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The Market Strategies Alternatives of an E-business Start-Up in Brazil

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ABSTRACT

The e-business market is one of the fastest growing markets in Brazil, with e-business sales accounting for BRL 14.8 billion in 2010 and a growth of 40% per year (+1000% over the past 7 years). Sales-event clubs and collective bargaining websites are one of the most dynamic segments of the e-business market: the number of new players is increasing rapidly, with over 1200 collective bargaining websites currently operating in Brazil. In that context, growth and differentiation seem to be two key success factors for Coquelux. According to webshopper (23rd Edition, e-bit), growth can be achieved by targeting middle and low-income consumers from class C, who represent 50% of the total e-commerce sales. But Coquelux, which is specialized in desire and luxury brands, has built its reputation and competitive advantage through its “exclusivity”, by targeting wealthier consumers from classes A and B who are attracted by its fashionable and high-end positioning. The evolution (growth?) of this market and the development of its competition naturally raise a strategic question for Coquelux’s managers: can Coquelux grow and still maintain its competitive advantage? Should it grow by expanding its consumer base to class C? If so, how? Consumers from classes A, B or C must be targeted through the same online communication channels. Recent studies from the ABEP/ABIPEME emphasized the importance of social networks as a tool for converting new clients and gaining their loyalty, regardless of their social class. However, high-income and low-income e-consumers do not have the same consumption habits, do not respond to the same type of marketing strategies, and most importantly, do not share the same values. Thus, it seems difficult to expand Coquelux’s consumer base to class C without changing its marketing strategies and altering its image. Three options were identified for Coquelux: reinforcing its leadership on the luxury segment and focusing on a small niche market (1), which would threaten its survival in the long run; completely changing its strategy and competing for a mass market through commercial brands (2), which requires major financial investments that managers don’t have access to; or finding an intermediary solution (3). This thesis’ recommendation for the third option consists in focusing on premium brands (rather than luxury) in order to increase sales volume (Coquelux’s most profitable sales happened with local desire brands) with products that appeal to class B but also attract the emerging class C which is looking for brand recognition. It could thus implement a slow entry strategy towards the mass market without damaging its main competitive advantage.

Key words: E-business, e-commerce, start-up, Brazil, online flash-sales, e-marketing, e-consumer, consumption habits, social classes, social networks

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1. INTRODUCTION

1.1 Context

Created in 2008 by a French entrepreneur, Coquelux was the first online sales events club that was created in Brazil. Described by its managers as an “opportunity club”, it offers online flash-sales of luxury products and desire brands to its members. The ambition of Coquelux is to be more than just a virtual outlet website: in fact, it aims to act like a “private shopper”, offering opportunities in terms of discounts, but also in terms of choice, with a large selection of lifestyle and fashion products.

Since the privatizations and liberalizations of the 90's, Brazil has become by far the largest information technology market (IT) in Latin America with almost 100 millions users (*Associação Comercial de Sao Paulo*, 2010). The macroeconomic policies and regulatory changes have played a positive role for the development of e-commerce (TIGRE, 2001). In fact, since the 90's, the Internet grew profusely not only in terms of numbers of users but also in terms of services offered online to the Brazilian consumer (Internet Steering Committee, 2010). Both computer penetration and internet penetration have risen strongly over the past years, although both remain low by international standards, and Brazil appears to be one of the most promising countries for Internet development in the world. Moreover, as stated by Tigre (2001), the Brazilian population has always had a very positive attitude towards the internet. This is confirmed by a study from the Internet Steering Committee (2010), showing that Brazilian citizens are using increasingly more transactional services online. In fact, the growth of e-commerce is reaching 1000% if one takes into account the last 7 years (*Associação Comercial de Sao Paulo*, 2010).

Other than that, Brazil is the fifth most populated country in the world, 80% of the population lives in urban areas and almost 50% is under 24. According to Tigre (2001), these factors might also play a positive role in both the diffusion of internet and the success of e-commerce.

In February 2011, 29.7 millions of Brazilians visited an e-business website, according to *Ibope Nielsen Online*. In fact, according to the *Brazilian e-business*

chamber, e-business sales in 2010 accounted for BRL 14.8 billions, a growth of 40% per year. For 2011, the chamber is expecting 4 billion of new e-business consumers just for the first semester, and an average growth of 30% per year, leading to an overall e-business market of approximately BRL 20 billion at the end of the year. Internet purchases are expected to grow to BRL 44 billion in 2014. Online consumer purchasing is also claimed to be one of the most rapidly growing forms of shopping worldwide, outpacing the traditional retail stores (Da Silva & Syed Alwi, 2007). Yet, the actual transactions conducted online remain a small portion of the retail sector (Cowles et al., 2002), which still leaves opportunities for growth.

According to the national statistics published by the Brazilian e-business chamber, 57% of e-consumers are women and the number of women buying online continues to increase. 72% of them buy at least one item per month on the internet, with a minimum value of R\$ 40. It is no surprise then, that most of e-business websites try to be appealing to women. Moreover, according to the survey published by The Brazilian E-chamber of commerce (Camera Brasileira do Comercio Electronico, 2011, *Crescimento das Mulheres no E-commerce e a Febre por Descontos*, March 22, 2011), getting a discount one is the main argument for buying online. This tendency could contribute to explain the worldwide success of collective bargaining websites or private sales websites. But it is also a typical aspect of the Brazilian e-consumer : 75% of e-consumers in Brazil use price-comparative websites.

According to the e-bit study (23rd edition), there are more than 1200 collective bargaining websites that are currently operating or that are being launched. On the other hand, the sales events websites, “clubes de compra” in Portuguese, are an older phenomenon in Brazil. The main products sold on sales events websites are fashion and accessories (30%), which is not surprising considering that 60% of their consumers are women, followed by Electronic Devices (includes home & kitchen accessories) (18%) and computers (12%). 26% of the people who know sales event clubs have heard about it from friends, which proves the importance of the word-of-mouth. However, 22% found about sales event clubs on Google or Yahoo while another 22% received a marketing email, showing the importance of recruiting clients through web-marketing for these websites (e-bit, webshoppers 23rd edition).

In Brazil, most of the e-consumers come from classes A and B (61%) (*Camera Brasileira do Comercio Electronico* through an *IBOPE Midia* Study, 2011). It is also found that the average e-consumer spends on average R\$ 118 per month. However, the rapidly growing class C seems to be more and more comfortable buying online: according to the 23rd edition of the webshoppers study, which considers Class C as any person leaving in a family where the total income is inferior to R\$3000 / month, it accounts for almost 50% of total e-consumers in the country. They don't buy often, but they spend on average the same amount than women from class A-B, which is R\$ 314. They mainly buy domestic electronic products, electronic devices and computers. They are also younger than the average e-consumers. In fact, in Brazil, the average e-consumer is 41 years old, whereas the average e-consumer from class C is 37. Finally, class C consumers are less educated, 30% have graduated, when the national average for e-consumers is 50%.

1.2 Thesis Problem

Coquelux is positioned at the convergence of many trends of the Brazilian market. Designed for women, the website presents a rather “girly” interface, with a pink logo and some drawings on each page. In fact, 80% of the members of Coquelux are women, and according to their statistics, 60% of the masculine products that are sold on their site are bought by women too. Moreover, the sales events club based its business models on the discounts – Coquelux sells luxury and desire brands products at discounted prices (minimum -50% for fashion apparel). As presented earlier, in Brazil, getting a discount is an argument for buying online, and this kind of website is very popular amongst the Brazilian online shoppers. Also, by its selection of products, Coquelux aims to appeal to the classes A and B, that represent, as seen earlier, 61% of e-consumers in the country. Finally, Coquelux' aim is to be perceived as a rather “exclusive” sales events club. In fact, its differentiation strategy, as defined by its managers, is based on its “hype”, “fashionable” image through partnership with luxury and desire brands. A quick look the brands that are proposed by Coquelux main competitors is enough to realize that Coquelux is not positioned in the same segment. It is not, thus, engaged in a direct and frontal competition.

However, the exponential growth of the e-business market in Brazil, 40% per year (e-bit, Webshopper, 23rd edition) and Coquelux' forecast on its own growth compared to its competitors growth, raise some concerns. In fact, the competition for market shares will considerably be strengthened between the main players in the coming years. Moreover, Coquelux' managers are concerned that the important sales volumes offered by their competitors will start to attract desire and premium brands, which are currently exclusively Coquelux' partners. In other words, Coquelux also needs to grow in order to remain attractive for desire and premium brands, thus maintain its competitive advantage.

Having said that, growth is not the real problem. In fact, it will be assumed, as a hypothesis, that the managers will get shortly the funds they need to implement a growth strategy. The main issue for Coquelux is, then, to understand how and where it should grow (both in terms of market shares and sales volume) in order to maintain its competitive advantage.

If seeking growth might be vital to any business, the results of growth might be paradoxical. In Coquelux' case, growth comes with a lot of challenges. In fact, Coquelux' main competitive advantage, until now, has been its positioning, its differentiation strategy that enabled it to have partnerships with luxury and desire brands and to tackle wealthier consumers. Now, growing means expanding Coquelux' consumer base. But a real expansion of the consumer base, such as targeting class C consumers, could be contradictory with Coquelux competitive advantage?

Can Coquelux expand its consumer base and still maintain its competitive advantage? Will it have to expand to Class C? If it does, what marketing strategy would be appropriate in order to keep intact its "premium" image?

This thesis' objective is to propose alternatives to Coquelux' main challenge by answering key exploratory research questions: how is the market segmented for e-commerce flash-sales websites in Brazil? What useful information can be extracted from this segmentation? Which segments could be appealing in Coquelux' case and why? And finally, what alternatives does Coquelux have, in terms of market shares and in terms of marketing? The thesis problem is, then, to gather relevant information

on the market segmentation in order to proceed to clearly understand the demand for fashion and lifestyle online flash-sales in Brazil, and proceed to a market analysis that will lead to the proposal of market alternatives for Coquelux.

1.3 Objectives

The thesis' main objective is to understand the market segmentation for online fashion and lifestyle flash-sales in Brazil, and to clarify the expectations of each segment. Understanding the demand is key for answering the case study's main challenge, the final aim of this paper being the proposal of market alternatives for the growth of an e-commerce flash-sales company: Coquelux. In order to determine which segments are appealing to Coquelux' business model, the following steps will be followed:

First, it seems necessary to go through a detailed case study, and analyze Coquelux' business model based on the relevant literature review, in order to have a better opinion on its strengths and weaknesses in its internal environment. Also, it seems important to analyze Coquelux' position compared to its main competitors, in order to understand its strengths and weaknesses in its external environment and define its current market positioning.

Then comes the market analysis: studying the online-consumers' behavior in Brazil is key to the thesis' subject. It will be based both on literature review and first-hand information gathered from the interviews mentioned below and in the appendix. The aim of the market analysis is to determine market segmentation for sales-events websites and understand the characteristics of each segment.

The third part of the thesis is to put into perspective the case study and the market analysis, in order to propose alternatives to the company. According to Coquelux' current positioning and to the findings of the market analysis, what are the possible alternatives for Coquelux' growth? What segments described in the second part could be tackled by the company and why? How does theory help to answer a management challenge?

Finally, in the final part, the proposed alternatives will be compared with the managers' initial projections; and concluding remarks will be made.

1.4 Justification

Coquelux might be performing well according to its managers' initial expectations; it is nevertheless facing a crucial moment in its history. According to the company's own forecasts, the market of discounted retail sales online could be saturated in the next 3 to 5 years, meaning that there would not be enough space for new competitors. Coquelux' managers base their assumption on e-commerce market trends: they believe the e-commerce phenomenon in Brazil will follow the same path as what was observed in the U.S and Western Europe markets years ago (Oxley J.E & Yeung B., 2001): a rapid increase in the number of e-shoppers (+40% every year in Brazil) and an exponential growth in sales volume (online sales are expected to be multiplied by 4 within the next 4 years in Brazil). This rapid development in the e-commerce market profits to the first players who gain market shares and benefit from the market's organic growth : as the market is expanding by +40% per year, so is the consumer base of the current players. Coquelux' managers' analysis is that, if the current competitors in online sales events club continue to grow their consumer base by +40% per year, there should be very few opportunities to gain market shares within 3 years in Brazil.

Coquelux being in the top 3 players, it has two main and serious competitors, *Privalia* and *BrandscLub*. However, they are up to 10 times more important in terms sales volumes (according to Coquelux' estimates – there are no official public figures) and come with huge financial resources: hold by bigger groups, they benefit from economies of scales and important investments.

This difference in size has always been a concern for Coquelux but it is becoming a threat now. In fact, its small market share could become the main weakness for Coquelux and threaten its sustainability in the medium run. Moreover, gaining market shares is also urgent because the cost of recruiting customers through the internet is increasing by the day. If Brazil follows the trends that were observed in Europe 5 years ago, it will become too expensive to increase one's member base through

classical marketing channels in a couple of years. This information comes from Coquelux' itself: the marketing department analyzed the costs of recruiting members over the past 3 years. In 2009, recruiting one member did cost R\$ 1,1. In 2010, it did cost R\$ 1,98. In 2011, the price went up to R\$ 2,39, and the market analysts believe it is still under-evaluated. Those numbers are an average of all the different channels (email marketing / browsers ads / blog partnerships, etc).

Therefore, the conquest of market shares and a significant increase of the consumer base is crucial to the company's survival in the medium run: growth is key. It seems that studying Coquelux' case at this point of its history is particularly interesting, because it is facing a real challenge.

Beyond the fact that its growth challenge is quite common in the e-business area, Coquelux is one of the first start-up of this type to be created in a developing country. It is particularly interesting to be working in such a dynamic, rapidly changing and new environment. When studying Coquelux' upcoming strategic moves, one can both learn about the forces and threats of e-business in the world economy, and find out about the inherent difficulties that any company faces in the Brazilian market such as difficulty to find funds, limited access to credit, rapid growth, changing social pyramid, amongst other particularities.

This thesis might be essentially a case study focusing on a specific company in the Brazilian e-commerce market, but some points can be generalized and hopefully be valuable to a marketer interested in the Brazilian market. In fact, the market segmentation gives a strong insight on the different segments' characteristics and expectations, in terms of buying power and categories of goods, age, and communication channels where each segment can be targeted. It is a knowledge that can be used by any marketer willing to understand the e-consumers in Brazil. Moreover, the theoretical approach of the literature review is useful for any entrepreneur willing to plan a successful e-business, in any country, as the articles chosen are strictly addressing some of their specific challenges. Having said that, the confrontation of Coquelux' specific business case with the theoretical approach of the literature review can teach both an entrepreneur and a market researcher some lessons. In fact, Coquelux' case analysis will certainly emphasize the importance of some key success factors described by researchers, but it might also raise some questions that could, in their turn, feed further market researches. A central element

of Coquelux' challenge is the e-consumer behavior: it is necessary for Coquelux (and any other business) to understand what e-consumers seek and why. However, e-consumer behavior might depend on evident factors such as socio-economic class, age and country, but it also evolves with the perception of internet and the perception of e-business. In the recommendations made for Coquelux' marketing strategies alternatives, a major part of the proposal emphasizes on the role of e-consumers' perception and the importance of an adequate communication strategy for all segments.

1.5 Methodology

The thesis focuses on one company's case study. The aim is to identify a problem in a company and suggest alternatives of possible solutions, based on both practical observations and good theoretical foundations. In this thesis, the company chosen is Coquelux, an e-commerce start-up based in Sao Paulo, Brazil, which activity is online flash-sales in the fashion and lifestyle universes. Coquelux has little time to implement an aggressive growth strategy to face its giant competitors. This thesis objective is to understand the market segmentation in order to propose alternatives for Coquelux' market strategy.

Because it focuses on a company, a case study will be done through this thesis. Case study appears to be an ideal methodology when a holistic, in-depth investigation is needed (Feagin, Orum, & Sjoberg, 1991). According to Yin (1994), a case study is an *"empirical enquiry that focuses is on a contemporary phenomenon which boundaries and context are not evident"*. In his book *Case Study Research, Designs and Methods* (1994), he describes the methodology for a case study, which will be used in this thesis.

Yin (1994) explained that a case study was particularly appropriate when the thesis had to answer questions like "how" or "why", which is the case of this thesis, since the aim is to understand *how* the market segmentation can procure answers to Coquelux' challenge.

He identified different types of case studies including exploratory, explanatory and descriptive case studies.

The methodology used in this thesis is exploratory. An exploratory case study can sometimes be done before the definition of a research question. It was partly the case in this thesis since the first interview with Coquelux' CEO happened in the very beginning of the process, and was aimed to determine what could be an interesting angle for studying the Brazilian market, according to the CEO, and how studying Coquelux' case would be helpful in that matter. The following interviews (the second interview with the CEO, and the interviews with the sale and marketing director of Coquelux, as well as the interviews with the marketing analysts and consultants) were prepared with a more defined framework since there were oriented towards the thesis' problem and objectives but can still be defined as exploratory since there were not based on any hypothesis or biased by any prejudice.

A case study can be limited to one case, as it is done here. Yin (1994) insists on the fact that if limited to a single company, this company must represent, on itself, a challenge for the existing theory. Since Coquelux was the first of its kind in the Brazilian market, since it has, according to its managers' sources, a unique business model in the country, and since it is facing a typical challenge for a start-up (growth) it appears to be a good case study for the purpose of this thesis.

A case study can use qualitative or quantitative methods, or both. The methodology used in the interviews to answer the thesis' problem will be the gathering of qualitative data. This choice is based on the fact that there is little existing knowledge on the market segmentation for online consumers of flash-sales in Brazil. This master thesis has the following goal: to determine the market segmentation for online flash-sales in the fashion and lifestyle universes in Brazil and to understand how this segmentation could help Coquelux, the company chosen for the case study, to implement a growth strategy, by proposing market strategies alternatives. There is not much research done on the subject because of the recent development of e-commerce in the country and because the online-flash sales are a new phenomenon in Brazil.

The methodology will be "exploratory design", which involved a less structured approach on the research (Saunders, Lewis and Thornhill, 2007). It is known to be a

good approach when trying to understand reasons for decisions and for different opinions and attitudes (Saunders et al., 2007). It will be based on qualitative interviews to get to know actors on this market (insiders) and exterior specialists of the market. The first hand information used in this thesis will thus come from interviews with the CEO of Coquelux, the Sales Director and the Marketing Director. Moreover, in order to better understand the segments that could be targeted by Coquelux in its market planning, there was a phone interview with a person at the *Data Popular* agency (<http://www.datapopular.com.br>), specialized in marketing for low-income population. Also, an interview was done with The *MCF Consultoria* (<http://www.mcfconsultoria.com.br>), another agency specialized in marketing for luxury brands.

When it comes to personal opinions on how a start-up should be run and why – in the case of Coquelux' managers - it is important to have a certain level of trust in order to get honest answers. It is then easier to formulate semi-structured interviews. The interviews were not standardized and followed more the direction of an informal conversation rather than a questionnaire. All the questions were not prepared before the interviews. By semi structured is meant that some guidelines were prepared in order to get to the point but the rest came according to the persons' answers.

The interview guide is the starting point of the interviews. It entailed an introduction where it is made clear that everything that was said was confidential, and the definitions of the terms market segmentation, market segment, and classes A, B or C.

When interviewing the CEO, sales director and marketing director of the company, the objectives were to understand their projections: how they based their understanding of the market, if they had any idea of what could be a good strategy, why, and what was their fears. The first interviews were made in February 2011. Many other informal discussions occurred during February and May 2011 and were also used for the purpose of this thesis.

On the other hand, when it came to the interviews with the analysts and consultants in marketing, the objectives were to gather first hand information on the market, so

the questions were more focused, such as “this is the definition found for class A in Brazil, do you think it applies for e-consumers as well? What are the characteristics of e-consumers from class A in Brazil? According to you, what marketing strategies would be efficient for such segment?”. In order to better understand the information that was shared by the marketing consultants, some previous questions involved their methods and sources. These interviews were made in April 2011.

All the interviews were taped and then transcribed immediately after the interview. Once on paper, the analysis of their content evolved according to the development of the thesis, was put in context with the new information gathered and linked to the theoretical part of the thesis.

In fact, one of the most important aspects of a case study is the triangulation of information (Yin, 1994). Triangulation can occur with data, theories and investigations (Feagin, Orum, & Sjoberg, 1991) Triangulation is a sort of protocol that ensures the accuracy of a thesis statement and the validity of the process by crossing information gathered from observations and investigations with more theoretical or empirical data. There are many types of triangulation. The one used in this thesis is methodological triangulation, “when one approach is followed by another to increase confidence in the interpretation” (Denzin, 1984).

In this thesis, the information gathered from the interviews with the company’s managers and the observations when interning for the company will be complemented by second hand data and both will be analysed and “crossed” with the theoretical findings of the literature review.

The second hand data used in this thesis come from *Camera Brasileira do Comercio Electronico* (the Brazilian Chamber of E-commerce), *Empresa e-bit*, a consultant attached to the chamber of e-commerce that produces public information on national data for e-commerce in Brazil. It produces reports called the “webshoppers” every semester, summarizing the main trends of e-commerce in the country. The last report (23rd) is mentioned in the references and used in various stages of the thesis. *IBOPE*, a Brazilian multinational market research company for statistics on consumption habits and consumer behaviour is also a reliable source of information for the market research. Concerning the e-consumer behaviour, the official report of

cgi.br, *Survey on the Use of Information and Communication Technologies in Brazil*, by ICT Electronic Government 2011, is a major source of official data for the market analysis. Finally, the demographic data, economic classification of the Brazilian population and definition of social classes, the *ABEP* report is used. Because the interviews were rather informal and highly subjective due to their nature, it seemed important to back it up and confront it with some official, hardly questionable data; for the validity and interest of the thesis.

2. REVIEW OF RELEVANT LITERATURE

2.1 Concepts and Definitions

Marketing Mix

“The great quest of marketing management is to understand the behaviour of humans in response to the stimuli to which they are subjected.” This is how the “inventor” of the marketing mix, Borden, describes the role of marketing in the article *The concept of the marketing mix* (1964).

The aim of the marketing mix is to determine the forces which managements weigh when it comes to creating their marketing mix. Those forces rise from the behaviour of individuals and Borden identified 4 main forces: product, pricing, branding and channels of distribution.

Those four forces later became the “four Ps” in Kotler’s work (1969). Kotler’s theory is that marketing is not just a business activity but a societal activity, since everything in our society, from politicians to soaps, is marketed. Kotler, in *Marketing Management* (2002) defined the marketing mix as a “set of marketing tools that the firm uses to pursue its marketing objectives in the target market”.

As Borden did, Kotler identified variables that can affect the level of the demand for a product and that can be controlled by the managers. He re-named Borden’s forces are built the “4P’s” matrix:

Price <ul style="list-style-type: none">■ List price■ Discounts■ Allowances■ Credit■ Specials	Product <ul style="list-style-type: none">■ Quality■ Features■ Name■ Packaging■ Services■ Guarantees
Promotion <ul style="list-style-type: none">■ Advertising■ Personal selling■ Sales Promotion■ Public relations■ Direct mail	Place <ul style="list-style-type: none">■ Distributors■ Retailers■ Locations■ Inventory■ Transport

Later in his career, Kotler added a 5th P for “people”. As stated in the millennium edition of its “marketing management” manual, “people” refer to another type of communication that cannot be directly controlled by the firm: the fact that people talk to each other about products. The new technologies of information and communication, the development of online communities, social networks, blogs, the “conversations” have increased and opinions on products are shared worldwide. It has even been found that the messages delivered by those non-conventional conversations are more “credible”, to the consumers, than conventional marketing messages.

Lauterborn (1990) suggested that the sellers’ four Ps correspond to the customers’ four Cs, switching the focus from the firm to the consumer. Product became “customer solution”, price translated into “consumer cost”, place into “convenience” and promotion into “communication”.

E-commerce vs. E-business

Starting with the strict definitions of the main concepts used in this thesis, it seems interesting to understand the difference between e-commerce and e-business. In fact, even if the words “commerce” and “business” are interchangeable in English, there is a difference between “e-commerce” and “e-business”. The authors of *Building an E-business Strategy* (HACKBARTH, G., KETTINGER W.J., 2000) have tried to delineate more explicitly this difference: any electronic business transaction involving an online payment is an “e-commerce” activity; but an e-business is much more than a website that sells products and accepts credit cards payments online. As it is summarized in the article *Integration of E-Business into Small and Medium Size Businesses* (MCGRATH, L.C, LOMERSON, W.L, SCHWAGER, P.H, 2006) “the difference in the two terms is the degree to which an organization transforms its business operations and practices through the use of the Internet”. So, in other words, e-business goes beyond the e-commerce motto of “buying and selling over the Internet”: e-business is the creation of a whole business environment that integrates and connects the different actors of the business (employees, customers, business partners and others) by using intranets, extranets, e-commerce technologies, etc. (KALAKOTA, R., ROBINSON, M. (2000), eai Journal).

Virtual markets

It also seems important to explicit what a virtual market is, since it is where e-commerce and e-business transactions take place. According to DUTTA & SEGEV (1999), virtual markets refer to “settings in which business transactions are conducted via open networks based on the fixed and wireless Internet infrastructure.” These markets are characterized by high connectivity, which is correlated to information networks and a high reach and richness of information. EVANS & WURSTER (1999) define reach as the “number of people and products that are reachable quickly and cheaply in virtual markets”. The high reach of virtual markets is unprecedented because it is the first time that markets are not limited geographically. Richness, on the other hand, refers to “the depth and detail of information that can be accumulated, offered, and exchanged between market participants”.

Value

Almost all the economists, from all times, have given a definition of “value”. This thesis will base its understanding of value on three definitions, that complement each others and that seems to be useful when it comes to analyzing an e-business company.

First, one should recall Porter’s definition of value which is focused on sales: Porter defines value as “*the amount buyers are willing to pay for what a business provides them. Value is measured by total revenue (...). A business is profitable if the value it commands exceeds the costs involved in creating the product*” (Porter, 1985).

Also, Schumpeter’s definition of value, founded on innovation, seems to be important for this thesis: Schumpeter pioneered the theory of value creation through technological innovation, emphasizing the importance of technology that can lead to the transformation of markets and economic development. Written in 1934, his theory is very contemporary today and applies to the development of e-businesses.

Finally, it appears useful to base the understanding of value creation of the e-business on the strategic networks theory, according to which the company’s network structure has an impact on its value creation (Gulati, Nohria, and Zaheer, 2000). In

fact, networks (it can be a joint venture, a buyer-supplier partnership or just a strategic alliance) enable access to information, markets and new technologies, but also offer the possibility to share risks, knowledge, learning, or generate economies of scale. As mentioned by Shapiro and Varian (1999), "*The network perspective is clearly relevant for understanding wealth creation in e-business because of the importance of networks of firms, suppliers, customers, and other partners in the virtual market space*".

Marketplace vs. Marketspace

As defined by Kotler in the *Marketing Management* (2002), the marketplace is physical, referring to a store, shopping malls etc; while the marketspace is digital and refers to e-commerce and online shopping.

A marketplace is where a market operates, physically. It is where products and services are provided and consumed. However, with the development of e-commerce and online sales, some internet platforms can now be called marketplaces. An example of internet marketplace is eBay, a globally available auction place, where products and exchanged.

The marketspace is, on the other hand, a relatively new concept in marketing, as it has emerged with the prevalence of the internet. The term marketspace was first used by Rayport and Sviokla (1994) in order to differentiate physical markets from electronic markets. The definition of marketspace then became more specific: a marketspace is not only an online market (eBay, as mentioned above, is an online market but can be called a marketplace) : in a marketspace, information and goods are exchanged through networks, where customers and businesses are able to communicate outside the sphere of the given business. A marketspace is a place where transactions escape the control of a given business, where the marketing is made by the customers themselves through the use of forums, social networks and blogs.

SWOT Analysis

The SWOT analysis is a tool used in business strategy, based on the analysis of both internal and external environment. SWOT stands for strengths, weaknesses (internal

environment), opportunities and threats (external environment) (Hill & Westbrook, 1997).

The external environment is subject to microenvironment forces such as demography, macroeconomics, legislation or cultural forces, but it is also subject to microenvironment forces, such as a firm's competitors, customers or suppliers, that can affect its results. It is important to identify, in this external environment, where are the threats and where are the opportunities.

An opportunity will be identified when the company can, in a certain area (market segment, product type, geographical market, timing...) be profitable. The probability for the company to be profitable in the identified opportunities depends on whether its strengths enable it to differentiate from its competitors. Competence is not enough: the company has to be better than the others, not just good.

A threat, on the other hand, is identified when the external environment is not favourable to the company's success (legislation, market trends going against it, culture, etc).

In the internal environment of the firm, it is important to be able to identify the strengths of the company: the company's strengths are what will enable it to take advantage of the opportunities identified in the external environment. However, a good marketing strategy does not necessarily mean going for all the opportunities, but putting into perspective the strengths of the company and the opportunities presented, and decide whether it should focus on the existing opportunities or develop new strengths to target new opportunities.

2.2 Marketing Strategies

Market Segmentation

Kotler (2002) defines a market segment as following: "*a market segment consists of a large identifiable group within a market, with similar wants, purchasing power, geographical location, buying attitudes, or buying habits.*"

Many different methods can be used in order to identify and determine market segments.

One is by looking at the market according to people's preferences:

- If people have homogeneous preferences, merely all consumers have the same preferences, so there are no “natural segment”. In such an environment, the competing brands might all offer similar products and services.
- If people have clustered preferences, it is easy to identify many “natural segments” that fit the different clusters. In such an environment, it is plausible that the first firm will position itself in the middle in order to appeal to as many as possible, while its competitors will position themselves in order to appeal to the peripheral clusters.
- If people have diffused preferences, there are no natural segments, but the brands strategies might be the same as in a clustered preferences environment: first mover will position itself “in the middle”, in order to appeal to as many consumers as possible, and its following competitors will try to strongly differentiate in order to propose a real alternative that could fit other types of tastes.

Market segmentation can be done under two point of views: through the consumer market and through the business market. I will focus on the consumer market segmentation because it is the most interesting for this thesis.

When trying to segment the consumer market, three types of variables have to be taken into account:

- The geographic variable: the market is divided geographically (states, countries, regions, neighborhoods) in order to identify and satisfy geographic preferences. For instance, Blockbuster does not rent the same videos in the gay area of San Francisco than in the family area.
- The demographic variable: a demographic segmentation can be made according to the age of the population, the gender, income, generation and finally, social class.
- The psychographic variable: in a psychographic segmentation, the consumers are divided according to their lifestyle preferences, personalities and values. For instance, people from the same social class can have many different lifestyles. Some companies base their marketing on their consumers’ personality. For instance, apple makes computers for people who want friendly, good looking computers rather than a boring ordinary laptop. Finally, the values, that drive

people inner selves can be another way to segment the market. Roper report's has identifies six main values in a study that included 35 countries.

Those variables correspond to the characteristics of consumers. It is, nevertheless, also important to include variables that represent the consumers' responses to products and marketing strategies, such as the behavioral variable. In a behavioral segmentation many variables can be used, and Kotler (2002) believes this is the best way to segment a market. The variables that are used for behavioral segmentation are:

- The "occasion": consumers can be distinguished according to the reason why they need, or buy, a product. For instance, consumers willing to buy a plane ticket can be separated according to the occasion for which they travel: charters flights apply for vacation travelers, not business travelers. So, the occasion changes the consumer's behavior.
- The user status: new users, ex-users, frequent users have different needs and expectations.
- The loyalty status: in a brand-loyal market (a market where consumers always buy the same brand) it will be difficult for a company to gain new consumers, but also difficult for a competitor to break-in. It will be the opposite in a shifting loyal market (market where consumers shift brands very often).
- Consumers' readiness: a market is full of people that are facing different stages of readiness when confronted to a product: some are ready and willing to buy, some are informed about the product, some desire it,... The relative proportion of each type of consumer makes a huge difference in the marketing strategy that will be implemented.

Niche Marketing

"A niche is a more narrowly defined group, typically a small market whose needs are not being well served. Marketers usually identify niches by dividing a segment into sub segments or by defining a group seeking a distinctive mix of benefits". (KOTLER, 2002)

In a niche market, customers are willing to pay a premium for the product or company that best fulfil their expectative.

A niche is also a market that is not likely to attract new competitors, first of all because it is smaller than a market segment, second of all because since the success is achieved through specialization rather than volume, entry barriers are high.

Positioning Strategy

This article gives advice on how to develop a successful marketing positioning strategy.

According to Doyle (1983), a positioning strategy *“refers to the choice of target market segment which describes the customers a business will seek to serve and the choice of differential advantage which defines how it will compete with rivals in the segment”*.

It is important to underline the fact that, as this definition may suggest, positioning strategy only applies for a certain product in a particular market, it is specific to one product, and should not be confused with the overall corporate strategy.

It reveals, in fact, that positioning strategy revolves around three main ingredients: customer targets, competitor targets and competitive advantage.

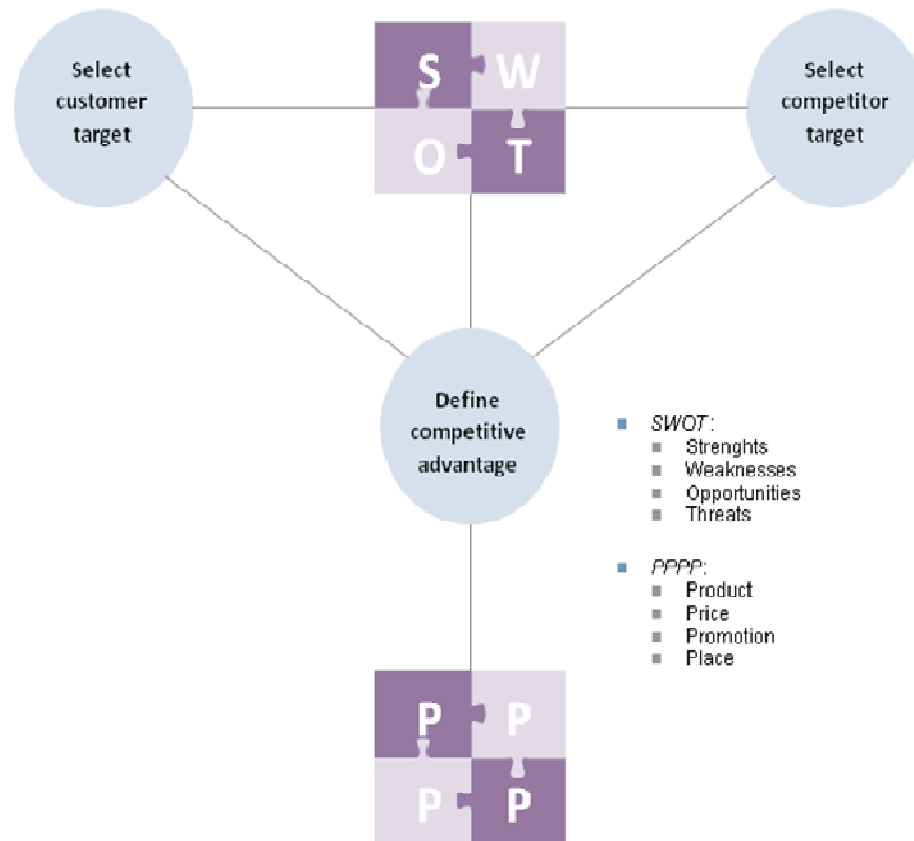
So, in order to build a positioning strategy, one has to understand the market and think about how those three ingredients can be articulated together in order to fit in one of this market’s segments and fulfil, in this segment, the needs of the consumers better than its competitors.

But, in order to determine this market segment, one has to deeply understand the strengths and weaknesses of the company and be able to draw a complete SWOT analysis.

Once the positioning strategy is clear, it has to be translated into action through a marketing mix.

Extracted from the article, this diagram shows how the different concepts of SWOT analysis and the “four Ps” marketing mix are linked.

The Key Components of Marketing Positioning Strategy Formulation



Source : DOYLE, P. (1993), *Marketing Management*, unpublished paper, Bradford University Management Centre

Luxury Branding on the Internet

The academic article *Luxury Branding on the Internet* (Dall'Olmo Riley & Lacroix, 2003) raises the question of the possible use of the internet for marketing luxury brands. By comparing the managers' vision and the consumers' opinion towards luxury websites and presence on the internet, the authors conclude that the opportunities for luxury branding on the internet are huge and largely unexploited.

In fact, most of the previous research that had been done on the relation between the brand and the internet got to the same conclusion: the essence of the brand and the rules of branding are the same off and online (Chen, 2001; Chernatony, 2004, Clauser, 2001). Moreover, the new technologies bring even more opportunities for luxury marketers, since the internet enable a more direct and transparent relationship of the brand with its customers –or aspiring customers through the use of forums,

blogs, where the brand's communication is not controlled and more intimate (Ind and Riondino, 2001). As for any other website, the design and interactivity of the luxury brand's website has to be carefully thought about and is determinant for the internet marketing success of the brand (Chaffey, 2000).

However, the authors note that for luxury brands, if the internet offers many opportunities for communication for luxury brands, it cannot really be used as a "recruiting" channel, or even distribution channel. In fact, the added value of a luxury goods is often the "experience" that goes along with it, which can hardly be provided on the internet.

Blogs: a New Marketing Channel

The first time the word "blog" was used was in 1997 (Hewitt, 2005). Blogs (= web logs) are usually created by one single person who writes publicly about the topic of its choice, with no limit nor boundary (McConnel and Huba, 2007), proposing links to similar sites and giving its readers the possibility to comment (Rettberg, 2008).

While blogs were multiplying on the web, the attitude of young generations towards marketing evolved considerably. According to Solomon et. al (2006), the new generations are much more critical when it comes to advertisement, they are "turned-off" by the over-commercialization of products and see the traditional channels of marketing as unauthentic. In fact, the "media and information overload" made people less interested in traditional marketing messages (Sing et al, 2008). Marketers tried to find news ways to communicate and build trust with their customers. Blogs appeared to be an innovative and interesting tool, because it allows a more direct relationship. Blog marketing and communication is mostly base on the "word of mouth", an "oral, person-to-person communication between a receiver and a communicator whom the receiver perceives as non-commercial, concerning a brand, a product or a service" (Kirby and Marshden, 2006). Because blog followers have the opportunity to share their own opinions, the buzz created by a blogger or by blog readers around a product is much stronger in terms of persuasion than any traditional marketing message (Wright, 2006).

This phenomenon became particularly strong with fashion blogs. The only academic paper covering the subject of the influence of fashion blogs on consumers' behavior was written a year ago by a young Norwegian graduated, Tone Hauge (2010). She describes fashion blogs as follow: *“A fashion blog can cover comments on runway trends, fashion items and celebrity or street fashion, and cover everything from high to low end fashion. (...) As fashion is trend-driven and as fashion blogs provide a new way to follow these trends, it is likely they will have an influence on the industry. It is essential to understand how great this new type of influence is to assess the opportunity for marketing through blogs.”*

Based on interviews and market research amongst both bloggers and blog followers, the conclusion of the study is that fashion blogs do indeed have an important influence on consumers: consumers search for inspiration on fashion blogs before buying a product, and blogs can be a decisive argument for buying.

2.3 The E-consumer

Online shopper vs. Internet User

Another major question that one should ask in order to understand e-commerce or e-business is: who buys online? Is there a global profile of the online shopper that could help online businesses better understand their target? In that matter, the article of Brashear, T.G, V. Kashyap, M.D Mustante and N. Donthu (2009) aims to understand the difference between an internet user and an online shopper, and describes the characteristics of internet shoppers in six countries, including Brazil. The first point of the article is that heavy internet users are not necessarily internet shoppers, especially in the developing world where a majority of internet users are very young. The fact that the study was made in six different countries enabled the authors to draw a general conclusion on a profile of a “global” online shopper: all over the world, it seems that online shoppers have some common goals. One could summarize it in the following bullet points:

- An internet shopper seeks convenience, in-home shopping implying less effort and less time than traditional shopping.

- It shows more innovativeness: as it was defined by GOLDSMITH & HOFACKER (1991), “Innovativeness is the relative willingness of a person to try a new product or service”. These authors also made a study about a very specific segment of online shopping, fashion clothing, which is particularly interesting for this thesis, and they found that “innovativeness was a significant predictor of online consumption” (2004).
- It shows low levels of risk aversion.
- It seeks variety and is willing to try and buy new products even if their usual preferred products are available.
- Is more impulsive than non-online shoppers: in an article from Zhang, Prybutok, and Koh (2006) it is suggested that there is a “positive relationship between consumer impulsiveness and online purchasing behaviour.”
- The online-shopper is also brand conscious: “The brand consciousness is characterized by the degree to which a consumer is oriented towards buying well known branded products” (SHIM; GEHRT, 1996; SPROLES; KENDALL, 1986). A famous brand will reassure the consumer and will lower its risk.
- Finally, the online shopper is price conscious: in fact, even if the online-shopper is not necessarily looking for discounts, it is well informed and tends to compare prices before buying.

The E-consumer behaviour

On the same subject, another interesting article was found, that also focuses on online shoppers, called *The E-consumer behaviour*, where the authors try to identify a general and global model of e-consumer behaviour that would take into account both the consumer and the technology viewpoints. It was written by Dennis, C., Merrilees, B., Jayawardhena, C., Wright, L.T, (2009). Contrary to the precedent article, instead of describing what are the online shoppers’ characteristics, it focuses on “why” an Internet user finally buys online. Its main conclusion is that online shopping is influenced by three major factors: trust, social influence and the “experiential aspects” of electronic shopping.

When it comes to e-commerce, trust depends on security and privacy: if an e-consumer trusts an e-retailer, it will be positively influenced to purchase.

The social influence is the second most important factor for online shopping: it can be the advice of a friend, or the recommendation of a famous blogger for instance. Parsons (2002) found that “communications with like-minded people can be important motivators that influence buying intention. Web 2.0 social networking sites can link social interactions concerning personal interests with relevant e-shopping.”

Finally, we are reminded that shopping is not just about getting a desired product, it is also about the “experience” that one gets out of shopping, in terms of entertainment. (Martineau, 1958; Tauber, 1972). The authors argue that this does also apply to e-commerce. The consumers’ experience depends on the e-retailer’s website, which is referred to as “e-interactivity”. E-interactivity is determined by the “ease of use” of the website: shoppers’ pleasure has to be increased by the use of colours, design, etc. The environmental psychology shows that people’s initial response to their environment is strictly emotional, thus the “appearance” of the website is extremely important because it will determine the relation that the user will develop with it.

So, these articles provide us with information from the e-consumer side, such as *who* buys online and *why* does one buy online.

2.4 E- business models

Drivers for operational excellence

From the business viewpoint, the article from the MIT Sloan Management Review (BARUA, A., KONANA, P., WHINSTON, A.B 2001) is catching attention. The aim of the article is to offer managers a “*comprehensive way of rethinking e-business operations*” by analyzing e-business value creation factors in order to achieve e-business operational excellence. It raises two critical questions which are: how to assess an e-business’ operations? And what are the drivers of e-business operational excellence? As one could have guessed, assessing an e-business requires other measures than a “traditional” business. In fact, the drivers of operational excellence that were found in this study encompass three areas that are specific to e-businesses: the processes for customers, the IT applications and the readiness of customers and suppliers for buying / selling online.

The following table is extracted from this article and summarizes the main arguments of the authors. It is clear and helpful for the understanding of the subject.

The E-Business Drivers Checklist

Processes	
Customer-related	<ul style="list-style-type: none"> ■ Do customers have one contact point for all service needs? ■ Does the company resolve complaints in only a few steps? ■ Is customer feedback quickly disseminated into organizational process?
Supplier-related	<ul style="list-style-type: none"> ■ Does the company have a well-defined method for sharing product roadmap and demand forecast with suppliers? ■ Does it have a well defined information-exchange policies with suppliers? ■ Does it have standard operating procedures that cover all procurement scenarios? ■ Are the supplier-selection criteria well documented? ■ Are the supplier-evaluation metrics carefully defined?
IT Applications: Customer Orientation	
Informational	<ul style="list-style-type: none"> ■ Is all product-related information available online? ■ Can customers customize orders? ■ Does the site have a comprehensive FAQ section? ■ Can customers conveniently contact service reps? ■ Can they interact through online forums or communities? ■ Do customers see personalized content when they log on to the site?
Transactional	<ul style="list-style-type: none"> ■ Can customers submit orders online? ■ Can they modify orders? ■ Are customers notified of their order status automatically? ■ Is the site secure?
IT Applications: Supplier Orientation	
Quality	<ul style="list-style-type: none"> ■ Does the company share customer feedback and customer reports about quality problems with suppliers in real time? ■ Does it share process-quality information with them in real time? ■ Are order changes immediately communicated to suppliers?
Supply continuity	<ul style="list-style-type: none"> ■ Does the company share continuously updated inventory information with suppliers? ■ Does it share continuously updated production schedules and capacity information with them? ■ Does it share continuously updated product-demand information?

Source : BARUA, A., KONANA, P., WHINSTON, A.B (2001), *A comprehensive way of rethinking e-business operations*, MIT Sloan Management Review, Vol. 43, no. 1, ABI/INFORM Global, pp. 36-44

Here are the three major drivers of e-business operational excellence according to this study:

1- The processes for customers:

It refers to “information”: the information collected from customers is mainly complaints or requests. For an e-business company, any customer must be able to understand and find as quickly as possible *one* and *only one* point of information in the website, and address its complaint / request to one, easy-to-find, contact point.

Secondly, there must be an internal process so that the customers’ complaints or requests are immediately filtered and answered, through a few steps process that has to be hidden from the customer. The information has to flow; this is a major key success factor.

Finally, the information learnt from the complaint / request has to be used in the process: the company has to incorporate the information and learn from the

complaint. The feedback has to be rooted to the concerned area (marketing, sales, etc)

2- The IT applications for customers, suppliers or for internal operations:

The website should provide customers with details: FAQ section, details about the products on sale, on how to pay online, on tracking orders... It has to take advantage of all the opportunities available to keep in touch with the customer.

For internal operation and efficiency, having an intranet can also be a key success factor: information has to be shared within the company between different services.

3- The “e-business readiness for customers and suppliers”

Finally, the success of an e-business also depends on the readiness of customers and suppliers to engage in an internet transaction. Contrary to what most think, managers *can* have an influence on other’s readiness, by “integrating” them in the process for instance.

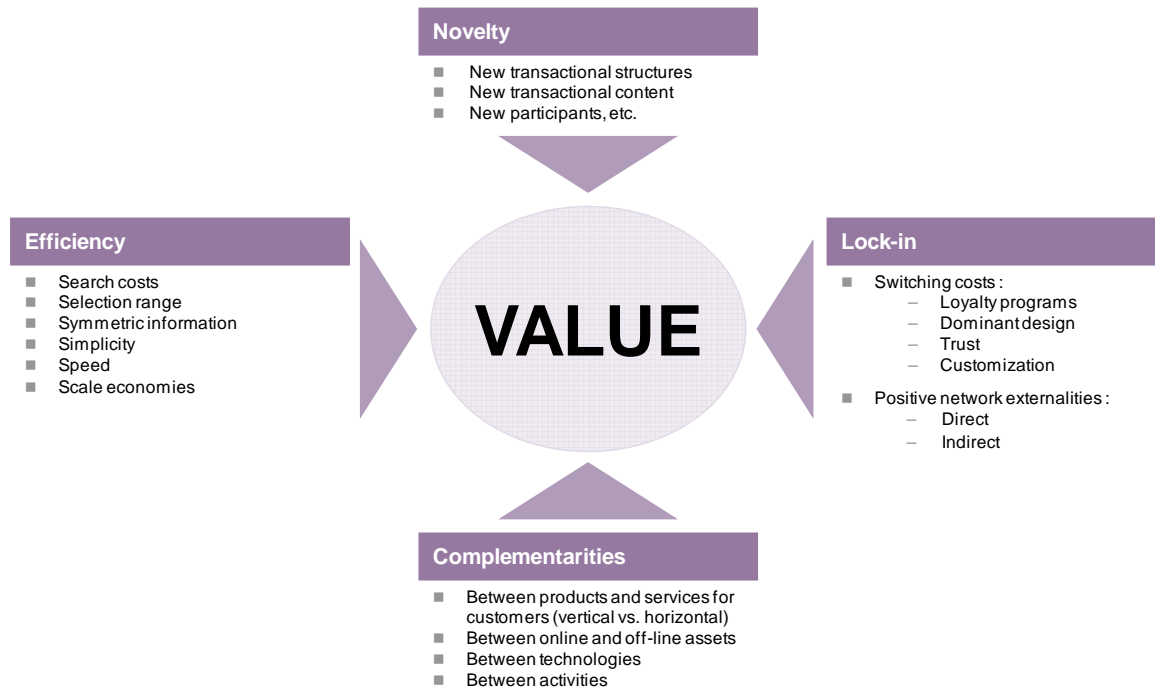
Value drivers

Always from the e-business viewpoint, after understanding what the key drivers for operational excellence are, it seems interesting to look into the value drivers for e-businesses.

On that matter, the article of AMIT, R., ZOTT, C., (2001), partly answered the question. In fact, the aim of this article is to “*identify the sources of value creation in e-business*”. In order to do so, the authors analyzed 59 e-businesses in the United States and in Europe.

The source of value creation, also called value-driver, “*refers to any factor that enhances the total value created by an e-business*”. The analysis of the 59 e-businesses shows that there are 4 primary value drivers for an e-business: novelty, lock-in, complementarity, and efficiency. In order to illustrate the author’s thesis, a diagram extracted from this article is added below. It synthesizes the major information.

The Sources of Value Creation in E-Business



Source : AMIT, R., ZOTT, C. (2001), Value Creation in E-business, Strategic Management Journal, Vol. 22, pp. 493-520

1- **Efficiency** is one of the main value drivers for e-businesses. According to the transaction costs theory (Williamson, 1979) efficiency “increases when the costs per transaction decrease”. The question is, then, how to reduce the transaction costs, ie how to increase efficiency. One way would be to reduce the asymmetries of information, which is easy to do for an e-business thanks to the speed and facility with which the information flows on the internet. Also, the high interconnectivity of virtual markets enables e-commerce managers to make better-informed decisions, which also contributes to increasing efficiency. Finally, e-commerce companies benefit from reduces distribution costs and simplified transactions, which enable them to provide a larger selection of products, but also to sell them at a lower cost. All this contributes to increasing efficiency.

2- **Complementarities** occur “whenever having a bundle of goods together provides more value than the total value of having each of the goods separately”. In the strategy literature, Brandenburger and Nalebuff (1996) state “a player is your complementor if customers value your product more when they have the other player’s product than when they have your product alone”. So, complementarities

increase value simply by increasing revenue, because they encourage customers to buy, or increase customers' willingness to buy one product. These complementarities can be vertical or horizontal. A vertical complementary would be, for instance, an after-sale service. A horizontal verticality would be a travel agent giving information on weather forecasts or on a car renting company. When it comes to complementarities and e-business, the data collected during this study suggest that e-business should offer complementary goods that are not directly related to the core transaction. E-business could also take advantage of complementarities through supply chain integration or technologies integration.

3- Lock-in is, in other words, "customer retention". It is a way of preventing the migration of customers (or partners) to one's competitors. Assets like brand name, brand recognition, buyer's trust, contribute to lock-in. Lock-in can also be increased with "loyalty programs" that "reward" faithful customers with bonuses, discounts, etc. But one of the most efficient ways to retain customers is to create trust, by offering transaction safety and reliability guaranteed by a famous third party: when it comes to buying online, customers are more likely to stay loyal to an e-business if it feels safe. Finally, when a customer enters a website, it has to learn how to use it. Switching to another website would mean learning again. Recently, e-businesses have leveraged on this argument by customizing and personalizing the websites according to their customers.

4- Novelty means innovation. As mentioned in the first part of this literature review, Schumpeter (1934) developed a theory where he demonstrates how innovation of new products or services creates value. However, this study shows that when it comes to e-businesses, innovation is not only about new products, but it is mostly about new ways to do business. A good example of novelty implemented by an e-business is ebay.com: it was the first website to introduce customer-to-customer auctions on a large scale, thus enabled low-value item to become valuable when traded this way.

All those four factors are interdependent. In fact, efficiency gains made through enhanced information technology can enable the exploitation of complementarities in e-business; or, when an e-business shows efficiency features and offers complementary products, it can create lock-in.; or, conversely, when an e-business retains customers, it can have positive effects on its efficiency. For example, many

auctions websites enable buyers to rate sellers (complementarity): this one feature contributes to increasing trust (efficiency) and therefore increase loyalty (lock-in). Moreover, novelty and lock-in are also linked: e-business innovators (novelty) have an advantage in attracting and retaining customers (lock-in).

As a conclusion to the discussion, the authors suggest that no factor should be given more importance than any other: those four aspects are equally important for the success of an e-business. They also insist on the fact that all of these factors are interdependent: the presence of one factor can increase the effectiveness of the others.

Starting from there, the authors define a business model: “a business model depicts the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities”. This definition is aimed to explain and predicts the value creation in an e-business.

The following table, extracted from this article, summarizes the four factors for value creation and explains how there are linked to the business model described above.

Source of value Creation and the Business Model Construct

	Efficiency	Complementarities	Lock-in	Novelty
Business model structure	<ul style="list-style-type: none"> Exchange mechanism Transaction speed Bargaining cost Costs for marketing, sales, transaction processing, communication Access to large number of products, services, Inventory costs of participating firms Transaction simplicity Demand aggregation Supply aggregation Scalability of transaction volume 	<ul style="list-style-type: none"> Cross-selling Activities of participants, e.g., supply chain integration Combination of on-line and off-line transactions 	<ul style="list-style-type: none"> Transaction reliability Affiliate programs Direct network externalities Indirect network externalities Transaction safety mechanism Learning investments made by participants 	<ul style="list-style-type: none"> New participants Unprecedented number of participants and/or goods New links between participants Unprecedented richness (quality and depth) of linkage Business model structure relies on trade secrets and copyrights First to introduce business model
Business model content	<ul style="list-style-type: none"> Information made available as a basis for decision-making; reduces a symmetry of information about goods and participants Transparency of transactions, i.e., information that is provided about flows of goods 	<ul style="list-style-type: none"> Combination of online and off-line resources Access to complementary products (from firm, partner firms and customers) Vertical products/services Horizontal products/services Technologies of participants 	<ul style="list-style-type: none"> Promotion of trust through third parties Participants deploy specialized assets (software) Dominant design Customized and/or personalized offerings and features 	<ul style="list-style-type: none"> New combinations of products, services, information
Business model governance		<ul style="list-style-type: none"> Incentive to develop co-specialized resources Alliance capabilities of partners 	<ul style="list-style-type: none"> Loyalty programs Information flow security and control processes Customer control use of personal information Importance of community concept 	<ul style="list-style-type: none"> New incentives (e.g., customers can create content)

Source: ELIANT, B., LOTT, G., 2001, Value Creation in E-business, Strategic Management Journal, Vol. 22, pp. 497-520

3. COMPANY OVERVIEW

3.1 Company's Activity:

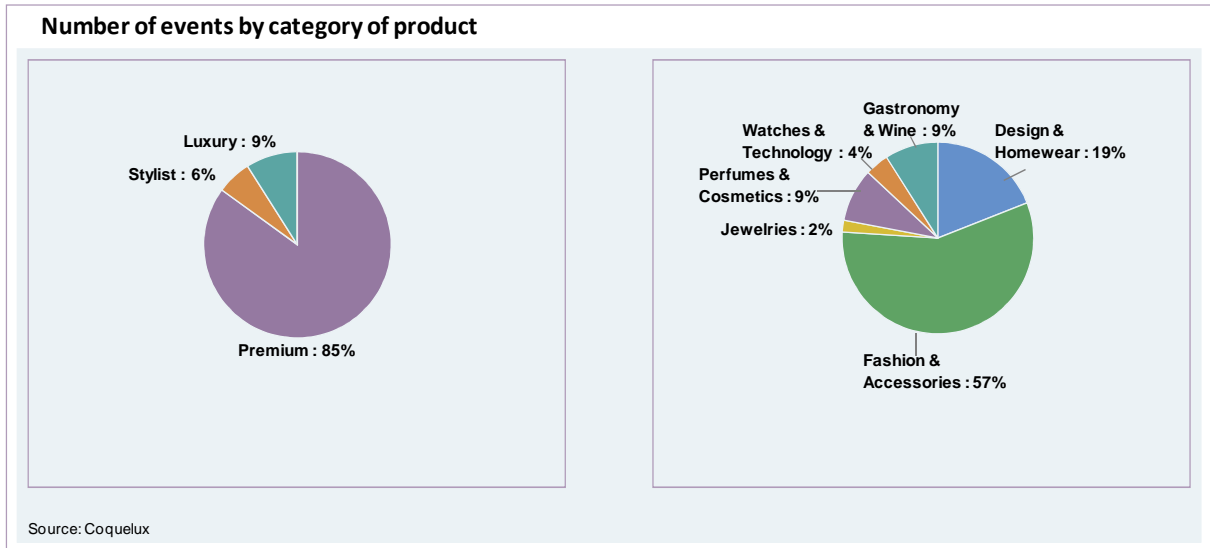
Coquelux is a members-only, online private sales club. It was the first of its kind to be created in Brazil. It sells luxury and “desire” brands at discounted prices (from -30% to -80%) in the fashion and lifestyle universes (cosmetics, perfumes, wines, technological devices and home decoration). Coquelux describes itself as an “opportunity club”, meaning that the advantage of buying at Coquelux is not just a matter of discount, but also a matter of choice and selection of products. Those “opportunities” are available through flash sales that last three to five days (that is why a sale is also called an “event”) and that are disclosed to members only. This community of members grows through a member-get-member action. It is encouraged by “marketing actions” offering to the inviter a coupon after the first purchase of the new member.

Coquelux is seen as a selective club. On a double-page article exclusively on the club released on May 2009, *Vogue Brazil* described Coquelux as a “luxury e-commerce portal” and a “private club of opportunities”.

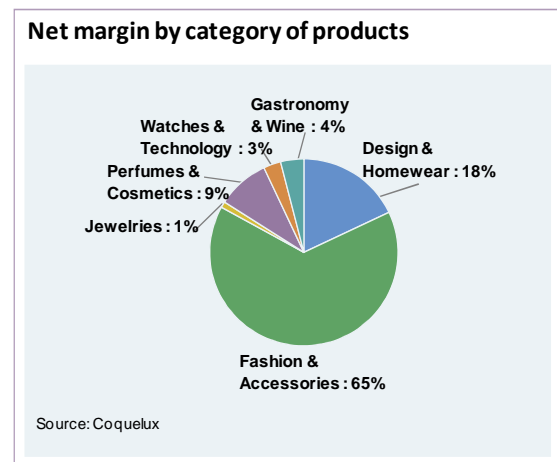
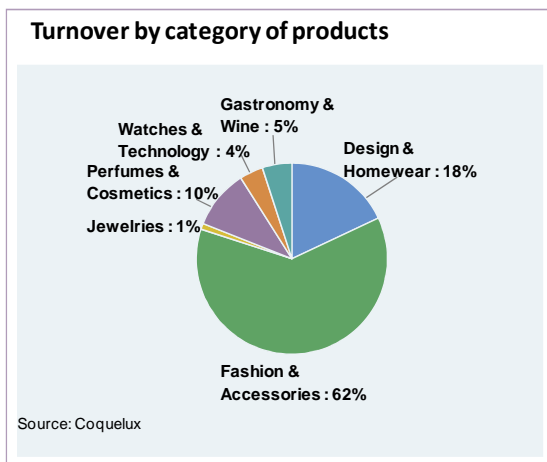
In order to better understand what is the Coquelux' offer, the following graphs can be helpful. There were made from the internal information that has been gathered through interviews with the managers.

With discounts varying from -30% to -80%, Coquelux offers products from:

- **Luxury brands:** Dom Perignon, Salvatore Ferragamo, Dior, Lanvin, D&G...
- **Premium brands:** Nike, Jogê, Osklen, Trussardi, Cia Maritima, Cavalera, Ash, Abercrombie & Fitch, Marc by Marc Jacobs...
- **Established stylist:** Herchcovitch, Gloria Coelho, Isabela Capeto.



Coquelux works on different universes in order to fulfill a maximum of members' needs and increase purchase frequency. The different universes that are sold at Coquelux are represented on the following graphs, with their proportions according to the total number of events and their contributions in terms of margins.



Generally a campaign is limited to one brand, but sales events can also be built around a concept. For example, one of the most successful concepts in Coquelux' history has been the sexy sales for Valentine's day with lingerie, sex toys, rosé champagne... This type of event is an opportunity to multiply purchases.

Coquelux opportunities are not only discount but also pre-launches, exclusive collections, unique products & limited edition. This strengthens the positioning of Coquelux, brings key user and helps Coquelux to gain visibility in the press.

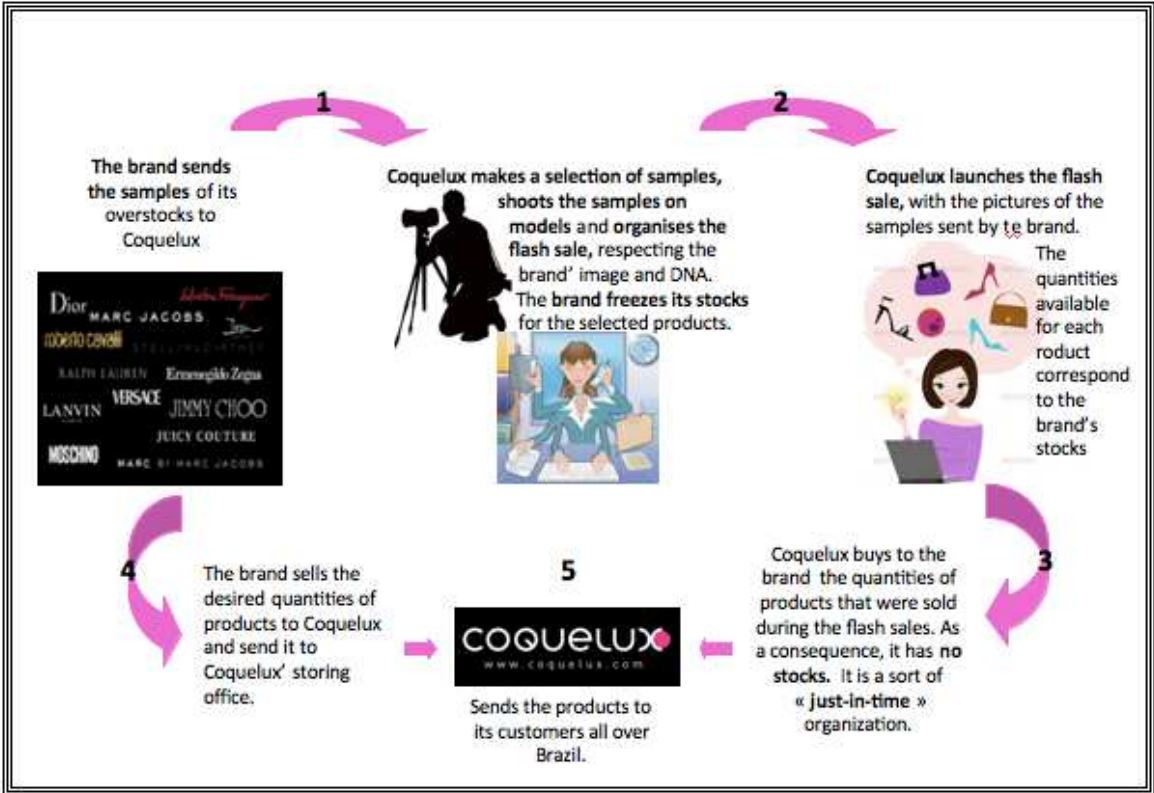
Coquelux engages in partnerships with brands, and proposes to sell their overstocks. The advantage for a brand of selling its overstocks through Coquelux' website rather than through a traditional outlet, or virtual outlet, is that Coquelux does not create channel conflict. The target audience of Coquelux is a restricted member base. In order to become a Coquelux' member, one has to be referred or invited to join the club by another member. Coquelux attracts "qualified" consumers (the term is used by the manager) that are attracted by discounts on luxury and desire brands. Coquelux restrictive policy regarding the membership increases their desire to join the club. Thus, Coquelux represents an alternative channel to sell exceeding inventory without damaging the brand's image and DNA. More than that, it gives the opportunity to broaden the brand's penetration without over-exposing the brand (since it only interacts with potential clients).

Since Coquelux' member base grew rapidly in its first months of existence (from 28,000 in 2008 to 117,000 at the end of 2009 and 400,000 at the end of 2010) and is expected to continue to grow strongly, Coquelux created a sub-club inside Coquelux, reserved for key members that are considered as qualified for special sales events of luxury brands. It is called "*Le Petit Comité*". *Le Petit Comité* is a private "space" exclusively made for luxury brands inside Coquelux. It is reserved for the best clients of Coquelux (in terms of frequency of purchases and amount spent), counts only 3,000 members and the average bill is R\$1,200. Members of *Le Petit Comité* are, above all, Coquelux members, meaning that they have access to all the sales events happening on the website; but they also have access to selective sales of luxury products that are not available to other members. Most importantly, *Le Petit Comité* gives access to high-luxury brands and sneak previews or pre-opening of some sales events (for premium and desire brands). For the luxury and high-luxury brands, *Le Petit Comité* is a good selling argument. As Coquelux' managers put it, it is the only of its kind in Brazil, and It is an innovative way to sell their overstocks without suffering from overexposure and without damaging their brand image. *Le Petit Comité* is a guarantee that the brands will be exposed only to potential customers, all over Brazil. It also enables the brand to get to know better its customers, since Coquelux gives back a detailed report on the buyers. Moreover, it is a guarantee that the Brands DNA will be 100% respected despite the discounts offered on the products, thanks to special marketing actions such as fashion week videos of the

brand, brand’s advertisement campaigns, etc. From a more cynical point of view, one could consider that *Le Petit Comité*, inspired from vente-privee.com “VP Lounge”, is mostly a marketing tool designed to make some events more desirable and make the “best” customers feel privileged. The golden color used specifically for *Le Petit Comité* is a good illustration of it.

Coquelux’ business model is inspired from a successful e-business European platform – www.vente-privee.com. The key aspect of its business is that Coquelux does not have stocks. In fact, Coquelux buys from its brands partners only the items that were sold to its members during the flash sale. As a consequence, the costs of a “campaign” (term is used to describe a flash sale) are very low for both parts. For Coquelux, the only cost is samples’ shooting for the campaign (photographers, models, and studio staff). For the brand, the only cost is the transportation of the samples to Coquelux’ office in Sao Paulo, and then the transportation of the stocks sold during the online campaign to the storing office. The whole process, from the first contact with the brand to discuss the flash sale, to the end of the sale and reception of the brands’ stock never takes more than three weeks. In order to better understand Coquelux’ business model, I designed the following graph.

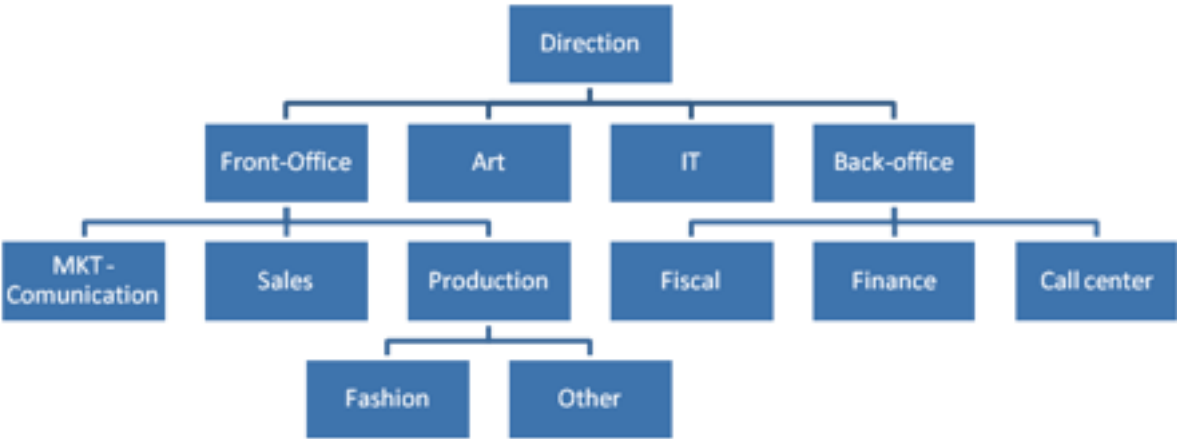
The organization of an online flash-sale at Coquelux:



The brands owners agree to Coquelux' business model and accept to sell to Coquelux only the quantities of stocks that were previously sold by Coquelux to its customers, because of the presumed "quality" of Coquelux member base. In fact, since selling through Coquelux represents another channel, rather restricted that does not damage the brand's image, and enables the brand to target new customers while selling its overstocks, the brand accepts Coquelux' just-in-time model, as a counterpart.

3.2. Company's Organization

Coquelux is organized in various departments. In the Sao Paulo's office are the sales department, the "sales production" department, the marketing department, the IT department, the "art" department (designers and photographers) and the managing director's office.



The sales department is composed of 6 sales representatives and a couple of free-lance consultants. The sales representative have to identify brands that could fit Coquelux profile and satisfy Coquelux' members, contact the brands' representatives and convince them to sell their overstocks through Coquelux. Once they agree, the main objective is to negotiate a discount that would be good enough to make margins and still maintain an "attractive" discount for Coquelux' customers. The objective for Coquelux' manager is to negotiate with the brands an average discount of -80% and

to keep a 30% margin, in order to sell items on Coquelux' website with an average - 50% discount.

Once the discount and the flash-sale are negotiated, the sales representative has to select the products that will be sold in the flash sales. In order to respect Coquelux' ambition to be an "opportunity club", the items on sale should be carefully picked according to the members' profile. The "quality" of the product (how fashionable it is, how new it is, how appealing it is) is as important as the discount offered for the success of the flash-sales. Once the sales representative has made its choices, the brand sends the samples to Coquelux for the photo shoot. The sales representative double-check that the samples sent are corresponding to its orders, and let the photographers do their job.

The art department intervenes mostly during the photo shoots. The stylist assists all the shootings, choose the models and make sure that the photos valorise the products. The web designer, on the other hand, works once the shooting is done: its job is to make sure that there is a unity between all the pictures in terms of format, colours, etc. The web designers processes all the photos and images and send them to the production department.

The production department has a central role: on one hand, it receives a list from the sales representatives that include the references of the products for the flash-sales, the discounts, and key information concerning the brand. On the other hand, it receives the photos taken during the photo shoot that were processed by the art department. Its job is to process all these information into one single document. The production department produces a document that contains all the information necessary for the launching of the flash-sales event. For each product, the production department synthesizes: the reference of the product necessary for internal organization (back office), the name of the product that will appear on Coquelux' website, the photos associated to this product, and the detailed description of the product that will be available to the customers. The details provided about the products for sale are very important for the sales' success: it has to be exhaustive, clear, and answer all the potential doubts of the consumers (size, material, colour, weight, etc). Once all of this is done, the production department send the data to the IT department.

The Marketing Department has two main tasks: announcing the sales events through all the mediums possible in order to maintain traffic on Coquelux' website, and increasing the number of members.

Its main activity, in fact, is to announce the sales events: twice per week, all of Coquelux' members receive an email with the new launches of sales events. The marketing department prepares these emails by choosing which brands should be prioritized (in the title, in the email) and what discounts should be emphasized. The sales are also announced through social medias such as Facebook and Twitter. The marketing department tries to make Coquelux' pages attractive not only by advertising the flash sales but also by giving advice on style and fashion. Also, it tries to create a relationship with its followers by organizing contests or little games to maintain the followers interested.

Its other task is to increase Coquelux' member base but still keep its "quality", meaning recruiting members that fit Coquelux members' profile. In order to do so, the marketing department implemented various strategies. The first one is characteristic of Coquelux' philosophy: it is the "member-gets-member" strategy. Current members of Coquelux are encouraged to invite their friends to join the club by getting coupons of R\$ 10 the first time that one of their "guest" buys a product on Coquelux. This way of recruiting members is efficient in terms of member base "quality" but appeared to be insufficient for Coquelux' growth, that is why the marketing department developed other ways to get members: the social networks are used for this purpose as well as more traditional techniques (advertisement, emails, etc).

Recently, the marketing department developed new channels of communication, by working, when possible, with the marketing departments of the brands that sell their overstocks on Coquelux. It did, for instance, a joint e-marketing action with

The IT department is, as expected in any e-business, the "heart" of the company. The goal of the Information Technology Department is to make sure that the most effective forms of electronic communication is used, for the internal as well as for the external communications. Also, in addition to understanding what forms of electronic communication forms are available, the IT department has to determine which services and vendors can provide the best equipment and service support for the company.

For the internal communication, Coquelux uses common network drives and some employees also have a server access to the Coquelux' website in order to check at any time how the sale is going. The IT department also oversees all the day to day operations of all electronic communication devices within the company, including configuring network access, setting up and making changes to existing workstations, and assigning access rights at various levels to key employees.

For the external communication, the IT department has one key task to accomplish: to make sure that Coquelux' marketing electronic mails are sent through a secure server. Without giving technical details that would not be useful for the purpose of this thesis, it is important to enhance the role of the marketing emails. When the marketing department has prepared its email announcing the future sales, the IT department has to send it to the whole member base of Coquelux, being dozens of thousands of persons. Sending such a large number of emails has to be done through proper servers in order to avoid being categorized as a "spam". In fact, it is key for the business' success that the members receive Coquelux' emails in their mailbox: it has been proven by Coquelux' IT department that the opening rate of emails is relatively high (meaning that when people receive a Coquelux' email, many of them open it), and that once open, the ratio of people clicking on the email to go to Coquelux' website (and potentially buy products) is also high. In other words, having an efficient technology to send over emails is a key success factor for the company, and it is entirely in the hands of the IT department

The IT department plays, as a consequence, a valuable role in making the overall company productive.

The back office on the other hand is in Cotia, an industrial town in the state of Sao Paulo, 30 minutes away from the city of Sao Paulo. The back office manages the legal, fiscal and financial department, meaning that all the bills issued by Coquelux or paid by Coquelux to the brands are taken care of by the office in Cotia. The fiscal part, on the other hand, is half managed by Coquelux' employees, half exteriorized to a fiscal consultancy firm.

Coquelux' call center and customer service is also based in Cotia. However, Coquelux' helpdesk is managed by the IT department in Sao Paulo and the two departments work closely with one another.

But Cotia is also a warehouse and a logistic platform: the brands' overstocks are sent to Cotia as well as the orders registered on Coquelux website. The employees there gather the information, sort the orders and mail them to Coquelux' clients. NO information available on the way the logistic is done.

The different departments at Coquelux are not independent from one another and often work hand in hand with one another. For instance, the sales and production departments, besides working in the same open space room, communicate constantly through an intranet where files and data are shared. The whole company uses, in Sao Paulo and Cotia, common networks drives where documents are shared in order to maintain a constant flow of information.

Moreover, meetings between sales representatives and marketers are organized every week in order to ensure a coherent marketing strategy by sharing the information. The sales representatives present the future sales and announce the discounts that they were able to negotiate with the brands, so the marketers can prepare detailed and efficient campaigns. Sales representatives and the art department (the stylist mainly) join their knowledge in order to communicate to the marketers what could be the key pieces of the coming flash-sales. In return, the marketers give feedbacks on the success of past marketing campaigns or flash sales, so the sales representative can adapt their next move.

The back office and sales representatives also communicate on a daily basis, the sales representatives often being the "link" between Coquelux' back office and the brands.

In other words, despite the large number of activities existing in this start-up, the information flow is very fluid and all the departments constantly communicate with one another, through the intranet but also by organizing weekly meetings, when necessary.

3.3. Company's Analysis

Coquelux developed an e-commerce activity by selling at discounted prices selected brands' overstocks through online flash-sales. It is, then, an e-commerce company. However, as seen in the literature review, one can distinguish e-commerce with e-business, the difference between the two terms being the degree of Internet integration of the company. According to the company's description above, one could consider Coquelux an e-business start-up. In fact, it responds to the criteria defined by Kalakota and Robinson (eai Journal, 2000): employees from various departments are constantly connected through intranet, the company uses e-commerce technologies, it developed a relationship with its members through the use of internet technologies (emails, social networks, internet advertising) and e-marketing partnerships with its business partners.

Coquelux is, then, an e-business start-up.

The literature review gives some insight to assess an e-business' operations. How does Coquelux' compare to the drivers of e-business operational excellence? According to BARUA, A., KONANA, P., WHINSTON, A.B. (2001), the drivers of operational excellence encompass three areas: the processes for customers and suppliers, the IT applications and the readiness of customers and suppliers for buying / selling online.

The checklist proposed in this article is used below to better understand how Coquelux is doing business and how it is responding to they key-success factors of e-business operational excellence.

A customer – friendly website

- **An easy-to-find single point of contact with a step-by-step process for complaints**

A frequently asked questions section is available on the website under the tab "ajuda" (help). In this section, a link "contact" redirects the user towards another page where he can either call the call-center number that he is given, or send an email to the helpdesk if the FAQ did not answer its doubts. Easy to use and very clear,

customers do indeed have one contact point for all services needed, either by phone or email.

According to the nature of the complaint/request (the customer has to mention in its email object if his complaint regards a payment, a product, if he wants to become a supplier, if its request is press related, etc), the message is redirected to a specific mailbox. If the message regards an actual complaint about a product/ payment / delivery, it is redirected to the customer service mailbox. Only the employees in charge of customer service have access to it and are obliged to answer and close the “tickets” within 24 hours. If the message regards a potential supplier, it is redirected to a “supplier” mailbox that is only accessible to the sales representatives, who also have to answer the request with semi-standardized emails within 24 hours. Semi-standardized answers exist for all the types of requests / complaints and enable the person responsible for answering the customers to react quickly and immediately stay in touch with the customers. So one could say that Coquelux does indeed resolve complaints in a few steps.

- **A well-documented and customized website**

For each sales-event, the production department prepares, for each product, a description with all the information available on the product that could interest customers, such as size, material, technical description, collection, etc. It facilitates the transactions as customers are reassured about what they are seeing and buying online.

Moreover, the website interface, above being well-documented on its content, can also be customized. In fact, Coquelux recently made some efforts for personalization. The name of the customer appears on the website banner when he/she logs in with a “welcome, miss xxx”. It is also possible to access to one’s previous orders and all previous activities on the website.

If the customers desires to, he/she can personalize its Coquelux account by entering its measurements with the help of a measurement guide. This special application enables to make sure that the size ordered corresponds to the customers’ need. In Brazil, sizes are not standardized and it is often difficult to order online when one does not know the brand already. With this web application, one can crate a virtual

“model” with its own measurements and make sure that the clothes fit the model when buying online.

At last, when ordering online, the customer can choose its address of delivery and, if he agrees to pay a supplement, can choose a day and time for delivery.

- **A good presence on social networks for customers’ interaction**

Coquelux has no blog or forum on its own website. However, it has a facebook page and a twitter account, where customers are encouraged to share their opinions and thoughts with one another. For instance, the facebook page has over 100,000 followers and is updated daily with new tips and ideas about fashion and lifestyle as well as advertisement for the flash-sales happening on Coquelux. Even if it is not possible to measure the number of customers and members that were attracted by Coquelux’ active presence on the main social networks, the marketing manager believes it is a good tool to keep the community of members entertained and to attract new potential users.

- **A secure interface for online payments**

Customers can order and pay for their orders online, through a secure and intuitive interface. Coquelux uses e-commerce technologies that enable customers to pay online with all major credit or debit cards, from Brazilian and International banks.

“GeoTrust” and “Site Blindado” are two partners of Coquelux that ensure the security of the website for credit card transactions. Moreover, Coquelux commits not to share any personal data collected on the website. There is a whole section of the FAQ dedicated to the security and privacy issues.

As soon as the order is made, an email of confirmation is sent to the customer. Once confirmed, customers cannot modify their order. However, there is a well defined return policy that enable them to return items and be reimbursed.

A good demand-management and market knowledge

- **Documented supplier-selection criteria**

Coquelux sales department and marketing department created a file with almost 3,000 brands listed. The brands are categorized by type of product (home / accessories / apparel / children / technology / gastronomy / wine / culture / cosmetics) and sub-categories. The brands are also categorized by quality/price of products (A for luxury brands, B for desire/premium brands, C for commercial brands, etc), it is the stylist of Coquelux who decides what price/quality category is the brand, after studying the products and the brands' website. For each brand, it is reported if it was sold on Coquelux or on any of Coquelux' competitors, and when. The file layout more or less looks like this:

How many times the Brand was sold (2011)

Coquelux' Grade	Brand's grade	Brand's name	Brand's category	Sub-category	Description	Coquelux	Competitor 1	Competitor 2	Competitor 3
A	A	Valentino	Luxury - Fashion	Women	www.valentino.com	4	0	0	0
C	B	Sorbet	Apparel	Women	Local brand	5	3	6	1
A	A	Apple	Technology	Computers	www.apple.com.br	3	0	0	0

Note: Numbers are for illustrative purpose only

When contacting a brand for a flash-sale, the sales representatives always check this list. The aim is to verify if the brand is used to this kind of process (selling overstocks online), if there was a previous sale on Coquelux or not and if the brand already worked with one or many of Coquelux' competitors. This last variable can influence the way the sales representative will deal with the brand. This list also enables the sales representative to quickly have an idea of the kind of brand it is dealing with, by looking at the brand's grade (A/ B / C / D) and description. In fact, it enables to better understand the type of products and customers that this brand will attract.

The first column, "Coquelux' grade", is used for the brands that were already sold on Coquelux: the grade goes from 1 to 5, 1 standing for "great result, want to work with the brand again", 2 for "good results", 3 for "not very satisfying results", 4 for "so bad that we don't want to work with this brand ever again" and 5 for "the brand was contacted but doesn't want to work with us".

By filling this document every time a brand is contacted or seen on a competitors' website (the competitors' websites are screened every two days), the sales representatives not only build a strong documentation on the possible suppliers, but also define clear criteria for selecting the brand-suppliers that they want to work with.

- **Carefully defined supplier-evaluation metrics**

The first column, Coquelux' grade, is given after a financial analysis of the sales' results. Depending on the category of products, period of the year and discounts negotiated, Coquelux' sales director decides if the results are good or bad. Before most of the sales, sales representatives make forecasts. If the final results of the flash-sale are too different from the forecasts, both are re-examined. The financial forecasts are based on empirical data from previous sales and mixed with current expectations of logged-in and traffic on the website.

The suppliers are also evaluated in terms of reliability: when a flash-sale went well because most of the stock was sold, if the brand did not deliver Coquelux' on time or sent the wrong items to Coquelux' warehouse, its "grade" might be 3 or 4.

The financial analysis that is conducted after the sales and the assessment made by the sales representative on the brand's reliability give a carefully defined basis for the evaluation of Coquelux' suppliers.

- **An organized product-demand management**

Coquelux' activity does not require a continuous relationship with its suppliers outside the organization of the sales-event. However, when the sales representatives contact the brand, product-demand information is often given as an argument to convince the brand: if the sales representative knows that the demand for a certain type of product is high, or increasing, or can compare the brands' products with another sale that went well, he will enhance it. When the brand offers a large selection of products (such as a sport brand), the sales representative will select the type of products that sell best in the available overstocks. For instance, when it comes to sports brands, shoes and accessories sell much better than clothing.

It is not always required by the suppliers, but when the suppliers show interest for it, Coquelux gives to the brand a master access to its website so the brand can see what is being sold in real time during the flash-sale.

The challenges of being an intermediary

- **No products' roadmap**

When the brands send the samples to Coquelux office in Sao Paulo (for the photo shoot) or the actual stock that was sold on the website to be shipped to the customers to the Coquelux warehouse in Cotia, there is no computerized or

standardized way for sharing the products roadmaps. However, during the flash sales, the brands can always know how many of their products are being sold on the website, because Coquelux provides them with a “master” access. It is a way, for the brands, to have an access to the flash-sale; and for Coquelux, it is a way to “implicate” the brands in the event.

- **No standardized formal procedures**

When a sales representative contacts a brand owner in order to plan a flash-sale, as soon as both parties agree on the date of the event, Coquelux provides to the brand a detailed planning with specific dates for the shipping of samples and shipping of stocks. It is an informal agreement that the brand is supposed to honor. It usually goes as planned, but mistakes happen, especially when dealing with huge companies such as sports brands. In that case, there is no specific scenario to be adopted. When the stocks arrive at Coquelux warehouse too late to be shipped on time, Coquelux offers a discount to the customers.

- **Lack of information sharing between customers and suppliers**

This is one of the main issues at Coquelux: when the customer complains about a product, it is often difficult to make the transition between the supplier (the brand) and the final consumer. Coquelux takes responsibility for its customers’ complaints, accepts refunds and returns, but there is no standardized procedure for complaints about products quality.

Coquelux’ value drivers

Another way to look at Coquelux’ business is through the spectrum of value-drivers analysis as it is defined by Amit and Zott (2001). Their theory is resumed in the literature review as well: novelty, lock-in, complementarity and efficiency are the four primary value drivers identified that enhance the value created by an e-business.

- **An innovative and efficient business model**

Coquelux efficiency lies mainly on its innovative business model that allows it not to have stocks, as described above, so that the transaction costs are low. It was the first of its kind in the country, according to Coquelux’ managers. The distribution costs, the shipping of the orders to customers, is paid by the customers. However,

distribution can cost money to Coquelux in case of return of products, especially when the products are big and require the use of a transporter (house items for instance). Efficiency is also described by Amit and Zott as the reduction of asymmetry of information: however, Coquelux does not have a very efficient way to anticipate the consumer demand.

- **Complementarities created through the use of social networks**

Coquelux offers complementarities in two ways: on the website, by organizing thematic sales instead of single-brand sales: the diversity of products available encourage the customers to buy. Moreover, through the use of social networks, Coquelux developed horizontal complementarities: every week, Coquelux' stylists posts on the social network an advice on current fashion trends, emphasizing the latest trends on what to wear and how to wear it. The posts are always linked, thematically, to the sales happening on Coquelux.

- **Coquelux' strategic positioning is lock-in**

In order to prevent customers from migrating to competitors, Coquelux' positioning is a lock-in: in fact, some brands only sell their overstocks to Coquelux. However, Coquelux have very few loyalty programs and there is no way to measure their efficiency. Amit and Zott argue than one of the best "lock in" is the security of the website: Coquelux guarantees safe transactions, but all of its competitors do too. Personalization, on the other hand, is a real asset for Coquelux: in fact, Amit and Zott say that personalization and customization of the website retain the customers because they do not want to start it all over again somewhere else.

4. INDUSTRY STRUCTURE AND COMPETITIVE ANALYSIS

4.1. Members-Only Sales-Event Clubs Worldwide

As mentioned in the introduction, Coquelux is inspired from a French –now European- player: www.vente-privee.com. Vente-privée was founded in 2001 in France and is a pioneer among the members-only shopping websites.

When Coquelux was created in 2008, vente-privée was announcing sales of € 583 M, representing a 46% increase over 2007, and confirming its leading position in the online flash-sales. In 2008, vente-privée organized 1,250 sales (+67% on 2007), covering 750 brands and was boasting more than 7 million registered members (+52% on 2007) of which 3,5 million were regular purchasers (Source: www.vente-privee.com). Since then, Vente-privee.com is the number one French website, in terms of number of hits, pages viewed and time spent on the site. Since September 2006, vente-privée expanded its business to Germany and Spain. New branches were opened in Italy and in the United Kingdom in April and September 2008.

Under the impulsion of vente-privée’s success, Europe has taken the lead with this business model, and several sites exist now and all claim more than 1 million members.

In order to have a clearer view of the European market of online sales-events when Coquelux was launched in Brazil, here is a summarizing table. The numbers of this table are from 2008.

Market Overview					
Company	Launched in	Markets	Member base	Turnover (in M€)	Turnover/ members
■ Vente privée	■ 2001	■ France / Germany ■ Spain / Italy ■ UK / USA	■ 7.0 M	■ 583	■ € 83.3
■ BuyVip	■ 2006	■ Spain ■ Italy ■ Germany	■ 3.5 M	■ 28	■ € 7.4
■ Privalia	■ 2006	■ Spain ■ Italy ■ Brazil	■ 1.3 M	■ 22	■ € 16.9
■ Brands4friends	■ 2007	■ Germany ■ Brazil	■ 1.2 M	■ 25	■ € 20.8

Note: numbers are approximative and for illustrative purpose only. Privalia was launched in Brazil in November 2008, and when launched in 2006 in its country of origin, Spain. Brands4friends entered the Brazilian market in January 2009 under the name of BrandsClub.

The market growth for sales-events websites in Europe was extremely fast: after one year of presence in Germany and with two competitors, Brands4friends managed to have more than 1 million of members. The same year, similar businesses were opened in the United-States.

However, in Latin America, members-only shopping websites were still at their early stages. In Mexico, the players were Hypxik, Editorscloset and Geeble. Geeble is also present in Argentina.

In Brazil, the phenomenon appeared in 2008. The strategy of most players in Latin America was to focus on key markets: even when groups such as Privalia tried to expand to Latin America, the strategy was not to create a “business expansion” from one country to another: in fact, there are very poor logistical arrangements on a continental scale and business expansion does not generate much synergy at all.

In other words, being an individual player such as Coquelux rather than being a branch of a larger group is not a threat since there are no economies of scale in the online sales-events market.

Looking back at the development of the online flash-sales market in Europe underlines two correlated key success factors: the first mover advantage and the importance of gaining market shares at an early stage. Above the fact that vente-privée “invented” the business model for online flash-sales and thus benefited from its innovative offer on the market, it also was able to reach high volumes of sales soon after the website was launched because, as the first mover in the market, it could recruit new members at a low cost. The cost of online marketing when vente-privée was launched in 2001 enabled to “spam” or advertise online for the fourth of the price in 2005 (Source: *L'e-marketing, nouvelle panacée*, Paris Dauphine University, 2006). As a consequence, when vente-privée competitors in Europe launched their business, they had to pay 4 times more in order to grow their member base, and never reached similar margins and sales volumes as vente-privée.

Without assuming that the situation of the online flash-sales in Latin America will follow the same path as what happened in Europe, this first-mover advantage associated with a large member base seems to be a determinant factor in a

company's success, and it will be taken into account when recommending market strategies alternatives for Coquelux in Brazil.

4.2 General Trends of E-Commerce in Brazil

After looking at what was the situation in Europe, where the online flash-sales clubs were created, in order to understand how the market evolved and how the players reacted, one has to adopt a more local view of the reality of e-commerce in Brazil. What are the tendencies of Brazilian online shopping? What categories of product are sold the most? What e-commerce companies were successful in the country and what can we learn from it?

Here is a quick overview of some successful companies that can be used as examples to illustrate the e-commerce trends in Brazil. Information and data are gathered from a study published by ebit (2010) and a report on e-commerce from the *Associação de Comércio de São Paulo* (2010).

Perfumes and Cosmetics:

Founded in 2000, Sack's is the leading online retailer of fragrances, cosmetics and toiletries in Brazil and one of the leading companies in the whole specialty beauty distribution sector. It holds a 75% market share of perfume and cosmetics online market.

Sack's carries over 270 brands, which it is able to sell to a client base that spans more than 830,000 customers. Sack's is one of the top-three most frequently accessed pure-play e-commerce sites in Brazil, with 4 million unique visitors each month. In 2010, French group LVMH acquired 70% of Sack's in order to launch Sephora in Brazil.

Sportswear:

Netshoes is Brazil's largest online retailer of sports shoes, jerseys and accessories with over 300,000 unique daily visitors. It has a similar history to Sack's: launched in 2000, when e-commerce barely existed in Brazil, it holds a 70% market share in the sportswear segment and registered a 43% growth turnover in 2009.

Fashion Apparel:

Launched in 2005, Khoris is a pioneer of multi-brand store on the internet, offering premium Brazilian brands.

In 2007, Sack's, the cosmetics leader, launched a new portal called "Glamour", hosting key international brands and famous Brazilian brands. The average ticket on Glamour is R\$ 1,700.

In 2008, e-closet was founded: it sells clothes from Brazilian stylists only.

In April 2009, www.oqvestir.com.br launched an online fashion magazine and an online retail store with a larger multi-brands offer.

Following the international trend, since 2006 many brands opened an online store on their websites.

If the perfumes, cosmetics and sportswear markets are consolidated markets and seem entirely controlled by the first comers with more than 70% of market shares (Sack's, one of the first e-commerce players who entered the Brazilian market in 2000, holds 75% of market shares of online cosmetic sales, see above), the fashion apparel market is completely different. It is still largely unexploited, with only 3% of the fashion sales done through the Internet in Brazil, and it is growing very fast. According to a study published by e-bit (2010), the market of fashion and accessories in Brazil grew by 108% in 2009 in terms of transactions and by 115% in terms of sales. It also appears that the Brazilian e-commerce market for fashion is following the steps of the American market: in the United-States, in 2000, fashion and accessories was the 9th category of products sold online. Ten years later, it is on the third position.

The main barrier to fashion e-commerce in Brazil is the lack of standardized sizes, but the Abravest (*Associação Brasileira do Vestuário*) is trying to defined national norms for sizes. Fashion and accessories is also the category that grew the most over the last semester (2nd semester of 2010, with a 20% increase in sales). For all these reasons, the fashion and accessories market is expected to grow considerably in the next few years.

Resuming the information available on the last report of webshopper (23rd edition, 2010) here is a table with the most sold categories of products in Brazil in 2010:

Category of Products	Position	% of total sales
Household Appliances	1	14
Books, Magazines, Journals	2	12
Health, Cosmetics, Pharmaceuticals	3	12
Computers	4	11
Electronic Devices	5	7
Fashion and Accessories	6	6

Source: e-bit Informação (www.ebitempresa.com.br)

Finally, according to a Comscore study, 54% of the online shoppers in Brazil agreed that locally developed shopping websites were very good or excellent. The fact that Brazilians prefer national e-commerce sites might be a competitive advantage for Coquelux.

To summarize, the most successful companies in Brazil were launched at an early stage of e-commerce development, in 2000, such as Sack's and Netshoes. They are leaders on their segment, cosmetics and sportswear, with respectively 75% and 70% market shares, proving again the importance of being the first mover in the e-commerce market.

The fashion apparel segment, which is Coquelux' main focus, is still partially untapped in Brazil with high potential of growth. As seen above, there are many small players, mainly multi-brands and often focusing on high fashion and style with an expensive average ticket (R\$ 1,700) but the market is far from being consolidated.

4.3. Competition Overview

Between June 2008 and December 2009, three members-only shopping websites were launched in Brazil, following the creation of Coquelux. There are still, today, Coquelux' main competitors.

The information gathered below come from data collected online and from Coquelux marketing department. There is no public information on these companies and very few press articles. Coquelux marketing department based its judgment on the

observation of its competitors (day-to-day report of current sales, press articles, customers' opinions expressed on forums and inside information).

Superexclusivo

Superexclusivo was actually launched two month before Coquelux, with very little funds and no logistical resource. It failed to develop a member base and its first campaigns offered very limited quantities of products as well as very little choice. The website finally re-opened with an improved platform in April 2009. It is now known for the efficiency of its logistic and for the quality of the sales it proposed. However, according to Coquelux' marketing department, less and less brands are willing to work with Superexclusivo. The opinion of Coquelux' marketing team is that Superexclusivo will focus on smaller designer brands and Brazilian stylists. Some issues with its IT department have been noticed by customers on various forums (invitations to join the club last up to five days to arrive) and the website's design has been criticized for not being very functional or attractive.

Privalia

Privalia launched its Brazilian website in November 2008, a couple of month after Coquelux. It developed its operation by quickly constituting a large member base. Privalia member base is not selective; anybody can create an account by going to its website. Privalia accounts today 3.5 M of registered members and works with 300 brands. It is the player with the largest number of popular/commercial brands. It mostly focuses on popular/commercial brands and sports brands, but also has some sales of household appliances and linen. It is the leader, in terms of sales and in terms of member base. However, it is known to have a lot of delivery problems and a inefficient logistic, on top of having the most expensive delivery fee.

BrandsClub

BrandsClub, part of Brands4Friends, was launched in January 2009. It immediately "attacked" the market with a very aggressive and massive communication strategy. It tried to give an "exclusive" image by emphasizing famous premium brands but is not selective for the recruitment of its member base: one just has to ask for an "invitation" on BrandsClub website in order to be "invited" to join the club within 24 hours. It

currently has 450,000 registered members. Contrary to Coquelux, it buys all the stocks that are sold on its website and frequently organises bazaar sales with very aggressive discounts that depreciate the brands' image, according to Coquelux' marketing department.

In 2011, BrandsClub Brazil launched a new type of sales: BrandsClub USA. It is the first of its kind in Brazil and developed an innovative business model. Brazilian customers can buy, in American dollars, products sold in the U.S from American brands at American discounted prices. For now, the only categories proposed for BrandsClub USA are eyewear and accessories. Considering the high taxes of importation in Brazil, it is very interesting for Brazilian customers to be able to buy American products directly from the US, avoiding the taxes. The only extra cost is the shipping cost. For now, Brands USA is too small to be considered as a player, but if BrandsClub expands it to fashion and other markets, it could become a real competitive advantage.

In order to have a synthetized view of the competition in the online flash-sales market, here is a table gathering the main information of this sub-chapter :

Company	Launched in	Sales	Member base	Positioning
■ Coquelux	■ June 2008	■ 10 M	■ 600 000	■ Desire brands ■ Luxury
■ Superexclusivo	■ April 2008	■ 2 M	■ 405 000	■ Young stylists ■ Niche opportunities
■ Privalia	■ November 2008	■ 120 M	■ 3.5 M	■ Sport ■ Popular brands
■ BrandsClub	■ January 2009	■ 45 M	■ 2.5 M	■ Premium brands

Note: numbers are approximative and for illustrative purpose only.

- **Web audience and social networks**

In terms of site audience, Privalia, again, dominates the market, according to the Alexa database (2010). Privalia is also the most searched player on google.

BrandsClub audience and interest are growing quite fast as a consequence of its aggressive communication strategy, and Coquelux gets some pique of high audience, reflecting some strategic campaigns or specific context (Vogue advertising for instance, Daslu campaign, etc) but shows a shy web presence on google search. Web audience is difficult to trace scientifically. It is possible to improve a website's audience by using traditional webmarketing strategies such as indexing pages and links pointing back to a website in major search engines like Google, Yahoo and Bing. Nevertheless, pure advertising cannot be sufficient in the current e-commerce market for an e-commerce company to be "visible" and talked about. Social networks play a crucial role in the "word-of-mouth" advertising on the internet (Kaplan, Haenlein, 2009) and contribute to building a brand or website's image by gathering a virtual community around it. One could also link this new web-marketing to the 5th "P" in Kotler's model (see literature review, Kotler, Marketing Management, 2002), referring to a type of communication that cannot be directly controlled by the firm: the fact that people (the 5th P stands for People) talk to each other about products. Kotler also insisted on the idea that this type of uncontrolled communication is more credible to the consumers than traditional messages. In that sense, if consumers trust each other's opinion and share it easily through new communication channels (social networks, blogs, forums etc), it is crucial for a company to be present on these virtual communication spaces and allow customers and followers to gather in an unconventional community.

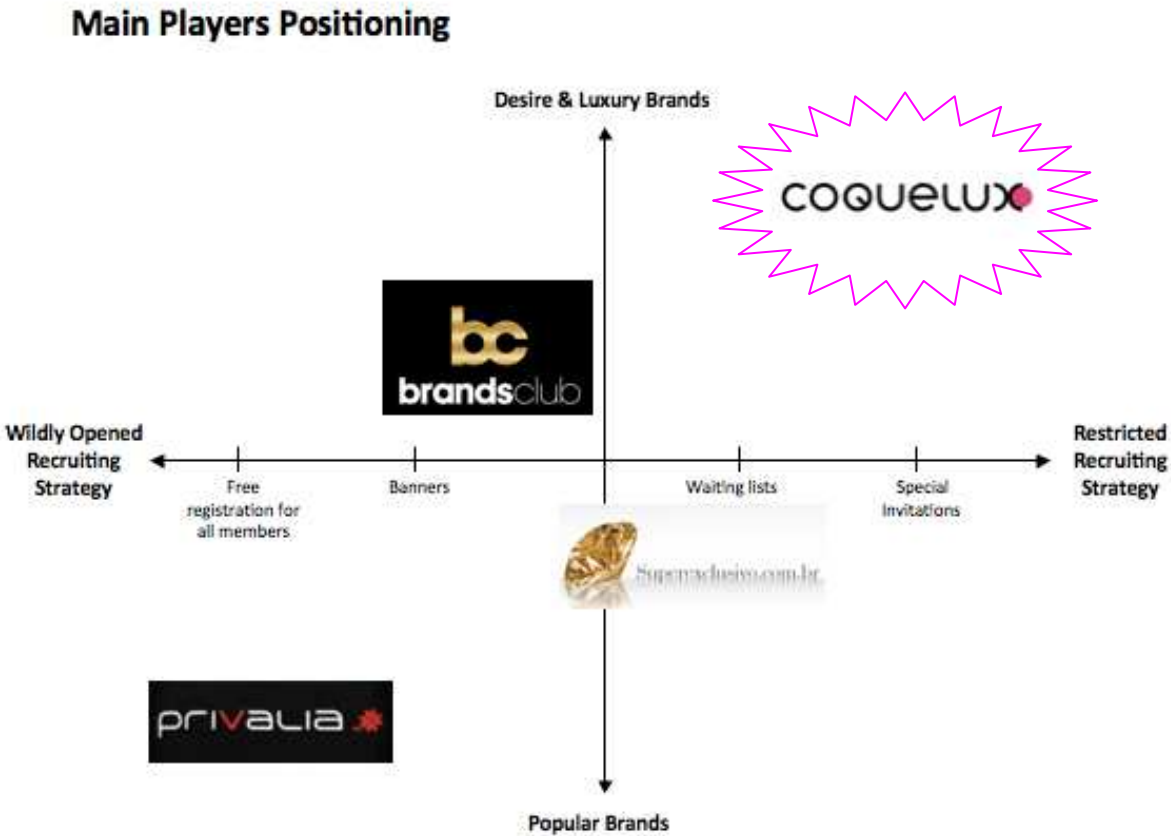
As a consequence of the growing importance of the social networks as advertisement tools, it is necessary to understand how the players in online flash-sales market are positioned on these networks. After going through all their pages in March 2012 (numbers may have slightly changed since), here is what was found:

	Coquelux	BrandsClub	Superexclusivo	Privalia
Twitter	■ 9 788	■ 123 175	■ 4 343	■ 28 596
Facebook	■ 92 807	■ 866 885	■ 70 223	■ 681 257
Blogs	■ No blog	■ Daily updates (fashion)	■ No	■ Fashion trends, culture

Note: numbers gathered in March 2012

This table in the presence of the players on social networks confirm the previous statement: Coquelux has a very shy presence on the web and very few interactions with social networks, while its competitors, especially brands and Privalia, have implemented aggressive strategies on these channels. It does not have a blog while its two main competitors do. BrandsClub is posting everyday about news from the worldwide fashion industry and details about its current and future campaigns.

When consolidating all the data and information available on each player, such as the brands that are sold on each website, the categories of the brands sold (luxury vs mainstream), the way the member base is recruited (how selective the site is), and the general communication strategy of each competitor, one can draw the following graph in order to present the players positioning in the sales-event clubs market :



This diagram is built after the information collected and presented earlier on the chapter and reflects Coquelux' marketing department views as well as the information that is publicly given by the different players on their website or social network pages.

It consolidates all the information given in this chapter and is a statement that tries to reflect the market perception with the data available at the moment of the research.

According to this diagram, Coquelux benefits from a unique positioning in the industry, and seems to be the best positioned to retain luxury and desire brands. In fact, Coquelux knows how to sell luxury and fashion products and understands the positioning of its suppliers. This is why brands such as Osklen, Glória Coelho, Salvatore Ferragamo and Dom Perignon chose Coquelux as their only online partner.

4.4. Conclusion on the Industry Structure

Coquelux is operating in a profitable industry with high margins, which is likely to become more exposed to competition. After going through an analysis of its business model and of its value drivers with the AMIT & ZOTT theory (2001) in the literature review, and after putting in perspective Coquelux with its competitors on the Brazilian market, it is now possible to summarize Coquelux' competitive strength and position in its own market.

In order to be as concise and explicit as possible, Porter's five competitive forces model (1980) will be used.

Threat of New Entrants

In fact, there is no real entry barrier for now: the market for members-only sales events is far from being saturated. Since the market is still quite new, the cost of recruiting members is not too high for new entrants. Moreover, growth is exponential in this market: on one hand, the acquisition of a large member base can be done with reasonable funds, on the other hand, the access to distribution is easy and costless. So, there is a threat for new entrants to increase the competition.

Supplier Power

There is a large number of suppliers: any existing brand can be a supplier for an online sales event website. However, suppliers are sensitive to volumes: if Coquelux is not able to guarantee enough sales volumes - for instance, if its member base is

too limited - suppliers might switch to its competitors. There is no switching cost for the suppliers who might switch to Coquelux' competitors. In this business model, the suppliers are key to the business' success: if such a company does not have enough suppliers (=brands willing to work with it), it cannot do business. As a consequence, even if suppliers might have a low power of negotiation because of their unlimited number, the fear of losing its suppliers is still a pressure / threat for the business.

Buyer Power

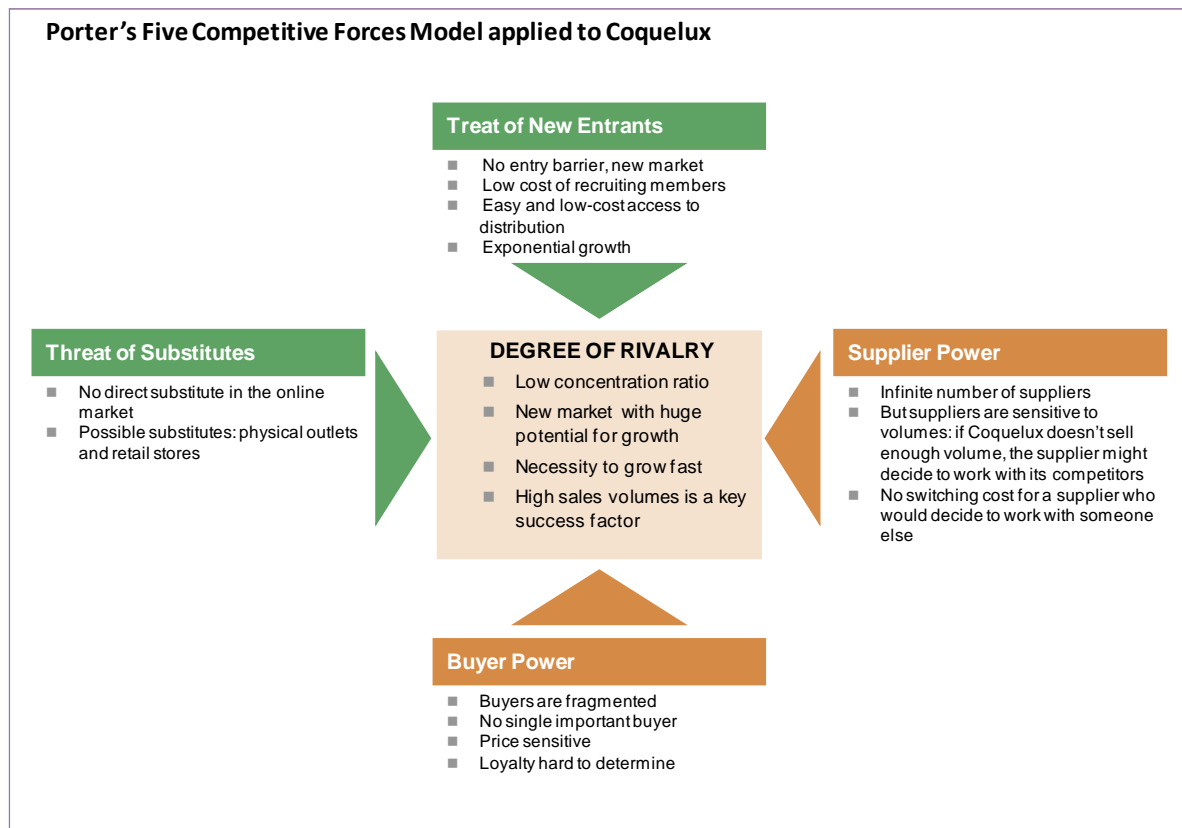
Buyers are very fragmented in this industry: there is no important buyer but a very large amount of individuals buying more or less regularly on these websites. However, buyers are very price sensitive: there are looking for discounts and opportunities and will go for the best offer in the market. The switching costs for buyers are non-existent and the buyers' loyalty is hard to determine in this industry, even if buyers are sensitive to the brands' image (security, quality, privacy). This overall situation partly contributes to increase rivalry in the industry.

Threat of Substitutes

The substitutes for online sales-event websites are all the other retailer, online or off-line, that might sell the same product categories. Normal outlets, for instance, are threatening by creating external competition.

Degree of Rivalry

The concentration ratio of the industry being low, it increases the competition for market shares. However, this competition is not yet strong, because the market is new and there is huge potential for growth. As it is often the case with internet businesses, the initial investment has to be important enough to launch the business and implement a marketing strategy that will enable the rapid conquest of market shares, vital for the survival of the start-up. This implies that, for some time, most of the start-ups do not reach break even: they must then "stay and fight" in order to become big and profitable. This also created high-exit barriers, which also contributes to increasing the rivalry in the industry. Until now, there was a relatively high level of differentiation according to the positioning of the players. However, it might change, if –for instance- Brandsclub manages to convince more premium and desire brands (Coquelux' suppliers) to work with it website.



Analyzing Coquelux' positioning through Porter's model enabled to identify the possible threats, present or future, that can challenge the company in its current environment. If the degree of rivalry is not yet threatening, there are many signals that announce it could increase quickly, which enhances again the urge for Coquelux to grow its business with a well-thought market strategy.

4.5. SWOT Analysis

The description of the company's activity and organization enabled to analyse it and compare it with the key success factors of the industry. The analysis of the competition and the overview industry structure enabled to better understand to what degree of rivalry Coquelux is exposed, and to what kind of competition. Summarizing all this information can now be done through a SWOT analysis.

As seen in the literature review, the SWOT analysis is a strategic planning method used to evaluate the Strengths, Weaknesses, Opportunities and Threats.

Coquelux' objective today is to grow its member base and gain considerable market shares before the competition gets too tough. However, it wants to keep its positioning, as seen above in order to continue to retain luxury and desire brands. The following SWOT analysis will resume the previously identified internal and external factors that are favourable and unfavourable to achieve that objective.

Strengths

- Coquelux benefits from the first comer advantage: it was the first player in an unexplored market, which is a selling argument for its suppliers and for its image.
- Coquelux' premium positioning is, as seen in the competitive analysis, a real strength, if not its main strength. Its perceived image as a "private shopper" and "Opportunity club", or, as advertised by *Vogue Brasil*, "exclusive private sales community", is a great asset of differentiation in this market.
- It is, moreover, enhanced by the recently created *Petit Comite*, a space on Coquelux' website dedicated to its best clients and offering exclusively luxury brands. This segmentation of Coquelux' member-base is also a positive aspect of its business model: Coquelux can ensure the luxury brands that they will target real potential clients without suffering from over-exposition, for instance. The segmentation of the member base enables the company to have a better sell out ratio because the offer is better adapted to the demand.
- Coquelux' developed a know-how of selling fashion and luxury brands: as seen above, Coquelux developed a capacity to convince and retain luxury brands thanks to its expertise in brand management.
- Coquelux created an evaluation system for its suppliers and has clear supplier-selection criteria: the sales
- Qualified member base: the fact that Coquelux is quite restrictive for the recruitment of its members it is an argument for luxury and desire brands. In fact, the quality of its customer base enables it to reach the higher sell out for luxury and premium brands. Other than that, it cultivates a more "selective" image, which is good for Coquelux' marketing.
- The excellence of its customer service: Coquelux is known for it. A survey made by the marketing department announced that 94% of the persons who have complained at Coquelux will still continue to buy on the website. It indicates that

the complains were well handled by the customer service. Also, the FAQ section of the website is complete and easy to read, and, according to (xxx), the fact that Coquelux' provides one contact point only is contributing a lot to customers 'trust.

- Coquelux' website offers personalization and customization: those are important key success factors for an e-business, it enables to retain customers. Moreover, the website offers all the guarantees for security and privacy when it comes to online transaction, another important key success factor for e-business.
- Coquelux is the only locally developed sales-event club in Brazil with Superexclusivo. Its two biggest competitors, BrandsClub and Privalia, are "imported" from European sites. Having said that, a comscore study proved that 54% of Brazilians e-shoppers prefer shopping on locally developed websites.

Weaknesses

- Coquelux' main weakness is the limited size of its member base.
- This is due to its lack of capital, and incapacity to invest in an aggressive marketing strategy, as one of its competitors (BrandsClub) is doing.
- Consequently, Coquelux suffers from a shy presence on the web: it did not exploit the opportunities offered by the social media and social networks and have very few followers on fans.
- All of this result in a low site audience compared to its competitors.
- From an organizational point of view, it has difficulty to integrate customers' feedbacks in the company's processes, despite a good flow of information. In fact, it has no standardized procedure to integrate new information (requests, complaints) in its organization.
- Also, some procedures still need to be standardized with its suppliers, especially for the following of the products roadmaps and the procurement scenarios.
- The demand is not always well anticipated: lack of market intelligence.
- It lacks a space where customers could interact with one another, such as a forum, a blog or a community.
- From an IT perspective, some aspects, such as the orders' updates for instance, could still be improved.

Opportunities

- Coquelux' main weakness, its limited member-base, can also be looked at as an opportunity to expand and build a larger member base: in fact, recruiting customers is still affordable in Brazil and Coquelux still has exciting growth perspective ahead.
- It also can build and develop a real market intelligence which will have a positive influence on its sell out ratios and overall success.
- Coquelux can increase the number of its suppliers and multiply the number of flas-sales per year: in fact, there is a demand from brands to work with Coquelux.
- As the member base will grow, the stocks available for each sale will increase, having a positive effect on the total sales volumes.
- Coquelux will pursue with the same business model that requires limited cash flow, since it has no stocks and since Coquelux negotiated payment terms so that its need for working capital is of 15 days only.
- From a marketing point of view, Coquelux has many opportunities to strengthen its image and reinforce its leadership in the luxury segment.

Threats

- As seen in the conclusion of the industry structure, the degree of rivalry is increasing.
- Competitors have stronger financial resources and their potential growth capacity is directly threatening Coquelux, even if their position in the market is very different.
- In fact, Coquelux' main competitors have a larger member base, thus they can offer larger sales volume to their suppliers (the brands).
- This advantage (the larger sales volume) is a real risk for Coquelux: In fact, some premium brands, that were initially only willing to work with Coquelux because of its qualified member base and good image, might switch to its competitors, attracted by the higher return that larger volumes imply.
- If Coquelux doesn't manage to grow, this phenomenon could become very serious and premium brands could migrate to BrandsClub, for instance.
- If BrandsClub, or another competitor, starts working with premium brands, it would threaten directly Coquelux' premium positioning. So, For Coquelux to keep

its positioning, it will have to expand its member base and guarantee a competitive sale out ratio and sales volumes to the premium brands

To summarize, Coquelux benefits from the first comer advantage, which is a great leverage in this market, as seen with the example of vente-privee's success and other examples of e-commerce companies in Brazil (Sack's, Netshoes).

The value proposition of Coquelux, based on its unique positioning that enables it to target luxury and premium brands, is interesting and has been until now its main asset as well as a major argument for convincing both its members and its suppliers.

Coquelux aims to create a broad and very active member base and provide it with a great range of events in the luxury, desire and premium brands segments.

Nevertheless, Coquelux has large competitors with greater market shares, greater financial resources and a know-how that could make them direct competitors in the future, even in the premium / desire brands segment. As a consequence, a slow growth of Coquelux' member base would affect Coquelux' results negatively.

Coquelux strategy for minimizing the risk is to invest in market intelligence. The main issue is, then, to understand what segments of the Brazilian e-consumers Coquelux should target for the implementation of its growth strategy.

5. MARKET SEGMENTATION

The market segmentation will be based on Kotler's definition of a market segment, as a "large identifiable group within a market, with similar wants, purchasing power and buying attitudes" (2002, see literature review).

The aim is to understand how can Brazilian e-consumers be categorized, as e-consumers and as consumers in general, in order to better understand the expectations of each segments and their buying habits, so that Coquelux can better target the appropriate segments for the growth of its member base and adapt its offer.

5.1. Overview of the Brazilian Market

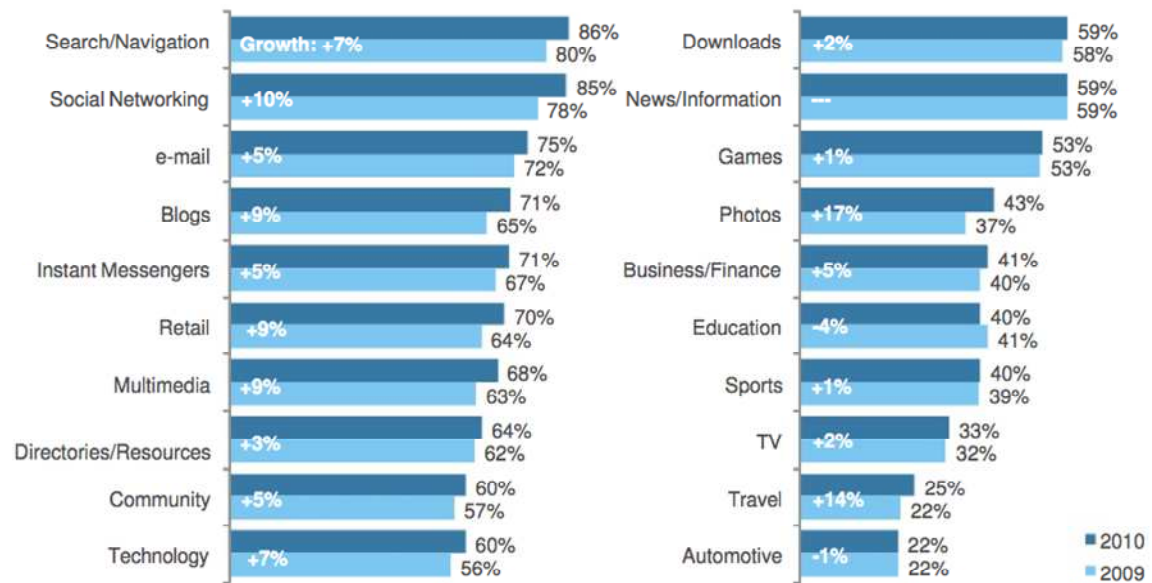
The Brazilian population's attitude towards the Internet is very positive (Tigre, 2001): « internet is everywhere in the media », two third of Internet users have already bought products or services online, and contrary to what happened in Europe at the beginning of the e-commerce, the Brazilian population did not go through a period of reluctance towards online shopping. This might have to do with the fact that 49% of the Brazilian population is 24 years old or younger than that.

In fact, according to Comscore, a global leader in measuring the digital world, 62,7% of the Brazilian online audience is between 15 and 35 years old, when only 53% on the world wide Internet audience is under 35 (Comscore, *The Brazilian Online Audience*, 2011). So, the Brazilian Internet user is young, thus probably more willing to experiment new technologies of e-commerce.

When looking at the Brazilian online audience by genre and by age, 51% of Internet users are men, 49% are female (Comscore, 2011). With no surprise, the most represented categories for males and females are under 35: only 16% of female and male Internet users are above 35 years old.

When trying to understand what does a Brazilian Internet user do on the Internet, Comscore survey ended with these results:

Key Categories : Reach of Brazilian Population, 2009 vs. 2010



Source: Comscore, *The Brazilian Online Audience*, 2011

The categories that grew the most from 2009 to 2010 are social networking, blogs and retail websites. In fact, 7 out of 10 Internet users visited a retail website in December 2010 in Brazil. Of course, this number might reflect the Christmas period's enthusiasm for shopping, but it is still the highest rate in the whole Latin and Central American region.

So, are Brazilian Internet users all online shoppers? It is a tricky question that should remind that one should always pay attention not to mistake Internet users with online shoppers.

As seen in the literature review, heavy Internet users are not necessarily Internet shoppers, especially in the developing world where a majority of Internet users are very young (Brashear, T.G, V. Kashyap, M.D Mustante and N. Donthu (2009), *A profile of the internet shoppers: evidence from six countries*). This article made a study in six countries, including Brazil, in order to determine a global profile of the online shopper.

In Brazil, if the average Internet user is a male (51%) under 35, the average online shopper has another profile. In fact, in Brazil, women represent 57% of the total online consumers, according to a survey realized by IBOPE Midia. 72% of the total

female online shoppers buy at least one item per month on the Internet. So, not only women shop more than men on the Internet, but they also are frequent shoppers.

Many studies have been summarized in press articles about the “profile of the Brazilian online shopper”. As seen in the introduction of this thesis, the average e-consumer in Brazil is from class A or B (61%), is more educated than the average population, buys products for its own personal use and spends on average R\$118 per month (Camera Brasileira do Comercio Electronico, 2011, *Brasileiro gasta R\$ 118 por mês com e-commerce*, 18 March 2011). 37% of the online shopping is made in the states of Sao Paulo and Rio de Janeiro and 75 to 80% of internet users use the internet to compare prices, so one can say the the Brazilian online shopper is price sensitive.

However, the objective here is not to draw a portrait of the online shopper in Brazil, but to understand how the market of online shoppers can be segmented and what each segment is seeking. The method used in this thesis will to divide the market by social economical classes.

5.2. Socio – Economic Classes & Online Shopping

In order to define social classes, the system used in this thesis is the Brazilian system developed by ABEP / ABIPEME. It is a precise numerical point-scoring system. For each individual, an inventory of products and services is taken (such as cars, computers, vacuum cleaner, etc.) and then points are awarded for each product or service. For instance, 10 points are awarded for a car, 15 points for 2 cars or more; while only 2 points are given to whom possesses a vacuum cleaner. Eventually, people are categorized based on the total amount of points they get.

The point system in Brazil is working as follows:

Products and Services

Product / Service	Has one	Has two	Has Three	Has four or +
Color TV	2	3	4	5
Radio	1	2	3	4
Bathroom	2	3	4	4
Automobile	2	4	5	5
Servant	2	4	4	4
Vacuum Cleaner	1	1	1	1
Washing Machine	1	1	1	1
VCR	2	2	2	2
Refrigerator	2	2	2	2
Freezer	1	1	1	1

Degree of Education of the Head of the Household

Educational Background	Points
Illiterate/Incomplete Primary	0
Completed Primary/Incomplete Junior High	1
Completed Junior High/Incomplete High	2
Completed High/Incomplete University	3
Completed University	5

Finally, once the points are added up, people are assigned to different socio-economic classes according to the number of points they get, as shown is the column no. 2 of the table below.

However, there are other ways that can be used to define social class. Another methodology is to base the social class on the gross monthly income of the household (Brazil Business Network, 2011). In order to have a global view of the economic classes in Brazil, both theories are linked in the following table:

Socio-Economic Classes in Brazil		
Socio-Economic Class	Total Points	Household Gross Monthly Income
A1	■ 30 -34	■ Above R\$ 10 200
A2	■ 25 -29	
B1	■ 21 -24	■ Above R\$ 5 100
B2	■ 17 -20	
C	■ 11 -16	■ Above R\$ 2 040
D	■ 6 -10	■ Above R\$ 1 020
E	■ 0 -5	■ Below R\$ 1 020

Source: ABEP / ABIPEME

The definition of social classes according to the gross monthly income is not as relevant as the “points-based” methodology of the ABEP, because of the important difference in cost of living depending on the area. However, it can be interesting to complete the points-based segmentation with the household gross monthly income since it is faster to apprehend.

Now, in order to complete this socio-economic segmentation and build a more detailed profiles of each segment, two types of qualitative information can be added to this table: the educational level and the occupation.

Socio-Economic Class	Total points	Household Gross Monthly Income	Educational Level	Occupation
A	25-34	Above R\$ 10,200	Completed Higher Education. Younger generations tend to be fluent in several languages.	Bankers, investors, business owners, landowners.
B	17-24	Above R\$ 5,100	Completed Higher Education. Younger generations tend to be fluent in several languages.	Directors, managers, politicians, judges, graduated professors, doctors, lawyers.
C	11-16	Above R\$ 2,040	Most have finished high-school , significant quantity of people also completed higher education or technical level degree.	Provide services to the wealthier: teachers, nurses, electricians, mechanics...
D	6-10	Above R\$ 1,020	Not finished high-school.	Provide services to class C: housemaids, bartenders, bricklayers, small stores sellers...
E	0-5	Below R\$ 1,020	Not finished elementary school. Illiterate.	People who earn minimum salaries : cleaners, street sweepers. Also unemployed people.

Social Classes are particularly important in Brazil, even if this concept can seem updated in the Western world. Because of the huge differences between rich and poor, social classes have been, since the 50's, often used by marketers and strategists. It seems to be a relevant tool for segmenting demography in Brazil.

Now that the socio-economic classes have been defined theoretically, the objective is to understand what can characterize a specific social class behavior when it comes to online shopping.

As mentioned in the introduction of this thesis, the annual review of e-bit, webshopper (23rd edition), described the e-consumers in Brazil based on data analysis.

The conclusion of the webshopper review was the following: the two main categories of online shoppers in Brazil are women and low-income people (class C). In fact, as expressed above, 49% of the online consumers are women. More than that, the

percentage of older women (above 50 years old) grew from 14% to 21% in five years. The women who buy online are generally more educated than men.

On the other hand, class C (man and women) represent 50% of the total sales of e-commerce in Brazil. They are young and less educated than the average e-consumer (only 30% of e-consumers from class C has graduated).

How to these characteristics translate in their online behaviour? What do these e-consumers seek?

According to a research that was conducted in April 2011 by nowresearch.com, each social class presents very different reasons for following a brand online. Here is a table made from the most relevant information revealed by this study:

The main reasons for following a brand on the Internet			
	Class A	Class B	Class C
I am looking for discounts	29%	39,4%	44,3%
I love the brand and want to follow it	52,3%	39,7%	36,9%
I want to hear the brand's news	34,8%	31,3%	27,5%
I am following this brand because my friends follow it	31%	22,2%	18,8%
A social network recommended I follow this brand	33,5%	21,2%	16,1%
I ended up following it because of an ad (TV, online...)	31%	25,9%	14,8%
The brand was mentioned in an article	23,9%	22,6%	12,8%
I have professional interest for this brand	15,5%	18,9%	10,7%
Its tweets or posts are interesting or funny	7,7%	3,4%	9,4%

Source: ABEP / ABIPEME and www.nowresearch.com

Many conclusions can be drawn from this table.

For the class C consumer, discounts are the main reason why they maintain contact with a brand online. Contrary to class C, classes A and B follow brands online because they love it and want to keep in touch in order to understand it better, not because they seek discounts.

With this table one can see that consumers with higher buying power follow brands online when they identify with the brand's values rather than because they are

looking for opportunities. In fact, by looking at class A, one can note that “looking for discounts” comes after many other reasons such as “hearing the brand’s news”, “following the brand because my friends follow it”, “because it is recommended by a social network” or even “because of an ad”.

This information is essential when thinking about strategies for targeting the different population categories online.

Another important information is about social networks: social networks became a major tool of communication today. How are they used and by whom?

Social Networks used by E-Consumers			
	Class A	Class B	Class C
Facebook	72%	68%	71%
MySpace	31,5%	17,8%	24,5%
Linkedin	40,5%	42,3%	21,5%
Twitter	36%	22,8%	14%
Meetup	13,5%	6%	3%
A Small World	5%	0,8%	0,5%
None of the above	19%	22,5%	22%

Source: ABEP / ABIPEME and www.nowresearch.com

Facebook absolutely dominates the use of social networks in all social classes, as one can see on the table above. However, the power of penetration of Linked-in is also calling attention, especially for class A and B; as well as the growing importance of Twitter. The frequentation of social network has to be taken into account for marketers and brand’s strategists when it comes to online communication.

How seen below, there are important differences between population from class A and B and population from class C, in terms of buying-power, education and occupation. But most importantly, the different social classes don’t seem to be seeking the same things as e-consumers and don’t have the same relationship with the brands online, as seen in the previous table. As a consequence, it is important to

take these differences into account when trying to implement a marketing strategy for targeting each of these classes.

When it comes to class A, one already knows that the marketing should not be based on a discount or special offer, but on the brand's values.

The Brazilian upper-class is very sensitive to service, offline but online as well. It is, as a consequence, willing to pay a premium price but expect in return that the service or the retail experience match the premium price they are paying: the shopping "experience" is key when marketing to the class A. However, this doesn't mean that the upper-class is not sensitive to advertisement (Brazil Business Network, 2011). On the contrary, Brazil is considered by many as one of the most advanced and demanding countries in terms of innovative advertising campaigns. Advertising should, then, be a multi-channel experience: the upper-class expects that brands connect with its customers in alternative social channels such as Facebook and Twitter (see social networks table). Class A is keen on international brands; however, they buy brands that have high brand awareness in their country: unknown international brands are less appealing than famous local brands. Finally, important information in relation with marketing to the upper class is that the Class A is aging. In fact, even if the average e-consumer is still quite young – 41 years old – the proportion of online shoppers from class A above 50 years old is growing, and this has to be taken into account by online marketers (Brazil Business Network, 2011).

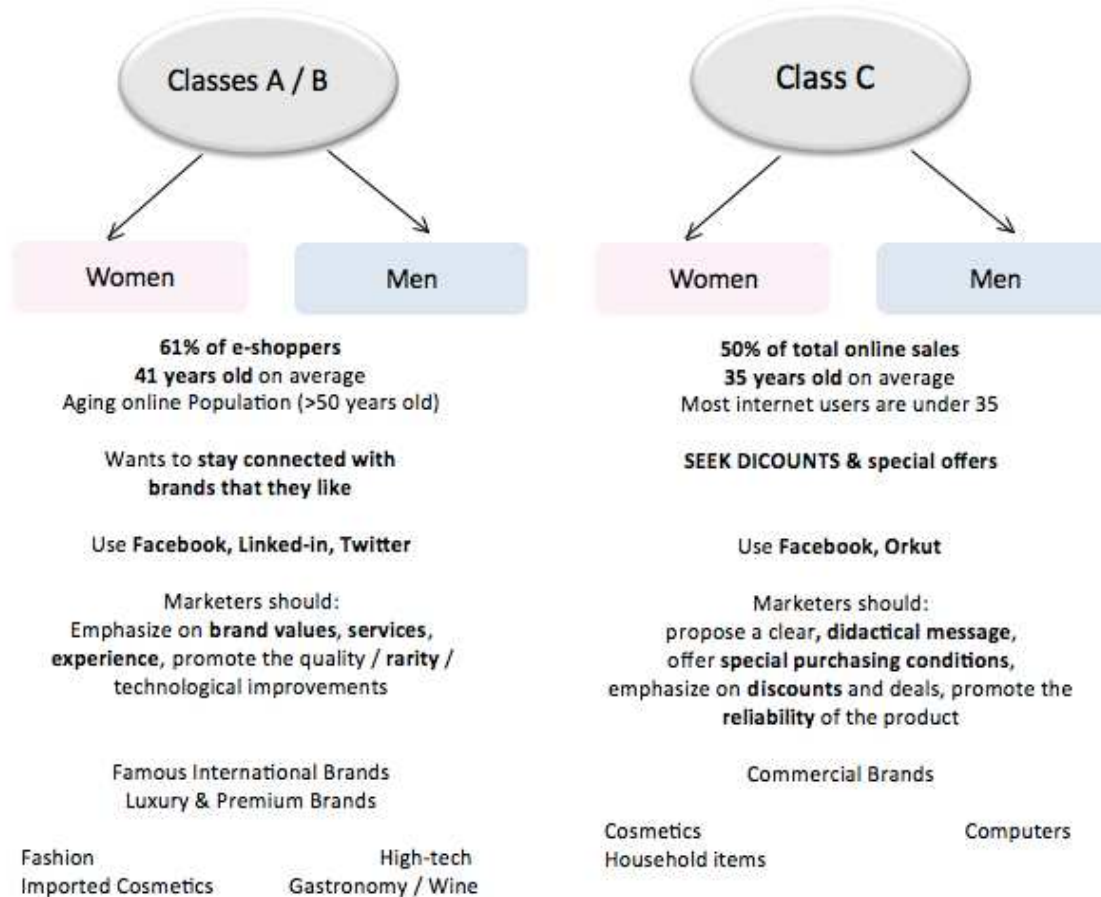
When it comes to class C or D, on the other hand, marketing strategies should be completely different. An interview realized with an analyst at Data Popular revealed that dealing with the popular masses is still a controversial subject. Data Popular recently made a study, interviewing many managers in 117 companies in Brazil (local or international companies) that deal with class C. 76% of the people interviewed agreed to say that developing an adapted strategy for targeting popular classes was very important. However, 91% of them say that they are not ready for this market, because of the lack of studies realized about Class C consumption habits, but mostly because of the prejudice that persists in big companies. Data Popular analyst explained that the most difficult to understand for marketers is that "class C does not only dream of consumption, it also has the means for consumption", contrary to what most people think. A study realized by Data Popular proved that Class C consumers

now have objectives that are quite close to higher-income population: class C is currently investing in education, real estate, and cosmetics / beauty industry. However, even if their interests are quite close to higher-income classes, Class C consumers don't spend their money the same way. In fact, they are much younger than classes A and B, and they need a different business approach. For example, most of the time, a class C consumer will buy a product not because of its total price but because the purchasing conditions are good. It is very important for class C consumers to be able to pay a product or service in various payments, with low interests, etc. That is why one of the key success factors in marketing to the lower-income population is the didactic of the marketing message that should explain as clearly as possible the benefits of a product. Class C may have much more money to spend now than five years ago, it still cannot afford to make a mistake: class C consumers will buy only when they are sure of the quality of the product and the quality of the deal. Finally, as explained by the Data Popular analyst, one major aspect of class C that should be reminded by marketers is the reasons why people buy a product: for instance, when buying a flat screen TV, class C consumers will very rarely evoke technological improvement as a reason for this purchase (contrary to class A) but mostly say that this purchase will contribute to the family life, unite and entertain the family. The solidarity is one of the most important values of "emerging consumers" and it should not be forgotten by marketers.

The following graph resumes all the information contained in this chapter. While showing the superiority, in terms of numbers of e-shoppers, of classes A and B, it particularly emphasizes the importance, in terms of total sales, of class C consumers. In other words, it shows that if classes A and B are still the most present on the e-commerce market in Brazil, the middle class is buying more goods on the internet, confirming Coquelux' managers anticipation of a growing demand from consumers with a lower buying power.

Another key information that is visible on this scheme is the different profiles of the consumers from classes A/B and class C (age for instance) explaining their different expectations (keeping a relationship with a brand for class A versus seeking discounts for class C) both in terms of goods (women from class A seek fashion products while women from class C seek household products) and communication strategies. In fact, marketers cannot target classes A and B the same way that they would target class C consumers. The middle class responds to didactical commercial

messages with clear information on discounts, purchasing conditions and product characteristics; while upper-class consumers seek a brand's values in a commercial rather than a concrete message about the product.

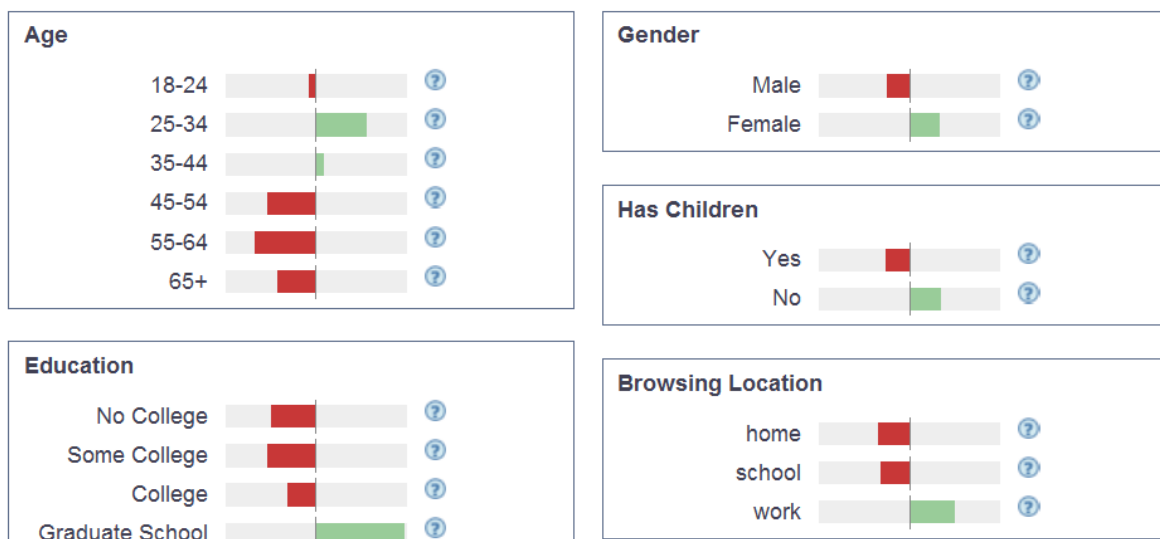


This graph, made from all the information available in this chapter, helps summarizing what a manager or marketer should know about the characteristics of the e-commerce market in Brazil. It rapidly describes its segmentation (men / women / class A / class C), and gives an insight on what each segment is looking for, answering some key questions, as seen in the literature review : what categories of products are they interested in? what are the reasons for buying online? What are the appropriate communication channels? To what kind of message do each segment respond?

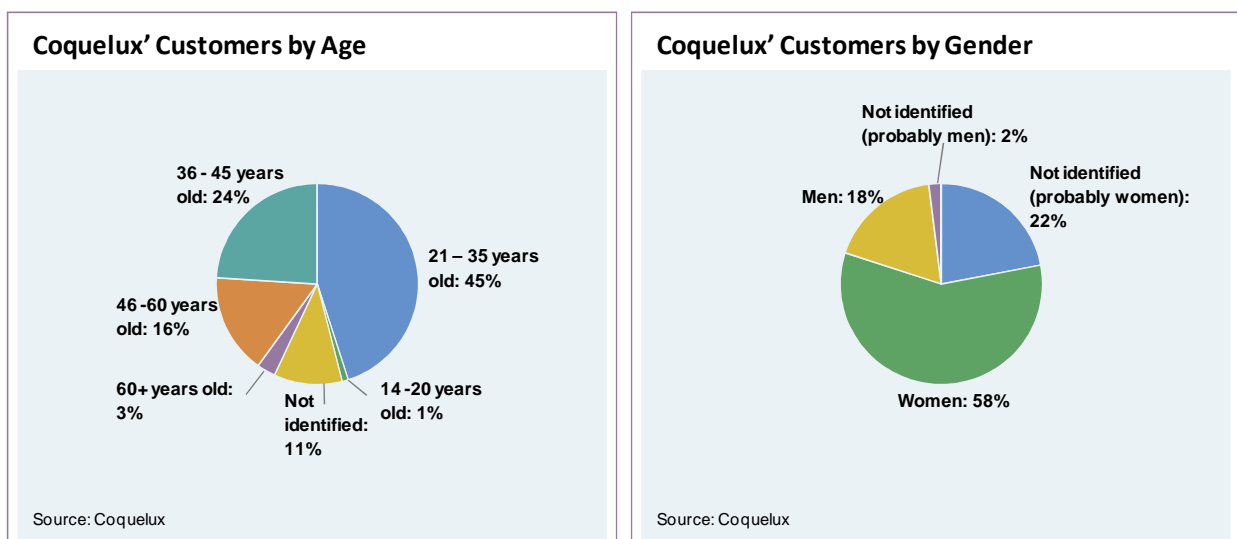
5.3. Coquelux' Member Base

The previous chapter presented the online consumers in Brazil, their habits and what they seek. This present chapter presents the current consumers at Coquelux. The data was collected by the marketing department at Coquelux.

From a general point of view, Coquelux consumers are men and women coming from classes A and B, between 18 and 45 years old with picks between 25 – 35 years old. In fact, Coquelux' member base looks like that and presents the characteristics of the social classes A and B as presented above.



However, most of Coquelux clients are young and most of them are women:

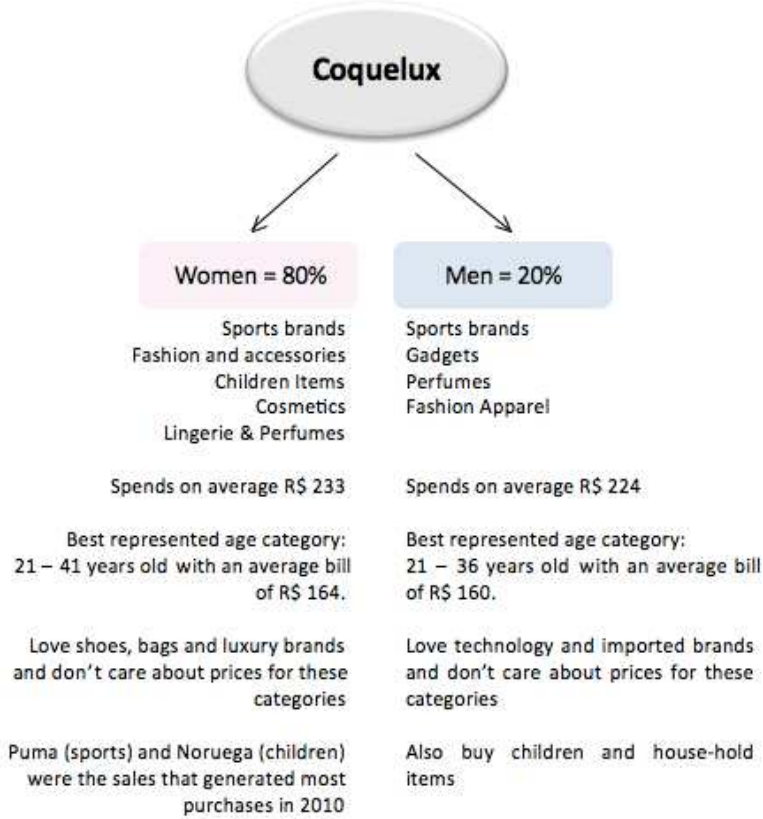


Coquelux members are on average 34.5 years old. By gathering all the information available on its customers, it was possible to determine four profiles of customers.

The main customer at Coquelux is a woman (cf. graph above) on her thirties. She is successful, she loves shopping and has limited time. Coquelux' targets her by trying to save her time and money. Comes along the wealthy woman who lives outside the main urban centres, and who is looking for brands that she can't find in the countryside. Coquelux targets her by giving her access to these brands.

The third category of customers is young men or women, young professionals or students, looking for brand status at affordable prices. Coquelux targets them by offering desire brands at affordable prices.

Finally, the fourth category of Coquelux' members is composed by men over 35 with high purchasing power, who are looking for suggestions and good prices. Coquelux targets this category by emphasizing on its practical side (a secure website that offers a well-thought selection of products from wellknown brands with good discounts).



Now, it is important to compare the current Coquelux' member base described above with the segments that are the most profitable for Coquelux.

According to the data available at the marketing department, luxury brands are not only Coquelux' specificity, it is also the most profitable segment in Coquelux' business. In fact, luxury may not generate as many purchases as commercial brands but the margins are higher; thus luxury sales are the most profitable.

On the other hand, the brands and segments that generate the most purchases (in number of items sold) are the sportswear brands, gifts, cosmetics, lingerie and fashion apparel from commercial brands.

The huge multi-brands outlets (called "*Bota Fora*") provide interesting information regarding customers' behaviour. There are two types of successful *bota fora* at Coquelux. First, the ones with very famous brands (international luxury or premium brands, and Brazilian luxury brands) that attract class A and B+ customers. Discounts are higher than a normal sales-event but the products are still expensive (over R\$ 500). Secondly, the *bota fora* of commercial brands with very high discounts (over 70%) massively attract customers, especially when the products are carefully selected (more fashionable, better quality, later collection). For example, Coquelux' record sale for a *bota fora* occurred with a Brazilian commercial brand that attracted consumers from classes B and C+: Cecilia Neves.

By comparing and analyzing the two chapters above, on the segmentation of the Brazilian e-commerce, the trends and consumers behaviour in online shopping, and the current consumer base of Coquelux, one should now be able to define market alternatives for the company.

What segments could Coquelux target in a context where it has to grow its member base? Should it focus on its existing segments (Class A and B) and target more specific sub-segments determined by age or consumption habits? Or should Coquelux tap into class C? What are its alternatives and what strategy should be implemented so it does not lose its positioning?

6. MARKET STRATEGIES ALTERNATIVES

In a context of strengthened competition between the three main players of the market (Coquelux, Privalia and BrandsClub), Coquelux' growth is key to its survival. However, it cannot grow without an appropriate strategy. As seen in the chapter on the industry structure, in Coquelux' case, growth comes with a lot of challenges. In fact, Coquelux' main competitive advantage, until now, has been its positioning on the luxury segment and its exclusive member base composed by classes A and B consumers, when all the other players focus on the mass market. Until now, Coquelux differentiation strategy enabled it to have partnerships with luxury and desire brands and to tackle wealthier consumers.

Now, growing means expanding Coquelux' consumer base. The analysis of the Brazilian market for e-commerce showed that if classes A and B customers used to represent the most important segment of online shoppers, things are changing and the emerging class C is now representing 50% of the total sales in e-commerce. Coquelux' offer targets exclusively consumers from classes A and B. Since it is planning on expanding its consumer base, it has to wonder whether or not it should now expand its offers to class C.

Class C does not seek the same products or services than class A/B: in fact, class C is mostly attracted by heavy discounts and commercial brands in the household, computers and cosmetic industries, as explained in the market segmentation above. Class C is not sensitive to the brands' values, but to good deals.

Even though these elements are not contradictory with Coquelux' business model (because Coquelux also sells household and decoration items, apparel from commercial brands and cosmetics), targeting the mass market has never been its goal and it would imply a frontal competition with Privalia and Brandsclub that weigh up to 10 times Coquelux' member base.

In other words, if Coquelux has to open its business model to consumers with lower purchasing power, it will have to be imaginative and invent a way to be attractive for all market segments, from younger class C to traditional class A consumers.

In order to understand and to propose market strategies alternatives for the growth of Coquelux' member base, it is first necessary to have an overview of all the

positioning strategies that it could adopt. Then, once the different positioning strategies are presented, the possible marketing strategies that correspond will be developed in order to finally propose what seems to be the best alternative for Coquelux.

6.1. Positioning Strategies

In the first part of this thesis, Coquelux' business model was analyzed from an internal and an external point of view. The external analysis showed that Coquelux benefits from a unique positioning in the Brazilian sales-events club market: in fact, Coquelux is the only sales-event club to be exclusive in the recruitment of its member-base and to sale real luxury brands.

Then, when going through the market analysis in the second part of the thesis, Coquelux' positioning was put into perspective with the actual segmentation of the Brazilian e-commerce market. This raised the main question of the thesis: how can Coquelux, that is positioned on the exclusive segment, appeal to a market where the fastest growing segment is the middle-class consumers, looking mostly for cheap products or heavy discounts? The aim of this chapter is now to propose solutions to this paradox.

First, it is important to recall Doyle's definition of a positioning strategy (1983, see literature review), where he suggests that a positioning strategy is specific to one product and should not be taken as the overall corporate strategy. As a consequence, Coquelux could adopt more than just one positioning strategy for different categories of products or different market segments. In fact, Doyle's view is that a positioning strategy revolves around three main ingredients: customer targets, competitor targets and competitive advantage.

Now, using the company analysis and the industry structure analysis that were done above, it is possible to identify Coquelux' strengths and weaknesses in its market and thus understand in which segments Coquelux could fulfill the consumers' needs better than its competitors.

Three different options were identified for Coquelux' positioning

- **Option 1: re-enforcing its leadership on the luxury segment**

“A nice market is a more narrowly defined group, typically a small market whose needs are not being well served” (Kotler, 2002).

Coquelux targeted a niche market by entering the luxury / desire brands segment and by serving class A consumers in Brazil. The advantage of being in a niche market is that it is not likely to attract new competitors, since success is achieved through specialization rather than volume (Kotler, 2002). So, since it is already positioned in a niche market with high entry barriers, one strategy for Coquelux could be to stay and re-enforce its position as the only luxury sales events website in Brazil.

By doing so, Coquelux would become a giant “*Petit Comité*”, multiplying the partnerships with international and local luxury brands and by offering extra services to its customers. It would secure its position in a niche market and decide to grow its consumer base exclusively on classes A and B+.

Financially, it would base its profitability on the high margins of luxury sales rather than on volumes, going against the trend of its competitors and of other successful companies’ on the Brazilian e-commerce market, which have all targeted the growing middle class (Sack’s for instance).

- **Option 2: re-enforcing its focus on premium brands in order to expand class B consumer base and eventually attract class C + customers**

Another strategy could be to stay with classes A and B while differentiating its member base through the “*petit comité*”, by implementing a dual positioning. On one hand, Coquelux would continue to focus on its niche luxury market through the *Petit Comité*, while on the other hand, it would use its energy to increase class B member-base in terms of number of customers and sales volumes, thanks to a multiplication of partnerships with premium brands. Local Brazilian brands that are fashionable and affordable, sold with high discounts, would be very appealing to class B but also attract young customers from class C+ who have limited funds but are willing to gain brands status who are attracted by the consumption habits of the wealthier, as shown with the *bota fora* of Cecilia Neves.

This strategy specifically designed for class B and C+ would be a direct attack to its

competitors who are trying to “steal” premium and desire brands from Coquelux by offering higher sales volumes. If it manages to grow its member base considerably on that segment, it would enable Coquelux to secure its positioning as a premium / desire brands club and still open a door to the emerging class C+. At the same time, by keeping the Petit Comité and by focusing on premium brands, it would not affect its brand image.

- **Option 3: opening Coquelux’ member base and repositioning by expanding to Class C**

This last strategy is based on the assumption that Coquelux will get sufficient funds to implement an extremely aggressive growth strategy for its member base. The aim of this strategy is to enter in frontal competition with Privalia and Brandsclub and reposition Coquelux on a more popular/commercial segment by offering less premium brands and more commercial brands with discounts adapted to class C.

It could follow the development of vente privée, by keeping a small petit comité that would be reserved not to the wealthier but to the most frequent buyers, and offer desire (and sometimes luxury) brands, from times to time.

The argument would not be its “exclusivity” anymore but it would be based on the frequency of the sales, quantities available and practical aspects of the website (good design, innovative marketing, etc).

These three options were articulated according to customer and competitor targets as well as competitive analysis. It represents the three main directions in which Coquelux can grow: stay exclusively on the luxury segment and decide to never base its success on sales volumes (option 1), decide to grow in the premium segment corresponding to class B and eventually class C+ so that it can reach higher sales volumes without damaging its “exclusive positioning” (option 2) and finally, decide to rethink its whole business model and reposition on the same mass segment as its competitor, forgetting about luxury (option 3).

Now, in order to be implemented, these strategies need to be translated into

marketing actions (Doyle, 1983). In fact, one of the main issue identified in Coquelux' analysis was its lack of visibility. So, whatever strategy its managers chose, they will have to be pro-active and find ways to communicate about it and be more visible in their desired segments.

The following part propose marketing strategies that could be adopted by Coquelux. There are based on observation of Coquelux' marketing department actions, on observation of what is currently done in the fashion e-commerce market in Europe, and on the theoretical knowledge chosen for the literature review.

6.2. Marketing Strategies

As stated by Hill & Westbrook (1997), a good marketing strategy does not necessarily mean going for all the opportunities, but putting into perspective the strengths and the opportunities presented, and deciding whether or not the company should focus on the existing opportunities or develop new strengths. As a consequence, each proposition is designed to respond to one specific need for Coquelux' market strategy, as

- **Reinforce its leadership with classes A and B by emphasizing it's fashion credibility**

For class A and B customers, Coquelux' main weakness is that it is not enough fashionable. Selling luxury fashion brands does not make it *fashionable*: in fact, customers know that they are getting discounts because the items sold on Coquelux come from passed collection. In apparel, fashion is a determinant factor in the buying decision: customers who are willing to buy a luxury apparel, even at a discounted price, are expecting it to be fashionable. Coquelux needs to implement marketing actions to "reassure" its customers and emphasize its trendy image. Coquelux is currently not attractive enough for "fashion addicts" who often come from classes A and B and who are always looking for the latest trends.

If Coquelux' managed to be automatically associated with fashion, it will definitely emphasize its leadership on the classes A and B segments against its competitors. It

does not need to change its product selection in order to do that; just to implement an adequate communication strategy.

Partnerships with fashion bloggers

The fashion blog phenomenon has become, in the fashion industry, a very powerful media. This year, the Council of Fashion Designers of America (CFDA) attributed the Eugenia Sheppard Price in the media category to two fashion bloggers, confirming the fact that some bloggers have gained more influence than traditional fashion magazines. Internet users follow blogs to get some “real-life” advice and opinion on products and trends. Fashion blogging has become a business, and bloggers use their daily number of followers as a commercial argument in order to rent an advertising space on their websites (Tone Hauge, 2010).

Moreover, Parsons (2002) identified the so-called “social influence” as the second most important factor for online shopping: the recommendation of a famous blogger can be an “important motivator that influence buying intentions”.

Coquelux could develop a partnership with famous fashion bloggers in Brazil, such as Julia Petit (fashion, lifestyle, culture) or Lala Rudge, who are opinion leaders in the Brazilian fashion world. A simple partnership could be a post on their blog introducing Coquelux’ and encouraging the readers to log in.

A more meaningful partnership would be to have the blogger select some pieces from a brand (or more) and to sell on Coquelux’ a “special selection by Blogger xx”. This type of event would attract new members and also create a buzz that could go beyond the internet media. It would make Coquelux’ sales more attractive for its members as it would gain exclusivity and fashion credibility.

Negotiating one “traffic builder” item with luxury and desire brands

In order to build traffic on the sales events, Coquelux could negotiate with its partners to have a small quantity of a traffic builder pieces, from the latest collection for instance. All luxury brands have one key piece in every collection that everybody knows about and that is called a traffic builder. If Coquelux could negotiate a (very) small amount of this type of traffic builder pieces for luxury sales events or fashion

desire brands, even with a smaller discount, it could also create a buzz and generate traffic on the site.

Develop its “personal shopper” dimension

Coquelux’ manager have presented Coquelux as a “personal shopper” rather than a virtual outlet. However, Coquelux does not really offer a personal shopper tool. A good enhancement and real differentiator compared to its main competitors in the desire/luxury segment, would be to develop Coquelux’ “stylist” ambition, because it would create a real “shopping experience”. As seen in the literature review, one of the success factors for e-commerce, especially in the luxury segment, is to be able to recreate a virtual shopping experience. The authors of *The E-Consumer Behaviour* (2009) argued that the “e-interactivity” is crucial for the success of an e-commerce website as users’ initial response to an e-shopping experience is often strictly emotional.

As most fashion e-shops propose (for instance www.asos.com that also delivers to Brazil, or www.topshop.com), Coquelux could have an option that links different pieces of clothes and accessories together when they “match”. For instance, when clicking on a blue jumper, a collar or a pair of blue shoes or a matching pair of jeans pops up as a “fashion suggestion”. It not only encourages customers to buy more, but also enhance the website “fashionable” image. Since the technology already exists and is used by most fashion e-shops, the I.T investment should be reasonable.

Strengthen the personalization tools

Inspired by the Google BETA version of Boutique.com, Coquelux could increase the personalization tools of its website, by building a database of each users’ preferences in terms of brands, size, shape, colors... Increasing the degree of personalization acts as a lock-in for the users, as seen in the literature review, and would also enable Coquelux to enhance its demand knowledge and demand management.

Organize special events, such as styling contests with partner-brands

Creating special events where customers can win something, such as a styling contest, develop the customer relationship and entertains the community of

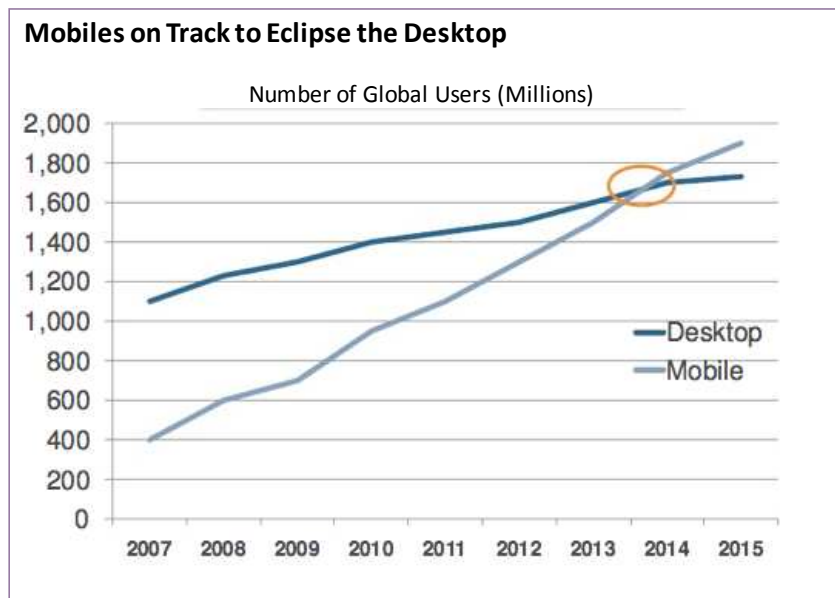
members. It is a strategy that many bloggers have used in order to increase traffic on their website. For instance, when having a sales event with a famous local retailer, Coquelux could organize a contest where members would be asked to select available items on sale in order to create the most fashionable look and win a determined product.

- **Innovate in order to increase differentiation**

Take advantage of the mobile and smartphone boom

In order to compete with its competitors who already have a 10 times bigger member base, Coquelux has to be innovative. As seen in the literature review, value often comes from innovation (Schumpeter, 1934). Technology can lead to economic development, especially in evolving markets such as the e-business.

A recent study published by Comscore (2011) shows that the number of smartphone users is globally increasing so fast that it will soon overpass the number of computer users. The smartphone penetration in Brazil is increasing exponentially and developing a smartphone application for iPhone or Android could be a smart move. Vente-privée.com, Coquelux' model, implemented it in France and other countries with great success. This new app could also create a buzz and touch various population segments.



Take advantage of the social networks

Coquelux could create a Facebook “like” button on its website to encourage members to share what they see and like on Coquelux’ website. It would not only increase traffic on Coquelux’ website but also enable Coquelux’ to better understand, thus anticipate demand.

- **Attract attention by promoting young local talents**

Developing a side activity, not immediately profitable but with a great marketing impact, could be a way for Coquelux to attract attention from the press, investors and potential clients. For instance, Coquelux could promote on its website young Brazilian designers that are not yet mainstream, or develop a partnership with fashion design universities by selling online the final collection of the best alumni. It is a low cost action that would increase the sympathy that the public has for Coquelux and again, increase traffic and brand recognition.

6.3. Recommendation

The segments that could be targeted by Coquelux have been identified through Coquelux’ three positioning strategy alternatives above. Marketing strategies corresponding to the lack of visibility of Coquelux have been proposed in order to translate these positioning strategies. Now, the final recommendation of this thesis for Coquelux’ market strategy will be a mix of both. Without claiming to be scientifically right, but based on a careful cross-analysis of the company, the Brazilian market and the e-consumers profiles, this recommendation intends to help Coquelux’ owners to manage its growth in the most efficient and focused way.

Porter’s five forces model enabled to identify the main threats for Coquelux: first of all, it showed that increasing sales volumes was the only way out. Second of all, that both clients and suppliers needed to be constantly seduced by what Coquelux could offer, because loyalty was extremely difficult to secure as there would be no switching costs if clients or suppliers ever decided to “leave” Coquelux.

As response to these two challenges, and based on all the descriptions, analysis and theoretical support of this thesis, the recommendation is the following: to secure its main competitive advantage, the exclusive positioning, by continuing to develop the *Petit Comité* and by implementing marketing actions that boost the “fashionable” image of Coquelux rather than its luxury-at-discounted-prices image (1); and to invest massively on Brazilian premium brands and focus their campaigns on discounts, in order to boost sales volumes and profitability, keeping in mind that higher sales volumes will also secure the loyalty of the suppliers (2). Finally, since differentiation will be harder and harder to make on products selection (as Coquelux and its competitors will slowly go on the same segments), it has to be made through communication. The third part of this thesis recommendation is for Coquelux to show how innovative it can be, how modern and user friendly it can be (3).

- **(1) Boost “Le Petit Comité” by increasing its high-end, fashionable image**

Considering the current evolution of the market, it seems clear that sales event clubs cannot gain market shares and sales volumes by focusing on luxury brands and class A customers. However, since Coquelux is the leader on that segment, it should keep its strategic positioning as a window, even if it expects to increase sales volumes and profitability on other segments.

Le Petit Comité should become even more fashionable and attractive, even if there are fewer luxury sales. Coquelux should focus on quality (latest fashion, selection of items, partnerships with famous bloggers) in order to increase its credibility as a trend follower and real luxury sales-event club; rather than quantity, as *Le Petit Comité* won't drive the business.

As seen previously, many marketing actions can be implemented so that Coquelux keeps its exclusive positioning, such as developing partnerships with famous Brazilian fashion bloggers and negotiating with some brands to have a few amount of traffic builder items on sale.

- **(2) Increase sales volume by focusing on local premium and desire brands that will attract both class B and emerging class C+**

By experience, Coquelux' sales managers noticed that the most profitable sales happened with Brazilian desire brands with important discounts. Until now, Brazilian desire brands did not often work with Coquelux' competitor to preserve their image, as Coquelux' was the only player in the market to satisfy desire brands' image expectations. However, since Coquelux' competitors are now offering much bigger sales volumes, thanks to their larger consumer base, some desire brands are starting to be attracted by the competition. It is a tough fight for Coquelux, as the only way it can keep its advantage is to grow rapidly its member base. However, assuming that Coquelux will get the necessary funds to grow its base by buying members through common e-marketing channels, focusing on Brazilian desire brands could be a good way to target the emerging class C without damaging the "premium" image of the website. Recruiting members from Cclass C+ and class B can be made through traditional web marketing channels (spamming and advertising) but Coquelux would benefit a lot from alternative marketing channels such as social networks. It is late on these new medias compared to its competitors, while classes B and C spend a lot of time surfing these networks, as seen in the chapter about socio economic classes and online shopping, As recommended above, adding a "Like" button to Coquelux' website linked to Facebook for instance, could add a real web 2.0 dimension to the shopping experience, that would seduce all types of consumers, including the rising class C.

- **(3) Differentiate from competitors by "out-of-the-box" marketing and communication strategies**

Coquelux' strength has always been its specificities (the first sales-event club in Brazil, the only luxury sales-event club, the first members-only...), but its specificities are eroding now, since it is tapping onto new segments that are closer to its competitors' business model. So, to remain "special", Coquelux will have to differentiate in another way and base its differentiation strategy on its image and communication rather than on its products. An innovative way to differentiate could be to develop a new shopping experience, either through the creation of a real

“personal shopper tool” or through the creation of a smartphone application, for instance.

7. CONCLUDING REMARKS

This thesis has investigated the organization of an e-business start-up in Brazil in the flash-sales event market, Coquelux. First of its kind in the country, Coquelux was created by a single entrepreneur and was chosen because it seemed to be a good case study for understanding the challenges of an internet company in developing and growing market (e-commerce in Brazil is experiencing 40% grow per year according to e-bit study). Coquelux' position on the upper market segment (luxury items for class A and B consumers), has been its main competitive advantage. However, in a context of market expansion and increased competition, it became crucial to be competitive also in terms of sales volumes and member base size. With the challenge of growth came the central question of this work: how can Coquelux grow its member base without losing its main competitive advantage (its exclusive positioning)?

In order to answer that problem and propose market strategy alternatives to Coquelux, many exploratory questions were raised. The main objectives were to understand Coquelux' organization and business model, understand the industry structure and the competitive environment in which Coquelux was evolving, and finally understand the market segmentation for online flash-sales in Brazil. On one hand, analyzing the industry structure and the competition on the Brazilian e-commerce and online flash-sales enabled to better position Coquelux compared to the other players, and identify its strengths and weaknesses, both internally and externally, through a SWOT and through Porter's five forces model. On the other hand, understanding the market segmentation and the specificities of consumer habits and expectations depending on socio-economic classes in Brazil enabled to clearly determine the demand and the expectations of each market segment for online flash-sales.

Both the case study and the market analysis were completed and based on theoretical concepts, definitions and evaluation methods developed in the literature review. The theoretical fundamentals that were used in the literature review, crossed with the practical analysis of Coquelux and its environment, finally enabled to conclude with market strategy alternatives.

Returning to the question posed at the beginning of this thesis, it is now possible to present the different market alternatives that Coquelux has in order to face the challenge of growth. In fact, Coquelux has three main positioning strategies that it could adopt: staying exclusively on the niche market of luxury brand and class A and B+ customers, which would jeopardize its sales volumes. Option 2 would be to focus on local premium brands targeting class B and C+, with heavy discounts but still a nice and rather fashionable selection of products, while continuing to sell luxury brands on the *Petit Comité* in order to keep the “exclusive” image of the website. Finally, option 3 would be to change its focus to the mass-market and adopt the same strategy as its main competitors. Many marketing strategies can be implemented in order to realize these options.

The result of this investigation led to a specific recommendation for Coquelux: if many positioning strategies are possible, only one seems to be more adequate and corresponding the best to Coquelux’ strengths and opportunities in the market. In fact, the study of all the perspectives for Coquelux concluded that Coquelux should secure its main competitive advantage (its exclusive positioning) by emphasizing on the fashionable aspect of its premium, desire and luxury sales in order to create more excitement, while it should also invest massively in local premium brands to boost sales volumes and stay an interesting partner for its suppliers who are looking for volume more than brand image. Finally, since the competitive environment is evolving towards homogenization, Coquelux should seek differentiation by technological and marketing innovation rather than by positioning.

The result of this study supports the idea that communication, image and marketing often make a greater difference than the actual products that a business has to offer. Coquelux could maintain its competitive advantage without focusing on luxury brands, but just by emphasizing its fashionable image through carefully thought communication campaigns (with bloggers for instance, or with a nicer interface and some traffic builder incentives).

It also suggests the immense possibilities that web 2.0 and social networks offer to e-businesses in terms of perception and communication tools: uncontrolled communication through customers’ interaction has a strong impact on a business success and has to be taken into account in a marketing strategy.

However, this work could be improved in many ways : some limitations come from the methodology, some come from the theoretical concepts themselves that were used for the analysis. A limitation of the methodology is the issue of generalization. In fact, as it happens with most case studies (Yin, 1994), it appears difficult to generalize the findings of the thesis. The whole work is concentrated on one company's issue, in a specific market and with some issues specific to the Brazilian e-commerce environment. Another issue came from the fact that Coquelux was a small company in a new market, thus the sources of information were limited and most of the data collected was gathered from the marketing department of Coquelux, with little or no possibility to confront these numbers with another source. In fact, no primary research was collected : the whole analysis of this thesis was done based on other researchers assumptions. As a consequence, this work could serve as a starting point for MBA students to deepen the research and engage in a primary data collecting process. Moreover, one could question the segmentation that was used in order to define social classes in Brazil. In fact, the definition of social classes in terms of income and goods is starting to be questioned by researchers in Brazil. New theories are emerging and exploring a segmentation in terms of values rather than income: the most important element that determines the buying decision would not be someone's income or buying power, but the brand's values of the product itself. This idea is slightly exposed in this thesis on pages 76 - 78 but it is not developed. It could be a new area of investigation for marketing strategies and researches.

Nevertheless, Coquelux' case study can enlighten many aspects of the Brazilian e-commerce market in its industry and some traits can be generalized thanks to the empirical data collected by the secondary sources mentioned above. In fact, by comparing Coquelux' member base to the overview of the Brazilian e-consumers, one could easily confirm the trends and evolution of the demand, regarding fashion and apparel and interest for discounts.

One of the most interesting aspects of this case study was maybe how to recruit members or customers on the internet. Further work and analysis needs to be done to estimate the cost of recruiting a customer online and the evolution of that cost. Also, considerably more work will need to be done to determine and quantify the impact of new marketing channels on sales. Papers and articles were published on

the importance of social networks and indirect marketing but none was able to give a method to quantify the impact of such marketing methods.

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