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Management from the NOVA – School of Business and Economics

**Key customers retention as a company's competitive  
advantage: Chic by Choice case study**

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## **Abstract**

Chic by Choice, Portuguese company founded in 2014, is one of the leading dress-rental businesses in Europe. Lately, however, many customers have complained for the bad service. After analyzing the main reasons for customers' dissatisfaction, I first propose a set of solutions to limit the damages for an online business. Secondly, I define and compare four different scenarios, arguing that an internationalization strategy in the United Kingdom will enable Chic by Choice to gain sustainable competitive advantage. Finally, I conduct an Area Analysis to select the location that will maximize the company's future profits.

*Keywords:* e-Commerce, Chic by Choice, Operations Management, Customer retention

## **Acknowledgements**

I would like to sincerely thank you Lara Vidreiro and Filipa Neto, founders of Chic by Choice and inspiring women, because they welcomed me in their company and they believe in me. Also, I am grateful to all the Chic by Choice Team, to be always supportive. I would like then to express my gratitude to professor Leid Zejnilovic, that pushed me to do my best and for being helpful anytime I needed his feedback. Thank you to the Nova Masters Office whole school staff to prepare all students for a brilliant career. But, above all, thank you to my mum and my family, that supported me every single moment of my life, without you all this could not have been possible.

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## **Introduction**

The sharing economy phenomenon has rapidly increased since years 2010's becoming one of the most profitable industries. Several new businesses spread based on the concept of "collaborative consumption", where consumers dispose of goods and services instead of purchasing them. Chic by Choice, luxury dress rental company founded in 2014, belongs to this industry and indeed, it has grown since then. As an e-commerce retailer, the expansion in all the European countries was quite rapid, however, the increasing number of international customers has generated logistics issues and challenges. As a consequence, customers tend to complain online, affecting Chic by Choice reliability, which is mining the company's strategic objectives to double the profits by 2020. Keeping in mind that online reviews are nowadays essential for companies, external and internal data were analyzed to assess the potential of Chic by Choice main markets and define a future strategy to gain competitive advantage. For this purpose, four different scenarios were defined and compared between each other with a Cost/Benefit Analysis. Also, a key target was identified, and, in order to deliver the best customer value, Chic by Choice should consider moving the logistics in the UK and integrated offline channels of communication to the current marketing strategy. Today, omni-channel marketing strategies are increasingly adopted by companies, as it enables to engage customers in every touchpoint. To conclude, an Area Analysis was conducted with the Critical Success Factors method, as the location choice can be part of a company's competitive advantage.

## **Methodology**

To collect information relevant for the analysis, both primary and secondary data were utilized. Primary data were mainly taken from my direct experience in Chic by Choice as customer

service / logistics support intern; Interviews with Chic by Choice Team, including the two founders Lara Vidreiro and Filipa Neto, were a valuable source of information. Secondary data include CRM tools such as Zendesk and NPS (the Net Promoter Score); analytical tools like KissMetrics, Google Analytics and company's databases, such as Google spreadsheets and Microsoft Power BI. Other sources were articles, textbooks, business journals and blogs; Passport Euromonitor and other updated statistics taken from management consulting firms reports (Deloitte, PwC). Based on the set of data collected, some useful models were used (SWOT/TOWS analysis, Porter's 5 Forces) in order to outline four different scenarios. To select the most profitable one, a Cost/Benefit Analysis based on three years forecast (2017-2019) was conducted. In the final part of the thesis, the Critical Success Factors method was implemented as part of the Area analysis, in order to maximize Chic by Choice's future growth.

## **Literature review**

### **Sharing economy**

As described by Alex Stephany (2015), companies operating in the sharing economy industry can follow two business models: B2C, where a company owns the stock and the platform to sell products and or services to final customers; and P2P, peer-to-peer, where the members of the community interact and conclude the transaction themselves. Chic by Choice clearly follows the first business model, while companies like Uber or Airbnb are based on a community. However, the author identifies four common factors of the sharing economy, regardless of the industry: *Assets*, whose utilization is increased, because they are shared by several customers and their use is turned into revenues; *Internet*, that makes these assets widely accessible thanks to online platforms or websites; *Community*, rather than customers, that shares and utilize the assets, representing an asset itself, as the members engage and support

each other; Finally, *convenience*, because users are reduced the need of ownership and are charged only for what they dispose of (Stephany 2015). However, as pointed out by Jennifer Hyman in the article “*Will the sharing economy work for fashion?*”, a fashion rental company might face several logistics barriers related to transportation, stock management, repairs and dry cleaning, all factors that increase the costs for a company. Logistics is instrumental for a sharing economy business, as customers have increasingly high expectations about home delivery. As demonstrated by Xing, Grant, McKinnon, and Fernie (2011), there are four main variables valued by customers when waiting for a home delivery: *Timeliness, Availability, Condition, Return*. [Appendix 1].

### **Logistics challenges in shared economy services designed for the global market**

A “frictionless delivery experience”, is what customers expect from luxury online retailers, as defined by Cohen Raanan, (2016). Logistics and operations are aimed at supporting the overall strategy and value proposition of a company, and must be consequently aligned with the needs of a specific target (Simchi-Levi, 2010).

Generally, a company can choose the location under two different perspectives, namely *cost focus* or *revenue focus* (Heizer and Render, 2004). Typically, the former is preferred by industrial companies, as it enables to contain costs, while the latter by a service company or retailer, as the area is selected to increase sales and revenues.

Several other factors should be taken into account by a service company or retailer when evaluating an area: customers’ demographics, proximity of competitors, income taxes, traffic counts, transportation system to name just a few.

A diffused method to select a location is the “Factor- Rating” method, that considers both tangible (quantitative) and intangible (qualitative) Critical Success Factors, that are each attributed an importance weight. After giving a score to each of the location options, the two

values are multiplied and the location with the highest total is considered the best one. Such a method will be used later in this paper for assessing the attractiveness of four neighborhoods.

Therefore, the operational part is a crucial aspect for a company, and strategic decisions - such as location choice - should be carefully evaluated by a company, as it affects future costs and profits. Attracting, retaining and engaging profitable targets is now more important than ever, as customer satisfaction can be the main driver for the competitive advantage of a firm. According to a recent article by Sara Judd Welch (2014), for instance, it is explained that customer retention can be 80% less costly than new customers acquisition and that an increase in customer retention by only 5% can lead to an increase of profitability of up to 95% in the long term. Lastly, it is important to bear in mind that the Internet and Social Media represent a catalyst of a customer's experience with a service or a product, as reviews are easily spread online, and have a dramatic impact on a company's reputation. Dellarocas (2003) and Henning-Thurrau (2004), define online reviews as more accessible and for longer than the word-of-mouth. Additionally, Nielsen, Dimensional Research and BrightLocal (2002, 2003, 2004, respectively) have found out that more than 70% of the people that buy online trust ratings and reviews from other customers.

## **Internal analysis**

### **Overview of Chic by Choice**

Chic by Choice is considered one of the best European online fashion startups. Founded in year 2014 by Lara Vidreiro and Filipa Neto, it is an e-commerce retailer that allows to rent luxury designer dresses for 4 or 8 days, with prices up to 90% lower than the retail price. The mission of the company is to make feel every women self-confident and beautiful, by wearing fabulous dresses with economic consciousness. Every season, new dresses are added to the Lisbon warehouse, based on demand forecasts and fashion trends.

The idea of the two young founders was supported since the beginning by Startup Lisboa, incubator for local startups in Lisbon. Very quickly, the startup attracted seeds fundings from Faber Ventures, Portugal Ventures, Edge Group and Portuguese Venture Capitalist Group. In its early stage, Chic by Choice grew at a rate of around 30% per month. The expansion to other markets accelerated in 2014, when they acquired one of their main competitors, *Wish Want Wear* from the UK. In August 2015, they also acquired *La Remia*, a fashion rental company from Berlin.

Currently, Chic by Choice operates in 15 European countries, with UK, Germany and Portugal representing the main markets. The total number of online visitors during the year 2016 was almost of 1 million, and out of this, the number of registered users from all over Europe was of 84,976 (9,44%). [Appendix 2] In May of 2016 the company introduced also the accessories rental, and it created a physical showroom in Lisbon that led to an increase of the reservations of more than 50%. Recently, Chic by Choice launched an App for mobile devices such as smartphones and tablets.

Chic by Choice is following the increasing trend of the *sharing economy*, an industry increasing year by year, and expected to further grow in the next decade, reaching sales up 335 billion \$, out of which 15 billion \$ will be generated in the UK only, as estimated by a recent study by PwC.

### **Strategic objectives**

Chic by Choice wants to double its profits in three years, raising the repeated purchase rate customers from the current average of 25,6% to 50%. To be successful in pursuing this goal, it is first important to increase the overall customers' satisfaction by lowering the percentage of detractors to a threshold of 25% or lower. As Chic by Choice strategic purpose is to be the



European market leader in the dress rental industry by 2020, bad ratings might represent an obstacle to attract and retain potential customers, influenced by negative reviews.

### **Main KPI's and data analysis**

The dress rental business is growing, as the total number of reservation in the last year grew 59% in terms of reservations volume (4137 reservations in 2016 compared to 2607 reservations in 2015), and of 28% in terms of total revenues from 2015 to 2016. **[Appendix 3]**

The percentage of repeat purchase customers in the three biggest markets are on average of 22% in Germany (18% in 2015); 18% in Portugal (15% in 2015) and 24% in the UK, (16% in 2015). **[Appendix 4]**

Yet, other KPI's indicate that there are factors potentially undermining the company's profitability in the long run. One of the most important KPI's in an online business is the Cost of Acquisition<sup>1</sup>, that reveals how much economic effort is needed in order to acquire new customers. However, this value itself does not reveal the health of a business, as it must be compared to other KPI's as the Average Order Value (AOV), that measures the average order placed by customers in a defined period of time. The higher the Cost of Acquisition (CAC) compared to the Average Order Value (AOV), the lower is a company's margin. From Chic by Choice financial reports, we can see that the CAC in 2015 was on average 58% of the AOV, while in 2016 the average CAC is 50% (see appendix for further details), being the paid Search (GoogleAd, Bing) and Facebook the main drivers of the total Cost of Acquisition. Another

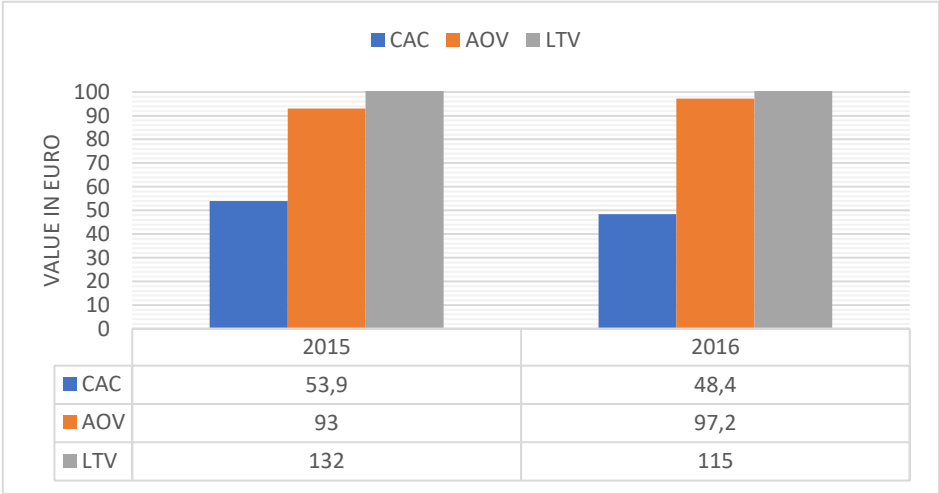
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$$1 \quad CAC = \frac{\text{Sum of all Sales \& Marketing expenses}}{\text{No of new Customers Added}}$$

Source: KissMetrics Blog

important KPI's is the Customer Life Time Value (LTV)<sup>2</sup>, which is an estimate of the future streams of profits generated by each customer. According to a common benchmark used in the marketing industry (as suggested on KissMetrics<sup>3</sup>), if the ratio LTV:CAC is lower or equal to 1, the business is shrinking; On the other hand, if the ratio is above 4, the company is probably underinvesting in retaining customers. The ideal ratio is of about 3:1. In the period January - June 2016, the average LTV for Chic by Choice is of 115 € and the CAC was of 48,4 € resulting in a ratio of 2,37, very close to the ideal condition. The following table summarizes the main KPI's for Chic by Choice in the years 2015- 2016:

**Figure 1. Main KPI's are compared between 2015 and 2016: Cost of Acquisition, Average Order Value, Customer Life Time Value**



The KPI's considered until now suggest that Chic by Choice is overall a healthy business. However, the forecasted growth of the sharing economy industry and the dress rental market will certainly increase the level of competition in the near future. This thesis is aiming therefore

<sup>2</sup>  $LTV = \frac{ARPA}{Customer\ Churn\ Rate}$ , or  $LTV = ARPA (Average\ MRR\ per\ Account) \times Customer\ Lifetime$   
 where ARPA stands for "Average Revenue Per Account". "Customer Churn Rate" is defined as the percentage of registered users who unsubscribe the service in a specific time interval. Source: Kiss Metrics Blog

<sup>3</sup> Source: <https://blog.kissmetrics.com/bigger-marketing-budget/>

to define a strategy for providing a better service to respond to an increasing number of customers and ultimately retain the strategic, most profitable segment, as it can represent a company's competitive advantage.

Although the main marketing KPI's suggest that Chic by Choice is a healthy business, several customers complain about a bad experience. [Appendix 5] The data were retrieved from the Internet, Zendesk and NPS statistic.

Net Promoter Score (NPS), a common metric that measures customers's satisfaction, is today a powerful tool for companies, as it can suggest the probability of future growth. Customers are asked how likely they are to recommend the service or product to their friends from 0 ("Not likely") to 10 ("Extremely likely"), hence classified in "Detractors" if they score between 0 and 6, "Passive" if they score between 7 and 8 or "Promoters" if they score 9 or 10. Having a relevant percentage of Promoters is almost vital for companies, as they spread a good opinion about their experience, hence they can enhance growth of a company<sup>4</sup>.

**Figure 2. Net Promoter Score (NPS)**



The NPS varies day by day. In the case of Chic by Choice, at the beginning of October there were 36% promoters and 16% detractors. On 31<sup>st</sup> of December, only 36% of the customers were promoters and 51% were detractors. Most of the complaints from the detractors were

<sup>4</sup> <https://www.netpromoter.com/know/>

regarding delivery issues, or receiving a wrong dress or an item of an inferior quality than expected. Bad reviews are also easily found online.

Zendesk reviews were analysed to gain deeper knowledge about the problem. Zendesk is platform for Customer Relationship Management (CRM) that facilitates communication and support to clients, with live chat and instant messaging. At the same time, it also allows to collect and analyse important data and statistics on interactions with customers.

The most frequent complaints on Zendesk were: (i) not receiving a refund (15 %); (ii) not receiving the parcel on time or at all (7%); (iii) receiving no answer from the Customer Service Team (7%); and, (iv) receiving a wrong dress / not fitting one / or being disappointed by its quality (6%). [**Appendix 6**]

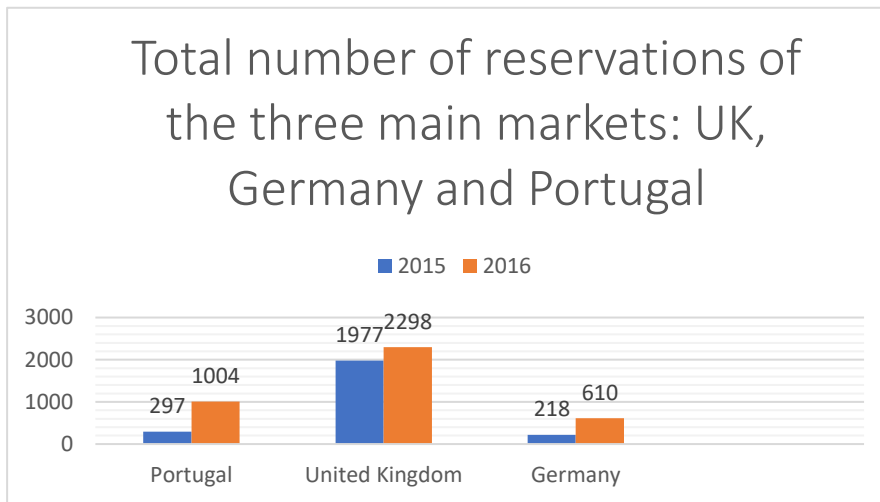
Obviously, the refund request is the consequence of most of the factors mentioned above. Currently, the value of refunds amounts to 31% of the total revenues, three times higher than the relative value in 2015 (11%). [**Appendix 7**] In the long run, the growing discontent not only affects the cost side, but, also the company's reputation and credibility. Hence, it is instrumental to improve the service and increase the percentage of satisfied customers.

## **External Analysis**

### **Market overview**

Chic by Choice three main markets – in terms of volume of reservations are respectively UK, Germany, Portugal, as it can be seen in the graph below.

**Figure 5. Volume of reservations of the three markets for years 2015 and 2016.**



United Kingdom represents the major market, Consequently, more than than 50% of the total revenues originate from the UK market, even though the growth of rate of sales is higher in other countries [Appendix 8].

In order to continue the analysis, some external data on these three markets were collected. First, it is true that Portugal is the second market in terms of volume and value, however UK and Germany can be more attractive markets for several reasons. First, they have a higher population: 65,246,001 inhabitants<sup>5</sup> – among which 8,3 million inhabitants for the city of London - and 80,679,211 respectively, against the 10,282,000 in Portugal<sup>6</sup>. Second, these two countries have a higher purchasing power than Portugal; UK, in particular, has experienced the highest discretionary spending in Europe in year 2015. This is in a way reflected by the fact that the AOV of Chic by Choice customers from Portugal is of 77,6 €, while it is of 108,4 € for customers from the UK and 93,6 € for German customers. Third, the online shopping

<sup>5</sup> On the date 03/11/2016, source: [www.worldometers.info/world-population/uk-population/](http://www.worldometers.info/world-population/uk-population/)

<sup>6</sup> On the date 03/11/2016, source: <http://www.worldometers.info/world-population/portugal-population/>

penetration in 2015 was of 77% in the UK, being the highest in Europe, followed by 65.5% registered in Germany and about 60% in Portugal<sup>7</sup>.

Regarding the number of Chic by Choice new subscribers, this was of 78.260 from the United Kingdom, 4175 from Portugal, 1563 from Germany and 978 from the rest of Europe. It must also be mentioned that the Top-20 spenders in absolute terms are all from the UK [**Appendix 9**]. Based on the data discussed, and given the strategic goal of doubling the revenue, it may be worthwhile to explore how to improve operations in the UK market. Also, the company explicitly requested developing a strategic analysis aiming to improve the logistics in this market. To further verify the country attractiveness, an external analysis follows.

### **The UK market**

The UK is one of the leading countries in the world for online shopping: more than 77% of the total internet users in the UK purchased goods online in 2015, spending on average 3,652 € each<sup>8</sup>. Forecasts on e-commerce industry suggest that in the UK it will further increase until 2019 [**Appendix 10**]. The most popular product categories are respectively clothing, books and home appliances<sup>9</sup>. What might be of interest for Chic by Choice is that the UK population is highly interested in luxury online retailers. A recent study by Simone Guercini and Andrea Runfola (2015) demonstrated that the majority of visitors of luxury multibrand e-commerce retailers are from the United States (66,49%), followed by South Korea, Japan, and China (4%) and UK (2,67%).

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<sup>7</sup> Source: <https://www.statista.com/statistics/274251/retail-site-penetration-across-markets/>

<sup>8</sup> Source: Ecommerce news Europe (April 2016): <https://www.twenga-solutions.com/en/insights/ecommerce-united-kingdom-facts-figures-2016/>

<sup>9</sup> Source: “E-commerce in the United Kingdom, Facts and Figures 2016”

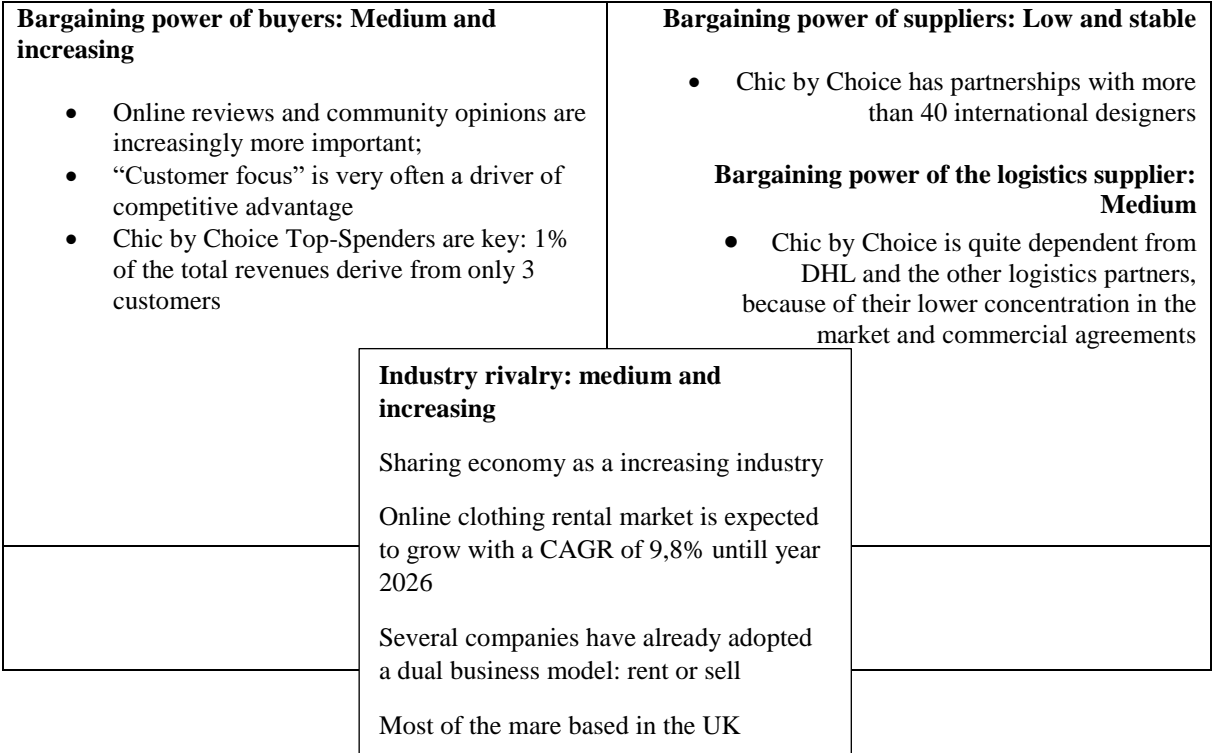
Other relevant data on the UK demographics taken from Passport Euromonitor show that the city with the highest concentration of wealth and consumer expenditure is London, which is expected to further grow in the next decades.

**Competitive landscape**

In the United Kingdom, Chic by Choice have several direct competitors: Girlsmeetdress.com, Dreamwardrobe.com, Hirethecatwalk.com, and Mycelebritydress.com (based on Google and Bing research). As Chic by Choice, they offer a wide selection of dresses, promise the perfect fit for every customer, and offer promotions for the first rental. **Appendix 11** summarizes the primary competitors main features; Secondary main competitors can be considered as luxury multibrand retailers [**Appendix 12**].

To illustrate the external forces that define the dress.rental industry (namely, bargaining power of suppliers, bargaining power of buyers, threat of entrants, threat of substitution) the Porter’s Five Forces Model follow.

**Figure 6. Porter’s Five Forces model**

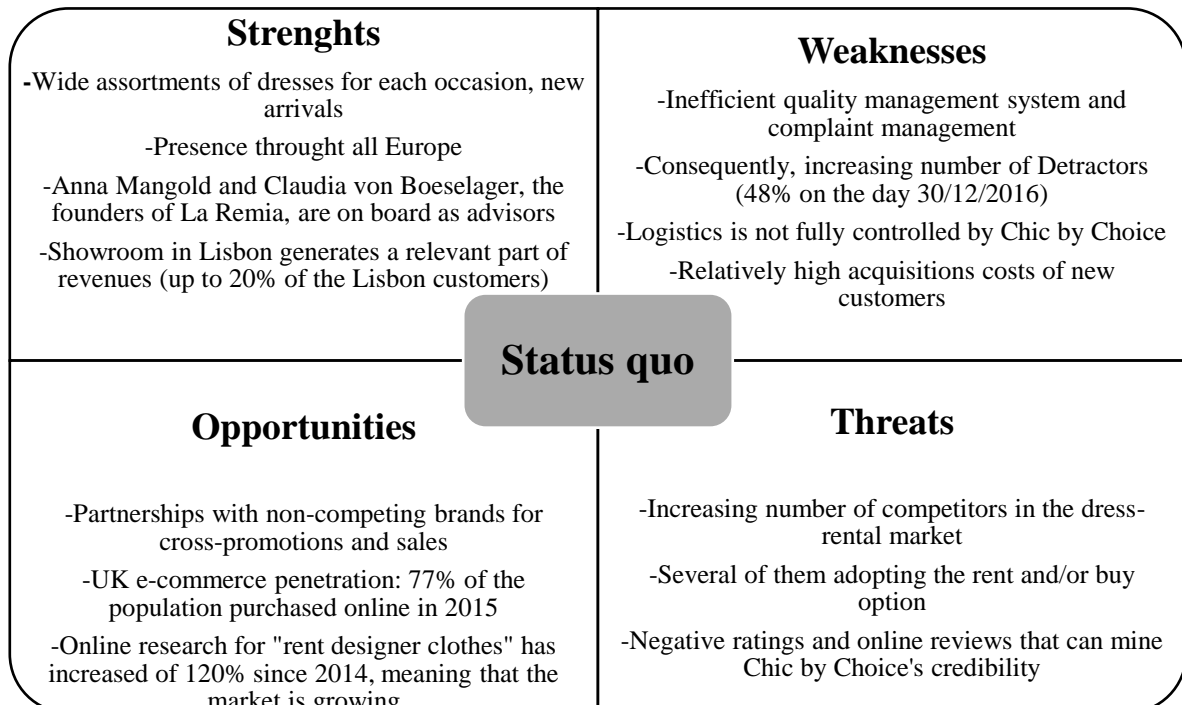


<p><b>Threat of new entrants: High and likely to increase</b></p> <ul style="list-style-type: none"> <li>• Big, fashion online e-commerce companies might shift to the renting business model (e.g. Net-a-Porter, Farfetch, etc)</li> <li>• Other online retailers (e.g. Amazon and AliBaba) represents also a threat</li> <li>• Relatively low barriers to entry for newcomers</li> </ul>	<p><b>Threat of substitution: Medium-low and stable</b></p> <ul style="list-style-type: none"> <li>• Purchasing goods online/offline is still preferred over renting them for a part of women as older targets and/or those who are skeptical about sharing a good with someone else</li> <li>• Second-hand online luxury shops (e.g. Vestiaire Collective)</li> </ul>
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## SWOT ANALYSIS

The following graph summarizes the main strengths, weaknesses, opportunities and threats of Chic by Choice in the current status.

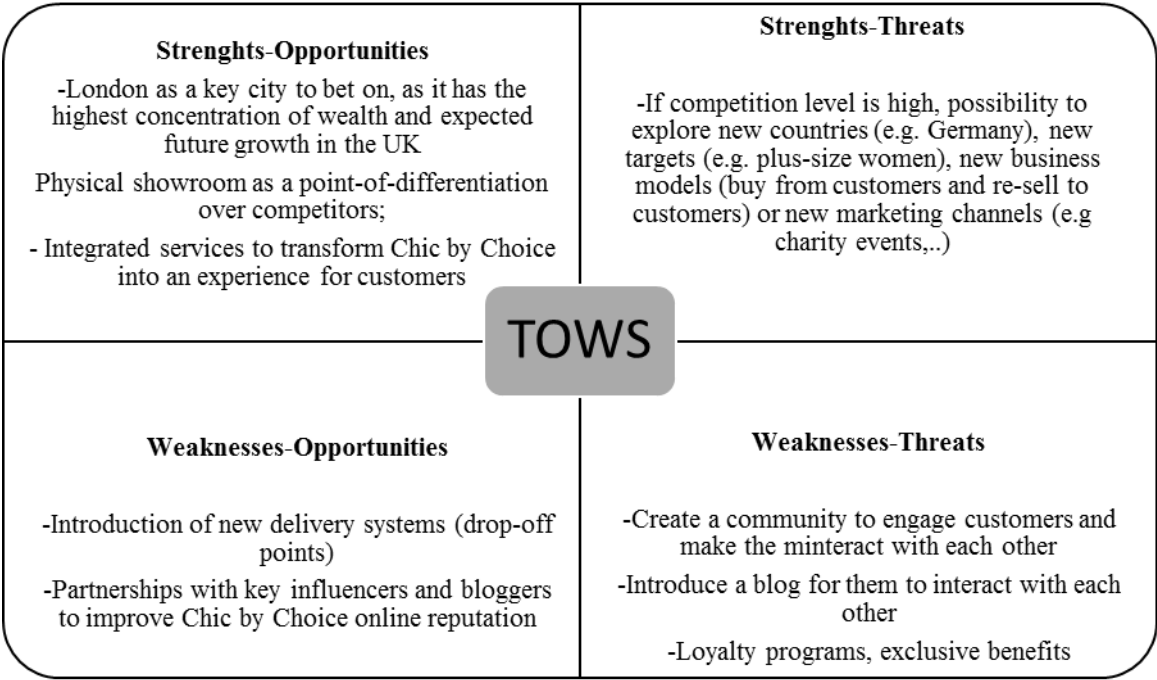
**Figure 3. SWOT analysis of Chic by Choice**





Moreover, a detailed TOWS analysis is presented below, with the aim of defining possible strategies for Chic by Choice. The top left section (SO) purpose is to leverage on the current strenghts to maximize future opportunities; while on the top-right (ST), strenghts are aimed at minimizing the external threats. On the bottom part, WO (Weaknesses-Opportunities) is useful to minimize the weaknesses by exploring the opportunities in the market and finally WT aims at avoiding threats and minimize weaknesses. A detailed PESTLE analysis is presented in **Appendix 13**.

**Figure 4. TOWS analysis of Chic by Choice**



**Identifying and responding the challenges of serving an international market**

**Phase 1: Improving the logistic to increase the service level**

Bad reviews should not be underestimated as they mine Chic by Choice’s credibility in the long run. Therefore, improving the logistics, which is currently the main source of complaints, is the

first goal to achieve the company's growth. Planning the deliveries in advance would increase the level of efficiency and reduce the risks of an unsuccessful delivery. This would include, for instance, minor changes to the layout of the customer's personal page, to review and correct their data for the shipment; Also, providing an alternative address in case the person is not at home will be useful. In addition, a quality system should be introduced by Chic by Choice, in order to guarantee that dresses are in perfect conditions before being delivered to customers. Finally, categorizing the Zendesk requests and ensuring an answer before three working days (especially for the refund issue) will improve the customer service experience.

As a matter of fact, customer service representatives play a key role: In a recent survey conducted by Zendesk participants ranked customer service as the most important factor for a company's trust, 95% shared their bad experience and 87% their good experience with others<sup>10</sup>.

## **Phase 2: Retain and engage the most profitable customers**

It is clear that the UK market is very attractive for Chic by Choice: large population, high purchasing power associated to e-commerce penetration, and relatively high number of visitors interested in the Chic by Choice concept. In particular, the most profitable customers, can be considered as the strategic target to leverage on. As stated by Simchi-Levi David (2010), it is crucial for the success of a company to identify the most profitable target and to align the value proposition. In other words, focusing on the selected target, aligning the value proposition, creating and delivering customer value constitutes a competitive advantage for a company. Chic by Choice identified as the main target of interest the high spending segment, typically represented by wealthy women aged between 35 and 50 years old, that place on average

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<sup>10</sup> Source: Zendesk.com

between 5-10 reservations per year, and like to be personally assisted by a stylist in the choice of the dress.

## **Strategic and operational changes**

### **Internationalization strategy**

Given the relevant and increasing level of competition in the UK, Chic by Choice should consider moving to this country to better respond to its customers' needs. Both the internal and the external analysis clearly suggest that this is an attractive market for the dress-rental industry. Moving therefore the warehouse in the UK would enable Chic by Choice to better serve this market, thanks to faster deliveries. Additionally, according to a recent study by PwC, physical stores are part of the consumer purchase journey for 53% of the clothing & footwear shoppers (PwC Total Retail Survey 2016). They can "*[...] Improve the customer experience and are a point of differentiation from their online competitors, encouraging people to do research in-store [...]*", as stated by Korukcuoglu Seyma (2013). Physical stores and drop-off points, also, simplify the pickups and returns for customers and would decrease the costs related to the pickups, which, several times, can be unsuccessful and lower the quality of the service provided by Chic by Choice.

### **Comparing four different scenarios: Cost/Benefit Analysis**

On the basis on all the data discussed so far, Chic by Choice should consider moving to the UK due to the potential of future growth and the attractiveness of the market. However, the internationalization options must be measured and compared with each other to select the most profitable strategy. Hence, four different scenarios were outlined: Status Quo, Improved Logistics, Warehouse in the UK, Warehouse in the UK with a physical shop. Each of the

aformentioned scenarios differ both for the expected annual growth rates and for the costs associated. The value taken as a benchmark is the total revenue of Y0 – the Status Quo – and forecasts are made on three years time frame, until the end of 2019. Moreover, for the four scenarios the currency considered is the euro<sup>11</sup> and the discount rate to calculate the Net Present Value is of 3%. The table below summarizes the main assumptions and results: S4, that is, Chic by Choice moving the warehouse in the UK and establishing a physical store is the option with the highest cumulative profits (1.733.387,91€ Net Present Value) until the end of 2019. Although the estimated profits are lower than in the other scenarios in Y1 due to the investment for the physical spaces and the labor, the final value is higher thanks to a higher growth rate in the UK (60% in the first year, 70% and 80% in the following two years respectively), and an average constant growth rate of 30% in the rest of Europe. At the same time, moving to the UK with physical stores will be a strategic decision as they would: (i) limit the logistics costs, (ii), increase the visibility of Chic by Choice and possibly increment the online visitors and sales, because (iii) customers would have the possibility of trying dresses in advance and they would be part of an integrated offline marketing strategy to (iv) attract and retain the high-spending target. **Appendix 14** shows the complete cost benefit analysis for Chic by Choice, estimating revenues, costs and profits for the years 2017 – 2019.

<b>S1: Status Quo</b>	<b>S2: Improved Logistics</b>	<b>S3: Warehouse in the UK</b>	<b>S4: Warehouse in the UK + physical store</b>
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<sup>11</sup> Exchange rate of 1£ = 1,17 €.

<ul style="list-style-type: none"> <li>• Revenues: +30% in Y1, 25% in Y2, 20% in Y3.</li> <li>• Refund management: 13% of the total revenues every year</li> <li>• Variable costs: 11% of the total revenues</li> <li>• <b>Cumulative Profits: 432.207 €</b></li> </ul>	<ul style="list-style-type: none"> <li>• Revenues: +30% in the three years</li> <li>• Refund management: 7% of the total revenues</li> <li>• Variable costs: 5% of the total revenues</li> <li>• Fixed costs: +50% to hire two customer service representatives</li> <li>• <b>Cumulative profits: 1.004.647,91€</b></li> </ul>	<ul style="list-style-type: none"> <li>• Revenues from the UK: +30% in Y1, +40% in Y2, +50% in Y3; +30% for the rest of Europe</li> <li>• Refund management: 7% of the total revenues</li> <li>• Variable costs: 5% of the total revenues</li> <li>• <b>Cumulative profits: 1.138.653,81€</b></li> </ul>	<ul style="list-style-type: none"> <li>• Revenues from the UK: +60% in Y1, +70% in Y2, +80% in Y3; +30% for the rest of Europe</li> <li>• Refund management: 7% of the total revenues</li> <li>• Variable costs: 5% of the total revenues</li> <li>• <b>Cumulative profits: 1.733.387,91 €</b></li> </ul>
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**Figure 7. The key assumptions and results of the Cost/Benefit Analysis**

### **UK entry mode**

The organizational change of Chic by Choice will be supported by an aligned marketing strategy. Clearly, especially at the beginning, some buzz will be needed in order to possibly attract new, profitable customers: *guerrilla marketing*, *special events* and other offline initiatives will be therefore considered.

When established in the UK, more relevance will be given to key customer retention and engagement, ideally adopting a *omni-channel* strategy. Lately, the integration of online and offline channels has been a widely-adopted strategy by several e-Commerce retailers, including Net-a-Porter, with quite positive results [**Appendix 15**].

Again, as identified by Chic by Choice, the strategic target is represented by women aged 35-50 with high disposable income, enjoying a personalized service, including stylist advice as

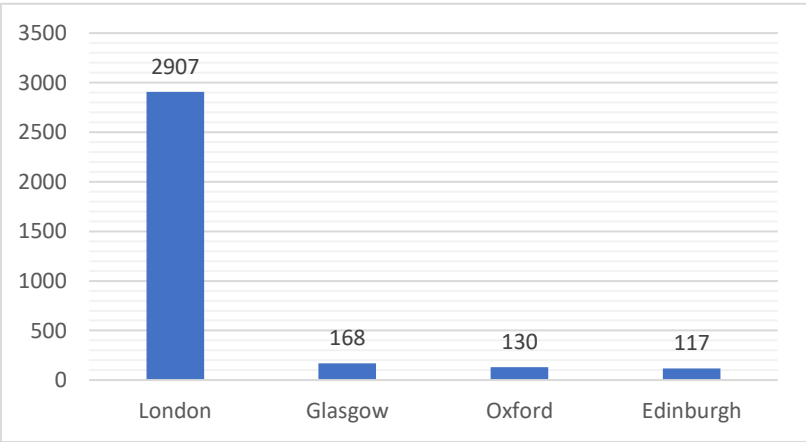
they often have a personal shopper. Therefore, Chic by Choice should redistribute the current marketing budget, now concentrated mainly on AdWords (51%) and Facebook (37,5%) [Appendix 16] to offline initiatives to retain this target: the company tested that most effective communication channels for this specific target are relationship and events marketing. [Appendix 17]. Ultimately, the showroom will turn Chic by Choice from a rental service to an experience, with a set of integrated services as a stylist and other professionals, engaging and retaining the top-spending segment. [Appendix 18]

**Area analysis**

Establishing facilities in a specific location is a difficult to reverse decision, and implies not only an initial investment but it also impacts future profits. With the aim of identifying the strategic locations for Chic by Choice warehouse and physical store, an area analysis was conducted in the UK, the country with the highest number of customers.

First, all the reservation from the UK were gathered according by city: about 33% of the UK reservations are made from customers in London (753 over a total of 2298), followed by Glasgow (38), Oxford (31) and Edinburgh (27).

**Figure 9. London is the city with the highest number of reservations**



Considering that London is the UK city with the highest wealth concentration and also it has the highest volume of reservations, it is clear that it represents an attractive location. The most frequent postal codes provided by customer when placing an order with Chic by Choice were then classified [**Appendix 19**], in order to identify areas that could be convenient for the existing customers. This was taken into account because “[...] *logistics operation provides the means by which the product can reach the customer or end user, in the appropriate condition and required location*” (Rushton, Croucher, Baker 2014).

The areas with the highest concentration of customers are West and South West London, with 152 and 148 reservations respectively. This was the first criteria considered to restrict the choice for the warehouse location. Afterwards, to further narrow the research, the Critical Success Factors method was adopted to four selected areas: Battersea in South London, Richmond, Hammersmith and Fullham in West London and finally Kensington and Chelsea in West Central London. [**Appendix 20**].

The critical success factors considered were: (i) *median income of the neighborhood*; (ii) *offices, shops and other businesses concentration*; (iii) *average rent for a space*; (iv) *facilities of the neighborhood including streets, highways, parking lots, public transportation*. Each of these factors was attributed a weight expressed as percentage and the four areas were rated from 1 (inadequate) to 10 (excellent), according to quantitative and qualitative data collected and summarized in **Appendix 21**.

As shown in **Appendix 22**, the most attractive neighborhood for Chic by Choice is Kensington and Chelsea in West-Central London, with a total score of 8.4. The high rental costs for a space are outweighed by the high median income of the neighborhood, the prestigious reputation for high-end fashion stores and the accessibility given the central location. In other words, Chic by

Choice will face a high initial investment but the area's features will very likely lead to higher profits than other areas.

In conclusion, the Critical Success Factors method, implemented in this case for searching a permanent space, is a valuable tool to assess an area for other purposes as well – for instance, temporary popup spaces. However, the factors will be different, considering, for instance the neighborhood population concentration or the traffic area, as the main goal of popup space is typically to increase the company or brand visibility.

### **Final recommendations and conclusions**

Chic by Choice needs to focus on the operational part first, in order to further attract and retain new customers. Improving overall customers satisfaction will be the first step to increase the company's online reputation. Therefore, the introduction of processes and systems that will limit logistics issues and complaints will be needed.

Secondly, the company has to effectively align its goals with a consistent strategy. As discussed in the internal and external analysis, the UK is a key market for Chic by Choice and it presents future growth opportunities. Also, a key target was identified, as it tends to be loyal to Chic by Choice and future revenues deriving from it can be relevant for the business. Therefore, it will be essential for Chic by Choice to retain it as it can be the main driver of a sustainable competitive advantage. However, given the level of competition of the UK market, moving the warehouse from Lisbon to London will be a strategic change because not only facilitate the logistics but also constitute a differentiation factor from online competitors. To justify such organizational change, the cost benefit analysis proved that although Chic by Choice will face higher costs in London than in Lisbon, the projected revenues will be higher as well.



Additionally, the Area Analysis led to consider West-Central London as the best location to maximize future profits.

To conclude, it is important not to forget about the rest of the European markets, which can also be very profitable for Chic by Choice. The company should consider valuable softwares such as Virtusize, Fits.Me and Stylewhile, that compare the size and body type of an online shopper with a specific dress available online. After virtual mannequin is generated with algorithms, customers can compare it with their size, finding the perfect fit [**Appendix 23**].

Besides supporting customers in their choice, reducing dramatically the return rates, it would provide the perfect online shopping experience for customers all around Europe.

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### **Other resources**

KissMetrics, Zendesk, Company agreements with logistics partners (DHL, DPD)

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