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Namchul Shin
Pace University

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COMPETITION IN THE BRICKS-AND-CLICKS WORLD:
STRATEGIC IMPLICATIONS OF MARKET-SEGMENT-
SPECIFIC DIFFERENCES

Namchul Shin
School of Computer Science and Information Systems
Pace University
nshin@pace.edu

Abstract

Pure-play Internet companies compete not only with their e-commerce rivals but also with traditional bricks-and-mortar firms entering into online business. Traditional firms going online, for their part, cope with serious challenges such as integrating their traditional operations with online business without cannibalizing their existing customer base in the traditional market. Faced with these challenges, both online and offline companies need to develop unique business strategies in order to compete against each other and sustain profitability. Using McCarthy's marketing mix model, Porter's competitive forces model, and market segment classification, this research presents a model for developing successful e-business strategies. This model has three components: 1) market segmentation, 2) competitive forces, and 3) marketing mix. Using this model, the future research will derive e-business strategies likely to contribute to increased profit for both pure-play Internet companies and traditional companies entering into e-commerce.

Keywords: E-Business strategy, marketing mix, competitive forces, market segment, competitive advantage

Introduction

Pure-play Internet companies compete not only with their e-commerce rivals but also with traditional bricks-and-mortar firms entering into online business. As more and more traditional firms move online, competition in the market will increase greatly. Pure-play Internet companies must find ways to cope with this challenge to survive in the market. For instance, in order to compete with Barnes & Noble, Amazon.com leased a new 322,560 sq. ft. distribution center in Fernley, Nevada in late 1998 (New York Times, January 8, 1999). As in the case of Amazon.com, investing in physical assets such as warehouses can be one way of competing against traditional firms entering into online business. Amazon.com recently built a partnership with Toysrus.com for selling toys on its Web site (Tedeschi, 2000). The partnership allows Amazon.com to focus on merchandising and order fulfillment and Toysrus.com to focus on purchasing. For traditional firms, on the other hand, one of the most serious challenges to going online is deciding how much to integrate their traditional operations with online business (Gulati and Garino 2000). The problem is that integration provides benefits of cross-promotion, shared information, purchasing leverage, and distribution economies at the expense of speedy decision-making, flexibility, and creativity. Integration also complicates the problem of attracting quality management and leaves traditional firms entering the online market at a disadvantage vis-à-vis the vast pool of capital available to Internet start-ups (although it has shrunk somewhat since the dot-com blowout). Another challenge is cannibalization. Since e-commerce is characterized by severe price competition, traditional firms moving online are forced to lower prices in the offline market to match the online market's prices (i.e., they must adopt the same pricing strategy both online and offline) (Viswanathan 2000). These lower prices can reduce traditional companies' revenues in the offline market. Their online business can also cannibalize their existing customer base in the traditional market as offline customers shift to their online business.

Faced with these challenges, both online and offline companies need to develop unique business strategies in order to compete against each other and sustain profitability. Using McCarthy's marketing mix model and Porter's competitive forces model, this research presents a model for developing business strategies that promise to create sustainable profitability in a world where both
online and bricks-and-mortar firms compete across online and offline markets. Of special importance is a consideration of the strategic implications of market-segment-specific differences.

A market-segmentation analysis leads to a set of market-segment-specific strategies that companies can deploy to reach profits above the industry average. The current study employs the market-segment classifications made by De Figueiredo (2000): commodity markets and differentiated markets (which include quasi-commodities, look-and-feel goods, and look-and-feel goods with variable quality).

The Marketing Mix and the Competitive Forces

According to McCarthy (1960) and Perreault and McCarthy (1999), a firm develops its marketing strategies by first identifying the target market for its products or services. It then develops a marketing mix—a particular combination of product, price, promotion, and place (i.e., distribution and delivery functions in the supply chain) designed to enhance sales to the target market. A unique mix of these elements in a given industry allows firms to compete more effectively, thus ensuring profitability and sustainability. For example, by coordinating various product offerings and associated price discriminations with sales promotions and effective logistics, a firm can enhance profitability. Since the Internet has a significant impact on the makeup of this marketing mix, e-businesses should develop strategies that take this impact into account.

According to Porter (1980, 1985) and Porter and Millar (1985), a firm develops its business strategies in order to obtain competitive advantage (i.e., increase profits) over its competitors. It does this by responding to five primary forces: (1) the barriers to new entrants, (2) the intensity of rivalry among existing firms within an industry, (3) the threat of substitute products or services, (4) the bargaining power of suppliers, and (5) the bargaining power of buyers. For example, firms establish barriers to deter new competitors from coming into an industry by cultivating unique or capital-intensive resources that new firms cannot easily duplicate. Firms also increase bargaining power over their customers and suppliers by increasing the cost for their customers to switch to other suppliers and decreasing switching costs against their suppliers. The five competitive forces model provides a solid base for developing business strategies that generate strategic opportunities. Since the Internet dramatically affects these competitive forces, e-businesses should take these forces into account when formulating an e-business strategy.

Market Segment Classification

De Figueiredo (2000) classifies markets into four different segments: commodities, quasi-commodities, look-and-feel goods, and look-and-feel goods with variable-quality markets. Commodities are products with clearly and easily describable qualities that are identical across vendors. Examples of commodities are shares of stock, ounces of gold, and paper clips. The name and specifications for these products convey complete information about their attributes and quality. Consumers will typically choose the seller with the lowest total cost, including price, search, transportation, and other similar costs (Bakos 1991, 1997). The quasi-commodity market deals with differentiated but commodity-like products. Products are different only before consumers choose them. When consumers select products, they become identical across vendors. Examples of quasi-commodity products are books, CDs, toys, and new cars. The market for look-and-feel goods deals with products that have qualities difficult to describe and assess from afar. Consumers seldom buy these products before they can examine them in person, unless they are manufactured by well-known producers. Products are not identical across vendors, and, compared to commodity and quasi-commodity markets, there are few substitutes once consumers have made a choice. Examples of look-and-feel products are clothes, cosmetics, furniture, and houses. Look-and-feel goods with variable quality markets deal with products whose quality can be variable by certain conditions, for example, over time or by place. Each and every individual product is unique. Examples of these products are art, antiques, and used cars. There are other differentiated markets in addition to look-and-feel goods. Products are different across vendors, but consumers need not look, touch, and feel to verify their quality and characteristics. Examples of these products are airline tickets and computers.

According to De Figueiredo (2000), these markets can be differentiated by the intensity of the consumer experience, the degree of information asymmetry between sellers and buyers, the amount of search time consumers need to locate the product of their choice, and the importance of seller reputation. Most markets are comprised of the different categories of differentiated products. In these markets, buyers’ perceptions of product characteristics other than price are crucial, and the variety of product offerings makes consumer search more complex and difficult (Bakos 1991, 1997).
A Model for E-Business Strategies for the Bricks-and-Clicks Commerce

There is no single optimal e-business strategy because the sources of competitive advantage differ across different markets (De Figueiredo 2000). The same strategies that work for pure-play Internet companies may not always work for traditional companies entering into e-commerce. One important difference is that for traditional companies e-commerce is an additional and more efficient channel for selling their product or services while for pure-play Internet companies it is the only channel.

In order to develop successful e-business strategies, companies must identify the target market(s) for their products or services and analyze the five underlying forces of competition in the market(s). Then they should develop a unique combination of product, price, promotion, and place strategies that respond to the competitive forces. The theoretical background discussed earlier suggests the following three components for developing successful e-business strategies: 1) market segmentation, 2) competitive forces, and 3) marketing mix. A model based on these components can be used to investigate e-business strategies likely to contribute to increased profit for both pure-play Internet companies and traditional companies entering into e-commerce.

Current Status and AMCIS Presentation

This paper has introduced the strategic implications of using market-segment-specific differences in formulating e-business strategies to achieve a competitive advantage for both pure-play Internet companies and traditional companies in the bricks-and-clicks world. The future research will be carried out in the stages outlined below:

Stage 1. An investigation of e-business strategies for both pure-play Internet companies and traditional companies based on the three-component model suggested in this paper.

Stage 2: An empirical investigation on the success of companies adopting the e-business strategies identified in stage 1.

Stage 1 is ongoing and will be presented at the conference. Stage 2 will follow the investigation of e-business strategies.

References