# Retailers Transitioning from Click-Only to Click-and-Brick

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# Retailers Transitioning from Click-Only to Click-and-Brick

17 January 2020

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# Abstract

This thesis was an explorative research to gain a better understanding of why online-first retailers wants to transition from a click-only business model to the click-and-brick business model.  The research was conducted via a desk research, utilizing not only academic papers, which were retrieved through a systematic keyword research, but also non-academic sources such as company websites and news articles.  The objective was to identify key drivers and barriers for online-first retailers on transitioning to the click-and-brick business model. The results based on the found literature on business models theories, strategic management and click-and-brick business model specifically, with the described cases of Amazon, Alibaba and Coolblue. This led to the identification of five drivers which are linked to the retailing business models its value creation, namely: aftersales, fulfilling immediate needs, product availability, touch and feel, and information delivery. The key barrier which was identified is linked to the organizational structuring of adding offline channels to the current business model of the online-first retailer. For further research it is recommended to focus the strategic steps that have to be taken on adding brick-elements to the online-first retailer its business model, related to the company size of the retailer.

Keywords: Retail, Click-and-Brick, Click-only, Transition, Online-first Retailers, Business model, Strategic management

## Summary

Internet-based or online-first retailers are starting to open-up physical stores, adopting the click-and-brick business model. At the same time existing, brick-and-mortar, retailers are closing down their storefronts or investing in e-commerce, as the trend of online sales continues to grow. The question is, what drivers these online-first retailers to integrate brick-elements to their business and what can cause to withhold them to do this. However, little research has been done to try to identify these reasons or drivers for an online-first retailer to integrate elements of the brick-and-mortar retail. The objective of this thesis is to identify these drivers and barriers using academic sources on business model theories and strategic management, including practical examples.

A systematic literature review was performed, of articles found through keyword research and snowballing, in order to understand the concepts of e-commerce, retail, business models and strategic management. From existing literature, it is suggested that retail is focussed on providing information to consumers and fulfilment, and suggest that online-first retailers change to the pick-up point type of retail as click-and-brick business model. However, according to the literature on business models, it continues on the role of value that forms a business model. For retail the following three value components are important when designing a business model: value proposition, value creation and delivery, and value appropriation. The importance of a business model is to create competitive advantage, which is achieved by choosing and implementing a strategy either on the business-level or corporate-level. In which it is recommended to avoid getting “stuck-in-the-middle” by focussing on one strategy (such as product leadership, customer intimacy or operational excellence).

This thesis concludes on five drivers for transition, these are related to the fulfilment and information delivery to consumers, ultimately concentrating on the creation and delivery of value. Which can be broken down into five drivers, namely: aftersales, fulfilling immediate needs, product availability, touch and feel, and information delivery. The barrier identified is on the structure of how to organize the organization when integrating the new offline channels.

For further research, it is recommended to investigate the types of brick-elements that can be integrated into the online-first retailer’s click-and-brick business model. As literature was limited on providing insights on this, no conclusions could be drawn from the case study companies.

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# 1 Introduction

## 1.1 Background and Context

The Dutch internet-based retailer, Coolblue, opened its first physical store in 2003. Today, Coolblue has 9 physical stores in the Netherlands and Belgium, and at the beginning of 2019 announced their intentions to expand by opening 5 new stores (Coolblue (A), 2019; RTL Z, 2019). Amazon, the largest online retailer in the world, opened its first physical store in 2015 and has continued expanding the number of physical stores to 549 as of October 2019 (Schaverien, 2018; Redman, 2019).

At the same time the traditional, or brick-and-mortar, retailers are closing down stores as these retailers either shift to incorporate online presence into their business model or decrease the number of stores to focus on the most productive and profitable stores. For example, in the United States 6885 physical stores were closed in 2017 and its estimated that there will be another 8600 stores closed in 2019 (Deloitte., 2018; Peterson, 2019).

The trend of buying and selling products online, known as e-commerce, continues to grow worldwide. For instance, in the Netherlands, 80% of people between the age of 16 and 74 indicated in 2018 that they buy goods or services online, which was in 2008 only 56%, making the Netherlands the third country in Europe with the most individuals purchasing goods and services online (Eurostat, 2019). In 2018, e-commerce was 12.2% of total retail sales worldwide and projections indicate that this will increase to 22% by 2023. The forecasted total retail sales in 2023 is 29.763 trillion U.S. dollars, with 6.542 trillion U.S. dollars of that total value coming from e-commerce sales (Lipsman, 2019).

It seems contradicting for online retailers to switch from a click-only business model, selling products solely via website(s) to a click-and-brick model, incorporating offline stores (brick) and online stores (click).

The broader management issue lies in what motivates an online retailer to change their current click-only business model to the click-and-brick model. What are the key motivators for online retailers to change? And what are the strategic opportunities and constraints?

## 1.2 Problem Statement

It appears that even though click-only retailers benefit from the operational advantage compared to brick-and-mortar retailers, they still transition from click-only to click-and-brick model. The operational advantage that click-only retailers have compared to brick-and-click retailers are minimizing the geographical boundaries, cost reduction, increasing product availability and ultimately the ability to scale (Doong, Wang, & Foxall, 2011; Sharma & Krishnan, 2010). This made the online model attractive for brick-and-mortar stores, but for online-first retailers it resembles taking a step-back as it involves high investment cost in the physical infrastructure and shows the opposite degree of scalability (Enders & Jelassi, 2000). Still, more and more online-first retailers are transitioning to the click-and-brick business model. This thesis aims to gain more understanding of "why" an online-first retailer wants to shift from their click-only model to a click-and-brick model. The online-first retailers, in this case, are online retailers who sell product brands of others and with or without carrying their own brands. The perspective of this thesis is from a management point of view, specifically the drivers and barriers based on strategic and organizational management.

## 1.3 Research Question

The thesis aims to answer the following central research question, that is derived from the problem statement. In order to answer this question three sub-research questions are formulated.

**Central research question**:

What are the key drivers and barriers for online retailers to integrate the click-and-brick model?

**Sub-research questions:**

1. What are retail business models?
2. What are the competitive advantages and disadvantages of click and brick model?
3. What kind of click-and-brick model strategies be identified from Amazon, Alibaba and Coolblue?

# 1. Methodology

The aim of the thesis is to provide a possible answer to the question of why online retailers are opening brick stores. The goal is to identify the key barriers and drivers for the online retailers, this was done by conducting a desk research. This section explains in what manner the data was collected.

Data for this thesis came solely from a desk research, a combination of academic and non-academic sources were reviewed during the literature study and described cases. These sources were articles, books, company websites and news articles, retrieved from academic databases such as Web of Science, Scopus and Google Scholar. For the no-academic sources, the search website Google was used.

The search of online sources started with a systematic keyword search, but was not limited to it in order to collect data. The keyword search was done in order to reduce the number of hits in the databases. The keywords in the academic databases had to be mentioned either in the title, abstract and keywords (TITLE-ABS-KEY). From academic article found by the systematic keyword search, their references are reviewed to retrieve more valuable articles or books, also known as snowballing. An example of keyword used during the systematic search was “click-and-brick” with its synonyms such as “omnichannel” and “multichannel”, using the “OR” statement in the search bar. This was combined, using “AND” statement, with keywords such as “business model”, “management”, “strategy”, “retailing” and “transition”.

For the cases studies, systematic keyword search was not applied, here the online sources were either news and reports provided from the companies itself, and news websites that research on the company for example with interviews of the CEO or other high executives within the company.  The companies that were selected for the case description was based on the following criteria, started as online-first retailer, has already adopted brick-elements and firm size. The criterion of firm size was based on comparing, large size firms, which are leaders in their own geographical market, to a significant smaller sized firm.

# 2. Literature Review

The following chapter will provide an overview what is currently known in scientific literature concerning this thesis topic. The chapter starts with two sections about defining e-commerce and retail. Followed by the business model section, here definitions of business model are described and continues to elaborate on the role of value and ending with identifying business model elements specifically towards retail. The next section focusses on strategic management literature, providing an overview of strategies. The chapter ends on elaborating the difference between the click-only and click-and-brick business model and provides a summary of strategies known for click-and-brick business models in retail.

## 3.1 Electronic Commerce

Electronic commerce, or e-commerce, is the buying and selling of goods and services using the internet (Chaffey, 2009). The first transaction was recorded on August 11, 1994, and the trend of e-commerce has since continued to grow, with companies such as eBay and Amazon. In particular, Amazon presents the business model of online retailing (Hussung, 2016).

The definition of e-commerce has at its core the selling of goods using the internet. For example, the online source e-commerce guide, an independent information site, provides the following definition: “E-commerce *refers to commercial transactions conducted online. This means that whenever you buy and sell something using the Internet, you’re involved in e-commerce*” (Ecommerce Guide, 2019). The statistical office of the European Union, Eurostat, has broadened the definition of e-commerce as: “*The sale or purchase of goods or services, whether between businesses, households, individuals or private organizations, through electronic transactions conducted via the internet or other computer-mediated (online communication) networks*” (Eurostat, 2019). The latter definition explains that e-commerce transcends the internet and is able to incorporate offline elements as well.

Salehi et al. (2012), state that e-commerce can be classified in the following four categories, Business-to-Business (B2B), Business-to-Consumer (B2C), Consumer-to-Business(C2B), and Consumer-to-Consumer (C2C). For the purpose of this thesis, the focus is on the B2C category of e-commerce, as one of its applications is the online retailing (To & Ngai, 2006).

## 3.2 Retail

Retail is defined in the Merriam-Webster dictionary as "*to sell in small quantities directly to the ultimate consumer*" (Merriam-Webster, 2019). Sorescu et al. (2011) have expanded on that concept by identifying two key characteristics of retailing: (1) products sold in retail are primarily manufactured by others and (2) there is a direct interaction with the end customers. According to Sorescu et al. (2011), in today's world, retail goes beyond the functions of procuring, stocking and moving products, currently being viewed as offering customer experiences, by creating and delivering value.

From a broader view, retail according to Bell et al. (2014), is about providing **information** to consumers (does this product appeal to me?) and the **fulfilment** (how the product can be acquired). Four types of retail are identified by Bell et al. (2014), which are traditional retail, online retail, online retail plus showrooms, and shopping and delivery hybrid. These types are illustrated in Figure 1, which is referred to as the information and fulfilment matrix.

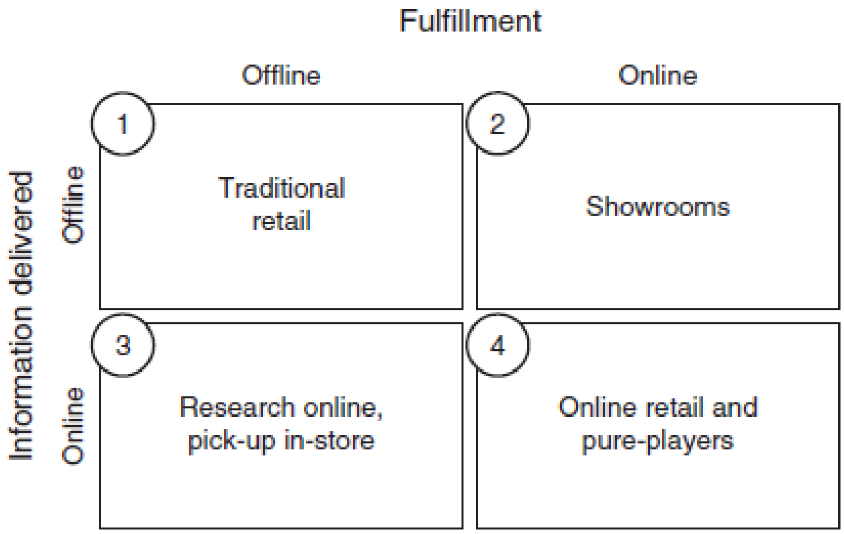


*Figure 1 Fulfilment and Information Matrix (Bell, Gallino, & Moreno, 2018)*

Bell et al. (2018) indicates that traditional retail (1), also known as brick-and-mortar, will adopt quadrant 3 when changing their business model to click-and-brick and online retailers (click-only) will adopt quadrant 4.

## 3.3 Business Model

The concept business model became popular because of the Internet in the mid-1990s and has continued to be a concept discussed by scholars and business practitioners ever since (Zott, Amit, & Massa, 2011). While this is a popular concept, there is no one clear definition of what a business model is.

For example, in the paper of Zott & Amit (2010), business model is defined as “The content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities” (Zott et al. 2011, p. 219). Teece (2010) defines it as “A business model articulates the logic, the data, and other evidence that support a value proposition for the customer, and a viable structure of revenues and costs for the enterprise delivering that value.” (Teece, 2010, p. 179). What both of these definitions have in common is the role of value. The paper of Geissdoerfer et al. (2018) identified this and provided the following definition: “Simplified representations of the value proposition, value creation and delivery, and value capture elements and the interactions between these elements within an organisational unit.” (Geissdoerfer, Vladimirova, & Evans, 2018, pp. 402,).

Simplified representations of the value proposition, value creation and delivery, and value capture elements and the interactions between these elements within an organisational unit.” (Geissdoerfer, Vladimirova, & Evans, 2018, pp. 402,). Zott & Amit (2010) suggest that value is created when a firm designs its business model based on the following four interrelated drivers: novelty, lock-in, complementarities and efficiency (see Figure 2)**.** (1) **Novelty** refers to adopting new innovative activities, i.e. the organization Apple whose main focus of production was making hardware such as the iPod and expanded and linking it with their new activity to get into the music industry by creating iTunes. (2) **Lock-in** focuses creating barriers for competitors to enter the market, by providing for example high switching costs or other networking externalities to retain their stakeholders. For example, customers of Facebook are hindered to switch to another friendship network as customers generally invest time and effort in personalizing their profile page. (3) **Complementarities** driver create value by combining activities together in a system, which provide more value than if taken separately. For example, biotechnology firms partnering with large pharmaceutical firms, combining the developments of new drugs (by biotech

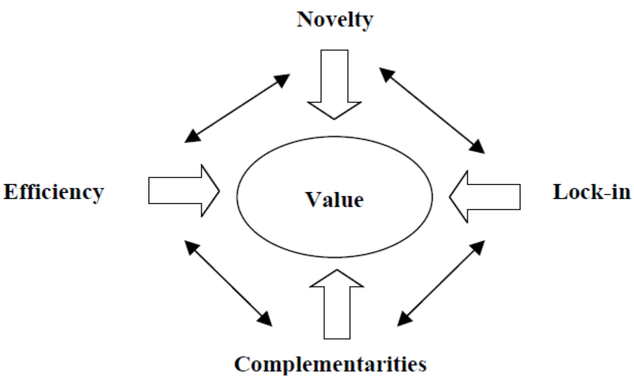


*Figure 2 Zott & Amit Source of Value Creation adopted from Johansson & Mollstedt, 2006*

firm) with the marketing and distribution of new drugs (by the pharmaceutical firm). (4) **Efficiency** refers to the focus on reducing transaction costs for the customer.

However, Weill & Woerner (2018) identified four different kinds of drivers for the business models designs to create value, taking into account the current digital age: omnichannel, ecosystem drivers, suppliers and modular products. These drivers are divided into two related dimensions, the knowledge of customer dimension, the extent to information acquired from the customer, and the business design dimension which is the extent of offering product and service. In Figure 3 these drivers of value creation are divided over four quadrants based on the two dimensions. (1) **Omnichannel** is in the upper left quadrant, referring to having a close relationship with customers and providing multiple channels for the customer to choose from both physical and digital. (2) The **ecosystem drivers** which create value by providing high customer service, by knowing them well, and providing a broad supply base. Selling not only own products but also from other providers. This kind of design is often done by online retailers (Sviokla, 2016). (3) In the bottom left quadrant state the **suppliers**, here the product or service is sold through other organizations, providing the to become highly efficient reducing costs and through incremental innovation. (4) The last is **modular products** which offers other channels and partners with “plug-and-play” products or services, but rely on others on the contact with the customers. An example is PayPal, offering payment systems that are easy to plug-in any online platform or mobile based business (Weill & Woerner, 2018).

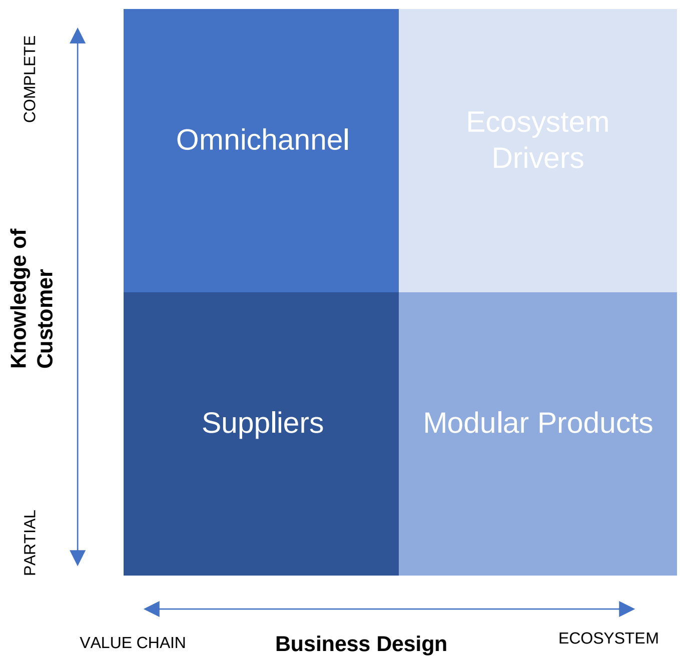


*Figure 3 Drivers for Value Creation adopted from Weill & Woerner, 2018*

Teece (2010) states that a business model is part of creating a sustainable competitive advantage. The business model helps to understand customer needs, business design options and technological developments, as product innovation is not enough to gain sustainable competitive advantage. However, when the business model is good but it is easy to imitate there is no assurance of competitive advantage. The business models that gain competitive advantage are the ones that differentiate and are difficult to imitate. Teece (2010) mentioned that changing a business model to one which is hard to imitate and differentiate as business model innovation.

Four types of business model innovations are identified by Geissdoerfer et al. (2018): start-up (completely new business model is created, no current business model), transformation (current business model changes into a new business model), diversification (additional business models are created, without abiding the current business model) and acquisition (instead of creating, the additional business model is acquired).

However, when an organization has developed its resources and set their activities in place, which are related to the chosen business model. To change to a different business model will be difficult, according to Zott & Amit: “due to forces of inertia and resistance to change” (Zott & Amit, 2010, p. 217).

### 3.3.1 Business Models in Retail

The paper focusses on business in retail, a general retailing business model (RBM) is defined by Sorescu et al. (2011, p S4): “a well-specified system of interdependent structures, activities, and processes that serves as a firm’s organizing logic for value creation (for its customers) and value appropriation (for itself and its partners)”. It is also suggested by Sorescu et al. (2011), that an RBM is successful when incorporating the following three components: retail format, retail activities and governance. Retail format refers to the process of fulfilling the customer experience, via organizing retailing activities into a coherent process. The retailing activities refer to how goods and services are displayed, stocked, exchanged and acquired, in order to fulfill the customer experience. The last component, governance, refers to actors and the mechanisms to motivate the actors (for example incentives and contracts) that create and deliver customer experiences.

However, these components only reflect the creation and delivery of value. In the paper of Cao (2015) it is proposed that the RBM should include at least the following three value-based components: value proposition, creation and delivery of value, and value appropriation.

The first component, **value proposition**, refers to the statement of why a customer should buy a product or service, the shoppers value proposition. It also includes identifying the target clients.  The second component is the **creation and delivery of value**, referring to the retail value chain. The value chain from Porter, described the set of value-added productive activities that leads to a firm its success (Porter, 1985). For retail the set of activities and processes are summarized in Table 1 (Cao, 2015)**.**

*Table 1 Retail Value Chain (adopted from Cao, 2015)*

| Retail Value Chain Activities and Processes |
| --- |
| Retail Format |
| Assortment |
| Price |
| Services |
| Promotion |
| Store Location |
| Procurement |
| Logistics |
| Information System |
| Human Resources (HR) |
| Financing/Accounting |
| Organization/Structure |
| Relationship with Suppliers and Consumers |

The third component is **value appropriation**, which refers to the *retail profit formula*. The retail profit formula defines how the retailer, besides providing value to the customer, creates value for itself. According to Cao (2015), this includes the revenue and margin model, cost structure and the resource velocity.

## 3.4 Strategic Management

How an organization achieves sustainable competitive advantage is the vital question in the field of strategic management (Teece, Pisano, & Shuen, 1997). In order for an organization to attain superior performance relative to its competitors operating in the same industry, a set of goal-directed actions need to be established. This is known as strategy (Rothaermel, 2017). Barney & Hesterly (2012) describe the process of gaining sustainable or temporal competitive advantage as the *strategic management process* presented in Figure 4**.**

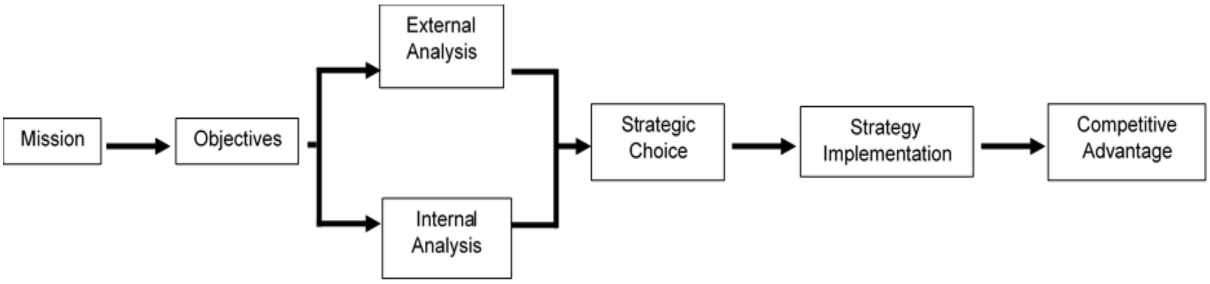


*Figure 4 Strategic Management Process (Barney & Hesterly, 2012)*

The process starts when the firm decides its mission, which is a broad statement of the values and purpose, followed by objectives which are the measurable targets of the firm. The next two steps in the process occur simultaneously, these are external and internal analyses. In these steps the firm determines the threats and opportunities it is facing in the competitive environment it is operating in (external analysis) and identifies its own strengths and weaknesses (internal analysis). After these three phases, the firm needs to choose its strategy as it is the “theory of how to gain competitive advantage” (Barney & Hesterly, 2012, p. 8). The strategic choice phase can be divided into two categories, business-level strategies, firm operating in single market or industry, and corporate-level strategies, firm operating in multiple markets or industries. When strategies have been chosen, the next phase is to implement it. The strategy implementation focusses on three categories, organizational structure, management controls and compensation policies. These phases will lead to the ultimate goal, in terms of strategic management, to temporary or sustained competitive advantage (Barney & Hesterly, 2012).

### 3.4.1 Business-Level Strategies

The most well-known types of competitive strategies are the three generic strategies from Porter (1985). The first generic strategy from Porter is **cost leadership**; to offer services or produce products at the lowest price without loss of quality, this by increasing the efficiency of processes in the value chain. The second generic strategy is **product** differentiation; to produce products or offer services that are unique and distinguish themselves in comparison to the competitors by providing superior quality, easier to operate or better design. The last generic strategy is **focus**; here the firm concentrate on a particular niche market(s), either by cost focus or differentiation focus (Porter, 1985).

Three other types of well-known strategies are designed by Treacy and Wiersema (1993). These are **operational excellence**, focus on minimizing operations costs in order to lead the industry with price and convenience, resulting in delivering or producing products and services to customers at competitive price and minimal inconvenience. **Product leadership** is the strategy in which a firm focus on providing constantly with new "state-of-the-art" products and services. **Customer intimacy** strategy focus on tailoring their products and services towards their customers (Treacy & Wiersema, 1993).

The last well-known strategies are exploitation and exploration by March (1991). **Exploitation** refers to a firm using its existing capabilities and improve efficiencies incrementally. **Exploration** refers to establishing new capabilities or assets, noticing new opportunities.

It is believed by most theorists that competitive advantage is achieved through pursuing a pure (one) strategy, rather than a hybrid strategy (Thornhill & White, 2007). Pure strategy is defined as "emphasizing one dimension of strategy relative to the other, not as absolute adherence to one strategic type over the other" (Thornhill & White, 2007, p. 555) It is relative as all businesses seek to reduce costs and are also interested in improving their product or service quality. Hybrid strategy is when, for example, the cost leadership and differentiation strategies are combined. According to Porter, companies that pursue the hybrid strategy have the risk of getting "stuck-in-the-middle", which could result in lower profits and unexceptional market share. However, in the paper of Baroto, Abdullah, & Wan (2012) it is argued that hybrid strategies are proven to be profitable and viable as the singular strategy could be difficult to sustain duo to increasing global competition. By integrating the hybrid stategy, a firm is able to achieve higher performance by improving the ability to quickly learn and adopt new technologies and skills in the global competitive environment. Organizations that have successfully adopted the hybrid strategy are Ahold who provide quality and price, and IKEA who provide differentiation in design and low cost (Baroto, Abdullah, & Wan, 2012).

According to Thornhill & White (2007), arguments against the integration of a hybrid strategy are:

- Some strategies are mutually exclusive.
- Vulnerable to competitors that focus on pure strategies. The firm is vulnerable on either flank when adopting a hybrid strategy
- Hybrid strategies are common in a highly and crowded competitive environment, providing unlikely result of high performance
- Hybrid strategies are complex. Difficult to set priorities, cause confusion and loss of direction.

However, even though there are arguments against the hybrid strategy it is believed that it can be successful for “some organizations in some situations, some of the time” (Thornhill & White, 2007, p. 555).

### 3.4.2 Corporate-Level Strategies

Four corporate-level strategies are identified by Barney & Hestley (2012), these are vertical integration, strategic alliance, diversification, and mergers and acquisitions.

The vertical integration strategy refers to operating in various steps in the value chain. The value chain refers to a set of activities that are needed in order to get a product or service from raw materials to the final customer. The integration can be either *forward vertical* or *backward vertical*. Forward vertical integration refers to that a firm operates in the stages closer to the end customer. Backward vertical integration refers to that a firm chooses to operate in the stages closer to the start of the value chain.

Strategic alliance strategy is when two or more organizations agree to cooperate together while remaining independent organizations. Strategic alliance can be divided into three groups: (1) Non equity alliance, through contracts, cooperation is managed, no equity is invested into the alliance. (2) Equity alliance, beside use of contracts for the cooperation, equity is invested in the cooperation. (3) Joint venture, organizations that cooperate together create an independent firm (Barney & Hesterly, 2012).

Diversification strategy is when a firm is operating simultaneously in multiple markets (geographic diversification) or industries (product diversification) or in both (product-market diversification). The diversification strategy can be divided into three levels: (1) Limited corporate diversification, where most activities of the business are done in a single industry or market. (2) Related corporate diversification is if less than 70% of the revenue comes from a single business. (3) Unrelated corporate diversification is when less than 70% of the revenue comes from a single business and there are few or no common links with the diversified businesses (Barney & Hesterly, 2012).

The last corporate strategy is mergers and acquisitions. The acquisition strategy refers to a firm purchasing a second firm. Merger refers to the combination of two similar-sized firms (Barney & Hesterly, 2012).

## 3.5 Click-Only vs Click-and-Brick

The click-only business model had shown great growth rates and revenue streams. Although many early click-only businesses have been closed down, as these businesses were lacking critical capabilities to stay profitable in the long term.  Examples of these capabilities are customer service, logistics and superior maintenance, lack of brand awareness, lack of consumer trust, and establishing a consumer base (Prasarnphanich & Gillenson, 2003).

The advantages of the click-only retailers compared to brick-and-mortar businesses are, lower cost of travel and time for customers, purchases can be done from places the customers is comfortable at (e.g. their own homes), the store times are 24/7, carry large and diverse assortments, better product comparison and information can be tailored to the customers' needs (Zhang, et al., 2010; Prasarnphanich & Gillenson, 2003).

However, operating only through the e-commerce channel results in the following deficiencies; no immediate acquisition, no after sales services, not able to pay in cash, social/human interaction, able to "feel" and test the product and entertainment (Zhang, et al., 2010; Prasarnphanich & Gillenson, 2003).

These drawback in capabilities and the deficiencies forces click-only businesses to transition into a click-and-brick business model. With click-and-brick model the products or services can be sold to the consumer via more than one channel (Zhang, et al., 2010). Here it is having beside only the e-commerce channel including conventional business channels, as having multiple channels which can complement each other and create synergy between them (Bahn & Fischer, 2003).

Using multiple channels to sell your products or services in retail can be complex. This as compared to other business, retail in general manage large number of stock-keeping units, SKUs, that are often not produced by the retailer itself. The retail mix (is the marketing plan of the retailer) elements of each SKU has to be made and change frequently. Last, retailers are beside responsible for the logistical process from selling and delivering to customers, they also deal with a large and diverse group of end users and vendors (Zhang et al., 2010).

However, operating in multiple channels has a positive impact the financial performance of a firm. This positive effect can be achieved as retailers operating in multiple channels have an increase in loyalty and satisfaction from customers, the cost of accessing new markets is lower and it creates a strategic advantage (Zhang, et al., 2010). However, the access of new market is more related from brick-and-mortar retailers moving to the use of the internet, as the internet reaches large geographical market without the high investments of opening physical stores.

### 3.5.1 Transition to Click-and-Brick

Transitioning to the click-and-brick model cause challenges related to operating in more than one channel, as negative spillover or cannibalization are concerns that arise (Avery, Steenburgh, Deighton, & Caravella, 2007). It also raise challenges related to the movement of information between the channels, the control of inventory systems and when retailers are franchised, the individual management policies might conflict (e.g. the return policy of online purchased products) (Prasarnphanich & Gillenson, 2003).

As a result, Zhang et al. (2010) argues that developing an appropriate organizational structure is the most challenging issue faced by retailers during the transition towards the click-and-brick model. Most often the retailer adopts a decentralized approach, creating separate departments for each channel. The advantages of this approach are, better focus and flexibility for each channel its unique competitive environment, and helps with attracting employees with experience specific toward one of the channels. However, having duplicate and separate teams could cause internal conflicts and lack of coordination across the different channels, resulting in an inconsistent customer experience (Zhang, et al., 2010).

The goal of structuring the organization, according to Zhang et al. (2010) is to create synergy across all channels as it allows for example marketing research and information flow from one channel to another, which could improve decision making. However, in their paper it is recognized that there is no “one-size-fit-all” solution, as the following aspects should be taken into consideration: company history, current management structure, current incentive system, branding strategy, existing information and distribution systems, recruitment of new employees and outside capital (Zhang, et al., 2010; Cao, 2015).

### 3.5.1 Click-and-brick Strategy

According to Cao (2015) strategy in retail can mostly be conceptualized as the retailers choice(s) on how to compete in the marketplace and on how to serve its target and market segment. The strategic choice of transitioning from a click-only to a click-and-brick model (by retailer) can be best understood as meeting the expectation of an all-in-one shopping experience by the consumers. In order to increase their value towards the target group (Cao, 2015).

In the paper of Prasarnphanich & Gillenson (2003), a proposed option is to outsource the offline activities, keeping offline and online separate, when transitioning to the click-and-brick business model. However, according to them the “winning” strategy is to integrate the online and offline channels. Options of integrating offline channels by click-only business are, opening own brick-and-mortar stores, showrooms, and a strategic alliance or partnerships with well-established brick-and-mortar business (Prasarnphanich & Gillenson, 2003; Jiang, Kim, Choi, & Kang, 2019).

Launching own products, as click-only business, in offline partners their stores does not provide the same exposure to consumers in contrast to opening own physical stores. Although, for small and medium online-first retailers it allows to integrate offline channels with relative low costs (Jiang, Kim, Choi, & Kang, 2019). However, according to Jiang et al. (2019) the partnered offline retailers should have a high reputation, in order to achieve the best potential effect. This as high reputational offline retailers, reduce the uncertainty of consumers about the product and provide a positive association with the product, increasing the exposure of the online-first retailer its´ products and brand.

To keep both channels seperated, the aim is to align each channel to its specific target group (which do not overlap) in order to avoid cannabilization of one another. Though, seperation of channels creates the “silo-effect”, when communication and coordinition between channels is failing, causing ultimalty loss of sales, duplication of investments and efforts and lowering of margins (Cao, 2015).

After integration of both the online and offline channels, Prasarnphanic & Gillenson (2003), identified a plethora of strategies that can be adopted, divided over five categories. These strategies focus on the use of the physical storefronts. The first category focusses on the handling the aftersales of goods. Second category is related to the immediate need fulfilment of the customer. Third category is the strategy focussed to display online the inventory availibility at physical stores. The fourth category is related to providing the “touch and feel” of the goods. The last category emphases the information in order to enhance customer services. Table 2 provides an overview of identified strategies, divided over the five categories.

*Table 2 Click-and-Brick Model Strategies (adopted from Prasarnphanich & Gillenson, 2003)*

| | Category | | Strategies |
|---|---|---|---|
| **1** | Aftersales of goods | 1.1 | Return and exchange of goods purchased online at a physical store |
| | | 1.2 | Offer repair service of online bought goods at physical stores |
| **2** | Fulfulling immediate needs | 2.1 | Pick-up points |
| | | 2.2 | Deliving from local stores |
| **3** | Product availability | 3.1 | showing online the available inventory at physical locations |
| **4** | Touch and feel of goods | 4.1 | Providing customer the option to touch, feel and test the product. In combination with face-to-face advice. |
| **5** | Information delivery | 5.1 | Extending product selections |
| | | 5.2 | Kiosks as an educational tool assisting customers and store staff |
| | | 5.3 | Providing store maps for customers to quickly locate items in stores |
| | | 5.4 | Placing orders of out-of-stock, hard-to-find or hard-to-carry items |
| | | 5.5 | Promoting one-to-one marketing initiatives (loyalty program) |
| | | 5.6 | Providing customers with sales history and purchasing recommendations |
| | | 5.7 | Printing order vouchers and pay at a store |
| | | 5.8 | Providing web links to nearby stores |
| | | 5.9 | Creating shopping list |

# 3. Cases of Amazon, Alibaba and Coolblue

This chapter explores what is occurring in practice, by investigating three online-first retailers that integrated brick-elements to their business model. These retailers are Amazon, Alibaba and Coolblue. Amazon is chosen based on being the largest online-first retailer in the North American market (E-commerce Germany (A), 2020). Alibaba is chosen as it is the largest online-first retailer in the Asian market (E-commerce Germany (B), 2020).  Coolblue is chosen, which compared to Amazon and Alibaba is a very small retailer, however in the Netherlands it's one of the fast-growing companies (NOS, 2019).

## 4.1 Amazon

Amazon was founded in 1994 by Jeff Bezos and started by selling books online. Amazon has grown to become the largest online retailer in North America and have expanded their product offering to include product categories such as consumer electronics, apparel, furniture and recently, food. According to Berg & Knights (2019, p 21), the core principle and its winning combo is that Amazon has an "customer obsession and passion for invention". Bezos indicated in 2019, that integrating brick-elements to their business is inevitable, as 90% of retail still happens offline (Clifford, 2019).  In an interview with Bezos in 2012, he indicated that moving to physical stores would be considered. The following quote from the interview shows that Amazon wants to change the physical retail format:

"We would love to but only if we can have a truly differentiated idea. One of the things that we don't do very well at Amazon is do a me-too product offering (…) When I look at physical retail stores, it's very well served. The people who operate physical retail stores are very good at it. The question we would always ask before we would embark on such a thing is, what's the idea? What would we do that would be different? How would it be better?" (Berg & Knights, 2019, p. 107).

In 2011, Amazon started experimenting with adding their brick-and-mortar presence with *Amazon Lockers*. With the concept, Amazon was placing delivery lockers in retail stores, offices, libraries and more. This allowed customers to pick-up their online purchased products without having to wait at home, reducing the number of missed deliveries. Since then, Amazon has expanded with starting up new concepts in the physical-place (see Table 3).

*Table 3 Offline Experiments Amazon (adopted from Berg & Knights, 2019, pp. 109-112; Margolis, 2019)*

| Year | Concept | Description |
|---|---|---|
| **2011** | Amazon Lockers | Creating pick-up points for customer by placing lockers in places such as retail stores, offices, libraries and more. |
| **2014** | Amazon Pop-up | Small retail locations (27 to 46 square meter) allowing customers to interact with consumer electronics (Kindles, Tablets and Echo). |
| **2015** | Campus pick-up Point | Fully-staffed pick-up and drop-off locations. Specific towards College students. |
| **2015** | Amazon Books | Amazons first brick-and-mortar retail store. |
| **2016** | Treasure Truck | Daily deals are placed in the truck, and shoppers are notified the location of the truck. |
| **2017** | AmazonFresh Pick-up | Customers can buy online their groceries and pick these products up. To reduce waiting time, licence plate recognition is used and order are placed in the trunk of the customers car. |
| **2017** | The Hub | Delivery lockers that are placed in apartment buildings, that also accept deliveries from other carriers. |
| **2017** | Whole Food Market | Amazon **acquired** the brick-and-mortar retailer Whole Food, increasing their offline presence with 450+ stores in North America and United Kingdom. |
| **2017** | Amazon Returns | **Partnership** with the offline retailer Kohl. Allowing Amazon customers to return their online purchases. |
| **2018** | Amazon 4-star | Physical store that displays products which are rated by customers four stars or more (online) and are related to the current shopping trends of the city it is located in. |
| **2018** | Amazon Go | High-tech convenient store, which as no check-outs. |

With these experiments Amazon starts integrating brick-elements is to reduce shipping costs, grow its ecosystem, disruption of retail and understanding preference of customers shopping behaviour. (1) using the existing stores and new stores as pick-up points and also return points, it not only saves Amazon shipping costs. It also provides customers with more convenience in acquiring their purchases and making return. Benefitting also the business that cooperate with Amazon to provide these locations. The partnership with Amazon for Kohl, meant an increase of new customers of 9% in Chicago and overall in United State an average of 1 % (Delventhal, 2019; Schaverien, 2018). (2) The showcase of products to customers in stores boost the awarness of products available by Amazon, growing its ecosystem.  (3) Amazon tries to disrupt the offline stores, by including their knowledge of technology in order to reduce the “friction” points in offline retail. For example waiting lines at checkouts, through use of computer sensors, camera and software technolgies Amazon is able to provide have convient stores without checkouts. (4) Amazon understands that the majority of consumers do not have a preference in solely shopping online or offline, instead

Amazon provide their customers with choice. They can choose what they prefer and is the most convient to them (Berg & Knights, 2019; Schaverien, 2018). For now these developments of offline-stores are limited to North America and United Kingdom, as this is the experimentation phase of Amazon. After Amazon has decided which concept would be scalable, it is expected to be distributed globaly (Bruch, 2019).

## 4.2 Alibaba

Alibaba was founded in 1999 by Jack Ma (Popovic, sd). In 2017 with a letter to the shareholder, Ma addressed that the internet will not be the main strategy of online companies. With this he introduced the idea of e-commerce transforming into “New Retail”, which will be part of their new strategy namely “Five New” strategy. The aim according to Ma is to restructure the global supply chain and the nature of globalization for large and small business (Alizila Staff, 2017). The “New Retail” will envision the integration and increase efficiency of both online and offline sales, with heavy use of smartphones. According to Micheal Evans (president of Alibaba), it focuses on creating value for the consumer and the merchant, by offering consumers with flexible and easier shopping experience and providing merchants increase of efficiency and productivity by use of data as offline and online will be “connected” (Mak, 2017).

Since the vision with “New Retail”, Alibaba has opened physical grocery stores under the name Freshippo/Hema. Here customers can shop using their smartphones, to gather product information, shop virtually and pay. These stores are also local warehouses, and provide the ability of delivering products within 30 minutes of ordering online.

Alibaba also invested in the Ling Shou Tong program, which allows in depended convenient stores (so-called mon-and-pop stores) to use digital resources from Alibaba (Najberg, 2018). Via an app the owner of the store can digitalize their inventory management, use consumer analytics of Alibaba e-commerce platform and own store to identify high demand products and centralizing distribution (Najberg & Brennan, A Dose of New Retail for China’s Convenience Stores, 2018). This service from Alibaba of an one-stop solution to transfer existing physical stores to a digital environment is offered for free, also as they provide all customer data to the company (Daxue Consulting, 2019).

Even before the mention of “New Retail” Alibaba invested 4.6 billion dollars into Suning (China´s largest retailer of electronics) in order to integrate brick-elements in to their business model. Allowing Suning to off their products on one of Alibaba online e-commerce platforms (namely Tmall) and for Alibaba this deal provided them with large delivery network, reducing delivery as less as two hours, and consumers are able to pick-up and return products at Suning stores (Economist, 2015).

In 2018, Alibaba opened its first shopping mall (Harashima & Hiroi , 2018). This mall will provide next to be a place for socializing and experiences (such as diners, art exhibitions and live entertainment) stores from the Alibaba brand. These stores will have “virtual shelves” providing the customers the option to select for example size or colour of a product on screen to select it. If the product is not available in the storage of the store it will be delivered to their home (Najberg, , 2018; Ong, 2017).

## 4.3 Coolblue

Coolblue was founded in 1999 by Pieter Zwart, Paul de Jong and Bart Kuijpers. In comparison to Amazon and Alibaba, Coolblue already opened their first physical store in 2003 (Coolblue (A), 2019).  Pieter Zwart mentioned in an interview that “e-commerce is the dumbest business model in world”. As web shops are virtually all designed the same, leaving only the price the only way to achieve competitive advantage. Coolblue tries to look beyond only e-commerce, and narrow down their objectives as making money and satisfy customers, as satisfied customers will come back and ultimately become your promoter (Vogel, 2018).

Coolblue has currently nine physical stores (in the Netherlands and Belgium), of which four of them are XXL stores. These stores offer more than 1000 different product, whereas the normal store offering is limited. Beside the number of products offered, the other difference between stores are events. The XXL stores will host events, such as the Samsung store event, here customers can experience specific products of Samsung, get exclusive discounts and receive information from expert. Beside these two differences, the stores are similar, in offering pick-up of products purchased only, test products, repair and return service or help setting up the product to be ready for usages (for phones and laptops) and providing personalized information (Coolblue (B), sd). Coolblue utilize these stores also as hubs for their bike delivery service. In 2019 it was announced to add five more stores to their current store portfolio (RTL Z, 2019).

# 4. Discussion

The aim of this thesis is to gain a better understanding of the reason(s) why an online retailer, which has a click-only business model, transitions to the click-and-brick business model. This chapter provides the interpretation of results found in literature and the cases in order formulate a concluding model of the drivers and barriers for click-only businesses transitioning to click-and-brick business model.

## 5.1 Drivers

From literature, value has a prominent role in the design of a business model. For retail, this role of value translates into three components, value proposition, value creation and delivery, and value appropriation. The companies described in the cases have similar reasons for incorporating brick-and-mortar stores into their businesses, namely, to expand their flexibility towards customers, creating more choice for their customers to decide where, when and how to shop for products. Hereby it appears that value creation and delivery is the strongest component that drives retailers to look beyond their current click-only business model.

One theory from Zott & Amit (2010) supports this value-based driver and is referred to as complementarity. The theory of complementarity is where activities are combined in order to create and deliver more value, as opposed to having them separate where they're less valuable. For click-only businesses, this suggests that adding offline activities to online activities would be more valuable to customers than having them separately.

Weill & Woemer (2018), take it a step further by expanding this over two dimensions, knowledge of customers and the business design. Here, the creation and delivery of value would fit in their description of omnichannel, to have a "complete" insight on information of their customers and focus on extending their services by adding more activities in their business design, expanding their value chain. Which, for example, could be applied to Alibaba, with their extended activities of offering a digital solution to current "mom-and-pop" convenience stores, would provide them with data regarding their customers and apply this to their online platforms, while adding extra business activities.

Prasarnphanich & Gillenson (2003), identified five categories whose components lead to the creation and delivery of value; these are aftersales, fulfilling immediate needs, product availability, touch and feel, and information delivery. These components relate to the Treacy & Wiersema (1998) theory of customer intimacy strategy, where they suggest that getting closer to and better understanding one's customers will lead to a more successful business and better customer retention. Below are examples of these components in practice with the case businesses.

(1) The aftersales creates value by offering more opportunities for the customer after their initial purchase. At Coolblue, this goes beyond providing a location to return products; here, aftersales experiences are expanded by offering to help customers to set-up their smartphones and laptops for first-time use, and repair services. With a click-only business model these services would either not be possible or the company and customer would incur additional shipping/delivery costs, as well as extended wait times for the customers.

(2) Fulfilling immediate needs is prominent in the case of Amazon. Amazon has the Amazon 4-star and Amazon Go stores, which are only located in high-trafficked metropolitan areas, in order to target and be at the convenience of busy and tech-savvy individuals. These stores provide products that customers need immediately or conveniently, such as phone charges if they have forgotten or broken theirs, groceries such as eggs, milk, and bread, and quick to-go meals for those who didn't have time to pack or who just choose not to. The use of technology in these locations aims to reduce shopping time for customers by not having to wait in lines, or even pull out cards to pay as it all gets credited to their Amazon accounts.

(3) Product availability is something Alibaba has been able to tackle in an innovative way thanks to their click-only origin; they have been able to expand their product availability in-stores by having "virtual shelves". These "virtual shelves" enable Alibaba to have more products stored on location, as the storefront itself may not be sizeable. Additionally, in the event of a product being out of stock on-site, the customer can order the product in-store to be delivered at home from a nearby warehouse. This is only possible by creating synergy in the centralized warehousing of the online platform and local storage of their physical store locations.

(4) The creation and delivery of value via touch and feel is significant for Coolblue since their products are more expensive and therefore are typically scrutinized more frequently by potential customers. By allowing customers to interact with these more expensive items, such as computers and refrigerators they can interpret the inherent value of that product to their own lives as compared to a similar product from another brand. In addition to displaying products, they organise events and demonstrations where customers are invited to test and experience new products before they hit the market.

(5) Information delivery is also showcased well by Coolblue, as the products they sell are more expensive and less prone to being impulse buys. Customers can go to their physical stores receive personalized advice from trained professionals for that product category and have their help in comparing different brands based off different things such as wants, needs, and price point. With the events and demos they host, experts of that specific product from

the brand are invited to provide reliable and specific product information to teach the store's product category experts as well as informing the public.

## 5.2 Barrier

Aside from the drivers for the transition towards click-and-brick, barriers were identified from the literature. These barriers are limited to the scientific literature, as no data was available from any of the three companies about these or other barriers.

The key barrier that can be identified from the literature is the organizational structuring of the company after adding the offline channel to their current online channel. The company will risk a "silo-effect", or significant compartmentalization of departments with risk of overlap and duplication, as they could be mistaken as two separate divisions instead of one cohesive business. Were this to happen, it would reflect a failure in communication and flow of information between departments, ultimately interfering negatively with the customer experience.

Another barrier which is directly linked to a failure in communication and proper organizational structuring is the hybrid-strategy approach. This is when a business is focusing on more than one strategy at a time, often causing vulnerabilities to be exposed to competitors and prioritization to become complex and nearly impossible because of conflicting interests among other things (Thornhill & White, 2007). This confusion and lack of direction would cause a business to get stuck-in-the-middle and lose any competitive advantage it had before, especially if it can't regain its coordination and focus to set priorities and create a cohesive direction.

To summarize the findings of the literature study and case description the following Table provides an overview of the key drivers and key barrier for click-only businesses to transition to click-and-brick business model.

*Table 4 Overview Drivers and Barriers*

| Drivers | Barrier |
|---|---|
| **Value Creation and Delivery Through:** | Organizational Structure |
| Aftersales | Hybrid Strategy |
| Fulfilling Immediate Needs | Communication |
| Product Availability | |
| Touch and Feel | |
| Information Delivery | |

## 5.3 Recommendation for Further Research

The cases also indicate that in terms of business model innovation, the two prominent ways of innovating are diversification and acquisition which are a part of the larger corporate strategy as described by Barney & Hesterly (2012). Overall it seems that diversification like Coolblue opening up their own physical stores, acquisition of existing physical stores such as Amazon acquiring Whole Foods, and cooperation such as the Amazon and Kohl partnership, are the three corporate strategies chosen to transition to the click-and-brick model. The acquisition strategy in particular seems to help increase and speed-up the knowledge-base and skill set of the business in order to help develop and open up future branded stores. An example of this is Amazon, who acquired Whole Foods in 2017 and in 2018 it opened up two new types of its own physical and branded stores, Amazon 4-star and Amazon Go.

The other result worth mentioning besides the barrier and drivers, is that in literature mentioned only two types of click-and-brick business models in retail, the showroom and pick-up stores. In the case of Amazon, who started with the pick-up type of brick-element integration with their lockers, development continued with experiments which leaned towards the showroom model and eventually including traditional retail format. For future research, an explorative study should be conducted into the steps online-first retailers should and does take into their integration of brick-and-mortar-elements. Only one research paper during the time of this study mentioned that for small and medium size online-first retailer it is mostly likely to start with a partnership with existing brick-and-mortar retailers in order to avoid high capital investments.

Further, this study was limited to a desk research, resulting in the data provided in this study comes from secondary sources only. The limitation here lies in the bias and judgement of the researcher on the found literature and its interpretation.

# 5. Conclusion

In summary, this thesis' purpose was to identify the reason for online-first retailers to integrate brick-elements to their current business model by identifying the drivers and barriers. Information was retrieved via a desk research in order to have a literature review and a case study on three online-first retailers. From the information retrieved and discussed this chapter will answer the three sub-questions and the central research question defined for this thesis.

**Sub research question 1:  What are retail business models?**

As retail focusses on the fulfilment and the information delivery to customers, four models general retail business models can be identified: the traditional retail (or brick-and-mortar), online retail (click-only), showrooms and pick-up points. The latter two are linked to the click-and-brick business model.

For all four of these retailing business models, it should include the following three value-based components: value proposition, creation and delivery of value, and value appropriation.

**Sub research question 2: What are the competitive advantages and disadvantages of click and brick model?**

The advantages of click-and-brick model, comes with combining the advantages both from the brick-and-mortar and click-only business model. As brick-and-mortar has the advantage of immediate acquisition, after sales services, able to pay in cash, social/human interaction, able to "feel" and test the product and entertainment. The click-only has the advantage of lower cost of travel and time for customers, purchases can be done from places the customers are comfortable at (e.g. their own homes), the store times are 24/7, carry large and diverse assortments, better product comparison and information can be tailored to the customers' needs.

However, the disadvantage is related to organization when it is not structured appropriately risking failure in the movement of information between the channels, the control of inventory systems and when retailers are franchised, the individual management policies might conflict.

**Sub research question 3: What kind of click-and-brick model strategies be identified from Amazon, Alibaba and Coolblue?**

At the basis, all three companies strengthen their focus on customer intimacy. However, in terms of type of click-and-brick models, all three goes beyond only offering pick up points.

Including Amazon which started with this strategy, and later experimenting with other strategies. Opening own stores, partnerships and acquisition are the three main strategies identified from the cases.

**Central Research Question: What are the key drivers and barriers for online retailers to integrate the click-and-brick model?**

Through the answers of the sub research questions the central research question is able to be answered. The central research question was formulated in order to identify the reason(s) for online-first retailers to transition to the click-and-brick business model.

Based on the discussion in the previous chapter, the key drivers for an online-first retailer to transition, is to increase their creation and delivery of value towards their customers. In total five divers are identified, with this delivery and creation of value, namely, aftersales, fulfilling immediate needs, product availability, touch and feel, and information delivery.

In terms of barriers, one significant barrier is identified, which is the structuring of the organization. Which also could cause a potential barrier for the use of the hybrid strategy that will most likely occur.

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