“Strategic factors influencing the transition of businesses as they migrate from place to space, and vice versa: Issues and considerations”

Submitted by…

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ABSTRACT

The purpose of the research is to address the issues and considerations faced by companies, mainly retail B2C companies, as they try to establish online presence, migrating from tradition modes of doing business, to adoption of some virtual attributes. It also looks into the challenges that wholly virtual companies face, particularly online retailers (normally called e-tailers) as they realise the need to embrace traditional business processes, in a bid to gain from the advantages of the two worlds (the traditional world and the virtual world).

We were particularly motivated by the reality of today’s business environment where technology is playing an increasingly important role in business, and has given rise to the need for businesses to change existing models. The retail industry is very important, affecting the lives of billions of people, companies and industries, hence we concentrated on this segment of the business world.

We discussed problems, issues and considerations that these retail companies, both wholly internet based firms and the well known traditional firms face through a case study approach. With the use of different case studies of successful traditional companies, we shed light on what need to be considered while migrating from either of the two platforms elaborated on (the traditional world, and the virtual world), these were analysed throughout the document.

Dot.com retailers like Amazon, Waterstone.com, barneandnoble.com, Dell, Ride Aids etc, have been reviewed as well so that wholly virtual companies can understand the strategic steps to be considered in the migration process towards adopting a mixture of virtual and traditional business attributes, particularly, in relation to product, customer, distribution channels and pricing issues.

This research yielded some meaningful findings. Consumers react better to search goods than experience goods. Firms should not be afraid to cannibalise their own products while adopting different business channels. The adoption of the business models are as divergent as the firms are, so there is no winning strategy that firms should adopt while migrating along the line. We have identified four clear business model permutations: In house division, joint venture, strategic alliance and spin-off division. Every model has advantages and disadvantages peculiar to it and should be studied carefully for suitability and preference before adoption.

From the research, we were able to arrive at some conclusions. It is imperative for retailers to adequately plan their migration strategy rather than move because of competitive pressures, finding the appropriate business models are paramount as the firms move along the scale between place and space. There are certain issues that come up in this process of migration like cannibalisation, channel conflicts, pricing issues; consumer behaviour towards product characteristics and so forth. These issues can affect the success of any migration strategy and should be thoroughly considered. We carefully addressed these problems through a thoughtful selection of case studies dealing on any one of the specific problem highlighted. We are certain that this work will be of great benefit to entrepreneurs, business people, companies, students and research persons.
ACKNOWLEDGEMENT

We owe a great deal of gratitude to a number of people that without their assistance this research could not have been successfully completed. Our first thanks are to our supervisor Dr. Peter Stevrin who offered us constant guidance and many insightful and constructive observations throughout the study. He always kept us on task pointing us to the right direction.

We both owe a lot of thanks to Dr Anders Nilsson, who saw us through the very difficult beginnings of our problem formulation, his careful and insightful guidance contributed immeasurably to this piece of work.

To my beloved Orlando who has always supported me and filled up my life with positive dreams, helping me to stand and keep going when I have lacked the force and the confidence to do it. Thanks to Orlando and his endless efforts, this dream of completing my master at international level has come to reality. (Diana Mosquera).

Special thanks go out to my Brothers Gordon and Tochukwu, who were very supportive throughout my stay at BTH, without them, I would not have been able to successfully complete this programme. To my Mum Catherine and my Dad Johnny I owe many thanks as well. (Nnaemeka E. Ononiwu).
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1. CHAPTER ONE: BACKGROUND INFORMATION

Executive Summary:

This research work addresses the issues and considerations faced by companies, mainly retail B2C companies, as they try to establish online presence, migrating from traditional modes of doing business, to adoption of some virtual attributes.

The research also looks into the challenges that wholly virtual companies face, particularly online retailer (normally called e-tailers) as they realise the need to embrace traditional business processes, in a bid to gain from the advantages of the two worlds (the traditional and the virtual worlds). There have been a lot of talks regarding the viability of e-tailers or pure-play Dot.com companies, from a research carried out by K.Vinodrai Pangya, A.O.Arenyeka-Diamond, R.Bhogehi (Research Issues in e-business), whilst there is a huge opportunity for online grocery retailing, a business model that is based on distribution of the same through online channel only is a far-fetched proposition in economic terms, explaining why there has been a recent trend towards alliances and hybrid business models. These emerging models, are based on the principles of fully automated dedicated fulfilment centres, established network of stored outlets or combination of both, are essentially aimed at gaining operational/cost efficiencies and achieving critical mass – the elements that have now become the most essential critical success factors for online merchants.

Conversely, according to Irvine Clarke III, Theresa B Flaherty (2004), many traditional companies like Barnes and Noble, then Target, Nordstrom, Borders and Circuit City all into partnership with online retail giant Amazon.com, have evolved from being “brick-and-mortar” to “Clicks and mortar” companies. But in line with Irvine Clarke III and Theresa B Flaherty (2004) many other companies have engaged in some sort of migration, with more failures than successes recorded in the transition process, probably because they lacked the proper guidelines and planning along such migration pattern. These have resulted in lessons which, by analysing case studies of successful traditional companies, firms can better understand the issues that need to be considered while migrating. Dot.com retailers like Amazon, Waterstone.com, barneandnoble.com, Dell, Ride Aids etc, have been reviewed as well so that wholly virtual companies can understand the strategic steps to be considered in the migration process towards adopting a mixture of virtual and traditional business attributes, particularly, in relation to product, customer, distribution channels and pricing issues.

Many e-commerce analysts propose that traditional retailers would come out more successful than their Dot.com counterparts since they are the best positioned to master the economics of online retailing and capture growing consumer demand, with multi-channel marketing through the integration of online and offline channels they will meet up with consumer expectations for seamless shopping experience. (Vargas 2005).
According to Michael Silverstein\(^1\), “The incumbents (traditional retailers) who hesitate, or choose to stay out altogether, could see some of their most coveted customers switch to incumbent competitors who do go online,” in like manner, successful Dot.com B2C retail firms like Amazon.com have started making strategic moves through partnership with traditional retailers in order to compete favourably. So the research deals on current and on-going issues that exist in the market place now.

**Keywords:** - Traditional business, Internet companies, Virtual enterprise, Hybrid companies, Virtual companies, Business-to-customer, B2C, Bricks and Mortar, Brick-and-mortar, Brick and Click, Clicks and Mortar, E-tailers, Place to space, Business Migration, Dot.com.

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\(^1\) Michael Silverstein is a Senior Vice President and Global Leader of BCG’s Consumer practice
1.1 INTRODUCTION

There have been great advances in technology over the past few years, and the emergence of e-commerce has revolutionised the way business is done (Kuo-chung Chang, Joyce Jackson, and Varun Grover 2002), bringing about whole new businesses, with new models, concepts, and processes, (Symon Lydiard, Grant Lovett 2005). These developments, have increased business competition, streamlined business processes, catered for customers more effectively, improved the flexibility of information request, enabled companies respond more quickly to change etc (Luisa Piris, Guy Fitzgerald, Alan Serrano 2004). This made wholly virtual companies very attractive thereby putting traditional companies with time tested processes and procedures at risk.

According to Henry C. Lucas (2002), the Internet has implications for everyone’s business. The high overhead cost, large numbers of staff, huge head offices, and wide branch network has made it costly to compete in the present scope of things. While traditional retail businesses can boast of having the competitive advantage of direct physical interaction with consumers, and good customer service, they lag behind wholly virtual companies in providing consumers with the convenience and easy accessibility of purchasing online (Peng S Chan, Dennis Pollard 2003). Therefore, many firms are now adopting Internet strategies in other to take advantage of the benefits that the Internet provides while still retaining attributes, which has made the traditional companies, survive for decades.

Retailers all over the world are establishing virtual stores, which exist in the cyberspace and offer merchandise and services through an electronic channel to their customers with a fraction of the overhead required in a brick-and mortar store (Hoffman et al., 1996; Yesil, 1997). Presently many Dot.com businesses (e-tailers) are also adopting some traditional attributes to leverage on the benefits of the two worlds as well. The reasons for this adoption by virtual businesses of a “click and Brick” mix according to (Melissa Campanelli 2005) is because e-tailers now realize the value of offering shoppers multiple and integrated points of shopping access, as this strategy strengthens the brand name recognition, enabling customers to try, feel, and test products before purchase, provide them the opportunity of having a physical store where they can return merchandise, or make outright purchase without incurring shipping costs. This strategy also lowers promotional cost, while expanding customer base by wining over Internet shy or sensitive consuming public.

Furthermore, this strategic mix in the operations of the internet and traditional business models, by both wholly virtual companies and traditional companies, has given rise to new names such as “Clicks” for internet companies and “Bricks and mortar” (a relatively old term) for traditional companies. Therefore the term “Click and mortar” or “click and Brick” or “hybrid companies” symbolises companies that have adopted both Internet and traditional business strategies.

From a similar point of view, Clicks and mortar (sometimes seen as clicks-and-mortar) is a term describing traditional old economy companies that are taking advantage of the Internet and the new economy it has introduced. The term derives from bricks and mortar, used in the context of the Web to describe traditional
companies with physical (rather than Virtual) locations. In the news media, the success of Internet companies like Amazon.com, the online bookstore, led to a comparison with traditional bricks and mortar businesses such as Barnes and Noble, which at some point added a competitive Web site and became an example of clicks and mortar. David S. Pottruck, Terry Pearce. Click and Mortar (2000)

Many companies that have been successful as completely virtual companies have realised that traditional companies have an overwhelming competitive advantage because of the benefits of a physical presence, corporate culture, direct face-to-face interaction with customers, and process management, which if well executed, guarantees business success. From the perspective of Pottruck and Pearce (2000), clicks alone are not sufficient for business success, e.g. the problem of product return and the need by some customers to have physical contact with the company and socialise during the purchase experience are typical issues that come up as reasons why click companies should adopt some physical attributes.

Fig 1.0 below shows the two extreme companies referred to in the research as being in different worlds “the world of Place” for traditional companies, and “the world of space” for wholly virtual companies (Weill, Vitale 2001). In-between the two worlds is a line indicating the process of migration along the scale signifying organisations at many different points in the moves to e-business initiatives and vice versa.

**Figure 1 Migration scale from place to space and vice-versa**

To do regular business exclusively on the market place  

<table>
<thead>
<tr>
<th>Place</th>
<th>75%</th>
<th>50%</th>
<th>25%</th>
</tr>
</thead>
<tbody>
<tr>
<td>25%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

To open online stores to complement existing stores.

To go for a full online business operation.

NB. The percentage scale along the line indicates the degree of migration from one point to another.
Figure 2 below, further explains the migration between place and space on a more detailed scale, and this figure shows the different possibilities along this scale, from a point where companies are either 100% traditional or 100% virtual, to different points in-between. Our study is including all possible combinations between place and space e.g. 50% virtual and traditional, but it does not matter the % mix, what matters is for companies to focus on the possible advantages that presents itself as they migrate.

Figure 2  Migration scale indicating the mix between place and space

To further expand on the migration scale between place and space, According to Leslie Willcocks, Christopher Sauer and Associates, (2000), there is a four stage development in the move to E-business comprising of: web presence; accessing information to transacting business; further integration of skills processes and technologies; and finally leveraging, capability, experience and know-how to maximise value. However, in the current research we are concentrating on a two-way approach involving the migration process from place to space and vice versa, and the synergy that the hybrid model (which is the combination of Brick-and-mortar firms and pure-play internet firms) bring to companies that adopt this business model.

Many companies have different motives for deciding to migrate in either of the two directions; however this is not the focus of our research. Most Brick-and-mortar businesses migrate in order to remain competitive, to increase profits, to increase market share (Chan, Dennis. 2003). But it is important to note also that companies adopt any form of innovation purely based on the rate of adoption by others (Fang Wu and Yi-Kuan Lee) by implication they could have migrated without planning and due considerations of the intricacies involved in the migration process. They just migrate as a trend, because others are doing so, and it makes the migration process very problematic. Such companies that merely migrate because others are doing it, and they do not want to feel left out, are not likely to analyse and articulate their migration strategy appropriately. The purpose of this research work, therefore, is to examine some of the main issues that companies go through in the migration process so that companies can benefit from the experiences of others as they carry out their migration agenda. We will take successful companies that have adopted
Internet and traditional business strategies to examine common patterns in the migration process, which companies can adopt or look out for.

Because we have a limited time and resource for this research, our work will concentrate on Business-to-customer (B2C) relationship in the retail industry. So the problems are those that retail businesses encounter in their interaction with customers as they engage in the migration process.

By taking into consideration Elan Bitan’s (2001) perspective, we realised it is not in question whether companies should migrate, as the benefits of mixing the competitive advantages of the two worlds can not be over emphasised. After the global internet stock collapse in early 2000, the purely internet business model was given a rethink, and may now be a thing of the past, and new business models are moving in the direction of a mixture between bricks and mortar and Net-based firms for some obvious reasons, such as (Barsh et al., 2000; Dennis et al., 2002):

- Brick-and-mortars can leverage logistical and operational expertise, as well as highly developed technology infrastructures, in order to gain an Internet distribution channel.
- For their part, Net-based businesses can satisfy clients, bump up their bottom lines and reclaim market capitalization by making and advertising strategic partnerships that accentuate customer service and operational efficiencies.
- Established retailers with available resources, whether financial or in terms of market knowledge, are likely to be higher than Internet start-ups.
- The high cost incurred by an Internet-only retailer in acquiring customers places them at a distinct disadvantage compared to existing retailers when establishing themselves in the market.
- For established retailers, the opportunities for cross marketing between physical and virtual channels helps to minimise this cost. Many of the competencies developed by an established company in its traditional retailing operation may also be transferable to online retailing. This includes expertise and experience in order fulfilment and a distribution infrastructure.

Following the explanation above, figures 3 and 4 further explain in diagrammatical format each of the characteristics of the models, brick-and-mortar and Dot.com, and the fusion which creates a click-and-mortar business model.
In figures 3 and 4, we have listed the benefits of the traditional and Dot.com worlds, and showed what the advantages of the synergies or hybrid models between the traditional and Dot.com are.

**Figure 2**  
*Attributes of the three main types of companies along the migration scale*

<table>
<thead>
<tr>
<th>Brick-and-mortar:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operates in Place.</td>
</tr>
<tr>
<td>Sell at physical stores</td>
</tr>
<tr>
<td>Higher costs</td>
</tr>
<tr>
<td>Existence of intermediaries.</td>
</tr>
<tr>
<td>Provides consumers with physical access to products before purchase</td>
</tr>
<tr>
<td>Established distribution channels.</td>
</tr>
<tr>
<td>Not easy to imitate ideas, casual ambiguity exists.</td>
</tr>
<tr>
<td>Existence of sales personnel</td>
</tr>
<tr>
<td>Face-to-face, in-store interactions</td>
</tr>
<tr>
<td>Better logistical operations and Capacity to take customer returns</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Dot.com:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Virtual Company, exist in cyberspace.</td>
</tr>
<tr>
<td>Sell via the Internet</td>
</tr>
<tr>
<td>Lower costs</td>
</tr>
<tr>
<td>Elimination of intermediaries</td>
</tr>
<tr>
<td>Does not Provide consumers with physical access to product before purchase</td>
</tr>
<tr>
<td>Competitors easily imitate ideas</td>
</tr>
<tr>
<td>Non-existence of sales personnel</td>
</tr>
<tr>
<td>No face-to-face or in-store interactions</td>
</tr>
<tr>
<td>Poorer logistical operations and capacity to take in customer returns</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Click and Mortar:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Takes advantages of the best of the two worlds</td>
</tr>
<tr>
<td>Merging the power of the Internet with the knowledge and experience of traditional business processes.</td>
</tr>
<tr>
<td>Capitalises on the logistical strength on traditional firms.</td>
</tr>
<tr>
<td>Accommodates customer returns.</td>
</tr>
<tr>
<td>Dual distribution channel</td>
</tr>
</tbody>
</table>
The future, as it is, lies in a partnership or a mix between “brick-and-mortar” and “Dot.com”, this wave of the future has already begun. Companies that have both Dot.com and brick-and-mortar businesses (like Barnes & Noble) are integrating them to provide economies of scale and a leveraged set of offerings (Elan Bitan 2001). For this reason, our research did not delve into issues such as, whether it is good for a virtual company to fully migrate to a wholly traditional firm, or for a traditional firm to wholly migrate into being a wholly virtual firm.

Before we precede to the research questions, it is necessary that we define some key terms.

### 1.2 DEFINITION OF KEY TERMINOLOGY

- **Electronic Business**: Doing business electronically by completing business processes over open networks, thereby substituting information for physical business process. E-business encompasses Business-to-business (B2B), Business-to-customer (B2C), and Consumer-to-Consumer (C2C) interactions. (Weill, Vitale), (Henry C. Lucas Jr.).

- **Traditional Business (Brick-and-mortar)**: Brick-and-mortar businesses are characterised by physical presence like offices, warehouses, and sales outlets, and make it possible for consumers to have physical contact with the company. Bricks and mortar businesses are companies that have a physical presence (for example, a building made of bricks and mortar) and offer face-to-face consumer experiences (Wikipedia)
• **Wholly Internet companies (Clicks or Dot.com):** These are companies that operate virtually, only existing in cyberspace without physical stores or business structures. They basically operate a lean business model, and cut off a lot of intermediaries between the company and the end consumer. Consumers of these sort of companies only shop for the company’s products and services via the Internet, and such the business model that they operate is impossible without the existence of the web. Good examples of such companies are Dell and Amazon.com.

According to Investor.com, a Dot.com is a company whose operations are entirely or primarily internet-based or more specifically a company whose business model would not be possible if the Internet did not exist. Dot.coms often deliver all their services over an Internet interface, but products might be delivered through traditional channels as well (as is the current trend). Dot.coms are often divided into two categories: those that provide products and services for consumers (Business to consumer B2C) and those that provide products and services to other businesses (Business to business B2B. Investorwords.com)

Dot.com is also a “Colloquial name given to start-up companies that sell goods and services over the Internet. Dot.coms proliferated in the 1990s, but many failed by early 2000. The name comes from the “.com” ending of the Internet address of such companies” (Wikipedia May, 2006).

• **Business-to-consumer (B2C):** This refers to business transaction involving businesses and consumers, and not businesses and other businesses. E.g. Wal-mart

• **E-tailers:** An e-tailer is an on-line retailer who leverages the efficiency of the Internet to improve a customer’s buying experience. Advantages of e-tailing over traditional retailing include 24/7 ordering availability, searchable product offerings, low overhead, unique and highly customizable sales promotions, and easily updated product descriptions.

There are two distinct types of e-tailers: Pure-play and mixed. Pure-play e-tailers operate entirely on-line. Mixed e-tailers (also known as "brick-and-click") use both the online and "brick-and-mortar" channels to increase their customer base. An example of a mixed channel e-tailer is Arkatents Outdoor Gear. (Wikipedia)
1.3 **PROBLEM**

Our research will focus on the issues encountered by retail businesses as they embark on strategies towards the adoption of on-line operations or traditional operations. We are looking into traditional businesses on the one hand and virtual businesses on the other hand.

The focus is on the issues that companies might face in terms of their distribution channels, pricing strategies during the migration process, product characteristics in relation to consumer attitude, and how the results might influence company migration to the Internet.

The research investigation aims at providing answers to the following questions:

1. How do customers react to product characteristics, and how does this affect the migration process?
2. What problems could companies in the process of migration encounter in relation to:
   a. Distribution Channels
   b. Pricing strategy. E.g. does the company have to apply the same prices in space as is applied in place?
3. What kind of restructuring approach should the company follow in order to achieve their e-business objectives?

We have looked at the strategic issues and considerations that B2C retail firms face as they migrate along the scale between place and space. Strategy development is strongly influenced by considering the environment the business operates in (Chaffey, Dave 2004). From his analysis (as modified in this research Fig. 5) we have illustrated some of the most relevant elements (Consumers, products, distribution channels, pricing, and business models) that influence the way in which an organization operates in the e-business strategy.

For e-commerce strategy, the most significant influences are those of the immediate market place that is shaped by the needs of customers and how services are provided to them through intermediaries (Chaffey, Dave 2004). Our reason for concentrating on strategic issues and considerations, from this micro-environment perspective dealing on consumers-product relationship, pricing, distribution channels, and business models is because they have a major impact on the success of a company, and as such are important strategic management issues that must be constantly monitored.

Figure 5 below shows the micro-environment and the component factors within which e-business operates, and Chaffey (2004), highlighted the relationship within this micro-environment which involves the customer as the
focal point for business, the product which is targeted at the consumer, and the medium through which these products can reach the consumer.

**Figure 5**  *The Micro-environment in which e-business operates*

![Diagram of Micro-environment in which e-business operates]

*Source: Modified from Chaffey (2004), E-business and e-commerce management, 2nd Ed. Pg 33*

Our findings will help businesses in the process of migration to device better strategies towards customer retention and expansion, through the adoption of different sales channels, and the understanding of consumer behavior to product attributes, pricing, and the structure of the firm operations. It will also be needful in providing information on how to manage channel conflicts, cannibalization, and pricing problems that might make the migration process problematic. It will help companies in devising appropriate business migration strategies through the observance of patterns in successful businesses that have engaged in the migration process.

Our research, therefore, is based on previous work concerning the Internet and the migration of business operations ranging from wholly physical presence to a virtual presence (Peter Weill & Michael R. Vitale, 2001). However, we would want to focus on particular issues or factors as mentioned in our research questions concerning how this migration process affects business strategy from a B2C perspective. Most of our research foundation is based upon a wide range of electronic business books and journals, magazines, previous PHD Dissertations, electronic articles and newspapers, and other relevant information sourced from the Internet.
1.4 PURPOSE

Our work has focused on retail businesses, as stated before, from a B2C perspective, because the retail industry is one of the most important sectors in the economy, providing over 15 per cent of all employment and including some of the largest and most admired companies worldwide. Traditionally, this sector comprised mostly small businesses who typically invested very little in research, however, these days the retail sector is a driver of technological and managerial change. The importance of retailing for consumers does not need much explanation: most people deal as consumers with retailers almost every day and for many people shopping plays an important part in their lives. (Monash University Business School)

Through this research we have investigated the migration process from place to space and vice versa, and arrived at findings and conclusions, which will form knowledge to guide retail businesses in the process of adopting migration strategies.

We believe this research will provide useful insights for:

- Managers leading established firms from place to space or vice versa.
- New start-up retail companies.
- Teams managing e-business initiatives.
- Marketing managers requiring the understanding of the value propositions, segments and channels for e-business initiatives and how they differ from traditional ways of doing businesses.
- Entrepreneurs leading e-business projects.
- And finally, research students at both bachelor and master levels.

1.5 LIMITATIONS

We had some limitations in the process of writing this research paper, and we feel it is pertinent to state them. Foremost of which is going through the very many write-ups on the internet and business migration, very little has been written in the area of our research, which deals on the issues and considerations for companies migrating from place as well as companies migrating from space. Most articles are on migration implication for traditional companies migrating to space, so we had to piece together numerous articles and publications in order to arrive at answers to our research questions.

Time and funding has also been a limiting factor, because we where requested to pay for most valuable surveys we found on the Internet which would have contributed immensely to the research work. Therefore we had to work within the limits of available resource.
1.6 **INTEREST IN THIS RESEARCH AREA**

We find this research area interesting because it is very topical. Many companies are migrating their businesses along place and space, trying to strategically develop new and competitive business models. Our interest, particularly in the retail B2C industry, is because more consumers are transacting via the net, an understanding of what companies should do to take advantage of this opportunity becomes imperative. Knowledge about Consumer behaviour towards characteristics of the product retail firms offer, pricing, and channel conflict issues that arise when companies change business model will enable firms to better handle the issues associated with migration and consumer relationship.

1.7 **PREVIOUS STUDIES**

There are many studies relating to the Internet and business migration, but very few have looked in the area of the issues surrounding the migration process from a two-way point of view (place to space, and space to place), through investigating what successful companies from both worlds did to succeed with their strategy.

However, the myriad of articles, journals, web publications, and books on traditional business' Internet adoption strategies, and business migration from click to brick, have formed the foundation for our research. These studies have helped us theoretically and empirically in providing answers to our research problems and arriving at meaningful conclusions.
2. CHAPTER TWO: RESEARCH METHODS USED

2.1. RESEARCH METHODOLOGY:

In this chapter, our aim is to explain in detail the processes we went through in answering the research problems that we previously formulated in chapter one. This chapter encapsulates our journey in this research work aimed at sourcing and analysing data, the steps we have taken and the difficulties encountered throughout the research process.

2.1.1 The foundations of the problem:

As we had mentioned in chapter one, our research interest in this field was sparked off by how important it has become for retail companies to adopt traditional as well as virtual attributes in their business process if they are to remain competitive. More so, because many companies went into the migration process without proper knowledge and planning, hence their exposure to risk of failure.

We thought that by investigating successful retail companies, we can arrive at very useful information for companies as they guide themselves through the migration process.

2.1.2 Methodological Approach:

There are three main research questions as listed in chapter one above, and we have approached each question first with a literature review which gives insight into the necessary background information surrounding the specific research issue under consideration. Afterwards, we investigated and analysed the problems through relevant literature backed by explanatory case studies to further buttress the findings.

Finally we came up with some conclusions which we regard as relevant for retailers in this highly competitive industry. These findings and conclusions are not yes or no answers as this is an exploratory research based exclusively on secondary research, aimed at giving insight into retail industry migrational issues and considerations, which can be implemented strategically in many numbers of ways depending on the strategic style being adopted by the firm.

We have concentrated on the consumer and their behaviour towards the firm products as they migrate along place and space. We have also concentrated on distribution channel and pricing issues along with business adoption strategies because we feel these areas are very important and necessary to be looked into. However, due to time constraint and the need to maintain a narrow and direct
focus on a few of the issues that matter, they are by no means exclusively all that are important, we would have liked to cover financial issues, as well as the impact of branding and consumer loyalty in the migration process, and finally the effectiveness of cross-promotional activities as well as technical issues as infrastructural problems. These areas not covered, are open to further research studies which we think would provide meaningful insights for company managers to deploy such knowledge to advance their migration strategies and processes.

2.1.3 Data collection:

For the purpose of this research, we have relied exclusively on secondary data sources, which have been used to form the basic foundations of this paper and attempted to provide answers to our research questions. However, primary data sources were not utilised for this research because of the time constraint and the difficulty in getting relevant information from the right people and because many companies regard their Internet strategies as a very confidential issue that secures their competitiveness.

2.1.3.1 Secondary Data:

Our secondary data is sourced from varied sources ranging from books, journals, electronic book databases, publications, surveys, dissertations, and news articles. Some of our main secondary data are Peter Weill and Michael R. Vitale, Place to Space: Migrating to e-business models (2001) and Henry Lucas Jr. Strategies for electronic commerce the Internet, and other books that served as text for the course in e-business which helped us in the formulation of this research thesis. However, these are by no means our main data sources, but are the books that awoken our interest in this present research work.

The myriad of articles, journals, web publications, and books on traditional business' Internet adoption strategies, and business migration from click to brick, have also formed the foundation for our research. These studies have helped us theoretically and empirically in providing answers to our research problems and arriving at meaningful conclusions.

2.1.3.2 Methodological overview:

Because we carried out an exploratory research aimed at providing answers to the issues and considerations necessary for retail firms that are migrating along the scale between the traditional and the virtual world, we carefully selected some case studies of retail B2C companies that either migrated from a traditional Brick-and-mortar business to a click-and-mortar business, or from a purely net-based company to a combination of click-and-mortar.
We also have not focused on the motives that prompt firms to migrate along the scale between the traditional and virtual worlds. For a company to make it competitively, it needs to strategically devise ways to gain an edge. It is advantageous for a firm to incorporate both traditional and virtual attributes.

We realised therefore that companies are bound to migrate along current business trends, however, there are issues and considerations that need to be put in focus while the migration process is in progress, so we have used various case studies on well-known retail companies that are migrating along the scale between the two extremes in order to give an insightful answer to our research questions. Such companies as Amazon and Barnes & Noble are considered.

We decided to choose varied companies because with different companies, we are able to answer more directly on issues concerning our research questions, also because not many case studies on particular companies are available to give a holistic picture of the different issues that we are considering through our research questions. Therefore, our readers will benefit from the approach we have taken, by understanding the different perspectives and strategies companies choose to face, and the specific challenges mirrored by our research questions.

We chose to adopt an exploratory approach to this research because the questions raised are such that need a qualitative approach and to which there are no specific answers, and because of the time constraints, which we have stated as a limitation in the section below, our research will trigger off the need to research further on the development of theories which should guide the step-by-step effort toward arriving at a mix suitable for a particular company with focus on customer type, product type, and intensity of industry competition.

2.1.2 Limitations:

As stated in chapter one above, our major limitation to this research work has been the limited time needed for the completion of this paper and funding which made it exceptionally difficult to access surveys, and research papers. Also worthy of note is the fact that numerous publications deal on tiny bits of information relating to our research focus area, and this is why we took an ample lot of time to review a wide range of literature in order to piece together relevant information to our area of focus, most times we got overwhelmed by the difficulty involved in making some sense out of the numerous materials we had, or developing a comprehensive and logical progression of our research paper, but we were able to overcome through the guidance of our supervisor to whom we owe a lot of thanks and appreciation.

Because less is written in the area of virtual business migration to traditional processes, our research, while being approached from a two-way perspective (place-to-space and space-to-place), emphasises more on place-to-space migration.
Primary data sources were not utilised for this research because of the difficulty in getting relevant information from the right people and because many companies regard their Internet strategies as a very confidential issue that secures their competitiveness.
3. CHAPTER THREE: RESEARCH QUESTION No. 1

How do customers react to product characteristics, and how does this affect the migration process?

3.1 INTRODUCTION:

The essence of this research question is to find out consumer reaction when a traditional retail firm adopts virtual stores. This will provide answers that are relevant towards helping retail firms know what to look out for while in the migration process. It is also relevant for companies that are internet based, and now want to migrate by having a mix of space and place. Not all products that are sold by virtual firms will be successful through traditional processes and not all products that have been sold traditionally would be successful over the internet; though we did not attempt to research into this area, we propose it for future investigation. Since we are looking into B2C companies, consumer reaction is paramount, as failure or success of the strategy depends on how much of the market is gained to generate enough revenue that can sustain the business.

Secondly, while the consumer is very important to the success of the firm, the characteristic of the product on offer and its influence on the consumer, in place as in space, matters quite a lot on whether the migration strategy is worth the effort or not (Lei-da Chen, Mark L Gillenson, Daniel L. Sherrell). For example, if it is realised through research that consumers would react negatively towards a particular product when it is sold online than offline, because of the nature of the product, the firm could either remain in the traditional medium of interacting to the consumers, or attempt to reflect the product characteristics to the virtual store so that consumers can still derive the same satisfaction buying online, as they buy offline.

Finally, the results will help lend credence to what issues are necessary while firms migrate along the scale between place and space. From the above explanation, we believe that these issues and considerations are worth looking into.
3.2 LITERATURE REVIEW:

3.2.1 Product characteristics:

The suitability of the Internet for marketing to consumers depends to a large extent on the characteristics of the products and services being marketed. (Peterson, R.A., Balasubramanian, S. and Bronnenberg, B.J. 1997). Products as referred to in this research work, by definition, implies goods offered to a market with the aim of satisfying a perceived need or want. According to Wikipedia, It is the sum of all physical, psychological, symbolic, and service attributes.

From a marketing point of view, most modern marketers define a product as the sum of the physical and psychological satisfaction the buyer receives when he makes a purchase. For example, when he makes a purchase, the consumer receives an article with certain physical characteristics or a service with certain features; which he is able to purchase at a convenient time; and he receives an item about which he has some knowledge (Miracle, Gordon E. Jan, 1965).

Our aim at this point is to know if product characteristics have an impact on business migration, and we are looking at it from the viewpoint where retail businesses are migrating to Internet platforms. How would the product characteristic impact on their Internet adoption success, and the relationship between the product characteristic and the customer behaviour towards it, because it will determine to a great extent how the retail firm should migrate?

3.2.2 Product classification:

To have a clearer understanding of the issues surrounding the impact of product characteristics on the successful use of the Internet, a discussion on product classifications is warranted. (Simpson Poon, Matthew Joseph 2000). However, for the purpose of this research, we will concentrate on products sold directly to consumers.

According to Simpson and Matthew (2000), when looking at product classifications, marketers divide products and services based on the types of consumers that use them - consumer products and business-to-business products. Our focus is on consumer goods.
3.2.2.1 Consumer products classification: Consumer products as indicated by (Kotler et al., 1998; Simpson Poon, Matthew Joseph, 2000) are classified “into convenience, shopping, specialty and unsought products. These classifications were made on the basis of variables which include price, frequency of purchase, brand preference and loyalty, and product awareness.

- **Convenience products**: These are goods that are purchased frequently with little planning or shopping effort. They are usually at low prices and widely available.

- **Shopping products**: These are goods which are purchased less frequently, such as furniture and major appliances, and which are compared on the bases of suitability, quality, price and style.

- **Specialty products**: These classes of goods enjoy strong brand preference and loyalty. Consumers of these goods are willing to make a special purchase effort, do little brand comparisons and have low price sensitivity. Both producers and sellers of these products use carefully targeted promotion.

- **Unsought products**: These are consumer goods that the consumer either does not know about or knows about but does not normally think of buying; for example, Red Cross blood donations.

Besides price, product brand loyalty, the frequency at which consumers purchase a product, and the awareness of the consumer about the product, consumer products can also be classified on the basis of whether they are experience or search goods, in which case information about the product type, quality, specification, suitability of purpose, and benefit to consumer, are considered. Here, Simpson Poon, Matthew Joseph (2000), and Peterson, R.A., et al (1997) pg 334, made it obvious that information about the product plays a key role in the purchase decision of the consumer.

Nelson, P (1970), Darby and Karni (1973), Wright and Lynch (1995), classified products under the categories of search, experiential, and or credence products, thereby extending the classification to include credence products.

- **Experience Products**: These are goods whose features can only be evaluated by trying or inspecting the product e.g. a pair of shoes. These products are not as easy to sell electronically via the Internet because, according to Simpson Poon, Matthew Joseph (2000), this is because the information available might not be good enough for the customer to evaluate the product, therefore, Internet commerce is a poor substitute for more traditional retail channels.

- **Search products**: These can be evaluated based on externally available information. Based on this classification, search goods can be objectively assessed based on the information available on the Internet and a transaction is more likely to take place (e.g. a music CD).

- **Credence products**: From the definition given in answers.com “A credence good is a term used in economics for a good whose utility impact is difficult or impossible for the consumer to ascertain… the utility gain or loss is difficult to measure after consumption as well. E.g. Vitamin supplements, Education, medical treatment etc.”
3.3 ANALYSIS OF DEFINITION:

Looking from the context of our research analysis, if certain goods are not well suited for the Internet (experience products) as others are (search products), then it might be easier for retail firms that deal on search products to migrate to Internet platforms than for retailers that deal on experience goods.

Drawing from the above Logic, we presume that perhaps Amazon’s initial success as a wholly internet company was partly because of the choice of the product that they sell (books) and since the product characteristic of books is such that information posted on the Internet is sufficient for consumers to make a purchase without physically inspecting the book, the medium was suitable. Most web sites that sell search goods, like books and music CD’s, provide digital samples that the consumer could either read or listen to before making a purchase. With such retail companies dealing on consumer goods that can be categorised as search goods, Internet adoption can be quite easier than for companies that deal on experiential goods.

However, a customer might use a traditional channel to experience the product and revert back to an Internet-based transaction. It is also possible that a customer might use the Internet to acquire a frequently purchased experience good than he would if he had not bought the good in a long while Peterson, R.A., et al. (1997). So the need to migrate or the migration process should not be too much of a problem if consumers could still use the Internet to purchase experience goods after physically using the store to inspect the product of interest. In this case, one medium of purchase complements the other.

From the above discussion, we have come up with a model depicting the interaction of experience and search goods in relation to the appropriate medium of sale to consumers based on product characteristic as theorised by Peterson, R.A. et al. (1997)
While search products can be sold easily via the two mediums; traditional stores and virtual stores, experience products are more suited for traditional stores. In the diagram above, there is a dotted line connecting experience products and Internet medium of selling to the consumer, this is because consumers have become used to purchasing the product through traditional medium which provide them the opportunity to inspect it e.g., a pair of shoes to check for; fit, comfort, colour matching etc. Since these consumer requirements are not fulfilled through the Internet, it becomes difficult for companies that deal with such products to migrate easily to the Internet. It is problematic already, for consumers to make a choice while purchasing shoes in traditional stores, let alone via the Internet.

However, the weak link between experience products and the Internet medium can be strengthened when the product features are captured in detail on the Internet in such a way that the consumer would have a virtual experience that is typical of a physical purchase. Deborah Brown McCabe (May 2001)

When retailers understand the characteristics of their products and the relationship of consumer behaviour towards traditional and Internet purchases, retailers can exploit the opportunity of utilizing the benefits of the two mediums of interaction to satisfy consumer needs. For example, as stated earlier, customers might use a traditional channel to experience the product and revert back to an Internet-based transaction (Peterson, R.A., et al). So the dotted line linking experience goods and the online channel indicates the possibilities that exist for the sale of such products via the online medium if the company can effectively capture as much of the attributes of the product online so that the consumers would see the online medium as a convenient substitute for in-store purchase.
3.4 FURTHER ANALYSIS:

From our discussions above, while Nelson, P 1970, Darby and Karni 1973, Wright and Lynch (1995) classify product characteristics under the categories of search, experiential, and or credence products but our definition of product characteristics, also refers to retail products that are either material or non-material. In this case therefore, we refer to products and services which could be digital or non-digital according to the classification by Deborah McCabe’s 2001, Lal and Sarvary 1999.

When Amazon.com started in 1994, it’s CEO Mr. Jeff Bezos tossed a list of 20 products he might sell online, finally whiting it down to a few promising categories. The first, books, established Amazon as a pioneer of electronic retailing. Later, the Seattle Company tackled the other top items on Mr. Bezos’s list - music and videos -- cementing its reputation as an expansive Web variation of Wal-Mart. Nick Wingfield (Jul 12, 1999). From the Amazon experience, Mr Jeff Bezos carefully selected his products and gave consideration to their characteristics and their suitability for Internet commerce.

At this point, we would want future researchers to ponder on the following issues

- Are product characteristics a determinant of company success with Internet adoption?
- Does it mean that some retail companies are more successful due to the characteristics of the products that they deal on?

According to Nick Wingfield (July 12, 1999), the conventional wisdom among many industry watchers is that e-commerce will touch everything: Any product a consumer can buy today by walking into a store, picking up a telephone or filling out an order form by hand will ultimately be available to mouse-click shoppers. By implication, any retail company dealing on any type of product that is characteristically sold in physical stores can as well be sold on the Internet. Therefore, it should not be a limiting factor for any company migrating to click-and-bricks, regardless of the product, so long as the product, whether digital (non-physical) or non-digital (physical) has attributes and such attributes can be adequately described on the web in order to give insight into the nature and category of the product, thereby making it easier for consumers to purchase products online based on the information provided on the web site.

On the contrary, as stated before, consumers have traditionally been used to purchasing products from the traditional Her stores where they physically examine products; this cannot be done through online purchases, and can affect the consumer decision. This notion may make it difficult for retailers to migrate easily from place to space when they trade on non-digital products that require physical inspection before purchase.

Furthermore, in an excerpt from Nick Wingfield’s write up in The World Street Journal (July 12, 1999), Lauren Cooks Levitan, an analyst at BancBoston Robertson Stephens Inc argues that "There is virtually no category for which a portion of business won’t ultimately be derived from online sales, the question is what portion of the pie will derive from online [sales] and how big that total pie is."
In line with this opinion, Andrew Anker, a venture capitalist at August Capital, Menlo Park, California argues that there’s a limit to what people will be willing to buy on the Internet, as he is quoted, "There's this mentality that all retail should go online, and I don't think that's true, there are plenty of experiences you need to have in a brick-and-mortar store."

According to Deborah Brown McCabe (2001) “Building on an analysis of perceptual mechanisms involved in the sense of touch, products with material properties are more likely to be chosen offline than online…Furthermore, a material product is likely to be preferred more online when its touch properties are described verbally. Finally, if a brand has a strong reputation, the effect of whether decisions are made online or offline is reduced. The type of information gained offline also was found to mediate the increased preference for material products”.

3.4.1 Lessons learned:

Therefore, retail companies with material products are likely to remain in place and maybe more likely to be slow in internet adoption than companies that deal on service products or non-material products, since consumers are more likely to purchase the goods online than offline. Deborah McCabe research went ahead to suggest that only two factors could eliminate consumers’ Inherent preference to purchase material products offline

A). Altering the way the material product is described online.
B). Offering high brand tier products online.

So material products if adequately described on the net can attract online buyers and as such would positively influence the migration of product offering from place to space.
3.5 CONSUMER BEHAVIOUR TOWARDS VIRTUAL ADOPTION:

The study of consumer behaviour towards virtual adoption will give traditional retail firms insight into how to carry out their migration process, and investigating consumers' salient beliefs about online shopping which influences their retail channel selection decisions is important for the retailers.

In the research carried out by Lei-da Chen et al, we can either take a consumer centric or a technology centric view of consumer motivation to Internet adoption by retail firms. The consumer centric view is that, for firms to succeed as they migrate to internet platforms, factors like consumer willingness to adopt electronic commerce, motivated by their perception of the product, their expected service quality, trust issues, and shopping experience derived from online purchase are important, and must be considered. Lei-da Chen.

The basis for this question is adopted from the theory of Technology Adoption (TAM), which suggests that when users are presented with a new technology, a number of factors influence their decision about how and when they will use it. The model posits that perceived usefulness (PU) and perceived ease of use (PEOU) are the primary determinants of systems use. The model hypothesizes that actual system use is determined by users' behavioural intention to use (BI), which is in turn influenced by users' attitude toward using (A). Finally, A is directly affected by beliefs about the system, which consists of PU and PEOU. TAM theorizes belief-attitude - intention - behaviour relationship to predict user acceptance of technology. (Lei-da Chen et al PG 3, Davis et al., 1989).

Upon the basis of the above TAM theory, we further extended this model by including additional factors in our research framework as adopted by Tonita Perea y Monsuw, Benedict G C Dellaert, Ko de Ruyter (2004), reasons being that exogenous variables improve the viability and predictive nature of TAM, and enable its application in the environment of online shopping. For the purpose of their research, besides "ease of use", "usefulness", and "enjoyment", Tonita Perea Y Monsuw et al (2004), integrated five exogenous factors into the framework for understanding consumers' intentions to use the Internet as a shopping medium: "consumer traits", "situational factors", "product characteristics", "previous online shopping experiences", and the "trust in online shopping".
Figure 7  Framework for consumers' intentions to shop online (Adopted from Tonita Perea Y. Monsuw et al, 2004)
Fig 7, shows basic determinants and exogenous factors that influence consumer intention to shop online, the three basic determinants of usefulness, ease of use and enjoyment are based on the TAM model. However, we will concentrate on product characteristics as our focus area. As we have stated before, some product categories are better suited to be sold via the Internet than others partly because of the characteristics of that particular product. Following from this notion, the success of the product being sold online are influenced by the ability or inability of it to be felt, sensed, touched, smelled, or tried on. So the lack of physical contact can be an impediment. “Clearly standardized and familiar products such as books, videotapes, CDs, groceries, and flowers, have a higher potential to be considered when shopping on the Internet, especially since quality uncertainty in such products is virtually absent, and no physical assistance or pre-trial is needed (Grewal et al., 2002; Reibstein, 1999; Tonita Perea y Monsuw et al 2004).

There are a few retailers that have successfully engaged in the migration process between place and space, and we have picked two firms which have either been traditional firms or Dot.coms, but have migrated into being click-and-mortar companies; Barnes & noble, and Amazon.com. Both companies are large successful retail companies, and they both deal on books. Barnes & Noble, and Amazon.com, are two retailers that have been extensively studied by researchers and they have been used as case studies in many publications. Barnes & Noble is a traditional retail bookseller that has been challenged by Amazon.com, equally a bookseller, but dealing exclusively via the Internet. Both companies have made various attempts towards taking advantage of the best of place and space. Studying them, in light of the product type (Books) earlier characterised as search goods which could either be sold offline as well as online, will provide insight into how the companies strategically adopted the click-and-mortar business model as they compete with each other in the retail industry.

While many traditional brick-and-mortar firms like, Barnes & Noble, are deploying Internet strategies to remain competitive, “the real pressures in the marketplace are focused on former pure-play Internet companies that have now shifted their resources to explore how to leverage bricks-and-mortar capabilities to make their own business models more attractive, and target and better serve new customers” Robert J. Kauffman, Tim Miller, and Bin Wang. According to R. Kauffman et al, there are two prototypical ways in which pure-play Dot.coms are strategically migrating. They took a sample of 125 internet companies that are involved in “morphine” activities i.e. metamorphosis, in which firms adopt strategies that make them compete better. The study gave insight to industry strategic mutation patterns

- Adopting Bricks-and-Mortar Strategies: From their sample population, 7% of Internet companies adopted some form of strategy involving physical real estate. One such example is the Dot.com arm of Barnes& Noble, which in 2001, launched an aggressive cross-pollination strategy with its Brick-and-Mortar book superstore counterpart
- Adopting Traditional Media: The research found out that some pure-play firms are taking to traditional advertising because of steep declines in advertising rates and a simultaneous collapse in spending by the Internet companies that
had been purchasing the bulk of online advertising. So they are now trying out ads through offering print editions in the form of magazines or news letters (though the research report stated that some of these firms have abandoned this business strategy). Results from their research classified Internet firm strategic morphing behaviour under five broad categories: They include changes in product and service offerings, changes in customers, adjusting pricing model, establishing offline presence, and other strategies.

The table below provides a summary of the firms they examined in terms of these categories.

**Table 1: Internet Firm Strategic Mutations, 2000-2001**

<table>
<thead>
<tr>
<th>Description of Strategic Mutations</th>
<th>Count</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change Product/Service Offerings in Existing Markets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shift to application service provider (ASP) business model</td>
<td>10</td>
<td>8</td>
</tr>
<tr>
<td>Expand product/service offerings</td>
<td>17</td>
<td>14</td>
</tr>
<tr>
<td>Refocus and narrow product/service offerings</td>
<td>17</td>
<td>14</td>
</tr>
<tr>
<td>Move Upstream to New Higher Quality Customers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expand or shift from B2C to B2B</td>
<td>42</td>
<td>34</td>
</tr>
<tr>
<td>Expand or shift upward in B2B markets</td>
<td>12</td>
<td>10</td>
</tr>
<tr>
<td>Adjust Pricing Model</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Make adjustments to the fee model</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>Pursuing Offline Presence</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adopt bricks &amp; mortar strategies</td>
<td>9</td>
<td>7</td>
</tr>
<tr>
<td>Adopt traditional media model</td>
<td>11</td>
<td>9</td>
</tr>
<tr>
<td>Other</td>
<td>12</td>
<td>10</td>
</tr>
<tr>
<td>Total Number of Companies in Sample [3]</td>
<td>125</td>
<td></td>
</tr>
</tbody>
</table>

(Source: Robert J. Kauffman, Tim Miller, and Bin Wang (Online), [http://www.firstmonday.org/issues/issue7_7/kauffman/21-06-06](http://www.firstmonday.org/issues/issue7_7/kauffman/21-06-06).)
3.6 AMAZON.COM CASE STUDY:

A prime example of the fusion of the online and "offline" retail worlds is Amazon itself. The company has expanded well beyond its roots as a seller of books and CDs, acting as an online mall selling everything from gourmet foods to clothing. Evolving from pure retailer to "retail platform", it now conducts its online commerce in partnership with bricks-and-mortar retailers such as Target, Nordstrom, Borders and Circuit City. That blending of online and offline is offering consumers new ways to shop. They may research and order their purchase online, but have it delivered to a nearby shop - a service offered by retailers such as Sears Roebuck and Circuit City - so as to avoid delivery charges and allow them to see or try it on first. They may see a sofa they like in a brochure they received in the mail from retailers such as Pottery Barn or Crate and Barrel, go and look at it in a shop, mull it over, then order online.

So just like Barnesandnoble.com (the online baby company of book retail giant Barnes & Noble Inc), Amazon.com has equally been looking for strategic business models that will give it a competitive advantage, and partnering with a selected number of Brick-and-Mortar firms, the online giant can be counted as one of the e-tailers that are adopting brick-and-mortar strategies.

Amazon.com CEO Jeff Bezos kicked off the online retail giant by carefully selecting products that could best be sold through the Internet. The company started off as an online bookseller, then in 1997 it added the sale of CDs to its product list, and these two products are classified as search goods and as such a good fit for Internet business. Amazon had a wide variety of books and CDs, offering information about the products, product reviews, customer comments, and real audio samples for customers to listen to before purchase. Currently, the company has now added a wide array of products which comprise of both search and experience goods, and has formed strategic partnership with traditional companies so that consumers can have a choice to purchase from the store or directly online. This business initiative has given Amazon.com indirect access to fulfil consumer need for purchase of products that are not well suited for the Internet. NB Jeff Bezos on Amazon. (www.businesstown.com)
3.7 BARNES & NOBLE CASE STUDY:

Barnes & Noble, Inc. is a national bookseller, which is principally engaged in the retail sale of books. The Company operated 820 bookstores as of January 29, 2005. Of the 820 bookstores, 666 operated primarily under the Barnes & Noble Booksellers trade name and 154 operated primarily under the B. Dalton Bookseller trade name. Barnes & Noble Inc conducts the online part of its business through barnesandnoble.com (Barnes & Noble.com), a seller of books on the Internet.
Barnes & Noble adopted a migration strategy of forming a separate pure-play Internet company that was aimed at competing in the sale of books with Amazon.com, regardless of the fact that it took B&N 18 months to react to the Amazon.com challenge (http://hbswk.hbs.edu/item.jhtml?id=1682&t=strategy)

Knowing that search goods, due to their product characteristics, as explained previously, are suited both for offline and online channels, and consumer purchase behaviour does not discriminate against the product when it is sold online, because they do not necessarily need to touch, feel, or inspect the product before purchase, it was ideal for Barnes & Noble to sell their books online.

From a traditional retail giant, Barnes & Noble Inc. migrated to a combination of brick-and-click, in as much as the traditional and online firms were separate entities until 2001. However, the two arms of the retail giant started cross-pollinating strategies, so that the barnesandnoble.com could gain support, brand influence, and loyalty that its parent company enjoyed. With the same class of products as Amazon.com, Fig 9 shows Barnes & Noble Migration.
With the above business model, consumers can walk into any B&N store to check for books, and with the stores all connected to the Internet, consumers can check up book lists and make orders while in the store. This model also provides a solution to the problem of pure-play retailers in regard to consumer product return; the cross-pollinating strategy provides an avenue for online consumers to return products to the firm via its brick-and-mortar stores. This attribute will make it easier for online consumers to purchase and return unsatisfactory products with ease and convenience.
3.8 CONCLUSION:
From the discussion in this chapter, we have come to realise that certain products are more suitable for Internet commerce than others, and firms must understand that product characteristics and the choice of sales channel can pose certain difficulties in relation to consumer behaviour towards the product attribute. This could cost a firm loss in expenditure and sales if these factors are not put into consideration. According to Cole et al 1998, the right kind of products offered by a virtual store can create cost advantages and attract customers. Their research compared six different products in terms of their suitability to be sold on the Web. Among the six products, books, airline tickets and CDs are found to be more advantageous to be sold on the Web (search goods), whereas perfume, shoes, cars and wine are less appealing as candidates for Web commerce (Experience goods).

Experience goods, however, are not ruled out from Internet commerce if firms can overcome the inherent weaknesses by capturing the attributes of the product on the web page so that consumers can get as much information as possible in order to facilitate a purchase. Firms can also strategically align with others, or create a mixed presence in place and space and by using a multi-channel approach to satisfy consumer needs and requirements.

Experts say that most online purchases will remain durable, standardized items requiring little customer service, for example, books and musical CDs (Scansaroli & Eng, 1997).

Digital and information products will also be successful because they are non-depletable, infinitely customizable, and have zero distribution cost (Gogan 1997).

While there is no set rule that dictates which products can be successfully sold on the Web, virtual stores must carefully evaluate the product retail channel fit and make adjustments to their product offerings accordingly.

However, from our research proposition, Clicks-and-mortar is much better than a pure traditional retail firm or a pure-play retail firm; companies are therefore advised to integrate the two attributes, because customers are looking for convenience in purchases.

One of the findings from our research in this chapter is evidence that product classes and characteristics significantly influence online purchase preference. Tulay Girard, Ronnie Silverblatt, Pradeep Korgaonkar (2002).

Furthermore:

- When it comes to online purchase, consumers react better towards search products than experience products.

- For Retailers that are migrating from brick-and-Mortar platforms to a combination of Brick and clicks, they should try as much as possible to reflect most of the characteristics of experience products online, so that consumers can get as much information as possible concerning the product.
• When retail firms are choosing products, like Amazon.com, they should carefully start with products that are better suited for the internet, and for which, the product information is sufficient for consumers to make online purchase.

• While in the migration process, product characteristics in relation to consumer behaviour should be studied, because products and consumer behaviour towards it are two primary issues to be considered for business migration strategy.

• Many firms are migrating, from traditional to a mixture of click and mortar, or from traditional to pure-play, or from pure-play to wholly tradition, and finally from pure-play to a mixture of click-and-brick. In any of these strategic moves, consumers behaviour and products characteristics and suitability for the business model being adopted, and how the product relates to the consumer in respect to the business channel, should be considered as important factors.

Finally, as part of our conclusion, we have looked at the products that have been successful on the Internet, and those that have not, and brief reasons why. The purpose for this input is to give entrepreneurs an idea of what products can be easier to migrate to the internet platforms through looking at the list of the hottest products and the ones that have not made any significant progress through the Internet sales medium. As we stated earlier in this chapter, search goods are more likely to be sold more effectively via internet channels than experience goods because adequate information alone is sufficient for the consumer to effect a purchase. Some of the hot products like books, music, health and beauty products, watches and jewellery are products that can be sold effectively via the Internet by providing all necessary information to aid the consumer in a purchase.

So for retail firms with a wide array of products, a migration strategy should include this consideration, so that they can start off on a good footing, by introducing their business online with search goods, while gradually introducing experience goods by carefully capturing as much of the physical experience to the Internet.

**Hot products:**
Books and music are some of the most cited products that have made success being sold on-and-offline, others are;

• **Health and Beauty:** Because detailed information on the web are sufficient for purchase. Also because the medium provides for convenience and privacy “unlike a corner drugstore, no one can see you buying Viagra or Preparation H online” and since there is so much data available on these products, they are better viewed online (comment by David J. Cowan of Bessemer Ventures, one of the venture-capital firms behind MotherNature.com) Nick Wingfield July12, 1999. With such companies like PlanetRX Inc. and Drugstore.com Inc with strong links with Amazon.com, these are certainly hot products.

• **Watches and Jewellery:** These are geometric in attribute and can be captured quite vividly on the Internet.
• **Groceries:** with companies like Webvan Group Inc. of Foster City, California and now Yahoo.com indicates that this is likely to be an emerging area.

• **Sporting Goods:** With big and successful traditional companies like Nike forming click-and-mortar businesses sporting goods are regarded as hot.

• **Pet supplies:** With $23 billion in sales in the U.S. alone last year, Internet retailers want a piece of the action. Pets.com Inc in which Amazon owns 50%, Petopia.com Inc in which Technology Crossover Ventures, Palo Alto, California invested $9 Million is a clear indication that the product is hot.

**What’s Not?**

• **Firearms:** perhaps because of the controversy surrounding it.

• **Shoes:** as mentioned earlier, these are experience goods and need physical inspection before a consumer will feel comfortable to buy, unless the consumer has bought the exact product and size. “Is footwear a good fit for the Internet? Finding a comfortable pair of shoes is difficult enough in traditional stores -- shoppers often try on a few pairs before they find the right ones -- but online shopping makes the process even more challenging. And shipping shoes back to a virtual store can be a real hassle.” (Nick wingfield July 12, 1999).

• **Heavy Things:** Most successful retail goods are small and light for shipping purposes e.g. books, and CD’s.
4. CHAPTER FOUR: RESEARCH QUESTION NO. 2

What problems could companies encounter during the process of migration in relation to Distribution Channels and Pricing strategy?

If you do not sell your products directly over the Internet, people will go to your competitors who do, while if you do sell your products directly, your distributors and dealers will desert you and only carry products from manufacturers who do not compete with them. —Manufacturers’ Dilemma (Wilson R. 1998)

4.1 OVERVIEW

Clicks and mortar model offers companies with a host of choices (Balasubramian, S. 1998). Companies pressured by the competition need to quickly tap into the benefits of integration. Since such strategies pose both challenges and opportunities, it is important to match integration initiatives to the firm’s business strategy and customer requirements (Steinfield, C. 2002a). Significant strategic decisions involve assessment of the degree and type of informational and operational integration and its impact on brand and channel conflict (Bakos 1997).

A survey by Jupiter Media Matrix in 2003 highlighted the need to develop clicks and mortar strategies around customer requirements (Khawaja A. Saeed et al. 2003). It was found that 83% of online customers would like to return online purchases at offline stores. Further 59% would like to order online and pick up the order from an offline outlet and 67% expect store staff to be able to view their online information (www.jupiterresearch.com). Developing such strategies pose both challenges and opportunities, where matching integration initiatives to the firm’s business strategy and customer requirements is the key factor (Steinfield, C. 2002a). Advantages in hybrid model or multi-channels arise from the ability that a multi-channel approach offers for reaching new customers and offering new services. Theories of competitive strategy emphasize the importance of exploiting interrelationships among various tangible and intangible assets as important sources of synergies that can drive competitive advantage (Porter 1985). The advantages of the clicks and bricks model extends to the fact that each channel can have spill-over effects that result in increased purchases and reduced costs in the other channel (Ward 2001).

For instance, transferring an established brand to the virtual channel can bolster trust among consumers but at the same time may create channel conflict, which describes the difficulties that can arise when the same good is sold simultaneously in two or more channels. Similarly, pricing strategies and policies must be taken into account to successfully integrate and tap the joint advantages of online and offline processes. This integration enables the company to access the required information to serve the customer, no matter which channel the customer interacts with. It also allows for catering, to evolving customer needs, by rapidly offering focused integration initiatives. Seamless integration among organizational processes provides great potential for excellence in customer service (Khawaja A. Saeed et al. 2003).
In the early years of e-commerce, brick-and-mortar firms started creating e-commerce channels that operated quite independently from existing physical outlets, in an attempt to gain the economic advantages from the Internet without the extra costs, lack of innovativeness, or other burdens associated with the old way of doing business (Steinfield et al 1999a; Useem 1999; Venkatesh 1999, Steinfield 2003). A retailer taking such an approach, however, creates the potential for channel conflicts that can result in the cannibalization of sales from its own physical operations (Stern and Ansary 1992). Today, e-commerce channels have been added to the channel mix, creating even more potential for cross-channel conflicts (Useem 1999; Ward 2001). Given the importance of click and mortar e-commerce, it is imperative to understand how companies can avoid channel conflicts with its respective pricing implications and gain benefits from physical and virtual channel integration.

In this research, we took into consideration a strategic perspective of how retailers should migrate to e-business platforms. Considering that retailers are a vital part of the distribution chain, and whatever strategies that the manufacturers take as they migrate to e-business platforms, would affect the retailers, it is necessary that they strategically consider this issue, and how it might affect their business as a B2C company. The distribution channel model, which comprises of manufacturer-middlemen-retailer-consumer (end user), is changing since the demarcation between these distribution chain participants are narrowing, making companies perform roles that would have been almost impossible in the past. E.g. Dell Company serves both as manufacturer and retailer, eliminating the middleman and providing services directly to the consumer on a customised basis. Many online companies like amazon.com, are also seeking new models and strategies which enables them to deal with issues concerning the distribution of products and receipt of defective products from their consumers.

4.2 LITERATURE REVIEW

4.2.1 Distribution Channels:
Channel structures describe the way a manufacturer or selling organization delivers products and services to its customers. The distribution channel will consist of one or more intermediaries such as wholesalers and retailers or even the company’s sales force. The use of multiple channels of distribution to serve a given product-market is rapidly becoming the rule rather than the exception (Frazier, 1999; Moriarty and Moran, 1990). The primary motivations for supplier firms establishing multi-channel or hybrid arrangements are the desire to increase market share and to reduce costs (Frazier and Antia, 1995).

A hybrid distribution system is a multi-channel arrangement in which distribution tasks are performed by a combination of distinct channel. Channels are designed to satisfy the needs of diverse market segments by delivering a variety of product/service offerings. In hybrid systems, markets are often targeted by more than one distribution channel. Although a hybrid channel strategy provides many benefits to the firm, it present some challenges as well.
4.2.1.1  Disintermediation

A significant threat arising from the introduction of an internet channel, since it has the ability to provide accessibility of electronic information, which increases the efficiency of markets, is that while disintermediation gives a company the opportunity to sell directly and increase profitability on products, it can also threaten distribution arrangements with existing partners. This topic has been addressed by different authors.

Bakos (1991) developed models to show that, where product quality and price information are easily available as in electronic markets, search costs are reduced and benefits for buyers increased, which as a consequence, reduces sellers’ profits, suggesting that a way to counter approach this was reducing the number of intermediaries in the supply chain between the manufacturer and the end user.

Rayport and Sviokla (1994) described how one of the profound consequences of the ongoing information revolution is its influence on how economic value is created and extracted. When buyer-seller transactions occur in an information-defined arena, information is more easily accessed and absorbed, and arranged and priced in different ways. Most important, the information about a product or service can be separated from the product or service itself. In some cases, the information can become as critical as the actual product or service in terms of its effect on a company's profits. As a result, transactions based on information, create new ways of thinking about making money and thus a new value proposition.

An example of how information can be separated from the product itself is a car auction (www.monitor.com). The auction system has made the physical location of the inventory and the actual site of buying and selling irrelevant. The traditional marketplace interaction between physical seller and physical buyer has been eliminated. In fact, everything about this new kind of market-space transactions is different from what happens in the marketplace:

- The content of the transaction is different: information about the cars replaces the cars themselves.
- The context in which the transaction occurs is different: an electronic, on-screen auction replaces a face-to-face auction.
- The infrastructure that enables the transaction to occur is different: computers and communication lines replace car lots.

Benjamin and Wigand (1995), using a transaction cost perspective, emphasised on the web's ability to close the gap between buyer and seller as electronic commerce becomes ubiquitous and as information infrastructures reach out to the consumer, causing a restructuring and redistribution of profits among stakeholders along the value chain, threatening all intermediaries between the manufacturer and consumer. This process is called disintermediation or “cutting out the middleman”. They also argued that the consumer is likely to gain access to a broad selection of lower-priced goods, but there will be many opportunities to restrict consumers' access to the potentially vast amount of commerce.
Weiber and Kollman (1998) also evaluated the significance of virtual value chains and concluded that information would become a factor of competition in future markets.

Shaffer and Zettelmeyer (1999) said that Internet can potentially harm retailers even if it is not used as a direct sales channel. The emergence of the Internet as a marketing communications channel now makes it possible for manufacturers and any other third party to perform an information provision function that was once in the exclusive domain of retailers. Now information that may be considered too technical can be provided effectively.

Specific motivations for disintermediation according to Stern, El-Ansary, and Coughlan (1996) include:

- Resellers carry only small assortments of a manufacturer’s products,
- Direct control of distribution and pricing can lead to higher profit margins,
- Resellers can use their power to extract various concessions from the manufacturers,
- Manufacturers can provide a broader product selection in a better ambiance with higher service in direct outlets,
- More flexibility in experimenting with product attributes,
- Closer contact with customers, and
- Protection from crises faced by resellers.

Elimination of intermediaries is not without disadvantage, though. As noted by Stern, El-Ansary, and Coughlan (1996, p. 115), “It is an old axiom of marketing that it is possible to eliminate wholesalers (or any middlemen, for that matter) but impossible to eliminate their functions.” The role of intermediaries is to efficiently create and satisfy demand, through activities that include building brand and product awareness through advertising and customer education, providing market coverage, gathering market information, providing breadth of assortment, processing orders, customer support, etc. (Tsay et al 2004).

4.2.1.2 Reintermediation

Although disintermediation has occurred, reintermediation is perhaps a more significant phenomenon resulting from internet-based communications. To illustrate a simple disintermediation situation is when the customer goes directly to different suppliers to select a product, being inefficient for the customer. Reintermediation removes this inefficiency by placing an intermediary between purchaser and seller. This intermediary performs the price evaluation stage of fulfilment using an update prices databases from different suppliers (Chaffey 2002)

Steinfield (2002a) claimed that the integration of online and offline sales channels supports the acquisition of new customers, thereby generating increased revenues and reduced costs. The use of common infrastructure, operations and marketing in hybrid businesses (with both physical and internet channels) may represent an advantage. However the major advantage seen by the author (2002b) for hybrid
businesses is a reduction in the lack of trust that often faces Internet-only businesses.

Authors such as Sarkar, Butler & Steinfeld (1996) argued against the idea that intermediaries are likely to disappear. Drawing on channel evolution literature and transaction cost economics, they proposed instead that virtual channel systems and new ‘cybermediaries’ would emerge. Some of the main new intermediaries or cybermediaries they identified are:

- Portal, that is a web site that acts as a gateway to information and services available on the Internet by providing directories of different web sites by categories, search engines where users search by typing keywords and are presented with a list of pages, and other services such as personalised news or free e-mail.
- Virtual resellers
- Financial intermediaries
- Forums
- Evaluators

Bailey and Bakos (1997) suggested that markets do not necessarily become disintermediated as they become facilitated by information technology. Thirteen case studies of firms participating in electronic commerce were explored and evidence was found of new emerging roles for online intermediaries, including aggregating, matching sellers and buyers, providing trust, and supplying inter-organizational market information.

In a Harvard Business Review article called “Hypermediation: Commerce as Clickstream”, Carr (2000) supporting the argument of new intermediaries said, that far from the widely predicted disintermediation, the Internet is in fact leading to ‘hypermediation’ in which transactions over the Web, even very small ones, routinely involve many intermediaries, including not just wholesalers and retailers, but also content providers, affiliate sites, search engines, portals, internet service providers, software makers and many others. He suggested that these intermediaries who will stand to gain most of the profits from electronic commerce. Further, the same author argued (2005) that the hypermediation phenomenon is continuing in the Web world of online media with a new emerging set of diverse intermediaries focused on content rather than commerce, the blog subscription services. According to the author in intermediary roles, what really matters is not controlling the ultimate exchange of products or content, but controlling the clicks along the way. That is becoming even more true as advertising clickthroughs have become the main engine of online profits. Whoever controls the most clicks wins.

Bhargava, Choudhary & Krishnan (2000) concluded that when consumers are heterogeneous and differ in their willingness to pay for intermediation, the intermediary can offer two or more service levels at different price levels.
4.2.1.3 Channel Management strategies

DeKare-Silver (2001) and Shaw (2000) present various channel management strategies that retail companies can adopt in order to enter the electronic commerce area. Each of these strategies requires a different level of digital technology adoption and integration. A number of the strategies allow for the integration of technology into the existing physical structure and some require that reductions be made to the physical structure of the company. These strategies include:

1) Using Internet to enhance the marketing of existing channels, which is a cross-marketing model.
2) Using the Internet as a channel to expand or explore new, often global, markets.
3) Adding new product lines only for the Internet in an effort to avoid competition with existing distribution channels.
4) Creating a separate Internet-based channel and related infrastructure: This is the antithesis of channel integration.
5) Integrating the Internet channel with existing channels and operations so that customers can choose between complementary channels
6) Collaborating in a joint venture or alliance with an Internet-based company in order to gain multi-channel synergies
7) Moving to Internet-only sales as the electronic operation grows or to prevent a takeover in the face of a perceived inevitable industry shift to electronic commerce.

Incumbents also must be willing to cannibalize their existing products, revenues, and ways of doing business. Some of the approaches that companies have taken when facing conflicts with traditional distribution channels vary from creating links to dealer Web sites (Ford), to giving traditional channels a commission on Internet sales (John Deere), to creating standalone competing entities (American Airlines’ Sabre) and brands (Procter & Gamble). If there is an opportunity to enhance the business through the use of the Internet, incumbents must cannibalize\(^2\) or be devoured by competitors (Wise, R. et al 2001).

Frazier (1999) identified some situations where it is not recommendable to use the Internet as a direct sales channel. This is when a product’s price varies considerably across global markets.

According to Chwelos P. et al (2000) there are two characteristics that make the bricks-and-mortar versus on-line variety, and as a consequence the hybrid model (brick and clicks) of channel conflict potentially troubling:

1. Price Competition: In the long run, online stores are expected to enjoy a significant cost advantage over their brick-and-mortar counterparts due primarily to lower overhead and infrastructure costs (Cassar et al. 2000). Moreover, the ease with which consumers by using agents that compare

\(^2\) Cannibalization refers to the notion of a company making a conscious business decision that will have a negative impact on either a current product or member of a distribution channel (or entire channel, via disintermediation). (http://www.definethat.com/define/285.htm accessed on Sep 10th 2006)
prices across web sites suggests that consumers will ultimately extract the surplus created by lower costs (Bakos 1997, 1998). Indeed, there is an emerging body of empirical evidence that online prices are lower than bricks and mortar prices (Brynjolfsson and Smith 2000; Smith, et al. 2000).

2. Non-excludability: The primary difficulty created by the Internet as a channel is that there is no reliable way for retailers to segment the market. As such, consumers are free to switch channels in order to extract the greatest benefit of Clicks vs. Bricks.

According to Younghawa L. et al (2003) and after analyzing 20 successful cases of conflict management, they identified five channel conflict strategies as following:

- Intermediary support strategy: It is used by manufacturers with high concern for intermediaries. In this case, manufacturers adopt a passive Internet channel strategy, and use their Web sites to support existing intermediaries. For example, a manufacturer may develop e-business infrastructure for its intermediaries, advertise product information instead of product sales, and give e-customers the location of the nearest local intermediaries. This is the case for companies such as Jeans Levi Strauss that developed its Web site as an advertising centre, providing information about its brands and products.

- Differentiation strategy: This strategy is used in situations in which manufacturers have high concern both for themselves and their intermediaries. Thus, manufacturers seek ways to differentiate themselves from their intermediaries by using strategies such as market and product differentiation to minimize the cannibalization of existing channels. Using the market differentiation strategy involves separating customers into groups, and addressing each group using different channels. A good example of this strategy is Xerox that sells copy machines to its small and home office and retail markets using online direct channels, while also selling machines to the industrial sector through regional retailers.

- Conflict avoidance strategy: This strategy is used by manufacturers with low concern for themselves and others. In this situation, manufacturers engage in online selling directly, while simultaneously attempting to alleviate intermediaries’ concerns. General Motors applied the avoidance strategy including lists of dealers and their home pages on its Web site, it gives e-buyers the channel choice between the company itself and its dealers.

- Channel absorption strategy: This strategy is the reverse of the intermediary support strategy. It is used by manufacturers with a high concern for themselves and a low concern for intermediaries. Such manufacturers adopt an aggressive strategy and push intermediaries to accept their decisions. In some cases, manufacturers sever relationships with previous intermediaries and sell their products exclusively on the Internet. In other cases, they aggressively merge their previous intermediaries into their company to remove the channel conflict. Dell employed the channel absorption strategy when initiating its pioneering direct online sales. Relinquishing the benefits of its previous bricks-and-mortar intermediary channels, it sold all its products on the Internet.
• Compromising strategy. This strategy involves use of a give-and-take strategy, this is, manufacturers launch online sales, but also pursue mutual benefits through sharing market and consumer information, and sharing the benefits generated by direct sales with intermediaries. Two types of compromising strategies exist: information sharing-strategy and profit-sharing strategy. The information-sharing strategy involves sharing information collected through online sales between manufacturers and intermediaries while the profit-sharing strategy share profits derived from online sales with intermediaries. For example, 3M launched a joint Web site with U.S. Office Products, the fourth largest online retailer. 3M had 600,000 customer email addresses in 2003 while US Office Products had 800,000 in the same year. Instead of competing with each other, they share their customers on the same Web site and exchange customer information.

4.2.1.4 Synergies in the hybrid approach:

Authors such as Friedman et al (1999), Otto J et al (2000), Steinfield at al (2001a), Steinfield et al (1999a) and Steinfield et al (1999b) emphasized the theoretical advantages of hybrid approaches to ecommerce (Steinfield et al 2002a). Importantly, these works suggest that advantages arise not only from the ability that a multi-channel approach offers for reaching new customers and offering new services, but also because each channel can have spill over effects that result in increased purchases and reduced costs in the other channel.

Sources of synergy arise from the fact, that click and mortar enterprises may have common infrastructures, common operations, common marketing, and common customers (Steinfield et al 2002a). Management must act to diffuse conflicts and ensure the necessary alignment of goals, coordination and control, and development of capabilities to achieve synergy (Friedman et al (1999); Lindsay (1999). Aligning goals across physical and virtual channels implies that all involved, realize that the parent firm benefits from sales stemming from either channel (Steinfield et al 2002a).
Figure 10  Source, management requirements and benefits of Click-and-Mortar


One problem faced by click and mortar firms is that the contributions made by the Internet channel may be intangible and hard to measure (Tedeschi R 2001). Managers have to be open to such intangible benefits, by evaluating e-commerce divisions not purely on the basis of their own sales and profitability. Moreover, there must be agreement on what types of customers, new or existing customers are targeted by the new e-commerce channel.

Coordination and control mechanisms include interoperability across channels so that customers may move freely between, use of each channel to promote the other, incentives encouraging cross-channel cooperation, and coordinating customer services to ensure that the unique strengths of each channel are utilized (Steinfield et al 2001b).

There are consequences when channel conflicts arise such as (Friedman and Furey 1999; Useem 1999; Ward 2001):

- Cannibalization of sales from the other,
- Limitation of cooperation across the channels,
- Confusion when customers attempt to engage in transactions using the two uncoordinated channels,
- And lastly the sabotage of one channel by the other.

According to Steinfield (2003) in his article “Capitalizing on physical and virtual synergies: The raise of Click and mortar models”, to successfully integrate click and bricks models, is necessary to aligning goals across physical and virtual channels. This implies that all employees involved realize that the parent firm benefits from sales originating in either channel. In the same way, managers must focus on
building effective coordination between physical and virtual channels, and implementing the necessary control mechanisms to ensure that this coordination takes place. One important coordination issue is the degree to which there is interoperability across channels so that customers may move freely between online and offline interaction, even within the course of a single transaction. The third type of intervention involves taking steps to build the competencies needed to achieve synergy benefits with e-commerce. For example, traditional firms may lack Web development skills, or logistics skills needed to serve distant markets. In these situations, alliances may be more useful than attempting to develop a virtual channel in-house. Just in that way, it is possible to fully benefit from the click and mortar approach being the most important advantages lowering cost, increased differentiation through value-added services, improved trust; and geographic and product market extension.

As noted by Tsay et al (2004) it is necessary to eliminate factors of inefficiency such as double marginalization within the reseller channel, and the failure of each channel to fully perceive the positive externality that its sales efforts can have on the other channel. Contrary to expectation, the addition of a direct channel alongside a reseller channel is not necessarily detrimental to the reseller. In fact, there can be a net system-wide efficiency gain to share because the wholesale price reduction can counteract double marginalization. With a dual-channel arrangement, diverting product flow to the direct channel can create efficiency gains if this serves demand at lower overall supply chain cost. Tsay and Agrawal found that the greatest improvements are realized when the pricing is premised on the reseller’s sales effort, which may be difficult or impossible to monitor in practice. Referral schemes such as RD where reseller is paid a commission for diverting all customers toward the direct channel, or conceding the demand fulfillment function entirely to the reseller (RR), could in fact be more profitable for both parties because they achieve a division of labor according to each channel’s competitive advantage: customers are obtained using the most cost-effective combination of channel efforts and served using the most cost-effective method.
4.3 PRICING CONSIDERATIONS

The Internet has brought serious implications for pricing and different approaches have been taken in this concern. The great pricing dilemma revolves around the fact that certain items that are high margin can be sold locally, but where it is faced severe price competition on the web. Companies must make decisions about using the same pricing on the physical and web-stores, or whether the pricing will be different according to the channel.

Baker et al (2001) stated that Companies generally have set prices on the Internet in two ways. Many start-ups have offered untenably low prices in a rush to capture first-mover advantage. Many incumbents have simply charged the same prices on-line as they do off-line. Either way, companies are missing a big opportunity. The fundamental value of the Internet lies not in lowering prices or making them consistent but in optimizing them. Authors suggested that if it's easy for customers to compare prices on the Internet, it's also easy for companies to track customers' behavior and adjust prices accordingly. (http://www.ncbi.nlm.nih.gov/entrez/query.fcgi?cmd=Retrieve&db=PubMed&list_uids=11213686&dopt=Abstract)

The Net lets companies optimize prices in three ways:

1. Precision: Internet lets companies set and announce prices with greater precision. Different prices can be tested easily, and customers' responses can be collected instantly. Companies can set the most profitable prices, and they can tap into previously hidden customer demand.

2. Adaptability: Second, because it's so easy to change prices on the Internet, companies can adjust prices in response to even small fluctuations in market conditions, customer demand, or competitors' behavior.

3. Segmentation: Third, companies can use the clickstream data and purchase histories that it collects through the Internet to segment customers quickly. Then it can offer segment-specific prices or promotions immediately.

By taking full advantage of the unique possibilities afforded by the Internet to set prices with precision, adapt to changing circumstances quickly, and segment customers accurately, companies can get their pricing right. It's one of the ultimate drivers of e-business success. (http://www.ncbi.nlm.nih.gov)

According to Chaffey (2002), the main implications of the Internet concerning price strategies are:

1. Increased price transparency and its implications on differential pricing: Quelch and Klein (1996) described price transparency effects. First, a supplier can use technology for differential pricing. However, if precautions are not taken about price, customers will find out about the price discrimination and their attitude can be negative against the company and its brands. This means, that customer knowledge of price policies is enhanced through the internet. This is especially common in standardized products. Customers can visit the competitors’ web site and sites with price-comparison engines provided by intermediaries. These sites will list the best prices from suppliers.
for a particular product. Keeping price differentials becomes difficult if customers easily get aware of such differences.

However, Baker et al (2001) suggested that only 8% of active online consumers are what is called aggressive price shoppers, or shoppers that buy from a specific company having price as the most important purchase criteria. He notes that Internet price brands have remained broad as it is shown in the online bookselling industry where prices varied by average of 33% and CD sellers’ by 25%.

A strategy a company can follow to reduce the transparency price effects is to highlight other features of the brand.

2. Downward pressure on pricing: Internet tends to drive prices down because internet-only retailers do not have stores. This means that online companies can offer lower prices than offline rivals. More and more products have become commoditised being more price-sensitive.

In an empirical research designed by Pan et al (2002), data was collected from 905 e-tailers across eight product categories and it shows that after controlling for the effects of other variables, prices at pure play e-tailers are generally lower. E-tailers with high traffic do not always command higher prices.

In some cases companies reduce online prices to meet its grown objective of online revenue contribution. (Chaffey et al 2003). In other cases, retailers may reduce prices to acquire customers. This is the case for booksellers that offer up to 50% on the top 25 best-selling books in each category making no profits or so little, but then calling customer attention in other books by making smaller discounts that give a profit margin (Chaffey et al 2003).

3. New pricing approaches, including dynamic pricing: Internet introduced opportunities for dynamic pricing, which is when prices can be updated in real time according to the type of customer or current market conditions. This carries big challenges especially with established customers. If significant discounts are given to new customers, the first ones may be unpleased.

New technologies such as personalization technology are making it easier for retailers to know the identity of their customers in real-time, to access their shopping data, and to change their prices and offers accordingly. So they can charge different customers different prices based on knowledge about the customer. The more the information the retailer has about a certain customer, the easier it is to adjust the product catalogue to match preferences, and charge prices higher than they would sell to unknown consumers, so long as the price is not too arbitrary which can force the consumer to defect to other retailers. (Nir Vulkan, The Economics of e-commerce., Princeton University Press, 2003)
Amazon case study dynamic pricing: Amazon, it appears, was engaging in a form of "dynamic pricing"—an innovative pricing mechanism made possible by recent advances in information technology. By using information gathered from customers such as from where they live to what they buy to how much they have spent on past purchases, Amazon was able to adjust the prices of identical goods to correspond to a customer's willingness to pay. For example, the company has charged some users $23.97 and others $25.97 for a DVD version of the movie "Men in Black."

Although Amazon later denied that it was dynamically pricing its DVDs, they said it was "to measure what impacts a customer's decision to purchase or not to purchase" have on the site. They said that customers are selected randomly for the test and that the prices they receive aren't based on any other characteristics. Despite these explanations, many customers were left unconvinced. (Amazon.com Varies Prices of Identical Items for Test," Wall St. J., Sept. 7, 2000)

4. Alternative pricing structure or policies: Different types of pricing may be possible on the internet, especially for digital, downloadable products. Internet provides new options such as payment per use or rental at a fixed cost per month. (Chaffey 2002).

Internet leads towards a perfect market. In a perfect market there are infinite buyers and sellers and a trend to price transparency. This implies that an organization is less able to control prices, but must respond to competitors' prices strategies (Diamantopoulos et al 1993). Another factor affecting price strategy of a brand is when a brand is more differentiated. In this case, it may be subject to less downward pressure on prices.

According to kotler (1997) companies have 4 possibilities when a competitor is cutting prices:

- Maintaining the price, assuming that price is not the only sales driver and that customers will still prefer that product considering quality, service and other activities that add value to the product.
- Reducing the price to avoid losing market share.
- Adding-value services to the product such as raising the perceived quality or differentiate the product.
- Introduce a new line of products that is lower-priced.
4.4 CASE STUDIES

Case Study 4.4.1: LEVI STRAUSS AND COLGATE-PALMOLIVE: THE INTERMEDIARY SUPPORT STRATEGY

Case Study 4.4.2: XEROX AND TEXAS INSTRUMENTS: THE DIFFERENTIATION STRATEGY

Case Study 4.4.3: ESTEE LAUDER AND GENERAL MOTORS: CONFLICT AVOIDANCE STRATEGY

Case Study 4.4.4: DELL AND THE CHANNEL ABSORPTION STRATEGY

Case Study 4.4.5: COMPAQ AND WES & WILLY: COMPROMISING STRATEGY

Case Study 4.4.6: BARNES AND NOBLE AND BARNESANDNOBLE.COM: JOINING BRICKS AND CLICKS STRATEGIES.

Case Study 4.4.7: AMAZON AND WATERSTONE STRATEGIC ALLIANCE

4.4.1 LEVI STRAUSS AND COLGATE-PALMOLIVE: THE INTERMEDIARY SUPPORT STRATEGY

In 1999, Levi Strauss closed its web site just after a year that they became an e-commerce pioneer when it offered customers the opportunity to order custom-made jeans online and have them delivered at home. The reason was the backlash with retailers. Now, rather than selling its brands online, Levi Strauss uses its Web site to provide information about its brands and products. The site also provides location and contact information for the nearest department stores and retailers that sell Levis. (Weill and Vitale (2001)

They are very committed with distributors and have developed IT tools that geographically display its existing authorized retailers, potential retailers, and the customers the distributors serve. This application ensures that new stores would not adversely impact the sales opportunities of existing stores. (http://www.esri.com/library/fliers/pdfs/cs-levistrauss.pdf)

Using a similar strategy, Colgate-Palmolive redefined its e-business site as an oral health information provider. Through oral hygiene FAQs, and information in the form of Dental Professional World and Kids World, it introduces its product groups, but does not sell any products on its Web site. (Younghawa L. et al 2003)
4.4.2 XEROX AND TEXAS INSTRUMENTS: THE DIFFERENTIATION STRATEGY

Xerox sells copy machines to its small and home office and retail markets using online direct channels, while also selling machines to the industrial sector through regional retailers.

Texas instruments uses the Internet to sell low-volume high-priced semiconductors to large customers such as Sun Microsystems, while relying on distributors like Arrow and Hamilton- Hallmark to sell high-volume, low-priced products such as memory chips.

With this strategy manufacturers can have high concern both for themselves and their intermediaries. Thus, manufacturers seek ways to differentiate themselves from their intermediaries by using strategies such as market and product differentiation to minimize the cannibalization of existing channels. Using the market differentiation strategy involves separating customers into groups, and addressing each group using different channels. (Younghawa L. et al 2003)

Another example: Gap Inc. has developed maternity clothing lines for exclusive sale on the Internet.

4.4.3 ESTEE LAUDER AND GENERAL MOTORS: CONFLICT AVOIDANCE STRATEGY.

This strategy is used by manufacturers with low concern for themselves and others. In this situation, manufacturers engage in online selling directly, while simultaneously attempting to alleviate intermediaries’ concerns. (Younghawa L. et al 2003)

When Estee Lauder started Clinique.com to sell its cosmetics online, it developed several strategies to reduce conflicts with physical stores. For instance, its Web site advertises gift availability at bricks-and-mortar stores, or recommends trying products at department stores before purchasing them online. Clinique has vowed not to offer the special free gifts that have proven to be so instrumental in department store promotions (Garner 1999). Through these efforts to maintain the trust of its retailers, Estee Lauder dramatically reduces adverse reactions from intermediaries.

By including lists of dealers and their home pages on the General Motors Web site, it gives e-buyers the channel choice between the company itself and its dealers. The e-buyer can then buy cars from GM’s Web site directly or from the dealers listed on the GM Web site (Younghawa L. et al 2003). While GM is doing that, there are some other car manufacturers that have chosen the Intermediary support strategy explained above. E-commerce service allows customers to configure cars online, obtain a fixed price quote, and choose a local dealer. The application locates the matching car from dealer inventories, and if in stock at a different dealer from the one chosen by the customer, the dealers will swap cars with each other. The chosen dealer then gets full credit for the sale of the online-configured car, as well as the continuing service relationship to the customer. At the Web site, customers can also research cars and check the inventory of local dealers online. In addition, customers can apply online for credit and insurance, which is also submitted to local dealer.
This approach helps the manufacturer sell more cars without alienating their existing dealer network. The manufacturer has also introduced features such as online scheduling for maintenance and repair, and an ownership Web site where customers can find accessories that go with their car and receive maintenance service reminders (Steinfield, C., Adelaar, T. and Y.-J. Lai 2002a)

4.4.4 DELL AND THE CHANNEL ANSORPTION STRATEGY:

Manufacturers adopt an aggressive strategy and push intermediaries to accept their decisions. In some cases, manufacturers stop relationships with previous intermediaries and sell their products exclusively on the Internet. In other cases, they aggressively merge their previous intermediaries into their company to remove the channel conflict.

Dell employed the channel absorption strategy when initiating its pioneering direct online sales. Relinquishing the benefits of its previous bricks-and-mortar intermediary channels, it sold all its products on the Internet.

4.4.5 COMPAQ AND WES & WILLY: COMPROMISING STRATEGY

In this strategy manufacturers launch online sales, but also pursue mutual benefits through sharing market and consumer information, and sharing the benefits generated by direct sales with intermediaries. This strategy has two approaches: information sharing-strategy and profit-sharing strategy.

Manufacturers that employ the profit-sharing strategy share profits derived from online sales with intermediaries. Wes & Willy developed its Web site to share profits with its retailers. When a retailer orders an out-of-stock item on its Web site, Wes & Willy sends the item directly to customers, but shares profits from the order with retailers.

In 1998, the former Compaq unveiled an aggressive effort to sell personal computers directly to end customers (using Internet and telephone sales), bypassing the dealers who helped make it one of the world’s largest sellers of PCs. To appease its dealers and distributors, Compaq’s plan included maintaining separate brands for small business and corporate markets and paying dealers an estimated 6% commission for referring small business customers (McWilliams 1998).
4.4.6 BARNES AND NOBLE AND BARNESANDNOBLE.COM: JOINNING BRICKS AND CLICKS STRATEGIES

When the spin-off Barnesandnoble.com was launched in 1996, it was barraged with criticism: The site was slow and hard to use, and there was little connection between the well-known stores and the website. It reached millions fewer online shoppers compared with Amazon.com. Like other retailers, it struggled with order fulfilment glitches and miscalculated the enormous importance of creating ties between its physical stores and its online one. Sussanah Patton (Sep 15, 2001)³

Barnes & Noble's Web venture frustrated users with its lack of integration to the 483 retail stores, where there were no signs of the e-commerce arm. At the time,

Barnesandnoble.com was locked in a discounting war with Amazon.com, and remaining separate, allowed the company to avoid charging sales tax for online sales in states where it had stores. By the end of 1999, the e-commerce landscape was looking distinctly unfriendly to Barnes & Noble. Barnesandnoble.com ended the year with 4 million customers, compared with Amazon.com's 16.9 million. Revenues in 1999 were $193.7 million versus Amazon.com's $1.6 billion. Shopping at Barnesandnoble.com was completely inconsistent with the in-store experience, Forrester's Johnson says. "The competition became a price game, and Barnesandnoble .com started losing it to Amazon," she says. Sussanah Patton (Sep 15, 2001)

Now Barnesandnoble.com has refocused the venture to take advantage of its brand name and 40 million regular in-store shoppers. Customers can now return online purchases in the stores and customer service counters are opening in Barnes & Noble superstores, allowing shoppers to check inventory or order books online. In the end, companies are finding that customers who buy from both online and store channels are more loyal and spend more money than those who shop through one channel. Stephen Riggio, Barnes and noble CEO say. "Our customers see us as one company, and increasingly as more Americans go online they will go to brands that they know and trust," Sussanah Patton (Sep 15, 2001).

Their Website appeals to people around the world who like to shop online. Its bookstore includes the largest in-stock selection of in-print books, with access to approximately one million titles for immediate delivery, supplemented by more than 30 million listings from its nationwide network of out-of-print, rare, and used book dealers. "The Website also offers a host of programs-online, discussion groups with prominent authors; dozens of educational courses, all free, at Barnes & Noble University," explains Brown. "We have also found that bn.com is often a source of information for customers who then go to our stores to make a purchase." (Deborah Mangiamele)
According to the Corporate communications director, Carolyn Brown, says that the typical Barnes & Noble customer is 25 to 64 years old, college-educated, and fairly affluent. This is the bookseller's target market. Barnes & Noble takes these factors into account when opening a new store. Brown explains that each of the more than 840 bookstores nationwide cater to their own customers. That means that book selection in each store may be different, depending on the taste and buying habits of each community's customers. Barnes & Noble stores are also community and neighbourhood institutions offering educator discounts, book fairs for organizations, author events, and children's programs—all of which create a local and personalized feel. (Deborah Mangiamele).

Barnes and Noble have developed joint marketing plans to increase both, traffic in the physical stores and online. These include on and offline sales of gift certificates that can be redeemed in any participating physical store, discounts on in-store purchases for customers who bring in a receipt from an online purchase. (Deborah Mangiamele)

4.4.7 AMAZON AND WATERSTONE STRATEGIC ALLIANCE

Waterstone’s introduced its specialist online bookselling site at www.waterstones.co.uk in 1996. In 2001 Waterstone's re-launched the site with Amazon.co.uk. Amazon is the seller of record, providing inventory, fulfilment and customer service for the site. This alliance brings together recommendations from the UK's leading specialist bookseller and order fulfilment from the UK's leading online retailer (www.amazon.co.uk)

The following message is included in the Amazon-Waterstones web site: “Please note that product availability and prices may differ between our website and our branches”. Waterstones hasn’t seen the web site as a means to cannibalize their own stores, even when they didn’t own the web site; such are the advantages of the synergy between the bricks and clicks that they will open their own web site late this year (BBC Report, 9 May 2006)
4.5 CONCLUSIONS

From our research in this chapter, we have come to understand that for companies to effectively manage their migration pattern in respect to channel distribution there should be an alignment across the channels so that they maintain the same objectives by coordinating and controlling all strategies uniformly. Channel strategies must be designed to meet the needs of end users, because they expect to be able to obtain product information, support, services and buy and return products when and how they want it. In a competitive market, consumers are most likely to go to providers who satisfy their needs more efficiently.

Firms must attempt to harmonize channels to ensure inter-operability. Several firms re-engineered business processes and/or information systems in order to ensure inter-operability between their e-commerce and physical channels.

Firms also can actively cross-promote physical and virtual channels. From the research for example, we experienced how detrimental it can be for a mother company to dissociate itself from its online business (Barnes & Noble Inc case study). By using promotional materials such as coupons, gift certificates, highlighting of in-store events online, in-store kiosks and posters with the web site are just a few methods of taking the advantage of the synergy existing between the clicks and bricks models. This way, consumers will not see the two arms of the company as separate firms but instead they will see a whole solution for their value proposition and relate to any brand attribute associated with the parent company.

Pricing is important during the migration process. However, price may not be the most important factor; it is one of several that consumers weigh before making on-line purchasing decisions. It is critical that prices, both on- and off-line, be competitive so customers can derive benefits from the experience. Price changes that appear capricious or, worse, deceptive can cause long-term damage to a company’s price proposition. Clarity of pricing strategy should be a priority, not only as related to customers but distribution channels as well.

Every channel has different core competences and by understanding this, it is possible to find partners and allies to provide a whole value proposition to customers.

In order for a company to leverage on the benefits of the two worlds, real time information must be available to handle consumer queries, service orders, and the provision of customer service regardless of the channel the customer uses to interact with the company. Therefore the essence of cross-channel offering is to offer customers more options which enhances customer convenience and fosters customer relationships.

This chapter is based on the notion that firms have realised the importance of the integration of bricks and clicks and the need to know the synergistic approaches in dealing with virtual and physical distribution channels (Khawaja A. et al 2003).
5. CHAPTER FIVE: RESEARCH QUESTION NO. 3

What kind of restructuring approach should the company follow in order to achieve their e-business objectives?

5.1 LITERATURE REVIEW

5.1.1 Business model approaches:

Another important decision the company should make is whether to restructure the business model in order to achieve the priorities set for e-business. Changes in organization structure range from setting up a new department, through setting up a new strategic business unit to creating autonomous companies. Gulani and Garino (2000) identify the different array of possibilities a company has during the migration process. The choices are:

1. **In-house division or integration approach:** E-business operations are contained within existing line of business.

2. **Spin-off or separation approach:** In a spin-off, a company sets up one of its existing subsidiaries or divisions as a separate company. Shareholders of the parent company receive stock in the new company in addition to the stock they hold in the parent based on an evaluation established for the new entity. A new, independent company created through selling or distributing new shares for an existing part of another company.

3. **Joint venture (mixed):** The Company creates an online presence in association with another player. A contractual agreement joining together two or more parties or players to create an online presence, by making use of complementary capabilities and resources, such as distribution channels, technology, or finance. In a joint venture, the two or more "parent" companies agree to share capital, technology, human resources, risks and rewards in a formation of a new unit under shared control. (Gulani and Garino 2000)

A joint venture is the long-term commitment of funds, facilities and services by two or more legally separate interests, to a combined enterprise for their mutual benefits. (Strategic alliance and joint venture. A how to guide. Sep 2002. New Zealand Trade and Enterprise).
A joint venture need not be a separate legal entity or company. Joint ventures can be formed for a variety of purposes and can take a number of forms. A joint venture can:

- Manufacture a product (or incorporate a product into a larger one) in a target market or a market that offers free trade with other larger markets
- Provide the finance and distribution network needed to penetrate a new market
- Establish a marketing and distribution presence in a target market
- Add new technology and expertise to a product
- Gain access to a market. In some cases a joint venture is required by the country that the company wishes to export to, often with strict rules requiring injection of capital into the venture.

4. **Strategic Partnership (mixed):** A strategic alliance is a specific form of collaboration between two or more companies for mutual benefit. This may also be achieved through purchase of existing Dot.coms. (Gulani and Garino 2000)

The term “strategic alliance” includes virtually any form of collaboration between two or more firms, including one or more of the following activities:

- Design contracts
- Technology transfer agreements
- Joint product development
- Purchasing agreements
- Distribution agreements
- Marketing and promotional collaboration
- Intellectual advice

A strategic alliance might be entered into for a one-off activity, or it might focus on just one part of a business, or its objective might be new products jointly developed for a particular market. Generally, each company involved in the strategic alliance will benefit by working together. The arrangement they enter into may not be as formal as a joint venture agreement. Alliances are usually consummated with a written contract, often with agreed termination points, and do not result in the creation of an independent business organisation. (Strategic alliance and joint venture. A how to guide. Sep 2002. New Zealand Trade and Enterprise).

The objective of a strategic alliance is to gain a competitive advantage to a company’s strategic position.
Characteristics of a Strategic Alliance

Strategic alliances or partnerships have the following characteristics:

- Usually a non-equity, loosely structured relationship
- Each partner retains its business independence
- One Company will take a lead role in any contract or marketing and the others will be "partners" in the work. They could work as sub contractors or suppliers to the main company
- The alliance can be struck between companies which would normally be considered competitors
- The relative size of the partners is not a significant factor
- Each partner must contribute distinctive “core strengths”, including technology, manufacturing capacity, access to distribution, etc.

In general, the in-house division and joint venture are typical models for the clicks and bricks approach while the strategic partnership or spin-off are more likely to be used to create a clicks-only operation when the company has already a presence in the real world.

Advantages and disadvantages that have been identified by different authors for each of these approaches will be shown in the following section.

5.1.2 Advantages and disadvantages of the different Business model approaches:

In-house division or Integration Approach:

According to Gulati and Garino (2000), the main advantages of the integration approach are being able to use existing brands; being able to share information; and achieving economies of scale. In the same line, authors Leslie P Willcocks and Robert Plant (2001) suggest that integrating Internet initiatives into an existing business makes sense only if:

- The brand extends naturally to the Internet. This gives instant credibility to a site, assuming that the brand is recognized and respected.
- Executives have the skills and experience needed to pursue the Internet channel and the company can attract and retain the right people according to such initiatives. E-business involves many managerial challenges. It needs to develop an e-strategy, and the related projects require some centralized.
- Leadership. E-business projects are bottom-up initiatives in need of coordination, and it is essential for someone to ensure the firm's efforts stayed focused. Moreover, these initiatives are often cross-functional, requiring a senior executive to manage the process integration.
- Executives are willing to judge and manage the initiative by different performance and reward criteria.
- The company remains attractive to future alliances in dimensions such as brand strength and speed of action.
- Distribution systems can be translated according to the internet exigencies and still provide competitive superiority.
Existing business model and the new E-business model are able to provide mutual support and enhance each other in a way to generate competitive advantages.

Spin-off or separation Approach:
Same authors agree that separation is the most viable possibility when any of the following situations appear:

- A different customer segment or product mix will be offered online
- Differential prices are required between the online and the offline operations to remain competitive.
- There is a major channel conflict
- There is a threat from the Internet to current business model
- Additional funding needs to be attracted and it is best raised by a stand-alone operation.
- There are problems retaining and attracting specialist staff needed to support and run all e-business initiatives.
- A key partner is reluctant to connect under the same parent company umbrella.
- The parent company’s culture would undermine the e-business effectiveness.

The advantages of the spin-off or separation approach are better focus and more flexibility for innovation. As Edieal J. Pinker, Abraham Seidmann, and Reginald C. Foster (2002) state in their article “Strategies for transitioning ‘old economy’ firms to e-business”, firms perceiving an immediate threat to their market share or sensing an opportunity to leap ahead of the competition might be prompted to seek to organize their e-business efforts in ways that achieve quick results. The DBU (Direct e-Business Unit) provides an enormous speed advantage. Many retail firms have thus spun off separate Dot.com divisions to explore this new channel or acquired existing Dot.coms in their industry.

However when there are strong complementary processes between the e-business and the conventional channels as it is when business model is a combination of place and space, the spin-off model can undermine shareholder value. This is the case when companies for example give their online customers the option of home delivery or pick up at a store and provides real-time store-by-store inventory information. This customer-friendly operation draws customers to the stores, putting them in touch with salespeople, exposing them to more products, and creating an avenue for good customer support. Integrating online systems with in-store information and inventory systems would have been tough if the online effort had been spun-off as an independent Dot.com (Pinker et al, 2002).

Another disadvantage of the spin-off approach is that does not integrate e-business with a firm's core processes, leaving the original firm outside of its ultimate e-business goals. Even more, a firm pursuing the spin-off strategy might miss opportunities for exploiting logistical and product-support synergies between its own traditional and relatively new e-business operations.
Pinker et al (2002) conclude that there are many options available for reorganizing a firm for e-business. They argue that the choice of organizational structure should depend on the anticipated effect of e-business, characterized by the immediacy of the threat posed by e-business competition and the pervasiveness of the changes the firm wants e-business to bring to its core.

**Figure 11 Selecting an organizational structure for e-business**

Pinker et al identified four major organizational paradigms for moving a legacy firm into e-business: weak virtual e-business organization, strong virtual e-business organization, direct, spin off and next-generation firm.

Direct approach, called as well portfolio or incubator (Simons 2000) approach is where the DBU (Direct e-Business Unit) operates as a test bed for e-business activities that will, if successful, ultimately be reintegrated into the overall firm. In this case, organizations view e-business as having an effect throughout their organizations that could not be maximized by spinning off an online division (Pinker et al 2002). Companies such as Kraft Foods established an e-business division that coordinates Kraft's major e-business initiatives, such as providing services to vendors of its brands and marketing these brands directly to consumers. The same approach has been adopted by Dupont and UPS.

The spin-off and next-generation-firm approaches are the most likely to yield a more focused effort and quicker results. The spin-off may leave the original firm relatively unchanged and unprepared for e-business. The spin-off and weak virtual approaches tend to avoid inter-organizational friction by leaving much of the authority and initiative with the SBU's (Strategic Business Units). The decentralized weak virtual approach may result in a fragmented effort that does not achieve a major organizational transformation. Also, trying to initiate change across functions and
SBUs in a strong virtual approach is more challenging and more likely to cause conflict than the relatively simple coordination of the e-business activities of disparate SBUs in the weak virtual model. Although most firms experience manifestations of several paradigms at the same time, authors found that there is a single dominant strategy.

According to N. Venkatraman (2000), companies can organize their Dot.com operations as subsidiaries or as part of their existing operations. Subsidiaries make sense when the company is exploring new business models or needs greater freedom to enter alliances, raise capital, and attract talent. Integrating the Dot.com business with current operations makes sense if the entire company is migrating to the Web. Governance is further complicated by a war for talent that is being won by Internet start-ups.

Same author argues that companies must be willing to cannibalize existing products and services and engage in strategic alliances to provide markedly improved customer value in the Internet fast moving environment. Companies must leverage significant resources to succeed to differentiate their Dot.com operations from those of competitors. Outsourcing services and alliances can speed implementation. Established companies must develop incentives to attract and retain Web-savvy talent.

**Strategic alliances approaches** (Strategic alliance and joint venture. A how to guide. Sep 2002. New Zealand Trade and Enterprise)

**Advantages of a Strategic Alliance**
Four key benefits can be expected from a strategic alliance:
- Increased leverage: Strategic alliances allow the companies to gain greater results from their companies’ core strengths
- Risk sharing: A strategic alliance with an international company will help to offset the company’s market exposure and allow to jointly exploiting new opportunities.
- Opportunities for growth: Strategic alliances can create the means by which small companies can grow.
- Greater responsiveness: By allowing the company to focus on developing its core strengths, strategic alliances provide the ability to respond more quickly to change and opportunity.

**Disadvantages of a Strategic Alliance**
- High commitment, specially time, money, people
- Difficulty of identifying a compatible partner
- Potential for conflict
- A small company risks being subsumed by a larger partner
- Strategic priorities change over time
- Payment difficulties
- Political risk in the country where the strategic alliance is based
- If the relationship breaks down, the cost/ownership of market information, market intelligence and jointly developed products can be an issue.
- Entering into a strategic alliance requires commitment above all else, including time and economical resources.
- It also takes time to build a strong alliance. Identifying and reaching agreement with the right company can be very time consuming, and developing a strong relationship will take time.

**Joint ventures approaches** (Strategic alliance and joint venture. A how to guide. Sep 2002. New Zealand Trade and Enterprise)

There are critical factors to succeed in a joint venture approach:

- Personal rapport between the two partners, which involves getting to know each other and fully recognise, understand and accept the other’s requirements in advance
- Communication channels must be kept open and agreed reporting timetables and format adhered to
- Positive results for both partners with a reasonable and agreed timeframe

A successful joint venture is one where each partner contributes complementary skills and resources in an ongoing relationship offering mutual benefits. Much depends on what the two parties have to offer each other, and how these assets can be put together in a workable business structure.

**The Disadvantages of a Joint Venture** (Strategic alliance and joint venture. A how to guide. Sep 2002. New Zealand Trade and Enterprise)

- Potentially high capital cost plus ongoing financial support are required
- Profitable returns may take some time to achieve
- High level of commitment of staff and management
- Time consuming
- Potential for conflict with the joint venture partner
- Cultural differences and communications difficulties
- A minority equity position may work against any party
- Difficult to get out of quickly
- Working in a different legal and commercial system
- Political risks in the country where the joint venture is based
5.2 CASE STUDIES

Following, a series of case studies will be presented to analyze how these firms have approached to different e-business models aimed to face competition and align with the challenges of the internet age, while providing a more valuable offer for customers.

Case study 5.2.1: In-house division (integration): Office Depot
Case study 5.2.2: Integrated Operation or in-house division: Barclays
Case study 5.2.3: Strategic partnership (mixed): Rite Aid's Virtual Partnership
Case Study 5.2.4: Spin-off (separation): Barnes and Noble Inc.
Case Study 5.2.5: From a Strategic alliance (mixed) to an in-house division: Amazon and Waterstones.

5.2.1 Case study 1: In-house division (integration): Office Depot
(Source: Gulati and Garino 2000)

Office Depot has found success by tightly integrating its Web site and its physical stores to form a single retailing network. The reasons for which the company decided to take this approach were: First, the company had already catalogues-sales operation that provided the service infrastructure needed such as call centre and delivery trucks to support an Internet store. Second, it had years earlier developed a sophisticated data warehouse containing complete product, vendor, customer, and order information as well as real-time inventory data for all its stores and warehouses. That system made it easy to coordinate its on-line store and its physical outlets.

For customers, the integrated channels make shopping simple and convenient, by being able to search online a specific product with its features and prices. Once the customers found the best products for their needs, they can either, buy it online and have it delivery the next day, or if needed it immediately, customers can check the site to ensure it’s in stock at your neighbourhood Office Depot superstore and go pick it up themselves.

By providing access to information on store locations and inventory on-line, Office Depot's Web site has actually increased the traffic at its physical outlets. At the same time, the company uses its stores to promote its site. The customers can use the site to research the choices available to them in the physical store. And by learning about the capabilities of the site, they increase their likelihood of using it while at work or at home. Rather than cannibalize each other, the two channels promote each other, creating a virtuous circle.

Even though OfficeDepot.com does cannibalize the catalogues business to some degree, it’s cheaper to reach customers through the Web than through catalogues, which are expensive to print and mail. Products and prices can be changed continually on the Web, whereas catalogues quickly go out of date. And
It is more efficient to take orders on the Web than over the phone. Even more, a Web transaction costs half of the cost of processing a catalogue order.

Office Depot's experience shows that in some cases the benefits of integration overwhelm the advantages of separation. If Office Depot had set up its Web operation as a stand-alone business, it may have achieved greater organizational focus and flexibility, but it would have sacrificed the customer benefits and the strategic advantages that come from integration, such as cross-selling, brand recognition, and purchasing leverage. As a separate operation, OfficeDepot.com would have been just another e-tailer struggling to attract customers while fighting endless price wars.

5.2.2 Case study 2: Integrated Operation or in-house division: Barclays
(Source: Simons 2000 and Barclays.com)

When Barclays was integrating an e-business initiative within its business strategy to beat off the threat of the new generation of e-banking outfits like Egg, Cahoot and Smile, the group considered four different e-business models:

- Separate, stand-alone line of business.
- Spin-off, with the e-business established as a separate entity.
- Portfolio/Incubator, with e-businesses nurtured or managed as an investment.
- Integrated operation, with the e-business contained within existing lines of business.

They selected the integrated model overseen by a central leader because it will allow stand-alone e-activities in each line of business, while ensuring co-ordination and integration. This involved fundamental restructuring of Barclays’ operations and IT infrastructure getting greater flexibility. However key to these plans is outsourcing.

Barclays Online Banking is free and offers benefits to customers as saving time, banking when they want, pay bills and check statements instantly using Online Banking while offering security and the trust of the brand. Although customers use online banking, they still can use the branches, telephone banking and cash machines.

Today, Barclays has extended the online service not just to customers but along the supplier chain by conducting as many order transactions and payments as possible through electronic channels (specifically e-source purchasing channel). Supplier e-enablement is, therefore, strongly encouraged in the supply base and is a key factor, if not a defining one, when considering proposals and awarding contracts.

Other companies that followed the integrated operation or in-house division are: American express, Charles Schwab and RS Components internet Trading channel (www.rswww.com)
5.2.3 Case study 3: Strategic partnership (mixed): Rite Aid’s Virtual Partnership. (Source: Gulati and Garino 2000)

When Rite Aid realized that the Net would be a critical retailing channel decided to buy a 25.3% equity stake in Drugstore.com. The main reason they saw behind this decision was that the strategic partnership with Drugstore.com will make a lot more economic sense, than spending the money and time it would take away from their own core businesses to develop and manage their own site. Drugstore.com was the ideal partner because it brought Internet capabilities and strong investors, thus limiting Rite Aid’s investment risk in e-commerce.

Rite Aid and Drugstore.com are separately owned and managed, and although both brands are promoted in both channels, they remain distinct. Even though the companies maintain their individual brands, they want the pharmacies to appear integrated to consumers. To that end, Drugstore.com has launched several initiatives to help build its brand among Rite Aid customers. One of them is and in line with the branding perspective, is to have all Rite Aid bottle caps, shopping bags and payment receipts contain the Drugstore.com logo. From a merchandising perspective, they make in-store offers and calendar-related activities complement each other such as putting drugstore coupons in Rite Aid customers’ bags.

Keeping separate names while promoting the partnership look to protect the trust and recognition associated with the Rite Aid name and at the same time establishes a brand that fits on-line expectations.

Both companies have also integrated fulfilment and operational business functions giving them greater buying power with significant cost savings.

The Rite Aid-Drugstore.com partnership benefits consumers as well letting them to elect to pick up their Drugstore.com prescriptions at their local Rite Aid rather than waiting for them to be shipped. This is an important element since 30% of all prescriptions are needed immediately. Because people who choose that option complete the entire transaction on-line, they still pay the Drugstore.com price.

Both companies get the most of their partnership by establishing an integrated team where executives can share their ideas about their businesses. This means that they learn one from another without losing autonomy and flexibility.

In addition to taking an ownership stake in drugstore.com, Rite Aid is giving to the online retailer significant assistance in marketing and merchandising projects as part of the deal. The projects will include category management seminars, drugstore.com’s participation in Rite Aid-organized vendor trade shows and joint advertising campaigns.
Other companies that followed this approach are: ToysRUs.com consolidated its delivery process with Amazon.com.

Figure 12. Toys “R” Us and Amazon strategic partnership

![Image of Toys “R” Us and Amazon strategic partnership]

Source: (www.amazon.com)

5.2.4 Case study 4: Spin-off (separation): Bluetail and Ericsson, Barnes and Noble and bn.com

The Swedish internet company Bluetail, founded in January 1999 that develops solutions to improve website speed and reliability. It was spun off from communications supplier Ericsson. Most of the initial staff were research engineers who were originally employed at the research laboratories at Ericsson.

Ericsson wanted to focus on its core business of mobile internet and infrastructure, which didn’t leave a lot of space for people in the research laboratories to exploit innovation. Often a mature company does not have the time or the patience to manage a team distant from its core business, which can be frustrating, hence the decision to spin off a division and form Bluetail,” says the CEO of Bluetail. (Spin to win, July 2001)

Barnes and Noble and barnesandnoble.com

Barnes & Noble’s conception can be traced back to 1873-when Charles M. Barnes opened up a book-printing store in Wheaton, Illinois. His son, William Barnes, started the first retail store in 1917 in New York City, in partnership with G. Clifford Noble. Barnes & Noble distinguished itself by selling scholastic
textbooks, scientific books, as well as general titles.

Barnes & Noble as we know it today was purchased and founded in 1971 by its Current chairman Leonard Riggio, who directed its growth from a struggling business into the largest retailer of books in North America (Deborah Mangiamele).

At the beginning when they launched the spin-off Barnesandnoble.com was barraged with criticism: The site was slow and hard to use, and there was little connection between the well-known stores and the website. It reached millions fewer online shoppers compared with Amazon.com. Like other retailers, it struggled with order fulfilment glitches and miscalculated the enormous importance of creating ties between its physical stores and its online one. (Sussanah Patton, Sep 15, 2001)

Barnesandnoble.com is refocusing the venture to take advantage of its brand 0 million regular in-store shoppers. Customers can now return online purchases in the stores-where they initially met with frustration-and dozens of customer service counters are opening in Barnes & Noble superstores across the country, allowing shoppers to check inventory or order books online. (Sussanah Patton, Sep 15, 2001)

Other companies following the same approach of spinning off are Toys R Us, Bank One and P&G.

5.2.5 Case study 5: From a Strategic alliance (mixed) to an in-house division: Amazon and Waterstones

Bookseller Waterstones which has 200 bookstores in the UK, spent several millions of euros on developing its Waterstones Online service, but it failed to stop Amazon of becoming dominant in the online book retail market. Then, they decided to change their strategy by partnership with Amazon (Chaffey 2004)

UK's number one specialist bookseller and the leading online retailer are working together to enhance customer's online shopping experience. www.waterstones.co.uk brings to customers outstanding book knowledge, exclusive articles and recommendations from Waterstone's, plus information about Waterstone's store locations and events, together with Amazon.co.uk's award-winning online store, reliable shipping and delivery, and renowned customer service (www.amazon.co.uk).

Within the terms of the partnership are that all purchases made in the Waterstone's working with Amazon.co.uk store must be returned to Amazon.co.uk and cannot be returned to a high street Waterstone's store. Another term is that Amazon.co.uk do not accept returns of items purchased from Waterstone's Online prior to the opening of the Waterstone's working with Amazon.co.uk store. In that case customers must return items at the local Waterstone's.
However, after 5 years of partnership bookseller has now decided to go its own way after the online share of the bookselling market exceeded its expectations. They have decided to do so because the market conditions have changed.

"Waterstone's has been undertaking a strategic review of its internet activities for some time and we have concluded that the time is now right to launch its own online service." said Waterstone's Managing Director, Gerry Johnson. "The relationship has served Waterstone's well for several years and we have been very pleased with the level of service and support their solution has provided" (Jason Lee Miller, Article: Waterstone's Ditches Amazon, May 10, 2006 at www.webpronews.com).

"Internet book retailing was only 5 per cent of total book sales in the UK, and it looked at that time as though the market would probably grow to 10 per cent in total, and we took the view at that time that it was a subset more appropriate for a national monopoly such as Amazon," the company's spokesman Barker said. "It's now around 11 to 12 per cent, a level where we should take control ourselves of our own destiny online."

As it is shown in this case study, business models must be adapted according to the market conditions. By the time Waterstones decided to partner with Amazon, it was the right decision to control competition from the giant Amazon. Waterstones did not have the knowledge to overcome its competitor; it was better to join and partner than to fight against and fail. Now the market conditions have changed and they have decided to migrate to a bricks and clicks strategy as an integrated operation within the current company business model. The chain is confident that would be able to effectively transfer its reputation as a
specialist bookseller online. Waterstones realized the need to have a distinctive presence online.

As part of the new strategy, Waterstones will offer more than three million titles on its new website that will be launch this coming autumn and would attract customers with author insights, try-before-you-buy offers and personal shopping services with help from knowledgeable booksellers.

5.3 CONCLUSIONS

As the divergent strategies of different companies reveal, the integration separation decision is not a binary choice. There are infinite permutations along the integration spectrum. By thinking carefully about which aspects of a business to integrate and which to keep distinct, companies can tailor their clicks-and-mortar strategy to their own particular market and competitive situation, dramatically increasing the odds of e-business success. A company must find the right balance between the freedom, flexibility, and creativity that come with separation and the operating, marketing, information and economies of scale that come with integration. It may make sense to keep some parts in-house and spin off other parts (Gulati and Garino 2000)

Business models are not static. They must be flexible enough to adapt to the always changing market conditions of the internet.

Integrated or not, an e-business plan is required.

The challenge for corporate companies is creating an environment where companies can move quickly enough with the best employees. Employees are a key factor along the implementation of any e-business initiatives.
6. CHAPTER 6: FINDINGS AND FINAL CONCLUSIONS.

For a successful migration process retailer firms should adopt a customer-centric approach strategy since the consumer is primary and the ability to win a critical mass of consumers which can generate enough revenue to justify any particular migration strategy depends on how the firm’s products are made available to the consumers. We realized that consumer behaviour towards the products characteristics is a necessary factor for consideration because of its influence in the migration process.

Furthermore, the strategy in which these products are offered to consumers through appropriate distribution channels, directly or through intermediaries, can also influence the migration process.

From the above considerations, appropriate business models are paramount as the firms moved along the scale between place and space. We realized certain issues that firms should consider while migrating:

- Cannibalization
- Channel conflicts
- Price discrimination
- Clarity on the pricing policy
- Influence of products characteristics in relation to sell channels (online and offline)
- Consumer behaviour towards product characteristics.
- And lastly, identifying the right business model to adopt

From these issues we arrived at the following findings:

1. When it comes to online purchases, consumers react better to search goods than experience goods. To correct the weaknesses of effectively capture experience goods’ characteristics firms should reflect, as much as they can, the characteristics of the experience goods on the internet to enable customers to make better decisions during purchases. More importantly, firms should adopt the hybrid model of combining clicks and bricks which provide customers with multi-channel solutions. The click and mortar model could be informed of establishing separate arms of online and offline businesses, entering into strategic alliances with either traditional or pure-play retailers or combining online and offline channels in one entity.

2. Firms should not be afraid to cannibalize their own products while adopting different business channels since it is the consumer who will choose the appropriate channel at any given time that is convenient for their own needs. Channel strategies must be designed to meet the needs of end users, because they expect to be able to obtain product information, support, services and buy and return products when and how they need it. In a competitive market, consumers are most likely to go to providers who satisfy their needs more efficiently.

3. From our findings, the adoption of the business models are as divergent as the firms are, so there is no winning strategy that firms should adopt while migrating along the line between place and space. From Gulati and Garinos’
perspective, there are infinite permutations along the integration spectrum. By thinking carefully about which aspects of a business to integrate and which to keep distinct, companies can tailor their clicks-and-mortar strategy to their own particular market and competitive situation, dramatically increasing the odds of e-business success. A company must find the right balance between the freedom, flexibility, and creativity that come with separation and the operating, marketing, information and economies of scale that come with integration. It may make sense to keep some parts in-house and spin off other parts.

4. Furthermore, we have identified four clear business model permutations: Inhouse division, joint venture, strategic alliance and spin-off division. Every model has advantages and disadvantages peculiar to it and should be studies carefully for suitability and preference before adoption.

5. It is important to organize efforts in a way that presents a single face to customers, suppliers, and business alliances; maintains system compatibility across business units and functional areas; and identifies opportunities for cross-functional synergies. All e-business efforts should not be built around a single department but structured to fit with a cross-functional process orientation for the entire firm.

6.1. AREA OF FURTHER RESEARCH:

In the course of this study we have looked into issues and considerations concerning business migration from place to space and vice versa, we considered the influence of product and consumer interaction as well as issues concerning pricing and distribution channels, we went further to discuss the appropriate strategies to take in relation to whether companies should merge their online and offline businesses or if they should operate them on parallel basis.

However, due to time constraint and the need to maintain a narrow and direct focus on a few of the issues that matter, they are by no means exclusively all that are important, we would have liked to cover financial issues, as well as the impact of branding and consumer loyalty in the migration process, and finally the effectiveness of cross-promotional activities as well as technical issues as infrastructural problems. These areas not covered, are open to further research studies which we think would provide meaningful insights for company managers to deploy such knowledge to advance their migration strategies and processes.

We would have liked to look into why certain products, like books and CD’s have been more successful in virtual businesses than others, and what retail companies that trade on the less successful products should do strategically in order to make a success of their migration plans.

Finally, it will be interesting to investigate what the future trend will be for traditional retailers that are migrating to Internet platforms. Would they run their online outfits themselves, or is it likely to be outsourced. And what are the likely implications of consumer trust over internet transactions and consumer loyalty in Internet purchase since the retailers competitors are only a click away.
At this point, we would want future researchers to ponder on the following issues

- Are product characteristics a determinant of company success with Internet adoption?
- Does it mean that some retail companies are more successful due to the characteristics of the products that they deal on?
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