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One day one deal - first in first served: Exploring an unusual B2C e-commerce model

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Abstract

This case study describes the thinking and motivation behind the creation of an atypical e-commerce business model, and the aspirations of the entrepreneurs behind this creation. Unlike most B2C e-commerce providers, a small New Zealand company called Firstin, specialising in technology, does not give its customers the opportunity to fulfil a specific need. Each day, with no forewarning of what is to be sold, it offers just one or two products at a price that is usually lower than any other local providers can offer. At the end of that day, or if the product is sold out earlier, the offer lapses, and customers must wait until the next day for a new and different bargain. The business model depends upon the availability of a range of attractively priced technology products, and a large body of loyal watchers with the ability to make opportunistic purchase decisions if a particular offering meets a need at an attractive price. In the middle of its second year in business in the small New Zealand market, this organization is evolving, but retains the key features of its unusual business model.

Keywords: E-commerce, B2C, business model.

1. Introduction

One of the big issues faced by many organisations engaging in B2C e-commerce is to find ways of differentiating their business models from other online competitors. This approach is especially critical for small businesses as they are often faced with the additional challenges of limited financial and human resources to deal with the demands of e-commerce (Corbitt and Al-Qirim 2004; Yoong and Huff 2000). So, unless these organisations can find innovative and novel ways of doing online business, then it is possible that their survival is limited. The following scenario illustrates how one small 2-person business called *Firstin* attempts to provide a unique service to its New Zealand customers.

Each morning, at around 7 am, regular clients of *Firstin*, a New Zealand website, receive an email telling them what products are offered on the web site during that day. Each day, this online store offers a very small number of products for sale, and commonly just a single product. Clients expect that they will be most likely offered high quality brand name technology products at a price lower than is available through other local channels. Products offered are generally of a technological character, ranging from complete computers, to memory chips, or printer paper. At the whim of the owners, quirky bargains calculated to appeal to the target market are offered. Examples have been as diverse as an espresso coffee machine, sports shoes and vacuum packed salami. Product

values range from a few dollars for consumables, to several thousand dollars for powerful computer or home theatre configurations.

Although customers are invited to notify the proprietors of the kinds of product they would like to buy, there is no fore-warning of what products will be offered or when. At most, subscribers and those who have purchased before may be notified by email of the new day's offering about twenty five minutes prior to opening. Whether the products of the day are popular and sell out, or don't move at all, the featured products are the only things for sale on the site until they are replaced by new offerings at 7 am on the next working day. Indecisive customers who miss the cut-off are not permitted to buy a product once it has been succeeded by the next item. The owners scrupulously observe that rule since not knowing when or if the product will be offered again encourages potential buyers to make an early commitment to the purchase. Orders are processed in the sequence received, and no one may buy more than three of a featured product. The advertised price is non-negotiable, delivery is by courier only, and the bargain is available to New Zealand domestic customers only. These apparently arbitrary business rules contribute to a user perception of transparency with one set of rules for all. Modelled initially on an American web site (<http://www.woot.com>), and subsequently customised to suit New Zealand market conditions, *Firstin* has an unusual and almost unique business model, although its owners intend to evolve it even further. How then do the two owners organise their business with this unusual business model? What are the unusual features of this business model?

This paper describes preliminary results from a research programme that examines the thinking and motivation behind the creation and maintenance of businesses with atypical e-commerce business models, and the aspirations of the entrepreneurs who own them. The paper begins by describing the data collection method used in the study. Then, based on the narratives and experiences of the owners of *Firstin*, and various published documents, it presents the case, and an analysis of the phenomena observed within it.

2. Data Collection Method

The case method was used in this study. This method is considered useful in situations such as this study, when the study is exploring a contemporary event, where control of subjects or events is not necessary and where there is not already an established theoretical base (Benbasat, Goldstein, & Mea, 1987; Yin, 1994). Case method can also shed light on a phenomenon (process, event, person or object of interest) and has been noted for three purposes; to produce detailed descriptions of a phenomenon, develop possible explanations of it, or evaluate the phenomenon. Case method is considered useful when a natural setting is needed and when the study is exploring a contemporary event, where control of subjects or events is not necessary and where there is not already an established theoretical base (Benbasat et al., 1987). It is considered an appropriate research method for organisational studies because of the way it uses direct observation and systematic interviewing to gather data, and in particular when "how" or "why" questions are being posed (Yin 1994).

The two owners were interviewed in this study. Each interview took about one hour. The audio-tapes were transcribed so that key points were noted and themes and ideas teased

out. Interview notes and transcriptions were returned to the participants for checking and validation.

3. The Firstin Case

Colin Brown's focus was on retrieving something from the wreckage of his once proud, but now liquidated company. He had created a very successful PC assembly and retail business in New Zealand which, at its peak in 2001, was reported as second only to Hewlett-Packard with 10% of the local PC market (Brislen 2003). After 20 years in business the PC Company had grown to have seven retail outlets in cities around New Zealand, and was selling computers, components, peripherals and services to schools, businesses and individuals. After the sudden collapse of his business, Colin had purchased from the receiver of the failed company, its residual inventory and its mailing lists. He also brought his son, Adam, into the new business with him as Technical director.

At first, they explored the possibilities of using selected entries for computer dealers from their old mailing lists as the basis for helping to dispose of some of the still valuable components that they had bought from the receiver. Adam built some web-based mailing software called "Customail" which has been the technical centrepiece of their business ever since. The two owners confess that some customers of the failed business were on their list, and were incensed at being approached by people whom they saw as untrustworthy. The Browns believed that they simply had to face up to the criticism, and move on to those who were willing to do business with them.

Limited success was achieved from these first steps at rebuilding. However, the elder Brown came across two web sites elsewhere in the Internet that deployed an unusual business model. The idea involved selling a single product each day until either it was sold out, or the day ended. In order to grow beyond selling remnants to former customers, the Browns needed to adapt the model to the particular circumstances of the New Zealand market, and to attract the people with both the discretionary spending power and the disposition to buy technology products from an organization with no prior history.

4. The Firstin Case Analysis

Growing a new business using a business model not previously tried in this market is a significant gamble. Whether or not the uniqueness of the business model has actually contributed to the company's success to date is worthy of closer scrutiny.

4.1. Unusual features of Firstin's business model

A growing body of literature seeks to classify and predict the effectiveness of various business models implemented in the field of e-commerce (Anckar, Walden and Jelassi 2002; Barnes, Hinton and Mieczkowska 2002; Chen and Chang 2003; Parente, Venkatraman, Fazel and Millet 2004; Petrovic, Kittl and Teksten 2001; Timmers 1998). Most of the models discussed are more traditional than that employed by Firstin

There are several important elements that characterize Firstin's business model. Firstly, there is access to products of interest (often line remnants) at a price sufficiently discounted that Firstin can add a margin and still sell them to its customers at a perceived

bargain price. Preference is given to suppliers who offer attractive products at a low price, who have sufficient physical resources to receive and despatch products bought and sold and sufficient resources and the capability to honour any warranty obligations.

Secondly there must be a sufficiently large pool of “watchers” willing to check in each day to see whether the offered bargain is attractive, and who have sufficient discretionary spending power to seize the opportunity. Firstin have chosen to target as their customers, those with a technical bent who have sufficient discretionary spending power to be able commit on a whim, to the purchase of the products on offer.

As with all e-commerce enterprises, trust is vital, and to this end Firstin maintains a stance of openness and transparency, and as part of their web site they run discussion forums on which customer comments, good and bad, can be seen by all. Clear evidence of problems resolved is important to the establishment of trust. No censorship is visible in the forums, as evidenced by mails pointing to better bargains elsewhere on the net if the purchase price is not sharp enough.

No apparent effort is made to promote the site other than encouraging active participants to share their experiences with their friends. Few enduring public sites have links to Firstin, and the survival and growth of the body of watchers can only be attributed to the perceived value of the products on offer, and the trust built up and conveyed by word of mouth.

4.2. The Need for a Founding Vision

Entrepreneurial vision is the basis of most successful small firms (Hill and McGowan 1999). However, the vision cannot be static or left to itself, but rather must be continuously renewed (Hines 2003). The father and son founders of Firstin decided to use the Customail software they had developed, in conjunction with the mailing list from their previous company, to assist in the disposal of the saleable assets of the failed venture. Many of the people on the mailing list harboured resentments from the earlier failure and chose not to get involved. To compound the start-up problems of the new venture, it was launched in 2004, just prior to Christmas, which in New Zealand is the start of the peak summer vacation period for most people. Nevertheless, after a slow start over the summer holiday period, business began to pick up as customers, intrigued by the novel “one day – one deal” approach, spread news of the site to their friends. No money was spent on advertising, and for a considerable period growth came solely from the snowball effect of word of mouth.

To the greatest extent possible, Firstin attempts to act as an outlet for deal makers in disposing of product line remnants. Where this is the case, it need not invest its own cash in the products, warehousing, nor even the packing and shipping of the product, all of which is done by the provider. If under these circumstances the product is not sold, the inventory carrying costs and other risks remain entirely with the provider. In the cases where it must buy in the product, it must invest its own money and risk being left with unsold and potentially unsaleable stock. In addition, the vendor incurs all warehousing, packing and handling costs.

From the outset, Firstin has recognised the need to guard its reputation for integrity, and has taken extreme measures to rectify the inevitable errors which occurred as the business grew. On one memorable day, the advertised deal was a computer monitor, and due to an oversight, it was promoted on the web at a price of zero dollars. Several eagle eyed subscribers were quick to lay claim to a monitor at this price. As the orders came in, the proprietors realised their error and moved swiftly to correct it. Although they could, under New Zealand law, have chosen to repudiate the obviously erroneous price, they decided that it would be better for their reputation to be seen as men of their word. They provided the monitors to the four subscribers who got in before the correction at zero price and only the freight charges were recovered. This was a talking point in various electronic discussion forums (2005):

“Well, I went to www.firstin.co.nz this morning and got a brand new 17" flatscreen CRT monitor for \$0! They had messed up and put the price in at \$0 instead of \$99.95. I initially thought that there was no way they'd give me a monitor for free, but I got an email saying that they had screwed up and they want to support their shoppers so I'm getting it for nothing! Now that's awesome. So everyone should go and visit their site - they have an awesome new deal everyday and they look after their customers better than anyone I've ever seen!”

Although observers recognised the ploy, they were nevertheless admiring of the gesture:

“Awww I can't believe I missed it. (I mean, \$100 is still good but \$0 + \$10 would be better. It is amazing that they honoured it though. In fact... I think they might have done it deliberately - the reactions have been great, so it probably made more money than it lost, building their reputation at the same time. Very smart indeed.”(A poster on an online forum)

Other observers, some with grievances from the failure of the earlier business venture, were more cynical and hinted at sinister motives on the part of the principals, and made direct references to the failed company. No attempt was made by the Browns to argue with those whose mind was apparently already made up, and instead, reliance was placed on word of mouth from satisfied customers.

4.3. Strategies for Sustaining of Business

Although the long term viability of the organization is still an open question, several distinguishing factors have kept customers coming in sufficient numbers to ensure its survival well into its second year at the time of writing. Foremost among those survival factors is the continued ability of Firstin to source and offer genuine bargains to New Zealand buyers. The next strategy is to foster trust through a jealously guarded reputation for integrity and competence. Third, the organization encourages repeat business by means of a robust and reliable easy-to-navigate web site that very rarely gives any problems. The fourth factor is an apparently casual, but in reality carefully thought out set of product offerings designed to generate a very strong word of mouth marketing campaign at comparatively little cost. Each of these four items is discussed in more detail below.

The business model has not remained static. In keeping with Hines's (2003) notion of continuous renewal of the vision, the model has undergone a series of peripheral amendments. At the outset, just one item was offered for sale each day. In the latter half of 2005, the daily offering was expanded to allow the offering multiple bargains, sometimes as many as six. On some days there is still just one item. More commonly now, there are at least two items. Sometimes they will be of similar value, such as two LCD screens of different sizes, and sometimes two wildly different products such as a complete computer, and an external hard drive enclosure.

Each of these amendments can be seen as a stepping stone towards the owners' vision of a mall of brand categories, each offering products on a similar basis to that provided in the original store.

Opportunistic Bargains

Each day's offering is, from the customer perspective, entirely random. Firstin is not a site to visit for the gratification of an immediate need, since the likelihood of the required product being on that sale that day is extremely low. What Firstin provide on any given day is the expectation that there will be something for sale that will interest members of its target demographic, at a price that is better than that offered by any other local supplier. A useful analogy for the customer experience, might be attendance at an auction for which no catalogue is offered, but for which the general class of product is at least consistent. Random bargains are by no means unique in e-commerce, and seem to be popular with businesses in the business of remnant disposal. However, most examples to be found are there for the purpose of attracting customers to see the rest of the product in offer, rather than as an end in themselves.

The challenge for the owners of Firstin, is to know what kinds of people their customers are, and what kinds of products might appeal to them if the price is right. However, consumer behaviour is still capable of surprising the principals, and things that they buy in bulk anticipating rapid acceptance often don't move as quickly as anticipated. Customers seem more inclined to take a risk on lower priced bargains than they are on expensive consumer electronics.

From the perspective of the customer, a slight downside of the bargain offered, is that it is usually very specific. It is a particular model from a product line, and there is rarely an opportunity to influence the configuration or features of the product to be purchased. On the other hand, the product offered is often one that has been in the back of the mind as nice to have, but not hitherto available at an affordable price.

Transparent Dealings and Trust

Trust is an ever present factor in all e-commerce activities, and the owners of Firstin have worked particularly hard to build trust. In the extensively researched context of e-commerce, trust is seen to have many dimensions, some related to the customer's own predispositions, some to the customer's previous exposure to the internet and e-commerce generally, and some to the customer's perceptions of the vendor under

consideration for a particular transaction. In the latter case, the customer needs to perceive the vendor to be benevolent, honest and capable of completing the transaction being contemplated (McKnight, Choudhury and Kacmar 2002).

Firstin have focused considerable attention on building this kind of trust. Among their actions to achieve this, they have created customer forums on which complaints and grievances (and occasionally, words of praise) are aired. Customers dissatisfied with the product received have been direct in their criticisms, and most of these complaints have been publicly remedied. The site also has a FAQ file in which the owners make public disclosure of their identity, and explicitly refer to the earlier failed business. By laying themselves open in this manner, they tend to address all three dimensions of this vendor specific trust issue.

Firstin have attempted to remedy all reasonable complaints, and even some unreasonable ones. Other buyers can see what kinds of complaint are being made, and how they are being resolved. As an example, the shoes referred to previously did not get shipped as expeditiously as the purchasers wished, and in one case, the customer complained that they were tight across the foot despite the prior warning when the product was advertised that these were available in narrow fittings only.

Firstin's web site makes the point that they are not a conventional retail store and that they are not offering customary levels of service. Since both the company and the customers are in New Zealand, all transactions with Firstin fall within the scope of New Zealand's Consumer Guarantees Act (1993) and the Sale of Goods Act (1908), each of which affords a level of consumer protection not usually available in cross border e-commerce transactions. Firstin gives additional assurances on the web site's FAQ page that if a replacement cannot be obtained for a faulty product, a refund will be given.

For their own protection, Firstin require all goods to be delivered to a courier accessible address within New Zealand, and to be paid for prior to despatch, with a credit card transaction processed by a major trading bank.

Simple and Reliable Web Site

One of the factors that rarely fails for Firstin is its simple and robust web-site. In keeping with the principles behind Maslow's (1954) hierarchy of needs, the web site is not a factor unless its behaviour is in some way inadequate. Its appearance is clean, and navigation is simple and reasonably intuitive. Credit card processing is outsourced to one of Australasia's major banks, and it is rare that user complaints in the forums are aimed at any aspects of the web site, or its link to the credit card module. It follows that the lack of complaints implies a sufficiency of function from the web site. Changes tend to be introduced gradually, and are usually to add some new feature that is of benefit to the customers.

Carefully nurtured word of mouth advertising

The site engages in occasionally quirky but always purposeful behaviour, designed to maintain the customer intrigue with the site. Customers return often in the hope of being among the early beneficiaries of such offers when they are made. As most businesses know, getting the customer through the door is half the battle.

Another result of unusual bargains is that it attracts the attention of influential industry commentators on the local scene, and occasionally that of the mainstream news media. This free publicity is generally of a sort that money can't buy. On the first anniversary of its launch, the bargain of the day was a USB external card reader which was offered free to all applicants until stock ran out. On another occasion, it offered a high quality mouse for a mere 99 cents. As one of the founders observed, this was a ploy to create a "buzz" during the normally quiet weekends. These sold out very quickly, and resulted in a much higher traffic patterns for subsequent weekends, as customers watch in the hope of further loss-leading bargains. Another departure from the customary technology pattern of products was a line of smart casual shoes. Some comments in the website discussion forums hint that this was a risky venture, with a higher than usual probability of discontented customers.

5. Conclusion

This paper reports a case study which describes the thinking and motivation behind the creation of atypical e-commerce business model, and the aspirations of the entrepreneurs behind this creation. The case describes a small New Zealand company called *Firstin*, which offers just one product at a price that is usually much lower than any other local providers can offer. At the end of that day, or if the product is sold out earlier, the offer lapses, and customers must wait until the next day for a new and different bargain. Unusual though this business is, the business model employed by Firstin seems to have worked well enough for it to not only survive, but to grow. In one sense, the business is self-limiting since, as a matter of current policy, it will not ship beyond New Zealand. Arguably there are a finite number of New Zealanders to whom the opportunistic bargain model will appeal, or who have the discretionary spending power to make purchases in this manner.

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