

However, there are exceptions like sample collections and other clothes not available in the physical stores, which can be priced differently. (Clark, 2006-04-10) Notice that the mark up is high when selling directly to end consumers since the price is increased by 150→180 % in the retail lead.

*Suggestions:*

- Screen the prices of JaymJay's retailers, both e-commerce only and traditional, to make sure they not lower the prices
- Be aware of the advantages the high mark up offers

### **Promotion**

Rich Bitch promotion efforts will be quite massive, at least in the beginning. There will be advertisements in many fashion magazines and a large release party. The authors agree with the importance of promoting the web site to a large extent in the beginning, even if the costs might be high. This is also in line with the thoughts of Lee & Shu (2005), who declares that a disadvantage for wholesalers is their limited name recognition among end consumers. Due to the fact that Rich Bitch today are totally

anonymous among end consumers the authors consider promotional efforts to be a key success factor to reach customers as desired.

When promoting Rich Bitch, at least two things must be taken into consideration. First, they must consider how to *promote a luxury product*, without harming its exclusiveness. Second, they must consider the differences affiliated with promoting in a B2C relation compared to B2B.

JaymJay's customers are more active and are looking for the wholesaler that is distributing demanded collections in the area of interest. The sales force is promoting JaymJay on different trade fairs. In Rich Bitch case however, no personal contact is possible and the customer are in a better bargain position because a wide range of retailers available. According to Clark the promotion of Rich Bitch will only be directed to their target customer, no mass marketing is desirable. The authors would like to add that the promotion also should reach the "wannabes" even if it is not outward directed to them. The authors define wannabes as people that desire the products and sometimes buy them, but without the resources that most luxury purchasers normally have.

So far, the authors have talked about how to promote Rich Bitch. However, Rich Bitch itself is, except for a transaction channel, also a marketing channel, which can promote the JaymJay group as a whole. Investigations show that the more widely known a certain luxury brand is, the more desirable it gets. By promoting Rich Bitch, the brands of JaymJay will be promoted as well. According to Riley & Lacroix (2003) a brand normally benefit by getting widely known. As discussed under 7.4 it is important for the sales force of JaymJay to promote Rich Bitch as a marketing tool that also helps their traditional retail customers.

*Suggestions:*

- Market heavily as planned, and try to really evaluate the response at the end consumers
- Try to understand the actual received image of Rich Bitch, both for end consumers and also for the traditional retail customers, who will have good view also about end consumers' opinions

## **Place**

The place where Rich Bitch products are being offering is on the Internet. Compared to web sites at the early ages of e-commerce, e.g. Boo.com, today's web sites are often easy to navigate and well designed. Porter argues that the technology itself today is not an advantage and that the traditional rules for competitive advantage are still valid. (Porter 2001) However, the importance of the web sites logic and design should not be underestimated. If the site does not have a well design look and is easy to navigate, potential customers will probably rapidly navigate to another site. Fernandez, the web director of Rich Bitch, also stress that first impressions lasts. Except for the first impression and that all functions are working smoothly the web site layout should be

design in line with Rich Bitch overall profile. Exclusiveness are therefore important and to get the feeling of luxury. Another good thing, just like Tesco did when they started e-commerce, is to have an easy web site which can be developed with new features and services gradually. With their work at Rich Bitch today, they also insist with Amit et al's (2000) *efficiency* strategy to enhance the simplicity of transactions.

The authors consider that Fernandez and Rich Bitch have the aspect of place and the web site under control with an easy to navigate and understandable site that is in line with the profile of Rich Bitch. Logic aspects of the site are considered and they start with the essential functions, other features can easily be added later.

## **7.6. Strategy**

Rich Bitch is seen as a complement to JaymJay. Selling to their retailers is still the most important business. Further, Rich Bitch does not need to be that large because JaymJay still have dependent incomes. Lack of variety and volume is otherwise one of the cons with forward integration according to Lee & Shu (2005). All aspects of their model, as well as De Kare-Silver's (1998), have been analysed in different sections, and the conclusion is that potentials and advantages with Rich Bitch exceed the drawbacks. The reason to integrate forward is of course to reap the profits that the retailers otherwise would get.

The importance and size of Rich Bitch may increase in the future. However, the growth of Rich Bitch must never occur on behalf of JaymJay's expense according to Clark. The authors think it would be in order to create a vision and goals for Rich Bitch and work to reach these. For the profitability, it is good to maximise the revenues through Rich Bitch since the mark up is high. But the authors also agree that this is a hard act of balance since the retail customers may cut off distribution if Rich Bitch reaches a certain level of size. Since Rich Bitch is dependent on the retailers, in a marketing point of view, the growth of Rich Bitch needs to be closely covered. The authors agree that the businesses depend on each other. Rich Bitch also serves another purpose, to market the products that JaymJay sells is half the reason for the web site. It is important to notice that all JaymJay's collections must originate from JaymJay, either if it is done through Rich Bitch or their traditional distribution channel.

Since the hysterics about e-commerce has settled and most of the retailers in the fashion industry today have understood that e-commerce is here to stay, and both competitors and some retail customers to JaymJay already have started e-commerce, their traditional retail customers probably won't be very upset. Besides, e-commerce for luxury clothing seems to work rather well right now, according to most of our empirical respondents, and are forecasted to do so even in the future according to statistics and research (Statistics Sweden; Marketing Week 2006)

Just like Porter emphasise, JaymJay try to use the advantages that the Internet offers. They see it as a complement to increase their profits. The authors consider this strategic move as correct due to several facts:

- It is the right time
- The risks are low...
- ...but there is still potential for great profits within Rich Bitch
- With JaymJay to fall back on with their strengths, competencies, resources and being a reliable supplier, Rich Bitch have a competitive advantage

The facts behind this and the reasons why the authors think like this is hopefully described in other sections in this chapter. However, the authors want to emphasise some things that JaymJay ought to consider an extra time:

- Maybe an integration of the organisation is to prefer in the long-term
- Decide what the goal is with Rich Bitch, and strive to reach it
  - It is not wrong to try to maximise the profits in Rich Bitch, there is potential of high profits
- Calculate the costs of selling clothes through Rich Bitch
- Calculate the potentials with Rich Bitch, both in terms of turn over and profits
- Be aware that there are great differences between selling to end consumers compared to retail customers, for example due to different power balance, consumer needs etc.

## 7.7. A scenario with numbers

In the former paragraphs, the authors have emphasised that calculations concerning the Rich Bitch project are absent. Therefore, a scenario with numbers is described in this section, starting with the *known* and *estimated* data:

- Known information
  - Employee in JaymJay – 13
  - Turn over, JaymJay – 72 million SEK
  - Mark up by retailers – 150→180 %
- Estimations:
  - Planned number of employee at Rich Bitch – 2,5
  - Average cost for an employee – 30 000 SEK per month
  - Average price for an article when selling to retailers (a typical pair of jeans) – 1000 SEK

The costs for Rich Bitch are estimated to 90 000 SEK per month including administration costs or overhead costs such as local rent, electricity etc. This must be covered by the mark up of Rich Bitch. 150 % mark up will give 1500 SEK for the typical article, and therefore they ought to sell roughly 60 pair of jeans every month to

break even according to Formula 7.1. One drawback of this calculation is that marketing costs are not considered since they are hard to estimate. Therefore, 60 pieces are an underestimation.

$$\frac{90'000}{1'500} = 60$$

**Formula 7.1** Calculation of number of jeans for break even per month

To be able to compare Rich Bitch break even per month, with the amount of jeans that JaymJay approximately sells, first a calculation is done as shown in Formula 7.2.

$$\frac{72'000'000}{12 \cdot 1'000} = 6000$$

**Formula 7.2** Calculation of number of jeans total per month

These 6000 jeans are compared with Rich Bitch' break even (60 pieces per month), which reveals that only 1 % of their total sales must go through Rich Bitch to break even on the Internet project. Everything that is sold above those 60 pair each month have a direct profit of approximately 1500 SEK right to the bottom line, which creates a great potential without risking too much. This example is only done with jeans but the mark up is the same on every article which ought to give the same result, only with other numbers on sold articles. It needs to be emphasised though, that this is only a simple approximation and calculation and of course it is not possible to draw too big conclusions on this.

Besides, which is not considered in this simple example, sample collections and other unsold goods that today are sold at heavy discount prices, will reap profits almost directly to bottom line as well. Further on, the 2.5 employees can probably help JaymJay since they are not new employments but transferred from JaymJay.

## 8. Result

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*In this part the results of the thesis are presented, by considering the conclusions of this research. To put the conclusions in a wider perspective and to reach a higher abstraction level, the results will thereafter be presented in a broader context. A discussion of the limits of the result will be followed by some suggestions for further research.*

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### 8.1. Integrating Forward by Going E-commerce?

The main purpose of this master thesis has been to outline an appropriate model in order for companies to successfully act and compete physically as wholesalers at the same time as acting on the virtual market by selling directly to end consumers. In the introduction the question of whether or not it was possible to act successfully as both a wholesaler and retailer were addressed.

It is hard to give a simple answer to that question. The overall opinion of the authors after investigating this field of study is however that there are revenues to earn by integrating forward, which is probably the main reason for this kind of decision, but there can also be huge drawbacks. The significance of deciding the level of importance of the new business and to consider how the proportions of the wholesaling and retailing should progress has been addressed. Other aspects such as price-level, distribution towards end consumers and marketing are also of great importance to think about and take action to when integrating forward by e-commerce. However, one conclusion of this research is that there are big amount of uncertainty associated with the long rung consequences for the core business. Even if considering all aspects in the model and making appropriate choices there is probably still a risk that if you want too much, you might loose it all. On the other hand, there are always risks and those can sometimes be larger if not making structural changes and therefore getting left behind.

To summarise, it is impossible to declare whether or not it is appropriate to integrate forward by e-commerce, the questions asked in this thesis regarding the situation of the case company, must be asked in every single case. This thesis has particularly looked at one industry and one company, if looking at other industries and other firms it is even harder to make some general judgement about this question. However, *if* integrating forward by e-commerce, the businesses have a greater chance of getting more



successful if considering the five parts in the model. By looking at those considerations they can get some help to make the strategic decisions somewhat correct.

## 8.2. Conclusions

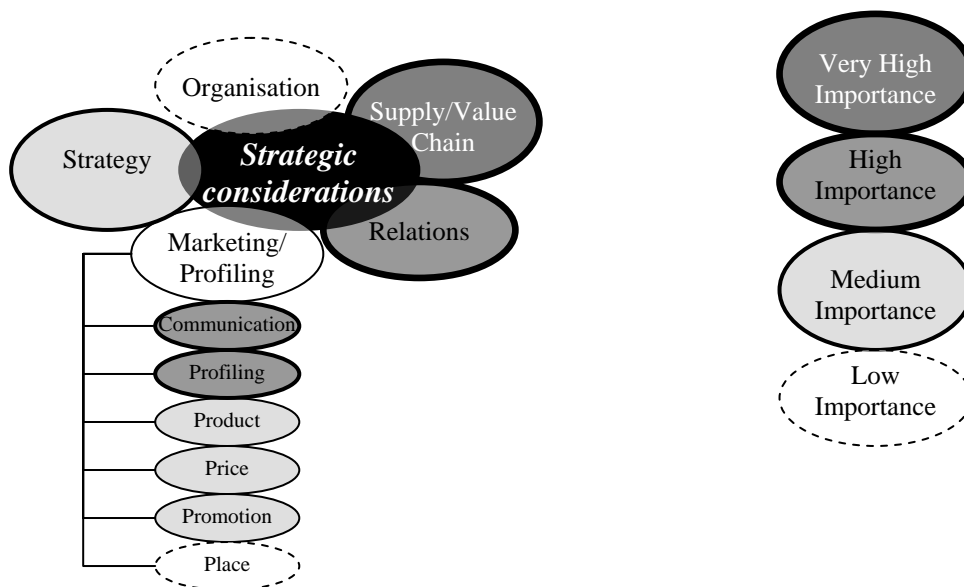
### 8.2.1. The Model

With the discussions from the previous part in mind, in this section the result of this thesis; the model, is presented.

After developing the model in two steps; through theory and through the empirical findings from mini case studies, the authors have identified some important considerations that need to be evaluated when going e-commerce by integrating forward. The theoretical studies and our knowledge in the e-commerce field as well as in the strategic management field made us identify five main considerations; *Organisation, Supply Chain, Relations, Marketing* and *Strategy*.

Through the empirical findings the considerations above were all in some sense considered by the mini case companies. However, the authors found that some of the considerations were more important to consider than others. It is essential to emphasise that this concerns the fashion industry; in other industries other considerations might be important instead. *Supply Chain* and *Relations* may be considered as key success factors while the importance of the *organisational structure* might have been overestimated. *Marketing* was divided into smaller components with diverse importance.

To sum up, the final model with different importance levels, in the fashion industry, is described in Figure 8.1 below.



**Figure 8.1** The model applied on the fashion industry (own creation)

### 8.2.2. The Rich Bitch Project

The purpose of this thesis was, except from developing the model, to apply it on a company that is in the starting grid of integrating forward by establishing e-commerce. The analysis of JaymJay contained discussions regarding their strategic choice as well as suggestions for the company.

Both advantages and disadvantages were outlined. One of the largest risks for JaymJay is that they might harm their wholesaling business by competing with their own customers. However, JaymJay appears to be well aware of the risks and they have taken action to it, e.g. by having the same prices as the retailers. The authors also suggest that they should use their present relations with the retailers and through the sales force try to communicate a vision of a win-win situation where the retailers are getting a piece of the cake. The separation of JaymJay and Rich Bitch was a decision that the authors found doubtful. It is associated with inefficiency and sometimes doubled costs.

However, if handling those things in a good way and also looking at the other suggestions stated in this thesis, the authors think that Rich Bitch is the right strategic move for JaymJay. It is the right time and the risks are relatively low and there are potential for great profits within Rich Bitch. With JaymJay to fall back on with their strengths, competencies, resources and being a reliable supplier, Rich Bitch have a competitive advantage compared to e-commerce only firms.

The overall suggestions are summarised below:

- *Organisation* Consider the benefits of separation versus integration of the business, once again. The authors suggest an integration over time.  
Enhance communication about Rich Bitch within JaymJay
- *Supply chain* Make risk plans about unexpected demand changes, returns and delivery service problems.  
Realise that there are quite big differences when distributing B2C compared to B2B, it is alright to do this as a trial and error, but then they should be aware of it.
- *Relations* Spread the message that Rich Bitch could create a win-win situation even for physical retailers.
- *Marketing* Consider the differences in communication and marketing methods to end consumers compared to retail customers.  
Position Rich Bitch as the most exclusive web site, including exclusive product packaging.  
Keep the prices at the same level as other retailers.  
Find the real end consumers needs.

- *Strategy* Consider the power balance in the fashion industry and the effects of it.  
Decide what the goal is with Rich Bitch, and strive to reach it.  
Make calculations regarding Rich Bitch, both for potential revenues as well as the costs of selling clothes through Rich Bitch.

### **8.3. Conclusions in a Wider Context**

The stated conclusions above can also be extended in a wider context, with this the authors mean that there are parts of the conclusions that may attract a greater audience than the small segment of wholesalers in the fashion industry that want to establish e-commerce by integrating forward.

In a wider context, the risks and potentials of forward integration and what a firm can do to remain competitive appeals to all firms that consider this change, either they are in the fashion industry or not. The conclusions of the Rich Bitch project and the presented model might be interesting for all firms that want to make a change that involves some kind of new business establishment. The different parts are essential to examine and the Rich Bitch evaluation is an interesting case description that could be useful.

The authors also think that the conclusions are to some extent general, in other words they are not only useful when the forward integration is being done at the Internet, the model's parts are essential even if a firm use another, physical and more traditional channels. The developed model may therefore be a great support when changing a business, but first and foremost if the company is integrating forward and/or establishing e-commerce.

### **8.4. Theoretical and Empirical Contribution**

Theoretically this thesis has penetrated a highly investigated area of e-commerce. However, it has contributed by investigating the special phenomena of wholesalers integrating forward by going e-commerce, a field that has not explicitly been investigated before. The model that this thesis has resulted in is different from other e-commerce models, due to the fact that it covers the special considerations, e.g. relations and strategy that is important issues for wholesalers when integrating forward.

The empirical contribution is the model that can be a practical tool for managers that are establishing their business on the e-commerce market. As stated before, the model is developed in two stages and are at these different stages more or less useful for different firms; the final model is quite specific for the fashion industry, and especially useful for wholesalers in the this industry that are integrating forward by establishing e-commerce.

## **8.5. Critics and Limits of the Result of this Thesis**

The model developed in this thesis may hopefully facilitate for companies that are in the position of starting e-commerce. However, some critics and possible limits of the result may be considered:

- The model is presenting considerations, not total solutions. Companies must therefore utilise the model as a guiding principle instead of as a complete solution.
- The model is in particular based on the fashion industry. Whether it may be applied on other industries is therefore to some extent uncertain, as discussed above. However, the authors believe that many problems concerning e-commerce are the same regardless of industry and that it can be good to look at failures and successes in other industries as well.
- The value of the information in the empirical findings may be questioned e.g. the risks corresponding to telephone interviews as well as the difficulties with attracting significant respondents. Further on, the risk for language misinterpretation as well as the fact that business secrets may limit the respondents in their replying may also be considered.

## **8.6. Suggestions for Further Research**

The authors of this thesis hope that this study will be an inspiration for future research. Although e-commerce is a thorough investigated field of subject, the focus of this thesis; forward integration as the same time as establishing on the e-commerce market, is a rather unexplored area. Therefore some suggestions for possible developments in the subject are presented:

Firstly, a wider analysis in other industries in order to discover similarities and differences is of interest, i.e. is the described model working in other industries?

A second suggestion with the purpose of developing the awareness of the area may be implemented by some sort of quantitative study, for instance by a market survey among end consumers. This might be of interest in order to estimate the customers' opinion concerning purchasing exclusive clothes on the Internet as well as their expectations about service, among other key issues.

If possible, it would be of great interest to follow up the Rich Bitch project to see how well it ends up. By conducting this type of study the results of this thesis could be compared with what actually happened with the e-commerce investment. The model could be updated and evaluated using the empirical findings from Rich Bitch.

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# Appendix A – Interview guide

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*The questions in this interview guide are quite broad and used to all of our respondents in a little different way. The basis is same but different weight is put in different sections depending on the respondents' position. First the authors have some introductory questions about the respondent and the company. Further on the focus is on strategy and e-commerce. Since the authors have sent out this interview guide to our respondents, the questions in this interview guide is written in Swedish.*

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## Inledande frågor

- 1 Personliga frågor:
  - a) Vilken är din befattning eller koppling till företag X?
  - b) Hur länge har du jobbat på företag X?
- 2 Företagsbakgrund:
  - a) Hur skulle du beskriva er huvudsakliga verksamhet?
  - b) Hur länge har ni bedrivit denna verksamhet?
  - c) Vad är er affärsidé?
  - d) Hur ser företagets historia ut?
  - e) Hur är ni organiserade på företag X?

## Marknad och konkurrenter

- 3 Vilka är företag X's främsta konkurrenter?
- 4 Har ni ensamrätt på de varumärken som ni säljer?
- 5 Hur skulle du beskriva er marknad; vilka kunder/segment vänder ni er emot?
- 6 Hur marknadsför ni er?

## Värdekedja

- 7 Var i värdekedjan befinner ni er?
- 8 Säljer ni idag till slutkonsument, butiker eller både och?
  - a) Om både och: hur fungerar det med tanke på att ni då konkurrerar med era kunder?
  - b) Vad är anledningen till att ni valt denna strategi?
- 9 Vilka är era leverantörer, var är de lokaliserade?

- a) Hur många leverantörer har ni?
  - b) Hur fungerar samarbetet idag med era leverantörer?
- 10 Hur ser distributionen av varor ut?
- a) Packar ni era egna varor?

## Internetverksamhet

- 11 Använder sig företag X av Internet?
- 12 Om ja: på vilket sätt och i vilken utsträckning?
- a) Varför började ni med detta?
  - b) Har ni utvecklat eget programvara?
  - c) Hur marknadsförde ni denna satsning?
  - d) Vilken profil har ni, och varför?
  - e) Vilken roll har denna del i er organisation? (komplement/kärnverksamhet)
  - f) Fördelar och nackdelar med Internetsatsning?
  - g) Vad anser ni är viktigt att tänka på vid en Internetetablering?
  - h) Säljer ni även traditionellt eller enbart via Internet?
  - i) Hur har relationerna till tidigare kunder (leverantörer) förändrats?
  - j) Hur har relationerna till slutkonsumenter förändrats?
  - k) Har värdekedjan/distributionen på något sätt förändrats? Hur?
  - l) Hur stor del av omsättningen utgör Internetverksamheten?
  - m) Hur tror ni utvecklingen kommer vara i framtiden? Mer eller mindre viktigt med Internetverksamheten för er del?
  - n) Er Internetverksamhet ligger som ett dotterbolag, varför? Hur ser ni på integration vs. åtskiljning av verksamheterna?
  - o) Hur ser ni på era relationer till kunder, är dessa kooperativa eller konkurrensinriktade? Hur reagerade era kunder då ni öppnade Internetförsäljning och började konkurrera med dessa?
  - p) Ser ni Internetverksamheten som ett kommunikationsverktyg eller transaktionsverktyg, dvs. är den främst till för att marknadsföra era varor i allmänhet eller för att sälja varor?

## Strategi

- 13 Vilken strategi hade ni vid etableringen?
- a) Vilka var de största problemen?
- 14 Vilka är de Kritiska Framgångsfaktorerna modebranschen, tror du?
- 15 Vilka är de Kritiska Framgångsfaktorerna vid en Internetetablering, tror du?
- 16 Vilka är företag X's främsta konkurrensfördelar och styrkor?