



KERNEL

Business Case Report

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Executive Summary

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Kernel is a Software as a Service (SaaS) platform designed to support independent grocery stores in transitioning to a digital-first operational model. By offering a scalable, subscription-based platform, Kernel enables stores to build customised websites that integrate directly with Kernel’s delivery system and utilise advanced analytics. This report evaluates Kernel’s business case, presenting a critical analysis of its strategic options, financial performance, benefits, disbenefits, and risks.

The grocery retail sector faces increasing pressure to modernise, driven by changing consumer expectations and the dominance of digital platforms. Kernel bridges this gap, empowering small businesses to reduce reliance on high-fee third-party services, streamline inventory management, and enhance customer engagement. By charging a capped 4% transaction fee, far lower than the 35% charged by competitors like Deliveroo (Home-Cooks, 2023), Kernel helps stores retain more of their revenue.

Three strategic options were evaluated: a ‘Do Nothing’ approach that evaluates the landscape without Kernel, highlighting ongoing inefficiencies and lost opportunities for grocery stores. The ‘Do Something’ strategy focuses on launching a Minimum Viable Product (MVP) via the Starter Plan (£25 per month) with essential features like website building and delivery integration. The ‘Do Everything’ approach involves fully implementing all three subscription tiers, including the Standard (£50 per month) and Premium Plan (£100 per month) which ships with features like Kernel AI for predictive analytics, an easy-to-use mobile app builder, and advanced marketing tools.

Kernel’s business model delivers operational efficiency, cost savings, and scalability. Its inventory management tools reduce errors and improve stock accuracy, addressing significant challenges in the grocery sector (Ma et al., 2024). Kernel’s business-to-business (B2B) structure is tailored to retailers’ needs, but challenges include the upfront effort for setup, dependency on Kernel’s ecosystem, and the operational burden of self-managed delivery logistics. In grocery stores, logistics and delivery expenses typically range from

5% to 10% of total operating costs, depending on factors like driver coordination and route efficiency (BusinessPlan Templates, 2023).

Risks include cybersecurity vulnerabilities, funding challenges and difficulties with legacy systems. To address these, Kernel implements robust security protocols to protect against cyber threats and ensures financial stability through a phased funding approach. Additionally, Kernel provides tailored technical support to assist with integration issues. By leveraging established infrastructure services such as Microsoft Azure, we ensure the Kernel platform remains scalable while keeping costs aligned with user growth.

The recommended hybrid strategy combines conservative and ambitious approaches. It leverages the Minimum Viable Product (MVP) to establish a market presence and generate early revenue while progressively scaling to a comprehensive full-service model. This phased approach balances the need to minimise upfront risk with the long-term goal of maximising growth potential. Financial projections indicate total revenue of £2.96 million over three years. By Year 3, the strategy is supported by 121 stores, £3,775 from subscriptions, and £707,370 from transaction fees. Despite recurring costs of £2.16 million, the projected Net Present Value (NPV) is £212,065, demonstrating profitability within just a few years.

Overall, Kernel offers a transformative opportunity for independent grocery stores by addressing inefficiencies in delivery, branding, and inventory management. By combining innovative solutions with robust financial planning, Kernel is well-positioned to capture significant market share in the growing digital retail sector. The hybrid strategy reduces risk in the early stages and establishes a solid foundation for sustainable growth, profitability, and scalability.

Project Purpose & Business Strategies

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Do Nothing

Initial perception and missed opportunities

When grocery store owners choose to continue operating exactly as they have in the past, they avoid immediate setup expenses and additional complexities that arise from digital systems. On the surface, this may seem financially prudent because there is no new software to install, no staff training sessions to schedule, and no additional fees to incur. However, this decision also deprives stores of important advantages like reduced delivery fees, stronger brand identity, and more efficient inventory management benefits which the Kernel platform promises to provide. For instance, by not switching from high-commission third-party services (often charging up to 35% in fees; Deliveroo, n.d.) to Kernel's capped 4% transaction fee, stores lose out on substantially higher profit margins. While this may spare them from paying Kernel's 4% fee on

new orders or navigating the onboarding process, they continue to incur the far higher, variable fees imposed by third-party platforms, representing a substantial drain on revenue and effectively forfeiting the potential for more stable and predictable income streams.

Operational Inefficiencies and Financial Pressures

By not adopting stock management systems powered by artificial intelligence (AI), grocery stores continue to rely on manual systems which are prone to human error and tend to miscalculate future demand. This perpetuates inefficiencies such as unnecessary food waste, possibly undermining environmental objectives and risking stock outages that erode customer satisfaction. Enhanced inventory management promises to reduce wastage and can lower labour costs by automating certain tasks.

As stated in a paper that discusses optimising inventory management, "optimizing inventory management is still a key challenge in retail, impacting customer satisfaction, efficiency, and profitability," and AI-powered systems offer innovative solutions to address these issues (Ma et al., 2024). Yet, in a "Do Nothing" approach, the store avoids the possibility of technical glitches or minor additional carbon emissions tied to running new servers, at the expense of ongoing labour-intensive processes and a potential increase in environmental footprint from waste. Furthermore, any discrepancies in manual stock tracking can exacerbate financial pressures by either tying up capital in excess inventory or losing sales from empty shelves, ultimately placing the business at a competitive disadvantage. Moreover, continuing to use paper-based or minimal data systems means small oversights such as late tax filings or confusion over supplier invoices are more likely to slip through the cracks, potentially creating administrative headaches in the future.

Lost Branding Potential and Customer Insights

Choosing not to embrace an integrated e-commerce platform means neglecting improved branding opportunities and data-driven insights. Kernel's model would enable independent stores to personalise their online presence and interact more directly with customers, offering flexibility in promotions and loyalty programs, a practice known to boost customer satisfaction and retention. Without these tools, a store relying on conventional methods may fail to meet the modern consumer's expectation for a seamless and tailored shopping experience, risking the loss of more tech-savvy or time-constrained buyers. Only 10% of convenience stores currently offer home delivery through their own website, underscoring how limited digital adoption is within this sector (ACS Local Shop Report, 2021).

By opting out of an integrated e-commerce solution like Kernel's, a store risks missing out on both an untapped audience and the opportunity to build brand equity through direct online engagement. At the same time, "doing nothing" circumvents the need to manage data privacy or comply with stringent data protection regulations, thus lowering the risk of a cybersecurity breach or GDPR violation. On the other hand, sacrificing deeper customer analytics also means forgoing the enhanced marketing strategies that can drive sales and strengthen long-term loyalty. In an era where robust customer insights can inform everything from personalised promotions to precise demand forecasting,

refusing to engage with these tools may ultimately leave a store without a clear roadmap for sustainable growth.

Long-Term Risks of Inaction

Electing to maintain the status quo protects owners from certain costs of implementing new technology, such as training and expanded support for less technically inclined staff. There is, however, a long-term opportunity cost in giving up market share to competitors who invest in streamlined e-commerce and branding strategies. Retailers who leverage features like automated order handling and dynamic, data-driven insights often see faster growth by appealing to modern consumer tastes. The increased adoption of AI and automation in retail is driving significant growth, as these technologies help businesses optimise supply chains, enhance customer experiences, and meet evolving consumer demands (Retail Insider, 2024). By doing nothing, stores effectively choose to relinquish this slice of the market to brands more willing and able to evolve with customer expectations. While resisting change might temporarily appear safer, it could lead to stagnation in an increasingly digital world, ultimately threatening both financial performance and the store's role in the community. In addition, inaction could inhibit the store's flexibility if new regulations or unexpected market shifts call for a swift technological pivot.

Conclusion

Although “doing nothing” shelters grocery stores from onboarding costs, cybersecurity risks, and potential staff reductions associated with higher degrees of automation, it also perpetuates existing inefficiencies and high third-party commissions. Stores that maintain manual operations and a traditional service model could retain a certain charm, but they also miss out on critical benefits like reduced delivery fees, stronger brand equity, and the operational agility afforded by robust data analytics and AI. This path limits growth prospects, leaving businesses vulnerable to unforeseen disruptions, competitor innovations, and the ongoing digital shift in consumer behaviour. Over time, opting out of new technologies is likely to erode competitiveness, profitability, and even the store's relevance within a marketplace that increasingly rewards efficiency, personalisation, and environmental awareness.

Do Something

This scenario details the actions and results of our company producing the minimum viable product which would be publicly available for retail companies to implement. This would be the likely outcome if our development process had budgeting restraints. Our minimum viable product is a model that could be released initially to generate revenue to fund our complete business strategy. Due to the aforementioned factors, our MVP is designed to generate revenue acting as a proof of concept requiring minimal upfront costs.

Development and Infrastructure

The initial development cycle is to produce our starter package, a basic yet reliable platform for grocery stores to create their own online marketplace. Our development team would operate with minimum overhead, only requiring limited office space. During the initial execution of our business plan, we will

primarily allocate resources towards development ensuring our product is robust, scalable and capable of generating revenue. Given that revenue may start modestly, the focus will then be on expanding the development team by hiring skilled talent to sustain and grow the current model. Once the MVP is released, adequately tested, and reception is generally positive resources can be allocated to developing more advanced subscription tiers, enabling the business to grow and diversify its offerings.

Marketing and Customer Support

The platform will initially rely on word of mouth and cost-efficient marketing strategies to attract new customers. Social media outreach will be our primary marketing tool at this stage which should allow our limited budget to be more oriented around development costs. Customer support resources will be limited in this scenario for the same reason.

Product Features and Benefits

Our platform will provide users with the means to build their own website, with an integrated delivery system. The software is sold to the customers as a subscription-based service, starting at £25 per month. We also receive a 4% fee from every transaction facilitated by our delivery system or online platform. Assuming Kernel is well received, this should generate a slow but steady stream of revenue.

Market Impact and Potential

For small stores with no online presence, this allows even non-technical business owners to establish an online presence with ease, expanding the stores reach beyond their immediate locality. This attracts a broader customer base, increasing sales opportunities. By leveraging online platforms, stores can strengthen their brand identity and remain competitive in an increasingly digital marketplace.

Retailers who currently rely on major delivery platforms also have a strong financial incentive to invest in Kernel at this stage. Unlike third-party platforms that charge high commission fees (up to 35%, Deliveroo, n.d.), Kernel's transaction fees are capped at 4% to ensure stores keep most of their profits. It is important to mention that Kernel's software handles the complex logistics of online orders but does not provide delivery drivers. We leave the freedom of hiring delivery staff to the stores themselves. This model improves store profitability while maintaining control over their branding and customer relationships.

Conclusion

To summarise, 'doing something' involves kernel implementing only the 'Starter' package, available for customers to access as a subscription-based service. The company pools its resources into development, prioritising reliability and scalability. The aim of this development cycle is to build a solid, revenue-generating foundation that can be expanded upon in the future. For Kernel's clients we offer an opportunity to grow their business in a digital space, with reduced 4% transaction fees. Due to budgeting constraints, we will not initially be offering users the advanced features such as stock-tracking and Kernel AI's advanced analytics. These features are to be reserved for after the MVP The 'Do

Something' option is low risk, requiring minimal investments, but may not provide some advanced features which in turn may devalue Kernel's core offerings. Limited investment in marketing risks a smaller subscriber base for Kernel, slowing growth and missing the opportunity to establish a competitive foothold, which could leave the Starter package struggling to achieve its full market impact

Do Everything

This scenario details the best-case scenario for the company. Here, a sufficient budget ensures the companies vision is fully implemented. As opposed to the 'do something' scenario, where only the 'Starter package' is implemented, this scenario entails the development of all three subscription tiers (see Figure 1). As the capital investment is substantial, the goal of this development is to produce a fully-fledged package for our users with sufficient customer support and a more established marketing strategy. The aim is to produce a product that maximises revenue, and ensures customer satisfaction, establishing Kernel as a major player in the Grocery SaaS space.

Development and Infrastructure

Given the increased resources, the original development stretch is to develop the full premium package. We would have a larger development team led by a seasoned industry developer who would operate in an adequately sized modern office in Central London. The overhead for this operation would be considerable. With fewer budget constraints our team can continue to focus on rapid iteration while also adhering to industry standard best practices including setting up extensive testing and monitoring frameworks to ensure reliability and a seamless user experience.

Marketing and Customer Support

After Kernel's launch, a significant portion of revenue will be spent on marketing campaigns. As with the 'Do Something' scenario, social media outreach will remain a prominent method of attracting customers. A marketing coordinator would be hired to boost our platform's online presence while also building Kernel's brand. Along with social media, the company will invest in more traditional advertisement strategies such as Google and Facebook advertising. As the company grows, investments in expanding our marketing team will be paramount, focusing on building an experienced team with a diverse marketing skillset. To support the anticipated growth, Kernel will hire a dedicated support team to handle the influx of user queries. This team will provide assistance and ensure a seamless experience, helping to maintain customer satisfaction.

Product Features and Benefits

The basic and premium subscription offers will provide an extensive array of tools, simplifying the operations of a grocery store while improving customer satisfaction and driving sales. The basic tier will include an automated stock tracking system, providing a clear view of inventory levels and reducing manual errors. One of the tools available to premium users is the ability to create a loyalty system for their most frequent customers. Kernel handles all the

technical logistics of this system, leaving store owners and managers to set their own rewards.

The premium subscription also gives users access to Kernel AI. Kernel AI tailors itself to each individual store through data provided by the sales, stock tracking, and reward systems to provide insights into the stores operation and help maintain growth through forecasting. Kernel AI can also create targeted promotions to users as well as generate suggestions into what products to stock and when. The premium tier also provides an app building tool, to conveniently bring the store's website design to a bespoke IOS or Android application.

Market Impact and Potential

In the 'Do Everything' scenario premium users can still take full advantage of all the benefits in any of our subscription plans. For those stores that choose to adopt the premium plan, Kernel offers a wealth of advanced features, providing greater value and enhanced capabilities to drive their success. Our stock tracking features help grocery stores by providing real-time inventory updates, reducing the risk of overstocking or stockouts. With these analytics, stores can anticipate demand patterns, optimise reordering, and minimise waste, cutting costs and ensuring customers can always find what they need.

The advanced features of Kernel AI enable grocery stores to enhance customer engagement and increase sales, with features such as targeted promotions and loyalty programs. Providing stores with the ability to create personalised loyalty programmes enables businesses to enhance sales by incentivising repeat purchases through tailored discounts and coupon codes. Additionally, Kernel AI leverages data insights from these programmes to craft targeted advertisements, further driving engagement and customer retention. Research supports the effectiveness of loyalty programmes, with evidence indicating their significant positive impact on retaining customers (Jindal Journal of Business Research. Effectiveness of Loyalty Programs in Customer Retention. J Bus Res. 2004;57(11):1278-1284.). This approach not only strengthens brand loyalty but also fosters long-term customer relationships, translating into sustained business growth.

By offering a transformative platform, Kernel's services have the potential to catalyse a shift in the grocery store market toward digital-first operations, creating opportunities for growth, competitiveness, and innovation. Encouraging stores to embrace digital transformation through the integration of online ordering, analytics, and loyalty programmes facilitates a shift from traditional in-store-only models to hybrid operations, enhancing flexibility and customer engagement. If grocery stores improve customer satisfaction through the adoption of our products, shoppers are likely to favour stores that provide superior digital experiences, thereby raising consumer expectations across the industry. This dynamic creates a self-reinforcing demand, where stores without Kernel or a comparable solution may struggle to meet evolving customer needs, ultimately driving increased business to our company.

Conclusion

In conclusion, the 'Do Everything' scenario involves investing heavily in all aspects of the company, with a significant portion of resources going directly to marketing. The aim of the development team is to produce all three tiers of the

Kernel systems (Starter, Standard, and Premium). The 'Do Everything' option entails the highest level of risk among the three scenarios due to significant recurring costs and the substantial investment required. However, this approach yields a superior product and the potential to attract a larger customer base, thereby maximising revenue. Despite the challenges, this option represents the most effective strategy for driving substantial growth and scaling the company.

Suggested plan

After analysing the three potential business strategies, we can assess what each option entails for the company, the product offerings for grocery stores, the market impact, and the associated risks. Based on this evaluation, a comprehensive plan can be formulated to guide the company's strategic direction.

Doing nothing outlines an obvious waste of opportunity. The issues detailed in this section are not going to be solved by themselves and it is important to capitalise on them sooner rather than later.

While the 'Do Everything' strategy delivers the most robust product, equipping users with comprehensive tools and strengthening Kernel's brand identity, it carries the highest risk. This approach demands a substantial initial investment, with revenue heavily dependent on the market's reception of our services and the effectiveness of our marketing efforts.

Although the 'Do Something' strategy does not fully realise Kernel's vision initially, it carries significantly less risk compared to the 'Do Everything' scenario. Therefore, the proposed plan is a hybrid approach that combines elements of both strategies. In the initial phase, investments will focus on team formation and development, following the 'Do Something' strategy to establish the first tier of our subscription model. Revenue generated during this stage, along with additional investments, will support a gradual transition into the 'Do Everything' strategy.

This phased approach minimises risk in the early stages, enabling Kernel to demonstrate its value and establish a strong market presence before adopting a more comprehensive growth strategy. The initial priority is to deliver a trusted and reliable product, building credibility within the market. As the company grows, the focus will shift to attracting new customers, maximising revenue, and maintaining our commitment to providing a high-quality service



FIGURE 1

Benefits & Disbenefits

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Benefits

Benefit ID	Benefit Name	Description	Measurability	Evidence
1	Lower commission cost	Stores no longer need to rely on high-fee platforms like Deliveroo or Uber Eats, reducing costs.	Comparison of fees: Kernel (4%) vs competitors (20 - 35%).	Deliveroo charges up to 30% commission on sales (Home-Cooks, 2023).
2	Integrated online presence	Stores can manage a website, app, delivery system, and inventory seamlessly through one platform.	Number of users managing all operations via Kernel.	Integrated systems unify inventory, delivery, and customer interfaces, streamlining operations and reducing manual tasks (Gartner, 2024).
3	Customised branding	Kernel's white label apps and websites allow stores to maintain control over their branding.	Percentage of stores using customised templates.	76% of consumers expect personalised interactions (McKinsey, 2023).
4	Real-time inventory updates	Kernel's stock system reflects online orders in real time, improving stock accuracy and reducing errors.	Reduction in stock discrepancies.	43% of small businesses do not actively track inventory, highlighting the need for real-time systems to reduce discrepancies (Gulati, 2024).
5	Lower delivery costs	By connecting directly with drivers, stores can avoid the commissions charged by third-party platforms.	Comparison of delivery costs incurred before and after adopting Kernel's platform.	Uber Eats charges up to 30% for delivery services (Uber Eats, 2023).
6	Enhanced customer	Offering branded apps and seamless ordering improves	Increase in repeat customer metrics per	Branded apps are used by 44% of businesses for customer retention, demonstrating their role

	retention	customer loyalty and repeat purchases.	store.	in driving loyalty and repeat purchases (HubSpot, 2023).
7	Modular growth capabilities	Modular features in Kernel's subscription plans allows stores to seamlessly transition between the subscription tiers.	Number of users upgrading plans.	Modular subscription plans boost engagement and scalability by attracting budget-conscious and premium customers, enabling seamless upgrades as needs evolve (Sprouts.ai, 2024).
8	Cost-effective adoption	Kernel's Starter plan provides essential tools at a lower entry cost compared to competitors.	Conversion rates from free trial to paid subscriptions.	Small and medium-sized businesses (SMBs) are increasingly adopting SaaS solutions due to their scalability and affordability, making them a prime market for SaaS providers (Forbes 2022).
9	Operational efficiency	Centralised operations reduce manual tasks, freeing up time for store owners to focus on growth.	Reduction in time spent on manual tasks.	Implementing digital tools in grocery stores enhances operational efficiency by streamlining processes and reducing manual tasks, leading to improved productivity and customer satisfaction (Pimcore, 2023).

Disbenefits

Disbenefit ID	Disbenefit Name	Description	Measurability	Evidence
1	High initial setup demands	Setting up inventory, branding, and delivery systems requires significant initial time investment.	Average setup time for new users.	Onboarding studies in SaaS platforms report initial setup as a key barrier (Shopify, 2023).
2	Technological skill barrier	Non-technical store owners will face challenges in understanding and fully utilising Kernel's platform effectively.	Percentage of support requests from new users.	Lack of digital skills remains a primary barrier to technology adoption for small businesses in the UK, despite increasing digital enablement efforts (TaxAgility, 2023).

3	Increased marketing effort	Stores will need to invest more in marketing to attract customers, compensating for the lack of built-in platform traffic (Deliveroo/Uber Eats).	Marketing spends and customer acquisition costs per store.	Small businesses allocate roughly 10% of revenue on marketing when using standalone platforms (AEDUS, 2023).
4	Increased operational dependency	Stores become reliant on Kernel for daily operations, making it challenging to switch providers or operate independently.	Number of users expressing difficulty in migration.	Vendor lock-in in SaaS applications creates dependency, making migrations costly and time-consuming (White, 2022).
5	Platform feature limitations	Stores may outgrow Kernel's capabilities, especially in areas like advanced analytics or bespoke features.	Number of feature requests that cannot be accommodated by Kernel.	Scaling businesses often require custom solutions (Forbes, 2023).
6	Limited Offline integration	Kernel focuses on online operations, which means offline sales or manual processes are not seamlessly supported.	Percentage of stores switching to competitors offering both online and offline transaction features.	Shopify's POS system integrates online AND offline sales, highlighting Kernel's lack of offline transaction features as a limitation (Shopify, 2023).
7	Maintenance of delivery Infrastructure	Stores must maintain or establish relationships with local delivery drivers, adding to their operational burden.	Frequency of reported delivery-related complaints.	Logistics processes can account for up to 25 - 45% of operational expenses, driven by inefficiencies such as driver shortages and poor route planning (ClickPost, 2024).
8	Competition from larger platforms	Kernel faces competition from established platforms like Shopify, which may limit smaller stores' willingness to switch.	Percentage of stores citing preference for larger, more established platforms.	Shopify hosts over 5.6 million active stores across more than 175 countries (Shopify, 2024).

Major Risk Assessment

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Below are the major risks we have identified, which cannot be ignored due to their likelihood, significant impact, or both:

ID	Risk Name	Risk Description	Risk effect	Likelihood/10	Impact/10	Severity (likelihood*impact)/100	Mitigation	Responsibility
1	Cybersecurity attacks	An attacker gains unauthorised access to servers, potentially taking them offline or gaining access to private information. In 2023, the retail industry accounted for 6% of all data breaches worldwide (Asimily. 2023).	Severe operational disruption for stores, loss of revenue, damage to customer trust, and reputational damage to Kernel.	8	9	72	<ul style="list-style-type: none"> - Perform quarterly penetration testing to identify vulnerabilities - Mandate multi-factor authentication for employees and grocery store administrators - Ensure server redundancy and fallback systems are put in place 	Tech team (CTO)
2	Free trial abuse	Stores exploit the free trial system by using the platform for a month without converting to a paid subscription.	Loss of potential revenue due to high churn rate after the trial period.	7	3	21	<ul style="list-style-type: none"> - Limit trial duration to a maximum of 30 days - Require upfront payment details for trial sign-up to charge users automatically if they continue post-trial - Send offers to 	Sales and Marketing Team (Marketing manager)

							customers looking to cancel their subscription before the trial ends	
3	Data privacy audits	A third-party audit evaluates Kernel's data handling practices to ensure compliance with privacy regulations (e.g., GDPR).	Any deviation from privacy standards could result in legal penalties, financial loss due to fines or lawsuits, and damage to customer trust and reputation.	9	8	72	<ul style="list-style-type: none"> - Provide annual GDPR and privacy law training to employees handling or influencing data - Conduct internal audits and mock data privacy audits to identify compliance gaps - Appoint a designated person (e.g., Compliance Manager) to oversee compliance 	Tech team (CTO)
4	Funding issues	Inability to raise additional funding or achieve profitability. A report by CB Insights identified running out of cash as the second most common reason for startup failure, affecting 29% of cases (exploding topics. 2023)	Cash flow shortages may lead to job cuts, delayed product shipping, reduced server capacity, and negatively affect investor confidence.	3	10	30	<ul style="list-style-type: none"> - Establish a robust budgeting system to monitor expenses - Diversify funding sources into venture capital, partnerships, and revenue reinvestment - Conduct monthly financial reviews to evaluate and monitor burn rate and runway 	Executive Team (CEO)
5	Tax reporting issues	Errors in tax reporting or payments, such as underpayment, overpayment or late filing, could lead to financial	HMRC fines, penalties, and unnecessary overpayments may strain finances and harm Kernel's reputation	4	8	32	<ul style="list-style-type: none"> - Employ an accountant to oversee tax reporting and ensure - Hire a tax consultant to advise on optimising tax payments - Use accounting 	Outsourced financial professional (CEO)

		issues					software to automate calculations and reduce human error	
6	Code quality and bugs	Unnoticed errors in the codebase can lead to system malfunctions, unexpected behaviours, and potential data misuse	System failures and poor reliability may harm customer trust, while potential data misuse could lead to compliance issues or fines	9	7	63	<ul style="list-style-type: none"> - Implement thorough tests through unit tests and integration testing - Use automated error reporting and monitoring tools such as Sentry.io - Conduct regular code reviews - Hire experienced developers and set up a structured onboarding experience for new hires 	Tech team (Lead developer)
7	Data mismanagement	Errors in data collection, storage, or processing may lead to inaccurate or incomplete data	Mismanaged data could result in operational inefficiencies, loss of customer trust and potentially legal consequences	8	9	72	<ul style="list-style-type: none"> - Train employees on data handling best practices and compliance requirements - Integrate a data governance framework to ensure accountability and a data management standard 	Tech team (CTO)
8	Integration issues with legacy systems	Failure to integrate effectively with diverse store systems such as inventory management and point-of-sale platforms	Operational disruptions for clients, reduced customer satisfaction, increased support costs, and potential reputational harm	7	8	56	<ul style="list-style-type: none"> - Conduct pilot tests with diverse store types and systems to identify and address integration issues before a full rollout - Establish partnerships with major inventory and POS system providers to ensure 	Tech team (Lead developer)

							compatibility - Ensure an effective support team can help with any integration issues	
9	Unethical usage of platform	The platform may be exploited for unethical practices, such as violations of driver rights, account sharing or selling, and breaches of the Modern Slavery Act.	Such risks could undermine customer trust, deter potential clients, and result in costly regulatory penalties.	3	6	18	- Implement strong terms of service to mitigate liability. - Development of account moderation systems - Monitor user activity to detect suspicious activity and act against those breaking the terms of service	Outsourced legal professional (COO)

Financial appraisal

Author(s): C Psomadakis, L Zelinsky

Venture Capital backing & Fundraising strategy

Kernel's initial fundraising strategy focuses on securing £750,000 in our initial pre-seed funding round, followed by a seed funding round aiming to bring in £1,500,000 by the end of year 1. For the pre-seed funding round, our two co-founders will contribute £250,000, with the remaining £500,000 coming from a mix of angel investors and venture capital firms. This funding will enable us to build a strong core team, conduct initial R&D, and invest in customer acquisition and marketing to establish our presence in the grocery tech space. The seed funding round will focus on attracting prominent, industry-leading VC firms to accelerate Kernel's nationwide growth by scaling operations and expanding the team.

Kernel's approach prioritises rapid growth through fast iteration cycles and data-driven decision-making. By leveraging feedback and analytics from our early adopters, we aim to refine our platform continuously, ensuring it meets the needs of independent grocery businesses while upholding our commitment to low transaction fees.

Our founding team consists of seasoned professionals from industry-leading companies like Shopify and Ocado. Our hiring strategy for the core team focuses on graduates from top universities in the UK alongside experienced professionals with a proven track record working in SaaS, e-commerce, and AI companies. Our focus on bringing in fresh talent and industry expertise ensures we have the innovation and skills needed to deliver a market-leading product at a pace that aligns with the expectations of venture capital firms.

Kernel offers a cost-effective and modular platform, empowering independent grocery stores to establish and grow their online presence while minimising operational overheads. With the support from our initial funding, we are confident that we can deliver high returns and a scalable, impactful solution to the rapidly growing grocery SaaS market.

Core team hiring strategy

Hiring the best core team possible is essential to Kernel's mission of rapid growth and innovation. We are committed to offering competitive salaries and performance-driven incentives to attract and retain the talent needed to execute on our vision. As part of this approach, Kernel's salary structure includes planned raises and performance bonuses tied to key milestones, such as product launches and hitting customer acquisition growth targets. This ensures we reward high performance, retain top talent, and maintain alignment with our ambitious scaling objectives. Additionally, as part of our commitment to ethical employment practices, we ensure that all employees are paid at least the London Living Wage, a standard introduced by the Greater London Authority (London City Hall, 2024).

A crucial role in our team is the Chief Technology Officer (CTO), whose leadership is pivotal to developing Kernel's MVP and assisting in fundraising efforts. The CTO's salary reflects the highly competitive market for top-tier tech talent and the strategic importance of their contributions. This investment ensures that Kernel establishes itself as a leader in the grocery SaaS space while helping support our initial fundraising targets.

Salaries (GBP)

Year	0	1	2	3	Total
Executive team	(197,000)	(200,000)	(212,000)	(240,000)	(849,000)
Engineering team	(153,000)	(161,000)	(170,000)	(196,000)	(680,000)
Support team	(27,000)	(83,000)	(87,000)	(89,000)	(286,000)
Sales and Marketing team	0	(37,000)	(68,000)	(108,000)	(213,000)
Design team	0	0	(65,000)	(65,000)	(130,000)
Sub-total Recurring Cost	(377,000)	(481,000)	(602,000)	(698,000)	(2,158,000)
Employee Count	8	11	14	16	

Cost analysis

Being aware of our main costs is key to ensuring rapid and secure growth. We aim to allocate budgets effectively across our teams in a balanced manner that strives to facilitate innovation and growth without compromising financial sustainability. Each cost category has been carefully considered to support Kernel's mission and long-term objectives.

Office space

We believe that having an easily accessible central location to execute our operations is vital for fostering collaboration and maintaining the fast-paced iteration cycles that we strive for.

After investigating options for shared office space, we identified offices near Central London priced at approximately £300 per month per seat. These spaces offer numerous perks, such as modern facilities, shared amenities, and a professional environment, all of which contribute to employee satisfaction and productivity.

Software costs

As Kernel grows, investing in reliable software solutions is essential to support our internal operations and ensure seamless scaling. To handle key areas such as HR, financial management, legal documents, storage, and communications, we have selected industry-standard B2B tools known for their efficiency and scalability.

For HR and financial management, we will utilise Rippling, a platform that simplifies employee management and payroll. Slack will be our primary internal communication tool, Dropbox will enable secure document storage and sharing, and DocuSign will streamline the management of legal documents with digital signatures.

These are just the fundamental tools that will form the foundation of Kernel's internal operational infrastructure. As the team scales, we expect software costs

to grow as many of these platforms charge per-seat. We firmly believe that using these systems over traditional methods will drastically improve internal efficiency and allow us to operate seamlessly.

Hosting costs

Kernel's platform will rely on Microsoft Azure for hosting due to its flexible pay-as-you go model and excellent scaling options. Azure provides the flexibility we need to handle varying levels of traffic and storage, ensuring a smooth user experience as we grow.

Azure's pay-as-you-go model allows us to manage costs efficiently while scaling. Initial hosting costs will be relatively low, reflecting our early operations, but as we onboard more stores, these costs will increase proportionally. For example, hosting expenses will scale based on data storage, API usage, and user traffic per store.

Through Azure we can support the growth of our customer base while maintaining reliable and cost-effective operations. This approach ensures Kernel's platform remains secure and high-performance as we scale to meet increasing demand.

Professional services

Kernel's ongoing operations will require professional services to ensure legal compliance and accuracy. Recurring costs for accounting and legal support have been budgeted to cover tasks such as tax filings, financial audits, contract reviews, and regulatory compliance.

These services are essential for maintaining operational integrity and mitigating risks as we scale. By outsourcing professional services, we can focus on growth while ensuring our financial and legal foundations remain secure.

Marketing costs

Kernel's marketing strategy is designed to prioritise quality over quantity in its initial stages. In year 0, we are budgeting £50,000 to attract a select group of early adopters - smaller grocery stores that align with our vision and can provide valuable feedback on our initial product. This approach allows us to learn from these stores, refine our platform, and address any challenges before scaling aggressively.

Rather than focusing on rapid customer acquisition in the early stages, we are emphasising collaboration with these initial adopters to ensure the product meets real-world needs. By listening to their feedback and iterating rapidly, we will create a robust platform that is ready to scale effectively in years 2 and 3.

The reduced marketing spends in year 1 reflects this strategy. By limiting customer acquisition, we avoid overextending our resources and can dedicate time to perfecting the product. This approach positions us for a strong and sustainable marketing push in years 2 and 3, aimed at capturing market share in the grocery SaaS sector.

Recurring cost (GBP)

Year	0	1	2	3	Total
Salaries	(377,000)	(481,000)	(602,000)	(698,000)	(2,158,000)
Office space	(28,800)	(39,600)	(50,400)	(57,600)	(176,400)
Cloud hosting	(1,000)	(4,300)	(6,400)	(28,600)	(40,300)
Professional services	(25,000)	(25,000)	(25,000)	(25,000)	(100,000)
Software costs	(4,800)	(6,420)	(8,040)	(9,120)	(28,380)
Marketing	(50,000)	(12,000)	(80,000)	(100,000)	(242,000)
Sub-total Recurring Cost	(486,600)	(568,320)	(771,840)	(918,320)	(2,745,080)

Capital investment costs

As a SaaS business, Kernel benefits from low capital investment requirements and minimal reliance on physical infrastructure. Legal setup costs in the UK, including company registration, compliance, and trademarking, are one-off investments essential for establishing a solid foundation. With these in place, we can focus on developing the future of grocery SaaS.

Capital Investment (GBP)

Year	0	1	2	3	Total
Legal company setup cost	(4,000)	0	0	0	(4,000)
Sub-total Investment Cost	(4,000)	0	0	0	(4,000)

Revenue analysis

Kernel's revenue model is crafted to drive customer adoption while ensuring profitability. By offering an affordable subscription model to attract users and pairing it with low transaction fees, we capture substantial value as our customers grow and succeed.

Revenue Summary (GBP)

Year	0	1	2	3	Total
Pre-seed funding round	750,000	0	0	0	750,000
Seed funding round	0	1,500,000	0	0	1,500,000
Subscriptions	0	300	525	2,950	3,775
Transaction Fee	0	37,230	74,460	595,680	707,370
Total annual revenue	750,000	1,537,530	74,985	598,630	2,961,145

The Kernel subscription model

Our subscription pricing is deliberately kept low to attract independent grocery stores and drive adoption of our platform. By offering accessible price points, we aim to lower the barriers for smaller businesses to take their stores online, enabling them to modernise their operations while Kernel builds a robust and dedicated network of independent retailers across the UK.

Our three-tier subscription model works as follows:

- The **Starter plan** focuses on offering essential features like an online website builder that seamlessly integrates with the Kernel delivery system. Priced at just £25 per month per location, it is designed to cover basic operational costs while remaining highly accessible for small stores taking their first steps online.

- The **Standard plan** focuses on offering tools to accelerate growth for smaller stores through basic analytics tools and inventory tracking software that integrates directly into their Kernel website. The Standard plan starts at £50 per month per location.
- The **Premium plan** starts at £100 per month per location and offers advanced features tailored for larger stores. It includes an app builder with integrated marketing tools for customer loyalty programs and newsletters. Premium plan users also gain access to Kernel AI, a custom in-house AI model trained on a store's advanced analytics. This tool provides forecasting capabilities, empowers businesses, and helps store owners make data-driven decisions to optimise operations.

Figure 2 provides a clear overview of the three subscription tiers and their features.



FIGURE 2

These affordable rates make Kernel highly competitive in the SaaS grocery market while allowing stores to scale up their subscription as their operations grow.

Subscription fee revenue (GBP)

Year	0	1	2	3	Total
Small Size	0	250	375	1,750	2,375
Medium Size	0	50	150	1,000	1,200
Large Size	0	0	0	200	200
Total fee from all stores	0	300	525	2,950	3,775

The Kernel transaction fee model

Kernel's transaction fee is set at just 4%, significantly lower than competitors like Deliveroo and Uber Eats, whose fees can exceed 30%. This low fee structure makes our platform highly attractive to independent grocery stores, enabling them to retain more of their revenue.

Our ability to offer such competitive fees lies in our operational model. Unlike competitors, Kernel is not responsible for managing delivery drivers. Grocery stores using Kernel's platform hire and pay their own drivers, allowing us to avoid the significant outflow costs associated with delivery operations. For context, delivery driver costs account for a substantial portion of outflows for competitors like Uber Eats and Deliveroo, enabling us to pass these savings directly to our customers.

Transaction fee revenue (GBP)

Year	0	1	2	3	Total
Small Size	0	24,820	37,230	173,740	235,790
Medium Size	0	12,410	37,230	248,200	297,840
Large Size	0	0	0	173,740	173,740
Total fee from all stores	0	37,230	74,460	595,680	707,370

Projected Number of Stores Using Kernel

The target number of stores required to join our platform was determined using a financial model that factors in store size: Small, Medium, and Large along with their respective online revenue potential. By leveraging industry estimates of online revenue for these store categories, we aligned our projections with realistic market data. This model not only provides clarity on the revenue expectations for each store type but also ensures our strategy is grounded in tangible financial outcomes. It allows us to monitor the effectiveness of our marketing efforts and adjust our approach if results deviate from projections.

After conducting our first marketing campaign, which primarily targets smaller stores, we aim to onboard 11 stores by the end of Year 1. This includes 10 small stores and 1 medium-sized store. We would then slow down our marketing and use the customers gained during the previous marketing campaign for analytical purposes as well as focusing on organic growth from word-of-mouth. The second marketing campaign during Year 2 would mainly target medium-sized stores, as we would already have already refined our product from the feedback gathered during Year 1. By the end of the second year, we aim to jump to 92 total stores, 70 being small, 20 medium and hopefully, we would be able to secure deals with 2 large stores. If our marketing campaigns meet projections, we anticipate that by Year 3, Kernel will be well-positioned to achieve profitability within a few years and pursue organic growth with reduced reliance on VC support.

Number of Stores

Year	0	1	2	3	Total
Small Size	0	10	15	70	95
Medium Size	0	1	3	20	24
Large Size	0	0	0	2	2
Total Number Of Stores	0	11	18	92	121

Adjusting For a Constantly Evolving Economy

Having calculated our Net Cash Flow (NCF), it was apparent that as our operations scale, the annual revenue will increase as well. Given how strong our business model is, we should be able to handle our future scaling with ease.

Although our net cash flow for the 3rd year is negative, it is important to keep in mind that at that time we would have generated around £600,000 in revenue. Given the nature of SaaS products, the number of users correlates with the amount of revenue gained without a significant increase in our recurring costs.

The value of future NCF can fluctuate due to economic changes and inflation. To account for this, we used the predicted inflation rates from the World Economic Outlook (International Monetary Fund, 2024) and calculated an average rate of 2.17%. Using this rate, we applied the following formula to estimate the Discounted Cash Flow (DCF) for future years:

$$DCF = \sum_{t=1}^N \frac{CF_t}{(1+r)^t}$$

Where t defines the time elapsed (years), CF defines the annual cash flow (£), r defines the discount rate (%) and N defines the total number of years that have passed. This would ensure that our figures would stay up to date with the economy throughout our model.

The NPV is believed to be a direct measure of profitability, as it excludes the initial capital investment. Since our capital investments are minimal, the following formula doesn't deviate much from the DCF. To calculate NPV we subtract the capital investment for Year 0 from the DCF. The table below showcases the calculated NPV value as well as the DCF.

P&L before tax (GBP)

Year	0	1	2	3	Total
Revenue	750,000	1,537,530	74,985	598,630	2,961,145
Capital Investment cost	(4,000)	0	0	0	(4,000)
Recurring Cost	(486,600)	(568,320)	(771,840)	(918,320)	(2,745,080)
Net Cash Flow	259,400	969,210	(696,855)	(319,690)	212,065
Inflation Rate					2.17%
Discounted Cash Flow	259,400	948,625	(667,568)	(299,750)	240,707
Net Present Value					244,707

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