

**DROP-SHIPPING APPAREL PRODUCTS TO GERMAN  
FOOTBALL FANS BY PEPPERMINDS**

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## Resumo

A tese de mestrado que se segue é um plano de negócios de marketing online de risco. Este plano consiste em vender produtos de vestuário personalizado a fãs alemães de futebol. Com um novo modelo de supply-chain chamado Drop-Shipping, este negócio tenciona criar flexibilidade e liberdade para que se possa operar de qualquer parte do mundo, desde que se tenha acesso à internet. É apenas executado pelo autor do modelo com a ajuda de vários freelancers e parcerias, que a empresa fundadora *Pepperminds* conecta através da internet.

A revisão da literatura explica a evolução do negócio de e-commerce. Também aqui está presente as mudanças no comportamento do consumidor online causadas pelo desenvolvimento das plataformas de redes sociais e a Web 2.0. Depois de identificado o problema e a necessidade de vestuário personalizado, uma análise de mercado, competidores e clientes foi desenvolvida para detetar novas tendências e oportunidades. Apesar da crise económica que se instalou na última década, a indústria de vestuário personalizado foi identificada como estável. As pessoas tendem a comprar cada vez mais online devido às novas possibilidades de dispositivo móveis e à facilidade de acesso à internet por todo o mundo. A nova tendência de social commerce funde a invenção das plataformas de redes sociais e as oportunidades no e-commerce. Assim, obtém-se uma poderosa fonte de acréscimo de valor aos clientes. No mundo ocidental as pessoas definem-se a si próprias pelo valor das suas posses (Belk, 1988), o que demonstra mais uma razão pela qual este modelo de negócio pode ser bem-sucedido. Belk (1988) fala da identidade das pessoas com base em quem nós somos, de onde viemos e para onde vamos. As nossas posses, como o vestuário, são usadas para criar novas relações com as pessoas com quem nos identificamos.

O primeiro alvo da empresa *Pepperminds* será fãs de futebol na Alemanha, que foram identificados como sendo aficionados e leais com um alto poder de compra. Tornam-se assim um alvo muito atrativo. Apoiadas em dados reais, amostras prévias de campanhas de vestuário provam o sucesso do modelo de negócio. O Facebook, plataforma utilizada neste modelo, pagou a plataformas de publicidade para que seja possível identificar um cliente específico de maneira a criar anúncios relevantes e de confiança. A parte final reflete o plano financeiro, onde as vantagens do modelo de negócio podem ser observadas através da informação financeira.

Palavras-chave: E-commerce, Plataformas de Redes Sociais, Drop-Shipping, Social Commerce

## **Abstract**

The following master thesis is a business plan for an online marketing venture that is going to sell customized apparel products to German football fans. With a new supply-chain model called ‘Drop-Shipping’, this business is supposed to create flexibility and freedom for being able to operate from anywhere in the world with internet access. It is solely run by the author and by the help of several freelancers and partnerships, which the founded company *Pepperminds* connects with through the internet.

A literature review explains the evolution of e-commerce businesses as well as the changing consumer behavior of customers online caused by the development of social media platforms and the Web 2.0.

After identifying the problem and the need for customized apparels, an analysis of the market, competitors and the consumers has been developed in order to detect new trends and existing opportunities.

Despite the economic crisis within the last decade, the apparel industry has been identified as very stable. People tend to increasingly shop online, given by new possibilities of mobile devices and internet access almost anywhere in the world.

The new trend of ‘social commerce’ merges the invention of social media platforms and e-commerce opportunities into a powerful source to provide value to customers.

In the western world, people define themselves through possessions (Belk, 1988), which is an important reason why this business model can be successful. Belk (1988) refers to a persons identity by telling who we are, where we come from and where we are going. Possessions, such as apparel products, are used to develop new relationships with like minded people.

The first target of *Pepperminds* will be football fans in Germany, which have been identified as very passionate and loyal, and are equipped with a high purchasing power. This makes them a very attractive target.

Sample apparel campaigns prove the successful business model by backing it up with real data. Facebook’s paid advertising platform makes it possible to precisely target a specific customer in order to create relevant and trustworthy advertisements.

The final part of the plan reflects a financial plan, in which the advantages of this business model can be viewed through financial data.

Keywords: E-commerce, Social Media, Drop-Shipping, Social Commerce

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I do not take this for granted and I believe that my parents are the most influential people in my life even if I don't live in the same country. You have taught me the values that I will live for for the rest of my life.

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Also I want to thank a lot of book authors's of personal development books I have read over the past year. All the content I tried to absorb has really helped me to define and schedule my day with the most important tasks. It has made it possible to write my thesis in a very productive and efficient way - I guess I will always be a German, no matter where I live.

After all, this is not only a master thesis for me, but an important business I am working onto be able to enjoy the freedom of being my own boss.

Entrepreneurship is almost a fancy term nowadays for being a part of the start-up community.

I try to avoid every step of the way to be a fancy entrepreneur, which is bringing me back to the values that my parents have taught me. Priceless!

Obrigado!

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## **Executive Summary**

The majority of people have bought an apparel product in their lifetime. The reason for that purchase is the apparel describes their character, mindset or attitude in a way they want to be perceived by other people. In fact, people use clothes to express themselves to their environment and to stimulate relationships with like minded people.

Nowadays, online shopping has become more vital and is likely to surpass offline shopping in the near future.

New technology and the evolving Internet, including the Web 2.0 and as as social media, has made it possible for marketers to analyze needs and wants of customers more precisely by using real time data analysis, also known as ‘Netnography’.

In a world where consumers are overloaded with advertisements, it is crucial to focus on providing relevant value to customers. By designing apparel products in line with the consumer’s deepest feelings and thoughts, advertisements are more likely to receive positive responses by their viewers.

The demand for differentiation in our society is high and will be used through our customer approach, where online communities of football fans are analyzed in order to sell them apparel products they really need and want.

A seamless shopping experience, embedded in the customer’s social media newsfeed, will make it appear less dodgy and more relevant to the target audiences.

The data collected and the product of extensive internal and external analysis has allowed to identify the company’s strengths, weaknesses, opportunities and threats. The gathered data is highly valuable and has lead to a marketing strategy based on a low-risk Drop-Shipping model. Drop-Shipping is a arrangement whereby an online retailer forwards its customer orders to a distributor/manufacturer and requests them to fulfill the order and directly ship the products to the end-customer instead of sending the products to a middleman/wholesaler, who then sells the products to the end customer.

By using a Drop-Shipping model, the products will only be printed and shipped to the customers, if the sales goal is reached or surpassed. The shirt campaigns will be advertised through Facebook, which has been identified as the most versatile advertising platform

nowadays regarding the social data it collects (interests, likes, demographics, jobs, income, behavior etc.).

Compared to a traditional apparel store, this business has no need of a high capital investment, which works in favor for *Pepperminds* and creates the possibility to test and tweak advertisements until successful without loosing jeopardizing amounts of money.

Furthermore, the financial plan will back up the strategic approach and provide a solution for the current overproduction of apparel products in the entire world. Too many apparel items are thrown away every year, which leads to high price drops at the end of a specific season , an eventual loss of money and a hazard to the environment.

With new technology on the rise, it will soon be possible to analyze and measure body metrics with a computer camera in order to increase the online shopping experience of buying clothes and simultaneously reducing refunds and chargebacks.

Having this in mind, the method of testing and tweaking online advertisements has become a substantial part to succeed in any e-commerce venture. With this business approach, it is possible to test audiences, advertisements, ad-copy for a low investment in order to tweak and increase conversion rates.

Customers of today are aiming to be part of the brand they buy products from; They want to be recognized as important and the reason they buy certain products is to enhance their own agenda, not the company's agenda.

*Pepperminds* is an online marketing company that was created to provide special apparel products to their customers and is the foundation for this project.

The Company has identified this special need and provides their customers valuable products that they can identify with and most importantly, increase their confidence in front of their peers.





# **1. Introduction**

## **1.1 Identification of the Thesis-Type**

The world of marketing has changed over the last decade, with online marketing becoming a major part of promoting products or services. The growth of the internet is unstoppable and in order to successfully reach a target audience, companies have to use online advertising wisely.

The following business plan will be created as a final master thesis for the Master in Marketing at ISCTE Business School - Universitário de Lisboa in Portugal.

It represents the launch of an online marketing business, called *Pepperminds*, which aims to sell customized apparel products through the internet. The products will be advertised to clients through social media platforms.

The core of the business is to design apparel products and promote those products to the target audience: football fans in Germany.

Those audiences will be targeted based on criteria such as demographics as well as socio-graphics (location, age, gender, income, interests, attitudes etc.).

The online advertisements will be delivered through social-media platforms such as Facebook in order to reach the most passionate people who are willing to buy the products.

The business plan implies the main structure starting with a market analysis, idea, strategic development, implementation, financial requirements as well as an action plan.

The current literature in this particular area will be reviewed. An analysis of the European as well as the US market in the apparel industry will be considered in order to project demand and future sales. Germany will be the first market to sell apparel products to because of its size, purchasing power of its citizens and their high internet affinity.

To analyze and test user engagement of potential customers', online metrics from recent campaigns will be used to identify key factors of a successful and profitable apparel-campaign. This company does not require a certain location and therefore can be operated from anywhere in the world with an internet connection.

The printing, fulfillment, shipping and payment issues are outsourced to an external company in order to be able to concentrate on the marketing role. The profits of the products sold will be shared with those fulfillment partners. This specific business model is also known as ‘Drop-Shipping’, which will be further explained in the following chapters.

With the ongoing growth of the internet, an increasing amount of people will be connected worldwide and will be able to see products advertised through social media platforms.

Analytic data validates the trend of e-commerce stores integrated into social media platforms.

The apparel industry is a growing market, especially in regards to specific consumer sectors such as the apparel market for women according to analysis of McKinsey Consulting (2015).

Also, 25% of growth within the next 10 years is predicted to come from emerging and developing countries such as Brazil, China and India.

Custom designed apparel products enjoy a high demand, whereby people have the chance to identify themselves with expressions of their attitudes, hobbies and interests on their clothes.

Further examples will be stated in detail within the following business plan.

## **1.2 Development of the Project Idea**

Crowdfunding has become a major role in funding and financing a diversity of projects as well as businesses in the last 5-7 years.

The idea behind **crowdfunding** is to have your project funded by a vast amount of people from around the world who believe in the success of your project.

Therefore, funders exchange money with the founders of a new business in order to receive special discounts, products, prototypes or even shares depending if the business has launched already or not (Oxford Dictionaries, 2015).

The collected money will then be used to help the business with its launch or even support the growth of the new venture.

This type of funding has become really popular in recent years, by which small businesses have the opportunity to receive lots of starting capital if people like and believe in their ideas.

The internet has been a major part of the success of this new financing model as people from all over the world have the chance to fund a certain project without ever going to the founding headquarter or even talk to the founders themselves. Platforms like

www.kickstarter.com as well as www.indiegogo.com have been turned into **key roles for financing startup-ideas** through crowdfunding.

With the increasing number of projects and start-ups seeking money through crowdfunding, those platforms have become really popular and therefore quite competitive.

It is not enough anymore to just have a great idea where people believe in. It has become vital to market your project in the right way in order to go viral and succeed by receiving the funding you asked for.

The internet today is crowded with information and advertisements fight against each other to be seen by their target audiences. It is more difficult and more expensive to reach your target market as a result of increasing competition in advertisement space. Online Marketing therefore plays a key role in making your idea go viral.

However, a new type of crowdfunding campaign has been developed over the last couple of years. Companies, such as Teespring Inc. sell custom designed apparel products in exchange for startup-capital to fund particular projects.

New ventures have the chance to create their own customized products such as t-shirts, hoodies, and mugs with their business logo or any other design.

Those products can then be sold to potential supporters of the business in order to raise start-up capital. This is often the case when new ventures and start-ups cannot produce their initial product-idea because of insufficient funds. Selling merchandise material, such as shirts or hoodies to the early supporters, can enhance trust by physically delivering a product instead of only offering a discount in the future.

In fact, these apparel fulfillment companies are no longer only aiming to help start-up's raise capital, but to create the opportunity for businesses or individuals to sell customized apparel products without any risk or worry of having a warehouse or a manufacturing plant.

The company Teespring makes it risk-free for marketers to launch unique campaigns in order to sell custom-designed apparels to a specific target.

Users can choose the color and type of items they would like to sell and add a design. Designs can be uploaded from outside of the platform.

Once the design is created, marketeers set a price for their products and choose a sales goal (e.g. 20 Shirts).

No orders are processed, manufactured or shipped until the campaign has ‘tipped’, meaning that the sales goal was reached or surpassed. The final amount of products sold will turn into a profit for the marketeers.

Teespring takes a small portion of every shirt sold in order to cover the cost for printing and material as well as their own profit.

This new business model of generating profit before the products are even made has almost no risk for marketeers as they never have to touch or store any products. If the sales goal is not reached, the few buyers will get their money back and the shirts will not be printed or shipped. Both the marketeer as well as the fulfillment company do not face the fear of a loss because the products will only be produced if the sales goal is reached.

The core of the new online marketing venture is to design and advertise custom designed apparel to different audiences all over the internet, starting in Germany.

Teespring takes care of production and distribution of the apparel products. In addition to that, they also deal with any kind of customer service inquiries, shipping returns and payment issues, which makes it a lot easier for the new company to focus on design and marketing.

### **1.3 Identification of the Promoter and the Innovative Proposal**

I am an entrepreneur from Germany. I have been studying and working in many different countries, including Australia, United States of America, Austria as well as Germany and Portugal. I graduated from the University of Innsbruck in Austria with a double bachelor-degree in business administration and sports management, both with a focus in marketing and sales.

After that, I worked in the marketing department of Red Bull in Austria, where I was hosting sport and music events in order to promote the Energy Drink Red Bull. I was also responsible to market and promote world class athletes in a variety of extreme sports (Snowboarding, Motocross, Mountain-biking etc.) in order to make sure they represent the brand of Red Bull in the right way.

Furthermore I have worked for an apparel company called FYASKO in Orange County, California, where I was responsible for the Marketing Department.

I gained tremendous amount of knowledge and experience in the apparel industry, where competition is high and margins are decreasing constantly.

Over the years I became more and more interested in the digital marketing area, where I learned about data analysis and how to use analytics to test new ideas in the world wide web. I have tested and launched different projects online and learned through testing and failure, trial and error.

My expertise is to sell products online through social media platforms as well as other e-commerce stores.

The trend of selling products through social media giants like Facebook and Instagram has been growing continuously and is projected to grow even further in the near future. Anderson (2011) shows that over the last 4-5 years the integration of e-commerce into a social media strategy, which is also known as 'social commerce', has grown over 56% and surpassed \$30 Billion in 2015. It is predicted to grow even further within the next couple of years (Anderson et al., 2011).

People tend to trust a company more when they can instantly communicate with managers and ask questions, rather than just ordering a product on a website. Feedback from recent customers in the form of reviews and comments creates social proof for future clients.

Fan Pages on Facebook, for example, have the advantage to engage with customers before they ever make a purchase. For the same reason, Amazon has created its enormous review-section where customers can criticize all of their products. This is a huge benefit for future customers in order to trust the company and feel good about the purchases they make. Amblee and Bui (2011) explain this process as 'social proof', which is a key trigger in order to become a trustworthy company that people like to refer to (mouth-to-mouth referrals).

In general, customers like to feel good about the company they interact with. Therefore, it is much easier to start a conversation with potential future customers on a blog or a social media platform opposed to other online outlets. Those people have the chance to comment and communicate with the employees of the company, as well as with each other, about their

opinions. Building a relationship online with the customers is key and will help to improve the customer-lifetime value.

**The idea behind this business is to create custom designed apparel products and to advertise it only to people, who are interested in the topic of the design rather than creating an ad for a broad audience and hoping that someone will like it.**

The world of online advertising has made it possible to narrow down audiences efficiently in order to reach the exact target market.

Facebook-Insights, which is an analysis tool of Facebook, can show a proper image of the audience you wish to market to based on a variety of criteria such as demographics (Income, Hobbies, Interests, Occupations etc.). With a little amount of advertising money you can test the responses of customers quickly before spending lots of money for a big advertising campaign.

The advantage of this apparel business is to interact in a risk-free environment based on the advantages of Drop-Shipping apparels and advertising it to potential customers.

The only monetary costs involved are design creation and the cost of advertising, which depends on the platform as well as on the engagement of the people.

If the audience likes the advertisement, which is trackable through CTR (Click-through-rate) as well as likes, comments and shares on a Facebook-Ad campaign, the cost of the ad will automatically decrease.

That means, if you are able to create an engaging and emotion-evoking ad people are likely to respond to, your cost of advertising will be minimized.

If the campaign does not reach its original goal of sales, the shirts will not be printed and the only sunk-cost will be the advertising money. Therefore you will not end up in a situation where shirts are printed and not sold.

If you choose a traditional manufacturing approach where you forecast demand and print apparel in advance, there is a high probability that you will not sell all of those forecasted products and therefore create a loss. Warehouse cost and cost of leftover products will arise and create a high risk for a new company.

By working with this new approach *Pepperminds* will know how many people buy specific shirts before they are even produced.

Another big advantage of sharing the profits with an external fulfillment company is to never have to touch the product. Therefore, there would be no stock and no associated warehouse cost or any other logistics involved.

The fulfillment-partner will print, ship and even collect the money from the customers and send you the appropriate share of the profit. This is an important advantage because this company can then concentrate on their strengths, marketing and design.

The following business plan will be separated into different parts. In the beginning, a short literature review will explain the business model of Drop-Shipping and the development of the apparel market in Europe as well as the United States in terms of e-commerce and social media habits. The evolution of mass customization and the change of consumer behavior caused by the relevance of social media will be analyzed. Customer motivation to buy apparel products and what it means to them to own a custom designed shirt will also be explained.

Secondly, an external and internal analysis through PESTEL, SWOT as well as Porter's Five Forces will show detailed insights about the current situation of competitors, niches and target markets.

Furthermore, sample apparel campaigns will be launched and analyzed in detail in order to make implications for future sales.

The final part shows a financial plan for this business in order to grow and forecast costs and profits to clarify assumptions and secure a viable and profitable business.





## 2. Literature Review and Proposed Business Innovation

### 2.1 Drop-Shipping - An innovative Business Model

Drop-shipping is a specific method of distributing products through the supply-chain to customers. It is an arrangement where an online retailer forwards its customers' orders to a distributor/manufacturer and requests them to fulfill the order and directly ship the products to the end-customer (Chiang & Feng, 2010).

In fact, the online retailer completely abandons inventory and outsources the production as well as the shipping to the manufacturer. This liberates the company to focus on marketing, advertising and outsource production as well as shipping and handling.

As a result this leads to decreasing costs caused by not having to pay rent for a warehouse and other logistics. The retailer never has to touch the products and only takes care of promoting them in order to receive orders, which can then be forwarded to the Drop-Shipper. Usually, an integrated software takes care of this forwarding process, which makes it more time and cost-efficient.

Nevertheless, this way of distribution also has its downsides. With Drop-Shipping the profit margins are lower than with products personally manufactured or stored in an own warehouse (Zhao & Cao, 2006)(Chiang & Feng, 2010).

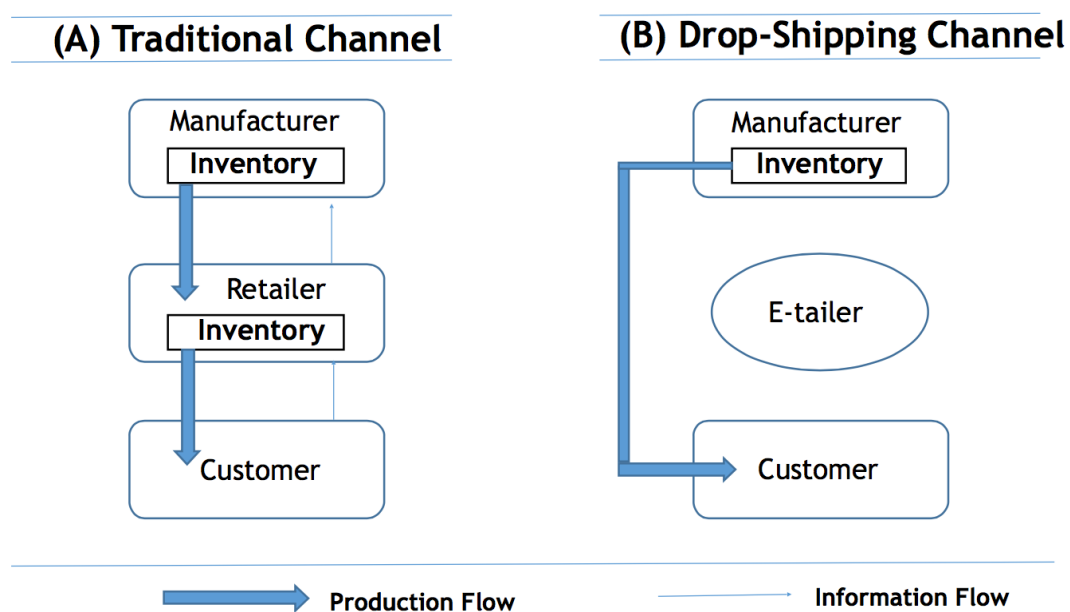


Figure 1. The difference between traditional and Drop-Shipping channel (Chiang & Feng, 2010)

Furthermore, if companies expand and offer a variety of different products, which are sourced by different manufacturers, it could lead into problems of managing the logistics and maintain a consistent brand image. While Drop-Shipping products you cannot change the packaging or add any individualized messages which might be an important differentiator to build a loyal brand for the customers (Netessine & Rudi, 2006). The chart (Figure 1) above shows the difference between a traditional and Drop-Shipping distribution channel. Whereas a traditional method requires the retailer to store and forward the product to the customer, the Drop-Shipping method skips this part and lets the manufacturer ship the product directly to the customer. In fact, the online retailer only acts as a middlemen without ever touching the product.

The following chart (Table 1) reveals the benefits as well as the downsides of Drop-Shipping to identify if it is the right business model.

As was previously mentioned, Drop-Shipping can be a great opportunity to kickstart a new venture because it only requires a minimal investment.

<b>Pro's</b>	<b>Con's</b>
<ul style="list-style-type: none"> <li>• Risk free environment of keeping no inventory (no cost of warehouse, rent, logistics)</li> </ul>	<ul style="list-style-type: none"> <li>• Less impact on brand building activities such as (packaging, individual notes for customers, special flyers)</li> </ul>
<ul style="list-style-type: none"> <li>• The retailer never has to touch the product</li> </ul>	<ul style="list-style-type: none"> <li>• Margins are lower than with a traditional distribution model</li> </ul>
<ul style="list-style-type: none"> <li>• No physical office is needed; can be operated from one individual or more with access to the internet —&gt; Location independence</li> </ul>	<ul style="list-style-type: none"> <li>• As soon as size of the company increases drop-shipping can create problems in terms of logistics and management - interaction &amp; communication between different suppliers</li> </ul>
<ul style="list-style-type: none"> <li>• Focus on Strengths (Marketing &amp; Design) - outsource the rest</li> </ul>	<ul style="list-style-type: none"> <li>• No control over delivery performance, time and quality</li> </ul>
<ul style="list-style-type: none"> <li>• Low capital investment - no high financial risk (low fix costs &amp; low variable costs)</li> </ul>	

*Table 1 - Pro's & Con's - Drop-Shipping (Author's analysis)*

In spite of the positive parts, Drop-Shipping can cause several problems when fulfillment companies are not reliable or trustworthy.

A huge amount of Drop-Shippers are based in China and other Asian countries due to low labour and manufacturing costs. Language barriers and a different business culture can lead to problems and eventually to a damage of your brand's reputation and, therefore, ruin your business.

It is worthwhile to **invest time and money** in order to **find reliable companies** because it pays off in regards to long term perspective. However, it is not possible to control delivery time, performance and product quality because it is fully managed by the Drop-Shipper. Additionally the marketeers cannot change or label the packaging, which is an important branding tool to differentiate from competitors.

## 2.2 The Extended Self - Why do people buy apparel products?

Belk (1988) describes in his research the model of an 'extended self', which explains the reason why people tend to buy materialistic products. Possessions, which can be materialistic or non-materialistic, are a major part of human identity and reflect people's feelings, thoughts and attitudes. In order to understand the influences of consumer behavior, it is highly important to understand the meanings that consumers attach to possessions.

*"A man's Self is the sum total that he can call his, not only his body and his psychic powers, but his clothes and his house, his wife and children, his ancestors and friends, his reputation and works, his lands and yacht and bank account..." (James, 1890).*

In this quote James (1980) describes the model of an "extended self", which explains that humans define who they are based on their possessions. The model is called "extended"-self because humans tend to incorporate their possessions into their own identities. Therefore, people view their family, the city they live in and the nation they belong to and the ownership of specific products to be a part of who they are. For example, the first bike you ride when you are young is attached to certain emotions and feelings.

In the case that your bike gets stolen, you are not only losing the physical product but also the memories attached to it. A product or a thing becomes part of a person's well being and

becomes attached to emotions, sentiments, and will eventually become part of one's personality.

There is three ways of incorporating possessions into the Extended Self:

1. ***Controlling an object for personal use***
2. ***Owning an object by either creating or buying it and***
3. ***To make objects part of one's Self by knowing them; by the desire to have the object (can be a person, place or a thing)***
  - ***Ownership (House, Car, Land also describes the extended self)***
  - ***Lifestyle (Clothes, Language, Jewelry, Pets) expresses to which group the person belongs to)***

Apparel products have a huge impact on our 'Self' because people tend to express their state of mind through their outfits. In search for like minded people, humans dress the way they want to be perceived by other's (e.g. Shirts with musicians, soccer clubs, biker-meetings etc.). People want to remind themselves of past experiences and accomplishments by sharing a similar interest.

Regarding consumer behavior, it is crucial to create apparel products that let people distinguish themselves from each other and have the chance to extend one's 'Self' even further.

For example, a soccer fan does not want to be perceived as a general soccer fan. Most likely they are supporting just one specific team and are very strict about who they support.

In conclusion, consumers are more likely to buy if they can strengthen their own identity by showing their state of mind to other people without even talking to them.

Apparel products have the chance to help their customers to achieve that by using specific and emotion-evoking designs, which represents the people's feelings and attitudes.

## 2.3 Mass Customization

After the turn of the millennium and the exponential growth of the internet, an increasing demand of individually customized products has been established. People are asking for personalized products in order to stand out from the crowd. Generic products become unappealing to people who are growing up in an information society (Cho & Fiorito, 2009).

With increasing possibilities and growing technology, it is possible to integrate the customer into an interactive online shopping experience. Based on a customizing software, businesses start to integrate an opportunity for the customers to act as their own designer and customize their products in real time, which enhances the involvement of the customer and their shopping experience.

A well known example is the apparel giant Nike with its own customizing section “Nike ID”, whereby customers are able to choose their own colors, size, fit of shoes etc.. This program has been identified as very successful (Forbes, 2015).

Studies by Franke et al (2009) have shown that customers are willing to pay a premium price for such customized products because they now have the chance to express their individuality by creating products together with the merchant. This also enhances the relationship between the customer and the company (Cho et al., 2014).

The difference between the approach of companies like Nike and *Pepperminds* business model is that marketers can now customize products for their own clients that can belong to different niches and sectors (e.g. Football Fans).

Therefore, custom design web-applications like Nike ID are build to enhance B2C relationships, whereas companies such as Teespring are built for B2B purposes. This creates opportunities for online marketers to build their own businesses without the burden of high capital investments for warehouses and production plants.

Mass customization is a term that describes the delivery of a wide range of products and services in line with various needs of individual customers (Grimal & Guerlain, 2014). The term is a mix between ‘mass production’ and ‘customization’, which at first seems quite contradictory. However, as already mentioned, new technology and the Web 2.0 have made it possible to create customized products by using mass production.

To better understand online consumer behavior, the following section will talk about the changing communication habits caused by the invention of social media and the Web 2.0. It will also explain how e-commerce has evolved through online shopping on social media websites.

## 2.4 How the Internet changed Consumer and Communication Behavior

The tremendous growth of the World Wide Web in the last decade has changed the way people communicate (Blattberg and Deighton, 1991).

The traditional way of communication offered no room for interaction between companies and customers, nor between the customers themselves.

With the rise of social media, the model of consumer behavior changed accordingly. The way people acquire information, opinions, attitudes, purchase behavior, post-purchase communication and evaluation of products and services has evolved and moved to online communities such as forums, blogs and social media websites (Glynn and Faulds, 2009).

It is now possible for people to **fill that gap of interacting with each other and share information about desired products or services**, as a result of the possibilities provided by platforms like Facebook, Instagram, Snapchat and many more. Consumers can exchange opinions and information without restrictions on time and location.

People nowadays have the opportunity to gain a more transparent overview about companies and their products based on other people's opinions and reviews, which is more credible and trustworthy than an opinion by an employee of a particular company. Amblee and Bui (2011) explain this phenomenon with the term "eWOM", which stands for 'Electronical Word of Mouth' and describes the process of communicating product knowledge to other customers. Therefore, eWOM can be a powerful driver for sales by influencing customers with reviews and ratings by former clients (Cao et al., 2014).

A great example is the e-commerce giant Amazon Inc., where sales strongly depend on customer reviews and their positive ratings. Amazon has even further improved this system

by adding another layer that rates the reviews and lets the customers know how helpful these reviews are based on a star-scale from 1 to 5 (Danescu-Niculescu-Mizil et al. 2009).

Nevertheless, the downside of this is to also expect negative reviews, which in return can lead to a decrease of sales. This effect is described as a **negative-bias** and explains that a negative emotion, statement or social interaction has a bigger impact of one's personal behavior and cognition than a positive one.

Jones (1972) explains that a **negative emotion or experience is far more likely to be shared with peers than a positive one**. This is important to keep in mind when managing online communities. Transparency plays a significant role as the published information on the World Wide Web can be accessed by every internet user from anywhere in the world.

Furthermore the **information will be stored online forever** and remains accessible at any given time **until the publisher deletes the content**, which is a major differentiator when comparing it to a traditional communication model (Merrill et al. 2011). In order to be successful, companies have to adapt their business model to new behavior from the traditional one-way communication approach to a multi-directional communication model (Figure 2). The following graphic shows how traditional media such as TV, Radio, and Newspaper were aiming to push their messages to the customer in hope people would

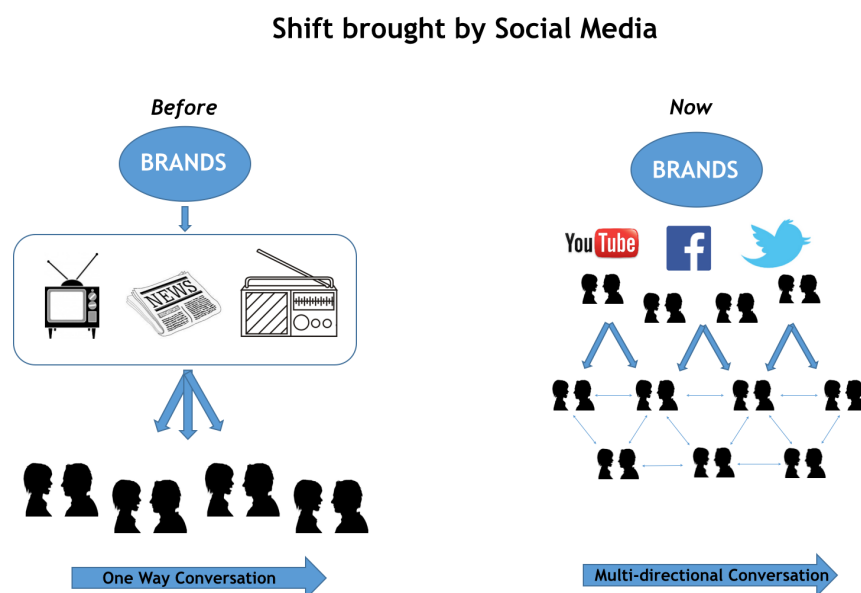


Figure 2 - Shift of communication behavior caused by social media (InRev Systems, 2010).



respond positively. The problem was that the customer did not have the possibility to respond to those messages because the communication-model was only able to exchange information in one direction (Company → Customer).

Today, new technologies and social media platforms have created a voice for customers where people can respond to messages and interact with each other (Multidirectional communication - right side of Figure 2.)

Companies need to be aware of the fact that every message they are sending out to their audience will be discussed, analyzed and debated by users all over the world through the internet. This can turn into positive or negative PR.

Besides that, **traditional advertisements** were targeting a **very broad audience** because of a lack of technology. For instance, a newspaper could never be targeted to only a specific audience as it would be too expensive for one publisher to print a special-edition for every single consumer-section.

This mostly resulted into broad audiences with people who were not interested in the products or services of the advertising companies.

With the changing possibilities of the internet, it is **now easier to target specific people** with certain interests, hobbies and attitudes (Ranganathan and Campbell, 2002).

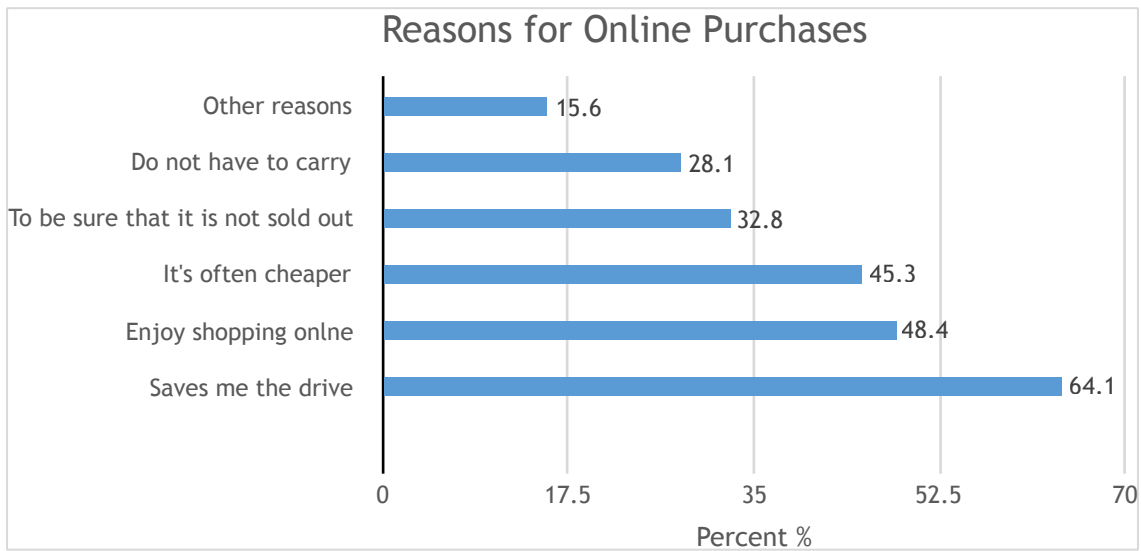
As soon as advertisements are highly relevant for the individual, they are less likely to be ignored by their audience. Consumer behavior has moved to a pull-model rather than a push model, where people are “pulling” the information they need instead of letting the companies push their messages to them (Ranganathan and Campbell, 2002).

### **Online Purchase Behavior**

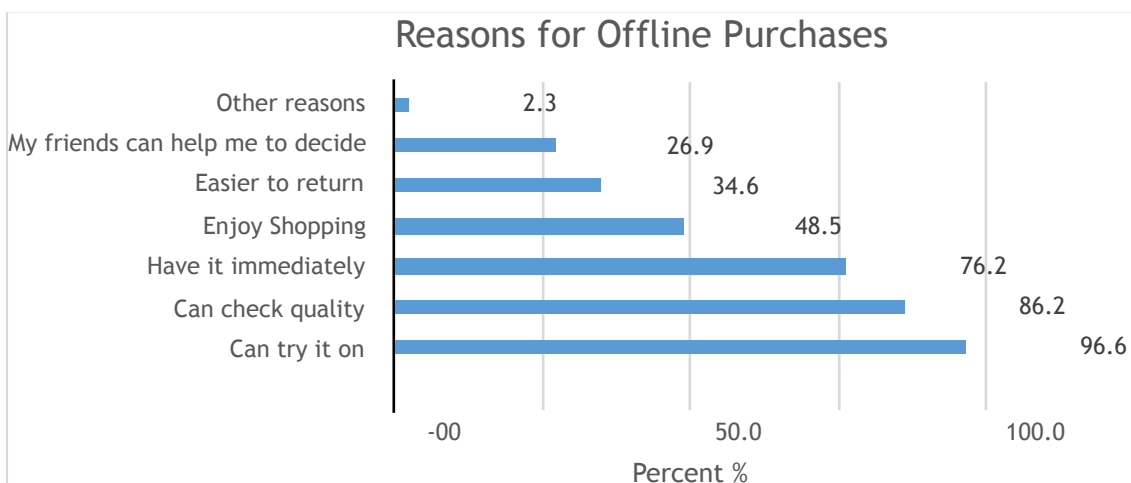
Because of the fact that this business model requires no physical store or location, it is necessary to analyze the benefits and drawbacks regarding communication and purchase behavior. The image below (Table 2 & 3) shows the impact of social media on the apparel purchase behavior of German females.

The reasons for offline and online purchases are important for *Pepperminds* strategic proposition.

Focusing on e-commerce strengths by creating an enjoyable online shopping experience, in addition to special offers, can make the difference to a physical store. Once the business has developed and gained sufficient funds, there is an opportunity to open a physical store in order to combine offline and online actions into a multichannel strategy with the goal of growing the business. The benefit of this model is the perfect basis for a new venture because there is almost no capital investment and, therefore, risk required.



*Table 2 - Reasons for Online Purchases (Cao et al.,2014)*



*Table 3 - Reasons for Offline Purchases (Cao et al.,2014).*

The most important reasons for online shopping are convenience and being able to find the best prices instantly. Especially in terms of apparel; people are highly motivated by price,

which enabled giant clothing stores such as H&M and Primark to gain tremendous market share. The main reasons for offline shopping is the advantage of trying the products on and also being able to take the products immediately home. Soon, new technology can minimize this problem by using special camera software to enable customers to try on products with the help of their own phone or computer. Additionally, Amazon started to introduce 'Same-Day-Delivery' in the United States and makes it possible to deliver in 3-5 hours after purchase. It is likely to expand this business model to Europe in the next few months (Graham, 2015).

Cao et al. (2014) also found that social media is highly used in order to acquire information about new promotions, trends as well as inspiration for new outfits, which are purchased either online or offline. Social media platforms have become an import medium for both, online and offline apparel stores as Facebook followers are more likely to become a future customer.

## **2.5 The Problem of Forecasting demand in the Apparel Industry**

Forecasting in the apparel industry is very hard as demand and supply vary throughout the year heavily, depending on the different seasons as well as different fashion trends.

The following chart (Table 4) shows which factors are controllable and uncontrollable, when customers decide on purchasing apparel products.

Traditionally, apparel companies order their products four, six, or eight months in advance based on projections of volume, range and product mix.

The probability that those forecasts reflect the reality is very low. It is almost impossible for the companies to make accurate purchase projections of their consumers by ordering products five or eight months in advance. Furthermore the unpredictability of forecasting weather makes it even harder to make accurate decisions on what kind of products to manufacture.

The downside is that the apparel businesses suffer from high maintenance cost for inventory and warehouse rent by hoping they will sell their products. If not they will suffer from a loss (Bae and May-Plumlee, 2005).

Regarding extremely high competition in this industry, this problem can easily ruin a small enterprise as costs and margins will decrease by competing with big players.

<b>Controllable</b>	<b>Uncontrollable</b>
<p><b><u>Features of Items &amp; Fashion Trends</u></b></p> <p>-The size, color, the different styles and how they match the current fashion trend have a tremendous affect on sales. However, it is hard to judge the importance of this factor</p>	<p><b><u>Macro-Economic-Data</u></b></p> <p>-Sales volume is affected by the purchasing power of the country as well as unemployment rate. -Interest rates, tax-rates etc.</p>
<p><b><u>Retailing Strategy</u></b></p> <p>-The model of distribution is important as it determines the place, where the order is taken. (How many stores are available and the location of the stores) → Huge benefit of e-commerce</p>	<p><b><u>Calendar Data</u></b></p> <p>-They are a major influencer of predicting future sales within the apparel industry, e.g. Holiday season, christmas time. -If planned ahead, this can be used to drive sales and promote special incentives</p>
<p><b><u>Marketing Strategy</u></b></p> <p>-Promotional activities -Advertising strategies (special deals for specific times e.g. Black Friday) -How are the products reaching the customers</p>	<p><b><u>Competition</u></b></p> <p>-To identify the competitor's sales volume, expenditure, turnover as well as market share is possible, but can be difficult (especially in e-commerce) -Influence of branding and advertising of competitors is hard to evaluate and judge</p>
<p><b><u>World Wide Shipping</u></b></p> <p>-World wide shipping and more open boarders have increased the sales you can generate globally. -Shipping rates are decreasing and increase worldwide sales</p>	<p><b><u>Weather Data</u></b></p> <p>-Major influencer on forecasting clothing sales -Uncontrolled and fluctuate, depending on the country's climate -Weather forecast is too unreliable in order to use such data for evaluating future sales.</p>

Table 4. Exogenous Factors of selling clothing items - (Thomassey, 2014)

Therefore, a small business has to invest its money wisely and cannot maintain a high inventory. Paying for a warehouse and rent can be fatal in the stage of launching a new apparel company (Mostard et. al, 2011).

As already mentioned before, the business model followed in this project is based on a low risk environment because the costs mentioned above will not arise. The advantage is to better predict the sales by testing different audiences with a variety of designs. Through this way of selling apparel you can act faster and change designs far more quickly as you are not depending on big suppliers, who would need a couple of weeks or months to deliver the desired products.

By using this approach it is possible to react to wishes of customers faster and therefore build a strong client base.

## 2.6 From E-Commerce to Social Commerce

The e-commerce sector is experiencing a new development through the adoption of Web 2.0 capabilities in order to improve the involvement and participation of consumers during the purchasing process.

The growth of social media as well as the Web 2.0 has enhanced the transformation from a product-based perspective to a more social centered environment, which is also defined as ‘**social commerce**’ (Wigand et al, 2008).

That means, customers in a social online environment have more possibilities to access high-quality information about past experiences with products or services with the intention of making more accurate online purchase decisions (Dennison et. al, 2009).

In addition to that, the integration of the Web 2.0 into e-commerce helps companies to maintain and build relationships with their customers. It increases the reputation of a business and can also be a driver for the development of new products and brand improvements by analyzing conversations and interactions between customers (Michaelidou et al, 2011).

A new study by Wigand et al (2008) proved the popularity of this new trend and indicates a growth of the social commerce by 43% per year. More than 3/4 of all online businesses expect to invest in social commerce in order to create the best shopping experience possible.

The ultimate goal is to integrate the social web into e-commerce businesses in order to create a seamless and simple shopping experience for the customer. Facebook has started to react to this new trend and has integrated the function of a “Shop Now-Button” into their Fan-pages in order to ease the burden of making a purchase decision, while socially interacting with other people on the web (Facebook Inc, 2014). Other big social media giants such as Instagram followed the same trend and integrated ‘Shop Now’ functions in order to be prepared for emotional, impulsive and spontaneous purchase decisions (Facebook Inc, 2014).

Social commerce is an emerging trend whereby sellers are individuals rather than big corporations (Stephen & Toubia, 2010). Most of the time those individuals do not own their own inventory but build a community whereby they offer their members other products from giants like Amazon or Alibaba. Stephen & Toubia (2010) clearly identify the social commerce as a new way of online shopping and building trust amongst customers. Big

corporations have been losing the trust of many customers over the years, which is one reason why smaller businesses have the chance to create substantial value for individuals in different niches.

## 2.7 Future Trends in the Apparel Industry

This business model requires a lot of attention to the advertisement systems because the algorithms of online ad-platforms are constantly changing. Google as well as Facebook are using an algorithm, which is updating their advertisement platforms almost daily in regards to different metrics and new targetable interests.

In order to keep up with new changes, the business has to stay in close contact with representatives of Google and Facebook, as well as content published on their official blogs.

In order to keep advertisements running with a low budget, it is important to follow the advertising rules of those giant platforms. For example, the Facebook Ad Platform does not allow advertising images with more than 20% text (Facebook, 2013).

If marketers do not follow such rules, ads will either not be approved or punished with high penalties.

Since Facebook bought Instagram, two advertising platforms have been merged and can be used to market your product. You can run ads to Instagram through your Facebook Platform, which is a huge advantage for marketers in order to reach different audiences. Some people moved away from Facebook to Instagram as it is only focused on pictures rather than text.

This can turn into a great opportunity for this apparel business because the products can be displayed on Instagram to turn those views into sales without even changing the advertising platform (Instagram, 2015).

Furthermore **future camera technology in computers will be able to capture the measurements of our bodies through video analysis**, which enables you to try on apparel without even wearing them. With a swipe of your hand you can change clothes and see if it fits your style. With the support of smart mirrors and virtual changing rooms, the shopping process will be taken to a new level by using smart technology (Zakrzewski, 2014).

It will be a huge opportunity to strengthen the e-commerce apparel industry because the only downside of online shopping is the lack of trying products on and instantly taking products

home. As already mentioned, giants like Amazon will make same-day-delivery available for everyone and is likely to be adapted by other businesses as well.

Additionally, apparel products themselves will be improved by including **smart technologies, where fabrics have the ability to gather biometric information such as heartbeat, breathing rate, step's taken** and much more.

Clothes that change color, size and fit as well as jackets with solar panels, which are able to charge your devices on the go will be the future of the apparel market (Arthur, 2015).

Regarding e-commerce, the term '**female commerce**' describes a well known target market for many online marketers.

Female-Commerce is a new term for especially targeting females online. As Späth (2014) stated in a research, the female e-commerce market in Germany is becoming increasingly attractive caused by an increasing buying power of women in Germany, which has never been higher before.

It is especially important to **focus on the shopping experience and emotional facts rather than hard facts and features of products** when targeting female buyers. A new trend is showing the increasing success of individualized information delivered through brand ambassadors. Thus, customers tend to trust the company more and are more likely to buy.

Online Retailers will increasingly make **use of personal customer information** shared on social media sites in order to **build customized digital identities** and form a customer base of respective target groups.

One example is the **method of retargeting**, which describes a certain type of advertising. In e-commerce, people who visited a website and wanted to buy a product but ended up not finishing the transaction, can be 'retargeted'. This method makes sure the advertisement is relevant and is in great interest to the potential customer.

## 2.8 Market Analysis of Apparel Industry in Europe & United States

The success of a business is strongly dependent on the amount of market share it has in its specific industry. It is vital to understand existent competitors in order to develop strategies to make your products or services stand out.

Thus, it is important to be familiar with the market characteristics as well as being aware of new trends and changes in your industry in order to adapt the business model and grow further.

Gilmore and Pine (1997) highlighted many years ago that the Internet is an important means for customizing apparel.

Clothes play an important role within one country's economy because apparel products are identified as a basic need for citizens, and therefore have an extremely high and constant demand. Goldsmith and Freiden (2004) have identified apparel items as one of the best product categories for customization purposes. People identify and characterize themselves through their outward appearance, which is often communicated through their clothes.

Furthermore, apparels have a short product-life-cycle and are characterized by a tremendous amount of product differentiations.

When looking at the products at any apparel store around the world, it is easy to understand the vast product range of similar products being offered are (e.g. different cuts of jeans, t-shirts, dresses and colors). Caused by the different seasons throughout the year, demand is also rising as people have to adapt to new weather conditions.

Thus, certain type of apparel is affecting sales stronger than others. For example, the demand of underpants is not directly correlated to different seasons throughout the year, whereas t-shirts are needed in the summer.

Nevertheless, growth in demand is also caused by marketing and fashion experts, who are inventing new fashion trends and styles in order to stimulate the people's needs for new clothes.



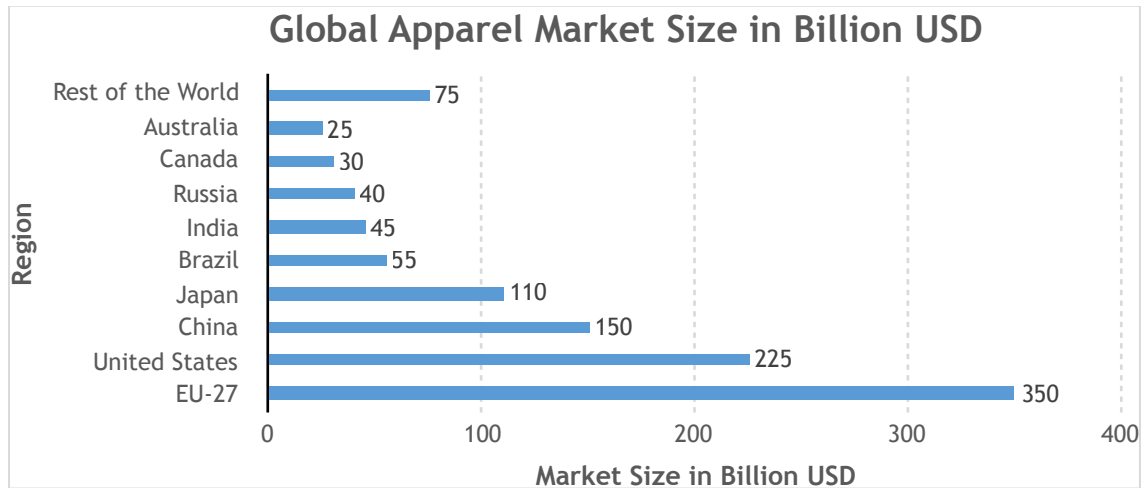


Table 5 - Global Apparel Market Size in USD Billion (Statista, 2012).

The upper chart (Table 5) shows the leading global economies regarding the sales volume of apparel products in 2012. Europe is leading the global market with a market size of \$350 Billion, whereas the United States had a sales volume of USD 225 Billion in 2012 (Statista, 2012).

The German apparel market, which will be the first target market of this business, is estimated at around 59 Billion € combining offline and online retail sales (CBRE Germany, 2013).

The global apparel market in total is estimated at around USD 1.1 Trillion, which characterizes an extremely high amount if you compare it to the total GDP in Europe - USD 16.7 Trillion (16%) (International Monetary Fund, 2014). Newbery (2006) says that the growth of the apparel market in e-commerce is faster than of groceries, books, and music.

The biggest challenge of the apparel industry is a constant change of consumer demand. With new trends and new technology people tend to move to new brands and different stores in order to differentiate themselves from the masses (Cho, 2007).

The goal for the company is to create the best and most enjoyable shopping experience for customers in order to retain clients and reach new customers.

The rise of the internet within the last decade has created a tremendous change in the characteristics of shopping experiences for retail businesses (Gilmore & Pine, 1997). E-commerce and online shopping is playing a huge role for companies as today most of the purchase decisions are made online.

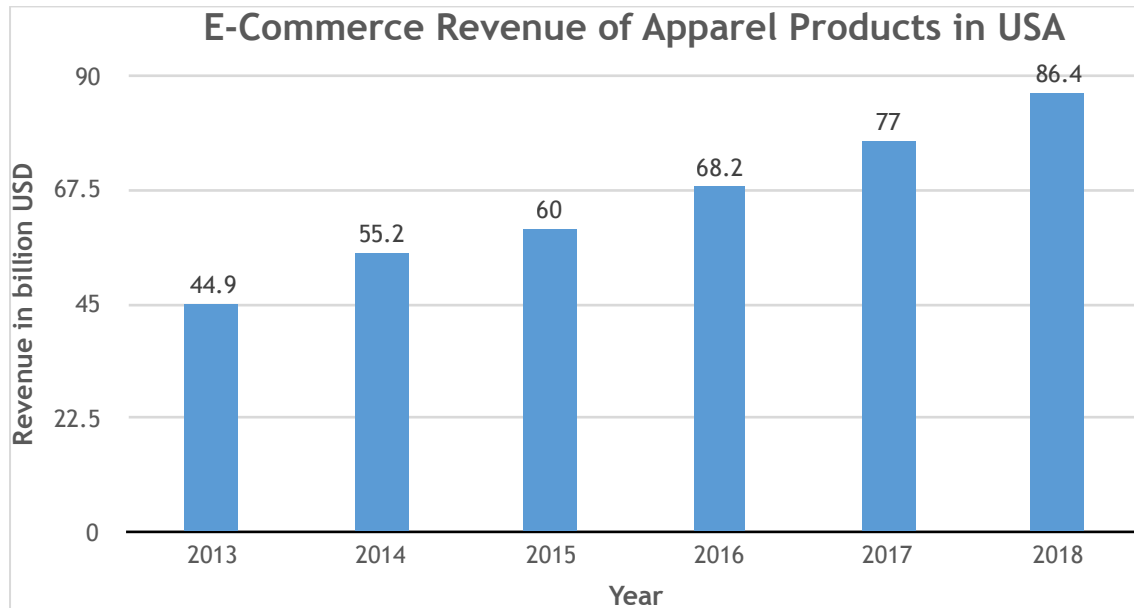


Table 6 - E-commerce revenue of Apparel Products in the United States (Statista, 2012).

The chart (Table 6) shows the estimated growth of the apparel market over the last four years in terms of e-commerce in the United States. The development from around USD 45 Billion in 2013 to USD 60 Billion in 2015 represents a growth of 33% in just two years (Statista, 2012). The estimations for the following years are projecting an even higher increase in sales volume regarding the online shopping market in the apparel industry (USD 86.4 Billion in 2018).

Besides that, it is important to know that the share of the apparel and accessories products sold online values about 17% of total retail e-commerce sales in the United States, which is a huge proportion (Statista, 2012).

In order to sum up the information above, it is remarkable how the global apparel market is growing without any signs of slowing down. A huge business opportunity is present, where this new business can flourish and strategically find customers based on online metrics and analytical data.

The German apparel market will be described in detail as part of the internal analysis.

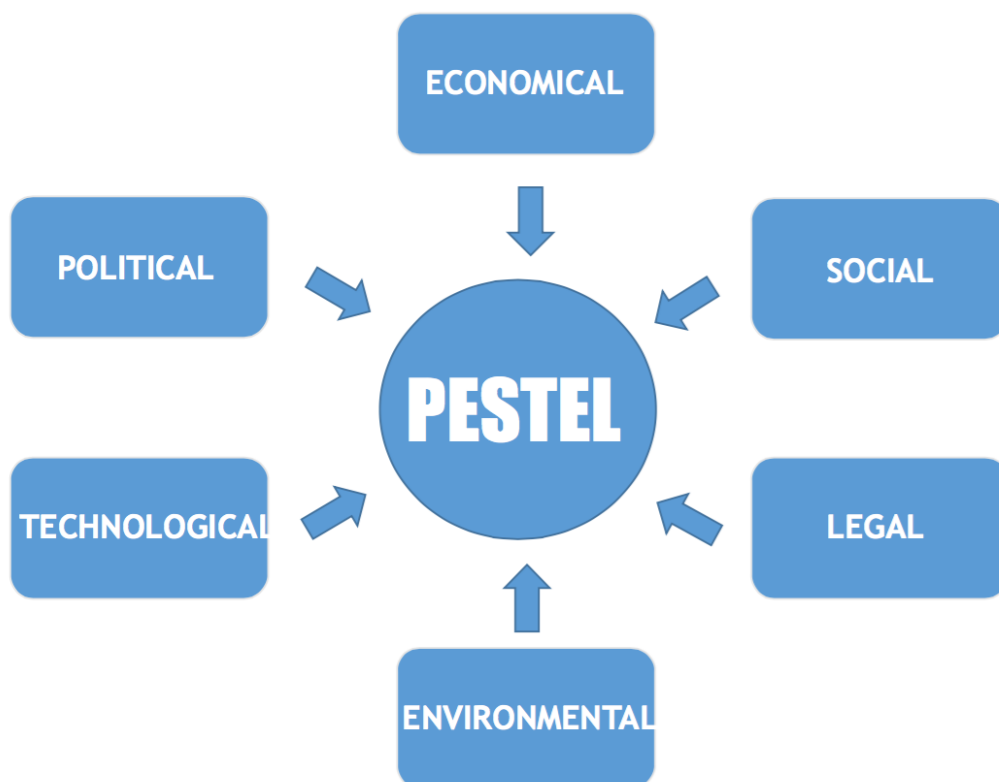


### 3. External & Internal Analysis

In order to survive in a competitive market a new venture needs to be aware of the macro-environment dynamics. The success of this business highly depends on how quickly and efficiently the company adapts new strategic and operational decisions caused by external changes. Taking advantage of new opportunities and avoiding new threats is the key to success.

The following part will cover an external and internal analysis in order to break down the variety of influencing factors for this business.

#### 3.1 PESTEL Analysis



*Table 7. - PESTEL Framework - Macro Environmental Factors (Professional Academy, 2012).*

The following analysis uses the PESTEL framework, which aims to identify the external (macro) environmental factors impacting the organization. The picture above (Table 7.)

shows six external factors such as economical, political, social, technological, environmental, as well as legal factors, which are influencing the apparel industry in Germany.

### 3.1.1 Political

The political factor characterizes the involvement of the government within the corporation, which includes tax policies, foreign trade policies, laws as well as political stability or instability of Germany.

In this case, it is important to know that the majority of issues concerning shipping, handling and payment processes are outsourced to the fulfillment company, which eases the burden of starting out.

However, this business needs to be registered as an online marketing venture. The designing tasks will be outsourced to freelancers and therefore will not be treated as an employee of the company.

Regarding taxation of products and services, Germany adds a VAT (Value Added Tax) of 19% to the majority of products. Exceptions are a reduced VAT of 7% for certain types of food, medicine and books. Therefore, Germany is charging one of the **lowest VAT-Rates** in the **European Union** caused by its' political stability and a strong economy (European Commission, 2015).

### 3.1.2 Economical

The economy of the target country plays a significant role for new ventures. Being one of the economical strongest countries in Europe, **German citizens** enjoy a minimum wage of **1.473,00 €/month**, which is one the top ten countries in Europe (Eurostat, 2015). High purchasing power in combination with online-savvy customers is a good basis for an e-commerce apparel business.

Despite the fact the target country is Germany, this business does not have to operate within Germany as it only requires an internet connection, and therefore could be operated from anywhere in the world.

Regarding spending behaviors, Germans spend an average of 120€/month on “Clothing & Footwear”, which is a slight increase after a drop of almost 16% in 2008, when the economic crisis hit the European Union (Statistisches Bundesamt, 2013).

### 3.1.3 Social

Especially in the apparel industry the social-cultural factors characterize a key role for a successful business as the fashion industry changes rapidly throughout the year, caused by different seasons as well as new design trends. Furthermore the **shopping behavior has changed dramatically since the growth of mobile e-commerce**. Today it is possible to shop from everywhere at anytime. Emotional and spontaneous purchasing decisions are happening more often.

Regarding the development of the **population-structure in Germany**, a decrease of citizen is projected as well as a growing number of people over 60-years. **In year 2060**, it is estimated that **more than 34% of the German population will be 60 years or older** (Federal Statistical Office of Germany, 2009). This is a huge shift in terms of age structure and is important to analyze in order to target new niches and potential clients as hobbies and interests differ. Older people have more money than younger generations, but tend to react less to new fashion trends.

With the growth of the older population, there will be a growing number of online-savvy customers with a higher purchasing power in the future. This is vital for this business and helps to grow it further.

Besides usage, internet influence is confirmed by an IBM survey (Steegengang & Forge, 2011). In Germany, France and Great Britain more than 50% of the respondents confessed being influenced by social networks on their buying decisions. Thus, 35% stated that they use social media networks to consult consumer ratings before they make the final purchase decision (Steegengang & Forge, 2011).

In conclusion this results into an increasing cross-channel demand, where consumers take advantage of different channels such as mobile, desktop and also offline information within the store, to support their final buying decision.

### **3.1.4 Technological**

Technology is probably the most important success factor for this business because it is highly depending on paid-advertising platforms such as Facebook, Google, and Instagram. If these ad-platforms fail to deliver, the customers cannot be reached and ultimately cannot buy. With the growth of potential niches, Facebook Pages will grow and organic reach will help to target the interested people. It is important to do a lot of research on the niches this business will sell their apparel products to.

The social media world has made it relatively easy to evaluate designs before trying to sell them. If you have a design for a shirt, which refers to specific fans, you can post it on a Facebook Page or an Instagram account and see how it performs in order to analyze the fan's behaviors. In the case that there is no prior fanbase on these Pages, Facebook-Ads makes it relatively easy to test your product for a specific audience with a minimal budget, starting at 3-4 Euro.

As was previously mentioned, the mobile market is growing steadily and does not show any signs of slowing down. An IBM-Survey (Steegengang & Forge, 2011) proves that more than 50% of Germans, French and Britons have shopped through a mobile device such as a tablet or a smartphone. Mobile is in particular supporting the integration of last-minute offers or special promotions, which are more likely to be redeemed by customers than a traditional newspaper-ad.

The majority of mobile shoppers (68%) confessed that price comparison while shopping online is very important in order to make accurate decisions (Steegengang & Forge, 2011).

### **3.1.5 Environmental**

In order to keep a low impact on the environment, maintain a low carbon footprint and meet pollution targets, this business has to choose their fulfillment-partners wisely and work with them closely. This ensures that manufacture proceedings are done in a sustainable and environmentally friendly manner. Besides that, this business is working only on the internet and therefore is not producing any direct harm to the environment.

### **3.1.6 Legal**

In order to not break the law and infringe against copyrights, this business has to pay close attention to trademarks and protected names, fonts, designs etc..

For example, when selling a shirt in the soccer niche, it would be illegal to use the name of a specific team, such as Real Madrid C.F.. Nevertheless, the name 'Madrid' can be used because it is a Spanish city and therefore the name cannot be trademarked.

Again, the risk involved for this business is quite low as the selling portion is covered by the fulfillment partners. These companies have recruited teams of lawyers and copyright experts, who are reviewing every single campaign launched on their platform.

This is to make sure there will be no products sold that are infringing copyright laws and could turn into expensive lawsuits.

To speed up the process of creating legal designs, there are also trademark search engines where you can look up trademarked words and fonts (LegalForce Inc., 2015).

### **Conclusion**

The German apparel industry is a vital and prominent market with a huge growth potential in the future. With the rise of technology, it will be easier than ever before to shop clothes online as virtual fitting rooms will soon provide a perfect platform for customers.

Compared to other European Countries, Germans are amongst the top online-shoppers in Europe. The combination of enormous purchasing power, due to the stable economy, and internet affinity, makes them a very attractive target market for this business.

## **3.2 Germany as a target market**

Germany will be the market *Pepperminds* sells products to for the beginning. The reason being that it is important to have solid knowledge about the market to which one is selling. It is also highly beneficial to understand the language, culture, common attitudes and behavior of the customers. The fact that the founder is German, his background knowledge will be



valuable information for the launch of this business.

Besides that, Germany is the biggest country in Europe in regards to population size, with around 80 million citizen (Federal Statistical Office of Germany, 2011). There is a huge opportunity characterized by a big market of people with a high purchasing power.

By further analyzing the German apparel market, it has to be explained that not all citizens access the internet on a regular basis or even have the possibility to use the internet at all.

Therefore, a recent study showed that already 51 million people in Germany (63%) out of 80 million citizens are using the internet to buy products or services online (Späth, 2014).

This makes Germany the second biggest market for online shopping after the UK within Europe, but with triple of the United Kingdom's growth potential (Späth, 2014).

Additionally, general growth of online retail sales is projected to grow at a rate of 13% from 2013-2018, whereas almost half of all European online purchase decisions are made through mobile devices, phones, tablets or even watches. According to the Association of German Internet Industry (eco), more than 50% of the GDP will be accountable to e-commerce sales in 2017, compared to already 37% in 2012 (Späth, 2014). Those numbers indicate the huge growth potential of the German e-commerce market, which could be extended to the Austrian and Swiss market in the future as well, due to their first language also being German.

After Teespring Inc. has launched the fulfillment company in 2011 in Idaho, USA as one of the pioneers in this business model, many other competitors entered the market and created a great possibility for online marketers (Rich, 2013).

With the growth of competition more and more marketers from other countries are trying to enter the business of selling customized apparel online.

Caused by that, advertising space especially in the United States has become increasingly expensive. Thus, selling apparel through social media platforms became harder.

With the internalization of Teespring Inc. to Europe in January 2015, this new business model is now more viral and prominent in European countries than ever before (Kokalitcheva, 2015). European markets with high purchasing power and high internet affinity are the most attractive one's for this business model. Therefore Germany is the perfect match to start selling customized apparel products to different niches.

### **Football Clubs in Germany**

Football is the most famous sport in Germany in terms of memberships. The German Football Association (DFB) is the largest association within the German Sports Union. The DFB was founded in 1900, includes 86 clubs, and grew to 26.000 clubs by 2010 and has an estimated 6.7 million members in total. In 1963, their highest paying football league, called the Bundesliga, became its own independent organizational structure and started to turn football players into professional high paid athletes (UEFA, 2015). The Bundesliga contains 18 teams within its first league and also 18 teams within its second division, which is also known as 2. Bundesliga. The two biggest and most successful football clubs in Germany are FC Bayern Munich and Borussia Dortmund. The bavarians from southern Germany are the

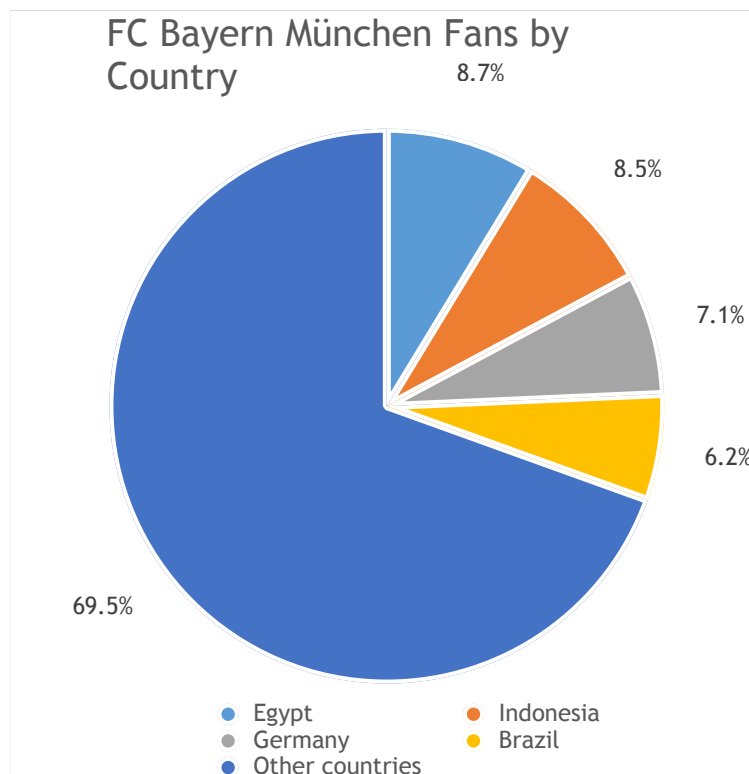


Table 8. FC Bayern München Facebook Fans located in Germany (Socialbakers, 2015)

most successful team by winning the highest amount of trophies and championships compared to any other club in Germany (UEFA, 2015).

Besides that, **Bayern Munich** and **Borussia Dortmund** have one of the **biggest fanbases** out of all 18 competing teams in

Germany. Those two clubs are going to be *Pepperminds* main target for the beginning as the audiences are also the biggest in Germany in terms of Facebook Advertising.

The image above (Table 8) shows an overview of the Facebook Fans of Bayern Munich in Germany, which amount to around 2.35 million fans in Germany in October 2015 out of 33 million fans globally (7,1%) (Socialbakers, 2015).

In comparison to that Borussia Dortmund's official Facebook Page, which sums up to 13.5 million fans globally, contains 1,6 million fans only in Germany (12,1%) (Socialbakers, 2015).

The third image (Table 9) of our Facebook fanbase shows a comparison of total fans worldwide between Borussia Dortmund (13 520 283) and Bayern Munich (33 210 930) (Socialbakers, 2015).

<b>Fan Overview Bayern &amp; Dortmund</b>	
<b>Football Club</b>	<b>Total Fans Worldwide</b>
FC Bayern München	33.210.930 (Million)
Borussia Dortmund	13.520.283 (Million)

*Table 9. FC Bayern München & Borussia Dortmund Facebook Fans worldwide (Socialbakers, 2015).*

One reason for targeting football fans in Germany as the first target is the deep background knowledge the founder of the company already has as a result of following all football statistics and matches, as well as playing soccer himself for many years. This insider knowledge can be used for new design ideas and targeting strategies.

### **Advertising on Facebook**

In order to create advertisements on Facebook and target fans of Bayern Munich and Borussia Dortmund within Germany, it is important to know that there are numerous Fan-

pages *Pepperminds* can target on Facebook.

The most passionate fans usually gather in smaller groups or build their own fan-communities to communicate with each other in groups or pages.

Advertising requires creativity. The majority of soccer players are also maintaining their own social media Fan Pages, most of the time with huge success. For instance, Thomas Müller, a famous player for the Munich Team, has eight million fans on Facebook, which is a perfect target for the company.

Facebook allows different techniques to narrow down an audience. For example, by batching different interests (Thomas Müller **AND** FC Bayern Munich). This process will be explained in detail in the following chapters. It helps to get the most passionate fans out of a broad audience.

### **Price knowledge of German consumers**

Kenning et al. (2007) mentioned that German consumers have a lack of price knowledge, especially about apparel products. They discovered that more than a quarter of consumers are uncertain about prices when making a purchase decision.

This is caused by the short product life cycle of apparels and also the continuous change of apparel prices due to many seasonal deals and old styles that have to make space for new products. In a result of that, it is quite difficult for the consumer to develop a sense for estimating the price level. Price is one of the most common strategies as part of the marketing mix to increase awareness of particular products. Huge price differences and big price drops can be explained by seasonal apparels, which have to be sold to not lose too much money. Additionally, common overproduction with a traditional manufacturing approach is most likely to lead to a price war within national markets, such as Germany (Kenning et al., 2007). Once there are too many apparels produced, they will be offered with a cheaper price in order to get rid of them.

### **3.3 Porter's Five Forces**

Michael Porter's five forces (1985) is a framework that identifies the level of attractiveness for a certain industry by analyzing the intensity of competition in the specific sector. It is vital

for the success of a company to understand its environment as well as potential competitors in order to make strategic decisions for the development of the business.

The five forces are used to unveil the obstacles and difficulties a business will face when implementing a new idea, product or stream of income. The different forces are described as the following and have to be broken down before implementing a new strategy.

1. *Bargaining Power of Suppliers*
2. *Threat of New Entrants*
3. *Threat of Substitutes*
4. *Bargaining Power of Buyers*
5. *Industry Rivalry*

In order to succeed, Porter (1985) highlights the importance of achieving a competitive position within an attractive industry. If a business fails to choose an attractive market or lacks the ability to position itself in a strong and competitive way, it is more likely to end up with low profits or a loss.

The following part will be an analysis based on Porter's Forces in order to rate the attractiveness of the German apparel industry, which will be the first target market for this business.

### **Bargaining Power of Suppliers**

This company requires a supplier, which is able to print apparel products on demand, receive payments from customers and take care of shipping and handling of the products. These suppliers are also called "Drop-Shippers", which will be further explained in the following chapter.

The on-demand printing industry has been growing in the last 4-5 years and new suppliers entered the market. Caused by new competition for the suppliers, prices are decreasing, which positively results into higher margins for the marketeers.

Thus, availability of substitute suppliers is high and the threat for this new venture is relatively low caused by low bargaining power of suppliers. In fact there are numerous

fulfillment companies available, who offer similar services. This leads to more price competition between those suppliers and results in less power to increase prices. Regarding the degree of differentiation of substitute suppliers, it is based on product quality as well as shipping costs, time until delivery and base cost for the product.

<i>Porters Forces</i>	<i>Level of Threat (1=very weak; 5=very strong)</i>				
<b>Bargaining Power of Suppliers</b>	1	2	3	4	5
Availability of substitute suppliers	x				
Degree of differentiation of substitute suppliers		x			
Supplier Competition	x				
<b>TOTAL</b>	<b>4 (Threat Level = 1,3)</b>				

*Table 10 - Analysis - Porter's Five Forces - Part 1*

### **Threat of New Entrants**

When looking at the threat of New Entrants, the peril is relatively high. In order to succeed you need to have experience and knowledge in paid online advertising and traffic generation in order to reach the customers cost-efficiently. However, there is a growing number of people who have these skills and could use them to sell their own apparel products.

In terms of financials, only a relatively low investment to test new ideas is needed, which creates a higher threat through new competitors entering the market. An investment of just 50€ can generate enormous amount of data, which helps to analyze the profitability of the audience one is trying to sell to.

Regarding product differentiation as well economies of scale, the threat is quite low because new competitors need to have advanced graphic design skills as well as knowledge about scaling a campaign.

<i>Porters Forces</i>	<i>Level of Threat (1=very weak; 5=very strong)</i>				
<b>Threat of New Entrants</b>	1	2	3	4	5
Economies of Scale			x		
Cost Advantage				x	
Product differentiation		x			
Legal barriers			x		

Capital Requirements				x	
<b>TOTAL</b>	<b>16 (Threat Level = 3,8)</b>				

Table 11 - Analysis - Porter's Five Forces - Part 2

### **Threat of Substitute Products/Services**

The threat caused by substitute products is quite high because there are many competing businesses who are selling apparel products.

In fact there are not only online stores, but also offline apparel stores offering similar products.

However, the unique selling point of the apparel products offered by *Pepperminds* is the high customization of different designs. Products are targeted specifically to football fans in Germany, but can also be extended to Bayern Munich and Borussia Dortmund Fans in other countries when considering that these teams have an international fanbase.

There is a limited amount of money people are spending on apparel products every month. Thus, this business needs to focus on catching the consumer's attention with emotion-evoking products through social media ads. As already mentioned, the consumer is more likely to purchase with an effortless and simple shopping experience.

For many people online shopping can be much simpler than walking into a store. This is an advantage for this business because people can shop from the convenience of their homes.

The threat of substitute products is undeniable, but with the growth of demand in customized apparel products, the opportunity to reach potential clients is highly available.

<i>Porters Forces</i>	<i>Level of Threat (1=very weak; 5=very strong)</i>				
<b>Threat of Substitute Products/Services</b>	1	2	3	4	5
Buyer Switching Cost				x	
Relative Price of Substitute			x		
Availability of close substitutes				x	
Ease of substitution			x		
<b>TOTAL</b>	<b>14 (Threat Level = 3,5)</b>				

Table 12 - Analysis - Porter's Five Forces - Part 3

### **Bargaining Power of Buyers**

The bargaining power of the customers is medium to low. In fact, there is an information inequality between customers and the company. The clients have no information about the advertising as well as the manufacturing costs between those two parties.

However, customers can be very price sensitive. Once the price is too high, they will stop buying. Buyer Price Sensitivity therefore plays an important role and can be a devastating threat if not analyzed carefully.

It can take up a lot of advertising money to test new prices until you find a good margin for selling apparel products online. A big advantage is the enormous amount of data points available, which are provided by the fulfillment companies and explain at what price points at people are more likely to buy. Pricing structures will be analyzed in detail in the marketing mix.

The power of consumers to force the seller to lower its prices is relatively low. There are many buyers and only a few sellers for a specific customized shirt, which creates a situation of low customer power. A high differentiation of a customized design, which is not available anywhere else, is a key factor for creating a high power by the seller.

In fact, it is not easy for the customer to integrate backwards in order to identify and copy the selling process. Additional information about targeting, ad-costs, design etc. would be required.

<i>Porters Forces</i>	<i>Level of Threat (1=very weak; 5=very strong)</i>				
<b>Bargaining Power of Buyers</b>	1	2	3	4	5
Dependency on distribution channels			x		
Buyer information availability		x			
Availability of existing substitute products			x		
Buyer Price Sensitivity				x	
Buyer's Power to lower prices		x			
<b>TOTAL</b>	<b>16 (Threat Level = 2,3)</b>				

*Table 13 - Analysis - Porter's Five Forces - Part 4*

### **Industry Rivalry**



With the rise of this new business model, an increasing amount of online marketers are entering this market, which leads to more competition.

That's why new direct business rivals have less market share caused by a lower brand recognition and lower brand loyalty. Thus, it is required that there is a factor of differentiation in designs in order to compete against business rivals.

The two main capabilities an online marketer needs to succeed in this business model is the ability to find a good design that people actually would like to wear and the skill of targeting the right people through Facebook Advertising.

The level of industry rivalry is medium. The competitors are numerous, but have unequal market share & size, depending on their level of experience and the money they have available to test new designs.

In addition to that, this business model requires only a low amount of fixed costs. The cost for advertising can highly vary, depending on the online advertising skills of the marketing manager. Furthermore, there is a high rate of people, who are quitting this business because of missing results. There is no cost involved when exiting this business, which lowers the barriers for an exit.

<i>Porters Forces</i>	<i>Level of Threat (1=very weak; 5=very strong)</i>				
<b>Industry Rivalry</b>	1	2	3	4	5
Advertising Costs		x			
Competitive Strategy		x			
Sustainable Competitive advantage		x			
Differentiation			x		
Fixed Costs		x			
<b>TOTAL</b>	<b>9 (Threat Level = 2,3)</b>				

<b>TOTAL THREAT LEVEL</b>	<b>2,6</b>
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*Table 14 - Analysis - Porter's Five Forces - Part 5*

As stated in the pictures above (Table 14), the calculations are made on a basis of threat levels, which means that a **total threat level of 2,6 represents a weak to medium**

**endangerment. Based on the calculation, the custom apparel industry is a very attractive one with lots of growth potential to start a new venture in.**

### 3.4 SWOT Analysis

#### 3.4.1 Strengths

<ul style="list-style-type: none"> <li>• A lot of experience regarding to create own designs with Photoshop</li> </ul>
<ul style="list-style-type: none"> <li>• Pepperminds already owns different Facebook Fan Pages of football fan communities and also other Pages with a few hundred likes. This will help to move to new teams and different niches</li> </ul>
<ul style="list-style-type: none"> <li>• A variety of freelance designers who can help to create designs for a low budget</li> </ul>
<ul style="list-style-type: none"> <li>• Experienced in paid advertising and traffic generation through advertising platforms (Google &amp; Facebook Ads)</li> </ul>
<ul style="list-style-type: none"> <li>• This venture creates important assets, which are the e-mails that are gathered when customers buy a shirt. Those e-mail lists can be used to further build a relationship with the audience (e.g. Build a Sales Funnel, sell them different products on your on webshop. It is much easier to sell an existent customer something than acquiring a new customer.</li> </ul>

*Table 15 - SWOT Analysis - Part 1*

#### 3.4.2 Weaknesses

<ul style="list-style-type: none"> <li>• Working with freelancers can be difficult as they are not always available and might be attracted by other offers, which are more lucrative</li> </ul>
<ul style="list-style-type: none"> <li>• Non-Us residents will also have an older version of Facebook, which does not include the latest updates. Working with older data can be a disadvantage and lead to higher advertisement cost.</li> </ul>
<ul style="list-style-type: none"> <li>• This business does not have a physical store yet, where people can see and try the apparel products.</li> </ul>

*Table 16 - SWOT Analysis - Part 2*

### 3.4.3 Opportunities

<ul style="list-style-type: none"> <li>• International Expansion to new countries and markets</li> </ul>
<ul style="list-style-type: none"> <li>• Expansion within Germany to new niches (Sports, Hobbies, Interests)</li> </ul>
<ul style="list-style-type: none"> <li>• Expansion of adding new customized products (Mugs, Phone cases)</li> </ul>
<ul style="list-style-type: none"> <li>• Once the demand is high enough, it could make sense to open an own online store to offer the products at all times and not only through campaigns.</li> </ul>
<ul style="list-style-type: none"> <li>• Expending online advertisements to new social media networks such as (Instagram, Snapchat, Twitter, Pinterest, Google Ad Words etc.) to reach more customers.</li> </ul>
<ul style="list-style-type: none"> <li>• With a colder climate in Germany people tend to need more clothes in order to keep them warm. Combined with customized apparel products, it is a great opportunity to sell hoodies and jackets, which imply usually a higher margin than T-shirts.</li> </ul>
<ul style="list-style-type: none"> <li>• Very low upfront cost - Budget for advertising is low once you start out (low entry-barriers)</li> </ul>
<ul style="list-style-type: none"> <li>• No warehouse is needed, which leads to no cost for rent.</li> </ul>
<ul style="list-style-type: none"> <li>• No losses will occur because of leftover products as products will only be printed if the customer purchases.</li> </ul>
<ul style="list-style-type: none"> <li>• The business does not require a certain location and can be operated from anywhere in the world with a computer and a internet connection (High Flexibility)</li> </ul>
<ul style="list-style-type: none"> <li>• The company never has to touch the products</li> </ul>
<ul style="list-style-type: none"> <li>• No payment solutions are needed as the Drop-shipper receives payments</li> </ul>
<ul style="list-style-type: none"> <li>• No customer service staff needs to be hired as Drop-Shippers take care of inquires and customer service</li> </ul>
<ul style="list-style-type: none"> <li>• Introducing new products is easier with Drop-Shipping as no risk of buying products, which cannot be sold later, occurs.</li> </ul>
<ul style="list-style-type: none"> <li>• Germany as a target market is one of the countries in Europe with the highest amount spent on e-commerce and online shopping, which makes it really attractive for this business.</li> </ul>

*Table 17 - SWOT Analysis - Part 3*

### 3.4.4 Threats

<ul style="list-style-type: none"> <li>• New marketeers entering the market and thus increase advertising cost</li> </ul>
<ul style="list-style-type: none"> <li>• Drop-Shipping can cause problems. If the business wants to expand to new products and use new Drop-Shippers, the different warehouses and companies have to work together, which can lead to logistical problems</li> </ul>
<ul style="list-style-type: none"> <li>• New marketeers entering the business increase competition, which can turn into saturated niches, where people are fed up with certain designs.</li> </ul>
<ul style="list-style-type: none"> <li>• The apparel industry is huge and implies a very competitive business environment. Physical stores are taking a big portion of the available amount of money Germans are willing to spend on apparel. Therefore this business has to position itself in the right way in order to add value to the right customers.</li> </ul>
<ul style="list-style-type: none"> <li>• Margins for apparel products are lower than they would be if manufactured on their own; own Warehouse</li> </ul>
<ul style="list-style-type: none"> <li>• Drop-Shipper takes a portion of the profit, which is generated through sold products</li> </ul>
<ul style="list-style-type: none"> <li>• Customers cannot try on apparel products (Products are only sold online)</li> </ul>
<ul style="list-style-type: none"> <li>• There are no physical stores, where products can be seen offline.</li> </ul>
<ul style="list-style-type: none"> <li>• Low barrier entries result into many people selling equal products, which creates a lot of competition and makes it harder to stand out.</li> </ul>
<ul style="list-style-type: none"> <li>• No opportunity to physical interact with the customer by changing the packaging and adding a personal letter, gifts, flyers etc.</li> </ul>
<ul style="list-style-type: none"> <li>• No control over delivery time or delivery performance</li> </ul>
<ul style="list-style-type: none"> <li>• Time until delivery is usually between 7-10 days, depending on the country of order. International shipping usually takes up to 15 days. The problem here sometimes is to wait the full period of 7 days until the campaign ended in order to print and ship the products. This leads to longer delivery times than other e-commerce stores.</li> </ul>

*Table 18 - SWOT Analysis - Part 4*



#### 4. Drop-shipping Apparels to Soccer Fans in Germany

The following five steps will explain how the specific drop-shipping process works in detail from initial research to selling apparel products to the target audience - football fans in Germany.

##### (1) FIND AN AUDIENCE

- Research football clubs and fan forums in Germany for new design ideas: Backed up by numbers (e.g. likes, comments, shares)
- Sources can be social media networks such as Pinterest, Facebook, Instagram, Google, Fan-Websites, Football Fan Forums, Research Software (e.g. TeeSpy)
- Use sites like socialbakers.com in order to find the highest ranked football clubs in Germany regarding their size on social media networks (In this case: Bayern München and Borussia Dortmund are the biggest Football clubs in Germany and therefore will be the main target)
- Analyze the data given on Facebook Audience Insights in order to narrow down your target market (Age, Gender, Occupation, Income, Activities etc.)

Table 19 - Drop-Shipping Apparel Products - Part 1

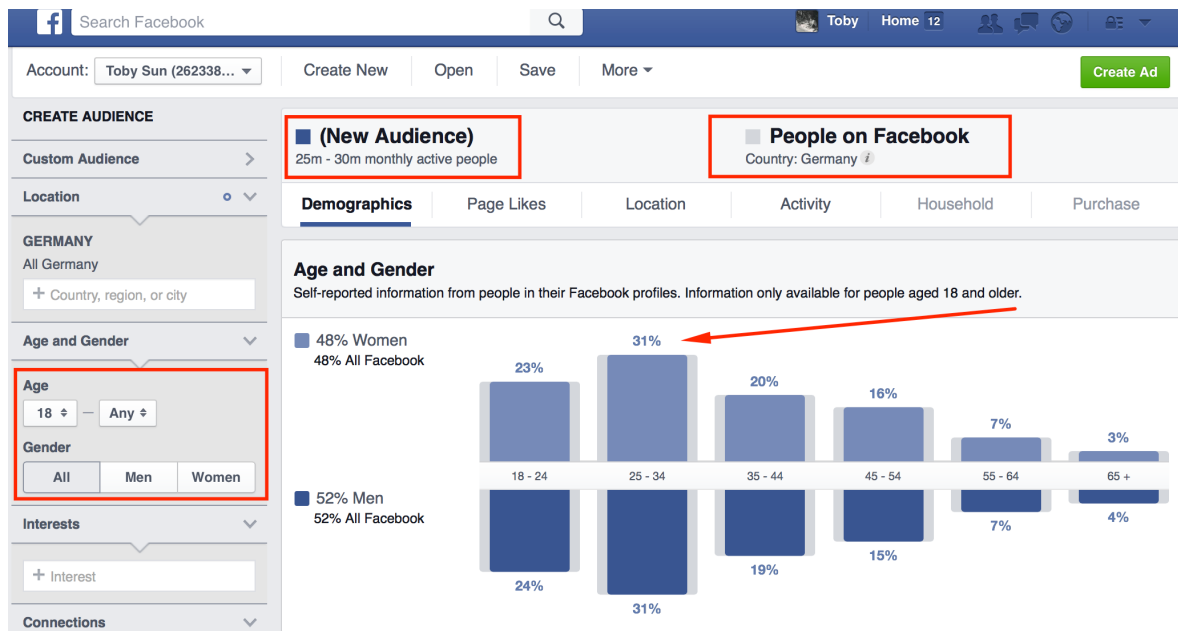


Figure 3. Facebook Audience Insights (facebook.com/audience-insights)

The image above (Figure 3) shows a Facebook-Tool called ‘Audience-Insights’, which gives advertisers the opportunity to research a specific audience. In this case, *Pepperminds* is going

to target Germans. As shown on Figure 3, the total audience size is 25-30 million people who are able to see advertisements. However, advertising to that many people would lead into a waste of advertising money because it is necessary to narrow down the target market to football fans of a specific team. The tool is able to analyze demographics such as gender, location, age, job, occupation. Also, other data (Page likes = What pages do fans of Bayern Munich like?, Household Income, where do people spend their money, what device do they use (mobile/desktop/tablet) will be considered.

In fact, the majority of Germans who are on Facebook are aged between 25-34 years, which is important to consider. Former data has shown that younger people are more likely to share and like advertisements, but mostly do not have sufficient funds to buy the apparel products. Therefore, it is important to target people above 25 years in order to make sure they have an independent income and can spend their money on apparel products.

## (2) CREATE A DESIGN

<ul style="list-style-type: none"> <li>• Create a design or hire a freelance designer in order to outsource this process and focus on the marketing part (Freelance Platforms - Fiverr.com, freelancer.com, Odesk)</li> </ul>
<ul style="list-style-type: none"> <li>• Emotion evoking designs have a higher probability of getting viral</li> </ul>
<ul style="list-style-type: none"> <li>• Sayings or Quotes, which are not trademarked can be used and found on fan sites. This helps to create a close relationship to the target audience - Football Fans of specific Teams in Germany</li> </ul>
<ul style="list-style-type: none"> <li>• Use official Holidays and special events in order to promote a certain design (e.g. Final game of Bayern Munich before they can win the championship)</li> </ul>
<ul style="list-style-type: none"> <li>• Use daily news to create new designs (player transfers, coach transfers, Rivalry between teams, Derby's, emotional happenings, Career Finish of a famous player/coach etc.)</li> </ul>

Table 20 - Drop-Shipping Apparel Products - Part 2

The second step of the process is to create a design for the shirt one is planning to sell.

In this case, *Pepperminds* hired a freelance graphic designer with the task of creating a design for a specific saying. Translated into English “No matter how bad my life gets, at least I am not a Borussia - Forever Bayern Fan”. Thus, this shirt is for enthusiastic and passionate Munich Fans, who are hating their opponent team of Dortmund.

When creating designs it is important to do enough research in order to find out if football fans like your idea. It can either be a saying, a picture or anything else, which fans are really

passionate about. Emotion evoking designs usually perform better as they go viral and make people talk about it. In this case, the intention was to use a feeling of hate for an opponent team in Germany, which is Borussia Dortmund.

It is crucial to make sure you are not using trademarked logos, designs or names, which can get suspended or even lead into a lawsuit for the Drop-Shipping company. As already mentioned, a team of lawyers from the supplier will check every campaign before it is available for sale. Therefore, it is better to do the research before and do not get the campaign taken down, which costs time and money.

### (3) START A CAMPAIGN

<ul style="list-style-type: none"> <li>• The dropshipping company allows to upload designs on their platform and choose the following options:</li> </ul>
<ul style="list-style-type: none"> <li>• Size, Style, Color of Shirts (Hoodies, T-shirts, Tank-Tops, Long sleeve etc.)</li> </ul>
<ul style="list-style-type: none"> <li>• Sales Goal (If this goal is not reached, the products will not be produced and shipped)</li> </ul>
<ul style="list-style-type: none"> <li>• Prices of different shirts (also shows the margin/profit of different apparel-styles)</li> </ul>
<ul style="list-style-type: none"> <li>• Promotions (possibility of giving special promotions, discounts or free shipping option in order to increase sales and reach at least the sales goal - “Kickstarter”)</li> </ul>
<ul style="list-style-type: none"> <li>• Campaign description to inform customers about the reason behind the shirt, (using scarcity is important to create an urge of buying e.g. “only available Today with special discount”)</li> </ul>

Table 21 - Drop-Shipping Apparel Products - Part 3

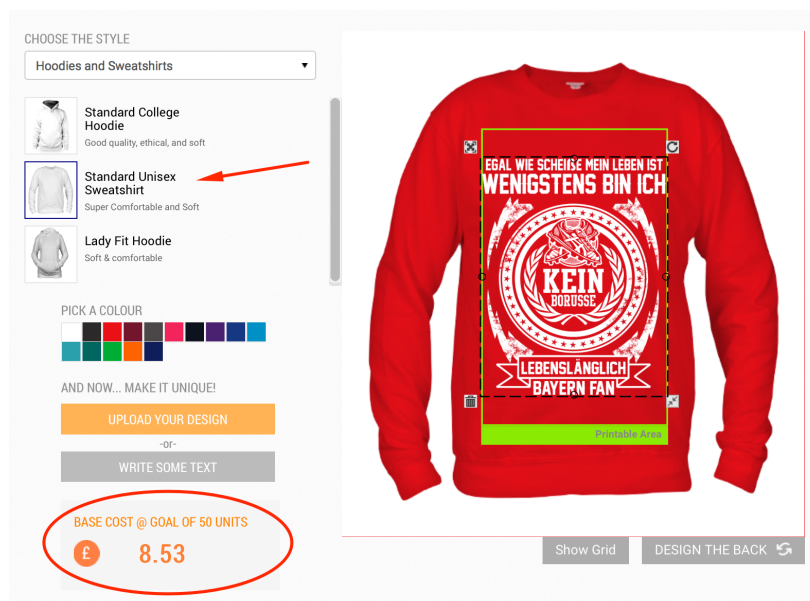


Figure 4. Fabrily Platform - Design Decision (fabrily.com)



The image above (Figure 4) shows the platform *fabrily.com*, which is a sub-company of Teespring Inc. and offers the following features for designing your shirts. On the left hand side there is the possibility to choose your style such as Hoodies, Sweatshirts, T-shirts, Tank Tops for either men or women.

In addition to that, marketers can select from a range of different colors. Once this is done, there is a possibility of either uploading designs or write some text with the text feature on the website.

When uploading designs, it is important to analyze the amount of colors the design contains. The more colors are used the more expensive the shirt will get. The example above shows only white colors on a red shirt, which leads into base cost of 8,53 pounds per Shirt (12,07 €/Shirt). Another important factor is to design back or front. In winter times, people tend to buy more sweaters and hoodies due to the cold weather. When people wear jackets, it is better to put the design in the front so that the design is still visible. Customers want to express themselves and therefore want to show such statements to other people.

The screenshot displays the Fabrily platform's pricing decision interface. On the left, there are four product options, each with a 'WANT ADDITIONAL COLOURS?' section and a 'PROFIT/SALE' field. The first option is a long-sleeved shirt with a profit of 12.64. The second is a 'Standard Unisex T' with a profit of 12.00. The third is a 'Standard Womens' tank top with a profit of 0.00. The fourth is a 'Standard Womens' t-shirt with a profit of 0.00. Each option also shows 'PRICE WITHOUT VAT' and 'PRICE WITH VAT' in Euros. On the right, a 'PRODUCT PREVIEW' shows a red long-sleeved shirt with a white graphic design that reads 'EGAL WIE SCHEIÙE MEIN LEBEN IST WENIGSTENS BIN ICH' and 'KEIN BORUSSE' with a crest, and 'LEBENSLÄNGLICH BAYERN FAN' at the bottom. Below the preview, there is a 'SHOW BACK' button. At the bottom of the interface, the 'PRIMARY CURRENCY' is set to 'EUR - Euro', the 'GOAL' is 30, and the 'ESTIMATED PROFIT' is £130.66+, which is circled in red. There are also '< BACK' and 'LAST STEP >' buttons at the bottom.

Figure 5. Fabrily Platform - Pricing Decision (*fabrily.com*)

The next part of creating a campaign is to determine the price the shirt is supposed to be sold for (Figure 5). This effects the amount of profit you to gain for every shirt that has been sold. In the example above the selling price is set for 29.99€ per Hoodie, which automatically includes VAT (Value Added Tax) for European customers. The estimated profit the company would make is approximately 130.66 pounds (188.12 €) which is shown on the bottom of the page.

The last step before launching the campaign is to add a short description to the campaign in order to tell people about specific discounts, payment options, special holiday deals etc.

#### (4) PROMOTE THE CAMPAIGN

<ul style="list-style-type: none"> <li>Promote the campaign through social media networks - In this case <i>Pepperminds</i> use Facebook's Paid Advertising Platform in order to reach the interested football fans</li> </ul>
<ul style="list-style-type: none"> <li>Target interest/Fanpages on Facebook, which are liked by the specific football fans (e.g. Players of the team, Fanpage of the coach, Niche sites by other fans etc.)</li> </ul>
<ul style="list-style-type: none"> <li>Start with the budget of 10-20€ for advertising in order to test the new design and gather some data about the response of the audience (demographics such as gender, age, location etc.)</li> </ul>
<ul style="list-style-type: none"> <li>Based on that data, scale the campaign by retargeting the people who responded positively to the ad</li> </ul>
<ul style="list-style-type: none"> <li>If necessary, adapt the design based on comments and messages from the advertisement/post on Facebook</li> </ul>

Table 22 - Drop-Shipping Apparel Products - Part 4

Once the campaign is launched on the platform, it is quite unlikely that people will come to the landing page and buy the shirt. In order to promote your shirt you either have to have an audience for Munich soccer fans or you have to buy advertising space in order to get it in front of the people who are interested in it. By using Facebook Advertising it is possible to narrow down the target market to a specific audience, where fans are more likely to purchase the products.

This picture (Figure 6) you can see a screenshot of an example ad *Pepperminds* ran in the past.

**Bayern Fans - Der Stern des Südens**  
September 15 · Edited · 🌐

Du bist ein lebenslanger Bayern Fan und brauchst ein neues Shirt für das nächste Match gegen unsere Rivalen?  
Dann GREIF ZU --> [bit.ly/1NucvNh](https://bit.ly/1NucvNh)  
(Achtung - Die ersten 20 Shirts erhalten einen Spezial-Rabatt - beeil dich bevor alle ausverkauft sind. Verpasse diese Chance nicht)



472,321 people reached Boost Post

Like Comment Share

Eric Moog, Chris Redfield, Mariama Kuyateh and 6,458 others like this.

2,300 shares

*Figure 6. Facebook Bayern Munich Fanpage  
(<https://www.facebook.com/Bayern-Fans-Der-Stern-des-Südens>)*

The Fan Page “Bayern Fans - Der Stern des Südens” was used in order to push the post to the target audience. Again, it is highly important to not infringe any copyright names, logos or pictures. The description of the post refers to bavarian football fans and offers them a new shirt for the next match against their biggest rival team in western Germany.

In order to create a sense of urgency, it mentions that interested people have to hurry if they want to buy a shirt, otherwise everything will be sold out. Scarcity is a common used strategy within marketing in order to make people aware of the fact that a certain product will not be available forever.

The company also offers a special discount for the first twenty orders (e.g. Free Shipping) in order to kick-start the campaign and get the first sales.

The picture of the post contains the shirts and the invitation to share this post in case you are not a fan of the rival team, which intensifies the emotion evoking message.

Below the picture it shows a number (472,321) which is the total amount of people who saw this particular post. The dark orange bar, which contains roughly one third of the reached audience stands for people who were reached through paid traffic. This traffic is the percentage the company paid for.

The lighter orange bar, which is roughly two third of the reached audience, stands for people, who were reached through organic reach gathered through shares (2300), comments (500+) and likes (6458) and refers to other people. This part is crucial as *Pepperminds* does not have to pay for this but reaches an enormous amount of people.

However, even if it is highly necessary for a successful campaign to go viral, *Pepperminds* has to analyze the traffic in detail in order to adapt the campaign and create a return on investment. Therefore link clicks are very important as they are necessary to purchase a product. They lead into sales, which is priority number one. If the campaign is viral but does not create any sale the purpose is missed.

### (5) COLLECT YOUR PROFIT

<ul style="list-style-type: none"> <li>Once the campaign ends successfully the profit share will be transferred to our company <i>Pepperminds</i> within two business days</li> </ul>
<ul style="list-style-type: none"> <li>Collect the profit share of the units, which have been sold (Profits are updated every ten minutes on the platform)</li> </ul>
<ul style="list-style-type: none"> <li>The Drop-Shipping platforms also offer analytical features to see which colors, styles, sizes have been sold the most. This data helps to narrow down future campaigns</li> </ul>
<ul style="list-style-type: none"> <li>If the campaign does not reach its sales goal the products will not be produced or shipped (only the advertising cost will occur, but the gathered data can be used to make projections for following campaigns)</li> </ul>

Table 23. Drop-Shipping Apparel Products - Part 5

The final step of the process is to collect your profit of the sales you achieved. In the former screenshot (Figure 7) it shows the profit in real time and identifies the items and styles, which have been sold the most. In case promotions were offered the price for those reductions will

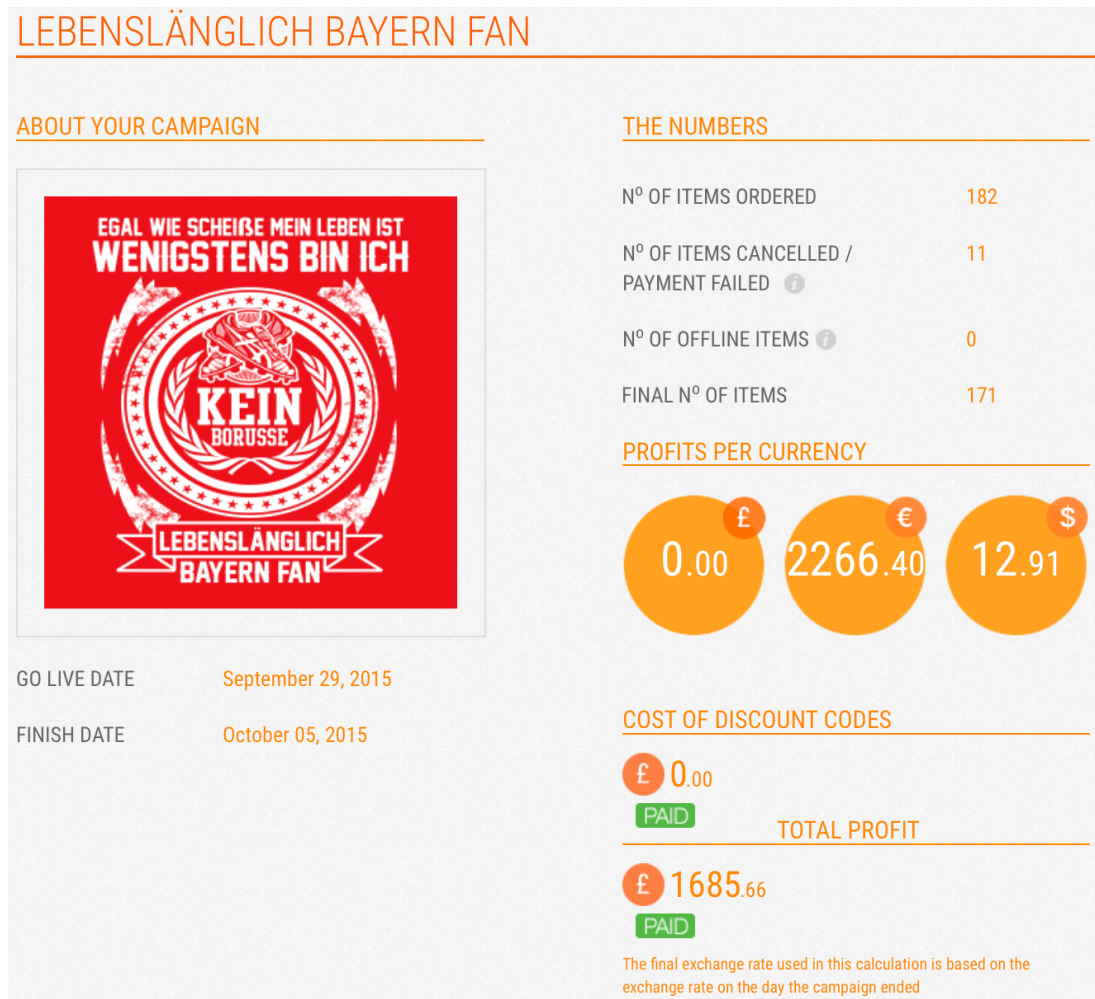


Figure 7. Fabrily Platform - Profit transaction (fabrily.com)

also be displayed in the dashboard of the account. The money will be transferred within two business days into a bank account (Paypal, Bank transfer etc.).

As this Drop-Shipper is based in England, the total profit are shown in British Pounds and will be converted into Euro with the daily currency exchange rate.

#### 4.1 Apparel Drop-shipping Companies (Print-On-Demand)

This market contains a variety of different companies, which offer to Drop-Ship their custom apparel products to customers. At the moment Teespring Inc. appears to be the market leader with a huge amount of market share due to the fact that they were the first in this business.

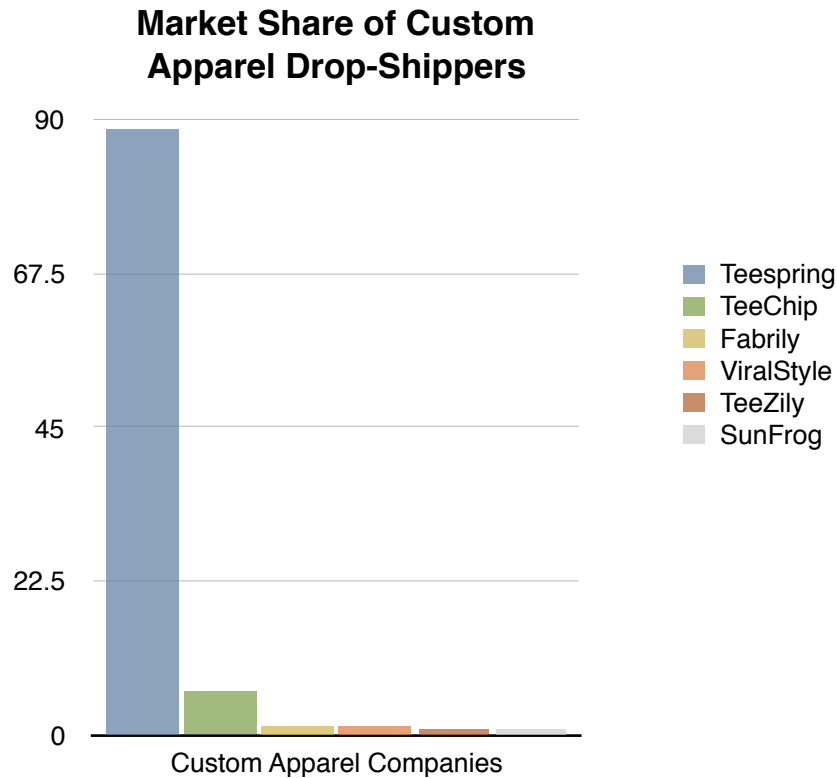


Figure 8. Apparel Drop-Shipping Companies (Teespy Software, 2015)

The following chart (Figure 8) shows an analysis of the market share of the different companies based on a software, which was specifically developed to analyze T-shirt sales on Facebook (TeeSpy Software, 2015).

#### Teespring Inc. (2011- Providence, RI, USA) (Perez, 2012)

Teespring was founded in 2011 in the United States and acquired its European competitor Fabrily in January 2015 in order to meet international demand. Thus, Teespring Inc. is the biggest Drop-Shipping company for apparel products in the world by shipping internationally to all continents. The company owns four different offices in California, Rhode Island, Kentucky as well as London. Since its launch it has shipped more than twelve million shirts in 2014 (Teespring, 2015).

#### Teezily (2014 - Paris, France) (Crunchbase, 2014)

Teezily was founded in early 2014 in Paris, France and is establishing on-demand printing all over Europe. It is the biggest competitor for Teespring within the European market. Teezily started selling their products in Europe and expanded to international shipping by partnering with a printing company called Sunfrog LLC.

Nevertheless, as Figure 8 shows, there are many different ‘Custom Apparel Drop-Shipping companies’. The services and products they offer are very similar as the majority of companies expand worldwide and therefore enable global shipping. However, profit margins and customer service vary and can make a big difference in terms of customer lifetime value. It means the end customer who will buy an apparel product is using the customer service frequently to make sure the company they order at is legit. In perspective of the Drop-Shipper their direct customers are the marketeers such as *Pepperminds*. The higher the margins are the better it is for the marketeers in order to generate higher profits. However, if *Pepperminds* uses a supplier with a bad customer review but higher margins, it will jeopardize a returning customer. Blattberg and Deighton (1996) found out that it is much cheaper to retain a customer than to acquire a new one, which supports the benefit of a good customer service. If a customer enjoyed the buying experience is satisfied with shipping time and the product itself, he is more likely to buy another product in the future. Increasing the customer lifetime value is an important strategy to create long term profits and save costs for constantly acquiring new customers and losing old ones.

*Pepperminds* mainly uses Teespring Inc. to fulfill orders as they have a great customer service reputation and their product quality is unchallenged.

### **4.3 Advertising on Facebook**

Facebook’s Advertising platform offers a variety of opportunities to buy traffic for your online presence, which can be a website, a post on your Facebook Fan Page or a picture or a video. In the following part, the main focus will be directed to boosting a Facebook post as well as sending people to a specific website, which is also called “landing-page”. The landing page usually includes the description of a certain product as well as an option to purchase.

#### **4.3.1 Choose a type of Facebook Ad**

The first step of creating an advertisement for a shirt is to decide what kind of Facebook-ad will be used. In this case, *Pepperminds* is focusing on pushing or boosting a post (Figure 9) on their German Fanpage “Bayern Fans - Der Stern des Südens”, as shown in the picture

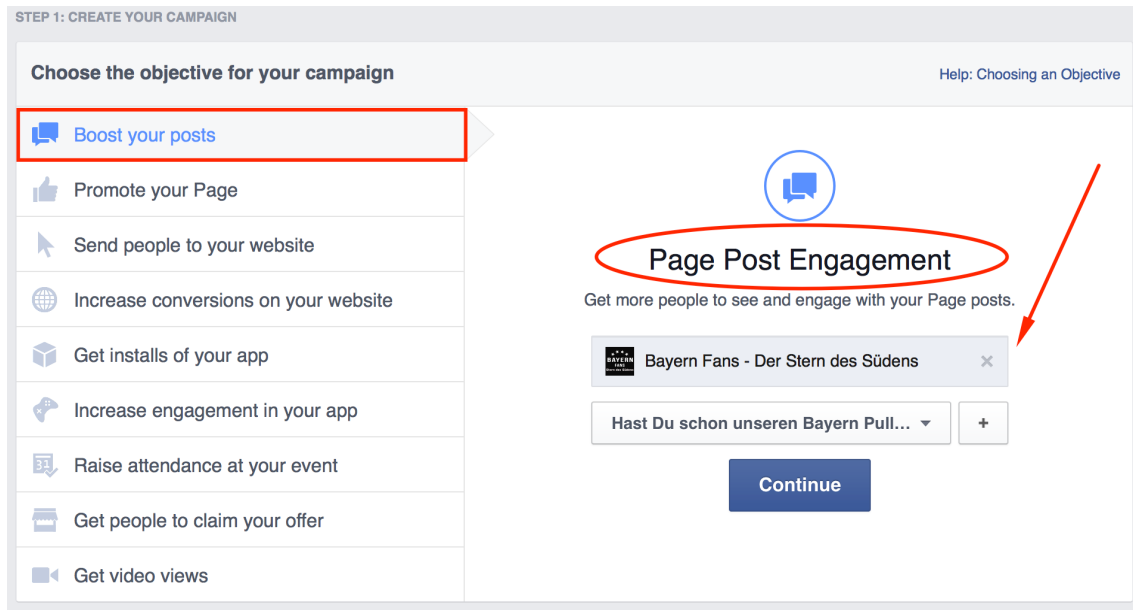


Figure 9. Advertising on Facebook - Ad Type (facebook.com)

above. This type of ad is called “Page Post Engagement” (PPE) and is supposed to lead interested people to the post.

These posts can either be used to sell a certain product, or to create attention to a page and grow its fanbase. Here, *Pepperminds* plans to sell apparels to bavarian football fans and not to grow the fanbase on Facebook. Most of the people who decide to purchase the product will also like the page as they have shown great interest in the product and would like to get further information about new products.



### 4.3.2 Create an eye-catching ad on your Fan Page

**Bayern Fans - Der Stern des Südens**  
November 7 at 12:39pm · 🌐

Du suchst noch das passende Weihnachtsgeschenk? Dann warte nicht länger und hol dir dein Shirt JETZT! --> <http://bit.ly/1Hke3Jx>  
\*\*\* SALE - 15% Rabatt - Einmalig und nur HIER!\*\*\*

**WEIHNACHTS - SALE 15 %**

2,667 people reached Boost Post

Figure 10. Advertising on Facebook - Ad Image (facebook.com)

The content will then be uploaded to the Bayern Fan Page on Facebook (Figure 10):

- A picture of the product including an eye-catching color as well as an hint for a special promotion of 15% discount due to christmas time.
- A description of the product with a trackable link (including a sense or urgency by making this offer only available for a limited time) - The trackable link helps to identify how many link clicks were generated)

### 4.3.3 Identify the target audience through Facebook Insights

At this stage, *Pepperminds* has to narrow down the target audience to the most passionate people who are interested in the products. If the targeting will be too broad the ad might waste a lot of advertising money. In contrary, if the audience will be too small *Pepperminds* will have problems to find enough customers. For this reason Facebook offers a tool called "Facebook Insights" and allows advertisers to find "Interests", which is a synonym for Fan Pages on the Facebook Platform. Those interests are the basis for creating an audience and eventually an ad on Facebook. The following image (Figure 11) gives an overview of the

Page	Relevance <sup>1</sup>	Audience	Facebook	Affinity <sup>2</sup>
Thomas Müller	1	734.9K	1.6m	2.2x
Bastian Schweinsteiger	2	567.4K	1.3m	2.1x
Manuel Neuer	3	630.4K	1.7m	1.8x
Philipp Lahm	4	346.8K	713K	2.3x
FC Bayern	5	159.3K	277.9K	2.7x

Figure 11. Advertising on Facebook - Audience creation (facebook.com)

Facebook Insights Tool. After choosing your target country as well age and gender it is possible to further narrow down the audience with different opportunities such as interests, behavior, relationship status and much more.

Once another interest has been added, it is possible to see how the audience changes on top of the page (New Audience - 4,5 million people in this case).

When building an audience, it is better to start from broad to narrow, which means you start from more general bavarian football fans to more passionate ones (People who like more than one community page). In this case the company started with a broad and most obvious interest “FC Bayern Munich”, which you can see in the left square. Now it is important to understand the target audience in order to find more interests and more passionate people. The final goal is to find the most passionate fans, who are more likely to purchase the products.

Facebook helps to identify pages (interests), which are also liked by people who like “FC Bayern Munich”. The bottom of this screenshot (Figure 11) shows the section “Page Likes”, which reveals these kind of pages by including their size, relevance as well as affinity. Affinity plays an important role and shows how likely the audience is to like another specific page compared to everyone else on Facebook. Therefore, suggested pages with a high affinity are highly recommended to target.

#### **4.3.4 Create a Facebook Ad based on interests of your target audience**

Once a couple of pages have been found with high affinities, the advertisement can be created. To start out, it makes sense to create 2-3 different ads with different audiences in order to test their responses.

Figure 12 shows the process of targeting. The Facebook Algorithm is very complex and it would exceed the size of this thesis to fully explain all the details. However, there is a potential reach of approximately 1,3 million people (marked in red) including the specific demographics and interests.

When targeting bavarian football fans the probability that a really passionate fan likes more than one fan page is quite high. In fact, really passionate fans like a variety of different pages within their niche in order to stay informed about all updates. They usually like the majority of Fan Pages of the players, the coach and mascots or other official communities.

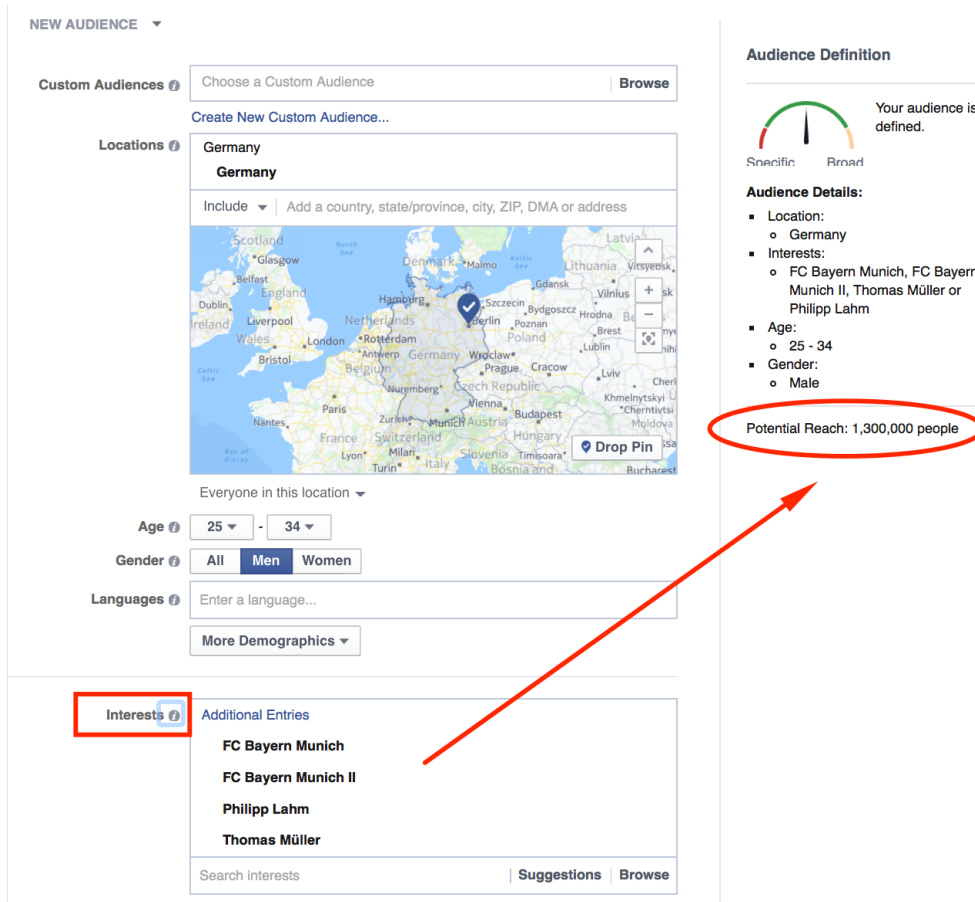


Figure 12. Advertising on Facebook - Ad interests (facebook.com)

This is important to keep in mind when creating ads. Facebook allows to “stack” ads, which means that it is possible to target people, who like “Bayern” and “Thomas Müller” and “Manuel Neuer”.

**Overlapping of similar interests** causes a smaller but more passionate audience, which leads to interested customers, the ultimate goal of our ad. The more interests will overlap the smaller and **more passionate the target audience** will become. The rule is similar here. Start with the broadest interests and add smaller ones, one by one, to see how the audience changes.

### 4.3.5 Purchase the advertisement

Before purchasing the ad it is recommended to set a certain daily budget for it (Figure 13), which makes sure Facebook will not spend any more money than planned. On the right hand

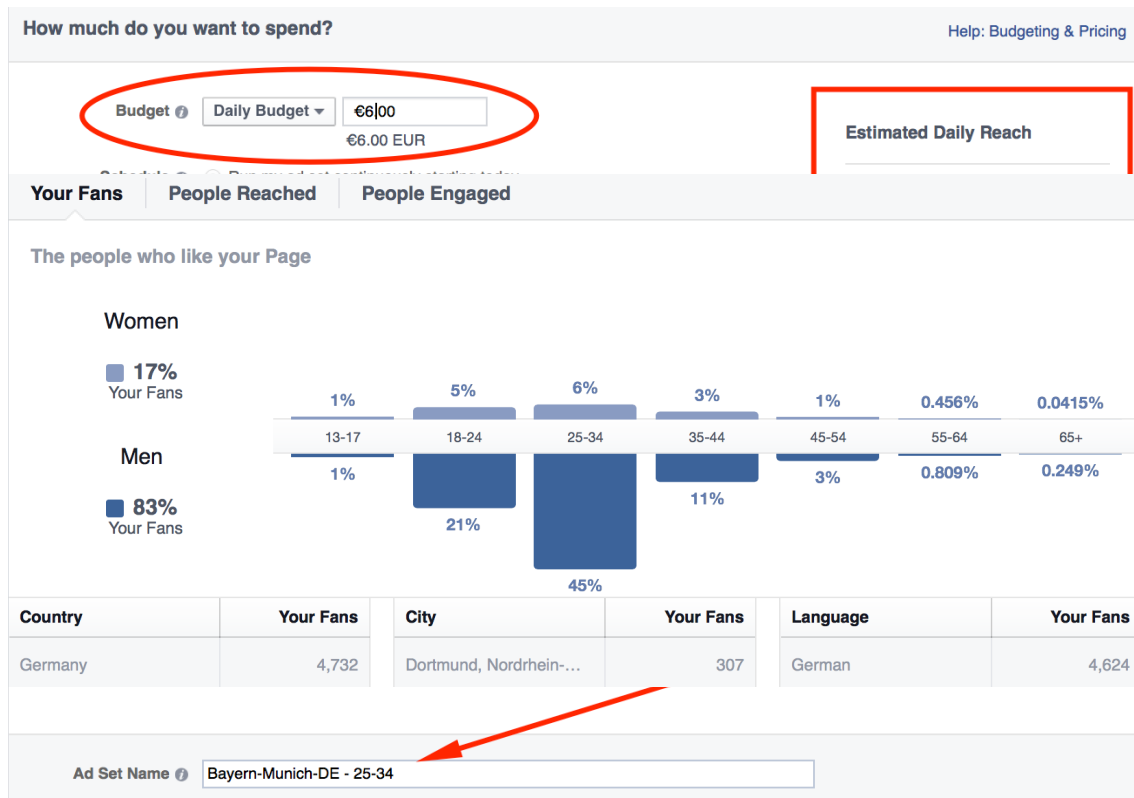


Figure 13. Advertising on Facebook - Ad Costs (facebook.com)

side there is the estimated daily reach of fans on Facebook with the budget one is willing to spend. Nevertheless, this can highly vary and depends on the engagement of the users.

Once different ads have been created, it is vital to name your ad-campaign with a specific name of your audience in order to find it when you are analyzing the statistic data in your ads manager.

Generally it is highly important to remember that you have to **test a specific audience in all directions (age, gender, location)** to find the people who are purchasing your products.





## 5. The Marketing Strategy

### 5.1 Segmentation & Targeting

The external and internal environmental analysis presented above highlights the growing need of customized apparel products people can identify themselves with.

The target market is analyzed by demographical data, which was gathered through Facebook analytics and includes age, gender, geographical location, interests on Facebook etc..

*Pepperminds* started to run the advertisements with a method of split-testing in order to identify the target by engagement and conversion rates. Split-Testing or also called “A/B Testing” is a method to split a target group in different sections in order to find out who buys the majority of products. For example, *Pepperminds* targets people between the age of 18-44. People who are 18 year old are quite different from 44 year old ones. Therefore, the company uses the same ad twice only with different age groups to identify the higher engagement.

The customers who engage in the advertisements and eventually buy *Pepperminds* products are the most important one in order to maintain a positive ROI. However, it is important to analyze feedback of potential customers who did not buy in the first place but were engaging in the advertisement as they are more likely to buy a future product.

### Bayern Fans

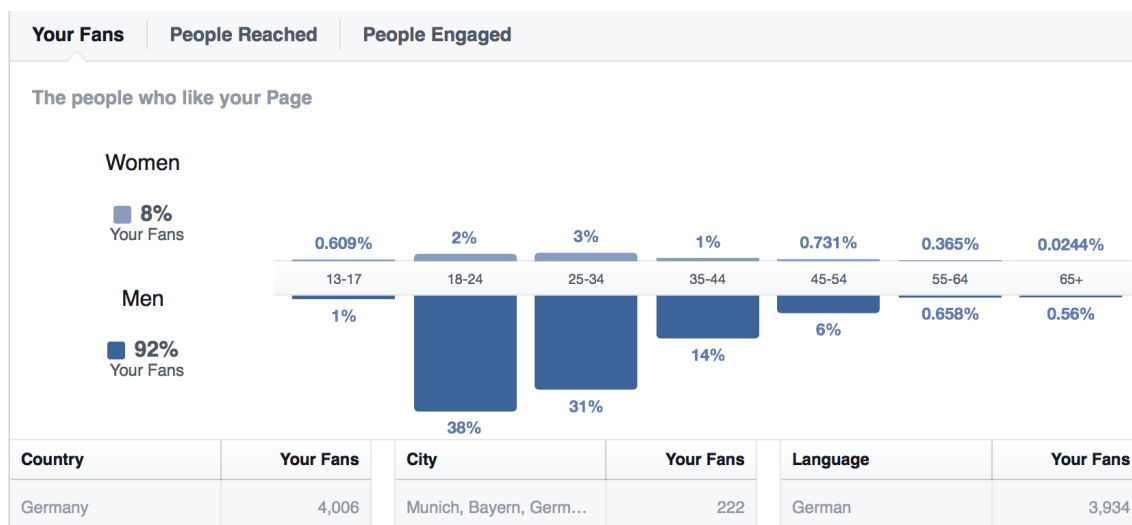


Figure 14. Audience Analysis - Facebook Fans of the Bayern Fan Page ([facebook.com/Audience-Insights](https://www.facebook.com/Audience-Insights))



This chart (Figure 14) shows data insights out of the Fan Page on Facebook for Bayern Munich fans. In order to understand this graph it is important to remember that *Pepperminds* build this audience over the last months through **paid** and **organic advertising** on Facebook. **Organic** in this case means that people who started following our page referred it to their friends, which helped growing the page even further without advertising cost.

The graph shows that the majority of customers have been identified in the age range between 18-34 (over 50%). Most of the people are located in southern Germany, where Munich contains most of the fans. In terms of gender, advertisements are directed to men as the majority of soccer fans who visit stadiums and watch football games are men.

A new targeting strategy for advertisements can be called ‘reverse targeting’. It means to target women with a man product and offer a special discount for christmas or any other holiday seasons (e.g. Valentines Day), so that women can buy gifts for their male acquaintances.

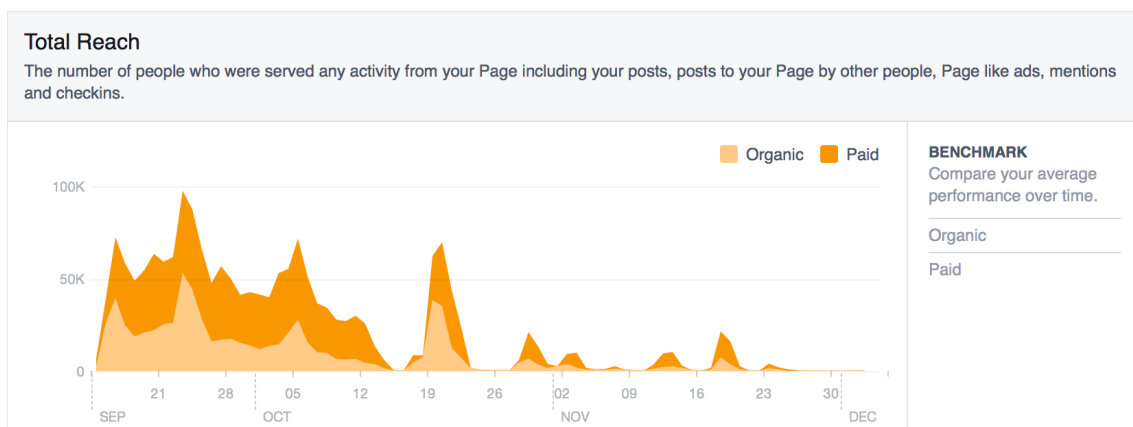


Figure 15. Audience Analysis - Total Reach of all Bayern Campaigns (facebook.com)

The total fanbase the company build until today crossed 4000 followers, which is an enormous help to reduce future advertising costs and create viral campaigns. Chart (Figure 15) shows the amount of people reached through paid and organic posts on the page. As shown in the picture *Pepperminds* almost reached 100.000 people by maintaining a positive ROI. The more organic traffic will be created the cheaper the advertisements are. The reason for low engagement after the middle of October is that the company has not posted any more campaigns.

## Dortmund Fans

In the next chart (Figure 16) the fans of the Dortmund audience will be analyzed. This audience is slightly bigger than the Bayern one (4624 followers).

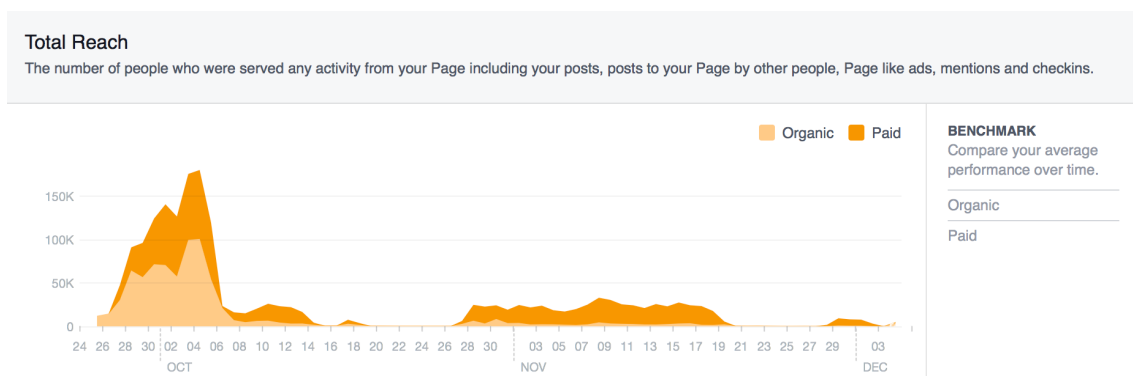
The amount of followers does not simultaneously result in our audience size because the target will be more people than this number.

It is important to know that these followers are interested in *Pepperminds* product offers and

*Figure 16. Audience Analysis - Facebook Fans of the Dortmund Fan Page (facebook.com)*

therefore like the page. After the first couple of campaigns and initial testing, the audience has been identified as the following: Almost half of the customers (45%) are aged between 25-34, which is a good target as the majority of people who are older than 25 have a higher probability of having more funds to buy the products. Facebook currently only offers data about income to people who are based in the US, which leads to the company currently to being able to base advertisements on income. Regarding analysis in the past, younger people aged between 18-25 are more likely to share and like our advertisements and therefore help spread the word and create a viral campaign and lower the cost of ads due to higher engagement.

Furthermore, the data provides location based metrics, which identifies the majority of customers are coming from the city where the football team belongs to. Therefore customers of the bavarian campaigns happen to live in southern Germany and fans of Dortmund tend to reside in western Germany. This may seem quite obvious, but it is crucial to analyze the data rather than following assumptions, which are not backed up by evidences.



*Figure 17. Audience Analysis - Total Reach of all Dortmund campaigns (facebook.com)*

**In conclusion**, the target market for *Pepperminds* has been developed and created through a variety of different campaigns launched over the last months. Data revealed that the majority of sales come from enthusiastic and passionate male football fans, aged between 25-34. The customers usually liked more than one Facebook Page including content with their favorite football team (e.g. Page of Football Players, Fan-Communities, Fan-shops. etc.). However, for the growth of this business it will be important to reach out to different demographics and test them for engagement. As already mentioned before, targeting females is a great opportunity to grow regarding their increasing purchasing power within Germany.

A crucial importance for both targets is that football fans in general tend to support their favorite team for a lifetime. They either adapt their parent's opinions or identify their own favorite team, which in most cases sticks for their entire life. This fact is a vital basis for creating long term customers.

Additionally, the most passionate and raging fans are usually emotional as they know all the facts, theme songs, players, etc. about their team. In fact, these customers are well educated in terms of the current team situation, which is not always the case when introducing new products. Educating customers in order to like something new and create demand can be difficult and cost intensive.

## 5.2 Positioning

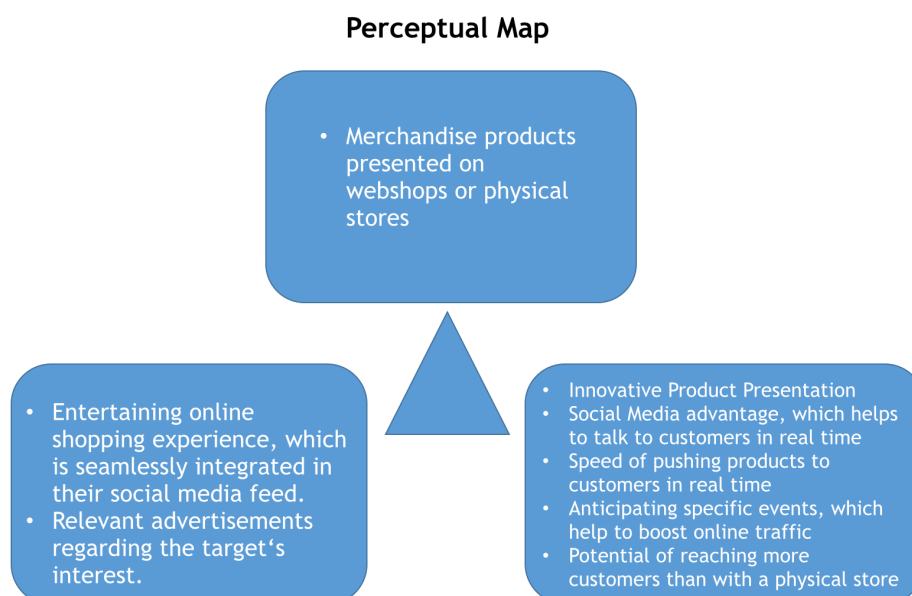


Figure 18. Perceptual Map

In order to define a strong position for apparel products, it is necessary to understand the situations people are likely to wear the items.

After gathering more data about the customers the company asks former clients for pictures of their new shirts, hoodies etc., once they have received them. *Pepperminds* uses them to post it on their pages in order to build trust for future customers, so they have an example of a fresh product, which is also known as a “testimonial”. It is easier to trust a former customer than a company you have never purchased from before.

A large amount of people use apparel products for attending football matches and to clearly identify themselves with their favorite team in a non-verbal way. Most of the products contain team colors and make sure the print or saying on the shirt contains a strong emotional connection with the customer and their team, which is a key factor.

Aside from that people like to wear apparels in daily situations when shopping and even just relaxing with friends and family.

Considering this information the positioning will be different than other merchandise products by our targeted football teams. They mostly contain only the team name or the official logo, which represents their pride but often not their inner feelings and thoughts about certain statements (Hate is a strong and powerful feeling).

*Pepperminds* approach is to research communities, forums and social media sites in order to identify sayings and images that represent feelings and thoughts by their fans. Those will be used to create strong and emotional designs. This online marketing research technique is also described as ‘Netnography’, which is a mix of ethnography and internet. It is used to analyze behavior of communities and individuals online and is faster, simple and less expensive than traditional ethnography (Kozinets, 2002).

In a result of that the most successful campaigns came from designs which were using a connection of their biggest rival football team. It works to *Pepperminds* favor that the targeted teams are also in a rivalry position, which helps to identify negative emotions in regards to the opponent team.

### **Key Success factors**

One of the key strategies is to anticipate and react to a variety of different events throughout the year, which are relevant to the target audience. Whenever an important match is going to occur or an athlete or coach leaves the team, those events will be used to create a design which supports the emotional state of the customers.

For instance, a long time coach of Borussia Dortmund, Jürgen Klopp, left the club in the beginning of 2015, which created a huge amount of buzz on the internet. *Pepperminds* used this traffic to their favor and started a campaign on that same day, which turned into a big success. A design, where Jürgen Klopp has been thanked for the successful time and included an image anticipating the years and days he supported the club, has been used.

The company now includes these type of campaigns now into their strategy, where trending news are followed in order to use their online buzz and get more traffic to the campaign. It has been shown that events such as a leaving coach is very important and emotional for the fans and people like to have something to remember him. A shirt with a specific saying can be sold as a memory.

Furthermore, specific holidays need to be used as an engine to create more sales (e.g. Valentines Day, Independence Day, Australia Day, German National Day etc.). People celebrate these days and usually dress up with a variety of costumes in order to show pride or any other feelings.

With this business model *Pepperminds* has the chance to react on events in real time, which offers a great advantage to competitors with physical merchandise stores and traditional methods of delivering products.

There is a possibility to push advertisements within the same hour an important incident occurred.

Even if the products have not been produced yet, by including a high resolution advertisement-image of the final product, customers cannot identify a Drop-Shipping model.

### **5.3 Main Competitors**

In order to identify the biggest competitors for this business it is necessary to think of the customer's characteristics. Hence, there is football fans for both of the teams, Bayern as well

as Dortmund. The fans who are interested in our products are highly emotional and interact on social media frequently. They follow every match and are updated about the latest changes within the team.

The football teams have their own online stores with fan material and merchandise products, such as shirts, hoodies and other apparels. After analyzing their designs it is easier to define *Pepperminds* niche and develop a Unique Selling Point (USP).

As already mentioned before, this business cannot use the logo or trademarked names, which is okay as *Pepperminds* does not want to interact as a copy of the official store or harm the team's store in any kind of way.

The strategy implies that the products are supposed to be identified as "From Fans for Fans", which helps to maintain a close relationship to the clients.

An already enormous existing fanbase of those two football teams will be used to build customized apparel products, which reflect the thoughts and characteristics of the most passionate fans.

In the following chart an analysis of different competitors will be displayed in order to be able to diversify the products and make them stand out to competitors.

<b>Competitor Analysis</b>	
<p><i>Official FanShop Bayern München (2015)</i></p> <p>&amp;</p> <p><i>Official Borussia Fanshop (2015)</i></p>	<ul style="list-style-type: none"> <li>• Selling official merchandise and apparel products by using the logo and and player names</li> <li>• Selling official team jerseys</li> <li>• Target market with a wide range (Kids, Young Adults, Seniors, Women etc.)</li> <li>• Prices are high</li> <li>• Wide range of products (Homeware, Huge variety of apparel products, Merchandise etc.)</li> <li>• Biggest direct competitors</li> </ul>
<p><i>Marketeers who Dropship Bayern and Dortmund Apparel</i></p>	<ul style="list-style-type: none"> <li>• <i>Pepperminds</i> uses a specific software (TeeSpy) to find other Shirts offered on Facebook through Drop-Shipping.</li> <li>• Platforms like <a href="http://www.spreadshirt.com">www.spreadshirt.com</a> help to identify similar products and find new ideas</li> </ul>
<p><i>Online Retailer &amp; Offline Retailer</i></p>	<ul style="list-style-type: none"> <li>• Many different online stores offer Bayern and Dortmund merchandise products (mostly official products with copyrights to the team)</li> <li>• Offline Retailers are not direct competition, but also attract the similar customers.</li> </ul>

Table 24. Competitor Analysis

When looking at competitors there are many different German and international communities on Facebook, which are aiming for high passionate football fans of both teams.

Nevertheless, these relatively small communities in Germany have not started to sell their own niche products as this business model is not well known within European countries yet. The smaller the Facebook-communities are the better it is for this business as there will be a bigger range to target Facebook users. Once the interests on Facebook are too big it can be costly to find the passionate and engaging fans.

Moreover, there are many other countries with remarkable fanbases of either Dortmund or Bayern's Football Team. By translating those designs into another language it offers an opportunity to sell even more shirts of a single design, which has already been proven to be successful in Germany (Table 8).

This business model is very fast and changing rapidly as new events happen throughout the year with uncertain outcomes (e.g. Champions League, Bundesliga, other tournaments, Player's retire, Coach leaves the team etc.). Companies have to react rapidly in order to sell a new design.

However, there is also other marketeers who are copying successful designs and try to sell it without your knowledge. The Drop-Shippers have reacted to this trend and offered the option of protecting customer's designs. The system works like a trademark or patent for a specific design. Once you submitted a draft and sold products on a Drop-Shipping platform no one else will be able to use the same design and therefore cannot steal your copyright.

Additionally, the targeting on Facebook is playing a key role in order to sell apparels successfully. There is no chance to copy the targeting as it is invisible. Marketeers would have to test the designs themselves in case they copied it, which can be cost and time intensive.

## 5.3 The Marketing Mix

### 5.3.1 Product

The range of apparel products made available to customers varies between different styles, colors, and materials. The most common and **best selling** products are **black** hoodies and T-shirts (Figure 19).



*Figure 19. Available apparel products at Fabrily (fabrily.com)*

Black has been identified as the favorite color for customized apparels throughout all Drop-Shipping companies this business has worked with in the past.

It is possible to either design the back or the front of the products, which is an important differentiator. Customers want to show their designs once they wear the shirts. The design usually tells a message the customers can identify themselves with. Therefore they want other people to see it as well as their reactions. The downside of printing a design on the front is the smaller available printing space compared to more space on the back. Especially designs including images, cartoons or other drawings need to have a certain size in order to be able to properly identify them.

Hoodies have a pocket on the front where you cannot print on, which leads to a smaller printing space.

Within 2015 Drop-Shipping companies have introduced a bigger variety of different styles and material options in order to meet demand and target different demographic sectors (e.g. Women Hoodies, Women Tank Tops, Kid's Sizes etc.).

For example, there is now shirts available for babies and extra large sizes for bigger people. The demand of such products has been increasing over the last months.



The whole range of the apparel products, which can be offered through the platform can be seen here:

- *Hoodies*
- *Sweatshirts*
- *T-Shirts (V-Neck & Crew-Neck Cut) - Special Cut for men and women*
- *Full-Sleeve T-Shirt (Long-sleeves)*
- *Organic T-Shirts*
- *Zip-Up Hoodies*
- *Tote Bags*
- *Tank Tops (No Sleeves)*

In terms of customer reviews the quality and materials of the apparels matter. Generally it is better to order one or two products before offering specific styles or shirts in order to meet the needs and wants of the customers. Selling something not comfortable and of bad quality can harm the long-term development of this business. Again, a returning customer is more important and cheaper than acquiring a new one.

In order to receive instant feedback from customers marketeers can post a picture of a shirt wore by a customer in order to find out if they are satisfied or if people have any other comments to share. This can quickly identify mistakes, typing errors or any misleading messages. For example, in order to find what your customers like best you can split-test the ad by offering an organic shirt with a higher price in comparison to a lower priced shirt with less quality. The feedback then can be used to make future decisions of what products to offer. Not always do people prefer quality over price. It depends on the type of customers one serves and how their attitudes are.

### **Seasonal Demand**

It is crucial to offer specific products regarding the country's weather conditions. The weather in Germany is cold and very unpredictable. That's why people like to buy warm clothes. However, selling hoodies or sweatshirts in the summer can be a problem with rising temperatures. Marketeers have to adapt to the weather conditions and anticipate the situations the customer will use the product.

## **Color options**



Figure 20. Color-Options (fabrily.com)

Despite the huge variety of different products, it is important to know the customers you are working with in order to be successful. In general, a higher engagement can be seen when choice is more limited (Scarcity). Having too many options can confuse the customer and delay the purchase decision. The same applies to color options. Regarding the football teams it makes more sense to offer the team colors only rather than having too many color options, which will confuse the customer (e.g. Bayern Munich Fans - Red & Black). Fans can be picky and if the color on the shirt is too dark or too bright, people will complain and eventually stop buying. Detailed work is required as the most passionate people care about minutiae.

### **5.3.2 Place**

This business requires no physical location as everything can be operated from a computer or a laptop. That leads to a high flexibility and leaves freedom for the owner of this business.

The only requirement is to have internet access as well as a Facebook account, where you can buy the traffic you need. All the products will be advertised through Facebook only as this platform offers the highest diversity and most accurate data. For the future it will be necessary to add Google Advertisements to the portfolio as it is really important to have a backup plan in case the Facebook Algorithm is facing errors or bugs.

This can happen from time to time where ads are not delivered for days, which can cause big problems and eventually lead to high costs.

However, in order to buy traffic *Pepperminds* relies on these advertisement platforms and can spread the risk by having the option to use different platforms.

As already identified in the analysis above, e-commerce is steadily growing and already overtook a lot of physical business in terms of sales volume. Therefore the apparel products will be entirely offered through an online presence, which is ultimately the Drop-Shipping website. This will be the place where the customer can purchase the products, which is also known as a 'landing page'. Advertisements redirect the customer to that specific page by creating a call-to-action, which can range from subscribing to a newsletter to lead eventually to a sale.

### 5.3.3 Promotion

#### Sample Campaigns

In order to better understand the way this company is promoting their products through Facebook Advertising, the data of five recent campaigns will be analyzed for different criteria. The following chart (Figure 21) reveals data of five Shirt-Campaigns *Pepperminds* launched and promoted through Facebook. The platform provides a large variety of metrics to analyze the ad performance (Click Rates, Conversions, Cost per Click etc.). The graph shows different colored bars whereas the blue one shows the total reach of Facebook Users, the red bar shows the clicks to the post and the green bar shows the clicks on the link in the description to redirect to the sales-page.

The first Bayern Campaign (Campaign Bayern (1)) **reached a total amount of 191.643 Users** (blue bar), which means that all these people saw this ad in their Facebook News Feed. **23648 (12,3 % Click-Through-Rate)(red bar) of those users clicked on the ad** to either see the Fan Page or enlarge the ad-picture, which is quite high and definitely an attractive percentage. Salesforce.com Inc. (2013) released an industry benchmark where average Click-Through-Rates on Facebook ads range from 3-5%. That shows that *Pepperminds* succeeded to reach passionate fans, who were interested in the ad and ultimately clicked on it.

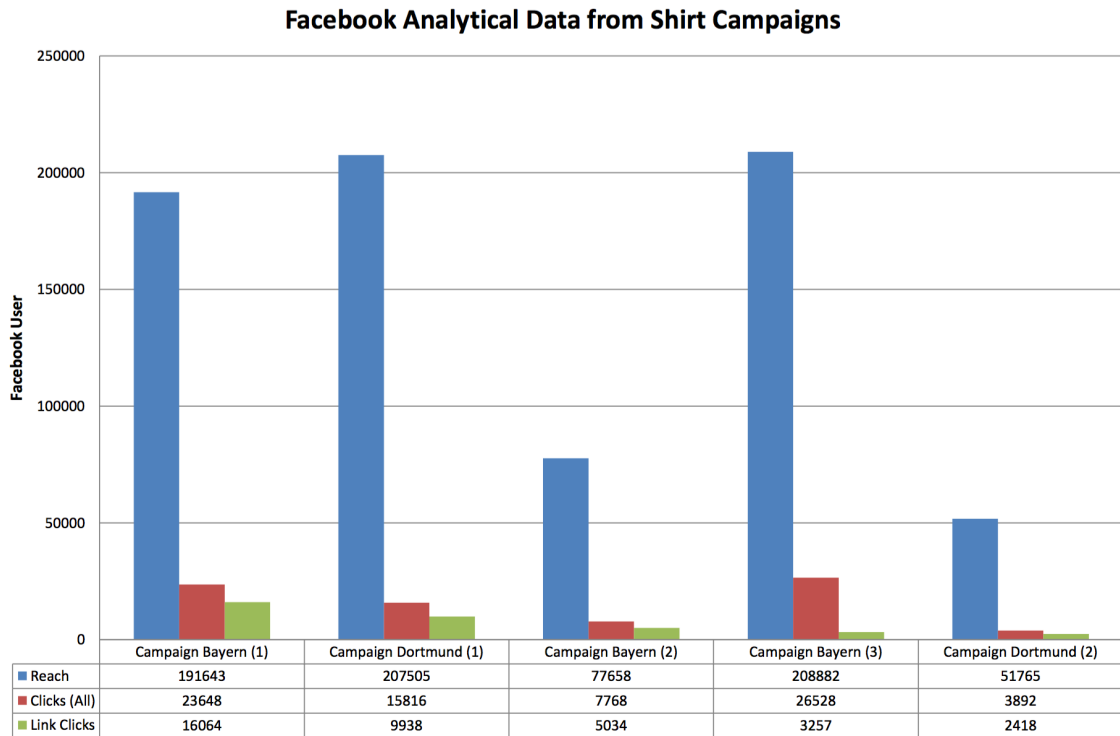


Figure 21. Data Analysis - Facebook Advertisement Statistics of 5 campaigns

On top of that **8,3 % (16.064) users clicked on the link in the description** (green bar), which directly leads to the landing page, where people can buy the product. This process is also known as a ‘sales funnel’, where a lot of people get attracted and redirected to a landing page, which is the page of our Drop-Shipper in this case. The funnel then spirals down as less people click on the ad and eventually on the link.

The **Call-To-Action *Pepperminds*** used (Figure 10 in Chapter 4.2.3) is a special form of scarcity, where only the first twenty customers receive a special discount or free shipping. It pushes the customers to make a purchase decision before it is too late. Once new customers click on the campaign and see that other people already bought the product it creates a feeling of trust that people rely on. Again, ‘social proof’ is important when interacting in an e-commerce environment, because people tend to trust the website more if former customers can recommend the product or service.

These are the data points collected by five apparel campaigns:

	<i>Campaign Bayern (1)</i>	<i>Campaign Dortmund (1)</i>	<i>Campaign Bayern (2)</i>	<i>Campaign Bayern (3)</i>	<i>Campaign Dortmund (2)</i>
CTR - Rate (Ad or image)	12,3%	7,6%	10,0%	12,6%	7,5%
CTR (Link in description)	8,3%	4,7%	6,4%	1,5%	4,6%
Checkouts (Conversions)	241	185	137	108	52

*Table 25. Statistical Data - Facebook Advertisement*

- **CTR - Click Through Rate** (The amount of people who either click on the advertising image or the link in the description)
- A good **CTR-Rate** is necessary to scale a campaign and sell lots of shirts. However, it is important to know that a high CTR-Rate does not translate into numerous sales. It happens that people click on your campaign and also like and share the ad on Facebook, but no sales are generated. Therefore it is vital to analyze the comments of customers and fans in order to make appropriate changes. There might be a chance that fans enjoy the design but would not like to actually wear it in public.
- **Checkouts** - Conversions are also translated into sales - Facebook offers the possibility to connect the Drop-Shipping website to the Facebook Ad (Facebook Pixel). This helps to track all the sales in the Facebook Dashboard, which makes it very easy to analyze your advertisement performance in real time.

### **What is important?**

*Pepperminds* analyzed the different metrics in order to evaluate the more successful campaigns and to identify what makes them performing better than others. All of the Bayern campaigns had a higher engagement than the Dortmund ones, which can be explained by the time the campaigns were posted. Facebook's Insights tool reveals data about the time of the day people are online and at what times they are engaging the most. All the campaigns of Bayern Munich Fans were posted on those peak times and explain a higher visibility of certain ads. The Dortmund ones were posted before lunch time, but the data shows that the

majority of people surf the web in the evening or early morning. However, another important differentiator is the high soccer performance of Bayern Munich last season. The campaigns were all launched in the middle of a series of victories. The buzz on the internet for those events helped to boost traffic to such campaigns. The Dortmund Team has been less successful which leads to less engagement and interest.

Different ad pictures as well as human models within the advertisements lead to different data. Nevertheless, it is doubtful to compare different niches with each other in terms of advertising pictures as the fan's characteristics are totally different.

**In conclusion**, it is crucial to test different assumptions via the A/B Testing-method before marketers decide for one strategy as customers respond differently to certain tactics and images.

There is an endless variety of performance indicators for Facebook Advertisements, which can be used to analyze the data.

However, it is important to not overcomplicate the process and use the major indicators to improve your ROI (Return on Investment), which is always the most important number in your campaign. If you stop generating profit and only pay for advertisements without selling anything, it is better to stop the ad or adjust it accordingly.

Testing is the only thing you can do to check if people like to buy the shirt or not. All planning and research is important and necessary, but no one can ensure that people will buy. The only way to find out is by testing your assumptions through a variety of ads.

*Other important performance indicators:*

- **CPC - Cost per Click** (shows the development of your costs per single click)
- **Total Amount Spent** (Total Costs - necessary indicator to control your budget)
- **CPM - Cost per Impression** (Impressions are showing the amount of people who have seen the ad)

It occurs that people heavily engage in the advertisement but refuse to buy it. They might enjoy the design but do not want to wear the shirt.

Aside from that, the next chart (Figure 22) shows data about the profit and the advertising costs of those five campaigns. The campaigns have been identified as profitable because of the positive ROI (Return on Investment) they generated. The ROI is one of the most important metrics regarding such campaigns. If it does not stay positive it is necessary to shut down the campaign or make changes accordingly. The graph shows the exact amount of total ad costs occurred and how high the profit for each campaign is.

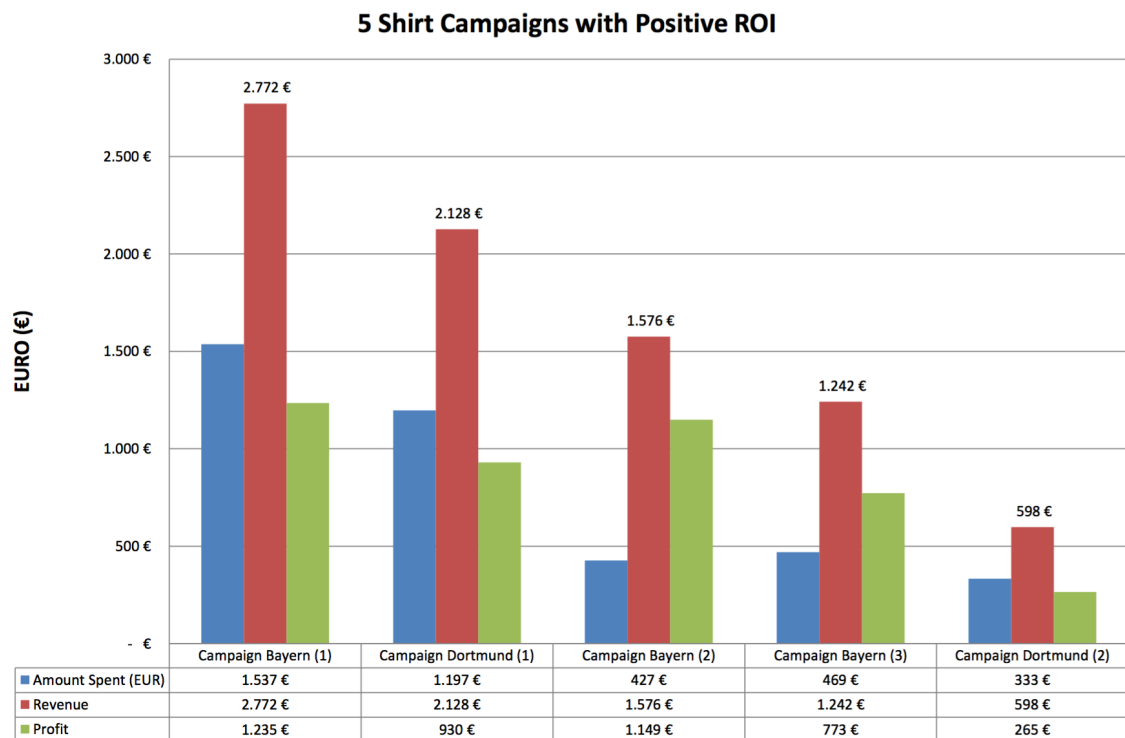


Figure 22. Facebook Data Analysis - 5 Shirt Campaigns with positive ROI

Hence, the ROI's are calculated in the following:

- **ROI (Campaign Bayern 1) —> 80%**
- **ROI (Campaign Dortmund 1) —> 78%**
- **ROI (Campaign Bayern 2) —> 269%**
- **ROI (Campaign Bayern 3) —> 165%**
- **ROI (Campaign Dortmund 2) —> 80%**

## **Sales Promotion Strategies**

In order to generate more sales and push user engagement *Pepperminds* uses different tactics on the Fan Pages on Facebook.

### **(1) Building Trust**

After the campaign of a new design has been delivered to the customer, the fans are asked to post pictures of their fresh products in daily situations. If they agree to publish their pictures, a special promotion will be offered for the next shirt or product they buy, which can vary from 'free shipping' to special discounts up to 60%. It helps to build trust and grow a brand through a Fan Page.

### **(2) Value recurring customers**

Former customers will also be rewarded by sending them a special message with a promotion for a new shirt. This makes them feel special and supports to create a long-term relationship with the customer. It is much easier and cheaper to sell a product to an existent customer than to find a new one.

### **(3) Kickstart-Promotion**

Another strategy is to use a special promotion for the beginning of the campaign. For example, the first twenty customers will receive free shipping. This tactic creates an urge to buy the product as soon as possible or the discount will be gone. It helps to kickstart the campaign, because as soon as some sales can be seen on the platform other people are more likely to buy as well.

### **(4) Scarcity**

A specific scarcity tactic will be applied. The ad-copy contains the message that only a couple of shirts are left. Interested people have to buy as fast as possible or the shirts might not be available anymore. Even if this is not true, it can help to accelerate the decision making process of the customer. The majority of customers do not know that the products have not been printed yet and think they are ready to ship. Nevertheless, it is important to use this with caution as the goal is to build trustful relationship with the



clients.

#### (5) **Call-To-Action (CTA)**

A CTA, which means Call-To-Action is used in the ads and characterizes a demand of doing something in *Pepperminds* favor. For instance, a specific headline in the advertisement contains “Like this if you are a Bayern Fan” or even a reverse tactic “Like this if you are NOT a Dortmund Fan”. Of course it depends on the design you are selling, but emotional connections always create more buzz than generic ones. Eventually this results into more traffic and sales.

The following chapter will analyze the different pricing strategies as well as margins.

#### **5.3.4 Price**

The information about German price knowledge in the internal analysis is vital to use in the pricing strategy for the apparel products.

First, apparel prices can vary heavily depending on the amount of colors of a design. Once the design has been uploaded to the platform a software calculates the different colors as well as the amount of varieties in brightness and darkness. A black shirt with white print can be more expensive if there is grey pixels in the white font. Also, colorful prints are more expensive than black and white. Therefore it is very important to pay attention to the colors in order to keep the price low and profit high.

Apparel products are mostly heavily promoted through price. The consumer is used to experience heavy price drops and is also expecting huge discounts at the end of a season. A lot of customers wait for specific times throughout the year to buy clothes as they know the problems of overproduction and seasonal offers.

Caused by this, German consumers tend to have a lack of price knowledge and cannot identify a “normal” price for apparel products.

The Drop-Shipping companies gather enormous amounts of data points every year regarding price points and reveal recommendations of which prices work best.

*Pepperminds* currently follows these price points, depending on the season and the design:

<b>(1)</b>	<b>Basic T-Shirt</b>	—>	<b>19.95 € - 23.95 €</b>
<b>(2)</b>	<b>Long-sleeve</b>	—>	<b>26.95 € - 29.95 €</b>
<b>(3)</b>	<b>Sweatshirt</b>	—>	<b>28.99 € - 32.99 €</b>
<b>(4)</b>	<b>Hoodie</b>	—>	<b>34.95 € - 39.95 €</b>
<b>(5)</b>	<b>Tank Top - Sleeveless</b>	—>	<b>19.95 € - 21.95 €</b>

With the recommended price points it is possible to keep a profit-margin between 45% - 60% per item, which is necessary to cover cost and also generate a valuable return on investment. The cost of T-shirts are less than Hoodies or Sweatshirts, which leaves the opportunity to offer a cheaper price. If products are too expensive consumers will not buy and if they are too cheap it will not generate any profit. The profit margins can vary heavily between different Drop-Shippers. Most of the time a higher profit margin of the supplier comes with bad customer service or less quality materials, which can jeopardize the brand and is not worth risking regarding long term perspectives of the company.

It can be effective to increase prices in the holiday season, such as christmas time. Offering a discount, which does not effect the profit margin heavily, but also creates an incentive for the customer to purchase.



## **6. Financial Plan**

### **6.1 Assumptions**

A financial plan, as with every other planning and analysis document, requires the use of assumptions. Real life events can significantly change planned expectations, which in-turn can have a large impact on the implementation of a financial plan.

Expecting too much or too less can lead to a financial plan that is unattainable and therefore not meeting your goals.

While data is important – typically "the more data the better" applies to financial forecasting. Since no one can predict the future the models, which were created rely on expectations about what may happen: whether sales will increase or decrease and by what percentage; whether labor, materials, costs, etc., will increase or decrease and by what percentage; whether interest rates and the availability of capital will fluctuate.

Assumptions are in effect educated, informed, and hopefully directionally-accurate guessed estimations. Many companies build financial forecasts using a variety of metrics, taking into account different levels of projected results. For example, a sales forecast could be built by showing a growth in sales of 5%, 10%, 20%, or even reduced sales of -5% or -10%. The key is to model different scenarios and gauge the potential impact on operations and on financial performance.

While existing businesses can rely on historical data that can partially indicate future results, new ventures or start-ups are forced to make a number of assumptions. That's why a comprehensive business plan based on a broad range of financial models is so critical.

### **6.2 Summary**

The summary gives a short overview of the following financial plan:

As shown in (Figure 23.) sales ramp up from €51.675 to €222.699 in five years' time. On average 55% of the turnover is used to cover the Cost of Goods Sold (COGS). This leaves the gross profit at 45% of the total sales amount. On average 18% is used for wages and 22% for other fixed expenses. These costs result in earnings before interest, taxes, depreciation & amortization (EBITDA) of €-13.869 in year 1, which grows steady towards a €42.483 in year

5. EBITDA represents the operational strength of the business model. We can conclude that the majority of the income is generated through day-to-day operations, i.e. we do not count on exceptional revenues in order to cover the cost structure. Depreciation & Amortization are limited to an average 0 %, which implies an EBIT of €-13.876 in year 1 and €42.476 in year 5. When taking into account interest expenses and income taxes, net income is -28% of sales in year 1 or €-14.467 and 19% of sales in year 5 or €42.135.



Figure 23. Year Income Statement – 5 Year Projection (Author's Analysis)

### 6.3 Driver of Sales & Revenue Source

Table 26 contains the sales driver in the left column. It can be used to project the main source of sales for this business, which is divided in four different apparel-styles. The growth rate is a general assumption used to model the uncertainty in the future. The volumes are expected to be as stated in the chart. However, these can change during the holidays, when people tend to buy more.

	2016			
	Volume	Yearly Growth	Price	Cost
T-Shirt	75	35	€ 21	€ 10
Hoodies	50	35	€ 30	€ 19
Longsleeves	20	35	€ 29	€ 18
5XL Shirts	30	35	€ 22	€ 10

Table 26. Driver of Sales (Author's Analysis)

The following table (Table 27.) repeats some of the information, but allows for more advanced parameters, such as VAT, price increases, direct costing and price comparisons with competitors. This block shows VAT as additional information to Table 26. VAT is already included in every product sold through a Drop-Shipping company as it is required by European law. The financial plan recognizes four different revenue sources:

Sales Price & Variable Costs	Product - Pricing & Costing	Pricing Strategy				COGS/COSS - Composition	
		VAT%	Price (VAT Excluded)	Price (VAT Included)	Price Increases	Production Cost	COGS/COSS (VAT Excluded)
	Volume - T-Shirt	0,00%	€ 21	€ 21	0,00%	€ 10	48%
	Volume - Hoodies	0,00%	€ 30	€ 30	0,00%	€ 19	63%
	Volume - Longsleeves	0,00%	€ 29	€ 29	0,00%	€ 18	62%
	Volume - 5XL Shirts	0,00%	€ 22	€ 22	0,00%	€ 10	46%

Table 27. Revenue Sources (Author's Analysis)

## 6.5 Cost Structure

The following part will provide an overview of the cost structure of this business. Material amounts are including rent, insurance, utilities, a big advertising budget for the campaigns, general supplies, internet and additional software fees. Non-recurring costs include registration of the business, hardware as well as a small budget for a marketing campaign regarding the launch of the business.

Fixed Costs	Recurring Fixed Costs	Monthly Budget (VAT Excluded)	Inflation	VAT	Monthly Budget (VAT Included)	Budget Available from month x
	Rent & Rates	€ 450	5,00%	0,00%	€ 450	Month 1
Insurance	€ 50	5,00%	0,00%	€ 50	Month 1	
Utilities (electricity, gas, water)	€ 30	10,00%	0,00%	€ 30	Month 1	
Advertising & Marketing	€ 1000	20,00%	0,00%	€ 1000	Month 1	
General Supplies	€ 20	20,00%	0,00%	€ 20	Month 1	
Internet, mobile, ...	€ 19	20,00%	6,00%	€ 20	Month 1	
Membership & affiliation fees	€ 24	20,00%	6,00%	€ 25	Month 1	
Non-Recurring Fixed Costs						
Registrations (Business name, licences, permits, domain names, vehicle)	€ 50		0,00%	€ 50	Month 1	
Connections (Phone, Internet, utility)	€ 15		0,00%	€ 15	Month 1	
Marketing Campaign Launch	€ 50		0,00%	€ 50	Month 1	

Table 28. Indirect Costs &amp; Startup Costs (Author's Analysis)

All cost elements can be entered into following categories:

Cost Structure	Year 1	Year 2	Year 3	Year 4	Year 5
Total - Cost of Goods Sold	€ -28.320	€ -52.260	€ -76.200	€ -100.140	€ -124.080
Total - SG&A - Wages	€ -18.000	€ -18.900	€ -19.845	€ -20.837	€ -21.879
Total - SG&A - Other Fixed Expenses (Non-Recurring)	€ -115	€ -	€ -	€ -	€ -
Total - SG&A - Other Fixed Expenses (Recurring)	€ -19.109	€ -21.995	€ -25.410	€ -29.456	€ -34.257
<b>Total - Cost Structure</b>	<b>€ -65.544</b>	<b>€ -93.155</b>	<b>€ -121.455</b>	<b>€ -150.433</b>	<b>€ -180.216</b>

Table 29. Cost Structure (Author's Analysis)

The major costs of this business is cost of goods sold followed by wages and fixed expenses (recurring and non-recurring). However, wages in this case are used to cover existential living costs and might be partially used to re-invest them into the business.

The following tables (Table 30. & 31.) give an overview of the yearly costs by including the five-year plan of the business.

SG&A - Other Fixed Expenses		Year 1	Year 2	Year 3	Year 4	Year 5
SG&A - Other Fixed Expenses	Rent & Rates	€ -5.400	€ -5.670	€ -5.954	€ -6.251	€ -6.564
	Insurance	€ -600	€ -630	€ -662	€ -695	€ -729
	Utilities (electricity, gas, water)	€ -360	€ -396	€ -436	€ -479	€ -527
	Advertising & Marketing	€ -12.000	€ -14.400	€ -17.280	€ -20.736	€ -24.883
	General Supplies	€ -240	€ -288	€ -346	€ -415	€ -498
	Internet, mobile, ...	€ -226	€ -272	€ -326	€ -391	€ -469
	Membership & affiliation fees	€ -283	€ -340	€ -408	€ -489	€ -587
	Registrations (Business name, licences, permits, domain names, vehicle)	€ -50	€ -	€ -	€ -	€ -
	Connections (Phone, Internet, utility)	€ -15	€ -	€ -	€ -	€ -
	Marketing Campaign Launch	€ -50	€ -	€ -	€ -	€ -
	<b>Total - SG&amp;A - Other Fixed Expenses</b>	<b>€ -19.224</b>	<b>€ -21.995</b>	<b>€ -25.410</b>	<b>€ -29.456</b>	<b>€ -34.257</b>

Table 30. Fixed Expenses in the first five years (Author's Analysis)

SG&A - Wages		Year 1	Year 2	Year 3	Year 4	Year 5
SG&A - Wages	<b>DESIGNER</b>	€ -18.000	€ -18.900	€ -19.845	€ -20.837	€ -21.879
	<b>Total - SG&amp;A - Wages</b>	<b>€ -18.000</b>	<b>€ -18.900</b>	<b>€ -19.845</b>	<b>€ -20.837</b>	<b>€ -21.879</b>

Table 31. Wages in the first five years (Author's Analysis)

In terms of investments there are no capital intensive expenditures. As already mentioned, the Drop-Shipping system does not require a high initial investment other than testing online advertisements. The only investment which will be considered is a budget of 100€ for Facebook Training in order to be updated on any news (Online Trainings).

It is important to mention the special form of a one-person business. This business only requires the owner. It creates flexibility and can be scaled with the help of freelancers, who can be added for specific projects. Therefore the wages in (Table 31.) are financially calculated as wages, but will also be used to reinvest into the business if certain amounts are left over at the end of the month.

## 6.6 Sales

Sales drive a business – without sales, there is no business. In order to estimate sales most companies look at sales histories and other known factors that can influence future sales. For example, market research could show that several competitors have dropped out of the marketplace making increased sales possible.

Again, accurately predicting the future is difficult; the sales forecast is simply the company's best estimate of future activity – and in most cases also serves as a goal for the company. The sales volume is controlled by the drivers, which you can see on Table 26. The following charts show an estimation of sales in volume as well as Euro based on a five-year plan.

Volume	Year 1	Year 2	Year 3	Year 4	Year 5
<i>Volume - T-Shirt</i>	900	1 320	1 740	2 160	2 580
<i>Volume - Hoodies</i>	600	1 020	1 440	1 860	2 280
<i>Volume - Longsleeves</i>	240	660	1 080	1 500	1 920
<i>Volume - 5XL Shirts</i>	360	780	1 200	1 620	2 040
<b>Total</b>	<b>2 100</b>	<b>3 780</b>	<b>5 460</b>	<b>7 140</b>	<b>8 820</b>

*Sales 32. Sales by Volume – 5-year projection(Author's Analysis)*



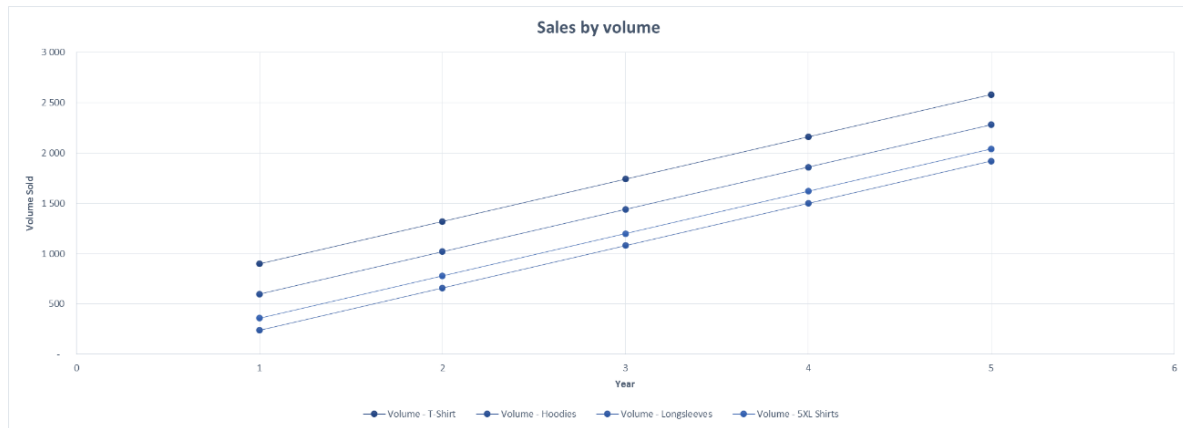


Figure 24. Sales by Volume – 5-year plan chart (Author's Analysis)

The projected Sales are converted into revenue in the following table (Table 33.) where the upper table (Table 32.) shows sales assumptions in terms of volume over the next five years.

Sales	Year 1	Year 2	Year 3	Year 4	Year 5
Sales T-Shirt	€ 18 855	€ 27 654	€ 36 453	€ 45 252	€ 54 051
Sales Hoodies	€ 17 970	€ 30 549	€ 43 128	€ 55 707	€ 68 286
Sales Longsleeves	€ 6 948	€ 19 107	€ 31 266	€ 43 425	€ 55 584
Sales 5XL Shirts	€ 7 902	€ 17 121	€ 26 340	€ 35 559	€ 44 778
<b>Total</b>	<b>€ 51 675</b>	<b>€ 94 431</b>	<b>€ 137 187</b>	<b>€ 179 943</b>	<b>€ 222 699</b>

Table 33. Sales converted from volume into revenue (Volume \* Price)(Author's Analysis)

## 6.7 Income Statement

The income statement measures a company's financial performance over a specific accounting period. Financial performance is assessed by giving a summary of how the business incurs its revenues and expenses through both operating and non-operating activities. It also shows the net profit or loss incurred over a specific accounting period. As shown in (Table 34.) this business creates a positive net income already in the second year due to the low investment barrier of Drop-Shipping. Depreciation results from the planned investments, which are only based on 100€ for Facebook Training to get updates and learn about new advertisement techniques. EBITDA represents the operational strength of the business model, i.e. profit that cannot be manipulated through accounting standards. The bottom line moves along with EBITDA, which is a good indicator for a healthy business.

Chart (Table 34.) provides an income statement of the new business and includes all important data in order to evaluate the net income.

Income Statement	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Sales</b>	€ 51.675	€ 94.431	€ 137.187	€ 179.943	€ 222.699
<b>- Cost of Goods Sold</b>	€ -28.320	€ -52.260	€ -76.200	€ -100.140	€ -124.080
<b>Gross Profit</b>	€ 23.355	€ 42.171	€ 60.987	€ 79.803	€ 98.619
<b>Sales T-Shirt</b>	€ 18.855	€ 27.654	€ 36.453	€ 45.252	€ 54.051
COGS - T-Shirt	€ -9.000	€ -13.200	€ -17.400	€ -21.600	€ -25.800
<b>Gross Profit - T-Shirt</b>	€ 9.855	€ 14.454	€ 19.053	€ 23.652	€ 28.251
<b>Sales Hoodies</b>	€ 17.970	€ 30.549	€ 43.128	€ 55.707	€ 68.286
COGS - Hoodies	€ -11.400	€ -19.380	€ -27.360	€ -35.340	€ -43.320
<b>Gross Profit - Hoodies</b>	€ 6.570	€ 11.169	€ 15.768	€ 20.367	€ 24.966
<b>Sales Longsleeves</b>	€ 6.948	€ 19.107	€ 31.266	€ 43.425	€ 55.584
COGS - Longsleeves	€ -4.320	€ -11.880	€ -19.440	€ -27.000	€ -34.560
<b>Gross Profit - Longsleeves</b>	€ 2.628	€ 7.227	€ 11.826	€ 16.425	€ 21.024
<b>Sales 5XL Shirts</b>	€ 7.902	€ 17.889	€ 27.877	€ 37.864	€ 29.852
COGS - 5XL Shirts	€ -3.600	€ -8.150	€ -12.700	€ -17.250	€ -13.600
<b>Gross Profit - 5XL Shirts</b>	€ 4.302	€ 9.739	€ 15.177	€ 20.614	€ 16.252
<b>- SG&amp;A - Wages</b>	€ -18.000	€ -18.900	€ -19.845	€ -20.837	€ -21.879
Tobias G.	€ -18.000	€ -18.900	€ -19.845	€ -20.837	€ -21.879
<b>- SG&amp;A - Other Fixed Expenses (Recurring)</b>	€ -19.109	€ -21.995	€ -25.410	€ -29.456	€ -34.257
Rent & Rates	€ -5.400	€ -5.670	€ -5.954	€ -6.251	€ -6.564
Insurance	€ -600	€ -630	€ -662	€ -695	€ -729
Utilities (electricity, gas, water)	€ -360	€ -396	€ -436	€ -479	€ -527
Advertising & Marketing	€ -12.000	€ -14.400	€ -17.280	€ -20.736	€ -24.883
General Supplies	€ -240	€ -288	€ -346	€ -415	€ -498
Internet, mobile, ...	€ -226	€ -272	€ -326	€ -391	€ -469
Membership & affiliation fees	€ -283	€ -340	€ -408	€ -489	€ -587
<b>- SG&amp;A - Other Fixed Expenses (Non-recurring)</b>	€ -65	€ -	€ -	€ -	€ -
Registrations (Business name, licences, permits, domain names, vehicle)	€ -50	€ -	€ -	€ -	€ -
Connections (Phone, Internet, utility)	€ -15	€ -	€ -	€ -	€ -
Marketing Campaign Launch	€ -50	€ -	€ -	€ -	€ -
<b>EBITDA</b>	€ -13.819	€ 1.276	€ 15.732	€ 29.510	€ 42.483
<b>- Depreciation</b>	€ -7	€ -7	€ -7	€ -7	€ -7
Facebook Training	€ -7	€ -7	€ -7	€ -7	€ -7
<b>EBIT</b>	€ -13.826	€ 1.269	€ 15.726	€ 29.503	€ 42.476
<b>- Intrest Expenses</b>	€ -591	€ -529	€ -466	€ -404	€ -341
<b>EBT</b>	€ -14.417	€ 740	€ 15.259	€ 29.100	€ 42.135
<b>- Income Tax</b>	€ -	€ -	€ -	€ -	€ -
<b>Net Income</b>	€ -14.417	€ 740	€ 15.259	€ 29.100	€ 42.135

Table 34. Income Statement (Author's Analysis)

## 6.8 Balance Sheet

A financial statement that summarizes the company's assets, liabilities and shareholders' equity at a specific point in time. These three balance sheet segments give investors an idea as to what the company owns and owes as well as the amount invested by the shareholders. As mentioned before, 100% of the equity of this business belongs to the business owner.

Balance Sheet	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Total Assets</b>	€ 9533	€ 7736	€ 19733	€ 44877	€ 82405
<b>Current Assets</b>	€ 9439	€ 7649	€ 19653	€ 44804	€ 82338
Accounts Receivable	€ -	€ -	€ -	€ -	€ -
Cash	€ 9434	€ 7637	€ 19649	€ 44791	€ 82338
VAT Recoverable	€ 5	€ 12	€ 4	€ 13	€ -
<b>Non-Current Assets</b>	€ 93	€ 87	€ 80	€ 73	€ 67
Net Assets	€ 93	€ 87	€ 80	€ 73	€ 67
<b>Total Liabilities &amp; Equity</b>	€ 9533	€ 7736	€ 19733	€ 44877	€ 82405
<b>Liabilities</b>	€ 22500	€ 20000	€ 17500	€ 15000	€ 12500
<b>Current Liabilities</b>	€ -	€ -	€ -	€ -	€ -
Accounts Payable	€ -	€ -	€ -	€ -	€ -
Income Tax Payable	€ -	€ -	€ -	€ -	€ -
VAT Payable	€ -	€ -	€ -	€ -	€ -
<b>Non-Current Liabilities</b>	€ 22500	€ 20000	€ 17500	€ 15000	€ 12500
Long-Term Debt	€ 22500	€ 20000	€ 17500	€ 15000	€ 12500
<b>Equity</b>	€ -12967	€ -12264	€ 2233	€ 29877	€ 69905
Retained Earnings	€ -14467	€ -13764	€ 733	€ 28377	€ 68405
Common Stock	€ 1500	€ 1500	€ 1500	€ 1500	€ 1500

Table 35. Balance Sheet in € - 5 Year Plan(Author's Analysis)

The Equity in the balance sheet shows the amount of money the business has available. In this, case year three already shows a positive equity, which is a good sign for a healthy investment/business.

## 6.9 Cash Flow Statement

The cashflow statement is an estimate of future cash inflows (revenue) and outflows (expenses). Once sales forecasts and production forecasts are complete the timing of many expenses is known: Wages, supply costs, utility costs etc. This statement is necessary to conclude if the company is economically viable or not.

The cashflow statement creates a breakdown of revenue and expenses by time period to show if the company will have sufficient funds at any given time to meet operational needs. The Cash Flow Statement allows investors to understand how a company's operations are running, where its money is coming from and how it has been spent.

### Operations

The cash flows of operating activities are generated through the sales of shirts, hoodies and other apparel products. This is a positive signal as it implies that the business model is

generating the majority of cash. It represents the health of the business model. Large cash reserves at the end of the timeline suggests to reinvest it in the business.

### **Investing**

Investing is only limited to Facebook Training Courses, which are offered through different sources. It is vital to keep updated about all new trends and techniques to succeed. Therefore 100€ will be calculated as an recurring investment. It is negative because it stands for reinvest it into the business.

### **Financing**

The financing part will be fully covered by the owner to start the business. At a later stage if this business scales up it might be an opportunity to raise more money. For now it is important to hold 100% of ownership in order to decide fast and act on *Pepperminds* own behalf. In this case the major investment outflows are at the beginning of the time horizon. The cashflow and cumulative version simulate the future account and show an indication of the minimum level of required funding.

Cash Flow Statement - Pre Funding	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Cash Flow from operating activities</b>	€ -13.875	€ 1.269	€ 15.741	€ 29.500	€ 42.496
<b>Net Income</b>	€ -13.876	€ 1.269	€ 15.726	€ 29.503	€ 42.476
<i>Increases in non-cash Current Assets</i>	€ -5	€ -7	€ 9	€ -10	€ 13
<i>Increases in Current Liabilities</i>	€ -	€ -	€ -	€ -	€ -
<i>Depreciation/Amortization</i>	€ 7	€ 7	€ 7	€ 7	€ 7
<b>Cash Flow from investing activities</b>	€ -100	€ -	€ -	€ -	€ -
<i>Facebook Training</i>	€ -100	€ -	€ -	€ -	€ -
<b>Cash Flow from financing activities</b>	€ -	€ -	€ -	€ -	€ -
<i>Funding</i>	€ -	€ -	€ -	€ -	€ -
<i>Capital Repayments</i>	€ -	€ -	€ -	€ -	€ -
<i>Stock issues</i>	€ -	€ -	€ -	€ -	€ -
<i>Dividends</i>	€ -	€ -	€ -	€ -	€ -
<b>Cash Flow (Indirect Method)</b>	€ -13.975	€ 1.269	€ 15.741	€ 29.500	€ 42.496
<b>Cash Flow (Indirect Method - Cumulative)</b>	€ -13.975	€ -12.706	€ 3.035	€ 32.535	€ 75.031

Table 36. Cash Flow Statement - Pre Funding(Author's Analysis)

Cash Flow Statement - Post Funding	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Cash Flow from operating activities</b>	€ -14.466	€ 740	€ 15.275	€ 29.097	€ 42.155
<b>Net Income</b>	€ -14.467	€ 740	€ 15.259	€ 29.100	€ 42.135
<i>Increases in non-cash Current Assets</i>	€ -5	€ -7	€ 9	€ -10	€ 13
<i>Increases in Current Liabilities</i>	€ -	€ -	€ -	€ -	€ -
<i>Depreciation/Amortization</i>	€ 7	€ 7	€ 7	€ 7	€ 7
<b>Cash Flow from investing activities</b>	€ -100	€ -	€ -	€ -	€ -
<i>Facebook Training</i>	€ -100	€ -	€ -	€ -	€ -
<b>Cash Flow from financing activities</b>	€ 24.000	€ -2.537	€ -3.263	€ -3.955	€ -4.607
<i>Funding</i>	€ 25.000	€ -	€ -	€ -	€ -
<i>Capital Repayments</i>	€ -2.500	€ -2.500	€ -2.500	€ -2.500	€ -2.500
<i>Stock issues</i>	€ 1.500	€ -	€ -	€ -	€ -
<i>Dividends</i>	€ -	€ -37	€ -763	€ -1.455	€ -2.107
<b>Cash Flow (Indirect Method)</b>	€ 9.434	€ -1.797	€ 12.012	€ 25.142	€ 37.548
<b>Cash Flow (Indirect Method - Cumulative)</b>	€ 9.434	€ 7.637	€ 19.649	€ 44.791	€ 82.338
<b>Burn Rate</b>	€ -13.975	€ 1.269	€ 15.741	€ 29.500	€ 42.496
<b>Burn Rate (%)</b>	-248%	-171%	31%	17%	13%

Table 37. Cash Flow Statement - Post Funding(Author's Analysis)

The burn rate in purple shows the rate at which the company spends money in excess of income. The percentage shows a decreasing trend, which is a good sign for the health of this business.

After calculating the cash flows it needs further analysis if the new venture is economically stable. In order to do this there are different methods such as the NPV (Net Present Value) and the payback period.

To calculate the NPV, the estimated future Cash Flows (inflows & outflows) need to be discounted at a discount rate, which is the required return rate of the investors. This process results into a NPV of € 64,901.09.

The fact that this value is higher than 0 concludes that the new venture is economically viable. Additionally it is important to know that a company can benefit of having a certain amount of debt due to the advantage of tax benefits.

The payback period does not provide information about the economical situation of the business, but shows how long it takes to offset the initial investment. In this case year 3 is the time when this is going to happen, which is sooner than the end of the analysis and therefore a good sign.

Another important indicator is the profitability index, which helps to evaluate the profit of every Euro of invested capital. Here, the profitability index of 2,6 means that every Euro invested in the company will return into 2,6 €.

## 6.10 Business valuation

Business valuation can be used to determine the fair value of a business for a variety of reasons, including sale value, establishing partner ownership and divorce proceedings. The value of the business is estimated at € 75.031 after discounting all the estimated future cash flows.

Business Valuation							
Discount	1	2	3	4	5	Terminal Value	
Income Approach	Year 1	Year 2	Year 3	Year 4	Year 5	Year 5	
<b>Free cash flow to the firm</b>	€ -13 975	€ 1 269	€ 15 741	€ 29 500	€ 42 496	€ 42 496	
<i>Growth Rate</i>		-109%	1141%	87%	44%	0%	
Cash flow from operations	€ -14 466	€ 740	€ 15 275	€ 29 097	€ 42 155		
+ Interest*(1-tax rate)	€ 591	€ 529	€ 466	€ 404	€ 341		
- Capital expenditures	€ -100	€ -	€ -	€ -	€ -		
<b>Weighted Average Cost of Capital</b>	<b>6,20%</b>	<b>7,31%</b>	<b>6,23%</b>	<b>4,14%</b>	<b>2,97%</b>	<b>2,97%</b>	
<b>Market value of Debt</b>	€ <b>22 500</b>	€ <b>20 000</b>	€ <b>17 500</b>	€ <b>15 000</b>	€ <b>12 500</b>		
<b>Market value of Equity</b>	€ <b>-12 967</b>	€ <b>-12 264</b>	€ <b>2 233</b>	€ <b>29 877</b>	€ <b>69 905</b>		
Before tax cost of debt	2,63%	2,64%	2,66%	2,69%	2,73%		
After tax cost of debt	2,63%	2,64%	2,66%	2,69%	2,73%		
Cost of Equity	0,00%	-0,30%	34,18%	4,87%	3,01%		
<b>Discounted Free Cash Flow to the Firm Y1</b>	€ -13 975						
<b>Discounted Free Cash Flow to the Firm Y2</b>	€ 1 269						
<b>Discounted Free Cash Flow to the Firm Y3</b>	€ 15 741						
<b>Discounted Free Cash Flow to the Firm Y4</b>	€ 29 500						
<b>Discounted Free Cash Flow to the Firm Y5</b>	€ 42 496						
<b>Discounted Free Cash Flow to the Firm Y5 - Terminal</b>	€ -						
<b>Firm Value</b>	<b>€ 75 031</b>						

Table 38. Business Valuation(Author's Analysis)

The firm value is determined using the FCFF= Free Cash Flow to the Firm Model. It assumes a business derives its value from the cash it generates after every necessary investment is done using the operational cashflow. This is discounted using the WACC or weighted average cost of capital. We can conclude that the future value of the business, is worth € 75.031 today.



## 7. Conclusion

This online marketing business including an innovative supply chain model offers a great opportunity to start and develop a new brand for custom clothing.

The German market and its customers with a overall increasing affinity for online shopping are a perfect basis for a new venture.

The fact that this business can be operated from everywhere in the world with internet access makes it really attractive. Supported by freelancers and a strong partnership with a Drop-Shipping company, *Pepperminds* has the chance to provide lots of value to many customers.

As the literature review proves, expenditures for apparel products increased caused by worldwide overproduction and heavy fluctuation of seasonal demand.

However, the e-commerce business environment is characterized by a fast pace and is continuously changing. Therefore, a mindset for creativity and openness has to be set in order to build the most advanced and cost-efficient advertisements.

A new trend for 2016 is to integrate online shopping stores, specifically owned by individuals rather than big companies, to social media feeds. Social Media has proven to be efficient and cheaper than traditional media platforms. When applied in the right way it can drive massive value to a business, but can be jeopardizing at the same time if not done right.

In order to better build a strong brand and own the traffic on your website it can be an advantage to create an own online store. It is much easier to control everything and do not have to play with the rules of the Drop-Shipping partner. Nevertheless, you will have to face different costs and have to take care of customers, which will arise costs too. Generally it is much easier to start a business by using a Drop-Shipping method regarding the low-investment barriers.

Marketeers can experiment with new products in order to anticipate reactions. Once the business grows it can move to different partnerships with suppliers who print products for your own store and replace the Drop-Shippers.



### **Future implications**

After launching many different apparel campaigns and analyzing the data, *Pepperminds* found that the majority of successes come from designs with very emotional connections. Strong feelings such as hate, pride and passion create a strong connection to the audience and makes it much easier to launch a viral campaign because people are more likely to share it with their peers. People want to enhance their own “Self” and strengthen their identity by belonging to certain groups. When selling apparels online it is crucial to focus on these aspects, strong feelings, rather than on product quality or product features. These factors are important but are not the reason people buy customized apparels.

If the designs reflect those goals it is a much higher chance of selling more items.

### **Testing**

The requirement of testing assumptions for a specific audience is crucial in online advertising. It is easy to make an assumption that, for instance, Dortmund fans do not like fans from northern Germany. The advertiser has to test that assumption and also split-test different ad-images and ad-copy's to identify what people better respond to.

Once these the two football niches are conquered and developed into a successful stream of income, it is easier to expand to new niches and also to different markets.

As we have seen in the market analysis, Brazil and Asia have shown attractive fanbases of the Bavarian and Dortmund football team.

Furthermore, Drop-Shippers have improved their range of products into a diversity of merchandise. They started in the last quarter of 2015 to offer mugs, necklaces as well as other merchandise products, which can be customized with individual designs.

Additionally, the continuing success of this business will be depending on advertising platforms, which is an essential part of driving targeted traffic to landing pages of a specific product. Therefore it is highly important to have a backup system, where you can drive traffic through such as Google Ad Words, Pinterest, Snapchat or Instagram, which are all new evolving advertising platforms.

This is an exciting and highly innovative project that will be developed to create a high flexibility working environment, where people can work whenever and wherever they want.



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#### **Table 3**

Cao, P., Meister, S., & Klante, O. (2014). How Social Media Influence Apparel Purchasing Behavior. Marketing Review St. Gallen, 6(31), 77-86.

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#### **Table 7**

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Chiang, W. K., & Feng, Y. (2010). Retailer or e-tailer? Strategic pricing and economic-lot-size decisions in a competitive supply chain with drop-shipping. *Journal of the Operational Research Society*, 61(11), 1645-1653.

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