

BUSINESS PLAN FOR SHOPSTER

by

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Abstract

Shopster is the code name for an online retail catalogue company selling advertising space to local fashion merchants. The following business plan provides a detailed look at Shopster's business endeavour. The concept for Shopster was first formulated in late 2009 and has since developed into the business concept presented within this plan. By 2015, Shopster is projecting sales of \$15.5 million with one million customers and ten thousand merchants subscribed to the site. It will achieve these numbers by first targeting a niche market of trendsetting, fashion enthusiasts within the Vancouver, British Columbia fashion retail market and then moving along the West Coast towards Seattle, San Francisco, and Los Angeles to achieve strong following of a like-minded consumer base. Shopster's value proposition is providing customized service to consumers and merchants through targeted ads that align with consumer interests and a performance-based pricing model to allow merchants to achieve their advertising objectives.

Keywords: Shopping catalogue; online retail industry; performance-based pricing; CPM; CPC; business plan.

Executive Summary

Shopster is the code name for a Vancouver-based online retail catalogue business providing consumers with a unique, customized shopping experience and merchants with a targeted consumer base. Shopster's website provides consumers with instant access to a large selection of fashion retail stores, products, sales, and special offers that coincides with the consumer's particular interests. Shopster also provides merchants with an advertising platform targeted to their market needs while including business analysis tools to allow merchants to track their advertising progress and better gauge their market.

The concept for Shopster was first formulated in late 2009 and has since developed into the viable concept presented within this business plan. Shopster's overall objective is to be the premier website for consumers to fulfil their retail shopping needs. In order to achieve this objective, Shopster has created a website marketed towards trendsetting fashion enthusiasts looking for the latest trends. Shopster will initially target a niche Vancouver market consisting of trendsetting fashionistas and bloggers, and will expand along the West Coast towards Seattle, San Francisco and Los Angeles. In order to attract Shopster's desired audience, it will target high quality, service oriented fashion retail stores and boutiques that offer stylish, trendy products and services.

Market research indicates that the online shopping catalogue model is a lucrative business opportunity as evidenced by rapid growth in the online advertising industry. As Shopster's primary revenue source comes from online advertising, growth experienced over the past several years provides evidence of Shopster's profit potential. In 2010, American online advertising companies generated \$26.0 billion in revenue, with advertising revenue reaching \$1.8 billion in Canada. The retail industry is leading the way in online advertising dollars spent. In 2010, the American retail industry spent \$5.5 billion for online advertising.

Another key trend for the online advertising industry is the popularity of performance-based pricing models where advertisers only pay for advertisements that lead to potential sales. The pay-per-click pricing scheme provides one such example and has experienced year-over-year growth since 2004. Shopster will provide merchants with both a performance-based and impression-based pricing model to allow local merchants to choose the pricing scheme that best fits their advertising objectives.

The primary industry threats that Shopster may encounter include competition from existing firms and new entrants. As start-up costs are low, there are no significant economic barriers to entry. As Shopster has first mover advantage within the Vancouver market, it will use this lead-time to create barriers to entry. Shopster's strategy is to create double-sided network effects among customers and merchants by providing customers with recommended stores/products, and merchants with data analytics. Overall, competitive rivalry in the current landscape is medium to high. Once Shopster gains momentum, new competitors will invariably enter the market. It is at this point, where the entry barriers established by Shopster will play an important role to deter new entrants and substitute products from prevailing.

Two major direct competitors currently share the online shopping catalogue space: Flyerland.com and CentrSource.ca, both Canadian-owned businesses. Their market focus is in Eastern Canada, and as of yet they have not made significant traction within the Western Canadian market. To date, both sites have failed to meet sufficient customer traction with customer usage declining over the past few months. The reason for their decline is a lack of focus within the internet spectrum. Without a solid focus in the online community and seemingly disorganized websites, Flyerland.com and CentrSource.ca do not pose a significant threat at this moment. Indirect competition will come primarily from daily deal sites. Shopster will deter this competition through a differentiated strategy. Daily deal sites provide steep discounts to consumers. Such sites attract deal-prone consumers. Shopster will focus on fashion-conscious shoppers, who are more interested in quality than price. At the same time, high-end brands that cater to a more affluent market do not risk devaluing their brand by advertising with Shopster.

Shopster has identified the following as key marketing and sales objectives:

- Create product awareness among target audience by attracting 20 thousand customers by December 2012.

- Create product awareness among target merchants by attracting 1 thousand merchants by December 2012.
- Achieve customer loyalty through 95 percent customer retention by year-end.
- Achieve merchant retention of 95 percent by year-end.

In order to achieve such objectives, Shopster will implement a sales and marketing strategy centred on the consumer and merchant. Key elements of the strategy include enhancing the website to include tools and features that benefit consumers and merchants, promoting the website to attract and retain both groups, and pricing ads to enhance value for the merchant while remaining within their advertising budget.

To support the organization's growth objectives, Shopster has identified the below milestones as key indicators of Shopster's progress. In order to meet the milestones, investment in human capital will be necessary. Shopster projects that by 2015, 50 staff members will fulfil such needs.

Milestone	Date
Shopster 1.0 website complete	September 2011
First thousand customers and 250 merchants acquired	December 2011
Online merchant analytics available	March 2012
Shopster 2.0 website goes live with enhanced features	December 2012
Expansion into all of BC and Seattle	December 2012
20,000 customers and 1,000 merchants acquired	December 2012
Expansion into San Francisco	January 2013
Geo-targeting technology available for all cities	March 2013
100,000 customers and 2,500 merchants acquired	December 2013
Expansion into Los Angeles	January 2014
250,000 customers and 5,000 merchants acquired	December 2014
1,000,000 customers and 10,000 merchants acquired	December 2015

Shopster projects that by 2015, it will achieve net income of \$4.9 million, breaking even within 2014. Initial start-up costs are minimal, \$5,000-7,000 and are funded by the owner. Investments of \$0.3million and \$1.2million will be required in 2012

and 2013, respectively. A portion of these capital requirements will be funded through debt, while the remaining will come from venture capitalist funding. Shopster's owner intends on exiting the endeavour within eight years either through an initial public offering or through private sale.

The major risks that Shopster may encounter include market risk of slow adoption to the website and financial risk of not achieving the funding requirements to grow the company. Shopster will implement a risk-mitigation strategy to minimize the risk by first targeting a niche population to assess proof of concept and then furthering growth once sufficient user traction has been achieved. Shopster's owner will also seek funding from friends and family and the government to ensure financial requirements are met.

Dedication

This work is dedicated to my family who has continuously encouraged and supported me.

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Glossary

Search Ad Format	Fee paid for listing or linking a company's domain name to a specified search word or phrase
Display/Banner Ad Format	Fee paid to obtain space for displaying a static or hyper-linked banner or logo
Classified Ad Format	Fee paid for listing specific products or services such as job listings, real estate listings, yellow pages
Lead Generation Ad Format	Fee paid for referring consumers interested in a product or service to the company. The fee is based on a performance measure such as cost per inquiry, cost per lead, etc.
Digital Video Ad Format	Commercial advertisement that resemble television ads and appear on websites as an in-page video
Rich Media Ad Format	Advertisements with sound, animation, or any other type of interactivity
Sponsorship Ad Format	Fee paid for obtaining customized content that typically includes the company's logo or other type of brand messaging.
Email Ad Format	Links, banner ads, or other type of brand messaging that appears in email newsletters, marketing campaigns and other email communications
Performance-Based Pricing Model	Advertiser pays the publisher for measurable results such as cost per lead or cost per order
CPM (cost per mille) or Impression Based Pricing Model	Advertiser pays the publisher for the number impressions or number of times customers view an ad

1: Company Overview

1.1 Company Summary

Shopster is the code name used to describe an internet start-up organization based in Vancouver, British Columbia, and has no affiliation with any organization holding the same or similar name. Shopster is a technology company that will provide shopping management tools for the online consumer. Shopster is owned and operated by a local Vancouver entrepreneur and has an expected incorporation date of September 2011.

Vancouver, British Columbia is the headquarters for Shopster. The technology sector in British Columbia is growing. The high tech sector has contributed more to the overall growth of GDP in BC than any other sector. In 2007, it accounted for 5.9% of GDP (BC Technology Industry Association, 2009). Given the growth of the technology sector within British Columbia, and more specifically Vancouver, there is a growing talent pool of web developers and software engineers that Shopster will draw from to contribute to the success of the company. In addition to the availability of human capital, Vancouver is the third largest metropolitan area in Canada with a population size of over 2.1 million (Statistics Canada, 2007). With its large, densely populated community, Metro Vancouver serves as an ideal location to build a database of merchants and consumers.

Shopster's primary product is a website that will serve the needs of both merchants and consumers. It is an online fashion retail catalogue that brings together both groups in a convenient, organized format. The business concept was first formulated in late 2009. In its early stages, the idea focused around location-based applications. However, after researching the user-acceptance of location-based tracking applications it became apparent that mass adoption of this technology would require significant efforts to appease consumers' privacy concerns. Since the initial concept was generated, it has transformed into the business opportunity presented today.

1.2 Product Overview

The final product is an online fashion retail catalogue catered to a customer group of trendy, fashion-forward individuals seeking out the latest trends. The target customer group are described as individuals who value high-end brands and products and are less price-sensitive than the average consumer. The website will provide such consumers with access to ads from local fashion retailers featuring the latest clothing, shoes and accessories. Content within the advertisements will include sales, promotions of new products and services, or other features the merchant wishes to promote. During initial sign-up to the website, customers will select their interests and preferences. Ads displayed on the customer's homepage will feature products, brands, and stores that coincide with their selected preferences. The website can thus be considered a personalized fashion catalogue of the customer's favourite products and services. Unlike the group buying business model that has gained popularity since the emergence of Groupon, Shopster does not require its merchants to sell deeply discounted items. Instead, Shopster's value proposition is to merchants who cannot afford selling their products or services at significant discounts or merchants whose brand value will diminish by providing such discounts. Shopster will provide an affordable, brand-conscious alternative, effectively expanding the scope of potential merchants available to market towards.

Shopster's website will provide consumers with targeted advertisements based on their selected preferences while merchants can direct advertisements to consumers within their target market. Figure 1-1 below provides a prototype of Shopster's website. Merchants can access data on the effectiveness of their advertisements and the demographics of customers attracted to their advertisements. They will also be able to select the regions where their ads will be displayed allowing local merchants to access their market.

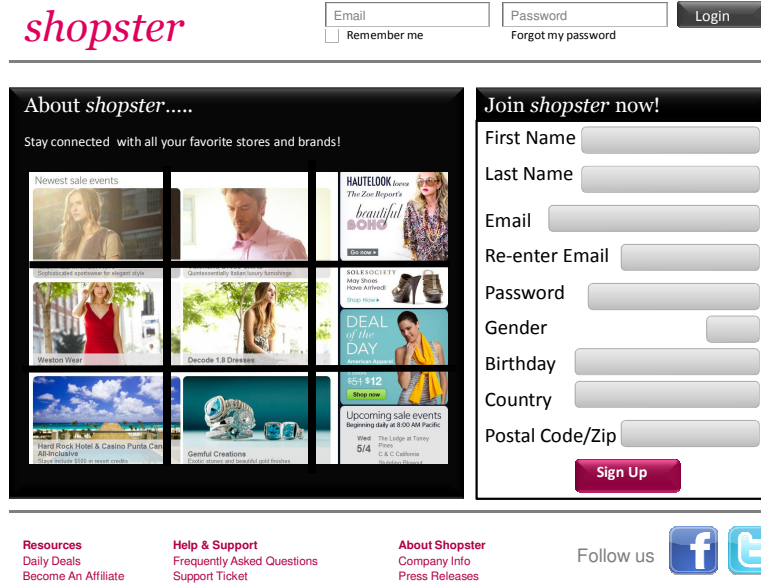


Figure 1-1 Prototype of Shopster’s website

1.3 Objectives

The long-term objective of Shopster is to be the premier website for consumers to fulfil all of their fashion shopping needs. It can further be broken down to the following objectives:

- To expose consumers to new and relevant products that they would normally be unaware of
- To reduce email clutter that consumers receive from multiple e-newsletters, e-flyers, and other notices being sent to their accounts on a regular basis
- To reduce the search time it takes for consumers to find retail stores that interest them or sell the product they are looking for
- To save merchants time and money by providing them with access to local consumers interested in their products
- To provide merchants with analytical tools allowing them to quantify the effectiveness of their ad campaigns and better understand their customers
- To provide merchants with an avenue to showcase their products without requiring large discounts

In order to achieve these objectives, Shopster will employ a strategy to build the consumer and merchant base and create two-sided network effects to foster further

growth. Shopster will differentiate its product from other competitors by marketing to mid- to high-income, fashion forward consumers who are interested in the latest styles and trends. This target group can be described as trend-seeking individuals who are less price-sensitive than the average consumer is. They will pay more for quality products but will also seek out good deals. Shopster will initially target the Vancouver market, as this market has not been exposed to the online retail catalogue concept. In order to create a loyal customer base, Shopster will target a niche market of trendsetting fashionistas and will seek out fashion bloggers to achieve these objectives. Shopster will promote its website to local boutique retail stores in the Vancouver area and will initially provide free service to entice merchants to advertise on the site. As the customer and merchant base builds, Shopster intends to expand to reach a larger audience. Shopster will move along the West Coast towards Seattle, San Francisco and Los Angeles. These cities have been selected for their dense population, access to trendy retail stores and a consumer base interested in fashion.

This business plan will help Shopster's owner recognize the potential of the business endeavour and identify the overall potential and long-term viability of the business. Currently in its start-up phase, the owner will use this business plan to analyze appropriate strategies to pursue in order to reach the company's objectives and to identify the resources required to reach the level of growth expected. For confidentiality reasons, certain internal information within this business plan has been withheld from public viewing.

Section 2 of the business plan will provide an overview of the online advertising industry, including an analysis using Porter's five forces, an examination of Shopster's major competitors and an outline of Shopster's key success factors. Section 3 of the business plan provides a market analysis covering the areas of key industry trends, demographic segmentation, overview of the target market, and a breakdown of the major challenges affecting the industry. Section 4 identifies Shopster's marketing and sales strategy while section 5 outlines the company's operations and implementation plan. The financial statements are presented in section 6, including a breakdown of start-up costs along with Shopster's funding requirements. Sections 7 and 8 present Shopster's growth strategy and assessment of risks, respectively. Finally, section 9 identifies an exit strategy for Shopster's owners and investors.

2: Industry Analysis

The following section provides an overview of the online advertising industry, identifying key trends and data, analysing the competitive forces that Shopster will invariably face, as well as identifying and examining Shopster`s major competitors and key success factors.

2.1 Online Advertising Industry

The online advertising industry has experienced significant growth over the past several years. In 2010, American online advertising revenue increased by 15%, generating \$26.0 billion in revenue (PricewaterhouseCoopers, 2011). The online advertising industry can best be described as an oligopoly with the majority of US internet advertising revenue being shared amongst the top 50 ad-selling agencies and accounting for 91% of total revenues (PricewaterhouseCoopers, 2011). Canada has experienced similar growth. In 2009, Canadian online advertising revenue grew by 14% with total revenue reaching \$1.8 billion (Ernst & Young, 2010). The top 20 ad-selling agencies in Canada share 87% of total advertising revenue.

Internet advertising can be displayed in several different formats. They include search, display/banner, classifieds, lead generation, digital video, rich media, sponsorship, and email. Appendix A provides a glossary of the major ad formats. The most popular advertising format is search, followed by display/banner, and classifieds. In the US, search advertising accounts for 46% of total revenue generated, equivalent to \$2.3 billion, while in Canada it accounts for 41% and \$741 million in online advertising revenue (PricewaterhouseCoopers, 2011; Ernst & Young, 2010). Figures 2-1 and 2-2 provide a breakdown of advertising formats for US and Canada, respectively. These results highlight the differences between the Canadian and American market. Shopster will use this data to distinguish between, and provide more relevant advertising options to both markets.

US Online Advertising Formats in 2010

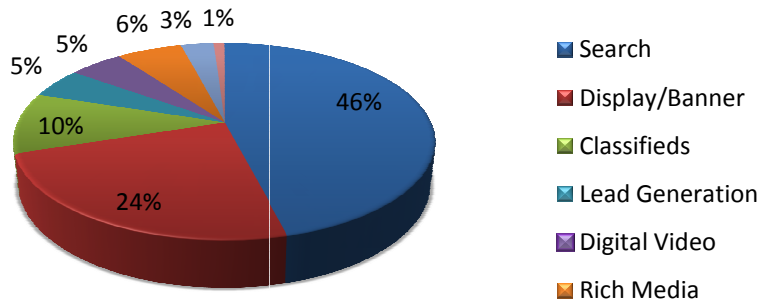


Figure 2-1 US Online Advertising Formats in 2010
 [Adapted from PricewaterhouseCoopers, 2011]

Canada Online Advertising Formats in 2009

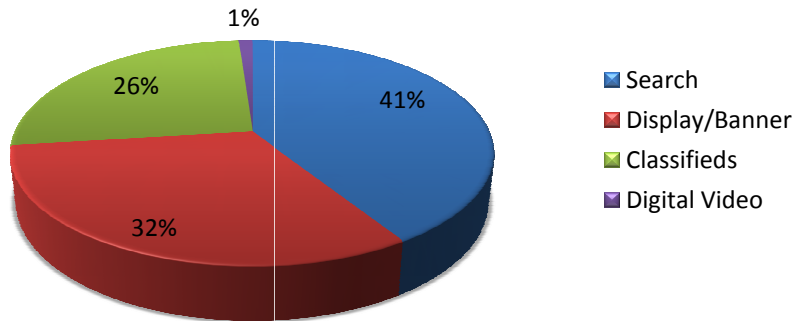


Figure 2-2 Canadian Online Advertising Formats in 2009
 [Adapted from Ernst & Young, 2009]

The retail industry spends the largest portion in online advertising. In 2010, American retailers spent \$5.5 billion in online advertising, compared with \$4.5 billion one year prior. The next major contributors to online advertising sales include the telecom industry at \$3.5 billion, followed by the financial services industry spending \$3.2 billion in 2010 (PricewaterhouseCoopers, 2011). Figure 2-3 below provides a breakdown of online ad revenues by industry.

US Online Ad Revenues by Industry 2010 vs 2009

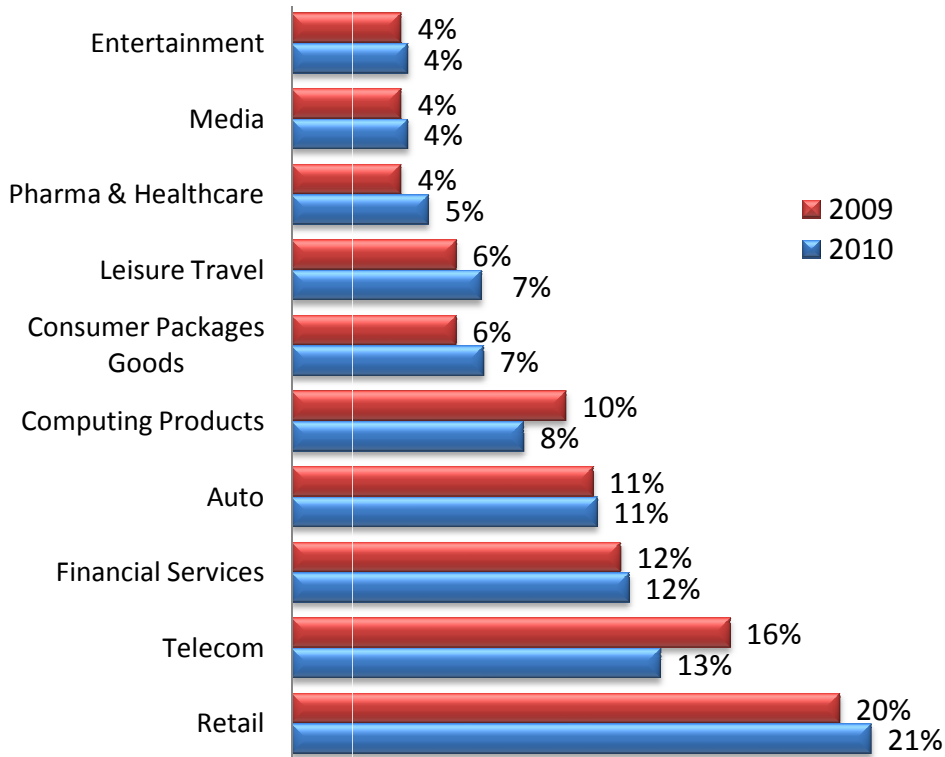


Figure 2-3 US Online Ad Revenues by Industry comparing 2010 with 2009
 [Adapted from PricewaterhouseCoopers, 2011]

The online advertising industry has three primary pricing models. They are: performance-based pricing, where advertisers pay the publisher for measurable results such as cost per click, cost per lead or cost per order; CPM (cost per mille) pricing, where the advertiser pays the publisher in increments of 1,000 impressions or the number of times customers view an ad; and finally a hybrid-pricing model that combines performance-based pricing with CPM pricing (Dainow, 2008). Figure 2-4 below shows the growth trend of online advertising by pricing model. The performance-based pricing model has shown year-over-year growth with 62% of online ad revenues coming from a performance-based model in 2010. CPM pricing has declined over the years, contributing 33% of total online ad revenues. Finally, the hybrid-pricing model has remained relatively stable since 2006, increasing slightly at 5% in 2010 (PricewaterhouseCoopers, 2011).

Online Ad Revenue Growth by Pricing Model

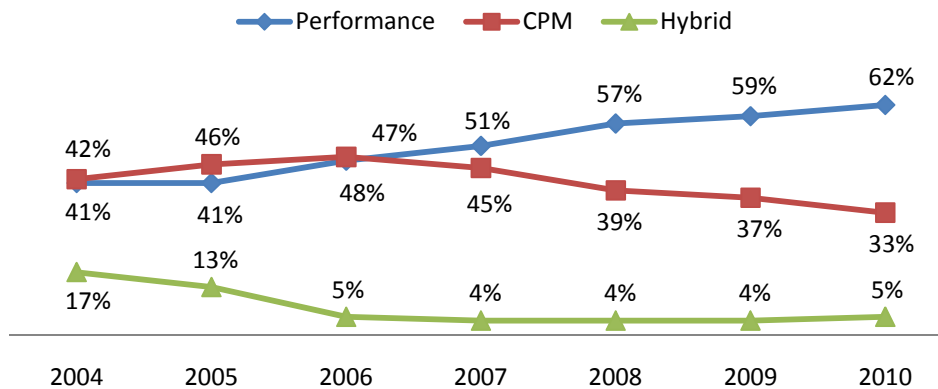


Figure 2-4 Growth of US Online Ad Revenues by Pricing Model
[Adapted from PricewaterhouseCoopers, 2011]

The attraction of performance-based advertising models is due to its direct measurability. Advertisers now have the ability to calculate a return on investment, which is often difficult to do under the CPM model. Another reason is that CPM advertising is becoming ineffective as web users pay less attention to banner ads (Evans, 2007). It is expected that the performance-based pricing model will continue to grow over the years.

2.2 Competitive Analysis

The following analysis aims to gauge the level of competition that faces Shopster within the online retail advertising industry. Porter's five forces analysis (Porter, 2008) will be used to analyse the industry and to develop a business strategy. Figure 2-5 provides an overview of results from the analysis.



Figure 2-5 Porter's Five Forces Analysis for the Online Retail Advertising Industry

2.2.1 Supplier Power

Within the value chain, suppliers provide the initial inputs of raw materials, labour and services to the business. If the supplier fails to deliver inputs on time and within product and quality specifications, it can negatively affect other components along the value chain. The major supplier inputs for Shopster include web hosting services, web development and web design services.

Web hosting sites

The bargaining power of web hosting sites is low considering the large number of competitors within the industry. Web hosting services are available globally therefore there is no restriction to seek a hosting site outside of Vancouver or Canada should there be issue with the current host provider. As web-hosting services are not unique to a particular provider, switching costs are relatively low and seamless. Several websites and blogs provide instructions on switching web hosts without creating service interruptions (Ourshop.com, 2005; Keystrokes Design and Marketing, 2006).

Web designers

Web designers are responsible for providing graphical content for a website. Specialized knowledge in programming languages, such as HTML, is required. The role of the web designer at Shopster will be to create a positive user experience for the website. As the designer is not privy to proprietary information, as are web developers (see discussion below), the bargaining power for web designers is low. Shopster has established a contract with a Vancouver web designer to produce the first version of Shopster's website. Because web designers and web developers interact closely to produce the final product, Shopster will hire permanent web designers as the company grows.

Web developers

Web developers are responsible for developing the backend of the site using specified programming languages. Shopster currently contracts out this service, as it requires specialized knowledge and skills. Within Vancouver, the talent pool of skilled technology workers is falling short on demand. For instance, a 2007 study performed by BC Technology Industry Association reported that actual new jobs created within the industry fell short of expected demand by 50% (BC Technology Industry Association, 2009). It appears that the demand for new talent is exceeding supply thus affording web developers more bargaining power to negotiate price.

Web developers play an important role in creating the backend of the website. With Shopster's website in particular, high value is placed on the company's ability to provide merchants with analytical data. Web developers will be heavily involved in this process and will contribute critical algorithms used to produce such analytics. Given the sensitivity of information produced by web developers and the critical importance of this information to the success of the company, bargaining power for web developers is significant.

In order to reduce this bargaining power, Shopster may consider the following options: develop in-house, form a partnership with the contracted developers or outsource development. As on-going development and maintenance of the website is a core function and will be a necessary step to maintain competitive advantage within the industry, the best solution will be to develop in-house. Hiring permanent developers provides the flexibility to maintain and update the website on a regular basis. It also

ensures that proprietary information is held within the organization. The outsourcing option is a cost-effective solution. Countries like India have a large talent pool of skilled developers. However, considering that development is a core function for Shopster the geographical separation between Shopster and the outsourced company will hinder communication and reduce control for Shopster. With a joint-partnership arrangement, control will be an issue especially considering that web development plays a significant role in success of the company.

At this stage of the company's formation, contracting out web development activities is the cost-effective solution compared with hiring permanent staff. A contract has been established with the developer to produce the first generation of the website, so at this point the suppliers have little bargaining power. However, as a long-term solution, acquiring in-house talent will be a necessary step to promote innovation and continuous growth, while keeping intellectual property within the organization. It will also reduce the transaction costs of re-negotiating contracts for future services.

Based on the above information the bargaining power of suppliers is assessed low to medium.

2.2.2 Buyer Power

The bargaining power of buyers depends on the importance of each buyer to the success of the business, the switching costs for the buyer to move to a competitor firm, and the ability of the buyer to find substitutes for the service offered. Shopster's buyers will include a mix of local retail merchants and large chain stores. Success of the website depends on the number of merchants that can be included in the database. Therefore, one individual retail merchant will not contribute a significant portion of revenue for the company.

Merchant switching costs include exit fees, costs for searching for a new supplier, and learning costs of understanding the new supplier's system. As there are few direct competitors to Shopster, searching for a new publisher will be difficult. Exit fees and learning costs will also be deterrents; however, these costs are not expected to be substantial. Switching costs will increase as the customer and merchant databases grows. Shopster will benefit from two-sided network effects. As more customers sign up to Shopster's website, merchants will have a greater reach for their advertising dollars

and therefore will have greater incentive to sign up to the website. As more merchants advertise on the site, more consumers will follow. Switching to a new publisher will have a negative effect on merchants, as they will lose the potential to advertise to more customers.

Merchants can, however advertise with substitute suppliers such as group buying and daily deal sites. Although these sites have a significant reach to consumers, there are disadvantages for merchants, as will be discussed in more details in section 2.3 Major Competitors. The most significant disadvantages are that such sites limit the number of deals advertised per day. As such, merchants have a limited number of opportunities to advertise and must provide steep discounts to their customers in order to advertise on the daily deal sites. For a local business starting up, this can negatively affect their business.

Based on the above information, buyer power is assessed low.

2.2.3 Threat of New Entrants

The threat of new entrants is high for Shopster. Time and cost of entry, specialist knowledge, economies of scale, intellectual property protection and barriers to entry all deter new entrants from entering the market. However, low start-up costs and the availability of skilled web developers provide key threats for Shopster. Economies of scale and intellectual property protection produce minimal effects, as their impact within the market is low. Shopster will have to implement barriers to entry to deter new entrants and to keep its market position.

Shopster's main advantage is that it is a first mover in the market. There are few companies competing within the shopping catalogue spectrum and they have not yet achieved a significant following that could hinder Shopster's growth potential. Shopster must therefore focus on creating barriers to entry to prevent new comers from entering the market, or being successful within the market. Shopster's strategy will be to create stickiness among customers and merchants. Netflix, the online provider of on-demand streaming videos, has created stickiness with customers by providing personalized movie recommendations to its subscribers. For the same reason, Groupon is implementing a similar service for its merchants by providing analytical data (Fazil, 2011). Shopster will apply a similar approach for its website to create value for both

merchants and consumers. Two-sided network effects may also hinder the growth of prospective new entrants. As Shopster has first mover advantage, it has a lead-time that will be used to build up the network to a significant level. Once the network is strong, and Shopster has established a powerful brand, it will be more difficult for other businesses to compete.

The threat of new entrants is assessed high.

2.2.4 Threat of Substitutes

The major substitutes to the shopping catalogue concept include group buying and daily deal sites, shopping sites, email flyers and print flyers. Group buying sites and daily deal sites have gained popularity since the emergence of Groupon. However, Shopster and group buying/deal websites operate under different business models. Deal sites offer a limited-time offer of steep discounts on products or services. They attract consumers looking for significant deals or waiting for an incentive to try new products. Shopster is approaching a different market and consumer base. The objective of Shopster is to enhance the shoppers experience by providing a one-stop shop for finding new and trendy consumer products and services under one portal. These consumers are not looking for the best deal but are browsing for the latest product. From the merchant's perspective, Shopster is providing an avenue to target a large consumer base on a single platform, without requiring merchants to provide steep discounts. Groupon attracts merchants seeking out new customers quickly, or merchants responding to their competitors' price cuts (Fazil, 2011). In this sense, Shopster is not directly competing with deal sites. Shopster's value proposition to merchants is to provide them with leads and other measurable results on their advertisements. Shopster is attracting merchants who will not achieve economies of scale after the steep discounts required by daily deal sites, or who do not have the operational capacity to handle large volumes. In fact, deal sites can benefit from advertising on Shopster as Shopster attracts consumers looking for new products and services.

Major stores have online shopping sites where consumers can view products and make purchases. Currently, Shopster's target audience is using these sites to find the products and services they desire. Consumers are at a disadvantage by using such sites. It requires that consumers know specifically which stores they are interested in to find their sites, or use search engines which will return a broad range of websites that

the consumer must now look through. Shopster's website, on the other hand, will accumulate a database of various shopping sites for them to browse through. Consumers will see value in using Shopster's site as it reduces their search time and introduces them to similar merchants that may interest them. The advantage to merchants is that they can reduce the advertising dollars spent on acquiring and attracting new customers to their sites.

A similar scenario unfolds with email flyers. Merchants must spend advertising dollars first attracting consumers to their websites, and then providing incentive for them to sign up for email updates. Consumers who sign up for email flyers receive regular emails from all the sites they have signed up for. As consumers sign up for more email updates, the chances of them becoming lost in email increases. Thus, the Shopster website can be viewed as an email storage solution as it will minimize the number of email updates consumers receive. Instead of signing on to each store's email list, consumers can sign up for Shopster's email list, which will provide a summary of the latest ads from the consumers preferred stores.

Finally, print flyers are a potential substitute for Shopster's online catalogue. However, this medium is not a significant threat as the trend is towards online media. Online advertising provides merchants with tools to analyse the effects advertising dollars spent have on consumers. Print ads do not provide such sophistication as there is no direct feedback on how consumers receive the ads. Although print ads may not disappear, they will most likely work in unison with online advertisements.

Given the discussion above, the threat of substitutes is considered minimal.

2.2.5 Competitive Rivalry

Competitive rivalry for the online shopping catalogue industry is considered medium to high. There are currently few direct competitors within the market as described in section 2.3 Major Competitors below. Flyerland.ca and CentrSource.ca are local online flyer and advertising sites that launched in 2009 and 2010, respectively, and are considered Shopster's main direct competitors. Both sites are new to the market and have not achieved mass customer following. As described in section 2.3 below, website traffic trends show that unique visitor traffic has declined significantly since launch of each website and therefore provides opportunity for Shopster to learn from the success

and failure of each site. Until such direct competitors gains momentum in the market, competition will initially come from substitute products such as coupon websites, daily deal sites and email flyers. Shopster will continue to keep a close eye on the direct competitors. Section 2.3 provides a comprehensive look at Flyerland and CentrSource.

The competitive strategy that each of the competitors have is different from Shopster's. Shopster's strategy is to provide value-added features such as data analytics that best match customer needs with merchant products. The group buying and daily deal strategy is to take advantage of economies of scale by offering steep discounts in turn for volume purchases. Shopster is providing merchants with an alternative to the steep discount strategy to attract merchants who cannot afford giving large discounts or who do not have the capacity to handle high volume transactions.

Competition with online shopping sites will be minimal considering that online shopping sites have an advantage for advertising on Shopster's website. Online shopping sites rely on advertisements and customer initiatives to find their site. By advertising on Shopster, they are increasing the reach to their target audience because of the data analytics feature offered by Shopster.

Overall, competitive rivalry in the current landscape is low. However, once Shopster gains momentum, new competitors will invariably enter the market. It is at this point, where entry barriers established by Shopster will play an important role in deterring new entrants and substitute products from prevailing.

2.3 Major Competitors

2.3.1 Direct Competitors

Direct competition within the flyer database market is low. There are two major direct competitors within the Canadian market: Flyerland and CentrSource.

Flyerland

Flyerland.ca is owned by Metroland Media Group, an Ontario based community newspaper publisher that distributes both print and online flyers and coupons. The website started in 2008. Within one year, Flyerland.ca published flyers for over 80% of the major Canadian retailers. By June 2009, Flyerland.ca had more than 100,000 registered members with approximately 412,000 monthly visitors to the site. In 2009,

Flyerland.ca formed partnerships with Black Press and Sing Tao Canada allowing it to leverage their network and drive traffic to its website. Black Press is a newspaper company servicing the British Columbia and Alberta regions. They are the largest privately held newspaper company in Canada. Sing Tao Canada, a newspaper company serving the Chinese Canadian community, services the Toronto, Vancouver and Calgary areas (CNW Group, 2009). In October 2009, Flyerland.ca launched a sister site for the United States market, Zip2Save.com. The American website was launched in partnership with Local Point Media Group, a US advertising network representing daily and weekly community newspapers (CNW Group, 2009).

Flyerland's major resource includes its network of media partners that provides it access to major retailers and consumers. Because Metroland Media Group has established relationships with the major Canadian retailers through its print flyer distribution channels, gaining buy-in for online flyers was achievable. It also has a forum for advertising the website through its local newspapers. Because Flyerland was first to the market, Shopster can analyse Flyerland's website and learn from the positive and negative features on its website. According to recent web traffic reports, Flyerland.ca's unique visitors stabilize around 30,000 to 45,000 per month peaking at 50,000 per month in December 2010 (DescribeWebAe, Inc, 2011). Traffic has dropped drastically from the 412,000 monthly views claimed in 2009. Despite Flyerland's access to retail flyers, it has not been able to attract and retain customers. This presents opportunity for Shopster to improve on Flyerland's approach and direct traffic to its site.

CentrSource

CentrSource.ca is a website that provides local targeted online advertising to customers. CentrSource.ca was formed through a strategic partnership between Canada Post and CentrSource Corp, a Swiss-based eCommerce company. CentrSource's advertising model follows a pay-per-lead pricing scheme. Advertisers can sign up to the site free and only pay for responses to offers (CentrSource, 2011). CentrSource.ca launched in December 2010 and has since seen minimal traffic to its site. In March 2011, unique visitor traffic peaked at just over 4,000 and declined to less than 2,000 in April 2011 (SeekMeUp, 2011). Currently CentrSource is in its early stages of launching and therefore may not have reached potential customers yet. The main advantage CentrSource has is its brand reputation due to its alliance with Canada Post. Shopster will need to create a strong, reputable brand in order to compete with CentrSource.

As of yet, both sites have failed to meet sufficient customer traction. User friendliness is key to attracting customers. Flyerland’s website is busy and difficult to navigate through. For instance, on its home page shown in Figure 2-1 below, it has identified separate sections for “Featured Vancouver Flyers”, “Featured Items on Sale”, “Featured Deals”, “Vancouver Coupons”, “Vancouver Deals” and “Vancouver Flyer Categories”. For an audience with a specific need, it will be time consuming to navigate through items that they are not interest in.

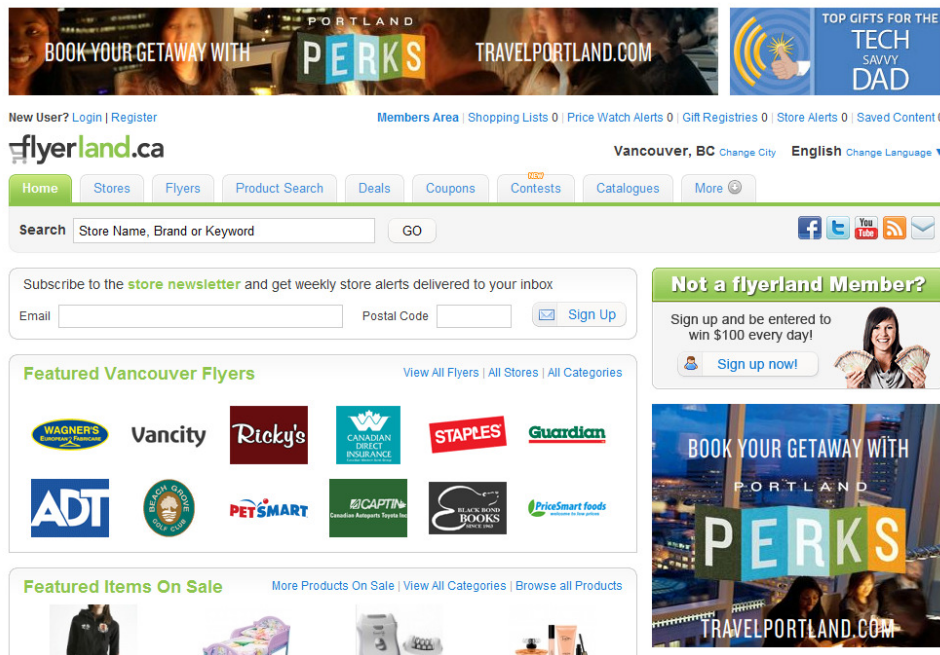


Figure 2-6 Flyerland.ca website

CentrSource.ca’s website is more user-friendly. It employs the pay-per-action pricing model in which the advertiser only pays for specific actions taken by the customer. Figure 2-2 provides an example of how the pay-per-action model is presented for a specific item. In this instance, the customer is given the option to have the purchase agreement mailed to the customer’s email address, mailed to their home address, or to view more pictures. The advertiser will only pay for the action selected by the customer. This model works well for customers with a desire to make a purchase or commitment to a product over the web. However, the CentrSource website does not provide a mechanism to capture customers who gather research from the internet to make offline purchases. Without addressing this issue, CentrSource can potentially be limiting its revenue generating potential.

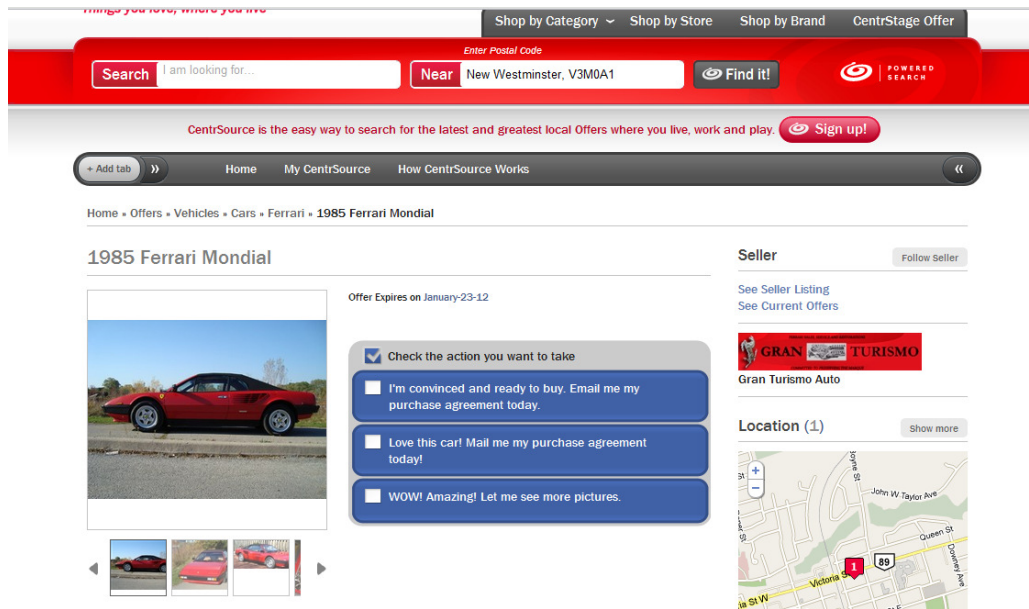


Figure 2-7 CentrSource.ca website

2.3.2 Indirect Competitors

Groupon and Group-buying sites

Groupon is a daily deal site that offers customers large discounts on featured items through its collective-buying forum. Groupon is currently advertising to over 565 cities around the world, and has saved customers over \$300 million to date while claiming to have generated millions of dollars in revenue to its featured businesses. In the month of April 2011, Groupon had close to 25 million unique visitors on its site (Crunchbase, 2011).

The group-buying model has gained significant momentum since the launch of Groupon in 2008. Since its launch, several group-buying sites have emerged, including LivingSocial, GoLowDeal, and TeamBuy, to name a few. This model is attractive to customers who seek steep discounts on their purchases. It also provides incentives to merchants who look to increase their customer base quickly. A downfall however, is that Groupon takes approximately 40% of the purchase price of the deal, leaving merchants with 60% (Ray, 2011). If a merchant were to provide a 50% discount on an item with an original price of \$200, their share of the pie would be \$60, or 30% of the original price. Another concern with the group-buying model is its effects on consumer behaviour. The

selling feature of daily deal sites is that it provides incentives for customers to try new products and services they normally would not try. By testing out the new product at a discount rate, the theory is that customers will gain loyalty to the brand and continue to make future purchases. However, critics of the group-buying model believe that the deep discounts attract deal-prone customers who are less loyal to the brand than they are to the deal (Peoples, 2011). The question then becomes whether the group-buying model can achieve long-term growth for a company, or whether it can only achieve a short-lived spike in sales. For businesses that are concerned with losing brand loyalty, Shopster will be able to provide a more sustainable alternative.

2.4 Key Success Factors

Success of Shopster will rely on the company's ability to plan and execute its competitive strategy. Shopster is providing a novel option to merchants and customers. Merchant ads will be targeted towards consumer groups that best match their target market and merchants will receive analytical results to better understand their market. Consumers will receive focused advertisements based on their preferences and will have exposure to new stores and products that they may not otherwise have been aware of.

This business model vastly differs from the currently popular daily deal websites that concentrate the market. The advantages that Shopster affords merchants are described below:

- No wait lines – currently with daily-deal websites, there are large wait lines to advertise on the site. This is because there are a limited number of deals that are advertised on the website on a given day. Thus demand for advertising on such websites out meets supply. Shopster can take advantage of the excess demand by providing merchants with an alternative advertising forum.
- No brand disloyalty – a prevailing criticism with daily deal sights is that they deteriorate brand loyalty for their merchants. Since the emergence of daily deal sites, consumers' primary motives are to obtain significant discounts. They no longer seek their preferred brand but instead purchase from the brand providing the greatest discount (Fazil, 2011). Shopster addresses this

concern by diverging away from the daily deal model and giving power back to the merchants to decide how they choose to advertise their product. Shopster will not require merchants to provide a discount in order to advertise on the website.

- No deep discounts – merchants who cannot afford to advertise steep discounts now have an alternative advertising forum. Small merchants especially, may not have the available resources to handle large volume sales. With limited capacity, some merchants have struggled with keeping up with demand over a short period of time.

3: Market Analysis

The following section provides a detailed analysis of the online advertising market by identifying emerging trends within the industry, key demographic characteristics of Shopster`s target market, and the challenges affecting the industry. The objective of this market analysis is to provide Shopster with a thorough understanding of its market so it can incorporate the knowledge gained to provide a useful product to its customers and merchants.

3.1 Industry Trends

Customer Tracking Behaviour

An emerging trend is the increasing demand for and sophistication of customer behaviour tracking tools over the internet. Marketing companies are finding new ways to track customer behaviour instead of the common counts-per-click or page views. Instead, advertising companies are looking for new ways to better predict customer behaviour. One such example is how advertising companies can track mouse and eye movements around the webpage to better gauge customer interests (Pantano, Corvello & Tavernise, 2011). Advertising companies that can best quantify customer behaviour will have a significant advantage when it comes to gaining market share, as merchants are demanding richer consumer information and data (Burbank, 2009).

Local Advertising

Local online advertising is gaining momentum as local retail stores seek to connect with their target audience. The market for local online advertising is estimated to reach \$32.1 billion by 2013 as shown in Figure 3.1 below, representing an 18% compounded annual growth rate (Kelsey Group, 2009). Within the same period total advertising spend is expected to decline in the local market from a total of \$155.3 billion in 2008 to \$144.5 billion by 2013, a total decline of 6.95%. The recession in America has contributed to the decline in local advertising spending (Kelsey Group, 2009);

however, the rise in digital spending may be an indication that online advertising provides greater value for advertisers compared to traditional print ads. This may be because online advertising is more targeted and therefore advertisers can focus their advertising budget on their target market. Mobile advertising will also be a significant player in the local advertising market. As mobile application technology continues to advance, there will be a greater shift towards digital advertising spending as advertisers shift towards geo-targeting to attract consumers. With mobile advertising, advertisers will have the capacity to attract local customers into nearby retail stores (Elkin, 2010).

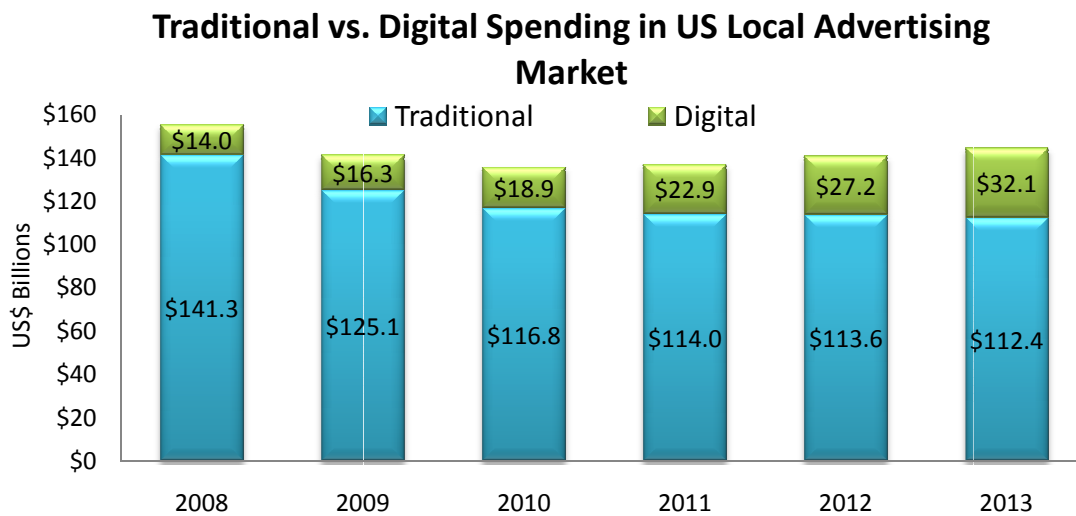


Figure 3-1 Growth in Local Online Advertising compared with Traditional Advertising in US
[Adapted from Kelsey Group, 2009]

Display and Banner Ads

Display and banner ads are predicted to remain a large player in the online advertising space. The growth of mobile advertising will play a significant role in expanding the display-ad market share. Apple's iAd and Google-AdMob are predicted to contribute to the rise in mobile advertising (Elkin, 2010). Elkin (2010) predicts that by 2014 display advertising will be the dominant ad format, which will be driven by increased advertising on mobile phones. Overall, the internet will continue to take a larger share of total media spending. In 2010, online advertising contributed to 15% of total advertising spend. It is predicted that by 2014 it will grow to 20% for an additional spending of \$11 billion between 2011 and 2014 (Elkin, 2010).

3.2 Demographic Segmentation

3.2.1 North American Population Characteristics

Consumers in Canada and the United States spend approximately 29.3% and 25.5% of total household expenditures on food, clothing and recreational activities, respectively as depicted in Figure 3-2 below. There are no significant distinctions between spending habits for food, clothing and recreation between age groups; however, the age groups between 25 years and 64 years spend the most total-dollar value on such items. Figure 3-3 depicts the age distribution of internet users in Canada and the United States. More Canadians have access to the internet compared with Americans (US Census Bureau, 2005; Statistics Canada, 2009). More Canadians under the age of 25 years use the internet compared to other age groups, at 94% usage, whereas in America, the 35 to 44 year age category consumes the most internet, at 65.3%.

Canada and United States Consumer Household Expenditures



		Age of reference person							
		Total	Under 25	25 - 34	35 - 44	45 - 54	55 - 64	65 - 74	75 over
		\$42,700	\$32,200	\$42,600	\$49,300	\$51,600	\$43,300	\$30,200	\$21,700
	%								
	Housing	37.3	34.3	40.2	39.2	35.4	34	35.6	43.5
	Transportation	19	17.8	18.4	18	19.7	21.6	19.4	13.6
	Food	15.5	14.9	14.5	15.3	15.1	15.4	17.7	18.7
	Clothing	5.6	6	5.6	5.7	6	5.6	4.9	3.8
	Recreation	8.2	8.8	8.9	8.6	8.1	7.9	7.2	5.1
	Health	3.6	2.3	2.6	3	3.5	4.3	5.5	6.8
	Other	10.9	16	9.8	10.2	12.2	11.1	9.7	8.5
		\$43,900	\$25,600	\$44,200	\$50,500	\$52,600	\$46,900	\$37,200	\$27,600
	%								
	Housing	37.9	34.4	40.4	39.5	36.8	36.3	35.9	39
	Transportation	22	22.6	22.7	21.8	23	23	20.1	16.3
	Food	15.1	16.5	14.9	15.4	15	14.6	15.2	14.4
	Clothing	4.6	5.4	5.2	5.1	4.6	4.1	4	2.7
	Recreation	5.8	4.6	5.5	6.2	5.7	6.4	6.7	4.1
	Health	6.8	2.6	4.1	5.2	5.8	8.1	12.1	17.3
	Other	7.7	13.9	7.1	6.7	9	7.5	6.1	6.1

Figure 3-2 Consumer Household Expenditures per Age Category
[Adapted from Chawla, 2007]

Canada and United States Internet Usage

	Age of reference person						
	Under 25	25 - 34	35 - 44	45 - 54	55 - 64	65 - 74	75 over
	%						
Canada	94.0	87.0	80.0	71.0	55.0	28.0	9.0
United States	47.1	60.4	65.3	65.1	56.6	29.4	54.7

Figure 3-3 Consumer Internet Usage Pattern per Age Category
[Adapted from US Census Bureau, 2005; Statistics Canada, 2009]

3.2.2 Online Shopper Characteristics

Key demographics of online shoppers are as such (Buysight, 2010):

- 56% of all online shoppers are female
- The average age of online shoppers in the United States is 42 years
- The mean household income of online shoppers is \$65,000
- Online shoppers spend an average of \$446 per year online

When asked the reason for visiting a retail website before shopping at the offline store 33% of respondents claimed they wanted to compare prices, 28% indicated they wanted to see if the product was in stock and 26% were searching for an in-store sale (Nielsen, 2008). The top five reasons are listed in Figure 3-4 below.

Reason to visit retailer website before going to offline store	% Respondents
Wanted to compare prices between different retailers whose stores I might shop	33
Wanted to see if the product I was looking for was in stock	28
Wanted to find sales in the store	26
Wanted to come up with holiday gift ideas before I went shopping	22
I ordered online for in-store pickup	12

(Nielsen, 2008)

Figure 3-4 Top 5 reasons to visit retailer website before going to offline store

The Nielsen (2008) survey also asked participants their reasons for shopping at a particular website. Sixty-two percent said they had made a purchase with the particular retailer in the past, 38% responded that they found the retailer through a search engine, and 31% said they received a catalogue in the mail from the retailer. Figure 3-5 lists the top five reasons for shopping at a particular website.

Reasons to Shop at a Particular Website	% of Respondents
I went to the retailer I have purchased from in the past	62
I found the retailer through search engines	38
I received a catalogue in the mail from the retailer	31
I came across an email promotion from the retailer	25
I subscribe to e-newsletters from retailers	25

(Nielsen, 2008)

Figure 3-5 Top 5 reasons to shop at a particular website

The online shopping community feels that shopping online is convenient and saves time. There is, however, a strong notion that the e-commerce environment can be more secure. Three quarters of internet users do not like sending personal or credit card information over the internet (Pew Internet & American Life Project, 2008). They do however prefer researching products and retail stores online. Higher income shoppers prefer researching products before purchasing them, as indicated in Figure 3.1 below. Online shoppers within the \$60,000 to \$100,000 salary range prefer researching products before purchasing more so than shoppers in other salary ranges.



Figure 3-6 Income level of online shoppers who research a product before purchase
[Adapted from Pew Internet & American Life Project, 2008]

When comparing the education level of online shoppers who research products before purchase, the 2008 Pew survey found that 66% of shoppers with at least some form of post-secondary education preferred researching online (see Figure 3-7).

Education level of online shoppers who research a product before purchase

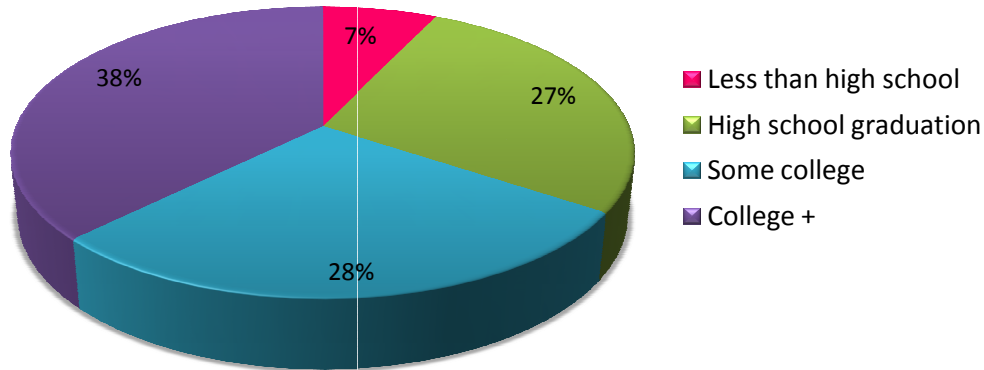


Figure 3-7 Education level of online shoppers who research a product before purchase
[Adapted from Pew Internet & American Life Project, 2008]

3.3 Target Market

Shopster’s target market consists of two major groups:

1. Online Consumers
2. Retail Merchants

1. Online Consumers

The target consumer group are tech savvy individuals who recognize the value of the internet when it pertains to shopping online and researching products online. As indicated in Section 3.2 online shoppers have a notion that e-commerce is still unsecure. For such individuals, who do not make online purchases, they use the internet to research products and purchase them offline. Given this information, a website that can reduce their search costs will provide greater convenience and timesavings.

The key demographics of Shopster’s target market are middle to upper-class male and females who have at least some level of post-secondary education with an income level of \$40,000/year and above. Shopster’s objective is to provide shoppers with a database of merchant advertisements, website links, and coupons in a central and convenient location. Shopster’s primary objective is not to advertise deep discount products to its consumers as seen with daily deal sites. Instead, Shopster seeks to

attract consumers looking for new and interesting products and services whose primary motives for buying the product are not price-based.

Key Demographics:

Gender: Male/Female

Age Range: 25 – 64 years

Income Level: \$40,000/year +

Education Level: Some post-secondary education +

Key Characteristics: Fashion-conscious, quality-conscious, trendy

Shopster will employ a differentiation strategy compared with its competitors by focusing on a niche population whose needs have been unfulfilled. Shopster will service the loyal, quality-conscious customer group characteristic of the educated, high-income demographic outlined above. Shopster will initially focus attention on gaining customers within the fashion retail market. This group of individuals will include trendy, fashion-conscious consumers. In order to gain access to such individuals, Shopster intends to attract local fashion bloggers to the website. In order to create a loyal following amongst the selected fashionistas it is imperative that Shopster provides a selection of unique, trendy retail shops and boutiques to advertise on the website.

2. Retail Merchants

The target retail group includes local merchants who seek value in online advertising. Initially, local retail merchants within the Metro Vancouver area will be targeted. Because of their close proximity to the headquarters, merchants within this geographical area will be more accessible to Shopster. In addition, given Metro Vancouver's densely populated area, approaching merchants will be accomplishable in a shorter time span.

As indicated above, Shopster will initially target a subset of Metro Vancouver's fashion retail merchants, focusing on the downtown and Granville Street areas. Shopster is adopting a strategy to differentiate itself from daily deal sites and other like coupon sites. Thus, Shopster will focus on acquiring advertising from small to mid-sized retail stores that have high-brand value, and do not have the operational capacity or desire to

sell high-volume, discount items. Initially, Shopster will target retail stores and boutique shops that sell unique, high-quality clothing, shoes and accessories. Once a larger following of consumers and local merchants builds up, Shopster will have proven its concept to proceed with attracting larger retail stores and chain stores. It is expected that large retail stores and advertisers will be hesitant to advertise on Shopster without first seeing a significant following on the Shopster website. Thus, Shopster must prove that it is a viable advertising channel and can add value that current channels do not provide. Thus it is important to first introduce local merchants to Shopster's website and then to provide a value proposition for the larger retail stores.

Key Demographics:

Industry: Retail

Category: Fashion clothing, shoes and accessories

Geographic Location: Downtown Vancouver, Granville Street area

Size: Small to Medium-sized retail stores and boutique shops

Key Characteristics: High brand value, high quality, unique and trendy stores

3.4 Challenges affecting the Industry

The major challenge currently affecting the industry is the economic downturn that started in 2008. Consumers are rethinking large purchases, retailers are restricting spending, and as a result, advertising budgets have declined. However, as North America continues to recover from the downturn, the economic environment will stabilize and consumer confidence will grow. A recent survey from AlixPartners indicates that 61% of the American population believes that they will not return to their pre-recession lifestyles until the spring of 2014 (Berk, 2011). With low consumer confidence, the economic recovery period may be longer than expected. Therefore, retailers could expect to see declining advertising budgets for some time.

On a positive note, a study performed by the Kelsey Group (2009) indicates that although total advertising spending has declined, spending in online advertising has risen, and is expected to increase to \$32.1 billion by 2013. Online advertising provides advantages to retailers over traditional advertising models. The capacity to extract

analytics about consumer behaviour has made internet advertising a powerful tool, with the pay-per-performance model gaining momentum as the preferred pricing model among advertisers. With advertisers demanding greater value for their advertising dollars, the challenge within the industry will be to find a model that advertisers will accept.

4: Marketing and Sales Strategy

The following section describes Shopster`s marketing and sales strategy by identifying its primary objectives, highlighting its marketing strategy through product, promotion, pricing and distribution perspectives and outlining its sales strategy. By identifying key aspects to marketing the website, Shopster intends to use this information to formulate and implement a plan to expand the business and promote it to merchants and consumers.

4.1 Marketing and Sales Objectives

Shopster`s marketing objectives are to:

1. Create product awareness among target audience by attracting 20 thousand customers by December 2012.
2. Create product awareness among target merchants by attracting 1 thousand merchants by December 2012.
3. Achieve customer loyalty through 95 percent customer retention by year-end.
4. Achieve merchant retention by 95 percent by year-end.

4.2 Marketing Strategy

4.2.1 Product Strategy

Shopster`s website provides many valuable features and benefits to its customers and merchants. For its customers, Shopster provides a unique shopping experience where customers select the product category, retailers, brand names and geographical region that they are interested in. Based on their selected preferences, customized advertisements are displayed on their homepage. Instead of searching

several websites to find what they are looking for, customers have a centralized repository of their favourite retailers, brand names and shopping interests. Because customers now have a centralized site for their shopping interests, they can reduce the number of email-alerts received from multiple sites. Shopster's website therefore serves as an email organization tool.

One of the specific features that Shopster will include in its website to create a user-friendly interface will be a "myClips" folder that stores the customer's favourite flyers or advertisements with a featured reminder button to alert the customer when the sale or flyer expires. In addition, the website will only feature advertisements that reflect the customer's interests. A short survey will be issued upon sign-up to the website. The customer will enter demographic information as well as shopping preferences and interests to help Shopster identify the customer's needs and wants. Using this information, Shopster will direct relevant advertisements to the customer, who can then modify his/her preferences at any time.

For merchants, the key driver for successful attraction and retention will be in Shopster's ability to provide measurable performance analytics. With the internet's ability to capture data, merchants are demanding measurable value for advertising dollars spent. Shopster will address the merchant's concern by providing online access to advertising statistics and trends. They will also have the ability to target their market by selecting certain criteria, such as geographic location and customer characteristics that match their specifications.

4.2.2 Promotional Strategy

Promotion of the Shopster website involves creating a large merchant and consumer base. As consumers will not join the website without any merchants, Shopster will employ a push promotion approach to attract customers to the website.

4.2.2.1 Merchants

Shopster's strategy to attract merchants will first involve focusing on a niche population of merchants. By targeting a specific group of local merchants, Shopster can focus on acquiring such merchants and their target consumers. Shopster's initial focus will be on local merchants in Vancouver, British Columbia. The downtown Vancouver

and Granville Street areas will be ideal locations to focus on as they attract consumers fitting the target demographic characteristics identified by Shopster in Section 3.3 above. Shopster's goal is to attract trendy, brand loyal consumers seeking quality and service over price. Specialized retail stores that meet these criteria will be Shopster's focus. As the retail base grows, Shopster will expand its geographic location to all of Greater Vancouver and move south along the West Coast towards Seattle, San Francisco, and Los Angeles.

In order to entice merchants to advertise with Shopster, Shopster will first provide free advertising as the customer base builds up. The free advertising will limit functionality of Shopster's analytic tools only providing minimal information about click-through rates. For detailed customer information, payment will be required. A key selling feature to merchants will be making a strong case about the benefits of advertising with Shopster. This will involve explaining and demonstrating the value of the analytic tools to help merchants enhance their marketing efforts and understand how to use their marketing budget more efficiently. It will also involve demonstrating the easy-to-use website and the ability to reach many customers quickly. Point of purchase displays and flyers will be provided to merchants in order to attract customers.

Other promotional efforts will include using social media networks to build a solid reputation for Shopster. Shopster must signal to merchants that it is a reputable business focused on providing value to its merchants. Shopster aims to provide high-quality service to its clients by helping them achieve their strategic objectives. In order to build this reputation, Shopster will create a Facebook group, Twitter page, and LinkedIn profile that expresses the company's mandate and provides tools and tips to help local merchants expand their market. Shopster's website will have a dedicated page for merchants to provide information about the organization and contain similar tools and topics that will interest them.

4.2.2.2 Consumers

The consumer base will be acquired twofold: one through online advertisements on social networking sites such as Facebook, Twitter and search engines, and the other through merchants in a push promotion approach.

Online advertising is an economical approach to obtaining customers. Facebook and GoogleAds will allow Shopster to specify groups to target. They were effective tools for building Groupon's consumer network and will be employed in a similar manner for Shopster. Twitter is currently a free advertising tool that has potential to reach a large audience. Although targeting specific customer groups is more difficult to achieve, it will be used in Shopster's promotion strategy as a tool to draw consumers' attention to the site.

Merchants will also play a role in helping Shopster acquire new customers. Many local businesses do not have an active website or effective means of communicating with their customers on a regular basis. Sales are advertised through store-front displays which fail to attract the merchant's loyal customers. Shopster's website will provide a means for merchants to interact with their customers more easily and therefore, merchants will benefit from promoting Shopster's website to their customers. Shopster will provide merchants with promotional flyers and cards to provide to their customers. In addition, Shopster is creating a widget for internet-savvy merchants to include on their website. This widget will direct traffic onto Shopster's webpage.

Traditional forms of advertising such as attending trade shows will also be a form of advertising employed. Trade shows for fashion, and design are present year round and will provide good opportunity to acquire customers and merchants. Vancouver Fashion Week is held every year in April. This will be a good opportunity to attract fashion conscious consumers to Shopster's website.

4.2.3 Pricing Strategy

The pricing model to be employed by Shopster is reflective of the direction the industry is taking. As discussed in Section 3.1 Industry Trends, retailers and advertisers are demanding more value for their advertising dollars. The industry is moving towards a pay-per-performance model where advertisers pay for ads that result in the consumer performing a particular action. A pay-per-click pricing scheme is one such example. Although a pay-per-performance pricing model is an emerging trend, local merchants tend to be slow adapters to the technology. As such, it is in Shopster's best interest to provide the traditional pay-per-impression pricing scheme in addition to pay-per-performance. In the online advertising market, pricing is based on an auction-bidding

system. GoogleAds, and Facebook use this type of system. With Shopster, the auction-bidding system will work as follows (also see Figure 4-1):

1. Merchant selects their target audience, pricing scheme, daily budget, and duration for the ad to be displayed
2. Merchant selects their maximum bid price (the maximum dollar value they are willing to pay for the bid)
3. The merchant's bid competes with other bids requesting the same target audience. The winning bid gets their ad displayed to the merchants target audience.
4. The final price paid by the bid-winner is not necessarily the merchant's maximum bid. The price depends on the next highest bidder's maximum.

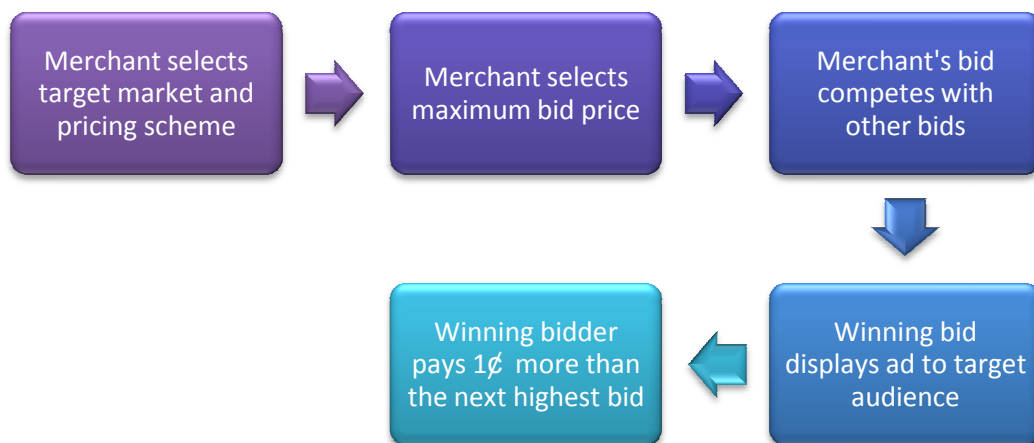


Figure 4-1 Auction-bidding system for Shopster

The greatest advantage of using an auction-based pricing model is that price is based on market-value and not a pre-determined price that is not reflective of the ad's actual value. It provides a fair pricing scheme for participants bidding for the same space while still being cognisant of the merchant's advertising budget. The following scenario describes how two retailers with different advertising budgets can still compete for the same advertising space.

	Retailer A	Retailer B
Advertising Budget	\$500	\$1,000
Daily Budget	\$20.00/day	\$20.00/day
Winning Bid	\$0.25/click	\$0.25/click
Max Reach	2,000 clicks	4,000 clicks
Average length of promotion	25 days	50 days

As this scenario illustrates, Retailers A and B both have different advertising budgets. Although Retailer A has half the budget of Retailer B, it can still compete for the same advertising space. If Retailer A has the winning bid, its ad will reach 2,000 customer clicks, or an average of 25 days before a new ad is featured within that space. On the other hand, if Retailer B wins the bid, it will reach 4,000 customer clicks, or an average of 50 days. This pricing scheme implies that each merchant has equal opportunity to win his or her desired advertising space. The retailer with the larger budget will have a longer running promotion.

4.2.4 Distribution Strategy

Distribution or reach of the website will initially be contained within Vancouver, British Columbia. As the market saturates, Shopster will move south along the west coast towards Seattle, San Francisco, and Los Angeles. These cities were selected for their proximity to the headquarters and their population density.

4.3 Sales Strategy

Shopster's sales objective is to attract one thousand merchants to Shopster's website and to sign on twenty thousand customers by December 2012. In order to achieve these objectives, Shopster will employ a sales strategy to align the company's actions with its objectives. The market research in Section 3 above has identified Shopster's niche target audience as trendy, fashion-forward, quality-conscious shoppers. The market strategy is to target a group of consumers that will serve as the innovators and early adapters of Shopster's website. These individuals will send a message to the early majority of the usefulness of the website and attract their attention.

The following timeline identifies the regions that Shopster will target in order to achieve the projected merchant and customer numbers.



Figure 4-2 Shopster`s Go-to-Market Timeline

Shopster’s direct competitors – Flyerland and CentrSource – are very broad in their market segmentation. The focus of their apparel line is on well-know brand names that shoppers regularly encounter. Shopster will focus on the up and coming fashion brands and boutique shops to differentiate from competitors and to attract the attention of dedicated fashionistas.

Shopster’s core strategy for attracting merchants will be to provide free advertising. This is a necessary route to take, as Shopster must also build a strong customer base. Without a pre-established merchant pool, Shopster will not be able to attract and retain customers. In addition to initially providing free advertising, Shopster’s other sales pitch will include emphasizing the attraction of trendy consumers to the site, the fact that the merchants do not have to provide a discount, and the marketing analytics that merchants can obtain and use to generate more profit.

Groupon employed a similar strategy to build its merchant base. In addition to the above-mentioned tactics, Groupon created barriers for its competitors by including exclusivity clauses in its contracts with merchants. These clauses preclude merchants from advertising with other group-buying competitors for a certain period. Groupon also expanded its revenue stream with each merchant by creating long-term contracts in exchange for a guaranteed number of ads per year. This vendor lock-in strategy is effective at retaining merchants, and preventing loss to other competitors. A similar strategy will be effective for Shopster as it may deter new entrants from entering the market.

To attract customers, Shopster will target fashion bloggers in Vancouver. Targeting bloggers is a key method to increasing customer sign-up to the site. As bloggers have an established following, if they see value in the site, they will pass this information on to their followers. In addition to targeting fashion bloggers, GoogleAds will be used to insight other fashion-seekers. Finally, merchants will be provided with pamphlets to hand out to customers who make purchases in their store. As Shopster is an online advertising site, promotions will happen primarily through the internet. Sales will initially start through telecommunications or face-to-face meetings, however as the site gains popularity, a self-serve site, much like GoogleAds will be implemented.

Groupon has employed a similar strategy to selling its site to a mass audience. It primarily gained exposure to consumers through advertisements with Google and Facebook, and through word-of-mouth from current subscribed users. As customers would only benefit through a large network of users, gaining a large audience was relatively easy for Groupon. Shopster, on the other hand, will not have the same network effects as Groupon. Instead, Shopster will gain customers through double-sided network effects, in which more customers will join as more merchants advertise on the site, and more merchants will advertise when more customers join. In this scenario, it is important to initially provide merchants with free advertising to allow them to test the site while customers see the growth of advertisements and join themselves. Shopster will create opportunities for customers to spread the word about Shopster's website through email referral pages, Twitter and Facebook updates.

5: Operations and Implementation Plan

Shopster is currently operating in Vancouver, British Columbia in a home office. In 2011, the Shopster facility will move to an office in Metro Vancouver. Shopster's primary operational requirements will centre on the need to fulfil technical IT requirements and customer support. In addition, Shopster will implement a culture that supports continuous innovation. As Shopster is currently in its early start-up phase, it will use a lean start-up methodology to develop the first version of the website. To date, Shopster has contracted the services of two computer engineers to develop the website. Expected completion of the website is September 2011.

5.1 IT Requirements

Current IT requirements are supplied by external contractors. The enlisted contractors are responsible for delivering the first iteration of the website using a lean start-up approach. Once complete, Shopster 1.0 will be published online and feedback from customers and merchants will be used to improve the website.

As the company expands, an in-house development team will be created to foster communication and innovation. In the first year of operations, external contractors will be used to develop the website. In the second year of operation, two permanent computer engineers will be hired. Below is a timeline of Shopster's projected IT staffing requirements. The IT staffing projections are directly correlated with the growth in merchant size. The assumption is that as more merchants advertise with Shopster, IT staff will need to update the website to accommodate more ad space and create enhanced features.

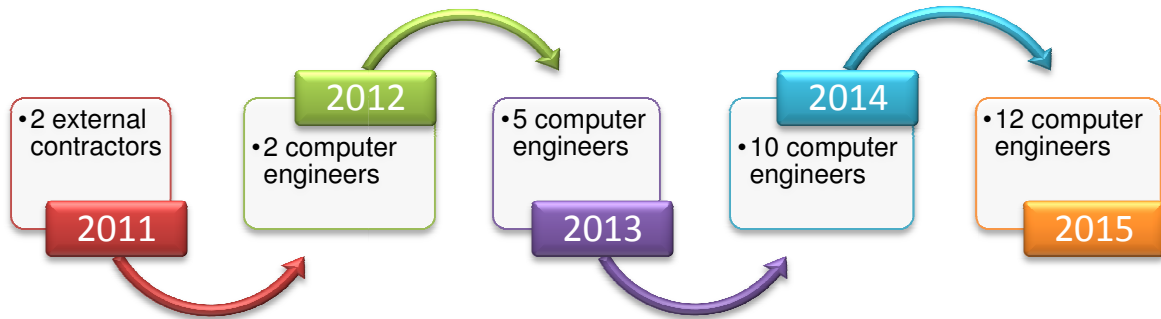


Figure 5-1 Timeline for IT staff requirements

Shopster will invest in capital equipment to enable IT staff to perform their duties. Computer equipment and software programs will be the primary capital expenditures required to fulfil the needs of the computer engineers. Where economical, Shopster will seek open source solutions to software needs, as this is the emerging industry trend.

5.2 Customer and Merchant Support

As the business grows, infrastructure to support customer and merchant relationships will be necessary. Shopster intends to develop a team dedicated to answering customer and merchant questions. Within the first year of operations, dedicated pages for troubleshooting and frequently asked questions will be present on Shopster’s website. As the business expands, support will come in the form of online chats, email and telephone support. These initiatives will be rolled out at various times. Email support will be available immediately, with online and telephone support being available in years two to three of operations.

One of the key success factors of Shopster is its ability to provide merchants with useful analytics about customer behaviour. Thus, investment in data analysis software will be necessary. There is a large selection of software programs available. In the first year, Shopster will use free programs to provide analytics to merchants. As Shopster gains a better appreciation for the summary data desired by its merchants, Shopster will invest in an appropriate software program.

5.3 Staffing Plan

In order to foster a team environment, Shopster will implement a flat organizational structure. The organizational culture best suited for Shopster is a fast-paced, fun, energetic environment where creativity is valued. A flat organizational hierarchy will enable all individuals within the organization to contribute to the success of the company. Figure 5-2 depicts the future organizational structure within 5 years of operation.

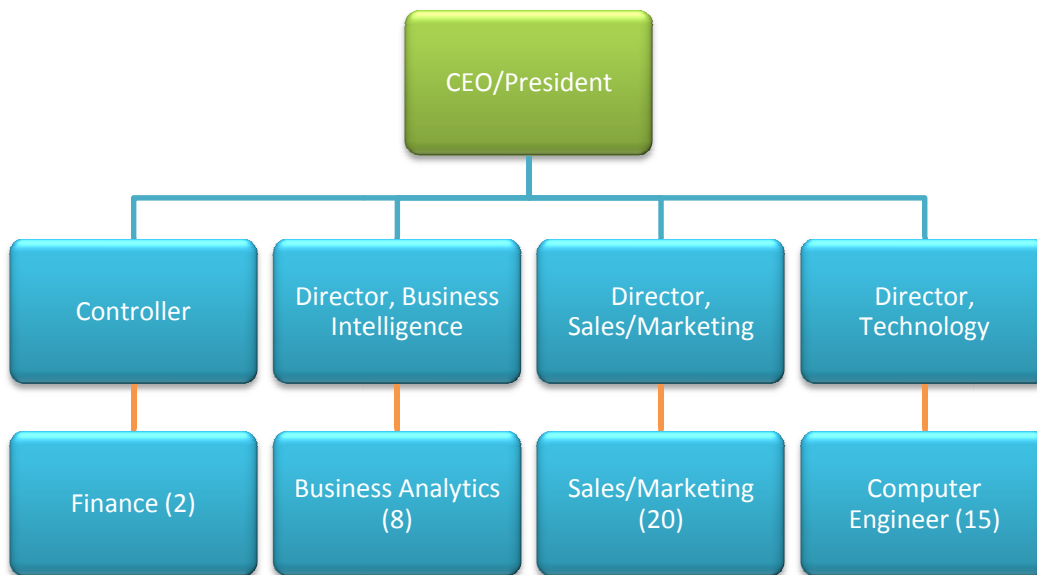


Figure 5-2 Projected Shopster Organization Chart (staff counts)

In 2011, the owner will run Shopster’s operations. The owner will not take a salary until the company turns a profit. Within the second year, Shopster will move website development in-house and expects to hire two full-time computer engineers. The CEO and one additional sales staff will fulfil sales and marketing positions. The Controller will also be hired within the second year, along with business analytics staff. Figure 5-3 below depicts the projected staffing plan for Shopster. By 2015, a total of 50 employees will be working at Shopster.

Position	2011	2012	2013	2014	2015
CEO	1	1	1	1	1
Controller		1	1	1	1
Directors					
Business Intelligence			1	1	1

Sales & Marketing		1	1	1
Technology			1	1
Finance		2	2	2
Business Analytics	1	3	6	8
Sales & Marketing	2	6	12	20
Computer Engineer	2	5	10	15
Total	1	7	20	35
			35	50

Figure 5-3 Shopster Projected Staffing Plan

5.4 Key Milestones

To ensure Shopster meets its projected growth targets, Shopster has established the following key milestones. Section 7.0 Growth Strategy provides details on how the key milestones will be realized.

Milestone	Date
Shopster 1.0 website complete	September 2011
First thousand customers and 250 merchants acquired	December 2011
Online merchant analytics available	March 2012
Shopster 2.0 website goes live with enhanced features	December 2012
Expansion into all of BC and Seattle	December 2012
20,000 customers and 1,000 merchants acquired	December 2012
Expansion into San Francisco	January 2013
Geo-targeting technology available for all cities	March 2013
100,000 customers and 2,500 merchants acquired	December 2013
Expansion into Los Angeles	January 2014
250,000 customers and 5,000 merchants acquired	December 2014
1,000,000 customers and 10,000 merchants acquired	December 2015

6: Financial Plan

The following section provides an overview of Shopster’s expected financial performance for the five years beginning January 2011. Included are proforma Income Statement, Balance Sheet, and Cash Flow Statement.

6.1 Financial Overview

Figure 6-1 below provides a summary of Shopster’s projected net income over the next 5 years. In years 2011 through to 2013, Shopster will experience net losses. In order to build up the merchant base, Shopster will not charge for ad revenue in 2011. As the merchant and customer base build up, Shopster will begin charging for advertising on the site.

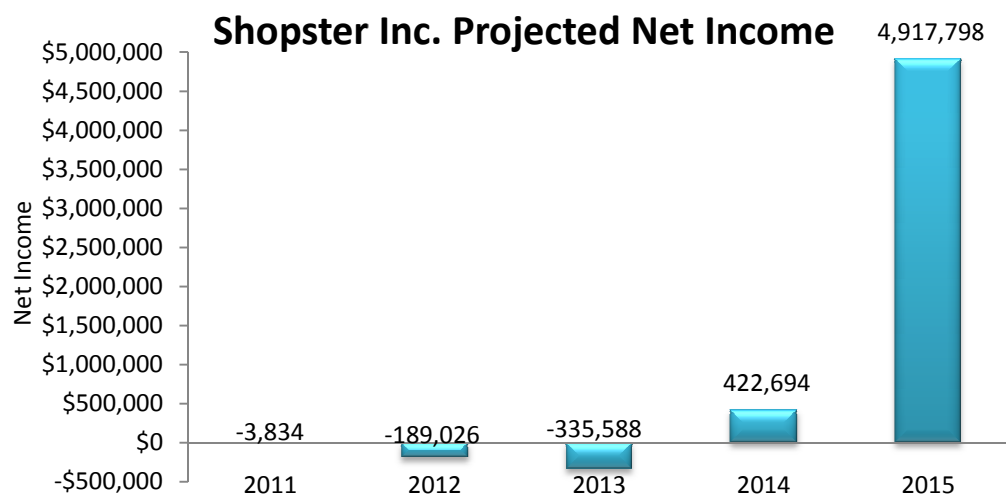


Figure 6-1 Shopster Inc. Projected Net Income

The proforma financial statements were produced under the following conservative assumptions:

- Revenue is based on the below projections for merchant and customer growth.

	2011	2012	2013	2014	2015
Merchants	250	1,000	2,500	5,000	10,000
Customers	1,000	20,000	100,000	250,000	500,000

- Revenue is generated through a combination of pay-per-click (CPC) and pay-per-impression (CPM) models. Under the CPC revenue stream, each click earns Shopster \$0.20, and is based on 40% of customers clicking on one ad per month. Under the CPM revenue stream, Shopster earns \$2.50 per one thousand impressions and, is based on the assumption that each customer views the site once a month with 10% of merchant sites in visibility. These assumptions are considered conservative.
- Revenue is not generated in the first year of operations. Shopster will offer free advertising to gain the merchant base.
- The Owner/CEO will take salary when net income is positive. This first occurs in 2014.
- In the first year of operations, all expenses are paid for by the owner.
- In 2012, Shopster will take a \$100,000 line of credit from the bank, in addition to seeking funding of \$250,000 from angel investors. In 2013, Shopster will seek venture capitalist funding for \$1.12 million.
- Financial statements were prepared under IFRS GAAP accounting.

6.2 Start-up Costs

Shopster's start-up costs total \$5,400 as outlined below. Due to the nature of online businesses, Shopster was able to keep start-up costs minimal. Legal fees pertain to costs for drafting a contract for web development. All start-up costs have been funded by the owner.

Shopster Inc. Start-up costs	
Website Development	\$4,500
Domain name registration	\$150
Legal fees	\$450
Incorporation	\$300
Total	\$5,400

6.3 Projected Income Statement

Shopster Inc.					
Proforma Income Statement					
Years ending December 31, []					
	<u>Projected</u>				
	2011	2012	2013	2014	2015
Ad revenue					
CPM		60,000	750,000	3,750,000	15,000,000
CPC		19,200	96,000	240,000	480,000
Net Revenues	-	79,200	846,000	3,990,000	15,480,000
Operating Expenses					
Salary		338,960	1,092,300	2,239,500	3,549,000
Rent	-	24,000	96,000	96,000	96,000
SG&A	-	2,376	25,380	119,700	464,400
Insurance	-	1,200	1,200	6,000	6,000
Advertising	-	11,880	126,900	598,500	2,322,000
Utilities	-	1,200	6,000	6,000	6,000
Web Hosting Expense	150	600	600	600	600
Other Expenses	6,240	3,960	42,300	199,500	774,000
Bad debt expense		317	3,384	15,960	61,920
Amortization Expense		1,750	3,250	3,750	3,750
Research & Development				100,000	500,000
Total Operating Expense	6,390	386,243	1,397,314	3,285,510	7,283,670
Earnings before interest and taxes (EBIT)	(6,390)	(307,043)	(551,314)	704,490	8,196,330
Interest Expense		8,000	8,000		
Earnings before tax (EBT)	(6,390)	(315,043)	(559,314)	704,490	8,196,330
Income Tax Expense (40%)	(2,556)	(126,017)	(223,726)	281,796	3,278,532
Net Income	(3,834)	(189,026)	(335,588)	422,694	4,917,798

6.4 Projected Balance Sheet

Shopster Inc.					
Proforma Balance Sheet					
For the years ending December 31, []					
Assets	Projected				
	2011	2012	2013	2014	2015
Current Assets					
Cash	0	30,156	647,020	1,156,545	7,935,981
Accounts Receivable	0	15,840	169,200	798,000	3,096,000
Less: Allowance for doubtful accounts	0	(317)	(3,701)	(19,661)	(81,581)
	0	15,523	165,499	778,339	3,014,419
Total Current Assets	0	45,679	812,519	1,934,884	10,950,400
Fixed Assets					
Computer Equipment	0	7,000	20,000	35,000	50,000
Less: accumulated amortization	0	(1,750)	(5,000)	(8,750)	(12,500)
Total Fixed Assets	0	5,250	15,000	26,250	37,500
Other assets					
Income tax asset	2,556	126,017	223,726		
Total Other assets	2,556	126,017	223,726	0	0
Total Assets	2,556	176,947	1,051,245	1,961,134	10,987,900
Liabilities and shareholder's equity					
Current Liabilities					
Credit Facility					
Accounts payable		9,457	61,003	209,202	746,934
Accrued salaries and wages	0	3,960	42,300	199,500	774,000
Income tax payable				281,796	3,278,532
Total current liabilities	0	13,417	103,303	690,498	4,799,466
Long-term liabilities					
Long-term debt		100,000	100,000		
Total long-term liabilities	0	100,000	100,000	0	0
Total Liabilities	0	113,417	203,303	690,498	4,799,466
Shareholders' equity					
Beginning shareholders' equity	0	2,556	63,530	847,942	1,270,636
Contributed capital	6,390	250,000	1,120,000		
Retained earnings	(3,834)	(189,026)	(335,588)	422,694	4,917,798
Total Shareholder's equity	2,556	63,530	847,942	1,270,636	6,188,434
Total liabilities and shareholders' equity	2,556	176,947	1,051,245	1,961,134	10,987,900

6.5 Projected Cash Flow Statement

Shopster Inc.
Proforma Statement of Cash Flow
Years ending December 31, []

	Projected				
	2011	2012	2013	2014	2015
Cash at Beginning of Year	-	-	30,157	647,020	1,156,545
Operations					
Net Revenue	-	63,360	692,640	3,361,200	13,182,000
Cash paid for					
General operating and administrative expenses	(6,390)	(35,759)	(247,104)	(878,101)	(3,131,268)
Wage expenses	-	(335,000)	(1,053,690)	(2,082,300)	(2,974,500)
Interest	-	(8,000)	(8,000)		-
Income taxes	-	2,556	126,017	223,726	(281,796)
Net Cash Flow from Operations	(6,390)	(312,843)	(490,137)	624,525	6,794,436
Investing Activities					
Cash paid for					
Purchase of property and equipment		(7,000)	(13,000)	(15,000)	(15,000)
Net Cash Flow from Investing Activities	-	(7,000)	(13,000)	(15,000)	(15,000)
Financing Activities					
Cash receipts from					
Issuance of stock	6,390	250,000	1,120,000		
Borrowing	-	100,000			
Cash paid for					
Repayment of loans	-			(100,000)	
Net Cash Flow from Financing Activities	6,390	350,000	1,120,000	(100,000)	-
Net Increase (Decrease) in Cash	-	30,157	616,863	509,525	6,779,436
Cash at End of Year	-	30,157	647,020	1,156,545	7,935,981

6.6 Funding Requirements

As indicated from the financial statements above, external funding will be required for two years in 2012 and 2013 in the amounts of \$350,000 and \$1,120,000, respectively. In the first year of operations, funding will be provided by the owner. In late 2011, Shopster will secure a line of credit for \$100,000 to provide sufficient cash flow for the first quarter. Shopster will also approach angel investors to fund activity for the latter three quarters of the year. In late 2012, Shopster will seek further funding for \$1.12 million and will approach venture capitalists.

The funding sought by Shopster will primarily be used for funding human resource requirements. The largest forms of activity required in 2012 and 2013 are in the areas of sales and marketing. Further development of the website and data analysis activity will also be significant contributors to the human resource requirements. In 2014, Shopster will be in a cash positive position and will have sufficient working capital to further development of the website and expand the merchant and customer base.

7: Growth Strategy

In order to sustain long-term growth, Shopster will implement a strategy that will help the business achieve its goal of being the premier online shopping catalogue around the globe. Shopster will implement the following strategies:

1. Provide self-serve advertising for merchants. If customer demand is high, merchants will feel inclined to join the site. Therefore, a self-serve system will help Shopster meet demand.
2. Telemarketing – In addition to self-serve advertising, Shopster will use telemarketing to draw new merchants to the website. As Google, and Groupon have found, self-service centres do not operate effectively on their own. A telecommunications strategy must also be incorporated.
3. Increased marketing effort – As Shopster establishes initial growth, it must expand its marketing efforts. Such efforts will include internet and radio ads as well as viral videos on YouTube. The primary focus will be in online advertising.
4. Add new features to the website – In order to retain customers and attract new ones, Shopster will add new features to the website to engage a conversation amongst other consumers on the site. A ratings feature where consumers can rate products will help create a conversation and integrate a social media aspect to the website. Consumers will also be able to have real-time chats with their network to allow consumers to gain feedback about their shopping selections, for instance. Alongside additional features to consumers, merchants will gain more capabilities in assessing their target market's characteristics. As shoppers continue to use the site, Shopster will be able to better understand the consumer's shopping habits, and can develop more detailed analytics to pass on to merchants.
5. Mobile application – As smartphones gain popularity and the technology for mobile applications grows, geographic targeting will be an area to expand.

Shopster will develop a technology that can be used on mobile devices that will allow merchants to target customers within their geographical range.

Investment in human capital will be necessary to achieve the above growth strategies. Sales and marketing, and computer engineering will be two departments that require the greatest attention. The sales and marketing team will oversee growth of the merchant and customer base. As telemarketing is expected to be a significant focus on Shopster's sales efforts, hiring skilled and enthusiastic individuals will be necessary. Continuous expansion and development of the site will be necessary to stay on top of technological changes and to keep customers and merchants interested. Without a talented computer engineering team, the organization will be limited in its capabilities and expose itself to competition.

Shopster's mandate is to be an innovative company that continuously brings new and interesting products and services to the market. A solid strategy and impeccable execution of the strategy is necessary to achieve sustained growth. Human capital will invariably be a large part of the organization's success and therefore in order to achieve high growth, Shopster must ensure that the culture within the organization thrives on creative and innovative thinking.

8: Risk Assessment

Shopster has identified possible risks that may affect the company's future success. Market risks and financial risks have been identified as the two primary areas that Shopster may be exposed to. A risk mitigation strategy will be employed to minimize the effects.

8.1 Market Risks

Section 3.0 Market Analysis, identifies possible risks that Shopster may be exposed to. The threat of new entrants and competitive rivalry has been identified as medium to high for Shopster. This threat may expose Shopster to potential loss of market share. In order to mitigate this risk, Shopster is employing a strategy to create barriers to entry. Currently, Shopster has a first mover advantage in the Vancouver market. Direct competition from Flyerland and CentrSource are minimal. Shopster will use this lead-time to establish two-sided network effects between merchants and consumers, and establish positive relationships and brand loyalty among its merchants and customers.

Slower than expected adoption to Shopster's website may hinder growth of the company. Shopster is addressing this risk by first targeting a niche population of the market to establish a well-defined user base in which Shopster can focus on creating value for its merchants and customers. Once established this niche population will serve as advocates to the larger market.

The retail industry is heavily impacted by changes in the economy. This exposes Shopster to the risk of merchants reducing their advertising budgets to reflect changes in consumer behaviour. In the event that the current economic downturn worsens, Shopster may be required to reduce its prices and/or expand its market to a wider audience in order to increase the number of potentially available merchants and customers.

8.2 Financial Risks

The major financial risk that Shopster is exposed to is not receiving funding from investors or through bank financing. In order to mitigate the risk, Shopster will be including GoogleAds to the website to provide an alternative revenue stream while Shopster builds its merchant and customer base. Shopster will also search for government grants and loans to provide short-term cash flow and will seek funding from friends and family. If sufficient funding is unavailable, Shopster will re-analyze its growth strategy. A large portion of Shopster's expenses come from salary. Therefore, if Shopster cannot receive enough funding to acquire the projected human capital needs, Shopster will re-align the growth strategy to meet the cash flow requirements.

Poorly worded investor contracts may expose Shopster to the risk for litigation. To mitigate this risk, Shopster has created business relationships with professional legal firms. Shopster will use its network to enlist the appropriate legal counsel to draft the investor contract.

9: Exit Strategy

The owner of Shopster intends to exit the endeavour once it has achieved a successful and profitable business. At this time, either an initial public offering will be sought or the owner will seek an acquirer. The owner intends to run the business until it has gained regular and growing profitability, expecting retirement within 5-8 years from inception of the business.

In the event that the proposed plan is unrealized within the period outlined above, the owner will continue to run the business until consistent profitability is reached. If expected profitability falls below \$200,000, the owner will respond appropriately to minimize damage to the owner and investors. As a measure of precaution, the owner will prepare and analyse financial statements on a monthly basis as well as track key performance indicators such as customer growth rate, merchant growth rate, profitability and return on investment. If sustained losses are experienced, with no realistic opportunity to reverse such losses, the owner will act swiftly to reduce damage.

Several companies would potentially be good strategic fits to acquire Shopster. Such organizations include competitors such as Flyerland, CentrSource, and Groupon, who can expand their reach and customer/merchant base, as well as advertising media groups aiming to provide merchants with performance-based analytics. Google may also be a potential acquirer given their acquisition proposal for Groupon in late 2010. Google's attempt was to move into the local advertising market, quickly. In the past, they have employed the acquisition strategy to expand into new markets quickly. Some of those acquisitions include Outride, a web search engine, Applied Semantics, an online advertising company, ZipDash – traffic analysis, Android – mobile software, etc (Wikipedia, 2011). If Shopster can reach the level of success of Groupon, Google is a possible acquisition partner Shopster will seek.

Appendices

Appendix A: Glossary of Internet Advertising Formats

Advertising Format	Definition
Search	Fee paid for listing or linking a company's domain name to a specified search word or phrase
Display/Banner	Fee paid to obtain space for displaying a static or hyper-linked banner or logo
Classifieds	Fee paid for listing specific products or services such as job listings, real estate listings, yellow pages
Lead Generation	Fee paid for referring consumers interested in a product or service to the company. The fee is based on a performance measure such as cost per inquiry, cost per lead, etc.
Digital Video	Commercial advertisement that resemble television ads and appear on websites as an in-page video
Rich Media	Advertisements with sound, animation, or any other type of interactivity
Sponsorship	Fee paid for obtaining customized content that typically includes the company's logo or other type of brand messaging.
Email	Links, banner ads, or other type of brand messaging that appears in email newsletters, marketing campaigns and other email communications

[Adapted from PricewaterhouseCoopers, 2011]

Appendix B: Demographic profile of online shoppers

Online activity	Research a product	Buy or make travel reservation	Participate in an online auction	Pay to download digital content	Buy or sell stocks online
Education					
Less than high school	7	4	5	7	4
High school graduation	27	23	23	25	19
Some college	28	31	34	31	22
College +	37	41	39	37	55
Income					
< \$25K	14	10	10	13	7
\$25K - \$40K	12	11	11	17	13
\$40K - \$60K	18	17	15	15	12
\$60K - \$100K	21	24	26	18	22
> \$100K	17	20	22	19	28
No response	18	18	16	18	18
Region					
Urban	25	24	23	27	28
Suburban	51	51	53	45	51
Rural	13	13	13	12	13

[Adapted from IT Facts, 2008]

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