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## **Small retailers surviving in a world influenced by global players and digitalization**

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## **Abstract**

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Small retailers surviving in a world influenced by global players and digitalization, 82 pages, 1 appendix

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The retailing market has changed considerably due to digitalization thereby, it is becoming more challenging to survive on the market. The aim of this study was to visualize ways that enable small retailers to be successful on the market even though global players are present and digitalization trends are continuously occurring. Information and solutions out of this study might help several companies to discover a way to be competitive or give them hope that even small retailers will have a chance. The major focus was on Amazon as a global player and several case companies that operate inside the food industry.

The data collection took place at two levels. Firstly, a literature review in order to obtain valuable background information and gain sufficient knowledge about the topic. Secondly, data were conducted through four qualitative interviews with case companies.

The result clarified that there are several ways to survive on the market, but it depends on the company which solution is the right one. Solutions can be following a trend of society, focusing on a niche market or a down-to-earth mentality, which leverages many regular customers.

Keywords: small retailers, global players, retail, food industry

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# **1 Introduction**

This chapter aims to give the reader an insight about the major idea of this thesis. Firstly, the background for the topic of this thesis is outlined to provide an understanding of the retail market and the challenges small retailers are facing to survive in a world influenced by global players and digitalization. Subsequently, the objective and the delimitation are presented and research questions are introduced, followed by a literature review about existing research concerning the topic. Then, the research method is outlined and finally the structure is described.

## **1.1 Background**

Nowadays, the retail market has changed significantly compared to previous decades. In the past, retailing was limited to physical stores, which are also called bricks-and-mortar stores. Furthermore, technical improvements are continuously occurring and the development of technical approaches has affected the retailing market. Retail e-commerce has established itself as a successful distribution channel on the market. Thereby, various models have been established, for instance the bricks-and-clicks approach. (Wollenburg, Hübner, Kuhn & Trautims 2018.)

Consumers have adopted new retail opportunities in an excellent manner and increasingly tend to prefer bricks-and-clicks compared to physical stores. For consumers benefits arise by using e-commerce such as decreasing search costs or the access to a wider range of products (Bakos 2001). The comparison of products and search for a specific product is simplified by online retailing. Online stores are still developing as the digital transformation is an on-going process and new digital devices will be integrated into shopping habits of consumers if they are willing to apply them. (Popomaronis 2017.)

Within retailing several market leaders are present, which are permanently becoming more powerful. Currently, Amazon and Walmart are the two major leaders in retailing, both have a high market share. Walmart is the biggest retailer worldwide and it is represented in 27 countries. Additionally, it has established e-commerce platforms for 11 countries. Walmart aims to enable its

customer money savings and flexible shopping habits through online platforms and physical stores.

Amazon, the biggest online retailer worldwide it started its business in North America and now, it is expanding globally. The company started by selling books online and nowadays, it has extended its product range and offers several services as well. Amazon aims to be the most customer-focused company all over a world. (Agarwala, Katiyar & Singh 2015.)

For small retailers, it is challenging to survive in a world influenced by global players and digitalization. They are struggling for instance due to a lack of resources. Small companies are facing important decisions about the future of their business, which might end up in selling their business or leaving the market (Anderson 2017).

The U.S. retail market underlines this statement: the number of online sales by Amazon, in 2016, was 43% of the total ecommerce sales (Harrison 2017). The number of e-commerce sales is increasing as well. The turnover rose by 11 percent in Germany in 2017 and is still expanding. (EHI Retail Institute 2017.) As a result, small retailers have to consider ways to remain competitive. Therefore, several tools exist such as focusing on personalization. The connection with its customers can be the key to survive in a world influenced by global players. (Harrison 2017.) Small companies could also focus on special delivery services, which global players are not able to offer to a broad range of customers. Thus, small businesses have a benefit by not being in the position to satisfy a wide range of customers rather, they can focus on certain target groups. (Coletto 2017.)

The amount of literature available about small retailers and their ways of surviving in the digitalized world is limited even though the topic is very urgent. Some articles, reports, working papers and further information can be found concerning the topic, but there is not much information to gather. Plenty of retailers are facing uncertainty about the future of their business and this thesis aims to give an insight about potential solutions for small retailers surviving in the digitalized world influenced by global players.

### **1.3 Problem statement**

Over the past decade, many new innovative ideas arose within the retailing branch. Companies start to realize that traditional business models are not the only option to succeed on the market. Retailers must adjust their business models in such a way that they will not be left behind. (Wyman 2014.)

For global players, it is easier to change their business models as they have more resources available, but even small retailers face the need for change. They need to identify many upcoming trends, such as physical stores being not sufficient enough anymore, to retain customers through the lowest price and invest in technology to leverage an entire business performance (Wyman 2014). Small retailers are also competing with global players as digitalization enables companies, such as Amazon, to offer their products in several countries. The market situation is becoming increasingly troublesome and small retailers need a well-functioning business strategy. E-commerce can leverage every business, which includes small retailers. The bricks-and-clicks approach gives entrepreneurs and small businesses opportunities to break through and spread their products. Thereby, digitalization helps small companies to be successful. (Popomaronis 2017.)

This thesis will outline potential ways for small retailers to survive on a competitive market. The problem is very urgent and many companies would probably be grateful to see well-functioning approaches.

### 1.3 Delimitations

The topic of the study is very broad, therefore major restrictions are necessary to achieve a representative result.

Firstly, *Amazon is going to be the only global player considered in this study.* The retailing market includes a couple of global players. Anyway, this thesis will only focus on Amazon as a global player. Amazon is the largest online retailing platform and has an impressive range of digitalization elements. Thus Amazon is the most suitable global player for this thesis, since digital environments are to be included.

Secondly, case companies and operations of Amazon are *limited to Germany.* The range of small companies worldwide is very extensive. Moreover, Amazon does not offer every service globally. In order to still obtain meaningful results within the timeframe of these studies, the reduction to one country has to take place.

Thirdly, *the number of small retailers included in the thesis is four.* It is possible to interview four companies and evaluate their results in a certain amount of time and the outcome is still significant. The probability that some of the companies were an exception is lower due to the implementation of four companies. The companies are part of one industry, which is the food industry. The products will deviate depending on the industry to achieve a presentable result.

Last but not least, *the individual business fields of the case companies will be compared to offerings of Amazon within the food industry.* Amazon is offering myriads of services and products, but the comparison will only occur in the same services/products of the food industry. For instance, one case company sells wine and its offer is compared to Amazon's wine assortment.

The introduction of these four definitions is intended to provide a constructive insight into the strategic opportunities of small retailers to compete in the market characterized by global players and digitization.

## **1.4 Research questions**

In order to have a sufficient content for the thesis research questions are introduced. The most important research question is:

- How can small retailers be successful in a world influenced by global players and digitalization?

For a clear structure some sub-questions are introduced:

- What changes happened in the retailing industry?
- How did Amazon obtain the position of a global player?
- Which similarities/ differences do the case companies have?
- Can the business models of the case companies be adopted into other companies?
- Can digitalization be seen as the key factor for success?

These are only a couple of research questions, but they help to obtain a fundamental result.

## **1.5 Literature review**

Developing a comprehensive framework to present ways for small retailers to survive in a world influenced by global players and digitalization is the intention of this research. Therefore, a representative number of valid and valuable sources is necessary. By applying an excellent choice of literature, a meaningful outcome can be granted.

The major sources for this research are the following:

- Academic literature
- Economic journals
- Case studies
- Interviews with small sized companies

The combination of academic literature and practical approach is possible within this thesis. The academic literature majorly applied is for instance by Vogelsang (2010) and Schmidt, Döbler & Schenk (2000), who give a good overview about the history of the retailing market. The literature by Schmidt, Döbler & Schenk (2000) is relatively old but the provided framework is very valuable as it enables great understanding. Additionally, recent academic

information, about digital trends, open innovations and so on is given (Haag & Niechoj 2016).

The journals used for this research are an essential part as well. Especially, Hagberg, Sundstrom & Egles-Zandén (2016) are framing the digitalization very successfully. Hagberg, Sundstrom & Egles-Zandén (2016) start in the earlier decades, when digitalization elements were introduced and delineate the development of digitalization with its different innovations. Additionally, Kotler & Armstrong (2014) give a concept for strategies, that can be transferred to the retailing sector through information of several journals (Devil, Birtwistle & Macedo (2003) or Coca-Stefaniak, Parker & Rees (2010)) and also, by applying some online reports (Sheehan (2017), Statistisches Bundesamt (2017) or JLL (2018)).

Overall, the present literature base is wide enough to write this thesis. The practical approach is formed by interviews with experts from different case companies.

## **1.6 Structure of the study**

The starting point of the research is general information about the terms used in this thesis. It is important to dismiss misunderstandings within the basic vocabulary.

Afterwards, an overview about the development within the retailing industry is presented. The general changes from physical stores to online shops are shown and potential opportunities for the future are outlined. Whereby, a special focus is on e-commerce as its establishment is an essential opportunity for the retailing market.

Then, the current situation of the retailing market in Germany is outlined. The thesis is only concentrating on the German market and therefore, readers require some knowledge about its current situation. After this, general strategies, that show what retailers need to survive in nowadays world are presented.

The strategies are followed by a description of the company “Amazon” to give basic information about the company and to tell the success story of Amazon.

Next, the weaknesses of the company are mentioned by applying an environmental analysis for the performance of Amazon in Germany. The analysis is based on three elements. At first, the five forces model of Porter, which is designed to focus on the direct environmental influences of a company and visualizes the competitiveness and potential of the retailing industry. The next element is a PESTLE analysis, which illustrates the indirect environmental influences. Thereby, the external influences on the retailing market are clear, which is an excellent for the third tool, the SWOT analysis. This strategic instrument identifies several areas in which companies can adopt.

Subsequently, the four interviewed case companies are outlined. Their success story is briefly described and their strategies, which enable them to survive in a world influenced by global players, are depicted.

Afterwards, the findings of the case companies are shown and in the end a conclusion is drawn including a final discussion.

## 2 Theoretical framework

### 2.1 General Information

This chapter aims to give an overview about major topics of the thesis in order to clarify the meaning of several terms. Therefore, definitions about digitalization, retailing and small companies and global players are given.

#### 2.1.1 Definition small-sized enterprise

Within enterprises four different sizes exist, which are shown in Table 1.

Company category	Staff headcount	Turnover	Balance sheet
Large	$\geq 250$	$> 50 \text{ m}$	$> \text{€ } 43 \text{ m}$
Medium-sized	$< 250$	$\leq \text{€ } 50 \text{ m}$	$\leq \text{€ } 43 \text{ m}$
Small	$< 50$	$\leq \text{€ } 10 \text{ m}$	$\leq \text{€ } 10 \text{ m}$
Micro	$< 10$	$\leq \text{€ } 2 \text{ m}$	$\leq \text{€ } 2 \text{ m}$

Table 1: Company sizes (European Commission 2018)

According to the European Commission, the categorization is based on staff headcount, turnover and balance sheet so that companies can be classified in categories. This thesis focuses on small and micro companies as three case companies are start-ups with a micro size. Anyway, the significance of the result can be even bigger by applying it to start-ups.

### **2.1.2 Definition retailer**

The Oxford dictionaries defines retailer as: “A person or business that sells goods to the public in relatively small quantities for use or consumption rather than for resale“ (Oxford dictionaries 2018). The definition needs some expansions, as a retailer has several goods, which can be certain products, services and facilities to offer to its customers. In the past, retailers tend to have a higher value for their distribution chain. (Elg 2003.)

### **2.1.3 Definition digitalization**

The definition of digitalization is very crucial as it is used differently depending on the context. An accurate definition of digitalization is transformation of analogue data into digital data. A sufficient definition should additionally implement that digitalization can also describe the transformation of a business by integrating new digital technologies. (Bloomberg 2018.) Thereby, new opportunities to create value arise (Hagberg, Sundstrom & Egels-Zandén 2016). Looking at retailing and e-commerce, recently companies started to introduce chat widgets on their websites. It enables customer direct communication with companies. Following, it can help customer for instance, if they struggle to find specific products on the website. (D’Angelo 2018.) Those chat boxes are new digital technologies and leverage a higher customer satisfaction.

## **2.2 Digitalization and retailing**

Digitalization has a high impact on many business branches including retailing. Thus, the purpose of this chapter is to give an insight about changes of the retailing industry through digitalization. A special focus is on e-commerce due to the fact that Amazon is the largest online retailer.

### **2.2.1 Start of the transformation of retailing**

To understand the transformation of retailing, it is necessary to have a closer look at the past. Looking at earlier centuries, several inventions occurred such as the telegraph in 1835. It was applied to transfer signals of the Morse Code. Following, the first worldwide network established and further technologies were introduced. (Vogelsang 2010, p.7.) Very meaningful was a project launched in 1969, which can be seen as the beginning of the Internet. The United States supported a project, which originally aimed to help the government, military, agencies, Science and even more by creating a network that connects several computers. Thus, communication became possible between various computers and generally, it was an excellent advantage for the United States. Then, the National Science Foundation improved its value by developing high-speed communication lines. (Schmidt, Döbler & Schenk 2000, p.27.)

Finally, Tim Bernes-Lee introduced the World Wide Web in 1989. His primary intention for the establishment was the European Laboratory for Practical Physics that strived to apply the World Wide Web within their organization. The intention behind the World Wide Web was that a broad amount of information could be shared globally. The World Wide Web became available for society and it encouraged many people for instance in social, artistic and commercial ways. (Schmidt, Döbler & Schenk 2000, p.28.)

The World Wide Web's structure consists of several linked websites, which include various graphical elements. Websites can be seen by browser software. Furthermore, Internet as a name started to be commonly used for World Wide Web. New technologies gave businesses new opportunities such as productivity improvements connected to lower costs through a more successful coordination of a company, or a wider product range based on expansion of business as more people can be reached. (Vogelsang 2010, pp.9-10.)

In the following years, plenty of new companies entered the market that focused on e-commerce. The situation changed and became more complex as new business models arose, chances for business changed and shops started to enter international markets. (Hagberg, Sundstrom & Egles-Zandén 2016.)

### 2.2.2 E-Commerce

Electronic commerce (e-commerce) is “commercial transactions conducted electronically on the Internet” (Oxford Dictionary 2018). According to Schmidt, Döbler & Schenk e-commerce consists of four divergent parts, which are shown in Figure 1.



Figure 1: Four components of e-commerce (Schmidt, Döbler & Schenk 2000, p.29)

Before the World Wide Web, **communication**, one part of e-commerce, was merely verbal. Through the access to the Internet transferring information became more flexible between customers and retailers (Schmidt, Döbler & Schenk 2000, p.29). Before the World Wide Web, communication was merely verbal. Nowadays, companies have established online stores and customers usually have their own access to the Internet from home. Therefore, several devices exist for instance PCs, tablets or mobile phones. Communication has extended its capacities and consumers have an opportunity of digital communication, for example via social media. (Hagberg, Sundstrom & Egles-Zandén 2016.) It enables that digital media is available for society. Social media can be applied to visualize shifts within a society, as people tend to express their opinions via social media. Companies can leverage their entire business if they apply social media intelligence as it provides prosecutable information about customer preferences. (Haag & Niechoj. 2016, pp.20-21.)

Additionally, retailers can improve their current business situation through crowd sourcing. It is based on communication between several external partners that discuss and evaluate potential innovations. Occasionally, prototypes are

generated and tests occur. Through Internet platforms, exchanges of ideas and the creation of new innovations are possible. (Haag & Niechoj. 2016, pp.20-21.) Thereby, consumers and retailers profit by the transformation within the communication sector.

The second part of e-commerce, a **business process** describes the utilization of technology in order to digitalize business transactions and workflows (Schmidt, Döbler & Schenk 2000, p.29). Within the past years, myriads of inventions arose in the retailing sector for instance electronic cash systems (Hagberg, Sundstrom & Egles-Zandén 2016). Currently, paying by cash is not the only option anymore. Instead customers can choose between several payment options such as debit card or visa. Plenty of new innovations are happening within the retail branch and a recent development is stores without a checkout. In 2016, Sam's Club announced a self-checkout app. Customers have to log in via an app, scan items they want to purchase and after are able to skip the line. Before leaving, consumers have to show their receipt. People can use their time more efficiently as they do not have to wait at the checkout. Based on this, customers have a better shopping experience. The self-checkout app was recognized positively by society and Amazon founded Amazon Go only a few months after, which is a similar system (Wasserman 2017.) Plenty of other innovations are present within retailing and they are supporting a well-functioning business process.

**Service** is also a very valuable part of e-commerce as the costs for services are decreasing, the value of goods is becoming better and the delivery time is improving as well (Schmidt, Döbler & Schenk 2000, p.29). The services offered for customer by companies have changed and a significant transformation was the establishment of multi-channel retailing and omni-channel retailing. Multi-channel retailing describes stores, which are applying e-commerce solutions and physical stores and the channels are treated individually. Omni-channel retailing aims to give customers the opportunity to shift within different channels during a purchasing process. (Hagberg, Sundstrom & Egles-Zandén 2016.) Omni-channel retailing for instance is applied for the distribution of goods. An example for omni-channel retailing is a service called "click-and-collect" which

combines an online request by customers with a product pick-up at a store. The click-and-collect approach is linked with plenty of benefits for customer like cost-savings for shipping costs or the ability to collect products faster. Retailers are profiting by the service as well as people who are picking up a product tend to buy more items and overall, costs are decreasing as no delivery costs arise. (Serrano 2018.) Click-and-collect is not only limited to the collection in stores additionally, secure lockers, collection points, pick-up stations and even more have become a part within the retailing environment (Hagberg, Sundstrom & Egles-Zandén 2016).

All in all, services have improved significantly by the influence of e-commerce and companies can extend their assortment by the combination of divergent channels (Hagberg, Sundstrom & Egles-Zandén 2016).

**Online** as a component of e-commerce describes an opportunity of purchasing and vending goods online (Schmidt, Döbler & Schenk 2000, p.29). By digitalizing retailing many new benefits arose for retailers and obviously are new chances for value creation as well (Hagberg, Sundstrom & Egles-Zandén 2016). Nowadays, e-commerce platforms are a common element in our society. They are platforms on the Internet on which people can order products. The functionality is rather simple and plenty of products can be found. Platforms are modified depending on the supplier of websites. In some cases, people can configure their own products and create customized products. By offering this approach, the needs of customers can be fulfilled even more successfully. (Haag & Niechoj. 2016, p.19.)

Furthermore, companies are able to expand their product range. The possibility exists to communicate directly with their customers and, as mentioned in the paragraph earlier, people can obtain personalized items. Thereby, the value proposition is increasing and the product range of companies can be broader as well. Additionally, Internet enables that the amount of information about products is wider. People are able to make comments about items and companies are in a position, in which they are able to understand customers better. A clearer communication results in an improved satisfaction of customers' needs. (Schmidt, Döbler & Schenk 2000, p. 43.)

Plenty of further advantages are present in the retailing industry through the “online” element concerning e-commerce. However, it is challenging for every company to develop a well-functioning strategy on the current market. Therefore, several strategies are presented in the next chapter.

## 2.3 Business strategies in the retailing industry

As mentioned in the retail industry part above, the retailing market has changed considerably. This chapter aims to give an insight about potential strategies within the retailing industry. Therefore, the current situation of the retailing market in Germany is demonstrated, as it is important to understand the market situation in order to be able to follow strategies.

### 2.3.1 Current market situation in Germany

For Germany the retailing industry is very valuable as it is the third greatest industry sector. In 2015, it amounted to 16% of the GDP with revenue of 472 billion euros. Additionally, the retailing industry consists of about 300,000 companies and employs about 3 million people. (Germany Trade & Invest 2018.)

The retailing sector is influenced by a high competitiveness and offers comparably low prices within the Western World. Looking at Fig. 2, one can see that the major departments food and clothing are dominant. (The Swedish Trade & Investment Council 2015.)

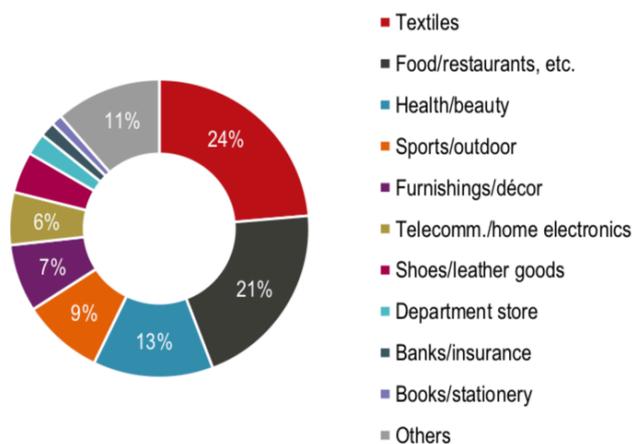


Figure 2: Retailing sectors in Germany (JLL 2018.)

Germany is a very wealthy country and the salaries of workers are rising. Currently, the minimum salary amounts 8.84 EUR (Deutscher Gewerkschaftsbund 2017). Thus, the buying power of consumers is very high which results in an expected growth rate of 2% for 2018. The retailing sector is changing significantly because of e-commerce, as it records growing importance. Looking at 2017, the physical stores grew by 1.2% and the e-commerce sector expanded by nearly 10%. Comparing these numbers, the e-commerce sector has improved considerably and the online stores growth strength is larger. (JLL 2018.)

One current trend within e-commerce is the growing value of omni-channel retailing. The major retailers are continuously aiming to achieve omni-channel solutions and they are investing in an optimization of their online websites. (Euromonitor International 2018.) Businesses are containing this service due to the reason that consumers tend to search information about products online while buying them offline (Germany Trade & Invest 2018).

Additionally, the German market is influenced by fluctuation, as they are able to switch between different providers. Through a well-established e-commerce industry, people are able to look for various retailers. If one retailer is not able to satisfy their needs, it is easy for customers to find another one. It visualizes as well, the highly competitive market in Germany. (Germany Trade & Invest 2018.)

All in all, the retailing industry in Germany is performing very well with two major business sectors in textiles and food. The industry is influenced by digitalization trends and the e-commerce sector is developing significantly. The entire market situation is greatly influenced by ambitious companies.

### **2.3.2 Strategies**

The previous chapter has shown that the market environment within the retailing industry is extremely competitive in Germany. Therefore, every company needs a well-functioning business strategy. A strategy can be seen as a concept, which aims to guarantee long-term success while actively competing

with challengers. The strategy is affected by environmental influences, which can be chances and risks. By that, a successful strategy has to consider the individual strengths and weaknesses of a company. (Kotler, Berger & Bickhoff 2016, pp.10-11.)

The concept behind business strategies is that companies want to generate or realize a present advantage in each business sector in order to be outstanding. Tools for companies to realize an appropriate strategy are two different views:

- The outside-in perspective has a market-based view and focuses on the reputation of a company or the competing environment. Thereby, the achievements of a company can be judged. (Kotler, Berger & Bickhoff 2016, p.37.)
- The inside-out perspective searches for the market in which a company can perform excellently with the present resources. It aims to leverage the business by setting desirable targets. (Kotler, Berger & Bickhoff 2016, p.37.)
- 

Approaches such as the five forces by Porter, the SWOT analysis and even more can be applied to discover an appropriate strategy for a company. In the retailing industry companies have to face challenges while searching for appropriate strategies for their business, as the World Wide Web is very dynamic and changes daily. Subsequently, strategies that seemed to be an excellent choice for a company might be old-fashioned the next day. (Schmidt, Döbler & Schenk 2000, p.117.)

The following lines are presenting business strategies that can be successful in the retailing industry. Figure 3 already gives a brief insight about strategies for the retailing market, which are going to be explained in the following sub-chapters.



Figure 3: Market strategies (Kotler & Armstrong 2014, p.215)

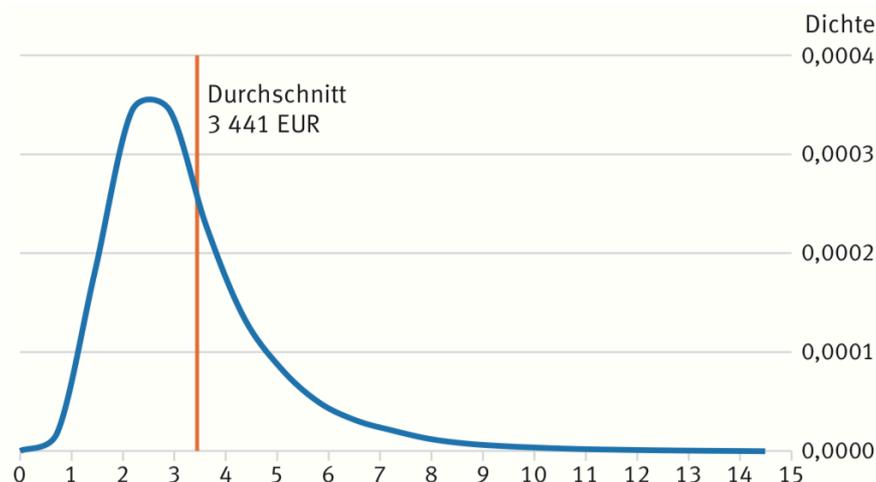
### 2.3.2.1 Market Segmentation

Market segmentation plays a crucial role as consumers are influenced by various factors such as different need, wants, buying behaviors, places and even more. Market segmentation gives companies the chance to break down the market into smaller segments. Thus, customers can be reached more efficiently as needs are not as divergent. (Kotler & Armstrong 2014, p.215.)

The segmentation can be made by several variables:

- Geographic
- Demographic
- Psychographic
- Behavioral (Kotler & Armstrong 2014, p.215.)

Demographic segmentation separates society into various income segments (Kotler & Armstrong 2014, p.217). Graph 1 shows the distribution of monthly pre-tax earnings of German full-time workers in 2014. The average salary was 3441 EUR.



Graph 1: Distribution of monthly pre-tax earnings of full-time workers in 2014 (in thousand) (Statistisches Bundesamt 2017.)

Through income distribution, companies can determine target groups and divide society into different market segments.

### **2.3.2.2 Targeting**

The next step after market segmentation is **targeting**. Therefore, each market segment is analyzed and beneficial ones are selected (Kotler & Armstrong 2014, p.214). Targeting within the retailing industry gains a higher importance, for instance due to e-commerce. Countless different people can be addressed via the Internet. This enables new markets to be opened up quickly, as companies have the opportunity to address their desired target group precisely. Additionally, customers are able to find products they desire and satisfy their wishes best. Targeting enables companies to create customer specific products and services. (Schmidt, Döbler & Schenk 2000, p.44.)

Take Leica, for example, a company that manufactures luxury cameras. In 2015, their model cost around 4000 EUR, more than the average income (see chart 1). Therefore, only people with above-average incomes were selected as their target group.

One specific targeting strategy, which can be a key for small retailers, is **concentrated (niche) marketing**. It describes a strategy whereby a company focuses on one particular market segment and aims to reach a wide share. (Kotler & Armstrong 2014, p.226.) Following, a niche describes a subgroup of a bigger market. Customers of a niche have very similar needs and desires, which simplifies marketing enormously. Preferences of a target group from one particular segment tend to be more alike than the needs of divergent market segments. Anyway, it is important to be certain that enough potential customers are present for a niche market. (Shopify 2018.)

A well-performing example is Medelita, which is located in California (US). The company is based on the idea of producing medical-uniforms for every gender and size combined with a high quality. On the market such a product did not exist before as the quality of the medical uniforms used to be quite low and the look was not that admired by many people either. Medelita symbolizes a

business niche and nowadays, it is expanding its business. The company is accepted by society and found its place on the market. (DiConstanzo 2016.)

### **2.3.2.3 Differentiation**

Targeting is deeply connected to **differentiation**, which describes the differentiation of a company by its products towards its competitors. Following, a company is able to provide its customers an outstanding value. (Kotler & Armstrong 2014, p.214.)

Differentiation can be applied within the retailing market including small retailers. Retailing is very wide and thereby, it is even more important for small retailers to offer a unique customer value. Finding a proper differentiation factor is challenging, as the entire company or brand has to embody the concept. (Sheehan 2017.)

Areas for differentiation are almost unlimited but very common ones mentioned by Sheehan are:

- Product
- Customer Service
- Brand
- Price (Sheehan 2017.)

Firstly, product that might be the easiest way to differentiate as a unique product is outstanding compared to every product of competitors (Rosenblum, 2014). Additionally, a product can be modified by combining it with a service. If a product is combined with a service, it will be hard and almost impossible for competitors to remain rivals as the product attains a unique character (Sheehan 2017.)

The second area for differentiation is customer service that is increasingly gaining a higher value. Nowadays, customers have many retailers to choose from whereby, customer experience is continuously reaching a higher status. Differentiation through special services such as free returns, personalized services or free shipping has to be considered even more by companies. Value

can be added through an improved customer service thus, differentiation can be accomplished. (Patterson 2016.)

The third point is the brand of a company itself. A successful brand is able to establish a brand identity. Customers are able to identify with a brand as values are the same. A well-functioning bond between customers and a brand is a fortunate situation to accomplish an outstanding position on the market. (Sheehan 2017.)

Last but not least, price that gives information about a product. Society connects several meanings with different prices. For instance, a high price usually is combined with high quality. It is not always the case but if consumers do not have much information available, they will judge the products' quality through the price. (Kotler & Armstrong 2014, p.341.) For choosing the appropriate price, data has to be collected and effects of potential prices have to be considered (Oracle 2007). Generally, the choice of price has to be examined wisely as it can be important for the further status of a product.

#### **2.3.2.4 Positioning**

Finally, the last strategy presented in this paper: positioning. It stands for arrangements that are necessary to reach a desirable position on the market whereby products or services stays in mind of customer. (Kotler & Armstrong 2014, p.214.) Devil, Birtwistle and Macedo outline four major areas that should be part of every strategy concerning positioning in the retailing sector:

1. Merchandise decisions:

Companies have to know what their customers desire. It is important to make the right decisions concerning the price, place, branding and so on. (Oracle 2007).

2. Store format/environmental decisions

The number of locations has to be chosen, online stores have to be considered and thoughts about the composition are necessary (Devil, Birtwistle & Macedo 2003).

3. Customer service decisions

The different extend of the services has to be selected and the general amount of fasciitis (Devil, Birtwistle & Macedo 2003).

#### 4. Customer communication decisions

It relates to different marketing activities such as commercials, PR and so on (Devil, Birtwistle & Macedo 2003).

All these factors have to be considered to be able to reach a successful positioning, which is important for the memorable character of a retailer. (Devil, Birtwistle & Macedo 2003.)

An example for prosperous positioning can be localization, whereby a business is only going to focus on one particular area. As a result, the store format is comparatively small and restricted to an area. In this case, customer service decisions have to be considered wisely due to the reason that companies rely significantly on their local customers. Usually, the relationship between local stores and their customers is very good and goes beyond recommendations for products. The number of customers is smaller if localization is selected than by choosing to become a global player. One benefit is that customers tend to recommend the retailer. Word-of-mouth communication can be a profitable element for every retailer. (Coca-Stefaniak, Parker & Rees 2010.)

Summing up, the mentioned positioning elements are important for establishing a successful retailing strategy for the retailing market.

#### **2.3.2.5 Trend analysis**

Changes in society are occurring very quickly and companies have to recognize upcoming trends. After some time, companies are realizing the changes within their environment however, it is often too late to make necessary adjustments. Therefore, companies should implement trend analysis into their business model. (Globis 2018.)

By introducing trend analysis into a business model, companies are able to identify different drivers of transformation. Additionally, they become an insight about a potential future. (OECD 2018.)

A trend of the German retailing market in 2017, was that physical stores tend to be important to consumers but more in a way of a showroom. Online stores are increasingly becoming an essential part of consumer's lifestyle. A benefit of physical stores is that people are able to experience the product in real life before buying it. In the clothing industry showrooms are crucial, especially for brands which sell luxury products. People want the option to try luxury cloths on and seek advice. Therefore, showrooms might establish, which gives customers the opportunity to choose products in real life and after, the articles of their choice would be sent to the customer's homes. The storage is at another location in order to enable physical stores cost savings. (PWC 2017.)

All in all, trends have to be considered by retails and especially, small retailers to keep up with the pace of the market.

### **3 Amazon**

This research aims to outline ways for small retailers to survive against global players in a digitalized world. Amazon is selected as the only global player presented in this paper (see delimitations). The following lines are introducing Amazon and its success story, Amazon in Germany and an environmental analysis of Amazon utilizing PESTLE, the five forces of Porter and a SWOT analysis.

#### **3.1 Success story**

Nowadays, Amazon has established itself as the biggest online retailer worldwide. Everything started in 1994, the company Amazon was founded by Jeff Bezos, in the United States of America (Washington). In July 1995, another milestone of Amazon occurred as amazon.com joined the World Wide Web. The philosophy of the company was to become the most customer-centric company worldwide, in order to enable customer to find every product they desire online and also, products they would like to have in the future. (Amazon 2017a.)

Amazon chose books as starting point of the assortment. The books were only sold online and not in a bookstore. The benefit of books is that they cover a large assortment and prices for books are not that high either. After going online in 1995, the website amazon.com was quickly the most popular website for books. Following, Bezos improved the website, a search option was introduced, purchasing via credit card and a shipment within a couple of days became possible. Society adopted the retailing platform very well as many states and countries ordered books from amazon.com. Reasons for the well adoption were possibly the low prices of the books offered on Amazon, recommendations for particular books, comments about the books by readers and also, search functions to discover books that belong to one specific genre. Bezos wanted to give its customer an excellent shopping experience that relies on great services. (International Directory of Company Histories 2004.)

In May 1997, Amazon went public and was listed on the stock exchange as the first online retailer worldwide. During that time, Amazon had already about 1.5 million customers, which was an increase of 838% compared to the previous year. Additionally, the revenue improved significantly as well and reached \$147.8 million. The revenue grew by 738% compared to 1996. Amazon tried to cover all important business areas and managed to achieve an improvement in myriads of sectors such as number of employees, inventory or investments. (Amazon 2017a.)

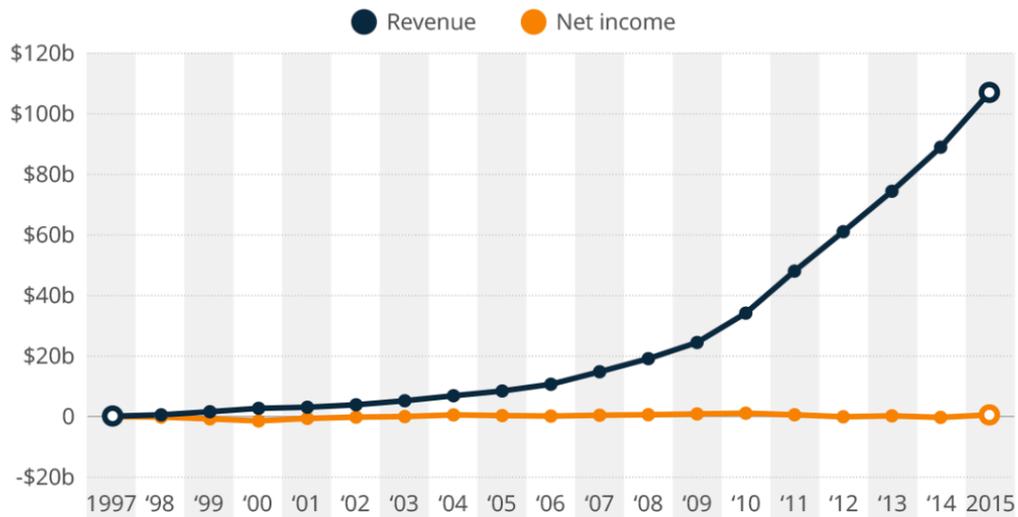
After a successful start into the business environment, Amazon did not stop improving its business. Their ambitions were very high, as they wanted to improve customer experience by making it more individual for every single customer and also, aimed to achieve a satisfying delivery of products. Additionally, Amazon considered an expansion of its product range by CD's and DVDs. Meanwhile, the company was quite modest as they were aware that they had just joined online retailing. Further, there was improvement necessary in plenty of business areas. (Amazon 2017a.)

In 1999, Amazon extended its business again and added electronics and toys to its online assortment. The following years were combined with a growth in

revenue, which is visualized in graph 2. The improvement of the revenue resulted in a wider assortment. (International Directory of Company Histories 2004.)

### Amazon's Long-Term Growth

Amazon's revenue and net income from 1997 through 2015 (in billion U.S. dollars)



Graph 2: Amazon's improvement in revenue (Rosoff 2016.)

Overall, the company managed a significant growth in revenue, but it was not the focus of Bezos, instead he focused on the market share. In 2000, Amazon had problems to remain profitable and generally, the economic situation was not very profitable. Amazon had to cut costs in order to remain competitive and started to cooperate with third-party sellers. (International Directory of Company Histories 2004.) Following, other parties had the permission to distribute their products on amazon.com. It was the starting point of the marketplace and stock-keeping units (SKUs) enhanced as well. (Wallace 2017.)

In the following years, Amazon kept improving its services and product offers. For instance in 2005, they introduced Amazon Prime that gave special offers in delivery and entertainment to customers. Also in 2006, Amazon Fresh was announced, it delivered fresh groceries in Seattle. Other improvements of the product line were Kindle, an e-book reader, Amazon's production of television content, Kindle Fire and even more. (Quinn 2015.)

Summarizing, Bezos managed to launch an outstanding company, which reached the position of being the largest online retailer worldwide. Amazon is continuously improving its variety of goods and services and at the moment, its revenue is also improving (see Graph 2).

### 3.2 Amazon in Germany

Amazon expanded its business very early and opened a commercial branch in Germany in 1998. It bought a bookstore called ABC-Bücherdienst GmbH, that distributed books online within the German market. A few months later, the website of the company was renamed, which was the starting point of Amazon.de. (Deutschbein 2015.)

Nowadays, Amazon.de has a very far-reaching assortment for Germany, including kitchen equipment, clothing, books, toys, electronics, movies and plenty of other products. (Amazon 2018a.) Services offered by Amazon are very wide, for instance prime, which enables customers to stream movies and series online, access to music, same day delivery for main metropolis, prime-now for metropolitan areas such as Berlin and Munich and many further services (Amazon 2018b).

The total performance of Amazon is improving as well, which can be seen in Table 2.

	2015	2016	2017
Germany	\$ 11,816	\$ 14,148	\$ 16,915

Table 2: Net sales Amazon 2015-2017 in Germany (in millions) (Amazon 2017a.)

It is visualized that the net sales of Amazon are increasing by 19% every year, which indicates a well-functioning business model. The key to reach outstanding performance was influenced by on-going extension of the assortment. The thesis is majorly focusing on the food industry. Therefore, the major elements are presented in the following sub-chapters such as a recent change within the industry **Amazon Fresh** and **Amazon Prime Now**.

#### 3.2.1 Amazon Fresh

Amazon Fresh is a very recent service for customers who are using Amazon-Prime. It gives customers the chance to buy groceries online. At the moment, it

is limited to major metropolitan areas in Germany, which are Berlin, Potsdam, Hamburg and Munich. Everything started in 2010, Amazons product assortment included from that year on groceries and drinks. People were able to purchase them online. At the beginning, the assortment was comparatively small including about 35,000 products. In 2018, the selection amounted more than 680,000 products, which indicates that the product assortment developed significantly. The ones distributed directly by Amazon are nonperishables. (Amazon 2017b.)

In 2015, Amazon had another new invention within the groceries, a service called Amazon Pantry. It is a service for Prime members all over Germany and Austria. Amazon Pantry offers an assortment of about 8,000 products, which are usually used daily, have a casual size and are groceries or drinks. Parcels are limited to a weight of 20kg and delivered within 2 days or to a requested date. (Amazon 2017b.)

Amazon Pantry did not include fresh or chilled edibles. However, Amazon adjusted this lack and offers fresh and chilled food for Prime customers in Munich, Hamburg, Potsdam and Berlin. The products are delivered within an hour or by the chosen delivery time of customers. (Amazon 2017b.)

Amazon Fresh in Germany sells about quarter of all groceries sold online hence, it possess a high market share in this sector. Consequently, one can deduce that the performance of Amazon Fresh in Germany is prosperous. Looking at a quarter of 2018, Amazon was able to sell groceries in Germany for 65million EUR through Amazon.de. Sales were 33% higher compared to the previous quarter. Following, Amazon is performing effectively, with its new field of business. (Kolf 2018.)

For the first quarter in 2018, the most successful business field of Amazon, for groceries, was alcohol. The company achieved revenue of approximately 25%, which symbolizes and increase compared to the previous quarter by 55%. (Kolf 2018.)

All in all, Amazon Fresh is performing very well anyway, improvements can still be made including, offering the service all over Germany.

### **3.2.2 Amazon Prime Now**

Delivery options are gathering a higher value in our society. People become acquainted with low or non delivery costs and want to obtain their products as fast as somehow possible. For small retailers it can be challenging to keep up with these standards.

Amazon has improved its delivery possibilities and established Amazon Prime Now, which started in Manhattan (USA),in 2014 and became introduced in further countries including Germany. So far, Berlin and Munich are the only two cities in Germany having this service. Amazon Prime Now enables that products can be delivered within an hour or in between a two-hour delivery period. The delivery option facilitates for instance Amazon Fresh and also, the delivery of electronics, books, toys, DVDs, clothes and even more. (Amazon 2018c.)

In Munich, the assortment of Amazon Prime Now includes pharmacy products. Thereby, the amount of people who have an easy access to pharmacy rises significantly and customers profit by it as well, as for instance sick people do not have to go to a pharmacy instead, the medicament of their choice is delivered to them. (Amazon 2018c.)

The costs for the delivery are currently a crucial point as well. The costs for Amazon Prime Now depend on the total costs of the ordered products and the delivery window. If the total price for a two-hour delivery window is higher than 40 EUR, the delivery is for free. If it is lower than 3.99 EUR, customers are charged for the delivery. (Amazon 2018d.)

Amazon Prime Now symbolizes a change within the retailing market as well. The global player Amazon starts to cooperate with local retailing businesses. Looking at Berlin, Amazon is collaborating with two retailers: Basic and Kochhaus. The retailers have their own shops on the Amazon website and

customers can choose their products. Following, both businesses are profiting by this service. On the one hand, the two retailers profit as they are able to offer a new delivery option and so, they have the opportunity to create a higher customer satisfaction. And on the other hand, Amazon profits as it can offer a wider range of products with outstanding delivery options. (Kolf & Wiesner, 2017).

Summarizing, Amazon Prime offers its customer an excellent service. However, it becomes more challenging for small retailers to compete against Amazon if they do not cooperate with them.

### **3.3 Environmental analysis**

This chapter aims to give an insight about the favorable outcome of Amazon's performance. A successful portfolio depends on factors that can be internal environmental influences such as a clear identity of a company, readiness to adapt, communication within a company and many other factors. External environmental influences are present as well. Those can be direct and indirect. Direct environmental factors are going to be analyzed by the five forces of Porter.

#### **3.3.1 Direct environmental conditions**

Michael E. Porter defined in "How competitive forces shape strategy" five factors, which influence the competitiveness of a company. The five factors are:

1. Power of suppliers
2. Danger of alternative products or services
3. Power of customers
4. Danger of new entrants
5. Competition within the current contestants. (Porter 1979.)

Starting with point five, **the competition within the retailing industry** is very tied. Some global players are present such as Wal-Mart, Tesco and IKEA, which have an impact on Amazon's business performance. Every company wants to improve its position and be the best on the market. Consequently, Amazon faces the challenge to remain the biggest online retailer. By the introduction of Amazon fresh, Amazon entered the food industry in Germany.

The food industry is a broad market due to the reason that the German population spends about 170 billion EUR for groceries per year (Obermeier 2017). However, major competitors for Amazon within the food market in Germany are supermarkets such as Rewe, Lidl, Aldi or Edeka. They are represented all over Germany and offer a wide range of products. The major difference to Amazon is that they sell their products in physical stores and some of them online as well.

Looking at Rewe's online shop:

Rewe provides two kinds of services, which are available for some areas in Germany:

- Delivery service, which supplies fresh and chilled products. The delivery window is between 7am up to 10pm. (Rewe 2018.)
- Parcel service that covers a wide assortment of nonperishables and non-groceries. Additionally, products can be ordered from partners, return of products is for free and orders can be made without minimum order value. (Rewe 2018.)

One difference compared to Amazon's online service is that Rewe does not offer same day delivery. The products can be delivered the earliest a day after the order. (Obermeier 2017.)

Another online retailer is Edeka, which established the online store "Edeka24". The store covers groceries, drinks, drugstore products, household products and pet food. Following, Edeka offers a broad product range. The products are delivered all over Germany within 1-3 days. The delivery is executed by DHL and the minimum order amount accounts 20€. (Edeka 2018.)

Summarizing, Rewe, Edeka and other supermarkets are major competitors for Amazon. They provide nonperishables, fresh products and further products. All of them have a slightly different focus concerning their online store. Following, Amazon has chosen to enter a market with many major competitors.

Currently, the investments of companies besides Amazon in the online grocery trade are decreasing: Lidl and Kaufland mostly quitted, Edeka's delivery service is limited to Berlin and Munich and Rewe's offerings remain on the same level. Amazon is slowly investing in the grocery market. However, the product range has extended from 85,000 to 300,000. (Zeit 2018.)

Not only competition is tight, the business environment is continuously changing as well. The **danger of new entrants** is steadily present and by digitalization new opportunities for companies are arising. Amazon itself is the best example to visualize this statement. Amazon Fresh entered the food industry in Germany and thereby, established supermarkets such as Rewe or Edeka had to fear a decrease in customers. Consumers increasingly tend to purchase products online and so, present retailers have to consider possible changes to their business. (Groeneveld 2017.) Reflecting Amazon's market entry, the same can occur again but in this case, Amazon will not be the new company on the market. Instead, there will be a new competitor. Additionally, there are many start-ups entering the food industry with innovative ideas. One example for this case is Rezemo, which is a producer of coffee capsules that are made out of wood. Potential customers are people who care about sustainability and local food. The innovative product is not part of Amazon's product assortment. (Rezemo 2018.)

The **power of customers** might even be the most important point considering the food industry. Therefore, it is valuable to have a look at the buying behavior of customers and their willingness to buy groceries online. It is a very important characteristic for Amazon due to the reason that they are not selling products in physical stores like their competitors. PWC published a study about online purchases within the food industry in Germany in January 2018. According to the study, approximately 15% of the German population purchases online already. This number seems low but about 40% aims to buy groceries online in the future. Consequently, the study indicates that the online food industry is going to break through in Germany. (PWC 2018.)

Moreover, the study pointed out the major customer of online grocery shopping, is male, has a full-time job and his salary is above average. Also, people who aim to purchase groceries online are mostly male. The study discovers that the customers are 56% male and 44% female. (PWC 2018.) Following, Amazon and other grocery shops have to consider whether they want to change their product range and make it more appealing for female customers or extend the products offered for male customers.

All in all, the power of customers is considered as very high. Amazon has to estimate their major target group and also, the product range they want to provide. A company is not able to be successful on the market without its customers.

Additionally, Porter emphasizes **the danger of alternative products or services** as a force that influences the competitiveness of a company. Within the food retailing many changes were happening in the past few years. Amazon itself symbolizes such a change by introducing Amazon Fresh. Buying groceries online and same day delivery were significant changes for the industry. Changes are continuously occurring such as the delivery trends. Amazon Fresh offers home delivery, but currently, the click-and-collect service is increasingly gaining value. Click-and-collect enables customers to order their product online and pick it up at a certain place. (Duff & Phelps 2016). Many other trends are occurring on the food retailing market. It is very important that companies choose their business strategy wisely, including for instance the appropriate market segment. Therefore, several tools can be applied that are discussed in chapter 3.3.2.

The final force mentioned by Porter is **the power of suppliers**. Looking at Amazon, Amazon Fresh has established in several cities and its suppliers include local retailers. By cooperating with local retailers, Amazon Fresh has several benefits for its business itself. Firstly, Amazon is able to offer local products that can be purchased for the first time online. Secondly, Amazon's product range covers local products, which are not provided by its competitors and a wider range of potential customers can be reached. Thirdly, if there are

doubts about the quality arising, Amazon can assign the blame to its suppliers. To sum up, plenty of benefits exist for Amazon to cooperate with local suppliers and for companies itself advantages arise as well, for instance a higher demand on rainy days. (Bluhm 2017.)

Additionally, Amazon offers products of popular brands as well such as Heineken, Coca-Cola or Ben and Jerry's, which is stored in Amazon's own warehouses. All in all, 300,000 products are covered by Amazons' product range. (Amazon 2018e.)

The value of Amazon's suppliers is very high. If the company does not receive the products in time, there will be dissatisfied customers. Very valuable is a well-functioning relationship between local suppliers and Amazon as through the cooperation local products can be offered. These cannot be bought at random other stores and as a result, Amazon has to treat its suppliers well.

Reflecting all the five forces, Amazon has to consider plenty of factors that influence the competitiveness of its own business. Currently, Amazon Fresh seems to be a successful business idea.

### **3.3.2 Indirect environmental conditions**

Besides direct environmental conditions, indirect environmental conditions exist. They are going to be visualized through the PESTLE analysis.

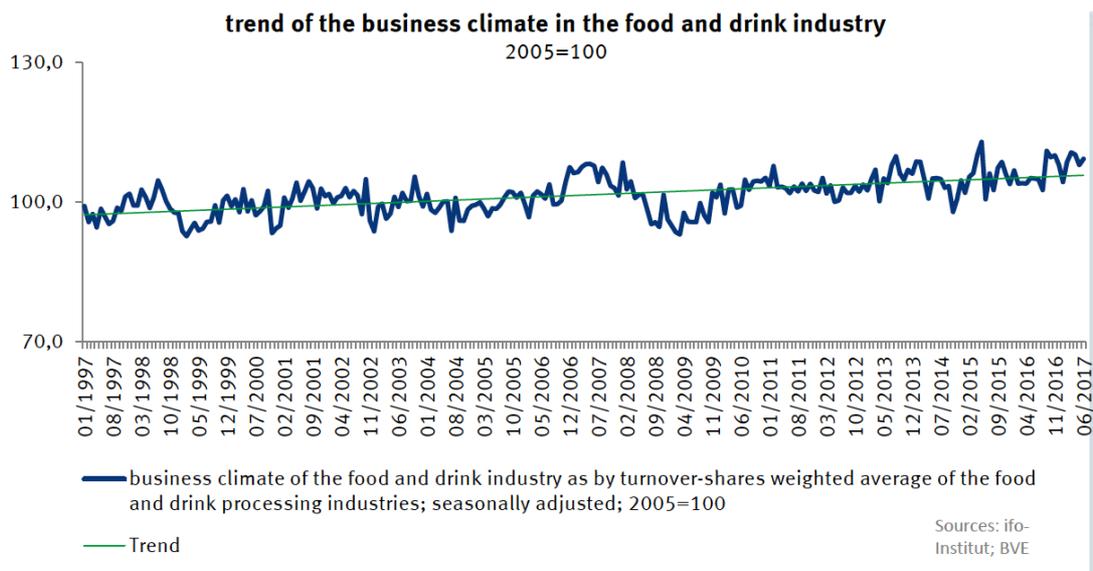
Starting with P, that symbolizes **political** influences. This paper majorly focuses on Amazon's retailing operations, so trade policy in Germany will be the main concern. Germany is a member of the European Union and as a result, countless benefits arise referring to trading, such as the single market without barriers. The European Commission is responsible for the trading policy for all the countries, which are part of the European Union including Germany. (Europäische Kommission 2018.) At the moment, the strategy of the European Commission is "Trade for All". The strategy aims to reach a higher level of effectiveness, provide a clearer policy for trading and investments, the consideration of for instance the public's values and the openness for negotiations. (European Commission 2018a.)

Generally, the focus is on the open-market policy and the European Commission has been successful already, for instance the comprehensive economic and trade agreement (CETA) between the European Union and Canada. It enables a simpler trading of goods and leverages benefits for people from both countries. (European Commission 2018b.)

Following, Amazon in Germany is able to import goods from other EU countries with a lower price and so, the prices for Amazon Fresh might be lower as well. The political situation in Germany is rather supportive than causing problems for Amazon.

The second letter of PESTLE is E, which describes **economical** influences. The German food industry is very valuable within the country as it is the third largest sector of industry in Germany. About 580,000 people's professions inside the industry are covering about 5,940 companies. Additionally, Germany reached a paramount position in sales as it is the biggest producer of food and drinks. (BVE 2018.)

The sector of industry is also pretty stable and tends to improve year-by-year, which can be seen in graph 3.



Graph 3: Business climate in the food and drink industry (Bundesvereinigung der Deutschen Ernährungsindustrie e.V. 2017.)

Concerning the economy, it is beneficial for every company to know how the market is divided. Therefore, BVE created a figure that visualizes it, but Amazon is not included.

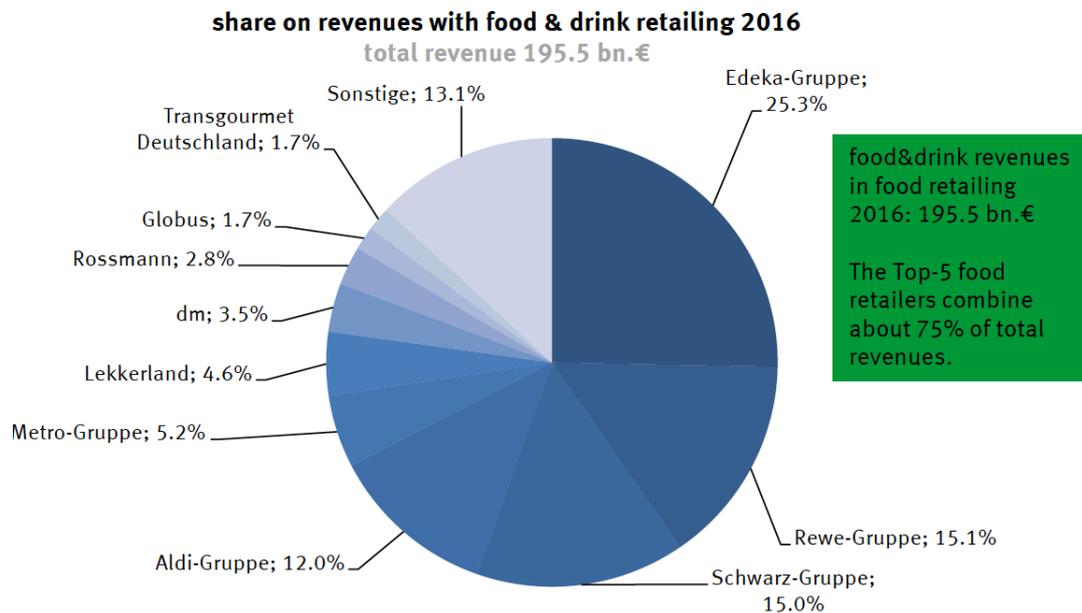


Figure 4: Shares on revenue of different market participants (Bundesvereinigung der Deutschen Ernährungsindustrie e.V. 2017.)

The figure 4 clarifies that it is challenging for small retailers to enter the market as four major companies (Edeka, Rewe, Schwarz-Gruppe and Aldi) have a high market share. For Amazon, it is challenging to succeed against the established companies as well.

Continuing with the analysis, the next letter is S which stands for **social influences**. Regarding the food and drink industry, Amazon basically targets every person living in Germany. In 2016, the German population amounted to about 82.4 million people, whereof 22.5% are foreigners. If you clarify this number, it means that approximately every 5th person living in Germany is a foreigner. (Bundeszentrale für politische Bildung 2018.)

Following, Amazon is able to focus on the needs of the foreigners as well. The company can provide typical food and drinks from their mother countries.

Additionally, the social structure of the country is very important. In Germany, inequality is increasingly present. The level of salary within society is quite

divergent and inequality is progressively extending. As a result, layers inside the country are coming back into the people's mind. (Bundeszentrale für politische Bildung 2016.)

Reflecting this for Amazon, it is vital to discover major desires of customers and design their products and services in accordance to it. However, Amazon has to consider the large amount of people living in Germany and by that, it is handy to provide many different kinds of goods in order to satisfy as many customers as possible.

The fourth letter of PESTLE is T that means **technological influence**. In terms of technology, Germany is on a great level and plenty of new opportunities are arising in the country. With reference to the food industry, many new delivery options are coming up such as click-and-collect, whereby people are able to order for instance food online and pick it up at store of choice (see chapter 3.2.2.).

As Amazon only operates through an online shop, access to the Internet in every household is very important. Looking at this, Germany is in an excellent position as around 90.3 percent of the population is able to use the Internet from home. Thereby, Germany is scoring rank 13 worldwide referring to the Internet access of households. (Deutsche UNESCO-Kommission 2016.)

Following, Amazon decided to enter a market with a well-established broadband network, which brings plenty of benefits with it. One advantage is reaching a wide range of customers. As a consequence, Amazon Fresh becomes attractive for plenty of people.

The fifth letter of PESTLE is L, which represents the **legal** element. It consists of two sides: internal policies of a company and the laws and policies of the country they are operating in. In Germany, the LFGB (Lebensmittel- und Futtermittelgesetzbuch) is of major concern regarding to the food industry. For instance, it describes objects that belong to the German Commodity Ordinance or arrangements to protect the health and deception of final consumers. These

arrangements can be restrictions referring to the production of certain groceries. (Bundesamt für Verbraucherschutz und Lebensmittelsicherheit 2018.)

Following, Amazon has to consider these laws in order to be able to distribute all the products offered on their websites. If they try to distribute other products than committed by the law, it will cause problems through the government and as a final result there will be dissatisfied consumers as they are not able to obtain their ordered products.

Amazon itself regulated its conditions by the general terms and conditions. Based on that, general trouble spots are clarified such as “licenses and access” or “reviews, comments, communications, and other content”. The second point describes that Amazon is able to remove certain comments made by customers, if they are discriminating third parties. Thereby, it is clarified that customers cannot insist on the presence of their comment on the website of Amazon as they are having certain restrictions. Additionally, Amazon added the term “Other Businesses”, which relies on the fact that several other businesses sell products of Amazon or offer Amazon’s services. Therefore, Amazon clearly outlines that consumers are customers of the third party and so, third parties are responsible for warranty, liability and so on. (Amazon 2018f.)

All in all, the legal part is very important for the performance of Amazon. The conditions of use have to be made wisely by the company otherwise, major problems can affect the performance of Amazon. Additionally, restrictions by the law have to be followed in order to operate without major constraints.

The last letter of the PESTLE analysis is E and it represents the **environmental** influences. Looking at the food industry, one major influencer is the weather. In Germany, the recent summer (2018) tends to be hotter and, above all, drier than expected. Due to the drought, German farmers register higher crop losses. The wheat farmers have a lower output than usual and as a result, major losses for the farmers are present and as a result the market is suffering by it as well. Nonetheless, fruit farmers have a benefit through the warmer weather in

Germany. The fruit ripened earlier than usual and so, farmers are able to harvest earlier. (Oberhäuser 2018.)

The environment is an element, which cannot be influenced by any company regardless of their size. Especially, within the food industry the weather is of major concern and can affect the outcome of the industry every time.

The PESTLE analysis clarified certain major elements that are influencing the policy of Amazon and it gives a valuable starting point for the following chapter.

### 3.3.3 SWOT analysis

The SWOT-analysis is a very common tool within economics. It outlines the strengths and weaknesses within a company, but also the threats and opportunities that companies have. Therefore, this tool is going to be applied to Amazon. This analysis aims to guide small companies, which can leverage Amazon's weaknesses and threats to their benefits.

Table 3 gives an insight about the elements of the SWOT-analysis for the case company Amazon.

<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• Brand reputation</li> <li>• Wide range of customers</li> <li>• Broad assortment</li> </ul>	<ul style="list-style-type: none"> <li>• No physical stores</li> <li>• Security breaches</li> <li>• All about efficiency but experiential retail</li> </ul>
<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>• Extension to other countries</li> <li>• Focused on customers</li> <li>• Funds available – Amazon a very successful company</li> </ul>	<ul style="list-style-type: none"> <li>• Business all around the world</li> <li>• New market entrants</li> <li>• Competition</li> </ul>

Table 3: SWOT Analysis Amazon

#### 3.3.3.1 Strengths

Looking at the strengths of Amazon, a very obvious point is the brand reputation itself. Amazon's popularity worldwide is extraordinary, for instance in the USA in 2017. Amazon was scored second place in the ranking of the most reputable companies. Before 2017, Amazon used to be on the top of the ranking for three years. (Strauss 2017.)

Consequently, Amazon's reputation is excellent even though they are not scoring rank one anymore. A company that is able to score in the top ten over a couple of years has reached an outstanding position on the market. The good reputation can be deduced from Amazon's policies, as Amazon is measuring itself on the growth of its revenue and their customers. Following, not only the revenue is important to the company also, its range of customers. (Amazon 2017a.)

An approach, which is centered on its customers, puts their expectations in a very crucial position. The expectations of customers are increasing year-by-year and Amazon's performance is strong enough to satisfy them. The company asserts its good performance on a large extent to high standards, due to the reason that customers have high expectations and they can only be satisfied by providing high standards. Amazon had some failures as well but Amazon refers to them as lessons, which helps the company to achieve the appropriate standards. (Amazon 2017a.)

Additionally, the wide range of customers itself is a strength of Amazon. Amazon is targeting a broad amount of customers as their market consists of multiple market segments. It is achieved through the approach "multi-segment positioning". The company provides plenty of products and services, which are from divergent business sectors. Myriads of products are sold online and a lot of different kinds of customers can be reached. (Dudovskiy 2018.)

One special offer for customers of Amazon is "Amazon-Prime", which enables value-adding benefits such as fast delivery, access to Amazon-Prime Video, music and even more. In 2018, the amount of Amazon Prime users was published and more than 100 million people were using Amazon Prime, which are about 1.3 percent of the world's population. In 2017, the amount of customers had extended significantly and more than five billion products were delivered by the Amazon-Prime service. (Manager magazine 2018.)

In conclusion, Amazon has plenty of customers and it is achieved by outstanding services such as Amazon Prime and a wide product range.

Another strength of Amazon is its broad assortment. Amazon started as an online bookstore and steadily extended its products. For instance, CDs, DVDs and clothing became part of Amazon's product assortment also, inventions such as Kindle or Alexa produced by Amazon became a business unit. Recently Amazon is entered other business units such as physical stores like AmazonGo. The first store opened in 2017, in Seattle in the United States. It is a store where it is not necessary to checkout. Customers are able to choose their products without long queues in the end. The idea of grabbing food and leaving is realized. Furthermore, in 2017, Amazon was able to sell more hardware devices, produced by Amazon, than ever before. The Echo devices of Amazon and Alexa were the bestselling ones. Many new releases came out and the population keeps adopting the products very well. (Amazon 2017a.)

Following, the company is extending its business continuously and even more customers can be reached. It is another element, which gives Amazon its superior position.

All in all, Amazon has myriads of further strengths beside the three mentioned. However, the three introduced strengths are adequate to visualize, that Amazon has reached an outstanding position on the marketplace.

### **3.3.3.2 Weaknesses**

As every other company, Amazon has to have also weaknesses. In the past years, Amazon has established a couple of physical stores however, so far all of them are located in the USA. Amazon has two kinds of stores, which are Amazon Books and Amazon pop-up. Amazon Books unique selling proposition relies on the combination of offline shopping and the advantages of the website. Customers are able to choose the products of their choice, for instance on this platform they can identify the closest physical store, where they are able to buy the book of their choice. One special benefit for Prime members is that they are

able to purchase the books for the same price, as they are offered online. Additionally, Amazon presents its own devices such as its book readers, tablets and so on. Customers are able to test buy them (Amazon 2018g.)

Besides the book stores, Amazon created pop-up ones, which are placed for instance in shopping malls. In these stores, customers are able to seek advice from consultants of Amazon. It might be necessary for certain customers due to the reason that the devices made by Amazon are becoming more sophisticated. Amazon Pop-Ups enable customers to test the devices and seek advice. (Amazon 2018h.)

Currently, these stores are only located in the United States. However, Ralf Kleber, who is the executive director in Germany, announced that the physical stores are going to come, the only question is when. One major argument to establish stores in Germany is the total turnover of physical stores, which is around 90-95% of the overall turnover of the retailing sector. (Spiegel Online 2017.)

Subsequently, it is clear that the lack of physical stores in Germany is a weakness of Amazon. Anyway, the company is planning to expand its business by offline stores. Time will show if they will be successful and become another strength of Amazon.

Furthermore, security breaches are a major weakness of Amazon. The company itself is one of the best e-commerce platforms thus, a large amount of data is connected to the business model. Thousands of people purchase products of Amazon and they usually have to name their bank account, address, name and so on. Cyber security is highly important for the success of Amazon's business.

In 2017, hackers were able to obtain access to some third party vendors. Hackers made use of it and published false deals. Following, they stole cash and utilized the accounts of Amazon's third party vendors for their own profit. Many people were affected by this troublesome action. Some third-party

vendors made losses that amounted about half of their transactions per month. (Abel 2017.)

The case of 2017 shows that Amazon's business model comes by with high risk as they face a great risk to become a victim of hackers. One reason is that there are thousands of people registered and also third party vendors operate on the website. Amazon is already investing in cyber security, but at the moment it is still a weakness of the company.

Finally, a significant weakness of Amazon is that they majorly focus on efficiency and slowly Amazon is neglecting the experiential retailing. Looking at the ordering process of Amazon, the company accomplished that a consumer only has to click one button to finalize his buying process. Afterwards, the parcel will be delivered as fast as possible. Thereby, Amazon created a very efficient buying process for its customer. (Robles 2018.)

However, doubts are arising if consumers are seeking for such an efficient buying process. A successful customer experience is not only relying on efficiency in some cases, the connection between a company and its customers is very important. Looking at the process of Amazon again, a customer clicks one button and the purchasing process is finalized as a result, no interaction between Amazon and its customers is happening. Instead, if people go to a retailing store, they will spend more time doing so but also, they have the opportunity to touch the products and seek personal advice. People are able to experience amusement. Feelings are going to occur and customers might enjoy the buying process even more. (Stych 2018.)

Overall, the major focus of Amazon on efficiency can be seen as a weakness. Generally, it is an important factor of a business to be efficient, but the customer experience during the buying process should not be forgotten.

### 3.3.3.3 Opportunities

A very valuable business chance for Amazon is the extension to further countries. Amazon is already operating in many countries worldwide, but the number of marketplaces still is extendible.



Figure 5 Marketplaces of Amazon in 2015 (Amazon 2018i.)

Figure 5 indicates with the orange color, where Amazon has a marketplace. There are 11 marketplaces worldwide, which are for instance in Canada, USA, Germany, India or France. By that, Amazon has marketplaces on three continents already. However, Africa for instance, is missing out and it might become a key market as myriads of people are living on this continent.

Additionally, figure 5 shows, that Amazon already has buying customers in 180 countries and globally, 194 countries are present. It becomes even clearer how attractive Amazon as company is and therefore, it is beneficial for small companies located in Germany to distribute their products via Amazon. The marketplaces covered by Amazon are plenty and so, many customers can be reached. (Amazon 2017a.)

In chapter 3.3.3.2., the lack of physical stores was mentioned. In the United States, Amazon already has a few physical stores and the company also plans

to establish further offline stores in more countries. Amazon's product assortment is not on the same level in every country and obviously, it is an enormous opportunity for Amazon to extend the offerings, including physical stores, to other countries such as Germany. The adoption is uncertain, but a positive outcome can leverage an even greater business success. (Amazon 2017a.)

Moreover, Amazon's focus on its customer is a high opportunity. Nowadays, customers increasingly tend to purchase online. Online shopping and generally, e-commerce is gaining higher value year-by-year. Amazon's business model is mainly focused on e-commerce whereby an immense opportunity arises. (Amazon 2017a.)

Regarding the focus on Amazon's customers, high standards are related to it as well. The high standards were already mentioned in chapter 3.3.3.1 anyway, the major approach how to achieve these standards was not clarified yet. Amazon outlined four principles, which are necessary to accomplish high standards. Firstly, high standards are teachable, that means that every employee can adopt the high standards that exist in the company. Bezos assumes, that high standards are teachable to everyone. Secondly, high standards are domain specific. Amazon is operating in many different countries and from country to country people are different. For being customer focused and reaching high standards, Amazon is creating products and services that match with the specific domain. Something that is adopted well in the USA might not be approved in the UK. Thirdly, recognition is a key for high standards. Every domain is specific and for reaching high standards Amazon has to realize the elements that are adopted successfully in each region. The recognition is very valuable as a wrong identification might end up in major losses for the company itself. Last but not least: scope. If you identify and recognize what is missing in a country, it has to be realized. The scope is very important for obtaining high standards and finalizes the entire process. (Amazon 2017a.)

This principle of high standards shows strongly, that Amazon focuses on its customers of every region. The identification of needs and the consideration of the realization are key elements of the process. Through this approach, Amazon has a high opportunity for the future of its business.

In addition, Amazon has an opportunity due to the funds available. In 2017, Amazon achieved a total turnover of 177.9 billion dollars and increased its turnover by 31% compared to the previous year. Looking at certain market segments:

- Germany: 16.951 billion dollars, increase of 19.8%
- North America: 106.1 billion dollars, plus 33%.

Amazon reached an extension of its net-profit by 27.9%, from 2.4 billion to 3.0 billion dollars. (Boersenblatt 2018.)

Following, the company has money available to invest. Not every company is in the position that they are able to test certain projects. Currently, Amazon is a well-performing company thus, it is able to take risks and create an extraordinary business opportunity.

#### **3.3.3.4 Threats**

Even though, many opportunities exist, Amazon has to face some threats as well. One threat is combined with an opportunity for Amazon. The company is operating all around the world, which enables a wide range of customers, but all of them have different needs and wishes. Thereby, Amazon takes a high risk by trying to satisfy the wide range of customers all around the world. As mentioned in the previous sub-chapter, Amazon is following the thought of high standards. It is said that high standards are domain specific and consequently, much effort has to be spent to discover values of certain customers. The values have to be discovered and new innovations will occur. Following, a threat for the market in Germany is failing to match the values of the population.

However, it is challenging to satisfy customers all around the world, but Amazon accomplished to have an open-minded policy according to innovations. Paul

Misener is the responsible manager concerning innovations and he is open-minded towards failures. He follows the thought that failure is not something negative, rather it shows that employees are trying to discover and realize new innovative products. (Schlenk 2017.) Following, it is the same by introducing new products into different countries, adjustment is often necessary, even failure is possible as a company has to take the risk.

Another threat for Amazon is the competition itself. The retailing market is highly competitive as many companies entered the market and plenty of global players are present as well. If you only focus on the food industry in Germany, there are a couple of competitors. As mentioned in chapter 3.3.1., the German buying power for groceries is very high as about 170 billion euros are spent per year (Obermeier 2017). Hence, major companies have established such as Rewe, Edeka or Aldi. The major difference of them compared to Amazon is the presence in physical stores. Amazon's online assortment might be better compared to the online stores of for instance Rewe or Edeka, but currently, physical stores have an enormous benefit within the food industry (a detailed comparison can be read in chapter 4.3.1).

All in all, Amazon's competitors are a major threat within the food industry. In Germany, people are used to the physical stores and the usage of Amazon Fresh is expandable. Time will show, whether Amazon Fresh will be as successful in Germany as it is in other countries.

The last threat mentioned in this SWOT-Analysis are the new market entrants. Within the food industry, companies are continuously entering or respectively trying to enter the market. Start-ups have innovative product ideas, which are not on the market yet. For instance "Stiefkind", which is a sour apple juice with a red color (Schneider 2018). Such a product is not on the market yet and wherefore, it is able to score a unique-selling proposition. At its current status, the company is not aiming to collaborate with Amazon, as high duties have to be paid to Amazon. Rather, the company aims to stay local. (Schneider 2018.)

Generally, other market entrants can occur and it might be further retailer such as Edeka or even online delivery retailers. Amazon is not the only company operating on the market. There is always the risk of new market entrants

## **4 Research: Empirical findings**

This chapter provides an insight about the empirical findings, which were gathered by qualitative interviews with CEOs of four different companies. All of the companies operate within the food industry and also, they are small-sized or start-ups. They are located in the same geographic area, which is in Germany in the state Baden-Wurtemberg. Before the evaluation, the research method will be described, interviewed companies will be introduced and an assessment about the outcomes will be given.

### **4.1 Research method**

The empirical part of this study is based on interviews, as these are a profitable research method. The discussion between people is a great source to gather valuable data for the study.

Looking at interviews, a broad assortment is present. For this research, semi-structured interviews are applied, which are a qualitative research method. Semi-structured interviews cover a list of topics and questions that should be discussed during the interview. The topics can vary within different interviews and so, specific issues for certain companies can be discussed. Questions are adjusted to the conversation and the entire interview is more flexible. (Saunders, Lewis & Thronhill 2009. p.320-321.)

Following, semi-structured interviews give to chance to react to responses of each case company and important issues concerning a company can be discussed.

Four case companies were interviewed by face-to-face interviews, as it gave the chance to acknowledge body language in order to understand the answers

in a better manner. All of the interviews were recorded. The interviews enabled an insight about possible ways to survive on nowadays business environment.

## 4.2 Participants

The empirical part consists of information, which is conducted by four case companies. The selected companies are all operating inside the food industry and additionally, they are located in the same geographic area that is Baden-Württemberg, in Germany. The participants can be seen in Tab.4.

	<b>Rezemo GmbH</b>	<b>Stuggi UG</b>	<b>Baumschule und Obstbau Georg Schneider GbR</b>	<b>Rolf-Willy GmbH</b>
<b>Number of employees</b>	2	3	2	40
<b>Founding year</b>	2016	2015	2012	1960s
<b>Products</b>	Coffee capsules	Maultaschen (Swabian ravioli)	Stiefkind – apple juice	Wine
<b>Unique selling proposal</b>	Environmentally friendly, coffee capsules out of wood	Emotional, cultural, regional product plus Maultaschen generator	Sauer and red apple juice, natural product, high quality	Wine for everyone, joy while drinking wine

Table 4: Participants study

Table 4 illustrates the four case companies this study is based on and gives a quick overview. In the following sub-chapters, the case companies are going to be explained in detail.

#### **4.2.1 Rezemo GmbH**

Rezemo GmbH, which is located in Stuttgart, Germany, joined the retailing market in 2016. It consists of two people, who discovered the business idea during their university studies. One major concern of them was the environmental impact of coffee capsules as plenty of companies are operating on the market and plenty of coffee is consumed. In the end, there is much waste by the consumption of coffee in capsules. Thereby, the owners of rezemo GmbH sought for an environmentally friendly coffee capsule. Finally, they decided to produce capsules out of wood. Rezemo GmbH found appropriate investors and partners such as Cafésito, which provides coffee for the company. Rezemo GmbH itself is responsible for sales, marketing and development but partners perform the production. Following, rezemo GmbH is able to provide its products by a sustainable value added chain, which is explained in the following paragraph. The company is still investing in the product, experimenting with different coffee types and doing adjustments according to the feedback of potential customers. However, in February 2018 the product joined the market, established an online store and it is available in selected stores. (Reitze 2018.)

The target group of rezemo GmbH is everyone who enjoys coffee. Anyway, predominantly people who have an awareness of their consumption and preferably choose the environmental alternative. The sustainable element of the coffee capsule relies on the company's values. Rezemo GmbH highly senses the origin of its products as all the components of the product are sourced by local suppliers. The price for one capsule amounts 0,42€, which is a common price within the business field. Consequently, rezemo GmbH has developed an environmentally friendly product, which is going to compete with other global players such as Nespresso. One advantage of the company is that they are the only company that produces coffee capsules out of wood. Any other company that produces environmentally friendly coffee capsules applies another production process and all of them chose another component than wood for their production line. (Reitze 2018.)

So far, rezemo GmbH was not forced to spend money on marketing, as requests existed for interviews about the innovative company. Mainly, the company focuses on quality of the product itself, quality of the coffee and a lifestyle that embodies sustainability. So, cooperation with global players is not an option for the company due to its own philosophy. A company that supports the local business field and environment does not aim to cooperate with a global player. Instead, rezemo GmbH is planning to cooperate with further local stores and small supermarkets. (Reitze 2018.)

#### 4.2.2 Stuggi UG

Stefan Bless who had the ordinary idea of a “Maultaschen” generator founded Stuggi UG in August 2015. Firstly, Maultaschen are originally from the South of Germany. They are a national dish and consist of a filling, which in its ordinal form is mainly made out of meat and spinach. The dish



Figure 6: Logo Stuggi (Stuggi 2018.)

is covered by pastry. Maultaschen are highly valued by the people living in the South of Germany and thereby, the name Stuggi, which is a short form of Stuttgart, describes the local factor even more. However, Stefan Bless discovered his connection to Maultaschen already in his early childhood, when he was making Maultaschen with his grandmother. He grew up, became a butcher and always wanted to create something special. After some time, he discovered that Maultaschen do not have to be ordinary. There are myriads of different variations that could exist. He wanted to change the traditional Maultaschen and upgrade them to something new. Therefore, he established with its company Stuggi UG a Maultaschen generator that enables every customer to create a unique Maultasche of their choice. It can be traditional, but also new combinations are possible such as a combination of strawberries and chocolate (see appendix, strawberry chocolate Maultaschen). (Bless 2018.)

The reactions of society to this business idea were very divergent. The older generation was very critical towards the different variations of Maultaschen. For

the local community in Baden-Württemberg, called Schwaben, there is an emotional, cultural connection to Maultaschen and some people saw it critically. Nevertheless, there are people who are excited about new creations of a traditional dish and are aiming to create a new flavor. By that, Stuggi managed that these people started to buy its products. A reason for people to buy this product is that the offered good reminds them of their home if they are from the South of Germany. Maultaschen are a cultural asset and so, people have an emotional and cultural connection to it. Another reason for purchases is that many people enjoy using the Maultaschen generator due to its toy like composition. (Bless 2018.)

Stuggi's assortment is not only consisting of the Maultaschen generator, also standardized Maultaschen packages are part of the product line. It enables Stuggi to offer products to customers who are willing to try something new, but uncertain about taste of self-chosen creations, or the ones who are not as creative. Through these two options, Stuggi UG is able to sell about 600kg of Maultaschen per month. About 20% of the turnover relies on the Maultaschen configurator and 80% on the standardized products. The sales tend to increase every year. Also, the number of employees is rising. The owner started by himself, produced the Maultaschen and took orders but recently, he hired two further employees. (Bless 2018.)

Interestingly, Stuggi does not invest much money in marketing. During the initial phase, the company did some advertisement on Facebook, but after a while it stopped. The CEO thought that some people were reached by it, but he did not want to spend more capital for advertisement. Surprisingly, the marketing of Stuggi did not need much input from the company itself. Instead, people are interested in his Maultaschen generator. The media reports about Stuggi UG on TV, radio or in journals. One very valuable TV report was by Galileo, which has a wide reach in Germany, in November 2016. It spread the awareness of the Maultaschen generator and many orders came in. Since this report, the number of orders has been on a decent level. (Bless 2018.)

Stuggi UG offers several delivery options for its customers. The first option is to pick up standardized Maultaschen packages in the store without any orders. The second option, customers can order standardized packages and individualized Maultaschen and pick them up in the store. The third option, they can order the products online and they are delivered to their homes chilled, in bags. The delivery options are one reason why Stuggi is not cooperating with Amazon yet. There are not many cities in Germany, in which Amazon is delivering chilled products. However, Stuggi does not see Amazon as a competitor rather as a potential partner for its business. If Amazon is going to extend its delivery options, it might lead to a partnership. However, one doubt for Stuggi is the charges to Amazon but the purchase power of Amazon's customers certainly is an advantage.

All in all, Stuggi UG is successful due to its ordinary idea. There might be some people criticizing the change of a traditional dish but the Maultaschen generator is unique. The media is very interested in the business, which underlines even more the value of this business idea. The company entered the market in 2015 but is on its best way to succeed in a world that is influenced by globalization.

#### **4.2.3 Baumschule und Obstbau Georg Schneider GbR**

The company is located in Heidelberg and owned by family Schneider and it is majorly producing apples and other fruit. The product Stiefkind, on which the following part is only going to concentrate, is a side product of Baumschule und Obstbau Georg Schneider GbR. Magdalena Schneider supervises Stiefkind's marketing activities with her agency "DIE BUBEN – Agentur für Kommunikation". (Schneider 2018.)

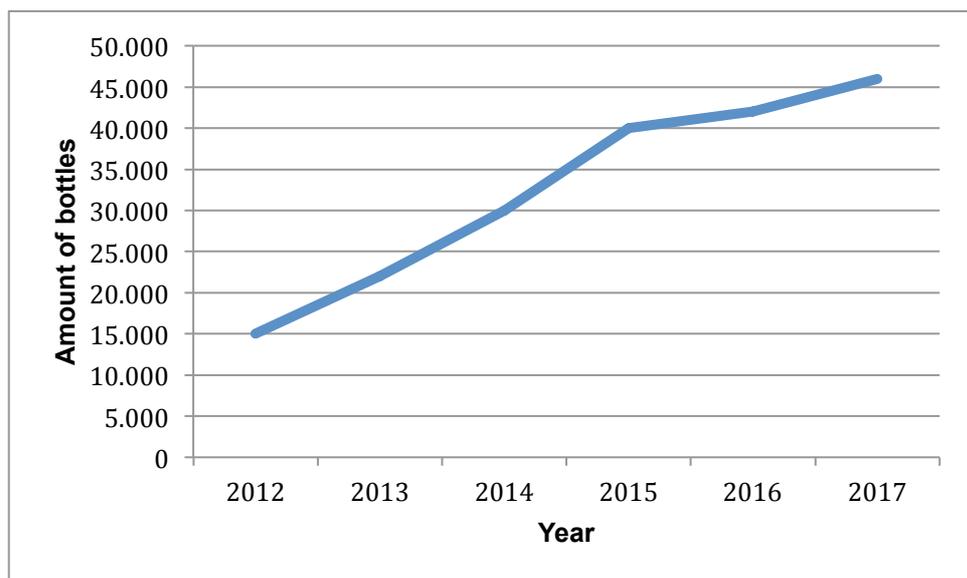
Stiefkind is a sour apple juice with an extraordinary red color. The apple is unique in its composition as it is a crossing of ornamental apples and eating apples whereby, the taste relies on ornamental apples, but it has the size of eating apples. The apple has a remarkable red color and its taste is sour (see appendix 2). Magdalena Schneider is the founder of the company and had the extraordinary idea of distributing sour apple juice. The source of the apples is her father, whose profession is orchardist. He was in France for training in 1974

and since then, the apples have been in his assortment. His coordinator did not see any usage in the red, sour apples and so, he was able to import these apples to Germany. He started making apple juice out of them but only for a couple of customers. However, Magdalena Schneider was studying in Stuttgart and the sour apple juice became a project of her studies. (Schneider 2018.)



Figure 7: Magdalena and her father – owner of Stiefkind (Schneider 2018.)

The product entered the market in 2012, with a production volume of 15,000 bottles. Since then, the production quantity has risen annually and currently, it reached a level of 46,000 bottles per year. The development can be seen in graph 4. (Schneider 2018.)



Graph 4: Stiefkind production quantity (Schneider 2018.)

Additionally, it has to be mentioned that the product line expanded by the introduction of apple spritzer in 2013. Since then, two different types of Stiefkind are available. One consists only of apple juice and the other one is mixed with sparkling water. The number of bottles is limited due to the amount of apples, but the owners of the company are planning to extend the area of cultivable land. The name of the product – Stiefkind, which in English means stepchild, is connected to a little story. As already mentioned, the apples were originally planted in France and were brought to Germany by Mr. Schneider. The family used to have a variety of other apples and due to its different origin, the apple received the name Stiefkind. (Schneider 2018.)

Looking at the competitors of the company, there are a few ones on the market, which are selling sour apple juice. Anyway, nobody offers apple juice with the same packaging as Stiefkind. The product is offered in 0,33l bottles and they are combined with an unusual design for apple juice (See appendix 3). Further elements, which make the apple juice unique are its product composition. The apple juice is 100% natural and does not have any food additives or coloring. Stiefkind stands for a high product quality and an extraordinary taste experience. These key elements of the product have been accepted well by the population and a wide variety is enjoying the product. Stiefkind majorly used to be attractive to young students who wanted to taste something new, but the target group became wider, due to a great adoption of the product by people from other target groups. Young families, older people, students and even more are enjoying the product. In the past, Stiefkind used both offline and marketing tools in order to attract other segments. On the one hand, the company was present on many events and trade fairs. On the other hand they launched several campaigns and advertisement on Facebook. Currently, the company does not need marketing, as the stock of bottles is sold out immediately. (Schneider 2018.)

Last but not least, the point of sales of Stiefkind: The product is available in selected stores and cafes and additionally, an online shop is available, but it is not the major focus. Stiefkind prefers to extend its presence in local cafes and restaurants. Thereby, in its current position, the company does not intend to

cooperate with Amazon. It might be an option in the future, but more likely its own online shop will be further developed.(Schneider 2018.)

To sum up, Stiefkind is a successful product and improves its number of sales every year. The company has an extraordinary product and as a result, it reached a valuable position on the market. At the moment, the cooperation with big retailers is not necessary.

#### **4.2.4 Rolf Willy GmbH**

Rolf Willy is the oldest, largest and currently, the most successful company of this research.



Figure 8: Rolf Willy GmbH Logo (Rolf Willy 2018.)

The company was founded in the 1960s and used to be a one-man operation, but over the decades it has developed into a family business with about 40 employees. Rolf Willy is located in Nordheim, Germany, which is a very popular region for wine. The family Willy was lucky that the demand for their wine increased, Rolf Willy was forced to make a decision whether their wine is going to be a luxury good or a basic article, which everyone can afford. Rolf Willy decided, that they want to offer their customer products that are accessible for every human being. By this decision, the company had to extend its wine quantity, because of the lower sales prices. This decision was combined with a challenge, as wine is manufactured out of grapes and a seasonal article. The company reacted to the increasing demand and extended its assortment over the years. Rolf Willy started to cooperate with two other businesses and nowadays, its vineyards amount to about 215ha and their assortment compromises 120 wines. (Willy 2018.)

As already mentioned, the company had to face the challenge of being a natural product. Their solution was to collaborate with two other companies. Following, Rolf Willy is able to minimize effects of the environment on the wine's quality and quantity. If a winter is very frosty or a summer is very hot, it will have a negative influence on the vineyard. Due to different weather conditions in each region, Rolf Willy had to look for partners to be able to offer their customer their desired wine at any time. However, the family business managed to find a successful solution. In 2017, it reached an annual turnover of 9.5 Million € net, in 2017. (Willy 2018.)

The company claims that they offer a wine for everyone, which brings the company into a unique position. The assortment includes a variation of 120 wines, whereby each wine has its unique taste. They provide wine for young people, people who want to change to wine after having a beer, wine experts, wine beginners and other segments. Rolf Willy supplies a wine for everyone. Furthermore, it is very important for the company to consider the charming character of wine. Holger Willy described the importance of this issue very nicely: "Every time before bottling a new type of wine, I have a sip and close my eyes. If I feel like I want to take a whole bottle with me to the couch, the wine will be bottled" (Willy 2018). He clarifies that this happens with every new wine variety before bottling. Rolf Willy wants to give people joy while drinking wine. (Willy 2018.)

Rolf Willy has a long lasting history as a company and started in the 1960s, when digitalization was not such an urgent topic. The wine became better known of course due to its taste but also, through the warmly, friendly character of the family Willy itself. Looking at the marketing channels of Rolf Willy GmbH, it has focused on the word-of-mouth propaganda in the past. The company identified this strategy as the most suitable marketing channel. Many customers came to the vineyard even if they had to travel more than 100km. Nowadays, Rolf Willy has plenty of regular customers, Who still recommend the company's wines to family and friends. Additionally, Rolf Willy did create a simple but attractive label for its wine bottles. The thought was to keep it simple to put an

emphasis on the important details about the type of wine, for example Riesling or Trollinger-Lemberger (see appendix 4). Rolf Willy GmbH has other marketing activities, but its major focus is on the word-of-mouth. (Willy 2018.)

Moreover, the retailing of Rolf Willy has to be considered. Rolf Willy sells the wine through miscellaneous sales channels. One channel is the distribution at the winery of family Willy, where customers additionally have the opportunity to do a wine tasting. The price of the wine usually ranges between 5 EUR and 7 EUR, sometimes 8 EUR. The vineyard is located in a region, where a lot of wine is produced, which comes along with the passion of the people for wine. Most of the wine sold by Rolf Willy GmbH is in approximately 200km range from Nordheim. Another option is the collaboration with different distributors to reach more people. The distributors are another retailing channel for Rolf Willy and sell online as well. A third channel is well-known supermarkets such as Edeka or Rewe. Through the presence of the wine in supermarket myriads of potential buyers can be reached and established customers as well. It is not necessary anymore to travel long distances for a favored wine. Instead, it is available in a supermarket close to their home. (Willy 2018.)

Interestingly, Rolf Willy GmbH does not possess an online shop. Nowadays, an online shop certainly is an attractive tool but not for this company. One reason for this is the potential delivery costs. Another reason is the bottle's weight and fragility which hampers flawless delivery. In addition, customers are acquainted to free delivery. Overall, it would be an enormous challenge for Rolf Willy to cover extra expenses for insurance and transport. If the company introduces an online shop, it would have to increase the price of the wine but as the market is very competitive they might lose some customers to brands which sell cheaper wine. Also, fairness is highly valued at Rolf Willy GmbH, if the price for wine rises due to the opportunity of free delivery, it would be unfair for customers, who buy their wine for example at the supermarket. There are further factors, which have an impact on the decision of the company and for now, it does not aim to develop an online store. The costs would be higher than the profit and values such as fairness would be less considered. Additionally, if people want

to buy Rolf Willy wine online, they are able to do so as some distributors sell it online. (Willy 2018.)

Rolf Willy itself does not intend to cooperate with Amazon either. For the company it is highly valued to have a sustainable production line, with short distances. Also, further values of the company are not overlapping with the ones Amazon has. Some distributors cooperate with Amazon but Rolf Willy GmbH itself, at its current status, is not interested in it. (Willy 2018.)

All in all, Rolf-Willy is a prosperous company and its success relies on several factors but mainly on the down-to-earth attitude of the company's owners to offer good wine for fair prices. The mentality gives Rolf-Willy a pleasant character and the family business remains faithful to its ideals. (Willy 2018.)

### **4.3 Findings**

At this point of the paper basic information about the topic is given and the four case companies were introduced. However, this chapter aims to summarize the findings of the interviews referring to the topic of this paper and aims to outline solutions.

Generally, all four companies have in common that they operate within the food industry. Stuggi produces Maultaschen, which is a local dish, Stiefkind makes sour apple juice, rezemo GmbH established an environmentally friendly coffee capsules that is made out of wood and Rolf Willy is a well-known company for wine with a long history of selling wine. All of them are located in the same geographic area, whereby they operate in the same conditions. To be able to compare the mentioned case companies, Figure 3: Market strategies will be applied in order to give a comparable result.

#### **4.3.1 Rezemo GmbH**

Rezemo GmbH is a relatively new company, which entered the marketplace in 2018. Rezemo GmbH chooses for their market strategy **psychographic segmentation**, which describes a segmentation strategy that is focused on divergent "social classes, lifestyle or personality characteristics" (Kotler &

Armstrong, p.218). The selected customers of rezemo GmbH have an environmentally friendly lifestyle or aim to reach a more sustainable lifestyle, which at this time is a trend in society. The topic is increasingly gaining higher attention and people start to be more aware about it.

After the market segment is selected, companies have to **target** one specific group of customers or an entire market segment. Rezemo GmbH's target group is every individual that likes coffee and is willing to pay the average price for coffee capsules. The chosen product of this company is an environmentally friendly alternative to other coffee capsules.

However, by choosing the coffee market rezemo GmbH entered a highly competitive market. Germans buy approximately 4.2kg coffee per year (N-tv 2017) whereby, plenty of companies distribute coffee in Germany. Rezemo GmbH had to develop a **differentiation** element in order to be able to reach an outstanding position. The company accomplished it by environmentally friendly coffee capsules produced out of wood. The product itself differentiates from the offerings of the competition and enables a unique selling proposition. In addition to that, rezemo GmbH aims to support the local business environment, which has a positive side effect for the consumers in the region.

The last element shown in figure 3 is **positioning**. Rezemo GmbH for instance chooses for its store format an online store and in addition to that some physical stores located in Baden-Württemberg. By establishing both options, the coffee is available online for every individual that like to taste its coffee. Through the established physical stores and the presence in some restaurants, people will be able to taste the coffee. Therefore, the product is more likely to stay in mind of the customers.

All in all, rezemo GmbH created a unique product through its sustainable character and value creation. A company such as **Amazon** is not able to provide such a product as the values of Amazon do not correspond with the ones of rezemo GmbH. Amazon is a global player, that operates all over the

world. Rezemo GmbH instead does not intend to become a global player instead, their ambition is to give people a chance for a sustainable lifestyle.

At the moment, rezemo GmbH's product is in the introductory phase and major challenges will be necessary to face like the pressure of competition. Anyway, rezemo GmbH has much potential as they have developed a product with a unique character and a certain target group. If society adopts the product well, this small company will be able to survive by an innovative product that follows a current trend in society and uses digitalization tools to spread their product even further.

#### **4.3.2 Stuggi**

Stuggi's business performance is slightly further developed than the one of rezemo GmbH. The name and the location of the company already indicate that Stuggi chose **geographic segmentation** as it is focusing on a specific region: Baden-Württemberg.

The **target group** of Stuggi is everyone who enjoys Maultaschen. Stuggi produces personalized Maultaschen that people can create by themselves through a self designed generator. By that, Stuggi applies concentrated marketing, which becomes clear by realizing that not every individual likes Maultaschen. It is only favored by one specific group of people who enjoy Maultaschen. Maultaschen are a national dish in the South of Germany and many people enjoy this kind of pasta and experience a sense of home by thinking about Maultaschen.

Well-known brands such as "Burger" that also produce Maultaschen have already established on the marketplace consequently, Stuggi had to create a **differentiation** element. The company combined the local dish with an online generator. It enables every customer to construct its own combination of Maultaschen. The generator functions like a little toy, which attracts customers and media. Additionally, Stuggi reached a differentiation element through its customer service. The company introduced several delivery options such as

click and collect into their offering. As a result, customers have a wider choice. Also, standardized Maultaschen were implemented into the product assortment. They also give customers the opportunity to taste a creative combination of the ingredients. Following, customers who are not certain about the combination can experience an unusual taste as well.

Besides differentiation, Stuggi performed very well considering **positioning**, especially in terms of customer communication decision did go surprisingly well. The founder of Stuggi was lucky due to the high attractiveness of his idea. Multiple of reports, TV-Shows and so on are published about the company Stuggi. The company became successful and into the mind of society through an outstanding idea.

In conclusion, Stuggi is a perfect example to show the opportunities of digitalization as for example a generator would not be possible without the Internet. Anyway, the topic of the thesis refers to ways that give small companies a chance to survive against global players. Firstly, it has to be said that Stuggi did not reach the break-even-point yet, but through its attractiveness for social media and success so far the company still indicates a solution for the topic of the thesis. Stuggi generally is open for collaboration with Amazon if they developed the delivery options all over Germany. Even though Stuggi might collaborate, which already is a solution to survive on the market, there still will be the exclusive Maultaschen generator that nobody else has. The effort spent is very high for products composed through the generator anyway, Stuggi offers products, which are still a traditional dish that give people a sense of home. Stuggi embodies a small retailer with a unique tool combined with a national dish, whereby it found a way to its position in between of global players.

#### **4.3.3 Baumschule und Obstbau Georg Schneider GbR**

Baumschule und Obstbau Georg Schneider GbR introduced a sour apple juice named Stiefkind. The strategy of this company is slightly different compared to the ones of the other companies. Baumschule und Obstbau Georg Schneider GbR started with **targeting**, as the company had the composition of the apple

juice before entering the market. The apple juice has a unique taste and following, the market segment was chosen based on the product.

However, targeting proceeded but **market segmentation** had to take place as well. The company did psychographic segmentation. They aimed for a target group, which consists out of young people, especially the ones who are willing to experience something new. The sour apple juice obtained a certain market segment and based on this, differentiation was possible.

If you focus on **differentiation** for Stiefkind, obviously, the unique red color and the sour taste has to be mentioned. The company created an apple juice, which tastes unique compared to other apple juices as a sour taste is usually not combined with apple juice. Additionally, the labeling of the juice is outstanding. Combined with a relatively uncommon bottle design for apple juice and a name, which underlines the character of the apple juice, an enormous differentiation character is created.

Relating Stiefkind to positioning, it is interesting that the intended target group changed. The product was introduced on the market and not only young people enjoyed the apple juice also, young kids, families and elderly people. The target group changed and subsequently, the merchandise decision was very important. The branding of the product and marketing campaigns had to be adjusted to the target group. Concerning positioning, the store format for the product Stiefkind is important. Baumschule und Obstbau Georg Schneider GbR is currently distributing the apple juice in selected stores and their online store. For the future, Baumschule und Obstbau Georg Schneider GbR is considering cooperation with Amazon as myriads of customers can be reached by it. At the moment though, it is not needed. The production volume is rising year-by-year and the stock is almost sold out immediately. If cooperation takes place, the production volume would have to rise significantly. The first barrier is that Stiefkind is produced out of a natural resource and the production volume is limited. Following, Baumschule und Obstbau Georg Schneider GbR created a product, which is not affected by the influence of Amazon. Even if Amazon Fresh is going to deliver all over Germany, Baumschule und Obstbau Georg

Schneider GbR is still producing its unique apple juice. Amazon Fresh will have other products in stock but the unique character of Stiefkind will not be present. If Amazon Fresh causes problems for the company, they are open for cooperation with Amazon.

To sum up, Stiefkind is a product with a unique character. Whereby, Amazon and any other global player is not a challenger for this small retailer. The environment is highly competitive but for this product regular customers have established and the demand is as high that the stock is almost sold out immediately.

#### **4.3.4 Rolf Willy GmbH,**

The fourth case company is Rolf Willy GmbH, which is a well-established business in the food industry. Rolf Willy is very famous for its wide assortment of wine with a decent quality. The business is based on the family Willy itself, which might even be a factor for the success of the company. Rolf Willy GmbH is located in Nordheim, Germany, and a very popular region for wine. Whereby, **geographic market segmentation** occurred.

Family Willy intends to produce quality wine for everyone thus, their major **target group** are people who enjoy wine and live in the region. Another important component for the company's targeting is to produce wine for everyone with an outstanding quality. They decided to set the price on a modest level to make it available for even more people.

The targeting already created the first **differentiation** element. Rolf Willy GmbH produces wine with a fair price and great quality. The assortment covers 120 different wines and so, almost everyone is able to find a wine that matches his or her taste. Additionally, the company differs through its down-to-earth mentality.

Concerning **positioning**, it has to be mentioned that wine relies on a natural ingredient, which is grapes. Grapes are a natural product and by that,

environmental influences such as heat or cold have a recognizable effect on the grape harvest and the quality of wine. Rolf Willy had to face these challenges, but the company managed to find an overall profitable solution. The company distributes products with an excellent taste and a fair price whereby, plenty of regular customers established. Rolf Willy managed through its modest attitude and down-to-earth mentality a very successful positioning.

Looking at the retailing channels of Rolf Willy GmbH, it has several distributors, is available in major supermarkets such as Edeka and distributes wine by itself. At the moment, the company does not consider to collaborate with Amazon. They disagree with the policy of Amazon and additionally, they do not see a major benefit arising by it. The wine is already available on Amazon through some distributors but the company itself does not intend to do so.

All in all, Rolf Willy reached an excellent position on the market and one key to their success could be their down-to-earth mentality. The company distributes divergent type of wine for a low price and the relatively excellent quality. The major consumers of Rolf Willy wine are located in the area of the company. However, many regular customers improve the business status of the company and let it succeed even more. Rolf Willy GmbH does not spend much effort on marketing or digitalization elements anyway, their business is very profitable. Some adjustments such as the online store might be necessary in the future but at the current status, it is performing great.

## **5 Conclusion and final discussion**

This chapter combines the outlined theory part and the findings of the empirical part. Some inputs for future research will be given and in the end, a final conclusion referring to the topic of the thesis is drawn.

This thesis started by giving general definitions about small retailers, retailing in generally and digitalization. Afterwards, the transformation of retailing was introduced, including the introduction of the World Wide Web in 1989. Overall, the retailing environment has become more complex. New opportunities arose

and with it e-commerce was established in today's world. E-commerce changed the ways of communication, business processes, service levels and basically the opportunities online. For instance, communication was able on certain levels as customers now are able to give feedback online about selected products whereby, companies are able to adjust their offering.

Additionally, the retailing market in Germany was introduced with a special focus on the food industry in Germany. After, strategies that are powerful to survive on the current market such as a trend analysis were introduced. There are thousands of trends occurring and they might increase the success of a company if they adopt a current trend of society.

The thesis continued by outlining the global player Amazon. The history of Amazon is shown, when it started as an online bookstore and extended continuously up to its current status as the biggest online retailer worldwide. Additionally, Amazon Fresh was introduced, which is a delivery service for groceries. Then, environmental analysis for Amazon, which outlined several advantages and disadvantages of the company was done.

The empirical research outlined four different case companies, which operate inside the food industry. All of them discovered different ways to survive on the market but for answering the topic of the thesis, answers to the other questions (1.4. Research questions) have to be given first, which will lead to the final conclusion.

#### *What changes happened in the retailing industry?*

The retailing industry has changed significantly. A few decades ago, the Internet was not as popular and retailing mostly took place in physical stores. Anyway, online stores have been established and with them plenty of new features. The product assortment became wider, shopping was possible without leaving the house and delivery options continuously changed. To sum up, myriads of changes were occurring and every retailer on the market has to discover a way to accomplish the changing conditions.

*How did Amazon obtain the position of a global player?*

Amazon has reached its outstanding position by several factors. Amazon was the first online bookstore and it **reached for more**. The company was innovative and took many risks such as extending the product range continuously. One key for the success of Amazon certainly is their focus on customers. Amazon aims to give its customers an enjoyable shopping experience with many opportunities. There are many further factors that enhanced the success of Amazon, but definitely it helped Amazon to be courageous for taking the risk of being the first online bookstore.

*Which similarities/ differences do the case companies have?*

All of the companies operate in the same business field, which makes them comparable but besides that, more similarities are present. Looking at rezemo GmbH and Stuggi, both of them are companies, which have just entered the market and try to reach a successful position. **Additionally, both of the companies comprise an outstanding idea.** Rezemo GmbH offers coffee capsules out of wood and Stuggi provides unique Maultaschen, which can be designed individually by a generator. However, Stiefkind also possesses a unique character. Furthermore, some case companies follow a trend in society. Rezemo GmbH and Rolf Willy GmbH both reach for sustainable products, which are sourced out of the region. Sustainability is a part of their philosophy but it is also a current trend in society as more people try to be sustainable. Stiefkind and rezemo GmbH have a further similarity, both companies aim to be present in selected supermarkets. Rezemo GmbH does not aim to be available on Amazon but in selected stores. Stiefkind is open for selected stores, but for larger supermarkets or Amazon as well. Generally, myriads of similarities exist but certainly differences as well due to divergent goals of every single company.

*Can the business models of the case companies be adopted for other companies?*

Every single company has its own product and strategy, but the foundation of a strategy can be transferred to other companies, for instance rezemo GmbH, which follows the sustainability trend, or the down-to-earth mentality of Rolf Willy GmbH. Both approaches can be easily assigned to other companies. The mentality helped significantly to obtain regular customers, which is a key for a successful company. Additionally, Rolf Willy GmbH cooperates with other companies and distributors. It can be seen as a component of their success. Every company should consider collaborating with other companies at a certain status in order to survive on the market, cooperation with Amazon should be considered as well. All in all, business models of the case companies can be adopted to other companies but adjustments to the individual company are necessary.

*Can digitalization be seen as the key factor for success?*

It is important that every company thinks about digital elements within its company. Digitalization is very crucial in today's world, but it depends on the business model whether it is a key factor for success or not. Rolf-Willy GmbH performs successfully on the market but digitalization elements are not their major focus. They focus on a charming wine for a fair price. They barely have digitalization elements within the company, not even an online shop. However, it might change and the value of digitalization becomes more important but it is not necessarily the key for success. Looking at Stuggi and its Maultaschen generator, it is a business, which would not be to function without digitalization elements.

**Final conclusion - How can small retailers be successful in a world influenced by global players and digitalization?**

All in all, it becomes more challenging for small retailers to survive in our today's world. Global players have been established on the market place and continuously improve their position. However, this research has shown that there are options for small retailers to survive on the market. There is no

universal key component for success. A company usually needs a creative idea, which makes its product outstanding. Also, the appropriate market segment has to be chosen, the decision about a specific target group has to be made and afterwards, differentiation and positioning are necessary. Every business needs a clear strategy but occasionally, it is necessary to adjust the offerings to changing target groups. Sometimes it is recommendable to connect products or services with current trends inside society. In order to survive, a company can focus on a niche market, where the number of customers is limited and thereby not attractive to global players.

Furthermore, digitalization tools can be applied like Stuggi did. Stuggi uses a generator, which makes its products unique. Nobody else produces Maultaschen that are designed by the customer's own choice. It is a business model that highly depends on digitalization. Finally, a down-to-earth-mentality can leverage a success for a small retailer. Rolf Willy GmbH has operated successfully for many years and the customer was always valued. The company wants to distribute a fair product and customers both recognize and value it. Sometimes success does not have to rely on the craziest idea, instead it is important that mentality and philosophy of a company are in order to attract myriads of customers. All in all, there are opportunities for small retailers even though it becomes more challenging every day. However, global players also struggle to keep up with the changing conditions as the market is deemed to be fast moving

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## Appendix

### 1. Strawberry-Chocolate Maultaschen (Stuggi 2018.)



### 2. Sour apple, Stiefkind (Schneider GbR 2018.)



### 3. Stiefkind, bottle design (Schneider GbR 2018.)



### 4. Labeling Rolf Willy Wine (Rolf Willy 2018.)



### 5. Questions interview

- What was the basic idea of your company? How did the idea come up?
- Were strategic adjustments necessary? (For further success)
  - Are adjustments still being made?
- Were there uncertainties about the success of your company?
- How would you generally describe the success of your company?
- Do you already have regular customers?
  - What strategies do they have to win regular customers (brand management)?

- How do customers accept your product? (consumption once or several times?)
- Who would you describe as your target group?
- Which advertising media do you use?
- Do you plan to expand your advertising presence or would you like to continue to focus on physical business?
- Are there competitors in your field of business who produce a comparable product?
- Why should customers choose your product?
- Do you see Amazon as an opponent for your product?
  - No? Where does this certainty come from?
- Would you distribute your products by Amazon?