RESOURCE POTENTIALS FOR AN INNOVATIVE SME - CONCEPTION AND IMPLEMENTATION STRATEGIES

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Abstract

For the last decade, it has been noticed that non-chain retailers are steadily diminishing and being squeezed out by other forms of retailing. Particularly noteworthy is the structural change from stationary retail to online retail. Presumably, this structural change has been intensified in recent years by the measures implemented to combat the Covid pandemic. It can be assumed that one solution to combat the decline is to increase sales. Consequently, there is a high interest in providing retailers with an omni-channel distribution solution, to ensure that the stationary retail sector will remain in the future.

This paper examines the impact of live-commerce on the retail industry. Project management tools are used to evaluate the market potential of a live-commerce start-up. For this purpose, different revenue models are developed, and a forecast of the future economic potential is made.

The analysis and evaluations are based on the German market. This can be seen as representative of all western markets.

Keywords: *e-commerce, economic sustainability, live-commerce, omni-channel strategy*

1. INTRODUCTION

Over the past decade, there has been a steady decline in the number of non-chain stationary retailers being displaced by other forms of retail [1]. That mainly affects the retail sector, which does not sell groceries. In November 2021, this sector recorded a drop in sales of a quarter compared with the pre-pandemic level, as reported by the German Retail Association (Handelsverband Deutschland) [1]. It also shows a decline of about 40 percent in the number of visitors to downtown retail compared to 2019 [1]. With the help of Covid-related closures, the electronic commerce (e-commerce) segment recorded growth of around 30 percent [2].

It can be assumed that non-chain retailers are suffering the most from structural change, which can be attributed to several aspects. According to an ibi Reseach study by the University of Regensburg, every second stationary retailer does not conduct online business and thus relies on the sales of its stationary distribution [3]. It is noticeable in this study that the size of the retailer correlates with the use of digital communication channels. Large retailers maintain this customer communication better than smaller businesses [3]. The study also shows that smaller retailers rate their digitization knowledge as significantly lower than larger retailers. It can be assumed that this is one reason for the lower use of communication channels. In addition, the barriers to entry to online retailing are very high, as around 53 percent of German online retailing is covered by Amazon [4].

2. LIVE-COMMERCE AS SOLUTION

An omni-channel solution for retail is intended to combine the advantages of e-commerce and retail. This is meant to give the severely endangered stationary retail, in particular, a perspective for the future.

Specifically, the solution is a platform for so-called live-commerce. Live-commerce is a part of e-commerce that is currently experiencing strong growth on the Chinese market. The difference between live-commerce and conventional sales is that it is carried out via a video stream enabling the seller to sell the product to the customer audiovisually.

The platform is designed to provide specific support for stationary retail and guide the way from the first customer contact to a successful legally binding sales contract.

The benefits of stationary retail are provided by the communication options. The vendor can respond to questions in chat or livestream. In addition, there is the possibility to start a voice or video call. Through the interaction between vendor and buyer, a qualified and personal service can take place.

In 2021, around 77 percent of the German population use the advantage of e-commerce, which shows its significance for the German economy [5]. The advantages of online commerce are wide ranging. It is easily and swiftly accessible 24/7, which enables a less stressful shopping experience. In addition, online stores are often able to offer a lower selling price than stationary retailers, as they can save on costs incurred in retail for sales space and employees [6].

In comparison to online retail, stationary retail brings "stationary specific advantages, such as qualified advice, experience shopping and immediate availability" [7].

Since there is demand for both e-commerce and stationary retail, it can be assumed that such a solution will be accepted by the market. It can be presumed that a mixture of retail forms has a significant additional value that it will be recognized by users.

3. ECONOMIC EXPLOITATION

The economic success of live-commerce is determined on the basis of a hands-on example. For this purpose, a start-up that wants to offer live-commerce is taken as a foundation. In order to determine the possible revenue potential for the start-up, different models are developed. The total addressable market, the revenue potential through a commission model and other paid services are examined.

3.1 Total Addressable Market

Based on the e-commerce revenues to date and the forecasted revenues of chain and non-chain stationary retailers, the following Total Addressable Market (TAM) can be determined:

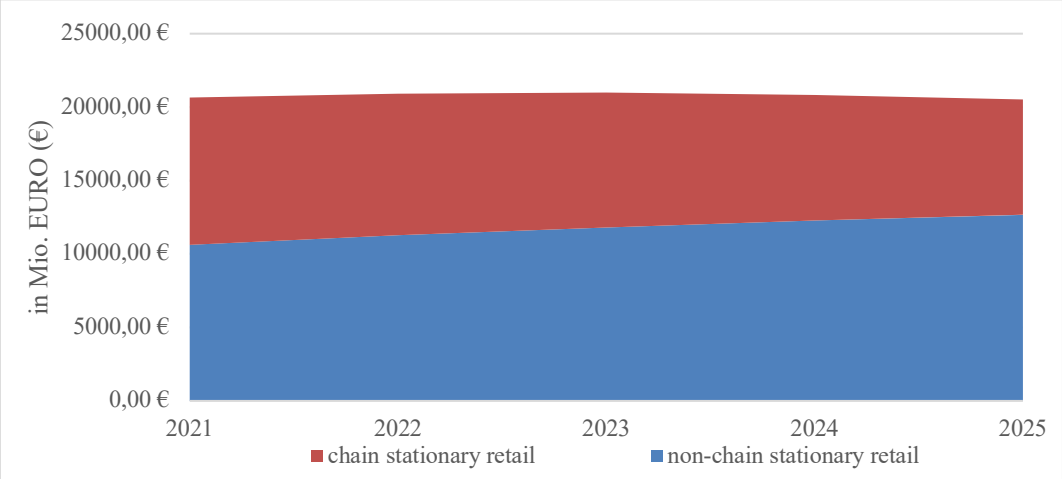

Fig. 1. Total Addressable Market in Germany

The TAM is projected to be approximately 21 billion euros by 2025.

3.2 Commission model

The start-up's main revenue is generated through a commission model. This commission is charged on a share of the sales generated via the platform. The amount of the commission is based on the common

e-commerce affiliate commission rates, which are usually between five and 15 percent [8]. As the retail sector is already under enormous price pressure, a commission rate of five percent is being targeted.

In the end, the market share of the TAM determines the expected annual revenue.

Over the next four years, the start-up aims to achieve the following market share:

Targeted market share

2022	2023	2024	2025
5%	12%	25%	50%

Table 1. Targeted market share of the start-up

This market share results in the following revenue at a sales commission rate of five percent:

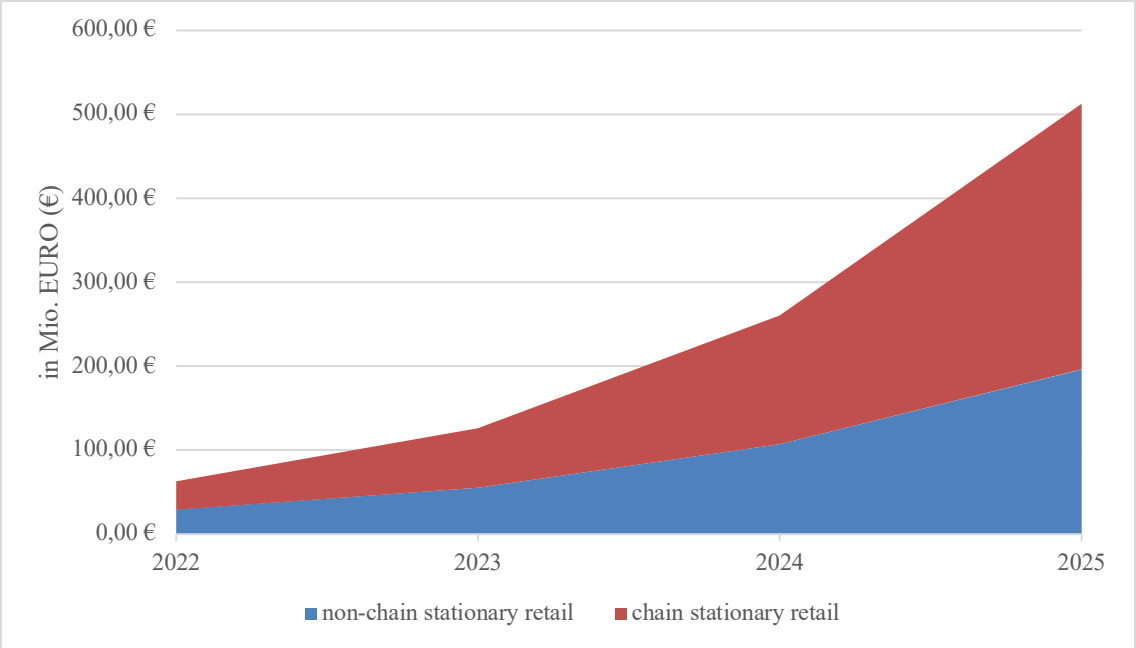

Fig. 2. Forecasted revenue upon reaching market share

3.3 Paid-Services

In addition to the commission model, other revenue models are targeted. It is possible to offer sellers additional statistics and options for added costs. The acceptance of and need for the additional options are uncertain.

Additional statistics are:

- Average number of viewers
- Average time watched per viewer
- Average revenue per viewer
- Effect of personalized discount codes

- Platform related statistics (e.g. viewer count - time - relation)
- Recurring viewers

Additional options include:

- Personalized discount codes
- Individual phone calls with video
- Live auctions
- Linking of online store systems
- Linking of additional audio-visual systems (additional microphones & cameras)
- Be featured at the top of the feed

In the context of paid services, the "increase in commission rate" and "freemium model" models are examined.

3.3.1 Increase in commission rate

In the following model, an increase in the commission rate for the additional options and statistics of one percent is charged.

Only assumptions can be made about the need and acceptance of the additional functions. Different models show how high the additional revenue is for different acceptance rates.

The following model assumes varying acceptance with one percent commission increase (from five to six percent).

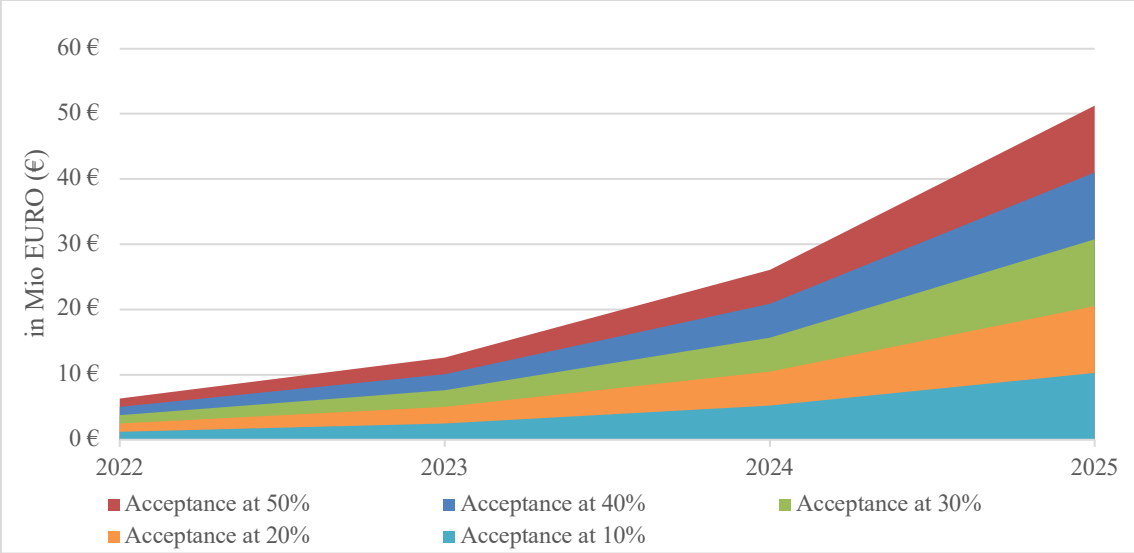

Fig. 3. Additional revenue generated by increasing commission to six percent

The models show that, depending on acceptance, annual sales can be increased by up to ten percent. This would increase the economic potential significantly.

3.3.2 Freemium-Model

The Freemium-Model is the most popular model for Paid-Content-Models [9]. In this model, a service is offered for free. In return for payment, additional paid options can be activated that improve the user experience.

The price charged for the premium options is set at 100€ per month. The model describes the additional revenue generated depending on forecasted user numbers and the acceptance of the model.

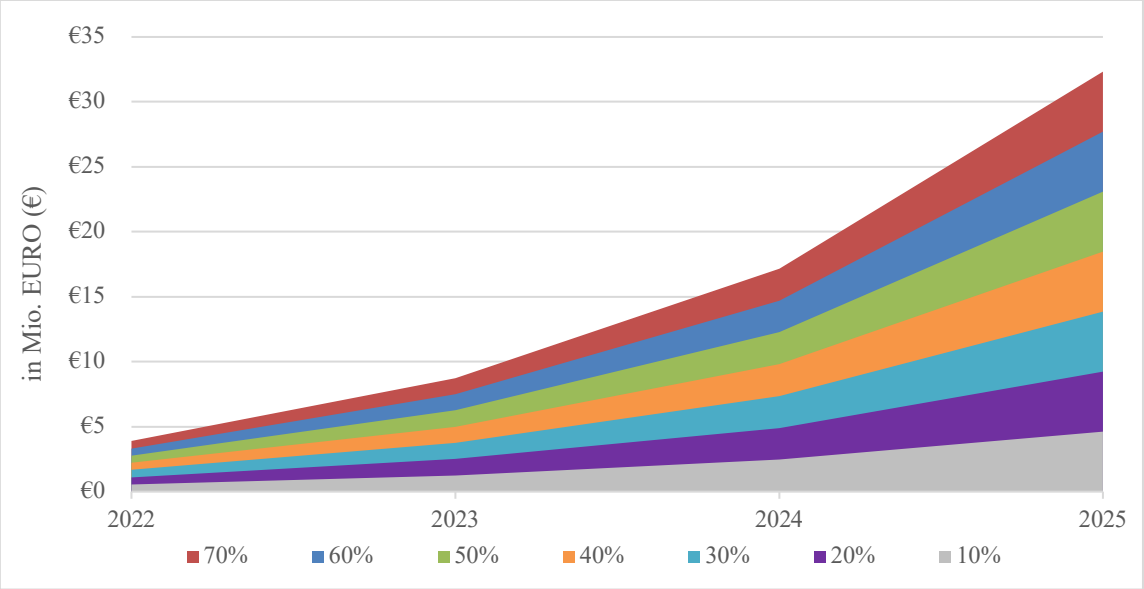

Fig. 4. Additional revenue through Freemium-Model after user acceptance

3.3.3 Evaluation

The comparison of the models shows that both have a positive contribution to economic efficiency.

Greater deviations from the forecast figures may occur, as these are dependent on a very large number of variables. Many of these factors are variables that can only be assumed.

The following figure compares the additional sales generated by the models. The two models are compared with the same acceptance by sellers of 50%.

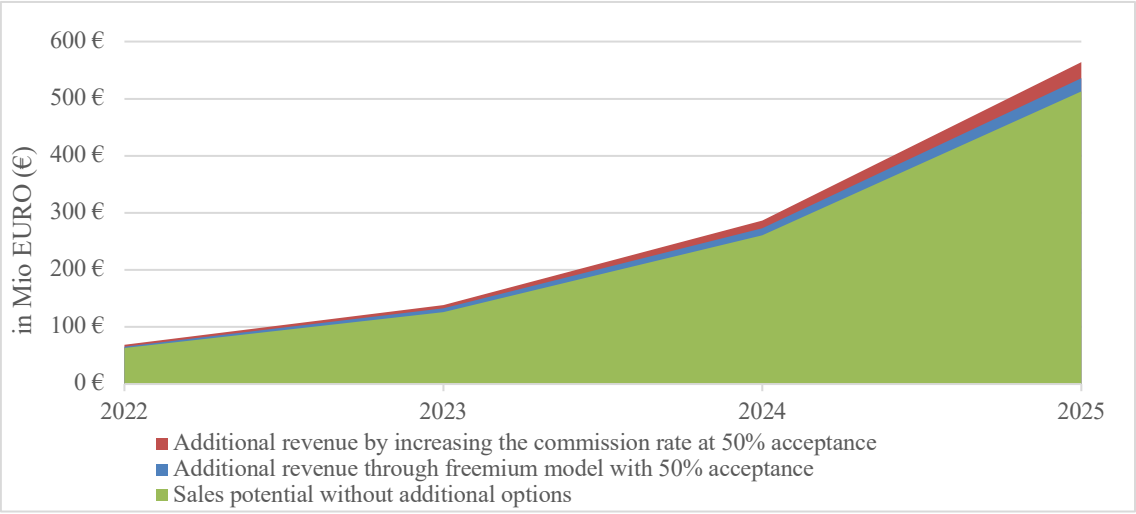

Fig. 5. Comparison of models for additional revenue through paid services

The graph shows that increasing the commission rate provides significantly higher added revenue.

4. SUSTAINABILITY

In the context of live-commerce, positive effects on economic sustainability can be observed.

According to Prof. Dr. Frank Leymann of the University of Stuttgart, economic sustainability describes "maximizing the economic return while maintaining the required input resources" [10].

This is exactly what the platform is designed for. In the case of the platform, the maintaining of the input resources means the customers. As already mentioned, retail customers are dropping due to structural change. With the help of the platform, a turnaround is attempted. By combining the two retail formats (e-commerce and stationary retail), the aim is to shift customers back to retail and at the same time maintain the customer base.

The previous sales options remain with the retailer, which is the reason the retailer has gained a sales opportunity with omni-channel use.

5. CONCLUSIONS

In conclusion, the future of retail does not have to be left to the fate of time and structural change. With the help of live-commerce, structural change can be actively countered. The evaluation shows that the live-commerce distribution system can offer high profitability for retailers. In addition, the sales figures of the pioneer models from China speak for the positive development. A commercially lucrative platform can open the doors to the omni-channel strategy for every stationary retailer, so that the future is in the hands of the retailer himself.

The commission model shows a very high revenue potential in the models, which is why it should be used by the start-up. It should be noted that the results of the "Paid-Services" can only be considered very imprecise, as the models are dependent on too many unknown variables. Assumptions were made for the parameters. Since these figures are not substantiated, strong deviations could occur in reality. A realistic calculation can be made after the launch of the platform using the same models.

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