International Electronic Commerce Strategies

for the Clothing Industry

Masterarbeit

zur Erlangung des akademischen Grades „Master of Science (M.Sc.)" im Masterstudiengang

Wirtschaftswissenschaft der Wirtschaftswissenschaftlichen Fakultät

der Leibniz Universität Hannover

vorgelegt von

Name: Schneider   Vorname: Gesa

████████████   ██████████

Prüfer: Prof. Dr. Breitner

Hannover, den 30.09.2013

Table of Content   **Page**

1 Introduction

1.1 Motivation and relevance of the research field

„Kiss your Mall Goodbye", headlined the "Time Magazine" in the summer 1998, „online shopping is faster, cheaper and better".[1] The headline caused an alarm in the world of retail. Meanwhile, some years have passed and most of the shopping centers are still selling. But the influence of the internet has grown steadily. It changed the way how people are informed, how they communicate with each other and how they shop.

Globalization and technological change have created a new global economy "powered by technology", fueled by "information" and driven by "knowledge".[2] In comparison to the massive physical changes of the industrial revolution, information technology is more subtle; but the changes are substantial. In the new global economy, the use and integration of information and communication technologies in business has revolutionized relationships within organizations and those between and among organizations and individuals.[3] Today, there are over 2.4 billion internet users worldwide.[4] More than 85 % of the world´s online population has used the internet to make purchases, increasing the market for online shopping by 40 % in the last years.[5]

The Internet has emerged as the largest, worldwide distribution channel for goods and services. The impact of Electronic Commerce (E-Commerce or EC) is changing all business sectors and their relevant tasks, ranging from advertising to paying bills. EC gives companies of all sizes the possibility to increase their market share by expanding worldwide at low costs. By breaking down physical barriers to commerce, the internet gives even the smallest business access to untapped markets around the world. It provides an opportunity to conduct the business in a more efficient, rapid and reliable manner. This is particularly the case in the clothing industry which is characterized by short product life cycles, tremendous product variety, and by volatile and unpredictable demand.[6] Here EC applications could help to understand the preferences of the consumers in a better way. Peter Drucker, one of the well-known management consultants, described the relevance of Electronic Commerce in the following way: "The truly revolutionary impact of the Internet Revolution is just beginning to

---

[1] Time Magazine (1998).
[2] Cf. US Department of Labor (1999).
[3] Cf. Kakamanshadi, G. (2011), p. 83.
[4] Cf. Internet World Statistics (2012).
[5] Cf. Black, K. (2010), p. 343and Cf. Nielsen (2008).
[6] Cf. Sen, A. (2007), p.1.

be felt. But it is not "information" that fuels this impact. It is not "artificial intelligence." It is not the effect of computers and data processing on decision making, policymaking, or strategy. It is something that practically no one foresaw or, indeed even talked about 10 or 15 years ago: Electronic Commerce: that is, the explosive emergence of the Internet (…) and is profoundly changing economics, markets and industry structure, products and services and their flow; consumer segmentation, consumer values and consumer behavior; jobs and labor markets. But the impact may be even greater on societies and politics, and above all, on the way we see the world and ourselves in it."[7]

Global Electronic Commerce is growing at an exponential rate and topped the mark of one trillion in 2012. The sales[8] increased with 1.08875 trillion by 21,9 % in comparison to 2011.[9] For 2013, experts predict a growth of more than one-fifth.[10] According to Google manager Lehne 90 % of all purchase decisions begin on the internet - no matter whether the goods are finally bought online or in retail stores.[11]

These numbers illustate the rising relevance of Electronic Commerce for the retail industry. At the same time it becomes clear that an adherence to existing company strategies is not promising anymore. Companies need new strategy concepts that meet the requirements of these fundamental changes.

1.2 Study objective and research question

In the previous section the high impact of Electronic Commerce on nearly all areas of economic life became obvious. Especially the clothing sector is growing faster than any other product segment in Electronic Commerce.[12] This is noteworthy, as clothing is a product type for which shoppers desire to touch, feel and try on products before making a purchase. This desire was long seen as a deterrent to online sales. Figure 1 illustrates the five trade branches with the highest turnover in Electronic Commerce for the first quarter in 2013.

---

[7] Drucker, P. (2002), pp. 3-4.
[8] The sales include retail, travel and digital download sales and online marketplace transactions.
[9] Cf. eMarketer (2013), p. 1.
[10] Cf. Groh-Kontio, K. (2013).
[11] Cf. Neumann, S. (2013), p. 1.
[12] Cf. eMarketer (2012), p. 1.

7 Summary of the results and research implications

The main objective of this study is to contribute to a further understanding of how companies in the clothing sector could develop a successful Electronic Commerce strategy.

In a first step, the theoretical framework was provided, including main Electronic Commerce terms and definitions as well as traditional competitive strategy concepts. It was found that there exists hardly any literature on Electronic Commerce strategies in the clothing sector. For this reason a qualitative research design was chosen, including explorative case studies and qualitative interviews.

With the help of case studies it was investigated how clothing companies in Electronic Commerce are currently operating in a successful manner. On the basis of Porter's five forces model it was analyzed which strategically relevant changes in the market environment of clothing companies have been caused by the Internet and Electronic Commerce. In the analysis it was found that these changes had affected the industry environment, new entrants, customers and substitutes. Using the case studies and employing the SWOT-analysis, possibilities of reacting to these changes were examined. Based on these possibilities several hypotheses were formulated.

The research question of this study is: ***How can a company in the clothing industry be sustainably successful in the field of Electronic Commerce?***

To answer this question, it was established that a sustainable competitive advantage only exists if the use of Electronic Commerce takes place in such a way that the obtained value cannot be imitated by competitors. In this context, the strengths and capabilities of the case companies were examined in terms of sustainability. It was discovered that in contrast to concepts and innovations, which are technically implemented, customer loyalty is particularly suitable for creating long-term competitive advantages. This assumption was formulated as a hypothesis, too. In order to verify the hypotheses, qualitative interviews were conducted. With the help of Mayring´s qualitative content analysis the statements of the interviewees were evaluated and structured. The following results were established and should be considered for an Electronic Commerce strategy:

Multi-channel is a topic of great importance whereby particular attention is paid to the development of mobile commerce. A consistent shopping environment is required which connects all sales channels and surrounds the customer.

Secondly, for a successful internationalization process an adaption of the online shop to country specific characteristics is absolutely necessary, including aspects like price, product range or legal framework. It was found that social media has a high value for an online shop, primarily as a marketing tool and for research purposes: social media is a good possibility to generate emotions and to address young users who constitute a strongly growing buying group in the online shopping segment. Furthermore sustainability is becoming more and more important for clothing companies due to its increasing social relevance. However, at present this topic does not have a great influence on the purchasing decisions of customers unless customers expect that their personal situation will improve.

Innovations are essential for staying competitive in the rapidly changing internet environment. Although other industries are examined by the clothing companies, the focus lies on the own industry. Novel technologies, like 3D-Printing, have not made an impact yet. In connection with innovations the trend towards individualization was judged as highly relevant for the future development in Electronic Commerce. Personalized recommendations and more accurate and customized search results have been mentioned as crucial aspects. With regard to the question of how a sustainable competitive advantage in Electronic Commerce can emerge nearly all experts agree on one point: the individual needs of the customer. A unique customer service is essential to remain successful in Electronic Commerce.

Based on these findings the research question was examined in more detail: it was established that in the context of multi-channel, omni-channel appears to be the most useful concept. Omni-channel satisfies the individual customer needs of a mobile customer. The individual sales channels merge to touchpoints in a common shopping environment, surrounding the costumer.

A proposal for an online clothing shop using the Web 3.0 technology was introduced to meet the challenges of search and recommendation in the field of Electronic Commerce for clothing. This field is difficult to describe by factual terms because the connection of the challenges is fuzzy and context dependent. In addition, the trend towards individualization and the relevance of social media were considered. It was suggested that with the omni-channel concept incorporated into the Web 3.0 technology, product information from internal and external data sources are integrated. The semantic engine generates a customized search on the product - as a result a personalized, seamless shopping experience is enjoyed by the customer. Customer engagement and brand loyalty are increased if innovative technologies such as Augmented Reality are included into the omni-channel experience.

Even if such a shop constitutes a progress, the development towards individualization must continue until the customer can click through his own personalized online store. In combination with an omni-channel strategy a shop using the Web 3.0 technology brings the best conditions to build up a sustainable competitive advantage. By addressing the customer at any place in an individual way customer loyalty and thereby a basis for a sustainable competitive advantage is provided.

However, there are a number of limitations. The biggest barrier for the implementation of a Web 3.0 online shop seems to be privacy and safety concerns. Achieving the advanced personalization will require more information about individuals to be stored online. But the people´s willingness to give away their personal data decreases. [230] Furthermore an implementation of a Web 3.0 online shop as well as the implementation of an omni-channel strategy would bring a tremendous effort because these concepts require an integration of all systems and processes which are part of the value chain. It should be the topic of further research to investigate these issues by developing a strategy for centralized data integration for both omni-channel and Web 3.0 technologies. This strategy must include data consistency and interoperability between systems as well as the protection of the customer´s personal data.

Finally it has to be mentioned that Electronic Commerce companies are facing significant challenges to adapt to the rising expectations and rapidly changing needs of today´s digital customers. The real and the virtual world will increasingly merge together and individualization will play a significant role to provide the customer with the most relevant content. Consequently it is most important for clothing companies to be represented on all sales channels, to develop a seamless omni-channel concept and to focus on individual customer needs in order to create customer loyalty. As shown in the present study this is a way to develop a sustainable competitive advantage in the fast moving field of Electronic Commerce.

A completely personalized online shop or novelties such as 3D-printing for clothing items are hard to imagine today. However, it should be remembered that in the past companies did not take the selling of articles in the internet seriously.[231] In this sense the study will complete with a remark which certainly applies for Electronic Commerce in the clothing industry: *„If we want things to stay as they are, things will have to change."*[232]

---

[230] Cf. Süddeutsche Zeitung (2013), p. 17.
[231] Cf. Die Welt (2000).
[232] Cf. Lampedusa, G.T. (1963), p. 29.