# THE FUTURE OF RETAIL

Reinventing the department store business model

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1 EXECUTIVE SUMMARY

This dissertation was created with the goal to examine how online shopping has changed retail, specifically department stores and their business model, and to recommend a course of action and business model for entrepreneurs considering starting an (online) department store.

There are several recommendations that can be made based on this dissertation and the survey results. The first recommendation is for an online department store business to start small: an empire isn't built in a day. Amazon started from its founder's basement and later became one of the biggest online department stores in the world. Starting an online department store will take time and dedication but if the company manages to be successful, the result is worth it.

The second recommendation is to use social media to interact with the customers and to provide online customer service. Responding to Tweets and Facebook message is one of the most valuable things a company can do, since communication takes place on a public platform and every visitor can see how a company handles negative reviews or complaints.

The third recommendation is to use Search Engine Optimization, meaning that a company can improve its ranking in the list of search results in a search engine like Google. Many consumers don't click past the first page, and thus it is vital for a company to end up as high as possible in the list of search results.

The fourth recommendation is to shift from a product-oriented approach to a consumer-oriented approach, since consumers are more empowered than ever and the technique of pushing a product to a mass audience does not work anymore. To be successful, an online (department) store needs to sell something the customer really wants instead of mass producing products and hoping the target group will buy them.

The fifth recommendation is to create a clear, organized website and invest in cross-platform shopping. This means potentially investing in a web designer or IT team if these skills are lacking within the company. Clear, organized websites are more pleasing to the consumer and will generate more traffic. Since many consumers like to shop on the go, it might also be a good idea to invest in developing an app for smartphones or tablets, so (potential) customers can shop whenever, wherever.

The sixth recommendation is to offer free shipping and returns, since this is a feature many consumers look for when purchasing online. A young company may, due to its limited budget choose one of the two, whereas an established company should offer free shipping as well as free returns. The last recommendation is to prepare for the holidays. On holidays such as Christmas, many people (according to both the desk

research as well as the survey) prefer to shop online in order to avoid crowded stores, and online department stores can make clever use of this increased traffic by offering discounts or launching an interactive social media campaign, like ASOS did with its gallery of Christmas jumpers sent in by fans of the brand.

To conclude, the internet is a very valuable marketing tool for department stores wishing to go online. There is no business model that is a definite best, it depends on situation and environment. For startups and young companies, the clicks-only model would be most profitable. For established companies, the bricks-and-clicks model is generally considered to be the best choice.

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3 INTRODUCTION

The world is changing at a breakneck speed. Whereas just decades ago, a telephone operator at a switchboard had to manually connect your calls to the right person, today we can surf the internet on our mobile phones. Whereas personal computers were once considered a luxury for the elite, today almost everyone, even in the farthest corners of the world, has a computer. In 2014, our lives are connected to the internet, and a life without the World Wide Web is unthinkable.

This is why the concept of online shopping is so interesting to retailers. Most people in Western Europe and North America have shopped online, and the option to do so is getting increasingly popular in a multitude of countries all over the world. We live in a reality where time is precious, and most people can't afford a full day of shopping due to work and family life, or simply dislike the drag of fitting rooms and crowds. The answer to these issues is online retail.

Of course there has been similar research conducted about the topic of online retail and internet marketing. However, these studies have all been very broad, investigating the general topic of online shopping. This dissertation narrows the topic down to department stores and warehouses. The goal of this research is to find out which online business model works best for department stores and recommend a course of action for any department store planning to set up an online store.

This dissertation can be divided into three parts. The first part concerns general information and includes chapters 5 and 6. In these chapters, information such as the history of online shopping, its advantages and disadvantages, global statistics, driving factors and the marketing mix is discussed. Online giants such as eBay and Amazon.com are the two companies that revolutionized retail, realizing the possibilities of online shopping. Launched in 1995 and 1996 respectively, both companies started small and grew out to be the biggest online retailers in the world. Online shopping has many advantages to retailers as well as consumers, the most important ones being twenty-four hour a day shopping on the go, a wide range of products to choose from, and the elimination of geographical limitations. However, online shopping also brings disadvantages, such as privacy and security issues and the lack of personal interaction. Nevertheless, the advantages by far outweigh the disadvantages. Chapter 6 describes the global statistics of online shopping, the new approach to market segmentation, driving factors for online shopping and a revised marketing mix. This chapter clarifies how marketing is no longer product-oriented, but consumer-oriented, as evidenced by the psychographic and behavioral approach to the marketing-mix and the 4 Cs of marketing instead of the 4 Ps. With the rise of the internet, the consumer is more empowered than ever, and it's key retailers acknowledge that fact. Based on the

customer's wants, needs, opinions, interests, and actions; marketers of online department stores will be able to improve their marketing strategy and increase sales.

The second part of this dissertation, chapters 7 to 9, is the theoretical portion of the dissertation. These chapters describe the definition of a department store, the three general models for online shopping, and the online business models as developed by Timmers in 1998 applied to department stores. A department store, in its simplest definition, is a store that offers a variety of products in different categories. As such, many stores can be defined as a department store. The most popular department stores are giants such as Harrod's, Nordstroms and the Dutch V&D, which have several physical store locations as well as an online store. This model is called bricks-and-clicks, where companies have one or multiple physical store locations as well as an online store. The second store model is clicks-only. This means a company only operates an online store, and ships their products from an office or storage or in the case of a larger clicks-only department store like Zalanda, from distribution centers. The traditional model of brick-and-mortar only has virtually disappeared now, since most companies choose the bricks-and-clicks model. Many experts suggest that traditional brick-and-mortar (department) stores are slowly but surely transforming into bricks-and-clicks or clicks-only.

The third part of this dissertation are chapter 9 to 12. These chapters include the survey results, final conclusions and recommendations. The survey concerns topics like most popular online department stores in the Netherlands, driving factors for online shopping, and preferred devices to make an online purchase. The survey has been completed by 122 respondents of many different ages and professions. There are several important conclusions that can be drawn from the survey data, the first one being that clothing and fashion is by far the most popular category for online purchases, followed by books and consumer electronics. This corresponds with the result that the most popular online department stores amongst respondents are Bol.com, Zalando, and V&D. The second significant finding is that despite the popularity of online shopping, most respondents (59%) shop offline more often than online. The three most chosen driving factors for online shopping are free shipping, lower online prices compared to in-store, and a clear, organized website. In contrast, the three most chosen factors that would prevent the respondents from shopping at an online department store are high shipping fees, no or unclear product pictures, and negative (online) peer reviews. The third most important finding is that while social media is gaining ground in the Netherlands, the majority of respondents does not follow any company social media accounts. The respondents who do follow social media accounts of online department stores, list their main reasons for doing so as to stay up to date about products and exclusive sales or discounts. Owners of online department stores (especially those with a clicks-only model) should focus on opening up a dialogue with their consumers via social media, since this platform of communication is free, immediate, and it's a place where many customers are already at.

I want to thank my supervisor, Mr. Kuijpers, for helping me develop the idea for writing this dissertation and guiding me in the process.

4 RESEARCH QUESTIONS AND METHODOLOGY

The central research question for this dissertation is as follows: 'Which business model works best for department stores planning to set up an online store?'

There are several sub questions that can be used to help answer the general research question, which are:

I.   What is the history of online retail?
II.   Which stores are successful online and what is their strategy?
III.   What is the definition of a department store?
IV.   Which department stores already have an online presence?
V.   Which online business models can a store choose from?
VI.   Which business model(s) would the target group prefer?

The biggest part of this dissertation is based on desk research. Since online shopping is a relatively new phenomenon in marketing and sales, most of the sources consulted in this dissertation are websites and academic sources found on Google Scholar. Books were also used, but in a smaller volume than online sources, for the simple reason that not much has been written about e-commerce and online marketing yet. What has been written is about online shopping in a general sense.

To help answer the questions about the target group for online department stores, field research was also conducted. A survey was held among a variety of respondents of different age groups, professions, and genders. This survey asked respondents how they prefer to shop online. For example, which factors contribute to actually buying a product, which factors contribute to leaving the website without purchasing anything, which online stores the respondents usually shop at, and which features they find important for an online store.

5 DETAILS OF ONLINE SHOPPING

5.1 New possibilities

The Internet has changed the way we live. Looking up a piece of information can be done by simply going to the search bar in your browser and typing in a search request. Colleges offer online learning programs. Comparing insurance plans is just a mouse click away. Ordering groceries and having them delivered to your house is another possibility an increasing number of people make use of. You can even fill out your tax returns online. With the World Wide Web at your fingertips, you might even not have to leave the house at all in the future. Convenience is a big part of the online experience, and this is especially true for online shopping.

In the past ten to fifteen years, the world of retail has seen a dramatic shift in buying behavior. More and more people forgo the traditional shopping experience of going to a physical location and instead choose to shop online.

5.2 History of online shopping

In 1995, the first online stores started popping up. Since the internet was still a fairly new development at that point in time, only 16 million people worldwide had access. (Miniwatts Marketing Group, 2014) Amazon was one of the first companies that started selling products online, its staff consisting of two people packing and shipping boxes from a garage in Bellevue, Washington. This was also the birth year of eBay, the online auctioning platform, which would become increasingly popular in the next few decades. These two companies are currently the two biggest online retail stores in the world.

How did Amazon get so popular? The feature that contributed the most to Amazon's success is its online review system. Any registered member can write and publish a book review, and other users are able to rank each review. This creates a ranked list of top Amazon reviewers. This online community, along with the steep discounts Amazon offers, has contributed greatly to Amazon's growth. (ECommerce-Land, 2004)

eBay was the online auctioning platform which made selling products online accessible not only to retailers, but to amateurs as well. You didn't have to be a Web entrepreneur to be able to sell

things online. The only thing you had to do was scour your attic, post a listing about the item, and there was a good chance that someone would pay money for your old junk. In 1996, with only two full-time employees, eBay sold $7.2 million worth of goods. By 1997, right in the middle of a Beanie Babies stuffed animals frenzy, eBay sold $95 million worth of goods. In 2007, eBay sold $52.5 billion in auctions and had more than 220 million registered users and 13,000 employees. (Roos, 2008)

Amazon and eBay paved the way for online shopping as we know it today. More and more stores worldwide have decided to start selling online, some companies even preferring to sell their products online only.

5.3 Advantages and disadvantages

There are certain factors that consumers can take into consideration when deciding whether or not to buy online. The emergence of online retail has certain benefits, but there are also disadvantages to the online shopping experience, both for the retailers as well as the consumer.

5.3.1 Advantages from the consumer's point of view:

From the consumer's point of view, the advantages outweigh the shortcomings. A big benefit of online shopping is convenience. In comparison to regular brick-and-mortar stores with fixed opening hours, consumers can pick any time of the day to stroll around the virtual store of their choosing. This is especially useful for working mothers with small children, people who are home-bound due to illness or handicaps, or simply during bad weather.

Another benefit is easy access to price comparisons. When a consumer visits a store, they most likely have to settle for whatever price the retailer has placed on an item. This is not the case with online shopping. The ability to compare prices from hundreds of different vendors is something to consider when shopping online.

The internet offers an infinite choice of products. Shelf space in a physical store location is limited, which means that for the consumers, the variety of goods offered is also limited. This is not the case with an online store. Also, if the consumer does not see anything they want in a certain online store, they can simply move on to the next one – online, the consumer has the power to do that.

Another advantage when it comes to shopping online is the easy access to consumer reviews. The consumer can, with one click of the button, read and compare peer reviews from fellow shoppers, which makes for more informed purchases.

One more benefit is that on the internet, there are no eager salespeople pressuring the consumer into a purchase. The consumer can take their time browsing the wares without being bothered by a salesperson trying to make their daily quota. (BBC, 2014)

5.3.2 Disadvantages from the consumer's point of view:

On the other hand, a big disadvantage of shopping online is that the consumer cannot try a product on or out, and has to rely on measurements and familiarity with the brand for the product to fit once it arrives. Online retailers such as H&M have tried to resolve this by, for example, offering free returns if the product doesn't fit. Despite aforementioned measures, this is something that could prevent people from shopping online.

Another disadvantage is that, unlike in a physical store location, any questions the customer might have will not be answered immediately. Usually, a day will pass before the consumer gets an answer. However, more and more stores are beginning to implement an instant chat feature which connects consumers to salespeople in a one-on-one online conversation.

Another shortcoming is the privacy and security issue. Some consumers are still skeptical about giving out their credit card number or financial information online. Nevertheless, there are precautions the consumer can take in order to ensure a safe online environment, such as paying attention to https protocols (http**s** meaning secured websites), installing free spyware removal tools, reading up on well-known online scams and hoaxes and surfing anonymously, for example behind a proxy.

5.3.3 Advantages from the retailer's point of view

One of the biggest advantages for retailers is a bigger customer pool. The internet makes it possible for retailers to reach more customers than would be ever able to simply walk through the doors of their physical stores. An online shop removes the troubles of travel and parking that could drive some customers away. The option of offering products to consumers that are miles or even continents away is a valuable possibility. The only boundaries of online stores are factors such as shipping rates, overseas taxes and the delivery period a customer might have to wait on. Retailers might even find their product popular in a place they would never had bricks-and-mortar access to.

Another advantage for retailers is the supply on demand factor. In a physical store, consumers expect to be able to leave with the product they have just bought. In an online store, a period of waiting is expected. Retailers don't have to undergo the risk of their stock not selling and leaving them with a surplus. Stock is bought according to online demand, which is easier to measure than in-store demand due to measurable traffic and traceable clicks. Certain software can alert a retailer to what they are running low on stock or if they can expect an increase in demand for a particular item, which means the retailer can stock accordingly. Retailers will be able to keep up with demand is, because contrary to a physical store, they know exactly what the demand is.

Branching out online is also a possibility that can cause many sellers to choose online retail. Online, there is no such thing as associated cost such as rent, insurance, security and décor. Online stores may have their own costs, such as webhosting and domain fees

and design and product photographs costs, but these expenses are still much lower than in physical stores.

Another big benefit of setting up an online store is the lack of closing hours. As described before in the benefits for consumers, a retailer's online store is always open. An online store is open even when the owner is asleep. Potential consumers can browse in their pajamas while they wait for their children to brush their teeth or during commercials, waiting for their series to start again. Online retailers get to enjoy the fact that their store's doors never close. (LeChat, 2014)

5.3.4 Disadvantages from the retailer's point of view

Most retailers with the desire to set up an online store do not have the technical expertise needed to do it themselves. Thus, one of the biggest disadvantages when setting up an online shop is that retailers often have to hire new staff with IT expertise in order to keep their online store running smoothly, and this is not a cheap investment.

There also is the risk of website downtime. If the website goes down due to, for example, unforeseen issues with the webhost or server, consumers will not be able to purchase anything, and this means the retailer is not making any money. Nowadays, this doesn't happen a lot due to the continuous development of webhosting tools, but it is a risk to take into consideration.

The lack of personal touch is also one of the big flaws of online retail. No personal contact with the customer means it might be harder to get repeat orders. Some online retailers have resolved this by implementing a live chat feature, putting the customer in contact with an online agent who helps them with their purchase. Asian wholesale web shops like Alibaba and TaoBao are examples of online stores who have already realized this feature.

Online fraud is another thing online retailers have to be wary of. The lack of personal contact makes it easier to give out a fake or stolen credit card number, for example. Some online retailers such as eBay have resolved this by only accepting PayPal, which is the safest way to make an online purchase due to its encryption options, cashback guarantee in the case of fraud, and its extensive privacy policy.

6 ONLINE BUYING BEHAVIOR

6.1 Global statistics

A research conducted by The Nielsen Company in March 2010 polled over 27,000 Internet users in 55 markets from Asia Pacific, Europe, Middle East, North America and South America about their online buying behavior. According to the survey, books are by far the most popular product to buy online. This has struck fear in the hearts of the owners of physical bookstores. Googling the question 'will bookstores disappear?' returns over 1,5 million results of articles about the bankruptcy of hundreds if not thousands of bookstores. And it's not only the smaller, local bookstores that are affected. An article from the Washington Post from June, 2013 describes that even American bookstore chain Barnes & Noble is having trouble competing with the online market. (Washington Post, 2013) Other popular products commonly bought online are clothing, airline tickets and hotel reservations, electronic equipment and cosmetics.

What product/services do you intend to purchase online in the next 6 months?

Global Average

	%
Books	44
Clothing/Accessories/Shoes	36
Airline ticket/reservations	32
Electronic equipment	27
Tours/Hotel Reservations	26
Cosmetics/nutrition supplies	22
Event Tickets	20
Computer Hardware	19
Videos/DVDs/Games	18
Groceries	18
Music	16
Sporting Goods	13
Toys/Dolls	11
Computer Software	11
Flowers	8
Automobiles & Parts	7
Baby supplies	7
Alcoholic drinks	6
Sports Memorabilia	5
Car hire	4
Other	7
I do not plan to make an online purchase in the next 6 months	18

Base : All respondents n=27,665
Consumer Confidence Survey – Q1 2010 • Field dates March 8, 2010 – March 28, 2010

What kind of websites do you purchase from most frequently when shopping online?

Legend:
- I have never shopped online.
- Sites that allow you to select products from many different online stores
- Sites for stores that you can only shop at online
- Sites that also sell their products through catalogs or over the phone
- Sites that also have traditional 'brick and mortar' stores

Base : All respondents n=27,665
Consumer Confidence Survey – Q1 2010 • Field dates March 8, 2010 – March 28, 2010

One-third of consumers worldwide say they primarily do their online shopping at retailers that only have an online presence, such as Amazon.com. Twenty percent of respondents prefer online stores that also have traditional brick and mortar stores. Another 20% of respondents prefer websites that allow you to select products from many different online stores. Only 16% of respondents worldwide have never shopped online.

The preferences for the type of site to buy from vary. Half of the North

American respondents indicated they mainly buy from online-only stores. Latin Americans, on the other hand, prefer websites that also have traditional offline stores. Approximately 47% of respondents in the Middle East, Africa, and Pakistan claim they have never shopped online.

6.2 Market segmentation

In traditional retail, dividing the market up in different segments based on categories such as geographic, demographic, psychographic, and behavioral segments used to be a big part of developing a marketing strategy. With the rise of online shopping, market segmentation has also changed significantly. It has become easier for marketers to divide the market into segments, enabling them to develop a more effective marketing strategy. For example, the need to keep the geographical factor in mind is removed from the equation, since the internet knows no borders.

Demographic variables often include age, gender, income, and social class. These factors have also become less important. Everyone, from every demographical segment, can visit a website and make the choice to purchase a product or not. Big online stores, such as aforementioned Amazon or ASOS, are websites that are not focused specifically on neither men nor women, but both genders of all ages.

Psychographic variables and behavioral variables are the two categories that, in this day and age, are most important for designing a marketing strategy. Psychographic variables describe the activities, interests, and opinions of consumers, which can easily be measured by tracking the consumers' path throughout a website and reviews of products. For example, an online store might start a discount campaign for sportswear based on the amount of sports articles sold in a certain timeframe.

Behavioral variables used for segmentation include consumer benefit, extent of use and loyalty, and usage situation. For example, in the summer months, consumers will buy more swimwear than in other months. Marketers can play into that by offering discounts or, in contrast, slightly raising the prices of swimwear. Another example of this is personalized ads, where the consumers' website or search history is tracked. The online advertisements the consumer gets to see on certain websites that have this feature enabled, show the consumer products based on their site or search history. (Engel, Blackwell, & Miniard, 1995)

6.3 Search Engine Optimization

Search Engine Optimization, abbreviated to SEO, is something many companies (including department stores) use in order to attract as much traffic as possible. The goal of SEO is to boost the company's place in the list of search results on any search engine. It is better for companies to appear on the first page of search results than for example

on the second or third page, seeing as most users of the internet often do not look further than the first page of search results. Google is by far the most popular search engine, which means that most SEO experts tend to focus on Google first. By better understanding Google's mechanisms and algorithms, a company will also be able to improve their placement with other search engines such as Yahoo and Bing. A search engine implements four basic mechanisms. The first one is discovery, meaning finding new pages. Google (or any other search engine) does this via scripts called robots that scours the coding of webpages for relevant keywords. The second is storing links, page summaries, and other information. This information is saved on systems Google calls index servers. The third is ranking, used to order the stored information and links on how relevant and important they are. Google uses a complex mechanism called PageRank to accomplish this. Fourth and last is returning the results based on the query, organized on ranking. These mechanisms (Discovery, Storage, Ranking, and Return) are abbreviated to DSSR and are the core of a successful SEO strategy.

For those companies that are not satisfied with their ranking, Google also has the AdWords program, which is a form of paid advertising. A company pays to have their ads displayed in the sponsored Google search results or on randomly chosen relevant websites. The company can define a set of keywords that they feel are relevant and important for their traffic, and decide how much they wish to pay for each visitor that is redirected from the advertisement. The more money the company wishes to pay on a certain keyword, the higher up in the search results the ad will be displayed. Paid search results are clearly marked as sponsored and stand out from the 'natural' (unsponsored) search results.

The goal of SEO, however, is to have high 'natural' rankings without the help of paid advertisements. An important component to help companies decide on their SEO strategy is site metrics, which includes measuring traffic. The important questions when assessing this data is how many unique visitors a company has a day and how much traffic they aspire to have. SEO approaches will differ depending on the amount of people a company is trying to reach: the approach for a broader target group will be different from the approach for a smaller (niche) target group. A popular business that offers web analytics services is Alexa.com, which is owned by Amazon.com. (Davis, 2006)

Google has its own free guide for beginners on SEO with advice on keywords, HTML coding and other tactics. Starting e-commerce companies are recommended to use this as a guideline to develop their SEO strategy. (Google, 2010)

6.4 Reviews and social media

Reviews and ratings are a big benefit of the online shopping experience. An example mentioned earlier is Amazon.com, where people can leave reviews on products they have bought. Conversely, customers looking to buy a particular product can judge by its

reviews whether they want to buy the product in question or not. Opinions matter, especially when it comes to making a purchase. Take for example consumers electronics: 57% of respondents in the survey conducted by the Nielsen Company consider and compare reviews before buying. Reviews on cars (45%) and software (37%) are number two and three of the most important online influences when considering making a purchase. Peer recommendations and reviews are so important that 40% of online shoppers indicate they wouldn't even buy electronics without reading online reviews first.

Social media is also a key part of the online shopping experience. Consumers are engaging more and more with brands online via social media. With minimal effort the consumer can broadcast their message into the world, and the message is not always a positive one. A small majority of online consumers (59%) said they wouldn't share a negative product experience via social media, but 41% said they would. (The Nielsen Company, 2010)

The most popular reason for consumers to communicate with brands via social media is for coupons and promotions. Consumers also use social media in order to find out the latest news and products from brands, obtain customer service from a social media representative of the brand, and to see what their peers are buying. (Walker Sands, 2014)

While consumers are flocking to social media to rave, vent, or ask questions, retailers are not yet making full use of these opportunities to make more social driven sales. Times are changing, and online retailers can only grow if they adapt. A good example of a company that makes excellent use of social media is the American streaming TV service Netflix, who have a YouTube, Facebook and Twitter account on which they promote their new shows, help customers set up their accounts, and answer questions.

6.5 Changing consumer needs and the marketing mix

The marketing mix was developed in the 1960's and is presently still used to create a marketing strategy. However, the marketing mix as it was created back then has a few clear flaws, the largest one being that a marketing mix is not centered around the consumer's needs, but rather the need of the company to sell their products. That is the reason why the marketing mix leads to product-orientation rather than consumer-orientation. Robert F. Lauterborn introduced a consumer-oriented counterpart of the marketing mix in the 1990's, replacing the 4 Ps of the marketing mix with the 4 Cs.

Four Ps	Four Cs	Definition
Product	Consumer wants and needs	Consumers will only buy the products they specifically want to buy. Marketers should study consumer wants and needs in order to entice them to buy from their company.
Price	Cost	Total costs for the consumer: time, effort, actual price of the product. These factors combined will stimulate a customer to decide whether or not to buy, not just the price of the product.
Promotion	Communication	Consumers like to feel like their opinions matter and have a need to communicate their suggestions and wishes about products they care about. Promotion only concerns advertising while communication enables a dialogue between buyer and seller that can aid marketers in catering to consumer needs and thus increasing their sales.
Place	Convenience	With the internet, place is becoming less and less relevant. Convenience is an important factor in the buying process and encompasses ease of buying the product, ease of finding the product, and ease of finding information about the product. Marketers should make it as convenient as possible to buy from their company.

This consumer-oriented approach of the marketing mix is exceptionally useful for online shopping and online marketing. The consumer often uses the internet to actively compare products and look up information on products they are considering buying, 'pulling' information and potential purchases towards them. This creates a need for marketers to utilize a pull-strategy in order to sell their products online, instead of the traditional push-strategy. This, combined with using the 4 Cs instead of the 4 Ps to fill in a marketing mix will allow marketers to design an efficient online marketing strategy that is fully focused on the needs of the consumer.
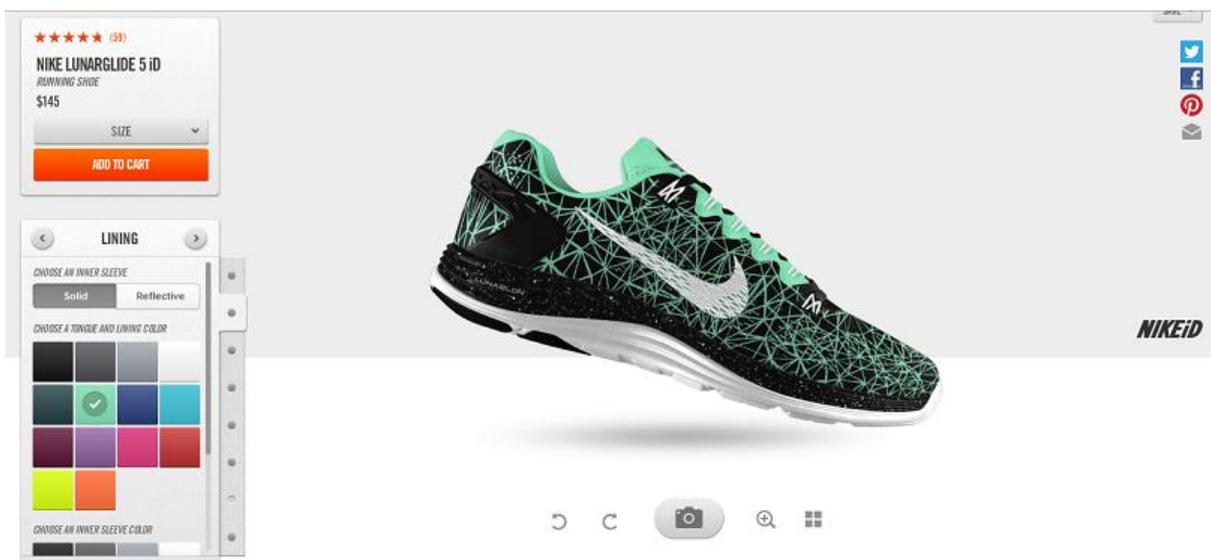
A new option that can be explored with the internet is mass-customization. Summarized, this means that consumers willing to pay a bit more for this service can customize their product according to their wishes and expectations. The first company to offer this

option was Levi's. Women willing to pay more than the typical price for a pair of Levi's could digitalize their measurements and order a pair of jeans tailored to their size and shape. The measurements could be saved and edited accordingly, so that the next pair of jeans ordered accommodated potential weight gain or loss. Currently, Levi's does not offer this service anymore, but the consumer can still enter their measurements on the website and receive a list of jeans fitting for their body type.

A more current example of a company offering a customization option is Nike. On the website, the customer can select a certain shoe model and customize, among others, the colors and patterns. When the customer is satisfied with their shoe design, the pair can be ordered and the customer will have their one-of-a-kind pair of Nikes. This is an excellent example of a company focusing on the customer. (Chaffey, Ellis-Chadwick, Broekhoff, & Zweers, 2012)

6.6 Driving factors for online shopping

It is no secret that competition among (online) retailers is very high. Retailers must have a distinguishing feature or offer in order to stand out from online retail giants like Amazon. A 2014 survey conducted by the communications company Walker Sands polled over 1,000 US consumers about their online shopping behavior and the driving factors behind their decisions to buy a certain product online.

Source: Walker Sands' 2014 Future of Retail Study

The overwhelming majority of the respondents indicated that they would be more likely to buy a product online if the retailers offered free shipping. Free shipping is something online retailers will have to consider if they want a bigger market share. Another selling point is 1-day shipping, meaning that if the customer order a product before midnight, they receive the product the next day. Although free and fast delivery are pricy for the retailer, these features are worth investing in if it means customers are more likely to buy from an online store. The third biggest driving factor is free returns and exchanges, which many online stores have already implemented.

Another way online retailers can differentiate themselves and appeal to their customer base is by providing the possibility to shop online on all devices and not just the desktop computer. Many stores have already begun adapting their online environment to accommodate smartphones, tablets, and laptops. According to the study conducted by Walker Sands, 64% of respondents have used their mobile device such as a smartphone or tablet to research products while in a traditional brick-and-mortar store. It is important for retailers to provide an as seamless as possible experience for the customer.

Personalization is also something customers find important. According to the survey, 44% of respondents would be more likely to shop at an online store if that store offered product suggestions based on their past purchases. For example, if the customer is searching for products for their newborn when looking at a page for a stroller, the online retailer can suggest other products in that category, such as diapers, bottles, and baby car seats. (Walker Sands, 2014)

6.7 Case study: ASOS

There are a multitude of online stores that have, in a limited amount of time when compared to traditional brick-and-mortar stores, become be very popular places for consumers to spend their money. One of those examples is United Kingdom-based online store asos.com. ASOS is a global online fashion and cosmetics retailer with over 65,000 branded and own-label products, and started in 2000. ASOS has free shipping to 234 countries and territories, all from their global distribution center in the UK. ASOS has nine local language websites: UK, US, France, Germany, Spain, Italy, Australia, Russia, and China. ASOS's online stores attract 29.5 million unique visitors each month as of 31 December 2012, and at 31 December 2013 had 14.8 million registered users and 7.9 million active users. (asos.com, 2014)

ASOS has become one of the most popular online fashion stores, along with nelly.com. The reasons why ASOS has become so popular lie in its marketing campaigns. ASOS was the first fully integrated Facebook store in Europe by launching an f-commerce shop, which means adding the ability to buy products via Facebook, in 2011 with the company's entire 150,000 product catalog. While the Facebook app is slow, it is still one of the best online shopping apps available. Facebook can drive valuable traffic to online stores. Even if not all the transactions are taking place on Facebook, the brand exposure and publicity value are directing traffic to online stores.

ASOS takes advantage of social media in order to gain more traffic to the online store. The company is also working hard to build a community on the website, for example, street-style photos (photos of outfits in an urban environment) by consumers of potential consumers are featured on a section of the company's blog. These pictures can be voted and commented on and the outfits featured can be bought. ASOS also has an account on the popular social media network Pinterest, where users can 'pin' pictures and photos to an online mood board. The layout of ASOS's Pinterest account page is directly linked to the layout of its website. The company has a presence on Instagram, the photo-sharing social network, as well, with over 40,000 followers.

ASOS is very active on Twitter as well. It replies to followers' questions, makes shout outs to particular products, or publicizes its online offers. Next to its basic account, ASOS also has extra Twitter accounts to improve customer service. These accounts have names such as @ASOS_HeretoHelp, which answers any questions of queries and @ASOSMarketplace, to buy and sell new, pre-owned, and vintage fashion.

In November 2012, ASOS became the UK fashion retailer with the second-highest number of Facebook fans, which was more than 1.4 million, only surpassed by Topshop. ASOS also got over 79,000 more fans in that month alone, due to its online promotions. Links to seasonal sales, regular posting, and trend updates, along with interacting with its fans helped contribute to this increase in fans.

An example of one of ASOS's many successful online marketing campaigns is the Christmas Jumper Club campaign, which ASOS launched on Twitter just before Christmas 2012. Followers wearing festive Christmas sweaters could post and share their pictures, and ASOS reposted the best pictures and collected photos of all the users planning to sell their festive sweaters in order to create a photo album on Facebook. ASOS created the hashtag #ChristmasJumperClub, and the campaign was a huge success, reaching more than 1.4 million people.

This kind of social media campaign is easy to replicate, and can be done with a variety of themes, such as Valentine's day, Easter, but also engagement rings, for example. Smaller retailers should realize that, outside of man-hours, this sort of marketing has basically zero cost and can reach millions of people with minimal effort. (Noguez, 2012)

7 DEPARTMENT STORES

7.1 What are department stores?

The definition of a department store is, traditionally speaking, a retail establishment with a building open to the public, which offers a wide assortment of goods such as clothing, housewares, furniture, and electronics. These products are usually separated by category and brand, hence the name department store. The department store was one of the first large businesses (in North America) that made full use of the principles of vertical integration, which means that several sellers of different products are united in one store. One iconic example of a classic department store is Harrod's in London, established in 1849 by Charles Henry Harrod, which started as a single room and employed two assistants and a messenger boy and is currently one of the most famous department stores in the world. (BBC News, 2010)

Around the middle of the 19th century to the beginning of the 20th century, the first department stores started popping up. The department store was one of society's most democratic establishments and was a major driving force that contributed toward a more equal society, especially for women. The department store was one of the first workplaces that offered jobs to women. The department store made it more acceptable for women to go shopping on their own instead of with their husband and children. Before, very few places were available where it was deemed socially and morally acceptable for a woman to be on her own in a public place. The birth of the department store changed this. (Lancaster, 1995)

7.2 Types of department stores and examples

Most department stores, whether online or offline, follow the 'store-in-store' model. This is the most popular model, where the department store charges rent for in-store real estate. Brands can rent some space on the department store's floor, typically by signing a lease agreement. Bloomingdale's and Macy's are examples of American department stores that use this model. Brands are allowed to operate freely within the department store and set their own prices for their products, the department store only provides the space. (Jerath & Zhang, 2010)

When it comes to the question of 'online or offline?' there are three models department stores (and stores in general) use. Where brick-and-mortar used to be the norm, there are now two other models that have appeared with the development of internet shopping.

7.2.1 Bricks-and-clicks

A company utilizing this particular model integrates both offline (bricks) and online (clicks) presences, and sometimes add a third extra called flips (physical catalogs). In addition, some will also offer telephone ordering as well. Dutch examples of department stores using this model are HEMA, V&D, and De Bijenkorf. These companies have physical store locations all over the country, as well as an online store. The biggest benefit is convenience: consumers don't have to visit during business hours, but can simply order online and choose to pick the product up at the store when they have time, or have the product sent to them through the mail. The benefit for the retailer is double the traffic: the physical store locations are still visited by customers who might have some free time to shop, but for those customers who are incapacitated by work or other duties, the online store is always open.

7.2.2 Clicks only

The name of this model refers to stores that do not have any physical store locations, but operate completely on the internet by way of a web store and a warehouse from which the company ships its products. The expenses when using this model are low, since there are virtually no property costs and the need for salespeople and cashiers are removed. This model does, however, require an extensive investment in technology, which is necessary to keep an online store running smoothly. Examples of these kind of investments are databases and Content Management Systems, which are programs that enable publishing, editing, and modifying content (such as product descriptions) as well as maintenance from a central interface. Popular examples of companies using this model are Zalando, which only has a warehouse from which the company sends its products, and ASOS, mentioned in an earlier chapter.

7.2.3 Brick-and-mortar

Companies applying this model do not have any online presence are based at physical locations only. The cost of this traditional way of retail is high, especially if the company in question has several physical store locations. Property, employees, and customer service are all costs that add to the monthly bill of retailers using this model. Add inventory to this, and it should be clear that traditional brick-and-mortar department stores have enormous expenses. The fact brick-and-mortar only warehouses still exist has to do with three important factors, namely salespeople and their advice and recommendations; merchandise that can be seen, felt, and tried on or out; and brand or name popularity. However, in order to keep up with the times and increase sales, many brick-and-mortar warehouses are slowly but surely converting to the bricks-and-clicks model. (Sharma & Krishnan, 2002)

8 BUSINESS MODELS

8.1 The definition of a business model

A business model describes the way in which a certain organization or company generates its profits. It includes all the factors that influence the creation of value. An example of this is the American Diner's Club, who created a new business model when they, for the first time in history, introduced a diner's card to the market in the 1950's. Another example is Xerox, who in 1959 introduced the business models of leasing photocopiers and paying per copy. The scale and speed with which new business models are changing in different branches nowadays is incredible, and the possibilities of the internet certainly accelerate this process. A business model is about creating value, both for the organization as well as its customers, and also about replacing old models. Current popular business models cater to the changes in the needs of the consumer: think of Apple with its own mp3-player and music store or Skype with its low international telephone fees and its free video-and-chat conversations. These examples give an answer to shifting consumer needs and changing economic times. (Chaffey, Ellis-Chadwick, Broekhoff, & Zweers, 2012)

8.2 Business models according to Timmers (1999)

Paul Timmers (director of the Sustainable & Secure Society Directorate in the European Commission Communications Networks, Content and Technologies Directorate General and former manager in product marketing) describes eleven different types of business models that are made possible by the internet. (Timmers, 1998)

8.2.1 E-shop
An e-shop is the marketing of a company or a store via the World Wide Web. This is primarily done to promote the company and its products or services, but an added possibility is to order and possibly pay online. This way of marketing is often combined with traditional marketing channels. The main benefits that come with choosing the e-shop as the preferred business model is the increased demand, low-cost way of gaining global renown, and cost-reduction of promotion and sales. The benefits for the customer can be things like lower prices, wider assortment of goods, better information and convenience of buying and delivery. Most commercial websites use this business model.

8.2.2 E-procurement
E-procurement is the electronic procurement of products and services. Most large corporations and governmental institutions partake in some form of e-procurement on the internet. The benefits are a wider range of sellers, better quality of goods, and

improved delivery. Online negotiation, communication and collaboration can further lower costs and save time. For suppliers, the benefits are in the tendering possibilities, broadening their scope to a global level and reducing the cost of submitting a tender, and collaborative tendering. The main source of income for these e-procurement sites is the reduction of cost due to automated tender processing and more cost-effective orders.

8.2.3 E-mall

An online mall consists of a collection of e-shops, typically supplemented with a guaranteed payment method, such as PayPal or iDeal. E-malls do not only exist in the form of business-to-consumer, but also in the form of business-to-business, for example online wholesale stores such as Alibaba.com, where the buyer can choose to buy in quantities of a hundred units or more. The benefits for the e-mall operator are increased traffic (due to the convenience that multiple e-shops are housed under one domain), and the expectation that visiting one shop will lead to visits to 'neighboring' shops, similar to what would happen in a physical mall. An additional benefit, for both the customer and the e-mall operator, is that the e-shops housed under the e-mall have a shared user interface and identical electronic payment system. The revenues for the e-mall operator are collected from membership fees, advertisements and promotion, and possible fees on transactions. The e-mall is not a popular business model and most online retailers or wholesalers prefer an own domain.

8.2.4 E-auctions

Online auctions use practically the same system as physical auctions, but bidding and payment is much easier and quicker. eBay, described in an earlier chapter, is an example of a very popular online auctioning website. The revenues for the auction provider are in selling the online auctioning technology to other smaller auctioning websites, transaction fees, and advertising. The benefits for sellers and buyers are increased time-efficiency, no physical transport is required until the deal is closed, and global sourcing; e.g. sourcing the global market for goods and services at the lowest prices available. The primary sources of income for sellers are the possibilities to sell surplus stock and the improved utilization or production capacity. Sources of income for buyers are in the reduced cost of products and services.

8.2.5 Virtual communities

Virtual communities are already plentiful in specific sectors, such as Amazon.com for books. The premise of virtual communities is a platform for people to come together and communicate about products. Amazon is a great example because of its possibility to leave reviews and discuss with fellow customers about certain products. Thus, the ultimate value of virtual communities comes from its members, who add their information, opinions, and recommendations onto a basic environment (such as a forum or list of reviews) provided by the virtual community company. Companies such as Habbo Hotel (a virtual meeting place for teenagers and children) and Jagex (creators of

Runescape, a massively multiplayer online roleplaying game) can also be defined as a virtual community: the value lies in its massive community, the profit comes from a paid membership that gives players special privileges and limited edition virtual items or weapons.

8.2.6 Value chain service providers

This business model specializes in a particular function for the value chain, such as electronic payments (PayPal) or logistics (UPS), with the intention to make that function into a distinctive competitive advantage. A bank is an example of a value chain service provider. Most value chain service providers already in service have, over the years, been forced to use new approaches in order to keep up with the times, such as online banking.

8.2.7 Value chain integrators

This business model focuses on integrating different steps of the value chain. Value chain integrators' main task is connecting business to business accounts. An example of this is a CRM (**c**ustomer **r**elationship **m**anagement) program such as SalesForce, a software which allows a company to track all web activity that is generated from its marketing campaigns. Revenues when using this particular business model come from consultancy fees or possibly transaction fees. This business model is usually concentrated on the business-to-business segment of the global market. (Molenaar, 2009)

8.2.8 Collaboration platforms

These provide an information environment created for collaboration between enterprises. This can mean either specific functions such as collaborative design and engineering, or supporting a commercial project with a virtual team of consultants. The profit is in managing the platform, e.g. membership and usage fees, and in selling the collaboration tools, e.g. for design, workflow and document management. Examples are companies that enable collaborative 3D product design and simulation, such as IronCad. (IronCad, 2014)

8.2.9 Markets of third parties

These are intermediaries who enable online trade, either business-to-consumer or business-to-business, by establishing contact between buyer and seller. This is especially useful when attempting to buy from wholesale sites that are in a language the buyer is not fluent in, such as TaoBao, a Chinese wholesale site where most products are described in Chinese. The profits are mostly in the usage fees, most intermediaries charge a certain amount per hour.

8.2.10   Information brokers, trust, and other services

These offer information to both consumers and organizations. These companies are often focused on helping the consumer what to buy and where to buy it, typically working with review systems (the higher rated a product or certain store is, the higher up it shows on the website) and ratings to help the buyer decide. An example of this is beslist.nl, a Dutch

website where users can compare products and stores in order to decide which shop or product is the best choice. Another, albeit fundamentally different, example in this category is search engine Google, which scours the internet for the requested keywords. (Chaffey, Ellis-Chadwick, Broekhoff, & Zweers, 2012)

8.3 New business models

The internet is a breeding ground for the creation and evolution of new business models. There are three business models that are currently, as of 2012, counted as the most popular ones.

8.3.1 Long tail

This is a business model that concentrates on selling niche products to a relatively much bigger target group: selling a large assortment of unique or niche products in relatively small quantities, usually in addition to selling a smaller assortment of popular items in large quantities. The term 'the long tail' was made popular by Chris Anderson in a Wired magazine article of October 2004, in which he referred to Amazon.com, Apple and Yahoo as examples of companies utilizing this strategy. Anderson also wrote a book about the concept called 'The Long Tail'. The internet has erased the need for stores to only carry the most popular products to make a profit. Overhead costs are covered by allowing sellers to leave geographical location out of the equation. (Anderson, 2006)

8.3.2 Free

'Free' plays a strategic role in this model. Customers profit from a free product or service, such as free newspaper Metro and search engine Google. Usually, the 'free' factor is financed by another part of the business model or another customer segment, typically meaning advertisements and advertorials in the case of free newspapers and other free services, and sponsored search results in the case of search engines.

8.3.3 Open business models

Value creation in this business model is made possible by the cooperation with partners from the external environment. 'Outside-in' by integrating ideas that come from the external environment into the internal business environment, and 'inside-out' by offering ideas and concepts that have been developed internally to external parties. Examples of companies that utilize this business model are Proctor & Gamble and GlaxoSmithKline. (Chaffey, Ellis-Chadwick, Broekhoff, & Zweers, 2012)

9 BUSINESS MODELS APPLIED TO (ONLINE) DEPARTMENT STORES

Most online department stores use a model that is a mix of an e-mall and an e-store. The reason for this is that while the products are sold online under the name of the department store which would classify the department store as an e-store, there are multiple brands united under the brand name of the department store. For example, a department store doesn't only sell their own brand, but they also sell products of other brands which are not related to their own brand name. Multiple brands are housed under the umbrella of one website, much like a (real life) mall houses multiple stores under one roof.

Most online department stores have both physical store locations as well as an online store, such as V&D and Bijenkorf in the Netherlands and Harrods in the United Kingdom. There are certainly department stores which have chosen to stay offline, although these instances are very scarce. The newest and most profitable development, however, is an online department store which has no physical store locations and is based solely online, selling their products through an online store and sending out their products from a distribution center.

9.1 Clicks only: Zalando and Amazon.com

The German online department store Zalando has, since its launch in 2008, grown to be one of the most popular online department stores throughout 14 countries in Europe. In the early stages of the store, products were sent from a basement in an office building in the east of Germany, similar to the early beginnings of Amazon.com. Nowadays, Zalando has headquarters all over Europe and three distribution centers in Germany. Zalando can be classified as an e-mall, since the company sells over 1500 brands in their online store. Many of the more popular brands, such as Jack and Jones and G-Star, have their own pages on the website, much like how a brand has their own store-in-store in physical department stores. Zalando is a European Company, or a Societas Europaea, SE according to the Latin definition. An SE can register its company name in any member state of the European Union, and freely transfer to other member states. Zalando is a clicks-only store, meaning that they do not have any physical store locations, and every sale is made through their website. This means that the cost for real estate and employees is relatively low compared to other big department stores, and Zalando can permit itself to turn that into benefits for the customers, such as free return shipping and lower product prices than their competitors, adding to the company's popularity. (Zalando, 2014)

Amazon.com is an online department store that was founded in the United States of America. Customers could order products online, and their purchases would be sent

from the basement of one of the founders. Nowadays, Amazon.com has grown to be one of the most popular online department stores in the USA, and many other countries have their own personalized version of Amazon, such as Italy with Amazon.it. Its corporate headquarters is situated in Seattle, Washington, and it has several distribution centers throughout the USA. The company also has three customer service centers. Amazon cannot be classified as an e-mall, as it does not have separate categories for the brands its sells, but instead the site is divided in categories such as clothing, books, and electronics. Another business model that can be applied to Amazon.com is the model of 'value chain service provider', as described in the previous chapter, since the company also offers services such as Amazon Prime, which for an annual fee provides free two-day shipping on retail purchases, streaming video on-demand, and free access to its e-book library for the Kindle, Amazon's own e-reader. (Amazon.com, 2014) Amazon does not have any physical store locations and thus is a clicks only enterprise.

9.2 Bricks-and-clicks: V&D and Nordstrom

The Dutch department store V&D launched its first store in the Netherlands in 1887, which makes it one of the oldest department stores in the Netherlands. V&D is the largest department store in the Netherlands with 63 stores spread over the whole country. They also have an online store at vd.nl, where they sell more than 4000 brands including their own brand. V&D has one distribution center for their online shop, which is located in Nieuwegein. The online store can be classified as an e-mall, similar to Zalando. The exception is that V&D has both offline store locations as well as an online store, making it a bricks-and-clicks model. Since V&D has been launched more than a century ago, the company has been running a profit for longer than a young company like Zalando, for example. This means the company can afford multiple store locations and more employees, and doesn't need to rely on just their online store. For a company such as V&D, which started as brick-and-mortar only and have multiple store locations already, an online store can be a welcome addition for customers who want to shop outside of business hours or just because they prefer shopping online. Adding an online store to a company which is already successful in the offline world can double revenues and increase customer traffic. (V&D, 2014)

Nordstrom is an American department store that started in 1901 in Seattle as a shoe store, which slowly expanded to selling women's and men's clothing and eventually grew out to be a department store. Nowadays, Nordstrom operates 271 stores in 36 states and also sells its products online through Nordstrom.com. Their online store was launched in 1998 and offers its customers free shipping and returns. The company also takes advantage of mobile technology by offering a free app that, among others, allows customers to bypass the cash registers and pay via mobile phone. Nordstrom.com has five distribution centers and two customer service centers throughout the whole country. Nordstrom's online store can be classified as part e-mall and part e-shop, since certain brands have their own categories and store-in-stores on the website, while other (less

popular) brands are categorized under the general divisions of for example women's wear, accessories and shoes. Nordstrom is a bricks-and-clicks website, since it started as a brick-and-mortar only in the beginning of the twentieth century and expanded to a website in 1998.

9.3 Brick-and-mortar only

Most department stores that were founded before the 1990's started as a regular brick-and-mortar only stores, simply because the internet wasn't as readily available back then as it is now, or in the case of department stores founded in the early years of the 20th century, because the internet had not been invented yet. Nowadays, there ae little to no department stores which do not use the bricks-and-clicks model. Even in the farthest corners of the world, department stores have some form of a website where customers can order online. Department stores such as Harrod's, Nordstrom, V&D and Bijenkorf used to be brick-and-mortar only, but have adapted to the times and introduced an online store to their customers. In the case of a department store that is brick-and-mortar only, the online business models by Timmers cannot be applied since there is no online aspect. Out of the classic business models, the department store has its own business model (store-in-store or simply the department store business model) where brands rent in-store real estate and sell their products under the umbrella of the name of the department store. The reason why many department stores have such an effective formula is because of the convenience for the customer: many different brands of many different categories are available in one store, meaning that the customer doesn't have to take time out of their day to visit multiple stores in order to satisfy their product needs. Brick-and-mortar department stores generally organize their business in the form of a limited company, which means that they can easily raise the finances necessary to run the company. Since online shopping is rising in popularity and many consumers prefer shopping from the comfort of their own home, those department stores that have not yet implemented an online store risk losing their customers to competitors that *do* have an online store.

10 SURVEY RESULTS

For this dissertation, a survey was conducted with the intention to research online shopping behavior and preferences. The survey was published online via Google Documents and was completed by 122 respondents.

10.1 General information

What is your gender?

Male	31	25%
Female	91	75%

Female [91]
Male [31]

What is your age?

15-24	96	79%
25-34	20	16%
35-44	3	2%
45-54	3	2%
54-65	0	0%
65+	0	0%

25-34 [20]
35-44 [3]
45-54 [3]
54-65 [0]
65+ [0]
15-24 [96]

The majority of respondents, with 75%, is female. The biggest age group of the respondents is 15-24 years old, followed by 25-34 years old. Only a few of the respondents are aged 35 and older. The larger part of the respondents is European Studies student.

10.2 Online buying behavior

Out of all 122 respondents, only one person has never shopped online. Strikingly, according to the data, this person is a female student aged 25-34, one of the age groups most expected to have bought something online in their lives. The average frequency with which the respondents shop online is once a month.

Have you ever shopped online?
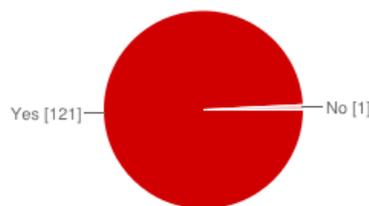
Yes	121	99%
No	1	1%

Yes [121]
No [1]

How often do you shop online?
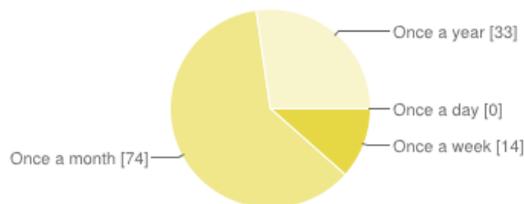
Once a day	0	0%
Once a week	14	12%
Once a month	74	61%
Once a year	33	27%

Once a year [33]
Once a day [0]
Once a week [14]
Once a month [74]

The most popular category of online purchases is clothing and fashion, with 34%. The second most popular category is books with 22% and the third most popular category is consumer electronics with 15%.

Which online warehouses have you shopped at?

V&D	30	10%
Karwei	0	0%
Praxis	2	1%
Ikea	10	3%
Wehkamp	28	9%
De Bijenkorf	20	6%
HEMA	17	5%
Bol.com	84	27%
Amazon	21	7%
Zalando	36	11%
ASOS	19	6%
Nelly.com	17	5%
Neckermann	8	3%
Bonprix	4	1%
Otto.nl	10	3%
Fonq.nl	1	0%
Topshop	7	2%
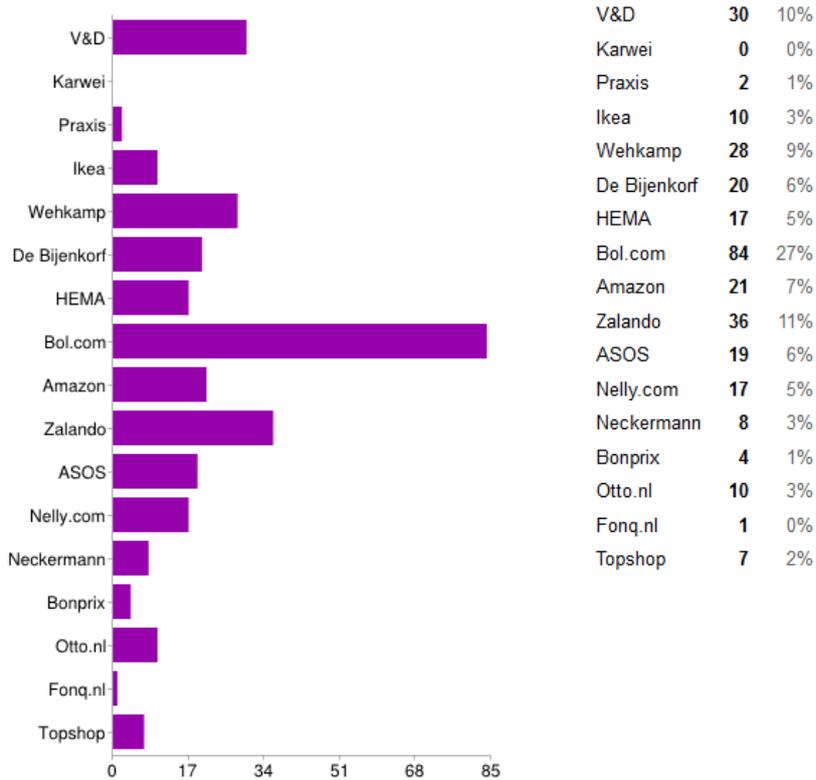
The most popular online department store among respondents is Bol.com with 27% of respondents having shopped there in their lives. The second most popular store is Zalando and the third most popular store is V&D. The least popular stores to shop online are Karwei, Fonq.nl, Praxis and Bonprix. This is understandable, since these stores do not especially target a younger crowd and are more for ages 30 and up. Karwei and Praxis are do-it-yourself stores, while Fonq.nl is a lifestyle store and Bonprix is a fashion store catered to a more mature audience.

The majority of the respondents, which is 67%, prefers to shop online via PC or laptop instead of smartphone or tablet. This might be because online stores are not yet optimized for smartphone and tablet, and the apps some companies have designed to let smartphone and tablet users surf their website often crash or have other technical problems.

The biggest part of the respondents prefer shopping offline, with 59%. The percentage of respondents who shop as much online as they do offline is 19%, and the percentage of respondents who shop online more often than offline is 17%. The rest of the respondents do not know whether they shop more offline or online.

What factors would motivate you to buy something from an online warehouse?

Factor	Count	%
Clear website	81	14%
Free returns	79	14%
Free shipping	95	17%
Lower prices than in-store	93	16%
Online customer service (chat with salesperson for example)	22	4%
Online review system	30	5%
Same-day shipping	56	10%
Secure payment options	64	11%
Signing in with social media accounts	8	1%
Store or brand presence on online media	10	2%
Similar product suggestions (customers who viewed ..., also viewed ...)	14	2%
Virtual try-on abilities	8	1%
Other	4	1%

When asked what factors would motivate the respondents to buy something from an online department store, the most important factor turns out to be free shipping. The second most important factor according to the survey is that the online store must have lower prices than in-store. Both a clear website and free return shipping share a third place in the most important factors.

What factors would drive you to NOT buy a product from an online warehouse?

| Factor	Count	%
Bad website design	71	12%
High shipping fees	109	18%
Lack of consumer privacy	70	12%
Lack of contact information	60	10%
Negative reviews from peers	87	14%
No or unclear pictures of products	101	17%
Lack of contact with salespeople	26	4%
Slow loading times	52	9%
Tracking of viewed products or search terms	18	3%
Unknown / new online warehouse	13	2%
Other	1	0%
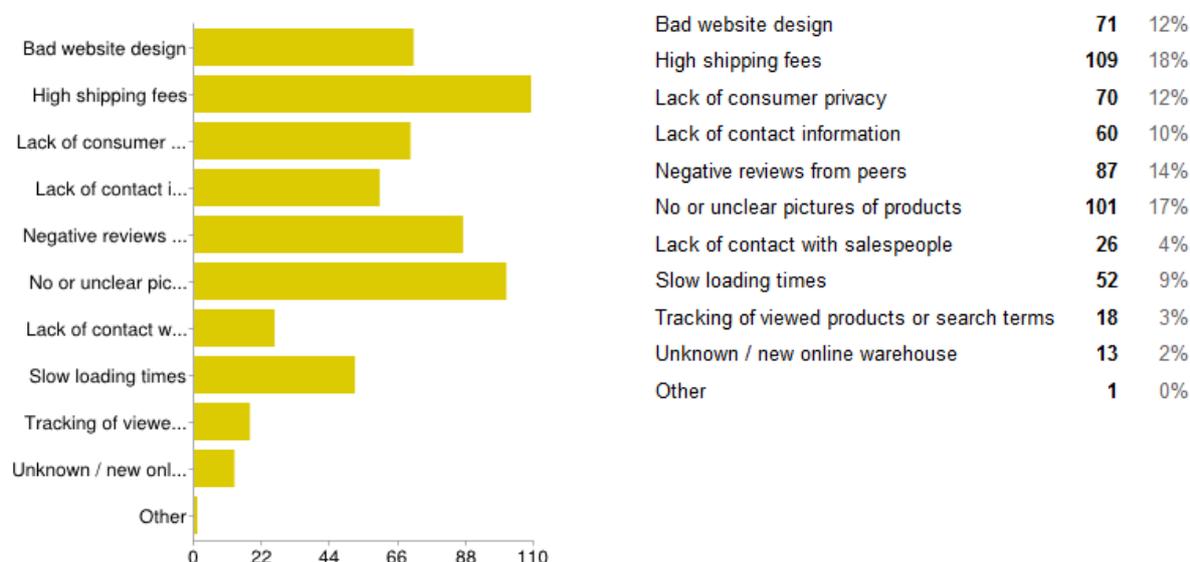
When asked which factors would drive the respondents to not buy a product from an online department store instead, the most important factor turns out to be high shipping fees. According to the survey data, shipping fees are a very important factor in the buyer decision making process. The second most important factor that would drive the respondents to make their purchase elsewhere is when an online department store represents their products with unclear or no pictures. Especially with online shopping, where other senses such as touch are disabled, the visual aspect is very important for

consumers to decide whether to make a purchase or not. The third most important factor that can drive customers away from an online department store is negative peer reviews. While a review system can work to an online department store's advantage, it can also work against the company. Negative reviews can be the downfall of a company, especially with the internet, where it takes only a few seconds to reach a broad audience and every message is permanent.

At the question whether a special holiday, such as Christmas when stores are crowded, would motivate the respondents to buy their gifts or other purchases online, the majority (64%) said yes. Since many people like to avoid crowded places, it is only logical marketers of online department stores should play into this.

10.3 The social aspect

Many online department stores such as ASOS and Zalando have their own social media accounts where they interact with their customers. These accounts are often quite popular. However, at the question whether the respondents follow any social media accounts of online department stores, the majority (66%) denies. The same percentage of respondents replied with 'no' when asked if they would trust a brand or company more if they had an account on a social media site. According to the data of the survey, social media is less important than some companies think.

If so, why do you follow them?

Interaction with consumers	6	7%
Online customer service	11	13%
Exclusive sales or discounts	30	35%
To stay up to date about the products	33	38%
To share positive or negative experiences	6	7%
Other	0	0%
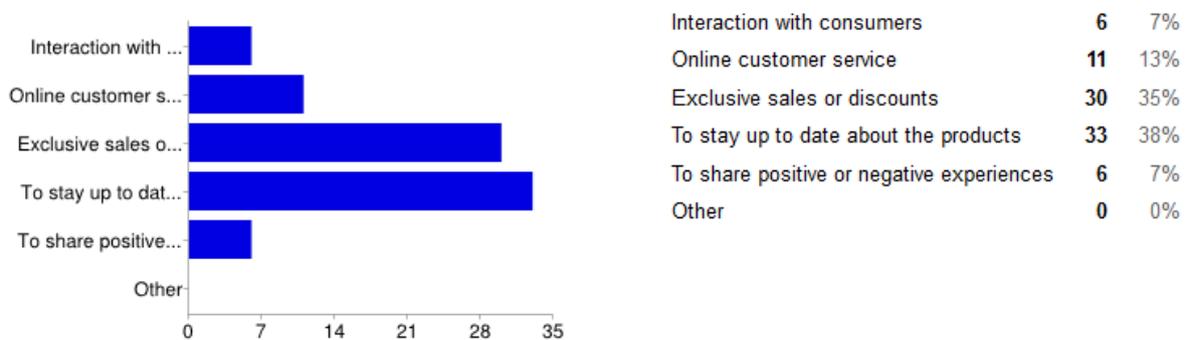
The percentage of respondents who answered that they *do* follow the social media accounts of online department stores was asked the follow-up question of why they follow these accounts. The most important reason is to stay up to date about products the store might offer. The second most important reason is to participate in exclusive sales or discounts. Online customer service comes third place in the most important reasons to follow the social media accounts of department stores.

11 CONCLUSION

From this dissertation it may be clear that the central research question 'Which business model works best for department stores planning to set up an online store?' is not a question that is easy to answer. The answer to this question is multifaceted and depends on severable variables such as the company's place in the business life cycle, product range, and target group.

There are multiple components that make up the answer to the central research question. The two most relevant online business models for department stores as described by Timmers are the e-mall and the regular e-store. An e-mall can be defined as an online store where multiple brands are being sold under the umbrella name of the department store, much like a traditional department store, while an e-store is the general online retailing model where products are sold through an online store. Many online department stores can be defined as a mix between these two models, since some brands have their own category (much like a boutique in a mall) on certain online department stores and some do not.

The second main factor that defines an online department store's business model is the question whether the company chooses to operate an online store only or both an online store as well as one or more physical stores. Many traditional department stores already have physical store locations. This is usually the case in department store giants such as the Dutch V&D and the American Nordstrom, which started as brick-and-mortar only in the late years of the 19th century to the early years of the 20th century. In the case of these brick-and-mortar giants, the logical step would be to switch to bricks-and-clicks meaning online as well as offline stores, seeing as there is no need to eliminate the physical store locations if the company is successful. In the case of new department stores just starting up, the budget is likely to be lower. Seeing as the costs for setting up an online store are much lower than the costs for renting or buying a physical location and hiring staff, a clicks-only business would be the most profitable option for these companies. This means that the company only operates an online store and ships its products from an office or storage. Expansion is possible if the company decides it has the funds and time necessary. Examples of successful clicks-only department stores are Zalando, ASOS, and Amazon.com.

In short, there is no real definite answer to the main question, just suggestions based on hypothetical situations and examples of successful online department stores. Nevertheless, there are a few other main conclusions that can be made from this dissertation.

The first conclusion that can be made is that e-commerce is steadily increasing in popularity and that new e-businesses are popping up all over the world each and every day. In a day and age where time is scarce and convenience is key to operating a

successful business, the ability to shop online twenty-four hours a day, seven days a week is one of the biggest benefits of the World Wide Web. The success of online shopping is undeniable and business is booming. One of the most influential example of successful online department stores is Amazon.com, which grew out from a small business shipping products from its founder's basement to an international giant with headquarters and distribution centers in countries all over the world.

The second conclusion is that e-commerce is beneficial for consumers as well as store owners. The advantages are numerous. The consumer can shop at any moment of the day, on the go or at home; there is an infinite choice of products; there are online peer reviews that can aid their buyer decision making process; and there are no pushy salespeople. The retailer can sell its products to a bigger pool of customers; there is a supply-on-demand mechanism, meaning the company doesn't risk having to throw unsold products away; the costs of an online store are much lower than a physical store location; and the store operates twenty-four hours a day, meaning more sales and thus profit.

On the other hand, advantages also mean there are disadvantages. For example, products cannot be touched and clothing cannot be tried on. Some retailers combat this by having a free return policy to keep customers coming back to their store. The lack of salespeople can also be a disadvantage: if the customer has questions, these cannot be answered immediately unless the online store has an online helpdesk. Many consumers are also wary of privacy and security issues, since there have been many instances of stolen credit card numbers or personal information through unsecured online stores. This is the reason why many online stores have a privacy policy on their website as well as a secured connection, identified by https:// in front of their website address. For the retailer, the costs of investing in an IT team or web designer can be daunting. There is also the risk of website downtime, meaning a potential loss of sales during the time the website doesn't work. Online fraud is also a risk factor that can keep retailers from starting an online store, since it is easier to steal from a store online (by not paying the bill or simply giving up a false credit card number) than it is in real life.

The third conclusion is that the traditional way of market segmentation is not as relevant as it used to be anymore and online retailers should look at market segmentation with a fresh perspective. Demographical and geographical factors can be left out of the equation, since almost everyone, regardless of gender and age, has access to the internet nowadays and sales take place online instead of a physical location. The most important factors in market segmentation in the era of the internet are psychographic and behavioral variables. Retailers should segment their market by their target group's interests, opinions, attitudes, values, and behaviors rather than age, gender, class, and location. These variables can be measured by customer surveys or web analytics, which includes measuring which products are most popular under a certain target group. For example, a car company may decide to segment their market into three different

segments: cars for consumers who are interested in luxury, cars for consumers who are interested in practicality, and cars for consumers who are interested in the environment.

The fourth conclusion is that the ranking of a department store in search engine results can make or break a store. Many search engine users do not click further than the first page of results, and as such it is important for online department store to have a high ranking in the search results connected to their relevant keywords. One way a company can ensure themselves of a high position in the list of results is by developing a Search Engine Optimization strategy in order to improve their rank. This can be done using web analytics services such as Alexa.com, which measures the traffic on a website and how the visitor ended up there, i.e. what keywords were used as the search query or the other steps the visitor might have taken in order to arrive at the website.

Another important conclusion that can be taken from this dissertation is that when it comes to having a successful company or brand, developing a comprehensive policy on social media is one of the most important and beneficial things an online department store can do. Product and price alone won't be enough, a company or brand needs to be accepted and sought after. Consumers need to know the 'personality' of a store and what it stands for. More and more consumers are active on social media and sharing their opinions and suggestions online, and they are more empowered than ever. This is why online department stores need to connect with their customers on their favorite platforms. Thanks to social media and features like hash tagging certain keywords which makes searching for messages involving a certain product or company a lot easier, it is not hard for an online department store to start a virtual dialogue with their customers. Online department stores should not underestimate the power of engagement as a way of strengthening customer relationships and trust in the company name. Social media is the best platform to enable engagement with the customer, since it's free, immediate, and accessible.

The sixth important finding is that the focus has shifted from product-oriented to consumer-oriented. Where once the 4 Ps were used to develop a marketing strategy, with the rise of the internet and increased competition all around, it is vital to use the 4 Cs, developed by Lauterborn in the 1990s. According to Lauterborn, 80 percent of new products and companies fail each year. The concept of selling products to a mass market is contrived and does not work anymore. Online retailers need to research their target group and their needs and wants before considering product range.

The biggest pitfall encountered during the process of writing this dissertation was not being able to contact any of the bigger online department stores. While this would have given a bigger insight into the workings of an online department stores and opinions of department store owners on what business model they think would fit those best, however I do not feel this was necessary to answer the central research question.

Based on what has been discussed, my predictions for the future is that more and more companies wanting to start up a department store will choose for a clicks-only approach. The future of retail takes place on the internet and many marketers and other experts predict that brick-and-mortar is going to be replaced by bricks-and-clicks or clicks-only businesses. In a time where anything and everything can be bought online and on the go, the only way a (department) store is going to survive is to go with the flow, reinvent their business model and take a fresh look and the new opportunities.

12 RECOMMENDATIONS

12.1 General recommendations

These recommendations are based on the first part of this dissertation, where the general information is discussed.

12.1.1 Start small

No empire is built in a few days. The same goes for an online department store, excluding those department stores that are already an established name and have one or more physical store locations. Many online department stores started small, shipping products from basements or office buildings. Amazon.com, for example, started in the basement of the founder and the only products being sold on the website were books. Nowadays, Amazon.com sells practically everything, from books to consumer electronics and even food, and has multiple headquarters, distribution centers, and customer service centers all over the world. However, a department store doesn't have to reach these proportions in order to be successful. In its simplest form, a department store is a retail establishment which offers a wide range of product categories or 'departments'. If looked at from this perspective, the prospect of launching a department store will become more manageable and less daunting for entrepreneurs. The suggestion is to start small and only to expand when the funds and time necessary are available. While starting up an online department store is less costly than an offline department store, it will still take time, dedication, and effort for it to grow into a successful business.

12.1.2 The most profitable business model

While in theory it might seem there is one definite answer to the question which business model is best, in practice it appears the answer is not as simple as the question makes it seem. The answer to the question depends on multiple factors, such as the life phase of the company in question (just starting up or already an established name?), the budget, and its target group, among others. Some suggestions for a business plan will be described based on a few hypothetical situations.

12.1.2.1 New company

For a new company attempting to start up a department store, the most cost effective way to do this is by adapting a clicks-only model. A clicks-only model as described in earlier chapters eliminates the need for real estate, which depending on location can be an expense many startups and young companies do not have the money for. Products can be shipped from an office space or simply from someone's basement, which was the case with the early beginnings of Amazon.com. As the company grows and profits increase, the founder can choose to expand to a headquarters or distribution center like many other successful clicks-only department stores. The founder of the company may also choose to expand to physical store locations when the company has grown enough, but this is not necessary to ensure success.

12.1.2.2 Established company

For established companies, such as Harrod's or V&D, the most logical step is to adapt a bricks-and-clicks model. Since the company already has one or multiple physical store locations, there is no need to eliminate these unless the cost for real estate is no longer affordable. The option to add an online store to a franchise of department stores can be a very profitable choice, since the expenses are low. The only added costs are the design of the website and a payment and customer relationship management system. Products can be shipped from the physical store locations nearest to the customer's location. Customers can shop online at any time; moment; and place, which is likely to increase the number of sales and profit. For example, potential customers who do not shop at the department store in question due to factors such as distance from a physical store location or limited time are very likely to be persuaded to purchase their products online if the department store chooses to introduce an online store. Department stores who do not yet operate an online store in addition to their physical store location(s) are at risk of losing their customers to department stores that do have an online store.

12.1.3 Use social media to reach (potential) customers

One of the biggest benefits of the World Wide Web is the possibility to reach an enormous audience in just a few seconds through social media networks like Facebook, Twitter, and Pinterest and LinkedIn. Social media should not be seen as a replacement of traditional media, but rather a useful addition. Where advertising via traditional media channels such as TV, magazines and radio can be costly, the costs of using social media are low, since usage of social media networks is free. For department stores, Facebook, Twitter, and Pinterest are the most popular social networks. Companies such as ASOS are already making good use of social media in order to connect and communicate with their customers, accumulating impressive amounts of unique visitors to their online stores with social media marketing campaigns such as the Christmas jumper campaign described in chapter 6. It is key to acknowledge that advertising has changed and companies should be willing to start a dialogue with their customers instead of just pushing their products onto their audience. The interactive aspect of online marketing is just as important as the traditional way of advertising, since customers want to be heard and not just seen. The suggestion for department store planning to introduce an online store is to invest some time in researching how social media works and how to reach their virtual audience before taking the plunge and setting up their own social media accounts.

12.1.4 Use Search Engine Optimization

Search Engine Optimization, abbreviated to SEO, is a useful tool for e-commerce businesses to help attract more traffic to their website. SEO can improve a company's ranking in the search results connected to the keywords the company finds relevant. For example, a store like Zalando might define their keywords as 'clothing' or 'shoes', and when customers search for these words on a search engine like Google, the link to the store will show up in their search results. However, many search engine users don't click

past the first page of results. By developing an SEO strategy, companies can improve their rankings on a search engine and thus increase traffic to their website. Google has their own SEO guide starting e-commerce businesses can use in order to develop an SEO strategy.

12.1.5   Replace the 4 Ps with the 4 Cs

Retail has evolved, especially with the rise of the World Wide Web. Consumers have opinion and suggestions and have a need to be heard by their favorite brands. The old marketing mix where companies focused solely on selling their products to their target group is contrived and leads to product-orientation rather than consumer-orientation. In a time where consumers are more empowered than ever, thanks to the internet and its broad communication possibilities, the focus is slowly but surely shifting from the product to the consumer. Under the old marketing model, companies sold what they made or produced, while under the new model, companies must sell what the customer wants. Place becomes convenience to the customer, price becomes cost to the user, promotion becomes communication, and product becomes customer needs and wants. The 4 Cs require a company to think like one of their customers, allowing them to fine-tune aspects such as product range; (potential) store locations; communication strategy; and product prices, which is necessary to attract and keep customers.

12.2 Survey recommendations

Based on the survey data, there are a few recommendations that can be made for online department stores to increase traffic and sales. These findings are based on the answers of 122 respondents currently living in The Netherlands.

12.2.1   Invest in cross-platform shopping

According to the survey, the PC or laptop is, despite the convenience of internet on the go on smartphones and tablets, still the most popular option for online shopping. The assumed reason for this is that online shopping is not yet optimized for portable devices such as smartphone and laptop. The websites of online department stores are often riddled with bugs and don't run as smoothly on portable devices as they do on PC or laptop. Some online department stores, such as ASOS, have designed an app to allow consumers to shop on-the-go, but these apps are often still not optimal in use and are not suited for every brand of smartphone or tablet. Since online shopping on the go via smartphone and tablet is gaining popularity, online department stores would benefit from investing in either developing an app that runs smoothly on every device, or optimizing their website for use on mobile phone or tablet.

12.2.2   Free shipping

Based on the survey data, the assumption can be made that shipping fees are very important in the buyer decision making process. Potential customers are easily turned away by high shipping fees. A way to combat this is by offering free shipping, as well as free return shipping. Since many of the bigger online department stores such as Zalando

and Nordstrom already offer free shipping and free returns, consumers are more likely to choose the companies that do have free shipping over the ones that do not. Offering free shipping would give an online department store competitive advantage over those who do not and owners of an online department store would benefit from introducing this to their clientele.

12.2.3   Create an organized website

The main benefit of using the internet is the interactive and visual aspect, since other senses such as touch and smell are unavailable. According to the survey data, it is important for the respondents to have an organized website. This includes but is not limited to things such as clear pictures of the products, understandable terms of service, and a comprehensible privacy policy. The suggestion would be to invest in a web designer who has experience with developing online stores and customer relationship management systems, so that the website will be clear, up-to-date, and organized. Another suggestion would be to invest in a photographer to take professional product pictures, since factors such as garment fit and touch of the product are unavailable on the internet and many consumers have to depend on pictures of a product in the buyer decision process.

12.2.4   Dealing with negative reviews: customer is king

Word on the internet spreads fast, especially with social media. Even the most technically unskilled person can reach thousands of people with just one click. Reviews stay on the internet forever and can make or break a company, which means that aftercare is just as important as the marketing process itself. Many online department stores have an online customer service, either on the company's own website or via their social media accounts, where they can communicate with unhappy customers. It is key to practice damage control whenever there is a publically available negative review. The suggestion would be to contact the unhappy customers in question, and offer them some form of aftercare, which can include a full refund. While the company certainly will lose some money on this, a happy customer means a returning customer. The picture next to this text is an excellent example of aftercare by the shoe company Zappos after a negative review left on Facebook. Image from (Hayes, 2013)

12.2.5 Prepare for holidays and major events

The holidays are a big reason for consumers to turn to online shopping, but also major events such as the soccer World Championship can cause a spike in online purchases. According to the survey data, the majority of respondents would be more inclined to make an online purchase in the period of time before a national holiday such as Christmas, in order to avoid crowded stores and desired products not being in stock or sold out. Many online department stores already have a policy concerning their strategy for the holidays, for example ASOS, which as described in chapter 6 had an interactive promotion campaign on Twitter in 2012 asking their followers to send in a picture of them wearing their favorite Christmas sweater. The campaign reached over 1.4 million people in the United Kingdom. The suggestion would be for online department stores to develop creative (interactive) campaigns in order to boost sales during the holiday season or major events, or to offer special holiday discount codes for those indecisive holiday shoppers that need an extra push.

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14 APPENDICES

14.1 Appendix 1: survey questions

What is your gender? *

- ○ Male
- ○ Female

What is your age? *

- ○ 15-24
- ○ 25-34
- ○ 35-44
- ○ 45-54
- ○ 54-65
- ○ 65+

What is your occupation? If you are a student, please fill in your study. *

[   ]

Have you ever shopped online? *
If no, please skip following questions and go to the next page.

- ○ Yes
- ○ No

How often do you shop online?

- ○ Once a day
- ○ Once a week
- ○ Once a month
- ○ Once a year

What do you usually buy online?

- ☐ Clothing and fashion

- ☐ Consumer electronics
- ☐ Office supplies
- ☐ Sporting goods
- ☐ Food and groceries
- ☐ Books
- ☐ Household goods
- ☐ Tools and home supplies
- ☐ Luxury goods
- ☐ Furniture
- ☐ Other: [＿＿＿＿]

Which online warehouses have you shopped at?
(Please only select if you have ordered something through their website)

- ☐ V&D
- ☐ Karwei
- ☐ Praxis
- ☐ Ikea
- ☐ Wehkamp
- ☐ De Bijenkorf
- ☐ HEMA
- ☐ Bol.com
- ☐ Amazon
- ☐ Zalando
- ☐ ASOS
- ☐ Nelly.com
- ☐ Neckermann
- ☐ Bonprix
- ☐ Otto.nl
- ☐ Fonq.nl
- ☐ Topshop

What devices do you use to shop online?

- ☐ PC

- ☐ Tablet
- ☐ Smartphone

What is your typical buying behavior? *

- ○ More online than offline
- ○ More offline than online
- ○ Equal
- ○ Don't know

What factors would motivate you to buy something from an online warehouse? *

- ☐ Clear website
- ☐ Free returns
- ☐ Free shipping
- ☐ Lower prices than in-store
- ☐ Online customer service (chat with salesperson for example)
- ☐ Online review system
- ☐ Same-day shipping
- ☐ Secure payment options
- ☐ Signing in with social media accounts
- ☐ Store or brand presence on online media
- ☐ Similar product suggestions (customers who viewed ..., also viewed ...)
- ☐ Virtual try-on abilities
- ☐ Other:

What factors would drive you to NOT buy a product from an online warehouse? *

- ☐ Bad website design
- ☐ High shipping fees
- ☐ Lack of consumer privacy
- ☐ Lack of contact information
- ☐ Negative reviews from peers
- ☐ No or unclear pictures of products

- ☐ Lack of contact with salespeople
- ☐ Slow loading times
- ☐ Tracking of viewed products or search terms
- ☐ Unknown / new online warehouse
- ☐ Other: ☐

Would a holiday such as Christmas (when stores are busy) motivate you to buy gifts online? *

- ○ Yes
- ○ No

Do you follow social media accounts of online warehouses? *

- ○ Yes
- ○ No

If so, why do you follow them?

- ☐ Interaction with consumers
- ☐ Online customer service
- ☐ Exclusive sales or discounts
- ☐ To stay up to date about the products
- ☐ To share positive or negative experiences
- ☐ Other: ☐

Would you trust a brand or company more if they had an account on social media? *

- ○ Yes
- ○ No

14.2 Appendix 2: survey results