BEAUTY AND THE DIGITAL BEAST

An exploratory study on what variables are affecting the process of digitalization within retail and why the beauty industry is lagging behind

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Abstract

This master thesis project applies a mixed methods approach to fulfill the purpose of exploring how and in what ways digitalization transforms different retail categories. A theoretical framework is formulated using existing theories and research, from which four key variables are identified: distribution, interaction, competition and product offering. These variables, combined with an overarching consumer perspective, constitute the framework then applied to analyze three practical case studies; two well-researched, and one which has received little prior attention academically. The case studies conducted on the industries with prior available research were the book industry and the fashion industry, being the first and largest retail industries respectively within digitalization. From this, a less studied industry – namely the beauty industry – is analyzed with the help of the framework. As this industry lacks sufficient research, a qualitative data collection in the shape of stakeholder interviews was performed. Applying the theoretical framework facilitates thorough insights into the way in which the beauty industry goes through digitalization.The similarities shown in between industries when applying the framework gives it great conformability, and the differences illustrate the extent of the varieties in the variables within the framework that are affected by specific industry characteristics.

Preface

This master thesis project, completed by Alexandra Kjellman and Frida Wiberg, consists of 30 credits and concludes a five years-long Master's degree in Industrial Engineering and Management completed at the Faculty of Engineering at Lund University.

We, the authors, would first and foremost like to express our profound gratitude to our supervisor Ola Alexanderson, professor at the Division of Production Management as part of the Faculty of Engineering, for his great support and attentiveness to our thesis work. Throughout the project, he has always been readily available to discuss our findings, but also offer guidance and feedback whenever it was needed. Secondly, we want to show our gratitude to the interview respondents that partook in this project and contributed with invaluable insights, without whom the project would not have been possible.

Lastly, we express our thanks to our family and friends, who have supported us throughout the long days and late evenings, making it possible to devote our attention to this project and make it what it is today.

Lund, March 2023
Alexandra Kjellman and Frida Wiberg

Executive Summary

Title: Beauty and the Digital Beast: An exploratory study on what variables are affecting digitalization within retail and why the beauty industry is lagging behind

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Background: The digitalization of retail has many far-reaching effects and holds several implications for retail companies; distribution structures have been altered, as have interactions between the retailer, consumer and other actors. Furthermore, competition takes many new forms, and product offerings look utterly different post-digitalization. Some industries are seemingly more digital than others, while others, such as the beauty industry, may lag behind – if existing research is to be believed. Being able to understand the hows and whys of these dimensions may provide both academics and industry with invaluable insights into the current and future standing of retail.

Purpose: The purpose of this research project was to explore how and in what ways digitalization transforms different retail categories.

RQs: RQ1: What are the variables affecting digitalization within retail?

     RQ2: How do these variables impact the ways in which retail is digitally transformed?

     RQ3: How do these variables present within the beauty industry and in what way do variations of them affect the opportunities for digital transformation?

Delimitations: This research project focuses on the parts of the market system the consumer comes into contact with, and as thus does not examine the digitalization of activities such as manufacturing or production. It takes a Western perspective and focuses primarily on the Scandinavian and European markets. Lastly, the beauty industry is limited to color cosmetics, skincare, fragrance and haircare..

Method: This project is a qualitative, exploratory study, conducted by means of an abductive research approach (combining a literature review with case studies derived from primary – interviews – and secondary – existing studies and other source material – data).

Conclusions: This research project identified four key variables within retail that together work to transform it by means of digitalization; distribution, interaction, competition and product offering. Additionally, the consumer was deemed to be an essential and overarching part to all variables. This was proven through a two-tier case study; the book and fashion industries, well-researched in their journeys of digitalization, were examined to provide an initial degree of validity to the framework. Next, the framework consisting of the four variables was applied to the beauty industry.

The results implied similar overarching trends for all case studies. There were some variations mainly explained by differences in the market systems, but the findings in general provided no clear explanation for why the beauty industry lagged behind where research was concerned. Rather, it may be the result of bias towards the main actors within the industry, who are women.

Keywords: *Mixed methods research, Case study, Retail, Digitalization, Beauty Industry*

Table of Contents

Nomenclature

Artificial Intelligence (AI): The capacity of a digital system to execute tasks that are associated with humans.

Augmented Reality (AR): The integration of virtual enhancements (audio, graphics etc.) with real-world objects.

Brick-and-mortar: The physical presence of a business in a marketplace.

Business-to-Business (B2B): A business model where the companies interact with (in the form of products or services) other companies.

Business-to-Consumer (B2C): A business model where the companies interact with (in the form of products or services) end-consumers.

Corporate Social Responsibility (CSR): A concept establishing that businesses have a societal responsibility (socially, economically and environmentally) to contribute to a better world and align company targets with this vision.

Direct-to-Consumer (D2C): A business model within retail where brands sell products directly to consumers, foregoing the middleman.

E-commerce: The process of companies and individuals buying and/or selling goods and services over an electronic network, typically the internet.

Fast fashion: Concept and business model in the fashion industry where new catwalk and high-fashion trends are quickly replicated, mass-produced and sold when in high demand, at low cost for the company.

Gamification: Introducing elements of game playing (e.g. competition and scoring) as a type of marketing technique online in order to create engagement for a product or service.

Influencer: A person with the ability to impact the opinions and actions of others pertaining to products and services via social media.

K-beauty: Beauty products originating from Korea. Constitutes its own (albeit large) niche or category within beauty retail and has become increasingly trendy in the Western world over the last few years.

Need for Touch (NFT): A preference for utilization of the haptic system and the information gained, in which the consumers make a better judgment and obtain product information through touching it.

Non-Fungible Tokens (NFTs): Unique digital identifiers that cannot be duplicated or substituted and thus constitute assets for their owner. Typically come in the form of digital art, media or other content.

Omnichannel: Integrating the different methods of interaction in such that the consumer sees similarities and brand connections (e.g. connecting the online interface with the physical store interface)

Over-the-Counter (OTC): Medicinal-grade products (such as skincare for acne) that can be purchased without a prescription.

Unified Commerce: Connecting front-end and back-end systems in all channels through a single platform in such a way that the consumer experiences a unified, seamless interaction between distribution, products and systems.

User-Generated Content (UGC): Digital content (e.g. videos, pictures and texts) created by users of a product, service and/or platform, and posted on social media for others to view.

Virtual Reality (VR): A simulation of an environment with which the user interacts (by means of special equipment) in such a way that it appears real or physical.

1 Introduction

This section introduces the baseline and concept of this master thesis. A background of the project foundation is described, followed by its purpose and delimitations. Lastly, the research disposition is presented to provide an overview for the reader.

1.1 Background

In the world of modern business, digitalization is a process that influences everything from daily activities to long-term objectives, making it a force that is impossible to ignore. For the retail industries, digitalization has had a transformative effect with long historical roots (see e.g. Doherty & Ellis-Chadwick 2010; Hagberg *et al.* 2016; Hirschmann 1944; Watson 2011), not least with the surfacing of the internet, which has been the object of much research (e.g. Ajayi *et al.* 2022; Nugraha & Putra 2022) over the last few decades.

The impact of digitalization on the retail industry contains many parts to be deciphered. While there are a great number of factors that must and should be accounted for, four stand out as specifically relevant for the purpose of this research project; distribution, interaction, competition and product offering. For instance, distribution-related digitalization has brought about the possibility of creating entirely new market channels, the most obvious being e-commerce (Dinu & Dinu 2014; Hagberg *et al.* 2016), which has enabled companies to expand their market share both globally and locally (Gupta *et al.* 2020, Bharadwaj *et al.* 2013). As a result, many distribution systems in retail today are completely different from previous decades.

Another dimension impacted by digitalization is the interaction between retailers and customers. In addition to the e-commerce platforms, the parties can communicate using digital tools throughout the entire purchasing process. In general, this phenomenon has resulted in increased consumer power (Doherty & Ellis-Chadwick 2010; Brynjolfsson *et al.* 2013). This has

put high pressure on retailers in terms of customer service, causing them to thread a thin line between keeping human operators and introducing cost-reducing AI substitutes in place of this interaction (Li & Wang 2023). Digitalization has also provided consumers with a public platform to present their views on a product or offering, using social media and review platforms like Trustpilot. At the same time, digitalization has altered the marketing possibilities for companies of all sizes, enabling them to popularize their brand through for example influencer marketing (e.g. Barta *et al.* 2023), UGC (user-generated content) (e.g. Zhuang *et al.* 2023) and social media (e.g. Labrecque *et al.* 2013).

Yet another dimension that has been distinctly altered by the digitalization of retail is competition. As briefly touched upon, companies have been able to expand their market shares and penetrate new markets both locally and globally through e-commerce. Naturally, this beneficial development applies not only to the individual company, but also to all of its competitors. The competitive advantage now mainly lies in the efficient distribution offered by state-of-the-art information systems, and customers are typically able to find a large selection of suppliers for any product they desire (Hänninen *et al.* 2019; Brynjolfsson *et al.* 2013). As a result of this increased competition, retailers are compelled to find other distinct competitive advantages to remain relevant among consumers. (Brynjolfsson *et al.* 2013)

Furthermore, many retail industries have seen their product offerings altered by digitalization (Hagberg *et al.* 2016, Bharadwaj *et al.* 2013), the most obvious examples being the transition from analogue books and DVDs to e-books and streaming platforms (e.g. Hviid *et al.* 2019; Bharadwaj *et al.* 2013). While not all products can be digital, it is clear that most industries will have to consider this dimension and its impact on their offering.

Being mindful of these dimensions, it is clear that digitalization is a force to be reckoned with. The choice (where there is one) of whether to digitalize – in whatever dimension – varies widely between different retail industries, even as the changes from analogue to digital has increasingly penetrated the world of retail (Hagberg *et al.* 2016). Nevertheless, all retail industries are affected by digitalization to varying degrees; some have become fully

immersed in the digital sphere and almost exclusively interact with consumers online, like the aforementioned industries of literature and movie streaming. Others linger – either by choice or necessity – in the twilight zone between the digital and analogue, offering various degrees of digital interactions depending on their individual conditions as well as those of their industry at large.

Prior research on the topic of digitalization in the retail industry focuses to a large extent on the types of business that have strived to be as immersed into the digital marketplace as possible, such as retailers of literature and motion pictures. There is, in general, a lack of research regarding the industries that do not have the same characteristics. An industry that is rarely discussed within this context, yet holds plenty of valuable insights, is the beauty industry. It is an industry that, like the fashion industry (e.g. Savastano *et al* 2019; Blázquez 2014), is highly influenced by trends and where products go in and out of style quickly. Beauty product purchases are increasingly moving away from an analog interaction with a sales associate and towards a digital one, despite the products being analogue in nature and often reliant on the sense of touch – a factor that the digital marketplace is not able to facilitate (Gauri *et al.* 2021). The result is a fragmented industry, characterized by a large number of actors competing for attention, interesting distribution structures and marketing tactics as well as a product that is difficult to fully immerse into the digital society.

The research gap on such less digitalized retail industries has sparked an interest in understanding the *hows* and *whys* of the digital revolution, not least within the beauty industry. What variables impact the choice or ability of a retailer or branch of the retail industry to go digital, and what are the motivations for doing – or *not* doing – so? Our ambition is to help fill this gap by looking at how the variables of distribution, interaction, competition and product offerings impact the digitalization of retail industries, laying the groundwork for evaluating how they affect the beauty industry specifically.

1.2 Purpose

The purpose of this research project is to explore how and in what ways digitalization transforms different retail categories.

1.2.1 Problematization

From this, the following research question can be formulated:

RQ1: What are the variables affecting digitalization within retail?

RQ2: How do these variables impact the ways in which retail is digitally transformed?

RQ3: How do these variables present within the beauty industry and in what way do variations of them affect the opportunities for digital transformation?

1.2.2 Deliverables

The results of the thesis work will be delivered as a report combined with an oral presentation of the relevant findings. The presentation will be based on the report, with the highlights and findings illustrated using a powerpoint.

1.3 Delimitations

This research project has an investigative perspective focused on the process of front-end digitalization of a business, including business-to-consumer (B2C), business-to-business (B2B) and direct-to-consumer (D2C) interactions pertaining specifically to this area. Consequently, the impact on activities such as manufacturing and producing is not the object of this investigation to any further extent.

The research is also based around a case study of the so-called beauty industry. What falls under this category and what does not varies widely, in part because the term *beauty* is subjective. In order to review and compare relevant companies, products and services, it is essential to also state what the industry entails for the purpose of the thesis. The thesis work will focus on the branch of the beauty industry that is defined as the *cosmetics industry*. This entails color cosmetics – often broadly defined as makeup – skincare, fragrance and hair care. Other products that fall under the beauty

industry – such as personal care and certain prescriptions for skin-related issues – and *services* from for example hairdressers, manicurists and dermatologists, are thus excluded from the study.

Lastly, the project is conducted from a Western perspective, focusing primarily on the impacts, development and perspectives of actors within the Scandinavian and European market. This perspective is particularly interesting due to the progression of e-commerce within these markets and can hence give more insights on digitalization within retail. Furthermore, this also ensures that the interview representatives act on the same market, even if they come from different company segments.

1.4 Report Structure

Chapter 1: Provides an introduction, background and delimitations of this research. Most importantly, the established research questions are presented.

Chapter 2: Relevant research strategies and methodologies are discussed and compared, including their benefits and potential limitations. The chosen strategy and applied methodology for this project is presented, and a discussion on the validity and reliability of the research project is conducted.

Chapter 3: The theoretical basis upon which this project is built is presented, providing the reader with insights into the theoretical framework with which the authors conduct the succeeding research and draw conclusions. In this chapter, the market development is presented.

Chapter 4: This chapter provides a preliminary answer to RQ1 by demonstrating the identified variables affecting digitalization in retail. These constitute the theoretical framework for the other RQs.

Chapter 5: Presents two case studies based on secondary data; the book industry and the fashion industry. Provides data to facilitate a discussion on the answer to RQ2; i.e. to visualize the impact the said variables have on two already digitalized industries. The chapter concludes with a discussion regarding the relevance of the variables within the theoretical framework.

Chapter 6: Presents the beauty industry landscape and lays the fundament for further analysis. The collected data from the qualitative research is analyzed using the theoretical framework by describing how the framework variables present within the beauty industry and in what way variations of them affect digitalization, thereby providing adequate research material to answer RQ3.

Chapter 7: Consists of a two-level discussion; firstly on empirical research – establishing similarities and differences within the secondary data cases and the insights collected within the beauty industry – and secondly, a theoretical discussion evaluating the theoretical frameworks reliability and validity on digitalization in general.

Chapter 8: Conclusions are drawn pertaining to the RQs, and a reflection on the research project is drawn based on insights from a societal, ethical and economical perspective.

Chapter 9: Recommendations for future topics of research as well as industry insights based on identified trends and possible knowledge gaps are provided.

2 Methodology

This section describes the methodology applied to the research project. Outlined in the following subsections is the selected research strategy, the design of the research methodology and the method of data collection and data analysis respectively. The section concludes with a discussion of the academic quality of this research paper.

The methodological basis for this research project is a qualitative exploratory study, conducted with an abductive research approach that combines primary and secondary data. The secondary data consists of articles and literature primarily pertaining to retail, the beauty industry and digitalization. Furthermore, an important part of this research project was understanding the impact digitalization may have on an industry within retail. Consequently, the primary data is based around a case study on the digitalization of the beauty industry. This study has required a combination of data collected from online resources, a pilot study of selected mature industries within retail to finetune the framework and interviews with relevant representatives that possess knowledge of the process of digital marketing and digitalization in the beauty retail industry.

2.1 Research Strategies

There are a number of ways to approach the question of how a research strategy is formulated. A common one is to divide the types of research into *qualitative* or *quantitative*. Denscombe (2009, p.320) describes qualitative research as focusing on observations of words or images, being *descriptive* in nature and normally associated with small-scale research projects. Quantitative research in general focuses on the observation of numbers, is more *analytic* and associated with research projects of a larger scale. However a critical perspective should be taken to the over-simplistic nature of this categorization, as research is rarely just one or the other (ibid. 2009, p.320).

The choice of strategy can depend on a variety of factors. Lekvall and Wahlbin (2007, p. 196) classify research depending on its intended purpose, divided into four categories: *exploratory*, *descriptive*, *explanatory* and *predictive*. In academic research, the orientation can be established within the given purpose, but Lekvall and Wahlbin (2007) state that in practice the research can take multiple orientations. An exploratory approach is often preferred when there is a lack of previous research, and when the aim is to establish a new knowledge base as well as ideas for further action and research directions. While descriptive research aims to understand and describe the relationship between factors, the explanatory approach focuses on identifying and explaining the correlation or causality between factors. Lastly, the predictive approach is preferred when establishing a forecast or – as it is often referred to as the *problem-solving* approach – when finding a solution to a known problem. (Lekvall & Wahlbin 2007; Höst et. al 2006)

Lastly, Kovács and Spens (2005) discuss using a deductive, inductive or abductive approach. A deductive approach constitutes of forming a theoretical framework from researched literature, making theoretical propositions or hypotheses based on said framework and then testing these to make final conclusions (Kirkeby 1990; Kovács and Spens 2005) The inductive research process uses *existing* theoretical knowledge from previous studies and uses real-life observations to establish theoretical conclusions or new frameworks (Kirkeby 1990). Finally, the abductive research process is, like the inductive one, based on prior theoretical knowledge, but observations are made to identify deviations. The process continues with theory matching and iterates the observations to form final conclusions and theory suggestions. (Kovács & Spens 2005) The aim of abductive research is to find new theories and phenomena (Kirkeby 1990), hence the final step of the process is to apply and test said conclusions (Kovács & Spens 2005).

2.1.1 Chosen Strategy

As the purpose of this project is to explore the different variables of digitalization within retail, a qualitative research approach was decidedly preferred. This took the form of an exploratory research strategy, with elements of a descriptive nature. The first two research questions aimed to

describe the digitalization within retail, answering the *whats* and *hows*. The third research question was then intended to further explore the findings in the context of a specific industry with a lack of previous research.

The starting point of this research is found in researched literature pertaining to the subjects of digitalization, retail and digitalization in retail. Related to this is the research of existing theoretical frameworks to find propositions of variables to test on the beauty industry. The project thus had a deductive approach when working with the theory. However, the structure of the empirical research had a more inductive approach, as the theoretical framework was tested on active industries to make further conclusions. Taking the different approaches within the separate studies in consideration, with the aim to find new theories, especially within the beauty industry, the entire research analysis is characterized by an abductive approach.

2.2 Research Methods

In contrast to research strategy, research methods are the tools used for data collection (Denscombe 2021, p. 51). Not unlike the research strategy, various methods can be pursued depending on the specific characteristics of the research project. Denscombe (2009, p. 183) states that there are four primary methods used in small-scale research projects; *secondary data* – often in the form of written source material – *questionnaires*, *interviews* and *observations*. Each offers its own unique advantages and disadvantages. Furthermore, it is not uncommon to combine methods, thus taking what may be referred to as a mixed methods approach (Denscombe 2021, p.192). A typical way to do this in practice is through *triangulation* (ibid., p.198), which uses the geometric logic of the triangle in stating that one is able able to gain better insights into one area (in the case of the triangle, the location of one of its vertices) by having exact information from two other, separate ones (the angles and distances of the two remaining vertices of the triangle). From a social sciences perspective, applying two (or more) methods to a problem – in the form of *between-methods triangulation* – has the benefit of providing the researcher with more than one perspective of the research problem. Specifically, triangulation may provide the researcher with widely differing perspectives, which may then generate complementary or

additional data, but also validate the findings from one method from the perspective of validity and reliability. (Denscombe 2021, pp.198-199)

The following subsections highlight a selection of methods applicable to this research project. The final section then describes how these methods have been applied in practice.

2.2.1 Literature Review

Denscombe (2021, p.5) states that a literature review "is a study of published sources related to a specific topic". Its role is essential in the preparatory stages of the research project, where the researcher gains insights into the subject to be studied based on current and past writings. However, it is also of great importance in proving the academic significance of a specific research topic (ibid. 2021, p.5).

The process of conducting a literature review begins by identifying potential sources pertaining to the research topic in question, followed by selecting which sources to use for the review. This selection may be based on the type of sources; optimally, a balance should be found between books, journal publications, reports and other sources. Furthermore, the quality of the sources should be evaluated in terms of their credibility, and the relevance evaluated in terms of how closely they correspond to the research topic. Both of these evaluations are impacted by the date of publication, i.e. how relevant the source is for the current research environment based on when it was published. (Denscombe 2021, pp.6-8)

2.2.2 Case Study

The case study is one of the more common research methods applied in the social sciences and those that are impacted by the behavior of its actors (Denscombe 2009, pp. 59-72). A typical case study combines a variety of data collection methods such as interviews, observations and archives – resulting in evidence of a qualitative and/or quantitative nature (Eisenhardt 1989). It places emphasis on a small selection of observations pertaining to a specific scenario, and provides an in-depth analysis of them (Denscombe 2021, p.93). This exhaustive focus on such a small sample can provide

valuable insights pertaining to the larger context to which they belong, and provides the researcher with an opportunity to perhaps discover details that would not be discovered otherwise (Denscombe 2009, pp. 59-72). These insights can be aimed to test theory, provide description or generate theory (Eisenhardt 1989). Because the case study does not look at isolated factors but instead looks at the interconnectivity between relationships and processes in a social setting, it also takes a holistic view than many other research methods (Denscombe 2021, p.95).

Densombe (2009, p.62) further states that a case study is particularly useful when the researcher intends to exhaustively explore a research question, as is the case with this project. It enables the use of a more holistic approach to analyzing a situation, as opposed to exploring a handful of dimensions in isolation. Among its other advantages is the possibility for applying a number of different methods and search tactics, thus gaining evidence from different perspectives (Eisenhardt 1989; Denscombe 2009, p.71). It also supports the usage of multiple data sources which in turn makes it possible to confirm data through triangulation (Denscombe 2009, p.71). Furthermore, when building a theoretical framework the use of an iterative process is preferable, which the case study supports (Eisenhardt 1989). Lastly, it is a particularly useful approach when the research concerns testing or "building" a theory (Denscombe 2009, p.71).

Among the disadvantages of this approach, the most crucial for this project concerns its credibility when results are generalized. Furthermore, it may be difficult to gain access to relevant parts – such as documents, people and environments – in which the case study is to be conducted. (Denscombe 2021, p 103)

2.2.3 Interviews

Interviews are a data collection method wherein the primary source of data is the interviewees' responses to the researcher's questions (Denscombe 2021, p.229), not unlike what a questionnaire would generate. Denscombe (2021, p 230) further argues that this method of data collection is especially useful when the research project mandates depth (emotions, experiences, feelings and opinions), when the issues discussed are complex and when

privileged information or irreplaceable insights from essential industry practitioners. Among the advantages of interviews is the ability to receive substantial depth and detail in the information provided, thus giving the opportunity for valuable insights from essential and knowledgeable sources. The method is also flexible and easily adaptable to the respondent. Among the disadvantages of the method is the weaknesses in terms of reliability (in that interviews are often inconsistent in nature, which means that the data collected may be impacted by the context in which they are performed) and validity (as people may say what they prefer and think, rather than what is reflecting of the truth). (Denscombe 2021, pp. 245-246)

2.2.4 Applied Methods

To strengthen the credibility of this project and gain perspective, a mixed methods approach is applied to this research project, combining secondary data – in the form of a literature review – with primary data in the form of interviews.

Theoretical data collection
The literature review upon which this research project is based – and from which the preliminary answer to RQ1 is generated – examined primarily qualitative papers, providing relevant insights into retail and digitalization as separate phenomena, but also of the process of digitalization within retail, including material on possible variables that have impacted this process. Peer reviewed publications were collected through three main sources; the university digital library, LubSearch, being the main source, Google Scholar for cited literature and a selection from relevant journals' own publication pages. Among the selected journals were Journal of Strategic Marketing, Journal of Retailing, Journal of Interactive Marketing, International Journal of Electronic Commerce, Journal of Business Research, International Journal of Retail & Distribution Management, Journal of Retailing and Consumer service, International Journal of Physical Distribution and Logistics Management and Harvard Business Review. Some search words included in the review literature were "Digitalization", "Retail", "E-commerce", "Digital transformation", "Omnichannel" and "Digitalization drivers" as well as synonyms and combined phrases. The

searches and results were logged using Google Spreadsheets and Google documents.

For the case studies, the information search took a similar approach. The same database was used to obtain peer-reviewed articles within each industry. However, this was combined with updated examples and data from news articles, consultancy reports and companies' web pages. The search words included industry specific terms such as "book", "fashion" and "beauty" in combination with already mentioned words. Various searches were made pertaining to the different industries. In Figure 2.1, a chart is used to illustrate the number of articles published when searching for "Digital Marketing" + industry. The bars represent the total search results, the number of results containing the words in the abstract and the number of results having the words in the title. The gaming industry was added as a comparison due to the similarities in market size with the beauty industry.
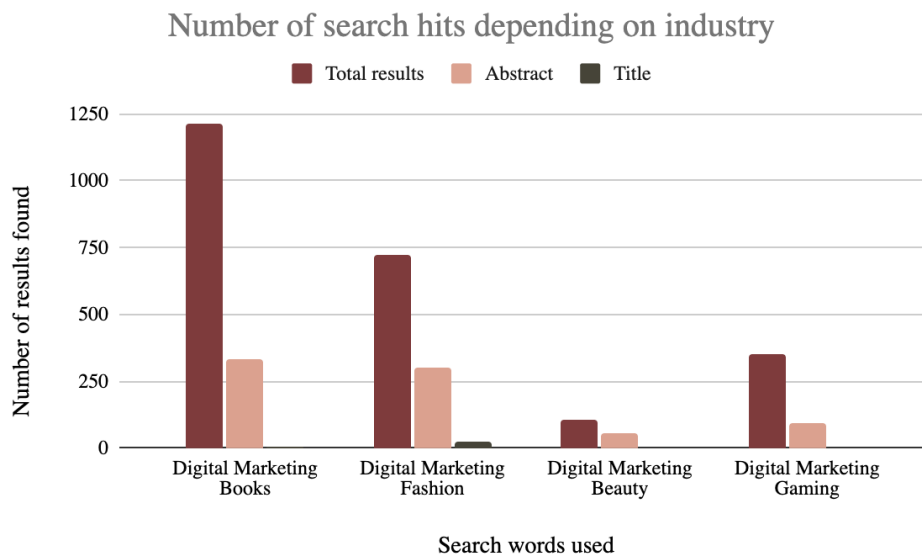
Figure 2.1: Number of articles published depending on industry

Empirical data collection
The conducted literature review formed a theoretical foundation upon which the case studies could be conducted to provide a basis for the answers to RQ2 and RQ3. This second part of the research project consisted of two levels. First, a secondary data-based case study was conducted, testing the

established variables of retail digitalization in specific retail industries for which the amount of prior research is substantial. These selected industries were the book industry – which was among the first categories in retail to become a commodity on the digital marketplace – and the fashion industry, which is among the largest online retail categories. Together, these retail industries provide a wide array of insights into the impacts from digitalization.

Secondly, when looking at the beauty industry specifically, prior research was found to be lacking. The main data collection here thus happened in the form of interviews with five relevant industry representatives, combined with online resources such as news articles and consultancy reports. Finding relevant representatives within the industry turned out to be a much larger issue than anticipated. To cite Mark Tungate (2011, p. 4): "Talking to the brands about all this took some doing. Beauty is a highly competitive industry – and an oft-criticized one – and it has a natural aversion to outsiders. [...] The beauty industry is based on relationships. They tend not to talk to people they don't know.". Ideally, larger representation in the qualitative data collection would be preferred – from around 40 people contacted, five interviews were able to be executed but the overall response rate was low. However, as these individuals each represented the different segmented actors it can be assumed that they have provided sufficiently broad insights into the market and digital changes to discuss the framework and RQs. The selected interview respondents all had relevant experience and positions in the industry to obtain sufficient credibility – either as relevant employees of a company within the industry or as an independent source in the form of a beauty journalist with a broader, more unbiased perspective on the industry dynamics. Most of the contacted individuals were found through LinkedIn, company web pages or reports. The resulting interviews were conducted using a digital meeting tool, Zoom, and lasted around 60 minutes. Each interview was held separately and the participants were unaware of the identity of any other interviewees. All interviews were also conducted using the same interview guide and questions as a guideline. In Table 2.1, a summary of information pertaining to the conducted interviews is provided. To cite the collected information given by the representatives, the use of *Person A, B, C* and so on guarantees the anonymity of each

individual. A summary of each interviewee can furthermore be found in Appendices A.1-A.5, providing a short description of the perspective they possess, their credibility and some relevant insights gained from the interview.

Table 2.1: The conducted interviews

Company	Identifier	Role	Duration	Forum
The Distributor	Person A	Head of e-commerce	60 min	Zoom
The Reseller	Person B	Head of sustainability & communication	65 min	Zoom
The Large groups and digital startups	Person C	Board member and Marketing & Sales consultant	55 min	Zoom
The traditional niche & one-brand	Person D	Concept & Merchandising Retail Manager	60 min	Zoom
The Journalist	Person E	Beauty Editor and Journalist	50 min	Zoom

The choice of a mixed methods approach – specifically, the use of between-methods triangulation – is based on a couple of factors. Originally, the research project was intended to be based solely on a case study of the beauty industry, combining secondary data in the form of journal publications, books and reports with interviews of relevant industry professionals. However, in conducting the initial literature review, this industry was found to be very under-researched in the areas of digitalization and retail, especially from an academic point-of-view. In order to build a robust framework that is applicable to the beauty industry and increase validity while contributing to closing the gap of written literature, other industries had to be studied. The amount of applicable research available

17

was therefore important, hence the selection of the book and fashion industry was convenient.

2.3 Data Analysis

The process of data analysis consists of studying the collected data to get a good overview of the information and find explanations for it (Denscombe 2021, p. 285). The data analysis can be quantitative – where the main objective is identifying links between variables in the data as well as identifying potential correlations and causes – or qualitative, where techniques relate more closely to context-specific data findings (ibid. 2021, p. 285). This study relies heavily on qualitative data, thus the data analysis is also qualitative. The advantages of this approach is the ability to obtain data which is rich in detail and grounded in a real-world context. By its nature, qualitative data analysis also holds a higher tolerance for ambiguity and contradictions as well as the potential for alternative explanations, all of which are normal features in social settings. Among the disadvantages are issues with generalizability of the results and findings, but also the potential for questions to arise regarding the objectivity of them. (Denscombe 2021, pp.354-355)

2.4 Research Quality

Ensuring a research project's validity and reliability also ensures the quality of the data and – by extension – the research (Denscombe 2021, p.323). To obtain trustworthiness in research, sources of errors and potential faultiness in the method must be evaluated (Shenton 2004). Guba (1981) defines four categories within the terminology used as follows: credibility as internal validity, transferability as external validity, dependability in place of reliability and conformability in preference to objectivity.

Validity pertains to the foundations upon which data is deemed relevant, accurate and precise, and can be further divided into internal and external validity. Internal validity entails asking the right questions, obtaining the right answers and managing the information in a sufficient way (Denscombe 2021, pp.323-324). Within quantitative research, this is often translated into

18

credibility (ibid. 2021, p.350) and is one of the key criteria when ensuring trustworthiness (Shenton 2004). External validity, in contrast, focuses on how data can be generalized, i.e. how well the data fits with other examples (Denscombe 2021, pp.323-324), and is in quantitative studies described as transferability (ibid. 2021, pp. 350-351). For this research project, internal validity is strengthened by looking at a large number of publications and other sources prior to formulating the framework applied and the interview questions collected. Furthermore, the possibility to ensure anonymity for the interviewees, providing the option to not answer sensitive questions and iterating back to subjects when questioning were also strategies applied, which strengthens internal validity as it makes people more comfortable with being honest (Shenton 2004). External validity is strengthened by the use of several cases rather than one for which the source material is low. The case studies are also presented in a given context, with sufficient information, and follow similar structures in order to increase transferability and be able to analyze all dimensions equally.

Reliability focuses on the foundations upon which it can be argued that data is consistent (Denscombe 2021, p.323). For qualitative research, this is described as the dependability of a research project, i.e. its repeatability (Shenton 2004). While it is difficult to prove, high reliability within this research project is attained by collecting and comparing a number of publications and researchers discussing the same themes or concepts. This offers a large span of complementary and overlapping perspectives on the subjects discussed. In turn, using overlapping methods strengthens the connection between credibility and reliability (Shenton 2004). The reliability of results for the beauty industry case study may however have certain weaknesses. Firstly, no prior academic research was found relating to this context within the industry. Furthermore, there is potential bias in the data on account of the low number of interviewees, as many industry representatives were unwilling to take part in an academic research project despite promises of anonymity. However, the answers received based on the themes discussed followed similar patterns, despite the interviewees coming from different backgrounds and perspectives. This indicates a degree of repeatability. Still, to ensure repeatability of the case study, this part should be repeated on a larger scale or taking a different approach.

Lastly, objectivity is discussed by Shenton (2004), who establishes that true objectivity can only be achieved when tools *not* dependent on humans are involved. Ensuring this is challenging, as most qualitative data collection methods are created by humans. Hence, comfortability is preferred over objectivity within qualitative research (Shenton 2004). Comfortability is achieved through e.g. showcasing that information gathered truly comes from the respondents.

In essence, it is more difficult to determine the reliability, validity (internal and external) and comfortability for qualitative research. However, one way to approach the concept of trustworthiness in qualitative data is by applying triangulation. Combining different methods reduces the risks of biases from the authors, ensures data collected from different perspectives and cases.

3 Theory: Market Development

This section begins by defining and describing retail and digitalization as the separate phenomena they are in order to provide the reader with a wider context. Thereafter, the digitalization of retail is described, highlighting the key theoretical implications and changes of digitalization in a business context. Lastly, the customer's perspective sets the final theoretical insights in order to finalize this chapter..

From the business point of view, retail is part of a larger *market system,* wherein all parties – the buyer, seller and other relevant actors – network to facilitate the trade of a product or service. In this section, the authors strive to provide the reader with an overview of this part of the market system by illustrating retail and digitalization as separate processes, but also by demonstrating how digitalization has occurred within retail thus far. From this, a selection of impactful variables are identified and a theoretical framework for further research is created.

3.1 Retail

Retail or *retailing* are words used to reference the sale of goods and services to end consumers. This is in contrast to *wholesaling*, which references the sale of goods on a business-to-business basis or at an earlier point of the value chain. Retailing is an essential part of our lives as human beings in a large part of the world, influencing everything from our personal lives to our place of employment.

Historically, retailing has been strongly connected to geographical places (Stobart & Howard 2019). In the middle ages, most consumption, at least by a general population, occurred in places for trade such as market squares in well-situated cities. Beginning in around the eighteenth century, the process of 'shopping' was increasingly moved into physical stores, such as local boutiques that were predominantly family-owned and smaller in size (Van Damme 2019; Gauri *et al.* 2021). From the mid nineteenth century, the

transition towards larger department stores began, followed by the rise of supermarkets in the early twentieth century (Gauri *et al.* 2021). The evolution of retail is visualized in Figure 3.1.

Figure 3.1: The evolution of the geographical anchoring within retail

In the transition from traditional to modern retail, two separations can be traced back historically; geographical and organizational separation. The first clear geographical separation of retailing from a physical location came in the form of mail-order retailing, which mainly occurred around the late nineteenth and early twentieth centuries in the Scandinavian countries (Nilsson 2022). Since the late twentieth century, however, the main change agent of retail – and arguably the most apparent geographical separation – is the development of digital technology combined with ever-expanding global access to the internet (Ellis-Chadwick 2019). After consumers took their first steps towards online shopping in the mid 1990s, the marketplace was forever altered. While brick-and-mortar stores are unlikely to disappear completely, even the most analogue of business must – in order to survive – develop a degree of understanding for and immerse themselves in the digital marketplace (see e.g. Doherty & Ellis-Chadwick 2010; Ellis-Chadwick 2019; Hagberg *et al.* 2016).

Discussions on the structure of an organization – including the concept of organizational separation – have featured in the fields of business and management since the industrial revolution (Starbuck 2009; Purvis 2019). Early organization of a business pertained to optimization of the workforce through a variety of methods, created by the likes of Adam Smith, Frederick Winslow Taylor (creator of Taylorism or scientific management) and Henry Ford (Johansson & Abrahamsson 2009). Retail, of course, has roots that

stretch far beyond the industrial revolution, with individual shopkeepers and merchants engaged in trade with foreign and national suppliers for centuries. However, even retailers eventually came to apply the methods rendered by the industrial revolution, such as scientific management, in order to remain competitive in an ever-changing world (Purvis 2019).

The organizational structure of retail businesses have continued to change throughout history. Gauri *et al.* (2021) argue that the creation of new retail formats have pressured the earlier ones to adapt and evolve. For instance, the possibilities of purchasing products through mail-order – as explained by Nilsson (2022) – meant that businesses could expand their customer group without being physically present in smaller cities. At the same time, it also created the need for better storage facilities and better distribution networks in order to supply a larger group of customers (Gauri *et al*. 2021). These effects have become even more pronounced with increasing globalization and digitalization of the retail marketplace (Anderson 2008).

In short, the changing landscape of retail has implications for a large variety of dimensions Some of the more commonly held discussions in modern times have pertained to the concept of multi-channel retailing (e.g. Verhoef *et al*. 2015), i.e. providing customers with the opportunity to make their purchases from more than one channel. Also frequently debated was the implication that the introduction of new technologies for sales – such as mail-order – would eliminate the need for physical stores, thus facilitating *disintermediation*, the elimination of the "middleman" in retail (Doherty & Ellis-Chadwick 2010).

3.2 Digitalization

In contrast to *digitization* or *digital transformation*, the term *digitalization* lacks a clear unambiguous definition. These terms are commonly used interchangeably even though they are not defined the same (Bloomberg 2018). Digitization refers to the process in which the analog form is changed to digital (Bumann & Peter 2019), such as altering the way of storing information, while digitalization is described as the change to digital communication, change of business models, revenue streams and value

creation due to digital technology (Bloomberg 2018; Hagberg *et al.* 2016; Gartner N/A). Baumann and Peter (2019) define digitalization as a process of adaption to digital technology, including the impact of such a process. Bloomberg (2018) describes the correlation: "we digitize information, we digitalize processes and roles that make up the operations of a business, and we digitally transform the business and its strategy.".

To set the scene for digitalization, two global shifts are of particular importance: the penetration and spread of the internet and the increased usage of mobile devices (Hagberg et al. 2016; Evans & Wurster 1997; Bharadwaj *et al.* 2013). As described by Ellis-Chadwick (2019), the phenomena now known as the internet is the outcome of combining telecommunication and computer technologies a few decades ago, primarily for the purpose of facilitating military communication. However, while the originally intended target audience was the military, the appeal of a global communications and information device quickly became apparent to a much wider group of stakeholders, not least for businesses wishing to expand beyond their national borders. Thus, the technology quickly evolved from being of interest almost exclusively from an academic and scientific standpoint to being an essential platform for trade and communication utilized by businesses and their customers globally. (ibid. 2019)

Since the launch of the first smartphone in 2008, mobile internet connection and phone usage have become increasingly widespread phenomena (Goggin 2020). As the world population approaches 8 billion people, the number of unique mobile users is around 5,48 billion and there are a total of 5,07 billion internet users globally (Kemp 2022). This demonstrates that access to these two features are becoming more common. Furthermore, mobile usage is expected to keep increasing. In Europe alone, it is estimated to grow eight times larger between the years 2019-2024 (Goggin 2020). In short, global accessibility has become increasingly common.

Due to the large amount of internet usage among consumers, new forums for product research emerged – resulting in new processes and roles (Pratt *et al.* 2012) and providing the possibility for global communication (Hallam 2013). As the internet allowed users to take more control, they began to

create their own channels and platforms and social media emerged (Obar & Wildman 2015). This user-generated content started out as blogs (Pratt *et al.* 2012), transitioned through various niche platforms such as MySpace (Hallam 2013; Andersson 2008) and then turned into larger, widely distributed social media platforms such as YouTube, Facebook, Instagram and now TikTok (Statista 2022a; Obar & Wildman 2015). From a business perspective, the increase in consumer-generated content (Obar & Wildman 2015) resulted in companies having less control over what is being written about them and their products (Hallam 2013). This created a new path of interaction between consumers and companies (Bharadwaj *et al.* 2013; Pratt *et al.* 2012; Hallam 2013) and large platforms on social media are now gaining a following based on the followers trusting the creators' opinions (Belanche *et al.* 2021). These creators have also become a new vantage point for digital marketing (Belanche *et al.* 2021), and the term *influencer* – referencing a person with influence over others via social media – as well as *influencer marketing* – when a company pays an influencer to market their product or company – emerged (Internetstiftelsen 2020).

During the Covid-19 pandemic, countries experienced full lockdowns and consequently a reduced number of social events (Bhatti *et al.* 2020). Due to this, digital channels were used and developed to an increasing extent, enforcing altered consumer behavior and increasing mobile and internet usage even more rapidly than previously estimated (Kemp 2022). In one year of the pandemic alone, online shopping increased by the same amount that was estimated over an upcoming five-year period (Kemp 2022; Lufkin 2020; Fryer 2021; Bhatti *et al.* 2020). Furthermore, the usage and development of digital tools – such as contactless payment and order fulfillment as well as digital meetings – was proven to be highly effective during the circumstances (Fryer 2021). In most cases, stores relied on their online channels to reach their customers (Lufkin 2020), and those that did not have established online channels suffered the consequences (Gaur *et al.* 2021). Another related variable that has taken a turn is the payment methods and means. The usage of "buy-now-pay-later", especially supported by the rise of payment solution companies like Klarna, has increased during the past decade (Klarna 2022). During the pandemic, investments in

cryptocurrency furthermore measured at an all-time high, indicating that this is what many believe to be the monetary future (Kemp 2022).

3.3 The Digitalization of Retail

As stated in section 3.2, the definition of digitalization is ambiguous and often contextual. For the purpose of this research project, *digitalization* is henceforth used to broadly reference the process of incorporating digital technology into retailing. Retail, in this context, constitutes its own market system, composed of the involved actors (retailers, consumers and any intermediaries) networking in the transition of products from the retailer to the consumer.

Digitalization has had several important implications for retail. This section strives to join the two concepts together while illustrating some of the more impactful effects of digital transformation that have been found within the retail sectors. Four areas lay at the forefront of this transition; changes to the roles of the actors within the distribution system, changes to the product offering, changes to the market communication and changes to the consumer's role. The first three will be discussed in individual subsections here, while the role of the consumer will be discussed in the next section as it is separate from the retailer-side of the interaction. In the section thereafter, previous theoretical frameworks that highlight these areas will be discussed.

3.3.1 Changes to the Roles of Actors

As mentioned, digitalization has added multiple layers to the retailer-consumer interaction (Fuentes *et al.* 2017; Hagberg *et al.* 2016). At the dawn of the information technology revolution, the internet was described by Evans and Wurster (1997, p. 71) as the most important dimension. Over the years, this has proven accurate for businesses as the world of online retailing has progressed from the earliest 1990's adoptions – namely the *Internet Shopping Network* and the now well-renowned platform *Amazon* (Hänninen *et al.* 2019) – to a system able to completely transform the customer experience as well as the competitive position of the individual company (Doherty & Ellis-Chadwick 2010; Gauri *et al.* 2021). Hagberg *et*

al. (2016) summarize the complicated dynamics that have come about by arguing that digitalization has obscured the boundaries between consumers, retailers and new forms of intermediaries compared to traditional and priorly established structures.

One clear change to retail as a consequence of digitalization is the altered role of intermediaries (Hagberg *et al.* 2016). A recurring fear among retailers in the early stages of the digital age was that it would eliminate the desire for physical stores as a result of the convenience the online marketplace provided (Doherty & Ellis-Chadwick 2010; Gauri *et al.* 2021), thereby eliminating physical actors entirely. This development is often discussed under the name of *disintermediation,* and nowadays, a general consensus among researchers is that this fear was at the very least exaggerated (see e.g. Hagberg *et al.* 2016; Doherty & Ellis-Chadwick 2019). There is some evidence that corroborates the concerns, but only to a certain extent for some branches of retail and in particular for smaller establishments (Gauri *et al.* 2021; Doherty & Ellis-Chadwick 2019). At the same time, other categories have variables – such as the need-for-touch – that still warrant a degree of consumer loyalty to the brick-and-mortar stores (see e.g. Gauri *et al.* 2021; Hjort *et al.* 2019). As disintermediation is not possible in many scenarios, such as when the manufacturer or wholesaler lacks sufficient infrastructure to sell directly to an end-consumer (Chircu & Kauffman 1999), digitalization has also played a part in the formation of *reintermediation,* whereby new forms of intermediaries are created or recreated to better tailor to the consumer's needs. An example of this is platform-retailers like Amazon (Kotha 1998).

What *has* been proven is that new actors have arisen and that the roles of existing actors have evolved to adapt to the new conditions (Hagberg *et al* 2016). In regards to adaptation and evolution, two distinct changes are the added dimensions of delivery and return functions that come with an online marketplace (Gauri *et al.* 2021; Cao *et al.* 2020). Both of these imply added responsibilities to the role of the retailer, and are processes that have either had to be outsourced to new actors or internally developed. Aside from this, the general consensus is that the online marketplace benefits from its ability to reduce the number of actors that typically feature in a classically vertical

27

retail market structure (Gauri *et al.* 2021; Betancourt *et al.* 2016), making it possible to offer products at lower prices and in some cases with faster delivery (Doherty & Ellis-Chadwick 2010). There are examples of online marketplaces, such as AliExpress or Etsy, where the consumer makes its purchase directly from a wholesaler or producer, where the only intermediary is the platform used for the sales transaction. By becoming a retailer in their own right, the manufacturer or service provider could save money that would otherwise have been spent on paying for services, while not necessarily losing out the way they would have in a non-digital setting.

In terms of new actors, they span from large platform retailers to small entrepreneurial businesses that through digitalization have been able to enter the market and disrupt the system further (e.g. Hagberg *et al.* 2016; Rohn *et al.* 2021; Hagiu & Altman 2017). One example is the online-exclusive marketplace, i.e. a retail store that sells products only through e-commerce, like Amazon. Another example – more commonly applied as a result of the discourse on sustainability – are second-hand platforms, such as Tradera – where consumers can sell their pre-owned products directly to others – or by means of an intermediary platform like Sellpy.

3.3.2 Changes to the Product Offering

Another noteworthy aspect altered by digitalization is the products and services offered. There are two main dimensions to this; the *types* of products offered and the *amount* of products. Regarding product types, the emergence of digital business strategies has resulted in new ways to create value for the consumer, further expanding the business portfolio and platforms with digital services and products (Bharadwaj *et al.* 2013). Strønen (2020) describes the digital transformation of products and services by dividing them into four categories: *pure digital* – such as music, streaming services and online games – which is now almost exclusively produced, distributed and consumed digitally; *digital distribution* – including airport or concert tickets – is products partly distributed in a digital format but the service itself is not consumed digitally; *digital information* – web pages, reviews and product specifications – involving the characteristics and information regarding the product and service digitally available for the consumer previous to purchase; and *additional digital*

services – specific brand or product apps to offer value added services – which is not a digitalization of the core product, but more an additional utility for streamlined services and is nowadays common in most businesses.

From the viewpoint of *product variety*, digitalization provides retail companies with the possibility to supply a wider selection of products without the storage and cost constraints that often limit physical stores (e.g. Gauri *et al.* 2021). In that sense, online retailers are better equipped to accommodate consumers even in regards to more niche product assortments, whereas brick-and-mortar stores must frequently work under storage constraints and thus strive to supply more of what interests the local majority (Gauri *et al.* 2021; Andersson 2008). A large product assortment is generally perceived as positive in that the consumer has greater variety of choice, and therefore a higher chance of finding their ideal product (He *et al.* 2019). However, Sethuraman *et al.* (2022) found that there is both an optimal assortment size as well as an optimal assortment change for customer acceptance, indicating that a wider product assortment is not necessarily beneficial. Furthermore, an overly large assortment can overwhelm the consumer, especially if the competitor density is high. (He *et al.* 2019) In contrast, when looking at offering niche products, it is often perceived as positive to provide a large or increasing assortment. (Choi & Bell 2010; Sethuraman *et al.* 2022) Digitalization enables the niche market to reach customers globally, and as a result, an increased number of such markets have been established (Anderson 2008). Through the growth of niche markets and in companies not excluding niche target groups, more customer needs will be met, creating a separation through which the customers identity can be more effectively fulfilled.

Gustafsson *et al.* (2019) discuss product variety and product fitting, illustrating the possibilities to – through digital means – find an optimal fit for the customer. As described, a large assortment of products can have the negative effect of overwhelming the consumer, especially if the variety of products are incomparable (Sethuraman *et al.* 2022), making the product fitting crucial (Gustafsson *et al.* 2019) While digitalization counteracts some of the traditional difficulties of product variety, such as search filters and algorithms, it can arguably create obstacles where product fitting is

concerned (ibid. 2019; Brun & Zorzini 2009). However, modern technology has created additional digital services such as product matching, digital fitting rooms, customization services et cetera to mitigate the risk of not satisfying the customer (Gustafsson *et al.* 2019).

3.3.3 Changes to the Market Communication

Digitalization has, to a very large extent, impacted the manner in which market communication is executed. Not only is it the main medium for communication – through digital channels such as social media or company intranets – but it has also altered the types of interactions and sources of influence. Social media communication on both sides of the retailer-consumer interaction experience is nearly borderless, from a geographic and organizational standpoint. All of this, and not least the consumer behavior, was undeniably altered to an even greater extent during the pandemic, as digital communication became the new normal during lockdowns and social distancing (Jawaid & Karim 2021;Bhatti *et al.* 2020).

From the perspective of consumer research prior to purchase, Jawaid and Karim (2021) show that 88 percent of consumers tend to base purchase decisions on social media reviews. However, they also state that a word-of-mouth recommendation from someone they know is still a stronger source of impact on the decision-making process than online reviews from strangers. The importance of giving genuine reviews is also a noteworthy aspect within the field of influencer marketing, as the relationship between brand-influencer-consumer is crucial to get the desired effect of a marketing effort (Belanche *et al.* 2021). If an influencer advertises products that are not aligned with their values and previous statements – which are typically aligned, albeit indirectly, with their followers' values – this perceived inauthenticity can be damaging both for the affiliated company and the influencer's credibility (ibid. 2021).

Increased mobile usage also leaves a *digital footprint*, a collection of data on where the user has been physically, what they have searched for and on which platforms they have been active. This collected data can be used to understand the current consumers behavior better, or find behavioral similarities with potential new consumers (Hollasch *et al.* 2021). In a way,

the consumer is communicating their behavior through their digital use, whether they want to or not. Hayes *et al.* (2021) describe how such information will make targeted advertising more effective and precise for the desired consumer, enabling the exposure of the right product at the right time (Hollasch *et al.* 2021). However, there is a limit to the amount of personalized targeted marketing that will generate a positive outcome – an excessive amount may cause the consumer to view it as an invasion of privacy (Hayes *et al.* 2021).

3.4 The Consumer Perspective

Per its definition, retail relies heavily on the voice of the consumer (see e.g. Gauri *et al.* 2021). Blondé and Van Damme (2019) state that the emergence of department stores beginning in the nineteenth century came about as a result of consumer power in the form of urbanization. As workers and their families migrated into cities and brought with them a demand for cheaper, more standardized products, so did investors willing to put money into the creation of department stores, retail chains and shopping avenues (ibid. 2019). While the very first indications of digitalization in retail – such as barcodes and electronic cashier systems – were not readily visible to the consumer, Hagberg *et al.* (2016) argue that modern digitalization actively involves the consumer. For example, a common approach among businesses today is to be present in the digital and physical retail markets simultaneously, working as an omnichannel (or hybrid) retail business that strives to facilitate the consumer's needs irrespective of the preferred platform (Verhoef *et al.* 2015; Gauri *et al.* 2021). Furthermore, consumers have affected the way companies present in the information search process (Gauri *et al.* 2021; Labrecque *et al.* 2013), but also where they locate physical stores (Gauri *et al.* 2021).

Another clear change to the consumer perspective brought about by digitalization is the ability of online retail to offer a significantly larger product selection. In contrast to the typical brick-and-mortar store, online businesses are thus able to better adapt their product offering to the needs of the individual consumer, rather than simply striving to supply the local majority within the constraints brought about by a physical location (Choi &

31

Bell 2010). Today, the consumer has far more channels and niches readily available to them than ever before (Anderson 2008), largely as a result of digitalization and globalization.

Digitalization has furthermore caused a major power shift in the way content is created; what was priorly mainly in the hands of the brands themselves through more traditional marketing mediums can now be created and spread by anyone, anywhere and at any point in time (Hallam 2013; Obar & Wildman 2015). Nonetheless, as consumers value others' opinions highly before making purchase decisions (Jawaid & Karim 2021), the consumers themselves have kept the power in validating and reassuring others to make optimal decisions.

To an ever-increasing extent, retailers have had to adapt to the needs of the consumer, tailoring their product offerings to their target group. There are various sources that argue that the internet, social media and other digital technologies have increased the power of consumers (see e.g. Hagberg *et al.* 2016; Doherty & Ellis-Chadwick 2010). Labrecque *et al.* (2013) further this argument by stating that there are four types of consumer power that have evolved in the digital context; demand-based (exemplified in the discussion on wider product assortments above), information-based (such as the availability of vast amounts of information through digital platforms), network-based (e.g. present in the distribution of content through digital social communities) and lastly crowd-based power (for example, when consumers can come together and crowdfund products and businesses that they believe in).

So, in summary: as retail has grown into its current form, so has the power of the consumer increased. Discussions on the full impact of consumer power in a digital context are arguably still in their infancy from a research perspective (see e.g. Labrecque *et al.* 2013). However, what can be stated is that it has become increasingly essential for all firms that strive for long-term business to consider the consumer's role in the ongoing and future evolution of the marketspace.

4 Theoretical Framework

This section is based upon prior research, including the insights from the previous chapter. Through theory, variables affecting digitalization are identified. Their impact on digitalization is further discussed. Finalizing this chapter, the proposed theoretical framework with its variables are presented, thus providing a preliminary answer to RQ1.

4.1 Review of Prior Research

The discussed market developments highlight three major changes, namely actors, product offering and communication. Within these changes, not only does the consumer behavior change but also the competitive landscape as the market development occurs at a much higher pace. The inability of a company or actor to adapt and slow reactions to such developments may have devastating consequences for a company, as it may entail not being alert for new actors, investing in obsolete product offerings or choosing the wrong communication channels.

4.1.1 Identified Variables

To understand the many layers of digitalization present in the retailer-consumer interface, the framework of this research project is primarily based on another framework developed by Hagberg *et al.* (2016) for the purpose of analyzing the transformation of retail as ignited by digitalization. Looking at the four elements by Hagberg *et al.* (2016) in more depth, *exchange* refers to activities within the retailer- consumer interface that can be further divided into three categories: communication, transaction and distribution. By *setting*, the authors reference the contexts in which the retail process occurs, which has been altered both through the introduction of new settings – such as the digital marketplace (as discussed by e.g. Dinu & Dinu 2014; Rohn *et al.* 2021) – and by the intermixing of settings, often in the form of multi- or omnichannel (see e.g. Verhoef *et al.* 2015; Brynjolfsson *et al.* 2013) retailing. Thirdly, *actors* is used to describe the various parties involved in the retail process. In the context of digitalization, this has

entailed new interactions between humans and technology, and the contextual boundaries have thus been blurred through the introduction of new parties, roles and relationship dynamics to be considered. Lastly, *offering* is used to implicate the products and services, and in particular the changes to them as a result of digitalization.

Strønen (2020) provides an additional perspective to the concept of retail digitalization with an analysis of the driving forces for digitalization within retail and service industries. This research identified three primary categories: customers, processes and business development. Furthermore, Gustafsson *et al.* (2019) state that as the technology for digital product fitting emerges, the digitalization within retail will be driven even further. This will make it easier to meet customer needs through the possibility to make additional information and services available, especially in regard to the product categories *digital information* and *digital additional services* presented in section 3.3.2 above (Strønen 2020; Gustafsson *et al.* 2019). Hänninen *et al*. (2019) further emphasize the importance of interactions and service systems within retail to enable value creation within front-end digitalization. Furthermore, *convenience, customization, engagement, price, selection* and *speed* are the variables deemed to matter most when creating an attractive value proposition in the modern digital market (Hänninen *et al*. 2019).

4.1.2 Impact of Variables

The impact of the variables and drivers discussed above are also important, as this gives an understanding of how digitally immersed a business might be and work as an indicator for successful measures. Aspects of the digital product fitting – offering digital services around the physical product – enables the company to offer a greater variety of products, better customer need matching, material flow improvement, digital product development, more precise assortment planning and better customer relationship. (Gustafsson *et al.* 2019) Hänninen *et al.* (2019) discuss how the variables in the front-end, in combination with the back-end aspects, delivers a holistic customer experience in the service system that bridges the gap between online and offline retailing, enabling customer lock-in, operational efficiency and effectiveness, customer effectiveness and efficiency as well

as increased customer engagement. The three drivers found by Strønen (2020) are providing expertise, efficient systems and faster direct communication, enabling standardization of distribution and improved customer contact.

4.2 The Proposed Framework

Sections 3.1 through 4.1 have introduced the reader to the process of retailing as it has increasingly been altered by the impact of digitalization. Based on this, a framework has been developed to be utilized for this research project. The framework is primarily based on the work of Hagberg *et al.* (2016), but also draws influence from Strønen (2020), Hänninen *et al.* (2019) and Gustafsson *et al.* (2019). While the authors of these papers use different terms to define the variables of their respective frameworks, including elements and drivers, this framework will use the term variable, as it is the variations within various retail industries that are of interest for the research project. This framework aims to – at least on a preliminary level – answer RQ1.

While Hagberg et al. (2016) provide an extensive framework to expand from, the variables used are broadly defined and occasionally overlapping. Drawing inspiration from the other articles, a more precisely articulated framework is deemed to better facilitate more easily measured variables, thus making them more suitable for this study. Furthermore, the role of the consumer is an essential part of this framework, as the overarching goal of retailers is to acquire consumers and thereby achieve balance in the market system. Therefore, the consumer must be accounted for in all variables rather than treated as a separate one. Consequently, the essential variables affecting digitalization within retail are established to be the following: Distribution, Interaction, Competition and Product offering. Each is presented in a section below.

4.2.1 Distribution

Hagberg *et al.* (2016) include the function of distribution as a part of exchange, underlining the impact digitalization has had within this area. It is argued that the variable of exchange is a little vague and can entail a great

number of processes within the market system, not all of which are relevant with the consumer perspective as an overarching objective. For the purpose of this framework, it is the function of distribution in itself that stands out as particularly impacted by the process of digitalization. It will therefore be regarded as its own variable. Distribution pertains to both the development that has occurred as a result of distributing the product digitally (Hagberg *et al*. 2016; Strønen 2020) and the effects of creating efficient and effective ways to distribute non-digital or physical products with the help of digitalization (Hänninen *et al.* 2019; Gustafsson *et al.* 2019). The latter can involve a range of possibilities in the transition from integrated to outsourced distribution (Gustafsson *et al.* 2019) or in providing global distribution at a lower cost (Anderson 2008). From the theoretical framework, it is apparent that factors such as disintermediation eliminating certain distributors and other intermediaries (Doherty & Ellis-Chadwick 2019), reintermediation creating new ones (Kotha 1998), large product assortments compelling companies to have a large stock with large capital tie-ups (Sethuraman *et al.* 2022) and the simultaneous expectations from consumers regarding quick deliveries and returns (Gauri *et al.* 2021) have all imposed requirements on distribution. Adding to this, distribution has an essential role in the sense that it can alter the entire market climate depending on the shape digitalization takes – by for example enabling higher degree of globalization or opening up never-before reached markets. Therefore, it is an essential variable of this theoretical framework.

4.2.2 Interaction

Both customer engagement and communication are continuously shown to be important drivers for digitalization (e.g. Hagberg *et al* 2016; Hänninen *et al.* 2019; Gustafsson *et al.* 2019). These are aspects of the overarching variable of *interaction.* Interaction can occur not only between the retailer and the customer, but also between different customers without the direct involvement of the retailer or brand (Hagberg *et al.* 2016; Hallam 2013; Obar & Wildman 2015). An apparent change in the ways interaction occurs has been facilitated by the transition of marketing channels from the offline environment to its online counterpart (Hänninen *et al.* 2019), wherein social media plays an especially significant role. *How* and *where* a company reaches their customers has changed significantly over the past decades, and

marketing is more complex than before. However, the ability to find out more about *who* your customers are is now more easily accessible and collected through data. For this reason, interaction is the second essential variable of the theoretical framework.

4.2.3 Competition

Another variable that affects digitalization is the competitive climate. Not only has retail digitalization enabled previously unparalleled competitors – such as Amazon – to disrupt the market, it has also created a larger set of competitors as geographic limitations are gradually eliminated (Hänninen *et al.* 2019). It creates the possibility for an environment with an infinite number of niche markets (Anderson 2008) Furthermore, Hagberg *et al.* (2016) discuss how digitalization makes it possible for companies to co-produce with their consumers, in which the competitive climate gets tougher as the need for the customer's attention can be crucial. As a result of the change of interaction, disintermediation within the distribution and other ways to optimize the business through digitalization, Hänninen *et al.* (2019) state that this can create a competitive pricing strategy as well – being able to push prices further.

4.2.4 Product Offering

As digitalization enters new areas, the traditional product offering within those areas has started to take on alternative shapes (Hagberg *et al.* 2016; Strønen 2020). Hagberg *et al.* (2016) use the term product offering so as to include products and services, but also the way in which payments are made for these offerings. Another important aspect within product offering variables is the additional services and products on offer due to digitalization (Hagberg *et al.* 2016; Strønen 2020), and the possibility to have a larger and more niched product assortment (Anderson 2008). However, these additional offerings can be critical in the aspects of product fitting and product matching in order to survive in the rapid e-commerce environment (Gustafsson *et al.* 2019). In addition to this, the digital product can in some industries become a complete substitute for the original physical product, while in other cases it works as a supplement, additional service or complementary product. For the scope of this research, the main

focus will be on the change of products and the additional digital services around said products, hence the sole service solutions that the digital era enabled will not be further explored.

4.2.5 The Summarized Framework

This framework is intended to provide a fundament upon which the case study analysis of the following section can be built. It contains the relevant terminology as well as identified connections between various layers and dimensions of the retail space. The variables and connections, as presented graphically in Figure 4.2 below, impact *how* a retail industry is digitalized. The framework may thus be used to understand and hypothesize around whether a certain retail industry or product category is likely to be digitalized. This includes *why* it is likely that digitalization will or will not occur as well as the pace at which this is likely to happen. By applying the framework, it should also be possible to hypothesize around whether certain parts of an industry are more likely to be digitalized than others, as well as *how* digitalization is likely to occur within the industry or branch.

Figure 4.2: The theoretical framework

The following section will apply the framework to a set of well researched retail industries that, through various channels and means, have been impacted by digitalization. The intention behind this is twofold; to test the

validity of the framework before applying it to the less researched beauty industry and to illustrate its applicability on various types of strategies, businesses and products. In the end, the ambition is that the framework can then also be used as a predictive framework pertaining to the *hows* and *whys* of digitalization across all retail industries.

5 Case Studies: Mature Industries

To further sophisticate the presented framework, this section investigates how the variables have featured and evolved in already digital immersed retail industries. This is done by applying an empirical approach to the developed framework on different industries. The first two sections describe two industries with significant impact on retail digitalization across all dimensions; the book industry – as books were the first category to be sold online – and the fashion industry, which today is the largest product category in online retailing. The third section then analyzes the industries using the theoretical framework in order to strengthen its validity.

5.1 The Book Industry

The publishing industry has a history that stretches back millennia. While there are earlier documented sources of literature, the first mass-published book in the Western world is considered to be the Gutenberg Bible, originally published around the year 1455 (Britannica 2022). From the nineteenth century onwards, the industry was revolutionized to enable the more affordable mass-publication of books (Britannica 2020). Towards the very end of the twentieth century, another revolution occurred as online retailers started to distribute books via websites (e.g. Thompson 2013; Kotha 1998). This has had many implications for the industry; increased competition, new marketing tactics through social media and, not least, the creation of digital alternatives to physical books in the form of ebooks and audiobooks distributed through streaming platforms in a similar fashion to Netflix for the movie industry.

Prior to the introduction of online retailing, the book industry had a vertical and straightforward structure, where a large share of the power lay with traditional publishers (Hviid *et al.* 2019; Thompson 2013) as represented by Figure 5.1. As the computer increasingly made its way into people's homes,

the idea of online retailing was born, opening up for a whole new world of possibilities. In 1995, Jeff Bezos launched Amazon.com – one of the first and to this day arguably the most successful online bookstore – and offered as much as a million different titles from the very start (Milliot 2015; Kotha 1998). The strategic choice of books as the first product to be sold online was, according to Bezos himself, based on the fact that books – at the time – were the most substantial product category by far. In other words, the number of books on the market was substantially larger than the number of items in other product categories (Grothaus 2019). From a business perspective, they were also an easy product to source and distribute on a digital platform (McFadden 2021).
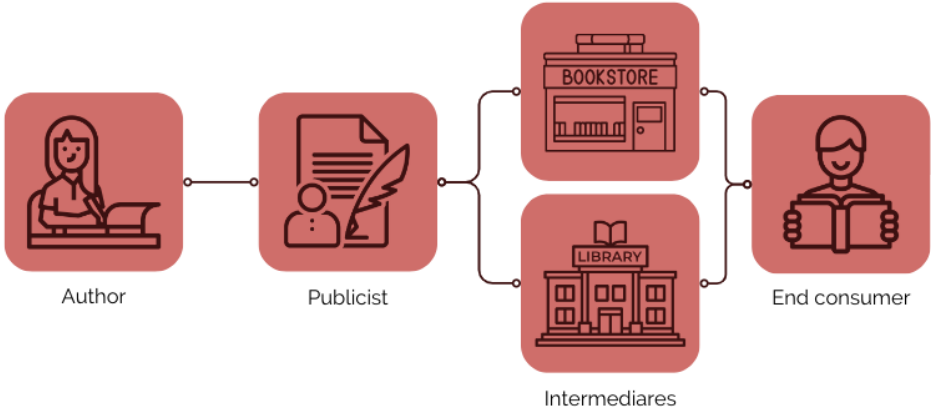

Figure 5.1: The vertical hierarchy within the book industry

Traditional brick-and-mortar bookstores, publishers and authors alike have all been impacted by the digital revolution in various ways. The following section highlights how the parties, the channel strategies and the actual product have been impacted through the dimensions of the framework.

5.1.1 Framework Application

Distribution

The changes in distribution within the book industry resulting from digitalization are multifold. As briefly discussed above and referenced in Figure 5.1, the industry has traditionally been vertically structured. Explained simply, the author would turn to a publisher to have their books

printed and published. The publisher in turn would distribute the books to the end-consumer through a retailer – a small, local bookshop or a larger but usually national retailer (Hviid *et al.* 2019). Alternatively, the books could be distributed through some form of lending service such as a library, but the structure prior to that point remains the same (Thompson 2013).
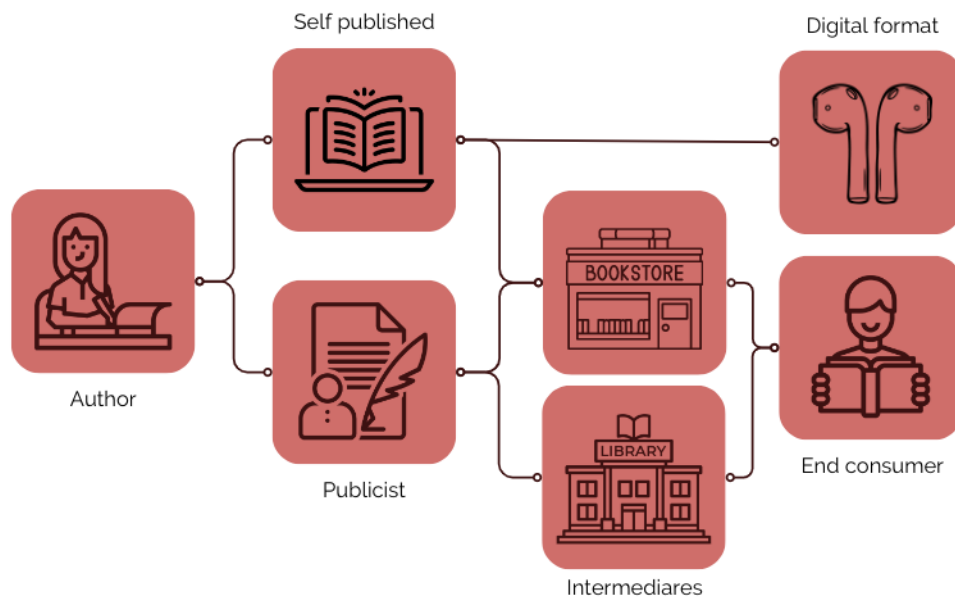

Figure 5.2: The altered structure of distribution within the book industry

With the rise of online book retailers, such as Amazon and the Swedish company Bokus, the possibilities for new forms of distribution wherein the traditional retailer and the publisher were excluded became possible, both in the form of self-publication and through new digital distribution formats. This meant that the distribution structure took on a new, less vertical structure, as represented by Figure 5.2.

Because online stores do not need to invest in attractive store locations, inventory or sales personnel to the same extent, they are better able to achieve economies of scale from a supply perspective (Gauri *et al.* 2021; Brynjolfsson *et al.* 2003; Thompson 2013). Furthermore, the possibility of centralized centers of distribution combined with delivery options directly from supplier to end-consumer allowed for a significantly larger product selection than was possible in physical stores, which had constraints in the

form of both physical storage space and the sheer cost of carrying books that are less popular (e.g. Brynjolfsson *et al.* 2003; Gauri *et al.* 2021). Consequently, online book retailers have the upper hand in selling "the long tail", i.e. the less popular, more niche items desired by a particular group of consumers (Gauri *et al.* 2021; Anderson 2008).

However, from a consumer preference perspective, online bookstores face an issue. While some studies indicate an initial decline in small physical bookstores as a result of digitalization (see e.g. Goldmanis *et al.* 2010), another study has shown that online stores saw declining sales of popular book titles when new brick-and-mortar bookstores established themselves in local markets (Forman *et al.* 2009). With more niche literature, however, online stores remain the preferred alternative due to the sheer product selection they are able to offer (see e.g. Choi & Bell 2011; Brynjolfsson *et al.* 2003). This suggests that in general, consumers of literature have a slight preference for physical stores, but will turn to online bookstores when the local store does not hold the product selection they desire.

It is not only the physical bookstores that have been impacted by the possibilities derived from e-commerce, but also the traditional publishing companies. Brynjolfsson *et al.* (2013) point to the fact that Amazon has moved into the publishing domain in contracting directly with authors and providing them with the possibility for self-publishing their books. Hviid *et al.* (2019) further this statement by providing a number of examples of emerging digital platforms that enable the author to prepare their own book for print and self-publication. In conclusion, the degree of disintermediation is stronger here than with the bookstores, as consumers have a preference for physical bookstores whereas authors do not display the same loyalty to large publishers.

Additionally, a new form of product distribution has arisen as a result of digitalization; ebook and audiobook subscription platforms (Hviid *et al.* 2019) such as Audible, Storytel and Kindle Unlimited. The ability to supply non-physical products entails near-limitless opportunities in terms of low-cost distribution. Additionally, it impacts physical bookstores, for whom it would make little sense to solely distribute digital products, if it were to

become a reality for the industry that physical books were substituted entirely for the digital alternatives. However, some larger, originally physical – such as Barnes & Noble – have responded to this distribution threat by creating their own reading tablet, and used their reputation as a trusted supplier of books to gain popularity for this product (Thompson 2013).

As streaming platforms are a type of distribution service that diverts significantly from the intended purpose of this research project, it will not be discussed to any further extent here. Nevertheless, it is impossible to ignore the impact such services have had on the media industries as a whole.

Interaction
Prior to the internet, book popularity relied heavily on publishers' marketing (Hviid *et al.* 2019; Thompson 2013), reviews from popular newspapers and magazines as well as recommendations from friends and other trusted people within the consumer's circle. Another important mediator, albeit not one that necessarily impacted the consumption of books from a sales perspective, was the librarian (Tomasena 2019). Today, the sheer selection of books available makes the book industry highly saturated, but the market is also niched and dispersed (ibid. 2019). Not only is the number of books being published every year in or close to the hundreds of thousands, but there are also books on every topic imaginable being published and distributed from every corner of the world. As a consequence, it is becoming increasingly difficult for publishers and book retailers to reach the intended audience and potential readers of a literary work.

It can be argued that the largest problem in the book industry post digitalisation has shifted from distribution – i.e. how to get the books out to a larger audience – to interaction, meaning how to find the right audience for a specific book (see e.g. Tomasena 2019; Gauri *et al.* 2021; Thompson 2013; Anderson 2008). It is no longer possible for publishers to make false or exaggerated claims pertaining to the popularity of previously published works by an author to market their new works – a popular marketing tactic of old – as sales numbers and reviews are readily available on the internet (Thompson 2013). Furthermore, it is becoming more difficult to 'hype up' a

book through excessive or untrue claims about its content (ibid. 2013). Increasingly, it seems as though the marketing power for books has thus shifted away from publishers and retailers and into the hands of two primary groups. One of these are the independent parties that feature and review books on social media platforms (Tomasena 2019). Today, there are platforms designed specifically for this, such as GoodReads, where everyone who is interested may share their opinions on a book for others to see. Additionally, there are creators that have built their own brand on larger social media platforms such as YouTube, Instagram and Tiktok (where the communities are often referred to as BookTube, Bookstagram and BookTok respectively).

The second group with significantly more marketing power as a consequence of increased digitalization are the authors themselves. Authors are not only able to bypass publishers and traditional retailing structures in a distribution sense (Hviid *et al*. 2019), but social media has furthermore enabled them to personally market their books in various relevant forums. Some authors have even been able to obtain offers from publishers by marketing their book ideas on social media before actual publication. For example, one author by the name of Alex Aster went viral in the BookTok subcommunity on the platform TikTok for her planned fantasy novel in 2021, and was able to not only secure offers with a large publisher but also sell the movie rights before the book was released to the public (Messina 2022). Furthermore, these platforms enable authors to interact directly with readers and fans, enabling them to build their brand and obtain readers for future publications as well.

Both of the aforementioned groups have also had an impact on the way both physical and online book retailers market and promote their product selection. Digital book retailers, such as the Nordic retailer Adlibris, have created sales categories and lists named 'Popular on BookTok' (Adlibris n.d.-a) in which the consumer can browse books that are frequently featured on the platform and which have been popularized by consumers using the platform. Physical bookstores have applied the same principle by creating separate shelf space for books that are 'trending on BookTok'. Some go

even further; for example, UK bookstore Waterstones arranged a BookTok festival in 2022 to celebrate the BookTok community (Waterstones 2022).

In summary, digitalisation – and social media especially – have provided authors with the possibility to reclaim some of the power priorly held by publishers and retailers. It has also enabled passionate readers and digital creators – the consumers of books – to popularize books that might otherwise have remained unpublished or been limited to a very niche audience.

Competition

As one of the first online stores, Amazon made the decision to start selling books as a category specifically based on the large product assortment available and the simple supply and distribution process. Yet while true for Amazon, the same possibilities were obtainable for most online stores at the time, meaning that there was a possibility for high levels of competition. For example, two separate stores, Bokus and Adlibris, launched in 1997 with a similar concept focused on the Swedish market (Adlibris n.d.-b; Bokus n.d).

Lavfors and Stenskytt (2022) conducted a small-scale study in which they compared the four largest book retailers on the Swedish market; Amazon, Adlibris, Bokus and Akademibokhandeln (the last of which is originally a physical bookstore that now has a webshop as well). In terms of price competition, their conclusion was that while prices can differ significantly between the retailers, they did not identify a significantly cheaper option across all categories. As expected, Akademibokhandeln (whose prices are usually the same online and in-store) was the most expensive option in most categories, but they also offer store memberships that reduce the prices of most of their books. Amazon, in contrast, had the largest – sometimes unexplained – price variations. In terms of competition based on product differentiation, some stores were better able to supply a wide selection in specific categories; Amazon had the largest selection of books in English, sometimes offering new releases before the others were able to, and Bokus had a particularly large selection of course literature for Swedish universities. (ibid. 2022)

But while competition is fairly evenly distributed among the online retail alternatives, the brick-and-mortar stores, as discussed under *distribution*, have an advantage over their online counterparts in that they are the preferred option among many consumers of books (Forman *et al.* 2009), meaning that companies within this industry must work to deliver the feeling that consumers are after when going to a physical bookstore. As discussed under *interaction*, some brick-and-mortar stores keep readers coming by arranging events and catering to the demands generated from social media platforms. Two factors stand out as potential adversities for their ability to maintain this competitive advantage long term, however: the *inability to supply niche audiences* as well as the *increasing digitalization of the actual product*.

Product offering

As with many other entertainment industries such as those for music and motion pictures, digitalization has given rise to a new product format in the book industry: the digital book. There are two primary formats of digital books; those distributed in a reading format (commonly known as *ebooks*) and those distributed in a listening format (*audiobooks*, which existed before through CD recordings but are now typically distributed through streaming and platform services).

As far back as the late 1990's, i.e. the early days of retail digitalization, publishers and venture capitalists alike invested in and pushed for electronic publishing and digitization of existing books (Thompson 2013). Yet despite such significant strides being made from an industry perspective, the acceptance of ebooks from the consumer perspective has been a slow process. The explanation for why the digital product alternatives were so difficult to popularize early on is believed to be a combination of insufficient hardware to read the books on, unclear format requirements, unclear legal rights to the published works and a lack of consensus around what would be the reasonable pricing for digital books. Once these factors had been mostly remedied, the surge in ebook sales was noticeable. (Thompson 2013; Tondelli 2021) Yet even with increasing sales of digital books, the process of acceptance is still ongoing, as evidenced by many readers still stating a clear preference for physical books over e-books

(Colless 2022) and physical book sales in the year 2020 achieving their highest numbers in a decade (Tondelli 2021). Additionally, it is still more common for books to be supplied in both a physical and digital format (Brynjolfsson *et al.* 2013) than for them to be solely digital. On the flip side, the possibilities offered by digital products must also be considered. For example, it enables retailers to supply self-published works and niche literature (e.g. Hviid *et al.* 2019), where the number of physical editions is low and the product sourcing more complex.

So in short, the rise of digital books has had a major impact on the book industry, despite the acceptance rate being slow. Currently, ebooks and audiobooks constitute complements rather than substitutes for physical books due to the overwhelming preference for the latter alternative. At the same time, both the audiobook and ebook are fast-growing segments of the industry (Kozlowski 2020). Thus, it is becoming increasingly difficult to ignore the possibility that they will be able to outperform physical books in the long-term.

5.2 The Fashion Industry

Through centuries, fashion has been a means for cultural and personal expression (Pratt *et al.* 2012). Once it emerged to take its place in literature, film, advertising, theater and journalism, it was increasingly used to display political ideas and standpoints, creativity, individualism and social identity (Breward 2003). The fashion industry, including clothes, shoes and accessories, is a fast moving industry whereas quality, price and personal style are crucial. Historically, the hierarchy within the fashion industry was vertical, illustrated in Figure 5.3. As fast-fashion emerged in the 2000's, fashion producers had to keep up with fast moving seasonal trends as well as increased consumption and globalization (Brydges *et al.* 2018; Pratt *et al.* 2012). Different designers, price segments and fashion chains established their roles in this brick-and-mortar era (Breward 2003). However, after the success of early e-commerce businesses of the late twentieth and early twenty-first century, the e-commerce channel started to spread into new sales categories, further spurred by the increased spread of the internet,

mobile usage and globalization – something that completely disrupted the established market system with digital competitors (Lufkin 2020).
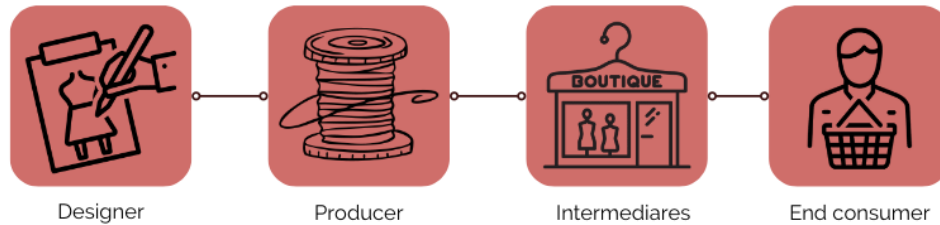

Figure 5.3: The vertical hierarchy within the fashion industry

At first, the internet was used by consumers as a means of collecting additional information regarding products, which was often supplied by bloggers in the fashion industry. The fashion blogs and bloggers became key players within market communication, and a new and quicker marketing tool for companies to indirectly interact with their audience. (Pratt *et al.* 2012) As the customer behavior started to change, from purchasing everything entirely in stores to being more comfortable with making some purchases online (Lufkin 2020), the possibilities to reach the consumer increased (Savastano *et al.* 2019). This entailed an increased amount of touch points in the customer journey, but somewhat more complex ways of interacting with customers through social media (Pratt *et al.* 2012; Savastano *et al.* 2019). The new hierarchy structure, illustrating the increased possibilities to reach the end consumer is shown in Figure 5.4. During the beginning of the 2010's, the fashion retailers were still under the perception that the customer required the need-for-touch (NFT) before purchasing – and the consumers still saw the physical store as the main source of distribution (Savastano *et al.* 2019).
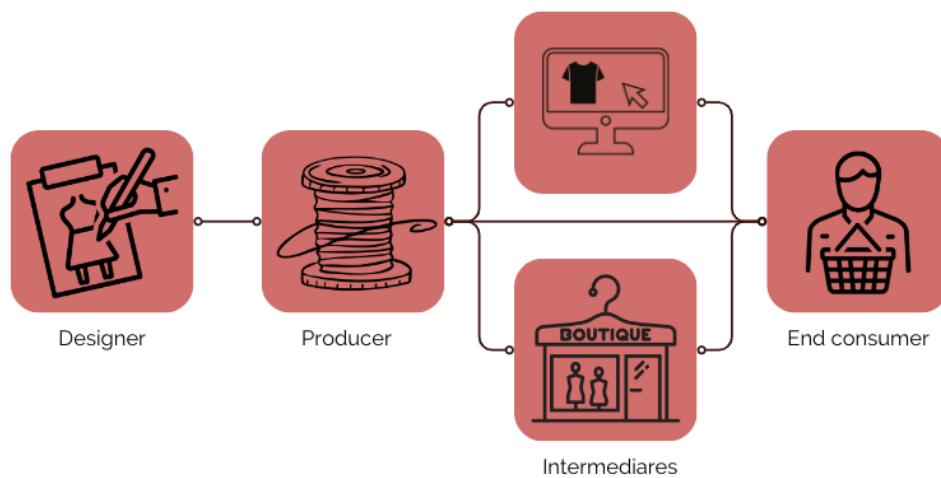
Figure 5.4: The altered structure of distribution within the fashion industry

Online-shopping for clothes kept increasing, the number of traditional brick-and-mortar channels declined and the stores that did not adapt to the digital climate had a hard time surviving (Savastano *et al.* 2019). This was a result of customers being increasingly comfortable with making purchases online, in combination with every-day mobile usage and more accessible internet (e.g. Goggin 2020; Kemp 2022; Pratt *et al.* 2012). E-commerce within fashion retail also drastically accelerated due to the covid-19 pandemic outbreak in early 2020 (Lufkin 2020).

5.2.1 Framework Application

Distribution
The change of distribution within fashion is, in general, much like other physical products within retail: the customer went from being limited to the local offerings to having a global selection to choose from (Anderson 2008). Although traditional brick-and-mortar stores still exist, increased fashion e-commerce has changed the environment for retailers in the industry. Industrialization and the ability for more rapid production developed into the fast fashion industry, which created the expectation for companies to deliver a wide range of new products, at low costs within a short period of time (Acar Alagoz *et al.* 2022). As these brands enabled a shorter time-to-market, Pratt *et al.* (2012) state that companies were able to "shorten

seasons" as they produced more collections throughout the year than a fashion brand normally would, creating higher incentives for shoppers to revisit the stores more often. López *et al.* (2022) argue that the fast fashion industry is not only a result of digitalization within manufacturing, but also driven by digitalization processes within retail and logistics. For example, digitalization enables the possibilities to use AI and digital customer models in order to optimize the planning and handling within warehouse and logistics, but also to help predict sales and anticipate precise shipping (Pereira *et al.* 2022; López *et al.* 2022).

As e-commerce within fashion increased, naturally, so did the requirements and expectations on shipping, handling and returns within B2C. Clothes and apparel are the most common item to return in terms of online purchases, due to the inability to try the items before purchasing (Gustafsson *et al.* 2021). Quick and easy deliveries became a competitive advantage within the fashion industry, and additional layers of complexity were added within distribution to facilitate this process (Hjort *et al.* 2019). Over time, offering free shipping and free returns became the new normal in order to make consumers choose to purchase online (Hutchison 2022). However, this encouraged the behavior of over-ordering, for example when ordering multiple sizes of the same item to then return the pieces that did not fit (Gustafsson *et al.* 2021). Furthermore, it was questioned by consumers from a sustainability point of view as it generated more unsustainable shipping processes and increased unnecessary consumption (Hutchison 2022; Gustafsson *et al.* 2021). Nowadays, fever brands offer free shipping without trade-offs (such as a minimum spending limit, higher level membership or pick-up at the physical store) and free returns are no longer as common.

It is clear that the customer behavior has changed and the previously required need-for-touch prior making a clothes purchase is no longer a necessity. However it still is a factor considered when deciding to keep the item or return it (Ornati 2022). One actor that has been successful in their manufacturing and production processes is the Spanish fast fashion brand Zara. As Zara owns their entire production, they are able to interpret high-fashion items, mass produce them, get the products in store and online quickly and monitor the consumer response in order to produce more if the

52

market responds well (Pratt *et al.* 2012), which changed the distribution of fashion in a more efficient way.

Interaction

The dimension of interaction has changed in regards to which channels are used and in what way a consumer gets their fashion inspiration. In the past, luxury brands set the upcoming seasonal trends through fashion shows, A-list celebrities and royalties were the trendsetters and styling ideas were found in magazines. Brick-and-mortar stores had to be up to date on trends and seasonal changes with their fashion lines as the collection released was planned way ahead of time, and making changes in advertising and items were almost impossible (Pratt *et al.* 2012). This meant that the fashion industry retailers established the trends and consumer interaction for the earlier stages –such as product design – barely had any touchpoints. Today, the main channels used for interaction with consumers are platforms containing a lot of pictures and videos, such as Instagram, TikTok and Pinterest. This constitutes the major inspiration feed for the consumer, especially in combination with influencer marketing (Shin & Lee 2021). During the covid-19 pandemic, the contact-free way of live shopping through social media bloomed and provided the consumer with the means to ask questions to the company, view the item and make purchasing decisions in the comfort of their own home, often these live events provide multiple limited offers and price reductions (Jeong *et al.* 2023)

Some suggest that digitalization would have progressed quicker if the customer experience from the stores was easier to mimic, as this would lower the bar for the required customer behavior change (Savastano *et al.* 2019; Blázquez 2014). Essentially, Blázquez (2014) explains that the customer expected an equal experience when shopping online compared to in store, an expectation that the digital sales channel was unable to fulfill due to the major differences between the channels and the lack of a seamless experience. The interaction online did not provide the same experience as offline, and fashion companies were not able to reach the same touchpoints or create innovative new ones (Savastano *et al.* 2019; Blázquez 2014).

Globalization and digitalization has also shed light on the importance of brand awareness (Kautish & Sharma 2018). In order to keep your consumers, it is expected that you take a stand and take responsibility politically, ethically, economically and sustainably (Adams 2019). This involves interacting with the audience in forums only provoking or uncontroversial fashion brands would feature in. This suggests that the consumer cares more about shared values than ever before (Kautish & Sharma 2018). It has also become easier to hold brands accountable for their actions through the usage of social media and in connecting with a global audience. There are multiple brands that both have successfully used their platform and unsuccessfully done so. In some cases, the lack of interaction and responsibility have caused equal discontent with the consumer audience (Adams 2019).

Competition

The first aspect of changes within competition is the increased number of competitors that have had the opportunity to become a large fashion brand without any physical stores (e.g. Pratt *et al.* 2012; Anderson 2008), such as ASOS. Going digital has also created a more competitive environment for niche brands, both in their offer but also in their reach (Anderson 2008). Not only can fashion brands be born and established digitally, but large marketplaces such as Amazon or AliExpress are increasingly taking market shares through disintermediation and methods of producing fashion brand dupes for a fraction of the price (Miotto & Youn 2020). These actors within the fast fashion industry compete with the original brands, but as consumers are expecting a lower quality, they are more easily won over by the prices and overflowing marketing tactics of these platforms. Hallam (2013) states that this is an indicator that the era of brands is coming to an end. However the ethics of buying fast fashion is questionable, as it is known for bad working conditions, minimal wages and child labor (Miotto & Youn 2020). This has resulted in higher pressure on fashion companies to work with CSR and sustainability, and a competitive advantage for the companies that do it well (ibid. 2020).

As previously mentioned, other factors within the purchasing process that were not that important within the physical store shopping for clothes have

54

become new competitive advantages. This could include delivery options, shipping lead time, payment options, return policies or additional services for product fitting (e.g. Hjort *et al.* 2019; Gustafsson *et al.* 2021; Klarna 2022; Gustafsson *et al.* 2019).

Product offering
Even though the product offering will per say change due to trends, seasons and liking - the physical fashion product will still remain. Although it is clear that digitalization brings additional services within e-commerce to reduce the risks of purchasing a product that will not meet the customer's requirements (Gustafsson *et al.* 2019). Using AI has been commonly spread, used in multiple companies' customer models (Pereira *et al.* 2022) in order to mitigate the risk of offering the wrong product to the wrong customer. Especially as the number one reason for customers to return the fashion item is because it did not reach expectations and/or did not fit (e.g. Gustafsson *et al.* 2019) and returns can be a very expensive process for the retailer (Hjort *et al.* 2019)

Digitalization and the possibility to order fashion items online has compelled some companies to develop tools that provide opportunities for the customer to get more optimal product fitting and personalisation, in the form of for example mass customization, individual customization, AI try-ons etc. (Pratt *et al.* 2012; Gustafsson *et al.* 2019). One of the first companies offering mass customization was NikeID, which provided the possibility of creating a personalized touch to a traditional shoe model (Pratt *et al.* 2012). Another commonly used tool today, but revolutionary when introduced, is the usage of presenting each item using a short video. This helped the consumer get a better understanding of the fabric's movement and quality without the NFT (Omati 2022).

Most importantly, in terms of product categories named by Stønen (2020) and fashion being a physical product, one could argue that digitalization has limitations. It is no longer that uncommon for fashion brands to release collections entirely within the digital sphere, such as Non-Fungible Tokens (NFTs). The Scandinavian brand Carlings was one of the first barrier breakers with a collection that got huge attention globally (Roberts-Islam

2019), and by 2023 the luxury company Prada is expected to sell their ninth fashion collection with NFTs - however, within this collection you get a matching physical fashion item (Douglass 2023a). Moreover, the market value for digital fashion is expected to reach 4,8 billion USD by 2031 (Douglass 2023b). However, this market is arguably not included in retail to any further extent, hence outside the scope of this project.

5.3 The Preliminary Analysis

This section provides a preliminary analysis of the framework and its insights based on the two well-researched industries presented above, while also including some significant examples of industries where digitalization is more emphasized in one dimension than the others. This is done with the purpose of further analyzing how the variables of the framework impacted the already digitally transformed retail industries. Here, these industries will be compared to highlight the similarities and differences, this analysis will then be used for the final discussion of the theoretical framework.

Distribution
Where distribution is concerned, it is probably more difficult to identify an industry that has *not* been impacted by digitalization than it is to discuss the ones that have. The fact of the matter is that all retail industries – whether as a result of technological developments or globalization – have been forced to revisit their distribution structures to various extents in the modern retail environment. Evidently, distribution is greatly impacted by the evolution of digitalization (Anderson 2008), equally as distribution is driving what is possible within digitalizing the retail industries.

As demonstrated in sections 5.1 and 5.2, both the book and the fashion industry have been significantly impacted by the digital changes within distribution. For the book industry, this enabled small actors to take power and often replace physical stores as customers were offered multiple channels of distribution. Similarly, sources of distribution within the fashion industry multiplied as a consequence. However, while there are similarities in terms of the increased number of distribution channels making goods more accessible to consumers, the ways of utilizing this benefit differ. In the

case of the book industry, digitalization has enabled reintermediation in the form of digital actors such as Amazon distributing physical books online, but also disintermediation in the ways that smaller publishers and individual authors gained an ability to distribute directly to consumers. Both ways resulted in increased possibilities to reach the customers. Within the fashion industry, it is notably more common for disintermediation to appear than reintermediation, even though they both occur. The fashion industry has also had a structural change due to digitalization in terms of the fast fashion production putting pressure on the market system, producing and distributing items faster than ever.

A major difference between the industries is that digitalization enables the distribution of a digital product within the book industry (the offering itself will be discussed within the product offering section), which is not possible within the fashion industry. However, it does include another layer of possibilities to distribute a digital product, eliminating costs for freight, time for freight, costs for production and capital being tied up in stock.

There is one retail industry that has created something revolutionary where distribution is concerned: the food retail industry. The ability to digitalize this industry has been questioned due to the customers' shopping habits and their distinctive NFT – i.e. wanting to see and touch their groceries before purchasing (Klepek & Bauerová 2020). Similar parameters have been identified especially in the fashion industry, where the customer behavior has included a desire to feel and try the product on before purchasing. While both of these industries have experienced some success in mitigating the lack of physical touch and inspection through digital sales, this does not take away from the fact that people's desire for having the physical experience of shopping such products is not expected to diminish. From the consumer perspective, it is worth noting that the desire for experiences created by physical shopping – such as the ability to feel, look at or in other ways experience the product first-hand – remains in almost all categories. However, it might not lead to an actual purchase at the physical location.

The food industry sets other requirements on distribution to end-consumers than do the book and fashion industries. Enabling distribution options that

facilitate easier consumer adoption has also helped in the change towards a more digital industry. Previous to the COVID-19 pandemic, delivering food was mostly through restaurants, only a limited percentage of consumers doing their grocery shopping online (Klepek & Bauerová 2020). However, fuelled by the pandemic, the industry had to rapidly offer other means of distribution as the world shut down, still ensuring the goods quality. Even though there are less people doing their grocery shopping online than during the pandemic, there are still an increased amount of people than pre-pandemic. This could be explained by a change of customer behavior and internal factors such as changed perceptions, as well as other external and situational factors that made the consumer feel the convenience of it (Klepek & Bauerová 2020).

Interaction

The dimension of interaction has taken similar shapes as social media has had a huge impact on these industries. Communities are created at every social media platform, dedicated to not only each industry but also to each niche within said industry. An important function is the possibility to review products and communicate with peers. However, within the book industry there is far more review content on specific books that uphold a longer value or a topic for discussion to the community. In contrast, the fashion industry interaction on social media is driven by consumption, trendsetting and enforcing a purchasing behavior as items of clothes vary more over time. As fast fashion has emerged, the activity on social media for the brands and their interaction with followers has also been expected to keep a high pace. This strategy can be seen within the entire retail industry, as the different brands are trying to create an emotional bond, brand awareness and be top-of-mind for customers through showing activity on social media (Adams 2019).

Other factors within the specific segment affect the way the interaction has taken shape. The fashion industry, as mentioned above, has since gone digital suffered from an immense amount of returns and over-ordering. In turn, this requires a lot more customer service and interaction than is present in the book industry. There is also a higher pressure within the fashion industry if something were to go viral, as it is important to be responsive and

58

meet the high demands – this risk is far more rare within the book industry as there is a possibility to get a digital copy. However, the consumer has an increased amount of self-creating power within the book industry as forums with self-made fan-fiction novels have grown to be popular. This allows readers to write their own continuation, and to get further interactions with like-minded people.

A great usage of increased interactions is that there are greater ways to find future favorites based on the communication regarding one's current favorites. This could be book clubs recommending books within the same genre or similar styles of writing, or it could be fashion brands or specific items within a certain taste or style. This includes the spread of replicas or *dupes*, especially within fashion.

Ultimately the same tools and platforms are used for both industries: Instagram, TikTok, Youtube. There are even cases in which life-style influencers get signed deals to publish books, something that is especially common within the UK. Similarly, these influencers are used within the fashion industry, creating collaborations and collections for specific brands. An industry that has successfully turned the interaction to something unique is the gaming industry, whereas the popularity of consumers not only buying and playing games themselves but also streaming and watching others playing the games in real-time. Live streamed shopping events presented within fashion differ from this as this does not only carry the purpose of consumption, rather than it creates a community for gamers. In conclusion, these types of interactions create a shorter way from the consumer to the decision-maker, getting quicker response from the market and shifting a lot of power over to the consumer. Communities have a strong collected power and can either break or make a brand's chosen digital strategy.

Competition
As shown within the distribution category, digitalization has enabled both reintermediation as well as disintermediation resulting in a changing competitive landscape. Stated by Anderson (2008), there are an increased amount of new competitors within the niche market, with a global presence. Due to digitalization it is a lot easier for the end consumer to find and

compare these competitors. There are also digital traits that become competitive advantages, or a competitive threshold to enter the market. The increased competition, especially within fashion, has forced the market to push prices, responsiveness and their ways of innovating (e.g Pratt *et al.* 2012). Even though a company does not classify as a fast-fashion brand, the evolution of fast-fashion has made its impact on all competitors and they are still expected to have quicker response, higher quality but are yet compared to fast-fashion prices. This is also affected by the lack of NFT before purchasing, as making a purchase online makes it harder to compare qualities, the image of brands has a great impact. Within the book industry, most of the initial digital companies had the same possibilities as their business models were similar and their products were the same, for an equal price point, resulting in competing for the same consumers.

Traditionally, in the brick-and-mortar era, the competitors were down the streets or in the same mall. As this is not the case today, it is also a competitive advantage to be able to physically get customers to the stores at all. This puts pressure on what the company is offering to the consumer, that they can not get through their online channel. Within retail, this has proven to be the importance of an experience.

A market that has been affected by an intense increase of digital competitors and change of customer behavior is the way consumers buy glasses and contacts. Historically, people tended to get their glasses and contacts from a local optician, in the same location as the services required, such as eye exams, were conducted. The prescription was also stored locally. However, digitalization has changed this relation entirely. The industry has gone through a shift and through reintermediation new actors and resellers have entered the market – creating a more competitive environment in between themselves, the opticians and the producers. (Cazin 2022)

Product offering
Finally, the change of product offering has affected the digitalization in both industries. Most prominently in the book industry as the offering went from a physical product to the possibility of consuming the product entirely digitally. This has created new business opportunities such as apps, reading

devices, consuming through listening, subscriptions, etc., all within the digital sphere. The advantages of this change has been that the consumers might have higher incentives in reading as there are an increased number of ways of doing so, as well as the lack of physical products results in less consumption of physical waste. As of today, there are still interests in buying a physical copy, but how this will unfold in the longer perspective is hard to estimate.

Within the fashion industry, this product offering has had more change in the area of additional services, stated by Strønen (2020). This is partly because the physical product will not be able to be fully replaced or act as a substitute for digital clothing such as within NFTs. Additional services that have evolved due to digitalization are the help of product fitting explained by Gustafsson *et al.* (2019) which are different digital aids to ensure finding the optimal product for the consumer, hence reducing the number of returned products and unhappy customers. Adding these services has shown to be adding value to the product offer and creating incentives for the consumer to make a purchase online. From the company's perspective it can be a cheaper alternative to quicker ensure that a product will fit and meet the customer's requirements, rather than handling the returns of it.

The photography industry has been heavily impacted by advances in digitalization since long before cameras became available in the digital marketplace. In contrast to most of the previous industries, cameras have always had a technological aspect to the product in itself. However, the product offering around cameras still remains, its target market has changed drastically due to digitalization. As the smartphone entered the market, getting a better quality camera each release, the traditional digital camera (or video camera) became obsolete and had difficulties to reform its offering.

5.3.1 Framework Evaluation

Analyzing the industries using the framework provides a holistic perspective on the digitalization of a retail industry. In contrast to Hagberg *et al.* (2016), where as the actor poses as a variable in its own right, this framework is not fixated on either part of the market system. This facilitates more resilient

and inclusive variables, as each one can be viewed from the perspectives of all stakeholders.

There are noticeable difficulties in identifying the impact of variations within each variable, and thus its significance is difficult to determine at this initial stage. It is clear that the dimensions impact the industries' potential for and within areas of digitalization. However, the degree to which digitalization has occurred and will continue to occur is more complicated to decipher and reason around. The book industry, as a highly mature industry where digitalization is concerned, illustrates a situation where variations are shown to matter greatly: once the product offering is possible to fully digitally transform – as has been the case with books – the other dimensions will be forced to develop at a higher pace and digitalization within the industry will expand significantly.

To conclude, the framework has a significant evaluation function when applying it to industries within retail and the correlation between the variables becomes clear. It does not constitute an answer key for industry actors as to how to tackle digital transformation, but there is an apparent explanatory value to the variables and the framework as a whole. The remaining question, however, is what this framework may tell us about a less mature – and less studied – retail industry.

6 The Beauty Industry

This section describes the background of the beauty industry to further discuss the evolution and segmentation of brands and companies. Representatives from each segment of companies are then interviewed in order to build a qualitative study. The collected data are then further analyzed using the variables of the theoretical framework.

6.1 Setting the Scene

The beauty industry can have varying definitions depending on context. For this project, the beauty industry is synonymous with the cosmetics industry, and covers the categories of makeup, skincare, fragrance and hair care. More specifically, the analysis focuses on the beauty *retail* industry, meaning the actors involved in the sale of cosmetic products to end consumers.

The usage of beauty products has been a prominent practice within various cultures for thousands of years. Its history can be traced back as far as 6,000 years ago, when cosmetics were frequently used as a status symbol among the people of Egypt, and the symbolism and usage varied widely between cultures and countries for the millenia that followed (Mathias 2021). In more recent days, apothecaries and beauty salons established their market power early on as the obvious intermediary, providing certified knowledge on makeup, skincare and haircare as well as lending credibility to specific products (Tungate 2011). Beginning in the nineteenth century, beauty products were a category among many to gradually develop into a large-scale industry, especially towards the latter half of the twentieth century onwards (Jones 2010). Today, the beauty industry is a multi-billion dollar market (Statista 2022b). Globally, the beauty industry was worth around 528 billion USD in 2022 (Statista 2022c) , with an average growth rate of 3,80 percent per year. For context, the video game industry had a worth of 320 billion USD that same year (Statista 2022d).

As with most other B2C industries, there is an increasing desire among beauty consumers to purchase products online. Before digitalization, beauty products were mainly sold in brick-and-mortar cosmetic stores and large department stores (e.g. Stanley 2022). Nowadays, the selection of sales channels is wider, and products can be bought through a variety of platforms aside from the physical stores, such as individual brand webshops, small concept stores with brands pertaining to a specific beauty category – for example K-Beauty – or large retailers that strive to sell from as many brands and include as many beauty categories as possible. Today, around forty percent of beauty product purchases are conducted online on the Swedish market (Statista 2022e), creating new demands on companies in terms of distribution.

Furthermore, the beauty industry was among the first to embrace the power of social media and influencer marketing, with many brands and retailers placing this at the center of their marketing strategies (Schwarz 2022). This integral role of social media within the beauty industry has also given rise to large-scale, geographically separate communities (see e.g. Thomasena 2019) such as BeautyTube – on Youtube – and BeautyTok on TikTok. Here, creators and influencers use and review products to their followers and other community participants and create a demand for these products on a global scale, which is becoming a more relevant dimension to consider than ever before (Schwarz 2022). Oftentimes, retailers will then be unable to supply these products before the community has moved on to the next trend. Thus, not only has the interactions with consumers changed, but it is becoming increasingly difficult to compete in order to stay relevant. As the consumers are increasingly part of the younger, digitally native generation (Kavde & Taduri 2022), companies that wish to compete must learn to navigate this new landscape

A key feature of the beauty industry is that the product is fairly analogue. However, digital technologies have also altered the ways in which products are produced and impact how well consumers are able to fulfill the need-for-touch dimension often associated with these types of sensory products (e.g. Gauri *et al.* 2021). In research, the ways companies approach this dimension are often described under the concept of *immersive retail*

64

(ibid. 2021). For example, the large makeup brand L'Oréal recently launched an AI platform called *phygital* designed to help consumers find the right shades of makeup for their skin through for example the option of virtual try-ons – and large retailer Sephora has created similar tools (L'Oréal 2022; Gauri *et al.* 2021).

6.1.1 The Changing Industry Landscape

To obtain a better understanding of how the beauty industry is changing, a mapping of the geographic and e-commerce change has been conducted by looking at a number of Swedish brands. There is a trend in that Swedish consumers frequently make beauty product purchases online, and that this category has seen the largest increase over the past couple of years (PostNord 2022).

One consequence of the increased online sales of beauty products seems to be the increased development of the online marketplace combined with a reduced, more focused selection of physical locations (Hollasch *et al.* 2021). KICKS, one of Sweden's most prominent beauty retailers, went from around 250 stores and 15 percent of total revenue via e-commerce in 2017 (Englund 2019) to 230 stores and over 30 percent of total revenue within e-commerce in 2022 - with an increased total revenue of 60 percent during the same period (DagensLogistik 2022). However, in their annual report the past couple of years they state an ambition to "close, open and relocate stores, leaving the amount of stores unchanged" (Kicks 2021) It is also clear that their latest larger physical investments have been flagship stores in Stockholm, Gothenburg and Malmö as well as large, automated warehouse (DagensLogistik 2022). Similarly, the largest beauty reseller in Sweden, Lyko, has decreased the number of store locations from around 40 in 2018 to 30 now. Instead, the reseller focuses on opening flagship stores, meaning stores that are typically larger in size and more experience-based, acting as showcases for the retailer and the brands it provides (Lyko 2022).

An alternative trend, more apparent among individual brands, is to close down physical store locations entirely, but as a complement to their own online webshops open up for large online retailers to supply their products. For example, 40 year old beauty brand Face Stockholm went from having

almost 200 stores globally around 2014 (Rosenholm 2014), to only having four physical stores left at the beginning of 2023, with a new strategy of being available at resellers instead of having their own concept stores (FaceStockholm 2023).

Although the landscape is changing for an increased presence online, Adams *et al.* (2022) researched the beauty industry with the focus on brands that include services in their offering and how these were affected during the pandemic as they are harder to mimic in a digital place. They found five major trends that characterized the industry: growth within both offering services and products, consumers preferring specialized items over generic, increased interests in advanced procedure, importance of centralizing the customer experience and lastly a shift for the beauty professionals within the labor market (Ibid. 2022). As seen above, concept and/or flagship stores become more common – often offering both services and products, specializing the offer for each consumer in order to optimize the customer experience to be unique – confirming the evolution of the market trends examined by Adams *et al.* (2022). Hollasch *et al.* (2021) inadvertently complement this claim by stating that retailers benefit from modifying their brick-and-mortar stores so that they are more concept based and incorporate digital elements in order to capture the attention of consumers. This does not by definition imply the death of traditional brick-and-mortar stores within the beauty industry, but rather shows consumers' expectations regarding how beauty stores should take form in the near future, giving a seamless experience that surpasses the omnichannel seen today (e.g. Hollasch *et al.* 2021) and working towards a more unified commerce (Sitoo 2021). There are multiple examples of concept stores and interactive store experiences, however there are only a few examples of where this is being accomplished within the digital sphere as well. A pioneer within digital transformation is the British company Charlotte Tilbury; they launched a VR store during 2021 and are taking innovative steps further into metaverse with 3D avatars, gamification and other AI tools (Flora 2021; CharlotteTilbury 2022). The Swedish brand IDA WARG Beauty recently announced a collaboration with the high tech software company Giorg with the ambition to increase the consumer experience digitally (ITretail 2022).

Evidently, there are a number of different strategies used by the beauty industry to cope with increasing levels of digitalization in retail, with various degrees of complexity. What is evident, however, is that the industry as a whole is becoming more digital. Companies at the forefront of this process – not necessarily in terms of technical capabilities, but perhaps more so in the willingness to embrace change – have been able to reap the benefits, and those lagging behind have increasingly been forced to adapt to a new business climate, as this is where the new equilibrium lies. Nonetheless, digitalization within the industry is driven by innovative and revolutionary ways to distribute, interact, compete and offer products in this new industry landscape. The variables within the framework will further be analyzed individually with the collected industry insights.

6.1.2 The Beauty Industry Actors

The beauty retail industry consists of different actors, fulfilling different roles. As seen within other industries, there have been changes and power shifts among these actors. In the early 1900's, beauty brands started as representations of the individuals that founded them, such as Helen Rubenstien – known as the first ever commercial beauty brand – or Elizabeth Arden. These people grew their brand while simultaneously growing their name in the industry and selling beauty products in department stores (Tungate 2011) or door-to-door (Kim & Yung 2022). Over time, actors from other industries gradually made their way into the beauty retail industry; MaxFactor created makeup used for movies (Saint Clair 2014) while Charles Revson created Revlon Nails selling to salons. Estée Lauder initiated the beauty marketing still seen today by launching another brand, Clinique, and one of the world's largest make-up companies to date, L'Oréal, was founded as a hair care brand in Paris during the early 1900's (Tungate 2011).

Before the era of the brands, salons were the ones carrying the knowledge and products. Their credibility was built from having quality products and how to use them – the actual brands of the products were not that important and they were often generic (Tungate 2011). Once the producers created their brands, and the awareness around them grew, the consumer got the

impression that the product had value added features pertaining from the brand name.

In the mid 1990's, the wholesalers was the main distribution channel, primarily because producers and cosmetic manufacturers did not have the monetary capacity to distribute for themselves (Kim & Yung 2022). By successfully collecting and applying the knowledge and research as well as facilitating the marketing and sales, these companies had the capability to further acquire or uphold new brands (Tungate 2011), growing their companies further. A lot of brands founded back then are known as the largest and most powerful groups today, with huge impact on the industry. One of which is L'Oréal, currently divided into four major divisions with different images, with a total of 41 brands and an operating profit of 6,16 billion euros in 2021 (L'Oréal 2022). The Estée Lauder group is still a large operating company with 21 different brands and annual net sales of 17,74 billion USD during the fiscal year 2022 (Estée Lauder Companies 2022). Lastly, among the big three, the Coty group was founded 118 years ago and have since acquired around 70 brands with a total revenue of over 5,3 billion USD by the fiscal year 2022 (Coty 2023).

Even though these large groups in the mid 1900's increased in popularity, companies like Procter & Gamble in the US and Unilever in the UK brought beauty products into peoples' bathroom cabinets and brands such as Dove and Nivea quickly became the most used skincare brands (Tungate 2011). However, during the 1980's, a fragmentation of the market occurred and a new landscape with niched companies emerged. Brands like MAC, Bobbi Brown and Nars were founded with the ambition to be more inclusive, artistic and creative make-up artist-created brands (ibid. 2011). This market fragmentation has yet to decrease as new brands are constantly launching, during 2021 the US beauty service market was dominated by smaller businesses representing 62 percent of the total actors (Adams *et al.* 2022).

As previously mentioned, the created platforms due to digitalization enabled influencers to take a role as a major actor within retail with their marketing power – especially within the beauty industry. During the 2010's, the beauty category on YouTube grew and the first beauty influencers were created.

YouTube remains an essential marketing channel for brands due to the alignment of the format with tutorials on the products' usage (Schwarz 2022). Since then, however, the usage of Instagram and TikTok has also increased significantly, and these three together constitute the dominant platforms (ibid. 2022). The influencers' market power is continuing to grow, during 2019 a study found that 62 percent of women follow at least one beauty influencer on social media (Gerdeman 2019) Although influencers make collaborations, or even create their own brands, they are often viewed as an objective source of information (depending on the connection they have with their audience) (ibid. 2019). This is partly as they test a lot more products than the common person hence have the possibility to compare and relate to other used products, but also due to their knowledge within the usage of the items. Another group of actors that can provide an objective source of information as well as an instructive and detailed knowledge base are the beauty editors and journalists. Often, they are viewed as trustworthy because they produce informative, factual content that might not be perceived as advertising to the same extent as if it were produced by an influencer.

6.2 Industry Characteristics

In contrast to the industries discussed in section 5, the scientific research on digitalization in the beauty industry is very limited. Gauri *et al.* (2021) discuss the evolution of retail formats, and includes the beauty industry as a demonstrative example in certain areas of digitalization. There is a greater amount of business-related research conducted by well-known consultancies and business newspapers examining the market and trends. However, as a whole, the beauty industry remains a fairly unexplored area of research.

Due to the limited research on the topic, and on account of this being an ongoing and at times fast-moving development within the field, there is a need to complement secondary data from these non-academic sources with firsthand insights provided by experts of various backgrounds and roles within the industry. In order to conduct interviews with these people, however, it is necessary to understand the types of actors that characterize the beauty industry. Thus, this section provides a broad segmentation of the

companies and actors, laying a foundation for the framework analysis of the consecutive section.

6.2.1 Segmentation of Companies

Before creating segments of the main actors in order to further conduct the qualitative research upon, a distinction must be made between *companies* and *brands* within the industry. A company might carry a lot of brands, it can be a group or a cooperative. However, when analyzing a company, the structure, strategies and organization is under examination and might be similar throughout the different brands. Analyzing a brand, on the other hand, can be far more about image and identity. Nonetheless, it is difficult to analyze the company without the brand and equally as hard to analyze the brand without the company – much like *the hen or the egg philosophy*, they are interconnected. The segmentation of actors in this project is conducted on a company-level, and constitutes the rest of this section. An overview of the parties and how they are connected to each other is provided by Figure 6.1.
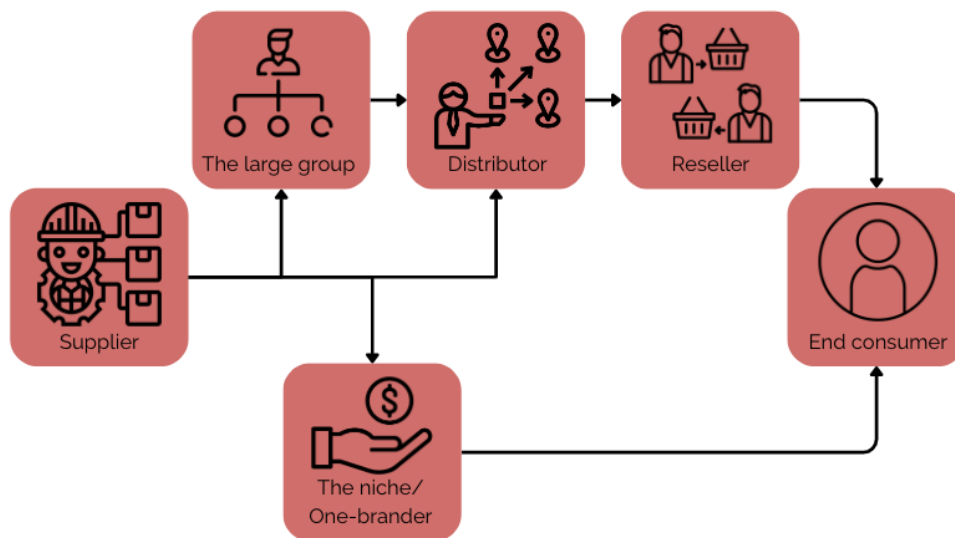

Figure 6.1: The beauty industry's value chain with the different company roles

The Distributor

The first group is what can be called *distributors*. These companies have direct contact with suppliers and are responsible for facilitating the transfer of products from supplier to reseller, salon, boutique or, in some cases, to the end-consumer. Their main focus is to supply the reseller from the producer, meaning that the majority of their sales are B2B. On the Swedish market examples of large distributors are such as Scandinavian Cosmetics, Sæther Nordic Group and HBS. Which all are distributing to Sweden's largest resellers (both physical and e-commerce), fashion stores and convenience stores and together carry up to 200 unique brands in their portfolio. The majority of products, except for resellers' own brands, have gone through the distributor – making them an anonymous, yet very important, actor.

The Reseller

One of the most common types of beauty retail companies is the *reseller.* Some of these carry their own lines, while others opt to only carry and sell products from a selection of external brands. This can be compared to a marketplace like Amazon in that the reseller acts as a middleman between distributor and end consumer. Resellers can conduct business purely on a digital platform, but also (more commonly today) have a physical presence as an over-the-counter (OTC) department store or a brick-and-mortar store of their own. In this context, a reseller is an actor who acts as a marketplace for other brands and carries multiple brands within the same product category. The term retailer is used as a term to describe an actor within the retail industry that sells products – meaning a brand that only carries their own products is a retailer but not a reseller. Examples of Swedish resellers are Kicks, Lyko, Åhléns and Bangerhead.

The Large Groups

The beauty industry has a lot of brands. Some of these date back more than a century and have an immense amount of market power, mainly due to the fact that over time, they have grown into conglomerates. Today, there are three gigantic company groups that own the majority of beauty brands on the market. These companies have acquired other brands of various sizes and made them into subsidiaries to the company group. This is partly a

result of globalization, as one brand might have a difficult time supplying the entire global market. From the point of view of the company group, having multiple brands also provides a wider reach. The past decades, the beauty industry has been ruled by the three largest groups mentioned above: L'Oréal, Coty and Estée Lauder (Tungate 2011). For the large groups it is important to have a diverse brand portfolio in order to reach all customer segments, for example Tungate (2011) describes how Estée Lauder acquired the brand Bobbi Brown in order to have a "younger and more hip" brand in their offering.

The Niche/One-brander

As Anderson (2008) describes, digitalization enables a fragmentation of the market – creating space for an infinite number of niche markets. This has been the case within the beauty industry as well, especially as it is a highly fragmented market and the threshold to create your own brand and enter the market is fairly low. *The niche* brands can either have their own physical stores or opt to only sell online. They can be niched to a certain product category or to a specific geographic location. A lot of niche brands are today created by influencers or well known professional make-up artists. Within this category it is also included the so-called *One-brander*, which is a brand without any association of a large retail group. A typical niche is brands that aim their marketing at men only, such as War paint for Men, or vegan brands such as L.H. Cosmetics – which is also niched for color cosmetics. The so-called one-brand are often influencer brands such as CAIA cosmetics but also concept brands such as Rituals or Yves-Rocher.

6.3 Framework Application

From the collected interviews combined with the industry information, some trends become clear when applying the framework. Each variable of the framework is discussed in separate sections, followed by a concluding summary given by Figures 6.2-6.5.

6.3.1 Distribution

As highlighted in section 5, distribution has been significantly impacted by digitalization in many retail industries – and the beauty industry is no

exception. A few areas stand out; the future of physical stores, the benefits of a retailer intermediary and the implications of distribution that are not visible to the consumer.

Online versus physical

A general trend within beauty retail is increased distribution through online stores as opposed to brick-and-mortar stores. There is a general consensus among the interviewees that while physical stores are unlikely to disappear completely, this trend of more sales transactions occurring in the online marketplace is the new reality for every brand and store in the beauty field (Person A; Person B; Person C, Person D; Person E). Consequently, all actors and parts of beauty retail have been faced with new requirements where supply, availability and distribution are concerned.

As a general rule, it is far less expensive for companies to conduct sales and distribute from an online platform. There are overhead costs involved in having a physical store presence, as emphasized by Person A. This requires most resellers to have enough physical stores to bear the overheads. Oftentimes, resellers that operate online will instead opt to use popup stores to gain traction, but this is a very expensive option compared to the long-term benefits of more permanent establishments (Person A). The same logic of high costs applies to individual brands attempting to establish a physical presence, whether this be through shelf space with a reseller or in their own stores. In contrast to resellers – who will often have the benefit of a wider product offering – individual brands and digital startups must be more selective with where they establish themselves physically (Person C).

While lingering effects of the pandemic and other impactful events of the last few years – as well as a possible impending recession – might result in a reduction of brick-and-mortar stores across retail at large (Person D), physical stores are expected to remain an essential part of beauty retail (Person A; Person B, Person C; Person E; Hollasch *et al.* 2021). Resellers are often required to have a physical store presence, as brands will often include this form of product exposure in their distribution contracts (Person B). In a similar fashion, distributors of more expensive beauty products may rely heavily on for example estheticians and dermatologists to provide

73

product exposure to consumers through beauty salons and treatments (Person A). However, while brick-and-mortar stores will remain a permanent fixture in most business models in the foreseeable future (Person A; Person B; Person C; Person E), the way physical stores are designed and geographically placed is likely to change based on consumer expectations (Hollasch *et al.* 2021). For larger resellers, this could be in the form of flagship stores, i.e. more extravagant stores in more select locations, typically in larger cities (Person B). Stores in general may also likely focus more on the *experience* than the actual sales transaction, meaning that they will expose their products in new ways, where the store becomes more of a showroom (Person C).

The idea that physical stores are taking a new form is supported by Hollasch *et al.* (2021), who emphasize that recent trends within brick-and-mortar beauty retail have been modernized stores in attractive locations. These stores have more luxurious interior designs, implement digital tools such as skincare diagnostics technology, focus on – when possible – trendy or exclusive brands and frequently offer in-store beauty treatments to appeal to the modern consumer (ibid. 2021). One example of how this concept has been implemented in practice is a number of beauty stores located in Covent Garden in London. Among the beauty brands that have stores in this location, Chanel and NARS Cosmetics offer various in-store services, such as having your makeup done by a professional or having an eyelash fitting. The cost of these services is redeemable against products purchased. Additionally, newer brands such as Glossier and Kylie Cosmetics have focused on creating large, memorable and aesthetically pleasing facilities where consumers can hang out and experience the products, whether or not a purchase is made. (Covent Garden, n.d.; Englefield 2021; Bottomley 2022)

Furthermore, companies with international reach may find that physical expansion in the areas outside of Scandinavia remain highly relevant (Person B; Person C; Person D). In Sweden and the rest of Scandinavia, digitalization is very progressive compared to other countries, and the acceptance among consumers is high (Person C; Person D). In many ways,

the retailing experience thus differs when trying to build brand awareness in these areas, and physical stores may well be essential for this purpose.

The intermediary

With digitalization generating a number of new actors – in the form of, for example, indie or niche brands that are significantly smaller than traditional beauty brands – the question is raised of whether they should distribute their products via a reseller or distribute on their own, foregoing the intermediary. With the significantly lower costs associated with online sales channels, including the possibility for more inexpensive marketing channels provided by social media, small brands have good possibilities to make it on their own, with higher sales margins as a result (Person E). At the same time, resellers – on account of their business model – may typically provide a more complete solution to consumers, with a wider product assortment that enables them to purchase all of their products from different brands in one space (Person B, Person E). This is especially relevant when you want to reach consumers in a new market (Person D), where knowledge of the brand – and thus the credibility of its product offering – is low among consumers. Furthermore, resellers often have more resources to create attractive, physical store locations and better seamless consumer experiences, as is an ongoing trend within the industry (Hollasch *et al*. 2021). Brands that opt out of the reseller option risk losing out on consumers that want this more seamless experience. There is always, as stated by Person C, the option of drawing up exclusivity agreements with certain retailers, which could create the room to negotiate on higher sales margins and mitigate some other disadvantages of additional sales channels, while still capturing the benefits from a strong, trusted reseller.

The back-office perspective

The most significant changes to distribution are quite possibly the ones that occur behind the scenes and therefore less obvious in the B2C-interface, while still impacting this relationship to a great extent (Person A; Person B; Person C; Person D). A lot of progress has been made in terms of how order management, packing and delivery are organized as a result of digitalization. Furthermore, digitalization has enabled resellers to create a more seamless shopping experience, for instance by applying an omnichannel approach

(Person B). To exemplify, progress in digitalization of the internal systems – typically in the form of more user-friendly interfaces – means that companies can spend less time training staff to understand these systems and instead train them to provide the consumer with high levels of service and product knowledge. Additionally, it makes it possible for consumers to make purchases even if the product is not available in-store. Of course, the service will be noticeable to the consumer, but not what has facilitated this transformation (Person B, Person C, Person D).

This dimension is perhaps most obvious for distributors and brands wishing to forgo the intermediary. Previously, their main activities in terms of distribution came in the form of shipments of very large quantities to resellers, but in facilitating direct B2C-deliveries, the organization of such distribution – characterized by significantly lower quantities – has had structural implications (Person A). These types of companies must then organize two very different forms of delivery, which must be carefully considered from an economical, technical and sustainable point of view.

At the same time, developments in the digitalization of beauty retail have enabled businesses to structure their distribution channels in a more sustainable way (Person B). To meet the requirements from established regulations and directives – and fulfill the requests of more environmentally aware consumers – beauty resellers that have both online and physical stores have created more opportunities for sustainable deliveries. For example, consumers can complete their purchase online and opt for store delivery if there is a store in their vicinity. This enables the company to coordinate customer deliveries with ordinary store deliveries. Other delivery possibilities have emerged as a result, such as using the services created by food delivery companies, such as WOLT, which are often delivered via bike or other less fuel-consuming vehicles. One beauty company that has done this is Face Stockholm, and it has enabled them to offer delivery within 30 minutes in central Stockholm. (ITretail 2021)
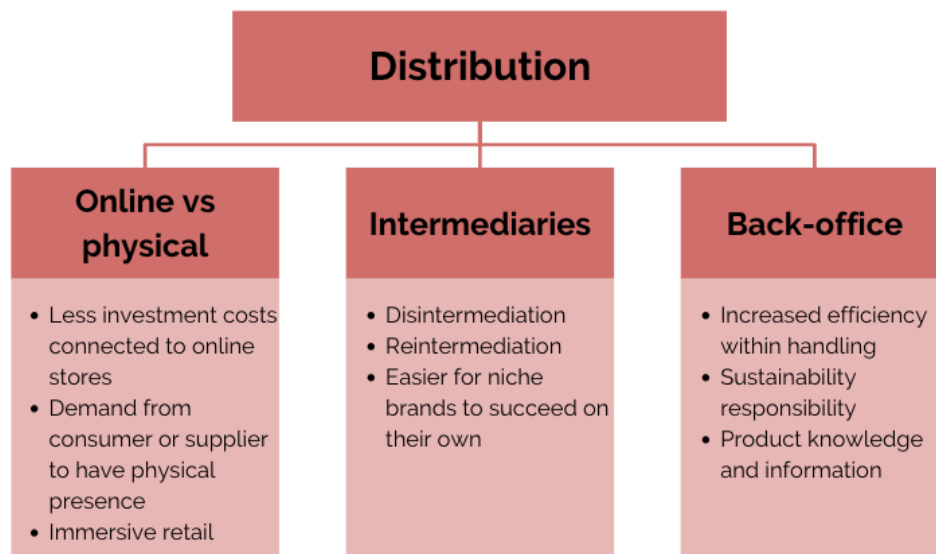
Figure 6.2: A summary of the distribution variable within the beauty industry

6.3.2 Interaction

The interaction aspect has changed in many ways with digitalization. It is clear that the means of and channels for interaction between retailer and consumer have multiplied, and most of these interaction points are digital. This increase does, however, not mean that the traditional ways of interacting have disappeared. During the pandemic, the increase of purchased beauty items online skyrocketed (Person B; PostNord 2022), yet post-pandemic it appears as though the trend has not quite been as persistent (Person B; Person C; Person E; Adams *et al.* 2022). Interactions in the beauty industry will be discussed from three different perspectives: the physical in-store interaction, the usage of social media as a tool for interactions and the general change of marketing, including the overall interaction strategies.

In-store interactions
In-store services and beauty salons remain common ways to interact with the consumers, and from the business perspective it is seen as an important communication and sales channel (Person A; Person D). This is believed to partly be caused by the NFT (Person E) as well as the desire for staff expertise (Person A; Person D). Especially as the products can be dependent

77

on the consumers skin color, texture or preferences a lot of consumers still like to try, feel or smell the products in store before purchasing (Person C; Person D; Person E). Hollasch *et al.* (2021) emphasizes the lingering consumer preference for physical stores for exactly these reasons; matching products to their color, hair and/or skin type, but also to determine if they like the texture and scent of the product. Interactions in salons are most likely in connection to a performed treatment or paid service, which often has experienced and personnel with lots of knowledge (Person A). Working as a distributor, the salons are the major sales channel to the end-consumer and therefore crucial to educate with brand knowledge and sales skills (Person A). However, while some state that the physical interactions with offered services and treatments will remain a major source of income (Person A; Adams *et al.* 2022), others believe in a shift towards at-home devices replacing such salons and treatments even more (Person E).

There seems to be a conviction that even if the interaction at the store would remain, the purchase might still be pursued online (Person B; Person C; Person E). Especially as most buyers online are repurchasing products they have already used (Person B; Hollasch *et al.* 2021), the physical interaction is regarded as important when introducing new products or creating brand-awareness for the customer (Person A; Person B; Person C). This strengthens the belief that physical interaction is required to be more experience-based in the future (Adams *et al.* 2022).

Social media interactions
A major player within the area of interaction is the undeniable force that is social media. Being present on social media is a necessity within the beauty industry, especially on platforms such as Instagram, TikTok and YouTube (Person B; Person C; Person E). A great advantage of social media usage is that the company gets an immediate response (Person C), not only in sales but also in terms of feedback and reactions from current or potential consumers (Person B; Person C; Hollasch *et al.* 2021).

Influencer marketing was adapted quite early on within the beauty industry (Schwarz 2022), and it remains an essential marketing component as influencers inspire consumers to make purchases while simultaneously

building up brand awareness (Hollasch *et al.* 2021). To a degree, this was perceived to replace physical interaction, as the concept of beauty tutorials – in video or photo format – quickly became the newest way for consumers to learn how to do makeup (Schwarz 2022). Additionally, this method of showcasing the product and its application was fairly simple. Using influencers has great benefits in this regard. However, it has proven essential to find influencers that can be relatable to the target audience in order to appear credible (Person E; Belanche *et al.* 2021). This makes it essential for the influencer to not only have an idea of trends, they need to have a better understanding of the market and business behind it, hence requiring more from them in order to get the jobs and followers (Person E).

Social media gives the opportunity for a lot of organic user created content to be shared and spread. Ideally, this can be used as free marketing or word of mouth both in the creator's channel and within the company's. This also includes reviews on products that can have great impact on other potential customers (Person C). Creating a community or exclusivity membership through apps or review groups can be used as a way to increase the potential of organically created content (Person B). As online consumption of beauty items involves a lot of repurchasing (Person B), it is noted that younger generations are more willing to try new products solely based on social media influences (Person C; Person E). A key to making consumers aware of the brand and incentivising people to try new brands is to do exclusive launches, being able to opt for a large launch traffic for the brand's online channel will increase, as well as the willingness to try other products from the same brand in the future (Person C).

The change of marketing
Both physical in-store interactions and social media interactions offer possibilities for marketing a brand or product. However, the general strategy to marketing products is also a way of interacting with the consumers, the market landscape and means of advertising has in combination with a changed customer behavior caused changes to marketing. Importantly, the need to offer a seamless experience between the online channel and physical store has put further pressure on the interaction (Hollasch *et al.* 2021; Adams *et al.* 2022). The connection between the store and the company's

online presence is gradually progressing away from a discussion on having an omnichannel presence (e.g. Hollasch *et al.* 2021) towards what is referred to as unified commerce. In contrast to omnichannel – where the aim is to create seamless experience between channels, but the systems of each channel are not connected and therefore the customer will have separate connections to each – unified commerce links all the systems data and then merges to have a unified experience regardless of the used channel (Sitoo 2021). This enables further digitalization and personalized shopping.

The change towards a more digital beauty industry has however not been a natural transition. Tungate (2011) explains how brands, especially higher end brands, did not believe that the digital solutions at the time achieved the luxury standards they had worked hard to establish in store. Hence, a sense of resistance against digitalization brewed among the large, established groups with the belief that it would not affect their industry (Tungate 2011; Person C; Person D; Person E). When the digital revolution became inevitable, the companies realized that it called for direct communication channels with their consumer – which they rarely had – and a possibility to track their own data (Tungate 2011). As digital beauty startups entered the market, they put pressure on the larger groups in regards to what was possible (Person C; Person E), and from a consumer perspective it became more natural to ask for increased availability as the purchase behavior changed. Even though there has been a change of channels, the message has overall remained the same; the main target group for the advertisement of beauty products is women, and the same adwords have been used for over a century, such as youthful, glowing, fresh, clean or smooth (Tungate 2011). The change of channels do however create a shorter time-to-market for the advertising produced, material and campaigns that took six months to plan and create are today a few hours work due to the need to be responsive and resilient with the market trends (Person C).

The increased amount of online shopping has generally helped companies to better understand their customers' behavior (Person B). The possibility to collect consumer data has changed what is now known about the consumer and how they act on the company's online platforms. The data can provide insights on consumer behavior – providing possibilities for better consumer

relationship management through for example personalized offers and discounts (Person C) – optimize social media content for the intended audience and optimize the sales transaction in itself by implementing for example individualized or data-driven pricing (Hollasch *et al.* 2021). However, this is still considered to be in the growth stage of data analysis and handling within most of the examined companies, and there is more potential in the data than is currently being used to the companies' advantage (Person A; Person C; Person D).

Another major change within the general marketing of beauty products is that the companies see an increased amount of awareness among consumers (Person E). Not only do consumers today have high standards regarding cruelty free and sustainable products, but an increasing number also have high levels of knowledge about ingredients and substances in the products (Person C; Person D; Person E; Hollasch *et al.* 2021). This is still an underrepresented group of early adopter consumers, but nonetheless a growing group. As the consumers get more educated, companies are required to adapt their information and communication in consideration of this audience (Person D). This means that they are expected to better describe products, required to list specific ingredients in the marketing of the products and remain up to date on their product knowledge (Person E; Hollasch *et al.* 2021).
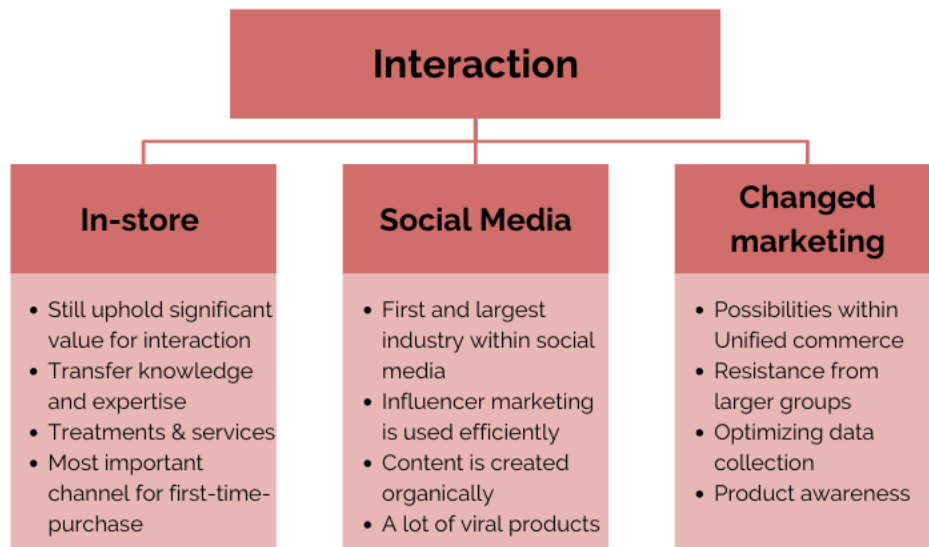
Figure 6.3: A summary of the interaction variable within the beauty industry

6.3.3 Competition

Competition is an essential factor in determining if, when and how a retail company is able to establish a market presence. In the modern age, but before digitalization, beauty products from the large conglomerates, such as L'Oréal, Estee Lauder or Coty dominated the market, and could be purchased in everything from physical beauty reseller stores to grocery stores. For people who desired more niche brands, the common approach was to get these products through a beauty clinic or small, brand-specific store, often with assistance from a makeup artist or beauty esthetician (Tungate 2011). Three categories stand out in terms of how digitalization has shaped the competition within the beauty industry; new channels, new types of competitors and resellers creating their own brands.

New channels
The process of digitalization has created the possibility for companies to reach customers through an online sales channel. This channel could be provided by a reseller, by the brand creating its own channel, or by utilizing both of these options. The latter is perhaps the most commonly occurring option, where the brand combines the benefits of higher margins in their own sales channel with the reach offered by resellers (Person C).

Competition is increasingly coming from the new, online-based sales channels, as evidenced by the fact that consumers are increasingly making their purchases – especially repurchases (Hollasch *et al.* 2021) from these outlets (see e.g. Statista 2022e; Stanley 2022). This has forced companies on both ends of the digitalization spectrum to reevaluate their business structures. Companies with established brick-and-mortar stores have – as has been discussed under section 6.1 and 6.2 – as a general trend opted to reduce the number of physical stores, while still investing in the continuation of the remaining ones as well as launching new stores in strategic locations. Some companies place more emphasis on the geographical (local) competitive landscape, perhaps especially the companies who operate primarily on the Scandinavian market (Person B; Person C; Person E). For example, there is less of an inclination to introduce a new physical store in a city or area if a comparable competitor has an established presence in the area (Person B). In contrast, companies with less physical presence are possibly more inclined to look at competitors' online interactions with customers to determine the potential for market expansion (Person C).

With the benefits offered by having a digital marketplace, it is not uncommon for distributors to also create their own B2C sales channel. From the perspective of a distributor, however, it is usually of the utmost importance that such an establishment does not impact the relationship with their established B2B-customers (Person A). These actors are essential for the marketing and distribution of the products, often to a much greater extent than the sales channel in itself can provide. Such issues can however be managed with good relations and communications, and for example by using affiliate programs to make such a market channel mutually beneficial (Person A).

New types of competitors
Digitalization – social media especially – has grown into a new medium for marketing and interaction and given rise to a new type of beauty company; the digital beauty startup. Often, such companies have been created based on an established presence in the digital beauty community, i.e. founded by an

influencer or a well-known professional within the beauty industry, such as a makeup artist or a beauty esthetician. A general trend among these companies is that these new actors start off with a more niched product offering that is – at least initially – tailored to the audience or following of this digital beauty profile. The strategy of being a niche brand with a strong social media presence is deemed as beneficial and holds a high potential for success in the industry (Person C; Person D).

Putting an influencer as the representative for a brand – whether as a founder or simply a key figure – has great benefits in attempting to reach a specific target group (Person C; Hollasch *et al.* 2021) and may provide a strong basis to then develop the company further. However, it is not without its issues; any controversies faced by the influencer will tend to significantly impact the brand (Person E). Furthermore, the high level of understanding possessed by many influencers of the digital marketing landscape – while it may hold a marketing benefit – is not in itself, without knowledge on other aspects of digitalization and retailing, sufficient to be able to achieve a sustainable competitive advantage (Person E).

Resellers having their own brands
While distributors or resellers creating their own brands is not unheard of prior to digitalization, it has become a more prominent part of their business concept in its wake. Examples include By Lyko (Lyko, n.d.) and Skincity Skincare (Skincity n.d.). Both of these brands were created based on the amount of expertise gathered by actors within these companies, and they are far from the only ones. Not unlike what was discussed above regarding distributors creating their own channels, resellers creating their own brands are forced to find a balance between competing with the brands they are reselling and benefiting from the advantages of digital sales channels.
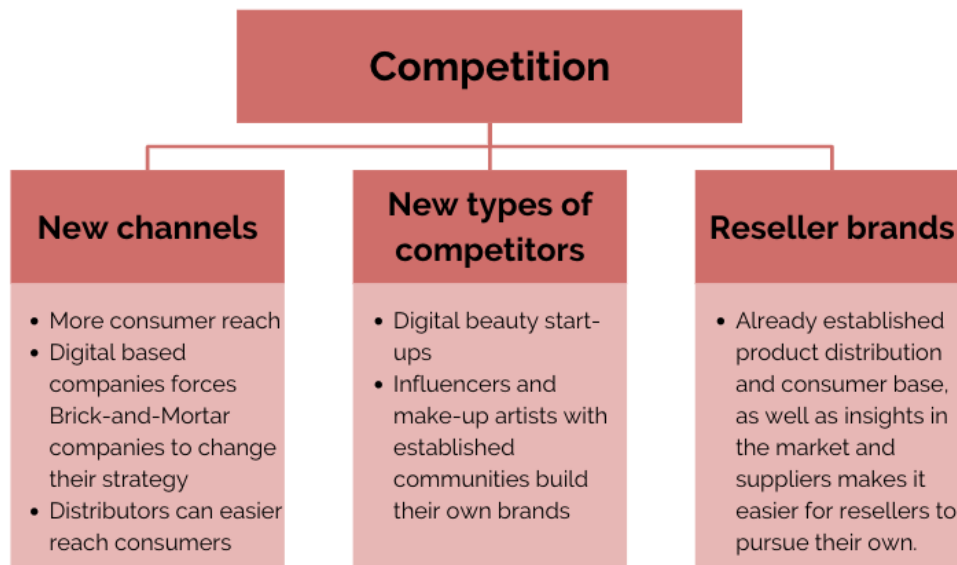
Figure 6.4: A summary of the competition variable within the beauty industry

6.3.4 Product Offering

As previously established, the products within the beauty industry are physical in nature and hence lack the possibility to be reformatted into a purely digital product. Similar to the fashion industry, there are individual brands and releases that feature within the metaverse and in the form of NFTs. While this concept is highly interesting, the main focus of this section is to analyze the product offering concerning the physical products, a direct replacement of it or a supplement to it.

Product assortment

As a general rule, the beauty industry tends to follow the idea that a larger product assortment is better, and there seems to be little concern in regards to how a large assortment might be an issue (Person B; Person C; Person D). Having a wide product assortment is necessary in order to upscale the business (Person C). However, this is also strongly connected to the business strategy and what type of brand you want to uphold on the market (Person B; Person C). Having a large product assortment makes a company more flexible and responsive to an unforecasted high demand, for example as a consequence of a specific product suddenly going viral, which is very common within this industry (Person B). Viral products get a lot of attention

during a short period of time and hence having stock availability can be a major make or break if you want to be able to stay alert (Person B; Person C; Person D; Person E). However, as beauty products are composed of ingredients that are often required to be fresh, these types of products have an expiration date. Thus, carrying a large stock that does not sell might risk going bad (Person A; Person B).

A major advantage with online platforms is that it is easier to carry a larger assortment of products, in comparison to physical stores where limited shelf space is available. Consequently, some brands that sell products through department stores or resellers are unable to offer the entire assortment physically as this requires expensive displays (Person C). It could also be because the store does not want to carry the entire assortment due to the lack of shelf space or storage requirements (Person A). It is not uncommon for some brands to contract exclusive rights for specific resellers to carry some or all of their assortments (Person C), or allow resellers to sell their products online only if they are also guaranteed shelf space in their physical store (Person B).

Those who offer a smaller product assortment tend to have a specific niche or a dominant driving product category (Person C; Person E). This is usually the case for a digital startup, for which it might be a more successful strategy to penetrate the market through a specific category of beauty products and not the entire span – for example only selling color cosmetics, only skin care or only complexion products (Person C). Some companies that have been successful within one product category, then launch products within another category find that they get criticized for not meeting their consumers' high expectations attained from their previously high performance (ibid).

Additional services
A major concern within beauty products is that they are strongly dependent on personal preferences, skin color, skin type or skin state. Shopping for these products online can make it difficult for consumers to find the right products as they might require to be tested or matched (e.g. Hollasch *et al*. 2021). For this reason – among other things – some companies avoid

complexion and skin care products as these might have a tendency to be harder to sell online, and focus instead on products that are adaptable to a majority of consumers (Person C; Person E). The aspect of product fitting plays a huge role in being able to further digitalize the beauty industry, as it mandates a better method for matching the customer with the right product (Person E). As a consequence, AI/AR tools developed for the intent of facilitating a digital product try-on are among the most popular trends in digital beauty retail (Hollasch *et al*. 2021).

An added benefit of AI-tools developed to enable a more satisfying degree of product fitting in online retail is that it has reduced the high return percentages within industries that generally have a high need-for-touch (Gustafsson *et al*. 2019). While physical stores still hold a slight upper hand in this regard where first-time purchases are concerned (Hollasch *et al*. 2021), there is a changed customer behavior within the beauty industry in that the NFT is being abandoned (Person B). For example, the perfume section of beauty retail is increasing its online sales more than ever (Person B). Yet the online beauty purchasing is still dominated by repurchases, and as a result of this, there is a low degree of returns (Person B; Person C). However, from an outside perspective, this is also a consequence of regulations within each country as some – such as Sweden – often have a no return policy on hygiene products (Person B; Person C; Person D).
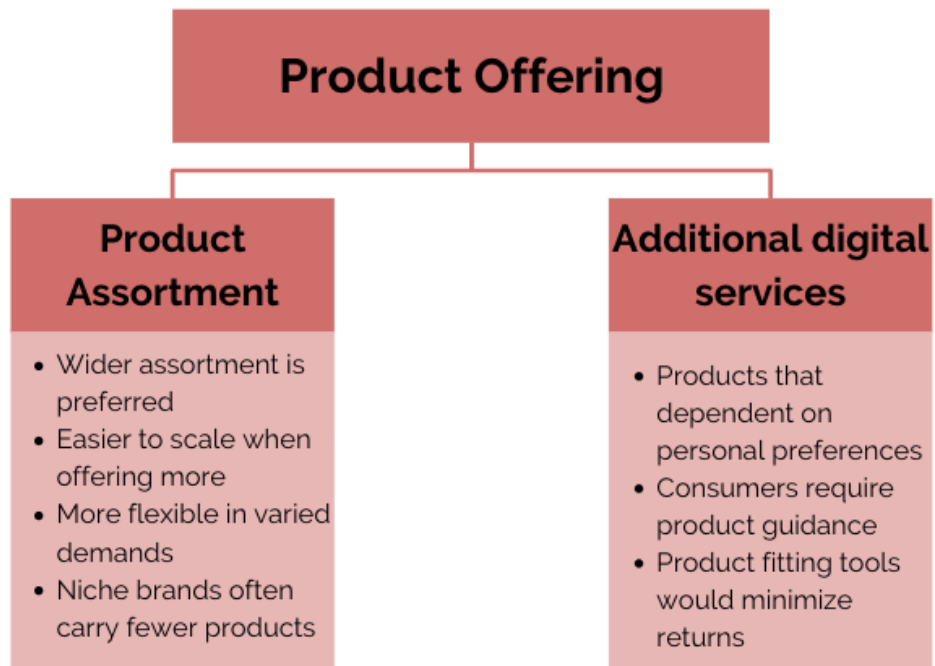
Figure 6.5: A summary of the product offering variable within the beauty industry

7 Discussion

This section is divided into two main parts. Firstly, the collected empirical insights are summarized, including the identified similarities and differences of the variables within digitalization. Furthermore, a discussion is had on how the variables relate to each other and connect as a system. The second part discusses the theoretical aspects and validity of the framework in the context of digitalization.

7.1 The Empirical Discussion

When exploring the digitalization of the beauty industry by means of the four dimensions in the framework, some similarities and deviations compared to the studied mature cases should be emphasized to validate the framework. The summarized findings from chapter 5 and 6 are presented in Table 7.1-7.4, divided into the similarities and differences found for each of the four variables.

7.1.1 Distribution

Regarding the distribution variable, it is clear that not only is it highly influenced by the other variables, it is also a variable that has more or less forcefully evolved a lot due to digitalization. This includes the possibility to remove – or add (intermediation) – actors and distribute directly towards the consumer (disintermediation). Online purchases necessitate a completely altered distribution structure compared to distribution through a physical store, especially as it opens up for a global market and therefore global distribution. The transition from physical to digital distribution tends to be slower when the product warrants a high level of personal preferences. This is seen within both the beauty and fashion industry, as the consumer adaptation to digitalization has been slower within these industries compared to for example the book industry. This could also be one reason for why most online beauty purchases are repurchases; since the product is highly individualized, the first purchase frequently occurs in a physical store

as there is a desire among consumers to test these products first. Similar behavior is not seen in the other industries.

Table 7.1: Similarities and differences between the industries within distribution

Distribution	
Similarities	**Differences**
Offering physical products that are strongly dependent on personal preferences generally has a slower transaction to digital distribution. When digitalization penetrates an industry, global distribution is quickly offered. Both reintermediation and disintermediation are possible and common due to digitalization.	Once a digital product can be offered new channels of distribution appear, clearly demonstrated in the book industry. The digital platform works primarily as a repurchasing platform within the beauty industry.

However, the preference pertaining to physical stores – as has been demonstrated within the book industry – or the physical experience of shopping are still factors to consider before diminishing or eliminating physical stores. Another difference that has a major impact on distribution is the possibility to go from a physical product to a pure digital product, as seen in the book industry. This has a major impact on the current distribution channels, as it would require a change of the company's business model. Finally, when an industry implements a successful distribution structure within the new digital reality, the possibility to achieve economies of scale are multiplied.

7.1.2 Interaction

Social media has had a great impact on the aspect of interaction between the company and their consumers, as well as provided a platform for the consumers to interact with each other. This is clear, independently of industry, within retail. This fact has created a new marketing tool of

influencer marketing, easily accessible for both companies and consumers. However, there is a difference between the successful platforms within the industries. For example, within the book industry there are a lot of self publishing forums, within the fashion industry the picture platforms are large and within the beauty industry the video creating platforms are most popular. The usage of video has been successful within the promotion of beauty products, partially caused by the need for more instructive interactions. Especially as the consumers are more aware of ingredients and performances.

Table 7.2: Similarities and differences between the industries within interaction

Interaction	
Similarities	**Differences**
Social media has gained huge marketing power. Influencers have been a marketing tool for all industries.	Within the beauty industry the interaction is more instructive and detailed, e.g. ingredients, than other industries. Platforms dominated by video content have been more important within the beauty industry The beauty industry require more in-store assistance and knowledge

In-store interactions within makeup might still be "powerful" due to the need of professional help and not solely in regard to personal preferences – in contrast to fashion and books, whereas you might not require the same personnel assistance and knowledge. The beauty industry has been one of the most successful industries in utilizing social media and increasing interactions with the consumer. From the consumer's perspective, this has resulted in more power in determining what is successful and what is not not, and – eventually – what is designed and produced.

7.1.3 Competition

As digitalization enables an infinite amount of niche markets (Anderson 2008), naturally the amount of competitors will increase. This has been the case for all studied industries. These niched, digital brands have put pressure on the big, market leading corporations – in order to stay competitive they need to digital evolve as the consumer behavior is changing. It has also been a competitive climate for the influencers, as some companies are more wanted than others – and some influencers are more sought after than others. For the beauty industry, this has resulted in an even more fragmented market than ever before.

Table 7.3: Similarities and differences between the industries within competition

Competition	
Similarities	**Differences**
Niched competitors have entered the market as an industry has become more digital The larger more exclusive brands has been forced by smaller brands to digitalize Influencers compete on who gets the brand deal	The beauty industry is more fragmented with brands, yet owned by massive groups There has been an increased amount of self publishing within the book industry which is not possible in the same way in other industries.

Differences within competition is that the companies within the industries are structured differently. As for the beauty industry the market is very fragmented, but yet the massive groups own the majority of the beauty brands. This creates a different competitive landscape as some brands have an entirely different access to knowledge and monetary funding. It can have an impact on what direction brands should take, and as the groups are so large, it can impact the entire industry. Within the book industry the market fragmentation is instead within the consumers power in the possibility to self publish or to create material in connection with the original work, and get larger reach due to the fragmentation of channels.

7.1.4 Product Offering

The similarities within the product offering is that there is an increased amount of released additional services to enhance the original offering. This can be tools such as AI product fitting that helps the consumer find the right size, color or material via online channels and reduce the risk of purchasing products that do not meet the customer's expectations. A common perception between the industries is related to having a large product assortment, and this being superior and more successful over a smaller offering. The aspect of product fitting tools can also have an impact on the assortment, using AI or search filters to showcase what the potential customer is looking for more accurately. However, the need for such tools differs, as the need for more precise assistance tools can be needed within the beauty industry in order to color or skin match in comparison to the book industry.

Table 7.4: Similarities and differences between the industries within product offering

Product offering	
Similarities	**Differences**
Product fitting tools (AI) have a positive effect on product matching and decision making. Digitalization enables having a larger product assortment – which is generally assumed to be a competitive advantage	Depending on the character of the product, it might need more or less tools or assistance – e.g sizing, color matching, etc. The product offering in some industries has the possibility to become entirely digital, as seen in the book industry.

Lastly, there are differences in which of the four shapes by Stønen (2020) the product can take. Books have been able to be entirely digital, as with movies, games and music, but fashion and makeup does not have the same ability to do so and still be considered to fulfill the same need or be directly replaced. The limitations of certain physical products forces the digital offering to be an additional service or supplement.

93

While the similarities and differences presented in this section highlight industry fluctuations and nuances, there is an evident reliability to the framework in that it presents a comprehensive overview of the process of digitalization, regardless of industry. All dimensions play a part in the complex network of functions that feature within the digitalized retail space. While there are overlaps – an inevitable part of such complex processes – all dimensions hold up in their own right, which provides the greater nuance desired from existing frameworks. Since this works as a system, the digitalization is not driven by a singular variable, the dimensions rather depend on each other, even though it evidently has been industries whereas one variable has been more prominent.

During the evaluation of the variables within each industry the connections and overlaps were hard to deny. The aspect of distribution is strongly related to the product offering, for example when the digital books entered the market the digital distribution channels were created and the physical ones affected negatively. The product offering changed from one structure to another due to digitalization, hence the distribution structure was forced to adapt. It is also a clear connection that the possibility to cut out resellers and sell directly to the end consumer is both a change of distribution as well as the competitive landscape, equally if the product offering changed it opens up for new actors to enter the market, such as digital startups. As the consumer expectation on interaction has changed, becoming more digital than ever and therefore able to reach the customer whenever and wherever – so is the expectation on the product accessibility and its distribution. Similarly, the interactions – especially on social media – is both driven by and driving the product offering in terms of product assortment and efforts in achieving innovative, viral products. Furthermore, having a high interaction with the consumers is viewed to be a competitive advantage and companies compete for the attention on social media. To summarize, it is inevitable to go through digitalization without affecting the four variables, and as they are driving the digitalization they are also driving each other in a linked system.

7.2 The Theoretical Discussion

To judge the reliability of the framework, the relationship between the theory and the empirical work must be discussed. Altogether, there is a high level of conformity between the theory of sections 3 and 4 and the findings of the industry case studies. Section 3.3 discusses the digitalization of retail and points towards many of the trends that have then been identified in the different industries. For instance, relating to distribution, *disintermediation* is a concept frequently studied in retail digitalization (e.g. Hagberg *et al.* 2016; Doherty & Ellis-Chadwick 2010; Gauri *et al.* 2021), and we find evidence of this in all of the studied industries – but perhaps especially in the book industry. At the same time, there are traces of *reintermediation* in all industries as the desire for a more experience-based interaction is desired by consumers. In contrast, the push within the identified research towards returns and reducing the number of actors in a market system (e.g. Gauri *et al.* 2021; Cao *et al.* 2020; Doherty & Ellis-Chadwick 2010) seem to have less power in the beauty industry (at least when looking at the Scandinavian market), possibly as a consequence of the products having lower return levels compared to for example the fashion industry. All of the explored industries have also been heavily impacted by the introduction of new actors, as theoretically implied (e.g. Hagberg *et al.* 2016; Rohn *et al.* 2021; Hagiu & Altman 2017) – albeit in different ways; the book industry was impacted by the emergence of self-published authors in the digital sphere, while the fashion industry was introduced to fast fashion giants. The beauty industry has perhaps had the strongest influence by new actors however, as many of them have been the driving force behind the industry being digitalized to the extent it is now.

Again, the case studies show a high level of conformity with the literature study (e.g. Jawaid & Karim 2021; Bhatti *et al.* 2020; Belanche *et al.* 2021; Hayes *et al.* 2021) in that the retailer-consumer – as well as B2B – interactions have been forever altered through digitalization and especially through the rise of social media. One factor that stood out – especially in the beauty industry case study – was the amount of data that digitalization has enabled companies to acquire about the habits and preferences of the consumer through the various touch points. This is in line with the literature

study (e.g. Hayes *et al.* 2021; Gauri *et al.* 2021; Verhoef *et al.* 2015; Doherty & Ellis-Chadwick 2010), yet the implications become increasingly more apparent when viewed through a case study lens. The effect is a push-and-pull dynamic in the industry wherein consumers, on the one end, have greater power and influence than ever before, while companies on the other end are simultaneously better positioned to identify and satisfy consumer needs. This power dynamic may arguably become of increasing importance for companies as a new generation of social media-savvy consumers claim their space in the marketplace.

The processes of disintermediation and reintermediation – as discussed in section 3 (e.g. Hagberg *et al.* 2016; Doherty & Ellis-Chadwick 2010; Gauri *et al.* 2021) – have contributed new forms of competition wherein the company frequently competes not only with other brands, but also with resellers *and* producers with sales channels of their own, no longer hindered by geographical or organizational limitations of supplying products. This is a recurring theme in the beauty industry and fashion industry cases, but perhaps less obvious in the book industry. A potential explanation for this is that in the book industry, the role of the intermediary is still difficult to replace, and it is rare for authors and publishing companies to distribute their products without an experienced reseller. As a whole, this suggests that the competition variable is dependent on the type of product distributed (and thus on the product offering variable), but also speaks in favor of the research that points to the continued relevance of the intermediaries (e.g. Gauri *et al.* 2021; Doherty & Ellis-Chadwick 2019; Chircu & Kauffman 1999). Even when companies are creating sales channels of their own and reaping the benefits of their ability to perform more activities internally (as discussed by e.g. Gauri *et al.* 2021), resellers remain a strong sales channel in the digital market. Even so, there is an added layer of complexity added to the competition variable as a consequence of digitalization. Oftentimes, businesses that sell both from a digital channel of their own and via a reseller must create a balance so as to not 'compete with their own products'. One strategy for this could be expanding the brand-owned webshop internationally, while selling through resellers locally or in select locations where this is deemed as beneficial.

Similarly, previous research delves into the topic of product offerings (e.g. Bharadwaj *et al.* 2013; Strønen 2020; Gauri *et al.* 2021). The case studies make it clear that while the possibilities to digitalize a product can vary significantly, digitalization has enabled all of them to provide a wider product assortment on an industry basis, while laying the groundwork for individual companies to provide more niche products, supporting the claim made by Gauri *et al.* (2021) that online retailers may better accommodate niche consumers. Strønen (2020) presented the four categories of products and services within digital transformation, where the dominant ones are offering additional digital services and digital information, especially as this works as a complement to a physical product. This is evident in the case studies – not least in the beauty industry – where the companies and market actors believe that digital tools such as product matching or product fitting outlines a competitive advantage. In support of the research by Gustafsson *et al.* (2019), this reduces the risk of overwhelming the consumer with a large product assortment as well as minimizing the returns.

8 Conclusion

This section presents the project's conclusions in regards to the established research questions. Furthermore, the purpose and framework generated from this research is evaluated to reason around its application to retail in a wider context.

8.1 Answers to the RQs

In Section 4, a preliminary answer to RQ1 was provided through the developed framework, establishing the variables affecting digitalization to be *distribution*, *interaction*, *competition* and *product offering*. The case studies of the mature retail industries as well as insights provided from the analysis of the beauty industry further enhanced the relevance of these variables, thus solidifying the variables. They affect the business and market system in multiple ways, both directly and indirectly towards the consumers. As the variables appeared clearly within the process of digitalization, so did the connections between them – shaping a decisive system. The framework presented in this report thus offers a holistic view on the most important variables within digital retailing with the unique contribution of an overarching customer perspective. Furthermore, this research provides an empirical perspective on the digitalization of retail that is lacking in most prior research.

The variables impact the ways in which retail industries are digitally transformed, both by setting a standard and by changing consumer behavior within all of retail in general, but also creating more digitally immersive industries through some prominent variables. Due to the changes within distribution, the digitalization of retail has been able to stretch beyond national borders quicker and more efficiently than ever before. Similarly, it has become easier to reach the consumer with physical goods, no longer requiring a middleman to the same extent and being able to cut out unnecessary intermediaries. In essence, distribution has affected the retail industry in that it no longer requires consumers to physically get to the

product – the companies have to offer multiple ways for the product to get to the consumer, thus further centralizing the consumer in the market system.

The variable interaction impacts retail industries by enabling and facilitating multidimensional communication between consumers, companies and influencers in a more complex network. New channels and tools have made it possible for companies to increase their presence in the spaces where consumers are found – digital and physical alike. Nowadays, it is not uncommon for companies to have direct interactions with consumers, which has made it easier for the consumer to reach the company. Using indirect interaction with the use of influencers has also been shown to be effective and used in almost every product category possible. However, additional actors not only add layers of complexity, but also spreads the power out among more stakeholders. As interaction allows consumers to interact wherever, whenever with or without the presence of the company, they too have gained more market power.

The competitive landscape for the explored retail categories forces companies to remain vigilant of competition in regards to what is done by means of digitalization. Being the first mover can entail massive competitive advantages, and when a company is not able to keep up with the digital transformation in relation to competitors, it can be damaging to the existence of said company. Hence, the variable of competition impacts digitalization within retail in regards to what a company is forced to do to remain relevant, and what it dares to do in order to be digitally innovative.

Lastly, the variable of product offering has proven to impact retail industries in the need for product innovation as digitalization evolves. This means that companies can no longer rely on their current offer being perceived as equally valuable in the digital sphere compared to the brick-and-mortar era. The product might need to be redefined, either as an entirely digital product or with different degrees of additional digital solutions. The industries and companies that have been in the forefront of digitalization have been able to adapt their offering and increase the perceived value of the product in order to optimize the customer experience digitally.

To summarize the answer of RQ2, the variables have impacted the retail industries in which they are digitally transformed both individually but also as connected systems. Some variables are clearly driving digitalization more than others within certain industries, but they are all inevitably changing the structure of the market over time.

When applying the variables to the beauty industry, in answer to RQ3, it has many similarities to the more developed industries in terms of how digitalization is currently affecting the market system. However, a few factors stand out that may contribute to the reasoning behind why this industry is 'lagging behind'. For one, the characteristics of the industry has made it more difficult to fully take advantage of the digital transformation of distribution. This could partially be explained by the market power still held by salons, boutiques and physical stores, as their competence is a major competitive advantage for many businesses and with certain demographics.

The beauty industry is very traditional in many ways, especially with massive corporations owning the majority of large and middle-sized brands in a highly fragmented market – causing an unbalanced power structure. However, even though these large groups have overall been resistant to digital transformation, the fragmented market has enabled smaller brands to create large and impactful market disruptions, especially because digital interaction through social media was used effectively, more efficiently, and above all earlier than other industries. Traditionally, the beauty industry has been about service and knowledge – which was gained through the physical distribution channels. However, social media – specifically platforms built on video material – enabled the consumer to gain the same knowledge digitally. This knowledge base became a central part of the beauty industry, for which there was a need for a changed product offering. Through social media and by providing knowledge and reviews, the influencer early became a powerful stakeholder within this industry. Arguably, these influencers – combined with trained beauty experts being used to guide consumers on the digital sales platforms – offer a great potential to offset the competitive advantage held by knowledgeable sales representatives in physical stores and salons. However, within the beauty industry, the ambition appears to be for these dimensions to be in place simultaneously

101

and function in unison rather than for one to replace the other. Thus, even more emphasis should be placed on omnichannel retailing. Optimally, companies should go even further to create a seamless experience for the consumer, such as is the case with unified commerce. This is especially relevant as the dimensions of the framework indicate a transformation in which the customer takes a more central role, with expectations on contiguous channels. In contrast to omnichannel, which has been far more researched, unified commerce creates connections between each touchpoint and enables the digital transformation which fills the gap seen in the beauty industry today.

Beauty products hold another discrepancy compared to common goods in that their success is based on preference, and the performance – and thus customer satisfaction – can vary significantly depending on the consumer. Herein lies a characteristic in stark favor of the longevity of physical stores, as there is in general a desire among consumers to experience the product prior to making a purchase. However, once the product has been explored and the consumer is happy, it does not need to be reexamined prior to making a second purchase. This creates an entirely different repurchasing structure, and may be an explanation for why the majority of beauty products bought online are repurchases. There are many ongoing processes in the digital sphere to overcome this gap and enable the consumer to purchase new products online, and while some are technical, many rely heavily on social media and influencer marketing. Yet the most promising trend in the market may very well be reconceptualizing the physical store in such a way that the products may still be experienced in some form – *immersive retail* from a physical perspective – but without necessarily being the place where the consumer then makes the purchase. While this may not be a successful strategy for every consumer, geographical market or brand, there is a belief both among the interviewed industry representatives and in the source material that overall, making stores more immersive and focusing on the experience rather than the sale itself is essential to remain competitive and relevant.

So, why is the beauty industry lagging behind? The fact of the matter is that the beauty industry, contrary to the lack of academic research on the subject,

is perhaps more advanced in some areas than the other industries studied. This is particularly true pertaining to the interaction variable – or rather, the use of social media for product marketing and brand awareness – and in the development of AI/AR tools to compensate for the lack of touch and experience of beauty products prior to making a digital purchase.

Thus, it is perhaps not so much a question of lagging behind, but rather that the beauty industry, on account of its products, target audience and above all the market actors – prioritizes aspects of digitalization that are less researched from an industrial and academic perspective. An explanation for why it has received such little attention academically may thus come down to gender inequality. The beauty industry is dominated by women; not only are women the larger consumer group by far, the majority of beauty influencers are also women. Furthermore, a large number of the beauty brands we know of today, both historically and those that are more recently founded, have a woman founder. In contrast, the video game industry – which has a lower market value than the beauty industry and is stereotypically considered to be male-dominated – receives a significant amount of attention from researchers and business analysts alike.

Whether gender inequality is the main reason or if the explanation is much more nuanced should be a topic for future research, given the significance of the beauty industry from a market size perspective as well as its evidenced insights regarding the digital transformation of retail. Regardless, it is a fact that woman-dominated industries, women-led businesses and consumption of products targeted to women have a tendency to be overlooked in research, as there is a long history of applying the male gaze to such matters. This is problematic from both an economical, societal and ethical perspective, as these industries evidently hold great market value, contribute to improving the lives of women and – not least – because women have long since earned their place in research.

8.2 Limitations, Validity and Reliability

Some final remarks should also be made referencing the generalizability of the results. As has been established, this research project explores

digitalization in retail. But regardless of the findings generated by means of the framework, it is important to remember that nothing happens in a vacuum, and there are a vast variety of factors that may not be fully encapsulated by the theoretical framework or within the scope of this project. It is important to recognise the impact of environmental factors that lay outside of the explored variables and lines. Digitalization has influenced all parts of the market system to various extents – even the ones not deeply examined here. For example, as mentioned in section 3.2, there are now digital payment solutions that have significantly impacted how consumers make online purchases, and future strides towards cryptocurrency may alter the effects of the variables.

In terms of validity and reliability, it is important to evaluate the presented conclusions. As described in section 2.4, the trustworthiness of this research project is partially ensured using a two-tier case study, where the theoretical framework is first applied to a number of well-researched retail industries, as was demonstrated in Figure 2.1. Based on the insights gathered, the framework was improved and then applied to the less researched beauty industry. This way, the case study had connections to the wider context and the credibility when generalized is higher. When discussing the similarities and differences within the cases, it is clear that the overall larger changes are similar across the industries and between interviewees. In addition to the increased external validity that comes from the multiple case studies, this research project thus contributes data on an understudied retail industry, and the fact that results were similar in terms of the overarching transformations significantly strengthens the external validity of the framework and research further. There is also a degree of reliability, as the generalizability for the retail sector as a whole increases due to possibility of similar results when repeating studies in other cases. However, when looking at the validity and reliability of this research project, reliability is arguably the weaker area on account of the low number of interviews that were able to be performed. While measures have been taken to address this – such as using triangulation and combining methods to fill the gaps – this weakness is acknowledged and should possibly be addressed in future research projects applying the framework.

To conclude, this research project has aimed to shine a light on a frequently overlooked, yet highly interesting, industry within retail. Additionally, it has provided a relevant and essential contribution to the research on digitalization of both women-dominated industries and the impact of the transition towards more digitally native consumers within the retail market system.

9 Recommendations

This section presents further recommendations, both in regards to further research possibilities and in terms of practical recommendations for actors within retail.

9.1 Future Academic Research

This report contributes to research within the evolution – and revolution – of the beauty industry and its digitalization by applying a framework with four dimensions: distribution, interaction, competition and product offering. No specific customer segmentation was made, but it was noted that some consumer categories are more willing to embrace digital transformation, which could be of significance for the results. This segmentation is not only interesting from a generational perspective, but also in terms of differences between the average consumer versus the aware consumer. Further research within the beauty industry specifically could include how the variables are impacted by taking into account generational other demographic differences in consumers.

Furthermore, the industry representatives mainly provided insights into the Swedish and Scandinavian markets, where the digital nativity is high. Some mentions were made of the fact that larger companies – many of them French – have been more hesitant to digitalization than actors on the Swedish market. Consequently, future research could examine the applicability of the framework both in other national or regional markets and from a global, geographical perspective.

As mentioned above, for example in Section 2.2.4 when looking at Figure 2.1 and comparing with global revenue of the digitally mature industries from Section 5, there is a noticeable research gap pertaining to digitalization within the beauty industry, and a possible explanation for this could be that the beauty industry is dominated by women. This should also be the topic of

further research, not least because of the proven valuable insights of the industry that have become evident throughout this project.

Going beyond the beauty industry, the purpose of the research project was to explore how and in what ways digitalization transforms various retail categories. The case studies are conducted on a limited number of retail categories – books, fashion items and beauty products – combined with a handful of examples from other retail industries where applicable. While these products have different characteristics and do not belong to one category, they are all relatively inexpensive – with a few exceptions – and typically not considered to be durable goods in the same way as for example cars, digital cameras, smartphones or computers. While the intent is that the framework developed should be applicable to retail at large, the lack of representation from these industries and categories may constitute a gap in its validity. Thus, future research should investigate how the variables impact the digitalization of other types of retail goods.

9.2 Current and Future Retail Actors

As this theoretical framework is not a blueprint nor provides a detailed "how-to"-guide, its applicability for companies might seem unclear. However, the framework gives an idea of the aspects and variables to consider from an industry and company perspective when going through digital changes.

A common theme in research on the digitalization of retail is that the power of the consumer still prevents physical stores from being eliminated. Increasingly, however, the consumer desires an experience rather than simply an alternative shopping location. The research on this topic discusses the concept of immersive retail mainly pertaining to creating digital tools developed to replace or compensate the lack of physical contact with products prior to making an online purchase. This research project indicates that companies benefit from taking the immersive experience back into the physical retail space, perhaps even more so than making considerable investments into digital tools to replace the experience. Future industry research should look deeper into the relevance of immersive experiences in

brick-and-mortar stores, as this may change the path of being forced to close down physical locations while there is an established preference for them among consumers in many retail categories.

Similarly, the research conducted in this paper indicates that digitalization centralizes the consumers within retail to an increasing extent. Demands for a seamless experience and conjoined channels are coming not only from consumers, but also from the companies themselves. As the term omnichannel has been heavily researched, the successor unified commerce is yet to have its breakthrough. Future research, within retail in general and on an industry level, is therefore of relevance to better understand this phenomena and to ensure the continued development and survival of many businesses.

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A Appendix

A.1 Description of Person A

Person A works as the Head of E-commerce for a large Swedish beauty distributor. With their education within Social Science and IT, their expertise is within IT in relation to behavior and utility. Previous experience involves digitalization within a large consumer goods company on the European market. At their current position they are involved with a majority of the digital creation and roles, including creating a digital solution for the end-consumer, brand webpages for each relevant market and web shop for their B2B customers. Person A describes how a comprehensive digital solution is wanted in order to fully take advantage of the technology available.

The company is a smaller actor (in terms of employees) with over 30 years experience and the majority of customers are beauty salons. They have exclusive rights for sales of certain brands within the Nordics and are therefore supplying a lot of resellers in various sizes. Around 90 percent of the sales goes to resellers, which is divided around 50/50 either using their digital platform or ordering through email/phone calls. The remaining sales are D2C via each brand's web page. However the company uses an affiliate program for the salons that do not have the possibility to create their own digital sales channels, they get a kick-back when consumers go through their affiliate link.

A.2 Description of Person B

The interview with the Communication and Sustainability Manager from the Reseller gave great insights as Person B had knowledge both in detail but also with an overarching perspective on the industry. This person started in this business due to their interests in digitalization within retail. The company is one of Sweden's largest beauty resellers and has the aim of having the widest product assortment on the Swedish market. During the pandemic the company's revenue increased 250%, whereas the online channel carries 89 percent of the total purchasing.

The company is both present online and offline, although Person B states that the online channels have better possibilities to increase more rapidly, they still believe that a physical expansion is relevant. However, this might not be the traditional brick-and-mortar store as they believe that the experience and brand awareness is central in succeeding physically and can best be facilitated in flagship stores.

A.3 Description of Person C

The interview conducted with Person C gave insights within the large groups and digital startup as they had 40 years of beauty industry experience and are now working as a Board member and Marketing & Sales consultant for a digital niche brand. Person C has both experience from B2B and commercial marketing, and has during their active work life seen the digitalization change the industry from the inside and out. They have both worked for some of the world's largest actors as well as Swedish digital startups, giving a uniquely broad perspective.

The digital startup has a global presence, with physical presence through resellers limited to Europe. During the first active years the brand had an exclusivity deal with a Swedish reseller, which only allowed the brand to sell through their own channel and that specific reseller. However, this deal is no longer valid and the brand is available through multiple channels. This niche brand has a strong presence in social media and is founded by an influencer. Due to Person C's experience, they shared how the industry has changed during digitalization and what they expect to happen in the future.

A.4 Description of Person D

The interview with the Concept & Merchandising Retail Manager at the traditional niche & one-brand, Person D, which had 13 years of experience within the company in various market roles. Person D works a lot with the physical stores, both with opening stores but lately also closing a lot of stores. They are also involved with certification work for the brand, having a

high degree of certifications and credibility is very important for this brand. The brand has full ownership from ingredients, production to distribution.

The brand has a global presence, with high market shares in other European countries. Even though the company has a high presence physically elsewhere, it has decreased a lot especially in Sweden – where the digital channels have had better breakthroughs. Person D gave a lot of insight into a company whereas the global presence almost requires the company to have different strategies depending on the local market, as some geographical places are not as far developed within digitization as other countries. Furthermore, this company had the majority of sales through mail order, which enabled an entirely different global perspective.

A.5 Description of Person E

Person E provided insights into the Beauty Editor and Journalist role. With 20 years of experience, they have worked both with specific magazines but also independently as a freelance writer. The content Person E produces is both digital and print work, and the share of each is roughly equal. As for industry insights, not only has the content increasingly become digitized from analogue, but the way magazines are doing advertising collaborations with companies has also been more generally accepted. Furthermore, Person E sees a great difference in the expectation on quality and product knowledge in each produced writing more today. The beauty community has become more evolved and informed than 20 years ago, especially digitally.

One of the largest changes seen by Person E is that the industry is moving much faster and therefore the companies need to be more resilient to viral content. Both digital and print content has a much shorter time-to-market, which puts additional pressure on journalists and content creators. As Person E works with different brands and companies, they see both resistance and drivers for digitalization within them. However, having a brand identity is seen as very important. In terms of physical versus digital shopping, Person E believes that a combination of the two is important and also the role of resellers as they can help smaller brands increase their brand awareness.