FUNDAÇÃO GETULIO VARGAS

ESCOLA DE ADMINISTRAÇÃO DE EMPRESAS DE SÃO PAULO

GIUSEPPE ALEKOS TRINO

THE OFFLINE RETAIL FOR ITALIAN DIGITAL-NATIVE STARTUPS: THREAT OR OPPORTUNITY

SÃO PAULO

2020

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Thesis presented to Escola de Administração de Empresas de São Paulo of Fundação Getulio Vargas, as a requirement to obtain the title of Master in International Management (MPGI).

Knowledge Field: Management and Competitiveness in Global Companies

Advisor: Prof. Dr. Jaci Corrêa Leite

SÃO PAULO

2020

Trino, Giuseppe Alekos.
The offline retail for italian digital-native startups : threat or opportunity / Giuseppe Alekos Trino. - 2020.
109 f.

Orientador: Jaci Corrêa Leite.
Dissertação (mestrado profissional MPGI) – Fundação Getulio Vargas, Escola de Administração de Empresas de São Paulo.

1. Empresas novas. 2. Negócios. 3. Planejamento estratégico. 4. Comércio varejista. I. Leite, Jaci Corrêa. II. Dissertação (mestrado profissional MPGI) – Escola de Administração de Empresas de São Paulo. III. Fundação Getulio Vargas. IV. Título.

CDU 658.87

Ficha Catalográfica elaborada por: Raphael Figueiredo Xavier CRB SP-009987/O
Biblioteca Karl A. Boedecker da Fundação Getulio Vargas - SP

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Approval Date

09/12/2020

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ACKNOWLEDGMENT

First of all, I would like to thank my two advisors, Professor Laura Guazzoni and Professor Jaci Corrêa Leite. Thanks to Professor Guazzoni for her availability and her continuous support. Thanks to Professor Correa Leite for all comments, observations, and suggestions that pushed me to do better. Thank you for your guidance, without which this work would not have been possible.

I would also like to thank the companies and the interviewers that took part in this qualitative study, thanks then to HomePlaneur, Lanieri, Lirecento, and Velasca.

Last but not least, let me thank Bocconi University and Fundação Getulio Vargas, for giving me much more than just an excellent academic background.

ABSTRACT

In the last decade, the imminent death of the retail sector has often been predicted. However, quantitative studies demonstrate that this is not the case. Although a disruptive change is indeed in act in this segment, it does not seem to be in danger of disappearing. Specifically, the well-known brick-and-mortar store is living a second life, mainly because of three reasons: the “Z Generation” growing “Need for Touch”, the companies need to build a stronger relationship with its customers, and the availability of technological tools and their decreasing prices. The physical store is becoming a crucial point in most companies that adopt an omnichannel strategy. It is also playing an important role in the online startups’ expansion strategies towards the offline channel (O2O – Online to Offline). The Italian startups playing in the so-called “Made in Italy” will be the main focus of this paper. Throughout a qualitative study (case-studies and semi-structured interviews), the main reasons and competitive advantages that push a digital-native company to go offline will be investigated. Furthermore, the technological tools adopted by these companies in order to offer a more integrated customer experience are identified and analyzed. Future trends and opportunities are examined from the companies’ perspectives and the author's point of view.

KEYWORDS: brick and mortar, business expansion, DNVB, DtC, Made in Italy, O2O – Online to Offline, omnichannel, retail sector.

RESUMO

Na última década, a morte iminente do setor varejista foi frequentemente prevista. No entanto, estudos quantitativos demonstram que esse não é o caso. Embora, uma mudança disruptiva esteja de fato em ação neste segmento, ele não parece correr o risco de desaparecer. Especificamente, a conhecida loja tradicional está vivendo uma segunda vida, principalmente por três motivos: a “Geração Z” crescendo “*Need for Touch*”, as empresas precisam construir um relacionamento mais forte com seus clientes, e o disponibilidade de ferramentas tecnológicas e seus preços decrescentes. A loja física está se tornando um ponto crucial na maioria das empresas que adotam uma estratégia *omnichannel*. Ela também está desempenhando um papel importante nas estratégias de expansão das *startups online* para o canal *offline* (O2O - *Online to Offline*). As *startups* italianas atuando no chamado “*Made in Italy*” serão o foco principal deste trabalho. Ao longo de um estudo qualitativo (estudos de caso e entrevistas semiestruturadas), serão investigados os principais motivos e vantagens competitivas que levam uma empresa nativa digital a ficar *offline*. Além disso, são identificadas e analisadas as ferramentas tecnológicas adotadas por essas empresas para oferecer uma experiência mais integrada ao cliente. As tendências e oportunidades futuras são examinadas a partir das perspectivas das empresas e do ponto de vista do autor.

PALAVRAS CHAVE: brick and mortar, expansão de negócios, DNVB, DtC, Made in Italy, O2O – Online to Offline, omnichannel, setor de varejo.

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I. Introduction

Before approaching the heart of the study, a short introduction, a literature review, and an assessment of two significative quantitative studies on the object of study will be conducted, in order not only to create a link between the past studies and the proposed one, but also to offer the readers a brief overview of the fast-changing environment dealt in the paper. Furthermore, the literature review and the examination of two quantitative analysis will constitute the base through which apply the analytical generalization to this study results. Then, this study's methodology will be carefully described, highlighting the advantages and disadvantages of the chosen approach. The case studies are then described in detail before presenting the study results and conclusions. Finally, some suggestions on possible further investigation related to the topic object of study will be outlined.

The context of this descriptive and exploratory research is continuously changing, in response to the technological innovations that follow one another in these years and as a consequence of the new generations' needs. This fast-moving environment could sometimes lead researchers to hasty conclusions. As already said, in recent years, not a few scholars have announced the sunset of the retail sector (Peterson, 2018 and Baker, 2019). However, in 2019 the online sales represented roughly 13.7% of the global retail sales[1], which is estimated at US$ 30 trillion[2]. According to these data, more and more digital-native companies decide to follow new routes to market, going offline (O2O) in order to satisfy their clients' needs and so creating a wider customer base. In recent times, new generations' need for touch influences more and more companies' strategies. According to a survey conducted with 13,000 respondents between 22 and 29 years old, approximately 70% of retail purchasing happens offline[3] and among the most cited causes, there is the possibility to get in touch with the product.

[1] **Source**: Statista, 2018a
[2] **Source**: Statista, 2018a
[3] **Source**: CBRE, 2016

Through the reading of the extensive work of academic and non-academic literature review, it can be observed that the majority of the previous works regarding O2O and, more generally, the expansion strategy towards the offline sector were mainly addressed towards the investigation of the impact of the new technologies on the offline retail and the identification of some of the general factors that pushed a company in the direction of the offline channel. Among such motifs, customers' needs, better technological tools, and the lower cost of these technologies over the years can be mentioned (Latini, 2019). However, the academic and non-academic literature reviews are scarce in identifying the punctual causes that pushed a company to go offline, and they are practically null in identifying the characteristics on which this company leveraged for going offline.

Therefore, this research proposes to address the gap mentioned above, mainly due to the fast-changing scenario, through an in-depth qualitative investigation and a **holistic multiple-case research** aimed at pointing out how a digital-native company can effectively implement an O2O strategy and what kind of characteristics it should work towards in this perspective, so generating an improved economic performance.

RQ1. *What are the reasons that pushed the Italian Digital Native startups to implement an offline expansion strategy?*

RQ2. *What are the characteristics on which the above-mentioned Digital Native startups leveraged to successfully implement this strategy?*

As already anticipated, to conduct a better study in terms of validity and reliability of the study itself, this analysis's focus is narrowed to the Italian context and, more precisely, to the Made in Italy sector. This narrow focus allows a homogenization of the company considered that reinforces the work results. To better answer the first two research questions, it was essential to draw some characteristics and aspects that this trend is assuming in other contexts, mainly the USA and China. For this reason, an extensive work

of literature review and the examination of two quantitative studies were conducted before. In answering the first two research questions of this study, an exhaustive profile of the Digital Native startups that go offline business model was traced. Furthermore, other aspects were considered and analyzed. Among these, the "Go to Offline" strategy itself is fully described; the acquisition of operational and logistic knowledge and the new metrics for measuring physical store performance are further examined.

Although, as can be seen from the next chapter, numerous academic work have studied in depth the new technologies and their application in the traditional retail sector, none of these have tried to punctually identify which are the tools applied by the Digital Native Brands that go offline and that claim the omnichannel experience as one of their fundamental pillars. Indeed, most of the studies consider big retail chains or famous brands ateliers that have huge investment capabilities. In this direction and complementarily with the first two research questions, this work aims at filling the research mentioned above gap with its third research question.

RQ3. *What technological innovations the Italian Digital Native startups which go offline are adopting in their stores to offer a more integrated customer experience and to gather more data from the "analog experience" of their clients?*

As already done for the first two research questions, the extensive work of literature review and the examination of two quantitative studies, mainly focused on the USA and China, will be a fundamental background through which compare the Italian experience, the current status, and the peculiarities that this model is adopting in this country due to its unusual characteristics. Furthermore, some space will be dedicated to future developments, according to the Italian Digital Native startups examined for this study.

In other words, a **holistic multiple-case design** research is conducted in order to bring to light the so-called digital-native vertical brands (DNVBs) phenomenon in the Made in Italy sector, highlighting similarities and peculiarities of this trend in the Italian context.

This research could sound interesting to fans of the startup's world and Italian startuppers currently facing or planning to face this strategic change. Because channel integration and business expansion strategies towards the offline sector are an increasing and still unexploited trend, practitioners and startuppers have been looking for guidance and suggestions on how to implement this expansion strategy. This research could be a first step and a first guidance in this direction, according to the "normal cycle of life" of academic research. However, due to the well-defined research design, an extensive preliminary work of literature review, and a strict protocol for case studies building, some important lessons could be **analytical generalized** also for markets similar to the Italian one, so involving a quite big audience.

II. Literature Review

In order to establish foundations for this research, a review of the academic and industry literature has been accomplished on the topics of online and offline retails current status, business expansion theories, companies expansion strategy towards the offline sector, omnichannel retailing and its sub-segment Online to Offline, and technological innovations in retail. The work of the literature review was ideated in order to give to the reader a comprehensive picture of the context tackled in this paper. It was purposely conceive in order to guide the reader from a broader snapshot on today's retail status into a more academic and industrial discussion of the main trends in retail, such as the omnichannel strategy and its subsegment O2O. By restricting the focus of the academic analysis, a variety of authors, papers, reviews, and studies have been mentioned, both recent and old, since the latter are considered as milestones in this field. However, before going in-depth into the real literature review, it is useful to remember that this paper deals with a really fast-changing environment, where new trends are discovered every day and fundamental pillars are continuously contradicted.

II.I Online and Offline retail current status

As already anticipated in the abstract, in recent years, there has been a multitude of articles announcing the arrival of the traditional retail apocalypse (for instance, Peterson, 2018 and Baker, 2019). This trend has been particularly intense in the fashion and clothing industry, a key sector for our object of study “Made in Italy”. According to Lai, Ulhas and Lin (2014), everything in that market would have been bought online in a few years. These numerous concerns led to serious reflection about the real possibility of the offline sector to survive (Doherty and Ellis-Chadwick 2010; Weltevreden, 2007). Although store closures, increasing difficulties for traditional offline retailers and the growth of digitally native

brands are undeniable, studies show that retail is not dead but profoundly moving towards a more technological type of store.

Before going in-depth into an academic and industrial literature review concerning the main trends that are nowadays affecting the retail world, it could be interesting to build a brief numerical overview, in order to give a full picture of the sector this research is dealing with. In this sense, the FY2018 (fiscal years ended through 30 June 2019) outlook is uncertain, not just for the retail industry, but also for the global economy in general. The outbreak of coronavirus in China at the beginning of the year has obviously contributed to increase the uncertainty that is characterizing the global economy. The aggregate revenues of the top 250 retailers in the world for FY2018 counts US$ 4.74 trillion, with an average revenue per year of US$ 19.0 billion and a minimum retail revenue of US$ 3.9 billion in order to be part of the biggest 250 retailers in the world. The composite year-over-year retail revenue growth is around 4.1%, while the retail revenue growth for the last five fiscal years (CAGR[4] FY2013-18) is around 5.0%. While single companies have experienced very different revenue growth rates, at an aggregate level, the top 250 have shown stability, testifying not just a constant and continuous growth for this sector, but also a probable concentration of the market[5]. In this sense, the first ten positions of the biggest retailers of the world (Walmart, Costco, Amazon, Schwarz Group, Kroger, Walgreens Boots Alliance, Aldi, Home Depot, CVS Health, and Tesco) are dominated by the USA, so making the United States of America the main market for retailers (**Figure 1**). The top 10 retailers are more globally developed than the rest of the top 250 retailers. Indeed, they have a presence on average in 13 countries, compared to 11 for the top 250, where Aldi has the largest presence in foreign countries, making 66% of its revenues outside its home country, Germany. Furthermore, retailers in the top 10 achieved a 6.3% revenue growth in FY2018, compared to 4.1% for the top 250[6]. The double-digit revenue growth for Amazon, Walgreens, and Tesco is mainly accountable

[4] **Definition**: Compound annual growth rate (CAGR) is the rate of return that would be required for an investment to grow from its beginning balance to its ending balance, assuming the profits were reinvested at the end of each year of the investment's lifespan. Available at: https://www.investopedia.com/terms/c/cagr.asp [Accessed November 22, 2020]

[5] **Source**: Deloitte Touche Tohmatsu Limited. Global Powers of Retailing 2020. Analysis of financial performance for fiscal years ended through 30 June 2019 using company annual reports, Supermarket News, Forbes America's largest private companies and other sources.

[6] **Source**: Deloitte Touche Tohmatsu Limited. Global Powers of Retailing 2020.

for the 2.2 percentage points difference between the top 10 and the top 250 in terms of revenue growth.

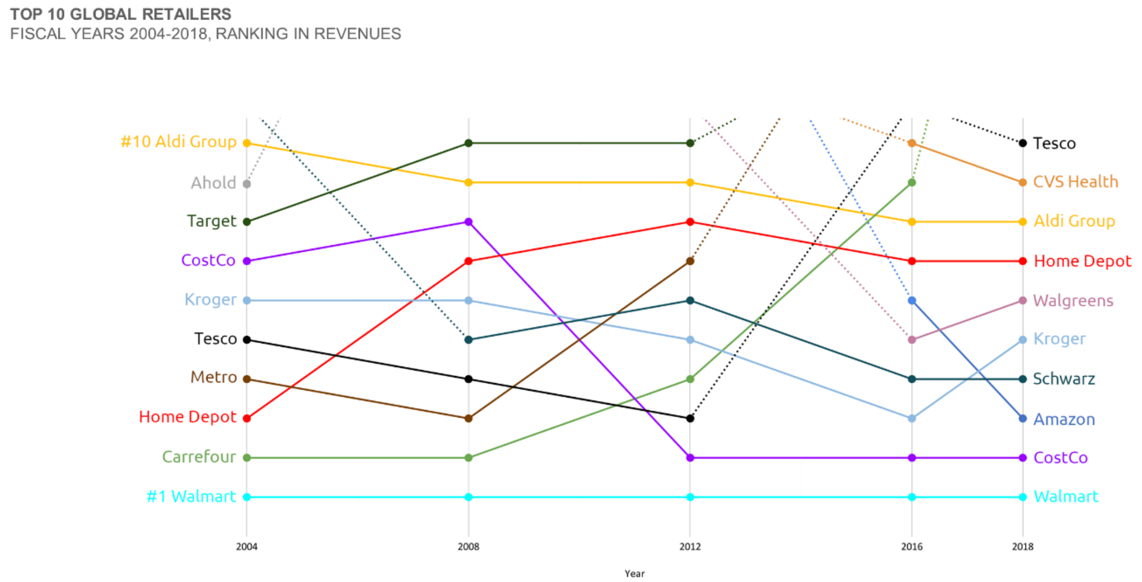


*Figure 1. **Source**: Author's elaboration based on Global Powers of Retailing from 2004 to 2018, Deloitte.*

In the Deloitte Global Powers of Retailing 2020 Report, for the purpose of geographic analysis, the top 250 were allocated in different areas based on their headquarters and not considering their main center of sales, which could lead to some small and inevitable misrepresentations. One of the most interesting regions in the long term for the retail sector seems to be Africa, which, with its growing population, rapid urbanization, and improvements in technology, will offer attractive opportunities for retailers in the future. Another noteworthy area for retailers is surely the Asian continent, not much in terms of economic contribution, but more in terms of new trends, new technologies, and new strategies adopted in the retail sector, that could also be replicated in the other areas. Alibaba's "new retail" strategy, mainly focused on exploiting the omnichannel strategy, allowed the Chinese company to record the fastest year-on-year revenues growth, 154.4%[7]. Europe and North America are currently the two biggest markets, the former in terms of number of retailers in the top 250 for the FY2018 (88), and the latter in terms of average retail

[7] **Source**: Deloitte Touche Tohmatsu Limited. Global Powers of Retailing 2020.

revenue (26.5 billion US$), so contributing at almost the half of the total revenues of the top 250 for FY2018.

A last remarkable lens through which investigate the top 250 retailers before going to the real literature review, is the product sector analysis. The above-mentioned Deloitte Global Powers of Retailing 2020 Report identifies four product sectors: apparel and accessories, fast-moving consumer goods, hardlines and leisure goods, and diversified. Although the highest annual revenue growth rate was registered by the hardlines and leisure goods sector, apparel and accessories resulted in being the most profitable sector, again. Some of the key factors that led the sector's positive momentum are the increasing use of technology for more efficient operations management, the improvements of the shopping experience in physical stores and the greater investments and focus on the omnichannel experience. The hardlines and leisure goods registered the highest five-years CAGR (8.2%) among the four above mentioned sectors, mainly benefiting from a bigger expenditure on home improvements.

In Italy, despite some positive signals, the outlook for the Italian retail sector remains subdued and the outbreak of covid-19 will surely not help the Italian retail sector to keep the growth rate of countries such as the USA and China. Just 12% of the Italian companies operate through e-commerce, and 79% of these companies operate in a B2C market. Despite the poor comparison with leading countries such as the USA and China, the Italian retail sector still shows some positive signals towards the online channel and the omnichannel experience. In the last 10 years, around 63,000 stores have been closed (-11%) and, in 2019, around 7000 e-firms were incorporated (which represents a growth of 20% compared to the previous year)[8]. Traditional retail still accounts for most of the total retail revenues, but traditional retailers must rapidly adapt their strategies to the new customers' needs. In this direction, omnichannel experiences are still at an early stage in Italy. Kasanova, an Italian e-commerce platform for furniture, was one of the first in Europe to create a service called Web Assistant, a tool that allows customers to purchase products online as if they would have been offline. Clients are indeed matched with sales assistants that wear smart glasses

[8] **Source**: E-commerce in Italia 2020. Vedere online ai tempi del coronavirus. Casaleggio e associati, 2020.

and cameras and allow customers to have an in-store experience directly from their mobile devices. Another interesting trend is represented by the DNVBs that, in order to fulfill their obsessive focus on customers experience, expand into the offline sector, so controlling their own distribution channels, unlike e-commerce brands. This trend, object of study of this research, has been widely noticed in the USA with companies such as Bonobos and Sneakerboy. Now it has started to be also noticed in Italy with companies such as Lirecento, Lanieri, and Tannico.

An interesting topic from which starting the real literature review could be represented by the studies on the customers. Nowadays, customization of the shopping experience and customer-centric strategies are two of the most debated trends in retail. Having a full understanding of who the current customers are and what are their shopping habits could be a perfect starting point for this research.

It is generally accepted that shopping habits strongly influence the retail industry and, as a part of it, also the traditional brick-and-mortar stores need to change their plans to rapidly adapt to today's consumers (Vojvodic, 2019). Although much has been said about the earlier generational cohorts, very little has been researched about Generation Z retail-related behavior. According to Benckendorff *et al*. (2010) and Parment (2013), generational cohorts shopping behaviors are strongly influenced by the events and experiences that characterize that determined historical period. They believe that these unique patterns of values, attitudes, and behaviors will then characterize how a specific generational cohort will behave not just in the social environment, but also in the economic one. It is for this reason that, in order to have a full picture of the online and offline retail current status, the Generation Z values, attitudes and behaviors should be fully understood (Vojvodic, 2019).

Although there is no agreement on the precise dates of Generation Z, a good temporal range for this generational cohort could be the period between the years 1995 and 2010 (White, 2017). As already said, generational cohorts are highly influenced by the historical events and experiences happened during their childhood. In that sense, some of the main events that influenced Generation Z's attitudes are the Great Recession of 2008 (Pandit, 2015) and the fall of the World Trade Center (Herring and Thompson, 2012). The same authors

strongly believe that these two catastrophic events generated a socioeconomic environment characterized by chaos, uncertainty, volatility and complexity and, as a result, Generation Z is focused on a career made of stability, security and privacy (Lanier, 2017). Another sphere that had a relevant impact on Generation Z cohort is the digital one. According to Stillman D. and J. (2017), Generation Z is the first one to experience a new complete digital world, as we know it today, many times preferring information technology to face-to-face interaction (Herring and Thompson, 2012). The last important facet to be considered in order to have a comprehensive picture of Generation Z cohort was the growing globalization that influenced Generation Z's childhood. In this sense, Generation Z students tend to be open-minded, honest, and tolerant towards any form of diversity (Seemiller and Grace, 2016 and Van Den Bergh and Behrer, 2016).

The above-mentioned aspects have a direct influence also on Generation Z economic and financial behaviors, and so on the shopping habits, that have a direct impact on the current retail status (Schiffman *et al.,* 2014). According to Duffett (2017), Generation Z people are productive, technologically advanced, and can be considered as spenders but not savers. Furthermore, they are really concerned about entertainment, instant gratification, socialization, and social interaction - both physical and digital - (Razum *et al.,* 2017). The factors just listed make Generation Z's shopping experience special and unique, so creating a set of different opportunities and challenges for future retailers.

When it comes to compare the two different channels, online and offline, the great part of the academic literature concerning online shopping states that online consumers behavior has several aspects that differ from the behavior in traditional retail (Komiak *et al.,* 2005), and that online consumers differ from the offline ones in terms of demographic characteristics (Burke, 2002), as well as in terms of psychological aspects (Dabholkar and Bagozzi, 2002). This is mainly due to the belief that Internet users and Internet shoppers can be considered as congruent regarding their behavior and that they own different characteristics from the rest of the population. However, nowadays, IT technologies are spread around among different social, economic and age classes, and this contributed to the blurring of differences between online shopping behavior and the behavior adopted in traditional retail. In this direction, according to the empirical study conducted by Schramm

and Klein (2007), the shopping orientation of online shoppers is not so different from the shopping orientation of traditional shoppers as believed before. This could probably be due to the increasing availability of IT technologies. The Internet is now a well-established communication and retail channel, used by a large part of the whole population. Furthermore, homogenization has taken hold also in terms of Internet users and the difference in terms of demographics between internet users and the whole population has constantly decreased in the last two decades (Fittkau and Maab, 2016). The greatest discriminant between the two groups of shoppers (online and offline) seems obviously to be related to the tangible and communicative aspects of the shopping experience. On the other hand, some aspects that in the previous research were considered differential factors between the internet-shoppers and non-internet-shoppers, such as price orientation or quality attention, did not emerge as crucial differentiation factors in Schramm and Klein (2007) analysis. For what concerns the former, new tools for price-comparison, mainly online based, could be an explanation for this finding. Regarding the latter aspect, it could be read as a consumer attempt to use ‘quality’ (intended as brand quality) as a trust signal, which is a substitute for tangible elements that are in physical stores.

Even if e-commerce is expected to be the future of retail, more and more digital-native brands decide to open physical stores (Andersson 2013a, cited in Bövik, Pålsson, 2015). Interestingly, a research gap within this field has been created, and the discrepancy between theory and reality is a fascinating topic for additional examination.

II.II Market expansion strategy: historical beliefs and new developments

According to Bang and Joshi (2008), a strategy aimed at enlarging the customer base, serving a group of non-customers, could be defined as a market expansion strategy. On the other hand, market expansion strategy is also defined as a plan to satisfy the existing demand, so increasing the total market growth (Walker *et al.*, 2006). Pomodoro (2013) clearly demonstrates that a business expansion could generate positive effects on the brand image and brand awareness among consumers.

Anyway, talking about market expansion strategies, much of the academic and industrial literature divides the expansion strategies into three distinct modalities: (1) full ownership; (2) licensing or entering in a new market through joint venture; and (3) exporting. Based on these distinctions and on the general definition of strategy as an alignment of firm resources to exploit opportunities and minimize threats (Porter, 1984), many scholars defined the concept of alignment, a crucial concept for market expansion strategy, as the strategic fit between the company’s strategy, firm culture, competitive situation, leadership style and other companies’ characteristics (Winfrey *et al.*, 1996). The notion of ‘strategic fit’ assumed a specific meaning, becoming a point of reference in the business expansion strategy literature, describing the degree of alignment among a firm’s resources (internal factors) and the surrounding environment (external factors) (Chorn, 1991). Anyway, in the years, scholars have been discordant about this concept and how to relate it to the expansion strategy theory. The factors that contribute to the strategic fit can be viewed from an internal perspective, an external point of view or from a more holistic standpoint, considering both the points of view (Venkatraman and Camillus, 1984).

Very often, the research focus, when dealing with business expansion strategy, is mainly on the external factors, such as financial risk, market attractiveness, and competitive advantage. These three aspects are key requirements in order to successfully evaluate a business expansion. However, if external factors could be considered as key ingredients, internal ones then should be considered as key drivers for the successful implementation of the strategy itself. The external school of thought is primarily focused on investigating the fit between a company’s resources and the surrounding environment. These theories are mainly represented by the transaction cost theory or the eclectic theory (Tse *et al.*, 1997). The former is based on the concept that a firm will implement the expansion strategy that will minimize all the costs associated with the firm’s value chain (Erramilli and Rao, 1993). The latter, on the other side, is an integration of elements from different theories and the essentials pillars are mentioned below (Dunning, 1980 and Itaki, 1991):

1. The company owns “ownership advantages” compared to other firms in relation to foreign markets.

2. If condition 1 is satisfied, the company must take more advantages by using these for itself, instead of selling or leasing them.
3. If conditions 1 and 2 are satisfied, it must be profitable to use these advantages in foreign countries; otherwise, it is better to focus on domestic markets.

The external school of thought is essential, in order to determine the strategic fit between the external environment and the internal factors. However, it is less adapted for evaluating the fit between two different companies. In this sense, the literature review is less comprehensive and went less in depth if compared to the previous theory. Anyway, three factors that heavily contribute to a successful integration between two different companies when talking about business expansion have been listed: companies' organizational structure (Chandler, 1962); management systems (King, 1978); and companies' internal culture (Stonich, 1982).

In light of the previous theories, a more comprehensive approach that incorporates the internal and external perspectives is taking hold also in the academic literature. In this sense, according to Robinson and Lundstrom (2003), for a broad evaluation of a business expansion opportunity, a firm should take into consideration:

1. Fit between the company and the surrounding environment factors related to the strategy elaboration, namely market attractiveness, competitive advantages, and risk.
2. Fit between the internal factors of the companies involved in the business expansion strategy. To be more specific, managers should take into consideration internal corporate culture, organizational structure, and management system.

Robinson and Lundstrom (2003) elaborated a flexible and complete model (**Annex 1**) that takes into consideration different aspects and different perspectives, so guiding managers to more informed market expansions decisions. As already said, the scorecard provides an approach for evaluating business expansion strategies on the overall fit between internal and external aspects. Synthesizing their model, some general guidelines can be deducted: sectors characterized by high risk, low market attractiveness, and no competitive advantage compared to existing competitors would be positioned in the inner portion of the model,

and an exportation strategy could, in this case, lower the risk and the amount of resources needed. On the opposite side, a sector characterized by low external risk (political, social, and economic risk), high market attractiveness, and a marked ownership advantage towards existing players would fall in the outer portion of the graph, and a full ownership mood is recommended. Finally, the central portion of the model suggests an approach characterized by joint ventures or licensing. As already said, the model also considers the internal factors. Considering the internal perspective, two companies that present poor fit on all three internal components (corporate culture, organizational structure, and management systems) would be positioned in the inner portion of the graph; in this case, exporting would allow the company to limit risks and maintain control. Vice-versa, companies that have a high level of fitness will be positioned in the outer portion of the graph. Companies that fall in this area should take into consideration a full ownership business expansion strategy, especially due to its similarity with the other company. In conclusion, companies that fall in the middle area would be characterized by a relatively moderate level of fit, so suggesting a joint venture as the most appropriate business expansion model.

The holistic model (Robinson and Lundstrom, 2003) described in the previous paragraphs has the huge merit to integrate different points of view and to reconcile a discussed topic in the academic literature, such as the business expansion strategy theories. It also offers a very dynamic, immediate, and flexible scorecard to guide executive managers through a complicated field, such as decisions regarding business expansion. However, these extreme flexibility and adaptability have some negative consequences and affect the model validity itself, so introducing some limitations related to the model. Going in depth into this topic evades from this research's scope. For the purpose of this research, it is sufficient to have a clear picture of the historical beliefs on business expansion theory and the new developments that are taking their hold in the academic literature world.

II.III Companies expansion strategy towards the offline sector

Companies' managers should move forward and tactically plan in response to changes in the market environment (such as competition, technological innovations, economy, and demographics), as well as to consumer needs (Kahn, 2018). Especially the latter, jointly with an increasing number of technological innovations and a lower cost of these tools, have pushed online companies towards the offline retail sector (Latini, 2019).

For what concerns brand management, the presence of a brand on both channels, online and offline, seems to have positive effects on brand equity in both contexts. On the one hand, for offline brands, the online expansion adds value to the brand for consumers through a bigger availability and exposure on a new channel (Rubinstein and Griffiths, 2001). On the other hand, for online brands, the offline expansion results in a superior consumer trust towards the brand, mainly due to the tangibility and direct contact with the physical store, so resulting in an improved brand awareness (Delgado and Hernandez, 2008). Regarding the need to build a stronger brand, this could be more impellent for online brands compared to offline ones (McDonald, 2003). That is due to the intangibility of services and products purchased online that made the evaluation process more complicated and, consequently, a shopping experience perceived as riskier by the consumers. The risk perception is even greater when personal information is asked or payment is made through an electronic system (Laroche *et al.*, 2004). Brand building is all about reducing the perceived risk that the customers associate with that brand, and it should be a priority, especially for online brands. According to Bravo *et al.* (2010), brand extensions and alliances are two possible ways in order to enhance the brand and research new possible market opportunities. On the one hand, concerning brand extensions towards the offline sector, Bravo *et al.* (2010) state that the emotional and commitment-based image dimensions are affected the most and through the new products and a spill-over effect also the online product portfolio, and generally speaking the online brand, could benefit from that. On the other hand, regarding alliances, partnering with an offline company will likely transfer the offline brand image to the online one (Park, 1996 and Bravo, 2004).

Due to the fast-growing population of Internet shoppers, nowadays, many retailers operate through multiple channels, and consumers expect consistency across the different shopping routes (Prior, 2002). For what concerns academic purposes, online retailers' expansion towards the offline channel or the much frequent opposite way could be considered as brand extension. Most brick-and-mortar stores decide to operate under the same brand also after an online expansion, in order to exploit the "halo effect"[9] of their previous offline purchase points. The online expansion also suggests the applicability of the "dilution effect": the online performance of a brand could put in danger and undermine the offline brand image if the online channel does not meet the customers' expectations built on the offline channel (Martinez and Pina, 2003). In other words, a retailer that sells its products or services through different channels could weaken its brand image if what it sells and how it sells it is not homogeneous through the different channels. Much of the literature has focused on how a retailer's performance online could influence online consumers beliefs and habits (Weathers *et al.*, 2007). However, the reciprocity between online and offline could be initiated in either channel and it will influence both cohorts of customers, the online and offline ones. According to Kwon and Lannon (2009), consumers' prior offline brand image influences their online beliefs and habits towards the same brand's online channel. The same is valid for the opposite; online brand image will influence consumers' beliefs and habits towards the offline channel (cross-channel reciprocal effect). Another interesting result found through an experimental procedure by Kwon and Lannon (2009) is that it exists an iterative feedback-effect created through an inference-making mechanism between the online and offline channels that continuously influence beliefs and habits of online and offline customers. A last noteworthy outcome is that the impact of online performance on the offline brand image could be minimized by a strong pre-existent offline brand image. This phenomenon also poses a problem to online retailers with an inexistent or weak offline brand image, as they would have to create a stronger online brand image and achieve a higher level of online performance to compete with online brands with a strong offline

[9] The **halo effect** is a term for a consumer's favouritism toward a line of products or brand due to positive experiences with other products by this maker or due to other experiences with the same brand through different channels.

image. This partially explains and gives one of the main reasons why digital-native startups want to expand into the offline sector.

In this research, business expansion strategy towards the offline sector is considered as one of the most efficient ways for directly getting in touch with existing and new customers, creating an exciting and enjoyable shopping experience, gathering more data and elaborating strategies based on those ones, so creating an agile business model that rapidly adapts to consumer's needs.

Nonetheless, this new expansion trend can assume different shapes based on the different markets. Indeed, it is well-known that there is a considerable correlation between retail and product type (Konus, Verhoef and Nesslin, 2008 and Schröder and Zaharia, 2008). So, some product categories are more suited for online retail, while others for offline stores. Although, until recent times, it was believed that both retail types served different needs (Suryandari and Paswan 2013), nowadays, also thanks to the technological innovations, the boundaries between these two channels are thinning, but their total dissolution still seems to be far away. Indeed, consumers are more likely to select a physical store when they shop for hedonic goods, such as fashion goods, because strong physical environments influence the acquiring mood through social interaction, product evaluation, and sensory stimulation (Nicholson *et al.*, 2002). On the other hand, the utilitarian shopping value is rational and task-oriented and could be defined as a rational and non-emotional outcome of shopping (Batra and Athola, 1990). Although the shopping experience produces both utilitarian and hedonistic values, the predominance of one of these values is linked to factors such as the type of product or the shopping channel used. As already mentioned, technology is playing a key role in order to dissolute the boundaries between the two channels, and tools such as digital fitting rooms or augmented reality are adding hedonic elements to the digital channel, so creating satisfaction and enjoyment in the online shopping process (Blazquez, 2014).

Considering the global market, there are numerous examples (such as Bonobos and Sneakerboy, both operating in the fashion market) of digital-native brands that expanded into offline retail with positive response (Andersson 2013a, cited in Bövik and Pålsson,

2015). By utilizing various devices within a showroom, it is feasible to smudge the boundary between online and offline retailing and increase the credibility of the whole brand image (Suryandari and Paswan, 2013). The strong link between the two retail structures is working uniquely if the two systems are created in an interconnected manner (Suryandari and Paswan, 2013). Furthermore, according to Kwon and Lennon (2009) cited in Bövik and Pålsson (2015), retailers' online performance might affect in a bad way the brand's positive image if it does not meet the expectations that come from the offline shop, and vice-versa. Generally speaking, researchers have shown that always more retailers are following a "click-and-mortar" strategy (also known as click-and-collect or buy-online-pick-up-in-store). However, despite case study evidence, an analysis of almost 1,000 American retailers have shown that really a few are implementing a strategy with a high level of integration between the two channels (Steinfield, 2005). Most companies are, indeed, only sharing information through different channels, which is quite far from the definition of a click-and-mortar strategy. According to Steinfield (2005), the level of integration between the online and offline channels is directly correlated to three main characteristics of the company: product type commercialized, company's structure, and firm resources. For what concerns the first aspect, products or services that involve more the hedonic sphere of the shopping experience are more likely to present a higher level of integration between the two different channels. Not surprisingly, the automotive and apparel retailers have been the more integrated ones in the above-mentioned research, presenting a higher value of the products and a higher involvement in the purchase process (Molesworth and Suortti, 2002 and Steinfield, 2005). Talking about the company's structure, the research highlighted that the retail chains are more likely to present a higher level of integration between the different channels of sales if compared with sole proprietorships. This is partly due to the different goals that each of them is aimed at and, in part, is also due to the last characteristic indicated by Steinfield (2005), the firm's resources. Companies that present a higher availability of resources and intangible assets, such as IT knowledge, brand name, quality of the suppliers' relationship, capital, and human resources, have a higher probability of implementing a click-and-mortar strategy in a more comprehensive way.

Nevertheless, it is worth note that as the numbers of e-commerce companies increase, some challenges come up. One of the main issues from a startup perspective is the cost of product return (Hjort, Lantz, Ericsson and Gattorna, 2013). Product return is a huge and expensive problem that the digital native startups with an e-commerce must tackle. Indeed, the logistic cost related to product return is estimated to be around 4% of the total logistic costs for a company (Petersen and Kumar, 2010). Another challenge is mainly related to consumers' trust in online brands. From the user perspective, there is a lack of trust within e-commerce (Kaihong, 2012), mainly because products cannot be touched and the two parties do not have direct physical contact (Ferraro, 1998 and Bravo, Iversen and Pina, 2011).

One way to further imagine a physical store is by using it as an experimental store. A test store can be used as a marketing tool, creating a better shopping experience, and making it more customized, enjoyable, and interactive, gathering customers data in order to develop agile key metrics, watching how visitors behave in the store and their shopping motives (Picot-Coupey, 2014). Temporary retail is also used to pre-test a new brand concept, a new brand line, to investigate a new market or even to launch a new brand with a low budget. This strategy usually includes technological tools aimed at creating an interactive relationship with customers, in order to gather data about company research needs: personalized product tests, digital interactive platforms, etc. This kind of strategy has been used by different players, from the emerging startup that wants to start a new activity or wants to expand offline to the big multinational or prestigious brand that wants to investigate a new market, in order to evaluate the entry mode (Pomodoro, 2013). Last but not least, an experimental store also makes the consumers aware of the brand's existence.

This new retail format, where e-commerce companies are expanding offline, is something that recently has started to be noticed, especially in the fashion and clothing industry. This transition is now developing in Italy, and it is possible to identify e-commerce companies that are embracing this trend.

II.IV Omnichannel retailing and its sub-segment Online to Offline

The traditional multichannel retailing has developed into "something so different that it requires a new name": omnichannel, where retailers are now able to relate with customers through countless channels.

Boundaries between different channels have become blurred, requiring retailers to rethink their strategy and focusing on an omnichannel customer experience (Brynjolfsson *et al.*, 2013) that includes new shopping behaviors like showrooming and webrooming[10].

Consumer shopping behavior is rapidly changing and adapting to new technologies. Activities such as the "showrooming" (in its narrowest sense, entering in contact and evaluating products in a physical store and then purchasing them online) represent the main trend in the retail industry nowadays. These trends could represent an insidious threat for traditional retailers that should promptly adapt their strategies in order to cope with these developments. Much of the contemporary literature has focused on analyzing these new trends, explaining the reasons that pushed them, and describing the variety of opportunities that this level of integration between online and offline could bring to forward-thinking brands. According to Wilmott (2014), the intensive use of mobile devices for purchasing items online but, in general, the very high penetration of mobile devices into the current population could represent a possibility for some brands to improve their brand loyalty. In particular, talking about loyalty, companies should be able to take a step further from the usual plastic card scheme. According to Wilmott (2014), there are five main advantages in mobile-first relationship:

1. Mobile devices enable retailers to understand more about consumers shopping habits, customers behavior, and location, giving them the possibility to gather anonymous data.
2. It also gives the brick and mortar store an advantage usually held only by the online channel. Mobile devices give retailers the possibility to match the web

[10] **Definition**: the practices of searching for products and information in-store and online simultaneously, to find the best offers and most attractive prices.

analytics with in-store behavior, so creating a detailed and customized profile of their shoppers. Companies such as Euclid are first movers in this sense, as they started tracking in-store customer movements through the use of cameras and are always implementing new tools.

3. Smartphone functionality also allows sellers to implement different offers and services and to discount based on customer showrooming in-store. The opportunity to identify high-value customers or prospects gives the company the possibility of increasing its margin on products, applying a mark-up based on customers behavior and needs.
4. Mobile devices also allow retailers to offer a broader set of tools for instant gratification that goes behind the simple discount. Virtuous companies started offering video, music or games as rewards through smartphones.
5. The customer relationship management can be largely anticipated. Usually, in traditional retail, CRM is something that arises after the purchase. Mobile-first interaction allows companies to ideate, build, and enhance their relationships with customers, so anticipating CRM to the "screening step" of the purchasing process.

What is described above is, without any doubt, just the first step for mobile devices into the new integrated shopping process. China and also the United States of America are showing a glimpse of the future. The retail landscape is moving fast and mobile devices total integration into the shopping process will be one of the next steps.

Omnichannel subsegment, O2O, was firstly used in a 2010 TechCrunch post by tech entrepreneur Alex Rampell. Usually, the term O2O is used to refer to a strategy that also includes offline channels and aims at bringing online customers to offline locations through different tactics (Orendorff, 2018). However, scholars, as well as the majority of industry representatives, failed to highlight the frictionless two-way exchange between online and offline that differentiates O2O from traditional multichannel and omnichannel strategies.

Online-offline integration can happen in a variety of different ways. Integration is mainly driven by the retailers need to offer a homogenous, satisfying, more interactive, and enjoyable online-offline customer experience (Huang and Van Mieghem, 2014). Examples

of this kind of integration include showing in-store inventory availability information online, shipping the product purchased in-store directly to its destination, returning items purchased online in a physic store or offering the option to "buy-online, pick-up-in-store"(BOPS functionality). In this direction, Gallino and Moreno (2014) evaluated the effect of the implementation of a BOPS functionality, taking into consideration new metrics and key numbers, in order to effectively assess the overall performance of this new tool that cannot be appreciated with the old measurement system. Indeed, a naïve approach, comparing the variables of interest pre- and post-implementation, would have probably given misrepresented results. A difference-in-differences approach (DiD) and the use of a control group led Gallino and Moreno (2014) to interesting and unexpected results that are synthesized in the next paragraph.

Their analysis of BOPS implementation impact shows that, contrary to what one could expect, online sales do not increase with the adoption of this tool. In summary, BOPS application is translated into a decrease in online sales, an increase in in-store sales, and higher store traffic. Given that BOPS sales are considered as online sales because generated from the online channel, a decrease in online sales after BOPS implementation is the opposite of what scholars would have expected. Indeed, conventional wisdom within the sector, supported by some interviews with executives of the analyzed companies, advises that offering a new way to purchase online would have led to an increase in online sales. Gallino and Moreno (2014) justify these results with two phenomena arising from the BOPS implementation: a cross-selling effect and a channel-shift effect. For what concerns the former, it is generated by the customers and the people who come along with them to collect an item purchased online, and these people buy additional items they otherwise would not have bought. The latter, which Gallino and Moreno (2014) attribute to an indirect consequence of the implementation of BOPS, is also known as ROPO ("research online, purchase offline"). After BOPS is implemented, some consumers who would have purchased online engage in ROPO behavior and some customers who would not have bought at all engage in ROPO behavior as well. The main reason through which the authors justify the engagement in this shopping behavior is the famous "inventory-availability information effect". Allon and Bassamboo (2011) provided a model demonstrating that

sharing reliable inventory information may reduce the perceived risk by the customers associated with the shopping experience, so increasing the probability that the customers will visit the store again to purchase a product after checking its availability online. In other words, BOPS implementation has a positive effect on the physical store appeal by reducing the perceived availability risk, and this results in a shift in the store channel by some customers that would have used the online channel or who would not have purchased at all, so explaining the last result of this research, an increase in-store traffic.

According to B. Demeure *et al.* (2018), the retail sector is going through an enormous revolution and the barriers to online sales, such as too many online shopping experience shortfalls, will come down. In the meanwhile, especially for some categories such as food, furniture, and apparel, shopping has remained mostly offline (Blazquez, 2014). The "need for touch" that characterizes these sectors pushes more tech companies to experiment with new ways of retail that remove the above-mentioned barriers. At Alibaba's Hema stores, customers can pay through their smartphones and have delivered their food directly at home, even cooked if they prefer. These first experiences demonstrate that O2O stores will be more than just interesting experiments and will probably significantly affect retail (**Figure 2**). The rapid growth of e-retailers could indicate that physical stores are no more needed. However, these online retailers frequently rely on "webrooming", so being dependent on competitors physical stores (Orendorff, 2018 and Demeure *et al.,* 2018). The more virtuous digital-native startups and the biggest giants in the online sector are no more willing to follow this strategy. Instead, they want to actively create their own touchpoints. Amazon purchase of the Whole Foods network, JD.com investments in rural areas physical stores and Alibaba joint venture with Auchan are important signs in this direction. In America and Asia, the "clicks-to-bricks" phenomenon encompasses not just big names like Amazon, JD.com, Alibaba, and Casper but also less-known digital-native startups such as men's shorts purveyor Chubbies and hair color brand Madison Reed. All told, these digital natives now operate in more than 600 stores across the USA[11]. In the Eurozone, this trend

[11] **Source**: Green Street Advisors, a real estate research firm on Bloomeber News, 2018. https://www.digitalcommerce360.com/2018/10/22/digitally-native-brands-are-opening-more-physical-locations/ [Accessed August 12, 2020].

has recently started, and the phenomenon is less noticeable if compared with Asia and America. For what concerns the field of study of this thesis, the Italian market, some of the most successful digital-native startups that have already started this expansion strategy are Velasca, Lanieri, Lirecento, and Tannico, not by chance all operating in the apparel and food sector.

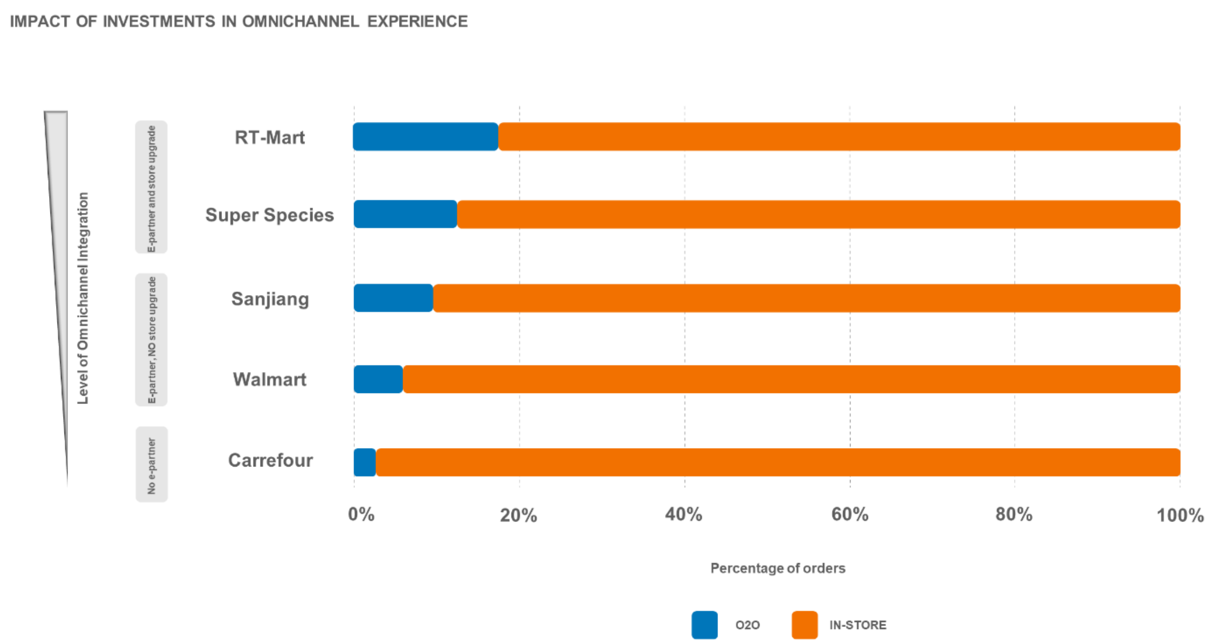


Figure 2. ***Source****: Author's elaboration based on Retail's Revolution, Oliver Wayman,2018.*

According to B. Demeure *et al.* (2018), retailers, as we know them today, will cease to exist. The new retailers will leverage on new business models mainly based on three pillars: **cost transparency** due to the growing customers' knowledge, an appropriate use of **personal data** and an intensive strategic planning based on them and, finally, an outstanding **agility**, bearing in mind that customer data are effective only if they guide decisions and actions. Omnichannel retail will be highly demanding for all the existing types of retailers. The traditional ones will need to acquire the digital knowledge needed in order to run this kind of store; stores will need to be improved to deliver a better experience. At the same time, digital retailers will need to acquire the "operational DNA" in order to deliver a customized experience and to complement their offer with social engagement and after purchase services. The old measures of total store sales and store contribution margin

will no longer be used to effectively represent the value-added to the company by the stores (Bövik, Pålsson, 2015 and Demeure *et al.*, 2018).

II.V Technological innovations in retail

In the last two decades, the introduction of online retail and the constant digitalization have significantly transformed the retail market (Verhoef *et al.*, 2015). Retail is shifting online at an impressive rate, online retail is growing over 20% YoY (Lal and Chavan, 2019) and big players, such as Amazon and Alibaba, take the most of it (Stanton, 2019). Although the traditional retail apocalypse has been continuously predicted for the last two decades (Helm *et al.*, 2018), retail should still invest in physical stores and, especially SMEs[12], should leverage on these in order to take advantage of their proximity with customers, so facing the predominance of big players (Vojvodic, 2019). Indeed, customers still need the presence of physical stores and they do not want traditional retail to disappear but to adapt to the new era (Grewal *et al.*, 2020). In this direction, technological tools can play a key role in the brick-and-mortar stores, improving the customers shopping experience, making it more enjoyable and interactive and representing a hub for cross-channel strategies (Hartfelder and Winkelmann, 2016). In other words, technological innovations are defined as the key driver of advancement in retail (Brown, 1987, cited in Pantano *et al.*, 2018). Martinez *et al.* (2020) grouped these technologies under the name of customer-facing in-store technologies (CFIST).

Furthermore, the introduction of these could solve several problems in traditional retailing, such as crowded environments, limited opening hours, lack of availability of sales assistants, and the slow speed of monetary transactions, which are the motifs that push customers to prefer the online channel (Pantano *et al.*, 2018).

The combination of technology-based inventions can be strategic, facilitating access to real-time data on single-consumer behavior that can be utilized for competitive advantage

[12] **Definition**: SMEs stands for Small to Medium Enterprises.

(Pantano *et al.*, 2018). Furthermore, according to Kuemmerle (2005), the technological innovations should also be considered as one of the main motifs that push most startup companies to consider an abroad expansion since their inception, so revolutionizing the traditional expansion matrix.

Three technologies that have been slowly introduced in the traditional retail spaces of both big multinational companies and SMEs are: Digital signage, social Wi-Fi, and people counters. The first one is a screen system that shows products or services information based on a prefixed loop and that can adapt its information and videos to real-time data (Kim, 2012). The second one is made available for free to in-store customers, with the aim of gathering customers data and showing marketing campaigns directly to the customers' smartphones (Chung *et al.,* 2017). Finally, people counters are used to measure store traffic in order to assume a more conscious business decision (Karaman, 2015). These three categories were the subject of an interesting study conducted by Martinez *et al.* (2020) on the reasons that push SMEs to adopt technologies to interact in the physical store with their customers. Beyond the well-known and already mentioned reasons such as focusing on customer experience, gathering more data, and creating an omnichannel experience, from their analysis emerged that also CEO plays a key role in the adoption of these technologies. Indeed, it has been found that CEO characteristics are more important, in terms of correlation with the adoption of such technologies, than technological or environmental context. This is mainly explained by the fact that SMEs are CEO-centric, compared to the big multinational companies. They cannot count on a specific team that analyses all the costs-benefits related to a specific technology. This means that CEO must have not just the knowledge and or the skills to correctly assess the potential of a certain technology, but also the willingness to keep himself updated on CFIST, as the disruption of physical retail is constantly accelerating (Martinez *et al*., 2020).

According to Puccinelli *et al.* (2009), store atmosphere (design, ambient and social cues) directly influences the customer experience, having a relevant impact on customer willingness to buy, on customer share (the amount of business each customer does with a company), as well as on the value perceived by the consumers in their shopping experience. Considering what was just said, technology should be used in order to make even more

attractive the shopping environment, making the shopping experience more interactive, engaging, and extraordinary (Rosenblum and Rowen, 2012). On the one hand, technologies such as store-ordering hubs, iPads, and display screens increase the interaction and make products more accessible. On the other hand, technologies such as click-and-collect or interactive fitting rooms have the responsibility to bridge the gap between the different channels, creating a unique shopping experience, so passing from a multichannel sales strategy to an omnichannel one (Yazdanparast and Spears, 2012).

The importance of atmosphere is particularly valid in the apparel sector. Indeed, this market usually requires a multisensory input, and the lack of this direct experience may lead to a greater risk perceived by the customers and, consequently, to a less enjoyable experience related to the shopping process (Citrin *et al.*, 2003). However, also in this case, technology is blurring the boundaries between the two channels. Image enlargement, mix-and-match technologies, and virtual fitting rooms have been ideated in order to recreate the multisensory input that consumers usually experience in the traditional retail experience, so reducing the perceived risk that usually customers feel in an online purchase.

Another innovation that has been positively accepted by the traditional retail world, especially in mass-market retailers (MMR), but in a minor measure also in other retail segments, is the self-scanning technology. It is noteworthy to go in depth into this technology use and application because it is strictly related to the topic of customer participation in service production and delivery, much discussed in academic literature. The subject has been highly discussed for the last 20 years, and the interest that companies show towards this tool is mainly justified by the economic and marketing advantages. The former is easy to understand: indeed, the more customers participate as "service co-creator", the more companies save in terms of time and personnel costs. From a marketing perspective, having customers more involved in service creation and delivery increases their satisfaction and reduces the company's risk (Czepiel, 1990). Indeed, by offering the customers the possibility to co-create and deliver a service, the risk that customers are not satisfied by the service is reduced, since customers that accept to participate in this process also accept part of the responsibility as "co-creators". Self-scanner is a technological device that incorporates an optical reader for bar codes. It also shows a variety of product information on its screen,

such as price, ingredients, health, and producer information. It also gives the customer the possibility to keep an eye on the real-time costs of its basket and its shopping without having to go through boring queues. According to an empirical analysis of a big retail franchiser in Italy, conducted by Marzocchi and Zammit (2006), the adoption of self-scanners has an impact on several determinants of customer satisfaction. The most important one seems to be the enjoyment of the shopping experience: customers that experience pleasure from the use of self-scanning devices (hedonic value) also appear to be the most satisfied ones. Another antecedent of customer satisfaction that seems to be positively affected by the introduction of self-scanners is the sense of control experienced by customers in the shopping experience.

In summary, from an investigation of patents filed, Pantano *et al.* (2017) have recognized five groups of innovation in traditional retail: payment systems, information and product display, shopping experience, information search, and others. Different technologies such as augmented reality, 3D virtual models, and virtual fitting rooms have been used to fill the gap between the traditional shopping experience and the online one (Verhoef *et al*., 2015 and Blazquez, 2014).

III. Thesis Quantitative Background

At this point, the broad picture of the context this research deals with has been set. Digital-Native startups that implement an offline expansion strategy have repeatedly been named as an interesting new trend that goes into the opposite direction of what various researchers and scholars have believed for the last two decades: "the offline retail will die soon, so making room for the monopoly of the online channel" (Helm *et al.*, 2018 and Baker, 2019). Various examples of Digital Native Vertical Brands (DNVBs) along the literature review have been made, both for the bigger markets, such as the USA and China, and for the Italian market. Some key metrics, such as the division of total retail revenues between the online and the offline channels, have also been reported in order to show that traditional retail is not dead and it still accounts for the majority of total global revenues. However, to give even more robust foundations to the qualitative methodology of this research, a review of the most relevant quantitative studies will be conducted. Indeed, as it can be better understood, from the next paragraph, the choice of a qualitative method and, in particular, the choice of building some business cases about the most relevant examples in the Italian market through semi-structured interviews, is mainly due to the fact that the topic of this study is a very modern trend. Anyway, the methodology will be further investigated in the next chapter.

As already said, it is worth to focus on the examination of some secondary data and to review two significant empirical studies which give foundations and credibility to the object of this study (digital-native startups that go offline): a report entitled "What do Gen Z shoppers really want?" conducted by the American National Retail Federation (NRF) in partnership with IBM's Institute for Business Value[13]; and an impressive longitudinal study of Bonobos and Warby Parker complete customers databases conducted by Bell D.R., Gallino S. and Moreno A. (2017).

[13] **Source**: What do Gen Z shoppers really want? IBM's Institute for Business Value in collaboration with NRF, 2018. Accessible at: https://www.ibm.com/downloads/cas/W07A8QGE [Accessed September 22, 2020].

Before examining the two studies, it is useful to clarify the meaning of "v-commerce" and the concepts related to it, such as "Direct-to-Consumer" (DtC) and DNVBs. V-commerce terminology has increasingly become relevant in the academic and industrial literature for the last years. According to various scholars, it will profoundly modify the retail scenario in the future (Ango, 2016 and McKone *et al.,* 2017). However, the relatively new stage of the research and the implementation of the term in different contexts caused ambiguity in the v-commerce terminology. Indeed, it counts three different meanings, based on the various stakeholders, with a totally different, and sometimes even contradictory meaning.

1. The first one, predominately made by scholars and academic researchers, relates to digital-native brands that are vertically integrated (DNVBs) (Dunn, 2016). These brands primarily use online channels for interaction and storytelling. They have a maniacal focus on the shopping experience of customers, considering them more as a community than as customers. They operate without the use of intermediaries (DtC). Lately, more and more brands are considering an offline expansion to directly get in touch with their community, improving their experience and gathering more data.
2. A small part of the literature associates this term with virtual commerce (Jin and Bolebruch, 2009), and specifically involves conducting business through the use of Augmented Reality (AR)[14], Mixed Reality (MR)[15] , and Virtual Reality (VR)[16] (Javornik, 2016).
3. The last use is connected to voice commerce (Beaumont, 2017), namely the interaction with platforms that recognize natural voice in order to accomplish a shopping experience through telephone or other connected devices (such as smart speakers – for instance, Alexa by Google).

[14] **Augmented Reality**: Alternate reality technology that provides an enhanced version of the real-world by overlaying our existing reality with an additional layer of digital information, which can be viewed through a (connected) technological device—such as smartphones or Augmented Reality Smart Glasses (ARSGs) (Regt & Barnes, 2019).
[15] **Mixed Reality**: Alternate reality technology that facilitates the merger of, and real-time interaction with and between, digitally rendered and real-world data and objects through connected technological devices (e.g., mixed reality headset) (Regt & Barnes, 2019).
[16] **Virtual Reality**: Alternate reality technology that is characterized by generating real-time, immersive and interactive multi-sensory experiences situated in, and artificially induced by, a responsive three-dimensional computer-generated virtual environment—usually paired with advanced input and output devices (Regt & Barnes, 2019).

For the purposes of this study, the first definition of v-commerce will be used along this paper, so considering the concepts of v-commerce (vertical commerce) and DNVBs as synonyms. To be more precise, the focus of this study will be only on the DNVBs that implemented or are planning to implement an offline expansion strategy.

Regarding the studies before mentioned, the former is a report elaborated in 2018 on a survey conducted on 15,600 Generation Z people from 16 different countries. As already seen, understanding the attitudes, beliefs, and habits of future customers is the best way to predict which characteristics will assume the future market (Benckendorff *et al.*, 2010 and Parment, 2013). Generation Z members, despite their young age, were estimated to be US$ 2.56 billion strong by 2020[17]. They are crucial customers when considering the future market development and are the main focus of most researchers, mainly because they represent the first digital native cohort and are so considered as a point of reference for predicting future customers habits. They were born in a hybrid world made of two interrelated spheres, the online and offline one, where boundaries between the two worlds are continuously decreasing or completely absent. Furthermore, they have constant access to much more information, if compared with previous generational cohorts, and this makes them really informed and self-reliant shoppers when it comes to choosing which products or services buying or which brand supporting.

The study highlighted interesting Generation Z aspects and brought to the light surprising results. For instance, 68% of the sample revealed that a wide product choice is the most important variable when choosing a shopping channel, followed by proximity of the store location, availability, and convenience, respectively, with 67%, 66%, and 65%. An even more interesting result is given by the question about the channel through which Generation Z members usually go shopping: 67% of the sample said that they made the purchase through the offline channel "most of the time", almost triple if compared with the respondents that affirmed they usually shop through web browser (**Figure 3**). This result is even more impressive if "some of the time" responses are aggregated to "most of the time"

[17] **Source**: Weinswig, D., (2016). "Gen Z: Get Ready for the Most Self-Conscious, Demanding Consumer Segment." Fung Global Retail & Technology. https://fungglobalretailtech.com/research/gen-z/ [Accessed September 22, 2020].

ones. In this case, 98% of respondents affirmed that they shop offline "most of the time" or "some of the time".

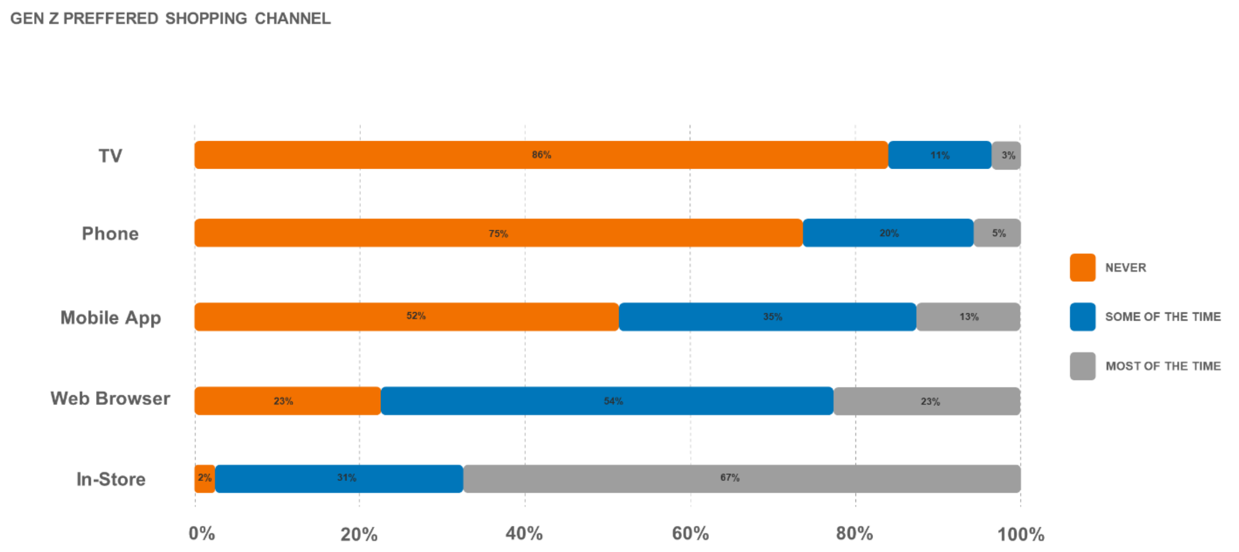


*Figure 3. **Source**: Author's elaboration based on "What do Gen Z shoppers really want?", NRF & IBM, 2018.*

The above-mentioned outcomes demonstrate that the offline channel is still far from disappearing, and future consumers still consider it as a crucial touchpoint. However, future consumers' needs have radically changed if compared to previous generational cohorts. This means that offline retailers should adopt new technologies, follow the new trends and adapt their stores and their strategies to the new consumers' needs (Vojvodic, 2019b). Generation Z members want reliability and consistency among the different channels. Indeed, 51% of the sample stated as "important" or "very important" the possibility to switch among channels when researching, browsing, or purchasing products or services. Moving to preferences towards technological tools that they would like to experience in future physical stores, the most preferred ones are: "magic mirrors"(54% of respondents), tools that allow them to customize products for themselves (48%), and chatbot or robot technologies that help solving order issues (39%)[18]. The study also reveals how Generation Z people prefer to try individualized shopping experiences[19], rather than a

[18] **Survey Question**: What new shopping technologies would you most like to see in the future? Choose up to three.
[19] **Individualization**: driven by consumers, it allows them to start and customize their shopping experience.

personalized one[20]. In conclusion, the results of this study suggest that the future retailer should focus on delivering to Generation Z customers a fully integrated shopping experience among different channels, provide a more informed and more convenient purchasing behavior through the elimination of intermediaries, and use the technological tools available to gather more data and "individualize" the shopping experience. As can be easily understood, these are all fundamental pillars of DNVBs' business model (Bell *et al.*, 2017), and it is considered by most of the sector experts the only practicable way to gain market share in the retail market, an industry that has seen a remarkable growth rate of two big players, such as Amazon and Alibaba, the first of which recorded a growth rate even bigger than its market growth rate itself [21].

The second study is an outstanding longitudinal work conducted by Bell D.R., Gallino S. and Moreno A., published in 2017, in its final version, in the Management Science Review. The research is particularly focused on the expansion of online-first brands (in particular, Bonobos and Warby Parker, two pioneers of this market strategy) into offline stores that served the scope of "**supercharging**" customer value. The authors coined the concept of "supercharging" customer value, firstly mentioned by Lawrence Lenihan, CEO of Resonance Companies[22]. They investigated this phenomenon with data obtained by the extensive customer database of Bonobos and Warby Parker. Supercharging mainly refers to the offline exposition of the customer to the brand, through a small store that usually owns no inventory, but it is served by an efficient distribution center. This exposition causes a greater immersion into the brand experience and an enlarged browsing of product categories. These two provoke, in turn, an increase in the rate and volume of subsequent purchases and a reduction in product returns. The Supercharging concept's father, Lenihan, stated that a similar concept could also be noted in human relationships. Two persons that have an e-mail relationship will surely have a less close connection compared to two people who met the first time in person. A first meeting face-to-face could support and simplify

[20] **Personalization**: driven by companies, it allows them to offer a customized shopping experience to a particular segment based on their shopping habits and behaviors.
[21] **Source**: E-commerce in Italia 2017.Casaleggio e associati, 2017.
[22] Lenihan first mentioned this concept during a guest lecture that he was giving to MBA and undergraduate student at the Wharton Business School.

future online interactions. Something similar could be imagined for online and offline customer shopping experience, where shoppers who have experienced the offline brand show more involvement and emotional attachment towards the brand itself. There are also benefits for the retailer that can observe its customers offline, so having the opportunity to gather non-digital information about them in order to complement the already existing digital database with analogic customers attributes. The intensive use of the latest technological tools, such as people counters, foot tracking, and traffic sensors, could certainly help to achieve this scope. In summary, it was stated by the authors that offline stores not only help to create *better customers* but also *better retailers*.

Moving to the actual study, the authors worked in partnership with Bonobos and Warby Parker management, and used an extensive customer database of almost 10 years of data to analyze the impact of customer first shopping channel (online or offline) on several variables that contribute to the subsequent customer trajectory and on product returns. The databases were the same owned by the companies, so counting important information such as customer ID, transaction date, items and value, product returns, and customer ZIP code. The database also contained information on location and stores' opening hours, besides other information such as when and where customers visited the stores. In order to have a full picture of the researched phenomenon, this database was joined with geodemographic data collected by the U.S. Census Bureau and the Environmental System Research Institute (Esri). Given all the data, the authors were able to achieve important results and to elaborate relevant statistics and econometric models on the supercharging effect. In summary, the more relevant results for the purpose of this research are listed below. For what concerns Bonobos, it was found that offline-born customers[23] accounted for a larger than proportional share of sales than the online-born customers[24]. In other words, this means that 20% of offline-born customers[25] would account for 23.8% of total sales, recording a 19% increase in sales volume than what would be expected on a proportional basis (**Figure 4**). The further investigation by the authors brought them to state that the "selection effect" – more

[23] Offline-born customers are the shoppers that complete their first transaction with the brand at a physical store.
[24] Online-born customers are the shoppers that complete their first transaction with the brand on the e-commerce.
[25] Punctual data were not disclosed by authors because still relevant for involved companies' strategy. Techniques such as normalization and standardization of data were so used for maintaining data protection.

enthusiastic customers are motivated to initially visit offline stores - was not accountable for this more than proportional increase. On the other hand, they concluded that customers that visited the store generated, on average more sales. Data from Warby Parker showed that after a new store opening, the number of customers in that region would increase by more than 7%. Stores can also count on a higher percentage of first-time shoppers: 83% versus the 75% counted online, where the latter drop to 67% when a physical store is opened in that area. From these results, it can be stated that stores are an effective method to attract new customers.

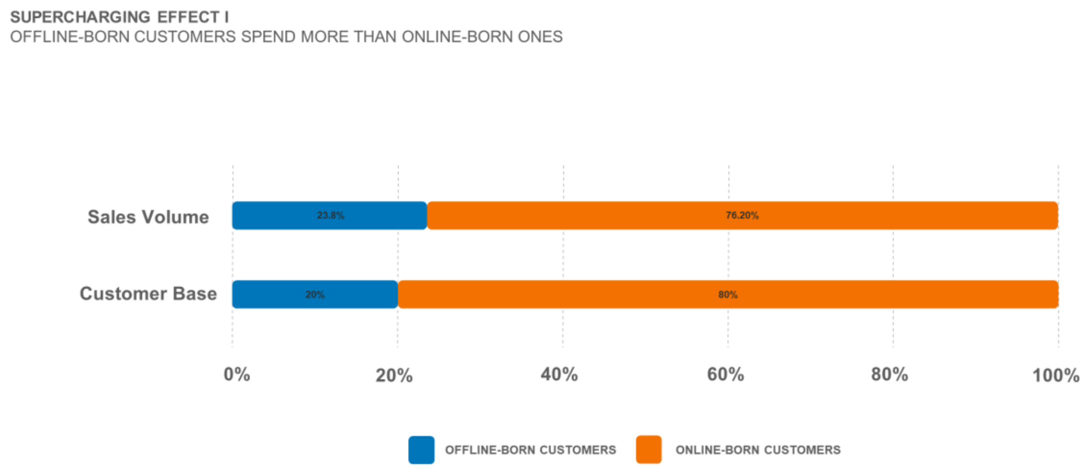


*Figure 4. **Source**: Author's elaboration based on "Offline Showrooms in Omnichannel Retail: Demand and Operational Benefits", Bell et al.,2017.*

The comparison between the Bonobos online-born customers who never visited a store and the Bonobos online-born customers who visited a store highlighted exceptional results for what concerns demand benefits from supercharging. This particular analysis has its main impact on three metrics: average transaction value, average time between purchases, and breadth of purchasing across the product line. The analysis was clearly conducted on the customers that made the same number of purchases. This requirement simplifies the apple-to-apple comparison.

How it can be seen from the graph (**Figure 5**), the orange bar represents the online-born customers who never visited a store and their value with regard to the three variables considered was normalized at 100 points[26]. The blue bar represents the supercharged customers' values before the exposition to the offline channel and, finally, the gray bar stands for the supercharged customers' values.

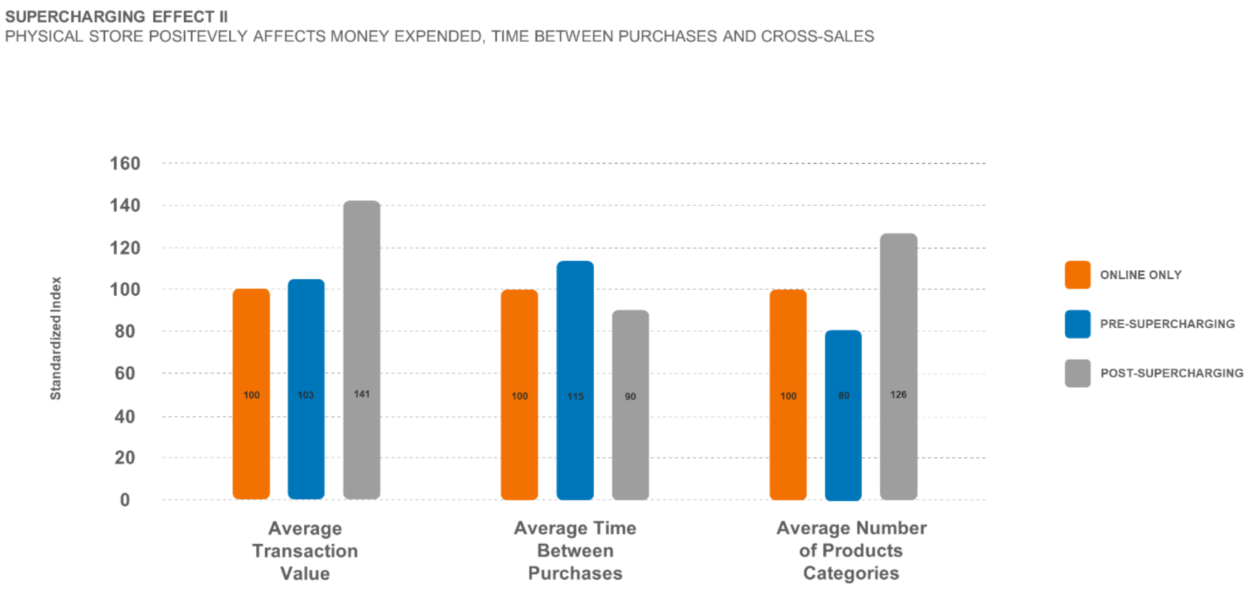


*Figure 5. **Source**: Author's elaboration based on "Offline Showrooms in Omnichannel Retail: Demand and Operational Benefits", Bell et al.,2017.*

As it can be easily understood, the exposure of online-born customers to Bobonos Guide Shops brought an improvement for all the three variables considered. Supercharged customers spend more per transaction, shop more frequently, and buy in more product categories (cross-selling). The increase recorded for what concerns the average value of transactions is relevant and amount to a 40% growth. Two interesting factors can be noted from this analysis and emphasize the importance of having a physical store for DNVBs:

1. Before visiting a store, Supercharged customers are much less frequent Bobonos shoppers than their online-only counterparts; but once they visited the store, they become much more frequent Bobonos buyers.

[26] Punctual data were not disclosed by authors because still relevant for involved companies' strategy. Techniques such as normalization and standardization of data were so used for maintaining data protection.

2. A similar behavior can be observed for the breadth of product categories acquired; before visiting the store, supercharged customers buy products in 12,4% of the total assortment compared to 15,5% of online-only customers. Once they have visited the store, the supercharged customers increase their breadth index by 7,1 percentage points.

The results just listed reflect a lower level of comfort with the online-only shopping experience faced by the Supercharged customers and underline the importance of an offline expansion strategy for DNVBs. A last remarkable result regards product returns, which constitute a notable problem for e-retailers in terms of distribution and logistics expenses. Besides the pure logistic benefits represented by owning a physical store when it comes to product returns, Bell D.R., Gallino S. and Moreno A. (2017) have also demonstrated that customers who experience the brand offline and are thereby "supercharged" are less likely to return the items they purchase (**Figure 6**). Warby Parker database also confirms these results, underlining a reduction of 1% in absolute terms of product returns after a physical interaction between shoppers and retailers. This percentage even increases to 3,6% when customers with eye complications are considered, such as people that wear glasses, and that could experience bigger issues in an online shopping experience.

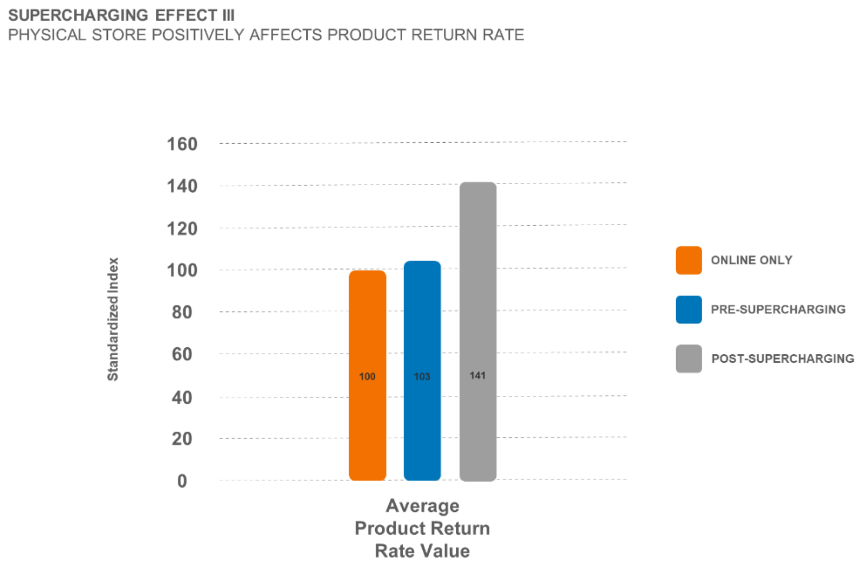


*Figure 6. **Source**: Author's elaboration based on "Offline Showrooms in Omnichannel Retail: Demand and Operational Benefits", Bell et al.,2017.*

IV. Methodological Approach

As can be deduced from the previous chapters, the trend that sees digital-native startups expanding offline is a relatively new area of study, especially in the European market, and thus it cannot yet rely on a well-established methodological base. Consequently, this study has predominantly two main purposes: the first one, descriptive and exploratory in nature, considering the particularities of the Italian entrepreneurial and economic texture; the second one aims at firstly demonstrating, through the utilization of business cases, that the main characteristics of this trend, first observed in USA, are replicable also in the Italian market, at least for what concerns the startups object of study: first-movers in the Italian market and then highly significant. The nature of the two purposes have not to divert the reader from the scope and significance of the study itself (Barnes *et al.*, 2004). Indeed, this is considered as an appropriate starting point in the normal "research cycle of life" (Meredith *et al.*, 1989). Once the phenomenon has been fully described in all its facets, it is the description itself that will fulfill the authors' reasoning. Theories on the topic can then be hypothesized, similar patterns among different companies can be noticed and future phenomenon trajectories can be imagined. These theories, patterns, and trajectories have then to be tested, initially through a series of qualitative research studies, especially if the topic of the study is a contemporaneous one, and then through more quantitative studies aimed at eventually building a theory (Meredith *et al.*, 1989).

Considered what just reported, a qualitative case study methodology was chosen for this research as the most appropriate means for such a "modern phenomenon observed in a real-life context" (Yin, 1994). For this type of phenomenon that has not yet been studied through a valuable quantitative study, a business case study could represent a valid way for theory development (Eisenhardt, 1989). Furthermore, some characteristics of the Italian economic context make the quantitative research impracticable: *in primis*, this is a new trend for the Italian market and just a few companies have already implemented this trend, not enough to build a statistically representative sample; moreover, the companies that implemented this strategy are SMEs which are not obliged to disclose their financial data, and neither are

willing to share their customers' database (as done by Bonobos and Warby Parker) in order to create a longitudinal analysis, because still relevant for their competitive position.

In summary, the operative part of this research will be constituted by semi-structured interviews aimed at the construction of some business cases. In the next paragraphs, the methodological approach for both steps of the research will be described in depth.

IV.I Semi-structured interviews

In particular, the first step of the empirical research is represented by a set of **semi-structured interviews** with founders, CEOs, or senior executives of Italian startups - such as Lirecento, Lanieri, HomePlaneur, and Velasca - which have already undertaken the expansion towards the offline channel. According to Yin and Davis (2007), interviews are an important part of a study and, more specifically, the semi-structured ones contain a right mix between flexibility and structure that generate high-quality data (Gillham 2008, cited in Bövik, Pålsson, 2015). Therefore, they are best suited for this research, since they let the respondent to explain more freely. In order to gather enough information and data to gain a full understanding of the contemporary events, semi-structured interviews with managers or senior executives are the best possible option (Bryman, 1988). Moreover, semi-structured interviews give scholars the possibility to investigate interesting aspects related to the phenomenon object of study, as they emerge from the interview itself. This is essential when dealing with contemporaneous events that have not been fully discovered. In this direction, for instance, in one of the latest public interviews at J. Sebastiao (Co-founder of Velasca), he mentioned how the two channels (online and offline) are mutually reinforcing: "[…] *an example could be the data we collect on the web and that we use to improve our offline offer. Metrics help us understand which the best cities are to open a Bottega, as we call our stores* […]"[27] . So, the internal management of data seems to be one of these qualities that should be checked through this analysis. Anyway, this insight seems to be reinforced by the same J. Sebastiao:

[27] **Source**: https://www.ilsole24ore.com/art/velasca-start-up-e-pronta-la-maturita-attesi-3-milioni-finanziamenti-puntare-negozi-fisici--AEmUwKKD [Accessed March 25, 2020].

"*We have seen, then, that where we are present with a Bottega, the conversion rate of our website is double* […]"[28] . This example testifies how important it is to highlight that the startups' approaches to the expansion model, trend's characteristics, and other features, which will mainly come from the semi-structured interviews, highlighting, once again, the importance of adopting these as primary research method.

In semi-structured interviews, the interviewer does not strictly follow a formalized list of questions; however, it could be useful for researchers, during the discussion, to have a pre-fixed framework with a list of questions at hand (King, 1994). This framework serves more the function of a helping guide than that of a strict list of questions to follow. The framework used for this research (**Annex 2**) was primarily made in order to cover all the arguments needed for the research itself. The framework was always the same for all the companies, but some questions were skipped, and others were added, depending on the single conversation, in allowance with the level of freedom and flexibility requested by a semi-structured interview.

This first step aims at giving the researcher a better perspective and an internal point of view of the "Made in Italy sector": how the companies operating in this sector are approaching the business expansion object of this study, underlining the similarities in the way different digital-native startups approach this strategy, and also highlighting the differences for each startup.

Four interviews were conducted (**Table 1**). All interviews were performed in Italian, in order to make the respondents more comfortable, and so generating higher quality data. All meetings were also recorded in both their parts, audio and video, and stored by the researcher and used for the only academic purposes related to this thesis. Many experts in semi-structured interviews suggest that, in a study of this kind, a theoretical framework should be used as a landmark (Miles and Hubermann, 1994), to effectively complete the research. For this purpose, the extensive work of literature review and the deep analysis accomplished in the previous chapter were used as a point of reference for better

[28] **Source**: https://www.ilsole24ore.com/art/velasca-start-up-e-pronta-la-maturita-attesi-3-milioni-finanziamenti-puntare-negozi-fisici--AEmUwKKD [Accessed March 25, 2020].

interviewing the respondents. Thus, questions were all aimed at gathering information about: founders' backgrounds; startups' strategy and fundamental pillars of their business model; business strategy implementation and the related issues and benefits for being digital-native startups; store technological level; and startups founders' future vision about this trend in the Italian market.

PRELIMINARY PRESENTATION
CASE-STUDIES AND INTERVIEWS KEY INFORMATION

Company Name	Sector	Interviewee	Role	Interview Length
Lirecento	Pants	Luca Labbadini	Co-Founder	60 minutes
Lanieri	Suits and others	Riccardo Schiavotto	Co-Founder	41 minutes
HomePlaneur	Furniture	Andrea Diotti	CEO & Founder	50 minutes
Velasca	Shoes	Jacopo Sebastio	CEO & Founder	53 minutes

*Table 1. **Source**: Author's elaboration.*

IV.II Case studies

As already referred, a case study is highly preferred when a contemporary event is observed. A mandatory requirement for adopting a case study technique is that relevant behaviors cannot be manipulated (King, 1994). One common mistake to be avoided, however, is to consider the business case as a subset or variant of other research techniques, such as experiments. This misperception was revised, and the case study has been finally recognized as a separate research method that has its own research design (Cook and Campbell, 1979).

For business cases, theory development, as a part of the design phase, is essential whether the research purpose is explanatory or, like in this case, exploratory and descriptive (Yin, 2009). This theory should by no means to be considered as just a useful background for readers, but it should also aim at giving a sufficient blueprint to the researchers themselves

(Sutton and Staw, 1995). In this direction, the extensive work of literature review and the deep analysis of two significant, although restricted in focus, quantitative studies accomplished in the previous chapters serve the scope of giving a stronger design to this research and improving the research ability to interpret eventual data (Cooper, 1984). However, theory development also serves a very important scope. The appropriately developed theory, indeed, is the instrument through which the "**analytic generalization**" of the case study will occur (Yin, 2009). The analytical generalization should by no means be confounded with the opposite way of generalizing results, namely statistical generalization. A common mistake in case study is to consider statistical generalization as the method through which generalizes case study results. Indeed, case studies are not "sample units", and they should be chosen in a totally different way compared to statistical samples. Rather, case studies should be chosen more as a scientist chooses the topics of its experiments (Yin, 2009). Under these circumstances, the previously developed theoretical context has been used in this research as a point of reference with which compare the case studies results and consequently making analytic generalization.

Among the case study research types of designs, four are commonly accepted in the academic world, based on a 2x2 matrix (**Annex 3**). The study in depth of these four types goes beyond the purpose of this research; anyway, it would be sufficient to specify that the type of research design chosen was a **holistic multiple-case design**. A multiple case design, although more complicated in terms of time and resources needed, is preferable than a single case design because less vulnerable, and the eventual findings are usually stronger compared to the single case ones (Herriot and Firestone, 1983 and Eilbert and Lafronza, 2005). On the other side, the holistic method was chosen because of the global nature of the phenomenon object of study. In other words, the holistic model was chosen because the companies studied were analyzed as single units and there were no sub-units within them to be analyzed.

For what concerns multiple-case design, a common mistake to be avoided is not to consider multiple cases as multiple respondents in a survey, but rather as replicated experiments. In other words, when multiple case design is approached, a *replication logic*, not a *sampling* one, must be the guide of the research (Hersen and Barlow, 1976). Each case

must be carefully chosen in order to: (a) predict similar results (*literal replication*) to the theoretical framework previously built; or (b) predict contrastable result but for anticipated reasons (*theoretical replication*). Whether all the cases, a suggested number is between 4 and 10, turn out to be predicted and conform with the theoretical context, then analytic generalization could be made (Yin, 2009).

For this research, a **literate replication** mood was chosen, and four cases were conducted, following an **iterative** methodology. Although the iterative technique is more expensive in terms of time and resources employed, it assures more compelling case studies, and the research is considered more robust (Herriot and Firestone, 1983). Indeed, the iterative process requires that, at the end of each interview, a summary is created and where important discoveries, not in line with what expected, come up, a reconsideration of the theoretical design must be taken into consideration. Without such redesign, the study could appear weak and the researcher could be accused of data manipulation just for accommodating the original theoretical framework. In this research, no significant findings that needed a theoretical redesign came up, and just small adjustments to the interview technique were made thanks to the iterative process.

Before moving to the empirical part of the research, some space should be dedicated to assessing the quality of the research itself. In order to judge academic research, four tests are commonly used to establish the quality of any empirical social research: construct validity, internal validity, external validity, and reliability (numerous authors, among which Kidder and Judd, 1986 and Yin, 2009).

Construct validity. It is accomplished through the identification of metrics that correctly measure the object of study. In this study, the research questions clarity, the extensive theoretical framework created and the unblemished protocols for semi-structured interviews and case studies construction helped at undoubtedly stating what the object of the research was and which specific aspects were taken under consideration, how these were expected to change and which qualitative metrics were supposed to register these changes.

Internal validity. Not applicable for exploratory or descriptive studies, but just for explanatory and casual studies, where an investigator tries to explain why an event x led to an event y.

External validity. It is referred to the domain within which the research results can be generalized. As previously said, when dealing with case study research, the analytical generalization strictly depends on the robustness of the theoretical framework and on the strength of research design and protocols adopted for the study. Considering this last point, the multiple case approach, the iterative research design and the extensive work of literature review were mainly conducted for achieving external validity, and so analytic generalizing the outcomes of the study.

Reliability. It mainly refers to the procedures that brought to the outcomes of the study. It specifically refers to the possibility that a third investigator could replicate the same operations of the study and the same case studies all over again, achieving the same results. In order to complete a reliable case study research, a protocol for semi-structured interviews was made; interviews were recorded in both the parts, audio and video; and a strict research design was followed in order to build the case studies and all the alternative sources were specified.

In summary, the four case studies (Lirecento, Lanieri, HomePlaneur, and Velasca) of this research follow an **iterative holistic multiple-case design**. They were built through data and information gathered thanks to the semi-structured interviews; the review of documents, records, and public information; and observations on the ground at the physical stores of each of the companies considered.

V. Case study I: Lirecento

V.I Company overview

Lirecento is a startup operating in the apparel sector, founded in 2017 by Carlo Battaglino and Luca Labbadini. The digital native company operates through an omnichannel sales strategy, and it aims at commercializing Made in Italy tailored quality men's trousers at an affordable price, thanks to a direct to consumer (DtC) business model. "*We wanted trousers, first of all for ourselves, made in Italy and at an affordable price; when we realized they didn't exist, we decided to found Lirecento*", said Luca Labbadini, co-founder[29]. Lirecento has its main strength in the business model without intermediaries, which provides a direct line from the factory to the consumer. In this way, they are able to optimize costs and guarantee the highest quality at an affordable price. This choice also makes it possible to reduce the environmental impact and avoid waste, transforming Lirecento into a proudly sustainable project. Each trouser is entirely designed and produced in Italy, in the Piove di Sacco (Padua) factory. Nowadays, it owns two physical stores, one in Milan and the other in Rome. By 2021, Lirecento is planning to open other physical stores in the main European capitals, so enlarging its focus to a more global perspective[30]. Recently, Lirecento closed its first financing round at € 1.2 million subscribed by the German investment fund Global Founders Capital (GFC). As can be read in a Lirecento press release, the partnership "*arises from the common vision of the two realities of a new business model, based digitization and technology, innovating starting from tradition*"[31].

[29] **Source**: Startup Italia, 2020. Available online: https://startupitalia.eu/137402-20200925-lirecento-la-startup-dallanima-digitale-progetta-pantaloni-sartoriali-uomo [Accessed October 15, 2020].
[30] **Source**: Lirecento pensa in grande. Snap Italy, 2020. Available online: https://www.snapitaly.it/breaking-news/lirecento-aumento-capitale/ [Accessed October 15, 2020].
[31] **Source**: Fondo tedesco Gfc sottoscrive round di Lirecento,2019. Available online at: https://financecommunity.it/fondo-tedesco-gfc-sottoscrive-round-lirecento-pantaloni-uomo/ [Accessed October 22, 2020]

V.II Lirecento Business Model

Lirecento was founded in 2017, but its activities started in 2019, initially through its website. The personal and professional backgrounds of the two founders are quite different. L. Labbadini, after graduating in Economics, decided to work on credit and insurance consultancy for small and medium Italian companies. This brought him a deep knowledge of the Italian economic texture. On the other side, Carlo Battaglino graduated in International Management and then he focused on the strategic consultancy in Italy and abroad. The joint of these two different perspectives brought to the foundation of a "s*tartup born on Excel"*[32]. This basically means that they identified a market gap through real data, and they decided to fill it with an innovative business model, still quite unexplored for what concerns the Italian market: DNVB.

On the one side, the Lirecento business model follows many aspects of the DNVB's business model, but, on the other side, it presents some peculiar characteristics. The three fundamental pillars on which the two founders based their business model are:

1. Direct to Consumers (DtC) approach, without intermediaries.
2. Focus on customers, as exemplified by their slogan "a perfect-fit".
3. High-quality products (Made in Italy).

As already mentioned, the DtC approach through e-commerce and physical stores, the obsessive focus on customer experience, and the high-quality products are something very common in the DNVBs. On the other side, Lirecento implementation of this business model differs from the common DNVB's stores. A divergence could be observed in the way it manages its warehouse and its stores. For every store it opens, it will also open a dedicated warehouse; in this sense, Lirecento stores are more similar to traditional stores than DNVB's stores. Anyway, this topic will be further discussed in the next paragraph.

Lirecento makes a lot of efforts in order to offer the best customer experience possible, not just in the physical store, but also on the online channel. They offer full support and

[32] **Source:** Author's interview with Lirecento Co-founder, Luca Labbadini.

style advice through their social media pages, and a dedicated telephone number. In this direction, the store plays a key role. Having the opportunity to directly get in touch with the customers, allows Lirecento not just to enhance its brand and its relationship with customers but also to gather data and information that could not be accessible in another way.

V.III Lirecento offline expansion strategy

Lirecento landing page online was firstly launched in November 2019. After a few months, they decided to open their first temporary store in Milan. According to L. Labbadini, Lirecento co-founder, opening a physical store was an essential step in order to test their products, acquire operational and logistic knowledge they did not own before, directly get in touch with their clients and see how they would have reacted at Lirecento. Indeed, customer feedbacks are considered as crucial not just for better designing and producing Lirecento trousers, but also to improve the shopping experience the startup offers to its customers; "*We do not sell trousers, we sell an experience*"[33] could sound an obvious slogan, but it best synthesizes Lirecento objective.

Lirecento expansion strategy towards the offline sector was almost contemporary with its launch in the online channel. The first opening of a temporary store was not supported by data collected online, but it was a need, as better explained in the previous paragraph. In the meantime, the offline expansion strategy has continuously evolved. Nowadays, Lirecento opening of a new physical store follows well-determined steps. First of all, a marketing campaign online is launched, targeting the specific city or region where Lirecento wants to open a new shop. This serves mainly two purposes: on the one hand, it allows to gather more data and information on the potential customers and to effectively test the specific market responsiveness to Lirecento; on the other hand, it permits the Italian startup to create a customer base even before the opening of a new store. In other words, Lirecento firstly meet its potential customers online, then it opens a physical store that allows the

[33] **Source:** Author's interview with Lirecento Co-founder, Luca Labbadini.

customer *"to make a step into the Lirecento world"*[34], so leveraging on the so-called **supercharging effect**. Unfortunately, extensive data could not be disclosed because it is still relevant for the internal strategy, but two of the practical consequences that supercharging causes to Lirecento are the cross-sales effect and product returns. On average, the amount of money expended by a customer in the first purchase offline is larger than online[35], and product returns amount at less than 1%, while products changes at less than 4%[36]. For the above-mentioned motifs, Lirecento put a lot of attention to store details and atmosphere, such as company colors replication in the store, sound, smell, furniture and, obviously personnel. Apart from the first temporary store, nowadays, Lirecento offline expansion strategy leverages almost totally on data and information gathered online, as also stated by L. Labbadini, co-founder: *"We base the 80% of a new store opening on the online data, there is no magic in that"*[37].

Moving to the more operational and logistic knowledge and way of managing these two departments, Lirecento shows some differences with the common DNVB model. Indeed, they set up a warehouse for every store they open, so providing continuous supplies to their stores. This knowledge was first acquired through the temporary store. Furthermore, in order to offer the best customer experience possible and to make the customers really engaged in the Lirecento world, they provide continuous training to the operational staff.

V.IV Technological innovations in Lirecento

Technology applications in physical stores aimed at both enhancing the omnichannel experience and gathering analog data from the customers are a difference between Lirecento and other DNVBs. Due to its early stage and to the peculiarities of the Italian market, the Lirecento approach for what concerns this topic is more similar to traditional stores than to DNVBs' stores. However, they conduct weekly reviews with the most innovative startups

[34] **Source:** Author's interview with Lirecento Co-founder, Luca Labbadini.
[35] **Source:** Author's interview with Lirecento Co-founder, Luca Labbadini.
[36] **Source:** Author's interview with Lirecento Co-founder, Luca Labbadini.
[37] **Source:** Author's interview with Lirecento Co-founder, Luca Labbadini.

operating in the technology fields, in order to stay aware on future trends. One application that will likely be adopted soon by Lirecento is the "magic mirror". For what concerns tools designed to track customers and get data from them into a physical store, Lirecento is not using any of them at the moment, but is considering to adopt them in the future.

V.V Future for the Made in Italy retail according to Lirecento

Lirecento strongly believes that a business model founded on customers, high-quality products, and no intermediaries (DtC) can be a viable solution for the Made in Italy sector. According to Luca Labbadini, Lirecento co-founder, brick-and-mortar stores will still play a relevant role, especially in the apparel sector, although online sales will count for the majority of total sales in the future. The "*store as a window*"[38], with no inventories and where the products acquired are delivered the next day directly to customer house, has already being tested in the Milan store. Especially in Italy, an initial customer reluctance towards this practice should be faced, but in the long term, this could be a solution that lowers operational costs and increases profits, as Alibaba is already experiencing with its grocery brand, Hema. However, online sales will account for the biggest slice of the pie; for this reason, Italian startups operating in the Made in Italy sector should invest in this sales channel and in the omnichannel experience.

Another aspect to be taken into consideration is the capital market and, related to this, the regulatory legislation. According to L. Labbadini, the Italian capital market is still far away from the efficiency and speed of investments of abroad countries, such as the U.S.A, U.K. or Germany. In order to attract more capital and investments in the Italian startups, some actions should be taken by the Italian government. Indeed, the use of private equity (PE) funds as a source of financing is still relatively undeveloped in Italy. There is a substantial gap between the amount of private equity capital that is raised by Italian funds, a modest 3% of the total amount of PE funds raised in Europe, and the total amount of PE

[38] **Source:** Author's interview with Lirecento Co-founder, Luca Labbadini.

investments undertaken in Italy, that is 9% of all PE investments in Europe with an amount of € 6.9 billion[39]. Considering this limited volume of fundraising in Italy, the government has implemented two initiatives, Italia Venture I and II, that invest € 236.75 million in innovative startups and SMEs with high growth potential[40]. Unfortunately, this is not enough, and further actions should be implemented in order to stimulate the Italian venture capital market, a fundamental market for startups financing. Indeed, while investment by venture capital funds has been a large part of the PE industry in Sweden, France, and Norway, it has been almost absent in Italy[41]. In this direction, actions, such as 50% deductions in favor of startup investors and investments for the economic enhancement of industrial property titles, could improve the current situation, revitalizing the Italian capital market.

[39] **Source**: OECD Capital Market Review of Italy, 2020 Available online at: https://www.oecd.org/corporate/ca/OECD-Capital-Market-Review-Italy.pdf [Accessed November 7, 2020]
[40] **Source**: OECD Capital Market Review of Italy, 2020 Available online at: https://www.oecd.org/corporate/ca/OECD-Capital-Market-Review-Italy.pdf [Accessed November 7, 2020]
[41] **Source**: OECD Capital Market Review of Italy, 2020 Available online at: https://www.oecd.org/corporate/ca/OECD-Capital-Market-Review-Italy.pdf [Accessed November 7, 2020]

VI. Case study II: Lanieri

VI.I Company overview

Lanieri was born in 2012 from an idea of the founders Simone Maggi and Riccardo Schiavotto and "accelerated" at the I3P incubator of the Polytechnic of Turin. The Italian startup based in Biella (Turin) is the first 100% Made in Italy e-commerce dedicated to men's clothing. From suits, pants, jackets, shirts to accessories, Lanieri offers a wide variety of products customizable in a few clicks and delivered all over the world in 4/5 weeks, produced according to a strictly Italian supply chain, from quality fabrics to labor. Lanieri can rely on partnerships with well-known Italian fabric manufacturers (such as Reda, Zegna, Loro Piana, and Vitale Barberis Canonico) that assure it not only high-quality products, but also an already existing and affectioned customer base. Thanks to an entirely online tailor-made service, which uses an omnichannel platform and an innovative algorithm for the analysis of anatomical measurements, Lanieri is able to combine technology and tradition, allowing its customers to create their own tailored garment[42]. Nowadays, Lanieri counts on 7 physical stores (Milan - Rome - Zurich - Turin - Bologna - Paris - Brussels) and distributes its products in over 55 countries. The startup based in Biella aims at opening even more stores, especially abroad, from where over 50% of its customers come[43]. Indeed, internationalization is a key concept for Lanieri in order to increase its revenues and finally switch to profitability. Although Lanieri registered € 4,478,063 revenues in 2019, with an increase of almost 30% compared to the previous year, it registered a loss mainly due to huge investments in physical assets for new store openings and high costs of raw materials[44].

[42] **Source:** Lanieri, ecco come è cresciuto l'ecommerce Made in Italy che unisce tradizione e innovazione, 2016. Available online: https://www.economyup.it/retail/e-commerce/lanieri-ecco-come-e-cresciuto-lecommerce-made-in-italy-che-unisce-tradizione-e-innovazione/ [Accessed October 17, 2020].
[43] **Source**: L'abito italiano su misura online: Lanieri, la startup di sartoria premiata da Altagamma, 2018. Available online:https://www.repubblica.it/economia/2018/07/21/news/l_abito_italiano_su_misura_on_line_lanieri_la_startup_di_sartoria_premiata_da_altagamma-202026643/ [Accessed October 17, 2020].
[44] **Source**: Informatic Analysis of Italian companies,2020.

VI.II Lanieri Business Model

Lanieri was founded by two young engineers, Simone Maggi and Riccardo Schiavotto, during an innovation course for their MBA. "*Everything started almost as a joke during an MBA class, online platforms were the trend of the moment and we realized there was not a platform for Made in Italy, so we created it*"[45]. After their graduation in Engineering, both of the founders worked for some years at well-known consultancy groups, then they attended the same MBA Program (Collège des Ingénieurs) in 2012, and they first put down a draft idea on opening a Made in Italy online platform. The startup was created in 2012, but started its online activities in 2013. After 2012, the two founders worked for consultancy and venture capital firms abroad for some years before to come back to Italy and dedicate full-time to the Lanieri project, as 2 important wool mills invested in the startup.

Lanieri, as previously seen with Lirecento, presents some peculiarities not attributable to the DNVBs model seen so far. The main uniqueness in this term is that Lanieri does not adopt a DtC model, but it rather acts as an intermediary between famous Italian wool producers (Lanificio Reda), Tailors and Stylist (Zegna, Loro Piana and Vitale Barberis Canonico), and its final customers. Simone Maggi and Riccardo Schiavotto decided to found Lanieri business model on three fundamental pillars:

1. Made in Italy: high-quality and tailored products offered at a reasonable price, thanks to their business model.
2. Omnichannel experience: they invested and are still investing a lot in physical retail, as they strongly believe this is a turning point for the kind of products they sell. In this direction, they also tried to combine the two channels, not just for what concerns product return, but also in terms of technology that offer a more integrated shopping experience - payment method and customer interaction technological tool -.
3. Machine Learning and, in general, technology: one of the Lanieri characteristics that represent a competitive advantage for them is the algorithm elaborated by

[45] **Source**: Author's interview with Lanieri Co-founder, Riccardo Schiavotto.

Riccardo Schiavotto. This innovative 3D configurator allows the customers to personalize their products online, choosing among different buttons, linings, collars, pockets, belts, and cuffs. This software allows the customer to choose from over 10 million different combinations, creating a truly unique tailored garment: from the style of the jacket, the color of the lapel buttonhole, the model of the buttons, up to the number of pleats on the trousers. This allows Lanieri to go beyond the common product personalization, going more towards the "individualization" concept, which is highly related to DNVB's business model. Another important benefit related to the Lanieri algorithm and individualization of the product concerns product returns, which are, consequently, almost null.

Lanieri relationship with its customers represents another exception if compared with other DNVBs. Although the startup based at Biella (Turin) invests a lot in order to offer the best customer experience possible, "*Lanieri average customer is not so engaged in this kind of shopping experience. Furthermore, there is just a small portion of customers who buy suits and shirts for pleasure. The rest buy them for pure need*"[46]. These aspects do not let Lanieri to create a strong community around its brand, as other DNVBs usually do.

VI.III Lanieri offline expansion strategy

Lanieri started its activities in September 2013 with an e-commerce website. Initially, the results were anything but positive, as Simone Maggi remembers: "*In September 2013, when we launched our website, weeks went by without an order. We thought there was something wrong. Then we opened our first temporary shop. And from there we turned*"[47]. The opening of Lanieri's first temporary shop in 2014 was the turning point. From there, it started an escalation that brought the two founders to open 7 stores throughout Europe.

[46] **Source**: Author's interview with Lanieri Co-founder, Riccardo Schiavotto.
[47] **Source**: Lanieri, la startup che scommette sulla tradizione per cambiare il mondo della sartoria, 2018. Available at: https://startupitalia.eu/95678-20180809-intervista-lanieri-simone-maggi-sios18 [Accessed October 17, 2020].

After a few time from the launch of their website, Simone Maggi and Riccardo Schiavotto realized that Lanieri needed a physical touchpoint with its customers, mainly due to three customers' needs emerged during the launch phase: first, the so-called "need for touch"; second, what Riccardo Schiavotto has defined as the "need for advice", which was particularly relevant for the kind of products that Lanieri sells and their price. Third, the lack of trust in a new brand and especially in a new way of selling tailored products. During 2014, Lanieri opened 4 pop-up stores in Milan, 2 in Rome, and 2 in London. The initial "Go to Offline" strategy ideated by the two co-founders foresaw just temporary stores. This idea was promptly discarded, due to the high costs related to short rent prices and expensive training of the salesforce.

Nowadays, a well-defined "Go to Offline" strategy has been created, although, "*We try to not underestimate any option and we are always ready and flexible to adopt new strategies that could bring improvements to our business model*"[48]. However, the current strategy is based on two viable options in order to identify the right location for the next store opening. Both of the decision processes are fully based and supported by data collected online. The first option is born from a management intuition to open a store in an unexplored market. In this case, before opening a store, Lanieri launches a massive digital marketing campaign targeting that specific city, then results and data are analyzed in order to test the target responsiveness. The second way is totally data-driven. Sometimes, the periodic analysis of data gathered online suggests a specific location in which it would be profitable to open a physical store due to the already existing customer traffic. In this perspective, some specific metrics are analyzed, such as the "Click-through rate"[49] for marketing campaigns and the average time between different purchases for online sales. However, both the strategic options are based on the analysis of data coming from the online channel, as highlighted by Lanieri co-founder Riccardo Schiavotto: "*Data is a key resource for us. We punctually collect and analyze all the data coming from the online channel in order to make more conscious and better decisions*"[50].

[48] **Source**: Author's interview with Lanieri Co-founder, Riccardo Schiavotto.
[49] **Definition**: Click-through rate (CTR) is the ratio of users who click on a specific link to the number of total users who view a page, email, or advertisement.
[50] **Source**: Author's interview with Lanieri Co-founder, Riccardo Schiavotto.

As already said, Lanieri's initial idea to operate just through pop-up stores was promptly discarded. However, the 8 pop-up stores opened during 2014 allowed Lanieri to promptly acquire operational and logistic knowledge needed to effectively run physical stores. Nowadays, Lanieri counts seven physical stores, relatively small and "*Before the outbreak of covid-19, we were planning to open two more in New York and Paris*"[51]. All of them, except for the one in Milan, are less than 100 squares meters and all of them have no inventory, so breaking down one of the principal costs for traditional retailers. This last aspect is possible thanks to the tailored nature of the product and to the concept of "Store as a Window" that Simone and Riccardo decided to adopt. In this sense, Lanieri can be considered a pioneer in the Italian market, having started its physical activities in 2014.

In conclusion, moving to measuring store performance and new metrics used for this scope, Lanieri still presents some peculiarities compared to foreign DNVBs, but is in line with the other Italian Digital-Native companies. "*We believe in a perfect comparison between the online and offline channels. In Lanieri, we do not use the physical retail old metrics for measuring stores' performances, but we simply apply the traditional digital metrics also to the offline sector*"[52]. One of the phenomena that they take into consideration the most for evaluating the store's performance is the so-called "Channel Switching Phenomenon": they basically compare where was made the first purchase and where were made the subsequent ones.

VI.IV Technological innovations in Lanieri

Lanieri strongly believes in the use of technology to offer a better and more integrated customer experience. This brings them to indicate technology, and more precisely, Machine Learning, as one of the three fundamental pillars of its business model. Since its foundation, Lanieri tested different technological tools that apply to different aspects of its business; from the innovative 3D configurator that still represents a real competitive advantage for Lanieri to Blockchain applied to payment systems, passing through body scanner 3D used

[51] **Source**: Author's interview with Lanieri Co-founder, Riccardo Schiavotto.
[52] **Source**: Author's interview with Lanieri Co-founder, Riccardo Schiavotto.

in their physical stores and beacon[53] for gathering data from the customer experience in the shop. As already said, some of these represent a real competitive advantage and are still used; others, such as the body scanner 3D and the beacon technology, were momentarily discarded because still not enough developed for bringing real benefits.

VI.V Future for the Made in Italy retail according to Lanieri

"*Physical store will still play a relevant role and it is not just about Made in Italy and apparel sector. From the assurance sector to the banking one, the question is not whether there will be or not a physical future, but how it will be shaped. For us, the answer is omnichannel and full integration between physical and digital*"[54]. This is how Riccardo Schiavotto, Lanieri co-founder, synthetically replies to the questions about the physical retail future. Lanieri strongly believes in the concept of "Store as a Window", that allows retailers to break down costs, open more physical stores and so getting directly in touch with a larger part of its customer base. Furthermore, thanks to the online presence, stores do not need to be located in high traffic areas, because they have lost their role of "catching customers" and assumed more the role of touchpoints with an already existing customer base. In this sense, retailers can additionally decrease costs coming from expensive rents and locate their shops in less expensive but well-linked areas: "*e-commerce will have to play a support role for physical retail, in order to improve its efficiency and decrease its costs*"[55]. According to Lanieri, much has still to be made in this direction, and further technological improvements are needed. "*Few things but well-done*"[56] would be a viable path for the future, such as making online platforms more user-friendly and physical store more integrated, but without the need for very complex

[53] **Definition**: Beacons are small, wireless transmitters that use low-energy Bluetooth technology to send signals to other smart devices nearby. They are one of the latest developments in location technology and proximity marketing and are able to connect and transmit information to smart devices making location-based searching and interaction easier and more accurate. Available online at: https://www.wordstream.com/blog/ws/2018/10/04/beacon-technology [Accessed October 17, 2020]
[54] **Source**: Author's interview with Lanieri Co-founder, Riccardo Schiavotto.
[55] **Source**: Author's interview with Lanieri Co-founder, Riccardo Schiavotto.
[56] **Source**: Author's interview with Lanieri Co-founder, Riccardo Schiavotto.

technological tools such as the 3D body scanner adopted by Lanieri itself, and then discarded.

VII. Case study III: HomePlaneur

VII.I Company overview

HomePlaneur was born in 2014 when Andrea Diotti decided to create the first Italian Digital Native Furniture brand. Then, from 2018, the brand was englobed in diotti.com. Although it does not exist anymore as a brand, the HomePlaneur case is relevant, especially for the purpose of this work. Indeed, it represents the first DNVB in the Italian furniture market, a key market in the Made in Italy sector. The startup founded by Andrea Diotti was a very particular example of DNVB and, in order to better understand its story and its experience, a brief excursus on Andrea Diotti and the brands linked to him should be done. HomePlaneur constitutes, indeed, one of the instruments through which Andrea Diotti and, in general, Area D. have trying to innovate the furniture market for the last decade (**Figure 7**). Area D. was born to create and launch new distribution models for the furniture sector.

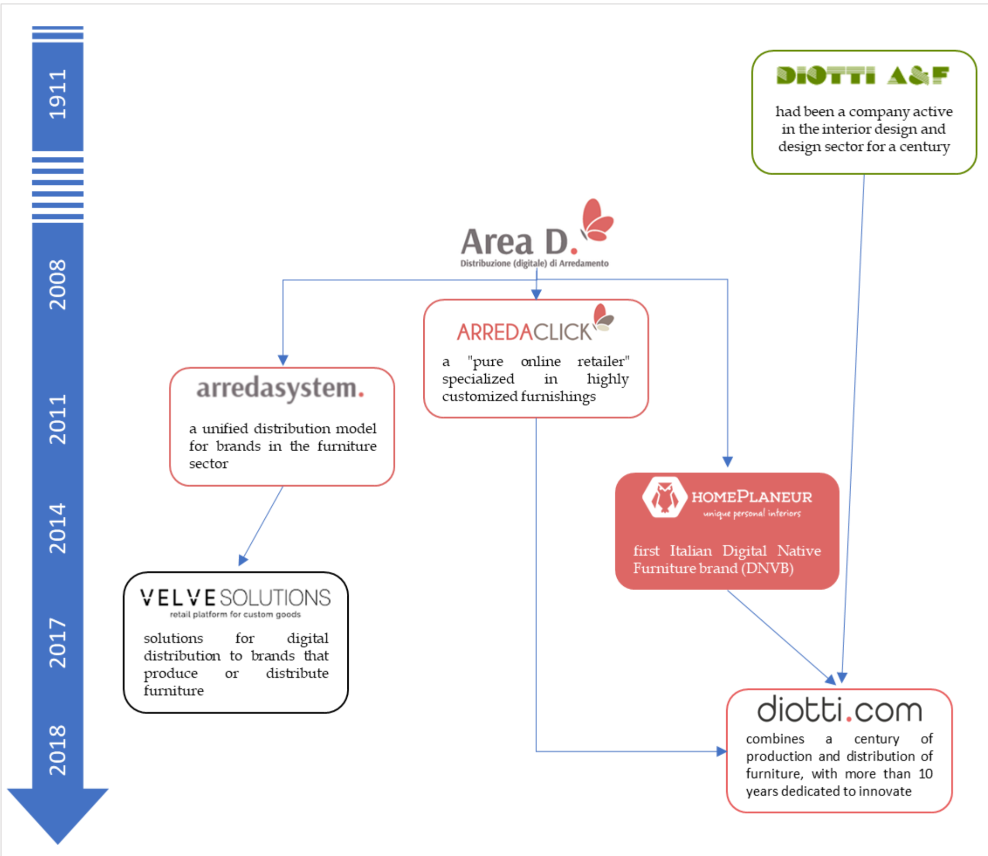


*Figure 7. **Source**: Author's elaboration.*

Andrea Diotti is one of the heirs of Diotti A&F, a historic furniture company operating in Brianza since 1911. In 2008, Andrea Diotti founded Area D. It is within Area D., of which Andrea Diotti is CEO, that many realities were born. Among these realities, there are ArredaClick, a "pure online retailer" specialized in highly customized furnishings; ArredaSystem, a unified distribution model for brands in the furniture sector; and HomePlaneur, born in 2014 as the first Italian Digital Native Furniture brand. In 2017, ArredaSystem was conveyed into the newly born Velve Solutions, led once again by Andrea Diotti. Velve Solutions offers solutions for digital distribution to brands that produce or distribute furniture. HomePlaneur and ArredaClick are instead channeled, respectively, in 2018 and 2019, into the company born from the merging between Area D. and Diotti A&F, diotti.com, of which Andrea Diotti is CEO.

Focusing on HomePlaneur, as already mentioned, the brand was founded by Andrea Diotti, the fifth generation of Diotti A&F, with more than 23 years of experience in the furniture segment. This is already an exception for what concerns the DNVBs characteristics have seen so far. The foundation of the startup based in Lentate sul Seveso (Brianza) is mainly due to the desire by Andrea Diotti of disrupting and innovating one of the most traditional sectors, betting on an omnichannel experience, an "individualization of the products" and reasonable prices, all characteristics of the DNVBs observed in the previous chapters. Indeed, with HomePlaneur, customers could create their furniture comfortably online and receive high-end furniture at their home, already assembled or pre-assembled, and with the best quality-price ratio. "*We immediately thought of a new type of consumer: creative and intuitive, independent and with clear ideas, dynamic and careful to be able to choose every detail; we called him HomePlaneur. Then we selected the best factories or specialized laboratories, in Brianza and Treviso, and with these partners, we worked to develop highly customized pieces, almost unique.*"[57], summarized Andrea Diotti.

[57] **Source**: Available online at: https://www.homeplaneur.com/it/brand/ [Accessed October 25, 2020].

VII.II HomePlaneur Business Model

To fully understand the birth of HomePlaneur, ArredaClick has to be briefly introduced. ArredaClick was born in 2008 with the sole aim of selling furniture online. The Area D. online platform immediately recorded positive results, thanks especially to the competitiveness of its prices. These extremely competitive prices, however, created friction within the sector both in Italy and abroad, especially between traditional distributors, the competitors of ArredaClick, and producers. The traditional players weakened by the lower prices operated by ArredaClick used their bargaining power with the furniture producers in order to force ArredaClick to raise its prices. This sector opposition created some troubles between ArredaClick and its suppliers that led Andrea Diotti to start a "no-name" operation in 2011. Through this strategic operation, leveraging the potential of the digital world, ArredaClick decided to rename the products it distributed in order to unlink the connection between physical retail and the offline one; so, stopping the showrooming effect and satisfying the needs of ArredaClick's suppliers and competitors. In 2013, after five years, Area D. recorded € 3.92 million of revenues[58], with a 26% growth rate compared to the previous year. Half of these revenues came from the so-called "no-name" sales, that renamed and non-branded products sold through ArredaClick.

From this experience, the idea of creating its own brand in order to strengthen the so-called "no-name" products was born. In other words, in agreement with the producers, HomePlaneur renamed its products, branding them with its own label. The startup found at Lentate sul Seveso was then acting as a "re-editor", strengthening the "no-name" process begun a few years earlier. This is the idea that sprinted the creation of HomePlaneur, which then based its business model on the following values:

1. Tailoring, craftsmanship, and high-quality products - in other words, "Made in Italy" - relying on the industrial districts of Brianza and Treviso.
2. Digital, through which expressing a high level of customization. In this direction, HomePlaneur is very similar to many other DNVBs that bet on product

[58] **Source**: Informatic Analysis of Italian companies,2020.

individualization. As already said, product/service individualization is a concept that is slightly overcoming the concept of personalization.

"*Many brands lie behind the hypothesis that purchasing furniture is a leisure-oriented purchase. Actually, I strongly believe that the purchase of furniture is a task-oriented buying in which some leisure elements are grafted [...]. So, all the logic of CRM but more generally of customer loyalty are very weak and not very important*"[59]. According to Andrea Diotti, in the furniture sector, the relationship with the customer is not as important as in other sectors, and this is reflected in the practically zero effort by HomePlaneur to build a relationship other than the commercial one with its customers.

VII.III HomePlaneur offline expansion strategy

From the end of 2014, HomePlaneur products were on sale on the multi-brand ArredaClick.com, and on 2 December 2015, HomePlaneur.com was published. During 2016, Andrea Diotti and his team worked on the design of possible single-brand physical formats dedicated to HomePlaneur: the Digital Showroom, the Apartment, the Lounge, and the Mini-Lounge are just some of the physical forms imagined, studied and designed as possible solutions.

On 4 February 2017, the HomePlaneur Lounge, the first example of a digital furniture store in Italy, opened, thus giving shape to Andrea Diotti's vision of the integration between Web and retail. The HomePlaneur Lounge was born from some very specific needs related to the HomePlaneur brand itself and its business model. Among these, there is certainly the requirement to have a physical space where to create the marketing contents for the products rebranding process. HomePlaneur Lounge therefore falls within the concept of "Store-Office" already seen in the DNVBs, which combines the decrease in costs with a more efficient use of limited resources of a startup. Thus a "*physical space of interaction was born, which was not aimed at displaying HomePlaneur products but was aimed at giving physicality to the*

[59] **Source**: Author's interview with HomePlaneur Founder, Andrea Diotti.

interaction between clients on the one hand, and a Brand Ambassador on the other"[60]. Customers were therefore exposed not only to the values of the brand, but they could also touch the high-quality of HomePlaneur products. With the physical store, HomePlaneur customers were so able to satisfy the so-called "need for touch" and to have the opportunity to place the order in the store with the help and suggestions of the Brand Ambassador. In summary, the other two reasons that led Andrea Diotti and his team to consider an offline expansion strategy were: satisfying the so-called "need for touch" of its customers and strengthening its brand through a physical presence and a brand ambassador.

As already mentioned, HomePlaneur represented a very particular case in the world of DNVBs. Indeed, it had many specificities and an offline retail strategy much more similar to traditional distributors than DNVBs. Despite that, the study of this reality is essential. First, because it is representative of the furniture sector in Italy; second, because, although backward in many respects, it still represents one of the most innovative companies in the Italian furniture sector. As evidence of the similarity with the traditional distributors, there are some strategic choices that are totally different from the ones usually taken by DNVBs. One of these is the idea behind the offline expansion strategy, based not on data and information, like in the other cases studied in this paper, but rather on an "experimentation theory" and "why not?" perspective. Another aspect that distinguishes HomePlaneur from the experiences considered so far is the metrics used to evaluate the physical store performance. Indeed, no particular measurements were implemented in this area, as confirmed by Andrea Diotti himself: "*as far as metrics and KPIs are concerned, everything was very rudimentary and proportional to the resources available to us at that time*"[61].

VII.IV Technological innovations in HomePlaneur

"*At the research level, we evaluated and pre-designed any retail technology applicable to the furniture world, from beacons to digital signage, passing from telepresence systems and touch*

[60] **Source**: Author's interview with HomePlaneur Founder, Andrea Diotti.
[61] **Source**: Author's interview with HomePlaneur Founder, Andrea Diotti.

tables"[62]. These are just some of the projects considered by the HomePlaneur Team from 2014 to 2018 for its first physical lounge. However, all of these projects were connected to the scalability and success of the startup based at Lentate sul Seveso. So, most of the projects had never found a real application in the Lounge. The only two technological systems used to offer HomePlaneur customers a more interactive and integrated shopping experience were a screen system in the Lounge and a tablet and computer structure to finalize the purchase online, also from the Lounge. The latter was actually a necessity more than a plus. Indeed, for HomePlaneur, the only way to process an order was to receive it from its online platform. This was mainly due to its business model, but also to the peculiarities of the sector in which it operated.

VII.V Future for the Made in Italy retail according to HomePlaneur

According to Andrea Diotti, the path undertaken by HomePlaneur, and then continued by diotti.com, is a route that is not only practicable, but also advisable for the Made in Italy furniture sector. Nowadays, there are some very few successful examples, at least for what concerns the Italian market. An innovative boost could be given by the coronavirus crisis, which has the only merit of having given a strong innovative and digital boost also to very traditional and backward sectors, such as the furniture one in Italy. However, there are already some successful examples abroad, also in the furniture sector. One of these is Made.com. According to Andrea Diotti, the Italian sector and Italian startuppers should take inspiration from this kind of example. Replicating and adapting their business model also in Italy. Surely, the peculiarities and strengths of the Italian furniture sector should not only be considered but also emphasized by the new digital brands that will arise.

[62] **Source**: Author's interview with HomePlaneur Founder, Andrea Diotti.

VIII. Case study IV: Velasca

VIII.I Company overview

Velasca first idea was drafted in August 2012 in Asia. Enrico Casati, Velasca co-founder, and Jacopo Sebastio, Velasca CEO and founder, are family friends, both former students at the Beccaria high school in Milan. The business idea was born from a practical need: Enrico needed a pair of elegant and good quality shoes at a reasonable price. The two thus matured the idea of "*making a model scalable that would put those who want an artisanal product around the world in direct connection with the artisans who make it*", with strong disintermediation of the entire supply chain, said Enrico Casati[63]. They identified the Marche industrial district of Montegranaro as their starting point and, in 2013, the company was incorporated, and the online sales platform was launched.

Nowadays, Velasca boasts 11 physical stores (3 in Milan, 2 in Rome and then in Turin, Bologna, Firenze, Palermo, London, and Paris) and relies on 9 artisan families, about 200 people, in the Montegranaro industrial districts, and almost 50 employees. "*But then there is a whole branch apart from that. It is generated because the artisans do not take care of all the processing phases. So, the people who actually gravitate around the Velasca ecosystem are between 800 and 900*"[64], said Jacopo Sebastio. Moving to the financial side, The Milanese "digital company" closed 2019 with almost € 10 million in revenues, with an 80% growth compared to the previous year[65]. Up to date, Velasca has raised € 8.8 million euros from financial

[63] **Source**: Velasca: "Per l'Italia il bello è un dovere morale",2020. Available online at: https://www.fortuneita.com/2020/08/01/velasca-per-litalia-il-bello-e-un-dovere-morale/ [Accessed October 25, 2020].

[64] **Source**: Velasca: "Per l'Italia il bello è un dovere morale",2020. Available online at: https://www.fortuneita.com/2020/08/01/velasca-per-litalia-il-bello-e-un-dovere-morale/ [Accessed October 25, 2020].

[65] **Source**: Informatic Analysis of Italian companies,2020.

rounds, opening their share capital in several rounds, the last one back to September 2019, € 4.5 million led by P101 and Milano Investment Partners (MIP)[66].

Velasca closed the first six months of 2020 with the same level of turnover as in 2019, although the apparel market and, more specifically, the Made in Italy sector faced a collapse in consumption of -70% between March and April. Velasca's counter-current rise confirms that their disruptive choices gather opportunities where others face crisis. From the period of inactivity, Velasca created new strategies, especially as regards communication, which is more focused on people and stories than on the products. Communication was seen as an essential bond with customers in a difficult time. A communication based on Velasca's values and Italianness first of all: "*Italy has a kind of moral obligation to bring beauty into the world. We are not simply Made in Italy, but we are also ambassadors of the Italian spirit, of the Italian lifestyle*"[67], said Jacopo Sebastio.

Despite the crisis that is hitting not just the Made in Italy sector, but the whole global economy, Velasca has an ambitious business plan, with a target of € 70 million in revenues by the end of 2025[68]. The future sales will always be mainly driven by the online channel, which nowadays accounts for 55%, but Velasca will also strongly invests in the opening of new physical stores, the so-called "Botteghe Velasca", through which continue an internationalization process started in 2019. By the end of 2020, Jacopo and Enrico will open two new stores in New York and Paris and "*the goal by 2025 is to reach 33 stores with a predominant foreign weight*"[69], explains Enrico Casati. Today, 70% of sales go to Italian customers, while the aim is to have 60% of the business across the border in five years. With an approach, both offline and online, never generalist: in every new market, Velasca

[66] **Source**: Velasca debutterà in autunno a New York e in primavera con un marchio donna,2020. Available online at: https://www.ilsole24ore.com/art/velasca-debuttera-autunno-new-york-e-primavera-un-marchio-donna-ADK6S9i [Accessed October 25, 2020].
[67] **Source**: Velasca: "Per l'Italia il bello è un dovere morale",2020. Available online at: https://www.fortuneita.com/2020/08/01/velasca-per-litalia-il-bello-e-un-dovere-morale/ [Accessed October 25, 2020].
[68] **Source**: Velasca debutterà in autunno a New York e in primavera con un marchio donna,2020. Available online at: https://www.ilsole24ore.com/art/velasca-debuttera-autunno-new-york-e-primavera-un-marchio-donna-ADK6S9i [Accessed October 25, 2020].
[69] Enrico Casati (Velasca): Così l'Italia può rimanere un'eccellenza produttiva, 2019. Available online at: https://www.econopoly.ilsole24ore.com/2020/07/30/call-me-startup-enrico-casati-velasca/ [Accessed October 25, 2020].

presents itself with an *ad hoc* foreign company, a localized and customized site on the tastes of the country and local service networks, to have an offer truly tailored to every single customer[70].

VIII.II Velasca Business Model

Velasca was founded by Jacopo Sebastio and Enrico Casati, both Bocconi Alumni. The latter graduated in International Management before starting a graduate program in private banking in Singapore. Jacopo Sebastio, on the other hand, spent several years in the consulting sector, mainly focusing on debt restructuring. This experience was essential in order to gain a full understanding of different sectors and of the company's management system. As he said, "*The experience in consulting, and in particular in debt restructuring and industrial planning, was crucial to gain knowledge of different sectors and to learn how to run a company for better or for worse.*"[71] Their respective families also played a key role in the creation of Velasca. Indeed, they both come from small business families and the choice to start their own company was totally supported by them.

The four fundamental pillars on which the Velasca business model is based are the following:

1. An omnichannel DtC model, from the producers in the Montegranaro industrial district to the final consumers without other intermediaries outside Velasca. Jacopo and Enrico are trying to disintermediate a sector that historically relies on many mediators (sellers, re-sellers, agents, etc.), who do not have a direct impact on the product quality but inflate the price. In doing so, Velasca offers a high-quality product at an affordable price.

[70] **Source**: Velasca debutterà in autunno a New York e in primavera con un marchio donna,2020. Available online at: https://www.ilsole24ore.com/art/velasca-debuttera-autunno-new-york-e-primavera-un-marchio-donna-ADK6S9i [Accessed October 25, 2020].
[71] **Source**: Author's interview with Velasca Founder, Jacopo Sebastio.

2. Customer-centric business is achieved through direct contact with its customers thanks to physical stores and brand ambassadors. This allows the two founders to communicate Velasca values more efficiently (Made in Italy, craftsmanship, and innovation). Among the others, these values are also mentioned by Jacopo Sebastio as fundamental pillars of their business model.
3. Made in Italy, craftsmanship and high-quality products are the founding elements of Velasca, which proposes itself not as a simple distributor of shoes but as an ambassador of Made in Italy in the world: "*we do not just sell a product, we want to export Made in Italy in the world* "[72].
4. Last but not least, innovation and, more generally, technology, without which the Velasca model could not have existed. The technology and innovations that have taken place in recent years have allowed Velasca, and many other brands, to explore other sales channels and to come into direct contact with their customers both online and offline. Technology has played a fundamental role also in the digitization and efficiency not only of physical stores but also of the entire production process.

Velasca also recently communicated its business plan for 2025. As already mentioned, the fundamental objective is to reach € 70 million in revenues, mainly through a well-defined internationalization strategy. "*Up to date, 70% of sales go to Italian customers, but within five years, the aim is to have 60% of the business across the border*"[73], opening 33 stores with a preponderance towards foreign countries. Another great novelty of the new business plan is the expansion strategy towards the women's footwear sector through Velasca's sister brand. "*We intend to leverage a database of 2 million women who have already landed on our website, thanks to online communication or simply to buy a gift to their husbands, boyfriends, brothers, and fathers*"[74].

In conclusion, Velasca's relationship with its customers represents an emblematic example for the Italian DNVBs, operating in the Made in Italy sector. Indeed, it is the only brand that was able to develop an exceptionally attached community around its own brand,

[72] **Source**: Author's interview with Velasca Founder, Jacopo Sebastio.
[73] **Source**: Author's interview with Velasca Founder, Jacopo Sebastio.
[74] **Source**: Author's interview with Velasca Founder, Jacopo Sebastio.

moving the focus from the product to the "Made in Italy" and to the Italian spirit. This process has been speeded up by the coronavirus and the consequent closure of physical stores. During this period, Velasca decided to highly bet on a communication focused on the artisans of the Montegranaro industrial district and on Italian traditions. For example, exalting the authenticity of the uses and customs of some Italian regions such as Puglia. Also, thanks to these latest marketing campaigns, Velasca has managed to enter the hearts of its customers, "*thus becoming more a publisher of content appreciated by its customers than a simple shoe producer/distributor*"[75]. This made it possible to significantly improve brand engagement and shifted the focus from the product to the values of which Velasca wants to be the ambassador. In addition to a better brand engagement, in the future, this will also allow Velasca to commercialize more products other than shoes. In other words, "*the success of a brand is achieved if you manage to create a fairly familiar relationship with your customer*"[76].

VIII.III Velasca offline expansion strategy

Velasca initially was just an e-commerce. "*In September 2014, we were making € 3,000 a month in sales. Then a loan of 125 thousand Euros arrived and we decided to open a temporary store in Tortona street. A successful bet: in December, the turnover had increased tenfold*"[77], said Jacopo Sebastio, CEO and founder of Velasca. When Velasca opened the first temporary store, it leveraged on a database of 5,000 contacts in the city of Milan who had landed on their website but had not completed the purchase. So, Enrico and Jacopo understood that omnichannel was ideal at that stage because they had to work on customer confidence and trustiness towards the brand, customers' need for touch, and brand positioning.

Behind the decision to go offline, in addition to the above-mentioned reasons, there are some strategic insights given by a knowledge of the retail sector and exemplified by some

[75] **Source**: Author's interview with Velasca Founder, Jacopo Sebastio.
[76] **Source**: Author's interview with Velasca Founder, Jacopo Sebastio.
[77] **Source**: Velasca: "Per l'Italia il bello è un dovere morale",2020. Available online at: https://www.fortuneita.com/2020/08/01/velasca-per-litalia-il-bello-e-un-dovere-morale/ [Accessed October 25, 2020].

specific metrics. In particular, Jacopo and Enrico expected to have a lower offline Customer Acquisition Cost (CAC)[78] and, consequently, a higher Life Time Value (LTV)[79] per customer, thus bringing greater profitability to the company and better efficiency in terms of sales and marketing, as evidenced by the LTV/CAC ratio[80]. In other words, Jacopo and Enrico strongly believed that, in this sector, an offline presence would allow them to reduce the cost of acquiring a customer, thus increasing its value and, ultimately, the profitability of the company itself. "*This intuition was then confirmed by data: once we opened the store, the CAC in that area significantly decreased compared to the situation pre-opening*"[81].

Another insight that testifies the goodness of choice to go offline is constituted by the comparison between the LTV curves for the online and offline customers cohorts (**Figure 8**). Unfortunately, real data on LTV for the online and offline cohorts cannot be disclosed, because they are still relevant for the company's strategy. So, the graph is for illustrative purposes only, and it was built on Author's assumptions. Although the LTV per customer is initially higher for the online cohort, over time, this line takes an asymptotic form while the LTV of the offline cohort continues to grow linearly, reaching out to the online LTV after two and a half years. This further result demonstrates how the customer's exposure to a physical environment and to a brand ambassador arouses emotions and feelings in him that strengthen his loyalty towards the brand. However, the trends and preferences of Velasca customers cohorts are constantly evolving and it is difficult to generalize regarding their preferences in terms of the shopping channel. "*For example, when we opened the first store in Milan, 95% of customers preferred to convert offline, so far this percentage has dropped to 75%*"[82]. This highlights a sort of "education from offline to online" based on the development of trust towards the brand, thanks to the omnichannel strategy.

[78] **Definition**: the CAC can be calculated by simply dividing all the costs spent on acquiring more customers (marketing expenses) by the number of customers acquired in the period the money was spent.
[79] **Definition**: Customer lifetime value is the total worth to a business of a customer over the whole period of their relationship.
[80] **Definition**: The Customer Lifetime Value to Customer Acquisition (LTV/CAC) ratio measures the relationship between the lifetime value of a customer, and the cost of acquiring that customer. The metric is a signal of customer profitability, and of sales and marketing efficiency.
[81] **Source**: Author's interview with Velasca Founder, Jacopo Sebastio.
[82] **Source**: Author's interview with Velasca Founder, Jacopo Sebastio.

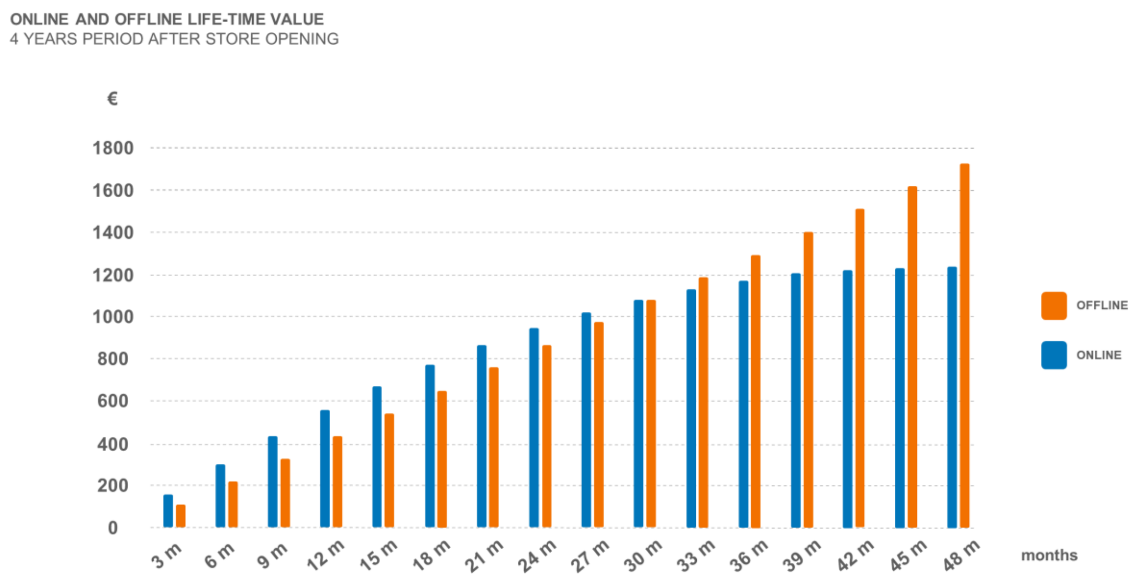


Figure 8. ***Source****: Author's elaboration, from estimated data.*

Over time, the offline expansion strategy has been refined and, nowadays, it follows a well-defined path. First, they test the penetrability of a specific market through online sales: "*we use our online business unit like a ram*"[83]. If a certain responsiveness is recorded, then they directly ask their customers in that area whether they would like a physical store and in which location. At this point, they use the information collected and the online database to set up an offline expansion strategy as efficient as possible, bringing an Italian resource (Brand Ambassador) to each store.

Moving to logistical and operational capabilities, Velasca has adopted a different approach than the other DNVBs operating in the Made in Italy sector. The guideline was to outsource all those functions that do not come into direct contact with the customer - for example, production and logistics - and to build all the other departments internally, from design and marketing to customer care. Furthermore, Velasca decided to open its own capital from the very beginning. Not only to receive new funding, but also to acquire new skills. "*In the Family and Friends round, we opened the doors to two fundamental figures that filled our gaps in terms of operational and logistic knowledge*"[84]. One of these is Alberto Birolini, Managing Director of Fiege Italy, the logistics partner of Velasca.

[83] **Source**: Author's interview with Velasca Founder, Jacopo Sebastio.
[84] **Source**: Author's interview with Velasca Founder, Jacopo Sebastio.

In conclusion, as regards the metrics used for performance evaluation of physical stores, Velasca behaves similarly to the other case studies analyzed in this work. That is, an almost total alignment between offline and online metrics. Old metrics for physical stores, such as sales per square meter, are no longer taken into account. Rather, the metrics already mentioned above, are considered, such as CAC and LTV per customer, as well as the Cost Per Order (CPO)[85] net of marketing expenses, which are difficult to allocate. These measures are calculated for both the online and offline channels, so that they can be compared. However, performance is mainly assessed at an aggregate level between the two channels, taking into consideration the income statement of a specific "silos" (geographic area). In order to make this type of evaluation, the Gross Margin is disaggregated, and the so-called PC4[86] of the different silos is compared.

VIII.IV Technological innovations in Velasca

Innovation, but more generally, technology, represents one of the fundamental pillars of the Velasca business model. This centrality is outlined by the attention that Jacopo and Enrico place on the world of technological innovations. For what concerns the "data gathering" technologies, right now, Velasca does not adopt any specific tools other than software that allows it to align offline metrics to the online ones. The stores are, in fact, very small and their dimensions allow the Brand Ambassador to follow the customer very carefully in the sales process without having to rely on technologies such as traffic sensors and heat maps. A similar argument can be made for what concerns the adoption of technologies which offer a more integrated shopping experience to the customers, such as virtual try-on or magic mirrors. Nowadays, in the footwear sector, there are no virtual try-on technologies advanced enough to offer a satisfactory result for Velasca. According to

[85] **Definition**: Cost per order (CPO) is the total calculated cost that is incurred by a customer making a purchase and determines profit made from a single order.
[86] **Definition**: PC4 = Gross Margin – Variable Costs – Paid Adv. & Store Fixed Costs – Other Costs (Personnel, office rents, etc.)

Velasca CEO, Jacopo Sebastio, they have "*super open ears and super-wide eyes to be able to grasp the development of this technology as soon as a decent formula lands on the market*"[87].

Another technology currently considered by Velasca is Radio-Frequency Identification (RFID)[88]. Through this smart tag, to be placed between the sole and the sub-sole of the shoes, Velasca could collect even more data from the production process, automatically create shipping documents, quickly carry out quality checks and allow its customers to easily check the inventory status of a store, from their personal devices.

VIII.V Future for the Made in Italy retail according to Velasca

"*I no longer believe in the value of intermediaries. They played an essential role in the past, making available products and services that otherwise there would not have been. Today, thanks to technology, their role is no longer necessary and they do not add any kind of value to the products marketed by them* "[89], so begins Jacopo Sebastio when his point of view on the future of Made in Italy is asked. According to Velasca, the DtC model, the centrality of "quality industrial districts" and a "family relationship" with the customer base represent the magic formula for the future of Made in Italy. This way is not practicable by big brands, too structured and too large to be able to revolutionize their business model. This leaves room for new startups that could replicate the Velasca experience in other sectors of Made in Italy, or for Velasca itself which, through the construction of a very strong brand, could decide to become horizontal, thus marketing more types of products. One of the most interesting projects that Velasca is ideating for the future is the *Velasca Academy*. A sort of University in the industrial district of Montegranaro that teaches young artisans from Montegranaro how to directly market their products without the need to rely on intermediaries, including Velasca.

[87] **Source**: Author's interview with Velasca Founder, Jacopo Sebastio.
[88] **Definition**: RFID is a method of data collection that involves automatically identifying objects through low-power radio waves. Data is sent and received with a system consisting of RFID tags, an antenna, an RFID reader, and a transceiver.
[89] **Source**: Author's interview with Velasca Founder, Jacopo Sebastio.

IX. Discussion

This paper aims to fill the research gap highlighted in the introduction, to serve as a reference point for future research on this trend, and, last but not least, to answer the three research questions highlighted at the beginning of the paper.

Thanks to the literature review, an evaluation of the two main quantitative studies regarding this trend, and, above all, thanks to a well-structured research design, the paper fulfills the purposes initially set and outlines findings that increase the value of the work itself, and that can serve as a starting point for future research.

Before analyzing in-depth these results, anyway, it is necessary to underline, for clarity of explanation, the possible **limitations** of this study. The only limitation to keep in mind while reading this work is related to the choice of the third case study, HomePlaneur. HomePlaneur raises some issues in this research mainly due to the fact that it does not exist anymore as an independent brand and operated into a sector other than the one considered in the other three case studies. These criticalities could appear as a limitation when comparing the different case studies and could lead to inconsistent results if not taken into consideration. However, including this case study is a well-calculated risk, with the intention of increasing the value of the research itself. Indeed, HomePlaneur is the only example of DNVB in the Italian furniture sector, a key sector in the Made in Italy market. Furthermore, the fact that it ceased its activities offers the author a fundamental point of view on the difficulties that DNVBs face in certain sectors.

As already mentioned in the previous chapters, the findings of this research have pointed out a picture that largely confirms what was anticipated in the literature review and in the evaluation of the two quantitative studies, but not without some exceptions and particularities.

Indeed, on the one hand, the four case studies considered (Lirecento, Lanieri, HomePlaneur, and Velasca) follow in many aspects the DNVB model already observed in the United States of America and Asia and the trends mostly described at the beginning of

this paper. On the other hand, the DNVBs object of study own unique attributes due to their initial stage of life, but especially to the idiosyncrasies of the Italian manufacturing sector.

IX.I Business Model

CASE STUDIES COMPARISON
BUSINESS MODEL

Macro-themes	Sub-themes	Lirecento	Lanieri	HomePlaneur	Velasca
Business Model	Founders previous experience	- International experience - Strategic consulting - Insurance and credit consulting	- International experience - Management engineering - Consulting & MBA	- International experience - Bocconi graduate - +23 y of experience in the same sector - Family business	- International experience - Bocconi graduates - Consulting and private banking - Family support
	BM fundamental pillars	- «Made in Italy» (high-quality) - DtC (Affordable price) - A «perfect» fit	- «Made in Italy» (high-quality and italian tailoring) - Omnichannel experience (perfect integration) - Machine Learning (individualization)	- «Made in Italy» (high-quality) - «Re-editor» (brand and content) - Digital world and high level of customization	- «Made in Italy» (high-quality) - Omnichannel & DtC (affordable price) - Focus on customers - Innovation
	Relationship with customers	- Multiple touchpoints - Close two-way relationship	- Huge interaction but nothing more than commercial relationship (NO «community»)	- Task oriented purchase - NO need to create a community	- Focus on customers is one of BM fundamental pillars - Community - Close two-way relationship

*Table 2. **Source**: Author's elaboration.*

For what concerns the business model and the fundamental pillars on which it is based, all four case studies present two of the main characteristics of DNVBs illustrated by Gallino and Moreno (2014) and that are reported in the literature review (**Table 2**).

The two common features are the DtC model, which allows them to sell a high-quality product at an affordable price (Dunn, 2016), and the importance that the digital world takes on in these companies, not only as a sales channel but also as a communication tool (Fittkau and Maab, 2016).

In the four case studies considered, the high-quality feature of the product assumes a very specific formula, not common to foreign DNVBs, namely "Made in Italy". Over the years, this term has become synonymous of quality and style, and today represents the first value that the Italian DNVBs communicate to their own externals. The proximity to the

digital world, and more generally to the technological world, is a constant in the four case studies, which can therefore be analytically generalized to the rest of the Italian DNVBs. However, this takes on a very specific shape in Lanieri, which indicated Machine Learning (ML) as one of the fundamental pillars of its business model.

According to Dunn (2016), a maniacal focus on customers, with the consequent development of a "community", is one of the first point on which DNVBs should leverage for differentiating themselves from other online sellers. What can be extrapolated from the empirical part of this paper is that just two out of four companies are really engaged in creating such a community. One of these, Lirecento, is still at its initial stage, while the other, Velasca, already succeed in creating this community and now is first experiencing the benefits of having such a loyal customer base. After the first six months since the outbreak of coronavirus, Velasca was able to maintain the same level of sales compared to the previous year, leveraging on the communication and loyalty of its customers. The other two brands, Lanieri and HomePlaneur, declared that the sector in which they operate, and their customers target do not allow them to go beyond a purely commercial relationship. This could be partially true: there are more utilitarian sector where it is harder to create a community (Blazquez, 2014), but this should not discourage companies from trying to create it. Investments in profiling of customers, content-creation, and storytelling could be a first step for startups that currently do not have an engaged and interactive customer base.

Another important finding of this research is represented by a pattern concerning the academic and professional background of founders and co-founders, which emerged during the interviews and could be analytically generalized. Indeed, at least one between founders or co-founders had a significant abroad experience and studied Economics or Engineering, while three out of four startups were founded by people that had previous experience in consulting. The latter was clearly indicated by the interviewees as one of the fundamental experiences that brought them to the foundation of their startups. This is probably due to the horizontal knowledge among different sectors that this sector teaches. Although this goes beyond the purpose of this paper, it is noteworthy to mention this finding as a possible starting point for **future research**. The variables that have a stronger

impact on the foundation of Digital-Native startups could be identified and studied in depth.

IX.II Offline Expansion Strategy

CASE STUDIES COMPARISON
OFFLINE EXPANSION STRATEGY

Macro-themes	Sub-themes	Lirecento	Lanieri	HomePlaneur	Velasca
Offline Expansion Strategy	Decision to go offline	- Almost contemporary with their online birth - Temporary store at the beginning	- Almost contemporary with their online birth - Temporary store at the beginning (4 Milan, 1 Rome and 2 London)	- Almost contemporary with their online birth - «Store-Office»: decrease in costs, increase in efficiency	- November 2014 (database of 5000 contacts that were not buyers) - Temporary store at the beginning
	Main reasons	- Gather data and information about customers - Feedbacks - Build a stronger relationship with customers	- Need for touch - Need for advices (human relationship) - No trust in a new brand	- Need for touch - Need of a physical space for Content-Creation - Better communication of HomePlaneur values	- Need for touch - Spend less for getting a client (CAC) and improve their Life Time Value (LTV) - Bigger value/benefits for the company - Enhance loyalty towards the brand
	DNVB's characteristics on which they leveraged to go offline	- Possibility to test through marketing campaign the profitability of an area - Access to customer data before opening a store	- Digital marketing campaign before opening a store - Cheking the online traffic before opening a store in the right city (CTR)	- No particular characteristics, research and «Why not?»	- Internal mangement of data - «We use the online business unit as a ram»
	Operational and logistic knowledge	- First temporary store - Impressive training at the beginning	- First temporary store	- Already in possess of Operational and Logistic Knoweldge acquired in family business	- First temporary store - Externalization of functions not in direct contact with customers - Getting knowledge (not just founds) through financing rounds
	New metrics for evaluating offline stores	- Same metrics and KPI than the online channel - Alignment of offline metrics to online ones	- Same metrics and KPI than the online channel - "We use digital traditional metrics also for the offline sector"	- «For what concerns metrics and KPIs, it was all very rudimentary and proportional to the resources available to us at that time»	- Same metrics and KPI than the online channel - Impact of the stores on the regional revenues - CAC, LTV, CPO and PC4

*Table 3. **Source**: Author's elaboration.*

Moving to the offline expansion strategy, it can be observed that, except from HomePlaneur, the remaining three case studies started their expansion strategy with a temporary store, as already observed in most of the previous examples and highlighted by a passage of Picot-Coupey, K. (2014) (**Table 3**). HomePlaneur represents an exception in that sense due to two main factors: Andrea Diotti, CEO and founder, 20 years of experience in the furniture sector that allowed him to already own logistic and operational experience, and the strong bond to the family business and to its territory. The temporary store allowed the remaining three startups to acquire operational and logistic knowledge in order to complement their digital DNA. Velasca went further in that direction, opening its capital to

two figures that brought not just funding but also capabilities and knowledge. One of these is Alberto Birolini, Managing Director of Fiege Italy, the logistics partner of Velasca.

The offline expansion strategy was ideated by the four case studies almost contemporary with their birth online, which underlines the importance that this strategy, and in particular the physical store, played in their business model. HomePlaneur was the only one to open a store that reminds the concept of "Store-Office" in order to decrease costs and increase operational efficiency. Lirecento, Lanieri, and Velasca opened the first pop-up store in Milan, all of them in Tortona street, mainly basing this strategy on the Founders' intuition (Pomodoro, 2013). Then the offline expansion strategy assumed a well-defined form, and some consequential steps were defined, as already seen in the quantitative study of Bell, Gallino, and Moreno (2017). So, in order to answer the **Second Research Question** (RQ2) a clear pattern can be summarized. Lirecento, Lanieri, and Velasca first identified higher online traffic in some specific cities through their online platform. Then they elaborated a marketing campaign targeting the more responsive customers in that area to gather data on them and create a customer base even before they opened a store in that city. In a few words, they *"used their online business unit as a ram"*[90]. After checking the target market responsiveness, they leverage on their database for implementing a more adaptable and efficient offline expansion strategy as done by the pioneers of this strategy, Warby Parker and Bonobos (Bell, Gallino, and Moreno, 2017). **The great availability of data and an efficient internal management of them allowed the Digital-Native startups to build a more flexible and more reliable decision-making process** also for what concerns the process of going offline. Choices such as physical store location, store and inventory dimensions, and store opening hours are made more efficient thanks to data collected through their online platform.

Moving to the main reasons that pushed the four case studies considered to go offline, and so answering to the **First Research Question** (RQ1), a clear pattern emerged from the empirical study. This pattern can also be analytical generalized to other digital-native startups operating in the "Made in Italy" sector since it was already recognized in the

[90] **Source**: Author's interview with Velasca Founder, Jacopo Sebastio.

literature review. Pantano *et al*. (2018), Latini, M. (2019), and Pomodoro (2013) already identified these three variables, jointly with others, as the main motivations for going offline. Considering what emerged from this study, the following variables should be considered as the only key triggers of an offline expansion for companies operating in the "Made in Italy" sector:

1. **Customers "Need for touch"**. This need is particularly important in the "Made in Italy" sector where high-quality products are sold, customers are highly involved in the shopping process, and more hedonistic values are involved if compared with a normal purchase of the same kind of product (Blazquez, 2014).
2. **Company's need to physically get in touch with its customers in order to build a stronger brand**. This plays a key role in digital-native startups that, on the one hand, aim at communicating its values through a physical space, building a stronger brand, and increasing the loyalty towards it (Delgado and Hernandez, 2008). On the other hand, the physical space also allows them to gather more data from the analog shopping experience.
3. **The availability of technological tools and the decreasing prices of them**. Generally speaking, all the startups object of study mentioned various technology synonyms, such as digital and innovation, in order to indicate one of the reasons that pushed them offline. This is in line with what is expected from the literature review (Latini, 2019).

Another relevant aspect that was investigated concerns KPI and metrics used for evaluating physical store performances. The stores opened by the Digital Native startups are quite different from traditional retailer stores, with regard to their atmosphere and to their purpose. That said, old KPI and metrics used for evaluating the traditional store performance, such as sales per square meter or per employee, are not any more reliable. From the empirical study, it emerged that, except for HomePlaneur, there is a **general alignment of offline metrics to the online ones** in order to compare the two channels. This is a first step, but much can be improved, and more effort should be produced in order to elaborate proper metrics that take into account the slightly different purposes that the two

sales channels address. In this direction, the impressive work of Bell, Gallino, and Moreno (2017) should be taken as a point of reference.

IX.III Technological innovations

CASE STUDIES COMPARISON
TECHNOLOGICAL INNOVATIONS

Macro-themes	Sub-themes	Lirecento	Lanieri	HomePlaneur	Velasca
Technological Innovations	More integrated customer experience	- Not currently using technological tools but interested in instruments such as magic mirror	- Body scanner 3D but technology is still not enough developed - No need for any further integration at the moment	- Screen System - Digital Purchasing System (Tablet, iPad and Computers) - Interested in tools such as interactive tables	- AR/MR/VR are not enough developed - Waiting for better technological tools
	Gathering in-store data	- Not currently using technological tools but interested in instruments such as traffic sensors	- Beacon but then dismissed because not necessary - Small store, no need for need traffic sensors	- Never used technological tools but interested in instruments such beacons and digital signage	- Tools for aligning offline metrics to online ones - Small store, no need for need traffic sensors - RFID

*Table 4. **Source**: Author's elaboration.*

Moving to the **Third Research Question** (RQ3), and more specifically to which technological tools were applied by the four startups object of study to two application fields: data-gathering and building a more interactive and integrated shopping experience; a common approach emerged together with some exceptions (**Table 4**).

All of the four companies indicated technology as a fundamental pillar for both their business model and their offline expansion strategy. Indeed, Lirecento, Lanieri, HomePlaneur, and Velasca claimed **they were really interested in both the application fields**, and they were ready to implement some new customer-facing in-store technologies (CFIST) for improving their shopping experience (Hartfelder and Winkelmann, 2016). **However, they are currently not**. This is partially explained by the **current technology level reached nowadays**. Indeed, for what concerns the shoe sector, as well as for the pants and suits industries, Augmented Reality (AR), Virtual Reality (VR), and Mixed Reality (MR) did

not still reach enough advanced level to meet customers expectations. Another aspect that disincentivize them from the adoption of such tools is **the relatively small size of their physical stores**, generally under 100 square meters. This allows the brand ambassador to guide the customer through the purchasing process without the need for technological tools.

Lanieri represents a pioneer in this environment. Indeed, it was the only company to adopt both CFIST technologies (body scanner 3D) and instruments to gather data in the physical store from customers (beacon). Both of them were subsequently discarded, so testifying what just affirmed in the previous paragraph. Also, HomePlaneur, before the rebranding process, had adopted some CFIST technologies (screen-system and mobile devices for placing orders online also from the store).

X. Conclusions

Before moving to the real conclusions, it could be worth to highlight once again the research's impact on the current discussion regarding digital-native startups and their relationship with offline retail. As already mentioned, whether on one side, a wide array of causes and motifs that push an online brand to expand offline had already been extensively investigated. On the other side, no investigation was made with a focus on Digital Native Brands operating in the "Made in Italy". This research not only punctually determines the three main reasons that could also be analytical generalized but also describes in-depth the whole process of going offline, the business strategy behind it, and also defines some specific aspects related to this strategy. Among these aspects, the more relevant are the KPIs and metrics used for evaluating store performance, the process of acquiring operational and logistic knowledge, and the DNVB's characteristics on which they leveraged for going offline. Furthermore, this research also aims at exploring the DNVBs operating in the "Made in Italy" technological status. Therefore, this article could fill a gap in the existing academic and industrial literature with regard to a very recent trend that has still to be well defined and analyzed. In this perspective, this work could be a pioneer in the inquiry of this new field of research, also making room for future studies.

Finally, the DNVB model could represent not just a viable way for the future of the "Made in Italy" sector, but it actually could be the most profitable one for many industrial districts and SMEs that aim at expanding their business without huge financial availability. "*The Italian social-economic context can be compared to a red carpet rolled out specifically for the DNVB-concept: over 99% of entrepreneurial activity is represented by SMEs, of which about 95% are micro-enterprises, often penalized by the high cost of intermediation (both physical stores and e-commerce containers)"*[91]. From this perspective, the DNVB model could give to Italian high-quality industrial districts, such as Montegranaro for Velasca, Brianza and Treviso for HomePlaneur, Biella for Lanieri, and Piove di Sacco for Lirecento, the opportunity to

[91] #DNVB THE GAME CHANGER FOR ITALIAN CRAFTSMANSHIP (AND NOT ONLY), M. Perego, 2017. Available online at: https://www.amerigomilano.com/en/magazine/the-game-changer-for-italian-craftsmanship/ [Accessed November 5, 2020]

disintermediate their sales channel, so offering a lower price for the same product. The new startuppers should start their business through an online platform, so creating a customer base and gathering data from them. By leveraging on these, they should then implement an offline expansion strategy that allows them to get directly in touch with their customers. Physical stores will still play a crucial role in the “Made in Italy” sector since the latter mainly trades high-quality and artisanal products for which a clear “Need for touch” is felt by customers. Moreover, through a physical touchpoint, the new DNVBs could enhance their brand and create a familiar relationship with their clients; this would finally let them switch from a vertical approach to a horizontal one, so adding more products and improving their profitability.

Leveraging on what was said above would permit the Italian industrial district, SMEs, and the “Made in Italy” sector to face the predominance of online big players. The model described above should act as a reference point for Italian startuppers who want to start their own business in the "Made in Italy" sector. Today, the digital world allows companies to reach a larger customer base compared to the past, letting SMEs and startups to immediately implement a massive offline business expansion strategy without large financial resources.

As already mentioned, a fundamental aspect of this business model is communication, or even better, digital communication. DNVBs must be able to effectively communicate their values to their customer base in order to create a community around their brand. In the DNVBs operating in made in Italy, this aspect plays an even more important role. The concept of "Made in Italy" has always had great communicative power and an appeal beyond the ordinary. Therefore, Italian digital-native startups should take care of this aspect, experimenting with new forms of communication and storytelling, to shift the customer's focus from the product to the brand itself. Brand communication must aim to establish an almost familiar and daily relationship between the brand and its customers. The company should propose itself as a Made in Italy ambassador, showing abroad the values and stories of the people behind the brand. On the one hand, this communication strategy allows to strengthen the brand. On the other hand, it allows the company to include the customers in the company decision-making process, so “empowering” them. In this

direction, an excellent job has been done by Velasca, especially with his latest advertising campaigns in Puglia, Montegranaro and Roma[92]. The other brands analyzed by this study do not seem particularly interested in exploring this opportunity.

As already amply emphasized, another aspect that plays a key role in the correct implementation of this strategy is data management. All the startups analyzed in this study pointed out data management as a fundamental part of their business model. However, much more can be done in terms of data analytics. Startuppers and managers should be aware of how data makes their decision-making process faster and more reliable. In this regard, the level of data analysis, Artificial Intelligence and Machine Learning achieved by companies such as Warby Parkers and Bonobos should be taken as a point of reference by the Italian DNVBs operating in the "Made in Italy" sector. Rather than analyzing a large amount of data, the DNVBs should focus their analyses on powerful data and insights, as also stated by Neil Blumenthal, Warby Parker CEO: "*We are believers in deep data rather than big data*"[93]. In this direction, a first fundamental step would be to analyze the effectiveness of the physical stores with new KPIs created *ad hoc* by each company, in order to quantify the so-called supercharging effect. So, having a more comprehensive idea of which kind of impact a physical store has on corporate performance.

In conclusion, it should be noted that from this paper raised further research questions that could be addressed by scholars in the future. Among these, as mentioned in the previous chapter, it would be interesting to study in detail what is the impact of the founders' background, so examining in depth the pattern emerged from this study. Another noteworthy study would also be the quantitative evaluation of the physical store's economic impact on a DNVB.

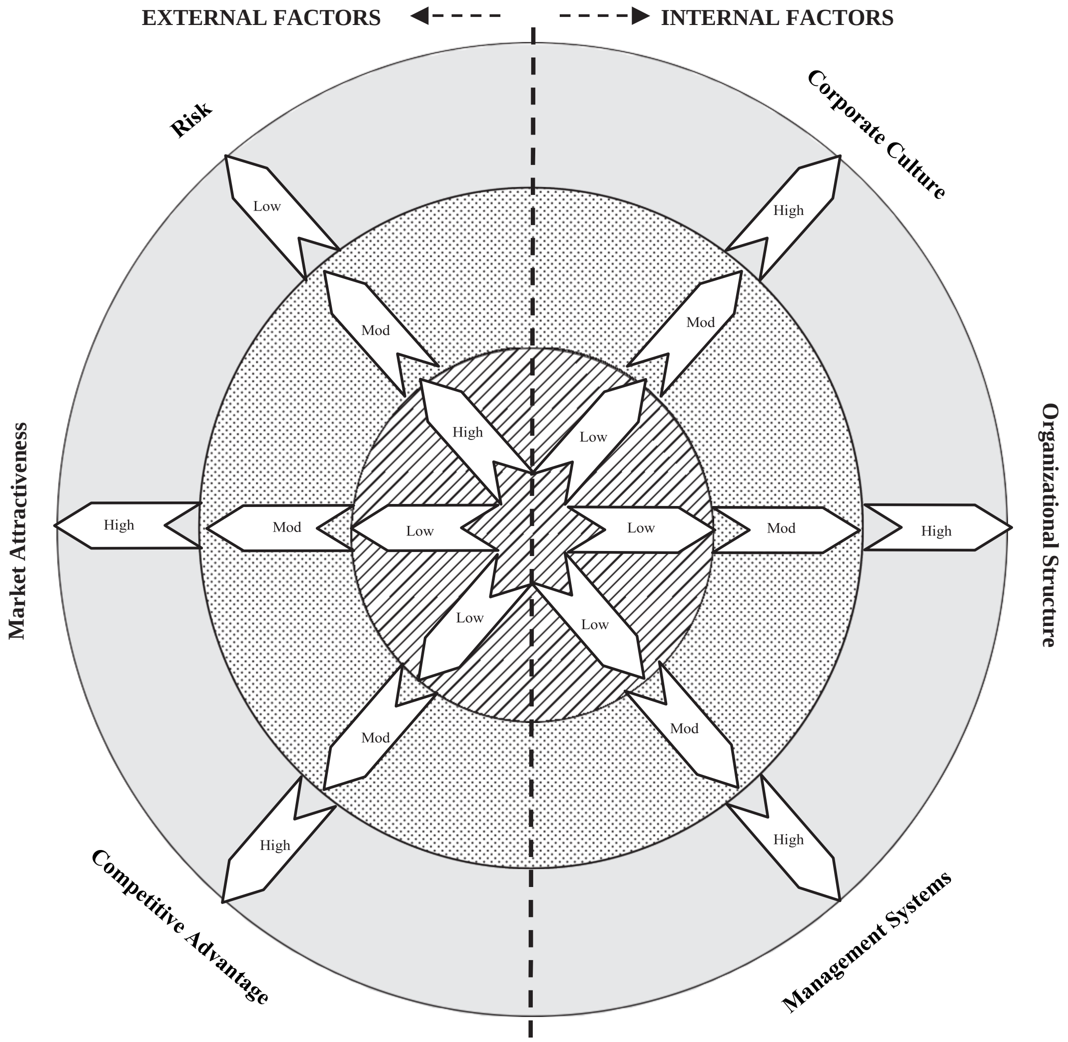
[92] Source: In viaggio segui l'istinto. Available at: https://it.velasca.com/pages/in-viaggio-segui-il-tuo-istinto [Accessed on november 24, 2020]

[93] **Source**: How Big Data Helped Warby Parker Go From Online to Brick and Mortar. Available at: https://www.devtribe.com/blog/2018/4/3/how-big-data-helped-warby-parker-go-from-online-to-brick-and-mortar [Accessed on November 23, 2020].

Annexes

Annex I. Business expansion strategies scorecard

Market Expansion Mode (MEM) model by Gary J. Robinson and William J. Lundstrom.



Full Ownership
Joint Venture
Exporting

Annex II. Semi-structured interview framework

Role covered in the company: CEO, Founders or Co-founders

"Before starting, I would like to inform you that both audio and video of the interview will be recorded. All data and information will be treated in compliance with the applicable legislation; they will be stored by myself and used only for academic purposes related to this thesis. Lastly, I would also like to remind you that this is a semi-structured interview with the aim of building a business case. So, any interactions or questions by your side is more than welcome. Thanks."

1. Could you start by introducing yourself, your academic background, your previous job experiences, and any personal experiences that brought you to the foundation of your company?

2. Could you describe, in a few words, what are the fundamental pillars your business model is based on?

3. When did you think about expanding offline for the first time? Could you explain the reasoning behind it and what your company strategy is?

4. What are the main reasons that pushed you to consider an expansion towards the offline sector?

5. Are there any company's specific characteristics, as a digital-native startup, on which you leveraged in order to run this strategy swiftly?

6. Your company has a strong digital DNA but, at least at the beginning, I suppose it lacked operational and logistic knowledge. How did you deal with that? And how did you practically implement this strategy?

7. In your stores, do you use, or do you plan to use any technological instruments in order to offer a more integrated and enjoyable customer experience, such as a screen system, social wi-fi, etc.?

8. In your stores, do you use, or do you plan to use any technological tools in order to gather more relevant in-store metrics such as people counters, traffic sensors or route mapping, etc.?

9. Your company stores are completely different from traditional retail stores, could you tell what the main differences are?

10. You just listed some of the main differences between a DNVB's store and a traditional one. I suppose that these two kinds of stores also serve different scopes; consequently, old metrics, such as sales per employee or conversion rate, are not any more efficient for measuring store performance. Which metrics do you actually use in order to assess your store performance?

11. How would you describe the relationship between your brand and its customers?

12. Do you know any other Italian startup that is implementing the same business expansion strategy towards the offline sector?

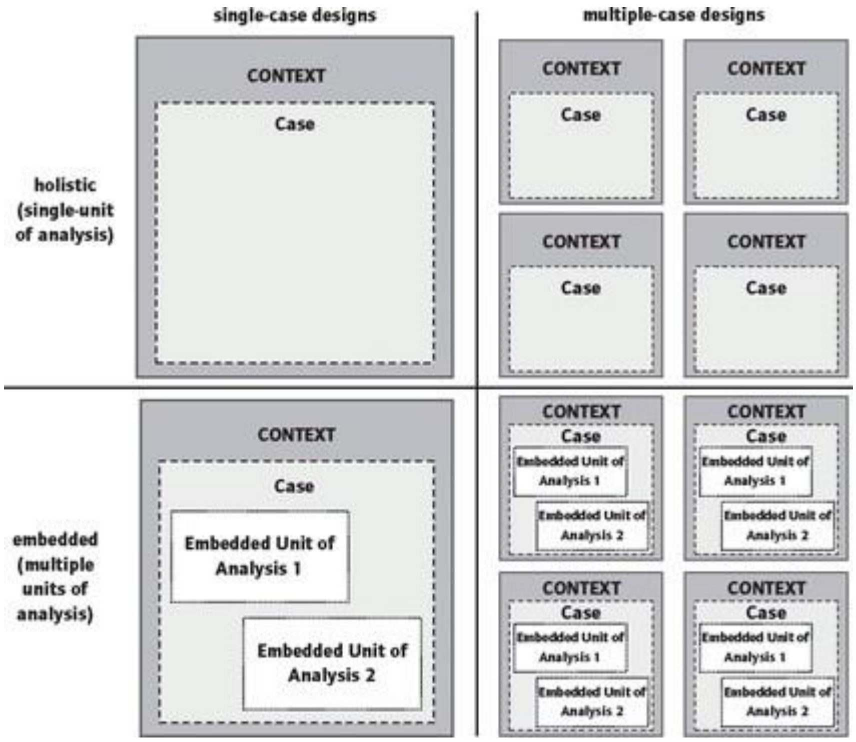
13. Considering the special characteristics of the Italian retail sector, do you think that DNVBs is a trend that will take hold in our country?

14. Is there any other comment or opinion you believe to be relevant to understand such a broad subject?

15. What would be your advice to a company that is considering going through this path? What are the taps to be avoided and what are the key success factors?

Annex III. Case study designs, 2x2 matrix

Basic Types of Designs for Case Studies. Source: COSMOS Corporation, re-edited by Yin, R.K., (2009).



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