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Flash Sale Membership Sites

Flash sale sites hit their peak during 2010, growing revenues significantly faster than any other part of retail. This paper will examine the industry background, current competitive landscape and top players. We will also briefly discuss expectations and strategies for the future, including winner-take-all networked markets.

Defining the Relevant Industry

Online retail, which falls under the landscape of eCommerce, is typically defined as a marketing strategy or sales platform for retail businesses. However, eCommerce has become a booming industry. An eMarketer forecast from February, 2014 projects worldwide B2C eCommerce will rise by 20%, approximately 1.5 trillion dollars. U.S. online retail boasts 278 billion, approximately 11% of all U.S. retail. eCommerce has a high potential for growth, and businesses are always on the lookout for strategies to capitalize on this possible revenue stream. Flash Sale Membership Sites are one of the many new "alternative" eCommerce business models that have surfaced in the last decade.

Industry Background

Flash Sale Sites have grown into a multibillion dollar industry. The top U.S. sites generated more than 2 billion in sales for 2012 (Bar, 2013) . Flash Sale Sites also referred to as "private online shopping clubs" or "sample sale sites" developed a niche during the recession, "[Brands] started to realize that the recession was not temporary and that they are going to be stuck with this merchandise they can't sell" (WWD, 2010).

High end brands and designers overestimated demand from their usual buyers such as Saks Fifth Avenue, Neiman Marcus, and Nordstrom. Flash Sale Sites offered an attractive alternative to dumping stock at discount retail stores like TJ Maxx and Century 21, "It allows high-end hotels and fashion icons to unload unsold inventory without sullying their brands in public" (Rapacon, 2011).

These sites have continued to persist due to their rapid revenue growth, attractive financials and VC funding. Larger retailers are now purchasing existing sites or adding sites of their own (MacMillan, 2009). While it can be argued that it is not possible for brands to maintain the current volume of discounts in the long run, flash sale site executives claim they are an effective promotional tool for brands, building a customer audience. Private sale sites also offer real time customer data, which adds exponentially to their value.

Virtual Value Chain

Traditional eCommerce sites have struggled with cart abandonment, low conversion rates, and getting the "impulse buy" from the consumer. Flash Sales Sites add value by capitalizing on vulnerable aspects of our shopping psychology.

The first key feature of flash sales sites are the huge discounts. Flash sale sites offer discounts for as much as 70%. Sites are very successful in creating the feeling that members are going on a treasure hunt. Members are overly focused on the hunt and bargain, as a result they are looking for something to buy instead of buying something that they really need.

Another feature is the process of shopping as a competition with other shoppers. Competition inspires a sense of urgency and excitement that is often accompanied by autonomic nervous system arousal which clouds thinking. Researches show that it takes 20 minutes to regain full mental control once your brain has gone into excitement mode. That is the main reason why most sites keep the product on cart at most 15 minutes (Yarrow, 2011).

Jeff Berman, President of Retail Direct and eCommerce with Lifetime Brands outlines the following strategies that utilize these "psychological effects":

Immediacy: Deal is available for only a few days
Scarcity: Many product offerings sell out quickly
Simplicity: Buy products with one click
Group psychology: Direct link to platforms like FB
Social sharing: Share to save money

Deals are only available to members, "the idea is to promote an illusion of exclusivity" (Rapacon, 2011). By limiting sales to members and offering small lot sizes that sell out quickly, flash sale sites have higher conversion rates.

Competitive Forces

The competitive landscape was reviewed using Michael E. Porter's 2008, "The Five Competitive Forces That Shape Strategy".

Switching Costs

Due to the psychological effects of flash sale sites, we will assume that consumers are mostly interested in finding the best deal. If this assumption holds we can conclude that consumers are indifferent with respect to brands or other transaction specific switching costs. We will assume that switching costs are correlated with the level of discount on a given product group (e.g. designer handbags, fashion tops, vacation packages). If all companies are competing on the basis of price, switching costs are low. These costs would include the time required to sign up at a new site, giving up an individual's personal and payment information, setting up email preferences, and learning to navigate a new site.

Consumers that have a strong preference for a particular brand will incur a higher switching cost due to the potential loss of being able to receive deals for that brand.

Network effects

Consumers desire access to more deals. The network effect is *positive* with respect to brands and goes up based on the selection. This can be additional deals from the same brands, the introduction of new brands, or through expanded product offerings from brands in new markets. Since buyers are in competition with each other for products, there can be *negative* network effects from having too many buyers.

Network effects for the brands is *positive* with respect to the number of buyers, but there are diminishing returns since the value of each additional buyer is limited by the availability of product. Flash sale sites with extremely large pools of buyers do not necessarily add additional benefit to brands selling small lot sizes. There are *negative* network effects from additional brands in the market if their products are not differentiated.

Participants

The flash sale site model was introduced by the french company Vente Privee in 2001. Gilt Group was founded in 2007, the first U.S. company. Many companies have emerged into the industry, including; Rue La La, One Kings Lane, Hautelook, ideeli, and current U.S. leader Zulily.

Flash sale site companies compete on the same dimensions, meeting the same need. This can be offset by segmenting the market. Early front runners targeted price sensitive buyers of luxury goods and spontaneous travelers. New entrants have differentiated themselves by targeting other segments. The product range is very large, including fashion clothing, accessories, jewelry, electronics and home furnishings.

Rivalry:: MODERATE/HIGH

The intensity of rivalry is moderate. There are numerous competitors - with the exception of Vente Privee - all roughly the same size, so rivals compete for business. According to research from IBISWorld growth was at 12.4% in 2012, down from 26.3% in 2011, causing more fighting for market share (Brown, 2012). Since there are little to no specialized assets, companies can easily exit the market not affecting the profitability of other competitors.

The basis for price competition is very high. We concluded that these companies are in the market of selling "deals" and that buyer switching costs are low, therefore cutting prices becomes the ultimate goal. Fixed costs are high, and marginal costs are low (Helm, 2013).

New Entrants

There are hundreds of flash sale sites in Europe and the U.S., and many of them are start-up, venture funded companies. Many existing eCommerce sites have launched flash sale platforms. Retail companies are launching or acquiring flash sale sites (MacMillan, 2009).

Threat of Entry:: HIGH

The barriers to entry are low to moderate. Flash sale sites take advantage of moderate supply-side economies of scale. Companies require $200-400 million in sales to be profitable (Helm, 2013). Companies that are able to reserve larger quantities from the brands can negotiate better terms, and fixed costs are too high for small scale. Sites have positive network effects from having more brands and more buyers. There is little capital requirement. "The private-sale model also makes sense for Gilt Groupe and other sites that act as middlemen, because they carry no inventory and earn a wide margin on sales" (MacMillan, 2009). Sites are known for selling certain brands, but have little other incumbency advantages. Expected retaliation is low. There is a large likelihood of price cuts, but no other means of retaliation.

Substitutes

There are no perfect substitutes, however, an argument can be made that depending on the segment, some substitutes may be rivals. Substitute industries include bricks and mortar retail and traditional eCommerce sites. Substitute alternative eCommerce sites include group buy sites and subscription sites.

Threat of Substitutes:: MODERATE

In the membership club space such as Sam's Club and Costco there is little direct competition with flash sale sites. Wholesale retail membership centers typically sell low end merchandise or perishables. They have a similar function which is selling goods at steep discount, but do not limit the industries profit potential.

The discount store space, such as: TJ Maxx, Ross, Century 21, and Marshalls, poses the highest threat. These stores sell the same high-end discount brands as flash sale sites, and the switching costs for buyers are low. Currently, brands prefer to sell their excess goods to flash sale sites, but prior to this trend discount stores were the major outlet. Flash sale sites primarily focus on the more affluent customer who are sensitive with respect to both price and time. Discount stores tend to market to a different buyer segment, yet, there is cross-over between the two, limiting profit potential in the industry.

Specialty retail such as Abercrombie and Fitch, Coach and Tiffany have seen a 5-7% decrease in sales over the last year (MacMillan, 2009). There is little additional quantitative data to support the assumption that flash sale sites erode sales in the retail space. Flash sale site owners claim they drive brand awareness and boost retail sales.

Other alternative eCommerce sites such as Groupon seem to pose the largest threat, but the group buy model offers mostly services and experiences not goods.

Suppliers

Suppliers come from all the major retail segments such as fashion, home, beauty, electronics, appliances, and footwear. Basically, if the retail market exists - there is also a flash sale site. Home to fashion designers such as; Lauren Merkin, Kate Spade, Calvin Klein, and Marc Jacobs. Furniture brands such as CG Sparks and Southern Enterprises. Numerous beauty brands: Stila, Korres, Jurlique, Fusion, Tarte, Bare Escentuals, and Perricone. Mostly high-end brands, the newest product offerings are coming from mid-range brands and independent hard to find, or unique designers. There are also suppliers in the travel space offering luxury getaways and suppliers in the service space offering deals on spa treatments.

Power of Suppliers:: MODERATE

Market brands are more concentrated than the flash sale site industry on an aggregate level. Individual designers have significantly less power. Suppliers do not depend heavily on the industry for revenue. As economic conditions have improved brands are no longer overburdened with excess stock. They are no longer desperate to off load merchandise to flash sale sites. "It will be tougher for the private-sale sites to get merchandise" (MacMilan, 2009). Even during the height of the recession suppliers retained other, albeit less attractive platform strategies to sell their merchandise. With advances in technology brands are also able to more accurately predict consumer demand, reducing excess inventory.

Switching costs are low for customers that are not loyal to specific brands, and for products that are not differentiated there are plenty of substitutes. There is a small chance of forward integration although not seen often.

Buyers

eCommerce shoppers in general tend to be more tech savvy, educated and affluent (Larson, 2013). Flash sale sites offer high-end luxury brands to “Urban sophisticates”, ages 20-40, 60-70% female and short on time. Typical buyer profile is; price sensitive, busy, and looking for deals on high-end goods or spontaneous travel (Martinez, 2009).

Power of Buyers:: MODERATE

Buyers are extremely price sensitive but not necessarily strapped for cash. Their switching costs are low unless they are brand loyal. Buyers are fragmented, they do not purchase in volume. Sites attempt to differentiate with respect to brands, however, the large availability of deals and price competition give buyers more power.

Additional Factors

The industry growth rate is slowing, giving buyers and suppliers more power. Technology is giving certain incumbents a competitive advantage. Gilt.com launched a personalization feature, offering unique deals to individual members. “Personalized sales also add another layer of excitement and discovery to complement the daily sales that are available every day” (Gilt, 2013).

Complementary products such as blog and review sites may be the next wave of competition. DailyCandy, a shopping, trend and travel recommendation newsletter launched Swirl, an apparel and accessories flash sale site (Smith, 2009). DailyCandy had avoided jumping into eCommerce, but felt this platform was a good fit. "Everything we do, we research very carefully, and want to be in the right place at the right time," said founder Dany Levy (Smith, 2009).

Expected Changes in Industry Structure

Shifting Threat of New Entry

As brands get better at forecasting demand, available lot sizes are shrinking. Brand relationships and network effects will become more valuable adding to the incumbency advantage.

Changing Supplier or Buyer Power

As available lots sizes shrink, supplier power will increase. Sites are targeting new buyer segments, buyers of mid-range goods in new retail markets. As sites adapt to more market-wide strategies, buyer power will increase.

Shifting Threat of Substitution

Groupon is expected to take over Vente Privee in sales this year. Even though the group buy model is most popular with brands selling services, many private sale sites have incorporated group buy listings. This changes the business model, creating positive network effects for sites with large groups of buyers. This also makes social networking complementors more valuable.

Retail companies have been creating flash sale platforms. Nordstrom purchased Hautlook, GSI Commerce purchased Rue La La, Overstock created Eziba, Amazon created woot!, and Bluenile launched Zulily, just to name a few (MacMilan, 2009).

New Bases of Rivalry

Shrinking margins due to increased supplier power will make differentiated product offerings more important. Sites that can find a basis for competition other than price will enjoy more profits.

Strategies

Sites are attempting to raise switching costs through loyalty programs, offering points for higher discounts and early access to deals. They are also attempting to raise switching costs with "exclusive" contracts with brands. Sites have responded to complementors entering the market by incorporating blogs and reviews into their sites, trying to build a community. They are utilizing social media channels to target different buyer segments. In an attempt to keep and attract suppliers, sites are marketing their promotional tools to brands, attempting to leverage their real time data.

Winner-Take-All in Networked Markets

We analyzed the industry using Thomas Eisenmann's work on "Winner-Take-all in Networked Markets".

The flash sale site market is multi-sided between brands (vendors), flash sale sites, consumers, and occasionally retailers. There is multi-homing for both brands and consumers, doing business with many flash sale sites and the costs of multi-homing are low for both sides. There is no natural monopoly in this market, there are no strong scale economies, the fixed costs of reserving product, photographing, and databasing are too high (Helm, 2013). There is an equilibrium of network effects that keep the market from tipping. Brands benefit from positive but diminishing returns from access to more consumers, but negative effects from more brands. Consumers benefit from more products and access to more brands, but there are negative effects from too many buyers. Consumers may have brand preference (transaction specific) but for the most part their needs are relatively homogeneous. Their needs could be met by a single platform.

Major Players

Gilt

Background

Gilt Groupe Inc. is an e-commerce company based in New York. Gilt Groupe launched women's clothing and accessories in 2007. It was the first U.S. flash sales site for online shopping. They launched men's clothing in April 2008, Gilt Home and Gilt City in 2010 and Gilt Taste in 2011. They are now offering sales events for men, women, boys and girls. Products including clothing, shoes, handbags, accessories, jewelry, watches, health items, beauty supplies, furniture, home decor, kitchen and dining products, all up to 60% off retail prices.

Organization - Mission and Vision

"Lead the world to a life more beautiful", is Gilt's vision statement. They have expressed their mission as "Create the most exciting, curated shopping experience that helps our members express their style in life" (Gilt, 2014).

Inspired by Vente Privee which is Europe's largest online flash sales company. In 2007, Kevin Ryan, Gilt's main founder, recognized a market opportunity to start an online flash sales site in the United States, introducing consumers to a new, exciting e-commerce experience. Ryan built the founding team of five members. Mike Bryzek and Phong Nguyen are the technical masterminds of Gilt Groupe. They have built the business model of Gilt to create a fast and exciting online shopping experience. Alexis Maybank and Alexandra Wilkis Wilson with their online shopping passion built the relationships with luxury goods vendors such as Bulgari and Louis Vuitton. This team of individuals created a new way for consumers to shop high quality products with lower prices. Michelle Peluso is the current CEO of Gilt Group, prior to this role she served for over three years on the company's Board of Directors (Gilt, 2014)

Value Proposition

Gilt's business model is based on offering designer products at significant discounts. They purchase name brand inventory at extreme discount and sell these items at a margin. These designer product discount events are distributed directly to member email, with timing and supply constraints to compel immediate action. Gilt generates fifty percent of the product sales within the first hour of an event.

Each sales event lasts 36–48 hours and features merchandise from a single brand or small groups of brands. On any given day there are more than 60 different sales events running across all categories such as women, men, baby, children's, home, and food. Each day they introduce 22 new sales events on their website.

Customers can only attend sales events if they are a member. Products sell on a first come first serve basis, causing a rush to buy the items quickly. Items added to shopping cart are reserved for only 10 minutes, the site allows members to see the remaining time to buy the item in their cart. This creates urgency and members do not postpone purchasing like they do in regular e-commerce websites such as Amazon. Gilt built their website strategically to increase their business through sales events. There are item previews before the sales event starts, to build anticipation, and the website allows members to be put on wait list for specific items.

The Gilt site is considered user friendly and contemporary. August 22, 2011, Gilt Groupe added a Facebook shopping section. Android and iPhone apps allow mobile shopping. Access is also available via mobile web for other smartphone and tablet devices. 35 percent of revenue is obtained from mobile and tablet applications (Shontell, 2012).

Gilt is only using the flash sale model so far but they are open to explore different pricing strategies. They do not have full price listings in their main women's apparel business but they have tried selling items at full price for men's apparel, home business and Jetsetter. After a short while Gilt Groupe discontinued full price offerings in men's apparel because it was not profitable (Shontell, 2012).

Customer Profile and Membership

Gilt defines their customers as urban sophisticates, a typical Gilt customer is educated with at least a bachelors degree. The Gilt customer when compared to the general online population is significantly over-indexed in higher household income buckets. The majority of customers are between mid 20s and mid 30s, and around 70% of their members are female (BoF, 2011). Typically, they do not have a lot of spare time to go shopping so are comfortable buying online either by using the website or mobile application.

Gilt Groupe had 5 million members in 2013 and the current number is almost 8 million. Word-of-mouth marketing was the main contributor to their rapid member growth, offering a $25 credit to members to invite their friends (Merriam, 2013). The credit is given to members after the invited member makes first purchase. Gilt leveraged online network effects to build their quality customer base. 75 percent of their members have registered based on the suggestion of a friend, using the site's 'Invite Friends' feature (BoF, 2011).

Gilt provides loyalty program to its members. Gilt Insider is similar to an airline loyalty program, members can receive and redeem points. Insider members collect Insider points for different activities including purchases, site visits and connecting to their Facebook Timeline. Members can spend these points on exclusive discounts, free shipping, or early access to sales events.

In 2010 Gilt launched an elite membership option, Gilt Noir, to their top 0.1 percent members, those who spent at least $10,000 in the previous year. Gilt Noir members are allowed to view all sales 15 minutes before they go live online. In addition, the top 2000 Noir members, which includes big names like Gwyneth Paltrow and Google vice-president Marissa Mayer, also have access to special events like wine tastings and cooking classes. Wait list priority is given to Noir members, they get slotted on top of the wait list for an item even if the product sold out days before (Karimzadeh, 2010).

Financials

Gilt went from 0-500 million U.S. dollars in sales revenue in the first 3 years (BoF, 2011). In 2012 their yearly revenue reached $550 million. They have raised $236 million in funding since launch. They had maintained 33.3% share of U.S. flash sales in terms of 2011 revenue. Gilt had announced that they would become public at the end of 2013, they have postponed this date to the third quarter of 2014 (PrivCo, 2012). Gilt Groupe is currently still a private company and they have not updated the planned date for going public.

The majority of revenue generated by Gilt Groupe comes from their original men's and women's product platform, more than $300 million. Both JetSetter and Gilt Home revenue is close to $100 million. Gilt City revenue is between $50-100 million and Gilt Taste brings in $20 million revenue (BoF, 2011).

Vente Privee

Background

Vente Privee is the first invite-only e-commerce company, focusing on special deals for their members. Vente-privee.com organizes exclusive designer brand sales in all product categories such as fashion, fashion accessories, home ware, sports products, electronics and wine. It was the first flash sale website in the world becoming very successful since their launch.

Organization - Mission and Vision

Vente Privee was founded in 2001 by the current CEO, Jacques-Antoine Granjon, and his seven business partners in Paris, France. In 2007 Summit Partners acquired 20% take in vente-privee.com. The funding helped the company expand in Europe. After France they expanded to Spain and Germany, then to Italy and the U.K. Most recently they have expanded into Belgium, Austria and the Netherlands. In 2011, Vente Privee launched a U.S. website, a joint venture with American Express. In 2013 Qatar Holding became a new significant minority shareholder of Vente Privee (Vente Privee, 2013)(Roberts, 2014).

Vente Prive's mission statement is, "As innovator and industry leader of exclusive online flash sales… Vente-privee.com aims to continue building strong relationships with like-minded brands who want a perfectly tailored solution to protect their product and present it to a captivated customer base" (Patten, 2010).

Vente Privee is the 3rd most popular online retailer. The French website of Vente Privee gets 840,000 daily visits, ranking it just behind Amazon with 1.51 million visits, and eBay with 1.03 million (Roberts, 2014). Vente Privee sold more than 70 million products in 2013 and listed 10,100 sales events. They have direct partnerships with more than 850 designer brands across Europe.

Value Proposition

Vente Privee is the first company in the world to develop and launch the flash sales site business model. Vente Privee recognizes that the private sales business is not a consumer business, rather, it is an enterprise business. The model succeeds because it brings great service to brands through advertising. Their business model consists of 4 main processes:

1. Reserving products

First, the company negotiates with the vendor to reserve a stock of product. Once the stock is reserved (not yet purchased), the product is listed online to their members.

2. Sales event

Sales events are announced 2-3 days prior to being able to purchase the item, the announcement does not show any product or price information before the sales event starts. Sales events generally lasts for 3 or 4 days and the announcement is made on the web site.

3. Stimulate Members

Vente Privee plays with the “rarity phenomenon” strategy. It encourages members to believe that stock is limited and rare. Announcements about small lot sizes makes members want to to buy the products as soon as possible. They also sell runway wear (a very small number of lots) at sample sales, which is not done by other flash sales companies

4. Buying Products

Vente Privee members buy the product on the website before Vente Privee has even purchased the stock (they only reserved the stock). Vente Privee buys the reserved products from the vendor after they sell them to their customers (Fauconnier, 2009).

This business model is used by many flash sale site companies, but it was first developed by Vente Privee. The model is highly profitable due to the auto financing of purchases. Because the customer pays before company purchases the stock from vendor.

Vente Privee is available on both PC and mobile application platforms. It has applications for iPad, iPhone, Android, Windows, and general web. Applications are available in 7 languages.

Customer Profile and Membership

Vente Privee has 20 million members, 66% are women. 68% of members are between 25 and 49 years old. On average, member retention time on Vente Privee is 38 minutes. In Europe Vente Privee gets 10,000 new members everyday (Vente Privee, 2011).

Originally focused on growing members based on word-of-mouth, Vente Privee did not advertise. Their membership was invitation only when they launched the site. To become a member required an invitation from an existing member, or you could request to be put on a waitlist. Vente Privee prefers not to advertise using social media, they believe that social media is not a place that people want to engage with brands and promotions.

Financials

Vente Privee has grown very fast, becoming profitable in 2004. Vente Privee has a net sales margin of 5-7 percent. Their revenue in 2013 was $1.6 billion in Europe which calculates to $80 million profit. They have increased their sales 23% in 2013 and 37% of their revenue is obtained from mobile applications (Vente Privee, 2011)..

Zulily

Background

Zulily based in Seattle, Washington, is an online daily deal site mainly targeting moms. Events are typically 50% off apparel, toys, footwear and baby gear.

Mark Vadon and Darrell Cavens started Zulily in 2009. They had experience with growing a successful online diamond retailer Blue Nile. As new dads shopping for their children at big box retailers and boutiques, they realized there was a gap in the market – an opportunity to provide parents with boutique brands at value, and they launched Zulily to bridge the gap (Larson, 2013).

Organization - Mission and Vision

Zulily launched their website in 2010, the website targets mostly suburban moms. Their product categories are women's apparel, baby and kids clothes, accessories, toys and homeware. They have featured more than 13,000 brands and currently have 100 events and more than 6,000 product styles daily. Zulily defines their company as fresh, new, and affordable. Members can reach Zulily anytime and anywhere because their platform is optimized for iPhone, iPad and Android based device (Zulily, 2014).

Co-founder Darrell Cavens is also CEO of the company and the other co-founder Mark Davon is the chairman. The main management team members are Marc Stolzman as chief financial officer, Bob Spieth as chief operating officer, Lori Twomey as chief merchant and Luke Friang as chief information officer.

Zulily rose above others because it is offering inexpensive fashion for both moms and children. Zulily has a high rate of return customers.. Zulily has a diverse set of marketing channels such as e-mails, social media, search engines, TV and print. They are trying to leverage data and analytics to provide a personalized homepage and e-mails to for their members (Zulily, 2014).

Customer Profile and Membership

Unlike other flash sale websites, Zulily does not care about appealing to tech-savvy youngsters. The company targets busy moms on the go who are too busy to spend a lot of time searching for deals. Zulily has over 10 million members and 3.7 million of them are active users. 90 percent of their customers are women and 65 percent of them are between 26 and 45 years old. The average member household income is approximately $75,000. Members are also comfortable with shopping on mobile applications, 40% of all orders, and 47% of North American orders are placed on mobile in Q1 2014 (The Colombus Region 2013) (Zulily, 2014).

Financials

Zulily has sustained powerful growth due to active customers, increasing orders and net sales. Zulily valuation became $1 billion in 3 years, currently the value of the company is $4 billion. In November 2013, they were the first flash sale company to go public. Before their IPO, Zulily raised $138.6 million of capital from venture firms including Andreessen Horowitz, August Capital, and Maveron, who now individually own between 7.3 percent and 23.6 percent of the company (Zulily, 2014). Previously Zulily had sales revenue of $18 million in 2010, $142 million in 2011, $330 million in 2012 and $700 million in 2013. The company expects $1 billion in sales for 2014 (Zulily, 2014).

What makes Zulily different?

Zulily was the most successful flash sales company in 2013, differentiating themselves from Gilt and Vente Privee. The key differences:

1. Zulily made smart choices regarding customer segmentation and market focus. They are different than other flash sale companies because they are offering products for mothers and children.

2. Zulily values high quality partnerships with their vendors. They carefully select the brands for their website and they make great deals with consumer-familiar and newly rising brands.

3. Zulily product listings are trendy and unique. Enticing fashion conscious moms and even dads to purchase new and upcoming brands.

4. Zulily has a strong team since it was established. The founders are experienced with ecommerce, and CEO Darrell Cavens is very successful at fundraising.

Conclusion

Flash sales sites were successful in reducing cart abandonment and low conversion rates, and introducing the impulse buy, thus adding value to the eCommerce platform. The flash sales industry is a lucrative market but the growth potential is slowing.

The business model is changing, it is not as easy to access unsold inventory of fashion trends There are a lot of companies trying to reserve this inventory at a higher cost than before (Edelson,2013).

Another change is that technology is improving, as information system become more powerful, high fashion brands are able to make more accurate forecasts that decreases the amount of unsold inventory.

Also customers are losing their enthusiasm in flash sales websites. In 2009 flash sale sites were very popular, but customers are becoming aware of the gimmick, and they are trying not to buy things that they actually don't need.

Personalization is getting more important for flash sale sites to attract their members and make sales. Currently, Gilt Groupe puts high emphasis on personalization, they send 2000 variations of e-mails to their members based on their customer profile.

Flash sales websites hire data scientists to understand member profiles, analyzing their previous shoppings, purchasing behavior, viewed items, and their customer information. Websites use different algorithms to personalize emails, which increases their sales 9-10 percent (Gilt, 2013). Members also see a different home-page based on their personalization.

This market could tip to one major player if they could serve numerous buyer segments in all of the major retail categories. More than likely we will see numerous sites continue to enter and leave the market.   Sites will continue to use the flash sales site model as an effective eCommerce strategy, but sites will implement new and existing platform strategies to try and capture more of the retail market.

Appendix

Exhibit 1 - Initial Porter Model

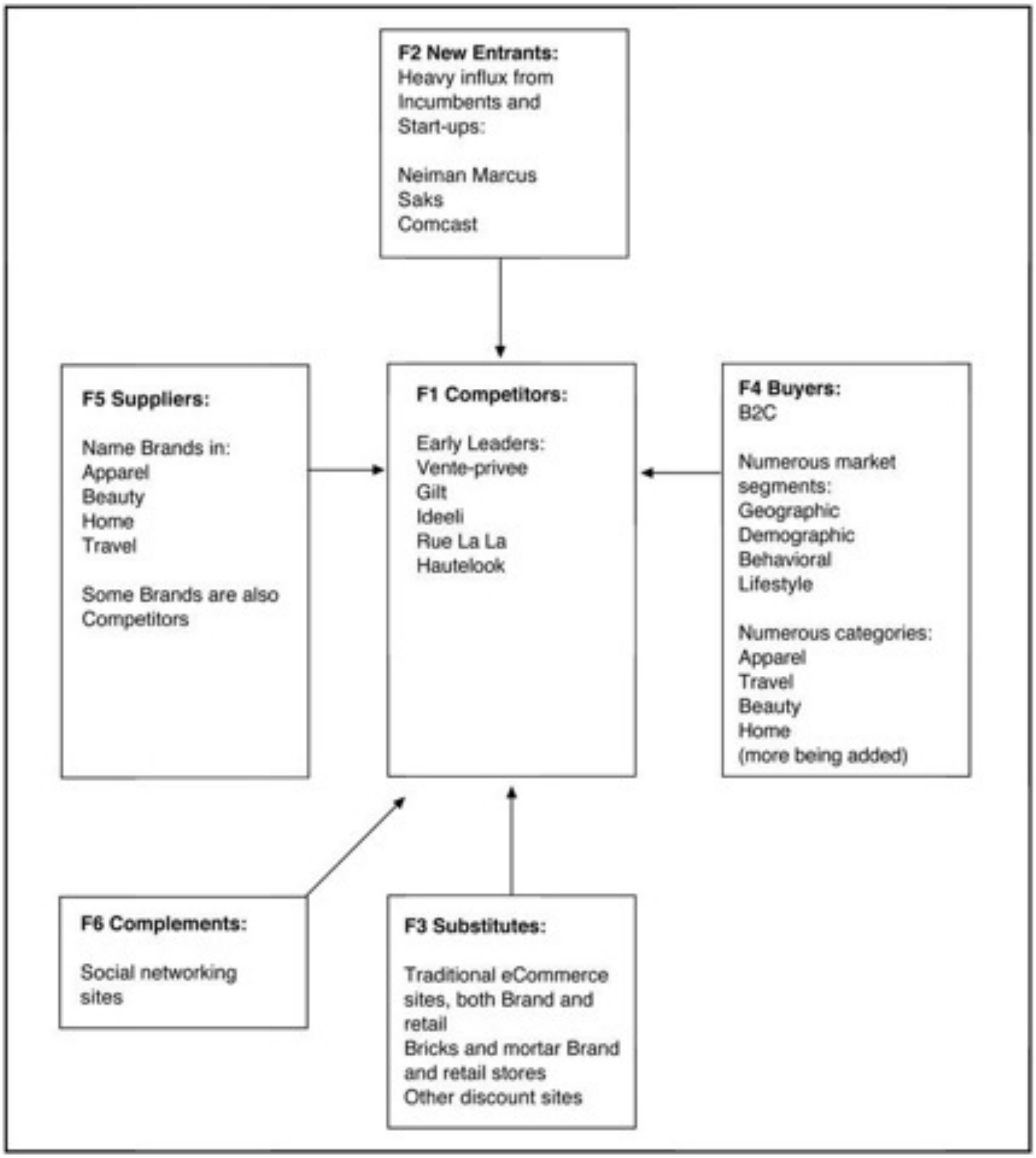

Exhibit 2 - Most Popular Websites in Flash Sales, July 2011

Most Popular Websites in Flash Sales ranked by Visits Share
Month of July 2011

	Websites (87 returned)	Total Visits	Visits Share ▼
1	Zulily.com	6,633,338	16.32%
2	Ideeli	3,790,862	9.32%
▲ 3	LivingSocial - Escapes	3,495,286	8.60%
▼ 4	woot!	3,450,977	8.49%
5	HAUTELOOK	3,300,442	8.12%
6	One Kings Lane	2,513,377	6.18%
7	Gilt.com	2,369,595	5.83%
▲ 8	eBay Fashion Vault	2,367,865	5.82%
▲ 9	Beyond The Rack	1,983,987	4.88%
▼ 10	Rue La La	1,872,113	4.61%
▲ 11	My Habit	1,624,832	4.00%
▼ 12	Totsy.com	1,136,650	2.80%
▲ 13	Lot18.com	1,109,605	2.73%
▼ 14	SniqueAway	503,428	1.24%
▲ 15	JackThreads	478,886	1.18%

(Dougherty, 2011)

Exhibit 3 - Most Popular Websites in Flash Sales, July 2011

In million dollars

	Expected 2013	Foundation
Groupon	2,400	2008
Vente Privee	2,040	2001
Zalando	2,000	2008
Asos	1,200	2000
Etsy	1,200	2005
Gilt	800	2007
Privalia	650	2006
Zulily	550	2010
Showroom Privé	350	2006
JustFab	300	2010
One Kings Lane	300	2009
Fab.com	250	2011
Birchbox	66	2010
Trunk Club	40	2009

BrainSINS

Data compiled by BrainSINS from several online sources.
Last updated Dec. 2013:

- http://goo.gl/N4Y95l
- http://goo.gl/SLpgMQ
- http://goo.gl/aFDKeD
- http://goo.gl/x9jXEm
- http://goo.gl/r5cdp4
- http://goo.gl/ArzMFO
- http://goo.gl/SJX9if
- http://goo.gl/BntiqV
- http://goo.gl/H6XsW
- http://goo.gl/SwOqVw
- http://goo.gl/pB2gl
- http://goo.gl/jBlwf

New eCommerce players and their expected 2013 turnover. The second column shows the data of creation of each of this companies.

(josek, 2012)

Exhibit 4 - Consolidated Statement of Operations - Zulily

	Year Ended			
	December 29, 2013	December 30, 2012	January 1, 2012	December 31, 2010
	(in thousands, except share and per share data)			
Consolidated Statements of Operations Data				
Net sales	$ 695,709	$ 331,240	$ 142,545	$ 18,376
Cost of sales(1)	502,318	240,943	104,949	12,574
Gross profit	193,391	90,297	37,596	5,802
Operating expenses:				
Marketing expenses(1)	59,667	37,780	20,228	4,897
Selling, general and administrative expenses(1)	120,695	63,071	28,905	7,112
Total operating expenses	180,362	100,851	49,133	12,009
Income (loss) from operations	13,029	(10,554)	(11,537)	(6,207)
Interest income (expense)—net	136	43	20	(169)
Other income (expense)—net	99	176	203	(627)
Net income (loss) before provision for income taxes	13,264	(10,335)	(11,314)	(7,003)
Provision for income taxes	(356)	$ —	—	—
Net income (loss)	$ 12,908	$ (10,335)	$ (11,314)	$ (7,003)
Net income (loss) attributable to Class A and Class B common stockholders	$ —	$ (46,822)	$ (13,233)	$ (7,448)
Net income (loss) per Class A and Class B common share(2):				
Basic	$ —	$ (1.23)	$ (0.55)	$ (0.46)
Diluted	$ —	$ (1.23)	$ (0.55)	$ (0.46)
Shares used in computing net income (loss) per Class A and Class B common share:				
Basic	59,450,186	37,976,724	24,102,780	16,347,656
Diluted	59,450,186	37,976,724	24,102,780	16,347,656

(Zuliliy, 2014)

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