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STRATEGIC AUDIT OF SPREETAIL

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Abstract:

This report investigates the history and current situation of Spreetail, a local ecommerce company in Lincoln, Nebraska. The company faces several challenges going forward, including determining how to best compete with large companies in the same market such as Amazon. This report looks at Spreetail’s current standing using tools such as SWOT and PEST analyses and examines the company’s competitive analysis. Spreetail is recommended to speed up its rebranding process to maintain the benefits of the more fitting name and rebranding efforts already underway.

**Key Words:** Raikes School, business, strategic audit, strategy
Dedication

I want to thank the support systems I have had during my time at UNL for helping me push through. Thank you to my family, friends, my fantastic partner JD, and the Raikes School Cohort of 2014. I wouldn’t have made it this far without you all. Thanks for not letting me give up.
**Background**

In the heart of Nebraska’s Silicon Prairie, the Lincoln-based ecommerce company Spreetail is outgrowing its startup roots. The company boasted $250 million in revenue last year and will soon add an additional 100 employees in its Omaha satellite office. Today, Spreetail has over 200 employees in its distribution centers and Lincoln office, located on the University of Nebraska—Lincoln Innovation Campus. Spreetail has distribution centers in Lincoln, Nebraska; Las Vegas, Nevada; Harrisburg, Pennsylvania; Plainfield, Indiana; and Savannah, Georgia (see Figure 1). With distribution centers across the country, Spreetail can better meet its goals of fast-delivery and quality. Its growth has brought it out of its startup phase, but this small company has big plans to make a dent in the universe and ecommerce (Spreetail).

![Map of Spreetail's distribution centers](image)

*Figure 1: Spreetail has five distribution sites, including one in Lincoln, Nebraska, the same city is home to its headquarters.*

Source: Spreetail.com
The ecommerce company got its start with selling refurbished computer parts, but today it offers “tens of thousands” of items in its online store (Spreetail). Spreetail sells items on multiple ecommerce websites, not just its own. This has led the company to not only think about how to attract customers to its site, but how to win “the buy box” on other ecommerce sites like Amazon and Wal-Mart. To win “the buy box,” Spreetail strives to create as much customer value and happiness as possible. Items are hand packaged and delivered from its distribution and fulfillment centers. Spreetail also designs the software it uses in order to meet the needs of its customers. Through its self-designed websites, management software, and delivery service Spreetail meets the ecommerce needs of several million customers every year (Spreetail).

**History**

Spreetail first started as “LapkoSoft,” named after its founder Vitali Lapko. The company, which launched in 2006 as the rebranded VMInnovations, bought large lots of computers and technical equipment from company auctions, refurbished these machines, and sold them online (Olberding, “Spreetail Ready for the World”). VMInnovations saw incredible growth in its first few years as ecommerce took off. At the end of its first year, VMInnovations had $2.4 million in revenue with five employees, and four years later in 2010 it would earn $1 million in revenue in one week and $23 million in revenue for the year with twenty employees (Spreetail). As its growth continued, Spreetail had to change offices and open new distribution centers to meet the needs of customers as well as diversify the products it sold. In 2015, VMInnovations rebranded as Spreetail and the company moved into its current headquarters at Nebraska Innovation Campus in 2016 (Spreetail). While its website remains VMInnovations, the new branding of Spreetail has helped to attract local Silicon Prairie talent.
Through all these changes and growth, Spreetail has remained self-funded, transitioning from credit cards to small bank loans (Spreetail). It remains privately held today and has not received outside investment into the business (Yowell).

**Current Events**

**Office Expansion**

With Spreetail’s headquarters in Lincoln nearing capacity, Spreetail is expanding its headquarters office and opening a new office in Omaha, Nebraska. Spreetail will remain on Nebraska Innovation Campus, though its office will double in size, and plans to continue nurturing its relationship with the university (Yowell). The office’s placement on Innovation Campus gives Spreetail access to the talent of UNL students and recent graduates.

The Omaha office will be located in the same building as another Lincoln company: Firespring. Firespring’s Aksarben-area building will offer 15,000 square feet for Spreetail to grow its new office (Yowell). Thome noted in an interview with Lincoln Journal Star that Spreetail “had a lot of people applying from Omaha,” and therefore opening an office in Omaha was “the logical step” (Olberding, “Spreetail Planning Expansion”). This satellite office will offer the same functions as the Lincoln office, including software and human resources. With the addition of this new office, Spreetail anticipates a 50% growth in employment (Olberding, “Spreetail Planning Expansion”).

**Vision**

Spreetail aims to “[make] a dent in the universe by delighting millions of customers, creating opportunity and wealth for [its] team, and revolutionizing the communities [it] touch[es]” (Spreetail). Spreetail also works to create a positive change within its community to contribute money and manpower to community projects. As a numeric measure for its vision, Spreetail aims to earn $1 billion in revenue and have 800 employees by 2020 (Olberding, “The Other Side”) (Spreetail).
**Major Issues**
Spreetail faces a few major issues as it tries to balance its growth and competitive edge. Spreetail has been growing rapidly since its official launch in 2006. Now, as it approaches the opening of its Omaha office, Spreetail must be cautious about growing beyond what it can control. The CEO sees this possible problem as well, noting that if business doubles in the next year, “it’s not a good thing” (Olberding, “Spreetail Ready for the World”). Part of the concern with its growth comes from its ability to attract high-skilled and experienced talent. Spreetail hires a lot of young people, and may run into trouble without more experienced employees, especially on their software teams. Finding a balance between new and experienced workers will be key for Spreetail’s stable growth. Spreetail’s growth also puts it at risk at competing seriously with those like Amazon, which is both Spreetail’s biggest competitor and largest marketspace. Spreetail’s growth model depends on using the online markets of Amazon and Wal-Mart, and if the company becomes a larger threat to these, it may have to start supporting its sales fully by itself.

**Situation Analysis**

**Business Model**
As an ecommerce company, Spreetail derives its revenue from the sale of items online. Spreetail sells on its own site as well as other online marketplaces like Amazon and Wal-Mart. Customer value is created through providing high quality product acquisition, fast shipping, and low prices that not only win the buy box but increase perception of item value. To help provide value, Spreetail designs the software it uses, allowing it to create exactly what tools it needs to serve its customers. Its largest cost components come from the acquisition of products and the cost of software development. Because Spreetail is a privately-owned company, exact costs cannot be found or calculated.
External Analysis

The State of Ecommerce

The ecommerce industry has grown exponentially in the last two decades. Some market experts even predict that ecommerce will become the future of retail (BI Intelligence). Ecommerce offers a unique shopping experience to retail shoppers, allowing shoppers to compare numerous items with simple clicks, and removing the limitations and barriers of travel for many consumers. Without such limitations, online shoppers are more likely to visit retail sites frequently and spend more. The ecommerce market grew by 16% from 2015 to 2016 while the overall retail market only grew by 2% in the same time period (BI Intelligence). The ecommerce market will likely continue its growth through 2018 and beyond.

Competitors

Spreetail competes with both online and physical retailers. With ecommerce sales increasing more than brick and mortar retail sales, the more viable threats are online retailers. Amazon captured 44% of all United States ecommerce sales, and about 4% of total retail sales in 2017 (Thomas). Spreetail does not have the same name recognition as the ecommerce giant, but its smaller size has allowed it to sell on Amazon Marketplace. Should Spreetail grow too quickly and attract unwanted attention from Amazon, Wal-Mart, or Jet.com, it may lose some of its biggest marketplaces. For Spreetail, these larger companies are the ones to keep an eye on.

“There won’t be really new startup ecommerce companies,” CEO Thome said in an interview with Silicon Prairie News, “It’s too hard to enter right now” (Hull). Barriers to entry in the market are largely the startup cost of products and delivery. According to Thome, “You need to come out of the gate basically offering free two-day shipping” (Hull). He does not seem to be wrong as more and more ecommerce competitors begin looking for the fastest and cheapest way to get products to customers. Consumers have become accustomed to the immediacy of online shopping, and an ecommerce company must meet that expectation if it wants to survive.
Competitive Advantage and Success Factors

Recent Rebrand to Spreetail

The company’s rebranding as Spreetail occurred in 2015, and the choice has brought new attention to the company. For 9 years, Spreetail had largely operated under the radar while the company grew and refocused its strategies. However, its low profile harmed its ability to recruit a wide array of employees. Its rebranding in 2015 was loud and meant to attract attention. The company began handing out swaths of free t-shirts on UNL’s city campus where they could reach nearly 4,000 business majors and 700 computer science and engineering majors (University of Nebraska—Lincoln). Spreetail has quickly become a well-known name among those in the Silicon Prairie, and its growth promises to make its name more commonly known. The rebranding has also helped to solidify Spreetail’s image as an ecommerce company. However, website Spreetail sells on remains vminnovations.com. The old website has been retained while Spreetail works on launching its new website. While the VMInnovations site does not benefit from the new brand image, it keeps customers familiar with VMInnovations on the site. When Spreetail completes the switch to Spreetail branding, it will further benefit.

High Customer Satisfaction

Customers have rated Spreetail highly by several ecommerce rankings. Spreetail has a ranking of 8.54/10 on ResellerRatings and monitor the feedback from customers on the site (ResellerRatings). As part of the eBay selling community, the company is “Top Rated” meaning it has a “proven track record of excellent service,” fast and reliable shipping, and “a minimum of 100 selling transactions per year” (eBay). It also has an “Outstanding” overall rating from Bizrate.com users (VMInnovations).

Outside Factors

A PEST (Political, Economic, Social, and Technological) analysis shows that Spreetail faces similar challenges to other ecommerce companies as well as a few specific threats. Like other
online retailers, Spreetail should be aware of regulation surrounding online sales, specifically the implementation of sales tax. Currently, “most online retailers don’t collect sales taxes from their customers unless they have a physical presence in the state” (Olberding, “The Other Side”). While the collection of sales tax on more purchases from Spreetail would cast it in a favorable political light to some, this sales tax would also cut into its profits.

Economically and socially, Spreetail is reliant on the acceptance and usage of ecommerce websites. Its success will depend on how the overall online retailer market grows and changes. As noted before, Spreetail also relies on larger ecommerce sites for business and therefore must be cautious about its growth, brand power, and how it complies with other marketplace’s rules. Ecommerce is also reliant on the social acceptability and accessibility of consumers. For many people, ecommerce is easier than traveling to a brick-and-mortar store, but those who lack a reliable Internet connection cannot benefit from this ease. Spreetail must also be conscious of how the company’s culture is perceived. With such a young employment base, company events often serve alcohol as a “fun” addition. There have been numerous reports of underage drinking from interns as well as an “obnoxious” culture of consumption. This sort of reputation can hinder the company in its recruitment of new employees. On the other hand, many employees enjoy the laid-back and fun-loving nature of the office. In almost all economic and social aspects, Spreetail must find a balance.

Technologically, Spreetail must be prepared to compete with its largest competitors. As more people use Spreetail, its technology must be able to support the customer base. Any sort of technology “down time” can be detrimental to a company that wants to constantly “pursue perfection” (Spreetail).
**Internal Assessment**

**Strengths**

*Talent*
Spreetail uses a wealth of talent to its advantage. With its strong ties to UNL, Spreetail is able to recruit talent directly from college. These young recruits bring with them energy and excitement to the company’s culture and give Spreetail a reputation for helping professional development.

*Market Focus*
Customers who use Spreetail’s online shopping know what they are looking for, and are interested in getting the best deals. Spreetail’s initial specific focus has broadened, however, Spreetail’s retail website caters to people who already know what they are buying. This differs from sites like Amazon, which relies on product likeness and recommendation. Products from Spreetail are also sold in other marketplaces like Amazon and eBay, where the company competes for the buy box through low prices and good shipping deals.

*Fast and Free Shipping*
Part of the ecommerce game is shipping. Consumers will sometimes spend more money on a product if it means receiving it sooner. Spreetail appeals to this consumer base through its free and efficient shipping. The company brags that “Most of our products arrive within just 1-3 days” and also offers returns within 60 days (Spreetail). It is able to do this by having distribution centers across the United States.

**Weaknesses**

*Balance of Talent*
Although its young talent brings energy and motivation to the company, Spreetail is becoming an all-around young company. “The staff is mostly young,” Journal Star reporter Matt Olberding notes, and “[o]f the four people on the executive management team, only [Jeff] Rapp is older than 30” (“Spreetail Ready for the World”). Skills earned through experience are in short supply at the company, which may cause it problems in development and maturity. The culture may also
run into aging problems. Either the culture will age with employees, or the young and energetic culture will push out folks who begin to mellow. Finding a balance of talent will not only help the company’s functions, but also help it develop a stable culture.

**Narrow Product Offerings**
There are a limited number of products offered on Spreetail’s website. These fall under categories like “Electronics,” “Home & Garden,” “Sports & Outdoors,” and “Apparel & Accessories.” At first glance, this seems like a wide array of products, however, each category contains a narrow subset of items. For example, “Apparel & Accessories” features solid-colored t-shirts, one type of baseball hat, a Stormtrooper helmet, and a Superman costume. Other categories feature more variety, but dive into very specific parts or brands. At the moment, Spreetail does not have wide appeal, and until they do, they will not be able to compete with other online retail giants (VMInnovations).

**Leader and Situation Fit**
Current CEO Brett Thome seems ambitious, enthusiastic, and optimistic about the future of Spreetail. With the company’s rapid growth, this energy at the top is what it needs. Thome has a vision for the company’s future, is ready to excite employees, and looks to enable employees to make “a dent in the universe” and their local communities. As a company experiencing incredible growth with the intention of growing even more, a visionary CEO is what Spreetail needs. Thome fulfills this role. However, the company should be wary of needing a surgeon-type leader soon. Spreetail is growing with some major flaws in its business model and if these are not repaired along the way, they will become a problem in the future.

**Recommendation**

**Strategy Goals and Evaluation Criteria**
Any strategy Spreetail undertakes should focus on stable growth of the company and high revenues. Both of these metrics are part of Spreetail’s Operation Flywheel, which hopes to take
Spreetail to $1 billion in revenue and over 800 employees by 2020. Revenue can be a reasonable metric of strategic success because it is easy to measure. Employees, on the other hand, may or may not reflect the success of a company; however, if Spreetail can maintain a workforce of 800 people without compromising profits or achievements, it will prove that it as grown to a size where a workforce of 800 is necessary.

**Strategy Alternatives**
While these are clear measures to tell if Spreetail is achieving their goals, the company should also include name recognition as part of its evaluation of success criteria. If Spreetail hopes to take on giants like Amazon, it will need to build its own loyal customer base. Spreetail’s new branding is one aspect of its competitive advantage, and it should be capitalized upon. Spreetail should also strive to maintain its superb customer relations through strong customer service and efficient delivery.

**Formal Recommendation**
In order to reap the greatest benefits, Spreetail must push its rebranding campaign forward. As it stands, Spreetail and VMInnovations remain in limbo with both sites active. A singular cohesive brand will help to eliminate public confusion and will allow Spreetail to fully capitalize on its rebranding. “Spreetail” is a much more fitting name for a online retailer and one which will stick in the minds of consumers.

This recommendation calls for one thing to change: the speed at which Spreetail rebrands. Much of this is in the works currently, and Spreetail seems to be stuck in its pursuit of perfection.

While this pursuit is noble, it will hinder Spreetail’s ability to interact with customers as it grows to a recognizable size. If Spreetail grows too large, too fast, its ultimate rebranding will confuse the public. A company that just hits the “big time” does not want to suffer from public confusion.
Implementation Plan
My recommendation asks for Spreetail to speed up its rebranding plan. In my opinion, Spreetail should meet the following markers (many of which are already in the works):

- Late Summer 2018: Launch of new Spreetail.com with matching branding across the online store
- Fall 2018: Intense marketing about the rebrand to alert customers before the Christmas rush hits
- Holidays 2018: Offer discounts or other promotions to get traffic onto the new website to familiarize people with the brand
- Post Holidays 2019: Follow up with customers about their experiences with the site in order to adjust service accordingly and maintain the strong brand.

Contingency Plan
Spreetail should prepare for initial customer confusion with the rebranding. Marketing should include both names and the VMInnovations website should redirect to the Spreetail website.

Aside from these preparations, the company has a few options should their rebranding go wrong.

1. Push on – Spreetail’s aims of offering deals that win the buy box and deliver satisfaction will not be impacted by a name change, though the recognition of success may not come through.
2. Focus on attracting new customers – those brought to the platform after the rebranding will experience less confusion over a name change.
3. Grow targeted recognition – Spreetail has a wide variety of items in specific markets (like car radio parts). It can grow recognition within these markets after its rebrand to become an easily identifiable name.

The potential negative effects of an unsuccessful rebranding will only increase the larger Spreetail becomes. To avoid having to use one of these contingency plans, Spreetail must speed up its rebranding plans.

Conclusion
With goals to become one of the big players in the online retail market, Spreetail has its sights set beyond Lincoln, Nebraska. Its cross-country speedy deliver service helps it to maintain a positive image for its customers, and it has adopted a name which will resonate well with online
shoppers. However, if Spreetail hopes to benefit from its new brand, it needs to fully adopt it before it is too late. The longer Spreetail holds off on using “Spreetail” in all aspects of its business, the more likely it will be that the company experiences negative side effects of its quick growth. This potential problem can be amended by pushing its rebranding timeline up to officially launch Spreetail into the minds of its current and future customers. Spreetail’s ambitions are high, and they are reliant on a strong brand basis.
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