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**"BUSINESS MODEL INNOVATION RESHAPING**  
**THE GROCERY RETAIL"**

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*Alla mia mamma e al mio papà*

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# Introduction

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Innovation is success. “*Innovation distinguishes between a leader and a follower*” (Steve Jobs, 2001). Everyone would agree with Steve Jobs saying that, but what is innovation then and why businesses are struggling so hard to achieve it?

Before to answer those questions we have to adjust our mind to the fact that even the concept itself is dynamic, and have modified over time. Today innovation is all over. For what concerns businesses, innovation is the magic stick in the hand of firms. If in the past that was referred to products today it embraces the essence of businesses, being the secret ingredient behind superior performances. It would be an enormous error to confine it only to technological change. (Massa,Tucci,2013) From the recent strategic management literature emerges in fact that major source for value creation in firms is Business Model Innovation and renovation, (Teece, 2010) to which evidences have attributed great results both under operational point of view (IBM,2006) that from the financial returns (BCG,2009).

As consumers, all we are susceptible to new products and nothing creates more hype than our favorite brands launching latest “new version”. Despite that, as business men, we cannot underestimate the contribute of Business Model Innovation, and even less so as managers of young ventures, where its importance explodes. ( Zott, Amit 2001,2008, 2012; Teece, 2010)

On behalf of those considerations, with the present dissertation we will analyze the consequences of Business Model Innovation on specific grocery retail commerce, in order to demonstrate its revolutionary power, which has been able to revamp the traditional practices and reshape this industry. We will present the disruptive effect that Business Model Innovation, in combination with the other epochal change undergoing the Society, ICTs advent, had on business environment (Casadesus-Masanell, Ricart, 2010) and how have caused the birth of a new industry: the e-grocery one.

We will dig in this new industry, in the Italian context , which as we are going to see is one of the most harsh for implementation of novelties and technologic changes adoption, in order to deepen what drives it. In particular, the final aim of this thesis is the proposal of a Business Model to support the creation of the startup Alpha, whose foundations will be rooted in the conclusions emerged from the analysis performed.

In reason of that, we will start from the contextualization of the Business Model in the literature. Despite its early age a relevant amount of scientific publications have been accumulated over the last decades, authors addressing variegated meanings and functions to it. In the first Chapter, we will clarify the origins and the founding elements of the concept through the presentation of the major frameworks emerged, according to academics: the “*Business Model Canvas*” (A.Ostenwalder, 2010) and the “*Casadesus-Masanell & Ricart Meta-Model*” (Casadesus-Masanell R, Ricart J.E., 2009). They will allow us to understand the role that Business Model has within the firm, its relation with strategy and the opportunities hidden behind its innovation. In the second Chapter, we will move our attention towards the business environment, in order to understand what surrounds Business Model and assessing which influences had on it Information and Communication Technologies (ICTs) that marked a secular change in commerce, revamping firms both for what concerns their internal processes and in their relation with customers.(Afuah, Tucci,2001; Kollmann,2006)

We will enter in the detail the new Business Model archetypes that appeared at the advent of the Internet and other novelties and we will examine the enormous possibilities they carry for businesses and young ventures. (Afuah, Tucci, 2003) In particular, our focus will be on e-Commerce B2C field, which made its appearance in light of the union of BMI and ICTs and represents the context of interest of the startup in course. In this case, our route will start from the review of the existing theory which will constitute the base for the evaluation of Ocado, leader for the British e-grocery field.

After having understood the changes taking place in the business world, we will narrow our perspective to the specific Italian industry of interest, moving our attention to the Italian e-grocery market and looking forward for the identification of the industry-specific dynamics which are shaping competition. The aim of the third Chapter is the creation of a blueprint that will guide our strategic choices while structuring Alpha. We will indeed identify the critical issues and activities that affects the performance in the field in order to cope with them. Moreover, the dedicated analysis based on empirical evidences from the field will serve us in the last part as guidelines to support us in the creation of Alpha both back-end that front-end.

In the fourth Chapter indeed we will conclude applying the conclusion to Alpha. After having clarified our point of departure and assets at disposal of Alpha, we will perform the industry analysis for the Veneto context, identifying customers’ and industry features. On behalf of them, supported in our interpretation by the guidelines outlined in the third Chapter, we will draw the strings and give proposal for Alpha, presenting it according to the two major Business Model frameworks our route started in the first Chapter.

# - Chapter 1 -

## Business Model

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### 1.1 Literature Review

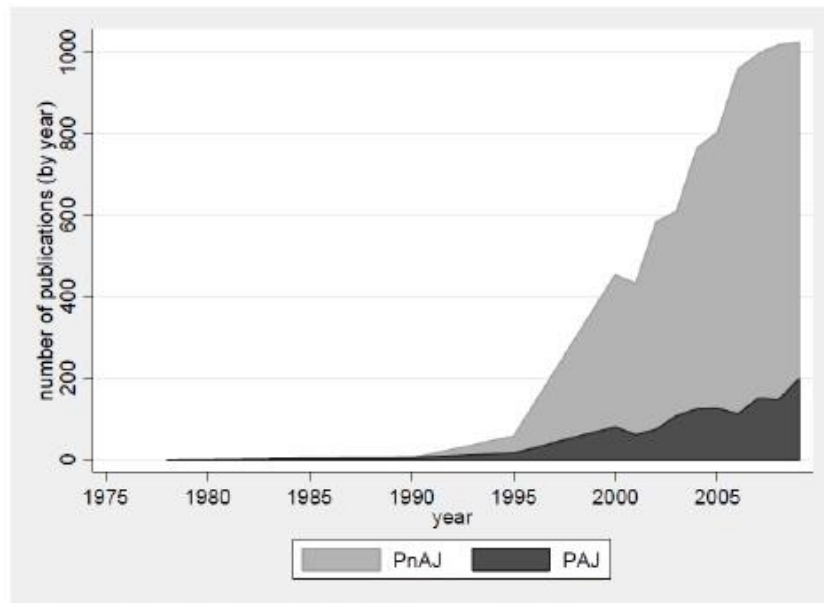
If the concept of Business Model was defined as “emergent” at the beginning of 21st century, (Ghanziani and Ventresca, 2002), from that date the interest around the topic has exploded among both scholars and practitioners. In order to understand the reasons, behind the major attention that today is put on it, we will start from the analysis of the origins, explicating the road the concept followed throughout the years. In fact, much has been written from the 1957 (Bellman, Clark), when the Business Model concept appeared for the first time.

Over time, many authors have questioned the Business Model concept innovativeness. Magretta (2002) for example sustains that it is nothing new. According to him, it is simply another answer to critical managerial questions regarding customers, value creation, delivery and appropriation identified by the father of Management Peter Drucker in 1954 (“*Who is customer?*”, “*What does he value?*” “*How is the business profitable?*” “*What is the economic logic that explains how we can deliver this value to customer at an appropriate cost?*”). Even Teece (2010), few years later, underlined how already during the barter era, when economic exchanges begun, humans always operated according to the Business Model dynamics and principles, even if people were not aware of them. Despite that, evidences demonstrated that the Business Model as a literature topic exploded in recent years, increasingly attracting the attention of scholars and businesses from the end of the 20<sup>th</sup> Century (Massa, Tucci 2013), as witnessed by different studies regarding its presence among scientific publications. The research performed by Ghanziani and Ventresca (2005), covering years between 1975-2000, showed for example that the 90,4% of the topic related articles were published within the five years starting from the new Millennium (2000-2005), 1563 articles against the 166 published in the previous 25 years. (Ghanziani, Ventresca, 2005).

Their results were further reinforced by C.Zott in 2010, when his researches, performed using the EBSCO host database which included also non-academic journals articles, came out.

The outcome for what concerned the PnAJ (*Publications on non-academic Journals*) was impressive. The incredible growth registered proved another time the relevance that the concept gained year after year, as portrait in Figure 1 (Massa, Zott, Amit, 2010).

Figure 1 – Business Model Articles in the Business/Management Field



Source: “Clarifying Business Models: Origins, Present, and Future of the Concept”,  
A.Ostenwalder, Y.Pigneur and C.L.Tucci, 2010

At this point, a question emerges: why the push towards the study of the basics of doing business boomed only so far in the story of society and why since its discovery date, is this path increasing so rapidly?

The main dynamics explicating the exponential growth of the topic, which caused the increase in the interest towards the Business Model, encapsulate under three main factors (Massa, Tucci 2013):

- *The Advent of Internet.*

The contribution of internet has been indicated as the main reason explicating the phenomenon (Afuah, Tucci, 2001). The new opportunities available after this discovery, together with the upgrades in Information and Communication technologies, completely reshaped the business activities (Massa, Tucci, 2010). Cheaper ICTs at disposal of every business at reasonable prices, bandwidth spread and enlarged communications, have facilitated businesses like never before, thus increasing possibilities for shaping business (Ostenwalder, Pigneur, Tucci, 2010).

- *Spread of Post-Industrial Technologies:*

In a similar way, also post-industrial technologies gave their contribution, enlarging managerial opportunities in the assembly of activities and creation of businesses.

New forms of communication, information systems and automation simultaneously drove down costs, kick started new specialized organizational structures, which differed from traditional manufacture-based businesses, and brought to light new industries (Casadesus-Masanell, Ricart, 2010). We can think for instance how software created new companies focused on single tasks, such as those operating in software engineering or maintenance.

- *Interest for the under-developed Markets:*

Lastly, the systemic study of the Business Model was pushed also by economic needs coming from emerging markets (Casadesus-Masanell, Ricart 2010) and from the desire of firms to enter and serve markets at the bottom of the pyramid. Delocalize businesses in underdeveloped contexts have forced firms to a shift towards the adoption of a bottom-up mentality, being no more possible to approach them through a “copy and paste” logic, replicating current practices and transferring consolidated routines. New entrants were required to adapt activities to new environmental constraints, revamping from the scratches their Business Models and Value Chains, and coming up with different and innovative ways to link activities and inevitably creating new business archetypes. (Prahalad and Hart, 2002).

After the assessment, under the quantitative point of view, of Business Model publications over time and the identification of the causes behind their growth, is now the moment to move our focus on how authors’ approaches towards the topic have modified, to understand the evolution of the concept over years.

Ostenwalder, Pigneur and Tucci (2010), with the purpose to clarify the origins of the Business Model, helped us, publishing a comprehensive paper focused on the Business Model concept history. According to them, Business Model definitions could split into three different “levels” (Ostenwalder, Pigneur and Tucci, 2010), (*Figure 2*):

Level 1) *Business Model as an overarching concept useful to describe all the businesses*

This first level of analysis comprehends all those articles indicating Business Model’s main components and whose outcome is the proposal of “Meta-Models” wrapping up its founding elements. Business Models under these lenses are conceptual frameworks; abstract concepts that allow the description of “*what a business does for living*” (Ostenwalder, Pigneur, Tucci 2010) and how it makes profits.

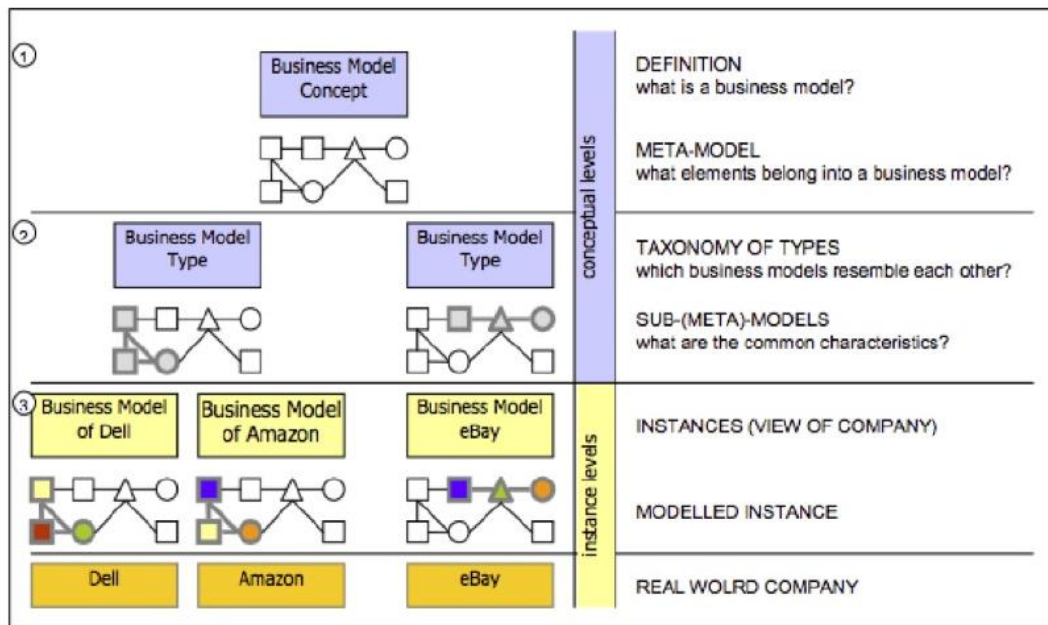
Level 2) *Taxonomies*

Business Model concept, at this second level, encompasses a number of different abstract types of doing business. This second level of analysis includes generically defined taxonomies, among which every real business can refer. Every taxonomy in fact is described using traits that are common to many real businesses. An example are “E-Commerce platforms”, which are defined by traits and features common to many businesses competing in different industries.

Level 3) *The Instance Level*

Business Model is here considered as a tool for representing real businesses, contextualized in their environments. The third level strictly connects with real world, shifting from the theoretical classification and categorizations to the empirical analysis of concrete cases in practice. Specific businesses are analyzed in order to understand in depth the dynamics that govern them. Conceptualization, visualization and description of real cases is the main purpose of the authors belonging to this third level.

Figure 2 – Business Model concept hierarchy



Source: “Clarifying Business Models: Origins, Present, and Future of the Concept”, A.Ostenwalder, Y.Pigneur and C.L.Tucci, 2010

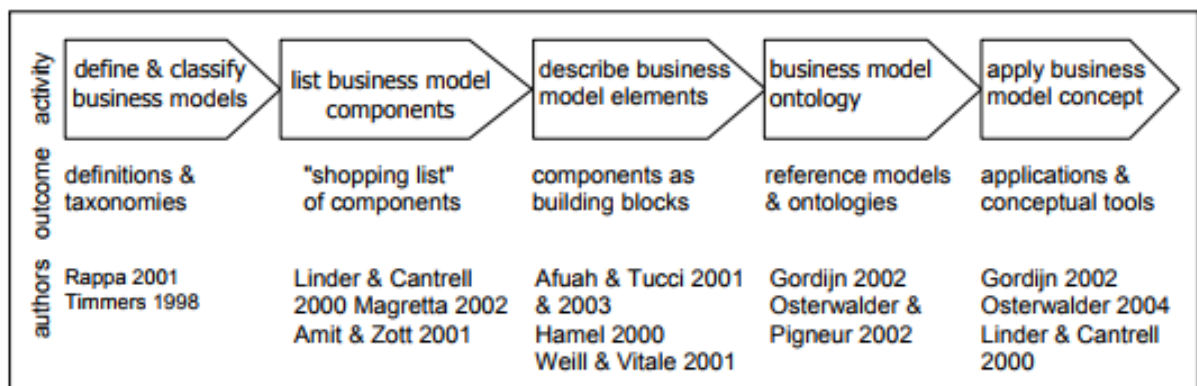
The three level of classification proposed do not embody only a semantic and hierarchical classification. To some extent the pyramidal classification resemble the development path of the concept over time. The more Business Model concept was maturing, the more academics were moving towards the perspective at the base of the pyramid. As a further prove of this similarity, Business Model’s timeline has been split ex-post into five moments, which can be easily refer to the three levels indicated shortly above (Gordijn, Ostenwalder, Pigneur, 2005):

1. **Definition and classification** of the Business model Concept:  
*Answering the question: “What is a Business Model?”*
2. Business model **components identification**  
*“Which elements is the Business Model composed by?”*
3. **Description of Business Model Components**
4. **Meta-Models and framework** proposal  
*“How do Business Model Components relate to each other?”*
5. **Real Cases Analysis**

We can conclude from the comparison that the Business Model concept has been approached in literature following a deductive logic.

Starting from a wide perspective scholars and practitioners tried first to define it and understand its purposes. After that, they proceeded narrowing their perspectives, focusing first on components, then on the relations and influences among those and lately on the determinant of Business Models' success. In most recent times, authors have made a further step. The main theme today had become the application of the frameworks emerged from the theory to real cases, with the purpose to support managers in conducting their business, avoiding threats and maximizing performances. Business Models are in their last age mostly managerial and strategic tools devoted to overcome competitors, achieve business goals and improving profitability. (Figure 3)

Figure 3 – Evaluation of the Business Model concept towards ontologies and application



Source: “Comparing Two Business Model Ontologies for Designing e-Business Models and Value Constellations”, J. Grodijn, A.Ostenwalder, Y.Pigneur, 18th Bled eConference, published in 2005



## 1.2 – Defining the Business Model

After the definition of the path followed by Business Model in the literature, another important aspect to be understood is the real significance of the concept. In opposition to how someone would imagine, despite the considerable number of publications, “*no generally accepted definition has emerged to date*” (Shafer, 2005). Authors and practitioners in fact did not found a common ground to describe the term. Still today they do not agree on what a Business Model really is (Zott, 2010). In absence of a single definition of the Business Model concept, an initial understanding of the meaning comes from the two words the term is made.

R.W.Griffin and R. J. Ebert in 1996 provided one of the first definitions of the term “*Business*”, describing it as the group of activities performed by organizations providing goods or services for profit. On the other hand we have the second term, “*Model*”, defined as “*a simplification of the real word using mathematic terms, symbols or ideas*” (S.C.Albright, 2010). For sure this methodology could not be considered the most reliable to gain a deep comprehension of the phenomenon, due to the general nature of the definitions provided. Anyway, this term-based approach helps to have an initial, even if superficial, idea of what this thesis refers to and can represent the stepping-stone towards a detailed knowledge. As we will see in a few this definition is consistent with specific ones proposed by authors over time. It communicates the idea of Business Model as a tool that makes possible to analyze and decompose businesses, clarifying logics that stands behind the value creation and profits. To put it in an even more immediate way, we can think about Business Models as “*stories that explain how enterprises work*” (Magretta, 2002).

The fact that a standard for the concept is missing, does not mean that authors did not care about this aspect. Indeed, among the huge number of lines written about Business Models, a considerable portion have been dedicated to define the concept. We can see the effort authors put in place below, from Figure 1, through which C. Zott (2010) summarized the most relevant definitions proposed until the beginning of 2010.

Table 1: Selected Business Model Definitions

Author(s), Year	Definition
<b>Timmer, 1998</b>	Business Model is “an architecture of the product, service and information flows, including a description of the various business actors and their roles; a description of the potential benefits for the various business actors; a description of the sources of revenues”
<b>Amit &amp; Zott, 2001 – 2010</b>	The Business Model depicts “the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities”(2001). The concept had been evolved by the same authors conceptualizing the Business Model as “a system of interdependent activities that transcends the focal firm and its boundaries” (2010)
<b>Chesbrough &amp; Rosenbloom, 2002</b>	The Business Model is “the heuristic logic that connects technical potential with the realization of economic value”
<b>Magretta, 2002</b>	Business Models are stories that explain how enterprise work. A good Business Model answers P.Drucker’s age old questions: who is the customer? What does the customer Value? How do we make money in this business? What is the underlying economic logic that explains how we can deliver value to customer at an appropriate cost?

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<b>Morris, 2005</b>	A Business Model is a “concise representation of how interrelated set of decisions variables in the areas of venture strategy, architecture, and economics are addressed to create and sustain competitive advantage in defined markets.”
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<b>Johnson &amp; Christensen &amp; Kagermann, 2008</b>	Business Model consists of four interlocking elements that, taken together , create and deliver value. These elements are value proposition, profit formula, key resources and key processes.
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<b>Casadesus-Masanell &amp; Ricart, 2010</b>	A Business Model is (...) a reflection of the firm’s realized strategy
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<b>Teece, 2010</b>	A Business Model articulates the logic, the data and other evidence that support a value proposition for the customer, and a viable structure of revenues and costs for the enterprise delivering the value
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Source: “The Business Model: Recent Developements and Future Research”, C.Zott, R.Amit, L.Massa, Journal of Management, 2011

As emerges from the previous Table, almost every author gave its own definition. It is a fact that more than the 40% of papers in the archives, aim to find the meaning of Business Model. Unfortunately, this abundance’s outcome has been the opposite of the one expected and contributed to create confusion and general sense of loss, instead of coming out with a shared standard. None of the definitions in fact, became the generally accepted one. In reason of that, it will be useful for our purposes to analyze the recurrence of the terms associated by practitioners to the concept, identifying main features and attributes linked to it, as C.Zott (2010) did. (Table 2)

Table 2: Most recurring terms associated to Business Model in the literature (Zott, 2010)

<b>Term Used</b>	<b>Author(s), Year</b>
<b>Statement</b>	Stewart & Zhao, 2000
<b>Description</b>	Applegate,2000; Weil & Vitale, 2001)
<b>Representation</b>	Morris, Schindehutte & Allen, 2005; Shafer, Smith & Linder, 2005
<b>Architecture</b>	Timmers, 1998 Dubossan-Torbay, Ostenwalder & Pigneur, 2002
<b>Conceptual Tool/Model</b>	George & Bock,2009; Ostenwalder, 2004; Ostenwalder, Pigneur, Tucci, 2005
<b>Method</b>	Amit & Zott, 2001
<b>Framework</b>	Afuah & Tucci, 2001
<b>Pattern</b>	Brousseau & Penard, 2006
<b>Set</b>	Seelos & Mair, 2007

Source: “The Business Model: Recent Developements and Future Research”, C.Zott, R.Amit, L.Massa, Journal of Management, 2011

C. Zott (2010) contribute has been critical for the topic of the Business Model. Even if he did not propose his own definition, convinced this would have only added confusion to confusion, he operated in order to summarize other authors’ ones and bringing to the light shared concepts present in the existing literature.

The results were the identification of a definition built on other ones, a sort of compendium based on contributes accumulated over years since the birth of the concept.

His classification of the Business Model as “*the new-units of analysis, a system-level concept, centered on activities and focused on value creation, delivery and appropriation*” (Zott, 2010) resumes in fact in a single sentence the four common traits emerging from the literature:

1. Business Model is the new **unit of analysis** of firms and networks activity
2. Business Model emphasizes a **system-level, holistic approach** to explain how firms “do business”
3. For Business Model firms **activities have a critical role**, but its **borders also span over the firm**, encompassing also networks components.
4. Business Model explains **both Value Creation and Value Capture**

## 1.3 - Business Model representation

A common denominator that absorbed scholars and managers over years is the visualization of Business Models. Reading once again the definitions presented above it emerges a clear link between Business Model concept and the semantic area of representation. Terms like “systemic” “activity borders” “framework” “architecture” “conceptual tool” “model all push our minds towards the idea of something visual, able to facilitate the comprehension of complex realities. This is true especially if we refer to the “Instance Level”, which uses Business Models as means for that specific scope: tools for shaping and analyzing real world’s businesses. The recent preference for this last approach, together with the interest for the commercialization and the going-to-market process of new technologies and innovative ideas, caused the Business Model to leave the theoretic nature it had at the beginning in favor of pragmatism and empiric applications. A wide spectrum of perspectives and models concerning the representation of the Business Model emerged over the last decades, with the aim to support businesses ideas and innovation. Those models are known as the Business Model Ontologies. Each author proposed his own mix of textual, visual and graphical components which better, according to his vision, would have performed three main functions:

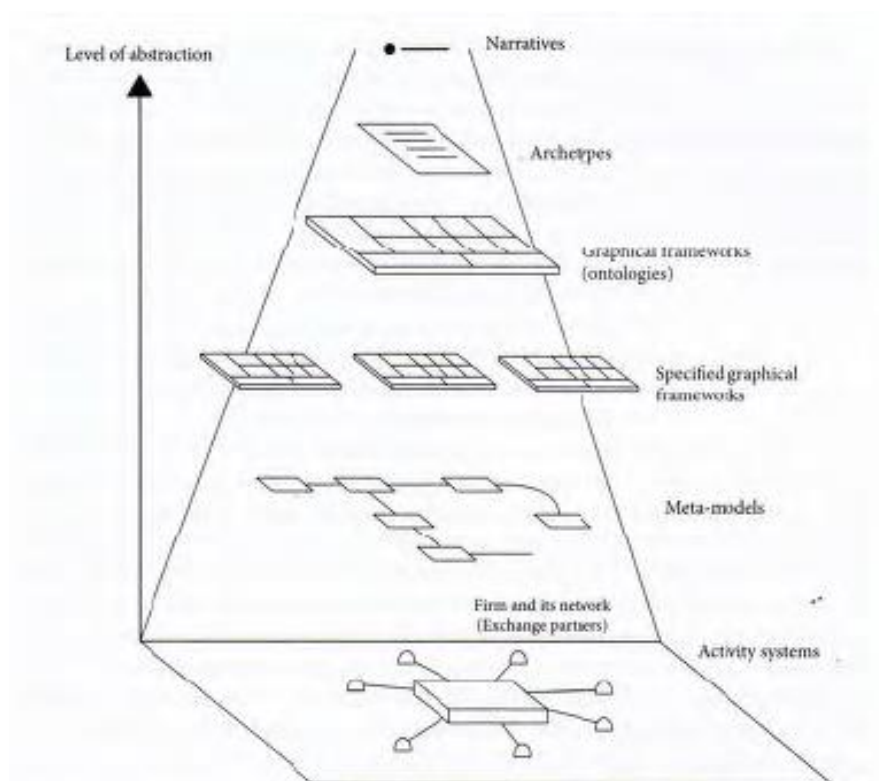
1. Answering to the lack of a generally accepted definition, in the sense that allows and facilitates discussion regarding Business Models. Ontologies in fact act as substitutes for the missing reference language, fostering dialogues, promoting common understandings and supporting collective sense-making (Amit & Zott 2012). For example, they contribute to clarify the vision of Business Models counterparts refer in speeches, minimize miscomprehensions among managers or help to understand papers and theories encapsulating concepts into frameworks already known.
2. Creating better businesses’ vision through the usage of simple graphics or logic connections, helping to grasp real businesses dynamics and critical factors in a simplified and holistic way. The usage of those frameworks can also help managers internally to forecast and make reliable projections of results of innovations and changes over the whole businesses (Ostenwalder & Pigneur 2010).

3. Simplifying external communication. The implementation of ontologies and models allows managers to communicate business logics and a firms' potential, legitimating businesses at third parties, such as investors, auditors or stakeholders.

Over time a substantial number of archetypes have been cumulated, each of them having a particular goal and a unique perspective. Those space from simple and immediate ontologies, less detailed and providing the general picture, to complex ones, which require more time to be understood, due to larger sets of elements, but resulting in a deeper firm's comprehension through perception of hidden business logics. It is not correct to compare the quality of different ontologies, looking for the best one. There are many possible models to apply to every situation, each one providing different insights and enabling to answer different managerial questions.

L. Massa and C. Tucci arranged in 2013 to order Business Models on six different layers, on the base of their "abstraction from reality" (L.Massa, C. Tucci, 2013), as we are going to present hereafter in Figure 4:

Figure 4 – Business Model at a different level of abstraction from reality



Source: "Business Model Innovation", L.Massa e C.Tucci, 2013

### 1) *Narratives*

Narratives represent the most abstract forms. According to these frameworks, Business Models are verbal descriptions of “*how firms do businesses*” (Magretta 2002). The narrative ontologies’ main purpose is external persuasion. Business Model narratives’ functions are respectively: convince audience regarding possibilities that firms are facing and future scenarios, achievements these will reach and the legitimation of the firm at third parties’ eyes.

### 2) *Archetypes.*

An archetype can be imagined as a typology of Business Model, which applies to an open number of real businesses. There is not a close list of archetypes, because they tend to change with the evolution of businesses and the development of new industries. As we will lately deepen, the changes brought by the advent of the Internet, computers and smartphones contributed to the formation of new archetypes: e-Shops, e-Procurements, Marketplaces, Value Chain Integrators constitute a restrict sample of new patterns born and boomed in the last two decades due to ICTs advent.

### 3) *Graphical Frameworks*

Graphical frameworks differ from the two previous classes because they require a more rigorous and accurate approach to structure Business Models, considering its different specific elements, one for every essential component of the business. In this case, Business Model outcome is a synthetic and graphical representation of the value creation and appropriation logics. The most recognized Business Model graphical framework is the “Business Model Canvas” (A.Ostenwalder, 2012). Despite that, many other frameworks exist and support managerial activities and businesses every day in innovating and increasing performances.

### 4) *Meta-Models*

Meta-models help providing a deeper comprehension of dynamics that links the different components of a business. Representation tools based on a systemic logic bring to light consequences for every actions taken. The most recognized is the Casadesus-Masanell & Ricart Meta-Model (2010), which analyzes the flexibility-rigidity of the consequences in relation to actions that caused them. Understanding the link between an action, its consequences and the nature of this relation can give a deeper understanding of the real business that is under analysis.



### 5) *Activity Systems.*

This last class embraces the most concrete forms of archetypes. The link with the real world is almost complete and not much is left to the unspoken. Business Model still composes of different elements, but this time, instead of being the result of an “action-consequence” logic, is the sum of every activity the firm performs. Only computing the analysis of all the activities it would be possible to reach the highest accuracy in the comprehension of businesses. According to these ontologies, not only the firms’ actions have to be considered, but also those of partners and third entities that are in contact with the business (Amit & Zott, 2010).

Independently of the level of abstraction, all Business Models have a representative nature that groups them as simplifications of more complex entity, as real businesses are. Even if Business Models can be deployed for the identification of the general business taxonomies or as tools to break down them into their specific components, the shared core function they have is the fact that everything acts as performative representations (Perkmann & Spicer, 2010). According to this theory, Business Models define as “performatives” because they all move towards three main directions:

- *Persuasion*
- *Legitimation*
- *Guidance*

Even in this case, the choice of the specific ontology should depend on the purpose of the business. Narrative forms will be used mostly by promoters (Magretta, 2002) and find their meaning in persuading external parties, inducing them to appreciate the value-generating capability of a business. Those defined as the most abstract ways to represent businesses are similar to stories, which tell how after a series of events (Brunes 1991) a certain strategic goal will derive. Moving downward to real business the direction changes. Taxonomies indeed have a different purpose: business legitimation. Matching a particular taxonomy allows third and internal parties to identify specific business, qualifying it as member of a group.

The possibility to categorize results particularly useful for startups and new ventures, both for internal and external purposes. Externally for instance, investors and customers will immediately understand what a company does, and in case of disparities with similar firms they will appreciate more the differences in the product/service level or in the leanness of the organizational structure.

More efficient the representation is, more the purpose associated will be. Frameworks, Meta-Models and Activity Systems in fact, presented above as less abstract forms, all serve as guides for businesses in structuring their operative processes. Best practices in this sense will become “industry recipes” (Spender, 1989) to be followed in organizing certain aspects of the business and as source of changes and adaptations through upgrades and improvements. Baden-Fuller and Morgan (2010) sustain, at this purpose, that those are real guides for remaking the reality. Even if they depict real businesses, the real success does not stay in copycatting successful competitors, but derives from getting the inspiration and leveraging on the push they can give to managers towards innovation.

### 1.3.1 - Business Model Ontology (Canvas)

The Business Model Canvas is the most famous framework adopted to support businesses and foster innovation. Born as the theme for the PhD dissertation at the “Ecole des Hautes Etudes Commercial de l’Université de Lausanne” by Alexander Osterwalder in 2004, Business Model Canvas had become in few years the worldwide manifesto for what concerned Business Modelling science.

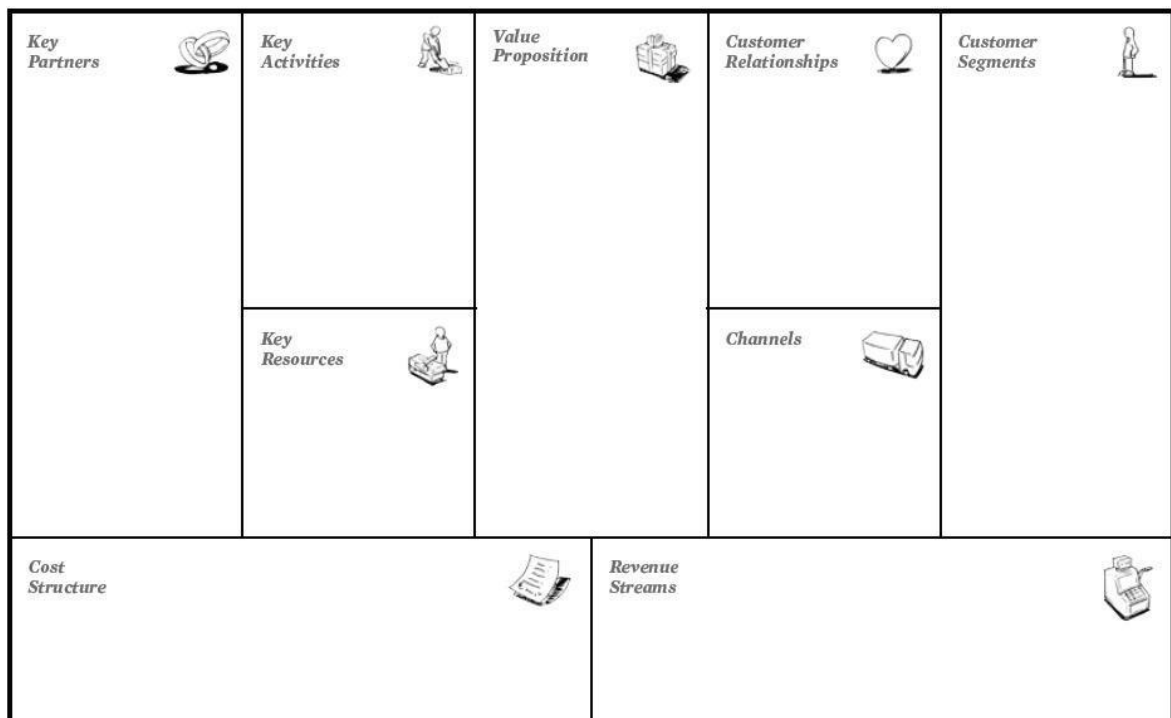
It has been disclosed and presented to the public in the book “Business Model Generation” (2010), written by A. Osterwalder and Y. Pigneur, with the support of a community of 470 international practitioners. The result of this collaboration is a masterpiece of managerial science, defined by the authors themselves as “*a handbook for visionaries, game changer, and challengers striving to defy outmoded business models and design tomorrow’s enterprises.*” (A.Osterwalder, Y.Pigneur, 2010). As the term “Generation” suggests, the book is not the classical written management text, but more a practical manual aiming to inspire real businesses in innovating, competing, foreseeing changes and trends, reacting to crisis and coping with globalization, which is rendering fiercer and fiercer competitive environments.

Business Model Canvas has been made in the form of a graphical framework (*Figure 4*) and is defined as a “handy tool” by the authors themselves in the first pages of the text. We can think at it as a strategic visual template for documenting and studying existing businesses and supporting entrepreneurial spirit. The scheme proposed by A.Osterwalder uses an immediate visual language that enables the representation of the whole business at a glance, highlighting how it creates and delivers value to customers and captures profits. The main feature of the framework is that makes easy and understandable the “how’s” of businesses to everyone, also those that have not competences in the managerial field, and allows to simplify complex and articulated realities decomposing them in their essential components. We can imagine the Business Model as a blueprint for strategy (A. Osterwalder et al. 2010).

A. Osterwalder believes that every business could be described through nine basic building blocks, nine categories that are common to every Business:

- 1) *Customer Segment* (CS)
- 2) *Value Proposition* (VP)
- 3) *Distribution Channels* (CH)
- 4) *Customer Relationship* (CR)
- 5) *Revenue Streams* (R\$)
- 6) *Key Resources* (KR)
- 7) *Key Activities* (KA)
- 8) *Key Partnerships* (KP)
- 9) *Cost Structures* (C\$)

Figure 5 – The Business Model Canvas



Source: “Business Model Generation”, A.Ostenwalde, Y.Pigneur et al., 2010

1) **Customer Segments** identify target(s) that a business addresses and wants to serve with its offer. Customers differ from a company to another, from business to business. It could be the Mass Market or a small niche, private independent customers (B2C) or other businesses (B2B). It is crucial for a company to know its customer base, otherwise it would not be possible to be competitive and survive. Its identification requires at first the market segmentation, in order to achieve the maximum possible knowledge of all the customers' types. A firm cannot underestimate the importance of key variables identifications because those characterize clients and allow breakdown of the industry customer base into smaller segments with homogeneous expectations. As Osterwalder sustains "*customers are the heart of the company*" (2010); for this reason profiling them let grasp needs and differences between them and to understand which segment would better answer to the company's Value Proposition (VP), being more profitable. To put it simply, Customer Segment identifies whom the firm is creating the Value for.

2) **Value Proposition** is the second building block and describes the mix of products and services that create the Value for clients. It makes clear why a customers would prefer a certain company to another. In other words, it presents benefits to be gained through that choice and the company is able to offer. In reason of that, the Value Proposition should always differ from competitor's one, even when the product is the same. A. Osterwalder sustains this building block should be the one that distinguishes the company on behalf of its unique offer. We have to consider that uniqueness do not require the provision of disruptive products. Even when offering something that already exists, firms can do it differently, charging their own service with distinctive features.

Differentiation have multiple sources, "*newness*" being only one of the many possible. Superior value could derive from giving customers the possibility to "*customize the offer*", from "*improved performances*", into major efficacy ("*getting the job done*"), "*superior design*", could reside in the "*status associated to the Brand*". It can even come from the settlement of a "*competitive price*", the "*reduction of costs and risks*", allowing broad "*accessibility*" or an "*easier usability*". In addition, it has to be considered that different does not mean that companies cannot have multiple Value Propositions. Ideally in fact there should be one specific Value Proposition for each customers' target. Many customers types services will call for diverse Value Proposition crafting.

3) “**Channels**” have the function to bridge the two previously presented blocks and identify how the company gets in contact and provides values to customers. It encompasses all the means through which the firm reaches the clients. Channels go beyond the simple delivery of the Value Proposition, touching all the company-customer relations.

The “Channels” have 5 dimensions, which go from building of the recognition and reputation of the product/service proposed (“*Awareness*”) to the post-purchase assistance and customer support (“*After Sales*”). The five channels are:

1. *Awareness*
2. *Evaluation*
3. *Purchase*
4. *Delivery*
5. *After Sales*

The choice of the bundle of means to be used is essential for the success of every business; each customer type would prefer a specific way to conclude the purchase and to get in contact with firms. Even best products/services expose to risks if channels are managed in the wrong way. A broad spectrum of channels exists and companies have to select carefully among the multitude of Direct or Indirect possible means, physical or not. Moreover the company has to choose if acquiring “owned” channels, that usually allow higher margins over the long term but entail higher initial costs and associated risks, rather than outsourcing them to specialized partners. The Block allow to gain a broad overview over the firm and to monitor the integration among the Channel mix and their consistency with the Value Proposition.

#### 4) **Customer Relationships**

The fourth essential block goes hand by hand with the Channels’one. It has just been examined how company and customers get in touch and how these relations change. This fourth Business Model component instead analyzes the nature of it, answering the question “which kind of relation does the firm want to entail with his clients?”. Relationships spectrum spaces from close, personal and direct ones to others based on standardized procedures and the adoption of technologies.

Customer Relation links with other Building Blocks, depending on the Value Proposition that firms aim to deliver. An ultra-high end fashion atelier, for instance, cannot adopt standard automated procedures to manage post-acquisition relationships with its clients.

Once more, a company should always structure its relationship mix according to the purpose it has. Three are the goals that directly influence strategic choices in Customer Relationship area:

- a) *Customer Acquisition* (Enlarge the customer base)
- b) *Customer Retention* (maintain the existing customers loyal)
- c) *Boost in sales* (overcome customer's expectations regarding the product/service acquired)

Moreover, Customers Relationship possibilities can include: personal assistance, dedicated-personal Assistance, Self-Service or Automated-service, Communities. The last approach to be considered is Co-creation. In this case, the company breaks traditional company-customer barriers and the two counterparts become a unique entity. Customers will contribute directly to the creation of the value providing their ideas and solutions for managerial issues or actively taking part to the development and innovation of products and services. This is the case of platform like Youtube.com, where customers create value for others through uploading videos. Another example comes from a more traditional industry: DHL, the world's largest logistic service provider, tackled the challenge for innovation organizing hand-on workshops and open concourses to find new solutions to be added to their service portfolio. Those resulted in the design and co-creation of the "Parcelcopter", a no-pilot shipping drone for light-weight transportation in city centers.

## **5) Revenue Stream**

Revenue Stream describes the nature of earnings that company gets from the creation and delivery of the Value. In other words, how cash enters the company's accounts. This block is critical because it is necessary that the company perfectly knows where profits come from, in order to be profitable. After having assessed what customers are open to pay for, in the first block, it is the time to analyze how much they are willing to pay it and how they prefer to do payments.

Different are the possible forms of generating revenues:

- Selling a material product is the most common one (“*Asset Sale*”)
- Providing the possibility to use a particular service for a certain fee (“*Usage fee*”)
- Selling continuous access to a certain service after the payment of a “*Subscription fee*”
- *Lending/Renting/Leasing* temporary the exclusive right to use an Asset for limited time
- Allowing third parties to use protected intellectual property (“*Licensing fee*”)
- Getting paid for the intermediation between two or more parties (“*Brokerage fee*”)
- Communicating and “*advertising*” other companies Value Proposition, products or services.

It has to be noted that the type of revenue is usually not a flexible choice for firms. There are situations where companies could choose among a limited number of possible streams. For example, in case of the discovery of a new technology for a specific industry, the inventor has usually only the possibility to patent and license it or directly selling it to other businesses. What’s usually more discretionary is the “Pricing policy”. In fact pricing has a critical strategic role for firms. We can split it into two general mechanisms: the “Fixed Menu pricing”, where prices are set in advance and generally are not subject to future changes and the “Dynamic Prices”, when fees fluctuate according to market conditions and are administrated through auctions or bargaining dynamics, exposing the company to possible higher gains but also to more risks and uncertainties.

## 6) **Key Resources**

Key Resources refer to all the assets that a business relies on building and delivering the Value Proposition. Every Business Model has specific key resources and it is important to identify those because of their superior contribution to value creation. Firms in fact cannot be exposed to the risk of losing them. Key Resources could be tangible or intangible, and can derive from different sources. A firm key resource could be *physical* (as the case of a broad network of Point of Sales, a fleet for the management of logistics, production implants or machineries), *human* (the workforce), *intellectual* (patents, intellectual properties, brands, trademarks copyright or even information contained in a data base) or *financial* (as in case of cash and credit bank accounts).



Key Resources are mostly business-specific. Prove for it comes from comparing players within the same industry. Taking as examples the two US retail giants, Amazon and Wal-Mart, we will find out how different their Key Resources are, despite the fact of being direct competitors in the e-retail industry. The first relies on few technology-based warehouses, closed to the public, and on an extensive use of automation. On the other side, Wal-Mart's Business Model has, as Key Resource, the broad network of physical stores, consolidated over time and spread all across the United States, which is used by the firm as hubs also for the e-commerce, exploiting the possible synergies between the two businesses.

### 7) **Key Activities**

When Key Resources refer to most necessary assets for value creation, key activities comprehend those tasks and actions that a company must do to make the whole system working. This Block includes operations needed to build products or to reach markets, managing relationships with customers and earning revenues. For that reason, within this category will be grouped activities coming from different part of the business. In capital-intensive businesses, based on production of a tangible product key activities are more willing to reside into the "*Production*", contributing to reach the performance required both in term of quantity that in term of quality (we can think for instance to how is important the "design" activity within Apple). Even *Problem Solving* could constitute a key activity, intended as the firm capability to arrange solutions for customer issues, as in the case of consultancy firms, such as BCG, Bain & Company, which solve problems for their clients. The last type of activities identified by A.Ostenwalder are "*Platform/Network*" ones. These refer to the capacity of businesses to allow communication and interaction among third parties, for example using a property platform, as it happens for the already cited B2C giant Amazon.com.

### 8) **Key Partnerships**

Operating in competitive markets and globalized environments made alliances no more an option for companies. The 8<sup>th</sup> Building Block cares about network of firms surrounding a company and partnerships that the firm established. Partnerships are critical to Business Model success even though that depends on external subjects.

Agreements can answer to businesses critical quests and solve critical managerial issues, such as cost and risk reduction, acquisition of specific resources, outsources of specific services or capabilities and implementation of activities that would be too costly to manage internally. In the end, partnerships directly contribute to maximize business efficiency and achieve superior quality also for what concerns the Value Proposition. There are four types of partnerships:

- *Strategic alliances among non-competing actor*
- Partnerships with competitors (*Coopetition*)
- *Joint ventures* to develop new businesses (possible both with competitors or third parties)
- *Buyer-Supplier relationship* to assure reliable supplies

## 9) **Cost structure**

Cost structure faces Profit Structure and directly affects businesses' profitability and firms' financial sustainability. Previous eight Building Blocks in fact do not just generate value and revenues; they also accumulated costs, in the sense that they require capital investments in people and assets. No one should underestimate the importance of having a clear picture of fixed and variable costs businesses expose to, especially within industries where price competition is dominant. We will refer to Business Models of companies operating in this context as "*Cost Driven*" in the sense that, being price a primal driver for customers' purchases, those firms will constantly seek for the minimization of expenses without compromising quality. The most common example are the low-costs airlines, whose margins builds up pushing down costs, rather than increasing prices and fares. On the other hand we have "*Value Driven*" Business Models, typical of those firms that can afford not caring too much of prices, in reason of the highest willingness to pay of their customers. This is for instance the case of fashion griffes such as Gucci, Bottega Veneta or Hermes, which, relying on their Brands exclusivity, can charge superior markups, focusing on the value creation through the usage of qualitatively superior raw materials and paying attention to the design, more than cost reduction.

If we analyze the eight blocks together as the component of a single model, clearly emerges that they are interrelated, each one affecting others. For this reason, they can be further sorted into four main areas, which will present them aggregately, as parts of a bigger structure that stays at the basis of the visual representation. We will have indeed:

- **“Infrastructures”** composes of:
  - *Key Resources*
  - *Key Activities*
  - *Key Partnership*
- **“Offering”** includes the *Value Proposition*
- **“Customers”** includes
  - *Channels*
  - *Customer Segments*
  - *Customer Relationship*
- **“Profitability”** (or Finance) is made of:
  - *Cost Structure*
  - *Profit Structure*

The Business Model Canvas is today the most effective way to design and innovate companies and businesses operations. It is a general model, which can perfectly match needs of both startups, supporting them in disrupting and entering new markets, SMEs, supporting their innovativeness and big structured firms, allowing them to have a comprehensive view of the multiple activities they perform and to never forget their basics.

As a tool in fact, Business Model Canvas allows to have in a unique snapshot the vision of both internal and external processes, cost efficiencies, effectiveness of partnership, putting an eye on customers, what their value, how they are served and always paying attention to profitability and marginality.

## 1.3.2 – Casaduesus-Mansell & Ricart Meta-Model

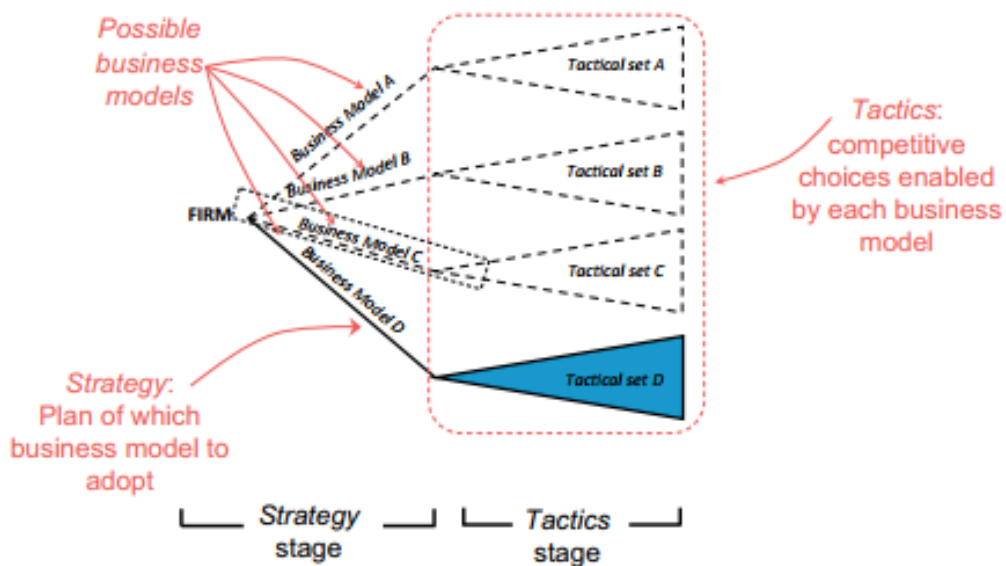
Ostenwalder's Canvas proposal completely revamped the Business Model literature, boosting the attention that both scholars and academics put on business modeling. In addition to this framework, many others apart from this deserve attention, because of the resonance they had, quality of the insights and diversity of perspectives over businesses they can give. The Business Model Canvas in fact is a useful model to depict firm's structures and understand graphically its main components (the 9<sup>th</sup> Building Blocks); however it is not perfect under every point of view. For instance, it does not help visualizing how components relate each other and what ties together the bones of the business' body. R. Casadesus-Masanell and J.E. Ricart proposed in 2009 their framework, with the precise intent to uncover logics of Business Models. According to them indeed, the main explication to the value creation of firms remained always hidden in the other models, which at their time had always erroneously analyzed consequences, not the causes. As already said, it would be an error to think at this model as an antagonist to Ostenwalder's one. In fact, the 9<sup>th</sup> building blocks contribute to value creation; the two authors sustain that the main source of value in a firm is the "logic" behind the elements which constitute businesses. In light of this conclusion, they suggested that from this aspect Business Model analysis should start.

The Casadesus-Masanell and Ricart framework founds on assumption that are the "strategic choices" to build a Business Model, consequently is from these choices that derives the value created and captured by every specific firm. Non-profitability and failures come and grow from lacks and mistakes committed at the strategy level. Indeed, the first aspect to explain is the meaning of the term "strategy", and especially the nature of relations existing between strategy and Business Models, two concepts that many times almost overlapped in the academic literature. According to the definition that they proposed, "*strategy refers to the choice of business model through which the firm will compete in the marketplace*" [Casadesus-Masanell, 2009]. Actually this strategy contains the Business Model, although not being exactly the Business Model which is defined by them as the most observable component of a strategy: the "*strategy in place*". [Casadesus-Masanell, 2009]. Business Models represent firms' logics, how these operate explaining how value builds up both for stakeholders that for firms. In other words, the Business Model is the strategy of the firm implemented in a contingent environment. Strategy's borders spread over that, including the potential Business Models to be adopted in case of unexpected changes or as reaction to competition attacks.

Even if, these two concepts could resemble in the normal going-concern of businesses, they are not. Differences emerge in distresses, when the contingent Business Model does not work anymore and calls for adaptations to the new environment. It is normal for firms when external shocks occur to implement changes in the governance, structure or to adopt new corporate policies. This is the case when Strategy does no more coincide with the actual Business Model, which no more reflects it. In cases of distresses indeed those choices will change the old Business Model re-establishing the equilibrium.

In addition to these there is a third aspect that has to be clarified due to its opacity in the literature and the confusion that usually arises with the two above: the word “*tactic*”. Even Tactics in fact entail choices differently from the previous cases. If, as we had just occasion to see, Strategic Choices affect directly the Business Model adapting it to the contingent situation, Tactical Choices are those residual to a firm in virtue of the present Business Model. [Figure 6].

Figure 6 – Strategy, Business Models and Tactics



Source: “From Strategy to Business Models onto Tactics”, 2010, R.Casadesus-Masanell & J.E.Ricart

In order to clarify the difference between strategy and tactics we will take the Eataly case. The motto “*Discover The Taste of Italy: eat better, live better*” embodies the Value Proposition of the Italian worldwide grocery retailer, representing Oscar Farinetti’s company willingness to serve customers with original Italian products and to spread and communicate the Italian culture. This statement represents the strategy of the company. On the other hand, we have all those operative choices regarding which product to present over shelves, marketing channels to use for selling and advertising the items to customers, pricing policies, events and classes schedules for the courses customers can join. All those represent the tactical choices the firm faces on behalf of its current Business Model.

Even if deriving from the Business Model and from the Strategic Choices, Tactics are critical for profitability and business performance. At the end of the day it’s the field of choices that creates the value and determines how a company would capture it. The firms’ competition is the result of the interaction among competitors’ tactics: potential winning strategies would lose if tactics fail. These have relevance either from customers’ perspective. Company’s tactical choices are the most evident to them. They assess a firm mainly according to how it behaves in real situations. It is particularly important to properly master choices, both tactical and strategical ones. In reason of that, according to the two authors, are those to constitute the starting points for the Business Model visualization. They identified two sets of elements, answering differently to the endless question in the academic literature “*what parts constitute a Business Model?*”.

A Business Model is the resultant of [Casadesus-Masanell & Ricart, 2009]:

- **Choices**
- **Consequences** (of that choices)
- **Theories**

**Choices** are present at every level of the business, touching every aspect of it. We have already divided them by hierarchy but these can be further grouped on the base of what they refer into three other categories:

- **Policy Choices** are those general choices referring and affecting a firm as a whole, and do not refer to a specific area of it.
- **Asset Choices** affect the tangible resources a company needs and uses to pursue its business activity (ex. Manufacturing facilities management)
- **Governance Choices** refer to the structure of contractual arrangements that confer decision rights over policies and assets

At their time, even **Consequences** can be split into two sub-groups, according to the elasticity towards the choices that generated them. On one side, there are “**Rigid Consequences**”, which are less sensitive to changes and take more time to be modified. On the other hand, we observe “**Flexible Consequences**” that are those whose bases are the most rooted in the related choices and modifying them also consequences will follow rapidly .

The third components of the Model are **Theories**, composing a critical part for the functioning of the Business Model. Those refer to reasons and suppositions explaining how from choices derive consequences. To put it simpler, theories are the causal links between the other two elements of Casadesus-Masanell & Ricart framework.

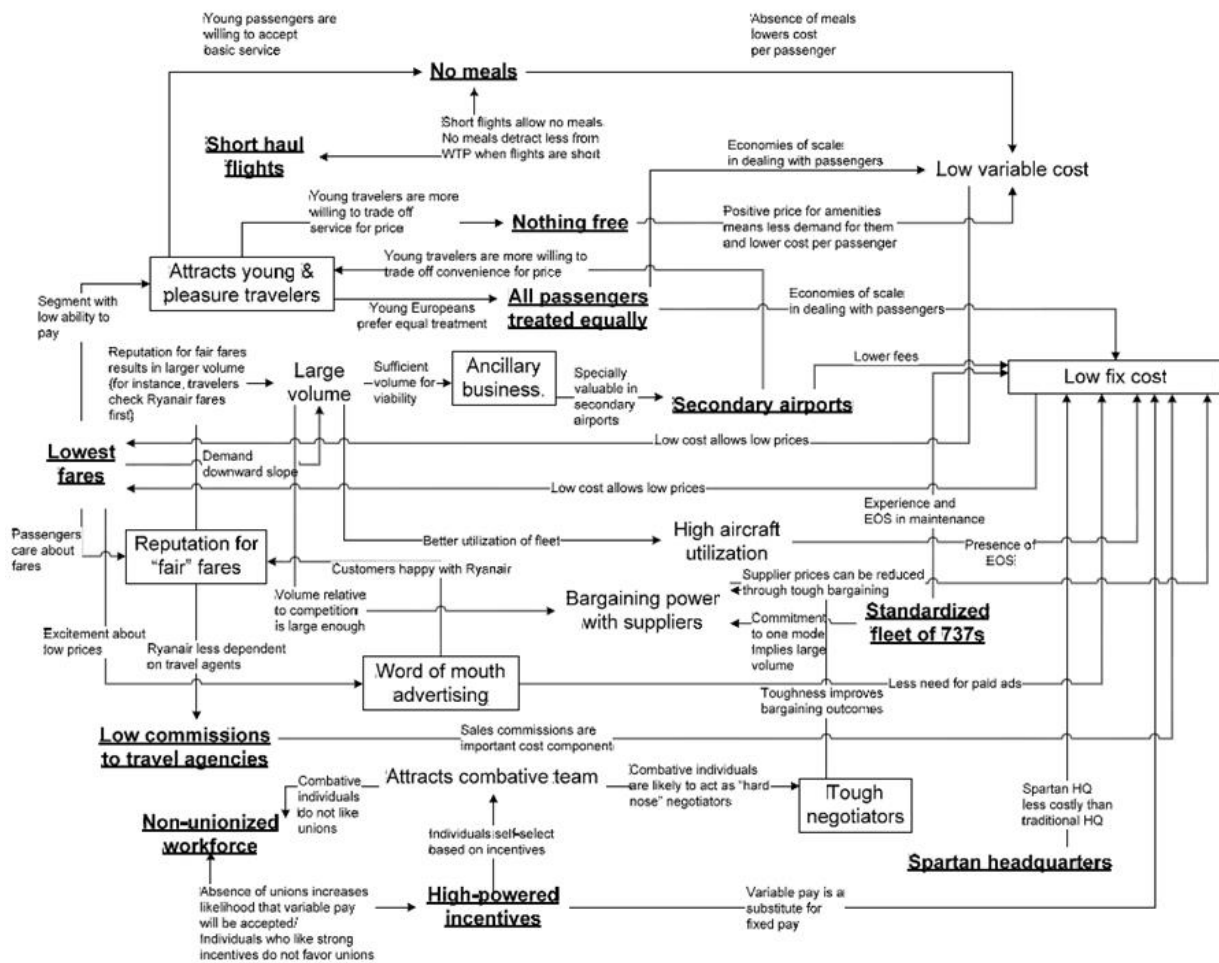
Representing all choices that structure a business would not be possible: firms make thousands of choices shaping them. The risk for visual diagrams is to become over-complex and too difficult to be interpreted, even for small and simple business. There are for this reason, two main principles to follow for coping with these problems and assure that diagrams would be easily comprehensible:

The **Aggregation principle** implies grouping together granular-level choices and their consequences into sets in order to avoid an excessive level of details in information included into the model. Casadesus-Masanell and Ricart compared the aggregation as the “zooming out” process. Increasing the distance of the point of observation, only the main choices and consequences will remain visible. They also underlined this process has to be conducted carefully. If pursued too much invasively, this principle will increase the risk of leaving behind important detail thus reducing the reliability and compromising the usefulness of the analysis. The purpose of the aggregation of multiple nodes into bigger ones in fact should always be a better understanding of answers to analysts quests and every aggregation have to contribute to that.

The **Decomposability principle** suggests instead to separate complex Business Models into simpler ones, when possible. That is the case of companies that conduct multiple weakly linked businesses, as it happens for instance for Ryanair. The Irish airline also operates car rental and accommodation services for its customers. Even if these accessory businesses, which require many choices, are important sources of revenue, they do not matter a lot with the airline transport business. Avoiding the representation of choices related to those would indeed help managers in analyzing , visualizing and understanding the core logics of the firm.

The elements and principles presented above constitute the bricks and concrete allowing to build up the graphic model proposed by the authors. The way proposed to represent the logics that stands behind a business is the “causal-loop diagram” form (Baum and Singh,1994). The Model connects choices and consequences through representing the theories that explain relationship as presented for the Airline low-cost Ryanair core business (Figure 7):

Figure 7 – Ryanair Business Meta-Model (including theories)



Source: “Competing through Business Models”, R.Casadesus-Masanell and J.E.Ricart,

Ryanair diagram in Figure 7 presents the core of the firm in its most complete form, having written over the arrows the explicit “theories”, most of the times hidden as implied. We assume for this reason that authors for this representation decided to pursue a highest level of detail and completeness including the justification of explanations among choices and consequences.



From the depiction and study of causal loop diagrams another important aspect for the business comes to the light: *Virtuous Circles*. Virtuous Circles relate to the dynamic nature that animates Casadesus-Masanell and Ricart model. As suggested by arrows, diagrams have directions, and in most of the cases loops of choices and consequences create in it. Virtuous circles define in fact as “feedback loops” and arise when two or more choices reinforce reciprocally through their consequences. These constructs are the main source of value for the company and are addressed as by the two authors as one of the most desirable feature of Business Models. The more virtuous circles there are, the more stability and positive expectations management could rely on for the future. Virtuous Circles push the company towards the achievement of its goals and are one of the main variables to be considered in the Business Model structuring process. For instance if we refer to a company seeking the organic growth, setting up a wide set of circles reinforcing operative goals is highly recommended.

In the Ryanair case for example, we can observe at least six different virtuous circles, all reinforcing one of the strategic choices for the business: “being the lowest fares airline courier”. A first example is constituted by the circle “*Low Fares – Bargaining Power with suppliers – Low fix costs – Low fares*” (Figure 8, Circle 1). This first circle underlines how the starting choice is expected to reinforces over time. We can explain that circle also through the extensive text form. The fact of providing low fares to customers is supposed to generate a large demand for the service offered, this will put Ryanair in a favorable position in respect of suppliers, enhancing company’s bargaining power, reducing prices and fees paid to other companies for services and supplies, and consequently will drive down firms’ fixed costs. This cost reduction will end reinforcing the same idea that generated it, “be the lowest fares provider”, moreover it will allow the Irish low-cost courier to drive down further their prices to the costumers, and the circle continues as going into a spiral. This is not the only strength of virtuous circles: the presence of shared components among different virtuous circles cause a reciprocal and exponential reinforcement of them.

If we take another low-fares based circle, such as “*low fares – attracts young and pleasure travelers – no frills & nothing free service – low variable costs – low fares*”, it appears that lowest fares primate in the industry is protected and reinforced not only by low fixed costs, but also through variable cost reduction. Those two circles presented are only two out of the six identified by Casadesus-Masanell & Ricart in their paper to be co-existing in Ryanair Business Model (Figure 8):

Figure 8 – Ryanair six “low-fares based” Virtuous Circles

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Circle 1

Low Fares – Large Volumes – Bargaining Power with suppliers – Low Fixed Costs – Low Fares

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Circle 2

Low Fares – Large Volumes – High aircraft use – Low fixed costs – Low Fares

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Circle 3

Low Fares – Ancillary Business development – Fly to secondary airports – Low Fixed Costs – Low Fares

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Circle 4

Low Fares – Attracts young and leisure travelers – Nothing Free – Low Variable Costs – Low Fares

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Circle 5

Low Fares - Attracts young and leisure travelers – All passengers treated equally – Low Fixed & Variable Costs – Low Fares

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Circle 6

Low Fares – Attracts young and leisure travelers – No Meals – Low Variable Costs – Low Fares

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Source: the table is extracted inspired by the paper “From Strategy to Business Models onto Tactics”, 2010, R.Casadesus-Masanell & J.E.Ricart

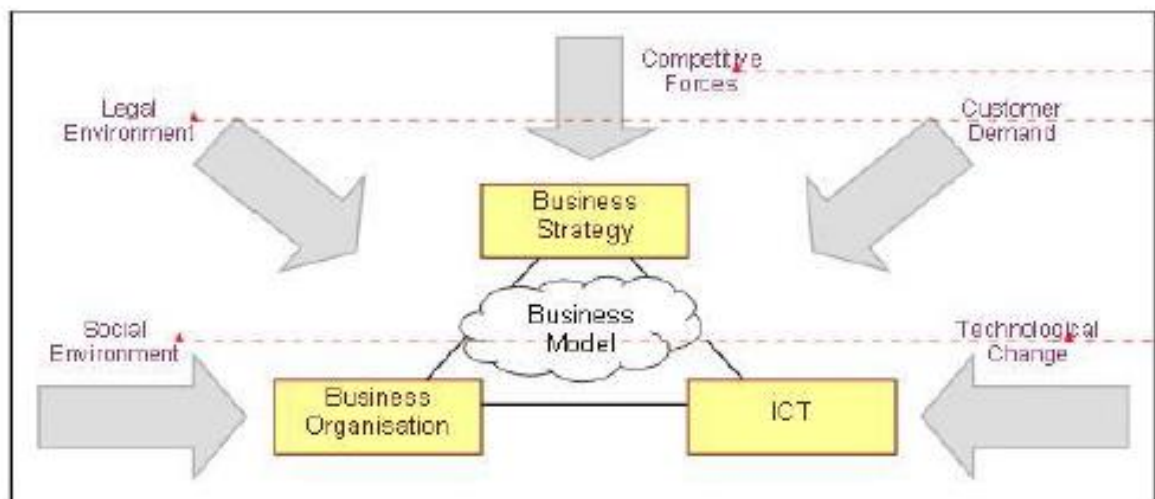
Loops evaluation is extremely important for Business Model Analysis as it permit to understand the dynamics supporting business growth. The growth per se it is not to be considered a goal. It is the visible result of the achievement of determined company’s goals (Porter, 1996). Loops analysis allow management to focus on these goals and on the virtuousness of them. Circles presence can be evicted already observing the diagrammatic representation.

More intersections and arrows there will be and more arrows will pass through driving consequences, more managers and analysts could be confident in the realization and reinforcement of those and business to be stable. The presence of a multiple-lines set of them will also enhance businesses robustness, defined as the ability to sustain its effectiveness over time, which in other terms means the capacity to survive to competitors imitation, hold up, slack and substitution (Ghemawat, 1991). We can conclude indeed that virtuous circles' presence keeps the competitive advantage at secure over times, fosters and pushes growth and, in addition to that, makes much more difficult for competitors to threaten it, as it happens for the Ryanair case.

## 1.4 – Business Model in the firm, strategy and innovation

The two previous visual frameworks presented Business Models mainly as a tool to describe the way in which components of businesses are combined to create value, the logics according to which companies' pieces dispose and underlined how value is generated and captured by the firm. Business strategy, for its part, is a different aspect: it has broader horizons and touches even the competitive behavior of it (Magretta, 2002), which remained excluded from the Models, whose attention directs mainly towards activities and customers. This idea is well evidenced by the definition of strategy provided by Magretta (2002), who referred to strategy as an explanation of how firms will do better than competitors. Strategy operates at an abstract level, identifying what a company should do to succeed; Business Models instead put this strategic vision in practice, unifying the components of a firm in order to pursue the direction indicated and arranging together the Value Proposition with infrastructures, while paying attention to the economic internal profitability. In light of that, Business Model and Strategy are not opposite realities, even if they appear . Their natures are complementaries, as presented in the Business Triangle (Figure 5) (Ostenwalder, Pigneur, Tucci, 2005).

Figure 9 – The Business Model Place in the firm



Source: "Clarifying Business Models: Origins, Present and Future of the Concept", A.Ostenwalder, Y.Pigneur and C.L.Tucci, 2010

This representation of the firm positions Business Model in the middle. It is the glue that keeps together Strategy, Business Structure and Information System, each of them being positioning at a node of the triangle and facing different pressures. In other words, Business Models guarantee and monitor day by day the consistency among other businesses parts. Their contribution to businesses can be summarized into five main roles (Ostenwalders, Pigneur & Tucci, 2010).

The Business Model helps management, employees and third parties to “**understand**” and capture the logic of a business, through a visual representation of it, and gives the possibility to share and communicate this logic, both externally to investors that internally among colleagues.

Business Model also helps to “**analyze**” the business, giving a clear understanding of key aspects to be observed, such as business drivers to be tracked and inspected to reach strategic objectives or giving the possibility to compare the current situation with previous year ones or in respect of competitors.

Business Models help supporting “**management**” in the decision making process at every stage of the business life cycle, simplifying the design process of businesses and the changes implementation, making easier to react quickly and appropriately to shocks or unexpected contingencies.

Especially after the advent of internet and development of the e-Economy, the Business Model assumed importance also under the legal point of view. “**Patenting**” role refers to the possibility today firms have to legally protect aspects of their Business Models, which are considered a today as real properties, thus assuring revolutionary firms’ competitive advantages from copycats and steals for long time.

Even if Business Model represents a firm’s snapshot in a specific moment of its life, it is also dynamic and evolving. Its last function, the most important according to many scholars, is the “**Prospect**” function, meaning innovating. Since this moment, Business Model has been presented mostly referring to its contribution in the structuring process and in fostering the comprehension of established businesses, as a managerial tool to understand the logics of business value creation, delivery and appropriation. This is without any doubt an important component of what is a Business Model; anyway, another shadow of its nature has to be introduced.

L. Massa and C.L.Tucci (2013) explained the “Prospect” role as the second nature of Business Models. “Dual Nature” theory separates the design support function (first nature) of a Business Model to its capability to foster innovation itself, pushing companies to create (second nature). Johnson (2010) defined this as the support Business Models have in inspiring and directing companies in “*seizing the white spaces*”, uncovering hidden Value Propositions, evidencing unserved customer segments and needs, reinventing industries or creating new ones entering “*Blue Oceans*” (Kim & Muborgne, 2005).

Innovation goes together with Business Model and is part of its essence. In reason of that, L.Massa and C.Tucci (2013), while studying innovation sources, divided them into three groups, associating to each particular stage of markets life cycle a level of innovation. They started from the two classical forms of market innovation provided by the classical literature, Product and Process innovations, and to them added a new one, which according to them was the missing dowel: Business Model Innovation (Figure 10).

**Product innovation** is typical of early-stage or newly birth markets, usually created by startups offering innovative products and services and quickly developing thanks to their disruptiveness a market not existing before, targeting unconscious customers or redirecting them. **Process innovation** comes with time, and consists in improvements in existing activities through the implementation of new production or organizational techniques, while maintaining current Business Models unaltered. Process innovation usually results in reduced costs or increased revenues for innovators, due to the higher quality achieved or novelty in the features added to services and usually results in broadening target markets or geographical coverage. An example of success in the process innovation is the English e-grocery platform Ocado, which, since its birth at the beginning of the 21th Century, developed and patented the “Ocado Smart Platform”, the most efficient online software and hardware platform for process management in e-commerce of groceries, which is the reason behind Ocado being the leader in its market.

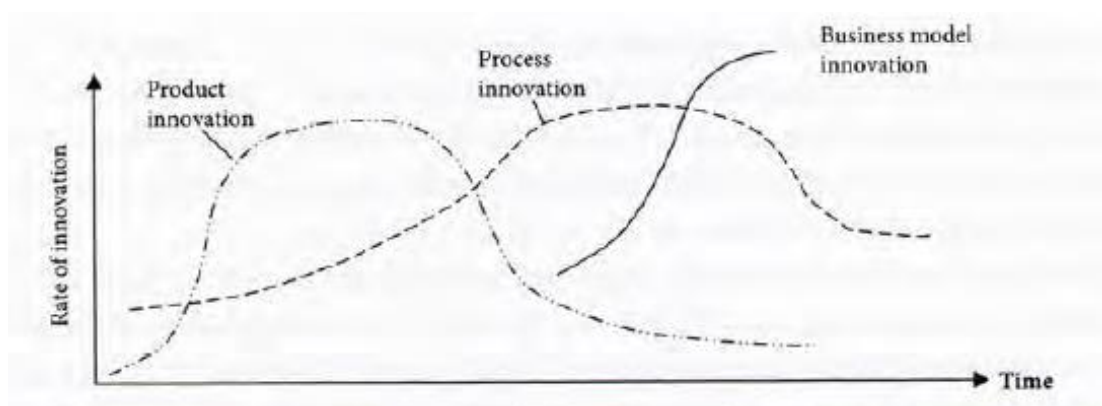
These first two levels referred to the first nature of the Business Model, mainly treating it as if it was a vehicle for innovations. In this sense, new products and services reach the market, supported and developed thanks to the Business Model. Despite that, “big ideas” or “new technologies” remains the focal point and the key for success.

According to Massa and Tucci (2013), Business Model Innovation (BMI) represents the third step (Figure 10). Business Model Innovation theory shift the attention on the Business Model, which becomes itself a source of innovation.

From markets and industry observation, evidently appears that today not all successful firms have from their part innovative Value Propositions or can leverage on disruptive technologies. Many times in those cases, is BMI the variable that explains their leadership. Business Models in these cases have beaten even products and technologic' innovations.

Innovation in Business Model can both derive from Business Model Design (BMD) or Business Model Reconfiguration (BMR): Business Model Design is the case when the innovativeness is carried by newly formed organizations and translates in market success without an innovative product. Innovative BMD happens when someone do something that already is performed by other firms but in a different and better way. On the other hand, we have the “Business Model Reconfiguration” (BMR) that entails modifications and reinventions of existing Business Models, repositioning resources, improving them or acquiring new ones. This second type usually characterizes firms competing in mature markets, being the answer to strategic internal and external issues such reduction in profitability, competition in saturated markets with an uncertain future or the commoditization phenomenon of an industry (Figure 10).

Figure 10 - Market development and Business Model Innovation

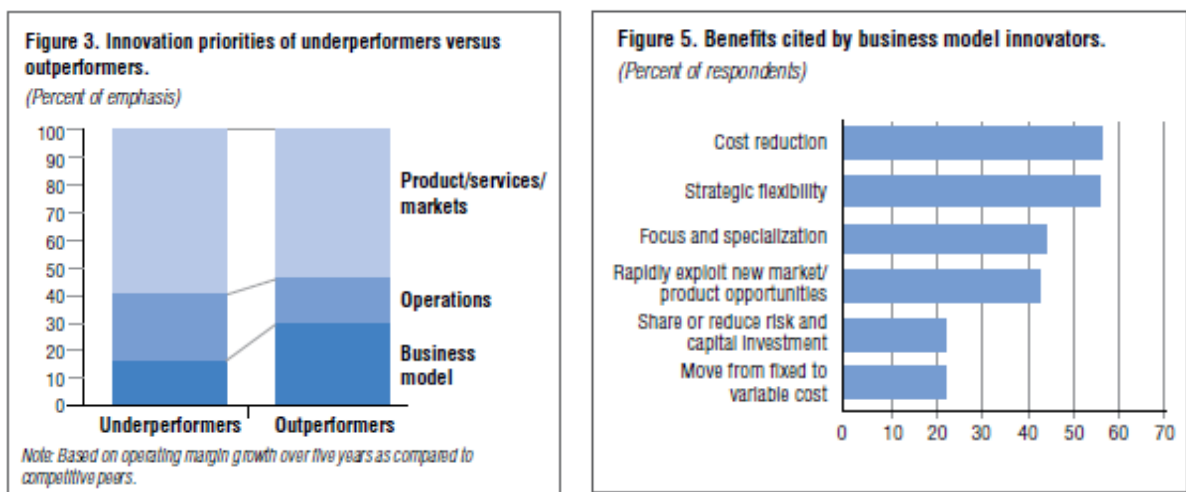


Source: “Business Model Innovation”, Chapter 21, L. Massa and C.L.Tucci, 2013

Christensen in 1997 was the first who discusses about the critical importance novelty in Business Models had for firms' performances and who states its impact over industries, disrupting and reversing them. Last years' evidences reinforced his intuition.

As emerges from Figure 11, a major attention to their Business Model is the distinctive trait of best performers while underperformers tend to keep stuck to the old school mentality, focusing on products ameliorations or trying to reach costs minimization through operations' efficiencies (IBM, 2006). Considering processes innovation in fact, it emerged from the data that cost reduction is mostly achieved by those who pursued it putting effort on the Business Model innovation, not only through the focus on each activity or operations as if they were standing alone.

Figure 11 – Evidences on Business Model Innovation



Source: “Expanding the Innovation Horizons: The Global CEO Study 2006”, IBM Global Business Service, 2006

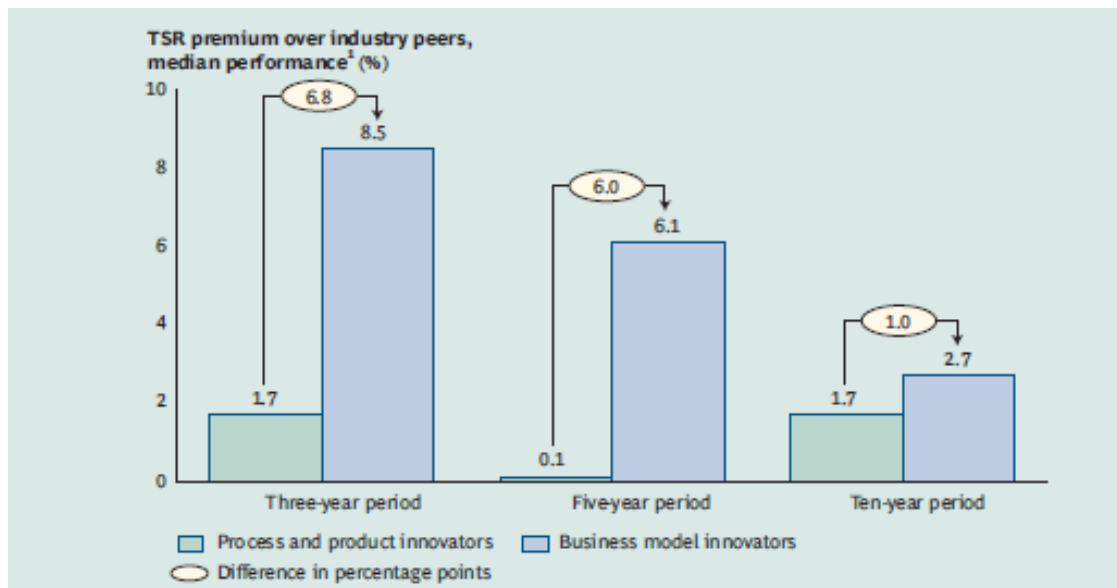
It has not to say that Business Model innovation is enough by itself to reach the benefits listed in Figure 11; all the three types of innovations matter and different situations require firms to pursue different roads for novelty. We want to stress the point that, as emerging from evidences, there is a clear positive correlation between a balanced approach towards innovation including also BMI, and superior profitability. Results in terms of operating margins and growth, for those companies that put twice effort on Business Model, were surprising (Figure 11).

Another research conducted by the Boston Consulting Group in 2009, has updated information available regarding Business Model innovators outperformance and remarked how innovating Business Models are almost not a choice for businesses that seek for growth and profitability.



6.8% points of performance in the short-run divide those who innovated their Business Models from those who did not, limiting their novelty seek to processes and products. Innovating the Business Model is five time more profitable in the short term and six times in the mid-term (Figure 12).

Figure 12 – Business Model Innovators Performance over time



Source: “Business Model Innovation. When the Games Gets Tough, Change the game”, The Boston Consulting Group, December 2009

If BMI results were an evidence in 2009, its importance in today's world got even bigger. Boston Consulting Group and IBM Global Business Service researches in fact refer to the period antecedent the 2009, years that passed to the history for financial crisis, but it has been from that year that the consequences of the crisis started to bring to the knees businesses and entire industries. Those consequences, together with current trends in place for what concerns new technologies, new media and internationalization opportunities, made Business Model Innovation a *condicio sine qua non* for today businesses, at least for those whose aspiration goes over the simple survival.

Transforming the Business Model is an unavoidable choice (G. Merli, E. Gelosa, M.Fregonese, 2010) also for other hidden benefits that are not considered in Figure 11, which takes into considerations only economic and financial outcomes. Changes experimentations in the Business Model field in fact allow firms to develop new managerial, strategic and operational capabilities, increasing values and benefits for customers and activate revenue streams that were not before.

Business Model Innovation can be imagined as one of the Virtuous Circles presented in Casadesus-Masanell and Ricart model. Companies that do it reinforce their attitude and mindset towards innovation, improve their skills at it, and end up developing “*dynamic capabilities*” (Teece, 1997) that become over time key assets for the company success, constituting a supporting column to the consolidation of the competitive advantage. Being alert and open to changes will surely result in direct improvements in organizational activities, making them leaner and leaner, processes faster and more precise, efficiency growing, losses decreasing side by side with costs and this will end up releasing financial capital to be re-invested in the company or distributed to stakeholders.

But Business Model Innovation goes beyond the egoistic firm view, based on profitability. BMI in fact also pushes National economies towards the better, through the raise of the industries’ standards and levels, the creation of new markets, fostering collaboration among firms and specialization. Business Models innovations in fact reflect into benefits for collective wellbeing of individuals and citizens, increasing benefits gained from products’ consumption and services, which become better and better over time, improving working conditions and reducing unemployment.

The crucial role this innovation has for future conditions has been recognized even by National and international Political Institutions. The European Commission identified the Business Model Innovation as a way for sustaining a “*smart, sustainable and inclusive growth*” and listed it as a goal for the “Europe 2020 strategy”. In light of that European Regulation has been modified towards simplicity to push innovation related investments and in 2010 has been launched the “Innovative Union”, whose strategic aim is to “create an innovation-friendly environment (...) that will bring our economy growth and jobs” (European Commission, 2017).

## - Chapter 2 -

### Internet reshaping B2C commerce

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Information and Communication Technologies' advent (ICTs) has been introduced in the previous Chapter as one of the three major causes for the booming of the Business Model as an academic topic, but their disruptiveness went over the mere theoretical field, investing also real businesses. (Afuah, Tucci, 2001)

ICTs refers to all the new technologies that developed in the second part of the 20<sup>th</sup> Century, which have fostered learning and communication within firms and third parties, calling managers to transform their businesses (D. Chaffey, 2009). In spite of the fact that the acronym is easily confused with the Internet only, the term addresses a huge number of different discoveries, that have their main function in allowing the transfer, exchange and extract from raw data information that are useful for managerial and strategical purposes. (Zuppo, 2012). The ICTs umbrella term in fact includes also hardware, software or telecommunication equipment, such as telephones, sharing all them the usage of the digital language. In reason of that, academics refer to this particular type of communication onsets among ICTs using the adjective "unified".

In addition to importance for businesses, it has to be said that first ICTs have represented a revolution for the whole society, which has been rebuilt from its foundations. Those in fact have marked the passage from the Mass Society to the Digital Society we live in, which deepens its roots in knowledge, information and services. (Foray, Saraceno, 2006). The consequences on the economic side have followed, as results for the bigger change that affect the whole environment and ICTs secondly resulted also in creating new opportunities for businesses (T. Kollmann, 2006). This trend has also reinforced blending with another major revolution started in the 50's. The globalization in fact, have furtherly nurtured and boosted the effects the new technologies had on businesses, providing the shortage of geographical distances also as a mindset. This bundle of events (M. Pohjola,2002) ended up in the affirmation of also a new type of economy: the "Net Economy" (T. Kollmann, 2006). At this respect, it has to be underlined that, differently from how most people could have thought at a first sight, the term "Net" stays for "Network", and not for "Internet", recalling another time the increased communication opportunities enabled by new discoveries. (C. Shapiro, H.R. Varian, 1999)

To put it simple, we can imagine the Net Economy as the result of the birth of Public Markets and the deregulation of capital exchanges that took place after the end of socialism, mixed together with the revolution in the ICT field. Those contingencies caused a simplification in the exchanges and information flows among people and business all over the world. (M.Phjola, 2002) As demonstrated by evidences, the overall impact of ICTs mutations have been as positive as huge, pushing economies to grow, raising GDPs of Nations and concentrating wealth and capital into the hands of best performing and innovative firms. A positive correlation emerged between wealth, socioeconomic development and technology, especially if we consider developed countries evidences. (Zuppo, 2012)

For the purposes of the dissertation anyway, we will move further in the analysis of influences that ICTs had in particular on businesses. Despite the fact that we previously stressed the point that ICTs span over the Internet and World Wide Web discoveries, it has to be added that, when referring to the echo they unleashed in the specific business field, those two have represented the most important innovations. Within their group in fact, those were the ones that affected most firms' activities, revamping their foundations and innovating the logics behind value creation (Afuah, Tucci, 2003).

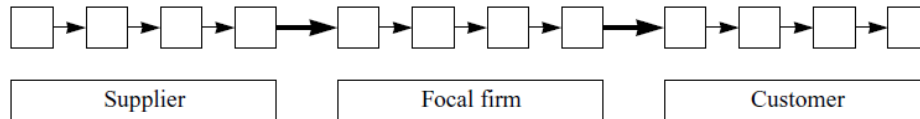
## 2.1 - ICTs effects on value and its configurations

Business classical theory presents three possible Value Configurations, each one encapsulating a different logic, which a firm can pursue for creating value for customers, and consequently each entailing a different way technology applies to the industry: (Afuah & Tucci, 2003)

- **Value Chain**

According to Value Chain concept, presented in 1985 by Michael Porter, value derives from the sequential implementation of different, but complementary, activities performed to build value, delivering a product or service to a willing customer (Figure 14). As represented in the figure below, multiple firms, and multiple Value Chains, forms the complete process that goes from raw materials to the final product.

Figure 13 – The Company Value Chain as a component of Industry Value Chain



Source: Michael Porter representation of a Value Chain (1985)

In Figure 13, in fact, the Value chain concept is considered from a broader perspective, embracing the whole industry and focusing on the activities required for achieving the final product, rather than stressing who does certain activities.

Value Chain is the most classical and primordial form of configuration and typically is the leading one for production-based firms or retailers, where the outcome is material, such as a tangible product or service, because those are the environments where activities are willing to be long-linked according to a specific process (Afuah, Tucci, 2003).

ICTs and the Internet had a disruptive effect on Value Chain, affecting it both at the firm than at the industry level, thus changing at the same time inter and intra-firm activities. (D. Chaffey, 2009). The Internet acted as a mediating technology. From one side it improved processes effectiveness and efficiency, allowing bidirectional flows of information and facilitating firms to accumulate knowledge of final customer needs and expectations. On the other hand, also B2B relationships and communication with suppliers and partner was made easier, increasing performances and allowing a higher level of efficiency at lower costs and reduced risks. (Afuah & Tucci, 2003).

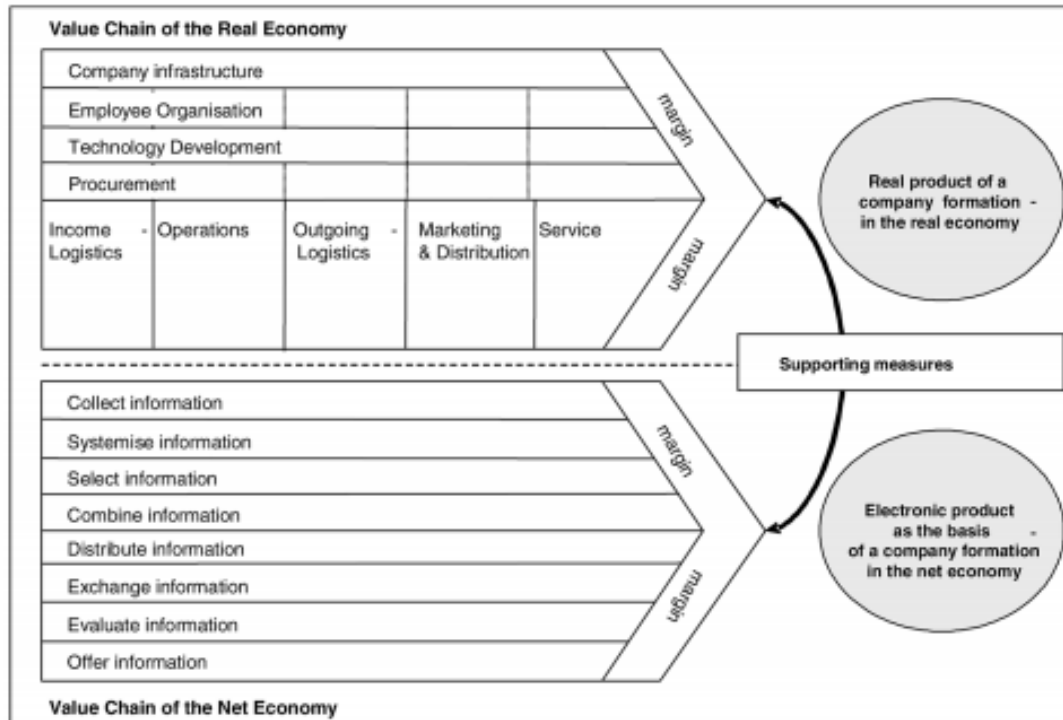
There is a dual cause-effect relationship among Value Chains and ICTs. In certain cases it has been the technology to be adapted for fitting existing Value Chains, for example leaning existing processes thus increasing performance without affecting the value chain sequence, in other cases instead Value Chains have changed, reshaped by ICTs, which disrupted old industries and created new ones (T.Kollmann, 2006).

The main cause for this phenomenon resides in the enlargement of achievable business scopes. (K.Laudon, C.Traver, 2003) Internet in fact has completely destroyed geographical and temporal barriers, making possible to reach every customer every time. This leded in increasing customer bases, especially for information-intensive businesses, allowing companies to achieve scales and volumes of affairs that were not even possible to be imagined before. (K Laudon, C Traver, 2003). It has to be noted that, as it usually happens in case of game-changing innovations, this phenomenon ended in booming some industries, and consequently in disappearance of others. Another evidence associated to the relation among ICTs and Value Chains is in fact the affirmation of “disintermediation” as a new form of vertical integration. In many cases, producers and firms recognized that they were no more required neither to pass through, nor to acquire, point of sales or networks of agents to deliver their products to customers, and started to sell directly through the Internet, in practice killing the middle-man. (Afuah, Tucci, 2003)

- **Value Shop**

This is the Business Logic class to which most of the service providers belong and where the industry-building role of ICTs, through the creation of new Value Chain, verified the most. (T. Kollmann, 2006)

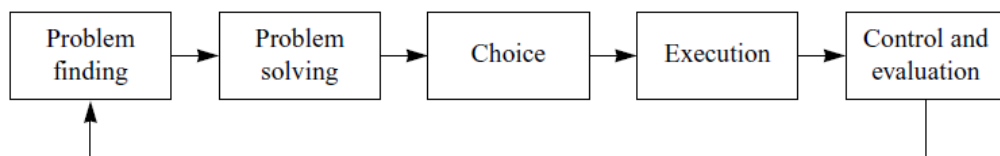
Figure 14 – Traditional and Net Economy Value Chain in business



Source: Tobias Kollman, 2006

Figure 14 represent the internal activities of an Information-based service provider, embodiment of the Net Economy, as an example to demonstrate how information have become itself a source of competitive advantage, designing new business solutions. (Weiber and Kollmann, 1998). It would be difficult for instance to evaluate consulting and advertising firms through the Value Chain configuration. Starting from the fact that the logic they adopt is different, different methods will be required. (Afuah, Tucci, 2002) Those realities are often idea-based and have as resources intangibles one as human capital, which operate in order to cope with customer problems. Solution is the final product, and it has to be achieved as fast as possible. (Afuah, Tucci, 2002)

Figure15 – Value Shop activity stream representation



Source: A. Afuah and C.L.Tucci “Internet Business Models and Strategies”, (2002)

Despite the difference to the previous configuration, also Value Shop's activities experienced the same consequences. Internet enlarged the scale of operations, opening up businesses to more customers and broader geographical reaches, even on behalf of the lack of physical goods to be moved. Solutions are intangibles and no more require physical delivery. Mouth become vehicle for output and communication technologies made immediate the possibility to communicate them. In the same way as solutions, it also become easier to collect information. Moreover, it has to be considered that ICTs, triggering the disruption of barriers, made competition fiercer and rendered businesses more performative and leaner, developing also industries. (Afuah, Tucci, 2002)

- **Value Network**

The key word to describe Value Networks is "Relationship".

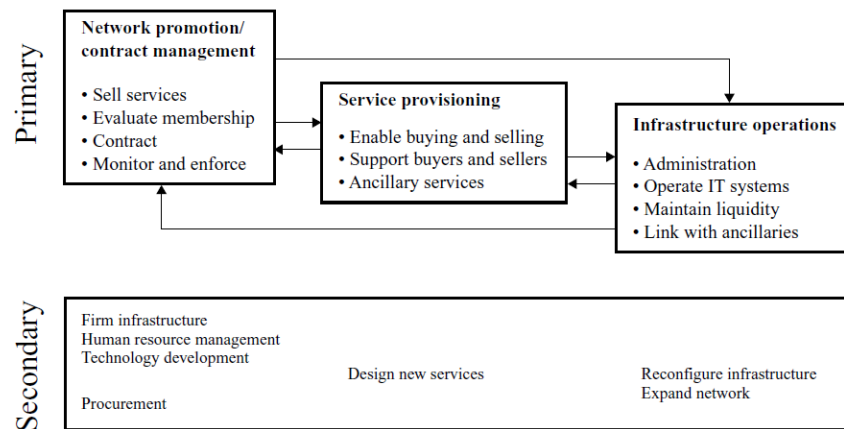
Those businesses, which are the most recent to have come to the light, have exploded and spread due to the ICT development. Networks are based on communication, and their major function is bridging business with privates, matching demand and supply, allowing communication among individuals. (Afuah, Tucci, 2002).

The value indeed creates through intermediation and usually those firms do not directly produce any material output. Their core of the principal activities is promotion and maintenance of the Network itself, acquisition and retention of customers and the management of relationship among the parties and promotion of exchanges and interactions. Indeed, tasks cannot be ordered sequentially and have to be performed in parallel and constantly. The main strategic goal is the maximization of networks' effectiveness and efficiency in order to reach the biggest possible scope. (D. Chaffey, 2009) The number of users involved is in fact the real asset for such businesses, determining the attractiveness of a particular platform. (Afuah, Tucci, 2002)

This concept is known as the "*network effect*" (Metcalfe, 1980), that defines as the situation when users receive value from the presence on the same network of other parties using the same tool. More users there are, more the network is valuable for incumbents and attractive for external parties.



Figure 16 – Value Network representation



Source: A. Afuah and C.L.Tucci “Internet Business Models and Strategies”, (2002)

The history of Value Networks strictly links with the development of the Internet and ICTs, depending on it. We already introduced the concept of “disintermediation” when reflecting on effects on Value Chains, but another phenomenon took place at the same time. (E.Turban, 2015). Side by side with producers hitting the market independently, the destruction of barriers and the increase in the offer created the need for new forms of products and services based on integration, which would have connected the demand to the supply of goods. Not all “middle men” disappeared, some of them adapted their Business Models, implementing new services, leveraging on the combination of existing assets with new technologies. Moreover also new sources of intermediation appeared. This phenomena is identified using the term “reintermediation” (Chircu, Kauffmann, 1999) referring to the new forms of aggregation and combination of resources made by businesses as reactions to environmental and technological changes. (E.Turban, 2015)

In light of the considerations above, is now clear that ICT’s and Internet had an enormous impact on the business environment. (D.Chaffey, 2003). In fact, this has been affected both by the modification of existing processes and companies’ activities, providing new products and services to users or satisfying new needs and expectations, and creating new industries. Drawing conclusions, it emerges from the analysis of ICTs and Internet that their advent resulted in the renovation of ways of doing business and conceptions about company’s structure.

The general outcome of ICT's era has been the transition from Business into e-Business and the birth, development and worldwide spread of e-commerce. (K.Laudon and C.Traver, 2003).

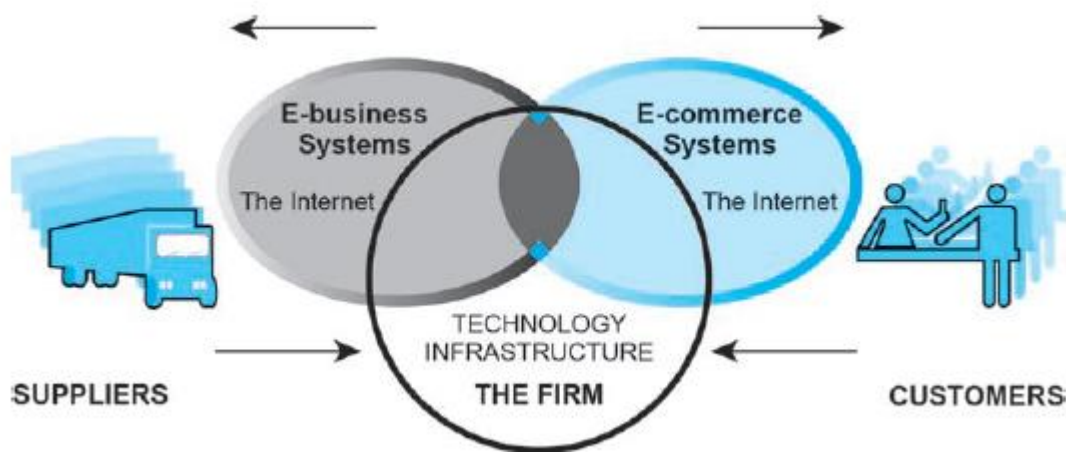
Today no one willing to compete and survive, economically and business speaking, can avoid Internet or get rid of communication technologies. The decision to use the two terms "e-Business" and "e-commerce" separately in the previous lines has not been a chance. Scholars debated a lot about their meaning in the literature. Yet even for that dispute, discussions did not land on common ground. Some academics in fact use the two words interchangeably, as if they were synonymous, while others address the term to different ideas and meanings. (K.Laudon, C. Traver, 2003). We agree with the second part of these dissertation purposes, which keeps separated the two concepts. According to this line of thought, e-Business and e-Commerce are different. Even if there are some overlaps and a relation exists among them (Figure 17), we can imagine them as two faces of the same coin, which in this case is the firm. E-business is a broader concept and embraces all the possibilities and opportunities consequent the adoption of digital technologies in the back-end, meaning that final products' or services' users do not see. Technology in this case is implemented within the firm boundaries, for instance using information systems to manage internal processes, control and forecast inventory. (K.Laudon, C.Traver, 2003)

The goal of technology is not to allow and facilitate external exchanges and capture value, but to create it, rendering processes leaner and leaner and driving up performances and efficiencies of firms while minimizing costs and losses. On the other side, we have e-Commerce, where the exchanges beyond organizational boundaries are on focus. E-commerce still deals with application of the Internet, communication and data management technologies to the business field but this time the main purpose is the value appropriation through the transfer of data, goods or service to paying customers. (K.Laudon, C.Traver, 2003)

## 2.2 - The e-commerce revolution

There are multiple definitions of e-Commerce, all of them having a common denominator in the usage of the Internet and related tools. K. Laudon and C. Traver (2007) stressed in their analysis two critical aspects: its digital contribution to transaction and the commercial nature of exchanges, entailing the flow of money amounts among businesses and/or privates using digital selling and payment systems.

Figure 17 – E-Business versus E-commerce



Source: K. C. Laudon and C. Traver “E-commerce. Business, technology, society.”, 2007

The figure above, provided by the two authors, helps in the comprehension of the difference in the nature of the concepts, evidencing how they direct towards different targets and aim for different goals. Despite that, it clearly emerges that there is a point of contact, which is the firm itself, where those blend in the internal systems, typical of e-businesses.

It is important to understand and comprehend that e-Commerce irreversibly changed the way of doing business, with any respect for initial skepticism that customers demonstrated towards this technology, initially caused by the underdevelopment of delivery services and customers' doubts regarding security and reliability of the technology. (K,Laudon & C.Traver, 2003) In fact, if we observe its period of development, we can easily notice how e-Commerce spread temporary followed the adoption of technologies in the back-end.

On the contrary , after a starting period characterized by a slower pace, e-Commerce has today taken off and in few years has swallowed almost all industries, reaching every Continent so that today the e-Commerce itself is to shape the future direction of commerce. (K. Laudon & C. Traver, 2003)

K.Laudon and C.Traver (2003) summed up the consequences and the main findings emerging from the academic literature into their “Eight e-Commerce unique features” characterizing the revolutionized commerce based on the World Wide Web adoption:

### **1. Ubiquity**

E-commerce eliminated the need for a physical location, that has ever characterized businesses activities. Since the Internet advent customers are no more required to move to shops or specific locations to make deals and conclude exchanges. Deals can today be concluded everywhere, whenever and from every device they prefer and have at disposal in the moment of the need. Ubiquitous nature of marketplaces has even changed the game from marketing and communication sides, being no more the goal of advertisers to trigger a “go-to-shop” reaction, rather to unleash immediate purchases. On the other hand, it affected also the customers’ behavior, drastically reducing the transaction costs, permitting them to save time, money and cognitive effort, which they previously were required to complete the purchase or to get the service.

### **2. Global Reach**

Reducing physical components led to another important consequence. E-commerce websites do not have borders so their horizons tends towards the infinite, being no more relevant cultural or geographical limitations or time zone differences. Today in fact it’s possible also for smaller realities to set up a website and reach customers from every country, tanks to improvements in the logistics services that reduce costs of moving goods and the already mentioned communication technologies that allowed immediate exchange. In this sense, we will say that internet advent brought to the formation of a unique worldwide market.

### **3. Universal Standards**

The other side of the coin of having access to the maximum potential customer base is that either others do, this reflected into a fiercer competition level in almost every industry. Universal standards brought by globalizations render almost impossible today to exploit information asymmetries. Being prices comparable and true quality easily recognizable by customers, today is much more difficult for firms to achieve a sustainable competitive advantage. Some benefits derive from this increase in competitive struggle, especially for consumer perspective. Shared standards resulted in an higher quality of product and better services, which are observable by everyone. Also initial investments required to set up businesses have been reduced, making possible to everyone to startup its' own online commerce. For that reason, the threats do not come only from actual players. Today everyone that identifies an improvement or a new way to achieve a competitive advantage can put its idea in place through the internet more easily than before.

### **4. Richness of information**

In the second feature we presented the ICTs advantages as referred to customer service expansion. However improvements permeated either within company borders, supporting managerial activities. The internet exponentially increased possibilities of having complete and deep information regarding customers' preferences, needs and behaviors if compared to those previously available. Customer's behavior is traceable and this allows companies at first to design offers that are targeted to a specific segment and in a second moment to address and contact those selected customers, increasing customer satisfaction and reducing the costs associated to mass and unfocused marketing.

### **5. Interactivity**

Internet allowed clients to exchange their opinions and communicate with the firm through e-mails, social media or impersonal forms such as surveys. This was not possible if we think to traditional means as Television, Radio or Banners, characterized by a one-way communication. Telephone in fact was the only bi-directional mean available before to firms.

## **6. Information Density**

The upgrade of information quality, quantity and reliability, which are the “information density’s” variables, sets the e-commerce apart from traditional commerce, allowing both firms and customers to collect an exponentially bigger, deeper and cheaper knowledge of the counterpart.

## **7. Personalization & Customization**

Even if the same meaning could be erroneously referred to the two concepts the two concepts, there is a huge difference between “personalization” and “customization”. (K.Laudon, C.Traver, 2003) K. Laudon and C. Traver’s definition of personalization alludes to “*the matching of advertising content and vendors’ messages with customers, based on their individual needs*” (K. Laudon, C. Traver,2003). The accumulation of information into firms’ databases have translated into the possibility to relate and treat every customer accordingly to its specific preferences. In this sense, software allowed to personalize experiences, creating a customized advertising. The customer will be treated using its proper name and surname, offering solutions created appositely for him in light of past behaviors and purchases. On the other hand, we have customization. If personalization is relationship-based, customization refers to producing products or to adapt services “*in response to a particular customer’s desire*” (B.J. Pine, J.H. Gilmore, 1999). Technologies in fact, allows to transform and tailor products or services according to each customer’s desires.

Customization and personalization are entailing improving customers’ value increasing its’ benefits, however customization regards the final product that consumer buys, thus could be performed also when the contact is not still established, on the base of latent demand analysis. Meanwhile is the relationship between the producer and consumer that establishes personalization .

## 8. Social Technology

Throughout its history, since its birth at the end of 20<sup>th</sup> Century, also the e-commerce evolved. The Social Media revolution represents its last upgrade. E-commerce developed into multiple subsets. Social commerce is among the others, the one that mostly changed online businesses over time. The “one-to-one” relationship we introduces has furtherly moved, as consequence of Social Media advent, into “many-to-many” businesses replicating and adopting Social Networks and Media logics. This is the case of e-marketplaces as Amazon.com, where users can vote and review products or services, share their complaints or appreciations, creating themselves information contents and providing insights about their preferences, thus driving managerial choices.

K. Laudon and C Traver’s definition of e-Commerce that we adopted is narrow if compared to the general one that considers the term as a synonym of e-Business. There is more than one form of commerce online and the classification proposed is still not enough to achieve a complete comprehension. Differences emerge also if we refer to the counterparts involved in the transactions for what concerns their relation, form of communication and the Business Model logic. We can further distinguish between three major e-Commerce Business Models on the base of subjects involved and the nature of their transactions. (K.Laudon, C.Traver, 2002)

- **Business to Business (B2B)**

Business to Business addresses firms conducting transactions with other businesses through the usage of ICTs and Internet platforms. (E.Turban, 2015) This is the most massive form of e-Commerce in term of value flows and economic exchanges, its’ size doubling the other forms of e-Commerce. At this purpose it has to be considered, that behind every consumer-vendor transaction that takes place in the market, multiple hidden exchanges among business players have been done in advance, in order to make the product ready for the final customer. The customer-vendor transaction is only the last of a sequence indeed.

Interfirm transactions conducted in Internet present a wide variety of forms and have multiple goals. They can support businesses in managing the source of the raw materials to be used in the production, thus rendering supply easier than in traditional firms.

- **Business to Consumer (B2C)**

This is the form of transactions that mostly attracts public's and media attention, being directly recognized by those who are directly involved as one of the two counterparts. It consists in the direct purchase of goods and services by private customers, who relates directly with the firm. This is the field where innovations carried by ICTs and new Internet application made their presence felt the most and will become area of our interest in the coming Chapters.

- **Consumer to Consumer (C2C)**

Consumer to Consumer regards forms of e-commerce characterized by a direct relation among non-business entities, which perform exchanges of value among themselves. This is the most recent form of e-transaction to have been developed. It can be seen as an evolution of the Business to Consumer that has completely excluded the "B" component, or at least have confined it to an intermediating function, as in the case of networks, which manage only the virtual platform that bridges consumers to private sellers but do not affect directly transactions. Independent users in fact actively propose their product or services to the market and search for buyers.

A further development of this last category is the formation of the so called "Peer to Peer networks". This form of e-transactions stand out from previous one for the equality of parts involved, which in this case are not hierarchically ordered. There will be no more seller and buyers, but a network of people, who are going to act as client or servers for others depending on the situation.



## **2.2.1 – The new B2C Business Models**

We will now analyze more in depth B2C relationships, which completely changed customers' perspectives due to e-commerce, which ended up modifying entire industries (D. Chaffey, 2009). As we will see in fact, new revenue possibilities appeared ended up in developing new Business Logics, having pushed incumbents to adapt and appealed innovative minds to enter the competition. (Afuah, Tucci, 2003)

It seems difficult classifying new organizational forms in a rigid framework made of closed and defined categories, due to the almost infinite spectrum of possibilities internet and ICTs have opened up, especially when referring to B2Cs, which generally requires limited initial investments and infinite ingredients to mix. The best way is to identify B2C Businesses for its different revenues streams and for common traits of the company adopting them. K.Laudon and C.Traver (2003) identified seven major Business Models:

### **1. E-Tailer/e-Marketplace**

These firms are the results of adaptation and evolution of traditional retail stores, which have gone online to sell. An E-Tailer typical Business Model is Product-based, in the sense the revenues come from the purchase of a product through the platform. There is a distinction to be done between e-Tailers and e-Marketplaces based on products they sell due to different influence these approaches have on overall businesses. E-Tailers sell their own products produce by themselves or previously acquired from another wholesaler . On the other side e-Marketplaces usually includes the possibility for third parties to sell their products, without acquiring property right on the same .

### **2. Community Provider**

Even if communities are not a result of internet advent and have always physically existed, for sure the internet has facilitated and boosted the relationship among the members, allowing immediate and simple way to communicate, transact and exchange contents, services and making easier for people with shared interest, passions or ideas to match and discuss them .

Online Communities are defined as “virtual” environments in the sense they are based on an internet webpage or relative mobile Application. There are several possible revenue models for such businesses, streams coming from both community members that from third parties. The first is the case of Subscription fees or affiliated referral stream, where payment shall have access to the community. In most of the cases anyway, communities’ providers do not earn directly from members. External parties, mainly other firms, usually pay a fee or a commission for having the possibility to advertise their own products or services on the platform.

### **3. Content Provider**

In this case the focus is on the content, which is distributed using the Internet. Digitalization created a huge variety of products such as digital videos, movies and TV shows, music, e-books or online journals. Consumers are spending more and more time and money and they are rendering the Internet the primal source for these type of content, which are substituting traditional ones. Examples are Youtube or Netflix, which are stealing more and more customers from Television and have become today generations’ favorite entertainment sources. Content Provider profit scheme is similar to previous one, the only difference is the balance among the typologies. In this case evidences provide that their revenues are almost equally distributed between subscription fees and advertising, while in the previous case there is a marked unbalance towards the second form.

### **4. Portal**

Portals deals with information and service provision in a broader sense.

We identify as web-portals the firms offering search engines’ tools and means, intended as online pages that unify and connect information from diverse sources and offer services and contents of various genres (e-mail service, chat, Music, Video, file transfer, news and so on) in a uniform way. When Portals do not have a specific field of specialization, as it happens in the case of Yahoo or Facebook, we will define them “Horizontal or General Portals” while we will use the adjectives “Vertical/ Specialized” if the services are all related to a defined field and have a determined area of interest.

It's remarkable that Portals are either those website focusing only (or mainly) on offering a specific service among the ones listed above. The fact of focusing on the provision of searches services only do not imply a smaller importance or relevance. The evidence is Google, the main worldwide Search Web Portal, which had become what it is today starting from only one service.

Portals access is usually free. Advertising is the main profit source, most of the firms being open for having the possibility to advertise their products on them, due to the enormous number of customers achievable.

## **5. Transaction Broker**

Businesses falling into this category are characterized by processes usually managed by customers themselves. Financial services are the most typical example used in the literature to present this type of firms and clarify their role. Financial online firms help and support customers in taking investing decisions, building a portfolio in order to achieve their financial goals. Transaction fees are the first source of revenues for firms that adopt this Business Model.

## **6. Market Creator**

As already introduced, in this case, a digital marketplace will offer the meeting place to buyers and sellers, giving them the possibility to encounter and transact, as it happened for physical malls and shopping centers although online and at lower costs. Market creators do not sell directly their own products and their core activity is focused on growth of customer base and improvement of platform, that's the main asset.

Today major revenues do not come indeed from sales of goods but transaction margins are applied on sellers' profits. Fees in fact are automatically received any time transactions take place.

## 7. Service Provider

Service providers' logic is comparable to E-Tailer's one. In fact, even those Business Models are based on selling online to third parties. The difference is that this time firms provide services. ICTs and Internet advent have opened the way to the flourishing of an enormous number of online services, which reflect into the creation of an even bigger amount of possible forms of value appropriation for firms. Fees are the main ones, these can be due on monthly basis, annually or once, at the beginning of the relation.

It also has to be noted that the flexibility allowed by Internet in shaping the business, made common for companies to have several revenue streams and to develop multiple Business Models. (E.Turban et al., 2015) This classification in fact should be useful to understand the possible configurations and shadows of every firm, being aware more those are defined within rigid classes more are the pieces of puzzle in that firm. It is difficult to identify one paradigmatic category to whom bring back up other businesses.

There are many examples that provide evidence to this point. Companies such as Amazon, which started as being an e-tailer for books, have grown enormously throughout their histories, enlarging and enriching their Business Models. (E.Turban et al., 2015)

Today the US giant, for example, has diversified becoming also a market creator, content provider and more, deriving revenues from multiple other ways than only selling books. Another example of multiplicity of Business Models is Facebook, which recently added the "Marketplace" section and launched "Facebook TV", passing from being an online Community to a market creator, matching users demand and supply of products, and facing Youtube as a content provider. This idea does not apply only to giants with enormous investment capacities, but it is equally true in specific fields and emerging industries. In the online grocery segment, the UK market leader Ocado (which case is going to be deepened later on in the present chapter) started as being a Market provider for different traditional retail stores, offering them a complete service, logistic included. It did not pass a lot of time that Ocado became also an e-Tailer, including its own products line. In the same way, also one of its industry competitor, the physical retailer Waitrose, recently opened up its own grocery platform and started to create also contents for its customers, providing thematic videos, images, recipes and so on.

Once we have recognized difficulties in categorizing specific companies into a single Business Model archetype, it could be useful to understand the activities that stand behind the formation of those new business logics. The innovations presented at the beginning of the Chapter, contributed in fact to the formation and consolidation of the Seven Business Models archetypes, just exposed, allowing businesses to conduct the “Six Activities” identified by K.Laudon and C.Traver in 2014:

- 1) Data analysis, manipulation and information building to support managerial decision making and structuring processes
- 2) Economic exchanges and transfers of good and services facilitation
- 3) Communication and sharing of knowledge
- 4) Performance improvement
- 5) New and alternative forms of customers involvement
- 6) Value Chain secondary activities effectiveness betterment

Another time anyway, we have to bear in mind that there is not an exclusive one-to-one relation between these activities and the Business Model. Each of them influences the environment and impact logics in different forms. If we consider for instance the first activity, which addresses information management capabilities, the result of its influence emerges from different Business Models. At the end E-Tailers, Market Creators, Service Providers and Portals’ success depends on the online available information about customers they may dispose .

## 2.2.2 – The components of the Electronic Commerce

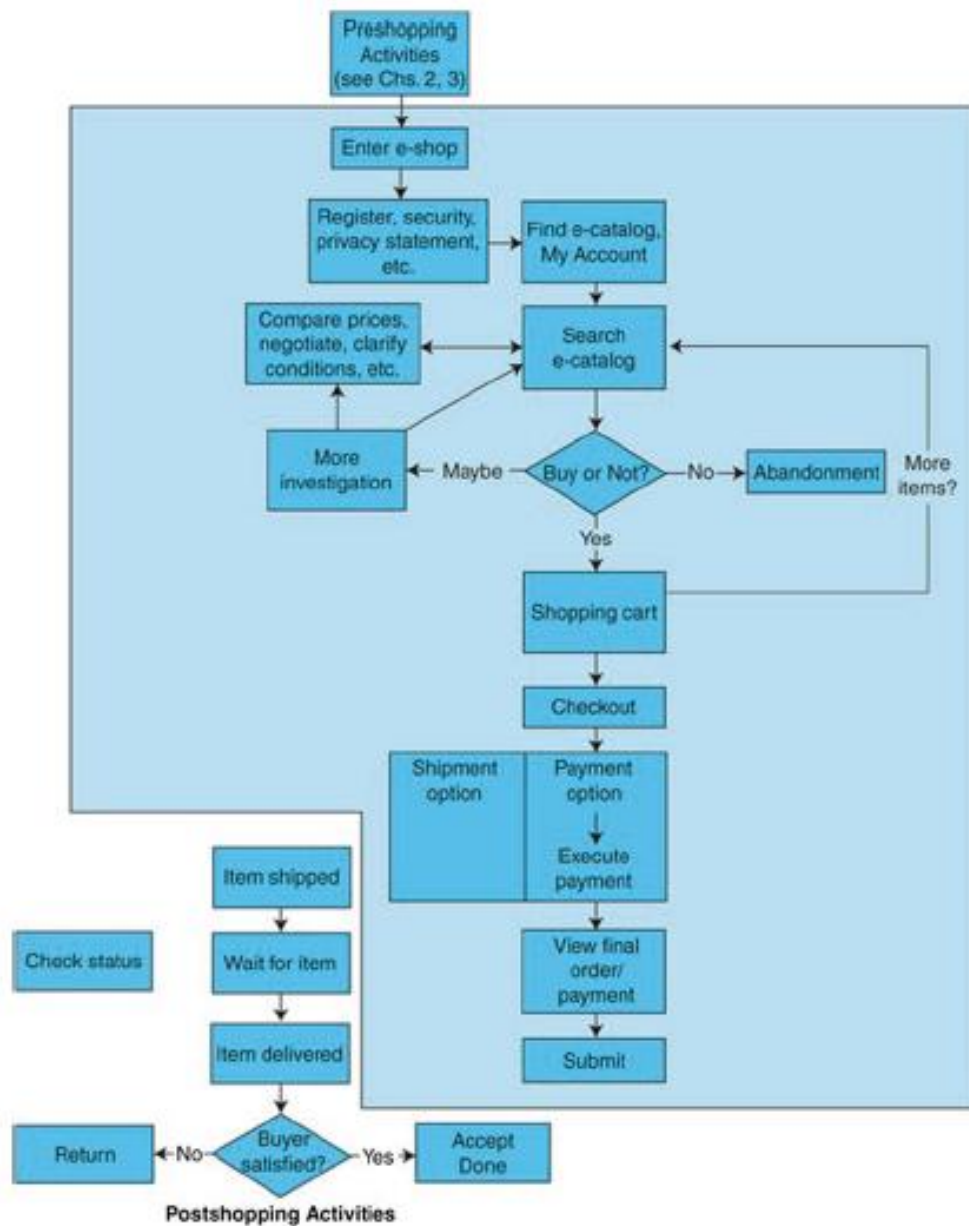
Despite the previously introduced differences and difficulties in encapsulating Business Models and real businesses, all online business have in common five main categories constituting the essential components needed to build up and conduct an Electronic Commerce. Those in fact are shared among all e-businesses, with any respect for Business Model they have. (E.Turban, 2015)

- **Customers**

The first and indispensable component are customers. Even if this could seem a foregone consideration, it is not superfluous.

We presented since the beginning the impact that ICTs had on the business environment, but evidently also customers have been affected by novelties. In the same way that economies became digital, even they have turned into digital customers (or “social” customers) (E.Turban et al, 2015), changing their preferences, their perceptions and behaviors. New customers use online as a channel for purchases, but not only. Internet is a mode to share opinions and experiences and an instrument to acquire information. Trust creates and nurtures across digital means, strangers’ reviews having replaced World of words and friends’ suggestions. Customers have become active users and developed an online knowledge, which made them harder to please. They today expect complete and entertaining experiences, to whom they can contribute directly, through feedbacks and possibility to be listened. Customers’ purchase process is today different from before and businesses have to take this into account, as shown in Figure 17. The most of the activities are conducted via digital means as non-intermittent processes made by different steps, which have to be pre-organized by the firm according to customers’ preferences.

Figure 18 – The Customer Purchase Process on an e-Commerce platform (e-catalog menu and fixed price)



Source: “Electronic Commerce: A Managerial and Social Networks Perspective”,  
E. Turban, D. King, J. K. Lee et al., 2015

Customer identification is crucial for businesses also for the huge number of users that today populate the Internet. The amount of online users is running towards the three billions. It is important that e-businesses identify their customers, understand their needs, geographical locations and preferences, provide them the correct information sets, in the right moment and where they expect to find them.

- **Sellers**

Most successful platforms and e-commerces, except for those that sell a specific product and have a firm's internal website, offer a huge amount of different products.

Worldwide leaders as Amazon or Ali-Baba all sell a multitude of third firm's products. At the same time, passing through an e-tailer or an online aggregator is a *condicio sine qua non* for firms operating in every type of industry, from the fashion apparel to new technologies. Those firms in fact, still not producing, have the customers from their side. Finding the right sellers and suppliers' base to rely on it is crucial for competing in today's businesses but it gives customers the best possible experience and the service they expect.

- **Product and services**

To successfully compete and structure an online business is important to identify products to be sold and services to be provided, which have to be clearly recognized and which have to be consistent with all the other components of the business.

- **Infrastructure:**

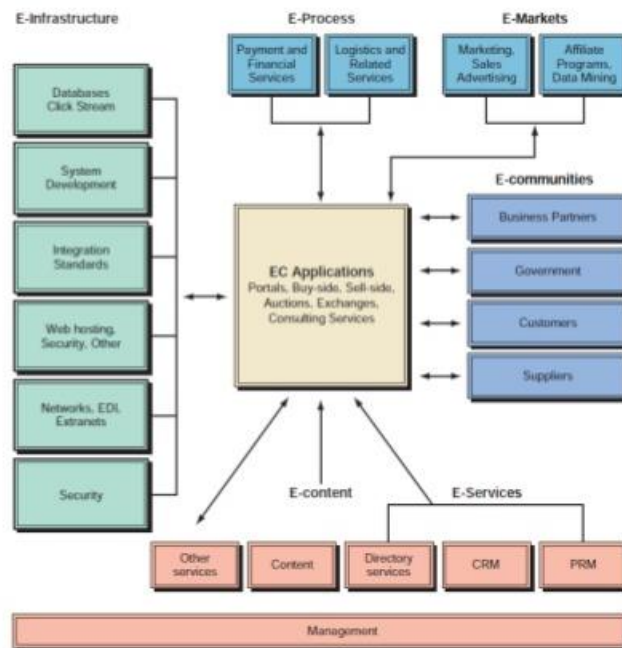
Infrastructure constitutes the core for a firm operating a marketplace commerce, and embraces a huge variety of assets, both material (hardware) and intangible (software).

Also for an e-commerce, infrastructures are critical to make the business work and we can think of them as divided into two broad categories on behalf of targets and functions:

- **Front End infrastructures** are those whose outcome is visible to the customers. From the observation of the blue square in Figure 18 emerges that the whole purchase process is allowed by the users interface. Front-end activities refer to the visual presentation of the software and their goal is the creation of an online customer friendly interface that would render the platform easy to navigate. Front-end IT components are for instance the shopping cart structure, the menu visualization mechanisms or products' disposal.
- **Back End infrastructures** instead entail all other activities directed to the operations hidden to the customers, such as the fulfillment and shipment of items, the management of warehouses and inventory, interfirm communication, data analysis or customer scheduling. Despite their differences, it is crucial that those two types of Infrastructures communicate and act coherently

Figure 19 – E-commerce complete infrastructure scheme of activities





Source: Asia Pacific University of Technology and Innovation, Slides for students attending the module “Managing Information Systems in Organizations”, 2016

There is another aspect to consider dealing with infrastructures in e-businesses. We have introduced those that connects with the online operations but it could be required for certain businesses to have also physical infrastructures. Warehouses represent the most common form of physical IT that even e-businesses must face, as they manage huge amount of products, which have to be ready when the order is submitted, as in the cases of giant e-tailers such as Amazon or Wal-Mart.

However we cannot say this type of infrastructure is shared among all the Internet Business Models listed at the beginning of the chapter. If we just think to those who operate in intangible sectors like consulting and financial service providers or online aggregators, which sell items on behalf of other e-businesses, we can easily see that physical assets are superfluous.

- **Intermediaries and Operations Partners**

Third parties are usually involved to perform supporting activities and helping firms in the conduction of their core, managing and organizing their e-commerce platforms and implement front-end improvement.

Firms usually could also outsource other activities to third parties, such as the marketing, logistics or collection of specific information, due to the higher competences required in specific field or the low value-addition to the final output, as often it's much more convenient relying on someone else rather than building competences internally. There is not for this reason a best solution dealing with partnership choices, the best option is to structure the activities according to each company's competence and resources, keeping the attention on the influence that every choice has on customer's value perception.

## 2.3 - Reshaping the grocery retail: the Ocado case

The case of Ocado in UK is the real world evidence of the disruptive effect on industries that novelties from the end of the 10<sup>th</sup> Century had. It demonstrates how even the grocery retail industry, for definition one of the most traditional and hard to change, can modify and evolve to exploit new opportunities that ICTs and Internet brought up .

Grocery in fact, has always been thought as the most unnatural environment for online commerce to prosper. Almost every scholar, practitioner or manager operating in the field was convinced that it would be the last field were the electronic commerce would have succeeded in developing. (C.Navis,, G.Fisher, 2012) The industry presents a bundle of difficulties that nowhere else mix in such a fierce way. Issues in fact arise under almost every point of view, pushing companies to face complexities for what concerns both products, processes and customer's service expectations. (R. Mangiaracina, A. Prego, 2012) In addition to this, it has to be added also the high competitive pressure put on new ventures by traditional retailers, who gained throughout years an incredible power and developed an extensive presence on the ground.

How it is Ocado is an important case for our purposes, because it proved that also a pure player could successfully compete against the giant dinosaurs of retail, achieving and developing a successful, sustainable and dynamic internet-based business with a consistent and Innovative Business Model.

Founded in 2000 by three bankers and launched on the market two years later, since that moment Ocado has constantly grown until becoming today the world's largest pure player in the grocery-delivery business and operating across the whole UK, serving almost the 70% of UK's households. The English company went public in 2010 on the London Stock Exchange and for the first time reported a plus in its' financials in 2015, the year when the company turned profitable, thus giving an answer to all those who still were questioning about the long term horizons of its Business Model.

With over €1,400m of sales in the last year Ocado is today one of the big five of UK retail industry, competing face to face with Tesco or Asda, and overcomes them online, being the exclusive player to use e-channel for sales.

### 2.3.1 - The Value Proposition and strategy

Ocado's goal for what concerns customer value already emerges from the firm's Mission Statement. The idea behind the British E-tailer is in fact "*delivering the most advanced end-to-end online shopping and delivery solutions*" (Ocado Financial Report – FY 2017) for grocery and household products.

Ocado aims indeed, to provide the most convenient service under every point of view. The shopping cart would be more customized to client's desire and slightly lower in costs if compared with the same basket of goods purchased somewhere else. (Discounts are excluded from this consideration due to the different quality and nature of the business, customer experience being sacrificed in order to further drive down costs and to assure the minimization of final prices).

Moreover, the convenience touches also the temporal dimension. The platform proposes to allow customers to save time purchasing through the digital means, in respect of traditional ones.

The value does not arise only from reductions of customers costs, even benefits matter. On behalf of its innovative Business Model, the offer is not only complete and cheaper, but also dynamic. The Business Model in place enables Ocado to be flexible, meaning faster and accurate in renovating the products. For competitors instead, which approach the distribution with traditional networks of physical stores, changes have to be implemented in all their locations, thus taking more time to complete.

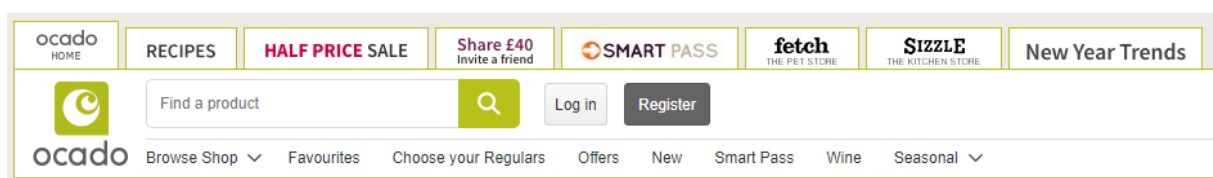
Ocado began to operate in the early 21th Century including in its' offer traditional grocery products and they have immediately demonstrated to be innovative as recognized by partnership with another giant retailer for premium grocery products in UK: Waitrose. The possibility to purchase "Waitrose Essential" products on the Ocado platform has been identified by many retail experts as the key for the rapid take-off the company experienced. They sustain in fact that presence of recognized products and brands reassured new and exploring customers, pushing them to try the new service.

Ocado search for improvement or unusual strategies which were never tried out. Their offer has spanned far away since the first month of operations. Over years in fact, all the main retailers established partnership with Ocado to commercialize their products. Today all the main English retailers' private lines are available on the platform. Customer can choose what to buy from Carrefour, what from Morrison or which Waitrose's products put in the basket. Waitrose still provides its' "Essentials" products, even after the launch of the proprietary independent e-grocery platform, whose logistic is completely entrusted to the Ocado fleet in exchange of a commission. Either Tesco have lately joined others, by adding its own platform.

Ocado Brand did not built only leveraging on other labels' products. Since the beginning of the business in fact, the British startup included and nurtured even its private label. This choice has been extremely relevant from a strategic point of view, as it allowed at the same time to stimulate Brand recognition, consolidate Brand reliability and to increase the margins, being directly the producer.

There is even more to be noted. Ocado endless search for customer value increase also passes through product diversification. The company increasingly enlarged the variety of the categories and services offered. The business idea is in fact to become the unique place where to purchase all the products for home living, due to the convenience and quality offered. As we can see from the Figure 20, customers from the homepage have the possibility to redirect to others, which focus on specific categories and allow customers to conduct purchases according to a specific logic.

Figure 20 - Ocado diversified offer available to online Buyer's need (2018)



Source: image taken from www.ocado.com (January 2018)

Customers can every time enter "Fetch" or "Sizzle", which are the Ocado portals dedicated respectively to the "Pet world" and "Kitchen accessorizes", where they can find everything from glasses to pots and cooking pans.

In addition to these, in 2016 Ocado launched “Fabled”, the portal dedicated to the premium beauty segment created in collaboration with Marie Claire. This is another example of the collaborative mindset of the firm, which is not to be taken for granted. Before Ocado in fact, such collaborations among competing retailers were unconceivable.

With the creation of these three portals, the UK based company expanded its operations from the grocery to the general merchandise categories. However even remaining in the grocery products segment, the UK player provided customers friendly solutions.

The first portal we find moving rightward (Figure 20) offers customers the possibility to purchase complete recipes. It have the function to entertain customers through the provision of advices and suggestions regarding the use of Ocado’s products. The other remaining portals observable in Figure 20 address instead to those convenience-sensitive customers looking for time and money saving. “Smart Pass” and “Half Price Sales” reorganize the offer on the base of discounts and time-based offers, in order to assure the customer who detects the best-value purchase available in that moment.

Ocado believes superior value passes also through the service. In reason of that, the firm’s managerial effort also focus on delivery, allowing customers to choose among one-hour window deliveries. Another prove of the effort the company put on service stays their commitment to deliver through the same courier in the promised time all the products available on the other portals, despite their differences in nature, sizes or logistic requirements.

Moreover, a lot of discretion is left to the couriers, who are taught to be at disposal and open to customers’ needs, there are no standards or rules to be followed. This approach is the put-in-place of Ocado’s motto “*We deliver superior customer service and business success through our people*” and makes delivery one of the most appreciated feature of Ocado’s CRM strategy according to customers online reviews and journal publications.

## 2.3.2 - Ocado Business Model and operations

The real innovativeness of the British company stays in its Business Model. Ocado in fact has been the first UK player to operate through a warehouse-based Business Model, which classify it within the B2Cs e-tailer archetype we have presented before. Figure 21 helps with a visual representation to understand the disruptive effect that ICTs could had over consolidated industry practices. In fact, it can give us a sense of how differently the traditional retailers and the innovator Ocado behave, and further demonstrate the consequences that Business Model Innovation can have.

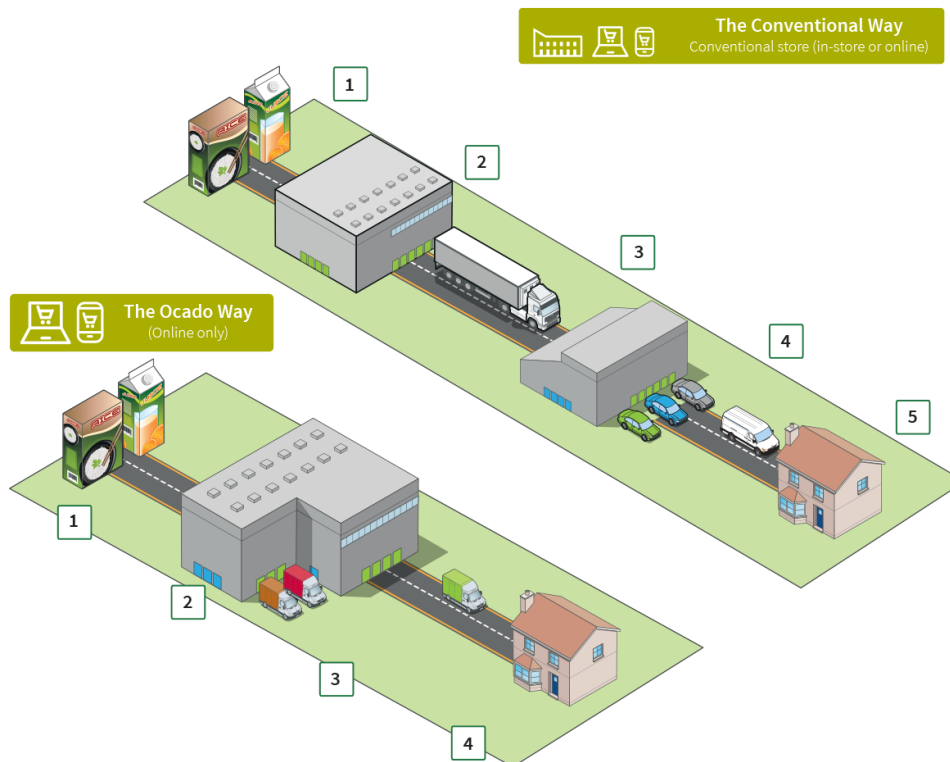
The Customer Fulfilment Centers represent indeed the most important part of the Business Model, because are the place where profit arise through the maximization of efficiency and minimization of costs. An extensive use of automation. CFCs are the places where product units are handled and core activities take place.

The first of the three Customer Fulfillment Centers (CFC) is located in Heatfield. The choice of the location has been strategically relevant for the company. Located 20 miles from London, the first warehouse is out of the busiest routes but near enough to easily reach and cove the whole city with the proprietary fleet. In addition to this, the firm has opened a second then the third CFCs respectively in 2013 and 2016 in other strategical locations across the Uk, which today allows the firm to reach the 70% of the UK families.

As we can see, the primal consequence of having shifted towards online ordering has been the elimination of a step in the Industry Value Chain. Traditional retailers in fact, have to move the items twice before reaching the customers (first from the warehouses to the store and later from stores to customers premises), Ocado instead is able to achieve the same result directly from its' warehouses handling products only once.

Technology in fact did not touch only the value chain activities sequence, but revamped also warehouse management in depth. Having warehouses that are closed to the public allowed the pure player to implement an extensive use of technology also inside them, saving space and improving processes performances which cannot be achieved in traditional shops.

Figure 21 – “The Ocado Way” as a revolution for Grocery industry



Source: Ocado Annual Report and Financial Statement, year 2016

This different configuration allowed the company to pursue everlasting changes, being flexible and dynamic even within each operation. Throughout the years, Ocado developed completely automated systems to manage operations.

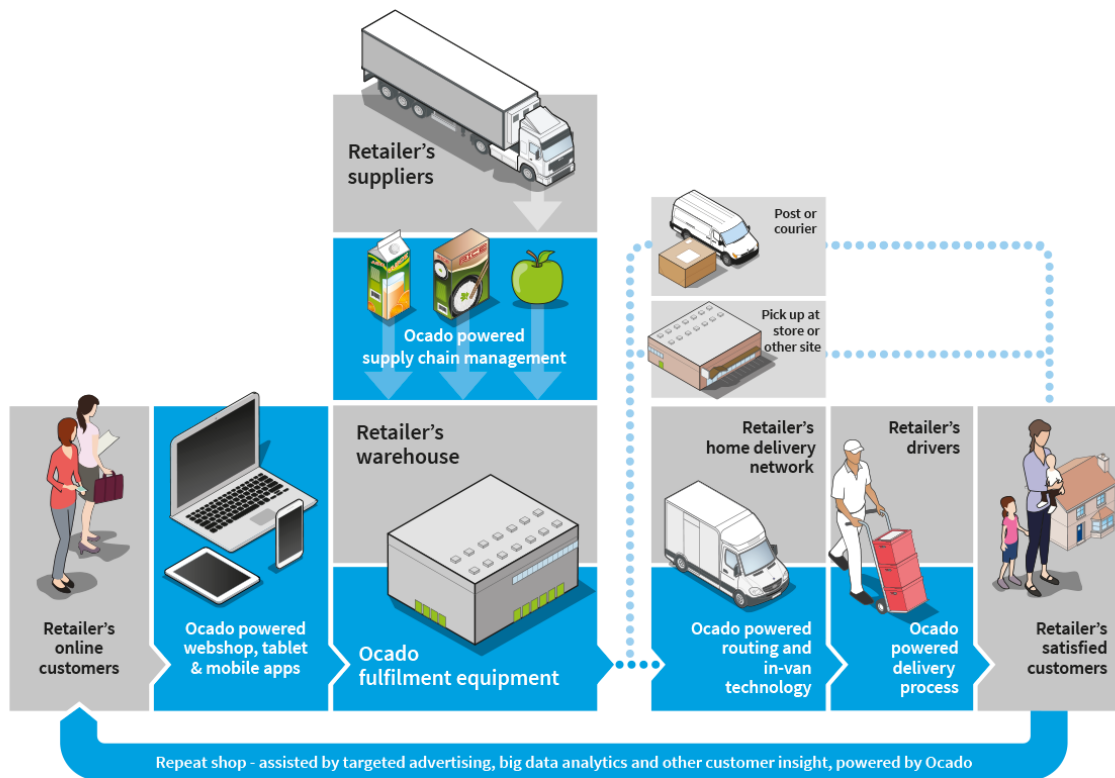
Whenever an order is placed, the internal software organizes the whole process and ordering the items according to the product specific needs so that any product is going to be damaged. Robots conduct the “picking” operations, conveyor belts moves products all around assembling each shopping bag. Ready orders are then sorted according to their destination by automated tower cranes, which load trucks. The internally developed ERP supervises all the activities and allows the integration among all those different machineries. As we can see, the human contribution in warehouses is reduced almost to quality checks and constant engineering and upload of the software. Even when orders exit the building, the logistic software supports the drivers of Ocado fleet by defining best routes.



Assuring the maintenance of quality and respect of committed one-hour window, every truck may carry 15 orders on average . Moreover, to support the huge number of deliveries each day, the company relies on the presence of 17 owned “Spokes Sites” that represent an intermediary step for most distant places or when deliveries are in highly populated areas where is concentrated the most important volume such as example the city of London . Nine out of the seventeenth spoke sites in fact are located in the suburbs of the UK capital.

The whole set of activities constituting the Business Model in place of the English grocery e-tailer are summarized in a graphical manner by the company to foster comprehension among investors and third parties, as presented below in Figure 22.

Figure 22 – Business Model stream at Ocado



Source: Ocado Annual Report and Financial Statement, year 2015

### 2.3.3 - Lessons from Ocado: business case takeaways

The case of the British Startup Ocado is the perfect example for better understand the influence that BMI had over traditional industries. The firm in fact embodies a case of success. From the considerations made in the previous pages in fact, concerning operations and the value proposition of the British firm, we can draw different conclusions regarding those factors which allowed the business to prosper, grow and gain market share throughout the years despite the fact of being an outsider throughout.

Hereby we can identify at least five major factors that explain the company success:

- **Centralization of Operations:**

Since its presentation, we had the occasion to understand the aim of the British pure player to cover the broadest possible geographical scope, still giving customers the possibility to choose among a huge variety of products. In order to achieve this challenging goal, since the firm decided to internalize all the activities regarding the managing of the orders. Centralization of operations allowed the company to have total discretionary power on implementations to be applied to the business and flexibility in the choices. But there is more. The company in fact approached in the same way also financial resources management, assuming the complete control on them and implementing a “circular” financial model based on reinvestment of the earnings rather than distribution to shareholders, as emerges from Annual Reports.

Financial independence gave the possibility to allocate liberally capital gains. The company throughout the year, gave the same importance to the operating performance and to the customer-side improvement, splitting its resources equally among warehouse ameliorations and experience enhancement (marketing, front-end software improvement, offer enriching and enlarging). This choice has been crucial for the startup success and allowed it to avoid the pitfalls incurred by other e-grocers who failed because they focused on peaking their volumes and increasing their customers quantity, forgiving the quality of the service.

- **Automation of procedures and tasks:**

To understand what brought Ocado to be what they are today, we have to start from the consideration of its prices. Company pricing policy provides stores with traditional retail benchmarking by aligning them under this perspective. In this sense the only way the company has to increase profitability is through an high level of automatization of operations and routinization of processes, at least for what concerns order preparation. The endless search for excellence in fact passes through an extensive use of automation. The firm recognized that CFCs were the place where the most of cost efficiencies came from.

Since early beginning Ocado started its operations through a human-intensive approach, today very few is left to human hands which have been substituted by conveyor belts and computers and to whom remained only maintenance and quality assurance tasks.

The human contribute over the years have moved from their hands to their brains. Today engineers are the main component of Ocado's workforce.

The reinvestments of revenues years over year allowed the company to increase performance almost to perfection, and in 2017 the company registered percentages of wastes close to the zero (0,7% Product Waste during the fulfilment process), leading their KPI's close to the hundred ( 99% of order accuracy over the whole "order processing process" and 95% in the "deliver punctuality"). (Ocado Annual Report, 2017)

- **Development and use of proprietary technology for managing processes**

Results of a state-of-the-art automation went beyond performance. As we had already presented, in order to cope with the specific industry difficulties, Ocado developed a complete end-to-end solution for grocery e-retailing, investing a major parts of its resources for more than 10 years.

Even if this has not been presented in the case, not being relevant for the purpose of specific e-grocery activities structuring we are focusing on , it's noticeable that know-how and intellectual properties they developed (e-commerce platform, software and process engineering) turned into another important source of revenue for the firm. In fact the company started leveraging on those internally developed competences and expanded its Business Model introducing "Ocado Technology" and "Ocado Engineering" departments. Ocado today acts not only as a B2C retailers , whose revenues base on asset sales and commission fees.

The “Ocado Solutions” department (Figure 23) perfectly embodies what we said in the previous paragraph with regard of flexibility in the Business Models, and the possible gains from multi-sided platforms.

Today Ocado became also the worldwide leader for what concerns B2B Software and Business Support, acting as consultant and infrastructure provider for international e-grocers, being its technology more suitable to cope with perishable products.

Figure 23 – The Ocado Configuration as E-tailer and Service Provider



Source: Ocado Website

- **Value Proposition management and offer structuring: Strategic Partnering with traditional retailers and together with the development of a proprietary Brand**  
Operations are not the only aspect to be considered to explain the success of Ocado.

Another reason of success stands in the value the company delivers to customers, which sets it apart from British competitors.

The company wisely managed the partnership with traditional retailers as a stimulus for recognition building for its label, as it effectively happened. Branded product sales represent today a huge component of revenues.

This strategic choice embodies the ability Ocado had to understand the environment it was operating into and what customers were asking and give a sense of the highness of results that are hidden behind novelty in Business Models.

Figure 24 – a sample of Ocado branded product line



Source: Ocado website

- **Focus on Customer Care and personalization of service**

The company understood the importance that service has for customers, recognizing that time and price savings were not enough to overcome traditional retailers. Again, Ocado aimed to do something that others did not .

In reason of that Ocado structured its delivery process to assure quality. As we said the number of deliveries per van has been set to an average of 15 , increasing the number of vans and route per vans , in order to assure the delivery punctuality and the possibility to tailor the service according to specific customer needs , as that have been discovered only after the opening of the customer door. The delivery system Ocado implemented allowed customers to monitor status of their order ever since the moment that is placed through the app or the website. In addition to this, we noticed from interviews available online, that service quality for the Ocado management implies also the possibility to adapt the service provided to particular customers' needs. This is the case of those clients with disabilities or older ones, to whom is guaranteed by the firm a complete service, which includes the delivery of the bags into their own house and even unpacking and storing stuff into desired shelf .

Personalization of service is also the key to retain customers and improve their shopping experience making them feel unique.

The marketing strategy Ocado adopted has evolved over time. If in the first years of operations it was directed mainly to the creation of the brand awareness, using physical means, such as billboards, Online advertising and traditional Media or the branding of the owned fleet of vans, today the most of resources are dedicated to assure the personalization of services.

The marketing department today dedicates to use the Internet means and Data Mining to provide offers and discounts that are more and more tailored to customers need, such as personalized e-mails or user based directed promotions through the app, based on most commonly purchased items or elaborating suggestions according to customer shopping behaviors and preferences.

## - Chapter 3 -

### Dynamics shaping e-grocery in Italy

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The Ocado case we used for the conclusion of previous chapter represents one of the multiple empirical evidences for novelty of Business Models being a key for firms' success. The British company will serve us now as the stepping stone to pass further to analyze more in depth the e-grocery industry.

The skepticism until a few years ago was shared among all the practitioners. The most critics were convinced of the non sustainability of those Business Models: every unwise incumbent would have ended in bankruptcy (C. Wanner, 2014).

In addition, there were other relevant evidences provided by skeptics, linked to the industry in general and its processes. The grocery in general is a low-margin industry, due to the nature of the product exchanged, whose "Value Density" is low (R.Mangiaracina, A.Ghezzi,A.Perego, 2012) if compared to other categories, such as the electronic goods or apparel products. (C. Wanner, 2014)

However today we may say that things are going in a different direction for e-Grocery industry as critics resulted wrong and industry year after year is experiencing a double-digit growth in every Nation belonging to developed areas (Nielsen Report, 2015) , outperforming even the most optimistic forecasts. Customers were requiring more time to trust the industry. Grocery habits in fact are those whose changes require the most time. (C. Wanner, 1/12/2014, "*How to win in online grocery: Advice from a pioneer*", McKinsey&Company)

It took years for customers to get conscious of their "empowerment" and properly control the new information capabilities that new technologies put in their hands, decreasing information asymmetries which were used by previous generations.

Today, this segment and related businesses are growing at an exponential rate and the future appears even brighter (C. Wanner, 2014). The e-grocery retail sector in fact is characterized by reciprocal reinforcement of the factors that push its growth, as underlined by the Dutch E-Commerce Solution Developer and e-Retail Consultancy firm "Syndy". (2015)

In its report “*The State of Online Grocery Retail*” (2015), the Amsterdam-based firm showed how the development of the markets was blended to two other phenomena that were peaking: customer adoption rate of smart technologies and service quality upgrades allowed by technologic development. Each of the phenomena reinforces others as in a “virtuous circles” dynamic.

Technologies today have hit the retail and consumer goods industries in a way that is no more reversible, and industry players have to take this into account (Accenture Strategy, 2017). The success in future years would be determined by those who will win a war whose weapons would be innovation and new technologies.

Italy in this field is following other Nations however also for us the future appears bright. Historical evidences demonstrate Italy is one of the last area where ICTs results have manifested (Casaleggio Associati 2016) and turned into an evolution gap observable across all the industries and products.

This further reinforces if we consider food. It has to be considered in fact that Italian situation in this field is an *unicum*. Our retail industry is the most fragmented in Europe, being local and independent grocery stores still a factor hence being smaller the slice of the cake on hand of Big Players. (Nielsen, 2016)

Despite the unfavorable starting conditions, that slowed down the development of online-food, the segment has now finally started moving its feet, and today, according to Casaleggio Associati (2017) is the online sector who grows the most. (Figure 25) E-grocery in 2016 generated the 34% of the whole online-food transactions, being the second most relevant voice after the “wine e-commerce”, which anyway reported a 13% decrease in their YoY Revenues. (Casaleggio Associati, 2017). The total amount of revenues generated by the grocery segment instead has been accounted to €240mln in 2017, registering a +57% over the previous year. (Osservatorio eCommerce B2C Politecnico di Milano, 2017)



Figure 25 – Growing forecasts for different e-Commerce segments



Source: Casaleggio Associati 2017

Even if the industry weight is still marginal when we compare its revenues to those coming from the “Physical GDO”, forecasts are promising. (Osservatorio eCommerce B2C Politecnico di Milano 2017)

In the next years analysts expect the backwardness gap will be bridged, due to evident opportunities opening up for startups in our Nation. The new Business Models that are coming out will improve current Value Propositions to result in a reduction of prices as well as better times-to-customer, enhancing qualities of experiences and adding new tangible and intangible benefits that will allow proliferation and prosperity of new ventures, which will lead to a market share’s gain, surfing the wave of technological development. (Osservatorio eCommerce B2C Politecnico di Milano, 2017)

### **3.1 – Who is competing in the e-grocery industry?**

The incredible growth registered for e-Commerce over the past decade is not only a consequence of the development of the Internet as a technology. Also the increased accessibility to it has contributed. (S. Wouters, 2016)

This is true first of all for customers, that with the advent of smartphones which are the first source of online purchases (Casaleggio Associati 2017), have the possibility to go online and do purchases everywhere and every time they desire. (F. Antonacci, 2017).

Even more this is appreciated by companies, which can today exploit new technologies and adapt them for improving performances and enlarge their geographical scopes at almost zero costs and with minimum time (J. Caudron, 2016). With technologies also businesses evolved and organizations modified (J. Caudron, 2016) and this resulted in the birth of new industries, as the e-Commerce of fresh produces (S. Wouters, 2016). In this latter case, technology have solved logistic issues, which, according to a research conduct by Duval Consulting (2016), has been the primal cause for some industries going online in a different moment. Three generations of e-Tailers can be identified by logistic era they belong to.

The first generation encompasses the firms introducing the “Home Delivery” and is characterized by low logistic complexities, as for instance those handling easy exchanges and transported products.

The Second Generation of e-Tailers focused on improving services and coped with the problems emerged in the previous era, trying to solve existing issues and to overcome limits in logistic services through operational improvement and online experiences simplification.

The last generation encloses those players who faced the highest level of logistic and operational complexities. This is when food commerce and online collided. (S. Wouters, 2016)

Referring to the grocery category and excluding the other food-related businesses, such as the ready-to-eat courier firm such as Deliveroo, two firms’ archetypes compete in the online food landscape today.

We can then make distinction between:

## **Click and Mortars**

Also known as “Brick & Clicks”, this category addresses those retailers who support the existing activity of physical grocery shop through a webstores, integrating the offline presence with the online channel, usually through a webpage linked to an App and to the adoption of “multi-sided Business Models”. (E. Laudon, 2015)

Click and Mortars distinguish for giving the possibility to customers to choose either to conduct their shopping online or in a physical store and usually provides a broad spectrum of hybrid possibilities rather than online-purchase & home-delivery, such as the pick-up in store or the home delivery of in-store purchases. (G. Piccoli, 2016) This class of grocery players has developed first in respect of the other class pushed by the “*Omni-channel*” quest and the seek for improvements in the current customers experience. (S. Wouters, 2016)

Paradigmatic examples of “Brick and Clicks” in the grocery segment are the giants Walmart (US) and Tesco (UK) or the Italian player Esselunga with its service “Esselunga a Casa”.

### **- Pure Players:**

Those are the firms that compete in the online grocery and face “Click and Mortars”. All those business with online-only sales, do not have physical stores and operates only through a limited number of warehouses delivering directly to the customers and premises are included. (E. Laudon, 2015)

Ocado is today the worldwide leader for the Fast Moving Consumer Goods and grocery segment, but there are a lot of other examples regarding the grocery segment, operating in different countries. As a fact we have very restricted sample of players operating in multiple geographic areas, such as Amazon.com, that as far they concern grocery are pure players having a smaller coverage, being the food industry much regional and strictly linked to specific customers preferences that may vary either within the national borders. (Ocado Group Annual Report 2016)

## **3.2 - Key dynamics for pure players in the e-grocery industry:**

As we introduced e-grocery segment in general and within the Italian context, after having properly allocated companies competing in this segment into the Business Models archetypes they belong to, we need to further step forward by analyzing in detail the Value Chain of the industry.

This process would allow to understand the strategical choices and behavioral patterns adopted by online grocers. We aim to grasp the different contingencies that stand behind managerial choices, in order to support the creation of Alpha's Business Model, new venture operating in the segment.

For this reason, in light of the fact that e-grocery presents issues and peculiarities, which must be considered and being aware that the Business Model of pure players is different from the one adopted by traditional retailers and "Click and Mortars", we will focus from henceforth on the activities performed by firms having only the online channel at their disposal.

Succeeding in the online retail of fresh-food, requires business to pay attention to several industry specific factors. (R. Buck, A, Minvielle, 2013)

The process of identification of those activities and variables has been faced up through an analysis of the existing literature and the scientific publications on academic journals, in combination with the examination of the most successful cases of Italian firms operating in the segment.

A particular mention in the identification of the drivers has to be done to the *MyQnC.com* ("My Quality and Convenience") grocery e-tailer, operating in Dubai (UAE) from 2016, that had a relevant role in confirming results of the evaluation and key aspects emerged from the business cases. (The company is going to be presented more in depth in Chapter 4<sup>th</sup>)

The study of the company numbers and financials moreover the support of Stefano Iorini, Managing Director and Founder of "MEMAG Trading JTL", who is steering this platform and helped us in the identification of the key dynamics shaping the business environment from a business player perspective.

### 3.3 – Managing operations

**Sourcing**, which encompasses all the activities from selection to warehouse supply and touches also management of relationships with suppliers in general, emerged to be the first critical dimension that retailers must succeed to administrate outperformance (R. Buck, A. Minvielle, 2013).

Fresh products category is the most delicate aspect retailers have to face, with any respect for being physical or online ones. It is at the same time the most profitable and costly among the whole categories they deal with. The 40% of revenues of a traditional retailer usually comes from grocery sales only (McKinsey 2016). On the other hand, it is the most harsh category for what concerns the supply and ongoing operations. Up to a third of costs firms sustain for running the stores and keep products until they are sold are attributable to groceries, despite the broadness of the offer items in the other categories. (McKinsey 2016)

We have to consider the fact that the quality of grocery products is complex to be assessed in advance by the merchant. Moreover, suppliers are diverse and wholesaler are rare, and the storage is extremely problematic, products having a fast obsolescence. Who will be able to manage grocery will succeeds; others are going to fail.

In reason of that, it is critical for firms to understand and pay attention to three features that links together with this aspect: (R. Buck, A. Minvielle, 2013; Antonio Perini, 2016)

- 1) Definition of the right quantities of products to keep in the warehouses and the proper managerial approaches to batches
- 2) The type of relationship the firm wants to build and create with its supply network.
- 3) The management of the “last mile”

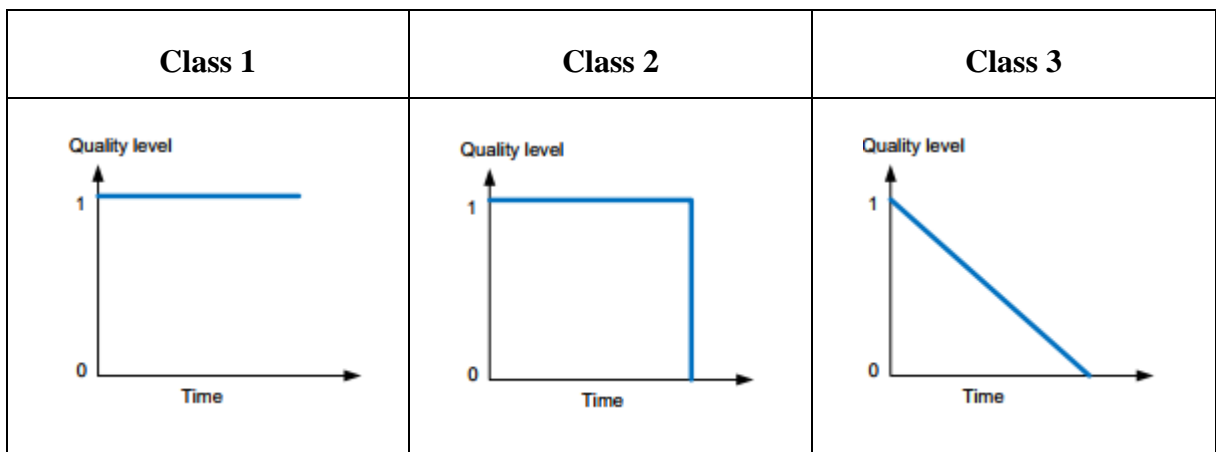
1) The choice of the proper Inventory Model constitutes the first critical dowel for the success of the whole Business Model. Building the most efficient inventory system and implementing best practices in this field have been identified as the main reasons for success of worldwide leaders such as Amazon Fresh. (Duval Consulting Report, 2017)

The choice of the right inventory policy starts considering products that a company retails to customers. The correct clustering of products is critical in e-tailing, for the impact this activity has on design of supply mechanisms and warehouses, but its importance reinforces when we refer to groceries (T. Payne, M.J. Peters, 2004).

It necessary to understand why grocery products are so complex to manage. Products are usually fragile and difficult to manage, have costly and complex storage methods to be implemented in order to assure quality maintenance. Moreover costs of supply are unpredictable, prices volatile and suppliers fragmented. (S. Wouters, 2016).

In general, we identify three broad cluster for categorizing products commonly sold by e-grocers on the base of their time-quality resistance (Figure 26). (C. Damgaard, V. Nguyen, H. Hvolby, K. Steger- Jensen, 2017)

Figure 26 – The three basic categorizations of products based on perishability



Source: “Perishable Inventory Challenges” (2017), C. Damgaard, V. Nguyen, H. Hvolby, K. Steger- Jensen

**Class 1** - We will notice on the left (Figure 26) products that maintain the same quality levels for a very long period, after which they have to be taken out from shelves, even if they might still be used. The picking point requires time to arrive and in many cases it is unpredictable and could be for example the launch of a new version, as it usually happens in the smartphone industry. It is difficult to find “food products” inside this category, which affects e-grocers only as referring to products like ones for house maintenance, which do not have an proper expiry date.

**Class 2** – In the second cluster food products start to appear. Those are products that do have an expiring rate, but their value remains unaffected until that moment. After that it immediately becomes zero, due to the end of their shelf life. From that moment those products become wastes for the merchant and cannot be sold to the customer for legal reasons. Despite the presence of an expiration date in fact, customers do not seem impressed by this factor and usually do not even check expiration date.

Other variables seem more important for the second category, such as price convenience, packaging and appearance or the Brand itself. This is usually the case for some ready-to-eat or processed products, drinks and water, frozen and canned goods.

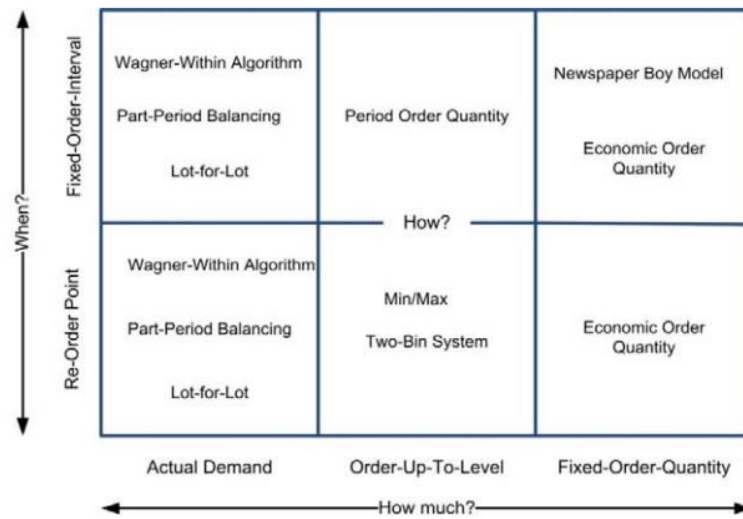
**Class 3** - Quality is the critical factor for the third group. Those are the products whose quality decreases steadily over time. This category embraces all the most fresh products present on supermarket shelves, in every grocery retail stores, and customers will directly observe the quality of the products with their eyes, deciding to avoid the purchase when the product quality appears low. It has to be considered for those products that their value get closer and closer to the zero as they approach the expiring time . Fresh fruits and vegetables are common examples for this category, being those two categories the ones where the decay of quality is most visible and rapid.

In light of the previous classification, it is clear how grocery retail obtained the definition of the most complex sector, offering a diversified spectrum of categories, spanning from non-perishable items to those that are perishable but shall be managed at one time and mixed into customers' orders. It is now clear why it is critical for firm to make wise choices regarding the Inventory Model for each class of product available to customers.

The topic of “perishable and dynamic products’ inventory” increased a lot in the last decade literature, authors trying to figure out new method to manage those difficult categories, avoiding wastes related to over-ordering and risks associated with what instead remains out of stocks (C. Damgaard, V. Nguyen, H. Hvolby, K. Steger- Jensen, 2017).

This focus on the topic resulted in the proposal of different frameworks to classify the different supply methods and treat perishable products (J. Blackburn, G. Scudder, 2008) In Figure 27 it is possible to see a segmented and visual representation of all the theories up to 2017, overviewing the possibilities a firm has in managing perishable products inventory. (C. Damgaard, V. Nguyen, H. Hvolby, K. Steger- Jensen, 2017).

Figure 27 – Inventory Control Policies overview



Source: “Perishable Inventory Challenges” (2017), C. Damgaard, V. Nguyen, H. Hvolby, K. Steger- Jensen

2) Regarding to the second aspect, retailers operating in the grocery segment adopted two approaches in managing relationship with their suppliers (Fugure 28). (Axelsson and Wynstra, 2002).

From one side we have the Transactional-oriented approach. This is the typical approach of big retailers who exploit their dimensions and leverage on the importance of their brands name. The focus here is only direct to the extraction of lowest fares from suppliers, being flexible in the counterpart choice and price-oriented. On the other hand there is instead the Relational-oriented approach, which differs from the one presented before for the stronger links that firms are establishing with their suppliers. Those in fact are looking forward for cost reductions, and not prices ones, preferring long-term value gains instead of immediate cash discounts obtained exploiting the superior bargaining power they have.

They assume in fact their marginality to be built and emerging from improvement of processes due to the repetition of exchanges and a long lasting cooperation, being the process routinization due to superior quality a warranty for their sales.



Figure 28 – The two archetypical approaches to Supplier-Merchant relationship

Transactional-oriented approach	Relational-oriented approach
Many alternatives	One or few alternatives
Every deal is a new business, and no-one should benefit from past performances	A deal is part of a relationship, and the relationship is part of a network context
Exploit the potential of competition	Exploit the potential of co-operation
Short-term, arm's length distance, and avoid coming too close	Long-term with tough demands and joint development
Renewal and effectiveness by change of partner, and choose the most efficient supplier at any time	Renewal and effectiveness by collaboration and team effects, and combine resources and knowledge
Buying products	Buying capabilities
→ Price-orientation, strong in achieving favorable prices in well-specified products	→ Cost- and value-orientation, strong in achieving low total costs of supply and developing new value

Source: B. Axelsson, F. Wynstra, “Buying Business Service”, 2002

3) The other aspect to determine the success or the failure of a grocery online player is the management of the “**Last Mile**”. This is the route covered by couriers to carry orders from warehouses to the customers’ premises, and has been addressed as the “Holy Grail” for the New Millennium. (A. Perini, 2016)

“Last mile” is a particularly critical theme for grocers. It is the component the most affects financials. The 53% of the total costs sustained by firms operating in the sector to move and transport goods ,in fact, comes from the management of the last mile only. (Honeywell, 2016)

This scenario is continuously changing and transforming. New technologies disrupt past achievements day after day, firms promote and test every possible innovation in order to win an ever-ending war. An example are the continuous experimentations Logistics and Tech giants are doing, trying out new ways to reach their customers, for instance through robots or automated vehicles: DHL patented and used parcels while Google is now testing in London self-driving intelligent vehicles. (D.Keyes, 2017) Delivering perishables is much more complex than delivering apparel, books or anything else. (R. Abrams, 2017)

From the moment of the order products leave their batches and mix every time in new ways into shopping bags, which at their time have to be send at multiple locations, as fast as possible. Firms are testing new ways in order to preserve quality and boost customers’ satisfaction. For this reason, 2017 has been the peaking year for the buzz around the last mile solutions.

A lot has been discussed on scientific journals, social media and web forums regarding new proposals in term of services e-commerce giants, such as Amazon and Wal-Mart, first and third worldwide retailers respectively (America's Top 500 "E-tailers Report 2017"), which are racing one against the other to figure out "*the next wave of e-commerce fulfillment*". (Z. Stanbor, 2016)

Their idea to enter absent customers' houses to put groceries' products directly in their fridge, raised privacy concerns. (D. Green, 2017). Many customers have in fact seen this as a violation of their privacy and an invasion of personal spaces. The oaths regarding the security measures by the two giants in fact were not enough to persuade customers of the effective safety of the services. (CBC business, 2017) The service in fact, has been rejected by most of respondents, who would rather benefit of locker delivery deposit. (Toluna Survey, 2017) Experts stated that this negative response, among the others, is one of the reason behind the much discussed Amazon-Whole foods acquisition. (CBC business, 2017)

With its extensive network of almost 500 point of sales across the US main cities in fact, the "America's Healthies Grocery Store", as the company itself defines, offers huge opportunities also under the logistic of the last mile. Amazon did nothing else that applying the "Amazon Locker" logic to the food segment.

Despite that, as managers, we have to understand the what moved the two giants in this direction has not been only the search for customers' service improvements. A great deal of responsibility is in head of the willingness to minimize uncertainties and tries to standardize accurately the "last mile" processes.

### 3.3.1 - Beyond the theory: e-grocery operations management in Italy

After having contextualized the issues and the factor influencing the Supply Chain and warehousing activities in an e-grocery firm from a theoretical point of view, in order to achieve our goal of supporting Business Modelling for the Italy-based Alpha, we proceed in the analysis of the evidences from the observation of real cases in the Italian Market.

In reason of that, we tried at first to figure out how the previously exposed dynamics regarding Operation Management would have reflected in real businesses operations.

In particular our aim at this point was to identify, starting from best practices and successful firms, if there were some repeated behaviors and choices among the existing firms operating in the Italian context that were best performing, trying to carve out from their cases the “*hows*” and the “*whys*” of success.

This in fact would have resulted in the definition of guidelines to be followed for our strategic choices. Our purpose was indeed to build a strategic framework that would have been specific for an e-grocery pure player, to support decision making in this industry management of operations, which would have taken into consideration those dynamics typical of the field.

We started from the Model designed by Riccardo Mangiaracina, together with Alessandro Perego, Directors of the Scientific Board of the Osservatorio B2C eCommerce. The authors’ published their model in 2012 (R.Mangiaracina, A. Perego, A. Ghezzi, 2012), that renders their one of the most recent in comparing business solutions regarding operations and logistic across industries. The model was conceived to analyze “*the relationship between logistics strategies and problems in the e-commerce of physical goods in order to present a general normative model (...) so as to help B2C merchants design their logistic strategies*”, as stated by the authors themselves. (R. Mangiaracina, A. Perego and A. Ghezzi, 2012)

Their goal was to provide evidences of different choices in management of logistics and operations, defining those as composed by four principal activities:

- 1) *Inventory ownership*
- 2) *Picking*
- 3) *Order Assembly*
- 4) *Delivery*

The Mangiaracina-Perego Framework is based on the combined consideration of the literature related to the B2C e-commerce Logistic and Supply Chain and the analysis of 28 Italian firms operating in different industries.

For the 28 firms of the sample they considered: 11 firms operating into the Apparel e-commerce industry, 6 belonging to the online commerce of Books, 8 to the Consumer Electronics e-commerce and just 3 Grocery firms selling online.

As disclosed by the article presenting the model (R. Mangiaracina, A. Perego, A. Ghezzi, 2012), three grocery “traditional sellers” were included in the sample analyzed and supported the authors in structuring the model. Their name is not available for privacy concerns.

According to their words anyway, it is possible to desume that those belonged to the “Brick and Clicks” archetype, presented at the beginning of the current Chapter. This implies those having a complete different set of processes and being subject to issues that are specific for their archetype and policies regarding warehousing and shopping assembly processes linked to the fact of having point of sales as their warehouses. In the case of these three firms, the point of sales are entitled for the storage of fresh products, the online channel being only a secondary Revenue Stream.

For those reasons, as we are aimed to creation of a startup that would have been included into the other category (“Pure Players”), we considered these three firms not suitable for what concerned operations and this model may result partially reliable for guiding our choices in the e-grocery field. Furthermore either other three industries analyzed by the authors resulted not comparable as they deal with non-perishable products having different requirements.

Also organizational structures are different. Mangiaracina and Perego considered four types of Business Models: “*Complete Online Sellers*” “*Focused Online Sellers*”, “*Online Clubs*” and “*Traditional Sellers*”, three of them being diverse from online pure player. (R. Mangiaracina, A. Perego, A. Ghezzi, 2012)

Despite that, their logic and driver categories have anyway been useful for our purposes, representing the stepping stones for our analysis. The two authors in fact, have extracted them starting from the logistic literature and academic publications treating general logistics issues, applicable to every e-commerce field. Two main drivers affecting the four components of logistics emerged from their compendium. According to them, “*logistic complexity*” for e-commerce business is determined as the resultant of product complexities and service drivers (Figure 29).

Those defines respectively “factors of physical goods which most impact on logistical performance” and “factors representing the complexity of the logistics problem in terms of service level expectations”. (R. Mangiaracina, A. Perego, A. Ghezzi, 2012)

Figure 29 – Drivers affecting logistics in the Mangiaracina-Perego Model

Product drivers				Service drivers			
Value density	Product range	Obsolescence	Logistics-specific needs	Returns management	Cycle time	Punctuality	Flexibility

Source: R. Mangiaracina, A. Perego, A. Ghezzi (2012)

Based on previously stated differences that set our specific field of analysis we tried, starting from the specific e-grocery literature and bearing in mind all the previous considerations regarding the perishable-products operations management, to create our own version of the model, starting from the Mangiaracina-Perego one.

The outcome is supposed to focusing on those issues and features that surrounds pure players in the e-grocery Italian industry and to respond more precisely to our interrogatives.

In reason of that, we started from the depiction of those drivers to be considered in our case.

### 3.3.2 Drivers identification:

Starting point for reaching our target has been the identification of parameters influencing our industry in the four logistics constituting moments specifically identified for the e-grocery market, to be added to those identified before by R. Mangiaracina, A. Perego and A. Ghezzi, (2012).

Being, as already underlined, the grocery industry complex under the point of view of the warehousing and having specific requirements for what concerns picking and order processing, we thought it would better fit the industry to split the drivers into three, adding one to the two drivers proposed by the two authors.

We started from the models proposed in the Mangiaracina-Perego Model. Side by side, through the review of the specific e-grocery and perishable good related theory, the analysis in depth of the *My Quality and Convenience* numbers and processes and the speech with the manager in charge for the business, Stefano Iorini, we tried to identify the other industry specific variables to be considered. The result of this process has been the identification of 13 drivers.

Among the 8 drivers presented in the Mangiaracina-Perego model we have not considered the “*Flexibility*”.

None of the firm operating in the e-grocery field could be evaluated according to this parameter, which has been defined as “*allowing the customer to change their orders after they have been issued*”. (R. Mangiaracina, A. Perego, A. Ghezzi, 2012)

Even if we do not considered this parameter, for future researches and clarity reasons, we are aware of the importance that such an improvement would have in term of customer experience. Six industry specific variables have been added to the eight proposed by the model shaping the e-grocery industry.

In addition to this, for similar reasons, also the “*Return Management*” driver has been excluded by us, and will not be included in our adaptation of the model. This driver in fact, was used in the Mangiaracina-Perego model mainly to address other industries, handling durable goods that have a long lasting value for the customer and a higher value density. This is the case of electronic goods such as smartphones or clothes. A return policy is instead not even provided by the e-grocery industry players in the most cases.

The assessment of a defective item in the shopping bag triggers immediately the reimbursement of the price paid. The customer is usually given the possibility to acquire it again with a new purchase or add the broken item to a future purchase as a discount.

Even in the case of reorders, anyway, there is not the ship back of the product to the merchant warehouse, like happens for instance when the size of a purchased clothes is wrong. This is due to the nature of the products exchanged. When grocery units are damaged their value is lost forever. In this sense we do not talk about substitution of the product.

The addition of the industry-specific variables resulted in the need to reposition the existing drivers into three categories, explicating the key issues in processing perishable products.

In particular, this addition is due to the split of the “Service Driver” proposed by Mangiaracina-Perego into the two classes.

Following the specific constraints and the peculiarities we underlined with the support of Stefano Iorini, managing the MyQnC.com platform, for our dissertation purposes we identified there were specific drivers that , as far as the “*External Processes*” as well as the “*Internal Processes*” , required to be taken in consideration.

E-grocery drivers were indeed:

- ***Product Drivers*** : identify those coming from features and having peculiarities that are related to the nature of the product treated by the e-grocer. (Figure 30)
- ***Process Drivers*** : address instead those consequences and issues that drive choices for what concerns the movement and transportation of the Stock Keeping Units (SKUs). We further have divided those Drivers into two subcategories: (Figure 31)

- ***Internal Process Drivers***: Those drivers affecting the processes before order by consumer.

- ***External Process Drivers***: These are the drivers that are outbound-specific and have to be considered for the “last mile” management.

Figure 30 – Product Drivers considered in the adaptation of Mangiaracina-Perego Strategic Framework

<b>Product Drivers</b>	
<b>1</b> <b><i>Obsolescence</i></b>	Obsolescence addresses the length of the product’s lifecycle. The highest the obsolescence rate is the faster the product will decay, depreciate and consequently the higher inventory’s costs and risks associated to the unit will be.
<b>2</b> <b><i>Logistic Specific Needs</i></b>	It refers to the Fragility, meaning to what extent certain products are easier to break or damaged throughout activities in a way that would compromise their quality to the customers.
<b>3</b> <b><i>Specific Manufacturing Requirements</i></b>	Specifically to the e-grocery industry, this parameter measures to what extent a certain product has to be processed internally by the Merchant after the order has been made by the consumer in order to be ready for the courier.
<b>4</b> <b><i>Specific Storage Requirements</i></b>	The “ <i>Specific Storage Requirements</i> ” refer to those particular constraints that a certain product imposes to the merchant to guarantee quality and avoid damages under both possible threat, commercial and legal.
<b>5</b> <b><i>Value Density</i></b>	“ <i>Value Density</i> ” addresses the relation between the value of each single unit category of product and its weight.

Source: personal elaboration



Figure 31 – Process Drivers considered in the adaptation of Mangiaracina-Perego Strategic Framework

<b>Process Complexity Drivers</b> <i>(Internal)</i>	
<b>a.</b> <b><i>Delivery Promised Time</i></b>	<i>“Delivery Promised Time”</i> is the period that elapses between the placement of the order by the customer and the receiving of the same. Shortest is time firms is committing, more complex processes will be.
<b>b.</b> <b><i>Product Range</i></b>	This driver addresses the completeness of the offer, considering both its wideness (number of categories) and depth (number of products per categories, number of Brands for the same product type).
<b>c.</b> <b><i>Volumes per day</i></b>	<i>“Volumes per day”</i> have focus on estimation of volumes of SKU each firm manages and ships each day, compared to the surface of the warehouses. Highest the volumes that a firm has to move staying equal warehouse dimensions, highest complexity of internal processes
<b>d.</b> <b><i>Product Substitutability</i></b>	<i>“Substitutability”</i> refers to what extent it can be identified a different product providing customers the same benefits for each units ordered when the item ordered is not available .  Substitutability would be high when easy both to rapidly find the same item from another merchant or when providing different brand do not compromise the quality perceived by the customers and satisfaction of the client.

Source: personal elaboration

Figure 32 – Product Complexity Drivers measurement matrix

	Low	Mid/Low	Medium	Mid/High	High
<b><i>Obsolescence</i></b>	<p>The obsolescence level for every firm has been assessed on the base of the shelf-life of comparable basket of goods coming from different firms. The days estimation has been calculating adopting the “<i>Shelf Life of Food Products</i>” indications, provided by the Second Harvest Food Bank.</p> <p>[Even to same category goods could be attributed a different shelf life. For example the same meat slice would last differently before its expiration if it is a fresh cut, frozen, semi-processed, processed or cooked/ready to eat.]</p>				
<b><i>L.S.N.</i></b>	<p>Products’ fragility has been calculated qualitatively observing the nature of the product sold; to what extent and how products offered are pre-packaged.</p>				
<b><i>S.M.R.</i></b>	<p>This driver’s estimation considered the number and complexity of activities required to the merchant after the product has been ordered. A high number of activities required to have most of the products sold “customer-ready” will lead to a higher complexity for what concerns the products and the overall offer.</p>				
<b><i>S.C.R</i></b>	<p>This driver has been evaluated observing the nature of the products included in the offer, the percentage of those that require specific temperatures and infrastructures to be stored in before the order.</p>				
<b><i>Value Density</i></b>	<p>The Value Density has been assessed empirically comparing a basket made of the most purchased goods (66 SKUs) among peers. When there was a firm not providing all the products, densities have been tested only considering the comparable products from other firms’ baskets.</p>				

Source: Personal elaboration

Figure 33 – Process Complexity Drivers measurement matrix

	Low	Mid/Low	Medium	Mid/High	High
<b><i>Delivery Promised Time*</i></b>	>48h	24-48h	12-24h	2-12h	<2h
<b><i>Product range*</i></b>	< 1k	1k-3k	3k - 6k	6k - 10k	>10k
<b><i>Volumes/day</i></b>	Calculated on a qualitative basis on the information available from third party's interviews, newspapers and online (articles & official websites)				
<b><i>Product substitutability</i></b>	Calculated qualitatively considering the localism of the products offered, presence of certifications (DOC, DOP,IGP) or the importance of the craftsmanship in the production of the good				
<b><i>Geographic Coverage</i></b>	Evaluated by the number of provinces the firms operates in				
<b><i>Geographic Density</i></b>	The density of the customers for the geographical areas covered				
<b><i>Delivery Timing</i></b>	Evaluation based on the combined analysis of three quantitative factors: 1) How many days a week is the service active? 2) How many hours per day is the service operating? 3) How narrow is the window of booking of the delivery? (half an hour, hour, 3 hours, half a day, not declared)				
<b><i>Delivery experience</i></b>	Calculated qualitatively through a review of articles from newspapers and specialized websites. Also customer's reviews ( especially the positive ones) have been taken into consideration for this variable				

Source: Personal elaboration

\* Range scale has been calculated dividing into five classes the results of the peers for the specific variable

### 3.3.3 Sample selection and evaluation

After the identification of which parameters have to be valued when assessing the e-grocery operation mechanisms and having established the proper mechanism to value each of them, we moved to the definition of the sample of companies to be observed.

We have already briefly introduced the motives of choices made by R. Mangiaracina, A. Perego and A. Ghezzi (2012) in the definition of their own sample. They identified different firms in order to cover a multiple industries, driven by the aim of making a cross industry comparison.

Oppositely, our focus was directed towards a specific industry and we selected only firms competing into the e-grocery segment. Our sample of companies included all those whose orders derive only from the online channel (Website or smartphone App) and who operated the Home Delivery.

Moreover an additional consideration has to be done regarding our sample selection process. We already stated that there are differences between the Business Models of “Click and Mortars” and “Pure Players”, which start from warehouses where is the picking process and, in the way of delivering products to the customers. Firms providing in-shop ordering and to-home-delivery were excluded from the present analysis. Those companies in fact do not fit the pure player definition, being the picking process done by customers as it happens for physical retailers, thus being home-delivery is only an additional service to a traditional Business Model.

In general we decided for the diversity in their Business Model to exclude from our sample both those Hybrid Business Model and also all the traditional grocery sellers who decided to go online using their existing retail store as hubs and starting nodes for the delivery of products, even if hiring dedicated personnel.

As we already underlined, the goal for the present analysis is the outline of a framework explaining pure players choices for what concerns Operations and Logistics, being in our interests the launch of the startup Alpha that cannot rely on a network of point of sales.

Despite that we are well aware of the fact that we excluded from this model important Italian players, starting from “Esselunga a Casa” (Esselunga), “Carrefouronline” (Carrefour) or “Spesasimply” (Auchan), “PAM Locas” (PAM Panorma) to cite a few.

All these companies we excluded for the purpose of this analysis however should be taken into consideration for any other type of benchmarking, being relevant and having value propositions to be shared even as startups, when referring to customers' perception and assessing the difference in quality of their experiences.

The traditional sellers that are going to be found among analyzed cases, all decided to develop self-standing businesses, creating a dedicated warehouse and developing own processes and inventories. For these reasons, even when associated with their Brand, to a notorious physical retailer, those firms are perfectly fitting the definition of Pure Player and our aim of analysis.

We are also aware of the presence of specific category players operating only through the online channel. We decided to not consider also those players, the perishability of whose product was considered not relevant for our purposes, on the basis of the interest we had in finding a substitute to the physical shopping of grocery, thus covering also perishable categories.

This led to the exclusion of successful businesses operating in narrow offerings, like those operating in the online wine commerce, such as Tannico.com, that are also booming.

Moreover, due to the fact that our aim was to find best practices in the e-grocery industries, we decided to include in our sample only the best performing firms.

Being e-grocery a new industry that is modifying and evolving with the firms that play in it, we do not consider profitability as the leading factor for evaluating performance of those firms. In addition to this it has to be considered that half of the firms in the sample are startups and in the most cases do not disclose their financials.

To assess their coverage and service growth over time, lacking available numbers and financials, we considered the recurrence on specialized newspapers of dedicated articles and the number of online available interviews as indicators for the performance in this analysis.

According to what said in the previous lines, we found out seven firms operating in the Italian e-grocery industry that were fitting our requirements:

1. Amazon Prime Now
2. Cicalia
3. Cortilia
4. Easycoop
5. Fruttaweb
6. Waygo
7. Primotaglio

In order to understand the motives of the choices of Pure Players in the industry and to support those conclusions for the shaping of our business case, we classified the component of our peer-group according to their choices in respect of “*Management of warehouses and Inventory*”. We started from the Mangiaracina-Perego Strategic Framework again and tried to tailor it to our specific field.

From the examination of our peer group and other cases we noticed that among the six possible logistic strategies by the existing model, only the last three were relevant for the e-grocery industry (Figure 34).

Figure 34 – The Main Logistic Strategies

	SUPPLIER FULL MANAGED			SUPPLIER MANAGED INVENTORY			DISTRIBUTED INVENTORY		
	Supplier	Merchant	Courier	Supplier	Merchant	Courier	Supplier	Merchant	Courier
Inventory ownership	●			●			●	●	
Picking + preparation	●				●		●	●	
Order assembly	●	●			●		●	●	
Order delivery			●			●			●
	CONSIGNMENT INVENTORY			MERCHANT MANAGED INVENTORY			FULL IN-SOURCE		
	Supplier	Merchant	Courier	Supplier	Merchant	Courier	Supplier	Merchant	Courier
Inventory ownership	●	●			●			●	
Picking + preparation		●			●			●	
Order assembly		●			●			●	
Order delivery			●			●		●	

Source: “International Journal of Engineering Business Management”, R. Mangiaracina, A. Perego, A. Ghezzi (2012)

This is, again, an industry-related consequence. The first consideration that has to be done is that, due to the nature of the service we are considering, it is not possible to delegate to suppliers the full logistic process, as it happens for other industries such as fashion or electronics, where aggregators have a lot of success.

The shopping cart, that is the final output of grocery business, composes of different items, each one coming from different suppliers. It would not be possible for Merchants to assemble the shopping bag picking each component from the supplier every time. This consideration lead us to exclude the “**Supplier Full Managed**” and the “**Supplier Managed Inventory**” approaches (Figure 34).

It must be considered also the fact that the items ordered has to be delivered as fast as possible and in a unique tranche. This renders not possible the adoption of a “Distributed Inventory” (Figure 34). The picking and assembly has to take place in a unique place, unavoidably at the Merchant premises.

From the cases analyzed emerged that hybrid forms are still possible for what concerns Inventory. Common among the players is the “Consignement Inventory” logistic solution.

This approach to supplying and warehouse management provides that items are kept by suppliers, at least partially, until the order. After that moment, those are delivered to the merchant by different providers in order to be handled and prepared for the customer. At the end the shopping bag is shipped to the final consumer by the merchant proprietary fleet or externally. (R.Mangiaracina, A. Perego, A. Ghezzi, 2012)

Together with this form, we also found merchants managing the inventory “Full in source”, This is the case where everything is internalized to the merchant, eventually outsourcing only the last mile delivery (“Merchant Managed Inventory”).

In Figure 35 it is possible to find how the peer group components decided to managed the two aspects: Inventory management and the Last Mile delivery

Figure 35 – Logistic strategies adopted by Italian e-grocery Pure Players

	<b>INVENTORY APPROACH</b>	<b>LAST MILE SOLUTION</b>	<b>LOGISTIC STRATEGY</b>
<b>Amazon.com</b>	Internal	Internal and external	<b>Full in source</b>
<b>Cicalia</b>	Internal	External	<b>Merchant Managed Inv.</b>
<b>Cortilia</b>	Mixed	Internal and external	<b>Consignement Inv.</b>
<b>Easycoop</b>	Internal	Internal	<b>Full in source</b>
<b>Fruttaweb</b>	Mixed	External	<b>Consignement Inv.</b>
<b>Weygo</b>	Internal	Dedicated	<b>Full in source</b>
<b>Primotaglio</b>	Mixed	External	<b>Consignement Inv.</b>

Source: Personal elaboration

### 3.3.5 Drivers evaluation: inventory and supply

The step that followed in the analysis has been the case by case evaluation.

According to the previously exposed drivers, we classified e-grocery pure players according to those variables in a way that would have permitted to compare them.

The valuation entailed two different levels. We considered at first those factors affecting the internal activities undertaken by the firm while in a second moment we passed to the evaluation of the policies related to the “last mile”. Initially we computed the averages for the Product Drivers with the Internal Process Drivers, which are the two that affects internal choices, for each player of the group. (Figure 36) After that, we compared those with the “Inventory approaches”, the companies who have chosen to run their business, in order to verify if there was any relation among those and the drivers. (Figure 36)

Figure 36 – Product and Internal Process drivers Valuation

PRODUCT	Obsolescence	Log. Sp. Needs	Sp. Man. Req.	Sp. Cons. Req.	V. Density	average	Inventory Approach
AmazonPrimeNow	Low	Low	Low	Low	Mid-Low	Low	Internal (ATO)
Cicalia	Mid/Low	Low	Low	Med/Low	Low	M/Low	Internal (ATO)
Cortilia	Med/High	High	Med/High	High	High	M/High	Minimum (RTO)
Easycoop	Low	Low	Low	Low	Low	Low	Internal (ATO)
Fruttaweb	High	High	High	High	High	High	Minimum (RTO)
Waygo	Low	Low	Low	Low	Medium/Low	Low	Internal (ATO)
Primotaglio	High	Med	High	Med/High	Medium/High	M/High	Minimum (RTO)

PROCESS	Delivery Time	Product R.	Volumes/day	P.Substitut	average
AmazonPrimeNow	High	High	High	High	High
Cicalia	Mid	Mid/High	Mid/High	High	M/High
Cortilia	Mid/Low	Mid/Low	Mid/Low	Low	M/Low
Easycoop	High	High	High	High	High
Fruttaweb	Low	Low	Low	Low	Low
Waygo	High	M/High	High	High	High
Primotaglio	Low	Low	Low	Low	Low

Source: Personal elaboration



Figure 37 – Averages and Internal Approach comparison

	Product average	Process average (Internal)	Company Type	INVENTORY APPROACH
Amazon.com	Low	High	Process Driven	Internal
Cicalia	M/Low	M/High	Process Driven	Internal
Cortilia	M/High	M/Low	Product Driven	Mostly External
Easycoop	Low	High	Process Driven	Internal
Fruttaweb	High	Low	Product Driven	Mostly External
Weygo	Low	High	Process Driven	Internal
Primotaglio	M/High	Low	Product Driven	Mostly External

Source: Personal elaboration

The comparison of the two averages for each company (reported in the third column of Figure 37) provided us that Pure Players operating in the Italian e-grocery industry could be brought back to two categories, according to the firm overall orientation, whose borders are well defined.

Those two categories would have to face also the “Click and Mortars”, as we already said, completing the competitive scenario for the industry incumbents.

We identified that Italian pure players divides between:

#### - **Product driven** Companies

Those are the firms where the most of complexities are related to the nature of the product managed, thus to the type of offer they decided to provide to customers. For those companies is in fact the “quality of the product” the primary source of value creation and the feature around which the whole business is built.

#### - **Process driven** Companies

Process driven e-grocery companies were those companies where the structure of the business is keen more on the service provided than on the research of a superior quality in the product. Those are the companies where processes are the most critical aspect for managers to deal with.

After having assessed the possible nature of the companies, we moved forward to the comparisons to another level, observing the drivers side by side with the internal choices company made, with the aim to undertake possible relation among the averages, the nature of the company, and the policies implemented by each of them.

It has been found out that, according to our sample, there is a clear linkage between the drivers affecting a certain firm and the behavior it has regarding the supply of goods and the inventory management that has been set up. (Figure 37, third and fourth columns). As it is possible to see through the blue color in figure 37, a “Full-in-source approach” to internal activities is undertaken only by “Process Driven companies”. In reason of their orientation in fact, those companies strategy provides the internalization of both the management of the stocks and inventories.

Those companies all relies on a spacious warehouse at their disposal, where items remain stocked until the customer makes the order. Once the order has been placed, the process of picking and assembly of the shopping bags are triggered and undertaken immediately by the merchant in the fastest and most standardized possible way, in order to guarantee the level and velocity of service the customer expects from those firms.

The service orientation indeed calls for products being ready to be handled when the order is placed. The qualitative analysis of the single cases through the available information disclosed by the company and articles published on newspapers and specific journals evidenced that the processes for all those companies are comparable to those that follows an “A-T-O” (Assemble to Order) logic in production management. This production strategy in fact provides semi-products being already available to the manufacturer when the order is placed and leave to him the role to collect and assemble the final output (the shopping bag in this case) from its warehouse.

In reason of that only products that are present in the warehouse at the moment of the purchase can be ordered by customers, in order to guarantee the service standards that is the main value source for this type of companies. Otherwise those can not be ordered. This is also the motive of a smaller impact of product drivers on this type of firms.

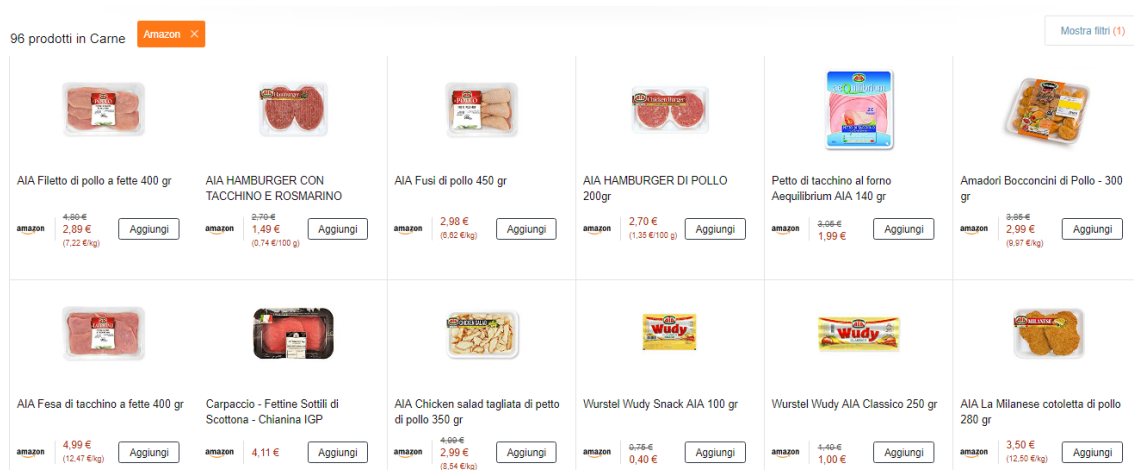
The result is that these realities have to compromise, reducing (or even avoiding) the depth of their offer within certain categories that requires the most complex operational procedures that are mandatory to guarantee freshness, localism or other forms of quality, features of products and avoid the inclusion of certain categories.

The prove for this is the fact that the product offer for the companies listed in this category. Usually is standardized, covers broadly all the categories covered by traditional physical retailer but is lacking under the point of views of fresh produces and local products whose shelf life is short.

From the analysis of the product offers of AmazonPrimeNow, Cicalia and Easycoop emerged that the most of the product have a longer shelf life.

Those most perishable categories, such as meat and fish, includes in fact only semi-processed or pre-packaged or semi-cooked products, whose shelf life is longer as their resistance to temperature changes, due to the presence of additives of preservatives, and has an higher hurt resistance. (Figure 38) This unavoidably results into a limited presence of superior qualitative products.

Figure 38 – AmazonPrimeNow offer for the category “Meat”



Source: AmazonPrimeNow.com (Jan-2018)

The analysis of the products provided us another important insight regarding the type of relations that those classes of firm have. Due to the nature of the product included in their offers, those firms tends to have impersonal relationships facing wholesalers and multinationals as counterparts, not partners, and changing them for convenience reasons.

On the other hand, we have “Product Driven companies”.

As we can see from Figure 37, all the firms presenting this type of complexity characterized by the adoption of what we called “Mixed Inventory”. This definition has been used to stress the fact that in this case inventory is shared among the Merchant and its Suppliers.

As we said, to compete firms have to own a proprietary warehouse. It is not possible in fact to avoid the ownership of unique place where to assemble the orders, due to the nature of the picking process and the constraints set by customers’ expectations.

Despite the necessity to have a base for assembly, it is anyway possible to have shared inventories, as it happens in this case, trying to approach Supply and Inventory with a “Smart Sourcing” approach (McKinsey & Company, 2013) instead of the full in-house approach made by traditional retailer of grocery products.

The aim is to minimize the storing costs associated with particular types of products, keeping in house only a restricted number of SKUs, a minimum quantity that the company is sure to sell in the short run, or even do not store any unit. Choosing for each category what to acquire in advance and what to outsource or share is a key aspect for succeed. (McKinsey & Company, 2013). Firms in this class in fact do not store at their premises all the products that are available to customers online through the website or the App. The products are going to be hidden only when is the supplier to get out of stock. (M. Porcaro, 2016)

The Pure Player in this case would store only those products whose storage is less risky according to their expiration date and fragility. For those categories of products, as Process Driven companies do, we will find also those firms adopting a “push logic”, adopting an A-T-O approach and calculating inventories on the base of the expected demand, especially when supplier offers quantity discounts for non-perishable products.

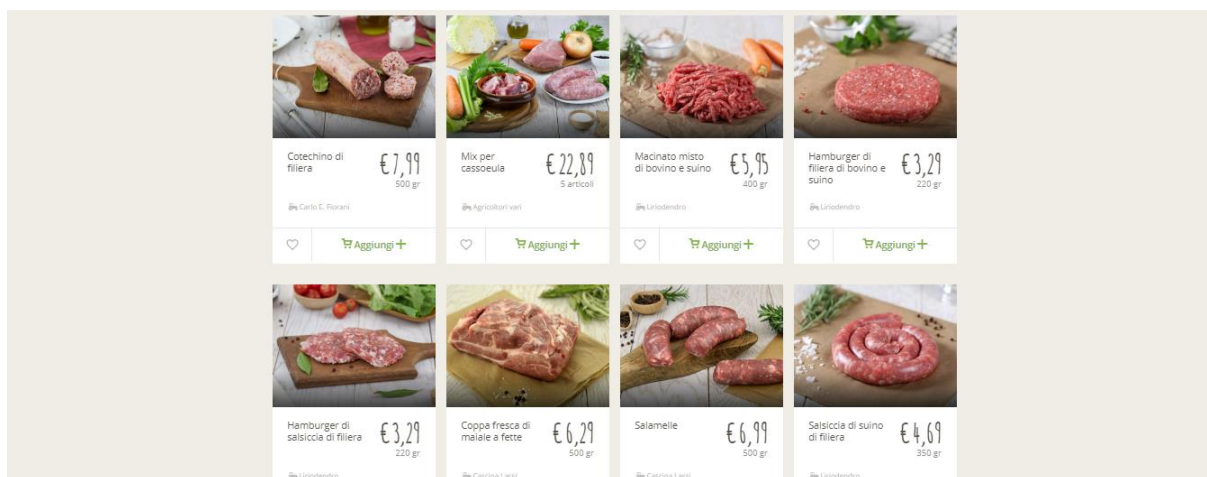
Instead when referring to most qualitatively products, which represent the key success factor for those company, the real added-value to be provided to the customer, being harder to me handled, is the demand to trigger the order to the supplier.

Until that moment, inventory is left to the supplier and the merchant approach would be similar to the Resource-To-Order (RTO) one in production processes, in the sense that those more critical products will be booked by the merchant only after the customer reservation.

This will allow the firm to exchange products of superior quality, which will distinguish their offers for their localism and organic nature, the fact of being less processed, and that are difficult to be found in generalist e-shops or even in big chains of the traditional GDO.

(Figure 39)

Figure 39 – Cortilia offer for the category “Pork Meat”



Source: Cortilia.com (Jan-2018)

The other consideration that emerged is the different relationship between merchants and suppliers. This time there is a close relation among the two counterparts, based on the dialogue and the research of a win-win strategy with durable horizons.

Figure 40 – Example of the importance given to Suppliers for Product Driven firm



Source\_ Cortilia.com (Jan-2018)

As we can see as the same figure 39, as a prove for their importance, suppliers are indicated under each product, being themselves an asset for the company (Figure 40)

The other side of the coin of such mixed inventory approach is that is going to reflect in an increase of the risks associated to those products logistics and in a huge extension of the time required to reach the customers, as product has to move twice before reaching the customer.

### 3.3.6 Drivers evaluation: coping with the “last mile”

After the analysis of internal processes, we moved to the depiction of the other issue that emerged from theory and cases observation: the external logistic.

Our aim was to grasp from successful firms if there was any pattern also for what concerned the management of what Antonio Perini (2017) defined the “*Saint Graal*” of the new Millenium: the Last Mile.

We approached this second study using the same logic we did before, thus adding to the consideration of the previous two driver categories, the third one analyzing complexities related to the type of service that characterizing each player’s Value Proposition.

We did not find in this case a 1:1 relation between those drivers’ averages and policies. For this reason, Drivers affecting the outbound processes are going to be presented separately, not using the averages to understand how each of them affected managerial choices. (Figure 41)

Figure 41 – Drivers and “Last Mile Solution” Comparison

	Grph. Coverage	Grph. Density	Delivery timing	Delivery experience	LAST MILE SOLUTION
Amazon.com	Low	High	High	Mid	Internal external
Cicalia	High	Low	Medium	Low	External
Cortilia	Medium/High	Medium	Medium/Low	Mid/High	Internal external
Easycoop	Medium/Low	High	Medium/High	Mid/High	Dedicated
Fruittaweb	High	Low	Low	Mid/Low	External
Weygo	Low	High	High	Mid/High	Internal
Primotaglio	High	Low	Low	Mid/Low	External

	LAST MILE SOLUTION	PRODUCT driver	internal PROCESS driver
Amazon.com	Internal external	Low	High
Cicalia	External	Mid/Low	Mid/High
Cortilia	Internal external	Mid/High	Mid/Low
Easycoop	Dedicated	Low	High
Fruittaweb	External	High	Low
Weygo	Internal	Low	High
Primotaglio	External	Mid/High	Low

Source: Personal elaboration

The first evidence we noticed is the coherence of our evaluations with results emerged from the Mangiaracina-Perego Framework. Conclusions they landed to are still in force using our grocery-specific parameters to analyze the company they use.

If we compare the traditional physical retailers to those Pure Players who adopted the same strategy (apart from warehousing), we can see that all of them developed an internal fleet to dispatch orders.

(We used as benchmarks the big names of the Italian GDO that went online (“Esselunga a Casa”, “Carrefour”, “Spesasimply”, “EatalyToday”, “Conad a Casa”) together with the consideration of smaller independent groceries covering single cities such as “La Spesa” (Milano))

We can conclude that there is in fact a push for companies that have a high geographic density, as the traditional sellers they analyzed, to manage the “last mile” directly and to develop an internal non-shared fleet of couriers to reach the customers and distribute purchases.

This is made possible for those firms thanks to the maximization of loadings on vans the company owns or has anyway under its control.

This last mile approach increasingly applies narrowing the geographic coverage and increasing the density of the population for the covered area. It is in fact typical for firms serving city centers to have vans that are devoted only to their products.

Fixed costs in this case reduce, being possible to have less vans covering the whole territory served. Either Variables ones do, being stretched over a bigger number of orders per route and being vans capacity maximized.

The ownership of a fleet, when possible to overcome to the high initial investments and the lack in the expertise and resources needed to develop an internal logistic solution being out of the business, represents an optimal solution. Not having to share the fleet with other players allows the company to have high flexibility and control over operations.

In addition to this it has to be noted also the positive reflection that the internal management has on quality maintenance, allowing the direct control over it throughout the whole process.

In line with the Mangiaracina-Perego Model, also others observations have to be raised for Pure Players, linked this time to three main contingencies that have changed from the moment where the two authors built up the model, which affected the industry and are the reason for the unpredictability of “last mile” solutions using industry drivers only:

- 1) Logistics and Transport Industries are evolved at an exponential path from 2012, year of the presentation of the two Authors model, pushed by the latent demand from sellers who started adopting e-commerce channel increasingly to exploit the disruption of national barriers in course (McKinsery & Company, 2016).
- 2) Also technology for perishable and fragile goods transport has developed from the moment when the Mangiaracina-Perego Model has been tested, with the proposal of new technology to store food and move parcel that requires temperature control.
- 3) Pure players operations through dark warehouses, built for the e-grocery only, located in less crowded areas and closed to the public, opened up new solutions in Business Modelling.

Those factors together created over time new possibilities for logistic solutions and rendered not possible the development of a cause-effect dynamic to explain firms' choices. This is true for startups and also for traditional sellers.

In the last decade in fact we observed, especially in the North of Italy, and more specifically in city centers, the spread of a huge number of pure players specialized in the logistic services B2C, that tested and put in action new technologies both for what concerned the physical, operative side and the support of logistic operations.

For this reason today firms have to do multiple considerations regarding the possibility to collaborate with those realities against the organic growth they would have been constricted to follow in the past.

Comparisons among service outsourcing fees and the ongoing costs related to the building of an internal logistic fleet and the design or acquisition of an internal software, lacking in the know-how, have today to be done by new entrants and incumbents.

Many new ventures in fact, willing to serve dense geographic areas only, decided to change their approach from the traditional "full in source approach" to the externalization.

Some of them indeed set up joint ventures and created partnerships with those startups in the logistic industry, delegating them in full or partially to deal with the last mile.



This is the case of Easy Coop, who has been the first traditional retailer that changed the approach from the one that was put in place by other giants.

To operate online in fact Coop Alleanza 3.0 decided to set up a new Business together with Milkman, an emergent logistic startup who provided the fleet of vans and that is in charge for the management of the warehouse-to-customer logistic, instead of becoming the “Brick and Clicks” copycat of “Esselunga a Casa” and building a new startup relying on loyal warehouses.

Figure 42 – Milkman contributes to Partnership with his knowhow, software and managing the last mile (both the Brands are present on the courier fleet)



Source: “Il sole 24 Ore” (Set-2017)

Technologic development and the formation of a spectrum of choices for service providers broke down also the need for business to limit to a unique solution for the delivery, being qualitative excellence possible to be maintained also with multi-sided approach.

To prove that statement we can observe the case of AmazonPrimeNow. The US giant when opening its Prime Now service decided to approach the last mile with a multiple approach. They first invested in the establishment of an owned logistic network. In addition, they decided to collaborate also with multiple independent couriers for the delivery of the shopping bags to the customers.

This allowed the firm to minimize the initial investments only to what’s needed to manage a minimum level of orders, for the exceeding quantities considered variable they decided to outsource to third parties.

AmazonPrimeNow works together with a multiplicity of startups keen on fresh products deliveries based in Milan, from the already cited Milkman to PonyZero, another important startup for perishable product transport.

We have to consider that multiple approach has been possible for Amazon having already an expertise in the logistic sector, being the grocery the new industry the company was trying to enter. Different was the already mentioned situation of Easycoop, being a new entrant and not having any competencies in the management of the *last mile* and thus decided to fully outsource the management to an expert in the field.

We can conclude saying that reason why it is not possible to find perfect correspondence or a framework for pure players are changes and continuous evolution of the logistic solution providers and the new role this aspect has assumed for e-grocery players. The outbound logistic in fact revamped the nature of logistic, elevating it from being a duty as it was for traditional sellers operating at the beginning of the 21th Century, focused only on cost minimization to become a “*strategic assets for the Business Modelling*”. (Casaleggio Associati 2015).

In light of the previous considerations, we observed that outbound logistic choices, differently from inbound and warehouse ones are highly business-specific and not industry specific. These result from a multiplicity of drivers, not only being related neither to process complexity nor to customer service. Competencies already inside the company, technologic innovation and external unpredictable changes, logistic service providers that surrounds every specific business reality or possibility to find long lasting partners to co-work with, all these factors exist and count.

### 3.4 Communication: e-grocery firms and customers

The previous pages were devoted to the comprehension of the “Infrastructure Pillar”, focused on explaining best practices and reasons behind choices Italian firms have made in the management of “Key Activities” “Partnership” and “Relationships”.

In addition to those, there is another aspect to be considered for its importance the e-grocery industry.

As we said, the digital revolution invested traditional businesses in any aspect, revamping the way firms approach to final consumers. Not only back-end activities modified, also front-end ones did. (F. Antonacci, 2016) In reason of that, we will henceforth shift our attention to another critical “Pillar” (A. Osterwalder, Y. Pigneur, 2002): “Customers”. The “Customers”, as reported in Chapter 1, articulate into three areas: “Customer segment”, “Channels” and “Customer’s Relation”, (A. Osterwalder, Y. Pigneur, 2002) which will represent the focus of our considerations in this second paragraph and we will analyze how best performers succeeded facing it. In particular, we will proceed in the analysis of the different policies and solutions adopted by those who outperform in the industry, in order to understand what drives to success.

Before to move forward, it has to be disclosed that we enlarged the sample of firms analyzed in this section to all those competing in the e-grocery Italian industry, irrespectively of them being “Brick and Clicks” or Pure Players.

This choice has been due to the shift of our perspective. We in fact are going to adopt the customer point of view. Customers indeed, when deciding to purchase online, behave according to parameters that are different to previous ones. Those factors that were founding in the operation management, such as the activities performed, whether the firm has internal warehouse or not, the managerial style adopted to deal with perishable products, decline in significance when the analysis shift to the customers’ behavior. Others are the factors that matter.

We added up for this reason to the restricted pure players’ sample we have used all the other firms operating to-home online grocery delivery with customers value. We considered indeed both GDO giants and independent groceries, also when using their existing point of sales as hubs for the picking and assembly of orders, together with narrow-offer players previously excluded, such as the online-wine shops or specialized startups.

### 3.4.1 The structure of the web platform

Website is the soul of every e-Commerce, the *condicio sine qua non* for selling online. Is the platform that, in the end, determines the success or failure. (F. Antonacci, 2016) The website is the only mean through which the purchases take place; the unique way firms have to deliver and capture the value they created. None of the activities related, logistics and operations, would lead to any profit without a website attracting customers' attention and putting them in the condition to perform purchases. (F. Antonacci, 2016)

The principal role of a platform is to sell. This is possible only when it acts as a substitute for the traditional in-shop purchase experience, to which customers have been used to ever since, or even better, when it is able to upgrade the service. (D. Vietri, G. Cappellotto, 2015)

E-shopping and traditional ones anyway share some traits. Their goal in fact is the same: the satisfaction of a customer's need. (D. Vietri, G. Cappellotto, 2015) Even targeting same goal, routes are different. E-commerce in particular operates in a context that, in many cases and for many products, is new for the customer, who is not completely familiar with it. (D. Vietri, G. Cappellotto, 2015)

Grocery industry is the paradigmatic example. The reliability that a real staff, four-wheel carts and shelves full of products can give; the lack of the warranty provided by the five senses adoption in the choices, which support customers in selecting the perfect items among the others; the uncertainty connected to the payment-delivery time lag, all these have to be offset somehow by the website platform. (D. Vietri, G. Cappellotto, 2015)

Another issue increases the complexity: retreating from online websites is much easier than doing in physical purchases (D. Vietri, G. Cappellotto, 2015).

Few minutes occurs to customers, after being landed on the online webpage, to evaluate its compliance to their needs and to establish if the merchant can solve those. If this is not the case, they'll retrieve.

Even when the process had begun and the products start filling the cart, if the customer anytime finds the merchant not being in line with its expectation, he gets off the website. Meanwhile offline competitors have a physical location, which could require long times to reach, online "*competition is just a click far from the customer*". (D. Vietri, G. Cappellotto, 2015).

In opposition, once customers entered the physical shop, the distance travelled summed up to all others activities he has passed through, commit him to undertake the purchase. Going to another supermarket would in fact imply higher switching costs.

Moreover this trend increases as soon as the cart start fulfilling. It is not common that customers abandon in the middle their full cart leaving the physical supermarket. The “*destruction of times and spaces*” (D. Vietri, G. Cappellotto, 2015) obliges online firms to pay particularly attention customer experience throughout all the purchase process, in order to avoid the cart abandonment. (F. Antonacci, 2016)

There has to be a coherent underlining logic, which would tie together the whole website processes, sorting pages and products in a way that would allow the purchases to be the leanest. (F. Antonacci, 2016) Only a website adopting the proper organization under the structural point of view, (R. Polillo, 2005) would overcome previously presented barriers, preventing transaction termination before the acquisition. (F. Antonacci, 2016).

We can identify different page types according to their nature, constituting the bone frame of every platform. (F. Antonacci, 2016)

We can imagine those as layers of a pyramid. (F. Antonacci, 2016)

1. *Home Page*
2. *Category page*
3. *Subcategory page*
4. *Product page*
5. *Information Page*
6. *Checkout*

In organizing them, the merchant should adopt a customer-based logic, if he wants to maximize “*Usability*”, “*Contents*” and “*Strategy*” of the owned webpage, making it appealing for the customers. (F. Antonacci, 2016) As we are going to see, from our observation of the Italian e-grocery scenario the situation appears split in two sides. Another time, pure players firms with no link with traditional retail, achieved higher quality in their structures.

On the other hand, those who were already operating as physical distributors, already having a history in the physical industry, achieved a lower level of quality. (M. Porcaro, 2016)

We will begin our analysis from presentation of those .

### 3.4.2 Lights and shadows in the strategy of GDO players

Every time a GDO giant decided to go online, regardless the decision to establish or not an independent business, it tended to replicate the existing physical stores logics online.

This choice is the consequence of the intent to leverage on existing brands and their awareness gained throughout their history. As we will see, this strategy also exposes them to risks and issues. We will start in the analysis of the homepages.

**Homepage** in fact is the most important page, due to its impact on the customer. (F. Antonacci, 2016). This is the main online vehicle for the brand image, being the most recognized page of the whole platform. (F. Antonacci, 2016)

“Esselunga a Casa” and Auchan’s “shopmi.com” homepages provide us the stepping-stone to start our analysis of GDO players’ strategies. For the two above cases , we will compare in Figure 43 the online advertising (on the left) and the offline (on the right) campaigns available in physical stores.

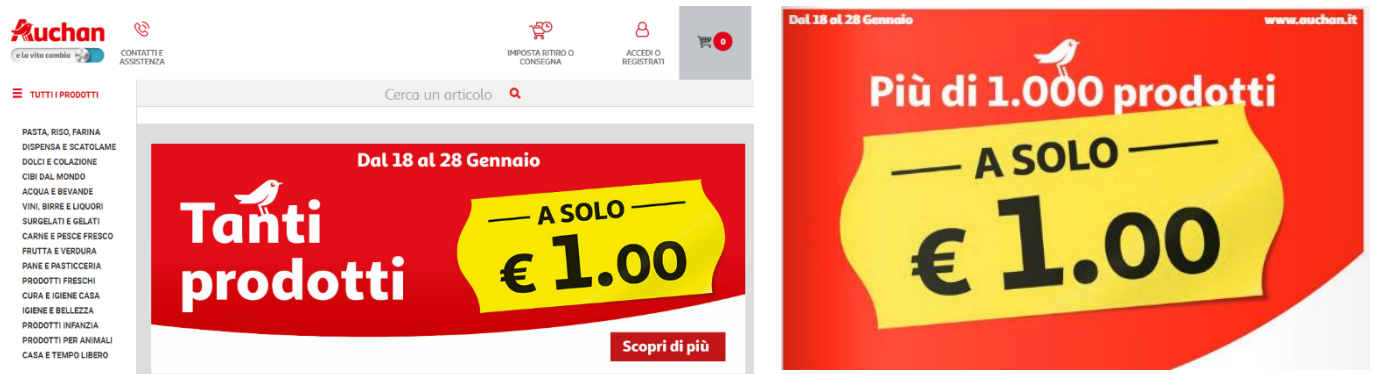
Figure 43 – Physical Retailers sharing offline and online campaigns

*Esselunga a casa: “Sconti fino al 50%”*



Source: Esselungaacasa.com and Esselunga in-shop promotion flier (18-28-Jan)

## Auchan: “Tanti Prodotti a solo 1€”



Source: MyShop.com and Auchan in shop promotion flyer (18-28-Jan)

For both cases, as we can see, online and offline go side by side.

Those companies, which have already developed a strong Brand and built up positive associations in the mind of the customers, tend to leverage on those doubts that customers could have on the new shopping channel. Previous purchase experiences and recognized Brands in fact constitute the greater thrust towards purchases, both online that offline. More than the 40% of food online purchases is for products that customers already know. In 44% of cases, they do not even evaluate the chance to switch to another brand. (Hoopcommunication, 2015). People is driven towards what they known. For this reason, well-known Brands try to replicate the established processes and products' structure that were performing well offline.

We have to consider another evidence, characterizing the Italian retail scenario: the increasing importance given to MDD (“Retailers private label”) products.

The report of “Marca 2017”, the Italian “Private label conference and exhibition”, underlines how increasingly retailers sales of branded products are growing. Retailers are becoming themselves producers and customers increasingly being confident on their labels trust. (Marca Conference and Exhibition Results, 2017)

Going down from the SEO pyramid, the already cited link between physical shops and online channel for becomes even more evident.

Category pages guide customers in the purchase throughout all the processes, from the homepage to the product, facilitating the navigation. (F. Antonacci 2016) Those divide in Sub-Category pages, which also are important for their structuring role, especially in such a specific and branched industry as the e-grocery. Categorization and sub-categorization in fact have the mansion to organize the multitude of diverse product available to customers. (G. Cappellotto, 2016) Together those constitutes the architecture of the site, radiating downward from the webpage, and constitute the site map. (R. Polillo, 2004)

It is important to find the right balance among category and subcategory, otherwise, the merchant will be exposed to the risk of overcomplicating the platform, compromising the quality from the customer perspective. Exceeding on opposite side may be the consequence . Using limited number of layers could cause the customer to not find the product he is looking for, creating confusion. (F. Antonacci, 2016)

Also for those layers GDO firms tend to divide online products as they do with physical walls. As we can see in Figure 44, products' categories for the Eataly online shop are sorted as in the physical stores, in order to facilitate customers in their purchase making them feel as if they were in the point of sale they know

Figure 44 – Eataly online site recalls the off-site one the customer is knows



Source: Eataly Today - Milano Smeraldo

Online seems in those cases to be relegated to a minor role in respect of the physical one.

This idea reinforces if we observe “product pages”, which assume maximum importance for the merchant, being where the strategic nature of the platform comes out.



At this level, customers compare the different offered labels and makes their final decisions. (F. Antonacci, 2016) Again, GDO players use those to boost sales and push branded products, exploiting the increasing affection customers are demonstrating for them and the enormous growth of the web as information source.

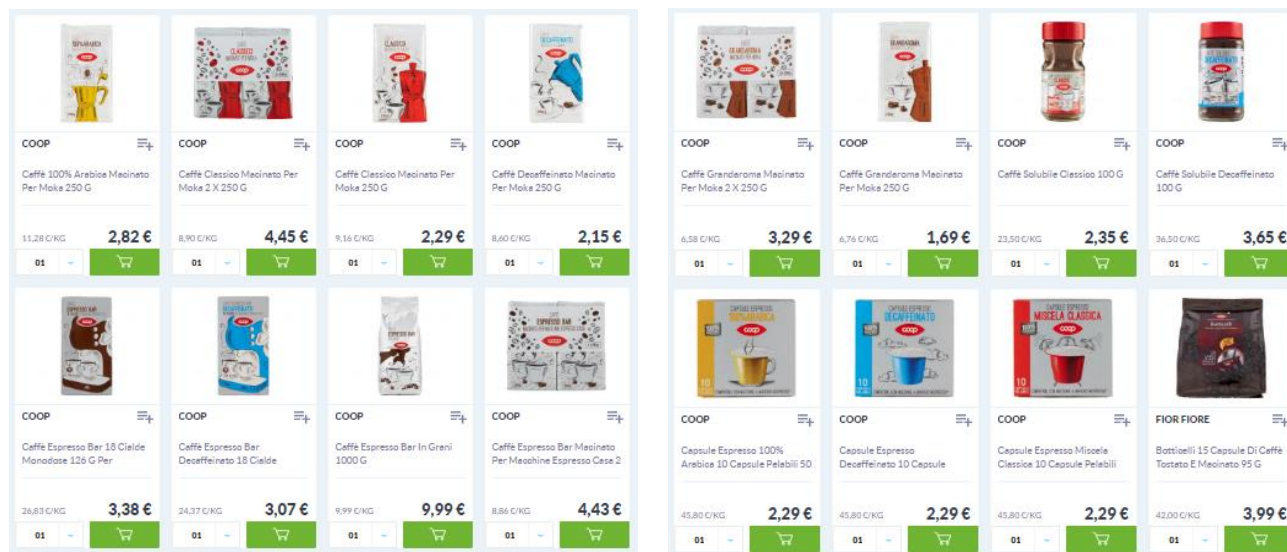
The most evident example of the strategic role product pages and online commerce have for companies comes from the observation of Easycoop. Despite the decision of AlleanzaCoop3.0 to constitute an independent business for its e-grocery activities, EasyCoop's strategy does not differ from others GDO retailers. In fact, also in this case, the online venture has been driven by the omni-channel quest coming from customers together with the decision to consolidate and boost their MDD sales. The strategy of the firm focused on increasing the branded product line relevance also through the support of the e-commerce.

*“We want to consolidate our position for what concerns MDD. Today we have a share of MDD equal to the 26%. Our goal for the next three years is to reach the 30%”* (Marco Pedroni, Marca, BolognaFiere, 2017).

The words of the Chairman of Coop embodied the importance the GDO player puts on the independent products, surfing the enthusiasm of consumers in this direction.

If *“Product Pages”* where the major lever for strategy, *“Indexing”* is the tool at the merchant disposal managing products on the webpage. (F. Antonacci, 2016) It refers to how products are visualized and their position in the pages. It entails whose products appear first to the customer's eyes. (F. Antonacci, 2016) Also from pages' indexing emerges the primary push for the MDD products. After the selection of category and sub-category, when the customer lands to the products, MDD ones are those the customer see first. In the following image (Figure 45) we can easily assess that.

Figure 45 – Easycoop - Products listed in the Product Page 1



Source: Easycoop.com [“Dolci, Colazioni, Snack” – “Colazione” - “Caffè”] (Jan-2018)

When selecting the “Coffee” category on the Easycoop Platform, the first out of five pages is completely devoted to the presentation of MDD products. It is required to move to the second page to find general items.

Unless the customer will search for a specific Brand through the search bar, every time, a search for the generic term would result in the exposure to branded products first.

Easycoop expects the suggested purchase of private label products to translate into an increase in online sales and in the reinforcement of the company’s Brand, that will also influence the offline sales. This unbalance anyway, reflected unavoidably in a lower customer’s experience quality, (D. Vietri, G. Cappellotto, 2016) as we were referring to at the beginning of the Chapter.

“Online and Offline have different underlying logics and DNAs” guiding them, as reported by Marco Porcaro (2016), CEO of Cortilia, who considers an error to replicate the offline logics on the web. Dissimilar DNAs call different business choices in every field of it, from logistics and operations management, as we had occasion to see previously, down to the communication, marketing and CRM, as we are going to discover. The presence of a physical network of stores represented indeed a double-edged blade for the Brick and Clicks, being at the same time a valuable asset and also an issue for traditional retailers’ online development. (D. Bernieri, 11/05/2016, “Speciale Cibus 2016 – Cortilia, Un modello di successo”, Mark up online)

There are many opportunities that could arise from the integration of these two channels, as also the Ocado partnership case demonstrated. It is not a secret that have been the synergies developed from the collaboration with historical retailers that kick-started the British pure player's success. (S. Butler, 09/08/2016, "*New Ocado deal boosts Morrisons' online push*", The Guardian online, business)

Online and offline being copycats is a risky strategy. Ocado in fact has overcome those risks constantly looking forward to service improvement and put always customers' and their experience ahead of everything else. Ocado understood the importance for the online to provide the same services as traditional retailers do, then adding something they do not as far as concerns customers' experience. (Hoop Communication, 2015) GDO players demonstrated to have this not clear, using e-commerce as "windows" (F. Antonacci, 2015) for traditional activities and many times tried to drive the two trains on the same track, ending up in treating different customers the same way.

The words of Mark Price (2017), Managing Director of Waitrose, one of the main UK GDO, should guide also Italian ones: "*You have to think about how to rebuild your core business in that world.*" (Nielsen, 2017)

### 3.4.3 Assessing e-commerce qualitative level

As we understood, Websites have a massive role in communicating with customers. (F. Antonacci, 2016) In reason of that, only the identification of those who outperformed in the front-end operations would have been useful to guide the business modelling of Alpha in the fourth Chapter.

To pinpoint best performers among the firms, we felt the need to diagnose first what the term “quality” really meant and which were the best parameters to use to measure it. In the e-commerce website field, quality refers to the “*customer interface level*” and addresses the “*appeal and attractiveness a certain webstore or marketplace has from the customer point of view*”. (C.H. Yang, 2016) J. Rayport and B. Jaworski proposed in their Manual “*Introduction to E-Commerce*” (2001) a model to scan specifically the elements affecting customers’ interface, called “The 7Cs model”. This model has come out more than a decade ago, which considering the e-commerce development rate is really a long period yet it is still up to date, being used by managers in supporting their businesses and driving scholars in their researches. (C.H. Yang, 2016).

According to the model, Customer Interface composes of seven different elements:

- 1) Context: The visual aspect related to its functional and aesthetic aspect.
- 2) Content: What the website offers the customers and how the products are delivered to him
- 3) Community: Refers to the interactions the sites promote among users
- 4) Customization: Ability to be customized and personalized according to the customer preferences
- 5) Communication: Addresses the direction that communication flows have on the website
- 6) Connection: That the website has with other webpages or contents
- 7) Commerce: Entails the supported services for what concerns business transactions

Those were the parameters that guided our steps towards depiction of best practices and the identification of the common traits shared by best performers in the e-grocery field.

### 3.4.4 - Real cases teaches the success:

#### A) Customers value a lean approach

J. Rayport and B. Jaworski (2001) definition of “Context” underlines the presence of both “functional” and “aesthetic” aspects.

The first category entails the layout of the site, the organization of the SEO pyramid layers, the procedures established among them as the navigation tools. (J. Rayport and B. Jaworski, 2001) “Aesthetic” variables instead are those visual characteristics of a webpage, such as colors, graphics and multimedia. (J. Rayport and B. Jaworski, 2001)

Quality in the context results from the coexistence of both two types: layout, visual theme and colors, as well as animations and indexing, all influences the ease of navigation for the customer (J. Rayport, B. Jaworki, 2001) We observed in previous pages that some firms present an unbalanced position towards the “functional variables” only. Such a detrimental approach towards aesthetic components will always end up in an impairment of the overall quality of customers’ journey. (D. Vietri, G. Cappellotto, 2016) Bearing this consideration in mind, we will now move to analyze another firm, which oppositely had appropriately managed the “Context”.

**Weygo.com** is a Milan-based generalist e-commerce of grocery products, operating from an independent warehouse and whose Business Model leverages on fast delivery and low minimum purchase soils both in term of prices than product amount.

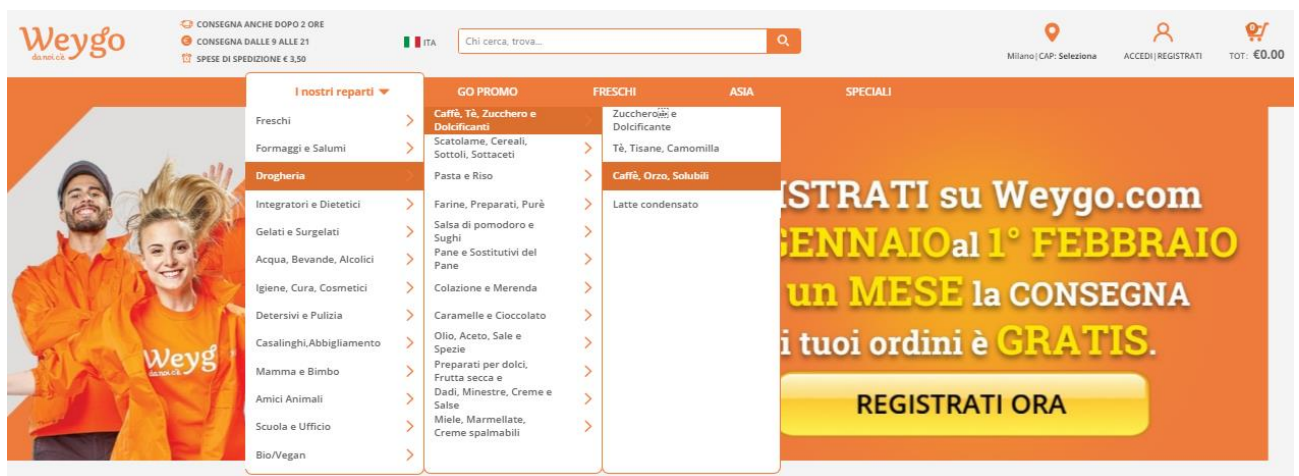
Its Business Model and broad coverage anyway do not excluded them from the adoption of a state of the art website structure, if compared with generalist competitors. Weygo.com is in fact a paradigmatic example of an interactive website that put eyes on customers first. With its architecture in fact, it allows clients an easier, faster and leaner purchase process in respect of benchmarks.

Analyzing its direct competitors for instance, we noticed that to every customer's choice corresponded a click, the opening of another webpage was triggered, which happened throughout all the categories and sub-categories until reaching the product page.

This approach interrupts the purchase logic, damaging customers' fluidity in the experience. The journey evolves jumping through a sequence of different pages.

When the customer surfs the Weygo platform instead, the navigation among categories and subcategories is flowing, rapid and interactive. (Figure 46)

Figure 46 – Weygo presents a balanced approach when valued to the “Context”



Source: Weygo.com

To reach the product “Coffee” for instance, “Esselunga a casa” requires to pass through three different pages. Weygo.com achieves the same result with one.

The “Website Map” in the latter case adapts to the cursor position and the whole journey get concluded within same page. Clients have in every moment track and record of the route they are following. (Figure 46)

Weygo introduced in the Product pages time saving mechanisms and solutions to facilitate the selection and comparison.

Customers can “quick view” the items. A Pop-Up window opens up, allowing them to value a specific product without the requisite to move to the specific single-product webpage.

Forgetting to implement those solutions would require overall purchase more time, since shopping cart contains multiple products.

The period required in most of the cases further increase due to the use of the wrong fonts and colors on the webpages.

Most successful merchants do not forget to use also those as strategic levers to help customers in their purchase journey. (D. Vietri, G. Cappellotto, 2015)

Weygo's visual management further reinforced the superior quality of its communication strategy.

Also colors and fonts in fact, change according to customer mouse positioning. (Figure 46)

In the case of "Esselunga a Casa" instead colors, fonts and characters do not adapt. Their unique function is recalling the firms Brand.

## **B) Inform to involve: customers' eyes substituting the missing senses**

The second critical aspect we have to pay attention is the “**Content**”. Then once again the first step has been to understand the nature and its articulations.

Even the Content in fact has different dimensions and possible configurations. Range depth and coverage of the offer are only two components. (J. Rayport and B. Jaworski, 2001) Hoop Communication (2015) found out that one of the major reasons for having or not success in the online food commerce is the way how companies communicate the products. In particular, success depends on the quality of the “Information content” the merchant is delivering to customers. (F. Antonacci, 2016)

This element acquire supreme importance considering our specific field where Customers lack the possibility to use their five senses as they are traditionally used. E-grocery in fact characterizes for its high level of cognitive barriers. In particular for the Italian scenario, which “*distinguish for its' diffused mistrust*” (M. Porcaro, 2016 interviewed by A. Zordan, 20/03/2014, “*Start-up. Cortilia. Se il mercato arriva a casa*”, Gambero Rosso online), that renders the way firms present their products critical, in order to lower barriers, filling uncertainties, compensating real and perceived asymmetries. An appropriate storytelling and right communication system can anyway succeed in coping with those issues and stimulate online sales.

We will henceforth analyze those firms that adopted a more complete approach to the management of their content and managed to fill those gaps:

**Fruttaweb** serves us as a meaningful example of qualitative delivering of product content to customers.

“Fruttaweb” is an Italian firm specialized in the e-commerce of fresh fruit and vegetables, which experienced an exponential growth over last years. It has also been the first Italian e-grocery firm to succeed in the internationalization process, entering UK market in 2017.



Figure 47 will help us in presenting the integrated approach that distinguishes the firm, due to the density of inputs it gives and the adoption of all the levers identified in their manual by J. Rayport and B. Jawoski (2001).

Figure 47 – Products Information: *Fruttaweb*

The screenshot displays a product page for 'Avocado Biologico Almaverde Bio' on the Fruttaweb website. The main image shows three avocados, one cut in half to reveal the pit. To the right, the product title is 'Avocado Biologico Almaverde Bio' with a sub-heading '2 frutti'. Below this, the origin is listed as 'Messico'. A descriptive paragraph explains the health benefits of avocados, mentioning their aphrodisiac properties and their tropical origin. A call-to-action button says 'Voglio scoprire di più sul prodotto'. A blue banner indicates 'Spedizione refrigerata per i tuoi prodotti freschi!'. Below this, there is a section for 'Disponibilità immediata' with a text input field for the user's CAP (postal code) and a 'Cerca' button. A star rating system shows 4.7/5 stars based on 49 reviews, with a 'Vedi le recensioni' link. A 'Recensioni Verificate' badge is also present. At the bottom left, there are four small thumbnail images: the first shows a whole avocado, the second shows a close-up of the green flesh, the third shows sliced avocados, and the fourth shows a green smoothie. A magnifying glass icon and a right-pointing arrow are also visible.

Sources: fruttaweb.com

The media mix is detailed and various. The product appears from different perspectives across the snapshots; recipes and possible uses of it add up to the classical white-background image and the price. Additionally videos that tell about product are attached on the side of each item offered.

We can notice that Fruttaweb understood how also quality of information matters.

To the traditional set of information, devoted to “*appeal the cognitive side of customers*” (J. Rayport and B. Jaworski, 2001) with functional features, Fruttaweb added emotions, which aim at entertaining customers stimulating their “*humoral part*” (F. Antonacci, 2016).

Suggestions, curiosities, insights and tips on the storage and consumption, on behalf of the seller’s experience developed over years, have in fact this specific goal.

In addition to this, also customers themselves contribute to reinforce this sensitive component. Their reviews enrich the quality and further load information depth.

## **C) Customers are the most effective marketers you can hire**

Figure 47 shows another tool used by the startups, whose importance is extreme for firms' credibility: customers' reviews. (F. Antonacci, 2016)

*“Customers themselves can be the most important assets a firms has”* (F. Antonacci 2016), due to their influence in a sector such as the grocery, characterized by high *“difficulties in convincing customers to have someone else picking out something they are going to eat”* ( R. Kestenbaum, 16/01/2017, *“Why Online Grocers Are So Unsuccessful And What Amazon Is Doing About It”*, Forbes, Retail).

In fact, if we consider food traditional push advertising, less than the 15% of people trust it (E. Qualman, 2012) Using clients' opinions as certificates of quality is a wise choice, first under the economic point of view, being customers the cheapest marketers a firm can hire; at the end reviews are free. (F. Antonacci, 2016).

From another perspective, they assume even more relevance. Customers' review matters for the superior reliability other customers give to it. (F. Antonacci, 2016)

*“People like me”* is massive phenomenon in e-commerce (D. Vietri, G. Cappellotto, 2015) *“Fruttaweb”* understood the power of associating faces and reviews to their services and how much easier is for customer to trust experiences of who already walked their shoes, even if they do not know personally each other. (F. Antonacci, 2016)

Customer reviews accompany customers on the platform throughout their shopping journey, following and reassuring them at every stage of their purchase process. In Figure 47 were present specific reviews regarding the product. Figure 48 instead reports those coming from the homepage, where the company presents itself. In this case, reviews topics adapt, embracing the whole company, from the platform to service, from reliability of delivery to customers care politeness. For every doubt a customer could have Fruttaweb answer with other words .

Figure 48 – Home Page reviews on Fruttaweb create trusts within customers



Source: Fruttaweb

Many players in the industry understood the importance “Storytelling” has for online firms and the value added coming from sharing customers’ experiences is so relevant that “*firms cannot avoid it*”. (F. Antonacci, 2016) Those understood a similar approach, at for most innovative and precious products, towards whom the customers has either higher expectations or less confidence. It would be an error to give this approach for granted. There are in fact firms that have not aligned to this *modus operandi*.

A first example is Auchan. Considering its product pages only minimum cognitive requirements are available. We will find only the price and a white background photo. Nothing is said to present producers, provenience is not disclosed; nutritional values, consumption suggestions and reviews are hidden.

The importance of a qualitative product content makes it feel his weight especially on new ventures’ shoulders, which do not have at their back a notorious Brand guaranteeing for them. In this case, customers have in fact not already experienced the services and given their trust. (D. Vietri, G. Cappellotto, 2015)

Also firms operating in this sector should understand that “*engaging the customers online is not only about Fidelity Cards*”. If they want to survive the eager competition of pure players and customers’ increasing standards (D. Vietri, G. Cappellotto, 2015) for every sort of e-commerce is crucial to provide unexpected and involving information, choosing the appropriate content strategy to pursue in order to make the online journey unique; only exceeding expectations in fact would work to convince, acquire and engage customers. (F. Antonacci, 2016).

## D) The importance of storytelling

We will now move forward to the consideration of the communication, which also has multiple shadows. It is in fact more than only telling customers the product in an emotional way; the concept is broad and surrounds firms in every of their parts. (G. Cappellotto, 2016) Even if e-tailers' job is first selling products, they are composed by people having values guiding them. Disclosing stories of them and actions to customers is precious. Those allow the process of “*humanization of Brands*” and fuel the creation of trust and reliability; being easier for customers to trust firms with a scope other than only profit orientation. (F. Antonacci, 2016) This general principle is valid for every industry, from logistic services to fashion apparel and physical retail. This rule particularly acquires relevance when companies operates online-only businesses, which have no contacts other than their webpage with customers. (D. Veltri, G. Cappellotto, 2015)

As usual, examples from the real businesses would help us in explaining the concept.

“Weygo” constantly uses images of the young staff to communicate the company values and its dynamic, flexible and easy-going nature. (Figure 46) The offer present a broad section devoted to oriental products, culture and tradition, evocating the Chinese origins, of which founders are so proud. Images and graphic contents explain the processes in an easy way, in opposition to the long texts and the contractual language used to explain the same aspects by GDO firms such as Esselunga or Auchan on their websites.

Primotaglio, food and wine e-retailer, defines its employees “*Messaggeri del Gusto*” (“Flavour Couriers”), to underline the aim that everyone in the company has to deliver nationally grocery excellences, freshly hand-crafted in the Campania Region, and leverages on the character of the producers, which side their products.

Also Cortilia, which we already presented at the end of the previous Chapter, remarks everywhere on the webpage the intermediary nature behind every startup's choice, looking forward to exploit the great opportunities emerging by the interaction with local and unique brands (F. Antonacci, 2016). Cortilia calls itself "*Mercato agricolo Online*" (Cortilia website, 2018) and presents the farmer associated to each product, telling its story, background and know-how through images and makes them speak through videos interviews, linking the products to the real people faces. (Figure 40)

At last, we will deepen again the case of Fruttaweb, adding on-field considerations regarding the importance communicating the firm to the previous ones related to products.

Fruttaweb delivers all the passion of the firm and workers have for fresh produces, still maintaining a complete approach to products information, as in the "avocado case" previously presented. Through the sharing of educational and entertaining multimedia contents, the firm not only proposes as a seller, but behaves also as a guide for the customers towards a healthy and balanced lifestyle, going beyond products. The founder, Marco Biasin, and employees suggest recipes to the customers, as we already said, and drive them towards the discovery of company's processes, new products and their nutritional benefits, putting their own faces and voices.

The Figure 49 is the result of the worldcloud analysis we performed on the Fruttaweb Home Page, in order to understand how they communicate their products to the customers. The worldcloud.com open software allowed us to extract the terms used on the homepage of fruttaweb.com and to classify them on the base of the times they recurrence on the website. In the end, those were organized and translated into a graphical form by the software, which rendered intuitive and immediate the comprehension, being their dimension correlated with recurrence. In a unique pictures, it congregates all the aspects we stressed regarding informational strategy of the firm we discussed so far, further demonstrating the Startup complete approach to storytelling. As we can see in fact, there is an equilibrium among the usage of product-related nouns, the core product the firm sells, and qualitative and emotional adjectives that describe them, addressing customers' souls, entertain and enrich the on-website customer journey.



Today customers handle the knife and, at the end, detain the bargaining power. Because of increase in the quality and quantity of services at their disposal they decide who shall be rewarded with their choice. (D. Vietri, G. Cappellotto, 2015) In addition, empowerment made them more conscious over time and raised the expectations. This slightly ended up in changing the balance of power in its favor. Companies are more and more under analysis and customers are putting pressure on them, being trust no more granted even for big labels, whose transparency, also regarding processes and sustainability, is more required than anything else.

The risk connected with failing under the communication perspective is huge even for big names, particularly observing the Italian grocery market, whose customers excel for the attention to the information reliability and the hardest to be pleased for what concerns qualitative standards.

It could be no more enough for GDO firms to leverage on their strong names and the existing customer bases to succeed online. At some point, also big names will be called for adaptation in this sense.

## **E) Managing customers' relations requires flexibility**

In addition to raising their standards for the quality of information content, customers increasingly expect the firms' personnel to be available whenever they need. (F. Antonacci, 2016) Not being there and ready or, even worse, managing wrongly those occasions is one of the biggest error an online merchant could do. (F. Antonacci, 2016) Disappointment would compromise the relation with the customer and could trigger the spread of negative reviews, which are the addend for a bad reputation, the major enemy for e-commerce firms. (F. Antonacci, 2016) Customer Care and Public Relations management are activities that require "*timeliness and immediate actions*" to online firms, without losing ground on the human touch. (D. Vietri, G. Cappellotto, 2015) Pure players demonstrated to be particularly able also in this field, devoting to those aspects a major share of their effort. If we take Cortilia for instance, when the startup was already operating from over two years, two out of seven employees were dedicated to CRM and cannot be otherwise for a company whose keywords are "*Direct dialogues and transparency*" (M. Porcaro, interviewed by CRMWebNews, 10/2014, "*Marketing e CRM nell'e-commerce dei prodotti agroalimentari*")

Customer relationship management in fact includes both the activities of guaranteeing the presence to customers and building a one-to-one relation. (F. Antonacci, 2016) Best performing firms has to be ready every time to providing practical information, related to their services, such as timing and costs, but also supporting its journey during the process helping customers in the selection of the products providing qualitative information.

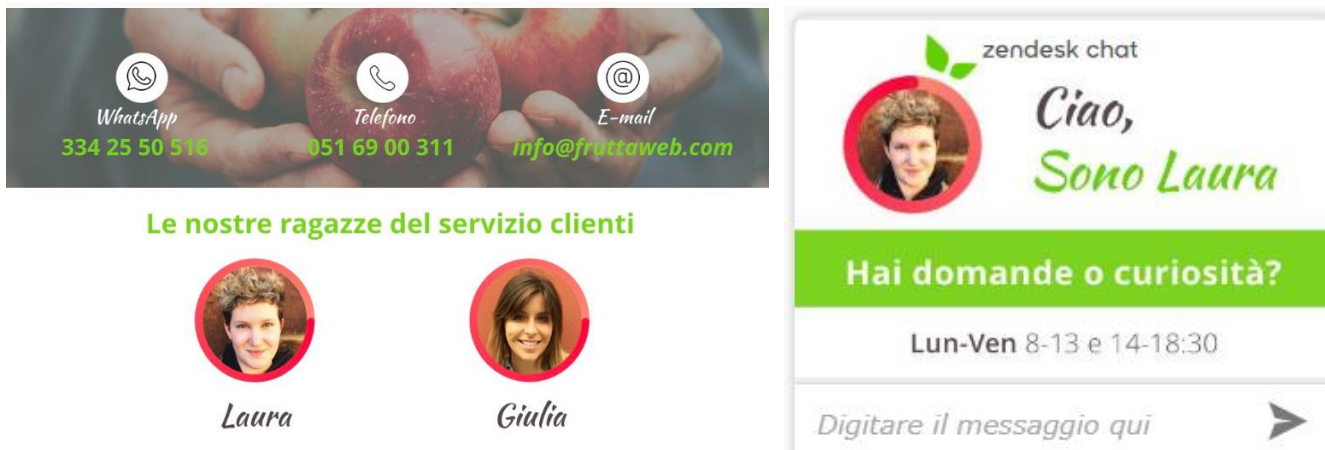
Fruttaweb offers a complete range of possibilities in order to assist the customers, aware that customization of the experience entails not only the offering of tailored products, but also helping the customer in overcoming difficulties with a wide range of information and support sources. All the "*Dimensions of communication*" presented in the 7Cs Model can be observed on the company website, under the voice "Contact Us". (J. Rayport, B.Jaworski, 2001) Customers' contacts with the firm can in fact establish through a broad spectrum of both "*broadcast and Interactive*" means. (J. Rayport, B.Jaworski, 2001)

Those span from mostly impersonal and standardized forms, such as FAQs or e-mail messages, to more personal ones as phone calls, with their focus on the single client. Fruttaweb demonstrated also to be able in keeping up with new technologies, having introduced innovative CRM methods few after their advent on the market.



For instance, they implemented an on-site “live chat” and gave their clients the possibility to interact through their smartphones using a Whatsapp number. (Figure 50)

Figure 50 –Fruttaweb offers a wide spectrum of possibilities for supporting customers



Source: fruttaweb “Contact Us” page

We choose Fruttaweb for the completeness its “*hybrid*” approach to CRM.

It has to be noted anyway that many other Italian pure players adopted these techniques on their platforms: Cortilia, Primo Taglio first. Different are the solutions implemented by GDO firms. The already cited cases of “Esselunga a casa”, Auchan or Eataly Today for examples limit the possibilities to standardized and impersonal “*Broadcast*” solutions. E-mails, phone calls or FAQs are the only options customers can rely on, and are most of the times limited to order tracking services or complaints submission, not supporting customers during the purchasing process. The Italian startup has instead put beside to traditional forms also interactive one, humanizing their services “*using personal communication to break down barriers, foster dialogues and stimulate users’ proactivity on their platforms*”. (M Biasin, CEO and founder of Fruttaweb, 2016)

## **F) Continuous improvements pass through endless customizations**

Marco Porcaro, founder and CEO of Cortilia, is convinced that the storytelling had a key role in the success of its platform. When analyzing the reason of it in the specific e-grocery field, he introduced an interesting aspect regarding the influence it has on the overall business. According to him, every online e-grocery player *should leverage on all the possible channels and opportunities the web put in their hands*” (M. Porcaro, interviewed by D. Berneri, 11/05/2016, “*Speciale Cibus 2016 – Cortilia, un modello di successo*”, Markup).

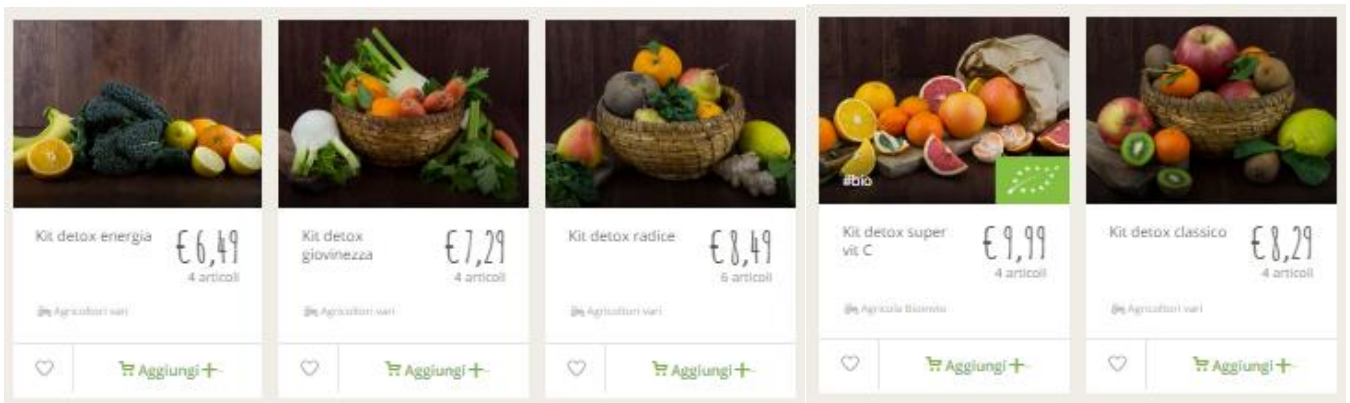
The importance given to storytelling and to improvement of customers’ relationship require firms to “*enlarge and deepen the available offer through the segmentation, addressing every time smaller customer niches, splitting down previous targets into smaller ones*”. (M. Procaro, interviewed by D. Berneri, 11/05/2016, “*Speciale Cibus 2016 – Cortilia, un modello di successo*”, Markup)

It is true that storytelling means emotion, telling customers the product and the background, but at the same time, as we will see, storytelling itself pushes the firms to modify and rearrange the offer continuously, and brings in the end to products’ innovation.

According to this logic, storytelling and offer innovations hold their hands, and influence each other towards an ever-ending customization of the offer for improving customers’ experience. Also Customization in fact represents a key for succeeding in e-grocery. (M. Biasin, interviewed by R. Travaglini, 7/07/2016, “*Fruttaweb, startup italiana che vende online grazie all’esperienza slovena*”, Venetoeconomia) In fact it dictates and determines customers’ entertainment and pushes companies towards improvement of the online offer in order to maintain it.

As we can see from Figure 51, the Italian startup, starting from the existing products, reorganized themselves and developed new products for better satisfying more specific customers’ groups. Cortilia pursued the search through the proposal of “*Cortilia Kits*”, hybrid value-oriented bundles addressing the emotional side of narrow sub-segments. (Figure 51)

Figure 51 – “Cortilia Kits” characterizes for a strong emotional component



Source: Cortilia.com

In general, customizing and progressing the existing offer is another main lever that best performers adopted to entertain and affiliate customers. (E. Laudon, C. Traver, 2014) It represents a wise use of online commerce, because it allows to provide added values to the online shopping, difficult to be replicated offline, customers being entrusted to collect items for themselves. Each of the boxes aims to fit a specific exigency of a sub-segment of customer, who can find its solution easily on the website.

Customers on the platform can choose among a multitude of different solutions, which spaces from the choice of standard boxes containing only one category of grocery among fruit, vegetables, meat or dairy products to combined ones, such those presented in the figure above.

Moreover, solutions have different sizes, to satisfy both numerous families, couples and singles. The company offers the possibility to tailor even the purchase mechanism, allowing acquisition of boxes once, with spot deals, or to subscribe and receive automatically a new box with fresh products at repeated delivery intervals, fitting each customers' routines and lives exigencies. We have to consider anyway that Customization of products, provision of reviews or the attention towards the emotional aspects of customers' journey, are not all that matters. A last dowel is still missing.

As we will realize in few lines, online grocers are required to make an additional step to overcome barriers that the online puts up against them.

## **G) Entertaining customers in their lives**

To the two aspects (storytelling and customization), we have to add a third one in order to complete the portrait of “*the essential instruments for marketing strategy*” (M. Porcaro, 2016, interviewed by D. Berneri, 11/05/2016, “*Speciale Cibus 2016 – Cortilia, un modello di successo*”, Markup online, Protagonisti). Improvements in customers’ experience in fact requires firms also to pay attention to another aspect: Brands must interact with customers’ lives. (M. Porcaro, 2016, same source)

We will take again Cortilia, and the words of its CEO and founder Marco Porcaro, to support us in the presentation of the other articulation of entertainment, which played a critical role in the success of grocery startups online. Throughout its history, the Italian pure player pursued its aim of exceeding screens firstly trying entering the kitchen of customers.

The first step the company undertook has been the development of “Cortilia Recipes”. The line, initially including only online recipes section, has lately evolved.

At first, a written book was published in 2016, “*Il Meglio di Stagione*”, aiming to share tips and seasonal recipes and to suggest consumption practices coming from farmers and growers themselves for the online available products, but also to nurture the passion and spread the culture for genuine food. Subsequently, the startup has launched another component: “Recipe boxes”, consisting in complete solutions containing all the different ingredients, weighted, together with the recipes and the steps to follow in order to prepare a specific recipe. (Figure 52)

Figure 52 – The “Cortilia Recipes” line embodies the effort towards customers’ entertainment



Source: Cortilia.com

The adoption of boxes and recipes, which would make special the shopping of customer and entertain them, is a major trend in food e-commerce, as demonstrated by retail giants, such as AmazonFresh overseas or Ocado, Waitrose and Tesco in UK, who developed their offer also in this direction, to satisfy personal tastes through the creation of box for every occasion.

Referring to Italy, those type of customizations are still limited to few players, who tender such a complete service. Most commonly in fact, Italian customers will find at maximum recipes only on the e-commerce website.

Italy has also its own innovators, who foresaw opportunities and a latent demand to be satisfied, pushed by positive consequences rising from this backwardness in entertaining customers. Italian customers are not used to it and the competition is still limited. (D. Bruttini, 2017) Having not developed the industry yet, does not directly mean that customers are not willing to let firms enter their lives, or that they do not want to.

This opens up a lot of opportunities in term of market share availability, growth and earning possibilities. The first mover seat is still vacant. (N. Ronchetti, 13/10/2017 “*La start up delle cene a domicilio diventa grande*”, Il Sole 24 Ore, Innovazione)

A prove for that is the success of the startup **Quomi**, Italian pure player in the ready-to-cook recipe delivery industry. As Cortilia did with farmers, also this startup understood the “*fundamental role and the opportunities that open up due to inter-brand integration and collaboration*”. (F. Antonacci, 2016) Just in two years after its foundation, 2016, the firm had three rounds of financing, reached national recognition and attracted the attention of global firms operating in the FMCG industry, interested in establishing partnerships. Quomi collaborated on a regular basis with Accademia Barilla, Caffè Vergnano, Delicieux and Perugina, and the two founders stated their intention for the next year to start the internalization process broadening the firm scope over the Italian borders. (Redazione Data Manager Online, 04/03/2016, “*Quomi, La startup che rivoluziona il modo di fare la spesa e cucinare*”, Data Manager Online )

## **H) Beyond the proprietary platform: use Social Media; create a community**

As we said, the empowerment of consumers, the increasing quest for online services, opportunities for raising sales and improving customers' satisfactions, were the initial drivers that pushed physical retailers to develop online and to adopt omni-channel solutions. (Deloitte, 2014)

An Omichannel strategy consists in “the achievement of a broad presence across both own and third-party online sites” (“*The Omnichannel Opportunity*”, Deloitte, 2014)

On behalf of how much the customers' behavior has changed in fact, is essential for e-commerces to design successful plans to expand the company presence beyond the unique “*organization of the website structures and products sold on it*” (D. Vietri, G. Cappellotto, 2015).

Firms have to push themselves over the virtual walls of the proprietary webpage, (F. Antonacci, 2016), aware that being online implies entering customer's lives, and not only using the platform as an additional channel for sales.

Real life has today hit the web with strength and the two had become a unique thing. (D. Vietri, G. Cappellotto, 2015) Two main trends today are shaping the online commerce. Firms should pay particular attention to those, because of their importance on the online customers' behavior in the next years: (D. Vietri, G. Cappellotto, 2015)

- The huge and increasing number of people that uses Social Networks to maintain and nurture relations, get informed and entertain.
- The second level revolution that smartphones caused. People today go online more from smartphones than desktops. (D. Vietri, G. Cappellotto, 2015)

We will move to consider each of those points separately, in order to understand how online firms can overturn the current situation, using those as springboards for success.

*“People uses Social Media to search”* (D. Vietri, G. Cappellotto, 2015) and customers primarily use internet for Social Network and Media to connect with friends and relatives and in order to keep in touch with them, establishing and consolidating networks. (F. Antonacci, 2016)

We all use social networks also as gatherers and vehicles for information. A social Network is in fact the context where communication among parts takes places, opinions materialize into posts, comments, likes, images and videos.

Those considerations can barely give us an idea of the amount of interactions every day occur on the Social Media and on the corresponding quantity of insights a firm can benefit from. We can see those as if they were enormous, always updated databases, which constantly track customers in every moment of their lives. (F. Antonacci, 2016)

If we add to those reflections what said in advance regarding their expectations over business services, it clearly emerges that firms should outmatch the *“10 years old, rigid conception of e-commerce”* (F. Antonacci, 2016) and must extend their horizons over the webpage borders, following the customers in their new directions.

Today Social Media and e-commerce hold their hands and proceed side by side. Incredible results can be unlocked for Brands if they use those sources of information and communication correctly, both in term of awareness, consolidation of the positioning and reputation. (F. Antonacci, 2016) Social Media, on behalf of the bidirectional communication they allow, could be the answers new exigencies customer pose and can help firms turning commerce itself into a *“social activity”* (D. Vietri, G. Cappellotto, 2015)

Both traditional and social media provide a huge bulk of data. In the latter case those are more precise and accurate, and allow firms to get more specific information and to target narrower groups of customers, fitting the firm’s specific value proposition and to identify and serve them with specific solutions.

Social media generally lead to higher conversion rates if compared with traditional media, such as TV or radio, whose coverage is often broader, but always less precise and targeted. *“The real magic of Social Media Marketing is the possibility to create an online community with real clients and undertake honest relationships”* (F. Antonacci, 2016)

Cortilia appeared us as the most complete company in the Social Media Marketing; the paradigmatic example to be analyzed.



First, it is the one which puts the most effort in its Online Customers' Community through the presence on different Social Media. Also other e-grocery firms care about their social presence, despite that, Marco Porcaro's firm is the only one we found being active on all the majors Social Media (Facebook, Twitter, Instagram and Pinterest) and whose social media strategy is taken the most under consideration by specialized journal and in interviews.

Moreover, in addition to the only Social Media, Cortilia created also an open-access online Blog, conceived for actual clients and newcomers fascinated by the firm, sharing the same values or simply searching for culinary inspiration or food entertainment.

Figure 53 – Cortilias Blog allows the firms to connect and share content with customers



Source: Cortilia.blog

As already emerges from the index in Figure 53, the blog only focuses on customers' entertainment and passion for food, agriculture and traditions. It deepens the knowledge of the firm, presents its members, processes, gives visibility to the network of farmers and makes it possible to all parties to interact in a safe but intimate place, exchanging opinions, perspectives, tips, knowledge and consumption experiences. As emerges from Figure 53, the scope of the blog is providing qualitative and different contents regarding the firm and its products, more than simply selling them.

An additional feature that distinguished Cortilia from other incumbents is the attention on the integration among all its' social channels and the aim to create an horizontal community stretched among all those. According to what we had occasion to see, is a common practice among e-grocery pure players to provide customers the possibility to link their Facebook pages to the Platform account, differently from GDO names, which mostly links existing customers profile and fidelity cards to the web accounts.

Associating Facebook with the e-commerce platform has many positive consequences from the firm point of view. First of all, it allows an easier access the platform from every device, without the need of long log-in procedures and automatic backup of all the data. Moreover, as already said, it enables companies to understand customers in a more precise way. Henceforth this will lead to more precise marketing campaigns and e-mail advertises and likely also conversion rates will upgrade.

Facebook anyway is only one of the multiple social media used. Cortilia tries to create a unique community, surrounding all the social platforms. Most of the others instead limit just to one link with the e-commerce separately.

On Figure 54 it is possible to see in fact that the blog sends thought suggested links towards all the other social networks.

Figure 54 – Cortilia integrates all the social media uses, to foster a horizontal communication

The image shows a screenshot of a blog post from Cortilia. The title is "Riciclo creativo dei box di Cortilia: la lavatrice". Below the title, it says "Posted on 29 gennaio 2018 by Cortilia". The main text describes how they use their boxes to create toys for children, specifically a washing machine. It includes a "Step 1" instruction: "Prendi un cartone di Cortilia, appoggialo su uno dei due lati corti con il fondale rivolto verso di te. Disegna con un pennarello nero dei finti comandi (pulsante accensione, spia luminosa, rotella dei gradi)". To the right of the text, there are social media sharing icons for Instagram and Twitter. The Instagram section shows four food images and the text "Al via i primi assaggi qui a #cortilia Academy! Claudio".

Source: Cortilia blog

Instagram is the “*prince network for photographic sharing*”, (F. Antonacci)

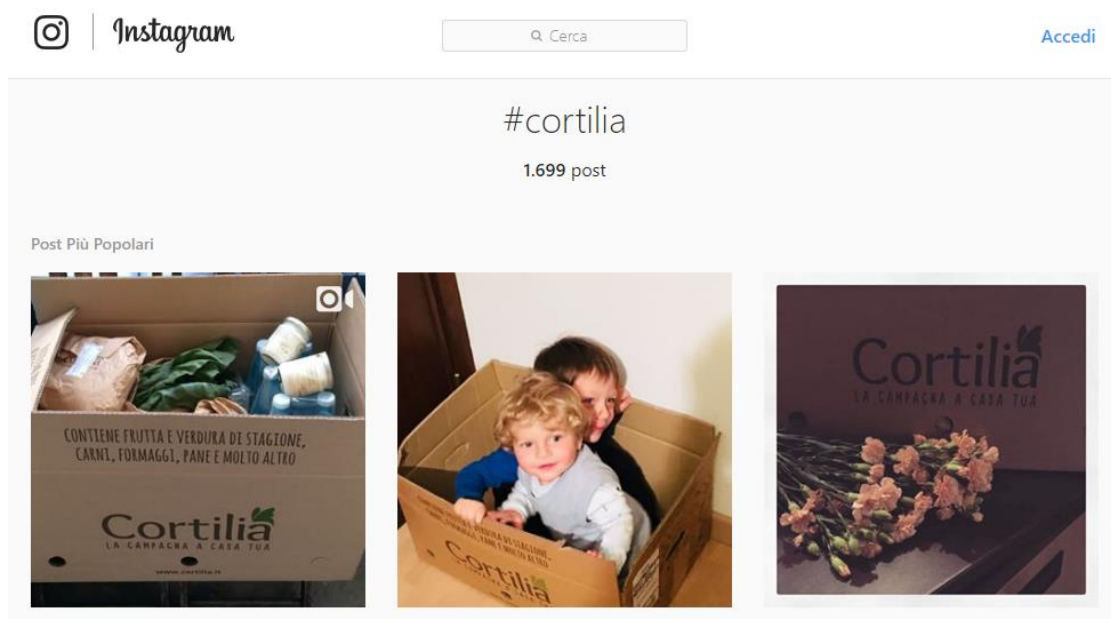
Its visual nature confers it a huge importance for the specific food industry. As we already said other customers’ experiences and the word of mouth drive reliability up more than traditional advertising (Hoopcommunication, 2015). This is why company paid a lot of attention in pushing customers to share their experiences through multiple ways for every detail.

Cortilia for example, approached packaging in a complete different way from competitors. The Italian startup do not sacrificed the appeal and customers' emotional component for the functionality, using big transparent plastic bags to store multiple products as most of the GDO players do.

Also in this occasion in fact, the firm tried to exceed from the simple pragmatic convenience and cost efficiency and gave relevance even to the aesthetic dimension, stimulating customers' emotional sides.

Clients appreciated the suggestions the company made on the blog for reinventing and recycling empty boxes. Reposting their solutions, like a game, customers contributed to create buzz around the Cortilia hashtag, as shown by Figure 55.

Figure 55 – Instagram effects of packaging strategy of Cortilia



Source: Instagram #cortilia search

There is another aspect we can observe in respect of the social media strategy of Marco Porcaro and its colleagues. Since the first day, the company tracked and monitored their most faithful customers, profiling them.

Initially those constituted the base and benchmarks for the depiction of identikits of ideal customers and allowed to develop the networks and support growth. After a few years, when the firm has enlarged , also their roles improved with the company.

The company did not forget its early adopters and used them as levers and advocates for the launch of new marketing campaign, leveraging on their genuine satisfaction and loyalty, as a social proof of the firm customer care and as a word of mouth source.

The “Cortilia Lovers” marketing campaign launched in 2015 is the perfect example for this. To some of historical loyal users, those which were more active and whose knowledge was deeper, Cortilia offered the possibility to answer some questions through two video interviews.

The videos were adopted and diffused on the company Blog and Social Media, shared on Youtube and Facebook as commercials (Figure 56).

Figure 56 – “100% Cortilia Lovers – Livia” campaign



100% Cortilia Lovers - Livia

Source: [youtube.com/cortilia](https://youtube.com/cortilia)

The advertising approach based on content and experience is a defining feature of Cortilia, which aims with this to enlarge the Community and enrich its members’ experiences more than any other firm.

Company’s innovativeness is direct towards the provision of qualitative and entertaining contents to appeal customers’ sensitiveness. Sales therefore will follow.

Another campaign on Facebook and Youtube provides us a further illustration of the company's mindset.

Cortilia in fact not only leveraged on customers, but also succeeded in exploiting the “enormous opportunities related to Brand collaborations on Social Media” (F. Antonacci, 2016)

Facebook's independent businesses and pages, when complementary, could benefit from partnership, sharing customer bases and improving services. (F. Antonacci, 2016)

“Chef in camicia” is an Italian Blog, which communicates the passion for Italian products, natural recipes and fosters a healthy lifestyle through Videos and posts on their Youtube Channels and Facebook page, similarly to Cortilia. In reason of this, the two realities collaborated for the realization of a cooking video class.

The video entailed the preparation of a recipe using the ingredients included in the standard “Mixed Box” delivered by Cortilia to the other page chefs. This video obtained more than 40 thousand views in less than a month, more than 10 times the average views Cortilia videos did before. Moreover, it reinforced the founding values of the two pages at the customers' eyes.

Figura 57- “Chef in Camicia” and “Cortilia” collaboration on Facebook



Source: Facebook

## I) Beyond the proprietary platform: m-Commerce

Smartphone today has become an extension of ourselves so much that humors seems directly affected by the remaining battery life. Most of the Italian population in fact feels an increasing sense of disease as it gets close to the zero.

Many could define the era we are living as “m-commerce” era (D.Vietri, G. Cappellotto, 2015). Smartphones are today so much important that interact and shape our lives under every point of view. This is true especially in Italy where smartphones are spread all over the population. According to the data provided by Google Italy positions on the podium as the country where the smartphones penetration has increased the most. In 2014, the active SIMs in Italy were the 158% of the national population, meaning that one out of two citizens have two smartphones on his behalf. (F. Antonacci, 2016)

In previous pages, we underlined the importance for e-grocers of factors such as entering customer lives or following him on the channel he prefers. For sure, smartphones contribute to those strategic actions aiming to increase interactions with customers. In addition to fostering sociality and firm-customer communication and creating a community across customers through their devices, there is another aspect to consider. The dissemination of portable and digital technologies has started pull the trigger towards the advent of a new era, the impatience one, which requires firms to adopt an agile approach to online commerce. (Nielsen, 2016)

Being smart in e-commerce these days means no more only optimizing the actual website to the different typologies smartphones’ screens and operating systems. Customer also expects dedicated apps to purchase, as if they were unavoidable minimum requirement. (D. Vietri, G. Cappellotto, 2015) Only being cross-device and providing customers this further channel will allow firms in e-grocery to survive the competition, being ready to exploit “*the growth of the online food industry, the one that is going to grow more in the next years*” (Osservatorio Netcomm, 2017).

M-Commerce answers to another customer exigency. He did not only have moved online but also changed from the traditional buyer we have always been used to see, and gave away in favor of “*everywhere shoppers*”. Those customers, increasingly aiming to conduct purchases in every situation, had become the major class. (Osservatorio Netcomm, 2017)

It seems that Italian firms still do not have fully developed in this direction. Only Esselunga a Casa, Cortilia and few others in fact, have their own App. The majority of firms do not have

this service yet, thus exposing to the risk of undermine their efforts put in the smartphone channel, from advertising to the social media communications.

Just consider “Fruttaweb”. The startup we have taken before as paradigmatic for best practices implementation, had failed under this perspective, sending customers back to the website whenever they click on an online smartphone’s advertisement.

Another time firms should look around and observe beyond Italian context, being “*a perfect mix between ears and intuition*”, as stated by Enrico Pandian, CEO and founder of Supermercato24, who has made his app the go-to channel for sales, taking inspiration from overseas trends and businesses. (G. Donadio, 23/05/2017, “*Da Supermercato24 a CheckOut, la nuova sfida di Pandian è lo Smart Market / Intervista*”, SmartMonay Economia Online).

There is no need to push the eyes so far away from our Nation. If we take the UK giants in e-grocery commerce for example, from Ocado to Waitroe, from Tesco to Morrison and so on, all those have developed their own app, linking it to the website, connecting it with customers registered profiles and Social Media and allowing them the possibility to discretionary choose where to purchase their groceries.

There are also internal evidences from data supporting m-commerce fundamental contribution to e-commerce. Multi-device purchasers, today constituting the 25% of all the e-shoppers and generate the 40% of total revenues. As reported by Roberto Lisca, president of the Osservatorio Netcomm, on behalf of their analysis regarding online shopping behaviors: “*A customer who can count on flexible and practical instruments would be without doubt more satisfied, thus more inclined to purchase again in future*”. (C. Varpi, 27/02/2017, “*E-Commerce, attesa una crescita del 19% nel 2017 a quota 23 miliardi*”, Engage Contemporary Marketing & Media, Engage.com)

So “*Mobile First!*”, as Cortilia founder M. Porcaro suggests. (DBJ Watch, (n.d). “*10 domande a... Marco Porcaro*” DBJ Watch, Osservatorio dedicato al food ed al turismo)

## - Chapter 4 -

### **Proposal of a Business Model for Alpha**

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The first two Chapters had the important function to frame the theoretical scenario surrounding Business Models, identifying their components, the roles and the drivers that modified the concept in recent years and today are lead entrepreneurs and firms' directions for coming ones.

The third Chapter, for its part, had deepened the emerged conclusions, applying them specifically to one of the many industries that have developed in recent years on the wave of ICTs and customers' behavior changes: e-grocery.

Moreover, at the end of the same Chapter, we identified most delicate areas and aspects characterizing the Italian e-grocery industry, figuring out best practices and most effective strategies from the observation of the industry's outperformers.

From this moment, instead, on behalf of the knowledge we built in respect of this topic, we will move our focus towards Alpha's Business Model, conciliating literature evidences with those coming from real cases' analysis and the scenario that surrounds us and the assets at our disposal.

#### *The Status Quo*

Arrived at this point, we will disclose more information regarding our project and provide the basics required to understand our choices and the solutions we proposed for our business, with the aim to make it clearer why we expect some results arising from those.

Despite that, only the information whose lack would be compromising for the Business Model comprehension will emerge from this paper. For privacy reasons in fact, we are not going to disclose the identity of the main Partner we had in this project, which we will call "Beta". Its ongoing business field, market positioning and geographical scope, together with its juridical role in the new project will remain hidden.



For future comprehension, suffice to say that Beta is a firm operating in the physical commerce of fresh fruit and vegetables, owning a warehouses across the Italian Territory and a slot in the “Centro Agroalimentare del Mercato Orofrutticolo di Verona” managed by Veronamercato S.p.A.

Moreover, a special mention is due to the role had in this dissertation. Beta in fact put us in touch with the already cited Stefano Iorini, , that controls the business of “My Quality And Convenience”.

MyQnC operates in Duabi, UAE, since the beginning of 2016 and defines itself as “*premium online grocery store delivering seasonal fruits, vegetables, Italian artisanal products & raw vegan organic superfoods*” (My Quality and Convenience website, 2018)

Figure 58 – My Quality and Convenience Homepage



Source: myqandc.com

Their experience and support thorough insight and suggestions, plus the opportunity to observe their case constituted a huge contribute to our case, driving our evaluations and reinforcing our decisions.

## 4.1 The Business Model Canvas

In the next pages, we will present the Business Model for Alpha in its current state, which will constitute the springboard for the preparation of the business plan in the coming month, the final step before the set in motion of operation.

We started structuring the Business Model Canvas (A. Osterwalder, 2012) following the roadmap proposed by the authors in their second masterpiece “*Value Proposition Design: How to create products and services customers want*” (A. Osterwalder, Y. Pigneur, G. Bernarda, A. Smith et al., 2014), which they themselves defined a practical guide for entrepreneurs “*disappointed by the failure of good ideas*” (A. Osterwalder, Y. Pigneur, G. Bernarda, A. Smith et al., 2014). Moreover, our steps were also sustained by *Stratezyzer*, the book related website, which supports businesses change and improvement through the provision of graphic tools, visual templates and online lessons.

Gaining clarity in the Value Proposition Design is the starting point for creating any business. This does not mean limiting to the Value Proposition Building Block consideration. Entrepreneurs should not start fulfilling the framework from the central box, moving on to the next only after its completion, like they were the sequential links of a chain. (A. Osterwalder, Y. Pigneur, G. Bernarda, A. Smith et al., 2014).

Value Proposition Design is a multi-steps process that has its goal in the “*understanding of the Value Creation*”, the comprehension of patterns and the design of those elements that create the value satisfying customers’ desires. (A. Osterwalder, Y. Pigneur, G. Bernarda, A. Smith et al., 2014).

Only a systematic and holistic observation of the environment, followed by the implementation of evidences related strategies will bring and protect a competitive advantage. As for the authors opinion there is only one golden rule in business: “*Manage, measure, challenge, improve and renew value propositions and business models*” (A. Osterwalder, Y. Pigneur, G. Bernarda, A. Smith et al., 2014).

The Canvas Model proposes the mindset rather than giving success keys to managers. Is up to the entrepreneur getting on the right train.

## 4.1.1 The Value Proposition Canvas

The 72% of new products created to satisfy customers' needs fails, which means that *"customers don't care of 7 out of 10 products introduced to the market"* (Strategyzer, 2017).

In order to prevent the risk of being in this category, a clear understanding of customers' desires is required: knowledge and valuation precede in fact every other activities in a firm.. (A. Cowan, 2013)

Then our first step has been the analysis of our target, in order to discover the changes that are affecting their behaviors. The assessment of a latent demand was required to pull the project's trigger just like the specific target identification was needed to reach the project's aim.

In the previous Chapters we always observed success and failures drivers as if they were caused by internal choices and we talked only about how fast the market numbers are growing. But what is really happening outside? What is behind the +38% that Casaleggio Associati expects for 2017? Is there effectively an increasing demand or the success of the cases we presents is only an hula hoop craze dictated by the momentum and we will see it blow over as fast as it swelled up? Are the customer ready and Business Model sustainable?

Evidences provide positive answers to those questions. Italian customers are actually changing: there is a revolution going on. According to the most recent Censis-Nestlè Report (2017), renovated lifestyles and new technologies combined with the economic recovery have reflected in an uplift of grocery expenditures, both online than offline. People have grown their food related investments for the first time in the last ten years, inverting the negative trend. The economic downturn left its scarfs. A diffuse sense of "insecurity" characterizes Italians, and this is particularly problematic for e-commerces. Customers today are sensible to prices as never before, even during the economic downturn years. The 56,7% of Italians, looking to save some money, admitted to pay much more attention to it than before the crisis. (Nestlè - Censis, 2017)

Traditional retail data prove it. While the overall GDO sales are stagnating, with growth rate that averages the zero with a volatility of 10%, discounts are booming. If we take Lidl and Eurospin, the two leaders in the category, in the last five years they have increased their Revenues of the 43%. (Il Sole 24 Ore, 10/01/2017, *"La classifica della Gdo: Eurospin e Lidl volano, bene Esselunga"*)

After those considerations, imagine the Italian situation as a race to the bottom is equally wrong. Insecurity means caution, not that customers stop caring about the quality of what they purchase and that today only bills matter. “*Neo-sobriety is prevailing among customers, not asceticism*” (Censis-Nestlè, 2017).

The same interviewed before have reported their willingness to pay more for superior quality, which for Italians mean national origins. (Censis-Nestlè Report, 2017)

The 85,5% of them is open to reward goods produced in the Nation, the 80% will pay a premium for Italian ingredients and certified and awarded products; over the 75% would do same if severe and rigid quality procedures were proven. (“*The Food Trust*” Program, Pwc, 2017)

“*A families’ priority is to put some money aside*”, nevertheless, as data suggest, they are not intentioned to “*give up some whim*” (Censis-Nestlè Report, 2017). For Italians, food still matter but now differently from the past: the “abundance era” has gone. (Censis-Nestlè Report, 2017) Italian consumers are increasingly paying attention to aspects regarding shopping carts’ quality, not only in the sense of a better taste or nutritional values (Nielsen, 2017).

Food has become entertainment. The 91% of consumers define themselves interested while the 58% associate to food the term “passion”. A multitude of significates are associated to food: healthiness, sociality, communication, sharing and for Italians especially, proudness. (Censis-Nestlè Report, 2017). The diffused sentimental approach is reflected also on brands, which today are customers’ friends .

“*Increased Brand trust*”, together with the “*Italian origins renovated importance*” and the increased weight of “*emotional variables in purchases’ decisions*” (Censis-Nestlè Report 2017) are the three columns of the post-crisis Italian grocery and have carried with themselves two consequences:

1) The “*Neo-parsimony*” (Nielsen, 2017) indicates that increasingly customers are looking for products that “*simplify their lives*”. Both “fresh” and “ready-to-eat” solutions have incredibly grown their presences in the fridges of Italians over the last year: soups, second platters, ready-salads and sandwiches have grown respectively of the 40,4% 35,6% 25,6% 25,2% (Nielsen, 2017). More and more busier customers are looking forward to save money and time, even if they not forgot healthiness and entertainment.

2) Millennials are changing their habits and firms would better start putting an eye on them. They will guide next years' expenditures. Importance for transparency and visibility explodes when considering this class. The 87% of Millennials eats mainly fresh products; the 78% looks for information before purchasing; the 77% avoids unhealthy eating and the same percentage loves cooking. But the most interesting aspect regards the importance that sustainability has for them. The 70% of Millennials would pay the 20% more as a premium for sustainable firms, and the 41% declared that also packaging sustainability drives its choices. (*"The Food Trust"* Program, Pwc, 2017)

With these premises we won't be anymore surprised by 38% of growth expected in 2017 for the e-grocery as we were referring before. (Casaleggio Associati 2017). Something is changing for real. *"We are going to assist the passage from "traceability" to "visibility": the new rule of the game."* (*"The Food Trust"* Program Report, Pwc, 2017)

Interconnected ecosystems, end-to-end visibility and digital identity will substitute in the coming years the traditional supply chain, traceability and on-product information. If traceability in fact has been a dominant theme in the last year, customers today are expecting more and firms should better start their digitalization process, providing information regarding the whole value chain *"from the court, to the table"* (*"The Food Trust"* Program, Pwc, 2017)

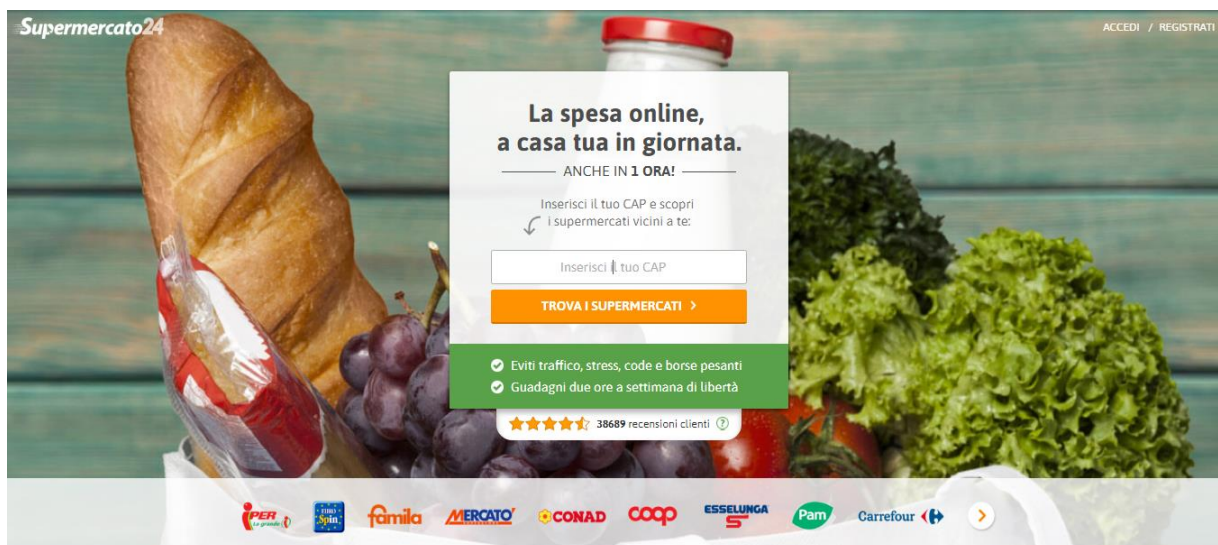
## 4.1.2 The initial target: Veneto customers

The previous pages have made clear doubts regarding Italian customers and the perspectives over the industry, evidencing the stability of its foundation and reinforcing the promising expectations for the future. In order to dodge any doubt and considering that even the biggest projects have to start from small things, we decide to perform another analysis on the business viability, narrowing our perspectives to the initial geographic area of competence. Veneto due to the existing physical presence of our Partner Beta, will be the place from where to start moving our first steps.

Veneto is the last northern Italian region for what concerned this industry development. In this territory there is no Pure Player operating in the “on-line shopping, to-home delivery”. Thus we decided first to investigate whether this backwardness was to interpret as a wake-up call for the non-viability of such projects or if unsatisfied willing customers were waiting to be served. Outcome was that just few hybrid solutions currently active in the area registered exceptional results.

Supermercato24 for example, replicating Uber Eats, developed an internal software and established a fleet of couriers that do the shopping by hand on behalf of customers and deliver within an hour time. Founded in 2015, in two years the startup scaled up, increasing the revenues in the last period from 750k € up to 5 million. Also coverage has grown, Enrico Pandian’s startup services is today available in all the main cities across the major 20 Italian provinces in the north of Italy, serving every day over 40,000 customers. (Donadio Giancarlo, 2305/2017, “*Da Supermercato24 a CheckOut, la nuova sfida di Pandian è lo Smart Market/Intervista*”, Smartmoney Economia Digitale)

Figure 59 – Supermercato24 Home Page

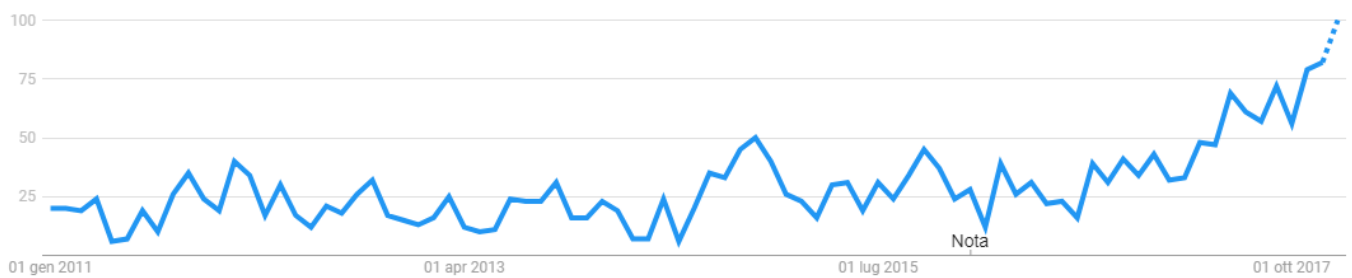


Source: supermercato24.com

Although they are not present, GDO players demonstrated their interest towards this Region. EasyCoop announced its intention to enter the market with its services. Pam Local just launched a partnership with the courier Triclò for city centers deliveries of in-shops purchases, after seeing the raising amounts of Supermercato24’s couriers in their shops and having noted the intensification of number of food-deliverers such as Deliveroo, Pizzabo or Just Eat. In addition to those evidences coming from the field, we tried to further test the results obtaining primary data. We leveraged indeed on Online tools, which helped our research for clarity .

Google Analytics is the web Analytics service that provides data concerning searches recurrence on the platform and insights about customers’ online behaviors. In particular, **Google Trends** explores trending topics and recurring searches, allowing the examination of their paths and evolution over time. As we can see from Figure 60, the interest for such services has increased over the last seven years and has reached its maximum peak today.

Figure 60 – Google Users interest over time for the term “Spesa Online” (Veneto)



Source: Google Trends (Jan 2018)

Another interesting insight emerges from the analysis of related researches, which also are provided by the same application. Customers seem to have already passed the exploratory phase and are already looking for existing services. They search for specific services (“Esselunga a casa”, “Spesa online in Veneto” or “Easycoop”) rather than typing the general exploratory questions that typically aim to the assessment of this service convenience and distinguish a still immature customer base, such as “how does it work?” or “pros and cons of”.

There has been another online tool which sustained us: Facebook analytics. If Google confirmed us the increasing interest for this kind of service, Facebook Analytics served us to grasp more in depth our target’s behaviors and composition. Facebook Analytics, a Facebook service conceived for optimizing the online interactions between customers and businesses through the provision of both qualitative and quantitative metrics regarding users costumes and composition, allows firms to deepen the knowledge of their targets. What renders Facebook Analytics unique is the nature of the insights it offers, which analyzes customers as the real persons, and not as buyers. Businesses have access to passions, ages, locations or social behaviors, and all other insights that cumulates into Facebooks databases from the users comments, likes and post shared. Moreover, analysts are able to introduce themselves variables, filtering and restricting their searches to narrower customers segments, deepening up to the details their understandings and customizing as much as possible their Value Propositions.

We have then considered the “Audience Insight” feature of Facebook Analytics as the best starting point for our route towards the knowledge of our customer base, in light of the fact that an existing market and established benchmarks were not available yet.



The first filter we applied has been geographical, narrowing down the analysis to the cities of Verona, Vicenza, Padova and Treviso. Three were the reasons that pushed us in this direction:.

- A high geographic density could help to sustain the business at least at the beginning of its life. So we limited the choice to huge residential areas in the Veneto area.
- The physical presence of our partner, which has main base in Verona. The relationship with Beta is a key factor we intend to rely on to outperform competitors for what concerns the most perishable products management.
- The geographical location renders those four specific cities particularly appealing, being sequentially disposed and connected by A4 highway, which allows fast movements. It takes less than 2 hours to cover the 130km that separate the two city centers of Verona and Treviso.

After having defined our point of departure, we moved the “Audience Insight” analysis creating parameters to filter results. Pushed by the consideration of the customers’ changing behaviors emerged in the previous Chapters (Censis-Nestlè Report, 2017) we included following :

- Residence (or main center of activities) in one the four cities
- Manifested interest for the three categories (all three)
  - *Local Products*
  - *Environmental Sustainability*
  - *Local recipes and culinary traditions*
- Customers already searching and using food deliveries and home delivery services for ready to eat solutions (“Home Delivery”, “Deliveroo” and “JustEat”)

Above results reinforced the encouraging outcomes coming from Google Trends and have underlined three positive aspects regarding our customer base composition:

1) The first one regards the customer base amount. As reported by source the citizens living in those four cities, who match the parameters, are 350-400k. This numbers are even more reassuring if we consider the conservative approach we implemented in setting constraints. We can assume there is a relevant probability that someone living in the area but not fitting all the constraints posed would be anyway interested in e-grocery, becoming a potential customer for us.

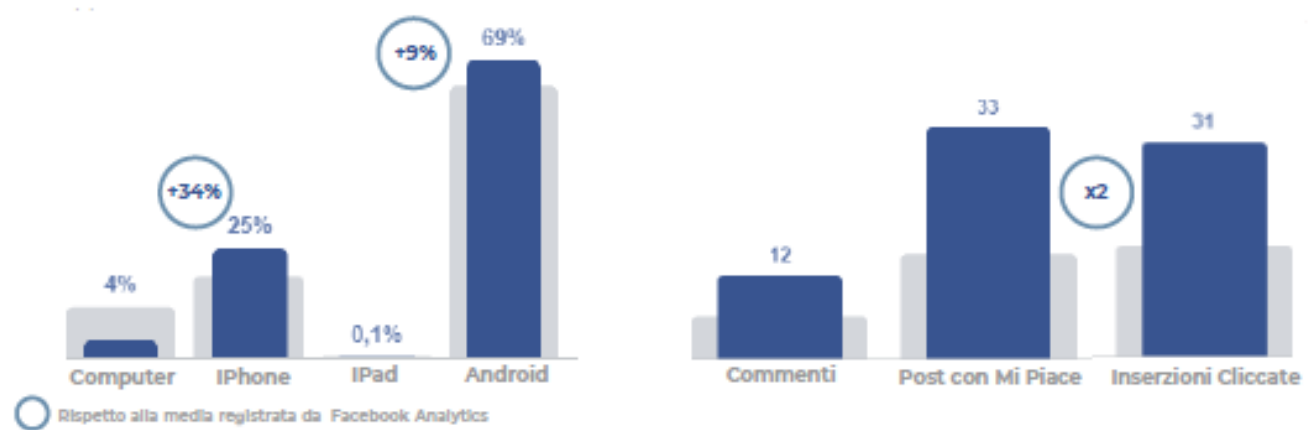
We can include all non-Facebook users or others interested in e-grocery services but not yet using restaurant delivery services. Those are only two of the many possible buyers excluded from our analysis due to the prudence in setting parameters. The process in fact was conducted with the aim to select only most willing customers in light of their actual and consolidated behaviors, minimizing the uncertainty in the sample selection.

2) Other interest insights emerged from the demographic breakdown. Audience Insight provides that our most willing customers are:

- Middle aged working people ( 25-44 years = 49% & 44-60= 20% )
- Women (60%) Men (40%)
- High level of education ( 56% graduated, as a matter of fact our customer base registered +24% over the Facebook average for people with Master degree)

3) The last class of positive evidences regards customers' online behaviors. Our target appears mostly smartphone oriented. Only the 4% of potential customers uses the Computer. More in depth, a remarkable preference for Android software emerged, which detains a share of 69%. The most gripping consideration regards the interactivity, our audience is extremely active on Facebook and doubling the social network's averages for what concerns comments and likes left and numbers of advertising clicked.

Figure 61 – Behavioral evidences from “Audience Insights”



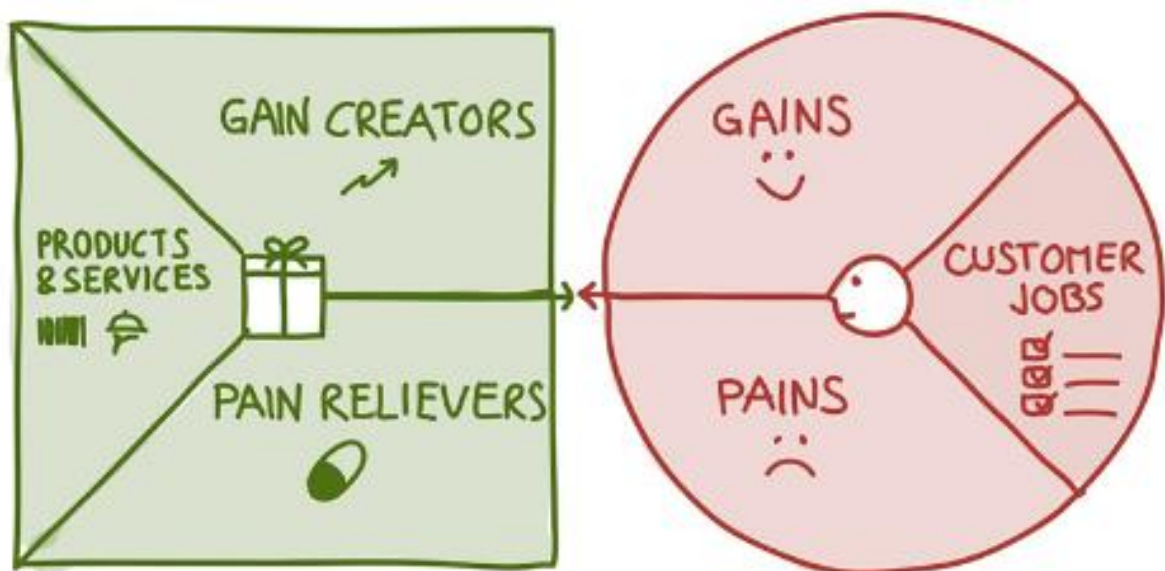
Source: Facebook Analytics “Audience Insight”

The previous evidence shines under an even brighter light if we consider the importance the “community factor” has for trust and reliability building in the e-grocery industry and the enormous influence that existing customers’ reviews have on newcomers. As a further evidence of this, 44% of Italians indicated that other consumers’ opinions are the main source of information they search for on the internet. Furthermore the percentage increases considering Millennials, peaking up to 62%. (*“L’impatto del digitale su Industria e distribuzione alimentare”*, Nielsen, 2017)

After having assessed the trends at a National level and verified their coherence with the restricted sample of our area of interest, we are now ready to move to the fulfilment of the Value Proposition Canvas, which is the first step in the Business modelling process. (A. Osterwalder, Y. Pigneur, G. Bernarda, A. Smith et al, 2014) (Figure 62)

The Value Proposition Canvas splits into two parts, which furtherly divides into three subsets each. From one side, the Value Map refers to Value Proposition Building Block and stresses how the firms create value. On the other we have the Customer Profile Map, which addresses the Customers Building Block, analyzing the external characteristics that surrounds the firm affecting its strategic choices and operations. (Strategyzer, 2018)

Figure 62 – The components of the Value Proposition Canvas



Source: Strategyzer

Customer Profile Map divides in:

- **Customer Jobs**, which describe what customers do in their work and in their lives, as emerges from their words and market data.

Jobs can be classified as follows :

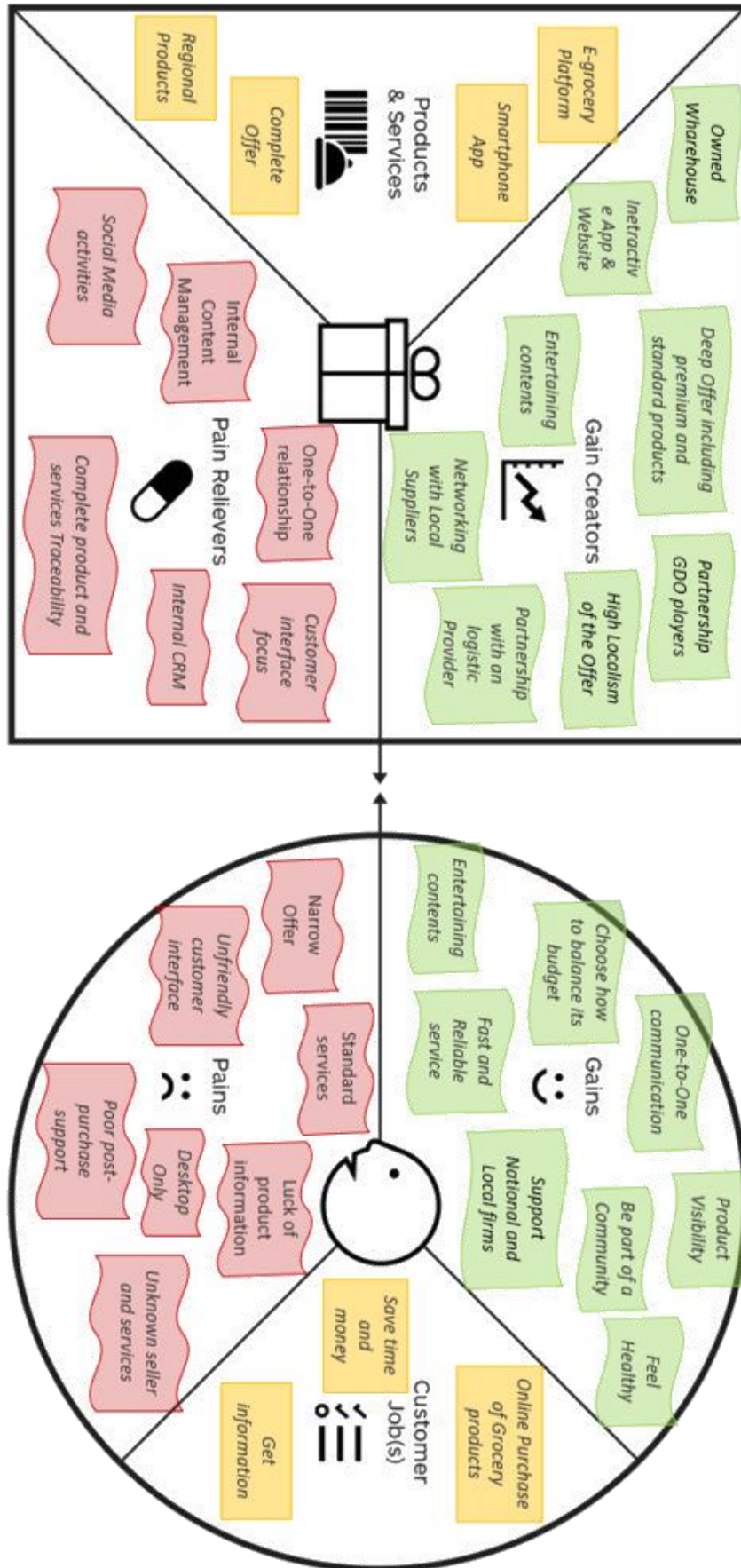
- **Functional Jobs**, if referred to a specific task
  - **Social Jobs**, when customers value how a specific job appears at others' eyes
  - **Personal/Emotional Jobs**, when a specific emotional state is seek
  - **Supporting Jobs**, when other jobs are connected with the primary one, for example when customers want to compare offers and be actively involved in the creation of the product purchased
- **Pains** instead describe **bad outcomes, risks and obstacles** to the customer desires
  - **Gains** describe the outcomes that customers want to achieve or the **required, expected, desired or unexpected gains** they are seeking for.

On the other hand, we have the Value Map, which splits in:

- "**Products and Services**" section includes what the company offers. Here we can expect to find both Physical/Tangible, Intangible, Digital or Financial elements.
- **Pain Relievers** describe how your products and services alleviate specific customer pains
- **Gain Creators**. this class instead presents how those will create customers gains

We started from the Customer Profile, recalling what emerged from the customer base analysis we performed combined to the national level results. Then we moved leftward to fulfill blank spaces in the Value Proposition Map, and verified the effective presence of the match among our Value Proposition and the needs coming from the market. The aim of the Canvas is to "*visualize, design and test how the value creates for customers*" (Strategyzer, 2018). In other words, it verifies if the Value Proposition will respond and satisfy existing customers' needs, assessing the coherence between the two sides.

Figure 63 – The Value Proposition Canvas in place



Source: personal elaboration

Our starting offer will address busy people, having little time to devote to shopping, who are not willing to renounce to a healthy lifestyle and consumption of fresh and quality products anyway. This class includes a wide variety of people, like full time workers that start working early the morning and get off late in the evening, university students that live alone and mothers who cannot leave child unattended at home to go to supermarket. We are confident that will be also the most “digital engaged”. Those categories seem to detain the highest probability of having access to their smartphones and personal computers the most of the day.

Another common denominator for our customers is the passion for food. We will refer to those persons with an interest for the Italian culinary heritage and recipes. Localism will have an important role for our offer, affecting the service both for what concerns products offered for the respect of the environmental and economical sustainability, supporting local SMEs and producers to survive the increasing pressure put on their shoulders from the economic downturns and GDO players. A rooted sense of belonging to the Region of provenience will make our service perfect for the customers we aim. We will serve them with a higher level of food education and curiosity, the foodies, who see food not only as a mean for surviving but a real pleasure an hobby.

There is a final consideration to be done. Figure 63 presents the baseline features of our Value Proposition, at the earliest stage of its life. We are aware of the enormous opportunities that multi-sided Business Models offer to firms and of the huge possibilities that online can give in extending our business in future, for example widening horizons towards new customers segments, implementing tailored services as Cortilia did, or even stretching the services to other businesses, as “My Quality and Convenience” does in Dubai supplying restaurants, firms and also providing food supply to the harbors’ yachts.

We preferred anyway to base our initial considerations only on the evidences from the field, minimizing the risks connected with an increase in uncertainty.

### 4.1.3 The three pillars of the Value Proposition

After having defined the nature of the target, we will now move to the definition of the “*products and services bundle*” (A. Osterwalder, 2012) through which we expect the value to create. Three will be the pillars that raise our offer over competitors one:

***Completeness:*** Our offer will provide customers an exhaustive solution under the point of view of the category coverage.

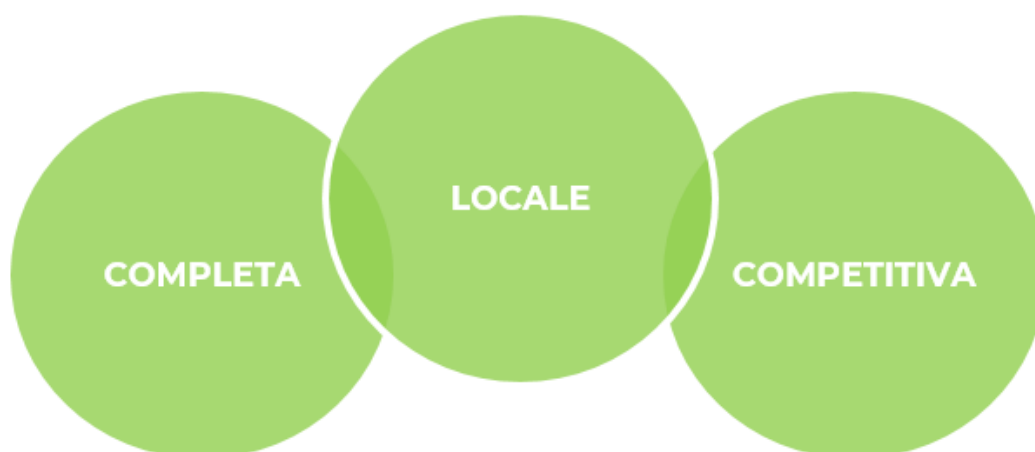
***Localism:*** We will consider only products from local producers or whose production is within the borders of the customers’ Region. We will start proposing to Veneto inhabitants products from Veneto or manufactured by Veneto- based firms or artisans such as independent farmers or growers.

***Competitiveness*** of prices with traditional retailers will also characterize our offer.

*Our goal is to make customer’s life easier and better, providing a unique online place where to find quality food and everyday life products together, offering a variety of regional and local products, comparable to those available in supermarkets, saving customers’ time*

Figure 64- The Three Pillars:

*Localism will bridge completeness of the offer to reasonable prices*



Source: Alpha’s Presentation for Investors (Dec 2017)

Both for what concerns wideness of offer and pricing we will take as benchmarks the physical retailers, located in city centers, aiming to act as their substitutes for them through the provision of all customer needs for ordinary supply of food and for household maintenance. According to what has emerged in the previous pages, the Italian e-grocery scenario is split into two clusters, actually none of them able to help customers to completely fulfill their fridges and pantries. We have big retail names, with wide range of products at least if compared to stores, but shortage of localism, freshness and superior quality perspectives, all features that Italian customers demonstrated to appreciate and increasingly search. (See again Figure 38, Ch. 1, *AmazonPrimeNow “Meat” offer*)

On the other hand there are Pure Players, whose Business Models delivers higher quality and entertaining customer experiences, combined to a limited number of possible selections available, narrow choices and an overall slower service. In addition to this second class prices are always higher. They have never kept hidden their sympathy towards wealthiest part of the population, as explicitly emerges from the answers that Marco Porcaro and Marco Biasin, CEO and founders of Cortilia and Fruttaweb, have given during multiple interviews released to online journals. Data reinforced this evidence. The comparison we did of a basket of 53 SKU purchased with Cortilia and the same products acquired in physical stores of the Italian GDO kings, brought up that premium paid for to the startup for the localism averages 59,05%. In other words, it will cost twice to customers shopping with Cortilia. (Figure 65) We do believe that is not sustainable and will confine the platform in a “every once in a while” niche.

Figure 65 – Premium paid for Cortilia Localism (€)

<b>spesa Cortilia</b>	<b>906,64</b>					
<b>spesa GDO</b>	359,68	413,12	365,65	385,90	371,28	
<b>% Difference</b>	<b>60,33</b>	<b>54,43</b>	<b>59,67</b>	<b>57,44</b>	<b>59,05</b>	<b>Premium Localismo Cortilia &gt; 50%</b>
	<b>Ipercoop</b>	<b>Esselunga</b>	<b>Famila</b>	<b>Pam</b>	<b>Media</b>	

Source: personal elaboration (Dec 2017)

What we are proposing is different, being substitutes for in-shop purchases will made us sustainable. Our project aims to cover every category present in traditional stores, combining this feature with the freshness and superior quality that only hand-made products and local producers with their regional excellence can provide.



We will give customers the possibility to choose how much spend, not only in the sense that the final bill will be lower. Even this will be a customer's choice. He will be able to decide how allocate the resources at disposal, whether buying standard, medium or high quality products for each category included, eliminating the due-to choice between quality or convenience that today e-grocers pose, combining the two. An offer structured with this method will allow to tailor the allocation of the budget, leaving the decision of how much spend for every category and in which invest a major or lesser share of the available resources, balancing the cost according to the personal preference. Customers indeed will no more be forced to choose if to overspend for all categories, even those they do not care, as it happens on Cortilia or Primotaglio, or to take a step back on freshness and quality. A 100% Value Chain will save them.

#### 4.1.4 The crucial roles of partnerships and collaboration

Proximity and Partnerships will be the scissors cutting the industry trade-off. Geographic proximity support will come from two sides: offer and operations. We have already briefly introduced the strategic importance that it will have for our Value Proposition and the benefits the customers will gain from a broader spectrum of local produces, having demonstrated the effects of it on the value perceived. It's not a novelty that Veneto customers are particularly sensible to regional origins, as emerges from the observation of the unique nature the competitive scenario the region presents. Even when referring to traditional GDO, in this specific territory the major market share is detained by local retail chains, more than other regions, even the nearest one, Lombardy, which are ruled by big Brands with national coverages as Esselunga or Coop, (FoodWeb Editorial Staff, 12/05/2015, "*Gdo: ecco i leader delle regioni*"). In Veneto instead local players reign. The already cited PAM Group, with its supermarket declinations PAM, Panorama and PAM Local, is only one of multiple local players to contend the leadership into customers' pantries. Ali Supermercati through Ali e Aliper, the Gruppo Vega with their several brand names operating in the suburbs, Gruppo SUN being present with their CADORO superstores between Venice and Treviso provinces or Aspiag Service, concessionaire of the Despar, Eurospar and Interspar brands located in city centers, are only a few samples for the multitude of regional supermarkets chains operating in the Region.

In reason of this affection towards localism, our proposition will focus on the offer of product coming from the over 1000 firms operating in the food production sectors within the borders. Veneto is extremely prolific under this perspective. The area in fact counts 1056 firms (ICRIBIS online register, 2018) operating in this specific industry, exceeding of over a hundred units even the most industrious among the Italian region, Lombardy. (E. Andreis, 18/01/2018, "*Milano è la città piu ricca d'Italia e la Lombardia è la regione con la crescita più consistente del PIL*", Il Corriere della Sera )

From this evidence emerges another aspect strengthening the business idea behind the Alpha case. Local does not necessarily means being small. The provision of regional products does not imply neither the interaction with the only farmers, growers and producers, which are characterized for their small capacities, nor to limit to superpremium categories, like Cortilia, Fruttaweb and Primotaglio.

We want instead to set our firm separated from those providers, embracing all the categories the customers want and not losing any local characterization. In Veneto there are firms of every dimension, coverage and capacity. This means that potential suppliers' parterre includes not only small independent producers but also the already cited regional supermarkets' chains, sinking their roots in the territory, and the Veneto based multinational companies existing all over the World . This will give us the possibility to extend our proposal to every sort of product and formulate an offer with multiple layers of prices. An example will foster the comprehension. Taking the "breakfast sweet baked goods" , a broad spectrum of possible suppliers, who can satisfy demanding customers eager to consume local, operate in the region. From our perspective, we will consider as potential providers for sweet snacks and croissants both international firms, such as "Bauli", "Melegatti", "Mr Day" or "Dal Colle", and national coverage realities, with a greater link with the territory like "Matilde Vincenzi" or "Biscotteria Tonon:" ("I biscotti di Verona"). In this case , most gourmet customers are not going to be deprived of the most artisanal products. On our website and app customers will simultaneously find even those typical products, difficult to find elsewhere, even in shops. The "Pasticceria Giotto" (Padova), "Ofelleria Perbellini" (Verona), "Biasetto Pasticceria" and "Antico Forno Vecchiato" (Padova), as the other independent producers which populates the city centers, will have the possibility to provide their products as well. Being on our website they could improve Brand Equity, enlarge their sales volumes and enrich the service for existing customers, who will appreciate acquiring their products without the need to dedicate time only to go to their shop.

We strongly believe that such a solution will represent a win-win strategy, distributing benefits to all the parts involved. Smaller realities will be helped in making a further step towards customers, without being subject to the loss of control over quality and without compromise their storytelling, as it unavoidably happens when an intermediary is interposed between you and the customer.

At the same time, also local retailer chains could benefit from the new logics in the purchase process. *"MDD product dynamics are evolving. E-commerce is a way to extend MDD references from the distribution circuit of the specific retailer"* (G. Santambrogio, AD of the Gruppo VeGé, interviewed in: S. Martarello, 19/1/2017 *"Marca 2017, il nuovo paradigma dei prodotti a marchio del distributore, gdoweek.*)

If retailers aspire to succeed with their own branded labels, they have to change their minds. Unless they have recognized names such as Esselunga or Coop and a diffused presence on the territory with their physical stores as addends for pursuing an internal growth strategy, smaller realities have to start being more producers and less retailers, looking out of their own stores' windows. Collaborating with a startup as ours, which promotes and fosters localism and positioning leveraging on established brands and qualitative artisanal products, can be the solution to accelerate their branded lines, reinforcing the link with the region of provenience at the customers eyes.

In addition, gains deriving from geographic proximity go beyond the only offer and touch even back-end activities. The regional nature will bear its fruits also over the organizational side, not only improving the Value Proposition appeal. Having such a suppliers' parterre will allow us faster and flexible products' movements, reducing the overall time-to-customer of the purchases.

In light of what previously said regarding the geographical location of the four starting cities, our inventory policy will provide mostly the adoption of a Just-in-Time approach for managing perishable products, keeping the lesser possible stocks of them in our warehouse, thus minimizing connected risks. Batches dimensions will be reduced for products coming from local firms and reorders will be more frequents. This will be possible to achieve leveraging the fact that those firms usually have internal courier fleets, delivering agilely the products to customers and becoming particularly flexible due to the smaller quantities managed.

An example for the ideal supplier we are looking for is the "Antico Forno Vecchiato". Based in Padova, the "salty and sweets" baker over time have diversified its offer, adding complementary categories. He became a master in manufacturing chocolate, production of sweet spreads , jams and created a line of semi-packaged products with low shelf life such as hand-made cookies he sells directly in its point of sales. Vecchiato also entered the restauration segment directly, opening restaurants and bars. In order to manage this multi sided portfolio indeed, the firm developed a proprietary fleet for delivering every day, in very early morning, freshly baked produces to bakers, restaurants and other purchasers.

Partnering and consolidating relations with this type of local firms, forming a network of trusted suppliers with long-term horizons, will constitute an indispensable asset for us.

Durable and consolidated relations with suppliers will permit to provide daily produced bread to customers, as in the case of Vecchiato, still keeping fast and lean processes in operations, both meeting expected deadlines and promised service quality , minimizing the risk of unsold products and quality defects. This would not be possible adopting a formal supplier-purchaser relationship, which traditionally establishes in the physical distribution. Our purpose is to promote localism and extend the offer to those who remained excluded from the traditional channels, due to their limited capacities or in light of their loyalty to craftsmanship and artisanal products.

On the other side, as long as products' time resistance increases, we will shift to the adoption of a material resource planning logic (MRP), based on the demand, thus adapting the batches size to the nature of each product. Quantities of the most standardized products with longer shelf lives and less storage requirements are going to be assessed also evaluating the possible gains arising from economies of scales and price-discounts over higher quantities purchases.

More specifically two partnerships deserve a particular attention. In light of their importance for the business, we will examine in depth the relations with the Partner Beta and the logistic service provider.

Partner Beta will have a critical role, both under the operational than under the strategical point of views. The fact they already have their established warehouse will allow us to cut down almost to the zero both costs and risks associated with managing fruit and vegetables in house, Logistic of fruit and vegetables is in fact a real "*money-burner*" for e-grocers. (M. Porcaro, 2017; interviewed by A. Franceschini, 22/04/2016, "*Porcaro (Cortilia). "Amazon un problema? No, un'opportunità"*", Myfruit.com)

The possibility to have a partnership with Beta and our operating base located the closest possible area, will allow both to have extremely fast and flexible processes .

Differently for what happens for Cortilia or Fruttaweb, where the orders take 24h from the placement to be ready at the merchant premises, the collaboration and the extreme geographical proximity will grant to minimize times to only the instant requested to insert the items ordered in the branded packaging. This will turn in a substantial reduction of costs and in an enormous financial and reputational gains, being final sellers' margins high for fruit and vegetable products and having already assessed the importance branded products have in creating customers loyalty and trust.

Together with the provision of the previously presented products and the partnership with local producers in fact, it will be a crucial the creation and development of an owned brand, independent from the Beta one, to be sold to customers. The labeled line will initially include the categories sold by Beta in the Mercato Ortofrutticolo di Verona, which will give its contribution to the partnership being the raw materials provider and inventory keeper. This will makes us unique apart from all the other online pure players, which do not have already established a branded products line. Huge are the chances behind the establishment of brand-customers relationships in the e-commerce of food products. Customers trust Cortilia for the quality of the products and for the endless effort it put in storytelling and customization of the offer. Fruttaweb acts itself as a guarantee for the quality of the fruit delivered. All those cases inspired and provided us an insight for the structuring of our Value Proposition.

The lack of a heritage in the distribution and the ownership of network of physical shops, the observation of real cases, literature, data and trends, convinced us of the possibilities that we will find following this route. The phenomenon of “disintermediation” (E. Turban, 2015) we explained in the second Chapter seems to have already produced its effects also on the food & grocery sector.

The case of Fratelli Orsero will allow to present how new technologies modified the fresh fruit industry and uncovered immense opportunities in this sense, giving the green light to innovators, newcomers and B2B players. The Italian is maybe the one the mostly succeeded in transforming from a B2B trader to a B2C brand with a loyal customer base. After having operated for over 30 years as supplier of the Del Monte Group, the Italian firm decided to launch its’ independent brand in 2012. Since its entrance as a self-standing firm in traditional supermarkets’ shelves, the firm increased its effort in the communication and marketing, becoming today one of the most recognized brands for its specific category, thanks to the never ending innovation and curiosity towards unconventional business approaches. The logo was pushed aggressively in supermarkets since the beginning, making the F.lli Orsero’s products over and over recognizable, standing them out from similar ones thanks to a big black logo that in many times was even covering a major part of the fruit itself. Strategic scope was to bring customer to trust the brand. When F.lli Orsero is the seller, quality follows. (Figure 66)

Figure 66 – The aggressive instore branding of F.lli Orsero



Source: Fruttaweb

At the same time, also variety in the marketing mix contributed. The firm has spaced from the traditional TV and Online advertising campaigns in 2016 to Social Media and physical presence. Very effective resulted the sponsorship of the Giro d'Italia in 2013 and distribution of free samples with pop-up appearances in the major Italian city centers.

In addition to such aggressive branding and merchandising policies, F.lli Orsero success can explain also through the attention to customization and renovation of the products. Since 2012 the group continuously nurtured its offers accordingly to changing customers behaviors, for example extending to the “snacks” category or hitting the “healthy & ready to eat solutions” market.

Today F.lli Orsero has even entered the e-commerce world, with its new line “Maturi al punto giusto”, which is distributed on AmazonPrimeNow. (Figure 77) This new product, launched in 2017, is the most recent example explaining the endless effort of the Italian firm in growing its offer, expanding into the exotic & tropical segment with a new format, the single product package.

Figure 67 – F.lli Orsero new offer: “Maturi al punto giusto”



Source: Fruitbook Magazine

*“Thanks to the continuous investments in marketing and communication the brand reached today an awareness of the 56%, constantly growing”.* Result that can be achieved giving customers not only products, but also facing *“always more observant customers as interlocutors, offering them complete experiences and services, answering to questions, doubts and curiosities, and proactively giving them nutritional information, tips (...) and creative ideas”* to stimulate them. (Alessandra Cannella, Commercial Director of Simba and Fruttital S.r.l, part of the Orsero Group, interviewed by Fruitbook Magazine editorial staff, 17/07/2017 *“F.lli Orsero, Boom per la frutta esotica, cresce di oltre il 30% nel 2017”*, Fruitbook Magazine Online.)

Returning to our case, in light of all those previous considerations, we are convinced that Partnering with Beta would provide both the firms the right conditions to succeed, exploiting all the synergies related to their ownership of qualitative processes and the fact they have already operations in place. Through geographical proximity and the development by our part of a platform which also will include the other categories, we will be able to push up the sales of branded products, fruits & vegetables increasingly gaining space within customers baskets, and at the same time to provide credibility and reinforce the platform and customers eyes. Moreover, the fact of having an owned category, will allow us to be completely flexible in managing its marketing, pricing and in creating product assortments that will fit our customers’ need that we discovered from the platform Analytics’ tools we introduced before.



A second factor have to be considered. As we had occasion to see in our adaptation of the Mangiaracina-Perego's strategic framework for logistics decision support, there is another side to be consider: Last mile, the “*Saint Graal*“. (A. Perini, “*Last Mile, ovvero il Sacro Graal del nuovo millennio*”, The Insider's Opinion Blog, P.101.com, 16/03/2016)

Even in this case, partnership and cooperation will be the keys for accomplish the challenging goal we posed. Our firm in fact expects to conclude the delivery within the next day, providing customers the possibility to choose among multiple time windows fitting their exigencies. The service will be active throughout all the 7 days of the week and will take place even during evenings' hours, as done by all the medium/fast deliverers in the strategic framework (those who classified in the Medium/Mid-High/High intervals of the “Delivered Promised Time” driver in our logistic model). This is a *condicio sine qua non* for e-grocery firms for satisfying customers, especially in our case, composed of workers and busy people hardly at home during central hours.

Our ideal partner will be indeed a local-independent service provider having expertise in the logistic of perishable products, in city centers parcels transportation and willing to establish a long lasting relationship and interested in common growth. The choice of an independent service provider, which demonstrates our intention to first interact with firms other than the big giants of the logistic services (GLS, Bartolini, DHL to cite a few), has been due to the flexibility. The second ones , even if develop perishable products and controlled temperature services, usually proposes standard contracts, leveraging on their bargaining power and in reason of the enormous amount of parcels they daily manage. That is the reason why they would not perfectly fit our exigencies .

The other factor that pushed us towards this direction has been our confidence we have in the possibility to find the proper partner. A huge and increasing number of independent service providers populate the Veneto Region. As we have assessed in our proposal of the model, the wideness of possibilities and the dynamism of the actual scenario has been the cause of non-identification of a path in the last mile issue solution from real cases.

We have chosen different clusters of firms being potentially interested to collaborate and scale up surfing the synergies with us, providing a dedicated fleet to handle our services in a similar way as Milkman with Easycoop. We will present hereafter every typology, using for each of them a paradigmatic firms speaking for the category.

The first type of firms that could be interested are startups or independent firms already operating, which developed knowledge in delivery of perishables, offering temperature controlled services but do not operate in the Veneto region yet. The embodying case for this cluster is PonyZero. Birth in 2013 in Torino from the minds of Engineering students, which patented their own ecological “Cargo-bike” and created an integrated logistic software, the startup today operates as sustainable last-mile deliverer for fresh goods also on behalf of huge names in the grocery industry, such as Eataly, Just Eat, Amazon and Cortilia, handling their delivery of perishables. (Figure 68) Over the years, the business has expanded from the hometown and reached other big cities such as Bologna and Milano. The next step will now entail the entrance in the Italian Capital, Rome. Thanks to their optimization of processes and online management of orders, Ponyzero has been entrusted by the logistic giant TNT for dealing also their order in the city center of Torino, creating a completely dedicated fleet. The ecologic fleet of the startup anyway exceeds the simple cargo bikes and embraces even electric vans and bicycles, in order to cover every possible distance and area. (Figure 68)

Figure 68 – Ponyzero collaborates with both Big Logistic names and B2C companies



Source: Ponyzero



Source: La Stampa

The collaborative mindset of the startup and the flexibility of services to customer’s needs renders this firm an interesting potential counterpart. A dedicated App has been developed, updating customers with the “live positioning” of the courier and letting the two counterparts chat. Also the Partnership capability renders this case particularly appealing, as emerged from multiple collaborations did with e-commerces and resulted also in the launch of branded vans and bikes, as presented above in the pictures.

Our partnership could bring advantages, as a kick-off for the presence development in this area, starting this partnership in order to explore the possibility to enter the Northeast of Italy not covered yet , without the exposure to the overcapacity risk due to our initial orders base.

Crossing Regional borders it is not a constraint, a rich number of partners are also within them. Even for what concerns the logistic services, Veneto presents a prosperous and flourishing scenario where structured couriers have developed and dedicated Business Units for dealing fresh products and in many cases also adopting environmental friendly solutions, as Ponyzero did.

The first example comes from the Ceccarelli Group. The national and international courier based in Padova developed its “Parcel Service” and guarantees on time deliveries in Italy (48 hours are required to reach Calabria, Sicilia, Sardegna) for shipments up to the 30kg . Even this partner would represent an optimal solution for us, due to the customization offered to whom rely on them for deliveries. Temperature controlled solutions, evening time operations, the possibility to make an order as appointment and live-tracking represent among the others the features that would contribute to boost our customers’ experience. Moreover the geographical closeness and the consolidated presence with their own warehouses will allow us to manage easily even the most problematic situations, as the “missing customer” issue, simplifying second round deliveries. In addition to this, as they are already present on a national scale represent an undoubted facilitator whenever Alpha will decide to increase the coverage. As a further prove for the wealth of services present in the Region, we will introduce two other services based in Padova, aware of the fact that also for neighboring cities is valid the same reasoning. Verona is the major center among the initial four and in the entire Northeast of Italy for this type of service due to its strategic positioning, warehouses and operation plants that big names have located there in mass, causing the formation of a real cluster for the logistic sector in the area.

Cityporto, part of Interporto Padova S.p.a, dedicates to the urban logistics, being its eco-friendly fleet entrusted of the last mile deliveries of fresh products, both by big names of the logistics than private businesses, having access to the Z.T.L. areas 24 hours/day and 7 day/week.

Today Cityporto is one of the reference models for the urban logistic with ecological criteria, imitated and envied by logistic service providers on a national scale, and serves on a daily bases supermarkets, groceries, restaurants, bars and offices. (“*Cityporto Padova: Nel 2015 oltre 100mila consegne ecologiche*”, Trasporti-italia.com, 25/01/2016)

Another possible partner is Triclò. The recently born startup in Padova manages with ecological bicycles the delivery in the city center for both B2B and B2C customers. The service experienced a huge success in the city, as proven by the entrustment of big retailers, such as TNT, DHL or GLS. It acts as a subcontractor for the management of the last mile of their parcels and is currently extending the services to the other city centers, starting from Veneto (Figure 68). It's also partner of Pam Local for the previously cited home delivery service launched for in-shop purchases. This new venture appeared us to be the carbon copy of Ponyzero, operating through a similar Business Model and in light of the flexibility demonstrated. Even Triclò provides the possibility to establish a dedicated fleet, with aesthetic customization available, rendering possible for partners to use their own brands and dispone of dedicated personnel (Figure 69)and making Triclò particularly appealing under the strategic point of view.

Figure 69 – Triclò offers the possibility to customize their fleet with the partner logo



Source: triclo.com

A multitude of firms constitute the panel of possible logistic partners. All those are going to be taken into account, assessing each of them for what concerns the customer service level assured, their flexibility and the potential scalability of the relationship over time increasing geographical services scopes. Who balances the better those three variables will win.

## 4.1.5 The core of the Startup

After having introduced the role of Partners, presented the strategical relevance of the network of suppliers surrounding the firm in enhancing the offer and of two primal business firms we will work with, it has arrived the moment to focus on Alpha's core activities. The internal functions have already emerged from previous pages and we will devote this paragraph to draw the strands about the role the startup will have in the project, in order to provide a holistic view of the business and assure the complete comprehension of Business Model.

The role of Alpha would be managing the content, under each of its multiple aspects and configurations already emerged. First of all the startup is going to deal with products selection and improvement, undertaking those activities that precede the selling and prepare the benefits which distinguish the Value Proposition. Developing competencies and skills in the analysis of customers' behaviors online and the comprehension of their expectation will be the first important step for Alpha's success. As already demonstrated, Internet could be the most complete, deep and precise database at disposal of firms. Even if turning data into insight requires a never ending effort and continuous attention, in order to update the bundle of benefits and keep up with changing preferences and behaviors, as food varies on seasonal bases. Only a deep knowledge of customers will allow the firm to effectively structure the offer properly and to find the right suppliers, selecting the best included among the over one thousand operating in the region.

In addition to this, as we assessed that content goes beyond products, also firms' activities will. The creation of appealing and profound content mix supporting the customer offer will be an unavoidable part of our Value Proposition and will constitute a key task to be handled by Alpha's internal personnel.

Managing the content will complete the qualitative excellence and calls the attention to be paid to all the multiple channels the firm uses as touchpoints with customers. The creation of the Webpage and the assurance of its coherence with the smartphone's app will be fundamental, as well as fostering horizontal communication through the community factor, stimulating interaction across all the Social Media, pushing users to interact. As we said previously for the case of Cortilia in fact, advertising starts from them.

A substantial effort will be put also on the consolidation of the platform brand. A part from the launch campaign, that in accordance with Beta is going to be steered by an external specialized consultancy firm, Alpha will over time internalize the marketing. Outsourcing the marketing for online businesses has demonstrated having much more cons than pros, especially if you operate in a sector as the grocery one, where the extreme sensibility to the quality of the product increases the importance of communication. We believe that co-working with specialized firms at the beginning is the best choice, due to their expertise in specific moments, such as launches of new ventures or innovative products, and also because that in a first moment operational management requires superior attention, lacking routines and consolidated procedures.

Problem arises when companies fully outsource marketing activities over the long term. In the end no one will know you well as you do. *“If I could start it all over again, for sure I will put much more effort into the development of internal marketing and communications capabilities and functions”*. (Stefano Iorini, October/2017, when asked for the best advice he would have given to every e-grocery startup on behalf of his experience with My Quality and Convenience in Dubai, UAE).

Another example will further reinforce the importance of developing internal marketing and communication skills. We introduced in the previous Chapter the case of Cortilia as the go-to-model for customer experience management. From the analysis of the firm members' jobs and their function in the firm, it emerged that their state of the art marketing is not a fate. Personnel devoted to marketing and communication constitutes almost a third of the total firm's employees, being dedicated to Marketing and CRM seven employees. (The study has been performed in October 2017, analyzing members of the company's LinkedIn profiles in order to understand and assess their function within the firm organizational structure. We found 26 LinkedIn profiles working in the firm, the same amount of workers the firm reported in its Financial Statement for the year deposited in the “Camera di Commercio” register.)

In addition, we noticed that even people dedicated to the management, product development and supply management were equally allocated, underlying again how Cortilia put the same importance on the Content natures, products and storytelling.

We believe operations still matters. If *“Content is King, distribution is Queen”* (P. Himler, 09/06/2013, *“Content is King, Distribution is Queen”*, Frobes).

Returning to the Alpha case, operations would be internally undertaken partially by us, managing in its own warehouse the inventory of those products with a long shelf-life and less subject to damages but, as emerged from the logistic strategic Framework, picking activity is a merchant constraint for the category. Our startup will be able to pick and assemble phases as well. All the possible synergies with the partners will be exploited. The distinctive feature which differs us from competitors from an operational point of view, will be the possibility to benefit, through the establishment of flows of information and communication with partners, both of external storage of most complex SKUs costs and risks reductions and the fastness typical of internal inventory models, which firms as Cortilia, Fruttaweb and Primotaglio cannot achieve, as enlightened by the real cases analysis did before. Establishing routines and standardized processes for moving branded label's products, stored at Partner Beta premises, from their premises to the close warehouse will fasten the supply of those and eliminate the inventory related costs. The nearest the two warehouses and the fastest the communication, better it would be.

## 4.1.6 Financial pillar completing the Business Model Canvas

There is a last step that still separates us from the completion of the Business Model Canvas: Financials. This Pillar in Business Models do not entails precise forecasts of the revenues and estimations of margins, which constitute the core of a Business Plan. Even in this second case anyway, especially for startups, whose fate depends on disruptiveness of the idea and moves into uncertain and developing industries, *“Business Plans (as the Business Model) should act more as roadmaps, just to give a sense of profits and possible losses”*, being aware that in most cases *“long term forecast will not works”*. (DBJ Watch, n.d. *“10 domande a... Marco Porcaro”* DBJ Watch, Osservatorio dedicato al food ed al turismo)

According to Marco Porcaro, precise financial forecasts could be more dangerous than a parachute for startups, and risks inhibiting innovativeness and new ventures revolutionary push. It has to be clear in mind that *“every year all have to be re-discussed and new means have to be tested”*. New ways of doing business will call for higher uncertainties, but startups cannot afford not taking those risks. (DBJ Watch, n.d. *“10 domande a... Marco Porcaro”* DBJ Watch, Osservatorio dedicato al food ed al turismo)

Those considerations do not belittle the importance of the “Financial” Pillar in the Business Model Canvas proposed by A. Osterwalder et al. (2012). Having an exact idea of all the costs a firm is going to incur in, their relevance, the way revenues are created, where they will come from and how costs at a certain point of time are covered, is still essential for success. Businesses by definition, as said in the first Chapter, at the end of the day should result into profits for investors. We will henceforth present those two aspects, clarifying where Alpha expects its revenues to come, and on the other hand, which costs it will have to face.

In the second Chapter, we already considered the huge spectrum of possibilities that opens up an online businesses in term of potential gains deriving from multi-sided Business Models. We will present here only our major and unique revenue sources at the beginning of the operations: Asset sales. The firm is going to make its revenues from selling asset through its online B2C web platform and app. Two type of assets will be sold. First of all we will have *“third parties assets sales”*, which refers to the externally produced goods available to customers on the platform. (A. Osterwalder et al, 2012)



Even if different products have also different margins, for example wines revenues are multiples higher than grocery products' ones, according to articles on newspapers, all information we collected from scientific publications we used and in light of Stefano Iorini's experience and MyQualityandConvenience support, the average commission fee for e-grocery industry never goes down below the 30%. For prudence, we will use this number as the benchmark for the future Business Plan. In addition to this source, Alpha expects higher margins from the second class of product: branded ones. Those will be the ones provided by the Partner Beta. The short value chain that the partnership permits, will allow the firm to increase its margins for the proprietary products, acquiring them at a more convenient price in respect of the previous class.

Having assessed the nature of revenue streams, we will now pass to consider costs, as they also have a direct impact on income. Combining the competitive scenario analyzed so far with the theory regarding the Business Model's archetypes, we can clearly see the environment as split. On one side we have "*value-driven*" firms, such as Cortilia or Primotaglio, "*product-driven*", that are less concerned with costs, due to the higher prices set. In opposition, facing them "*cost-driven*" players, which are those that in the third Chapter were included in the "*service-driven*" category. For those final prices to customers are taken as given and established on the base of market's benchmarks. It will be the maintenance of fastness in the service combined to the costs' minimization that at the end of the year will inflate their Net Incomes.

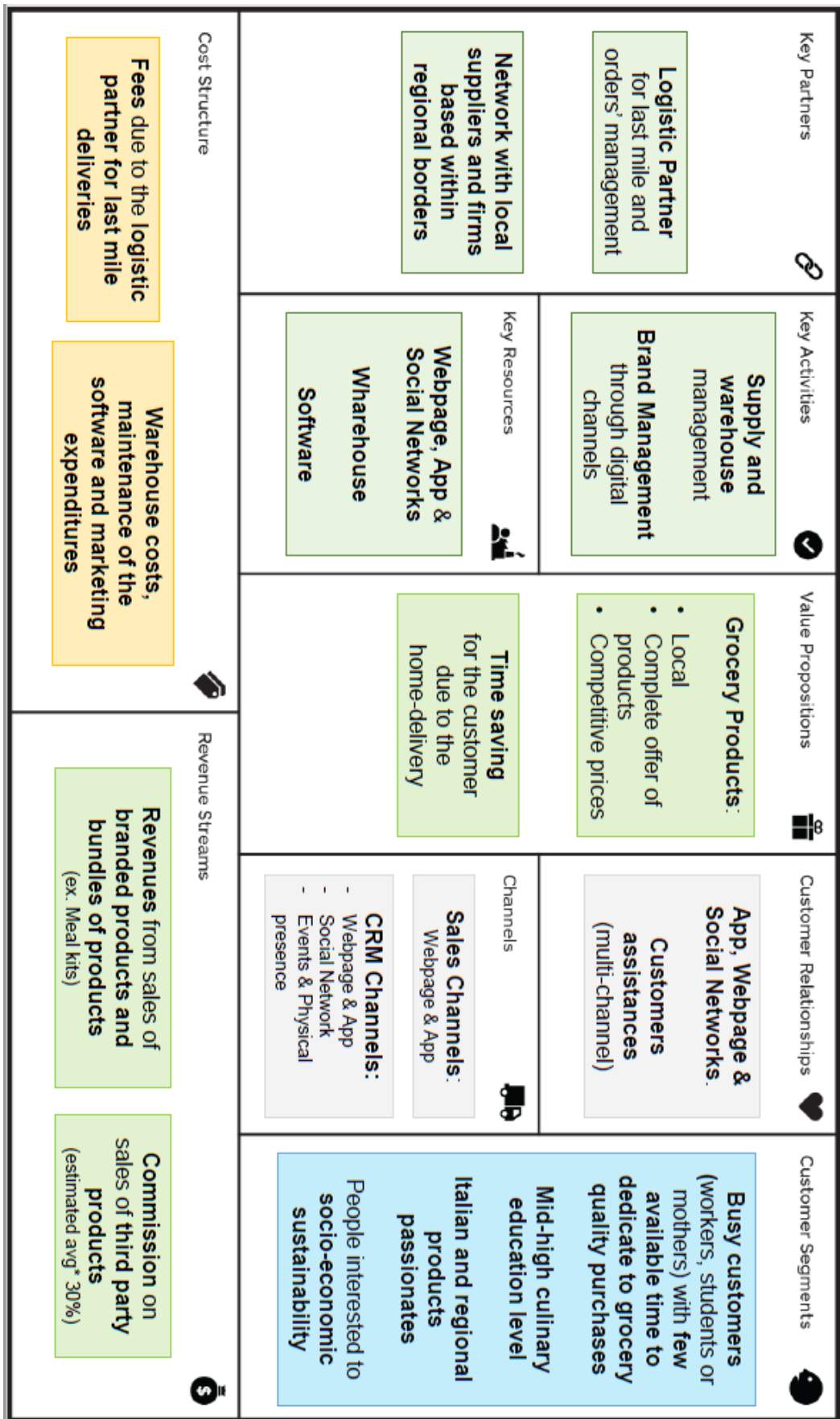
For our part, due to the synergies we expect to arise from partnerships and the particular Business Model implemented, we are convinced that we will be able to exploit benefits coming from both sides. As emerged from all the previous considerations, the major costs merchants of groceries have to face are related to warehouse management and maintenance of the stored products. In our firms, as we stated before, due to the proximity of our networks of suppliers and the close collaboration with an established player operating in fruits and vegetables industry, we will be able to minimize the items kept at our premises to those whose storage is simpler, exploiting all the quantity discounts and related benefits. At the same time, the features that allows us to save on costs, will also permit to remain flexible and fast in the preparation of the orders, without incurring in the downturns which usually follows externalization of inventory.

Another operational cost we have to consider regards the fees due to the logistic service provider. We expect to diminish those through the partnering with a new venture and independent service provider. It's a practice of all the previously cited examples of possible logistic partners to include customized agreement for long-term relationship and repeated deals. We are confident that through a partnership and common growth those fares will be set to the lowest possible.

In the end, the third cost type will be the marketing, which is going to absorb the major of our investments, due to the already cited importance that it has on customers and in creating Brand Equity. We forecast to invest in the marketing the major part of our capital and all the saving coming from partnerships and collaborations with our networks of suppliers and two main partners.

At this point, the completion of all the Building Blocks should have fostered the completion of our business from all its angles, as summed up in the complete Business Model Canvas representation following, which resumes all has been said before. (Figure 70)

Figure 70 – The Business Model Canvas



Source: personal elaboration

## **4.2 Testing results from a different perspective: the Casadesus-Masanell & Ricart Meta-Model**

As it has emerged from the First Chapter, academics in literature came up with multiple solutions for representing Business Models, each of them adopting a peculiar way in approaching the topic and giving a personal perspective. We understood the importance that the proposal of a second framework for valuation would have had for achieving a deeper comprehension of businesses. To conclude, we will introduce hereafter a second visualization model that helped us, changing our perspectives over results and integrating the previous model and enriching conclusions achieved.

As we had occasion to state since the first pages, the Business Model Canvas Model proposed by A. Osterwalder et al. (2012) separates businesses into their critical components, on the base of their nature, bringing to the light firms foundations. It has been exactly in reason of this peculiarity that it resulted extremely helpful for us throughout all the steps we analyzed. It gave us a mental blueprint to stick, and served as footprints to follow in our road trip, supporting us in categorizing, identifying positive and negative aspects and evaluating possible solutions, both during the analysis of industry's incumbents than lately, when we passed to structure our own firm, on behalf of the best practices emerged.

We equally found exceptionally useful, in the end, to test the results and conclusions obtained, using a second model, which distinguishes from the multitude of other possible frameworks proposed in the literature for the dynamic view it adopts. We saw indeed in the application to our case of the Casadesus-Masanell & Ricart Meta-Model (2011), presented in the last pages of the first Chapter, the way to further comprehend and assess the viability of our Business Model, raising our vantage point to an holistic height and observing the whole business as if it was a unique and alive entity. This second model has the characteristic to focus not on single standing component, considering it as separate, but studies in depth the links underlying and the logics hidden behind them, which tie together the firm and push forward the business operations.

As suggested by authors themselves, the Meta-Model aims to verify whether “*a business model will be effective*” (R. Casadesus-Masanell, J.E. Ricart, 2011) or not, through the analysis of three criteria: alignment with the company’s goals, to what extent this is able to self-reinforce and to get stronger, defined as the “*ability to sustain its effectiveness by fending threats*” (R. Casadesus-Masanell, J.E. Ricart, 2011). Indeed, this time, choices made at every organizational level by the management concerning activities the firm should operate will connect and merge with internal and external consequences, deriving from those. In reason of that, we decided to rearrange the previously considered components appeared in the Business Model Canvas into those two classes.

Being Alpha at its earliest stage and the set up process of the business still underway, we approach the model with an extensive use of the “Aggregation Principle” (R. Casadesus-Masanell, J.E. Ricart, 2011), also pushed by the previously assessed importance to avoid an excessive granularity for startups operating in developing industries. According to the firm’s life right now, entering too much in details would have meant charging the business equation with many future-dependent and uncertain variables, exposing us to high risks of being ran off the road by those along our way in the model depiction and interpretation. Moreover, the choice of sticking to the basics was furtherly dictated by our intention to facilitate ourselves in future on-field implementation of activities required the coming months for kick starting the business.

Aware of that, we took into account mainly those indisputable and granted assumptions, which will constitute the backbone of our business now as always and will almost certainly be with us even in future. We included choices such the development of “internal marketing and communication”, “collaboration with local suppliers” or the settlement of “competitive prices”, in light of the numerous evidences exposed in previous paragraphs that lead us to those. Therefore, we did not considered the others, excluding the more operative choices regarding last mile logistics, except for the general and basic decision to outsource it to a specialized service provide, which has been included. It will be possible in fact to add those more specific decisions as complements for the actual model (Figure 71) in a second time, when we will have already got in contact and completed the selection of our partner.

As things stand, the main functions that Meta-Model (Figure 71), and Business Model Canvas before, have are the assurance of consistency between actual choices and those coming in future with past evaluations and the coherence among all those and the primary variables extracted from the academic literature and emerged from industry’s and real cases’ analysis.



The Business Model appears now to our eyes under a different light. Figure 71 through the illumination of the links tying together our business, reassured us, evidencing the presence of numerous interactions connecting constitutive elements. As we have already said in the First Chapter, virtuous circles are the most desirable features businesses should pursue and verify, being the springboard from future value. (R. Casadesus-Masanell, J.E. Ricart, 2011) Following arrows throughout the whole Figure 71, we can see that many circles intersect between choices (underlined), Intermediate consequences (written in grey) and those two together trigger Final Consequences (in bold) in the end.

Choices should be the starting point for the comprehension of the causal loop diagram. In our case, those included all the managerial decision we draw so far related to the assets' governance and customers' value proposition emerged from the Business Model Canvas, which will constitute the mainstays for Alpha.

We have split the consequences into two classes: intermediate and final. The first group refers to middle-level consequences, from the combination of which Final Consequences are triggered, which have been set apart at their time, in reason of their superior importance for the business and we expect the virtuous circles to start their second rounds. They represent the Model's focal nodes and act as business boosters, reinforcing choices and realizing objectives. "Final Consequences" distinguish from previous also for the role they have in bridging the different areas of the business, identified by three different colors used for the arrows. Orange delimitates back-end activities and financials of the business, explaining improvements logics in those fields. The blue section instead will focus on front-end activities and the customer side. Following them through the Model, it will be explained paths and routes where we expect customer experience to improve increasingly its quality over time. Lastly, green arrows refer to the sources of organic growth for our specific business.

From the strategical perspective of our startup, growth will distinguish into two types, divided by their nature. Being our business a regional centered one, we will talk indeed about "internal" and "external" organic growth with respect to regional borders. For what concerns the coverage increase within them (i.e. internal growth), the process will entail the extension of the service to reach unserved and demanding customers living in neighboring cities, implying an increase of routes' length and quantity for touching new destinations. The first growth type will not require the establishment of new warehouses and new networks of suppliers.

The interregional growth will constitute the primal goal for the firm, being it a new venture, and the first strategic target to reach, we can conclude providing also the expectations we have for the latest future, giving sense of the longer terms possible business developments when all the Veneto cities will be reached.

When crossing the regional borders, things in fact will change and become more complex. For entering new regions, we expect to replicate the current Business Model from zero, setting up new relationships with local producers and firms for a new network, in order to deliver them the same localism-based benefits, which distinguished us. We identified with the green arrows (Figure 71) the three factors we assume will act as facilitators when this moment came.

In Chapter three we had the occasion to identify the immense power the Internet has in connecting people, sharing experiences, information and the incredible contribution it has in creating reliability and trust over distances. We believe that the creation and establishment of a strong brand, with a high regional characterization, will bring positive consequences also on a larger scale, spreading its contagion not only over nearest cities, but also infecting neighboring Regions. This will result in the creation of an existing customer base already knowing the brand and looking forward the service to come. Those clients, other than as the source for initial volumes of sales and benchmarks for new customers' identification and targeting, will serve us as benchmarks for customers' preferences identification, which are crucial for setting up new businesses, and will also appeal the suppliers in the new areas, simplifying the establishment of a new network from our perspective.

There is another aspect that will facilitate our cross-border migration, once Alpha will have established both its brand, presence and revenues within the first Region. The results of consolidation will end up freeing resources in Alphas accounts and in available capital to invest for growth, coming both from stabilization-related savings and from private and institutional investors appealed by achieved successes and convicted of the possibility to replicate them in a new demanding area.

Multiples are the examples of firms that succeeded in expansion leveraging on their elsewhere consolidated brands. Cases such as Amazon Fresh in the USA or firms such as Deliveroo, Foodora or Just Eat operating in the ready-food delivery industry, all provides examples of firms that have replicated their Business Models in every city they went as if they were different but identical copies. The online reputation for sure prepares customer bases, but its influence goes over this, clients themselves increasing the willingness of suppliers to collaborate becoming partners.



To conclude, we are confident a growth model based on regional clusters will allow Alpha to outperform both the GDO players, which are unavoidably constrained by their existing stores, and pure players, which instead try to extend their services while keeping the same operative base, exposing them to the risk of compromising their quality. More than that, even not considering qualitative threats for perishables that emerge on long hauls, it is anyway a fact that structuring deliveries increasing service coverage but not operational presence will dilate timing dilate and reduce deliver punctuality, both factors negative affecting customers' satisfaction as defective items does. We are confident instead that focusing on regional scales our brand, strengthened by an MDD line developed in collaboration with Beta, and supported by a long-term logistic partnership, will result in providing every customer the same bundle of benefits, irrespectively of its region of provenience.



## Conclusions

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Innovation has completely changed the grocery retail business. With this statement only we could summarize all the evidences emerged from this dissertation. Innovation and Communication Technologies in fact, have revamped this environment despite the backwardness and resistance to change that seemed having characterized it since ever. E-commerce hit hard the Italian grocery industry and effects today are easy to be seen.

The first evidence we obtained refers to the pressure that digitalization put over incumbents, forcing them to review time-honoured practices and opening doors to a new set of pure players that muscled into the market with their solutions to consolidate changes in due course. Indeed, the first aspect on which we focused our attention has been identification of the drivers shaping the competition. With this respect we proposed an industry-specific interpretative framework based on the combination of the e-operations management literature with grocery related one, convinced that a tailored model to understand firms' behaviors should be arranged. This industry in fact deserves a particular attention, in light of its peculiarities and complexities. After having clustered the 13 drivers emerged into three categories, we tested the model on best performers operating in the Italian e-grocery industry, in order to interpret their logistics policies. Assisted by the model, we assessed the presence and the consequence of the rift that separates Italian players into "product driven" and "process driven" companies from the internal operation perspective. On the other side, even if it was not possible to highlight any golden rule for what concerned the "last mile" solutions, in light of the mutability and fastness the field is growing, we identified in the collaborative mindset the keystone for future, in reason of superior advantages that such a strategy can add to service and customer's experience.

Another aspect that the model stressed have been the close link between firms and customers. This premise constituted the stepping stone for moving our analysis towards the observation of the communication. ICTs in fact not only affected business....smartphones today follow customers in every moment of their lives. Shoppers digitalization is a major trend and firms have to behave accordingly. Development of markets in fact passes through the renovation and modernization of communication channels. The real challenge today is to grow customers' experiences leveraging on the infinite opportunities provided by technologies. The crown of the leader is still vacant and is waiting for its king, who will succeed in harmonizing the channel experience.

Meeting evolving customers' behaviors through the adoption of an omni-channel approach will open the success doors. Infrastructures' optimization, alone, does not suffice. Pure players are the ones who seem having tackled the challenge on the right foot, leveraging on the quality of information provided and exploiting the variety of online communication means available. The huge effort they put on understanding and respond to customers behaviors is today beginning to bear its fruits. Customers demonstrated to have changed their relation with food and shopping, which become a source of entertainment, and consequently also expectations regarding firms' services. Horizontal integration among online channels, creation of communities that would reinforce the sense of belonging and storytelling are today unavoidable. They all contribute in fact to the Brand humanization, which evidences demonstrated able to compensate the lack of a physical presence and the missing of the five senses, creating trust, loyalty and engaging customers. Treating online customers as if they were traditional ones is the biggest errors an e-grocer can do and such a behavior is exposing to high risks the traditional GDO players that in multiple ways showed to put online at the service of the physical retail. Online and offline customers in fact have different DNAs that deserve different attentions. The future will be of those who will succeed in addressing them. The market in fact is poised for growth: customers are just waiting for the right firms.

At this purpose, with this dissertation we presented the Business Model of Alpha, which would have emerged from the evidences arose. In reason of that, in the fourth Chapter we deepened the results previously obtained approaching in the specific the Veneto customers, discovering dynamics and behaviors related to the initial customer base for the platform and encapsulating them within the two major Business Model visual frameworks provided in the literature: the Business Model Canvas and the Casadesus-Masanell & Ricart Meta-Model. Those two Models adoption in fact allowed to test the model from different perspectives.

Social Networks surpassed every other as people's information source until becoming crucial for businesses, having unleashed all their potential as data collectors and supporting strategic decision making with the profoundness and depth of their insight. From these, our decision to approach through Facebook and Google Analytics the initial target of Alpha, narrowing the observation to the inhabitants of four major provinces in the Region, point of the departure of the project.

Results spoke for themselves. Veneto still misses a structured competitive scenario, but is not lacking potential under the customers point of view. Behind a poor merchant presence on the ground hides an appealing latent demand, made of digitally engaged customers who are passionate about food and proud of their origins.

We will indeed address those that showed in our analysis to be ready for this service, putting opportunities deriving from technological and Business Model Innovation at the service of the local heritage customers have no intention to leave behind.

Localism and proximity will constitute the axes sustaining Alpha, raising their profiles in the firm's strategy under both relational, commercial, and operational point of views. An offer well-rooted in the regional socio-economic fabric will simplify customers lives, combining products and pricing wideness typical of in-shop experience with supreme time-saving only home-delivery can provide. The startup will leverage on the suppliers parterre's variety characterizing Veneto that alone are able to cover every category and price layer, satisfying price-sensitive, value-conscious as the most "gourmet" of customers, and breaking the quality/convenience trade-off e-grocers pose them. "Complete, Local, Convenient" ... these will be the Value Proposition Pillars, acting as springboards for customers satisfaction. Collaborative mindset will grease the startup's mechanisms, even if not affecting directly customers. Long term partnership with Beta, fruit and vegetable retailer based in the Region, and the collaboration with an independent logistic service provider will be our ingredients for success, leaving us the focus on the provision of an integrated online experience and the creation of a tailor-made offer based on customer needs. The first Partner will act in two directions, weighting off our shoulders most complex inventories, real "money-burners" for incumbents, and as dedicated inputs' supplier for branded product line, crucial for the platform's brand building and Alpha's finances. On the other side completes the puzzle the boosts in customers' satisfaction and company's flexibility deriving from the long-horizon collaboration with an emergent logistic expert, selected among the multiplicity of startups and independent providers that increasingly are challenging the standardized approach of giants.

Logistic in fact is just another industry experiencing the disruptive consequences of Innovation and which furtherly prove of how is critical for businesses to rethink their essences and practices, as we, as grocers (or better, e-grocers), supported by evidences emerged from empirical analysis of the specific industry features and backed by the contextualization of our case into the two major Business Model framework in the literature, have done for the grocery retail, approaching the industry with our regional-based Business Model. Alpha is coming.



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