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E-Commerce in fashion industry

A phenomenon bound to change an
entire industry configuration

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Introduction

In very fast-changing world like the one that people are experiencing nowadays, is not easy to find a reasonable way to observe a certain phenomenon. Different elements are coexisting and interacting in order to make possible the development of new ways to create welfare. This is the ultimate purpose of modern society, create an environment and a system where human beings' life conditions are reaching higher and higher standards. Technology can be considered the one big tool that has been used since the last century to pursue this goal. Source of money for companies and welfare for consumers, it could seem the perfect mean to achieve a continuous improvement of society. However, all powerful tools have side-effects that make them not easy to control.

This paper aims to observe and analyse one of the consequences of the technological evolution of the last decades, the internet commerce, i.e. e-commerce, within the fashion industry context.

The introduction of internet in the purchase process is changing the shape of retail¹ and two of the several reasons why e-commerce is so successfully are surely the fact the customers find it very convenient, but also the favour of governments for a cashless society where all the transaction are being done in a transparent and clean way¹.

This paper is going to deep dive the first aspect, the one related to the success of e-commerce linked to customer's needs. E-commerce analysis will focus on fashion industry, since clothing represents an interesting sector for this study because of its natural characteristics of being fast changing and high-involvement product category, related to personal ego² and products that need to be seen, felt, touched³, and eventually tried on because they are complicated to evaluate⁴. As will be deep dive in the next chapters, these characteristics represent either an initial obstacle to enter the e-commerce markets and, at the same time, a big opportunity, because of the huge room for improvement that derives from the initial difficulties.

The current trend is positive, but to deeply understand where a certain phenomenon is going to take it is necessary to examine more in detail either what is around it and what

it is made of. Only through this analysis will be possible to try making realistic hypothesis on if and how e-commerce could evolve. It seems very challenging to understand what will be e-commerce role in the future of fashion industry. It could either just be considered one of the many, yet very successful, channels of the industry, or the first sign of a technological revolution that is going to redesign the entire fashion industry configuration.

The best method to approach a complex phenomenon is to identify the main factors on which it is based, and then face each of these elements individually, but without losing the overall vision of what is the final aim. In simpler words, is sort of a “staring from the end technique”, where the researcher takes a look to the final goal that needs to be achieved, and then proceeds backwards step by step, analysing each element that can lead to the wanted outcome.

This would be the approach of this paper, that will start with an overview of the industry context and its main characteristics, and then will zoom on the specific topic of the clothing e-commerce identifying as core aim of the sector object of the study growth, dynamism and profit.

The elements that make possible to achieve a positive result for the business will be analysed on two different levels, the corporate and the consumer one.

The study chapter will deal with the corporate aspects through the collection, analysis and interpretation of the main financial and operational figures of one of the most important examples within the business, i.e. Zalando company⁵.

The second part of the study will employ a specific survey to gather information about the consumers’ behaviour towards the e-commerce phenomenon within fashion industry, trying to deduce interesting insights from the answers.

The final part of the paper will try to summarise all these elements and give a deeper and critical perspective of the phenomenon along with the personal opinion of who is writing about the potential of internet commerce within fashion industry.

1. Technology in fashion industry

1.1 Industry overview

Fashion is among the most important industries in the world and it accounts for a substantial share of global economy. According to Statista database (2015), the size of the global apparel market (market value) is around 1,700 billion dollars⁶, which makes fashion industry market share reach almost the 2% of the global GDP. If we thought about fashion industry as a country, and its market value as its GDP, it would be ranked as the 12th largest economy in the world, right after Russia and before Korea⁷.

Latest data from a FashionUnited website, reveals that the worldwide number of people working in Textile & Clothing is 161 million, about 4.7% of the global labour force. That means that almost 5 out of 100 workers are in fashion industry⁸.

The biggest player within the industry, besides United States and Europe, surely Eastern Countries such as China, India, Vietnam and Bangladesh.

Table 1.1 shows the 10 top exporters and importers, according to a report of the University of Delaware based on WTO data⁹.

Top 10 clothing exporters 2017	Top 10 clothing importers 2017
1. China	1. European Union
2. European Union	2. United States of America
3. Bangladesh	3. Japan
4. Vietnam	4. Hong Kong
5. India	5. Canada
6. Turkey	6. South Korea
7. Hong Kong	7. Russia
8. Indonesia	8. China
9. Cambodia	9. Switzerland
10. United States of America	10. Australia

Table 1.1: Top 10 clothing exporters and importers of 2017. (Delaware University, 2018)⁹

Fashion industry includes a huge variety of products which could be divided in five main categories:

1. Accessories (bags, scarfs, socks, hats, etc.)
2. Outerwear (Coates, Jackets, Blazers, Suits, etc.)
3. Top (Sweaters, T-shirts, Shirts, Cardigan, etc.)
4. Bottom (Trousers, Jeans, Skirts, Shorts, etc.)
5. Footwear (Sneakers, Heels, Boots, Slippers, Sandals, etc.)

Companies can produce one or more of these kinds of products depending on their corporate strategy.

FashionUnited website also ranked the top fashion companies according to an index that takes into account which are the largest quoted companies within the trade by market capitalisation, the aggregated market value is over 1 trillion dollars¹⁰.

Apparently, most of the top fashion companies focused their business on more than one product category, such as the French LVMH, the Spanish Inditex, and the American Nike.

Another important categorisation that needs to be done among fashion industry is the one based on price/customer target. Figure 1.1 shows the segmentation of the industry according to these criteria¹¹:

Discount brands	Mid-budget brands	Premium/bridge brands	Affordable luxury brands	Luxury brands
<ul style="list-style-type: none"> • Primark • George at Asda 	<ul style="list-style-type: none"> • Zara • H&M 	<ul style="list-style-type: none"> • Levi's • Nike 	<ul style="list-style-type: none"> • Tory Burch • Michael Kors 	<ul style="list-style-type: none"> • Prada • Dior

Figure 1.1: Fashion industry categorisation by price and customer segment/target. (Source: own representation)¹¹

It seems necessary to report this main categorisation within the overall fashion industry context, nevertheless in the first part of this paper, fashion industry will be considered mainly as a whole, in order to simplify and make some concept more general. These categorisations will become more relevant later on during the analysis of the study chapter.

1.2 Technology trends in Fashion Industry

In recent years, the fashion industry has gone through a time of great changes arising in particular from the use of new technologies available. As all industries, also fashion has been strongly affected by the spread of the fourth wave of industrialisation that the world is experiencing, the so-called Industry 4.0¹². This term has been first used in 2011 during the Hannover Fair¹³ and it indicates a trend of industrial automation that is a combination of new production technologies which are deeply modifying the way of producing to improve working conditions, create new business models and increase productivity and production quality¹⁴. Moreover, this phenomenon is changing the relationships among economic players, consumers included, with relevant effects on the labour market and on the social organisation.

Industry 4.0 includes factors such as robotics, automation improvement, artificial intelligence (AI), 3D printing, laser cutting, big data, the cloud, 3D scanning, Internet of Things (IoT), augmented reality (AR), virtual reality (VR), QR codes, social media and E-Commerce. Tools that aim to develop consumer-centered, high-value added fashion added and shopping experience, using digital technology¹⁵.

These factors are affecting either the supply or and the consumer side of fashion industry, in some cases both of them¹⁶.

1.2.1 New technologies in fashion industry supply chain

From the supply chain perspective, the most relevant changes in the industrial process have been established by the introduction of automation and robotics in textile factories.

They both aim to boost processes' efficiency through the use of hi-tech machines instead of human work. This could be a positive improvement for different reasons:

- Higher precision ensures a better-quality level of the final results;
- Higher speed allows company to make more in less time, which increase profitability of the process;
- Less human mistakes mean time and money saving;

- Space efficiency causes robots can be installed on walls, shelves, rails, etc;
- Reduction of workplace accidents by let machines do dangerous and risky procedures.

It is clear how important can be the exploitation of these technologies in order to cut costs, optimize time-saving, in a sector as fashion where companies need to follow trends that keep changing faster and faster.

Moreover, robotics and automation make easier not only to keep up with such a frenetic world, but they also represent opportunities to create new needs and extra services that otherwise would be difficult to provide for an affordable time-costs trade-off.

Let's think about a simple personalisation option, like stitching the name of the customer on a bag. It seems a banal service, but doing it handmade on the large scale would demand a lot of specialized workers and a quite high level of precision that probably would anyway lead to a big percentage of errors.

In the end the profit would not be that high or there could even be a loss for the company. A robot, on the other hand, can make all this process way easier, faster and less expensive. As a result, the customers will have this apparently simple extra service available that otherwise the company could not provide.

Even if it may seem a negligible need, it is important to remember that the world is living an era in which the important thing is not to create something useful, but rather desirable and pleasing, in particular fashion industry is one of the sectors that expresses that concept the most.

The digitalisation of fashion industry has not only influenced the manual part of the procedures, as discussed in the previous paragraph, but it also determines a turning point in the design process, through the utilisation of new software that integrates the latest digital technologies.

According to Kim & Cheeyong (2015), "the textile and fashion industry utilizes computer-aided design/computer-aided manufacturing (CAD/CAM) as a technique for planning and designing clothing patterns. These systems are based on technology that can

virtually copy actual textile and knit products, to reduce the number of processes required for producing textile and fashion items, and to plan accurate and varied products.”¹⁵

Companies are keeping improving these design software, by incorporating them with new digital technologies such as 3D printing/scanning, in order to optimize costs and time spending.

1.2.2 New technologies in fashion industry customer related services

From the customer point of view the main benefits of this 4th Industrial Revolution derive from the introduction of new technologies and factors such as virtual, augmented and mixed reality (VR/AR/MR), social media, online sales channel (E-Commerce), etc.

The definition of virtual reality is technology that immerses users in a fully artificial environment that is generated by a computer¹⁷ whereas augmented reality makes users “see and interact with the real world while digital content is added to it”¹⁷. Mixed reality has elements of both, for example the user can see added digital content to the real world, but in this case, he can also interact with them.

The utility of these new technology for fashion industry is clearly linked to the consumer experience either in the store or in the online shop. VR/AR/MR are still not diffuse on a large scale, but they are starting to spread, e.g. some websites are beginning to offer the chance to create a digital version of yourself (same body size and shape, etc.) to let customers see how a dress could fit on them even without trying it in real life.

An interesting example of this new technologies is the so-called magic mirror system, that “uses a depth camera to capture the figure of a user while they are standing in front of a large display. Using augmented reality technology, the display can show fashion concepts and various outfits to the user, coordinated to his or her body. When the coordination functions of the system are not activated, the display shows an unaltered image of the user, similar to a mirror. When a user approaches or touches the display, they will activate system’s coordination system”¹⁵.



Figure 1.2: Example of “magic mirror system” using AR technology (Shopify, 2018) ¹⁸

Social media is also an important driver of fashion industry nowadays. They are getting more and more important into the pre-shopping experience process of customers, showing them relevant content according to their research (through Big Data analysis), giving them the chance to be always update on the last trend and the chance to get fast and easy feedback/reviews from all over the world any time. But recently social media evolved, they are not only the channel through which consumes can look for trends, reviews and opinion during their pre-shopping phase, lately they became actually another sales channel (Social Commerce or S-Commerce). It is not that rare now to have an online shop directly link with a social network and be allowed to make the purchase straight from this social store.

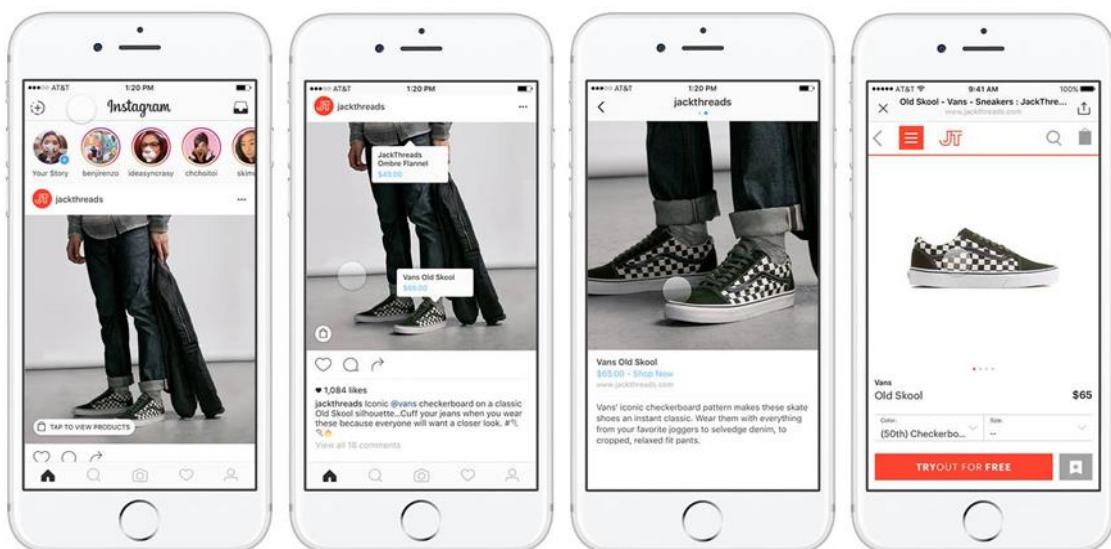


Figure 1.3: Example of the use of social media as shopping channel (influencermarketinghub.com, 2018) ¹⁹

The latest technology revealed in advance the topic of online sales, the so-called Internet Commerce or E-Commerce. It is common to indicate the arrival of Amazon on the Internet (1994) as the birth of the E-Commerce as we know it nowadays²⁰.

In more than twenty years it has kept growing and developing. It started from the selling of books and few other basic products and now it covers almost all kind of items on the market, including fashion ones as will be discuss in the rest of the study.

It is important to specify that all these new technologies, must not be seen has completely separated entities that play their role in the fashion industry's landscape alone. The categorisation is just a way to define them in a clearer way, but it is a simplification of the reality. On the contrary, they often interact with one another, creating the dynamic context that the industry is experiences nowadays.

In the following analysis of the specific E-Commerce case, these interactions would be seen more in detail.

2. E-Commerce in Fashion Industry

2.1 From brick-and-mortar to online

The term brick-and-mortar (B&M) indicates physical buildings and stores where business activities take place. Talking about fashion it refers to the real-life shops as consumers can find on the streets of every city. A person can just go in, see all the items available, try them on, ask the sales assistant for advices, pay and go back home immediately with the purchase.

Until the end of the 20th century, B&M stores were the one and only channel available for consumers to procure themselves garments. Both from a corporate and a customer point of view, the entire fashion industry was designed and focused only on the characteristics of this sales channel.

As the internet commerce started to spread, between the end of 20th and the beginning of 21st Century, fashion industry was relatively touched by this new way of intending shopping. In fact, fashion industry was definitely slower than the other sectors in the adoption of the online commerce. Most of the literature trace the reasons back to the nature of the clothing itself, which “is considered to be a high-involvement product category, related to personal ego and products that need to be seen, felt, touched, and tried on because they are difficult to evaluate”⁴.

The limit was more customer related than corporate related, fashion industry had all the tools to get immediately into the online commerce, but it was refrain from doing that because of strategic customer-related limitations. Nevertheless, what changed the situation and opened the fashion industry to join this digital revolution, was the improvement and development of new technologies that has been discussed in the previous chapter (3D virtual models, AR²¹, social media, etc.), which made possible to deliver to the customer an online shopping experience.

Nowadays fashion industry is the biggest (almost 30% of total e-commerce revenue²²) and one of the fastest growing sectors in E-Commerce. According to Statista’s Report 2016²³, “the size of global fashion E-Commerce market was about US\$332.1 billion in

2016 and accounted for 28% of total E-Commerce market.”. These data take into account three main regions, China, USA and Europe, which cover more than 83% (37.9% China, 26.1% EU, 19% USA) of the global internet commerce market within fashion industry.

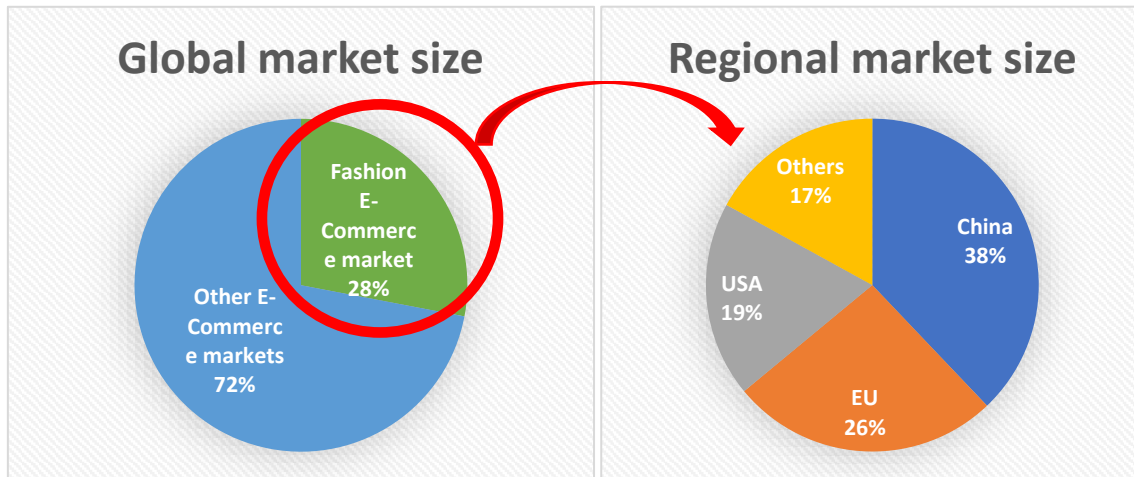


Chart 2.1: Fashion E-Commerce market size. (Statista, 2016)²³ Chart 2.2: Fashion E-Commerce regions' sizes. (Statista, 2016)²⁵

The same Statista report expects also an average annual growth rate around 13.8% by 2021 for E-Commerce fashion industry alone. In that case the market size of the sector will reach US\$633.5 billion, almost double the size of 2016. The fastest region for this growth is expected to be China, with an average annual growth rate of 17.8% by 2021. China will growth almost three times more than USA, but this is explained by the fact that internet utilisation is still foreclosed to Chinese population at the moment (in 2016 only 51.3% of the people in the Country had internet access)²³. The change of this situation will boost Chinese E-Commerce growth, creating new potential customers.

2.2 E-Commerce success in fashion industry: challenge and opportunity

As reported in the previous paragraph, general numbers and forecasts seems quite good and optimistic for the future of the online commerce within fashion industry. It might be interesting though take a closer look at the elements that compose the complex and multifaceted phenomenon of E-Commerce, in order to understand it more in depth and be able to draw a more specific picture of the future that industry should expect.

First of all, it might be convenient to divide the analysis in two main perspectives. On one hand it will be interesting to study and analyse what elements influenced and how

the actual business model and business approach of fashion companies, i.e. a corporate point of view of the E-Commerce's impact on industry.

On the other hand, customer perspective is important as well. It's been already told how fashion industry is considered to be one of the most customer-centred.

It's fundamental to keep in mind that both these points of views mutually overlap, they are not separate entities on every aspect and often they influence each other. The categorisation is just a way to create a systematic order with the purpose of make analysis easier.

2.2.1 E-Commerce from a corporate perspective

Given the general positive trend of online sales channel, the E-Commerce has increased its popularity and fashion companies are starting to give it more and more relevance within the corporate strategic decision.

To understand what the drivers of this new trend from a corporate point of view are, it comes natural to compare the two main kind of retailing: offline and online. Both of them have advantages and disadvantages for companies, as has been outlined in the following table²⁴:

	Offline commerce	Online commerce
Fixed costs	-	+
Sale of all stock	-	+
Shipping costs	+	-
Market area size	-	+
Data analysis	-	+
Returns rate	+	-

Table 2.1: Advantages and disadvantages of online and offline commerce (corporate perspective). (Source: own representation)

- *Fixed costs*: these costs include infrastructures costs like rent or purchase of physical stores for offline retailers, that are larger than the online ones which usually are more variable and so that follows business performance.
- *Sale of all stock*: it can be seen as an online retailers' advantage because it is easier for an E-commerce platform to sort and manage the stock, since not having it in physical store make it more flexible.
- *Shipping costs*: these costs are clearly a disadvantage for online businesses, since offline store don't need to ship the items.
- *Market area size*: online commerce can capture a wider range of consumer in a bigger geographical area, because it has less restrictive physical boundaries.
- *Data Analysis*: E-commerce makes possible and easy to collect data about consumers' preferences, useful to develop an efficient corporate strategy.
- *Return rate*: traditionally a higher rate of returns is observed in online businesses, and clothing sector is particular subject to them because of the product's characteristics (size could not fit, material and colours could appear different in real life, etc.)

Based on this overview it might be tempting to conclude that online commerce is surely better because it has more advantages. Of course, this conclusion would be quite trivial, in fact, as all economic phenomena, also fashion retail is a synergy of more elements that helps each other and have complementary characteristics. In this case for examples, it has been taken into account just a general point of view that should not let think that one part or the other is completely good or bad. Here lies one of the main goals of this paper, to deep dive the topic by analysing more in detail specific study-case in order to get a more accurate understanding of such a complex phenomenon.

It's also interesting to observe how all the elements in the table represent advantages and disadvantages that could be applied to almost all sectors not only fashion industry. The only one that it's probably more industry-specific is the return rate, but also in that case it is just more evident in fashion industry however still exists in other sectors. This must not surprise, since as it has been already mentioned, most of fashion industry peculiarity lie into the way of customers feel towards the product, therefore more details will be found in the next paragraph that analyses consumers perspective.

E-Commerce represent both a challenge and an opportunity for fashion companies, but before taking a look to what does it mean in specific, is relevant to be aware that different kind of players take part in the E-Commerce market:

- Online-only clothing retailer, which don't own any physical store, but manage all their activities online. They sell their own brand and other brands. Examples could be Asos, Zalando and Zappos.
- Ordinary retailers that own both physical and online shops. This category usually born as a brick-and-mortar business and then evolves in order to adapt to the current industry needs, which make it E-commerce option essential. Examples are Zara, H&M, Gap, etc.
- Generalist retailers, which are selling only online, but their business includes a large range of products, not just garments. Amazon is the bigger example of this category.

The first two categories are the most interesting ones for the analysis of this paper since is more focused on the specific case of fashion industry.

It is clear how for the first category, online commerce doesn't just represent an opportunity and a challenge to become bigger and bigger, but it is actually the initial chance to born and spread. Online-only retailers rely completely on the strength of the e-commerce, they started as a bet and they are keeping ride the wave of this phenomenon.

Ordinary retailers that use also online channels to sell their products, on the contrary, faced the challenge to adapt their activity to a different business model with the goal to exploit it and make an advantage out of it.

Later on, in the paper this distinction will take into account to analyse differences of these two approaches and try to deduce some insights for the overall industry's picture, but for the moment they will be considered as one category: online retailers.

2.2.2 E-Commerce from a consumer perspective

As mentioned in the previous paragraph, fashion industry is one of the most customer-dependent sector. This expression means that the success of a fashion business depends

not only on technical and practical characteristics of the product (which can be enhanced by supply chain's improvements, strategic investments, etc), but mostly by the changing attitude of the consumers towards the products that is buying, which, in the case of fashion items, derives mostly from how the product is perceived and what feelings stimulates rather than its advantages as object that pursues a practical goal.

Trying to translate this concept in less and simple words, often the shopping experience process influenced final purchase more than the practical need of the garment.

Shopping experience is an expression frequently used and is usually linked to the act of purchase a product, like choosing a drees in a physical store or in a website. This definition is not totally incorrect, but it appears just partially complete. Nowadays it expresses a wider concept that includes a process which starts before the actual purchase act and can end way after it.

The following table will summarise the main advantages and disadvantages of online and offline commerce from a consumer point of view, splitting them in 3 categories: pre, during and after purchase. Every element will be described and analysed more in deep in the following part of the paper.

		Offline commerce	Online commerce
<i>Pre -purchase</i>	Attractive windows	+	-
	Offline marketing	+	-
	Social media	-	+
	Online marketing	-	+
<i>Purchase</i>	Physical product experience	+	-
	Personal assistance	+	-
	Other consumers' reviews	-	+
	Payment methods	+	-

	Immediate product's availability	+	-
	Variety of choices	-	+
	Easy orders from home	-	+
	Convenience	-	+
Post – purchase	Returns	+	-
	Data analysis	-	+

Table 2.2: Advantages and disadvantages of online and offline commerce in all three shopping phases (consumers' perspective). (Source: own representation)

- *Attractive windows*: refers of course to windows of the physical stores, that encourage consumer to enter and buy. A nice window is one of the main tool to drive traffic in offline stores.
- *Offline marketing*: it includes all the physical marketing campaign such as billboards and previews.
- *Social media*: at moment social media are one of the most influential tool for marketing campaigns, and even if they benefit both online and offline stores, they are for sure closer to the first ones. The new figure of the "influencer" empowered this marketing mean even more, offering promotional codes and direct links to the online shops is for sure a great advantage for e-commerce, that in this case takes also the name s-commerce (social commerce).
- *Online marketing*: it includes newsletters, online magazine/advertisements and banners that drive traffic directly on the online shopping platform of a business.
- *Physical product experience*: it is the one of the main advantage that offline stores can count on. Consumers need to touch, see and try clothes on to feel more comfortable in buying them.
- *Personal assistance*: a sale person available for every consumer's need is still a plus in favour of physical stores. Of course, this element can be considered less or more important according with the kind of consumer. As will be discussed in

the study part, usually people more used to online technology feel more comfortable in buying without the need to see and try the item, that attitude makes personal assistance a relatively irrelevant factor for them; on the other hand, people unacquainted with online tools perceived the help (or even just the option to ask help) to a sale person something that really improve their shopping experience.

- *Other customers' reviews*: this element, as the previous one, has the characteristics to be perceived in a different way depending on the customer's category. Internet friendly people (mostly young people, that experience internet for almost their whole life) will be more attracted by the get to have an overview of the opinions of other consumers on a specific product; also this dynamic will be under discussion in the next chapter.
- *Payment methods*: this factors includes different elements, first of all the security of the payment method, that is still perceived weaker for online purchases than for offline ones; also having the chance of paying with different methods is considered an offline stores' advantages even if online platform are opening up to more and more possibilities like paying by cash at the delivery or accepting more kind of online payments; in fact, speed of payment must be considered a plus in favour of online commerce thanks to new technologies that even avoid the effort for the customer to take the credit card out of the wallet to insert the number but allow people to do it through a simple app.
- *Immediate product availability*: this element refers to the importance that customers can give to the opportunity of having the clothing item immediately after the purchase, without waiting for the delivery. This factor has been partially smoothed by the spread of the fast (1 day delivery etc.) options delivery, but it remains still something that is perceived as a limit for online commerce compared to offline.
- *Variety of choices*: it is unquestionable that e-commerce platforms have the chance to offer a wider choice of products, that in brick-and-mortar stores would be simply impossible to keep. This is a big pro from a consumer of 21th century, since people are more and more used to have no such restrictions.

- *Easy orders from home*: laziness must not be underrated, people can enjoy shopping just as much as they like to stay home and relax. E-commerce is the tool which allows that. Factors that could make online shopping more appealing from this point of view are things like avoiding crowded places, traffic jam, bad weather conditions, etc.
- *Convenience*: clearly one of the factors that influence customers the most is price. Online businesses' cost structure suits well with the possibility to offer convenient deals to the users.
- *Returns*: the number of returns is a negative index that afflicts either brick-and-mortar stores and e-commerce platform. In fashion industry in particular, evidence reveals that online businesses have a higher rate of returns, as a natural consequence of the impossibility to see and try the clothes before buying them. Clearly this peculiarity is due to the characteristics of the fashion products and so that is something not easily solvable, even though technologies such as AV and 3D visual are making the gap between online and offline shorter on this matter.
- *Data Analysis*: as from a corporate point of view, this element can benefit also the customer side, since collection of data regarding his/her shopping habits are useful to show a personalised content in the internet. Websites and banners will tailor better customer's personal taste, making easier to find what he/she needs and want. Of course, describing this as a win-win dynamic would be a simplification, since from this advantage can derive some other flaws which importance depends as usual from the customer's characteristic. One example is the privacy implications, which represent a big inhibition usually for older people that weren't born in a world where all information is continuously shared and perceived it as a direct threat for their private life.

In this case the important thing seems not to be how many positive or negative elements each kind of shopping has, but rather how much does every element count. The final success of a is more a weighted average of advantages/disadvantages than an arithmetic one.

After this quick schematised overview, next paragraph is meant to get more in deep with the comparison of online commerce platforms to offline retailers, putting together in a more homogeneous way all the elements just observed, in order to prepare the basis for the study in chapter 3.

2.3 Multichannel retail panorama

Last paragraphs tried to outline e-commerce positive and negative characteristics from a corporate and customer perspective, by comparing it to brick-and-mortar retailers. That was a pre-analysis useful to create a simple scheme of some important elements that play into the complicated relationship between different retail channels in fashion industry. However, reality is not that sharp and defined, there are lots of variables that create shadows and grey areas; and it is exactly in these grey areas that lie the potential and the chance for the industry to direct all these characteristics and build the best possible configuration²⁵. It is a never-ending process, but it is very important to analyse and try to understand in order to forecast the future outlook of one of the most important sectors nowadays.

2.3.1 Hedonic and Utilitarian value of shopping experience

As already mentioned, the peculiarity of fashion sector is its products to be considered more as added values to the person that buys them, than as just practical objects just useful to an end. The added value of clothing items lies in the experience value customer is able to go through while doing shopping, which conveys pleasure, joy and fun²⁶.

Zeithaml (1988)²⁷ analysis date back to many years before the launch of e-commerce as it's known today, but the general definition of value is still very actual: "it carried out an extensive review of the concept and considers value to comprise all the factors, qualitative and quantitative, objective and subjective, that form the shopping experience as a whole. So, the value is not limited to product acquisition but reflects the entire consumption experience."⁴

Literature tend to divide value into two different dimensions: hedonic and utilitarian. According to Overby, J. W., & Lee, E. J. (2006)²⁸, utilitarian value is the overall assessment (i.e. judgement) of functional benefits and sacrifices made by the customer on the

purchase of a certain product. It is defined by rationality and “it can be considered a cognitive and non-emotional outcome of shopping”.⁴

Overby, J. W., & Lee, E. J. (2006)²⁸, also defined hedonic value as the overall assessment (i.e. judgement) of experiential benefit and sacrifices such as entertainment and escaping. It is considered as something more individual and subjective, that is driven by emotions and feelings raised by what surrounds the customer and their interaction.

Even if elements of both utilitarian and hedonic values occur in every kind of shopping experience, some other factors such as the product category or the channel used can make one of the two values more significant than the other, depending on the case. Fashion industry for example, is considered a high-hedonic sector because of its product’s characteristics. Given that hedonic shopping value is commonly associated with brick-and-mortar stores due to its socially visible nature and the study of online consumer behaviour has traditionally taken a utilitarian perspective, it may seem logical to believe physical store the kind of channel that suits better the industry’s characteristics⁴. Nevertheless, this statement is clearly in contrast with the data that shows a huge growth of E-commerce in fashion.

As mentioned in the first chapter, E-commerce can be considered as one of the new technologies born by this 4th industrial revolution, but at the same time it has been created and is keeping improving thanks to lot of the other technologies. Augmented reality, visual advanced tools, faster production processes, etc. they all help online commerce to add more and more hedonic value to its shopping experience²⁹. Consumers start enjoying online shopping as an entertaining activity just as much as in-store shopping. At the same time, digital tools have been introduced into brick-and-mortar stores in order to keep up with modern consumer’s needs. As a result, the distinction online-utilitarian and offline-hedonic is no longer to be considered suitable³⁰, but still useful to understand how things are changing in the global panorama.

2.3.2 The new in-store shopping experience

Even if the popularity of brick-and-mortar stores has decreased and most of the literature agrees to be held e-commerce spread responsible for that, physical stores still

represent the first and more important point of contact with consumers. “For consumers, according to the market research firm Mintel, shopping in stores prevails as the most popular route to buy new clothing”.⁴

So physical stores are apparently resisting to the strong e-commerce push, but surely not without changes. In-store shopping experience is adapting to the new needs of a consumer used to have a lot of choices and information about any product, moreover retailer must not underrate the playful side of the service that they are offering. If in-store experience strong suit compared to e-commerce is to gratify the consumer with the immediate disposal of the item, it certainly lacks the fun and hi-tech atmosphere that online platform can provide. As already mentioned, emotional and subjective perception of the experience play an important role, and they strongly influence lot of behavioural shopping outcomes, first of all an increase in willingness to buy and in willingness to come back in the same place to buy again.

To create the perfect environment, retailers needs to pay attention to all little details such as lighting, music in the store, store layout, etc. Nevertheless, this would not be enough to appeal the modern clothes consumers, that need to feel engaged and participate with what is around them³¹. That’s why the trend is to enhance in-store shopping experience with digital technologies that normally would be considered more online-related. Reality seems not to be enough anymore, consumers want to play with hi-tech devices, be able to order items not in stock, collect products previously ordered in the website, and lot more. Tablets and iPad are already largely diffused in most of the more important fashion chain, but this process keeps going on without interruption, AR seems to be the next step, in order to give even more freedom to the consumer, for whom limit is the reality no more.

The strategy that has been adopted is not fighting against the new, but rather integrating it. Those businesses that understand that seem to be the ones surviving and also getting benefits out of it. If this is the future, or just a temporary transition to a totally new configuration of fashion industry is the purpose of the paper to analyse and try to forecast.

2.3.3 *The e-commerce trend*

E-commerce main challenge is the other way around and it consists in being able to compensate the lack of physical interaction with the product. According to Blázquez, M. (2014)⁴, “fashion clothing requires a multisensory input, and it has been proven that this lack of direct experience may lead to less consumer enjoyment in the shopping and a greater perception of risk”. So, the importance of developing new technologies able to make the consumers feel less this disadvantage. Interactive tools where to insert body dimensions in order to get the right size of clothing, 360° images to give the right perception of the item are just some of the new ways to create a better online atmosphere which could be compare to the in-store one. Everything is developed to make the customer feel comfortable in buying a product he/she can't touch, giving him/her a more pleasurable and fun experience, since more interaction lead people reducing perceived risk³².

Moreover, added services that offline stores can't provide for logistics problems, are also a tool that online commerce uses to compensate the disadvantages compared to in-store activities. One example can be the option to personalised or customised products, that occurs more and more in clothing online platform.

As observed, also in this case the trend is for sure to use any tool to be able to compete with offline commerce, but at the same time the direction is going towards an integration.

2.4 E-Commerce business models

Before getting more in deep with the actual study of the phenomenon, it seems interesting to have a look to one of the main tools used to understand the strategical structure of a specific kind of economic activity: the business model.

The Business Model Canvas, developed by Alexander Osterwalder, is useful mean to get more familiar to the characteristics of a certain kind of business and understand the crucial elements that permit it to be profitable and successful.

In this section of the paper a first overview of an e-commerce fashion company will be given from a generic perspective, and later some specification among subcategories will

be observed. To conclude the Business Model analysis, a concrete example of a real e-commerce company will be examined.

2.4.1 A general E-commerce business model in fashion industry

The model is composed by 9 main building blocks, each of that belongs to one of the four major aspects of a business: offer, infrastructure, consumer and finance³³.










Key Partners 	Key Activities 	Value Proposition 	Customer Relationships 	Customer Segments 
Fashion stylists Logistic providers Marketing Affiliates	Maintaining and updating platform Selling products	Performance Brand/Status Accessibility Cost reduction	Self service Automated service	Mass Market Niche Market
	Key Resources 	Innovation Price	Channels  Website TV Ad Social media Blogs B&M Stores	
Cost Structure 	Cost driven Variable and fixed costs		Revenue Streams  Asset sale Advertising	

Figure 2.1: E-commerce general Business Model Canvas (A. Osterwalder, 2010)

- CUSTOMER SEGMENTS

This building block contains the characteristics of the customers that the business is addressing its products to.

E-commerce fashion platforms usually aim to reach a wide catchment area; therefore, the planned customer segment is mostly represented by the mass market. “An organization opting for this type of customer segment gives itself a wide pool of potential customers because it feels that its product is a relevant need amongst the general population”³⁴. This must not be surprising also given

the natural characteristic of an online business itself to be able to reach a lot of people in different places.

An example of mass market aimed e-commerce platform can be considered Zara.com along with most of the e-commerce website of fast fashion companies, that, by definition, address their product to everyone without any significant sub-segmentation.

Nevertheless, there can also be fashion businesses that address their online offer to a smaller and selected group of customers: niche market. "This customer segment is based on highly specific needs and unique traits of its clients"³⁴. To this category belong luxury brands such as Burberry.com or other high-level fashion companies (e.g. YOOX) that operate also on the e-commerce market.

- **VALUE PROPOSITION**

According to A. Osterwalder (2018)³³, the value proposition of a business is the combination of products and services it provides to its customers.

Stated that, fashion e-commerce business's value proposition usually includes multiple elements:

- Performance → which is the capacity of the website to work properly in order to make shopping experience easy for the customers and consequently increase their willing to buy.
- Brand/Status → which is the perception that the online platform is supposed to inspire in the customers, such as a strong and reliable brand from which buying safely good quality products.
- Accessibility → which is the characteristic to make easy to reach a huge assortment of clothes of all kinds and brands from the customers all over the world.
- Cost reduction → which is the capacity to be able to reduce costs through a specific and planned strategy, e.g. the fact that online platforms don't rely (and if they do, the number is significantly lower) on brick and mortar stores makes save a lot on rent or/and other infrastructure costs.
- Innovation → which is the continuous investment on new technologies and on human resource, aimed to reach higher and higher standards that

can make the online platform as suitable as possible to do what it is meant to do. As already mentioned in the first chapters, at the moment, innovation for fashion websites is mostly oriented on the development of new technologies that can recreate a lifelike shopping experience, such as AR and VR. Nevertheless, innovation is not only about technology, it is also about introducing advanced payments methods for example, or adopting a new delivery/return policy, that improve the overall business output.

- Price → which is the effort that fashion websites put in guaranteeing lower prices in comparison to the offline market. This is mostly possible thanks to the cost reduction that has been already mentioned, and it refers to the average lower price of a product online compared to the same one in store. The majority of the online platforms, especially the multi-brand ones, have permanent discount sections with selections of discounted items and various kind of offers available for the customers that offline stores don't have.

- CHANNELS

This building block represents “the medium through which an organization provides its value proposition to its customer segment is known as a channel. There are various options for channels available to an organization, and the selection is based on the channel that is the quickest, most efficient with the least amount of investment required.

There are two basic kinds of channels; Company owned channels such as store fronts or Partner Channels such as Distributors. A company can opt to choose either one or employ a combination of both.”³⁴.

In the case that is being observed, a combination of owned channel and partner channel is usually chosen.

- Website → the platform itself represent the fist and main channel through which a fashion online business reaches its customers. Of course, this channel belongs to the company owned kind.
- TV Advertisement → represents a very popular medium for the biggest online platform, both multi-brand (Zalando, Asos, YOOX, etc.) and mono-brand ones, to reach a large range of customers. This is also consistent with the characteristic of being a mainly Mass-Market oriented kind of business as already discussed.
- Social Media → the use of these communication means is generally associated to advertising purpose but is not the only one. Of course, these tools permit to reach a lot of potential customers but at the moment they are also becoming another selling channel. As already mentioned in the first chapter, the option to buy clothes and accessories directly from Facebook or Instagram for example is getting more and more popular.
- Blogs → they play a similar role as the Social Media, with the slight difference that at the moment they lack of the “selling-directly” option and also usually they are more detailed on the products, giving proper fashion advices on style and trends.
- Brick & Mortar Stores → for those online businesses that have also offline stores, they represent another medium to reach the population. It is not that uncommon for customers to be redirected from the offline store to the e-commerce platform for example. This usually happens when a certain product is out of stock, or when the store doesn't have the right size or colour immediately available. It is not advertisement in the proper sense, but it still achieves the same result.

Before investing in a channel is good rule, to investigate all the option through a SWOT (Strengths Weaknesses Opportunities Threats) analysis, that will be observed more in detail with the example of the next section.

- CUSTOMER RELATIONSHIPS

In the developing of a business model is not just important to identify the customer segments that the activity is willing to achieve, but also the kind of relationship that is desirable to create with them.

As for the other building blocks there are different kind of categories, for Customer Relationships the main ones are Personal Assistance, Dedicated Personal Assistance, Self Service and Automated Service.

In the online fashion business case the customer relationship is primarily of a Self-Service nature. Customers use the platform in an autonomous way, and interactions with employees are very limited. Whenever it happens that interaction is necessary it occurs in the form of phone calls and e-mails to customer service, which represent also a Personal Assistance element, even if very restricted.

- REVENUE STREAMS

A revenue stream is the methodology through which a company generates income.

In a business such as the fashion e-commerce, the main revenue stream derives from the asset sale, that in this case includes clothes, accessories and shoes. Nevertheless, sometimes asset sale is not the only revenue stream and also advertising represents an import factor that makes income for the company. In this case the revenue comes from other businesses that are willing to pay money to have an ad space on the platform. Of course this kind of revenue stream occurs just in multi-brand websites not on the official-brand ones, cause would be at least inappropriate if not damaging for the business to display on a mono-brand website any kind of competitors' ad content.

- KEY RESOURCES

According to Cleverism (2015)³⁴, this building block includes all the assets of the organization fundamental to how it provides value to its customers. Resources can be categorized as human, financial, physical and intellectual.

For what concern the kind of business that has been discussed in this paper, the Key Resource are:

- the platform itself → which belongs to the intellectual category.
- the offices and infrastructures → which are part of the physical resources.
- investments → which derives from shareholders and represent the financial resources of this business.
- employees and experts → which includes all the people working for the company to improve the business, such as programmers, marketing experts, etc. All these figures belong to the human resources category.

- KEY ACTIVITIES

The Key Activities of a business are the essential operations that produce the company's value proposition.

“These activities are the most important processes that need to occur for the business model to be effective. Key activities will coincide with revenue streams.”³⁴

In online fashion business the main activities are basically two: selling products of course and maintaining and updating the online platform in order to make possible the profitability of the business. This building block is one of the few that is pretty much the same among all the e-commerce activities.

- KEY PARTNERS

This building block includes the relationships that the Company cultivates with figures that are not customers, but that are necessary for the business, such as suppliers and other partners, in order to optimize the activities and reduce costs and risks.

The kind of business that is being analysed maintains three main partnerships as following:

- Fashion stylists: which are figures that can have a double task depending on the kind of Company. Referring to a mono-brand platform these stylists represents the ones that design the products. On the other hand, in a multi-brand platform that is not producing its own products but is just selling other brand's one, these fashion stylists are still useful to give trend advices to keep the website always updated.
- Logistic providers: which are the partners that help the business to manage deliveries and returns all around the area where they work. Usually there is more than one logistic provider, depending on how big is the catchment area and how many Countries it includes. Most of the times, an online platform that sells clothes, is supported also by third parties for what concerns the managing of actual return centers.
- Marketing affiliates: which represents the third-parties through which the Company advertises its activity, or that have been advertised through the Company's platform and that represent also an income source.

- COST STRUCTURE

According to Cleverism (2015)³⁴, this building block defines the cost of running a business according to a particular model. Businesses can either be cost driven i.e. focused on minimizing investment into the business or value driven i.e. focused on providing maximum value to the customer.

Following are some traits of common cost structures;

- Fixed Costs: costs that remain the same over a period of time
- Variable Costs: as the name suggests, these costs vary according to a variance in production
- Economies of Scale: costs decrease as production increases
- Economies of Scope: costs are decreased by investing in businesses related to the core product.

It seems correct to include fashion online businesses into the cost driven category, cause their structure is designed to reduce costs as much as possible (by cut infrastructure and storage costs for example). Nevertheless, the actual

costs drivers mainly by fixed costs such as employees, materials to produce clothes and accessories, other expenses.

2.4.2 Zalando's Business Model

After a general business model for an online fashion business, could be interesting to get a brief but more detailed overview, by analysing a specific Company's Business Model.

Zalando was founded in 2008 in Berlin, Germany, firstly as an online fashion platform focused on footwear, but later it started to expand its range of products including clothes and accessories. In 2014 the company became profitable for the first time and since then it is keeping growing and establishing itself as one of the major players in its industry overcoming the online store giant Asos for revenue.

At the moment it operates in most of the European Countries: Germany, Austria, United Kingdom, France, Belgium, Switzerland, Poland, Denmark, Sweden, Norway, Finland, the Netherlands, Italy, Spain and Czech Republic.

Zalando's Business Model could be analysed as following:

1) CUSTOMER SEGMENTS

The German e-commerce company addresses its products' offer to a wide range of people, so that its customer segments could be considered the Mass-Market. Even if there is no specific sub-segmentation of the customers and Zalando's platform is designed to be used by all kind of people, it is a fact that approximately $\frac{3}{4}$ of its customer base is female and the age range includes mostly people between 25 and 45. This derives from shopping habits and their distribution among the population, it must not be surprising that mostly young and female people are engaged with an fashion e-commerce platform.

2) VALUE PROPOSITIONS

For what concerns this building block, Zalando seems in line with all the value propositions summarized in the general business model for e-commerce fashion businesses.

In fact, it provides high performance standards to its customers, making sure that its website is always working, intuitive and easy to use for everybody.

At the same time, it makes a huge selection of products accessible to the users, creating a brand/status awareness in those who are experiencing shopping through its platform. Translated into numbers, Zalando makes more than 150.000 products available each season on the website, from a range of about 15.000 brands that include global, local and private labels.

Price is surely another important proposition for the German Company, since its strategy is based on offering low priced products thanks to its operational model, that links this element to another essential one, cost reduction. "It only orders products from its manufacturer partners after a sale has been completed, enabling it to save on storage, inventory, and logistics expenses. These savings are then passed on to buyers. The company also offers frequent discounts to customers who are registered with its site. The specific section "Zalando Lounge" provides daily notifications of limited-time deals offering savings of up to 75% off the manufacturer's suggested retail price (MSRP) for top brands. Customers can stay aware of current and upcoming promotions by subscribing to daily and weekly e-mail newsletters. Zalando also offers free delivery and returns with a return policy of up to 100 days."³⁵

The customisation factor, moreover, is represented by the fact that every websites and mobile apps is different on a Country level, in order to adapt the offer to the specific taste and trend of sub-categories of its customer base. "Further, it allows customers to select the type of newsletter they receive via e-mail. They can choose between a daily newsletter featuring all current deals and a weekly newsletter previewing upcoming promotions. They can also tailor their settings in order to turn off newsletter notifications or suspend them for a period of time."³⁵

Innovation of course, is essential in such a growing and technology-dependent business, that's why Zalando is constantly investing into its human resources based on more than 1.000 technology experts, working to incessantly improve the platform. Nevertheless, innovation lies also in the development of new choices at a strategical level, such as delivery and returns policies. Zalando is a peculiar example about that, since it is known to be always striving for making its policies as customer-friendly as possible (e.g. as already mentioned, its free delivery and 100 days return policy, and even more recently the option to pay after receiving the products).

3) CHANNELS

Zalando is following a strategy that includes both owned channels and partners channels.

The main owned channel is obviously the website itself, through which Zalando is finalising its business. Moreover, it owns also some brick and mortar store in Germany (Berlin and Frankfurt). On the other hand, the main partner channels include TV, Social Media advertising that Zalando's marketing affiliates provide in order to reach as many potential customers as possible.

Considering the you age range of the customer segments, an established presence on the Social Media represents surely a key channel for the company, that might be interesting to examine more in deep through a SWOT analysis:

- **STRENGTHS:** the strengths of this advertising tool include the wide spread of it all around the world and the capacity to reach a lot of users. Moreover, they are another source where to gain data useful to understand what potential customers want and need. All these elements are in line with Zalando's strategy, which is always striving to reach new customers and innovate its value propositions.
- **WEAKNESSES:** the weaknesses of social media partners are mainly represented by the actual not very high click through rate (CTR) of advertisements on these platforms, which is also due to the fact that they

are plenty of ads and users are not really paying attention that much anymore.

- **OPPORTUNITIES:** opportunities are mostly based on the chance to reach a larger number of potential customers in different Countries (linked to the strength of being a wide spread tool all around the world) and that can help to enter new markets in the future of Zalando that nowadays is operating just in the European one.
- **THREATS:** threats can be considered the fact that, as already mentioned, Social Media are chaotic and could rebound off the advertising effect by showing products that then can be bought from other businesses on the same platform. In different words, Social Media can't be considered a loyal partner, since they offer visibility to anyone is willing to pay.



Figure 2.42: Social Media Partner SWOT analysis for Zalando's business. (Source: own representation)

1) CUSTOMER RELATIONSHIPS

As reported by Cleverism (2015)³⁵, Zalando customer relationship is primarily of a self-service and automated nature. Customer utilizes its platform from computers or via mobile phone but has limited interaction with employees. The website includes a virtual tour through its various sections, a “Size Guide” identifying specific measurements for various categories by country, and answers to frequently asked questions. Moreover, there is a personal assistance element in the form of phone and e-mail support.

2) REVENUE STREAMS

Zalando’s revenue stream is created through two main ways. On the one hand, through asset sale, selling clothes and accessories to its customers on the website. On the other hand, giving advertising space on its platform to other businesses. The last revenue stream method is suitable to Zalando because of its multi-brand nature, in fact it is way more uncommon to see advertisement on a mono-brand website.

3) KEY RESOURCES

As most of the other online businesses, Zalando relies on all four kind of key resources. First of all, its intellectual resources, i.e. the website platform itself. Then of course human resources such as all the employees and experts that are collaborating with the company to improve every aspect of the business. From a physical point of view Zalando also rely on offices and few brick and mortar stores within the German territory. And to close the whole picture, the financial resources derives from shareholders since the company is listed in the Frankfurt stock exchange.

4) KEY ACTIVITIES

The key activities of the German company, besides selling clothes and accessories, include the maintenance and continuous updating of the online platform.

5) KEY PARTNERS

Also this building block is pretty aligned with the general one, already discussed. In fact, Zalando's key partners include fashion stylists, logistic providers and marketing affiliates. The main peculiarity is about the first kind of partners, fashion stylists in Zalando are mainly helping in the development of the online tool called Zalon (a personal styling service provided by Zalando), giving fashion tips and receiving commissions for their advices.

6) COST STRUCTURE

According to Cleverism (2015), "Zalando has a cost-driven structure, aiming to minimize expenses through low operating expenses, significant automation, and low-price value propositions. Its biggest cost driver is cost of materials, a variable expense. Other major drivers are in the areas of sales/marketing and distribution, both fixed costs." In this, it perfectly fits with the general e-commerce business model structure.

2.4.3 From theory to practice

Until this point the paper has discussed about general and conceptual characteristics of e-commerce businesses within fashion industry. The theoretical frame has been outlined, the goal of the next chapter is to get more practical with a real and more empirical analysis of the phenomenon that this paper is meant to describe.

3. Study

The study aims to analyse the trend of E-Commerce business in order to extract some insights about this phenomenon in fashion industry and to try to picture what would be its evolution in the future.

To do that, the investigation will be divided in two parts and later there will be an overall analysis to merge all the concepts that have emerged during the previous phases. The first part will take into account the corporate side of internet commerce, whereas the second one will get more in deep with the consumer-related side.

3.1 A “Digital Revenue” model

To better understand which are the main factors influencing an E-commerce business from a corporate point of view, it seems interesting to take once again a deeper look to the current most successful company in Europe, as it's been done for the business model analysis.

With its almost 5 billion € of Revenue in 2017, Zalando seems a no-stop growing machine in the fashion e-commerce panorama³⁶.

As already discussed in the previous chapter, the business model is an important tool to understand the general strategy of a company, but it still gives a sort of general structure of the business. It is necessary to go down another level to get more in deep and to do that, the first step is to take a more detailed look at the numbers of this successful Company.

Before doing that is important to explain on what elements will the analysis be based on. In Zalando's annual reports a lot of figures and KPIs can be found, but in this research, it seems essential to focus on the ones that can give the simplest yet realistic idea of the business trend and health situation.

What all businesses are looking for is revenue, this is the main goal of all companies, but there are different ways that can lead to it according to the kind of commerce. E-commerce takes place in a digital context that operates in a slightly different way from the classic trade. As already discussed, for some aspects, it makes easier to understand

where revenues are coming from and how to work on the factors that make an activity productive in order to keep improving it.

Looking at Zalando's report, is immediately possible to see some different figures that don't compare in annual reports of classical in-store fashion businesses, such as "Site visits", "mobile visits share", "active customers" and lots more. This is part of the advantage about data collecting that was discussed in the previous chapter: for an online business is way simpler to gain data from its customers and be able to monitor them. Anyway, is also important not to get lost in the abundance of these numbers and get distracted from the ones that really matters. Like for any other problem or challenge, it's always useful to start from the end, from what is the final goal, then understand what are the factors that would make possible to achieve it, in other words, find the structure that builds that goal. To do that is essential to stay basics, to simplify the problem as much as possible in order to analyse every element, even though keeping always in mind the general overview and the final aim. Once done that, it's possible to put everything together again and see if every gear is working.

In E-commerce case, the factors composing the revenue's structure can be summarize as following:

- **Traffic** → is the number of visits that the online platform/website receives.
- **Conversion Rate (CR)** → is the percentage of visits that become a purchase.
- **Average Order Value (AOV)** → is the average value (usually in €) of the customer's purchase.
- **Returns** → is the value of products that are returned to the company.
- **Revenue** → is the total final value of the income from the business.

In figure 3.1 all those five factors are represented as gears of the same mechanism, to remark the concept of interdependence among them.

To keep this mechanism productive and efficient it is essential to maximize the output of all the factors without neglecting the consequences that every action on one gear can have on the operation of another one. For example, the adoption of a specific policy could boost traffic or conversion rate, but at the same time decrease the average order

value. The task of the management is to forecast all scenarios and evaluate which combination of actions leads to the optimized result according to the corporate value proposition.



Figure 3.1: Main figures for an online fashion business. (Source: own representation)

Most of the companies operating the internet commerce focus on these five factors, following this simplified model, that could be called “Digital Revenue model”:

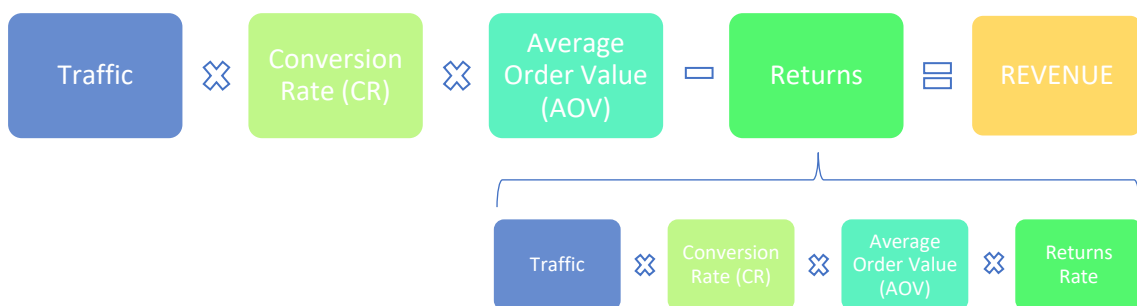


Figure 3.2: Structure of the Digital Revenue model. (Source: own representation)

As it is shown, for a digital business, revenues are the result of the product of Traffic, CR and AOV minus the Returns (which are calculated: Traffic * CR * AOV * Return Rate).

3.1.1 Zalando's "Digital Revenue" overview

Looking now at the first table in the Zalando's Annual Report 2017³⁶, it stands out a lot of figures as disclosed:

Key Figures

	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016	Change
Group key performance indicators			
Site visits (in millions)	2,563.5	1,991.6	28.7%
Mobile visit share (in %)	70.7	65.6	5.1pp
Active customers (in millions)	23.1	19.9	16.2%
Number of orders (in millions)	90.5	69.2	30.8%
Average orders per active customer	3.9	3.5	12.6%
Average basket size (in EUR)	64.5	66.6	-3.2%
Adjusted marketing cost ratio (as % of revenue)	7.9	10.3	-2.4pp
Adjusted fulfillment cost ratio (as % of revenue)	25.9	23.2	2.7pp

Table 3.1: Zalando's Key Figures 2017. (Zalando Annual Report, 2017)³⁶

Of course, the four main figures needed to build the "Digital Revenue model" described above need to be extrapolated in order to proceed with the analysis.

The easiest one to individuate is the Traffic, which is simply displayed with a different name, but corresponds exactly to Site Visits (i.e. 2.563.500.000).

Another evident one is the Average Order Value (AOV), which also appears with the different name of Average basket size (i.e. 64.5€).

The Conversion Rate figure is not in the table but can be easily calculated as it corresponds to the ratio between the number of orders made and the total amount of site visits (i.e. $90.500.000 / 2.563.500.000 = 0,0353 \rightarrow 3,53\%$)

What doesn't appear in the report is the number of returns or the returns rate of the company. Taking into account that returns rate in fashion industry is way above the average and according to an informal announcement of Zalando's spokesperson

(Kloepfel Consultancy Company, 2018) the German company's returns rate must be around 50%³⁷, so this number would be taken as truthful in the following analysis even though, as every approximation, it represents a limitation of the study.

3.1.2 Zalando's numbers analysis

The analysis will take place for each year since the availability of the annual report of the company (2013)³⁸.

The following tables show the data collection per year:

	Site visits	Active customers	N° orders	Average orders per active customer	Average basket size
2013	1.217.000.000	13.100.000	35.100.000	2,7	62,5
2014	1.363.800.000	14.700.000	41.400.000	2,8	66,6
2015	1.656.400.000	17.900.000	55.300.000	3,1	67,8
2016	1.991.600.000	19.900.000	69.200.000	3,5	66,6
2017	2.563.500.000	23.100.000	90.500.000	3,9	64,5
2018	2.900.000.000	25.700.000	109.500.000	4,3	59,4

Table 3.2: Zalando's key figure from 2013. (Zalando Annual Report, 2014-2017)^{36 39 40 41 38 42 43}

	Site visits	N° orders	CR
2013	1.217.000.000	35.100.000	2,88%
2014	1.363.800.000	41.400.000	3,04%
2015	1.656.400.000	55.300.000	3,34%
2016	1.991.600.000	69.200.000	3,47%
2017	2.563.500.000	90.500.000	3,53%
2018	2.900.000.000	109.500.000	3,78%

Table 3.3: Computation of CR out of Zalando's key figures. (Source: own computation based on Zalando Report figures)^{36 39 40 41 38 42 43}

The different colour used for 2018's numbers is due to the fact that official annual report is not available yet, nevertheless those orange data has been extracted from data from quarter 1, quarter 2 and quarter 3 statements after a suitable approximation, that is summarised in Table 3.4.

	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Total 2018	Rounded results	VAR Q2-Q1	VAR Q3-Q2	VAR Q4-Q3
Visits	713.000.000	734.000.000	728.000.000	725.000.000	2.900.000.000	2.900.000.000			
AC	23.900.000	24.600.000	25.100.000	25.722.655	25.722.655	25.700.000	2,93%	2,03%	2,48%
N°	25.400.000	29.000.000	27.700.000	27.366.667	109.466.667	109.500.000			
AOPAC	-	-	-	-	4.3	4.3			
AOV	60.3	60.4	57.5		59.4	59.4			

Table 3.4: Data collection and approximation (orange columns) for 2018's key figures. (Source: own computation based on Zalando Report figures)^{39 40 41}

At this point it is possible to proceed with the computation of the “Digital Revenue model” for each year, with the aim to underline potential trends helpful to get some insights about Zalando's performances.

	TRAFFIC	x	CR	x	AOV	-	RETURNS	=	REVENUE	VAR
2013	1.217.000.000		2,88%		62,5		50,00%		1.096.875.000	
2014	12% 1.363.800.000	5%	3,04%	7%	66,6	0%	50,00%		1.378.620.000	26%
2015	21% 1.656.400.000	10%	3,34%	2%	67,8	0%	50,00%		1.874.670.000	36%
2016	20% 1.991.600.000	4%	3,47%	-2%	66,6	0%	50,00%		2.304.360.000	23%
2017	29% 2.563.500.000	2%	3,53%	-3%	64,5	0%	50,00%		2.918.625.000	27%
2018	13% 2.900.000.000	7%	3,78%	-8%	59,4	0%	50,00%		3.252.150.000	11%

Table 3.5: Computation of revenues through “Digital Revenue model” for Zalando's business from 2013 to 2018. (Source: own computation based on Zalando Report figures)^{38 42 43 36 39 40 41}

From this last table, the Revenue column represents for sure the most important one. As already said, it is the final goal of the company, the fact that every year the number is increasing it is encouraging, even though the trend seems not constant. In fact, VAR column shows that Zalando's revenues are growing (green columns in Chart 3.1), so the numbers are green, but following a fluctuating cadence (blue line in Chart 3.1).

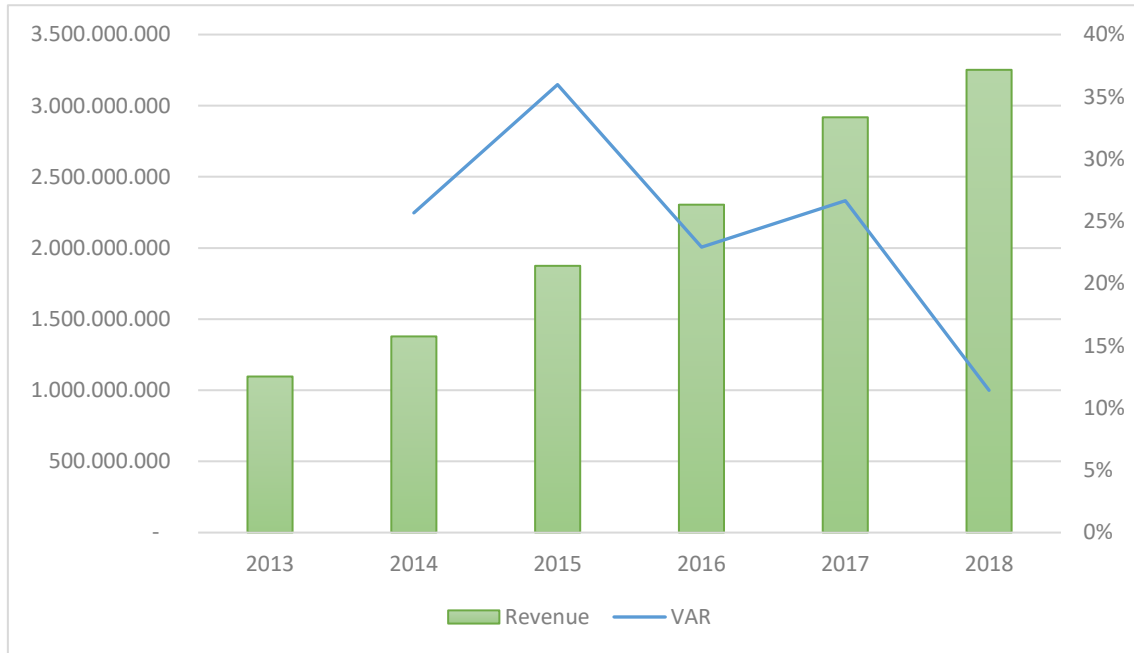


Chart 3.1: Trend of Zalando's revenues compared to yearly growth rate (VAR). (Source: own representation)

Here is where becomes important to look also to all the other factors that compose the model, to understand why it is giving those final values.

Let's take a closer look to those numbers:

- The increase from +26% to +36% of revenues growth between 2014 and 2015 derives for sure from the huge boost of visits and number of visits that became orders (CR). Those big numbers (+21% of traffic and +10% of CR in 2015 compared to +12% of traffic and +5% of CR in 2014) made less significant the little drop in AOV, that remained positive but decreased from +7% in 2014 to +2% in 2015. This is natural, thinking about it in real terms, the huge pull to the business in that phase was given by the incrementing of new active customers: the fact that the average order value was growing slower than the number of

new people willing to buy, was not a problem at all as long as that number was keeping positive. Only a negative AOV could have work against this general growth.

- Between 2015 and 2016 revenues continue to increase but at a lower rhythm, from +36% to +23%. This slowdown was due only partly to a slight decrease of traffic's growth from +21% to +20%, it seems more realistic to attribute it to the other two factors taken into analysis. In fact, CR's growth has been more than halved from +10% to +4%. In this case even if traffic and CR are still positive, their drop has not been compensated, on the contrary it has been made worst by the further decrease of the AOV's growth, which reached a negative number and actually represented a real loss in terms of value (not just a slowdown in the growth) about this single factor. So, switching from +2% to -2% in AOV linked to the decrease of traffic's and CR's growth caused the total revenue's growth slowdown, even if the final number appeared still green and positive.
- A new increase of revenue's growth, from +20% to +29%, has been registered between 2016 and 2017. In this case, once again factors influenced the result in a different way. Even if AOV was keeping dropping from -2% to -3% and CR's growth suffered a decrease too from +4% to +2%, it must be taken into account the scale of every value. There two slowdowns have been highly compensated by the huge boost in traffic, which raised from +20% to +29%. A tiny fall in 2 of the factors can still leave the room for a general growth's increase when the third factor is so positive to overcome the loss.
- From 2017 to 2018 the scenario changes again. The deterioration of two of the factors can't be balanced by the increase of the third one. The number of visits suffered a significant slowdown from the peak of +29% to a modest +13%, this drop could be due to a market saturation, that might be the push to expand out of Europe. Anyway, this decrease of traffic's growth together with a further considerable drop of the AOV from -3% to -8%, lead to an inevitable overall decrease of revenue's growth, that a +7% in CR (compared to the +2% of the previous year) can't fix. In particular, it's important to underline that since CR value is based also on the number of visits (n° of visits / n° of orders), an increase of the former value losses a bit of its importance since the it is still calculated on

the dropped value of the latter. In other words, a huge increase of CR's growth losses part of its importance since the number on which it is based has suffered of a big decrease: more people that are visiting the website are deciding to actually order from it, but this must face the fact that in general there are less people visiting it.

All this overview can be summarized in a simple concept: the final result is driven by the single factors composing it, and each factor is interdependent with the others and its value can be boosted or contained by the value of the others.

The Chart 3.2 below is a reinterpretation of Chart 3.1, from this new perspective that looks at the elements that build the revenues instead of at the final number.

It the first step backwards in the analysis useful to understand a way more complex phenomenon. What still needs to be revealed is the step even before it, the lower layer of the pyramid that shapes an e-commerce business's profit.

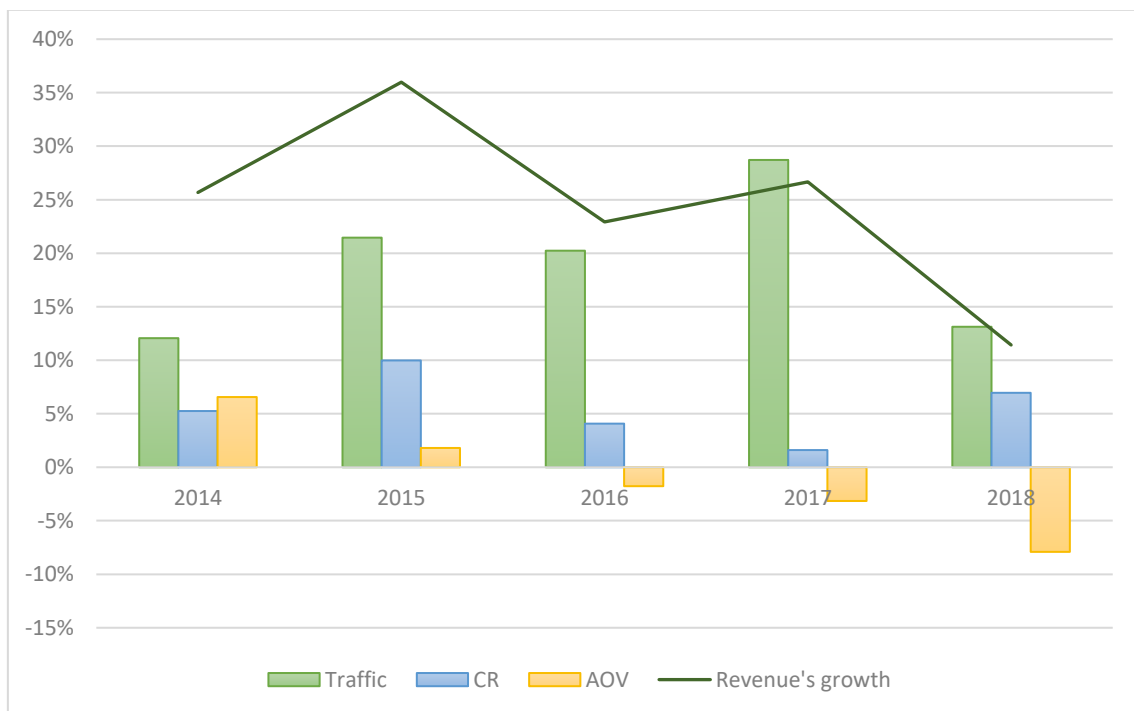


Chart 3.2: Trend of Zalando's factors that together make revenues compared to revenue's growth rate. (Source: own representation)

Given that the final result comes from the elements that build it, it seems not irrelevant to take a look to the trend of each of these factors that compose the digital revenue of the German e-commerce giant.

TRAFFIC

	2013	2014	2015	2016	2017	2018
TRAFFIC	1.217.000.000	1.363.800.000	1.656.400.000	1.991.600.000	2.563.500.000	2.900.000.000
GROWTH		+ 12%	+ 21%	+ 20%	+ 29%	+ 13%

Table 3.6: Traffic's growth trend from 2013 to 2018. (Source: own computation based on Zalando Annual Report figures)³⁶

As already discussed, the number of visits had a huge increase in 2015, then a slight decrease the year after and a growth peak in 2017 (+29%) until it came to a significant drop in 2018 (+13%). This unstable trend seems confusing, but actually it can say something about the company and the market in which it operates. The continuous growth between 2013 and 2016 must not be surprising as long as it can be considered the results of the company success in a market where Zalando started offering a service almost new. In fact, even if competitors like Asos and other smaller fashion online platform were already active in Europe, Zalando gambled on some risky factors that made it perceived in a different way. Free delivery combined with an innovative and handy free return policy could represent the big boost of this business⁴⁴, that made still digital sceptical consumers feel safer during their online purchases. The affirmation of this model for a lot of other similar platforms and the natural boundary represented by the European market size, might be considered the main reasons of the drop that traffic's growth suffered lately.

In a sector where a lot of competitors are emerging, what is sure is that there are two ways to keep a high growing pace: either focus on services and options that make the business different from the others (e.g. Zalando lately add the "bill-me-later" option to its basket⁴⁵) or/and expand the business in other Countries where it still has the chance to exploit all its potential.

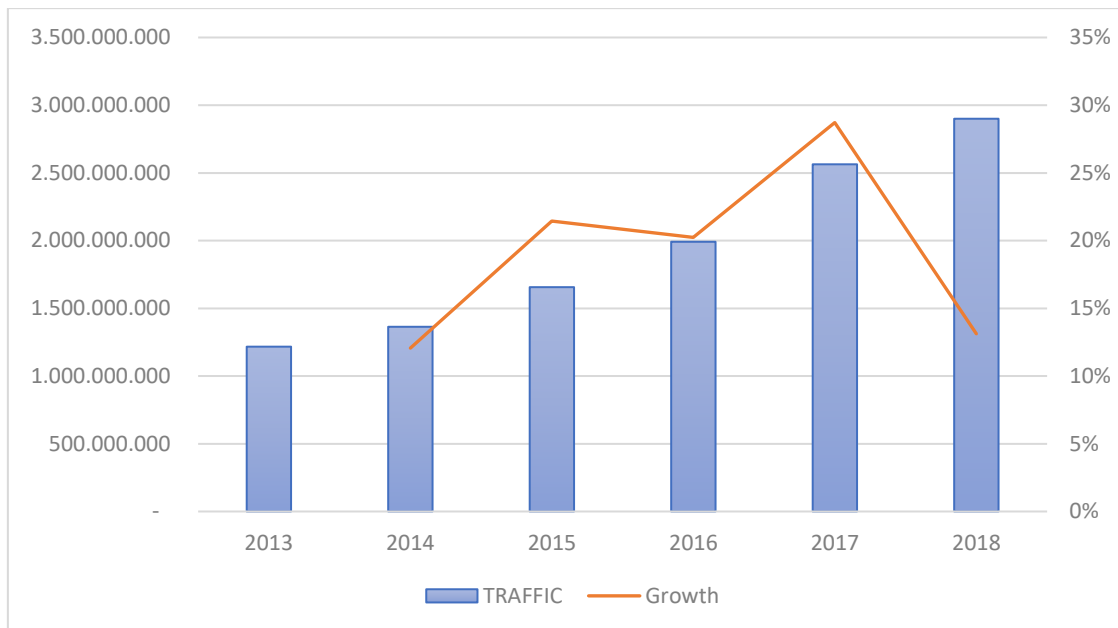


Chart 3.3: Traffic's growth trend from 2013 to 2018. (Source: own representation)

CONVERSION RATE (CR)

	2013	2014	2015	2016	2017	2018
CR	2,88%	3,04%	3,34%	3,47%	3,53%	3,78%
GROWTH		+ 5%	+ 10%	+ 4%	+ 2%	+ 7%

Table 3.7: CR's growth trend from 2013 to 2018. (Source: own computation based on Zalando Annual Report figures)

Also, for what concerns CR, all the growth values in this period are positive, but with some variations. After a huge peak in 2015 (from +5% growth doubled to +10%), growth rate had experienced a gradual slowdown for the following two years. It's important to underline how every factor must not be analysed in the same way. On the one hand, Traffic for example could be considered more strategical oriented, it is driven largely by marketing tools and it's the first phase to make a business successful (the product needs to be seen by as much people as possible, as many times as possible) whereas CR is related more closely to the ability of convincing the customers to spend their money for a product. To do that marketing is still important, but not enough, the product must be good and the prices appealing. CR is the first step of purchase's finalisation: making

people buy. The second one will be making people buy more and more (measured by AOV).

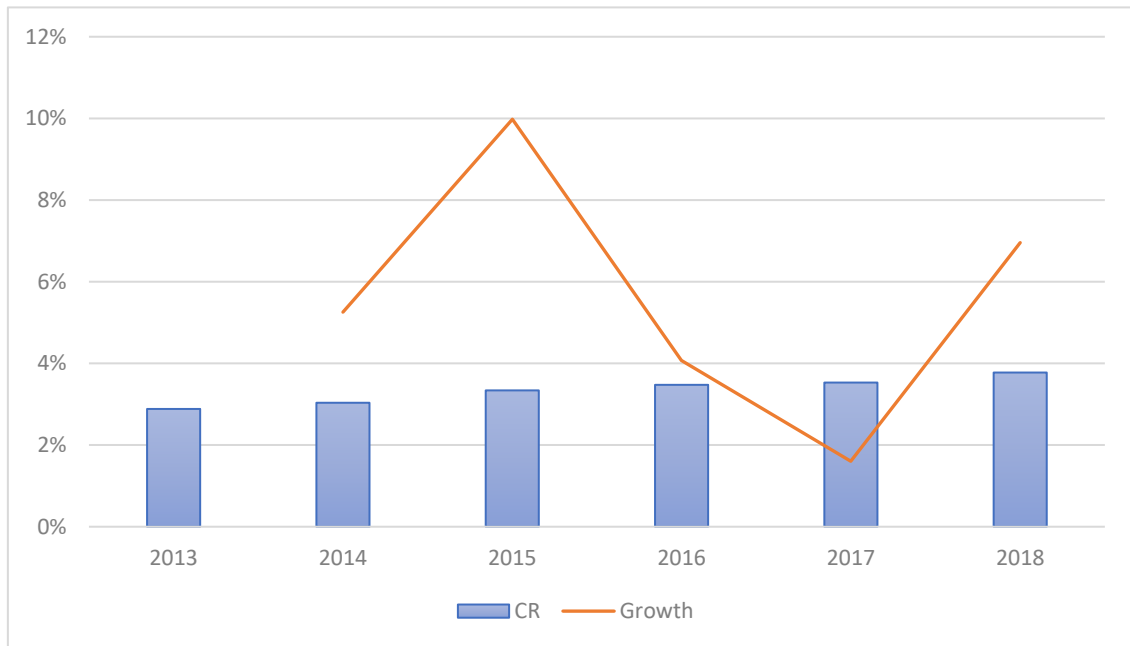


Chart 3.4: CR's growth trend from 2013 to 2018. (Source: own representation)

The fact that CR was growing less for a couple of year can suggest that other elements might have influenced it: not particularly remarkable products' additions, no improvements on delivery/payments methods and returns policies, that could have made the consumers even more at ease and willing to buy after the visit of the website. In 2018 numbers show a significant boost of the conversion rate and this might be due to the adoption of a new, innovative policy like the "buy now and pay later". Once again Zalando seems to be willing to set higher market's standards and by doing that it ensures itself positive CR values. If this can be enough to say that these choices are correct, will be found out by the following the wider analysis of this case.

AVERAGE ORDER VALUE (AOV)

	2013	2014	2015	2016	2017	2018
AOV	62,5	66,6	67,8	66,6	64,5	59,4
GROWTH		+ 7%	+ 2%	- 2%	- 3%	- 8%

Table 3.8: AOV's growth trend from 2013 to 2018. (Zalando Annual Report, 2017)

As already mentioned, AOV could be considered as the second phase of the purchase's finalisation: in fact, it gives the measure of how much the business is able to make customers spend. In Zalando's case, this is the only index that shows an actual decrease in the last 3 years and not just a slowdown of the growth. It's also the only factor with a consistency the growth performance, as it can be seen from Chart 3.5, the orange line is keeping decreasing, following a negative trend.

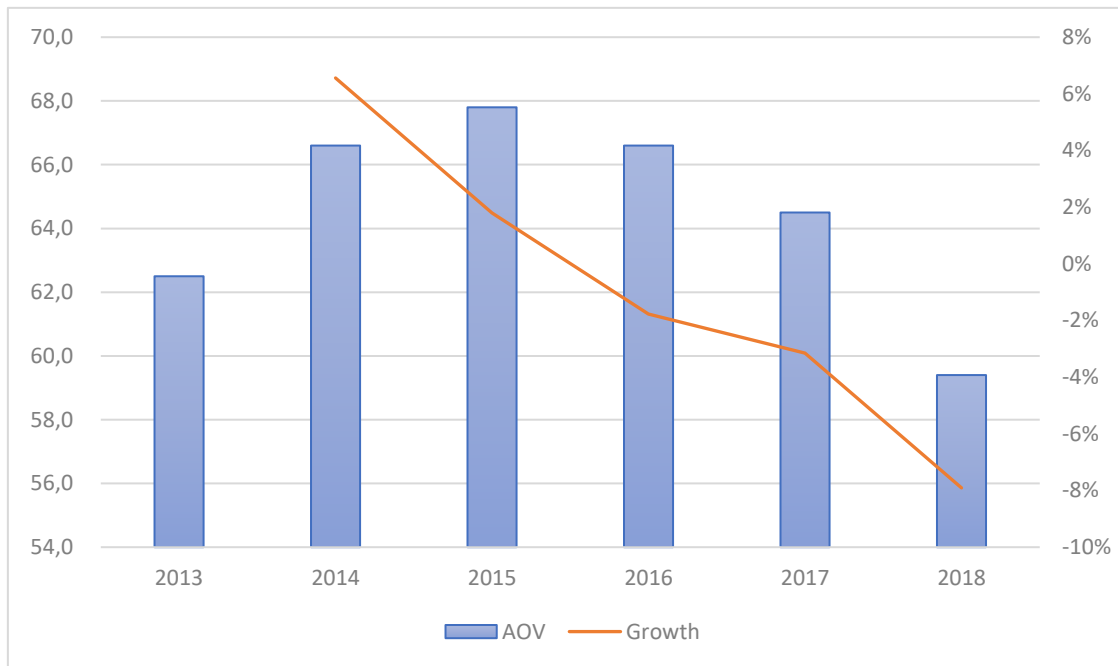


Chart 3.5: AOV's growth trend from 2013 to 2018. (Source: own representation)

The value of the average basket is becoming smaller and smaller, and even this is globally balanced by a huge increase of the number of sales (so that total revenues are still positive), it can give some important insights about how the business is working.

Wondering why a customer is led to buy more but in smaller session, there could be many reasons. It can be related to the purchase policy, e.g. Zalando, as already mentioned, was the first online shopping platform to introduce free delivery policy without any purchase value limit, therefore consumers feel free to buy less products together and maybe more frequently. Most of the other e-commerce websites use to offer free delivery just on a certain purchase amount (e.g. over €50) and this is a way to reduce delivery costs and keep a high AOV, but can also be an inhibition for the customers, refraining them from the final purchase, with a consequently bad effect on

CR. It's all about corporate strategy and its choice on which direction to take, Zalando gambles everything on being as much customer friendly as possible, it is taking a lot of risks in order to pay attention to people needs because people are who decides about its success.

To choose what kind of business to have means also paying attention to some less direct effects that these decisions could lead to. Discussing about AOV, for example, it must be taken into account also an image matter: a low AOV may be the cause and at the same time the consequence of a cheap perception of the products that are sold by the platform. Therefore, every online business should consider the AOV value as an index useful to better understand its perception in the market, and consequently use it as a tool on which to work to get where the corporate strategy wants. If Zalando is not interested in being considered a high-hand business, and as long as AOV values doesn't affect in a negative way the overall revenues, the values that has been just analysed for this index shouldn't be seen as a threat for the business. What is sure is that is important to keep these numbers monitored and continuously interpreted according to the others.

3.1.3 Beyond numbers

After this first interpretation based on numbers and assumption, seems necessary to go more in deep in the analysis of the model that calculates final revenues of an online fashion business. The corporate point of view is essential but must not neglect other ones.

Revenues come from a formula, the formula is based on numbers that build some indexes, but those indexes derive from consumer behaviours. In this perspective the next paragraph is supposed to take a closer look at the other layer of the pyramid, the bottom one: people.

3.2 From corporate to consumer perspective

The next step of this analysis switches its focus from a corporate point of view to a consumer behaviour related one. To understand how the potential consumer thinks and feels is a crucial element for the success of a business. This could be considered a general corollary, that applies to all kind of B2C activities, not just the online and fashion ones.

Nevertheless, fashion is, without any doubt, the sector that is most influenced by the emotional connection with the customers. Clothes nowadays are mostly seen as a tool to express personality and creativity. Excluding special situations that require technical outfits (such as sports, specific kind of work, etc.), the purchase process is mainly driven by aesthetical and emotional reasons, which are not that easy to identify in a sharp way. On this basis is even more important for fashion businesses to take these “blurry” factors into account, avoiding the mistake to think only about how to practically make them work and forgetting who the final decision maker is. Fashion is not just about create a good product, is about to create a good product according to what the customer wants and not just needs. For this reason, is a tricky environment where to move, but at the same time it gives a lot of opportunities. As in the water, to float in this sea, the essential thing is to keep moving, dynamism is surely the first rule within such an industry.

Getting more specific and focusing on the online fashion industry, all these factors are influenced also by the perception of the tool that the consumers are using to purchase a product that fits their criteria. The simple representation in Figure 3.3 gives the idea of the sort of businesses’ categorization, based on specific features that underline their peculiarity.

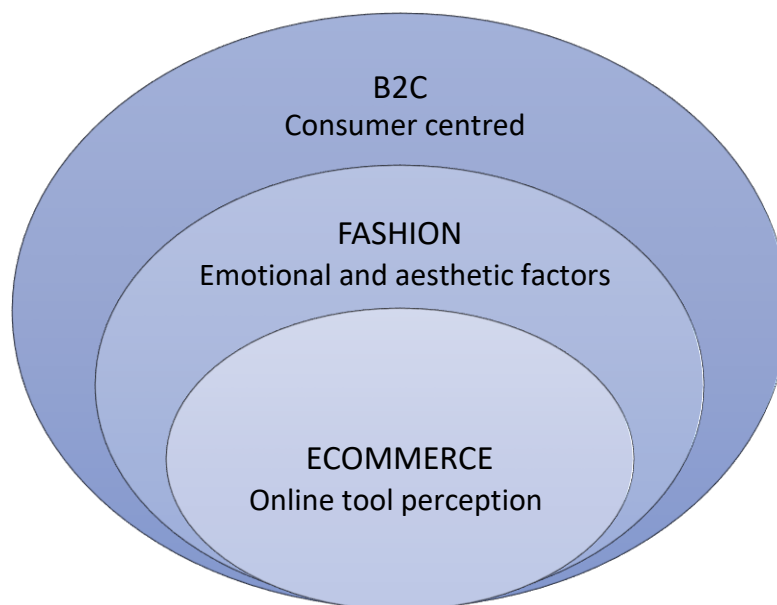


Figure 3.3: Elements that characterised specific business subcategories. (Source: own representation)

The next paragraph aims to deep dive into consumer behaviours that can play important roles in the big and complicated strategies of a fashion e-commerce business. This second part of the study will be based on a survey and the analysis of that data that has been collected from the cross section.

3.2.1 Methodology

To collect data about consumers' habits and behaviour, a quantitative/qualitative survey approach was taken. A questionnaire of about 25 quantitative and qualitative questions has been submitted to a sample of 72 people.

The survey was mainly focused on the comparison of two channels of clothing industry, brick-and-mortar and e-commerce. The person who is writing considers this binary approach an appropriate way to make the research as consistent as possible, since human mind mostly thinks according to a similar method, comparing things in order to get clearer and solid opinions. In-store and online shopping were presented as two different and completely independent experiences to make easier for the respondents to concentrate better on each of the question.

As already mentioned, some questions have a quantitative nature and other a qualitative one, in the next paragraph both types will be analysed and the potential connection between the two will be interpreted.

Before starting with the proper analysis of the data, it is fundamental to provide an overview of the demographic sample that was taken as cross-section for this study.

Gender	Percentage
Male	31.9%
Female	68.1%
Age	
20-24	19.4%
25-34	76.4%
35-44	4.2%
Nationality	
Italian	77.8%

Others	22.2%
Education	
<hr/>	
Secondary School	9.7%
Degree	75.0%
Master	2.8%
PhD	12.5%
Work activity	
<hr/>	
Student	22.2%
Part-time worker	6.9%
Full-time worker	63.9%
Unemployed	6.9%
Income level (monthly)	
<hr/>	
less than €500	22.5%
from €500 to €999	14.1%
from €1000 to €1999	52.1%
from €2000 to €2999	7.0%
from €3000 to €4999	2.8%
€5000 or more	1.4%

Table 3.9: Demographic sample respondents. (Source: own representation based on survey's answers)

The considerable gap between the male percentage (31.9%) of the respondents and the female one (68.1%), derives from the fact that, based on the topic of the survey (“Online and in-store shopping experience”), was easier to find women willing to answer rather than men, and this must not be a surprise.

Regarding the age range, it was a choice of who is writing, to target people between their 20s and their mid-40s. In fact, according to latest Statista reports about e-commerce businesses, in 2017 almost 80% of the overall e-commerce platforms’ users are between 20 and 44 years old, and within these around 33.2% of the overall users are in the age range 25-34.²²

To prove this is a consistent range of age as claimed by Statista’s data, a quick statistical hypothesis test has been conducted to prove there is not dependency between age and

the use of e-commerce platforms, within the previously mentioned range (20-44 years old).

The test was conducted as following, it had been taken into account the respondents that said they did zero online purchases during the last two months and compared them to the ones that claimed they bought clothing/accessories online during the same period of time. A table reporting the effective answers of the respondents has been created, Table 3.5:

Observed values	20-24	25-34	35-44	Total
No online purchase during last 2 months	6	30	2	38
Online purchases during the last 2 months	8	25	1	34
Total	14	55	3	72

Table 3.10: Matrix of observed values based on age range. (Source: own representation based on survey's answers)

The second step consists into create a similar table filled with expected values. The computation of these numbers follows the Chi-squared test formula $\bar{n}_{ij} = \frac{n_j \cdot n_i}{n}$.

Expected values	20-24	25-34	35-44	Total
No online purchase during last 2 months	7.39	29.03	1.58	38
Online purchases during the last 2 months	6.61	25.97	1.42	34
Total	14	55	3	72

Table 3.11: Matrix of expected values based on age range. (Source: own representation)

Considering as acceptable error region $p = 0.05$ and given that this hypothesis test has 2 degrees of freedom, the values can be considered independent if $\chi^2 < 5.99$. The result

in this case is 0.6525 which is way smaller than 5.99, so that can be certainly said that survey's results support Statista's data, since within the observed age range, respondents seem to have independent behaviour towards online purchase.

3.2.2 Results

The first general data that seems worth to be observed in this research is the average spending value for clothing/accessories that respondents claim monthly, without distinction between online and in-store purchases.

Respondents have been asked how much they monthly spend on clothes and accessory. It was given them multiple choice option as answer, divided in five ranges, including "less than 50€", "between 50 and 99€", "between 100 and 199€", "between 200 and 499€" and "500€ or more". Multiple choice answer has been chosen as method because it makes easier for the respondents to answer, it's proven that pre-categorisation makes simpler to concentrate on a realistic answer. To summarize the data gathered, a box-plot representation has been chosen as in Chart 3.6.

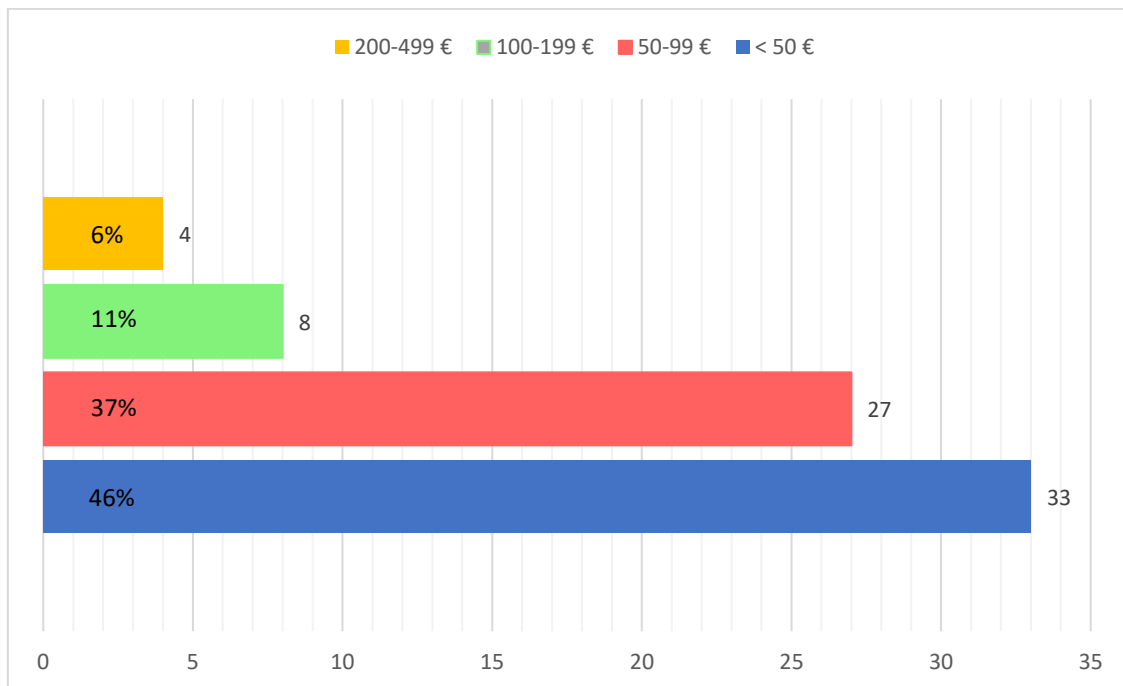


Chart 3.6: Representation of average monthly spending (in €) on clothing/accessories. (Source: own representation based on the survey's answers)

The chart shows that 46% of the respondents spend less than 50 € on clothing/accessories each month, 38% between 50 and 99 € and getting more in detail, the majority spend between 25 and 75€ each month on garments (even if the mean is slightly higher, around 75.69€). Just 17% of respondents spend more than 200€ monthly (11% → 100 – 199 € and 6% → 200 – 499 €) and no one answered “500€ or more”.

Taking into account the different channel where to do clothes shopping, it has been computed the average monthly purchase either of the respondents that do online shopping and the ones that don't, based on the answers to the questions “When was the last time you bought clothes/accessories online?”. So, the average purchase for people that has never bought garments online emerged to be around 61€/month and the one for respondents that use to buy online is considerably higher, above 77€/month. This could be related to the online environment's characteristic to be easy to reach. The fact that people that buy online spend on average more on clothes than people that don't do online shopping, doesn't mean that all this money are spent using e-commerce platform, but surely prove that combine such an easy-to-use tool with the in-store shopping lead people to spend more in the end.

A similar result emerges by observing the same phenomenon from a slightly different angle. Respondents were asked about the level of confidence they have towards the e-commerce tool concerning the purchase of clothes and garments: “Do you feel confident in buying clothes/accessories online?”. This question is similar to the previous one, but it doesn't refer to a practical event (the actual action of buying or not online), but rather to the emotional aspect of a hypothetical one.

For this reason, the requested answer was not just “yes” or “no”, but four different options were given: “Yes, I do it quite often”, “Yes, even if I do it rarely”, “No, but if it's necessary I do it” and “No, I never buy clothes online”. In this way the respondents were not forced to choose between just two options that simplify reality to the point of distorting it. If a person doesn't buy online it doesn't necessarily mean that s/he's sceptic about the internet shopping tool, likewise a person that buys online could actually not be very comfortable with it and do it just in case of necessity. So that, in order not to neglect important aspects of the matter, the monthly average purchase of garments was

calculated also based on these new categorisation (people comfortable and not comfortable in buying clothes online).

The results actually supported and even highlighted what has been already assumed by the previous observation, in fact data says that the average monthly purchase of a person that doesn't feel comfortable with online clothing shopping is around 67€, whereas a person that feel comfortable with this process tends to spend around 86€ per month in clothes/accessories. Looking at the same topic from a different perspective, things seem to prove a correlation between having a positive attitude towards shopping online and spending on average more money in apparel and accessories. But this is not the only insight that can be caught from this comparison, it seems also interesting to observe that the gap of average purchases is slightly higher between comfortable and not comfortable respondents ($\Delta=86-67=19$) than between actual buyers and not buyers of clothes online ($\Delta=77-61=16$); this could validate one of the main pillars of the first chapters, i.e. that peculiarity of fashion environment is that the emotional side is more relevant than it is in other industries.

An important thing, that needs to be mentioned, is the proportion of people that have never bought any clothes or accessories online within our cross-section, the percentage of this people is very small, just 7 out of 72 (less than 10%), whereas more than 90% experienced clothing shopping online at least once. This just supports the initial aim of the study to target mainly people which know and use the e-commerce tool.

Getting more in deep in the topic, the respondents were also asked to list the types of clothes that they bought either online or in-store during their last shopping experiences. In this case they had the chance to choose more than one category of garments and for those reasons the total amount could be way bigger than the number of total respondents.

The following Table 3.7 summarised the answers and referring them to the five categories of products which fashion industry includes (as already seen in paragraph 1.1 those categories are Accessories, Outerwear, Top, Bottom and Footwear), in order to observe if significant differences among distributions of the answers are remarkable.

PRODUCT		In-store	Online
Accessories		1	12
Outerwear		14	2
Top		6	5
Bottom		22	7
Footwear		12	26

Table 3.12: Respondents' last purchased categories of product in-store and online. (Source: Own representation based on the survey's answers)

From these numbers emerges that some categories seem significantly stronger online than in-store and some others the opposite. Accessories and footwear are more popular within online channels, whereas outerwear and bottom are more successful for in-store. Top category faces almost an even result, so that it could be considered quite balanced. To try to understand the reason of this apparent pattern in consumers' behaviour based on the product categories, could be useful to find which are the similar characteristics among them.

What sticks out is the fact that categories of products that are more popular within the online channels, are the ones that need less attention to sizing and fitting factors. Accessories for example don't really need to fit consumers' body, and even though size could matter, it is usually enough for a person to have the chance to read the dimensions from the website and maybe see a picture of the product on a model to get the idea of what s/he is buying.

Regarding footwear, the situation is not exactly the same, because sizing is more important, but it is also true that most of the people know their foot size and usually websites provide a detailed guide to find the perfect number according to the brand and the model.

On the other hand, outerwear and bottom products have completely different characteristics. They could fit variously depending on the material, the cut, the style, etc. and, in this case, it seems way more important for the customer to see them in real life and have the possibility to try them on before the purchase. Of course, new technologies such as AR and more detailed and interactive sizing guidelines are helping to overcome this limitation, but apparently it still plays an important role in consumers' choices.

Also the top category could be included in the previous observation, nevertheless, the fact that usually these products are the less expensive and the ones that people change more frequently could be the reason why, in this case, natural characteristics of the products are balanced by the consumers' habits towards the same products, creating an equilibrium.

As it has been mentioned, the questionnaire was divided in 2 main sections, one referring to the in-store and the other to the online shopping experiences of the respondent, in order to make it clearer and avoid misconceptions.

After several questions, at the end of each section the respondents were asked to list the reasons why they preferred one of the two main channels under consideration over the other for the purchase of a clothing product. Different options were given, and the chance to add new options to the list; the only boundary was the maximum number of answers, i.e. three, in order to get only the reasons that people consider the most important ones to drive their choices.

Before trying to interpret the respondents' answers to these questions, could be helpful to summarise them in the Table 3.13 were number of respondents and percentage on the total are shown.

IN-STORE PURCHASE

Reason	N° of respondents	Percentage
“I wanted to see it and try the garment on”	43	59.7%
“I was already in the store and I didn't even think about buying it online later”	32	44.4%
“I like the in-store shopping experience”	25	34.7%
“I like to have the product immediately”	15	20,8%
“I like to have the assistance of a salesperson”	7	9.7%
“I couldn't find the product online”	3	4.2%
“I distrust online payment methods”	1	1.4%

Table 3.13: Reasons why people prefer to buy a clothing product in-store instead than online. The percentage is calculated on the total number of respondents which is 72. (Source: own representation based on the survey's answers)

As expected, the main concern of customers is the about the natural characteristic of the product, i.e. fitting the body, and they find the possibility to see and try on the potential purchase, the first reason to go to the store instead of buying online.

Interesting is the fact that the second most popular reason to buy clothes in a brick-and-mortar store has nothing to do with a rational thinking and is rather the reflection of a society where shopping doesn't need to have a specific scope, but it could just be an entertaining activity for free time which eventually ends up in a purchase. The same nature is found in the third most popular reason, i.e. “enjoining in-store shopping experience”, which, just as much as the previous one, is related to the emotional side of the purchase process. Actually, putting together the second and the third reason on Table 3.8, it would reach the top position on the priorities of the respondents: 57 people out of 72 means that almost 80% of the respondents feel shopping in-store as an experience that doesn't necessarily follow a need. This completely support one of the

starting statements that considers the in-store shopping from a more hedonistic point of view compared to the online one. Nevertheless, before going further with the analysis seems reasonable to get the overview of the answers referred to the online shopping experience as well.

ONLINE PURCHASE		
Reasons	N° of respondents	Percentage
“I found the product that I wanted at a lower price”	31	47.7%
“I couldn't find the product that I wanted in the store”	24	36.9%
“I had a wider choice of products”	21	32.3%
“I found more information about a product (e.g. specifics, reviews, etc)”	8	12.3%
“I'm too lazy to go to the store”	5	7.7%
“I don' t like to go to the store”	2	3.1%
“The store is too far from my place”	2	3.1%
“I had customisation option”	1	1.5%

Table 3.14: Reasons why people prefer to buy a clothing product online instead than in-store. The percentage is calculated on the total number of respondents excluding the ones that never bought anything online, i.e. 65 people total. (Source: own representation based on the survey's answers)

The top reason to buy garments online, according to the respondents, is to find the same product that is in store but at a lower price (almost half of the cross-section mentioned it). As discussed in the first part of the study and in the previous chapters, offering products at a lower price is one of the main characteristics of online businesses that is possible thanks to their peculiar business model, which often permit them to cut on other costs. Right after the lower price, another important reason to buy online seems to be the impossibility to find a certain product in-store. This reason could be directly

connected with the third one, i.e. larger variety of product available online, and if they had been considered as a single one (since the concept is quite similar), they would be the first reason with almost 70% of respondents mentioning it as one of the biggest incentives to online purchase of clothing.

In fourth position is the fact that apparently people found easier to get information through internet shopping. If on one side, e-commerce is limited by the lack of the possibility to physically experience the product, on the other side this makes it try to overcome that limitation by providing a lot of information to the consumers. Of course, those are information that could have been asked also to a salesperson in the shop, but often internet tool is perceived as a faster and more direct way to achieve them.

A little bit less important, but still mentioned by the studied sample, are reasons more related to a personal attitude towards clothing shopping in store. As displayed by Table 3.9, laziness and distance also play a role in consumer's decision-making process.

Nevertheless, focusing again on the top reasons to buy either in-store or online the relevant thing that emerges is that results seem to reflect a bit of the theory about different perception of the two means by the consumers. In store reasons are closer to the emotional and irrational field (hedonic perspective), whereas online ones follow more of a practical approach to the shopping process (utilitarian perspective).

One last aspect that has been taken into consideration in the survey is the interaction among channels from a customer point of view.

In the section dedicated to in-store shopping experience, respondents were asked if they were influenced by any online tool during their pre-purchase process. In order to understand that, they answered to the following questions: "Did you search for information online before buying in store?", "Did you compare prices online before buying in store?" and "Have you looked for inspiration in forums, blogs, social networks before buying in store?".

In Chart 3.7, the answers to these questions have been summarised.

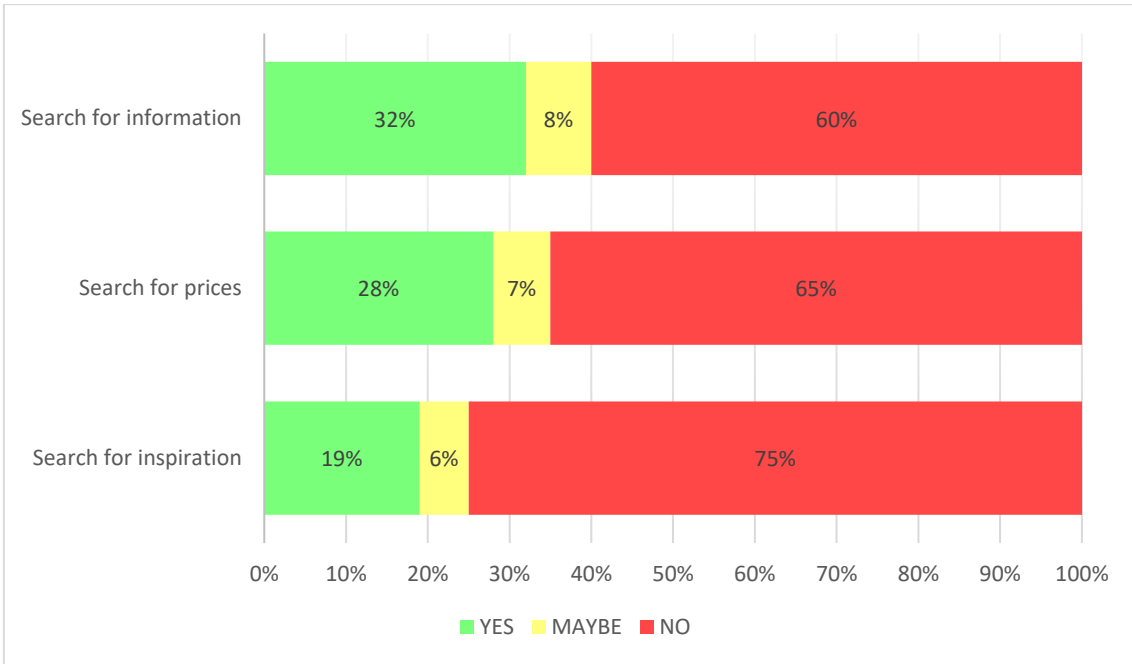


Chart 3.7: In-store pre-purchase process drivers/interactions with online. The percentage is calculated on the total number of respondents which is 72. (Source: own representation based on the survey's answers)

In a similar way, in the section dedicated to online shopping experience, respondents were asked to answer to the following questions about their pre-purchase process: “Have you been to the store to see the product before buying it online?” and “Have you been to the store to try the product on before buying it online?”. Answers have been summarised in Chart 3.8.

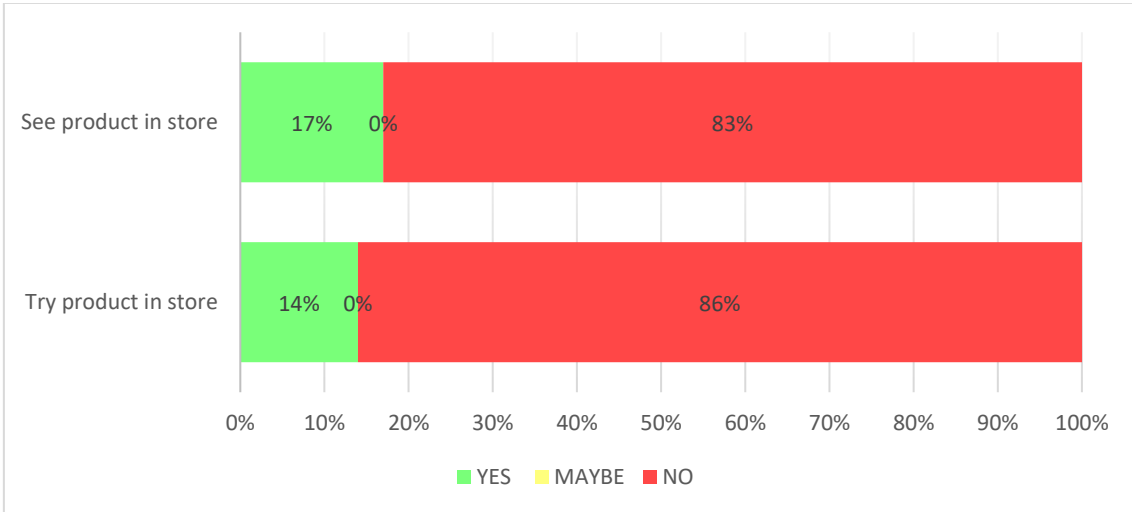


Chart 3.8: Online pre-purchase process drivers/interactions with in-store. The percentage is calculated on the total number of respondents excluding the ones that never bought anything online, i.e. 65 people total. (Source: own representation based on the survey's answers)

One of the first things that sticks out from these charts is that people claiming not to use different channels for pre-purchase and purchase process are the majority. In fact, “no” is prevailing in both charts. This could suggest the apparently obvious conclusion that interaction between channels is still far away to become reality. According to who is writing, such a statement would be quite rushed as well as superficial, and the results show can reveal much more than that. With reference to Chart 3.7, numbers are actually not that negative, in fact they show that more than 1/3 of the respondents are actually sure they have used the internet tool to check out more detailed information about the product that they were going to buy in store; this is a quite high percentage if it take into account the fact the one of the biggest reasons to buy in-store is that it “casually” happens without having it really planned (“I was already in the store and I didn't even think about buying it online later” ranked 2nd reason with 44.4% of the respondents agreeing) which automatically exclude the kind of situations where people are so result-oriented to search for product information upfront.

For the same reason, also the comparison of prices on different channels can be considered quite popular, although just a bit more than $\frac{1}{4}$ of respondents admitted doing it.

Concerning research for inspiration, even if it shows the lower value (less than 1/5 of respondents), it has a further peculiarity, i.e. it is a more unconscious behaviour. People often are so used to surf the internet with their laptop, tablet and smartphone, that don't even realize to be deeply influenced by what they see when they are scrolling social media homepages or blogs.

Linked to this concept, could be analysed also the “in-between” responses of those who answered “maybe”. This could be interpreted as the proof of this unawareness of the tools used to accomplish a certain result. People just don't pay attention to everything and actually here is where the power of internet and digital lies.

To support this hypothesis is the fact that the other way around shows a completely different situation. Looking at Chart 3.8, there is no “maybe” option, which means that people are sure to remember if they went or not to the physical store with the purpose to check product's characteristics.

Deep diving a bit more Chart 3.8, is evident how in this case interactions with the in-store channel are lower than the opposite, so that people are more likely to use online tools in the pre-purchase process before buying in store, than to act the other way around. Also, in this case, the results must take into account other factors related to the specific channel. For example, the fact that people buying online interact less with the physical-store, is in line with the reasons that respondents provided as the most influencing to buy on an e-commerce platform, i.e. “I'm too lazy to go to the store”, “I don't like to go to the store”, “The store is too far from my place”. In other words, if laziness is the reason that drives a person to buy online, the obvious consequence is that this person is not going to have a check of the physical product upfront the purchase.

In general, the survey's results prove how interesting and challenging the analysis of e-commerce fashion business can be. Since it shows that, even more than for other sectors, numbers must be observed deeply and interpreted taking into account a lot of different elements that often are not directly belonging to an economic nature. This could be considered the main consequence of being one of the most “customer-emotions-dependent” businesses, which amplifies every aspect interacting and influencing it.

3.3 Corporate and consumer perspectives: two gears of the same mechanism

The whole chapter studied the e-commerce phenomenon separating the corporate aspect from the consumer's one and using different methods to analyse each of them.

This choice has been made to permit a deep diving in both perspectives. Nevertheless, must not be forgotten that the final aim of the research is to put all those elements together in order to create a consistent and full picture of what actually e-commerce within clothing industry is. This picture could be actually outlined as a sort of pyramid or a branched diagram as the one represented in Figure 3.4.

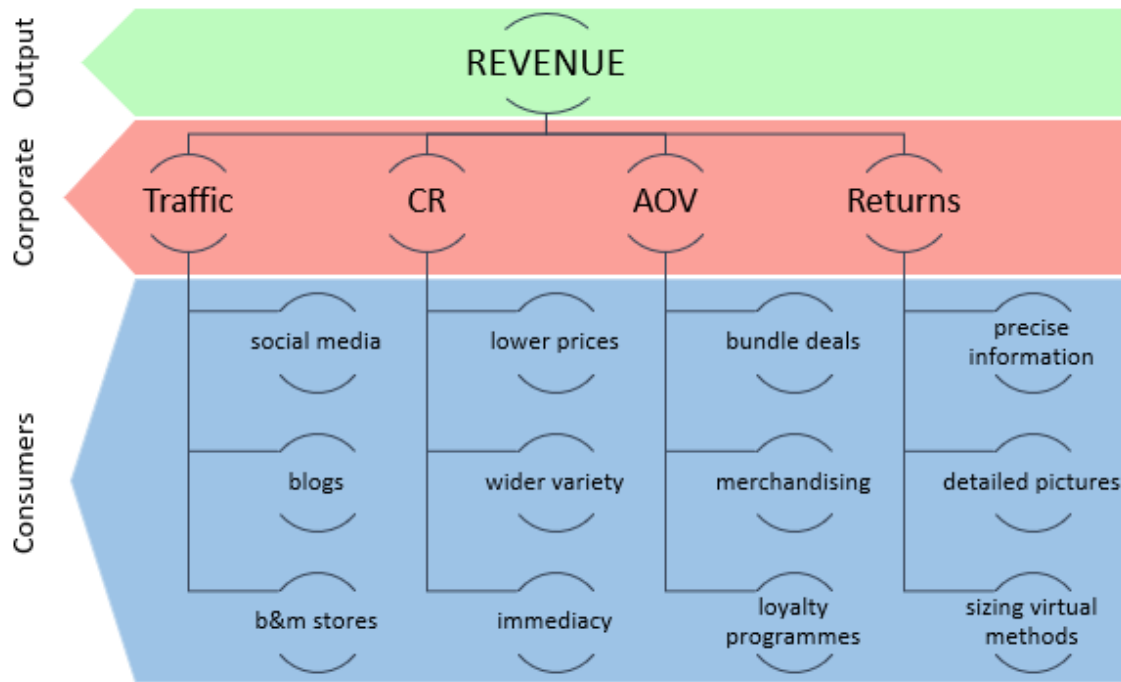


Figure 3.4: E-commerce structure representation based on the main elements related to each aspect of the phenomenon: final output, corporate goals, consumer related factors. (Source: own representation)

As every economic business, e-commerce final aim is to be profitable and so get as higher revenue as it's possible. For this reason, "revenue" is at the top of the diagram.

Going down on the second level, the four elements that have been identified in chapter 3 as the gears of the mechanism that produce revenue. These factors have an importance mainly from a corporate point of view since they are actually numbers and figures useful to represent concrete phenomenon influencing the business. Companies can use them as index, but the root of all this system is of course the consumer who the products are addressed to.

Last level includes all the elements directly related to the consumers that represent the concrete acts/behaviours on which every corporate index is based. Some of these elements have been observed during the survey's analysis and interpretation section of the chapter, such as the importance of lower prices, wider variety of products, detailed information etc., others emerged during the pre-analysis of e-commerce phenomenon from a consumer perspective (chapter 1-2), such as sizing virtual methods, social media influence, importance of tactile inputs and immediate perception of the product etc.

The next and final chapter will conclude the paper with some considerations based on what has been discussed and analysed in the previous part of the research.

Conclusions

The final goal of the research was to observe more in details a phenomenon that is still far away to be completely understood, as e-commerce and in particular get an idea about how it is going to influence the global clothing sector by comparing internet commerce tool with brick-and-mortar stores.

The current technologic evolution within the fashion industry has led to consider e-commerce as the natural consequence of the so called 4th Industrial Revolution that the world is experiencing. As discussed in the first chapters, this situation has been firstly seen as the chance to exploit a new multichannel approach within the clothing sector, being able to sell products both online and offline and reaching as many customers as possible through this method, but still implying the separation of those channels⁴⁶. Nevertheless, recently this concept as developed into a willing to integrate these selling channels, creating a seamless customer experience among the them by giving the chance to move freely between online and offline within a single transaction process²⁵. This so called omnichannel approach seems to be no only a huge opportunity but also the only way to go for the industry.

The study in chapter 3 aimed to deep dive the internet commerce business nature, both from a corporate and a consumer's perspective in order to understand better it's nature. Is it actually a phenomenon that could redesign the entire industry configuration?

The analysis of one of the most successful e-commerce platforms within clothing industry has been used to identify the main elements playing in the growth of such a business from a corporate point of view. As observed, the trend is globally positive, but every index is deeply influenced by the others and all of them depend on the behaviour of customers towards the e-commerce service.

For this reason, the second part of the study can be considered the one that gives the clearest insights on the topic. Survey's results show that people are surely perceiving the internet commerce tool more and more as a safe and convenient channel for their clothing shopping, but still several limitations have been highlighted, which represent significant obstacles to the fulfilment of this omnichannel model for the industry.

According to who is writing, e-commerce has certainly reached the point where it is more than a simple alternative selling channel for the sector, but it is not possible yet to talk about complete merged and interchangeable characteristics.

The distinction between buying online and offline is getting weaker and weaker, but it still exists. According to the survey's results in fact, the majority of the respondents regularly do both kind of shopping, shifting from one to another quite easily, but still the interaction between the two channels during the same purchase process is not that common as it is supposed to be in a real omnichannel industry.

Moreover, the survey's answers outlined how there is still a general perception of online shopping as a more utilitarian activity compared to the in-store shopping which, on the other side, is perceived as a more emotional and hedonic experience. As discussed in the previous chapter, this difference is decreasing, but it is still relevant as observed from the survey.

This consideration does not exclude the possibility to reach that level of interdependence one day, on the contrary, all the odds seem quite in favour, but the process could still need some time. It must be also taken into account that the world is currently facing a transition in terms of generational differences, soon the whole population will be completely made up of "digital-natives", which could definitely speed up this change.

Limitations

To conclude in an accurate way the research it's important to point out some limitations in the study part of the paper, that were inevitable in order to simplify the results.

First of all, the corporate part of the study took Zalando as example of e-commerce platform within clothing sector, but, as mentioned in the chapters, there are several kind of online fashion businesses with peculiar characteristics (e.g. multi-brand platform, mono-brand ones, companies that have both online and offline stores, etc.). Zalando has been taken as model because, according to who is writing, it represents one of the most interesting examples of online commerce, either because of its recent success and for the risky and innovative policy that is keeping adopting. Trying to analyse more than one company and business model would have been a fragmented and consequently confusing approach that could have undermined the global aim of the paper.

The second important limitation occurs in the consumer perspective part of the study. Using a qualitative/quantitative survey always implies to face some restriction. Firstly, the number of people used as cross-section and also their characteristics. In this case, 72 people can be considered a good number to observe some patterns in respondents' behaviour, but it might not guarantee an extremely precise output. Moreover, taking a look at the demographic Table 3.9, the sample was mainly made up by well-educated and wealthy people. The age-range could be also be considered a limitation, but in that case, it was decided on purpose because it suited good with the specific topic that the research was observing.

In conclusion, some restrictions have been inevitable, but the overall result could still be considered a good output, from which interesting general insights and considerations have derived.

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