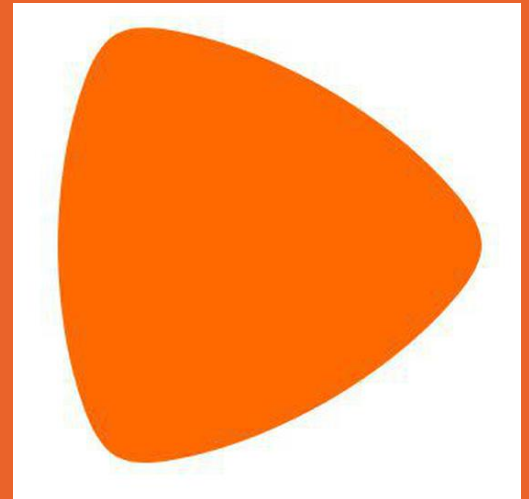# Zalando: Strategic Analysis

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Overview of the industry

Zalando was founded in 2008 by two German university friends, Robert Gentz and David Schneider. The platform was initially launched as an online fashion retailing only for shoes. Today, the Berlin-based company has come a long way to become Europe's leading online fashion platform, reaching an annual revenue of almost 8 billion euros in 2020. Zalando is playing in the **B2C eCommerce market**, the largest fashion market segment, whose global size is estimated at $ 752.5 billion in 2020. The market is expected to grow further at 9.1% per year and reach a total market size of US $1.164,7 billion by the end of 2025.

Industry value chain

Zalando is a double-sided network (platform) that brings together the demand (consumer willing to buy clothes) and the supply (fashion/clothing brands). Consumers search for the products on Zalando's platform which maintains the inventory in its warehouse and keeps the platform updated. Zalando currently offers its own products and products from external sellers. When inventory of a brand requires restocking, it can be done either by the supplier or via Zalando Fulfillment Service. When a consumer places an order, Zalando handles the payment processing and packing. The order is handed off to a last mile carrier for delivery. Zalando then handles any consumer grievances. [Appendix 1] Zalando has to navigate both e-commerce value chain as well as fashion industry value chain. For its Private Label, designing is handled by Zalando while it has manufacturing and supply partners to deliver the product to the warehouses or Zalando physical shops.

Porter's 5 forces

Rivalry among competitors is high. Since the e-commerce concept is rather simple, providing value in unique way is challenging. It results in small players offering the same benefits, while big players try to differentiate themselves playing on the product diversity. Except for small brands that completely rely on Zalando's e-commerce services, **suppliers**' power tends to be high as they can choose any platform. **Buyers** have a high power, mainly due to the free shipping policy. Buyers do not have an obligation to buy: they can try on clothes, return them for free, and then buy at a cheaper

price from a competitor if they find it online. Brands proliferation and economies of scale, scope and learning are effective barriers against **new entrants**. Finally, the main **threat of substitution** comes from fashion brands being able to develop their own e-commerce capabilities, thrift stores and outlet villages. [Appendix 2]

Main Profit and Cost Drivers

Technology is the backbone of a digital ecosystem as a connection between the different value chain elements. Platforms require humans for implementation purposes; however, they are easily scalable (machine learning, cloud computing, analytics, CRM, etc.). Zalando captures maximum value from this driver.

Once the buying intention is materialized, fast and convenient **delivery** must ensure that the product reaches the customer before frustration appears. If an e-commerce platform does not perform well, the customer is very unlikely to place an order in the future as the end of the loop is a negative experience.

As a digital product, the dehumanization of the shopping experience significantly reduces the operating costs but shopping impressions last only a short amount of time for consumers. This makes an excellent after-sales and/or **service** system extremely critical for brand reputation. Both general and fashion e-commerce companies try to focus on these drivers. [Appendix 3]

A platform's value resides in its user interface by centralizing items, capturing a customer's attention, and making the customer save time. Moreover, a higher **breadth of line** also means more potential revenue from the brand side. Any platform should have the biggest breadth of line as possible as long it consistent with the target needs. Zalando and Asos gain maximum value from this driver.

Brand reputation provides awareness, perceived quality, specific mental associations, uncertainty reduction, and customer loyalty in the customer purchase process. Consumers are emotionally attached to brands; whether they are extremely pleased or grossly dissatisfied can directly impact the public perception of a brand. Inditex and H&M capture most value from this driver.

The more **geographies** the platform can deliver to, the bigger the potential demand. This can decrease market risk related to changes in consumer tastes as the platform can invest/divest in the most relevant market, which is especially true for the fashion industry which heavily relies on the cultural dimension. Amazon has a wide reach and hence, the ability to capture value.

Zalando's Competitive Strategy

Targeted market

Zalando supplies a wide variety of fashion items, from shoes to clothes, accessories, beauty products and sportswear for millions of customers across men, women, and children's sections across 23 European countries. [Appendix 4] Zalando's growing market share and broad customer segmentation enables gathering of a great quantity of customer behavior data in order to deliver a value proposition of a personalized assortment to the customers.

Currently, women make up 65% of Zalando's customers, and men the remaining 35%. The age of women customers is roughly between 17 and over 70, though the core demographic is between 25 and 40. Germany is still the site's largest market (50% sales revenue), followed by Switzerland, Austria, northern Europe and Benelux which has remained priority. Zalando entered the UK market too late and hence it is not a strategic priority.

VARC framework

Level 1 - **Value creation offerings:** Zalando's competitive strategy focuses on three main factors which create value for the company: customer satisfaction, brand partnership and technology solutions.

Zalando responds to the needs of its **customers** in detail and offers a customized and individualized selection. Additionally, the return and transaction process are designed to be as simple and straightforward as possible for the customer to avoid additional effort and to make shopping uncomplicated and more convenient.

The collaboration with **brand partners** is a benefit for both sides. On the one hand, it facilitates the brand awareness of the business partners and enables them to gain additional customers from Zalando, and on the other hand, it is beneficial for Zalando to promote the growth dynamics of the company and to expand the range of choices for the customer. Through partnerships, Zalando can market its additional services such as marketing consulting, analytics, or operations, which contribute to the firm's revenue growth and stable market position.

The company's internally developed **technology solutions** and analysis tools form an important unique selling point that ensures Zalando's increasing market share.

Level 2 - Activity system: Looking at Zalando's **activity FIT** [Appendix 5], its inbound logistics are exceptionally smooth as cutting-edge technology helps with effective communication and excellent outbound logistics partnerships. Zalando also provides quick customer service to consumers using AI technology.

Level 3 – Resources and capabilities: Zalando's tangible assets are its warehouses where the partners store their products and shops in selected locations. Intangible assets like brand reputation of quality, unique agile organization structure which has proved to be effective for Zalando as it scales and diversifies and customer base of 44 million. Zalando has the organizational capability of developing successful partnerships.

Competitive advantage

Zalando's success in its earliest days had been innovation and quick adoption of new technologies. In online retail, the level of customer satisfaction is determined by an extensive product range, short delivery times and fast processing of returns. Looking at the **resource-based view** [Appendix 6], for Zalando, an **efficient logistics** network is a distinct competitive advantage. The company has always focused on developing and optimizing its logistic centers to cut down on costs and increase the speed of preparing and delivering the customer's order. Zalando did this by developing strong transport infrastructure for short delivery times within Europe; Tailoring facility to e-commerce operations, including returns processing points and large office and social areas for high number of employees;

Locating close to national and international urban areas; and finding construction capabilities that are fast and good to support rapid company growth and seasonal peaks in operations.

Zalando's Corporate Strategy

Zalando's businesses

Zalando is involved in different businesses which can be categorized in two main groups: the **well-consolidate businesses** (Fashion Stores, Offprice, Zalando Private Label) and the **emerging businesses** (Zalon, Zalando Partner Services, Zalando Fulfillment Solutions, Zalando Marketing Services).

The online **Fashion Stores** is the primary business for which the Zalando platform was created. It offers high quality checked items, professional services with photographs and product details, convenience, fast shipping, 100 days returns, and multiple secure payment options.

In 2020, Zalando horizontally expanded, adding **Zircle app** with **Pre-owned** category. Zircle allows customers to buy and sell pre-owned fashion items online. It leverages existing resources and capabilities like shipment system, customer service and customers' loyalty. For now, Zircle exists in Germany, Spain, Poland, France, Belgium, and the Netherlands. The company will plan to enter other markets based on the performance of the existing ones. Recently, Zalando also started market testing by opening up Zircle pop-up shops in various locations in Germany.

Offprice sells discounted price fashion items of past seasons. The channels are the online platform and physical outlets opened between 2012 and 2020 in Berlin, Cologne, Frankfurt am Main, Leipzig, Hamburg, Münster, Stuttgart, Hanover, Mannheim, Ulm, Constance and Dusseldorf. This business plays a key role as an alternative sales channel and provides an opportunity to horizontally expand its portfolio in the low-range fashion market.

Zalando has also been designing its **Zalando Private Labels** (AnnaField, Friboo, Even&Odd, Pier One, YourTurn, ZIGN), offering customers everyday essentials with a focus on footwear and accessories assortment. Among Zalando's other horizontally expanded businesses, **Zalon** is the one

addressing customers. They can consult, receive advice, and get inspiration from selected stylists regarding their individualized purchases.

Zalando Partner Services is a horizontally expanded business, which is targeting the brands with the value proposition of digital services like stock management, imagine and content creation, return fulfilment and so on. In fact, being Zalando's Partner provides firms the access to the Customer Experience Model (CXM), a monitoring tool to evaluate and steer partners' performance on a country level. [Appendix 7] The Partner Program is further extended by **Zalando Fulfillment Solutions** where Zalando provides logistics service for partners and therefore managing all the order process, making the overall shopping experience more effective and efficient with no interruptions and a better customer service. Zalando vertically integrates both backward (e.g., the warehouse management) and forward (e.g., the orders deliver) with this business.

Through **Zalando Marketing Services**, Zalando provides its partners with personalized marketing solutions. This service is a case of horizonal integration: Zalando is horizontally penetrating the marketing consulting market, offering partners unique experiences, competences and knowledge gathered by the company through its history. [Appendix 8]

All the businesses are complementary to the original online Fashion Store and are based on the unique resources and capabilities that Zalando has been successfully collecting and improving over the years. This makes the aggregation of the businesses a well-constructed strategic decision in terms of **economies of scale, scope, and learning**. The more brands join the platform, the more warehouses Zalando controls, the more orders it must deliver and lower the costs since these costs will be spread over larger volumes. Using the same resources (online platform, sales channels, client network) for different businesses also helps reduce the costs. Finally, the different businesses can share and exponentially enrich Zalando's experience and the know-how of the market while benefitting from the value created from this knowledge.

Zalando's partners and subsidiaries

There are almost 4500 brands including big players like Adidas, Puma, BOSS, Calvin Klein and Dr. Martens who partner with Zalando. And Zalando holds the **bargaining power** [Appendix 9] that derives from the strong value proposition for partners in terms of services they provide and the extremely high brand awareness across its live markets. Some examples that prove this dynamic are how Zalando controls the non-negotiable compensation range that the platform takes when a partner sells; guidelines and the check process for images and content that partners can display on the platform; Zalando templates for invoice and other documentations that partners must use; packaging standards partners must meet. These repeated interactions allow Zalando to standardize the processes, making them more manageable and comparable. High-quality relationships between Zalando and its partners help power a platform flywheel where customer traffic and engagement, partner participation and selection, and platform features and investments reinforce each other. This acts as a growth driver for Zalando and its partners but also creates value for customers due to the **network externalities**. [Appendix 10]

The success of this relationship can be quantified with numbers: "On average, partners grew their sales on our platform by over 75% year over year and increased their assortment on the Zalando platform by over 50%. Over 25% of our partners took the next step and expanded with us to at least one international market, and we will invest further into capabilities that make this internationalization even easier and compelling for all our partners."

Zalando's partners also play a strategical role in furthering Zalando's do.MORE vision. An emblematic case was the release of January 2020 collection in collaboration with 9 Nordic brands (Blanche, Bruuns Bazaar, Designers Remix, Filippa K, Han Kjøbenhavn, Holzweiler, House of Dagmar, Libertine Libertine et Won Hundred) that are all pioneers in sustainable fashion under Zalando's "Small Steps. Big Impact." initiative to educate and inspire consumers to shop consciously. In addition to the brands that sell on Zalando e-commerce platform, other key partners are the **subsidiaries.** The 2020 Annual Report states, "Zalando is comprised of 47 subsidiaries that operate, inter alia, in the areas of fulfilment, customer service, payments, product presentation, advertising,

marketing, software development and private labels developed in-house. [Appendix 11] Regarding the type or relationship, "Zalando SE has full control over all subsidiaries, either indirectly or directly."

Organizational structure

 Zalando had an enormous growth rate starting out, but in 2014, the company decided to scale its technology which led to slowing down of delivery and innovation. Suddenly they were paying more to move slower. This is when **Eric Bowman** was brought in as Zalando's first VP of Technology. He thoroughly analyzed the situation and identified the problem areas as system architecture and working of teams; he then adapted certain measures in phases. [Appendix 12]

It is often necessary periodically to start again with a novel approach for a new scale. Zalando did this by adopting **agility** methodology, where different teams work parallelly on different aspects of the company like product vision, platform vision, the scope of business, the extent of value delivery, impact, customer satisfaction, etc.

The next step was installing **dedicated ownership** where one person is accountable for the work of a team that has been assembled to achieve end-to-end results. It usually combines business, product, and technical oversight and leads a multidisciplinary team towards a common goal.

Eric Bowman pulled best practices from across the technology sector and embraced purpose, autonomy, and mastery as a way to organize and motivate teams. At Zalando, everything used to be the highest priority which led to a situation where they had too much work in progress. After 2014, this evolved to a simple **prioritization** model where focus on the customer, company priorities, and local priorities was handled by exclusive teams. The different teams could now take decisions and deliver impact without having to block on other teams, and without having lots of centralized alignment overhead.

Zalando also had to figure out the right scope of work (**rightsizing**) for its employees and make them comfortable with the idea that sometimes their scope (but not their rewards) needs to be reduced to allow them to go deeper.

The business-focused teams [Appendix 13] were given six months' training along with their managers and Agile Coaches to adjust to all the changes and create a working relationship within the new teams. Employees at Zalando now seem to have a more team-centric mindset with incremental development and collaboration being valued more than before.

Employee incentives and culture

 Effective and unbiased **performance management** based on radical agility methodology made fair and transparent compensation based on 360° feedback important dimensions of how Zalando built trust. KPIs are used as evaluating standards for feedback which is mapped to the ROI model and is the deciding factor for promotions and development as well. The trinity of trust, accountability, and autonomy became guiding principles for attracting and retaining good talent.

Zalando has kept the strengths of a startup through the uncompromising **mindset** of the founders: customer focus, entrepreneurial thinking, speed, and team spirit. These ideas weave together into how the business thinks and acts and is a core strength.

In 2020, Zalando introduced the do.BETTER initiative for enabling greater **diversity and inclusion** along the dimensions of talents, leaders, customers, and partners. They believe this goal will help them with better innovation, deeper customer understanding, creativity, high-quality decision-making, and positively influence the fashion industry.

Internal challenges

 In October 2019, there was a shift in the business goals of Zalando – **do.MORE** [Appendix 14]. The future of Zalando with a bold vision to be a **sustainable fashion platform**, positively transforming both Zalando and the wider fashion industry. Zalando aims to upgrade the fashion industry into a circular economy, removing human rights violations from the supply chain, and running supply chain without causing Green House Gas emissions. Zalando has started working towards these challenges by providing skilling opportunities to employees that match future work requirements and introducing sustainability goals for all teams.

Also, a lack of global "sustainable fashion" standard means that brands and retailers fall back on their own definitions, which can lead to customer confusion. Zalando is the first retailer to use the Higg Brand & Retail Module from the Sustainable Apparel Coalition to make sustainability assessment mandatory for its private labels and partner brands as a standard.

Zalando's future

PESTLE analysis

European fashion revenues shrunk by almost 19% in 2020, amid sliding demand across segments and geographies due to decreased purchasing power during the pandemic. Impact of COVID-19 can be felt on the supply chains, consequently, high marketing, freight, and labour costs. But companies leveraging digital technologies have tended to perform better during the pandemic. It is easier to reach wider audiences online considering the restriction of movement during pandemic and general social media advertising reach. Two-thirds of consumers have stated that sustainability has become a more important priority for them since the start of the outbreak because they got more time to reflect on their choices. [Appendix 15]

Value drivers

The value drivers in the industry will change over the next five years due to the change in the industry considering the change in the industry and consumer outlook over the pandemic, switching towards sustainability along with the growth of digitization.

Digitization has enabled new sales-fulfilment options such as click-and-collect and drive-through. While players like Zalando and H&M aim to influence the value chain dynamics by spearheading the industry towards sustainability. The rise of tech-platforms like Save Your Wardrobe adds a new component to the value chain that offer wardrobe upkeep support services and points towards the growing trend of sustainability in fashion. [Appendix 16]

With the **do.MORE** strategy, Zalando aims to update its current supply chain processes with more sustainable solutions. The short-term consequences are higher capital expenditure (training of

employees, switching cost of processes) and lower profits, but the overall industry profitability is expected to rise through economies of scale, scope, and learning. As Zalando expands its sustainability portfolio with second-hand fashion, collaborations with sustainable brands and sustainability flags on the items on its platform, the consumers have more options to make an informed choice. Subsequently, Zalando's profitability will be positively affected, augmented by dual sources of income- initial sale and re-sale. Zalando has the early mover advantage in the sustainable fashion e-commerce, and this could help them concentrate the market share and create potential barriers to entry.

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Future strategy: Options

1) Geographical expansion: With tourism in the doldrums for some time to come, Zalando needs to unlock new pockets of demand. Though Zalando will further expand to Croatia, Estonia and Latvia this year, and Hungary and Romania in 2022, with the saturation of profits in Europe, Zalando needs to expand to new markets of **developing countries** like Africa for example**.** Developing its re-selling campaign in these markets would help Zalando gain a first-mover advantage. With the surge of internet penetration on the continent, many Africans are easing into the habit of shopping online. According to McKinsey's Lions go digital report, online shopping could account for up to 10% of retails sales (with a value of around US $75 billion) by 2025. With whirlwind advent of digitization, consumption habits of the developing nations' middle-class are changing significantly as well. Second-hand retail would especially be a good idea for developing countries, considering the lower purchase power limiting purchase of new fashion items and the pre-existing "hand-me-down" culture. Marketing costs could be saved by collaborating with local suppliers in these developing markets.

2) Focus on second-hand market in Europe: The global secondhand market will likely grow over the next five years by a compound annual growth rate (CAGR) of 15% to 20%. Developed markets may see even greater gains, and some online resale players could potentially experience 100% year-on-year growth. By moving to a circular system, adopting new business models, and collaborating, the industry can unlock $560 billion of economic value, according to the Ellen MacArthur Foundation. In addition, consumers have been more focused on disposals - 2 in 5 people have had a "clear-out" during the pandemic, with 2 in 3 giving unwanted clothes to charity. Some 61% of consumers believe that buying second-hand clothes is a great way to shop sustainably. 49% of customers believe brands offering a second-hand section or outlet would help them act more sustainably. Sweden (27%) and France (30%) lead the way. Zalando already launched its Pre-owned category on the e-commerce in Germany, Spain, Belgium, France, the Netherlands, and Poland. The e-commerce platform accounts for a 50% of the total market size of fashion industry in London which could be leveraged for the second-hand market. Similarly, economies like that of Portugal and Sweden can offer to be potential targets for expansion in the second-hand market as well.

3) Expansion in Beauty Segment: The beauty segment, covered for the first time this year in The State of Fashion 2021 report by McKinsey, has remained relatively insulated from the pandemic, offering consumers a comforting pick-me-up in challenging times. As we move towards recovery, companies in the beauty segment have a chance to align with shifting category and regional opportunities. Zalando partnered with Sephora through Prestige Beauty Partnership in the past. It may align its goals of sustainability in the beauty segment and augment its market share.

Financial investment estimation

1) **Geographical expansion:** The target revenues if set at €150 million, financial investment required would be €182 million. The cost structure gets complex due to added costs of setting up in a new geography like exchange rate, corporate taxation, local partnership, etc. [Appendix 17]

2) **Second-hand market in Europe**: The target revenues if set at €300 million, financial investment required would be €276 million. Fulfillment costs amount to 25%, marketing costs account for 8%, administrative expenses account for 4% and COGS 55% of revenue.

3) **Expansion in Beauty Segment:** The target revenues if set at €100 million, the financial investment required would be €98 million. Fulfillment costs amount to 28%, marketing costs account for 10%, administrative expenses account for 5% and COGS 55% of revenue. With a low RoI, it would not be a wise move for the immediate future. Collaborating with brands for a short-term alliance would be more advisable.

Suggested future strategy

In 2020, Zalando offered its customers over 80,000 more sustainable products (25,000 in December 2019). In 2020, it generated 16% of GMV (Gross Merchandise Value) with more sustainable products. And in 2020, almost 50% of its Fashion Store customers bought at least one product carrying the sustainability flag. As a first-mover in the e-commerce industry towards sustainability and through its agreements with big brands and suppliers, the strategy to focus on **expansion of Zircle** in the **European region** which offers a greater advantage in terms of profit.

Zalando's pan-European logistics network with eleven fulfilment centres allows it to serve its customers throughout Europe easily. A crucial element to achieving its goals is a corresponding and clear governance structure that allows it to integrate sustainability into all business units. Each goal is managed in a workstream structure with a project manager and expert support from the central Sustainability team. The managers should meet every quarter in a Sustainability Forum, which would be chaired by Co-CEO Rubin Ritter. As the highest decision-making body, the Sustainability Forum serves as the overarching steering committee and keeps the necessary strategic oversight.

Zalando's competitors like Amazon and Next already have a foothold across worldwide markets and might secure strategic brand partnerships to sell sustainability brands on its platform. To counter the issue, Zalando first needs to create a deeper understanding and develop communication channels with

its customers to carve its image as one its kind e-commerce platform with a wide portfolio of sustainable product range.

The firm has already invested in the development of new fulfilment facilities across Europe, hence, entering a new marketplace of a developing country poses a cash crunch to the firm. The firm could venture in the given marketplace as a trial and testing in the initial phase to gain a deeper understanding of consumer preferences and the market through an alliance with a local fashion chain. They could help Zalando with operations and brand building while Zalando helps them with e-commerce.

Challenges to execution

The main execution challenge would be the **marketing costs** which are high across the industry segment. The idea to use sustainability flag for its products is one of the ways to promote the concept while also shaping consumer preference. 52% shoppers believe it is important for someone to show them how to be more sustainable. Hence, Zalando could collaborate with fashion influencers to increase popularity of sustainable products.

Another challenge is the **gap between consumer attitude toward sustainability and their actual shopping behavior.** [Appendix 18] While 61% of consumers believe that buying second-hand clothes is a great way to shop sustainably, only 25% of the group actually buy second-hand clothes on a regular basis. Many cite concerns over hygiene and a lack of convenient options in the second-hand industry, with hygiene being an even bigger issue among men (43%) than women (30%). Zalando could shape customer preferences by reiterating that customers can trade-in or buy pre-owned items, all of which are quality checked and curated by Zalando. They can also deploy tactics like 'second-hand tags' which give information on how many times the item has been cycled, if there's any defect, etc.

For trials in a developing country, finding the right geography, right local partnerships and handling of operations are the main challenges. But there could be a good scope for future expansion.

Reaction from industry players

H&M, Mango and Zara have already launched their sustainable product lines on their websites but this is more targeted towards their loyal customers rather than general shoppers who want more variety to choose from in terms of prices, brands and product lines. The number of SMEs who focus on sustainable fashion like Veja, BAM, Ninety Percent, etc. would want to switch to Zalando, considering aligning goals and morals and wider reach of Zalando's platform. The brands have to conform to a sustainability code put forth by Zalando which could lead to brands not focused on sustainability as of yet to move to other competitors. The code could also induce some companies to switch to at least bare minimum sustainable practices. Looking at the importance of the trend in European region, competitors might switch to sustainable practices and collaboration with sustainable brands as well.

Conclusion

Zalando is a strong market player, focusing on revolutionizing the fashion industry now. Developing strategies moving forward, Zalando is considering two main trends: consumers' increasing awareness towards sustainability and the habit of shopping online on the rise. Zalando should aim to maintain that strong market position in the European e-commerce segment while taking advantage of fact that 50% of its consumers are already inclined towards the Pre-owned category and developed markets show huge potential of growth in this segment.

A few strategies could be to expand the Zircle business in Europe while entering developing countries to explore the market. Zalando would have a first mover advantage if it chooses to act quickly. Marketing costs and the gap between consumers' attitude and actual behaviour of shopping could be the main challenges in the European market. But Zalando has already taken steps in the right direction and with cautious movement, it could grow and increase its profits in the future.

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Zalando, Q3/21 Factsheet: https://corporate.zalando.com/sites/default/files/media-download/2021-11-03%20Q3%202021%20Factsheet.pdf

Zalando, Q3/21 Earnings call: https://corporate.zalando.com/sites/default/files/media-download/2021-11-03_Zalando-Q3_2021_Earnings%20Call_vf.pdf

Zalando, News & stories: https://corporate.zalando.com/en/newsroom/news-stories/zalando-opens-outlet-dusseldorf

Appendix:

Appendix 1: Industry value chain
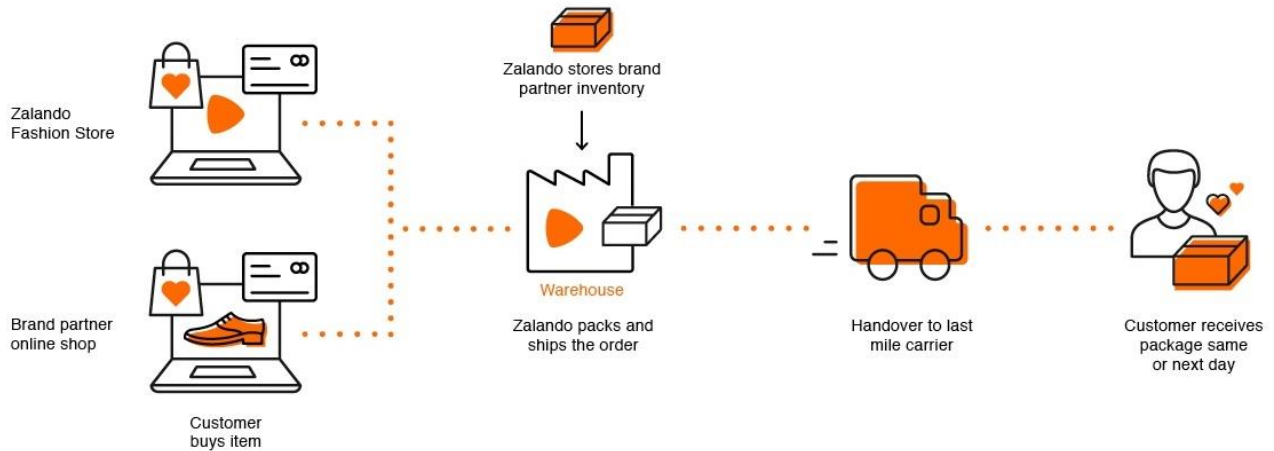
Appendix 2: Porter's 5 Forces Analysis

High Rivalry	High / Average Supplier Power	Average Buyer Power
• Substantial number of diverse interdependent competitors • Dampened demand • High Price sensitivity with low switching costs • Frequent Discounts • High differentiation in terms of product portfolio • Strategic commitments in terms of brand collaborations	• High switching costs due to co-specialization • Input costs are split between segments of profits • Importance of supplier quality for raw materials • Threat of vertical integration of fulfilment channels and payment systems • Large and many well-informed players	• Low switching costs • Many and well-informed buyers
Low threat of New Entrants	**High Complementor Power**	**Average Substitute Power**
• Strategic barriers in terms of brand proliferation • Structural barriers in terms of economies of scale, scope, and learning	• Telecom operators	• Brick and mortar stores • Fashion brands developing their own e-commerce capabilities • thrift stores • outlet villages

20

Appendix 3: Zalando's competitor analysis

	zalando	GENERAL E-COMMERCE	FASHION E-COMMERCE	VERTICAL FASHION PLAYERS	BRAND OWN E-COMMERCE	SOCIAL MEDIA
Examples		amazon	Boozt ASOS ABOUT YOU boohoo	H&M UNIQLO INDITEX	adidas NIKE HUGO BOSS	Instagram facebook
Online Scale	●	●	◑	◔	◔	●
Fashion Focus / Expertise	●	◔	●	●	●	◑
Buy-In from Brands	●	◔	◑	n/m	n/m	◑
E-Commerce Infrastructure / Technology	●	●	◑	◔	◔	n/m
Geographic	●	◑	◑	◑	◔	n/m

Appendix 4: Market coverage

2020: 17 European markets: Austria, Belgium, the Czech Republic, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Poland, Spain, Sweden, Switzerland, and the United Kingdom.

2021: 6 new countries

Appendix 5: Zalando's activity FIT
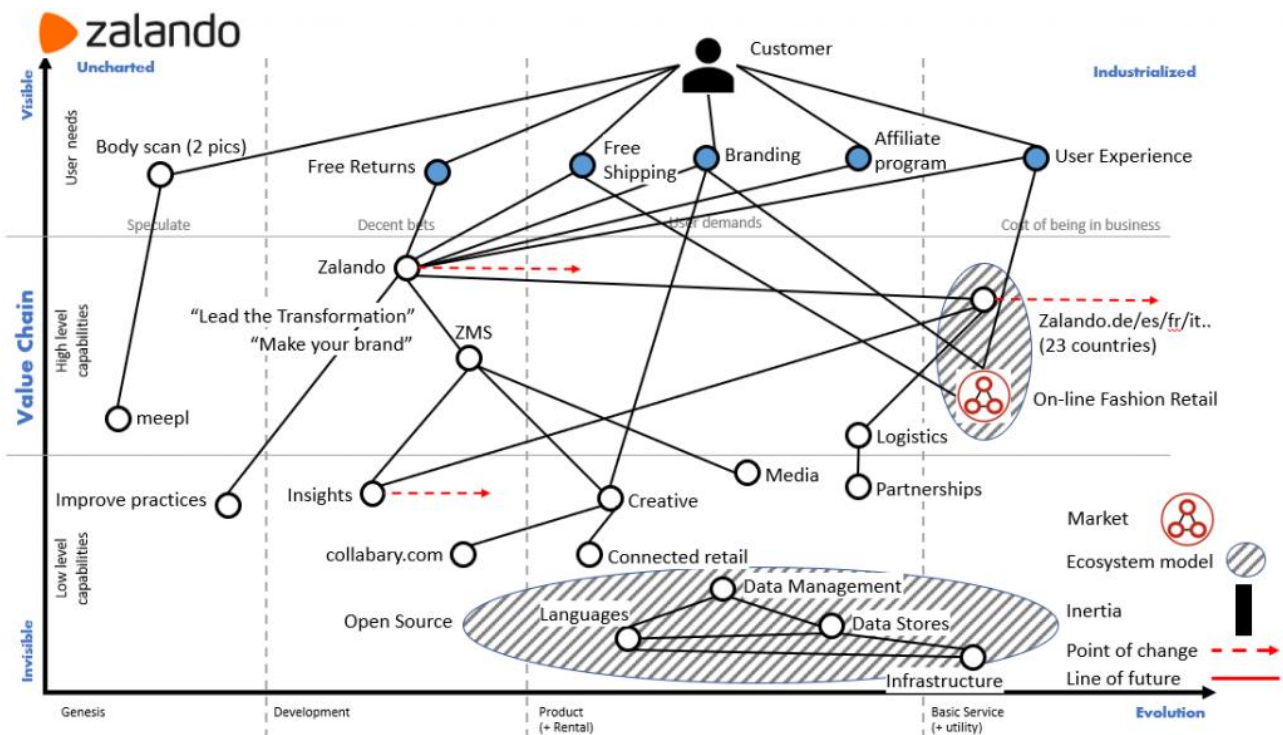
Appendix 6: Resource-based view

Resource	Superior	Durable	Inimitable	Substitutable	Appropriable	Outcome
Agile	YES	YES	NO			Temporary
Brand reputation	YES	NO				Short lived
Efficient logistics	YES	YES	YES	NO	YES	Sustainable
Network	YES	YES	YES	YES		Expropriable
Service	YES	YES	NO			Temporary
Quality	YES	YES	NO			Temporary
Customer base	YES	YES	NO			Temporary
Warehouse	NO					NA

[Appendix 7](): Zalando Partner Services

	Partner Program	Partner Program with Zalando Fulfillment Service
Stock ownership	ZALANDO PARTNER	ZALANDO PARTNER
Article selection	ZALANDO PARTNER	ZALANDO PARTNER
Image and content creation	ZALANDO PARTNER	ZALANDO PARTNER
Pricing	ZALANDO PARTNER	ZALANDO PARTNER
Warehousing & fulfillment	ZALANDO PARTNER	zalando
Return fulfillment	ZALANDO PARTNER	zalando
Payment	zalando	zalando
Customer service	zalando	zalando

[Appendix 8](): Zalando Marketing Services

Marketing

2. Which services does ZMS offer?

ZMS helps partners to achieve their branding and growth targets based on its data-infused marketing capabilities. For more details:

Download the ZMS Partner Introduction 2021
Access an overview of the ZMS Ad formats

ZMS Service Overview:

ZMS Media
ZMS Media enables you to address and activate customers across Zalando's 17 European markets to reach your sales and marketing targets. The Media team runs seamless campaigns across different consumer touchpoints - from formats on Zalando to offsite channels, to address your audience in a targeted manner based on Zalando data.

ZMS Insights
ZMS Insights gives you the key to understanding customers' behavior on Zalando, empowering you to make data-driven decisions. Partners get access to purchase, onsite, and customer survey data including competitor benchmarks. You can either use our self-service tooling or employ our consulting services.

ZMS Creative
ZMS Creative develops and produces integrated campaign concepts across all touchpoints - from ad formats and styled product detail pages on Zalando all the way to social media and further touchpoints. You can leverage storytelling, content creation, and production services to inspire your audience.

Continued on next page

Marketing

2. Collabary by ZMS
Collabary is our one-stop-shop influencer marketing solution featuring three products in one platform: Insights, Discovery, and Campaign Manager. Collabary enables you to monitor your Share Of Voice, identify relevant influencers, as well as content, and easily execute your campaigns with our automated Campaign Management.

[Appendix 9](): Example of Zalando's bargaining power

3. **What is the compensation Zalando takes when I sell on Zalando?**

Our compensation ranges between 5-25% depending on the retail value and category sold. We have built a strong value proposition for our partners and therefore the rates are non-negotiable. In contrast to other platforms, we are European-only, and our brand awareness is extremely high across our live markets, reaching over 98% in Germany, our largest market.

Partner Program

8. **Can I use my existing product photos for Zalando?**

To showcase your products and speed up the onboarding process, existing product images can be used if they follow our image and content guidelines, which you can find **here**. Our content team will perform a pre-check and provide feedback regarding the existing images.

Fulfilment Option

1. **What packaging is required when I send from my own warehouse?**

You can use your own branded packaging to ship to the customer, but you cannot send any branded marketing material. Additional requirements regarding packaging can be found **here**.

Accounting and VAT

2 **When is a VAT registration necessary?**

For partners wishing to sell in Germany, a local VAT registration will always be required regardless of the threshold due to specific German laws concerning tax for online marketplaces and the position of Zalando with the German tax authorities. In addition, partners must provide a VAT F22 certificate by post or email, which is issued by the German Tax Authority.

If you are registered for VAT locally in a country in which you are live on Zalando, you must inform Zalando of this local VAT number. You are obligated to register as a VAT vendor in the country you go live in when you breach the distance selling thresholds in that country. Moreover, partners that use ZFS will also need to be VAT registered in the countries of the Zalando warehouses where they are storing goods.

Appendix 10: Network externalities
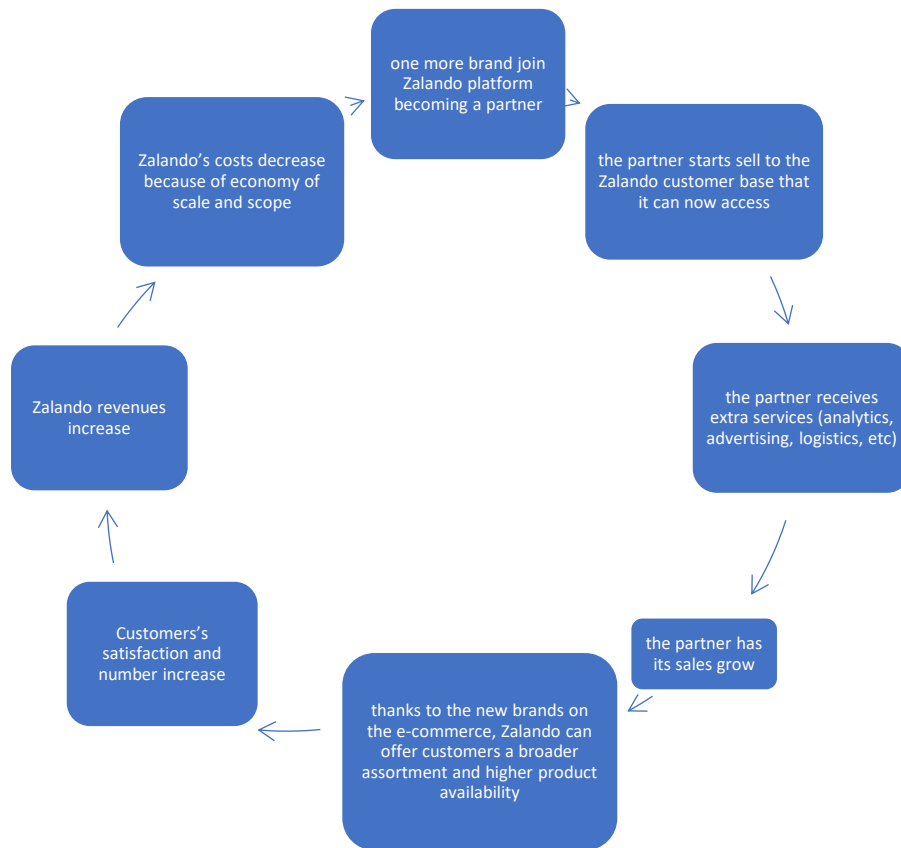
Appendix 11: Zalando's Subsidiaries

Zalon, Zalando Lounge GmbH, Zalando Payments GmbH, Zalando Marketing Services GmbH, Zalando Stores GmbH & Co. KG, Zalando Studios Berlin GmbH & Co. KG, Tradebyte Software GmbH, Anatwine Limited, Fision AG

Appendix 12: Eric Bowman's 2014 phases

Phase 1	Agile methodologies* within engineering teams to allow them to manage their work in progress and to plan their future work.
Phase 2	Sacrificing existing IT infrastructure and processes and adopting radical agility which includes autonomy, mastery, and embracing purpose.
Phase 3	Rolling the ideas out to the entire company, embedding engineering teams all over the company ("tech everywhere"), and establishing the principle of dedicated ownership.

*Core values that guide Zalando's agile efforts

Agility
Being able to work in parallel and minimizing number of alignment points

Radical agility
3 core pillars: purpose, autonomy, mastery

Agility at scale
2 additional principles: tech everywhere and dedicated ownership

Dedicated ownership
One person is accountable for the work of a team or a group of teams
that have been assembled to achieve some kind of end-to-end ownership

Prioritization
Clear rules for decision making

Rightsizing for employees
Defining right scope of work

Sacrificial architectures
Soon-to-go structures

Appendix 13: M-form structure
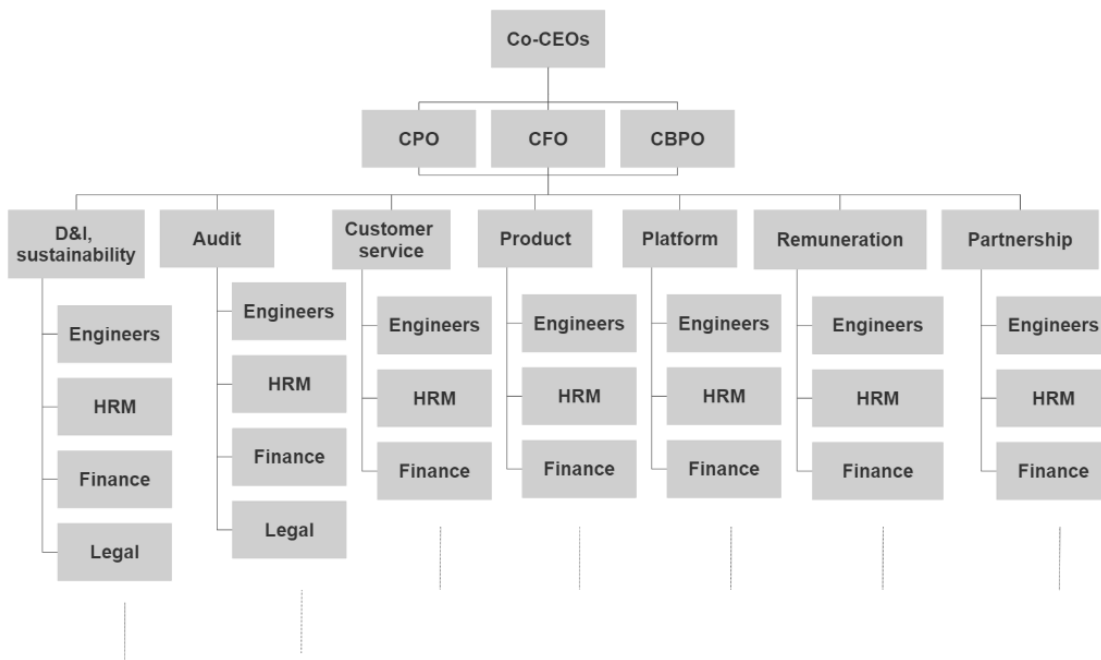
Appendix 14: Goals of do.MORE

- We are **carbon neutral in our own operations and aim for a 1.5°C pathway:** By 2025[4] we have achieved our science-based targets to reduce carbon emissions in line with the Paris Agreement, including an 80% reduction in emissions from our own operations compared to 2017.
- We **apply the principles of circularity to our packaging:** By 2023, we design our packaging to minimize waste and keep materials in use, specifically eliminating single-use plastics.
- We **enable customers to make more sustainable choices:** By 2023, we generate 20% of our GMV (Gross Merchandise Volume) with more sustainable products. *Based on our fast progress, we upgraded our target to 25% by 2023.*
- We **contribute to make the fashion industry circular:** By 2023, we apply the principles of circularity and extend the life of at least 50 million fashion products.
- We **aim to eliminate human rights violations in our supply chain:** By 2023, we have continuously increased our ethical standards and only work with partners who align with them.
- We **prepare our workforce for the future:** By 2023, we have supported 10,000 people in the workforce by providing skilling opportunities that match future work requirements.

Appendix 15: PESTLE Analysis

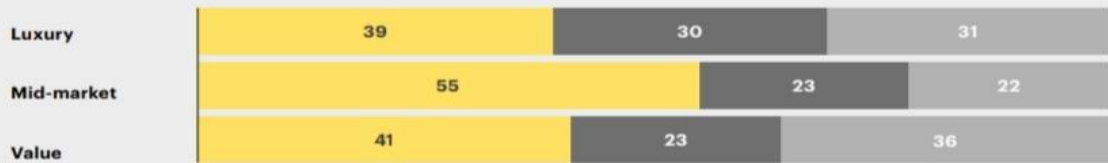| Political	Economic	Social
~ Changes in taxation brackets	~ Seasonal changes affecting revenues ~ Impact of COVID-19 can be felt on the supply chains, consequently, high marketing, freight, and labour costs. ~ Fluctuations in currencies affecting global brands	~ Consumers demanding more sustainable fashion ~ Expansion of e-commerce fashion eco-system ~ Acceptance of different body types
Technological	**Legal**	**Environmental**
~ Omnichannel platforms are becoming popular ~ Using advanced tracking systems and autonomous deliver solutions ~ Companies also deploy machine learning algorithm on its platform to allow customers to gain a better insight into product size and fit, leading to lesser returns.	~ General Data Protection Regulation in Europe ~ Improving labour standards will reduce profit margin	~ Plastic waste due to packaging ~ Currently, with services like same day delivery and free return, a large amount of fuel is being used for a smaller number of items. Zalando has aimed to reduce emissions using a carbon credit program.

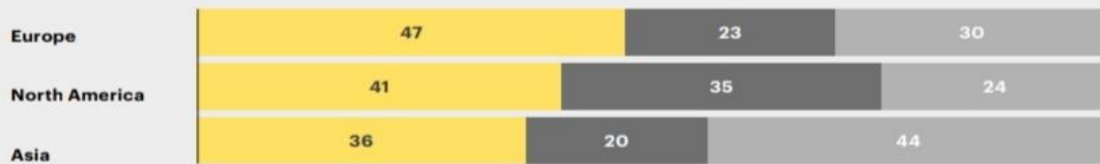**Appendix 16**: **Fashion industry going digital**

Exhibit 1:

Fashion executives are divided on the outlook for the industry in 2021

% OF FASHION EXECUTIVE RESPONDENTS, EXPECTATIONS FOR THE CONDITION OF THE FASHION INDUSTRY IN 2021 RELATIVE TO 2020

Worse   Same   Better

BY SEGMENT

Segment	Worse	Same	Better
Luxury	39	30	31
Mid-market	55	23	22
Value	41	23	36

BY GEOGRAPHY

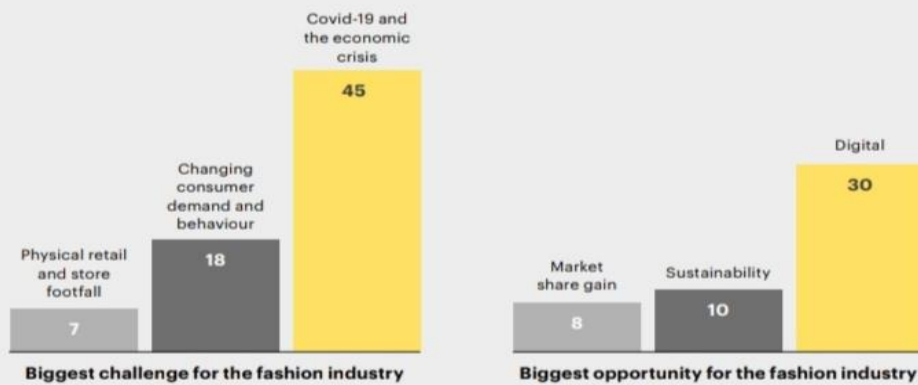| Geography	Worse	Same	Better
Europe	47	23	30
North America	41	35	24
Asia	36	20	44

SOURCE: BOF – MCKINSEY STATE OF FASHION 2021 SURVEY

Exhibit 2:

Fashion executives expect Covid-19 and the economic crisis to be the biggest challenge in 2021 and digital to be the biggest opportunity

TOP THREE ANSWERS, % OF RESPONDENTS WHO MENTIONED THE WORD

Covid-19 and the economic crisis: 45
Changing consumer demand and behaviour: 18
Physical retail and store footfall: 7

Biggest challenge for the fashion industry

Digital: 30
Sustainability: 10
Market share gain: 8

Biggest opportunity for the fashion industry

SOURCE: BOF – MCKINSEY STATE OF FASHION 2021 SURVEY

Appendix 17: Financial split for Zalando's expansion in Africa

Voice of revenue/cost	Estimated amount	Comment
target revenue	€150 million	
financial expenditure	€182 million	
fulfillments costs	52R-55R per 1.5 Kgs	
Operations	50-75% of the retail price of goods	
customer support in Africa	1.87 lb - 17.81 lb	Per hour wage rate for outsourced customer support in Africa Exchange rate as 1 lb = 1.19 Euro per hour
payment service providers	between 2.5% and 3% for in-person transactions	
payment service providers	2.9% for e-commerce transactions + fixed	
administration	4% of the total costs	
marketing	between 7% and 12% of the total revenue	Considering it as a testing phase
corporate tax	28% on taxable income	

Appendix 18: Attitude-behavior gap of consumers for sustainable fashion