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Strategic Audit:

Spreetail

An Undergraduate Honors Thesis Submitted in Partial fulfillment of University Honors Program Requirements University of Nebraska—Lincoln

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Abstract

This report is an in-depth look at the history and trajectory of Spreetail, an ecommerce company based in Lincoln, Nebraska. As the ecommerce market itself grows rapidly, Spreetail is facing challenges and obstacles to success in the industry, especially since it is competing with Amazon. This report breaks down the factors affecting Spreetail both internally and externally (using SWOT and PEST analyses) and outlines several strategic possibilities for moving forward. The final strategy recommendation for Spreetail is to increase their catalog size and focus on exclusives.

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

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Background

13 years ago, a small ecommerce company called LapkoSoft entered the online shopping scene. With only 2 employees, their focus was narrow: buy old computers, refurbish them, and resell them⁵. Now, they've grown so much it's hard to believe it's the same company.

Spreetail currently offers free 1-2 day shipping for all items on its website, which online shoppers have come to expect over the last few years. Spreetail is slowly building its online presence across marketplaces, with offerings on Amazon, Walmart, Jet, and Wish, to name a few. With an annual revenue of \$250 million in 2017, two new offices have been required to support the expansive growth Spreetail has seen over the last couple years. Despite the huge success in the marketplace, Spreetail still finds time to make an impact in the communities it touches.

Over the last few years, Spreetail has had a significant interest in improving the lives not only of its employees but improving the lives of all in the community. In Lincoln, this is evidenced by the multiple company-wide initiatives such as the New Beginnings program, which is designed to assist families moving out of homelessness make their new house a home.² It also partners with the local governments and artists; the "Elevate" project turned an eyesore of a grain elevator in the middle of the city into a huge canvas to feature local artists.⁴

Situational Analysis

Spreetail's vision is to "make a dent in the universe by delighting millions of customers, creating opportunity and wealth for our team, and revolutionizing the communities we touch."⁵ It's competing with big names in the ecommerce space in order to make that vision a reality. With a more definite goal of \$1 billion in revenue and 800 employees by 2020⁹, the company is on pace to hit their target. However, the road ahead still has obstacles Spreetail needs to overcome.

Internal

Spreetail has seen uncommon growth over its lifetime. In 2017 and again in 2018, it experienced 50% YoY growth.⁹ Sustaining this growth has been a challenge, but Spreetail has hired hundreds of employees in the past few years, going from 180 employees in April 2017 to over 500 in April 2019.⁹ This hiring craze brings both opportunities and difficulties.

One of the most consistently emphasized aspects of working at Spreetail is a great company culture.⁵ It was even named as one of Glassdoor's Best Places To Work in 2019.²¹ The feeling of closeness and community is quickly lost when introducing hundreds of new faces into the same space. Spreetail will have to be proactive in maintaining its culture if it wants to keep the same feel at a new scale.

Offering products in categories such as Backyard, Garage, and Home, Spreetail is geared towards homeowners and larger purchases. Of the 4 products featured on its home page, only 1 is less than \$100, and 2 are in the \$200 range. While larger competitors such as Amazon and Walmart offering a broader set of categories, Spreetail is currently in a niche market. Being able to satisfy a more diverse set of needs/wants is crucial for Spreetail to expand its customer base.

Another potential issue Spreetail faces is a "leftover" brand name. In 2015, the company underwent a re-brand, changing from VMInnovations to Spreetail. Until that point, all sales were associated with the former name; even Spreetail's own website had the VMInnovations name on it.¹⁰ And in 2019, the company has undergone another re-brand, this time changing its color scheme in tandem with releasing its own marketplace platform. These visual changes are more than what customers are used to in today's market. Communicating the rebrand to customers while staying under the radar of competitors could prove difficult.

The final and perhaps most significant challenge Spreetail faces is its own growth. Currently, it utilizes other marketplaces like Amazon and Walmart to sell on, in addition to its own website. However, if these companies start to see Spreetail's growth as a threat to their own business, they may revoke

Spreetail's access and ability to sell on their marketplaces. While the rapid growth has been a positive impact on both the employees and the communities they touch, it is a possible red flag for Spreetail's competitors.

External

Ecommerce has only been growing since it arrived on the scene. Just last year, sales were up 15% for a total of \$517 billion.¹ The US mobile ecommerce market is especially enticing, with a YoY growth of over 30% in the last few years.¹¹ This industry is only growing as more and more shoppers are looking for online purchasing experiences.

PEST

On the political side, ecommerce has been the subject of some controversial legislation; the sales tax debate has been one of the most hotly-debated topics in this area. Many online retailers aren't required to pay sales tax unless they make a certain amount of money in that state, usually \$100,000 (defined by Nexus laws).¹⁴ Additionally, shopping online creates data about shopping habits and interactions that online retailers can use and abuse, which has been another subject of discussion. The EU in particular has been passing legislation (the General Data Protection Regulation, or GDPR) protecting the ownership of that data as the customer's.

Let's take a look at the economic side. The US economy has been growing steadily, with >2.0% increases in each quarter of 2018.¹⁵ This indicates that consumers are confident in the market and spending just as much as ever, which bodes well for the ecommerce industry.

Social habits have been changing as well. Over the last few years, consumers (especially younger) have shifted towards buying responsibly sourced and environmentally sustainable products. Several states have passed laws against offering disposable plastic straws in restaurants unless specifically requested by the customer.¹⁶ This is just one example of a larger focus on lessening the environmental impact of our buying decisions. Apple is another example: as of 2018, it is 100% powered by clean energy.¹⁷ While

the vast majority of purchasing decisions are not based on how sustainable the product is, this trend is important to consider.

With the recent advances in machine learning and artificial intelligence, technology has become more relevant than ever within ecommerce. In-depth analysis of buyer behavior can be used to determine much about a consumer without ever asking them. This ties into the GDPR passed in the EU, focusing on the responsible use of this information. Ecommerce companies have been using this data to better understand how to advertise to customers. It can go too far, though, with Target being able to determine if you are pregnant before you want that information publicly available.¹⁸ Additionally, business is moving to mobile platforms, with a total revenue of \$206.51 billion in 2018,¹¹ and Amazon alone receiving almost 140 million monthly users on its mobile app.⁸

Many of the support services are now exclusively digital. Chatbots are used to quickly and efficiently solve customer problems. Talking to a real person is now a last resort instead of the first step in any support case. For example, with Amazon you can purchase, return, exchange, and leave a review on an item without ever having a human-to-human conversation.

Porter's 5 forces

Many of the largest ecommerce competitors are companies that offer a wide selection of items, with Walmart, eBay, and Amazon being the largest in terms of monthly active users.⁸ These marketplaces have dozens of categories and thousands of products available on their website or app. Each of these companies is well-established in the retail space, and have power based on their selection of offerings, and many exclusive offerings as well.

Entering the ecommerce scene is no easy task. Each of these big names offers free 2-day shipping, and free returns are the norm. These costs are too large for many new entrants, which shows a high barrier to entry for potential competitors.

Physical retailers are still going strong despite the explosive growth of ecommerce. Some stores are struggling, such as Sears, but many like Walmart and Target are still alive and well. Best Buy in particular has introduced a price-match strategy, where they will sell at the same price as online retailers because customers have the added benefit of taking the product home with them now, instead of waiting a couple days. These companies are always coming up with new ways to be a threat to online retailers. With the proliferation of online shopping sites, buyers have more power than ever to compare at a glance between sites and go with the lowest price, which increases the competitiveness of prices across retailers.

Looking at the forces in the ecommerce industry, we find the industry to be incredibly competitive.

Strategy Evaluation

With ecommerce growing rapidly, both Spreetail and its competitors are always adapting to the environment that is online shopping.

Alternatives

Several opportunities are available to Spreetail in its current state. The growth over the last few years is promising but if Spreetail isn't intentional about the direction it chooses for its next steps it will waste a significant amount of time and resources.

Increase Catalog Size

Spreetail has a targeted selection of products it offers; as a result, it has a very specific target customer. These products are also large purchases, which customers do not make frequently. Expanding into slightly smaller, more frequently bought items would create a mentality in customers to continue coming back to Spreetail when a need arises. By contrast, Amazon will sell everything under the sun, and customers don't think twice about a quick search and purchase through Amazon, and with Prime it will be delivered in two days. Although it has seen success with its current catalog, it may be wise to expand

into more diverse categories to increase the probability and desire of customers to come back and make another purchase.

Go Mobile

As mentioned earlier, the mobile market has increased exponentially in the last few years as smartphones have gone from a luxury item to a life necessity and with them the ease of shopping. Spreetail currently does not have a mobile app – they only have a desktop website and items listed through other marketplaces. With customers increasingly buying from a mobile device, having a mobile option is imperative to stay relevant.

Be Exclusive

Another potential avenue is to focus on exclusivity. With the current catalog being limited, Spreetail can focus on making deals with vendors to be an exclusive seller. This provides two benefits: first, increasing the brand reputation by emphasizing the exclusivity; second, less price competition as Spreetail does not have to compete with other marketplaces or sellers or the brand itself through an online store. The price aspect especially will lighten the pressure on Spreetail as higher margins require fewer sales to maintain the growth Spreetail has seen.

Consolidate the Spreetail Brand

In order to strengthen the name of their new brand, Spreetail should migrate all existing references to VMInnovations to the new name. Spreetail has a lot more to offer than VMInnovations. Spreetail gives back. This should be one of the major foci of any marketing campaign, because it is getting ahead of one of the social trends – that of responsible buying. Spreetail gives 5% of all sales to a community organization in order to improve the lives of those around it.⁵ No other company does this; Amazon has something similar with a small portion (0.5%) going to a charitable organization of the customer's choice, but Spreetail does this 10 times bigger.²²

Criteria

With so many directions to go, it is important to define Spreetail's objective for its next move. The main success criteria should include sustainable growth (both in revenue and in customer base), and brand recognition.

Recommendation

A combination of "Increase Catalog Size", "Be Exclusive", and "Consolidate the Spreetail Brand" should be employed going forward. Acquire more items to sell within the categories it currently offers and try to make as many as possible Spreetail exclusives. In short, keep doing what they are doing.

Justification

Spreetail is growing quickly with the limited categories and channels it has. They have seen great success with the areas it has focused on and should not try to spread itself too thin. By increasing the catalog size to deepen the available inventory in its existing categories to cover its target market's needs effectively. Spreetail has approximately 2200 items for sale on its website, Amazon has about 600 million.^{5,19} It still has a long way to go if it wants to compete with Amazon. While that number is daunting, Spreetail is not competing with Amazon across all categories, just Home, Backyard, and Garage. Attempting to grow additional categories may prove taxing for Spreetail as its personnel are already familiar with its existing categories and should instead use that knowledge to leverage more sales. As it hires more employees, it can expand its categories, but it is currently operating at capacity. Also within existing categories, Spreetail should continuously be contacting vendors to try to be an exclusive seller. If Spreetail can be *the* destination for some name brands, it will attract the loyalty of those brands in addition to its own. Since many of the items Spreetail currently sells are durable goods that will last, and not items that customers will purchase multiple of in a short time span, these other brands' customers are especially valuable.

The biggest reason for Spreetail *not* to develop its own mobile app is because that would divert resources away from its already successful desktop website. Additionally, these larger, more expensive items are not typically impulse purchases. They require some level of deliberation and that usually accompanies a desktop website browsing experience. In 2018, the average dollar amount of a purchase made from a desktop was almost \$180, more than twice the \$80 average for a purchase from a smartphone.²⁰ While it will be necessary eventually in order to compete, the smartphone app experience is unnecessary to Spreetail and its current catalog.

Finally, Spreetail can gain public favor by emphasizing its commitment to give back. It is the only online ecommerce company to give 5% of its revenue back to communities. Other large companies have come under fire for poor working conditions or poor treatment of the communities they are a part of, but Spreetail has actively worked to improve the lives around it. This could be a pivotal selling point for the younger generation especially, helping to create brand loyalty over these younger shoppers' lifetimes.

Implementation

Spreetail has already been working on expanding its categories and exclusive seller privileges with brands. It should speed up the rebrand to Spreetail from VMInnovations. Memorial Day and the Fourth of July are approaching, and with both being summertime holidays, Spreetail should look to capitalize on its Backyard and Garage categories during the summer. The push to recognize Spreetail as a brand that gives back should be the company's main focus in the next couple months in order to make good on these summertime sale opportunities.

Contingency Plan

If Spreetail has not fully converted by the beginning of this sales season, next year is always around the corner. It should push hard to ensure customers are familiar with the new brand in order to be fully prepared for the 2020 summer holiday season.

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