



## ETAILZ, INC. CASE STUDY

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# TABLE OF CONTENTS

- INTRODUCTION.....4**
- COMPANY HISTORY: 2008 - 2019.....4**
- INTERNAL ANALYSIS.....6**
  - Strengths .....6**
    - Investment in Technology .....6
    - Process & Industry Knowledge.....6
    - Aligned Organizational Architecture & Industry .....7
    - Customer Market Awareness.....7
    - Reputation as an Industry Leader in Marketplace Expertise .....8
  - Weaknesses .....8**
    - Limited Control Systems, Company Goals, and Standards .....8
    - Weak Process Documentation.....9
    - Uneven Power Distribution.....9
    - Employee Attrition.....9
- BUSINESS LEVEL STRATEGY .....10**
  - Distinctive Competencies .....11**
  - Resources.....12**
    - Intangible Resources.....12
    - Tangible Resources.....13
  - Capabilities.....14**
    - Organizational Structure .....14
    - Organizational Culture.....16
    - Processes.....17
  - Functional Level Strategy.....17**
    - Value Creation Frontier .....19
- EXTERNAL ANALYSIS .....19**
  - Opportunities .....19**
    - Growth of Ecommerce in Retail Industry .....19
    - Complimentary Innovations in Technology.....19
    - Growing Need for Automated Solutions for Sellers in Ecommerce.....20
    - Emerging Marketplaces .....20
  - Threats .....20**
    - Increased Seller Competition.....20
    - New Entrants with Investments in Technology.....21
  - Industry Analysis.....21**
    - Porter 5-Forces .....21

Industry Life-Cycle Considerations .....	23
Macro Environmental Forces.....	24
Strategic Groups.....	24
<b>SWOT ANALYSIS SUMMARY .....</b>	<b>25</b>
<b>CORPORATE LEVEL STRATEGY .....</b>	<b>25</b>
Horizontal Integration.....	25
Vertical Integration .....	26
Outsourcing.....	26
Partnerships & Alliances.....	26
Diversification.....	27
Financial Analysis .....	27
Profitability Ratios .....	27
Liquidity Ratios.....	28
Activity Ratios.....	29
Leverage Ratios.....	30
<b>RECOMMENDATIONS .....</b>	<b>31</b>
Continue to Invest in Internal Development.....	31
Streamline Organizational Power Structure.....	32
Improve Process Documentation.....	33
Increase Performance Transparency.....	34
<b>BIBLIOGRAPHY .....</b>	<b>35</b>

# INTRODUCTION

etailz, Inc. is a data-driven, third-party ecommerce retailer and service provider, located in Spokane, Washington. Over the last 10 years they have grown from an eco-friendly retailer, to a leader in ecommerce expertise across multiple domestic and international marketplaces. etailz' data-driven tactics, proprietary software and vast ecommerce knowledge has enabled them to distinguish opportunities for new partners, identify emerging product trends, and optimize product pricing and inventory decisions. etailz' strives to protect, position, and promote the interests and products of their partners. etailz has three primary revenue streams: the core business, agency, and software as a service (SaaS). The core business encompasses all forms of digital marketplace sales made under the etailz brand name. The agency offers partners the ability to sell products under their own brand, while utilizing etailz' proprietary software and industry knowledge (via etailz employees). The SaaS revenue stream offers self-managed ecommerce software solutions to the public. etailz, Inc. was acquired in 2016 and is now a subsidiary of Trans World Entertainment Corporation (TWEC).

etailz operates in the ecommerce industry, as a segment of the general retail industry. etailz has strategically aligned themselves as third-party retailers, direct retailers, ecommerce service providers and SaaS providers. Their core competencies of industry insights and software development have positioned them as a leader in the third-party ecommerce industry. Throughout this case study I will examine etailz' performance. First, I will review their company history. Next, I will perform an internal analysis, where I will identify their strengths and weaknesses as a company. These strengths and weaknesses will be examined through the analysis of their business-level strategies and their distinctive competencies, resources, capabilities, and functional-level strategies. After analyzing their business-level strategies, I will analyze the external environment etailz operates within. From this analysis the identification of potential opportunities and threats will be examined. This will be followed by an industry analysis utilizing Porter's 5-Forces, an investigation into the macro environmental forces, and strategic groups. Once the external analysis is complete, I will summarize the SWOT analysis and investigate the corporate-level strategy. In the corporate-level analysis I will review their utilization of horizontal and vertical integrations, as well as outsourcing and business alliances. I will then perform a financial analysis of etailz' parent company TWEC to gather a wholistic understanding of their competitive position. Finally, I will discuss potential recommendations for change, anticipated issues with implementation and their impact to sustainability and imitability of competitors.

## COMPANY HISTORY: 2008 - 2019

GreenCupboards, Inc. was established by Josh Neblett, Sarah Wollnick and Tom Simpson in May of 2008, but it wasn't until September of that year for the first transaction to be processed on greencupboards.com. GreenCupboards was conceptualized by founders in 2007, while Neblett and Wollnick were still in school at Gonzaga University. GreenCupboards was an eco-friendly, third-party, online-retailer with the goal of becoming the leader in selling eco-friendly products. Simpson was their adjunct professor and ultimately became the first major investor in the company. By January of 2009, the team had expanded to selling on Amazon.com and accepted the first marketplace transaction of \$31.81. By March of 2011, the team had expanded to 25 employees (plus interns). This expansion included etailz' first CFO, Bill Kinzel. In 2012 they established their international presence in the United Kingdom and Canada. During this time period, GreenCupboards began investing human capital into technical solutions. These technical solutions included automated inventory and sales scripts to help manage the exponentially increasing sales volume. 2013 saw significant growth in the business's strategic outlook, as GreenCupboards acquired ecomom.com and changed their corporate name to etailz, Inc. At this time, etailz expanded their international efforts to include Germany and Japan, as well as expanding their marketplace presence to include eBay.com. They also opened their first brick and mortar store, Wollnick's General Store, in Spokane, Washington. The brick and mortar store provided

a distinct advantage over other third-party retailers, as etailz could provide a physical location for partner's products to be displayed as well as a digital platform. During this time etailz began to shift away from selling exclusively eco-friendly products to expand their potential revenue streams. They also began investing in the formal development of proprietary software and software as a service (SaaS). At the end of 2014, etailz had made \$60 million in revenue, launched their first SaaS offering (Perispect), employed over 100 people, developed their first private label product, and was named one of Inc. 500's fastest growing companies for its 3<sup>rd</sup> consecutive year. In March of 2015 the etailz processing facility opened its' doors as they moved from their department inside the main offices, to their own warehouse in the industrial park of Spokane Valley, Washington. This investment allowed etailz to continue to grow in both their inventory processing capabilities and their human capital at the main office. In Q4 of 2015, etailz had their first \$1 million day, with over \$1 million in direct and marketplace sales. etailz, Inc. ended 2015 with \$93 million in revenue, a 55% growth from the previous year.

2016 saw the introduction of two additional proprietary applications for etailz, Channel Auditor and Unity. This added to the proprietary suite of applications. The primary applications used by etailz were RATT (inventory management & lead generation), Yeti (HR) and ASIN Finder (product expansion). Channel Auditor enabled users to quickly identify reimbursement cases through Amazon, while Unity supported the core business drop-ship revenue stream. In October of 2016, etailz was acquired by Trans World Entertainment (TWEC) for a total of \$75 million. TWEC is the corporate owner of the F.Y.E. retail chain that focuses in entertainment merchandise. The mutually beneficial acquisition offered financial, as well as strategical opportunities for etailz to expand their brand partnerships and technical solutions. TWEC benefited from the acquisition as the brick and mortar retail industry faced significant reductions and the push to digital marketplaces increased. etailz offered TWEC the opportunity to improve their digital presence. In December, etailz restructured after the acquisition, and had a reduction in force of 8%. This strategic decision was made to ensure etailz continued towards their goal of becoming the industry leader of marketplace expertise and sales (Maben, 2016). By the end of 2016 etailz had experienced over \$116 million in sales and was positioned to improve processes and profits.

In 2017 etailz re-invested in their proprietary solutions, expanding their development team and their software solutions. In March, the initial CFO, Bill Kinzel, left the company after 5 years. April brought a new CFO to etailz, but Scott Kramer only stayed for 8 months. Technical solutions utilized by etailz employees included proprietary and non-proprietary applications, services to support those applications, big data technologies to retrieve and store product, brand and competitor information, and analytic teams to provide business insights from the acquired data. etailz' flagship software, RATT, enabled exponential sales growth over the first 9 years, but it had not been designed as a scalable solution. Beginning in the end of 2016, etailz began the arduous task of redesigning and rebuilding their lead generation, inventory management, and product expansion software. The new software, Neptune, was released in January of 2018. Coinciding with the release of Neptune was the arrival and quick departure of the third CFO, Alfred Bedrossian. After the two CFOs failed to stay with etailz, the executive team began to search a permanent individual to fill the critical role. The current CFO, Brock Kowalchuk, joined etailz in September of 2018. 2017 was a year of inconsistency in financial leadership and one of the first non-profitable year experienced since the late 2000s. The etailz segment of TWEC had generated 41% of overall revenue (\$174 million) but had a \$2.14 million overall loss from operations. TWEC experienced a \$42.75 million loss of comprehensive income during the fiscal year of 2017.

2018 was a very difficult year for etailz. While the release of Neptune eventually increased processing efficiency and other technical solutions being implemented, misaligned company goals and a smattering of

functional mistakes created the worst performing year in company history. The financial losses of 2017 spurred etailz' 2018 goal of increased top-line sales. During the year, a lack of control systems and constantly changing company objectives lead to the adjusted loss from operations of \$6.5 million for the etailz segment of TWEC. The unadjusted loss from operations for etailz was \$62.1 million, with \$57.7 million in non-cash charges related to the impairment of certain fixed assets, intangible assets, and goodwill (TWEC, 2019). Outside support was brought in to initiate strategic changes and operational efficiency gains to improve etailz' performance and cash flow. Significant changes were initialized in the fourth quarter of 2018 to improve etailz' performance for 2019. In January of 2019, etailz restructured again and reduced their workforce by approximately 30%. This reduction included the exit of founder Sarah Neblett (Wolnick). In March of 2019, it was announced by TWEC that the founder and CEO, Josh Neblett, was no longer with the company. Throughout these changes, the executive team worked together to build a unified front for the company. The executive team is optimistic in etailz' potential for profitability and growth in 2019.

## INTERNAL ANALYSIS

### STRENGTHS

Internal strengths are built off of the strategic implementation and utilization of company resources, capabilities, and core competencies. etailz' successful growth from a small ecommerce start-up, to a company with over \$186 million in yearly revenue was built on a strong foundation of technology, process knowledge, organizational architecture, customer awareness, and industry reputation as discussed below.

#### Investment in Technology

etailz began investing in the internal development of software in 2011, but from the beginning the founders wanted etailz to be a data-driven company. Proprietary solutions derived from process knowledge enabled etailz to utilize available technologies (like APIs from Amazon) to automate repeatable processes and increase efficiencies. Initially this was used to automate the retrieval of sales and product information from digital marketplaces. These initial automations enabled etailz to take their first step towards automated data-driven decisions. Currently, the development team has built 10+ proprietary applications, a data warehouse solution, and a suite of supporting services and scripts. Data collection has been a major initiative for etailz over the past 8 years. A team of business intelligence analysts work to quickly build reports for every aspect of the business. After TWEC acquired etailz, a team of data scientists from TWEC worked with etailz' development team to build models for analyzing partnership opportunity, product opportunity, estimated sales and reorder quantities. These complex data models have enabled etailz to order the best products in the most accurate quantities at the right times (taking into consideration lead times, inventory levels, product rank trends, seasonality and a mix of other elements). etailz is currently working on building out their proprietary applications for use in their agency model. Under this model etailz employees manage a partner's catalog through new instances of the same applications used by the core business. The development of agency applications will expand the service offerings and value proposition of etailz. The early investment into proprietary software allowed etailz to evolve their software solutions alongside their process knowledge and the ever-changing ecommerce industry. This investment into technology has created a strong foothold for a sustainable competitive advantage in the ecommerce industry.

#### Process & Industry Knowledge

The ecommerce industry is a complex and ever-changing environment. To stay alive in this highly competitive industry, efficient processes must be established. etailz' 10+ years of experience selling on digital marketplaces has enabled them to find commonalities and efficiencies across a complex network of requirements. etailz has

established processes, software solutions and teams dedicated to compliance, pricing, search engine optimization, logistics, data integrations and inventory management. The act of selling products online requires knowledge of the marketplace platforms and the consumer market. Each marketplace has their own fee structure, compliance regulations, data integrations, advertising opportunities, and distribution requirements. etailz has established seller accounts on major domestic marketplaces and on multiple international platforms. Their knowledge of ecommerce is coupled very closely with their development of proprietary software solutions. etailz' process knowledge provides a competitive advantage in their core business as well as the development of the agency and SaaS revenue streams.

### **Aligned Organizational Architecture & Industry**

As discussed previously, the ecommerce industry landscape is constantly changing. etailz has purposely aligned and realigned their organizational architecture to support the required flexibility. The organizational structure at etailz has shifted alongside their business strategy many times throughout their relatively short life. For the most part, etailz utilizes a decentralized functional structure with some matrix teams. The decentralized nature of most departments allows managers the ability to make functional decisions without an excess of red-tape. The fast-paced nature of ecommerce is replicated in the fast-paced nature of decision making at etailz. A limited number of control systems and formal processes has benefited and negatively impacted etailz at times. During the early years, it enabled teams to shift with the landscape, but now that etailz has grown out of their “start-up” phase, more comprehensive control systems and processes are beginning to be established to support the maturing business. etailz' organizational culture of innovation and a work-life balance aligned very well with the exciting and innovative ecommerce industry. Innovation has been at the core of etailz' success. The nature of the ecommerce industry enables changes to be made quickly and results to come about even quicker. This, coupled with the decentralized organizational structure empowered employees and enabled them to implement and observe the reaction of those changes. Failing fast was a staple in the etailz culture in the early to mid 2010s. While discovering solutions is a core value today, changes in leadership has shifted away the cultural focus of failing fast in favor of innovation in ideation and thoughtfulness in implementation. etailz' employs a creative workforce that aligns with the cultural norms and challenges presented with an everchanging industry. etailz' continually examines their organizational architecture and is not afraid of making changes or of taking risks. In the risky ecommerce environment, etailz maintains a flexible architecture to optimize on potential opportunities and attempt to avoid massive failures.

### **Customer Market Awareness**

etailz has always focused their efforts on market segments with the largest potential customer base. In the early years, this meant primarily selling on Amazon.com, but utilizing direct websites to increase their customer base. Direct websites, like GreenCupboards.com, increased the value proposition to vendors via additional marketing opportunities. The first few years were also built off a drop-ship model, which required fewer capital investments, as products were not paid for until they were purchased by the end consumer. As efficiencies were gained and annual revenues continued to excel, etailz (then Green Cupboards) maintained spatial awareness and acquired another ecommerce site, ecomom.com. This expansion enabled etailz to target a wider variety of customers and vendors. This expansion to a wider net of vendors increased etailz' industry insights and directed their investment into technology. etailz was aware of the difficulties facing manufacturing partners with maintaining the minimum advertised price (MAP) on their products across sellers. As manufacturers often sell their products to multiple retailers, MAP violating sellers would effectively steal sales away from retailers who followed those restrictions – like etailz. So, etailz developed an application to track and notify sellers on behalf of manufacturers, when those sellers listed produces below MAP restrictions. This

benefitted etailz in three ways. First, this increased sales via the reduction of competition, as marketplace algorithms prioritize sellers in a listing based on listing price and seller rating. As sellers had to bring their prices up, etailz would become more likely to win the “buy box”. Second, this became an additional source of revenue through the subscription fees to access Perispect. Finally, this increased etailz’ reputation as an industry leader in marketplace expertise. The only SaaS offering currently provided by etailz, Perispect, was launched in August 2014. According to the etailz website in 2019, Perispect has identified over 30 million pricing violations (What We Do, 2019). As etailz continued to expand, they stayed tuned to the needs of the ecommerce industry. Their awareness enabled etailz to expand their revenue streams to include an agency offering, where vendors could sell on marketplaces under their own account but still utilize etailz to manage their listings. As the ecommerce landscape changes, etailz takes note and diversifies their revenue stream to support the market segments with the most opportunity. The continued efforts towards diversifying their revenue streams has increased their competitive advantage. The strategic alignment of revenue streams enables etailz to benefit from insights gained in each scenario. Each segment of the business provides unique perspectives on the ecommerce industry. Together, these help to build a sustainable competitive advantage.

### **Reputation as an Industry Leader in Marketplace Expertise**

etailz has capitalized on their experience and has developed a reputation as an industry leader in marketplace sales and expertise. Their seller feedback results support this claim. On the Amazon US marketplace, etailz’ seller account has over 75,000 reviews, a 5-star rating and a 99% positive rating in the last 12 months (etailz storefront, 2019). In 2018, etailz was ranked as the fourth best seller on Amazon.com based on customer feedback results (Geldman, 2018). The three sellers listed above etailz, Pharmapacks, AnkerDirect, and SquareTrade, are manufacturers of their own products and do not focus on third-party retail. As such, etailz can claim to be the top third-party retailer on Amazon US. etailz has also hosted two Amazon seller conferences, called Master the Marketplace, where retailers and partners were invited to learn about the tools and strategies used by etailz to establish themselves as the leading expert in marketplace retail (etailz, 2019). Their industry expertise is also displayed through their partnerships, with brands like 3M, Strider, and Buck Knives (Homepage, 2019). In 2013, after GreenCupboards changed their corporate name to etailz, they set the goal to become the industry leader in marketplace sales and expertise. This goal increases the value proposition to vendors who are investigating a partnership with etailz. They can trust that etailz’ seller reputation as well as their reputation as industry experts will provide them the best marketplace results. They only need to look to etailz’ seller accounts to validate this. While etailz has become the top third-party retailer on Amazon US, they still aim to expand that knowledge and expertise to other domestic and international marketplaces. This expertise translates to more efficient processes and higher quality software solutions that all revenue streams benefit from. Their efforts towards leading marketplace sales and expertise will continue to support etailz’ competitive advantage.

## **WEAKNESSES**

### **Limited Control Systems, Company Goals, and Standards**

Although etailz has benefited from flexibility in processes and organizational structure, they have also lost out on potential efficiency insights because they lacked control systems to gauge the performance of teams. Most of the control achieved at etailz relied on personal controls, where personal contact enforces standards. Between 2017 and the beginning of 2019, there were very few bureaucratic or output controls. The metrics from these controls were not distributed throughout all levels of the company, so it was difficult for departments to understand what and how other departments are performing. This impacts the ability of employees to innovate, as they lack an accurate understanding of the company. Company goals during this time were established, but progress was not obvious. This changed in 2019, as the executive team placed focus on



establishing company goals and building out company dashboards to increase transparency. Company dashboards are constantly displayed on televisions throughout the office. There are even plans to create department level dashboards, that would be web accessible to all etailz employees. While this weakness is being addressed, it had the largest impact to company performance. Throughout 2018, employees were not aware of the true company performance as they had very little available insights. To some, the reduction in force in January was a surprise. Through established company goals and better control systems, etailz can move towards better inter-departmental transparency and reduce the negative impacts that limited control systems have had on company performance.

### **Weak Process Documentation**

Process documentation across etailz varies in the consistency of depth, quality and accuracy with current practices. Change is constant at etailz, but the practice of documentation is not. One of etailz' core strengths is their process knowledge and without documentation it becomes very difficult to duplicate and transfer to other aspects of the business, like development. Development of custom applications is a time intensive and costly activity. Applications aim to automate defined processes and the development of applications based on poorly defined processes tends to result in low quality products that do not provide a return on investment. Process knowledge is also lost as employees leave etailz. A lack of high-quality documentation impact's etailz' speed when onboarding new employees. Confusion for new and existing employees is major issue associated with the lack of process documentation. Well documented processes enable companies to better identify metrics to monitor the performance of teams working with those process. They also enable employees to reference the documentation if there is any confusion. At etailz, the lack of accessible process documentation impacts the cross-training capabilities of leadership. It also impacts the ability of leadership to understand the impacts of decisions made by their team. This is especially important when leadership looks to analyze their performance against competitors. Process knowledge is one of etailz' core competencies and without proper documentation they will continue to lose out on potential efficiency gains and insights.

### **Uneven Power Distribution**

etailz' flexibility in decision making stems from their decentralized organizational structure. Some sections of the organization structure do not benefit from the same level of decision-making power as others. While other sections have very decentralized vertical differentiation. This inconsistency disrupts the empowerment and performance of the teams that must seek approval before moving forward. In the last year there have been significant changes to the executive team. Changes in the executive team and multiple restructures have altered the consistency of power distribution in decision making. The executive team wants to be actively involved in the functional decision making throughout the company, however this does not encourage an empowered workforce. The inconsistencies present in the power distribution of leadership does not correlate well to the strategic goals of etailz.

### **Employee Attrition**

The company culture and work environment at etailz are very attractive to young professionals in Spokane, however etailz has a higher than average attrition rate. While the yearly attrition rate cannot be cited, etailz' lost more than 6 leaders between January and March of 2019. This has been an area of concern for etailz. The loss of leadership and key employees with multiple years of experience at etailz can significantly impact the available knowledge in the company. Some teams have documented their processes and insights, but when employees leave without documenting their knowledge that information is lost. From the stance of company productivity and hiring new employees, employee attrition is also a major concern. Employees who have been with the company for many years leave their position, it negatively impacts the remaining employees. Efforts

have been made to reduce attrition, but after the company restructured in January of 2019 there were negative impacts to employee morale. A common “con” found on the etailz profile of Glassdoor.com, is low compensation (etailz Reviews, 2019). There are many methods available to etailz to address and reduce the impact of this weakness, but the priority of this weakness and their current issues with profitability will impact the feasibility of some of those potential initiatives.

## BUSINESS LEVEL STRATEGY

etailz’ goal is to become the industry leader of third-party ecommerce. To accomplish this, they have pursued a broad differentiation strategy. Their three revenue divisions emphasize the broad part of the strategy. Within each market segment, etailz tries to differentiate themselves from their competitor. The differentiation all comes via proprietary software, data analysis and internal knowledge. Low cost is at the forefront for decision making in every division, but ultimately the high quality of services provided by etailz is a greater impact to sustaining their competitive advantage.

etailz has three major revenue divisions: core, agency, and SaaS. Each of the revenue divisions targets a specific market segment. The core business includes all third-party ecommerce initiatives. The largest segment of the core business focuses on products that are sold via Amazon.com and fulfilled by Amazon (FBA). These products are purchased by etailz, shipped to an Amazon fulfillment and distribution center, and then sold and redistributed by Amazon. etailz has active seller accounts in the USA, Canada, United Kingdom, and Germany. The majority of FBA revenues are made through the Amazon US account. The target market segment for FBA partnerships is very wide. It encompasses any potential partner with access to high quality products that do not have very many competitors in the listing. The fewer competitors, the more likely it is that etailz can optimize the selling price. The larger, distributor partners, like United Natural Foods, also fall into the target market segment for drop ship sales.

On Amazon products are either fulfilled by Amazon or fulfilled by the Merchant (FBM). FBM is also referred to as “drop ship”. FBA business is more convenient for the consumer, but it is costlier to the seller, as products must be shipped to Amazon warehouses and then shipped by Amazon to the customer. These services are provided to seller, and as such Amazon charges more fees per unit. FBA business therefore tends to present a much lower opportunity for profit margin in comparison to Drop Ship, where there are very few marketplace fees. Drop ship sellers must orchestrate their distribution channel, which can present another host of issues. For etailz as a Drop Ship seller, inventory is not purchased from the partner until a sale is made. This is beneficial to etailz’ working capital, since it takes 10-14 days for Amazon to post the revenue from a sale to the seller’s account. Shipping costs are baked into the listing price, so consumers assume a value add. Drop ship also enables etailz to sell products across a multitude of new and existing marketplaces. As of February 2019, etailz has the ability to sell products on 10 other marketplaces (eBay, Jet, Walmart, Sears, Wish, Overstock, Shop.com, Pricerfalls, Rakuten, Google Express). The target market for drop ship is partners who have warehouses and the capability to ship products from their warehouses. More products can be listed via drop ship than FBA because there is no risk incurred by etailz as inventory, warehouse, and shipping costs are all covered by the partner. The majority of drop ship partners are also FBA partners, so they serve the same market segment.

The smallest segment of etailz’ core business is private label. In private label, etailz becomes a partner with itself. The private label team works to find unique and promising products to bring to the digital marketplace. The team manages the design, development, and supply chain for these products, and works with the marketing team to create branding strategies for similar products. This provides an opportunity for etailz to experience

the services provided by the core business, as well as increased profits as there are no additional markups on product costs. The target market segment for this division does not align with the third-party ecommerce industry. Instead, the target market for these products are defined by branding decisions. One etailz private label brand is “Big Betty”. The original listing for this was a stemless wine glass that can hold an entire bottle of wine - in just the one glass. It gained popularity after it was added as a lightning deal on Black Friday in 2017 and made it onto a BuzzFeed article. As of February 2019, the Big Betty brand has 12 wine-related products.

The second major revenue division of etailz is the agency service offering. This division is branded as Marketplace Growth Partners (MGP). MGP provides an end-to-end channel management service to partners who want to sell their products under their own branding (instead of under the etailz seller). This allows agency clients to benefit from etailz’ expertise and software, while also gaining better brand recognition. This target market segment is separate from the core business.

The final and smallest revenue division of etailz is software as a service. There is only one application available for external users. Perispect, is a pricing violation service for manufacturers. This value-adding software enables manufacturers to track and notify sellers that list their products below the minimum advertised price. This software is offered publicly and to partners. For manufacturing partners this provides etailz with the assurance that other listings will not offer the same product for a lesser price.

In the early years of etailz, back when it was still called Green Cupboards, they followed a focus strategy by only offering eco-friendly products via a dropship strategy. As the company expanded and acquired other ecommerce sites, the strategy shifted to a standardization strategy. During the early 2010’s etailz focused on offering the same services to all potential partners and no longer excluded non-eco-friendly products from their seller accounts. In the last few years this strategy has shifted again to a segmentation strategy as more opportunities have become available through their development of proprietary software. Each internal division has some form of supporting software. Marketing, inventory management, lead generation, dropship, and accounting have their own set of proprietary software and services to support their business processes. The development of these technical solutions in tandem with changing market forces have encouraged etailz’ strategic decision to focus on offering a variety of services to specific market segments instead of offering a generic or overly focused strategy.

## **DISTINCTIVE COMPETENCIES**

Distinctive competencies are the strengths of a company that allow them to differentiate themselves from competitors. The two direct competitors of etailz’ core business are NetRush and BuyBoxer. Both of these companies are third-party digital retailers with an emphasis of sales on Amazon. etailz’ distinctive competencies are their proprietary software solutions and industry knowledge. Together these distinctive competencies increase efficiencies and differentiate etailz’ partner-facing value proposition in comparison to competitors.

The proprietary software solutions built by etailz are only valuable because they were built to align with the industry insights etailz has garnered through their selling experiences. These two core competencies are so coupled that they should be considered a single distinctive competency. Without their industry insights, the proprietary software solutions would not be valuable. The software development team would not be able to build rare and difficult to imitate applications without industry insights provided by the revenue driving departments. Simple retail solutions are very common. Digital marketplaces have their own interfaces for sellers to utilize if they do not want to directly integrate their own solutions. While there are many other

aspects that make etailz unique, they do not differentiate etailz between competitors. The proprietary software solutions are key to etailz' success on digital marketplaces and enable etailz to perform better than other third-party retailers. The primary proprietary applications will be explained further in the resources section.

**Threats to Distinctive Competencies:** etailz benefits from a relatively low cost of living environment, which means the cost of their workforce is much less than that of competitors based in locations like Seattle or San Francisco. These large hubs for technology are important comparisons when we look at the cost for a large software development team. Investing in software development in Spokane is much cheaper than Seattle, but the available resources are more limited. For the rest of the company, it has not been as difficult to find labor, but attrition has been a significant ongoing concern. Prior to 2019, etailz had retained the founders and the majority of key players with amassed industry insights, but a majority of those individuals had left etailz by the start of the 2019 fiscal year. etailz' technology is only valuable and effective because the technology is built around extensive marketplace knowledge. This knowledge allows the partner to focus on what they do best, making products, and allows us to do what we do best, sell the products. Although etailz' knowledge is one of their resources for their distinctive competency, processes are not fully formalized - which has allowed for fast paced responses and changes. A lack of well documented processes and high overturn for lower paid positions means etailz relies on key players to maintain and distribute knowledge. Some of those key players claim the information to be tacit knowledge, but most of it can be written into an algorithm. The process improvement team is helping to reduce this impact of, so that employee turnover can be less impactful to the distinctive competency of etailz.

## RESOURCES

Distinctive competencies are directly related to the resources available to the firm. One way to identify the quality of resources associated to a company's distinctive competencies, is to compare it to the VIRO framework. This framework examines the quality of a resource based on four aspects: Value, Rarity, Inimitability, and Organization. etailz' resources associated to their distinctive competencies can be distinguished as either tangible or intangible. Next I will evaluate the quality of etailz' tangible and intangible resources against the VIRO framework.

### Intangible Resources

etailz' intangible assets associated to their distinctive competencies are their process and industry knowledge and their organizational culture. These assets are valuable to etailz in different facets. Process and industry knowledge directly relate to etailz' capabilities in efficiency, quality, and customer responsiveness. These capabilities enable etailz to exploit opportunities and counter external threats. While other industry competitors also maintain industry knowledge, they do not hold the same set of knowledge as etailz. As etailz has grown knowledge has been transferred between employees and exists in a state that would be difficult to repackage and imitate. Finally, etailz' organizational architecture encourages a collaborative employee experience, where the lowest of team members are welcome to stop by the executive's desks and ask questions. Thus, the industry knowledge is a resource that feeds into their competitive advantage. The organizational culture found at etailz is also a very important intangible resource that supports the flow of industry knowledge. The four core values of etailz embody an efficient, innovative, collaborative, transparent and fun work culture. etailz has struggled with the implementation of this culture throughout their history, but the top-down strategy of implementation focuses on the demonstration of leadership to embody their cultural values. This culture does not directly enable etailz to exploit opportunities and counter external threats, but it does support other resources in their capability to address those scenarios. etailz' culture is distinctively

different from local employers. This creates a rare work environment for employees in Spokane. The work culture is very difficult for competitors to imitate, as etailz' culture is a complex network of their strategic organizational architecture. The company culture of etailz is a significant supporting component to their distinctive competencies and intangible resources.

### **Tangible Resources**

The most obvious tangible resource at etailz is their proprietary software. These applications are extremely valuable, as they enable etailz to automate and increase efficiencies to drive costs down and profits up. etailz' suite of proprietary software also enables them to exploit opportunities and counter external threats. The expansion of their software to SaaS and the agency revenue stream is a potential opportunity and the automation of standard processes, like re-ordering and repricing processes, enables etailz to counter external threats like new entrants. These applications and services would be very difficult for others to imitate, as etailz' applications have been built iteratively to align with the current industry position and available industry knowledge through business representatives. Finally, the organizational architecture has enabled employees at etailz to use these applications efficiently. While they have built many applications and services, there are 6 primary applications that should be included as tangible resources directly related to their distinctive competencies.

**Ad Manager:** Ad Manager supports the marketing value chain activity for the core business and agency revenue streams. This is the first application to support the agency revenue stream. This application integrates directly with Amazon and their product advertising API, to manage advertising campaigns. This highly advanced and automated tool enables etailz employees to focus on campaign performance analysis rather than manually managing campaigns. This application also generates reports to be shared with partners, increasing the efficiency of their teams.

**Neptune:** The Neptune application is separated into three distinct modules, that all serve various aspects of the production value chain activity for the FBA portion of the core business. The three modules are: Inventory Management (IM), Lead Generation (LG) and Product Expansion (PE). The three modules are integrated with the company's ERP and support the identification and creation of new partnership leads, management of partners and their catalogs, and the reorder process as it integrates directly with Amazon.com.

**Unity:** Unity is etailz' dropship product and order management system that acts as a middle man between vendors and marketplaces. Unity is directly integrated with Amazon, Channel Advisor, UPS, FedEx, USPS, Jet, Walmart, Sears, and etailz' vendor file and translation services. Unity supports the drop ship segment of the core business revenue stream and serves the production value chain activity.

**Channel Auditor:** Channel Auditor is an application that utilizes Amazon's APIs to find cases where Amazon owes the seller money and provides templates to easily create cases to receive the missing reimbursement. This application supports the production and logistics value chain activities, based on the case type, for the core business revenue stream.

**Data Collection & Storage Services:** etailz has a suite of backend services that manage the complex weave of their data collection, storage and distribution needs. These services optimize the acquisition and refresh rate of product data for all etailz application. They also provide etailz with monitoring and performance metrics, so their information technology teams can maintain the highest standards of data integrity. These services serve the information systems value chain activity and all revenue streams.

**YETI:** YETI, or “your etailz toolkit interface”, is an application built for etailz employees and serves the human resources value chain activity. It provides employees access to documentation, organizational structure, company news, surveys, and passwords. This application supports the human resources value chain activity and does not directly support a revenue stream.

Beyond etailz’ suite of proprietary applications and services, their tangible assets also include their workforce, warehouses, and offices. As of March 31, 2019, etailz employed 186 people. Their shared skills, knowledge, and experiences distinguishes etailz apart from their competitors. etailz’ development team includes over 30 software engineers, business analysts, product managers, business intelligence analysts and managers. This team works directly with other departments to innovate with their available tools and technologies to increase process efficiencies and differentiate their value proposition. Part of etailz’ intangible resource, culture, is the office environment employees get to work in. etailz moved to a newly renovated office space in August of 2018. The renovated warehouse provides ample conference rooms, 6” desks for all employees, large windows, a large kitchen (with free drinks and snacks), a shared gym, relaxed common areas, ample parking, modern esthetics and scooters to travel throughout the office. etailz’ also has a processing facility warehouse only a few blocks away from the new office. The etailz processing facility (EPF) is a value enhancing facility where partner products are repackaged, labeled or assembled into new groups of products to be sold as kits. Marketplaces have strict requirements on packaging and labeling, so EPF acts as a value enhancing service to partners who do not want to go through the hassle of packaging their own products according to those marketplace requirements. EPF also acts as a layer of protection for etailz, as the seller can be charged fees or even shut down for improperly packaged, labeled or shipped items.

## **CAPABILITIES**

etailz’ organizational architecture defines the capabilities of the firm. Organizational architecture is composed of the organizational structure, culture, control systems, incentive systems, processes, and management of human capital. For etailz, their capabilities are most impacted by the organizational architecture elements of their organizational structure, culture and processes.

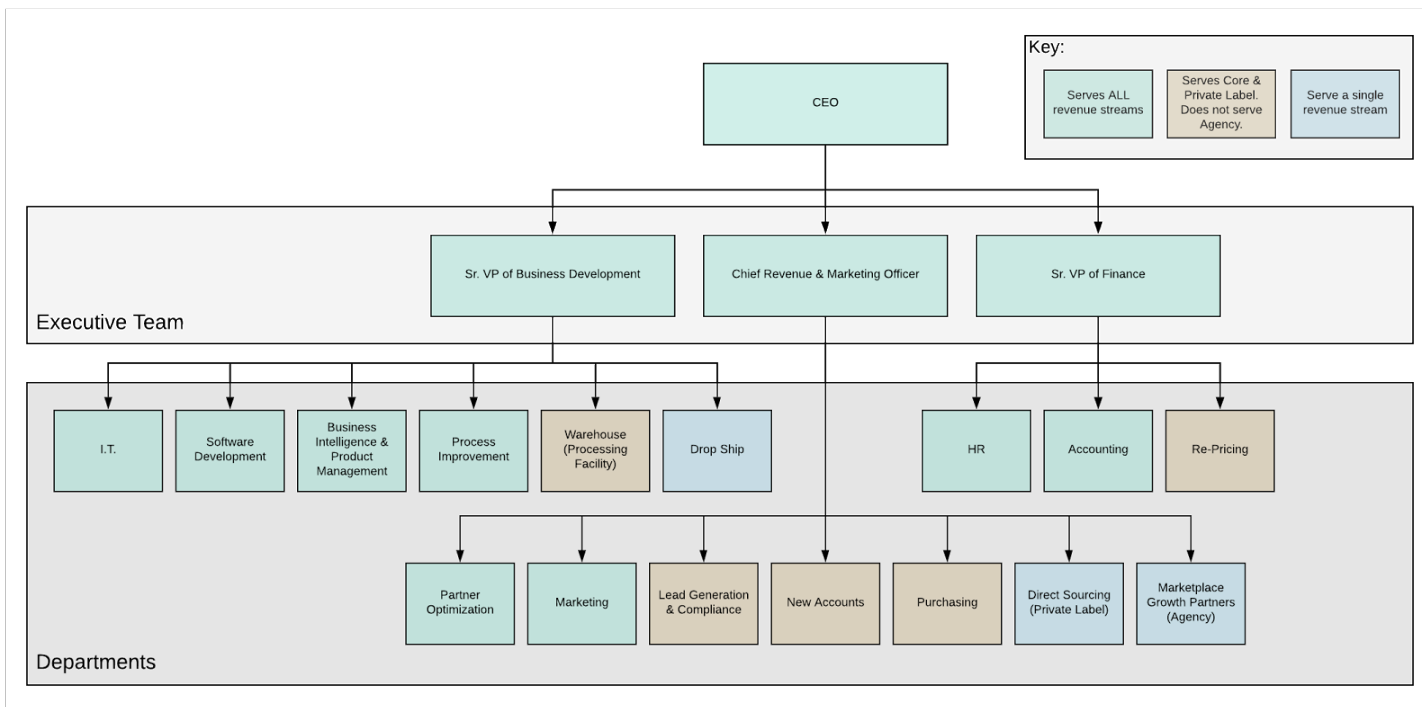
## **Organizational Structure**

The organizational structure at etailz can be examined in three aspects: vertical differentiation, horizontal differentiation, and integration mechanisms. The first aspect, vertical differentiation, is the distribution of decision-making power throughout the structure. etailz does not follow a distinctly centralized or decentralized structure. The nature of the decision-making power is distributed based on the collaborative nature of teams, so the matrix teams are provided with decentralized decision-making while the more functional teams exist within a centralized structure. While the centralized decision-making structure can slow down functional teams, it benefits the organization as it facilitates collaboration, ensures consistent decisions with organizational goals, avoids duplication of work, and it allows the executive team enough power to institute significant changes. After the decrease in efficiencies in 2017 and the unprofitability of 2018, the decision to increase the centralization of power for production related teams. For departments that operate in a relatively matrix structure, power is decentralized. These teams, like development, are afforded more distributed power as they already have sufficient processes and control systems to monitor their progress without the direct interaction of upper-leadership. The second aspect of the vertical differentiation is the choice in hierarchical structure. The hierarchical structure at etailz contains 6 primary levels. From top-to-bottom they are: CEO, executives, directors, managers, leads, and employees / associates. Under the CEO there are three executives, and under each of these executives the organizational structure varies according to the needs and resources of

each department. Each executive has 7 direct reports, but between ~30-90 total employees. Directors and managers have an average of 3 and a range of 1 to 9 direct reports. etailz departments have an average of 2.93 layers of leadership below the executive, which relates to the relatively flat hierarchical structure. Some departments, like Purchasing, have up-to 4 layers of management below the director. As such, the subsequent managers/leads have a very small span of control. The director of purchasing has 4 direct reports and 23 total employees. In comparison, the director of software development has 9 direct reports and 23 total employees, with only 1 layer of management below him. Portions of the company, like the development team, have a flatter structure while teams like purchasing utilize a taller structure. These structures have been added over time, as etailz has grown in both employees and revenue.

The actual structural forms that make-up etailz, or their choice in horizontal differentiation, is also based on the needs of each team. Most teams are divided based on functional tasks (like marketing), while others are product based (like agency). Teams like development serve cross-functional tasks and operate as matrix teams. This distributed approach to division of labor enables each team to operate in the most efficient fashion. Because of the varied approach to horizontal differentiation, etailz relies on their company culture and integration mechanisms to coordinate teams. Most of the integration mechanisms at etailz are informal structures, however some formal structures are also necessary to support the centralized teams.

etailz utilizes multiple integration mechanisms, primarily via direct contact and knowledge networks. The office environment at etailz has never included walled-off offices. The open office environment supports the company culture of transparency. Executives support this culture by encouraging an “open-door” policy, even though there are no doors blocking their desk space from the rest of the company. This environment in combination with the company culture creates an environment that supports the use of direct contact as an integration mechanism. Every level of employee should feel empowered to walk over to initiate direct contact with other employees, not just between managers. The other major integration mechanism utilized by etailz is a variety of knowledge networks. The foundation of this knowledge network is established through the company culture and office environment. Etailz also uses messaging applications to communicate quickly. Along the lines of more formal knowledge networks, etailz has a shared drive for documentation, as well as a proprietary HR application that allows employees to find and consume company information. The proprietary software, YETI, also provides a company newsfeed, like social media, where employees can share and respond to other employees. This allows employees to easily share information that could be helpful to others.



## Organizational Culture

The founder and previous CEO, Josh Neblett, was the chief culture officer and played a dominant role in the creation of etailz' culture. He strived for a culture of transparency and a strong work-life balance. He reinforced those values through his own behavior and employees reciprocated. Cultural alignment played part of the hiring process, as HR evaluated each candidate against the core values. When etailz was established there were ten core values:

1. Over-deliver
2. Fuel passion & creativity
3. Communicate transparently
4. Be you and aspire to the best
5. Let your excitement be contagious
6. Empower everyone
7. Take risks, go all in
8. Expedite the betterness
9. Contribute to our communities
10. Live it!

These core values shape the culture that was created by the employees at etailz during the early years. While the 10 core values encompassed all the aspects Neblett wanted to establish, it was difficult for employees to remember all 10 of the values. In 2016 the original list was reduced down to 4 core values:

1. Over deliver
2. Discover solutions
3. Serve with a purpose
4. Work hard, have fun & enjoy life



These simplified core values communicate the same overall culture with a more straightforward delivery. This enables employees to easily understand and embody these values as cultural norms. Core values are encouraged and embodied by the majority of employees and leaders. The organizational structure requires leaders to encourage these behaviors, but the office environment illuminates good and bad habits. Without walls or cubicles conversations are overheard, and employees can observe all levels of leadership from their own desk. This encourages employees to follow social norms. Personal controls enforce consistency through the organizational structure.

The company culture at etailz supports the business model by encouraging employees to enjoy their position and find value in the work they do. Employees are empowered by the culture to reach out and find solutions together instead of working in isolation.

**Processes**

While etailz’ does not have encompassing documentation on all of their company processes, the transmission of tribal knowledge between departments and employees has sufficed. The majority of etailz’ knowledge-based resources are found in their processes. Because many departments rely on others, cultural norms for collaboration have reduced the negative impacts of limited process documentation. etailz has always valued innovation from the bottom-up. Innovation can come from all members of etailz’ team.

**FUNCTIONAL LEVEL STRATEGY**

Evaluating etailz against the four generic building blocks of competitive advantage, we can gain a better understanding of how their capabilities and resources combine to provide a competitive advantage relative to their competitors. The table below provides insight into etailz’ distribution of competencies in relation to the four building blocks, with “+” symbolizing a strong capability, “-” symbolizing a weak capability, and empty cells representing a neutral state. (Chapter 4)

	EFFECIENCY	QUALITY	INNOVATION	RESPONSIVENESS
R&D	+	+	+	+
Production	+		+	+
Marketing	+	+	+	+
Customer Service		+	+	+
Info Systems	+	+	+	+
Logistics	+	+		+
H.R.	-		+	
Leadership	+	-	-	-

**Efficiency:** Providing superior efficiency is important to etailz and their competitive advantages. Low-cost considerations are made at every level of the company. For the production activities at etailz, it is vital that they

order the right products, from the best supplier, for the best price, with the most flexible payment terms and at the correct time. There are a multitude of metrics used in their proprietary software that optimizes the production activities in their value chain. The marketing team also utilizes proprietary software to reduce their costs and increase the number of campaigns they can manage. Their proprietary software solutions enhance their economies of scale and support efficiencies across almost every element of their value chain. Logistically, etailz strives for a just-in-time inventory system, especially with their core FBA revenue stream. Their physical location in Spokane, Washington also helps to keep costs down, comparatively to larger cities like Seattle, San Francisco or New York. In an industry with tight profit margins, building efficiencies in every aspect of the value chain is critical to reducing costs and maintaining profitability, as well as building a competitive advantage over competitors.

**Quality:** Quality can be expressed in two ways, quality as reliability and quality as excellence. The majority of value chain activities are delivering on both forms of quality. As a seller, we must be reliable to obtain good seller feedback ratings and sales. The customer service team works directly with Amazon to maintain a high customer satisfaction rate. etailz also provides a high quality service to partners, that focuses on reliability and excellence. The feedback can be seen on etailz' corporate website, where quotes from partners on the quality of service provided from etailz are published. For etailz' information systems, data integrity is expressed in both forms of quality. Data sources must be reliable and the accuracy of data models is dependent upon that quality. Data models also enable etailz to be seen as excellent sellers, as they are able to utilize their data sources to accurately estimate sales, currently within 4% of actual sales. The software built by etailz, is directly tied to the quality of service provided by both primary and supporting value adding activities. The production value chain activities are also working on improving quality as excellence through strategies to improve working capital, and increase inventory turns. As mentioned previously the quality of purchase orders as well as quality of partner service is increased by the efficiency gains provided by their proprietary software. The combination of partner service and optimized order quantities allow etailz to succeed on digital marketplaces. Leadership could improve their support of quality as a factor in competitive advantage by demonstrating their commitment to quality. Leadership is currently working on defining metrics to gauge quality throughout the organization, as well as defining goals and standards for those metrics.

**Innovation:** Innovation has been the primary focus of etailz, as show in the chart. All value chain activities have strengths in innovation, with the exception of leadership. The leadership aspect of the value chain could improve their ability to facilitate cross-functional cooperation. When we examine the innovation served through etailz competitive advantage, it is obvious the process improvements technology has provided. Major applications must be built around hardened processes, with flexible variables. Data analysis tools can react much quicker to changing forces. The process innovation provided by the business intelligence team, a subset of the development team, has seen immediate and influential changes. The BI team can quickly bring together a list of potential partners to evaluate at the next industry convention, while the application for lead generation increases the efficiency and quality of the standardized process for onboarding a new partner. Another application, Ad Manager, was built specifically to improve the efficiency of the marketing department and their process to run advertising campaigns on Amazon. The development team in collaboration with marketing created an innovative application that has enabled etailz to branch out into an agency model - where etailz employees manage partner's advertising campaigns, for a monthly fee. These innovations are directly tied to the efficiency gains and quality of service provided to partners and employees. Ad Manager also included a reporting functionality, so etailz employees could be more responsive to customers who want to know how their campaigns are running.

**Responsiveness:** The strategy to invest in technology is deeply rooted in etailz' ability to be more responsive to their customer, the partner. Data driven decisions and automated processes allow etailz employees to focus on the aspects of business that cannot easily or shouldn't be automated. This enables etailz employees to be more responsive to partners and provide them with the information they need in a timely fashion.

Utilizing the four generic building blocks of competitive advantage to evaluate etailz' performance against its competitors, it is obvious that they invested in technology at the right time. The long-term strategy to focus on process efficiency and the development of their proprietary software will enable them to transition their internal software solutions to marketable SaaS offerings. This strategy will enable etailz to sustain their competitive advantage while building their distinctive competencies to expand their SaaS revenue stream.

### **Value Creation Frontier**

Value innovation, or the act of pushing out the efficiency frontier of an industry, is an initiative close to etailz' heart. etailz has always focused on increasing their value proposition through superior differentiation at the lowest possible cost. The ecommerce industry is constantly changing, and the mindset at etailz is one of continuous improvement. As shown in their focus on innovation, etailz strives to find new and creative alternatives to their existing processes to increase their value proposition. This not only increases their value proposition, but it also pushes the value creation frontier for their market segment of the ecommerce industry. etailz pushed the efficiency frontier out when they released their first SaaS offering, Perispect. This solution increased the efficiencies of manufacturers as they maintained minimum pricing standards. etailz has continued to push their frontier with every successive proprietary application since then. Each application focuses on increasing efficiencies on teams, so that human capital can be utilized for creative tasks instead of repetitive ones that machines can complete much faster than humans. Through the development of their proprietary applications, etailz is pushing the industry standards for third-party retailers.

## **EXTERNAL ANALYSIS**

### **OPPORTUNITIES**

#### **Growth of Ecommerce in Retail Industry**

Digital marketplaces have consistently increased their market share of all retail sales over the past 10 years. According to the U.S. Department of Commerce, ecommerce sales in the US rose by 14.2% in 2018 from 2017. This increase translates to an estimated \$513.6 billion in sales. Ecommerce now accounts for approximately 9.9% of all retail sales in the US, adjusted for seasonal variation (U.S. Department of Commerce, 2019). Of US online retail sales in 2018, 31.3% of the market is consumed via Amazon marketplace sales (Marketplace Pulse, 2019). This growth of digital sales provides immense opportunity for etailz as they continue to grow, especially with their expertise in selling on Amazon. Each of their revenue streams can benefit from the growth of the ecommerce industry. For the core business, this means more end consumer sales and more potential partners willing to sell their products under the etailz brand. For those partners that do not fit into the strict parameters of their core business, their agency offering also offers opportunity to increase revenues. Finally, the ecommerce industry growth provides etailz an opportunity to market their proprietary applications and services to the industry. The efficiency gains provided to etailz via their software solutions could be marketed to other competitors, for a hefty subscription fee.

#### **Complimentary Innovations in Technology**

As technology continues to evolve, etailz has the potential to benefit from these improvements. Their development team is dedicated to utilizing modern technologies, and through continued support of their needs,

etailz has the potential to benefit from new technologies before other third-party retailers. Over the last few years there have been significant improvements in the processing power of computers. The abstraction of Moore's law, that the processing power of computer chips will double every two years, is a commonly accepted observation in the technology industry. This trend of exponential growth in processing power directly relates to the available capabilities of software engineers and the potential for innovative technologies. If etailz can maintain a high quality software development team and a business focus to support their proprietary software, they have the potential to capitalize on technical innovations as they become available for implementation. Another result from Moore's law, is the significant reduction of data storage costs. Hard drive prices have fallen from nearly \$500,000 per gigabyte in 1981 to less than \$0.03 per gigabyte in mid-2017 (Klein, 2017). The significant reduction in cost benefits etailz and their utilization of data. As technologies continue to evolve etailz will benefit from cost reductions, as long as they stay up-to-date with the best practices.

### **Growing Need for Automated Solutions for Sellers in Ecommerce**

As the ecommerce market of retail continues to grow, the need for effective, efficient and well-designed ecommerce applications for sellers will continue to grow. By the end of 2018 there were more than 20,000 sellers with more than \$1 million in sales on Amazon worldwide (Marketplace Pulse, 2019). Sellers cannot achieve substantial growth or maintain revenue without the support of technology. Every major marketplace provides an API for access to product and sales data, but most of the small sellers do not have the capabilities to connect directly with these APIs. As etailz has built the supporting applications and designed the necessary infrastructure, they have the opportunity to capitalize on their developments and sell their proprietary software to other competitors as a service. This opportunity can benefit both the agency and SaaS revenue streams, if etailz invests their resources in technology appropriately.

### **Emerging Marketplaces**

Emerging marketplaces are both an opportunity and a threat to etailz' profitability and credibility. As new marketplaces emerge, etailz has the opportunity to establish a seller profile and begin interacting with the marketplace. New marketplaces often require products to be shipped by the seller, as they have not developed their own distribution network like Amazon, so etailz utilizes the dropship portion of their core business to enter these new ecommerce platforms. This creates a low risk factor for etailz as a seller, but they can waste resources if the marketplace requirements and fees result in unprofitable sales. Research and testing phases are critical to the level of investment made when entering emerging marketplace. etailz is also presented with the opportunity to expand their industry insights as they enter these new marketplaces.

## **THREATS**

### **Increased Seller Competition**

As noted previously, there were more than 20,000 sellers with more than \$1 million in worldwide sales on Amazon.com. Over 1.2 million sellers joined one of Amazon's marketplaces during 2018 (Marketplace Pulse, 2019). As more sellers enter digital marketplaces, the level of competition within the industry will increase. While the ecommerce segment of the retail industry is expected to continue to grow etailz can expect to fight over an expanding market. Once the ecommerce industry begins to flatline, etailz will have to fight for existing market shares. This means other competitors will be looking to obtain etailz' market share. etailz will need to stay maintain their industry standing through continued market research and implement strategies to overcome this potential threat.

## **New Entrants with Investments in Technology**

As the ecommerce industry continues to grow, so will the potential for new entrants with investments in technology like etailz. These new entrants will be more likely to address a single segment of the ecommerce industry, like the needs of product advertising campaign management. There are known direct competitors of the Ad Manager application. While these competitors are getting capital investments, they do not possess the same industry insights as etailz. As new entrants make their applications available, it will be up to etailz to investigate their capabilities and monitor the competitive landscape, so etailz does not fall behind in functionality provided.

## **INDUSTRY ANALYSIS**

The following industry analysis provides the reasoning for the previously identified external opportunities and threats.

### **Porter 5-Forces**

Though examination of the five forces, it becomes apparent the competitive forces for the third-party e-commerce industry are strong overall. The barriers to entry are generally high so the competitive force is actually weak, while the competitive forces derived from established rivals increase the competitive force. The bargaining power of buyers is strong, so the competitive force is also strong. Third-party retailers must account for these competitive forces when determining business strategies.

**Risk of Entry:** When applying the five forces model to the third-party e-commerce industry, we first examine the risk of entry for new companies. For companies reselling items via online marketplaces the risk of entry is quite high, so the threat of entry as a competitive force is very weak. As a third-party seller there is a complex weave of marketplace and governmental regulations coupled with standard marketplace commission fees and the potential for additional fees in shipping and processing. These barriers presents a prime opportunity for economies of scale to flourish for large and established firms. The development of successful processes in this complex industry is not something that can be defined in a short amount of time. Partnerships with loyal manufacturers and distributors allow for favorable discounts, which can be difficult for new companies to compete with. Through the development of successful processes in combination with the growth of output and reduction in costs via bulk purchases and partner discounts, existing competitors are able to enjoy cost savings that new entrants would not experience.

Brand loyalty can make or break a partner relationship, but brand loyalty in the third-party retailer industry does not reduce the threat of entry by potential competitors. Unless exclusive agreements are made, partners can sell their products to as many retailers as they want. This can increase the threat of substitute services, the threat of established rivals, and the threat of the bargaining power of buyers.

There are severe absolute cost advantages for existing companies in comparison to new entrants. Computer software plays a large role in the optimization of established operations and processes. There are limited platforms available on the market and customized applications are costly investments for new and existing firms. Exclusive partnerships can control opportunities for highly profitable partnerships and access to lower interest capital is easier for obviously profitably and less risky firms. This again weakens the threat of entry as a competitive force.

Customer switching costs are low for non-exclusive partnerships. Often, partners are selling their products to multiple retailers so they can push the inventory liability onto the retailer. For exclusive partners, however, the switching cost is high. As the majority of partnerships are non-exclusive, switching costs for partners working with third-party retailer are low. Therefore, switching costs actually increases the competitive force associated to the risk of entry for this industry.

Finally, the regulations set in place by governments and marketplaces for the global third party retail industry set a high barrier to entry. Retailers must operate within the restrictions of each marketplace, which can set varying rules for product compliance. If they operate in the global arena, competitors must also comply with international trade regulations set by the country of origin and destination. Mistakes in either of these arenas can be very costly. As such, the risk of entry for new firms can be very high, which reduces the competitive force for the third-party ecommerce industry.

**Established Rivals:** The second force to consider in the five forces model is the threat of rivalry among established companies. To begin, we examine the competitive structure of the industry. While the global e-commerce industry as a whole is fragmented, with some dominant players like Amazon, eBay, and Alibaba, the third-party strategic group is more consolidated but is still fragmented. There are a handful of medium-large sized companies that dominate the high quality of service landscape, while there are thousands of small retailers also competing. The nature of marketplace pricing strategies provides preferential treatment to the larger existing companies over small or new sellers. Product listing prices are often automated to reduce or increase depending on the competitors pricing and inventory availability. On marketplaces like Amazon.com rival sellers on the same listing can have price wars to get the “Buy Box”. The “Buy Box” is effectively the “Add to cart” button. The seller with the lowest price and the best customer reviews of their seller account will win the “Buy Box” and ultimately gain the sale of the listed product. This pricing strategy is mimicked across the e-commerce industry. Beyond automated pricing concerns, third-party retailers must also offer a multitude of services to optimize product listings and partner relationships so that products can be purchased at the lowest possible price and sold for the highest price at the quickest pace. The third-party e-commerce industry has a very competitive structure which increases rivalry across established competitors.

The industry demand for third-party sellers has decreased over recent years as more companies have begun to sell directly on marketplaces. Another reason for a decrease in demand is the surge of small sellers. While they do not directly compete in the third-party retailer strategic group, their existence does impact the demand for partnerships. As the increased number of sellers can increase the threat of substitute products partners provide. In 2017, over 1 million new global sellers joined Amazon, bringing the total number of sellers to over 5 million (Kaziukėnas, 2017). The decreased industry demand increases the rivalry between established competitors.

The cost structure for third-party retailers lends itself to intense rivalry as fixed costs are often high, and cash conversion cycles long. Retailers must purchase the product, process and ship them to the corresponding marketplace distribution center, pay inventory housing fees, and wait for the product to sell. Upon sale, the cash from that transaction is not issued for another 1-2 weeks. Depending on payment terms with partners and inventory turns, retailers can experience a costly investment before they experience any profits, even on highly profitable sales. As such, the cost structure for third-party retailers increases competitor rivalry.

The exit barriers are relatively high, as necessary investments can be costly and sales are dependent on marketplace sales. If investments are made into the wrong products or marketplaces, companies may have to

take expensive measures to withdraw from those environments. For small companies it would be possible to sell out of inventory and not continue to re-invest in inventory, but as stated before, the third-party retail industry largely benefits from economies of scale and large companies would inevitably lose any profits by trying to exit the industry. Established rivals provide a strong competitive force for the third-party e-commerce industry.

**Bargaining Power of Buyers:** The next force to examine in the third-party e-commerce industry is the bargaining power of buyers. If we think of buyers as the individuals with the power to “bargain down prices charged by companies in the industry, or to raise the costs of companies in the industry by demanding better product or quality of service”, the buyers for third-party retailer are in some ways the partner. Partners are capable of setting the minimum advertised sale price for products, as well as the purchasing cost for the third-party seller. They have many choices of retailers to work with, and depending on the quality of service they receive, they can easily switch. Another consideration for third-party retailers are the buyer as the actual end-user of the product. Buyers on marketplaces have many choices and with the help of search engines they can easily research competitors across all available marketplaces. Competitors also impact the bargaining power of buyers, as price wars can push retailers out of the “Buy Box”. For the third-party e-commerce industry, the bargaining power of buyers is high which means the competitive force is strong.

**Bargaining Power of Suppliers:** As we identified the buyer to be both the partner and end-user of the products sold via third-party retailers, the suppliers must then be defined as the workforce that actually provides the service of retailing products across marketplaces. The workforce for this industry is generally not unionized, which limits their bargaining power. The workforce power is relative to their respective companies, so as an industry it is hard to classify the true bargaining power of suppliers. As such, we will classify the bargaining power of suppliers as a competitive force is fluid and moderate. Some companies might feel they have bargaining power over their workforce, especially if their workers are not being treated properly. For companies that treat their employees with respect and support, the bargaining power of suppliers for the industry could shift, especially as employees from that company influence employees of other companies. ‘

**Substitute Services:** Third-party retailers are in direct competition with direct sellers. Direct sellers are companies that manufacture or produce products and sell them directly on e-commerce marketplaces. While this is a close substitute, marketplace-based e-commerce industry is very complex and requires a specific skill set that is often outside the knowledge base of manufacturers. Direct sellers still pose a significant threat and increase the competitive force for the third-party e-commerce industry.

### **Industry Life-Cycle Considerations**

The overall growth of the ecommerce industry over the last 15 years suggests the ecommerce industry approaching the end of the growth stage of the industry life cycle. There was exponential growth in the early and mid-2000’s, notably with the growth of Amazon.com. Over the last few years, the rate of growth has been slightly decreasing, signaling the beginning of the shakeout period. As the shakeout period begins, competition in the third-party ecommerce industry should build. The intensity of competition in the previous years has been relatively low, as the intense market growth allowed companies to grow without taking market control from other companies. Now as the industry continues to grow at a slower pace, companies will be fighting over the same market share. The competitive nature of the third-party ecommerce industry should be expected to increase over the next few years.

## MACRO ENVIRONMENTAL FORCES

At the macro environment, there are many forces that affect the third-party e-commerce industry. From the macroeconomic perspective, we can take into consideration the effects of interest rates, price inflation and deflation, and the growth rate of the economy. Economic growth has the largest impact on industrial competitive forces. Using GDP as an indication of economic growth, we can assume the third-party e-commerce industry will continue to grow in correspondence to the global economy. According to the International Monetary Fund, the average world GDP growth rate was 3.7% in 2018. The growth rate for advanced economies was 2.4%, while emerging markets and developing economies had a growth rate of 4.7%. Using these rates, we can assume there will be continued growth for advanced economies and even more growth for developing economies. As developing economies grow, there will be opportunities for third-party retailers to enter new marketplaces. This will allow existing competitors to grow without taking that market control from other competitors. The continued global growth of GDP will have a positive effect on the competitive nature of the third-party e-commerce industry.

Technological changes are constantly impacting the third-party e-commerce industry. Retailers who invest in software solutions must be adapt to the changes, so they keep their competitive advantages. The global technical changes will continue to increase the competitive nature of this industry.

Socially, more people are choosing to shop online rather than at brick-and-mortar stores. Demographically this is true too. Younger generations are more willing to spend their money online. According to BigCommerce, only 9.6% of generation Z members reported buying items at brick-and-mortar stores - Millennials reported at 31.04% (Wallace, 2019). This global shift is positively impacting the ecommerce industry as a whole. The expansion of opportunities to sell products means the competitive force is reduced until the industry is saturated. For third-party retailers this means opportunities for continued growth.

Political and legal forces, as well as global forces as a whole, will continue to impact the third-party ecommerce industry. Legal regulations are major issues for third-party retailers, as they must be compliant to sell products via marketplaces located in different regions of the world. These regulations will impact the available opportunities for third-party retailers. These high barriers to entry, create opportunities for large competitors to gain strong market shares of developing marketplaces since they can invest in overcoming those barriers. If significant restrictions are removed, competition will increase, and companies will end up fighting over market share. As these macro environment market forces shift, third-party retailers should dynamically respond to keep their market share and growth potential.

## STRATEGIC GROUPS

The e-commerce industry encompasses a diverse assortment of strategic groups. etailz, primarily operates in the third-party retailer strategic group of the global e-commerce industry. Within the third-party retailer strategic group, competitors can be distinguished between their capabilities in technology. The strongest competition exists between those investing in proprietary software solutions. The most opportunity for growth lies in software that can be sold as a service. Companies with the expertise to build and sell a software solution to other marketplace sellers allows the company to both continue improving the software they use in-house to sell and manage products, while also reaping the profits of a SaaS solution. SaaS and proprietary software can be very risky investments, but if executed properly the benefits can be exponential. As such, the competitive nature of the tech focused group is extremely intense. Competitors are fighting to establish market control, with a large variety of solutions available but very few distinguished sellers that also offer SaaS solutions. Companies are deeply impacted by the innovations of other competitors and are constantly working to come



up with the next best solution. Competitors who do not invest in technology, will inevitably fall behind. Software solutions allow for immense economies of scale and absolute cost advantages, as well as potentials for new income sources if they are building proprietary software.

## SWOT ANALYSIS SUMMARY

The SWOT analysis provides insights into the external and internal factors facing etailz. Internally, etailz' has the potential to be a very strong firm. Their early investment in technology and utilization of data-driven decisions enabled them to become the top third-party seller on Amazon. This reputation coupled with their industry experience has provided them with additional industry insights that other companies will find difficult to imitate. Their strategic alignment of their organizational architecture provides additional flexibility when working in the dynamic ecommerce industry. etailz' attention to the customer market also enables them to distinguish themselves from competitors. etailz' competitive advantage capitalizes on their strengths, however they will need to continue to address their weaknesses so that they do not impact the sustainability of their competitive advantages. All of their identified weaknesses, employee attrition, limited process documentation, weak control systems, company goals and standards, and uneven distribution in power can be reduced in impact through strategic management. Beyond the internal factors to etailz' competitive position, there are many external factors to consider. The landscape of the ecommerce industry is constantly changing, this can bring about opportunities as well as threats. The potential for opportunities in the ecommerce industry will continue to grow as the industry expands. The alignment of technical innovations with the industry growth will also pose etailz an opportunity for growth, as sellers become dependent on technical solutions. etailz can continue to expand their service offering to support this emerging customer base with their existing software solutions. They must also stay aware of the potential opportunities and threats provided by emerging marketplaces. If strategic opportunities exist and the risk factors are low, etailz should engage in those new marketplaces to expand their reach and industry experience. The primary external threat to etailz is the threat of new entrants. As the industry continues to grow, the competition for sellers will increase as well as the competition among technically savvy retailers. The threat of new entrants with significant technical investments could significantly impact the value proposition provided through etailz' SaaS solutions and their agency model. etailz must continue to work on seizing the available industry opportunities and tackling the potential external threats.

## CORPORATE LEVEL STRATEGY

### HORIZONTAL INTEGRATION

In April of 2013, etailz (then Green Cupboards), acquired another eco-friendly product retailer Ecomom.com. This horizontal integration provided etailz with a larger customer base and sources of inventory. The strategic reasoning for this acquisition focused around expanding etailz' inventory at a low cost while also acquiring new customers. GreenCupboards was going out of business, so etailz was able to take advantage of their situation and acquire their inventory. etailz was able to utilize their efficient process to profit from the new inventory. etailz also benefited through increased product differentiation through expanded partner relationships and an increased value proposition for partners through categorized direct site advertisements. This also allowed etailz to leverage their competitive advantage more broadly through their expansion from exclusively eco-friendly products to all types of products. Over time, sales reduced on the direct sites and eventually lead to the closing of all etailz direct sites. Now, all sales are made through ecommerce marketplaces.

The acquisition of etailz in 2016 expanded TWEC's horizontal integrations in general commerce, while simultaneously providing a vertical integration. etailz' knowledge of ecommerce combined with their proprietary software provided an opportunity for TWEC.

## **VERTICAL INTEGRATION**

etailz has vertically integrated many aspects of their business and is following a strategy of tapered integration. etailz does not want to go with a full vertical integration. Some of the forward vertical integration include the marketing department, creative team, processing facility, and the brick & mortar store Wollnick's. The marketing team handles not only marketing concepts for etailz, but also search engine optimization for products and advertising campaigns. This integration facilitates investments in efficiency-enhancing and specialized assets. By integrating the SEO functionality instead of outsourcing to another service, etailz protects the product quality of the products sold via core business and the product quality of their agency services. The creative team offers creative and marketing services to partners, effectively integrating a creative service into etailz. This integration also protects product quality through product photography, website designs and branding for partners. etailz has also invested in two processing facilities to support the needs of partners. This facilitates investments in efficiency-enhancing and specialized assets, results in improved scheduling and protects product quality by offering packaging, storage and labeling services to partners. Some backward vertical integrations include the private label team, software development team, and drop-ship teams. The acquisition of etailz in 2016 expanded TWEC's horizontal integrations in general commerce, while simultaneously providing a vertical integration. etailz' knowledge of ecommerce combined with their proprietary software provided an opportunity for TWEC.

## **OUTSOURCING**

In the initial years of etailz, they did utilize outsourcing for activities like creative services. The original etailz logo was outsourced to a design company. As etailz established efficient processes and grew as a company, they began to hire for internal positions and reduced their utilization of outsourcing. Currently, etailz does not partake in outsourcing for any value creation activities.

## **PARTNERSHIPS & ALLIANCES**

etailz calls their product vendors "partners". As such, they treat their partners as their primary customer, not the end consumer. While etailz does have a small customer service team dedicated to the end consumer, the primary source of customer service comes from the partner optimization team. The partner optimization team works to establish the best potential relationship with partners. This can benefit etailz through increased product catalog offerings, discounted orders, favorable payment terms, and the potential for exclusive partnerships. Exclusive partnerships enable etailz to be the only retailer. This mutually beneficial agreement enables partners to simplify their sales management, while providing etailz with control over the listing. When a seller has the exclusive on a product listing, it becomes easier to manage the listing content (pictures, descriptions) as well as pricing. Without competition on the listing, etailz can optimize their pricing and profit margins.

Another alliance etailz has, is with Amazon. The majority of etailz' revenue is through sales on Amazon. That means Amazon is both a competitor and a partner, as they can compete with etailz in listings, but Amazon also receives commission fees for all transactions and distribution fees on all products fulfilled by Amazon. The majority of etailz' Amazon sales are fulfilled by Amazon, which means etailz is paying hundreds of thousands of dollars in fees every year. This business alliance is mutually beneficial, as etailz benefits from their products being listed on the largest ecommerce site in the US and Amazon benefits as etailz is one of the largest sellers. etailz would not have seen the same growth without listing their products on Amazon. This alliance also enables etailz to communicate with Amazon on technical requests. In 2018, Amazon provided additional technical

training for their Amazon Web Services to the development team. This enabled etailz' development team the capability to optimize their digital services both in efficiency and quality, while simultaneously benefitting Amazon's web services revenue.

**DIVERSIFICATION**

As changes have occurred in the ecommerce industry, etailz has kept their sights on the densest segment of customer opportunity. In their initial years, they focused solely on sales via Amazon.com. This focus on customer opportunity lead etailz to diversify their revenue streams. Initially etailz diversified between dropship and fulfillment by Amazon. Now, etailz has three primary revenue streams, with long-term plans to increase their service offerings in agency.

**FINANCIAL ANALYSIS**

etailz, Inc. was a privately held company until the fourth quarter of 2016 and did not publicly release any financial statements or financial information prior to that point, outside of comments by their CEO, Josh Neblett, and press releases. All financial data in the following analysis will use the parent company, TWEC, and their relative competitors. Relative competitors for TWEC are Amazon.com and Walmart. Both operate in the ecommerce and physical retail industry, even though etailz can consider both competitors as strategic alliances. Both competitors are mature firms, although their top-line revenues are 10-100x larger than TWEC. As etailz was acquired in Q4 of 2016, the following analysis will only include results from the fiscal years 2016 and 2017. At the time of this report, the 2018 annual financial reports were not publicly available, only the fourth quarter and annual results announcement were available for financial results of 2018.

**Profitability Ratios**

*Return on Invested Capital (ROIC) = Net Income / Total Capital*

	2017	2016	DELTA
TWEC	-26.90%	1.62%	-1757.94%
Walmart	11.39%	11.80%	-3.46%
Amazon.com	4.62%	6.82%	-32.24%

TWEC's negative ROIC rates are concerning, but it appears that even their competitors are trending negatively. Even with competitors trending negatively, this ratio indicates the true operating performance of TWEC was very bad in 2017 after the acquisition of etailz. TWEC had zero long-term debt and zero long-term liabilities in 2016 and 2017, which means the only invested capital for the company is the stockholders' equity. To address the negative ROIC rates, TWEC is perusing strategies across their FYE and etailz segments to increase their returns on sales. They could implement strategies to reduce the operating costs associated with the cost of goods sold, selling and general administrative cost, and research & development costs. Efforts were made in 2018 to reduce SG&A expenses, with the FYE segment reducing their costs by 10.87% from 2016 to 2018. The etailz segment had a 17.37% increase in SG&A from 2017 to 2018, while TWEC had an overall decrease in SG&A of -0.76%. etailz began implementing cost savings strategies in the fourth quarter of 2018. Well implemented and monitored cost saving strategies across both segments, and especially the etailz segment, should bring TWEC's ROIC rates up above 0, and closer to their competitors ratios.

**Return on Total Asset (ROA) = Net Profit / Total Assets**

	2017	2016	DELTA
TWEC	-20.73%	-1.26%	-1549.99%
Walmart	11.45%	12.08%	-5.20%
Amazon.com	3.13%	5.02%	-37.70%

Yet again, TWEC's negative ROA ratios indicate very poor performance in 2017. Walmart and Amazon also saw negative trends between 2016 and 2017, but both companies were able to maintain a profitable position. As TWEC has very little debt, the company is funding their assets through their stockholders' equity.

**Return on Stockholders' Equity (ROE) = Net Profit / Stockholders' Equity**

	2017	2016	DELTA
TWEC	-32.49%	-1.95%	-1562.51%
Walmart	29.26%	29.93%	-2.23%
Amazon.com	14.82%	21.71%	-31.73%

The trend for negative profitability is also visualized through the negative trend on ROE. TWEC's

### Liquidity Ratios

**Current Ratio = Current Assets / Current Liabilities**

	2017	2016	DELTA
TWEC	2.533	2.394	5.8%
Walmart	0.862	0.932	-7.5%
Amazon.com	1.040	1.045	-0.5%

TWEC is very capable of paying off their short-term debts via the liquidation of their current assets, as their current ratio is significantly greater than 1. Walmart saw the greatest reduction in ratio, moving away from 1, proving they are becoming less capable of paying off their short-term debts. Amazon saw a reduction of -0.5% in their current ratio, but their ratio is sitting just above 1, which means they would be capable of paying off their debts, but just barely. TWEC could allow for some decrease in this metric, but they should be more concerned about increasing their profitability via cost saving strategies.

**Quick Ratio = Current Assets - Inventory / Current Liabilities**

	2017	2016	DELTA
TWEC	0.731	0.613	19.3%
Walmart	0.219	0.244	-10.3%
Amazon.com	0.763	0.783	-2.6%

TWEC's inventory would be difficult to quickly sell off at market prices, but their quick ratio aligns very closely to Amazon's. TWEC was the only one to see an increase in this ratio between 2017 and 2016. TWEC's trend in quick ratio is competitive, meaning their management of non-inventory assets and current liabilities aligns well with two of the largest competitors in the ecommerce industry.

### Activity Ratios

**Inventory Turnover = Cost of Goods Sold / Inventory**

	2017	2016	DELTA
TWEC	2.740	1.737	57.8%
Walmart	8.392	8.118	3.4%
Amazon.com	6.975	7.701	-9.4%

While TWEC and Walmart both saw increases to their cost of goods sold in comparison to their costs of inventory, TWEC's inventory turnover in 2017 is a quarter to a third of their competitors. TWEC's inventory turnover rates will need to maintain the increasing trend to reach a competitive state. At this point, the cost of goods sold is comparatively much greater than their competitors. In 2019, the etailz segment of TWEC has begun focusing some of their control systems around this activity ratio. Continued improvements in the reduction of expenses around the cost of goods sold and inventory will also positively impact the profitability of the company.

**Average Collection Period = Accounts Receivable / (Total Sales / 360)**

	2017	2016	DELTA
TWEC	3.633	7.216	-49.7%
Walmart	4.323	4.199	3.0%

Amazon.com	26.644	22.076	20.7%
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The three competitors have significant differences in the changes they are experiences with average collection period. TWEC's ratio is very close to Walmart's, but both are between 6 and 7 times smaller than Amazon's for 2017. TWEC's reduction in ratio indicates that they are collecting cash at a much faster rate than previously. This is a very good rate for TWEC and they should continue to implement strategies to collect on their accounts with this quick of a turn-around.

### Leverage Ratios

*Debt-to-Assets = Total Debt / Total Assets*

	2017	2016	DELTA
TWEC	0.537	0.512	4.9%
Walmart	0.622	0.603	3.1%
Amazon.com	0.723	0.753	-4.0%

TWEC holds the least amount of financial risk in comparison to their competitors, even with the increase from 2016 to 2017. Amazon reduced their debt between 2017 and 2016, while Walmart increased their debt. Walmart and TWEC both acquired technology firms in 2016, and as a result their debt-to-assets ratio also increased. TWEC has no long-term debt, so they do not have to worry about leveraging their assets to pay off their debts.

*Debt-to-Equity = Total Debt / Total Equity*

	2017	2016	DELTA
TWEC	0.567	0.555	2.1%
Walmart	1.278	1.230	3.9%
Amazon.com	2.846	2.926	-2.7%

TWEC's debt-to-equity ratio is significantly less than their competitors, but the increase in 2017 aligned well with Walmart's increase in debt relative to their equity. It appears that

**Times-Covered Ratio = Profit Before Interest & Tax / Total Interest Charges**

	2017	2016	DELTA
TWEC	-154.822	-4.991	-3,002.0%
Walmart	9.617	9.460	1.7%
Amazon.com	4.842	8.649	-44.0%

TWEC's poor performance in 2017 significantly impacted this ratio. TWEC had very little interest expenses (\$332,000 as of 02/03/2018), so the ratio appears more significant than their competitors. With their net loss in 2017, it appears that TWEC is unable to pay their interest charges. TWEC is in a very risky state. TWEC should aim to improve this ratio towards 10, to align better with their competitors. TWEC needs to focus on making both segments of their company profitable to avoid continued issues.

### Net Cash Flow

	2017	2016	DELTA
TWEC	\$(571,000)	\$(60,234,000)	99.1%
Walmart	\$(1,838,000,000)	\$(430,000,000)	327.4%
Amazon.com	\$1,188,000,000	\$3,444,000,000	-65.5%

These are the annual net changes in cash flows for each company. In 2016, TWEC acquired etailz for \$36.2 million in cash and \$19.6 million in stock, and Walmart acquired Jet for \$3 billion in cash and \$300 million in shares (Trans World Entertainment Corporation Announces the Purchase of etailz, Inc., Digital Marketplace Retail Expert, 2016) (Walmart Agrees to Acquire Jet.com, One of the Fastest Growing e-Commerce Companies in the U.S., 2016). These acquisitions significantly impacted the net cash flows for each company. Walmart and Amazon also operate on a significantly larger scale, and as such demand a much larger cash flow. TWEC should be aiming for the net cash flows of Amazon.

## RECOMMENDATIONS

The following recommendations for etailz include anticipated issues involved with implementation, sustainability and imitability.

### Continue to Invest in Internal Development

etailz' core competency lies within their industry insights, but their distinctive competency lies in the combination of their knowledge and proprietary software solutions. etailz has the potential to capitalize on their investment in development by expanding their agency service and SaaS offerings. This would require further investment, but could be accomplished through incremental changes and strategic planning. To migrate their proprietary applications, etailz would need to first develop their primary proprietary applications into the agency environment. As all of the applications and services were originally built under the assumptions and

requirements of etailz, every application and service would need to be adjusted. Internal applications are not required to meet the same expectation as software as a service. The standard key areas of SaaS requirements are security, privacy, data governance, availability, performance, interoperability and compliance (Key, 2019). Elements of all seven aspects would need to be addressed. As such, the rebuild process for the etailz suite of applications and services should be addressed incrementally. This will reduce the necessity of immediately increasing available resources. By incrementally adjusting their suite, etailz can use the agency service as beta testers for the market needs of their potential SaaS solutions. Beyond the changes necessary to support both agency and SaaS, etailz will need to maintain and continue to hire highly talented and dedicated software engineers, testing engineers, development managers, support staff, product managers, project managers, user-experience analysts, user-interface designers, business analysts, and business intelligence analysts. Each of these roles significantly impact the success of development projects. The current team at etailz has supported their development needs, but expansion into external use of applications will require increased resources. These resources can be acquired incrementally and will need to align with the incremental changes in software development.

The largest issue with the implementation of this recommendation is the impact made by the loss of key players. Key players for this task include the existing software development team and business stakeholders. etailz' applications are valuable, rare, and inimitable because they are built from the business's knowledge. As key players leave etailz, the development process will slow. Another potential issue involves the mis-alignment of short-term business goals and the long-term goals of SaaS. If the short-term and long-term goals do not align, the impact to application development could be detrimental to the long-term success of etailz. The business functions need to be the drivers of software development, instead of the software development team driving process changes in the business. Available resources could also pose a threat to the success of this recommendation, as the current human capital invested in proprietary software solutions will not be capable of quickly building out the agency and SaaS solutions while supporting the core business. Supporting the core business should be a minimum requirement as etailz continues towards SaaS, as they would lose their distinctive competency and their primary revenue stream would be negatively impacted. If etailz finds it difficult to invest more resources to software development, the business should not expect the transition to SaaS very quickly. etailz also needs to invest their marketing team into the investigation of customer needs. The agency team will be critical in the initial stages of this process, as they will have the most contact with customers and will actually be interacting with the software. While it would be possible for others to imitate this software and there are existing competitors for some of these applications, etailz will still hold a competitive advantage as a successful seller. etailz will also benefit from providing these applications as a suite. Customers would be able to add services and access all their applications through the same interface. etailz would also benefit from the exhaustive internal testing through the use of their proprietary applications and agency variations. From the standpoint of sustainability, etailz will need to stay up-to-date with competitors and available functionalities. If the agency model does not support continued investment, then etailz should reanalyze the costs and potential benefits of moving towards SaaS.

### **Streamline Organizational Power Structure**

The current organizational vertical differentiation strategy does not support an empowered workforce. The use of centralized power structures for functional teams does provide benefits from the executive perspective, but as etailz moves forward the executive team should enable the empowerment of directors and managers. A standardized decentralized power structure at etailz could be implemented by differentiating decision making based on impact. Executives should define the strategic, short and long-term path for the company, while directors and managers control the functional and process decisions. Directors and managers would use the



company goals and strategies defined by the executive team to guide their decision making with functional tasks. Bureaucratic controls, like departmental budgets, would need to be implemented, so that directors and managers could make independent functional financial decisions. Output controls and standards would be defined in conjunction with the executive team, to ensure that key performance indicators (KPIs) accurately monitor the performance of teams and contribute to company goals. The development of enhanced control systems and KPIs would enable all levels of leadership to identify progress and potential pain points. The equalized empowerment of directors and managers should also trickle-down to lower level leaders to create a culture of employees who know they can serve with a purpose.

Potential issues with the implementation of a truly decentralized power structure center around the management and feedback structures that would need to be enforced. As decision making power shifts away from the executive level and distributes evenly across the company, the executive team may feel a loss in impact. While the shift in power would reduce the direct involvement, they would still be instrumental in maintenance of aligned decision making. Executives would need to monitor the KPIs of their teams and be aware of unintended consequences of incentive structures and KPIs. This shift in power also requires increased monitoring on the part of the directors and managers. Directors and managers will need to appropriately monitor the productivity of their teams and incentivize their work accordingly. If poor decisions are left unchecked the implementation of a decentralized power structure will not be effective. From the perspective of sustainability, as with everything, etailz will need to remain flexible and adjust their approach as the industry, their revenue streams, and general environment changes.

### **Improve Process Documentation**

One of the major weaknesses of etailz is their lack of consistent process documentation across the company. etailz should have well documented processes that are maintained by the teams that use the processes. First, etailz will need to have the directors define the minimum requirements of all process documentation. For documentation to be consistent in quality, standards must be defined. Some standards could include documentation encompassing all major process activities, the identification of steps that require creativity, and potential bottlenecks. Documentation should be kept up-to-date by assigning a process owner. The process owner would be appointed by the director or manager, and they would be responsible for updating the documentation as processes change. The maintenance of this documentation would also need to be of high enough importance that it actually gets completed. Documentation would need to be reviewed by the corresponding director quarterly, to maintain that KPIs and processes are still appropriately aligned. Documentation should be stored in a common location. etailz would benefit from the use of a web hosted solution, as that would reduce the potential clutter and confusion over multiple working versions. The tool used should support historical tracking, so changes can be associated to users. By documenting, maintaining, and storing the documentation in a shared location multiple teams would benefit. First, the team that uses the process would have reduced confusion and any process efficiencies could be easily transferred across the team. Next, the development team would have increased clarity in the potential process improvements provided through automation. Software development is expensive and automation relies on well-defined processes. HR would also benefit from this improvement, as it would become easier for their team to educate and cross-train individuals. Through this, employees would find it easier to understand how their processes, and changes to their processes, impact other teams. Last, this would improve the ability of the process improvement team. Through well documented and maintained processes, the process improvement team would be capable of defining the outputs of value chain activities. This would also allow etailz to shift towards operational process improvement methodologies like Six Sigma.

The implementation of a documentation process across every department would pose many potential issues. First, if employees do not see the value in process definition, it will be very difficult to get departments to first build and then maintain their documentation. The implementation requires top-down involvement and prioritization. Another major concern is the quality of documentation provided. To ensure that every process owner and leader understands the documentation requirements, HR could provide training. By utilizing HR to educate, instead of director to process owner, the likelihood of consistent documentation increases. This also provides a sustainable path towards maintaining standards of quality. This has the potential to be a costly investment, however the initial investment could be returned as the process improvement team gains access to each department's processes. This would also support the analysis of KPIs by leadership. Without accurate insights into the current processes used by teams, it becomes very difficult to monitor their performance. This would support the development of team standards for productivity, which in turn would provide the team members with immediate insights on their own performance. Maintained and high quality process documentation would decrease the impact of employee attrition, and the imitability of competitors. With documented processes, etailz will be capable of efficiently scaling and optimizing their business practices.

### **Increase Performance Transparency**

etailz is currently implementing strategies to improve the performance transparency for all employees. The changes associated with these strategies include the development of companywide goals and KPIs, company dashboards on common area televisions, department level dashboards, and increased communication of company performance at monthly all company meetings. These activities will help to increase the transparency of company performance, but there are a few more activities they could participate in. Primarily, the executive team should be defining short and long-term goals and publishing them on Yeti. These goals should be reviewed by the executive team quarterly, if not more often. By publishing the most current goals, etailz will encourage the involvement of every employee, not only upper-management in accomplishment of company goals. From the published company goals, departments should establish their own strategies and goals, to better align themselves with company goals. These department goals and strategies should also be published on Yeti. By publishing these goals, etailz will encourage more involvement from employees. This will also increase the associated transparency employees have with leadership. There are potential issues with the implementation of this change, specifically if leadership does not actively involve their teams in the development of department goals and strategies. Leaders should include employees in the generation, discussion, and determination of goals, but the leaders should have the final say in published goals and strategies. This also relies on generation of specific, measurable, attainable, relative, and time sensitive goals from the executive team. If goals are "SMART", then it will be easier for directors and managers to define appropriate goals for their departments. This would increase sustainability at etailz, especially as it aligns with the suggested changes in organizational power structure and process documentation. With aligned and internally published goals and strategies, etailz will continue to lead in ecommerce sales and expertise.

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