



Project Final Paper

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Executive Summary

This study is about Wayfair Inc., formerly known as CSN Stores is an American e-commerce organization that sells home goods. The company was founded in 2002 and now sells many home furnishings and décor items. Their catalog consists of over 14 million products from more than 11,000 global suppliers. The company has transformed their business model from selling storage units to becoming one of the fastest growing home goods e-commerce retailers. Wayfair's entire business operates online and their vision is *"to be a technology leader, reinventing the way people shop for their homes."* Wayfair's business model relies *"on the Company being able to offer the broadest selection possible at competitive prices."* Porter's Five Force analysis of the e-commerce industry gives insight about the competitive strength and challenges a company like Wayfair has to face to stay in the e-commerce market. On the other hand, SWOT analysis gives the insight of Wayfair's strengths, weaknesses, opportunities, and threats. Wayfair's strengths are its great brand image, its logistics footprint, strong online presence whereas its weaknesses include their decrease in gross profit margins, no brick and Mortar retail presence, challenge in delivering big and bulky furniture. Wayfair has competitive threats especially the giants such as Amazon, Costco, Walmarts and then there are tariffs decreasing profit margins and many more. Wayfair has to address the market opportunities like Expand supply chain footprint in Latin America, Expand brand operations, and sales to Brick and Mortar stores in major cities and more.

Since, no company can grow without leveraging the Information technologies and Wayfair, is no exception. Wayfair uses the latest innovative softwares and leverages open source technologies to build their platforms. Wayfair also acknowledges the benefits of data science and data analytics therefore they use different techniques, machine learning, statistics, and entrepreneurial strategy to build the algorithmic systems that drive their business. Wayfair takes the leverage of photo-realism, 3D stylist, artists along with advanced software with the knowledge of lighting, material, and color theory to produce a high volume of quality 3D images that bring their products a real life effect. Our recommendation for Wayfair is to expand their expertise in B2B model, bricks and mortar retain and improve their supply chain.

Introduction

Wayfair was founded by entrepreneurs Niraj Shah and Steve Conine under the name of CSN stores in 2002. In 2011, it was rebranded as Wayfair. The company is based in Boston, Massachusetts. Wayfair is one of those e-commerce companies that has grown almost exponentially in the last decade. Currently, Wayfair has approximately 17,100 employees and almost 20 million active customers. Their catalog consists of over 18 million products which includes furniture, décor, decorative accents, housewares, seasonal décor, and other home goods, from 11,000 global suppliers across home furnishings, décor, home improvement, housewares and more. Although, in 2007 the company started expanding in the international arena, however, USA is its largest market area with *"prime target customer is 35- to 65-year-old women who has annual household income of \$50,000 to \$250,000."*¹

As per statistic.com in the last decade, Wayfair's has shown promising annual revenue growth from 600 million in 2012 to 9 billion and plus in 2019 as shown in Annual revenue of Wayfair from 2012 to 2109 (fig:1). As per Digital Commerce 360, *"Wayfair is No. 8, with Amazon having 1/3 of all online sales in the US."*²(fig:2)

¹ <https://seekingalpha.com/article/4406344-wayfair-stock-forecast-2021-buy-sell-hold>

² <https://seekingalpha.com/article/4406344-wayfair-stock-forecast-2021-buy-sell-hold>

Along with a fast growing company, Wayfair is also promising in employee satisfaction and good work life balance as it can be seen in the Wayfair Employee rating from craft.co (fig: 3) that shows the employee rating as 3.4.

Company's goal, objectives, vision and mission statement

Business Model: "To offer the broadest selection possible at competitive prices."³

Mission: " to make home a reality for more of the many people in need of safe shelter and basic household items that help make a home."⁴

Vision: " to be a technology leader, reinventing the way people shop for their homes."⁵

Core values:" innovation, honesty, teamwork, transparency and a winning mentality."⁶

Wayfair is all about providing a memorable home experience to its customers. The company's business model is to provide a large number of choices at competitive prices to its customers with the vision of leveraging technology by revamping the

³ <https://mission-statement.com/wayfair/>

⁴ <https://mission-statement.com/wayfair/>

⁵ <https://mission-statement.com/wayfair/>

⁶ <https://mission-statement.com/wayfair/>

experience of shopping for home items from the comfort of the home. Wayfair is proud to practice the high values in its organization. They believe in innovation because without innovation there cannot be any constant growth. Wayfair believes in honesty, teamwork, transparency and winning the mentality of their customers, suppliers or employees.

E-Commerce Industry Analysis using Porter's Five Force Model

Wayfair is an e-commerce company in America which sells home furniture goods online. The e-commerce industry analysis is also known as Porter's five forces analysis- it is for business strategies and it is useful in finding new sources for competitive improvement. This analysis depends on the examination, if profit margins differ across various industries. This can also be described by an industry's composition. The purpose of Industry analysis of Wayfair lies in the early stage for planning a scheme or a strategy and gaining knowledge of the competition where the Wayfair operates.

Supply Power

Generally, the supply power requires quality prices and limited turnover of Wayfair. The bargaining power of Wayfair's suppliers is weak. The more the degree of differentiation among suppliers the more bargaining power suppliers will have. The suppliers of Wayfair sell relatively consistent products which are not very discerned and have low switching expenses. The level of competition amongst suppliers in the Wayfair is mostly more in the e-commerce industry. As there is more supplier concentration in the firm, thus there are less suppliers and more supplier control. Wayfair is a vital customer to its suppliers in the e-commerce business and therefore the e-commerce industry's profit is tied to the profit of Wayfair and its suppliers will have to offer equitable pricing to Wayfair. Total Industry cost contributed by suppliers in the e-commerce industry indicates the cost Wayfair uses on its inputs from a specific supplier that is associated to the overall profits by firms which are in the industry of its suppliers.

Buyer Powers

The resilient brand uniqueness, special features and the e-commerce market, all these make the bargaining power of the buyer in the e-commerce industry moderate to a high-level. These factors also create faith or trust in buyers in the industry. To integrate backwards, there are no substantial threats to the buyers in the e-commerce industry. In the case of Wayfair as the product differentiation in the e-commerce industry is very high, therefore buyers find it difficult to search another firm which is selling the same product. Buyers of the industry tend to switch firms which makes it difficult for them to bargain and thus bargaining capacity of buyers becomes a weaker force within the e-commerce industry. Buying capacity of buyers in the e-commerce industry is also a weak element as buyers have less income in this industry as compared to other industries. This issue further makes the buyers extra price sensitive as they will be forced to purchase items at a low cost.

Threat of Substitution

Threat of substitute items is excessive only when the industry offers a beneficial proposal which can be uniquely differentiated from current offerings. The e-commerce industry, where Wayfair operates completely on the internet, has a low threat to substitute products for Wayfair. This also due to the fact that it is a rare possibility for a specific furniture or home goods to get substituted. Until Wayfair is offering new designs, looks and great quality of home goods and furniture to the customer, the threat of substitution is very low.

Threat of New Entry

In the e-commerce industry, there is a huge hurdle for the new entrants to leave a mark in this market as there is a high competition among the rivals and as a result the market of e-commerce at Wayfair is exceptionally saturated. In terms of product differentiation, the e-commerce industry is considered as a resilient industry because all the companies in this industry sell segregated products instead selling the identical product and product differentiation is one of the vital concerns for customers due to the fact that customers always look for something new and different in different stores or websites.

The Wayfair also has a command on its marketing and advertising section with a good hold on customer service. Due to all the above factors, the threat of new entry seems to be a weak force within the e-commerce industry. However, there can be one threat to new entry for Wayfair in the industry: access to distribution networks is an effortless job for the new entrants. To tackle this threat, Wayfair can focus on innovation in selling different products as compared to the products of new entrants. Also, Wayfair can also invest its capital more in its advertising and marketing department to mark its strong brand name and identity in the industry.

Competitive Rivalry

In the e-commerce industry, selling furniture on the internet is not an easy job as there is an intense rivalry between the existing players. Wayfair is not the only firm in this industry, there are many big firms, such as Amazon, ebay, Ikea, etc., which are constantly competing with Wayfair to sell new home-goods and furniture design. Since Wayfair's fixed costs are high, the e-commerce industry's companies are trying to achieve their goal in its full ability. This also means that as demand drops, these businesses will lower their rates. As a result, current firm competition becomes a stronger force within this industry. Moreover, Since they don't have to compete for market share, rivals are less likely to participate in competitive actions when the industry is growing. This is because Wayfair's industry is rising every year and is expected to continue doing so for the next few years. As a result, current firm competition becomes a weaker force in the industry.

Wayfair: SWOT Analysis

When conducting a SWOT analysis with Wayfair we were able to identify both internal and external factors that impact the business. Through an analysis of internal strategic factors we were able to identify some clear strengths and weaknesses of the organization. Based on an internal analysis, we were able to identify external strategic factors such as threats and opportunities for Wayfair.

Strength

Wayfair has established a large logistic footprint which is one of its greatest strengths as an organization. The company's international footprint expands overseas and accounts for over 16 million Sq. Feet of Warehouse space. With their international network of consolidation/ drayage operations in countries like Vietnam, China, and Malaysia they are able to keep costs down while maintaining control and visibility into their products from production to shipping. Wayfair through the years has transformed into a logistical company through large investments in technology for transporting goods through their Middle and Last Mile operations. Through mergers and acquisitions, Wayfair has continued to build out their supply chain operations. The business has a strong e-commerce customer base that they sell through their online platform. The business is agile due to the fact of not being constrained by leases, or expenditures from traditional brick and mortar businesses. The organization has launched great initiatives for employees and the community by increasing their minimum wage to \$15 and by donating \$12 million to Social Impact initiatives which has generated great publicity.

Weakness

One of Wayfair's largest weaknesses is that the products that they sell tend to have low value-to-weight ratios, which impacts the overall profit margins per product. Traditionally, products that are in the furniture industry are large and bulky. Ultimately this results in shipping cost to revenue metrics to be adverse compared to other product categories. Products that Wayfair sells are unfavorable based on size/ bulk which also impacts costs associated with their last mile operations based on delivery addresses being sparse. The combination of sparse addresses and vehicles not being able to serve multiple customers, causes issues with delivery and returns. Furniture is also very difficult to move which is why 21% of deliveries are damaged and 15% never arrive, according to a 2018 USHIP report. For all of these reasons, gross profit margins have decreased year over year. Lastly, with the company operating all of their transactions online, there is a lack of brand awareness from traditional brick and mortar customers.

Threat

A majority of Wayfair's operations are overseas which makes them at risk for international tariffs, and restrictions based on government red tape. Like all companies in the transportation sector, the fluctuations of gas prices can impact the bottom line. Amazon remains a big threat to Wayfair's business. Customers are looking on Amazon in conjunction with Wayfair when shopping for home/ office furniture. In addition to Amazon, big box retailers and furniture stores continue to take away market share from Wayfair (Home Depot, Ashley Furniture, Walmart, Bob's Discount, etc.). Lastly, the business is impacted by price sensitive consumers. If a majority of their target base loses their disposable income, their customers could look to other outlets to procure their furniture.

Opportunity

There are opportunities for Wayfair to expand their supply chain footprint by establishing operations in Latin America. This would decrease the time for finished goods to reach customers in the US and Canada. By establishing operations in Latin America, they could also take advantage of diversifying their risk exposure of both tariffs and gas prices. With the current environment of more consumers working

from home, Wayfair could expand their product offering through acquisition or merging with a product line that offers home gyms. There is a great opportunity for Wayfair to create a new brand in the home gym sector. Wayfair can also increase their last mile efforts and brand awareness to more consumers by investing in brick and mortar stores that would also act as consolidation/ distribution hubs. The brick and mortar stores could be used as shipping hubs for inbound and outbound shipping, which would benefit their last mile operations. With transportation costs being highly sensitive and correlated to fuel costs, Wayfair can also invest in battery operated trucks for their transportation needs. This would help the variance in costs that are typically tied to fuel sensitivity while also increasing their public branding by reducing their carbon footprint.

Informational Technologies Analysis

Wayfair through technology and innovation makes everyone home a place they love. It is committed to delight its customers every way possible. Wayfair with its curious, analytical and adaptive tech team doesn't disappoint customers from supply chain to customer service. IT team ensures seamless support to Wayfair. Their IT Journey and framework stands on-

- One of their first sites was called RacksandStands.com, which sold racks and stands for TVs and stereos.
- They use search engine optimization data and targeted keywords as their integral part of the IT plan.
- Their business success was very much dependent on Google's advertising service that allows businesses to display their ads according to paid priority.
- The company hired a former Better Homes and Gardens editor for input on building a visually appealing site with use of UI/UX latest technologies.
- Wayfair has a team of world class developers, network security engineer, Analyst and software team situated in Boston which host, build, maintain, and even provide ongoing content.

Some of the major contributors of their IT department are –

- Data science and analytics team which uses a blend of machine learning and statistics to build systems which run their business. They are key contributors in gathering data and make key business decisions which are analytical and help making significant changes to company's growth. Analytics team also helps in knowing customer's needs and what are the latest trends by efficiently monitoring and gathering data to analyze customer's mindset while buying their products.
- Engineering team who built their newest and most innovative software for ecommerce with the use of open source technologies to create their own tools and platforms with supporting network infrastructure and development platforms.
- Product analytics team helps with experience design and building technology which helps solve customer problems in a measurable way.

- The 3D Development team helps create a world class environment on their web site . They are also an important part of the team which helps customers visualize products sitting in their homes via website. Technologies like 3D rendering which are bringing products to life.

Changing the experience

Wayfair is changing the buying experience with the help of AI and machine learning technology. Search is the core of Wayfair's business model and with the help of its IT team Wayfair changed the way customers visit their site . When a customer is searching for a product, they usually get what they are looking for on the first page of search results. On the other hand they have found a way to increase customer engagement by using predictive modeling. Which results in search based on visuals and augmented reality , they also have a feature called search by photo which takes help of artificial intelligence to look for a similar product which customer is looking for .

Their latest add-on to this is a view room in 3D which is solving the biggest pain point which customers face while buying furniture from online stores. With new and innovative features like in-store 3D shopping experience they are giving a tough fight to their competitors.

Recommendations

Wayfair aims to provide a large quantity of choices for customers at competitive pricing. In the past, it has been succeeding in doing so. To continue on the price competitive advantage, Wayfair is recommended to expand its supply chain footprint in Latin America. In the past decade, Latin America has been growing as a strong rival to China on exportation of raw material and productive labor. Take natural pine wood for example, Brazil is the key producer of this raw material and the pricing is much more competitive than China, in which it has to source pine wood from countries such as New Zealand, Australia and Russia⁷. China's best advantage is cheap labor, however this is to be changed as the global economy and trade war is shifting against favor of that.

Secondly, globalization has given opportunities for consumers to expose themselves to more tasteful interior makers of interior from all over the world. Wayfair's trendy, American-style furniture could serve as an attractive retailer in certain countries with markets untapped. Since 2017, the European Union has been bringing contemporary European design into Asia through four different ways with furniture product exhibition being one of them⁸. They concluded that the Asean market including countries such as Singapore, Indonesia have high interest in high-end contemporary furniture designs coming from Europe. In Asia in general, the Republic of Korea seems to be a highly lucrative market as younger generations in South Korea have a taste for European designs with industrial and minimal accents. Overall, there is a market for innovative, high-quality lighting fixtures, home textiles, homeware and decorative items, bathroom accessories, wallpapers, woodworking designs, and automation-oriented furniture design in Asia. Therefore, Wayfair is highly recommended to explore market expansion opportunities in these countries before any American furniture company expands out of North America.

⁷ <https://www.furnituretoday.com/business-news/latin-american-sourcing/>

⁸ <https://www.eu-gateway.eu/contemporary-european-design>

In addition, the global pandemic has moved fitness from gyms and outdoors to living rooms of many households. According to NPD Group, a market research company, the home-fitness business took off like “wildfire...as soon as the lockdowns took effect.”⁹ Wayfair is recommended to tap on the home gym trend and start offering functional furnishing products that are fitting for home gym transformation. For instance, products such as large wall mounted mirrors, heavy-duty yet beautiful floor foam, shelves or racks for smaller gym equipment and more. Catching on this trend will prove Wayfair’s sensitivity to market trends and innovation.

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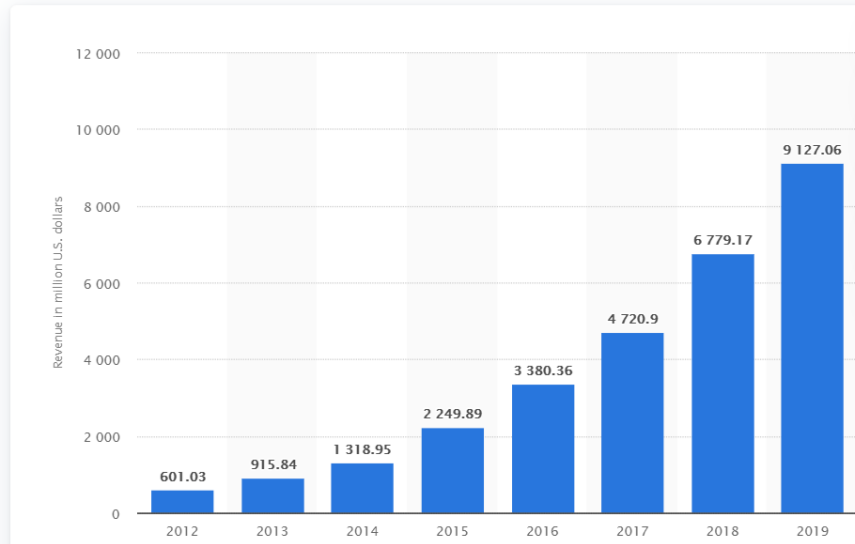
⁹ <https://www.washingtonpost.com/road-to-recovery/2021/01/07/home-fitness-boom/>

Appendices:

E-Commerce > B2C E-Commerce

Annual revenue of Wayfair from 2012 to 2019

(in million U.S. dollars)




(Fig:1)

<https://www.statista.com/statistics/660726/wayfair-annual-revenue/>

US LEADERS

Ranked by projected 2020 web sales

2021 Rank*	Retailer	2020 Web Sales	2020 Rank
1	Amazon		1
2	Walmart		3
3	Apple		2
4	Dell		4
5	Best Buy		6
6	Home Depot		5
7	Target		12
8	Wayfair		6
9	Kroger		13
10	Staples		8

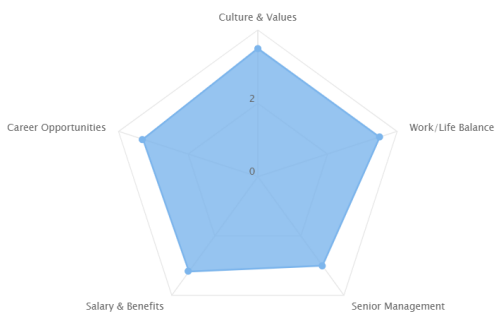
Source: Digital Commerce 360. Data as of January 2021.

*Projected 2021 Top 1000 Rank. Final rankings will be published in April.

(fig:2)

<https://seekingalpha.com/article/4406344-wayfair-stock-forecast-2021-buy-sell-hold>

Wayfair Employee Rating 3.4 2830 votes



Culture & Values  3.5
 Work/Life Balance  3.5
 Senior Management  3
 Salary & Benefits  3.2
 Career Opportunities  3.3

Source

(Fig: 3)

<https://craft.co/wayfair/metrics>