

Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Systems Engineering



Master's Thesis

**Business Plan: Starting an e-Commerce Activity on a
Tight Budget**

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Business Plan: Starting an e-Commerce Business Activity on a Tight Budget

Objectives of thesis

This Master Thesis specializes in business planning moreover in creating a step-by-step start-up plan to establish an online store using Fulfilment by Amazon Service on a Tight Budget. Main intention of the Theoretical Part is to introduce to a reader a world of e-commerce, how it started and how it has significantly grown till now. Additionally, we will study closely Amazon and its FBA service. We will tap into different literature on Business Planning, and we will lay a theoretical foundation for starting any kind of successful business.

In the practical part we did a Market Research as Amazon online store operates in several different markets. All is followed by choosing the first product to sell. The aim of the Practical Part is to create a step-by-step guide that can be then shadowed by anyone who wants to establish an online retail store on a tight budget using FBA Amazon Services or any other platform.

Methodology

Theoretical part is based on a literature review. Literature review consists of gathered information about using different methods to create a successful business. Ideas mainly were borrowed from literature that explains brand philosophies of modern market giants and those that explains different types of profit models that can be adopted to any type of business. Theoretical part also demonstrates the history of e-commerce and history of a leader in online retail.

In the practical part we dive directly into planning a business. As a very first step we make market research. After scrupulous market analysis we move on to choosing a first product to sell. All is followed by looking for suppliers, using the method of going through the list created with several criterion of a good and reliable supplier. After testing a product, we take a decision to cooperate with one of the suppliers. Following all the steps in the practical part we have created good practice guide (GPG) to launch an online store. All in all, practical part will cover all the methods starting from choosing the right product to sell, finishing with methods of shipping the products to Amazon warehouse and selling it.

The proposed extent of the thesis

75–80

Keywords

E-commerce, Amazon, FBA, Profit Margin, Jeff Bezos, Shipping, Logistics, Supplier, Product, Supplier Sourcing, Negotiation, Alibaba, China, Passive Income, Side Hustle, Online Retail, Small Business, Online Business.

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Declaration

I declare that I have worked on my master's thesis titled „Business Plan: Starting an e-Commerce Activity on a Tight Budget” by myself and I have used only the sources mentioned at the end of the thesis. As the author of the master's thesis, I declare that the thesis does not break any copyrights.

In Prague on 31.03.2022

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Business Plan: Starting an e-Commerce Activity on a Tight Budget

Abstract

This work is a detailed Business Plan on creating a full-fledged Amazon FBA Online Store on a Tight Budget and creation of a passive income stream. Starting a business even a small one is usually perceived as costly and risky activity. While we cannot deny the risky part, costly part can be proved the opposite. This Diploma Thesis will showcase a way to start a small business activity by establishing an online store on a tight budget. It will introduce a Fulfilment by Amazon (FBA) Service that helps businesses to grow and to offer their products to a broader market by providing access to Amazon's logistics network. All the chapters were written to show how online retail businesses work and how to establish one on a tight budget. In the practical part step by step guide on how to launch an Online Store on Amazon as a third-party seller will be showcased. Starting from choosing the right product to sell, calculating and predicting profit margins before selling, researching about different ways of shipping goods to a chosen Amazon Warehouse and the ways to reduce cost of shipping to making a concrete product listing (product Images, product description, keywords, etc.) in order to gain a competitive advantage in Amazon Market, finishing with executing on a business plan by selling the products and taking into a consideration customer's feedback for a continuous improvement of the product and service delivery quality. This Business Plan is all about starting to sell on Amazon on a Tight Budget. It is a very modest plan of an ordinary student/ young professional to enter a world of e-commerce and by doing so creating a passive income stream and financial security and freedom of embodying other projects in the future that would contribute to the society. This work is rather about starting small (taking baby steps) and having a courage to start an e-commerce business with a salary of an Entry Level Professional.

Keywords: E-commerce, Amazon, FBA, Profit Margin, Jeff Bezos, Shipping, Logistics, Supplier, Product, Supplier Sourcing, Negotiation, Alibaba, China, Passive Income, Side Hustle, Online Retail, Small Business, Online Business.

Podnikatelský plán: zahájení činnosti elektronického obchodování s omezeným rozpočtem

Abstrakt

Tato práce je podrobným obchodním plánem na vytvoření plnohodnotného internetového obchodu Amazon FBA s malým rozpočtem a vytvoření pasivního toku příjmů. Zahájení podnikání i malé je obvykle vnímáno jako nákladná a riskantní činnost. I když nemůžeme popřít rizikovou část, nákladná část může být prokázána opakem. Tato diplomová práce představí způsob, jak zahájit malou podnikatelskou činnost založením internetového obchodu s omezeným rozpočtem. Zavede službu Amazon (FBA), která pomáhá podnikům růst a nabízet své produkty širšímu trhu poskytováním přístupu do logistické sítě Amazonu. Všechny kapitoly byly napsány ukázat, jak on-line maloobchodní podniky fungují a jak vytvořit jeden na malý rozpočet. V praktické části bude představen krok za krokem průvodce, jak spustit internetový obchod na Amazonu jako prodejce třetí strany. Počínaje výběrem správného produktu k prodeji, výpočtem a předpovídáním ziskových marží před prodejem, zkoumáním různých způsobů přepravy zboží do vybraného skladu Amazon a způsobů, jak snížit náklady na dopravu, až po vytvoření konkrétního seznamu produktů (obrázky produktů, popis produktu, klíčová slova atd.) za účelem získání konkurenční výhody na trhu Amazon, dokončení realizace obchodního plánu prodejem produktů a zohledněním zpětné vazby zákazníka pro neustálé zlepšování kvality dodávek produktů a služeb. Tento obchodní plán je o zahájení prodeje na Amazonu s omezeným rozpočtem. Je to velmi skromný plán obyčejného studenta / mladého profesionála vstoupit do světa elektronického obchodování a tím vytvořit pasivní tok příjmů a finanční zabezpečení a svobodu ztělesnění dalších projektů v budoucnu, které by přispěly ke společnosti. Tato práce je spíše o zahájení malého (podniknutí dětských kroků) a odvaze zahájit podnikání v oblasti elektronického obchodování s platem profesionála na základní úrovni.

Klíčová slova: E-commerce, Amazon, FBA, ziskové rozpětí, Jeff Bezos, Doprava, logistika, dodavatel, produkt, dodavatel, vyjednávání, Alibaba, Čína, pasivní příjem, online maloobchod, malé firmy, Online podnikání.

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List of abbreviations

FBA	Fulfilment by Amazon
GAAP	Generally Accepted Accounting Principles
EXW	Ex Work
FCA	Free Carrier
DDP	Delivery Duty Paid
FNSKU	Fulfilment Network Stock Keeping Unit
BSR	Best Sellers Rank

1. Introduction

This part of the thesis gives a piece of background information on how the idea of writing a business plan came into the mind of the author and it is aimed to engage with the reader.

Launching an e-commerce store came into the mind of the author back when she was studying for her bachelor's degree. Working 40 to 50 hours a week in the hospitality sector and studying simultaneously was emotionally and physically draining. This is when creating a passive income stream comes into the mind of the author. The primary reason for that was a wish to dedicate more time to the university. That is when the author has discovered Amazon FBA Service, a way to start an e-commerce business where the logistics will be handled by an online retail giant providing sellers a trusted platform to sell with thousands of already existing customers, and the seller „simply“ has to make sure to outshine (stand out amongst) a huge competition. This way of investing seemed up to the mark.

From childhood, at home, in school, in university we have been taught to perceive failure as a bad thing. Only those who did not fail and those who were getting excellent grades were praised. Those who have failed were put to shame. Which is not a very practical approach for life if one wants to succeed in anything. That is why the majority of us grow up full of fear to try new things, to experiment with our lives with our careers. Because fear of failure is bigger than the excitement for success and reaching full human potential. Having a flexible, agile, fearless, wanting to experiment mindset is a gift. And it is a significant amount of work itself to change the mindset when one has been taught the opposite from childhood.

The reason the author has chosen to write her Master's Diploma Thesis on this particular topic is to use it as a way to execute an idea and push herself to launch an e-commerce business and by doing so to show the possibility of starting a business on a tight budget to her classmates and colleagues.

There are a couple of success stories that have inspired the author to write this Diploma Thesis on this topic.

Story of Tatyana Bakalchuk. Russian entrepreneur that has founded an online retail store called „Wildberries“ - Russia's biggest online retail store. In 2004, at the age of 28, Tatyana

has founded her company in her Moscow flat while on maternity leave. Now Tatyana is Russia's first self-made woman billionaire.

Founder of Amazon Jeff Bezos 1994 did not plan to sell anything but books. Later Amazon started receiving suggesting emails that people would like to buy CDs or Movie DVDs. Now Amazon is an all you can buy store and it has over 30 product categories. Bezos is the richest person in the world. He made significant progress on his 2020 commitment to give 10 billion U.S. dollars by 2030 to fight climate change. He has given so far \$865 million from his pledge to fight climate change.

Back in 1997, Netflix was founded as a DVD rental store. Netflix has started small back in 1997 with 30 employees, they had 925 titles and it worked on a pay-per-rent model. In September 1999, they introduced the monthly subscription model. In 2007 Netflix has introduced subscription-based online video streaming and video-on-demand services. In 2011 Netflix has introduced its first production „House of Cards“. In 2021 Netflix has produced over 200 movies and documentaries.

All the stories above make us believe that anything is possible. The goal is to break the limiting belief that starting a business activity requires finding investors, investing large amounts of funds, and showing the way to start an e-commerce business activity on a Tight Budget with an average salary.

2. Objectives and Methodology

2.1 Objectives

This Master's Thesis specializes in business planning moreover in creating a step-by-step start-up plan to establish an online store using Fulfilment by Amazon Service on a Tight Budget. The main intention of the Theoretical Part is to introduce to a reader a world of e-commerce, how it started and how it has significantly grown till now. Future predictions and trends in e-commerce will be shown in the theoretical part. Also, we will study closely Amazon and its FBA service. We will tap into different literature on Business Planning, and we will lay a theoretical foundation for starting any kind of successful business.

In the practical part, we did Market Research as Amazon operates in several markets, and based on the results of our research, we then decide to start our online retail activity in one of the markets where Amazon operates. All these are followed by choosing the first product to sell. As choosing the "right" first product to sell is a very important step (the first product either will make our business "soar" or it will make it "drown down"). Therefore, the author does the very first product research meticulously, by listing the potential products that she can sell on a low budget and predicting profit margins for each one of them using an excel spreadsheet. In a nutshell practical part is an A-to-Z action plan starting from choosing the very first product to sell, finishing with the last step of selling the products directly to Amazon's customers through Amazon Seller Central. The Practical Part aims to create a step-by-step guide that can be then shadowed by anyone who wants to establish an online retail store on a tight budget using FBA Amazon Services or any other platform.

2.2 Methodology

The theoretical part is based on a literature review. The literature review consists of gathering information about using different methods to create a successful business that will stand strong and remain strong through the years. Mainly the theoretical part is inspired by the modern market leader's philosophy, that was back in the eighties and nineties garage start-ups and how they have grown to the size of market giants. Modern world business way of thinking and modern start-up philosophies are gathered through the literature review and showcased in the theoretical part of this thesis. Ideas mainly were borrowed from literature

such as "Art of Start" written by Guy Kawasaki which explains foundational philosophies of modern market giants, "Art of Profitability" which was written by Adrian Slywotzky which explains different types of profit models that can be adapted to any type of business. like Theoretical part also demonstrates the history of e-commerce and the history of a leader in online retail. As well as there are several methods displayed to target the separate segments in the market according to their various characteristics and the ways to create customer profiles to offer them our products according to their behaviour or demographics.

In the practical part, we dive directly into planning a business. As a very first step, we make market research to decide in which market we want to sell. After scrupulous market analysis, we move on to choosing the first product to sell. As a very first product needs to succeed, we take this very seriously. We use two methods to find our first product to sell. First, we make a list of potential products that we could sell on a tight budget then we forecast profit margins for each product. After the first step of evaluation, we use another method to evaluate whether the product with the highest profit margin forecast has wings to make our business soar. This method is borrowed from literature called "Will it flies?" by Thomas K. McKnight. We will use Innovator's Scorecard method which consists of 44 well-thought-out elements that will help us to identify the strengths and weaknesses of our idea. After making that decision we start looking for suppliers in China through the well-known Chinese wholesale e-commerce retail store Alibaba.com. Using the method of going through a checklist created with several criteria of a good and reliable supplier and negotiating with them we a decide to order samples from a couple of them. And only after testing do we decide to cooperate with one of the suppliers. The next step is Product Listing. According to FBA Amazon Policies, there are rules for adding a product description and product images. Following these rules, in the practical part, we have created a good practice guide (GPG) for listing the first product on Amazon. All in all, the practical part will cover all the methods starting from choosing the right product to sell, finishing with methods of shipping the products to the Amazon warehouse and selling it.

3. Theoretical part

3.1 History of a major online retail player

“When you're eighty years old and in a quiet moment of reflection, narrating the most personal version of your life story for only yourself, the saying that will be most compact and meaningful will be the series of choices you've made. In the end, we are the products of our choices.”

—Jeff Bezos, commencement speech at Princeton University, May 30, 2010

Amazon.com is the world's largest eCommerce retailer in terms of online revenue. Amazon's Global Net Sales in 2021 made up to 146,377.9 U.S. dollars. The online store offers a diverse range of products, with a focus on consumer electronics, books, and media. Amazon.com, Inc. operates many other online businesses around the world, including amazon.co.uk (United Kingdom), amazon.de (Germany), and amazon.fr (France), and has successfully exported its business model.

"Your brand is what others say about you when you are not present."
Jeff Bezos

Amazon is the largest bookstore. This is a company that has changed the very essence of trade, giving popularity to sales via the Internet. At the moment, its market capitalization is estimated at \$ 28.9 billion, and the number of employees is 20,700 people.

The story of how Amazon.com came to be is commonly told and has become an urban legend. Jeffrey Bezos, a former Wall Street finance manager, founded Amazon. He was reading through the pages of the Internet in April 1994 when he came across the following information: the number of Internet users is increasing by 2300 percent every month. This information may surprise some people, but it will not compel them to take action. After discovering such a statistical truth, Bezos felt compelled to act. He was obligated to act right away or else he would have lived to regret it for the rest of his life. He was tormented by the thought that at this rate of growth, every second counted. "I decided that when I was eighty,

I would not regret that I left a prominent job and did not do it," Bezos stated in an interview with a reporter.

And yet, Bezos didn't know where it would settle. He had four options: Portland in Oregon, Lake Tahoe in Nevada, Boulder in Colorado, and Seattle in Washington. Bezos wanted to settle in a state where there would be no administrative tax, where there would be qualified personnel, and where there would be a developed bookselling network. So, heading further west with the family, Bezos sent all his belongings separately in a truck and arranged for the driver to call him on his mobile phone for further instructions. After driving halfway across the country, Bezos chose Seattle, where the Ingram book distribution network was located, which distributed 60 % of book products. After settling in Seattle, Bezos and his three associates installed computers in the garage and began developing the program that was to be the foundation of the company. It took quite a long time to raise the necessary funds. Bezos recalled that he and his colleagues often spent time discussing these issues in the cafe of Barnes & Noble, which, ironically, later became Amazon's main competitor in the book market. He chose Seattle as the location for the company because it had a vast pool of technical expertise and was adjacent to one of the largest book wholesalers in Roseburg, Oregon. At the outset, he was thinking of the company as a bookseller. Furthermore, internet sellers must charge sales tax in the state in which they are incorporated, according to sales tax rules. This indicates that the sales tax rate would raise the price of all transactions from that state, putting it at a competitive disadvantage. As a result, locating in a tiny state and being small was sensible.

In July 1995, the company debuted online. In May 1997, the company went public. Jeff and the initial crew made desks out of doors and four-by-fours as a sign of the company's thrift. The business began in a garage. Initial business discussions were held, ironically, at a local Barnes and Noble store.

He had the idea to organize the book trade via the Internet. Perhaps he was influenced in some way by his wife. She was a writer. Whatever it was, at that time the Internet was rapidly gaining popularity. It wasn't a mass phenomenon yet, but it was clear that it was going to happen soon.

His vision had two components: 1. He wanted to build the world's most customer-centric company. 2. He wished to open a shop where customers could buy anything. (Krishnamurthy,2005)

For two months, Bezos studied the possibilities of organizing trade via the Internet, then he left his job at the firm D. E. Show & Co., packed up, and went west with his wife, according to well-informed people, without knowing exactly where he was going. First, Bezos identified 20 items that can be traded on the Internet, then carefully studied the market of five main ones – books, disks, videotapes, floppy disks, and hard drives (it is interesting to note that all of these products are now available either directly or indirectly on his website). The biggest concern for Bezos was the size of the contiguous markets. Another important factor was the price. He sought to find an inexpensive product to dispel consumer fears about the existing prejudice against online trading at the time. The product also had to have sufficient variety.

Bezos first liked the name Cadabra (short for "abracadabra"), but because of the similarity of this word with the English cadaver, which means "corpse", the name had to be replaced. The site was supposed to be named "Abra" as if alluding to the alphabetical index in the search engine. In total, before launching the site on the Network, about three months were spent searching for a suitable name, and the name had to start with the letter "a" for the site to be at the beginning of the search. The organizers of the company wanted to choose a name for "a" that would be short, memorable, and reflect the essence of the site and its huge volume. And the company was named Amazon. Realizing how important symbolism is in the business, especially in the network business, Bezos deliberately decided to give his brainchild the name of the world's largest river, telling reporters that, like Amazon, his company will also be the largest in its field.

The rise of Amazon began along with the rise of numerous other Internet companies. However, there was one important difference in Bezos' company strategy right away – he understood how he would earn money, and he was not going to do everything to make a quick profit. Amazon had a long-term strategy, and Jeffrey Bezos was interested in the long-term perspective, not rapid growth. At the same time, like other Internet companies, Amazon grew very quickly.

3.1.1 eCommerce growth over years

Since 2014, the global e-retail market has been steadily increasing. In 2017, global e-retail commerce sales were \$2.3 trillion, with revenues expected to reach \$4.88 trillion by 2021

(Statista). E-commerce rose by 18 percent globally in 2018, with customers spending \$2.86 trillion on the internet. The top ten online merchants accounted for 15.1% of all worldwide e-commerce revenue (2019 Top Performers in Global Ecommerce).

With online shopping becoming more and more convenient sales are growing rapidly. There will be exponentially growing demand in eCommerce so it would make sense to start now an eCommerce business activity, learn and get confident in this field. Consumers worldwide spent nearly \$4.29 trillion online in a pandemic-fuelled 2020, up from almost \$3.46 trillion the prior year, according to Digital Commerce 360 estimates. Online penetration hit 20.2%, up from 16.4% in 2019 and 14.4% in 2018 (Figure 1).

Figure 1: Global eCommerce penetration 2016-2020



3.1.2 Brand Philosophy of Amazon

At the beginning of his journey to the Olympus of global e-commerce, Jeffrey Bezos focused his marketing decisions on the brand of his brainchild. In the early years of its existence, due to the lack of real competition, the owner of Amazon sought to consolidate and increase the awareness of its brand. The next stage of the marketing campaign was to work on such a fundamental parameter as brand loyalty. This made it possible to turn regular customers into regular customers who were not afraid to give their money to a hitherto little-known store. According to Bezos ' brand-building principles, you need to do the following: You need to make a name today so that it works for you tomorrow. That's exactly what Bezos does. Even though he intended to sell more than just books, he deliberately didn't separate different

product lines – books, music, and videos. You need to have a clear idea of what is behind the company name. Some may think that Bezos is making a mistake by selling various products and thus destroying the idea of Amazon as a bookstore. At first glance, this remark may seem fair, because the site was originally intended to sell books. However, as the company grew, the site became associated not only with books but also with other products, as well as with high-quality services. Working with public opinion, along with advertising, should be an important link in creating a brand. If advertising does not help increase market share, at least it will keep it at the same level. Working with public opinion plays an important role in creating a new brand, and also constantly introduces potential customers to the company's products. The name must have a specific meaning. Amazon took advantage of this trick, promising to become "the world's largest bookstore" and then "the supermarket with the largest selection." Rule, but divide. The Amazon site can be compared to a multi-brand shopping center that provides links to other sites. Amazon itself could sell medical products, but, having no experience and reputation in this field, the company's management decided to limit itself to a link to the website of a pharmaceutical company, which at the same time is an additional reason for users to visit Amazon. Quality service is an image, not a reality. Of course, Amazon delivers high-quality products always on time, offers a convenient payment system, but the very concept of the level of service also implies creating a special impression among customers. Therefore, Amazon strives to maintain a good image of the company, constantly updating the site, expanding the range, and trying to make the shopping process enjoyable. Live up to your reputation. Being already a large and well-known company, it is not difficult to forget what you once started with. However, when working on the Web, do not forget these promises, because, on the Internet, information spreads much faster than usual. Don't spoil a good name with a low level of service. The logo is of great importance for the creation of the brand because it is an artistic expression of the main objectives of the company. When Amazon decided to change its logo in early 2000, it caused a lot of noise. The old logo had a curved line under the name, while the new one had a line that seemed to form a smile, and also connects the first and fourth letters of the name and carries another meaning: you can find everything on the site from A to Z. The Vice President of Marketing explained the reason for the new logo: "We did this to emphasize our main goal – to please customers. We think that our new logo exudes joy, it is original and can easily become one of the most recognizable symbols in the world."

3.1.3 Introduction to Fulfilment by Amazon

Amazon FBA is a system that allows anyone to sell their products on the marketplace, the advantage of which is that you can physically store products in Amazon warehouses, which are responsible for sending them to your customers, managing returns, and providing better customer service. In other words, you ship your product to the warehouse, and Amazon FBA is responsible for managing all the logistics work that the future sale of these products will entail.

How Fulfilment by Amazon works? The scheme of operation is very simple. You order delivery from China, from your chosen supplier, directly to the warehouse of the Fulfilment by Amazon program. At the same time, you will need to ask the supplier to mark the product with special stickers that the service will provide you with (FBA Labelled Inventory). They will help your product to be identified and taken to the warehouse.

Amazon warehouses work like clockwork: all processes are automated; the loss of goods is excluded. Both the product itself and the cells where it is stored are marked with special codes. Despite the huge area of the shelves, any product is very fast. All you have to do is monitor the number of products in your account and add new batches to the balance in time, as sales progress.

Your main part of the job is filling out product cards, regulating the price policy, promoting the product on the site using Amazon marketing tools, and answering questions from potential buyers. All orders will be delivered by Amazon independently, taking away all the headache associated with it. And rest assured-everything will be done at the highest level and even with the provision of additional service: combining orders into one delivery, returning goods that for some reason did not fit. For a large number of products, a two-day delivery program is available. Amazon's goals are to reduce delivery time even further without losing out on the quality of services.

The most important thing in this whole process is that customers do not even think about whose product they are buying Amazon's product or a third party whose representative lives

all over the world. All the pages are designed in the same style and the seller's name does not stand out much on them. At the same time, the trust in the service is so great that third-party products are sold as successfully as the products of Amazona itself.

It is an abbreviation of "Fulfilment by Amazon", which, although not usually translated literally, means "completed by Amazon". In other words, it is a system that allows you, as the person responsible for e-commerce, to ensure that you meet with your customers and ensure that the sales process is tracked:

- High-quality user experience when viewing products
- Fast and convenient payment system
- Fast delivery to the specified address
- Reliable packaging and safe delivery

3.2 Introduction to a Business Plan

The procedure for drawing up a business plan is to record a clear understanding of the current state of the company, identify the prospects for its development, and calculate what resources will be required for this. For a new entrepreneur, preparing a business plan is not the easiest task. You must be well-versed in the industry, grasp key financial indicators, and be able to appraise the market and its prospects in order to produce a successful business plan. (Huigens,2020).

“Plans are of little importance, but planning is essential.” — Winston Churchill, former British Prime Minister. With these words we start from foundation to the Business Plan on Third Party Selling eco-friendly products in Amazon.

3.2.1 Generally Accepted Accounting Principles GAAP

1. **Assets** are resources (both tangible and intangible) that an enterprise sells to make a profit. The enterprise's market value can be determined based on the condition, structure, and volume of assets. The term "company's property" refers to a collection of assets that can be used to generate revenue.

Tangible assets are any objects with a physical form (buildings and structures, equipment, materials, and so on). Intangible assets do not have a physical form, but they do play a role in the company's operations. They may include, for example, a trademark, license, software, or patent.

Financial assets are company-owned financial instruments (monetary assets in different currencies, financial investments with different maturities).

1. **Liability** is the totality of all debts of an individual, society, or union; as opposed to an asset, property. A liability is a set of liabilities, debts of a company of a short-term and long-term nature.
2. **Equity** is traditionally understood as a set of funds owned by the organization and its participants. This type of information is necessarily disclosed in the balance sheet.

Equity = Total Assets–Total Liabilities

1. **Income Statement.** The income statement depicts the company's performance over a specific time period, such as a quarter or year. The income statement depicts a company's profit or loss by focusing on revenue and expenses.
2. **Revenue** is the money that the company has earned by selling its goods or services.

Types of revenue:

Gross revenue is earnings before taxes, excise taxes, duties, and other mandatory costs.

Net revenue is the amount that remains after paying all costs.

Revenue shows how effectively the company operates, whether there is a demand for goods and services, whether they are interesting to consumers. The business uses the revenue in planning — to compare at the end of a certain period how much money it managed to get and how much it planned to earn. Marketers analyze revenue in order to form an effective marketing strategy and correctly formulate a pricing policy.

Revenue = Quantity Sold Items * Price per quantity

1. **Expenses** for a certain period of time or in the process of economic or other economic activity (production and sale of products, services, etc.). Expense refers to

money spent on utilities, salaries, raw materials, and other items that a business incurs while operating.

2. **Profit** is equal to the difference between the Total Revenue of the company and Expenses (costs). In the sources, you can also find its definition as the remainder of the total income after subtracting all costs. The economic profit of the company is calculated according to the following formula:

$$\text{Profit} = \text{Total Revenue (Cost of sold Items)} - \text{Total Expenses}$$

1. **Net loss**, also known as loss, is the financial position of a company when total expenses exceed total revenues. In other words, the net loss is the total amount of money lost by the company during the period.
2. **A Cash Flow Statement** is a document that reflects the receipt and disposal of cash and cash equivalents for the reporting period.
3. There are three types of **Profit margins**: Gross profit, net profit, and operating profit margin are the three types of profit margins. Divide profit by revenue to find your profit margins. Profit margins reveal a company's potential for growth by revealing how much profit each dollar of sales creates. $(\text{profit} / \text{revenue}) \times 100\% = \text{profit margin}$

Note that more revenue does not always imply larger margins and profits retained

from sales.

1. **The operating Cash Ratio determines** if a company's cash flows from activities are sufficient to cover its current liabilities. This ratio can be used to determine an organization's short-term liquidity.
2. **Key Performance Indicators KPIs** are the performance indicators of an enterprise that help an organization achieve strategic and tactical (operational) goals. The use of key performance indicators gives the company the opportunity to assess its current state and help in assessing the success of the implementation of the chosen strategy.
3. The **cost of goods sold (COGS)** is the book value of goods sold over a certain period.

Costs are associated with specific products using one of several formulas, including specific identification, first, come-first goes (FIFO), or average cost. Costs include all purchase costs, processing costs, and other costs incurred in delivering inventory to its current location and to its current condition. The cost of goods produced by enterprises includes materials, labor, and overhead costs. The costs of those goods that have not yet been sold are deferred as inventory costs until the inventory is sold or written off in value.

While General Accounting Principles are good for identifying the components of our business at the end of each accounting period it does not help us generate the „perpetual“ profit. Mike Michalowicz in his „Profit First“ book suggests doing the opposite than is suggested by General Accounting Principles. Relying on traditional accounting methods to grow profitability is the equivalent of telling you to jump off a cliff and flap your arms. (Michalowicz,2014) In the traditional model we subtract expenses from sales to get the profit:

$$\text{Sales} - \text{Expenses} = \text{Profit}$$

Yet Michalowicz suggests we set aside Profit as a very first thing. Then from what is left, we have to simply adopt and run our business.

Parkinson's Law expands to fill the time required to complete it. The same refers to finance, expenses grow to fit the income growth which is why many cannot get wealthy and businesses live in a survival mode, surviving check-to-check and panic-to-panic. We can trick this nature of human beings by setting aside the profit immediately and making it physically unavailable or hard to reach. This way businesses will come up with dozens of innovative ideas to run and grow the enterprise without spending less.

3.2.2 Foundation of Business Plan

Independently, an internal business development plan is drawn up to achieve maximum efficiency from the implementation of the conceived idea and is an action plan to achieve certain indicators. The business plan must include information about the resources already available and what else needs to be obtained (financial resources, team, access to production resources, etc.). In the internal business plan, you need to write the maximum number of

alternatives, and try to focus on the best of them. The internal business plan also helps the company's top managers and employees make management decisions.

The beginning of each Business Plan starts with spotting and predicting an upcoming trend. Just like Spencer Silver has created the sticky notes or Ray Kroc established a well-known fast-food chain McDonald's, most of the great ideas of our time were born because they solve a very common problem for many people. Ferdinand Porsche once said that he once he looked around and he did not see a good vehicle, so he built one himself.

To create a product or a brand with a variety of products we must find a gap in the market. A gap is a place where there is demand for particular good or service, but they're no satisfactory or worthy offers in the market, the place where customer needs and willingness to pay are not met with a suitable attractive offer. We must find the gap in the market and fill it with a suitable product or service. Another way is to find the so-called sweet spot in the market. Mark Cooper Smith, the co-author of "The Other "F" Word: Failure – Wise Lessons for Breakthrough Innovation and Growth", helps entrepreneurs do this by using the Venn diagram with the following three factors. (Figure 2)

Expertise. It is necessary to build expertise in an industry where an entrepreneur wishes to start his business. It is highly important to be aware of all the trends and changes in the market or to be precise in the niche where a businessman wants to make his unique market offer. If we are talking about the recycling business, we should have a piece of knowledge about different types of materials and the ways to recycle them. To be able to understand the terminology, it is mandatory to gather the information and build the vocabulary about the product or service an individual entrepreneur is going to offer to his or her potential or existing clients. Profound expertise is needed also to be able to add innovative changes to a particular product or service. In a short, you have to become an expert in what you are selling. It is mortifying if an entrepreneur is not an expert in his or her industry.

Opportunity. There are two types of opportunities; existing, if we are entering an existing niche, and potential if we are offering a completely new innovated product or service. To spot the opportunities in the market one must do market research thus analyze the market.

Not only the size of the market has to be identified but also customer behavior, customer buying habits, and willingness to adapt to the new product have to be analyzed. To detect the opportunity, we must answer to following questions and analyze them meticulously.

What is the size of the market? Is it growing, stable, or in decline?

- Is the industry as a whole growing, stable, or declining?
- What market sector do I intend to target?

What are the demographics and behaviors of the market I'm going after?

- Is there a rise or reduction in demand for my specific products and services?
- Can I set myself apart from the competition in a way that clients will value?
- How much do customers expect to pay for my products and services? Are they considered a commodity or a one-of-a-kind, unique item? (Haden,2015)

Passion. As many successful entrepreneurs say, passion is followed by success. One can become truly successful in what he or she loves to do. Therefore, he will be willing to put in an enormous amount of work to achieve his objectives. Although this statement is well known it can be arguable. Sometimes to follow our passion or to reach the goals we have to do manual and not exciting work and instead of passion, we could offer dedication that an individual entrepreneur could develop over time through failures, as we say through ups and downs.

Figure 2: Sweet spot



Source:221bbc.com Business Consulting Blog

3.2.3 Value creation for a business

The Meaning.

Now when we found a sweet spot for our start-up plan or business plan, it is highly important to give it meaning. To be precise meaning is not money, success, or prestige. Meaning is no free meals or Xbox rooms for the employees. Meaning is making the world a better place, bringing value.

What is bringing value?

Value is a relative indicator. Consumers compare competitors ' offers and choose what meets their needs in the best way and at the best price.

Customer-focused companies are 60% more profitable, according to a study by consulting companies Deloitte and Touche. People buy solutions to their problems. Understanding what is valuable to customers helps you create products that deliver the highest value with the lowest set of features. This saves the company resources, plus such products are easier to promote and sell. More value leads to more satisfaction from the purchase. And a satisfied customer is a loyal customer.

Bringing Value is about making a difference, which means acting on your environment to change it says Sustainable Packaging Financial Manager of Nestle Mickael Pouvreau in his LinkedIn article. It is common to hear nowadays about bringing the best value to the customers or consumers. If you make meaning, you'll probably also make money. (Kawasaki,2015)

Bringing value in the case of an eco-friendly brand would be understanding the customer and consumer who is willing to change his or her way of regular living and ready to get out of the comfort zone to contribute to saving the planet and reducing waste. Bringing value would provide high-quality products to help them for a smooth transition from unsustainable life to a more sustainable and eco-friendly life. Quality of products is not the only way to bring value to customers. It is not enough just to produce a perfect product and set out a reasonable price for it. Customers have lots of different alternatives and options in the market

especially if we are talking about e-commerce platforms. Customers look for additional value when making their choice. (Gazarkh,2020)

Why bringing value is important?

Bringing value to the brand is especially important as we want to create brand loyalty. The brand must gain new customers' trust and love. We should create a bond between our brand and our target audience which will help us later to retain those customers and for the business to grow organically. One satisfied customer will bring us 10 other new customers. To help the brand grow organically we must make sure that the value of our company correlates with the values of our potential customers. There are different techniques to create and add value.

3.2.4 Techniques to create value

There will be demonstrated different approaches to create value for the potential customer. Value creation is a continuous process, as customers and their needs change. You can identify several steps in this process.

Step 1. Understand what constitutes value to the target audience.

We need to constantly collect data to understand what is important to customers and what opportunities we must help with this. There are many ways to determine value:

- ask questions to customers through managers and capture data in CRM (Customer Relationship Management).
- analyse recordings of conversations that sellers have with customers.
- conduct surveys — in newsletters, on the website; organize focus groups.
- communicate with clients at exhibitions, seminars, and after webinars.

Step 2. Explore our competitors ' offers.

The second step in developing value for consumers is to evaluate competitors ' offers. The evaluation is carried out according to the parameters that were found by the clients.

Step 3. Understand what our Value Proposition is.

Find out what value our product or service gives to customers and what it costs them — in terms of price and additional costs of ownership and service. For example, how much time you need to spend on buying or using a product.

Step 4. Identify the segments for which we can create the most value compared to our competitors.

Different groups of customers will have different perceptions of the value of the product concerning competitors. For example, for one group, geographical proximity is important, for another another-the property of the product.

Step 5. Set a price that is favourable for both parties.

The value of the product for the consumer can be many times greater than its cost price. By setting a price based on value, the company not only increases profits. In some cases, it makes the product more desirable for the customer. Probably, each of us once talked about the product: "Looks good, but suspiciously cheap." This happens if the price and value difference is in the eyes of the customer. Therefore, it is important to set a price, considering how much customers are willing to pay for it.

Erik Larson in his article “5 THINGS TO CONSIDER WHEN CREATING VALUE CREATION STRATEGIES” proposes the following activities for individual entrepreneurs to take:

1. Create Intensity – means exceeding customer expectations. It also means going above and beyond what your competitors are doing. For that, you can make a research what your competitors are offering and make it better, thus perfecting the product or service they are offering to their customers. First, we must analyze the product and think about how we could perfect it. Only those high-quality products and services must be analyzed, we do not need mediocracy in that area. Not only do the quality and the design of the product have to be checked, but also their customer service and the way they are presenting themselves are crucial. (Larson,2017)

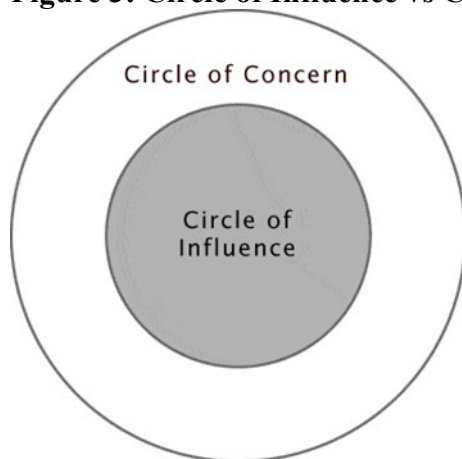
Another way to create intensity is to check customer reviews of your competitors and if there are negative reviews or unsatisfied customer needs, must consider it when designing and

proposing your unique market offer. These types of activities must be exercised frequently. Creating intensity is being the best in the market. And being on top means being better than the competitors that are competing with you in the same niche and surpassing customer expectations.

2. Value application- is about expanding your customer base. It can be going from local customers to worldwide customers. Expanding the circle of customers that you can bring value to, creating bigger and better value. When bringing value takes a global form it creates a community of people who value certain things. For example, people who value saving the environment. When people collectively believe in something it creates communities and communities create the same needs, beliefs, same consumer behavior, and same tastes. Creating or adding value for big communities will help your business to grow organically and help the circle of people's influence expands wider and wider.

In the sense of a worldwide e-commerce platform like Amazon, it is not hard to make. By starting to sell in one country, you can then expand the circle of your business influence wider by selling in other countries and staying on the same e-commerce platform. By expanding the circle of influence, you also contract the circle of concern (Figure 3).

Figure 3: Circle of Influence vs Circle of Concern



Source:trustedexecutive.com

3. Tradition- one of the main problems of business owners and entrepreneurs is that they are “stuck” in their old way of thinking and old way of doing business. The changes in

society are proportional to changes in the economy. Society now is considered not a stable object; it is constantly changing at a very fast pace compared to the previous century and the social fabric and values are changing accordingly. The business environment is a battlefield nowadays. To succeed in the business world entrepreneurs should develop a flexible mind and adaptability to changes. Technologies are guilty of such a fast-paced, moving economy and subsequently a business world.

However, many companies avoid doing so for two main reasons.

1. Fear – many businesses fear change and often worry that change will hurt the business rather than help. (Larson,2017)

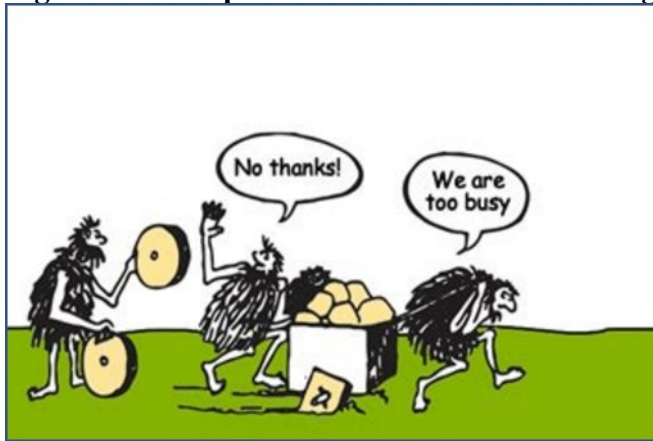
Many times, we try to avoid risks and losses instead of thinking about gains. It is also called a Risk Aversion Bias in Daniel Kahneman`s book “Thinking, Fast and Slow”.

Our beloved story about Kodak and how it's refrained to change. It is also called Kodaks story of failure. Why did Kodak go bankrupt? Kodak missed the opportunities in digital photography because of its manager`s inability to see technological changes in the market and the demand for disruptive technologies. It stayed in denial for decades and was not open at all to changes which caused its failure. Denial that our products or services can be substituted in the future by a better version will lead our business or company to sink. Instead one must develop a flexible and adaptable mentality to make constant changes to his or her business according to market demand and pay careful attention to its research and development department if there is such.

2. Tradition - Many businesses do not want to change because they have worked this way for several years. If things are not working a traditional way, it is crucial to insert changes to business processes. It is also called a Complete Reconstruction of Business. It is when you restructure the business operations and make a significant change to how your company performs. Can be also done through performance or process management, to analyze the business processes and make changes, insert new ones, or eliminate the outdated ones. The following illustrations will show you how a conservative and traditional way of thinking

holds businesses to succeed and grow. Can be done through Business Process Re-engineering or Business Process Improvement.

Figure 4: Consequences of Traditional Thinking in Entrepreneurship



Source: Performance Management

3. Customer Engagement – is the emotional bond between customer and brand. In the end, when you buy Nike or Apple products, you are paying more brand than for the product. All these market giants have millions of loyal customers across the world because they found a way to gain customer trust. Customer engagement is about finding what your customer values and aligning to those values by offering goods and services which will make them emotionally connect to your brand.

Why care about engaging with your customers?

The world of eCommerce has become more crowded than ever. Customers have more alternatives to choose from alternatives and we want to differentiate our products from the

thousands of substitutes. Strengthening the engagement between our business and our customer will help us retain the customers that have already purchased from us and will help the business to grow sustainably. (McEachern,2019). There are some ways how to calculate customer engagement for a business and evaluate it at the end of the business year. The calculations will help the business to set goals and targets for performance in customer engagement for the next business year.

Purchase Frequency (PF)

Is the number of times a unique customer purchased your product in a given time (usually 365 days)? You calculate it by dividing the number of orders in the last 365 days by the number of unique customers over the last 365 days. By looking at numbers you can see how engaged your customers are. Each year by evaluating the Purchase Frequency number you can see how many loyal customers your business has gained, and you can set targets for next year.

Average order value (AOV)

This is especially applicable if the business has several products to offer. When you create a bond between your customer and your brand, they are more willing to purchase and try out other products that your brand offers. To calculate the average order value, we should divide total revenues by the number of orders.

For example, let's say that our revenue for January is \$4000 and the total number of orders is 40, the average order value will be \$100. It means that 40 customers have made purchases on average for the amount of \$100. Greater average order value indicates better customer engagement.

Ways to increase AOV in case of eCommerce:

Cross-selling: Offering related products to the ones that customer has already purchased, selling bundle-related products. (Ex. Offering toothpaste to the customer that has purchased a toothbrush.)

Volume discounts: Offering a discount if the customer buys more items. (Ex. This toothbrush costs \$3, but if you buy 3 you will a 30% discount.)

Coupons on next order. Offering a coupon for the next order if a customer order reaches the amount. (Ex. If you order for \$50 now you will get a \$10 coupon on your next order.

Repeated Purchase Rate (RPR)

The number of customers that came back to our store for purchase or the number of repeated purchases made by one customer over a given time. We can calculate it by dividing the number of customers that purchased at our store more than once by the total number of customers. By using this formula, we can see the trend of loyalty of our customers by evaluating it each year or each quarter or month.

4. Value vs. Revenue

Start-ups do not have to be generators of revenue at their early stages of life. Instead, it is better to research the market, analyze your target audience, their consumer behavior, and their values. In short, the first years of start-up must be about indicating customer values and exercising different ways to meet them. To grow organically we must understand the perspective of our customers, look through their lens to the world. In the first years, a start-up has to be taken as an experiment, rather than expecting cash to flow in a big amount. The creation of value should be a top priority for any start-up, and it serves as a foundation for a business that will then generate thick profit margins. This is the exercise from Guy Kawasaki's book to find if your business is creating value and solving problems for potential customers.

"The balance of power on the earth today is undeniably in the hands of corporations." Corporations compete with governments in terms of wealth, clout, and power. Indeed, business is all too frequently the puppet master of the government. In much of the globe today, competing institutions such as religion, the press, and even the military play minor roles. The human species and Planet Earth will have a fighting chance if a values-driven

approach to business can begin to divert this immense power toward more positive objectives than the sheer accumulation of riches."

— Ben Cohen, *Values-Driven Business: How to Change the World, Make Money, and Have Fun*, 2006.

3.3 Introduction to Brand

A brand is a name, term, design, symbol, or any other information that identifies a product or service of a particular seller and distinguishes the company's product from other market participants. I.e., a set of ideas, opinions, associations, emotions, and value characteristics about the product in the consumer's mind. Physical components of the brand – elements of the corporate identity (brand name, logo, palette of corporate colours, original graphics, a set of phrases, etc.).

CEO of Starbucks Howard Shultz says that people will remain loyal to a brand if they believe they share values with the company.

3.3.1 Importance of brand creation

You can think of a brand as an idea or image that appears to potential buyers when they think about specific products, services, or the activities of the company as a whole. Not only are the physical characteristics of the product associated with the brand, but also the feelings and emotions that consumers experience concerning the business. A whole complex of physical and emotional signals is triggered by the potential consumer at the mention of the brand name, the appearance of the logo, and visual identity. The brand must be recognizable; as a rule, the rights to use it are protected by law. One of the most important components of a brand is its reputation. Both individual employees of the company, and the company as a whole or its products. The product may be copied by other players in the market, but the brand will always be unique. If a brand is recognizable, if a product or service is associated with a particular business, it increases the chances of competing and therefore contributes to obtaining more profit.

The brand gets recognition from consumers. Through the popularity of the brand, the company receives recognition and becomes known to consumers. Such a company can release a new product or service under its name. The main task facing a well-known company is to increase the assortment, increase the number of consumers by expanding the brand, i.e. using the existing brand to the maximum.

The brand increases the value of the business. The value of a business is not just the total value of all its assets. The coefficient is formed from intangible components: the company's reputation, the popularity of its product, the history of the enterprise, which is involved in the formation of the brand.

The brand attracts new customers. A good brand will have no problems in affiliate marketing. If customers have a positive impression of the company, they will have a business relationship with you because of the perceived reliability of the name (brand) they trust. After the formation of the brand, word of mouth will become an effective advertising technique for the company, attracting new consumers of goods or services.

3.3.2 Introduction to Brand Mantra

The mantra is a 2-sentence pitch that will explain your business. It has to be short and precise. Sometimes it's called an elevator pitch. An Elevator pitch will be needed if the start-up is trying to raise the funds from angel investors or venture capitalists. A good elevator pitch is a magical ingredient for any business. The following steps must have proceeded to create a solid elevator speech for a business:

1. Define the problem.

If your business is not solving a problem, you do not have a practical business plan. A product or service must solve a customer's problem. The problem that your business is solving must be formulated in a very precise, specific, and short way.

2. Offer a solution.

Once the problem is clearly defined, we can move on to the solution that we are offering to our customers. A lot of entrepreneurs make the mistake of skipping the first step and moving immediately to the solution part. Before you start solving a problem you have to make sure that such a problem does exist. Once you have clearly defined the problem you are solving, you can explain your solution. (Parsons,2019)

3. Define the Target Market.

After defining the problem and the solution, we must think about the potential customers that have this problem. In the target market elevator pitch we will define exactly who has the problem. It will be useful to use market segmentation to define the target market. It is better if we divide our target market into smaller groups, then it will also help us to analyze which group is actively buying.

Here are elevator pitches of market giants.

- Authentic athletic performance (Nike)
- Fun family entertainment (Disney)
- Rich, rewarding coffee experience (Starbucks)
- Ultimate Driving Machine (BMW)
- Think different (Apple)

What should Brand Mantra look like?

- **Brevity.** Mantras should be short and memorable. Everyone who is involved in the business must know the mantra by heart. From the CEO to the clerk.

- **Positivity.** Mantras should be showing how you are making the world a better place. A positive note is a key to a brand mantra. How your start-up is contributing to the community or the world.

- **Outward focus.** Mantras should be focusing on serving society and bringing value to the customers. Mantras should not sound selfish. Customers do not care about making you or your shareholders rich. The brand mantra should show that your business is a giver, not taker.

3.5 Business Model

Firstly, let us define what is a Business Model. A business model is a model that explains how a company makes a profit or what the company gets paid for. It can be also defined as a company's core strategy to make a profit. Let us imagine that a businessman is an employee and the profit that he or his company made is a salary, then his business activities or his summarized job that he does to get paid will be a business model. Although business models can be changed or improved during the life of the company must define its core business model before it launches its products or services.

A business model is a conceptual framework that supports the viability of a product or company and explains how the company operates, makes money, and how intends to achieve its goals. All business processes and policies that the company adopts and adheres to are part of the business model. The father of management Peter Drucker says that the business model is supposed to be responsible for who your customer is, what value you can create/add to the customer, and how you can do it at a reasonable cost.

In the book of Adam Slywotzky, *The Art of Profitability*, there are different models to make a profit that can be adapted to a business model. In general, this book widens up the horizons about making a profit for a business, thus an individual entrepreneur must go through all the profit-making models that Slywotzky talks about in his book. Going through all the profit models that the author offers in his book we can create our own "hybrid" Business Model.

Customer Solution Profit Model

Any business needs to make a consistent profit. Many investors would choose consistently growing portfolios rather than portfolios with high volatility. If the profits are hitting the wall, then a company should rewrite its business model. A business should be considered as an individual. There is always a space to grow and perfect yourself. Just like an individual learns additional skills through education and exercising these skills a business should step on a growth path or growth mindset by constant improvements. In the end, an individual that

succeeds in his or her mind succeeds because of his or her mindset. So does the business. If our competitors are better than us, we should question ourselves:

What do they do differently?

Going to their core strategies to make a profit we could be able to put the fragments together and see the big picture. It is very important for a business to create a secret sauce and to choose a winning strategy.

To succeed in business, you must have a genuine interest in customer needs. In the stories of failures of big companies, we can point out for ourselves that mostly they were putting profit-making on the top priorities of the priority pyramid.

This model for profit-making has maybe become a traditional model across the organizations, which have been developed through learning from the failures of other companies by studying their core strategies and company philosophy. In the modern business world, it is said that individual entrepreneurs or organizations should leave behind their selfishness and should focus on solving a customer's problem.

Slywotzky in 2002 said that we should Invest time and energy in learning all there is to know about your customers. After we should use that knowledge to create specific solutions for them. Lose money for a short time. Make money for a long time

There is an opportunity cost of making a short-term profit and investing time and energy into learning your target audience's wants and needs and making a consistent long-term profit. The stories of success of many organizations have taught us this one thing, putting customer needs first will bring you to the top of the mountain. The customer Solution Model could be a model a legitimate model to apply for any business.

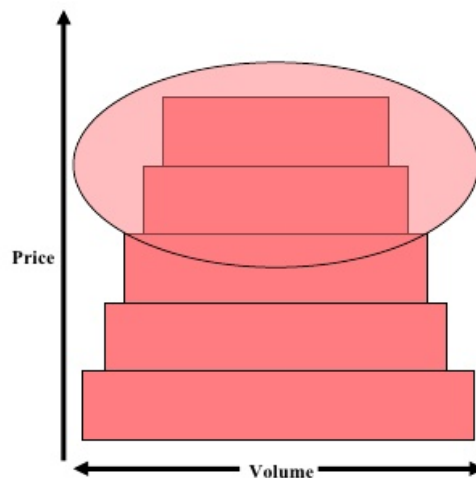
3.5.1 Pyramid Profit Model

Here is what Pyramid profit Model is about: Let us say you sell Bamboo Toothbrushes from \$20 to \$30. Your competitors enter the market and want to make an offer below the price that you are offering. You develop a \$10 Toothbrush to seal the space. This way you barely make a profit, but you prevent your competitors from reaching out to your customers. In the end, a customer that has bought a toothbrush for \$10 will drive up the sales by buying

additional accessories. The secret sauce is to sell in different price ranges to win all the possible customers (Figure 5).

This model shows that most of the profit is made at the top of the pyramid. The base of the pyramid (in our case a single branding base is products in a lower price range) protects the top of the pyramid. Thus, regular customers protect the company to make a profit from super-premium customers. This business model is used almost everywhere across the world. In the banks their layers of the pyramid-like green card, gold card, and platinum card. General Motors have at the base of their pyramid Chevrolet and the top of the pyramid Cadillac. Just like the Pyramid Profit model our customers do have a hierarchy of needs too. We need to fill every layer of the pyramid, thus feeding the needs of customers that are in different stages of the pyramid.

Figure 5: Pyramid Profit Model



Source: www.ziyaboyacigiller.com

3.5.2 Multi-component Profit Model

Coca-cola uses this profit model by selling its products at different prices in supermarkets, shops, vending machines, and restaurants. You can guess from which one of them Coca-cola makes most of the profit. It is like Pyramid Profit Model but here you have one customer who buys from all the business components. Having different business components will

drive up the sales rather than having one. Thus, in addition to your base business you must have many business components just like Coca-cola sells their products in different places.

3.5.3 Market Leader Profit Model

This position or business model is hard to maintain. It needs a constant innovative mind and a very strong research and development department. Your brand needs to be aware of all the novelties of the market in your niche and must surpass the competitors with even cooler and innovative products. Apple can be an example, one of the companies that hold a leading position in the market. Offering to the market the most innovative products takes a lot of resources and energy. However, such a mindset can be adapted and exercised.

The business model will be changing as the business will grow. It is alarming if the business does not consider changes over time. However, it is important to define the business model for a start. Here are additional things to take into consideration when writing a business plan.

3.6 Target audience

The target audience is the group of people who might buy a product or service. The task of marketing is to influence it to encourage it to buy. In other words, this is the circle of consumers, individuals, or companies for which this product is designed, and which may be interested in it. All other things being equal, it is the representatives of the target audience who first of all intend to purchase it.

The ability to find and identify different characteristics of the target audience, as well as to conduct a more detailed classification, allows us to:

- Create a portrait of our audience, get to know it better. Basic characteristics include demographics: gender, age, education, income level, lifestyle, and values. Knowing the TA "in person", allows us to know its needs.
- The best way to convey information about our product, as well as its advantages relative to competitors.
- Increase brand awareness among the audience most likely to buy.

- Create personalized commercial offers that will meet the needs of a specific group or even a specific person. They can be a decisive factor in making a purchase decision.
- Develop an effective advertising campaign that uses the highest quality channels that ensure profitability.
- Reduce advertising costs.
- Increase sales conversion, return on investment-ROI.
- Increase brand loyalty and increase the likelihood of repeat purchases — including possibly growing a loyal customer

It is better if we can describe our customer precisely. Business grows stronger if it targets a narrower audience. The secret sauce is to define the narrow target audience, provide the best possible service to them, observe, learn customer behaviour and grow larger. To define the customer audience, we can draw our customer's portraits or customer profiles.

Understanding your audience is crucial. Modern marketing is highly competitive, and it is important to build customer profiles to target those customers and deliver the type of service that they are demanding. Customer is always the key and improving the communication with customers will lead to greater ROI. Understanding the customer profile will lead to the ability to target the right audience through targeted marketing. Recognizing our customers will let us build loyalty between customers and our brand and let the customer feel valued.

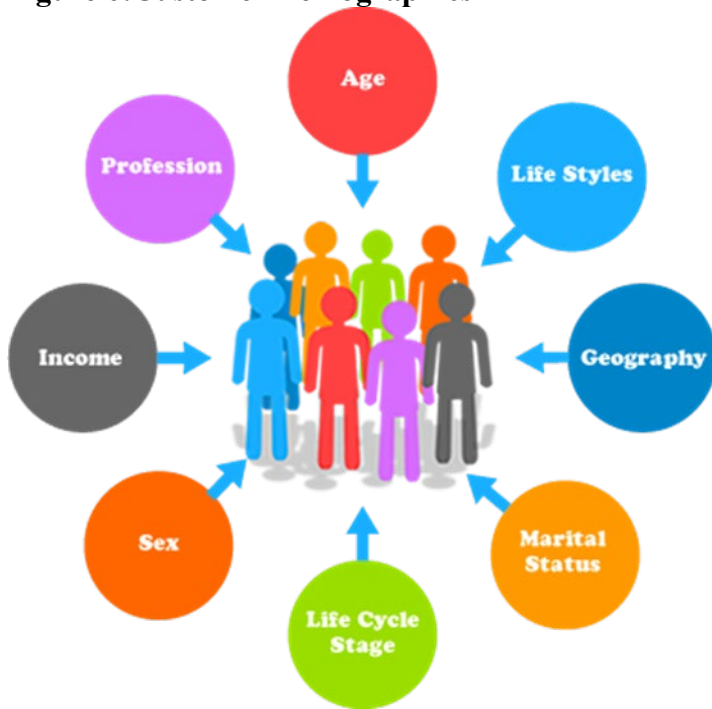
3.6.1 Identifying the target audience

Demographics is a way to divide the market into different segments to approach them in a different way and bring them customized unique services. According to demographics we can draw different potential customer portraits and using that information we can develop various strategies to target them better (Figure 6).

Behavior – this refers to individual customer buying habits, websites our potential customers visit, keywords they use, devices they use. It is also called web analytics, the behavior of the customer when online. It is highly important to analyze customer behavior through qualitative and quantitative studies to optimize the marketing campaign and target better. Collecting data about customer behavior is highly important to deliver better service

and to reach the customers that are looking for the kind of product or service that we are selling in the market. It is crucial to do the data mining in separate customer segments, analyze the data and apply the analysis to a campaign.

Figure 6:Customer Demographics



Source: wowdlla.com/our-process/design/demographics/

3.7 Introducing to MATT

MATT (Milestones, Assumptions, Tests, Tasks)

Let us break down achieving a particular target into strategy, tactics, and milestones.

Marketing strategy: Increase the environmental consciousness and encourage millennials to buy our eco-friendly products.

Tactics: Instagram Marketing

Milestone: Create an Instagram account by the end of 2021 with a budget of \$1000.

Other Milestones that have to be reached to have a successful business:

Working Prototype – initial example of the product to test out, to get feedback from first users, or to show the investors how it will look in the reality.

- Initial Capital- the calculated amount of money that must be invested in a business plan.

- Cash-flow breakeven – calculated variable and fixed expenses equal to sales revenue
- Setting up a strategy, tactics, and milestones is crucial for a business. Strategy without tactics will be the slowest way to success. And tactics without a strategy will be just unnecessary anxiety before being defeated.

Assumptions.

This list of assumptions that we make in the early stages of our business before launching the product. Discussing and documenting these assumptions is very important to evaluate and improve in the future.

- Market size
- Gross Margin
- Cost of customer acquisition – the cost of the marketing campaign for the number of new customers acquired.
- Customer Conversion Rate. In eCommerce, it is calculated by the number of visitors to your website for a given time divided by the number of sales in that specific period. The good customer conversion rate is above 10%.
- Return on investment for the customer is calculated by $[\text{money gained from the service provided to customer}] - [\text{money spent for the service provided}] / [\text{money spent for the service provided}]$. Good average annual return on investment rate would be 10 % and above.

Tests.

Everything is theoretical unless you apply it to real life. Your time and money are extremely valuable you-you can't afford to waste them by investing them in producing a product or service that fails in the marketplace. (Tracy,2005)

Testing is important to find out the following things:

- Will people use your product?
- Will we receive positive feedback about our products?

As well as testing will help with:

- Avoiding risk of a full-scale launch

- Gathering Data from actual customers
- Indicating customer`s willingness to pay

Ways to test the market:

- Make free giveaways in trade for honest feedback.
- Visit Trade shows and exhibitions.

Tasks.

Necessary activities to reach the milestones. Whatever tasks are not within reaching milestones are not of high priority and they must be put aside until the ones with high priority indicators will be completed. Tasks indication is needed to not let important items slip away from our eyesight.

4 Practical Part

"The first thing you should try to do if you're going to start a company is to make a working prototype." On PowerPoint, everything looks great. In PowerPoint, you can make anything work. However, having an actual demonstration, even if it is promotional in nature, is far more effective in persuading people."
Elon Musk

SpaceX, Paypal, Tesla Motors & SolarCity Founder

4.1 Market Research

Which Amazon marketplace to sell on?

Amazon operates in 16 marketplaces worldwide. Amazon has marketplaces in the United States, the United Kingdom, Germany, France, Canada, Italy, Spain, Netherlands, Australia, Brazil, Japan, China, India, Mexico, Saudi Arabia, Singapore, and Turkey.

Table 1: Amazon Marketplaces

EUROPE	ASIA-PACIFIC	MIDDLE EAST AND NORTH AFRICA	AMERICA
Amazon.de (Germany) Amazon.co.uk (United Kingdom) Amazon.fr (France) Amazon.it (Italy) Amazon.es (Spain) Amazon.nl (Netherlands) Amazon.pl (Poland)	Amazon.jp (Japan) Amazon.com.au (Australia) Amazon.sg (Singapore) Amazon.in (India)	Amazon.ae (United Arab Emirates) Amazon.com.tr (Turkey)	Amazon.com (United States) Amazon.ca (Canada) Amazon.com.mx (Mexico) Amazon.com.br

- Amazon.com is by far the largest marketplace, dwarfing all others.
- Amazon.co.uk and Amazon.de are the second biggest, and each does around 30% of the sales of Amazon.com. In other words, they are about one-third the size of Amazon.com.
- Amazon.jp is the next largest at around 20% of Amazon.com. It is one-fifth the size of Amazon.com.
- Amazon.it is also growing rapidly.

- Amazon.fr is smaller, but online retail is growing in France, and Amazon is taking a large share of that growth. It's estimated that around 38% of Internet users in France visit Amazon.fr at least once a month.
- Amazon.ca does around 10% of the volume of Amazon.com. To put it another way, that's a tenth of the size of Amazon.com.
- Amazon.in is also relatively small at this time, but Amazon is putting a lot of resources into expanding the market in India.
- Amazon.com.au opened in early 2018 and is still relatively new. Even three years on, there is not enough data to compare it to the more established marketplaces.
- Amazon.es, Amazon.mx, Amazon.cn, Amazon.nl, are smaller marketplaces but can still be very profitable for sellers.
- Amazon.com.br (Brazil) used to sell only Kindle books, but they have expanded and now sell many different products. But like the Australian marketplace, it is still too 'new' to compare to others.
- Amazon.ae a very well rounded store with net sales of approximately 145 million US dollars in 2019
- Amazon.com.tr limited categories available.
- Amazon.sg Another well-rounded store with net sales of approximately 1.9 million US dollars in 2019
- Amazon.sa (Previously Souq) e-Commerce is growing fast in Saudi Arabia.
- Amazon.se New marketplace (opened October 2020). 150 - 200 million products and growing.
- Amazon.pl New marketplace (opened March 2021). Over 100 million products and growing.

To conclude: Amazon.com, Amazon.co.uk, Amazon.de, and Amazon.jp are the biggest marketplaces.

Here are a rules of thumb when choosing in which Amazon marketplace to sell:

1. If you live in a country that has an Amazon marketplace, it makes the most sense to sell on that marketplace

2. If you live in a European country that does not have an Amazon marketplace, it makes sense to sell on the one closest to you, but do consider the language too.

3. If you live in Northern America, it makes the most sense to sell on Amazon.com and/or Amazon.ca

As we live in Europe it makes the most sense to make a research on European marketplaces.

Amazon marketplace research.

As a reminder, this thesis is about launching an online store on tight budget. Shipping the products from China across the ocean will cost significantly higher than shipping products to Europe. Therefore we will analyze on marketplaces in Europe.

4.1.1 Amazon Germany

Germany is one of the most appealing e-commerce markets in the world, with a population of 82 million people. Around 67 million people, or 89,8 percent of Internet users, with 65 million people, 85 percent of the German population is shopping online on a regular basis. Amazon.de is the leading German e-commerce market, with e-commerce net sales US\$ 20,594 million in 2021 generated in Germany. Estimated monthly traffic on Amazon.de in May 2021 434.5 million monthly visits, with a market share of 28,7 % and operating language is German. There are 13 Amazon fulfillment centers across the Germany. And due to language similarities, Amazon.de has buyers from nearby countries such as Austria and Switzerland.

According to eCommerceDB these are the trending segments in online shopping in Germany:

1. Electronics & Media (27%)
2. Fashion (24%)
3. Toys, Hobby & DIY (22%)
4. Furniture & Appliances (14%)
5. Food & Personal Care (13%)

4.1.2 Amazon UK

United Kingdoms population is 68,06 million people, 94,8 percent of which are Internet users, that makes up to 65.32 million people. In 2020, 87 percent of population of UK made online purchases. eCommerce net sales made up to US\$ 19,801 billion. The biggest eCommerce Platform in the UK's online retail market is Amazon. Almost 90 percent of shoppers in the UK are using Amazon, that results in 30 percent of market share. Estimated monthly traffics of Amazon online in the UK is 328 million visits. Amazon UK has 21 fulfillment centers across the marketplace. However, Amazon has removed European Fulfillment Network (EFN) due to Brexit, which makes it impossible to store products in UK. But such a news are good for sellers located in the UK as there is less competition.

Goods and services ranked by share of individuals who purchased online in Great Britain in 2020 according to Statista:

1. Clothes, shoes and accessories (55%)
2. Deliveries from restaurants, fast-food chains or catering (32%)
3. Printed books, magazines or newspapers (29%)
4. Furniture, home accessories or gardening products (28%)
5. Computers, tablets, mobile phones or accessories (24%)
6. Children's toys or childcare items (22%)
7. Cosmetics, beauty or wellness products (22%)
8. Cleaning products or personal hygiene products (18%)

4.1.3 Amazon France

Amazon France is the third largest marketplace, with a market share from 20 to 25 percent. France has population of over 67 million people, 83,3 percent of which are active internet users (55,811 million people). According to the study, 41.6 million French people buy online, that is 81.4 percent of all internet users in the country. Online shopping was constant and progressing until 2020, when it soared. This is 1.5 million more compared to 2019. (Pleuni,2021). Yet Amazon France remains below other European Marketplaces with revenue about 7,3 billion euros in 2020, while in Germany revenue made up to 29,6 billion dollars and in the U.K. up to 26,5 billion

dollars. (Sebag,Bloomberg,2021) France has 10 Amazon warehouses across the country and similar to Germany, due to linguistic similarities Amazon.fr has buyers from Belgium. The majority of French consumers buy online for practical reasons, such as having a wider range of products to choose from.

Online purchase penetration of product and services in France as of January 2021 according to statista:

1. Clothing/Fashion (53,9%)
2. Cultural goods (50,1%)
3. Health and beauty care (38,8%)
4. Games and toys (37,7 %)
5. Footwear (35,5%)
6. Technical/household goods (35,2%)
7. Food and drinks (30,3%)
8. Household products and home decor (29,7%)
9. Travel tickets (27,1%)
10. Trips (25.7%)
11. Home textiles (25.4%)

4.1.4 Amazon Italy

Amazon.it had 180.5 million number of visitors as of July 2021 taking it to the top of the mountain. Comparing to marketplaces mentioned above, Italian Amazon was launched 10 years later. Italy's population is 60 million people, 76,1 percent of which are active internet users, that boils down to 45,6 million people. Amazon.it in 2021 made a revenue of US\$ 5,3 billion. There are 8 Amazon warehouses located across the country.

According to European Ecommerce Overview: Italy article these are most trending segments in Italy:

1. Electronics & Media (29%)
2. Fashion (26%)
3. Toys, Hobby & DIY (17%)
4. Food & Personal Care (15%)

5. Furniture & Appliances (14%)

4.1.5 Amazon Spain

Spain's population is 47,35 million people, 93,2 percent of which are active internet users, which rounds up to 44,13 million people. Amazon in Spain was launched in 2011, now it has 8 warehouses across the country. Amazon is the biggest player in Spain and it has generated US\$ 4,6 billion of revenue in 2021. Fashion is the most popular segment in Spain, accounting for 27 percent of all eCommerce revenue.

Most popular product categories that people buy online in Spain according to ecommercenews.eu:

1. Clothing and accessories (64%)
2. Technology Category (46%)
3. Beauty products, cosmetics and perfumes (35%)
4. Catering and food delivery (33%)
5. Groceries (27%)

4.1.6 Amazon Netherlands

Netherlands has a population of 17,44 million people, 91,3 percent of which are active internet users. Amazon launched its online store in Netherlands in 2014 and it only sold ebooks and Kindle readers. In March 2020, everything changed and the marketplace offered the Dutch more than 100 million products in more than 30 different categories. Prime membership and related options have also become available, including free delivery of orders in the amount of 20 euros or more. During 2020 alone, Amazon doubled its reach in the Netherlands to 7.3 million consumers nationwide. And this is neither more nor less, but as much as 45% of all online users in the country. Amazon.de has generated US\$ 431.4 million of revenue in 2020 in Netherlands.

According to the Dutch National Bureau of Statistics, published on [Expertinfo Holland](https://www.expertinfo.nl), the most common products that the Dutch buy online are:

1. Clothing / Sporting Goods (52%)

2. Household Goods / Appliances (34%)
3. Books / Periodicals (29%)
4. Computers / Electronics (28%)
5. Food / Cosmetics (26%)
6. Telecommunications services (23%)

4.1.7 Amazon Poland

Before the launch of Amazon Poland, Polish buyers were already familiar with the marketplace and actively purchased on the German Amazon. Nevertheless, there are also active e-commerce players in the domestic market. Population of Poland is 37,95 million people. Internet user penetration in 2021 was 87 percent which boils up to 28.8 million people. Amazon.pl was launched in 2021 and it has 7 fulfillment center locations across the country.

According to ecommerceDB (<https://ecommercedb.com/en/markets/pl/all>) these are the top product categories in Poland:

1. Fashion (45%)
2. Electronics & Toys (19%)
3. Toys, Hobby & DIY (15%)
4. Furniture & Appliances (11%)
5. Food & Personal Care (10%)

After our detailed market research and being located in Czech Republic, for us it makes the most sense to sell on Amazon Germany. Amazon Germany is the second biggest marketplace in Europe after United Kingdom. The only obstacle would be German language, but joining Amazon U.K. marketplaces after Brexit would be even bigger obstacle. Additionally, if we decide to send our products to the fulfillment center in Czech Republic, it will be easier for us to make a VAT-registration in Prague.

Another advantage selling in Amazon Germany and having our products in FBA center in Czech Republic is that the seller must register for VAT in the country where the warehouse is located and sell the goods with the local VAT rate. If the warehouse is located in the Czech Republic, then mandatory VAT registration occurs only if the

sales turnover exceeds 1 million kronor for the 12 months following. If the turnover for sending goods to individuals for their personal consumption to another EU country exceeds the limit set by this country (each EU member state has its own), it will be necessary to register for VAT in the target sales country (buyer), sell the goods with the VAT rate of that country and pay this tax there. The limits for sending goods to other EU countries start from approximately 35 thousand euros (for example: France - 35,000 euros, Italy - 35,000 euros, Austria - 35,000 euros, Germany - 100,000 euros). (domytax.cz)

Above mentioned facts is a sufficient reason to start selling on Amazon Germany.

Features of the FBA program in Europe

It should be noted that on Amazon's European platforms, the FBA program works a little differently and we will now analyze exactly how.

The fact is that in Europe you can work with Amazon's FBA warehouses in two scenarios:

- Pan-European FBA
- Multi-Country Inventory

When working with **Pan-European FBA**, you deliver goods only to one Amazon warehouse, and then the marketplace independently distributes it to warehouses in other European countries. This option is good for sellers who are unsure in which EU market to sell their products. But it requires a seller to be VAT-registered in multiple countries.

The same entrepreneurs who start working in Europe selectively, mastering the market, starting with the most promising countries (for example, Germany, Britain and France), as a rule, choose the second scenario – **Multi-Country Inventory**.

The essence of the method is simple – you import goods only to the countries where you sell them. Accordingly, you pay VAT only in these countries. This strategy is the most common in the early stages of sales development in Europe, with the growth of the business you can switch to Pan-European FBA.

This is the scenario we will choose for our business.

4.2 Product Research

Understanding Best Sellers Rank (BSR)

The reason why we are defining the best sellers rank in a product research section is because it is one of the important indicators when choosing the first product to sell on Amazon.

4.2.1 What is Best Sellers Rank?

Before we start the Product Research we need to define a term called „Best Sellers Rank“. The Amazon Bestseller Rating (BSR) is a number based on the Amazon bestseller list that ranges from one to over a million. BSR measures the sales and popularity of a product compared to products of the same category and subcategories. A smaller number, such as one, means a better BSR.

For example, if you sell a frying pan from the categories "Kitchen and Dining" and "Electric Grills", Amazon will compare the sales of your product with other products in the categories "Kitchen and Dining" and "Electric Griddles". You will have a separate bestseller rating for "Kitchen and Dining " and "Electric Griddles". (See Figure 7)

Figure 7: Best Sellers Rank Example

Best Sellers Rank	#37,116 in Kitchen & Dining (See Top 100 in Kitchen & Dining) #36 in Electric Griddles
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What determines the ranking of Amazon's best sellers?

Amazon does not disclose its exact formula for calculating the bestseller rating. According to the ecommerce platform, it uses recent and historical product sales to create a bestseller list every hour. However, your BSR is affected by several other factors.

Category

Your category affects your BSR because it is a comparative indicator.

If you classify your product (for example, a portable charger) as "Electronics", not "Cell Phones and Accessories", this will directly form your bestseller rating. Depending on the number of products, as well as the purpose of searching for these categories, you can get a higher or lower BSR

Subcategory

Like your product category, the subcategories of your products also form the ranking of Amazon's best sellers.

Since it is difficult to get the first place in the bestseller lists in categories, due to the number of products, it is often easier for sellers to compete in the bestseller lists of the subcategory. These lists are more specific, which can help you get to the top of the charts, especially if you are selling a product that exactly matches this subcategory.

Frequency of sales

Frequency is another data point that defines your BSR.

The frequency of sales of your product directly depends on its popularity. If people buy your product quickly (think about what happens when a new game console or smartphone comes out), it demonstrates the popularity and demand for your product.

To get a stable bestseller rating, companies must maintain the dynamics of their sales frequency.

Sales history

While new goods may rise to the top of the bestselling list, Amazon frequently favors products with a long track record of sales. These are not one-time miracles, but permanent products that work (and sell) over time. Products whose sales fluctuate will often find it difficult to maintain a low (or good) bestseller rating.

Recent Sales vs. Sales History

While Amazon cares about the product's sales history, it prioritizes the most recent sales.

A popular product, even if it's brand new, can dominate the bestseller list because it sells. People buy it, and they buy it quickly, demonstrating that the product is popular and in demand with buyers.

However, novelty must also be balanced with frequency.

A brand new product may dominate the bestseller list for a week, but as sales and demand decline, it will drop in BSR as its sales frequency contrasts with past performance. Even

though the product may still sell well for the seller, it is not sold the way it used to, which can lead to a bad BSR.

When choosing the first product to sell it is better to not sell the product that is listed top 100 best sellers rank. If the product is listed in top 100 in any category that probably means we will be sharing a smaller pie and it will be hard to generate any sales. Excessively high BSR means also bad for us, that simply means that there is no demand for this type of product. Thus, we have to choose a product to sell that fits within a range of BSR that is adequate.

Manual Research Vs. Paid Tools.

In this thesis we will make a product research two ways: manual research and using paid tools. Manual research we will carry out with help of Excel Sheet. As a paid tool research, we have a purchased a Google Chrome Extension tool that is called JungleScout.

4.3.1 Manual Product Research.

Over the next section we are going to go through through a process of choosing a product to sell. We will make a list of 10 potential products to sell, even though ultimately we will only select one. We have to give ourselves different options and it will be easier to find a supplier exactly for the product that we want to sell. We will head over Amazon.de and look for the products in trending categories.

We can sell products on these categories on Amazon.de:

- Electronics & Computers
- Smart Home
- Home, Garden & Pets
- Beauty & Health
- Toys, Children & Baby
- Clothes, Shoes & Accessories
- Sport & Outdoors
- Automotive, Motorcycle & Industrial

Every Category has a several smaller subcategories and we can try to look for suitable potential product to sell in the subcategories.


We have created list features for a choosing a product to sell:

1. Non Perishable (no expiration date)
2. Reasonably lightweight (preferably not heavier than 1 kg)
3. Small Dimensions, compact
4. Not edible or topical
5. Priced between \$16 and \$40
6. Best Seller Rank (BSR) of between 100 and 10,000

Non-perishable because as a new seller, you don't want to have 'use by' or 'sell by' dates to worry about. Reasonably lightweight for shipping costs. Small and not bulky, again for shipping costs. We going to source our products from China. Therefore, our product needs to be not too heavy and not bulky to have low shipping costs. Liability and other considerations apply to anything that is consumed or applied topically. Selling price is in relation to profit margins and costs - more on that later in the course, and BSR guidelines are to help us choose products with good selling potential. Another thing to mention is that size is more important than the weight. As we will be shipping from China, the weight of the carton/pallet will be calculated by its dimensions. It is called Dimensional Weight and the size of the carton is going to determine a price of shipping. Detailed information is in “Logistics Research” part.

Example: This “LED Bedside Lamp” passes our tests. It’s price is higher than \$16; it is 264 grams light and dimensions are small as well; it has 667th best seller’s rank in “Lighting” category. The very last test to do, is to check the prices for similar products and make sure that the prices are not lower than \$16. In the case of “LED Bedside Lamp” we could not find alternative options with the price lower than \$16. Similarly, we will have to conduct the same tests for other products in different product categories and make a list of at least 10 potential products to sell.

Figure 8: Amazon Product Example



LED Bedside Touch Sensitive Dimmable Table Lamp, Battery Operated, 8 Colours and 3 Modes, Wooden Night Light, Battery USB Charging with Timer Function for Bedroom, Living Room and Office

[Visit the Görvitor Store](#)

★★★★☆ ~ 787 ratings

Amazon's Choice for "led nachttischlampe touch dimmbar"

Was: ~~€22.41~~ [Details](#) ▾


Deal Price: **€16.92**

Best Sellers Rank

667 in Lighting (See Top 100 in Lighting)
3 in Children's Bedside & Table Lamps

Technical Details

Brand	Görvitor
Product Dimensions	8.5 x 8.5 x 13.5 cm; 264 Grams




LED Bedside Touch Sensitive Dimmable Table Lamp, Battery Operated, 8 Colours and 3 Modes, Wooden Night...

★★★★☆ ~ 787

Limited time deal

€16.92 Was: €22.41




tronisky WLAN LED Bedside Lamp, Dimmable Touch Table Lamp with RGB Colour Changing, Compatible with...

★★★★☆ ~ 80

€32.99

Save 10% with voucher

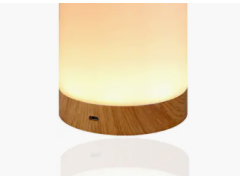


GLUROO Bedside Lamp with USB Charging Ports, Touch Control 3 Colour Temperatures & Fully Dimmable Table Lam...

★★★★☆ ~ 208

€34.99

Save 6% with voucher



LED Bedside Table Lamp with Touch Sensor, Amouhom Touch Control Night Light with 5000-6500 K Dimmable War...

★★★★☆ ~ 3,919

€18.99

Get it Saturday, Mar 26

Table 2: Potential Products List

Product Name	Product Category	Product Subcategory	10000>BS R >100	Selling Price	Buying Price	Weight	Dimensions
3in1 Charger Station	Electronics & Photo	Cell Phone Wireless Chargers	3,514667	≈ €40	≈ €11	290 Grams	14 x 12.3 x 7.4 cm
Car Phone Holder	Electronics & Photo	Mobile Phone Automobile Cradles	5,901	≈ €20	≈ €2	150 Grams	12.3 x 7.8 x 6.1 cm
Smartphone Tripod	Camera & Photo	Complete Photography Tripod Units	548	≈ €26	≈ €6	720 Grams	43.5 x 9.7 x 9.4 cm
Led Bedside Lamp	Home & Accessories	Children's Bedside & Table Lamps	667	≈€16,92	≈ €5.65	223.5 Grams	29.2 x 23.5 x 6.5 cm
Camping Hammock	Sports & Outdoors	Camping Hammocks & Loungers	719	≈€20	≈€5	498.95 Grams	275 x 140 x 100 cm
Outdoor Camping Lamp	Lighting	Table Lamps	8,096	≈€30	≈€10	730 Grams	27.2 x 18.8 x 18.6 cm
Dog Bowl	Pet Supplies	Dog Bowls	750	≈€20	≈€3,5	500 Grams	27.71 x 23.29 x 11.51 cm;
Make up Brush Set	Beauty	Make-up Brush Sets	6,657	≈€22	≈€5	290 Grams	22.5 x 16.2 x 2.9 cm
Camping Cooking Set	Sports & Outdoors	Camp Cookware	8854	≈€36	≈€11	750 Grams	18 x 18 x 10 cm
Aroma Diffuser	Health & Personal Care	Scented Oil Diffusers	9582	≈€30	≈€4	428 Grams	10 x 10 x 12.5 cm

4.3.2 FBA fees and other costs

After we have listed potential products to sell, we should calculate a Profit Per Unit Sold. To calculate that we need to know all the FBA fees and all the other fees connected with selling a product on Amazon.

UPC Code

This is the long number that you see on retail products. It is always accompanied by a graphic, which is scanned at a store's checkout. A UPC code will cost between \$5 and \$10, and each product has its own UPC code. Note that UPC code is needed for every product, not for every unit. However, if there are different colors and/or different sizes of the product, there will be different UPC codes needed.

We can buy UPC codes in <https://ezupc.com/> website.

FNSKU Code

FNSKU Code is Amazon's own FBA unique identifying code. If we are using FBA service, then every item will need to have an FNSKU code fixed on them. FNSKU is free, but if we want Amazon can fix FNSKU code on each item for us at a cost of 30 cents per unit. Amazon will stick FNSKU code on top of UPC code, but UPC code is needed to create the listing on Amazon. If we want to save costs and the products will be coming to our address before sending to Amazon Fulfillment Center, we can fix the FNSKU code ourselves. However, we have added this cost in "Calculating Profit" part.

Selling on Amazon subscription fee

Professional Selling Plan: €39 per month

Individual Selling Plan: No subscription fee, 0,99 cent per unit sold.

If you have an Individual selling plan, the fee structure is different: Amazon charges \$0.99 from each sale, but you don't pay anything per month.

Referral fee

Referral fee's size depends on the category, but in most cases, it is 15% of the purchase price. Tariffs for different categories in Amazon.de

<https://sellercentral.amazon.de/>.

Fulfillment fee

Fulfillment fee (includes payment for order processing, acceptance, packaging, delivery of goods to the buyer). Its amount depends on the size of the product and the time of the year. Amazon has 8 size categories, depending on the dimensions of the product (length, width, height, weight), it falls into one of them. This determines the amount you pay for a unit of goods at each sale. The rates also differ depending on the time of year. Prior to holiday months, which is from October to December, fulfillment fees are lower.

Irregular fees

- **Long term storage fee** (payment for long-term storage of goods in Amazon warehouses). There are 2 tariffs: if the goods are in stock for longer than 6 months, or 1 year. The amount depends on the size, quantity and shelf life of the goods.
- **Inventory Placement Service fees** (payment for the distribution of goods between different Amazon warehouses). It is charged after the shipment is created if the goods are sent to only one warehouse and Amazon distributes it to other places (yes, the site itself determines which warehouses to send the goods to and it cannot be influenced).
- **Removal fee** (fee for the removal of the product). There are three ways to get rid of stocks: destroy the product, send it to any address from the Amazon warehouse, or liquidate. In case of confirmation of the removal of the goods (removal order), you pay for each unit.
- **Returns processing fee** (payment for organizing the return of goods). It is applied in case the buyer returns an item from a category for which Amazon offers free shipping back to the warehouse (categories Apparel, Watches, Jewelry, Shoes, Handbags & Sunglasses, Luggage).

- **Unplanned Prep Services** (unplanned fees for services). Charged if the product is incorrectly packaged or barcodes are incorrectly pasted.
- **FBA Label Service Fee** (payment for pasting barcodes). Each unit of the product that is sent to the Amazon warehouse must have a barcode generated in Seller Central. If you don't want or can't stick barcodes on your own, Amazon will do it for you instead for just \$0.20 per unit.
- **FBA Prep Service Fees** (product packaging fee). If you want Amazon to package the product according to the requirements, you need to pay a certain amount for each unit of the product.

Pay special attention to the first two sorts of fees when calculating the income per unit of goods – you can't avoid them. Irregular fees are only charged in particular circumstances, but it is always preferable to be prepared. Let us introduce incredible free tool - FBA Revenue Calculator.

4.3.3 Calculating Profit Margins

Reminding that this work is about starting an online retail activity on a tight budget, at first we will purchase maximum of 50 items from a supplier.

Let us define to main costs, it is *Cost of order* and *Cost of Shipping*. In many cases cost of shipping is higher than cost of order. As we will be calculating profit per unit, we will take all the costs per unit.

Example:

Number of units – 50

Cost of order (excluding shipping) \$150

Cost per unit = \$3 (150/50)

Cost of shipping \$160

Cost of shipping per unit = \$3.20 (160/50)

Let us calculate the Profit per Unit Sold and Profit Margins for the potential products we have listed above.

If the Profit Margin varies between 10% and 50% it is a good product to sell. Usually it is never more than 50% and we will demonstrate you that with hands on calculations.

Table 3: Profit Margin Forecast Product no.1

3in1 Charging Station	Price	Supporting Information
Standard (Standard Parcel)	>0,40 kg	
A selling price of	€ 39.99	Average Selling Price on Amazon.de
Unit cost	€ 12	Cost of Order: € 601.07 Cost Per Unit: € 601.07/50 = € 12
Referral fee	€ 6	Referral fee is 15% of the selling price: € 39.99*0.15
FBA Fee	€ 3.18	FBA Fee for Standard Parcel Size of around 400 Grams
Shipping cost	€ 3.27	Cost Shipping: € 163.44 Cost of Shipping per Unit: € 163.44/50 = 3.27
Storage cost	€ 0.30	Optional
Packaging cost	€ 1.00	Optional
Inventory Placement	€ 0.30	Optional
FNSKU label service	€ 0.30	Optional
Misc/Promotion costs	€ 0.50	Optional
Total	€ 26.87	Total Costs with Cost of Product +_Fees + Shipping per Unit
Profit	€ 13.12	Selling Price – Total Costs
Profit Margin Percentage	32.81145	Profit Margin Percentage = Net Profit/ Revenue*100 € 13.12/€ 39.99* 100 = 32.81145 (33%)

Table 4: Profit Margin Forecast Product no.2

Car Phone Holder	Price	Supporting Information
Standard Large Envelope	0,210 kg	
A selling price of	€ 21.99	Average Selling Price on Amazon.de
Unit cost	€ 1	Cost of Order: € 50 Cost Per Unit: € 50/50 = € 1
Referral fee	€ 3	Referral fee is 15% of the selling price: € 21.99*0.15
FBA Fee	€ 2.12	FBA Fee for Standard Large Envelope Size of around 250 Grams
Shipping cost	€ 1.23	Cost Shipping: € 163.44 Cost of Shipping per Unit: € 61.43/50 = 3.27
Storage cost	€ 0.30	Optional
Packaging cost	€ 1.00	Optional
Inventory Placement	€ 0.30	Optional
FNSKU label service	€ 0.30	Optional
Misc/Promotion costs	€ 0.50	Optional
Total	€ 10.05	Total Costs with Cost of Product +_Fees + Shipping per Unit
Profit	€ 11.94	Selling Price – Total Costs
Profit Margin Percentage	54.3106	Profit Margin Percentage = Net Profit/ Revenue*100 € 11.94/€ 21.99* 100 = 54.3106 (54%)

4.3.4 Paid Product Research Tool

What is Jungle Scout?

Jungle Scout is an Amazon research tool that helps you find winning products, evaluate sales, research keywords, and spy on competitors with one easy-to-use dashboard.

In fact, it immediately shows you which products will be the most profitable and with which it is easiest to develop your business.

What does the Jungle Scout Pro extension do?

The Jungle Scout Pro Extension is a product research and evaluation tool that connects directly to your browser and adds an interesting icon that you can click when you want to quickly explore the product.

Basically, an extension is just a web software extension. Do you understand what I mean? It allows you to quickly add products to tracking software, view basic statistics for each product, view prices, estimate monthly sales, research and export keywords, and even analyze Google Trends data.

Here are some features:

- Price
- Category
- Classify
- Historical price
- Historical rank
- Monthly and daily sales
- Income
- Number of reviews
- Rating
- Seller Type (FB, FBM, AMZ)

It also allows you to view the evaluation of features.

Figure 9: JungleScout Paid Tool

The screenshot displays the JungleScout PRO EXTENSION interface. At the top, there are four summary cards: Average Monthly Sales (939), Average Sales Rank (21,733), Average Price (\$18.39), and Average Reviews (1,168). To the right, an Opportunity Score of 3 is shown with the text 'High Demand with high competition'. Below these is a table of product listings with columns: Brand, Price, Category, Rank, Mo. Sales, D. Sales, Revenue, Reviews, Rating, Seller, Fees, lbs, Net, and LQS. Several cells in the table are highlighted in blue, and red arrows point to them from text boxes. One text box says: 'You can click 'Monthly Sales' and 'Daily Sales' to view historical sales.' Another says: '*** Anytime you see results in blue, you will be able to click it to view historical data'. A third text box says: 'You can also see additional columns, if you select them from the 'Menu' feature, in the top-left corner of the window and then select 'Columns''. A fourth text box says: 'You can also see additional columns, if you select them from the 'Menu' feature, in the top-left corner of the window and then select 'Columns''. The bottom of the interface shows 'Extract Next Page >' and 'Showing results 1 - 57'.

Brand	Price	Category	Rank	Mo. Sales	D. Sales	Revenue	Reviews	Rating	Seller	Fees	lbs	Net	LQS
KONG	\$19.98	Pet Supplies	#16,789	129	8	\$2,577	11	5	FBA	\$4.41	0.20	\$14.57	4
KONG	\$14.95	Pet Supplies	#23,268	135	6	\$2,018	45	4	FBA	\$5.43	0.18	\$9.52	4
KONG	\$14.49	Pet Supplies	#1,284	3,807	75	\$55,163	6737						
KONG	\$18.50	Pet Supplies	#4,348	681	29	\$12,599	6304						
KONG	\$27.99	Pet Supplies	#4,084	1,035	31	\$28,970	254						
KONG	\$29.95	Pet Supplies	#4,127	847	31	\$25,368	99	4.5	FBA	\$7.68	1.00	\$22.27	3
KONG	\$18.99	Pet Supplies	#7,226	389	19	\$7,387	31	5	AMZ	--	--	--	3
KONG	\$16.99	Pet Supplies	#2,712					4	FBA	\$5.74	0.31	\$11.25	4
KONG	\$21.89	Pet Supplies	#8,990					3.5	FBA	--	--	--	5
KONG	\$19.87	Pet Supplies	#4,012					4	FBA	\$6.17	0.30	\$13.70	4
KONG	\$10.99	Pet Supplies	#3,354					4	FBA	\$4.84	0.45	\$6.15	4
Titan	\$6.94	Pet Supplies	#16,366	193	8	\$1,339	105	4.5	AMZ	\$4.23	0.29	\$2.71	7
KONG	\$10.99	Pet Supplies	#362	3,180	166	\$34,948	3099	4	FBA	\$4.84	0.57	\$6.15	5
KONG	\$16.49	Pet Supplies	#17,553	208	8	\$3,430	1241	4.5	--	\$5.66	0.48	\$10.83	5
KONG	\$19.99	Pet Supplies	#9,343	828	15	\$16,552	3370	4.5	AMZ	\$7.71	1.72	\$12.28	4

4.4 Supplier Research

Finding a reliable supplier of goods, the correct construction of the negotiation process, payment and quality control of goods are very important steps on the way to a successful business launch on Amazon.

In the early stages of setting up an ecommerce store or Amazon FBA business, finding products and deciding which Amazon vendors to use is crucial. Good Amazon deliveries are reliable, guarantee high quality products, fast delivery, manage returns well and are recommended by other sellers. And bad suppliers - well, they can break the business.

One bad quality review is going to cost us hundreds or may be even thousands of sales. We must be careful when choosing a wholesale supplier because the products that we will sell are going to represent our brand and to earn reputation we must carefully choose our supplier. To look for our supplier we have decided to choose Alibaba.com platform. There are several criteria to find the right trust-worthy supplier. We want to build a long-term relationship with our suppliers that will be willing to add changes and improvements to the existing products. We are aware that we will have to deal with several suppliers to find a right one.

4.4.1 Guanxi: the foundation of Chinese business

China, which has enormous economic potential and is the "factory of the world", is interesting for foreign enterprises that care about reducing costs, and now, with the advent of the Chinese middle class, and for those who are looking for new markets for their products. Therefore, the interest in the Chinese business culture, its forms and ways of their manifestation is quite understandable, without knowledge of which it is impossible to effectively establish business contacts and manage personnel in China in modern conditions. Knowledge of the peculiarities of Chinese business culture not only contributes to the harmonization of relations in a multinational firm, but also helps to understand which of its components should be taken into account by foreign companies wishing to do business with Chinese partners.

The word "Guanxi" from Chinese means "relationship", and is actually the basis of business relationships in China. Chinese culture and values are very different from Western ones, and this difference is evident at every step. Trust, respect, personal contact (meeting with a partner face-to-face, or at least communicating via Skype), as well as establishing long-term business relationships are the basis of successful cooperation with Chinese suppliers.

Guanxi is a very important concept, which in no case should be forgotten when negotiating with Chinese entrepreneurs. After all, we are focused on building long-term cooperation with them. Thanks to this, suppliers will be more responsive to your requests, offer you more favorable prices and payment terms, and will also be more willing to solve your problems, if any.

4.4.2 Hands on exercise on finding a supplier

There are several criterion to find the right and trust-worthy supplier. We want to build long-term relationship with our supplier. The supplier that will be willing to add improvements to the existing product.

Checklist to find a good supplier in Alibaba:

Verified supplier.

Alibaba has something called as verified supplier. Any supplier can register in Alibaba and sell their products. The reason the verified supplier exists is because Alibaba is in the “Trust” business. Without the Trade Assurance, without the Verified Supplier Alibaba cannot dominate this giant B2B commerce platform. Any supplier can sign up in Alibaba.com, that can lead to unreliable people, scammers that can damage and ruin Alibaba’s reputation. That is why Alibaba put their foot down putting the effort and the investment to restructure their company and requalify these suppliers. That is why we have these verified suppliers.

Figure 10: Verified Supplier



Who verifies the suppliers?

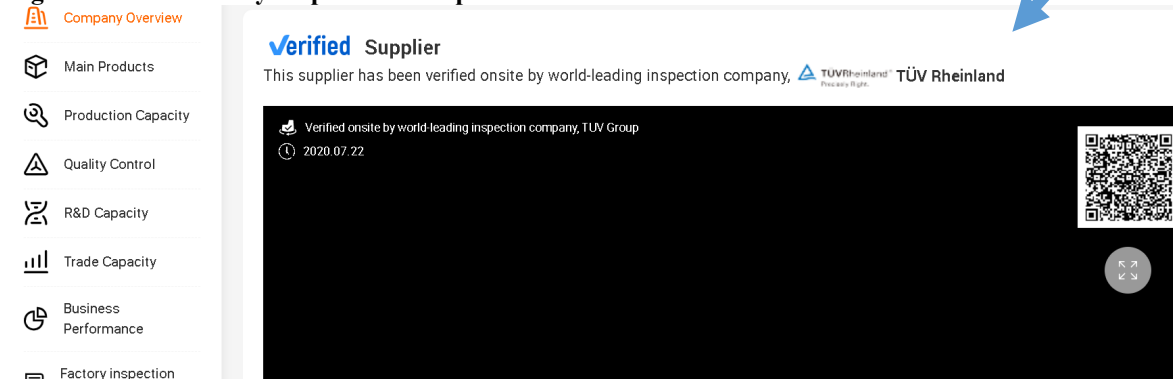
Let us check who verifies the suppliers, Alibaba or Independent Third-Party Inspection.

To check that we click on suppliers’ profile.

As we continue checking we going to find 3 companies doing the factory verification work:

- 1) TÜV Rheinland: HQ Germany
- 2) SGS Group: HQ Switzerland
- 3) Intertek: HQ London

Figure 11: Third Party Inspection Companies



Now let us check the profile of the company.

4.3.3.1 Check no.1 Business Overview

Let us look at this company named Sokun that manufactures Bamboo Toothbrushes(Ningbo Yinzhou Sokun Import and Export Co., Ltd.).We should first watch the introductory short video of the company and see how it looks from inside and that will give us information about company details. In the Business Overview part the company should be indicated is a manufacturer, not trading company. If it is a trading company, it means that the price for the products will be higher, because they are intermediary company between us and the manufacturer.

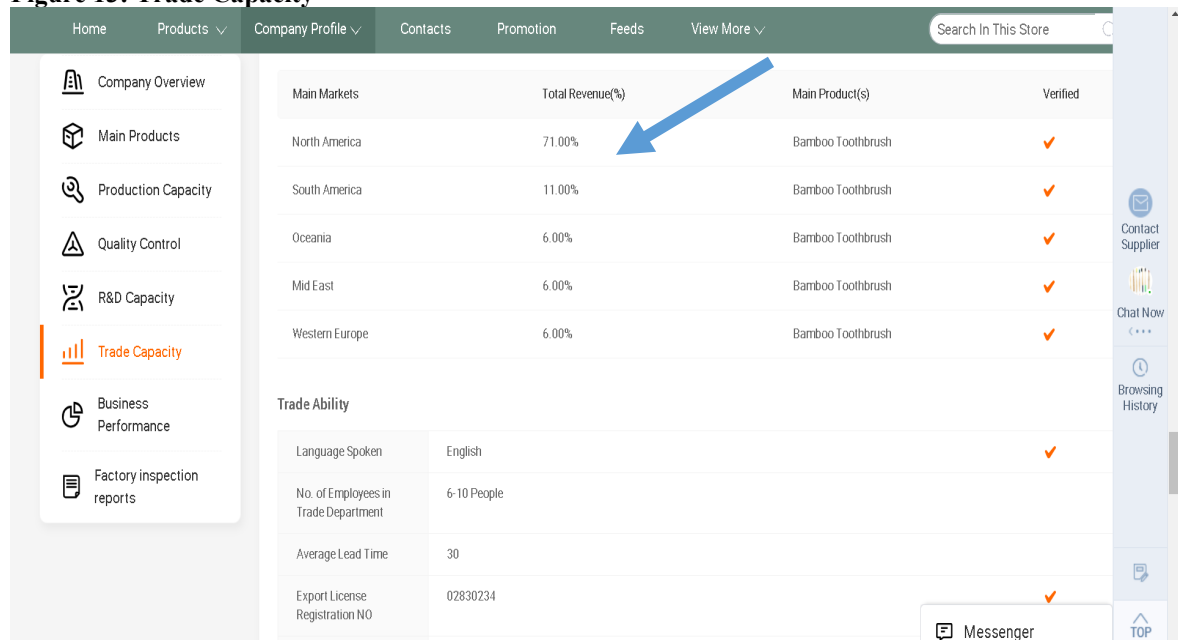
Figure 12: Business Overview



4.3.3.2 Check no.2 Trade Capacity

Another important feature is that we should pay attention to the percentage that they trade with Overseas customers and Europe. The more they trade with overseas customers, the more experience they have and the better it is for us. We can see from the picture that Sokun's main customers are in North America (71%). For us it is better if the majority of the company's customers are in Europe. That means that they are familiar with policies of shipping the products to Europe.

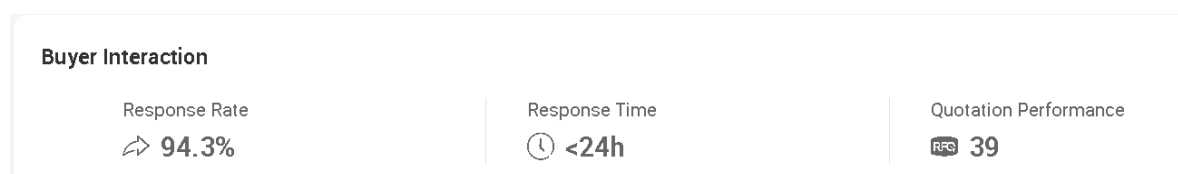
Figure 13: Trade Capacity



4.3.3.3 Check no.3 Customer Service.

Higher the response rate better it is. That means that there is a good communication between the supplier and its customers.

Figure 14: Response Rate




4.3.3.4 Check no.4 Production Capacity

This section is about how well manufacturer is equipped. In the production equipment section we can see if the manufacturer has all the necessary equipments. This is done by comparing production equipment of one manufacturer to another. Another important point is that it is beneficial for us that the product we are intending to sell is the main one in the product line of the supplier. If the product that we want to sell is secondary, that means that supplier does not have much experience with our product. And this fact means that our product will be lower quality.


Figure 15: Production Capacity

PRODUCT CAPACITY
Verified


Production Flow ✓




Raw Materials
Raw Materials




Automatic Drilling
Automatic Drilling



Automatic Wool Planting
Automatic Wool Planting



Laser Marking
Laser Marking



Warehouse
Warehouse

Production Equipment

Name	No	Quantity	Verified
Automatic Drilling Machine	Confidential	8	✓
Automatic Wool Planting Machine	Confidential	4	✓
Laser Marking Machine	Confidential	2	

[Messenger](#)

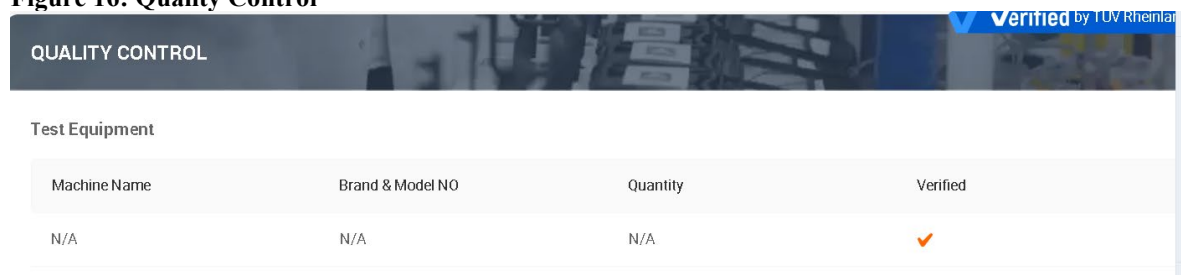
Annual Production Capacity

Product Name	Production Line Capacity	Actual Units Produced(Previous Year)	Verified
Bamboo Toothbrush	1,000,000 PCS Per Month	confidential	✓

4.3.3.5 Check no.5 Quality Control

Manufacturer does not have any available information on quality control although it is verified by third party inspection agencies. That is why we must hire our own third quality inspection agency.

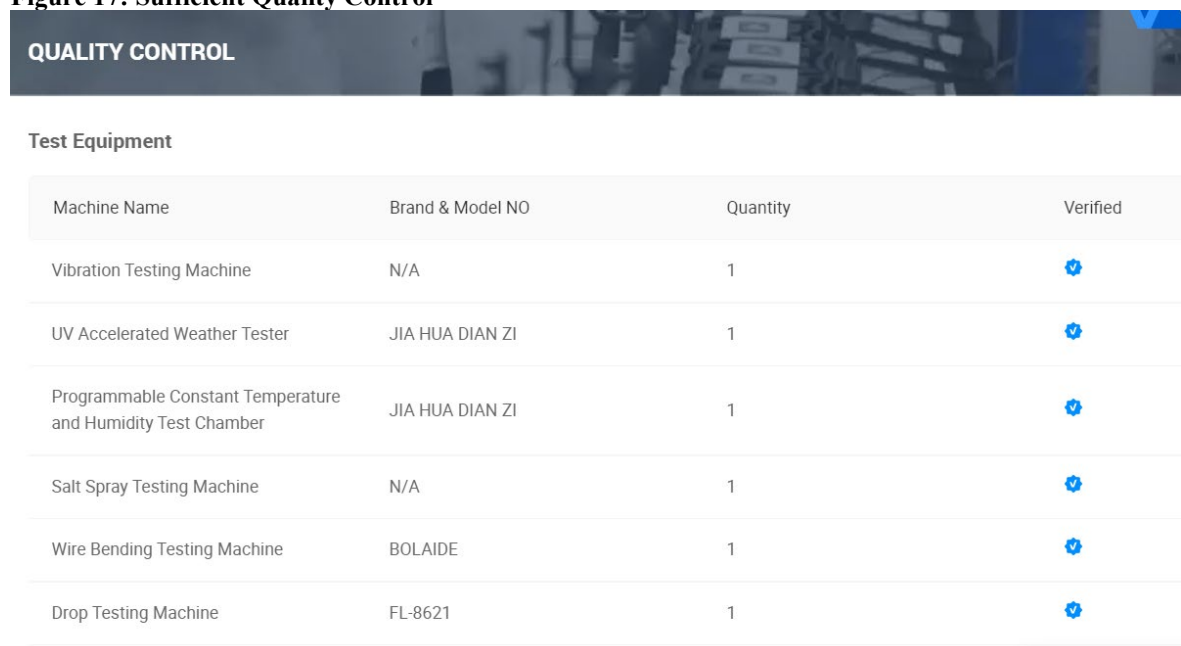
Figure 16: Quality Control



Machine Name	Brand & Model NO	Quantity	Verified
N/A	N/A	N/A	✓

Another example of the company with good Quality Control section.

Figure 17: Sufficient Quality Control



Machine Name	Brand & Model NO	Quantity	Verified
Vibration Testing Machine	N/A	1	✓
UV Accelerated Weather Tester	JIA HUA DIAN ZI	1	✓
Programmable Constant Temperature and Humidity Test Chamber	JIA HUA DIAN ZI	1	✓
Salt Spray Testing Machine	N/A	1	✓
Wire Bending Testing Machine	BOLAIDE	1	✓
Drop Testing Machine	FL-8621	1	✓

4.3.3.6 Check no.6 R&D Capacity

How well is company`s R&D department capability?

In this section you will find different certifications manufacturers does have for production of different products that we might need to be able to sell our products on Amazon. But it does not give us full information about the company`s R&D Department.

Figure 18: Research and Development Capacity

Picture	Certification Name	Issued By	Business Scope	Available Date	Verified
	CE	udme	toothbrush	2019-07-24 ~ 2024-07-24	✓
	CE	udem	toothbrush	2019-07-24 ~ 2024-07-24	✓
	CE	TUV	Hand cable pull	2010-01-21 ~ 2015-01-20	-

These reports will give us detailed information about the inspection and more information on manufacturer`s R&D department. Looking into the reports we found that in Sokun there are 2 people working in R&D.

Figure 19: Supplier Assessment Reports

Factory inspection reports By **SGS** **SGS Group** ✓

Supplier Assessment

Main Product Lines Verification Report

Report(1) Report(2) Report(1)

4.3.3.7 Other Supplier Sourcing Hacks

Right now, we are shopping for suppliers and we are shopping for a quality. Our task is to find a good supplier who can produce good quality product and later we can always negotiate for a price and minimum order quantity (MOQ). Out of thousands of suppliers we must choose the verified supplier like we mentioned above. But there are some additional steps our supplier must pass for them to be chosen by us. For instance, let us identify our suppliers that we mentioned above by our 3-step guide. Our job is to find a few suppliers out of thousands in Alibaba to become our business partners.

Step 1: Who?

We need to find out who they are. When we look at the supplier profile, we should look at supplier name, business type, number of years selling on Alibaba and the company certification.

- Supplier Name: 4 Elements

In China company name is very structured. When they register the business the business name must contain 4 essential elements:

[Registration Location] + [Company Name] + [Main Product] + [Partnership Type]

1) [Ningbo] + [Yinzhou Sokun] + [Import and Export] + [Co., Ltd.]

2) [Zhejiang] + [Kangmin] + [Medical & Healthcare] + [Co.,Ltd.]

- Business Type Manufacturer vs. Trading

When the supplier lists their product on Alibaba, they must disclose themselves either as a manufacturer or a trading company. Sometimes a company will list themselves as a trading company and the manufacturer. What does that mean? It means that they are not only can produce the product, but they can also export the product directly to overseas companies. Not all the Chinese factories have Export license, therefore they have to use a middleman which is the trading company to sell the product to you.

- Number of Years 3+ years, ecommerce business maturity

We prefer to use the supplier that has a minimum 3 years of e-commerce business experience because their communication and their business maturity is at the good level so we do not have to mentor them on how things should be done.

- Company Certificate ISO 9000; 14000 – Good to have

Company certification is different from product certification. For example, ISO 9000 will certify company's quality system and ISO 14000 will certify the company's environmental system. Therefore if the company have gone through these steps and got the ISO certifications it will benefit us.

Step 2: What?

We should look at if the company is offering concentrated line of products related to what we want to buy, or they are scattered and offering all kinds of products which will make them not as efficient. The more our manufacturer is concentrated on one product the more they have leverage on raw material purchase and their workers skills is much better because they do repetitive workday to day and quality is much better and consistent.

Main Products & Product Categories:

- Product Concentration
- Raw Material Buying Leverage
- Worker Skill: Repetitive Work
- Quality Consistency

Product Certificates: UL, RoHS, CE, FDA, MSDS

- UL - Underwriters Laboratories
- CE – European Commission
- RoHS – Restriction of Hazardous Substances Directive
- FDA – Food and Drug Administration
- MSDS – Material Safety Data Sheet

Step 3: Where?

Where they are located?

- Detail Check: Middlemen
- Suite 101, 15th Floor? Trading Company
- Factory – Industrial area

If the supplier claiming themselves to be the manufacturer we need to question ourselves why there is an office address rather than factory address. If they are showing the office address we need to question that to the supplier.

City Checks: 5 major coastal provinces

We need to check if the city where the supplier is located is outside of the 5 major coastal provinces. The reason is because 80% of the manufacturer activities are done in these 5

coastal provinces. If our supplier is far away from cost and they are in an inland city, when we are ready to purchase the product we will have to pay a lot more money transporting the goods from the city to the port. Also when we will want to add more products it will be hard for us to consolidate this supplier with other suppliers.

1. Zhe Jiang (city: YiWi, NingBo, HangZhou, WenZhou, TaiZhou...)
2. Guang Dong (city: GuangZhou, ShenZhen, DongGuan, ZhongShan...)
3. Jiang Su/ Shang Hai
4. Fu Jian
5. Shan Dong

4.3.3.8 Step Supplier Verification Exercise

Let us go to Alibaba and go through all the steps that we have mentioned. If we will go to the supplier section and filter the ones with Trade Assurance and Verified ones, we will have result of 663 suppliers.

Let us check another supplier.

Company named Ningbo Tingsheng Bamboo Wood Co., Ltd. Registered in Ningbo, with the Company name Tingsheng and with the Main Product of things made from bamboo wood. It is a Limited Liability Company. Claims to be the Manufacturer and Trading Company with the main production of Bamboo Toothbrush, Dental Floss, Tongue Cleaner, Cotton Swab, Soap Bag, which is perfect for us. Location is claims to be in Zhejiang, China, which also suits us.

If we go to the Products section, we can notice that Tingsheng is very focused on producing products made from bamboo wood and mainly products for dental care, which will guarantee us that the company has more leverage on raw material and that there is a quality consistency. Company sells on Alibaba for 5 years which is good indicator for us meaning that company is experienced.

They trade mostly with Western European countries which means if we want to sell in Amazon U.S.A, they will have less experience in shipping the products there. However, if their main market is Western Europe, they must have great communication skills.

4.4 Shipping Research

Shipping is a complex process that needs a special attention from us. In this section we will go through all the stages of shipping.

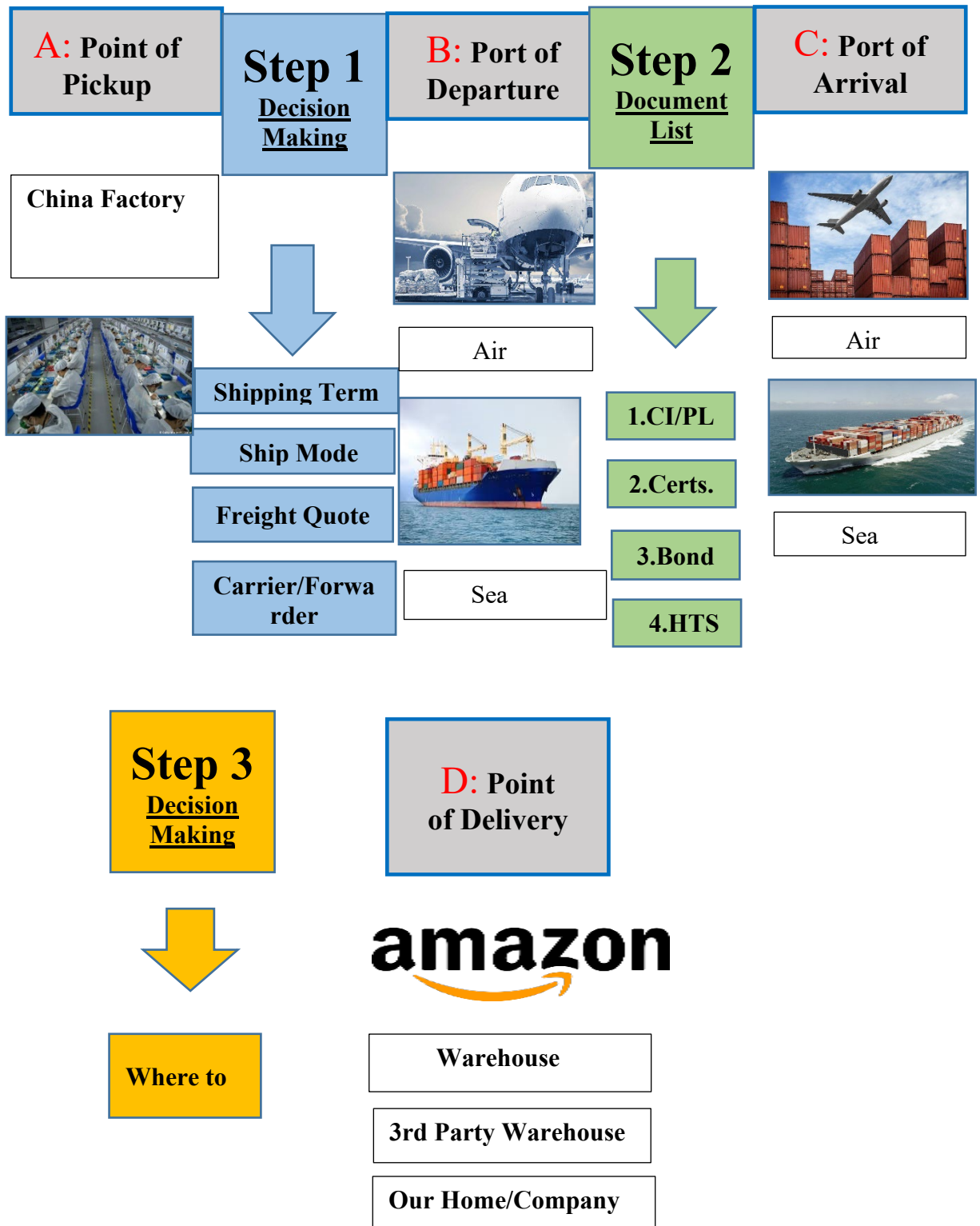
International cargo logistics includes a number of measures aimed at determining the most optimal scheme of cargo delivery from point A to point B. In order for the process to be as efficient and economical as possible for us, it is necessary to competently coordinate all its stages. It is especially important to do this on international routes when it is planned to cross borders and take into account the nuances of the legislation of different countries. Logistics at the international level is widespread due to the development of transport networks, global globalization and strengthening trade relations between states around the world.

Cargo transportation logistics solves 2 main tasks:

1. organize the process of cargo transportation from one country to another;
2. to ensure the safety and security of goods by optimizing the time and money spent.

To achieve these goals, we need to develop a route, choose a forwarder, coordinate issues with customs, organize warehousing and storage of goods, etc. The success of the whole process depends on the competent execution of each stage. Let us go through all the stages of shipping that we have created:

Figure 20: Steps of Shipping



4.4.1 Which shipping term should I use?

A: Point of Pickup	<h3 style="color: red; margin: 0;"><u>Question 1: Which shipping term should I use?</u></h3> <ul style="list-style-type: none"> Inco Terms* (Total 11): define shipping cost and risk transfer. <p>EXW, FCA, FAS, FOB, CPT, CFR, CIF, CIP, DAT, DAP, DDP. *Inco Terms- International Commerce Terms *Term (e.g. FOB) + (name a Place e.g.torac. Ningbo) = Complete Inco Term</p> <p>Must Know 3:</p> <ol style="list-style-type: none"> 1. EXW + Factory: Ex Work Factory – everything is on you 2. FOB + (port name): Free on Board, export formality 3. DDP + (place): Deliver Duty Paid – everything is on seller 	B: Port of Departure
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Groups	E	F	C	D
Seller Responsibility	Factory	Departure	Arrival	Destination

Shipping Term we are referring to are International Commerce Terms. There are 11 Inco Terms. These 11 Inco terms define shipping cost and the risk transfer. When we look at the Inco Terms from E to D, we can group them into 4 groups. Each group representing seller responsibility level. For instance, under group E the seller responsibility ends at the factory, under the group F any of FCA, FAS, FOB, seller responsibility ends at the departure port. Group C ends at the arrival port and the Group D supplier responsibility ends at the Destination.

1. EXW + Factory: Ex Work Factory – everything is on you

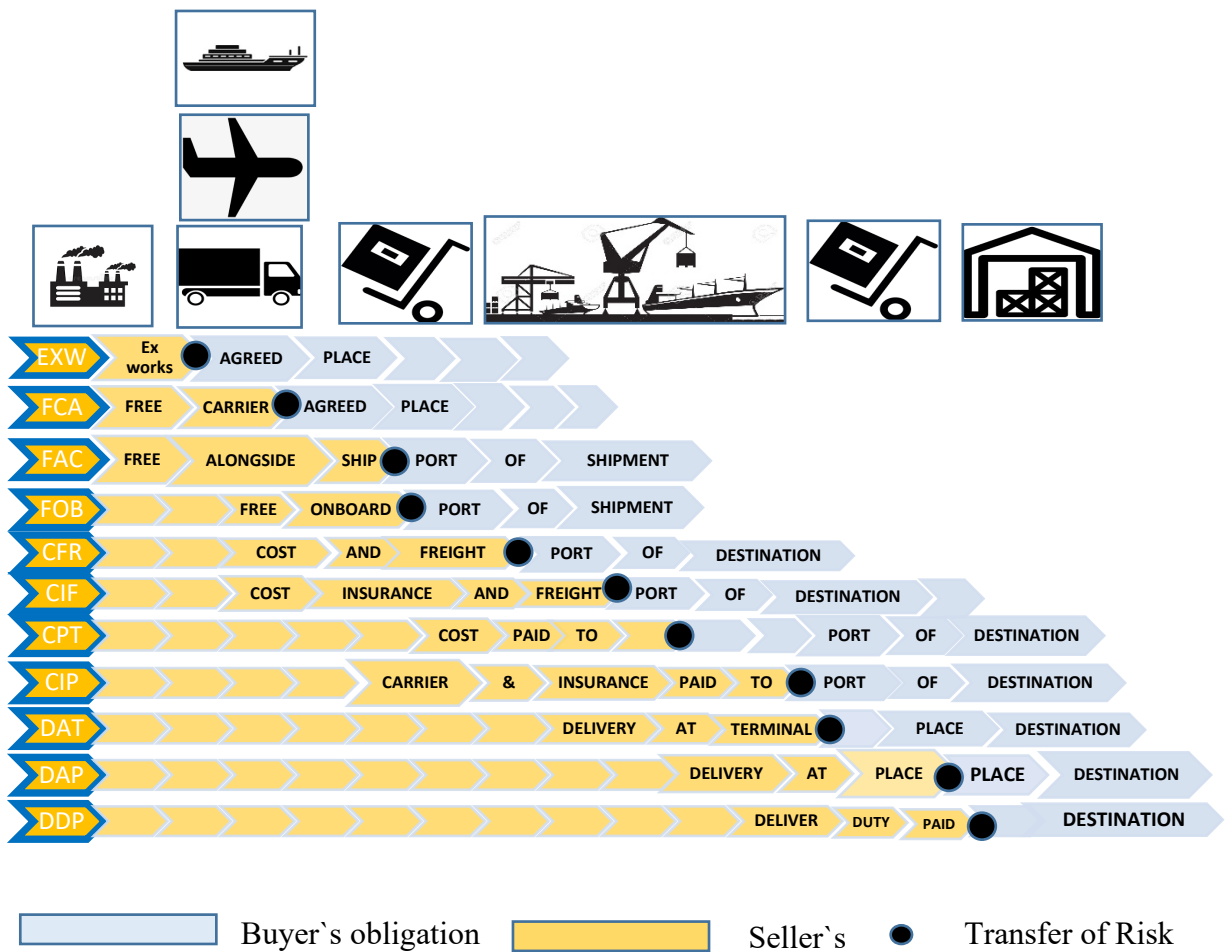
In this case seller has a very minimal basic responsibility. We should be responsible not only to pick up the shipment but pay for the freight of delivering our package to the port and pay for export declaration duty cost.

2. FOB + (port name): Free on Board, export formality

Seller is responsible to deliver our product to for instance Ningbo port. In this case they need to pay export declaration fees (tax and duty owned to Chinese Custom). The product is sound and clear on the ship for us to export.

3. DDP + (place): Deliver Duty Paid – everything is on seller
 Under this term everything is on seller. Exact opposite for ex-work factory term.
 As you see from the table seller responsibility progressively increases from E to D.

Figure 21: Shipping Terms



A: Point of Pickup

Question 2: What shipping mode should I use?

B: Port of Departure

Chargeable/Dimensional Weight

2 WAYS TO CALCULATE:

I. Dimensional Weight Factor: Volume
CM/6000

II. Dimensional Weight Factor: CBM x 167
Example: Air Freight 8 cartons, actual weight 450kg,
each carton dim 75 x 65 x 80cm

Total volume of the shipment:

8 cartons x (75)

8 cartons x (75x65x80) per carton = 3,120,000
cm = 3,12 CBM

I. $3,120,000/6000 = 521$ kg

II. $3,12$ CBM x 167 = 521 kg

4.4.2 What shipping mode should I use?

Before we talk about either Air shipping or Ocean shipping let us talk about chargeable weight or dimensional weight. The reason chargeable weight or dimensional weight exists if you are shipping a whole airplane of a feather, something extremely light but bulky, the airlines are not going to charge us the minimum of 50 kg of weight, they are going to charge us more. Thus, if dimensional weight is more than actual weight, they will charge dimensional weight. There are two ways to calculate dimensional weight.

We can use the total volume in centimeter divided by 6000 or we can use the total volume in cubic meters times 167. Thus, we will be charged for 521 kg even though our package is much lighter.

<p>A: Point of Pickup</p>	<p><u>Question 2: What shipping mode should I use?</u></p> <p><u>Air Shipping:</u></p> <ul style="list-style-type: none"> • Two types of Air Shipping <ul style="list-style-type: none"> A. Air Express (DHL, FedEx, UPS) B. Air Freight: use a forwarder • Cost: ~ <u>\$6.00/KG</u> to estimate cost • Transit Time <ul style="list-style-type: none"> Express: 3-5 business days Freight: 7-10 business days • Time is Money <ul style="list-style-type: none"> Priority vs Economy Slow vs Fast 	<p>B: Port of Departure</p>
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There are two types of Air Shipping, one is shipped by air express, and another is air freight. Air freight is a cargo plane in which we need to book a space and for which we need a forwarder. When the shipment is less than 100 kg, we use Air Express and when the shipment is more than 100kg we use Air Freight. Average cost \$6 per kg vary depending on seasonality, depends on the total load weight and the transit time we want for our shipment. If the shipment is not so urgent, we can ask the forwarder to schedule the transit time slower, if there are schedules available, and that can save us \$300- \$500.

A: Point of Pickup

Question 2: What shipping mode should I use?

B: Port of Departure

Ocean Shipping:

- 2 Types
 - ✓ LCL: Less than container load (30 +10 day)
 - Consolidate with other people's products
 - Min. charge 2 CBM at ~ 300 per CBM
 - Destination charge
 - ✓ LCL rate check 3 rules of thumb:
 - @3 CBM or less check Air cost
 - @10CBM check FCL rate
 - @15CBM FCL
 - ✓ FCL: 20 FT, 40 FT, 40 HQ (30 + 5 days)
 - 20FT = ~ 30 CBM
 - 40FT = ~ 60 CBM

There are two types of ocean shipping. We can ship through the full container load FCL or we can ship less than container load also called LCL. Before we start expanding our business our choice of shipping is going to be LCL or Air shipping. It is very important to understand how the different types of shipping works. If we are shipping less than container load, we are basically renting a container space and sharing that with other people's products. Because we are sharing the space, when it comes down to port we have to deconsolidate and that is why LCL takes longer time to clear through the custom as there are different people's products in the container. LCL is not always cheaper than Air Freight. Because there is a minimum charge for the space that we are taking event though our load is very small, the freight forwarder will charge us at the minimum of 2 CBM worth of space. In LCL the labor involved in deconsolidating the container costs money.

4.4.2 How to get a Shipping Quote?

A: Point of Pickup	<p style="text-align: center;"><u>Question 3: How to get a Shipping Quote?</u></p> <p><u>Who is the freight forwarder?</u></p> <ul style="list-style-type: none">• Book cargo space; Consolidate freight.• Import and Export clearance, custom duty, tax.• Deconsolidate shipment and make a final delivery. <p><u>What do you need to get a quote?</u></p> <ol style="list-style-type: none">1. Shipping Mode: Air or Ocean or Both2. Freight Term: EXW Factory or FOB (name place)3. Product Description: restricted or hazmat product?4. Weight and Dim of each carton5. Total # of Cartons (palletized or loose cartons)6. Pick up address: Factory address or Port Name7. First US Delivery address (Discharge: LAX, Auckland, Houston, New York, Norfolk) <p>*Freight Quote normally does not include duty & tax (need HTS code)</p>	B: Port of Departure
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4.4.3 How to get a Shipping Quote?

To get a quote for air freight or for ocean freight we need a forwarder. A forwarder is a shipping agent which can book a cargo space, consolidate our freight, help import and export with all the clearance process and they can pay the tax & duty on our behalf. They also can deconsolidate the shipment and make the final delivery.

What information do we need to get them to give us a quote? First, we must give them information which transportation mode we would like to use and give them the product description thus this way they will know if the product is restricted product or not. Also, we need to give the weight and dimension of each carton. Also, we need to give them the pickup address, either from the factory or the port. After all we need to give them the port or the address where we need to discharge the load. We need to give the concrete delivery address or which port we want the shipment to discharge. On the west coast we have LAX, Auckland, in the middle part Houston and the east coast New York, Norfolk. The quote normally does not include the tax and duty. They will need our product HTS code

(harmonized code) to determine the tax and duty rate. We should make sure when we check the quote that it is correct.

Freight Quotation Format:

- Information about where your cargo is the being shipped to and from.
- The transport mode and equipment being used (eg, by ocean on pallets).
- Shipment details, including dimensions, weight, and a description of the goods.

To cut the costs it is better to ship the cartons rather than one pallet. A loose cartons costs less than the palletized load because loose cartons gives the airline more flexibility to find a space within their cargo space.

A: Point of Pickup	<p><u>Question 4: What is the last step?</u></p> <p><u>POA, power of attorney:</u> to authorize the licensed Customs Broker to clear goods through customs and ensure all documentation is filled correctly. Brokers are regulated by U.S. Customs and Border Protection.</p> <p><u>ISF: Importer Security Filing</u> (ocean only), handled by Forwarder</p> <ul style="list-style-type: none">✓ 10 key elements about a shipment✓ Filed minimum 24 hours prior to departure✓ If the filling is late, misfiled or not filed at all, then the importer will be penalized a minimum of \$5,000 (max \$10,000)✓ A late filing or non-filing of ISF guarantees that Customs will examine your shipment. <p><u>BOL/Airway Bill</u></p> <ul style="list-style-type: none">✓ BOL: Issued by the ocean carrier to acknowledge receipt of cargo for shipment✓ Airway Bill (AWB): receipt issued by the airline<ul style="list-style-type: none">• Payment term and BOL: the shipper can hold the Original BOL	B: Port of Departure
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After we feel comfortable moving with one forwarder. First thing that needs to happen is the power of attorney, which is there to authorize our folder to clear the goods on behalf of us. Custom broker is regulated by CBP (Customs and Border Protection); thus, we need to give them the power of attorney. Each forwarder has in-house broker, and they have the standard form that we must sign and give the information they need. Another thing that we want to mention is ISF (Importer Security Filing). This filing must be done 24 hours before our

shipment departs. Our forwarder will handle it, but we need to make sure that it is done on time. If it is late the importer will have the penalty and the late filing will guarantee us that the customs will inspect our shipment. The reason for that is that they did not get any handout that there is a shipment coming into the United States and there is a last-minute shipment show up, they will want to know which products are there and it will delay our shipment clearance. Let us say that we successfully contacted the forwarder, get them book the space,

B: Port of Departure	<p style="text-align: center;"><u>1. Commercial Invoice and Packing List</u></p> <p><u>Commercial Invoice:</u></p> <ul style="list-style-type: none"> ✓ Shipper: Our supplier ✓ Sold To: Us ✓ Ship To: Amazon warehouse ✓ PO #, Part Number, Description, Unit Price, QTY, Total Value ✓ Country of Origin <p><u>Terms & Definitions:</u></p> <p>*Importer of Record: liable for tax & duty</p> <p>*Consignee: legally allowed to receive the cargo as listed in the BOL</p> <p>*Ultimate Consignee: the actual intended recipient of a shipment e.g. drop ship, custom needs to track the name, address, and IRS number of the Ultimate Consignee.</p> <p>Packing List: Like CI:</p> <ul style="list-style-type: none"> • Without commercial value • With packaging detail, dim., weight, # of cartons etc. 	C: Port of Arrival
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they handed our ISF and they got our shipment on board. After all we will get a Bill of lading or Airway Bill. Bill of lading is the receipt issued by the ocean carrier and the Airway Bill is the receipt issued by airline.

In step no. 2 we will cover custom clearance. First, let us talk about commercial invoice and packing list. The accurate and well-prepared commercial invoice and packing list are needed for custom clearance purpose. There is no standard format of commercial invoice and the packing list. The simple excel summarizing commercial value and the packaging detail. Normally, any some suppliers can prepare that for us and provide that to our freight

forwarder. As it is our first time doing the business, we will ask the supplier to send us the commercial invoice and the packing list first, so we will make sure the information listed on the commercial invoice are accurate. There are essential elements need to be identified on the commercial invoice:

- Who is the shipper? (Normally it is our supplier)
- Where this product is sold to? (Normally it is us the buyer)
- Where this product is shipped to? (Amazon third party warehouse)
- Tracking purposes (Purchase Order Number and Part Order Number for record keeping as our business will grow)
- Product Description, Total Price, Total Shipped Quantity, and the Total Declared Commercial Value
- Country of Origin (In our case China)

Let us underline about the terms related to the commercial invoice or bill of lading. The importer of record is the party who is liable for paying the tax and duty. If we are importing from China, we are the Importer of record. Consignee is the party who is legally allowed to

B: Port of Departure	<h2 style="color: red; text-decoration: underline;">2. Product Certifications</h2> <p><u>Electronics:</u></p> <ul style="list-style-type: none"> ✓ FCC, Required by Law: ✓ UL, Optional but consumer preference ✓ Ship To: Amazon warehouse • EU Import is much more stringent than US: CE, REACH, ROHS, LVD, R&TTE, GS, REACH, EMC <p><u>Food:</u></p> <ul style="list-style-type: none"> ✓ CI + PL + HOW it is packed ✓ Ingredient list ✓ FDA registration number (11-digit number) ✓ Full manufacturer info. Incl. company name and full address <p><u>Children Product:</u></p> <ul style="list-style-type: none"> ✓ CPC: Children`s Product Certificate ✓ CPC authorized labs 	C: Port of Arrival
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receive the cargo as listed in the bill of lading. As mentioned above **the bill of lading** is the receipt of our ocean shipment. Consignee could be the buyer or if we are borrowing the

money from the bank, bank might require us to list the bank as the consignee of the shipment, so they are legally allowed to receive the cargo. Ultimate Consignee is the actual intended recipient of the shipment. Notifying party is the party that needs to be notified when the cargo arrives.

Packaging List is pretty much the same as the commercial invoice. Each Item need to include the detailed packaging information: dimensions and weight of each carton, total number of cartons as detailed as possible.

If we are importing products from categories listed above, we need to make sure that marking clearly marked on our product and we have the certifications that meet specific import requirements. For example, in case of selling reusable diapers in Amazon, we need to make sure that our product meets CPC requirement.

B: Port of Departure	<h3><u>3. Harmonized Tariff Schedule</u></h3> <p>HTS: Harmonized Tariff Schedule – determines import duty rate</p> <ul style="list-style-type: none">✓ Global tariff is an internationally standardized system✓ The first 6 digits of any HTS Code is the same✓ Beyond the six-digit level, individual countries sometimes have different classifications• It is our (importer of record) responsibility to make sure the correct HTS code is used. Our supplier can provide it, our forwarder can assist to find it.• Find our product HTS code online: https://hts.usitc.gov/	C: Port of Arrival
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To clear the custom, we must pay the tax and duty to the custom. What determines the tax and duty is the Harmonized Tariff Schedule. This global tariff system is internationally standardized. Therefore, any HTS code has first 6 digits are the same across countries. We can get the HTS code from our supplier. We must make sure that the correct HTS code is used so that we pay the correct tax and duty.

Let us say that we have researched our HTS code and we know how much tax and duty we must pay to the custom. The custom is not going to take the risk and assume that we are going to pay our tax and duty. That is why they want us to establish the **custom bond**.

B: Port of Departure	<p style="text-align: center;"><u>4. Custom Bond</u></p> <p>5. Which type of bond should we buy?</p> <ol style="list-style-type: none"> 1. Single Entry Bond cost = import value * 0,5% Example, \$ 10,000 invoice = \$ 10,000 * 0,005 = \$50 bond cost 2. Min charge = \$50 3. ISF = \$25 <p style="margin-left: 40px;">Total cost = \$75</p> <p>Breakeven Point: \$450 (Continuous) / \$75 (single) = max 5 imports</p> <p>Assumptions:</p> <ul style="list-style-type: none"> 1) <u>import value <\$10,000</u> 2) <u>import category is NOT subject to special category e.g. FDA, EPA, or D.O.T</u> <p>Otherwise the bond requirement is 3X of the import value: e.g. \$10,000 import bond cost = \$10,000 * 0.005 X3 = \$150 + \$25</p> <p>How to make sure: Get specific quote for both, continuous and single entry</p> <p>6. When to buy it: shipment has left departure country</p> <ul style="list-style-type: none"> - Product Research takes time - To not waste money upfront 	C: Port of Arrival
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Custom Bond is basically an insurance to guarantee that our import tax and duty will be paid sufficiently. When our import value is greater than \$2500, we need a custom bond. Let us say we are importing a product that our HTS code is indicating that we will owe 2% duty which will be \$50. There are two types of bond. **Continuous Bond** is a fixed cost bond. Thus, we can get our custom broker or a forwarder to quote us, which ranges between \$400-\$500. Single entry bond is percentage of the import value. We can shop for custom bond online or shop from our freight forwarder. We need to decide which bond will work better for us. Sometimes it could make more sense to buy a continuous bond rather than single entry bond. Our job is to compare and save mon Let us make the detailed analysis on which bond we should choose to save money.

If our import value is \$1,000 the single-entry bond will be 5\$. Most of the forwarders who sell the single-entry bond has minimum charge between \$40 to \$50. In addition to single-entry bond we will have to buy the Importer Security Filing bond. If our product is not a subject to any special approval we will pay regular amount for single-entry bond.



We can use the freight forwarder to contact the domestic trucking company to Amazon warehouse.

How to find a good freight forwarder?

Sometimes the shipping cost is a big part of a total cost. It can be that shipping cost is more than our product cost. We must find a good freight forwarder that will help us to minimize the shipping cost.

How does the freight forwarder make money?

Freight forwarders are the service providers. The company does not own any equipment as an actual airplane or ship. They help to arrange our product to pick it up from Point A to Point B. They negotiate a discount rate with the carriers who own the actual equipment, such as airline or ocean container shipping company. The rate our freight forwarder gives to us already includes their margin added to the pre-negotiated discount rate.

How much discount rate can freight forwarder can get from air carriers or ocean carriers?

Everything depends on the volume of the company. In general freight forwarding business is a thin margin volume driven business. Large companies on the top dominates: DSV, Savino Del Bene, Sinotrans, C.H. Robinson. Small freight forwarding companies work through partnership and affiliation, whereas big leading companies own their direct offices in different countries.

5. Conclusion

The main objective of this work was to execute on an idea of creating a passive income stream through entering a world of e-Commerce. The main roadblock was the lack of budget. By writing this thesis I intended to get creative and to find out the possibility to sell online on a tight budget. The target was successfully achieved and the detailed business plan was created. My intention was clear, to start instead of waiting investors to come.

It all started with reading a contemporary literature on new ways of running a business. We live in an agile world led by market giants, such as Amazon, Apple, Microsoft. Reading about their success stories I quickly understood why they have flourished so well. It is because of their agile mindset. Inspired by all the literature I have read I started writing a theoretical part. That is the reason why in the theoretical part I have presented the ways for business to be responsive in a modern and fast-paced world. In present times not those who are the strongest, but those who are the most adaptable will survive and thrive. Agility is about being highly creative while being very flexible and nimble. Theoretical Part consists of brand philosophies of market leaders and the ways to apply their organizational culture to any kind of business.

With the right mindset I have started the Practical Part. Practical part is a hands on guide on starting an e-commerce business with the help of Fulfillment by Amazon Service. By gradually putting together pieces of puzzle I was able to prove for myself the possibility of starting an e-commerce business on a tight budget. I was inspired by success stories of people such as Jeff Bezos, Bill Gates, Tatyana Bakalchuk and many others. Mainly I was inspired by how they started from scratch. Jeff Bezos has started his business in a garage in the suburbs of Seattle, Tatyana Bakalchuk has founded her company from her flat in Moscow with the savings of 700 U.S. Dollars. Reading these stories I understood that it is not the budget that I lack, it is the Action Plan and the Willpower that is missing. Therefore, I have decided to get the best out of my position of student and write my business plan as a part of my Master Thesis. I have challenged myself in order to prove myself that it is possible to start a business despite the circumstances.

I believe there are young professionals like me. Apart from having their day jobs they are passionate about starting a business, not being afraid of failure. This Business Plan was also written to those who are hesitating (same as me) to start a business in an uncertain world. I wanted to show the possibility and prospect of creating a thriving business with the help of right mindset and well-defined plan. We can always reframe our stories and make the circumstances and obstacles work in our favor. There will never be a right moment to start. Therefore, we should work on our mindset shift, make a plan and execute on it

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