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THESIS – BACHELOR'S DEGREE PROGRAMME

TECHNOLOGY, COMMUNICATION AND TRANSPORT

# SUPPLY CHAIN MANAGEMENT FOR E-COMMERCE

Establishing and managing an online store in Finland

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<p><b>Abstract</b></p> <p>This thesis work is done with and for the case collaborator, a newly establishing e-commerce in Finland, Arlen Oy. The main goal of this work is to help to understand more of the processes needed for the successful creation of an online store, which includes supply chain management, sourcing, shipping, marketing etc. The theoretical information was mostly obtained in English language from the internet sources, such as articles, blogs and e-books. The list of contents represents the steps by the order of importance for Arlen Oy to create a basic plan for it's future actions.</p> <p>Initially the thesis was focused on SCM processes, however, during the time of collaboration, many significant points were added and had to be described in the detail. The outcome of this work is the collection of steps that are required to take, when creating an online store in Finland.</p>	
<b>Keywords</b> E-commerce, supply chain management, website design, online marketing	

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## LIST OF ABBREVIATIONS

SCM	supply chain management
DIY	do it yourself
FAHP	fuzzy analytic hierarchy process
QMS	quality management system
SME	small-medium enterprise
MNE	multinational enterprise
FAST	function analysis system technique
BPA	business process automation
PLC	product life cycle
PLM	product lifecycle management
PDM	product data management
FAQ	frequently asked questions
Q&A	questions and answers
EOQ	economic order quantity
CTA	call to action
SEM	search engine marketing
SEO	search engine optimization
SERP	search engine results page
CPSC	consumer product safety commission
SMM	social media marketing
SNS	social networking sites
FB	Facebook
IG	Instagram
ROI	return of investment
ML	machine learning
CPC	cost per click
CPM	cost per thousands impressions

## 1 INTRODUCTION

With the fast development of all informational technologies, people start to prefer the usage of quick online services now more than ever. Nowadays, we are not only able to connect to each other via internet, but also order the goods and services. Online shopping as a concept has been evolving for many years and presently it covers almost every part of our life: people do not need to go out of their house anymore to get what they want, whether it is food or a specific equipment for their personal project.

In the light of the world-wide COVID-19 situation, it is safe to say that e-commerce especially proved its stable position during the outbreak. As for many businesses which went on lockdown, the online businesses were the ones who suffered the least – even before the governmental restrictions of social distancing they did not require any real-life communication. According to Louis Columbus (2020), even though the quarantine measures will be one day lifted, there are millions of people who are establishing and propping up the new online shopping habits each day. Many families, even after the release of stay-at-home measures, will want to substitute the store and malls visits with online purchasing permanently due to its obvious benefits, such as time saving and efficiency.

It is known that the main idea of online shopping is to make it as fast and as effortless for the buyer as possible. However, building a convenient platform for shopping online is not an easy task. This kind of expectations can put a lot of pressure for beginner entrepreneur, as it takes time to fully set the mechanism of smooth workflow and mistakes in the start are unavoidable. The entrepreneur with the goal of establishing a new e-commerce will have to go through many stages of preparation before the business can be fully working. This includes theoretical background knowledge, creation and design of website, search for suppliers, shipping, warehousing selection etc. Yet even after settling all those things, the developer cannot rest and should constantly pay attention to the progress of their business.

The idea of this thesis came from both the interest of an author in the topic and the necessity of this research for the case collaborator, Arlen Oy, the newly created online shopping platform on the early stages of its development. The goal of this thesis is to provide Arlen Oy all the information needed for the efficient workflow of this company in the future.

This thesis work will include a lot of background theory on how to properly establish, manage and promote the online business. It will be useful for both experienced and rookie entrepreneurs, as it will go both with basics and details of online shop management. The focus however will be on the supply chain management, but the research will include chapters like promotion possibilities and website design as well. The table of contents has been constantly modified during the writing process to include all the information required by the case collaborator. The thesis will also include some clickable links due to the reason of simplified search for updated information in future. The last chapter will have a sum up of everything said above and the work conclusion. All the data and information will be collected from articles, surveys, books and educational videos in English, Russian and Finnish languages, but the thesis itself will be written and presented in English language only.

## 2 ESTABLISHING E-COMMERCE

Every day more and more people start to prefer the more convenient way to purchase things – through online shopping. It allows them to not only spare time and money, but also to get more detailed information about an item they desire.

The infamous pandemic highly affected the numbers and statistics of the contemporary e-commerce. In fact, during the 2020 the sales in online shopping department skyrocketed, showing the fastest growth in recent years.



FIGURE 1. Retail ecommerce sales growth worldwide, by region (eMarketer, 2020)

The raise in demand for online retail has put a lot of pressure on many companies supply chain departments. "More than ever before, it's successful supply chain management that sets brands apart from their competitors rather than simply pushing up advertising spend or giving content a makeover." (Chris Mole, 2021).

It is forecasted, that the change in consumer's behavior and the overall convenience of online purchasing will create a much bigger demand in the post-pandemic world. (Alicia Phaneuf, 2021).

But what is it for online store creators? Times are changing, and the number of people who want to be their own bosses and take care of their own time grows. The net is making this goal more reachable than ever. In spite of widely spread myths, there is no fast and effortless path to take in establishing an online store. As any other occupation, it will take time to learn how to create, manage and improve your business.

Unfortunately, there is no shortcut to help generate the idea of an e-commerce. Of course, choosing from existing categories is still available, nevertheless the implementation will be utterly affected by an entrepreneur's devotion and personality.

Even though e-commerce has its unique features of being an online business, it still has a lot in common with an offline store. Despite everything is happening via internet, the process of online



store includes traditional ways of handling business, such as logistics, customer support and marketing. There are many factors and unexpected costs that handling of an online store can bring. It goes without saying, that even the most thorough and competent entrepreneur can't be prepared for them all. That's why it is extremely important to stay updated and openminded whenever it comes to your business.

In this chapter the focus will be on what entrepreneurs need to do before and while establishing an e-commerce. Every step of the considerate creation of a new online business can be discovered in the next sub chapters.

## 2.1 Selecting the niche

Nowadays, when starting an e-commerce, it is not mandatory to select the niche which the store is going to cover from the beginning. However, it still can be one of the most significant steps to take for an easier decision-making process, as it will also help to set the strategy e-business will follow later on. Deciding on an appropriate niche for the business can be quite challenging. For starters, the decision between the popular niche or the unique one must be made. The downside of the first scenario will be that there are a lot of older and more experienced competitors, who already have a stable position on the market and a trusted image as a seller. Even so, in the second case the company will not be dealing with a huge competition, but the biggest challenge will be to make the business and products known to masses, therefore the main concentration of both efforts and finances will be on marketing and promotion.

As for the beginner entrepreneur it is also recommended to choose the niche up to the personal desires, as it will guarantee the future interest and motivation of growing an e-commerce.

Another option would be to select two or more niches. Testing is the key factor here. In fact, it might help to settle the business in that one certain niche, after trying few other. The disadvantage at this rate will be the inevitable expansion of the marketing area, that will lead to the enlargement of necessary financial investment.

## 2.2 SCM for e-commerce

The terminology of Supply Chain Management has been broadly used already since late 90's of 20<sup>th</sup> century. The development of SCM theory at that time in particular has its reasoning: it was at that time, when the clear market tendencies appeared. Exceeding demand over the supply, market globalization and business informatization all led to the changes in strategies for providing the best competitiveness of a company. However, even nowadays there is no unified opinion about the definition of SCM itself. Some see it as combination of supply chain processes to manage the distribution of the right product at the right time (Devesh Singhal, 2019). Others consider it to be a combination of integrated logistics and services.

The supply chain is composed of linked and primarily financially connected stages, usually these are few manufacturing and logistics companies, but in some cases it might be one vertically integrated company. Supply chain starts with an obtainment of raw, finished materials and parts from

suppliers, but does not always end at the stage of product delivery to the customer. Modern supply chain might also include after-sales services, such as return and recycling systems.

Salary.com 2021 states the supply chain manager objectives and responsibilities as following "Supply Chain Manager oversees and manages overall supply chain and logistics operations to maximize efficiency and minimize cost of organization's supply chain. Collaborate with multiple-functional managers to plan and execute on the development of a distribution center operational process to enable seamless transfers. Being a Supply Chain Manager manages and monitors vendor's qualification and performance to ensure they meet company's requirements. -- Ensures that project/department milestones/goals are met and adhering to approved budgets."

The environment in which SCM operations are carried out is going through constant changes and is highly influenced by the present situation on the market. In order to respond to these changes in time, company requires a systematic planning, design and reengineering of SCM, which also often includes evaluation of possible alternatives for its development.

Supply chain itself usually consists of few aspects:

1. Strategy.

When it comes to the design of supply chain, supply chain managers have to plan it beforehand. This plan includes forecasting and data analysis, which will further determine the efficient way to manage the supply chain specially for focused business.

2. Sourcing.

Not only it requires to find the fitting and responsible suppliers and contract them, but also keep in touch and constantly monitor their work. Sourcing mostly refers to establishing and keeping your relationship with suppliers. It can include all processes related to ordering, receiving, invoicing and controlling the inventory for suppliers.

3. Manufacturing.

Generally it is required from supply chain managers to review and evaluate the quality of raw materials, products and packaging. It is made to ensure that the certain quality level is being maintained.

4. Shipping.

When it comes to the delivery, it's all about getting the right product to the right place at the right time. This part of SCM consists of many aspects, such as management of the orders, receiving the money, controlling the shipping, time estimation, dispatching of the product etc.

5. The return system of faulty goods.

This network is mostly build to support the customer satisfaction and considered to be an after-sale service. The system of returning defective products should be flexible and easy, whether they are sent back to be fixed or reproduced, or simply put back to warehouse. (Jason Fernando, 2021).

All above-mentioned aspects should be adherent to the laws and regulation of the country, where the company is located. To handle such a big chain of processes in offline stores usually requires the

work of several departments, such as HR, IT team, Procurement team etc. However, in a situation of online business it is better to simplify and try to automate most of the processes of SC ahead of time.

With so many middle points, the possibility to lose the value or raise the expenses in a case of a mistake becomes almost unavoidable. That's where SCM forecasting comes in.

Forecasting in SCM – an act of predicting the demand, pricing and amount of supply in the particular period of time.

It can work both ways: when there is a need to determine how much the customers will demand, but also how effectively a supplier is able to fulfill the orders. Forecast in SCM is being developed based on the statistics, research and evaluation of sold products, components and services. However, "the data important to supply forecasting isn't limited to production or delivery capacity; factors such as economics, technology and even weather all play a role." (Michigan State University 2019)

Demand planning, a part of supply forecasting, is an aspect that is brought to surface whenever it comes to the proficiency of supply chain. Like an usual supply predicting, demand planning specializes in creating a stable flow of goods without surplus and other excessive costs. It allows a business to have a firm grip on a shifting market and stay proactive.

The necessary aspects of demand planning:

- Product portfolio management.
- Statistical forecasting.
- Trade promotion management.

The proficient SCM brings a lot of advantages to the business, making the flow of logistics go smoother and develop faster. These are some of the benefits, received by thoughtfully implemented SCM:

- **Reduced Costs:** SCM in e-commerce shrinks the whole process of ordering and distributing by automizing some of them. As a result, the reduction of the amount of steps in the chain speeds up the whole process and also cuts the costs both for entrepreneur and the customers. This all raises the competitiveness on the market.
- **Trading Globally:** SCM enables e-commerce to enter the international market. Easier import and export from different countries raise the variety of production that can be sold, as well as create necessary connections for any business.
- **Improved Customer Satisfaction:** with the ability to track the demand and an effective response, the value customers receive will grow, and so will their satisfaction. Better timing and well-managed customer service from start will save a lot efforts and establish a trustworthy company's image.

### 2.3 Strategy, tactics and operations

To achieve a successful SCM system takes a multiple mindful steps: strategy, tactics and operations.

Strategy and tactics definitions are often misinterpreted and used interchangeably. Having said that, it is not the case most of the time. To move forward it is important to distinguish a difference between above mentioned factors, as the future reaction time will be depending on that.

Strategy in SCM will cover the whole breadth of supply chain processes, including logistics, product selection, customer service, communication with suppliers etc. All of these processes should move along with company's goals and business objectives, synching with the plan of how to reach these goals.

Meanwhile, tactics describe smaller and more specialized activities, that will help company to succeed. It includes issue assessments, development plans, relevant projects and tasks, resource and information gathering.

In turn, operations are the detailed short-term plans, for implementation of which the amount of resources is limited and risks are decreased or eliminated.

To put it simply, strategy defines what company is trying to achieve, while tactics and operations describe the means of how it will achieve it.

There are three levels of strategic formations. (see FIGURE 2).



FIGURE 2. Three levels of Strategy Pyramid. (B2U 2020).

Where corporate strategy is referring to how the company, that is establishing a diversified business (selling within multiple business areas), is going to measure up to their mission. This includes major decisions, such as investments, manpower, legal structures etc. Due to its globality it is not often seen in SME, but in MNE. In its turn, business strategy is aimed for the competitive advantage by formulating the way of how each business department will be contributing to the whole corporate strategy. Whilst functional strategy sets in action each function (in particular logistic) relevant to the enterprise.

The most common logistic strategies are lean and agile strategies. The goal of lean logistics is to carry out each operation using as little resources as possible, while also adding the value to the

customer. To accomplish this, they seek ways to identify and eliminate waste (in this, anything that doesn't add value).

In its turn, the goal of agile logistics is to provide the best quality of services to the customers by fast reaction and adaptation to new circumstances on the market. In other words, the main focus of agile logistics is meeting the customers expectations and in some cases even exceeding them. At first sight it might seem that these two strategies drastically differ from one another. (see TABLE 1).

TABLE 1. Comparison Lean vs Agile strategies. (Copyright by author 2021).

<b>Factors</b>	<b>Lean strategy</b>	<b>Agile strategy</b>
<b>Main focus</b>	Cost-consciousness, efficiency	Flexibility, good customer service
<b>Working method</b>	Stable, proactive	Dynamic, reactive
<b>Management</b>	Organized planning sessions	More localized control, adjusting to circumstances
<b>Methodology</b>	Reduction or complete elimination of non-value adding processes	Fullfilling customer's wishes
<b>Limitation</b>	Customer service, lack of time	Costs, decision-making
<b>Changes insertion</b>	Long-lasting and stabilized	Fast customer satisfaction
<b>Depends on</b>	Forecasting	Ability to respond quickly, quick problem-solving

In practice, there is no strict differentiation between them. The benefits and disadvantages of each strategy can be modified or even completely erased, affected by the certain situation. All the aspects mentioned above can both improve the workflow and bring it down, depending on different criteria, such as the size of business, competitiveness, niche, budget etc. "For example, by the application of the JIT tool, representing a strategy of lean supply chain, some risk is reduced (e.g. surplus stock maintenance) but the other one can be increased - in case of small delay, accident, breakdown or changes in the demand, the whole supply chain is stopped." (Sylwia Konecka, 2010) That's where the hybrid supply chain strategy might become useful. The hybrid concept can also be used with other names, such as "leagile" or "league". The hybrid model can be usually performed in three practical ways:

- By product
- By demand
- By postponement

The first classification refers to the Pareto 80:20 principle, which implies that 80% of a company's revenue originates from 20% of all products. Based on that separation, it is suggested that the dominant 20% should be produced using the lean strategy, while remaining for the remaining 80% the agile strategy can be implemented. (Dr. Pankaj M. Madhani, 2017)

The second approach pays more attention to the nature of demand. The idea of realization of this method is based on separating the demands into stable and surge groups. In case of stable demand, it is recommended to use the lean strategy, as it is easier to predict the curve of demand with forecasting. However, when it comes to the seasonal or promotional changes in demand, when it requires the more flexible and quick adaptation approach – the agile strategy might come in handy.

The postponement approach (also known as de-coupling point approach). This method refers to the delay in the assembly of the final completion of the product, until there is an exact order information received from the client or the customer. In this situation, the lean strategy can be utilized up to the de-coupling point, following with the agile strategy approach after that.

It is needless to say that to establish an efficient strategy for the company requires a lot of data, the amount of which can be overwhelming for any starting enterprise. That is why it is recommended to include the business process automation (BPA) already on the early stages of the company's development.

"Business process automation (BPA) is defined as the automation of complex business processes and functions beyond conventional data manipulation and record-keeping activities, usually through the use of advanced technologies. (IT Gartner glossary 2021).

Nowadays SCM modules and software give an opportunity to consistently automatize and optimize the critical elements of supply chain, such as demand planning, inventory and warehouse management, order management, procurement etc. Thanks to BPA the whole supply chain can be carried out in relatively quick implementations of each SCM software modules. The good thing is that the common modules are easily integrated with each other, creating the one holistic SCM system. The BPA in SCM provides the optimal and detailed plans for usage of existing technological lines, taking into the account different limitations, such as budget, time consumption or lot size. All this helps to improve the demand satisfaction, as well as lower the costs, meeting the goals of both lean and agile strategies. In those market branches, where the biggest investment is directed to purchasing, the automatization of these processes will provide a big advantage in competitiveness, therefore will determine the profitability of a business as a whole.

## 2.4 Changes management in SCM

Even the most efficient and ideally established system requires constant reevaluation and correction, affected by the micro and macro changes happening in the business world. The outer environment

is continuously changing due to the market innovations, development of new systems, competition, world economics etc. The environment within the supply chain itself can also be affected by the changes, such as changing partnership, new type of contract, international shipping etc.

To keep the supply chain adjusted to these changes, it is a necessity for every business to use the system analysis methods to take into account all possible circumstances and evaluate alternatives of the future actions. To implement the organizational changes within a system, that contains so many aspects, is rather laborious and time-consuming process. However, these actions are mandatory, if the company wants to stay afloat on the highly competitive market.

There are few ways to approach the change management in SCM:

- Function Analysis System Technique (FAST)
- Engineering and reengineering of processes
- Benchmarking

FAST is most commonly used in tactical and operational strategies. It is a good tool to look at each problem separately, while still seeing the scope of the whole project. Creating a FAST diagram can help to identify the problems, missing functions, clarify misunderstandings, figure out the relations between functions etc.

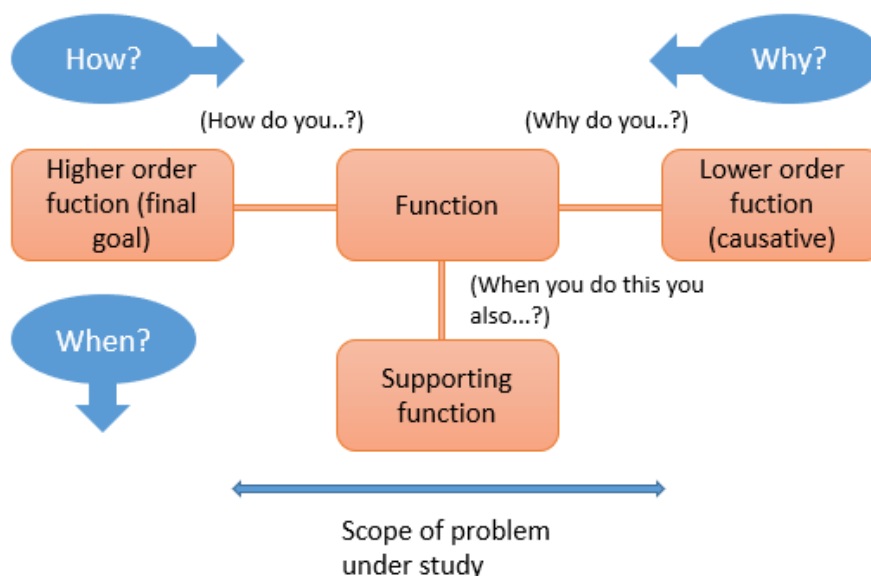


FIGURE 3. FAST Diagram concept. (Copyright by author 2021).

To create a FAST diagram the focus should be on a specific process to identify ways in which it can be improved. Then, when the problem is identified, there is a need to gather a generalized flowchart of changes, as well as a plan of actions that can improve the performance of the process. The only guidelines for this brainstorming session are to answer questions how, why and when. If the results are satisfactory, the tactics can be implemented later.

Engineering of processes commonly takes place when there is a need to improve the existing processes and is applied towards the processes, that are already being successfully implemented. The best timing for engineering change strategy is when the improving of the processes will raise the

company's competitiveness. To do this, the imitation model of current business state is built, analyzed and modernized, using the automation resources and applying the information technologies. The duplicated functions are eradicated, methods are being simplified, the risk management is modified.

Reengineering is another approach to the implantation of changes in SCM. It represents the more radical introduction of changes, as it is based on the creation of an utterly new process that will substitute the old one. It is used mainly in situations, when the old process becomes so outdated, that it makes no sense to keep it or simply try to improve it.

Another method used in change management is benchmarking. Benchmarking refers to comparing the focused business performance and processes with indexes of other organizations in the industry with an aim of determining the ways of "why" and "how" these organizations are doing better than the focused one. The received data is used to design and implement the improved processes for the focused company's supply chain.

## 2.5 Finding suppliers

When starting an e-commerce it is necessary to be conscious of how much internet business is dependent on its sourcing. When visiting the website, customers will want to see a great selection of categorized products through which they can scroll and later choose their best option. If there are too little options, it may seem that they are not being provided with enough space for their decision-making, therefore it will be easier for them to choose a different seller with the bigger selection.

In reality it is rather laborious to find fitting and reliable suppliers. Seeking for them includes a continuous research on different platforms, getting to know them better via communication, setting and settling your conditions. Good supplier relationship as well as good customer relationship will bring value of the business up, whilst poor relationship will become a huge disadvantage. The better communication is established with the suppliers the bigger benefits the business will receive in future, e.g., preferential prices, special terms or cut-down timing.

Organizations operating within the same supply chain should focus on their collaboration with each other rather than competing to consequently meet the needs of the end customer.

On the e-commerce market, there are mainly three types of suppliers:

- Independent craftspeople, artisans
- Manufacturer or/and Wholesaler
- Dropshipper

TABLE 2. Supplier selection using FAHP method. (Copyright by author 2021).

Nº	Supplier selection main criteria	Supplier selection sub-criteria



1	<b>Product quality</b>	Materials and components used; return rate; quality certificates; defect control; resources; established QMS.
2	<b>Delivery</b>	On-time delivery; lead time; accurate scheduling; flexibility and adjustability; packaging.
3	<b>Service</b>	Fit the requirements and demand; quick response; willingness to cooperate; provision of after-sales service or help with marketing; warranty.
4	<b>Product's sales potential</b>	Meets customer demand; matches trends.
5	<b>Product appearance</b>	Design; styling; uniqueness.
6	<b>Costs</b>	Total costs; transportations costs; taxes; discounts; competitive prices.
7	<b>Supplier company overview</b>	Supplier's reputation; historical performance; production capacity; financial position.

Due to the variety of suppliers, the required products, materials and components will differ for each of them. In order to determine which supplier the company will focus on working with, first the selection of main product must be made.

There are no written on the stone rules to say which one is better than the others, as each of them has different factors to consider specifically for the focused e-commerce. As it was mentioned above that when selecting the right niche for the business, it is possible to start with several; the same goes for choosing the suppliers. Trying out new things can make a huge difference in what the business may become, so as an entrepreneur it is important to stay openminded to any possible changes.

### 2.5.1 Types of suppliers: individual craftsmen, artisans

The idea of getting a unique item which is hand-made or customized is not new. Centuries ago, people with creative mindset have been praised and compared to the divine creatures. Nowadays, we don't go as far as glorifying people for their creative capabilities, but the value of crafts is still here. With the growth of individualism in these latter days, being exceptional whether it is with a personality, passion or items a person buys and wears became really important. People seek out ways to differ, and that's where craftsmen can fulfill their need.

Selecting artisans as a supplier for an e-commerce makes certain organization an intermediary.

The Market for Craft 2020 states the definition of intermediaries as: "-- organisations which provide craft makers with routes to market – directly to consumers or via commercial opportunities – and

who may offer services including website development, marketing and branding, professional photography, and training opportunities."

The pricing, creation time and the value of product received by an intermediary will be defined also by the level of the creator's establishment. (see FIGURE 4).

Maker group	Definition
Master Craftsperson	Established 5+ years and shown at international galleries or art fairs
Established Professional Maker	Established 5+ years, not shown at international galleries or art fairs, sold through professional channels or earn their living solely through selling work or through craft related activities
Early Career Professional Maker	Established 1–4 years, sold through professional channels or earn their living solely through selling work or through craft related activities
Emerging Maker	Established less than a year, sold through professional channels or earn their living solely through selling work or through craft related activities
Occasional Maker	Not sold through professional channels; don't earn a living solely through selling

FIGURE 4. Maker groups (Market for craft 2020).

The research made by Crafts Council 2020 shows the statistics of common reasons for purchasing handicrafts. (see FIGURE 5).



FIGURE 5. Top reasons to buy handicraft. (Crafts Council 2020).

There are also other reasons to why handmade products are satisfying to obtain:

1. Showing status.

First of all, some high-involvement handicrafts can be placed on the list next to the luxury products. Due to their prices and exceptionality, they can be seen as an embodiment of wealth.

2. Quality.

The time that is spent on the creation of one single piece of product makes it nearly impossible to get a low-quality outcome in handmade products.

3. Authenticity and customization.

Design, assembly, materials all can be selected and modified to fit the certain customer requirement. Making customer involved in the creation of item for them is a value-adding factor.

4. Environment friendliness.

As the human effect on the environment continues to grow, so do the nature protecting communities. Handcrafted products don't require a factory or machines, therefore they can be considered as green products. Moreover, some creators focus their work on the recycling and renewing products, as well as using only organic materials. All of these factors affect the customer's buying decision positively, since the promotion of ethical consumerism has a huge influence on the behaviour.

5. Creator support.

This point is also connected to the human's philanthropy. It simply makes the purchase seem more valuable once there is a meaning behind it: to support creator's work and passion.

More and more entrepreneurs come to realise that craftsmen are commonly unable to prioritise merchandising their products, since their focus is on the creation of a product itself. So it is a great chance for new intermediaries to remedy this shortcoming with their skills of branding, marketing, collecting and maintaining the customer base. "They continue to need help with marketing, business development, international sales, social media, e-commerce and photography. From the feedback of the new intermediaries, makers also need help in honing their flexibility in new market environments and presentation skills." (Market for craft 2020).

Sourced materials from an independent craftsperson differ depending on what is that person creating and how well it fits the need of your business. For example, the person who knits pillow covers can't possibly create few covers per day, therefore the production will be small and slow; but if there is a possibility to purchase the copyright license of a print, it will be easy to create much bigger amounts of products per day. However, prolonged leadtime potentially means a challenge. In the world, where the customers experience is mostly build by retail giants such as Amazon or Ebay, which prioritises the customer convenience and the immediacy of obtainment, business that requires time to deliver a product will suffer the consequences. "Feedback from the depth interviews with intermediaries and the responses from the mini-qualitative makers' survey -- indicate that this is something makers who sell online -- and independent intermediaries who enable makers' online sales -- may be struggling to compete with." (Market for craft 2020).

There is a distinctive difference in communicating with company representatives and individual crafts-selling people. It is needless to say, that with craftsmen the same level of responsibility as with company can't be expected. DIY products take time and effort of one person, therefore the effects of this one person missing a workday can be huge. This kind of collaboration can be seen as companionship, rather than an officially settled deal.

Resources for finding independent craftspeople:

1. Social media (instagram, twitter, facebook etc.)
2. Fiverr <https://www.fiverr.com>
3. 99designs <https://99designs.com>
4. Etsy <https://www.etsy.com>
5. Redbubble <https://www.redbubble.com>
6. TeePublic <https://www.teepublic.com>

Things to consider before pursuing selling of crafts:

1. How much time can be spent finding and contacting individual sellers?
2. Will the production of items require extra equipment or collaborating firms? (e.g., printers, cutting machines)
3. How long will it be to create an item that will be ready for selling?
4. How will the packaging and delivery differ from product to product?
5. How the items will be stored and should they be ready in advance?
6. How to make it clear on the website that each craftsmanship will take different production time and turn-in time?

### 2.5.2 Types of suppliers: Wholesaler

Wholesaler is referred to as a trading or trading and producing company, that sells products in big quantities to the retailer. Usually wholesalers have a deal with few distributing organizations or even manufacturers, which helps them get the benefit of a smaller price. The main difference of wholesaler from a mere distributor is that it is providing a high variety of replaceable products from multiple suppliers. The work of wholesaler has several stages: importing the products, storing them, contacting and selling them to the next supply chain participant (in this case, e-commerce). The units that are traded by wholesalers may be: materials and components, agricultural and forest commodities, manufactured goods etc.

Working with a wholesaler means efficiency, as its B2B approach reduces the amount of interfaces the producers and buyers have to have, as well as entangling the complicated communication system, working as a mediator for many companies at once. (see FIGURE 6).

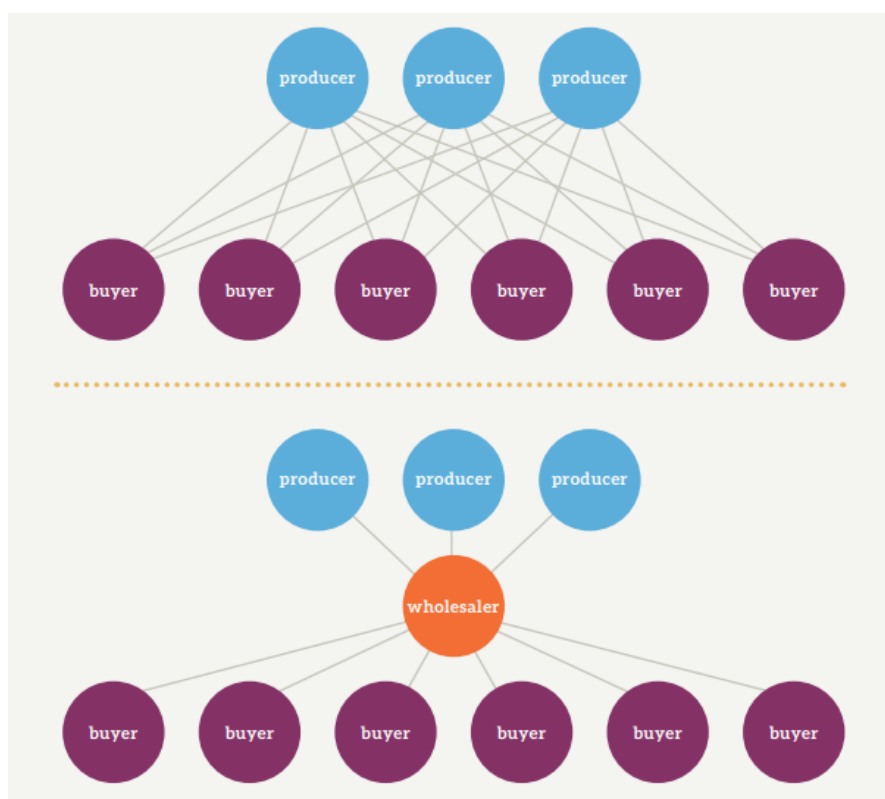


FIGURE 6. How wholesale works. (Eurocommerce Brochure 2013).

Wholesale becomes a partner for the business. The advantage of this partnership is that it gives the possibility to focus on the selling itself, not on manufacturing. They take care of distribution and warehousing, which means that it is in their interests to keep the costs as low as possible. Working as a middleman between manufacturer and the next buyer, wholesaler has to contribute to the optimization of the supply chain.

During the time of wholesale purchasing-and-selling model existence, the role that they play in supply chain has varied a lot, adapting to the constant changes in SC system. Even nowadays, there exist different types of wholesalers, that take a different level of responsibility as their work. It can be just a simple intermediary between the SC participants, procuring, storing and distributing the products, or it can be a real exchange mediators between customer and manufacturer, providing extra services, such as technical assistance, logistics consolidation and financial advising. (Eurocommerce study s.a.)

Eurocommerce Brochure 2013 states that

The practice of e-commerce has shown that trade cannot be virtualised entirely. The Internet has facilitated the separation of product and data flows; as a result new practices and new intermediate players have emerged. Furthermore, products must still be transported, stored, made available to customers - tasks requiring services offered by wholesalers.

### 2.5.3 Types of suppliers: Dropshipper

"Dropshipping is a retail fulfillment method where a store doesn't keep the products it sells in stock. Instead, when a store sells a product using the dropshipping model, it purchases the item from a

third party and has it shipped directly to the customer. As a result, the seller doesn't have to handle the product directly." (Corey Ferreira 2021).

In other words, manufacturer will take care of preparing and shipping the order, whilst the focus company becomes a middleman. The biggest difference between the basic retail model and dropshipping model is the lack of need to keep up the inventory.

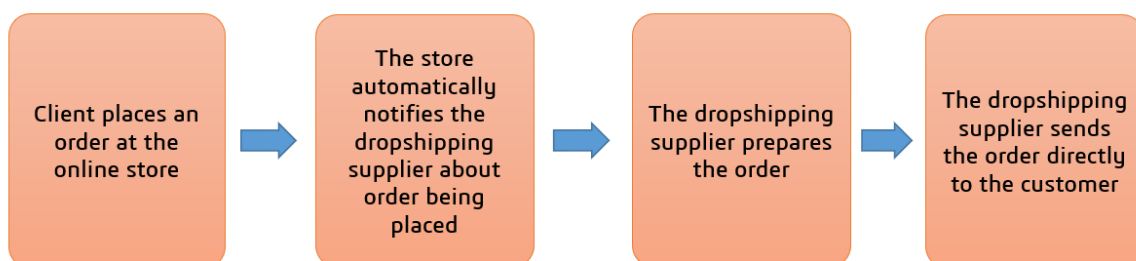


FIGURE 7. The basic dropshipping model.

There are multiple advantages to this model, such as:

1. Fast enter to the market.

From a marketing point of view, such scheme allows the supplier to quickly enter any market without any special costs. Wholesale and retail trade are no longer needed. A large staff of sales workers, intermediate warehouses, logistics, complex contractual relationships are also no longer necessary. Which means that there is no long-term preparation and the focus is almost solely on the product.

2. No need for the big upfront investment.

As mentioned in the previous clause, there is not much to preparations in dropshipping as it is in common retail strategy. The product has to be purchased from the supplier (in some cases, manufacturer) only after the client had already paid.

3. Everything is happening online.

In other words, when implementing the dropshipping model the business owner doesn't have to deal with any physical items. The only materials needed are the laptop and access to the internet, which in its turn, doesn't tie the entrepreneur strictly to the certain location.

4. No strict correlation of the amount of orders and amount of work that has to be done.

In a traditional business, receiving more orders also means that more processes have to be executed in order to fulfill these. With dropshipping the workflow is more or less constant, as most of the procedures are still implemented by the suppliers. Therefore, it gives a possibility to the faster scale-up of the business.

However, all the benefits of dropshipping come at a price. There are few disadvantages to this model:

1. High competition.

With its simplicity and straightforwardness, dropshipping retail model had attracted many potential merchants. Also, the products that are selected for this model are usually targeted on wide audience or have no target at all, which means that they are nearly for everyone.

This makes it difficult for any newcomer to differentiate from the bulk, thus, before starting, the entrepreneur has to think through the value-adding processes that will raise their competitiveness on the market.

## 2. Low margins.

Unfortunately, in this model the amount of sales doesn't matter much, since the biggest profit still goes to the supplier and the business owner receives only a small percentage from it. "In general, dropshippers can expect margins of 20% on their core products and conversion rates around 2%. This information allows you to build a rough model for your business' profitability:

*(Traffic x 0.02) x (average order x 0.2) = estimated profit"* (Kathy Haan, 2019)

## 3. Complicated shipping.

Using dropshipping services also means that the business will require multiple suppliers, which in most cases also means that the charges for shipping will differ. This causes an inconvenience to the whole purchasing system, as the final customer would still want to see it as a seamless process.

## 4. Challenging customer service.

Supplier errors happen, but in the case of dropshipping they will become ecommerce owner's errors too. As the business becomes a link between the supplier and a final customer, clients will require the answer for faults in products, delivery or purchasing from the store itself.

## 5. Dependency on the supplier.

Not only the e-commerce becomes responsible for the delivery of goods, it also takes the responsibility for keeping good relationship with the dropshipping supplier. Sometimes it can become a challenge, since plenty of suppliers have multiple middlemen they are working with, which means their focus will always be discrete.

Many people consider the dropshipping strategy as a get-rich-fast scheme. This kind of mindset can be a downfall when trying to pursue the online selling. As any other selling strategy, dropshipping requires a lot of time and effort invested in it. The store's success will be highly affected by the received traffic, the selected marketing strategy and chosen items.

## 2.6 Finding products

Finding and ordering the products might be one of the most time-consuming steps in establishing an e-commerce. The decision on what products will be sold in an online store should be interconnected with the previously selected niche. It is essential to decide on the product before the website is built. The idea of what could be sold will not appear on its own, so it is recommended to be proactively searching for it (see Appendice 1).

One of the things to take into account, when looking for the suitable product will be the existing competition on the market. Research all potential competitors offering same or similar type of product and evaluate their work both from consumer's and entrepreneur's point of view. The following questions should be answered before proceeding:

1. How does the company differentiate from the competitor?
2. What value-added features does the focused business provide?

One of the common and biggest mistakes to make when offering an added value is to offer the lowest prices on the market. Whilst it makes the competitiveness go higher, the profit margin becomes drastically cut. In addition, this changes the core of the customer base. When the goal is to grow a business, the focus should be on establishing long-term and loyal relationship with the customers, making them want to purchase goods from this certain store over and over again. By lowering the prices, it is most likely to attract "one and done" clients, who will benefit the most from one-time purchase of a cheap product and will not be interested in coming back again.

## 2.7 Pricing

"Pricing, as the term is used in economics and finance, is the act of establishing a value for a product or service. In other words, pricing occurs when a business decides how much a customer must pay for a product or service." (Rosemary Carlson, 2020)

One of the main objectives for any company, when establishing the pricing is to set an adequate lowest and highest parameters. The lowest price parameter is the lowest price that the product can be sold for, including the extra costs, to be profitable. The highest price is the biggest value, customer is willing to give to receive the product.

The theoretical interpretation for price varies due to the controversy of it in the economics. Many economists are inclined to this formulation of price: price is a form of expression of the value of goods, manifested in the process of their exchange. There is also a more simplified formulation that has become widespread, according to which the price is the amount of money (goods, services) for which the seller agrees to sell, and the buyer is ready to buy a unit of goods or services.

Pricing is a complex multi-stage process, which consists of a certain sequence of actions: setting goals and objectives for pricing; demand analysis; cost estimation; analysis of prices and products of competitors; choice of pricing method; setting the final price.

Pricing refers to the process of price formation for goods and services. There are two main pricing models: market and centralized government pricing. (Aleksakhina L. V. 2017)

There are multiple factors to consider, when establishing the pricing. There are several approaches to the classification of pricing factors. The most common classification, however, is by the influence. (see FIGURE 8).



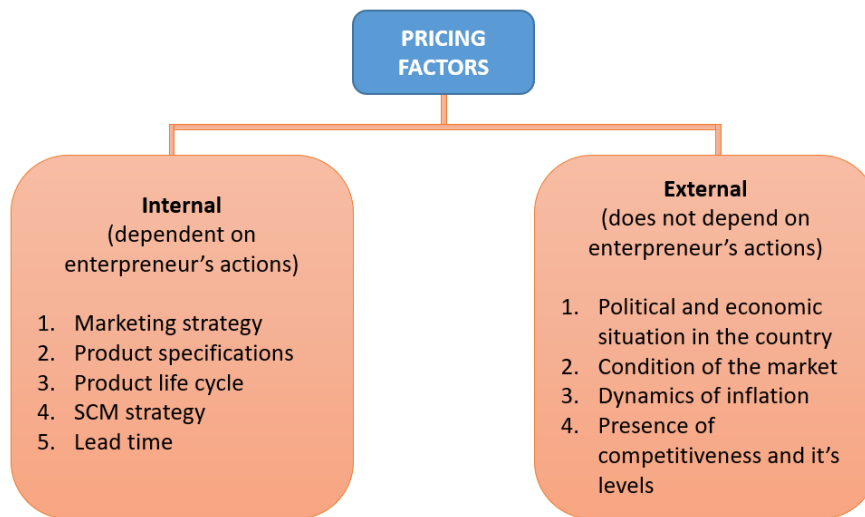


FIGURE 8. Pricing factors.

Setting goals is very important for selecting the pricing strategy of the enterprise. Thus, an enterprise can set itself the following goals: ensuring sales, profit maximization, ensuring a stable income based on the average rate of return, skimming, quality leadership etc. Pricing strategic choice refers to the selection of pricing strategies based on the assessment of the priorities of the company.

There are several approaches to classifying price strategies. In first classification they fall into three main categories. (see FIGURE 9).

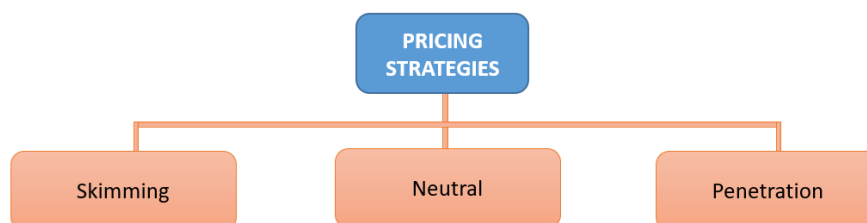


FIGURE 9. Pricing strategies.

Skimming strategy or the strategy of high prices is a strategy, where the relatively high price is set at first and then consistently lowered with the time. The name for this strategy comes from the general idea of it: to "skim" off the customers, who are ready to pay for the faster obtainment of a product. It is mostly used only as a temporary solution, since high prices can not be maintained for a long time due to competition. Even though this method generates early profits, it can be implemented only in case:

1. you sell innovation, that has yet no analogous products on the market
2. you have a patent protected product
3. the focused segment on the market is not "price-sensitive" (i.e. luxury products)

The best example for the implementation of this strategy is Apple Inc. action on the electronic device market. Due to the brand value, fashion, status and influence, they were able to successfully execute this strategy for almost all of their products. (Ma Huimin, Jose Antonio Hernandez, 2011).

The neutral approach to pricing implies that the prices are set as average, on other words, they are predefined by the general market. It is usually referred to as a "safe play", when choosing this strategy, as it is not as competitive and risky as the other two. The main advantage of neutral strategy is that it can be applied to the whole lifecycle of the product. However, this approach doesn't maximize the profits, therefore it is not possible to gain a market share. Most of the entrepreneurs adopt neutral method as their base, whilst also experimenting with both skimming and penetration options.

Penetration strategy, also known as promotional or predatory pricing, is a strategy in which company sets an initial price lower than it is on the market. Unlike the skimming strategy, market penetration is a long-term strategy. This approach is often carried out to make a rapid market entry, change the customer habits and force the cost reduction pressure on competitors. If the goal is to sell a big number of products in a short period of time, to diffuse the product on the market or discourage the competitors from entering it, the penetration strategy can be considered as a fitting option. (Sahoum Ali AlJazzazen, 2019). As the counteract to Apple's skimming strategy, electronic device companies, such as Samsung, preferred to stick to the promotional pricing.

Each product goes through the following stages: development and entry into the market, growth, maturity, decline and disappearance from the market, in other words, it has its own life cycle, which has a total duration, different time spans of individual stages within the cycle, as well as the development features of the cycle itself. In business world this lifecycle is usually described and managed with product lifecycle management (PLM). PLM, formerly referred to as product data management (PDM), "is a systematic, controlled concept for managing and developing products and product related information" (Antti Saaksvuori, Anselmi Immonen, 2008). A single price is rarely set for each stage of the product life cycle, since new consumer segments with different price sensitivities appear at each stage, which is taken into account in pricing practices. (See FIGURE 10).

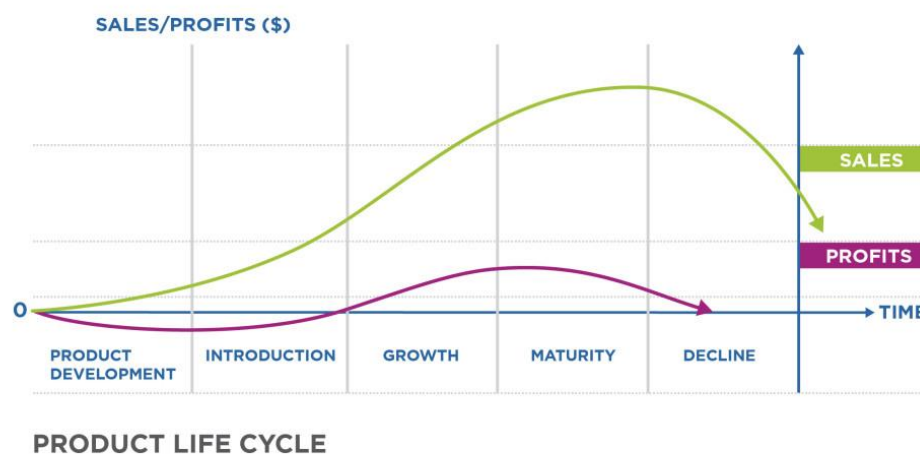


FIGURE 10. Product lifecycle (PLC). (Lumen learning 2021).

The first two stages of PLC are often combined and referred to as either introduction or development stage. On one hand, the pricing at this point doesn't play an important role. In addition, if the product has yet no analogues on the market and the price becomes a quality index, customer's behaviour might be relatively insensitive towards the price. However, this step requires investments and has yet no sales, so no profit can be expected. On this stage it is recommended to provide as much information as possible about the benefits customers will receive from obtaining this product. Thus, during the introduction stage the funds should be focused on the promotional schemes and marketing. Information about the quality of the product is usually spread with the help of initial customers and the long-term success of the product will highly depend on the demand and reviews of the first clients.

The next stage comes, when the product is being launched successfully. The growth stage, or "take-off", is easily differentiated from the introduction stage, as the demand and sales start rising rapidly. This is due to the promotion at the first stage, the efforts of which are now spread as a higher reach to potential customers. At the same time, public awareness of the product develops, which increases their sensitivity to the price. The price is high at this stage, but lower than at the previous stage. The price must match exactly the quality of the received value that the buyer expects. "Potential competitors, who have been watching developments, launch competing products; product and brand differentiation begin to develop. The innovator must now switch from policies of trying to get customers to "try the product" in stage 1, to "prefer his brand" over rivals; presence of competitors dictates and limits policies that can be used to achieve this." (Hui Cao, Paul Folan 2009).

During the growth stage, the following pricing goals can be set:

1. usage of skimming strategy, or awards, when the price is set above the price of competitors, emphasizing the exceptional quality of the product. Entrepreneur will be working with the specific market segments, in which case the focus will be on the less price-sensitive consumer group;
2. setting the "parity". This is a situation of overt or secret collusion with competitors or orientation towards the leader in setting the prices. At the same time, the enterprise works with the entire market and focuses on the most typical mass buyer.

The third stage, the market maturity, differentiates from previous ones with the emergence of a new price-sensitive customer segment. Situation on the market during this stage can be described as: market saturation of the product; declination of profits; the peak of sales is reached; costs are lowered due to higher price competition and product proliferation. The market share is one of the main focuses at this stage, since the decrease of it will lead to an inability to cover the invested money. The company should try to prolong the maturity stage of the product in order to prolong the life cycle as a whole. This allows the company, firstly, to obtain a stable profit (by reducing costs with a significant scale of production); secondly, it gives a respite for the development and introduction of a new product. Effective pricing at this stage is about using any competitive advantages of the enterprise. For example, selling a complex package of goods or services; improving the assessment of the price elasticity of demand; improved control over the use of costs; expanding the range of goods; revision of distribution channels.

At the stage of decline, sometimes called as an obsolescence stage, the product ends its existence in conditions of underutilization of production facilities. The price is either lower than before, or increases if a "late" buyer joins in. The impact of this situation on prices depends on the ability of the industry or an individual company to get rid of excess capacity for the production of a given product and switch to the development of a new product. At this stage, profits and price can fall abruptly, but they can also stabilize at a low level. In any case, production at this point will be ineffective for any enterprise.

## 2.8 Payment methods

The question of choosing a service for accepting online payments is faced by every owner of an online store. Many companies have already realized that the pandemic is not a hindrance to sales if they are able to adjust. Business is shifting its activities to online, because this is where the majority of buyers are located now. The main selection criterion is the minimum commission and the ability of the buyer to choose a payment method that is convenient for him. After placing an order, the client needs to be offered a way to make an online payment. Based on the statistics in 2020 the preferred way to pay in the online store in Finland still remains to be with a debit or credit card. (see FIGURE 11).

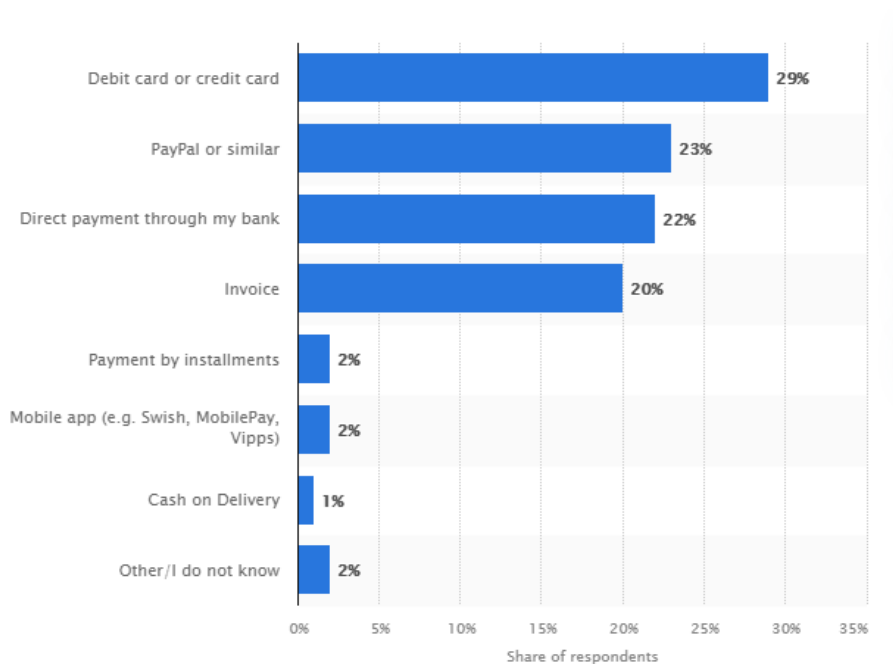


FIGURE 11. Preferred online payment methods in Finland 2020. (Statista 2021).

The main payment methods used for purchases in online stores are: bank card, bank transfer, electronic money (or e-money), terminals or instant payment, cash on delivery (when the goods are received).

Once the customer is ready for purchasing, it is extremely important to make the process of payment run as smooth as possible. Moreover, the client must be sure of their credentials safety, that's why it is highly recommended to include only the trusted ways of payments, such as Apple pay or Paypal. There are three P's in payment processing: players, process and pricing. Players refer to the

participants of the sales deal, meaning the merchant, customer and the payment processor or payment gateway. Payment processor is a company, that acts as a mediator between bank and the merchant, as it manages the information flow within the transaction process, whilst payment gateway is an encrypted application that authorizes the card, ensuring that the required funds are available. Selecting the fitting payment processor is important for an e-commerce, as it will have a huge impact on the convenience of client's purchasing process and merchant's money receiving.

Process includes all the stages between the customer's purchase and it's settlement by the merchant (receiving the money). (see FIGURE 12).

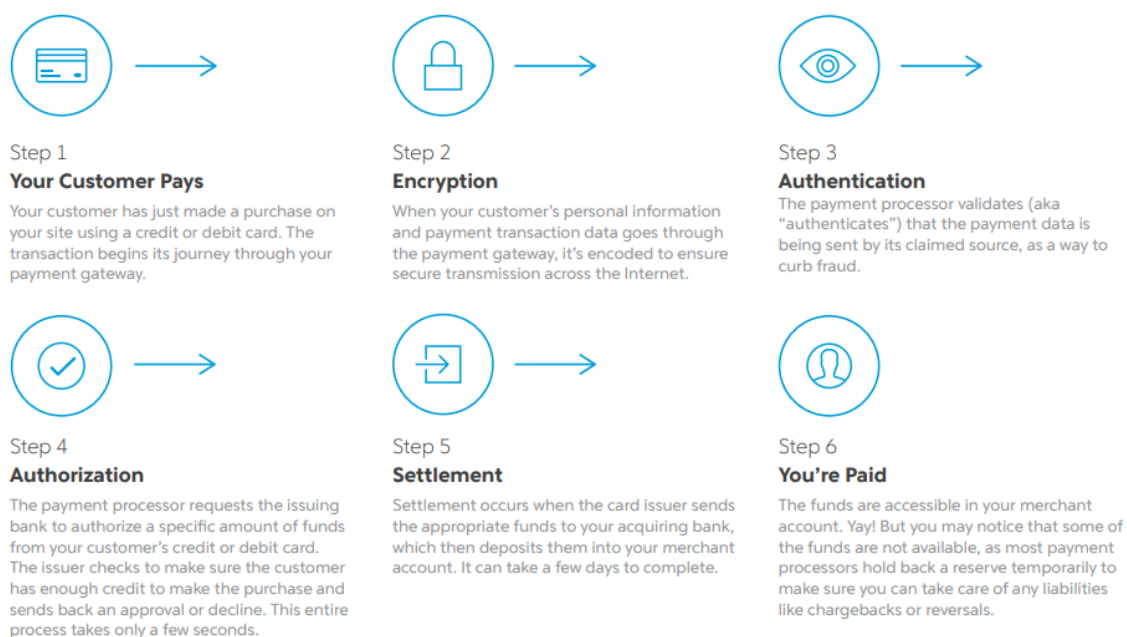


FIGURE 12. Basic transaction process. (PayPal 2018).

Pricing is associated with the different fees, that are being charged from each of the players. (Paypal 2021). The few fees that are often paid per transaction are interchange, assessment and markup fees. Interchange fee has a lot of variations and depends on many things, such as sales amount, card type etc. Assessment fee is paid to the credit card associations (Visa, Mastercard, etc.). It can be used interchangeably with the interchange fee. The markup fee includes all the fees that are collected from each players of the payment process. In addition, this is the only fee that can be negotiated. Each of these fees looks like a percentage of sales amount and a per-transaction fee ( e.g. 3% + 0,35 € per transaction). Other fees, such as monthly subscription, setup and cancellation can also be charged depending on the situation.

Three main structures that are used in credit card processing are:

1. Flat-rate

This pricing model is defined by the flat fee, that are being issued for each credit of debit card transactions. Here can be found Paypal all the updated information for the merchant fees: <https://www.paypal.com/us/webapps/mpp/merchant-fees>.

2. Interchange plus pricing

This fee is a out-of-sale percentage charged by the card issuers. The total fee in this case is a combination of interchange fee, assessment fee and a markup.

### 3. Tiered

With this pricing model the processor takes different transactions and separates them in three different categories: qualified, mid-qualified and non-qualified rates. The level of the qualification of the certain transaction is usually defined by the risk involved. In other words, if the payment is made vis a terminal (high risk management), the lesser fee is paid. However, in most cases e-commerce transactions fall into the last bundle and generate the highest fees for the business owner. (PayPal 2018).

When comparing different fee policies, it is important to remember of the existence of hidden fees, such as withdrawal or cancellation ones. Each of them appears on the contract, however, they can be veiled. Finding them out before signing a contract can save a lot of company's finances in future.

Selection of the purchasing method may depend on various factors, such as customer status (physical or legal person), product specialities (e-product or physical), pricing, shipping and distribution method.

#### 1. PayPal

Along with credit and debit cards, PayPal is one of the most widespread and popular online payment methods available today in more than 200 countries/regions and support 25 currencies. PayPal is an e-commerce payment processing company owned by eBay that allows users to create PayPal accounts and pay commission on every transaction in cash. For many users, ordering and paying with PayPal is preferred due to its ease and speed of use, as well as its high level of security for online shoppers. Another benefit of PayPal, used by over 17 million businesses worldwide, is that customers using its services to checkout convert 82% higher than other payment options. However, the rules and fees will depend on the currency used and the amount of the transaction.

Paypal offers a PayPal Business account for SMEs and the more customizable version for bigger enterprises. One of the unique features, offered by PayPal Business is a PayPal Credit, an option, that allows customers to buy now and pay over time, whilst the seller receives the full upfront payment. It works very similar to the casual credit card, where the time for paying off the money is extended. Paypal 2018 states that

"53% of PayPal Credit users would not have made all their purchases if PayPal Credit weren't available; 21% of PayPal Credit users say they spent more online because PayPal Credit was available; up to a 68% larger transaction size for customers using PayPal Credit."

In addition, PayPal acts both as payment gateway and a payment processor, supporting all the most common credit cards. However, it is not supported in all countries. (see FIGURE 13).

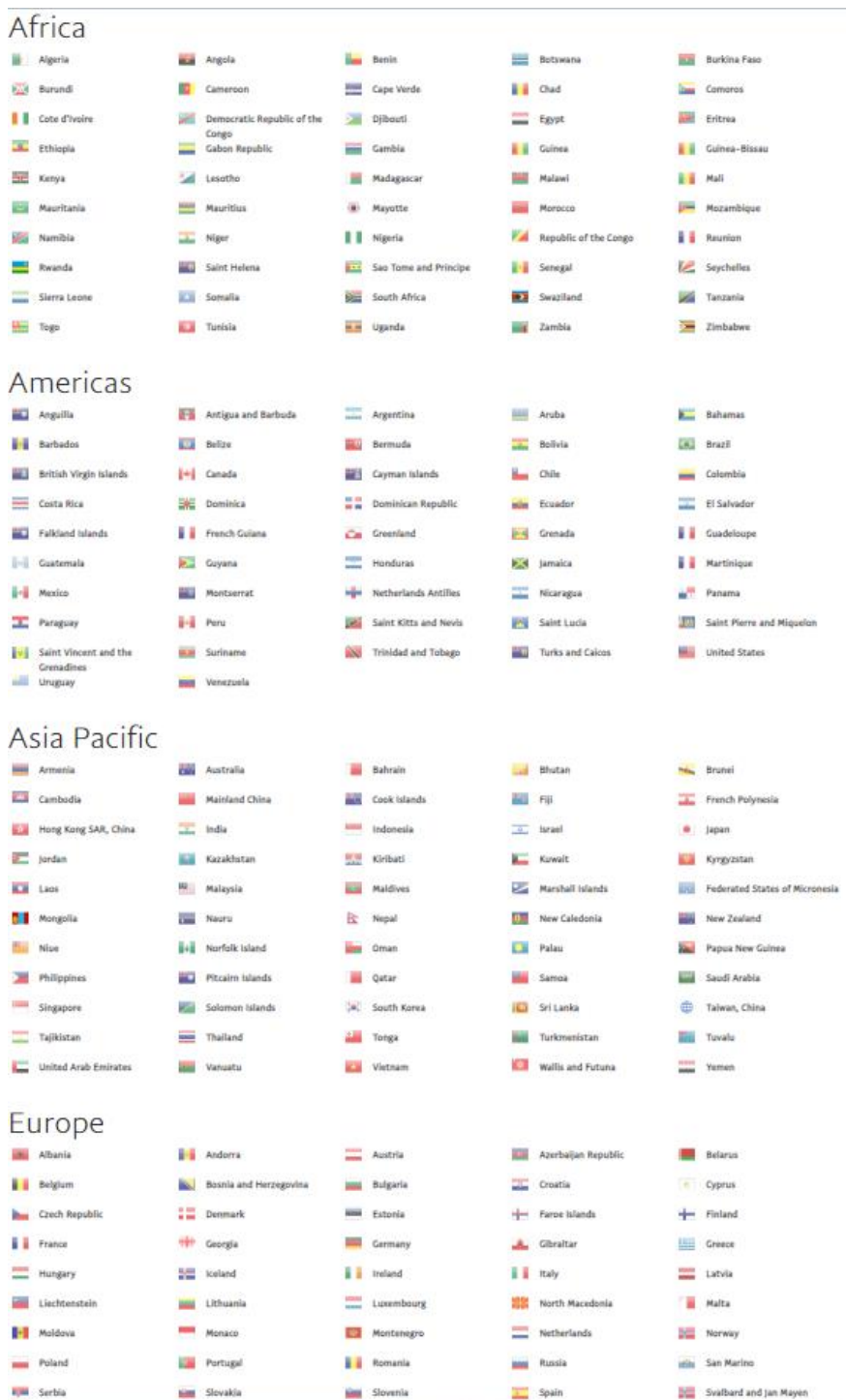


FIGURE 13. List of countries, where PayPal option is available. (Paypal 2021).

## 2. Amazon Pay

Amazon Pay is another major online payment service. Just like PayPal, Amazon Pay deals with digital payment processing. It allows customers to pay for goods online using their Amazon payment methods on third-party websites. The service uses data already stored in the buyer's Amazon account to complete the transaction and ensure prompt checkout. For most online stores, this is beneficial as most customers already have Amazon accounts.

## 3. Google Pay

Google Pay is a free payment service both for the store and its clients. It offers an extra convenience for a significant number of online shopping customers. This is due to the fact that hundreds of millions of users already save their map information to their Google account. Google Pay allows to quickly and easily pay on third-party sites by choosing from the payment methods that are already saved in the Google account. In addition, it has a huge benefit that online store customers can save branded gift cards, loyalty cards and offers with Google Pay, which will help the e-commerce to build the brand awareness and ensure a seamless shopping experience.

#### 4. Apple Pay

Simplicity, security and speed are the three main benefits of Apple Pay as an alternative to traditional credit and debit card payments. The service works with a one-click payment process and does not require entering long card details. In addition, it allows customers to authenticate their purchase with the Touch ID fingerprint sensor on Apple devices, and just like Google Pay, it's completely free for both merchants and customers.

#### 5. Direct debit payments

Direct debit payments are most commonly used for B2B transactions as they allow the recurring automated payments. The biggest advantage of this payment method for an online store is that the payment is almost instantaneous, so there is no need to wait for customers to cover an unpaid invoice. In addition, this payment method is convenient for customers, since they do not need to confirm payments or remember to pay; money is simply automatically debited from their account after setting up a direct debit. This online payment method is best for recurring bills such as monthly payments or subscription-based business models.

#### 6. Bank transfers

Despite the constant growth of online shopping on the Internet, many customers are still concerned about the security of card data transmission. The main advantage of Bank transfers is that customers do not need to provide the e-store with any financial data in order to make a purchase.

#### 7. Gift cards

Gift cards contain a specific amount of money, however they are mainly offered by retailers and more recently by major credit card providers such as Visa and Mastercard. Once the amount of the gift card has been used up, it can no longer be used, unlike the prepaid cards, which can be "re-charged" with money over and over again. Gift cards can help promote the brand and attract new customers, especially on key dates and retail events.

#### 8. Cash on Delivery (COD)

To put it simply, COD allows the buyer to pay for their goods in cash or card in person directly to the courier at the time of delivery. COD is a popular choice for online shoppers, especially in countries where cash payments still dominate, such as India, Bangladesh, and Thailand. One of the main benefits of this payment method for the customers is the assurance that they receive the goods they paid for and do not risk losing or wasting their money. What's more, they can check the



product for damage before handing over their cash, so they can be returned without paying anything at all. In addition, buyers do not need to share their financial details with the seller in order to make a purchase online - this is preferred by many buyers as it means they are not at risk of online fraud. However, cash on delivery can be costly for an online store, as courier companies often charge additional fees for this option.

## 2.9 Inventory management

A product-based business of all sizes will at some point require an effective inventory management system. Whether that will be manual check-ups of stock and orders or selecting the smart system to automatize the process. If the dropshipping selling model is selected as a base, storing will be an unnecessary step as long as this model will be carried out. However, even in this case, this step is significant in the holistic logistics system and can't be overlooked. To be able to select the better option for an e-commerce, entrepreneur should know all the potential benefits and downsides of all the variants.

There are many ways to approach the inventory management and many factors that will affect it in the particular case. When speaking about the main objectives, inventory management takes care of most of the processes involving products. (see FIGURE 14).



FIGURE 14. Inventory management objectives. (Copyright by author 2021).

The processes can be handled manually or using an automated software. "Using inventory software, you can analyse patterns of your business to ensure you produce the right amount of stock depending on projected sales. Analysing seasonality and sales trends can also help to identify busy periods where production rates will need to increase, as well as slumps in sales where production can slow. By tracking the nature of your sales, you can avoid wasted product or understocking by planning ahead according to previous sales data." (Melanie Chan 2018).

The traditional inventory or standard retail model includes higher risks due to the mandatory inventory management, but it also avoids many obscure issues of dropshipping. If entrepreneur decides to follow the traditional retailing, there are the relevant and common faults that cause failures in the whole e-commerce logistics system to consider.

When the business is just starting out and the orders are not placed in big amounts, there is a possibility to store products at your home or garage. This way allows to have an easy reach and control over the products. Yet, this is not a long-term solution and in spite of common beliefs, still includes some costs.

Excessive inventory can be considered both advantage and disadvantage in different aspects. On one hand, it raises the customer satisfaction by insuring on-time delivery and in-stock production. It will be possible to fulfill the consumer's wishes at any time as well as reducing their order waiting time. But on the other hand, it raises unnecessary costs and takes up the space. To the beginner entrepreneur cutting up the costs to the optimal amount can be crucial for the business. One of the ways to keep the inventory management in place is by using an economic order quantity model (EOQ).

EOQ is the ideal reorder amount the company should purchase in order to minimize the inventory costs, such as order, carrying and shortage costs. (see FIGURE 15).

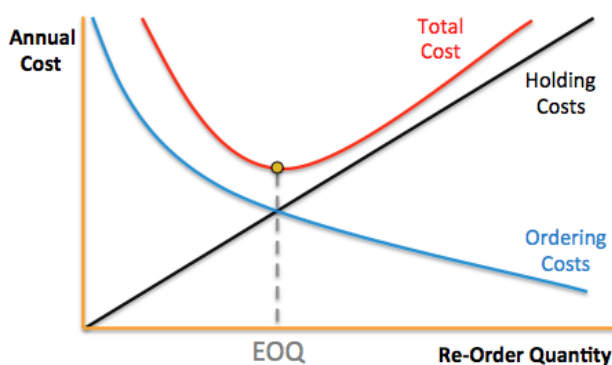


FIGURE 15. EOQ graph (Maggie Bendis, 2020).

One of the common faults in reordering products for the business is to order something that enterprise needs at that the exact moment, instead of trying to optimize the ordering process by using the EOQ formula.

$$Q = \sqrt{\frac{2DS}{H}}$$

Where:

Q=EOQ units

D=Demand in units (typically on an annual basis)

S=Order cost (per purchase order)

H=Holding costs (per unit, per year)

Calculating the EOQ is beneficial for the business, because not only it cuts the costs down, but it also improves the overall efficiency of the inventory management. When done correctly, EOQ calculation will provide the specific numbers for the particular industry; how much stock the focus company is able to hold, how much there is need to reorder.

## 2.10 Shipping and distribution

Part of the business success comes from the ability to promptly, efficiently and cost-effectively manage the "shipping department". Based on what product is chosen to sell, the delivery time, size and quantity of packaging will vary, therefore the pricing will be highly affected by all these aspects. Having a settled shipping management system will save the business lots of time and finances.

Even though the order fulfillment process of an e-commerce doesn't differ from a traditional retail store, the delivery process dissents a lot. (see TABLE 4).

TABLE 3. Comparison of traditional and e-commerce delivery (Minyoung Park and Amelia Regan 2003).

Attributes	Traditional delivery	E-commerce delivery
Distribution chain	Manufacturer – wholesaler – retailer – final customer	Dropshipper/ online retailer - customer
Shipment size	Large	Small
Shipment type	Homogenous	Heterogenous
Number of loads (product density)	High	Low
Number of delivery stops	One or more	Many
Delivery failure	Few	Many
Delivery frequency	Low	High
Delivery time sensitivity	Low	High
Delivery cost sensitivity	Low	High
Vehicles requirement	Large	Small
Vehicle size	Large	Small
Delivery total cost per each load	Small	High

As mentioned in chapter 2.5.1 Types of suppliers: individual craftmakers, artisans, the field of e-commerce is facing a big problem of fulfilling the customers requirements on shipping, as most of them are now being defined by market giants. That's why it is no surprise that the name for this fulfillment issue became an "Amazon effect". Investopedia 2021 states that

The Amazon effect refers to the impact created by the online, eCommerce, or digital marketplace on the traditional brick and mortar business model that is the result of

the change in shopping patterns, customer expectations, and the industry's competitive landscape.

A client survey conducted by eFulfillment Service, that included questionnaire of their clients that hold an e-commerce business, states that online shop customers don't prioritize neither shipping speed nor price; they want both. Nowadays, 89% of consumers consider 1-2 days as a fast shipping, whilst only 42% say that 3-4 days delivery is fast. These high standards for lower fees are creating a new yet big e-commerce customer segment: price – sensitive one. (eFulfillment Service 2017).

## 2.11 Website

Making a clean layout of an e-commerce website is crucial to the long-term success of the business (for the optimization and evaluation of website see Appendice 5 and 6). It might be compared to an act of giving a business card to the possible employer – it has to be presentable and eye-catching. Web-surfing is usually done without strict concentration, the attention span of people visiting sites will be short and if the page will not interest them or moreover will make them uncomfortable in first few seconds, they will easily close the tab.

The main goal in website design is to make people want to stay on it and spend their time, and for that the main focus will be on making the layout as straightforward and easy to use as possible. Every part of the website should be continuous: the text, font, web pages, photos, graphics, and animations should all follow the same idea, the same theme. Theme sets the overall image the business is trying to deliver, thus, before designing the site, there should already exist a base, a "message" that the company is trying to deliver. Naturally, an owner of the business will be the one who decides what information will be incorporated in the website, however there are some core elements every professional web business should contain:

- Homepage
- User profile
- Copyright, privacy and return policies
- Contact information
- FAQ
- Company's description (about us)
- Wish and shopping cart
- Search box
- Blog (news, sales, promotions etc.)
- Trust marks

Each of them will be further discussed and explained in next subchapters.

### 2.11.1 Homepage

It all starts with the Homepage. When the person finds the store and hits the link, the content of the Homepage will be the first thing for them to see. That is why it is so important to put a lot of effort into this page. It will set the whole theme for the rest of the website and should show the positive image of the business.

The website template that is used will hugely affect on the customer's perception of the business. When entering the store, they must feel welcomed and excited to learn more about what this online marketplace has to offer, so it makes sense for the front page to have nice visuals and navigation bar.

Visuals that require the most effort are the company logo and the font used for the company name. As mentioned earlier, continuity is the key to a professional web design, so the rest of the website layout should follow these two main things. Company logo and company name should always be displayed on the homepage as well as on other subsequent pages.

Navigation bar or menu should be an understandable map of the whole website, and must include: company's description, contact information, product categories, sales information and blog/news sections.

### 2.11.2 User profile

The name of this page speaks for itself. The main idea of this part of website is to suggest an easier reach of personal information at any time for the customer, therefore it should be accessible at any page of the website. Must-have tabs to include in account information are: "my profile", "order history", "account settings".

People have to be encouraged to fill up their personal information, since accounts with photos and profile information have more credibility when leaving the comment. Most common way to achieve this is to grant people website coins or points, which later can be converted into real money and used as a discount during ordering procedure. There is also a possibility to create the website's own currency, however in this case, it is a good idea to create a separate page explaining how it converts and how to use it.

In addition, it is a nice strategy to give special offers to people, when it is their birthday month. The benefit goes both ways, it encourages them to fill in the personal information as well as gives them a possibility to get a personalized discount.

### 2.11.3 Copyright, privacy and return policies

These links are good to have at the bottom of the homepage. Usually, it is done with a small font and placed next to the language's selection. It is good to include there a copyright notice, terms of use and privacy policy (for Shopify policies templates see Appendice 2, 3 and 4). These documents give credibility to the website, and even though most of the customers don't go looking for them – it is still an essential part of professional business.

### 2.11.4 Contact information

It is recommended to include the contact information not only at the page that reads "Contact us". Every page on of the website should contain the contact information preferably at the bottom of the page with the small font. In particular, the e-mail address and the phone number. If there are several phone numbers or emails in the company (e.g., for different store departments), it is

recommended to mention each of them on the "Contact us" page with a clear description to which every one of them leads, but only one, common customer service number, on every page of the website.

For the ease the reaching of customers, the email form can be added on the "Contact us" page, thus, customers will have the possibility to text the customer service straight from it. It is essential to mention in which languages this service can be provided.

On the "Contact us" page the link to FAQ page can also be added to create a shortcut, so that people can go through it in case their question has already been answered.

### 2.11.5 FAQ

Abbreviation FAQ stands for frequently asked questions. Even though it is the business's goal to make the whole website as straightforward as possible, customers will still have more specified questions about placing an order, canceling it, online safety, return policies etc. Making this page available will reduce the amount of direct contact with potential customers as well as save their and company's time. It is mandatory to use well-written text when answering the questions; it should be comprehensible even for people who have no idea how websites work. Here is the list of FAQ e-commerce websites tend to include:

#### About

- What do you sell?
- Where are you located?
- How do I contact you?

#### Shipping and Returns

- Do you accept returns/exchanges?
- How do I get a refund?
- To where do you ship?
- Do you ship internationally?
- Where are your packages shipped from?
- How do I track my order?
- How long will it take for my package to arrive?
- What do I do if I never received my order?
- What do I do if I received a defected order?

#### Product information

- How are the products made?
- Are you cruelty-free?
- What are the materials?

#### Payment methods

- What payment methods do you accept?
- When will my payment be charged?
- Is the payment information stored?

### 2.11.6 About us

Unless we are talking about a big corporation, that does not even have to introduce itself, it is recommended to have an "About us" page. If the "Home page" is responsible for the first impression the store gives off, the "About us" page is responsible for building a trust and connecting to the consumers. Moreover, this page will be one of the first pages the competitors will visit.

It is tempting to write a dry text of business-relevant information on this part of website to deem professional; however, it is not recommended. Customers do not analyze this page in a search for an actual information, instead they want to see how they can relate to the company goals and views; they want to see how they benefit from obtaining your products. Emotional impact is what this introduction page must have.

There is not any exact path to follow, when filling the "about us" page and that is what makes it so complicated. People feel and process information differently and making it personable for them can be a challenging task. However, there are some guidelines, that can spark the inspiration when writing the "About us" page.

1. Reveal of personal information.

To trust and be able to relate to the work, people have to see that behind this store stands a human being, just like themselves. Showing pictures of all the personnel involved in the creation of website and product might be a good idea, as it does not only show the personalization of website, but also provides nice visuals for this page. An example of this successfully used personification method is Mailchimp "Our story" page. (see FIGURE 10)



Ben and Dan loved serving these users, because understanding small businesses is in their DNA: Ben grew up helping his mom around her hair salon that she ran from their family kitchen, and Dan's parents ran a bakery. With Mailchimp, they found that working for small businesses gave them the freedom to be more creative and adapt quickly to their needs. So, in 2007, Ben and Dan decided to shutter the web design agency and focus exclusively on Mailchimp.

While the new company started as an email marketing tool, our customers repeatedly asked us to spread the Mailchimp magic to other channels. They taught us that Mailchimp's brand promise is to help small businesses "look pro and grow," no matter the channel.

FIGURE 10. "About" page (Mailchimp s.a.)

This introduction revealed founders' personalities and showed how these personalities fused with what they are doing. They also included their mission into the story of the creation of Mailchimp.

## 2. Focus on the customer.

Even though the name of the page says "About us", talking about potential clients is a great way to catch their attention. How to do that? One way is to talk about the mission and reasoning for creating the store from their perspective. Answer questions like: "what do my customers need? Why and how would they get that?" The great example of using this method is Nerdery's About page. (see FIGURE 16).

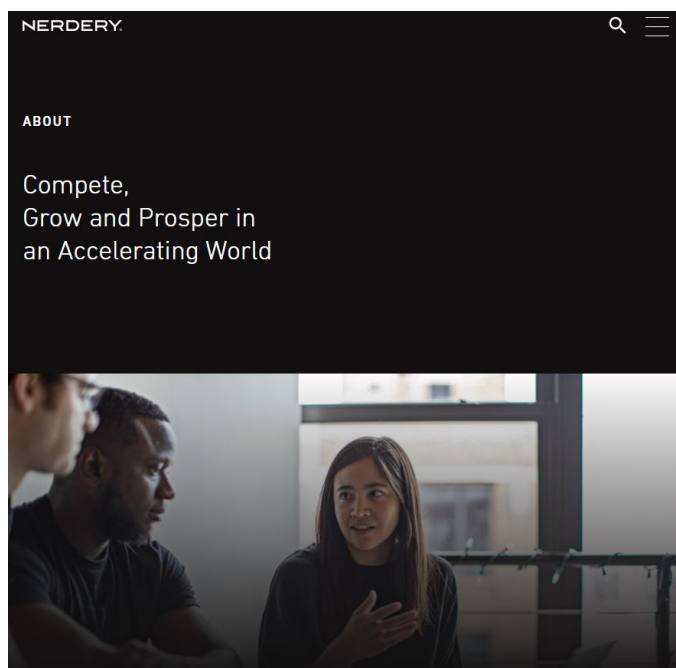


FIGURE 16. "About" page (Nerdery s.a.)

The first thing customer sees, when visiting this page is their proposition of how they can make their customers life better, therefore they manage to combine both concepts of making the information relevant and at the same time provide the value to customers.

## 3. Provision of data.

This step unfortunately works only for already established businesses, that already received some traffic. However, once the business is off the ground, it might give the huge advantage to include some numbers and statistics on this page. It is important that the information should not be complicated or overwhelming, it should just put the website's successful work in numbers; just like Tumblr included this part in their story to show its popularity. (see FIGURE 17).



## TUMBLR AT A GLANCE

## FOUNDED

February 2007

## CEO

Jeff D'Onofrio

## HEADQUARTERS

60 29th Street #343  
San Francisco, CA 94110

## POSTS TODAY

11,379,669

## LANGUAGES

18



FIGURE 17. Promoting statistics of Tumblr. (Tumblr s.a.)

## 4. Provision of visuals.

It is known, that human brain prefers visuals over the text, as it takes much shorter time to decode it. Many web designers use this feature to their advantage. As mentioned in the "personification" method, using the personnel's photos can benefit the webpage by creating the connection of customers to real people behind the website. It is recommended to use interesting photos, videos and graphs to make the story as unique and memorable as possible. Bentley implemented this method gracefully on their About page. (see FIGURE 18).

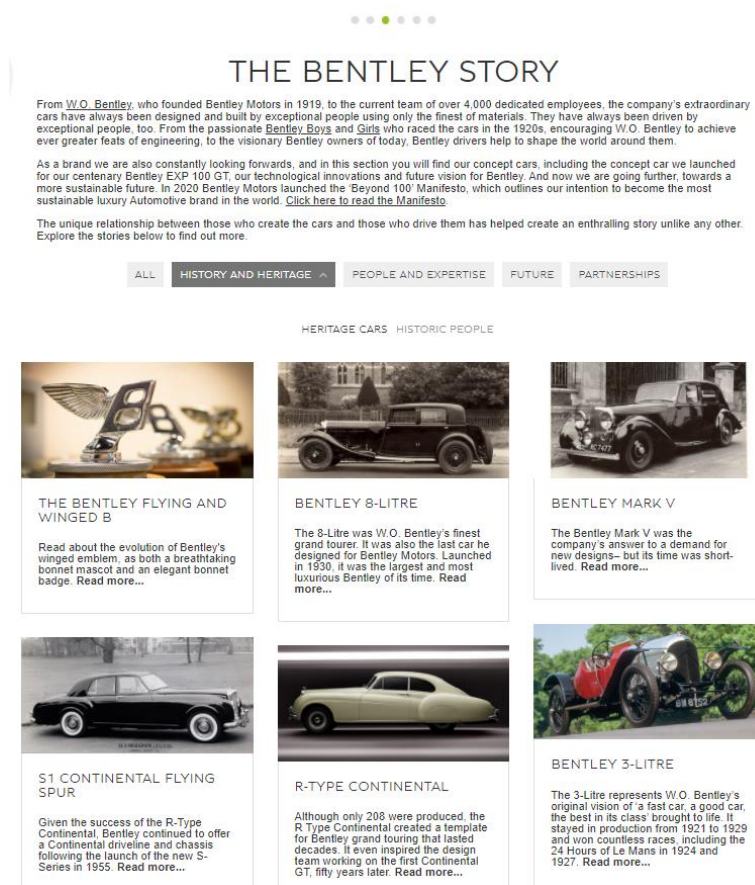


FIGURE 18. The Bentley story. (Bentley s.a.)

## 2.11.7 Wish and shopping cart

Creating both a wish and a shopping cart will help the website statistics to separate the "just browsing" customers, from the ones that are actually planning to purchase something. This separation will

establish more precise numbers for the entrepreneur's understanding of where the demand lies and where to invest. It is very important to have a clear design on this webpage, as it will highly affect the customer's will to purchase. This pages are all about holding on to the customers and making them want to return. However, the real situation is that the shopping cart abandonment rate is extremely high. Based on the research done by Baymard Institute, the shopping cart abandonment rate in 2020 in average reaches 69.80%. In 2021 people were asked for the main reasons of why they don't complete the purchase and the results give the e-commerce owners some food for brain, as to what to actually focus on when optimizing the purchasing process. (see FIGURE 19).

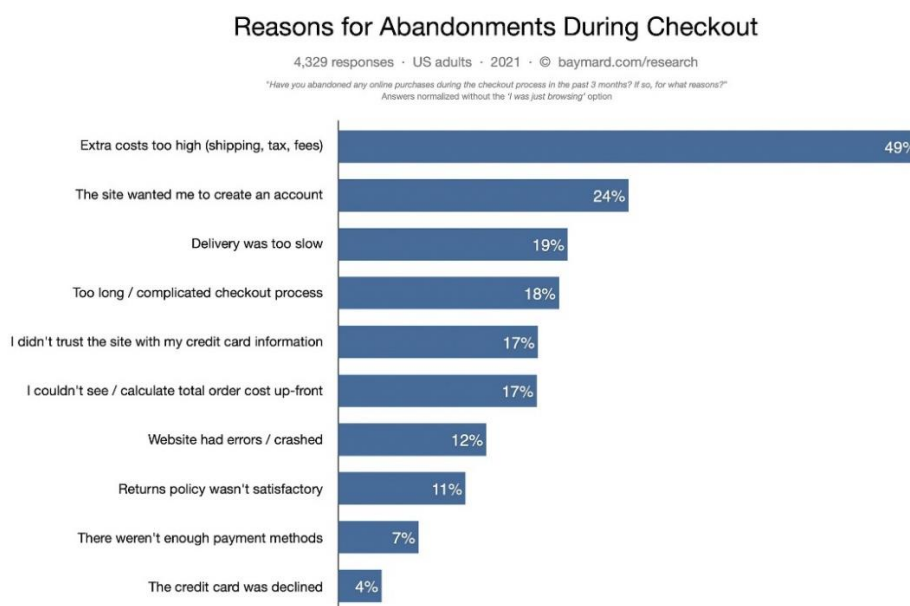


FIGURE 19. Reasons for abandonments during checkout. (Baymard, 2020).

### 2.11.8 Search box

Search box, or sometimes referred to as a search bar, is an easy navigation tool for the customer across the website. What separates the design of search system of average retailers to the top notch ones, is that the second ones approach the creation of the search on a more intuitive level, that is focused on the convenience, effectiveness and emotion, rather than a bare technology. (Algolia 2019). Two concepts, that affect the search optimization of the website are:

#### 1. Text

Whether the client is looking for that one specific watch or misspelled some words, an optimized search engine must provide the customer with all the relevant textual information. Commonly used prioritization orders of showing the results can be manually changed by customer and include options like "search by relevance/ price: low to high/ price: high to low", "bestsellers", "most viewed" etc.

#### 2. Personalization

The information received from the customer searching should be used to an advantage of the business. This includes suggesting the client potential items, that they might be interested in or providing the content they most likely will act up on.

### 2.11.9 Blogs and news

The blog and news on the website should be created accordingly to the business prospects. For example, if the store is focusing on selling houseware, the blogging can include topics such as "tips and tricks to clean the furniture", "home designing ideas" etc. Depending on the type of the company, the speech used can be formal and informal. If the website is suggested in multiple languages, it will only benefit translating the blogs on all of them. All these articles should be a useful content to the customers, that will drive more traffic to the website. In addition, parts of blogs can be used in SMM (social media marketing) and email marketing. The main idea of this part of website is to provide the customer beneficial information, but in a manner of entertainment. Another advantage of blogging is that with its updates it creates more keywords for SEO (search engine optimization), which makes the website appear on the higher ranks of search engines.

### 2.11.10 Trust marks

Establishing trust with customers should be one of the first objectives set by any e-store. Even though, building trust doesn't consist of mere technology, but includes multiple layers of human psychology, the trust marks can't be overlooked. Trust marks are generally provided by the third-party organizations, that assure the security of the customer's purchase at the certain store. They usually appear on the website as logos or/ and names of the companies, providing such a security. The famous and reliable trust marks providers are E-commerce Trust Mark EU, Paypal, Verisign, McAfee, TRUSTe etc. Seeing their logos on the website means that the website follows and guarantees to work accordingly the guidelines of these "supervisors" and in case of irregularity will be punished accordingly.

## 3 MANAGING E-COMMERCE

### 3.1 Online marketing

In the modern world every entrepreneur, whether they are the head of a small store or an entire corporation, aims to advertise their organization. After all, advertising is a guarantee that customers will find out about you, and later will use the services or purchase the product. In today's digital technologies expansion, advertising on the Internet is gaining more and more popularity. More and more customers are looking for what they need particularly on the Internet. In order to draw attention specifically to their product, entrepreneurs spend a lot of money to promote the product online. It comes as no surprise, that creating high-quality advertising takes time and costs.

Online marketing is increasing its scope every day, widening its areas of impact and continuously changing buyers' behaviours. The new types of e-marketing appear almost each day, which makes it very difficult to adapt to its spontaneous and seemingly unexpected nature. This area of business managing is the most dimensional and applies the changes fast to all of its segments.

It is known that consumers in e-commerce do not consist of passive observers. They are in the constant interaction with the company, brands, data and information they receive about the product. All of these give them a power over the internet business owners. Generally, this power comes down to

four sources, mentioned in 1962 by John F. Kennedy and later named "The Consumer Bill of Rights":

1. Right to safety

This right is created to protect the customer from any possible injury or even death caused by the products, that are dangerous to health or the life of an individual. "The Consumer Product Safety Commission (CPSC) has jurisdiction over thousands of commercial products, and powers that allow it to establish performance standards, require product testing and warning labels, demand immediate notification of defective products, and, when necessary, force product recall." (Lumen Learning s.a.)

2. Right to be informed

This right states that customers should always be provided with accurate, appropriate and, moreover, enough information to make the weighed and thoughtful purchasing decision. Information given by the company has to be truthful and avoid any misleading points in such areas as advertising, financing and packaging.

3. Right to choose

This right refers to the customer's ability to select from different options, whether from a variety of companies or products. It gives the legality to the competition on the market, which in its turn makes it possible to have a wider choice possibilities for customers.

4. Right to be heard

All the consumers that want to review, comment or file a complaint on the product have a right to be heard. This right gives the possibility for each company to evaluate and fix accordingly to its customer satisfaction levels.

Five major channels of online marketing are website, content, search engine, social media and email marketing.

### 3.2 Target marketing in online business

There are four types of target marketing to select from. (see TABLE 4).

TABLE 4. Types of marketing strategies. (Copyright by author 2021).

<b>Strategy</b>	<b>Target</b>	<b>Example companies</b>
Mass (undifferentiated) marketing	No particular target, everyone is a customer	IKEA, Colgate, Dove
Segmented (differentiated) marketing	Two or more segments within the total market, with the focus on each	Mercedes Benz, Adidas, Toyota
Niche (concentrated) marketing	Smaller and more specialized groups	Chanel, Lacoste, Ralph Lauren

Micro (individualized) marketing	Individual customers	Etsy, Redbubble, Patreon
----------------------------------	----------------------	--------------------------

The first two types refer to the more broad marketing, whilst the other have a narrow marketing focus.

When it comes to mass marketing, the strategy of it combines all categories and specifications of the market into one holistic target. In other words, there is no target as it is, since everyone is considered to be a potential customer. The main idea of this marketing is to have as wide reach as possible in a hope of attracting some attention from the masses. The main advantage of this marketing method is its cost-effectiveness, which comes from a possibility to cut costs on finding, manufacturing and selling more segment-focused items. Communication with customers in this strategy tends to be less personalized and more product-centered, and is mainly used by high-appeal markets or widely-spread markets, such as gasoline, television, hygiene products etc.

A differentiated market approach refers to the multi-segmentation of the market and provision of different offering to each segment. This strategy can be the best for newly established businesses to catch a big share, since even the older and more experienced companies struggle with providing the same level of attention to each market segment. However, the multi-segmentation can be expensive due to the need to design and serve a specific product for each party. The car industry is the most obvious example for segmented approach, as there are differentiations between luxury, sports, city and other vehicles.

Niche and concentrated target is similar to the segmented approach, since it also separates the market into section. But in spite of that, this marketing method doesn't focus on each segment, but rather selects the most attractive and beneficial ones. The main goal is a high penetration into the targeted niche. An advantage of this strategy is that it doesn't require much resources and is not overwhelmingly large, as it might seem in two previous cases. However, the downside of this approach is its great dependence on the consumer's demand. As long as demand is high, the positioning of the strategy will be stable, but when demand declines, the company should prepare the "financial cushion". The example companies implementing the niche targeting are the luxury brands, such as Chanel, Tommy Hilfiger etc.

Micro or individualized marketing works on the principle of customization. The main focus is on the small group of people or companies, that are willing to purchase designed specifically for them products. The market of this approach is filled with all kind of craftsmen and tailors. Micro marketing is also found to have the closest relationship between the supplier and the customer, as there is a necessity to create a high value of a product based on the consumer's personal specifications.

### 3.3 Social media marketing (SMM)

Nowadays, social media or more specifically social networking sites (SNS) is not only the communication tool, but also a rather successful business tool. There are so many different social media platforms and sites, each consisting its own unique features, targeted public and the way they deal

with advertising. There is no doubt that they all share the same principle, but if the entrepreneur's goal is to get the best promotion while covering the most relevant audience, they need to look into the small details, that can potentially both improve or harm the business.

The main advantage SNS marketing has over any other type of promotion is its strong connection between the customers and the seller. Businesses that use social media can expect that the biggest source of customer response to be from the platform, rather than an official email to a customer service department. Even though it is a great way to get a quick feedback from consumer base, it is also a risky management. News within social media spread fast and the social pressure can have a huge impact on how the business is handled. It is important to separate the business account from any personal thoughts or preferences, as expressing it can affect the image of the whole company.

As it was mentioned earlier, there are quite a few different social media platforms, but due to the wish of the case collaborator, only Facebook and Instagram promoting possibilities will be covered in this thesis.

### 3.3.1 Facebook

Facebook (FB) is an amazing tool for building the name and authority on social media. This will be one of the first SNS people will look into, when searching for an online presence of the company. Moreover, it is a great way to attract new customers, as well as create the loyal consumer base. Despite being a relatively old platform (launched in 2004), Facebook still takes its leading positions both by downloads of app and the amount of active users. (see FIGURE 20).

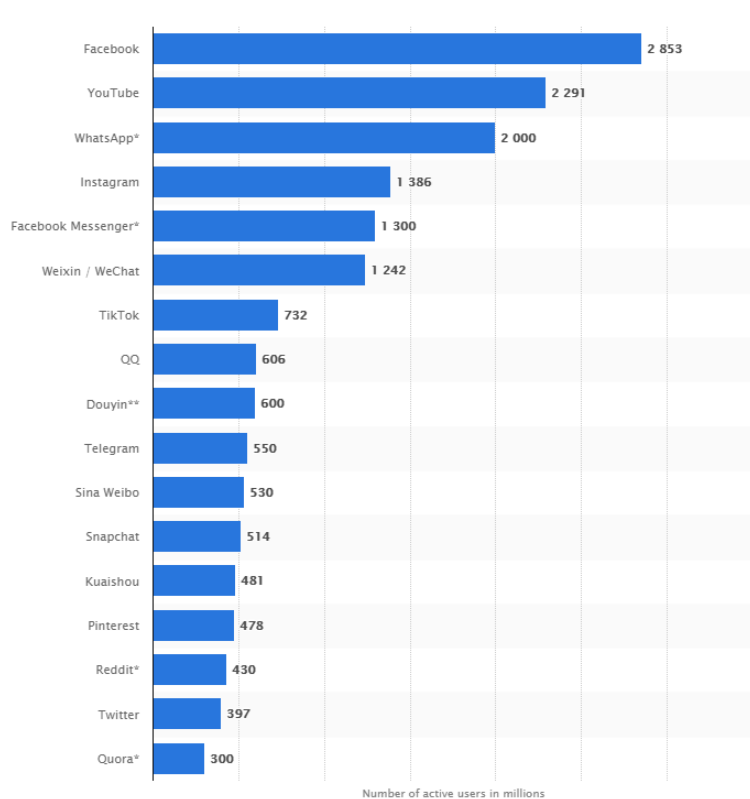


FIGURE 20. Comparison of number of active users in millions on SNS 2021. (Statista 2021).

The main principle that is used in social media marketing is to "befriend" the customers, and Facebook is not an exception. It is important to learn about the audience at the same time as they learn about the business.

Another great thing about Facebook is their analytics. All information related to who the main customers are, where they are located, what is the level of engagement will be available as soon as the business account will be established. For the small or beginning business, this information is crucial to set the ad campaigns correctly and have a clear understanding of what audiences should be focused in future.

There are multiple things that are mandatory to know create a stable online presence a business on Facebook. All three of them are closely intertwined and have a huge impact on each other.

### 3.3.1.1 Selecting free or paid marketing version

Free or sometimes referred to as organic marketing on Facebook describes the posts that don't have any budget behind them. In other words, these posts have not been invested into, therefore they show up in user's feed based solely on the interest of users towards it (the algorithmic score). There are multiple benefits that come with an organic marketing. First of all, it fills in the gaps where there is no ads. It is no surprise, people get tired of ads and seeing something only based on their interest is refreshing and gives a positive feeling. Secondly, it builds the brand awareness. To see the non-promoted posts of the certain company, people have to see their posts regularly and follow the page, which in its turn keeps the company on top of the mind of users and gives the company a strong social presence. However, the downsides of this marketing are rather tangible. The new algorithm, that will be explained more in detail in next clause, makes it more difficult to show up on the users feed organically. If to have the opportunity to show up in peoples pages the company has to score high with the ranking signals, it means that the company should have a good following base in the first place. In addition, it is impossible to target certain groups with organic marketing, since this option comes only with the paid advertising. There are two types of getting higher reach with the paid option: boosting and FB Business Manager. Boosting a post gives the basic variety of advertising functions, such as objective (what is the goal of promotion), CTA button (e.g. "see more...") and the type of audience (age, gender and location). All of these actions are available more in depth with Business Manager. Here is the basic mechanism behind the ads showcase on FB. (see FIGURE 21).

## Get an inside look at how we show you ads

Protecting people's privacy is central to how we've designed our ad system. Let's take a look how you see ads.



FIGURE 21. How Facebook Ads work. (Facebook 2021).

The variety of options with paid ads makes the whole algorithm work for the business owner's benefit and gives the opportunity to experiment until the perfect strategy is found. Unlike in the organic promo, algorithm of paid ads is targeting the most relevant audiences, that are most likely to purchase the products. (see FIGURE 22).

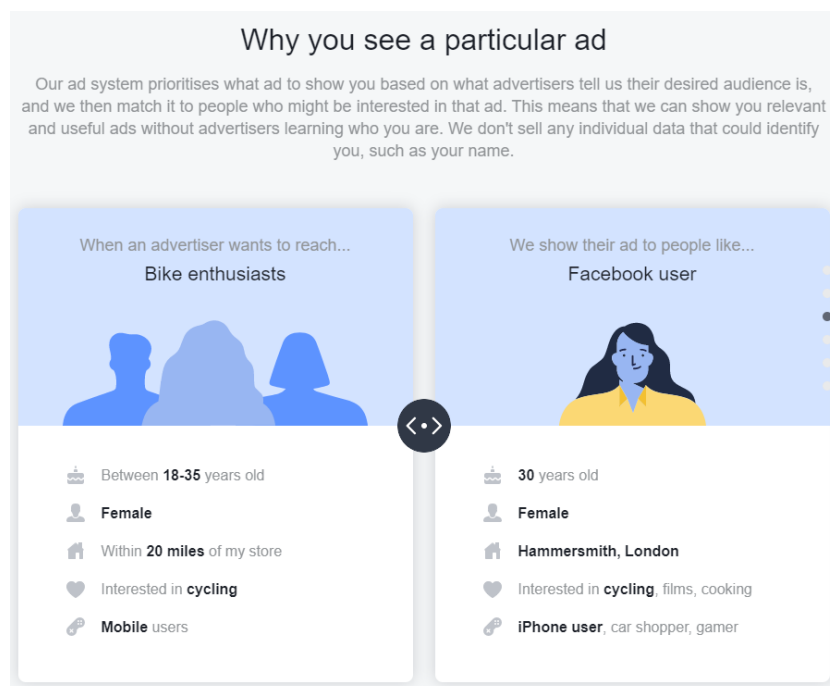
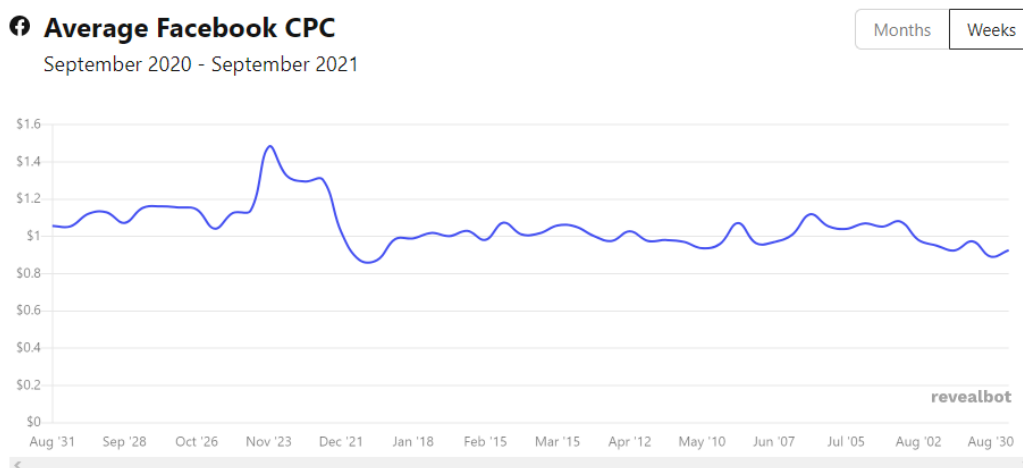


FIGURE 22. Target audience. (Facebook 2021).



The main financial goal for any business in advertisement is to get a positive ROI (return of investment). To do this, it is important to understand the measurements of costs on Facebook. Most costs on FB are usually calculated in cost per click (CPC) or cost per thousand impressions (CPM), otherwise known as bidding options. CPC refers that the company pays whenever somebody clicks the ad, whilst CPM requires payment only after a thousand people see it. (see FIGURE 23 and 24).



Average Facebook CPC in September of 2021: **\$1.06**

Data is calculated only from campaigns targeting audiences in the United States.

FIGURE 23. Average Facebook CPC Sep 2020 - Sep 2021. (Revealbot 2021).



Average Facebook CPM in September of 2021: **\$13.85**

Data is calculated only from campaigns targeting audiences in the United States.

FIGURE 24. Average Facebook CPM Sep 2020 - Sep 2021. (Revealbot 2021).

Both bidding options can vary depending on the business and the target audience. The calculations for the certain ad on FB are:

$$CPC = \frac{\text{total cost of campaign}}{\text{the amount of clicks}}$$

$$CPM = \frac{\text{total cost of campaign}}{(\text{total number of impressions}/1000)}$$

### 3.3.1.2 Understanding the current algorithm and be ready for the changes

This clause requires constant surveying and staying up-to-date with Facebook innovations and testings in algorithm. FB algorithm is known for its personalized ranking system and the latest changes came on January, 2021. This time Machine Learning (ML) has entered the scene. Facebook Engineering (2021) describes the ML ranking process as following:

"We use machine learning as a scale to predict what types of content people would want to see in their feeds. The system calculates the score for each individual signal in the post to predict how valuable a user would find that post based on different signals, such as a like or comment. Demotions are then applied to content, that people have told us they generally want to see less of, like clipping or misinformation, narrowing the remain list down to the most relevant posts. The system then calculates a final score for each post and this is where the real personalization happens. The actions of person might take more often, like commenting on post instead of sharing, may play a larger role for ranking content for them. And as a finishing touch we also apply processes intended to achieve a nice variety of photos, videos and other content in News Feed. So, when you or anyone opens a Facebook, News Feed is always ready to go, personalized for every user".

Four ranking signals mentioned earlier are relationship, content type, popularity and recency. All of them are based on the person's recent actions on the app, therefore they differ for each individual. These signals are used as a filter, otherwise known as an integrity process, to select the most relevant and interesting posts. (see FIGURE 25).

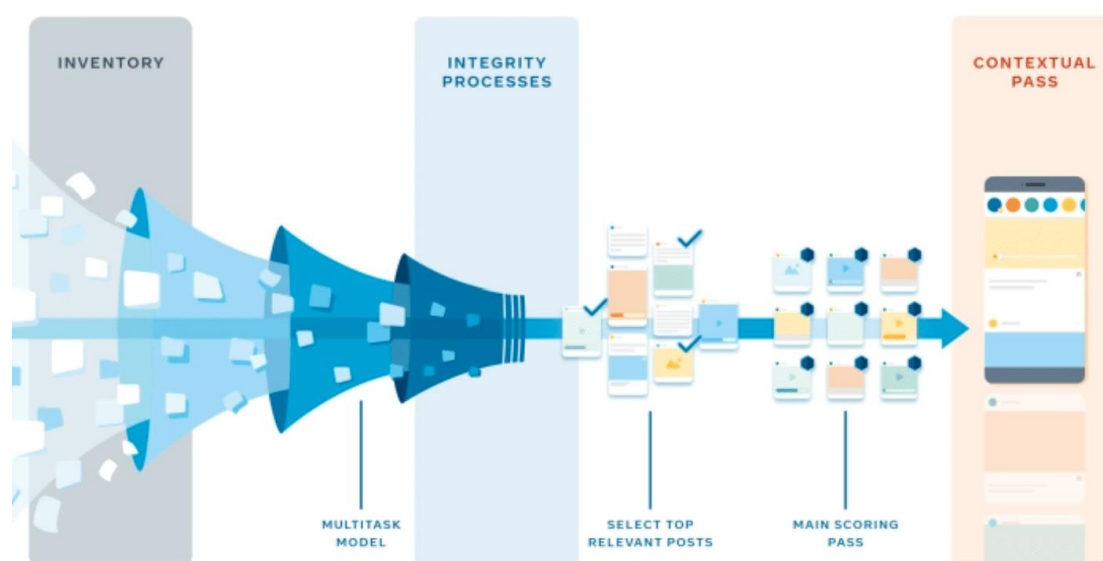


FIGURE 25. The updated algorithm process of selecting the most relevant posts for each individual on Facebook. (Akos Lada, Meihong Wang, Tak Yan 2021).

The good way to follow the news on Facebook is to follow the page of its CEO, Mark Zuckerberg. There business owners can find information about upcoming changes in algorithm and overall build of the SNS to predict their future action and mislay the strategy beforehand. In one of his July posts, Mark Zuckerberg talked about the advertisement links offsite, that don't give a good experience neither for customer nor the business due to the lack of optimization of these offsites. Which means, the change is coming and the "- - next phase here is focused on building out Shops, Marketplace, and business messaging in WhatsApp and Messenger to create more native commerce experiences across our apps" (@Mark Zuckerberg, 2021).

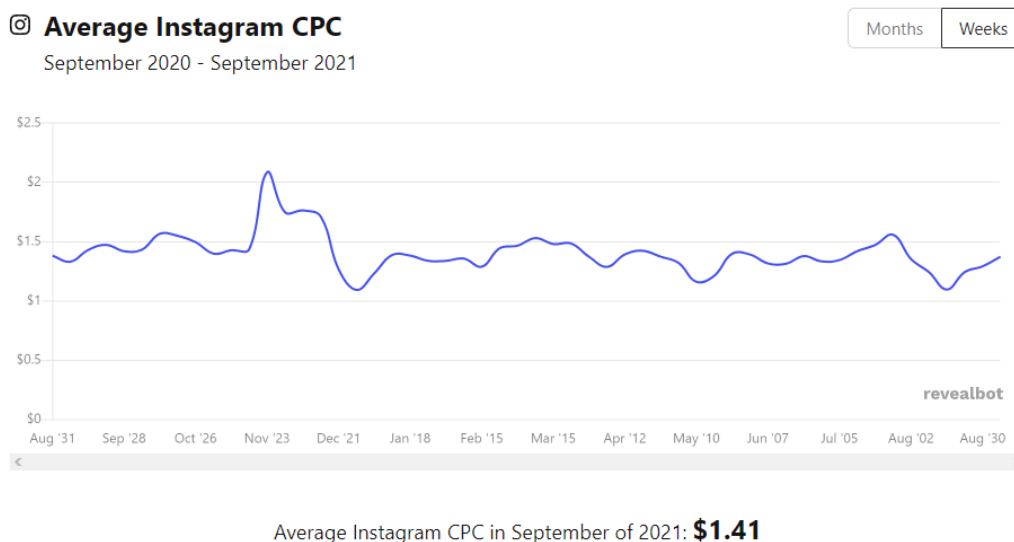
### 3.3.1.3 Regular posting

It goes without saying that to establish an efficient two-way communication with customers, the company has to create an interesting content, that ties the brand to the Facebook persona. Moreover, it is very important this content should have a set schedule (e.g. every third day). The origins of this liability lie in both human and algorithm factors. The only way for people to connect with the brand is by its posting, but even when this connection appears, it has to be constantly stimulated. There is so much content in internet, that catches human attention, which means that memory and attention span spent on one online topic is short. Regular posting reminds people of company's presence by continuously popping up in their news feed. The second reason is the algorithm. As one of the FB ranking signals is recency, for the business page to be shown to more people its posts can't be older than few days.

### 3.3.2 Instagram

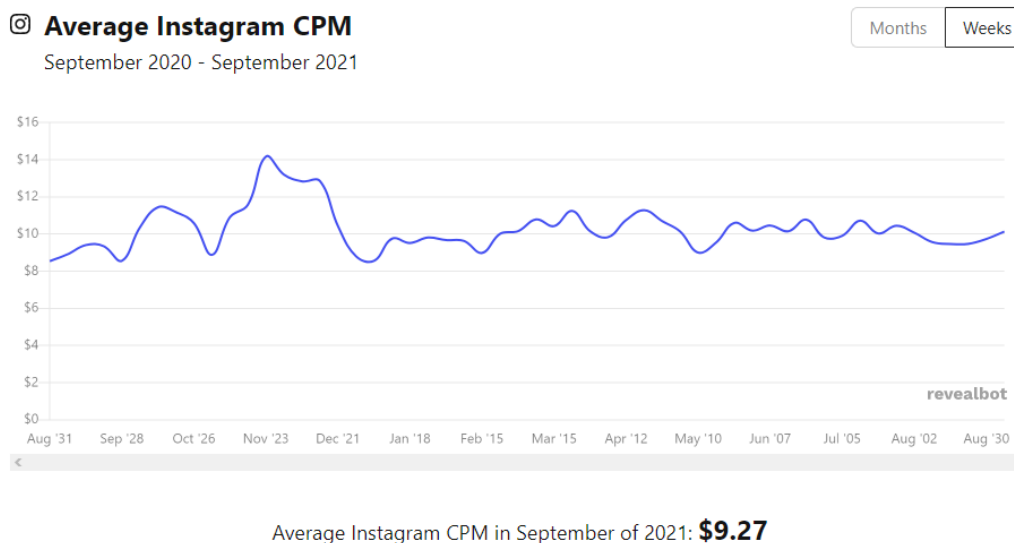
As Facebook creator, Mark Zuckerberg, also owns Instagram (IG), there is no big difference in features of these two apps. Everything that is available or being tested on Facebook will inevitably come to Instagram as well. However, there is an essential detail, that separates Instagram from the rest of SNS including FB: it is a visuals-sharing app. Meaning that if the company's production is not about visually appealing products, it will be rather challenging to build an audience on IG.

Compared to Facebook, Instagram both CPC and CPM average pricing is higher, thus marketing on IG currently is a more expensive option. (see FIGURES 26 and 27).



Data is calculated only from campaigns targeting audiences in the United States.

FIGURE 26. Average Instagram CPC Sep 2020- Sep 2021. (Revealbot 2021).



Data is calculated only from campaigns targeting audiences in the United States.

FIGURE 27. Average Instagram CPM Sep 2020- Sep 2021. (Revealbot 2021).

There might be a few reasons for that, such as ad fatigue, selection of irrelevant audience or objective, too restrictive selection or an overall FB performance failure.

### 3.4 Email marketing

After all these years, email remains a reliable and applicable almost anywhere way of communicating both with clients and partners. It might seem old-fashioned compared to the data sharing services in social media, but nonetheless it has been proved being the most effective, when it comes to online businesses.

Using this method of marketing is considered one of the most cost-effective, since it mostly requires an investing in the beginning to set up the system, after that automatization will handle the rest. Compared to other marketing ways, that were discussed earlier, email marketing is the cheapest solution.

Irrelevant in the beginning, customized and personalized domain name for the company's email address can play a big role in future. First of all, it makes it easier to be recognized and set apart from the competitors. How often do people skip casual @gmail.com, @hotmail.com or any other frequently used email domains without even checking them? Definitely more times, than any profit-focused business owner can afford. A custom domain will also provide a credibility as it will show the professional attitude and devotion to the work. If the business decides to keep the general gmail.com domain, it risks looking like a beginner, therefore not trustworthy enough to most of the customers. In addition, it will also keep the management consistent, as it will give the opportunity to keep all the departments at the same domain in future (e.g. supportteam@yourdomain, customer-service@yourdomain). Customized domain will make the branding and marketing much easier as well, as the name of the address itself will promote the business.

The main steps that email marketing starts with are: organization of contact base, using the subscription data on the site, that will allow the mass mailing in future and setting the double opt-in option. It occurs when the client subscribes to the email marketing of the website and then receives the confirmation message on the mail. It is used so that the email marketing messages will not be automatically marked as spam in future.

Automatization of the email-marketing system makes it easier to handle for the merchant, as it is automatically updating the information base of clients, forming and sending the messages based on the premade algorithm.

Email types for e-commerce can be separated in several categories:

- Selling or promotional  
One of the most used type of emails are the selling ones. This type usually informs the customer of discounts, new products, certain events. The main goal of this mailing is to increase the amount of actions client performs in the store.
- Content-based  
This type of mailing is non-commercial. It doesn't activate any actions from the client, but includes some information, such as news or blogs. The main goal is to keep in contact with customer, while providing the information they might be interested in reading.
- Triggering  
Is an automated email, that is sent once the customer hits a certain milestone or has a certain event, e.g. customer has a birthday or has spent first 100 dollars in the store.
- Reactivating  
Email, that is sent when there is a decline of a customer's activity on the website. Generally has a form of reminder (e.g. "Your shopping cart is ready for an order").

The fundamental principle of email marketing is to send the right emails at the right time to the right person. Even though it is simple as a concept, to figure out what is the right message to whom and when takes time. Tim Watson, founder of email marketing consultancy Zettasphere and EOS Implementer at Traction Six, mentions that "right message, right person, right time" is a concept that can not possibly be achieved in real life— human factor is too unpredictable. However, technology is evolving so fast, soon it might be able to close this gap.

Email marketing and its use for an automation of an online store is a very effective solution, as advertising is one of the main tools in the work of an online store, and its automation simplifies the work of employees and saves a lot of time. Therefore it is enough to invest once into such a project in order to subsequently receive tangible results from this and, most importantly, the profit from an e-commerce.

List of most frequently used web hosting companies:

1. Greekgeeks <https://www.greengeeks.com/affiliates/track.php?affiliate=digital&campaign=digitalgmail&lp=1>
2. Zoho <https://www.zoho.com/mail/custom-domain-email.html>
3. Hostgator <https://www.hostgator.com/web-hosting/?clickid=Ss40anwR%3AxyOTg%3AwUx0Mo3EWUkBWQZxhlxFXVg0&irgwc=1&affpat=1&mpid=2208946>
4. Bluehost [https://www.bluehost.com/special/homenew?utm\\_source=digital.com&utm\\_medium=affiliate&utm\\_campaign=affiliate-link\\_digitalcom\\_notype](https://www.bluehost.com/special/homenew?utm_source=digital.com&utm_medium=affiliate&utm_campaign=affiliate-link_digitalcom_notype)

### 3.5 Search engine marketing (SEM)

"Search engine - computer function that searches data available on the Internet using keywords or other specified terms, or a program containing this function." (Google Starter Guide s.a.)

"Search Engine Marketing (SEM), a term used to describe all marketing strategies for search." (HubSpot s.a.)

The goal of a successful SEM practice is to make website appear in higher ranks of search engine's results page (SERP) organically.

Each search engine has a proprietary algorithm with the help of which it selects in what order the web-links will be suggested in SERP. Few things that affect on this algorithm are:

- "Geographic location of the searcher
- Historical performance of a listing (clicks, bounce rates, etc.)
- Link quality (reciprocal vs. one-way)
- Webpage content (keywords, tags, pictures)
- Back end code or HTML of webpage
- Link type (social media sharing, link from media outlet, blog, etc.)" (HubSpot s.a.)

SEM includes both organic and paid promotion search. With the paid option, it is possible to list the website on top of the a search engine. Meaning that, when someone types in a specific keyword or

phrase the website will appear on the higher search suggestions. Organic listing will also appear on the page, however, it will be located lower. The disadvantages of paid SEM are perceptible, because this option is quite costly and often does not deliver the best results, as "about 88% of search engine users never click on paid search ads (Hubspot, s.a.)."

"Search engine optimization (SEO) is a collection of strategies that improves a website's presence and visibility on a search engine's results page (SERP)." (MDPI, 2019).

SEO includes four types of methods used: keyword research, search engine indexing, on-page optimization, and off-page optimization.

Keyword research speaks for itself, its goal is to provide the searcher with the most relevant information based on the keywords they used. Search indexing refers to the process of gathering and prioritizing the website content. The main difference between on-page and off-page optimizations, is that the first one uses all the directly related factors of website, such as keywords and content, whilst off-page analyses such features as social signals and link build.

Three core elements that it takes to have a good organic listing are:

#### 1. Rank

Rank refers to the number of order in which the website is located. The calculation usually starts after the paid ads. This number is basically the indicator of how well the other two elements are working, in other words, how authoritative and relevant the link is.

#### 2. Authority

It is known that the more authoritative inbound link website has, the more boost (sometimes referred to as link juice) from the search engine it will get. For example, a link containing Youtube.com in their domain will get more viewed than from some other unknown platform. It is all done to strengthen the cybersecurity of search users. Other factors, that affect the authority of link are age and appropriate naming.

Free tool to measure Moz Rank (indicates the popularity of link on a scale from 1 to 10) and amount of domains linking to the website: <https://website.grader.com>.

#### 3. Relevance

Relevance is one of the most critical and complex factors affecting the SEO. Search engines look into the fonts, structure of the website, uniform resource locator (URL), formatting, pictures to figure out the relevance of website to the certain user. In other words, search engine software is trying to simulate the human thinking in order to provide the most benefitting results. This kind of website exploration by search engines bots is sometimes referred to as crawling.

Best practices to implement with an eye to improving the website's popularity without an overwhelming IT-knowledge are:

#### 1. Offering quality content and services

Word-of-mouth will help the website build a good reputation more than any other factor, that's why creating interesting content will receive a recognition on its own. However, other types of marketing are also recommended to use. In addition, creating something useful or

providing something no other site offers on the page may also drive traffic to it. It is important to understand a difference in perception of various users and make a use of it. For example, using different keywords for search on the website. For this case, GoogleAds provides free Keyword Tool, that shows multiple keyword variations.

(<https://ads.google.com/aw/keywordplanner/home?pli=1>).

## 2. Easy navigation

Understandable navigation map of website is important both for visitors and search engines. For visitors it helps to find what they want faster and on a more intuitive way, whilst for search software it helps to prioritise the analysis of the content webmaster considers important. Another tip for creating more convenient navigation is to use "breadcrumbs links" on the top or bottom of the page (e.g. Home – News – Blog).

## 3. Catching and clear anchor text

An anchor text is a clickable text within the link, that provides user and engine bot information about the contents of the page. (see FIGURE 28).

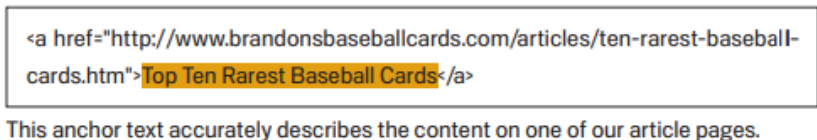
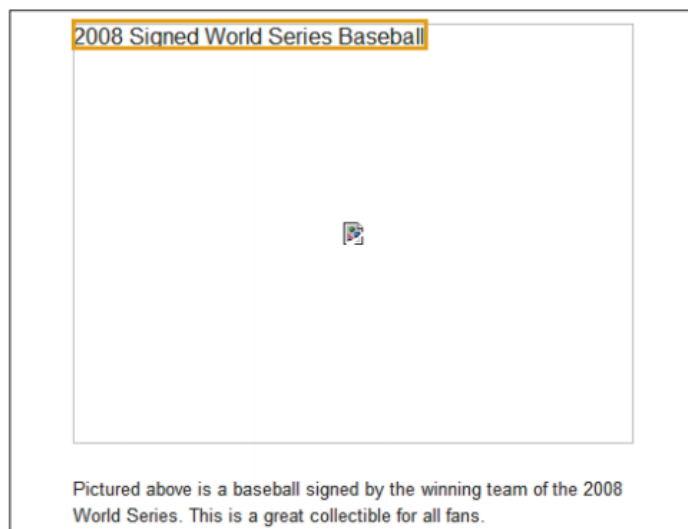


FIGURE 28. Anchor text example. (Google starter guide s.a.)

## 4. Optimization of the image usage

Usage of images might seem easy, but there is a way to make it even more smooth. For example, by creating an "alt" attribute for each picture used. An "alt" attribute is a text description of what is pictured on the image, and it is added in case the image doesn't load or the person is using a screen reader, the contents of the image will still be understandable. It also comes in handy when using image search engines, such as Google Image Search. (see FIGURE 29).



(1) Our image wasn't displayed to the user for some reason, but at least the alt text was.

FIGURE 29. "Alt" attribute example. (Google starter guide s.a.)



#### 5. Optimization of a mobile version of website

When redirecting users from desktop URL to the mobile version, it is important that it corresponds each other as closely as possible. There is also a possibility to implement a user-centered approach, which means that both desktop and mobile versions will share the same URL, but the contents designs will slightly differ depending on what tool is used by person. It is better to avoid showing different results to users and bots, as in this case the whole website can be considered cloaking, which will lead to the disappearance of it from SERP.

"Cloaking refers to the practice of presenting different content or URLs to human users and search engines. Cloaking is considered a violation of Google's Webmaster Guidelines because it provides our users with different results than they expected." (Google Search Central s.a.)

#### 6. Implementing other marketing methods

SEM in collaboration with the other online marketing techniques can provide the most results, as it will create a stable online presence of the company in cyberspace.

#### 7. Usage of free webmaster tools offered by Google, Yahoo! and Microsoft

Being able to understand and control the way some search engines work is a great benefit for SEM strategy.

## 4 CONCLUSION

In conclusion it can be said, that establishing an e-commerce effectively requires a lot of time and effort from a business owner. Online commerce is suitable both for those who are trying themselves as an entrepreneur for the first time, and for those who already have some business experience behind them. Even though this process is creative and differs for everyone, the theoretical background can be used as a base for building up a strong online presence. Since the popularity of online business has been rapidly growing, it is important to stay up-to-date with all the modernized knowledge and terminology when trying to enter this market. There are many procedures that should be implemented in order to make an e-commerce work and the biggest difficulty comes from the interconnection of the processes. There are few steps that nowadays can be either simplified or completely taken care of by the information technologies, so the automatization of online business might be beneficial. Each of the thesis chapters have their significance and footprint in establishing the e-store, and with an eye to avoid the potential problems in future, many of them can be planned beforehand.

It is important to understand that launching the website doesn't yet mean the money will start flowing. If everything is done accordingly, it will take several years to start receiving the ROI. Business requires constant investments and reevaluations: expanding the range, marketing, premises and personnel, increasing volumes, changing the locations etc. Keeping up with trends, managing the logistics and IT procedures, improving the communication with customers and suppliers - all of this has become engraved into the holistic system of an e-commerce. Meaning, that the research and change for an e-commerce will come at all times, even after it's proper establishment. The theory is accessible for everyone and it is only up for the company to ensure the prosperous realization of it.

17. Are the product descriptions accurate and detailed enough?
18. Did you find any of the product descriptions misleading in anyway?
19. From a readability standpoint, is all of the text on the site easy to read? Is the text too small, too large, or too cluttered? Are the fonts, type styles, text colors, and/or background colors visually appealing or distracting?
20. In your opinion, what are the best and worst features of the website overall?
21. Are the prices competitive?
22. After visiting the site for the first time, would you be likely to place an order right away, or would you first shop around and compare the site to its competitors?
23. What is one feature or piece of content on the website that you would change to make it better? How would you improve it?
24. Is there any information about the company or products that you could not easily and quickly find on the site? If so, what?
25. What would prevent you from placing an order on the website during your first visit?

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